

9

Development in the Financial System

Monetary Policy

The first half of 1994 saw active conduct of monetary policy by the Central Bank. Financial events at the end of 1993 and early 1994 dominated largely by the sharp inflows of foreign funds into the country, resulted in a shift in the main focus of monetary policy in 1994. Massive inflows during this period which comprised largely short-term speculative funds, which had destabilising consequences in the money and foreign exchange markets, complicated the task of monetary management. Accordingly, with the objective of ensuring financial stability and controlling inflationary pressures, the Central Bank implemented several monetary measures including six administrative measures concentrated mainly in the first quarter of 1994. These measures, however, were intended to be short term in nature, directed entirely to contain the speculative inflows in order to limit their undesirable destabilising effects on liquidity, money supply and inflation.

During the first half of 1994, the statutory reserve requirement of the banking institutions were raised two times, by one percentage point each, from 8.5% to 10.5% with effect from 3 January and 16 May 1994, which together absorbed about RM3.1 billion. With effect from the base period 16 to 31 January 1994, the banking institutions were also required to provide additional reserves in the statutory account and liquidity requirements respectively, on all funds sourced from abroad, the first of the series of the new measures. In addition, with effect from 17 January 1994, the net external liabilities position of each banking institution, after deducting trade related inflows for genuine investments in Malaysia, would be subject to a ceiling specified by the Central Bank. The monetary package also included the prohibition of selling short-term monetary instruments by

residents to non-residents with effect from 24 January 1994. However, towards the second half of 1994 as the destabilising elements ceased and much of the speculative funds unwound, this measure was relaxed with effect from 12 August 1994. The Central Bank also required the commercial banks to place with it all ringgit funds of foreign banking institutions held in non-interest vostro accounts with effect from 2 February 1994, the purpose of which was to sterilise the unduly large balances in the vostro accounts of non-residents. These funds, placed in a designated non-interest bearing vostro current account with the Central Bank, are free from any withdrawal restriction. Although these balances were initially subject to statutory reserves and liquidity requirements, this restriction was later relaxed with effect from 16 May 1994. Finally, on 23 February 1994, commercial banks were directed to cease all non-trade related swaps and outright forward transactions on the bid side with foreign customers. This restriction was lifted with effect from 16 August 1994. Consequently, due to continued prevalence of excess liquidity in the banking system and continued high monetary growth, the Central Bank imposed another one percentage point increase to 11.5% in the statutory reserve requirement of the banking institutions, absorbing about RM1.6 billion, to be complied with effect from 1 July 1994. In addition, the Central Bank made the first issue of Bank Negara bills (BNBs) for 1994 on 29 June 1994. Up to mid-August 1994, a total of RM3.2 billion of new BNBs was issued.

During the first half of 1994, the annual rates of growth of all three monetary aggregates remained high. In particular, broader money supply, M3, accelerated to 29% at the end of March 1994, compared with 17.9% and 23.5% at the end of March and December 1993 respectively. The high

monetary growth during the first quarter was attributed mainly to the continued inflow of foreign funds particularly in January (RM13.5 billion). However, the growth of the broader monetary aggregate had shown signs of moderation by the end of the first half of 1994, as M3 registered annual growth of 21.6% by the end of June. Similarly, money supply M2 also moderated to register annual growth of 22.9% at the end of June 1994, after accelerating to 31.4% at the end of March 1994 (17.3% and 22.1% at the end of June and December 1993, respectively). However, narrow money M1, which had decelerated to annual growth of 25.3% at the end of May 1994 from 37.5% at the end of December 1993, picked up in June to register annual growth of 31.7%, reflecting largely the increase in demand deposits including foreign currency deposits.

The substantial inflows of foreign funds into the country especially in the first quarter was the main factor accounting for the monetary growth in the first half of 1994, overriding credit extended by the banking system to the private sector which, except for the month of June, has grown at a moderate pace. The new international reserves of the Central Bank, after increasing by RM16.2 billion in the month of December 1993, increased further by RM14.4 billion in the first quarter. During the period January to June, however, the reserves increased by RM7.7 billion as positions were unwound in the second quarter. In the first half of 1994, lending to the private sector by the banking system remained soft. The modest growth, which amounted to RM3.5 billion or 1.8% reflected mainly increase in loans in the month of June (RM3.4 billion mainly by finance companies for consumption credit and the purchase of stocks and shares), compared with RM7.8 billion or 4.7% during the corresponding period of 1993. The slow pace in credit activities was primarily due to recourse to alternative source of financing by the business enterprises. Reflecting the strong financial position of the Government, financing through domestic borrowing has not been significant. During this period, Government operations therefore continued to exert a negative impact on monetary growth.

In the face of ample liquidity situation, the interest rates had trended down from end-1993 levels. The overnight to 3-month daily weighted average interbank interest rates eased across the board to range at 3.6 to 4.5% per annum as at mid-August 1994, from 6.3 to 6.6% per annum in

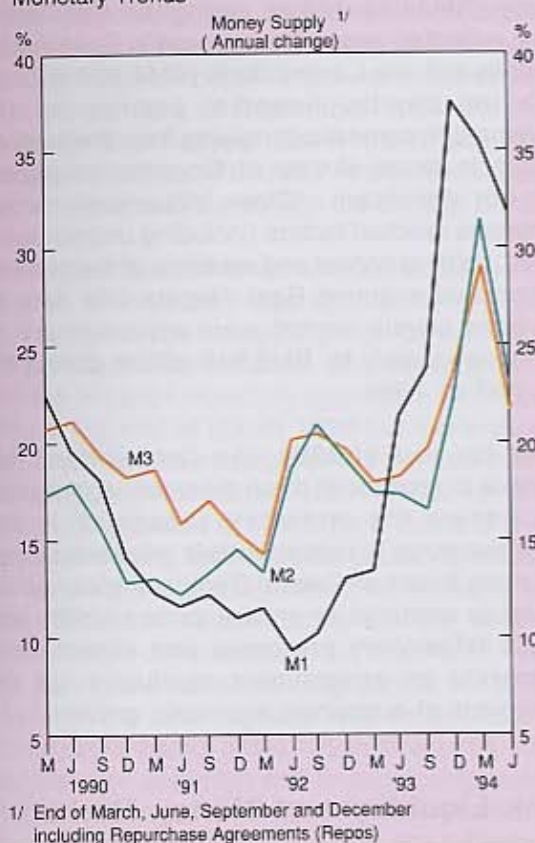
December 1993. The lower interest rates in an environment of moderation in demand for credit by the private sector, provided the Central Bank room to manoeuvre to narrow the interest rates differentials between Malaysia and major countries, given that this was one of the factors that had induced the speculative inflows from abroad. The ringgit exchange which experienced sharp gyrations during the first quarter arising from the speculative activities exhibited a stable trend towards the end of the second quarter. In August, the ringgit was trading in the US\$1=RM2.547 to 2.593 range.

The active conduct of monetary policy with the implementation of various measures during the first half of 1994 has yielded results. A significant volume of the destabilising speculative inflows have been unwound and stability has been restored in the money and foreign exchange markets. On the price front, the inflation rate continued to moderate during the first half of 1994 (4%), showing a lower increase of 3.2% in June, from a high of 5% in February. During this period, growth of monetary aggregates continued to decelerate. For the rest of 1994, the Government's objective will continue to aim towards the achievement of price stability and the effective management of the excess liquidity in the system. This is to prevent the revival of any inflationary pressure and inflationary expectations so as to provide an environment conducive for the attainment of sustained economic growth. The monetary policy stance for the remaining half of 1994 would therefore be one of continued restraint.

Money Supply

Money supply growth, which expanded at a rapid pace in the second half of 1993 and in the first quarter of 1994, moderated in the second quarter of 1994. During this period, monetary policy pursued was one of restraint. Attention was also directed to curbing the speculative inflows and restoring stability in the money and foreign exchange markets. The high growth experienced during the first quarter was due mainly to external short-term disturbances arising from substantial inflows of short-term capital. However, lending to the private sector which registered a slower growth moderated the overall acceleration in monetary growth. Further, with the unwinding of the speculative inflows experienced in the earlier part of 1994, this contributed to reinforce the deceleration in monetary growth.

Chart 9.1
Monetary Trends



Narrow money, **M1**, which is defined to include currency in circulation and demand deposits of the private sector rose by 4.8% to RM43,794 million at the end of June 1994 (from RM41,792 million at the end of 1993), compared with a growth of 9.4% during the corresponding period of 1993. Demand for currency in the first half of 1994 was much higher than the corresponding period in 1993, increasing by 6% to RM14,352 million at the end of June 1994 (January-June 1993: 0.9%) reflecting to a certain extent the lower opportunity cost arising from the lower interest rate regime. Meanwhile, reflecting the slow pace of activity in the domestic stock market and drawdown in current account balances for transaction payments, demand deposits rose by 4.2% to RM29,442 million at the end of June 1994, from RM28,259 million at the end of 1993, compared with an increase of 15% during the same period of 1993. On an annual basis, the growth of M1 moderated to 31.7% at the end of June 1994, compared with 37.5% and 48.4% at the end of 1993 and February 1994, respectively.

The growth in broad money supply, **M2**, which consists of M1 plus quasi-money (which comprises private sector holdings of fixed and savings deposits with the commercial banks, net negotiable certificates of deposit (NCDs) issued by banks and repurchase agreements or repos), rose by 8% to RM151,018 million at the end of June 1994, compared with 7.3% during the same period of 1993. The growth of M2 during the period under review reflected growth in quasi-money which increased by 9.4% to RM107,224 million from RM90,008 million at the end of 1993 (January-June 1993: 6.6%). Except for repos, the other components of quasi-money with the commercial banks, registered increases in absolute terms. This was led by the traditional fixed deposits which contributed 52% to the growth of quasi-money, followed by savings deposits (24.5%) and NCDs (23.6%). However, the growth in fixed deposits in the first half of 1994 (7.1%) was lower than the increase in the corresponding period of 1993 (10.5%), due to lower rates of returns reflecting lower interest rate levels compared with the levels at the end of 1993. Conversely, growth in savings deposits was higher in the first half of 1994 (12.4%), compared with the corresponding period of 1993 (5.8%). Of significance in the growth of NCDs was the substantial foreign holdings of close to RM4 billion early in the year which declined in April, as they matured on account of the imposition of the measure prohibiting foreigners from holding short-term monetary instruments with effect from 24 January 1994. This measure, however, was later relaxed with effect from 12 August 1994.

During the first half of 1994, growth in the broader based monetary aggregate, **M3**, which comprises M2 plus private sector deposits (including repos) placed with the finance companies, merchant banks, discount houses and Bank Islam but excluding the placements of funds among these institutions, remained high at 7.1%, compared with 8.8% during the corresponding period of 1993. Finance companies remained the second largest mobiliser of private sector deposits in the banking system and merchant banks registered net withdrawals during the first half of 1994.

The monetary expansion during the first half of 1994 was induced largely by the **external sector** arising from inflows from abroad, the bulk of which came in January. These inflows, constituting a substantial amount of short-term monies, caused

the net international reserves of the Central Bank to increase by RM11,128 million to RM87,563 million by the end of June 1994. Of significance was the net external liabilities of the banking system which increased by RM3,708 million to RM24,434 million by the end of June 1994. Therefore, net inflows of foreign reserves by the non-bank private sector increased by RM7,420 million (January-June 1993: RM7,718 million). The short-term monetary policy measures implemented during the early part of 1994 to restrict out the destabilising short-term speculative funds have contributed to the moderation in the net foreign inflows in the second quarter. Since late 1992, operations of the external sector has overshadowed lending operations of the private sector as the main stimulus to monetary growth.

Reflecting to some extent the monetary measures implemented since early in the year and the greater recourse to alternative financing besides bank borrowing by business enterprises, lending to the private sector by the banking institutions in the first half of 1994 moderated. In addition, despite declining interest rates, demand for credit did not increased significantly. Total loans extended to the private sector by the banking system excluding the Central Bank, increased at an annual rate of 8.6% by the end of June 1994, compared with 10% and 11.6% at the end of June and December of 1993, respectively. In the first half of 1994, loans increased by RM3,570 million or 2% to RM185,372 million by the end of June (an increase of 4.8% during the same period of 1993). The bulk of the new loans during January to June 1994 was extended to individuals for purchases of stocks and shares (RM2,275 million), followed by consumption credit (RM921 million) and manufacturing purposes (RM899 million). It should be borne in mind that the loans growth was marked down significantly by net repayments of the financing, insurance and business services sector (-RM3,258 million) which reflected mainly net repayments by stockbroking firms due to liquidation arising from the slower pace of stock market activities since early 1994. In addition, the broad property sector also registered net repayments during the period (-RM132 million) mainly by the real estate sub-sector (-RM1,208 million). With respect to the institutions, the extension of new credit to the private sector was led by the finance companies which accounted for 84.5%, while the commercial banks accounted for 14%.

