FACTORS AFFECTING RESERVES BALANCE IN MALAYSIA

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ABSTRACT

Briefly, this paper aims at examining how Central Bank indicators affect the Reserves Balance in Malaysia. It also employs the latest estimation of indicators that affect the Reserves Balance in Malaysia. Recently, the Federal Reserve's balance seems to have an issue with the decrement and the reasons for the rise and fall of the rate can be very complicated and crucial. The reserves balance is considered as dependent variable in this study. The Central Bank indicators which are considered as independent variables are total assets, total liabilities, currency in circulation and inflation rate. The study is an attempt to analysing the relationship of the chosen Central Bank indicators towards influencing reserves balance in Malaysia. The software of E-views would be used for testing and analysing all the data collected. It can be used in order to identify the sources relate to the factors affecting reserves balance in Malaysia. In this study, total asset and total liabilities have a significant relationship with reserves balance in Malaysia. The results of this research paper would provide us with an indicative view and could form an important basis for students as additional reference in their future academic research paper.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

This research is focus on the study of factors affecting reserves balance in Malaysia. In this chapter, will be discuss briefly about the background of study, problem statement, research objectives, scope of study, significance of study, limitations of study and definition of terms.

Apart of that, there are two types of variable that will be discussed in this study. The first type of variable is dependent variable which is reserves balance. The second type of variable is independent variables which are total asset, total liabilities, currency in circulation and inflation rate.

1.2 RESEARCH BACKGROUND

Federal Reserves which known as Statutory Reserve Requirement (SRR) is a regulation used by the most of the world's national banks. It sets the base part of customer deposits and notes that every financial institution must hold as reserves *(Bank Negara Malaysia, 2009)*. Reserve requirement built up three key targets for monetary policy in the Federal Reserve Act; maximize employment, stabilize costs, and directing long term interest rate *(Federal Reserve Act, 1913)*. This is for the purpose of liquidity management and obligations towards the country. The SRR is a monetary policy instrument available to the financial institutions to manage liquidity and hence credit creation in the system. However, not all countries are practicing the