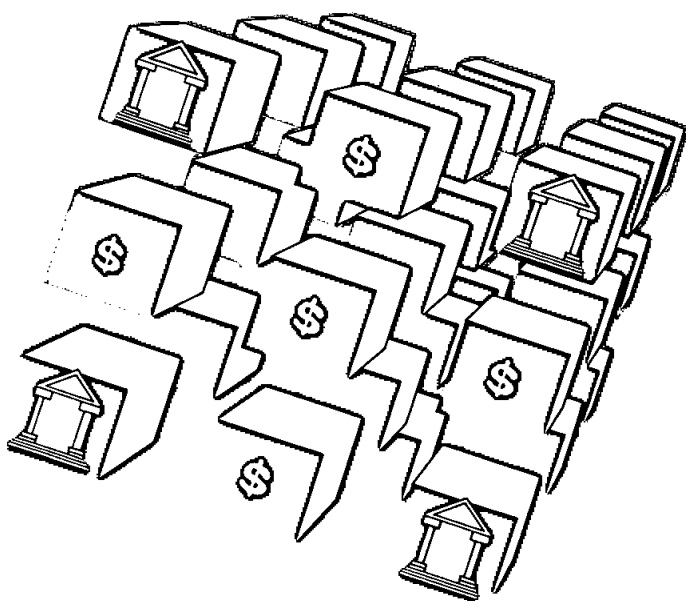


NON-BANK FINANCIAL INSTITUTIONS [NBFIs]: THEIR IMPACT ON THE EFFECTIVENESS OF MONETARY POLICY IN THE SEACEN COUNTRIES

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Kuala Lumpur, Malaysia**

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BY

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ISBN 983-9553-36-4

FOREWORD

Financial systems have historically evolved from the impetus of economic, social and institutional forces. Financial institutions of various types have emerged in the SEACEN countries through the development of different kinds of financial instruments. The growth of these institutions supplemented the role of commercial banks by providing available financial resources to all sectors of the economy, and in creating a more competitive environment.

The rapid growth of these non-bank financial institutions (NBFIs) in recent years has, however, been a matter of concern to those who formulate monetary policy. It is generally argued that the expansion of NBFIs might undermine the effectiveness of the traditional instruments of monetary control. However, it must be remembered that the NBFIs while participating in the expansion of credit differ in their role from that of commercial banks. They also have a different significance. The commercial banks still dominate the financial systems of the SEACEN countries and their dominance has had a long history and tradition. While the discipline imposed by central banks is not applied directly to NBFIs, the indirect effects are usually powerful and dependable, and any unilateral action by NBFIs is unlikely to have severe effects on monetary policy. The prospect of these rival groups of institutions developing a thriving business unhampered by the monetary authorities may be frowned upon by the commercial banks.

The scope of this research study on "Non-bank Financial Institutions (NBFIs): Their Impact on the Effectiveness of Monetary Policy in the SEACEN Countries" is confined to the rationale and objectives of establishing NBFIs, the intermediary role of NBFIs, the various factors affecting monetary management, and some of the issues and problems associated with the growth of these NBFIs.

The monetary policy implications associated with the growth of NBFIs are wide ranging and complex. Accordingly, study being the first attempt by the Centre to evaluate the impact of NBFIs on monetary policy may not do full justice to many aspects of monetary policy implications. Nevertheless, this study has attempted to pursue certain common themes and issues without losing sight of the differences in the respective experiences of the SEACEN countries. This study, therefore, could form a basis for future research studies in order to make a definite statement on the effectiveness of monetary policy in the SEACEN countries.

This in-house research study was conducted by Mr. Ganesh P. Adhikary, Research Economist seconded from Nepal Rastra Bank to The SEACEN Centre. At various stages of the project, Mr. Adhikary was assisted by Senior Research Associate, Miss Seow Yun Yee, who tirelessly took care of data compilation and proof reading work. The manuscript was typed by Mrs. Haslina Muda with occasional assistance from Mrs. Ng-Chew Hong Yng, Miss Jayanthi Devi and Miss Karen How.

Being an in-house research study, the project was based to some extent on replies from participating member banks to the questionnaires issued by The SEACEN Centre. The SEACEN Centre in this respect wishes to express its sincere gratitude for the participating member central banks for their close co-operation in supplying the necessary information required for this project, and also wishes to thank them for their useful comments and suggestions at various stages for a successful completion of this project.

The views expressed in this volume, however, are those of the author and do not necessarily reflect the views of the member central banks or that of The SEACEN Centre.

Dr. Vicente B. Valdepeñas, Jr.
Director
The SEACEN Centre

Kuala Lumpur
December 1989

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PART I

AN OVERVIEW OF THE ROLE AND STATUS OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN THE SEACEN COUNTRIES

PART I

AN OVERVIEW OF THE ROLE AND STATUS OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN THE SEACEN COUNTRIES

I. INTRODUCTION

The Non-Bank Financial Institutions (hereafter referred to as NBFIs) are a fairly recent development in the SEACEN countries. The emergence of these institutions in some SEACEN countries is the outcome of the deliberate policy of the government to cater to the financial and other supportive needs to specific sectors of the economy. In other words, these institutions emerged out of the necessity to have specialized financial institutions to cater for the diversified needs of financial intermediation. Some of these institutions also emerged either in response to a failure by the banking system to meet some genuine need of the economy or in an attempt to find a way around particular credit regulation imposed on banks. Some of them were also established as a direct result of selective credit policies or for different purposes. The rapid growth and development of these institutions have supplemented the role of commercial banks in rendering services to the economy and also creating a more competitive environment in the financial system.

The existence of these NBFIs has further stimulated the banks themselves to innovate and to be more responsible to the needs of customers and hence, to the economy. The growth of these institutions has also made it possible to make available financial resources on suitable terms and conditions to all sectors of the economy. However, the rapid growth of these institutions in some SEACEN countries in recent years has been a matter of concern to those who formulate and implement monetary policy, because most of these institutions are outside the regulatory jurisdiction of the central bank. With few exceptions, the regulatory and supervisory framework that governs the operations of these NBFIs is also not as comprehensive and well-defined as that for banks in a majority of countries in the SEACEN region ¹. It has been further argued that,

1. The regulatory and supervisory framework that governs the operations of those non-bank financial institutions which have quasi-banking functions (NBQBs) is well defined in Book IV of the Manual of Regulations for Banks and Other Financial Institutions of the Central Bank of the Philippines.

if the monetary policies are applied to the commercial banks alone, there is likely to be a shift of some of the regulated business away from banks towards these NBFIs, thus posing a difficult problem to the monetary authorities in implementing monetary policy.

1. Objectives of the Research Project

Implementation of monetary policy in the SEACEN countries is basically centred on the commercial banking sector. However, recent developments have seen the emergence of NBFIs as one of the important financial intermediaries. Accordingly, their role in the financial sector will certainly have some implications for monetary policy.

It has been, further, argued that the rapid expansion of financial intermediaries other than commercial banks has undermined the effectiveness of monetary policy when these institutions lie outside the supervisory jurisdiction of the monetary authorities. The rapid growth of NBFIs has, therefore, been a matter of concern to the regulatory authorities and they feel that there is need for these NBFIs to be adequately controlled and supervised. As indicated in the terms of reference approved by the Board of Governors of the South-East Asian Central Banks (SEACEN) Research and Training Centre, "this project will examine the impact of these institutions on the effectiveness and efficiency of monetary management in the region". In other words, the aim of the project is to study the implications for monetary policy by examining whether the growth of NBFIs in the SEACEN countries has increased the difficulty of a central bank's tasks in implementing monetary policy or eased their role in ensuring financial intermediation in an optimum manner; and also to examine the need to regulate the NBFIs in order to achieve an effective and efficient monetary management.

2. Scope and Organisation of the Study

This study is an in-house research project. Therefore, a questionnaire requesting institutional data required for this study was sent to member banks and monetary authorities; and responses were received from Bank Indonesia, Bank Negara Malaysia, Nepal Rastra Bank, the Central Bank of the Philippines, Central Bank of Sri Lanka and the Bank of Thailand. In the case of Singapore, the NBFIs of vital importance are fully regulated and supervised by The Monetary Authority of Singapore. There is no unregulated or 'curb'

market. There is also no credit rationing or allocation system as such that may encourage the growth of NBFIs. Therefore, little scope existed in Singapore for monetary policies to be hampered by the presence of unregulated or semi-regulated financial activities. Accordingly, as suggested by The Monetary Authority of Singapore, Singapore has been excluded from this study. Also, taking into account non-participation of Myanmar, the scope of the study is, therefore, limited to six countries.

The responses to questionnaire sent to member banks indicated that the growth in NBFIs has not affected the representativeness of present monetary aggregates as monetary indicators. Financial intermediation too is still in small scale and the extent of disintermediation is negligible. Further, the growth of NBFIs has not proceeded to the stage where the demand for money function has become unstable. The responses to the questionnaire also indicated that the distinction between banks and NBFIs in the SEACEN countries is not breaking down to that extent as in the industrial countries, where this breakdown has a profound impact on the narrow aspects of monetary policy. In other words, the distinction between banks and NBFIs seems to be still a clear and valid one. The responses to the questionnaire also revealed that, there is no indication of a destabilizing systematic shift from demand deposits to claims against NBFIs and they do not create money in the same way that the commercial banks do. The responses further revealed that the activities of NBFIs do not exert a significant impact on monetary developments since the market share, both in credit and deposit markets, is very low.

Similarly, the responses to the questionnaire indicated, due to the predominance of commercial banks, that the regulatory conditions imposed on commercial banks have not diminished their role relative to NBFIs and the monetary aggregates have not been redefined even with the presence of financial instruments or claims offered by NBFIs, that are close substitutes to deposits. Further, the ability of the central bank to control monetary aggregates has not been generally impaired by the growth of deposit substitutes and their potential effects on the money multiplier is not very significant (because of the low proportion of its share to total financial claims). Therefore, in view of the responses to the questionnaire sent by member banks, it seems that the implications will be more profound to the monetary policy part of supervision and regulation. The proliferation of these NBFIs, might generate greater risk of defaults and failures, thus creating problems for supervision of these institu-

tions. Therefore, the scope of this study was also centred to examine some aspects of the monetary policy part of supervision and regulation posed to the monetary authorities by the rapid growth of these institutions.

It should be noted that the responses to the questionnaire did not indicate a wide scope of enquiry to analyse the impact of the growth of NBFIs on the effectiveness of monetary policy. Therefore, some of the examples, where relevant from the experience of more developed countries to illustrate the issues associated with the growth of NBFIs have been drawn at times. Further, although the study is basically an analytical undertaking which focusses on the experience of the SEACEN countries, some discussion on the critical aspects of NBFIs and its impact on monetary policy of relevant comparable countries is also included. This is to provide a better understanding of the concept and rationale of the monetary policy implications as a result of the growth of NBFIs.

Accordingly, the project is divided into two parts. The first part presents a general overview of the role and status of NBFIs in the SEACEN countries. This part incorporates - rationale and objectives of establishing NBFIs; definitional and conceptual aspects of NBFIs; and the role of NBFIs and nature of competition. Part two attempts to analyse the implications for monetary policy as a result of the growth of the NBFIs. This part comprises - nature and status of the factors affecting monetary management; growth of NBFIs and their effect on the credit multiplier; and overall issues and problems associated with the growth of NBFIs.

3. Limitations of the Study

As highlighted in the SEACEN Seminar on NBFIs held in June 1985 in Colombo, the NBFIs in the SEACEN region has grown rapidly and played an important role in rendering services to the economy as financial intermediaries. However, as indicated in the initial terms of reference for the current research project, the inclusion of NBFIs in the financial sector has raised some questions relevant in monetary policy, such as:

1. Is the currently adopted monetary policy, which is mostly centered on the banking system, still effective?
2. Has the deregulation policy, recently adopted in some SEACEN countries, improved the competitiveness of banks?

3. Does the increasing role of NBFIs in financial inter-mediation lead to a more efficient financial sector?
4. Does the monetary authority need to regulate the NBFIs in order to achieve an effective and efficient monetary management, and in what way?

Therefore, the current study proposal had been framed around these questions for which answers were being sought. However, based on the comments and suggestions sent by the member banks and monetary authorities the study has also tried to minimize, as much as possible, the possible duplication of an earlier study by The SEACEN Centre completed in 1986 on "The Financial Structure and Its Implication for Monetary Policy in the SEACEN Countries". Furthermore, the overlap with another study on "Deregulation in the Financial System of the SEACEN Countries" has also been minimized. Therefore, the present study is confined to the analysis of implications for monetary policy as a result of the growth of these NBFIs and rationale for regulating these NBFIs, exactly in the same way as the banking institutions, taking into consideration the issues associated with the problems for monetary control and prudential regulation.

Most of the information that are available from in-house sources are related only to those institutions which are under the regulatory jurisdiction of the monetary authorities. Therefore, the study uses aggregate data and information. These data too being rather scanty and in view of time constraints, the present study could not accommodate all the comments and suggestions made by member central banks in view of their diversified nature. Nevertheless, those comments which were of common nature and also related to the basic scope of the project, namely the monetary policy implication and prudential regulation, have been incorporated.

II. RATIONALE AND OBJECTIVES OF ESTABLISHING NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

1. Spirit and Objectives for Establishing NBFIs

The financial system in the SEACEN region has historically evolved under the impetus of economic, social and institutional forces that are by no means uniform across the SEACEN countries. Financial institutions of various types emerged with different types of finan-

cial instruments. There is further specialization among different segments of the financial system, the degree of which has varied from country to country in the SEACEN region. The type of banking that became prevalent before the emergence of the NBFIs was 'commercial' with the sole accent on short-term credit to trade and industry, the underlying theory being that credit should be 'self-liquidating'. Accordingly, the commercial banks refrained from explicit financing fixed capital formation because it would lock up banks' funds, contrary to the tenets of 'sound' commercial banking as reflected in the 'golden rule of banking'. Using short-term overdraft as the major method of lending, commercial banks, however, cannot venture too far in their lending business than catering mainly for the commercial sector, both domestic and international. They also have a legitimate excuse in that their funding - constrained by official regulation on the rate of interest - is only of short-term nature, and caution and prudence restrain them from going into medium-term and long-term development finance.

One of the fundamental objectives of establishing NBFIs, is therefore, the need to gear the operations of these institutions along those market segments requiring long-term or development funding, consumer financing and small and venture financing. In other words, the rationale behind the establishment of NBFIs was to supplement the role of commercial banks. The NBFIs of development type banks were, therefore, established to fill the gap in financial need and to provide related supportive services that ordinary banks cannot handle. Most of these NBFIs are established to help stimulate the emergence of the missing ingredients necessary for development. These include varying mixes: capital, entrepreneurship, technological and managerial capabilities, capital market activity, long-term consumer credit and underwriting and brokerages. Further, whenever private funds are lacking, the Government usually intervened and established required institutions and most often NBFIs were established by specific Acts for either developmental or promotional purposes. In some SEACEN countries even the commercial banks tried to boost their lending by setting up subsidiaries designed to provide intermediate-term and long-term loans, in addition to their existing practice of lending on a 'roll over' basis under which ostensibly short-term credit can be utilized for long-term purposes. Although, various forms of finance companies in the SEACEN countries are at a better position to draw more long-term funds than commercial banks, the funding of these companies is in reality not as long-term as expected to be.

Therefore, the objective of establishing a number of specialized development type NBFIs like industrial development institutions, insurance companies and agricultural development institutions, is basically to provide medium- and long-term credit to the industrial and agricultural sectors. NBFIs have, therefore, evolved to fulfil requirements of the growing SEACEN economies which were not met or not adequately provided by banks. Further, the establishing of NBFIs also sprang from various regulations imposed by the government which restricted the scope of operations of banks. Looking at the objectives of establishment of few major NBFIs in the SEACEN countries, there exists a common thread of similarity, however, with some minor exceptions.

In Indonesia, the main objective of establishment of NBFIs of development finance type is to concentrate on medium- and long-term financing and equity participation in other companies, whereas the objective of NBFIs of investment finance type is to act primarily as brokers in the issuance of short-term securities (promissory notes) and as underwriters in the sale of short-term securities. In other words, the establishment of these non-bank financial institutions has the objectives of supporting the development of money and capital markets and the rendering of the services related thereto. Leasing companies were established with an objective to promote business activities and thereby increase their role in the development efforts to meet the increasing financial requirements. In Malaysia, the primary objective of establishing specialized financial institutions is to provide term capital, participation in equity capital and underwriting, and to provide a range of financial services which are normally not provided or adequately provided by the commercial banks and the finance companies. The objectives of establishing other type of NBFIs like provident, pension and insurance funds are to provide social security in the form of retirement, medical, death or disability benefits. The rationale of establishing two NBFIs in Nepal namely, Nepal Industrial Development Corporation (NIDC) and the Agricultural Development Bank (ADB) was motivated by the same factors. In other words their objective is to make available long-term capital funds to industrial and agricultural sectors. Similarly, the Employees Provident Fund (EPF) and the National Insurance Corporation (NIC) were established to provide social security and mobilize domestic resources.

The various non-bank financial intermediaries established in the Philippines have, however, different objectives. Investment houses have been established to develop capital markets, whereas the in-

vestment companies were established to trade in securities. The primary objective of establishing finance companies is for the purpose of extending credit facilities to consumers and to industrial, commercial or agricultural enterprises by discounting or factoring commercial papers and accounts receivables or by buying and selling contracts, leases of various types. The securities dealers/brokers are established with the objectives of buying and selling securities of another or acquiring securities for the purpose of reselling or offering for sale to the public or otherwise dealing or trading in securities for profit. While a broker is a person engaged in the business of effective transaction in securities for the account of others. The fund managers are established in order to engage in the business of administration and management of property, or money as its equivalent as agent as representative of the owner as of a third person. The lending investors, on the other hand, are established to make a practice of lending money for themselves or others, usually utilizing their own capital to extend all types of loans, generally a short-term and without collateral. The pawnshops are established to engage in the pawnbroking/pawnbrokerage or the business of lending money against property delivered on security or pledge. The establishment of government NBFIs (e.g, the National Development Corporation, the National Home Mortgage and Financing Corporation, the National Home Mortgage and Financing Corporation and the Philippine Veterans Investment and Development Corporation) are based on special laws or charter. The objective of establishing the venture capital corporation is for the purpose of developing, promoting and assisting small and medium scale enterprises through debt or equity financing.

The objective of establishing long-term credit institutions in Sri Lanka has been to provide long-term loans to agricultural and industrial ventures. The establishment of the State Mortgage and Investment Bank (SMIB)) was to extend credit for the purpose of agricultural and industrial development and also to lend for purpose relating to the construction of dwelling houses. The objective of setting up the Development Finance Corporation (DFC) was to provide long-term investment capital requirements of the private sector. On the other hand, the establishment of the National Development Bank of Sri Lanka (NDB) was to promote the industrial, agricultural, commercial and other developments of the economy, having regard, inter-alia, to the development of the rural sector. The objective of establishing finance companies, however, has been to concentrate on the area of hire purchase activities. The Housing

Development Finance Corporation (HDFC) has been established for the purpose of promoting construction of dwelling houses and facilitating the financing needs of the housing sector.

The number of specialized development banks in Thailand, however, were designed to fill the gap in financial needs and to provide related supportive services that ordinary banks cannot handle. The Industrial Finance Corporation of Thailand (IFCT) has the objectives of providing medium- and long-term credit to the industrial sector, and assisting in the establishment of new industrial ventures. The Bank for Agriculture and Agricultural Cooperatives (BAAC), on the other hand, is obliged to tread carefully along the line separating bankable and non-bankable projects for agricultural undertakings. The finance companies in Thailand, however, are established to cater financial and other supportive needs to the sectors that commercial banks cannot provide. As stated in the announcement of the National Executive Council Np. 58, finance companies are the institutions that mobilise fund to finance commercial business, projects for country's development, consumer needs and housing. These are the main NBFIs to finance hire purchase and also for long-term loans for purposes other than direct consumption. In other words, the objectives of those NBFIs, which have been established by a special Act, have been to provide specialized financial services in certain areas - e.g., the Government Savings Bank (GSB), the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Government Housing Bank (GHB), the Industrial Finance Corporation of Thailand (IFCT). On the other hand, those NBFIs which have obtained licences to operate certain financial businesses under the authorization of the law, work in accordance with the area of authorization. For instance, life insurance companies, pawnshops, warehouses, finance companies and credit foncier companies are meant for these areas. Those NBFIs set up by law as specialized financial institutions are specifically for either developmental or promotional purposes. The objectives of two NBFIs namely, the Government Savings Bank (GSB) and the Government Housing Bank (GHB) are to provide loans to the government and provide credit to middle income groups for acquiring houses.

Thus, various types of NBFIs have been established in the SEACEN countries with different settings of rationale and objectives.

2. Factors Leading to the Emergence and Growth of NBFIs

The shortage of medium- and long-term finance in most of the countries in the SEACEN region has long been a bottleneck to the development of the industrial and agricultural sectors. The countries in the SEACEN region has, therefore, established various types of NBFIs to cater to these sectors. It may be recalled that commercial banks' lending tends to be of short-term nature because of their short-term fundings. With the securities market in an embryonic stage in a majority of the countries in the SEACEN region, special institutions have to be established to channel funds into the agricultural and industrial sectors. The provision of consumer finances has been implemented through the establishment of finance companies. Provisions of social security in the form of retirement, housing, medical, death or disability benefits were the major factors behind the establishment of NBFIs like provident and pension funds, housing finance companies and insurance companies. These NBFIs, therefore, emerged out of the necessity to have specialized financial institutions to cater for the diversified needs of financial services.

Some of these institutions also emerged in response to some failures by the banking system to meet the genuine needs of the economy because of their limitation either by their nature or by law to provide the services. In other words, "... a failure that is due either to legal restrictions on the activities of banks, or to self-imposed limitations by the banks themselves related to their prudent view of what constitutes sound banking practice, or in some cases to a conservative or complacent attitude by banks that enjoy a quasi-monopolistic or oligopolistic position". ^{2/} Most of these institutions have emerged in response to market demand and developmental and promotional needs of the economy. Usually, their growth reflects the economic advantages of specialization. These institutions have been established with government support by a Special Act to provide specialized financial services in certain areas and also to operate certain financial business under the authorization of law. The emergence of these institutions in some countries in the SEACEN region (e.g. Nepal, Thailand) is the outcome of deliberate policies of the governments to cater to the financial and other supportive needs of specific sectors of the economy.

2. Alexander Mountford. "Non-Bank Financial Intermediaries and Monetary Policy: Concepts and Issues". In Report on the *Seminar on Non-Bank Financial Institutions and Monetary Policy*. Kuala Lumpur: The SEACEN Research and Training Centre, September 1985, p. 61.

Further, there is no adequate flow of credit from the banking institutions to certain leading sectors (e.g. agriculture, industry) required by the growing SEACEN economies. These are usually the areas requiring longer-term funds. Lending to such sectors requires a different attitude towards risks of intermediation. Finance companies, no doubt, are in a better position to draw more long-term funds than commercial banks and may list development finance as one field of their activities. But the funding of finance companies in the SEACEN countries is in reality not as long-term as expected to be. Their long-term lending amounted to only a meager proportion of their total credit extension. However, with the development of an economy there is a corresponding increase in the need for long-term funds. Since traditionally, commercial banks only provide working capital for established industries they are becoming increasingly inadequate to meet the demand for long-term credit as private and public enterprises grow and gather momentum. This in turn increases the scope for the establishment of NBFIs. Intermediary activities in the SEACEN region has been further encouraged with the increased demand for services which are normally beyond the scope of commercial banks, such as hire-purchase facilities, life assurance protection, provident and pension funds facilities, housing finance and other long-term finance schemes. Some countries in the SEACEN region have moved towards the universal banking concept. Nevertheless, the emergence of various NBFIs in the Philippines is a clear indication of the inadequacies of services of banks. Therefore, the underlying factors behind the emergence of non-bank financial institutions in the SEACEN countries can be attributed to the felt needs or demands for other services which were not provided by the commercial banks, and to the response or reactions on the opportunities brought about by various portfolio regulations on the banking system.

The establishment of NBFIs also sprang from various regulations imposed by the government which restricted the scope of operations of banks. When foreign banks were restricted to open branches in some countries in the SEACEN region, they were able to circumvent the Banking Act and other restrictions by opening non-bank type of financial institutions and drawing funds from the public through the issuance of instruments other than deposits such as promissory notes. The establishment of finance companies by the foreign banks in Thailand can be taken as an example

Similarly, the first non-banks were established as joint ventures of domestic banks and enterprises and foreign banks in Indonesia.

As already mentioned, various regulations in the form of interest rate ceilings and enforced areas of specialization to prohibitions on branching and entry of foreign banks were also some of the factors behind the emergence of these NBFIs. For instance, in the Philippines, during the period when ceilings on interest rates were imposed, a new type of financial instrument was first issued by NBFIs and fetched higher interest rates because they were not initially subjected to interest rate ceilings. Hence, the factors behind the establishment of these institutions was to supplement the role of commercial banks to meet the diversified needs of the economy because of some legal restrictions imposed on the activities of commercial banks as well as some form of prudential limitations imposed by the banks themselves. In other words, most of the specialized NBFIs have emerged in response to market demand and development and promotional needs of the economies. The establishment of these institutions were often encouraged by the governments with the increased demand for services which are normally beyond the scope of commercial banks.

III. DEFINITIONAL AND CONCEPTUAL ASPECTS OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

1. Legislative Features in the Definition of 'Banks' and 'Non-Banks'

There seems to be no uniform and generally agreed comprehensive definition of a 'non-bank' financial institution in all the SEACEN Countries. The prevailing definitions too vary from country to country. Some of these institutions perform functions that overlap with those of banks. Some create financial instruments that are close substitutes for money. The impacts of NBFIs development on monetary management in the SEACEN countries are, therefore, not comparable. In this regard, the International Monetary Fund (IMF) classification of financial institutions published in the International Financial Statistics (IFS) may throw some light.³ It uses a functional classification that permits a clear differentiation of various categories of institutions. Two broad distinctions are drawn, firstly, between "deposit money banks" and "non-monetary financial institutions". The latter category is sub-divided into "other bank-like institutions" and "non-bank financial institutions."

3. International Monetary Fund. *A Guide to Money and Banking Statistics in International Financial Statistics*. Washington, D.C.: IMF, December 1984, pp. 29-39.

However, this classification too does not lead to a universally applicable definition of a 'non-bank financial institution' in many countries in the world. Therefore, for the purpose of analysis, it may be useful to start from a simple definition of banks, and see how the non-banks can be differentiated in the SEACEN countries. In other words, the task of defining a non-bank financial institution has to be approached by looking into the definition of a 'bank' which is statutorily provided in almost all the countries in the SEACEN region. The important distinguishing features of banks in those countries are that they accept deposits, particularly demand deposits, operate on the basis of fractional reserves, and are governed by reserve requirements imposed by the regulatory authority. Therefore, they are also able to 'create money'. But some of the NBFIS that are engaged in banking business in the SEACEN countries are also in a position to 'create money' in the same way as the banks by accepting various types of deposits. If, however, one starts with a negative definition of a 'non-bank financial institution', as an institution outside the banking system, a wide range of NBFIs emerge in the SEACEN countries. These are generally the alternative payment mechanisms (e.g., postal giro, travellers' cheques, credit cards, etc.) thrift institutions (e.g., savings banks, credit cooperatives, savings and loan associations, etc.); consumer finance companies; pawnbrokers/money lenders; specialized private sector institutions (e.g., trust, leasing, factoring companies, etc.); insurance companies; pension and provident funds; specialized government financial institutions (e.g., development banks, agricultural and industrial development institutions, etc.); security dealers/brokers; and venture capital corporations. Although the historical distinction between 'banks' and 'non-banks' has been gradually eroding in the industrial countries, this distinction seems to be still meaningful in most of the countries in the SEACEN regions. Therefore, it is worthwhile to look at the legislative features in the SEACEN countries in the definition of 'banks' and 'non-banks', which is usually stated in their respective statutes.

Indonesia

The legal framework for the establishment of NBFIs in Indonesia is based on the Ministerial Decree No. Kep - 38/MK/IV/1/1972.NR. Issued by the Minister of Finance on 18 January 1972. Under this decree two types of NBFIs namely the development finance type and the investment finance type were established. The development

finance type institutions are engaged primarily in granting medium and long-term loans and in participating as intermediaries in underwriting business. Both types of institutions are not permitted to accept demand deposits, time deposits, or savings deposits. In other words, NBFIs are not allowed to do banking business, such as creating money, in precisely the same way as the banking institutions. Also, they do not issue claims to the public which are close substitutes for money. However, under the recent deregulatory measures of 27 October 1988 the finance companies are allowed to open branch offices in prescribed areas and they are also authorized to issue certificate of deposits (CDs).

On the other hand, the legislative definition of 'banks' as incorporated in the Act No. 14 of 1967 mentions that, "a 'bank' is a financial institution, the main business of which is to grant credits and render services in the traffic of payments and the circulation of money". Accordingly, the following financial institutions fall within the legal framework for the establishment of NBFIs in Indonesia:

1. Finance Companies:

Development Type, Investment Type, Other Finance Companies;

2. Pension and Provident Funds;

3. Insurance Companies;

4. Leasing Companies; and

5. Pawnshops.

In other words, the NBFIs are classified and defined in the negative way as all those financial intermediaries which are not banking institutions. They are primarily engaged in extending medium-term and long-term loans which are financed by issuance of securities (promissory notes and bonds). However, they are not permitted to accept demand, time, or savings deposits. The distinction between banks and non-banks is still a meaningful one in Indonesia.

Malaysia

The NBFIs in Malaysia have to be defined negatively as against the legislative definition of a 'bank'. In the Banking Act, 1978, a 'bank' is defined as, "any person who carries on 'banking business' and 'banking business' means the business of receiving money in any currency on current or deposit account, paying and collecting cheques drawn by or paid in by customers, and making advances to

customers and include such other business as the Central Bank, with the approval of the Minister may prescribe for the purpose of the Act". However, there is no legislative definition for non-bank financial institutions. Therefore, NBFIs in Malaysia may be defined negatively as all those institutions which do not conduct 'banking business'. Accordingly, the following financial institutions fall within the above definition of 'non-banks':

1. Finance Companies;
2. Discount Houses;
3. Provident and Pension Funds;
4. Insurance Funds;
5. Development Finance Institutions;
6. Savings Institutions (the National Savings Bank, Post Office Savings Banks, Deposit Cooperatives, etc.);
7. Specific Financial Intermediaries (Unit Trusts, Building Societies, etc.);
8. Leasing Companies; and
9. Stock Exchange, and Money and Foreign Exchange Brokers.

From the above classification, it can be seen that non-banks in Malaysia do not accept demand deposits, and also do not engage in merchant banking business but operate within the financial markets. The NBFIs do not issue promissory notes or negotiable certificates of deposits (NCDs). But although finance companies and merchant banks cannot operate current accounts, they are classified under 'banking institutions'. But for the purpose of analysis, finance companies have been treated here as 'non-banks'. Some non-banks, such as the National Saving bank (NSB) do issue claims namely premium savings certificates, which are close substitutes for money. The merchant banks, with a minimum capital of M\$30 million are allowed to issue NCDs with effect from 1 February 1987. However, with effect from 1 May, 1988, the supervision of the insurance sector was transferred from the Treasury to Bank Negara Malaysia. In this respect, the supervisory framework too was not a clear guideline for the exact definition of a 'non-bank'. Therefore, it has to be deduced from the definition of a 'bank' as specified in the statute. The main factor in the process of demarcation between 'banks' and 'non-banks' has to be approached by looking at the fact that, whether demand deposits are accepted by the respective financial institution or not.

Nepal

In the case of Nepal, the commercial banks which accept demand deposits constitute the only financial institutions under the 'bank' classification. The Commercial Bank Act, 1974, promulgated on 21 October 1974, has defined a 'bank' as "an institution licensed to accept deposits, exchange money, extend loans and entitled to carry out other commercial banking transactions". However, the non-bank financial institution such as the Agricultural Development Bank is also engaged in banking business by accepting deposits although they are classified as 'non-banks'. Although the word 'bank' has been put in the corporate name of some NBFIs (e.g., the Agricultural Development Bank), it is classified as a 'non-bank'. However, the NBFIs are mostly established under separate Acts and they are generally restricted from conducting commercial bank activities. The commercial banking activities of the NBFIs (e.g., the Agricultural Development Bank) are solely under the jurisdiction of the Central Bank. The investment activities of these institutions, however, do not come under the supervisory jurisdiction of the monetary authority. Nevertheless, although there is not a clear cut definition of NBFIs in the legislative framework, these institutions are usually defined as, "those institutions established with the purpose of providing credit to agriculture, industry, co-operatives or other particular spheres of economic activities and or taking deposits". Accordingly, the NBFIs have been classified as follows:

1. Agricultural Development Bank (ADB);
2. Nepal Industrial Development Corporation (NIDC);
3. Employees' Provident Fund (EPF);
4. Nepal Insurance Corporation (NIC);
5. Credit Guarantee Corporation (CGC);
6. Securities Exchange Centre (SEC);
7. Post Office Savings Scheme;
8. Co-operative Credit Societies; and
9. Informal Money Markets or Curb Markets.

In other words, the NBFIs can be broadly classified into development banks, contractual savings institutions, thrift or savings institutions and securities exchange mechanisms. The development banks are the specialized term lending institutions. The contractual savings institutions provide social security, dealing in savings that mature upon fulfilment of certain contracts. The major distinguish-

ing feature of the NBFIs in Nepal is that they do not accept demand deposits.

Philippines

In the Philippines, the 'non-banks' are formally known as 'non-bank financial intermediaries'. Philippines is the only country in the SEACEN region, which has incorporated a definition of a 'non-bank financial intermediary' in its legal framework or statute. However, it will be useful to start with the legislative features of the definition of 'banks' in order to arrive at a clear picture about what really constitutes 'non-banks' in the financial system of the Philippines.

The General Banking Act or Republic Act (RA) 337⁴ provides that "banking institutions shall be comprised of entities duly authorized by the Monetary Board of the Central Bank to engage in the lending of funds obtained from the public through the receipt of deposits of any kind, and of all entities conducting such operations". As such, they shall be subject to the provisions of RA 337, of the Central Bank Act, (Rep. Act 265 as amended) 5 and of other pertinent laws. The terms 'banking institution' and 'bank' are considered synonymous and interchangeable by this act and which for purposes of uniformity, simplicity and equality of treatment, shall include the following categories of banks:

- (a) Commercial Banks;
- (b) Thrift Banks, composed of:
 - (1) Savings and Mortgage Banks,
 - (2) Stock Savings and Loan Associations, and
 - (3) Private Development Banks;
- (c) Rural Banks;
- (d) Branches and Agencies in the Philippines of Foreign Banks;
and
- (e) Specialized Government Banks.

4. Republic Act 337, as amended by RAs No. 4879 and 4910, PDs 71, 515, 865-B and 1317, 1795 and 1828 and BP. Blg. 61, is an act regulating banks and banking institutions and for other purposes.

5. Republic Act 265, as amended by PDs No. 72, 1007 and 1282, B.P. Bldg. 67 and PDs No. 1771 and 1827, is an act establishing the Central Bank of the Philippines, defining its powers in the administration of the Monetary and Banking System, amending pertinent provisions of the Administrative Code with respect to the Currency and Bureau of Banking, and for other purposes.

The following entities are considered as “*non-banking institutions*” by RA 337 and, likewise, shall be subject to specific regulations by the Monetary Board:

- (a) “Entities regularly engaged in the lending of fund or purchasing of receivables or other obligations with funds obtained from the public through the issuance, endorsement or acceptance of debt instruments of any kind of assignments or of assignments or similar instruments with recourse, trust certificates, or of repurchase agreements, whether any of these means of obtaining funds from the public is done on a regular basis or only occasionally;
- (b) Entities regularly engaged in the lending of funds which receive deposits only occasionally; and
- (c) Trust companies, building and loan associations and non-stock savings and loan associations, but such non-deposits accepting entities shall continue to be supervised and regulated by the Monetary Board under the pertinent provisions of RA 337, and/or RA 265 as amended and 3779”.⁶

Further, entities which can be classified under any of the above, and whose principal functions include “the lending, investing or placement of funds or evidences of indebtedness or equity deposited with them, acquired by them, or otherwise coursed through them, either for their own account or for the account of other”⁷ shall be called *non-bank financial intermediaries*. Specifically, the non-bank financial intermediaries shall include the following:

- a. Investment Houses;
- b. Finance Companies;
- c. Investment Companies;
- d. Security Dealers;
- e. Security Brokers;
- f. Pawnshops;
- g. Fund Managers (Employed Welfare, Pension and Trust Funds);
- h. Lending Investors;

6. Republic Act 3779 provides for the regulation of the organization and operations of Savings and Loan Associations.

7. Per definition of financial intermediary in Sec. 2-D of RA 337.

- i. Non-stock savings and loan associations;
- j. Mutual building and loan associations, synonymous with Building and Loan Association;
- k. Private Insurance Companies;
- l. Government Non-Bank Financial Institutions - consist of the Government Service Insurance System (SSS), the National Investment Development Corporation (NIDC), the Philippine Veterans Investment Development Corporation (PHIVIDE), the National Home Mortgage Finance Corporation (NHMFC) and the National Development Corporation; and
- m. Venture Capital Corporations - refers to any entity organized jointly by private banks, the National Development Corporation, and the Technology Resource Center and/or such other government agency as may be authorized by the appropriate authority, the primary purpose of which is to develop, promote and assist, through debt or equity financing or any other means, any small and medium-scale enterprise in the country.

However, in the Philippines, there are two types of NBFIs. Those NBFIs which are engaged in banking business are called NBFIs with quasi-banking functions (NBQBs). These NBQBs are clearly distinguished from those NBFIs which do not have quasi-banking functions. Quasi-banking functions are defined as borrowing funds, for the borrowers own account (i.e., obtaining or raising funds with the assumption of liability in one's own capacity and not in representation, or as an agent or trustee of another). The methods of borrowing are through the issuance endorsement or acceptance of debt instruments of any kind other than deposits (e.g., deposit substitutes) which commercial banks are also allowed to accept, from twenty or more lenders at any one time. These deposit substitutes are: promissory notes, certificates of assignment\participation with recourse, repurchase agreements, and such other instruments as the Monetary Board may determine.

Sri Lanka

The non-bank financial institutions in Sri Lanka provide a wide range of financial services from collecting savings from the public to channelling such funds as credit to the economy. The non-bank financial institutions are not generally permitted to accept demand deposits and therefore cannot create deposits and credit in the process. The finance companies, however, are allowed to mobilize depos-

its by issuing Certificates of Deposits (CDS). However, there is no clear legislative definition in regard to non-bank financial institutions in Sri Lanka. One has to go again by looking at the definition of banks as incorporated in the law.

According to Section 127 of the Monetary Law Act No. 58 of 1949, 'a banking institution' means:

- (a) any commercial bank;
- (b) any agency or institution acting on behalf of the government which makes loans advances or investment or accepts money deposits from the public; and,
- (c) person or body of persons declared as a banking institution by the Minister in charge of the subject of Finance and Planning.

In this context, NBFIs can be regarded as those financial institutions which are not permitted to accept demand deposits, issue cheques or engage in foreign exchange transactions. In terms of the Section mentioned above only the following institutions can be classified as non-bank financial institutions in Sri Lanka:

- 1. Finance Companies;
- 2. Insurance Corporations; and
- 3. The Employees Provident Fund.

As mentioned earlier, the Monetary Law Act of Sri Lanka contains a definition of a 'banking institution'. However, that definition is meant only for the interpretation of the provisions of the Act and does not capture the characteristics attributable to an NBFI. But, savings banks or thrift banks, development banks, development finance corporations, merchant banks, state mortgage and investment banks are classified as 'banking institutions'. Most of the institutions that are classified under 'banking institution in Sri Lanka' are treated as non-bank financial institution in other SEACEN countries. For instance, development banks, mortgage and investment banks are treated as NBFIs in other SEACEN countries. Therefore, the clear cut distinguishing feature of non-banks from banking institutions is the restriction of accepting demand deposits by these NBFIs.

Thailand

Thailand follows a broader definition of 'banks' compared to other countries in the SEACEN region. Commercial banking means, "the

business of accepting deposits of money subject to withdrawal on demand or at the end of a specified period of time and employing such money in one or several ways", such as:

- (a) granting of credits;
- (b) buying and selling of bills of exchange or any other negotiable instrument; and
- (c) buying and selling of foreign exchange.

On the other hand, the non-bank financial institutions in Thailand are usually classified into three groups:

1. Those NBFIs which are specialized financial institutions that have been set up by the law specifically for either developmental or promotional purposes. The various financial institution under this category are:
 - (a) The Government Savings Bank (GSB),
 - (b) The Bank for Agriculture and Agriculture Cooperatives (BAAC),
 - (c) The Government Housing Bank (GHB), and
 - (d) The Industrial Finance Corporation of Thailand (IFCT);
2. Those NBFIs which have obtained a licence to operate certain financial business under the authorization of law, such as:
 - (a) Life Insurance companies,
 - (b) Pawn shops,
 - (c) Warehouses,
 - (d) Finance companies,
 - (e) Securities companies, and
 - (f) Credit Foncier companies; and
3. Those undertakings that operates any kind of financial business without the proper authorization of law, such as curb market or unorganized money market, credit revolving rotating schemes, illegal finance companies, etc..

From the above classification, it shows that the countries in the SEACEN region classify non-banks in different ways. One financial intermediary in one country may be classified as a 'bank', while a similar institution has been categorized as a 'non-bank' in another

country. For instance, finance companies and merchant banks in Malaysia are classified as 'banking institutions', whereas these institutions in other SEACEN countries are classified as 'non-banks'. Similarly, those institutions which have the word 'bank' in their corporate name has been classified as 'non-banks' in some countries. For instance, the Agricultural Development Bank in Nepal and the Government Savings Bank and the Government Housing Bank in Thailand are treated as NBFIs. Further, some types of NBFIs having developmental and promotional characteristics have been classified as 'banks' merely because they have the word 'bank' in their corporate name. Even if banking business has been defined (implicitly or explicitly) as the business of receiving current or demand deposits in almost all the SEACEN countries, some of those financial institutions which offer demand deposits are classified as non-bank financial institutions. For instance, the Government Savings Bank (GSB) and the Government Housing Bank (GHB) in Thailand offer demand deposits. Both are deposit banks, but they are not under the Bank of Thailand supervision. In consequence, they have been defined as non-bank financial institutions.

The definition and classification of non-bank financial institutions, therefore, vary from country to country in the SEACEN region. The definitions stated in the respective statutes of the SEACEN countries do not give a clear differentiation between 'banks' and 'non-banks'. Therefore, a generalized concept of NBFIs is needed. The institutions classified as banks should satisfy both necessary and sufficient conditions. For necessary conditions, they should be deposit banks, and have to be banks under the supervision of central banks or monetary authorities for the sufficient condition. However, the distinction between banking and non-banking activities is still meaningful in the SEACEN countries.

