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Banking sectors in Some Asian Countries

: An Analysis from the Flow of Funds Accounts

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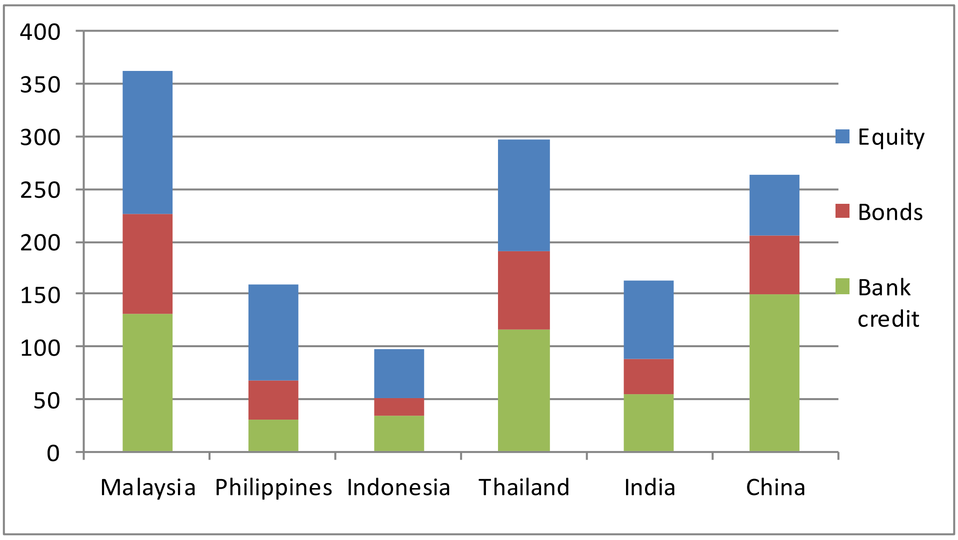
1. Overview

Comparing the size of financial markets of the Asian countries with their economic size, it is shown that markets in Indonesia, the Philippines and India have a relatively smaller size, suggesting that they have underdeveloped financial markets (Chart 1-1). If we compare them on a wider perspective, the size of the world financial market as a whole stands at 308% of GDP, Japan at 576%, the US at 434% and the euro area at 504% (IMF data, 2013). Malaysia, despite the highest among the 6 countries reviewed, has a lower ratio than the world average.

Looking into their breakdowns, it is one of the characteristics except for the Philippines that bank credit has a larger share in most cases, as is generally pointed out with East Asia. India of South Asia region also has a relatively large share for bank credit. The share of equity (aggregate market value) should be seen with some allowance as it is affected by changes in stock prices.

Chart 1-1 : Financial Markets of Asian Countries (as % of GDP)



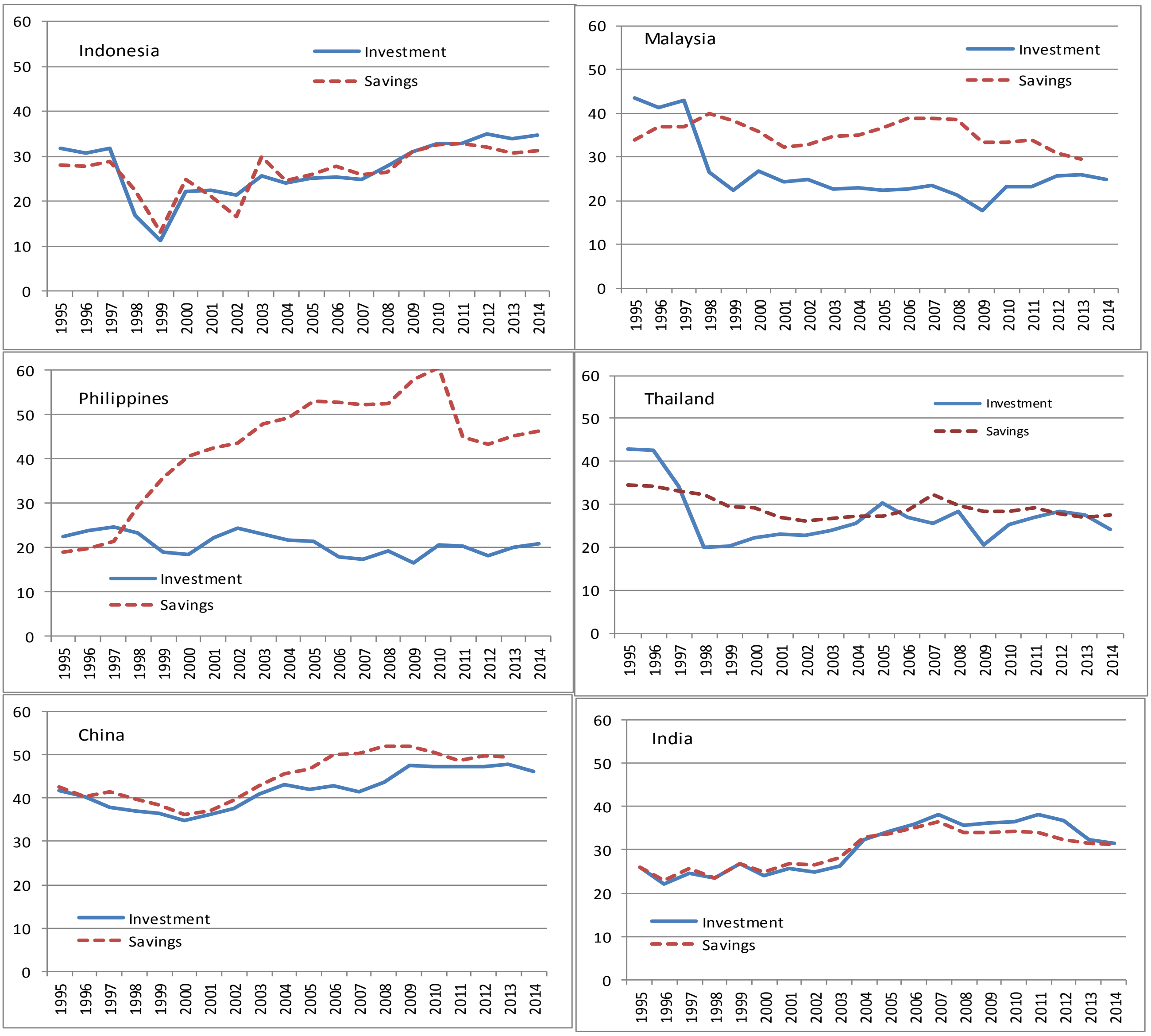
(Note) 2014 for Equity, Sept.2015 for Bonds except India (June2015), June 2015 for Bank credit except Philippines (Nov.2015). At the end of the period.
(Source) Compiled by the author from the data of IBRD, ADB, Bangko Sentral ng Pilipinas, International Monetary Fund

The graph on saving rate and investment rate (Chart 1-2) shows that, although Malaysia and Thailand had a large excess of investment at a time of Asian Crisis, they have been in excess savings since the end of 1990s reflecting a rapid decrease of investment after the crisis. While the decline of investment ratio after the Asian crisis was commonly seen in the ASEAN4 countries, in Indonesia the investment ratio has continued to rise, although gradually, throughout the 2000s.

In China, both savings ratio and investment ratio have continued to rise, with a distinctive rise especially after the global crisis. This seems to have reflected the expanded public works implemented to boost the economy. Since 2010, both savings ratio and investment ratio tend to level off, suggesting that the Chinese economy is in a process of gradual change from the past high growth mainly supported by investment.

Exceptionally high savings ratio in the Philippines as compared to other countries reflects a large inflow of income receipts from abroad[2], and excluding that the domestic savings ratio comes down to around 20%.

Chart 1-2 : Savings and Investment (as % of GDP)



（Source）Compiled by the author from the data of International Bank for Reconstruction & Development

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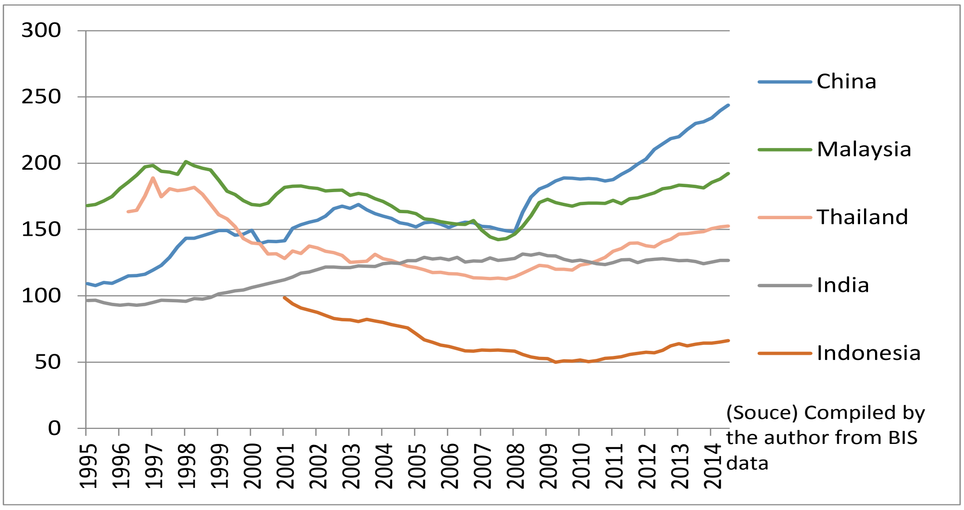
2 Many Filipinos work overseas as a maid or in other jobs and remit their earnings to home, which constitute a precious source of foreign exchange revenues to the Philippines.

Debt outstanding of nonfinancial sector in percentage of GDP (Chart 1-3) shows that it remains at a low level in Indonesia which has a relatively underdeveloped financial market, while in China it has risen rapidly in recent years. In the ASEAN 3 countries (Indonesia, Malaysia and Thailand) the ratio reached a peak level before the Asian crisis, followed by a continued decline. Although it is on the recovery trend after hitting bottom at the time of global crisis, none of them has returned to the peak level yet.

