Role of Non-Bank Financial Intermediation: Challenges for Central Banks in the SEACEN Countries

Min B. Shrestha

The South East Asian Central Banks (SEACEN)
Research and Training Centre
Kuala Lumpur, Malaysia

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Fax No.: (603) 7957-4616
Telex: MA 30201
Cable: SEACEN Kuala Lumpur
Website: http://www.seacen.org

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FOREWORD

The positive impact of an efficient and resilient financial system on economic growth of a country has been well recognised. In most countries, the financial system extends beyond traditional banking institutions to include insurance companies, leasing companies, housing finance institutions, mutual funds and other financial service providers. These non-bank financial institutions (NBFIs) provide services that may not necessarily suit banks. It is argued that a diversified financial system, which includes non-bank financial institutions, would not only be able to meet the heterogeneous requirements of borrowers, investors, consumers and businesses but would also enhance the resilience of economies to external shocks.

Recognising the importance of the non-bank financial intermediation, many SEACEN central banks have encouraged and supported the development of non-bank financial institutions, which has resulted in the remarkable growth in the NBFIs in these countries. The increasing role of the non-bank financial intermediation may also pose new challenges to central banks. In this context, this study is directed towards assessing the recent development of the non-bank financial intermediation and examining its impact on monetary policy management and financial stability in the SEACEN countries.

This in-house project was undertaken by Dr. Min B. Shrestha, Senior Economist of the SEACEN Centre seconded from Nepal Rastra Bank. The author would like to thank Dr. Jacob Gyntelberg, Senior Economist of the Bank for International Settlements, Representative Office for Asia and the Pacific, Hong Kong (SAR), for his valuable comments on the draft of this paper. He would also like to acknowledge the useful comments and suggestions made by Dr. Bambang S. Wahyudi, Director of Research and Ms. Seow Yun Yee, Senior Economist of the SEACEN Centre. The views expressed in this paper, however, are those of the author and do not necessarily reflect those of the SEACEN Centre, or SEACEN member central banks/monetary authorities.

Dr. A. G. Karunasena
Executive Director
The SEACEN Centre
Kuala Lumpur

May 2007

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EXECUTIVE SUMMARY

1. A well developed non-bank financial sector is viewed as an important component of a healthy and efficient financial system that can provide a sound base for growth and prosperity in the economy. This study observes that the non-bank financial sector has developed significantly in the SEACEN countries in the last two decades and it has helped widen and deepen the financial systems in these countries.

2. The degree and scope of non-bank financial intermediation varies in the SEACEN region according to the extent of development of the financial systems. In more developed financial systems like those of Korea, Taiwan, Singapore, Malaysia, Thailand, and Philippines, the non-bank financial intermediation has reached the maturity stage while in the less developed financial systems of Sri Lanka and Nepal, such intermediation is still in the growing stage.

3. Various types of non-bank financial institutions (NBFIs) are operating in the SEACEN countries. Finance companies, development financial institutions, merchant banks, insurance companies and pension funds are the major types of NBFIs found in almost all the SEACEN countries. There has been a remarkable decline in the number of NBFIs in Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand during the last decade, specifically after the financial crisis of 1997 while all types of NBFIs have been constantly growing in Sri Lanka and Nepal.

4. The market share of NBFIs in the SEACEN countries range between 15 and 43 percent in terms of assets, between 7 and 33 percent in terms of deposits, and between 9 to 27 percent in terms of loans. The overall performances of NBFIs show that the non-bank financial intermediation occupies a significant position in the financial system in the SEACEN region.

5. Monetary policy can be transmitted to a wider section of the economy through the activities of NBFIs as they integrate the scattered economic units to the national economy. Another positive effect of the non-bank financial intermediation in the conduct of monetary policy is the change brought by it in the deposit structure in the economy. NBFIs have induced a change in the deposit structure in the SEACEN countries and thus made more funds available for loans. This is because of the low or no reserve requirement imposed on NBFIs.

6. Major challenges posed by the non-bank financial intermediation in the conduct of monetary policy include the likely pressure induced in the interest rate, reduced effectiveness of credit control, and the reduced reliability of monetary aggregates as intermediate policy targets. NBFIs offer attractive interest rates normally above those of banks and the banks may also increase their interest rates to compete in the market. Such pressure may reduce the effectiveness of policy induced interest rate changes. On the other hand, when a central bank wants to reduce the volume of credit by increasing the reserve ratio, the effect of such intervention is partially offset by the amount of non-bank credit as NBFIs are subject to low or no reserve requirement. Similarly, with the growing level of non-bank financial intermediation, the appropriateness of monetary aggregates as intermediate target has been reduced markedly in the SEACEN countries. The main reason for such reduced attractiveness of the monetary aggregates is the complete or partial exclusion of the activities of NBFIs in the compilation of these aggregates. These facts reveal that the growing level of non-bank financial intermediation has complicated the conduct of monetary policy in the SEACEN countries.

7. Non-bank financial intermediation can add to the health and stability of financial system by making it complete, balanced and sophisticated. NBFIs supplement the role of commercial banks in providing financial services in the economy by serving the section of population generally not covered by banks, help improve the operational efficiency through enhanced competition in the market and improve the resilience of the financial system.

8. Non-bank financial intermediation also brings some challenges to the stability of financial system, mainly arising from their inadequate supervision. Inadequately supervised NBFIs may pose a threat to the stability of the financial system. High risk investments, high credit-deposit ratio and higher level of nonperforming assets of NBFIs increase volatility in the financial system.

9. Despite some problems posed in the conduct of monetary policy and financial stability, NBFIs are still the important players in the financial system in the SEACEN countries. NBFIs play both a supplementary and competing role in the financial market. In the recent years, the competing portion has been more pronounced. Therefore, they should be motivated to focus more on their supplementary role.

10. As most of the problems associated with non-bank financial intermediation arise from the inadequate supervision of NBFIs, they should be brought

under the supervision of some competent agencies while ensuring that their intermediary role be not adversely affected.

11. The recent restructuring of financial landscape has led to the merger, upgrading and even closure of various types of NBFIs in the majority of the SEACEN countries. This may reduce financial intermediation and the access of certain sections of the population to financial services. Therefore, reforms and restructuring should ensure that NBFIs continue their intermediary roles.

12. The growing unreliability of the monetary aggregates occurs when the information not included in them becomes significantly large. Monetary aggregate targeting may still be an effective monetary policy framework provided that the aggregates contain complete information. In this regard, in the countries still adopting the monetary targeting framework, a gradual shift to use even broader monetary aggregates could be planned rather than switching to a completely different monetary policy regime.

Chapter One

INTRODUCTION

1.1 Background

In general, the financial intermediaries provide financial services like payments, liquidity, divisibility, maturity transformation, store of value, information economies, and risk pooling (Carmichael and Pomerleano, 2002). Banks are the main intermediaries that provide a majority of the core financial services. However, they do not provide all services efficiently equally. Non-bank financial institutions (NBFIs) supplement banks by providing services that are not well suited to banks. NBFIs also provide competition for banks in the provision of financial services.

NBFIs specialise in particular sectors and hence enjoy informational advantages arising from specialisation. They can add to economic strength by enhancing the resilience of the financial system to economic shocks. Therefore, a well developed non-bank financial intermediation is viewed as an important component of a developed, balanced and efficient financial system that can provide a sound base for economic growth and prosperity.

The commercial banks have been the main players in the financial systems, which normally avail short term funds for trade and commerce. NBFIs have emerged to cater to the needs of medium and long term credit. Moreover, there are various sectors and section of population normally not covered by banks in terms of their access to the bank services. As NBFIs are mainly focused on bridging this gap, their role is supplementary.

NBFIs also play a complementary role. They often borrow funds from banks and extend them as loans to their customers. Thus, NBFIs ultimately serve the banks because NBFIs to a certain extent work as the business agent of banks by extending their funds to small but viable projects, which may not have been possible or cost efficient, had the banks themselves tried to do so. In some SEACEN countries, even the commercial banks tried to boost their lending by setting up subsidiaries in the form of non-bank financial institutions to provide intermediate-term and long-term loans (Adhikary 1989).

NBFIs also increase competition in the financial system. NBFIs compete with banks in deposit collection and loan advancement. NBFIs cannot collect demand deposits. They attract time deposits (savings and fixed deposits) by offering attractive interest rates and extending their services efficiently to potential depositors up to their door steps. This kind of service may divert deposits from banks to non-bank financial institutions. When NBFIs increase interest rate on time deposits, banks also have to adjust their time deposit rate to retain existing deposits and attract new deposits. In fact, the existence of NBFIs stimulates the banks to innovate and to be more attentive to the needs of customers and hence, to the economy (Adhikary 1989).

The emergence of NBFIs in some countries in the SEACEN region is the outcome of deliberate policies of the governments to cater to the financial and other supportive needs of specific sectors of the economy. Industrial and agricultural developments are considered key to achieving higher economic growth. Industrial development requires long term funds while agriculture sector needs are focused on small and medium term credits. Similarly, housing and real estate development also requires long-term funding. However, there is inadequate flow of credit from the banking institutions to these leading sectors. In this context, some NBFIs were established by specific Acts with the purpose of catering to the needs of these specific sectors.

Commercial banks in the past mainly advanced their funds to the so-called productive sectors like industry, trade and commerce. They did not provide loans for consumption as they were viewed as unproductive. Some of the NBFIs were established specifically to cater the consumer finance needs. On the other hand, commercial banks normally engage in large scale financing. Their administrative costs are normally high and catering to small financial service needs would not be cost effective for them. In such a situation, small financial intermediaries with low administrative costs are needed for efficiency and cost effectiveness which also accelerated the evolution and growth of the non-bank financial institutions.

NBFIs may develop certain sectors by providing loans as well as advisory services and information. When such sectors grow and start demanding larger amount of funds, banks can enter into these sectors. In this case, NBFIs prepare the ground for banks. For example, consumer credit, housing development credit and the like were not catered for by banks initially. Non-bank financial institutions like finance companies extended their loans to these sectors. When the market became bigger and attractive, the banks started to extend loans to these sectors too.

The establishment of NBFIs also occurred because of the restrictions imposed by the government which limited the operations of banks. When foreign banks were restricted from opening branches in some countries, they entered the market indirectly by first opening non-bank type of financial institutions. Some of the NBFIs also emerged in response to some failures of the banking system to meet the genuine needs of the economy because of some legal restrictions or the prudential limitations.

1.2 Objectives of the Study

Many SEACEN central banks have made efforts in encouraging the financial institutions to provide a broader menu of financial services and structured financial instruments, which has resulted in the tremendous growth of the non-bank financial institutions over the past two decades. The emergence of NBFIs as a major player in the financial markets also poses new challenges to central banks. Central banks have been relying on commercial banks as the main conduit of monetary policy. As NBFIs play an increasing role of financial intermediary, it will be critical to examine its impact on monetary policy and financial stability. In this context, this study has been conducted with the following objectives:

- To review and assess development of non-bank financial intermediation in the SEACEN countries;
- To examine the role of non-bank financial intermediation in the conduct of monetary policy, particularly in the transmission mechanism of monetary policy; and
- To examine the impact of non-bank financial intermediation on the stability of the financial system and suggest measures to mitigate the possible risks.

This study reviews the development of non-bank financial intermediation in the SEACEN countries, such as degree and coverage of intermediation and assesses its impact on the financial development. The study also examines the role of financial intermediation in the conduct of monetary policy, such as whether it impedes or facilitates monetary management in general, and whether it enhances or reduces the effectiveness of monetary transmission mechanism in particular. Similarly, the impact of the non-bank financial intermediation on maintaining financial stability also is discussed in this study focusing on the associated risks. As a limitation of the study however, the financial markets and the instruments, which are the integral parts of the non-bank financial intermediation in its broader sense, have not been covered in this study.

1.3 Data and Methodology

Based on the data availability, this study has included only ten SEACEN countries which are Brunei, Indonesia, Korea, Malaysia, Nepal, Philippines, Singapore, Sri Lanka, Taiwan and Thailand. Various publications of the concerned SEACEN member institutions and their online resources as well as International Financial Statistics database of the International Monetary Fund have been used to obtain the relevant data. This in-house research project has benefited highly from the country papers presented and discussions held at the ***SEACEN-BIS Seminar on Role of Non-Bank Financial Intermediation: Challenges for Central Banks in the SEACEN Countries*** organised in Hanoi, Vietnam in October 2006.

The research is descriptive in nature. The available data are presented so as to sketch the historical development and present status of non-bank financial intermediation in the SEACEN countries. Data on most of the non-bank financial institutions are unavailable. Whatever data available also are inconsistent in terms of their frequencies, making bank and non-bank comparison difficult. Because of this difficulty, data are presented in the forms they are available in and comparisons are made wherever possible. The available data are analysed to find out the positive effects and challenges brought about by the non-bank financial intermediation in the financial system and monetary management.

1.4 Organisation of the Study

This study is organised into six chapters. Chapter 2 discusses the evolution of non-bank financial intermediation in the SEACEN countries. In this chapter, country-wise scenario on the types and number of non-bank financial institutions and services provided by them are presented. Chapter 3 sheds light on the role of non-bank financial intermediation in the financial development of the SEACEN countries. Current market shares held by various non-bank financial institutions are compared with that of banks in the light of the key performance indicators. The impact of growing non-bank financial intermediation on monetary policy is analysed in Chapter 4. The positive role played by non-bank financial intermediation as well as the challenges posed by it in the conduct of monetary policy are discussed in this chapter. Chapter 5 deals with financial stability issues linked with growing non-bank financial intermediation. Finally, Chapter 6 presents the conclusion of the study.

Chapter Two

EVOLUTION OF NON-BANK FINANCIAL INTERMEDIATION IN THE SEACEN COUNTRIES

In general, the financial institutions which are allowed to collect demand deposits from the general public are banks and the financial institutions that are not allowed to collect demand deposits are non-bank financial institutions (NBFIs). However, certain types of NBFIs are not allowed to accept any type of deposits. In practice, the distinction between banks and NBFIs is not as clear because of the legal or formal definitions used by different countries and due to the growing similarities in the services provided by banks and NBFIs under the concept of universal banking. Further difficulties in classification arise due to the unique or specialised nature of services provided by some of the institutions such as those engaged in the stock, bond and exchange markets. For this reason, financial institutions are sometimes classified into three broad groups of banks, non-bank financial institutions and markets.

The financial institutions that provide any kind of financial services other than deposit collection in the form of demand or time deposits and credit advancement can be included under the markets group. Examples are the money market, capital market, exchange market, derivatives market and the like where treasury bills, bonds, equity shares and other financial instruments are traded. Specifically after the Asian financial crisis, countries have started to focus on the development of their domestic bond markets. The development of financial markets leads to an increase in direct financing and the firms become less dependent on banks and other financial institutions for funds.

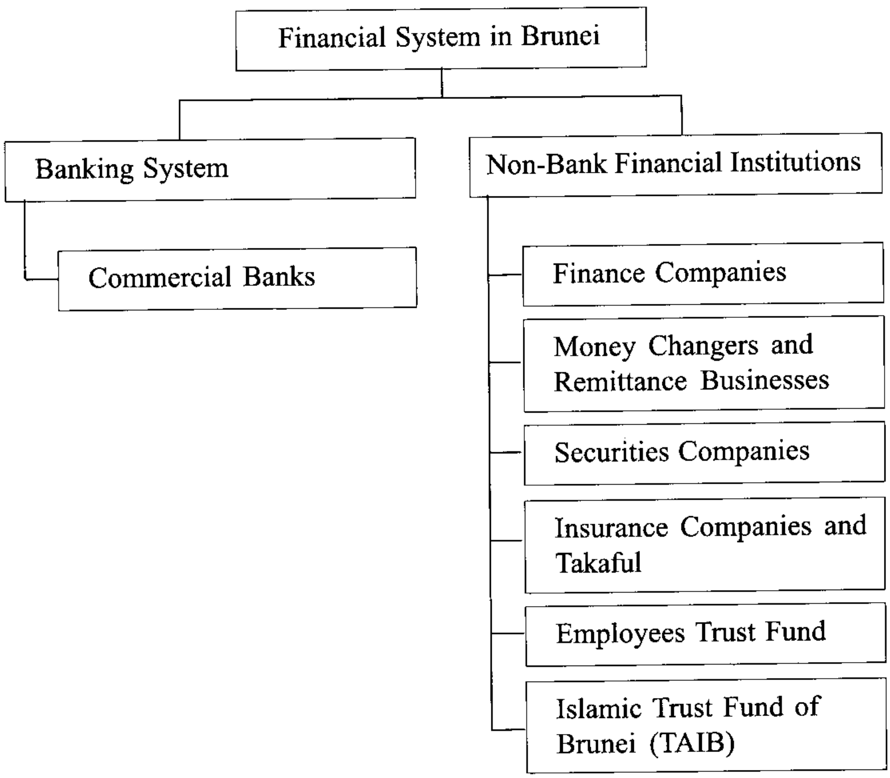
NBFIs can be further divided into two categories: those supervised by central bank and those supervised by other agencies. In this study, the main focus is on the NBFIs supervised by central banks as the data on the NBFIs supervised by other agencies are not reported to the central banks and are not available. This chapter discusses the country-wise scenario of the evolution of NBFIs in the SEACEN countries.

2.1 Country Cases

2.1.1 Brunei Darussalam

The financial system of Brunei Darussalam (hereafter referred to as Brunei) has seen rapid growth in the last decade. The country has started national diversification efforts for which one of the focus areas has been the promotion of financial services sector. In July 2000, the Brunei International Financial Centre (BIFC) was established with an objective of creating Brunei as a full-fledged prime financial centre. BIFC facilitates business in the areas of banking, insurance, securities, fund management and international trusts by creating a conducive legislative environment coupled with the facility of attractive tax benefits. The relaxation of exchange controls and the development of Islamic institutions have also helped change the financial system landscape in Brunei.

Figure 2.1



There are eight commercial banks in Brunei including six foreign owned and two local banks. Besides the commercial banks, a number of NBFIs are involved in providing financial services. The type and number of banks and NBFIs are as follows:

Table 2.1

Structure of the Financial System in Brunei Darussalam (2005)

Type	*Number*
Commercial Banks	8
Finance Companies	3
Money Changers and Remittance Businesses	67
Securities Companies	1
Insurance Companies and Takaful	21
Employees Trust Fund	1
Islamic Trust Fund of Brunei (TAIB)	1

Source: Ministry of Finance, Brunei

As there is no central bank in the country, the Ministry of Finance performs most of the functions of a central bank through the Financial Institutions Division (FID), Brunei Currency and Monetary Board (BCMB), and Brunei International Financial Centre (BIFC). The regulation and supervision of domestic banks and non-bank financial institutions are carried out by the FID while the offshore financial sector is regulated through the BIFC. The clearing system is currently provided by a commercial bank.

The finance companies accept savings and fixed deposits. Their main area of lending has been the hire purchase of motor vehicles. They also provide financing for consumer durables like electrical goods and computers. The Brunei Islamic Trust Fund (TAIB) supports the Muslim community in Brunei in saving funds for performing the pilgrimage (Haj) to Mekah. The Trust Fund is allowed to carry out banking, financial, commercial and investment activities and to establish or participate in industrial projects both domestically and internationally.

Besides the above mentioned NBFIs, a number of pawnbrokers are also involved in providing funds specifically to people who do not qualify for a loan from the conventional financial institutions. Gold is usually pawned for a certain sum of money advanced to the customers and the pawned gold is purchased back at a later date by the customer.

The international financial sector in Brunei is still developing with 8 registered agents and licensed trust companies, 6 international banking companies, more than 15 mutual funds, 5 investment advisors, 6 approved auditors and 2 international insurance companies. More than 4,000 international business companies have been registered by the BIFC.

The capital market in Brunei is in its primitive stage. Very few businesses have issued their share publicly. In the absence of a stock exchange, the prices of these shares are determined by the demand and supply of the small number of investors. The Government is taking various initiatives in order to develop the capital market in the country. In March 2006, the first ever government bond has been issued.

Both banks and NBFIs are regulated and supervised by the Financial Institutions Division (FID) of the Ministry of Finance. In the recent years, the FID has issued five orders including the Pawn Brokers Order 2005, Banking Order 2006 and Banking Regulations 2006, Finance Companies Act (Amendment) Order 2006, Hire Purchase Order 2006, and Insurance Order 2006.

2.1.2 Indonesia

The role of certain types of NBFIs is gradually increasing in the Indonesian financial system, specifically after the financial crisis of 1997. In order to support the intermediation of NBFIs, the Ministry of Finance together with other institutions has enforced new regulations focusing on financial system diversification and mobilisation of long-term funds.

Figure 2.2 shows various components of the Indonesian financial system and Table 2.2 presents the growth pattern of banks and NBFIs in Indonesia from 2002 to 2005. The figures in the Table show that there has been a gradual decrease in the number of banks and financial institutions except for the branches of pawn shops and venture capital companies.

Figure 2.2

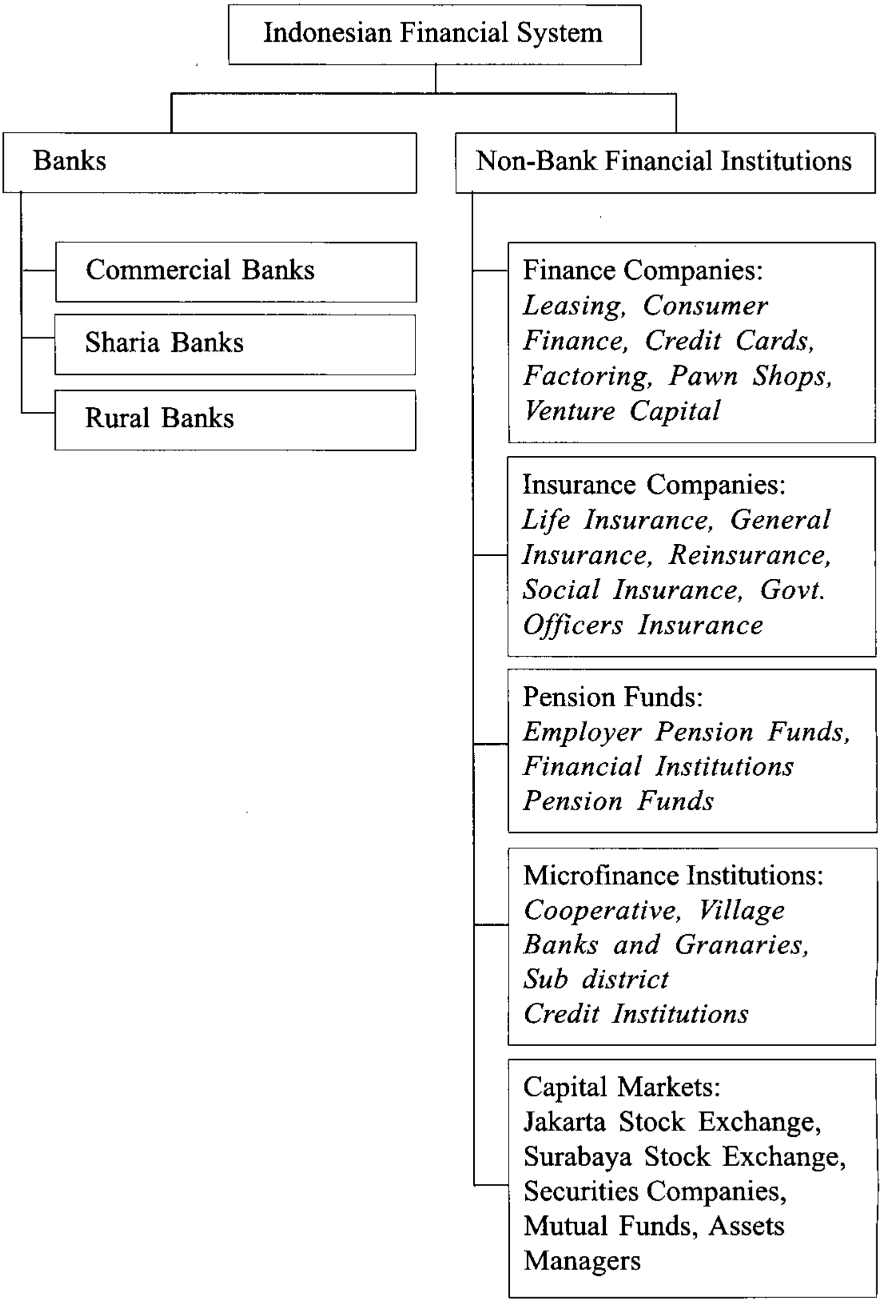

Indonesian Financial System
Banks
Commercial Banks
Sharia Banks
Rural Banks
Non-Bank Financial Institutions
Finance Companies: *Leasing, Consumer Finance, Credit Cards, Factoring, Pawn Shops, Venture Capital*
Insurance Companies: *Life Insurance, General Insurance, Reinsurance, Social Insurance, Govt. Officers Insurance*
Pension Funds: *Employer Pension Funds, Financial Institutions Pension Funds*
Microfinance Institutions: *Cooperative, Village Banks and Granaries, Sub district Credit Institutions*
Capital Markets: Jakarta Stock Exchange, Surabaya Stock Exchange, Securities Companies, Mutual Funds, Assets Managers

Table 2.2

Structure of the Indonesian Financial System

Type	*2002*	*2003*	*2004*	*2005*
Banks	141	138	133	131
Insurance Companies	174	174	167	157
Pension funds	345	338	338	338
Financial Institutions Pension Funds	*314*	*307*	*307*	*307*
Employer Pension Funds	*31*	*31*	*31*	*31*
Finance Companies	244	239	237	236
Pawn Shops	1	1	1	1
Branch Offices	*739*	*774*	*806*	*830*
Venture Capital	60	60	60	60
Securities Companies	197	192	173	164

Source: Bank Indonesia

The number of insurance companies decreased from 174 in 2002 to 157 in 2005. The slow growth of the insurance sector can be attributed to the lack of awareness of their benefits, low purchasing power, inadequate regulation and supervision, lack of proper consumer protection, and so on. The number of pension funds remained unchanged between 2003 and 2005. Pension funds collect funds from members to improve their welfare and to increase public participation in national development. The number of finance companies decreased from 244 in 2002 to 236 in 2005. Among the total 236 finance companies, only 130 are currently active. The lack of adequate funding has been the major obstacle in expanding the services of finance companies as regulations do not allow them to collect any form of deposits from the public. Their only sources of funds are their own capital and loans from domestic and offshore banks.

There has been a constant growth in the number of the branches of pawn shops during 2002-2005. Pawn shops provide loans based on procedures which are easy and quick to process and are ideal for middle to low income communities. The crisis of 1997 saw the rapid growth of state pawn shops. The network of the pawn shops has reached most parts of the country. The number of venture capital companies remained unchanged from 2002 to 2005. Venture capital companies provide finance in the form of capital participation for a certain period of time.

Securities companies also saw a gradual decline in number during 2002-2005 period. These companies are the main players in the capital market of the country. The capital market is considered as a strategic industry in the financial system necessary in promoting national economic growth. The market provides an alternative financing source to businesses and investment instruments to the public. Stocks, bonds and mutual funds are the main capital market instruments. Corporations are encouraged to issue corporate bonds to reduce their dependency on banking sector by collecting funds directly through the capital market. Several policy measures have been adopted to develop the bond market in Indonesia.

Another type of NBFI is the micro finance institution, which provides loans to the low income community, particularly to run small and medium scale businesses. These institutions include savings and loans cooperatives, rural fund and credit institutions, NGOs, community based organisations and community trusts.

The capital market development in Indonesia started with the establishment of Capital Market Supervisory Agency in 1977. The equity market has observed a rapid growth since foreign investors are allowed to participate in the domestic capital market. However, the bond market has grown at a much slower pace. In 1988, some companies issued interest bearing instruments including bonds, but these were not actively traded in the secondary market. The first government bond after 1950s was issued in 1999 to finance the banking recapitalisation programme. Their trading in the secondary market commenced only in 2000.

2.1.3 Korea

The banking system in Korea started in 1878 with the opening of the first branch of Japan's First Bank in Busan. In the 1960s, the Korean financial system evolved as a growth-oriented foundation supporting the government's economic development plans. In order to provide the fund necessary for economic development, four specialised banks, namely, The National Agricultural Cooperative Federation, Kookmin Bank, Korean Exchange Bank and The Korean Housing Finance Cooperation were established. In the 1970s, the government began to diversify financial services. New laws enabled various types of NBFIs to be developed. In 1980s, the government privatised all banks and removed the entry barriers in the market. In the 1990s, financial liberalisation and market opening was further accelerated. After the financial crisis of 1997, massive restructuring was carried out in the banking sectors and financial market with special emphasis on strengthening market discipline, improving the framework of bank governance, thus improving stability and efficiency.

Commercial banks which consist of nationwide commercial banks, regional banks, and foreign bank branches are primarily engaged in the business of collecting deposits, lending and payment settlements. Regional banks were first established in 1967 with the objective of maintaining regional balance by providing greater access to financial services to the regional and rural areas. Foreign bank branches were first allowed into Korea in 1967 to attract the foreign capital and gain greater access to international markets. The main sources of funds for commercial banks in Korea are deposits in domestic currency and bonds.

