

# The Financial System

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## Sources and Uses of Funds of the Financial System

In line with the overall improvement in economic activity, total assets of the financial system expanded significantly by 12.8% to RM1,762.6 billion in 2004 (2003: 12% to RM1,563.1 billion). As at end-2004, total assets of the financial system were equivalent to 394% of GDP (end-2003: 397%).

Assets of both the banking system and the non-bank financial intermediaries (NBFIs) grew at a higher rate than in 2003. Assets of the banking system increased by 13.6% (2003: 13.2%), while assets of the NBFIs expanded by 11% (2003: 9.7%).

Following the completion of the merger exercise between three commercial banks and three finance companies in the third quarter of 2004, the commercial banks' share of total financial system assets rose to 41.8% (2003: 39%), while the share of finance companies declined to 3.9% (2003: 9.1%). Meanwhile, the Islamic banks' share of total assets of the financial system rose to 1.4% (2003: 1.3%), reflecting the steady expansion of the Islamic banking industry in 2004.

All major segments of the NBFIs continued to expand strongly in 2004. Assets of the provident and pension funds (PPFs), which accounted for 16.5% of

**Table 4.1**  
**Assets of the Financial System**

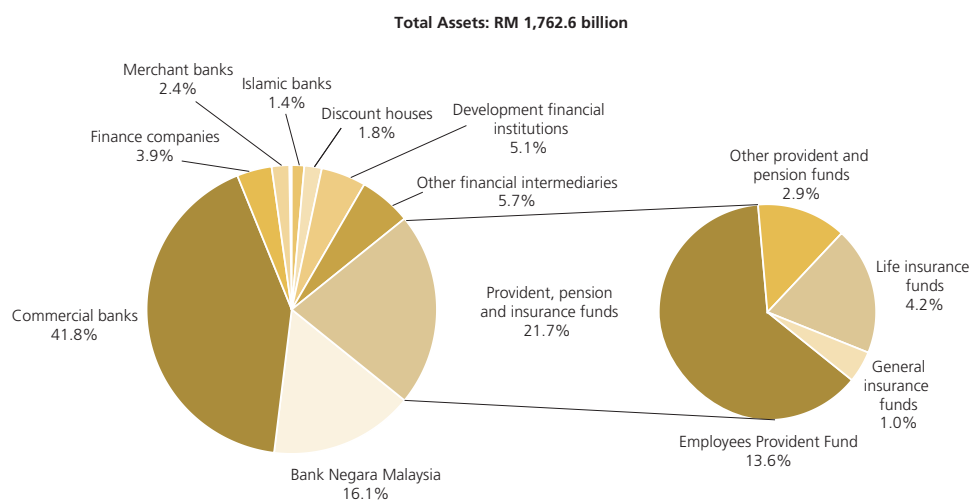
	Annual change		As at end-2004 <sup>p</sup>
	2003	2004 <sup>p</sup>	
	RM billion		
<b>Banking system</b>	<b>122.4</b>	<b>142.9</b>	<b>1,189.9</b>
Bank Negara Malaysia	38.6	84.0	284.9
Commercial banks	66.3	128.1	737.1
Finance companies	11.2	-73.5	68.4
Merchant banks	2.8	-1.3	42.8
Islamic banks	0.8	3.9	24.9
Discount houses	2.8	1.7	31.9
<b>Non-bank financial intermediaries</b>	<b>45.5</b>	<b>56.6</b>	<b>572.7</b>
Provident, pension and insurance funds	30.6	35.4	383.2
<i>Employees Provident Fund</i>	<i>18.0</i>	<i>20.0</i>	<i>240.2</i>
<i>Other provident &amp; pension funds</i>	<i>1.6</i>	<i>4.7</i>	<i>51.1</i>
<i>Life insurance funds</i>	<i>9.8</i>	<i>10.1</i>	<i>74.1</i>
<i>General insurance funds</i>	<i>1.2</i>	<i>0.6</i>	<i>17.8</i>
Development financial institutions <sup>1</sup>	6.6	11.2	90.3
Other financial intermediaries <sup>2</sup>	8.3	10.0	99.2
<b>Total</b>	<b>168.0</b>	<b>199.5</b>	<b>1,762.6</b>