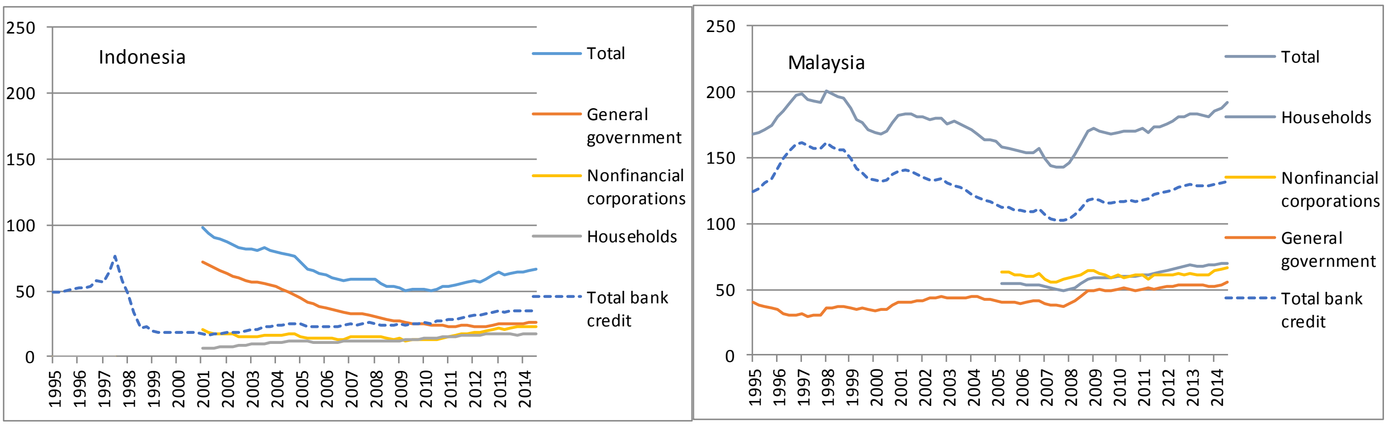
Chart 1-3： Debt outstanding of Non-financial sectors (as % of GDP)



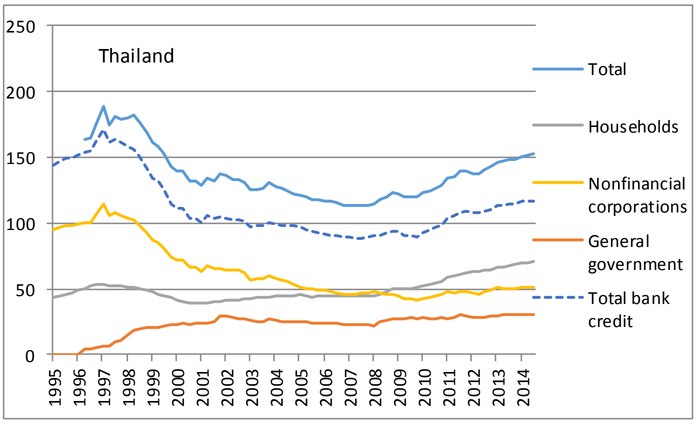
Looking at the structure of debt outstanding by country, government sector of Indonesia has an overwhelming share of debts among the ASEAN 3 countries (Chart 1-4), but the decline of its share has contributed to push down the whole debt ratio. The ratios of corporate sector and household sector have recorded a very modest increase to around 20% of GDP respectively, which are still in the lower end among other ASEAN countries. The data on Thailand reveals that the corporate sector was the main driver of the changes of debts before and after the Asian financial crisis. The ratio of corporate sector is on a declining trend after the crisis but the ratio of household sector has increased after the crisis. The ratio of government sector has remained almost flat since the turn of the century. In recent years, both in Thailand and Malaysia, the debt ratio of household sector has exceeded that of corporate sector.

In China, corporate sector accounts for the big share of debts, which has rapidly increased especially after the global crisis (Chart 1-5). It can be seen that the Chinese companies have expanded their debts in line with the economic stimulus measures of the government taken after the global crisis. Given the deceleration of the Chinese economy, it is concerned that the high level of corporate debts may aggravate their balance sheets. Household sector also has increased the debts, but its level is still below 50% of GDP. In India, the large scale of government debts, especially of local governments is conspicuous. The debt of corporate sector of India has remained roughly flat at around 50% of GDP.

Chart 1-4：Debt outstanding of Nonfinancial sectors（as % of GDP） ASEAN3

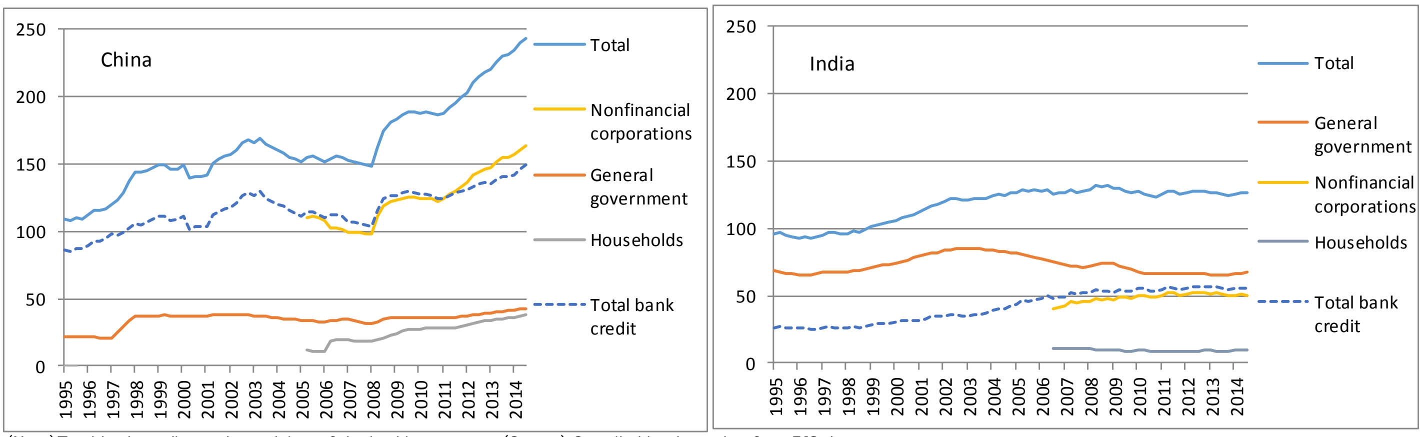


(Note) Total bank credit equals to claims of the banking sector (Source) Compiled by the author from BIS data



(Note) Total bank credit equals to claims of the banking sector (Source) Compiled by the author from BIS data

Chart 1-5：Debt outstanding of Nonfinancial sector （as % of GDP） China, India



(Note) Total bank credit equals to claims of the banking sector (Source) Compiled by the author from BIS data

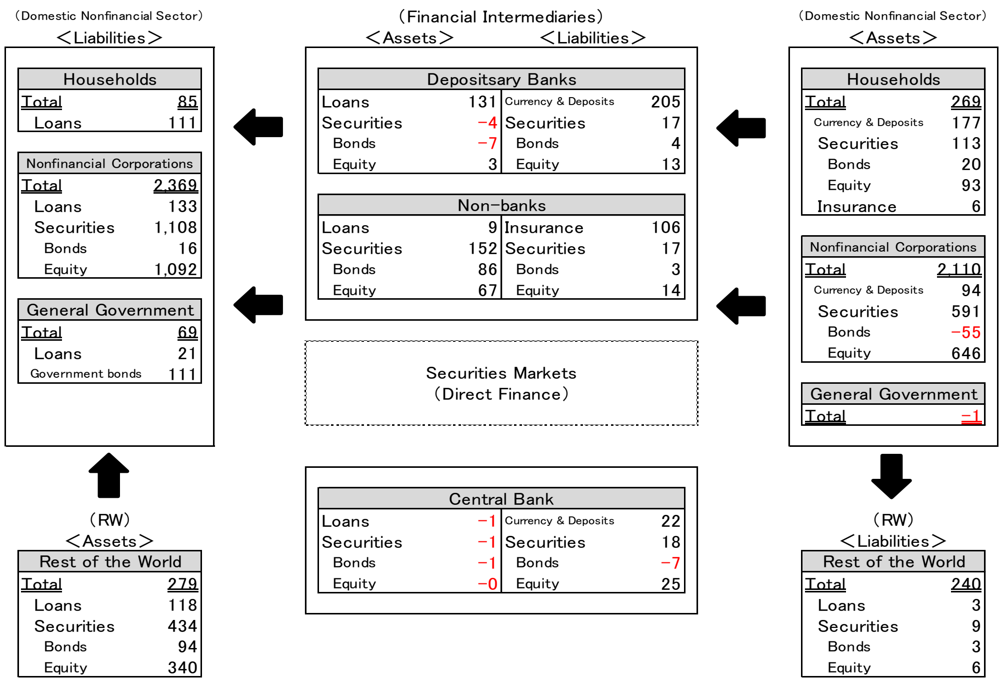
2. Individual Markets

(1) Indonesia

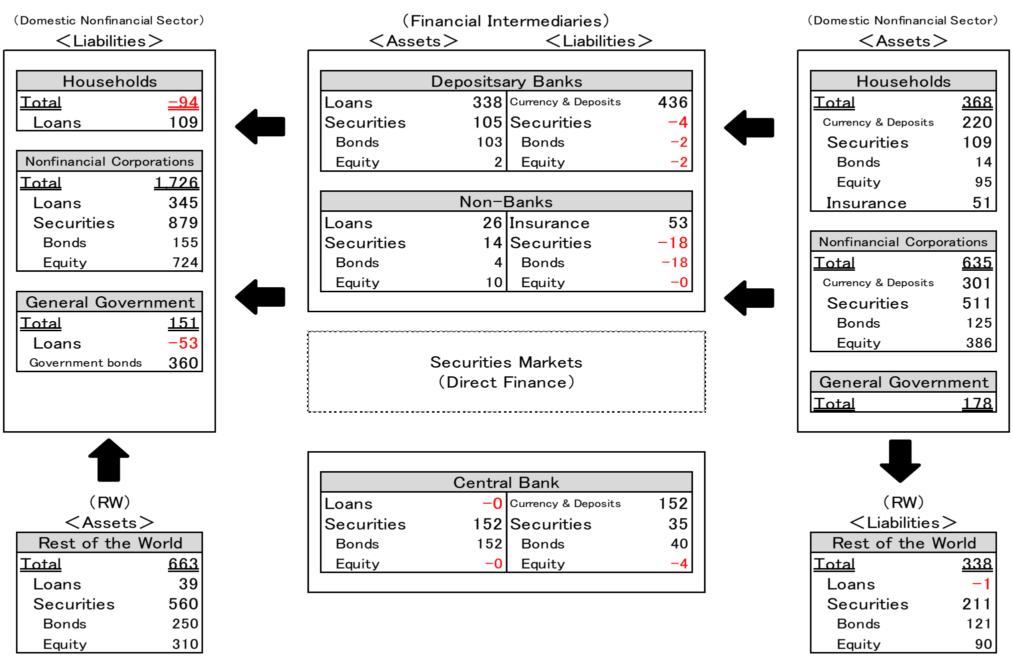
① Flow of Funds

Chart 2-(1)-1 : Flow-of-Funds Account　(Flow basis,Trillions of Rupiah)

＜2009＞



＜2014＞



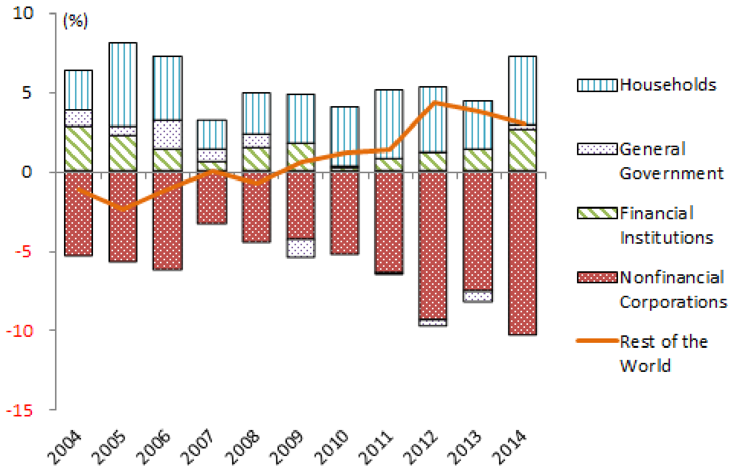
(Source) Compiled by the author from the data of BPS-Statistics Indonesia "Annually Indonesian Flow-of-funds Accounts"

② Net savings by sectors

The Financial structure of Indonesia shows a very clear trend without large dispersions. It is its feature that household sector and financial sector have a surplus while non-financial corporate sector has a large deficit. It has also a big capital inflow from abroad (rest of the world) including direct investment, and as a nation it has tended to have a deficit character.

