THE SOUTH-EAST ASIAN CENTRAL BANKS (SEACEN)
RESEARCH AND TRAINING CENTRE

SEACEN CENTRE

THE ROLE OF CENTRAL BANKS IN DEVELOPMENT FINANCE: EXPERIENCE OF SOUTH-EAST ASIAN CENTRAL BANKS

BIMALL NATH RIMAL

PETALING JAYA
MALAYSIA
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FOREWORD

This study examines various issues of development financing policy experienced in the SEACEN Countries.

The contribution as well as the extent of involvement of the SEACEN central banks which broadly analysed the institutional aspects of the role of the central banks is described in Part II. It also analyses the implications of such a role in the form of costs of lending of the specialised financial intermediaries, possible financial layering as a result of the growth of the financial system and cases of defaults while administering guarantee mechanism.

The SEACEN central banks' role in mobilising resources and allocating funds which describes the various policy tools and instruments used by them in enhancing savings mobilisation and in channelling funds to priority and desired sectors are presented in Part III and Part IV. Experiences of SEACEN central banks are analysed in the respective parts. SEACEN central banks' philosophy on growth and stability objectives are analysed in the last part as a concluding remark. The report is factual in nature, but certain parts do look upon the issues arising out of central banks to be in economic development.

The Centre is grateful to the staff of the Research Departments for their contribution to this study and valuable comments as well as further contributions to the final draft of the study. The study is mostly factual in nature.

The study was conducted by Mr. Bimal Nath Rimall of the Nepal Rastra Bank who was on secondment and served as a Research Economist at the SEACEN Research and Training Centre from 1982 through 1984. The SEACEN Centre takes this opportunity to express its thanks to Mr. Rimall for having successfully completed this study.

Views expressed in the study are the author's own and do not necessarily reflect those of the SEACEN Centre or its member central banks and monetary authorities.

Director
The SEACEN Research and Training Centre

August, 1985
Petaling Jaya, Malaysia

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I. INTRODUCTION

The notion that market mechanism is not equipped yet to fulfill the desired task of directing the available funds to the sectors that need them most have been vehemently treated in the available text of literature on development finance, more so, when the arguments are directed towards the role of central banks.

It has been by now generally agreed that owing to the inadequate economic and social structures in developing countries, market mechanism alone cannot fulfill the task of directing the funds to the most optimal combination of uses. The less developed state of the economies and financial institutions require central banks in developing countries to bear a greater responsibilty in allocating scarce resources to competing developmental needs and in improving the economic structure to boost economic growth. In addition, the governments of developing countries are inclined to adjust their priorities in respect of allocation of resources, reflecting usually the evolving nature of the scale of preferences of the community. The central bank, therefore, has to participate actively in directing resources either through indirect measures or in some cases by influencing directly such an allocation.1/

Thus, for the purpose of this study, the roles of central banks in development finance is defined as the participation of central banks in all aspects of policy formulation, planning and implementation for the financing of priority projects and programmes, both at micro and macro levels. The role would cover institutional contribution on the part of the central bank in widening and deepening the financial system, the mobilisation of funds for financing

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1/ Rachmat Saleh, 1980

development projects and programmes as well as the allocation of such funds. The roles of central banks in development finance are, therefore, defined to include the institutional aspects, the mobilisation of funds and its allocation.

The study makes an attempt to look at the contributions as well as the extent of involvement of the SEACEN central banks with respect to those three broad categories, viz., the institutional aspects, mobilisation aspects and the allocation aspects, with an attempt to analyse the experiences with a view to derive issues on each aspect. Such issues as well as the aspects covered are first briefly mentioned at the beginning of each topic and analysed later in the subsequent chapters.

II. INSTITUTIONAL ASPECTS

This section looks at the deliberate efforts of the central banks in the setting up of specialised financial intermediaries to strengthen the infrastructural background in the financing of medium and long-term loans, and the measures taken to promote the development of the financial system with a view to increase financial intermediation. The advisory role of the central banks is also covered in this section as this role is considered an institutional feature of the central banks. Included in this institutional aspect is also the lead and initiative of the central banks in establishing guarantee mechanisms to see that development finance percolates to the small sector.

In discussing the involvement of central banks in setting up and promoting specialised institutions, there are several issues faced by central banks. They are the costs of lending and scale of economies of newly established financial intermediaries. In developing the structure of the financial system, the central banks may face financial layering and while administering guarantee schemes, the problems of default may crop up. These issues will be analysed in this section.

Setting up of Specialised Financial Intermediaries

Institutionalisation denotes a deliberate effort to expand the base of financial intermediaries in the economic system. Normally, in advanced countries, financial growth has been simultaneous with the development of economic activity. In a developing economy, financial growth has to precede and it is a prerequisite for the initiation and acceleration of development. This is because financial growth is one of the prominent bottlenecks in the process of development. To overcome this constraint, the central bank studies the nature of credit required by an emerging economic activity or the economic activity which has to be promoted and an institution is tailored accordingly for the specific purpose.

Central banks in South-East Asia have helped to establish directly as well as indirectly such specialised financial intermediaries with the primary objective of providing long-term capital and mobilising savings, enterprise and skill for promoting industrial and agricultural investment. The Agricultural Bank of Malaysia, Development Bank of the Philippines and the National Development Bank of Sri Lanka were established with the initiative of the central banks. The central banks have also helped such development banks with financial provisions. All SEACEN countries have specialised financial institutions to channel funds to priority sectors and that the central banks have played a role in establishing and fostering these institutions.2/

In Burma, the central bank was involved in establishing specialised financial intermediaries like the Myanma Economic Bank and Myanma Agricultural Bank in terms of providing initial contribution of capital, financial resources and technical assistance in identifying projects. The Union of Burma Bank is also represented in the management committees of Myanma Economic Bank, Myanma Agricultural Bank and Myanma Foreign Trade Bank. The central bank has been instrumental in providing technical assistance and in appraising development projects. There is also a coordinating committee in which the Chairman and Deputy-Chairman of the central bank and Managing Directors of the development banks are represented.

Bank Indonesia is not directly involved in the establishment of development banks: state-owned, private or regional. The central bank is also not represented in the Board of Directors of such banks. However, as a central bank, Bank Indonesia stipulates general

2/ The SEACEN Centre, 1979

provisions on the obligation of the Board of Directors and the Board of Supervisors of such institutions. The central bank had been instrumental in setting regulations in identifying development projects to be financed by development banks.

Development finance institutions in Malaysia are largely wholly-owned by the Government or jointly owned by the Government, the central bank and government agencies, reflecting the leading role of the public sector in the development process. In many cases, such institutions have been set up by a consortium of existing financial institutions in conjunction with the central bank or government in order to inject a degree of public confidence in the activities of these specialised institutions. The Malaysian Industrial Development Finance Berhad (MIDF) was established in 1960 with equity participation by the Government, the commercial banks, insurance companies and the Commonwealth Development Corporation to provide medium to long-term capital for industrial enterprises through loans and direct equity participation. The establishment of the Agricultural Bank of Malaysia in 1969 was mainly to coordinate the rapidly growing flow of funds from the public sector for agricultural and rural development projects with a view to mobilise resources for agricultural development. The Development Bank of Malaysia was incorporated in 1973 with the objective of promoting the participation of Bumiputeras in commerce and industry, especially in the provision of equity capital financing. The Industrial Development Bank of Malaysia was established in 1979 as a long-term credit bank to promote and help finance the expansion of productive capacity in capital intensive and high technology industries with a long gestation period, such as, shipping and the ship-building and repair industry.

In Nepal, the two development banks, namely Agricultural Development Bank and Nepal Industrial Development Corporation, are under the public sector. To help strengthen the fund positions of these institutions, the Nepal Rastra Bank has purchased their shares, debentures and has been providing long and short-term facilities. For purchasing shares and debentures and providing long and medium-term loans, the central bank has been allocating substantial resources out of its net profit to its 'Banking Development Fund'. Out of this Fund, Nepal Rastra Bank has also contributed for the establishment of Agricultural Project Services Centre, Credit Guarantee Corporation and Security Marketing Centre. The Agricultural Centre prepares feasibility studies of the priority sector projects, the Guarantee Corporation guarantees loans provided by commercial banks to the priority sector and the Marketing Centre deals in securities transactions. The central bank is represented in the management boards of virtually every financial institutions and provides technical assistance as well as identifies development projects for financing by specialised financial intermediaries.

There are presently three specialised government financial institutions in the Philippines: the Development Bank, Land Bank and the Amanah Bank. The Central Bank of the Philippines participated in the organisation, including the drafting of the charters of these institutions, except the Development Bank which had started operations in 1946, three years before the establishment of the central bank. The central bank is not represented in the Board of these institutions and does not provide technical assistance, nor assist in the identification of development projects of these institutions. There are also 45 private development banks in the country which were established to meet the medium and long-term credit needs of Filipino entrepreneurs and 941 rural banks created to service the rural areas. The central bank was not involved in the establishment of private development banks in terms of capital contribution. However, in the establishment of these banks, the central bank sees to it that before a second or subsequent private bank is organised in a particular province or city, ample provisions are made by the Development Bank of the Philippines to provide for capital assistance in the organisation of private development banks in other provinces and cities still without such banks. In the case of rural banks, the Development Bank of the Philippines also subscribes to the capital stock of rural banks. The central bank extends technical assistance to any rural bank in the process of organisation or during the course of operations whenever it is requested to do so or whenever the Monetary Board deems necessary. Among these are the rural banking seminars for rural bank officers and personnel sponsored regularly by the Central Bank Institute for the efficient and effective operations of these banks.

The Singapore Government established the Development Bank of Singapore (DBS) in 1968 to specialise in development financing. In line with the Government's development policy, the DBS provided financing to manufacturing and processing industries. It also supported projects such as real estate development in connection with the Government's urban renewal programme. The DBS is licensed as a bank under the Banking Act. However, being a development bank it is exempted from certain provisions in the Banking Act, e.g., the provision pertaining to restrictions on investment. The government owns 49.5 per cent of the capital of the DBS. Being a development bank, the DBS is financially supported by the Singapore Government through its equity participation as well as the granting of general and specific credit lines. General credit lines are to assist the manufacturing sector while specific lines of credit are used to finance the ship-building industry, transportation services and real estate development. In recent years, however, the DBS has diversified into commercial, international and merchant banking. It is also active in the Asian Dollar Market. The DBS has become one of the four largest local banks in Singapore providing a complete range of commercial and personal banking services. The Monetary Authority of Singapore is not represented on the Board of the DBS. Neither does the Authority provide technical assistance to or identify development projects for the bank. However, as the DBS was licensed as a commercial bank under the Banking Act, its activities are supervised by the Authority under the provisions of the Banking Act.

In Sri Lanka, the central bank was involved in establishing and organising specialised financial intermediaries like the National Development Bank (NDB), Development Finance Corporation of Ceylon (DFCC), State Mortgage and Investment Bank (SMIB), National Savings Bank (NDB), etc. The Central Bank of Ceylon was directly involved in the establishment of the NDB in 1979. Furthermore, the central bank contributed to the initial capital of the NDB an amount of Rs. 25 million in cash and Rs.75 million in the form of promissory notes payable on demand. In addition, the NDB is allowed to borrow short-term financial resources from the central bank in sums equivalent to ten per cent of the paid-up capital of the Bank at any time in overcoming short-term financial difficulties. The Deputy Governor of the central bank is an official member of the Board of Directors in accordance with the NDB legislation. Senior bank officials are also appointed to Board of Directors of other specialised financial intermediaires. Furthermore, the central bank provides technical assistance mainly in the form of advice and technical personnel in improving and organising these intermediaries. However, the central bank is not directly involved in identifying development projects which seek financial assistance from these institutions. The central bank provides refinance, under the Medium and Long Term Credit Fund (MLCF) and the Development Finance Corporation, National Development Bank and State Mortgage and Industrial Bank are entitled to utilise these funds for project financing.

Financial institutions specialising in development finance in Thailand comprise the Government Housing Bank (GHB), the Industrial Finance Corporation of Thailand (IFCT), the Small Industries Finance Office and the Bank for Agriculture and Agricultural Cooperatives (BAAC) which were established in 1953, 1959, 1964 and 1966 respectively. Of these specialised financial intermediaries, the Industrial Finance Corporation and the Agricultural Bank have received a number of long-term loans from the Bank of Thailand. In the case of lending to Industrial Finance Corporation, the central bank's preference for certain priority industrial activities were evident in the loan agreement. However, the Bank of Thailand has not been directly involved in identifying projects to be accorded financial priority from the Industrial Finance Corporation. The Bank of Thailand has also provided financial assistance of 1 billion Baht to the Housing Bank in 1981 to help alleviate the latter's liquidity shortages.

To sum up, the extent of involvement of SEACEN central banks in establishing specialised intermediaries, in providing financial resources as well as in representing the management committees of development banks, differs in certain important respects. The Bank of Thailand, Nepal Rastra Bank, Central Bank of Ceylon provide credit to development banks to be relent to export-oriented agro-industries. Bank Negara Malaysia and Nepal Rastra Bank became a share holder of the Development Banks when the latter's authorised and issued capital were increased to meet the need for the additional demand of medium and long-term capital. Besides helping to establish and provide finance to such intermediaries, the central bank officials of many SEACEN banks are represented in the management board of such institutions to provide technical assistance as well as help assist in the identification and appraisal of projects suitable for financing by these institutions.

Cost efficiency, economies of scale and the case for universal banks:

Although a few development banks have come a long way in achieving their objectives, concerns have been expressed that the development banks and other specialised intermediaries may not be able to fulfill their targets due to their inability to reap economies of scale and also due to the fact that such institutions have to provide funds in sectors where the commercial banks had ignored to lend to, in the first place. The case in point has been the rather small scale operations of the private development banks and rural banks in the

Philippines. The Philipppines is distinctive in its nation wide programme of rural credit extension through a widespread network of rural banks. Organised as unit banks with ownership, management and control in private hands, the rural banks have received comprehensive assistance from the Government in both financial and technical matters and as a result, have become the principal instrument by which the Government has implemented its programmes for improving conditions of the rural sector and therefore eliminated the landlord as a major non-institutional source of credit in farming.

It has been found that the private development banks in Philippines were less price-efficient than the rural banks. Richard and Villanueva tested the relative efficiency of private development banks and rural banks in the Philippines by applying the profit-function approach.3/ By estimating the short-term profit function, a complete characterisation of the two types of banking system was made in terms of desired sets of relationship pertaining to the supply of banking services, bank demand for resources and long-term profitability of banking services. In the test of the relative efficiency between the two group of banks, it was found that while there was no significant difference in the technical efficiency of the two types of banks, a significant difference in allocative or price-efficiency existed. The private development banks were less price-efficient than the rural banks, mainly as a result of sub-optimal use of labour as a variable input.

One of the yardstick to evaluate the performance of the development banks would have been to analyse the cost of their funds borrowed and the lendings rate that such banks eventually provide to the final users. No such studies have yet been made for a majority of the SEACEN countries.

3/ Richard and Villanueva, 1980

Experiences

In Burma, although studies on the costs of lending of the specialised financial intermediaries were not done yet, the lending activities of the Myanma Economic Bank and Myanma Agricultural Bank are closely monitored by the Union of Burma Bank. As close coordination mechanisms have been established by the authorities in catering to the requirements of the country, the experience so far has proved to be satisfactory.

There have been some studies on the cost of loanable funds of Indonesian state development banks. At the end of March 1984, such cost of loanable fund was 5.67 per cent on funds received by them from Bank Indonesia and 8.15 per cent on loans received from private depositors. The performance of industrial and agricultural banks can also be judged from the volume of their credits and as such the development banks have been successful in their targets because such credits have increased at a very high rate.

Since the prime objective of development finance institutions in Malaysia is the provision of medium to long-dated funds on terms geared to the needs of their borrowers, the availability of funds has been an important factor governing their loan operations. In some cases, however, the government has also acted as a direct source of funds, so that the availability of funds in such instances was no longer a main constraint on their lending. At the outset, development finance institutions in Malaysia are generally provided with substantial long-term funds from both the Federal and State governments in the form of equity participation and low interest loans.

A major proportion of the funds of the development finance institutions in Malaysia was dispensed in the form of loans to the industrial and agricultural sectors of the economy. Total loans outstanding with these institutions rose from only M$ 2.9 million at the end of 1960 to M$ 85.4 million (or 63.8 per cent of their total assets) at the end of 1970. Thereafter, loans expanded rapidly at an average annual rate of 30 per cent to reach M$ 2,005.9 million at the end of 1982. In the 1970's, MIDF was the leading source of medium and long-term industrial credit in Malaysia, accounting for M$ 219.2 million or 57 per cent of the total loans outstanding of the development finance institutions in 1977. In the 1980's, the Sabah Development Bank, followed by the Agricultural Bank emerged as the leading medium and long-term credit institutions, with outstanding loans in 1982 amounting to M$ 782.9 million and M$ 459.1 million respectively, compared with M$ 366.4 million outstanding with MIDF. While loans from the Agricultural Bank were mainly to finance agricultural development, loans by the Sabah Development Bank were extended to finance a wide range of activities in the agricultural, manufacturing, electricity and the real estate sectors. In the industrial sector, loans by MIDF were supplemented by the activities of the Development Bank of Malaysia and in Sabah and Sarawak, by the Sabah Development Bank and the Borneo Development Corporation. The credit operations of the Industrial Development Bank were confined primarily to the development of the shipping and ship-building and repair industry.

A significant problem faced by the development finance institutions in Malaysia has been the increasing competition posed by other financial institutions, which over time had also become more development-oriented in outlook. The competition for term loans had intensified as the commercial banks, finance companies and the merchant banks, equipped with increasingly larger sources of funds than the development finance institutions, competed for development financing, particularly the lucrative and secure areas of business, and leaving the new and riskier ventures for the development banks. In addition, the financial activities of the government have also worked towards reducing the area in which the development finance institutions could purposefully operate.

In Nepal no study has been made on the cost of lending of commercial banks and financial institutions.

The major sources of funds of development banks in Nepal are borrowings and paid-up capital. Both the development banks - Nepal Industrial Development Corporation (NIDC) and Agricultural Development Bank (ADB/N) borrow from the Nepal Rastra Bank and international financial institutions. The ADB/N borrows from commercial banks also and mobilise resources in terms of deposits as some of its branches are authorised to accept deposit and perform some of the commercial banking activities. The share capital of the NIDC is subscribed by the Government and the Nepal Rastra Bank, while that of the ADB/N is subscribed by the government, the Nepal Rastra Bank and individuals and cooperatives. Sometimes they receive subsidies and grants from the government.

NIDC provides financial assistance to small, medium and large industries in terms of direct loans, guarantee and stock participation. The outstanding financial assistance of NIDC stood at Rs 431.1 million at mid-July 1983, of which 71 per cent is in terms of direct loan. The major portion of loan is used by hotels followed by manufacturing, transport and services industries respectively.

ADB/N provides agricultural credit for short, medium and long term purposes. The loan disbursement of this bank is compounding at an annual rate of 25 per cent and the recovery has been improved to 61 per cent of disbursement. Total outstanding credit of ADB/N stood at Rs 702.3 million at the end of FY 1982/83. The major purposes for which the Bank has disbursed the credit are agricultural production, farm improvement and irrigation, agrobusiness and agro-industries. Recently, some of the branches of ADB/N in Bagmati and Gandaki Zone are included under the "Cottage and Small-scale Industries Development Project" and are directed to provide financial assistance to the cottage industries.

INSTITUTIONAL ASPECTS

The commercial banks are directed to invest at least 8 per cent of their total loans and advance in priority sector which includes cottage and small industries, agriculture and service sector. With a view to bridge the resources gap of productive sector, the commercial banks are instructed to invest at least 25 per cent of their total loans and advances in productive sector by the end of FY 1984/85. The productive sector includes priority sector, exports, and other industrial credit, etc.

Official studies on the cost of lending of financial intermediaries are not available in the Philippines. However, the Manila Reference Rate, which basically measures the borrowing costs of banks on promissory notes issued, and the savings and time deposit rates indicate as to how much banks pay on their source of loanable funds, an important input in the computation of their intermediation costs.

There are existing regulations affecting the investments of banks and other financial intermediaries. For instance, of the deposit substitutes available for investments, banks are required to set aside 25 per cent of their loanable funds for agricultural credit (15 per cent) and agrarian reform (10 per cent). As part of the central bank's supervisory and regulatory functions, periodic or special examination of banking institutions operating in the Philippines are also conducted.

To evaluate the performance of industrial and agricultural banks in the financial system, the central bank, through its Supervision and Examination Sector analyses the asset position of financial intermediaries and evaluates the quality of their assets based on balance sheet ratios under the solvency-liquidity rating system which is conducted on a monthly, quarterly, semi-annual and annual basis.

A Central Bank-Securities and Exchange Commission was also established in January 1981 to provide a continuing and permanent mechanism for the proper enforcement of joint responsibilities of the two agencies over financial intermediaries.

There are no specialised industrial and agricultural banks in Sri Lanka and no published study available on the cost of lendings of financial intermediaries. However, long-term credit institutions such as the Development Finance Corporation of Ceylon and National Development Bank provide loans for agricultural and industrial purposes. Moreover, the commercial banking sector also grants advances for the above purposes.

A study on the cost of lending of Thai commercial banks has examined the patterns of receipts and expenditures of Thai commercial banks, for the period 1963-70. However, no such studies have yet been made on the lending costs of the development banks. As regards the performance of the Industrial Finance Corporation (IFCT), its contribution to the country's industrial development has been quite impressive. This view is also shared by outside agencies such as the World Bank. The IFCT's lending to industry increased at rapid rates especially in the second half of the 1970's to 1982 when its lending expanded by nearly four-fold. This was made possible by its ability to tap funds from new sources especially those of low-cost in foreign financial market.

In judging the performance of the Bank for Agricultural and Agricultural Cooperatives (BAAC), one has to keep in mind that an important objective of the establishment of the BAAC is to increase the flow of low-cost credits to agricultural sector. Limit on the BAAC's lending rates was, therefore, imposed and has become an important constraint on the institution's ability to tap funds from the public. However, the BAAC's lending increased by more than thirteen-fold in the period under review. The growth in the BAAC's lending was marked in the middle of the 1970's when regulation on commercial bank's agricultural credit extension was introduced in 1975. Commercial bank's deposit at the BAAC has then become a major source of funds, replacing the authorities' financial assistance. Despite its specialisation, the BAAC's credits accounted for about 70 per cent of commercial bank credits to agricultural sector at the end of the period under review. It is believed that the role of the BAAC could expand substantially if its lending rates were made more flexible.

In order to exploit the economies of scale as well as to retain the term-lending character of the specialised intermediaries, certain countries in South-East Asia have turned towards the general amalgamation of short-term lending and long-term lending into one institution - the multipurpose or universal banks. The Development Bank of Singapore (DBS), is a case in point. The DBS's charter was broadly framed, allowing it to go into term financing, guarantees, equities, real estate and commercial banking. It was originally intended to focus on term-lending and equities in industry. As a matter of policy, it limited its commercial banking operations to its clients for development finance and even then provided it only when adequate facilities were not available from other sources.

As for the case of universal banking, except for Singapore and the Philippines, the monetary authorities in SEACEN countries do not contemplate to amalgam the short-term and long-term lending functions into one institution. However, for Burma, under the Bank Law of 1967, all short-term and long-term lending functions which were carried out by the People's Bank of Burma, have been transferred to and are undertaken by the Myanma Agricultural Bank and the Myanma Economic Bank.

In Indonesia, although the authorities have never contemplated towards the general amalgamation of both ends of the lending functions of the development banks, all banks are allowed to extend short as well as long term credit except the state savings bank. Since the performance of both types of credit have been impressive, the authorities feel that it is not necessary to amalgamate the short-term and long-term lendings into one institution.

In Nepal, the Agricultural Development Bank provides credit for short, medium as well as long-term purposes while the Nepal Industrial Development Corporation provides credit for long-term purposes and guarantee for working capital against which the commercial banks provide credit to industries. The commercial banks also are authorised to extend credit for short, medium and long-term purposes.

In the Philippines, the banking and financial reforms of 1980 introduced a modified form of universal banking under which powers were generalised to include commercial banking and investment banking activities. The expanded commercial banks, as the modified universal banks are commonly called, are allowed to engage in the entire range of financial activities - short-term and long-term debt equity, domestic and foreign trade, current operating and capital needs.

However, financial analysts have critically looked at the increasing participation of government financial institutions in commercial banking operations. The latest "encroachment", according to them, was the granting of domestic commercial banking authority to the Development Bank of the Philippines and the freedom to accept foreign currency time and savings deposits. Proposed amendments of the Development Bank charter will enable the bank to engage in other activities such as acceptance of drafts and opening of letters of credit, and in foreign exchange transactions. Government participation in commercial banking was enhanced by the purchase of the Commercial Bank of Manila by the Government Service Insurance System (GSIS). This was followed by the acquisition of the Union Bank of the Philippines by the social security system and the Land Bank. Private bankers have expressed apprehensions that these government owned or controlled commercial banks may eventually overshadow their operations, given their enormous resources to mount stiff competition4/.