<sup>1</sup> Includes Bank Simpanan Nasional (National Savings Bank), Bank Kerjasama Rakyat Malaysia Berhad, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad (MIDF), Borneo Development Corporation, Sabah Development Bank Berhad, Sabah Credit Corporation, Export-Import Bank Malaysia Berhad, Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri dan Teknologi Malaysia Berhad, Malaysia Export Credit Insurance Berhad, Credit Guarantee Corporation Malaysia Berhad (CGC) and Lembaga Tabung Haji (Pilgrims' Funds Board).

<sup>2</sup> Includes unit trusts run by Amanah Saham Nasional Berhad (ASNB) and Amanah Saham Mara Berhad, cooperative societies, leasing and factoring companies and housing credit institutions (comprising Cagamas Berhad, Borneo Housing Mortgage Finance Berhad and Malaysia Building Society Berhad).

<sup>p</sup> Preliminary

**Graph 4.1**  
**Assets of the Financial System as at end-2004<sup>p</sup> (% share)**



<sup>p</sup> Preliminary

**Table 4.2**  
Sources and Uses of Funds of the Financial System

	Annual change		As at end-2004p
	2003	2004p	
	RM billion		
<b>Sources:</b>			
Capital and reserves	14.1	15.0	164.0
Currency	2.3	2.9	32.4
Deposits	74.7	126.2	835.6
Borrowings	3.8	2.5	51.2
Funds from other financial institutions <sup>1</sup>	16.7	-15.5	72.0
Insurance, provident and pension funds	31.3	33.6	339.2
Other liabilities	25.0	34.9	268.2
<b>Total</b>	<b>168.0</b>	<b>199.5</b>	<b>1,762.6</b>
<b>Uses:</b>			
Currency	-1.8	0.5	6.1
Deposits with other financial institutions	38.4	21.3	247.6
Loans and advances <sup>2</sup>	38.8	56.3	655.6
Securities	48.4	20.3	429.8
<i>Treasury bills</i>	-2.1	-3.1	0.4
<i>Commercial bills</i>	0.1	-5.1	8.4
<i>Malaysian Government (MGS)</i>	20.8	14.6	139.8
<i>Corporate</i> <sup>3</sup>	27.5	14.0	268.2
<i>Private Debt Securities (PDS)</i>	n.a.	7.0	129.2
<i>Equities</i>	n.a.	7.0	139.0
<i>Foreign</i>	0.2	1.2	4.6
<i>Others</i>	1.8	-1.3	8.4
Gold and foreign exchange reserves	38.6	83.6	249.7
Other assets	5.5	17.6	173.9

<sup>1</sup> Includes statutory reserves of banking institutions.

<sup>2</sup> Excludes loans sold to Danaharta.

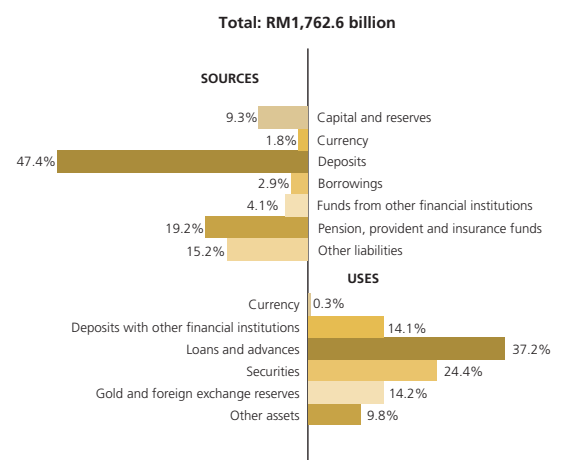
<sup>3</sup> Breakdown of Corporate Securities between Private Debt Securities (PDS) and Equities available only from 2003.

n.a. Not available.

