



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 08/03/39 (BN)

**EMBARGO: Not for publication or broadcast before
1800 hours on Wednesday, 27 August 2003**

Highlights of the July 2003 Press Release

Continued strength in private sector financing activities in July

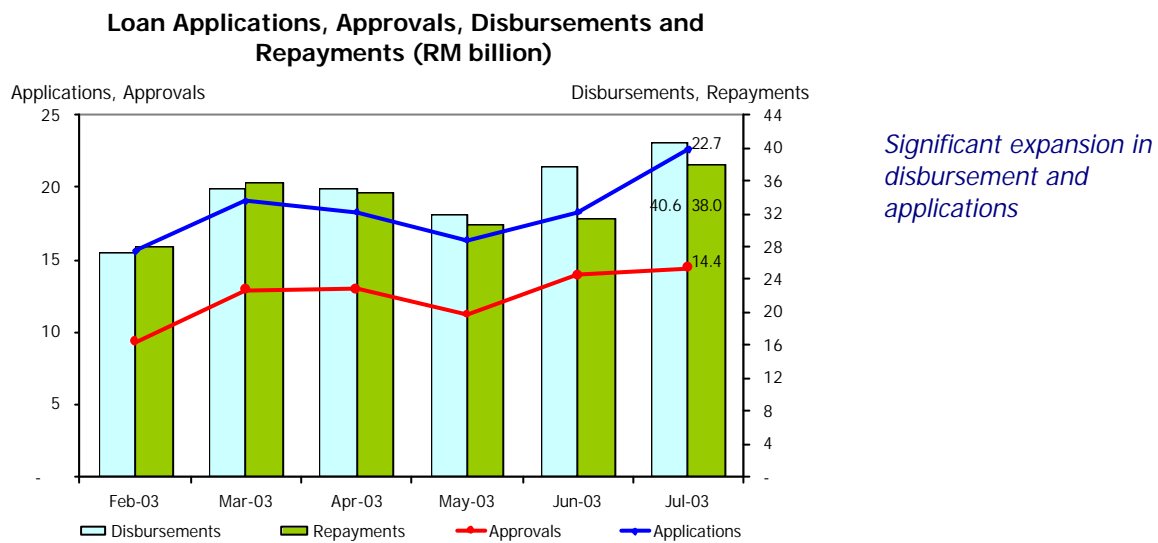
In July, all loan and monetary indicators strengthened markedly, reflective of the significantly improved consumer and business sentiments. Loan applications and approvals recorded its highest level since May 2002, increasing to RM22.7 billion and RM14.4 billion respectively in July. The higher demand for new funds during the month is in line with other indicators of strengthening economic activity. The increase in applications and approvals was mainly in the business sector. (+33.8% and 7.2% respectively, in July, over the preceding month.)

Loan disbursements recorded its highest level in July, expanding by 7.8% compared with the preceding month to RM40.6 billion. The increase in disbursements was most evident in the manufacturing (23.9% of total disbursement in July); construction (6.9%), financial, insurance and business services sectors (8.2%) and also for the purchase of securities (4.8%).

Total loans outstanding increased further by RM3.2 billion in July (+RM6.8 billion in June) mainly on account of higher loans to the household sector (+RM2.5 billion) and the financial institutions (RM0.6 billion). On an annual basis, loans outstanding rose by 4.5% as at end-July (3.9% at end-June).

Loans outstanding to SMEs rose at a higher annual rate of 5.4% as at end-July (4.9% at end-June) and accounted for 15.5% of total outstanding loans and 31.2% of total loans outstanding to business enterprises (15.2% and 29.6% respectively as at end-2002).

In aggregate, the strong growth in bank lending and further issues in the bond market resulted in total financing increasing at an annual rate of 16% in July (RM43.7 billion).



All three monetary aggregates strengthened further. Growth in M1 was sustained above 10%, on an annual basis, reflective of stronger business activities and higher turnover in the equity market. M3 growth expanded further by 8.7% on an annual basis, driven by the increase in bank financing activity both in terms of direct lending and indirectly, through the increased holdings of private debt securities by the banking institutions.

Bank Negara Malaysia
27 August 2003



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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
JULY 2003

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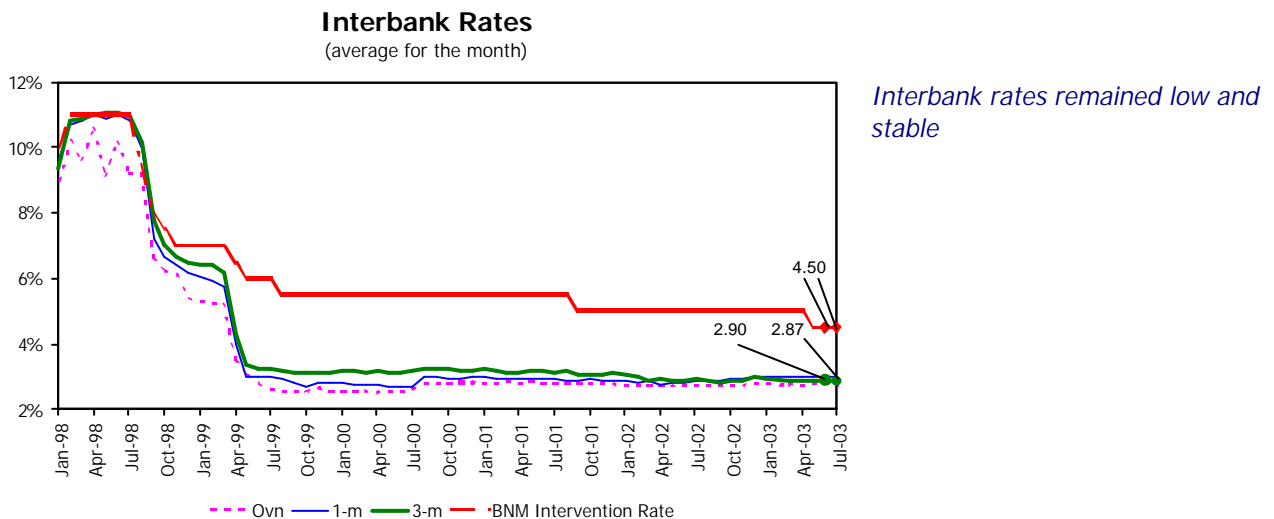
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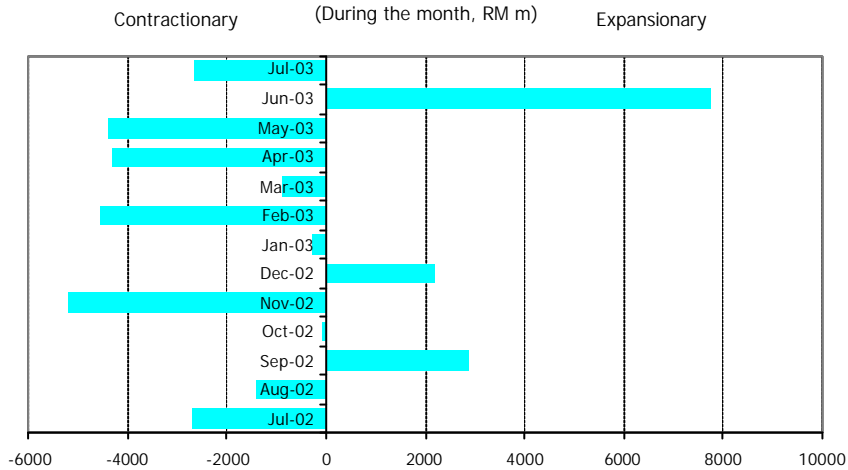
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Interest rates remained low and stable