The financial operations of the **Government** continued to exert a negative impact on money supply (RM3,868 million) during the first half of 1994, reflecting largely the increase in Government deposits with the Central Bank (RM4,507 million). With the healthy financial position of the Government, domestic borrowing from the banking system in terms of sale of Government papers was not significant. "Other influences", which comprises residual factors (including undistributed profits, paid-up capital and reserves of the banking system and maturing Bank Negara bills held by non-bank private sector) were expansionary on the money supply by RM6,948 million during the first half of 1994.

For the rest of 1994, the Central Bank will continue to monitor all three monetary aggregates and ensure the monetary expansion is not excessive so as to contain further price pressures. The main thrust of Central Bank monetary policy will be to continue to ensure price stability and reduce inflationary pressures and expectations to provide an environment conducive for the attainment of sustained economic growth.

Bank Liquidity and Money Market

During the first seven months of 1994, the banking system was consistently flushed with excessive liquidity, amplified by the overhang of excess liquidity from the previous year. The main source of excess liquidity was the large short-term inflows of funds from abroad. The sound economic fundamentals, the improved balance of payments position and significant interest rate differentials favouring Malaysia in early 1994, stimulated massive short-term speculative inflows into the country. As a result, the Central Bank implemented six administrative measures in the early part of 1994, designed to deal with the highly destabilising speculative activity to restore stability in the money and foreign exchange markets. The Central Bank, subsequently, felt it timely to relax and lift some measures as stability in the markets had been restored. As a measure to absorb the excess liquidity on a more permanent basis, the Central Bank raised the statutory reserve requirement (SRR) by one percentage point to 9.5% of the eligible liabilities base of the banking institutions from 8.5% on 3 January 1994. On 16 May 1994, the SRR was increased for the second time in 1994 by another one percentage point to

10.5%. Subsequently, the Central Bank raised the SRR by another one percentage point to 11.5% effective from 1 July 1994. In addition, the Central Bank also issued additional Bank Negara bills amounting to RM4.4 billion in nominal value during the period January to September 1994. At the same time, the Federal Government and the Employees Provident Fund (EPF) also continued to place their excess funds with the Central Bank.

The large inflows of funds were reflected in the expansion of monetary aggregates on a large scale despite the mopping up operations undertaken by the Central Bank. The annual growth rate of the broader monetary aggregate M3, rose to 29% at the end of March 1994 but moderated to 20.1% at the end of July 1994. This, however, remained high, compared with 17.5% in the corresponding period of 1993. As a result of the large capital inflows, total deposits (including repos) of the banking system registered an increase of 4.6% or RM9,504 million during the first seven months of 1994, compared with 8.1% or RM13,492 million during the corresponding period of 1993. The bulk of the new deposits was mobilised by the commercial banks (RM6,120 million or 64.4% of the total new deposits) and finance companies (RM3,283 million or 34.6%), while the merchant banks mobilised only RM102 million (1%). During this period, fixed deposits accounted for the largest portion (45.8%) of total new deposits mobilised by the banking system.

The demand for bank credit, however, remained weak despite the large increase in deposits. Total lending of the banking system rose by only RM5,913 million during the first seven months of 1994, from RM170,776 million at the end of 1993, due to better cash flow positions of the private sector as a result of continued favourable business performance and buoyant capital market in 1993. The lower interest rate outside Malaysia also encouraged the private sector to seek cheaper external loans. However, these were mainly to refinance more expensive loans taken in earlier years.

As the growth of deposits outpaced that of loans during the first seven month of 1994, the banking system registered a loan-deposit surplus of RM38 billion. Concomitantly, the loan-deposit ratio declined from 83.2% at the end of 1993 to 82.3% at the end of July 1994. The total liquid assets holding of the banking system increased

from RM23,682 million at the end of 1993 to RM26,900 million at the end of July 1994. As such, the liquidity ratio of the banking system stood at 15.9% at the end of July 1994 (16.2% at the end of 1993).

Activity in the money market remained high in the first seven months of 1994, with the monthly volume transacted of RM57.8 billion in July 1994, compared with RM62.1 billion in December 1993. The bulk of the transactions continued to be concentrated in overnight money, which accounted for 71.6% of the total transactions during the period.

Reflecting the excess liquidity situation, inter-bank interest rates eased during the first seven months of 1994. The daily weighted average inter-bank rates for overnight to three-month money eased by 2 to 2.2 percentage points to 4.1% to 4.5% per annum at the end of July 1994, from a range of 6.3% to 6.5% per annum at the end of 1993. Deposit rates offered by the banking institutions also declined. The mode fixed deposit rates offered by commercial banks for 12-month deposits decreased by 1.3 percentage points to 5% at the end of July 1994. For the finance companies, the fixed deposit rates also showed a declining trend, with 12-month deposit rates easing by 1.2 percentage points to 5.2% per annum at the end of July 1994, from the end-1993 level.

With the excess liquidity in the economy and the subsequent decline in the cost of funds, a number of banking institutions also lowered their base lending rates (BLRs). The mode BLR of commercial banks and finance companies eased by 1.1 to 1.75 percentage point to 7.4% to 8.75% per annum at the end of July 1994, from 8.5% and 10.5% per annum, respectively at the end of 1993. However, the mode savings deposit rate for commercial banks remained unchanged at 3.25%, while that of the finance companies declined by 1 percentage point to 4% per annum at the end of July 1994, from the end-1993 level.

In line with the development of Islamic banking, the Central Bank on 3 January 1994, introduced the Islamic interbank money market (IIMM). The IIMM will complement the conventional interbank money market and at the same time broaden the Islamic financial system. With the implementation of IIMM, Malaysia is regarded as the first country in the world having an Islamic money market.

Conventional banks which participated in interest-free banking scheme are allowed to trade in the Islamic financial instruments such as Islamic bankers acceptances. The IIMM comprises three aspects as follows:

- (i) trading of Islamic financial instruments among the Islamic bank and the IFBS banks;
- (ii) establishment of a mechanism known as the Mudharabah (Profit-sharing) Interbank Investment whereby the surplus IFBS banks (including the Islamic bank) may invest in the deficit IFBS banks of periods from overnight until 12 months; and
- (iii) setting up of the Islamic Interbank Cheques Clearing System (IICCS), whereby all cheques from the Islamic bank and the IFBS commercial banks will be cleared in the Kuala Lumpur Automated Clearing House on an Islamic basis.

Since the launching of the IIMM, total transactions of the IIMM amounted to RM1.35 billion. Although the IIMM is still in its infancy stage, the performance so far is encouraging and expected to grow further in future.

Discount Houses

During the first seven months of 1994, the operations of the discount houses expanded markedly in line with the strong economic growth. **Total resources** of the discount houses rose significantly by RM1,391 million or 20.2% to RM8,290 million, compared with an increase of RM679 million or 12% in the corresponding period of 1993. This was largely due to the increase in **new deposits (including repos)** mobilised by the discount houses which rose by RM1,304 million or 19.6% to total RM7,945 million at the end of July 1994. The new deposits were mainly placed by commercial banks, merchant banks, statutory bodies and other financial institutions, while finance companies and business enterprises ran down their deposits by RM139 million and RM17 million respectively in the first seven months of 1994. The commercial banks was the main contributor to the new deposits of discount houses accounting for RM822 million or 63%, followed by statutory bodies (RM292 million or 22.4%) and merchant banks (RM130 million or 10%).

Despite the substantial increase in resources, **total investment** of the discount houses increased moderately by RM296 million or 5.8% in the first seven months of 1994, compared with RM302 million or 5.6% in the corresponding period of 1993. This was attributed mainly to the liquidity operations of the Central Bank, which resulted in a substantial proportion of the resources of discount houses being mopped up as short-term deposits with the Central Bank. In terms of components, investment in private debt securities (PDS) increased markedly by 22% to RM2,488 million at the end of July 1994, to account for 46% of total investment. The holding of Malaysian Government Securities (MGS) by discount houses, however, was reduced by RM125 million to RM476 million at the end of July 1994 (MGS accounted for 8.8% of total investment of discount houses as at the end of July 1994). Similarly, the holdings of NCDs, Cagamas bonds and bankers' acceptances (BAs) declined by 29.4%, 14.5% and 0.7% respectively. In terms of shares, these papers accounted for 39.2% of total investment of discount houses or an equivalent of RM2,121 million at the end of July 1994.

During the first seven months of 1994, the volume of secondary transactions recorded by the discount houses in various type of papers was higher at RM30,755 million compared with RM24,512 million in the corresponding period of 1993. The higher transactions were recorded in MGS, Cagamas bonds, Treasury bills and PDS while transactions in NCDs and BAs declined. During the first seven months of 1994, total purchases and sales of PDS, Cagamas bonds, MGS and Treasury bills, rose by RM5,435 million, RM1,433 million, RM1,046 million and RM350 million, respectively. However, total purchases and sales of BAs and NCDs declined to RM6,736 million and RM282 million respectively during the first seven months of 1994, compared with RM8,236 million and RM802 million respectively in the corresponding period of 1993.

For the whole of 1994, liquidity in the banking system is expected to remain ample due to the overhang of liquidity carried over from previous years. Therefore, the Government will continue to tighten its monetary stance to mop up excess liquidity in the economy in order to reduce inflationary pressures so that the monetary situation will be at supportive level to sustain current strong economic growth.

Commercial Banks

The operations of the commercial banks continued to expand rapidly in line with the strong economic growth experienced during the first seven months of 1994, albeit at a slower pace. **Total resources** of the commercial banks, including capital and reserves, deposits, borrowings from other financial institutions, BAs and other liabilities (interest-in-suspense, provision for bad and doubtful debts and borrowings from, and bills discounted with the Central Bank) increased by RM5,678.7 million or 2.6% to RM227,916 million at the end of July 1994, compared with RM11,947.3 million or 6.9% in the corresponding period of 1993. As at the end of July 1994, the commercial banks mobilised 68.2% of the total deposits placed with the banking system and at the same time extended about 68.3% of total loan granted by the banking system.

The largest source of funds emanated from deposits which includes current, fixed and savings deposits, NCDs, new investment fund (NIF), non-eligible liabilities fund, special deposits and repurchase agreement (repos), accounted for 64.3% of the total resources. **Total deposits** rose

by RM6,120.3 million or 4.4% to RM146,594 million during the first seven months, compared with an increased of 7.2% in the corresponding period of 1993, as indicated in Table 9.1. The bulk of the new deposits received during the first seven months of 1994 were placed by business enterprises (RM7,441.3 million or 121.6%), Federal Government (RM870.2 million or 14.2%) and statutory authorities (RM484.6 million or 7.9%). However, there was a significant decline in deposits placed by the financial institutions (-RM2,999 million or 17.2%). The marked increase in new deposits was mainly due to high level of disposable income of individual and generally improved performance of the corporate sector following continued strong economic growth. Apart from this, the build-up of liquidity by the private sector from the bullish stock market in 1993 and early 1994, and favourable differential of the domestic interest rate vis-a-vis the foreign rate which attracted foreign capital, contributed to the substantial increase in deposits.

The **lending activities** of the commercial banks (excluding housing loans sold to Cagamas Berhad), expanded by 2.7% to RM120,429.1 million at the end of July 1994, compared with 4.8% during the corresponding period of 1993. In terms of distribution, the bulk of new loans was channelled for the purchase of stocks/shares which accounted for RM3,056.8 million or 70.6% of total new loans. During the first seven months of 1994, loans extended to this sector increased by 100.7% to RM6,091.4 million, compared with 4.8% in the corresponding period of 1993. Manufacturing sector received 35.7% of total new loans which grew by 5.7% at the end of July 1994 (3.4% in the corresponding period of 1993). Loans extended for consumption purposes increased by 14.4% amounting to RM552.9 million, compared with an increase of 24.6% during the corresponding period of 1993. Please see Table 9.2. Loans to the broad property sector (including housing loans to individuals) which constitute 7.7% or RM333.7 million of total new loans, grew by 0.9% at the end of July 1994, compared with 6.4% during the corresponding period of 1993.

