ANALISIS JILID 3, BIL. 1 DAN 2.

FINANCIAL DUALISM IN MALAYSIA : A SURVEY

Jessica Lee Kim Gek
Universiti Utara Malaysia

I. INTRODUCTION

There is nothing fundamentally new about the dual money market in less developed and underdeveloped countries. Discussions of both the so-called organized and unorganized money market concerned largely with role of both the rural and urban financial institutions in providing short-term credits to the borrowers, particularly to the rural economy of today.

As our economy grows and the activities within it take on new and more varied forms, the financial institution's mechanism which serves it, must likewise grow in range, diversity and specialization. Over the recent years, there has already been a high degree of integrations of financial institutions such as central bank, commercial banks, insurance companies and industrial finance companies operating in the urban sector. However, there is not any overall integration in the system as a whole, yet. The opposite of an integrated system in this sense would be the large number of heterogenous agencies (like village moneylenders, chettiars, indigenous bankers, pawnbrokers, traders, merchants, landlords, shopkeepers, friends and relatives) which are categorized under the unorganized sector.

These agencies standing and methods of doing business are so different that each tends to have its own special group of customers, the rates charged being such as might be agreed upon in bilateral deals and very largely in ignorance of what might be charged or offered elsewhere in the economy. In the organized sector, however, improved communications and the forces of competition both operate to preclude this tendency. Nevertheless, approximations to it can also be found in some parts of India, Chile, Burma, Africa and even Malaysia where in the unorganized sector, such relations are not uncommon.

In the light of the foregoing considerations for this paper, we will first examine in section II the characteristic features of both the organized and unorganized money market in less developed countries (LDCs). Attention will also be given particularly to the problems and consequences of an imperfect rural credit market.

Section III reviews the determination of the rural interest rate and hence the economic, as opposed to the institutionalist, argument for the high rural interest rates will be discussed. The review of relevant empirical literature on the structure and level of interest rates for both the organized and the unorganized sectors in LDCs will be the main topic in section IV. In section V, an attempt will be made to analyse the potentialities and limitations of the Malaysian dual money market in stimulating integration and fostering the growth of the right sort of environment that benefits the people and the nation as a whole. Governmental efforts and other solutions to overcome the comtemporary problems in the unorganized sector and its policy implications towards future financial economic development in Malaysia will be the essential topic in Section VI. A summary of the conclusion will bring us to the final section of this paper.

II. UNORGANIZED AND ORGANIZED MONEY MARKET IN LDCS

The money markets of most LDCs are generally characterised by what has been called financial 'dualism'. In simple terms, it means that the money market in LDCs can be divided into two broad categories namely organized and unorganized. The organized sector usually consists of the central bank, commercial banks, insurance companies and other financial institutions, while the suppliers of credit in the unorganized sector are mainly from professional moneylenders, indigenous bankers, government-sponsored agricultural and rural development banks, cooperatives, large traders, landlords, chettiars, shopkeepers, friends and relatives. In this section, we will examine the important characteristic features of some credit suppliers for both the unorganized and organized sector in LDCs.

Unorganized Money Market In LDCs

The supply of credit in the unorganized market originates from two sources : non-institutional and institutional. Institutional sources (cooperatives, rural development banks, and agricultural banks) tend to restrict their lending activities mainly for consumer durables and particularly to finance the agricultural sector, and they generally operate in rural areas. Non-institutional sources cater for the consumption purposes, usually like borrowing for festive or funeral occasions. The absence of a collateral requirement in non-institutional sources is especially important since the majority of the potential borrowers in the unorganized money market in LDCs possess very little financial or physical assets.

Within the non-institutional sources, there exist two groups of lenders: the informal non-commercial lenders (friends, relatives and neighbours) and the informal commercial lenders (moneylenders, pawnbrokers, traders, indigenous bankers, village stores and merchants). This distinction is based on the lenders' reason for extending credit whereby the latter group lends primarily for the purpose of receiving a satisfactory return on loan capital. The former group on the other hand lends because of kinship, friendship, reciprocity and tenure tradition which are aimed to maintain equilibrium within the rural society.

Their limited capacity, together with the willingness to extend credit and lack of complete service financing encourages demand for credit to spill over into informal commercial lenders. There is barely, any active competition between this non-institutional sources. There is a tendency for commercial lenders to charge higher rates of interest than the non-commercial lenders. The latter extend credits at rates below those which would prevail in a competitive market due to acts of friendship and so as to establish reciprocal obligations on which they can draw in times of need. In other words, such loans given by non-commercial lenders constitute part of a complex social system for spreading risk.

Given the important role played by the unorganized money market in LDCs, one need to illustrate the general network of the rural financial agencies. It can be seen in Chart 2 that the main source of credit originates from the moneylenders and indigenous bankers. Nevertheless, there is also a variety of other sources that are important in providing credits to the rural sector of the LDCs. Generally speaking, intermediary activities concentrate on the non-professional groups of people who operate as landlords, pawnbrokers, merchants, traders, commission agents, friends and relatives and all act as non-institutional sources of credit in varying degrees of importance according to locations.

In the following section, a brief account of the major sources of credit in the unorganized sector of LDCs namely moneylenders, indigenous bankers, cooperatives and rural development banks will be discussed. Also highlighted in the next section is the role of central and commercial banks as prominent source of credit in the organized sector.

Moneylenders

One of the main sources of credit that caters to the need of the rural sector of LDCs is the moneylender. Hence the nature of his transactions require further consideration. For one thing, the specific motive for the existence of the moneylender in the LDCs is geared toward money-lending and not banking. Therefore, moneylenders in LDCs do not usually accept deposits, and in the event of acceptance, the rates are far below those for loans. Nevertheless, the higher rates of interest charged on loan transactions consequently have little influence on the propensity of the rural sector to save.

