

CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION

Financial intermediaries play a significant role in an economy. They ensure that savings are channeled from households to firms and public sector for investment in the productive sectors. A well functioning financial intermediation process contributes to economic development by ensuring efficient allocation of financial resources in an economy. As the economy expands, the financial intermediation process become more complicated and thus creates a need for a stronger and stable financial system.

In Malaysia, the regional financial crisis of 1997 –1998 had highlighted the vulnerability of domestic financial institutions in supporting the financial intermediation process. The crisis demonstrated the need to formulate a blueprint to address the prevailing weaknesses in the financial system and to ensure that the domestic financial institutions and capital market remain efficient and competitive in the face of a more globalised and liberalised economy.

In view of that, two major long-term plans for financial development were unveiled. Both the Financial Sector Master Plan (FSMP) and the Capital Market Master Plan (CMP) were formulated with the aims to enhance the efficiency and effectiveness of both the financial and capital market in order to face the challenges of financial liberalisation and market globalisation. With the unveiling of these master plans, it is expected that the recommendations will bring wide range of implications

to the economy. Hence, there is a need to find out whether those recommendations will be significant to the financial development in the near future. Are the recommendations of these two master plans adequate to meet the future intermediation needs? Are they appropriate and realistic to be implemented?

1.2 OBJECTIVE AND SIGNIFICANCE OF THE STUDY

The objective of the study is to critically evaluate the adequacy of both the FSMP and CMP to meet the future financial intermediation needs of Malaysia. The evaluation of the FSMP and CMP will be useful as a reference to the regulators and the planners in financial institutions and the capital market in formulating the policies and strategies respectively to improve the financial intermediation process. This study could also provide valuable insights for future researchers in the same field.

1.3 SCOPE OF THE STUDY

The study will cover a broad scope, which includes the banking institutions, non-bank financial institutions and the equity market, bond market and derivatives market. However, the focus will be on the FSMP and CMP in relation to the financial intermediation process.

1.4 LIMITATION OF THE STUDY

In view of the examination of the Malaysian economy covers a long term period, that is from 1970 to 2000, there is a limitation in collecting relevant data.

For example, certain data has been provided in the recent years but not in the early years, or the calculation approach for the data has been changed over the years.

1.5 ORGANIZATION OF THE STUDY

The research paper will comprise six chapters. Chapter one will introduce the objective of the study and its significance, the scope and the limitation of the study, and the organisation of the study. The second chapter will be a literature review that covers the theoretical and empirical studies of the functions of financial system and its efficiency in providing financial services.

The third chapter will examine the development of Malaysian economy as well as the financial system from year 1970 to 2000. Chapter four will discuss the future directions of the Malaysian economy and analyse the future financial intermediation needs. The fifth chapter will compare the FSMP and CMP to show their inter-connection and subsequently evaluate the adequacy of the recommendations embedded in both master plans to meet the future financial intermediation needs of Malaysia. Chapter six will conclude the evaluation of the two master plans.