In the interbank money market, money market rates remained relatively stable with BNM money market operations aimed at stabilizing the impact of private sector activities and the external sector on the money market.

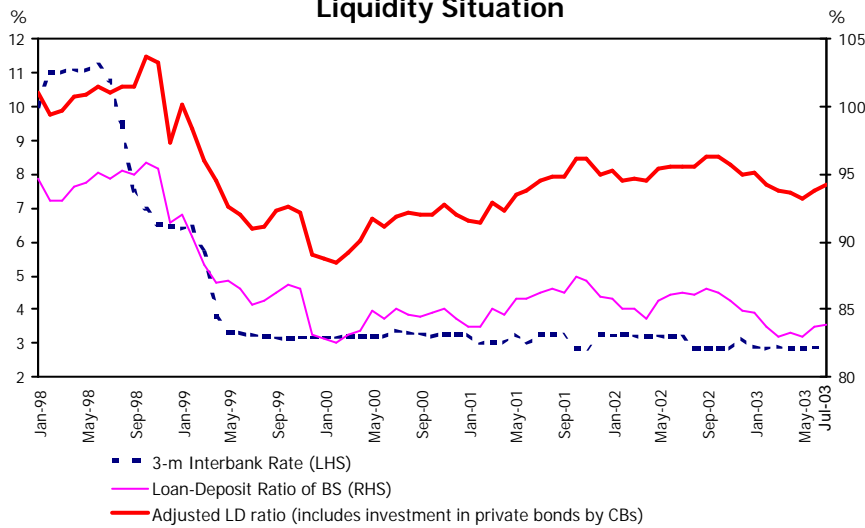


BNM Liquidity Operations



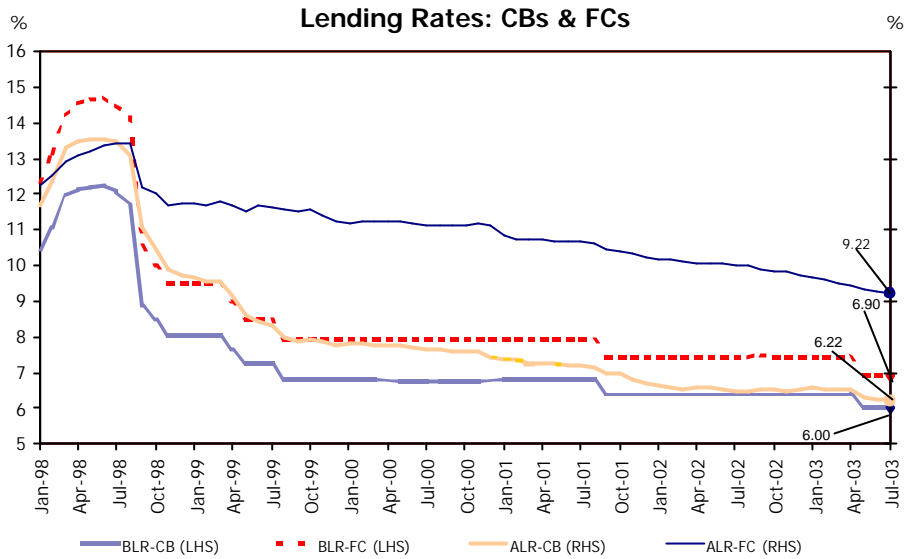
BNM absorbed excess liquidity from the market to stabilize liquidity and maintain interest rates at current level

Liquidity Situation



Liquidity in the banking system was more than adequate to support financing activities. The loan-deposit ratio including private debt securities held by the banking system remained high at 94.2%

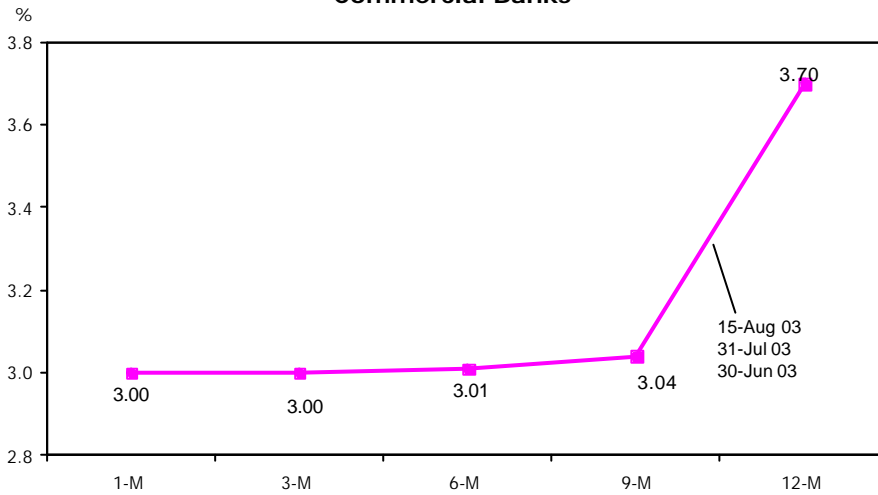
The average **base lending rate (BLR)** of the commercial banks (CBs) and finance companies (FCs) remained unchanged during the month at 6% and 6.90% respectively. Meanwhile, the **average lending rate (ALR)** of commercial banks (CBs) remained unchanged at 6.22% while rates for finance companies (FCs) declined further to 9.22% (end-June: 9.28%).