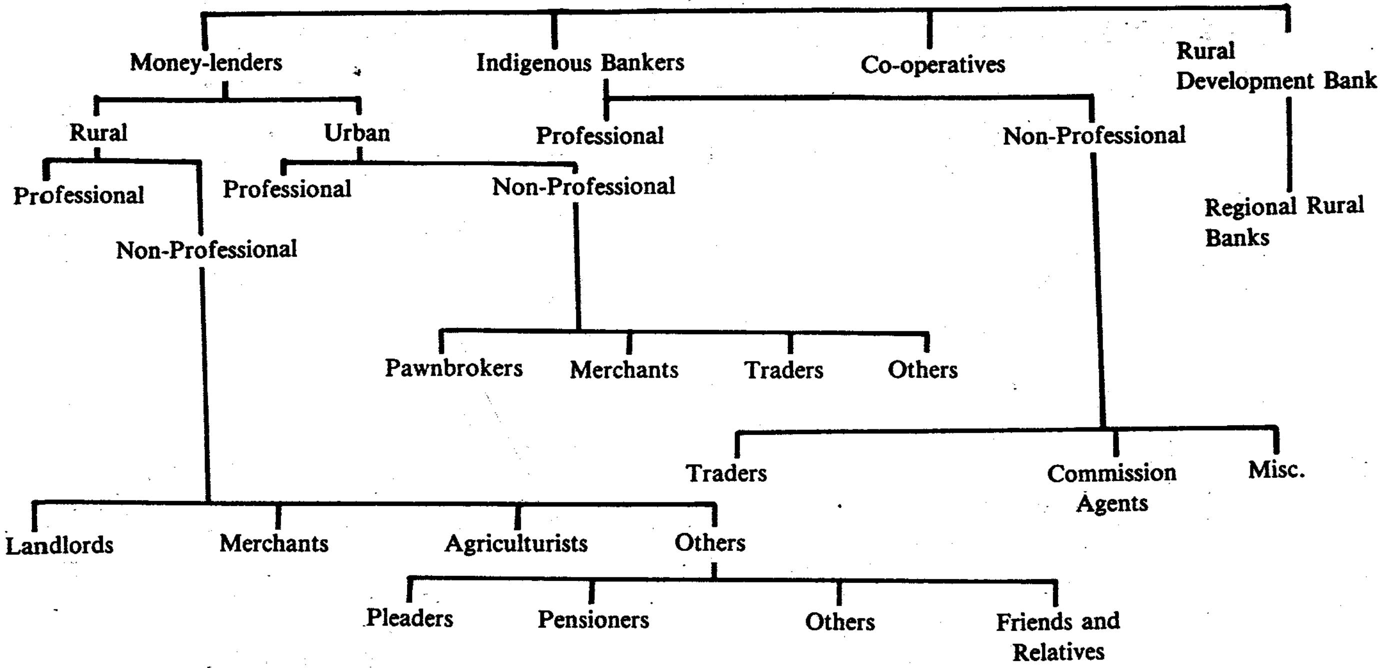
Furthermore, these moneylenders correspond to what Hicks has called 'the inner circle of potential leaders' who are able to lend on 'relatively favourable terms' and through whom outside credit institutions will often have to deal.[1] Indeed, the loans which are not available from the commercial banks operating in the same area, are channeled mostly for consumption purposes. Moreover, most of the loans granted by the moneylenders are made against little or no security as they know, better than any outside competitor can hope to, what a loan will be used for as well as when repayment can be expected. In other words, the moneylender's personal knowledge of his clients' worth will continue to allow him to exclude the outside lending agent from the area of credit competition. Indeed, one of the major reasons for the survival of moneylenderd in LDCs is the extreme flexibility of their operations. The moneylender's activities are not always open to poblic examination because proper records of loans granted or repaid are not usually kept, and non-uniform accounting procedures are adopted by the different lenders.

Moneylenders also do take precautions in carrying out their lending activities. As far as any solution to this problem is concerned, moneylenders mainly use the socio-economic forces to establish a satisfactory repayment record from the borrowers. The social force could make the borrowers bear consideration of loss of face or local prestige. The alternative is the possible drying up of the credit source to these borrowers. Then, new lenders may also be unwilling to start financing the borrower who is known to be in debt to someone else. If indeed he gets a loan at all, the cost to this borrower is likely to be substantial as compared with the rate charged by the moneylender in his own locality.

---

[1]Hicks, J.R. Value and Capital. Oxford Claredon Press, 1946., p. 143.

CHART 2: UNORGANISED FINANCIAL MARKET IN LDCs



Sources : (i) Subrata Ghatak, *Rural Money Markets in India*, Macmillan, 1976
(ii) Gopal Karkal, Unorganised Money Markets in India, Lalvani Publishing House, Bombay, 1967, pp. 21 and 45

Last, but far from least, moneylenders tend to operate on a small scale and seldom compete with each other. The three primary reasons as given by Charles Nisbet are:

> First, the moneylenders do not have detailed knowledge of a broad market, so their type of business demands a small-scale operation which offers continuous excess demand. Second, because their activities are illegal, they minimize the probability of encounters with legal authorities by restricting their operations geographically in number of clients and volume of credit. The illegality aspect and the separate client market discourage them from competing with a nearby moneylender. Lastly, the moneylenders are principally farmers, whose lending activities do not represent more than 50 percent of their annual gross income. Therefore, unlike the village stores, they lack the capital base to carry on large-scale lending.[2]

Indigenous Bankers

The importance of indigenous bankers as a source of credit in LDCs cannot be questionable. Like moneylenders, they find most scope for their activities in the rural areas and cater for the many small manufacturers and traders. The banker shares quite a number of similiarities with his joint stock counterpart, the so-called moneylender. Generally speaking, an indigenous banker receives no special banking education. He draws on the accounts of the past and traditional experience for the method of operation. There is absence of formalities and delay in their lending activities and they are known to be easily accessible to the traders.

The lending policy is quite flexible but the indigenous banker has more risks than the moneylender. However this banker has intimate personal knowledge of the customer's circumstances to a large extent and this offers a measure of protection which is not available to larger institutions.

It is important to note that indigenous bankers are accustomed to combined the business of moneylending with banking. In other words, the bankers usually supplement their resources by accepting deposits from the public and sometimes borrow within their own community (other indigenous bankers).

---

[2]Nisbet, C. Interest Rates and Imperfect Competition In The Informal Credit Market of Rural Chile. Economic Development and Cultural Change, Vol. 16. 1967, p. 83.

The size of the indigenous bankers vary from firms which are petty moneylenders to a substantial one and operate on a large and specialized business. It has not been their practice to keep a record of lending and trading business in the form of balance sheets and their activities have been carried on for centuries in accordance with an established tradition. In any event, it is not practicable for the indigenous banker to establish direct business relations with the agriculturalist, but indirectly he may give assistance to finance the agriculture by making funds available to moneylenders and grain merchants. In this respect some funds would be channeled to the development of the agricultural sector in the LDCs.

Cooperatives And The Rural Development Bank

Supplementing the work of the indigenous institutions are the cooperatives which have long been considered as the suitable institution for advancing credit in rural areas. The need for cooperative credit in most of the less developed countries has tremendously increased and this is due to the exploitation of the rural economy by the moneylenders and indigenous bankers. Cooperative credit societies which are, as whole considered one of the major sources of institutional credit were established in many countries in Asia and in certain British colonial territories, much earlier than in Latin America or the Middle-East.

It was begun as early as 1904 in India, Pakistan and Burma, 1914 in Cyprus. The late establishment of the cooperative movement in the Middle-East, particularly Jordan, has been attributed to the influence or Moslem law which prohibits the levying of interest charges. An exception to this is Egypt where cooperative credit societies were established as early as 1907. It can be seen that cooperative credit societies tend to flourish when agriculture is booming and the terms of trade for agriculture are good. However, the movement suffers a setback when the agricultural incomes fall.

The main objective of the agriculture cooperative societies has been to supply rural credit and to educate the farmer in the practices of cooperation and thrift. More recently, there has been a shift of emphasis to the multipurpose potentialities of cooperation, such as the development of marketing and procurement facilities.

The need to supervised credit cannot be overlook and loan granted should be restricted for specific purposes. In that sense, the uses to which loans are put should be strictly productive, but loans for non-productive purposes which are "necessary and unavoidable" may also be granted from time to time to prevent a member seeking accomodation elsewhere at high rates of interest.

The funds are lent out to members at moderate rates for current and short-term purposes, usually for financing crop loans. The period of repayment depends, among other things, upon the purposes for which a loan is granted. An attempt to meet the long-term requirements of agriculturalist has also been made by establishing cooperative mortgage banks in a few areas in India particularly in Madras.

> A farmer who borrows money for the purchase of land should be able to buy from his cooperative other farm supplies, such as seed, feed, fertilizer and services of small machines if necessary. The cooperative should also help him in the disposal of his produce. The same cooperative can perform all the three functions and also supervise the use of credit. The cooperative can even help in planning the use of farm resources to meet farm family needs and repay loans.[3].

The financial strength of agricultural cooperative societies rely on the financial resources and creditworthiness of its members. From the depression of the early thirties to the outbreak of war in 1939, the progress of the movement was quite discouraging. The augmenting of working capital by an expansion of members' deposits was decelerated at that period. By and large, this arose because of the societies' own disinclination to augment funds unduly at a time when the demand of borrowers were decreasing and the farmers lacked the incentive to save further once they had cleared some burdensome debts with their increased wartime earnings.