Although the financial deficit decreased temporarily in 2007, it has been on a rising trend until now. In recent years, the deficits among the non-financial corporates have been gradually expanding, suggesting high capital demands in the corporate sector backed by the stabilized economic growth.

Chart 2-(1)-2 :【Indonesia】 Financial gap by sectors (Flow basis, as % of GDP)



(Source) Compiled by the author from the data of BPS “Annually Indonesian Flow-of-funds Accounts” and the IMF

③ Fund raising of corporations

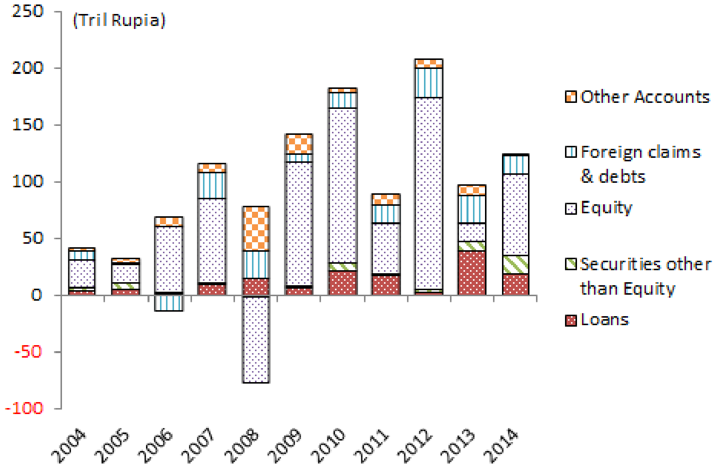
Means of fund raising by Indonesian corporations are unique from other countries in that historically they are dominated by equities and subscriptions. In parallel they have been raising funds by loans and foreign investments. Although expanding a bit, the scale of fund raising by bond (securities other than equity) issues is still small, especially with the issuance stagnating in the longer-term spectrum of securities.

In 2008, funding by means of equities and subscriptions decreased. It was likely that the corporates sold their holdings of equities in order to increase their cash reserves against the backdrop of financial crisis.

Chart 2-(1)-3：【Indonesia】 Fund raising of corporate sector (State and private)(Flow basis)

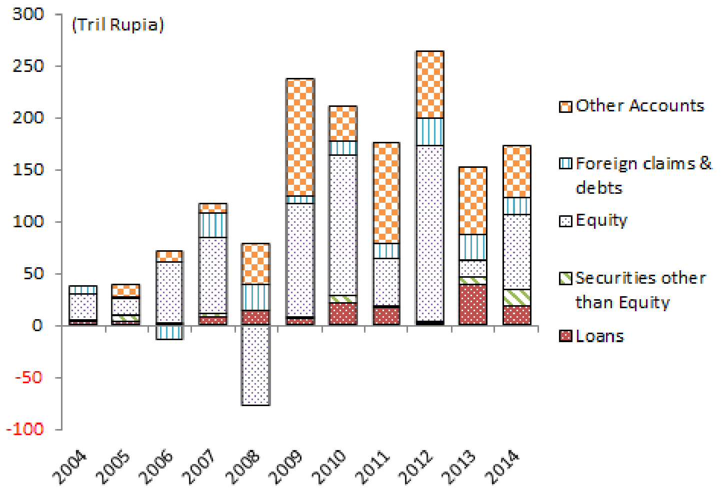
【With miscellaneous accounts excluded】

As miscellaneous accounts (included in others) sometimes register a substantial amount, they are tentatively omitted from the graph in order to avoid the miss-judgement



* Foreign claims & debts: Loans in Foreign Currency, Other Foreign Claims. Other Accounts: Currency & Deposits, Trade Credits, Life Insurance & Pension Reserve

【With miscellaneous accounts included】



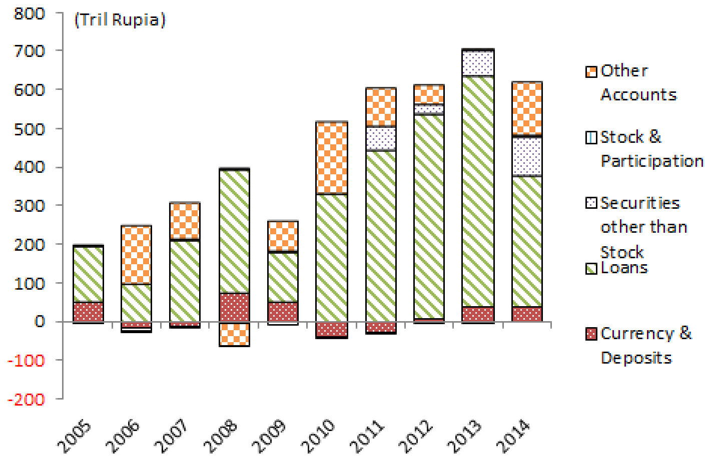
* Foreign claims & debts: Loans in Foreign Currency, Other Foreign Claims. Other Accounts: Currency & Deposits, Trade Credits, Life Insurance & Pension Reserve, Miscellaneous Accounts

（Source） BPS: "Annually Indonesian Flow-of-funds Accounts", each year.

④ Fund management of banking sector

Like other countries, banks in Indonesia manage the majority of their fund by loans. Although securities investment is increasing in recent years, the presence of stocks and participation are almost nil. Others account for a certain portion, but this is because there are substantial transactions among the banks.

Chart 2-(1)-4：【Indonesia】 Fund management of banking sector (Flow basis)



*Other Accounts: Other Foreign Claims, Interbank Claims, Miscellaneous Accounts
（Source） BPS: "Annual Indonesian Flow-of-funds Accounts", each year.

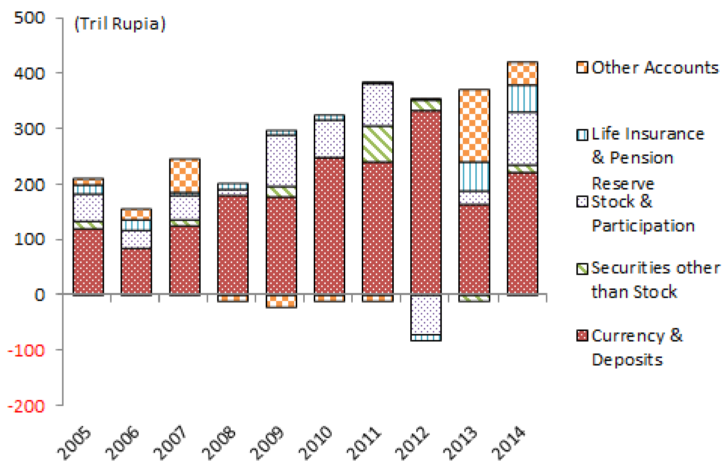
⑤Fund management of household sector

Despite some considerable variations, Indonesian households basically have managed their funds in currency and deposits. Investment in stocks has seen some development, securities investment comes in small amounts with no expansion being in sight. Insurance and pensions also account for a smaller share as compared with Malaysia and Thailand. The developments in the coming years are to be waited.

Chart 2-(1)-5：【Indonesia】 Fund Management of Household Sector (Flow basis)

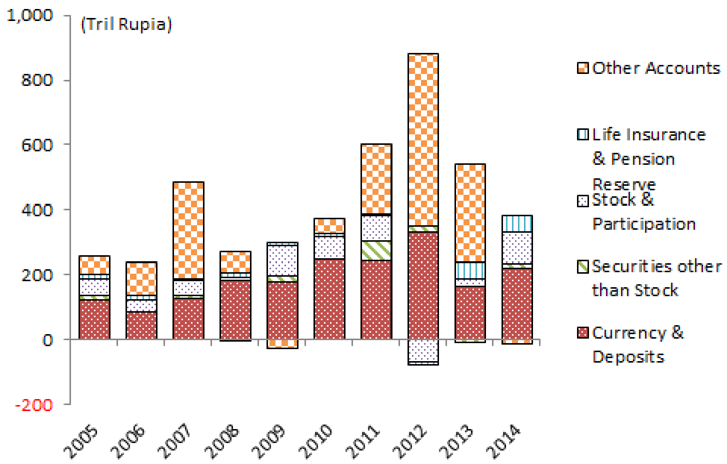
【Excluding miscellaneous accounts】

As miscellaneous accounts (included in others) sometimes register a substantial amount, they are tentatively omitted from the graph in order to avoid the miss-judgement



*Other Accounts: Other Foreign Claims, Loans, Trade Credits, Interbank Claims

【With miscellaneous accounts included】



*Other Accounts: Other Foreign Claims, Loans, Trade Credits, Interbank Claims, Miscellaneous Accounts
（Source） BPS: "Annual Indonesian Flow-of-funds Accounts", each year.

(2) Malaysia

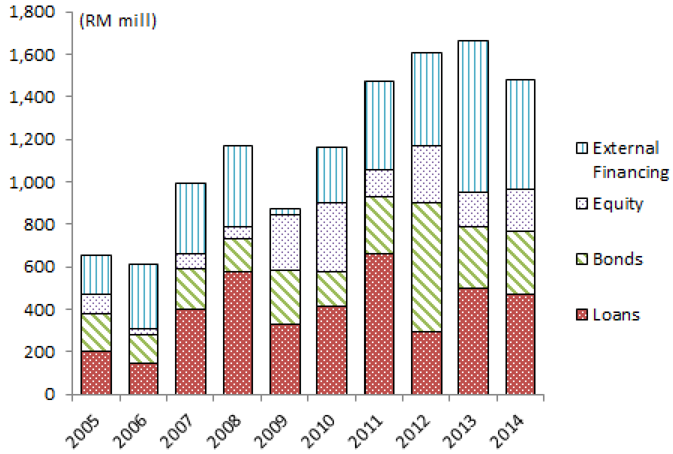
Since Malaysia has not currently published Flow-of-Funds accounts, there are no explanations made for ① Flow of Funds statistics and ② financial gap by sector. For other items we tried to analyze as much as possible based on the data obtained from Annual Reports of BNM (Malaysian central bank) and others.