2. Issues and Problems Associated with the Definition of 'Banks' and 'Non-Banks'

The historical distinction between 'banks' and 'non-banks' have been partly due to regulations and partly due to economic factors which separated the services offered. However, these distinctions have been gradually weakening over the years in a number of industrialized countries, and this weakening trend appears to have quickened in some developed countries. Financial services offered by banks and non-bank financial institutions and in some cases by non-financial institutions have become increasingly indistinguishable in

a number of industrial countries.⁸ For instance in the United States of America, a wide range of other institutions are now effectively engaged in banking business, and in response the banks are themselves trying to expand the range of financial services they offer their customers, by establishing non-bank subsidiaries. The thrift institutions seem to be active in virtually all the financial services offered by banks. Diversified financial concerns like Merrill Lynch and American Express have already moved into parts of banking business. Money market mutual funds are offering close substitute for bank deposits. In addition, some non-financial firms like Sears, Roebuck and Company are beginning to offer an array of financial services of the kind normally offered by financial institutions.⁹

Similarly in the United Kingdom, the formally clear distinction between banks and building societies is breaking down. The building societies have entered into many areas of normal banking business, while clearing banks have recently become active on a large scale in the mortgage loans market.¹⁰ These building societies are even in the process of issuing cheque cards and granting overdraft facilities. Similarly, in Canada, the non-bank financial firms such as insurance, loan and thrust companies are expanding into products and services which compete with many bank services. In Japan, securities firms are offering short-term instruments which compete with certain forms of bank deposits. Therefore, the distinction between banks and non-bank financial institutions is rapidly ceasing to be meaningful in some industrialized countries.

The range of non-bank financial institutions has also increased in certain countries in the SEACEN region. Some of these institutions are also in a position to create money in the same way as the banking system. Such institutions operate on the basis of fractional reserve as do the banks. The NBFIs such as, finance companies and merchant banks in Malaysia; and the Government Savings Bank and the Government Housing Bank in Thailand fall into this category. The operations of these NBFIs may have credit multiplier effect. But the two main NBFIs namely the finance companies and the merchant banks that have a direct bearing on monetary developments, are already under the direct regulatory jurisdiction of the

8. Akhtar, M.A. "Financial Innovations and their Implications for Monetary Policy: An International Perspective". *BIS Economic Papers - No. 9*. Basle: Bank for International Settlements, December 1983, pp. 25-27.

9. Rosenblum, H. and D. Siegal. "Competition in Financial Services: The Impact of Non-Bank Entry". *Staff Study 83-1*. Chicago: Federal Reserve Bank of Chicago, 1983.

10. Eforde, J.S. "Competition, Innovation and Regulation in British Banking". *Bank of England Quarterly Bulletin*. London, September 1983, pp. 363-376.

Central Bank of Malaysia. A reserve ratio has already been imposed on these financial institutions on par with the commercial banks. The NBFIs namely, the Government Savings Bank (GSB) and the Government Housing Bank (GHB) in Thailand also mobilize funds through demand deposits. These institutions are not required to hold cash reserve as in the case of commercial banks. Although, these NBFIs issue cheques and can create deposits in the process of making loans, these activities are very marginal when compared to the activities in the banking system. Even the demand deposits at the GSB and the GHB at the end of 1986 accounted for a mere 0.2 per cent of total deposits of each respective institution. These institutions have not grown enough to eclipse the distinction between the banking system and the NBFIs.

Thus, the distinction between banks and non-bank financial institutions seems to be still meaningful in the SEACEN countries. The legal framework affecting the banks in the SEACEN countries is still sufficiently different to place the banks in a distinct category separate from other institutions. Even if these are some minor inconsistencies in the definition and classification of banks and non-banks, the banks still account for the major share of transactions when compared to the activities of the non-bank financial institutions.

The move towards the blurring of distinctions among various groups of financial institutions has also been associated with relaxations of regulation and the increasing competition within the financial industry and more broadly in the market place. This has tended to weaken the quasi-monopolistic position of banks. Therefore, in the absence of a comprehensive definition of non-bank financial institutions, the problem of supervision may be aggravated. Rather than controlling these institutions through market forces on self-prudential ground, these institutions have to be brought under the legal supervisory jurisdiction of the central bank. For instance, the central bank's involvement in the insurance companies began in Malaysia in May 1988, when the office of the Director-General of Insurance was transferred from the Treasury to Bank Negara. However, the distinction between banks and non-bank financial institutions is not breaking down to that extent as in the industrial countries, where this distinction is gradually eroding and having a profound impact on monetary policy implementation. The implications of the growth of NBFIs in the SEACEN countries will, therefore, be more profound to the monetary policy part of supervision and regulations.

IV. STRUCTURE AND ROLE OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

1. Size and Structure of NBFIs

The size and structure of non-bank financial institutions in the SEACEN countries over the years shows a steady growth as reflected in the increases in the number, total assets, credit extension and mobilization of financial resources. The rapid increase in the number of NBFIs in the SEACEN countries can be attributed to the diversified needs of the economies, usually not catered by the banking institutions. Among the SEACEN countries, the Philippines and Thailand have the largest number of NBFIs. The expansion of activities of development and specialized type of NBFIs was seen mainly in the rural areas, while some intermediaries like finance and insurance companies tended to concentrate their activities in the urban centres. The growth of NBFIs over the period 1978-1987 in some selected SEACEN countries is given in Table 1. Some SEACEN countries have the largest number of non-bank outlets. Although, the number of NBFIs in Indonesia and Sri Lanka is small, a growing trend in the number of these institutions was observed. The growth of NBFIs in Indonesia, Malaysia, Nepal, Sri Lanka and Thailand are more oriented to specific sectors while the non-banks in the Philippines exhibit a very complex institutional structure (Appendix-1 and 2).

The activities of NBFIs over the years also showed a steady growth as reflected in the increase in their total assets. During the period 1977-1987, total assets of non-bank financial institution in Indonesia, Malaysia, Nepal, the Philippines, Sri Lanka and Thailand on the average rose by 23.5 per cent. The country-wise increases in the total assets of NBFIs are shown in Table 2. Sri Lanka registered the highest growth during the review followed by Indonesia, Nepal and Malaysia.

However, in the context of many countries in the SEACEN region, where the predominance of commercial banks have had a long history and tradition, their size and structure relative to NBFIs has not been diminished. The commercial banks still predominate the financial system and have the largest share in the total assets of the financial system as compared to the percentage share of NBFIs.

As shown in Table 3, the commercial banks in Indonesia, Nepal, the Philippines, Sri Lanka and Thailand still accounted the largest share in total assets of the financial institutions in 1986. The

Table 1

**NUMBER OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN SELECTED
SEACEN COUNTRIES: 1978-1987**

Country	Average Growth Rate 1978-1987 (in Percentages)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Malaysia ^a	11.9	n.a.	n.a.	215	232 (7.9)	251 (8.2)	282 (12.4)	307 (8.9)	377 (22.8)	420 (11.4)	n.a.
Philippines ^b	10.2	1,363	1,482 (8.7)	1,604 (8.2)	1,669 (4.0)	1,713 (2.6)	1,841 (7.5)	2,054 (11.6)	2,041 (-0.6)	2,383 (16.8)	2,844 (19.2)
Sri Lanka ^c	6.9	n.a.	n.a.	712	837 (17.6)	903 (7.9)	945 (4.7)	996 (5.4)	1,027 (3.1)	1,053 (2.5)	n.a.

a. NBFIs consist of finance companies and merchant banks only.

b. NBFIs consist of investment house, finance companies, securities dealers, investment companies, fund managers lending investors, pawnshops, and insurance companies.

c. NBFIs consist of finance companies, merchant banks, cooperative rural banks and branches of the National Savings Bank.

Note: Figures in parenthesis are growth rates.

Table 2
GROWTH OF ASSETS OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
IN THE SEACEN COUNTRIES: 1977-1987

Country	Average Growth Rate 1977-87	(in Percentages)										
		1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia	35.8	30.1	41.8	31.1	42.8	40.2	42.7	45.7	28.0	38.9	16.7	n.a.
Malaysia	19.6	19.1	20.2	23.5	25.3	24.5	20.7	20.7	24.5	18.7	9.8	9.1
Nepal	21.1	29.2	19.8	17.4	15.9	14.0	23.7	22.3	21.5	23.8	23.0	n.a.
Philippines	11.6	3.3	17.8	20.0	18.9	7.4	17.1	24.1	3.7	12.3	5.4	7.4
Sri Lanka	35.9	24.5	26.3	45.3	106.9	41.4	60.3	35.5	7.4	10.9	0.3	n.a.
Thailand	18.7	28.9	32.2	8.1	23.6	17.0	18.1	12.3	15.2	14.6	17.0	n.a.

Sources: Project Questionnaire Replies.
Philippine Yearbook 1987, National Statistics Office.

Table 3

**RATIO OF ASSETS OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
TO TOTAL ASSETS OF FINANCIAL SYSTEM¹: 1980-1987**

Country	Average 1980-1987		1980		1981		1982		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia	88.6	11.4	91.0	9.0	90.4	9.6	88.9	11.1	87.8	12.2	88.2	11.8	86.7	13.3	87.7	12.9	n.a.	n.a.
Malaysia	51.0	49.0	52.6	47.4	53.0	47.0	52.9	47.1	53.5	46.5	50.6	49.4	49.1	50.9	48.4	51.6	48.0	52.0
Nepal	70.2	29.8	72.5	27.5	74.2	25.8	72.0	27.0	71.7	28.3	68.8	31.2	65.4	34.6	67.0	33.0	n.a.	n.a.
Philippines	76.6	23.4	76.2	23.8	78.1	21.9	78.1	21.9	78.6	21.4	80.4	19.6	78.7	21.3	72.9	27.1	73.1	26.9
Sri Lanka	62.7	37.3	70.1	29.9	67.1	32.9	60.9	39.1	59.1	40.9	60.1	39.9	60.0	40.0	61.4	38.6	n.a.	n.a.
Thailand	75.7	24.3	70.4	29.6	72.6	27.4	72.3	27.7	76.8	23.2	79.8	20.2	78.6	21.4	76.0	24.0	79.2	20.8

1. Assets of Central Bank are excluded.

Sources: Project Questionnaire Replies.

NBFIs on the other hand, contributed only a relatively small share in total assets of the financial systems in Indonesia, Nepal, the Philippines, Sri Lanka and Thailand, respectively. In other words, there is no significant shift in the asset composition of these NBFIs after 1980 onwards. However, as compared to the pre-1980 period, the proportion of non-banks' assets to total assets of the financial systems has been tracing an increasing trend in some countries in the SEACEN region. Therefore, the role of banking institutions relative to non-bank financial institutions as such has not diminished and their sizes are already far from being comparable in the SEACEN countries. This fact has been reflected from the structure of sources and uses of funds of banks and non-bank financial institutions during the period 1980-1986 (Table 4a-4e).

2. Role of NBFIs and Competitive Environment

Over the years the NBFIs became a major mechanism for mobilizing domestic savings, and these institutions have continued to provide the financial requirements in the areas not serviced by the banking institutions. The NBFIs also provided more options to individuals in maximising their earnings from their financial wealth as well as in minimising their costs on borrowing. In other words, the role of NBFIs in the total financial intermediation process, can be interpreted in terms of diversified and wide range of financial services available to both depositors and borrowers in the form of different financial instruments. However, the financial systems of some countries in the SEACEN region for the 10 year period from 1977 to 1987, show that the total financial resources mobilized by the commercial banks represent more than 70.0 per cent of the total financial resources mobilized by all financial institutions (Table 5). The average percentage share of deposits mobilized by commercial banks during 1977 to 1987 was 75.6 per cent compared with the share of 24.4 per cent of NBFIs. In other words, the average share of deposits mobilized by commercial banks recorded more than 60.0 per cent compared with the share of less than 15.0 per cent in most of the countries in the SEACEN region. However, the contractual savings institutions in the SEACEN countries became over the years a major mechanism for mobilizing domestic resources. For instance in Singapore, the share of the Central Provident Fund (CPF) savings in Gross National Savings (GNS) nearly quadrupled from 10.7 per cent in 1966 to 40.9 per cent in 1985, before falling to 26.5 per cent in 1987. The contractual saving type NBFIs has been

Table 4(a)

**INDONESIA: SHARE OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN SOURCES
AND USES OF FUNDS OF THE FINANCIAL SYSTEM: 1980-1986**

(in Percentages)

Sources/Uses	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Sources of Funds																
Capital and Reserves	3.6	0.2	3.7	0.3	3.0	0.2	3.5	0.2	3.5	0.2	3.6	0.2	3.7	0.1	4.0	0.1
Currency																
Demand Deposits	26.5		40.1		32.7		29.8		25.0		21.7		19.1		17.3	
Other Deposits	25.6		17.8		21.4		19.4		26.4		26.9		33.3		33.0	
Loans Received	2.7	1.2	1.5	0.7	2.0	0.7	2.2	1.1	2.7	1.3	2.5	1.1	3.4	2.1	4.8	1.3
Subordinated Loans		0.1		0.1		0.1		0.1		0.1		0.1		0.2		0.2
Securities Issues		2.5		2.3		2.1		2.7		0.1		2.4		0.1		2.7
Other Liabilities	37.1	0.4	33.3	0.3	37.5	0.3	40.6	0.3	37.5	0.5	41.0	0.4	35.0	0.4	34.8	0.5
Uses of Funds																
Currency	1.4	0.04	1.7	0.04	1.5	0.03	1.5	0.04	1.2	0.03	1.2	0.03	1.5	0.02	1.3	0.02
Marketable Securities	1.3	3.7	1.3	3.1	0.8	2.9	1.1	3.8	1.2	3.9	0.1	3.4	2.3	4.6	2.5	3.9
Loans Extended	54.4	0.3	10.1	0.3	51.9	0.3	61.6	0.4	62.1	0.4	65.5	0.4	64.8	0.4	64.7	0.5
Equity Participation	0.3	0.02	0.1	0.02	0.3	0.01	0.4	0.01	0.3	0.02	0.3	0.02	0.3	0.02	0.2	0.02
Others	38.2	0.3	83.1	0.2	42.2	0.2	30.9	0.2	30.5	0.3	28.7	0.3	25.8	0.3	26.5	0.3

Note: NBFIs consist of finance companies.

Source: Project Questionnaire Replies.

Table 4(b)

**MALAYSIA: SHARE OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN SOURCES
AND USES OF FUNDS OF THE FINANCIAL SYSTEM: 1983-1987**
(in Percentages)

Sources/Uses	Average 1983-1987		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Sources of Funds												
Capital and Reserves	2.5	5.4	2.7	4.4	2.8	4.9	2.6	5.7	2.4	6.0	2.1	6.1
Currency	-	-	-	-	-	-	-	-	-	-	-	-
Demand Deposits	5.7	-	7.1	-	6.1	-	5.3	-	4.6	-	5.1	-
Other Deposits	28.7	17.9	28.8	16.4	29.8	18.4	28.5	19.2	28.8	18.3	27.6	17.2
Loans	0.3	2.5	0.1	2.6	0.1	2.7	0.1	2.5	0.4	2.5	0.8	2.2
Funds from Other Financial Institutions	6.2	0.8	7.8	0.7	6.1	0.5	6.5	0.6	5.8	0.7	4.6	1.3
Life Assurance and Provident Fund	19.6	-	-	19.1	-	18.9	-	19.0	-	20.0	-	21.0
Others	6.8	3.8	7.0	3.2	6.0	3.9	6.2	3.7	6.5	4.0	8.0	4.0
Uses of Funds												
Currency	0.4	0.1	0.5	0.1	0.4	0.1	0.4	0.03	0.3	0.1	0.3	0.02
Deposits with Other Fin. Institutions	8.9	6.8	10.7	6.0	7.6	6.3	8.6	7.1	8.9	7.5	8.9	7.3
Bills	4.5	1.1	5.0	1.3	4.8	1.2	4.5	0.9	4.0	1.2	4.1	1.0
Treasury	1.7	0.3	2.0	1.8	1.8	0.3	1.6	0.1	1.4	0.4	1.5	0.5
Commercial	2.8	0.8	3.0	1.1	3.0	0.9	2.9	0.8	2.6	0.8	2.5	0.5
Loans	29.0	16.6	29.5	15.6	30.1	16.8	29.4	17.6	29.2	16.8	26.9	16.0
Government Securities	3.3	17.6	3.7	16.8	3.5	16.7	2.9	17.2	2.6	18.0	4.0	19.2
Corporate Securities	0.4	4.0	0.4	3.4	0.3	3.8	0.3	3.9	0.4	4.2	0.5	4.7
Gold and Foreign Exchange	-	-	-	-	-	-	-	-	-	-	-	-
Others	3.5	3.8	3.7	3.3	4.1	4.3	3.0	4.0	3.2	3.6	3.5	3.7

Note: Banks consist of the Credit Guarantee Corporation and commercial banks while NBFIs consist of finance companies, merchant banks, discount houses, provident and pension funds, insurance funds, development finance institutions, savings institutions and other financial intermediaries.

Source: Project Questionnaire Replies.

Table 4(c)

**PHILIPPINES: SHARE OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN SOURCES
AND USES OF FUNDS OF THE FINANCIAL SYSTEM: 1980-1986**

(in Percentages)

Sources/Uses	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Sources of Funds																
Capital and Reserves	2.6	2.1	2.6	2.4	2.8	2.0	3.1	1.9	2.8	1.8	2.0	1.7	-0.8	1.7	5.7	3.2
Demand Deposits	4.3	-	5.8	-	5.0	-	3.9	-	3.6	-	3.0	-	3.1	-	5.6	-
Other Deposits	40.7	2.4	41.4	4.6	41.2	2.9	42.3	3.0	39.6	1.9	36.4	1.4	40.1	1.2	43.9	1.6
Loans Received	18.2	3.1	17.4	3.3	19.1	3.0	17.9	3.1	20.1	3.4	22.5	2.7	23.1	3.0	7.7	3.4
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities Issued	6.4	2.8	6.0	2.4	6.3	2.4	6.3	2.5	5.6	3.4	6.4	2.5	8.9	3.2	5.5	3.6
Others	11.9	5.6	9.4	4.6	10.0	5.4	11.0	5.0	12.0	5.8	14.2	7.2	13.6	4.9	13.7	6.2
Uses of Funds																
Currency	1.1	0.1	1.2	0.04	1.0	0.04	0.9	0.04	1.0	0.2	0.9	0.2	1.0	0.1	1.7	0.1
Deposits with Other Institutions	11.5	0.9	9.3	1.1	9.5	1.0	9.4	0.9	8.3	0.8	12.4	0.8	14.3	0.4	17.5	1.2
Marketable Securities	7.9	4.4	9.9	4.9	8.7	3.6	7.4	3.4	6.0	3.6	7.4	3.6	7.1	4.8	8.8	6.7
Loans Extended	46.3	6.6	51.3	6.6	52.4	6.5	51.6	6.5	51.8	7.8	43.6	7.3	38.7	5.9	34.9	5.3
Equity Participation	3.3	0.8	2.0	1.0	2.9	1.0	3.6	1.0	7.2	0.7	3.2	0.2	2.1	0.6	2.2	0.8
Others	13.7	3.4	9.0	3.7	9.8	3.6	11.7	3.7	9.4	3.2	17.1	3.5	22.7	2.2	16.5	4.2

Note: Banks consist of deposit money banks, specialized banks and other banks while NBFIs consist of investment houses, finance companies, securities dealers/brokers investment companies, fund managers, lending investors, pawnshops, government NBFIs, venture capital corporations and insurance companies.

Source: Project Questionnaire Replies.

Table 4(d)

**SRI LANKA: SHARE OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFI's) IN SOURCES
AND USES OF FUNDS OF THE FINANCIAL SYSTEM: 1980-1986**

(in Percentages)

Sources/Uses	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs ¹
Sources of Funds																
Capital and Reserves	4.4	2.0	3.8	2.8	5.6	2.6	5.2	2.3	4.3	2.3	4.1	2.1	3.9	2.0	4.2	0.02
Demand Deposits	15.5	-	20.2	-	16.2	-	14.4	-	14.3	-	14.3	-	14.1	-	15.0	-
Other Deposits	38.3	16.4	32.0	15.7	36.4	14.2	39.2	16.1	38.3	16.0	39.9	17.0	40.7	17.4	41.6	18.3
Loans	6.1	-	6.0	-	6.6	-	5.9	-	7.3	-	5.7	-	4.7	-	6.7	-
Others	15.3	1.9	18.2	1.3	16.6	1.7	14.9	2.0	15.5	2.1	14.4	2.5	13.4	3.7	14.0	0.1
Uses of Funds																
Currency	12.8	1.0	10.1	2.0	10.4	1.4	13.0	1.0	14.3	0.8	13.0	0.9	14.3	0.8	14.5	0.1
Securities	3.2	14.8	2.8	14.6	2.8	12.7	2.6	15.1	2.8	15.1	2.8	13.7	3.6	15.7	5.0	16.8
Loans	52.7	2.5	55.4	1.7	56.1	2.5	51.4	2.7	51.2	2.8	51.5	3.3	50.4	4.1	53.1	0.2
Investment	1.1	0.7	0.02	0.3	1.7	0.6	1.4	0.4	0.1	0.7	2.0	2.1	1.2	0.5	1.4	0.2
Others	9.6	1.6	11.9	1.2	10.6	1.3	10.6	1.7	10.1	2.1	9.1	1.6	7.4	2.0	7.4	1.2

1. Figures for 1986 do not include long-term lending institutions for which data is unavailable.

Note: NBFIs consist of the National Savings Bank, rural banks, finance companies and long-term lending institutions.

Source: Project Questionnaire Replies.

Table 4(e)

THAILAND: SHARE OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs) IN SOURCES
AND USES OF FUNDS OF THE FINANCIAL SYSTEM: 1980-1986

(in Percentages)

Sources/Uses	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Sources of Funds																
Capital and Reserves	4.0	3.6	4.3	4.4	4.1	4.2	3.9	4.0	3.7	3.9	4.0	3.8	4.3	2.2	4.0	2.4
Demand Deposits	4.1	1.2	6.3	1.3	5.6	1.2	4.5	1.2	3.4	1.2	3.1	1.2	2.6	1.2	3.1	1.4
Other Deposits	49.1	7.0	42.1	8.0	43.7	7.6	47.2	6.9	50.4	6.4	51.9	6.5	54.4	6.7	54.1	7.0
Loans Received	7.8	15.1	9.4	16.2	9.5	16.5	7.4	16.9	8.2	15.4	7.9	13.9	6.7	13.5	5.4	13.1
Life Insurance	-	1.5	-	1.2	-	1.3	-	1.4	-	1.5	-	1.5	-	1.7	-	1.6
Securities Issued	-	0.8	-	0.6	-	0.7	-	0.7	-	0.6	-	0.6	-	0.5	-	1.7
Others	4.0	1.6	4.7	1.4	4.2	1.3	4.5	1.5	4.0	1.3	3.5	2.0	3.8	2.4	3.5	2.7
Uses of Funds																
Currency	2.1	0.7	2.4	0.9	2.3	0.9	2.1	0.9	2.0	0.7	1.7	0.6	2.2	0.4	2.1	0.5
Deposits with Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	1.0	-	1.2	-	1.4	-	1.0	-	0.6	-	1.0	-	0.8	-	1.2
Equity Participation	8.8	1.2	7.3	1.2	8.2	1.1	9.4	1.3	7.7	1.2	9.6	1.0	8.6	1.1	10.5	1.4
Others	7.8	2.6	8.4	2.0	8.4	2.1	8.3	2.1	7.0	1.9	6.9	2.7	7.4	3.5	8.0	3.7

Note: NBFIs consist of finance companies, the Government Savings Bank, the Bank for Agriculture and Agricultural Cooperative, the Government Housing Bank, credit foncier companies, agricultural cooperatives, savings cooperatives, the Industrial Financial Corporation of Thailand, life insurance companies, small industrial finance office and pawnshops.

Source: Project Questionnaire Replies.

Table 5

RESOURCES MOBILIZED BY BANKING AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs): 1977-1987

(as a Percentage of Total Financial Resources)

Country	Average 1977-1987		1977		1978		1979		1980		1981	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia	87.1	12.9	2413 (88.9)	300 (11.1)	3024 (88.0)	412 (12.0)	4245 (89.0)	523 (11.0)	6421 (89.3)	771 (10.7)	8066 (88.7)	1031 (11.3)
Malaysia *	63.6	36.4	11490.9 (76.5)	3521.2 (23.5)	13655.3 (75.2)	17440.8 (24.8)	5789.4 (75.1)	21579.1 (24.9)	7267.1 (74.8)	27415.8 (25.2)	9353.4 (74.6)	25.4
Nepal	72.4	27.6	2132.9 (75.6)	689.8 (24.4)	2517.8 (73.5)	905.9 (26.5)	2902.2 (72.2)	1116.8 (27.8)	3329.7 (72.4)	1266.7 (27.6)	4143.2 (73.8)	1471.9 (26.2)
Philippines	76.1	23.9	95209 (73.1)	35068 (26.9)	118924 (74.2)	41323 (25.8)	150478 (75.2)	49588 (24.8)	188824 (76.2)	58946 (23.8)	226056 (78.1)	63302 (21.9)
Sri Lanka	70.2	29.8	6793 (71.0)	2776 (29.0)	8846 (66.9)	4384 (33.1)	12343 (68.6)	5641 (31.4)	17291 (71.7)	6826 (28.3)	21213 (73.4)	7689 (26.6)
Thailand	72.5	27.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(70.6)	(29.4)	(70.3)	(29.7)

Table 5 (Cont'd)

RESOURCES MOBILIZED BY BANKING AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs): 1977-1987
(as a Percentage of Total Financial Resources)

Country	1982		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia	8808 (86.2)	1416 (13.8)	12358 (85.6)	2072 (14.4)	15477 (85.6)	2614 (14.4)	20245 (84.9)	3606 (15.1)	23562 (84.9)	4193 (15.1)	n.a.	n.a.
Malaysia ¹	32621.3 (74.6)	11086.8 (25.4)	43826.4 (52.2)	40193.7 (47.8)	51839.0 (51.2)	49440.7 (48.8)	56629.0 (48.4)	60271.2 (51.6)	61531.9 (48.5)	65389.2 (51.5)	65869.9 (48.3)	70455.4 (51.7)
Nepal	4907.0 (71.8)	1931.5 (28.2)	6286.5 (72.9)	2342.3 (27.1)	7067.0 (71.8)	2778.9 (28.2)	8465.7 (70.4)	3556.4 (29.6)	10133.0 (69.4)	4470.8 (30.6)	n.a.	n.a.
Philippines	265015 (78.1)	74155 (21.9)	338901 (78.6)	92033 (21.4)	391757 (80.4)	95481 (19.6)	395139 (78.7)	107259 (21.3)	304085 (72.9)	112998 (27.1)	330305 (73.1)	121380 (26.9)
Sri Lanka	27392 (72.0)	10671 (28.0)	33886 (72.0)	13202 (28.0)	40028 (70.1)	17105 (29.9)	45548 (68.8)	20608 (31.2)	47783 (67.6)	22900 (32.4)	n.a.	n.a.
Thailand	(70.8)	(29.2)	(73.2)	(26.8)	(75.4)	(24.6)	(74.3)	(25.7)	(72.8)	(27.2)	n.a.	n.a.

1. Figures for 1983 onwards include resources mobilized by provident and pension funds, insurance funds, development finance institutions, savings institutions and other financial intermediaries whereas from 1977 to 1982, figures refer only to resources mobilized by finance companies, merchant banks and discount houses.

Note: 1. Resourceswise detailed breakdown of the share of resources mobilized by instrumentwise in relation to total resources mobilized by the financial systems is given in Appendix 4.

2. Figures in parenthesis are the percentage of total financial resources mobilized by banks and NBFIs, respectively.

Source: Project Questionnaire Replies.

a good source of non-inflationary financing for public sector expenditure in some countries in the SEACEN region. The Table 6 on contractual savings in Malaysia, depicts, as an example, the role of contractual savings institutions in a national economy.

In the deposit market, the NBFIs in some SEACEN countries issue claims to the public which are close substitutes for money. In Indonesia NBFIs do not accept deposits but issue securities. In Malaysia, however, the finance companies and the deposit taking co-operatives compete actively with the commercial banks for deposits. In other words, the NBFIs in Malaysia do issue claims which are close substitutes for money. At present, private sector deposits mobilized by the commercial banks continue to account for the bulk (70.0 per cent) of the total private sector deposits placed with the financial system, followed by the finance companies (19.0 per cent), deposit taking co-operatives (5.0 per cent) and merchant banks (2.4 per cent). The finance companies have successfully attracted a substantial amount of deposits away from the commercial banks.

Unlike banks, NBFIs are not authorized to accept deposits in the Philippines. Nevertheless, the money market instruments of NBFIs (particularly of those issued by non-banks performing quasi-money functions (NBQBs) have competitive characteristics comparable to traditional deposits of banks. For instance, in September 1987, money market issues of non-banks performing quasi-money functions (NBQBs) posted an average rate of 11.0 per cent, lower by 3.3 and 1.4 percentage points than rates on similar issues of commercial banks and other banking institutions respectively, but 1.1 percentage points higher than the yields on time deposits with commercial banks. Accordingly, the share of money market issues of NBQBs grew from 15.5 per cent in January 1986 to 28.6 per cent in September 1987.¹¹ The NBFIs with quasi-banking functions (NBQBs) the NBQBs have outstanding deposit substitute liabilities of Peso 6.7 billion. In Nepal, although the deposits mobilized by the NBFIs, namely the Agriculture Development Bank (ADB) is minimal (about 2.5 per cent of the total deposits of the commercial banks), the competitive environment is reflected from the interest rate differentials. For instance, the interest rate of commercial banks for savings deposits ranged from 8.50 to 9.0 per cent per annum, whereas ADB offered 9.50 to 10.50 per cent per annum. In the case of fixed deposits with a maturity period of six months the ADB offered 9.50 per cent per annum as compared to 8.75 to 9.0 per cent per annum

11. Central Bank of the Philippines, *Project Questionnaire Replies*, November 1987.

Table 6**MALAYSIA: FINANCIAL SAVINGS THROUGH THE CONTRACTUAL
FINANCIAL INSTITUTIONS**

(as a Percentage of Private Savings)

Category	1971-78	1978-83	1984	1985	1986	1987
Provident Funds:	13.5	24.2	23.2	38.0	26.4	18.6
EPF	11.8	22.4	24.8	36.6	25.2	18.1
Others	1.7	1.8	-1.6	1.4	1.2	0.5
Life Insurances	2.0	3.2	3.4	1.8	2.5	2.3
Total Savings	15.5	27.4	26.6	39.8	28.9	20.9

Source: Country Paper presented by Malaysia for the SEACEN Seminar on *Domestic Resource Mobilization in the SEACEN Countries*, 7-9 September 1988, Kathmandu, Nepal, p. 13.

offered by commercial banks. Therefore, higher interest rates have been one of the competitive tools for these NBFIs.

In Sri Lanka, the finance companies compete with commercial banks fully in the deposit market. But the operations of the National Savings Bank (NSB) are wholly geared towards deposit mobilization with negligible emphasis on lending to the private sector, since an overwhelmingly larger share of its resources is loaned to the government. However, the NBFIs in Sri Lanka usually compete with commercial banks by offering high interest rates. For instance at the end of June, 1987 the NSB offered 12.0 per cent per annum on savings deposits compared with the rates offered by the commercial banks ranging between 6.0 and 11.0 per cent per annum. In the case of one year fixed deposits, the NSB offered an interest rate of 13.0 per cent per annum compared with interest rates ranging between 8.5 and 14.0 per cent per annum offered by the commercial banks. Similarly, the one year deposit rate offered by the finance companies (major finance companies) ranged between 16.0 and 20.0 per cent per annum in mid-1987. In the Certificate of Deposits (CDs) market also, the finance companies offered competitive rates ranging between 9.0 and 18.0 per cent per annum compared with interest rates ranging between 6.0 and 13.0 per cent per annum offered by commercial banks.¹²

In contrast, the NBFIs in Thailand have generally not been able to effectively compete with banks. Commercial banks still play the most important role in mobilizing deposits and extending credit. For instance, during 1976-1986, commercial banks mobilized almost 73.0 per cent of the total funds mobilized by all financial institutions and extended more than 71.0 per cent of the total credit, while, the NBFIs namely finance companies were able to mobilize only 11.4 per cent of the total deposits and lend 17.1 per cent of the total credit, of the entire financial system.¹³ In this regard, other NBFIs play a limited role in terms of deposit mobilization. Therefore, the comparative picture of deposits mobilized by the banks and the NBFIs reflects that the role of commercial banks relative to NBFIs has not diminished (Table 7).

Among the NBFIs, therefore, few NBFIs in selected countries in the SEACEN region compete actively with the commercial banks for deposits. Further, the NBFIs are not generally permitted to accept demand deposits in the SEACEN countries. The non-bank financial

12. Central Bank of Sri Lanka, *Project Questionnaire Replies*, February 1988.

13. Bank of Thailand, *Project Questionnaire Replies*, November 1987.

Table 7

SHARE OF DEPOSITS OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
IN TOTAL DEPOSITS OF THE FINANCIAL SYSTEM: 1980-1987
(in Percentages)

Country	Average 1980-1987		1980		1981		1982		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Malaysia																		
Demand Deposits	12.6	-	-	-	15.0	-	17.5	-	14.2	-	11.9	-	10.4	-	8.1	-	10.8	-
Fixed Deposits	41.6	25.1	n.a.	n.a.	42.4	20.2	51.2	24.0	41.2	21.5	42.5	23.6	41.6	24.9	35.9	34.3	36.3	27.1
Less than 1 year	19.4	13.5	n.a.	n.a.	24.5	12.0	26.1	13.7	19.1	12.5	21.4	14.6	20.4	14.6	12.8	10.4	11.5	16.6
1 year	9.7	5.0	n.a.	n.a.	10.8	4.9	16.6	6.0	12.6	4.2	10.2	3.7	8.7	3.4	3.3	11.8	6.0	1.1
More than 1 year	12.4	6.6	n.a.	n.a.	7.1	3.3	8.4	4.3	9.6	4.7	10.9	5.3	12.5	6.8	19.8	12.1	18.8	9.5
Savings Deposits	9.6	4.6	n.a.	n.a.	10.1	4.8	11.3	5.4	9.9	4.6	8.1	4.4	8.2	4.6	7.6	4.1	12.2	4.2
Other Deposits	6.3	2.7	n.a.	n.a.	4.3	3.2	4.7	3.4	5.8	2.8	6.4	2.9	6.8	3.5	6.7	3.2	9.5	-
Total Deposits	67.6	32.4	n.a.	n.a.	71.8	28.2	67.1	32.9	71.1	28.9	68.9	31.0	67.0	33.0	56.3	41.6	68.7	31.3
Nepal																		
Demand Deposits	21.8	0.3	25.1	0.4	24.4	0.3	20.9	0.3	21.8	0.2	21.2	0.3	19.4	0.3	20.1	0.5	n.a.	n.a.
Fixed Deposits	54.3	0.2	54.1	0.04	53.4	0.05	56.4	0.1	54.1	0.1	55.1	0.1	54.3	0.5	52.8	0.7	n.a.	n.a.
Savings Deposits	18.6	0.4	17.0	0.6	17.2	0.4	17.8	0.3	16.9	0.2	18.8	0.2	20.4	0.4	22.3	0.7	n.a.	n.a.
Other Deposits	4.2	-	2.7	-	4.2	-	4.2	-	6.7	-	4.4	-	4.6	-	2.9	-	n.a.	n.a.
Total Deposits	98.9	0.9	99.0	1.0	99.3	0.7	99.3	0.7	99.5	0.5	99.4	0.6	98.8	1.2	98.1	1.9	n.a.	n.a.
Sri Lanka																		
Demand Deposits	21.3	-	29.0	-	23.6	-	20.0	-	20.3	-	19.1	-	18.3	-	18.8	-	n.a.	n.a.
Fixed Deposits	52.2	18.1	46.1	14.0	53.1	13.7	54.5	17.2	54.0	17.8	53.1	20.2	52.7	21.4	52.0	22.3	n.a.	n.a.
Savings Deposits	8.2	10.7	-	9.5	54.5	8.1	7.8	7.3	7.4	6.6	n.a.	-	-	-	-	-	n.a.	n.a.
Other Deposits	-	0.2	-	0.2	-	-	0.1	-	0.1	-	-	0.3	-	0.2	-	0.2	n.a.	n.a.
Total Deposits	73.5	26.5	75.1	24.9	76.7	23.3	74.5	25.4	74.3	25.7	72.2	27.8	71.0	29.0	70.8	29.1	n.a.	n.a.
Thailand																		
Demand Deposits	5.2	0.1	8.7	0.1	7.2	0.1	5.6	0.1	4.3	0.03	4.0	0.03	3.0	0.03	3.8	0.02	n.a.	n.a.
Fixed Deposits	53.1	6.8	52.7	6.9	51.2	8.4	51.5	6.0	52.0	6.1	56.1	6.4	57.0	6.7	51.3	6.8	n.a.	n.a.
Savings Deposits	14.8	2.4	9.4	2.3	10.4	2.1	13.8	2.2	17.7	2.2	16.5	2.5	16.0	2.7	19.7	2.9	n.a.	n.a.
Other Deposits	0.3	17.4	0.3	9.7	0.7	20.3	0.3	20.6	0.2	17.5	0.2	14.4	0.2	14.4	0.2	15.2	n.a.	n.a.
Total Deposits	73.4	26.6	71.0	29.0	69.2	30.8	71.2	28.8	74.2	25.8	76.7	23.3	76.2	23.8	75.1	24.9	n.a.	n.a.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

institutions that are eligible to accept demand deposits are seen to be in existence only in Nepal and Thailand. The Agricultural Development Bank (ADB) in Nepal not only receives savings or fixed deposits but also demand deposits. Similarly, the Government Savings Bank (GSB) and the Government Housing Bank (GHB) in Thailand are allowed to accept deposits. But their shares of demand deposits in total deposits have been rather small. For instance these accounted for a mere 0.2 per cent of the total deposits of each respective institution, whereas the commercial banks accounted for more than 5.0 per cent of the total deposits. The NBFIs which compete with the commercial banks for deposits are shown in Table 8.

The finance companies, in Thailand which operate very much like banks, and have expanded continuously, are, in fact, competing with the commercial banks to a certain level. The market share of finance companies in term of fund mobilized increased remarkably from 1.0 per cent in 1970 to 14.0 per cent in 1978. The collapse of some finance companies in 1979, however, pulled down the share to 13.0 per cent in 1987. Nevertheless, the finance companies are unable to compete effectively with commercial banks according to the branch opening conditions in Thailand. Commercial banks are able to open branches (under the conditions) throughout the kingdom whereas finance companies are not allowed to do so. Therefore, as compared to the deposits mobilized by the commercial banks, the finance companies' share in the total deposits does not seem to be problematic. For instance, in Malaysia, the private sector deposits mobilized by the finance companies continue to account less than 20.0 per cent of the total private sector deposits placed with the financial system. The finance companies in Thailand managed to mobilize only 14.3 per cent of the total deposit during the period 1980-1987. It can thus be concluded, that NBFIs in the SEACEN countries have generally not been able to effectively compete with banks, although their contribution to the financial system cannot be discounted. The contribution of NBFIs in the SEACEN countries is also reflected from the resources mobilized and credit extended as given in Appendices 5 and 6.

Non-bank financial institutions are also emerging as significant sources of credit in the SEACEN countries. The bulk of their loans has been of medium and long-term maturities since the development type institutions dominate the NBFIs system. The main use of funds in Indonesia were long-term and short-term borrowings as well as for issuing securities especially promissory notes. Short-term loans and advances are the main use of funds of investment

Table 8
COMPETITION FOR DEPOSITS BETWEEN BANKS AND NON-BANK
FINANCIAL INSTITUTIONS (NBFIs): INSTITUTIONWISE: 1980-1987

Country/ Institutions	Average	As a Percentage of Total Deposits of the Financial System							
	1980-1987	1980	1981	1982	1983	1984	1985	1986	1987
Malaysia									
Commercial Banks	67.6	n.a.	71.8	67.2	71.1	69.0	67.0	58.4	68.7
NBFIs	32.4	n.a.	28.2	32.8	28.8	31.0	33.1	41.6	31.4
Finance Companies	15.4	n.a.	13.4	15.9	14.5	16.3	16.5	17.1	14.4
Merchant Banks	4.3	n.a.	0.4	0.9	1.8	1.7	2.3	11.9	11.1
Discount Houses	2.7	n.a.	3.2	3.4	2.8	2.9	3.5	3.2	-
Thrift/Savings Institution/ Cooperatives	6.8	n.a.	7.0	7.9	6.7	7.7	8.5	7.5	2.1
Agriculture Bank	1.3	n.a.	1.6	1.8	1.9	1.3	1.2	0.8	0.7
Others ¹	1.9	n.a.	2.6	2.9	1.1	1.1	1.2	1.1	3.1
Nepal									
Commercial Banks	99.1	99.0	99.3	99.3	99.5	99.5	98.8	98.1	n.a.
NBFIs	0.9	1.0	0.7	0.7	0.5	0.5	1.2	1.9	n.a.
Agricultural Development Bank	0.9	1.0	0.7	0.7	0.5	0.5	1.2	1.9	n.a.
Sri Lanka									
Commercial Banks	73.5	75.1	76.7	74.6	74.1	72.1	71.0	70.8	n.a.
NBFIs	26.5	24.9	23.3	25.4	25.9	27.9	29.0	29.1	n.a.
National Savings Bank	21.1	21.5	19.7	21.1	21.2	21.4	21.1	21.8	n.a.
Rural Banks	1.4	1.6	1.6	1.5	1.6	1.7	1.7	-	n.a.
Finance Companies	4.0	1.8	2.0	2.8	3.1	4.8	6.2	7.3	n.a.
Thailand									
Commercial banks	73.7	71.0	71.2	71.1	74.3	76.7	76.3	75.2	n.a.
NBFIs	26.3	28.9	28.8	28.9	25.7	23.3	23.7	24.8	n.a.
Finance Companies	14.3	16.1	16.8	17.4	14.7	12.0	12.1	11.0	n.a.
Government Savings Bank	8.1	8.4	7.7	7.4	7.4	7.6	8.1	10.4	n.a.
Bank for Agriculture and Agricultural Cooperatives	2.6	3.1	3.0	2.7	2.5	2.3	2.2	2.1	n.a.
Government Housing Bank	0.6	0.5	0.4	0.4	0.3	0.8	1.0	1.0	n.a.
Others ²	0.7	0.8	0.9	1.0	0.8	0.6	0.3	0.3	n.a.

1. Include provident, pension and insurance funds, development finance institutions and other financial intermediaries.

2. Include agricultural cooperatives, savings cooperatives and credit foncier companies.

Sources: Project Questionnaire Replies.

