BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN No : 03/09/50 (BN) **EMBARGO: Not for publication or broadcast before 1700 hours on Monday, 29 September 2003**

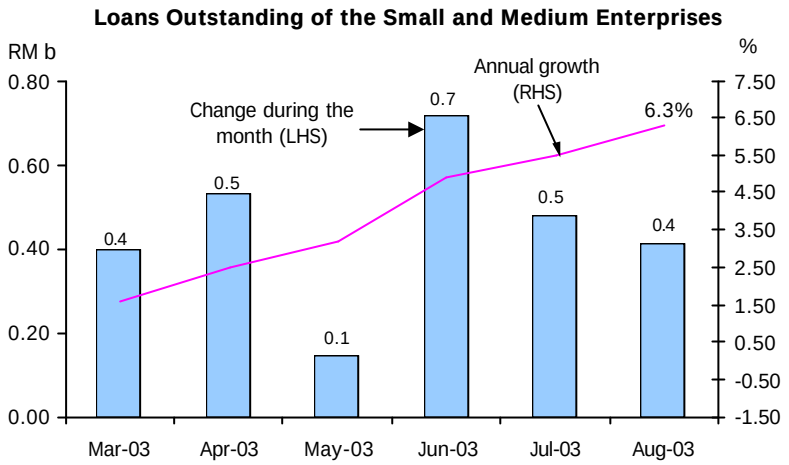
Highlights of the August 2003 Press Release

Private sector financing activities remained strong in August

All three monetary aggregates continued to expand in August in tandem with stronger economic activities. On an annual basis, M1 and M2 expanded at higher rates of 12.7% and 9.1% respectively at end-August (10.6% and 8.6% respectively at end-July), while annual growth of broad money, M3 remained high at 8.5% (8.7% at end-July).

Demand for financing and bank lending activities strengthened further in August. Loan applications rose at an annual rate of 14.9%, approvals by 7.9% and disbursements by 13%. A notable development is the higher growth in loans approved for the business sector of 10%, while approvals for the household sector increased by 7.5%. With high loan disbursements, loans outstanding rose by 4.8% as at end-August. Including investment in private debt securities by the banking system, total financing by the banking system increased at an annual rate of 6.1%.

Lending to SMEs strengthened further in August. On an annual basis, outstanding loans of the SMEs rose at a stronger annual rate of 6.3% as at end-August (5.5% at end-July). Loan applications, approvals and disbursements to SMEs increased, amounting to RM4.7 billion, RM2.2 billion and RM7.3 billion respectively (RM3.8 billion, RM2 billion and RM7.2 billion in July).



Lending to SMEs strengthened further

Bank Negara Malaysia
29 September 2003

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CENTRAL BANK OF MALAYSIA

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
AUGUST 2003

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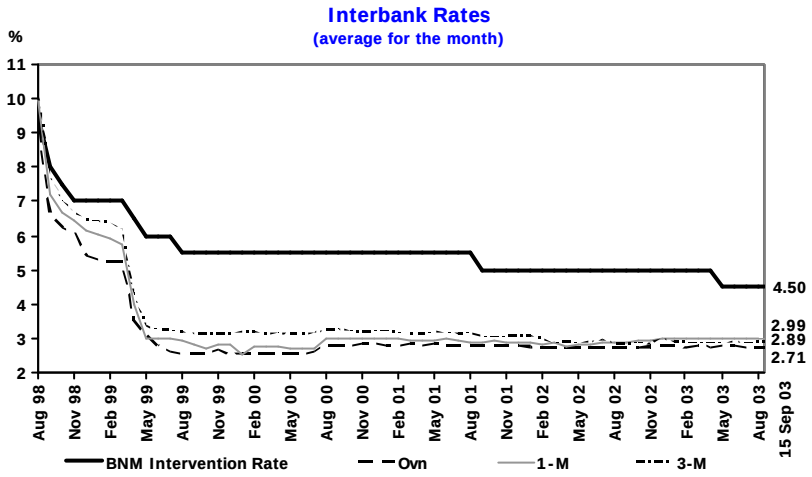
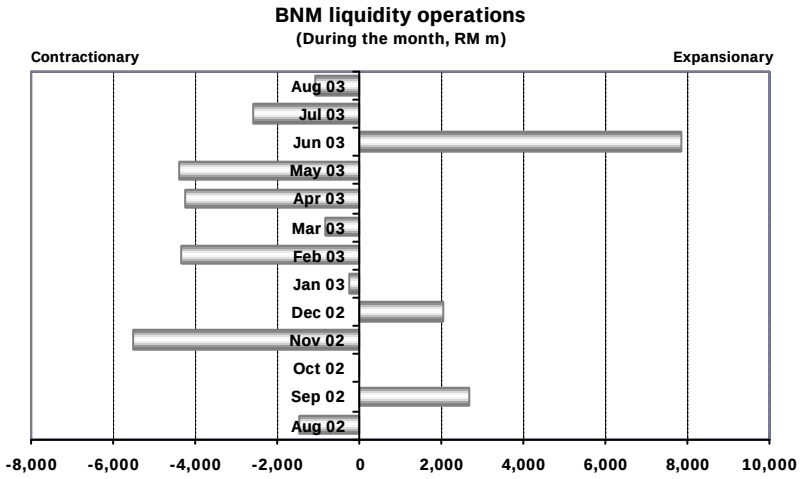
Interest rate remained low and stable