p Preliminary

the total assets of the financial system as at end-2004, rose by 9.3% during the year. Higher returns from investments in private debt

**Graph 4.2**  
Sources and Uses of Funds of the Financial System as at end-2004p (% share)



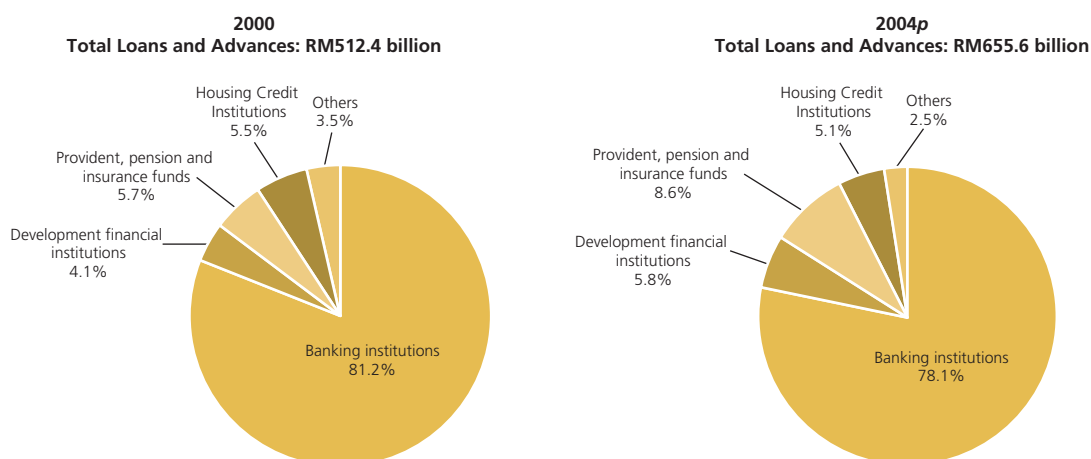
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securities and equities, as well as from lending activity contributed significantly to the growth in the PPFs' asset portfolio in 2004.

Assets of the insurance sector, which accounted for 5.2% of the total assets of the financial system as at end-2004, rose by 13.1% in 2004 (2003: 15.7%). Growth in the insurance sector was driven mainly by the life insurance segment, which registered a 15.7% growth in 2004 (2003: 18%), while the general insurance segment expanded at a more moderate rate of 3.4% (2003: 7.8%).

In terms of asset composition, loans and advances remained the largest class of asset owned by the

**Graph 4.3**  
Loans and Advances by Institution (% share)



p Preliminary

**Table 4.3**  
**Direction of Credit<sup>1</sup> to the Non-Financial Private Sector**

	Annual change		As at end-2004p
	2003	2004p	
	RM billion		
<b>Loans and advances</b>	<b>35.6</b>	<b>54.3</b>	<b>611.9</b>
Agriculture	-0.8	0.7	14.0
Mining and quarrying	0.1	-0.1	1.0
Manufacturing	1.2	2.5	58.5
Construction and real estate	-0.6	3.9	79.7
Purchase of residential properties	19.0	19.1	169.2
Retail, wholesale, restaurants and hotels	-0.5	3.2	24.0
Transport, storage and communications	1.3	0.0	15.4
Business services	0.6	1.6	22.1
Electricity, gas and water supply	-1.1	0.7	6.2
Consumption credit	9.9	15.0	111.2
Purchase of shares	-1.8	-0.4	18.8
Others	8.3	8.0	91.8
<b>Investments in corporate securities</b>	<b>26.0</b>	<b>14.2</b>	<b>266.4</b>
<b>Total</b>	<b>61.6</b>	<b>68.5</b>	<b>878.3</b>

<sup>1</sup> Excludes credit to non-financial public enterprises.

