

and special relief for housing loan repayments to workers in these sectors. These specific measures were part of the overall package introduced on 21 May, to address the impact of SARS on the economy as well as to stimulate further structural changes. Implementation of the measures including the reduction in interest rates, as a comprehensive package was designed to give maximum impact to the package.

These coordinated policy measures promoted and reinforced a stronger recovery in the domestic economy in the second half-year when global and regional growth gained momentum. A number of positive developments on the global front lent further support to domestic policies. The reduction in geopolitical uncertainty in the Middle East and the abatement of SARS resulted in markedly strengthened domestic consumer and business sentiment in the third quarter. More favourable

trends emerged in the third quarter, with indicators that the global economic growth was strengthening. Growth in the United States in the third quarter, picked up to well above trend following the recovery in investment and a build-up in inventory. On the domestic front, lower interest rates, amidst improving sentiment, led to stronger demand for credit. Demand for financing, which moderated in May on uncertainties of the effects of SARS, recovered strongly since June. Monetary indicators for the second half-year also expanded at a stronger pace, reflecting stronger demand for liquidity. Overall, the accommodative monetary policy reinforced other policies to contribute to stronger growth in output. For the year as a whole, real GDP growth strengthened to 5.2%, with the growth momentum into 2004 sustained. Inflation has continued to remain low at 1.2% while core inflation, that is inflation due to demand pressures, was lower at 0.6%.

Monetary Policy Statement

An important development during the year was the issuance of the Monetary Policy Statement (MPS) by Bank Negara Malaysia at pre-determined intervals. On 27 August 2003, Bank Negara Malaysia issued its first MPS together with the announcement of the second quarter GDP data. The second and third MPS was issued at the release of the third quarter GDP data on 19 November 2003 and the fourth quarter GDP data on 25 February 2004.

The MPS is a forward looking statement, outlining the monetary policy stance in the near term and the rationale for the policy thrust. The objective of issuing this statement is part of the overall strategy to provide greater understanding of the monetary policy objectives and measures in light of a more complex and dynamic environment. In particular, it would help anchor expectations on growth and inflation. Signalling the Bank's policy intent through direct communication is aimed at increasing the understanding and appreciation of money market participants, and thereby, facilitate a more rapid transmission of the policy rate in the pricing of credit and longer-term rates, and thus enhance the overall efficiency of the monetary transmission mechanism. The MPS is released four times a year and would coincide with the release of Malaysia's quarterly GDP performance. Between the fixed scheduled dates, additional press statements would be issued if a policy change is warranted.

The issuance of the MPS is part of the ongoing process to enhance market understanding of the Bank's financial and economic assessments, operations and policy objectives. Since 1998, in a drive to ensure symmetric information to the public, the Bank has disseminated a wider range of information, which included among others, on-line information on its daily liquidity forecasts and money market operations. Over the years, there has also been significant enhancement of the coverage of information available through the Bank's website, and reduction in the time lag of data releases to the public.