During the first seven months of 1994, the ample liquidity position of the commercial banks persisted, despite the contractionary monetary stance. The SRR was raised three times during the first seven months of 1994, aimed at reducing

Table 9.1

Commercial Banks: Deposits

	Change during period				As at end of July 1994
	1993 January-July		1994 January-July		
	RM million	%	RM million	%	RM million
Demand deposits	1,778	9.3	-436	-1.5	28,844
Savings deposits	726	5.0	1,716	9.4	19,916
Fixed deposits	6,744	11.4	4,429	6.2	76,033
NCDs ¹	-2,026	-15.5	229	1.8	13,049
Repos	941	14.5	146	1.8	8,409
Others ²	-98	-33.8	37	12.1	344
TOTAL	8,065	7.2	6,121	4.4	146,594

¹ Negotiable certificates of deposit.

² Include New Investment Fund and special deposits.

Source: The Central Bank.

Table 9.2

Commercial Banks: Direction of Lending¹

	Change during period				As at end of July 1994
	1993 January-July		1994 January-July		
	RM million	%	RM million	%	RM million
Agriculture	-328	-7.0	-417	-10.1	3,707
Mining and quarrying	-171	-19.5	-40	-6.3	591
Manufacturing	857	3.4	1,547	5.7	28,478
Finance, insurance and business services	925	6.8	-3,313	-19.5	13,671
Construction	704	8.2	427	4.6	9,737
General commerce	261	2.0	160	1.2	13,822
Transport and storage	419	28.8	428	21.4	2,429
Real estate	432	3.9	-1,403	-12.3	9,979
Housing	1,163	9.5	1,310	7.6	18,522
Miscellaneous	791	5.3	4,495	25.4	19,493
TOTAL	5,053	4.8	3,194	3.8	120,429

¹ Excluding loans sold to Cagamas Berhad.

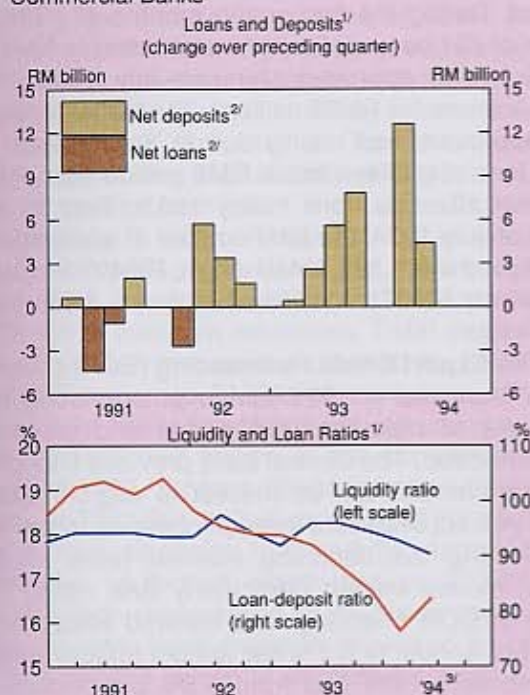
Source: The Central Bank.

excess liquidity in the system. With effect from 3 January 1994, SRR was increased by one percentage point from 8.5% to 9.5% and followed by another one percentage point to 10.5% with effect from 16 May 1994. On 1 July 1994, the Central Bank increased the SRR by another one percentage point to 11.5%. At the end of July 1994, the liquidity ratio of commercial banks stood at 17.8%, compared with 18.2% at the end of 1993. The commercial banks experienced surplus funds of RM22,324.8 million recorded at the end of July 1994 (July 1993, surplus of RM6,983.9 million). This was mainly due to higher growth of deposits compared to that of loans extended by the commercial banks. Thus, the **loan-deposit ratio** of commercial banks continued to decrease to 84.8% at the end of July 1994, compared with 94.2% at the end of 1993.

The commercial banks continued to provide credit to the **priority sectors** of the economy namely the Bumiputera community, purchases of houses costing RM100,000 and below each, and small scale enterprises (SSEs) under the Principle Guarantee Scheme (PGS) of the Credit Guarantee Corporation (CGC). In March 1994, a new PGS guideline was issued by way of extension of the previous guideline which expired on 31 March 1993. Under the new guideline, the commercial banks were required to extend loans under the PGS scheme with guarantee cover of at least RM160 million, of which RM80 million must be to Bumiputera borrowers. The compliance date for this guideline is 31 March 1995. The lending guidelines in respect of lending to the Bumiputera community and housing loan commitments are for a two-year compliance period, with the compliance date of 31 March 1996. Under the lending guidelines, the commercial banks were required to extend at least 20% of total outstanding loans as at 31 December 1992 (loan base) to the Bumiputera community and to make firm commitments to finance the purchase of 75,000 units of houses costing RM100,000 or less each.

During the first seven months of 1994, lending to Bumiputera increased by 6.5% or RM2,179 million, compared with an increase of 8.1% in the corresponding period of 1993. As at the end of July 1994, loans extended to the Bumiputera community amounted to RM35,903 million or 33.8% of the loan base, against the target requirement of 20% set out in the guidelines. The loans were extended mainly to the broad business sectors (RM12,551 million or 35%), followed by the finance and business sector (RM6,025 million or 16.8%) and loans for purchase of stocks and shares (RM4,490 million or 12.5%). At the end of July 1994, the commercial banks financed the purchase of 13,733 units of houses costing RM100,000 and below each or 18.3% of the target. Since April 1994, the one per cent interest subsidy for housing loans as well as the target in terms of value has been withdrawn. As at the end of July 1994, the total credit extended by the commercial banks to the SSEs under the new PGS of the CGC increased by 1,015.7% to RM170.7 million (RM15.3 million at the end of July 1993). Meanwhile, total loans approved under the Loan Fund for Hawkers and Petty Traders (LFHPT) 1992, increased by 338% to RM17.9 million, of which RM10.2 million were granted to Bumiputera borrowers.

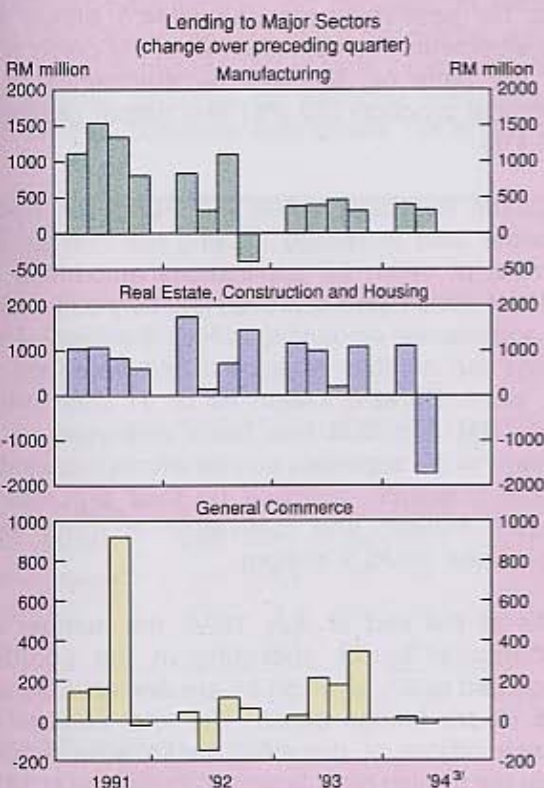
Chart 9.2
Commercial Banks



1/ Including Repos.

2/ Net deposits refer to the excess of commercial bank deposits over loans in each quarter while net loans refer to excess of loans over deposits.

3/ As at the end of July 1994.



With the persistent excess liquidity in the banking system, the mode fixed deposit rates for all maturity periods continued to ease during the first seven months of 1994. For one-month and three-month deposits, the mode fixed deposit rate decreased by 2.4 and 2.1 percentage points to 4.0% per annum and 4.3% per annum, respectively. The mode rate for 6-month and 9-month fixed deposits declined by 1.8 percentage points and 1.6 percentage points to reach 4.5% per annum and 4.8% per annum respectively. At the same time, the mode fixed deposit rate for 12-month deposits declined by 1.3 percentage point to 5.0% per annum. However, the mode savings rate remained unchanged at 3.25% per annum since the end of 1991. On the average, inter-bank money market rates also declined in response to the ample liquidity. Rates for one-night and one-month money declined by 0.85 percentage points and 2.16 percentage points to 4.95% per annum and 4.48% per annum respectively at the end of July 1994 (end of 1993: 5.80% and 6.64% per annum, respectively). The three-month money rate, also declined by 2.02 percentage points to 4.48% per annum. Thus the average cost of funds decreased by 1.25 percentage points to 4.05% per annum at the end of July 1994 (end of December 1993: 5.30% per annum). In response, therefore, the average lending rate also declined to 8.51% per annum at the end of July 1994, compared with 9.66% at the end of 1993. Therefore, the gross interest margin decreased to 4.58 percentage points at the end of July 1994, compared with 4.71 percentage points at the end of 1993. In line with the downward trend of cost of funds, the mode **BLR** of the commercial banks declined by 1.6 percentage points to 7.4% per annum at the end of July 1994, compared with 8.5% per annum at the end of December 1993.

The Islamic banking saw another year of significant growth with an increasing number of financial institutions offering Islamic banking services. At the end of July 1994, apart from BIMB, a total of 14 commercial banks, 9 finance companies and 2 merchant banks were offering Islamic banking services under the Interest-free Banking Scheme (IBS). Total assets of the Islamic banking system (IBS and BIMB) surged by 54% or RM2,076.6 million to RM3,194.8 million at the end of July 1994, while total deposits mobilised rose by 138% or RM1,176.9 million to RM4,091.6 million. Total financing extended by the Islamic Banking System grew less rapidly by 12% to

RM1,159.1 million at the end of July 1994 (RM1,037 million at the end of July 1993). In term of the proportion, the bulk of the new deposits emanated from general investment deposits and specific investment deposits, which grew by 298% and 34% to RM2,508.1 million and RM533.3 million respectively at the end of July 1994. At the same time, savings and demand deposit rose by 46% and 58% to RM475.3 million and RM574.9 million respectively. In term of sectoral breakdown, 21% of the new financing was extended to the housing sector which rose by 29%. The financing for manufacturing sector decreased by 32% to RM229.7 million at the end of July 1994.

Some of the commercial and merchant banks have been appointed as the implementing agencies for specialised assistance funds set up by the Government. The **Special Fund for Tourism (SFT)** was set up by the Government in March 1990 with the aim of financing the development of tourism related projects with an allocation of RM120 million. Due to the overwhelming response as well as to cater for increasing new applications, the allocation of the Fund was increased by another RM80 million with effect from 16 November 1993 and it was converted into a revolving fund. During the first seven months of 1994, 25 applications with a total value of RM34.7 million were approved (January-July 1993: 31 applications with value of RM34 million). This brings the number of applications approved as at the end of July 1994 to 146, amounting to RM168.7 million. Out of this total, RM100.2 million has been disbursed as at 31 July 1994. The bulk (91%) of the approvals was directed to finance the construction of hotels and inns as well as the renovation and extension of existing lodging premises.

The **New Entrepreneurs Fund (NEF)** with an initial allocation of RM250 million, was launched in December 1989, to encourage more small and medium-scale Bumiputera entrepreneurs to venture into various fields of business. The allocation was raised to RM600 million and converted to a revolving fund to enable more entrepreneurs to participate in this scheme. Of this total, RM50 million was channelled to Permodalan Nasional Berhad to be loaned to Perbadanan Usahawan Nasional Berhad. The Development Bank of Malaysia Berhad, the Bank Industri of Malaysia Berhad, the Malaysian Industrial Development

Finance Berhad and 10 other commercial banks also serve as the implementing agencies for the Fund. During the first seven months of 1994, a total of 251 new applications amounting to RM152 million was approved (January-July 1993: 158 applications for RM55 million). The higher amount of approvals was mainly due to the increase in the loan eligibility limit to RM2 million from RM1 million effective from 1 July 1993. Thus at the end of July 1994, the total number of applications approved was 1,383, amounting to RM497.8 million, of which RM376.4 million has been disbursed.

The **Export Credit Refinancing (ECR)** scheme was launched in 1977 aimed at promoting the exports of manufactured goods and selected commodities. The Central Bank provides financing at preferential rate of interest to eligible direct and indirect exporters through commercial banks. Reflecting the declining interest rates in the local money market particularly BAs rates, the rate of ECR financing was lowered twice, from 7% per annum to 6.5% per annum effective from 2 February 1994 and from 6.5% per annum to 5% per annum with effect from 1 May 1994. Total ECR financing declined by 18.5% to RM9.2 billion during the first eight months of 1994, compared with an increase of 6.6% during the corresponding period of 1993. Out of this total, RM4.7 billion was for post-shipment and RM4.5 billion for pre-shipment. The bulk (28.1%) of the credit was for the palm oil, followed by mechanical and electrical products (22.5%) and rubber products (13.4%).