Central Bank Statistical Bulletins.

type finance companies, while NBFIs of development finance type mainly engage in medium and long-terms loans as well as equity participation in other companies. However, the available data shows that the NBFIs contributed less than 1.0 per cent of the total loans outstanding in Indonesia during the period 1977-1987. The contribution has not improved even after 1980s (Table 10).

The finance companies in Malaysia provide loans mainly for the purchase of consumer durables and cannot grant loans to customers in the form of overdrafts. The bulk of the loans provided by the merchant banks has been channelled to business enterprises mainly in the form of working funds, investment capital and bridging finance. They extend loans in foreign currency to residents for the financing of ventures and also invest in corporate equity to provide venture capital. The development finance institutions in Malaysia specialize in the provision of medium and long-terms capital as well as a range of financial services. The long-term resources of the development finance institutions in Malaysia are mainly in the form of long-terms loans from the Government. The contractual savings institutions, on the other hand play an important role in Malaysia, by deploying their members' contributions in financing the development programmes of the Federal Government. Savings institutions such as the co-operatives provide loans to their members to finance a wide range of activities, including housing development, house ownership, agricultural production and the purchase of consumer durables. However, only 31.9 per cent of the total credit extended by the financial system was provided by NBFIs during the period 1977 to 1987.

The bulk of the non-bank financial institutions' loans in Nepal are of medium and long-term maturities. Although the major sources of funds of some non-bank financial institutions are the share capital and borrowings from the central bank, the main sources of two major NBFIs namely, the Agricultural Development Bank (ADB) and the Provident Fund Corporation (PFC) are the borrowings from Asian Development Bank and deposits, and employees contributions, respectively. In Nepal, loans provided by NBFIs traced an increasing share to the total credit extended by the financial system, the ratio increasing from 23.9 per cent in 1980 to 33.0 per cent in 1986. Although, NBFIs in the Philippines are not authorized to accept deposits, they engage in lending. However, their share to total credit of 10.0 per cent at Peso 15.5 billion in end-1980 was substantially lower compared with banks' 90.0 per cent

share.¹⁴ In Sri Lanka, the share of NBFIs in the total loans outstanding ranged from 1.0 per cent to 2.0 per cent during the same period. Loans outstanding of NBFIs in Thailand, however, constituted more than 20.0 per cent of the aggregate loans outstanding of the financial system during the period 1977 to 1987. A comparative picture of the share of credit extended by banking and non-bank financial institutions (NBFIs) to total credit extended by the financial system is given in the Table 9.

The NBFIs in Sri Lanka, such as finance companies, the National Savings Bank (NSB) and Co-operative Rural Banks (CRBs), compete with commercial banks partly in the credit market. The credit disbursement of CRBs are, however, relatively low. The finance companies, on the other hand, compete with commercial banks in the credit market. In other words, only the finance companies and the NSB do provide effective competition to commercial banks. However, the market share of these NBFIs in the credit market is comparatively very low. For instance, by the end of June 1987, the total advances granted by the major finance companies (which account for about 87.0 per cent of the activities of all finance companies) amounted to only Rs 4 billion against an amount of Rs 46 billion granted by commercial banks. In other words, the share of finance companies in the total credit extended by the commercial banks is only 8 per cent.

Similarly, in Thailand, credit extended by the NBFIs contributed only 25.7 per cent of the total credit extended by all financial institutions, while commercial banks extended 74.3 per cent of total lending during 1980-1986. Among the NBFIs, the leading institutions are finance companies and they operate very much like banks. During 1976-1986, finance companies managed to lend 17.1 per cent of the total credit of the entire system. The market share of finance companies in terms of credit extended, increased remarkably from 5.0 per cent in 1970 to 21.0 per cent in 1978. The crisis in 1979, i.e., the collapse of some finance companies, pulled down the share to 13.0 per cent in 1987. The other NBFIs have relatively small shares and roles in the credit market. Thus, in the context of Thailand too the predominance of commercial banks had been maintained as in other countries in the SEACEN region despite the growth of NBFIs in some countries.

Further, the maturity structure of loans and advances does not reflect a destabilizing effect for effective implementation of mone-

14. Central Bank of the Philippines, *Project Questionnaire Replies*, November 1987.

Table 9
SHARE OF CREDIT EXTENDED BY BANKS AND NON-BANK FINANCIAL
INSTITUTIONS (NBFIs) TO TOTAL CREDIT EXTENDED BY
THE FINANCIAL SYSTEM: 1980-1986

(in Percentages)

Country	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia	91.6	8.4	93.5	6.5	93.5	6.5	93.1	6.9	92.5	7.5	92.8	7.2	83.4	16.3	92.4	7.6
Malaysia	68.1	31.9	80.8	19.2	69.1	30.9	67.8	32.2	67.4	32.6	65.0	35.0	63.5	36.5	62.9	37.1
Nepal	71.2	28.8	76.1	23.9	78.8	21.2	72.6	27.4	71.3	28.7	66.9	33.1	65.9	34.1	67.0	33.0
Philippines	76.8	23.2	78.3	21.7	81.0	19.0	81.5	18.5	80.5	19.5	78.5	21.5	74.3	25.7	68.2	31.8
Sri Lanka	98.3	1.7	98.6	1.4	98.3	1.7	98.3	1.7	98.4	1.6	98.2	1.8	98.1	1.9	98.0	2.0
Thailand	74.3	25.7	71.7	28.3	70.8	29.2	70.8	29.2	74.3	25.7	76.3	23.4	78.3	21.7	78.2	21.8

Source: Project Questionnaire Replies.

tary policy (Table 10). Short-term loans and advances have been the major use of funds of NBFIs in Indonesia. For instance, 99.0 per cent of the total uses of funds by investment type finance companies is concentrated in short-term loans. In other words, these companies primarily act as brokers in the issuance of short-term securities (promissory notes) and as underwriters in the sale of short-term securities. The bulk of NBFIs loans in Nepal are of medium and long-term maturities. By maturity, about 67.0 per cent of the total loans and advances of commercial banks in the Philippines were short-term and 33.0 per cent, medium and long-term. For the NBFIs, 57.0 per cent consisted of short-term loans and 43.0 per cent, long-term loans.

Similarly, by industry, loans to the construction sector in Indonesia accounted for the largest share in the total loans outstanding for the NBFIs. In Malaysia, construction, real estate and housing sector predominates the loan share of NBFIs. Loans to agriculture and industry sectors accounted for the largest share in the total loans outstanding in Nepal, while loans to manufacturing sector accounted for the largest share in the total loans outstanding of the financial system in Philippines (Table 11). However, within the loan classification by institutionwise, the finance companies were the major NBFIs to extend credit in Malaysia and Thailand. In Indonesia, Nepal and Sri Lanka however, development type institutions took a larger share in total loans and advances (Appendix 7).

Table 10

**LOANS AND ADVANCES OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
ACCORDING TO MATURITIES: 1980-1986**

(as a Percentage of Total Loans and Advances)

Country/Loan Maturities	Average 1980-1986		1980		1981		1982		1983		1984		1985		1986	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia																
Short-Term	67.5	6.1	71.5	5.4	66.8	5.6	66.5	6.0	65.8	6.6	70.2	5.7	62.8	7.0	69.1	6.7
Medium-Term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-Term	24.4	2.0	22.0	1.0	26.7	0.9	26.6	0.9	26.8	0.9	23.2	0.8	21.9	8.4	23.4	0.9
Malaysia																
Short-Term	40.3	5.1	n.a.	44.9	5.9	42.2	5.6	41.0	5.6	39.1	5.1	37.8	4.1	36.5	4.3	
Medium-Term	4.2	12.2	n.a.	4.7	11.1	4.5	11.6	4.6	11.4	4.3	13.0	4.3	13.6	4.3	12.3	
Long-Term	21.0	17.1	n.a.	19.2	14.2	20.4	15.6	21.1	16.4	21.7	16.7	21.5	18.6	21.8	20.8	
Nepal																
Short-Term	1.4	5.1	76.1	3.8	78.8	3.3	72.6	4.9	71.3	5.1	66.9	6.7	67.2	5.9	67.0	6.3
Medium-Term	-	7.8	-	6.4	-	5.1	-	6.0	-	7.4	-	8.9	-	10.1	-	10.6
Long-Term	-	15.7	-	13.7	-	12.8	-	16.4	-	16.2	-	17.5	-	16.8	-	16.2
Sri Lanka																
Short-Term	9.0	0.5	69.2	0.5	67.8	0.5	67.7	0.5	69.8	0.5	70.9	0.5	69.3	0.6	68.2	0.7
Medium-Term	19.9	0.8	20.9	0.6	20.5	0.8	21.8	0.8	20.1	0.8	18.2	0.9	19.0	0.9	18.9	0.9
Long-Term	9.4	0.4	8.5	0.4	10.1	0.4	8.8	0.4	8.5	0.4	9.0	0.4	9.8	0.4	10.9	0.4

Source: Project Questionnaire Replies.

Table 11

LOANS AND ADVANCES OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
BY INDUSTRIAL CLASSIFICATION: 1980-1987
 (as a Percentage of Total Loans Outstanding)

Country/Loan Classification	Average 1980-1987		1980		1981		1982		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Indonesia	8.4	0.1	6.6	0.02	8.0	0.05	10.6	0.1	10.2	0.1	7.3	0.04	7.8	0.05	8.3	0.1	n.a.	n.a.
Agriculture			23.6	-	16.6	-	1.5	-	0.7	-	1.2	-	1.2	-	1.6	-	n.a.	n.a.
Mining	35.2	0.4	32.4	0.4	32.6	0.3	35.4	0.5	38.2	0.5	37.0	0.4	35.6	0.4	35.4	0.5	n.a.	n.a.
Manufacturing			-	-	-	-	-	-	-	-	-	-	-	-	n.a.	-	n.a.	n.a.
Construction	31.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade	14.4	-	25.0	-	30.0	-	31.1	-	30.5	-	35.2	-	34.0	-	33.0	-	n.a.	n.a.
Service Rending Industry	3.5	0.1	7.2	-	6.6	-	18.0	-	17.6	-	16.7	-	18.6	-	16.1	-	n.a.	n.a.
Miscellaneous *	99.5	0.5	99.5	0.5	99.6	0.4	99.3	0.7	99.4	0.7	99.6	0.5	99.4	0.5	99.4	0.7	n.a.	n.a.
Malaysia																		
Agriculture	4.6	2.9	6.3	1.9	5.1	3.3	4.8	3.4	4.3	3.3	4.0	3.3	3.9	3.0	4.0	2.8	4.0	2.5
Mining	0.8	0.3	0.8	0.3	0.7	0.3	1.1	0.3	1.1	0.3	0.7	0.3	0.7	0.4	0.5	0.3	0.6	0.3
Manufacturing	13.4	4.0	18.0	2.9	15.7	5.3	13.9	5.2	13.2	5.1	11.9	4.2	11.4	3.7	11.2	3.4	11.7	2.3
Construction	4.8	2.0	5.4	1.5	4.3	2.2	4.2	2.0	4.4	1.9	4.9	2.1	4.9	2.1	5.0	2.1	5.2	2.1
Real Estate	8.5	3.6	6.6	2.2	7.3	2.3	8.2	2.6	8.3	3.1	9.1	4.2	9.3	4.6	9.4	4.8	9.9	5.2
Housing	8.2	5.4	8.6	2.3	7.4	5.5	7.8	5.8	7.4	5.6	7.7	5.6	8.4	5.9	8.8	6.3	9.7	6.1
General Commerce	13.3	2.1	17.8	2.2	14.8	2.2	13.8	1.9	12.9	1.8	12.3	2.0	11.6	2.5	11.4	2.2	11.5	1.7
Business Services	6.8	0.6	5.0	0.5	5.8	0.5	6.1	0.4	7.3	0.5	7.9	0.8	7.7	0.9	7.6	0.9	7.2	0.6
Transport	1.3	0.9	1.5	1.1	1.6	1.2	1.6	1.2	1.3	1.0	1.2	0.9	1.0	0.8	0.9	0.8	0.9	0.5
Miscellaneous *	6.3	10.1	10.7	4.3	4.7	9.7	5.0	10.6	5.3	11.9	5.9	10.9	6.1	11.1	6.6	11.0	6.4	11.6
Total:	68.0	31.9	80.7	19.2	67.4	32.5	66.5	33.4	65.5	34.5	65.6	34.3	65.0	35.0	65.4	34.6	66.9	33.1
Nepal																		
Agriculture	1.6	14.0	0.7	11.8	0.7	10.0	1.7	12.7	2.4	14.4	2.2	16.4	1.8	15.2	1.5	17.6	n.a.	n.a.
Manufacturing	12.3	1.6	9.9	1.4	10.2	1.2	7.1	1.4	12.1	1.9	10.5	1.8	16.5	1.6	19.6	1.9	n.a.	n.a.
General Commerce	35.7	-	45.5	-	45.5	-	38.6	-	30.6	-	32.0	-	30.7	-	27.2	-	n.a.	n.a.
Service Sector	1.3	-	1.9	-	1.5	-	0.3	-	0.3	-	0.6	-	2.3	-	2.0	-	n.a.	n.a.
Financial Institutions	0.9	-	-	-	0.9	-	0.7	-	0.6	-	0.8	-	1.0	-	0.9	-	n.a.	n.a.
Individuals	21.2	6.1	17.9	4.0	20.3	4.2	25.3	5.7	25.6	6.6	22.8	7.3	18.9	7.3	17.5	7.7	n.a.	n.a.
Miscellaneous *	-	5.3	-	5.8	-	5.4	-	6.1	-	5.5	-	5.6	-	4.6	-	4.1	-	n.a.
Total:	73.0	27.0	77.0	23.0	79.1	20.8	74.1	25.9	71.6	28.4	68.9	31.1	71.2	28.7	68.7	31.3	n.a.	n.a.

Table 11 (Cont'd)

LOANS AND ADVANCES OF BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NBFI's) BY INDUSTRIAL CLASSIFICATION: 1980-1987
(as a Percentage of Total Loans Outstanding)

Country/Loan Classification	Average																	
	1980-1987		1980		1981		1982		1983		1984		1985		1986		1987	
	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs	Banks	NBFIs
Sri Lanka																		
Agriculture	9.8	0.1	62.1	0.1	12.0	0.1	10.7	0.1	9.8	0.1	8.4	0.1	7.6	0.1	8.2	0.1	n.a.	n.a.
Mining and Quarrying ^a	0.8		1.4		0.9		0.8		0.7		0.6		0.5		0.6		n.a.	n.a.
Manufacturing	17.4		17.4		16.6		17.9		19.6		18.0		16.7		15.4		n.a.	n.a.
Construction	2.4		1.7		2.4		3.0		2.8		2.8		2.3		2.1		n.a.	n.a.
Trade	42.9	0.04	46.9	0.02	43.9	0.02	42.4	0.04	43.8	0.04	43.2	0.04	40.8	0.05	39.6	0.1	n.a.	n.a.
Financial Institutions	1.8		2.4		1.3		1.9		2.0		2.0		1.6		1.6		n.a.	n.a.
Individuals ^b	7.1	0.01	6.0	0.01	6.8	0.01	6.9	0.01	7.1	0.01	7.5	0.01	7.6	0.02	7.9	0.02	n.a.	n.a.
Public Utilities ^c		0.2		0.2		0.2		0.2		0.2		0.2		0.3		0.3	n.a.	n.a.
Miscellaneous	4.7	12.5	3.7	8.0	6.6	9.2	4.9	11.2	4.3	9.5	4.4	12.7	5.1	17.3	4.1	19.9	n.a.	n.a.
Total:	87.0	12.9	91.6	8.3	90.5	9.5	88.5	11.5	90.1	9.9	86.9	13.1	82.2	17.8	79.5	20.4	n.a.	n.a.
Thailand																		
Agriculture	5.2	4.6	4.0	5.4	4.4	5.3	5.1	4.9	5.5	4.2	5.9	4.1	5.7	4.2	5.5	4.2	n.a.	n.a.
Mining	0.5	0.2	0.5	0.2	0.5	0.2	0.4	0.2	0.4	0.2	0.5	0.1	0.5	0.1	0.4	0.1	n.a.	n.a.
Manufacturing	16.0	4.0	13.1	4.5	6.0	4.6	15.0	4.7	16.0	4.0	16.8	3.5	17.7	3.4	17.3	3.3	n.a.	n.a.
Construction	3.9	1.6	3.8	2.1	3.6	1.9	3.7	1.8	3.9	1.7	4.1	1.4	4.3	1.3	4.2	1.2	n.a.	n.a.
Trade	30.2	3.7	33.2	3.8	30.1	4.3	29.9	4.4	30.3	3.9	29.9	3.4	29.2	3.1	29.1	2.9	n.a.	n.a.
Real Estate	2.4	1.5	2.2	1.3	1.9	1.3	2.0	1.5	2.2	1.6	2.7	1.6	2.8	1.6	2.9	1.7	n.a.	n.a.
Public Utilities	1.5	0.2	2.2	0.2	1.6	0.3	1.3	0.4	1.2	0.1	1.2	0.1	1.4	0.1	1.3	0.1	n.a.	n.a.
Financial Institutions	4.4	2.0	4.6	2.4	3.5	2.5	3.9	2.6	4.6	2.0	4.8	1.7	4.6	1.6	4.6	1.5	n.a.	n.a.
Individuals	6.2	5.9	5.3	6.3	5.8	6.3	5.9	5.9	6.6	5.6	6.6	5.4	6.6	5.5	6.7	6.5	n.a.	n.a.
Miscellaneous	3.6	2.4	2.7	2.2	3.3	2.6	3.7	2.7	3.6	2.4	3.8	2.4	3.9	2.4	4.0	2.4	n.a.	n.a.
Total:	73.9	26.1	71.6	28.4	70.7	29.3	70.9	29.1	74.3	25.7	76.3	23.7	76.7	22.3	76.0	23.9	n.a.	n.a.

a. Includes transport, storage and communication for NBFI's.

b. Includes electricity for banks and consumption credit for NBFI's.

c. Includes electricity, gas and water and hotels for NBFI's.

d. Includes loans for mining and fishing for banks and animal husbandary and cottage industry for NBFI's.

e. Includes loans for housing and consumption for banks.

f. Includes housing for NBFI's.

Sources: Project Questionnaire Replies.

Central Bank Statistical Bulletins.

PART II

GROWTH OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs) AND THEIR IMPLICATIONS FOR MONETARY POLICY

PART II

GROWTH OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs) AND THEIR IMPLICATIONS FOR MONETARY POLICY

The range of issues affected by the emergence and growth of non-bank financial institutions (NBFIs) in the financial system is very broad. This part attempts to focus only on those issues which are closely connected with the conduct of monetary policy. It may be recalled that in the context of larger industrial countries, the extent of influences has been noticed on three main bases of policy, namely, the definition of money supply and the money supply process; the behaviour of money demand, and the transmission mechanism of monetary policy; and, the significance of those influences for monetary targets and control.

It has been further argued that the rapid expansion of the NBFIs other than commercial banks has undermined the effectiveness of monetary policy. The rapid growth of these institutions has been a matter of concern to the regulatory authorities and they feel that there is a need for these NBFIs to be adequately controlled and supervised in the larger interest of the national economy. In this situation, the NBFIs might create money in the same way as the banking institutions and the effectiveness of monetary policy instruments is much reduced if they are not applied on these non-bank financial institutions and an unfair share of burden of monetary policy is thereby placed on the banking system.

Therefore, this Part of the study aims to analyse whether the growth of NBFIs in the SEACEN countries have made it more difficult to implement monetary policy and also the adequacy of the provisions which are at present in place in the SEACEN countries with respect to supervision and regulation of these NBFIs. Further, as evidenced in the industrialized countries the pace of financial innovations introduced by these NBFIs has not gone so far as to disrupt the prevailing monetary system. As indicated in Part I of this study there are only few deposit taking NBFIs and the commercial banks have still a dominating role in almost all the countries in the SEACEN region in terms of assets, deposit mobilization and lending operations. The implications of the growth of these NBFIs in the SEACEN countries will, therefore, be more profound in the monetary policy part of supervision and regulation and thus could

go far beyond the monetary control strategy.

This part, therefore, tries to analyse the nature and status of the factors affecting monetary management and the effects on monetary aggregates, velocity of money, and credit multiplier in order to analyse the extent of influence on monetary control; and, also the prevailing supervisory framework and its adequacy.

V. NATURE AND STATUS OF THE FACTORS AFFECTING MONETARY MANAGEMENT

1. Validity of the distinction between 'Banks' and 'Non-Banks'

The rationale of the argument that the rapid growth of NBFIs will undermine the effectiveness of monetary policy is usually based on the premise that the distinction between 'banks' and 'non-banks' will ultimately break down in the long run, which in turn will have a profound impact on monetary policy. This may be true in the case of larger industrial countries where the pace of financial innovation introduced by these NBFIs has gone so far as to disrupt the prevailing monetary aggregates and hence the money supply control process altogether. The growing engagement of the NBFIs and the issue of claims to the public to a large extent, which are very close substitutes for money, have blurred the functional distinction between 'banks' and 'non-banks' in these industrial countries. In other words, the historical distinction between 'banks' and 'non-banks' has been gradually eroding in these countries. The breakdown of this distinction is having a significant impact on monetary policy. The nature of 'money', public demand for money, and the ways in which particular monetary policy instruments influence economic activity have already been affected by this breakdown.

However, this distinction between 'banks' and 'non-banks' seems to be still meaningful in all the countries within the SEACEN region. Some NBFIs are indeed in a position to create money in the same way as the banking institutions and they have a direct bearing on monetary development. With some exception these NBFIs are already under the direct regulation of the central bank.¹⁵ For in-

15. Commercial banking branches of the Agricultural Development Bank in Nepal create money as they receive demand deposits. Previously they were not under the direct regulation of the central bank although they were also liable to maintain the statutory reserve requirements. The recent decision of the government in 1989 has, however, equipped the Nepal Rastra Bank with adequate legal authority for regular inspection and supervision of the Agricultural Development Bank.

stance, the functional characteristics of finance companies and merchant banks in Malaysia tried to blur the distinction between 'banks' and 'non-banks'. But uniform reserve requirements have already been imposed on these institutions. In the case of these NBFIs, reserves of up to 3.0 per cent of eligible liabilities have been taken into account for computing the Statutory Reserve Ratio (SRR) in a similar manner of the reserves of 3.4 per cent of eligible liabilities imposed on commercial banks.¹⁶ Moreover, these institutions have been classified as 'banking institutions' in Malaysia. Therefore, although these institutions operate on the basis of fractional reserve as do the banks, they have been already kept under the statutory control of the central bank in order to counteract the credit multiplier effects.

Further, it has been noticed that some NBFIs (on the basis of classification) in the SEACEN countries do accept demand deposits but are not required to hold cash reserves. They can create 'money' in the same way as do the banks. But their activities are very marginal when compared to the activities of commercial banks. For instance, the two NBFIs namely, the Government Savings Bank (GSB) and the Government Housing Bank (GHB) in Thailand accept demand deposits. Their activities in terms of deposit creation is, however, negligible. Their demand deposits accounted for a mere 0.2 per cent of the total deposits. Similarly, commercial banking branches of one NBFI, namely the Agricultural Development Bank receives demand deposits. The NBFIs in other SEACEN countries are, however, not allowed to accept demand deposits, therefore, the blurring of distinction between 'banks' and 'non-banks' has not gone too far and the distinction is probably still meaningful at least for the purpose of monetary analysis and policy formulation.¹⁷

2. Nature and Composition of Monetary Aggregates

A monetary aggregate should be both consistently and predictably related to the pace of economic activity. In other words, its usefulness as an intermediate target depends on the existence of a stable relationship between the monetary aggregates and money gross

16. With effect from May 1, 1989 the statutory reserve requirements of the commercial banks, finance companies and merchant banks have been raised to 4.5 per cent of their total eligible liabilities. This adjustment has standardized the statutory reserve

17. A detailed analysis of definitional and conceptual aspects of non-bank financial institutions, and some of the issues and problem associated with the definitions of 'banks' and 'non-banks' is given in Chapter III in Part I of this study.

domestic product (GDP). The recent financial changes, particularly in the industrialized countries, are however, making it more difficult to measure or define a given monetary aggregate and also to draw the demarcation line between various aggregates. Nevertheless, most countries have distinguished financial instruments in terms of either moneyiness or liquidity content of these instruments. However, the moneyiness or liquidity content of various financial instruments may change over time and these changes were dealt with by periodic redefinitions of monetary aggregates. But the conventional procedure of redefining may not be adequate if the extent of financial innovation is substantially significant.

Therefore, problems of identifying and measuring various monetary aggregates (e.g., M1, M2, M3, etc.) have been greatly publicised in the industrial countries particularly, in the United States of America, the United Kingdom and Canada. For example in September 1982, the Federal Reserve Board announced that it would for the time being pay less attention to M1 and would instead focus more on the broad monetary aggregates (M2, and M3). In 1982, Canada also discontinued its M1 target while the United Kingdom, in dropping its attention on a Sterling M3 target, announced that it would in future monitor a range of aggregates as well as the exchange rate. The reasons behind these general modifications of policy are numerous. The evaluation of financial innovation, together with shifts in the demand for funds on precautionary grounds, have contributed to the instability in the demand for money in these countries. This was regarded as one of the major reasons behind these general modifications.

However, for the broader aggregates these problems are quite widespread and have become more serious in all countries because of the recent financial changes. The problems of defining broader aggregates are virtually as serious as those for narrow aggregates and appear to be quite common in most of the industrial countries. The spectrum of liquid financial instruments has become very wide and cannot be distinguished in terms of their liquidity content. The definitions of M2 or M3 and the distinctions between them have, therefore, become less meaningful, as certain financial instruments with roughly comparable liquidity content are not included in either M2 or M3.¹⁸ These problems are well known in the United States of America and the United Kingdom. In the Japanese case, new products like the comprehensive bank account at the Bank of Tokyo and

18. Morris, F.E. "Do the Monetary Aggregates have a Future as Targets of Federal Reserve Policy?". *New England Economic Review*, March/April 1982.

the medium-term government bond funds are likely to distort the meaning of M2 and M3. Similarly, in France the money market mutual funds compete with certain instruments included in M2 and are reducing its meaningfulness.

However, the spectrum of liquid financial instruments introduced by the NBFIs in the SEACEN countries has not become very wide and can still be distinguished in terms of their moneyiness or liquidity content; and, the problems of defining these aggregates does not seem to be serious as evidenced in the industrial countries. Most of the countries in the SEACEN region are also moving towards a broader definition of money. Both M1 and M2 are selected for targeting purposes in Indonesia, Sri Lanka and Thailand. M2 has been the major monetary target in Sri Lanka and Thailand as it is seen as a more reliable indicator than M1 in relation to economic activity. The prevailing monetary aggregate, M1 in Nepal has also been redefined as it also includes the transaction covered by the Agricultural Development Bank branches with commercial banking functions. M3 continues to be the monetary aggregate for control and targeting purposes in the Philippines.

It may be argued that the rapid growth of financial claims against the NBFIs, which can compete with the instruments included in M2 or M3 may distort the meaningfulness of these aggregates if not included in it. For instance in Malaysia, before the early 1980s, the central bank monitored the behaviour of narrow money, M1, based on historical experience and empirical evidence of the stable relationship between M1 and national income. Since the early 1980s, there has been fundamental shifts in the composition of money, reflecting significant changes in the liquidity preference of the public in response to movements in interest rates. As a result, two other broader monetary aggregates, M2 and M3, have assumed increasing importance in their underlying relationship with economic activity. The private sector deposits of NBFIs included for the purpose of compiling monetary aggregates are those deposits held with the finance companies, merchant banks and discount houses. Claims on other NBFIs, such as the National Savings Bank (NSB), the Agricultural Bank, the Pilgrim Management and Fund Board, and the Co-operative Societies, although eligible for inclusion in the broad monetary aggregates, are not included. However, the holdings of private sector deposits by these NBFIs account for less than 10.0 per cent of the private sector deposits mobilized by the financial system. Therefore, the exclusion of these deposits in M3 does not affect the meaningfulness of these aggregates. Moreover, the pro-

portionate share of financing claims against NBFIs vis-a-vis total financial claims is not substantial in most of the countries in the SEACEN region (Table 12).

The broader monetary aggregate, as currently defined in most of the countries in the SEACEN region, takes about 80 per cent of the total private sector deposits mobilized by the banking institutions alone. Table 13 shows that claims against banking institutions, particularly commercial banks, continue to predominate financial transactions. Monetary aggregates, which are derived from the monetary survey table (based on the consolidated financial statements of the central bank and commercial banks), are still being used as monetary indicators for purposes of monetary management. Available data for the period 1981 to 1986 showed that the proportionate share of financial claims against non-banks vis-a-vis total financial claims (M3) in the financial system have not grown over 5 per cent on the average, despite the increase in the number of NBFIs in these countries. Similarly, the share of financial claims against NBFIs to total M3 is not very significant. For instance, the share of deposit substitutes of non-bank quasi-banks (NBQBs) to total M3 in the Philippines declined from 7.4 per cent in 1981 to 3.4 per cent in 1986 and further to 2.3 per cent in 1987, indicating that claims of NBFIs have not been significant.

Nevertheless, some countries in the SEACEN region are moving towards a broader definition of money in their monetary targeting. The trend in some countries is similar to those of the industrial countries, where the demand for M1 and M2 for monetary targeting is decreasing and M3 is increasing. The growing substitution out of narrow money (M1) into interest bearing deposits of NBFIs in many industrial countries has been one of the driving forces to move towards the adoption of broader monetary aggregates. Malaysia is now placing greater significance on the broader concept of money (M3). However, the claims against NBFIs is not included in broader concept of money in Indonesia. Similarly, except for commercial banking transactions done by the Agricultural Development Bank, the claims against other NBFIs is not included in the broader concept of money in Nepal. In Thailand, the claims of the Government Saving Bank (GSB), the Government Housing Bank (GHB), the Bank for Agriculture and Agricultural Co-operatives (BAAC), and the Industrial Finance Corporation of Thailand (IFCT) are incorporated in the broader concept of money. But for several years, M2 and M3 have moved in the same direction with almost the same rate of growth. Therefore, in monitoring M2, the authority could still

Table 12

PROPORTION OF PRIVATE SECTOR DEPOSITS OF BANKS AND NBFIs INCLUDED IN M1, M2 AND M3: 1980-1987
(in Per Cent)

Country ^a	Agerase 1980-87			1980			1981			1982			1983			1984			1985			1986			1987			
	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	M1	M2	M3	
Indonesia																												
1. Banks	56.8	77.5	-	56.9	72.0	-	60.6	73.7	-	58.8	73.5	-	56.0	77.3	-	56.9	79.3	-	56.1	80.8	-	54.3	80.7	-	54.4	82.9	-	
2. NBFIs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Malaysia																												
1. Commercial Banks	53.3	85.2	67.4	51.0	82.2	68.3	53.2	83.5	69.0	53.7	84.1	69.0	54.7	84.8	67.1	54.8	86.4	66.3	53.7	86.8	64.9	52.5	87.5	67.4	52.9	86.6	67.2	
2. NBFIs	-	20.9	-	-	17.0	-	17.0	-	17.4	-	17.9	-	20.9	-	23.4	-	23.4	-	25.2	-	23.0	-	23.0	-	22.4	-	22.4	
a. Fin. Companies	-	18.5	-	-	14.9	-	16.6	-	16.6	-	16.6	-	18.0	-	21.1	-	21.1	-	21.3	-	20.0	-	20.0	-	19.3	-	19.3	
b. Merchant Banks	-	2.3	-	-	1.7	-	0.7	-	1.2	-	1.2	-	2.9	-	2.3	-	2.3	-	3.9	-	3.0	-	3.0	-	2.3	-	2.3	
c. Discount Houses	-	0.1	-	-	0.4	-	0.1	-	0.1	-	0.1	-	0.02	-	0.01	-	0.01	-	0.0	-	0.0	-	0.0	-	0.8	-	0.8	
Nepal																												
1. Commercial Banks	33.8	67.9	-	36.7	64.7	-	33.0	65.9	-	34.9	69.8	-	36.3	71.0	-	33.2	69.5	-	32.4	63.5	-	31.1	69.2	-	32.9	69.4	-	
2. NBFIs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Philippines																												
1. Banks	38.3	82.4	73.3	n.a.	n.a.	n.a.	50.2	84.7	66.4	50.0	86.2	70.0	38.9	82.7	70.5	34.5	82.0	74.5	32.1	82.8	78.1	30.4	81.2	77.9	31.9	77.2	75.5	
2. NBFIs ¹	-	-	4.9	n.a.	n.a.	n.a.	-	-	7.4	-	7.7	-	7.7	-	5.4	-	-	-	4.4	-	-	-	-	3.4	-	-	2.3	
a. NBQBs ²	-	-	4.9	n.a.	n.a.	n.a.	-	-	7.4	-	7.7	-	7.7	-	5.4	-	-	-	4.4	-	-	-	-	3.4	-	-	2.3	
Sri Lanka																												
1. Commercial Banks	49.5	76.9	61.1	55.7	78.9	63.2	51.9	80.3	65.7	49.1	80.4	64.2	51.2	80.7	64.3	49.1	80.3	63.4	47.7	79.7	62.6	45.4	77.3	60.4	46.2	57.4	44.8	
2. NBFIs ³	-	-	20.6	-	-	20.0	-	-	18.2	-	-	20.1	-	-	20.3	-	-	-	21.1	-	-	21.5	-	-	21.8	-	-	21.9
Thailand																												
1. Banks	31.7	86.7	70.9	34.4	81.8	65.7	32.9	83.8	66.9	31.1	85.2	67.9	27.1	86.8	70.4	31.9	88.2	73.5	29.0	89.2	73.0	32.6	89.3	74.1	34.5	89.3	75.8	
2. NBFIs ⁴	-	-	18.2	-	-	19.7	-	-	20.1	-	-	20.3	-	-	18.8	-	-	-	16.7	-	-	18.1	-	-	17.0	-	-	15.1

1. Deposits of NBFIs refer to deposit substitutes.

2. NBQBs are non-bank financial institutions performing quasi-banking functions. These include eight finance companies and eight investment houses.

3. NBFIs refer to the National Savings Bank.

4. NBFIs include the Bank for Agriculture and Agricultural Cooperatives, the Government Housing Bank and finance companies.

Sources: Project Questionnaire Replies.

Central Bank Statistical Bulletins.

Table 13
GROWTH RATE OF PRIVATE SECTOR DEPOSITS WITH NBFIs AND
MONETARY AGGREGATES (M1, M2, M3): 1977-1987

(in Per Cent)

Country	Average 1977-87	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
INDONESIA												
1. M1	21.3	25.1	24.0	36.1	47.6	29.8	9.8	6.3	13.4	17.7	15.6	8.6
2. M2	26.5	19.0	21.7	37.1	47.3	26.3	14.0	32.4	22.3	29.1	19.5	22.5
MALAYSIA												
1. Private Sector Deposits	20.3	21.0	29.9	29.5	24.2	19.2	19.6	33.3	28.7	18.1	-0.9	1.0
2. M1	10.6	16.6	18.2	17.2	15.0	12.8	13.3	7.7	-0.6	1.7	2.8	13.0
3. M2	14.7	16.2	17.9	23.8	27.9	17.1	16.3	9.4	11.4	5.5	11.1	5.0
4. M3	15.7	16.5	20.0	25.0	27.2	16.1	16.7	14.3	15.0	9.4	8.6	3.6
NEPAL												
1. M1	16.4	18.1	13.8	15.2	13.0	11.9	15.3	18.1	13.2	13.6	23.8	24.9
2. M2	19.9	28.5	16.5	16.2	13.6	22.3	26.7	20.4	13.0	20.0	19.4	22.4
PHILIPPINES												
1. Private Sector Deposits	-17.5	n.a.	n.a.	n.a.	n.a.	33.0	0.7	3.3	-34.1	-23.7	-75.5	-26.0
2. M1	14.7	23.7	13.4	11.2	19.6	4.4	-0.1	38.3	3.5	6.5	19.0	22.2
3. M2	14.4	22.4	18.2	10.5	18.2	21.1	16.1	18.6	7.3	9.6	6.2	10.3
4. M3	12.0	18.3	14.6	9.3	15.7	22.9	13.5	16.3	1.9	6.8	3.2	9.1
SRI LANKA												
1. Private Sector Deposits	20.9	23.6	22.0	35.4	15.5	9.8	41.1	23.4	22.3	14.2	7.4	15.5
2. M1	17.9	28.8	10.6	29.2	22.9	6.3	17.3	25.4	14.1	11.5	12.9	18.4
3. M2	22.8	37.9	25.0	38.2	31.9	23.1	24.8	22.1	16.6	11.5	5.1	14.7
4. M3	22.3	34.3	24.3	37.6	28.3	20.4	27.8	22.4	17.7	12.0	5.6	14.9
THAILAND												
1. Private Sector Deposits	18.5	31.6	31.1	10.8	22.9	19.6	25.6	12.9	2.9	22.2	5.1	n.a.
2. M1	11.4	9.8	19.8	16.2	12.7	3.3	6.8	5.2	6.9	-3.3	20.5	28.0
3. M2	18.5	19.9	19.4	14.0	22.5	16.3	24.2	23.8	19.4	10.3	13.4	20.2
4. M3	18.3	22.0	21.5	13.4	22.5	17.0	24.5	21.6	16.3	12.3	11.9	n.a.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

closely track the movement of M3. In other words, M2 performance had not been affected and can still be closely monitored in most of the countries in the SEACEN region. Table 13 indicates the movement (e.g., growth rate) of M1, M2, and M3 in the SEACEN countries.

Further, the use of different money aggregates (M1, M2 or M3) as a guide for monetary policy actions can sometimes lead to divergent policy options, the definition of money actually used can also be critical. Therefore, certain criteria has to be adopted to "pick" the most appropriate empirical measure of money from among a variety of definitions. In this context, within an intermediate targets strategy the optimal choice of the monetary target is typically made on the basis of three criteria.¹⁹ Firstly, a monetary aggregate must be closely and stably related to the final goals of policy - usually summarized as the level or rate of growth of nominal income. The second criterion concerns the strength and stability of the link between the spectrum of monetary instruments and the chosen monetary aggregate. Thirdly, for a monetary aggregate to be a feasible policy target, reliable information regarding its time path is required. Data on such an aggregate should, therefore, be accurate, frequently published and available with a short time-lag. Therefore, so long as M2 and M3 move in the same direction, the authority can still closely track the movement of M3 by monitoring M2. The redefinition of monetary aggregate as a result of growth of NBFIs is also affected by the problem of the availability of up-to-date data. For instance, the deposits of NBFIs in Malaysia (other than finance companies, merchant banks and discount houses) are not included in the broad monetary aggregate (M3) because data on these items are not available on a regular or timely basis. Furthermore, most of these institutions are declining in importance in terms of their holdings of private sector deposits (see Table 13).

The monetary aggregates as currently defined in most of the countries in the SEACEN region take into account about 80.0 per cent of financial claims against banking institutions (e.g., commercial banks). The proportionate share of financial claims against NBFIs in the broader monetary aggregate (M3) in the SEACEN countries has not grown to a considerable extent. In other words, it has not aggravated the problem of identifying and measuring various monetary aggregates. The assessment of the monetary aggregate

19. Anderson, L.C. and D.S. Karnovsky, "Some Consideration in the Use of Monetary Aggregates for Implementation of Monetary Policy", *Federal Reserve Bank of St. Louis Review*, September, 1977.

gate and its growth have been complicated in industrial countries particularly the United States of America, by the introduction of new types of checkable deposits. The introduction of negotiable order of withdrawal (NOW) accounts, the automatic transfer services (ATS) and the emergence of new innovations by the NBFIs have had great effects on credit markets and broader monetary aggregates, and the supply of a transaction balance. But except in Nepal and Thailand, NBFIs in the SEACEN region are not allowed to accept demand deposits. For instance, the Agricultural Development Bank in Nepal can perform commercial banking functions and can accept demand deposits. For NBFIs in Thailand, only the Government Savings Bank (GSB) and the Government Housing Bank (GHB) offer demand deposits. However, their share of demand deposits have been rather small and stable. For instance, the demand deposits at the GSB and the GHB as at the end of 1986 accounted for a mere 0.2 per cent of the total deposits.

Therefore, most of the SEACEN countries felt that there is no need to redefine the monetary aggregates even with the presence of financial instruments or claims offered by NBFIs that are close substitutes to deposits. So long as the majority of NBFIs do not perform functions that are very similar to those of banks in credit and deposits markets to a greater extent, the prevailing approach is still meaningful. Since the volume of private sector deposits of NBFIs have not grown substantially and as its proportionate share to total financial claims is very minimal, their adverse effect on the monetary aggregate would be negligible. The ability of the central bank to control monetary aggregates would not, therefore, be generally impaired. Moreover, it must be realized that the aggregates themselves are still subject to structural changes and their behaviour are still not fully known in the absence of up-to-date data on a regular and timely basis. Thus it would be ill-advised to use them as monetary targets. Therefore, some countries in the SEACEN region are monitoring M2 in order to track the movements of M3.

3. Pattern of Velocity of Circulation of Money

The structure of the financial system in the SEACEN countries has undergone a radical change. By the early 1980s, new financial institutions have emerged. The proliferation of these financial institutions has led to the creation of a variety of money and near money substitutes. These changes can have a profound influence on money supply growth and the velocity of circulation of money. The velocity

of money may not be a perfect indicator to detect the impact of NBFIs on monetary policy management. Theoretically, the volatility of money velocity is the outcome of change in many factors, i.e., development of NBFIs, interest rates etc. The extent of monetization may also affect the volatility of money velocity. Therefore, further research is needed to make a definitive statement on the effectiveness of monetary policy affected by NBFIs in terms of monetary aggregate, velocity of circulation of money and the exact nature of the money demand stability. Therefore, a general pattern of velocity of circulation of broader money (which also comprises of deposits of some NBFIs) as compared to narrow money may also be useful to some extent to illustrate this.

The stability of the velocity of circulation is a critical factor in the management of money supply, because volatile velocity can negate the policy actions taken by the monetary authority in managing the nation's stock of money. In this context, the growing concern regarding the substitution out of narrow money, (M1), into interest bearing deposits with the non-bank financial institutions has been of particular significance. As a result, the broader concept of money, (M3), has become the more significant monetary aggregate in terms of money management in the recent years. But in some countries (e.g. Indonesia, Philippines) in the SEACEN region the NBFIs are not allowed to accept deposits.²⁰ Therefore, the probability of substitution from narrow money into deposits with the NBFIs does not arise. Nevertheless, as the financial system becomes more sophisticated and as income rises, the velocity of circulation of broader money (M2 or M3) can be expected to fall. For instance, throughout the period (1959-1984) of increasing growth of savings in interest bearing deposits, the income velocity of private sector liquidity, (V2), in Malaysia declined steadily from 3.7 times per year in 1959 to 1.8 times in 1984.