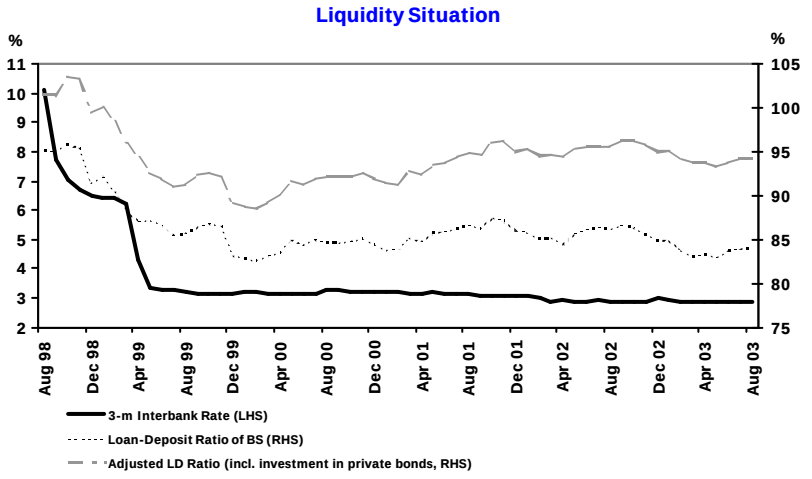
In the interbank market, money market rates remained stable with BNM money market operations aimed at balancing the impact on liquidity arising from external operations and the withdrawal of deposits by a non-bank financial institution from BNM.



In August, the interbank money market rates remained low and stable

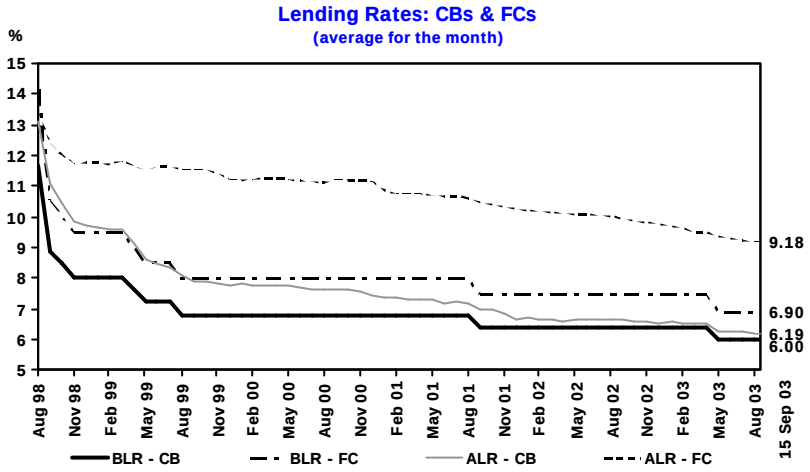


BNM absorbed excess liquidity from the market to stabilise liquidity conditions and maintain interest rates at current level



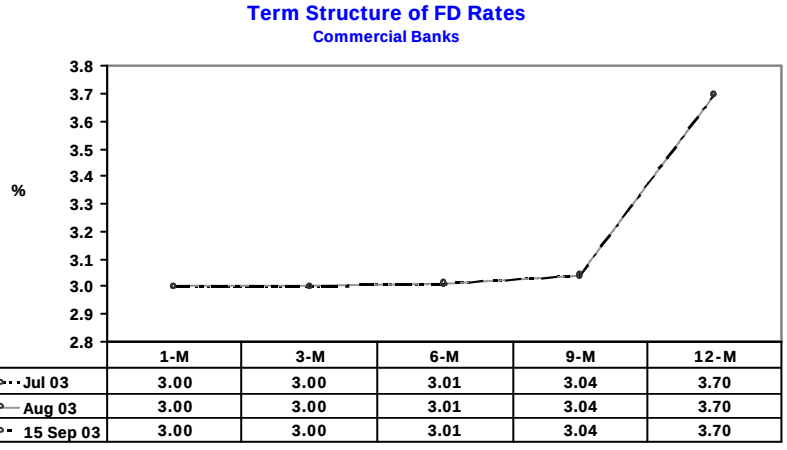
Liquidity in the banking system continued to support financing activities. The loan-deposit ratio, including private debt securities held by the banking system, remained high at 94.2%

Competitive lending conditions led to further decline in the **average lending rate (ALR)** in August, by 3 basis points to 6.19% for CBs and by 4 basis points to 9.18% for FCs. Since the base lending rates (BLR) were lowered in May 2003, the ALR has adjusted by a cumulative decline of 32 basis points for CBs and 29 basis points for FCs.



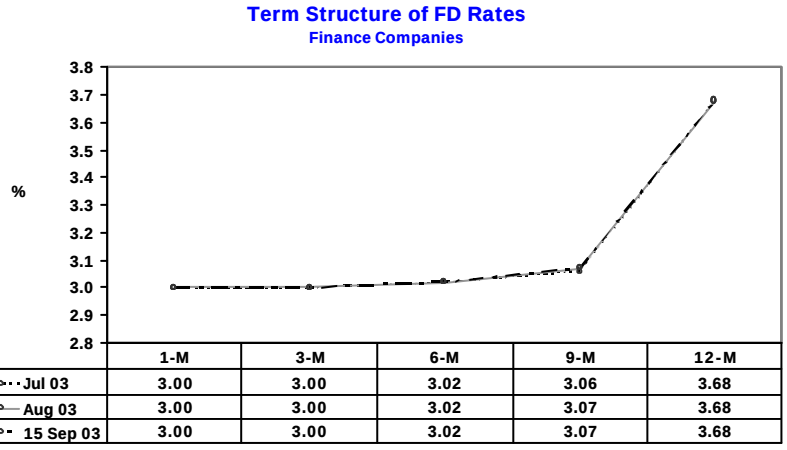
BLR for CBs and FCs remained unchanged while ALR for both CBs and FCs declined futher

As at 15 September, the fixed deposit rates for 1-12-month maturity for CBs and FCs remained stable at 3 - 3.70% and 3 - 3.68% respectively.