Immediately after the war, there was an increase in advances to agriculture due substantially to the rise in working costs and the demand for improvement loans. In addition to the traditional sources of credit, a new and supplementary source was opened in postwar years by United States through the creation of counterpart funds. In many LDCs, these funds were utilized for direct loans to agriculturalists or for creating new financial institutions such as rural development banks which could operate within the unorganized sector.

> Generally speaking, however foreign capital from governmental sources such as counterpart funds were not available before the war to supplement the supply of loanable funds in the unorganized money market, although there have been instances of private foreign capital entering local unorganized money markets. For example, before the great depression

[3]Agarwal, M.C. Rural Cooperative Credit : A Malaysian Case Study. Kajian Ekonomi Malaysia, Vol. 2, Dec. 1965, pp. 22 - 23.

the chettiars of India financed a significant portion of agricultural production in Burma, Ceylon, Indo-China, Malaya and Thailand.[4]

Organized Money Market In LDCs

It would be wrong to suppose that the organized and unorganized sectors are wholly unconnected with each other, but the links which exist are somewhat tenuous and complete integration into a unfied system has yet to be achieved in LDCs. Underlining this dichotomy is the restricted use made of the cheque. The general problem was well exemplified where the banking habit tended to be confined to the larger commercial centres during the 60s. Consequently, the use of bank credit is relatively restricted and majority of transactions involve the direct employment of notes and coins.

In general, the major source of credit in the organized money market of LDCs originates from the central bank. Central banks were established as early as in the twenties and thirties in most parts of Latin America whereas in Asia, except in India, Japan and Thailand, they are of postwar origin. During the 50s, the statues of a number of central banks on Asia (i.e. Burma and Ceylon) have granted wide powers including control on the rate which commercial banks should grant loans but these powers have not so far been exercised. Furthermore, the central banks' lending to commercial banks has not been of great importance in some Asian countries but in spite of this, the central bank is still able to influence market rates by changes in the bank rate. This is evident from its economic and, at times, its legal position in the domestic money market where wide powers prevail in selecting credit control, open market operation, and moral pressure.

The organized market in LDCs has changed significantly during the last 20 years. To improve the financial structure and encourage more fluid credit markets, a central agency must bear responsibility for promoting a sound financial structure. This function needs to be performed in such a way that the central bank is able to maintain the close, continuous, and active contact with the credit system essential for the success of its regulatory function. The function of a sound financial structure is to move financial resources efficiently from surplus to deficit non-financial units, and from activities yielding low social returns to those yielding high social returns. This movement of funds require appropriate institutions and institutional philosophy; financial instruments that are consistent with savers' and borrowers' preferences and needs, and a rational structure of positive real interest rates.

---

[4]Wai, U.T. Interest Rates Outside the Organised Money Markets of Underdeveloped Countries. IMF Staff Papers, Vol. 6, 1957 - 58, pp. 86 - 88.

From the point of view of financial development, it is essential to give a development orientation to the central bank. When the central banks were set up in the industrialized countries, the monetary and financial systems were already well developed. Thus in the theory and practice of central banking, it is the regulatory role of the central bank that is emphasized. In LDCs, the role of a central bank cannot be restricted to that of a regulator, for the institutions to be controlled and the credit system to be regulated have still to evolve. The promotional function of a central bank has not been sufficiently stressed in provision of techinical and financial assistance to the LDCs. A large number of central banks have not been appropriately oriented towards development objectives in general or to the development of a sound financial system in particular. Exceptions to these are Brazil, India, the Republic of Korea and Mexico, along with the historical experience of Japan, which indicate the nature of desirable innovations in central banking in LDCs.

Commercial banks have also been an important source of agricultural credit in a number of Latin American countries. This is due to the nature of banking development in that region and also selective credit controls have been implemented by many central banks to redirect the flow of credit toward the agricultural sector. The commercial banks also take into account the creditworthiness of their customers, use of the loan granted as well as the collateral offered when giving credits.

Problems Of Imperfect Rural Credit Markets In LDCs

In general, undesirable consequences do occur in the rural credit market of LDCs and these might be attributed to absence of specialization (Long.M, 1968) and the 'semi-feudal' agrarian economy (Bhanduri, 1973, 1977) in the unorganized money market.

The most distinguished feature of this 'semi-feudal agriculture' which can be seen in many parts of Asia and South America is the so-called share-cropping system. Under this system, a landowner will lease out his land for one complete production cycle and the net harvest (i.e. gross total harvest minus seed required for the next harvest) must be shared among the landlord and the tenant under a mutual agreement basis. Yet even where these things are done, the risk attached to the tenants could still be high as in a large number of cases, tenancy rights are not legally well protected and terms of contract are quite sophisticated.

The situation is further aggravated by the high nominal interest rate which is purposely kept at that level particularly as a device to keep the peasants permanently in debt. In that respect, it only shifts from the debts incurred in the past to the debts to be accumulated in the future. The character of this indebtedness was so obvious where the repayment of debt with interest by tenants signifies a reduce in the available harvest and, consequently, their resorting to further loan. In one way or another, the landlord will see to it that the debt is difficult of redemption. Eventually, the landlord comes to have monopoly power over the disposal of the produce, the cultivator's land and even over his chattels.[5]

These can be traditionally seen in the villages of underdeveloped and LDCs where the unspecialized form of organization occur in the form of landlord operating as both moneylender and trader. As a trader, he may sell necessary supplies to the farmer on credit and in return agree to accept repayment in the farmer's produce. As can be frequently cited, there is a tendency to 'over-price' the loan at the time of lending and 'under-price' them at the time of repayment.[6] It must be admitted that this farmer does not know where else to get his supplies or how to sell his harvest, convenience may be replaced by necessity.[7] As the spiral cycle of landlord - moneylender - trader has an autonomy over the agrarian economy, the tenant on the other hand is driven to a state of perpetual poverty if not near slavery (for details, see Bhaduri 1973, 1977; Ghatak and Ingersent, 1984).

The existence of monopoly profit or usurious interest rate particularly in the informal commercial lender of unorganized market is quite common and consequently it affects the welfare of the borrowers. This usurious interest rates will be eleborated in the folllowing section.

III. DETERMINATION OF RURAL INTEREST RATE IN LDCS

A number of explanations have been offered for the high interest rates that generally prevail in the unorganized money market. However, earlier discussion tends to focus on this theory of customary rate of interest (Newlyn and Rowan, 1954) whereby interest rates are believed to be determined by law or convention rather than the usual demand and supply mechanism. In view of the fact than this theory is not satisfactory and since no explanation

---

[5]Ghatak, S. Rural Financial Institutions in the Developing Countries : A Survey. Working Papers at National University of Malaysia, Bangi, Selangor. 10 - 12 Sept. 1984. p. 3

[6]See also Bocke, Economics and Economic Policy. op. cit., pp. 311 - 312 for a similar situation in Indonesia pre-war.

[7]Bottomley, A. Factor Pricing and Economic Growth in Underdeveloped Rural Areas. Crosby Lockwood & Sons Ltd, London, 1971, p. 117.

whatsoever is given on how or why the custom of high rates developed, a more convincing theory need to be put forward.

Basically, there are two different theories, economic as opposed to institutional, in determining the rural interest rates of LDCs. The economic view argues that the interest rate is determined by the interplay of two forces - the demand for and supply of loanable fund. Studies done often focus on the supply side of the interest rate as estimating the demand side is not an easy matter to deal with. Therefore from the supply side, the rural interest rate may be regarded as the sum of administrative cost, risk premium. opportunity cost of leading and monopoly profit (see Bottomley, 1971, 1975).