The Sri Lankan authorities have not contemplated in amalgamating short-term and long-term lending functions into one institution. Generally, commercial banks lend for short periods while the long-term credit institutions are expected to provide medium and long-term finances.

In Thailand, it has been one of the authorities objective to encourage the most important financial institution, the commercial banks, to pay more attention to long-term lending. The move initiated by the commercial banks towards this objective was evident in 1983 when the structure of bank lending rates was changed. Specifically, commercial banks introduced minimum rate for term lending, which was then fixed at a lower level than the rate on overdraft lending to prime customers or the so-called minimum overdraft rate. Apart from this activity, there are other areas where the Bank of Thailand would like commercial banks to be more involved. One of these, is the participation in the trading of government bonds in the secondary market. Various measures were implemented to encourage this participation. However, the central bank does not envisage a rapid move towards a universal banking system in the near future.

On the basis of various evaluation criteria, such as efficiency and financial stability, Khatkhate and Reichel have found that the LDC's may benefit more from the adoption of a multi-purpose banking system, in particular from the exploitation of economies of scale without the inefficiency that often ensues from an increase in

4/ Asian Finance, 1984

the degree of concentration, than from adoption of a specialised system.5/ A multi-purpose banking system implies a more liberal approach to banking legislation, thereby avoiding the fragmentation of the financial system that usually accompanies strict legislated specialisation. That is not to say, however, that specialised institutions should not be permitted where there are proven gains from specialisation. The Bank of Thailand also feels that as commercial banks in most SEACEN Countries already have important and major role in the economy, the recommendation for universal banking role for them can create diseconomy of scale and will make the financial sector more concentrated with commercial banks having a bigger share of the market.

Even though commercial banks may have higher cost because of the requirement for them to hold cash reserves, it is still essential for central banks to have this instrument in order to control money supply which is its primary objective. Furthermore, more detail considerations must be taken as the holding of cash reserves is also a mean of transferring private resources to the government in some developing countries.

Promote development of the Financial Structure

While setting-up of specialised financial intermediaries at the initiative of central banks is a direct deliberate effort in providing development finance, central banks' role in promoting development of the financial structure have indirectly helped to mobilise savings, promote economic development and its financing through greater financial intermediation. The Central Bank of Malaysia Ordinance, 1958 emphasises that "the principal objects of the bank shall be to promote monetary stability and a sound financial

5/ Khatkhate and Reichel, 1980

structure and to influence the credit situation to the advantage of the Federation".6/

The role that central banks play in the expansion of the commercial banking network, the establishment of specialised credit institutions - development banks, finance companies, merchant banks, etc. - and the evolutions of policies which would enable the organised money market to play their developing role in the hitherto unserviced sectors tend to increase financial intermediation and indirectly promote the cause of development finance.

That economic development and financial development go side by side and the need for policies to raise the level of savings through the development of the money and capital markets as a prerequisite for growth have been generally recognised. The development of an efficient financial system, often referred to as the process of financial deepening, involves the design and implementation of central bank policies to increase the monetisation of the economy, foster and develop a sound and diversified financial structure with coordinated money and capital markets and maintain monetary stability. This has the purpose of creating the economic environment conducive to orderly growth. This environment should permit maximum savings to be mobilised through financial institutions and maximum utilisation of these savings in productive investment.

The policy of central banks in South-East Asia and particularly the ASEAN countries is geared towards widening and deepening their financial system. One of the yardstick to measure the deepening of the financial system has been popularly termed as 'financial interrelations ratio'. This ratio between the total financial assets and Gross National Product was widely used by Professor Goldsmith in his pioneering research on financial structure

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6/ Bank Negara Malaysia, 1984

and development. Mr. Sixto Roxas has computed this ratio for the five major countries in South-East Asia and is reproduced below.7/

Goldsmith's financial assets as a ratio of GNP

	Indonesia	Malaysia	Philippines	Singapore	Thailand
1967	.23	.71	76	.94	.52
1974	.56	1.13	1.22	3.78	.75

Latest figures computed by Bank Negara Malaysia of the financial asset/national income ratio for Malaysia suggested that the ratio had risen from 0.55 in 1960 to 1.81 in 1982.8/

Since Burma is a socialist country, all the financial institutions are state-owned and therefore the Burmese authorities feel that there is no need for the central bank to promote the development of money and financial markets. However, the central bank plays an advisory role in the establishment of branches of the Myanma Economic Bank and Myanma Agricultural Bank and provides training facilities to improve efficiency of the personnel at all levels.

In Indonesia, the central bank as a monetary authority supervises and encourages the development as well as the operations of financial institutions not only on their mobilisation of funds but also on their fund allocation. These activities are in line with the government objectives of the role of Bank Indonesia to promote the development of financial structure by i) intensifying the examination and promotion of regional development banks; ii) by easing the requirements needed to establish branch offices of regional

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7/ Taken from George J. Viksins 'Financial Deepening in ASEAN countries', 1980

8/ Bank Negara Malaysia, 1984

development banks; iii) by activating the operation of regional development banks by way of offering technical assistance, education as well as by granting credit; and, iv) by assisting banks willing to merge.

In Malaysia, the role of the central bank in promoting the development of the financial system has been written specifically in the law, namely, the Central Bank of Malaysia Ordinance, 1958. In this Ordinance, the principal objectives of the Central Bank are stated as: i) to issue currency and to keep reserves safeguarding the value of the currency; ii) to act as banker and financial adviser to the government; iii) to promote monetary stability and a sound financial structure, and iv) to influence the credit situation to the advantage of the nation. The establishment of the central bank on January 26,1959 marked the beginning of a period of rapid spread of the banking habit and development of an efficient and sound financial system aimed at financing economic development as well as establishing the basic conditions for implementation of monetary policy. In view of the large amount of funds required to finance national development in both the public and private sectors, the prime concerns of the Central Bank was effective mobilisation of resources for use in productive investment. However, in the absence of adequate banking and other financial institutions in the 1950's, the intermediation process could not have functioned effectively. Neither could the financial system lend itself to effective monetary management. Hence, the central bank adopted, as a matter of high priority, policies designed to strenghten and develop existing financial institutions and to establish new ones. These matters can be summarised as: a) expansion of the banking and finance companies network, with emphasis on development of institutions which are domestic in character; b) upgrading the level of professionalism in the commercial banks and finance companies in order to maintain public confidence in them; c) fostering a development-oriented approach in lending; d) developing the money, foreign exchange and capital markets; e) promoting the establishment of specialised financial institutions to finance the development of agriculture and industry; f) encouraging the establishment of merchant banks to fill the growing needs for financial expertise in wholesale banking and corporate finance; and, g) promoting the establishment of international commodity markets.

One of the major objectives of the Nepal Rastra Bank is to mobilise the resources and foster the banking system in the country. To achieve the objective the Nepal Rastra Bank is furnished with the authority of controlling monetary aspect and guiding the activities of commercial banks. The bank is authorised to supervise and redirect the activities of commercial banks and inspect the activities of Agricultural Development Bank.

In accordance with the national policy to set up one bank branch for every thirty thousand people by the end of current sixth plan (July 1985) the Nepal Rastra Bank furnishes the commercial banks with feasibility survey for bank branches in different districts of the country, instructs them to open branches, provides interest free loan for the purpose and compensates the losses incurred by those branches. As a result of the vigorous attempt in expanding the banking services till the end of FY 1983/84, altogether 357 branches of commercial banks are established in different parts of the country and on an average every branch is rendering services to every 45 thousand people.

One of the major objectives of the Central Bank of the Philippines is to foster monetary, credit and exchange conditions conducive to a balanced and sustainable growth of the economy. This includes the development of a strong financial system, which would efficiently and effectively service a growing and developing economy. Thus, in addition to administering the monetary, banking and credit system of the country, the central bank plays a key role in initiating and implementing financial reforms to make the financial system responsive to development needs, e.g., by amending basic laws governing the activities of financial institutions and by introducing policy and institutional reforms.

Between 1970 and 1982, there have been two major reforms initiated by the central bank, one in 1973 and another in 1980. The main thrust of the 1973 reforms concerned the consolidation of the entire financial system under the supervisory and regulatory powers of the central bank, while the 1980 reforms were directed towards increased competition among financial institutions and greater use of economies of scale through the minimisation of functional differences among financial institutions and the adoption of the modified universal banking concept.

The central bank was also instrumental in the introduction of major policy and institutional reforms. Among these are, i) the amendment to Republic Act 337, or the General Banking Act in 1972, to allow an equity participation by foreign banks in the voting stock of domestic banks, and ii) the establishment of an offshore banking system in 1976.

Furthermore, modified commercial banking was introduced as part of the financial reforms of 1980. Rural banks were given broader domestic powers but nevertheless without such activities as domestic LC's, trust services and other services not essential to countryside operations.

Lastly, the deregulation of the interest rates begun in 1981 and completed in 1982 was also expected to indirectly promote the development of the financial structure through greater cooperation.

Since the Singapore government embarked on a conscious strategy to develop Singapore as a financial centre, the Monetary Authority of Singapore, MAS, was entrusted with the responsibility of promoting and developing the financial markets and of strengthening the infrastructure to develop Singapore as a financial centre. The Authority formulates policies to promote, develop and strengthen the financial markets and to encourage expansion into new areas of financial activities.

Since the early 1970's the MAS adopted a liberal policy on the admission of international banks and other financial institutions to broaden the base of the banking system. Prior to 1971, there was only one type of commercial bank in Singapore. They were permitted to carry out the whole range of banking services, regardless of their country of incorporation. As a strategy to attract international financial institutions to set up offices in Singapore and to avoid unnecessary competition in domestic banking, the MAS began to issue other types of licences for banks to engage in specialised lines of banking business. Restricted banking licences were issued in 1971 and offshore licences in 1973. Restricted licence banks are to do the full range of banking business except that restrictions are placed on their deposit collection. They may not operate savings deposits and are not permitted to accept time deposits of less than S$250,000. Offshore banks are basically licensed to operate in the Asian Dollar Market. They may undertake all types of transactions in their Asian Currency Units. Their domestic banking units may also transact any banking business with non-residents except that they may not accept savings deposits nor accept time deposits of less than S$250,000 per deposit. Offshore banks may also provide normal banking services to resident non-bank customers except that they may not accept time, savings and other interest-bearing deposits from such customers. They can grant a limited amount of loans to residents of Singapore.

In an attempt to foster the growth of a more active local dollar money market to enhance the development of Singapore as a financial centre, the MAS introduced discount houses into the financial system. Three discount houses were established in 1972 and a fourth in 1974 with the approval of the MAS.

The first merchant bank in Singapore was established in 1970. Encouraged by the buoyant stock market in 1972-73, the steady growth of the Asian Dollar Market and the liberal policy of the MAS in admitting international financial institutions to establish in Singapore, more merchant banks were established. Most of the merchant banks were established in the boom years of 1972-73.

The new institutions have brought with them their own expertise and contacts thus enhancing Singapore's image as a financial centre. Today, Singapore is serviced by a a wide variety of financial institutions, including 37 full banks, 14 restricted banks and 73 offshore, 51 merchant banks, 4 discount houses, 8 international money brokers, 34 finance companies, and 823 insurance and reinsurance companies.

The Asian Dollar Market was launched in 1968, when the Singapore government abolished the withholding tax on interest paid to non-residents on their foreign currency deposits with approved banks. The MAS granted approval to Asian Currency Units (ACU's), which are separate currency units in banks and other financial institutions, to operate in the Asian Dollar Market. The first ACU was given to Bank of America in 1968. In the following year, more ACU's were approved. To date, there are 163 ACU's operating in Singapore with an asset size of US$ 114.4 billion. The growth of the Asian Dollar Market to its present size reflects the response of the operators to policy measures introduced by the government and the Authority to facilitate its expansion. For instance, various fiscal incentives were introduced. These included a 10 per cent concessionary tax (instead of 40 per cent) on income received by ACU's from offshore loans and fees and commissions received by ACU's for advising, confirming or refinancing offshore letters of credit;

exemption from estate duty of non-residents' depositors with ACU's and holdings of approved Asian Dollar Bonds.

ACU's are supervised by the MAS and operate on terms and conditions laid down by the Authority. They have to comply with the provisions of the Banking Act. However, they are exempted from certain provisions, e.g., they are not required to maintain reserve and liquidity requirements.

To create more breadth and sophistication to the financial services available in Singapore so as to assist its development as an international financial centre, the MAS encouraged the introduction of new financial instruments such as Asian dollar bonds, Singapore dollar negotiable certificates of deposit, floating rate and fixed rate US$ certificate of deposit.

The Monetary Authority of Singapore has also promoted new areas of activities such as loan syndication, offshore fund management and financial futures trading.

The MAS has also been involved in formulating and introducing measures to provide a conducive and attractive environment for financial institutions to operate. In July 1975, the Authority abolished the cartel system of banks' interest rates and since then banks are free to quote their own interest rates. Prior to July 1975, interest rates were fixed by the Association of Banks in consultation with the MAS. On June 1, 1976 the Authority completely liberalised exchange control regulations.

The MAS also adopted a liberal policy regarding the employment of skilled expatriate personnel in the financial expertise in Singapore.

INSTITUTIONAL ASPECTS

To enhance the competitiveness of Singapore with other financial centres, the Authority worked closely with the tax authorities to provide various fiscal incentives. These include, for example, tax concessions for ACU's, abolition of stamp duties on loan agreements, a tax exemption scheme for offshore fund management and loan syndication.

To improve the telecommunication network and services, a very essential infrastructure for any Centre, the Monetary Authority of Singapore also worked closely with the Telecommunications Authority.

In Sri Lanka, the central bank authorities feel that for the purpose of ensuing effective monetary management, it is essential to develop the financial system. The institutional set-up with respect to banking, money and credit was felt inadequate in the context of liberalised economic policies. As apex financial institution in the country the central bank took initiatives in developing and promoting the financial structure. The central bank involves directly and indirectly in reorganisation and initiation of domestic commercial banks, savings institutions, long-term credit institutions, and reactivation and promotion of activities in money market and capital market. The central bank was directly involved in the establishemnt of one of the state banks, i.e., the People's Bank in 1961. Further, the central bank provided technical advice to the government in the formation and reconstitution of the Bank of Ceylon in 1961. The establishment of the two domestic banks, i.e., the Commercial Bank of Ceylon in 1969 and the Hatton National Bank Limited in 1970, was the outcome of action initiated by the central bank in promoting the formation of domestic banking companies in collaboration with foreign banks. Further, the central bank took initiatives in amalgamating the Post Office Savings network and forming the National Savings Bank in 1972.

The central bank from time to time considered the need to reorganise long-term credit institutions in order to enable them to play a more dynamic role in the economic development of the country. As a result, the central bank recommended the establishment of the Development Finance Corporation of Ceylon, National Development Bank of Ceylon and State Mortgage and Investment Bank.

The establishment of the central bank regional offices at Matara in 1981 and Anuradhapura in 1982 was the major structural change that took place in the financial structure in the recent past. Development of central banking activities paved the way for some foreign banks to commence business in these areas. The central bank also recommended the entry of reputed commercial banks into Sri Lanka with a view to injecting dynamism and to provide greater banking facilities to meet the additional demands of the growing liberalised economy. In addition to the central bank involvement in promoting the financial institutions, it was also involved in promoting activities in money and capital market. The central bank introduced a Foreign Currency Banking Scheme in 1979 with a view to develop an offshore banking centre in Sri Lanka. Accordingly, out of 25, 24 commercial banks opened separate foreign currency banking units. With regard to the promotion and development of the financial structure in Sri Lanka, the central bank initiated the secondary treasury bill market in 1981. By way of rendering assistance to the government in reactivating the capital market in 1983, the Market Practice Committee was established in 1983 to review developments in the Colombo Money and Exchange Markets and to examine and regulate, if necessary, the conduct of the participant members.

In the context of development finance, the Thai authorities feel that financial structure should be enhanced with a view to further facilitate the mobilisation and allocation of financial resources. Two important policy instruments, namely, interest rate and bank branching policies are instrumental in achieving these objectives. In the period under review, interest rate policy stance had been moved towards greater flexibilty so as to encourage financial institutions to make more use of market mechanism in competing for new financial savings.

In Thailand, bank branching policy has been designed in such a way as to widen the public's access to financial services in general and greater extension of credit to rural areas in particular. Conditions that banks must comply in order to get permission for opening new branches are stricter for the request for opening branches in the Bangkok Metropolis and in areas where bank branches are densely located, but relaxed for the request for branch opening in the other areas. These conditions include requirement for banks to buy governemnt bonds of certain amount. This amount is higher for the request of the first category. However, bank branches situated in rural areas are required to lend at least 60 per cent of deposits to people residing in the areas. This requirement has been imposed to ensure that financial resources mobilised in rural areas were ploughed back for the benefit of the areas and are not transferred to the capital and other urban areas.

There are other specialised financial institutions apart from the Government Housing Bank, the Industrial Finance Corporation of Thailand, the Small Industrial Finance Office and the Bank for Agriculture and Agricultural Cooperatives mentioned in the report. Credit Foncier Companies and Agricultural Cooperatives are also specialised financial institutions. The Government Savings Bank can also be considered a specialised bank as it mobilises savings in order to loan exclusively to the government.

High inflation which occurred during 1973-1974 was imported inflation as a result of the first oil shock and not a consequence of monetary policies carried out. Loan and money supply were high in 1973-1974 because of inflation and the increase in expenditure. Loan increased because of inflation and not vice versa. The policy of the Bank of Thailand was to ensure that money was too tight during that period.

Financial Layering:

Greater financial intermediation involves financial layering. This is in the nature of intermediation as sketched below:

Financial layering

Savers - Commercial Banks - Central Bank - Development Bank -Investors

If one were to measure resource costs of transferring funds from original savers to final investors with the help of the above sketch, it could be made as high as, say, 10-15 per cent depending on the rates charged by each unit. Lending rates of financial intermediary may be very misleading if, for example, there is much financial layering, i.e., one financial intermediary borrowing from another financial intermediary which in turn, borrows from yet another. In the above example, the spread of rates of each financial intermediary must be summed up to produce the total intermediation costs between savers and investors.

The problem compounds when institutions with the same objectives borrow from one another such as one development bank borrowing from another to provide a loan to the final investor. Thus, the final investor ends up paying more in this case. The Malaysian Industrial Development Finance Annual Report for 1983 depicts one such borrowing from Bank Pertanian.9/ In some cases, layering may increase due to term of loan and maturity period involved. The issue here is whether the financial resources should be provided directly to

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immediate users cutting down such intermediate institutional layering?

On the question of financial layering, a majority of the SEACEN Central banks have responded that it is not an issue in their financial system.

However, in Burma, financial layering is practised by the Myanma Agricultural Bank as it lends to village banks at 8 per cent and the latter lends to farmers at 12 per cent per annum. This has not been a problem to the monetary authorities.

The Indonesian authorities do not consider financial layering a fundamental issue at the present time although it does exist in Indonesia's financial system. Monetary authorities do not take too much heed of financial layering since financial layering has not affected or increased cost of credit borne by priority borrowers.

Financial layering has not been a significant issue in the Malaysian financial system. As there are two distinct parts of the financial system, namely the banking system and the non-bank financial intermediaries, their sources of funding are quite different. However, where financial layering does occur, the central bank ensures that the final users of the funds, especially those in priority sectors, are not charged excessive rates.

The Nepalese financial system could be divided into two different groups as commercial banks and specialised financial intermediaries. The central bank is at the apex of the system. The authorities do not consider financial layering as an issue though it exists to some extent. Basically, the sources of funds of commercial banks and other financial institution differ. The Agricultural Development Bank borrows from central bank and commercial banks and a part of which is channelled to the farmers through cooperatives. Similarly, the Nepal Industrial Development Corporation also borrows from the Nepal Rastra Bank and provides credit to industries. While the commercial banks collect the funds in terms of bank deposits from savers and borrow, if required, from the Nepal Rastra Bank. However, the cost of credit to the user is not affected by the financial layering.

The Philippines financial structure has evolved significantly in size, complexity and sophistication since the establishment of the central bank in 1949. Legislative measures created new types of banking institutions which made the banking system unnecessarily complicated and over-fragmented. However, the banking reforms introduced by the monetary authorities in 1980 provided for a financial structure that can better accommodate increased competition among financial institutions, greater use of economies of scale and making more long-term funds available especially to industries of high national priority. Specifically, the 1980 banking reforms provided for: a) the establishment of the expanded commercial bank (a modified concept of universal banking) which granted commercial banks power to engage in investment house operations such as under-writing, securities dealership and equity investment; b) a reduction in differentiation among categories of banks and non-bank financial intermediaries authorised to perform quasi-banking; c) the elimination of all functional distinctions among thrift banks; and d) an increase in the powers and function of non-bank financial intermediaries authorised to perform quasi-banking functions.

The broader range of financial services accorded to financial institution under the banking reforms provided these institutions with additional sources of profit margins some of which were heretofore not available to them, including a wider range of collateral business. Closer client relations are also forged since clients can avail of all the required services in just one institution. Moreover, because of the collateral business they could offer, the financial institutions could manage to reduce their spreads in return for bigger business from valued clients.

The Singapore authorities also do not consider financial layering as an issue in the financial system.

The present financial layering in the system has not been an issue in Sri Lanka. The central bank is the apex institution in the financial system. Generally, monetary and credit policy are transmitted to the money market through commercial banks. Intra-institutional financial arrangements exist in the money and capital markets in Sri Lanka. The commercial banking sector has been the major source of funds in the system. In addition to its lendings to the private sector which include long-term credit institutions and finance companies, commercial banks also engage in inter-bank transaction in the call-money market. Inter-bank transaction are also funded by the National Development Bank, National Savings Bank and certain big corporations such as Ceylon Petroleum Corporation. In the case of Small and Medium Industries Refinance Schemes, however, financial layering have been experienced due to involvement of several intermediaries which has led to raising of cost of funds.

The requirement for the commercial banks to lend at least 13 per cent of deposits to agricultural sector and to deposit with the Bank for Agricultural and Agricultural Cooperatives (BAAC) the amount falling short of the requirement could be argued as a case of financial layering in the Thai financial system. Hoewever, the authorities have realised that intervention of this kind is indispensable if priority sectors are to be ensured of ample bank credits. The results of this requirement have proved satisfactory as not only the banks' agricultural lending expanded markedly by nearly seventeen-fold in the period 1975-82 but also by the fact that banks have become more inventive in initiating new agricultural projects to help them meet this requirement.

Advisory Role of the Central Banks

As fiscal agents of their governments, the central banks in South-East Asia provide advice on many important matters relating to monetary, fiscal and balance of payments policies. In the pursuit of monetary stability, central banks have a strong interest to see that development policies are successful because any failures would result in wastage and may even create pressure for greater government expansion.

In Sri Lanka, the central bank plays an important role in the preparation of the annual government budget by submitting a report on the monetary situation and the policy stance needed. Generally, this report is used as a background paper for the preparation of the annual budget and some of the recommendations of the Bank eventually becomes a part of the budgetary policy.

It is also important for a central bank to be represented in government committees to offer advice and persuade the adoption of sound decisions, especially those with financial implications. Being entrusted by law to maintain monetary stability, it is considered not only a duty but also a right for the central bank to advise the government in all financial matters. Experience suggests that the Governors of most of the central banks in South-East Asia are represented in the development planning process of their countries. In Thailand, the Bank of Thailand involves directly in the process of development planning. The Governor is an ex-officio member of the National Economic and Social Development Board, and also a member of the Board of Investment, both of which are chaired by the Prime Minister. Similarly, is the case with Bank Negara Malaysia and the Central Bank of the Philippines.

In Burma, there is a Project Review and Evaluation Committee under the Ministry of Planning and Finance, of which the Governor of the central bank is the Chairman. The central bank is required by statute to advise the government on financing matters, both internal and external. The Union of Burma Bank manages the foreign exchange reserves and functions closely with the Ministry of Planning and Finance in terms of compiling the foreign exchange budget, allocation of foreign exchange for both current and capital expenditures. The central bank's advice on development finance matters are well accepted by the government. The Burmese authorities feel that the balancing of internal and external resources is a matter of concern to the central bank.

The Monetary council in Indonesia is a coordinatory body assisting the government in the planning and determination of monetary policy. It comprises the Ministers governing the financial and economic fields and the Governor of the central bank. In this council, the Governor of Bank Indonesia has a special position, in the sense that he has the authority to submit his own views individually to the President of the Republic whenever a decision taken by the council is in his opinion not in line with the current situation, objectives, and realistic economic principles. As a central bank, Bank Indonesia implements the monetary policy determined by the Government. For this purpose, Bank Indonesia compiles a credit budget and a foreign exchange budget for submission to the government through the Monetary council.