③ Fund raising of the corporate sector

Malaysian corporates fundamentally raise the funds through loans but the equities (venture capital) and bonds also account for certain shares, resulting in a relatively well-balanced financial structure. For reference, direct investment accounts for a majority portion of Malaysia's external debt.

It seems that in 2009 the total fund raising decreased as corporates became bearish due to negative impact of the financial crisis, but currently the total amounts raised tend to steadily expand.

Chart 2-(2)-1：【Malaysia】Fund raising of corporate sector（net flow basis）

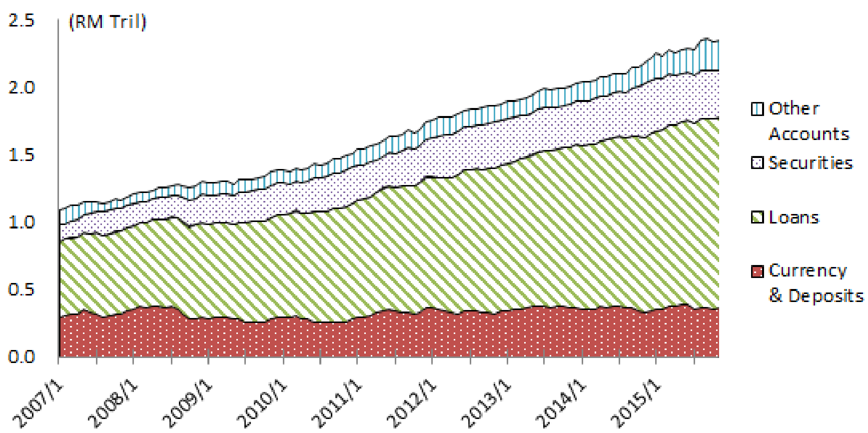


*External Financing: FDI, Offshore borrowing
（Source）BNM "Annual Report" each year

④ Fund management of banking sector

Banks manage about 60% of their funds in loans with its share increasing year by year. On the other hand, the amounts of the currency and deposits remain almost unchanged but their shares are on a falling trend. Shares of investment in securities and other accounts have remained relatively unchanged with no substantial change in the total management structure of the banks.

Chart 2-(2)-2：【Malaysia】Asset structure of banking sector



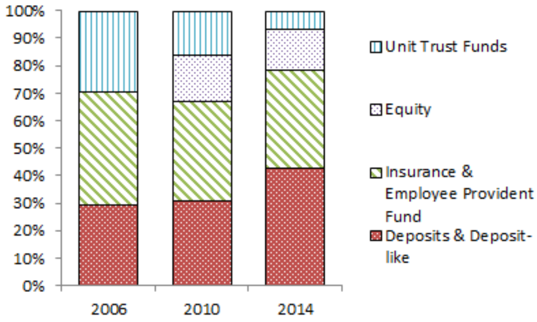
*Securities: Negotiable Instrument Deposits Held, Treasury Bill, Government Securities, Other Securities. Other Accounts: Property, Plant and Equipment, Other Assets
（Source）BNM: Banking System: Statement of Assets

⑤ Fund management of household sector

It is a characteristic of Malaysia's households that they manage their funds not only in the currency and deposits but also they are eager to invest in insurance and pensions (Employee

Provident Funds). Currently the investment in equity market is shrinking a bit while portions of currency and deposits are on an increase.

Chart 2-(2)-3 :【Malaysia】Asset structure of household sector



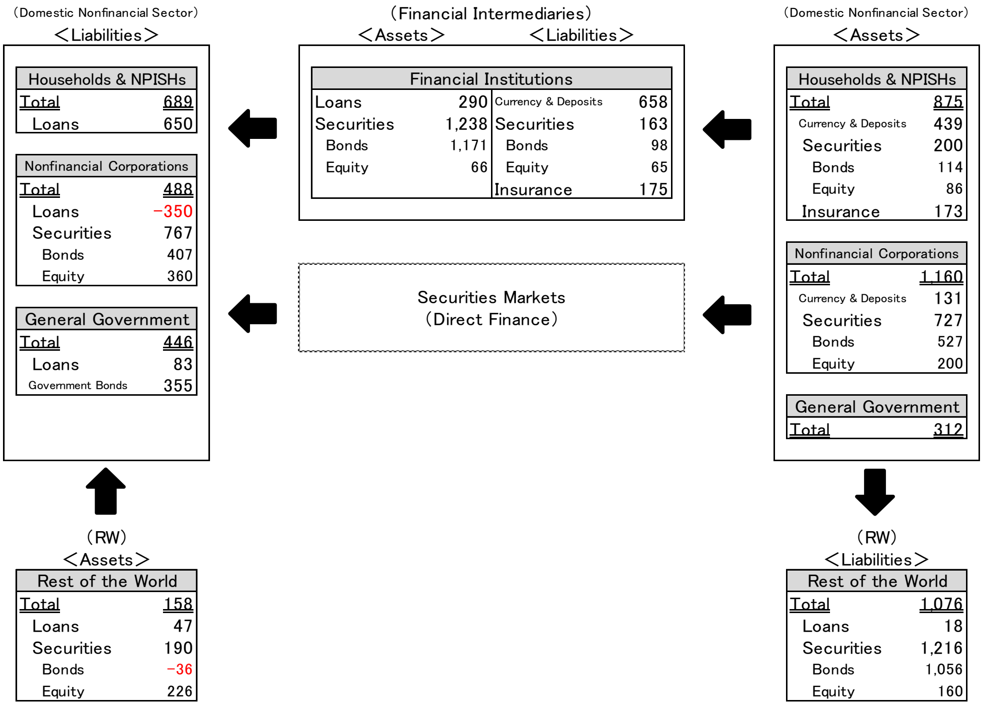
*In 2006, Unit Trust Funds includes Equity.
（Source）BNM: “Financial Stability Report”, each year edition

(3) Thailand

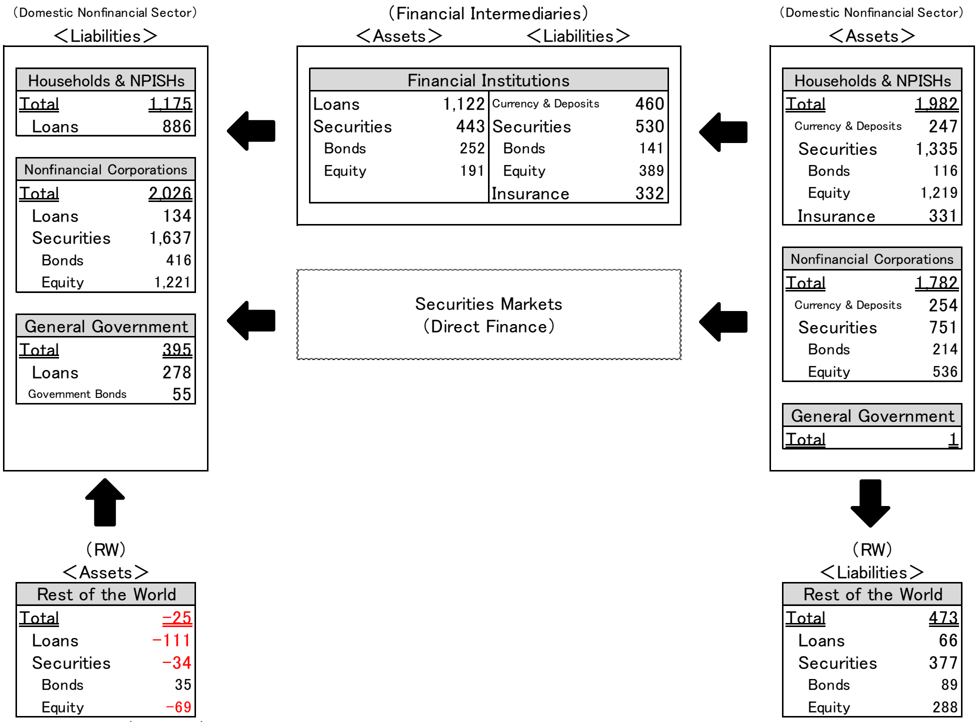
① Flow of Funds

Chart 2-(3)-1 : Flow-of-Funds account (Flow basis, Billions of Baht)

<2009>



<2014>



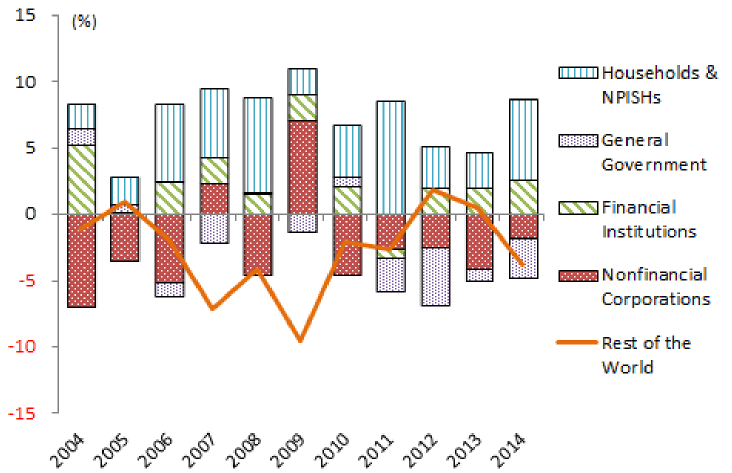
(Source) NESDB: "Flow-of-Funds Accounts of Thailand", each year edition

② Financial gaps of all sectors (on the basis of financial accounts)

Roughly speaking, Thailand has a typical structure of flow of funds where households act as a main lender of surplus funds to recycle them to non-financial corporate sector. External (rest of the world) sector basically has recorded deficit with some fluctuations, while the government sector has had increasingly larger deficits recently as the fiscal balance continues to be in red reflecting expanding government expenditures.

In 2005, reflecting a sharp rise in oil prices the current account recorded a deficit for the first time since 1997, significantly reducing the total financial gap, but since then, the ratio of total financial gap in GDP has basically remained on the same level. The surplus of non-financial corporate sector sharply increased in 2009 and possibly it was because the corporations expanded cash reserves in the aftermath of the global financial crisis that occurred in the previous year.