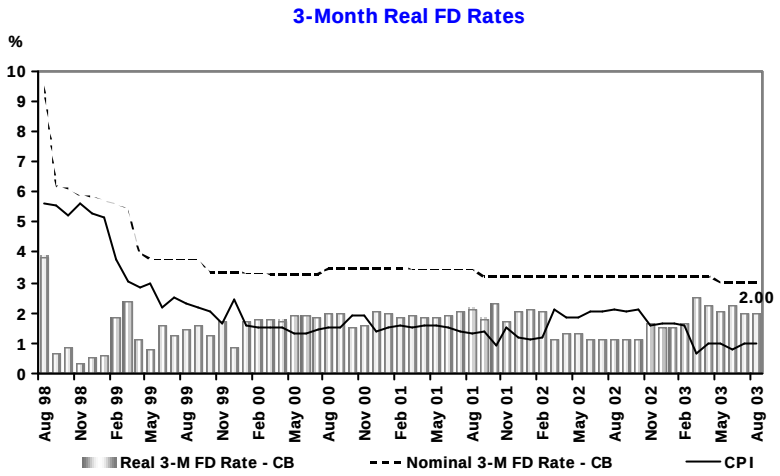
	1-M	3-M	6-M	9-M	12-M
Jul 03	3.00	3.00	3.01	3.04	3.70
Aug 03	3.00	3.00	3.01	3.04	3.70
15 Sep 03	3.00	3.00	3.01	3.04	3.70

FD rates of CBs remained unchanged



	1-M	3-M	6-M	9-M	12-M
Jul 03	3.00	3.00	3.02	3.06	3.68
Aug 03	3.00	3.00	3.02	3.07	3.68
15 Sep 03	3.00	3.00	3.02	3.07	3.68

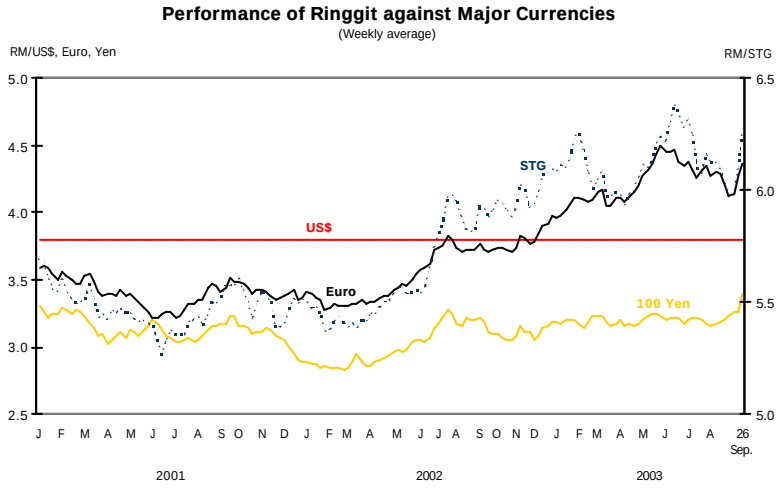
…similarly for FCs



The 3-month real FD rate remained unchanged

Performance of the ringgit

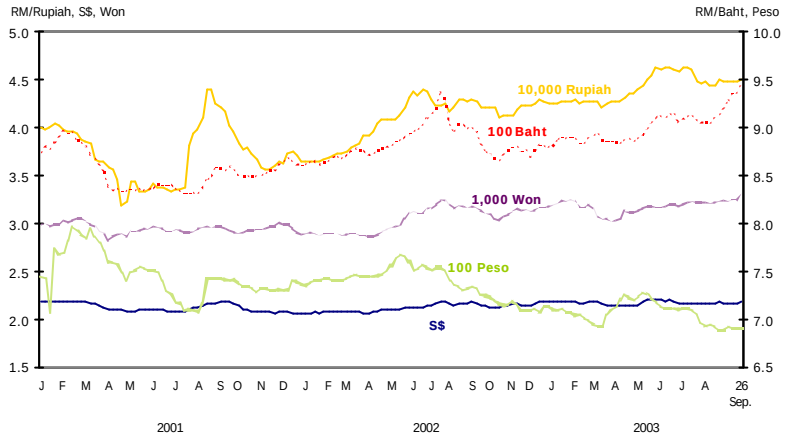
In August, the ringgit recorded a mixed performance against the major currencies. In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit appreciated against the pound sterling by 2.5% and euro by 4.3%, while depreciating against the Japanese yen by 2.5%. The US dollar firmed on market optimism over improved prospects for US economic recovery. In contrast, the euro was weighed down by the economic contraction in the second quarter in several major euro-zone countries. The Japanese yen was supported by market optimism over the improved prospects for the Japanese economy following a stronger-than-expected second quarter economic growth.



The ringgit appreciated against the pound sterling and the euro in August.

The ringgit also recorded a mixed performance against regional currencies. The ringgit depreciated against several regional currencies in the range of 0.2% - 1.9%, while appreciating against the Philippine peso by 0.4% and Indonesian rupiah by 0.5%. Regional currencies largely benefited from market expctations of a global economic recovery, portfolio inflows and a firmer Japanese yen. However, the Philippine peso weakened given security concerns and demand for dollars by oil importers and corporates.

Performance of Ringgit against Regional Currencies
(Weekly average)



The ringgit recorded a mixed performance against regional currencies in August

In the period **1 – 26 September 2003**, the ringgit depreciated against the major currencies. The ringgit depreciated against the Japanese yen by 4.4%, the pound sterling by 4.8% and the euro by 5.3%. The US dollar weakened as markets factored in the weak employment growth, the large US trade deficit and softer consumer sentiment in September. The weakness of the dollar also reflected strong market reaction to the statement of the G-7 Finance Ministers and Central Bank Governors on 20 September, highlighting the desirability of exchange rate flexibility to facilitate current account adjustments and a more balanced global growth. The Japanese yen appreciated due to the strong stock market performance and market belief that Japan will intervene less aggressively to weaken the yen. The ringgit depreciated against most regional currencies in the range of 1.1% - 2.6%, while appreciating against the Philippine peso by 0.2%.