The Central Bank of Malaysia Ordinance, 1958, requires the Board of Directors of the bank to keep the Minister of Finance informed of the monetary and banking policy pursued or intended to be pursued by the Bank. Should the Minister disagree with the Board on issues of monetary and banking policy, he may issue directives to the Board, which are binding and the Board is obliged to give effect to them. In the event of a fundamental conflict in policy between the Board and the Minister, which has never occurred since the founding of the central bank, the law has provided the Board with the option to submit its objections to the Minister's directive, stating the reasons for them in writing to the Minister, who is then obliged to lay the Bank's objections together with the Minister's directive before the House of Representatives in Parliament. The relationships of the bank with the government as a whole is also maintained through the participation of the Governor and other members of the bank in various governmental committees and bodies, and through the secondment of economic liaison officers to state governments, statutory authorities and various government departments. Among others, the Governor is a member of the Foreign Investment Committee, the National Development Planning Committee and a director of the National Equity Corporation and the National Unit Trust.

In Nepal, the Governor of the central bank is associated with the development planning process by being a member of National Development Council. The National Development Council is a semi-political body with wide representation and provides an external feedback system for the planning machinery. The Planning Commission is required to function in accordance with the general guidelines decided upon by the National Development Council. His Majesty is the chairman of the Council. As economic adviser to the government, the Nepal Rastra Bank prepares and submit a Pre-Budget Survey to the Government as a background paper for budget preparation. This paper includes the survey and analysis of real sector of the economy, monetary movement, fiscal situation, international trade and payments position, movement of price, and major policy recommendations to be adopted in the forthcoming fiscal year.

In the Philippines, the Governor of the central bank is a member of the Board of Directors of the National Economic and Development Authority, the economic planning unit of the Republic. The central bank, as fiscal agent of the government has worked closely with the Ministry of Finance in matters concerning government financial requirements and to a certain extent has been effective in influencing decisions on the level and manner of financing the deficit. The central bank is also represented in inter-agency committees who deliberate on the resource gap of the public sector and its methods of financing. These committees include the inter-agency group composed of the major planning - and policy - implementing agencies of the government, which periodically meets to formulate and review the Annual Financial and Economic Programme of the Philippines, the Development Budget Coordinating Committee and the Investment Coordination Committee. The Annual Program sets forth the country's broad targets like real GNP growth, inflation and balance of payments targets as well as the programmes and policies to achieve these targets. This has been an effective forum for the central bank to advice the government on the size and methods of financing its budget deficit, among others, in order to achieve the broad targets. The Investment Coordination Committee formulates and coordinates the investment policies of government financial institutions to assure the optimum use of available resources and develop a coordinated and consistent system of budgeting the resources of these institutiuons. As a member of this committee, the central bank advises on the liquidity impact of the investment of these institutions. The Developemnt Budget Coordinating Committee is a Coordinating body among the major planning, fiscal and monetary agencies of the government. As a member, the central bank assures that the budgetary requirements of the public sector are consistent with monetary policy targets. The balancing of internal/external resources is a matter of concern to the central bank in view of its charter-defined objectives of maintaining the internal and external stability of the peso. A statutory bench mark on the foreign debt-service ratio has to be observed. Moreover, the central bank sees to it that foreign borrowings would be approved only for projects that yield direct foreign exchange receipts or savings in a pattern that matches interest and amortisation payments.

In Singapore, the Managing Director of the Monetary Authority of Singapore is represented on those government committees that involve the financial sector. The position of the Chairman of the Monetary Authority of Singapore as a cabinet minister provides further input into government planning. The Singapore government has characteristically pursued disciplined budgetary policies and hence required a less active advisory role by the Monetary Authority in terms of budget financing.

In Sri Lanka, the Governor of the central bank or any other higher authority of the bank is not represented in the economic planning unit of Sri Lanka. However, the secretary to the Ministry in charge of the subject of Finance and Planning is a member of the Monetary Board. As economic adviser to the government, the central bank influences government policies on bridging the resource gap of the public sector and its method of financing mainly through following reviews of economic condition which contain policy recommendations: i) the confidential September Report submitted on or before 15th September each year to the Minister of Finance and Planning as a background paper for preparation of the Budget Speech; and ii) reports submitted to the Minister of Finance and Planning by the Monetary Board whenever the Board anticipates economic disturbances that are likely to threaten domestic monetary stability in Sri Lanka or abnormal movements in the money supply or in the price level that may actually endanger such stability. These reports contain measures which the Monetary Board has already taken and further monetary, fiscal or administrative measures which it proposes to take or recommends for adoption by the government. Balancing of internal/external resources is a matter of concern to the central bank and recommendations in this regard are made to the government whenever necessary. The Balance of Payments Committee functioning under the chairmanship of the central bank with officials of other relevant institutions constantly reviews the external payments position of the country taking reckon of all developments both in the domestic earnings and outside.

INSTITUTIONAL ASPECTS

The Bank of Thailand has been directly involved in development planning. The Governor is a member of the National Economic and Social Development Board, the Board of Investment and the External Debt Committee. Furthermore, the Governor is also an adviser to the Council of the Economic Ministers which is a decision making body for major economic issues. In addition, the Governor is an active member of the Joint Private-Public Sectors Consultative Committee whose main responsibility is to coordinate the interest of the private and public sectors for the benefit of the country's development. In matters concerning alternative sources of financing, i.e., internal and external, it is the Bank of Thailand's policy to see to it that the country's reliance on foreign resources is kept within an appropriate limit. The central bank's role in formulating the External Debt Committee guideline stating that total debt servicing of the country in any year may not exceed 20 per cent of export earnings,with debt servicing of the public sector being kept at 9 per cent of export earnings, assumes that mobilisation of domestic savings has become a very important objective in the country's economic management.

Guarantee Mechanism

In the absence of guarantee mechanisms, it was found that the funds are naturally channelled into projects or sectors that promise the highest yield under certain risk conditions. Most commercial banks traditionally concentrate on financing foreign trade and domestic commerce. Even when they diversify, the direction is usually towards urban based activities such as real estate projects and service industry. The credit needs of agriculture, small business and industry including a large number of traditional enterprises used and are still being met by non-institutional lenders.

In order to overcome this 'impasse', central banks in South East Asia mainly in Indonesia, Malaysia, Nepal and Sri Lanka have helped establish credit guarantee institutions to guarantee loans made by commercial banks, which they would not otherwise have made. Such guarantee institutions have played a far bigger role in eliminating collateral based transactions and in helping the small scale rural borrowers.

There are two credit guarantee institutions in Indonesia, namely PT Askrindo and Pengembangan Keuangan Koperasi (PKK). PT Askrindo, an insurance company, established by the government and Bank Indonesia, provides banks with insurance cover against the potential defaults of small business loans extended under various refinancing credits schemes of Bank Indonesia. For the PKK, the government provides the entire source of their financing, and Bank Indonesia shares only 5 per cent of the total risk.

In Malaysia, the Credit Guarantee Corporation was established in 1972 to assist small borrowers in obtaining credit from the commercial banks at reasonable cost. The paid-up share capital of the Corporation is subscribed by the central Bank of Malaysia and the commercial banks. The corporation provides guarantee cover for credit extended by the banks to eligible small enterprises for financing their capital and operational requirements. The guarantee cover operates automatically once credit facilities under the scheme are provided by the commercial banks and approved by the Corporation. The rate of interest which the commercial banks charge on loans granted under the scheme is currently prescribed at 8.5 per cent per annum. The commercial banks, in turn, are required to pay to the Corporation a guarantee fee of one-half per cent per annum on credit outstanding. In the event that the guarantee is invoked, the Corporation covers 60 per cent of the amount of loans and advances in default and not recoverable by the commercial banks. To ensure that small-scale enterprises had ready access to credit at reasonable cost, the central bank had introduced a requirement whereby commercial banks are obliged to extend a required portion of their savings deposits in loans under the Corporation's guarantee schemes. This ratio has been revised and raised several times. With effect from 1981, a new set of lending guidelines was issued requiring each commercial bank to extend at least 12 per cent of its total loans outstanding at the end of 1980 to small-scale enterprises, of which 5 per cent must be provided under a new special loan scheme to provide loans to small-scale enterprises at a lower cost. Loans under this scheme attract a 2 per cent per annum government subsidy. The number of borrowers under the guarantee schemes have increased substantially from 2,292 at the end of the 1973 to 122,011 at the end of September 1983. The Bumiputra community was the predominant group of borrowers. In addition to its principal function of administering the guarantee schemes, the corporation is also actively engaged in advising businessmen on their financial requirements and assisting them in obtaining credit from the commercial banks.

In order to provide guarantee cover on the priority loans extended by commercial banks as well as to encourage such loans to small-scale enterprises, Credit Guarantee Corporation was established in 1974 at the initiative of the Nepal Rastra Bank. The central bank and the two commercial banks subscribed the share-capital of the Corporation.

However, the guarantee arrangement for credit disbursed by commercial banks and the Agricultural Development Bank under the Cottage and Small Scale Industries Development Project is made in the Nepal Rastra Bank.

The credit guaranteed by the Credit Guarantee Corporation stood at Rs 94.4 million at the end of FY 1982/83, while it was Rs 15.6 million at mid-July 1975. In the recent past the corporation has started to pay compensation to the banks for bad-debts. The following table provides data relating to guarantee.

Nepal: Credit Guarantee Corporation

Mid-July	Guaranteed loan in million Rs (outstanding)	Net increment (in million Rs)	Compensation provided (in thousand Rs)
1975	15.6	-	-
1976	23.9	8.3	-
1977	31.8	7.9	-
1978	35.3	3.5	-
1979	23.2	-12.1	-
1980	79.7	56.5	-
1981	83.2	3.5	42
1982	89.8	6.6	178
1983	94.4	4.6	165

Source: Credit Guarantee Corporation, Kathmandu.

In Sri Lanka, the central Bank of Ceylon has participated in establishing two institutions which provide credit guarantees, namely, The Sri Lanka Export Credit Insurance Corporation and the National Development Bank. The central bank has also subscribed in the paid-up share capital of those institutions. The Export Credit Insurance Corporation (ECIC) provides insurance cover against non-payment of export proceeds due to commercial and non-commercial risks for all types of exports. In addition, three types of guarantees are issued namely: i) pre-shipment credit guarantees, ii) post-shipment credit guarantee and iii) export performance guarantees enabling exporters to obtain credit facilities from the local banks on the strength of the guarantees and also to increase their credit worthiness to importers abroad. The ECIC has a paid-up capital of Rs 12.5 million of which the central bank has provided Rs 6.25 million, or 50 per cent. The

National Development Bank (NDB) is also empowered inter alia to guarantee the following types of credit: i) guarantee loans raised or to be raised by industrial, agricultural and commercial enterprises for approved credit institutions; ii) guarantee obligations of financial institutions arising out of the underwriting of capital issues of industrial, agricultural and commercial enterprises; iii) guarantee loans raised by any industrial, agricultural or commercial enterprises, being loans which are floated in the open market; and iv) guarantee deferred payments due to/from any industrial, agricultural and commercial enterprises. The Central Bank of Ceylon has subscribed 16.66 per cent paid-up capital of the NDB. At the moment, on behalf of the NDB, the central bank issues credit guarantees under i) above. In addition to those, the central bank, under Section 108A of Monetary Law Act issues guarantees in respect of loans granted by the commercial and development banks to small and medium scale industrial projects.

The Union of Burma Bank, the Monetary Authority of Singapore and the Central Bank of the Philippines have not been involved in the establishment or assistance of credit guaranteeing institutions. The establishment of the Export Credit Insurance Corporation of Singapore in 1976 was initiated by the Singapore government. The Corporation was set up with an authorised capital of S$ 300 million. Half of the initial paid-up capital of S$ 30 million was contributed by the government and the other half from commercial banks and insurance companies.

Credit Guarantee Scheme has yet to be adopted in Thailand. In the meantime a working group in which the Bank of Thailand is a member has finalised the feasibility study of the credit guarantee scheme for small-scale industries. The study has already been approved by the cabinet. It is hoped that the scheme will help widen access of small and medium scale industries to institutional credits significantly. Funding of the scheme will amount to 200 million Baht, 50 per cent of which are to be derived from part of the proceeds from the World Bank's Structural Adjustment Loan. The Industrial Finance Corporation and Krung Thai Bank have committed to contribute 20 million Baht each, while the rest will be financed by other commercial banks. At this stage, the Bank of Thailand's financial assistance is not envisaged.

Defaults and Cost/Benefit of Guarantee Schemes:

Experience shows that bank lendings under guarantee schemes had increased.10/ But whether productivity of sectors, where guaranteed loans were made, have increased or not have been some of the concerns expressed by critics. Opinions have been voiced that with the operation of the guarantee schemes, loans to desired sectors have been made but without any tangible results especially in cases where defaults have materialised. Not much information is readily available on such defaults, or write-offs, otherwise cost/benefit analysis of experience would have thrown some light on this issue.

Nevertheless, a cursory look at the operations of the Credit Guarantee Scheme of Malaysia shows that, of the cumulative total of loans approved of $2203.9 million at the end of 1983, 43.8 per cent or $964.9 million was outstanding. Of the outstanding amount of $964.9 million, only $95.1 million is classified as bad and doubtful loans - or only 9.8 per cent of outstanding loans. Assuming again that this 9.8 per cent is a cost, benefits could be scaled on the basis of average increment of loans, provided during 1973-83, which comes to about 17.0 per cent.

10/ Bank Negara Malaysia, 1984

Malaysia: Credit Guarantee Corporation

	Amount Outstanding $m	Net Increment $m	Bad and Doubtful Loans $m
1973	5.9	-	-
1974	115.2	109.2	-
1975	193.4	78.2	19.1
1976	227.9	34.5	35.8
1977	242.6	14.7	46.5
1978	271.3	28.7	54.2
1979	303.1	31.8	51.1
1980	340.4	37.3	54.4
1981	584.4	244.0	66.9
1982	951.6	367.2	81.8
1983	964.9	13.3	95.1

Source: Credit Guarantee Corporation Malaysia Berhad.

Thus, in this cursory analysis,11/ benefits have outstripped cost by 7.2 per cent. This suggests that guarantee mechanisms have been a very useful tool in the cause of development finance in Malaysia. Cost/benefit analysis for the SEACEN countries where guarantee mechanisms are administered could not be done in this study as time-series analysis data on default or doubtful loans were not readily available.

There have been substantial problems with the recovery of loans in Nepal. No precise data on loan recovery are available for

11/ Various Annual Reports, BNM

commercial banks, but the Mission was informed in December 1984 that around half of their loans was characterised by late repayments. It appears that the penalty rates charged on overdue loans have not provided an adequate deterrent against late repayment, and that more effective legal sanctions against loan arrears and defaults will be required for these problems to be redressed.12/

12/ Galbis, 1985

III. MOBILISATION OF RESOURCES

Perhaps it need not be reiterated the important role of central banks on domestic resource mobilisation. This section looks at the role of central banks in creating development funds out of their profit, policy measures taken to mobilise domestic resources, e.g., interest rate, reserve requirements, network of bank branches and guaranteeing external loans.

Issues for discussion that could be picked up are:

i) enlargement of the monetary base;
ii) financial repression; and
iii) increased costs of resources to commercial banks arising out of reserve requirements.

Co-financing on the part of a regional bank is briefly mentioned.

Development Funds

In their quest to provide funds to development finance purposes, central banks in South-East Asia have administered funds to mobilise additional resources. In Nepal such funds are created out of the central bank profit and set aside for banking development purposes. The purposes of the funds are refinance commercial and development banks' lending to priority sectors, to subsidise operational expenses in opening up of bank branches in remote areas of the country, to participate in equity of financial institutions, etc. The Central Bank of Ceylon also administers a medium and long-term credit fund for development finance purposes. The APEX Development Finance Unit of the Central Bank of the Philippines administers the financial resources extended to the central bank by the World Bank, the Asian Development Bank and other sources for relending to participating financial institutions for financing the medium and long-term needs of the industrial sector.

Among the SEACEN countries, Burma, Malaysia and Thailand do not administer specific development or stabilisation funds to channel long-term resources to desired sectors. However, the Union of Burma Bank advises the Myanma Economic Bank on the latter's term of lending. The Myanma Economic Bank has financial agreement with the Asian Development Bank in channelling funds to small-scale enterprises. Use of such funds is administered in conjunction with the Ministry of Industry. The Myanma Economic Bank conducts project appraisals and financing of local projects approved by the State.

Bank Indonesia also monitors development and stabilisation or any other funds for long-term lendings to channel resources to desired sector.

The development and stabilisation funds which the Central Bank of the Philippines administers for long-term lending include the 1) Apex Loan Fund, 2) Industrial Guarantee Loan Fund (IGLF), 3) Cottage Industry Guarantee and Loan Fund, and 4) Medium and Long-term Rediscounting. The Apex Loan Fund was created in August 1980 with an initial contribution from the World Bank and from a consortium of foreign private banks. Apex loan granted to participating financial institutions are normally composed of 60 per cent World Bank component and 40 per cent commercial loan component. This fund is available to economically and commercially viable projects and could be used to finance capital assets, including but not limited to plant sites, factory buildings, plant equipment and fixtures and their installation and transport equipment. The Industrial Guarantee Loan Fund extends financial assistance to small and medium scale industries through qualified commercial, rural and thrift banks. The assistance comes in the form of special time deposits and guarantees for loans extended by banks to qualified enterprises engaged in manufacturing, mining and service industries. The implementation of the Third Program under this Fund in 1982 was composed of a contribution from the World Bank and counterpart fund from the National Government. Prior to this, the World Bank had provided financial assistance under the First and Second Programs respectively. The Cottage Industry Guarantee and Loan Fund was created in January 1981 to enhance the development of the cottage industry through the extension of credit and technical assistance particularly to labor-intensive and export-oriented industries. The adoption of a guarantee scheme under this programme has greatly accelerated the lending portion of the programme since it enables participating rural banks to recover losses up to the unsecured portion of the loan. In 1982, the central bank introduced a medium and long-term rediscount facility in support of the modified universal banking adopted by the government which aims to promote long-term fund intermediation. Under this rediscount facility, expanded commercial banks are authorised to rediscount with the central bank paper evidencing medium and long-term loans extended by them to selected activities such as the acquisition of fixed assets; working capital usually in connection with a proposed or on-going expansion/development programme; investments in affiliates and other institutions; and for investments in high grade securities.

The Monetary Authority of Singapore also does not adminster funds as such to channel resources to desired sectors. However, through certain agencies like the Economic Development Board, Banks and finance companies, the Singapore government has introduced several financial assistance schemes aimed at upgrading Singapore's industries. These financial assistance schemes are the Capital Assistance Scheme, the Small Industries Finance Scheme, the Product Development Assistance Scheme and the Technical Assistance Scheme. The Capital Assistance Scheme serves as a tool for the promotion of projects of strategic value to Singapore's industrial development. Under the Scheme, these projects can obtain long-term, fixed rate loans at favourable interest rates. Such loans are fully secured by prime bank guarantees. The scheme also acts as a catalyst in the initial establishment of highly desirable new industries through the provision of equity capital. For such projects, the Economic Development Board normally assumes a minority equity interest. The Small Industries Finance Scheme aims at encouraging the further development of small local industries. For this purpose, a small company is defined as one with not more than S$ 2 million in fixed assets at the time of application. Companies with fixed assets between S$ 2 million to S$ 5 million can be considered on their individual merits under the Extended Small Industries Finance Scheme.

Small industries serve a vital role in providing supporting services to the larger companies. For them the availability of low-cost finance is an important stimulus. Under the scheme, fixed cost funds are provided to the participating banks for onward lending to small viable local manufacturers or related servicing enterprises. The Economic Development Board and the participating banks jointly administer the scheme and share equally in the risks. The Development Bank of Singapore, Oversea-Chinese Banking Corporation, Hong Leong Finance, Chartered Bank, Tat Lee Bank, United Overseas Bank and Oversea Union Bank were the approved Banks participating in the scheme in 1983. Currently loans at concessionary cost are fixed at 9 per cent. The scheme was made more attractive during 1983 to further encourage the technical upgrading of small local industries. It is now possible for small local companies which are upgrading or automating their operations to combine grants from the Skills Development Fund's Interest Grant for Mechanisation Scheme with the favourable interest rate of scheme loans. These companies can therefore obtain long-term funds at the low interest rate of 4.5 per cent.

The Economic Development Board, Singapore administers the Product Development Assistance Scheme which was set up to stimulate local industrial innovation and product development. Under the scheme, a local company proposing to develop a new product or substantially upgrade an existing one, may apply to the Board for a grant to cover up to 50 per cent of the direct development costs. Approved costs include direct manpower, utilities, materials, prototyping costs, consultancy fees and a proportion of additional equipment essential to the development work. The maximum grant per project is S$200,000 which is disbursed in two stages subject to satisfactory progress. During 1983, grants totalling S$ 568,000 were awarded to six local companies under the scheme. The projects included the development of such new products as a micro-processor based language laboratory console, an energy-efficient airconditioner and a low cost building automation system.

In 1964, the Central Bank of Ceylon established the Medium and Long-term Credit Fund (MLCF) for the purpose of stimulating the flow of medium and long-term credit both through long-term credit institutions and the commercial banks, by providing refinance facilities within the framework of Monetary Law Act, 1963. The object of the Fund was to provide financial accommodation to credit institutions for productive purposes such as the promotion and development of agriculture, industry, trade, commerce and business. The capital resources of the Fund were to come partly from capital repayment of loans, from interest charges on loans granted and other funds which may be transferred to it out of the resources of the central bank from time to time by the Monetary Board. Under this scheme, the central bank has been authorised to make advances by way of refinance facilities against the pledge of debts to such institutions. The Monetary Board has the right to prescribe the rate of interest to be charged by the borrowing institutions, the purposes for which loans are made and any other matters connected with the credit policy of borrowing institutions.

Commencing 1977 facilities granted from the MLCF have been categorised into four groups: i) loans granted for agriculture and fisheries, ii) loans granted for the promotion and development of exports, iii) loans granted for approved investments carrying tax holidays, iv) loans granted for the promotion or development of industry which includes tourism, trade, commerce and business.

The extent of refinance vary from 60 per cent to category (iii) and (iv), 70 per cent to category (ii) and 100 per cent to loans under category (i). While the period of loan for all the categories of loans are spread between 3 to 15 years, the rate of refinance is accorded priority to category (i) at the lowest rate of 7.5 per cent, 9-10 per cent for category (ii) and (iii) and at 12 per cent for loans qualifying for category (iv). A margin of 2 per cent is permitted to lending institutions under category (ii), and 4 per cent under other categories. Public issue of ordinary shares are also required in addition to sponsors minimum contribution which is related to the extent of bank loans raised to finance a project. Such public subscription under all categories of loans are set at a maximum of 15 per cent for loans over SL Rs. 50 million. There are also various eligibility clauses required to be fulfilled by banks and credit institutions. Over the period 1981-83, an average of 80.5 per cent of the loan amount were refinanced under categories (ii) and (iv).

Concessionary Resources and Monetary Base

Central banks in South East Asia are also empowered to create money on their own to support development projects. Besides affecting the abilities of other financial institutions to mobilise resources by such a central banking role, critics argue that injection of additional financial resources may endanger the stability of the economy. A dilemma confronts the central banking authorities because as monetary authorities they have to pursue policies leading to additional productive investment without which growth would be lower, and at the same time such policies may lead to widening of the monetary base, thus threatening the stability of the economy.

The concessionary interest rate on loans fixed by the Union of Burma Bank is set at 1 per cent per annum. The Burmese authorities, however, feel that such an interest rate on financial resources do not threaten the monetary base or endanger the stability of the economy as credits are provided to productive sectors according to Plan.

Bank Indonesia extends liquidity credits to banks mostly state-owned. Such credits have expanded very rapidly, from Rp.1,722 million in 1979 to Rp.3,742 billion in 1982 or increased by about 47 per cent annually. After the June 1983 reform, the rate of increase has slowed down to about 37 per cent. The Indonesian authorities also feel that up to a certain level such facilities accorded by the central bank do not endanger the economic stability or the monetary base of the economy. Besides, the reform policy of 1983 envisages and requires that only high priority projects are eligible for concessionary resources from Bank Indonesia.

Bank Negara Malaysia lending to the financial intermediaries contributed about 10.6 per cent of reserve money (monetary base) at the end of 1983. Such lending to the private sector, the authorities feel, will not endanger the stability of the economy as such lendings are monitored closely together with the monetary target as a whole. Moreover, in certain instances, lendings to the financial intermediaries was through issue of Central Bank Certificates to the private sector, proceeds of which are then on-lent to other financial institutions in need of such funds. In the case of rediscounting of Bankers Acceptances (BA's), the central bank regulates the amount rediscounted by prescribing a quota on the total amount of the bank's own BA's that each accepting bank may be allowed to place in the secondary market and by varying the rediscount rate in line with the prevailing monetary policy stance.