For an indepth understanding of the rural interest rate determination, a simple diagram as seen in Figure 2 is used for further illustration.[8] In the first quadrant, vertical and horizontal axis measure interest rate (r) and level of income (Y) respectively. An inverse relationship is assumed between r and Y because if the real income and output in the agricultural sector increases, the probability of default will fall and hence reduce the risk premium. Ultimately, the interest rate will fall. The positive relationship between the monopoly power of the moneylender (Π) and the rural interest rate is seen in the second quadrant. A higher repayment capacity (R) of the farmers will increase their credit worthiness and the weaker will be the power of the moneylender to compel the farmer to pay a high interest rate. This inverse relationship between repayment capacity and monopoly power is illustrated in the third quadrant. Finally, a positive relationship between real income and repayment capacity is obtained in the fourth quadrant. Thus, a functional relationship as shown below is obtained:

$$r = f(Y, R, \Pi)$$

and $f_1 < 0$, $f_2 < 0$, $f_3 > 0$

As indicated in figure 2, a low income level like 0Y1 will generate low repayment (0R1) and the monopoly power measured by 0Π1 is obtained by the moneylender through the lending operation. Consequently, a high rural interest rate (0r1) is imposed on the farmers. On the other hand, a high rate of growth in the agricultural sector will tend to raise the real income to 0Y2.

[8]Ghatak, S and Ingersent, K. Agriculture and Economic Development. Wheatsheat Books ltd. Sussex, 1984. pp. 234 - 235.

TABLE 1
Regional Variation In Interest Rates Charged By Registered Pawnbrokers and Moneylenders In Ceylon, 1951.

Provinces	Pawnbrokes' Rates (% per annum)*	Moneylenders' Rates (% per annum)*
Western	17.9	10.7
Central	23.9	17.3
Sourthern	19.8	13.2
Northern	37.6	26.8
Eastern	30.1	12.3
Northeastern	19.4	10.6
North central	45.8	36.4

* Interest earned during the year expressed as percentage of advances outstanding at the end of the year.

Source : Wai, U.T. IMF Staff Papers, Vol. 6, 1957 - 58.

TABLE 2
Structure Of Interest rates In the Unorganized Money Market In Thailand, By Regions And Sources Of Supply, 1952 - 53.

Source of Funds	Entire	Central Plains*	North	West and Southeast #
Cooperative societies	8.54	9.25	8.67	–
Moneylenders	30.90	32.52	21.00	44.00
Village shopkeepers	28.24	21.52	31.60	17.14
Landlords	44.70	35.79	5.00	–
Merchants/Buyers	25.64	20.62	15.00	2.00
Relatives	18.29	19.40	7.25	0.14
Unspecified (others)	17.91	22.76	5.00	5.00

* : Predominantly rice - growing areas

: Mining and timber areas

Source : Wai, U.T. IMF Staff Papers, Vol. 6 1957-58

In general, it has been found that interest rates prevailing in Thailand in 1962 - 63 were considerably high where the Thai government paid 8% to holders of its bond; industrial borrowers with good collateral paid commercial banks between 12 and 15% for credit; farmers paid an average of 29% on all loans and 35% on those from non-institutional, commercial lenders. Alternatively on average, the All-India Rural Credit Survey found that Indian farmers in 1956 - 57 were paying 12.3% per annum for their credit while the government only paid 3.4% to holder of its bond (Long.M, 1968). In Costa Rica, moneylenders levied interest rates of between 18% and 36% while some farmers managed to obtain credit between 12% and 24% from the finance companies (Browns, 1973).

There also appears to be a systematic tendency for both the cooperatives and moneylenders to charge a higher rate on loans of short duration than the long-term loans. For instance, in Thailand, the cooperative societies in 1952 tended to charge 10% per annum on both the short and medium - term loan while charging 8% on long-term loan (Wai, U.T. 1957 - 58). The rates charged by the Cambodian moneylenders are also higher on loans of short duration than the long-term loans (Thouth, T.1952). These high rate may result from policy adopted by the government to provide cheap credit to agriculturist, particularly on credit supplied by the government - controlled credit institutions and cooperative societies and also the value of collateral which can be offered for long-term loans. As one might suppose, the value of collateral used for long-term loan (agricultural land) is much more superior to the collateral for short-term loan (promissory note, stocks of agricultural commodities, etc) and therefore a lower risk is attached to the former loan.

Cyclical fluctuations in interest rates are also noticeable in the unorganized money market but they move in different direction from those of the organized money market. During the upswing if a business cycle, agricultural income will increase and some of the former peasants become landowners and, consequently, supply of loanable funds will rise rapidly. It follows therefore that the effective rate of interest in the unorganized money market tends to fall during the boom period and rise in the slump; this is the opposite of the movements in the organized sector. The experience of Burma and Ceylon during the years before and after the great depression shows these cyclical pattern of interest rates. Chettiar lending in both countries against land as collateral had expanded rapidly during the upswing of business cycle but the chettiar foreclosed on loan and become owner of the land during the depression. Similar experience also prevailed in other LDCs specifically in Indonesia and Egypt (Wai, U.T. 1957 - 58)

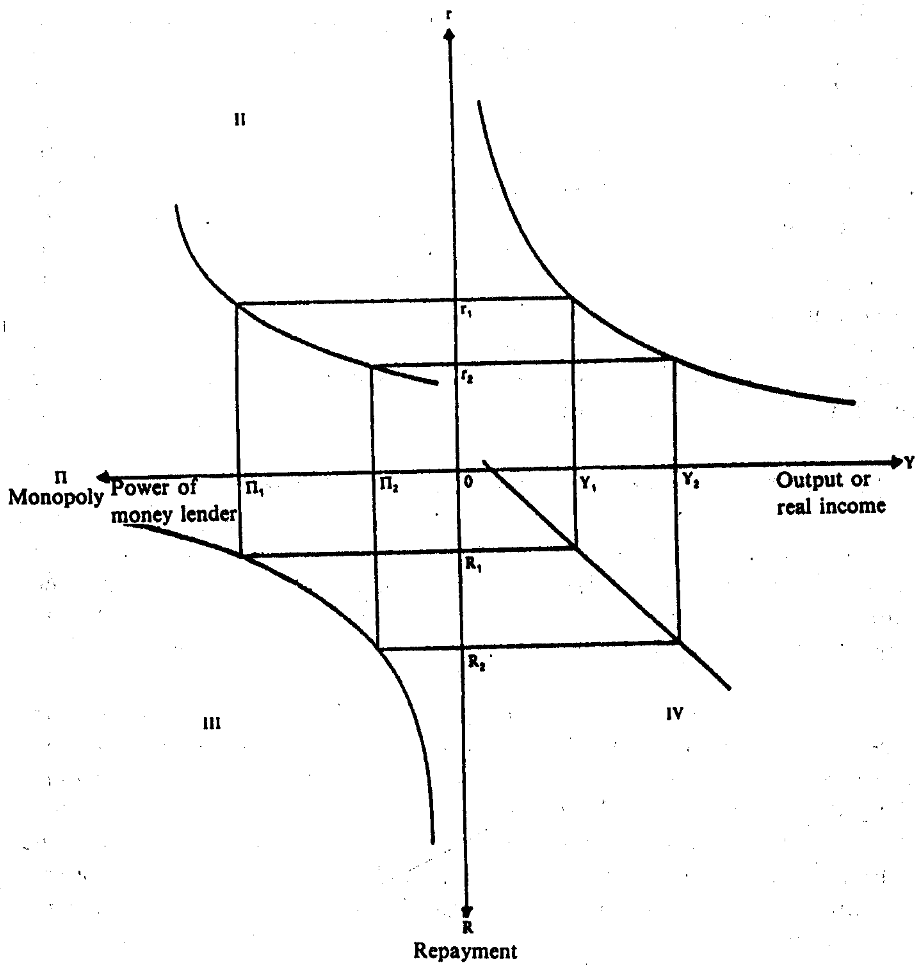


Figure 2 : A composite view of rural interest rate determination

This results in a higher repayment capacity (0R2) which simultaneously reduce the degree of risk and the probability of default. Thus, the monopoly power of the moneylenders is reduced to 0Π2 and finally farmers have to pay a lower interest rate (0r2).