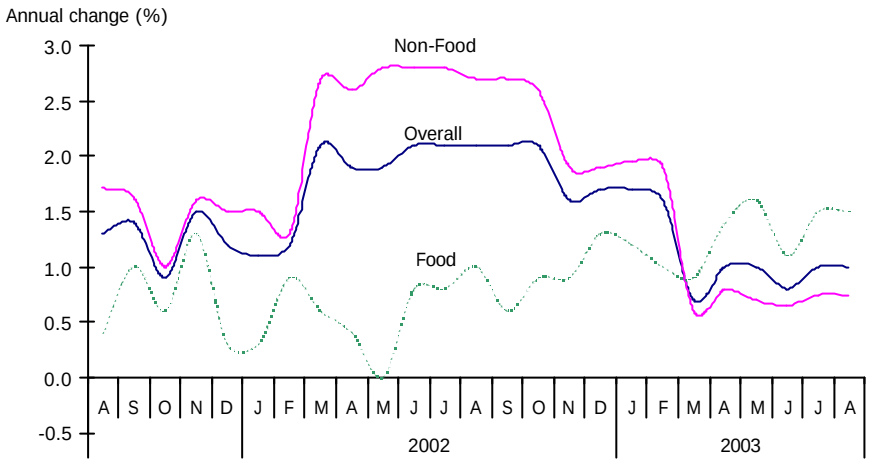
Performance of Ringgit against Selected Currencies

				% Change			
RM per foreign currency	2 September 1998	End-August 2003	26 September 2003	August 2003	End-August - 26 Sep. 2003	End-2002 - 26 Sep. 2003	2 Sep. 1998 - 26 Sep. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.1323	4.3618	4.3	-5.3	-8.7	-
Pound sterling	6.3708	5.9932	6.2981	2.5	-4.8	-3.3	1.2
100 Japanese yen	2.7742	3.2438	3.3942	-2.5	-4.4	-5.7	-18.3
Singapore dollar	2.1998	2.1627	2.1949	-0.2	-1.5	-0.3	0.2
100 Thai baht	9.3713	9.2267	9.4728	-1.9	-2.6	-7.0	-1.1
100 Philippine peso	8.8302	6.9135	6.8978	0.4	0.2	3.6	28.0
100 Indonesian rupiah	0.0354	0.0445	0.0450	0.4	-1.1	-5.6	-21.3
100 Korean won	0.2827	0.3224	0.3302	-0.2	-2.4	-3.2	-14.4

Inflation stabilised in August

The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **stabilised at 1%** in August (July: 1%). Prices of most goods remained stable.

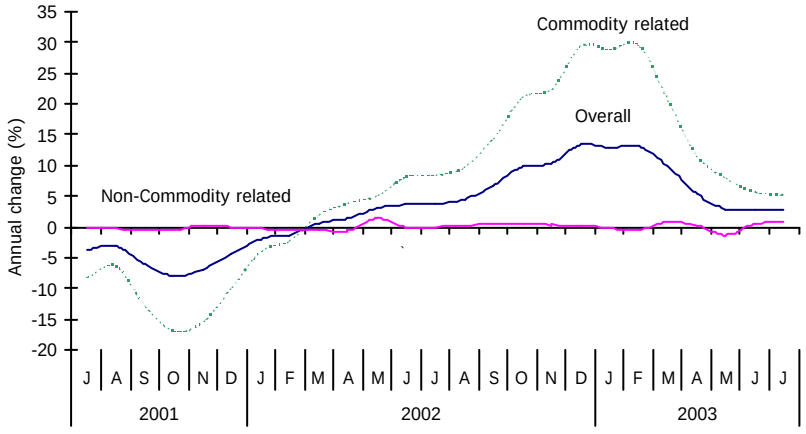
Consumer Price Index



Inflation stabilised in August

Producer Price Index (PPI) also stabilised in July at 2.9% (2.8% in June). The stronger increase in the price of crude palm oil was offset by the slower increase in prices of rubber and crude oil. Excluding commodity-related products, the adjusted PPI increased by 1%.

Producer Price Index



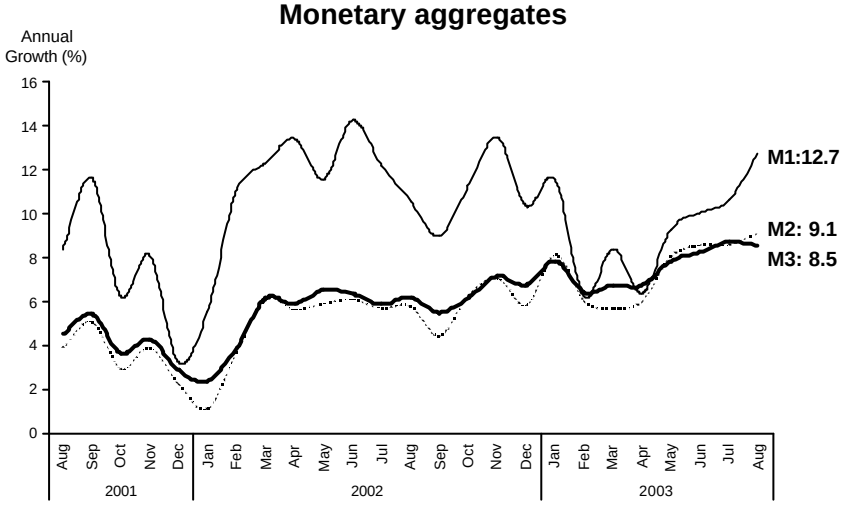
Producer prices, excluding commodity related products increased by 1%

Continued growth in money supply

All three monetary aggregates continued to expand in August in tandem with stronger economic activities. On an annual basis, M1 and M2 expanded at higher rates of 12.7% and 9.1% respectively at end-August (10.6% and 8.6% respectively at end-July), while annual growth of broad money, M3 remained high at 8.5% (8.7% at end-July).