The Nepal Rastra Bank's claims on financial institutions, except commercial banks, accounted to 12.4 per cent of reserve money at the end of FY 1983/84. Among them the Agricultural Development Bank is the major beneficiary followed by the Nepal Industrial Development Bank is the major beneficiary followed by the Nepal Industrial Development Corporation. The central bank provides financial assistance to such institutions in terms of share participation, purchase of debentures, loans and refinance. They receive loans and refinance at concessionary interest rate. However, these institutions may enjoy the refinancing facility only for specified purposes, and the normal spread available to such institutions between loan rate and refinance rate is 4.0 percentage points. These specialised institutions need to have to invest the refinanced amount for the same purpose, they can use that fund at their own discretion.

During the period 1970-82, the Central Bank of the Philippines extended assistance to financial institutions (banks and non-banks with quasi-banking licenses or NBQB's) at concessionary interest rates in the form of emergency and regular rediscount credits. Provided they have realisable assets to serve as collateral, liquidity strained financial institutions can avail of emergency advances. Rates on this facility averaged at 9.5 - 12 per cent in 1980-82. However, in line with the adoption of a flexible interest rate policy, the rate charged on emergency advances was tied to the Manila Reference Rate.

Regular rediscounting involves the extension of commercial credits with maturities of 180 days and production/working capital loans with maturities of 360 days on the security of bills, acceptances, promissory notes and other credit instruments issued by bank borrowers. Depending on whether the project financed by the bank is considered high-priority, credits equivalent to at most 100 per cent of the loan value can be secured against eligible paper at a minimum rediscount rate of 3 per cent. Foremost among the projects are those under the supervised and non-supervised credit programmes to assist farmers and small-scale producers involved in agricultural production. Supervised credit programmes differ from non-supervised in the sense that availments under the former are closely monitored by field technicians. Consistent with the policy of giving priority to foreign exchange-generating projects, banks and NBQB's can likewise avail themselves of central bank credits against traditional and non-traditional export eligible papers. The other regular rediscount windows cover credit assistance to projects involving non-conventional energy sources and major mineral resources, small and medium scale industries, tobacco trading, cotton production, purchases of high grade equity issues and just recently, manpower exports.

The Monetary Authorities temper the expansionary effects of the rediscount and other windows in the following ways: i) the rediscount budget for lower priority sectors can be trimmed down for purposes of controlling the monetary base within the target level, ii) other policy tools like open market operations, reverse repurchase transaction, and reserve requirement are available and can be utilised to influence liquidity and consequently prices and balance of payments position. Other development financing extended by the central bank includes the special credit facilities under repurchase transactions which cover financing of hotel construction, gold mining activities and dealership in government securities.

Besides the MLCF, the Central Bank of Ceylon refinances commercial banks under the Guaranteed Price Scheme, Agricultural Credit Scheme, Pre-shipment Export Credit Facility and the Supplementary Refinance Facility for Non-traditional Exports. The central bank is aware of the implications arising from the expansion in the monetary base. However, the bank considers it necessary to provide adequate low cost funds to the priority sectors, since the market determined credit and interest rate structure does not help these sectors in a satisfactory manner. With the emphasis placed on supply management policies, the central bank has been expanding its various refinance schemes in the recent past.

While providing development finance to needy sectors the central bank has taken certain measures to contain the expansion in the monetary base. For this purpose the Secondary Treasury Bill Market was established in 1981 for attracting funds on treasury bills which are sold from central bank portfolio. As a further measure to control the expansion in the monetary base, the general accommodation provided at penal rates of interest to commercial banks were withdrawn recently. Furthermore, the refinance facility provided to the Paddy Marketing Board for purchase of paddy under the Guaranteed Price Scheme has been reduced so that the amounts granted under this facility will be contained at Rs. 400 million at any time. In addition to these measures which directly influenced the monetary base, the central bank has implemented in recent past various policy measures particularly selective credit control measures to contain the monetary expansion at manageable levels. With a view to absorbing excess liquidity in the system, the central bank started the issue of its own securities in June 1984. The first and second of such issues have been able to successfully mop up an amount of about Rs 450 million.

Statistics released by Bank of Thailand on Monetary Base reveals that development credit as sources of monetary base have been increasing rapidly over the period 1977-1983.13/ The Thai authorities feel that once the facilities are accorded such as refinancing on export credit, it has been found very difficult to control them as exporters consider them as an essential development input without which exports may falter. In a situation where incentives are taken for granted, such credits may erode the effectiveness of monetary policy in that they help expand money supply to an unacceptable level, thus building up price pressures.14/

13/ Bank of Thailand, Quarterly Bulletin, March 1984

14/ The SEACEN Centre, 1981

Thailand: Monetary Base

Million of Baht

	1977	1978	1979	1980	1981	1982	1983
Monetary Base	36855.1	43104.9	50271.6	57323.0	61091.6	68392.1	75550.3
of which Development credits	6218.3	8644.3	17584.3	18078.4	24338.5	25870.2	26674.0
a) Export credit	3192.5	4591.3	9650.3	8381.9	12667.7	15800.6	18601.5
b) Industrial credit	1732.7	1729.3	1924.1	2012.0	1423.7	1439.2	954.3
c) Agricultural credit	116.9	109.4	362.6	358.8	729.6	287.8	206.2
d) Others	1176.2	2214.4	5647.3	7325.7	9517.5	8342.6	6912.0

Source: Bank of Thailand, Quarterly Bulletin, March 1984.

MOBILISATION OF RESOURCES

Policy Measures for Domestic Resource Mobilisation

A major thrust of the monetary policy in SEACEN countries is aimed at enforcing domestic savings mobilisation on a continuing basis.

In Burma, to mobilise private savings, savings campaigns are undertaken through various publicity media, expansion of the network of branches of the Myanma Economic Bank throughout the country, raising of interest rates on savings deposits from 3.5 per cent to 6 per cent in April 1975 and then to 8 per cent in November 1977 with a premium rate of 2 per cent per annum on the minimum balance over the last 3 years. Interest on twelve year savings certificates of value K100, if held to maturity, earned K170 till 1975 when it was raised to K241.45 and then again to K346.12 in November 1977. The central bank has been successful in its efforts, judging from the substantial increase in the volume of savings over the last few years.

In Indonesia, the mobilisation of funds through financial institutions is a very important part of the efforts to encourage domestic savings for financing development, and as a tool to support monetary policy. Such efforts to mobilise funds have been in effect, guided and programmed through institutional development, promotion of savings consciousness, and the extension of necessary incentives. Institutionally, the efforts comprised the establishment of new financial institutions, reactivation of the stock market, and expansion of the interbank money market. Meanwhile, various programmes have been launched in order to encourage the savings habit in the society. Such programme include the 'inpres' time deposit scheme, a national savings deposit programme intended for development purpose called Tabanas and Taska, and ONH savings deposit for haj-pilgrimage expenses. Incentives have also been granted by means of attractive interest rates, and tax free status interest savings. To achieve these objectives, continuous improvements in procedures have been made in line with economic and monetary developments. In June 1983 Bank Indonesia has also introduced a set of policies liberalising interest rate as well as abandoning credit ceiling.

In Malaysia, to mobilise private savings, the Central Bank had actively promoted the growth of financial institutions such as commercial banks, finance companies, merchant banks, discount houses and other savings institution to ensure that these institutions are soundly managed. The central bank also encouraged the domestic banks and finance companies to open branches in areas with no access to banking facilities.

Prior to the 1982 Budget, several measures were initiated to encourage savings, such as tax exemption on interest earned on savings up to $30,000 in the National Savings Bank, interest on savings deposits of up to $10,000 with commercial banks and other approved financial institutions and interest on fixed deposits of up to $10,000 provided the maturity period exceeds 12 months. Dividends derived from the Amanah Saham Nasional and other approved unit trusts of up to $4,000 are also exempted from income tax. However, these measures were reviewed in 1982.

In the 1982 Budget measures several adjustment measures were introduced to encourage savings by individuals. The measures were as follows:

(i) all interest earned from savings deposits placed with the Bank Simpanan Nasional be exempted from income tax, i.e., no limit on the amount of deposits; (ii) interest earned from savings deposits of up to $410,000 placed by private individuals with registered co-operatives, Agricultural Bank, Tabung Haji and Malaysia Building Society Berhad, or any other financial institutions approved by the Minister, will continue to be exempted from income tax. In the case of interest earned on savings deposits with commercial banks and finance companies the exemption is now limited to that earned on a maximum of $1,000 instead of $10,000 as at present; (iii) interest earned from fixed deposits by private individuals including foreigners, with maturity period exceeding 12 months placed with commercial banks and other financial institutions be exempted from income tax, with no limit on the amount of deposits; and (iv) tax exempt dividend earned from investment in Amanah Saham Nasional and other approved unit trusts is now raised from $4,000 to $5,000 a year.

In May 1979, the negotiable certificates of deposits (NCDs) was introduced as a financial instrument for the commercial banks to mobilise savings, particularly from the corporate sector.

The experience of the central bank in assisting the financial institutions in mobilising additional financial resources with the aid of specific measure has been encouraging. Through the expansion of their banking network, the commercial banks and finance companies, which represent the two largest groups of financial institutions in the country, have total deposits (including NCDs) outstanding amounting to $46.4 billion as at the end of 1983 compared with $3.8 billion as at the end of 1970, with the proportion of savings and fixed deposits having grown significantly over this period. In recent years, there has also been a noticeable trend towards deposits of longer maturity in response to higher interest rates and tax incentives.

In Nepal, a significant portion of the domestic resources is mobilised through commercial banks. At mid-July, 1984 there are three commercial banks having 357 branches network throughout the Kingdom. With a view to improve the pre-Sixth Five Year Plan situation of concentration of the bank branches in accessible and economically potential areas of the country, the Government in its Sixth Plan adopted a policy of providing a bank branch, for every 30 thousand population by the end of the Plan period. As a result, there is one bank branch for about 45 thousand population today as against 60 thousand population at the end of the Fifth Five Year Plan, i.e., mid-July 1980.

Average deposits per branch which stood at Rs10.5 million by mid-July 1978 reached to Rs19.8 million at mid-July 1984. Per capita deposit which was Rs180 at mid-July 1978 stood at Rs285 by mid-July 1984. Similarly, deposit - GDP ratio which stood at 12.2 per cent at mid-July 1978 shot up to 18.5 per cent at mid-July 1984.

To promote the banking facilities and mobilise savings, a Banking Promotion Board was constituted on August 27, 1968 consisting of the representatives of various banks, financial institutions and other related agencies. Under this main committee, a sub-committee was formed for publicity. It has furnished the people with the knowledge of banking facilities and benefits through, booklets, posters, radio programmes, and exhibition of documentary, etc. It is believed that such efforts have contributed in mobilising the savings.

In order to enable Agricultural Development Bank to mobilise private sector resources, Nepal Rastra Bank has authorised some of its branches to accept deposits. However, deposit mobilised by the ADB/N is not yet significant. The other two agencies capable of mobilising domestic resources are Provident Fund Corporation and National Insurance Company. The funds at their disposal, which account for about 25 per cent of the commercial bank's combined deposits, are mostly deposited at the commercial banks. With a view to encourage the people of low income bracket to save, the post offices began to accept savings deposits from FY 1975/76. However, the savings mobilised by such offices is not yet significant and are deposited at commercial banks.

Until mid-April, 1974, the interest rate structure of the banking system was comparatively lower to those of other developing countries. Capital being cheaper, the increase in the deposits with the banking system could not keep pace with the increased demand for credit. On the other hand, interest rate was also negative compared to annual inflation rate.

To overcome the demerits of lower interest rate policy, Nepal Rastra Bank revised both the deposit and lending rates upward effective April 28, 1974. After the adoption of higher interest rate policy the overall deposits of commercial banks increased at an annual compound rate of 16.84 per cent over 1974-81 period. During the same period the time deposits increased by 18.7 per cent. Thus the adjustment in interest rates has a positive impact on internal resource mobilisation. The lending rate for industries or enterprises under the priority list varies between 10-15 per cent, while the rate for luxury or semi-luxury or non-priority enterprise carries a minimum of 17 per cent per annum. Differential lending rates has helped the flow of credit on the priority areas to some extent.

Among the financial institutions, none but the Agricultural Development Bank and Nepal Industrial Development Corporation (NIDC) have attempted to mobilise funds through the issuance of debentures. ADB issued eight per cent debenture of Rs40 million in 1978/79 of which Nepal Rastra Bank purchased Rs20 million and the Nepal Bank Limited Rs.20 million through the Security Marketing Centre. In 1982/83 NIDC also issued 8.50 per cent debenture of Rs. 40 million which was purchased by Nepal Rastra Bank. Issuance of debentures have, to some extent, helped the respective institutions in strengthening their financial position.

Interest rate policy in the Philippines has always been directed at enhancing the capability of the financial system to generate financial savings. During the decade in review, this policy was manifested through first, the upward adjustment of interest rate ceilings and finally, the elimination or lifting of all interest rate ceilings.

In 1976, interest and yields on long-term time deposit and deposit substitute liabilities (over 2 years maturity) were freed from interest rate ceilings while ceilings on savings and short-term time deposits and deposit substitutes were lifted in 1981. The full deregulation of the interest rate was carried out in January 1983 when the remaining interest rate ceilings on short-term loans were lifted.

Since 1973, the central bank has also been organising and implementing several programmes for the mobilisation of private savings in the Philippines. These were undertaken in line with the National Savings for Progress Campaign (NSPC), which was a nationwide savings campaign launched on June 29, 1973. The NSPC sought to maximise the country's level of awareness and interest in savings in order to contribute to capital function and the achievement of the country's development goals.

This "umbrella" programme was initiated as a cooperative project of both the government and the entire banking community, and involved an intensive media information campaign that encouraged saving in banks, with some vigorous coordination and educational work among the various regions of the country.

The central bank spearheaded several of the NSPC projects, which includes: 1) the TIPID* Movement - a school savings project implemented by the Central Bank, the Ministry of Education and Culture, and thrift banks, which involved the nationwide mobilisation of the small savings of school children through banks; 2) the Barangay Savings Program, which consisted mostly of seminars conducted by CB officials and other bankers in regions with low bank deposit

* Thrift Incentives for Progress through Industry and Discipline.

densities; 3) the observance of National Savings Consciousness Week and the various anniversary activities conducted in its commemoration; and 4) the publication of the Filipino Savings Primer and other related studies.

In Singapore the Central Provident Fund (CPF) Board was established by the Singapore Government in 1955 as a statutory authority to implement the compulsory savings scheme which members participate for their retirement benefit. Under the scheme, all workers, other than those self-employed, are required to make monthly contributions to the Fund. Their contributions are matched by contributions from their employers. The CPF is also regarded as a major financial institution which mobilises a large amount of domestic private savings for use in public sector development. The funds are channelled into investments in Government securities. The CPF invests its surplus wholly in long-term Government securities, mostly 10 to 15 years.

The Post Office Savings Bank (POSB) was set up as a statutory board to facilitate the mobilisation of domestic private savings for public sector development. The POSB has two main objectives namely, to encourage thrift and to harness domestic savings. Today with over two million account holders and with S$6.2 billion in savings deposits as at end-1983, the POSB is one of the major financial institutions in Singapore. POSB's ability to attract deposits can be attributed partly to the tax exempt status enjoyed by depositors and partly due to its modern and efficient banking services provided.

The success of the POSB in tapping the savings of the public has provided the Singapore Government with an important source of funds. Savings with the POSB are deployed for investment in Government bonds, provision of housing loans to individuals and loans to statutory boards and Government-owned corporations and enterprises.

In Sri Lanka, the important role of domestic savings in the economic development has been well recognised by the policy authorities in Sri Lanka. Almost all macro-economic plans highlight the importance of mobilising domestic savings and accordingly, a number of policy measures were effected to improve mobilisation of savings from the private sector during the period under review.

In 1972, on recommendations of the Central Bank, the National Savings Bank (NSB) was established as the major savings institution in the country. The NSB was formed by amalgamating the Ceylon Savings Bank, the Post Office Savings Bank, the Savings Certificate section of the Postmaster-General's Department and the National Savings movements. For the purpose of achieving monetary stability and also mobilising more savings, the nominal interest rates in the financial system has been kept at high levels over the last several years. These rates were revised upwards with a view to provide positive real returns on financial deposits. Moreover, with greater competition in the banking sector several new savings instruments were introduced so that savers are able to diversify savings depending on returns. One such investment, Certificate of Deposits (CDs) was introduced first by foreign commercial banks which was followed by domestic banks. The National Savings Bank introduced the National Pension Fund Scheme, National Endowment Scheme, Savings Certificate System, Premium Bond System and Mobile Bank System. Meanwhile, the commercial banks extended their branch network with a view to mobilise savings in the rural and semi-urban areas.

The establishment of the National Insurance Corporation in 1980 and the expansion of activities of the Insurance Corporation of Ceylon were also aimed at promoting domestic savings.

Attempts made to promote domestic savings in Sri Lanka have been moderately successful. As a result the level of financial savings rose significantly during the period under review. However, there is further scope for greater mobilisation of savings particularly from rural areas where new income is being generated due to development projects undertaken in those areas. The development plan of the Government was also aimed at generating additional income which the banking system is expected to mobilise through offering high rates and specialised banking services. As a support to new income generators, the Central Bank continues to provide refinances on priority areas. In view of the mixed effects of the high interest rate policies pursued for the purpose of demand management, the Central Bank enhanced refinance facilities for priority sectors and also reduced interest rates on such lendings.

In Thailand, interest rate measure is one of the measures being used to develop priority sectors, e.g., agriculture, export, industry and rural areas. In this regard such sectors have been given concessional credits by a number of specialised financial institutions. The Bank of Thailand, through commercial banks, has also made available refinance facilities to such sectors at substantially low rediscount rates. The above measures have been supplemented by other requirements on proportion of credits that commercial banks and their branches must extend to specified areas and sector, i.e., rural areas and agriculture. This last measure has significantly helped increase the flows of credits to agriculture, i.e., commercial banks' agricultural credits have increased by 8 times since 1975, from 2,824 million baht to 22,140 million baht in 1982.

In providing refinance credits to priority sectors the Bank of Thailand takes into account the constraint arising from the Bank's main responsibility in maintaining economic stability. The Bank is also contemplating on changing the structure of refinancing facilities to insure greater efficiency of such refinancing.

Since 1979 substantial changes in the financial system have been noted. Money market mechanism has been improved by the establishment of the repurchase market at the Bank of Thailand in 1979. The market has significantly helped facilitate liquidity adjustment of commercial banks and subsequently other financial institutions, i.e., finance and credit foncier companies, through the transactions in government bonds. During 1979-1981 tight money situation that prevailed at various intervals necessitated the adoption of more flexible interest rate management which was evidenced by frequent and substantial upward adjustments in ceilings on loan and deposit rates of financial institutions. The adjustments proved an effective means to mobilise financial savings and to ensure steady inflows of foreign funds and thus helped eliminate tight money situation.

Since 1982 high liquidity in the financial system has provided favourable environment for the authorities' moves towards interest rate liberalisation regime and has also encouraged financial institutions to adapt promptly to this new policy framework. For example, new lending rate, i.e., minimum lending rate has been introduced to induce term borrowing and to discourage the use of O/D facility. However, the attractiveness of the new lending rate has not been apparent for bank customers as foreign interest rates remain relatively low and as collateral is still required for term borrowing. Absence of fully developed secondary markets for money market instruments and papers through which companies could adjust their liquidity position is another obstacle for promoting term lending. In addition, the funding of long term loans of commercial banks could also run into difficulty by the lack of genuine long-term deposits. The introduction of new instruments, i.e., CDs and new type of financial institution, i.e., discount houses are being contemplated to assist in overcoming the above obstacles. The establishment of discount houses is also seen as a means to quicken the development of secondary markets for government bonds and other bills such as bankers acceptances which also emerged during high liquidity period.

MOBILISATION OF RESOURCES

External Resources

Besides official development assistance, foreign borrowings have been an important filling up in bridging the gap of development finance. World Bank group assistance in project financing have been very useful. Central banks' role in guaranteeing such loans, specially for development banks and non-bank financial intermediaries, have been very important in funding development projects.

In Burma, the central bank is not involved in raising capital for public sector requirements on foreign markets, but sometimes takes part in negotiations for borrowing from the World Bank. Loans taken from the World Bank and the Asian Develpment Bank are administered not by the central bank but by the Myanma Economic Bank.

Bank Indonesia does not provide any guarantee for foreign loans intended to raise capital for public sector. However, Bank Indonesia is responsible for commercial loans it has made from abroad including the issuance of bonds in the international market.

Although Bank Negara Malaysia is not directly involved in guaranteeing external loans, the Exchange Control Act, 1953 empowers the central bank to record, monitor and supervise the movement of funds, particularly payments to non-residents, and also to protect the country's foreign exchange position should the need arise. Authority for approving payments, both current and capital, is completely delegated to all the commercial banks for exchange control purposes.

For the development of Cottage and Small Industries (CSI), Nepal Rastra Bank (NRB) along with HMG in the year 1982, negotiated with the International Development Association (IDA) a loan equivalent to SDR 5.7 million including US$ 4.5 million (SDR 3.98 million) equivalent as sub-loan component and US$ 2.0 million as technical and commercial service component. The project being new and innovative the area of operation was limited to 3 districts of Bagmati and 6 districts of Gandaki Zone only. NRB established "Refinance Fund Account" with necessary amount of capital contribution for channelling the sub-loan component of IDA. Through this fund the sub-loan component is designed to be disbursed to the Participating Credit Institutions (PCIs) viz., Nepal Bank Ltd. (NBL), Rastriya Banijya Bank (RBB) and Agricultural Development Bank (ADB) by way of refinance. In order to gear the PCIs to adopt project-based lending operations and to cover the risks a separate credit guarantee scheme is being operated by NRB.

The project is being administered by the Central Bank which has, accredited 51 branches of commercial banks and ADB for providing sub-loans to cottage and small industries. The above facility has encouraged the banks to make term loans to small borrowers on the basis of project viability rather than collaterals. The progress of the project has been satisfactory.

The Central Bank of the Philippines participates in loan negotiations to ensure compliance with existing foreign borrowing guidelines particularly on borrowing costs and terms. The central bank does not guarantee public sector borrowings. It is the Philippine Government which extends necessary guarantees. World Bank-supported priority project financing programmes in the Philippines have generally been successful.

During the period 1970-1982, the World Bank approved a total of $48.5 million in two separate credits for the CB-IBRD Rural Credit Project. Under this programme, the Central Bank directly borrowed from the World Bank for relending to the rural banking system to strengthen the latter's medium and long-term financing capability to meet the farm mechanisation and other farm improvement requirements of small rural borrowers. Perhaps, the best evidence of the World Bank satisfaction with the programme is the succession of credits it has granted in support of the programme. The first three credits have all been fully paid on schedule while the fourth and latest credit (1977) has been virtually fully utilised and repayments are on schedule. The programme has increased the productivity of beneficiaries and generated employment opportunities in the countryside.

The Monetary Authority of Singapore has been involved in managing a few Euro-Asian bond issues on behalf of the Government in U.S. dollars, Deutsche Marks, Swiss Francs and Yen in the 1970's. Since then, the Government has not raised capital on international bond markets.

The Monetary Authority of Singapore, being the financial agent of the Government, does from time to time provide advice to the public sector on their borrowings, e.g., in relation to currency and interest rate. The Monetary Authority of Singapore does not guarantee any borrowing by the public sector. This is done by the Ministry of Finance. The Monetary Authority of Singapore has also not been involved in any loan programmes of the World Bank or its affiliates.

The Central Bank of Ceylon guarantees foreign loans obtained for the purpose of raising capital for public sector requirements on behalf of the Government of Sri Lanka. The Bank issues such guarantees on the basis of a counter-guarantees given by the Government of Sri Lanka, (The General Treasury). No guarantees are required for borrowings from the World Bank and its affiliates.

The World Bank (IBRD) and its affiliates, International Development Association (IDA) have been assisting Sri Lanka in her economic development programme in providing financial aid. When compared to other lending countries/institutions the IDA has extended development credit facilities to Sri Lanka on very concessional terms. Loans extended by IDA in recent years are free of interest and have long repayment periods but carry only a small service charge of 0.75 per cent per annum.

All IDA loans are ear-marked for priority sector projects which include Accelerated Mahaveli Programme, Integrated Rural Development Programme, Energy, water supply and sewerage, irrigation, road maintenance and highway development and agricultural extension programmes. The average rates of all IDA loans has increased from 31 per cent in 1982 to 38 per cent in 1983. However, it is observed that utilisation rates of IDA loans differ from loan to loan depending on the project for which the loan is utilised.

Through being represented in the External Debt Committee, the Bank of Thailand has participated in the formulation of broad guidelines for the country's foreign borrowing. However, it has not been involved in negotiating or guaranteeing or administering foreign loans obtained by the public sector. As regards the World Bank loan tied to priority sector projects, the World Bank has offered the Bank a loan for developing medium and small-scale industries. The Bank has been exploring the feasibility of this scheme.