Contrary to the economic view, the rural interest rate is also argued to be determined by institutional factors like systems of land holding, tenancy trading and their link with moneylending activities. In the previous section, we discussed the landlord operating as both moneylender and trader. It is common pratice for peasants to approach their landlords for credit first (due to custom and simplicity) and this enhance the monopolistic power of the landlords and in one way or another, the interest rate is be indirectly determined. More often it only results in a high interest rate and this 'loan shark' landlord will reap most of the monopoly profit.

IV. EMPIRICAL EVIDENCE ON CREDIT CONDITIONS OF LDCS

In this section, we shall survey empirically on studies done in LDCs regarding the level and structure of interest rate for both the organized and unorganized sector. Most of the studies were done in the 50s and 60s but anyhow these results could be used as a yardstick to stimulate future studies.

One cannot deny that interest rates charged by credit institutions are generally low. Indeed, in most LDCs, the rates charged by cooperative societies and government – sponsored agricultural banks are much lower than the rates charged by commercial banks for financing trade. On the other hand, the rates charged by the 'loan shark' moneylender to borrowers with poor credit ratings or to those in urgent need of funds are much higher than the cooperative society or commercial bank. However rates charged by this moneylender tend to vary considerably between different parts of the country. These variation sure illustrated in the Table 1 and 2 (only extraction form part of the original table).

As indicated above, the regional variations might arise as a result of differences it demand conditions, availability of supply of funds and accessibility of rural areas to an organized money market. In Ceylon, it was found that the moneylender's rate tended to be much lower in areas where cooperative societies were well established (Table 1). The higher rates in Central Plain may persist because this area is poorer and the climatic conditions also is more unstable. Therefore loans frequently made to provide liquidity for those whose crops had failed, will probably result in more risk than loans fr expansion in the more commercialized farming region (Table 2).

Based on the results of the econometric study done on the Indian rural money market (Ghatak, 1975), there seems to be some ground to argue that to a certain extent, the interest rate in the unorganized market of India is more likely to be influenced by the organized market and not the other way round. In other words, the bank rate in the organized sector is more likely to be the leader than the follower. How far this is true, can only be proved by making further attempts in doing the research related to this area of study in other LDCs.

V. THE ORGANIZED AND UNORGANIZED MONEY MARKET IN MALAYSIA

The size of an organized money market in Malaysia may be indicated by the ratio of deposit money to money supply and the ratio of the banking system's claims to national income.

The deposit money/money supply ratio measures the development of commercial banking and as an indication of the growth of the money market. As can be seen, from Table 3, the deposit money/money supply ratio increased from 0.5 in 1960 to 1.3 in 1986, reflecting the rapid growth of the money market in the economy.

TABLE 3
Financial Ratios of Deposit and Money Supply, Banking Systems Claim and National Income (1959-1985)

YEAR	GNP	M2	TD	TL	TD/M2	TL/GNP
1959	5,517	1,477	818	387	0.554	0.070
1960	6,096	1,649	941	510	0.571	0.084
1961	6,524	1,759	1.043	628	0.593	0.096
1962	6,916	1,863	1,092	694	0.586	0.100
1963	7,354	2,044	1,215	803	0,594	0.109
1964	7,822	2,211	1,522	1,084	0.688	0.139
1965	8,593	2,445	1,732	1,141	0.709	0.133
1966	9,177	2,731	1,977	1,286	0.724	0.140
1967	9,651	2,818	2,238	1,433	0.794	0.148
1968	10,068	3,258	2,664	1,764	0.818	0.175
1969	10,933	3,719	3,030	1,999	0.815	0.183
1970	11,617	4,122	3,778	2,360	0.917	0.203

TABLE 3 *(Continued)*

YEAR	GNP	M2	TD	TL	TD/M2	TL/GNP
1971	12,592	4,668	4,406	2,667	0.944	0.212
1972	13,842	5,762	5,278	3,179	0.916	0,230
1973	18,064	7,552	7,139	5,511	0.945	0.305
1974	21,861	8,714	8,534	6,441	0.979	0.295
1975	21,605	9,982	9,919	7,664	0.994	0.355
1976	26,988	12,748	12,876	9,708	1.010	0.360
1977	31,064	14,819	15,136	11,640	1.021	0.375
1978	36,186	17,467	18,334	15,489	1.050	0.428
1979	44,354	21,616	23,788	18,853	1.100	0.425
1980	51,620	27,652	29,382	25,733	1.063	0.499
1981	55,602	32,370	36,157	31,684	1.117	0.570
1982	55,690	37,648	42,724	37,335	1.135	0.670
1983	65,154	41,193	49,525	46,963	1.202	0.721
1984	74,158	45,888	59,241	56,891	1.291	0.767
1985	71,703	48,397	64,963	65,503	1.342	0.914

Source : Bank Negara Malaysia (various issues)

GNP = Gross National Product At Market Price
M2 = Broad Definition Of Money Supply
TD = Total Deposits Of The Banking System
TL = Total Loans Of The Banking System
TD/M2 = Deposit/Money Supply
TL/GNP = Banking Systems Claim/National Income

As the economy develops, greater use is made of the money market to finance business operation and economic activities: agriculture, mining and quarrying, manufacturing, real estate and construction, housing, general commerce, financing, insurance and business services. Thus, the banking system claims/national income ratio increased from 0.1 in 1960 to 0.9 in 1985, reflecting the rapid commercialization and monetization of the economy.

Prior to the 1960s, a significant proportion of the commercial banks' advances was channeled to the commercial sector for the finance of trade, particularly foreign trade. But by the late 1960s, bank lending shifted from financing of trade to manufacturing activities, reflecting largely the rapid pace of industrializaztion in the country. With the rise of domestic manufacturing industries and the increase in the construction of infrastructure facilities as well as residental complexes, the demand for credit became more diversified. Loans outstanding from this sector accounted for 17.4 percent of total bank credit at the end of 1986 compared with 11.5 percent in 1960.

In contrast, bank credit to the agricultural and mining and quarrying sectors, as a share of total bank credit, stagnated in the period of 1960 - 1986, at aróund 6 percent due to the relatively slower growth of these sectors. A distinct feature of the change in bank credit to agriculture was the growth in credit to finance non-traditional agricultural production, particularly palm oil and forestry products, which expanded rapidly in the late 1960s and the early 1970s. By the end of 1986, rubber production, which had accounted for 95 percent of the total credit extended to agriculture in 1960, accounted for only 8.8 per cent of total bank loans to agriculture. In contrast, the share of credit for the production of forestry products and the cultivation of palm oil as well as its production, rose from less than on percent each of total agriculture credit in 1960 to 1.2 oer cent and 1.6 percent respectively at the end of 1986. (see appendix 1)

Of particular significance has been to the growth in loans to finance real estate, contruction and housing projects. The share of commercial bank credit extended to these sector rose from an aggregate of 3.7 percent of total loans and advances in 1960 to 21 percent at the end of 1986.