Loans approved under the **Fund for Food** scheme also increased. During the first seven months of 1994, 37 applications amounting to RM29.4 million were approved (January-July 1993: six applications amounting to RM1.8 million). This brings the number of applications approved to 69, worth RM42.8 million as of 31 July 1994, while RM13 million has been disbursed. The majority of the approvals was for animal husbandry (RM26.8 million), followed by food processing (RM9.6 million) and cultivation of fruits and vegetables (RM5.5 million).

As at the end of July 1994, the number of commercial banks operating in the country amounted to 37, of which 21 are domestic banks and 16 are foreign banks. The total number of branch offices of domestic banks were 1,104, while the foreign bank branches remained at 146.

Finance Companies

During the first seven months of 1994, total resources of the finance companies increased in tandem with the brisk business activities of the corporate sector brought about by the continued strong economic performance. **Total resources** (mainly comprising capital and reserves, deposits and borrowings from other financial institutions) increased by 9.4% to RM69,193 million at the end of July 1994, from RM63,264 million at the end of 1993. Deposits (including repos) accounted for 55.4% of total new resources. **Total deposits** of the finance companies increased by 6.4% or RM3,283 million to RM54,440 million as at the end of July 1994, compared with an increase of 6.5% or RM2,859 million in the corresponding period of 1993. Savings deposits, which rose by 36.9% or RM1,501 million, accounted for 45.7% of the new deposits followed by negotiable certificates of deposit which rose by 20.5% or RM748 million, representing 22.8% of new deposits. However, new fixed deposits increased by only 1.1% or RM466 million to account for a share of 14.2% of new deposits. This was in contrast to the situation in the same period in 1993 when 92.8% of new deposits were in the form of fixed deposits. Nevertheless, as at the end of July 1994, fixed deposits remained the major component (79.6%) of total outstanding deposits. In terms of deposits by holder, the major depositors were the general public (45.2% of total fixed deposits outstanding) followed by financial institutions (20.7%) and business enterprises (18.8%).

Table 9.3

Finance Companies: Deposits

	Change during period				As at end of July 1994
	1993 January-July		1994 January-July		
	RM million	%	RM million	%	RM million
Savings deposits	544	19.8	1,501	36.9	5,567
Fixed deposits	2,652	7.3	466	1.1	43,315
Special deposits	-16	-47.9	-23	-67.7	11
NCDs ¹	-137	-3.6	748	20.5	4,391
Repos	-184	-18.3	591	104.9	1,156
TOTAL	2,859	6.5	3,283	6.4	54,440

¹ Negotiable certificates of deposit.

Source: The Central Bank.

Compared with deposits, loans grew at a slower pace. **Total loans** extended (excluding housing loans of RM1,501 million sold to Cagamas Berhad) rose moderately by 5.5% to RM46,175 million during the first seven months of 1994, as against 6.6% in the corresponding period of 1993. Lending to private individuals rose by 7.4% (RM1,764 million) to RM25,709 million. Of the increase, 49% (RM864 million) was extended for the purchase of stocks and shares, and 43.5% (RM768 million) for consumption purposes. As a result, loans extended to private individuals accounted for 55.7% of total lending by the finance companies, while the construction and real estate sector absorbed 14.4% and manufacturing 6%. As loans grew at 5.5% and deposits at 6.4%, the **loan-deposit ratio** of the finance companies at the end of July 1994, fell to 84.8% from 86.9% at the end of July 1993.

Table 9.4

Finance Companies: Direction of Lending

	Change during period				As at end of July 1994
	1993 January-July		1994 January-July		
	RM million	%	RM million	%	RM million
Agriculture	-56	5.6	-73	-8.2	811
Mining and quarrying	12	9.0	2	1.5	164
Manufacturing	274	13.0	226	9.0	2,747
Construction	337	12.0	291	8.2	3,848
Real estate	-19	-0.7	-92	-3.2	2,797
Private individual of which:	1,135	5.4	1,764	7.4	25,709
Consumption credit	(463)	(3.2)	(768)	(4.9)	16,421
Purchase of stocks/shares	(142)	(6.3)	(864)	(38.3)	3,117
Housing ¹	(530)	(10.7)	(132)	(2.2)	6,171
General commerce	-47	-3.1	-35	-2.5	1,379
Miscellaneous	869	12.8	316	3.8	8,720
TOTAL	2,505	6.6	2,399	5.5	46,175

¹ Excluding loans sold to Cagamas Berhad.

Source: The Central Bank.

During the first seven months of 1994, reflecting continued ample liquidity, fixed deposits rates eased. The mode rate for one-month deposits declined by 2.4 percentage points to 4.1% per annum and three-month deposits by 2 percentage points to 4.5% per annum at the end of July 1994. The mode rate for six, nine and twelve-month deposits fell by 1.8 percentage points, 1.4 percentage points and 1.2 percentage points to 4.7% per annum, 5% per annum and 5.2% per annum respectively. The mode savings deposits rate, however, remained unchanged at 5% per annum. Reflecting the easing of fixed deposits rates, the **average cost of deposits** fell from 6.96% per annum at the end of 1993 to 5.56% per annum at the end of July 1994. Consequently, the mode **BLR** declined from 10.5% per annum to 8.75% per annum. Despite this, the average lending rate was lowered marginally by 0.26 percentage points to 11.89% per annum. With the average cost of deposits declining by 1.4 percentage points, the gross interest margin widened by 1.14 percentage points to 6.33 percentage points at the end of July 1994. Indicative of the high liquidity position of the finance companies, the **liquidity ratio** rose to 12.7% at the end of July 1994 from 12% at the end of 1993.

With respect to lending to the **priority sectors** under the two-year 1994 lending guidelines, to be complied with by 31 March 1996, as at the end of July 1994, lending to the Bumiputera community was 39.5% of the total loan base (loans outstanding at the end of 1992), against the minimum requirement of 20%. For lending for the purchase of houses costing RM100,000 and less each, the finance companies, as a group, are required to make firm commitments to individuals to finance the purchase of at least 25,000 units of such houses (both newly constructed and second-hand houses which are owner-occupied). However, in terms of commitment value, no requirement is imposed. One-half of the quota should be met by 31 March 1995. Up to the end of July 1994, the finance companies, as a whole, had made firm commitments to finance the purchase of 6,388 units of houses.

At the end of July 1994, the number of finance companies in operation totalled 40, of which 15 were wholly-owned subsidiaries of commercial banks and one was a subsidiary of a merchant bank. During the first seven months of 1994, the

finance companies opened 36 new branches bringing the total number of branches to 825 at the end of July 1994.

Merchant Banks

Consistent with strong economic growth, the performance of the merchant banks continued to record significant growth during the first seven months of 1994, albeit at a lower pace. **Total assets** of the merchant banks expanded by 5.6% to RM19,425.9 million compared with 13.4% in the corresponding period of 1993.

Total resources of the merchant banks from **fund-based activities** rose by 6.6% to RM20,036.8 million at the end of July 1994, compared with an increase of 13.4% during the same period of 1993. The new resources were mainly generated from placements by financial institutions and negotiable instruments of deposits (NIDs) issued. **Total deposits** mobilised by the merchant banks increased marginally by 0.8% or RM101.5 million to RM13,618.1 million at the end of July 1994, accounting for 6.3% of the total deposits of the banking system. New deposits placed by corporations rose further by 7.8% to RM7,105.2 million, at the end of July 1994, compared with an increase of 10.1% during the corresponding period of 1993. This represents the largest proportion of deposits placed with the merchant banks, accounting for 52.2% of the total deposits outstanding of the merchant banks at the end of July 1994. Placements by financial institutions declined by RM370.4 million, compared with an increase of RM1,260.1 million during the same period of 1993. The bulk of the total outstanding deposits of the merchant banks remain concentrated in short-term fixed deposits of maturity periods of six months and less (which accounted for 94.1% of total fixed deposits at the end of July 1994).

Lending operations by the merchant banks to private sector increased by 3.5% or RM332.1 million during the first seven months of 1994, compared with an increase of 0.6% during the same period of 1993. The bulk of the loans were in the form of term loans, amounting to RM5,598.9 million or 55.5% of total outstanding loans of the merchant banks at the end of July 1994. The bulk of the new credit was extended mainly for the

Table 9.5

Merchant Banks: Deposits and Lending

	Change during period				As at end of July 1994 RM million
	1993 January-July		1994 January-July		
	RM million	%	RM million	%	
Deposits					
Fixed deposits	2,214	30.8	-537.6	-5.1	9,954.8
Commercial banks	-185	-46.6	-116.9	-29.6	278.5
Finance companies	42	12.4	-37.3	-7.4	463.1
Corporations	919	17.2	516.9	7.8	7,105.2
Others ¹	1,438	129.7	-900.4	-29.9	2,108.0
NIF	-9	-34.4	-3.0	-21.0	11.3
Repos	350	32.2	203.0	15.7	1,496.0
NCDs	4	0.2	439.1	25.6	2,156.0
TOTAL	2,559	26.2	-102.0	-0.8	13,618.1
Loans					
Term loans	524	13.7	859.9	18.1	5,598.9
Federal and state governments	-12	-19.6	-4.5	-11.5	34.2
Statutory authorities and local governments	-14	-18.8	17.6	52.7	51.0
NFPEs ²	—	0.1	-24.7	-17.1	120.0
Bumiputera individuals	313	29.9	576.0	3.9	2,050.3
Domestic	231	9.6	294.9	9.7	3,331.0
Foreign	6	127.9	0.5	4.6	12.3
Trade bills (including BAs)	-91	-3.0	-53.8	-8.9	548.8
Others	215	5.4	-482.6	-10.9	5,050.9
TOTAL	648	7.6	323.5	3.3	10,088.5

¹ Includes merchant banks and other financial institutions.

² Non-Financial Public Enterprises.

Source: The Central Bank.

¹ Includes merchant banks and other financial institutions.

² Non-Financial Public Enterprises.

Source: The Central Bank.

purchase of stock and shares (amounting to RM410.1 million or 126.8% of total new loans), broad property sector (RM33.4 million or 10.3%) and agricultural sector (RM26.5 million or 8.2%). Loans extended to the finance, insurance and business sector, however, declined by RM526.5 million due largely to the decline in loans extended to the stockbroking firms.

In line with the mopping up operation by the Central Bank to absorb excess liquidity in the banking system, the **average liquidity ratio** of the merchant banks declined to 15.1% during the first seven months of 1994 (18.3 % at the end of 1993). Notwithstanding the above, the average cost of fund and average lending rate of the merchant banks continued to fall from 6.58% per annum and 9.30% per annum as at end-1993 to 4.51% per annum and 7.32% per annum as at end-July 1994 respectively. Consequently, the average interest margin of the merchant banks widened by 0.09 percentage point to 2.81% at the end of July 1994 from 2.72% at the end of 1993. With the more rapid increase in deposits compared with that of loans, the **loan-deposit ratio** of the merchant banks declined from 79.9% at the end of 1993 to 74.1% at the end of July 1994.

The **fee-based activities** of merchant banks continued to expand rapidly during the first half of 1994. Total income from fee-based activities, rose by 125.1% to RM215.1 million, compared with RM95.6 million during the same period of 1993. More than one-half of the increase in fee income earned in the first half of 1994 was attributed to trading, in particular, trading in private debt securities. The fee-based income accounted for 61.4% of the net total income of the merchant banks. Total portfolio funds managed by the merchant banks increased by 0.8% to RM2,889.6 million as at the end of June 1994 (end of December 1993: RM2,867.8 million). Total fees derived from portfolio management activities undertaken by the merchant banks rose to RM16.4 million during the first half of 1994, compared with RM10.6 million earned during the same period of 1993. The bulk of portfolio funds (64.1%) managed by the merchant banks belonged to institutions (including private provident funds) and the remaining belonged to corporations, individuals and others. During the first half of 1994, the merchant banks underwrote 52 issues of stocks and shares and PDS, with total value of RM1,594.4 million (compared with RM430.2 million during the corresponding period of 1993). As at the end of July 1994, the number of merchant banks operating in Malaysia remained at 12 with 17 branch offices.

Development Finance Institutions

Collectively, **total resources** of the five principal **development finance institutions (DFIs)**, comprising the Malaysian Industrial Development

Finance Berhad (MIDF), the Development Bank of Malaysia Berhad (DBM), the Bank Industri Malaysia Berhad (BIM), the Sabah Development Bank Berhad (SDB) and the Agricultural Bank of Malaysia (ABM) rose by 7% to RM7.4 billion as at 30 June 1994 from end-1993, as against an increase of 4.7% during the corresponding period of 1993. This was largely due to the 14.4% growth in borrowings which constituted 39.3% of the DFIs's total resources. However, deposits mobilised amounting to RM3.1 billion or 41.4% of total resources remained the largest category of funding.