BLR for CBs and FCs and the ALR for CBS remained unchanged while ALR for FCs continued to decline

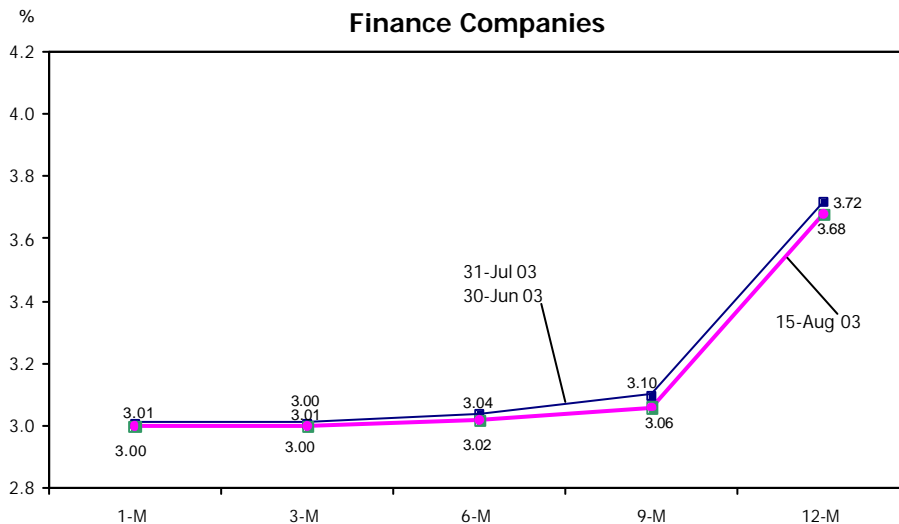
As at 15 August, the fixed deposit rates for 1-12 month maturity for CBs and FCs remained unchanged.

Term Structure of FD Rates: Commercial Banks

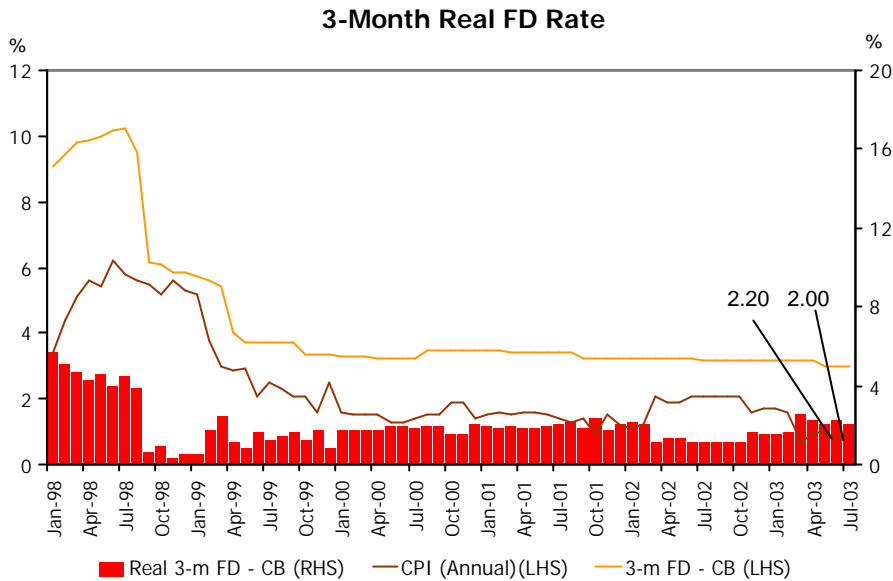


FD rate of CBs remained unchanged

Term Structure of FD Rates: Finance Companies



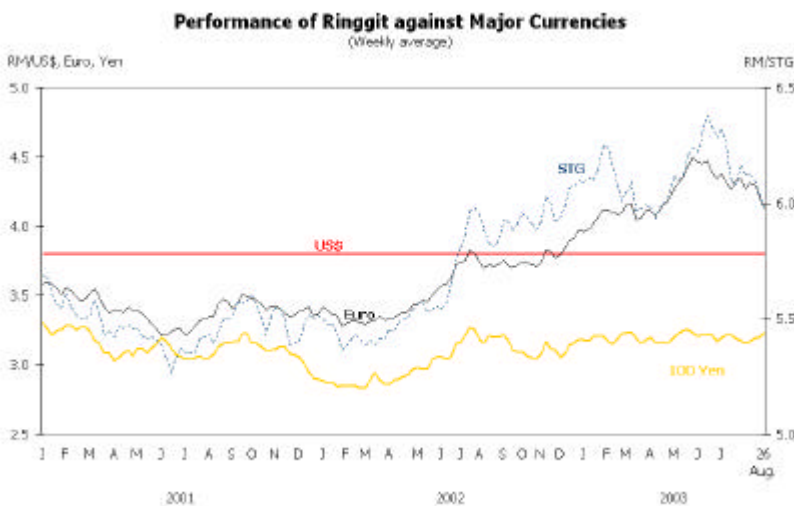
...while FD rates for FCs remained relatively stable



The 3-month real FD rate declined by 20 basis points due to the slightly higher inflation in July

Performance of the ringgit

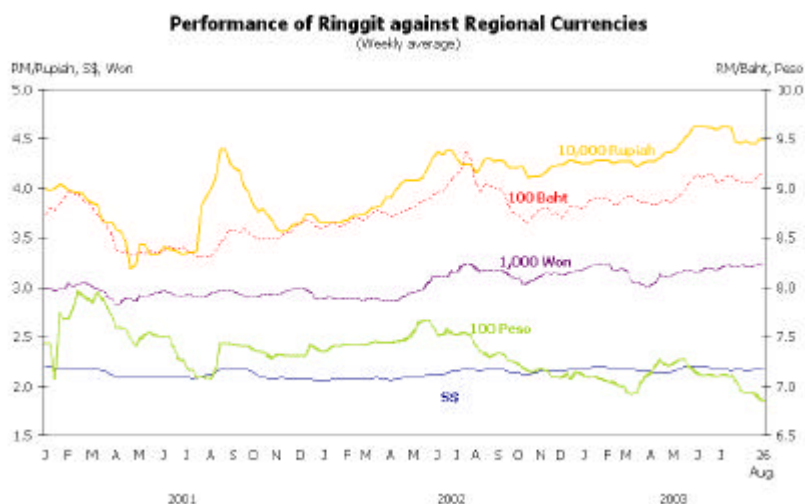
In July, the ringgit appreciated against the major currencies. In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit appreciated against the pound sterling by 2.3%, the euro by 0.9% and the Japanese yen by 0.2%. The US dollar was supported by the release of favourable economic data, including the stronger-than-expected GDP growth in the second quarter of 2003.