Similarly, the average annual growth rate of 25.2 per cent of private sector deposits with the NBFIs between 1974-1984 contributed to the average annual growth of 19.0 per cent in broader money, (M3), over the same period, thus marking the declining trend for V3, closely parallel to that of V2.²¹ The following Table 14 suggests that V2 and V3 had been more stable than V1 in most of

20. In the Philippines, NBFIs are not allowed to accept deposits. Non-Bank Quasi-Banks (NBQBs), however, are authorized to accept deposit substitutes which are an alternative form of obtaining funds from the public other than deposits.

21. Bank Negara Malaysia, "Changing Velocity of Circulation, 1959-1984", *Annual Report 1984*, pp. 59-60.

Table 14

PATTERN OF INCOME VELOCITY OF VARIOUS MONETARY AGGREGATES: 1977-1987

(Times Per Year)

Country	Average 1977-87	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia												
Narrow Money (V1)	9.4	9.5	9.1	9.5	9.0	8.3	8.8	9.7	10.4	9.6	8.8	9.8
Broad Money (V2)	5.2	6.1	6.0	6.1	6.0	5.6	5.6	5.0	5.0	4.2	3.7	3.7
Malaysia												
Narrow Money (V1)	5.4	5.3	5.3	5.5	5.5	5.3	5.1	5.3	6.0	5.8	5.2	5.2
Broad Money (V2)	1.9	2.3	2.2	2.2	2.0	1.9	1.7	1.8	1.8	1.7	1.4	1.5
Broad Money (V3) ¹	1.5	1.9	1.9	1.8	1.7	1.5	1.4	1.4	1.4	1.2	1.0	1.1
Nepal²												
Narrow Money (V1)	9.1	10.2	10.1	9.2	9.5	9.4	9.1	9.0	9.0	7.9	8.4	7.8
Broad Money (V2)	4.6	5.9	5.7	5.2	5.3	4.8	4.2	4.1	4.1	4.0	3.8	3.6
Philippines												
Narrow Money (V1)	13.3	10.4	10.5	11.7	11.8	13.1	14.7	12.0	16.2	17.3	14.8	13.7
Broad Money (V2)	4.0	3.5	3.4	3.8	3.9	4.0	3.7	3.4	4.5	4.4	4.6	4.6
Broad Money (V3) ³	3.5	2.8	2.8	3.2	3.3	3.2	3.0	2.9	4.0	4.1	4.5	4.5
Sri Lanka												
Narrow Money (V1)	7.4	6.5	6.8	6.5	6.6	7.9	8.0	7.7	8.3	7.9	7.7	7.1
Broad Money (V2)	3.3	4.0	3.7	3.3	3.1	3.2	3.1	3.1	3.2	3.1	3.2	3.0
Broad Money (V3) ⁴	2.6	3.1	2.9	2.6	2.5	2.6	2.5	2.4	2.5	2.4	2.5	2.4
Thailand												
Narrow Money (V1)	10.1	8.6	8.6	8.7	9.6	10.6	10.7	11.1	11.1	12.1	10.7	9.2
Broad Money (V2)	2.2	2.6	2.6	2.7	2.7	2.7	2.3	2.1	1.8	1.8	1.6	1.5
Broad Money (V3) ⁵	1.8	2.1	2.1	2.2	2.2	2.1	1.9	1.7	1.5	1.4	1.4	1.3

1. Broad money M3, consist of M2 plus deposits of finance companies, merchant banks and discount houses.
2. Figures for GDP are based on the financial year, mid-July to mid-July for Nepal.
3. Broad money M3, consist of M2 plus deposit substitutes.
4. Broad money M3, consist of M2 plus deposits of the National Savings Bank.
5. Broad money, M3 consist of M2 plus deposits of deposits-taking non-bank financial institutions.

Note: $V_1 = \frac{GDP}{M_1}$, $V_2 = \frac{GDP}{M_2}$, and $V_3 = \frac{GDP}{M_3}$

where, GDP = Nominal Income
V1, V2 and V3 = Velocities of M1, M2 and M3

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.
International Financial Statistics, IMF.

the countries in the SEACEN region, implying that monitoring of broad money, M2 or M3, in addition to narrow money M1, is important for monetary management. The income velocity of narrow money (M1) is expected to increase overtime, indicating greater efficiency in the usage of M1 in the economy. However, as income increases further, the public will tend to hold more interest bearing substitutes of currency and demand deposits, mainly in the form of fixed and savings deposits. This will ultimately lead to the decline of velocity of circulation of the broader money. However, as the volume of deposit substitutes with the NBFIs in most of the countries in the SEACEN region has not grown substantially and its proportionate share to total financial claim is also very minimal, their potential effect on the velocity of circulation would not be very significant. For instance, there was no considerable shift in deposits from banks to NBFIs in most of the countries within the SEACEN region. The introduction of new deposit instruments, namely the issuance of transferable certificate of deposits and floating rate notes in Thailand has not proved to be very significant and hence its effects on velocity of circulation have been rather limited. The velocity of circulation for broad money (M3), on the other hand, has remained constant (or stable) throughout the period 1982 to 1986.²²

The relationship of nominal gross domestic product (GDP) to the money stock or Velocity, $(V = \frac{GDP}{M})$ is an important ratio to the

impact of the growth of NBFIs on the measure of money and the assessment of monetary policy actions. The available evidence as shown in the following Charts 1-6, however, shows that there is no destabilizing effect on velocity of circulation of broader money (M2) or (M3). The structural changes in the financial system had resulted in volatile movements only in the velocity of circulation of narrow money. It can be attributed to the rapid growth of the commercial banks and their deposit base, in particular fixed and savings deposits as well as the rapid growth of private sector deposits with the NBFIs. Therefore, the conduct of monetary policy may be complicated by the structural changes in the financial system resulting in volatile movements in the velocity of circulation of narrow money, V1. If V1 is constant over the years, control of the money supply means direct control of national income.

22. Bank of Thailand, *Project Questionnaire Replies*, 1987.

Chart 1
INDONESIA: INCOME VELOCITIES

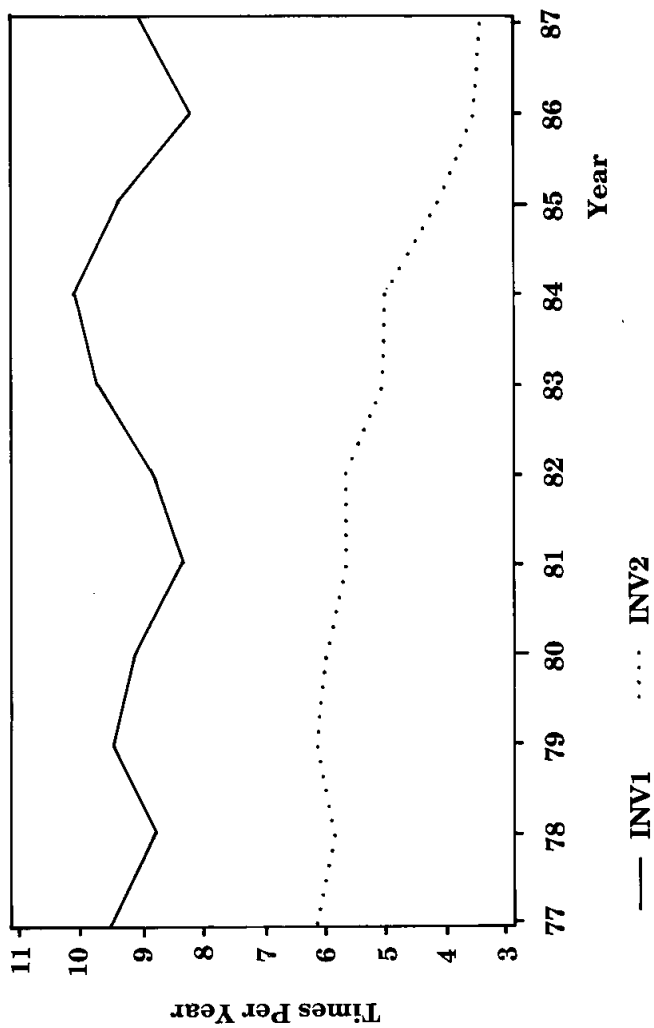


Chart 2

MALAYSIA: INCOME VELOCITIES

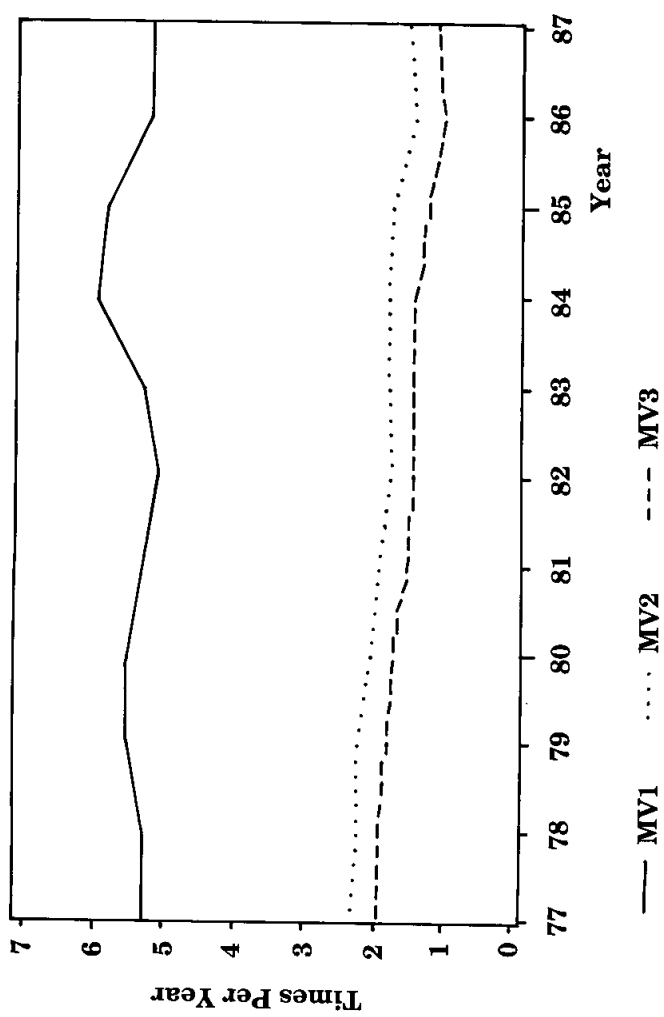


Chart 3

NEPAL: INCOME VELOCITIES

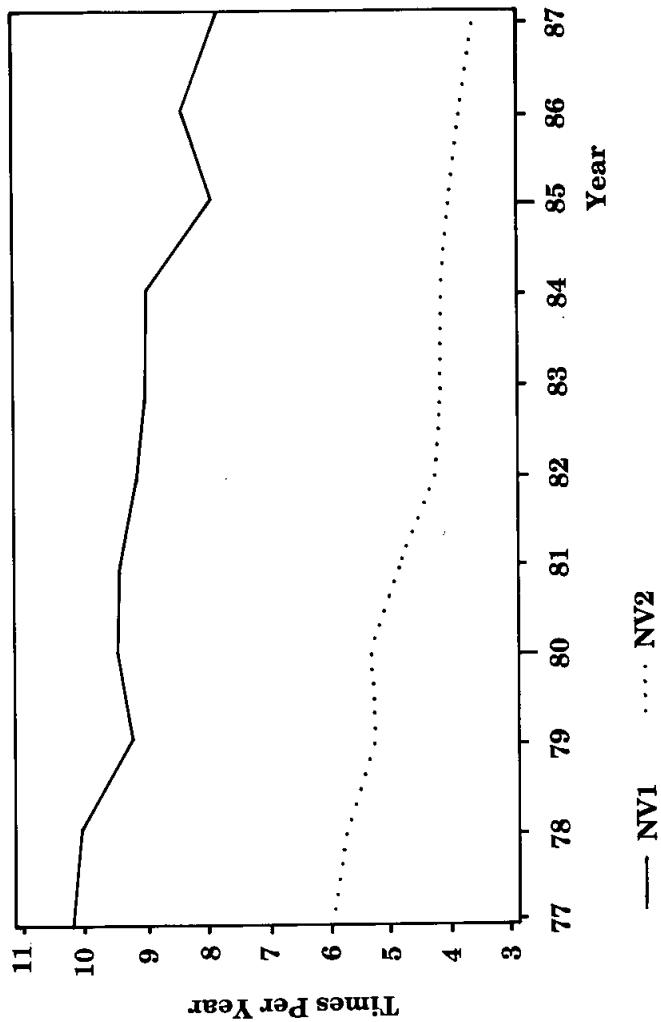


Chart 4

PHILIPPINES: INCOME VELOCITIES

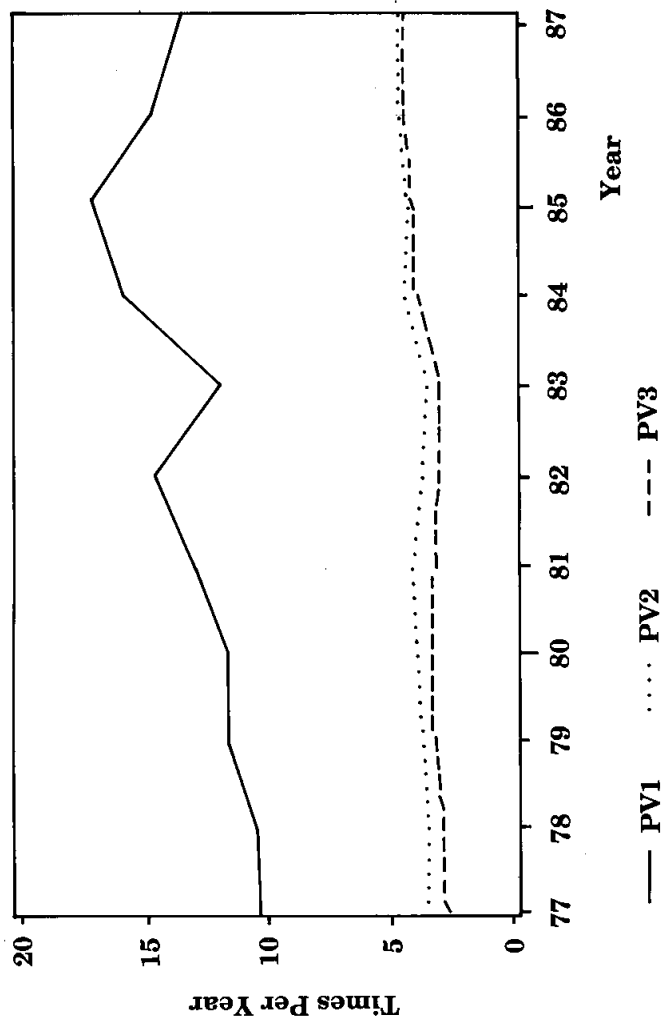


Chart 5

SRI LANKA: INCOME VELOCITIES

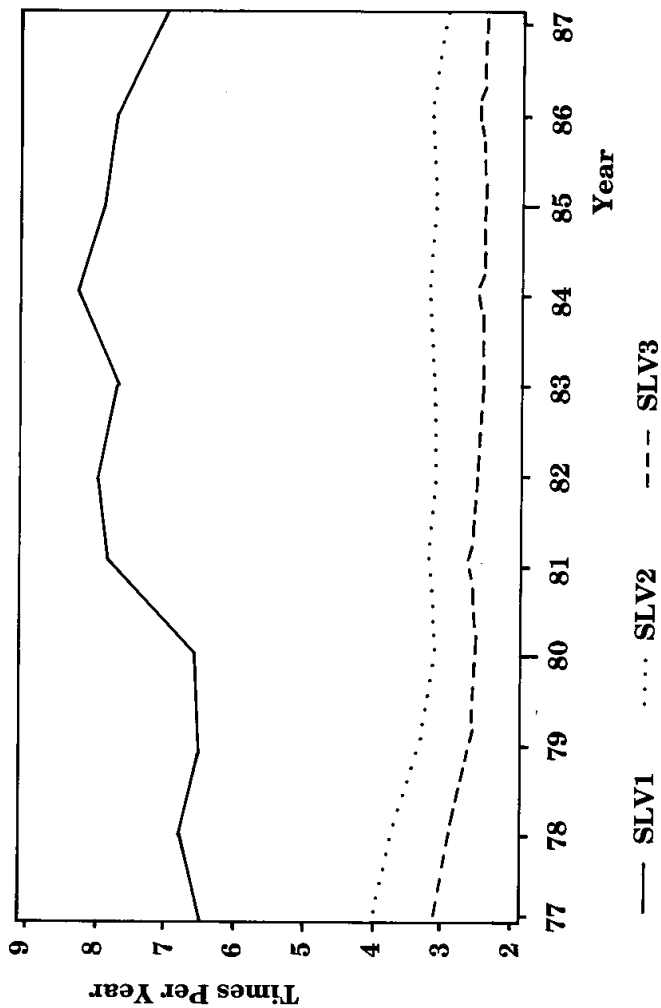
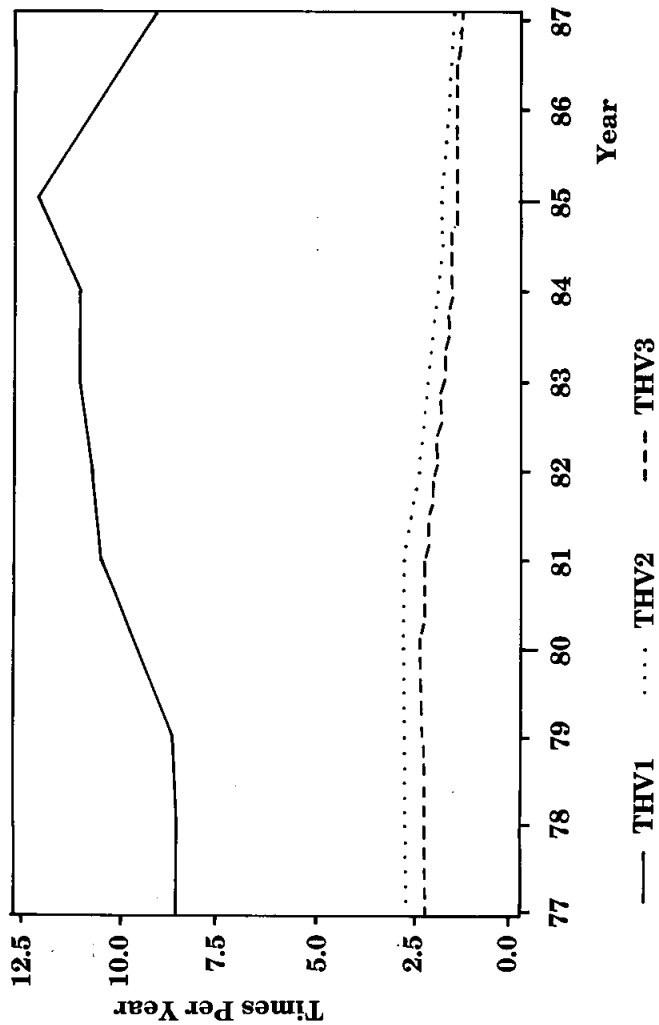


Chart 6

THAILAND: INCOME VELOCITIES



4. Nature of Banking Disintermediation

The ability of the monetary authority to control the monetary aggregates is influenced by the money multiplier which in turn is influenced by the reserve requirements imposed on various deposits with the respective financial institutions. If sharp changes in the mix of deposits are evidenced, they will necessarily produce changes in the value of the money multiplier. In other words, value of the money multiplier is heavily affected by the average reserve requirements against deposits. Shifts into deposits of NBFIs from the banking institutions will affect the average reserve requirement ratio for depository banking institutions.

Therefore, the short-run control of monetary aggregates is likely to be undermined by the shift of funds from low yielding deposits into high yielding financial claims against NBFIs, with little or no reserve requirements. The shift out of low-yielding transaction balances into instruments with market related interest payments may also increase the demand for some broader aggregates which include those instruments (e.g., NCDs in M2 or M3). However, the problem is to quantify the extent of disintermediation. Although an increase in the cost of intermediation may indicate the magnitude of financial disintermediation, the availability of data constrained the study in this dimension. Therefore, an indirect indication of banking disintermediation has been taken into account. For instance, the growing substitution out of narrow money (M1) into interest bearing deposits can be attributed to the decline in banking intermediation although total financial intermediation may not be affected to the same extent. If the share of bank deposits in total financial assets shows a declining trend and also a declining rate of private sector deposits, it is also an indication of banking disintermediation. Therefore, for the purpose of analysis, the term 'disintermediation' refers to the declining trend in intermediation being conducted by the banking system. In other words, the concept of disintermediation can also be interpreted in terms of results through the money multiplier. Under the pressure of this kind of banking disintermediation, the concept of money might also be in danger of losing its operational value or its meaningfulness. Therefore, it will be useful to analyse the nature and problem of banking disintermediation that has occurred in some countries in the SEACEN region.²³

23. In this regard, some of the information have been derived from the project questionnaire replies sent by the member central banks for this study.

Accordingly, as NBFIs are not allowed to receive demand deposits as well as time and savings deposits, the question of disintermediation does not arise in the case of Indonesia. However, in Malaysia, the NBFIs compete actively with the commercial banks by offering higher interest rates. During the period 1980-1985, an increasing proportion of new deposits of the private sector was placed with the NBFIs in Malaysia mainly in response to higher interest rates offered by these institutions. There has been a shift in deposits from the commercial banks to the NBFIs. There is, however, no clear indication that there has been a shift away from demand deposits directly into deposits with the NBFIs. The private sector deposits mobilized by the commercial banks still continue to account for more than 70.0 per cent of the total private sector deposits placed with the financial system. Moreover, as the NBFIs, like finance companies and merchant banks, are also required to maintain statutory reserve ratios, any shift of funds from demand to time deposits held with these NBFIs is not expected to lead to a significant increase in the supply of loanable funds. The adverse effect of banking disintermediation will be noticed only if the commercial banks are required to maintain two separate ratios, with the statutory reserve ratio for demand deposits being higher than that for time deposits.

In the Philippines, there was no indication of a destabilizing systematic shift from the peso demand deposits to claims against NBFIs. The trend of demand deposit liabilities of commercial banks/other institutions receiving peso demand deposits followed closely that of financial claims against NBFIs during the period under review. However, in Thailand, so far, there has been a systematic shift of demand deposits only within the commercial banking system itself. The change in structure of commercial banks' deposits was due mainly to the shift from demand to savings deposits. A comparative analysis of the shifts in demand deposits to the time and savings deposits within the banking system in some countries in the SEACEN region is reflected from the following table (Table 15).

In Thailand, demand deposits as a percentage share of the total deposits declined markedly from 16.2 per cent in 1975 to 13.1 and 6.6 per cent in 1980 and 1986, respectively (Table 16). During the same period, the share of savings deposits of commercial banks shot up from 8.9 to 12.9 and 26.2 per cent respectively. For NBFIs, only the GSB and the GHB offer demand deposits, hence their shares of demand deposits have been rather small and stable. In comparison demand deposits of commercial banks during the same period ac-

Table 15
DEPOSITS OF COMMERCIAL BANKS: 1975-1987
(as Percentage of Total)

Country	Average 1980-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia ¹										
Demand Deposits	39.0	45.0	51.3	55.2	51.5	37.4	34.0	30.0	27.8	24.5
Saving Deposits	42.1	45.3	27.2	29.2	31.0	42.1	45.2	51.8	51.4	58.7
Time Deposits										
Other Deposits ²	19.0	9.7	21.5	15.6	17.5	20.5	20.8	18.2	20.8	16.8
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Malaysia										
Demand Deposits	18.2	27.2	22.0	20.9	20.6	19.9	17.2	15.6	13.9	15.6
Saving Deposits	14.2	19.5	17.2	14.0	13.4	13.9	11.8	12.2	13.1	17.8
Time Deposits	59.1	53.3	57.0	59.1	60.5	58.0	61.7	62.1	61.5	52.8
Deposit Substitutes	8.3	-	3.8	6.0	5.5	8.2	9.3	10.1	11.1	12.7
Other Deposits ²	0.2	-	-	-	-	-	-	0.0	0.4	1.1
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Nepal										
Demand Deposits	21.9	41.2	25.4	24.6	21.1	21.9	21.3	19.6	20.5	20.5
Saving Deposits	19.2	6.8	17.2	17.3	17.9	17.0	18.9	20.7	22.8	21.9
Time Deposits	54.6	48.5	54.7	53.8	56.8	54.4	55.4	55.0	53.8	53.1
Other Deposits	4.3	3.5	2.7	4.3	4.2	6.7	4.4	4.7	2.9	4.5
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Philippines ¹										
Demand Deposits	14.5	21.4	20.3	16.2	12.7	13.3	11.5	10.5	11.4	13.1
Saving Deposits	38.8	28.1	32.1	32.9	33.9	35.3	37.1	41.7	53.0	55.6
Time Deposits	27.2	6.3	22.0	24.3	30.8	30.9	37.4	38.0	29.0	26.0
Deposit Substitutes	15.8	37.1	20.4	22.4	19.4	17.5	10.8	7.6	4.1	2.8
Other Deposits ²	3.7	7.1	5.2	4.2	3.2	3.0	3.2	2.2	2.5	2.5
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sri Lanka										
Demand Deposits	28.6	52.1	38.7	30.8	26.9	27.3	26.4	25.8	26.5	26.5
Saving Deposits	71.4	47.9	61.3	69.2	73.1	72.7	73.6	74.2	73.5	73.5
Time Deposits										
Other Deposits										
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Thailand										
Demand Deposits	7.7	16.2	13.1	11.4	8.7	6.3	5.6	4.6	5.4	6.4
Saving Deposits	21.2	8.9	12.9	14.9	19.0	3.4	21.3	21.0	26.2	31.1
Time Deposits	70.1	74.7	72.5	72.5	71.4	69.4	72.2	73.1	67.9	61.7
Other Deposits ²	1.0	0.2	1.4	1.2	0.9	0.9	0.9	1.3	0.5	0.8
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Refer to deposits of deposit money banks. For the Philippines, data is revised for the period 1983 to 1987. Data reflect expanded coverage of deposit money banks and other changes in the classification accounts.
2. Other deposits refer to foreign currency deposits for Indonesia; negotiable certificates of deposits, deposits under the New Investment Account and Special Deposit Account for Malaysia; and marginal deposits for the Philippines and Thailand.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

Table 16

**SHIFT OF DEMAND DEPOSITS OF COMMERCIAL BANKS
INTO DEPOSITS OF NBFIs: 1975-1987**

Country	Average 1980-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
Malaysia										
1. Demand Deposits as a Percentage of Total Deposits	12.7 (9.3)	21.6 (5.6)	16.9 (17.1)	15.9 (17.1)	15.7 (15.9)	13.6 (11.6)	11.1 (0.3)	9.7 (-1.7)	8.7 (-4.4)	10.0 (18.7)
2. NBFIs Deposits as a Percentage of Total Deposits ¹	30.9 (25.5)	20.5 (22.3)	23.1 (25.5)	23.8 (28.7)	24.1 (18.5)	31.6 (68.4)	33.5 (30.5)	38.0 (28.1)	37.0 (2.2)	36.3 (2.0)
3. Banking System's Deposits as a Percentage of Total Deposits	69.1 (14.8)	79.5 (15.2)	76.9 (25.4)	76.2 (23.2)	75.9 (17.0)	68.4 (15.6)	66.5 (16.0)	62.0 (8.7)	63.0 (7.4)	63.7 (5.1)
4. Total Deposit Growth (in Per Cent)	22.4	16.6	25.4	61.8	17.4	28.3	23.1	13.0	5.8	4.0
Philippines										
1. Demand Deposits as a Percentage of Total Deposits	6.5 (5.6)	14.3 (18.5)	8.9 (28.0)	7.9 (-6.0)	6.2 (-6.9)	6.3 (19.4)	5.1 (-8.3)	4.8 (-0.6)	6.1 (13.5)	n.a.
2. NBFIs Deposits as a Percentage of Total Deposits ²	4.5 (-3.5)	15.2 (-)	8.2 (27.2)	5.9 (-24.1)	5.5 (11.5)	4.1 (-12.0)	2.8 (-24.1)	2.2 (-15.1)	2.8 (12.0)	n.a.
3. Banking System's Deposits as a Percentage of Total Deposits ³	95.5 (13.3)	84.8 (-)	91.8 (35.4)	94.1 (8.6)	94.5 (19.2)	95.9 (19.3)	97.2 (14.3)	97.8 (6.8)	97.2 (-10.7)	n.a.
4. Total Deposit Growth (in Per Cent)	12.2	-	34.7	5.9	18.7	17.5	12.7	6.1	-10.2	n.a.
Sri Lanka ⁴										
1. Demand Deposits as a Percentage of Total Deposits	16.5 (12.9)	26.5 (5.1)	22.8 (34.7)	18.8 (-0.9)	15.8 (11.0)	16.6 (31.1)	15.0 (9.2)	14.0 (8.3)	14.1 (7.4)	14.6 (2.0)
2. NBFIs Deposits as a Percentage of Total Deposits ⁵	28.5 (20.9)	33.9 (-)	23.3 (20.1)	21.7 (11.8)	23.7 (45.0)	23.9 (25.1)	25.7 (30.3)	26.7 (19.9)	27.9 (11.7)	21.4 (3.2)
3. Banking System's Deposits as a Percentage of Total Deposits	75.7 (19.5)	66.1 (1.6)	76.7 (40.0)	78.3 (22.1)	76.3 (29.0)	76.1 (23.9)	74.3 (18.3)	73.3 (13.9)	72.1 (5.2)	78.6 (3.2)
4. Total Deposit Growth (in Per Cent)	19.3	-	34.8	20.1	32.5	24.2	21.2	15.7	6.8	-1.3

Table 16 (Cont'd)

**SHIFT OF DEMAND DEPOSITS OF COMMERCIAL BANKS INTO DEPOSITS
OF NBFIs: 1975-1987**

Country	Average 1977-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
Thailand										
1. Demand Deposits as a Percentage of Total Deposits	8.8 (5.8)	16.2 (-)	13.1 (-)	11.8 (6.1)	9.6 (0.3)	7.5 (-3.4)	6.7 (9.4)	6.0 (-0.4)	6.6 (28.7)	n.a.
2. NBFIs Deposits as a Percentage of Total Deposits ^a	13.5 (17.2)	- -	15.4 (-)	14.5 (19.8)	13.1 (11.1)	12.1 (14.1)	12.0 (21.4)	12.4 (16.1)	14.8 (37.9)	n.a.
3. Banking System's Deposits as a Percentage of Total Deposits	86.5 (15.2)	n.a.	84.6 (-)	85.5 (9.6)	86.9 (24.6)	87.9 (25.7)	88.0 (21.7)	87.6 (12.0)	85.2 (12.9)	n.a.
4. Total Deposit Growth (in Per Cent)	19.2	n.a.	-	18.2	22.7	24.2	21.7	12.4	16.0	n.a.

1. NBFIs include the finance companies, merchant banks, discount houses, development finance institutions, savings institutions and other NBFIs.
2. NBFIs deposits refer to deposit substitutes.
3. The Banking System consist of commercial banks, thrift banks, rural banks and also specialized banks.
4. Figures for 1987 are for June 1987. The growth rate in the parenthesis are for June 1987 against December 1986.
5. NBFIs include the National Savings Bank and finance companies.
6. NBFIs include the GSB, BAAC, GHB, agricultural cooperatives and savings cooperatives.

Note: 1. Figures in parenthesis are the annual growth rates of demand deposits, NBFIs deposits and the banking system's deposits.

2. Except for Thailand (the GSB and GHB), the NBFIs are not allowed to accept demand deposits.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

counted for 5.4 per cent of the total bank deposits. Therefore, changes with rates of interest of the GSB and the GHB are not likely to cause shifts of funds from demand to time deposits as much as in the case of commercial banks.²⁴

The extent of banking disintermediation can also be indirectly reflected, if, out of the total growth of deposits, the growth of deposits of NBFIs exceeds the growth of various deposits with the banking institution as reflected in Table 16. Although there is a slight indication of banking disintermediation in Thailand and Sri Lanka, the banking system's deposits as a percentage of the total deposits far exceeds the proportionate share of NBFIs' deposits in total deposits. Even if the problem of this type of disintermediation takes momentum, this can be rectified by imposing uniform reserve ratios to these NBFIs as in the case of Malaysia.

5. Nature of the Money Multiplier

The recent financial changes in some industrial countries, such as Canada, France, Germany, Italy, Japan, United Kingdom and the United States of America, are making it much more difficult to measure or define a given monetary aggregate and also to draw the demarcation line between various aggregates. The problems of defining broader aggregates are virtually as serious as those for narrow aggregates. It is because the proportion of interest bearing instruments in the broadly defined monetary aggregate (M3) has risen in all larger industrial countries. The share of interest bearing instruments in the broadly defined money stock (M3), on an average, is estimated to be more than 85.0 per cent in these countries. Similarly, the share of instruments with market related interest rates in M3 has also gone up to the tune of more than 60.0 per cent compared with less than 10.0 per cent in the early and mid 1970s. The increase has been particularly sharp in the United States of America. However, the proportion of the share of deposit substitute instruments with market-related interest rates in M3 is much smaller in most of the countries in the SEACEN region (Table 17). Nevertheless, the process through which the supply of various monetary aggregates becomes available may undergo changes in the future, with a general tendency towards more elastic money or liquidity.

24. Bank of Thailand, *Project Questionnaire Replies*, 1987.

Table 17
SHARE OF INTEREST-BEARING INSTRUMENTS AND
DEPOSIT SUBSTITUTES IN THE BROADLY DEFINED
MONEY STOCK (M2, M3): 1980-1987

(in Per Cent)

Country	Average 1980-87	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia									
1. Share of Interest-Bearing Instruments in M2	47.7	35.1	33.2	35.7	48.4	52.2	56.4	57.8	62.6
Malaysia									
1. Share of Interest-Bearing Instruments in M3	74.9	69.9	70.9	71.7	73.3	76.9	78.6	79.7	77.8
2. Share of Deposit Substitutes in M3 ¹	5.0	2.5	3.8	2.2	5.8	5.6	6.3	6.5	7.4
Nepal									
1. Share of Interest-Bearing Instruments in M2	49.3	44.3	49.0	45.4	49.0	50.1	51.1	51.3	54.4
Philippines ²									
1. Share of Interest-Bearing Instruments in M3	59.6	48.5	51.2	57.9	56.5	63.2	66.9	67.0	65.4
2. Share of Deposit Substitutes in M3	11.5	18.3	20.1	17.4	15.0	9.2	6.4	3.4	2.2
Sri Lanka									
1. Share of Interest-Bearing Instruments in M3	67.4	62.0	66.5	69.2	68.4	69.4	69.6	67.4	66.4
2. Share of Deposit Substitutes in M3 ³	20.6	20.0	18.2	20.1	20.3	21.1	21.5	21.8	21.9
Thailand									
1. Share of Interest-Bearing Instruments in M3	84.1	77.2	79.8	82.7	85.0	86.2	88.2	87.2	86.1
2. Share of Deposit Substitutes in M3 ³	18.2	19.7	20.1	20.3	18.8	16.7	18.1	17.0	15.1

1. Deposit substitutes refer to negotiable certificates of deposits and central bank certificates.
2. Data revised for the period 1983 to 1987. Data reflect expanded coverage of deposit money banks and other changes in the classification of accounts. Deposit substitutes refer to deposit substitutes of banks and NBQBs.
3. Refer to the share of NBFIs deposits in M3.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

Broadly, there are two influences on the supply of money or liquidity: that stem from changes in various currency and reserve ratios at a given level of interest rates, and that linked directly to interest rate movements. Accordingly, the financial changes, in larger industrial countries have put upward pressures on the size of the money and reserve multiplier. The increasing share of interest bearing instruments and instruments with market-related interest rate in M3 are some of the reasons for the upward pressure. In any case, the declining currency holdings and transactions balances with lower reserve requirements entail, *ceteris paribus*, higher money and reserve multipliers.

Upward pressures on the money and reserve multiplier are also caused by the fact that the effective reserve ratio against any given category of deposits tends to fall as the public shifts funds into substitute instruments with no reserve requirements or lower reserve requirements. In recent years, for most developed countries, the money and reserve multipliers at the broadest level seem to have risen faster than those at the M1 level. For example, between end-1980 and end-1982 in the United States of America, the reserve multipliers for M3 deposits and non-cash liquidity rose by 10.4 per cent and 11.2 per cent respectively, compared with only a 4.0 per cent rise in the reserve multiplier for M1 deposits. As far as interest rate influences are concerned, the money supply appears to be becoming more responsive to interest differentials between borrowing and lending rates. This is also supported by the fact that the proportion of deposits at banks and NBFIs, which bear market related rates has risen substantially in recent years. However, the share of interest bearing deposit instruments in M3 in the SEACEN countries has not changed significantly between the period 1980 and 1987 (see Table 17).

Further, in a majority of the countries in the SEACEN region, the NBFIs are not subject to reserve ratios. The NBFIs in Indonesia are subject to gearing ratios and they are not allowed to receive demand deposits as well as time and savings deposits. In other words, activities of NBFIs are not included in the monetary survey. Deposits of NBFIs in Nepal account for less than 3.0 per cent of total deposits of the commercial banks. Therefore, the disintermediation effect on the money multiplier is negligible. In Sri Lanka, the NBFIs are not subject to statutory reserve requirements (SRR) and they are not permitted to accept demand deposits. Although in 1986, there was a shift of time deposits from commercial banks to NBFIs (e.g., finance companies), mainly due to higher deposit rates offered by the latter,

this situation was reversed in 1987, mainly owing to the narrowing of the gap between the deposit rates offered by commercial banks and other NBFIs. The total amount of CDs issued by NBFIs as at the end of June 1987, was also negligibly low at Rs. 104 million (i.e., 0.1 per cent of M3).²⁵

Similarly, the volume of deposit substitutes of NBFIs in some SEACEN countries has not grown substantially and their proportionate share to total financial claims, is minimal and also declining in certain SEACEN countries (see Table 17). Therefore, their potential effect on the money multiplier would not be very significant and the ability of the central bank to control monetary aggregates would not be generally impaired.

5.1 Banking Disintermediation and Its Effects on Money Multiplier

The extent of shift of deposits with commercial banks to the non-bank financial institutions also affects the size of the money multiplier. It, however, depends on the nature and extent of statutory and liquidity requirements imposed on these NBFIs. If reserve requirements are not imposed and if the extent of shift of deposits is large, they make significant impacts to change or alter the value of the money multiplier and also the velocity relationship and thereby create a problem in the implementation of monetary policy. An indirect evidence of the extent of banking disintermediation can also be reflected from the shift in the composition of monetary aggregates as a result of the growth of NBFIs.

For instance, in Malaysia the declining trend in M1 from 13.3 per cent in 1982 to 7.7 per cent in 1983 and turning negative by 0.6 per cent in 1984 despite increases in the Gross Domestic Product, reflected mainly the shift of funds from non-interest bearing currency and demand deposits into interest bearing deposits held mainly with the finance companies and merchant banks in response to increases in interest rates offered for such deposits (Table 18). However, there has also been a sizable shift of demand deposits to interest bearing deposits within the banking system itself.

While there may be shifts in deposits from the commercial banks to the NBFIs, there is, however, no clear indication that there has been a shift away from demand deposits directly into deposits with the NBFIs in these countries.

25. Sri Lanka, *Project Questionnaire Replies*, 1987.

Table 18

**GROWTH RATE OF MONETARY AGGREGATES AND GROSS DOMESTIC
PRODUCT (GDP) 1975-1987**
(Annual Percentage Change)

Year	Indonesia			Malaysia			Nepal			Philippines ²			Sri Lanka			Thailand						
			GDP			GDP			GDP			GDP			GDP			GDP				
	M1	M2		M1	M2		M1	M2		M1	M2		M1	M2		M1	M2		M1	M2		
1975	33.3	36.2	18.1	8.6	14.5	15.6	2.3	3.4	-	26.2	14.4	14.3	19.4	14.5	4.8	4.1	-	24.1	5.8	16.1	-	10.1
1976	28.2	33.0	22.3	20.9	27.7	28.0	25.8	22.2	-	5.0	17.5	30.7	24.2	16.9	34.9	32.9	-	13.6	16.7	21.0	-	13.0
1977	25.1	19.0	22.9	16.6	16.2	16.5	15.2	18.1	28.5	-0.7	23.1	29.5	22.3	15.0	28.8	37.9	34.3	20.5	9.8	19.9	22.0	16.4
1978	24.0	21.7	19.7	18.2	17.9	20.0	12.2	13.8	16.5	14.2	13.4	24.0	18.0	15.7	10.6	25.0	24.3	17.2	19.8	19.4	21.5	19.6
1979	36.1	37.1	40.8	17.2	23.8	25.0	24.3	15.2	16.2	12.6	11.2	12.7	10.8	23.7	29.2	38.2	37.6	22.8	16.2	14.0	13.4	18.4
1980	47.6	47.3	41.9	15.0	27.9	27.2	15.0	13.0	13.6	5.1	19.7	22.0	18.1	20.6	22.9	31.9	28.3	27.0	12.7	22.5	22.5	23.1
1981	29.8	26.3	27.9	12.8	17.1	16.1	11.1	11.9	22.3	16.9	4.4	18.4	21.1	14.8	6.3	23.1	20.4	27.8	3.3	16.3	17.0	14.8
1982	9.8	14.0	7.5	13.3	16.3	16.7	8.6	15.3	26.7	13.5	-	20.0	16.1	11.6	17.3	24.8	27.8	16.7	6.8	24.2	24.5	7.6
1983	6.3	32.4	18.0	7.7	9.4	14.3	11.8	18.1	20.4	8.9	38.7	23.4	19.8	12.8	25.4	22.1	22.4	22.5	5.2	23.8	21.6	9.3
1984	13.4	22.3	15.5	-0.6	11.4	15.0	13.7	13.2	13.0	16.7	3.4	14.4	2.2	40.7	14.1	16.6	17.7	26.4	6.9	19.4	16.3	6.9
1985	17.7	29.1	7.9	1.7	5.5	9.4	-2.5	33.0	20.0	12.4	6.5	13.3	9.9	13.4	11.5	11.5	12.0	5.6	3.3	10.3	12.3	5.3
1986	15.6	19.5	5.9	2.8	11.1	8.6	-8.3	5.8	19.4	16.9	18.9	10.8	7.4	1.9	12.9	5.1	5.6	10.5	20.5	13.4	11.9	6.2
1987	8.6	22.9	21.4	13.0	5.0	3.6	13.5	24.9	22.4	13.0	22.7	13.5	12.1	13.0	18.4	14.7	14.9	9.6	28.0	20.2	17.4	17.2

1. GDP refers to nominal GDP in current prices.

2. Data revised for the period 1983 to 1987. Data reflect expanded coverage of deposit money banks and other changes in the classification of accounts.
Sources: Project Questionnaire Replies.

Central Bank Statistical Bulletin.