Chart 2-(3)-2：【Thailand】Financial gaps of all sectors（Flow basis, as % of GDP）



（Source）NESDB: "Flow-of-Funds Accounts of Thailand" each year edition

③ Fund raising of corporate sector

Corporations used to raise funds basically through loans but in recent years shares and other equities have tended to sharply increase to compete with loans to the verge of replacing it as the main means of fund-raising. Securities other than shares also have a certain portion but they have not become a mainstream with a large volatility. .

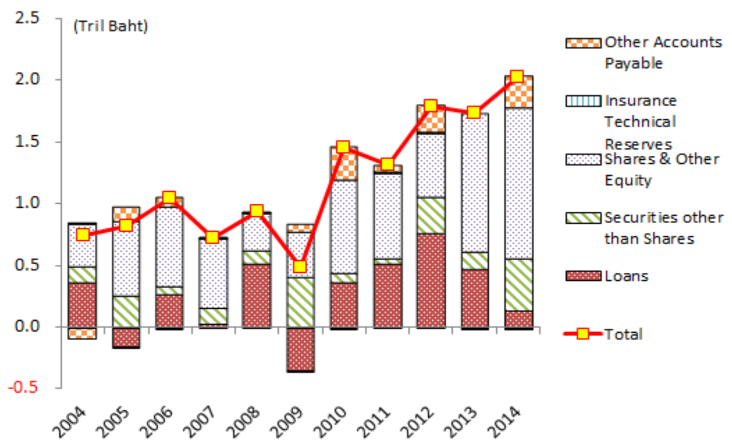
In the stock market, the SET index increased up to now by almost 7 times from the bottom (August 1998) when it plummeted after the Asian currency crisis, together with the market value expanding almost by 17 times since then. The number of listed companies[3] increased

[3] Total of SET(equivalent to primary market), mai (equivalent to secondary market), NPG (Non-Performing Group), and NC (Non-Compliance Group)

from 381 (August 1998) to 699 (September 2015), showing a rapid development with annual IPOs of average 20 to 30 being made.

Chart 2-(3)-3：【Thailand】 Fund raising of Corporate sector

（Non-financial corporations, flow basis）



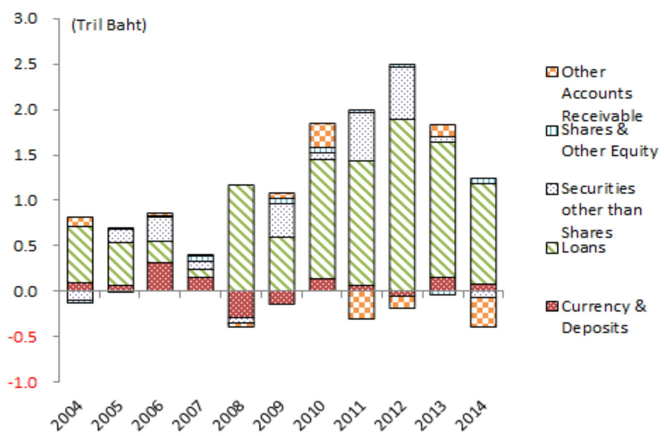
（Source） NESDB: "Flow-of-Funds Accounts of Thailand" each year edition

④Fund management of banking sector

Banks in Thailand have managed major portions of their funds in loans. The loans are mainly directed to the business loans for the corporations, installment credits for the households, and mortgage lending. Investment in securities other than shares has not been so popular as it was once before, with investments in shares taking no important weight as they are still in a very small lot.

Although gross amount of fund management decreased sharply in 2007 mainly due to the influence of decline in domestic demand that reflected political uncertainty, the amount has increased rapidly since then.

Chart 2-(3)-4：【Thailand】 Fund management of banking sector (Flow basis)



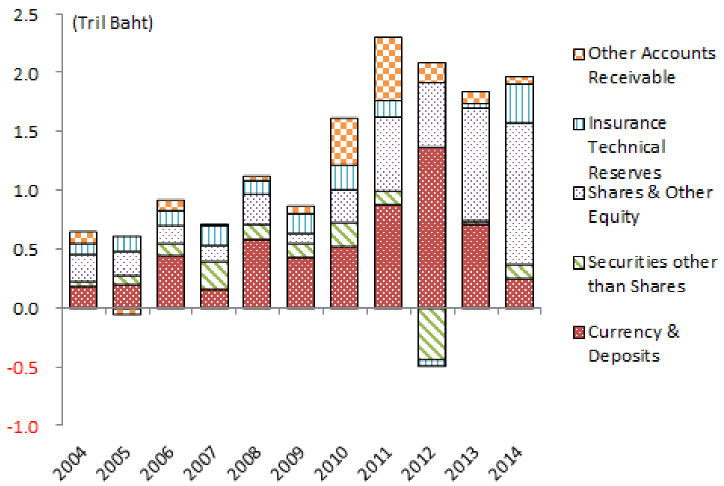
*Excluding Central Bank and Non-banks.

（Source） NESDB: "Flow-of-Funds Accounts of Thailand", each year edition

⑤ Fund management of household sector

Households used to invest their fund mainly in currency and deposits, especially in deposits, but currently the situation has changed. Household are now clearly increasing their investment in shares and other equity with an increased number of individual investors. Insurance and technical pension reserves also keep a certain proportion despite variations, and there is an encouraging movement toward further increase down the road.

Chart 2-(3)-5 :【Thailand】Fund management of household sector (Flow basis)



（Source）NESDB: “Flow-of-Funds Accounts of Thailand” each year

(4) Philippines

① Flow of Funds accounts

Chart 2-(4)-1: Flow of Funds account of Philippines (Flow basis, billions of peso)

【2009】

Domestic Nonfinancial Sector ＜Liabilities＞ Financial sources

Households	
Total	-104
Loans	120

Nonfinancial Corporations	
Total	308
Loans	122
Securities	182
Corporate bonds	176
Equity	6

General Government	
Total	220
Loans	90
Government bonds	94

Rest of the World ＜Assets＞	
Total	87
Loans	-104
Bonds	150
Equity	37

Financial Intermediaries

Financial Institutions	Assets	Liabilities
Total	1,347	1,294
Currency & deposits	571	646
Loans	17	-99
Insurance/Pension	0.1	39
Securities	572	283
Bonds	524	195
Equity	48	88

Securities Markets (Direct Finance)

Domestic Nonfinancial Sector ＜Assets＞ Financial uses

Households	
Total	236
Loans	126
Insurance/Pension	39
Securities	10
Bonds	15
Equity	-6

Nonfinancial Corporations	
Total	575
Currency & Deposits	51
Securities	-113
Bonds	-133
Equity	19

General Government	
Total	9

Rest of the World ＜Liabilities＞	
Total	538

(Source) Compiled by the author from data of Bangko Sentral ng Pilipinas

【2014】

Domestic Nonfinancial Sector ＜Liabilities＞ Financial sources

Households	
Total	448
Loans	360

Nonfinancial Corporations	
Total	715
Loans	565
Securities	
Corporate bonds	14
Equity	90

General Government	
Total	56
Loans	5
Government bonds	15

Rest of the World ＜Assets＞	
Total	261
Loans	30
Bonds	93
Equity	180

Financial Intermediaries

Financial Institutions	Assets	Liabilities
Total	1,507	1,349
Currency & deposits	108	796
Loans	1,113	-9
Insurance/Pension	0.2	4
Securities	222	302
Bonds	182	107
Equity	40	194

Securities Markets (Direct Finance)

Domestic Nonfinancial Sector ＜Assets＞ Financial uses

Households	
Total	630
Currency & Deposits	341
Insurance/Pension	3
Securities	131
Bonds	-55
Equity	186

Nonfinancial Corporations	
Total	765
Currency & Deposits	514
Securities	-32
Bonds	4
Equity	-36

General Government	
Total	153

Rest of the World ＜Liabilities＞	
Total	749

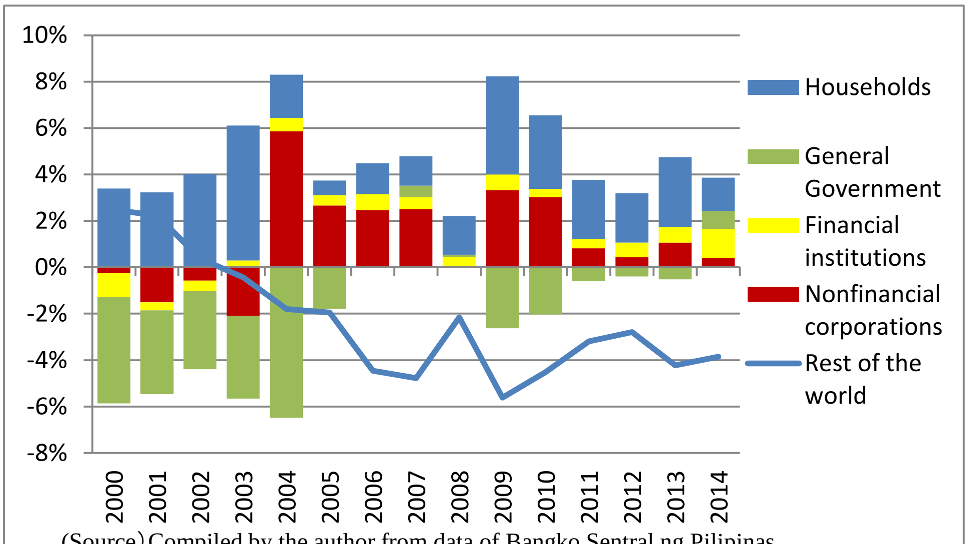
(Source) Compiled by the author from data of Bangko Sentral ng Pilipinas

② Financial gap by sectors

Until the start of 2000s, non-financial corporations, financial institutions and general government all had experienced a shortage of funds with a deficit of funds for the nation as a whole (Chart 2-(4)-2). However, in 2003 and after the nation turned to be a supplier of funds as a whole. Since the middle of the 2000s, the non-financial corporate sector turned to be a net surplus sector whereas the government became a deficit sector of funds. Households continue to be a net surplus sector. Part of its saving has been derived from remittances from abroad.

In 2014 the government sector also turned to a net surplus sector due to increased tax revenues and decreased public investment, thus making all domestic sectors net savers. Within the government sector, all subsectors of central government, local government, social security fund achieved a net surplus. In 2014 the net surplus of financial institutions increased mainly due to decreased payments by non-life insurance companies. Current account surplus decreased from $11.4 billion in 2013 to $10.9 billion, keeping the external investment almost at the same level.