The ringgit appreciated against major currencies in July.

The ringgit appreciated against most regional currencies in the range of 0.1% - 2.7%, while depreciating against the Korean won by 1.3%. The Indonesian rupiah was adversely affected by news of the bomb explosion in Jakarta.

The Philippine peso weakened due to high importer demand for dollars amidst security concerns. The Singapore dollar weakened following the release of data indicating a sharper-than-expected contraction in the second quarter GDP. In contrast, the Korean won appreciated on equity-related inflows and a strong export performance.



The ringgit appreciated against most regional currencies

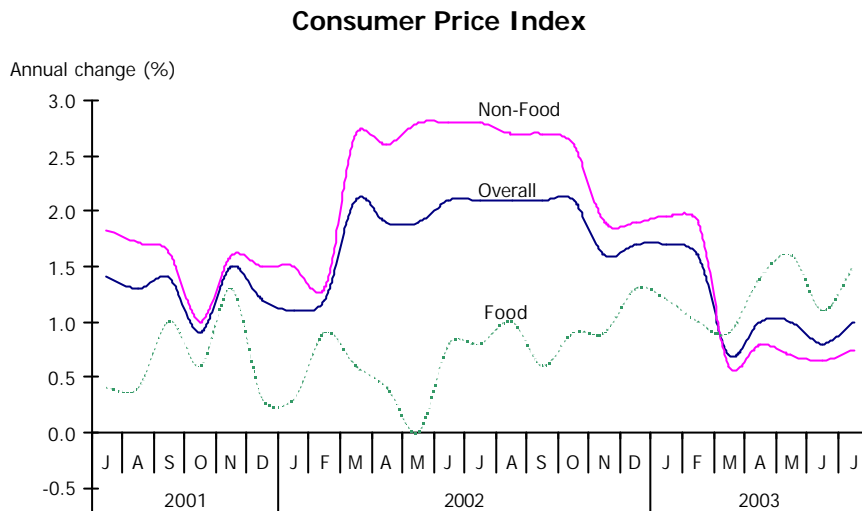
In the period **1 – 26 August 2003**, the ringgit recorded a mixed performance against the major currencies. The ringgit appreciated against the pound sterling by 3.0% and the euro by 4.6%, but depreciated against the Japanese yen by 2.1%. The US dollar benefited from market optimism over improved prospects for US economic recovery following the release of a series of positive economic data. In contrast, the euro was weighed down by the release of data indicating a contraction in second quarter 2003 GDP in several major euro zone countries. The Japanese yen was supported by market optimism over the prospects for the Japanese economy following the stronger-than-expected second quarter economic growth, and expectations of significant repatriation flows into Japan due to the maturing and coupon payments for US Treasuries held by Japanese investors. The ringgit depreciated against several regional currencies in the range of 0.2% - 1.4%, but appreciated against the Philippine peso by 1.5%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-July 2003	26 Aug. 2003	% Change			
				July 2003	End-July - 26 Aug. 2003	End-2002 - 26 Aug. 2003	2 Sep. 1998 - 26 Aug. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.3083	4.1183	0.9	4.6	-3.3	-
Pound Sterling	6.3708	6.1414	5.9616	2.3	3.0	2.2	6.9
100 Japanese yen	2.7742	3.1634	3.2303	0.2	-2.1	-0.9	-14.1
Singapore dollar	2.1998	2.1594	2.1730	0.2	-0.6	0.7	1.2
100 Thai baht	9.3713	9.0487	9.1754	0.1	-1.4	-4.0	2.1
100 Philippine peso	8.8302	6.9387	6.8391	2.3	1.5	4.5	29.1
100 Indonesian Rupiah	0.0354	0.0447	0.0448	2.7	-0.2	-5.1	-21.0
100 Korean won	0.2827	0.3219	0.3245	-1.3	-0.8	-1.5	-12.9

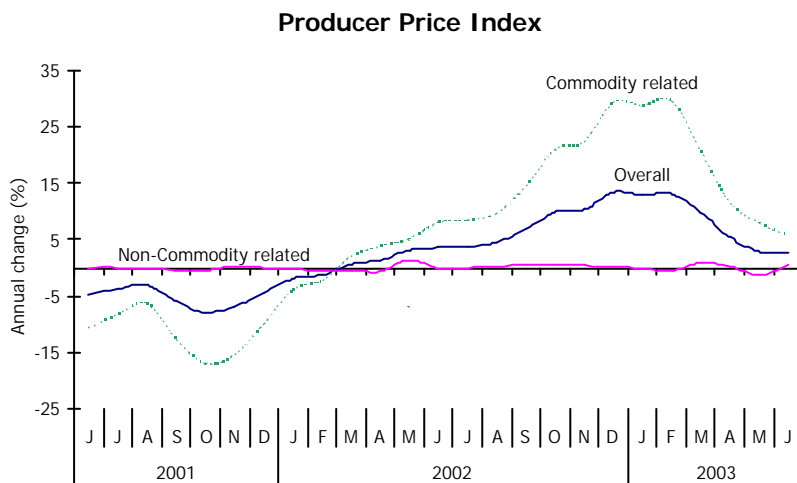
Inflation slightly higher in July

The annual rate of **inflation**, as measured by the Consumer Price Index (CPI, 2000=100), **increased to 1%** in July (June: 0.8%). This was due mainly to the increase in prices of food taken at home.



Inflation increased marginally in July

Meanwhile, **Producer Price Index (PPI)** continued to increase at a slower rate of 2.8% in June (2.9% in May), in tandem with the slower increase in prices of most commodities. Excluding commodity-related products, the adjusted PPI increased by 0.5%.