Recent examples of Asian Development Bank initiative in bringing private capital flows in hitherto considered not a good market like Nepal are also opening up new funding sources. The Asian Bank, determined to catalyse private capital flows into areas and countries considered unattractive, has succeeded in getting a number of private international banks to join it in co-financing a Nepalese development project. This is the first time that Nepal has raised a syndicated Euro-currency loan.15/

15/ Asian Finance, April 15, 1984

MOBILISATION OF RESOURCES

Policy Issues

Tobin (1969) once observed that "no subject is engulfed in more confusion and controversy than the measurement of monetary policy". That was 16 years ago. Since then much has been written on micro as well as macro effects, relative effectiveness, and channels of monetary policy. Despite voluminous literature on money and monetary policy, it is not clear whether economists now have a better understanding than before of the role of money in a market-oriented economy. Largely because of the fast pace of financial deregulation and innovations in recent years, it has become more difficult than ever to define, and devise a method of appraising the stance of monetary policy. Tobin's observation remains as fitting as it was sixteen years ago.16/ The policy issues, therefore, identified in this section broadly follows the facts described in the previous paragraph.

Interest rates can have a substantial influence on the rate and pattern of economic growth by influencing the volume and productivity of investment as well as the volume of saving. Therefore, interest rate policies have to reconcile the conflicting requirements of rates that are appropriate to the desired level and composition of investment and also attractive enough to stimulate savings. There is an abundance of economic literature on this subject advocating a positive yield on financial instruments for effective mobilisation of additional resources.

The state of financial repression, where interest rate ceilings are imposed or relatively low interest rates are maintained, are said to decelerate the growth of financial assets, reduce the investment efficiency of the productive sectors, reinforce the olligopolistic power of financial institutions and eventually lead to

16/ Park Yung Chul, 1985

deterioration in the distribution of income. Thus, the proponents of this thought advocate for freeing of interest rates from monetary authorities to be determined by market forces. However, in most of the less-developed economies where conditions for the existence for a competitive market are not present due to institutional, legal or other impediments, interest rate freedom could potentially destabilise financial markets. Such destabilisation could take the form of an increase in the power of oligopolistic financial firms to exploit market imperfections by increasing the interest spreads between loan and deposit rates, and simply perpetuate the existence of a financial environment with rather low deposit rates of interest. Bank Negara Malaysia's current Annual Reports have been critical of stickiness of deposit rates vis-a-vis the loan rates.

While intervention by the authorities would be required to aid the market in establishing an adequate level and structure of interest rates, unfortunately they have generally tended to further aggravate financial market distortion.17/

The issues having been raised from both the aspects, the purpose of this section has been to highlight the importance of positive (real) interest rates in resource mobilisation. It goes without saying that negative rates lead to capital outflow thus lowering the resource base of the economy. Examples of real interest rates for effective resource mobilisation have been the success stories of Korea and Taiwan in recent past.

Through reserve requirement policy, central banks in South East Asia have indirectly intermediated between commercial banks and specialised financial intermediaries. By imposing such requirements on commercial banks, central banks have mobilised resources to be lent on to development banks. Thus reserve requirement policy have enabled

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17/ V. Galbis, 1981

central banks to channel resources to desired sectors without taking recourse to money supply expansion.

It has been well illustrated that reserve requirements policy of the central bank lowers the competitive return that commercial banks can offer to their depositors by making the cost of resources dearer to them. The requirements are considered as taxes on the potential earnings of the commercial banks. Even when nominal rates are paid on such requirements, it is alleged that they lead to misallocation of resources as they are an important source for subsidised finance for the special credit agencies and the government.18/ If one of the objectives of an economic development plan is to encourage domestic resource mobilisation, then discriminatory taxes - conventional as well as reserve requirements - on financial intermediation should be removed.19/

Several central banks in South-East Asia use this policy tool for development finance purposes. Requirements have been waived on commercial banks' holdings of certain prescribed instruments. This requirement has also been waived on that part of the loan portfolio meant for priority purposes where they are computed from commercial banks' asset side. Commercial banks can be encouraged to expand their offering of specific type of credit depending on the reserve requirements imposed on those specific type of credits relative to others.20/

It has been a deliberate effort on the part of the South East Asian central banks to diffuse a network of bank branches in hitherto unserviced areas to help tap resources in financial form. The expansion of banking facilities tend to increase the ratio of

18/ R.I. Mckinnon, 1980
19/ Maxwell Fry, 1982
20/ W.L. Coats, 1976

deposits to currency by making deposits a more attractive form of holding money balances. Mr. Bijan Aghevli's study on the earlier period of the United States (1879-1914) indicated that the rise in the banks per capita was an important factor contributing to the rise in net balances per capita and the deposit-currency ratio. It is also argued that this period of United States economic history characterised by rapid industrialisation and urbanisation, is quite relevant to the situation of many of the present developing countries.21/

In Thailand, since opening of a bank branch is considered a lucrative business, Bank of Thailand requires the commercial bank to have invested already a prescribed minimum ratio in certain financial instruments before a licence is granted to open a branch. Besides, the branch is required to invest a sizable portion of its lending activities in the region itself. This measure was implemented to see that resources mobilised in the area should be invested in the same region. Besides checking the flow of rural resources into urban sectors, the measures help to achieve the balanced regional development.

In Nepal, where the estimated share of the non-monetised sector in Gross Domestic Product is 60 per cent,22/ the central bank subsidises the commercial bank for the operational costs of opening a branch. These costs are covered 100 per cent in remote areas of the country and may run over a period of five years.

To encourage the commercial banks to open branches in rural areas the Nepal Rastra Bank has made a provision of compensating the loss incurred by such branches. For the compensation purpose, 75 districts of the country are divided into three categories, category A

21/ B. Aghevli, 1980
22/ A.G. Chandavarkar, 1977

covers 15 inaccessible districts, B covers 42 semiaccessible districts and C covers 18 accessible districts. The scheme provides compensation in sliding scale starting from 95 per cent in the first year to 5 per cent in the tenth year of the net loss incurred by the bank branches established in A category districts. In the case of B category, the compensation is provided for 5 years from 95 per cent in the first year to 15 per cent in the 5th year. No compensation is provided to the bank branches established in C category districtis. Provision has been made to provide an interest free loan up to Rs.300 thousand for 3 years for a new branch under category A & B districts. In the case of the bank branches, category C, it is also applicable except in town panchayat areas.

However, in Nepal, a study has been found that increased capital formation has almost completely offset by deterioration of the productivity of capital. This signifies that even the relatively small amount of resources available for Nepal's development are not being used efficiently.23/ The study mentions that the most striking feature of the existing financial institutional system in Nepal is the absolute predominance of the government. Apart from the Nepal Bank Limited, which is only 51 per cent government-owned, all the other institutions were directly created by the government and are almost wholly government-owned. There is a sharp bifurcation of Nepal's financial system between the heavily regulated, government control financial institutions and largely unregulated private informal sector.24/

Measures to mobilise domestic resources being one of the pivotal responsibility of the central banks all over the world, central banks in other parts of the world have instituted other policy measures like deposit insurance and indexation of returns and yields

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23/ James William E., ADB, Manila, Feb. 1984

24/ Asian Development Bank, 1984 pp. 40

on deposits. While the former is to inspire confidence, the latter is to provide for a positive return in the light of inflationary conditions. Central banks floating their own bonds has been another potent instrument. Central Bank of Philippines was a pioneer in this endeavour in South-East Asian countries and recently Bank Indonesia is operating such an instrument. Besides mobilising resources, Bank Indonesia uses it as a tool for reserve management of commercial banks.

The development of a capital market is another area of central bank's endeavour to provide long-term financial requirement of the economy. Where it is already in existence, central banks are involved in smoothening the performance of such markets and where it is in infancy, the central banks, through underwriting as well as through the participation of investment banks, are providing market support to create an environment conducive to the development of long-term markets.

Development Finance and Stability Objectives

In the pursuit of monetary stability, SEACEN central banks have a strong interest to see that development financing policies are successful because any failures would not only result in wastage and even greater credit expansion, but also lead to distortion in price and exchange stability.25/ In order to see that stability is not endangered, the central banks in SEACEN countries have used various policy instruments in order to maintain both internal and external stability. The central bank policy instruments used in achieving monetary and exchange rate stability are discussed in this section.

In Burma the central bank plays only an advisory role in achieving monetary and exchange rate stability. Burma has no security market or reserve ratio requirements and, therefore, there has been no

25/ Tun Ismail's Address to Bankers' Association of Malaysia.

need for the central bank to use the traditional instruments to achieve stability. The central bank advises the government on the permissible level of money supply through compilation and estimation of cash and credit plans accordingly to achieve growth with stability. The Export Price Equalisation Fund, established in 1976, is used to obtain exchange rate stability.

Bank Indonesia uses several instruments to stabilise monetary and exchange rate. Major instruments among others are the reserve requirement which has been set at 15 per cent of current liabilities since January 1978. Selective credit control are also used to prohibit credit to non-productive sectors, whereas the interest rates are set low for priority sectors. During the period 1970-83, the government has devalued Rupiah four times to stabilise the economy as well as to protect Indonesia's economy from external factors. A 15 per cent devaluation was announced on April 17, 1970, i.e., from RP. 326/US$ to RP. 375/US$. Then on August 23, 1971 the currency rate was adjusted to RP. 415/US$. On November 15, 1978 the government devalued Rupiah by 51 per cent and the new exchange rate stood at RP 625/US$. A 38 per cent devaluation also took place on March 30, 1983.

Prior to November 15, 1978 the governemnt adopted fixed exchange rate policy, whilst since November 15, 1978 the Government has implemented managed floating exchange rate and Rupiah has not been tied on just US$ but on some major trading partners' currencies instead.

Like other central banks, a primary objective of Bank Negara Malaysia is to promote monetary stability and exchange rate stability by seeking to ensure that the rate of growth of money over the medium and long-term is broadly in line with the increase in real economic activity, accompanied by low inflation and a sustainable balance of payments. In order to respond flexibly to changing economic conditions, there were distinct changes in the monetary policy stance of the Central Bank in the 1970s and the 1980s.

The period 1969-72 commenced with an upswing in domestic economic activity stimulated by booming export conditions in 1969-70, followed by two years of slow growth, which reached a trough in 1972. In the 1969 export boom, the Central Bank increased the statutory reserve ratio of the commercial banks from 3.5 per cent to 5 per cent of total deposits to mop up excessive liquidity in the banking system. In the course of 1970, when the impact of expansionary external sector was contained, the central bank devoted its attention to strengthening the basic monetary tools as well as the banking structure through selective credit measures. The commercial banks were allowed to accept medium-term fixed deposits and banks were directed to direct their lending for productive investment and to avoid the financing of speculation and conspicuous consumption. With rising liquidity, the finance companies were also subjected for the first time to some monetary controls. In 1971, the finance companies were required to observe minimum liquidity requirements (10 per cent) and to observe fixed periods for which deposits could be accepted with maximum interest rates prescribed by the central bank in consultation with them.

With the onset of recessionary tendencies in 1971-72, the central bank embarked on a liberal monetary policy to stimulate an expansion in business activity and private investment. Together with an expansionary fiscal policy the following monetary measures were implemented to stimulate loan demand. In 1972, the lending and borrowing rates of the commercial banks and finance companies were reduced across the board. The Treasury bill discount rates were also reduced and an attractive yield structure for long-term government securities was introduced. Since the banks had excess liquidity, the central bank raised the statutory reserve ratio for the commercial banks to 8.5 per cent in October 1972 and introduced a 2.5 per cent statutory reserve ratio for the finance companies. The fiscal policy had been expansionary since 1970 and therefore the monetary measures were implemented to ensure that the high state of liquidity would not evolve into a source of monetary instability in the face of rising consumer prices, and also to induce the commercial banks and finance companies to accelerate their lending to finance the growth of capacity in the private sector in the wake of rising expectations of a better export performance towards the end of the year. In addition, the gold parity of the ringgit was maintained in 1971. The full impact of imported world inflation on the Malaysian economy was reduced by the de facto revaluation of the ringgit against the currencies of the United States (by 21 per cent) and the United Kingdom (by 18 per cent) which were the major sources of the country's imports.

To enhance the effectiveness of monetary policy and to promote economic development and to foster a development oriented approach to banking, the central bank urged bankers to make credit readily available to priority areas especially small borrowers, agriculture, the Bumiputera community and house ownership.

In the world economy, the early 1970s was marked by unsettling and destabilising international monetary conditions, centering on the crisis of confidence in the U.S. dollar, strong growth in 1972-73 but with rising inflation, the world oil crisis in 1973, and the global recession of 1974-75. In the Malaysian economy, there was a strong cyclical upswing from late 1972 until mid-1974, spurred by the boom in commodity prices and to some extent, an expansionary fiscal policy since 1970. Consumer prices which had been traditionally stable in the 1950s and the 1960s, had begun to rise significantly towards the end of 1972. In view of serious inflationary pressure and the sharp growth in domestic demand, money supply and bank credit in 1973-74, the following monetary stabilisation measures were taken in 1973: (i) The ringgit was allowed to float in June 1973 to provide more scope for domestic stabilisation and control of inflation; and (ii) At the same time, a series of monetary measures were implemented to restrain the growth of money supply and bank credit, as well as to encourage savings:

- lifting of ceiling rates on all deposits exceeding one year placed with commercial banks and finance companies.

- progressive raising of interest rates on both bank deposits (maturity of one year and less) and loans.
  (In the case of finance companies, interest rates for deposits of one-year and less were also raised in April 1973 and subsequently freed from August.)

- increase in the liquidity ratio of commercial banks to 25 per cent from 20 per cent previously.

- deliberate public debt management through timely floating of Government bonds to mop up excess liquidity. In addition, the system of issuing Treasury bills was changed to one of open tender to ensure that their discounts reflected market influence and hence aid the process of credit restraint.

In 1974, control of inflation was the primary objective of monetary and fiscal policy. A package of monetary and fiscal policies was implemented with three basic elements: higher interest rates, the imposition of a credit growth ceiling and export taxes. To ensure that credit would be equitably distributed, a ceiling was placed on the growth of bank credit to non-resident direct investment enterprises and by July, the overall credit ceiling was modified to exclude new credit extended to priority areas such as the Bumiputera community, small borrowers and specified Government agencies and enterprises. In addition, the composition of assets for the requirementnt against savings deposits was revised to ensure that at least 3 per cent of savings deposits was invested as loans guaranteed by the Credit Guarantee Corporation. The statutory reserve ratios of commercial banks and finance companies were raised to 10 per cent and 7 per cent respectively in 1974. By December 1974, inflation and the growth of money supply as well as bank credit had moderated.

Following its strong recovery in 1976, the Malaysian economy was poised for further expansion in 1977-78, subject to domestic demand generating the stimulus to growth. In January 1977, the central bank introduced new credit facilities aimed at promoting external and domestic demand as well as assisting in the development of priority sectors of the economy: an arrangement to rediscount export bills on manufactured goods at preferential interest rates; and a scheme to finance low cost housing at a concessionary rate of interest together with financial participation from the Employees Provident Fund to assist low income groups in owning their own homes. To assist the finance companies to expand, the amount of risk assets which could be held was increased in May 1977 from 10 to 15 times their shareholder's funds. The Central Bank encouraged the commercial banks and finance companies in August to be more accommodative in extending loans for consumption purposes and for investment in stocks and shares. The Exchange Control regulation on local credit facilities for non-resident controlled companies were also relaxed. At the same time, notice was given to the banks to utilise their funds more effectively.

The objective of monetary policy in 1978 remained essentially to expand the volume of money and credit needed to promote economic activity. In mid-1978, the banking system was tight due to sluggish growth in deposits. To relieve the tight liquidity situation, additional funds were made available to the banking system through the Bank's rediscounting window and the reduction in the statutory reserve ratio of the commercial banks and finance companies to 5 per cent and 2.5 per cent of their total deposits respectively with effect from December 16, 1978. In 1978, a new system of interest rate determination was introduced from an "administered" regime to one that is money market oriented.

In 1979, three additional monetary measures were introduced to further improve the effectiveness of the financial system in coping with the demands of a rapidly expanding economy. Firstly, with effect from January 1, 1979, the merchant banks were brought within the ambit of the Banking Act, 1973 so that they operate on sound management principles. Secondly, the liquidity requirements to be maintained by the commercial banks, finance companies and merchant banks against their deposit liabilities were restructured on March 1, 1979 to reflect the true picture of the liquidity position of these institutions. Finally, two new money market instruments, namely, bankers acceptances and negotiable certificates of deposit were introduced to further develop the money market.

As the major industrial countries moved into recession in 1980, a counter-cyclical fiscal policy embodied in the 1980 Budget was continued in 1981 to counter the dampening impact of the external sector as the world recession gathered momentum. Monetary management was pursued not only to counter the dampening impact of world recession, but also to maintain stability in order to contain inflation and protect the balance of payments. Monetary policy was effectively accommodative in its overall stance in 1980 to encourage the growth of private investment outlays and output, particularly in areas experiencing demand pressures. This objective of monetary policy being selectively accommodative continued until 1982, namely to expand money supply and credit to facilitate a steady growth of economic activity, without aggravating the underlying inflationary forces. This basic stance of monetary policy in 1982 was continued into 1983 but with greater emphasis on promoting domestic savings, restoring a better balance between national savings and investment as well as viable balance of payments, encouraging investment in export-oriented industries and seeking continued consolidation of the Federal Government's financial position.

The Nepal Rastra Bank being the monetary authority of the country has to formulate the monetary policy and policy instruments according to the requirement. To maintain the monetary stability, the Nepal Rastra Bank uses some basic policy measures, viz. interest rate, reserve ratio, liquidity ratio, credit ceilings, and some other selective credit control measures. Following the Shaw-Mckinon strategy of financial development, the Bank raised the rate of interest substantially in 1975. Then onwards the policy is oriented in maintaining the positive rate of interest on deposits. At present, some other policy measures in force are statutory reserve ratio -5.0 per cent, cash in vault to deposit ratio -4.0 per cent, liquidity ratio -25.0 per cent of total deposits. Besides these measures some policy measures are used to direct the f-pw pf credit to the priority sectors. Occasionally, monetary measures are used to control imports from third countries, investment in food grains etc. to cope with the national economic situation.

Before the introduction of currency basket system in June 1983, the Nepalese rupee was pegged with US dollar to determine the exchange rate of rupee with other convertible currencies. At the same time a fixed exchange rate was used with Indian Rupee. As such, the rupee was pegged with two different currencies. The system of revaluation and or devaluation was used to eliminate the broken cross rates arose due to dual pegging. In those days, the task of exchange rate adjustment was the responsibility of the Government. After the introduction of currency basket system, the rates are determined by the Bank.

In the Philippines, monetary policy is addressed to the goals of maintaining domestic and external stability and the promotion of an environment conducive to growth. Specific monetary and exchange rates policies adopted by the monetary authorities for a given year are embodied in and are supportive of an Economic and Financial Program which indicates the liquidity and domestic credit targets consistent with the inflation rate, balance of payments and real GNP growth targets.

Open market operations are used regularly to regulate liquidity and credit growth while selective credit allocation remains a major policy tool in promoting production in preferred industries as in food and agriculture, etc. Preferential rediscounting, for example, has been a contributory factor to the attainnment of rice self-sufficiency in the 1970s and the significant change in export structure from traditional to non-traditional commodities and services.

Among the major policy measures undertaken during the 70's are the following: i) Reserve requirements against deposit liabilities of all banks were raised and rediscount ceilings of commercial banks were lowered in 1970 to reduce total liquidity as part of a four point stabilisation programme undertaken to meet the balance of payment difficulties and maturing foreign obligations in 1970. This stabilisation programme included the floating of the peso in 1970 and the restriction in imports and capital movements, ii) Central Bank Certificates of Indebtedness (CBCIs) were introduced and used intensively to mop up excess liquidity particularly in 1972 at the height of the export commodity boom and during the inflationary conditions of 1974, iii) Demand stimulating measures were adopted in 1975 in view of the dampening effect of external transactions. Thus, there was an increase in the repurchase operations of CBCIs and in the use of the rediscount window as a liquidity injecting mechanism, iv) In view of the need to improve the country's BOP position by encouraging non-traditional exports, existing rules/regulations governing the rediscounting of eligible export papers, particularly exportation of non-traditional products were liberalised. In addition, guidelines affecting supervised credit operations of commercial banks and thrift banks to facilitate food production programmes were streamlined, v) Emergency loans and advances were released by the CB to banks which were hard hit by the crisis of confidence in 1980 resulting from the failure of a big banker to honor its debts. Money market reforms including more rigid screening of borrowers were adopted to avoid the recurrence of the 1980 financial crisis, vi) Major policy measures in the 80's were introduced to strengthen and make the financial system more responsive to development needs and monetary management. To complement the adoption of the modified universal banking system, a floating interest rate policy was implemented on a staggered basis starting in July 1981 when ceilings on savings and short-term deposits were removed to encourage savings. The complete deregulation of interest rates was adopted in late 1982 and made effective on January 1, 1983. A prime rate monitoring scheme and a new Manila Reference Rate were established to provide the public with up to date information on borrowing and lending rates by banks and to avoid undue fluctuations in interest rates of following the complete deregulation. Lastly, additional special rediscounting facilities were opened to priority sectors in 1982 which included hydro and dendro thermal energy development, upland farming and orchard growing and manpower exports.

The Monetary Authority of Singapore manages the exchange rate of the Singapore dollar against a trade-weighted basket of currencies. As the U.S. dollar is the main currency traded in the foreign exchange market, it is the primary intervention currency to influence the Singapore dollar exchange rate as well. In Singapore, monetary policy complements exchange rate policy in pursuit of the objective of maintaining domestic price stability and providing liquidity compatible with the pace of domestic economic activity. Monetary tools used by the MAS to regulate liquidity in the financial system and influence interest rates, include US$/S$ currency swaps, interbank lendings/borrowings and the rediscounting of commercial bills of exchange.

The most important function of the Central Bank of Ceylon is the implementation of the National Monetary Policy with the objective of maintaining monetary and price stability. Accordingly, the Bank is responsible to ensure that monetary expansion is in conformity with financial requirements of the economy. Thus, whenever, there is excessive monetary expansion which is likely to threaten the monetary and hence domestic and international stability, the Central Bank has the responsibility in siphoning off excess liquidity in the system. For this purpose the Monetary Law Act provides a wide range of powers to be used as instruments of monetary policy. This gives the Bank the freedom of choosing appropriate instruments in meeting various situations. The central bank has been operating quantitative and qualitative credit controls as monetary policy instruments. Among the quantitative credit controls, changes in the bank rate and variable reserve ratios were major measures that were effected during 1970-1982. The bank rate is the interest rate at which the central bank provides accommodation to commercial banks as the lender of the last resort. During periods of inflation or when the balance of payment was under pressure the central bank raised the bank rate or reduced the amount of general accommodation granted to commercial banks under the bank rate. At the inception of the central bank, the bank rate was fixed at 2.5 per cent and was progressively raised to 6.5 per cent by January 1970. Since then, the bank rate remained unchanged until it was raised to 10 per cent by August, 1977. Afterwards, the rate was raised to 12 per cent per annum by April, 1980 and further to 14 per cent by August, 1981.

Meanwhile, in addition to the upward revision of the bank rate, general accommodation to commercial banks under the bank rate was reduced and a graduated scale of penal rates was introduced on borrowings by commercial banks in excess of Bank rate limits. In

August 1977, the general accommodation facility was restricted to 7 per cent of selected asset items of commercial banks outstanding as at end June 1977. Afterwards, it was limited to Rs.403 million by 1979 and further to Rs 108 million in 1981.

In 1979, a graduated scale of penal rates ranging from 15-25 per cent was introduced on borrowings in excess of the Bank rate limits. This was further increased to a range of 21-30 per cent in 1981.

The statutory reserve ratio was another major policy instrument undertaken during the period under review. The Monetary Law Act empowers the central bank to prescribe and modify reserve ratios against different types of deposit liabilities subject to a minimum of 5 per cent and a maximum of 20 per cent in the case of time and savings deposits, and a minimum of 10 per cent and a maximum of 40 per cent in the case of demand deposits. In special circumstances, such as during critical inflationary periods, the reserve ratio can be increased up to 100 per cent of any increase in deposits after a specified date. The statutory reserve ratio which stood at 12 per cent in respect of demand deposits and at 5 per cent in respect of time and savings deposits in 1975 was increased to 14 per cent and 6 per cent respectively in June 1981.

Among qualitative credit control instruments, the ceiling on commercial bank credit (portfolio ceilings) was the major selective credit control measure effected during 1970-1982. Since 1961 the bank used portfolio ceilings on commercial bank advances at times in which the credit expansion has been high. In most cases, the ceiling was imposed on loans and advances granted for non-essential purposes. Such credit ceilings were imposed in 1972, 1975 and 1981. However, these ceilings were effective for short periods and were replaced with traditional type policy measures.