Nevertheless, the individual DFIs registered mixed performance in terms of total resources.

Table 9.6

Development Finance Institutions

<i>Institution</i>	<i>1993</i>	<i>June 1994</i>
Total Resources¹(RM million as at end of period)		
Agricultural Bank of Malaysia	2,920	2,982
Development Bank of Malaysia Bhd.	1,351	1,498
Malaysia Industrial Development Finance Bhd.	1,011	1,016
Bank Industri Malaysia Bhd.	886	1,168
Sabah Development Bank Bhd.	775	768
Average Interest Rates (% as at end of period)		
Agricultural Bank of Malaysia		
Concessional rate	4.00	4.00
Commercial rate	0-4 above BLR ²	0-4 above BLR ²
Development Bank of Malaysia Bhd.	6.30	6.51
Malaysian Industrial Development Finance Bhd.	8.41	8.24
Bank Industri Malaysia Bhd.		
Ship repairing	4.50	4.50
Ship building	7.85-9.00	7.85-9.00
Dockyard infrastructure	9.00	9.00
Export Credit Refinancing Scheme	5.00-9.00	6.00-9.00
Sabah Development Bank Bhd.	10.00 and above	9.00-9.99

¹ Include shareholders' funds, short-and long-term borrowings and deposits mobilised.

² Base Lending Rate.

Source: Agricultural Bank of Malaysia, Development Bank of Malaysia Berhad, Malaysian Industrial Development Finance Berhad, Bank Industri Malaysia Berhad and Sabah Development Bank Berhad.

Table 9.7

Direction of Lending by DFIs

<i>Sector</i>	<i>1993 January-June (RM million)</i>	<i>1994^a January-June (RM million)</i>	<i>% change</i>
Manufacturing	307	322	4.9
Shipping	76	122	60.5
Agriculture	141	131	-7.1
Real estate and construction	35	44	25.7
Mining and quarrying	9	5	-44.4
Others	146	280	91.8
TOTAL	714	904	26.6

^a Preliminary data.

Source: Agricultural Bank of Malaysia, Development Bank of Malaysia Berhad, Malaysia Industrial Development Finance Berhad, Bank Industri Malaysia Berhad and Sabah Development Bank Berhad.

The total resources of the BIM rose significantly by 31.7% or RM281 million at the end of June 1994, from RM886 million at end-1993 largely due to the 36.4% increase in borrowings. Similarly, total resources of the DBM rose by 10.8% to RM1.5 billion, as a result of a 36.5% increase in shareholders' funds. However, total resources of the ABM rose marginally by 2.1% to RM3 billion, while total resources of the MIDF rose by only 0.5% to RM1 billion. In contrast, total resources of the SDB declined further by 0.9% (January-June 1993: -10.2%) due to a 19.8% drop in short- and long-term borrowings.

During the first half of 1994, **total new loans** extended by the DFIs, as a group, rose more rapidly by 26.6% to RM904 million, against a growth of 19.3% during the corresponding period of 1993. Most categories of loans increased, except for the agricultural, mining and quarrying sectors. Reflecting the DFIs's policy of diversifying its loan portfolio, loans approved to other sectors (comprising trade credit and miscellaneous) rose significantly by 91.8%. However, as in previous years, lending activities of the individual DFIs varied. New loans approved by MIDF rose significantly by 83.5% to RM150 million (January-

June 1993: -13.8%), while new loans approved by BIM rose by 80.9% to RM253 million (January-June 1993: -72.2%). During the same review period, credit approved by DBM grew by 34.9% to RM346 million (January-June 1993: 33.6%). Meanwhile, loans approved by ABM amounted to RM130 million, while approvals by SDB totalled RM25 million, reflecting a decline of 8.3% and 69.1%, respectively. During the first half of 1994, loans disbursed by the DFIs amounted to RM674 million, indicating an increase of 35.5%, compared with a decline of 18.3% during the corresponding period of 1993. However, **total outstanding loans** of the DFIs grew by 2.1% or RM83 million as of 30 June 1994 from RM4 billion as at end-1993, compared with 3% during the corresponding period of 1993. The slower growth is mainly due to pre-payments and better repayment records by borrowers.

Interest rates charged by the individual DFIs during the first half of 1994, continued to vary depending on the type of loans approved, as indicated in Table 9.6. Downward revisions were made by most of the DFIs due to the lower cost of funds.

The DFIs will continue to promote the development of the manufacturing and agricultural sectors, and complement the role of other major financial institutions. In particular, the DFIs are expected to provide medium and long-term financing as well as supply a range of financial services not normally provided by commercial and finance companies such as direct participation in equity capital and underwriting of loans.

The DFIs continued to serve as the implementing agency for the various specialised assistance schemes. One such scheme is the **Industrial Adjustment Fund (IAF)**, launched on 5 February 1991 with a total allocation of RM500 million. The IAF was established to rationalize and restructure companies existing before 31 December 1990 in three selected industries (namely machinery and engineering, wood-based and textile industries) through merger, takeover, relocation and diversification. During the first seven months of 1994, one application amounting to RM2 million was approved (January-July 1993: five projects amounting to RM24 million). Thus as at 31 July 1994, a total of 16 applications with an aggregate value of RM56 million was approved, while drawdowns amounted to RM36 million.

The **Enterprises Rehabilitation Fund (ERF)** was set up in 1988 to provide financial assistance to ailing but viable Bumiputera enterprises facing financial difficulties due to recession. The ERF Sendirian Berhad serves as the secretariat and manages the revolving fund with an allocation of RM500 million. During the first seven months of 1994, another three applications amounting to RM17 million were approved (January-July 1993: three applications amounting to RM8 million). However, during the same period, seven previously approved applications amounting to RM36 million, were withdrawn. Thus as of 31 July 1994, 231 applications with a total value of RM761 million were approved, while drawdowns totalled RM469 million. The loans were mainly channelled to the housing sector (RM556 million) to revive abandoned housing projects, the construction sector (RM74 million), the property sector (RM73 million) and the manufacturing sector (RM42 million).

The **ASEAN-Japan Development Fund (AJDF)** is another scheme aimed at assisting the development of small-and medium-scale industries, administered by the ABM, BIM, DBM and MIDF. The revolving fund was launched in January 1989, with initial funding allocated by the Overseas Economic Cooperation Fund (OECF) and the Export-Import Bank of Japan (EXIM). During the first half of 1994, the implementing DFIs approved a total of 33 applications amounting to RM43 million (January-June 1993: 38 applications totalling RM19 million). Thus as at 30 June 1994, total loans approved amounted to RM1.1 billion for 3,406 projects. Out of this total, RM838 million was derived from OECF's allocation, while the balance was from EXIM's allocation.

Other Financial Institutions

National Savings Bank

The growth of the **National Savings Bank (NSB)** moderated as indicated by the slowdown in the growth of its total resources. **Total resources** of the NSB rose by 3.7% or RM170 million to RM4.8 billion as at the end of June 1994 from end-1993, (January-June 1993: 7.9% or RM300 million) mainly due to smaller net deposits mobilised as well as accumulated surpluses. Depositors funds accounted for 88.4% of these funds.

During the first half of 1994, **new deposits** mobilised by the NSB totalled RM7.3 billion, reflecting a pick-up of 35.3% in growth, compared with 23.8% during the corresponding period of 1993. However, withdrawals (including premium savings certificates redeemed) registered a higher growth of 37.9% to RM7.1 billion as against an increase of 21.7%, resulting in smaller net deposits of RM183 million (January-June 1993: RM237 million). Consequently, total outstanding deposits rose by 4.5% to RM4.3 billion as at the end of June 1994 (January-June 1993: 6.9%). The lower overall interest rates and healthy competition from other forms of savings and investments such as unit trusts managed by Government agencies, contributed to the slowdown in net deposits mobilised.

The **GIRO** savings scheme remained as NSB's core-product as reflected in the high volume of deposits (84.4%) and withdrawals (85.7%) transacted. While new deposits mobilised under this scheme rose by 39.3% to RM6.2 billion (January-June 1993: 24.4%), withdrawals also expanded by 40% to RM6.1 billion (January-June 1993: 25.1%), resulting in smaller net deposits of RM66 million (January-June 1993: RM69 million). The Giro Guarantee Orders (GGOs) introduced by the NSB in August 1993, to facilitate applications by NSB account holders and members of the public for new share issues undertaken by MIDF Consultancy and Corporate Services Sdn. Bhd., proved to be popular. During the first half of 1994, a total of 64,673 GGOs valued at RM197 million was issued. In line with comparable interest rates offered, new deposits mobilised under the **fixed deposit** scheme rose by 23.8% to RM351 million, while withdrawals grew even more significantly by 163.7% to RM265 million, resulting in smaller net inflows of RM86 million (January-June 1993: RM183 million). Similarly, the **premium savings certificates** scheme recorded a smaller net inflows of RM14 million (January-June 1993: RM16 million), as redemption rose by 2.2% to RM60 million, while purchases of premium certificates declined by 1.2% to RM75 million (January-June 1993: 16.1%). During the same review period, **savings account** attracted deposits amounting to RM705 million, an increase of 16.7%, while withdrawals rose by 8.4% to RM687 million, resulting in net deposit of RM18 million, compared with net outflows of RM30 million during the corresponding period of 1993. Meanwhile, the **Save-As-You-Earn (SAYE)** scheme continued to record net

Table 9.8
National Savings Bank
(as at end of period)

	1993	June 1994 ^a
Deposits ¹ (RM million)		
Savings	1,649	1,667
Fixed	794	879
Save-As-You-Earn	21	20
GIRO	1,416	1,482
Premium Savings Certificates	201	215
Investments at book value (RM million)		
MGS	2,099	2,125
Stocks and shares ²	233	809
Others ³	932	605
Loans (RM million)	1,012	995
Individuals	865	827
Corporate	108	110
Visa Cards	13	13
Hire Purchase	26	45
Number of NSB branches ⁴	474	477
Number of post offices with NSB facilities	588	592
Number of depositors ('000)		
Savings	6,143	6,184
Fixed	72	77
Save-As-You-Earn	25	24
GIRO	3,739	4,089

¹ Includes interest credited.

² Includes trustee and non-trustee shares, private debt securities and warrants.

³ Includes long-and short-term deposits.

⁴ Includes mini-and sub-branches.

^a Preliminary data.

Source: National Savings Bank.

withdrawals of RM1 million (January-June 1993: RM2 million) as deposits continued to decline and lagged behind withdrawals at RM8 million and RM9 million, respectively.

In consonance with the slowdown in growth of total resources, investments rose moderately by 7.3% to RM3.6 billion as at 30 June 1994 from end-1993 (January-June 1993: 30%). Investments in Government-guaranteed securities (comprising MGS, Cagamas bonds and Treasury bills) declined by 0.2% to RM2.2 billion with MGS accounting for 97% of the total. Similarly, deposit placements

with other financial institutions declined to RM605 million from RM932, as the NSB shifted to other investments. However, investments in stocks and shares rose significantly by 247.2% to RM809 million, as the bearish stock market provided institutional investors like the NSB the opportunity to increase its equity portfolio.

The **lending activities** of the NSB also declined as reflected in the 1.7% decline in total outstanding loans as at 30 June 1994, from RM1 billion as at the end of 1993. This was due to pre-payment and maturity of some of the loans granted to individuals which amounted to RM827 million as at 30 June 1994, compared with RM865 as at the end of 1993. In contrast, loans extended to the corporate sector and hire-purchase rose, while credit granted to Visa Credit Cards remained unchanged as indicated in Table 9.8.

As part of its expansion programme, the NSB set up another three mini-branches and installed nine additional automated teller machines (ATMs) during the first half of 1994. As a result, by the end of June 1994, the NSB had a total of 477 regional, mini-and sub-branches and 568 ATMs throughout the country. In line with its objective of providing better and more varied products, the NSB launched the Interest Free Banking Scheme (IFBS) on 1 April 1994. Initially, two products namely Al-Wadiah Savings Account and Al-Mudharabah Investment Account were provided at 113 regional and mini-branches. As at the end of June 1994, deposits mobilised under the Al-Wadiah Savings Account totalled RM2.5 million from 2,101 accounts, while the Al-Mudharabah Investment Scheme attracted RM0.4 million from 46 certificates. Given the encouraging response to the IFBS, the NSB is expected to increase the number of Islamic-based products as well as the branches providing such services.