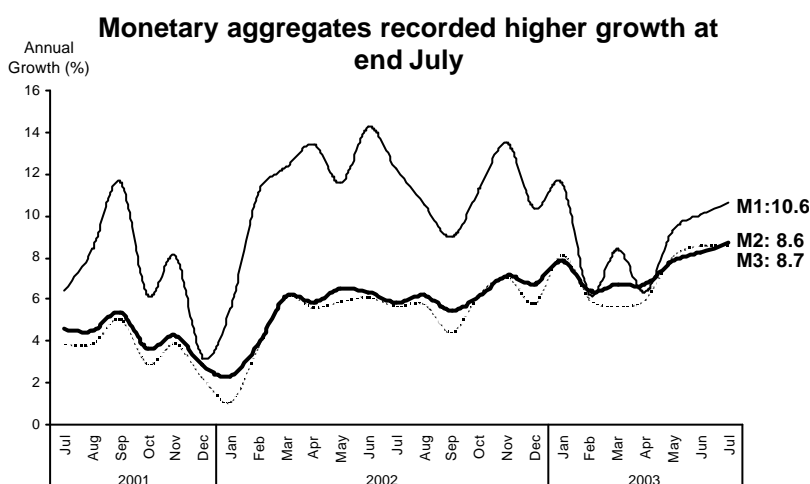


Producer prices, excluding commodity related products increased by 0.5%

Money supply strengthened further

On an annual basis, all three monetary aggregates strengthened further with M1, M2 and M3 registering growth rates of 10.6%, 8.6% and 8.7% respectively at end-July (10%, 8.6% and 8.2% at end-June).

Broad money supply, M3 increased by RM4.2 billion in July, equivalent to a monthly growth of 0.8%. The main impetus of monetary expansion was the increase in bank financing activity both in terms of direct lending and indirectly, through the increased holdings of private debt securities by the banking institutions. Net external operations were also expansionary during the month on account of the increase in the net international reserves of BNM (RM4.2 billion). These expansionary forces were partially offset by contractionary Government operations due to the decrease in the banking institutions' holdings of Malaysian Government Securities (MGS). Deposits by a non-bank financial institution with BNM also increased during the month.



Growth in all three monetary aggregates strengthened

M3 Determinants
(RM billion)

	Change during period			
	2003			
	May	Jun	Jul	Jan - July
M3	6.1	0.2	4.2	25.5
Net claims on Government	2.5	-1.7	-1.1	8.5
Claims on private sector	0.9	7.5	5.5	21.5
Net external operations ¹	1.6	-2.2	3.8	2.0
Other influences	1.1	-3.3	-4.0	-6.5

¹/ pre-revaluation

Broad money expansion emanated mainly from higher bank financing activity and expansionary external operations

Banking system deposits were higher in July

Total **deposits** mobilised by the banking system increased by RM2.8 billion or 0.5% in July. The increase reflected the higher deposits of financial institutions and households. On an annual basis, total deposits mobilised by the banking system rose by 8.3% as at end-July (7.6% at end-June).

Holder	Monthly Change in Deposits (RM million)		
	2003		
	May	June	July
Federal Government	-691	140	977
State Governments	295	78	-299
Statutory Authorities ^{1/}	-307	622	-405
Financial Institutions	1,662	-533	2,441
Business Enterprises	3,761	779	-234
Individuals	653	1,804	297
Of which: Households	1,203	1,429	1,471
Total	5,372	2,889	2,778

Higher deposits were placed by financial institutions and households...

^{1/} Include local Governments.

Type	Monthly Change in Deposits (RM million)		
	2003		
	May	June	July
Fixed deposits	747	2,839	956
NIDs	-209	-409	-17
Demand deposits	557	2,033	354
Savings deposits	-264	674	685
Repos	3,179	-3,899	-211
FX deposits	237	-317	634
SPI deposits	1,055	1,641	320
Others	70	329	58
Total	5,372	2,889	2,778

.....mainly in fixed deposits

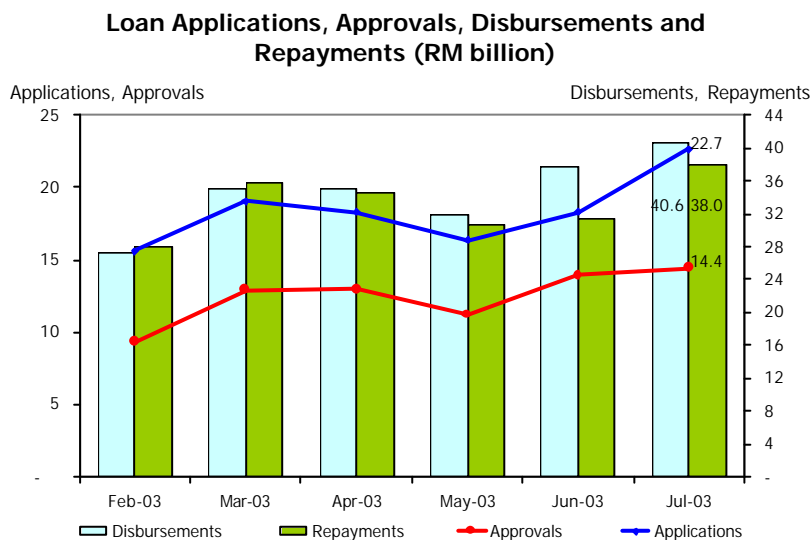
Bank lending activities continued to expand

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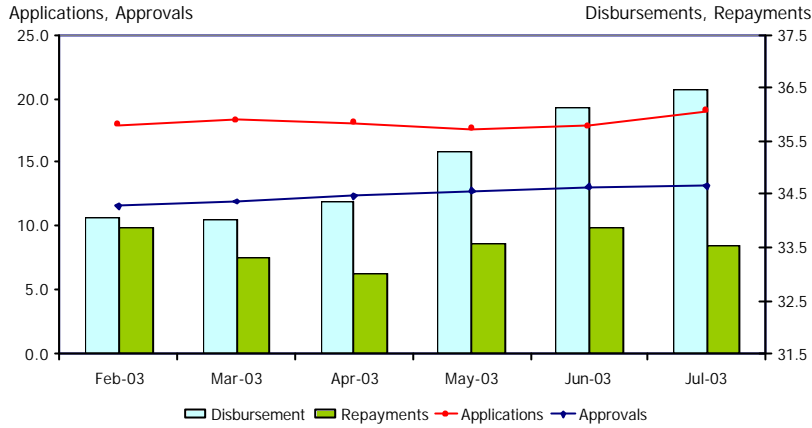
business sector were higher, loans outstanding of businesses registered a smaller increase (RM38 million) due to larger repayments. On an annual basis, loans outstanding rose by 4.5% as at end-July (3.9% at end-June). Including investment in private debt securities by the banking institutions, financing by the banking sector increased at an annual rate of 6.2%. Consequently, the loan-deposit ratio, including holdings of private debt securities by the banking system stood at 94.2% as at end July (93.8% as at end June.)