The continued strong growth in M1 reflected the stronger consumer and business activities. The increase in M3 (RM3.1 billion or 0.6%) during the month reflected higher bank financing activity (RM3 billion). Net external operations were also expansionary on account of the increase in the net international reserves of BNM (RM1.8 billion).

Monetary aggregates



Higher growth in monetary aggregates

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Jun	Jul	Aug	Jan - Aug
M3	0.2	4.2	3.1	28.6
Net claims on Government	-1.7	-1.1	-1.9	6.6
Claims on private sector	7.5	5.4	3.0	24.4
Net external operations [1]	-2.2	3.8	1.4	3.4
Other influences	-3.3	-4.0	0.6	-5.8

1/ pre-revaluation

Bank lending provided the main impetus to M3 growth

Banking system deposits increased further in August

Total **deposits** mobilised by the banking system increased by RM3.8 billion or 0.7% in August. The increase reflected the higher deposits of individuals and

financial institutions. On an annual basis, total deposits mobilised by the banking system rose by 8.3% as at end-August.

Monthly Change in Deposits **(RM million)**

	2003		
	Jun.	**July**	**Aug.**
Holder			
Federal Government	140	977	-833
State Governments	78	-299	295
Statutory Authorities[1/]	622	-405	484
Financial Institutions	-534	2,442	1,815
Business Enterprises	779	-234	-271
Individuals	1,434	1,467	2,107
Others [2/]	375	-1,174	163
Total	**2,893**	**2,774**	**3,760**

[1/] Include local Governments.

[2/] Include domestic other entities and foreign non-bank entities

Higher deposits was placed by individuals and financial institutions...

Monthly Change in Deposits **(RM million)**

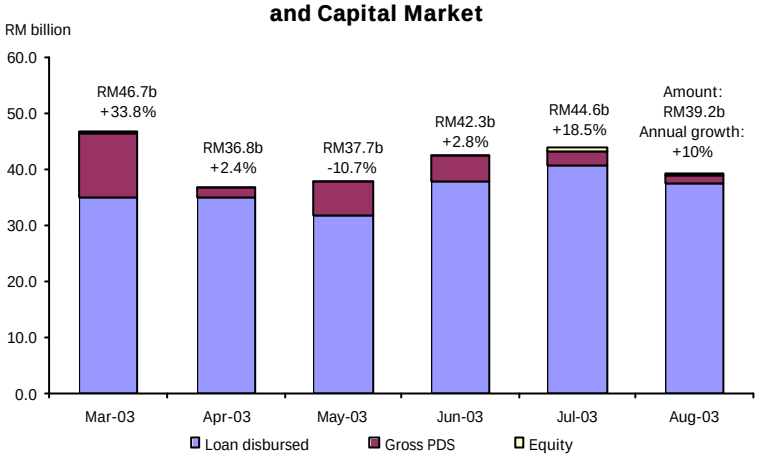
	2003		
	Jun.	**July**	**Aug.**
Type			
Fixed deposits	2,839	956	390
NIDs	-409	-17	542
Demand deposits	2,033	354	1,957
Savings deposits	674	685	395
Repos	-3,899	-211	912
FX deposits	-317	634	269
SPI deposits	1,641	320	-936
Others	333	54	231
Total	**2,893**	**2,774**	**3,760**

.....mainly in demand deposits

Bank lending activities continued to expand

In line with strengthened economic activities, all loan indicators strengthened further. In aggregate, total gross financing of the private sector by the banking system and funds raised in the capital market expanded at an annual rate of 10% to RM39.2 billion. Outstanding loans of the banking sector as well as investment in private debt securities by the banking institutions, increased at an annual rate of 6.1%. The loan-deposit ratio, including private debt securities held by the banking system, remained high at 94.2% as at end-August.

Private Sector Gross Financing through Banking System and Capital Market

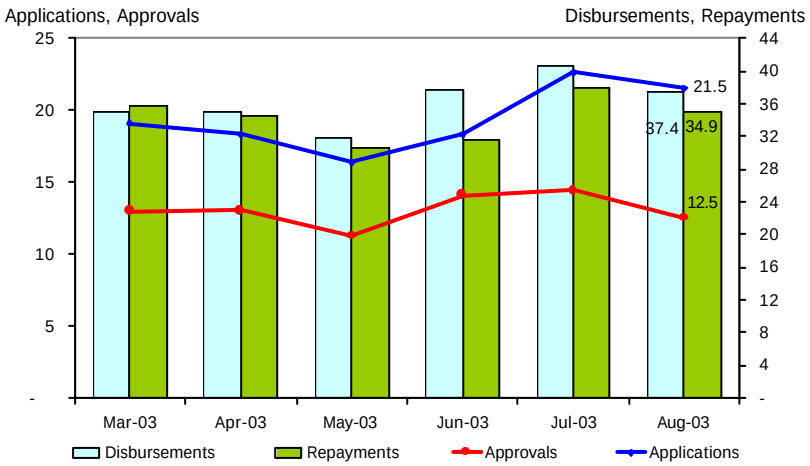


Private sector gross financing expanded at an annual rate of 10%

Loan disbursements rose at an annual rate of 13% to RM37.4 billion in August (RM40.6 billion in July). Loans disbursed to the business sector, accounting for 67.3% of total disbursements, were mainly to finance manufacturing activities (24.5%); wholesale and retail trade, restaurants and hotels (15.3%); finance, insurance and business services (7.1%); and construction (6.4%) sectors. Disbursements to the household sector also remained strong, accounting for 27.3% of total disbursements (for the purchase of residential property: 8.8%; passenger cars: 6.1%; credit card transactions: 7%; and consumption credit: 4%).

