

Box C: Review of MAS Money Market Operations in FY2023/24¹

Money market operations in Singapore are undertaken to manage liquidity within the banking system and are distinct from the implementation of the exchange rate-based monetary policy. This Box reviews MAS' money market operations in FY2023/24.

The conduct of money market operations is briefly explained in the context of Singapore's exchange rate policy framework. This is followed by a review of banks' demand for cash balances, the behaviour of autonomous money market factors, and the composition of money market operations during this period.

Money Market Operations in Singapore

Given Singapore's open capital account and exchange rate-centred monetary policy, domestic interest rates are necessarily endogenous. They are determined not just by MAS' exchange rate policy, but also by global factors, including international interest rates. MAS' money market operations are thus not targeted at any level of interest rate. Instead, they are aimed at ensuring that there is sufficient liquidity in the banking system to meet banks' demand for reserve and settlement balances, and to reduce the risk of sharp interest rate volatility.

Money market operations are conducted by the Monetary & Domestic Markets Management Department (MDD) at MAS. The extent and size of daily money market operations depend on market conditions, particularly the banking sector's demand for funds, as well as the net liquidity impact of autonomous money market factors, as outlined in the sections below.

Banks' Demand for Cash Balances

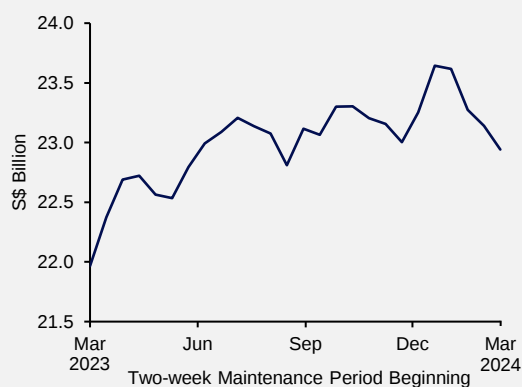
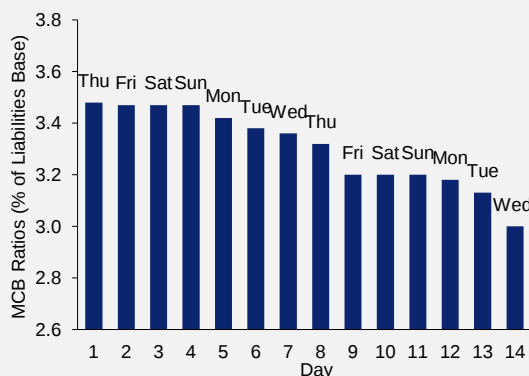
Banks in Singapore are required² to maintain a Minimum Cash Balance (MCB) with MAS equivalent to a specified proportion of their qualifying liabilities. On a daily basis, banks have to maintain an effective end-of-day cash balance of between 2% and 4%³ of their liabilities base, while in each two-week maintenance period, average cash balances should not fall below 3% of their liabilities base. The need for banks to meet MCB requirements forms the base demand for cash balances. In FY2023/24, this demand for cash balances increased by approximately S\$1 billion (**Chart C1**), in tandem with an expansion in the banking system liabilities base.

Chart C2 shows the daily cash balances of banks within an average maintenance period in FY2023/24. Historically, banks tend to hold higher daily cash balances during the start of a maintenance period to avoid being short of cash towards the end of the period. Upon meeting the average MCB requirement of 3% for that maintenance period, banks would tend to deploy their excess cash, including by placing overnight deposits at the MAS Standing Facility.

¹ This Box was contributed by the Monetary & Domestic Markets Management Department of MAS. More information on MAS' money market operations is available in the monograph "[Monetary Policy Operations in Singapore](#)" published on the MAS website in March 2013.

² As set out in MAS Notice 758, which applies to all banks in Singapore.