Loan applications and approvals recorded its highest level since May 2002, increasing to RM22.7 billion and RM14.4 billion respectively in July. The higher demand for new funds during the month is in line with other indicators of strengthening economic activity. The increase in applications and approvals was mainly in the business sector. (+33.8% and 7.2% respectively, in July, over the preceding month.)



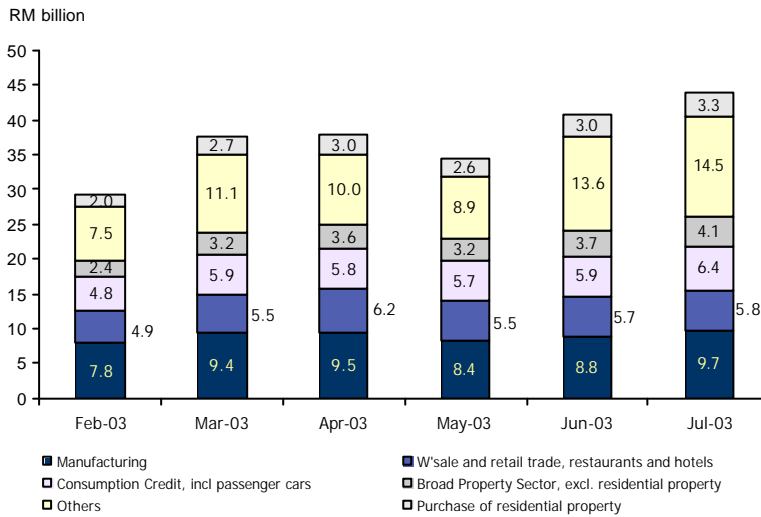
Significant expansion in disbursement and applications

Deseasonalised Loan Applications, Approvals, Disbursements and Repayments (RM billion)



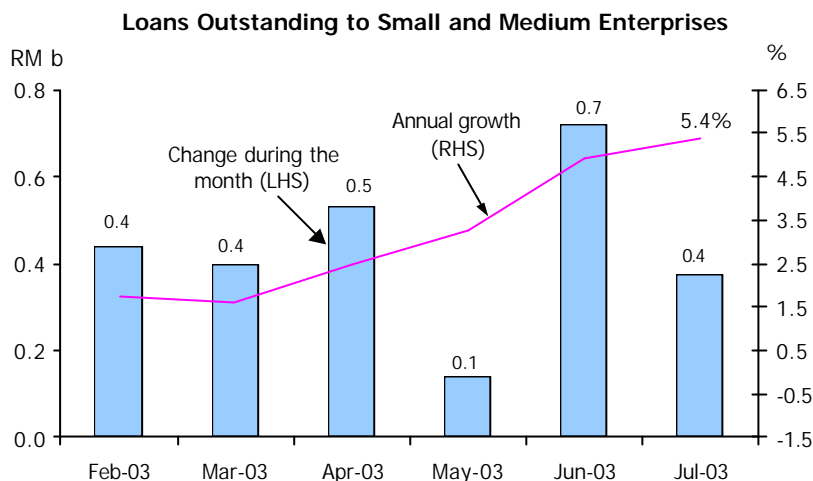
Deseasonalised data suggests the underlying demand for loans remains strong

Loan Disbursements to Selected Sectors



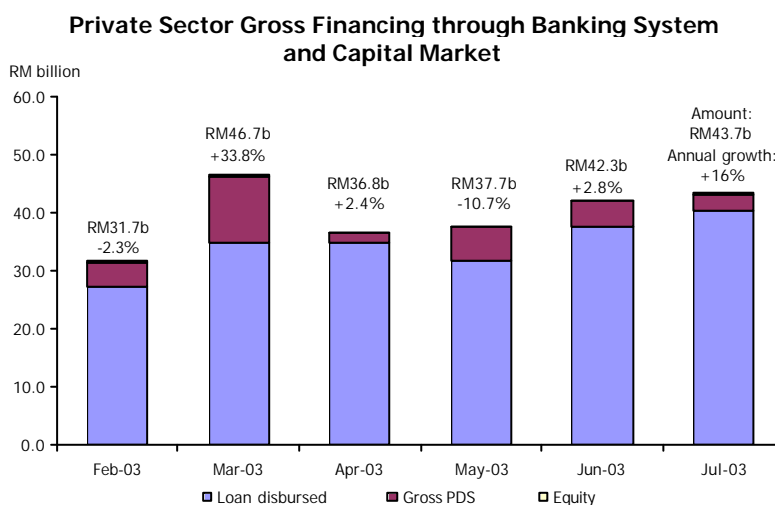
Disbursements was broad based

Continued stronger increase was seen in bank lending activity to the small and medium enterprises (SMEs). Loans outstanding of the SMEs increased by RM377 million, bringing the cumulative increase to RM3.8 billion in the first seven months (a decline of RM216 million in the corresponding period of 2002). During the same period, a total of RM14 billion was approved to 45,146 SMEs, while RM47.4 billion was disbursed. On an annual basis, loans outstanding to SMEs rose at a higher annual rate of 5.4% as at end-July (4.9% at end-June) and accounted for 15.5% of total outstanding loans and 31.2% of total loans outstanding to business enterprises (15.2% and 29.6% respectively as at end-2002).



SMEs loans expanded further

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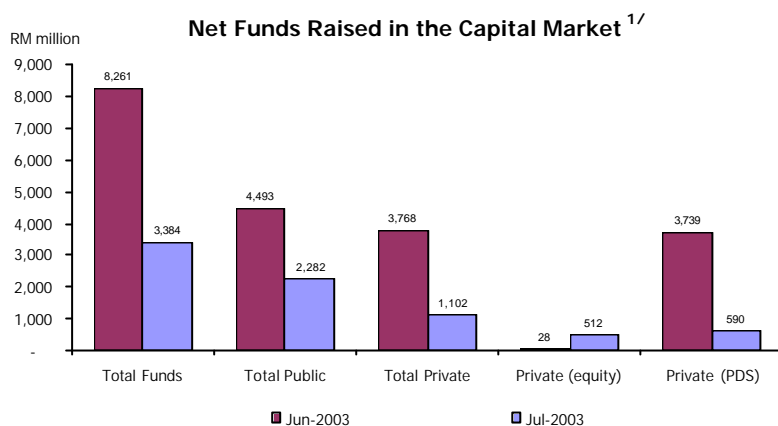


The increase in loans disbursed and constant issuance of PDS led to higher financing by the private sector. Loan-deposit ratio including private sector debt securities held by the banking system, stood at 94.2% at end-July.