Chart 2-(4)-2 :【Philippines】Financial gap of the sectors (Flow basis, as % of GDP)



(Source) Compiled by the author from data of Bangko Sentral ng Pilipinas

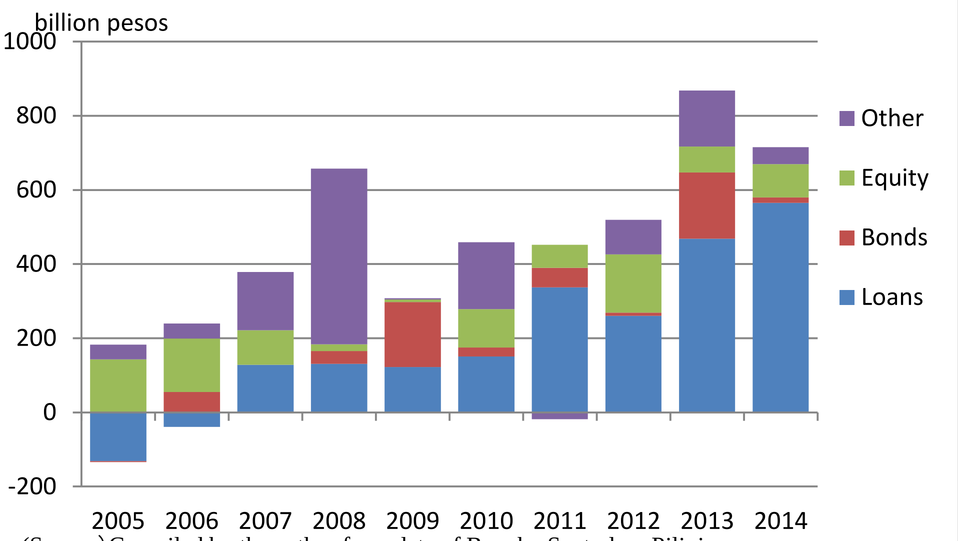
③ Fund raising of corporations

The funding structure of corporate sector is dominated by bank loans[4] (Chart 2-(4)-3). In 2014, bank loans increased by 20.3% for manufacturing, 29.4% for public utilities (electricity, gas and water), which boosted the total amount of loans. Equities and bond issues also accounted for some portions but they are far from being on an increasing trend. IPOs in the

[4] At a time of global financial crisis of 2008 fund raisings of corporations rapidly increased due to a sharp decline in corporate profits, much of them consisted of inter-company credits like trade finance.

Philippines stock market by non-financial corporations remained only at 5 cases in 2014. Bond issuance was limited to such companies as large conglomerates, real estates, transportation, communication, electricity etc., and the bond market is oligopolistic with 30 largest companies accounting for 90% of total bond outstanding (784.2 billion pesos, as of September 2015).

Chart 2-(4)-3 :【Philippines】Financing the resource gap of the Nonfinancial Corporate sector (Flow basis)

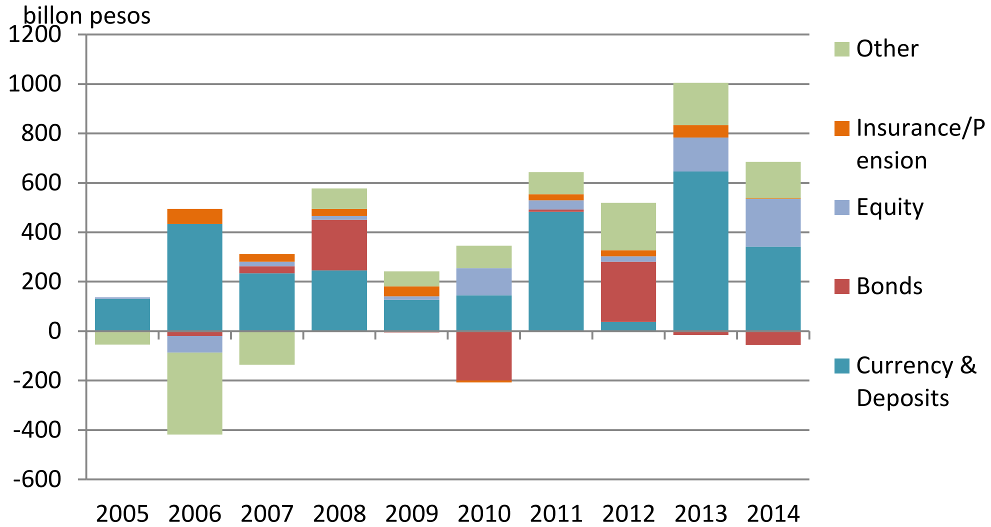


(Source) Compiled by the author from data of Bangko Sentral ng Pilipinas

④ Fund management of household sector

Fund management of household sector is centered around currency and deposits (Chart 2-(4)-4). Recently equities and investment funds are increasing their share with large fluctuations for the bond investment. The share of insurance and pensions is still not so large.

Chart 2-(4)-4 :【Philippines】Fund management of household sector (Flow basis)



(Source) Compiled by the author from data of Bangko Sentral ng Pilipinas

(5) China

① Flow of Funds Account

Chart 2-(5)-1 : Flow of Funds in China (Flow basis, billions of RMB)

【2008】

Domestic Nonfinancial Sector <Liabilities> Financial sources

Households	
Total	709
Loans	709

Nonfinancial Corporations	
Total	6,760
Loans	5,049
Securities	892
Corporate bonds	552
Equity	339
FDI	1,027

General Government	
Total	532
Insurance	410
Government bonds	103

Rest of the World <Assets>	
Total	856
Equity	52
FDI	1,027

Financial Intermediaries

Financial Institutions	Assets	Liabilities
Total	14,130	13,501
Currency & deposits	170	8,600
Loans	6,072	
Insurance		448
Securities	2,731	2,024
Bonds	2,731	2,024
Equity	0	286
Security InvestmentFunds	33	334

Securities Markets
(Direct Finance)

Domestic Nonfinancial Sector <Assets> Financial uses

Households	
Total	6,089
Currency & Deposits	5,018
Insurance	808
Securities	226
Bonds	-613
Equity	287
Security InvestmentFunds	294

Nonfinancial Corporations	
Total	3,759
Currency & Deposits	2,760
Securities	9
FDI	372
Changes in Foreign assets	71

General Government	
Total	603

Rest of the World <Liabilities>	
Total	3,935

(Source) Compiled by the author from data of The People's Bank of China

【2013】

Domestic Nonfinancial Sector <Liabilities> Financial sources

Households	
Total	4,185
Loans	4,185

Nonfinancial Corporations	
Total	14,812
Loans	10,376
Securities	2,234
Corporate bonds	1,811
Equity	423
FDI	1,593

General Government	
Total	2,059
Insurance	734
Government bonds	1,295

Rest of the World <Assets>	
Total	2,841
Equity	206
FDI	1,593

Financial Intermediaries

Financial Institutions	Assets	Liabilities
Total	25,078	26,662
Currency & deposits	396	15,748
Loans	14,805	
Insurance		667
Securities	2,770	414
Bonds	2,703	356
Equity	67	58
Security InvestmentFunds	33	135

Securities Markets
(Direct Finance)

Domestic Nonfinancial Sector <Assets> Financial uses

Households	
Total	9,076
Currency & Deposits	5,914
Insurance	1,316
Securities	488
Bonds	412
Equity	76
Security InvestmentFunds	37

Nonfinancial Corporations	
Total	11,070
Currency & Deposits	5,959
Securities	551
FDI	452
Changes in Foreign assets	388

General Government	
Total	3,640

Rest of the World <Liabilities>	
Total	3,987

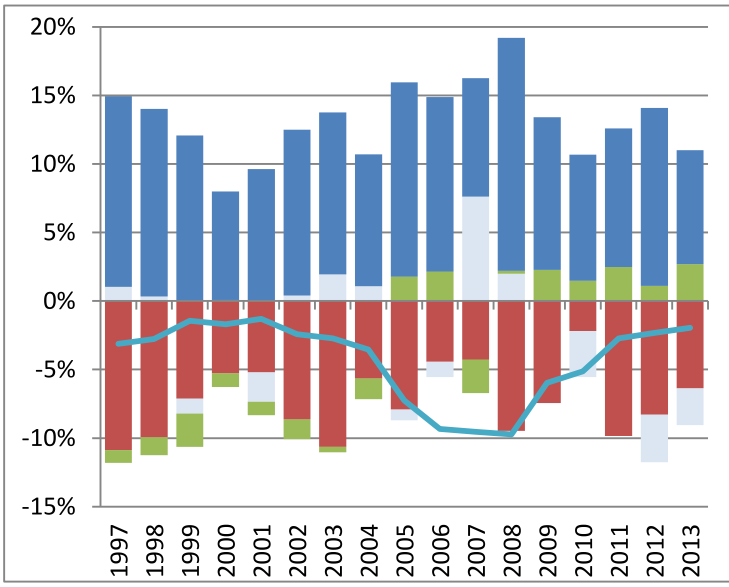
(Source) Compiled by the author from data of The People's Bank of China

② Financial gap by sectors

Household sector in China is a constant net surplus sector and although the amount decreased somewhat from the peak at the global crisis, the net surplus still amounts to nearly 10 percent of GDP (Chart 2-(5)-2). The government sector also has been in a net surplus position since 2009. This abundant saving in China has been channeled to corporations and external sector.

The financial surplus of household sector decreased in 2013 due to a strong housing investment[5], while the financial deficit of corporations decreased a bit reflecting slower increase of capital investment. In 2013 the external sector (rest of the world) recorded an inflow of 2.84 trillion RMB, an increase of 126.6% over the previous year, while domestic sectors saw an outflow of 3.99 trillion RMB, an increase of 59.8%. As a result of large flows on both directions, the net outflow of capital decreased slightly in 2013 to 1.15 trillion RMB from 1.24 trillion RMB in the previous year.

Chart 2-(5)-2 :【China】Financial surplus and deficit by sector (Flow basis, as % of GDP)



(Source) Compiled by the author from dataof People's Bank of China

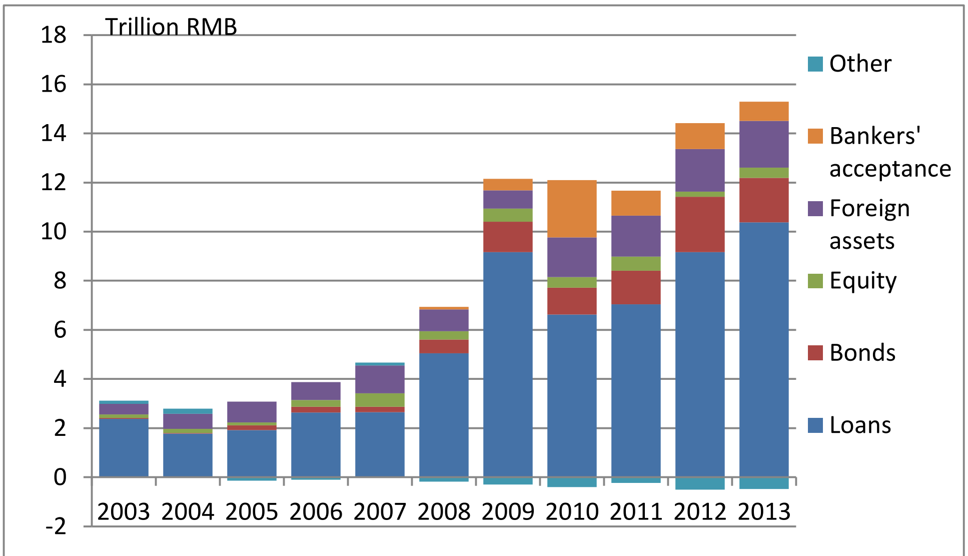
② Fund raising of corporations

Corporate sector continued to raise funds mainly via loans (amounting to 70% of the total funds raised in 2013) but the share of corporate bonds (12.2% in 2013) is increasing as well. The share of equity (2.9%) is still small. Foreign funds including direct investment sharply fell in 2009 but they have recovered to record a substantial share of 12.9% in 2013. Bankers' acceptance had a share of 5.2% in 2013.