As mentioned earlier, specialised banks were established during 1960s to serve the areas where commercial banks could not reach and to support specific industrial sectors that were prioritised in government plans. Later, specialised banks also started commercial banking services and could raise funds mainly from public funds and bonds and also compete with commercial banks to collect deposits.

Besides the banks, a number of NBFIs are providing financial services in Korea. According to the nature of their business activities, NBFIs can be broadly classified into five categories. The type of institutions in each category and their numbers as of June 2006 are presented in Table 2.3.

Non-bank depository institutions consist of merchant banking corporations, mutual savings banks, credit institutions, and the postal savings system. Merchant banking corporations were first established in 1976 to attract foreign capital and provide business enterprises better access to credit. Major services provided by these corporations include short-term, medium-term and long-term financing, international financing, and a range of other financial services. Mutual savings banks were first introduced in 1972 to provide credit to households and small businesses in the rural areas. The main services offered by these institutions include small, unsecured loans and discounting of bills for mutual savings. The major sources of their fund are the deposits from mutual instalment savings. Credit unions are non-profit cooperative financial institutions owned and controlled by the members that share a common residence, workplace or other similar bond. Credit unions provide a safe and convenient place to save money and

Table 2.3

Non-Bank Financial Institutions in Korea (June 2006)

Category	Institutions Type	No.
Non-Bank Depository Institutions	Merchant Banking Companies	2
	Mutual Savings Banks	110
	Credit Institutions	4111
	Postal Savings	1
Securities Related Companies	Securities Companies	54
	Asset Management Companies	48
	Futures Companies	14
	Securities Finance Companies	1
	Investment Advisory Companies	22
Insurance Institutions	Life Insurance Companies	2
	Non-Life Insurance Companies	29
	Postal Life Insurance	1
Other Financial Institutions	Credit Specialised Finance Companies	49
	Venture Capital Companies	125
	Trust Companies	24
Financial Auxiliary Institutions	Financial Supervisory Service	1
	Deposit Insurance Institutions	1
	Financial Telecommunicationsand Clearings Institute	1
	Credit Guarantee Institutions	2
	Credit Rating Companies	4
	Korea Asset Management Corporation	1
	Korea Housing Finance Corporation	1
	Korea Securities and Futures Exchange	1
	Money Broker Companies	5

Source: Financial System in Korea (December 2006), Bank of Korea offer credit and other financial services to their members. The deposits received from the members are the main source of fund for most of the credit unions.

Securities related companies include securities companies, asset management companies, futures companies, securities finance companies and investment advisory companies. Securities companies are established and regulated under the Securities and Exchange Act. These companies conduct securities businesses that can be divided into three categories: brokerage, dealing and underwriting. The major sources of funds of securities companies include call money, short-term borrowings from financial institutions, and client deposits. Asset management companies act as a trustier of the investment trusts and the corporate director of the investment companies. They are primarily involved in establishing and operating investment trusts and investment companies. They are also involved in activities like producing investment prospectus, issuing beneficiary certificates of the investment trust, and so on.

The insurance institutions category includes life insurance companies, non-life insurance companies and postal life insurance company. The insurance businesses in Korea began in 1962 with the enactment of three insurance-related laws. The insurance-related regulations were improved significantly by consolidating the then existing laws in 1977. The major sources of funds of insurance companies include capital contributed by their shareholders, premiums from the policyholders, and investment income. The liabilities of life insurance companies have longer maturity periods compared to the liabilities of non-life insurance companies.

The credit-specialised finance companies under the other financial institutions group include credit card companies, leasing companies, instalment financing companies, and new technology venture capital companies. These are non-deposit taking institutions that raise funds mainly through issuing bonds and borrowings.

The financial auxiliary institutions category consists of 9 different types of institutions primarily providing the support services that are crucial to the health and stability of the financial system.

The capital market development in Korea dates back to 1956 when the Korean Stock Exchange was established. Korean firms have relied on the stock market as a reliable source of funds. Before the financial crisis of 1997, the bond market was not well developed. The corporate bond market was relatively larger than government bond market since the government had not run large fiscal deficits for a long time. After the financial crisis, the Korean government has implemented various measures to develop the bond market in the country. In 1998, Korean Treasury Bond was issued. Other public bonds include Monetary Stabilization Bond issued by the Bank of Korea, National Housing Bond and Local Government Bonds.

After the financial crisis of 1997, the financial system of Korea has seen massive exits and mergers of the banks and NBFIs. Table 2.4 shows the number of various financial institutions in 1997 and 2005.

Table 2.4

The Change in the Number of Financial Institutions in Korea (1997 and 2005)

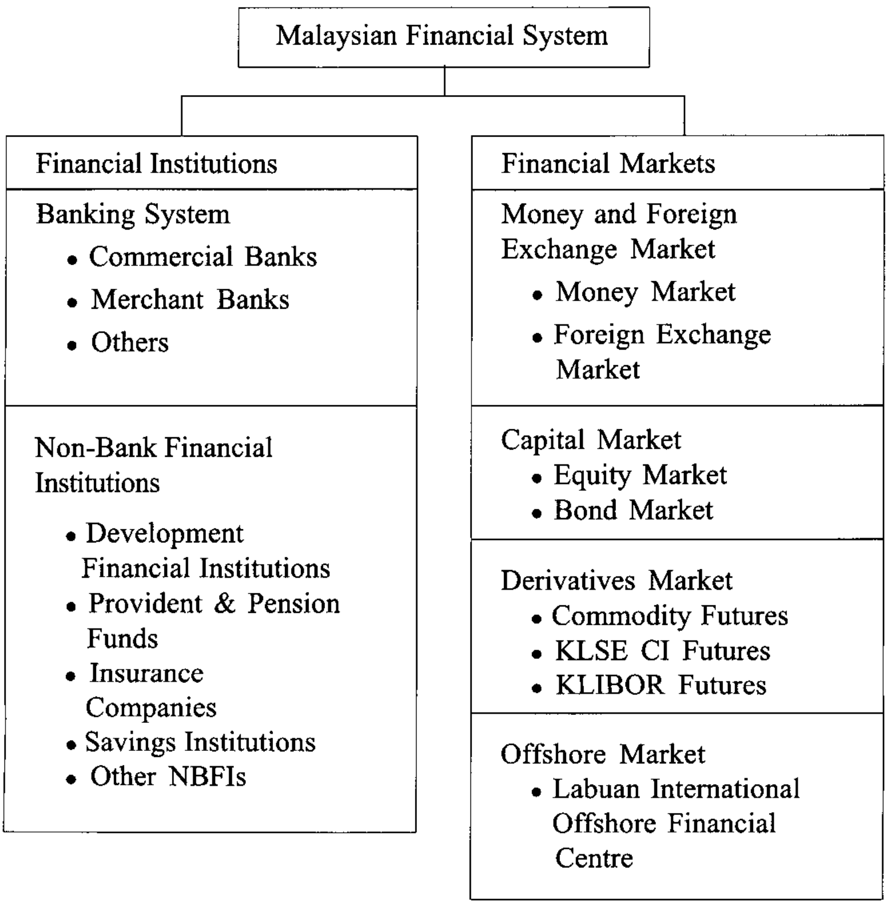
Type	No. of Institutions in 1997	Exit	Merger	Exit & Merger Total	No. of newly established institutions	No. of Institutions operating in 2005
Banks	33	5	9	14	-	19
Commercial	*26*	*5*	*7*	*12*	-	*14*
Specialised	*7*	-	*2*	*2*	-	*5*
Merchant Banking Corporations	30	22	7	29	1	2
Mutual Saving Banks	231	106	29	135	15	111
Credit Unions	1666	514	110	624	9	1051
Insurance Companies	45	11	7	18	9	36
Life	*31*	*9*	*5*	*14*	*4*	*21*
Non-life	*14*	*2*	*2*	*4*	*5*	*15*
Asset Management Companies	31	6	5	11	26	46
Securities Companies	36	8	7	15	19	40

Source: Financial Supervisory Service, Korea

2.1.4 Malaysia

The Malaysian financial system can be broadly classified into financial institutions and financial markets. Financial markets consist of various markets while the financial institutions include a range of banks and non-bank financial intermediaries. The banking system is the largest component of the country's financial system consisting of commercial banks, merchant banks and other financial institutions like discount houses, representative offices of foreign banks and offshore banks in the International Offshore Financial Centre. The commercial banks are the largest and most significant providers of funds in the banking system.

Figure 2.3



Although the banking system dominates the financial system, the role of NBFIs has become significant. NBFIs include five groups of institutions, namely development financial institutions, provident and pension funds, insurance companies, savings institutions and other financial institutions.

The development financial institutions (DFIs) have been established to support government development programmes in the agricultural, industrial and export sectors. There are 13 DFIs in Malaysia out of which six are supervised by Bank Negara Malaysia and the rest of the seven are supervised by other agencies. The DFIs provide specialised medium and long-term financing for projects in specific areas such as infrastructure, maritime and technology, small and medium enterprises, external trade, microfinance, agriculture and agro-based industries, manufacturing, rural and urban housing, and so on.

Provident and pension funds provide members and their dependents with a measure of social security in the form of retirement, medical, death or disability benefits. There are various forms of provident and pension funds such as health and medical schemes, compulsory workers compensation insurance, public provident and pension funds as well as private provident and pension schemes. The Employees Provident Fund is the largest provident fund in Malaysia. The main sources of fund of most of the provident and pension funds are contributions of employees and their employers.

The insurance services in Malaysia were mainly offered by branches of foreign insurance companies prior to 1950. As the demand for insurance services grew, a number of domestic insurance companies were established in 1950s and 1960s. Since then, the insurance industry has seen a remarkable growth supporting economic development by mobilising domestic savings of a long-term nature through a variety of insurance products. Insurance services help businesses to transfer some of their operating risks to insurance companies. Since 1988, the regulation and supervision of insurance companies is carried out by Bank Negara Malaysia.

Savings institutions play an important role in mobilising the savings from the middle and lower-income groups, especially in the areas that are not adequately served by banks. The National Savings Bank established in 1974, is the main savings institutions in Malaysia. Other savings institutions include urban and rural cooperative societies. These institutions promote and mobilise private savings primarily from small savers and channel the funds to finance the national economic development activities.

The financial institutions under the other financial intermediaries category include housing credit institutions, unit trust funds, leasing and factoring companies, venture capital companies and Pilgrims Fund Board. These institutions are established to complement and supplement the activities of major financial institutions and generally operate on a smaller scale.

Table 2.5

The Number of Financial Institutions in Malaysia

Category	1995	2000	2005
Banking System			
Commercial Banks	37	31	23
Finance Companies	40	19	3
Merchant Banks	12	12	10
Non-Bank Financial Intermediaries			
Development Financial Institutions	8	8	13
Provident and Pension Funds	12	14	9
Life and General Insurance Funds	79	80	69
Other Financial Intermediaries			
Leasing Companies	154	247	370
Factoring Companies	18	21	35
Venture Capital Companies	20	33	39

Source: Annual Reports, Bank Negara Malaysia

After the financial crisis of 1997, the Malaysian financial system has gone through a drastic restructuring. Under this process, many financial institutions were merged and consolidated in order to rationalise the financial industry. Table 2.5 shows that there has been a marked decline in the number of banking as well as most NBFIs in Malaysia. Owing to the policy of phasing out of finance companies, the number of finance companies declined from 40 in 1995 to 3 in

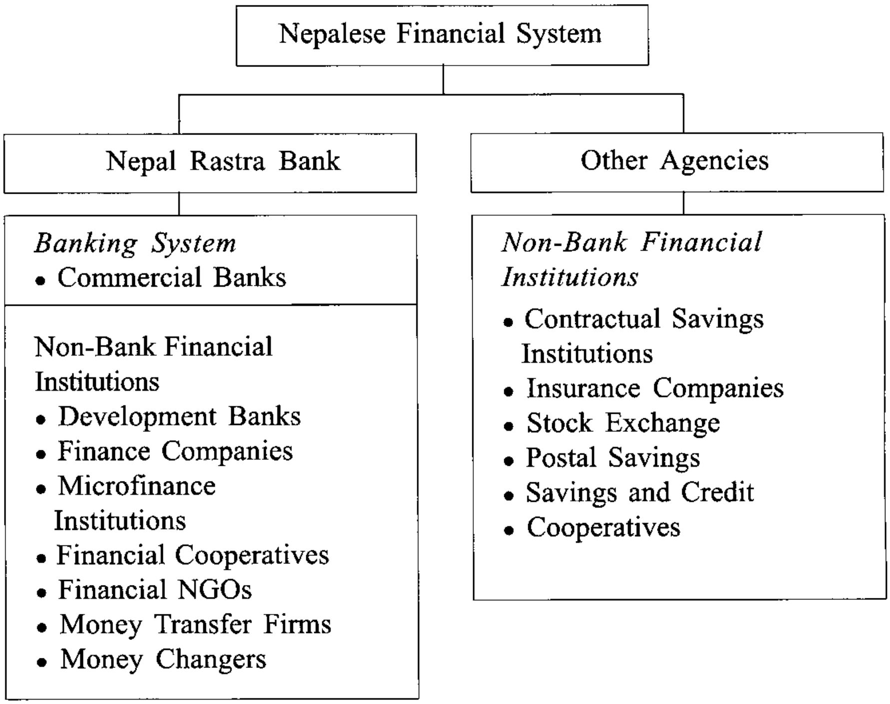
2005. The remaining three finance companies have also been absorbed into three different banks in 2006, making the phasing-out process complete.

Capital market development in Malaysia started in 1960 with the trading in Kuala Lumpur of stocks and bonds listed in Singapore. In the early stage of bond market development, the Government bonds dominated the bond market since corporate bond market was almost non-existent. After the financial crisis of 1997, the Malaysian Government has taken various measures to develop the domestic bond market.

2.1.5 Nepal

Modern banking in Nepal started with the establishment of the Nepal Bank Limited in 1937. The first insurance company in the country was established in 1947 and the central bank of Nepal, Nepal Rastra Bank (NRB) was established in 1956. Until the mid 1980s, the Nepalese financial sector comprised of two

Figure 2.4



commercial banks, two development banks, two insurance companies, and three other institutions, namely the Security Exchange Centre, the Employees Provident Fund and the Credit Guarantee Corporation. Many of these institutions were state owned. After the removal of entry barriers in 1982, the financial sector saw a remarkable growth in the number of banks and NBFIs. The number of banks and NBFIs licensed and supervised by Nepal Rastra Bank (NRB) reached 463 in July 2006.

One of the responsibilities entrusted to NRB was to mobilise capital for economic development, encourage industrialisation and promote banking in the country. To fulfil this responsibility, NRB initiated the promotion of institutional network of banks and financial institutions in the country. Such network was also necessary for the operation of monetary policy. In this connection, a number of NBFIs such as the Nepal Industrial Development Corporation, Agricultural Development Bank, National Insurance Corporation, Credit Guarantee Corporation, Nepal Stock Exchange, Citizen Investment Trust, five regional rural development banks and Rural Micro-Finance Development Centre emerged with the financial involvement of NRB.

The banking group comprised of commercial banks only and all other institutions including development banks came under the NBFIs group. NRB once had two separate regulation departments as well as two separate supervision departments for banks and NBFIs. Currently, there is one department for regulation of both banks and NBFIs and two separate departments for their supervision.

Table 2.6

The Growth of Financial Institutions in Nepal

Type	1995	2000	2005
Commercial Banks	10	13	17
Development Banks	3	7	26
Finance Companies	21	45	60
Microfinance Institutions	4	7	11
Financial Cooperatives	6	19	20
Financial NGOs	-	7	47
Total	44	98	181

Source: Banking and Financial Statistics No.47, Nepal Rastra Bank

Table 2.7

Number of Banks and Non-Bank Financial Institutions in Nepal (July 2006)

Type	Number
Banks	
Commercial Banks	18
Non-Bank Financial Institutions Regulated by the Central Bank	
Development Banks	29
Finance Companies	70
Microfinance Institutions	11
Financial Cooperatives	19
Financial NGOs	47
Money Transfer Firms	31
Money Changers	238
Non-Bank Financial Institutions Regulated by Other Agencies	
Contractual Savings Institutions	2
Insurance Companies	21
Stock Exchange	1
Postal Savings	117
Savings and Credit Cooperatives	2700
Total	*3304*

Source: Nepal Rastra Bank

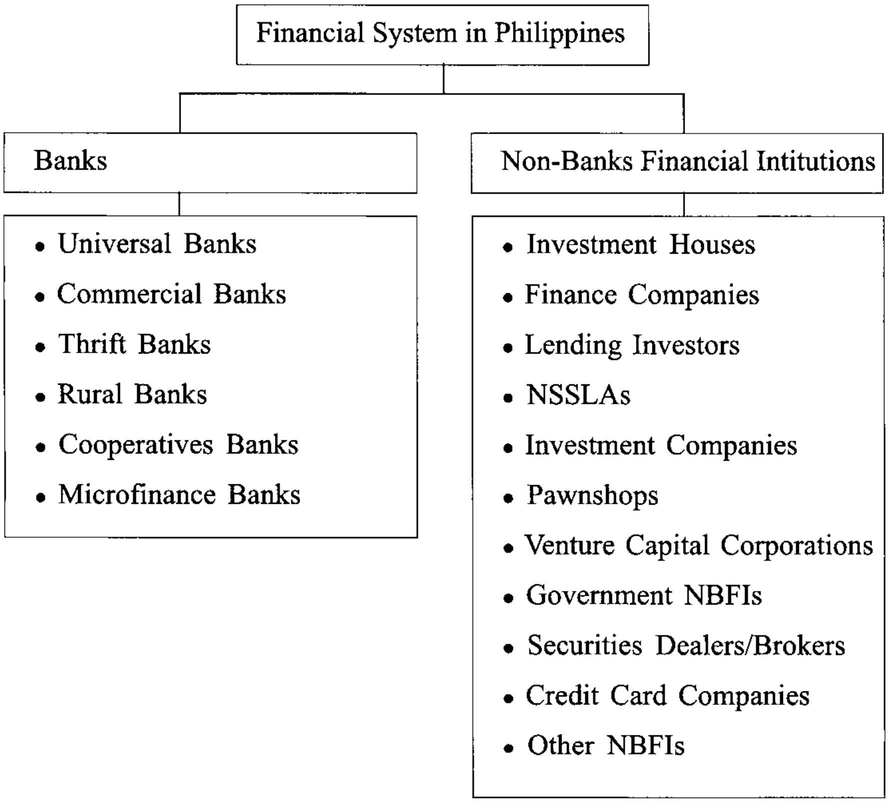
The Banks and Financial Institutions Ordinance 2005, which is also known as the Umbrella Act, reclassified central bank supervised banks and NBFIs into 4 categories. According to this new classification, commercial banks come under Category A, development banks under Category B, finance companies in Category C while microfinance institutions come under Category D. Moreover, institutions in Category B, C and D can be promoted to the higher category once they fulfil the prescribed capital and other requirements. Under this provision, the Agricultural Development Bank, which was a non-bank financial institution that came under Category B, has been promoted to Category A (Commercial Bank) in 2006. Similarly, some of the Category C institutions are in the process of being promoted to Category B. As NBFIs can be upgraded to banks after fulfilling the prescribed requirements, the distinction between banks and NBFIs is becoming complicated and unstable.

The pace of capital market development in Nepal has remained very slow. The Securities Marketing Centre was established in 1977 with a view to develop the secondary market for the government papers. The issuance of government bonds had started in 1964. The bonds issued by the government included development bond, special bond, national saving certificates and citizen investment certificates. In 1991, Nepal Rastra Bank issued the Nepal Rastra Bank Bond to mop up excess liquidity in the economy. The corporate bond market is virtually non-existent in the country.

2.1.6 Philippines

The formal non-bank financial intermediation in Philippines started in the 1970s. The NBFIs served as an alternative source of funds and provided various financial services. From 1972 to 1974, certain NBFIs were required to register with the Central Bank of the Philippines (CBP). Pawnshops came under the supervision of the CBP in 1973. In the 1980s, the regulatory power of CBP over NBFIs was strengthened. The decade of 1980s saw intensified competition among financial institutions. The CBP responded by consolidating the rules governing the operations of NBFIs. The Philippines financial system opened its door to the international financial markets in 1990s. The entry of foreign banks and insurance companies prompted NBFIs to become more efficient to operate in the highly competitive environment. The CBP established in 1949 was reorganised as Bangko Sentral ng Philipinas (BSP) under the new central bank Act. The BSP as a regulatory body, issues regulations and supervises the financial institutions to strengthen and protect the integrity of the financial system and to maintain the public trust in it.

Figure 2.5



The financial system in the Philippines is dominated by universal and commercial banks which offer a wide variety of banking services. Universal banks are also engaged in underwriting and other functions of investment houses. Thrift banks include savings and mortgage banks, private development banks, stock savings and loan associations and microfinance thrift banks. These institutions collect savings of depositors and invest them in small and medium enterprises. Rural and cooperative banks provide basic financial services to the rural communities. While rural banks are privately owned and managed, cooperative banks are managed and owned by the federation of cooperatives. Microfinance banks offer a broad range of financial services, such as deposit taking, loans, payment services and money transfer, to the poor and low income households for their micro-enterprises and small businesses (BSP 2006).

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Table 2.8

Number of Banks and Financial Institutions in Philippines

Type of Institutions	1997	2000	2005
Banking Institutions	1003 (61790	947 (6606)	795 (5582)
Universal and Commercial Banks	*54 (4024)*	*45 (4205)*	*41 (4277)*
Thrift Banks	*117 (1272)*	*112 (1279)*	*84 (1209)*
Rural and Cooperative Banks	*832 (883)*	*790 (1122)*	*754 (1305)*
Non-Bank Financial Institutions	7085 (3030)	5097 (4026)	6203 (6234)
Total	8088 (9209)	6044 (10632)	6998 (11816)

Figures in brackets are total number of branches
Source: Selected Philippine Economic Indicators, various issues, Bangko Sentral ng Philipinas

Banks and NBFIs have common and interrelated activities. Many NBFIs are either subsidiaries or affiliates of banks. They cater mostly to the financial needs of the smaller investors or borrowers. The NBFIs are generally classified into two major groups: NBFIs with quasi-banking functions and NBFIs without quasi-banking functions. Borrowing from 20 or more people or entities through issuance of deposit substitutes is defined as quasi-banking.

Investment Houses are engaged in the underwriting of securities of other corporations. Finance Companies extend credits to consumers and to industrial, commercial, and agricultural enterprises by discounting and factoring commercial papers and accounts receivables; buying and selling contracts, leases and mortgages. Lending Investors are primarily engaged in extending secured and unsecured loans to individuals and enterprises. The Non-Stock Savings and Loan Associations (NSSLAs) collect savings from their members and extend short term as well as long term loans to the members. Pawnshops are engaged in lending money against the security of personal properties.

The common type of financial services extended by NBFIs in Philippines include financing for capital items and goods for trade or processing, purchasing chattel items and leasing them to clients, granting loans to real estate developers and dwellers, and providing loans against the securities of jewellery. NBFIs offer an alternative for industry players to avail financial products not commonly available in the banking sector. NBFIs which are subsidiaries or affiliates of banks or quasi-banking entities are supervised by BSP but the rest do not come under the purview of the central bank. The corporate NBFIs which are neither subsidiaries nor affiliates of banks register and report to the Security Exchange Commission while NBFIs owned by individuals or partnerships obtain their licenses from the local government.

The capital market development in Philippines started in 1927 with the establishment of Manila Stock Exchange. In 1963, Makati Stock Exchange came to existence. These two entities were merged in 1992 to establish the Philippine Stock Exchange. The decade of the 1990s witnessed significant developments in the capital market. The development of the domestic bond market began in 1970s. However, while the government bond market has flourished, the corporate bond market still remains limited because of the inactive secondary market.

2.1.7 Singapore

The financial system of Singapore has emerged as an international financial centre. Excellent infrastructure and the conducive environment attracted many reputable international financial institutions in the country, making it one of the most sophisticated financial markets in the world. A large number of varied banks and NBFIs are currently operating in the country. The financial service sector contributes more than 11 percent to Singapore's GDP.

Commercial banks are the major players in the financial system, which are licensed under the Banking Act and they operate as full banks, wholesale banks or offshore banks. Besides commercial banking activities, the banks also offer financial advisory services, insurance broking and capital market services. Currently there are 29 full banks in Singapore that provide the whole range of banking services approved under the Banking Act. Wholesale banks operate as branches of foreign banks and offer the same range of banking services as full banks except that retail banking activities are in Singapore dollar. There are currently 36 wholesale banks in Singapore. Offshore banks can offer same banking service products as those offered by full and wholesale banks through the Asian Currency Units (ACUs). All the 43 offshore banks operating in Singapore are branches of foreign banks.

Merchant banks are engaged in corporate finance, underwriting of share and bond issues, mergers and acquisitions, portfolio investment management, management consultancy and other fee-based activities. They accept deposits or borrow from banks, finance companies, shareholders and companies controlled by their shareholders but they are not allowed to accept savings deposits from the public. The operations of merchant banks are governed by the Merchant Bank Directives. Currently there are 49 merchant banks operating in Singapore.

Finance companies are engaged in small-scale financing like instalment credit for vehicles and consumer durables, and mortgage loans for housing. They are not allowed to collect the deposits which are repayable on demand by cheque, draft or order. The operations of finance companies are governed by the Finance Companies Act. Generally, finance companies are not allowed to deal in any foreign currency, gold or other precious metals. They also cannot acquire foreign currency denominated stocks, shares or debt securities. There are currently 3 finance companies in Singapore.

Insurance companies offer insurance services as registered insurers, authorised reinsurers or foreign insurers. Registered insurers are approved to conduct life and/or general insurance and can be registered as direct insurers, reinsurers or captive insurers. Authorised reinsurers conduct reinsurance as general reinsurers and/or life reinsurers. Foreign insurers are authorised to operate in Singapore under the foreign insurance scheme. Besides offering insurance services, some insurers also engage in other activities approved by the Monetary Authority of Singapore.

Other NBFIs include money changers, remittance companies, securities market dealers, financial advisors, fund managers, insurance companies, insurance brokers, holders' of various licenses and so on.

The capital market in Singapore has witnessed a significant growth due to several contributing factors. However, the bond market is still less developed than the equity market. After the financial crisis of 1997, several measures have been implemented to develop a domestic bond market. In this connection, a series of government bonds have been issued and at the same time, a corporate bond market development programme is also being implemented.

Table 2.9

Number of Selected Financial Institutions in Singapore

Type of Institution	1995	1998	2000	2005	2007 Feb
Commercial Banks	140	154	140	111	108
Local Banks	12	12	8	5	5
Foreign Banks	128	142	132	106	103
Finance Companies	23	19	14	3	3
Merchant Banks	77	80	63	48	49
Insurance Companies	141	194	153	140	160
Insurance Brokers	-	-	-	61	63

Source: Annual Reports of 2000/2001 and 2005/06, Monetary Authority of Singapore, and www.mas.gov.sg

Table 2.9 above shows that the number of banks and non-bank financial institutions increased significantly in 1998 compared to that of 1995 but the numbers declined gradually afterwards. After the financial crisis of 1997, Singapore undertook a strategic review of its approach to financial sector development under which the financial system was consolidated in order to make it more dynamic, competitive and innovative.

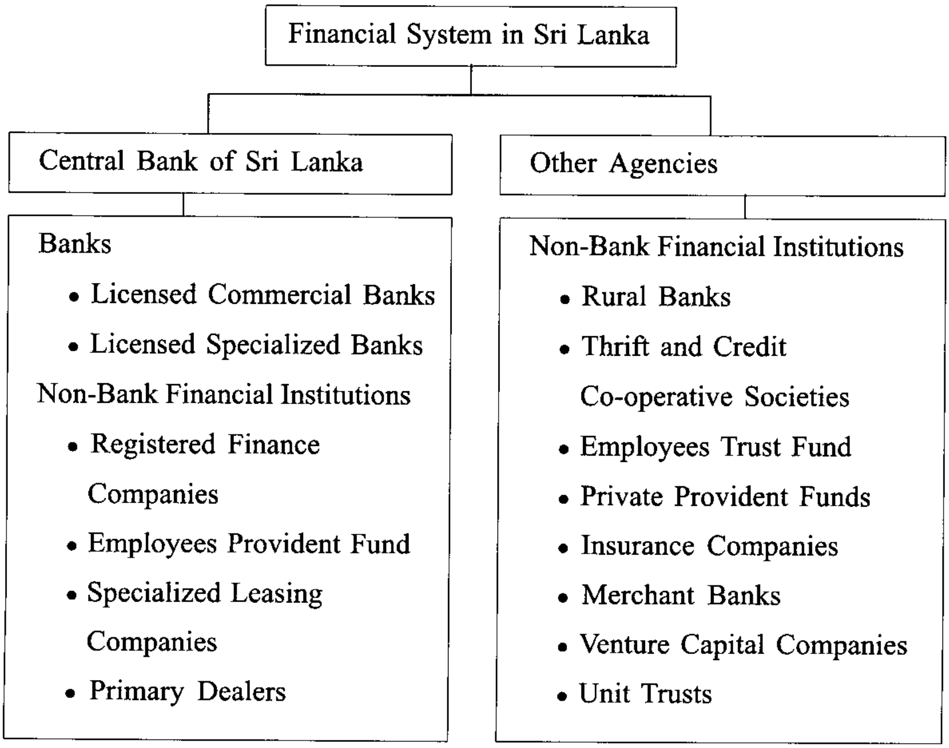
2.1.8 Sri Lanka

The first commercial bank in Sri Lanka was established in 1841. In 1950, there were 12 banks, of which 10 were branches of foreign banks. Most of these foreign banks financed trade and provided services to European firms. The Bank of Ceylon and the Hatton Bank Limited were two domestic commercial banks. As the Hatton Bank had a limited scope and geographical coverage, the Bank of Ceylon was established in 1939 to primarily cater to the banking needs of the local population. Until 1977, the financial system was mainly dominated by state banks. In 1977, the country adopted the policy of financial liberalisation and as a result, international banks opened their branches in Sri Lanka and the domestic banks also expanded their branch networks.

