

Statutory Reserve Requirement of Banking Institutions

Embargo : Not for publication or broadcast before 1600 on Friday, 26 June 1998

26 Jun 1998

Bank Negara Malaysia announces today a reduction in the Statutory Reserve Requirement (SRR) of banking institutions. With effect from 1 July 1998, the SRR of commercial banks, finance companies and merchant banks will be reduced by two percentage points from 10% to 8% of their eligible liabilities.

The measure aims to further reduce the cost of funds to banking institutions and improve the efficiency of the intermediation process in providing financing to productive economic activities. The lower funding cost would enable institutions to lower their lending rates. A two percentage points reduction in SRR would reduce the base lending rate (BLR) of the commercial banks by 0.21% and that of finance companies by 0.27%. While the reduction in SRR from 10% to 8% would release about RM8 billion of funds to the banking institutions, the liquidity in the interbank market will be closely monitored and the 3-month Bank Negara Malaysia intervention rate will continue to remain unchanged.

Interest rate policy will have to take into consideration the significant deceleration in monetary and credit growth and the slowdown in economic activity in the first half of 1998, as well as the need to maintain exchange rate stability. In the current environment, M3 and loan growth has decelerated faster than desirable. M3 growth slowed down from 21.8% in June 1997 to 9.6% at the end of May 1998. Over the same period, credit growth of the banking system slowed down from 30.4% at end-June 1997 to 12% at the end of May 1998. The real gross domestic product (GDP) declined by 1.8% in the first quarter of 1998. Inflation during April and May, however, has stabilised in the region of 5.5%. In the light of these developments, the reduction in the SRR represents part of a series of measures that will be taken to ensure that the Malaysian economy does not spiral into a major economic slowdown while maintaining the macroeconomic objectives that have been announced earlier this year.

Bank Negara Malaysia
26 June 1998

© Bank Negara Malaysia, 1998. All rights reserved.

Follow us

Website Tools

[Search](#)

[Email Alert](#)

[Contact Us](#)

[FAQs](#)

[Download Forms](#)

Legal Notices

[Terms of Use](#)

[Disclaimer](#)

[Privacy & Cookie Policy](#)

BNMTELELINK Contact Centre

1-300-88-5465

Monday - Friday 9am - 5pm

[e-LINK Form](#)

BNM General Line

+603 2698 8044