There has been some shift of demand deposits to savings deposits in some countries in the SEACEN region. But in Thailand, the shift was occurring within the banking systems itself. For instance, in Thailand the change in the structure of commercial banks' deposits was due mainly to the shifts from demand to savings deposits. As already mentioned, demand deposits as a percentage share of total deposits declined markedly from 16.2 per cent in 1975 to 13.1 and 5.4 in 1980 and 1986, respectively (see Table 16). During this same period, the share of savings deposits shot up from 8.9 to 12.9 and 26.2 per cent, respectively. Nevertheless, the shifts in deposits from demand to savings within the banking system have affected the M1 multiplier significantly. The M1 multiplier which used to be rather stable around the level of 1.20-1.27 during the 1970s, has dropped to the level of 0.99-1.15 during 1982-1986. However, the M2 and M3 multipliers have increased significantly during 1975-1987 (Table 19). Therefore, in terms of monetary targeting, the central bank has to use a multiple of targets, namely M1 and M2 and also domestic private credit, with more emphasis put on M2. But this impact was not generated by the growth and activities of NBFIs. Moreover, M2 and M3 have moved in the same direction for the last few years with almost the same rate of growth, except for some years. Therefore, monitoring M2 was sufficient enough to closely track the movements of M3.

Further, there would be no increase in the supply of loanable funds following the shift of funds from demand deposits to time deposits if the commercial banks are not required to maintain two separate ratios, with the statutory reserve ratio (SRR) for demand deposits being higher than that for time deposits. If the NBFIs are also required to observe the statutory and liquidity requirements, the banking disintermediation and multiplier effect on money supply can also be minimized. For instance, in Malaysia the major deposit taking NBFIs namely, the finance companies and merchant banks are also required to maintain liquidity and reserve ratios on a uniform basis. Therefore, any shift of funds from the commercial banks to these institutions is not expected to lead to a significant increase in the supply of loanable funds. In case of other countries in the SEACEN region (e.g., Nepal, the Philippines and Sri Lanka), there seems to be no upward pressures on M2 and M3 multipliers. The M2 and M3 multipliers are rather stable and in some cases have even decreased (see Table 19). Although it may be generally concluded that the growth of NBFIs tend to increase the credit multiplier of the financial system, it depends on other factors asso-

Table 19

MONEY MULTIPLIERS: MONETARY AGGREGATEWISE: 1970-87

Year	Indonesia			Malaysia			Nepal			Philippines			Sri Lanka			Thailand		
	M1	M2		M1	M2	M3	M1	M2		M1	M2	M3	M1	M2	M3	M1	M2	M3
1970	1.2677	1.6717	1.5067	3.0558	-	-	1.0814	-	1.4487	2.8957	-	-	1.4955	2.3687	-	1.2689	2.7927	-
1971	1.2800	1.8720	1.4563	3.2062	-	-	1.0813	-	1.4499	2.9377	-	-	1.4395	2.3007	-	1.2614	2.8630	-
1972	1.2855	1.8824	1.4270	3.0281	-	-	1.0724	-	1.4480	2.6569	-	-	1.4025	2.2466	-	1.2450	3.0067	-
1973	1.3647	2.0143	1.4466	2.9248	3.2198	-	1.0677	-	1.4439	3.5889	4.3919	-	1.2884	1.9267	-	1.2741	3.1159	-
1974	1.2614	1.9540	1.3836	2.9730	3.3405	-	1.2060	-	1.4364	3.8657	5.0569	-	1.3074	2.0276	-	1.2558	3.3422	-
1975	1.2418	1.9649	1.4477	3.3227	3.7692	-	1.1527	-	1.4479	4.0547	5.4067	-	1.4403	2.2188	-	1.1957	3.4940	-
1976	1.2296	2.0184	1.4738	3.5739	4.0640	1.0928	1.7387	1.5075	4.4816	5.8390	1.5434	2.3419	3.1204	1.2331	3.7350	4.5140	-	-
1977	1.2527	1.9550	1.4851	3.5916	4.0946	1.1875	2.0555	1.5089	4.4375	5.5889	1.3977	2.2706	2.9468	1.2387	4.0991	5.0365	-	-
1978	1.3891	2.1263	1.5232	3.6733	4.2631	1.1503	2.0372	1.3777	4.2218	5.1563	1.3932	2.5562	3.2992	1.2685	4.1834	5.2341	-	-
1979	1.4519	2.2399	1.5437	3.9316	4.6085	1.1755	2.1007	1.2496	3.8037	4.5962	1.4476	2.8421	3.6513	1.2641	4.0887	5.0896	-	-
1980	1.5553	2.3946	1.5034	4.2587	4.9637	1.2040	2.1622	1.3296	4.0002	4.7301	1.5008	3.1614	3.9499	1.2490	4.3927	5.4684	-	-
1981	1.7265	2.5865	1.5375	4.5184	5.2249	1.1772	2.3106	1.2526	4.3712	5.2473	1.2816	3.1254	3.8207	1.2100	4.7945	6.0017	-	-
1982	1.8055	2.8080	1.4924	4.5034	5.2239	1.0891	2.3487	1.1902	4.8262	5.6654	1.2150	3.1522	3.9449	1.1543	5.3196	6.6738	-	-
1983	1.5484	2.9996	1.5408	4.7251	5.7234	1.1117	2.4429	1.1153	3.8779	4.4651	1.2049	3.0439	3.8177	1.0988	5.9629	7.3469	-	-
1984	1.5678	3.2772	1.4778	5.0773	6.3481	1.0851	2.3802	0.9611	3.4643	3.7865	1.1768	3.0377	3.8480	1.1129	6.7434	8.0929	-	-
1985	1.5653	3.5868	1.3957	4.9745	6.4541	1.2755	2.5261	0.8972	3.3279	3.5435	1.0374	2.6769	3.4084	0.9922	6.8580	8.3779	-	-
1986	1.4956	3.5426	1.3772	5.3056	6.7286	1.0615	2.3735	0.8155	2.6989	2.7921	1.1329	2.7205	3.4802	1.0742	6.9842	8.4187	-	-
1987	1.4638	3.9101	1.4786	5.2944	6.6216	1.1209	2.4563	0.8750	2.6143	2.6748	1.2161	2.8282	3.6234	1.1349	6.9315	8.1622	-	-

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.
Philippine Statistical Year book, 1987.

ciated with the financial system of each country. The NBFIs' credit multiplier varies inversely with the proportion of reserves that they must hold against the liabilities and directly with the proportion of their credit that returns to them as deposits. However, a higher credit multiplier by itself is not the key issue associated with the growth of these NBFIs. In this respect, it is worthwhile to mention the effects of the growth of NBFIs on money multipliers as summarized by Richard S. Thorn of the IMF Finance Division:

"The threat that the growth of non-bank financial institutions may present to the effectiveness of monetary policy lies not so much in the higher credit multiplier of the financial system that results from the more rapid secular growth of the NBFIs relative to the banks, but in the fact that this growth introduces an increasingly important element of credit expansion which in most countries, under present legislation, cannot be directly controlled by the monetary authorities. Even if, by restricting the amount of reserves available to the banks, the authorities are successful in preventing a rise in financial credit, a large increase in credit may still occur through a shift in deposits from the banks to the NBFIs. This shift will in general lead both to a net increase in the quantity of credit and to a shift in the distribution of credit in favour of the type of investment in which the NBFIs specialise".²⁶

Accordingly, in times of credit shortage, NBFIs are in a stronger position to attract deposits from banks by raising the rate of interest payable on their liabilities. On the other hand, the volume of bank credit deliberately reduced by monetary policy by lowering the bank credit multiplier, is partly offset by the amount of non-bank credit. The operations of the NBFIs may, therefore, reduce the effectiveness of credit control in the short run. Further, when a central bank wishes to expand credit by lowering the bank reserve ratio and increasing the bank credit multiplier, the non-bank credit multiplier may remain unchanged. However, Table 20 gives indication that, whenever the reserve ratio has been increased, growth in bank credit was in control with the declining trend in the growth of total credit of the financial system. However, in some countries in the SEACEN region (e.g., Nepal, Sri Lanka), the growth in total credit

26. Thorn, R.S., "Non-bank Financial Intermediaries, Credit Expansion and Monetary Policy", *IMF Staff Papers*, Vol. V, 1957-58, pp. 376.

Table 20

SELECTED MONETARY INDICATORS: 1970-87

Country/Year	Reserve Ratio (%)	Multiplier			Growth in Bank Credit (%)	Growth in Total Credit of Financial System (%)	Share of Bank Credit in Total Credit (%)	Share of NBFIs Credit in Total Credit (%)	Loan-Deposit Ratio of the Banking System
		M1	M2	M3					
Indonesia ¹									
1970	10.0	1.2066	1.5927	—	n.a.	n.a.	—	—	n.a.
1971	10.0	1.2266	1.7921	—	n.a.	n.a.	—	—	n.a.
1972	10.0	1.2354	1.8075	—	n.a.	n.a.	—	—	124.3
1973	10.0	1.3359	1.9708	—	n.a.	n.a.	—	—	134.0
1974	10.0	1.2100	1.5519	—	48.6	48.6	99.99	0.01	122.6
1975	10.0	1.1770	1.8625	—	74.8	74.8	99.99	0.01	99.7
1976	10.0	1.2044	1.9767	—	29.9	29.9	99.98	0.02	90.9
1977	10.0	1.2012	1.8749	—	10.2	10.2	99.97	0.03	96.8
1978	5.0	1.3470	2.0623	—	37.0	37.0	99.96	0.04	99.0
1979	5.0	1.3976	2.1561	—	16.2	16.2	99.96	0.04	83.8
1980	5.0	1.5257	2.3491	—	25.6	25.6	99.95	0.05	74.6
1981	5.0	1.6546	2.4786	—	29.0	29.1	99.90	0.10	82.9
1982	5.0	1.7339	2.6966	—	28.2	28.2	99.90	0.10	98.3
1983	5.0	1.4731	2.8538	—	17.5	17.5	99.90	0.10	90.1
1984	5.0	1.5052	3.1463	—	23.0	23.0	99.90	0.10	86.2
1985	5.0	1.5033	3.4447	—	17.8	17.8	99.90	0.10	79.2
1986	5.0	1.4293	3.3857	—	19.2	19.2	99.90	0.10	91.2
1987	5.0	1.4044	3.7517	—	24.4	24.5	99.90	0.10	101.3
Malaysia ²									
1970	5.0	1.5067	3.0558	—	18.0	14.2	90.5	9.5	69.6
1971	5.0	1.4563	3.2062	—	13.0	15.2	88.8	11.2	69.5
1972	8.5	1.4270	3.0281	—	19.2	19.8	88.3	11.7	68.9
1973	8.5	1.4466	2.9248	3.2198	53.1	62.3	89.0	11.0	80.1
1974	10.0	1.3836	2.9730	3.3405	14.6	15.3	88.3	11.7	79.3
1975	7.0	1.4477	3.3227	3.7692	16.0	17.1	87.6	12.4	79.9
1976	6.0	1.4738	3.5739	4.0640	24.6	25.0	87.3	12.7	76.7
1977	6.0	1.4851	3.5916	4.0946	18.6	19.9	86.3	13.7	78.2
1978	5.0	1.5232	3.6733	4.2631	28.6	28.8	86.2	13.8	83.6
1979	5.0	1.5437	3.9316	4.6085	24.2	33.1	80.4	19.6	79.7
1980	5.0	1.5034	4.2587	4.9637	37.8	37.2	80.8	19.2	86.7
1981	5.0	1.5375	4.5184	5.2249	21.4	23.6	69.1	30.9	85.4
1982	5.0	1.4924	4.5034	5.2239	16.2	18.4	67.8	32.2	84.8
1983	5.0	1.5408	4.7251	5.7234	24.0	24.7	67.4	32.6	90.9
1984	5.0	1.4778	5.0773	6.3481	18.3	22.5	65.0	35.0	92.7
1985	4.0	1.3957	4.9745	6.4541	12.6	15.3	63.5	36.5	96.1
1986	3.5	1.3772	5.3056	6.7286	6.8	15.3	62.9	37.1	95.5
1987	3.5	1.4786	5.2944	6.6216	0.3	7.9	n.a.	n.a.	94.7

1. In Indonesia, the required reserves ratio is calculated as a percentage to current liabilities.

2. In Malaysia, the reserve ratio refers to the statutory reserves ratio and is calculated as a percentage of eligible liabilities. For Malaysia, from 1970 to 1978, NBFIs consist of finance companies and merchant banks; and, from 1981-86, NBFIs include finance companies, merchant banks, cooperatives, savings institutions and other NBFIs granting loans.

Table 20 (Cont'd)

SELECTED MONETARY INDICATORS: 1970-87

Country/Year	Reserve Ratio (%)	Multiplier			Growth in Bank Credit (%)	Growth in Total Credit of Financial System (%)	Share of Bank Credit in Total Credit (%)	Share of NBFI's Credit in Total Credit (%)	Loan-Deposit Ratio of the Banking System
		M1	M2	M3					
Nepal									
1970	7.0	1.0814	-	-	n.a.	n.a.	n.a.	n.a.	72.6
1971	7.0	1.0813	-	-	n.a.	n.a.	n.a.	n.a.	72.1
1972	7.0	1.0724	-	-	n.a.	n.a.	n.a.	n.a.	68.7
1973	7.0	1.0677	-	-	n.a.	n.a.	n.a.	n.a.	70.2
1974	7.0	1.2060	-	-	n.a.	n.a.	61.4	38.60	84.4
1975	7.0	1.1527	-	-	69.2	29.4	80.3	19.70	85.6
1976	7.0	1.0928	1.7387	-	47.1	52.9	77.3	22.70	52.6
1977	7.0	1.1875	2.0555	-	13.7	16.1	75.7	24.30	50.2
1978	7.0	1.1503	2.0372	-	49.4	32.7	85.2	14.80	68.0
1979	7.0	1.1755	2.1007	-	26.9	19.1	90.8	9.20	76.3
1980	7.0	1.2040	2.1622	-	22.2	20.8	91.9	8.10	82.5
1981	9.0	1.1772	2.3106	-	33.9	38.7	88.7	11.30	83.6
1982	9.0	1.0891	2.3487	-	-12.2	-9.1	85.6	14.40	69.0
1983	9.0	1.1117	2.4429	-	7.7	12.4	82.0	18.00	60.7
1984	9.0	1.0851	2.3802	-	4.2	7.6	79.4	20.60	62.2
1985	9.0	1.2755	2.5261	-	28.5	26.1	90.0	10.00	71.3
1986	9.0	1.0615	2.3735	-	31.8	26.3	84.5	15.50	73.3
1987	9.0	1.1209	2.4563	-	16.2	n.a.	n.a.	n.a.	67.5
Philippines ³									
1970	20.0	1.4487	2.8957	-	n.a.	n.a.	100.0	-	115.3
1971	20.0	1.4499	2.9377	-	17.5	17.5	100.0	-	112.4
1972	20.0	1.4480	2.6569	-	49.3	49.3	100.0	-	141.8
1973	20.0	1.4439	3.5889	4.3919	26.8	26.8	100.0	-	91.2
1974	20.0	1.4364	3.8657	5.0569	48.6	48.6	100.0	-	97.8
1975	20.0	1.4479	4.0547	5.4067	16.0	52.2	76.3	23.7	118.2
1976	20.0	1.5075	4.4816	5.8390	30.9	27.2	78.5	21.5	129.3
1977	20.0	1.5089	4.4375	5.5889	19.3	18.4	79.2	20.0	128.9
1978	20.0	1.3777	4.2218	5.1563	24.1	28.1	76.7	23.3	135.4
1979	20.0	1.2496	3.8037	4.5962	26.3	25.0	77.5	22.5	136.1
1980	20.0	1.3296	4.0002	4.7301	25.4	24.2	78.3	21.7	134.9
1981	19.9	1.2526	4.3712	5.2473	19.5	15.6	81.0	19.0	143.3
1982	13.6	1.1902	4.8262	5.6654	12.3	11.5	81.5	18.5	138.8
1983	17.9	1.1153	3.8779	4.4651	32.9	34.5	80.0	19.5	161.1
1984	19.1	0.9611	3.4643	3.7865	-2.6	-0.1	78.5	21.5	156.9
1985	18.9	0.8972	3.3279	3.5435	-11.7	-6.8	74.3	25.7	137.0
1986	18.7	0.8155	2.6989	2.7921	-28.1	-21.7	68.2	31.8	110.0
1987	18.4	0.8750	2.6143	2.6748	18.7	11.3	72.7	27.3	113.7

3. Banks for the Philippines include commercial banks, thrift banks, rural banks and specialized banks. The loan deposit ratio refers to the loan-deposit ratio of commercial banks. Growth in bank credit refers to all types of banks' credit. Data revised for the period 1983 to 1987. Data reflect expanded coverage of deposit money banks and other changes in the classification of accounts.

Table 20 (Cont'd)

SELECTED MONETARY INDICATORS: 1970-87

Country/Year	Reserve Ratio (%)	Multiplier			Growth in Bank Credit (%)	Growth in Total Credit of Financial System (%)	Share of Bank Credit in Total Credit (%)	Share of NBFIs Credit in Total Credit (%)	Loan-Deposit Ratio of the Banking System
		M1	M2	M3					
Sri Lanka									
1970	n.a.	1.4955	2.3687	-	-6.7	-	-	-	64.6
1971	n.a.	1.4395	2.3007	-	14.1	-	-	-	70.2
1972	n.a.	1.4025	2.2466	-	22.3	-	-	-	65.9
1973	n.a.	1.2884	1.9267	-	4.3	-	-	-	71.1
1974	n.a.	1.3074	2.0276	-	46.4	-	-	-	92.7
1975	n.a.	1.4403	2.2188	-	7.2	-	-	-	97.9
1976	n.a.	1.5434	2.3419	3.1204	20.3	-	-	-	86.0
1977	n.a.	1.3977	2.2706	2.9468	49.3	-	-	-	93.4
1978	n.a.	1.3932	2.5562	3.2992	39.1	-	-	-	99.8
1979	n.a.	1.4476	2.8421	3.6513	35.3	-	-	-	96.8
1980	5.0	1.5008	3.1614	3.9499	42.3	-	-	-	98.3
1981	6.0	1.2816	3.1254	3.8207	24.4	23.9	91.8	8.20	100.1
1982	6.0	1.2150	3.1522	3.9449	19.9	29.7	90.5	9.50	93.7
1983	8.0	1.2049	3.0439	3.8177	23.9	21.2	89.4	10.60	94.4
1984	8.0	1.1768	3.0377	3.8480	11.7	20.9	90.6	9.40	89.7
1985	10.3	1.0374	2.6769	3.4084	10.3	18.8	88.1	11.90	87.0
1986	10.3	1.1329	2.7205	3.4802	6.8	7.4	84.4	15.60	89.7
1987	10.0	1.2161	2.8282	3.6234	18.7	n.a.	n.a.	n.a.	93.7
Thailand ⁴									
1970	n.a.	1.2689	2.7227	-	n.a.	n.a.	n.a.	n.a.	88.4
1971	n.a.	1.2614	2.8630	-	n.a.	n.a.	80.9	19.1	83.6
1972	7.0	1.2450	3.0067	-	13.0	21.7	75.1	24.9	74.7
1973	8.0	1.2741	3.1159	-	43.1	42.8	75.5	24.5	87.7
1974	7.0	1.2558	3.3422	-	34.2	36.9	72.9	27.1	92.0
1975	7.0	1.1957	3.4940	-	20.5	23.5	71.0	29.0	93.9
1976	7.0	1.2331	3.7350	4.5140	16.3	19.8	69.3	30.7	89.4
1977	7.0	1.2387	4.0991	5.0365	27.4	28.7	69.0	31.0	92.9
1978	7.0	1.2685	4.1834	5.2341	30.2	31.6	68.3	31.7	100.1
1979	7.0	1.2641	4.0887	5.0896	23.0	18.6	70.8	29.2	111.1
1980	7.0	1.2490	4.3927	5.4684	12.2	14.3	69.5	0.5	100.8
1981	7.0	1.2100	4.7945	6.0017	16.2	17.1	69.0	31.0	97.8
1982	7.0	1.1543	5.3196	6.6738	17.8	17.5	69.2	0.8	92.4
1983	7.0	1.0988	5.9629	7.3469	34.0	27.5	72.7	27.3	98.5
1984	7.0	1.1129	6.7434	8.0929	18.3	15.1	74.7	25.3	95.7
1985	7.0	0.9922	6.8560	8.3779	9.9	10.1	76.4	23.6	93.8
1986	7.0	1.0742	6.9842	8.4187	4.5	4.9	75.9	24.1	86.7
1987	7.0	1.1349	6.9315	8.1622	15.6	n.a.	n.a.	n.a.	89.4

4. In Thailand, the reserve ratio refers to the statutory reserve ratio.

Sources: Project Questionnaire Replies.
Central Bank Statistical Bulletins.

was also associated with the growth in the share of NBFIs' credit in the total credit in certain years. This can be attributed to the ineffectiveness of the reserve ratio in a situation of excess liquidity prevailing in the banking system. But, with the exception of Malaysia, as the share of NBFIs' credit in the total credit was declining for the last few years, the effects of the growth of these NBFIs on money multiplier will be negligible.

In those countries where the share of NBFIs' credit in the total credit is moderately higher, the effects of the growth of NBFIs may be counteracted by the imposition of uniform reserve requirements to these non-bank financial institutions. For instance, in Malaysia, the deposit taking NBFIs (e.g., finance companies, merchant banks, etc.) are also required to observe the statutory reserve ratios. Similarly, in the Philippines, the Non-Bank Quasi-Banks (NBQBs) have to observe the same reserve requirements on deposit substitutes as banks, thus putting NBQBs in an equal and competitive footing with banks in terms of mobilizing deposit substitute liabilities.

Therefore, the potential effect of NBFIs' operations on monetary policy in the SEACEN countries should not be exaggerated. There is a limit on the growth of NBFIs because after a point, individuals may be reluctant to transfer deposits at banks to NBFIs in response to differences in interest rates. And, NBFIs cannot go on increasing their interest rates to attract deposits since the upper limit of the interest rates they may charge on their loans is ultimately determined by the rate of return on new investments. Moreover, the share of NBFIs' credit in the total credit is not significant in most of the countries in the SEACEN region and in some cases it is even declining. The commercial banks still dominate the financial system and therefore, any unilateral action of NBFIs is unlikely to have very severe effects on monetary policy.

VI. OVERALL ISSUES AND PROBLEMS ASSOCIATED WITH THE GROWTH OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

This chapter attempts to focus on some of the issues and problems associated with the growth of NBFIs, particularly the matters concerning the regulatory and supervisory authorities regarding the unfair share of burden of monetary policy placed only on the banking system. It may be recalled that there has been a systematic shift of demand deposits in some SEACEN countries but it was noticed that it has occurred largely within the commercial banking system

itself. Due to the predominance of commercial banks, the regulatory conditions imposed on commercial banks have not diminished their role relative to NBFIs. In most SEACEN countries, the monetary aggregates have not been redefined even with the presence of financial instruments or claims offered by the NBFIs that are close substitutes to deposits. However, the ability of the central bank to control monetary aggregates has not been generally impaired by the growth of deposit substitutes and their potential effects on the money multiplier is not very significant because of their low proportionate share to total financial claims in most of the countries in the SEACEN region.

1. Effects on the Money Demand Function

The project questionnaire replies sent by member banks also revealed that there is no indication of a destabilizing systematic shift from demand deposits to claims against NBFIs (such as deposit substitutes, NCDs, etc.) and these institutions do not create money in the same way as the commercial banks. Under the pressures of banking disintermediation, the concept of money is usually in danger of losing its operational value or meaningfulness for the concept of money. This problem has been noticed in the industrial countries where instruments like NCDs, NOW Accounts and Super-NOW Accounts have created the problem for defining money and the demand for money function. For instance, 60.0 per cent of M2 in the United State of America consists of instruments which pay market related interest rates compared with less than 5.0 per cent in early and mid-1970s. Therefore, in 1982, the Federal Reserve Board had to focus more attention on the broader monetary aggregates (M2 and M3) and less attention on M1. In 1982, Canada also had to discontinue its M1 target, while the United Kingdom intended to monitor a range of aggregates as well as the exchange rates. The reasons behind these general modifications of policy are numerous. In other words, the range of issues affected by the growth of NBFIs, particularly in the industrial countries, is very broad.

More particularly against a background of high and volatile interest rates, the demand for money has shown considerable instability in certain countries, not least the USA. Accordingly, the demand for the narrow aggregate has been unevenly shifting downwards and the demand for both narrow and broad aggregates is becoming more unstable in these countries. Over the last few years, increasingly smaller amounts of narrowly defined money have been used to fi-

nance a given level of output. The proportion of shifts out of these balances, however, seem to work unevenly overtime and is by and large unpredictable, which makes the demand for narrow monetary aggregates unstable especially in the short run. The proliferation of NBFIs have also contributed to this instability. In this regard M.A. Akhtar's analysis on the evidence of shifts or instability in the money demand functions since the early or mid-1970s for five of the seven larger industrial countries will be highly useful to illustrate this (Appendix 8).²⁷ As shown in the Appendix, with the exception of M2 demand functions in the USA and Canada, the demand for various aggregates appears to have been quite unstable.

Further, the demand for money, especially of the broader level, has become less sensitive to the general level of interest rates in these countries. The rising share of financial instruments with market-related rates in monetary aggregates has been one of the causes of the decline in interest elasticity of money demand in these countries. The comparative estimates undertaken by M.A. Akhtar on interest elasticities of the demand for M2 or M3 based on the standard money demand function will also be a useful illustrative case to be mentioned here regarding the implications of NBFIs and their various market related financial instruments on monetary policy.²⁸ Accordingly, in most cases, Akhtar's estimates appear to be consistent with the view that interest elasticity of money demand has been declining over time and in some cases the interest rate coefficient yields the wrong sign over the 1976-1982 period (Table 21).

This means that the role of interest rates in controlling monetary growth has been weakening because of the declining interest elasticity of money demand stemming from an increase in the proportion of liabilities that pay market related interest rates. Obviously, the dimension of the monetary control problem will be much more serious over the short-run and for the broader aggregates than for the narrow aggregates. This declining trend of interest elasticity of money demand in some industrialized countries can be attributed to the rising share of financial instruments with market-related rates in monetary aggregates. The increase in the proportion of interest bearing instruments in the broadly defined monetary aggregate, (M3), has been particularly sharp in the USA, where the share rose to more than 70.0 per cent in late 1980s from around less than 10.0

27. Akhtar, M.A., "Financial Innovations and Their Implications for Monetary Policy: An International Perspective". *BIS Economic Papers* No. 9. Basle: Bank for International Settlement, December 1983, pp. 33-38.

28. Op'cit.

ESTIMATES OF INTEREST ELASTICITIES OF THE DEMAND FOR M2 OR M3 BASED ON THE STANDARD MONEY DEMAND FUNCTION ¹

1. The regression equations were specified as: $\ln(M/P) = a_0 + a_1 \ln y + a_2 \ln RS$; where M = nominal money balances (M2 for the United States, Japan, France and Canada, M3 for Germany, the United Kingdom and Italy), y = real GNP/GDP, P = GNP/GDP deflator, RS = short-term interest rates (Treasury bill rate for the United States, the United Kingdom and Canada; call-money rate for Japan; inter-bank rate for Germany, secondary market rate on public-sector bonds for France and Italy). All regression were based on quarterly data. Estimates on the second line for the United States and Italy are obtained from the standard stock adjustment specification:

where t refers to the current period. This specification provides nonsense results (i.e., $b_3 > 1$ or $b_1 < 0$, etc.) for other countries either over 1968-76 or 1976-82 or both.

- Source: Adopted from M.A. Akhtar's Table in - "Financial Innovation and Their Implications for Monetary Policy: An International Perspectives", *BIS Economic Papers No. 9*, Basle: Bank for International Settlement, December 1983, pp. 38.

per cent in late 1970s. However, in the SEACEN countries the share of instruments with market related interest rates in M3 is not significant (see Table 17). For instance, in the Philippines, the available data for the period 1981 to 1986 showed that the proportionate share of deposit substitutes of NBFIs in M3 have not grown over 5.0 per cent on the average. The share of deposit substitutes of NBFIs in the Philippines to total M3 declined from 20.1 per cent in 1981 to 3.4 per cent in 1986, indicating that claims of NBFIs have not been significant, and can easily be expected a low profile of implication for monetary policy. The income elasticity of demand for real M1 balances is more than unity and that for real time deposits balances less than unity as is expected from the observed fact that time deposits have grown at a much more rapid rate than M1 during the period under study. The income-elasticity estimates with respect to M2 reflect the combined effect of income changes on M1 and time deposits. The estimates of the interest elasticities of the demand for M2 for selected SEACEN countries on the standard money demand function are shown in Table 22.

2. Effects on Interest Elasticity of the Demand for Money

There is already a proliferation of new financial instruments with mark of related interest rates outside the conventionally defined broad monetary aggregates in many developed countries. The demand for these new instruments is putting downward pressures on the demand for broader aggregates. In studies of demand for money, therefore, account must be taken of own rate of return and yields on competing assets. However, in most empirical studies, the rate of interest on some non-money financial assets is considered. As to the yields on non-monetary financial assets, there exists a choice between long-term and short-term rates. In most of the developed countries, the short-term rate is usually represented by the Treasury-bill rate, call-money rate, interbank rate, or short-term commercial-paper rate, and the long-term corporate-bond rate or the market yield on consols. However, the lack of a continuous series of appropriate data has confined our attention to own interest rates on 1-year time deposits of commercial banks, 1-year time deposit rates of NBFIs and the interbank rate.

It can be seen from Table 22 that interest elasticities of demand for real M2 balances are negative, as expected. The interest rates on time deposits is an opportunity cost of holding currency or demand deposits and such balances should therefore decrease as the oppor-

Table 22**BROAD INTEREST ELASTICITIES OF THE DEMAND FOR MONEY
IN THE SELECTED SEACEN COUNTRIES¹**

Country/ Dependent Variables	Sample Period	<u>B 2</u> 1 - a	<u>B 3</u> 1 - a	<u>B 4</u> 1 - a
Malaysia				
M2	1979.2 - 1987.4	1.118	-1.310	-0.018
Philippines				
M2	1979.2 - 1987.4	10.134	-	-5.390
Sri Lanka				
M2	1979.2 - 1987.4	0.415	0.042	0.524
Thailand				
M2	1979.3 - 1987.4	-0.132	0.438	-0.217

1. The interest elasticities are calculated from the coefficients for the demand for money function in Table 25.

B 2 - coefficient for 1-year time deposit rates of commercial banks

B 3 - coefficient for 1-year time deposit rate of NBFIs

B 4 - coefficient for interbank rates

a - coefficient for lagged variable

tunity cost increase. The interest elasticity for M2, however, is difficult to interpret. In purely statistical terms, it is the net combined result of the effects on M1 and time deposits. Conceptually, the interest rate plays a dual role in the M2 equation.

In this regard, Suzuki's²⁹ estimation of money demand function in Japan, will also be useful to illustrate here. This is because, in terms of financial structure, deregulation, and the growth of financial instruments, the NBFIs in Japan are more or less comparable with some countries in the SEACEN region, where the process of financial deregulation is still underway. Moreover, the Japanese financial system is also not fully deregulated.

Table 23 gives the estimation results of the Money-Demand Function. In order to test the stability of these money-demand functions, a Chow test using an F-statistic has been used by the author. The result is shown in Table 24. As can be seen from this table, there were shifts in the money demand functions between the period ending in 1973 and that beginning in 1974, both for M1 and M2+CDs, which are significant at the 1.0 per cent level in the case of M1 and at the 0.1 per cent level in the case of M2+CDs. Conversely, when the same equations were estimated for the two sub-periods since 1974, with 1980/1 and 1980/2 as the dividing line, no significant structural change can be detected in either M1 or M2+CDs between these two sub-periods. In other words, the money-demand function shifted around 1973-74 under the influence of structural changes in the financial system and financial innovation, but there was no evidence of further shifts in the money-demand function when some growth of non-bank financial institutions was evidenced in the post-1974 period.

Suzuki's analysis clearly shows that structural changes in the money demand functions in Japan in the form of declining income elasticity of M1 and declining responsiveness to interest rate changes in the demand for M2+CDs are the results of financial innovations. The declining trend of interest elasticity of the demand for M2 or M3 has also been noticed in a few industrial countries (see Table 21). In the case of the SEACEN region, the demand for money function has been estimated for selected SEACEN countries, the results of which are tabulated in Table 25.

With the growth of NBFIs, a decline in income elasticity of the demand for M1 and in the interest elasticities of the demand for M2

29. Yoshio Suzuki, "Financial Innovations and Monetary Policy in Japan", *Financial Innovation and Monetary Policy*, Bank for International Settlements (BIS), Basle, March 1984, pp. 133-170.

Table 23

ESTIMATION RESULTS OF MONEY-DEMAND FUNCTIONS¹

Dependent Variables	Sample period	Explanatory Variables					P	R ²	SE	DW	B1	B2
		a	B0	B1	B2	B3					1-a	1-a
M1	1965/3-1973/4	0.8055 (12.70)	-0.1873 (0.827)	0.2418 (3.23)	-0.0826 (3.19)	0.0114 (0.0910)	-	0.9969	0.0177	1.558	1.241	-0.4247
M2+CDs		0.7851 (19.80)	0.1824 (1.96)	0.2469 (5.41)	0.2469 (5.41)	0.0265 (0.446)	-	0.9991	0.0090	1.737	1.149	-0.3648
M1	1974/1-1983/1	0.7051 (7.25)	1.6484 (3.11)	0.1926 (2.64)	-0.0176 (0.879)	-0.0310 (0.747)	-	0.9781	0.0149	1.756	0.653	-0.0597
M2+CDs*		0.7474 (9.64)	-0.9561 (3.40)	0.3760 (3.41)	-0.0296 (2.30)	0.0382 (1.50)	-	0.9974	0.0095	1.181	1.489	-0.1172
M1	1974/1-1980/1	0.6129 (4.13)	0.4375 (0.622)	0.3870 (2.49)	-0.0118 (0.0581)	-0.0113 (0.258)	-	0.9766	0.0143	1.692	1.000	-0.0305
M2+CDs		0.6338 (6.17)	-1.8982 (3.98)	0.5833 (4.11)	-0.0261 (2.01)	0.0639 (2.28)	-	0.9954	0.0091	1.216	1.251	-0.0713
M1	1980/2-1983/1	0.4944 (2.29)	8.5370 (1.69)	0.1154 (0.284)	0.0339 (0.435)	-0.2764 (1.55)	-	0.9283	0.0130	2.373	0.228	0.0670
M2+CDs		0.7227 (4.55)	1.4024 (0.488)	0.2266 (0.687)	-0.0194 (0.536)	0.0713 (0.747)	-	0.9905	0.0075	2.732	0.817	-0.0700
M2+CDs*	1974/1-1983/1	0.7251 (8.36)	-0.9501 (2.68)	0.4038 (3.28)	-0.0196 (1.15)	0.0138 (0.411)	0.440	0.9999	0.0086	1.948	1.469	-0.0713

* Autogressive type (removed 1st order serial correlation).

1. $\log(M/P)_t = B_0 + B_1 \log GNP(R)_t + B_2 \log RCALL_t + B_3 \log RTD_t + a \log(M/P)_{t-1} + U_t$ where, M is M1 or M2 + CDs, P is the GNP deflator, GNP(R) is real GNP, RCALL is a weighted average of call-money rates and market rates for commercial bills, RTD is interest rates on time deposits (one year) and U is a disturbance term. M, RCALL, RTD are quarterly averages of monthly data. All data except for interest rates are seasonally adjusted.

Source: Adopted from Yoshio Suzuki's Table in "Financial Innovations and Monetary Policy in Japan" in *Financial Innovation and Monetary Policy*, Bank for International Settlements (BIS), Basle, March 1984, p. 154.

Table 24

STRUCTURAL CHANGES IN MONEY-DEMAND FUNCTIONS

(Chow Tests)

Test periods	Degree of freedom	F-value	
		M1	M2+CDs
Structural change between 1965/3-1973/4 and 1974/1-1983/1	F (5,61)	¹ 3.464	² 5.818
		Level of significance	
		0.805%	0.019%
Structural change between 1974/1-1980/1 and 1980/2-1983/1	F (5,27)	1.158	1.868
		Level of significance	
		35.5%	13.3%

1. Significant at the 1 per cent level.
 2. Significant at the 0.1 per cent level.

Source: Adopted from Yoshio Suzuki's Table in "Financial Innovations, and Monetary Policy in Japan", in *Financial Innovation and Monetary Policy*, Bank for International Settlement (BIS), Basle, March 1984, p. 154.

Table 25

DEMAND FOR MONEY FUNCTIONS IN THE SELECTED SEACEN COUNTRIES¹

Country/ Dependent Variables	Sample Period	Explanatory Variables						R ²	SE	DW
		Constant (B 0)	Lagged Dependent Variable	Real Income (Y _t)	1-year Time Deposit Rates of Commercial Banks (r _t)	1-year Time Deposit Rates of NBFI's (r _{nt})	Interbank Rate (r _{it})	Assets of Deposit- Taking NBFI's (A _{nt})	Ratio of Non-Agri Cultural GDP to Agricult- ural GDP (YNAG)	
Malaysia M2	1979-2- 1987.1	-4.6087 (-2.1091)	0.6811 (7.6488)	0.8744 (2.6584)	0.3565 (2.4653)	0.4179 (-2.7568)	-0.0056 (-0.4114)		0.9954	0.0266
Philippines M2	1979-2- 1987.1	9.4734 (1.6698)	0.8546 (13.7761)	-0.9489 (-1.6752)	0.0710 (1.4902)		-0.0247 (-0.6324)	0.2323 (2.2882)	0.9944	0.0661
Sri Lanka M2	1979-2- 1987.1	-2.9980 (-0.5741)	0.8990 (8.8966)	0.4631 (0.6469)	0.0419 (0.4900)	0.0042 (0.0542)	0.0629 (2.0030)		0.9981	0.0349
Thailand ² M2	1971- 1988	-2.896 (-3.1)		1.112 (14.2)	0.027 (1.5)			0.166 (3.6)	0.906	0.66
										1.438

1. The equation $\log (M2/P)_t = B_0 + B_1 \log Y_t + B_2 \log r_t + B_3 \log r_{nt} + B_4 \log r_{it} + B_5 \log A_{nt} + \log (M2/P)_{t-1} + U_t$ was estimated where,

2. The demand for money equation has been adapted from the comments and suggestions given by the Bank of Thailand.

The demand for money equation for this project was estimated in the following form:

$$\ln M2 = -2.896 + 1.112 \ln Y_t + 0.166 \ln YNAG + 0.027 r_t \quad (3.1) \quad (14.2) \quad (3.6) \quad (1.5)$$

M2 = Broad money supply

P = GNP deflator

Y_t = Real Gross National Product. In Thailand, Y_t refers to the nominal Gross Domestic Product.

rt = 1-year time deposit rates of commercial banks. In Thailand, r_t refers to the differential of one-year time deposit rate at the commercial banks and interest paid on promissory notes of finance companies.

r_{nt} = 1-year time deposit rates of non-bank financial institutions. In Malaysia, the rates refer to those of the finance companies while in Sri Lanka, the rates are for the National Savings Bank.

r_{it} = Interbank rates. In Malaysia, the rates are for the overnight money. The rates refer to the interbank call loan rates for the Philippines and Sri Lanka.

A_{nt} = Assets of deposit-taking non-bank financial institutions

YNAG = Ratio of Non-Agricultural GDP to Agricultural GDP

M2(-1) = Lag for one period

U = Disturbance term

is usually noticed in some developed countries. The illustrative estimates of the money demand function in Japan, however, shows that, the changes have not been so abrupt as to obscure the appropriate supply of money. Over the last few years the increasing use of instruments with market-related interest payments is making the demand for money, especially for broader aggregates, less sensitive to the general level of interest rates in many developed countries.

From the results of the estimation of the demand for money function of the selected SEACEN countries, it would appear that the lagged dependent variable is an important explanatory variable in the equations for broad money for all the selected SEACEN countries. Income appears to be an important explanatory variable for Malaysia and Thailand. The explanatory variable, interest rates is not very significant in the demand for money function with the exception of Malaysia (1-year time deposit rate of finance companies). The lagged dependent variable is also a very significant explanatory variable and its significance indicates that adjustments to equilibrium are not instantaneous and that real money holdings follow a lagged pattern.

A rise in the deposit rates increases the return to money and hence raises the demand for money, but, on the other hand, the associated upward movement in the lending rate implies a more attractive yield on financial investment and would therefore decrease the demand for money. Therefore, within the framework of the existing financial markets, it could well be useful to investigate the shift of deposits as between bank accounts of different fixed periods and as between those placed with the commercial banks and non-bank financial institutions in response to changes in interest differentials. But the estimates from the demand for money equation indicates that the lagged dependent variable and the income variable are the more important explanatory variables and interest rate is not a significant explanatory variable. Therefore, the disintermediation impact in response to changes in interest rate differentials can be safely assumed to be negligible, which is in agreement with some of the project questionnaire replies and also the indirect evidence of the nature and extent of disintermediation analysed in the previous chapters of the study.

Therefore, from the above estimation it is clear that the growth of non-bank financial institutions and their related financial instruments have not proceeded to the stage where the demand for money function has been adversely affected. It showed that it is still possible to base one's monetary targets and policies on the traditional

approach. Nevertheless, one obvious immediate lesson to be drawn for SEACEN countries from the experience of the industrial countries is that, it is desirable to re-estimate periodically a variety of demand for money functions, to check them for their stability and predictive reliability, and to be ready to adopt one's targets in the light of evolving experiences.

3. Implications for Financial Regulation

It has been generally argued that an increasing proportion of credit can be created outside the banking system because of the uncontrolled activities of the NBFIs. It is because monetary policy is usually anchored around 'banks' and is proving inadequate in controlling or influencing monetary aggregates. This concern is further aggravated when the relatively less controlled NBFIs have been free to expand their fund gathering and lending activities, while the banks have been restricted in their operations. Some of the activities of these NBFIs are not entirely different from that of banks. But their operations however, are not directly influenced by monetary policy. In some SEACEN countries, the NBFIs do issue claims which are close substitutes for money. However, these NBFIs do not accept demand deposits. Therefore, they do not create money in the same way as the commercial banks. Some NBFIs, namely, the finance companies and merchant banks compete actively with the commercial banks for deposit funds and have tended to complement the credit operations of the commercial banks. However, they are not allowed to grant loans to customers in the form of overdrafts. The NBFIs in some SEACEN countries are also subject to lending guidelines.

Finance companies in Malaysia, for instance, are subject to lending guidelines that are broadly similar to those applied to the commercial banks. But unlike the commercial banks and finance companies, the loan operations of the merchant banks are not subject to lending guidelines in Malaysia. Those institutions that compete actively with the commercial banks for deposit funds are also required to maintain statutory reserve ratios (SRR). Therefore, any shift of funds from demand deposits to time deposits held with the finance companies and merchant banks is not expected to lead to a significant increase in the supply of loanable funds. Thus, even if there will be shifts in deposits from the commercial banks to the NBFIs, the mechanism of uniform reserve requirements will counteract the excessive credit flow outside the banking system. But

in certain SEACEN countries, NBFIs like finance companies that have a direct bearing on monetary developments are not under the direct regulatory jurisdiction of the central bank unlike in Malaysia, for example. Therefore, there could be an increase in the supply of loanable funds following the shifts of funds from demand to time deposits only if the commercial banks are required to maintain two separate ratios with the statutory reserve ratio for demand deposits being higher than that for time deposits. But this is not the case in almost all the SEACEN countries, because the statutory ratios of the banking institutions are based on either total deposits or eligible deposit liabilities of individual institutions. They are not required to maintain different ratios for different types of deposits.