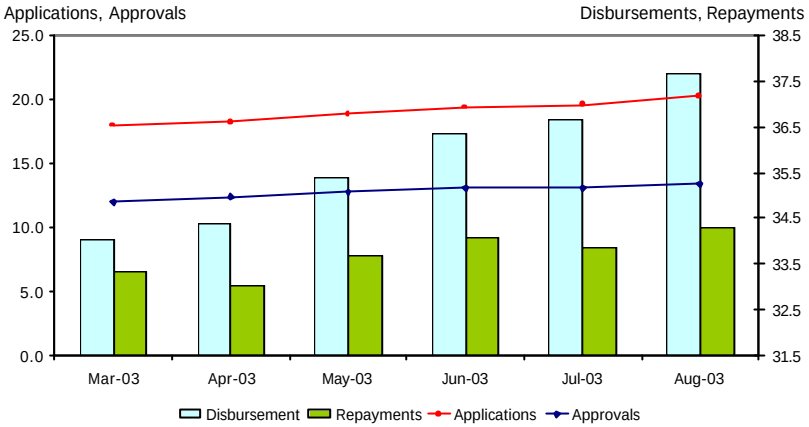
With high loan disbursements, loans outstanding increased further by 4.8% on an annual basis or by RM3.2 billion in August (4.5% or +RM3.2 billion in July). Higher loans outstanding were recorded by both household and business sectors (+RM2.9 billion and RM0.4 billion respectively).

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



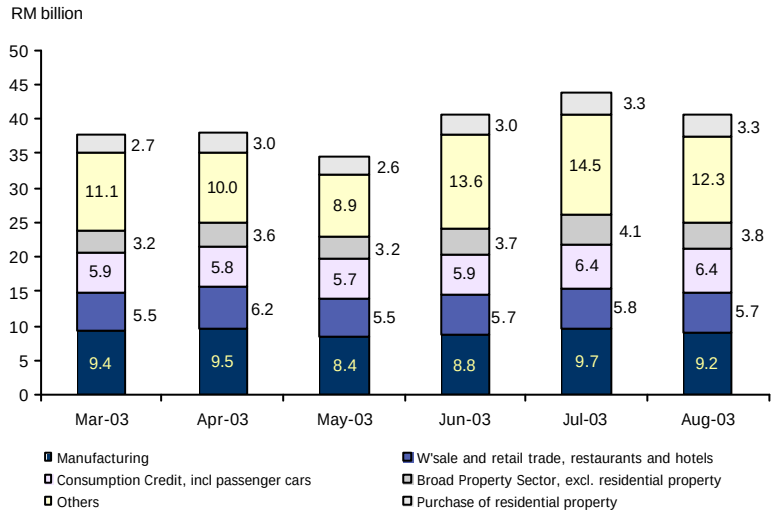
Bank lending remained high

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



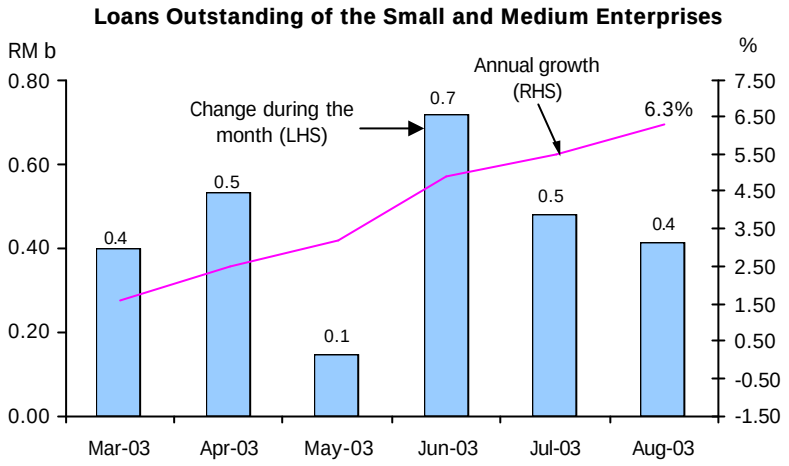
Deseasonalised data suggests that the underlying demand for loans is strengthening

Loan Disbursements to Selected Sectors



Disbursements remained broad based

Lending to SMEs strengthened further in August. Loan applications, approvals and disbursements to SMEs increased to RM4.7 billion, RM2.2 billion and RM7.3 billion respectively (RM3.8 billion, RM2 billion and RM7.2 billion in July). Outstanding loans of the SMEs also increased further by RM414 million (+RM480 million in July), bringing the cumulative increase to RM4.3 billion in the first eight months. During the same period, a total of RM16.6 billion was approved to 51,763 SMEs, while RM54.7 billion was disbursed. On an annual basis, loans outstanding to SMEs rose at a stronger annual rate of 6.3% as at end-August (5.5% at end-July) and accounted for 15.5% of total outstanding loans and 31.3% of total loans outstanding to business enterprises (15.2% and 29.6% respectively as at end-2002).