The Cooperative Federal Bank of Ceylon was established in 1948 and became the source of credit to the cooperative members and facilitated the cooperative movement in Sri Lanka. Other savings institutions included the Post-Office Savings Bank, Ceylon Savings Bank and the National Savings Movement. These institutions catered the needs of small savers and borrowers. The Ceylon State Mortgage Bank and the Agriculture and Industrial Credit Corporation were established to provide long term finance. These institutions heavily concentrated their loans to agricultural borrowers for the acquisition and improvement of land rather than for industrial and other ventures. There were a number of insurance companies, most of which were foreign owned. These institutions tended to hold the bulk of their assets outside Sri Lanka.

The financial system of Sri Lanka can be divided into two broad categories based on their supervisory authorities. All the banks and certain categories of NBFIs are supervised by the Central Bank of Sri Lanka (CBSL), while other NBFIs are supervised by other agencies.

Figure 2.6



Licensed commercial banks and licensed specialised banks are regulated by the CBSL. Licensed specialised banks are not allowed to accept demand deposits from the public and not authorised to deal in foreign currency. Among the NBFIs, registered finance companies, specialised leasing companies, the Employees Provident Fund and primary dealers are regulated by the central bank. Other NBFIs are outside the purview of central bank and are supervised by other agencies.

Registered Finance Companies (RFCs) are major NBFIs. Until 1979, there was no specific legislation for finance companies other than the Companies Law. The Finance Companies Act 1979 brought finance companies under the regulation of the central bank. Under this Act, finance companies are required to register with the central bank. In 2005, RFCs were permitted to accept savings deposits from the public. The business activities of RFCs are concentrated in leasing, hire purchase and real estate. The number of finance companies registered under the Finance Company Act stood at 29 in 2006.

Specialised leasing companies (SLCs) are registered under the Finance Leasing Act. SLCs mainly offer financing packages to the customers for leasing vehicles, office equipments and others and they raise funds using instruments such as debentures, commercial papers and promissory notes in addition to bank borrowings. The number of SLCs was 21 in September 2006.

Savings and loan associations such as co-operative rural banks function as banking arms of multipurpose co-operative societies, thrift and credit co-operative societies and other registered co-operative and credit societies collect savings from members and non-members and lend exclusively to their members.

Merchant banks are engaged in a variety of financial services. However, due to the lack of opportunities in the equity and debt markets, merchant banks are carrying out leasing, investments in financial instruments and lending activities as the main lines of business. Currently, there are 10 merchant banks operating in the country.

Insurance companies, Employees Provident Fund, Employees Trust Fund and other provident funds are contractual savings institutions. The central bank undertakes the function of the fund management of the Employees Provident Fund which is administered under the Employees Provident Fund Act. The rest of the contractual savings institutions are not supervised by the central bank.

Other specialised NBFIs include venture capital companies and unit trust companies. The unit trust industry is regulated by the Securities and Exchange Commission of Sri Lanka.

Table 2.10

Number of Banks and Non-Bank Financial Institutions in Sri Lanka

Type of Institution	1996	2000	2005
Licensed Commercial Banks	26	26	22
Licensed Specialised Banks	6	12	14
Registered Finance Companies	24	25	28
Specialised Leasing Companies	3	5	20
Merchant Banks	6	13	10
Unit Trusts	5	12	5
Venture Capital Firms	6	7	6
Insurance Companies	6	9	15

Source: Annual Reports 1997, 2000, 2005, Central Bank of Sri Lanka

The numbers of financial institutions in Sri Lanka are presented in Table 2.10 above. The figures show that the number of licensed commercial banks has decreased to 22 in 2005 from 26 in 2000 while the number of the major NBFIs saw an increase during the same period. The number of specialised leasing companies increased markedly to 20 in 2005 from 5 in 2000. The growth trend in the number of NBFIs indicates that the non-bank financial intermediation is still growing in the Sri Lankan financial system.

The history of capital market development in Sri Lanka dates back to 1896 when the share trading was started by the Colombo Share Brokers Association. The Colombo Securities Exchange was established in 1985 by amalgamating two stock broker associations. The domestic bond market commenced its active operation only in 1990s after the issuance of medium and long term bonds by government as well as by the corporate sector.

2.1.9 Taiwan

The financial system of Taiwan consists of banks, NBFIs and financial markets. The banking sector comprises domestic banks, medium business banks and local branches of foreign banks while the NBFIs include credit cooperatives, credit departments of farmers' and fishermen's associations, Chunghwa Post Co., trust and investment companies, insurance companies, pension funds, securities and bills finance companies, and mutual funds. Similarly, the financial market comprises money market, bond market and stock market.

Figure 2.7

Financial System in Taiwan

Banks
- Domestic Banks
- Medium Business Banks
- Local Branches of Foreign Banks

Non-Bank Fianancial Institutions
- Credit Cooperatives
- Credit Departments of Farmers' and Fisherman's Associations
- Chunghwa Post Co.
- Trust and Investment Companies
- Life Insurance Companies
- Property and Causality Insurance Companies
- Mutual Funds
- Securities Finance Companies
- Bills Finance Companies

Financial Markets
- Money Market
- Bond Market
- Stock Market

Credit cooperatives and the credit departments of farmers' associations and fishermen's associations are the main financial institutions serving the rural population in Taiwan. These local-level financial institutions serve as substitutes for commercial banks by offering various financial services to people living in remote and undeveloped areas. The first credit department of a fishermen's association was established in 1918. The credit department of farmers' associations was established by reorganising the original rural credit cooperatives in mid-1940s

The Chunghwa Post Company specialises in the remittance and saving deposits although it cannot extend loans. The Company is mainly engaged in the buying and selling of securities issued by The Central Bank of the Republic of China (Taiwan) (CBRC) and other institutions, making call loans to financial institutions, and transferring their postal saving deposits to the CBRC as well as other designated banks. It often buys the CBRC's NCD and trades in repurchase agreements.

Trust and investment companies were established in Taiwan in the early 1960s. These companies accept trust funds from the public and extend loans to first home buyers and engage in securities investment. They also work as securities brokers and underwriters. The Trust Law 2005 has directed the trust and investment companies to be transformed into banks within a 5 year period. Most of these companies have been transformed as directed into commercial banks or industrial banks, with only two companies left still existing as trust and investment companies.

Insurance companies are important institutional investors. They obtain funds from policy holders and invest in bank deposits, medium and long-term loans, short-term bills, domestic and foreign stocks, bonds, and real estate investment. According to the regulations on the use of funds, insurance companies can invest in corporate stocks and corporate bonds up to 40 percent of their total funds.

The number of banks and major NBFIs in Taiwan are presented in Table 2.11.

Table 2.11

Number of Banks and Non-Bank Financial Institutions in Taiwan

Category	1997	2000	2005	2006
Banks				
Domestic Banks	39 (1685)	48 (2411)	42 (2995)	39 (3106)
Medium Business Banks				
Local Branches of Foreign Banks	8 (491)	5 (282)	4 (244)	3 (183)
Non-Bank Financial Institutions				
Credit Cooperatives	64 (505)	48 (394)	29 (295)	28 (289)
Credit Department of Farmer's Association	287 (943)	287 (973)	253 (827)	254 (817)
Credit Department of Fishermen's Association	27 (48)	27 (49)	25 (39)	25 (40)
Chunghwa Post Company	1 (1276)	1 (1305)	1 (1321)	1 (1320)
Trust and Investment Companies	5 (61)	3 (36)	2 (20)	2 (20)
Life Insurance Companies	32 (103)	32 (116)	29 (134)	29 (135)

Figures in brackets denote number of branches
Source: Central Bank of the Republic of China (Taiwan)

The number of banks and NBFIs except for branches of the Chunghwa Post Company has declined significantly over the years. Similarly, the number of total branches of most of these institutions also has declined. This probably indicates that the financial system in Taiwan has gone through a consolidation and rationalisation phase after the financial crisis of 1997.

The capital market development in Taiwan started in early 1960s. In the mid-1980s and the 1990s, the government implemented various reform measures to improve the governance and operation of the securities markets. The issuance of new government bonds has continued to increase while the issuance of corporate bonds has seen a declining trend in the recent years due to fewer business investments, relatively limited use of funds and complicated issuance process.

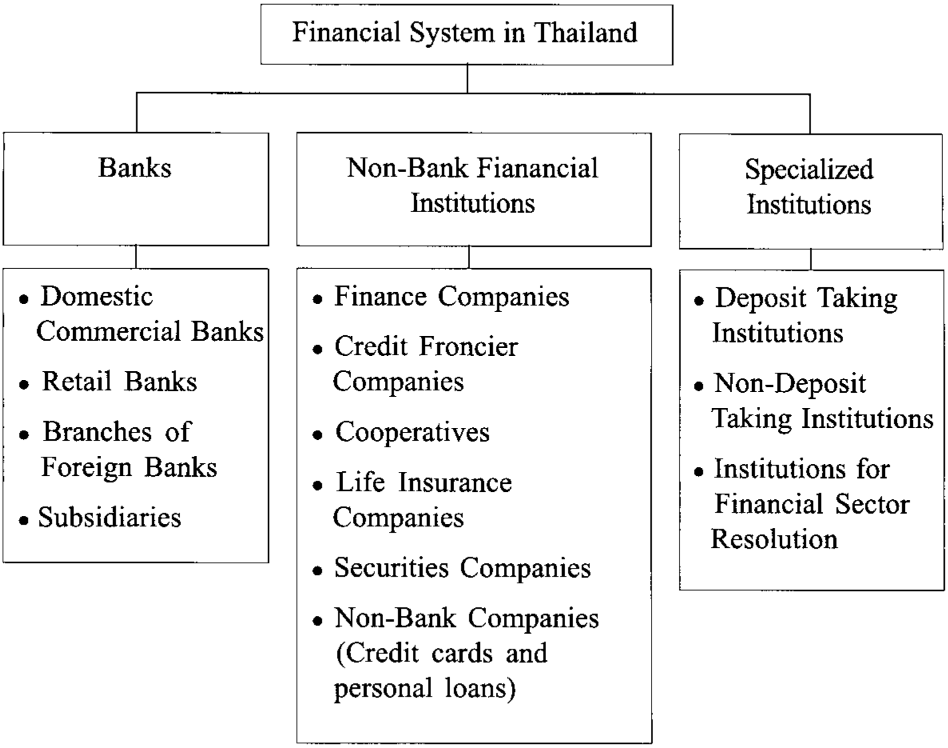
2.1.10 Thailand

The history of the Thai financial system dates back to 1888, which marked the opening of a branch of the British-owned Hong Kong and Shanghai Bank as the first commercial bank in Thailand. Since then, several other European banks have opened their branches in Thailand. The first Thai commercial bank was established in 1906. In the public sector, the Government Savings Bank was established in 1946, the Government Housing Bank in 1953, and the Bank for Agriculture and Agricultural Cooperatives in 1966. These government-owned specialised banks were focused on stimulating savings among low income households, especially in the rural areas.

The Thai financial system comprises a wide range of institutions, which can be grouped into three broad categories: banks, NBFIs and specialised financial institutions. Banks include domestic commercial banks, retail banks, branches of foreign banks and subsidiaries while NBFIs consists of finance companies, credit froncier companies, cooperatives, insurance companies, securities companies and other non-bank companies. The specialised financial institutions group comprises deposit taking and non-deposit taking specialised institutions as well as institutions for financial sector resolution.

NBFIs provide a variety of financial services that differ from those of the commercial banks. Among the NBFIs, finance companies, credit foncier companies and non-bank companies are under the supervision of the central bank while cooperatives, securities companies, and life insurance companies are regulated and supervised by other agencies. NBFIs other than finance companies and credit foncier companies do not accept deposits from the public. The main service provided by the central bank supervised NBFIs is consumer finance that includes unsecured loans, credit cards and personal loans, the financing of which has a huge impact on retail consumers.

Figure 2.8



The specialised financial institutions such as the Bank for Agriculture and Agricultural Cooperatives, the Government Housing Bank, and the Export-Import Bank of Thailand have been established with some specific purpose. The institutions for financial sector resolution are asset management companies which manage distressed assets transferred to them from financial intuitions, usually their parent banks.

Non-bank companies are non-deposit taking financial institutions. These companies are engaged in credit card and personal loan business specifically providing services to the lower income borrowers. There are 32 non-bank companies out of which 2 are credit card companies, 10 companies are engaged in both credit card and personal loan business, and 20 are personal loan companies.

Table 2.12

Banks and Non-Bank Financial Institutions in Thailand (2005)

Institution Type	Number
Banks	
Thai Commercial Banks	14
Retail Banks	2
Foreign Bank Branches	17
Subsidiary	1
Non-Bank Financial Institutions	
Finance Companies	10
Credit Foncier Companies	4
Cooperatives	6,138
Life Insurance Companies	25
Securities Companies	41
Credit Card and Personal Loan Companies	32
Specialised Institutions	
Deposit Taking Institutions	5
Non Deposit Taking Institutions	4
Asset Management Companies	18

Source: Bank of Thailand

NBFIs have become a significant funding source for household consumption spending in Thailand. They are also involved in providing payment services through credit card payment systems. The electronic payment instruments are widely accepted and very popular with the Thai population.

Table 2.13

Growth of Selected Banks and Non-Bank Financial Institutions in Thailand

Category	1995	2000	2005
Commercial Banks	29	34	34
Finance Companies	91	21	10
Credit Foncier Companies	13	10	4

Source: Bank of Thailand

While the number of commercial banks has remained stable, the number of finance companies and credit foncier companies in Thailand has declined sharply, mainly due to the creation of new commercial banks with the upgrading of finance companies and credit foncier companies.

To initiate the development of a modern capital market in Thailand, the Security Exchange of Thailand was established in 1974, which started its operation in the middle of 1975. The bond market has developed together with the stock market in the country. The domestic bond was issued for the first time in 1933. The corporate sector began to issue bonds in 1992 after the Securities and Exchange Act eased the criteria for the issuance of corporate bonds.

2.2 Concluding Remarks

The distinction between bank and NBFIs is difficult for a number of reasons. There is no uniformity in the definition used by the different countries in the SEACEN region. Growing similarity in the services provided by banks and NBFIs under the concept of universal banking blurs the demarcation between banks and NBFIs. Because of the unique nature of services provided by certain type of institutions, financial institutions are sometimes classified into three broad categories, namely, banks, NBFIs and financial markets. In general, the financial institutions that are allowed to accept demand deposits from the public are known as banks while those which are not allowed to collect demand deposits but allowed to accept time deposits are NBFIs. The institutions that are engaged in the businesses other than direct deposit collection and loan advancement and generally facilitating the interaction between lenders and borrowers are financial markets.

Various types of NBFIs are operating in the SEACEN countries. These include finance companies, merchant banks, development financial institutions, savings and credit institutions, cooperatives, pension funds, insurance companies, securities companies venture capitals, trust funds, microfinance institutions, postal savings, pawn shops and the like. Finance companies, development financial institutions, merchant banks, insurance companies and pension funds are the common type of NBFIs found in almost all the SEACEN countries. However, in Malaysia, finance companies and merchant banks are included in banks category (finance companies have been phased out since 2006). Similarly, rural and cooperative banks are in the banking institutions category in Philippines. In Brunei Darussalam, Indonesia and Malaysia, certain NBFIs operate under the Islamic banking model.

The data on the number of NBFIs show that there has been a marked decline in the number of most types of NBFIs in Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand during the last decade, specifically after the financial crisis of 1997. Contrary to this general trend, certain types of NBFIs have either registered significant growth or remained almost stable. These institutions include pension funds, pawn shops and venture capitals in Indonesia; asset management companies and securities companies in Korea; development financial institutions, leasing companies, factoring companies and venture capital companies in Malaysia; insurance companies in Singapore and the Chunghwa Post Company in Taiwan. In the case of Sri Lanka and Nepal, all types of NBFIs are found to be constantly growing. This shows that a full range of NBFIs are operating in most of the SEACEN countries enriching their financial sectors. In terms of the growth, non-bank financial intermediation has reached its peak in more developed financial systems in the region while it still continues to grow in comparatively less developed financial systems such as Sri Lanka and Nepal.

Chapter Three

NON-BANK FINANCIAL INTERMEDIATION AND FINANCIAL DEVELOPMENT

The financial systems in the SEACEN countries vary in terms of their development, sophistication and openness. The level of non-bank financial intermediation is one of the indicators that can reflect the overall status of a financial system. A variety of NBFIs are operating in the more developed financial systems in the region. However, as mentioned in the preceding chapter, the restructuring and consolidation of financial institutions in the recent years has again increased the domination of commercial banks in the more matured financial systems and the activities of NBFIs have contracted in these countries especially after the financial crisis of 1997. In this chapter, a county-wise discussion is presented on the role of non-bank financial intermediation in the financial development of the SEACEN countries. Specifically, the performance of NBFIs in terms of assets, deposits and loans is analysed and compared with that of banks in these countries.

3.1 Country Cases

3.1.1 Brunei Darussalam

The financial system in Brunei Darussalam is dominated by commercial banks. The majority of NBFIs are involved in deposit collection and credit extension and they consist of finance companies and the Islamic Trust Fund of Brunei (TAIB). The banks held about 84 percent of the total assets of financial institutions in 2005 while the NBFIs held a share of about 16 percent of the total assets, of which finance companies accounted for about 6 percent and the Islamic Trust Fund of Brunei for about 10 percent (Table 3.1).

Table 3.1

Key Indicators of Banks and NBFIs in Brunei Darussalam (2005)

Type	*Assets*		*Deposits*		*Loans*	
	B$ Million	% Share	B$ Million	% Share	B$ Million	% Share
Banks	15186	83.8	11512	85.0	4667	73.0
Finance Companies	1139	6.3	692	5.1	878	13.7
Islamic Trust Fund of Brunei	1790	9.9	1337	9.9	847	13.3
Total	*18115*	*100.0*	*13541*	*100.0*	*6392*	*100.0*

Source: Ministry of Finance, Brunei.

On the deposit side, the banks held 85 percent of the total deposits mobilised by banks, finance companies and TAIB in 2005. The share of the deposits mobilised by finance companies and the TAIB stood at about 5 percent and 10 percent respectively. The banks have the monopoly in accepting demand deposits while the finance companies and TAIB accept savings and time deposits only.

Table 3.2 compares the deposit structure of banks and finance companies from 2002 to 2005. Time deposits occupies the first place in the deposit portfolio of banks while demand deposits and savings deposits come in second and third place respectively. In the case of deposit portfolio of finance companies, time deposits occupied first place from 2002 to 2004 while savings deposits outperformed time deposits in 2005, showing a shift in the deposit structure of finance companies. The share of the deposits held by finance companies in the total deposits of banks and finance companies did not show any growth as it remained constant below 6 percent from 2002 to 2005

Table 3.2

Deposit Structure of Banks and Finance Companies in Brunei Darussalam

Type/Institution	2002		2003		2004		2005	
	B$ Million	% Share	B$ Million	% Share	B$ Million	% Share	B$ Million	% Share
Demand Deposits	*1618*	*100.0*	*2149*	*100.0*	*3130*	*100.0*	*2272*	*100.0*
Banks	1618	100.0	2149	100.0	3130	100.0	2272	100.0
Finance Companies	0	0.0	0	0.0	0	0.0	0	0.0
Savings Deposits	*1598*	*100.0*	*1641*	*100.0*	*1780*	*100.0*	*1734*	*100.0*
Banks	1388	86.9	1406	85.7	1482	83.3	1367	78.8
Finance Companies	210	13.1	235	14.3	298	16.7	367	21.2
Time Deposits	*5504*	*100.0*	*5772*	*100.0*	*6384*	*100.0*	*8198*	*100.0*
Banks	5214	94.7	5457	94.5	6040	94.6	7873	96.0
Finance Companies	290	5.3	315	5.5	344	5.4	325	4.0
Total Deposits	*8720*	*100.0*	*9562*	*100.0*	*11294*	*100.0*	*12204*	*100.0*
Banks	8220	94.3	9012	94.2	10652	94.3	11512	94.3
Finance Companies	500	5.7	550	5.8	642	5.7	692	5.7

Source: Ministry of Finance, Brunei

Table 3.3

Loans Extended by Banks and Finance Companies in Brunei Darussalam

Institution Type	2002		2003		2004		2005	
	B$ Million	% Share	B$ Million	% Share	B$ Million	% Share	B$ Million	% Share
Banks	4310	89.0	4525	88.1	4630	86.5	4666	84.2
Finance Companies	535	11.0	609	11.9	724	13.5	878	15.8
Total Loans	4845	100.0	5134	100.0	5354	100.0	5544	100.0

Source: Ministry of Finance, Brunei

The share of finance companies and TAIB in the total loans extended by banks and NBFIs is significantly larger than their share in the total assets and the deposits of these institutions. The loans extended by finance companies and TAIB respectively stood at 13.7 percent and 13.3 percent of the total loans extended by the banks and the NBFIs in 2005 (Table 3.1). The loans extended by finance companies exceeded their deposit liabilities as they utilised equity funds also and obtained addition funds from bank borrowings. Table 3.3 shows that the share of loans extended by finance companies is constantly growing.

3.1.2 Indonesia

Commercial banks are the main players in the Indonesian financial system. They accounted for about 84 percent of the total assets of the financial system in 2005 (Table 3.4 and 3.5). The NBFIs comprise finance companies, insurance companies, pension funds, securities companies, pawn shops and venture capital. The share of finance companies and insurance companies in the total assets of the financial system stood at 5.49 percent and 6.93 percent respectively in 2005. Pension funds held a share of 2.81 percent in the total assets while the share held by securities companies and pawn shops each was less than 1 percent. The share of venture capital companies remained insignificant. Figures show that the share of the banks in total assets is constantly declining.

Table 3.4

Assets of the Banks and NBFIs in Indonesia

(in Trillion Rp.)

Type of Institution	*2001*	*2002*	*2003*	*2004*	*2005*
Banks	1099.70	1081.18	1196.20	1272.30	1469.83
Finance Companies	37.34	39.94	47.23	78.88	96.53
Insurance	64.94	77.59	94.09	119.89	121.89
Pension Funds	34.91	41.21	49.45	49.45	49.45
Securities Companies	na	na	11.20	15.45	15.92
Pawn Shops	1.79	2.43	2.66	3.47	4.59
Venture Capital	0.0028	0.0054	0.0021	0.0017	0.0017
Total Assets	*1238.68*	*1242.35*	*1400.82*	*1539.43*	*1758.20*

Source: Bank Indonesia

Table 3.5

Share of Banks and NBFIs in Total Assets in Indonesia

(in Percentage)

Type of Institution	*2001*	*2002*	*2003*	*2004*	*2005*
Banks	88.78	87.03	85.39	82.65	83.60
Finance Companies	3.01	3.21	3.37	5.12	5.49
Insurance	5.24	6.25	6.72	7.79	6.93
Pension Funds	2.82	3.32	3.53	3.21	2.81
Securities Companies	na	na	0.80	1.00	0.91
Pawn Shops	0.14	0.20	0.19	0.23	0.26
Venture Capital	0.00	0.00	0.00	0.00	0.00
Total Assets	*100.00*	*100.00*	*100.00*	*100.00*	*100.00*

Source: Bank Indonesia

Table 3.6

Deposits and Loans of Banks and Finance Companies in Indonesia

(in Trillion Rp.)

Particulars	*2001*	*2002*	*2003*	*2004*	*2005*
Deposits					
Banks	611.27	661.15	720.44	788.16	889.57
Finance Companies					
Loans	338.44	399.35	476.27	608.45	757.32
	(100.00)	*(100.00)*	*(100.00)*	*(100.00)*	*(100.00)*
Banks	307.59	365.41	437.94	553.55	689.67
	(90.89)	*(91.50)*	*(91.95)*	*(90.98)*	*(91.07)*
Finance Companies	30.85	33.94	38.33	54.90	67.65
	(9.11)	*(8.50)*	*(8.05)*	*(9.02)*	*(8.93)*

Note: Figures in brackets represent the share percentage in total
Source: Indonesian Financial Statistics, August 2006

The share of the loans extended by banks stood at around 91 percent of the total loans while that by finance companies remained at around 9 percent from 2001 to 2005. Generally, finance companies offer leasing, factoring, credit cards and consumer finance. Since 2000, many finance companies have shifted their focus to consumer financing because of the huge demand. Currently, consumer financing represents the largest portfolio of finance companies.

As finance companies are not allowed to accept any form of deposits from the public, their sources of fund are limited to the capital funds and borrowings from banks. This can be mainly attributed to the stagnant loan performance of finance companies. As finance companies issue credit cards, they are also involved in providing payment services in addition to the lending activities. In the recent years, the number of credit card holders and the volume of transactions have increased significantly in Indonesia.

3.1.3 Korea

Banks and a range of NBFIs are engaged in providing financial services in Korea. The NBFIs can be classified into depository institutions and non-depository institutions. The non-bank depository institutions include merchant banking corporations, mutual savings banks, credit institutions, and the postal savings system while non-bank non-depository institutions comprise securities companies, asset management companies, insurance companies and other financial institutions.

The market share of banks in terms of assets is declining in Korea. The share of banks in the total assets of the financial system decreased from 66.6 percent in 1995 to 60.1 percent in 2006 (Table 3.7). There has been a steady increase in the share of the NBFIs during the last decade. The share of the assets of insurance companies in total assets has doubled during this period while the share of merchant banking corporations has declined sharply.

Table 3.7
Market Share of Financial Institutions in Korea in Terms of Assets

(in Percentage)

Institution Type	1995	2000	2006
Banks	66.6	61.1	60.1
NBFIs	*33.4*	*38.9*	*39.9*
Merchant Banking Corporations	*4.6*	*1.6*	*0.7*
Credit Institutions	*9.7*	*10.7*	*9.5*
Mutual Savings & Finance Companies	*3.3*	*1.8*	*2.1*
Postal Savings	*0.7*	*1.8*	*1.2*
Asset Management Companies	*7.6*	*10.8*	*9.5*
Insurance Companies	*6.7*	*9.0*	*13.2*
Securities Finance Corporation	*2.8*	*3.3*	*3.7*
Total Assets	100.0	100.0	100.0

Source: Financial System in Korea, December 2006, Bank of Korea

Table 3.8

Deposits Mobilised by Banks and NBFIs in Korea

Institution Type	1995		2000		2004	
	Billion Won	% Share	Billion Won	% Share	Billion Won	% Share
Commercial and Specialized Banks	154136.2	56.4	404661.1	67.8	540726.1	66.8
NBFIs	119199.3	43.6	191822.6	32.2	268805.6	33.2
Merchant Banking Corporations	*18531.4*	*6.8*	*12265.4*	*2.1*	*8252.3*	*1.0*
Securities Finance Corporation	*4257.9*	*1.6*	*7555.1*	*1.3*	*12638.3*	*1.6*
Mutual Savings & Finance Companies	*25681.6*	*9.4*	*18802.9*	*3.2*	*32640.9*	*4.0*
Mutual Credits	*40532.6*	*14.8*	*84081.3*	*14.1*	*122422.6*	*15.1*
Credit Unions	*10199.3*	*3.7*	*17045.0*	*2.9*	*18883.5*	*2.3*
Community Credit Cooperatives	*15615.9*	*5.7*	*30616.2*	*5.1*	*41898.7*	*5.2*
Postal Savings	*4380.6*	*1.6*	*21456.7*	*3.6*	*32069.3*	*4.0*
Life Insurance Companies	*na*	*na*	*na*	*na*	*na*	*na*
Total	273335.5	100.0	596483.7	100.0	809531.7	100.0

Source: Monthly Statistical Bulletin, various issues, Bank of Korea

The share of the NBFIs in the total deposits mobilised by the financial system declined from 43.6 percent in 1995 to 32.2 percent in 2000 and stayed at 33.2 percent in 2004 (Table 3.8). This is mainly due to the decline in the share of merchant banking corporations and mutual savings and finance companies in total deposits. The share of the deposits mobilised by mutual companies remained stable throughout the decade whereas the share of postal savings registered remarkable growth during the same period.