However, it must be realized that NBFIs have sprung out of the demand for new and diversified services by the public and the role of the development finance institutions tended to complement that of the banking institutions, in that they specialize in the provision of medium and long-term capital as well as a range of financial services which are not normally being provided or inadequately provided by the commercial banks. Therefore, in the context of only those institutions, which are similar to commercial banks in terms of financial activities, but not directly controlled by the monetary authorities, a shift in deposits from banks to those institutions will in general, lead to a net increase in the quantity of credits and to a shift in the distribution of credit in favour of areas covered by those non-banks. In the SEACEN region, shifting of deposits is not unlikely because of the interest rate differential between banks and NBFIs. This can be seen from the following Tables 26(a), 26(b), 26(c) and 26(d), which indicate that disintermediation has occurred within the banking system to a larger extent as against the disintermediation between the banking and non-banking system. The interest rate differential has attracted deposits of longer term maturities with the NBFIs but its effects on the increase of loanable funds is not very significant. Where this effect was high, NBFIs are already being kept within the regulatory jurisdiction of the monetary authority (e.g., in Malaysia). This was done because the effectiveness of monetary policy instruments is much reduced if they are not applied to the NBFIs and an unfair share of burden of monetary policy is likely to be placed on the banking system alone. However, if NBFIs are being subjected to fractional reserve requirements, they are able, like banks, to engage in a process of "multiple credit creation" and they are very similar to the commercial banks in this

Table 26(a)
MALAYSIA: BANKING DISINTERMEDIATION AND SUPPLY OF LOANABLE FUNDS: 1980-1987

Year	Commercial Banks						Finance Companies				
	Growth in Demand Deposits (%)	Growth in Time Deposits (%)	Growth in Total Deposits (%)	Interest Rates on Savings Deposits (%)	Growth in Loanable Funds (%)	Statutory Reserve Ratio (%)	Growth in Total Deposits (%)	Interest Rates on Savings Deposits (%)		Growth in Loanable Funds (%)	Statutory Reserve Ratio (%)
1980	17.1	25.3	25.4	6.0	37.8	5.0	37.6	7.0	10.0	34.4	2.5
1981	17.1	27.8	23.2	7.0	21.4	5.0	33.7	7.0	12.0	28.5	2.5
1982	15.9	19.8	17.0	6.5	16.2	5.0	17.5	8.0	10.0	24.7	2.5
1983	11.6	10.8	15.6	6.0	24.0	5.0	22.2	8.0	9.8	30.0	2.5
1984	0.3	23.6	16.0	7.5	18.3	5.0	37.9	9.0	11.0	35.6	2.5
1985	-1.7	9.3	8.7	6.0	12.6	4.0	13.5	7.0	8.3	22.5	2.5
1986	-4.4	6.5	7.4	6.0	6.8	3.5	10.4	7.0	7.8	5.5	3.0
1987	18.7	-9.8	5.1	3.5	0.3	3.5	-4.1	5.5	4.5	5.0	3.0

Sources: Project Questionnaire Replies.
Bank Negara Malaysia, Monthly Statistical Bulletin, April 1988.

Table 26(b)

PHILIPPINES: BANKING DISINTERMEDIATION AND SUPPLY OF LOANABLE FUNDS: 1980-1987¹

Year	Commercial Banks				Non-Bank Financial Institutions (NBFIs)				
	Growth in Demand Deposits (%)	Growth in Time and Savings Deposits (%)	Growth in Total Deposits (%)	Interest Rates on Savings Deposits (%)	Required Reserve Ratio (%)	Growth in Loanable Funds (%)	Growth in Time Deposits (%)	Growth in Total Deposits (%)	Growth in Loanable Funds (%)
1980	27.9	23.8	24.9	9.8	20.0	19.7	27.2	27.2	20.7
1981	-3.8	28.0	19.3	9.8	19.9	17.6	-24.1	-24.1	-0.1
1982	-9.1	31.1	22.2	9.8	13.6	13.7	11.5	11.5	8.9
1983*	20.1	16.9	17.4	9.7	17.9	14.4	-12.0	-12.0	6.1
1984*	-7.8	20.0	15.3	10.3	19.1	6.9	-24.1	-24.1	4.2
1985*	-0.9	16.3	14.0	9.6	18.9	-20.3	-15.1	-15.1	-5.5
1986*	13.2	7.5	8.2	6.7	18.7	9.3	12.0	12.0	-9.4
1987*	26.9	9.4	11.5	4.1	18.4	n.a.	n.a.	n.a.	1.8

1. Data on interest rates on savings/time deposits refer to end-quarter of the year.

* Data revised for the period 1983 to 1987. Data reflect expanded coverage of deposit money banks and other changes in the classification of accounts.

Sources: Project Questionnaire Replies.
Philippines Statistical Yearbook 1987.

Table 26(c)

SRI LANKA: BANKING DISINTERMEDIATION AND SUPPLY OF LOANABLE FUNDS: 1980-1987

Year	Commercial Banks					National Savings Bank (NSB)				
	Growth in Demand Deposits (%)	Growth in Time and Savings Deposits (%)	Growth in Total Deposits (%)	Interest Rates on ¹ Savings Deposits (%)	Interest Rates on ¹ Time Deposits (1-yr.) (%)	Required Reserve Ratio (%)	Growth in Loanable Funds (%)	Growth in Time and Savings Deposits (%)	Growth in Total Deposits (%)	Growth in Loanable Funds (%)
1980	34.7	41.2	40.1	14.0	20.0	5.0	42.3	16.1	15.5	n.a.
1981	-0.2	37.9	22.2	14.0	22.0	6.0	24.4	10.0	9.8	10.7
1982	11.0	35.4	28.1	14.5	22.0	6.0	19.9	41.4	41.1	22.9
1983	31.1	22.3	22.9	15.0	25.0	8.0	23.9	23.6	23.4	23.5
1984	9.2	18.9	17.6	15.0	22.0	8.0	11.7	22.3	22.3	17.5
1985	8.3	14.7	13.7	13.5	18.0	10.3	10.3	14.2	14.2	12.8
1986	7.4	2.6	3.7	12.0	14.0	10.3	6.8	7.4	7.4	11.4
1987	2.0	13.6	13.5	11.0	14.0	10.0	18.7	15.4	15.3	n.a.

1. Refers to maximum rates.

Sources: Project Questionnaire Replies.
Central Bank of Sri Lanka, Annual Report, 1987.

Table 28(d)

THAILAND: BANKING DISINTERMEDIATION AND SUPPLY OF LOANABLE FUNDS: 1980-1987

Year	Commercial Banks					Non-Bank Financial Institutions (NBFIs)				
	Growth in Demand Deposits (%)	Growth in Time Deposits (%)	Growth in Total Deposits (%)	Interest Rates on ¹		Growth in Demand Deposits (%)	Growth in Time Deposits (%)	Growth in Total Deposits (%)	Interest Rates on ¹	
				Savings Deposits	Time Deposits (1-yr.)				Savings Deposits	Time Deposits (1-yr.)
1980	-	-	-	8.0	10.0	n.a.	n.a.	n.a.	8.0	12.0
1981	6.1	19.7	9.6	9.0	11.0	27.6	13.7	21.9	9.0	11.0
1982	0.3	22.7	24.6	9.0	11.0	-13.8	13.7	22.4	9.0	11.0
1983	-3.4	22.2	25.7	9.0	11.0	-25.9	22.6	8.4	8.5	12.5
1984	9.4	26.7	21.7	9.0	13.0	9.4	23.6	6.3	9.0	12.5
1985	-0.4	14.2	12.0	9.0	13.0	23.2	17.4	14.6	8.5	11.0
1986	28.7	4.0	12.9	7.3	9.5	-8.4	17.4	20.7	6.5	7.9
1987	n.a.	9.0	20.0	7.3	9.5	n.a.	n.a.	n.a.	5.8	7.4

1. Refers to rates of the Government Savings Bank.

Sources: Project Questionnaire Replies.

Bank of Thailand Quarterly Bulletins.

respect.³⁰ But the speed and automaticity of the process by which reserves lost by one bank when it makes loans, are restored to the banking system is the major distinguishing operational feature in this context. The distinctive role as issuers of means of payment gives the commercial banks a peculiar ability to expand credit. Therefore, NBFIs do participate in the expansion of credit, but their role is different from that of the commercial banks and has a different significance.

Further, the role of intermediaries in the process of credit expansion differs from that of the commercial banks in terms of time periods, leakages and channeling savings into investment in a broad sense. Nevertheless, it is the possibility of substitution between money and NBFIs claims (as asset prices and interest rates change), which has become a concern for regulatory authorities. It does appear that rising interest rates might induce a shift of funds by public from demand deposits to time deposits at commercial banks which can increase the supply of loanable funds. But it is possible only if reserve requirements are lower for time than for demand deposits, which is not the case in the SEACEN countries. There is no evidence of systematic destabilizing shifts between demand deposits and claims against NBFIs in the SEACEN countries. However, if such shifts should raise difficulties in the future, these destabilizing effects can be eliminated by the application of appropriate legal reserve requirements to these institutions. But it should be noted, however, that if the same effective reserve requirements are imposed, that will also take away the intermediary status of these institutions. Further, although systematic changes in the composition of the portfolios of NBFIs could exert destabilizing effects which would seriously weaken the effectiveness of monetary controls, recent experience suggests that when business fluctuations are as moderate as they have been in recent years, the commercial banks constitute a much more serious problem in this respect than do intermediaries. What is needed to make monetary policy more effective is not additional controls over the activities of the NBFIs but rather some means, by which the scope for destabilizing portfolio adjustments by the commercial banks can be reduced.³¹ Therefore, unless the activities of the NBFIs generates serious destabilizing

30. Donald Shelby, "Some Implications of the Growth of Financial Intermediaries", *Journal of Finance*, Vol. 13, December 1958, pp. 527-541.

31. Warren L. Smith, "Financial Intermediaries and Monetary Controls". *Quarterly Journal of Economics*, November 1959, pp. 551.

effects leading to ineffectiveness of monetary policy, there is no purpose in imposing additional regulatory and statutory requirements in the same way, as have been applied to the commercial banks.

Similarly, on the supply side, the growth of NBFIs and the subsequent financial innovation process may imply, *ceteris paribus*, upward pressure on the "money multiplier". However, in some industrialized countries (e.g., in Japan), changes in the money multiplier accompanying structural shifts in the money-demand function pose no particular problems for monetary control. As already mentioned in Chapter V, the resulting changes in the money multipliers and the money supply does not give any evidence of significant upward pressure on the money multipliers in the SEACEN countries.

Moreover, reserve requirements are not effective in countries where banks hold excess liquidity periodically. The drawbacks are compounded by the activities of the NBFIs. The growth of NBFIs may, generally reduce the effectiveness of reserve requirements. If requirements are imposed on the banks but not on the NBFIs that offer services close to those of the banks, there is likely to be a shift in deposits to the NBFIs and an unfair share of the burden of monetary policy is, thereby, placed on the banking system which may affect the value of the multiplier. However, the value of the NBFIs multiplier depends on the percentage of reserves that the NBFIs hold against their liabilities and the proportion of their loans and investments that return to them as deposits. The higher the reserve ratio and lower the return flow, the lower will be the non-bank multiplier. In most countries, the likely value of the NBFIs multiplier appear to be between 0.8 and 1.3, approximately. For a low reserve ratio and return flow (which is the most prevalent situation) the value of the NBFIs multiplier will be closer to unity. This means that the NBFIs can expand their loans and investments by an amount roughly equal to any increase in their deposit liability. The general concern is that the growth of NBFIs relative to the banking system may increase the potential ability of the financial system to raise the volume of loanable funds, without coming into direct prudential regulatory authority of the central bank.

However, the logical answer to this problem depends on the behaviour of the NBFIs credit multiplier. It varies inversely with the proportion of reserves that they must hold against liabilities. This analysis is possible only if reserve requirements are imposed on the NBFIs. Similarly, the NBFIs credit multiplier varies directly with

the proportion of their credit (as loans and for investments) that return to them as deposits. However, data on the latter are very difficult to obtain in the SEACEN countries. Therefore, the higher the reserve ratio and lower the return flow, the lower will be the multiplier. Thus, the fundamental issue is whether the growth of NBFIs has created higher credit multipliers over the periods or not. Under normal circumstances, the value of M1 multiplier is very near to unity (see Table 19).

The crucial problem is one which emerges from different perspectives. For instance, when the monetary authority intends to reduce the volume of credit by increasing reserve ratio and lowering the bank credit multiplier, it might be offset by the amount of non-bank credit expansion (see Table 21). In this situation, the operations of NBFIs reduce the effectiveness of credit control in the short-run. Similarly, when the monetary authority tries to expand credit by lowering the bank reserve ratio and increasing the bank credit multiplier, the NBFIs multiplier remain unchanged. But in many SEACEN countries, reserve requirements are not imposed on non-bank financial institutions with the exception of Malaysia and the Philippines. In Malaysia, besides the commercial banks, finance companies and merchant banks (the two main NBFIs that compete actively with the commercial banks for deposit funds) are also required to maintain statutory reserve ratios (SRR). Similarly, the Non-Bank Quasi Banks (NBQBs) in the Philippines are also required to put up reserves on their deposit substitutes. Although the effect of the growth of NBFIs (resulting in a higher financial intermediary multiplier) may be offset by a general increase in the official reserve requirements of the commercial banks, the contraction of credit has to be at the expense of the commercial banks, thus, ignoring the basic principle of equity. Therefore, the growth of a rival group of institutions developing a thriving business and unhampered by monetary authorities is most distasteful to the banks. And, this is likely to weaken the willingness of the commercial banks to co-operate on moral suasion and self-imposed prudential ground basis. Therefore, the possible measures of control, by which the lending activities of the NBFIs may be regulated, are either moral suasion or imposition of statutory requirements on the NBFIs. The philosophy behind moral suasion is to allow flexibility and not to cripple the activities of the NBFIs by rigid rules. But the NBFIs that are not coming directly under the supervision of the central bank do not respond readily to moral suasion.

The second method of imposing statutory minimum reserve re-

quirements on the NBFIs with regard to the volume of credit they may create is similar in principle to the regulatory arrangements governing commercial banks. However, the problem arises as to where the required reserves should be lodged. If the reserves are kept with the central bank, it would have the effect of reducing the deposits in commercial banks, and, thereby the volume of bank credit; and the large part of the burden of credit falls on the banking system. In the case of extreme shortage of credit, these NBFIs may raise the interest rates payable on their deposits in order to attract new deposits. These new deposits might be enough to offset the rise in reserve requirements so that the entire burden of adjustment is again shifted to commercial banks. Therefore, the effectiveness of reserve controls is greatly reduced if the NBFIs are able to offer higher returns on deposits. In this context, if the monetary authority tries to control the price of NBFIs' credit and the interest payable on deposits with these NBFIs, it would also not be in line with the policy thrust towards financial deregulation which aims to foster competitive conditions and greater efficiency in financial intermediation. Nevertheless, the net result of requiring the NBFIs to deposit their required reserves with the central bank would therefore, be a shift of a large part of the burden of credit contractions to the banking system.

However, it must be remembered that the increase in the supply of loanable funds following the shift of funds from demand to time deposits can also occur within the banking system itself if the commercial banks are required to maintain two separate ratios, with the statutory reserve ratio for demand deposits being higher than that for time deposits. But any shift of funds from demand deposits to time deposits held with the NBFIs is not expected to lead to a significant increase in the supply of loanable funds if the NBFIs are also required to maintain the same level of statutory reserve ratios (e.g., in Malaysia). Otherwise, shifts in deposits from demand to savings accounts or time deposits accounts within the banking system would affect only the M1 multiplier, as observed in some countries in the SEACEN region. For instance, the M1 multiplier which used to be rather stable around the level of 1.20-1.27 during the 1970s in Thailand, dropped to a level of 0.99-1.15 during 1982-1986.³² Nevertheless, the extent to which the volume of credit may be increased by the growth of these NBFIs depends on the combined

32. Bank of Thailand, *Project Questionnaire Replies*, 1987.

effect of the non-bank credit multiplier and the bank-credit multiplier.

It must also be remembered that in times of credit shortage, the NBFIs are in a stronger position to attract deposits from banks by raising the rate of interest payable on their liabilities. The commercial banks, on the other hand, are presented by institutional or/and legal restrictions from increasing their interest rates. Hence they tend to lose deposits to NBFIs. The NBFIs whose liabilities are closer substitutes to the deposits of banks (e.g., finance companies) will be in a better position to attract deposits away from banks. In order to meet this outflow of deposits, commercial banks often set up subsidiaries. By doing so, they by-pass the restrictions placed on them and obtain collectively the benefits of reserve-economising features of NBFIs.

4. Adequacy of Supervisory Framework for the NBFIs

The growth of the non-bank financial institutions and its implications for monetary policy have been analysed and discussed in a relatively strict sense. The foregoing analysis suggests that although some of the NBFIs participate in the expansion of credit, they differ from the commercial banks in the process of credit creation. The possibility of substitution between money and NBFIs claims (i.e., disintermediation) has become a matter of concern for monetary authorities from the point of view of monetary control. It is viewed that if the NBFIs are kept outside the regulatory jurisdiction of the Central Bank, the effectiveness of monetary policy is reduced if the regulatory instruments are not applied to some NBFIs that compete with the commercial banks in the deposit and credit market. In other words, the operations of NBFIs may threaten to diminish the effectiveness of monetary policy when, by means of interest rate differentials or otherwise, they are able to induce a rapid shift of deposits from banks to themselves, thereby increasing in the short run, without regard to central bank monetary policy, the amounts of outstanding credits.³³ In this context, this section tries to analyse some aspects of the monetary policy part of the regulation and supervision problem associated with the growth of NBFIs.

Since the establishment of non-banks is a fairly recent development in the SEACEN countries, the regulatory and supervisory

33. Richard S. Thorn. "Non-Bank Financial Intermediaries, Credit Expansion and Monetary Policy". *IMF Staff Papers*, Vol. V, 1957-58, pp. 377.

framework that governs the operations of the NBFIs is also not as comprehensive and well-defined as that for banks. This is because these NBFIs have sprung out of the demand for new and diversified financial services by the public; and also out of the necessity to cater to the needs of the various sectors of the economy. If the activities of an NBFIs have a direct bearing on monetary developments, a difficult problem is posed for monetary policy if the particular NBFIs lies outside the supervisory jurisdiction of the monetary authority. Therefore, some countries in the SEACEN region have already kept these NBFIs under the direct regulatory framework of the central bank by imposing uniform mandatory reserve and liquidity ratios (e.g., in Malaysia). However, the heterogeneous nature of non-bank financial institutions has given rise to several governmental bodies overseeing their operation and supervision in addition to the central bank.

In Indonesia, the supervision of non-bank financial institutions (NBFIs) was based on a Ministry of Finance decree in September 1982. Prior to September 1982, NBFIs were supervised by Bank Indonesia with the Capital Market Committee issuing regulations regarding NBFIs. The central bank, however, has an indirect role in regulating NBFIs through the rediscounting of SBPUs (Surat Berharga Pasar Uang or Money Market Certificates). The NBFIs are also required to submit financial reports on a regular basis to Bank Indonesia and it also retains the right to use moral suasion whenever necessary. The operations of NBFIs are also limited through the imposition of a gearing ratio which is determined at 15 times of their equity. In Indonesia, the NBFIs are not permitted to accept savings either in the form of demand deposits, time deposits, or savings deposits. The NBFIs are also not allowed to perform any kind of banking business. In addition, funds mobilized by the NBFIs (through the issuance of financial instruments) cannot be invested abroad. There are also some limitations in the NBFIs' uses of funds. NBFIs are not permitted to engage in foreign exchange business such as serving exports and imports. NBFIs are also not allowed to issue their own "letters of guarantee".

In Malaysia, out of the NBFIs, only the licensed finance companies and discount houses are supervised by the monetary authority. The licensed finance companies operate within the Finance Companies Act 1969. The merchant banks are also under the regulatory jurisdiction of the central bank. The finance companies have to comply

with such directives and guide lines issued by the central bank.³⁴ The discount houses, on the other hand, operate under a set of guidelines issued by the central bank. The central bank also examines, under conditions of secrecy, the books, accounts and transactions of the discount houses. Some of the requirements imposed on finance companies, merchant banks; and the operational guidelines for discount houses are elaborated in the following:

“The main requirements imposed on the finance companies are namely, maintenance of minimum capital, maintenance of minimum liquid assets against eligible liabilities, maintenance of statutory reserve ratio, observance of risk asset ratio, maintenance of a reserve fund, prohibition of granting unsecured loans in excess of certain limit, observance of lending limit to a single customer, and a large loan limit of not more than the prescribed per cent of total loans. Similarly, statutory reserve requirements and gearing ratios are imposed on merchant banks. Those merchant banks which may issue negotiable certificate of deposits (NCDs) are required to observe a higher liquidity ratio. The guidelines of operations for discount houses, on the other hand, comprise the capital requirements; capital structure, shareholding and management; gearing ratio; acceptance of deposits; uses of funds; trading in securities; and supervision by the central bank. The discount houses must submit to the central bank, returns on their assets and liabilities; balance sheets and profit and loss accounts; annual audited financial statement (giving a detailed profit and loss account, appropriation accounts and balance sheet). The discount houses must consult the central bank regularly on everything pertaining to the market and to provide the central bank with detailed information on the composition of its portfolio of securities and non-government papers, the extent of its activities and the level of interest rates paid for deposits and repurchase obligations accepted. The central bank’s involvement in other NBFIs such as insurance companies began in May 1988 when the office of the Director General of Insurance was transferred from the Treasury to Bank Negara Malaysia. Some of the insurance companies are already under investigation by the Insurance Regulatory Department of Bank Negara Malaysia. The inspections are being conducted under conditions of secrecy on

34. It must be noted that finance companies, merchant banks and discount houses in Malaysia are classified as “banking institutions”. However, for our purpose of analysis, they are treated here as NBFIs.

books, accounts and transactions of selected insurance companies".³⁵

In Nepal, NBFIs are established under separate Acts. Such institutions are generally restricted from conducting commercial banking activities, although some of the branches of a NBFI, namely, the Agricultural Development Bank, are allowed to conduct such activities. However, the NBFIs have to follow the interest rates fixed by the central bank. The other NBFI, namely, the National Insurance Corporation come under the jurisdiction of the Ministry of Finance, while all the policies regarding investment, premium, reserve funds come under the purview of the Insurance Committee set up by the government. In a strict legal sense, only commercial banks come under the jurisdiction of the central bank. The central bank has the legal authority to regulate NBFIs (deposit accepting and lending institutions) in terms of fixing interest rates paid and charged by the institutions, inspection and supervision of these institutions, and fixing liquidity and other reserves.³⁶ However, non-deposit accepting and or non-lending institutions, such as insurance companies and provident fund corporations, are not subject to supervision and inspection of the central bank and the government.³⁷

In the Philippines, the operations and activities of the NBFIs, except for insurance companies, are subject to regulation by the central bank and when NBFIs have quasi-banking functions (i.e., when they become non-bank quasi banks - NBQBs), they are subject to additional regulations. The additional regulations for NBQBs are the imposition of networth to risk asset ratio, reserve requirements, interest rate ceilings, and submission of statistical monitoring reports. The central bank shares its authority over NBFIs with other governmental agencies. It has the sole supervisory power only over non-bank thrift institutions and pawnshops.

In summary, the central bank has adopted various measures to regulate non-banks as authorized or provided for in the basic laws or charters governing operations of these institutions. For instance, the operations and activities of non-bank financial intermediaries, except insurance companies, are subject to regulation by the Mone-

35. Section 18(1) of the Insurance Act, 1963, Malaysia.

36. Effective Mid-July 1989, interest rates have been completely liberalized and commercial banks as well as non-bank financial institutions can fix their own deposit and lending rates.

37. A recent legal enactment has empowered the Nepal Rastra Bank to examine the activities of two major NBFIs, namely the Agricultural Development Bank (ADB) and the Nepal Industrial Development Corporation (NIDC).

tary Board (per, the General Banking Act-Rep. Act No. 337) which may include, but need not be limited to, the imposition of constraints covering: (a) the minimum size of funds received; (b) methods of marketing and distribution; (c) terms and maturities of funds received; and, (d) uses of funds. The Monetary Board has also prescribed control ratios, or other forms of regulation on the different types of contingent accounts of non-bank financial intermediaries performing quasi-banking functions.

Meanwhile, investment houses in the country come under the central bank regulatory power through the Investment Houses Law (Presidential Decree No. 129, as amended) and are also subject to such regulations as the observance of capital-to-risk asset ratios and other liquidity ratio requirements to ensure their viability.

Pawnshops in the country are placed under the regulations of the central bank through the Pawnshop Regulation Act (Presidential Decree No. 114). The Central Bank conducts examinations, inspections and investigations of books, records, business affairs, administration, and financial conditions of pawnshops. The Central Bank also requires, among other things, the submission of reports of condition and such other reports necessary to determine compliance with the provisions of the Decree, exercises visitorial powers whenever deemed necessary, and imposes such administrative sanctions including the imposition of fines for violations of the Decree.

In Sri Lanka, the Control of Finance Companies Act No. 27 of 1979 vests the central bank with powers over non-bank financial institutions. The major feature of the Act was the requirement that a certain category of non-bank financial institutions should register with the central bank. The Act vests the central bank with a wide array of powers over all NBFIs. Under this Act, the Monetary Board is empowered to give directions to all such institutions. Some of these are the terms and conditions under which deposits may be accepted and the rates of interest payable on such deposits; the terms and conditions under which loans may be granted and the rates of interest charged on such loans. Under this Act, the Monetary Board is empowered to prescribe the terms and conditions under which investments may be made; the minimum ratio which capital and reserves should bear to total deposits (i.e., capital-deposit ratio); and the minimum initial payments that should be made by a prospective hirer in respect of any hire purchase agreement. The Monetary Board is also empowered to prohibit these institutions from increasing the amount of their loans and investments. The Board can also fix limits to the rate at which such loans and

investments may be increased within specified periods. Accordingly, the ways in which supervision of non-bank financial institutions can be conducted is by the periodic examination of the books and accounts of such institutions. However, these NBFIs are not subjected to statutory reserve requirements as in the case of Malaysia. The other NBFIs namely, the insurance corporations, employees provident fund, etc. are established under different Acts of Parliament. Therefore, the Control of Finance Companies Act No. 27 can be regarded as a major step towards bringing the NBFIs under the supervisory jurisdiction of the central bank.

In Thailand, the non-bank financial institutions which can create credit and affect the cost of borrowing are under the jurisdiction of the Ministry of Finance which in turn delegates supervisory powers to the Bank of Thailand. Accordingly, all finance companies and credit-foncier companies are regulated by the Ministry of Finance and the Bank of Thailand under the Act on the "Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2526 and B.E. 2528". In Thailand, finance companies and credit foncier companies have to maintain statutory reserve requirements, calculated on different basis as against the requirements for commercial banks. All life insurance companies operate under the Life Insurance Act, B.E. 2510 (1967) and come under the regulation and supervision of the Ministry of Commerce. Among other things, the Act requires each life insurance company to make a security deposit of Baht 2 million and to maintain minimum capital funds of Baht 5 million. The Act also empowers the Ministry of Commerce, among others to specify the various forms of investments in which life insurance companies can put their funds, to require life insurance companies to deposit a portion of their insurance reserves with the official insurance registrar, and to approve the rate of insurance premium to be set by life insurance companies.

All cooperatives operate under the Cooperative Act, B.E. 2511 (1968). Two departments in the Ministry of Agriculture and Agricultural Co-operatives (the Department of Cooperatives Promotion and the Department of Cooperative Auditing) are empowered to regulate and supervise cooperatives. All pawnshops operate under the Pawnshop Act, B.E. 2505 (1962) with the Ministry of Interior as the regulatory agency. The Government Housing Bank (GHB) is under the supervision and control of the Ministry of Finance. It is regulated under the Government Housing Bank Act, B.E. 2496 (1953). The Bank for Agriculture and Agricultural Cooperatives (BAAC) is regulated under the Bank for Agriculture and Agricultural Co-opera-

tives Act, B.E. 2509 (1966) and is supervised by the Ministry of Finance. The Government Savings Bank (GSB) is regulated under the Government Savings Bank Act, B.E. 2489 (1946) and the bulk of the investment of the GSB's funds have to be along the guidelines set by the Ministry of Finance. In other words, most of the NBFIs (except the life insurance companies which are supervised by the Ministry of Commerce) are supervised by the Ministry of Finance. All of the Government specialized NBFIs are supervised through representatives on the Board of Directors.

While the growth of NBFIs has weakened monetary controls to some extent, the effects do not appear to have been very great, and the main source of difficulty for monetary policy is to be found elsewhere. In other words, the monetary policy problems raised by the growth of non-bank financial institutions (NBFIs) and their activities could go beyond the monetary control strategy. The growth of new instruments and new markets outside the traditional jurisdiction of the supervisory authority may raise doubts and questions about the adequacy of the existing supervisory framework in the SEACEN countries. But in a majority of the countries in the SEACEN region, the competition from the non-bank financial institutions as suppliers of credit is not strong compared to the dominant position of commercial banks. Therefore, the immediate concern of regulatory authorities has been to bring commercial banks under effective control.

Although some of the NBFIs are less controlled, the functions of banks and NBFIs are not blurred and they are also not free to expand their fund gathering and lending activities. Further, the distinction between banks and NBFIs is still clear. This might be blurred in the future when NBFIs perform functions that are very similar to those of banks in the SEACEN countries. Therefore, the growth of NBFIs should be regarded as a challenge rather than a problem. It may be recalled that the growth of these NBFIs has also brought an improvement in the intermediation system as a whole. The problem of supervisors may be increased but benefits to the economy by these changes can be very substantial. Furthermore, some of the countries in the SEACEN region have already brought those major NBFIs (which are in keen competition with the commercial banks, e.g., finance companies) under the supervisory framework of the central bank and have imposed rigorous regulatory requirements. In the case of other NBFIs, they have been established by the government themselves to cater to the needs of the various sectors of the economy. Moreover, excluding finance compa-

nies, the proportionate share of other NBFIs in total assets of the financial system is not significant. Therefore, the existing regulatory and supervisory framework should not be regarded as insufficient although there is still room to make it more comprehensive and also well defined. It is also important not to over-regulate up to the point where competition between NBFIs and commercial banks are stifled. Therefore, the emergence of NBFIs still renders monetary policy as effective, when supplemented by the supervisory and regulatory measures.

VII. CONCLUDING OBSERVATIONS

The predominance of commercial banks have had a long history and tradition in the economic experience of the countries in the SEACEN region. Relative to the non-bank financial institutions, their sizes are already far from being comparable and regulatory conditions imposed on commercial banks have not diminished their role. The competition from NBFIs as suppliers of credit in the SEACEN countries, therefore, is not strong compared to the dominant position of commercial banks. Therefore, the immediate concern of monetary authorities in the SEACEN countries has been to bring them under effective control. The threat that the growth of the NBFIs may present to the effectiveness of monetary policy lies not so much in the higher credit multiplier of the financial system but in the fact that their growth may introduce an increasingly important element of credit expansion which in most SEACEN countries, under present legislation, cannot be directly controlled by the monetary authorities. Although the monetary authorities may be successful in preventing a rise in financial credit by restricting the amount of reserves available to banks, an increase in credit could still occur through a shift in deposits from banks to non-bank financial institutions (NBFIs).

Under these perspectives, the present study has attempted to pursue certain common implications for monetary policy by the growth of these NBFIs in the SEACEN countries without losing sight of the substantial differences in their respective experiences. Given that the monetary policy implications associated with the growth of NBFIs is wide ranging and complex, it has not been possible to do full justice to many aspects of financial changes introduced by the NBFIs and their implications for monetary policy. For the same reason, it is also difficult to set forth only one or two definite conclusions. Therefore, the following conclusions or observa-

tions on recent experiences with the implications for monetary policy as a result of the growth of NBFIs has been reached, some of which are explicit and others implicit:

1. The first observation concerns the validity of the distinction between banks and non-bank financial institutions. The distinction between banks and the NBFIs in the SEACEN countries is not breaking down to the same extent as in the industrial countries, where this breakdown has a profound impact on the narrow aspect of monetary policy, thus making the conceptual difference between various monetary aggregates meaningless. In other words, the distinction is still a clear and a valid one, and probably still useful, at least for the purpose of monetary analysis and policy formulation, for the following practical reasons. The legal regime affecting the banks is still sufficiently different to place the banks in a distinct category separate from other financial institutions. The NBFIs are also not allowed to accept demand deposits or chequing accounts. The banks still account for the major share of transactions, and better data on the banks are available. This distinction might blur in the future when the majority of these NBFIs perform functions that are very similar to those of banks as evidenced in industrial countries.
2. The second observation concerns the role of disintermediation in effective monetary management. The NBFIs have not contributed very much to the instability or to the ineffectiveness of monetary policy in the SEACEN region. It does appear that in some SEACEN countries rising interest rates induced a shift of funds by the public from demand deposits to time deposits of the commercial banks and the NBFIs. In an environment of rising interest rates, the shift of funds from the demand deposits or other deposits to time deposits held with the NBFIs do increase the supply of loanable funds if the NBFIs are not required to maintain statutory reserve ratios. There would also be an increase in the supply of loanable funds following the shift of funds from demand to time deposits only if the commercial banks are required to maintain two separate ratios, with the statutory reserve ratio for demand deposits being higher than that for time deposits.

However, in almost all the countries in the SEACEN region,

the statutory reserve ratio of the banking institutions are based on total deposit liabilities or eligible liabilities (based on respective country's definitions) of individual banking institutions. Further, the systematic shift of demand deposits into time deposits has occurred only within the commercial banking system to a greater extent.³⁸ But as the commercial banks in most of the countries in the SEACEN region are required to hold statutory reserve requirements on the basis of total deposit liabilities, the disintermediation effect of this kind on the expansion of credit cannot be expected. Even the shift of demand or other deposits of the banking institutions to the time deposits of the NBFIs is not expected to lead to a significant increase in the supply of loanable funds if these NBFIs (that compete actively with the commercial banks) are also required to maintain uniform statutory reserve ratios. In other words, if such a shift should raise difficulties in the future, their destabilizing effects can be eliminated by the application of appropriate statutory reserve requirements to these NBFIs as well. In this respect, one country in the SEACEN region has already imposed statutory reserve requirements for those NBFIs, that compete with the commercial banks.³⁹ In this situation, any shift of funds from demand deposits to time deposits held with these NBFIs is not expected to lead to a significant increase in the supply of loanable funds.

It should be noted, however, that if the uniform effective reserve requirements are imposed on NBFIs, the rationale of maintaining the "intermediary status" of these NBFIs is also questionable. However, in a majority of countries in the SEACEN region the NBFIs (except finance companies in some countries) have generally not been able to compete effectively with banks and their market share both in credit and deposit markets is very low. Therefore, the problem of destabilizing effects as a result of disintermediation has not become a crucial problem due to the emergence of NBFIs.

38. In Thailand, for instance, demand deposits as a percentage share of total deposits declined markedly from 16.2 per cent in 1975 to 13.1 and 5.4 per cent in 1980 and 1986: - *Project Questionnaire Replies*.

39. In Malaysia, for instance, the finance companies and merchant banks that compete actively with the commercial banks for deposit funds, are also required to maintain statutory reserve ratios.

3. The third observation concerns the stability of the value of money multiplier. The changes in the interest rates have altered to some extent the structure of the supply of loanable funds by the shift of demand deposits of the banking institutions to the time deposits of the NBFIs. However, the major portion of the shift from demand deposits to time deposits has occurred within the commercial banking system itself. Nevertheless, the shift in deposits from demand to savings or time deposits accounts within the banking system has affected the M1 multiplier in some countries in the SEACEN region.⁴⁰ Therefore, in terms of monetary targeting, the country that has been affected by the unstable money multiplier, has to use a multiple of targets, namely, M1 and M2, with emphasis on M2. Domestic private credit has also been considered as another target.⁴¹ Therefore, it is the disintermediation within the banking system itself that has contributed more to the instability of M1 multiplier. However, while there has also been a shift in deposits from the commercial banks to the NBFIs in some countries, there is no clear indication that there has been a shift away from demand deposits directly into deposits with the NBFIs.⁴² Further, the role of NBFIs in financial intermediation relative to the banking institutions being less significant, the extent of disintermediation is very small.

Nevertheless, when central banks try to expand credit by lowering the bank reserve ratio and thus increasing the bank credit multiplier, the NBFIs credit multiplier may remain unchanged. On the other hand, when the monetary authorities try to reduce bank credit by increasing the bank reserve ratio and thus increasing the bank credit multiplier, it may be partly offset by the amount of non-bank credit. Therefore, the method of circumvention of credit controls by these NBFIs, if not controlled properly by the central bank or monetary authority, might affect or weaken the willingness of the commercial banks to co-operate with the monetary authority in implementing the monetary policy effectively.

40. In Thailand, for instance, the M1 multiplier has dropped to the level of 0.99-1.15 during 1982-1986 as compared to the level of 1.20-1.27 during the 1970s: - *Project Questionnaire Replies*.

41. Bank of Thailand, *Project Questionnaire Replies*, 1987.

42. Bank Negara Malaysia, *Project Questionnaire Replies*, 1987.

4. The fourth observation concerns the volatile movements in the velocity of circulation of money. In most of the countries in the SEACEN region, the proportionate share of financial claims against NBFIs in the total financial claims being very minimal, their potential effects on the money multiplier and velocity of circulation of money would not be very significant. The ability of the central bank to control monetary aggregates would not, therefore, be generally impaired. ^{43/} However, in some SEACEN countries the conduct of monetary policy in recent years had been complicated by the structural changes in the financial system resulting in volatile movements in the velocity of circulation of money and also the money multipliers. The growing substitution out of narrow money, (M1), into interest bearing deposits with new NBFIs, particularly the finance companies, merchant banks and discount houses has changed the patterns of velocity during the period 1959-1984. The income velocity of the private sector liquidity of broad money, M2 and M3, has been more stable than the velocity of circulation of narrow money, M1, implying that monitoring of broad money, M2 or M3, in addition to narrow money, M1, is important for monetary management. ⁴⁴ It is due to the fact that the proliferation of these NBFIs has led to the creation of a variety of money and near money substitutes like CDs, NCDs and other deposit substitutes.

However, the contribution of new deposit instruments, namely, negotiable certificates of deposits (NCDs), deposit substitutes (DS) or transferable certificates, floating rate notes, etc., are not significant in the total portfolio of the financial system. Its effect on M2 and M3 multipliers or velocity of circulation of money, therefore, will be limited in view of the small proportionate share of financial claims against NBFIs in the total financial claims, M3. The claims against banking institutions, particularly deposit money banks, continue to predominate financial transactions. Therefore, the claims against NBFIs cannot be significant enough to affect the controllability of major monetary aggregates.

43. Central Bank of the Philippines, *Project Questionnaire Replies*, 1987.

44. Bank Negara Malaysia, "Changing Velocity of Circulation, 1959-1987", *Annual*

5. The fifth observation concerns the possible adverse effect on monetary aggregates as a result of growing substitutions out of narrow money, (M1), into interest-bearing deposits of NBFIs. It may be recalled that the NBFIs in the SEACEN countries are not allowed to accept demand deposits. Some countries are also moving towards a broader definition of money. However, it must be realized that the aggregates themselves are still subject to structural changes and their behaviour is not fully known. Thus, it would be dangerous to use them as monetary targets.

Apart from that, there is also the problem regarding the availability of up-to-date data on the extent of disintermediation and the extent of financial claims against NBFIs on a regular basis. Although some countries in the SEACEN region are placing greater significance on the broader concept of money, M3, the narrow monetary aggregates are still being used as monetary indicators for the purpose of monetary management because claims against banking institutions, particularly, the deposit money banks continue to predominate the financial transactions, and data on these items are available on a regular or timely basis.

Further, since the value of private sector deposits (including deposit substitutes) have not grown substantially and its proportionate share to total financial claims is very minimal, the composition of broad monetary aggregates has not been altered over the years as a result of the inclusion of the claims of NBFIs in some countries. Even in those countries, where the financial instruments of NBFIs are incorporated and broader monetary aggregates have been formulated, the growth rates of M2 and M3 have moved in the same direction with almost the same rate of growth.⁴⁵

Monetary aggregates have not been redefined even with the presence of financial instruments or claims offered by NBFIs that are close substitutes to deposits. In some countries, monetary aggregates as currently defined already take into account

45. In Thailand, the monetary authority formulated M3 aggregate, taking into account operations of major NBFIs in the late 1970s. However, M2 and M3 moved in the same direction with almost the same rate of growth. In monitoring M2, the authority can still closely track the movement of M3: - *Project Questionnaire Replies*.

the major proportion of private sector deposits which also includes the deposits held with the finance companies, merchant banks and discount houses. ^{46/} Therefore, the growth of NBFIs has not posed problems to the monetary authorities in controlling the monetary aggregates.

Nevertheless, the use of different monetary aggregates as a guide for monetary policy actions can sometimes lead to divergent monetary policy options, the definition of money actually used can be critical. Therefore, certain criteria has to be adopted to pick the most appropriate empirical measure of money from among a variety of definitions taking into consideration the strength of the relationship between changes in money and changes in income; the stability of this relationship over time; and the predictive power of this relationship. In other words, continuous studies are needed to analyse the impact of NBFIs on monetary policy implementation.

6. The sixth observation concerns the adequacy of the regulatory and supervisory framework governing the NBFIs. While the growth of NBFIs has affected the mechanism of monetary controls to some extent in some countries in the SEACEN region, the dimension of effects do not appear to have been very broad. However, although the activities of NBFIs, such as finance companies are already under the regulatory and supervisory jurisdiction of the central bank in some countries in the SEACEN region, these NBFIs particularly, the finance companies still has a large overhang of non-performing loans and has put a heavy strain on the profits of many companies and the capital of a few. ⁴⁷ Therefore, unless these institutions are supervised by the monetary authorities in their loan granting process which is usually influenced by unethical and imprudent practices, the confidence needed to keep the entire financial system sound and flexible will be questionable. Therefore, the implications of the growth of these NBFIs on monetary

46. In Malaysia, monetary aggregates as currently defined, already take into account about 90.0 per cent of private sector deposits which also include the deposits of finance companies. Most of the other NBFIs are declining in importance in terms of their holdings of private sector deposits, accounting for less than 10.0 per cent of the private

47. For instance, according to the Bank Negara Annual Report, 1987, the banks and the finance companies in Malaysia had non-performing loans, comprising more than 20.0 per cent of the total outstanding loans by the end of 1987. Similarly interest suspension

policy will be more profound to the monetary policy part of supervision and regulation because most of these institutions are outside the regulatory authority of the central bank. The prevailing regulatory and supervisory framework that governs the operations of these NBFIs are also not as comprehensive and well defined as that for banks.