Gross funds raised in the capital market remained high

Total gross funds raised in the capital market remained high in July at RM9.5 billion. Funds raised through the equity market by the private sector amounted to RM512 million in July, the highest amount recorded since November 2002. There were 11 new listings on the **Kuala Lumpur Stock Exchange (KLSE)** of companies which were involved in the industrial, and commercial products, construction and technology sectors. On a net basis, funds raised in the capital market in July were

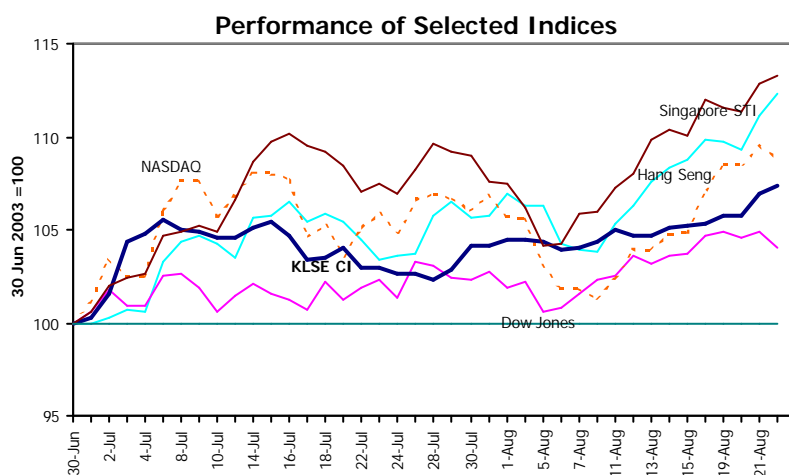
lower, due mainly to higher redemptions recorded for Malaysian Government Securities.



Funds raised through the equity market was the highest recorded since Nov. 2002.

^{1/}Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

In July, trading activities on the **KLSE** improved given favourable market sentiments which were buoyed by expectations of better economic performance in the second half of the year, as well as higher retail participation in the market. As at 31 July, the KLSE CI closed at 720.56 points (+4.1% since end-June) with enhanced market capitalisation at RM562.74 billion (+5.7% since end-June). The daily average turnover was also significantly higher at 711.26 million (485.27 million units in June).

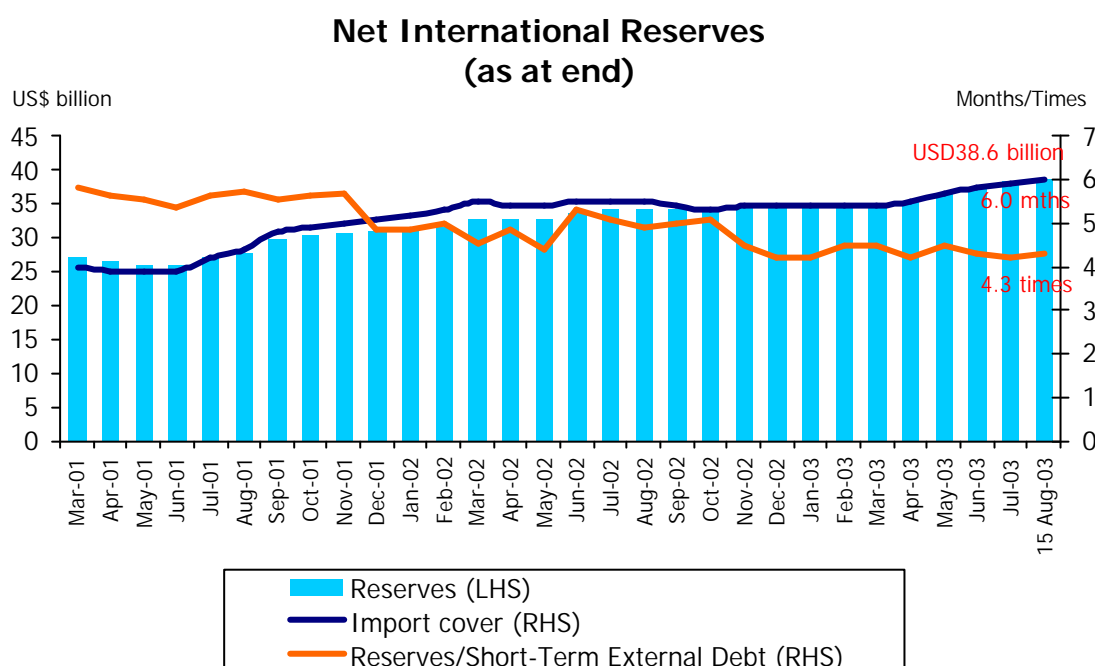


KLSE CI's performance remained favourable

The performance of the **KLSE** remained favourable during the first few weeks of August. Positive corporate developments continued to improve market sentiments. As at 26 August, the KLSE CI closed at 741.02 points (+2.8% since end-July) with market capitalisation at RM579.48 billion (+3.0% since end-July). Nevertheless, the daily average turnover during the period was lower at 592.56 million units.

International reserves

The rising trend in the net international reserves of Bank Negara Malaysia has been sustained in July and early August (RM145.1 billion or US\$38.2 billion as at 31 July 2003.) As at 15 August 2003, the international reserves increased further to RM146.6 billion or US\$38.6 billion. The increase was attributed to higher repatriation of export earnings and steady inflow of foreign direct investment. Outflows reflected largely payments for imports of goods and services and external loan repayments as well as some portfolio outflows. The reserves position is adequate to finance 6.0 months of retained imports and is 4.3 times the short-term external debt.