However, loans and advances granted under the central bank refinance facilities, such as Export Credit Refinance, Agricultural Marketing and Medium and Long-term refinance facilities were excluded from credit ceilings.

With reference to the exchange rate arrangements maintained by Sri Lanka during the period 1970 to 1982, two distinct types of exchange rate arrangements can be identified within this period. The first is during the period 1970 to November 15, 1977 during which Sri Lanka followed a fixed exchange rate system and the period November 16, 1977 up to date during which the exchange rate was allowed to be determined largely on the basis of demand and supply conditions in the exchange market, with intervention from the central bank.

During the first sub-period from 1970 up to November 15, 1977, another characteristic feature was that Sri Lanka experienced a dual exchange rate system. Certain specified external transactions were conducted at the par rate or official rate of exchange. The official exchange rate was applicable to receipts from major or traditional exports and for payments on certain selected essential items of imports which included rice, wheat flour, fertiliser, western pharmaceuticals, etc. The official rate was also applicable on certain specified transactions in the services sector.

With reference to the maintenance of exchange rate stability, the major policy instruments effected have been in the field of monetary management. In particular, instruments were effected towards curtailing lendings to non-priority areas while providing concessional finances on priority sectors.

During the second sub-period from November 16, 1977 up to end of 1982, Sri Lanka has generally experienced a floating exchange rate system. The exchange rate is determined mainly on market forces of supply and demand. During this period too, policy measures taken by the authorities included monetary and fiscal policy measures directed towards maintaining a healthy balance of payments situation in the country which would not directly or indirectly lead to depletion of resources. Adjustment measures taken towards maintaining a stable external payments position included budgetary measures to curb expansionary bank financing to meet emerging budget deficits and cutting down on capital expenditure to reduce the demand for imports under intermediate and investment goods categories. Monetary policy measures were directed towards curtailing the level of aggregate demand and included measures such as changes in reserve ratios and direct credit controls.

While the period 1963-73 experienced growth and price stability, inflation rose sharply in 1973-74 which was imported inflation in Thailand. Over the period 1974-75 rigid budgetary procedures were introduced. Slower growth as well as price controls eased price pressures in 1975-76. However, the external position deteriorated. Over the period 1976-79, fiscal operations were expansionary and monetary policy generally accommodating. Excess demand was reflected by the rise in investment and widening current account deficit. Although the rate of inflation was lower, historically it was considered high.

Over the period 1979-82, in order to reduce excess demand and increase domestic savings and thus reduce the structural balance of payment problem, the Thai authorities adjusted the statutory limit on interest rates and the deposit and lending rate limits was raised by 3 per cent in 1980. Thus, interest rate policies became more flexible in line with international trends. Credit expansion also became more restrictive. This period also saw the adjustment in the baht value to restore export competitiveness, correct structural balance of payment and speculative capital flows. This policy package produced satisfactory result in terms of balance of payment and inflation in 1981. During the fifth plan period, restrained financial management will be sustained to ensure economic stability. It is expected that aggregate investment will remain at high level as a result of higher productivity in agriculture and more efficient investment in the manufacturing sector. This will be achieved through price and production incentives and tariff restructuring. The Thai authorities are, however, aware of the possible constraints in the form of conflicting economic and social priorities, e.g., trade-off between growth and stability, income distribution and efficiency of resource use. The external uncertainities of interest rates and exchange rates and world commodity price trends are other constraints.

IV. ALLOCATION OF FUNDS

Besides allocating its own funds to financial intermediaries in the form of development loans, refinancing, rediscounting and supervised credit programme, central banks in South-East Asia require commercial banks and, in certain cases, other financial intermediaries to apportion their credit to desired sectors at a prescribed ratio/amount.

In discussing the central banks' intervention in the credit market, the issues touched upon in this section are the possible misuse of credit and the need to monitor and supervise the lending portfolios of the commercial banks to see that funds are not misused.

Lending Guidelines

Several central banks in the region require commercial banks to channel their credit to prescribed priority sectors. Bank Negara Malaysia's credit guidelines require commercial banks to accord special emphasis on lending to the Bumiputera community, housing, small borrowers and agricultural food production. Together, they account for 46 per cent of the total loans that the commercial banks are required to allocate to these sectors. The Nepal Rastra Bank has instructed the commercial banks to invest at least 25 per cent of their total loans and advances in productive sectors, which include priority sectors. The Bank of Thailand has similar guidelines to commercial banks to finance 13 per cent of their total loan to agricultural sectors.

Such guidelines, critics allege, are a form of intervention and many economists have opposed selective controls on several grounds. The critics have argued that such controls interfere unduly with the freedom of borrowers and lenders; that they prevent an allocation of resources and output in line with buyer's wishes; that they are unnecessary because general monetary management and fiscal policies are sufficient; that they may come to be looked upon as a substitute for more general and more widely effective measures and that they are likely to become unenforceable or enforceable only with a very large staff. There are other economists who contend that selective controls can be a useful supplement to general monetary controls, especially when the aberrant behaviour of credit is limited to only one or a few sectors of the economy.

In Burma, total credit is provided according to annual plans. The Union of Burma Bank can influence marginally the desired pattern of investment of the Myanma Economic Bank and the Myanma Agricultural Bank when they grant loans to state enterprises, cooperatives and farmers. Since 1976, when the State Economic Enterprises were required to operate on commercial lines, the guidelines required the banking system to provide local capital and current financial requirements to state enterprises at interest rate of 5 per cent and 8 per cent respectively.

Bank Indonesia provides liquidity credits to priority sectors at a lower interest rate. Since June 1983, interest rates on non-priority sector are determined by market forces. Bank Indonesia also extends direct credit to some selected official entities and public enterprises to finance the implementation of government programmes. Bank Indonesia also provides guidelines to commercial banks, development banks as well as other financial intermediaries. The aim of such policy measures is mainly to promote and activate priority sectors, including small-scale industries, as well as to create employment opportunities. Such policy measures were initially adopted at the early 1970's when the government accorded priority status to the development of the private sector, especially small scale industries. Since 1978 and particularly from January 1982 Bank Indonesia's role in promoting exports have manifested by imposing lower interest rate on export financing and by granting certain incentives.

Since the early 1970s, Bank Negara Malaysia has urged the commercial banks and finance companies to step up their lending to priority sectors of the economy consistent with national socio-economic objectives. Since the use of moral suasion had not worked satisfactorily in all cases, the central bank issued specific guidelines for commercial banks and finance companies on the direction of lending to priority sectors in October 1976. The priority sector were the Bumiputera community, small-scale enterprises individuals for the purchase of houses, manufacturing and agriculture food production. These credit guidelines had in fact been instrumental in influencing the rate and pattern of desired development as illustrated below: (i) Credit extended by commercial bank to Bumiputera individuals and Bumiputera controlled enterprises (including Government agencies), which amounted to $537.3 million or 9.6 per cent of total loans at the end of 1974, rose to $8,815 million or 24.7 per cent of total loans by the end of 1983; (ii) Credit extended by the commercial banks to small-scale enterprises (defined as loans of $150,000 or less granted to enterprises with fixed investments not exceeding $250,000 or less granted to registered business with net assets of up to $250,000), rose ten-fold from $343 million at the end of 1970 to reach $3,446.1 million at the end of 1983; and (iii) Loans extended to housing increased from $110.7 million or 4.2 per cent of total loans at the end of 1971 to $4,173.3 million or 11.3 per cent of total loans at the end of 1983. In addition to general guidelines on loans to housing and to ensure that banks would also finance low-cost housing, the banks were required from March 1982 to make new firm commitments to individuals to finance the purchase of at least 20,000 units of houses costing $100,000 and less in each case.

The objective of prescribing specific lending guidelines for commercial banks and finance companies to the Bumiputera community is in line with the Government's New Economic Policy objectives to restructure society and to alleviate poverty. Lending guidelines to small-scale enterprises are to encourage banks to finance small businesses which have little access to bank loans. Lending guidelines for individuals for the purchase of houses are in line with the Government's policy to encourage a house owning democracy and to raise the standard of living of the population. The lending guideline for manufacturing is in line with the economic diversification and industrialisation policies of the Government, while the credit guideline for agriculture food production is to encourage the processing of resource-based agricultural products and to reduce the dependence on imports of foodstuff.

Since the early 1974, the Nepal Rastra Bank has instructed the commercial banks to invest a certain sum of money in the priority sector. At the beginning of the programme the banks were instructed to invest at least 5 per cent of their total deposit liabilities in such sectors. In course of time it was revised upward to 7 per cent and again to 10.0 per cent. However, at present it is 8 per cent of total loans and advances. The priority sector includes cottage industries, agriculture and service sector including loans to the unemployed graduates. Recently, the Nepal Rastra Bank has instructed the commercial banks to invest at least 25 per cent of total loans and advances in productive sector which includes export credit, industrial credit and the priority sector as defined above. However, the banks have not met the target till now. In accordance with the national objective of export promotion, the Nepal Industrial Development Corporation is instructed to invest at least 10 per cent of the total loans and advances in export oriented industries.

The credit policy of the Central Bank of the Philippines for the 12 years in review has been essentially allocative in line with its objective of promoting growth and development. To direct credit flows and availability to priority industries or target areas indicated in the national economic plan like food production, exports and small scale industries, the Bank prescribed rules and/or lending guidelines and procedures on the use of its credit facilities by financial institutions for said activities. These included, among others: a) allocating a bigger portion and/or the whole banks' rediscount ceiling or prescribed borrowing limits (based on networth) for priority activities like non-traditional exports and small scale industries and/or exempting certain special programmes from the prescribed rediscount ceiling; b) establishing guidelines on the eligibility of papers which may be rediscounted under the preferential rediscounting scheme as well as the setting up of lending guidelines on maturities of loans; c) prescribing lending guidelines on qualifications/disqualifications for availments of preferred credits and/or penalties posed on loan defaults; d) prescribing higher loan values, lower rediscounting rates and allowing wider interest spread between rediscount rates and banks' lending rates for preferential credits; e) establishing rules for rediscounting of specific papers under the supervised credits scheme and special/other credit programmes; and f) requiring banks to allocate 25 per cent of their loanable funds for the agricultural credit programme.

Credit demands of the banking system in the period 1970 to 1982 have registered rapid increases with lending patterns influenced by policy measures intended to redirect credit to agriculture, exports and small-scale industries in order to attain self-sufficiency in food production and improve the country's balance of payments' position. Overall rediscounting have substantially expanded from the ₱2,069.0 million granted in 1970 to ₱46,050.9 million in 1982. Commercial banks have continuously been the top institutional borrowers with availments rising from ₱1,413.0 million in 1970 to ₱36,660.9 million in 1982, and represented 80 per cent of total loans granted in 1982. Thrift and rural banks' borrowings likewise increased from ₱204.6 million in 1970 to ₱4,041.0 million in 1982. Their share of credits granted, however, declined to 9 per cent in 1982 from 10 per cent in 1970.

Of total rediscounts to commercial banks, export credits rose to ₱26,267.0 million in 1982 from ₱240.0 million in 1970. Central Bank loans to rice and corn have risen from ₱123.0 million in 1970 to ₱3,284.0 million in 1982. Loans for food production, energy projects and other preferred activities also increased from ₱281.0 million to ₱4,984.9 million in the period 1970-1982.

To enhance the effectiveness of credit policies in redirecting the flow of funds to priority activities, existing monetary and credit measures were revised as necessary. Some of the major policy changes during the period were: a) Broadening of agricultural/supervised credit scheme to include not only agricultural crop loans but also other agricultural activities, food production/processing programmes, credit to beneficiaries of agrarian reform, etc.; b) Additions to banks' rediscount ceilings for availments in preferred activities like exports, particularly non-traditional exports, and small-scale industries; c) Rationalisation of rediscounting structure with central bank rediscount rates related to market rates, e.g. the Manila Reference Rate (MRR). In 1977, commercial banks whose borrowing limits have been fully used were given an additional 10 per cent increase in their rediscount ceilings for non-traditional export credits. Another increase in existing rediscount ceiling to the extent of 50 per cent was also allowed by the central bank in 1978 for non-traditional exports and small-scale industries. With the revision, banks' total borrowing limits were raised to 100 per cent of their paid-up capital. In 1979, commercial banks were allowed to use another additional 50 per cent of their basic rediscount ceiling for export financing. This, in effect, raised their borrowing limits to 150 per cent of their paid-up capital as of a prescribed date, 50 per cent for basic rediscounts, 50 per cent for non-traditional exports and 50 per cent for other export activities; d) Lowering of central bank rediscounts rates for preferred industries like Masagana 99 and Maisagana Maisan (rice and corn programme in 1978), non-traditional exports, small scale industries, other food production programmes (1979); e) Opening of new rediscount windows for other economic activities like energy-generating programmes, stock financing programmes, for high-grade stocks, gold and copper/metal financing, manpower exporters, upland and orchard growing etc.; and f) Establishment of a medium-and-long-term rediscounting window on February 1, 1982 to universal and specialised government banks like the Development Bank of the Philippines (DBP) and non-bank quasi banks (NBQBs) for financing high priority activities of viable enterprises, equity investments and investments in high grade shares listed in the stock exchanges and other activities to promote medium-and-long-term financing.

The Monetary Authority of Singapore currently does not apply selective credit control nor prescribe lending guidelines to commercial banks and other financial intermediaries. Lendings are based on market forces. Only in instances where speculative activities are excessive and much credit are directed from productive sector to fund such non-productive transactions would the Authority act to rectify the situation.

The Central Bank of Ceylon grants credit facilities to financial institutions under the Bank rate, penal rates, medium and long term credit fund and several other refinance schemes. Of these, short-term refinance facilities are made available to commercial banks while medium and long-term funds are granted to long-term credit institutions. Advances granted under the Bank rate and penal rates can be used for short-term liquidity requirements of commercial banks while funds under the other refinance can be used only for priority sectors as specified by the central bank. However, advances granted to commercial banks under the penal rate and the bank rate were withdrawn with effect from December, 1983 and March, 1984 respectively.

When refinance funds are made available by the central bank, the margins and the on-lending rates are specified by the central bank. As identified in the National Credit Plan, the central bank determines priority areas of lendings.

Apart from providing refinance facilities for lendings to priority areas, the central bank introduces selective and direct credit controls from time to time on commercial bank lendings to the private sector. Usually, priority areas are being excluded from these controls.

The experience in the recent past shows that selective credit control policies have been effective when compared with traditional central banking controls in influencing the direction and pattern of desired development. With the introduction of liberalised economic policy measures after 1977 if not for selective credit control measures, the allocation of resources on priority areas would not have been done as envisaged. Therefore, intervention by the central bank became necessary in order to divert funds to priority areas. Very often priority lendings are backed by refinance schemes.

Refinance facilities provided by the central bank have been enhanced over the last several years. Terms and conditions on such facilities were changed along with revisions on interest rates.

Bank of Thailand's credit extended to financial institutions can be grouped into two categories. The first category is made up of short-term lending for liquidity purposes (including buy-back arrangements of government securities with or without repurchase agreements) such as those provided through loan window and through transactions of treasury bills in the secondary market. The second group of lending comprises refinance facilities and long-term loans for priority sectors, namely, agriculture, industry and export. In 1979, facility of the first category was expanded by the establishment of the repurchase market in which short-term money can be obtained against the sale of government bonds with repurchase agreement.

As for the second type of lending, credit lines for total refinancing to be obtained by each commercial bank and for long-term lending to the Industrial Finance Corporation (IFCT) and the Bank for Agriculture and Agricultural Cooperatives(BAAC) have been fixed by the Bank of Thailand. As credit line for refinancing extended through commercial bank has not been derived for each priority sector, commercial bank's preference for export sector has been evident by the fact that more than 80 per cent of total bank's refinancing have been extended to export activities. This preference resulted from relatively low cost of administering of export refinancing and also from gains derived from foreign exchange transactions. Because of this practice, the amount left for refinancing on lending to other priority sectors has therefore been minimal. Means to correct the imbalance in the bank's allocation of refinancing are being contemplated by the Bank. One is to fix credit line earmarked for each priority sector in addition to total credit lines. In the case of lending to the IFCT, lending guideline was incorporated in the loan agreement.

Bank of Thailand's credit to the IFCT started in 1974 when the first 200 million Baht credit line was approved. In 1978 another 200 million Baht credit line was approved by the Bank after the first was used up. Within these credit lines the IFCT obtains the Bank's fund through selling to the Bank its promissory notes guaranteed by the Ministry of Finance. Loans obtained through these arrangements are due within 10 years. In each arrangement the Bank clearly specified industrial activities which it wanted to promote. For example, for the first arrangement the importance of export oriented and import substitution industries as well as industries which consumed a certain amount of agricultural inputs was emphasised. In addition, in concluding the second arrangement the importance of the location of industries and energy conservation was an added consideration, and conditions for the utilisation of credits under the arrangement were set accordingly. Therefore, the promissory notes which the Bank agrees to buy from the IFCT must be those arising from the extension of the IFCT's credit to industrial undertakings situated outside the capital and nearby provinces. These undertakings may be non-energy intensive or export oriented or agro-industries. The proportion of the Bank's credit to the value of IFCT's promissory notes and the interest rate the bank charges depend on the type of the industry and the proportion of export to total production, respectively. Specifically, the Bank's loan in connection with export oriented industry carries an interest rate of seven per cent per annum, whereas it is eight per cent per annum for other industries. The IFCT is permitted to charge their customers at the same rates plus a margin of three per cent for its lending.

For the financial support to the BAAC, after terminating rediscount facility for agriculture through the BAAC, Bank of Thailand agreed to provide the BAAC a certain amount of credit line each year. Within this credit line, the Bank lends to the BAAC through purchasing the BAAC's promissory notes guaranteed by the Ministry of Finance. The interest rate at which the Bank lends in this case has been kept very low in order to enable the BAAC to relend to their customers at below market rates. At present, the rate stands at 3.5 per cent per annum, and the credit line amounts to 3.5 million Baht. Since the start of this lending scheme, the BAAC has always fully utilised its credit line.

In an appraisal of the lending guidelines enforced in Malaysia, a study found that "in general, access to bank credit by the designated priority sectors had improved notably. But certain disturbing questions arose concerning the validity of a sector such as housing being designated a priority sector or some components of a sector such as non-productive activities carried out by the Bumiputera community being accorded the same degree of priority as productive activities. Other such questions concerned the lack or absence of an effective machinery within the banking system to support and facilitate lending to the priority sectors and to make such lending meaningful. No less disturbing was the preoccupation of the central bank and the commercial banks with the attainment or otherwise of the quantitative targets to the neglect of attention on the manner the credit had been utilised. These and other questions would have to be examined closely by the authorities and appropriate action taken".26/

While intervention by the authorities are needed to correct the distortion arising out of an unequal market mechanism, the need to deregulate some of the aspects of financial machinery is also recognised. However, so far as banking structure is concerned, it will be shaped very largely by the actions of the political authorities in the form of laws, decrees, regulations, and by more direct participation, such as government ownership. In the words of Professor Rondo Cameron, "In no other sector of the economy, with the possible exception of foreign trade, have governments intervened so broadly,so consistently, and with such telling effect-usually bad".27/

Refinancing Facilities

Besides the lending guidelines and selective credit as an allocative device, central banks in South-East Asia provide generous refinancing facilities to commercial banks on their specified lendings. Such refinancing to commercial banks are usually provided at concessionary rates. The Central Bank of the Philippines uses

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26/ Lee Hock Lock, 1981

27/ Rondo Cameron, 1972

special rediscounting facilities in certain sectors like agriculture. The Bank of Thaiand's refinancing on export credit assume as much as 69.7 per cent of the total development credit as of 1983. Similarly, Bank Indonesia and Nepal Rastra Bank provide a large amount in financing agriculture.

The principal role of such refinancing policy is to discourage inflationary unproductive commercial credits and to encourage supposedly non-inflationary production credits for agriculture and certain essential industries in order to change the pattern of economic development.

However, in the case of the Philippines, the specific allocative mechanism through regulations in the case of agricultural credit does not seem to have worked well as the credits to that sector have not relatively increased, both in terms of credits granted as well as credits outstanding.28/

The Union of Burma Bank provides concessionary financial resources to the specialised financial intermediaries, e.g., the development banks to finance the priority sectors. Priority sectors are laid down by the Economic Committee under the Four Year Plans. These sectors are: i) agricultural, timber and livestock sector; ii) agro-based industrial sector; and iii) the mining sector.

Experiences of SEACEN Countries

In considering the role of central banks in providing financial assistance to priority sectors essential for development, care has to be taken in weighing alternative. On the one hand, there may be a need to channel funds to projects which are essential to the

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28/ World Bank - The Philippines, Aspects of the Financial Sector, 1980, p.21

development process even though they do not give high financial returns. On the other hand, the direct assistance of the central banks can be inflationary, or the indirect assistance by requiring commercial banks to lend to priority sectors at low interest rates can have adverse effects on saving mobilisation efforts and the general level of interest rate. Furthermore, the cheap money may also create inefficiencies in these sectors.

Policy makers always have to make a trade-off between growth and stabilisation. The success of Malaysia in carrying out monetary policies between 1980-1981 to stimulate the economy in recession without creating pressure on inflation and balance of payments is an experience that can be beneficial to all member countries. Details are given in the second part of the study on the topic: Mobilisation of Resources.

In Indonesia, with a view to allocate credit to high priority sectors and programmes, the lending guidelines were implemented through a system of selective credit programmes. Preference was given to priority sectors by drawing up individual sector lending limits: a system of central bank rediscount or refinancing credit facilities was instituted in favour of high priority sectors and at preferential rediscount rates. Bank Indonesia itself often provided advance for state enterprises. The selective credit programmes emphasised the position of medium and long-term credit for new fixed investments and for small and medium scale industries owned by indigenous entrepreneurs. As of 1982, approximately one-sixth of total bank credits is refinanced by Bank Indonesia. The other aspect of this development was that, as the refinancing facilities have become Indonesia's primary vehicle for directing credit for specific purposes, the relative importance of its direct credit to state enterprises was reduced, and more or less limited to credits for the operation of Indonesia's rice-purchasing agency, except that in 1975 Bank Indonesia made available considerable advances to Pertamina, Indonesia's state owned petroleum company, to enable it to service its accumulated external debt.

The introduction and development of the system of rediscounting credit facilities is an important part of Indonesia's banking system. There were two major refinancing schemes worth mentioning - one was an agricultural credit scheme for the financing of fertiliser and other inputs needed by farmers primarily for rice production. These credits were provided as part of the government's agricultural extension programme by Bank Rakyat Indonesia and refinanced by Bank Indonesia. The other, the medium term investment credit scheme was introduced in 1967 to provide medium term credit for investment purposes. These refinancing facilities provided by Bank Indonesia at preferential rediscount rates represented Bank Indonesia's attempt to direct credit flows in favour of high priority areas. Subsequently, as the government increasingly emphasised the promotion of indigenous small and medium scale industries, special refinancing schemes, including small investment credit programme (KIK), permanent working capital programme (KMKP), mini-credit programme, and vendors' credit programme were added.

In Malaysia as part of the development strategy to encourage industrialisation and modernisation of the agricultural sector as well as the promotion of small scale enterprises, the central bank has played an active role in the establishment of specialised development finance institutions during the 1960s and 1970s. In several cases, the development finance institutions were set up by existing financial institutions in consortium with the central bank and the government, primarily to inject greater public confidence in the activities of these specialised institutions. The central bank has equity participation in the Malaysian Industrial Development Finance Berhad (MIDF) and the Credit Guarantee Corporation. In other instances, the central bank has also extended loans on concessional terms to the specialised institutions, such as to MIDF and the Industrial

Development Bank of Malaysia so that they may on-lend to industry at preferential rates of interest.

As part of the national strategy to promote the export of manufactured goods, the central bank introduced a post-shipment export credit refinancing facility in January 1977, which was supplemented by the implementation of a pre-shipment facility in March 1979. The interest rate charged for refinancing are determined from time to time by the central bank. Since May 1983, the rediscount rate charged by Bank Negara is 3.5 per cent per annum. By allowing commercial banks to add on a maximum margin of 1.5 per cent per annum, the current interest rate charged to exporters is 5 per cent per annum.

In Nepal, the Nepal Rastra Bank has played an important role in the diversification of bank credit to the more productive sectors. The Credit Guarantee Corporation was established at the initiation of the Bank and was assigned with the responsibility of guaranteeing the credit extended by the commercial banks to the priority sectors. Similarly, the Security Exchange Centre Ltd. was established with a view to develop the financial market in the kingdom and channel the resources from surplus and inefficient sectors to deficit and efficient sectors of the economy.