However, it must be remembered that the logic behind the establishment of these NBFIs had been to supplement the role of commercial banks. They emerged in response to the role of commercial banks. They emerged in response to a failure by the banking system to meet the diversified needs of financial intermediation and most of these institutions were also established under specific Acts for either developmental or promotional purposes. Many of these institutions were also established as a direct result of selective credit policies or for specialized purposes. Therefore, there must be a trade-off between necessary regulations and competitive flexibility in order to maintain the operations of these NBFIs as per the objectives and spirit under which they were established by the government themselves under specific Acts in the SEACEN countries.

7. Finally, the potential effects of non-bank financial institutions in the implementation of monetary policy should not be exaggerated. There is a limit on banking disintermediation because after a certain point, individuals may be reluctant to transfer deposits from banks to NBFIs in response to differences in interest rates. These NBFIs cannot go on increasing their interest rates to attract deposits since the upper limit of the interest they may charge on their loans is ultimately determined by the rate of return on new investments. In most of the SEACEN countries, the commercial banks dominate the financial system and therefore, any unilateral action of NBFIs is unlikely to have a very severe impact on monetary policy. Moreover, interest rates are not fully liberalized in a majority of the countries in the SEACEN region. Therefore, the extent of banking disintermediation due to the unilateral action of these NBFIs is also limited and, moreover, the impact which has remained as residues, has been already taken into account in the management of money supply by bringing these NBFIs under the jurisdiction of the central banks in some countries.

The emergence of NBFIs, therefore, still renders monetary policy as effective.

Moreover, the growth of NBFIs has supplemented the role of commercial banks in rendering services to the economy and also creating a more competitive environment in the financial system. Their existence stimulated the banks themselves to innovate and be more responsive to the needs of the customers and hence to the country. The growth of these institutions has also made it possible to make available financial resources on suitable terms and conditions to all sectors of the economy. Although systematic changes in the composition of the portfolios of the non-bank financial institutions could exert destabilizing effects which would weaken the effectiveness of monetary controls, the recent experience in many countries in the SEACEN region suggests that when business fluctuations are as moderate as they have been in recent years, commercial banks constitute a much more serious problem in this respect than do NBFIs. What is needed to make monetary policy more effective is not additional controls over the activities of the non-bank financial institutions but rather some means by which the scope for destabilizing portfolio adjustments by commercial banks can be reduced. While emphasizing the need for imposing statutory regulatory measures on the NBFIs, exactly in the same way as being applied to the banking institutions, the maintenance of the 'intermediary status' of the NBFIs has to be taken into consideration as well. Hence, the extent of the necessity of the removal of the 'intermediary status' of the NBFIs will ultimately determine the extent of regulation and supervision to be imposed on them. If the presence of NBFIs can stimulate a higher rate of savings and mobilize them for investment purposes, that would be a desirable element, since the shortage of capital is one of the major problems faced by developing countries in the region.

APPENDICES

INDONESIA: NUMBER OF FINANCIAL INSTITUTIONS

Type	Head Office				
	1969	March 1974	March 1979	March 1985	March 1987
TOTAL	8849	5990	6087	6099	
A. Money-generating	143	124	95	86	82
1. Central bank	1	1	1	1	1
2. Commercial banks	142	123	94	85	81
B. Other deposit-type	8681	5838	5888	5848	5806
1. Savings banks	12	11	5	2	3
2. Rural banks	8669	5827	5871	5832	5789
3. Finance companies			12	14	14
C. Development-type	25	28	28	29	29
D. Contractual saving			76	89	n.a.
1. Insurance companies	n.a.	n.a.	76	89	n.a.
E. Others (Leasing companies)			n.a.	47	n.a.

MALAYSIA 1: NUMBER OF FINANCIAL INSTITUTIONS

Type	Head Office	Branches	Total
TOTAL	2716	1587	4303
A. Money-generating	39	724	763
1. Central bank	1	10	11
2. Commercial banks	38	862	754
Domestic	22	716	592
Foreign	16	146	162
B. Other deposit-type	2558	863	3421
1. Finance companies	47	303	346
2. Merchant Banks	12	15	27
3. National Savings Bank	1	545	546
4. Cooperatives: banks	2	n.a.	2
societies	2104	-	2104
C. Development-type	7	-	7
D. Contractual saving	7	-	67
1. Provident and pension funds	4	-	4
2. Insurance companies	63	-	63
E. Investment-type (unit trusts)	29	-	29
F. Others	10	-	10
1. Discount houses	5	-	5

1. 1987 Figure.

NEPAL 1: NUMBER OF FINANCIAL INSTITUTIONS

Type	Head Office	Branches	Total
TOTAL	13	470	483
A. Money-generating	4	370	374
1. Central bank	1	13	14
2. Commercial banks	3	357	360
B. Other deposit-type		75	75
1. Postal savings	-	75	75
C. Development-type	2	25	27
1. Agricultural Development Bank	1	25	26
2. Nepal Industrial Devl. Corp.	1	-	1
D. Contractual Saving	5	-	5
1. National Insurance Corp.	1	-	1
2. Private Insurance Cos.	3	-	3
3. Provident Fund Corp.	1	-	1
E. Others	2	-	2
1. Credit Guarantee Corp.	1	-	1
2. Securities Marketing Centre	1	-	1

1. July 1984 Figure.

PHILIPPINES: NUMBER OF FINANCIAL INSTITUTIONS

Institution	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
TOTAL	4,322	4,739	5,057	5,421	5,569	5,810	5,993	5,780	6,109	6,506
Banking institutions	1,301	3,169	3,364	3,652	3,749	3,861	3,829	3,630	3,615	3,553
Commercial banks ^r	1,287	1,423	1,521	1,774	1,885	1,927	1,946	1,776	1,789	1,761
Thrift banks	509	589	673	637	676	708	650	661	665	658
Private development banks	117	130	154	182	203	218	209	215	213	205
Savings and mortgage banks	207	236	268	187	193	209	211	226	231	243
Stock savings and loan associations (SSLA)	207	236	268	187	193	209	211	226	231	243
	185	223	251	268	280	281	230	220	221	210
Rural banks	994	1,086	1,096	1,167	1,112	1,151	1,157	1,117	1,085	1,058
Specialized government banks ^r	69	71	74	74	76	76	76	76	76	76
Non-bank financial institutions (NBFIs)	1,371	1,492	1,615	1,688	1,739	1,868	2,082	2,068	2,412	2,871
Investment houses	56	57	62	49	52	51	49	47	40	44
Financing companies	419	478	531	559	537	532	545	353	334	255
Securities dealers/brokers	130	137	141	141	123	124	127	125	124	129
Investment companies	58	63	62	63	66	65	68	80	82	81
Fund managers	9	9	12	9	10	12	12	12	11	10
Lending investors	40	53	61	78	96	124	152	200	300	484
Pawnshops	308	544	598	634	693	797	970	1,097	1,367	1,681
Private insurance companies	143	141	137	136	136	136	131	127	127	130
Government non-bank financial intermediaries	4	5	6	6	5	6	6	5	5	5
Venture capital corporations	-	-	-	8	15	15	17	17	17	17
Money brokers	4	5	5	5	6	6	5	5	5	5
Non-bank thrift institutions	82	84	78	81	81	81	82	82	82	82
Mutual building and loan associations (MBLA)	7	7	7	7	7	7	7	7	7	7
Non-stock savings and loan associations (NSSLA)	75	77	71	74	74	74	75	75	75	75

- r. Revised based on expanded commercial banks' concept which includes the Land Bank of Philippines (LBP) formerly classified under specialized government banks.

Institution	1970			1975			1980			1984		
	Head Office	Branches	Total	Head Office	Branches	Total	Head Office	Branches	Total	Head Office	Branches	Total
TOTAL	17	259	276	49	1033	1082	67	1323	1390	103	1659	1762
A. Money generating	12	166	178	12	563	575	21	616	637	26	651	677
1. Central bank	1	1	2	1	1	2	1	1	2	1	3	4
2. Commercial banks	11	165	176	11	562	573	20	615	635	25	648	673
B. Other deposit-type		90	90	32	467	499	41	683	724	67	943	1010
1. Finance companies				31	-	31	40	-	40	64	-	64
2. Rural banks		90	90		447	447		641	641		888	888
3. Nat. savings banks				1	20	21	1	42	43	1	52	53
4. Merchant banks										2	3	5
C. Development-type	3	3	6	3	3	6	3	6	9	3	6	9
D. Contractual saving	2	-	2	2	-	2	2	-	2	4	34	38
1. Insurance corp.	1	-	1	1	-	1	1	-	1	2	34	36
2. Provident funds (major)	1	-	1	1	-	1	1	-	1	2	-	2
E. Others												
1. Leasing companies							-	18	18	3	25	28
2. Foreign currency banking units							-	18	18	3	-	3
										-	25	25

THAILAND: NUMBER OF FINANCIAL INSTITUTIONS

Institution	1984			1985		
	Head Office	Branches	Total	Head Office	Branches	Total
TOTAL	1561	2276	3837	1626	2347	3973
A. Money generating	31	1742	1773	31	1809	1840
1. Central bank	1	3	4	1	3	4
2. Commercial banks	30	1739	1769	30	1806	1836
B. Other deposit-type	1196	464	1660	1258	467	1725
1. Finance companies	104	29	133	100	29	129
2. Credit foncier companies	26	-	26	25	-	25
3. Cooperatives	1065	-	1065	1132	-	1132
4. Government savings banks	1	435	436	1	438	439
C. Development-type	4	70	74	4	71	75
1. Bank for Agriculture and Agricultural Cooperatives	1	67	68	1	67	68
2. Industrial Finance Corporation of Thailand	1	3	4	1	4	5
3. Government Housing Bank	1	-	1	1	-	1
4. Small Industrial Finance Office	1	-	1	1	-	1
D. Others (Pawnshop)	330	-	330	333	-	333

Sources: 1. Annual Reports, Bank Indonesia.
 2. The Financial Structure and Its Implications for Monetary Policy in the SEACEN Countries, The SEACEN Centre, 1986.
 3. Philippine Statistical Yearbook, 1987.
 4. Financial Institutions in Thailand, Money and Finance and Financial System and Development Sections, Bank of Thailand.

**THE GROWTH OF ASSETS OF VARIOUS
NON-BANK FINANCIAL INSTITUTIONS (NBFIs): 1977-1987**

(in Percentages)

Country/MBFIs	Average 1977-87	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia												
Development Finance Companies	37.8	27.5	53.9	49.0	51.5	21.2	59.3	30.7	42.8	13.7	28.7	n.a.
Investment Finance Companies	38.6	44.6	56.0	41.2	41.2	41.8	41.6	37.1	14.5	63.8	4.4	n.a.
Other Finance Companies	59.3	n.a.	n.a.	n.a.	n.a.	5.0	41.7	138.7	60.2	103.5	6.7	n.a.
Insurance Companies	33.6	36.0	37.3	35.5	43.6	38.8	38.4	33.2	25.4	29.1	28.6	n.a.
Leasing Companies	63.3	105.2	35.9	-41.6	22.3	73.1	90.3	242.9	62.0	33.5	9.7	n.a.
Pawnshops	24.3	32.6	21.8	37.6	24.3	58.7	32.8	2.3	13.1	15.7	4.1	n.a.
Malaysia												
Finance Companies	23.6	23.3	25.3	28.8	33.8	31.3	23.1	24.8	34.0	17.1	10.1	8.3
Merchant Banks	21.8	17.3	17.4	67.2	24.2	30.3	23.8	31.8	13.6	13.6	1.2	-0.5
Discount Houses	19.1	35.5	38.8	34.1	7.0	8.7	8.5	12.7	22.7	34.4	14.2	-6.8
Provident, Pension and Insurance Funds	17.4	17.5	18.2	17.8	21.9	22.6	20.3	16.0	18.8	10.7	14.1	13.2
Development Finance Institutions	19.3	25.8	24.8	29.6	52.1	23.2	20.4	16.4	1.0	5.7	7.8	5.1
Savings Institutions	16.7	15.0	13.6	7.1	15.1	-1.3	13.7	31.0	61.3	38.8	-15.2	5.1
Other NBFIs	32.3	14.0	22.3	33.8	36.7	71.6	26.6	25.8	30.5	56.5	25.4	11.9

**THE GROWTH OF ASSETS OF VARIOUS
NON-BANK FINANCIAL INSTITUTIONS (NBFIs): 1977-1987**

(in Percentages)

Country/NBFIs	Average 1977-1987	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Nepal												
Agricultural Development Bank (ADB)	21.0	28.9	14.5	20.2	13.2	5.7	19.8	20.8	28.1	29.3	29.6	n.a.
Nepal Industrial Corporation (NIC)	13.3	24.7	20.3	7.5	3.1	7.3	23.2	21.5	3.6	7.2	14.7	n.a.
Provident Fund Corporation	24.7	32.3	26.8	19.6	25.2	24.0	27.0	23.7	21.2	26.2	20.6	n.a.
National Insurance Corporation	27.1	39.5	33.9	15.6	33.0	25.4	18.1	25.1	43.8	23.6	12.7	n.a.
Credit Guarantee Corporation	24.7	20.6	9.8	6.7	29.2	25.8	67.9	12.2	12.2	44.8	17.6	n.a.
Securities Marketing Centre	52.0	-	-	-	-	-	-	30.6	272.3	-38.9	256.1	n.a.
Philippines												
Investment Houses	1.8	n.a.	n.a.	n.a.	33.2	-34.9	14.8	5.4	5.2	-13.8	2.6	n.a.
Financing Companies	-7.8	n.a.	n.a.	n.a.	21.8	-0.4	6.8	-11.9	-22.6	-40.5	-7.8	n.a.
Securities Dealers/ Brokers	-8.5	n.a.	n.a.	n.a.	-1.5	-8.8	-42.8	4.3	-30.9	-28.1	48.3	n.a.
Investment Companies	68.1	n.a.	n.a.	n.a.	21.9	15.8	10.6	-4.9	-57.1	493.5	-3.2	n.a.
Fund Managers	102.5	n.a.	n.a.	n.a.	493.9	-87.7	-5.2	83.5	71.0	169.2	-7.3	n.a.
Lending Investors	55.1	n.a.	n.a.	n.a.	152.7	-37.4	13.9	20.1	39.1	39.4	157.8	n.a.
Pawnshops	25.6	n.a.	n.a.	n.a.	35.7	33.8	7.9	4.1	47.9	42.6	7.2	n.a.
Private Insurance Companies	10.8	n.a.	n.a.	n.a.	11.2	14.1	24.4	0.0	-2.8	28.8	0.0	n.a.
Government NBFIs	55.5	n.a.	n.a.	n.a.	41.7	44.4	84.8	198.9	34.1	-21.6	6.2	n.a.
Venture Capital Corporation	15.3	-	-	-	-	-	4.9	65.5	-26.4	28.4	-9.3	n.a.

**THE GROWTH OF ASSETS OF VARIOUS
NON-BANK FINANCIAL INSTITUTIONS (NBFIs): 1977-1987**

(in Percentages)

Country/NBFIs	Average 1977-1987	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Sri Lanka												
National Savings Bank	21.6	24.6	26.2	33.0	15.5	10.3	41.2	25.2	19.6	15.4	5.2	n.a.
Finance Companies	47.1	23.1	27.8	-9.6	124.7	35.4	87.3	31.7	75.9	48.0	26.6	n.a.
Insurance Corporations	0.7	-	-	-	-	13.4	11.1	-4.6	-24.4	11.7	n.a.	n.a.
FCBUs	76.6	-	-	-	536.9	98.0	84.0	47.9	-2.9	1.1	-2.3	n.a.
Thailand												
Finance Companies	18.2	36.5	45.0	2.1	15.6	18.7	23.5	11.0	12.1	10.8	6.8	n.a.
Government Savings Bank	20.0	16.7	8.8	22.0	15.8	11.4	17.8	23.1	19.8	19.8	45.1	n.a.
BAAC	15.3	28.7	30.6	14.7	20.3	11.6	8.0	7.4	12.3	13.0	6.2	n.a.
Government Housing Bank	4.4	60.0	57.8	49.8	35.9	16.1	-2.0	-6.2	19.6	6.1	7.3	n.a.
Credit Foncier Companies	14.0	21.6	63.1	18.5	17.9	27.4	24.5	-13.7	-18.3	-4.3	3.0	n.a.
Agricultural Cooperatives	10.4	26.6	21.1	8.3	10.9	11.3	5.3	-0.8	7.4	5.6	8.6	n.a.
Savings Corporations	27.6	22.9	26.5	26.9	29.7	29.8	28.4	29.7	25.4	31.7	25.0	n.a.
Industrial Finance Corporation of Thailand	25.2	2.7	21.0	29.9	29.1	33.2	19.1	12.7	49.5	34.7	19.8	n.a.
Life Insurance Companies	22.7	23.1	23.4	26.3	26.4	25.2	22.3	26.5	18.7	18.8	16.3	n.a.
Small Industrial Finance Office	0.3	1.4	0.2	-0.2	-1.2	-1.1	-0.4	0.7	0.9	1.1	1.2	n.a.

Source: Project Questionnaire Replies.

**RATIO OF ASSETS OF BANKS AND VARIOUS NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
TO TOTAL ASSETS OF THE FINANCIAL SYSTEM: 1977-1987**

(in Percentages)

Country/NBFIs	Average 1977-87	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Indonesia												
Banks	88.7	90.9	90.2	90.1	90.4	89.7	88.6	86.8	87.3	86.4	86.8	n.a.
NBFIs												
1. Finance Companies	4.3	3.0	3.6	3.9	3.9	4.1	4.6	5.0	4.5	5.4	4.9	n.a.
a. Developing Finance Companies	0.7	0.5	0.6	0.7	0.7	0.6	0.8	0.8	0.9	0.8	0.8	n.a.
b. Investment Finance Companies	3.5	2.5	3.0	3.2	3.1	3.4	3.7	4.1	3.5	4.4	3.8	n.a.
c. Other Finance Companies	0.1	-	-	-	0.1	0.1	0.1	0.1	0.1	0.2	0.3	n.a.
2. Insurance Companies	5.4	4.7	4.9	5.1	5.0	5.3	5.7	6.0	5.7	5.7	6.1	n.a.
3. Leasing Companies	1.2	0.9	0.9	0.6	0.3	0.4	0.6	1.8	2.2	2.2	2.0	n.a.
4. Pawnshops	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.2	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
Malaysia												
Commercial Banks	51.1	51.0	50.5	52.0	52.6	53.0	52.9	53.5	50.6	49.1	48.4	48.0
NBFIs												
1. Finance Companies	10.1	8.2	8.6	8.7	9.2	9.6	9.8	10.1	11.5	11.7	11.9	11.9
2. Merchant Banks	3.7	2.9	2.8	3.7	3.6	3.8	3.9	4.2	4.2	4.1	3.9	3.5
3. Discount Houses	1.9	2.0	2.4	2.5	2.1	1.8	1.6	1.5	1.6	1.9	1.9	1.7
4. Provident, Pension and Insurance Funds	22.6	25.7	25.5	23.6	22.6	22.1	22.1	21.0	21.3	20.4	21.5	22.5
5. Development Finance Institutions	3.0	2.8	2.9	3.0	3.6	3.5	3.5	3.4	2.9	2.6	2.6	2.6
6. Savings Institutions	4.2	5.5	5.3	4.4	4.0	3.2	3.0	3.1	4.4	5.3	4.1	4.0
7. Other NBFIs ¹	3.3	1.8	1.9	2.0	2.2	2.9	3.1	3.2	3.5	4.8	5.6	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Include unit trusts, building societies, Pilgrims Management and Funds Board and the Credit Guarantee Corporation.

**RATIO OF ASSETS OF BANKS AND VARIOUS NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
TO TOTAL ASSETS OF THE FINANCIAL SYSTEM: 1977-1987**

(in Percentages)

Country/NBFIs	Average 1977-1987	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Nepal												
Commercial Banks	71.8	72.1	72.6	72.0	72.5	74.2	72.0	71.7	70.1	71.4	69.6	n.a.
NBFIs												
1. Agricultural Development Bank	9.9	10.6	9.9	10.4	10.0	8.7	9.1	9.1	10.1	10.1	11.3	n.a.
2. Nepal Industrial Corporation	5.6	7.1	7.0	6.6	5.7	5.0	5.5	5.5	4.9	4.1	4.1	n.a.
3. Provident Fund Corporation	11.1	9.0	9.4	9.8	10.4	10.6	11.8	12.1	12.7	12.4	12.9	n.a.
4. National Insurance Corporation	1.4	1.1	1.2	1.2	1.3	1.4	1.4	1.5	1.8	1.8	1.7	n.a.
5. Credit Guarantee Corporation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	n.a.
6. Securities Marketing Centre	0.1	-	-	-	-	-	0.0	0.0	0.1	0.1	0.2	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
Philippines												
Banking Institutions ¹	87.3	n.a.	n.a.	84.8	84.8	87.2	87.1	87.7	89.1	88.9	88.8	n.a.
NBFIs												
1. Investment Houses	2.2	n.a.	n.a.	3.5	3.8	2.1	2.1	1.7	1.6	1.3	1.4	n.a.
2. Financing Companies	3.2	n.a.	n.a.	5.2	5.1	4.4	4.0	2.7	1.9	1.1	1.0	n.a.
3. Securities Dealers/Brokers	0.2	n.a.	n.a.	0.5	0.4	0.3	0.1	0.1	0.1	0.1	0.1	n.a.
4. Investment Companies	1.2	n.a.	n.a.	1.2	1.2	1.2	1.1	0.8	0.3	1.8	1.8	n.a.
5. Fund Managers	0.03	n.a.	n.a.	0.02	0.1	0.01	0.01	0.01	0.01	0.04	0.03	n.a.
6. Lending Investors	0.01	n.a.	n.a.	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.02	n.a.
7. Pawnshops	0.06	n.a.	n.a.	0.04	0.04	0.1	0.05	0.04	0.05	0.07	0.07	n.a.
8. Private Insurance Companies	3.4	n.a.	n.a.	4.1	3.7	3.6	3.8	3.0	2.6	3.2	3.2	n.a.
9. Government NBFIs	2.4	n.a.	n.a.	0.7	0.8	1.0	1.6	3.8	4.5	3.4	3.6	n.a.
10. Venture Capital Corporations	0.0	n.a.	n.a.	-	-	0.00	0.00	0.00	0.00	0.00	0.00	n.a.
Total	100.0	n.a.	n.a.	100.0	100.0	100.0	100.0	100.0	00.0	0.0	100.0	n.a.

1. Banking Institutions include commercial banks, thrift banks, rural banks and specialized government banks.

**RATIO OF ASSETS OF BANKS AND VARIOUS NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
TO TOTAL ASSETS OF THE FINANCIAL SYSTEM: 1977-1987**

(in Percentages)

Country/NBFIs	Average 1977-1987	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Sri Lanka												
Commercial Banks	67.2	77.4	78.5	77.3	70.1	67.1	60.9	59.1	60.1	60.0	61.4	n.a.
NBFIs												
1. National Savings Bank	15.1	20.7	19.7	19.0	14.0	12.0	12.6	12.1	13.2	13.8	14.0	n.a.
2. Finance Companies	2.9	1.9	1.8	1.2	1.7	1.8	2.4	2.5	4.0	5.3	6.5	n.a.
3. Insurance Corporations	1.6	n.a.	n.a.	n.a.	4.2	3.7	3.1	2.3	1.5	1.6	n.a.	n.a.
4. FCBUs	13.2	-	-	2.5	10.0	15.4	21.0	24.0	21.1	19.3	18.2	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
Thailand												
Commercial Banks	68.4	67.6	66.6	67.8	67.3	67.4	67.8	70.1	71.0	70.2	68.6	n.a.
NBFIs												
1. Finance Companies	14.2	14.6	16.5	14.4	14.3	14.5	14.9	13.7	14.1	12.9	12.4	n.a.
2. Government Savings Bank	6.3	7.0	5.9	6.2	6.2	5.9	5.8	5.9	5.5	6.4	8.3	n.a.
3. Bank for Agriculture and Agricultural Cooperatives	3.4	3.7	3.8	3.7	3.8	3.6	3.3	2.9	2.6	2.8	2.7	n.a.
4. Government Housing Bank	1.6	1.2	1.5	1.9	2.2	2.2	1.8	1.4	1.3	1.3	1.3	n.a.
5. Credit Foncier Companies	0.7	0.7	0.8	0.8	0.9	0.9	1.0	0.7	0.4	0.4	0.4	n.a.
6. Agricultural Cooperatives	1.1	1.6	1.5	1.4	1.3	1.2	1.1	0.9	0.8	0.8	0.8	n.a.
7. Savings Cooperatives	1.1	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.2	1.5	1.7	n.a.
8. Industrial Finance Corporation of Thailand	1.1	0.8	0.7	0.8	0.9	1.0	1.0	1.0	1.1	1.5	1.6	n.a.
9. Life Insurance Companies	1.5	1.3	1.2	1.3	1.4	1.5	1.6	1.6	1.5	1.7	1.8	n.a.
10. Pawnshops	0.6	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	n.a.
11. Small Industrial Finance Office	0.01	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

Source: Project Questionnaire Replies.

[illegible]

1. Banking institutions include commercial banks, thrift banks, rural banks and specialized banks.

**RESOURCES MOBILIZED BY BANKING AND NON-BANK FINANCIAL
INSTITUTIONS (NBFIs) - RESOURCESWISE: 1977-1987**
(as a Percentage of Total)

Country/Financial Institutions	Average 1977-87	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
SRI LANKA												
1. Banking Institutions												
Deposits	68.9	66.2	66.9	68.6	71.7	73.1	71.1	70.7	68.5	67.2	65.2	n.a.
Certificates of Deposits	0.8	-	-	-	-	0.3	0.8	1.3	1.6	1.6	2.4	n.a.
2. NBFIs												
Deposits	26.0	28.8	27.1	26.3	23.8	22.2	24.4	24.5	26.3	27.6	28.7	n.a.
Fund Contribution	3.0	3.0	4.0	3.4	3.0	3.1	2.8	2.6	2.8	2.9	2.9	n.a.
Premiums	1.3	2.0	2.0	1.7	1.5	1.3	0.9	0.9	0.8	0.7	0.8	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
THAILAND												
1. Banking Institutions												
Deposits	66.0	66.3	61.6	61.4	62.3	62.3	63.9	68.4	71.3	72.3	70.6	n.a.
2. NBFIs												
Deposits	14.4	16.2	15.0	16.6	15.9	14.6	13.3	12.2	12.4	12.6	15.4	n.a.
Promissory Notes	16.4	16.0	19.5	17.7	17.7	18.7	19.1	16.1	13.3	13.3	12.3	n.a.
Borrowings	1.9	0.5	2.5	2.8	2.7	3.0	2.5	2.3	1.7	0.7	0.6	n.a.
Share Capital	0.2	-	0.4	0.3	0.3	0.3	0.2	0.2	0.2	n.a.	n.a.	n.a.
Bonds and Debentures	0.1	0.3	0.1	0.1	-	0.01	0.03	0.02	0.1	0.1	0.1	n.a.
Premiums	1.0	0.9	0.9	1.1	1.1	1.1	1.0	0.8	1.0	1.0	1.0	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

Source: Project Questionnaire Replies.

**SHARE OF CREDIT EXTENDED BY VARIOUS TYPES OF
FINANCIAL INSTITUTIONS IN TOTAL CREDIT EXTENDED
BY THE FINANCIAL SYSTEM: 1975-1987**

(in Percentages)

Country/Financial Institutions	Average 1980-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
INDONESIA										
1. Banking Institutions										
Commercial Banks	81.4	93.8	47.8	87.7	86.2	86.8	87.5	86.8	87.1	n.a.
Other Banks	17.6	5.9	49.1	11.7	13.1	12.6	11.9	12.6	12.2	n.a.
2. NBFIs										
Development Finance Companies	0.9	0.3	3.1	0.5	0.6	0.5	0.5	0.5	0.5	n.a.
Investment Finance Companies	-	0.0	-	-	-	-	-	-	-	-
Other NBFIs	0.1	-	0.0	0.1	0.1	0.1	0.1	0.1	0.2	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
MALAYSIA										
1. Banking Institutions										
Commercial Banks	67.8	87.6	80.8	69.1	67.8	67.4	65.0	63.5	62.9	66.2
2. NBFIs										
Finance Companies	14.6	12.4	13.7	12.4	13.1	13.6	15.0	16.0	15.6	17.2
Merchant Banks	5.6	n.a.	5.5	5.6	5.3	5.6	6.5	6.1	5.5	5.0
Thrift/Savings Institutions/ Co-operatives	4.7	n.a.	n.a.	3.6	3.9	4.9	5.6	6.6	8.5	4.6
Development Finance Institutions	2.8	n.a.	n.a.	3.6	3.7	3.3	2.8	2.7	2.5	3.4
Others/Housing Credit Institutions	4.5	n.a.	n.a.	5.7	6.2	5.2	5.1	5.1	5.0	3.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NEPAL										
1. Banking Institutions										
Commercial Banks	71.4	71.8	76.1	78.8	72.6	71.3	66.9	67.2	67.0	n.a.
2. NBFIs										
Agricultural Development Bank	14.7	14.6	12.3	10.2	12.8	14.5	17.4	17.1	18.6	n.a.
Nepal Industrial Development Corporation	6.6	8.9	6.9	6.2	8.0	6.8	6.6	6.0	5.4	n.a.
Provident Fund Corporation	7.2	4.7	4.7	4.8	6.4	7.4	8.9	9.1	9.0	n.a.
National Insurance Corporation	0.2	-	0.01	0.01	0.2	0.03	0.2	0.6	0.01	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

**SHARE OF CREDIT EXTENDED BY VARIOUS TYPES OF
FINANCIAL INSTITUTIONS IN TOTAL CREDIT EXTENDED
BY THE FINANCIAL SYSTEM: 1975-1987**

(in Percentages)

Country/Financial Institutions	Average 1980-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
PHILIPPINES										
1. Banking Institutions										
Deposit Money Banks	62.7	66.2	64.8	63.4	62.9	61.2	58.8	61.0	66.5	n.a.
Specialized Banks	8.1	7.6	8.5	8.0	7.8	7.7	7.1	7.1	10.7	n.a.
Other Banks	16.8	14.1	15.3	17.5	18.1	18.1	19.8	18.7	9.9	n.a.
2. NBFIs										
Investment Houses	2.0	3.0	1.9	1.6	1.8	1.8	2.1	2.2	2.7	n.a.
Finance Companies	3.8	5.4	5.5	5.3	5.0	3.4	2.7	2.0	2.4	n.a.
Securities Dealers										
Brokers	0.2	1.0	0.4	0.3	0.2	0.1	0.1	0.1	0.3	n.a.
Investment Companies	1.0	1.3	0.9	0.8	0.5	0.4	0.1	2.0	2.4	n.a.
Fund Managers	0.2	0.8	0.2	0.03	0.1	0.1	0.1	0.3	0.3	n.a.
Lending Investors	0.03	0.04	0.03	0.02	0.02	0.02	0.02	0.03	0.10	n.a.
Pawnshops	0.2	0.1	0.2	0.2	0.2	0.1	0.2	0.3	0.5	n.a.
Insurance Companies	1.6	0.4	1.0	1.6	1.6	0.4	1.2	2.8	2.3	n.a.
Government NBFIs	3.4	n.a.	1.2	1.3	1.7	6.6	7.8	3.4	1.8	n.a.
Venture Capital										
Corporation	0.01	n.a.	n.a.	0.0	0.01	0.01	0.01	0.01	0.02	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
SRI LANKA										
1. Banking Institutions										
Commercial Banks	89.7	93.9	94.2	92.2	89.9	89.9	87.3	84.8	89.8	n.a.
Rural Banks	1.2	2.2	0.9	1.1	1.2	1.1	1.2	1.2	1.4	n.a.
2. NBFIs										
National Savings										
Bank	0.5	1.1	0.5	0.6	0.4	0.4	0.5	0.5	0.4	n.a.
Finance Companies	4.9	2.8	2.0	2.6	4.2	4.2	5.8	7.1	8.4	n.a.
Long-Term										
Lending										
Institutions ¹	3.7	-	2.4	3.5	4.3	4.4	5.2	6.4	n.a.	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

1. Includes the National Development Bank, the Development Finance Corporation of Ceylon, the State Mortgage and Investment Bank.

**SHARE OF CREDIT EXTENDED BY VARIOUS TYPES OF FINANCIAL
INSTITUTIONS IN TOTAL CREDIT EXTENDED BY
THE FINANCIAL SYSTEM: 1975-1987**

(in Percentages)

Country/Financial Institutions	Average 1980-87	1975	1980	1981	1982	1983	1984	1985	1986	1987
THAILAND										
1. Banking Institutions										
Commercial Banks	72.5	71.0	69.5	69.0	69.2	72.7	74.7	75.0	77.2	n.a.
2. NBFIs										
Finance Companies	16.2	17.9	17.3	17.7	18.4	16.3	14.8	14.1	14.5	13.0
Life Insurance Companies	0.9	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	n.a.
Agricultural Cooperatives	0.8	1.7	1.2	1.1	1.1	0.9	0.8	0.8	n.a.	n.a.
Saving Cooperatives	1.4	1.2	1.3	1.4	1.5	1.6	1.7	2.0	n.a.	n.a.
Pawnshops	0.7	1.1	0.9	0.9	0.7	0.6	0.6	0.7	0.6	n.a.
Credit Foncier Companies	0.6	0.6	0.8	0.8	0.8	0.7	0.5	0.4	0.4	n.a.
Government Savings Bank	0.4	0.3	0.4	0.6	0.5	0.6	0.2	0.2	0.2	n.a.
BAAC	4.5	4.1	4.0	3.8	3.6	3.1	3.1	3.1	3.3	n.a.
Industrial Finance Corporation of Thailand	1.1	1.2	1.1	1.2	1.1	0.9	1.0	1.1	1.1	n.a.
Government Housing Bank	2.0	0.3	2.6	2.6	2.2	1.7	1.6	1.6	1.7	n.a.
Small Industrial Finance Office	0.01	0.1	0.0	0.02	0.01	0.01	0.01	0.01	0.01	n.a.
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

Source: Project Questionnaire Replies.

LOANS AND ADVANCES OF VARIOUS FINANCIAL INSTITUTIONS ACCORDING

TO MATURITIES: 1977-1986

(as a Percentage of Total Loans and Advances)

Country/Financial Institutions	Average																										
	1980-1986		1975		1980		1981		1982		1983		1984		1985		1986										
	Sht.-Term	Med.-Term	Long.-Term	Sht.-Term	Med.-Term	Long.-Term	Sht.-Term	Med.-Term	Long.-Term	Sht.-Term	Med.-Term	Long.-Term	Sht.-Term	Med.-Term	Long.-Term	Sht.-Term	Med.-Term	Long.-Term									
1. INDONESIA¹																											
Banking Institutions																											
Commercial Banks ²	66.8	-	24.4	n.a.	n.a.	71.1	-	22.1	66.2	-	26.7	65.9	-	26.6	65.0	-	27.0	69.5	-	23.3	61.8	-	21.9	67.9	-	23.4	
Rural Banks	-	-	0.8	n.a.	n.a.	n.a.	0.4	-	0.6	-	-	0.6	-	-	0.6	-	-	0.7	-	-	0.9	-	-	1.2	-		
NBFIs																											
Development Finance Companies	0.6	-	0.6	n.a.	n.a.	n.a.	0.5	-	0.6	0.4	-	0.6	0.6	-	0.5	0.7	-	0.5	0.7	-	0.5	0.6	-	1.1	0.8	-	0.5
Investment Finance Companies	5.5	-	1.2	n.a.	n.a.	n.a.	4.9	-	0.4	5.2	-	0.3	5.4	-	0.3	5.9	-	0.2	5.0	-	0.1	6.4	-	7.1	5.9	-	0.1
Other Finance Companies	-	-	0.1	n.a.	n.a.	n.a.	-	-	-	-	-	0.02	-	-	0.05	-	-	0.1	-	-	0.2	-	-	0.2	-	0.2	
TOTAL	72.9	-	27.1	n.a.	n.a.	n.a.	76.9	-	23.1	72.4	-	27.6	72.5	-	27.5	72.2	-	27.8	75.9	-	24.1	69.7	-	30.3	75.8	-	24.2
2. MALAYSIA																											
Banking Institutions																											
Commercial Banks	40.3	4.4	21.0	n.a.	n.a.	n.a.	n.a.	n.a.	45.2	4.1	19.3	42.2	4.5	20.4	41.0	4.6	21.1	39.1	4.3	21.7	37.8	4.3	21.5	36.6	4.3	21.8	
NBFIs																											
Finance Companies	0.9	8.8	4.6	n.a.	n.a.	n.a.	n.a.	n.a.	0.7	8.1	3.6	0.7	8.3	3.9	0.8	8.5	4.1	0.9	9.6	4.5	1.1	9.7	5.1	1.0	8.3	6.2	
Merchant Banks	3.8	1.1	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	4.5	0.9	0.9	4.4	1.0	0.8	4.5	1.0	1.0	3.9	1.2	1.3	2.7	1.2	2.1	2.6	1.0	2.0	
Thrift/Saving Insti./Cooperatives	-	1.6	3.7	n.a.	n.a.	n.a.	n.a.	n.a.	-	1.0	2.5	-	1.2	2.7	-	1.5	3.4	-	1.8	3.8	-	2.2	4.4	-	2.7	5.8	
Development Finance Institutions	0.5	0.3	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	0.4	2.3	0.5	0.3	2.9	0.3	0.2	2.8	0.3	0.3	2.2	0.4	0.4	2.0	0.4	0.3	1.8	
Others ³	-	0.4	5.0	n.a.	n.a.	n.a.	n.a.	n.a.	-	0.6	5.1	-	0.8	5.4	-	0.2	5.0	-	0.2	4.9	-	0.2	4.9	-	0.1	4.9	
TOTAL	45.5	16.6	38.0	n.a.	n.a.	n.a.	n.a.	n.a.	51.2	15.1	33.7	47.8	16.1	36.1	46.6	16.0	37.4	44.2	17.4	38.4	42.0	18.0	40.0	40.8	16.7	42.5	

Country/Financial Institutions	Average 1980-1986	1975	1980	1981	1982	1983	1984	1985	1986
				</					

**LOANS AND ADVANCES OF VARIOUS FINANCIAL INSTITUTIONS ACCORDING
TO MATURITIES: 1977-1986**
(as a Percentage of Total Loans and Advances)

Country/Financial Institutions	Average																										
	1980-1986	1975	1980	1981	1982	1983	1984	1985	1986																		
	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term	Sht.-Med.-Long-Sht.-Term																	
5. SRI LANKA																											
Banking Institutions																											
Commercial Banks	69.0	19.9	9.4	72.8	18.8	6.0	69.2	20.8	8.5	67.8	20.5	10.0	67.7	21.8	8.8	69.7	20.1	8.5	70.9	18.3	9.0	69.3	19.0	9.8	68.2	18.9	10
NBFIs																											
Rural Banks	0.5	0.8	n.a.	1.0	1.4	n.a.	0.5	0.6	n.a.	0.5	0.8	n.a.	0.5	0.8	n.a.	0.5	0.8	n.a.	0.5	0.9	n.a.	0.6	0.9	n.a.	0.7	0.9	n.a.
National Savings Bank	n.a.	0.0	0.4	n.a.	n.a.	-	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.4
TOTAL	69.5	20.7	9.8	73.8	20.2	6.0	69.7	21.4	8.9	68.3	21.3	10.4	68.2	22.6	9.2	70.2	20.9	8.9	71.4	19.2	9.4	69.9	19.9	10.2	68.9	19.8	11.3
6. THAILAND																											
Banking Institutions																											
Commercial Banks	55.5	18.8	18.8	73.7	17.4	17.4	55.7	15.7	15.7	55.6	15.2	15.2	54.4	16.4	16.4	57.3	17.0	17.0	56.2	20.1	20.1	55.7	22.6	22.6	53.4	24.9	24.9
NBFIs																											
Finance Companies	13.0	3.6	3.6	n.a.	n.a.	n.a.	14.2	3.7	-	14.7	3.5	-	15.6	3.2	3.2	13.3	3.5	3.5	11.9	2.7	0.6	11.0	2.8	1.0	10.4	3.2	1.1
Govt. Savings Bank	0.4	0.4	0.2	0.3	0.3	0.1	0.4	0.4	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.5	0.2	0.2	0.04	1.5	1.5	0.1	0.1	0.1	0.1
BAAAC	1.5	1.6	0.6	1.5	3.5	0.1	1.4	2.4	0.5	1.5	2.2	0.5	1.5	1.9	0.6	1.4	1.4	0.6	1.5	1.2	0.7	1.6	1.1	0.8	1.8	1.0	0.8
Govt. Housing Bank	0.6	0.6	1.4	0.1	0.1	0.2	0.8	0.8	1.9	0.8	0.8	1.8	0.7	1.6	0.5	0.5	1.2	0.5	0.5	1.1	0.6	0.6	1.1	0.6	0.6	1.1	
Credit Fon. Companies	0.7	0.7	0.7	n.a.	n.a.	n.a.	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.7	0.7	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Savings Cooperatives	1.1	1.1	1.1	1.5	1.5	1.3	1.3	1.3	1.3	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Indust. Finance Corp.																											
of Thailand	1.1	1.1	1.1	1.5	1.5	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	0.9	0.9	0.9	1.0	1.0	1.0	1.2	1.2	1.2	1.1	1.1	1.1
Small Indust. Finance																											
Office	0.01	0.01	0.01	0.1	0.1	0.1	0.03	0.03	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

1. For Indonesia, long-term loans refers to both medium and long-term loans.
2. Commercial banks include state banks, private national commercial banks, regional development banks and foreign banks.
3. Include housing credit institutions.

Source: Project Questionnaire Replies.

**INDONESIA: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986**

(in Billion Rp.)

Classification	1980			1981			1982			1983			1984			1985			1986		
	Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type		Banks	NBFIs Finance Cos. Develop. Type	
Agriculture	526	1.7		813	4.9		1025	6.0		1226	6.4		1318	8.0		1656	10.4		2097	14.5	
Mining	17	-		49	-		70	-		87	-		215	0.8		258	0.9		394	0.1	
Manufacturing	2229	28.5		2762	34.8		3923	50.3		5207	58.9		6667	76.2		7592	94.9		9005	121.0	
Construction	-	-		-	-		-	-		-	-		-	-		-	-		-	-	
Trade	1471	-		2253	-		3135	-		4022	-		6344	-		7255	-		8399	-	
Service																					
Rendering																					
Industry	871	-		1306	-		1749	-		2136	-		3006	-		3971	-		4102	-	
Miscellaneous	312	5.6		327	6.8		349	8.1		265	12.0		393	14.6		461	27.9		1261	22.3	
TOTAL	5426	35.8		7510	46.5		10251	64.4		12943	77.3		17943	99.6		1193	134.1		25258	157.9	

Source: Project Questionnaire Replies.