The supply of credit in the unorganized financial market in Malaysia originates from the non-institutional and institutional sources. The non-institutional sources can be divided into two categories: the informal non-commercial lender such as 'tontine' and 'kuthu' and the informal commercial lenders which comprise the 'chettiars', pawnshops and shopkeepers. While, the instutional sources comprise the cooperatives and the agricultural bank. Attention is given particularly to the non-institutional sources of credit.

During the colonial period, the need for consumption credit, was provided by the 'tontine' and Kuthu. The tontine organized by the Chinese immigrant, is a financial arrangement by which the organizer collects the subscription from members, of twelve or more, and operates on a monthly basis. At the beginning of each month the twelve members assemble at the organizer's residence to make bids. A member will offer to pay an interest rate which he can afford, say a dollar for every $10 share or three dollars and more for every $10 is also quite common depending on the urgency of the borrower's requirements. The cash is then collected and handed over to the highest bidder. Thus, the tontine is considered a less formal way to obtain a loan in times of need, rather than having to approach a professional money lender who may require a collateral or impose an extortionate rate of interest. The tontine is also considered a saving bank or a common fund. Another borrowing system which is similiar to the tontine is "kuthu", the Indian borrowing system. The kuthu, was the means whereby Indian engaged in small business; became ice-water sellers, hawked 'kacang putih' or operated a small stall at a street corner.

These method of borrowing, through tontine and kuthu, are efficient and speedy without involving the signing of papers nor any complex organization. Furthermore, they rely for their operation standard on honestry and trust between individual.

As the economy developed, especially with trade dispersion and the increasing market orientation of production, the absence of an effective credit system serving the rural area hurt the poorer income state badly especially the Malays. The need for cumsumption and product credit, was most acutely felt by those involved in seasonal agriculture, and fishing. Thus, pure money-lenders (Indian chettiars), pawnshops and shopkeepers took full advantage of this emerging requirements. Cettiars advanced credit on which their profit accrued in the form of interest. Pawnshops and shopkeepers, many of whom are Chinese, extended credit in their commercial operations. Thus, the single most important source of rural credit, was the shopkeeper, who usually provide credit for consumption.

Beside the shopkeeper, pawnshop also considered as an important source of credit. It provides easy credit to clientele especially from the lower income group. A survey by Rugayah (1988) showed that most of pawner earn less than $500, as can seen from Table 4, where these pawners, for the states of Kelantan, Perak, Selangor and Wilayah Persekutuan, are 90.2%, 79.7%,

TABLE 4
Income Levels Of Pawners (%)

Monthly Income ($)	Johore	Kelantan	Perak	Selangor	Wilayah Persekutuan
>250	33.9	33.8	32.8	15.1	5.2
251-500	51.5	56.4	46.9	67.2	48.1
501-750	11.1	8.3	15.9	12.4	32.5
751-1000	1.3	0.6	3.2	3.5	6.5
1000-1500	1.0	0.6	1.1	1.9	5.2
1500	1.3	0.3	0.0	0.0	2.6

Source : Rugayah Muhamad (1988)

82.3% and 53.3% respectively. Apart from the relatively low level of income, the majority of pawners especially those from rural areas have large families to support. A larger percentage of pawners, however, are in the income range of $251 - $500. Rugayah, furthermore, showed that a large percentage of pawners are self-employed. Table 5 shows that in Kelantan alone they constitute 65.7% in Johore they comprise two-fifths of the pawners interviewed.

TABLE 5
Classification Of Pawner's Occupation (%)

Occupation	Johore	Kelantan	Perak	Selangor	Wilayah Persekutuan
Housewife	12.6	11.5	12.0	11.4	19.6
Self-employed	40.7	65.7	32.7	29.3	5.4
Private sector	31.4	8.6	30.3	27.4	
Government sector	12.3	14.2	21.4	25.7	39.1
Unemployed	3.0	0.0	3.6	6.2	8.7

Source : Rugayah 1978

Likewise, Perak has a relatively high proportion of pawner who are self-employed. These self-employed pawners are rubber, oil palm and coconut smallholders as well as padi farmers and fishermen. In Johore, Perak, and Selangor, quite a significant number of rural pawners are estate workers and residents of government agricultural schemes such as Felda and Felcra.

Pawners who are employed in the private sector are mainly semi-skilled and blue-collar workers in factories, construction and mining sites and the transport services. It is also interesting to note that a significant number of pawners in Wilayah Persekutuan and Selangor are employed in the government sector as clerical staff, the lower ranks of the police and security forces, public utilities labourers, teachers and other semi-skilled government services.

Rugayah also reveals that 48.1% of pawners interviewed pledged their valuables to cater for emergency expenses which arise due to interruptions of their earnings such as accidents, illnesses, natural disasters like floods and fall in prices of farm produce and primary commodities. 33.5% pawners pledged their articles for the purpose of supplementing household expenditure on consumer non-durables and payment of household bills. Educational expenses too farm quite a sizeable percentage (17%) of the need to pledge especially in the rural areas. The expenses on education include payment of examination and school fees and buying of textbooks. Pawnshop facilities are also extended to supplement expenditure on festivities and celebrations like weddings and other social activities.

Hence, it is quite evident that the flexibility and informality of borrowing have made the pawnbrokers important creditors and, as long as incomes remain low and financial difficulties prevail, the pawnbroking trade is likely to prosper.

TABLE 6
Reasons For Pledging

Reasons	Percentage
Emergency expenses	48.1
Household expenses	33.5
Educational expenses	17.2
Festivities and celebrations	1.2

Source : Rugayah Muhamad (1988)

VI. SUGGESTED SOLUTIONS AND POLICY IMPLICATIONS

Given the urgent need to solve the contemporary problems in the unorganized money market and the additional obstacles underdeveloped and less developed countries face, the question that arise are, what strategies offer the most effective means of promoting an integrated development of the rural financial markets in LDCs? And what can be the most effective roles of the government in this process? A number of policies have been suggested for a better integration in both the urban and rural financial market and particularly for an integrated development of the rural financial market. We will discuss the major ones as follows:

a. One of the major steps taken by many governments in LDCs is the creation of new credit institutions like cooperative credit societies, agricultural credit corporation, regional rural bank and agricultural development corporation which reflect the special requirement of the agrarian economy. These institution have been created to facilitate rural production emphasizing on marketing, credit and processing needs.

It has been argued that some of the monopoly power of the moneylenders is weakened to a certain extent with the introduction of agricultural credit policy to the rural dwellers of LDCs. Normally the rural credit policy which has been pursued tend to center more toward availability of credit and less to proper utilization of credit. However, without a proper utilization of credit, even whatever that is available may not be used up. Thus, an important element in the credit policy for the agricultural sector is the feasibility of the credit that links up with the production plans of the borrowers and the supervision of the credit. In other words, the implementation of rational loan policy must be geared to production requirements and this requires drastic change in the perspectives and attitudes of cooperative credit institutions and in the administrative set up of governmental agencies engaged in the task of economic development of the agricultural sector. In particular, credit will be thought as part of an integrated scheme of rural development (increase the welfare of the rural dwellers) rather than as input capable of producing results entirely on its own.

Furthermore, the credit policy should be particularly oriented toward the small and medium cultivators. It we assume that monetization and commercialization go with the level of prosperity of the cultivators, then the level of interest rates tend to decline at areas, which are populated with prosperous cultivators. Therefore, to bring down the general structure of interest rates in the rural sector, it is necessary to raise the level of prosperity for both the small and medium cultivators through the supervision of this credit policy. More often, during the supervised credit programme, the increase in gross farm income per farm is greater amongst the small cultivators.

But such results should not be unexpected in most cases of supervised credit. The main cause behind smaller additional returns on large farms might be that the cultivators are already using the inputs and techniques which supervised credit is supposed to emphasize.