The Nepal Rastra Bank fixes the lending rates of interest for priority purposes, such as industries, agriculture, services, export bills, etc. The commercial banks as well as other financial intermediaries also need to follow the same rate of interest. In fact these rates are lower than the loans for other purposes. At the same time it is also essential to protect the interest of the bankers thus, the central bank has made the provision of refinancing such credit at a concessional rate.

The guiding principles governing the credit policies of the Central Bank of the Philippines are set forth in Section 86 of the

Central Bank Act, as amended. This section authorises the central bank to grant rediscounts, loans and advances to banks in order to regulate the volume, costs, availability and character of bank credit.

In general, rediscounting operations of the central bank include the grant to banks of commercial credits with maturities up to 180 days and production and working capital loans with maturities up to 360 days on the security of bills, acceptances, promissory notes, etc. of their borrowers.

In order to avail of the central bank's preferential credit window, the borrower-bank should not be chronically deficient in reserve requirement and should be able to meet certain qualification requirements like compliance with the prescribed capital adequacy ratio, minimum paid-up capital requirement, investment-deposit ratio, the required ratio of past due direct and indirect loans to its stockholders, directors, officers and related interest (DOSRI), etc.

To encourage the flow of credit to selected economic activities or industries, differential rediscount and lending rates scheme, loan values, and maturities are followed in the rediscount window. Banks are given the privilege to rediscount eligible papers up to a prescribed ceiling - which are usually higher compared to non-preferred credits (based on net worth) as long as specified rediscounting requirements are met. Rediscount rates for industries considered of higher priority are below market rates thus allowing bank sample spread when relending these funds to end-users. The bank spreads vary according to priority considerations, risk, and other factors. For instance, in the case of agricultural/supervised credit loans, the predominant considerations are the risk of non-repayment by farmer-borrowers as well as the higher administrative costs involved. Thus, a bigger spread between the rediscount rate and the required banks' lending rate is allowed compared to other economic activities in order to encourage banks to lend to the agricultural sector.

The priority activities/sectors are: a) Food production including the planting of agricultural crop loans such as rice and corn, coconut, wheat and food grains, other agricultural activities like fishing, cattle, piggery and poultry raising, food processing and other economic activities under the supervised credit scheme like agrarian reform credit, cottage industry, etc. b) Small-and-medium-scale industries, c) Exports industries - traditional and non-traditional, d) Other activities which are deemed essential in the national system of priorities such as energy-generating projects, gold and copper financing, tobacco trading, etc. e) Special programmes of the government in the area of food marketing and storage activities of the National Food Authority and Food Terminal Inc., as well as grains and food quedan programmes to enhance the grains price stabilisation of the government.

In 1975, The Monetary Authority of Singapore introduced the MAS Bills Rediscounting Scheme, a concessionary export financing scheme, to enhance the competitiveness of Singapore's exports by lowering the cost of credit to the exporters. Under this scheme, the exporter does not obtain finance from the Authority but through his own commercial banks which acts as the intermediary between the exporter and the MAS. The bank provides the funds to the exporter at the interest rate stipulated by the MAS, and in turn receives refinancing from the MAS. The bank receives a commission of not more than 1.5 per cent above the rediscount rate charged by the Authority. The Authority's rediscount rate is subject to change from time to time, depending on money market conditions for discounting the bill. Each bank is allowed a fixed total amount of bills it may rediscount with the MAS. If that amount has been exhausted by his bank, the exporter will have to go to another bank for the facility. Banks which wish to use the rediscounting facility have to apply to the Authority with the required particulars on the day before the rediscounting is intended.

ALLOCATION OF FUNDS

The approved credit institutions (the commercial and development banks) operating in Sri Lanka are free to make application for refinance facilities from the Medium and Long-term Credit Fund in respect of loans disbursed within 6 months from the date of application or 9 months from the date of completion of the particular project or before disbursement of the loan. However, resources from the fund are released only after the disbursement of funds by the banker.

The application for refinance from the fund is normally approved only if the loan, is in respect of which refinance facilities are required, meets with the following requirements: i) The loan should be granted for a project coming within the priority areas selected and specified by the central bank; ii) The loan should be for a period of 3 to 15 years of duration including the grace period; iii) The project should be financially and economically viable; iv) The credit institution should not participate in the equity of the project financed; v) The project should not be one established in the Free Trade Zone for which resources are available from the Foreign Currency Banking Units; vi) The loan in respect of which refinance is applied for should not be covered by any other refinance scheme or a foreign line of credit available to the credit institution; vii) If the loan is granted for an export oriented project the loan should be recommended by the Sri Lanka Export Development Board; and viii) The maximum amount of a loan granted to an individual/a proprietorship or a partnership against which refinance could be applied for from the fund is Rs.5.0 million and the limited liability companies who borrow over and above this ceiling are required to issue shares to the public and broabase the ownership of the company. The percentage of the shares to be issued to public will depend on the magnitude of the loan.

The main mechanism used in encouraging the flow of funds towards priority sectors is by the provision of concessionary rate of interest. For purpose of refinance, priority sectors have been defined as - 1) Agriculture which includes cultivation of food and plantation crops, horticulture, floriculture, sericulture and livestock farming; 2) Fisheries including inland and off-shore fishing and fish breeding, facilities for storage such as ice plants etc; 3) Exports - the areas which qualify for assistance under the export-oriented projects are as follows: a) Manufacturing industries, the production of which is primarily intended for export; b) Agro-based industries including manufactured or processed products from the traditional primary commodities of tea, rubber and coconut, (e.g. the processing of tea into tea bags, manufacturing of sole crepe out of rubber, production of white coconut fibre yarn, manufacture of brushes out of coconut fibre); c) Cutting and polishing of precious stones of Sri Lanka origin or those imported into the country for processing and re-export; d) Mineral-based industries using locally produced minerals such as graphite, granite, etc.; e) Cultivation of minor export crops on a commercial basis; f) Breeding/production of fish, livestock and poultry for export; 4) Industry including tourism; and 5) Trade, commerce and business are also broadly identified as priority areas for development.

However, the loans granted to finance traditional exports from Sri Lanka, i.e., tea in bulk and chests, latex, latex crepe and sheet rubber and copra, coconut oil, desiccated coconut brown fibre (bristles and mattress) are not eligible to receive assistance from the fund.

In Thailand, in selecting private activities to be promoted through provision of refinance facility, consideration is given to the activities' relative role in generating employment, income as well as foreign exchange earnings. Judging against these criteria export, agricultural and industrial undertakings are chosen and refinance facility for each of these activities were set up accordingly.

ALLOCATION OF FUNDS

For export, rediscount facility was initiated in 1956. This facility was the first of the Bank's refinance facilities and the Bank's refinance scheme provides both pre-shipment as well as post shipment credit at low rediscount and discount rates of five and seven per cent, respectively. Essentially, all kinds of exports are entitled to this facility, but the amount of credit to be extended through the Bank's rediscounting of exporter promissory notes depends on the type of documents against which the promissory notes are issued. For example, promissory notes issued against L/C are rediscounted at a proportion of 80 per cent of L/C value, whereas those issued against warehouse receipts are entitled to a proportion of 40 per cent of warehouse receipt value. The maximum period for the extension of export rediscount credit, in addition, is generally 180 days.

The Bank's financial support for agricultural undertaking through rediscount schemes started in 1968. Initially the rediscount facility was provided through the Bank for Agriculture and Agricultural Co-operatives (BAAC) as well as commercial banks. Since the facility provided through the BAAC was usually directed to a lot of small entrepreneurs, it inevitably entailed a lot of paper work which became increasingly difficult to handle. Consequently, the rediscount facility channelled through the BAAC was terminated and replaced by the Bank of Thailand's loan to the BAAC. Commercial banks therefore remain the only channel through which the Bank's refinance credits are allocated to agricultural undertakings.

In rediscounting agricultural bills, the Bank classifies the bills into four categories as follows: 1) bills arising from agricultural production; 2) bills arising from the extension of agricultural credit having agricultural products as collateral; 3) bills arising from purchasing of agricultural inputs; and 4) bills arising from animal husbandry.

The third type of refinancing facility is given to industrial undertakings, mostly through commercial banks and, to a lesser extent, through the IFCT. The facility was launched in 1963. At the beginning, the facility was confined to refinancing of input purchases. Subsequently, the scope of the facility was enlarged and now covers almost all principal industrial productions which are essential for the country's economic development, e.g., agro-industry, export oriented industry, high local content industry and small industry. The maximum rediscount credits depend on the Bank's assessment of the need for working capital of each applicant. The rediscount and discount rates are kept as low as those applied to export financing facility, i.e., five per cent and seven per cent respectively. Since the margin between rediscount and discount rates is uniform regardless of the size of industry, it becomes evident that commercial banks are not interested in channelling the Bank's fund to small industrial undertakings and therefore small industry bills rediscounted at the Bank is very negligible.

After ending direct funding of selected government projects in the 1960's, Bank of Thailand has continued its participation in financing the government outlays largely indirectly through purchasing of government securities, especially government bonds. In fixing the amount of government bonds the bank would commit itself to buy each fiscal year an amount that may not jeopardise the economic stability of the economy. Therefore, before establishing the commitment, the Bank would negotiate with the government on the level of total government expenditures so that total deficit of the government would not jeopardise stability objectives.

Apart from funding in the above manner, the Bank has also provided short-term loans for the government acquisition of shares in large industrial ventures. Such an instance occurred in 1980 when the Bank granted a 200 million Baht short term credit line through the IFCT for the government's procurement of shares of two large industrial ventures, i.e., zinc smelter and pulp and paper production which would greatly benefit the development of domestic resources and which would not have become viable without the government support. The loan was repaid within a year after each disbursement had been made. Apart from supporting the government's participation in large industrial projects, Bank of Thailand also encourages commercial banks to co-finance other important projects which entail similar benefits.

As already explained under guarantee mechanism, issue connected with this aspect of allocation have been whether productivity have increased on sectors financed liberally by central banks. Since capital/money/cash is fungible, it has also been alleged that cheaper resources from central banks have been misused in some cases and to see that funds are utilised by sectors, central bank's supervisory and monitoring roles have to be strengthened.

Supervising and Monitoring the Priority Credits:

The central bank in Burma in conjunction with the Myanma Economic Bank and the Myanma Agricultural Bank does monitor and supervise the credit to see that the allocated funds are utilised effectively.

Bank Indonesia does concern with the utilisation of funds extended to financial intermediaries since misutilisation of such fund will have adverse impact on the economy. Bank Indonesia imposes penalties to any violations done by banks. The forms of penalties may be by applying higher interest rate which is in acordance with normal interest rate for the relating sector and by regarding the violating bank as a "less sound" bank.

In Malaysia, commercial banks and finance companies which failed to meet the minimum requirements of the lending guidelines are required to place with the central bank deposits equivalent to the amount of their shortfalls at a penalty rate of interest. Although these lending guidelines were administered flexibly, to ensure effective implementation, the central bank has also imposed penalties for failure in compliance. The penalties assume various forms, including the rechannelling of funds from banks experiencing difficulties to institutions that have the capacity to do so in the form of 'deposits' at a penalty rate of return.

In Nepal, commercial banks which failed to invest 25 per cent of their total loans and advances in the productive sectors are required to deposit the amount of their shortfall in a non-interest bearing special account at the Nepal Rastra Bank. However, the inefficient practice of management and their inadequate capability to assess loan applications may be partly due to a regulatory environment in which financial institutions have been overregulated and protected from effective competition.29/

The Central Bank of the Philippines monitors and to a certain extent sees to it that allocated funds are channelled to sectors meant. Under the agricultural credits quota policy of the Bank, each bank is required to set aside 25 per cent of the net increment in its loanable funds for agricultural credit in general, and to make available 10 per cent of these loanable funds to agrarian reform beneficiaries. Funds for general agricultural credit even exceeded in most cases the 15 per cent quota; but in the case of agrarian reform credit, banks preferred to invest alternatively in high-yielding Central Bank Certificates of Indebtedness (CBCIs). Failure to comply with the agricultural credit quota requirement is penalised by disapproving erring bank's branching applications. Banks which avail of export packing credits under the rediscount window are likewise required to submit papers that indicate dates of export shipment. Those banks which do not comply are charged at penalty

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29/ Galbis, V., 1985

rates. Moreover, under the supervised credit system, participating banks are required to hire as a member of their regular staff an agricultural credit production technician (trained and duly accredited by the Central Bank) to provide technical services to the farmer-borrowers. The technician makes periodic inspection of the project to ensure that farm operations are in accordance with the farm plan and budget, and to evaluate the project till completion to identify problems that have been encountered. Reports on these findings are required to be submitted to the central bank.

Since 1981 the Central Bank of Ceylon has been engaged in credit planning which covers commercial bank lending to the private sector. Having decided the priority sectors, credit is allocated among different sectors in the economy and credit targets are set in advance for each sector separately. These targets are reviewed quarterly to ensure that allocated funds are utilised for the purpose. Also monetary and credit developments during the year are taken into account at review meetings with commercial banks. The central bank's experience has been satisfactory in the achievement of the set targets. However, banks are not penalised for any shortfall but are pursuaded to direct adequate credit for priority sectors decided at the outset.

In Thailand the regulation on agricultural credit extension of commercial banks was adopted in 1975, under which minimum targets were set at 5 per cent of total deposits that each bank must extend in each year. The credit target has continously been increased and has reached 13 per cent of total deposits now. In the case that banks can not comply with this requirement they have to deposit unfulfilled portion with the Bank for Agriculture and Agricultural Cooperatives, for whcih interest is paid in accordance with the agreement between the two institutions.

Development Finance and Growth:

In providing development finance, the SEACEN Central banks feel that such policy measures have significantly promoted economic development. The Burmese authorities believe that the central bank involvement in providing development finance has significantly promoted economic development. One of the objectives of the central bank is to oversee the proper use of credits granted by development banks. Credit provided on a planned basis has proved to be most successful as it is provided mostly for productive proposes.

Direct as well as indirect involvement of Bank Indonesia to development finance has so far had positive impact on promoting economic development of the country. This can be seen from a rapid development of bank credit extended to priority projects promoted by the government. Bank Indonesia provided liquidity credits with low interest rate to banks, to enable such banks to enlarge their involvment in promoting priority sectors.

Like central banks in most developing countries, Bank Negara Malaysia has assumed the role of ensuring that national development is appropriately financed. In particular, its role had been centred on providing and facilitating the flow of funds at the macro-level and at directing and influencing the allocation of funds to the different sectors of the economy. Specific ways in which the Central Bank has successfully engaged, directly or indirectly, in development finance may be summarised as follows: (i) Moral suasion to commercial banks to adopt credit policies which are more development-oriented. This has resulted in the reduction of their traditional concentration in the financing of trade in favour of other priority sectors in the country's development programme such as agriculture, manufacturing and housing; (ii) In cases where moral suasion did not work, credit guidelines were introduced (as far back as February 1975) and revised from time to time to ensure that credit was directed into productive purposes and were equitably distributed among national priority uses; (iii) Ceiling rates were imposed on bank credit to priority sectors to ensure their ready access to funds at reasonable cost; (iv) Promoting the establishement of various development finance institutions and financing facilities, including equity participation in some of these institutions (such as the MIDF and the CGC) or the provision of long-term loans (such as to MIDF and the Industrial Development Bank); and (v) Participation in national development planning and policy formulation at the highest level.

The Nepal, financing is one of the major limitations for economic development. However, the central bank has tried to bridge the gap as far as possible. In accordance with this objective, the commercial banks are instructed to invest in productive and priority sectors, provide financial assistance to the unemployed graduates at concessional rate of interest and the intensive banking programme is introduced with a view to uplift the economic status of the people at low income brackets.

The Central Bank of the Philippines is believed to have helped promote economic development through the mobilisation of resources and the allocation of funds. Contributions which have been mainly helpful in the mobilisation of resources are:

a) The implementation of policy measures such as the deregulation of savings and time deposit rates in the latter 70's. Growth in savings deposits was higher during the period of deregulation as against the time of fixed deposit rates. Moreover, the proportion of time deposits exceeded that of savings deposits when rates were floated and when inflation rates were relatively stable; and b) the development of the financial structure through the adoption of a universal banking system in the early 80's and through the encouragement of regional unit banks in the 70's. These moves contributed to the growth of capital accounts of commercial banks and promoted greater financial intermediation and encouraged savings in regional areas.

In the case of allocation of funds, the implementation of selective credit allocation through preferential rediscounting sustained credit support to agriculture and exports. The facility helped contribute to the attainment of rice self-sufficiency in the 70's and the restructuring of exports from traditionals to non-traditionals.

Likewise, the administration of development funds for agricultural credit through the Central Bank - IBRD Rural Credit Project and long-term industrial loans (farm mechanisation and capitalisation) through the Industrial Guarantee and Loan Fund encouraged credit funding toward these areas.

The Monetary Authority of Singapore (MAS) has little or no involvement in development finance. Even where there is some involvement by MAS, the Bills Rediscounting Scheme, it is difficult to say whether or by how much the Scheme has enhanced the competitiveness of Singapore's exports. The competitiveness of exports depends on several factors, namely labour costs, exchange rates, inflation, etc. Preferential financial treatment is only one of the factors.

The Central Bank of Ceylon Medium and long-term Credit Fund has been in existence for almost 20 years. During this period the Central Bank has provided medium and long-term finance for a number of schemes. In this connection, two schemes/areas which have contributed significantly to promote economic developemnt could be mentioned. The first relates to the tea factory modernisation scheme launched in 1976 designed to improve and modernise the tea factories in Sri Lanka. This project was undertaken with an Asian Development Bank loan of US$2 million to finance the foreign exchange cost of the project.

This was supplemented by a second loan of US$3.5 million in September 1970.

Tea is the main export commodity of Sri Lanka. At this time, the need to resuscitate this vital sector of the economy was urgent in view of the fact that some of the tea factories were relatively old and needed urgent capital investments which would help to- i) expand the manufacturing capacity of tea factories in order to match the intake of crops; ii) replace old and obsolete machinery with new and modern equipment; iii) electrify factories in order to reduce manufacturing costs and also enable the installation of modern tea machinery; and iv) procurement of lorries for the transport of green leaf which was urgently required at the time.

However, the investment required for the above purposes were not forthcoming at the time due to two related circumstances. Private sector confidence in investment and resuscitation of the industry were at a low ebb as a result of threats of nationalisation which overhung the industry's future. The economic climate was therefore not conducive for long term investment. Secondly, the incidence of heavy taxation of profits had brought about severe liquidity problems to estates enabling day to day management a difficult task. In these circumstances there was widespread reluctance on the part of management agencies and owners of tea estates to invest in the industry.

It was at this crucial time that the operation of the MLCF which provided funds at concessionary rates which came to the rescue of the tea industry.

The tourist sector which has claimed a very high share of resources from the MLCF was a priority sector in which private sector investment was encourgaed by provision of tax incentives, including the liberal allocation of foreign exchange for importing plant and equipment. It should be stated that it was the financial resources made available from the MLCF which enabled a majority of hotel projects to take off from the proposal stage to completion. Many of the investors who were entering into this new field had investments which were in closely held family concerns and had insufficient funds to finance the projects. In the absence of an active share market and reluctance on the part of investors to broadbase their family concerns, it was the commercial banks which provided finance, supported with central bank refinance to promote this industry which has today become valuable foreign exchange earner for the country.

It is the Bank of Thailand's policy to maintain present nature of its involvement and refrain from getting involved directly in funding for development finance purposes. This is because it is realised that once direct involvement is established it will be difficult to contain its expansion, let alone stop it. Inability to curtail the expansion of such financial assistance would inevitably complicate monetary management designed to achieve economic stability. Moreover, it has become widely accepted that the trade-off between growth and stability objectives in economic management is becoming more and more apparent.

V. CONCLUDING REMARKS

The purpose of this paper has been to show the contributions as well as the extent of involvement of the central banks in South-East Asia in their pursuit to cater to development finance. In analysing the contributions of the central banks in development finance, the paper attempted to classify them in three broad aspects, mainly with a view to see whether such involvement on the part of the central banks gave rise to some specific issues.

Issues identified with central banks' involvement in development finance, mainly relating to cost-efficiency of the financial intermediaries, the performance of the guarantee schemes and that of financial layering as well as that on financial repression have been only generally treated. For definitive conclusions, more research and study are needed. These issues, therefore, deserve further investigation.

The most important policy implication on the part of central banks' role in development finance has been the controversy between the dilemma or trade-off between growth and that of stability. Since the impact of development finance provided by the central banks alone can not be meaningfully isolated to see that they were the primary source for either generating growth or that of aggravating stability, the paper did not touch upon these issues also because there are other important variables to be taken into consideration before even preliminary conclusions could be derived. Nevertheless, member central banks feel that their contribution to development has favourably enhanced the growth of the economy, although, in certain cases, development financing policies might have fallen short of expectations.

The Union of Burma Bank's authorities feel that contribution to development finance has fallen short of expectations because of foreign exchange constraints, shortage of expertise and unfavourable developments in markets for primary export commodities.

The authorities feel that the contribution of Bank Indonesia on development finance has never fallen short of its expectation. It has contributed to development in accordance with the government programme as well.

Bank Negara Malaysia also has no reason to feel that its contribution to development finance has fallen short of expectations.

The Central Bank of the Philippines in general has contributed to development finance over the years, efforts toward this goal (through the deregulation of interest rate to encourage longer-term savings and term-lending, the support of credit to agricultural and export industries through preferential rediscounting and, the development of the financial system) had been hampered to some extent by some uncontrollable developments.

In the case of deregulation of interest rates, there was a notable shift from savings to time deposits although its effects on the level of saving for the economy as a whole had been more difficult to establish. This was due to the relatively recent implementation of deregulation, compounded by higher inflation rates that led to negative deposit rates and low deposit growth in the early 80's. The growth of long-term funds and term-lending had been similarly slow with long-term loans accounting for an average of about 13 per cent (1981-1983) of total outstanding loans of commercial banks while short-term loans continued to comprise a major portion of 60 per cent.

Credit support for exports through preferential rediscounting contributed to the change in export structure toward non-traditional exports. However, export performance in the recent past has been affected negatively by depresed prices and weak demand in international markets. It is perhaps in this area that more work has to be done.

The Central Bank has been instrumental also in the development and growth of the financial system through the capital build-up programme, the dispersal of regional unit banks and the adoption of universal banking system. Merger of smaller banks and non-banks with commercial banks had been started but due to the lack of capital funds and other factors, moves toward fewer but larger and more stable banks have been relatively slow.

Under the Monetary Authority of Singapore Bills Rediscounting Scheme, there is no specific targets on the level or growth of Singapore's exports at a particular point in time. As such, it is difficult to judge whether the Scheme has exceeded or fallen short of expectation.

In Sri Lanka the use of refinance for investments in peasant agriculture, and cottage industries has been less encouraging. The MLCF until quite recently was not geared to serve the financing of small borrowers such as farmers, fishermen, dairymen, etc. The main obstacle has been the cumbersome documentation which commercial banks were called upon to furnish when seeking refinance. The requirement of documentation has since been simplified and as a result more applications are now being accommodated.

Like other developing countries, the objectives of monetary policy in Thailand do not confine to economic stability but also include growth and development if it can be implemented in a mutually consistent manner under the overall macro stabilisation goals. It has been endorsed that in trying to achieve these objectives, market mechanism is to be relied upon and intervention is to be resorted to only where necessary.

Concluding Remarks

As to the conflicts of growth versus stability objectives, the philosophy of the SEACEN central banks is to see that development finance generate growth without endangering stability.

In Burma, if development bank succeed in their objectives in providing credit according to plans, there should be no conflicts of objectives between development finance vs. stability and growth. If and only when development projects are not implemented according to plan and time schedules then there can be conflict between development finance vs. stability and growth. In such circumstances timely adjustment and austerity measures would be necessary.

Bank Indonesia has never encountered any kinds of conflict of objectives between development finance versus stability and growth.

Malaysia's track record of a steadily increasing growth path of real GDP growth of 5.7 per cent in the 1960s and 8 per cent in the 1970s, accompanied by low inflation and a strong balance of payments are testimony that the economy had no problems with development finance, stability and growth in the 1970s.

The current economic issues facing the Malaysian economy are fundamentally due to an excess of investment over savings, attributed partly to the prolonged world economic recession and partly to the acceleration in the investment activity of public enterprises. However, by undertaking early adjustment measures with a view to achieving a better balance between savings and investment, particularly in the public sector, and through better integrated planning of projects, the authorities do not envisage future problems of development finance versus stability and growth.

To resolve the possible conflict between the objectives of development finance versus growth and stability, the Philippine authorities have resorted to selective credit measures. Moreover, a yearly financial and economic programme (FEP) has been drawn up aimed at achieving a desirable rate of real growth, a tolerable rate of inflation and a sustainable balance of payments position. In general, the Central Bank does not have control over the overall targets. The Central Bank can only seek to influence the targets by affecting total liquidity in the system through changes in the reserve money, credits and possibly interest rates and the exchange rate.