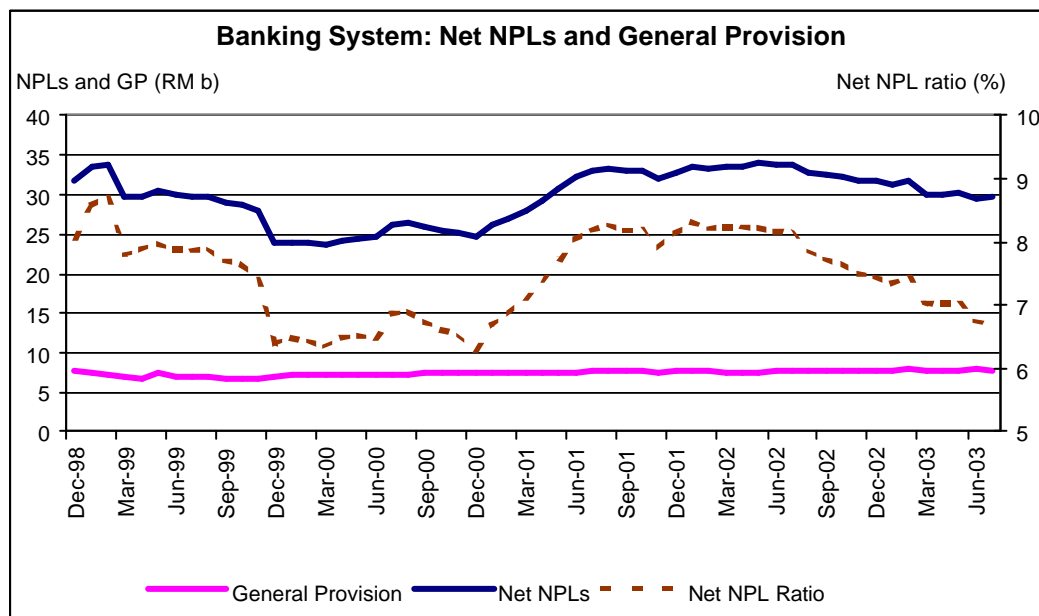


Capital position strengthened

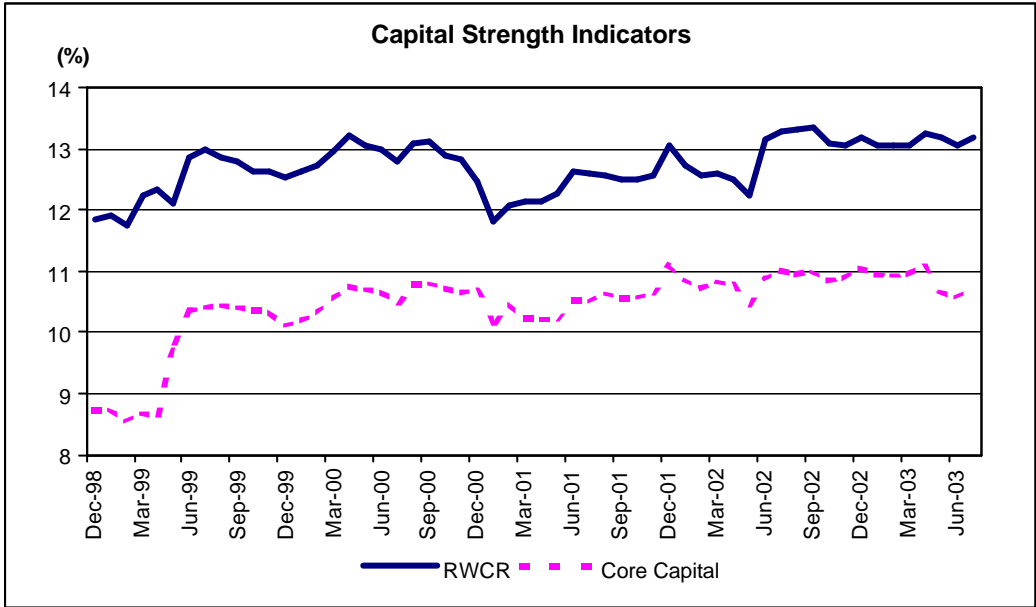
The risk-weighted capital ratio (RWCR) and core capital ratio strengthened to 13.2% and 10.7% respectively, partly due to the inclusion of audited half-year profits of two banking institutions in the capital base. Net non-performing loans (NPLs) ratio on a six-month classification declined to 6.7%. On a three-month classification, net NPLs declined by RM0.7 billion to account for 9.3% compared with 9.5% at end-June 2003.

Banking System Health Indicators*								
	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	May	Jun.	Jul.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.7	10.6	10.7
RWCR	11.8	12.5	12.5	13.0	13.2	13.2	13.1	13.2
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.0	6.8	6.7
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,200	29,579	29,758
GP/Net total loans (6-month, %)								
	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8

* Beginning June 1999 onwards, the figures include Islamic banks



....Net NPL ratio declined further to 6.7%



.... RWCR improved to 13.2%

Bank Negara Malaysia
27 August 2003

Key Monetary and Banking Statistics

	June 2003		July 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	42.7	4.4	43.8	7.9
M1	90.6	10.0	91.1	10.6
M2	401.5	8.6	402.7	8.6
M3	522.4	8.2	526.6	8.7
Banking System				
Total deposits	526.1	7.6	528.8	8.3
Total loans (including loans sold to Cagamas and Danaharta)	502.0	3.9	505.2	4.5
Total loans (excluding loans sold to Cagamas and Danaharta)	440.4	4.7	443.9	5.3
Loan-deposit ratio (%)	83.7		83.9	
Loan-deposit ratio including private debt securities (%)	93.8		94.2	
Loans approved during the month	13.9	24.5	14.4	25.0
Loans disbursed during the month	37.7	8.5	40.6	19.6
Loans repaid during the month	31.5	-3.9	38.0	4.9
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		13.2	
Net NPLs: 6-month classification (%)	6.8		6.7	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	140.9		145.2	
Reserves in USD (billion)	37.1		38.2	
Months of retained imports	5.8		5.9	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.98[2.99]		2.99[2.99]	
3-month	2.88[2.90]		2.88[2.87]	
Fixed deposits of commercial banks: 1-month	3.00[3.00]		3.00[3.00]	
3-month	3.00[3.00]		3.00[3.00]	
BLR of commercial banks	6.00[6.00]		6.00[6.00]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.2	0.8	104.4	1.0
Producer Price Index (PPI) (1989=100)	135.0	2.8		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.3463		4.3083	
Pound Sterling	6.2835		6.1414	
Singapore dollar	2.1631		2.1594	
100 Japanese yen	3.1708		3.1634	
100 Thai Baht	9.0541		9.0487	
100 Philippine Peso	7.0995		6.9387	
100 Indonesian Rupiah	0.0459		0.0447	
100 Korean Won	0.3178		0.3219	
Capital Market				
Net funds raised by: public sector (RM billion)	4.5		2.3	
private sector (RM billion)	3.8		1.1	
Kuala Lumpur Composite Index (end-period)	691.96		720.56	
KLSE Market Capitalisation (RMb) (end-period)	532.45		562.74	