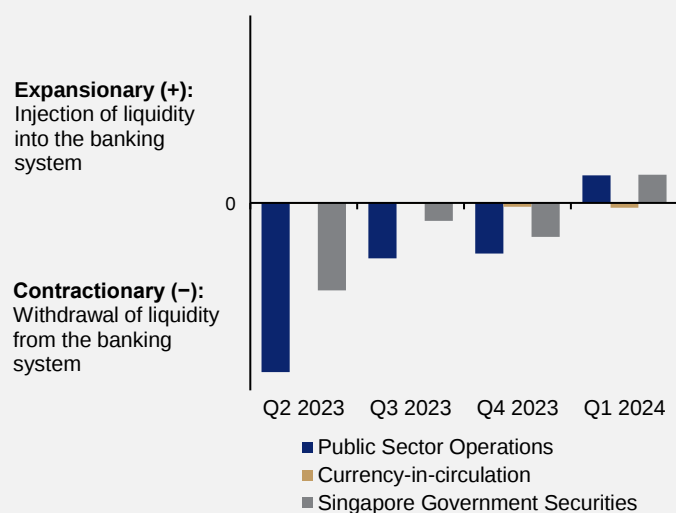
³ Cash balances in excess of 4% of liabilities do not count towards meeting the MCB requirement.

Chart C1 Average required cash balances over two-week maintenance periods**Chart C2** Daily effective cash balances as a percentage of banks' liabilities base over a typical two-week maintenance period in FY2023/24

Autonomous Money Market Factors

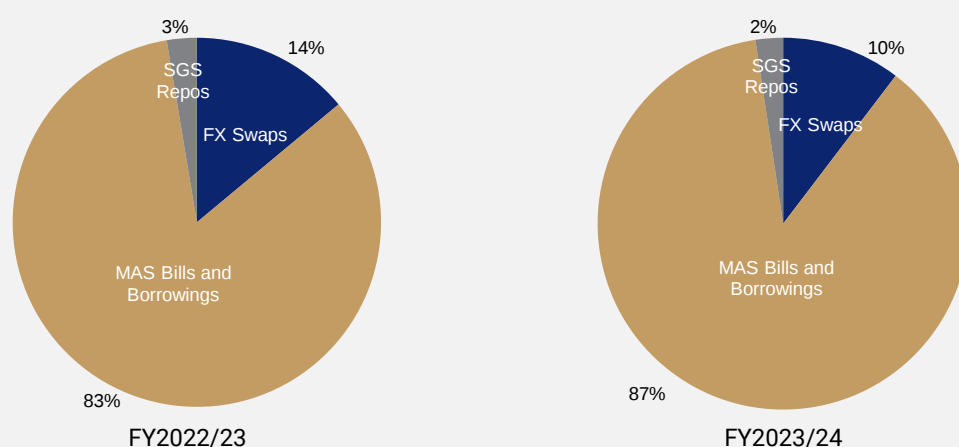
Chart C3 shows the liquidity impact of autonomous money market factors, which include: (i) public sector operations; (ii) currency-in-circulation; and (iii) Singapore Government Securities (SGS) and Treasury Bills (T-bills) issuance, redemption and coupon payments, over FY2023/24. Public sector operations include the government's and CPF Board's net transfers of funds between their accounts with MAS and their deposits with banks. In FY2023/24, the liquidity impact of these autonomous money market factors continued, as in previous years, to be contractionary on a net basis, largely on account of fund flows from public sector operations and net SGS issuances. However, this was more than offset by the liquidity impact of MAS' foreign exchange (FX) operations, which saw an injection of S\$ liquidity into the banking system in FY2023/24.⁴

⁴ MAS conducts FX intervention operations involving the sale or purchase of US\$ against S\$ to ensure that the S\$ Nominal Effective Exchange Rate (S\$NEER) is kept within the policy band. Net purchases of US\$ result in an injection of S\$ into the banking system. Data on MAS' net purchases of FX from intervention operations are published on the MAS website [here](#).

Chart C3 Liquidity impact of autonomous money market factors

Composition of Money Market Operations

MAS uses four money market instruments to manage liquidity in the banking system: (i) FX swaps; (ii) SGS repos; (iii) clean borrowings; and (iv) MAS Bills.⁵ The stock of money market instruments to withdraw liquidity from the banking system increased in FY2023/24, offsetting the net injection of liquidity into the banking system from autonomous money market factors and MAS' FX operations. In terms of composition, the share of FX swaps and SGS repos decreased from FY2022/23 to FY2023/24, while that of MAS Bills and clean borrowings increased and continued to comprise the largest share of the total (**Chart C4**).

Chart C4 Composition of money market operations by instrument

⁵ FX swaps are contracts in which one party borrows Singapore dollars from, and simultaneously lends another currency to, the second party. SGS repos refer to collateralised borrowing or lending of Singapore dollars against SGS. Clean borrowings are MAS' borrowings of Singapore dollars on an uncollateralised basis.