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financial system in 2004, with a 37.2% share of total assets (2003: 38.3%). While the banking institutions (comprising commercial banks, finance companies, merchant banks, Islamic banks and discount houses) remained the largest provider of loans and advances, with a 78.1% share in 2004, the development financial

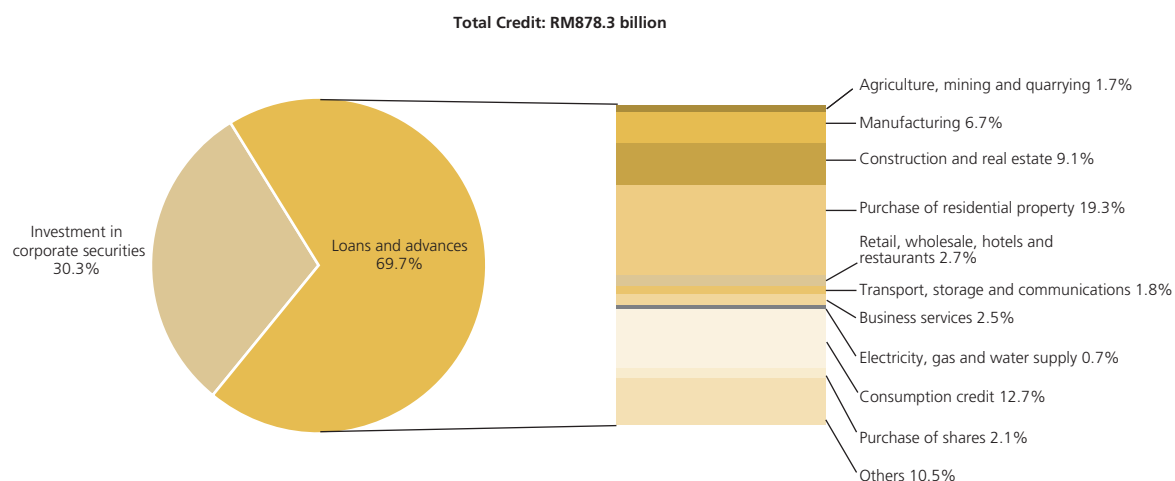
institutions (DFIs) and the provident, pension and insurance funds have increased their share of lending activities in recent years.

In 2004, loans and advances grew by RM56.3 billion, or 9.4% (2003: 6.9%). The household sector continued to be the main driver of loan demand, as indicated by the significant share (62.9%) of the increase in total loans and advances that was extended for the purchase of residential properties and consumption credit. Within the business sector, loans extended to the small and medium enterprises continued to grow strongly, registering an increase of 7.7% in 2004 (2003: 10%).

Investment in securities by the financial system expanded by 5% in 2004 (2003: 13.4%). The lower growth was mainly due to the decline in the financial system's holdings of Treasury and commercial bills, as well as the smaller increase in holdings of Malaysian Government Securities and corporate securities (comprising private debt securities and equities). The banking institutions reduced their holdings of securities in 2004 by 11.6% or RM12.2 billion, reflecting the shift of more resources towards direct lending activity. The lower holdings of securities by the banking institutions was, however, offset by the RM23.6 billion, or 9.7% increase in investments in securities by the provident, pension and insurance funds.

Meanwhile, gross holdings of gold and foreign exchange reserves recorded a significant increase of

**Graph 4.4**  
**Direction of Credit within the Non-Financial Private Sector as at end-2004p (% share)**



p Preliminary

RM83.6 billion, or 50.3% in 2004 (2003: RM38.6 billion or 30.3%). The increase reflected the markedly stronger export performance as well as substantial inflows of foreign direct investment and portfolio flows in tandem with improved investor confidence.

Deposits remained as the largest source of funding for the financial system in 2004. Deposits mobilised by the financial system grew by RM126.2 billion, or 17.8%, in 2004 (2003: 11.8%), of which, 59% were contributed by the banking institutions. Deposits placed with the banking institutions accounted for 78% of the total deposits of the financial system as at end-2004 (end-2003: 81.4%).