Table 3.9

Loans Extended by Banks and NBFIs in Korea

Institution Type	1995		2000		2004	
	Billion Won	% Share	Billion Won	% Share	Billion Won	% Share
Commercial and Specialized Banks	152477.9	52.8	310804.1	67.8	565655.4	73.4
NBFIs	*136537*	*47.2*	*147428.6*	*32.2*	*205028.6*	*26.6*
Merchant Banking Corporations	*21120.9*	*7.3*	*6930.7*	*1.5*	*6188.3*	*0.8*
Securities Finance Corporation	*7024.4*	*2.4*	*6951.8*	*1.5*	*1753.3*	*0.2*
Mutual Savings & Finance Companies	*25754.1*	*8.9*	*15701.0*	*3.4*	*30165.7*	*3.9*
Mutual Credits	*30471.2*	*10.5*	*52514.8*	*11.5*	*85343.2*	*11.1*
Credit Unions	*8956.5*	*3.1*	*10220.3*	*2.2*	*12265.2*	*1.6*
Community Credit Cooperatives	*11492.0*	*4.0*	*14820.3*	*3.2*	*24783.8*	*3.2*
Postal Savings	*na*	*na*	*na*	*na*	*na*	*na*
Life Insurance Companies	*31717.9*	*11.0*	*40289.7*	*8.8*	*44529.1*	*5.8*
Total	289014.9	100.0	458232.7	100.0	770684	100.0

Source: Monthly Statistical Bulletin, various issues, Bank of Korea

On the loan side, the share of the loans extended by NBFIs in the total loans of the financial system declined from 47.2 percent in 1995 to 32.2 percent in 2000 and further to 26.6 percent in 2004 (Table 3.9). Among the NBFIs, the share of merchant banking corporations declined sharply during the decade. The share of insurance companies also saw a gradual decline while the share of mutual credits remained stable during the same period.

These figures reveal that despite the growing share of the NBFIs in the total assets of the financial system, their shares in deposits and loans have declined sharply after 1995 reflecting that customers' preference for banks has again increased in Korea after the financial crisis.

3.1.4 Malaysia

In the Malaysian financial system, finance companies (before 2006), merchant banks and other institutions are included in the banking system. In this study, finance companies and merchant banks are discussed under NBFIs for consistency. The assets of banks and NBFIs in Malaysia are presented in Table 3.10 which show that in terms of assets, the market share held by NBFIs was 49.3 percent in 1995, declined to 47.8 percent in 2000 and to 42.8 percent in 2005. This indicates that the non-bank financial intermediation in Malaysia is strongly competing with bank intermediation and held almost half of the market share in the financial system in 1995. However, after the financial crises, the share of non-bank financial intermediation has gone through a gradual contraction.

Table 3.10

Assets of Banks and NBFIs in Malaysia

Institution Type	1995		2000		2005	
	RM Billion	% Share	RM Billion	% Share	RM Billion	% Share
Commercial Banks	292.2	50.7	513.6	52.2	842.4	57.2
NBFIs	284.5	49.3	470.6	47.8	629.9	42.8
Finance Companies	*91.9*	*15.9*	*109.4*	*11.1*	*26.9*	*1.8*
Merchant Banks	*27.1*	*4.7*	*36.9*	*3.7*	*46.6*	*3.2*
Discount Houses	*12.8*	*2.2*	*21.1*	*2.1*	*26.0*	*1.8*
Provident and Pension Funds	*113.4*	*19.7*	*217.6*	*22.1*	*320.7*	*21.8*
Life Insurance Funds	*17.4*	*3.0*	*38.1*	*3.9*	*83.7*	*5.7*
General Insurance Funds	*7.5*	*1.3*	*14.1*	*1.4*	*18.8*	*1.3*
Development Financial Institutions	*7.2*	*1.2*	*25.1*	*2.6*	*100.1*	*6.8*
Leasing Companies	*6.1*	*1.1*	*6.3*	*0.6*	*6.1*	*0.4*
Factoring Companies	*1.1*	*0.2*	*2.0*	*0.2*	*1.0*	*0.1*
Total Assets	576.7	100.0	984.2	100.0	1472.3	100.0

Source: Annual Report 1995, 2000 and 2005, Bank Negara Malaysia

Table 3.11

Deposits Mobilised by Banks and NBFIs in Malaysia

Institution Type	1995		2000		2005	
	RM Million	% Share	RM Million	% Share	RM Million	% Share
Commercial Banks	161992.7	72.8	364352.8	77.2	644891.1	93.1
NBFIs	60674.9	27.2	107416.6	22.8	47726	6.9
Finance Companies	*50658.0*	*22.8*	*82652.4*	*17.5*	*16029.7*	*2.3*
Merchant Banks	*10016.9*	*4.5*	*24764.2*	*5.2*	*31696.3*	*4.6*
Total	222667.6	100.0	471769.4	100.0	692617.1	100.0

Source: Monthly Statistical Bulletin, various issues, Bank Negara Malaysia

Table 3.12

Loans Extended by Banks and NBFIs in Malaysia

Type of Institution	1995		2000		2005	
	RM Million	% Share	RM Million	% Share	RM Million	% Share
Commercial Banks	73166.6	49.2	303632.9	74.5	524722.8	85.3
NBFIs	75517.1	50.8	104155.0	25.5	90326.2	14.7
Finance Companies	*50086.7*	*33.7*	*76023.6*	*18.6*	*22028.7*	*3.6*
Merchant Banks	*13366.5*	*9.0*	*17391*	*4.3*	*8747.6*	*1.4*
Life Insurance Companies	*3922.8*	*2.6*	*6065.5*	*1.5*	*9725.2*	*1.6*
General Insurance Companies	*222.7*	*0.1*	*356.9*	*0.1*	*261.4*	*0.0*
Development Finance Institutions	*3900.0*	*2.6*	*1510.4*	*0.4*	*47478.4*	*7.7*
Leasing Companies	*3012.6*	*2.0*	*1495.2*	*0.4*	*1632.3*	*0.3*
Factoring Companies	*1005.8*	*0.7*	*1312.4*	*0.3*	*452.6*	*0.1*
Total Loans	148683.7	100.0	407787.9	100.0	615049.0	100.0

Source: Monthly Statistical Bulletin, various issues, Bank Negara Malaysia

Finance companies and merchant banks are the main NBFIs allowed to accept deposits from the general public. The deposit collected by NBFIs was 27.2 percent of the total deposits collected by banks and NBFIs in 1995 (Table 3.11). The share of the NBFIs in total deposits decreased to 22.8 percent in 2000 and to 6.9 percent in 2005. This dramatic decline was mainly due to a sharp decline in the share of finance companies in the total deposits, which decreased from 22.8 percent in 1995 to 17.5 percent in 2000 and to 2.3 percent in 2005. The share of merchant banks in the total deposits however, has remained stable.

On the loans side, NBFIs outperformed the commercial banks by extending slightly more than half of the total loans in the Malaysian financial system in 1995 (Table 3.12). However, this trend could not be maintained as the share of the NBFIs in the total loans of the financial system dipped down to 25.5 percent in 2000 and to 14.7 percent in 2005. This decline is attributable to the decrease in shares of almost all the NBFIs in the total loans of the financial system.

3.1.5 Nepal

The financial system in Nepal is heavily dominated by commercial banks as the non-bank financial intermediation is in the development stage. In terms of assets, deposits and loans, the commercial banks occupied more than 70 percent of the market share in July 2006 while the NBFIs accounted for less than 30 percent share in the Nepalese financial system (Table 3.13). Among the NBFIs, the Employees Provident Fund and finance companies occupy the larger shares.

The development of non-bank financial intermediation started with the removal of entry barriers in the mid-1980s. Specifically after the enactment of the Finance Companies Act and the Development Banks Act, the Nepalese financial system has seen a mushrooming of finance companies and development banks. Finance companies mainly provide consumer finance while development banks are engaged in extending credits to the medium-term and long-term projects.

Table 3.13

Financial Aggregates of Banks and NBFIs in Nepal
As of July 2006

(Share in Percentage)

Institution	Total Assets	Deposits	Loans
Commercial Banks	71.3	72.1	73.5
NBFIs	28.7	27.9	73.5
Development Banks	*1.9*	*2.1*	*2.8*
Finance Companies	*7.4*	*6.7*	*10.2*
Microfinance Institutions	*2.7*	*1.0*	*2.9*
*Insurance Companies**	*5.1*	*4.7*	-
*Employees Provident Fund**	*10.3*	*11.9*	*10.5*
*Citizen Investment Trust**	*1.3*	*1.5*	*0.1*
Total	100.0	100.0	100.0

* *Institutions not supervised by Nepal Rastra Bank*
Source: Banking and Financial Statistics, No.47, Nepal Rastra Bank

Table 3.14

Key Indicators of Banks and NBFIs* in Nepal
(Share in Percentage)

Indicator	1995	2000	2005
Assets	-	100.0	100.0
Banks	-	*92.9*	*86.7*
Non-Banks	-	*7.1*	*17.3*
Deposits	100.0	100.0	100.0
Banks	*98.9*	*93.3*	*88.8*
Non-Banks	*1.1*	*6.7*	*11.2*
Loans and Advances	100.0	100.0	100.0
Banks	*97.9*	*90.0*	*78.3*
Non-Banks	*2.1*	*10.0*	*21.7*

* *Excluding the institutions not supervised by Nepal Rastra Bank*
Source: Banking and Financial Statistics, No.47, Nepal Rastra Bank

Table 3.14 shows that the assets of the NBFIs in Nepal grew significantly from 7.1 percent of the total assets of the financial system in 2000 to 17.3 percent in 2005. The deposit collected by NBFIs was only 1.1 percent of the total deposits mobilised by the financial system in 1995, which increased to 6.7 percent in 2000 and to 11.2 percent in 2005. The loans extended by NBFIs also saw accelerated growth. The share of the NBFIs in the total loans extended by the entire financial system was only 2.1 percent in 1995 but increased to 10.0 percent in 2000 and to 21.7 percent in 2005, registering a marked growth. The overall trend shows that the role of non-bank financial intermediation in Nepal is still growing.

3.1.6 Philippines

The banking system in the Philippines comprises universal banks, commercial banks, thrift banks, rural banks, cooperative banks and microfinance banks while NBFIs include investment houses, finance companies, lending investors, pawnshops and a range of other institutions. Many NBFIs are either subsidiaries or affiliates of banks and are engaged in providing financial services mostly to the smaller investors or borrowers. The assets of NBFIs represent about 20 percent of the total assets of the financial system. The share of the NBFIs in the total assets of the financial system stood at 22.1 percent in 1995, 18.4 percent in 2000 and 19.5 percent in 2005 (Table 3.15).

Table 3.15

Total Assets of the Financial System in Philippines

Type of Institution	1995		2000		2005	
	Billion Pesos	% Share	Billion Pesos	% Share	Billion Pesos	% Share
Banking Institutions	1595.5	77.9	3326.8	81.6	4464.1	80.5
Commercial Banks	*1415.6*	*69.1*	*3013.6*	*73.9*	*3986.0*	*71.9*
Thrift Banks	*143.3*	*7.0*	*245.8*	*6.0*	*357.8*	*6.4*
Rural Banks	*36.7*	*1.8*	*67.4*	*1.7*	*120.3*	*2.2*
NBFIs	453.9	22.1	751.1	18.4	1081.0	19.5
Total Assets	2049.4	100.0	4077.9	100.0	5545.1	100.0

Source: Selected Philippine Economic Indicators, various issues, Bangko Sentral ng Philipinas

Table 3.16

Deposits of Banks and NBFIs in Philippines

Type of Institution	2005	
	Billion Pesos	% Share
Banking Institutions	3435.4	98.9
Commercial Banks	*3059.5*	*88.1*
Thrift Banks	*284.9*	*8.2*
Rural Banks	*91.0*	*2.6*
NBFIs	37.0	1.1
Investment Houses	*24.7*	*0.7*
Finance Companies	*2.4*	*0.1*
Non-Stock SLAs	*6.2*	*0.2*
Pawn Shops	*3.7*	*0.1*
Total Loans	3472.4	100.0

Source: Bangko Sentral ng Philipinas

Table 3.17

Loans of Banks and NBFIs in Philippines

Type of Institution	2005	
	Billion Pesos	% Share
Banking Institutions	2008.7	99.4
Commercial Banks	*1753.7*	*86.8*
Thrift Banks	*185.0*	*9.2*
Rural Banks	*70.0*	*3.5*
NBFIs	12.7	0.6
Total Loans	2021.4	100.0

Source: Bangko Sentral ng Philipinas

The deposits collected by NBFIs accounted for only 1.1 percent of the total deposits mobilised in the financial system (Table 3.16). The volume of loans extended by these institutions did not even reach 1 percent of the total loans extended by the financial system (Table 3.17). Among the major NBFIs, investment houses are engaged in the underwriting of securities of other corporations while finance companies provide credits to individual consumers and enterprises by discounting and factoring commercial papers and accounts receivables; and buying and selling contracts, leases and mortgages. Non-Stock Savings and Loan Associations (NSSLAs) collect savings from their members and extend short-term as well as long-term loans to the members. Pawnshops are mainly engaged in lending money against the security of personal properties. The deposits mobilised by investment houses and non-stock savings and loan associations accounted for 0.7 percent and 0.1 percent of the total deposits respectively, while the deposits mobilised by finance companies and pawn shops stood at around 0.1 percent each. Although, the role played by these NBFIs seems to be insignificant in terms of loans and deposits, they are still important for providing finance related services in the country.

3.1.7 Singapore

Commercial banks in Singapore also conduct businesses like financial advisory services, insurance broking and capital market services besides the general commercial banking activities. They operate as full banks, wholesale banks or offshore banks and provide a range of financial services. Finance companies and merchant banks are the major NBFIs in Singapore that are engaged in deposit mobilisation and credit extension.

The market share of commercial banks in the Singapore's financial system in terms of assets has gradually increased while the market shares of finance companies and merchant banks have seen a constant decrease during the last decade. The assets held by commercial banks were 75.9 percent of the total assets of the financial system in 1995. It increased to 80.8 percent in 2000 and to 85.1 percent in 2005 (Table 3.18). The assets of finance companies, which provide small-scale financing such as instalment credit for motor vehicles and consumer durables, and mortgage loans for housing, declined from 7.1 percent of the total assets of the financial system in 1995 to 4.8 percent in 2000 and further to 1.9 percent in 2005. Similarly, the share of merchant banks in the total assets declined from 17.0 percent in 1995 to 14.4 percent in 2000 and to 13.0 percent in 2005. The major activities of merchant banks include corporate finance, underwriting of share and bond issues, mergers and acquisitions, portfolio investment management, management consultancy and other fee-based activities.

Table 3.18

Assets of Banks and Major NBFIs in Singapore

Type of Institution	1995		2000		2005	
	S$ Million	*% Share*	*S$ Million*	*% Share*	*S$ Million*	*% Share*
Banks	224578.7	75.9	335816.0	80.8	425220.4	85.1
Finance Companies	21135.5	7.1	19801.1	4.8	9444.9	1.9
Merchant Banks	50253.1	17.0	59871.2	14.4	64845.1	13.0
Total Assets	295967.3	100.0	415488.3	100.0	499510.4	100.0

Source: Monthly Statistical Bulletin, various issues, Monetary Authority of Singapore

Table 3.19

Deposits of Banks and Major NBFIs in Singapore

Type of Institution	1995		2000		2005	
	S$ Million	*% Share*	*S$ Million*	*% Share*	*S$ Million*	*% Share*
Banks	108885.5	81.8	171316.4	82.9	223718.0	88.4
Finance Companies	15417.8	11.6	13645.9	6.6	6365.5	2.5
Merchant Banks	8779.6	6.6	21587.0	10.5	23036.8	9.1
Total Deposits	133082.9	100.0	206549.3	100.0	253120.3	100.0

Source: Monthly Statistical Bulletin, various issues, Monetary Authority of Singapore

Table 3.20

Loans of Banks and Major NBFIs in Singapore

Type of Institution	1995		2000		2005	
	S$ Million	*% Share*	*S$ Million*	*% Share*	*S$ Million*	*% Share*
Banks	108974.0	77.6	154042.1	80.4	183109.4	84.1
Finance Companies	16251.9	11.5	15790.9	8.2	7869.7	3.6
Merchant Banks	15258.2	10.9	21833.8	11.4	26675.0	12.3
Total Loans	140484.1	100.0	191666.8	100.0	217654.1	100.0

Source: Monthly Statistical Bulletin, various issues, Monetary Authority of Singapore

In terms of deposit mobilisation, commercial banks in Singapore hold more than 80 percent market share. Deposits collected by commercial banks constituted 81.8 percent of the total deposits of financial system in 1995, 82.9 percent in 2000 and 88.4 percent in 2005 (Table 3.19). The deposits mobilised by finance companies declined sharply from 11.6 percent of the total deposits of financial system in 1995 to 2.5 percent in 2005. However, the share of merchant banks in total deposits of the financial system has seen a positive development during the last decade. Merchant banks are not allowed to accept deposits or borrow from the public. They can only accept deposits or borrow from banks, finance companies, shareholders and companies controlled by their shareholders. The share of merchant banks in the total deposits increased from 6.6 percent in 1995 to 10.5 percent in 2000 but decreased to 9.1 percent in 2005.

The share of commercial banks in total loans extended by the financial system also has increased gradually in the last decade. The combined share of finance companies and merchant banks stood at 22.4 percent of the total loans of the financial system in 1995 which declined to 19.6 percent in 2000 and to

15.9 percent in 2005 (Table 3.20). Finance companies occupied the smallest share in the total loans in 2000 and 2005. Generally, finance companies are not allowed to extend unsecured credit facilities exceeding S$ 5,000 to any person. They also cannot deal in foreign currency, gold and other precious metals. However, finance companies with capital funds of more than S$100 million may apply for the permission to deal in foreign currencies and precious metals.

3.1.8 Sri Lanka

NBFIs hold a more than 30 percent share in the Sri Lankan financial system in terms of assets. Assets held by these institutions accounted for 35.1 percent of the total assets of the financial system in 2005 and 33.8 percent in 2006 (Table 3.21). Among the NBFIs, contractual savings institutions hold the largest share, which is about 25 percent of the total assets of the financial system. Contractual savings institutions include employees provident and trust funds, private provident funds and insurance companies. The assets of deposit taking institutions are around 4 percent and those of the other specialised financial institutions sub-group constitute 5 percent of the total assets of the financial system. The deposit taking institutions consist of registered finance companies, rural banks and thrift and credit cooperatives while other specialised financial institutions sub-group comprises specialised leasing companies, merchant banks, venture capital companies, unit trusts and primary dealers.

Table 3.21

Total Assets of the Financial System in Sri Lanka

Institution Category	2005		2006	
	Rs Billion	% Share	Rs Billion	% Share
Banks	1753.3	64.9	1976.9	66.2
Licensed Commercial Banks	*1448.9*	*53.6*	*1647.0*	*55.1*
Licensed Specialised Banks	*304.4*	*11.3*	*329.9*	*11.1*
NBFIs	950.7	35.1	1010.3	33.8
Deposit Taking Institutions				
Registered Finance Companies	*87.5*	*3.2*	*96.4*	*3.2*
Rural Banks	*26.5*	*1.0*	*26.8*	*0.9*
Thrift and Credit Cooperatives	*5.1*	*0.2*	*5.2*	*0.2*
Contractual Savings Institutions				
Employees Provident Fund	*424.0*	*15.7*	*455.0*	*15.2*
Employees Trust Fund	*58.6*	*2.2*	*62.5*	*2.1*
Private Provident Funds	*106.2*	*3.9*	*107.5*	*3.6*
Insurance Companies	*104.9*	*3.9*	*110.2*	*3.7*
Other Specialised Financial Institutions				
Specialised Leasing Companies	*63.2*	*2.3*	*68.5*	*2.3*
Merchant Banks	*24.0*	*0.9*	*25.3*	*0.8*
Venture Capital Companies	*1.5*	*0.1*	*1.5*	*0.1*
Unit Trusts	*4.6*	*0.2*	*4.7*	*0.2*
Primary Dealers	*44.6*	*1.6*	*46.7*	*1.6*
Total	2704.0	100.0	2987.2	100.0

Source: Financial Stability Review 2006, Annual Report 2005, Central Bank of Sri Lanka

Table 3.22

Deposits of Banks and Selected Financial Institutions in Sri Lanka

Institution Category	1995		2000		2005	
	Rs Billion	% Share	Rs Billion	% Share	Rs Billion	% Share
Licensed Commercial Banks	228.2	96.9	445.7	95.7	1044.8	79.0
Licensed Specialised Banks	na	-	na	-	230.2	17.4
Registered Finance Companies	7.2	3.1	20.0	4.3	47.1	3.6
Specialised Leasing Companies	0.0	-	0.0	-	0.0	0.0
Total Deposits	235.4	100.0	465.7	100.0	1322.0	100.0

Source: Annual Reports 2000, 2005, Central Bank of Sri Lanka

Table 3.23

Loans of Banks and Selected Financial Institutions in Sri Lanka

Institution Category	1995		2000		2005	
	Rs Billion	% Share	Rs Billion	% Share	Rs Billion	% Share
Licensed Commercial Banks	187.0	96.0	356.7	94.3	857.5	82.1
Licensed Specialised Banks	na	-	na	-	110.7	10.6
Registered Finance Companies	7.7	4.0	21.4	5.7	52.8	5.1
Specialised Leasing Companies	na	-	na	-	23.1	2.2
Total Loans	194.7	100.0	378.1	100.0	1044.2	100.0

Source: Annual Reports 2000, 2005, Central Bank of Sri Lanka

Licensed commercial banks, licensed specialised banks and registered finance companies are the main institutions allowed to mobilise deposits from the public in Sri Lanka. Cooperative societies, building societies and other non-profit organisations also accept deposits but their deposit collection is limited to their members. Table 3.22 shows that the deposits mobilised by registered finance companies accounted for only 3.6 percent of the total deposits mobilised by the selected banks and financial institutions in 2006. On the loans side, registered finance companies and specialised leasing companies held a share of 5.1 percent and 2.2 percent respectively, in the total loans extended by the selected banks and financial institutions in 2006 (Table 3.23). These figures show that the activities of NBFIs in Sri Lanka in terms of deposit mobilisation and loans extension are limited.

3.1.9 Taiwan

The NBFIs in Taiwan occupy about 30 percent market share in terms of assets in the country's financial system. The assets held by NBFIs constituted 31.2 percent of the total assets of the financial system in 2000 and 30.9 percent in 2005 (Table 3.24). Among the NBFIs, life insurance companies and the Chunghwa Post Company held the largest shares in the total assets. Figures show that except for the life insurance companies, the shares of all other NBFIs in the total assets declined in 2005.

Table 3.24

Total Assets of the Financial System in Taiwan

Institution Type	2000		2005	
	Billion NT Dollars	% Share	Billion NT Dollars	% Share
Banks	21655.9	68.8	31776.6	69.1
Domestic Banks	*19248.5*	*61.1*	*27917.2*	*60.7*
Medium Business Banks	*1189.7*	*3.8*	*1311.4*	*2.9*
Local Branches of Foreign Banks	*1217.7*	*3.9*	*2548.0*	*5.5*
NBFIs	9826.8	31.2	14189.6	30.9
Credit Cooperatives	*926.1*	*2.9*	*666.0*	*1.4*
Credit Departments of Farmers' and Fishermen's Associations	*1580.6*	*5.0*	*1529.5*	*3.3*
Chunghwa Post Company	*3103.5*	*9.9*	*3839.2*	*8.4*
Trust and Investment Companies	*215.2*	*0.7*	*130.3*	*0.3*
Securities Finance Companies	*90.6*	*0.3*	*65.9*	*0.1*
Bills Finance Companies	*1012.8*	*3.2*	*1241.9*	*2.7*
Life Insurance Companies	*2755.4*	*8.8*	*6570.4*	*14.3*
Non-Life Insurance Companies	*142.6*	*0.5*	*146.4*	*0.3*
Total Assets	31482.7	100.0	45966.2	100.0

Source: Financial Statistics Monthly, February 2007, Central Bank of the Republic of China (Taiwan)

Table 3.25

Total Deposits Mobilised by the Financial System in Taiwan

Institution Type	2000		2005	
	Billion NT Dollars	% Share	Billion NT Dollars	% Share
Banks	12961.7	72.3	17513.5	75.9
Domestic Banks	*11598.0*	*64.7*	*15995.4*	*69.3*
Medium Business Banks	*816.7*	*4.6*	*930.4*	*4.0*
Local Branches of Foreign Banks	*547.0*	*3.1*	*587.7*	*2.5*
NBFIs	4969.9	27.7	5573.3	24.1
Credit Cooperatives	*822.2*	*4.6*	*601.6*	*2.6*
Credit Departments of Farmers' and Fishermen's Associations	*1318.0*	*7.4*	*1311.3*	*5.7*
Chunghwa Post Company	*2829.7*	*15.8*	*3660.4*	*15.9*
Total Deposits	17931.6	100.0	23086.8	100.0

Source: Financial Statistics Monthly, February 2007, Central Bank of the Republic of China (Taiwan)

Table 3.26

Total Loans Extended by the Financial System in Taiwan

Institution Type	2000		2005	
	Billion NT Dollars	% Share	Billion NT Dollars	% Share
Banks	13295.4	85.9	16262.4	89.3
Domestic Banks	*12084.2*	*78.1*	*14904.1*	*81.8*
Medium Business Banks	*811.9*	*5.2*	*872.5*	*4.8*
Local Branches of Foreign Banks	*399.3*	*2.6*	*485.8*	*2.7*
NBFIs	2174.8	14.1	1953.9	10.7
Credit Cooperatives	*491.7*	*3.2*	*345.9*	*1.9*
Credit Departments of Farmers' and Fishermen's Associations	*635.1*	*4.1*	*528.1*	*2.9*
Chunghwa Post Company	*4.6*	*0.0*	*20.6*	*0.1*
Trust and Investment Companies	*89.9*	*0.6*	*61.8*	*0.3*
Securities Finance Companies	*63.0*	*0.4*	*46.4*	*0.3*
Life Insurance Companies	*886.4*	*5.7*	*946.0*	*5.2*
Non-Life Insurance Companies	*4.1*	*0.0*	*5.1*	*0.0*
Total Loans	15470.2	100.0	18216.3	100.0

Source: Financial Statistics Monthly, February 2007, Central Bank of the Republic of China (Taiwan)

The deposit mobilised by NBFIs was 27.7 percent of the total deposits of the financial system in 2000 (Table 3.25). It declined to 24.1 percent in 2005. The Chunghwa Post Co., which is mainly engaged in accepting savings deposits and the remittance business, mobilised a large chunk of deposits among the NBFIs. Deposits collected by credit cooperatives and credit departments of farmers' and fishermen's associations have decreased in 2005 compared to those of 2000. However, the deposit mobilised by the Chunghwa Post Co. has remained stable during the same period.

Although NBFIs hold more than one-fourth share in the financial system in terms of assets and deposits, their share in the total loans of the financial system is comparatively small. The loans extended by NBFIs accounted for only 14.1 percent of the total loans of the financial system in 2000 which further declined to 10.7 percent in 2005 (Table 3.26). The Chunghwa Post Company, which mobilises large chunk of deposits cannot extend loans except make call loans to financial institutions. Trust and investment companies extend loans to first time home buyers. Under the policy of transforming these companies into banks, the number of trust and investment companies has contracted in the last decade and the loan activities of NBFIs have been limited due to this reason.

3.1.10 Thailand

Financial institutions other than commercial banks in Thailand are grouped under specialised institutions and NBFIs. Specialised institutions include public banks specialising in agriculture, housing and export-import credit and asset management companies. Major NBFIs include finance companies, credit froncier companies and life insurance companies. Specialised institutions and NBFIs jointly hold a share of more than one-fifth in the financial system of Thailand in terms of assets, deposits and loans.

The assets held by specialised institutions were 9.2 percent of the total assets of the financial system in 1995 (Table 3.27). It increased significantly in 2000 to 16.0 percent and further to 18.6 percent in 2005. Conversely, the assets of NBFIs saw a sharp decline during the same period. The assets of NBFIs, which accounted for 21.8 percent of the total assets of the financial system in 1995, plunged to 8.6 percent in 2000 and further to 3.3 percent in 2005, mainly due to the marked fall in the assets of finance companies. More than 80 finance companies and 9 credit companies have been merged and converted into banks in Thailand during the last decade.