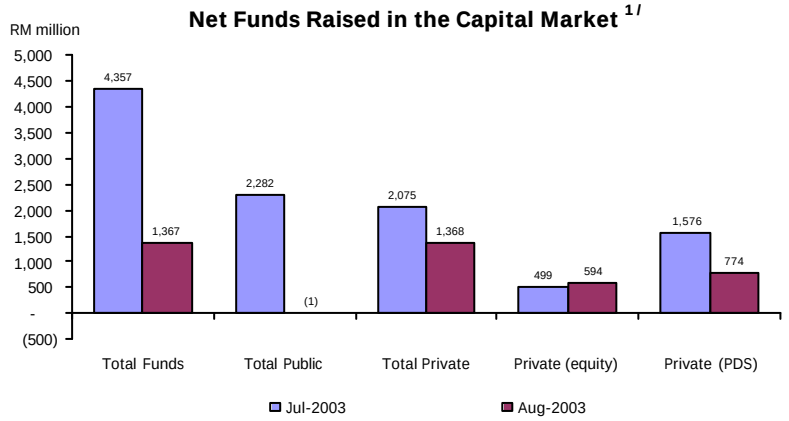


Lending to SMEs strengthened further

Demand for funds has remained strong, consistent with the strengthening economic activity. Indicators support sustained loan demand. Loan applications expanded at an annual rate of 14.9%. Loan approvals also remained high, increasing at an annual rate of 7.9%. A notable development is the higher growth in loans approved for the business sector of 10%, while approvals for the household sector increased by 7.5%.

Gross funds raised in the capital market by the private sector remained high

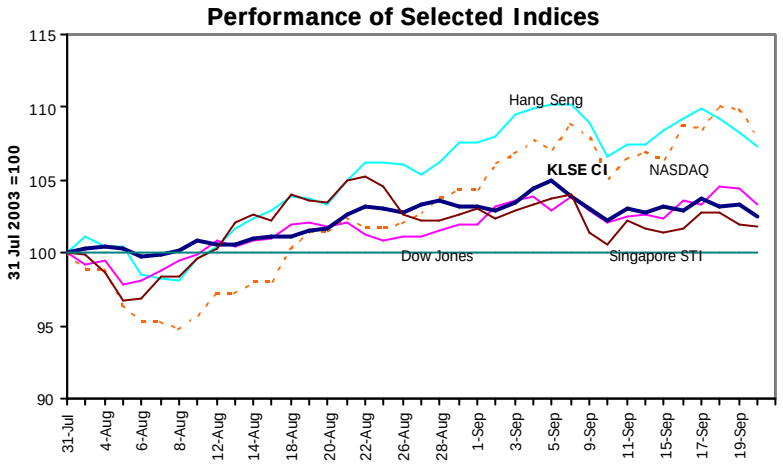
Total gross funds raised by the private sector through the equity and debt markets amounted to RM3.1 billion in August. There were eight new listings on the Kuala Lumpur Stock Exchange (KLSE) by companies involved in industrial and consumer products, trading services, construction and technology sectors. However, due to higher redemptions of private debt securities (RM1.7 billion), net funds raised by the private sector for the month was lower at RM1.4 billion. The Government did not issue MGS during the month.



Funds raised in the capital market were mainly by the private sector

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

The performance of the **Kuala Lumpur Stock Exchange** remained favourable in August with market confidence supported by positive corporate developments and better performances of global equity markets. As at end-August, the KLSE Composite Index (KLSE CI) closed at 743.30 points (+3.2% since end-July), with market capitalisation at RM579.54 billion (+3% since end-July). The daily average turnover remained high at 639.17 million during the month (711.26 million units in July).

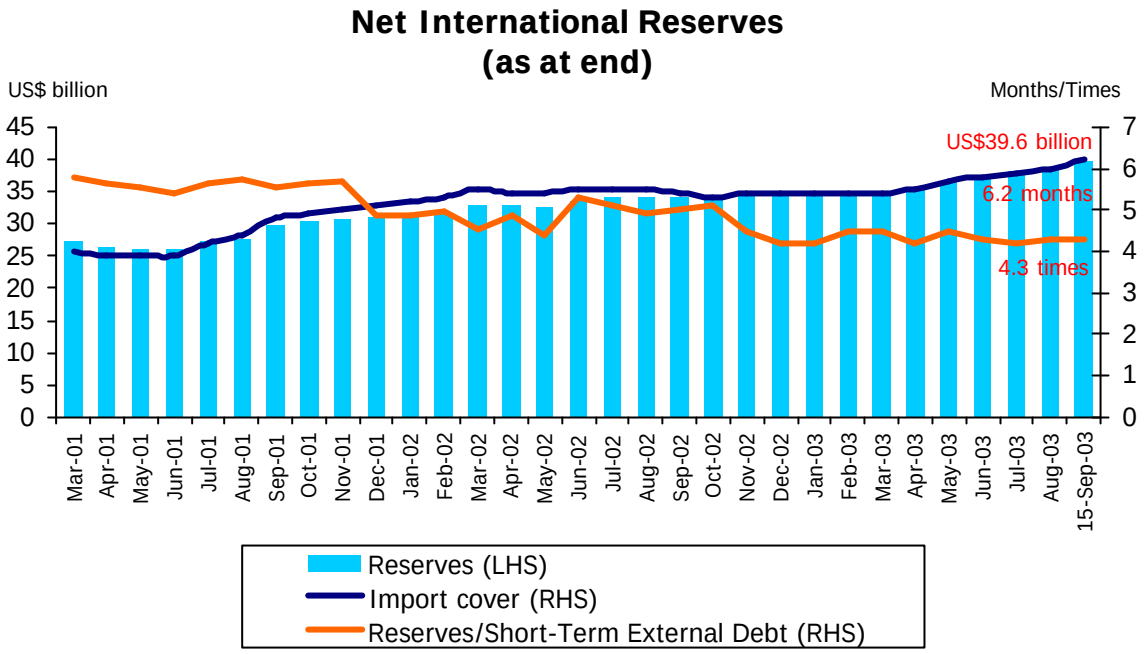


KLSE CI performance improved further in August

As at 26 September, the KLSE CI closed at 742.22 points (-0.1% since end-August) with market capitalisation at RM579.87 billion (-0.1% since end-August). The daily average turnover was at 571.69 million units.