In terms of holders, the non-financial private sector (comprising individuals and businesses) continued to account for the bulk (71.8%) of the deposits placed with the banking system and development financial institutions (DFIs). Deposits placed by individuals with the banking system and DFIs increased by 9.3% in 2004 (2003: 9%), while deposits placed by businesses grew by 17.2% (2003: 13.8%). The strong growth in deposits is reflective of the higher disposable income and financial wealth of households and business enterprises, in line with the strengthening economy.

Apart from deposits, other major sources of funds for the financial system also increased in 2004. Provident, pension and insurance funds grew by 11% (2003: 11.4%), while capital and reserves rose by 10.1% (2003: 10.5%). The latter reflected the

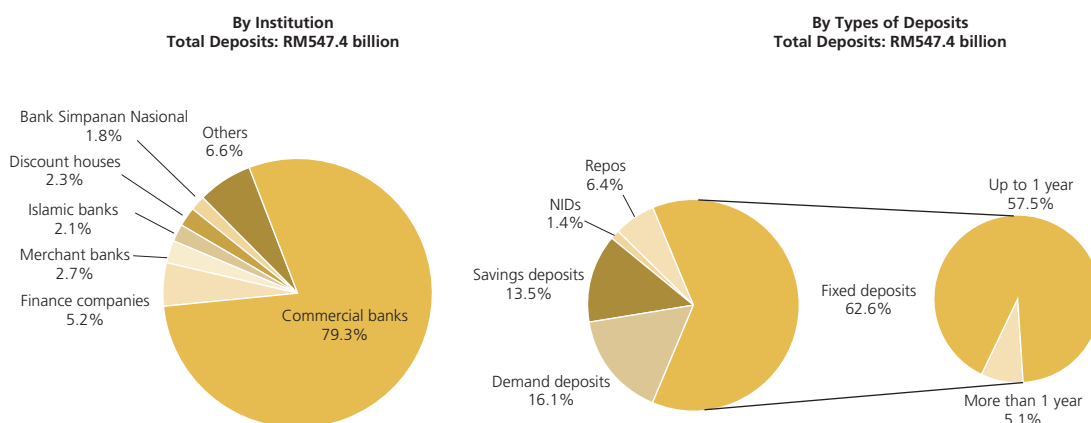
**Table 4.4**  
**Non-Financial Private Sector Deposits<sup>1</sup> with the Financial System<sup>2</sup>**

	Annual change		As at end-2004 <sup>p</sup>
	2003	2004 <sup>p</sup>	
	RM billion		
Deposits <sup>3</sup> with:			
Commercial banks	36.0	87.9	433.9
Finance companies	0.2	-35.4	28.7
Merchant banks	2.4	0.8	14.7
Islamic banks	1.3	2.1	11.4
Discount houses	2.3	1.8	12.6
National Savings Bank	0.2	1.6	9.9
Others <sup>4</sup>	7.8	5.3	36.3
<b>Total</b>	<b>50.2</b>	<b>64.2</b>	<b>547.4</b>
Demand deposits	13.5	10.3	87.9
Saving Deposits	4.5	5.5	74.1
Fixed deposits	25.8	34.8	342.8
of which:			
Up to 1 year	37.3	33.7	314.9
More than 1 year	-11.5	1.1	28.0
NIDs <sup>5</sup>	0.3	5.2	7.9
Repos <sup>6</sup>	6.1	8.3	34.8

- <sup>1</sup> Refers to deposits placed by business enterprises (excluding NFPEs) and individuals.
- <sup>2</sup> Excludes provident and pension, insurance and unit trust funds.
- <sup>3</sup> Refers to demand, savings and fixed deposits, negotiable instruments of deposits and repos.
- <sup>4</sup> Includes development financial institutions, cooperative societies and housing credit institutions.
- <sup>5</sup> Refers to negotiable instruments of deposits.
- <sup>6</sup> Refers to repurchase agreements.
- <sup>p</sup> Preliminary

improved financial performance of the banking institutions and DFIs, as well as higher undistributed dividends of the unit trust funds.

**Graph 4.5**  
**Non-Financial Private Sector Deposits with the Financial System as at end-2004<sup>p</sup> (% share)**



<sup>p</sup> Preliminary