Table 3.27

Total Assets of the Financial System in Thailand

Institution Type	1995		2000		2005	
	Baht Billion	% Share	Baht Billion	% Share	Baht Billion	% Share
Commercial Banks	5066.5	68.9	6640.2	75.4	8226.3	78.2
Specialised Institutions	679.3	9.2	1411.0	16.0	1953.4	18.6
NBFIs	1604.8	21.8	756.9	8.6	346.4	3.3
Finance Companies	*1596.9*	*21.7*	*667.6*	*7.6*	*223.3*	*2.1*
Credit Foncier Companies	*7.9*	*0.1*	*5.4*	*0.1*	*2.1*	*0.0*
Life Insurance Companies	*na*		*83.9*	*1.0*	*121.0*	*1.1*
Total Assets	7350.6	100.0	8808.1	100.0	10526.1	100.0

Source: Economic and Financial Statistics, various issues, Bank of Thailand

Table 3.28

Total Deposits Mobilised by the Financial System in Thailand

Institution Type	1995		2000		2005	
	BahtBillion	%Share	BahtBillion	%Share	BahtBillion	%Share
Commercial Banks	3250.0	70.6	4912.9	78.6	6196.1	76.6
Specialised Institutions	337.1	7.3	832.6	13.3	1329.7	16.4
NBFIs	1019.2	22.1	508.7	8.1	560.8	6.9
Finance Companies	*914.6*	*19.9*	*308.3*	*4.9*	*80.3*	*1.0*
Credit Foncier Companies	*5.5*	*0.1*	*3.5*	*0.1*	*0.9*	*0.0*
Life Insurance Companies	*99.1*	*2.2*	*196.9*	*3.1*	*479.6*	*5.9*
Total Deposits	4606.3	100.0	6254.2	100.0	8086.6	100.0

Source: Economic and Financial Statistics, various issues, Bank of Thailand

Table 3.29

Total Loans Extended by the Financial System in Thailand

Institution Type	1995		2000		2005	
	Baht Billion	% Share	Baht Billion	% Share	Baht Billion	% Share
Commercial Banks	4230.5	70.8	4585.9	76.9	5488.4	77.2
Specialised Institutions	416.4	7.0	883.2	14.8	1404.7	19.8
NBFIs	1332.5	22.3	493.1	8.3	213.5	3.0
Finance Companies	*1301.4*	*21.8*	*449.9*	*7.5*	*162.1*	*2.3*
Credit Foncier Companies	*6.6*	*0.1*	*3.3*	*0.1*	*1.0*	*0.0*
Life Insurance Companies	*24.5*	*0.4*	*39.9*	*0.7*	*50.4*	*0.7*
Total Credits	5979.4	100.0	5962.2	100.0	7106.6	100.0

Source: Economic and Financial Statistics, various issues, Bank of Thailand

Deposits mobilised by specialised institutions and NBFIs constituted 29.4 percent of the total deposits of the financial system in 1995, 21.4 percent in 2000 and 23.3 percent in 2005 (Table 3.28). Similarly, the combined share of specialised institutions and NBFIs in total loans of the financial system stood at 29.3 percent in 1995, 23.1 percent in 2000 and 22.8 percent in 2005 (Table 3.29). In terms of deposits and loans also, the share of specialised institutions is increasing significantly while sharply decreasing for NBFIs.

3.2 Concluding Remarks

As a result of the restructuring and consolidation of the financial sector, non-bank financial intermediation has contracted in most of the SEACEN countries, specifically after the financial crisis of 1997. As the number of major NBFIs engaged in deposit and credit businesses such as finance companies and merchant banks has declined dramatically, the market share of NBFIs in the financial system in terms of assets, deposits and lending has also decreased during the last decade in many of the countries. However, the market share of NBFIs in Brunei Darussalam, Nepal and Sri Lanka registered growths during the period.

In terms of assets, the market share of NBFIs in Brunei Darussalam, Indonesia, Korea and Nepal registered growths while declined in Malaysia, Philippines, Singapore and Thailand in the last decade. These institutions currently occupy a market share of around 40 percent in terms of assets in Korea and Malaysia; around 30 percent in Sri Lanka and Taiwan, around 20 percent in Philippines and Thailand; and between 15 and 17 percent in Brunei Darussalam, Indonesia, Nepal and Singapore.

Only few kinds of NBFIs are allowed to accept deposits in the SEACEN countries. Finance companies which accept time deposits in almost all the countries are not allowed to accept any form of deposits in Indonesia. In terms of deposits, the market share of NBFIs has declined markedly in Korea, Malaysia, Singapore, Taiwan and Thailand in the last decade. However, the share of NBFIs has increased in Nepal and Sri Lanka and remained stable in Brunei Darussalam during the same period. Currently, the deposits held by NBFIs constitute 33 percent of the total market in Korea; between 20 and 25 percent in Sri Lanka, Taiwan and Thailand; between 10 and 15 percent in Brunei Darussalam, Nepal and Singapore; and less than 10 percent in Malaysia. The volume of deposit collected by NBFIs in Philippines is insignificant.

One of the main activities of almost all the NBFIs in the SEACEN countries is loan advancement. Such activities of NBFIs have also seen a declining trend in Korea, Malaysia, Singapore, Taiwan and Thailand. The countries observing a growth in the share of NBFIs in the total loans extended by the financial system include Brunei Darussalam, Nepal and Sri Lanka. Currently, the share of NBFIs in the total loans is more than 25 percent in Brunei Darussalam and Korea; around 20 percent in Nepal and Thailand; above 15 percent in Singapore and Sri Lanka; and below 15 percent in Malaysia and Taiwan. The overall performances of NBFIs show that non-bank financial intermediation plays an important role in the financial systems in the SEACEN countries.

Chapter Four

NON-BANK FINANCIAL INTERMEDIATION AND MONETARY POLICY

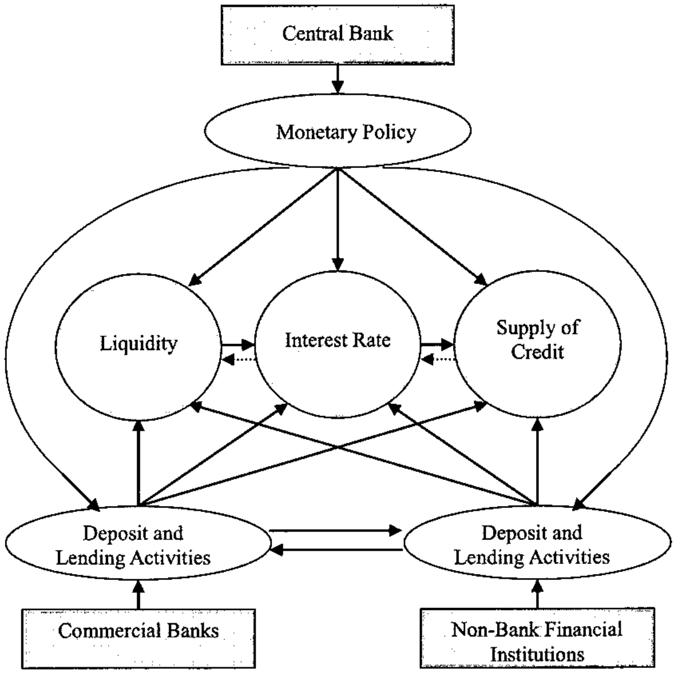
Monetary policy is believed to work through various channels like interest rate, credit, exchange rate, asset prices and others. As the non-bank financial intermediation involves accepting deposits and lending activities, the growing level of such intermediation may have certain impact specifically on the interest rate and supply of credit in the economy. From this point of view, non-bank financial intermediation has direct implications for monetary policy. This chapter discusses the various effects of the growing level of non-bank financial intermediation in the conduct of monetary policy in the SEACEN countries.

4.1 Transmission Mechanism of Monetary Policy

The prime objective of monetary policy in most of the SEACEN countries is price stability. Price stability is a prerequisite for the sustained economic growth. The monetary policy implemented by central banks mainly influences the level of liquidity, interest rate and supply of credit in the economy as depicted in Figure 4.1. In a simple model, the level of liquidity affects interest rate and the level of interest rate which in turn affects the credit supply. If there is a short supply or over supply of credit, this may also push the interest rate upward or downward as the case may be, working as a feedback mechanism. In a similar manner, the interest rate to a certain extent, may affect the level of liquidity. Like the monetary policy of the central bank but in a less compelling manner, the deposit and lending activities of financial institutions also affect liquidity, interest rate and credit supply in the economy and through such effects, the activities of these institutions influence the effectiveness of the transmission of monetary policy.

Figure 4.1

Interaction between Monetary Policy and Deposit and Lending Activities



The effectiveness of various channels in the transmission of monetary policy varies in the SEACEN countries. As reported in a SEACEN study (Song 2003), the interest rate is the most effective channel in Malaysia and Sri Lanka while both the interest rate and credit channels are found to be effective in Taiwan and Thailand. In Korea, the interest rate and balance sheet channels are more relevant. In the Philippines, the credit, interest rate and exchange rate channels work more effectively. Similarly, the exchange rate channel is effective in Singapore while the quantum channel works more efficiently in Nepal compared to other channels. In Brunei Darussalam as well, which is not included in the mentioned study, the interest rate channel is relatively more dominant than other channels.

In the monetary transmission mechanism, interest rate works as the primary channel. In the majority of the SEACEN countries, the interest rate is the most effective channel compared to other channels. An increase in the nominal interest rates translates into an increase in the real rate of interest and the user cost of capital which in turn lead to a postponement of consumption, or a reduction of investment spending (Kuttner and Mosser 2002). When the central bank adopts a tighter monetary policy, it normally raises the short term interest rates. Since the prices and wages are assumed to be rigid, the real long-term interest rates also increase. These higher real long-term interest rates lead to a decline in real investment, real consumption, and therefore in real GDP (Ireland 2005; Nultaranee 2007).

The interest rate is closely linked to the wealth or asset prices channel. Households' wealth is a key determinant of consumption spending (Ando and Modigliani 1963). A policy-induced interest rate increase reduces the value of assets such as stocks, bonds and real estate which shrinks households' resources, leading to a fall in consumption.

Monetary policy is also transmitted through the credit channel. Central banks can decrease the supply of credit mainly by increasing the reserve requirement ratio of banks and other financial institutions. If the supply of loans is disrupted, the borrowers have to pay additional costs to find a new lender. Thus, the reduction in the supply of credit leads to an increase in the external finance premium.

The credit channel is also linked to asset prices. Asset prices determine the value of the collateral that firms and consumers may present when obtaining a loan. Declining collateral values due to the policy-induced interest rate increase will also increase the premium of external finance, which will in turn reduce consumption and investment (Bernanke and Gertler 1989).

Interest rate is also linked with the exchange rate channel of monetary transmission mechanism. In an open economy, an increase in the domestic interest rates, relative to foreign rates, lead to a stronger currency and a reduction in net exports and a reduction in the overall level of aggregate demand (Kuttner and Mosser 2002).

Under the policy of financial deregulation, almost all the SEACEN countries have changed their monetary policy instruments and most of these countries have switched their monetary policy frameworks from monetary targeting to inflation or interest rate targeting. Under the indirect monetary policy stance, the main instruments available to central banks in implementing monetary policy are compulsory reserve requirement, bank rate and open market operations.

Although central banks do not control interest rates directly, they influence them by changing their bank rates. When the central bank realises the need for increasing the supply of credit in the economy, it may lower its bank rate. In a responsive market, the decreased bank rate leads to a decrease in market interest rates and thus the investment as well as consumption spending is boosted as the cost of fund becomes cheaper. Similarly, the level of liquidity is influenced by changing reserve requirement ratio and conducting open market operations. In a situation of liquidity crunch, the central bank may reduce the reserve requirement ratio and release loanable funds. On the other hand, the central bank under its open market operations, sells money market instruments to mop-up the excess liquidity in the market and buys back these instruments when reverse is true. However, in a less integrated, less interrelated and less efficient financial system, the change in interest rate or the change in the level of liquidity is not transmitted timely and sufficiently to the relevant markets.

4.2 Changes in Deposit Structure

The first and foremost effect of non-bank financial intermediation on the conduct of monetary policy occurs through the deposit mobilisation activities of NBFIs. A variety of NBFIs are engaged in mobilising time deposits such as savings and fixed deposits. Normally they are not allowed to accept demand deposits but certain types of NBFIs can create a variety of money and near money substitutes.

NBFIs attract funds that would otherwise have been idle or would have been used to purchase goods and services. When they succeed in attracting such funds, they are able to increase the total amount of savings in the economy and by making them available to ultimate borrowers, they add to the total flow of credit (Pierce and Shaw 1974).

NBFIs increase their rate of interest on deposits to attract funds from the public. By this, they not only mobilise idle funds from the public but also attract part of the funds deposited by public at banks because of the attractive interest rate offered in comparison to those of banks. The second effect of non-bank financial intermediation arises when commercial banks also increase their interest rate on time deposits to retain the deposits they already hold and to attract new deposits by competing with NBFIs. This leads to an increase in the deposit interest rates and a shift of deposits from demand to time deposits within the bank.

The shift of funds from banks to NBFIs and that within the bank from demand deposits to time deposits has a direct implication for the supply of loans. Generally, NBFIs are not subjected to reserve requirements. Whenever they are, the reserve ratio is generally lower for them compared to that for banks. For example, finance companies and merchant banks are subject to reserve requirements but other forms of NBFIs are not subject to such a requirement in Malaysia. In Korea, credit specialised finance companies are exempted from reserve requirement. Similarly, in Nepal, the reserve requirement for commercial banks is 5 percent of their deposit liabilities whereas it is only 2 percent for development banks and finance companies. Because of the no or low reserve requirements for NBFIs, the shift of deposits from banks to NBFIs leads to an increase in the total loanable funds. The shift of demand deposits to time deposits within the banks also increases the supply of loanable funds to some extent. In some countries, the reserve ratio for time deposits is lower than that for demand deposits.

The data on the deposit structures in the SEACEN countries plotted in Figure 4.2 through 4.12 and presented in Appendix show that there has been a marked change in the deposit structure in almost all the SEACEN countries. Although there is no data available to determine the level of shift brought by non-bank financial intermediation in the structure of deposits in these countries, a certain conclusion can be drawn by comparing the relative share of demand deposits and time deposits in the respective countries.

Figure 4.2a

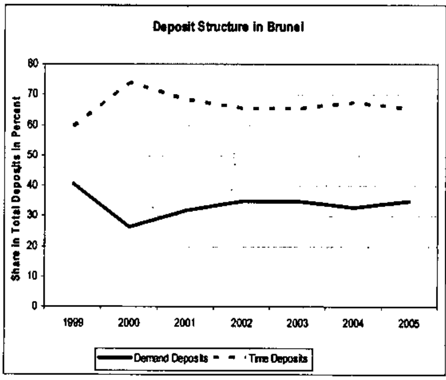


Figure 4.2b

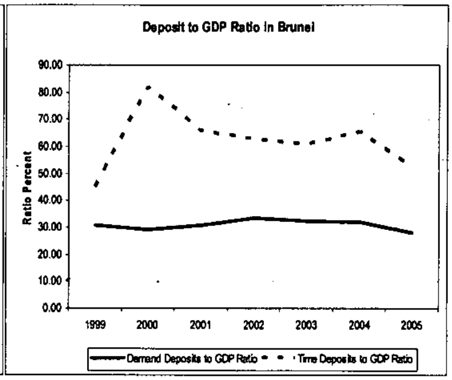


Figure 4.3a

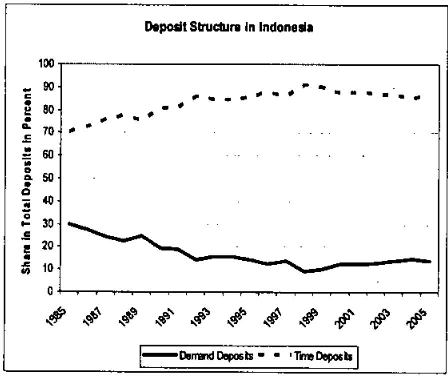


Figure 4.3b

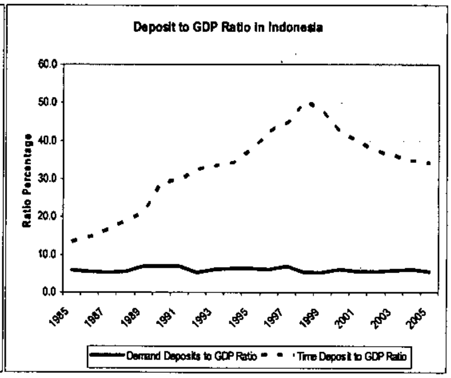


Figure 4.4a

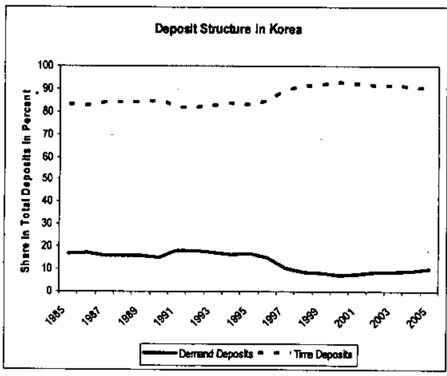


Figure 4.4b

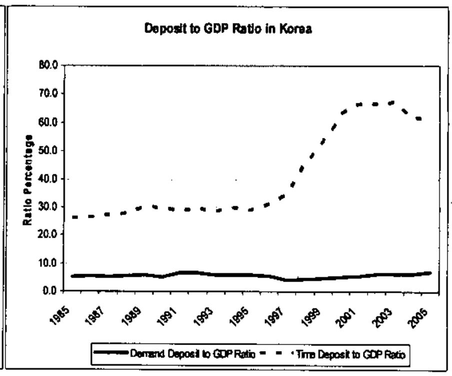


Figure 4.5a

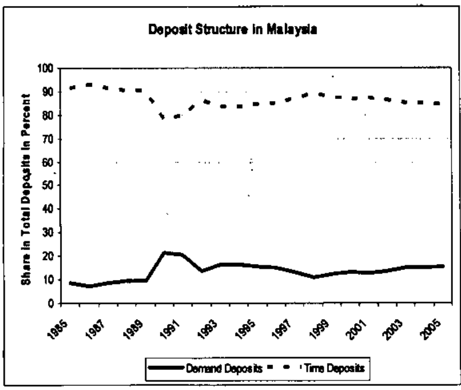


Figure 4.5b

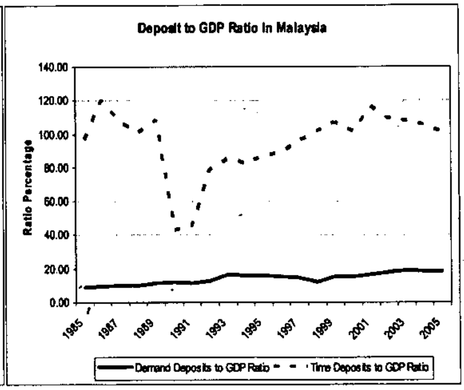


Figure 4.6a

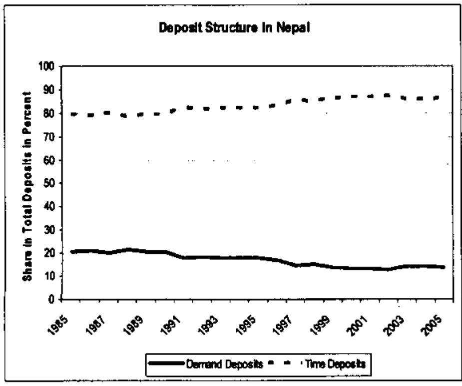


Figure 4.6b

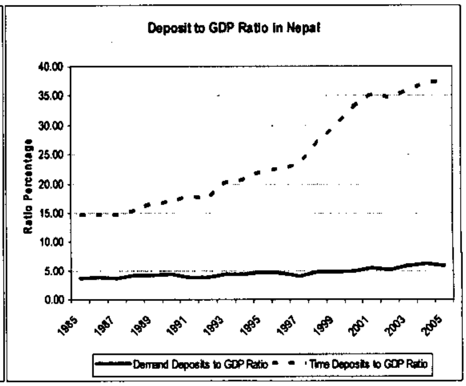


Figure 4.7a

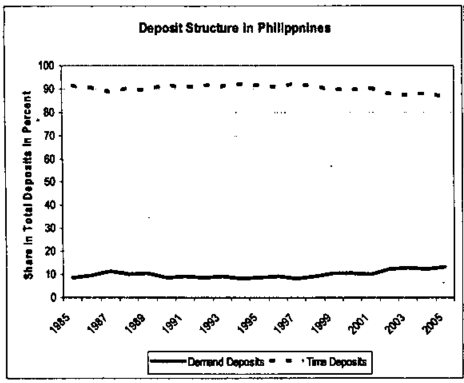


Figure 4.7b

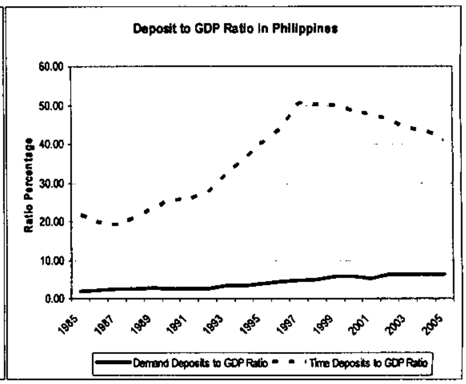


Figure 4.8a

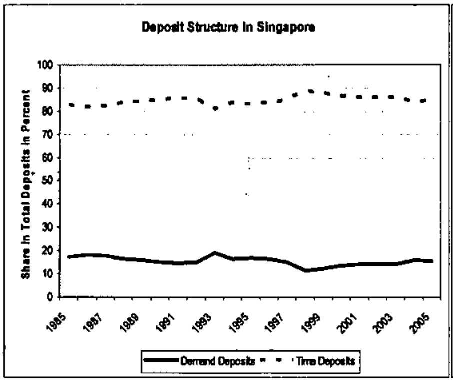


Figure 4.8b

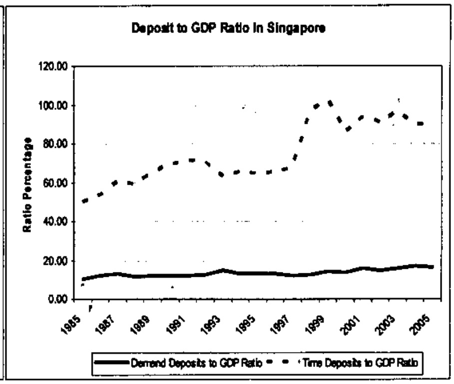


Figure 4.9a

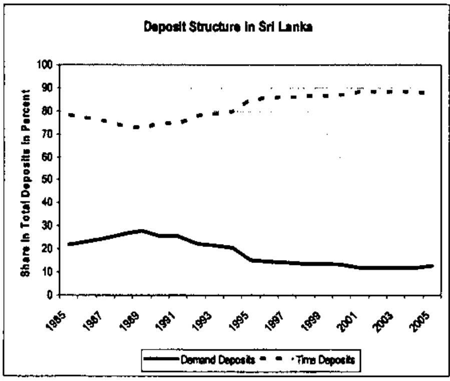


Figure 4.9b

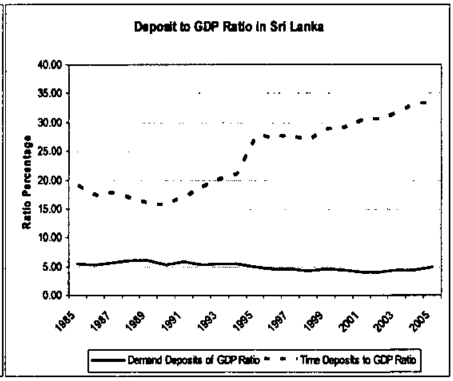


Figure 4.10a

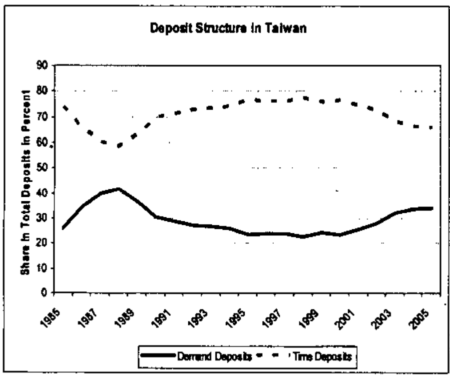


Figure 4.10b

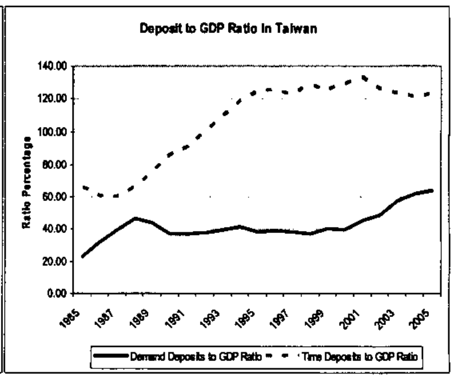


Figure 4.11a

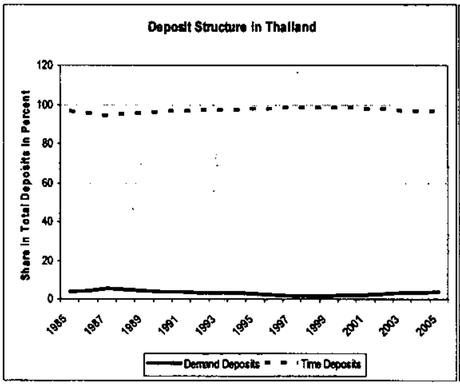
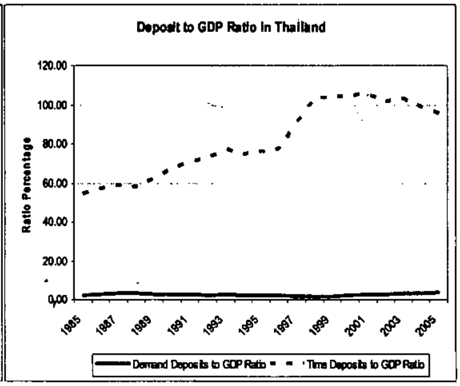


Figure 4.11b



The data on deposit structures show that the demand deposits to GDP ratio has remained almost the same during the last two decades (1985 to 2005) while there have been a multifold growth in the time deposits to the GDP ratio in the SEACEN countries. The time deposits to GDP ratio registered a steady growth until 1997 in Indonesia, Malaysia, Philippines, Taiwan and Thailand. In the aftermath of the financial crisis, the time deposits to GDP ratio in these countries have seen a declining trend. In Korea, Nepal, Singapore and Sri Lanka, the ratio has continued to grow even after the financial crisis era. In Brunei Darussalam, the time deposits to GDP ratio registered an increase until 2000 and started to drop afterwards while the demand deposits to GDP ratio remained almost unchanged.

The volume of time deposit is far above the country's GDP in Taiwan while it is almost equal to GDP in Malaysia, Thailand and Singapore. The time deposit to GDP ratio is 60 percent in Korea, 52 percent in Brunei and below 40 percent in Philippines, Nepal, Indonesia and Sri Lanka. On the other hand, the demand deposits to GDP ratio in Taiwan is 64 percent. The ratio is 27 percent in Brunei Darussalam, 19 percent in Malaysia, 16 percent in Singapore and between 4 and 7 percent in Thailand, Sri Lanka, Indonesia, Nepal, Philippines and Korea.

It should be noted that there is a limit on the shift of deposits from banks to NBFIs and demand deposits to time deposits within the banks. Individuals may be reluctant to transfer their deposits from banks to NBFIs in response to differences in interest rates after a certain point. On the other hand, NBFIs cannot go on increasing their interest rate on deposits which is directly linked to the interest rate on their loans. The interest rate they may charge on their loans is ultimately determined by the rate of return on new investments. Moreover, the commercial banks still dominate the financial system and therefore, any unilateral action of NBFIs is unlikely to have profound effects on deposits, interest rate and credit (Adhikary 1989).

One of the challenges posed by non-bank financial intermediation is that it may reduce the effectiveness of credit control by central banks. When a central bank under tighter monetary policy wants to reduce the volume of credit deliberately, it normally increases the reserve ratio or in other words lowers the credit multiplier of financial institutions. But the effect of this intervention is partially offset by the amount of non-bank credit as they are not subjected to reserve requirements. Moreover, an increase in credit supply may still occur through a shift in deposits from banks to NBFIs. Similarly, when the central bank wishes to expand credit by lowering the bank reserve ratio, the non-bank credit multiplier remains unchanged.

4.3 Impact on Monetary Aggregates

Measuring the monetary aggregates is very important in the conduct of monetary policy, specifically in a monetary targeting regime. Monetary aggregates such as M1, M2 and higher levels are compiled from the monetary survey table based on the consolidated financial statements of the central bank and financial institutions.

Before moving to inflation targeting in 1999, Indonesia adopted a monetary aggregates targeting framework. Korea also used M2 as the intermediate target in the pre-crisis period. After 1997, Korea also adopted the inflation targeting framework for monetary policy management. In Malaysia, M1 was the main policy target until 1987. With financial liberalisation and innovation, Bank Negara Malaysia subsequently placed greater importance on the broad money aggregate M3 as the policy target. In the mid-1990s, targeting was shifted from monetary aggregates to interest rate. The Philippines also previously adopted a monetary aggregate targeting framework which was shifted to inflation targeting in 2000. Nepal, Sri Lanka and Taiwan still follow the monetary aggregate targeting framework. In Nepal, M1 and M2 are used as the intermediate targets while in Sri Lanka, the intermediate target is reserve money. In Taiwan, M2 is the monetary aggregate used for targeting. Thailand has adopted inflation targeting since 2000 while in Singapore and Brunei Darussalam, the exchange rate is targeted. In the countries adopting inflation targeting, exchange rate or interest rate targeting, the monetary aggregates are used as the tools to monitor the money supply and liquidity situation in the economy.