[5] In 2013, household raised funds by 4.19 trillion yuan, an increase of 51% over the previous year. Housing loans accounted for 1.56 trillion yuan of the funds raised.

Main issuers of corporate bonds include public entities in transportation and energy and financial corporations like banks and others with the largest 30 companies accounting for less than 40% of total issues of 12.9 trillion RMB (as of September 2015).

Chart 2-(5)-3 :【China】Funds raised by corporate sector (Flow basis)

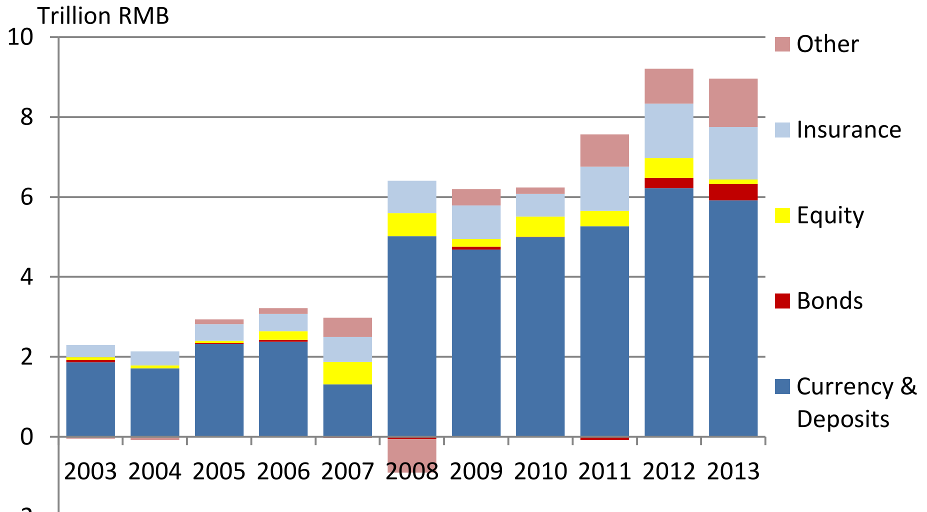


(Source) Compiled by the author from data of People's Bank of China

③ Fund management of household sector

Household sector has managed its funds mainly in deposits (with a share of 61.6% in total funds in 2013), but the share of insurance also has been on a rise (14.5% in 2013) while the share of equity (including stock investment funds) is not large at 1.2%. Most of the bond investment (4.5%) is accounted for by government bonds (4.1%) while the share of corporate bonds is quite small. "Others" item (with a share of 14.7% in 2013) includes so-called wealth management products which have increased its share in recent years.

Chart 2-(5)-4 :【China】Fund management of household sector (Flow basis)



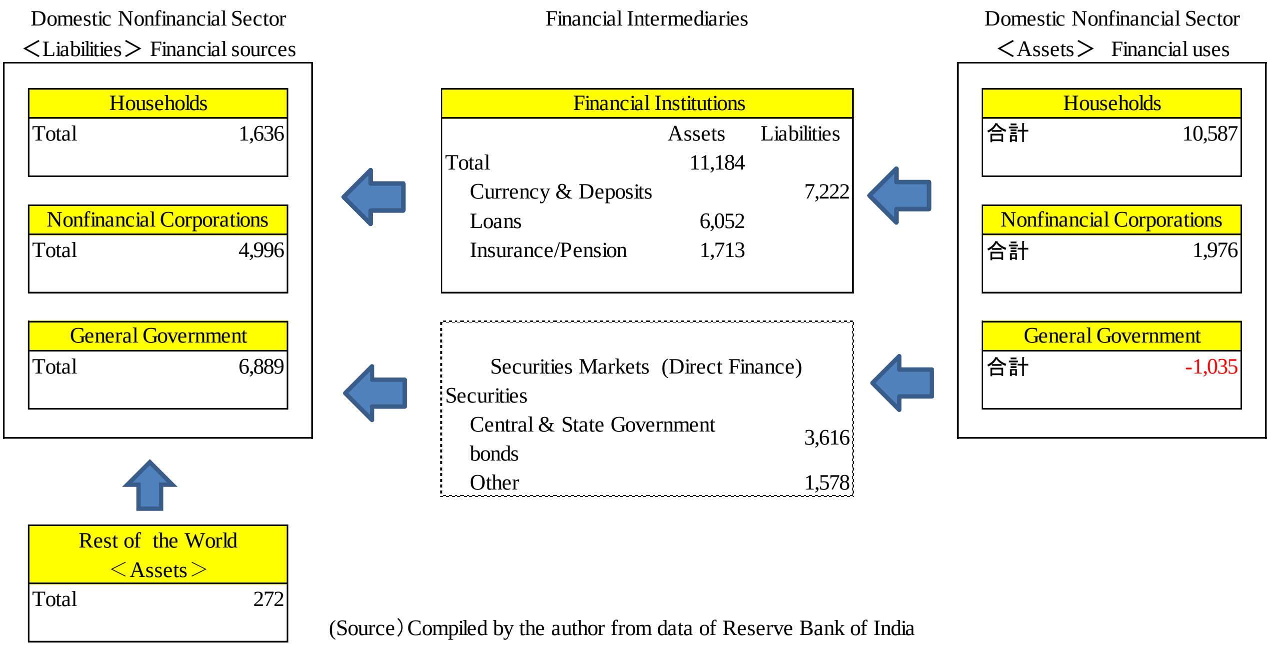
(Source) Compiled by the author from data of People's Bank of China

(6) India

① Flow of Funds account

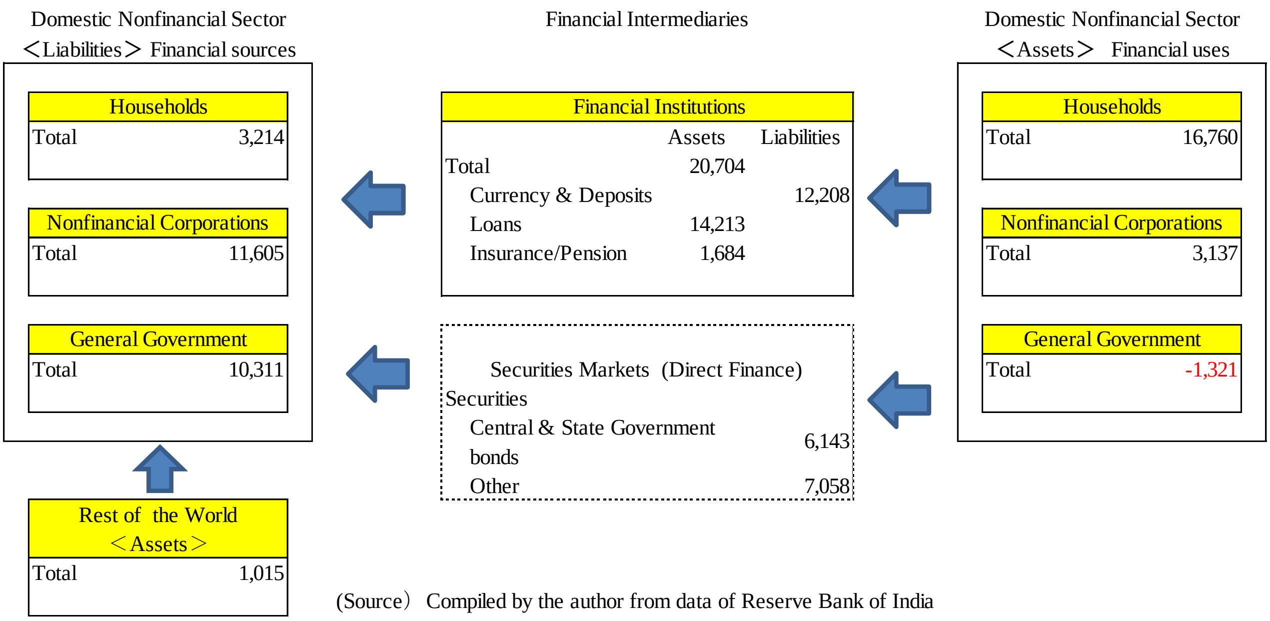
Chart 2-(6)-1 : India, Flow of Funds account (Flow basis, billions of Rupee)

【2008/09】



(Source) Compiled by the author from data of Reserve Bank of India

【2012/13】



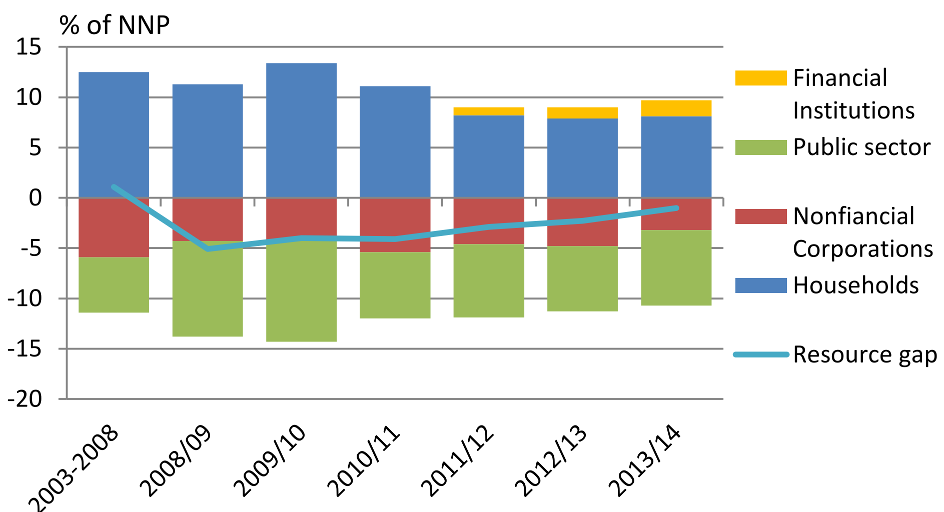
(Source) Compiled by the author from data of Reserve Bank of India

② Financial surplus and deficit by sectors

In India, household sector and financial institutions are a net financial surplus sector (Chart 2-(6)-2) while public sector (central government, local governments, public financial institutions, public enterprises) and corporate sectors are a net deficit sector. Public sector is the biggest deficit sector of which general government experienced a deficit of 6.6% of NNP in fiscal year 2013/14), public enterprises a deficit of 2.6%, and public financial institutions a net surplus of 1.8% respectively.