Provident and Pension Funds

The principal provident and pension funds, comprising the Employees Provident Fund, the Social Security Organisation, the Armed Forces Fund and the Pensions Trust Fund, continued to be the largest source of long-term domestic financing for the public sector, as a group. **Total resources** of these Funds, as a group, expanded by 8.9% to RM89.1 billion as at the end of June 1994, from end-1993 (January-June 1993: 9.4%), out of which 47.4% comprises MGS.

The **Employees Provident Fund (EPF)** with **total resources** of RM78.5 billion as of 30 June 1994, remained by far the largest provident and pension fund in the country. This represented an increase of 8.1% (RM5.9 billion) from end-1993, as against a growth of 8.5% during the corresponding period of 1993. The continued growth in resources was mainly due to the increase in contributors' accounts, brought about by the increase in labour force and higher wage levels as well as higher returns from its investments. **Gross contributions** rose by 21% to RM4.4 billion (January-June 1993: 20.8%), while **withdrawals** rose at a slower rate of 12.4% to RM1.3 billion (January-June 1993: 23.3%). Consequently, **net contributions** grew more rapidly by 24.8% to RM3.2 billion (January-June 1993: 19.7%). Including interest credited, the total outstanding balance of contributors' accounts rose by 4.5% to RM75.1 billion from the end of 1993 (January-June 1993: 4.1%), representing 95.7% of total resources. Meanwhile, the total number of net contributors to the Fund rose by 165,510 persons to 7.1 million persons at the end of June 1994, from the end of 1993.

In tandem with the RM5.9 billion increase in total resources, total investments of the EPF expanded by 7.9% to RM76.9 billion from end-1993 (January-June 1993: 8.4%), accounting for 97.9% of aggregate resources. Holdings of MGS increased by 3.7% to RM40.7 billion from end-1993, which was nevertheless below the mandatory requirement of its cumulative investment in MGS of 70%. Investments in loans and debentures (including promissory notes) increased by 21.3% to RM10.5 billion (January-June 1993: 18.8%). Investment in corporate securities rose substantially by 50.3% to RM4.5 billion (January-June 1993: 12.8%) in line with the Fund's objective of diversifying into higher revenue-earning investments. During the same review period, investments in NCDs, fixed and short-term deposits (including placements in the Money Market Account of the Central Bank) rose by 4.1% to RM21.2 billion (January-June 1993: 23.3%). The remaining investments were in the form of fixed assets and properties.

The EPF with its growing investible funds is expected to play an increasing important role in meeting the funding requirement of the private sector. EPF's active participation in financing the construction of several large infrastructural and independent power producers projects is an indication towards that end.

Table 9.9
Provident and Pension Funds
(as at end of period)

	<i>Total resources (RM million)</i>		<i>Malaysian Government Securities (RM million)</i>		<i>Number of members (‘000)</i>	
	1993	June 1994 ^P	1993	June 1994 ^P	1993	June 1994 ^P
EPF	72,674	78,541	39,265	40,710	6,939	7,105
SOCSCO	3,275	3,559	1,586	1,644	6,285	6,584
AFF	2,771	2,911	24	13	103	99
PTF	3,047	4,037	0	0	—	—
TOTAL	81,767	89,048	40,875	42,367	13,327	13,788

^P Preliminary data.

Source: Employees Provident Fund (EPF), Social Security Organisation (SOCSCO), Armed Forces Fund (AFF) and Pensions Trust Fund (PTF).

The **Pensions Trust Fund (PTF)** was established on 1 June 1991 under the Pensions Trust Fund Act 1991, with the objective of developing into a self-financing fund to take over the Government's obligation to meet cost of payment of pension, gratuity and other pension benefits to retired public servants. Funds are derived from the annual contribution by the Government (initially set 5% of the annual civil service emolument bill), monthly contributions made by employers under the Statutory and Local Authorities Pension Act, 1980 (set at a rate of 17.5% of the salary of their pensionable officers), refund of employer's contributions to the EPF and other approved fund and the Armed Forces Fund made for the retired public officer, income from investment and other sources approved by the Minister of Finance. **Total resources** of the PTF rose by 32.5% to RM4 billion as at 30 June 1994 from end-1993 (January-June 1993: 49.6%). The bulk of it (80.7%) was channelled to investments and the balance comprised cash and balances with the banking system (particularly in the Money Market Account of the Central Bank). Meanwhile, contributions received during the first half of 1994 totalled RM945 million (January-June 1993: RM803 million).

The **Social Security Organisation (SOCSCO)** was established in 1971 under the Employees Social Security Act, 1969 to provide social security benefits to workers through the Employment Injury Insurance scheme and Invalidity Pension scheme. Reflecting the continued expansion in net contributions and returns from its investments, **total resources** of SOCSCO rose by 8.7% to RM3.6 billion as at 30 June 1994 from end-1993, compared with an increase of 8.9% during the corresponding period of 1993. The bulk of resources was invested in MGS (46.2%), cash and deposits with the banking system (40.1%) and the balance comprised mainly fixed assets and other assets. During the first half of 1994, contributions received totalled RM274 million, while total benefit payments amounted to RM184 million, resulting in **net contributions** of RM90 million (January-June 1993: RM176 million). As at 30 June 1994, the number of registered employees stood at 6,584,277, an increase of 299,083 persons (January-June 1993: 261,489 persons).

The **Armed Forces Fund (AFF)** was established in 1973, to provide superannuation benefits to servicemen in the armed forces. The **total resources** of the AFF rose more rapidly by 5.1%

or RM141 million as at 30 June 1994 from RM2.8 billion as at the end of 1993, as against an increase of 3.9% during the corresponding period of 1993. This was mainly due to the substantial growth in returns from its long-term investment, as contributors outstanding balance declined. Including interest credited, the contributors' account declined by 3.8% or RM99 million from RM2.6 billion as at the end of 1993, to account for 85.4% of total resources (end-1993: 93.3%). This was mainly as a result of a larger net contribution deficit amounting to RM99 million, compared with of RM22 million during the corresponding period of 1993. The number of members declined by 3,300 persons as of 30 June 1994, from 102,700 at end-1993, as retirees outpaced recruits. The AFF invested 76.5% of its resources in corporate securities and direct equity participation (through its subsidiaries and associate companies) and 23% in the form of cash and placement in the banking system. Investment in MGS declined to RM13 million and remained insignificant.

Insurance Companies

The **insurance industry** continued to expand in 1993 in consonance with Malaysia's sustained high rate of economic growth. The combined premium income of the life and general insurance sectors rose by 16.1% to RM5.3 billion, compared with a growth of 18.8% in 1992. Premium income of the industry as a percentage of nominal Gross National Product improved further to 3.3% in 1993, compared with 3.2% in 1992. Total benefits and net claims paid out by the industry increased by 9.7% to RM1.8 billion (1992: 18%), representing 33.6% of premium income (1992: 35.6%). The industry's total assets, meanwhile, rose by 24.5% to RM17 billion at the end of 1993 (1992: 20.6%) to account for 3% of the total assets of the financial system (1992: 3.1%).

New business of the **life insurance** sector registered a sustained growth consonant with the performance of the domestic economy. The number of new policies issued rose more rapidly by 16% to 824,521 units in 1993 (1992: 12.3% to 710,964 units), thus bringing the total number of policies in force to 3,764,990 units at the end of 1993. As a result, new premiums increased by 13.8% to RM937 million (1992: 12.6%), while new sum insured grew by 19.1% to RM46 billion (1992: 20.4%). Annual premium in force also grew by 22.3% to RM3 billion (1992: 22.4%), while total

sums insured in force rose by 23.5% to RM157.4 billion (1992: 20.6%). Total assets of the life insurers continued to grow impressively by 23.9% to RM12.1 billion (1992: 17.7% to RM9.8 billion), accounting for 71.3% of the total assets of the insurance industry. The bulk of life insurance funds was invested in Government securities and Government-guaranteed loans (35.2%), cash and deposits (22%) and corporate securities (17.7%) as indicated in Table 9.11.

Table 9.10

Life and General Insurance Business

	1992	1993 ^a
Life Insurance (RM million)		
New Business:		
Number of policies ('000 units)	711	825
Sums insured	38,662	46,039
Total premiums	824	937
Business in Force:		
Number of policies ('000 units)	3,242	3,765
Sums insured	127,435	157,420
Annual premiums	2,432	2,975
Premium Income	2,409	2,960
Benefit Payments:		
Total	646	772
Maturity	251	291
Death & disability	226	288
Surrender	142	157
Cash bonuses	27	36
General Insurance (RM million)		
Premium Income:		
Written	2,894.7	3,216.5
Net	2,170.3	2,355.9
Reinsurance Placed Outside Malaysia	724.4	806.6
Retention Ratio (%)	75.0	73.2
Number of Insurance Companies		
Direct:		
Life	4	5
General	40	41
Composite	14	13
Reinsurance:		
General	1	2

^a Preliminary data.

Source: Director-General of Insurance.

In 1993, the growth of the **general insurance** sector moderated as reflected in the premium income. Total written premiums increased moderately by 11.1% to RM3.2 billion (1992: 20.6%) due to the exemption given under Section 34A of the Insurance Act to a few large risk owners to insure several of their large project risks directly overseas, as well as the withdrawal of some motor premiums by the High Risk Motor Insurance Pool from the market in 1993. A total of RM861 million was ceded overseas, thus resulting in a net retention ratio of 73.2% (1992: 75%). An improvement in claims incurred was registered in all sectors of the general insurance business. The overall claims ratio improved by 5.2 percentage points to 56.5% in 1993 (1992: 61.7%). The total assets of the general insurance sector increased by 26.1% to RM4.9 billion at the end of 1993, compared with 28.7% in 1992. Cash and deposits amounted to RM2.1 billion, and remained as the largest investment portfolio, followed by Government securities, a distant second at RM1.4 billion as shown in Table 9.11.

As at the end of 1993, there were 61 insurers, comprising five life insurers, 13 composite insurers, 41 general insurers and two general reinsurers.

Out of this total, 51 were Malaysian incorporated and the balance foreign owned. The number of licensed brokers remained unchanged at 36, at the end of 1993, while the number of licensed loss adjusters declined by one as of end-1993, from 43 of end-1992.

For 1994, the growth of the insurance industry is expected to be sustained in line with the continued domestic economic growth. The increase in personal tax relief for contributions to the Employees Provident Fund, approved provident funds and life insurance premiums or takaful contributions to RM5,000 from RM3,500 effective from the year of assessment 1994, is expected to spur the life insurance sector positively. Unaudited data for the first quarter of 1994 indicated that the combined premium income of the industry, grew by 19.8% to RM1.4 billion, compared with 17.4% during the corresponding period of 1993. Meanwhile, total assets of the life and general insurance sectors rose by 10.6% to RM17.8 billion (January-March 1993: 21% to RM14.2 billion). Unaudited data indicated that new business premiums of the life insurance sector rose by 39.3% to RM250 million (January-March 1993: 24.9%), while the number of new policies issued grew by 16.6% to 181,148 policies (January-March 1993: 8%). Preliminary annual premium in force of the life insurance sector rose by 23.5% to RM3.1 billion during the first quarter of 1994 (January-March 1993: 23.2%). Unaudited accounts for the first quarter of 1994, indicated that the total gross written premium of the general insurance sector rose moderately by 11.1% to RM884 million (January-March 1993: 15.1%). Reinsurance premiums ceded overseas amounted to RM257 million, thus bringing net retained premium to RM627 million.

A major insurance company providing services in accordance with the Islamic principles is Syarikat Takaful Malaysia Sdn. Bhd., (a takaful operator registered on 15 July 1985, under the Takaful Act 1984). Preliminary data indicated that total funds rose by 28.7% to RM97.4 million as at end of financial year (FY) ended 30 June 1994, compared with an increase of 29.4% for financial year 1993. The funds comprised, family takaful (life) RM55 million (FY 1993: RM 41 million), general takaful fund RM20 million (FY 1993: 18 million) and shareholders' funds RM22 million (FY 1993: RM18 million). The bulk (41%) of the takaful funds was in the investment account with Bank Islam Malaysia

Table 9.11

Life and General Insurance Funds¹

	Life insurance		General insurance	
	1992	1993 ²	1992	1993 ²
Fixed assets	115.3	99.4	183.1	215.4
Loans	1,990.4	2,062.1	69.4	72.9
Government securities ²	2,750.9	3,811.0	1,044.6	1,295.1
Government-guaranteed loans	497.7	453.7	80.8	77.7
Corporate securities	1,606.7	2,151.2	368.0	483.8
Investment properties	348.8	515.6	29.1	42.2
Cash and deposits	2,145.9	2,674.4	1,584.3	2,084.0
Other assets	338.5	383.7	504.9	602.0
TOTAL	9,794.2	12,131.1	3,864.2	4,873.1

¹ As at end of period in RM million.