On the other hand, small and medium cultivators might use those inputs and techniques only when credit has been suitably geared to their production plant. This difference in the techonological content of comparable amounts of credit for the big cultivators on one side; medium and small cultivators on the other, should be reflected in the marginal returns on supervised credit available to them. These supervised credit programme has proved costly to administer.

For example in Thailand, the annual administrative cost of the government credit cooperatives have frequently been equivalent to the amount for new loans (long, M, 1968). Hence, the ideal of credit supervision and efficient loan administration deserve serious consideration in the rural money markets of LDCs.

It has also been alleged that instead of creating new credit institutions, it would be more rational and economical to expand the scope of the commercial banking system through opening a nationwide network of bank branches, and by enlarging their functions. This step was taken by India in 1969 where nationalization of commercial banks was launched to promote commercial banking more extensively in the agrarian sector. (Desai, S. 1979) Since then, a large number of bank branches has mushroomed rapidly in the rural areas and besides purveying credit to and mobilizing deposit from, the agrarian sector, commercial banks also provide entrepreneurial and managerial guidance to agriculture and small industry. In this regard, the commercial banks coordinate their functions closely with the agencies that provide financial and non-financial assistance to the agrarian sector.

b. A fringe of unsatisfied borrowers who are often not good credit risks, exists in every economy particularly in the unorganized sector. However, this problem deserve closer attention and the government could establish agencies to examine the credit needs, creditworthiness and efficiency of individual borrower. Any borrower assessed as in need of credit, who is efficient and of reasonable credit standing could then be referred to a suitable establised lending institution, with the government agency standing as final guarantor for credit provided by the financial institution. This technique is already being used in the Light Industrial Service loans of the Singapore Economic Development Board. It seems eminently suitable for use on an extended scale.

This lending financial institutions provide an avenue for small-scale indigenous producers who need credit for longer periods than generally granted by banks. In that sense, a well-administered scheme for long-term finance would assist small agriculturalists to consolidate or enlarge their land holdings and adopt more modern methods of production. A similiar but much more informal approach can be adopted (Miracle, 1983) where local village agents, closely acquainted with the borrowers are given the task of granting the loans. These village agents are being paid on their merit of collection specified by government policy.

c. There are certain instances where a substantial volume of agricultural production in LDCs is being financed in short-term by moneylenders, shopkeepers, and other small-scale middleman. In this regard, a positive official support should be given to the issue and trading of this rural produce bills so as the problem of providing an effective basis for the complete integration of the so-called organized and unorganized money market could be enlightened. This sort of facilities should be made available on a much wider geographic basis and the government agency perhaps needs to play an important role by supporting the endorsement of these rural produce bills.

Nevertheless, there are certainly difficulties inherent in the promotion of a market for internal commercial bills. However, if the authorities would only make such bills eligible for rediscount at the Central Bank, this would provide an appropriate basis on which, not merely to expand further the use made of this instrument but also, to establish a truly integrated 'bill market' fully adapted and geared to the needs of the local environment.

This method of 'bill market' scheme is being practised in India, which is still primarily an agricultural country, and this discountable bill, thereby provides a mechanism specifically suited to Indian conditions. (See Wilson, J.S., 1966 for details). In any event, the emphasis of this scheme had somehow stimulate an evironment for a better integrated money market in India.

d. The Central Bank in the LDCs should concentrate on promoting a well integrated sound financial structure through innovation policies such as: (1) widening and deepening the geographical and functional scope of the banking system; and (2) establishing organic links between the banking system and informal credit market, on one hand and between the banking system and the agencies providing technical, managerial, entrepreneurial guidance and assistance to small enterprises on the other. Therefore, the Central Bank should intervene in the imperfect money market of LDCs through the above innovation policies so that it alleviates the gap between the loan and deposit rates of the unorganized sector.

e. One has to note that in underdeveloped and less developed economy generally, credit supply to the rural sector cannot be pushed too far without engendering inflationary pressures. Therefore, credit policy needs to be backed by effective measure aimed at mobilizing savings of the rural population. One way of doing it, is by allowing cooperatives to raise their deposits rates. If the central bank agrees to subsidize the cooperatives due to unprofitable spread between deposit and lending rates, then one possibility might arise as long as the inflationary impact of the subsidy is less than the disinflationary impact of savings. High deposits rates may benefit the cooperatives as it yields them extra income and it might become inevitable to take away the remaining income through taxation.

VII. CONCLUSION

This paper has attempted an investigation of the features of dual money market in less developed countries and Malaysia in particular. Two clearly defined sectors namely, organized and unorganized have been disccussed in great depth. Our servey in this paper shows that the links which exist, between these two sectors are somewhat tenuous and complete integration into a unified system as a whole has yet to be achieved.

However, the establishment of the central bank may be seen primarily as "the symbol of monetary independence without which political independence is thought to be incomplete".[9] In the absence of a true money market and a fully integrated banking system, direct action is the only practicable method open to a central bank. The central bank in its turn, has fostered development of the financial infrastructure.

It should be noted that the credit allocation aspects of the financial system would benefit only from the implementation of more progressive government policies and from greater cooperation between the governments. These government actions may also be regarded as conscious effects to improve the inherited financial system. Hence, the efforts of any action taken by the government will tend to work through the whole of the financial structure and by this means, influence activity in the country at large. But the direction of most future developments will certainly be towards the provision of more, better and cheaper domestic financial services to cater to the needs of the rural dwellers.

[9]See International Bank for Reconstruction and Development (IBRD) Report. 1985, p. 168.

REFERENCES

Agarwal, M.C. Rural Cooperative Credit : A Malaysian Case Study. *Kajian Ekonomi Malaysia*. Vol. 2, Dec. 1965.

Bank Negara Malaysia, *Money and Banking In Malaysia*. Bank Negara Malaysia, Kuala Lumpur, 1984.

Bhaduri, A, A Study in Agricultural Backwardness in Semi-Feudalism. *Economic Journal*, Vol. 83, 1973.

Bhaduri, A. On the Formation of Usurious Interest Rates in Backward Agriculture. *Cambridge Journal of Economics*, Vol. 4, 1977.

Bottomley, A. Factor Pricing and *Economic Growth in Underdeveloped Rural Areas*. Crosby Lockwood & Sons Ltd, London, 1971.

Bottomley, A. Interest Rate Determination in Underdeveloped Rural Areas. *American Journal of Agricultural Economics*, Vol. 57, 1975.

Desai, S. *Rural Banking in India*. Himalaya, Bombay, 1979.

Ghatak, S. Rural Interest Rates in India. *Journal of Development* Studies, Vol. 11, 1975.

Ghatak, S. Rural Financial Institutions in the Developing Countries : A Survey. Working Papers at National University of Malaysia. Bangi, Selangor. 10 - 12 Sept. 1984.

Ghatak, S and Ingersent, K. *Agriculture and Economic Development*. Wheatsheaf Books Ltd. Sussex, 1984.

Hicks, J.R. Value and Capital. Oxford Claredon Press. 1946.

Long, M. Interest Rates and the Structure of Agricultural Credit Markets. *Oxford Economic Papers*, July 1968.

Miracle, M.P. The ACAR Program in Minas Gerais, Brazil. *Change in Agriculture*, Duckworth, London, 1983.

Newlyn, W.T. and Rowan, D.C. Money and Banking in British Colonial Africa, Oxford 1954 and United Africa Company Limited. *Statistical and Economic Review*, Sept. 1949.

Nisbet, C. Interest Rates and Imperfect Competition In The Informal Credit Market of Rural Chile. *Economic Development and Cultural Change*, Vol. 16, 1967.