The definition and the information content of monetary aggregates have been complicated by the growing non-bank financial intermediation in the SEACEN countries. A number of NBFIs accept time deposits and certain kinds of NBFIs in some countries even create instruments very close to demand deposits. As the deposits mobilised by most of the NBFIs are not included in the compilation of monetary aggregates, the meaningfulness of the information contained in these aggregates is reduced.

In some countries, broader monetary aggregates such as M3 and M4 are complied in order to include the deposits mobilised by NBFIs as well as other relevant items. However, due to the data unavailability on the deposits collected by all the NBFIs, such aggregates cannot represent fully the actual monetary

Figure 4.12a

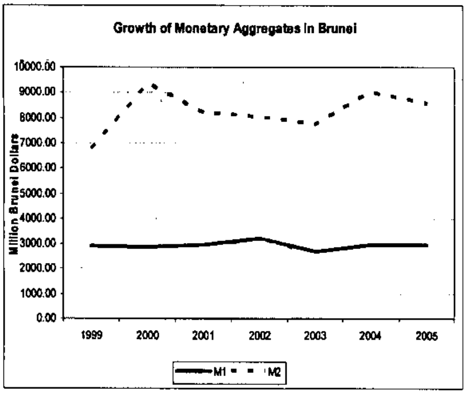
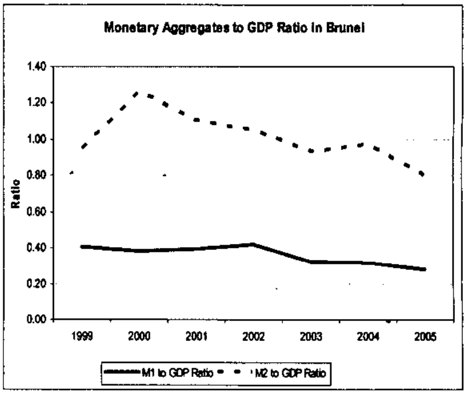


Figure 4.12b



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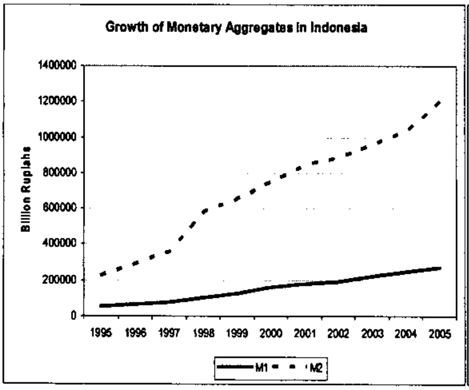

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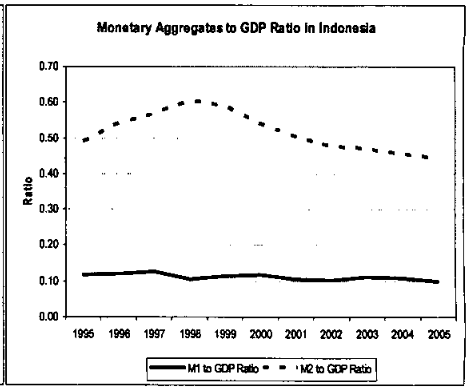

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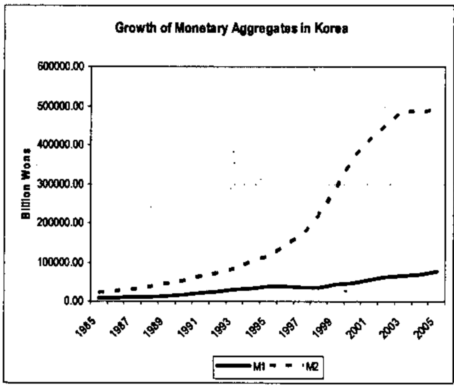

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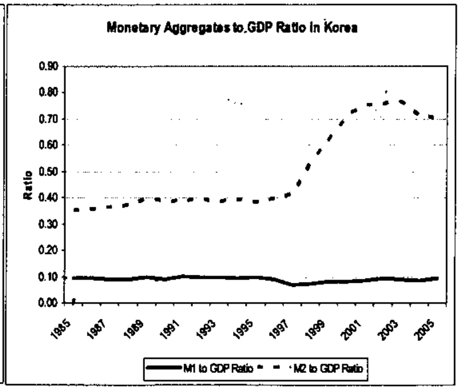

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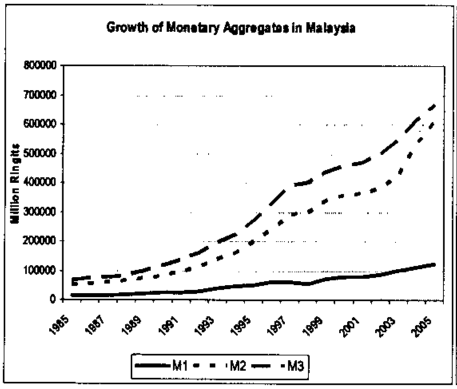
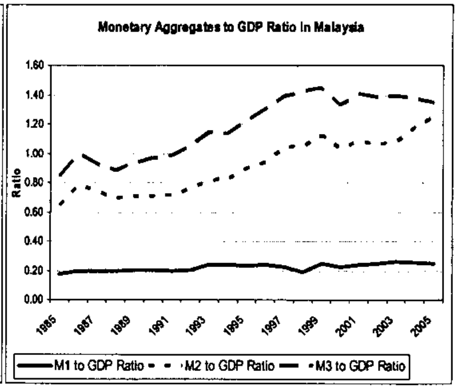


Figure 4.15b



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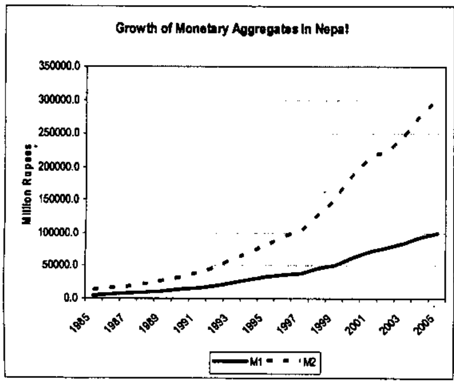

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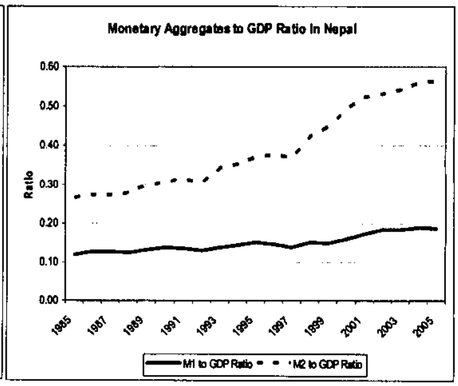

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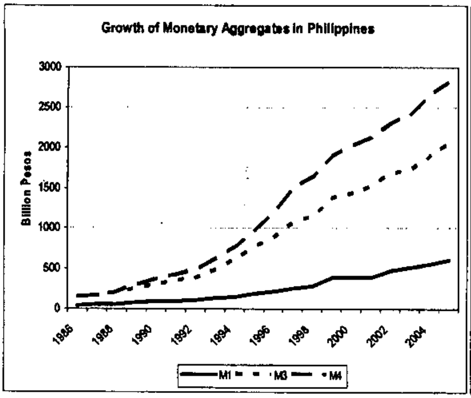
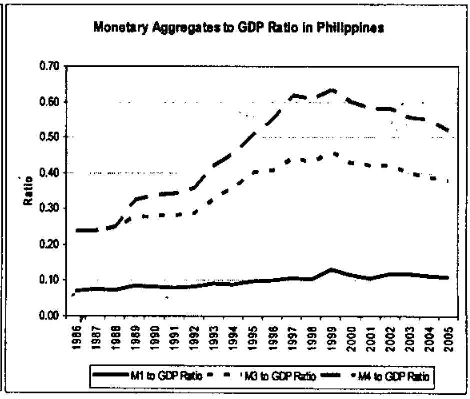


Figure 4.17b



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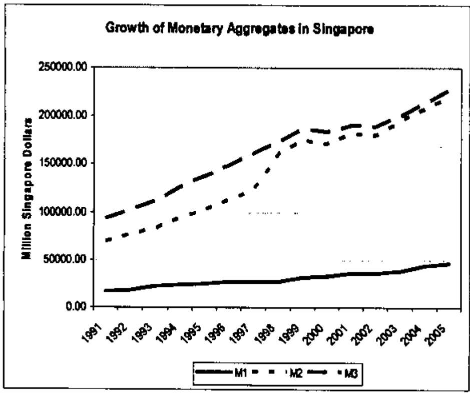
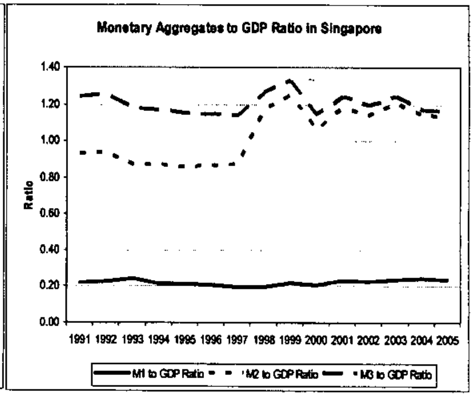


Figure 4.18b



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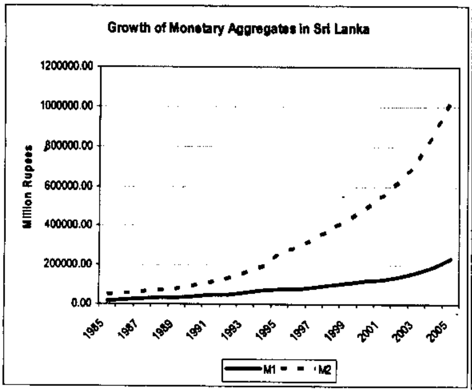


Figure 4.19b

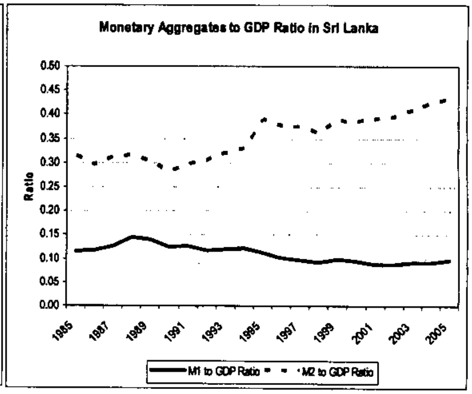
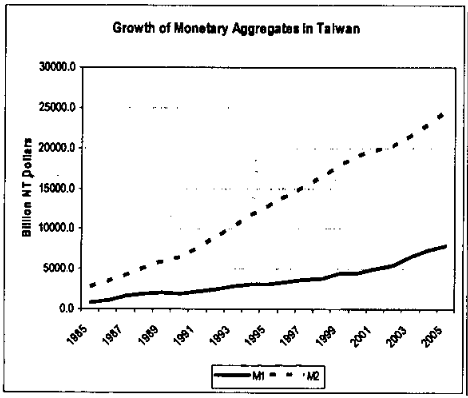


Figure 4.20a



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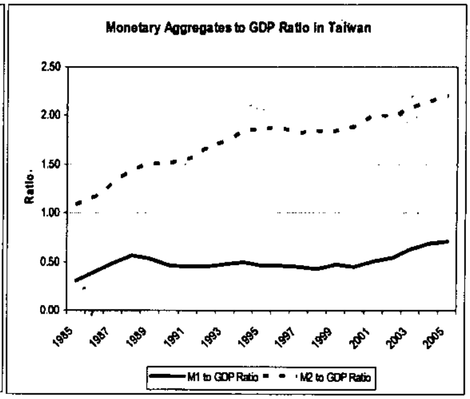


Figure 4.21a

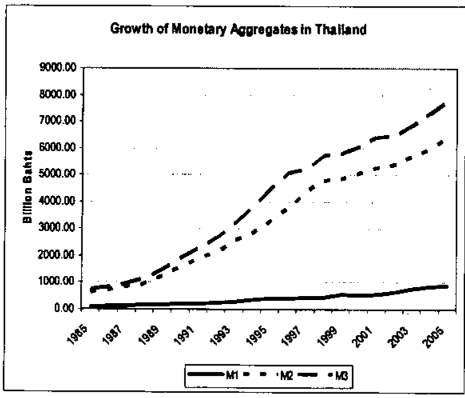
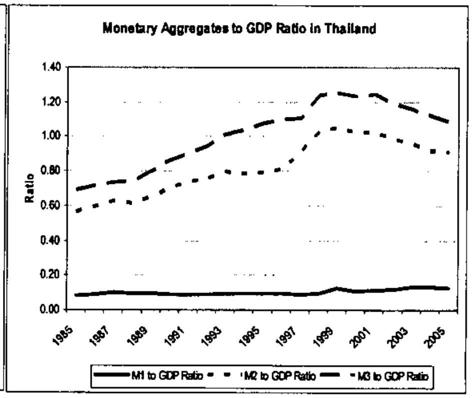


Figure 4.21b



situation. For example, private sector deposits held by finance companies, merchant banks and discount houses are included in compiling M3 in Malaysia but the deposits held by other NBFIs such as the National Savings Bank (NSB), the Pilgrims Fund Board, and the cooperative societies are not included.

Non-bank financial intermediation affects the size of the money multiplier through the shift of deposits from banks to NBFIs. As mentioned earlier, most of the NBFIs in the SEACEN countries are not subjected to reserve requirements. The NBFIs which are required to hold compulsory reserve ratios are normally imposed lower ratios compared to those for commercial banks. In such a situation, if the shift of deposits from banks to NBFIs is large, it would alter the value of the money multiplier and also the velocity of circulation of money, creating potential obstacles in the implementation of monetary policy.

Only a few kinds of NBFIs are allowed to accept deposits and the commercial banks still dominate the financial system in all the SEACEN countries in terms of assets, deposits and loans. However, the assets, deposits and loans of NBFIs constitute a very significant portion in the total market. According to the data presented in Chapter 3, the share of the deposits held by the NBFIs in the SEACEN countries range between 7.0 and 33 percent. The deposits held by NBFIs constitute more than 33 percent in Korea and more than 20 percent in Sri Lanka, Taiwan and Thailand. The share of NBFIs is between 10 and 15 percent in Brunei Darussalam, Nepal and Singapore; and less than 10 percent in Malaysia. The volume of deposits collected by NBFIs in the Philippines is insignificant while the data on deposits mobilised by NBFIs in Indonesia is unavailable. Based on these facts, it can be argued that the exclusion of deposits of NBFIs may have a significant impact on the meaningfulness of monetary aggregates.

4.4 Concluding Remarks

In order to achieve monetary policy objectives, monetary authorities generally influence the level of liquidity, interest rate and supply of credit in the economy. Since NBFIs are involved in deposit taking and lending businesses, their activities also affect the level of liquidity, interest rate and supply of credit. Therefore, non-bank financial intermediation may have certain implications on the conduct of monetary policy.

Monetary policy is transmitted in the economy through various channels with the interest rate channel being the most effective in almost all the SEACEN countries. The effectiveness of other channels varies among countries. An increase in the interest rate increases the cost of capital and leads to a reduction in consumption and investment spending. Interest rate is also closely linked to other channels of monetary transmission such as asset prices, exchange rate, credit and others. As activities of NBFIs, to some extent, may affect interest rates, these activities need to be taken into account while implementing monetary policy. Otherwise, the effectiveness of the transmission of the policy in the economy may be reduced.

The deposit mobilisation activities of NBFIs are of main concern in the conduct of monetary policy. In order to attract deposits, NBFIs offer attractive interest rates normally above those of banks. This may, on the one hand, push interest rates upward while on the other, shift deposits from banks to NBFIs and from demand to time deposits within the banks themselves. The data on deposit structures show that the demand deposits to GDP ratio has remained almost unchanged during the last two decades while the time deposits to GDP ratio has registered a multifold growth during the same period in the SEACEN countries. Although no data is available to ascertain the amount of the shift brought about by NBFIs in the deposit structure, a general impression can be made linking the growth of NBFIs with the shift which occurred in the deposit structure. Based on the above information, it can be inferred that non-bank financial intermediation has been instrumental in bringing about a shift in the deposit structure that resulted in the increased supply of loanable funds in the SEACEN countries.

The information contained in monetary aggregates is very important in the conduct of monetary policy. Almost all the countries in the SEACEN region had, in the past, used monetary aggregates such as M0, M1, M2 and M3 as the intermediate targets under the monetary aggregate targeting framework with some of them still continuing to do so. With the growing level of non-bank financial intermediation, the appropriateness of these aggregates as intermediate targets has been reduced significantly.

One of the main reasons for such reduced effectiveness of the monetary aggregates as targets is arguably, the complete or partial exclusion of the activities of NBFIs in the compilation of these aggregates. The data on monetary growth shows that monetary aggregates have grown disproportionately with the broader money aggregates registering higher growths. Broad monetary aggregates (M2 and M3) have grown at a much higher rate than narrow money (M1) in the SEACEN countries during the last two decades. Because of this development, most of the SEACEN countries have switched from using M1 to M2 or M3 as the intermediate target. However, due to the gradual reduction in the representation or the information content of broader monetary aggregates, the majority of countries have moved from monetary targeting to inflation or other targeting. Countries still adopting the monetary aggregate targeting framework are also studying the feasibility of moving to inflation targeting or other policy frameworks. This reveals that the growing level of non-bank financial intermediation directly affects the conduct of monetary policy. To maintain and to enhance the effectiveness of the monetary policy specifically under the monetary aggregates targeting framework, broader monetary aggregates could be compiled and targeted which encompasses the activities of NBFIs completely.

Chapter Five

NON-BANK FINANCIAL INTERMEDIATION AND FINANCIAL STABILITY

Instability in the financial system may bring multi-faceted problems in an economy. Excess volatility in financial markets raises the cost of capital and thereby adversely affecting real economic expansion. The volatility also results in losses to both depositors and creditors. The effects of such losses may spread to other sectors through contagion effects causing the public to lose confidence in financial institutions. Concerned agencies may have to bear budgetary costs to protect depositors or bail out troubled institutions. An unstable financial sector also can impede the monetary transmission mechanism. Therefore, maintaining financial stability is an important objective of regulators and market participants. This chapter discusses the impact of non-bank financial intermediation on financial stability in the SEACEN countries.

5.1 Positive Effects of Non-Bank Financial Intermediation

Financial stability refers to the stability of the key institutions and markets that constitute the financial system. Financial stability "requires (1) that the key *institutions* in the financial system are stable, in that there is a high degree of confidence that they can continue to meet their contractual obligations without interruption or outside assistance; and (2) that the key *markets* are stable, in that participants can confidently transact in them at prices that reflect fundamental forces and that do not vary substantially over short periods when there have been no changes in fundamentals" (Crockett 1997).

The growing level of non-bank financial intermediation can add to the health and stability of financial system in a number of ways. Firstly, NBFIs supplement the role of commercial banks in providing financial services in the economy. These institutions generally serve the section of population not covered by banks. Secondly, NBFIs also create a more competitive environment in the financial system. Enhanced competition improves operational efficiency and lowers financial intermediation costs. This promotes savings and investment, and thus has a direct impact on economic growth. Thirdly, NBFIs also stimulate the banks to innovate and be more responsive to the needs of the customers. The needs of the customers are ever changing and to meet their changing needs, banks will have to develop new financial services and instruments utilising latest technology, effective methods and efficient processes. Fourthly, NBFIs can contribute in the development of certain sectors such as housing and real estate and the like. They also specialise in particular areas such as retail loan market. Fifthly, the participation of NBFIs in the credit markets makes it possible for investors to improve their risk and liquidity exposures (Vickers 1985). Thus, non-bank financial intermediation helps the financial sector become more complete, healthy and sophisticated which has a direct implication on its stability.

5.2 Challenges Posed by Non-Bank Financial Intermediation

Despite the vital role played by them in the economy, NBFIs pose some challenges to the stability of the financial system. The first and foremost challenge arises due to the problem in the regulation and supervision of these institutions. As indicated in Chapter 2, most of the NBFIs are not adequately supervised in the SEACEN countries compared to banks. When NBFIs are not supervised by a competent agency, their loan granting process may be influenced by unethical and imprudent practices, which will threaten the soundness of the entire financial system.

Another challenge associated with the growing level of non-bank financial intermediation is the increased competition in the market. The intense competition in the market generally leads to lower profits, high risk investments, misallocation of resources, and moral hazard problems. In such an environment, weaker institutions cannot survive. On the other hand, with greater access to funding, the corporate sector may get involved in many inefficient investments which may ultimately lead to credit default. The rising share of non-bank financial intermediaries in the credit market can lead to underpricing of credit risk which may create problems.

The growing level of financial intermediation may also lead to an increased credit-deposit ratio in the financial system. The credit-deposit ratio of financial institutions shows how much of the deposits collected from the depositors are extended as loans to the entrepreneurs or consumers. As the financial institutions have to pay certain interests on time deposits, they must invest the deposit money in such a way that they receive some return in excess of the interests paid by them on deposits. Even if the deposit money is kept idle, the interest has to be paid on it. Therefore, the financial institutions normally try to maximize their credit-deposit ratio. However, a higher credit-deposit ratio is not only associated with a higher return but also with higher risk. If a large portion of the credit extended by an institution is not repaid, the financial health of that institution will be seriously affected. If such situation is widespread in the many institutions, instability will exist in the entire financial system. Therefore, an unreasonably high credit-deposit ratio makes the financial system vulnerable.

The data plotted in Figure 5.1 through 5.10 shows the growth of credit-deposit ratio in the SEACEN countries from 1985 to 2005. The credit-deposit ratio registered a dramatic growth until 1997 in Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand, with the ratio reaching above the 1.0 level. This clearly indicates an increased level of volatility in the financial system of these countries during the pre-crisis era, which resulted in the financial crisis of 1997. The growing level of non-bank financial intermediation may be directly linked to the increased credit-deposit ratio from two perspectives. Firstly, the growing activities of NBFIs during the pre-crisis era also fueled the lending spree in the financial system disproportionately with the growth of deposit mobilisation. The second factor is the shift in the deposit structure stimulated by NBFIs from demand deposits to time deposits that resulted in increased lending.

The data on the credit-deposit ratio plotted in the figures below and furnished in the Appendix show that the credit-deposit ratio is currently above 1.0 in Korea; close to 1.0 in Malaysia and Thailand; between 0.7 and 0.9 in Brunei Darussalam, Nepal, Singapore, Sri Lanka and Taiwan; and between 0.5 and 0.6 in Indonesia and Philippines. The financial systems of Sri Lanka and Nepal, by and large, remained unaffected by the financial crisis of 1997 due mainly to their limited openness. However, the credit-deposit ratio in these two countries also went down after the crisis mainly because of the lessons learned from that crisis and also because of the implementation of structural reforms in their financial systems with the assistance of international financial institutions after the crisis.

The role of NBFIs in fueling the volatility in the financial system is also evident from their higher level of their non-performing assets (NPA) compared to that of banks. Financial institutions perform the financial intermediary role by accepting financial resources from surplus units and availing them to the deficit units. When the deficit units receiving the resources through the financial institutions do not pay back, these institutions cannot return the funds to the depositors, or the surplus unit. Such overdue loans obstruct the financial intermediation process. In Malaysia, the NPA of finance companies and merchant