² Includes Treasury bills and government securities issued abroad.

³ Preliminary data.

Source: Director-General of Insurance.

Berhad, while 19.7% was in the loan facilities Al-Bai Bithaman Ajil and 18% in Government Investment certificates.

During the financial year ending 30 June 1994, new amounts participating under the **family takaful business** rose by 2% to RM381 million (FY 1993: 2%). The number of new certificates issued under family takaful business grew significantly by 90% to 6,898 certificates (FY 1993: 15% to 3,638 certificates), while new contributions rose by 77% to RM11 million (FY 1993: 10%). However, 713 certificates amounting to RM5 million were terminated, compared with 581 certificates involving contributions of RM5 million during FY 1993. Thus as at 30 June 1994, the number of certificates in force totalled 24,590 certificates with contributions amounting to RM19 million. Meanwhile, gross contributions received under **general takaful business** rose by 16.3% to RM39

million (FY 1993: 10.8%) mainly due to the significant growth in contributions from fire business. Total net claims paid during the review period rose by 6.3% to RM12 million.

In line with the Government's aim to promote the growth of Islamic-based insurance and encourage healthy competition, another takaful operator, MNI Takaful Sendirian Berhad (MNIT) was registered under the Takaful Act 1984 on 20 November 1993. As of 30 July 1994, total funds of MNIT amounted to RM20.8 million, comprising family takaful (RM0.4 million), general takaful (RM72,000) and shareholders' funds (RM20.3 million).

Capital Market

Activities in the Malaysian capital market developed further during the first eight months of 1994, despite the consolidation phase experienced by the local stock exchange. Several regulatory and administrative measures were introduced to strengthen and further deepen the capital market in line with the increasing demand and sophistication of financial market. The legal framework for the introduction of trading in financial futures and options has been set up with the enactment of the Futures Industry Act 1992, which came into force on 1 March 1993. The Kuala Lumpur Futures Market (KLFM) will initially trade in 5-year MGS and 3-month KLIBOR, while Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) will trade in stock options. The imminent establishment of a common clearing house for the KLFM and KLOFFE will see the trading of financial futures and options soon.

Total net funds raised from the capital market rose by 97.2% to RM12.4 billion during the first eight months of 1994, compared with a decline of 23.8% during the corresponding period of 1993, as shown in Table 9.13. This was mainly due to the larger proceeds from corporate and private debt securities. Total gross funds raised by the public sector amounted to RM5.5 billion or 32.5% of the total (January-August 1993: RM3.6 billion or 45.3% of total).

During the first eight months of 1994, the Government floated one issue of MGS valued at RM2.5 billion and two issues of Government Investment certificates valued at RM3 billion.

Table 9.12

Syarikat Takaful Malaysia Sendirian Berhad

	<i>FY 1993</i>	<i>FY 1994^a</i>
Assets¹ (RM million)		
Malaysian Investment Certificates	81.2	27.0
Investment in Bank Islam Malaysia Bhd.	12.7	61.6
Others ²	29.6	61.8
Family Takaful		
New Business:		
Total premium (RM million)	6.1	10.9
Number of certificates	3,638	6,898
Business in Force:		
Annual premium (RM million)	12.4	18.5
Sums insured (RM million)	1,075.6	1,270.6
General Takaful Business		
Gross contributions	33.6	33.1
Net claims paid	11.6	12.4

¹ as at end of period 30 June.

² Includes shares, cash and balances and other assets.

^a Preliminary data.

Source: Syarikat Takaful Malaysia Sendirian Berhad.

Table 9.13

Funds Raised in the Capital Market

	1993 January-August (RM million)	1994 ^p January-August (RM million)
By Public Sector		
Government Securities ¹ , gross	1,600	2,500
Less: Redemptions	823	3,549
Equals: Net issues	777	-1,049
Less: Government holdings	0	0
Equals: Net Federal receipts	777	-1,049
Malaysia Savings Bond, net	905	-51
Investment certificates, net	1,000	2,800
Net funds raised	2,682	1,700
By Private Sector		
Shares ²	2,386	5,008
Public issues	1,156	1,586
Rights issues	723	2,498
Special issues ³	507	558
Private placements ⁴	0	365
Debt Securities ⁵ (gross)	1,855	6,434
Conventional bonds	352	2,381
Convertible bonds	133	353
Islamic notes	0	300
Cagamas bonds	1,370	3,400
Less: redemptions	623	719
Net issues of debt securities	1,232	5,715
Net funds raised	3,618	10,722
TOTAL	6,300	12,422

¹ Refers to Federal Government securities, excluding Treasury bills.

² Refers to corporate shares issues by companies listed on the Kuala Lumpur Stock Exchange.

³ Includes special issues to Bumiputera and selected investors.

⁴ Includes restricted offer for sales.

⁵ Refers to securities with maturity of more than one year.

^p Preliminary data.

Meanwhile, repayment of MGS and Malaysian Investment certificates due to maturity amounted to RM3.5 billion and RM200 million, respectively, while RM51 million worth of Malaysian Savings bonds were redeemed by holders. Consequently, net funds raised by the public sector totalled RM1.7 billion, compared with net funds of RM2.7 billion during the corresponding period of 1993.

Total gross funds raised by the private sector through the issues of quoted corporate and PDS during the first eight months of 1994, grew by 169.8% to RM11.4 billion, compared with an increase of 25.6% during the corresponding period of 1993. Funds raised from **quoted corporate securities** accounted for 43.8% of the total. The amount raised from quoted corporate securities comprised RM1.6 billion from 28 public issues, RM2.5 billion from 27 rights issues, RM558 million from 11 special issues and RM365 million from private placements. Gross funds raised from **PDS** during the first eight months of 1994, rose by 246.8% to RM6.4 billion. These funds were raised through 11 issues of Cagamas bonds (RM3.4 billion), 36 issues of conventional bonds (RM2.4 billion), three issues of convertible bonds (RM353 million) and one issue of Islamic papers (RM300 million). Meanwhile, a total of RM5.7 billion was redeemed, resulting in net funds of RM10.7 billion raised from the debt securities market.

In addition to bonds, **Cagamas Berhad**, the national mortgage corporation raised RM1.8 billion from eight issues of Cagamas notes during the first eight months of 1994 (January-August 1993: RM1.8 billion). The notes with maturities ranging from three to nine months were mainly to meet short-term funding needs arising from cashflow mismatches. Meanwhile, Cagamas Berhad purchased a total of 35,430 housing loans valued at RM3.4 billion, compared with 24,758 housing loans valued at RM1.6 billion.

For the first eight months of 1994, Rating Agency Malaysia Berhad (RAM) completed 57 corporate debt ratings valued at RM7.7 billion (January-August 1993: 36 issues valued at RM4.7 billion). This brings to date, a total of 151 corporate ratings by RAM since its inception, with an aggregate value of RM19.4 billion. The increase is partly due to the mandatory ruling by both the Central Bank and Securities Commission (SC) which requires all PDS issues to be rated by RAM effective

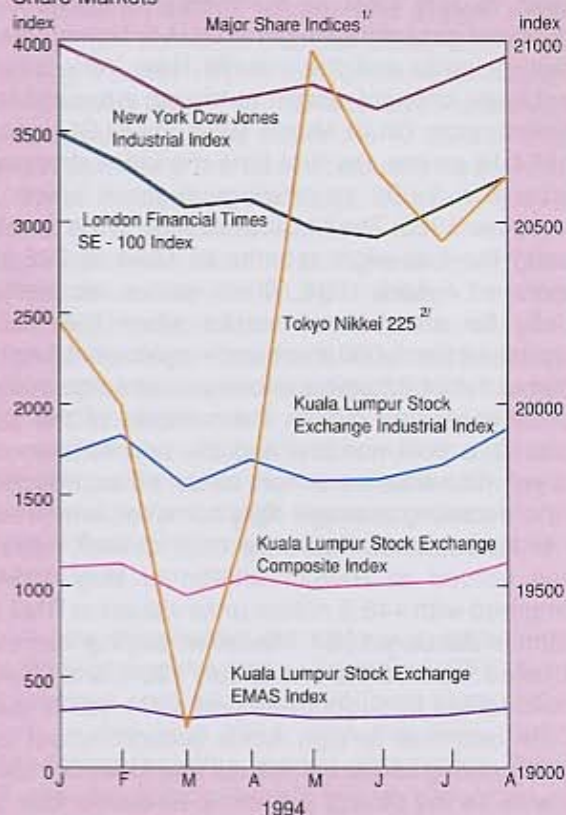
from May 1992, the increasing acceptance of PDS as an attractive and viable funding and investment option. RAM also implemented the rationalisation of rating of bank-guaranteed issues. Effective from 1 June 1994, the rating of new bank-guaranteed issues was assigned on the basis of the credit quality of the guarantor financial institutions. As of 31 August 1994, RAM had rated 11 institutions comprising four commercial banks, six merchant banks and one finance company out of the 45 financial institutions which have guaranteed PDS issues.

The Kuala Lumpur Stock Exchange

Sustained buying interest by speculators and investors aided by market talks of assets injection into listed companies and strong performance by overseas stock markets saw the Kuala Lumpur Stock Exchange (KLSE) registering fresh records in the latter part of 1993, surpassing those recorded earlier. Daily market turnover surged to RM4.8 billion on 22 December 1993, exceeding the earlier peak of RM4 billion recorded on 28 October 1993. Thus on 31 December 1993, new highs were recorded by all the price indices except for the Industrial Products and Construction indices which peaked two days earlier on 29 December 1994. The Kuala Lumpur Composite Index (KLCI) closed at 1,275.32 points, EMAS Index at 383.73 points and market capitalisation totalled RM619.6 billion on 31 December 1993.

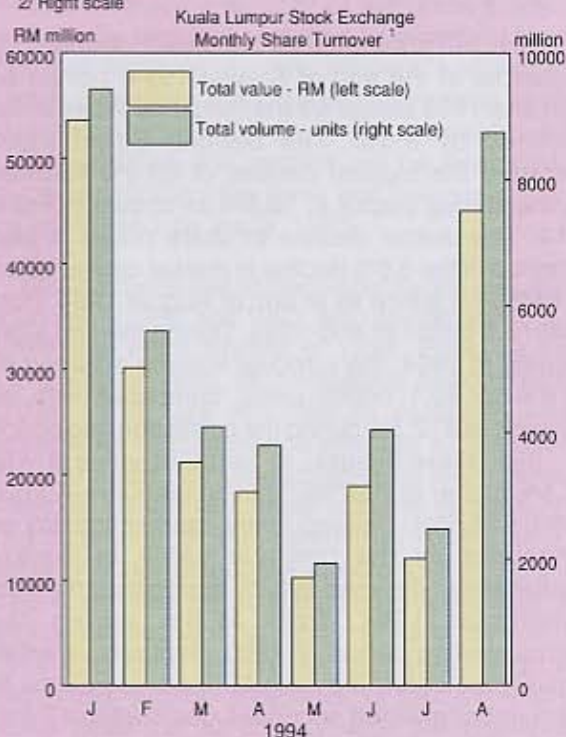
The KLSE experienced strong follow-through support during the first few days of 1994. On 4 January 1994, the EMAS Index and market capitalisation registered historic highs of 394.42 points and RM637.7 billion, respectively, while on 5 January 1994, the Composite Index and single-day value surged to 1,314.46 points and RM5.6 billion, respectively. Similarly, other price indices also chalked up peaks on these two trading days. However, the local stock market underwent sharp correction for the rest of the month due to the unfavourable market in major overseas bourses, the downward re-rating of the KLSE by some major overseas fund managers as a result of over-valuation of share prices as well as the depreciating ringgit. The Hong Kong Stock Exchange for instance, registered a one-day decline of 6.5% to 11,374.50 points on 6 January 1994.

Chart 9.3
Share Markets



1/ End of period closing indices

2/ Right scale



1/ Refers to the Main Board and Second Board of the Kuala Lumpur Stock Exchange

Share prices recovered briefly in February 1994 but the underlying weak sentiment remained from March to July 1994 as the market underwent a prolonged consolidation period due to lack of fresh positive leads and the volatile New York Stock Exchange brought about by rising international interest rates. On 21 March 1994, the KLCI closed at 954.18 points, the first time the index dropped below the 1,000 psychological mark since 1 December 1993. The KLCI culminated to the lowest during the first eight months of 1994 at 928.33 points on 4 April 1994. Share prices recovered briefly for about three weeks when the KLCI surpassed the 1,000 mark once again on 12 April 1994 at 1,024.82 points. However, upsurge could not be sustained due to the collapse of the US dollar to a post-war low and the appreciation of the yen. The weak sentiment remained as reflected in the declining average daily turnover, which fell to its lowest since February 1993 at 96.7 million units valued at RM511 million in May 1994, compared with 448.6 million units valued at RM2.6 billion in January 1994. However, buying interest surfaced towards the end of July 1994, and share prices rallied throughout August 1994, partly due to the return of foreign funds brought about by the improving corporate results and inflation rates as well as the strong economic fundamentals of the country.

