FINANCIAL MARKETS & BANKS IN MALAYSIA

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What is a 'Financial Market’

- Is a marketplace where trading of securities take place
- brings buyers and sellers together
- Securities include money, equities, bonds, currencies and derivatives
- Many active markets around the world including the New York Stock Exchange (NYSE), Forex markets.
The purpose

• set prices for global trade,
• raise capital, and
• transfer liquidity and risk.
Although there are many components to a financial market, two of the most commonly used are:

- money markets
- capital markets.
Breaking down 'Financial Market'

- **Stock Market**
  - The primary stock market is where new issues of stocks are first offered.
  - Any subsequent trading of stock securities occurs in the secondary market.

- **Over-The-Counter Market**
  - For smaller organizations, require less regulation is less expensive to be traded on.

- **Bond Markets**
  - referred to as the debt, credit or fixed-income market,
  - Includes securities such as notes and bills
Breaking down 'Financial Market'

- **Money Market**
  - trades highly liquid and short-term maturities.
  - short-term borrowing and lending of securities
  - certificates of deposit, banker’s acceptances, certain bills, notes and commercial paper.

- **Derivatives Market**
  - derivative contract is determined by the market price of the underlying item
  - forward contracts, futures, options, swaps
Breaking down 'Financial Market'

- Forex Market
  - market where currencies are traded.
  - inter-bank market that trades currency between banks.
Who are Operationalizing the Financial Markets?
Financial Institutions (FIs)

- conducts financial transactions such as investments, loans and deposits, taking deposits, providing advice to corporate and government clients or offering financial contracts such as insurance
- permit the flow of funds between borrowers and lenders by facilitating financial transactions.
- Made up of
  - Depository financial institutions
  - Investment banks
  - Contractual savings institutions
  - Finance companies and general financiers
  - Unit trusts
Financial Institutions in Malaysia

Contents:

- Licensed Financial Institutions
  - Commercial Banks
  - Islamic Banks
  - International Islamic Banks
  - Investment Banks
  - Other Financial Institutions

- Licensed Insurance Companies & Takaful Operators
  - Life and General Business
  - Life Business Only
  - General Business Only
  - Life and General Reinsurance Business
  - Life Reinsurance Business
  - General Reinsurance Business
  - Takaful Operators
  - Retakaful Operators
The FIs as intermediaries

SURPLUS UNITS ➔ INTERMEDIARIES ➔ DEFICIT UNITS
It is good that you get to know the financial products offered by the financial institutions.

Notable ones:
- Business banking services
- Financial service products?
- Investment products
2016: Transactions passes thru the Intermediaries

Source: BNM Annual Report, released 28 Mar 2018

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<thead>
<tr>
<th>Table A.18</th>
<th>Financing of the Economy</th>
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<td>By customer</td>
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<td>Businesses¹</td>
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<td>Total</td>
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<td>of which: SMEs</td>
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<td>Households</td>
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<td>Government</td>
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<td>Total Financing</td>
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<td>Banking Institutions</td>
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<td>Development Financial Institutions (DFIs)²</td>
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<td>Other Domestic Intermediaries³</td>
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<td>Capital Markets</td>
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<td>Bond Market⁴</td>
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<td>Equity Market⁵</td>
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<td>External Financing</td>
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<td>Foreign Direct Investment</td>
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<td>Offshore Borrowing⁶</td>
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<td>Total</td>
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<td>By customer</td>
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<td>By financing type/institution</td>
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<td>Net Change in Financing (2017p)</td>
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<tr>
<td>Financial Intermediaries</td>
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<tr>
<td>Banking Institutions</td>
<td>12,100</td>
<td>17,198</td>
<td>44,319</td>
<td>6,430</td>
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<td>Development Financial Institutions (DFIs)</td>
<td>-2,063</td>
<td>-1,264</td>
<td>2,279</td>
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<tr>
<td>Other Domestic Intermediaries</td>
<td>-381</td>
<td>-255</td>
<td>7,300</td>
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<td>Capital Markets</td>
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<tr>
<td>Bond Market</td>
<td>75,101</td>
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<td>40,750</td>
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<td>Equity Market</td>
<td>12,232</td>
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<td>External Financing</td>
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<tr>
<td>Foreign Direct Investment</td>
<td>39,183</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Offshore Borrowing</td>
<td>-21,389</td>
<td>-</td>
<td>-4,519</td>
<td>-25,909</td>
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<tr>
<td>Total</td>
<td>114,872</td>
<td>15,679</td>
<td>53,899</td>
<td>42,660</td>
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FIs and Regulations

- Banks like all financial institutions profit from the creation and flow of money.
- As financial intermediaries, healthy banks are also among the most heavily regulated (Basel II, III and other local regulations).
Re-visit the #JOTD
Before we move on ...

- Are the smaller pieces driving the larger piece?
- Is the larger piece driving the smaller pieces?
- What is the larger piece?
- Will this be a #chickenandegg case?
The bigger piece is the ECONOMIC GROWTH

Are the FINANCIAL INSTITUTIONS stimulating the FINANCIAL MARKETS? Or the other way?

Are the FINANCIAL INSTITUTIONS stimulating the ECONOMIC GROWTH? Or the other way?

ARE the FINANCIAL MARKETS stimulating the ECONOMIC GROWTH? Or the other way?
Economic Growth

- Measured by Gross Domestic Product (GDP)
- Combination of Consumer spending, Investments, Government spending and Net Imports ($C + I + G + X - M$)
- The activities to stimulate Economic Growth requires financial resources, usually obtain
  - Domestically
  - Externally (eg. FDIs, External Debts, External borrowing by corporations)
- Issue of planned economic growth (and unplanned) or shocks to the economy (eg. GFC)
Empirical Evidences

- There are some empirical evidence that suggests, a fundamentally strong set of FIs will stimulate the FINANCIAL MARKETS. This will enable the accumulation of financial resources to fuel the economic growth.

- Else there are also evidence that an ECONOMIC GROWTH (eg. deficit budget) will expand the need for resources, thus stimulating the FINANCIAL MARKET. In turn this stimulated the need for an expanding set of FIs.

- There is no conclusive remarks on this mechanism but it differs from country to country.
“A well-functioning financial market serves an important role for the development of the real economy. This is even more so for highly open economies like Malaysia, where the exchange rate is an important element in trade and investment. The Bank has continuously undertaken financial markets initiatives as part of its strategy and mandate to broaden and deepen the Malaysian financial markets. The Bank’s strategy is multi-dimensional, and includes initiatives which aim to reset the direction of the onshore market, strengthen the pillars of the onshore financial markets and enhance market resiliency.”

Conclusion

- I hope you have seen the integration of the three key variables in the wider macro-economy.
- I hope you have some ideas how important are...
  - the roles of economic planning and
  - regulating financial institutions
- I hope you have a better idea of the topic and enhancing your learning and possibly, your career prospects in the financial sector.
- Thank you for having me here!