The issue of the possible conflict of objectives between development finance vs. stability and growth does not arise as far as the Monetary Authority of Singapore is concerned.

In Sri Lanka, in resolving the possible conflict of objectives between development finance vs. stability and growth, the Central Bank has taken a number of measures. On the one hand, the Bank has taken several steps to restrict monetary and credit expansion by increasing cost of funds. On the other, the Central Bank has been providing development finance to the needy sectors through refinance schemes.

In view of achieving the stability objectives, the central bank has used the Bank rate and reserve requirements to signal in money market of the liquidity situation and in direction of interest rates. In addition, credit ceilings were introduced from time to time with a view to regulate overall credit and supply of finance to less priority sectors in the economy.

The central bank also guides commercial banks to lend to development purpose with a view to obtaining high level of economic growth through the process of credit plans drawn-up annually. The priority sectors in the plan are agriculture, industry and exports. In addition, the central bank provides refinance through Medium and Long-term Credit Fund (MLCF) on project lendings of important sectors in the economy. Under this scheme, refinance facilities are made available at concessionary terms and conditions. The export sector is also financed with short-term working capital through export credit refinance schemes (pre-shipment refinance and the supplementry refinance schemes). Furthermore, the central bank has instructed commercial banks to exempt these priority sectors from overall credit ceilings and other regulatory measures introduced recently.

The Bank of Thailand has always given high priority to stability and efficiency of the financial system. The major efforts of the Bank of Thailand in developing an efficient domestic financial system as well as channelling funds to priority sectors can be summarised as follows:

a. The Bank of Thailand has contributed to the development process of the Thai financial system by helping in the setting up of the Securities Exchange of Thailand and the Industrial Finance Cooperation of Thailand.

b. In the supervision and examination of financial institutions, the Bank of Thailand also monitors the changing environment and banking practices closely and when necessary will try to amend or issue new laws and regulations so that the financial system functions smoothly and efficiently.

c. The Bank of Thailand also carried out various policies to improve the basic structure of the financial system to ensure flexibility in mobilising savings as well as making loans. Examples of these measures are:

(i) The lifting of domestic interest rate ceilings to high level as well as encouraging commercial banks to adjust the rates themselves as the situation requires rather than waiting for the Bank of Thailand to make the first move.

(ii) The adjustment in the loan window system so as to ensure that this window really is the lender of last resort by fixing the amount of loans through this window as well as adjusting the interest rate in line with the monetary situation.

(iii) The establishing of 2 tiers discount and rediscount rates for the rediscount window of the Bank of Thailand so as to encourage small exporters and exporters of non-traditional goods. An additional quota of 500 million baht was also provided specifically for the small industries through the rediscount window.

(iv) The adjustment of the exchange rate regime from a daily fixing one in 1978 to a managed float in 1984.

(v) Encourage the drafting and passing of the new laws for the provident funds and the unorganised money market so as to increase savings in the economy.

d. The use of Certificates of Deposits as well as the opening of commercial banks branches in the rural area also increased saving significantly. The opening of new branches in the rural area is still essential and being encouraged. The Bank of Agriculture and Agricultural Cooperatives ought to have more role in mobilising savings from the agricultural community, but as it has to lend to farmers at subsidised rates, it usually relies more on deposits from commercial banks which provide for cheaper source of funds.

Another important issue, which also deserve further investigations, is the analysing of the implications of central bank intervention vis-a-vis the market mechanism. In other words, whether market mechanism alone would have catered to the cause of development finance? Both issues have their competent arguments with all its pros and cons. Regulation and deregulation, it seems, will be off and on depending on the authorities' philosophy on development finance.

Concluding Remarks

As there is no market mechanism vis-a-vis intervention in providing funds for development finance purposes, the Burmese authorities feel that the issue does not arise in Burma. Without regulations development finance will not be channelled to desired sectors. Credit on a planned basis is required to channel finance to desired sectors. The authorities do not contemplate to deregulate some of the aspects of financial system pertaining to development financing.

It has been experienced that funds for development banks mostly emanate from borrowings from Bank Indonesia and demand for funds mostly come from private development banks. This shows that Bank Indonesia cannot rely on funds for development finance purpose merely on market mechanism. However, this should not mean that funds from private sectors or individuals is not necessary to support funds for development finance purposes. The involvement of the government as well as Bank Indonesia are really needed in channelling funds to desired sectors. By experience, it is known that the rate of returns of priority sectors, such as, small-scale industries and agricultural sectors are lower than that of traditional sectors. Under this constraint, none of the private sectors will be attracted to invest their fund on priority sectors unless the government involves or provides incentives to such sectors. This is also valid for development finance, especially after the introduction of the June 1983 policy reform which allows banks to mobilise their own funds on the basis of market demand and supply.

Bank Negara Malaysia is fully supportive of the evolution of a market-oriented financial system. The "freeing" of interest rates of commercial banks from October 1978 was a move towards fostering greater competition and more efficient utilisation of resources in the banking industry. The introduction of a new system of interest rate determination anchored to a bank's declared base lending rate (BLR) with effect from November 1, 1983, was aimed at providing a more rational and equitable basis for lending rate determination. However, for priority sectors of the economy, Bank Negara still sees a need to prescribe a ceiling on interest rates but subject to review as circumstances change. As at the end of 1983, the total amount of outstanding loans in the banking system (commercial banks and finance companies) allocated to priority sectors was $29,211 million, or 66.1 per cent of total loans outstanding in the system. It is possible that without regulation, development finance will not be channelled to the desired sectors as experienced in the early 1970's when moral suasion had failed to encourage the commercial banks and finance companies to channel funds to priority sectors. The main reason was that loans to the priority sectors had greater risks of default. However, Bank Negara Malysia has been gradually relaxing the lending guidelines to some of the priority sectors, such as manufacturing and agricultural food production. The Bank has issued moral suasion to these institutions to continue lending to those priority sectors where the guidelines have been relaxed.

In the Philippines, since the latter part of the 70's and early 80's, the monetary authorities started to rely on the market mechanism to mobilise savings and allocate funds for development finance purposes. For instance, this was done through the gradual removal of ceilings on deposit rates and loan rates. Financing was concentrated to the manufacturing sector consistent with the industrialisation policy. Some degree of intervention in providing funds for development finance has been retained, however, through preferential rediscounting and the imposition of quotas for agricultural funding. The rationale behind this policy is that the business sector is generally unwilling to fund high-risk ventures with low returns on investment, as in the case of agricultural production. The recent moves toward deregulation would suggest a negative role to the intervention syndrome. However, there are no indications that regulations such as those in the field of bank supervision to maintain order and stability in the financial system can be dispensed with.

Concluding Remarks

The authorities have gradually deregulated certain aspects of the financial system. The deregulation of interest rates which was started since 1976 and was completed with the lifting of ceilings on interest rates on short-term lending in January 1983 is believed to have contributed to domestic resource mobilisation. Moreover, the monetary authorities rationalised the rediscount regulations by aligning the rediscount rates with market rates. Rediscount rates for less preferred activities were at higher rates to discourage overdependence on cheap central bank funds and to enable the rediscount window to function as a lender-of-last resort facility.

The Singapore government's basic philosophy is that market forces should determine the allocation of funds for development finance purposes. Where the private sector lacks the initiative or the funds for such purposes, the government may step in to fill the gap. The introduction of the various financial assistance schemes is an example in which the government has to take the initiative which is not forthcoming from the private sector. As the Monetary Authority of Singapore does not have priority sectors for bank lendings, lending by financial institutions to the various sectors are determined by market forces.

The Central Bank of Ceylon relies upon the market mechanism for financial needs of the economy and at the same time intervene to ensure the adequate flow of funds to priority sectors. For example, when a general credit squeeze or ceiling is imposed, the priority areas of development such as agriculture, exports, etc. are exempted from the requirement. As explained elsewhere facilities are also provided to these sectors at concessionary rates of interest. The approved credit institutions are induced by the satisfactory on-lending margins available to them on the refinance loans granted. The intervention of the monetary authority is essential to ensure the required level of development in the priority areas of the economy. This is particularly so when the country is following a high interest rate policy. The Central Bank of Ceylon has found that credit facilities to the development projects are not adequately provided by the banking sector in view of the fact that the limited volume of resources are available in the banking sector as well as the high cost of mobilising such resources. The bankers prefer to invest such costly resources in more profitable sectors such as financing of imports and other short-term investments. In view of high cost of mobilising resources it may not be possible for the banks to divert certain percentage of their resources to priority sectors at concessionary rates of interest. Instead, the refinance facilities from the Medium and Long-term Credit Fund of the central bank are provided to the bankers so that they need not tie up their costly short-term funds in long-term investment at a low rate of return. The on-lending margin available to the credit institution are expected to provide necessary inducement.

In Thailand, within the framework of market determined forces, the Bank's attempts to achieve development objective have been carried out essentially through the adoption of refinance facilities which have become an important incentive for priority activities especially export. However, in the case of agricultural development, it was deemed that intervention in banks' credit allocation was unavoidable, and hence the introduction of regulation on agricultural credit extension in 1975. The Bank of Thailand is well aware that if stability objectives and sustained growth are to be attained, there must be a limit on the Bank's funding of priority sector development. In trying to strike the balance between stability and growth objectives the Bank has therefore been cautious in its lending for development purposes. Each year the amount of the Bank's fund to be allotted for refinancing of lending to priority activities is determined under the context of overall monetary aggregates as derived from targets on prices, balance of payments and economic growth.

Appendix I

BURMA

MYANMA ECONOMIC BANK

Loans and Advances

(In Millions of Kyats)

Year	Government		Private					
	Trade (SEEs)	Loans to Local Authorities	Cooper-atives	Trade	Loans to Industries	Small Loans	Other Loans	Total
1976	648	-	424	32	44	143	72	1363
1977	499	-	909	30	43	237	20	1738
1978	1794	9	1035	29	43	292	22	3224
1979	4074	45	1035	28	42	220	19	5463
1980	7672	82	897	27	41	176	18	8913
1981	11699	113	907	27	41	165	16	12968
1982	16689	150	942	25	41	218	16	18081

Source: Union of Burma Bank

INDONESIA

Bank Indonesia Credits to Banks and Direct Credits by Economic Sectors*
(In millions of Rupiah)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Credits to banks1/			149396	193777	294136	565000	640000	682000	846000	112900	1772000	2548000	3742000
Sugar			11475	17135	21887	64000	72000	37000	91000	117000	82000	64000	185000
Production			11338	17135	21887	64000	72000	37000	91000	117000	82000	64000	185000
Distribution			137	-	-	-	-	-	-	-	-	-	-
Estate			1940	2862	3399	6000	7000	10000	9000	13000	20000	19000	13000
Agriculture			25884	50942	112015	196000	240000	211000	240000	200000	245000	335000	524000
Fertilizer			15417	25018	63384	107000	114000	75000	63000	26000	37000	42000	46000
Bimas			10408	18929	37363	63000	83000	91000	112000	113000	113000	113000	113000
Others			59	6995	11268	26000	43000	45000	65000	61000	75000	180000	365000
Export			3633	11860	9153	16000	16000	23000	32000	44000	45000	35000	147000
Cotton			16623	19244	31146	39000	31000	32000	30000	29000	14000	12000	11000
Wheat			3158	5918	3446	19	6000	9000	12000	16000	12000	13000	28000
Aid foreign exchange			1927	2421	2381	83	-	-	-	-	-	-	-
Investasi credit			72749	72743	82240	88000	122000	183000	173000	277000	419000	829000	1226000
Manufacturing industry2/			1587	2582	3561	106000	90000	123000	169000	278000	449000	623000	688000
Transportation			2283	2283	1677	2000	1000	2000	2000	2000	2000	2000	2000
Irian Jaya			-	-	-	-	-	-	-	-	-	-	-
Others			8137	5787	23231	48000	55000	52000	88000	153000	434000	616000	918000
Direct Credits			116462	152942	230725	894000	1212000	1229000	1935000	2163000	2454000	2649000	2771000
Agriculture			17448	17399	17395	17000	17000	-	-	-	-	-	-
Mining3/			-	-	-	726000	1020000	1042000	1679000	1875000	1849000	1644000	1402000
Manufacturing industry			127	118	23	10	-	-	-	-	-	-	-
Trade4/			95235	132378	211159	143000	167000	176000	238000	248000	507000	809000	994000
Service rendering industry			885	1572	2048	2000	3000	5000	12000	26000	47000	79000	118000
Others			2767	1475	100	6000	5000	6000	6000	14000	51000	117000	257000
Total			265858	346719	524861	1459000	1852000	1911000	2781000	3292000	4176000	5197000	6513000

1/ Known as liquidity credits
2/ Includes liquidity credits to BDN for PT Krakatan Steel.
3/ Includes credits to Pertamina for repayment of foreign borrowing. Since March 1979 credits in foreign exchange to Pertamina has been converted to credits in Rupiah. Includes increase caused by foreign exchange revaluation amounting to 481 from November 1978 to February 1979 and since March 1979 amounting to 497.
4/ Mainly for financing of food supply.

* Bank Indonesia extends two kinds of credits i.e., credits to banks (known as liquidity credits) and direct credits. Most of the credits to banks represent Bank Indonesia's refinancing of the banks' loans to borrowers, while relatively small part is extended to overcome difficulties in regard to their liquidity during emergency situation. Direct credits are extended only to some selected official entities and public enterprises to finance the implementation of Government programmes.
This table shows the debit balance of credits to banks and direct credits extended by Bank Indonesia and both are classified by the purposes and the economic sector of the credits.

Source: Indonesian Financial Statistics, Bank Indonesia

Appendix III

MALAYSIA

Refinancing and Reserve Money

($ Million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Reserve money (Rm)	1357.6	1471.8	2017.9	2735.5	3134.8	3172.3	3767.7	4366.1	4940.5	5652.6	6648.4	7295.8	8504.6
Lending to Private Sector	-	-	-	-	-	200.0	-	610.7	448.2	744.1	590.2	748.2	728.5
Pre-shipment refinancing								-	-	20.9	26.2	28.4	37.2
Post-shipment refinancing								37.3	154.0	238.1	235.4	170.1	166.2
Rediscounting BAs								-	-	201.3	16.9	157.2	62.7
Loans to MBSB								0.5	64.0	159.0	220.0	257.8	308.4
Loan to UDA and DMB										52.0	52.0	-	-
Lending to MIDF											30.0	30.0	30.0
Loans to Industrial Development Bank											10.0	10.0	10.0
Lending to commercial banks						200.0		305.1	192.1				
Loans								267.8	38.1	72.8			
% of lending to private sector as a proportion of Reserve money						6.3	-	14.0	9.1	13.2	8.9	10.3	8.6

Source: Bank Negara Malaysia

Appendix IV

NEPAL RASTRA BANK'S INVOLVEMENT IN PROVIDING DEVELOPMENT FINANCE

(Excluding Government)

(Outstanding at Year End)

(In Millions of Rupees)

Fiscal Year 1	Development Finance Extended to Commercial Banks 2	NIDC 3	ADB/N 4	Total 5	NRD's Refinance to Commercial Banks 6	ADB/N 7	NRB's Loan to NIDC 8	Total 9	(9) as of % of (5) 10
1971/72	-	67.1	41.3	109.4	-	6.3	0.8	7.1	6.5
1972/73	-	76.0	56.7	132.7	4.2	11.9	-	16.1	12.1
1973/74	-	100.6	121.5	222.1	62.6	24.0	-	86.6	39.0
1974/75	15.6	149.3	230.8	395.7	278.2	97.6	-	375.8	95.0
1975/76	23.9	182.7	226.4	433.0	10.7	50.8	6.0	67.5	15.6
1976/77	40.9	223.5	295.1	559.5	-	89.9	29.4	119.3	21.3
1977/78	127.9	274.8	360.7	763.4	53.1	127.1	71.4	251.6	33.0
1978/79	135.8	309.9	431.8	877.5	73.2	179.7	93.9	346.8	39.5
1979/80	162.0	310.6	463.1	935.7	117.0	193.3	98.4	408.7	43.7
1980/81	166.1	341.8	481.4	989.3	243.3	198.8	119.5	561.6	56.8
1981/82	-	-	-	-	66.5	222.1	-	-	-

Source: Nepal Rastra Bank

PHILIPPINES

Gross Domestic Credits of the Central Bank, 1970-1982

(Million Pesos)

End of Period	Grand Total (1+5) (A)	DOMESTIC SECURITIES Total (2to4) (1)	Nat. Govt. (2)	Local & semi-govt. entities (3)	Private entities (4)	LOANS AND ADVANCES Total (6to17) (5)	National Govt. budgetary (6)	National Govt. others (7)	Local & semi-govt. entities (8)	Spl'zd. govt. banks (9)	Thrift banks (10)	Rural banks w/o d/d (11)	Non-banks w/Q/B functions (12)	Commer-cial banks (13)	Rural banks w/d/d (14)	NG (15)	CFBP DBP (16)	CFBP Commer-banks (17)
1970	4367.5	2294.3	1540.3	754.0	-	2073.2	325.0	151.1	349.4	74.0	28.3	127.5	-	997.6	20.3	-	-	-
1971	4326.5	2331.0	1578.8	752.2	-	1995.5	300.0	144.5	294.5	203.5	27.5	150.1	-	853.6	21.8	-	-	-
1972	4879.2	2524.9	1687.5	837.4	-	2354.3	400.0	153.2	285.0	250.4	29.9	213.0	-	994.0	28.8	-	-	-
1973	4563.4	2900.3	2536.6	363.7	-	1663.1	-	154.5	261.0	184.9	27.3	385.8	-	614.5	35.1	-	-	-
197'	7612.0	3316.2	3263.9	52.3	-	4295.8	-	167.9	249.6	20.4	28.7	776.8	182.2	2811.6	58.6	-	-	-
1975	11682.2	3417.4	3359.9	57.7	-	8264.8	-	179.7	318.8	241.6	41.1	1076.9	133.6	6172.6	100.5	-	-	-
1976	11378.5	3760.6	3670.8	58.7	31.1	7617.9	300.0	143.8	656.1	1040.4	49.9	1127.3	21.6	4117.9	160.9	-	-	-
1977	11018.6	4022.9	3904.5	87.4	31.0	6995.7	600.0	146.1	717.9	1289.7	64.1	1264.2	-	2725.9	177.8	-	-	-
1978	16591.8	3565.6	3536.5	29.1	-	13026.2	1500.0	1021.9	711.8	1634.0	64.7	1568.4	-	3371.1	200.0	-	562.5	2391.8
1979	22620.4	3666.1	3651.6	13.5	-	18955.3	2000.0	968.7	668.1	2303.7	83.4	2000.3	-	5956.9	228.4	469.4	724.7	3551.7
1980	30268.2	4691.4	4677.6	13.8	-	25576.8	1500.0	1605.0	542.2	2235.2	114.3	2482.3	28.0	9798.0	228.4	966.2	2015.8	4061.4
1981	37690.0	5009.4	4995.5	13.9	-	32680.6	2527.3	1621.0	446.0	2975.8	133.5	2905.8	56.4	12843.5	284.9	1035.4	3256.8	4594.2
1982																		

Source: CBOP Statistical Bulletin 1981

SINGAPORE

Banks: Loans and Advances to Non-Bank Customers by Industrial Classification
(S$ Million)

End of Period	Total Loans and Advances including Bills Financing 1 = 2 to 9	Agriculture, Mining and Quarrying 2	Manu-facturinga/ 3	Building and Construc-tionb/ 4	General Commerce 5	Transport, Storage and Communication 6	Financial Institutions 7	Professional and Private Institutions 8	Others 9
1970	2167.7	41.3	738.5	181.9	678.6	33.1	78.8	285.0	130.5
1971	2615.0	38.2	822.4	238.7	818.5	62.7	143.7	291.1	199.7
1972	3565.2	31.0	1071.3	407.6	988.2	154.0	282.4	420.1	210.6
1973	5146.5	33.4	1418.1	728.4	1549.3	237.7	333.1	596.9	249.6
1974	6930.4	61.2	1980.2	893.2	2635.0	255.6	389.3	459.1	256.8
1975	7829.3	48.3	2260.4	1021.2	2883.2	247.3	556.0	521.3	291.6
1976	8894.2	72.3	2378.5	1134.1	3335.0	273.4	754.2	610.0	336.7
1977	10183.0	63.4	2557.6	1243.5	4085.1	342.2	831.9	621.5	437.8
1978	12226.4	66.6	2941.0	1395.0	5109.8	392.6	1015.7	717.3	588.5
1979	20206.9	83.6	4362.6	1875.3	7945.8	1301.7	2096.8	1420.5	1120.6
1981	25229.1	144.2	5048.5	3031.2	8516.0	1795.6	3096.1	2218.8	1378.8
1982	29442.9	151.2	5382.1	3984.0	9350.6	2029.3	4076.8	2581.4	1887.4

Note: All data prior to 1974 excludes bills financing for which classification into industrial sectors was not available. All data on bills financing include bills refinanced by Discount Houses and the Monetary Authority of Singapore.

a/ Excludes bills financing.
b/ Commencing 1974, data include building and building cooperative societies, building developers, real estate agents and housing loans.

Source: MAS, Quarterly Bulletins.

SRI LANKA

Central Bank Credit Refinance

(Rs. Million)

nd of Period	Loans and Advances to Commercial Banks					Medium and Long Term Credit Refinance(d)		
	G.P.S. Refinance (a)	Agricultural Credit Refinance(b)	Other Advances(c) at Bank Rate	Other Advances(c) at Penal Rates	Total	To Commercial Banks	To Other Financial Institutions	Total
1970								
1971	93.9	59.7	14.9	-	168.5	34.4	26.3	60.7
1972	76.3	16.2	-	-	92.5	32.4	25.2	57.6
1973	82.0	126.0	-	-	208.0	30.7	23.0	53.7
1974	135.0	145.7	373.8	-	654.5	24.2	23.1	47.4
1975	152.4	63.1	311.4	-	526.9	20.1	27.1	47.3
1976	220.0	113.0	0.5	-	333.5	12.5	42.5	55.0
1977	457.2	371.1	1.5	-	829.9	9.8	44.9	54.7
1978	604.1	153.1	138.3	116.6	1012.1	14.6	49.2	63.8
1979	271.7	90.0	195.1	-	556.8	44.6	46.8	91.4
1980	115.3	112.8	524.3	161.3	913.7	156.4	53.7	210.1
1981	214.0	145.9	637.0	-	996.9	280.5	130.8	411.3
1982	165.5	151.5	475.6	-	792.6	365.8	237.4	603.2
1983	674.4	98.6	1548.1	-	2321.1	341.1	282.4	623.5

a) The rate of interest on refinance facilities to commercial banks on the security of promissory notes in respect of advances granted to Co-operatives to finance the purchase of paddy under G.P.S. and for the purchase, sale or storage of locally grown agricultural products is 3%.

b) Agricultural Credit Scheme: The rate of interest on refinance loans granted to commercial banks on the pledge of usance, promissory notes of Co-operatives relating to the production of paddy, red onions, bombay onions, chillies, potatoes, pineapples, vegetables, cowpea, soyabeans, maize, toordhal, green gram, groundnuts, sugarcane, kappok and sorghum is 1 1/2%.

c) This is the rate at which the Central Bank grants advances to commercial banks for their temporary liquidity purposes. However, since August 1977, each back, depending on selected asset items, was allocated a certain quota of such borrowings at the Bank Rate. Borrowings in excess of this quota were subjected to a penal rate of 15 per cent per annum. In September 1979, a graduated scale of penal rates ranging between 15 and 25 per cent was introduced. It was further revised upward to a range between 20 to 30 per cent effective from April 1980. From August 17th., the penal rates ranged between 21 to 30 per cent.

d) Medium and Long Term Credit: The current rates of interest on refinance loans to credit institutions from the Medium and Long-Term Credit Fund are as follows:
1. Promotion or development of agriculture and fisheries approved by ministries - 8 1/2%.
2. Promotion or development of exports - 10%.
3. Approved investments carrying tax holidays and investment in agriculture and fisheries not approved by the Ministries - 11%.
4. Other productive purposes - 13%.

Source: Central Bank of Ceylon, Monthly Bulletins.

Appendix VIII

THAILAND

Development Finance and Monetary Base

(Million baht)

	The Bank's credit for development finance (1)	Monetary Base (2)	(1) as % of (2) (3)
1970	938.5	15,363.6	6.1
1971	1,016.5	17,049.1	5.9
1972	1,158.9	20,077.3	5.8
1973	1,773.9	23,722.3	7.5
1974	3,595.0	26,815.5	13.4
1975	5,609.0	29,777.7	18.8
1976	6,554.9	33,712.6	19.4
1977	6,434.7	36,855.1	17.5
1978	8,715.1	43,104.9	20.2
1979	15,178.9	50,267.1	30.2
1980	16,241.5	57,323.0	28.3
1981	18,460.8	61,091.6	30.2
1982	21,176.3	68,392.1	30.9

Source: Bank of Thailand

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