Figure 5.1a

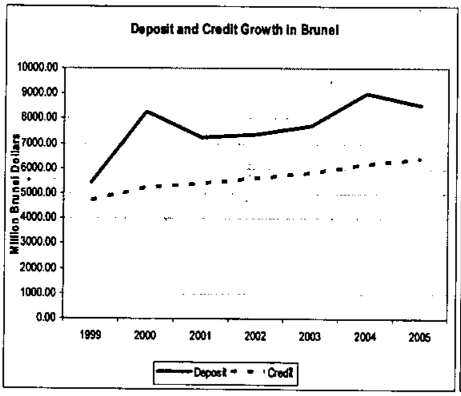


Figure 5.1b

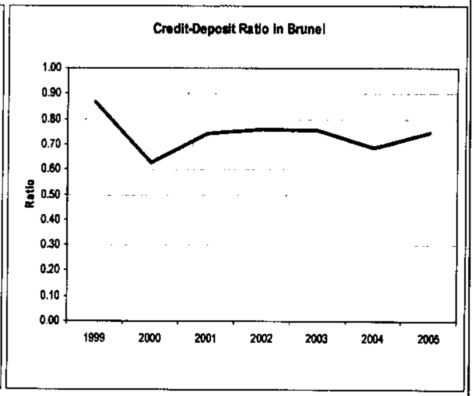


Figure 5.2a

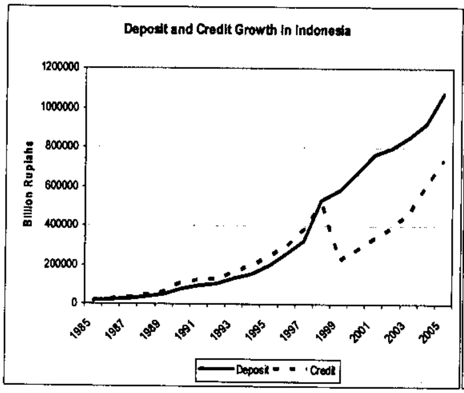


Figure 5.2b

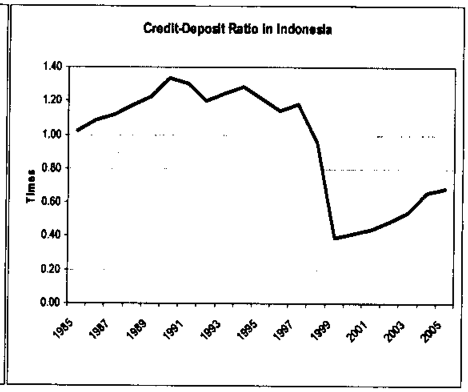


Figure 5.3a

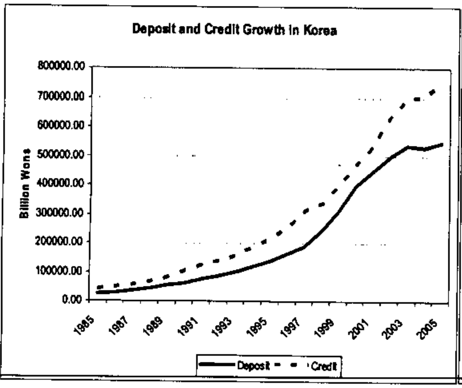


Figure 5.3b

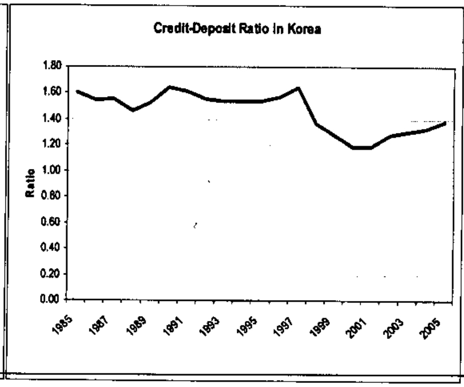


Figure 5.4a

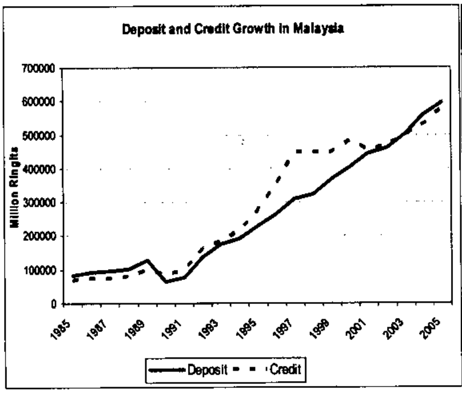


Figure 5.4b

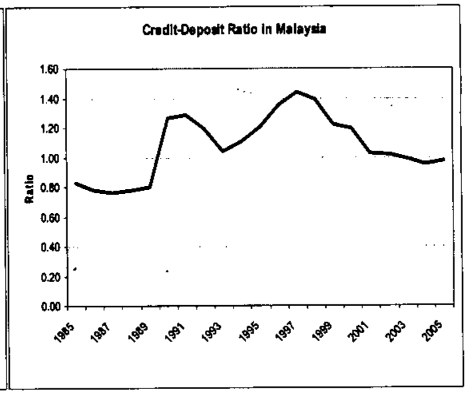


Figure 5.5a

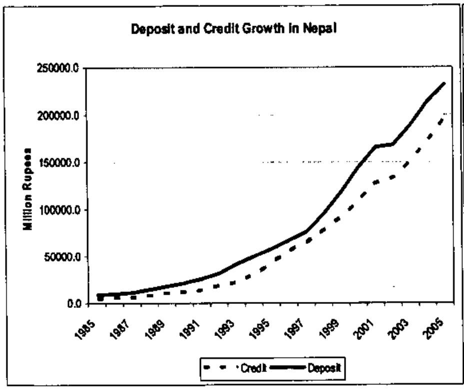


Figure 5.5b

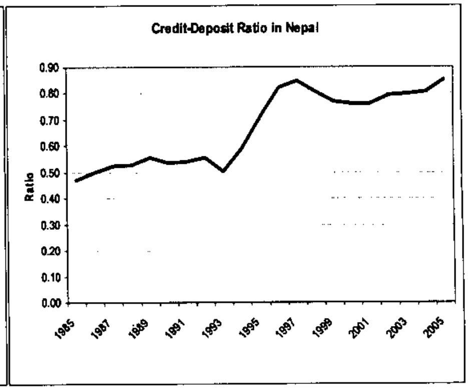


Figure 5.6a

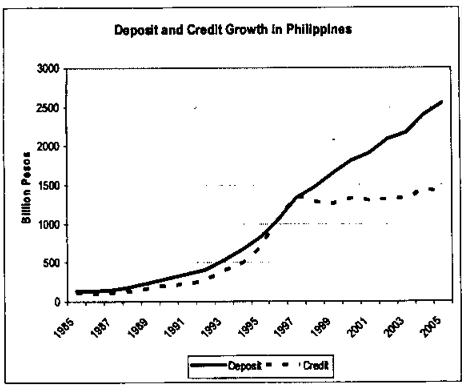


Figure 5.6b

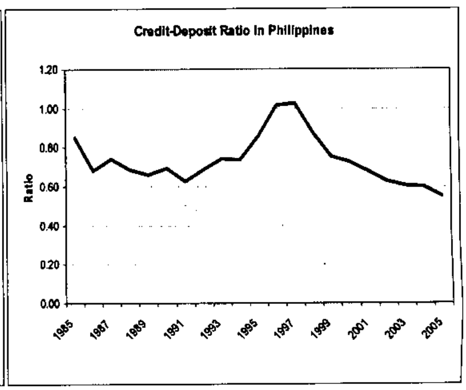


Figure 5.7a

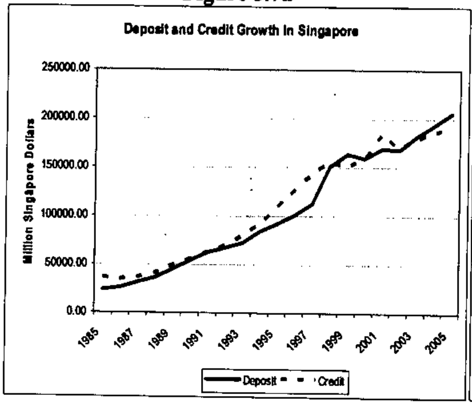


Figure 5.7b

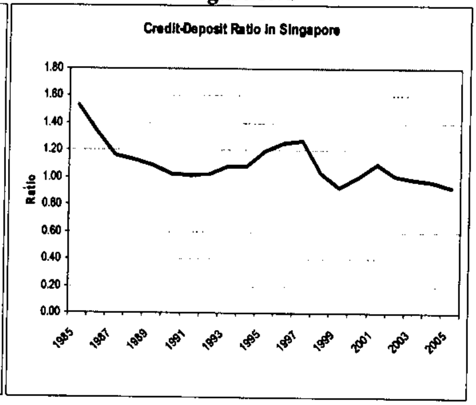


Figure 5.8a

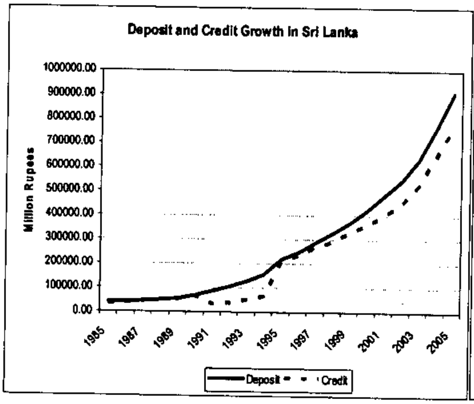


Figure 5.8b

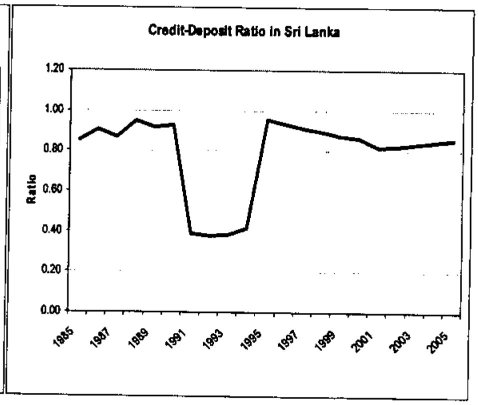


Figure 5.9a

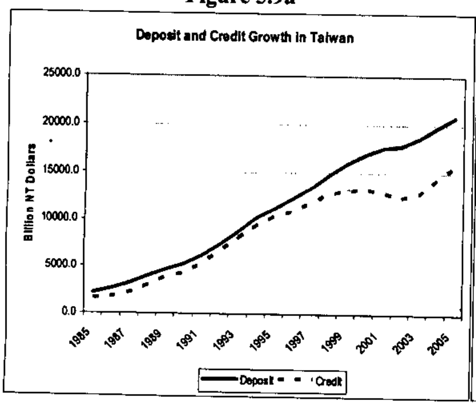


Figure 5.9b

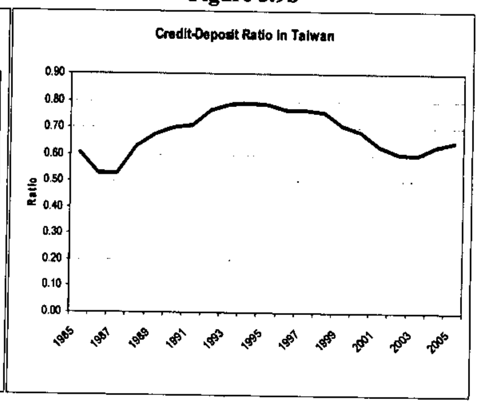


Figure 5.10a

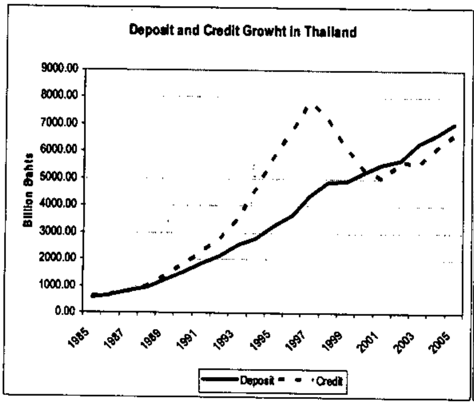
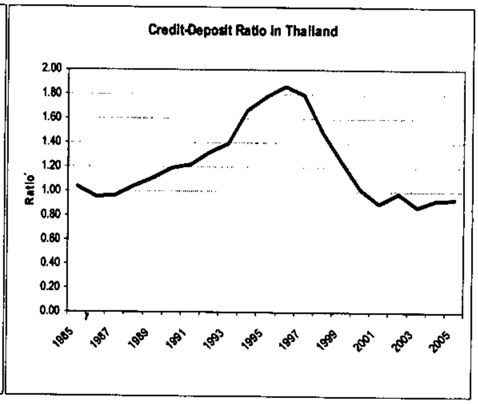


Figure 5.10b



banks stood at 7.2 percent and 16.8 percent respectively in 2004 while such assets of banks was only 5.3 percent of their total loan portfolio in the same year. In Sri Lanka, the NPA of licensed commercial banks stood at 6.9 percent of their total loans in 2005 while the NPA of licensed specialised banks and registered finance companies reached 9.5 percent and 8.6 percent respectively in the same year. Although the data on the NPA of most of the NBFIs in the SEACEN countries are not available, the scenario will not be different than that presented by these two country cases. Moreover, the above cases are the examples of the condition of NBFIs which are supervised by central banks. In the case of inadequately supervised NBFIs, the condition may be even worse.

Occasional failures of smaller institutions and occasional substantial losses of larger institutions are part and parcel of the normal functioning of the financial system. Indeed, they serve a positive function by reminding market participants of their obligation to exercise discipline over the activities of the intermediaries with whom they do business (Crockett 1997). However, unhealthy activities and unsound behaviours of the majority of non-bank financial intermediaries may lead to systemic crisis, which could bring about a massive macroeconomic disruption leading to sharp increases in interest rates, substantial currency depreciation and dramatic deflation of domestic demand. Moreover, in some of the countries in the SEACEN region, a number of the major NBFIs are subsidiaries of banks and therefore, the unsound health of these NBFIs may directly affect the profitability of the parent banks.

5.3 Concluding Remarks

Non-bank financial intermediation can add to the health and stability of financial systems by making it complete, balanced and sophisticated. NBFIs supplement the role of commercial banks in providing financial services in the economy by serving the section of population generally not covered by banks. NBFIs also help improve operational efficiency and lower intermediation costs through enhanced competition in the market. NBFIs can also contribute to the development of certain sectors and in achieving social responsibilities through their involvement in development financial activities. The participation of NBFIs in the credit markets makes it possible for investors to improve their risk and liquidity exposures. All these have a direct implication on the stability of the financial system. Moreover, NBFIs may improve the resilience of the financial system and help it to recover at a faster rate in periods of bank distresses.

However, at the same time, non-bank financial intermediation may also pose some challenges to the stability of financial system arising mainly from high risk investments and high credit-deposit ratio. Unreasonably high credit-deposit ratios are linked to increased volatility in the financial system which can result in crisis. This has been proven to be true during the Asian financial crisis of 1997, which occurred against the backdrop of extremely high credit-deposit ratios in the financial systems in the region. The volatility linked to the non-bank financial intermediation is also evident from the higher level of non-performing assets of NBFIs compared to those of banks in the SEACEN countries.

Chapter Six

CONCLUSION

Non-bank financial intermediation supplements bank intermediation and makes the financial system complete, balanced and resilient. NBFIs provide services that are not offered by banks, specialise in certain sectors, enhance competition in the market and stimulate innovation. Therefore, a well developed non-bank financial sector is viewed as an important component of a healthy and efficient financial system that can provide a sound base for growth and prosperity in the economy. This concluding chapter summarises the major observations of this study and discusses their policy implications.

6.1 Major Observations

6.1.1 Growth and Market Share of NBFIs

1. NBFIs have helped in widening and deepening of the financial system in the SEACEN countries by providing access to credit and other financial services to sections of the population normally not catered by banks. NBFIs have contributed to the development of certain sectors, such as housing and real estate, agriculture and others with their specialized services and innovation. NBFIs have also supplemented as well as competed with commercial banks. In some cases, NBFIs have played the role of an agent of commercial banks to expand their businesses.

2. The degree and scope of non-bank financial intermediation varies in the SEACEN region according to the extent of development of the financial systems. In more developed financial systems like those of Korea, Taiwan, Malaysia, Thailand and Philippines, non-bank financial intermediation has reached the maturity stage while in the less developed financial systems of Sri Lanka and Nepal, such intermediation is still at the growing stage
.

3. Various types of NBFIs are operating in the SEACEN countries. These include finance companies, merchant banks, development financial institutions, savings and credit institutions, cooperatives, pension funds, insurance companies, securities companies venture capitals, trust funds, microfinance institutions, postal savings, pawn shops and the like. Finance companies, development financial institutions, merchant banks, insurance companies and pension funds are the common types of NBFIs found in almost all the SEACEN countries.

4. There is no uniformity in the definition of NBFIs used by different SEACEN countries. Growing similarity in the services provided by banks and NBFIs under the concept of universal banking blurs the demarcation between banks and NBFIs. For example, finance companies and merchant banks are included in bank category in Malaysia and rural and cooperative banks are included in banking institutions category in Philippines which come under NBFIs in other SEACEN countries.

5. There has been a remarkable decline in the number of most types of NBFIs in Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand during the last decade, specifically after the financial crisis of 1997. However, pension funds, pawn shops and venture capitals in Indonesia; asset management companies and securities companies in Korea; development financial institutions, leasing companies, factoring companies and venture capital companies in Malaysia; insurance companies in Singapore; and the Chunghwa Post Company in Taiwan have seen growth even after the crisis. In the case of Sri Lanka and Nepal, all types of NBFIs are increasing constantly.

6. As the number of major NBFIs engaged in deposit and credit businesses such as finance companies and merchant banks has declined dramatically in the SEACEN countries after the financial crisis of 1997, their market share in the financial system in terms of assets, deposits and lending has likewise decreased during the last decade in the majority of these countries. Conversely, the market share of NBFIs in Brunei Darussalam, Nepal and Sri Lanka registered growths during this period.

7. In terms of assets, the market share of NBFIs in Brunei Darussalam, Indonesia, Korea and Nepal has registered growth while the share of NBFIs in Malaysia, Philippines, Singapore and Thailand has seen a decline in the last decade. The current market share of NBFIs in the SEACEN countries in terms of assets ranges between 15 and 43 percent.

8. In terms of deposits, the market share of NBFIs has declined markedly in Korea, Malaysia, Singapore, Taiwan and Thailand in the last decade. However, the share of NBFIs has increased in Nepal and Sri Lanka and remained stable in Brunei Darussalam during this period. Currently, the deposits held by NBFIs in the SEACEN region stand between 7 and 33 percent except for the Philippines where the deposits of NBFIs are insignificant.

9. The loan performance of NBFIs also has seen a declining trend in Korea, Malaysia, Singapore, Taiwan and Thailand. The countries observed a growth in the share of NBFIs in the total loans extended by the financial system include Brunei Darussalam, Nepal and Sri Lanka. The current share of NBFIs in the total loans range between 9 and 27 percent in the SEACEN region.

10. The overall performances of NBFIs show that non-bank financial intermediation hold a significant position in the financial systems in the SEACEN region.

6.1.2 Monetary Policy Issues

11. Non-bank financial intermediation integrates the scattered economic units such as households and small and medium enterprises into the national economic system. This can be viewed as the main positive effect brought by non-bank financial intermediation in the conduct of monetary policy. Through the activities of NBFIs, monetary policy can be transmitted to the wider section of the economy. Such a coverage normally is not possible through bank intermediation only.

12. Another positive effect of non-bank financial intermediation in the conduct of monetary policy is the change brought by it in the deposit structure in the economy. NBFIs have induced a change in the deposit structure in the SEACEN countries by shifting deposits from banks to NBFIs and from demand deposits to time deposits within banks and thus made more funds available for loans. This is due to the low or no reserve requirement imposed on NBFIs. The data on deposit structures show that the demand deposits to GDP ratio remained almost unchanged during the last two decades while the time deposits to GDP ratio registered a multifold growth during the same period in the SEACEN countries.

13. The non-bank financial intermediation may pose challenges to the conduct of monetary policy by inducing pressure in the interest rate and by reducing the effectiveness of credit control. The interest rate channel has been found to be the most commonly effective channel in the transmission of monetary policy in almost all the SEACEN countries. In order to attract deposits, NBFIs offer attractive interest rates normally above those of banks. The banks also may increase their interest rates to retain deposits and to attract

new deposits by competing with NBFIs in the market. This is likely to push interest rates upward, which may work in the opposite direction of interest rate interventions of monetary authorities. On the other hand, the credit control by central banks through increasing the reserve requirement ratio would not affect the non-bank credit supply as NBFIs are subject to low or no reserve requirements.

14. The second type of challenge posed by non-bank financial intermediation is the reduced information content of monetary aggregates. Almost all the SEACEN countries used monetary aggregates as the intermediate target for their monetary policies at one time or another, with some continuing to do so. With the growing level of non-bank financial intermediation, the dependability of these aggregates as intermediate target has been reduced. One of the main reasons for this is the complete or partial exclusion of the activities of NBFIs in the compilation of these aggregates. The data on monetary growth shows that the broad money (M2 and M3) grew at a much higher rate than narrow money (M1) in the SEACEN countries during the last two decades.

15. Because of the ineffectiveness of narrow money as an intermediate target, most of the countries in the SEACEN region have switched from using M1 to M2 or M3. However, due to the gradual reduction in the effectiveness of the higher orders of monetary aggregates also, many countries have moved from monetary targeting to inflation or other targeting. Countries still adopting the monetary aggregate targeting framework are also studying the feasibility of moving to inflation targeting or other policy frameworks. This reveals that the growing level of non-bank financial intermediation complicates the conduct of monetary policy.

6.1.3 Financial Stability Issues

16. Non-bank financial intermediation can add to the health and stability of the financial system by making it complete, balanced and sophisticated. NBFIs supplement the role of commercial banks in providing financial services in the economy by serving the section of population generally not covered by banks and help improve the operational efficiency and lower intermediation costs through enhanced competition in the market. NBFIs can also contribute in the development of certain sectors and in achieving social responsibilities through their involvement in development financial activities. Moreover,

NBFIs may improve the resilience of the financial system and help it to recover at a faster rate in periods bank distresses.

17. However, non-bank financial intermediation may also pose some challenges to the stability of financial system. One of the frequently cited challenges associated with NBFIs is their supervision. Most of the NBFIs are not regulated and supervised adequately although certain agencies are made responsible for their supervision. Unsupervised NBFIs may pose threats to the stability of the financial system.

18. Another challenge surfaces mainly from high risk investments and high credit-deposit ratio of NBFIs. Unreasonably high credit-deposit ratio is linked to the increased volatility in the financial system which can result in crisis. The financial crisis of 1997 occurred against a backdrop of extremely high credit-deposit ratios in the financial systems in the region. The volatility linked to non-bank financial intermediation is also evident from the higher level of non-performing assets of NBFIs compared to those of banks in the SEACEN countries.

6.2 Policy Implications

1. Despite some problems posed in the conduct of monetary policy and financial stability, NBFIs are still important players in the financial system in the SEACEN countries mainly due to their supplementary role, specialisation and operational efficiency. Between the supplementary and competing role played by NBFIs in the market, the competing part of these institutions has become more pronounced than their complementing part in terms of the businesses conducted by them. This has reduced their true intermediary role and in some cases, increased competition to an undesirably high level. Therefore, the NBFIs should be directed towards their intended supplementary role.

2. Most of the problems associated with the non-bank financial intermediation arise from their inadequate supervision. The responsibilities of the regulation and supervision of various NBFIs may have been entrusted to certain agencies other than central banks but when NBFIs create disruptions in the financial system, the central banks cannot ignore the situation just because of they do not come under their purview. To complicate matters, the central banks are normally unable to carry out direct actions or remedies in such

situations. Therefore, NBFIs should be brought under the supervision of some competent agencies. However, it does not mean that all the NBFIs should be brought under the supervision of central banks, which is nether possible nor feasible. If the NBFIs are brought under the supervision of the same agencies as for commercial banks and if the rules and regulations are same for NBFIs as for commercial banks, such provisions will restrict the intermediary functions of NBFIs. They should instead be brought under adequate supervision but not so much as to lead to a diminishing of their intermediation function. This can be achieved by establishing separate or stronger supervisory agencies. Moreover, having an effective coordinating body headed by the central bank of the country and consisting members from supervisory agencies and other related authorities may be beneficial.

3. The restructuring of the financial landscape under the new financial sector master plans has led to the merger, upgrading and even closure of various types of NBFIs in the majority of the SEACEN countries. This solves one problem but may create another. Mergers resolve the problem of too many NBFIs while upgrading means that the institutions would automatically come under the supervision of the central bank or similar competent agencies. This would resolve a major problem related to the possible volatility induced in the market by NBFIs in the absence of proper regulation and supervision. This would be especially helpful in bringing, under proper supervision, the NBFIs which are established as subsidiaries of banks mainly to escape the stricter legislations set for the banks. However, by doing so, the actual intention for intermediation would disappear and certain sections of the population would again have little access or even no access to financial services. Therefore, any reform or restructuring should ensure that NBFIs continue their intermediary roles.

4. In some of the SEACEN countries, the access to formal credit is still limited and a large section of the population is still dependent on informal institutions such as village shop keepers and other money lenders. To bridge this gap, NBFIs are more effective than the commercial banks because such businesses may not be attractive or cost effective for banks. In the absence of NBFIs, commercial banks will have to be persuaded to extend loans to small and medium size firms and individuals which may ultimately reduce their profits and increase the risk and volatility in the financial system. From this point of view also, non-bank financial intermediation should be promoted in the financial system.

5. The major challenge posed by the increased non-bank financial intermediation in the conduct of monetary policy is reflected in the growing unreliability of the monetary aggregates. This occurs when the weightage of the factors not included in these monetary aggregates increase significantly and become dominant in the economy. Monetary targeting may still be an effective monetary policy framework provided the content of monetary aggregates has complete information. This can be achieved by constructing broader monetary aggregates that encompass every relevant activity of all the NBFIs in the financial system and using them as the intermediate targets. This may not seem possible in the short term but given the development of information technology, and transparency and disclosure norms being promoted, construction of such aggregates could certainly become possible in future. In this context, it may be better for the countries currently adopting the monetary aggregate targeting framework to move gradually towards higher orders of monetary aggregates rather than switching to a completely different policy framework.

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APPENDIX: COUNTRY DATA

Brunei Darussalam Data

(Million Brunei Dollars)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5420.3	8284.8	7230.8	7373.8	7710.1	9012.4	8555.1
Demand Deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2203.8	2179.7	2291.6	2570.6	2685.5	2955.2	2974.8
Time, Savings, Foreign Currency Deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3216.5	6105.0	4939.1	4803.2	5024.6	6057.2	5580.3
Domestic Credit	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3196.7	3992.4	3576.7	3948.8	3362.2	2743.2	1657.8
Claims on Private Sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4691.9	5203.3	5382.3	5616.1	5807.9	6178.6	6391.9
M0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	713.64	680.49	648.33	654.81	640.79	667.04	704.63
Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2917.4	2860.2	2940.0	3225.4	2685.5	2955.2	2974.8
Quasi Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3876.7	6516.7	5274.6	4796.4	5024.6	6057.2	5580.3
Broad Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6794.1	9376.9	8214.6	8021.9	7710.1	9012.4	8555.1
Gross Domestic Product (GDP)	7752.3	5135.6	5800.9	5414.8	5845.0	6508.5	6620.5	6565.1	6585.1	6686.2	7394.2	7408.6	7628.1	6534.0	7144.7	7441.1	7481.9	7651.7	8254.9	9270.4	10652.1
Population (Millions)	0.22	0.23	0.24	0.24	0.25	0.26	0.26	0.27	0.28	0.29	0.29	0.30	0.31	0.32	0.33	0.33	0.34	0.35	0.36	0.37	0.37
Demand Deposits to GDP Ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30.85	29.29	30.63	33.60	32.53	31.88	27.93
Time Deposits to GDP Ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	45.02	82.05	66.01	62.77	60.87	65.34	52.39
Credit to Deposit (CD) Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.87	0.63	0.74	0.76	0.75	0.69	0.75
M1 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.41	0.38	0.39	0.42	0.33	0.32	0.28
M2 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.95	1.26	1.10	1.05	0.93	0.97	0.80

Source: IMF International Financial Statistics Database, January 2007

Indonesia Data

(Billion Rupiahs)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	18679	22244	28019	36063	50722	76065	90718	106717	129381	154415	199896	257863	322952	530535	582873	669971	760249	796019	852011	921682	1076111
Demand Deposits	5560	6082	6776	8032	12477	14532	17103	15147	19979	24135	28639	31766	43879	49185	57646	82241	92971	101515	118766	136422	146768
Time, Savings, Foreign Currency Deposits	13118	16162	21243	28031	38245	61533	73616	91570	109402	130280	171257	226097	279073	481350	525227	587730	667278	694504	733245	785260	929343
Domestic Credit	15683	21550	30404	42946	63246	98418	115916	131528	156434	192194	235508	287707	373796	572764	682647	843268	896706	954519	990812	1139260	1281850
Claims on Private Sector	19109	24204	31322	42488	62158	101396	118100	128572	161529	198507	243285	295392	381946	508823	226466	276683	334047	387626	462133	605927	733183
Base Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25852	34405	46086	75120	101790	125615	127796	138250	166474	206180	269971
M1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	52677	64089	78343	101197	124633	162186	177731	191939	223799	245946	271166
M2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	222638	288632	355643	577381	646205	747028	844053	883908	955692	1033880	1202760
Gross Domestic Product (GDP)	98406	110697	128630	149395	179608	210866	249969	282395	329776	382220	454514	532568	627695	955753	1099730	1389770	1684280	1863270	2036350	2273140	2729710
Population (Millions)	166.2	169.3	172.4	175.4	178.5	181.4	184.3	187.2	190.1	192.9	195.6	198.4	201.1	203.8	206.5	209.2	211.9	214.6	217.4	220.1	222.8
Demand Deposits to GDP Ratio (%)	5.7	5.5	5.3	5.4	6.9	6.9	6.8	5.4	6.1	6.3	6.3	6.0	7.0	5.1	5.2	5.9	5.5	5.4	5.8	6.0	5.4
Time Deposits to GDP Ratio (%)	13.3	14.6	16.5	18.8	21.3	29.2	29.4	32.4	33.2	34.1	37.7	42.5	44.5	50.4	47.8	42.3	39.6	37.3	36.0	34.5	34.0
Credit to Deposit (CD) Ratio	1.02	1.09	1.12	1.18	1.23	1.33	1.30	1.20	1.25	1.29	1.22	1.15	1.18	0.96	0.39	0.41	0.44	0.49	0.54	0.66	0.68
M1 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.12	0.12	0.12	0.11	0.11	0.12	0.11	0.10	0.11	0.11	0.10
M2 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.49	0.54	0.57	0.60	0.59	0.54	0.50	0.47	0.47	0.45	0.44

Source: IMF International Financial Statistics Database, January 2007

Korea Data

(Billion Wons)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	25302.6	30245.8	36000.6	43898.4	52727.3	62017.9	75993.7	87842.1	100521.7	120260.8	138744.0	162989.8	187812.8	244495.4	310054.9	395233.6	448948.7	499005.5	533310.3	528999.4	544605.1
Demand Deposits	4301.8	5222.5	5828.9	7112.0	8419.0	9218.1	14009.4	16181.9	17344.1	19592.8	23672.0	24220.8	19330.8	21569.4	25138.9	29192.6	34917.7	43264.5	45226.3	47424.4	55045.1
Time, Savings, Foreign Currency Deposits	21000.8	25023.3	30171.7	36786.4	44308.3	52799.8	61984.3	71660.2	83177.6	100668.0	115072.0	138769.0	168482.0	222926.0	284916.0	366041.0	414031.0	455741.0	488084.0	481575.0	489560.0
Domestic Credit	44847.3	51383.9	59767.3	66685.3	81731.6	102194.0	125074.0	139463.0	157358.0	186520.0	213687.0	255240.0	314581.0	351179.0	412126.0	479780.0	546056.0	645391.0	705594.0	722700.0	790777.0
Claims on Private Sector	40548.0	46659.0	55933.9	64276.0	80794.5	101985.0	122505.0	136563.0	154699.0	184888.0	213658.0	256054.0	309008.0	333431.0	396621.0	468825.0	532951.0	637482.0	693025.0	702145.0	754024.0
Money	7557.8	8808.8	10107.3	12151.7	14328.0	15905.2	21752.3	24586.4	29041.3	32510.6	38872.8	39542.1	35036.1	35582.5	44374.5	46997.0	53505.5	63150.5	65480.8	68423.4	77273.6
Quasi Money	21007.5	25024.2	30172.2	36787.4	44309.0	52802.3	61993.5	71672.3	83177.8	100668.0	115073.0	138769.0	168495.0	222956.0	284943.0	366052.0	414072.0	455754.0	488102.0	481604.0	489586.0
Money Plus Quasi Money	28565.3	33833.1	40279.6	48939.1	58637.1	68707.5	83745.8	96258.7	112219.0	133179.0	153946.0	178312.0	203532.0	258538.0	329317.0	413049.0	467577.0	518904.0	553583.0	550027.0	566859.0
Gross Domestic Product (GDP)	81312.3	94861.7	111198.0	132112.0	148197.0	178797.0	216511.0	245700.0	290676.0	340208.0	398838.0	448596.0	491135.0	484103.0	529500.0	578665.0	622123.0	684263.0	724675.0	779380.0	806622.0
Population (Millions)	40.81	41.26	41.67	42.07	42.46	42.87	43.29	43.73	44.16	44.59	45.01	45.41	45.79	46.15	46.48	46.78	47.04	47.27	47.46	47.64	47.82
Demand Deposits to GDP Ratio (%)	5.3	5.5	5.2	5.4	5.7	5.2	6.5	6.6	6.0	5.8	5.9	5.4	3.9	4.5	4.7	5.0	5.6	6.3	6.2	6.1	6.8
Time Deposits to GDP Ratio (%)	25.8	26.4	27.1	27.8	29.9	29.5	28.6	29.2	28.6	29.6	28.9	30.9	34.3	46.0	53.8	63.3	66.6	66.6	67.4	61.8	60.7
Credit to Deposit (CD) Ratio	1.60	1.54	1.55	1.46	1.53	1.64	1.61	1.55	1.54	1.54	1.54	1.57	1.65	1.36	1.28	1.19	1.19	1.28	1.30	1.33	1.38
M1 to GDP Ratio	0.09	0.09	0.09	0.09	0.10	0.09	0.10	0.10	0.10	0.10	0.10	0.09	0.07	0.07	0.08	0.08	0.09	0.09	0.09	0.09	0.10
M2 to GDP Ratio	0.35	0.36	0.36	0.37	0.40	0.38	0.39	0.39	0.39	0.39	0.39	0.40	0.41	0.53	0.62	0.71	0.75	0.76	0.76	0.71	0.70

