

# Reserve Money

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*This press release should be attributed to Deputy Governor Fong Weng Phak.*

The Singapore Business Times of 9 March 1998 quoted a report by Morgan Stanley that Bank Negara Malaysia's (BNM's) reduction of SRR on 16 February amounted to a "generalised monetary easing".

I would like to clarify that there was a gross misunderstanding. The reduction in SRR by 31/2% on 16 February, which resulted in a return of RM14 billion to the banking system was not a relaxation of monetary policy. Monetary policy remained tight, as reflected in the following two conditions:

- Direct BNM lending to the inter bank market through placement of deposits with the banking system was simultaneously reduced by RM14 billion to offset the impact of SRR reduction. Indeed, placement of BNM deposits in the banking system was reduced from RM34.0 billion on 14 February (before the reduction in SRR) to RM16.2 billion on 28 February. These data are published in the fortnightly BNM Statement of Assets & Liabilities.
- The BNM intervention rate for 3-month inter bank borrowing was raised from just below 10% to 11% per annum.

It must be emphasised that with the SRR reduction, there was no change to the objective to slowdown overall credit growth to 20% by end March 1998 and to 15% by end 1998. At the end of 1997, overall annual credit growth was 26%. It slowed down to 23% by end January 1998.

It must also be emphasised that BNM had earlier stopped banking institutions, which faced significant liquidity problem, from increasing their loans outstanding. This administrative ruling continued to apply. Therefore for these institutions, the release of funds under the SRR reduction was used to offset BNM direct lending to them so that there was no actual movement of cash, but a mere book entry adjustment.

On the report by Morgan Stanley that "reserve money - the most basic measure of monetary policy - continues to grow at nearly 30% year on year". I would like to clarify that reserve money has two sources : accumulation of external reserves and net injection of funds by BNM.

- External reserves of BNM which amounted to RM70.7 billion on 30 June 1997 fell by RM14 billion to RM56.7 billion on 28 February 1998. Hence was a reduction in reserve money to the Malaysian monetary system by RM14 billion.
- BNM deposits placed with the banking system showed a net liability position of RM52.5 billion on 30 June 1997 (deposits placed with banking system of RM9.3 billion less liabilities to banking system of RM61.8 billion). On 28 February 1998, BNM deposits with the banking system showed a net liability position of RM31.4 billion (deposits of RM16.2 billion less liabilities of RM47.2 billion). Therefore comparing the two net liability positions, there was an injection of reserve money of RM21.1 billion between 30 June 1997 and 28 February 1998.

Taking into account both external reserves and BNM operations, there was an increase of reserve money of RM7.1 billion (external reserves - RM14 billion plus BNM net placement + RM21.1 billion).

Reflecting the tight monetary policy, overall annual credit growth of the banking system slowed down from 26% at the end of December 1997 to 23% at the end of January 1998, while M3 growth was also reduced from 18.5% to 16.0% over the same period.

**Bank Negara Malaysia**  
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