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THE IMPACT OF MACROECONOMIC VARIABLES TOWARDS INTERBANK MONEY MARKET RATE IN MALAYSIA

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ABSTRACT

In financial market systems, the interbank money market is a channel through which banks can borrow and lend, purchase and sell assets to one another for a certain period of time. Interbank money market instruments are short-term financial products with maturities ranging from overnight to 12 months. The interbank money market is essential in the central bank's implementation of monetary policy to financial institutions. It serves as the starting point for the monetary policy transmission mechanism. When the central bank issues new monetary policy, the money market is the first to be influenced by the policy changes while other markets do so as well later. The primary goal of this study is to examine the independent variables of interest rate, money supply, inflation, economic growth, and stock market performance to determine the macroeconomic determinants of interbank money market rates in Malaysia. The research will be done on a monthly basis for five (5) years, beginning in August 2017 and ending in August 2021.

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INTRODUCTION

1.1 Introduction

The financial money market is a financial market platform that allows market participants such as central banks, governments, commercial banks, mutual funds and investment companies, financial institutions, and individuals to transact short-term money market financial instruments with maturities ranging from overnight to 12 months (CFI, 2021). In general, the financial money market is separated into two types: regular money market and interbank money market. The common money market is made up of investment businesses, corporations, and people, whereas the interbank money market is made up of commercial and investment banks, governments, and central banks, to mention a few.

Bank accounts, including term certificates of deposit; interbank loans (loans between banks); money market mutual funds; commercial paper; Treasury bills; and securities lending and repurchase agreements (repos) are among the instruments traded in money markets (Randall Dodd, 2021). These money market instruments, many of which are securities, differ in how they are traded and processed under financial regulatory regulations, as well as how much a lender depends on the value of underlying collateral rather than a borrower assessment. Bank deposits are the most common money market instruments, although they are not considered securities, despite the fact that certificates of deposit are occasionally traded like securities. Depositors who lend money to the bank consider the creditworthiness of the institution as well as any government initiatives that insure bank deposits.

The interbank rate, according to Adam Hayes (2021), is the interest rate imposed on borrowing and lending (conventional institutions) and buying and selling (Islamic institutions) between banks. Many internal and external elements influence the rate. Internal factors are those that exist inside the bank itself, such as profit margins and transaction expenses. Aside from internal and external elements, macroeconomic