Source: IMF International Financial Statistics Database, January 2007

Malaysia Data

(Million Ringits)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	82149.6	93256.2	94959.5	102737	126257	65360.4	77427.9	137414	175665	192572	229838	265390	310674	323094	367349	402203	444464	459416	502603	557953	593436
Demand Deposits	7087.5	7002.5	8342	9627.4	11978.7	14105.8	15758.2	18930.6	29127.8	31723.8	36191.4	39438.7	40975.9	35115	45738.8	53455.1	56414.2	63876.8	75683.8	84442.7	92695.2
Time, Savings, Foreign Currency Deposits	75062.1	86253.7	86617.5	93109.9	114278	51254.6	61669.7	118483	146537	160848	193647	225951	269698	287979	321610	348748	388050	395539	426919	473510	500741
Domestic Credit	91881	101224	108403	119630	143339	86540.7	101491	172698	193725	219341	281887	361375	460325	459214	451464	493160	516639	550452	585640	604333	639550
Claims on Private Sector	68308.9	72643.6	72633.2	79865.4	100658	82657.3	99668.2	163534	183317	213477	276788	359370	446321	448955	448598	481141	455184	466858	498227	530638	579043
Reserve Money	9475.8	9947	10455	11661.2	14993.4	18501.3	22050.1	24745	27564.2	39445.2	47330.8	64559.4	82896.1	36177.7	45674.7	41372.2	40022.8	42581.9	45534	50087.4	52622.5
M1	13578.9	13957	15768.2	17839.8	21248.7	24240.5	26903	30395.1	41792.3	46470.9	51923.9	60585.3	63365.1	54134.7	73447.2	78216.4	80728.2	89072.1	102104	114268	124023
M2	50412.2	56096.8	59771.7	64072.1	74392.8	83902.9	96092.5	114481	139800	160366	198873	238209	292217	296472	337138	354702	362512	383542	426061	534163	616178
M3	65607.7	71399.9	74891.7	80987.4	97668.3	115420	133121	159178	196611	222330	271948	329708	390809	401459	434590	456496	469519	501125	549649	617639	667326
Gross Domestic Product (GDP)	77470	71594	81085	92370	105233	119081	135124	150682	172194	195461	222473	253732	281795	283243	300764	343215	334404	362012	395017	450152	495239
Population (Millions)	15.68	16.09	16.51	16.94	17.38	17.85	18.32	18.82	19.32	19.84	20.36	20.89	21.43	21.96	22.49	23	23.49	23.97	24.44	24.89	25.35
Demand Deposits to GDP Ratio (%)	9.15	9.78	10.29	10.42	11.38	11.85	11.66	12.56	16.92	16.23	16.27	15.54	14.54	12.40	15.21	15.57	16.87	17.64	19.16	18.76	18.72
Time Deposits to GDP Ratio (%)	96.89	120.48	106.82	100.80	108.60	43.04	45.64	78.63	85.10	82.29	87.04	89.05	95.71	101.67	106.93	101.61	116.04	109.26	108.08	105.19	101.11
Credit to Deposit (CD) Ratio	0.83	0.78	0.76	0.78	0.80	1.26	1.29	1.19	1.04	1.11	1.20	1.35	1.44	1.39	1.22	1.20	1.02	1.02	0.99	0.95	0.98
M1 to GDP Ratio	0.18	0.19	0.19	0.19	0.20	0.20	0.20	0.20	0.24	0.24	0.23	0.24	0.22	0.19	0.24	0.23	0.24	0.25	0.26	0.25	0.25
M2 to GDP Ratio	0.65	0.78	0.74	0.69	0.71	0.70	0.71	0.76	0.81	0.82	0.89	0.94	1.04	1.05	1.12	1.03	1.08	1.06	1.08	1.19	1.24
M3 to GDP Ratio	0.85	1.00	0.92	0.88	0.93	0.97	0.99	1.06	1.14	1.14	1.22	1.30	1.39	1.42	1.44	1.33	1.40	1.38	1.39	1.37	1.35

Source: IMF International Financial Statistics Database, January 2007

Nepal Data

(Million Rupees)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	8559.3	10316.1	11752.1	15048.0	18658.5	21834.2	26058.0	32030.8	42009.5	50117.4	58490.8	67605.8	76386.9	95569.4	117815.8	143977.9	166159.0	168329.7	189026.0	214087.1	231655.8
Demand Deposits	1742.7	2186.4	2374.1	3222.0	3828.8	4504.8	4629.1	5818.0	7520.0	8850.7	10491.5	11451.6	11126.6	14270.6	16078.1	18836.8	22281.8	21497.6	26868.9	30750.7	31421.6
Time, Savings Foreign Currency Deposits	6816.6	8129.7	9378.0	11826.0	14829.7	17329.4	21428.9	26212.8	34489.5	41266.7	47999.3	56154.2	65260.3	81298.8	101737.7	125141.1	143877.2	146832.1	162157.1	183336.4	200234.2
Domestic Credit	12550.9	15322.9	17803.1	20469.3	26584.3	29661.6	34491.4	41609.1	49404.9	57828.1	72184.7	89265.7	100916.7	115812.1	134832.7	158001.1	187855.4	207323.0	228443.8	251089.9	285032.1
Claims on Private Sector	4036.6	5167.9	6132.5	7947.1	10357.0	11687.6	14108.7	17780.2	21208.9	29606.9	41943.1	55524.7	64658.7	76830.1	90800.5	109447.6	126757.9	133315.3	150956.9	172517.4	197017.0
M1	5480.0	7029.3	8120.2	9596.6	11775.4	14223.0	16283.6	19457.7	23833.0	28510.4	32985.4	36498.0	38460.3	45163.8	51062.5	60979.7	70577.0	77156.2	83754.1	93973.7	100205.8
M2	12296.6	15159.0	17498.2	21422.6	26805.1	31552.4	37712.5	45670.5	58322.5	69777.1	80984.7	92652.2	103720.6	126462.6	152800.2	186120.8	214454.2	223988.3	245911.2	277310.1	300440.0
Gross Domestic Product (GDP)	46587.0	55734.0	63864.0	76906.0	89269.0	103416.0	120371.0	149485.0	171386.0	199216.0	219175.0	248913.0	280513.0	300845.0	342036.0	379488.0	410789.0	422301.0	454934.0	494882.0	533538.0
Population (Millions)	17.00	17.40	17.80	18.22	18.66	19.11	19.59	20.10	20.61	21.14	21.68	22.23	22.78	23.33	23.88	24.43	24.98	25.52	26.05	26.59	27.13
Demand Deposits to GDP Ratio (%)	3.74	3.92	3.72	4.19	4.29	4.36	3.85	3.89	4.39	4.44	4.79	4.60	3.97	4.74	4.70	4.96	5.42	5.09	5.91	6.21	5.89
Time Deposits to GDP Ratio (%)	14.63	14.59	14.68	15.38	16.61	16.76	17.80	17.54	20.12	20.71	21.90	22.56	23.26	27.02	29.74	32.98	35.02	34.77	35.64	37.05	37.53
Credit to Deposit (CD) Ratio	0.47	0.50	0.52	0.53	0.56	0.54	0.54	0.56	0.50	0.59	0.72	0.82	0.85	0.80	0.77	0.76	0.76	0.79	0.80	0.81	0.85
M1 to GDP Ratio	0.12	0.13	0.13	0.12	0.13	0.14	0.14	0.13	0.14	0.14	0.15	0.15	0.14	0.15	0.15	0.16	0.17	0.18	0.18	0.19	0.19
M2 to GDP Ratio	0.26	0.27	0.27	0.28	0.30	0.31	0.31	0.31	0.34	0.35	0.37	0.37	0.37	0.42	0.45	0.49	0.52	0.53	0.54	0.56	0.56

Source: IMF International Financial Statistics Database, January 2007; and Quarterly Economic Bulletin, July 2006, Nepal Rastra Bank

Philippines Data

(Billion Pesos)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	134.97	132.49	147.52	187.6	243.3	300.67	354.65	406.16	526.73	668.24	837.24	1046.12	1337.24	1466.88	1656.28	1815.28	1912.09	2086.06	2168.47	2398.53	2551.77
Demand Deposits	11.7	12.81	16.75	18.74	25.21	26.76	31.98	34.72	49.1	55.08	72.04	96.41	111.92	134.09	172.87	192.98	191.94	252.77	274.92	300.96	336.41
Time, Savings, Foreign Currency Deposits	123.27	119.68	130.77	168.86	218.09	273.91	322.67	371.44	477.63	613.16	765.2	949.71	1225.32	1332.79	1483.41	1622.3	1720.15	1833.29	1893.55	2097.57	2215.36
Domestic Credit	200.12	170.65	148.32	157.55	191.42	250.27	243.86	286.82	669.63	813.42	1062.38	1475.2	1906.05	1868.45	1911.82	2088.82	2130.52	2247.55	2401.52	2614.8	2504.55
Claims on Private Sector	115.03	90.46	109.08	128.85	160.65	207.54	222.63	279.08	389.47	492.53	715.34	1063.8	1370.08	1279.19	1249.58	1316.59	1293.29	1303.35	1317.66	1439.68	1407.87
Reserve Money	38.45	51.03	57.74	67.28	92.88	108.72	129.36	144.84	171.75	182.41	212.74	243.26	266.46	239.83	321.73	308.21	312.87	356.08	374.56	410.54	446.81
Narrow Money	n.a.	42.69	52.42	59.72	78.53	89.01	101.37	112.09	133.88	151.95	184.93	221.96	258.32	281.51	394.13	386.98	387.99	470.06	510.27	556.42	605.35
Quasi Money	n.a.	96.78	105.86	136.2	172.56	208.3	242.68	269.78	341.84	451.05	570.26	652.81	795.63	856.92	963.78	1036.21	1133.07	1196.24	1211.24	1326.26	1446.16
M3	n.a.	144.33	161.82	198.41	253.92	300.54	347.08	385.39	480.33	607.61	761.43	881.4	1066.02	1144.55	1365.1	1427.4	1525.03	1669.66	1724.97	1883.76	2052.55
M4	n.a.	144.33	161.82	198.41	297.77	364.35	424.3	479.84	616.49	766.4	968.12	1198.97	1499.44	1622.49	1886.76	2013.38	2111.12	2298.11	2401.45	2649.3	2814.33
Gross Domestic Product (GDP)	571.88	608.89	682.76	799.18	925.44	1077.24	1248.01	1351.56	1474.46	1692.93	1905.95	2171.92	2426.74	2665.06	2976.9	3354.73	3631.47	3963.87	4316.4	4858.84	5418.34
Population (Millions)	54.27	55.58	56.92	58.29	59.69	61.1	62.54	63.99	65.45	66.92	68.4	69.87	71.35	72.82	74.29	75.77	77.24	78.71	80.17	81.62	83.05
Demand Deposits to GDP Ratio (%)	2.05	2.10	2.45	2.34	2.72	2.48	2.56	2.57	3.33	3.25	3.78	4.44	4.61	5.03	5.81	5.75	5.29	6.38	6.37	6.19	6.21
Time Deposits to GDP Ratio (%)	21.56	19.66	19.15	21.13	23.57	25.43	25.85	27.48	32.39	36.22	40.15	43.73	50.49	50.01	49.83	48.36	47.37	46.25	43.87	43.17	40.89
Credit to Deposit (CD) Ratio	0.85	0.68	0.74	0.69	0.66	0.69	0.63	0.69	0.74	0.74	0.85	1.02	1.02	0.87	0.75	0.73	0.68	0.62	0.61	0.60	0.55
M1 to GDP Ratio	n.a.	0.07	0.08	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.10	0.10	0.11	0.11	0.13	0.12	0.11	0.12	0.12	0.11	0.11
M3 to GDP Ratio	n.a.	0.24	0.24	0.25	0.27	0.28	0.28	0.29	0.33	0.36	0.40	0.41	0.44	0.43	0.46	0.43	0.42	0.42	0.40	0.39	0.38
M4 to GDP Ratio	n.a.	0.24	0.24	0.25	0.32	0.34	0.34	0.36	0.42	0.45	0.51	0.55	0.62	0.61	0.63	0.60	0.58	0.58	0.56	0.55	0.52

Source: IMF International Financial Statistics Database, January 2007

Singapore Data

(Million Singapore Dollars)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	23409.0	25922.0	31650.0	36091.0	44936.0	54736.0	62045.0	67449.0	73188.0	84560.0	92061.0	101658.0	112740.0	150638.0	163159.0	159609.0	169041.0	167948.0	181990.0	193284.0	205213.0
Demand Deposits	4046.0	4788.0	5591.0	5961.0	7135.0	8152.0	8933.0	10236.0	13940.0	13991.0	15443.0	16747.0	16807.0	17093.0	19794.0	21973.0	24215.0	23468.0	25884.0	30468.0	31501.0
Time, Savings, Foreign Currency Deposits	19363.0	21134.0	26059.0	30130.0	37801.0	46584.0	53112.0	57213.0	59248.0	70569.0	76618.0	84911.0	95933.0	133545.0	143365.0	137636.0	144826.0	144480.0	156106.0	162816.0	173712.0
Domestic Credit	30134.0	30471.0	33530.0	34973.0	36782.0	41317.0	47053.0	49624.0	55583.0	62699.0	73638.0	86368.0	103251.0	122081.0	120535.0	126640.0	144625.0	121310.0	134001.0	137881.0	129707.0
Claims on Private Sector	35798.0	34493.0	36702.0	40797.0	48765.0	55805.0	62733.0	68858.0	79290.0	91384.0	109893.0	127280.0	143417.0	154854.0	150212.0	159094.0	185057.0	169052.0	178254.0	186129.0	189799.0
M1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16430.0	18515.6	22882.2	23411.5	25349.2	27040.0	27510.9	27239.1	31109.1	33261.9	36082.9	35828.2	38722.6	44162.2	46085.9
M2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	69542.3	75728.5	82130.3	93980.6	101967.0	111951.0	123443.0	160784.0	174474.0	170898.0	180909.0	180308.0	194829.0	206978.0	219798.0
M3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	92649.7	101482.0	111369.0	125835.0	136737.0	148495.0	160766.0	173581.0	186184.0	182913.0	190317.0	188815.0	200044.0	212183.0	225700.0
Gross Domestic Product (GDP)	38924.0	39264.0	42973.0	50714.0	58190.0	66884.5	74613.0	81224.0	94289.3	107851.0	118963.0	129932.0	141626.0	137329.0	139897.0	159840.0	153393.0	158410.0	161547.0	181704.0	194360.0
Population (Millions)	2.71	2.77	2.82	2.88	2.95	3.02	3.10	3.18	3.27	3.37	3.48	3.59	3.70	3.82	3.92	4.02	4.10	4.16	4.22	4.27	4.33
Demand Deposits to GDP Ratio (%)	10.39	12.19	13.01	11.75	12.26	12.19	11.97	12.60	14.78	12.97	12.98	12.89	11.87	12.45	14.15	13.75	15.79	14.81	16.02	16.77	16.21
Time Deposits to GDP Ratio (%)	49.75	53.83	60.64	59.41	64.96	69.65	71.18	70.44	62.84	65.43	64.40	65.35	67.74	97.24	102.48	86.11	94.41	91.21	96.63	89.61	89.38
Credit to Deposit (CD) Ratio	1.53	1.33	1.16	1.13	1.09	1.02	1.01	1.02	1.08	1.08	1.19	1.25	1.27	1.03	0.92	1.00	1.09	1.01	0.98	0.96	0.92
M1 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.22	0.23	0.24	0.22	0.21	0.21	0.19	0.20	0.22	0.21	0.24	0.23	0.24	0.24	0.24
M2 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.93	0.93	0.87	0.87	0.86	0.86	0.87	1.17	1.25	1.07	1.18	1.14	1.21	1.14	1.13
M3 to GDP Ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.24	1.25	1.18	1.17	1.15	1.14	1.14	1.26	1.33	1.14	1.24	1.19	1.24	1.17	1.16

Source: IMF International Financial Statistics Database, January 2007

Sri Lanka Data

(Million Rupees)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	39563.3	40443.1	45939.3	50980.4	55452.3	67924.0	85159.9	102481.4	127949.2	152624.5	217194.4	245968.7	287924.8	325943.0	369823.5	420732.4	483592.3	547186.4	632234.2	758967.9	908196.0
Demand Deposits	8760.6	9358.1	11242.7	13511.0	15374.5	17255.6	21640.8	22740.5	27169.2	31414.5	32970.4	35515.7	40107.8	44470.0	50058.5	55788.4	56665.3	64052.4	76014.2	88776.9	116620.0
Time, Savings, Foreign Currency Deposits	30802.7	31085.0	34696.6	37469.4	40077.8	50668.4	63519.1	79740.9	100780.0	121210.0	184224.0	210453.0	247817.0	281473.0	319765.0	364944.0	426927.0	483134.0	556220.0	670191.0	791576.0
Domestic Credit	67772.2	74007.3	85071.7	107948.0	102685.0	122214.0	92922.5	154843.0	161686.0	188564.0	273209.0	297517.0	327436.0	372817.0	433115.0	550156.0	615922.0	691082.0	742146.0	905245.0	1044240.0
Claims on Private Sector	33585.1	36533.1	39721.5	48391.1	50833.0	63122.1	32845.3	38516.3	49124.0	63452.6	207456.0	229639.0	262113.0	292392.0	323580.0	362634.0	395583.0	452106.0	527116.0	640220.0	776769.0
Money	18661.5	21050.7	24901.1	32154.7	35098.8	39607.3	46609.7	50067.6	59355.5	70462.7	75217.8	78202.4	85851.4	96268.5	108554.0	118477.0	122211.0	139361.0	162640.0	189339.0	231621.0
Quasi Money	31994.0	31750.1	36051.8	37857.4	40771.5	51335.9	64220.5	79385.6	100256.0	120539.0	184224.0	210453.0	247817.0	281473.0	319765.0	364944.0	426927.0	483134.0	556220.0	670191.0	791576.0
Money Plus Quasi Money	50655.5	52800.8	60952.9	70012.1	75859.0	90932.1	110821.0	129442.0	159611.0	191002.0	259442.0	288656.0	333668.0	377741.0	428319.0	483421.0	549138.0	622495.0	718860.0	859529.0	1023200.0
Gross Domestic Product (GDP)	162375.0	179474.0	196723.0	221982.0	251891.0	321784.0	372345.0	425283.0	499565.0	579084.0	667772.0	768133.0	890272.0	1045660.0	1105990.0	1257640.0	1407400.0	1581890.0	1761160.0	2029440.0	2365700.0
Population (Millions)	16.4	16.7	17.0	17.3	17.5	17.8	18.0	18.2	18.5	18.7	18.9	19.1	19.3	19.5	19.7	19.8	20.0	20.2	20.4	20.6	20.7
Demand Deposits to GDP Ratio (%)	5.4	5.2	5.7	6.1	6.1	5.4	5.8	5.3	5.4	5.4	4.9	4.6	4.5	4.3	4.5	4.4	4.0	4.0	4.3	4.4	4.9
Time Deposits to GDP Ratio (%)	19.0	17.3	17.6	16.9	15.9	15.7	17.1	18.8	20.2	20.9	27.6	27.4	27.8	26.9	28.9	29.0	30.3	30.5	31.6	33.0	33.5
Credit to Deposit (CD) Ratio	0.8	0.9	0.9	0.9	0.9	0.9	0.4	0.4	0.4	0.4	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9
M1 to GDP Ratio	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
M2 to GDP Ratio	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Source: IMF International Financial Statistics Database, January 2007

Taiwan Data

(Million NT Dollars)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	2195.3	2642.5	3222.7	3931.4	4679.5	5182.8	6141.2	7363.4	8739.7	10176.8	11262.0	12302.3	13449.3	14804.4	15985.5	16933.6	17618.4	17811.5	18660.2	19790.7	20824.1
Demand Deposits	568.6	906.8	1283.3	1629.8	1720.3	1577.2	1777.6	1998.3	2335.7	2641.5	2656.4	2927.5	3204.9	3341.0	3896.0	3964.3	4500.2	4964.3	5944.6	6698.2	7140.8
Time, Savings, Foreign Currency Deposits	1626.7	1735.7	1939.4	2301.6	2959.2	3605.6	4363.6	5365.1	6404.0	7535.3	8605.6	9374.8	10244.4	11463.4	12089.5	12969.3	13118.2	12847.2	12715.6	13092.5	13683.3
Domestic Credit	1856.8	1919.4	2148.7	2931.9	3808.7	4456.8	5660.9	7298.0	8797.8	10151.6	11290.7	12291.9	13500.6	14617.0	15119.6	15732.5	15599.6	15238.3	15640.7	17073.6	18434.3
Claims on Private Sector	1625.5	1732.2	2110.2	2982.9	3723.2	4324.5	5249.4	6758.2	8061.6	9366.2	10302.7	10921.2	11821.9	12762.7	13048.0	13291.8	12823.5	12437.8	12894.7	14388.9	15733.5
Money (M1B)	751.5	1137.9	1568.2	1950.5	2068.8	1931.9	2158.4	2425.8	2797.1	3139.3	3163.1	3426.1	3715.3	3854.8	4507.2	4492.1	5025.9	5491.6	6552.8	7368.0	7871.1
Quasi Money	1917.0	2189.7	2639.8	3036.1	3719.6	4461.4	5244.5	6387.9	7373.1	8563.5	9641.5	10547.8	11379.1	12531.9	13237.8	14405.7	14711.1	14755.4	14872.7	15633.2	16636.4
Broad Money	2668.5	3327.6	4208.0	4986.6	5788.4	6393.3	7402.9	8813.7	10170.2	11702.8	12804.6	13973.9	15094.4	16386.7	17745.0	18897.8	19737.0	20247.0	21425.5	23001.2	24507.5
Gross Domestic Product (GDP)	2473.8	2855.2	3223.0	3497.0	3878.5	4222.0	4810.7	5337.7	5874.5	6376.5	6892.0	7477.5	8328.8	8939.0	9640.9	10032.0	9862.2	10194.3	10318.6	10770.4	11146.8
Population (Millions)	19.3	19.5	19.7	19.9	20.1	20.4	20.6	20.8	20.9	21.1	21.4	21.5	21.7	21.9	22.1	22.3	22.4	22.5	22.6	22.7	22.8
Demand Deposits to GDP Ratio (%)	22.98	31.76	39.82	46.61	44.35	37.36	36.95	37.44	39.76	41.43	38.54	39.15	38.48	37.38	40.41	39.52	45.63	48.70	57.61	62.19	64.06
Time Deposits to GDP Ratio (%)	65.76	60.79	60.17	65.82	76.30	85.40	90.71	100.51	109.01	118.17	124.86	125.37	123.00	128.24	125.40	129.28	133.01	126.02	123.23	121.56	122.76
Credit to Deposit (CD) Ratio	0.74	0.66	0.65	0.76	0.80	0.83	0.85	0.92	0.92	0.92	0.91	0.89	0.88	0.86	0.82	0.78	0.73	0.70	0.69	0.73	0.76
M1 to GDP Ratio	0.30	0.40	0.49	0.56	0.53	0.46	0.45	0.45	0.48	0.49	0.46	0.46	0.45	0.43	0.47	0.45	0.51	0.54	0.64	0.68	0.71
M2 to GDP Ratio	1.08	1.17	1.31	1.43	1.49	1.51	1.54	1.65	1.73	1.84	1.86	1.87	1.81	1.83	1.84	1.88	2.00	1.99	2.08	2.14	2.20

Source: Financial Statistics Monthly, various issues, Central Bank of the Republic of China (Taiwan)

Thailand Data

(Billion Bahts)

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Deposits	592.90	674.34	805.44	952.84	1208.39	1529.43	1840.16	2117.58	2526.64	2784.27	3279.35	3639.81	4373.57	4867.53	4896.42	5247.43	5519.66	5692.71	6317.11	6644.80	7040.12
Demand Deposits	21.23	30.60	44.61	48.19	54.07	55.19	70.44	66.40	82.71	85.24	86.64	88.49	74.08	84.78	88.63	104.85	127.20	152.74	208.94	225.84	256.21
Time, Savings, Foreign Currency Deposits	571.67	643.74	760.83	904.64	1154.32	1474.24	1769.72	2051.18	2443.93	2699.03	3192.71	3551.32	4299.49	4782.75	4807.79	5142.58	5392.46	5539.97	6108.17	6418.96	6783.91
Domestic Credit	892.84	966.87	1120.87	1312.07	1609.39	2054.34	2411.92	2931.67	3672.52	4742.66	5916.16	6748.77	8404.01	8177.07	7223.86	6806.78	6600.13	6964.89	7273.97	7563.36	7893.84
Claims on Private Sector	616.40	644.47	773.52	999.98	1335.94	1820.40	2233.32	2787.59	3524.82	4636.41	5853.49	6786.84	7842.84	7212.46	6117.44	5329.49	4975.06	5588.96	5516.10	6139.48	6611.01
M0	86.54	96.33	116.65	134.00	156.67	185.79	210.47	248.04	288.07	329.90	404.32	452.92	474.14	475.25	621.78	527.16	556.35	632.74	699.75	800.54	842.52
M1	85.86	103.43	132.40	148.49	174.70	195.41	222.40	249.71	296.16	346.43	388.28	423.69	428.79	441.73	575.04	525.69	579.43	663.49	766.80	858.97	910.91
Narrow Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	415.29	404.38	562.79	509.40	567.79	656.31	752.75	833.59	898.91
M2	593.50	672.77	808.58	956.13	1207.10	1529.12	1832.38	2117.79	2507.10	2829.38	3310.56	3726.65	4339.35	4753.36	4854.75	5032.68	5243.66	5378.86	5641.84	5948.37	6438.93
M2a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3557.50	4193.44	4725.20	4779.23	5118.06	5182.51	5296.94	5538.40	5530.24	5813.23	6180.38	6510.02
M3	725.02	810.96	952.14	1146.78	1477.52	1873.78	2246.36	2662.83	3187.11	3761.61	4496.18	5052.34	5224.95	5706.40	5802.86	6039.99	6389.43	6472.34	6651.72	7271.52	7725.24
Broad Money	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5266.77	5742.39	5828.74	6056.33	6404.06	6488.12	6885.69	7281.25	7736.90
Gross Domestic Product (GDP)	1056.50	1133.40	1299.91	1559.80	1856.99	2183.55	2506.64	2830.91	3165.22	3629.34	4186.21	4611.04	4732.61	4626.45	4637.08	4922.73	5133.50	5450.64	5928.98	6503.49	7102.96
Population (Millions)	50.61	51.43	52.25	53.06	53.85	54.64	55.41	56.17	56.92	57.64	58.34	59.00	59.64	60.25	60.85	61.44	62.02	62.59	63.14	63.69	64.23
Demand Deposits to GDP Ratio (%)	2.01	2.70	3.43	3.09	2.91	2.53	2.81	2.35	2.61	2.35	2.07	1.92	1.57	1.83	1.91	2.13	2.48	2.80	3.52	3.47	3.61
Time Deposits to GDP Ratio (%)	54.11	56.80	58.53	58.00	62.16	67.52	70.60	72.46	77.21	74.37	76.27	77.02	90.85	103.38	103.68	104.47	105.04	101.64	103.02	98.70	95.51
Credit to Deposit (CD) Ratio	1.04	0.96	0.96	1.05	1.11	1.19	1.21	1.32	1.40	1.67	1.78	1.86	1.79	1.48	1.25	1.02	0.90	0.98	0.87	0.92	0.94
M1 to GDP Ratio	0.08	0.09	0.10	0.10	0.09	0.09	0.09	0.09	0.09	0.10	0.09	0.09	0.09	0.10	0.12	0.11	0.11	0.12	0.13	0.13	0.13
M2 to GDP Ratio	0.56	0.59	0.62	0.61	0.65	0.70	0.73	0.75	0.79	0.78	0.79	0.81	0.92	1.03	1.05	1.02	1.02	0.99	0.95	0.91	0.91
M3 to GDP Ratio	0.69	0.72	0.73	0.74	0.80	0.86	0.90	0.94	1.01	1.04	1.07	1.10	1.10	1.23	1.25	1.23	1.24	1.19	1.16	1.12	1.09

Source: IMF International Financial Statistics Database, January 2007