The deficit of corporate sector sharply decreased in 2013/14 due to the tax revisions and administrative measures implemented at the end of previous fiscal year. The surplus of household sector increased, while the deficit of general government sector expanded due to increase in investment. As a whole, both domestic savings and investments shrank with a net financial deficit (which corresponds to a current account deficit) decreasing due to lesser decrease in investment.

Chart 2-(6)-2：【India】 Financial gap of the sectors (Flow basis)

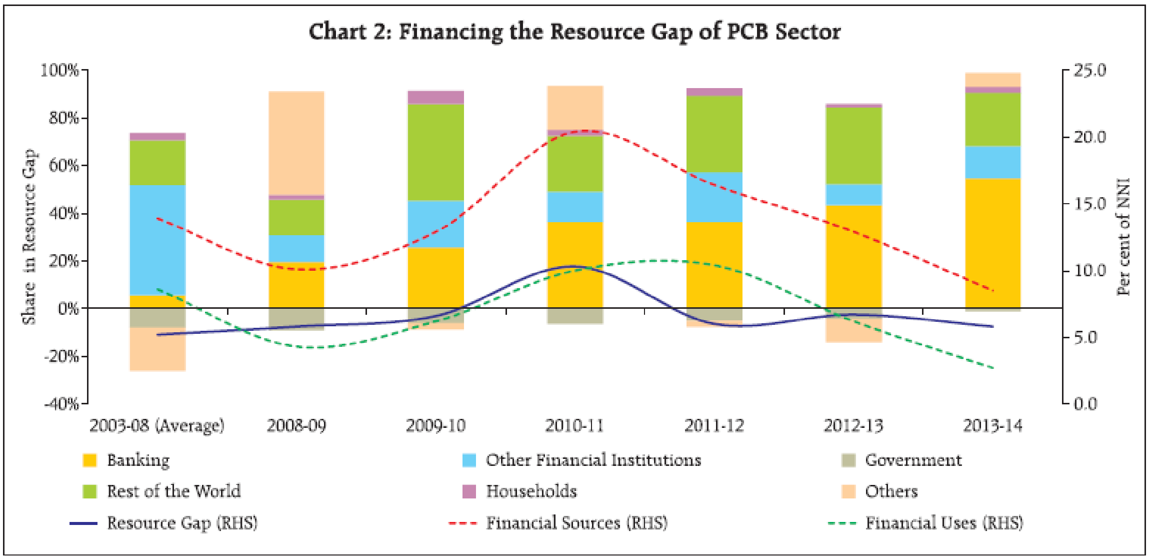


(Note) Data not available befor 2010 for Financial Institutions
(Source)Complied by the author from data Reservve Bank of India

② Fund raising of corporations

Before the global financial crisis corporations in India used to raise their funds mainly by borrowing from non-bank financial institutions (insurance and mutual funds, etc.) and equities, but in recent years bank loans have been increasing its share followed by external fund (direct investment and borrowing) (Chart 2-(6)-3).

Chart 2-(6)-3 :【India】Financing the resource gap of Private Corporate Business sector (Flow basis)



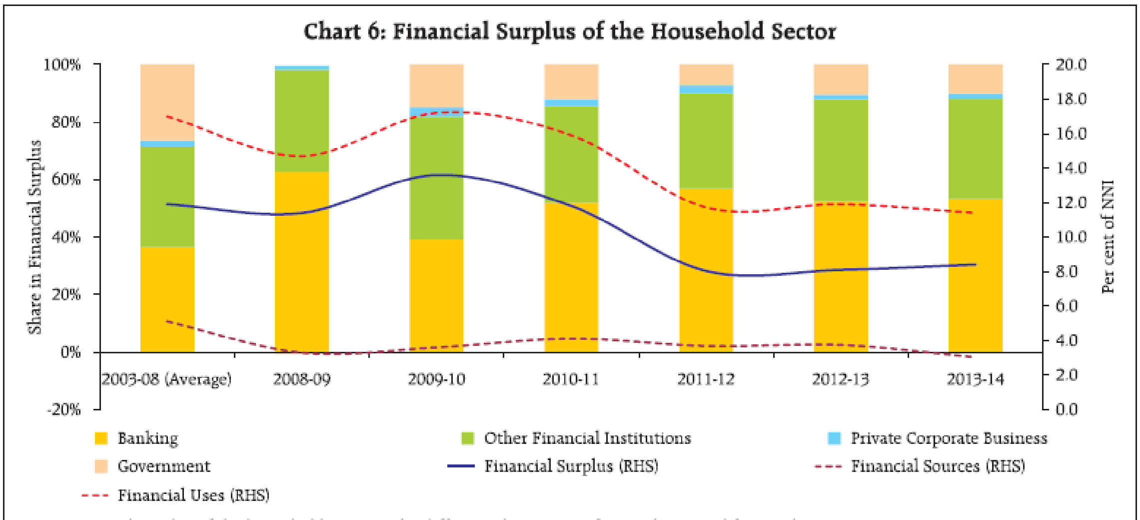
（Source） Reserve Bank of India

③ Fund management of household sector

The households have been managing their funds mainly in bank deposits (Chart 2-(6)-4), which accounted for 55% of their total funds managed in fiscal 2013/14. Other financial institutions (including insurance, pensions, provident funds[6], mutual funds) accounted for a certain level of share, followed by government bonds and local governments bonds.

6 Provident Fund : A system that employees of the business establishment with more than 20 employees are required to participate in. Both enterprises and employees contribute a certain portion of the salaries which the employees receive as pensions after retirement.

Chart 2-(6)-4 :【India】Financial surplus of the Household sector (Flow basis)



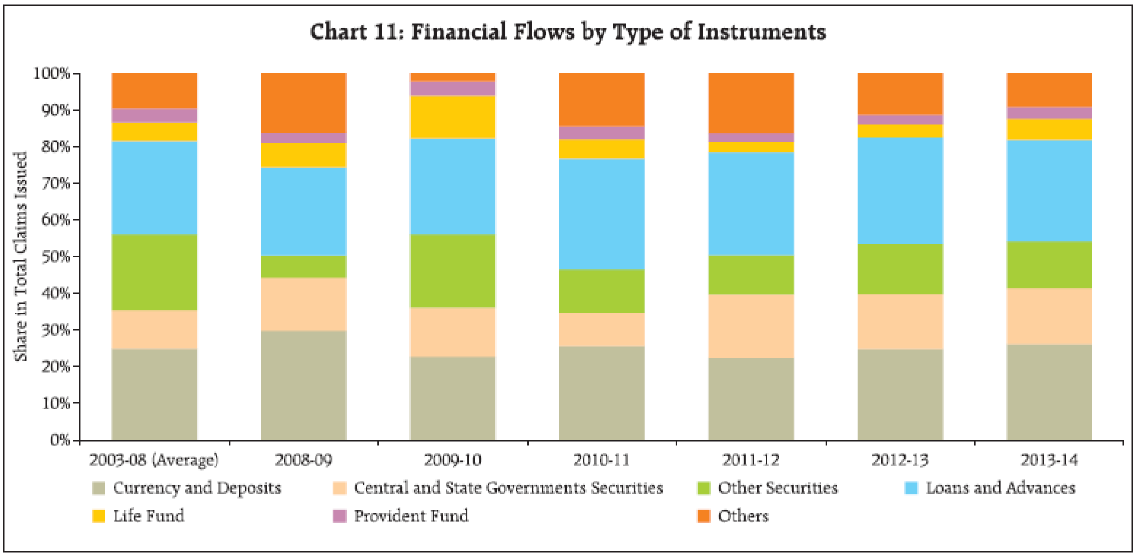
Note: Financial surplus of the household sector is the difference between its financial uses and financial sources.

（Source） Reserve Bank of India

④ Financial flows by type of instruments

Domestic flow of capital is dominated by securities (central and state governments securities and other securities) followed by loans and advances. In the fiscal year 2013/14, investment in private securities (including mutual funds) slightly decreased which was covered by an increase of investment in government securities. The shares of life insurance and PF funds also increased.

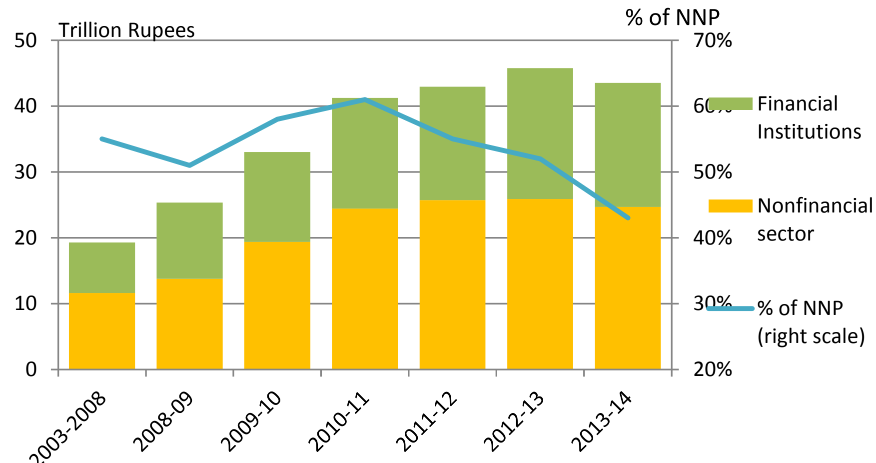
Chart 2-(6)-5 :【India】Financial Flows by Type of Instruments



(Source) Reserve Bank of India

Investment in many types of financial instruments by each sector had a steady expansion but in 2013/14, the investment by non-financial sector and financial institutions decreased to 24.7 trillion rupees and 18.8 trillion rupees respectively from their outstanding in the previous fiscal year. Looking at the share of financial instruments in NNI which the RBI regards as an indicator for the development of financial market, the ratio dropped to 51% at a time of global crisis from the average of 55% in the pre-crisis period of 2003 to 2008 and took a recovery until 2010/11, but since then the ratio has been declining to 43% in 2013/14, much below the level recorded at a time of global crisis.

Chart 2-(6)-6 :【India】Use of Financial Instruments (Flow basis)



(Note)Average for 2003-2008.
(Source)Complied by the author from data Reserve Bank of India

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