Reserve Bank of India. *All India Rural Credit Survey*. Vol. 1, 2, 3, 1954 - 57, Bombay, India.

Rugayah Mohamad, The Role of Pawnbrokers As Non-Institutional Creditors In Malaysia. *Kajian Ekonomi Malaysia*, Vol. XXIII, No. 2 Dis. 1986.

Thoutch, T. On the Possibilities of Agricultural Credit in Cambodia and on the Problems Which Cambodia Must Face in order to Ensure Adequate Agricultural Financing. *International Conference on Agricultural and Cooperative Credit*. University of California Proceedings, Vol. 2, 1952.

Wai, U.T. Interest Rates in the Organized Money Markets of Underdeveloped Countries. *IMF Staff Papers*, Vol. 5, 1956 - 57.

Wai, U.T. Interest Rates Outside the Organized Money Markets of Underdeveloped Countries. *IMF Staff Papers*, Vol. 6, 1957 - 58.

Wilson, J.S. Monetary Policy and the *Development of Money Markets*, George Allen Ltd, London, 1966.

APPENDIX 1

Finance Companies: Classification of Loans by Sector

$ million

Sector	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 Sep.
Agriculture	103.5	127.3	121.9	147.2	175.5	214.0	316.7	403.2	412.4	485.8	604.8	739.4	712.6	656.3	601.2	751.4
Rubber	5.4	5.4	5.0	7.8	9.3	12.7	21.9	25.9	24.4	20.7	21.3	21.7	28.1	72.0	65.4	70.1
Oil palm	14.4	14.7	25.5	25.3	21.1	14.4	22.2	24.2	24.1	26.0	26.6	44.5	72.9	96.6	120.8	164.6
Forestry and logging	75.2	96.7	74.7	92.6	125.9	159.3	238.9	309.3	312.7	391.4	505.5	612.2	541.6	403.1	321.4	407.7
Fisheries and livestock	0.8	1.4	3.4	2.7	3.6	5.5	7.2	10.2	16.4	13.9	14.2	18.9	22.3	22.6	23.2	29.3
Other agriculture	7.7	9.1	13.3	18.8	15.6	22.1	26.5	33.6	34.5	33.8	37.2	42.1	47.7	62.0	70.4	79.7
Mining and quarrying	12.4	11.1	15.9	17.9	18.3	28.5	35.7	56.0	70.6	90.3	98.8	101.1	98.8	88.3	97.8	99.9
Tin	9.5	4.8	7.0	8.7	10.1	15.7	17.3	21.7	21.5	21.9	20.4	20.1	16.9	13.1	23.7	11.2
Quarrying	2.8	6.2	8.5	8.8	7.7	12.0	17.5	32.6	48.3	66.9	76.0	78.3	73.5	68.8	66.4	79.5
Other minerals	0.1	0.1	0.4	0.4	0.5	0.8	0.9	1.7	0.8	1.5	2.4	2.7	8.4	6.4	7.7	9.2
Manufacturing	30.2	30.7	50.7	74.0	94.6	117.3	139.2	179.9	225.6	294.6	449.7	558.3	617.6	576.8	554.8	657.1
Food, beverages and tabacco	0.7	1.6	3.3	4.3	5.2	5.3	8.3	12.6	13.5	18.2	31.2	47.9	56.3	52.6	60.4	63.2
Textiles and wearing apparel	0.6	1.5	2.4	6.7	7.6	6.6	7.5	10.0	15.6	22.5	40.7	44.7	52.0	42.1	40.0	49.9
Wood and wood products	12.4	11.5	14.5	18.7	21.4	37.9	43.4	49.0	52.8	62.1	84.7	97.6	93.1	82.2	76.7	88.4
Printing, publishing, paper, etc.	2.7	3.6	5.7	8.8	11.9	15.5	17.3	22.1	38.2	58.0	77.7	94.0	86.6	82.4	71.0	85.6
Metal and metal products	0.5	2.8	2.9	5.3	6.7	7.4	12.8	20.2	22.4	23.2	33.8	29.1	62.5	55.4	50.1	56.6
Machinery, appliances and transport equipment	10.2	4.8	6.9	6.7	6.7	3.4	7.3	11.1	12.8	16.9	30.8	31.3	46.6	35.6	33.3	18.4
Other manufacturing	3.1	4.9	15.0	23.5	35.1	41.2	42.6	54.9	70.3	93.7	150.8	213.7	220.7	226.5	223.3	295.0
Construction	53.9	64.2	90.0	95.2	127.6	153.8	231.4	339.2	439.7	521.6	601.6	695.5	731.9	699.7	817.2	1,017.5
General commerce	17.2	31.9	50.6	67.5	85.5	106.5	153.3	204.6	254.1	297.0	384.1	591.8	759.3	773.4	771.1	871.8
Import, export and wholesale trade	2.8	5.0	12.1	16.5	20.9	24.2	32.7	40.1	40.9	63.0	90.9	151.8	195.1	192.3	195.7	240.2
Retail trade	14.4	26.9	38.5	51.0	64.6	82.3	120.6	164.5	213.2	234.0	293.2	440.0	564.2	581.1	575.4	631.6
Private individuals[1]	282.7	316.3	367.0	461.7	618.4	831.9	1,110.7	1,508.0	1,977.2	2,486.6	3,132.8	4,039.0	4,793.7	5,160.0	5,414.4	6,257.5
Housing[1]	61.7	88.5	139.5	210.5	261.7	348.9	450.3	619.8	833.4	1,072.1	1,282.6	1,542.9	1,828.8	2,075.4	2,162.5	2,349.0
Consumption credit	170.4	191.3	199.1	227.2	324.7	437.7	607.3	814.1	1,002.9	1,202.4	1,587.9	2,141.4	2,400.8	2,145.2	2,134.8	2,674.9
Other	50.6	36.5	28.4	24.0	32.0	45.3	53.1	74.1	140.9	212.1	262.3	354.7	564.1	939.4	1,117.1	1,233.6
Miscellaneous	102.8	151.0	217.5	307.3	390.6	516.2	665.0	873.5	1,200.9	1,536.1	2.153.1	3,340.0	4,611.7	5,046.9	5,294.4	5,619.1
Transport and storage	22.3	36.7	43.9	63.3	76.5	84.9	109.8	215.0	283.3	319.0	366.0	423.1	436.8	384.6	340.0	345.0
Real estate	61.1	81.4	130.7	169.1	197.7	274.9	379.1	460.7	643.7	856.0	1,208.3	1,903.6	2,500.6	2,912.0	3,019.8	3,253.6
Business services	5.4	13.4	16.7	28.5	51.8	68.4	78.4	102.3	152.3	187.7	292.9	446.5	603.9	539.3	461.2	442.1
All Other	14.0	19.5	26.2	46.4	64.6	88.0	97.7	95.5	121.6	173.4	285.9	566.8	1,070.4	1,211.0	1,473.4	1,578.4
Foreign loans	602.7	732.5	913.6	1,170.8	1,510.5	1,968.2	2,652.0	3,564.4	4,580.2	5,712.0	7,424.9	10,065.1	12,325.8	13,001.4	13,550.9	15,274.3
Domestic loans	12.8	8.1	5.9	5.2	3.4	3.7	3.6	11.8	5.1	3.7	1.6	1.9	0.7	0.3	0.7	3.6
Total loans[1]	615.5	740.6	919.5	1,176.0	1,513.9	1,971.9	2,655.6	3,576.2	4,585.3	5,715.7	7,426.5	10,067.0	12,326.5	13,001.7	13,551.6	15,277.9

[1]As from November 1987, housing loans sold to Cagamas Berhad are excluded.

SOURCE: BANK NEGARA MALAYSIA