Thus, all price indices recorded double-digit losses as at the end of August 1994, compared with end-1993 except for the Industrial Index which declined by 8.6%. The Second Board Index recorded the biggest decline of 23.4% followed by the Mining Sector at 16.5% as shown in Table 9.14. The overall decline in share prices is also reflected in the 8.6% decline in market capitalisation to RM566.6 billion as at end of August 1994, from RM619.6 billion at end-1993. During the first eight months of 1994, the turnover volume declined by 25.8% to 40.1 billion units, compared with an increase of 612.3% during the corresponding period of 1993. Nevertheless, in terms of value it was 36.5% higher at RM209.5 billion (January-August 1993: 528.8%). Consequently, market liquidity as measured by the turnover value to market capitalisation declined to 37% during the first eight months of 1994, from 42.6% during the corresponding period of 1993. Similarly, another liquidity indicator, the ratio of turnover volume to the number of listed securities declined to 47.6%, compared with 76% during the corresponding period of 1993.

Table 9.14
Kuala Lumpur Stock Exchange:
Key Indicators

	1993	1994 August
Price Indices¹		
Composite	1,275.32	1,130.01
EMAS	383.73	327.56
Second Board	352.01	269.67
Industrial	2,029.82	1,863.55
Finance	8,759.81	7,564.73
Property	3,370.43	2,899.89
Plantation	3,572.58	3,004.52
Mining	857.57	716.05
Price Earning Ratio²	48.2	36.2
Market capitalisation¹ (RM billion)	619.6	566.6
Number of listed companies¹	413	439
Turnover²		
Volume (million units)	54,040.9	40,103.6
Value (RM million)	153,522.4	209,499.1

¹ As at end of period.

² For January-August only.

Source: Kuala Lumpur Stock Exchange.

Meanwhile, another 26 new companies involving nominal capital of RM1.3 billion were listed in the KLSE (January-August 1993: 29 companies) bringing the number of companies to 439 as at the end of August 1994. The Second Board attracted the bulk (19) of the new companies. During the same review period, two new privatised public company were listed (including Hicom which was listed through a reverse takeover of an existing Main Board counter). This brings the number of listed privatised companies to 17 as at the end of August 1994, accounting for 22% of total market capitalisation, compared with 21.7% at end-1993. To better reflect the price movements, Hicom was included in the computation of the Composite Index on 14 July 1994 having fulfilled all the existing criteria. This brings the 85 companies-based index to 86 companies.

Several **regulatory and legislative measures** were instituted in the first eight months of 1994, to strengthen investors confidence and to ensure overall soundness of the securities industry. These included:

- **Minimum standards for securities business:** To accord greater client protection, the SC announced on 10 March 1994 an interim set of 10 minimum standards of business conduct for securities transaction. These standards, to be implemented by the KLSE are aimed mainly at ensuring that the stockbroking firms accord priority to their clients' order and do not unduly impose sudden and unfair changes to the terms and conditions in their trading policies.
- **Submission requirements of applications for private placement of new shares:** The submission requirements of applications for private placement of new shares were relaxed by the SC on 10 March 1994, provided that they are priced at or near the market price and that the issue is approved by shareholders.
- **Printing of share transfer form on the reverse side of the share certificates:** With effect from 27 June 1994 all share certificates to be printed by companies listed on the KLSE are required to have the transfer form (Form 32A) printed on the reverse side. This move is aimed at reducing paper bulk and minimise the incidence of torn and detached transfer forms. In addition, the new certificate required the approval of KLSE prior to printing.
- **Guidelines on the operations of the stockbroking firms:** The KLSE imposed new conditions that require the stockbroking firms to submit to the Exchange their cash flow position on a weekly basis and to give sufficient notice to the client on any impending changes to trading policies and practices to be imposed by the stockbroking firms. Effective from January 1994, in a move to further strengthen the industry, the KLSE rules were amended to allow for surprise annual audits of stockbroking firms.

Several **administrative measures** were also implemented to promote an efficient stock market and facilitate the KLSE to undertake a larger volume of trading. The Kuala Lumpur Stock Exchange's Dealing Facility (EDF) site became operational on 28 March 1994. The EDF site which is equipped with dealing facilities within the KLSE's premise will supplement the current trading system and will also be used in the KLSE disaster recovery plans. This will ensure that in the event of a major communication network breakdown trading will continue from the KLSE premise. To ensure that shares application forms are available to interested public as freely and as widely as possible within the existing share application processes, application forms were made available through the newspapers. Propel Sendirian Berhad became the first public issue to make shares application forms available through the newspapers in June 1994, followed by several others, though this interim measure is non-mandatory.

A new information technology system known as WinScore or the Broker Front End (BFE) began operations on a pilot basis at three stockbroking firms in mid-June 1994. With the BFE, trading, monitoring real-time market information (MASA II) and check order status will be integrated into one single terminal, as opposed to the existing system whereby a number of remisiers share an order entry terminal operated by a central buyer. This will facilitate a more efficient and secured trading operations and cope with increasing volume of transactions. Given the successful trial implementation, the system will be extended to all other stockbroking firms and it is expected to be completed by early 1995.

Several measures implemented by the regulatory agencies in 1992 and 1993, also gained momentum in the first eight months of 1994. Effective from 1 September 1993, all companies seeking listing in the KLSE are required to establish **audit committee** in compliance with the KLSE Listing Requirements. Existing companies were given a one-year period to comply with the requirement. The functions of the committee (comprising a majority of non-executive directors) were, among others, to review the audit plan reports and evaluate all internal accounting systems. As of 31 August 1994, 435 listed companies have established the committee leaving a balance of four companies which have yet to comply with the regulation. These companies have been given an extension until 1 October 1994 to do so.

The implementation of scripless trading under the Central Depository System (CDS) was stepped up to include counters from the Main Board as well as all new listings on the Second Board are compulsorily prescribed into the system since September 1993. Petronas Dagangan Berhad became the first initial public issue listed on the Main Board to be prescribed directly into the CDS, while Matsushita Electric Co. (M) Berhad became the first existing Main Board counter to be converted into the system. As of 31 August 1994, a total of 111 companies, involving 1.2 billion shares have been immobilised into the CDS. During the first eight months of 1994, 77,324 new CDS accounts have been opened, bringing the total number of accounts to 352,201 as at the end of August 1994. The number of participants in the CDS rose to 77 from 71 at end-1993, comprising 59 Authorised Depository Agents (ADAs) and 18 Authorised Depository Members (ADMs).

During the first eight months of 1994, another two stockbroking companies each with paid-up capital of RM10 million were established, bringing the total number of companies to 60 with a combined paid-up capital of RM2 billion. This included the country's first Islamic stockbroking firm. Consequently, the average paid-up capital rose to RM33.4 million as at the end of August

1994, from RM28.1 million at end-1993. The two new companies have been allowed until 30 June 1995 to comply with the minimum paid-up capital requirement of RM20 million, while two existing companies have yet to meet the requirement by 30 June 1994, despite the extended deadline. Thus four stockbroking firms have yet to comply with the minimum paid-up capital of RM20 million.

The **unit trust industry** grew rapidly during the first eight months of 1994, as reflected in the launching of five new unit trust funds with a total fund size of 1.3 billion units as shown in Table 9.15. In addition, approval was given to 16 existing unit trust funds to increase the fund size to a combined total of 4.2 billion units from 1.9 billion units. The significant increase is due to the attractiveness of unit trust as a viable savings-investment vehicle particularly for small investors and the amendments made by the SC to the Guidelines on Unit Trust Funds effective from March 1994, to bring about greater progress and development to the industry. The amendments include increasing the maximum fund size of a unit trust to 500 million units from 100 million units previously. Unit trust funds have also been allowed to increase its investments in non-trustee shares up to 50% of total net asset value of the fund from 20% previously as well as to invest up to 10% of the net asset value in securities listed in foreign stock exchange.

Table 9.15
Unit Trust Funds

<i>Name of Fund/ Management Company</i>	<i>Size (million units)</i>	<i>Date launched</i>
Kuala Lumpur Mutual Fund Berhad		
– KL Aggressive Growth Fund	200	26 April 1994
– KL Regular Savings Fund	200	26 April 1994
BHLB Pacific Trust Management Berhad		
– Emerging Companies Growth Fund	200	10 May 1994
BIMB Unit Trust Management Berhad		
– Amanah Saham Bank Islam-Tabung Pertama	150	20 June 1994
Amanah Saham Selangor	500	6 August 1994
<i>Source: Securities Commission.</i>		

The Kuala Lumpur Commodity Exchange

During the first eight months of 1994, the only active futures contract in the Kuala Lumpur Commodity Exchange was the crude palm oil (CPO) futures contract. Almost no trade was registered for the other contract markets, namely, Crude Palm Kernel Oil (CPKO), Cocoa and Tin, reflecting lack of liquidity and depressed market conditions. On the contrary, trading in the CPO futures contract was very encouraging.

Trading in CPO futures in the first eight months of 1994 increased significantly by 74%, with a total turnover of 375,183 lots of 25 tonnes each, compared with 215,594 lots in the corresponding period of 1993. Translated into total tonnes traded, this is equivalent to 9.4 million tonnes of crude palm oil, which is significantly higher than the level of Malaysia's crude palm oil production of 4.3 million tonnes for the first eight months of

Table 9.16
KLCE: Trading Volume
(January-August)

<i>Futures Contract¹</i>	<i>Total turnover</i>				
	<i>1993</i>		<i>1994</i>		
	<i>Lots</i>	<i>Tonnes</i>	<i>Lots</i>	<i>Tonnes</i>	<i>% change</i>
Crude palm oil (CPO)	215,594	5,389,850	375,183	9,379,575	74
Crude palm kernel oil (CPKO)	4,504	67,860	206	5,150	-92
Cocoa	156	1,560	—	—	—
Tin	—	—	—	—	—

¹ One lot of CPO Futures contract comprises 25 tonnes, CPKO futures contract comprises 15 tonnes, cocoa futures comprises 10 tonnes.

1994. Similarly, the average daily turnover in the period increased to 2,302 lots or 57,550 tonnes in 1994, compared with 1,339 or 33,475 tonnes attained in 1993. In addition, the open position grew by almost 1.2 times to a total of 9,970 lots at the end of the same period (9,134 lots in 1993).

Trading activity in the CPO contract fluctuated from month to month. In January, trading was active with a total of 50,986 lots traded and an average daily turnover of 2,428 lots. High volume reflected price volatility brought about by news of declining production and stocks. This, followed by a report released by the United States Department of Agriculture (USDA), of the lower production of soya oil, helped to boost price of palm oil. In February, the market eased due to weak demand, when only 22,649 lots were traded. However, trading activity recovered steadily from March until June reflecting volatile price movements due to concern on supply tightness and declining stocks, larger offtakes and labour unrest in Indonesia. The statement by the Indian Government to allow unrestricted licence on the importation of vegetable oils has also influenced market sentiments. A total of 36,576 lots was recorded in March, followed by 47,622 lots in April, 47,885 lots in May and 55,752 lots in June. Trading interest did not sustain in July as volume

declined slightly to 52,464 lots. Trading activity, however, rebounded in August (61,249 lots) buoyed by expectations of larger offtakes from Egypt, Pakistan and China.

In line with the stronger CPO prices in the physical market, the average monthly price for CPO futures in the KLCE increased to RM1,139 per tonne in the first eight months of 1994 compared with RM934 per tonne in the corresponding period of 1993. The highest level recorded was RM1,480 per tonne on 10 August 1994, while the lowest was RM960 per tonne on the 12 January 1994. The increase in prices can be attributed to low production and declining stock levels during the period. Higher demand from Egypt, Pakistan, Iran and Indonesia also provided additional stimulus to the price movements in the first eight months of the year.

The KLCE continues its efforts to attain greater volume and higher liquidity in its contracts market in 1994. Towards this end, KLCE continues to focus its attention on crude palm oil contracts, coupled with efforts to generate trading interest in other inactive contracts. These efforts include promotional activities in Indonesia and the dissemination of information on trading potentials of KLCE.