MALAYSIA: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1987
(in Million Ringgit)

Classification	1980					1981					1982							
	Non-Bank Financial Institutions (NBFIs)					Non-Bank Financial Institutions (NBFIs)					Non-Bank Financial Institutions (NBFIs)							
	Banks					Banks					Banks							
	Finance Co.	Merchant Banks	Thrft/Co-op.	Savings Insts.	Dev. Finance Others	Finance Co.	Merchant Banks	Thrft/Co-op.	Savings Insts.	Dev. Finance Others	Finance Co.	Merchant Banks	Thrft/Co-op.	Savings Insts.	Dev. Finance Others			
Agriculture	1648.4	403.2	90.1	-	1910.2	412.1	131.7	70.6	30.9	517.7	176.6	-	2134.4	483.5	158.2	658.4	231.9	-
Mining	210.5	56.0	21.7	-	276.5	70.6	0.9	-	-	0.9	0.9	-	494.5	90.3	36.3	0.7	0.7	-
Manufacturing	4693.8	179.9	569.2	-	5947.1	225.6	817.3	484.1	484.1	484.1	484.1	-	6190.0	294.6	805.0	620.1	620.1	-
Construction	1406.6	339.2	61.7	-	1643.2	439.7	71.8	176.7	132.4	132.4	132.4	-	1859.7	521.6	58.9	165.5	152.4	-
Real Estate	1710.2	480.7	111.2	-	2765.2	643.7	225.0	-	-	-	-	-	3660.0	856.0	293.2	-	-	-
Housing	2232.4	619.8	-	-	2811.4	833.4	-	-	47.6	0.6	1209.1	3497.8	1072.1	-	-	55.4	0.4	1463.2
General	4644.2	204.6	368.5	-	5594.3	254.1	471.1	51.7	51.7	51.7	51.7	-	6137.9	297.0	481.3	44.0	44.0	-
Commerce	1297.3	126.4	-	-	2198.1	184.3	-	-	-	-	-	-	2739.9	187.7	-	-	-	-
Business	400.1	215.0	38.4	-	623.7	283.3	58.4	61.9	61.9	61.9	61.9	-	715.2	319.0	84.0	49.7	49.7	-
Transport	147.1	814.1	-	-	216.3	1002.9	-	-	-	-	-	-	303.1	1202.4	-	-	-	-
Credit	2640.5	156.2	172.4	-	1545.3	234.6	350.9	928.8	381.4	758.4	1933.1	343.8	536.9	1137.3	-	1137.3	482.3	1020.2
Others	21031.1	3575.1	1433.2	n.a.	25521.4	4594.3	2187.1	2269.4	1299.6	1967.5	29665.6	5668.0	2453.8	2731.1	-	1581.5	2483.4	-
TOTAL	2389.5	604.8	221.0	768.3	243.5	739.4	156.7	1009.3	292.5	107.7	2936.3	712.6	144.3	1104.0	277.9	175.4	18.8	-
Agriculture	626.3	98.8	67.4	11.7	486.2	101.0	85.9	11.2	10.7	10.7	10.7	-	492.4	98.7	80.3	17.5	16.8	-
Mining	7998.8	448.7	977.2	729.0	7985.4	557.7	820.3	690.2	692.4	692.4	692.4	-	8583.9	617.8	852.7	657.3	657.0	-
Manufacturing	2493.5	601.6	63.0	163.9	3248.2	694.2	72.4	384.7	231.8	231.8	231.8	-	3697.0	731.0	96.9	579.1	236.9	-
Construction	4666.6	1208.3	524.1	-	6032.2	1901.3	771.8	101.7	-	-	-	-	6992.2	2500.5	832.1	155.4	-	-
Real Estate	4157.7	1282.6	-	154.9	0.9	1687.5	5129.5	1542.8	232.9	3.0	1944.2	6306.3	1828.8	-	292.6	118.3	2206.7	-
Housing	7270.9	384.1	539.5	50.9	8167.6	591.8	557.7	114.4	44.0	44.0	44.0	-	8752.0	887.7	624.7	228.9	121.0	-
General	4074.9	292.9	-	-	5217.1	446.5	-	70.6	77.2	77.2	77.2	-	5809.2	603.7	-	107.9	-	-
Business	750.1	366.0	31.1	87.5	771.6	423.1	44.6	-	-	-	-	-	773.2	436.5	45.5	79.5	79.5	-
Services	370.5	1587.9	-	810.1	-	1039.0	482.2	2141.3	-	-	-	-	590.6	2400.8	-	-	-	-
Transport	2585.0	462.6	894.0	1466.3	446.6	3410.3	792.1	1253.2	1542.1	467.8	1047.9	4048.6	1013.2	1478.9	-	1943.3	472.2	1178.0
Consumption	36781.8	7339.3	3317.3	4242.6	1765.1	2726.5	43504.3	9931.2	3792.6	1819.9	2992.1	11831.3	4154.4	5165.5	-	1979.6	3384.7	-

MALAYSIA: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1987

(in Million Ringgit)

Classification	1986						1987					
	Non-Bank Financial Institutions (NBFIs)						Non-Bank Financial Institutions (NBFIs)					
	Banks	Finance Co.	Merchant Co.	Thrift/Insta.	Savings Co-op.	Dev. Finance Institutions	Banks	Finance Co.	Merchant Co.	Thrift/Insta.	Savings Co-op.	Dev. Finance Institutions
Agriculture	3190.4	656.3	156.0	1152.9	287.9	-	3115.4	601.2	133.1	141.8	1080.1	-
Mining	429.3	88.3	84.2	37.8	33.8	-	442.3	97.8	98.8	0.8	43.8	-
Manufacturing	6955.2	576.8	888.1	637.4	637.0	-	9124.4	554.8	837.6	0.4	558.0	-
Construction	3974.2	698.7	100.9	565.4	311.1	-	4103.9	817.2	132.1	341.2	336.9	-
Real Estate	7510.7	2912.1	831.5	120.2	-	-	7731.9	3019.8	781.6	122.2	153.0	-
Housing	7038.7	2075.4	-	601.3	132.5	2238.6	7563.0	2285.4	-	285.1	90.0	2038.7
General	9116.3	773.6	550.4	314.7	138.7	-	9019.8	771.1	522.3	-	-	-
Commerce	6061.0	540.0	-	176.0	-	-	5666.6	461.2	-	-	-	-
Business	727.9	384.6	42.5	119.7	119.7	-	691.1	340.0	30.3	-	58.5	-
Transport	622.0	2145.2	-	-	-	-	638.7	2134.8	-	-	-	-
Credit	4693.0	1525.9	1501.6	2062.7	318.4	1352.2	4387.3	1694.1	1390.0	1776.9	403.7	1787.5
Others	52328.7	12377.9	4155.2	5778.1	1979.1	3590.8	52484.4	12657.4	3925.8	2648.4	2704.0	3826.2
TOTAL												

Source: Project Questionnaire Replies.

NEPAL: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million Ru.)

Classification	1980			1981			1982			1983				
	Banks	NBFIs		Banks	NBFIs		Banks	NBFIs		Banks	NBFIs			
	A.D.B. N.I.D.C. P.F.C.			A.D.B. N.I.D.C. P.F.C.			A.D.B. N.I.D.C. P.F.C.			A.D.B. N.I.D.C. P.F.C.				
Agriculture	27.5	445.1		31.2	461.6		73.7	553.8		113.0	689.5			
Manufacturing	375.4	51.8		472.5	57.3		309.1	62.3		580.7	90.3			
Gen. Commerce	1718.8			2097.3			1688.8			1465.8				
Service Sector	71.1			68.9			29.0			12.2				
Fin. Insts.	42.3			40.6			32.1			28.6				
Individuals	675.0	151.1		938.2	194.4	1101.5		249.1	1228.4		316.9			
Miscellaneous		199.4	21.8		224.5	25.4		237.0	29.5		232.4	32.7		
TOTAL	2910.1	445.1	251.2	3648.7	461.6	281.8	219.8	3214.2	553.8	299.3	3428.7	689.5	322.7	349.6

A.D.B. = Agricultural Development Bank; N.I.D.C. = Nepal Industrial Development Corporation; P.F.C. = Provident Fund Corporation

Source: Project Questionnaire Replies.

NEPAL: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million Rs.)

Classification	1984		1985		1986	
	Banks	NBFI's	Banks	NBFI's	Banks	NBFI's
		A.D.B. N.I.D.C. P.F.C.		A.D.B. N.I.D.C. P.F.C.		A.D.B. N.I.D.C. P.F.C.
Agriculture	125.0	916.6	137.1	1150.4	145.6	1659.5
Manufacturing	583.3	99.5	1247.7	123.1	1847.9	183.3
Gen. Commerce	1785.4		2318.7		2564.3	
Service Sector	31.0		173.0		29.0	
Fin. Insts.	42.3		40.6		193.1	
Individuals	1272.7	405.4	1428.7	549.9	1648.8	721.1
Miscellaneous	-	248.6	63.1	281.6	63.2	299.0
						79.0
TOTAL	3840.4	916.6	468.5	5882.4	1150.4	404.78
					613.1	6481.92
						1659.5
						482.3
						800.1

A.D.B. = Agricultural Development Bank; N.I.D.C. = Nepal Industrial Development Corporation; P.F.C. = Provident Fund Corporation

Source: Project Questionnaire Replies.

**SRI LANKA: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986**

(in Million Rs.)

Classification	1984				1985				1986						
	Banks	NBFIs			Banks	NBFIs			Banks	NBFIs					
		N.S.B.	R.B.	F.C. L.L.I. ¹ OTHERS		N.S.B.	R.B.	F.C. L.L.I. ¹ OTHERS		N.S.B.	R.B.	F.C. L.L.I. ¹ OTHERS			
Agriculture*	3385.6	40			3539.8	54			4216.9	61					
Mining & Quarrying	252.8				248.1				317.5						
Manufacturing	7214.8				7740.5				7946.1						
Construction	1137.3				1067.6				1069.2						
Trade*	17364.7	20			18957.5	24			20390.7	32					
Private Individuals	2999.8	6			3513.2	7			4078.3	8					
Fin. Institutions	787.6				730.3				812.2						
& Gas*		104				133				176					
Miscellaneous	1776.0	15			2387.0	16			2102.4	18					
TOTAL	34918.6	148	185	2481	2450	38184.0	167	234	3429	4410	40933.3	186	295	4055	5969

N.S.B. = National Savings Bank; R.B. = Rural Banks; F.C. = Finance Companies; L.L.I. = Long-Term Lending Institutions

N.S.B. = National Savings Bank; R.B. = Rural Banks; F.C. = Finance Companies; L.L.I. = Long-Term Lending Institutions

1. Includes Development Finance Corporation, Agricultural and Industrial Credit Corporation, State Mortgage Bank, Loan Board and National Housing Department.

a. Includes Animal Husbandry and cottage industry for NBFIs.

b. Trade and Others.

c. Includes Housing for NBFIs.

Source: Project Questionnaire Replies.

**SRI LANKA: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFIs)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986**

(in Million Rs.)

Classification	1980			1981			1982			1983										
	Banks	NBFIs		Banks	NBFIs		Banks	NBFIs		Banks	NBFIs									
		N.S.B.	R.B. F.C. L.L.I. ¹ OTHERS		N.S.B.	R.B. F.C. L.L.I. ¹ OTHERS		N.S.B.	R.B. F.C. L.L.I. ¹ OTHERS		N.S.B.	R.B. F.C. L.L.I. ¹ OTHERS								
Agriculture ^a	2270.4	26		2777.0	30		3053.6	35		3418.5	33									
Mining & Quarrying	254.8			205.4			218.3			238.0										
Manufacturing	3256.0			3854.5			5098.5			6830.6										
Construction	326.9			563.7			854.4			964.6										
Trade ^b	8771.9	4		10181.3	5		12120.4	10		15282.1	16									
Private Individuals	1123.1	2		1578.3	3		1964.1	4		2470.3	5									
Fin. Institutions	447.3			301.2			550.6			711.0										
& Gas ^c	-	36		-	49		-	64		-	81									
Miscellaneous	685.7	12		1535.8	14		1404.6	9		1523.1	13									
TOTAL	17136.0	75	80	384	1015	20997.2	83	101	636	1393	25284.5	102	122	1177	1820	31418.2	126	148	1451	1714

N.S.B. = National Savings Bank; R.B. = Rural Banks; F.C. = Finance Companies; L.L.I. = Long-Term Lending Institutions

1. Includes Development Finance Corporation, Agricultural and Industrial Credit Corporation, State Mortgage Bank, Loan Board and National Housing Department.

a. Includes Animal Husbandry and cottage industry for NBFIs.

b. Trade and Others.

c. Includes Housing for NBFIs.

THAILAND: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million of Bahts)

Classification	1980										1981									
	Banks					NBFI's					Banks					NBFI's				
	F.C.	G.S.B.	B.A.A.C.	G.H.E.	C.F. A.C.	S.C.	I.F.C.T	S.I.F.O			F.C.	G.S.B.	B.A.A.C.	G.H.E.	C.F. A.C.	S.C.	I.F.C.T	S.I.F.O		
Agriculture	12587.6	687.9	-	12464.4	-	33.1	3925.2	-	-	16042.1	965.6	-	14142.0	-	16.9	4220.2	-	-	-	-
Mining	1702.2	631.6	-	-	-	12.5	-	-	-	1806.7	681.5	-	-	-	19.3	-	-	-	-	-
Manufacturing	41161.6	14149.0	-	-	-	13.7	-	-	-	56329.3	16731.9	-	-	-	37.9	-	-	-	-	-
Construction	11878.7	3928.0	-	2396.7	194.3	-	-	-	-	13033.5	3716.8	-	-	2853.8	315.0	-	-	-	-	-
Trade	104032.7	11891.6	-	-	-	228.8	-	-	-	110004.0	15209.8	-	-	-	510.7	-	-	-	-	-
Real Estate	6755.9	3792.8	-	-	-	282.0	-	-	-	6972.7	4651.8	-	-	-	222.0	-	-	-	-	-
Public Utilities	6759.8	514.9	214.4	-	-	-	-	-	-	5963.5	594.7	535.6	-	-	-	-	-	-	-	-
Fin. Institutions	14480.1	6924.4	389.0	-	-	312.4	-	-	-	12748.4	7907.3	378.9	-	-	795.4	-	-	-	-	-
Individuals	16582.8	9437.0	499.1	-	5726.3	92.4	-	4055.7	-	21184.9	9857.3	1162.1	-	6557.1	80.5	-	5220.7	-	-	
Miscellaneous	8375.2	3370.4	19.3	-	-	33.6	-	-	-	12032.3	5072.9	17.6	-	-	29.5	-	-	-	-	-
TOTAL	224316.6	54977.6	1121.8	12464.4	8123.0	1202.8	3925.2	4055.7	3309.6	258117.4	65389.6	2094.2	14142.0	9410.9	2027.5	4220.2	5220.7	4300.9	-	-

F.C. = Finance Companies; G.S.B. = Government Savings Bank; B.A.A.C. = Bank of Agriculture & Agricultural Cooperatives; G.H.B. = Government Housing Bank; C.F. = Credit Foncier; A.C. = Agricultural Cooperatives;
 S.C. = Savings Cooperatives; I.F.C.T. = Industrial Finance Corporation of Thailand; S.I.F.O. = Small Investment Finance Office

THAILAND: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million of Bahts)

Classification	1982										1983									
	Banks					NBFI's					Banks					NBFI's				
	F.C.	G.S.B.	B.A.A.C.	G.H.B.	C.F. A.C.	S.C.	I.F.C.T	S.I.F.O	F.C.	G.S.B.	B.A.A.C.	G.H.B.	C.F. A.C.	S.C.	I.F.C.T	S.I.F.O				
Agriculture	22139.8	892.4	-	15741.4	-	28.0	4600.9	-	-	30450.9	1084.1	-	17117.9	-	18.5	4866.3	-			
Mining	1895.0	874.2	-	-	-	27.5	-	-	-	2439.3	879.7	-	-	-	24.8	-	-			
Manufacturing	64893.1	20119.8	-	-	-	51.1	-	-	-	88713.4	21912.7	-	-	-	58.2	-	-			
Construction	16073.1	4461.9	-	-	2900.8	372.5	-	-	-	21773.7	5650.9	-	-	-	2852.5	209.8	-			
Trade	129509.9	18544.2	-	-	-	635.7	-	-	-	167860.2	20823.8	-	-	-	744.0	-	-			
Real Estate	8471.3	6172.2	-	-	-	367.0	-	-	-	12218.2	8397.2	-	-	-	395.0	-	-			
Public Utilities	5648.7	827.0	630.5	-	-	-	-	-	-	6552.7	775.1	53.2	-	-	-	-	-			
Fin. Institutions	16849.3	10047.3	357.0	-	-	994.7	-	-	-	19703.3	10258.7	329.6	-	-	729.7	-	-			
Individuals	25298.9	10824.2	1046.2	-	-	6739.1	84.7	-	6709.3	36537.0	12721.4	2887.9	-	-	6433.2	138.7	-			
Miscellaneous	16008.7	6754.5	16.3	-	-	89.8	-	-	-	19703.3	8207.4	14.3	-	-	104.7	-	-			
TOTAL	306787.8	79517.7	2050.0	15741.4	9639.9	2651.0	4600.9	6709.3	4700.5	56.2	411962.8	90711.0	3285.0	17117.9	9285.7	2423.4	4866.3	8519.7	4919.5	44.0

F.C. = Finance Companies; G.S.B. = Government Savings Bank; B.A.A.C. = Bank of Agriculture & Agricultural Cooperatives; G.H.B. = Government Housing Bank; C.F. = Credit Foncier; A.C. = Agricultural Cooperatives; S.C. = Savings Cooperatives; I.F.C.T. = Industrial Finance Corporation of Thailand; S.I.F.O. = Small Investment Finance Office

THAILAND: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million of Bahts)

Classification	1984										1985									
	Banks					NBFI's					Banks					NBFI's				
	F.C.	G.S.B.	BA.A.C.	G.H.B.	C.F.	A.C.	S.C.	I.F.C.T.	S.I.F.O.	F.C.	G.S.B.	BA.A.C.	G.H.B.	C.F.	A.C.	S.C.I.F.C.T.S.I.F.O.				
Agriculture	37409.3	941.6	-	19608.3	-	145	5323.8	-	-	39355.0	950.1	-	21631.9	-	11.0	5818.9	-			
Mining	2844.2	746.7	-	-	-	31.1	-	-	-	3361.2	675.4	-	-	-	29.9	-	-			
Manufacturing	106048.8	22103.3	-	-	-	36.0	-	-	-	122576.8	23479.3	-	-	-	38.3	-	-			
Construction	26143.1	5392.9	-	3156.9	137.1	-	-	-	-	29427.9	5218.3	-	-	3335.1	120.4	-	-			
Trade	188793.6	21140.7	-	-	-	540.4	-	-	-	201464.5	20827.8	-	-	-	449.0	-	-			
Real Estate	16781.8	9750.0	-	-	-	319.4	-	-	-	19446.5	10932.7	-	-	-	330.4	-	-			
Public Utilities	7476.7	792.4	62.3	-	-	-	-	-	-	9548.2	828.6	72.2	-	-	-	-	-			
Fin. Institutions	30302.4	10027.8	322.7	-	-	293.7	-	-	-	31842.0	10348.5	321.0	-	-	249.4	-	-			
Individuals	41800.2	15144.4	831.0	-	6927.6	174.0	-	10847.5	-	45555.8	15944.3	976.2	-	7848.8	184.1	-	13864.5			
Miscellaneous	24251.8	8989.6	12.2	-	-	114.5	-	-	-	26926.2	8847.3	43.0	-	-	126.1	-	-			
TOTAL	481851.9	95029.4	1228.2	19608.3	10084.5	1660.7	5323.8	10847.5	6094.8	40.0	529504.2	98052.3	1412.4	21631.9	11183.9	1538.6	5818.9	13864.5	7847.9	40.6

F.C. = Finance Companies; G.S.B. = Government Savings Bank; B.A.A.C. = Bank of Agriculture & Agricultural Cooperatives; G.H.B. = Government Housing Bank; C.F. = Credit Foncier; A.C. = Agricultural Cooperatives; S.C. = Savings Cooperatives; I.F.C.T. = Industrial Finance Corporation of Thailand; S.I.F.O. = Small Investment Finance Office

THAILAND: LOANS AND ADVANCES OF NON-BANK FINANCIAL INSTITUTIONS (NBFI's)
INSTITUTIONWISE AND INDUSTRIAL CLASSIFICATIONWISE: 1980-1986

(in Million of Bahts)

Classification	Banks	1986							
		NBFI's							
		F.C.	G.S.B.	B.A.A.C.	G.H.B.	C.F.	A.C.	S.C.	I.F.C.T S.I.F.O
Agriculture	39694.2	1246.6	-	23105.1	-	1.6	6191.5	-	-
Mining	3169.3	820.2	-	-	-	29.9	-	-	-
Manufacturing	124944.5	23371.4	-	-	-	36.7	-	-	-
Construction	30555.4	5287.7	-	-	3511.5	94.3	-	-	-
Trade	210150.3	20645.3	-	-	-	462.6	-	-	-
Real Estate	20764.3	12132.6	-	-	-	388.8	-	-	-
Public Utilities	9510.6	774.9	81.6	-	-	-	-	-	-
Fin. Institutions	33405.9	9250.7	247.7	-	-	252.3	-	-	-
Individuals	48280.9	19342.3	1207.8	-	8343.7	176.6	-	17624.3	-
Miscellaneous	28548.1	9374.6	49.6	-	-	112.4	-	-	-
TOTAL	549023.5	102246.3	1586.7	23105.1	11855.2	1555.2	6191.5	17624.3	7993.8 46.4

F.C. = Finance Companies; G.S.B. = Government Savings Bank; B.A.A.C. = Bank of Agriculture & Agricultural Cooperatives; G.H.B. = Government Housing Bank; C.F. = Credit Foncier; A.C. = Agricultural Cooperatives; S.C. = Savings Cooperatives; I.F.C.T = Industrial Finance Corporation of Thailand; S.I.F.O. = Small Investment Finance Office

Source: Project Questionnaire Replies.

**EVIDENCE ON MONEY DEMAND SHIFTS OR INSTABILITY
IN LARGER INDUSTRIAL COUNTRIES**

Study	Money definition	Findings
United States Goldfeld (1976)	M1 & M2	Downward shift in the demand for M1 during 1974-76; no evidence of a shift in the demand for M2.
Judd and Scadding (1982a)	M1 & M2	Survey of evidence on the stability of money demand since 1973; M1 shift during 1974-76 widely recognised due to financial innovation, but no evidence of any shift in M2.
Simpson and Porter (1980) Wenninger et al. (1981) Lindsey et al. (1981) Dotsey et al. (1981)	M1	Downward shift during 1979-80 or 1979-81, largely due to financial innovations.
Porter and Offenbacher (1982)	M1	Persistent overprediction by the standard money demand functions in the post-1973 period.
Hein (1982)	M1	Refutation of the evidence of a shift in M1 during 1980.
Redecki and Wenninger (1983)	M1	Downward shift in 1981 and upward shift in 1982.
Judd (1983)	M1	No upward shift in 1982.
United Kingdom Artis and Lewis (1981)	M1 & M3	Survey of earlier studies and new evidence on the demand for M1 and M3; substantial evidence of a breakdown of M1 and M3 functions during 1971-73; M1 functions shown to be unstable over 1978-80; M3 functions unstable throughout the 1970s; changes in the financial system recognised as a source of instability.
Butter and Fase (1981)	M3	General instability of M3 between 1972 and 1976.

Study	Money definition	Findings
Allen (1981)	M1 & M3	M1 functions wander off path after 1976, upward shift in M3 during 1980-81.
Trundle (1982)	Currency in circulation	Downward shift over 1979-82.
Trundle (1983)	M1	Poor forecasting performance over 1970-81, although coefficients appear to be stable.
Canada White (1976)	M1	General demand instability reflected in a number of small shifts in the early 1970s.
Landy (1980)	M1	Evidence of a downward shift in 1976, largely caused by financial innovations.
Boughton (1981)	M1 & M2	M1 shift in 1974 but no serious evidence of a shift in M2 over the 1970s.
Bank of Canada (1983)	M1	Based on changes in financial arrangements and internal research, the Annual Report notes M1 shifts in 1976-77 and 1980, and a breakdown of the relationship between M1 and economic activity during 1981-82.
Lucas (1983)	M1	Downward shift around 1976 and instability over the post-1976 period.
Japan Bank of Japan (1978)	M2	Uncertain and doubtful about the establishment of a durable money demand function in the changing financial system of Japan; analysis consistent with out-of-sample instability of money demand estimates.
Boughton (1979)	M1 & M2	No significant shift in M1 but a possible Boughton (1981) shift in the M2 function around 1977.
Christelow (1981)	M2	Evidence on the financial innovation experience is consistent with instability of the M2 function during 1979-80.
Bank of Japan (1983b)	M2	Downward shift in 1982.
Italy Boughton (1979)	M1 & M2	Unsatisfactory estimates as well as unstable functions for both aggregates.

Study	Money definition	Findings
Calliari et al. (1981)	M3	Instability in 1973-75.
Butter and Fase (1981)	M2	Poor out-of-sample predictions in 1977-78.
Caranza et al. (1982)	M1,M2,M3 and deposits	Estimates indicate considerable structural instability in the demand for broader aggregates, especially for M2 and deposits, over the post-1979 period.

Source: Adopted from M.A. Akhtar's Table given in - "Financial Innovations and Their Implications For Monetary Policy: An International Perspectives", *BIS Economic Papers*, No. 9, Basle: Bank for International Settlement, December 1983, pp. 34-35.

**INDONESIA: NATURE OF REGULATORY AND SUPERVISORY
INSTRUMENTS IMPOSED ON NON-BANK FINANCIAL
INSTITUTIONS (NBFIs)**

NBFI's Ratio	Prudential
Finance Companies	
(a) Development Type Gearing Ratio	15 : 1
(b) Investment Type Gearing Ratio	15 : 1
(c) Other Finance Companies	15 : 1
(d) Pension and Provident Funds	-
(e) Insurance Companies	-
(f) Leasing Companies Gearing Ratio	33 : 1

Source: Project Questionnaire Replies.

**MALAYSIA: NATURE OF REGULATORY AND SUPERVISORY
INSTRUMENTS IMPOSED ON NON-BANK FINANCIAL
INSTITUTIONS (NBFIs)**

1. Finance Companies Prudential Ratios

Liquidity Ratio : 10.0 per cent of eligible liabilities
(of which primary liquid assets ratio: 5.0 per cent)

Statutory Reserve Ratio : 3.0 per cent of eligible liabilities
with effect from February 15, 1986.^a

Risks Assets Ratio : 15 times shareholders funds.

Interest Rate Ceilings

On housing loans to individuals:

- i) 11.0 per cent per annum where the cost of land and the house on it is between \$60,000-\$100,000 each.
- ii) 10.0 per annum where the cost of land and the house on it is less than \$60,000.

Exemptions

Tax exemptions on interest earned on savings deposits of up to \$5,000 and all interest earned on fixed deposits with maturities exceeding 12 months.

2. Merchant Banks Prudential Ratios

Liquidity Ratio : 10.0 per cent of eligible liabilities.

Statutory Reserve Ratio : 3.0 per cent of eligible liabilities
with effect from February 15, 1986.^a

Gearing Ratio:

- i) Deposits : 15 times shareholders.
- ii) Deposits : 20 times shareholders funds.
+ Borrowings
+ Contingent
Liabilities

a. With effect from 1 May 1989, the statutory reserve requirements (SRR) of finance companies and merchant banks have been raised to 4.5 per cent of their total eligible liabilities. With this adjustment, the statutory reserve requirements has been standardized for commercial banks, finance companies and merchant banks.

Source: Project Questionnaire Replies.

**PHILIPPINES: NATURE OF REGULATORY AND SUPERVISORY
INSTRUMENTS IMPOSED ON NON-BANK FINANCIAL
INSTITUTIONS (NBFIs)**

NBFIs	Prudential Ratios ^a (%)		Interest Rate Ceilings	Exemptions (e.g., Tax Exemptions)	Others ^b
			Deposits: Loans		
Investment Houses w/QBF	ST ^c	LT ^d		None	
1980	20	-	^e	- do -	
1981	16	1	no ceiling ^f	- do -	
1982	18	1	no ceiling ^f	- do -	
1983	23	4	no ceiling	- do -	
1984	24	6	- do -	- do -	
1985	23	6	- do -	- do -	
1986	21	5	- do -	- do -	
Financing Companies w/QBF					
1980-1986	- do -		- do -	- do -	
Securities Dealers/ Brokers	None		- do -	- do -	
Investment Companies	- do -		- do -	- do -	
Fund Managers	- do -		- do -	- do -	
Lending Investors	- do -		- do -	- do -	
Money Brokers	- do -		- do -	- do -	
Government NBFIs	- do -		- do -	- do -	
Venture Capital Corporations	- do -		- do -	- do -	
Pawnshops	- do -		- do -	- do -	
Others	-		-	-	

- Reserve requirement on deposit substitutes of non-banks with quasi-banking functions (NBQBs).
- Issuance of commercial paper by NBQBs may be authorized by the Central Bank and the Securities and Exchange Commission and only after a careful evaluation of the applicant's credit worthiness and financial ability to meet its obligation. Any proposed issue shall be guaranteed by a qualified bank.
- Short-term (ST) - Deposit substitute - 730 days or less.
- Long-term (LT) - Deposit substitute - more than 730 days
- In 1980, interest rate ceiling on deposits w/ maturities of 730 days and below was 17 per cent; no ceilings were imposed for deposits with maturities of over 730 days. Effective 1 July 1981, interest rate ceiling on deposits w/ maturities of 730 days and below was lifted.
- Interest rate ceilings on short-term loans from 1980-1982 were maintained at 16.0 per cent and 18.0 per cent for secured and unsecured loans, respectively. Ceilings on long-term loans were lifted in 1981.

Source: Project Questionnaire Replies.

**SRI LANKA: NATURE OF REGULATORY AND SUPERVISORY
INSTRUMENTS IMPOSED ON NON-BANK FINANCIAL
INSTITUTIONS (NBFIs)**

NBFIs	Interest Rate Ceilings (%)		Exemptions (e.g., Tax Exemptions)	Others
	Deposits	Loans		
National Savings Bank	12 - 13	12 - 20	Rs 2,000 or 1.3 of the total interest whichever is higher.	
Rural Banks	9 - 12	5 - 23		
Long-Term Lending Institutions	-	3 - 20		
Insurance Corporations	-			
Provident Funds	12.5	-		

Source: Project Questionnaire Replies.

**THAILAND: NATURE OF REGULATORY AND SUPERVISORY
INSTRUMENTS IMPOSED ON NBFIs**

Item	Finance companies	Credit financiers	GSB	BAAC	GHB	IFCT
1. Total credit granted	Not exceeding 16.6 times its capital funds	Not exceeding 16.6 times its capital funds	-	Set as annual target volume	Set as annual target volume	Not exceeding 10 times its capital funds
2. Credit to individual borrowers	Not exceeding 30 per cent of its capital funds, and if contingent liabilities* are included, not more than 40 per cent of its capital funds	Not exceeding 50 per cent of its capital funds	-	5,000,000 per individual	2,000,000 per individual	Not exceeding 25 per cent of its capital funds
3. Contingent liabilities to individual borrowers*			-	Not exceeding the fixed deposit used as collateral	-	Included in 2
4. Total contingent liabilities	Not exceeding 4 times its capital funds		-			
5. Rural credit	-	-	-	Most credit extended by the BAAC are agricultural credit and they are, by nature, out-Bangkok Metropolitan area	Not yet available because the first provincial branch was only recently opened in Chiangmai, in 1987	It has been the IFCT's policy guideline to encourage rural industrial investment. The ratio of lending to the Bangkok area to the regional area is approximated at 30:70 (Bangkok includes Non-thaburi & Samutprakarn)

a. "Contingent Liabilities" include only giving aval to bills, accepting bills and guaranteeing payment in respect of the selling, discounting or rediscounting of bills.
Source: Project Questionnaire Replies.

**FUNCTIONAL LIMITATIONS AND OTHER PRUDENTIAL
REQUIREMENTS PRESCRIBED FOR THE
NON-BANK FINANCIAL INSTITUTIONS (NBFIs)**

INDONESIA

1. Non-bank financial institutions (NBFIs) are not permitted to accept demand deposits, time deposits, and savings deposits.
2. NBFIs of Finance Companies are subject to gearing ratio.
3. NBFIs are also subject to the following legal lending limits:
 - (a) 20.0 per cent of NBFI's own capital for credit facilities to any single borrower;
 - (b) 50.0 per cent of NBFIs own capital for credit facilities to any group of borrower;
 - (c) 5.0 per cent of NBFIs capital for credit facilities extended to the members or businesses of the Board of Commissioners who are not shareholders.
 - (d) 15.0 per cent of NBFIs capital for credit facilities extended to the members of the Board of Commissioners who are not shareholders and their business group;
 - (e) 10.0 per cent of the share of equity participation in a NBFIs for credit to shareholders or two owners of the business;
 - (f) 25.0 per cent of the share of equity participation in a NBFIs for credit to shareholders and business groups owned by the shareholders of the NBFI;
 - (g) Credit to be linked to the repayment capacity of the borrowing Board members and employees and this repayment capacity to be based on income earned from the respective NBFIs;
4. A minimum liquidity requirement of 2 per cent liabilities to the third parties also applicable to NBFIs of Finance Companies.

MALAYSIA

1. Non-bank financial institutions (NBFIs) are not permitted to accept demand deposits.
2. NBFIs (Finance Companies) are not permitted to issue Negotiable Certificates of Deposits (NCDs).^a
3. NBFIs cannot accept foreign currency deposits.^b

a. Only six merchant banks are permitted to issue NCDs.

b. Merchant banks can accept foreign currency deposits.

4. Only authorized finance companies can participate in interbank money market.

5. Prudential Ratios:

(a) Finance Companies

Liquidity Ratio: 10 per cent of eligible liabilities ^c

Statutory Reserve Ratio (SRR): 3% of eligible liabilities ^d

Risks Assets Ratio: 15 times shareholders funds

(b) Merchant Banks

Liquidity Ratio: 10 per cent of eligible liabilities

Statutory Reserve Ratio (SRR): 3 per cent of eligible liabilities ^d

Gearing Ratio

Deposits and Borrowings: 15 times shareholders funds

Deposits and Borrowings + Contingent Liabilities: 20 times shareholders funds

6. Interest Rate Ceilings

Housing Loans:

(a) 11 per cent per annum where the cost of land and the house on it is between \$60,000-\$100,000 each.

(b) 10 per cent per annum where the cost of land and the house on it is less than \$60,000.

7. Shareholding Limits (i.e. Equity Ownership Limitation)

The proportion of total equity that any corporation or co-operative society may hold in a finance company is limited to 20 per cent. A lower limit of 10 per cent is set for shareholdings by individuals, including family owned companies.

8. Cross Holdings Limitations

NBFIs (Finance Companies and Merchant Banks) are prohibited from holding shares in another finance company and merchant banks, respectively. Finance companies are also prohibited from holding shares in the subsidiaries of other finance companies, banks and merchant banks, banks and finance companies.

9. Credit Control Limits

The Finance companies Act, section 21A prohibit a director, manager or employee of a licensed finance company from granting any in excess the limits of his authority or contrary to any directions, policies or procedures imposed by the financial institution concerned. Contraventions against Section 21a of Finance Companies Act would be subject to a fine not exceeding \$20,000 or to imprisonment for a term not exceeding 3 years or to both such fine and imprisonment.

c. Effective 1 January 1989, the primary liquidity ratio of 5 per cent imposed on finance companies have been eliminated altogether.

d. With effect from 15 February 1986.

10. Imposition of Formal Lending Guidelines

Since 1979, Bank Negara Malaysia has imposed formal lending guidelines on the finance companies to channel funds into priority sectors like housing, agriculture, small scale enterprises and the Bumiputra community. For instance the lending guidelines for 1986 on finance companies are as follows:

- | | |
|--------------------------|-------------------------------------|
| (a) Loans to Bumiputera: | Minimum 20.0 per cent of total loan |
| Community: | base as at 31/12/1985 |
| (b) Loans to Small-scale | Minimum 15.0 per cent of total loan |
| Enterprises: | base as at 31/12/1985 |
11. Finance companies are not allowed to extend unsecured loan/advance credit facility exceeding \$5,000. These companies are also allowed to be 'acceptors' of Bankers Acceptances (BAs).

NEPAL

1. The branches of deposit taking NBFIs (e.g., Agricultural Development Bank) are under regular supervision of Nepal Rastra Bank (Central Bank).
2. The branches of Agricultural Development Bank (ADB/N) conducting banking activities are restricted to advance loans against the collateral of gold and silver and the export bills.
3. The opening of finance companies as subsidiaries of the commercial banks is generally restricted (except for those designed for managing trust property and safe deposits vault and being auxiliary to promote banking business and industrial development as approved by the Nepal Rastra Bank).

PHILIPPINES

1. The Non-Bank financial Institutions (NBFIs) are not authorized to accept deposits.
2. **Loan Limits**

The Manual of Regulations for Non-Bank Financial Institutions (NBFIs) imposes loan limits to regulate the credit operations of NBFIs. The loan limits are set at varying levels based on the nature and extent of credit operations. For instance, the loan limit is set at 80.0 per cent of unbooked valuation reserves for Non-Bank Quasi Banks (NBQBs); 30.0 per cent of the appraised value of the security offered for pawnshops.

3. Required Reserves Against Short-term Deposit Substitute

The required reserves against short-term deposit substitute liabilities for non-banks with quasi-banking functions (NBQBs) are set at 21.0 per cent; while against long-term deposit substitute liabilities at 5.0 per cent.

4. Except insurance companies, the operations and activities of NBFIs are subject to regulation by the Monetary Board (per the General Banking Act - Rep. Act No. 337), which include the imposition of constraints covering the (a) minimum size of funds received, (b) methods of marketing and distribution, (c) terms and maturities of funds received, and (d) uses of funds.

5. The Monetary Board has also prescribed central ratios or other forms of regulation on the different types of contingent accounts of non-bank financial intermediaries performing quasi-banking functions.
6. Meanwhile, the investment houses come under the central banks regulatory power through the Investment Houses Law (Presidential Decree No. 129 as amended) and are also subject to such regulations as the observance of capital-to-risk asset ratios and other liquidity ratio requirements.
7. Pawnshops are placed under central banks regulations basically through the Pawnshop Regulation Act (Presidential Decree No. 114) and all the business affairs and financial conditions are controlled and monitored by the Central Bank.
8. **Some of the Prudential Requirements Imposed on Non-Bank Financial Institutions (NBFI)s:**

(a) Liquidity Requirements

NBFIs shall, in addition to the required reserves against deposits and/or deposit substitutes, maintain a 30.0 per cent liquidity floor with respect to deposits of and/or borrowings from, the Government, and government entities in the form of Central Bank- supported securities, separate and distinct from those used by them for other specific purposes required by law, rules and regulations.

(b) Lending Limit to any one customer

Credit accommodations of NBFIs with quasi-banking functions (NBQBs) to its directors and stockholders are required not to exceed 100.0 per cent of the combined capital accounts of the lending entity, following certain provisions. Single borrowers limit of NBQBs to any person, corporation or firms has been reduced from 80.0 per cent to 15.0 per cent of the combined capital accounts, net of unbooked valuation reserves.^e

9. Credit Controls and Restrictions

Guidelines on credit accommodations by non-bank financial intermediaries performing quasi-banking functions (NBQBs) to directors, officers and stockholders (DOSRI) and to subsidiaries and affiliates has been prescribed. In the case of DOSRI loans, it should not exceed an amount equivalent to the book value of the paid-in capital contributed plus the outstanding balance of loans to and placements with the leading entity. For subsidiaries and affiliates, it should not exceed an amount equal to 50% of the combined capital accounts of the lending entity.^f

10. Reserve Requirements

The non-bank financial institutions performing quasi-banking functions (NBQBs) are required to maintain reserves with the Central Bank to the tune of 21 per cent for short-term and 5.0 per cent on long-term deposit substitutes liabilities. Net-worth to risk assets ratios are also imposed on NBQBs.

e. Circular No. 1084, 20 November 1985.

f. Circular No. 575, 28 July 1977

SRI LANKA

1. The non-bank financial institutions (NBFIs) are not permitted to accept demand deposits.
2. Under the Control of Finance Companies Act No. 27 of 1979, the following restrictions are imposed on finance companies:
 - (a) Limits on the amount of certificate of deposits (CDS) issued and outstanding;
 - (b) Higher liquidity ratio of 15.0 per cent of deposits received and outstanding;
 - (c) Restrictions on the provision of refinance facilities;
 - (d) Imposition of restrictions preventing the finance companies from accepting deposits of less than three months and more than 36 months.
3. Under the Control of Finance Companies Act No. 27 of 1979, the Monetary Board is empowered to prescribe capital/deposit ratios of finance companies; and also to prescribe the maximum rate of interest which a finance company may charge in respect of any loan, the maximum rates which may be paid by finance companies by way of Commissions, and the minimum initial payment in respect of hire-purchase transactions.
4. The finance companies were also required that their loans and advances granted for the importation of non-essential goods not to exceed such advances granted and outstanding as at 18 January 1985.^g

THAILAND

1. The non-bank financial institutions (NBFIs) which come under the supervision of the Central Bank are the Finance Companies (FCs) and Credit Foncier Companies (CFs). Regulations imposed on these two NBFIs are normally in line with commercial banking regulations.
2. Finance and securities Companies are required to maintain capital funds at the end of each business day accounting for not less than 25.0 per cent of their liabilities under guarantee obligations plus the volumes involving the acceptance of bills, aval given to bills or interventions to honor bills.^h
3. The liabilities or payments of finance companies under guarantee obligations combined with the acceptance of bills, aval given to bills, intervention to honor bills, as well as loans and for investment related to any individual business, are not permitted to exceed 40.0 per cent of these companies' capital funds.^h
4. Regulations concerning the amount of cash or promissory notes to be placed by clients as collateral against margin loans extended by finance companies have been revised. Accordingly, instead of prescribing a fixed minimum rate of 25.0 per cent of total borrowing, the requirement was changed to either 25.0 per cent of total borrowing or the ratio prescribed by the Security Exchange of Thailand (SET), whichever was higher.ⁱ
5. Regulations governing car hirepurchase activities of finance companies have been imposed, according to which the first instalment payment has to be 25.0 per cent of the total cash price of the car and the repayment period to be 48 months.

g. Effective from 21 January 1985.

h. Effective from 24 March 1987.

i. On 27 April 1987, the SET set the minimum margin loan ratio at 35 per cent. The ratio was subsequently changed three times, to 50 per cent on 28 May, to 70 per cent on 28 June, and back to 50 per cent again on 30 October 1987.

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