International reserves increased further

The rising trend in the net international reserves of Bank Negara Malaysia has been sustained in August and early September. The international reserves increased further to RM150.4 billion or US$39.6 billion as at 15 September 2003, from RM146.9 billion or US$38.7 billion as at 30 August 2003. The increase was attributed mainly to higher repatriation of export earnings and inflows of portfolio investment. Outflows reflected payments for goods and services, repatriation of dividends and repayment of external loans. The reserves position is adequate to finance 6.2 months of retained imports and is 4.3 times the short-term external debt.



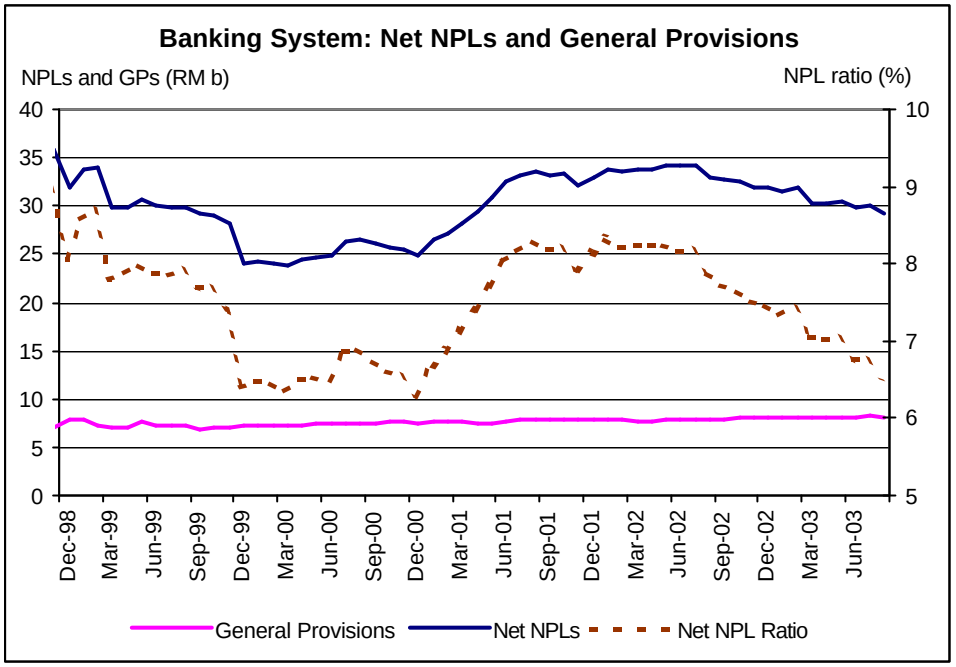
Level of NPLs improved further

Net non-performing loans on 6-month classification fell by another RM0.7 billion partly due to further restructuring of loans by the banking institutions. NPL ratios based on the six and three-month classifications declined to 6.5% and 9.1% respectively. The risk-weighted capital ratio (RWCR) and core capital ratio increased to 13.5% and 11% respectively following the incorporation of profits into the capital base as well as implementation of capital raising exercise by a few banking institutions.

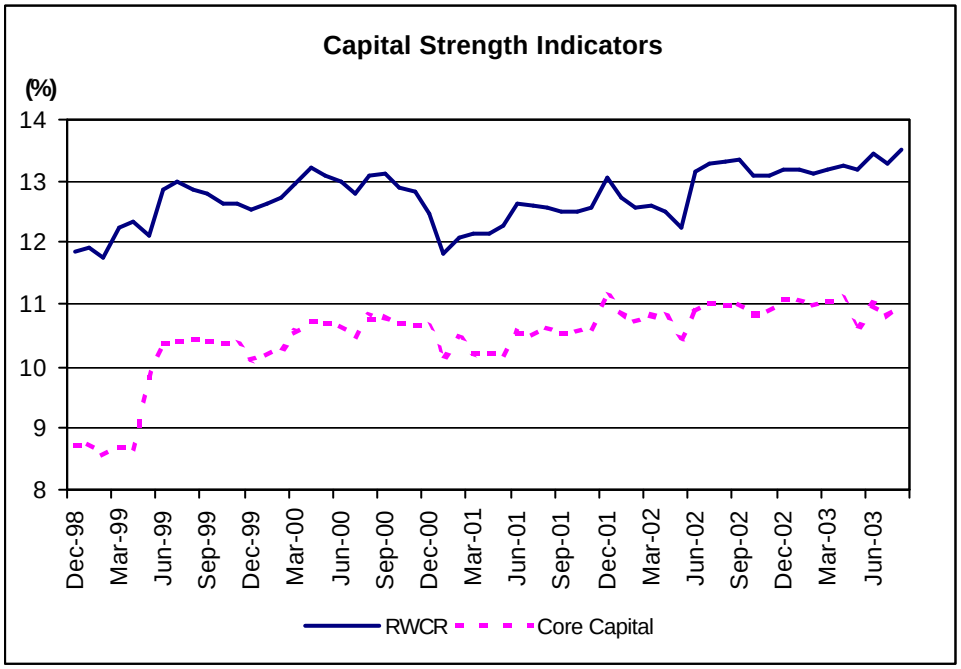
Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Jun.	Jul.	Aug.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	11.0	10.8	11.0
RWCR	11.8	12.5	12.5	13.0	13.2	13.4	13.3	13.5
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.8	6.7	6.5
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	29,565	29,758	29,039
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 6.5%



.... RWCR improved to 13.5%

Bank Negara Malaysia
29 September 2003

Key Monetary and Banking Statistics

	July 2003		August 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	43.8	7.9	44.7	10.2
M1	91.1	10.6	93.8	12.7
M2	402.7	8.6	407.3	9.1
M3	526.6	8.7	529.7	8.5
Banking System				
Total deposits	528.8	8.3	532.6	8.3
Total loans (including loans sold to Cagamas and Danaharta)	505.1	4.5	508.4	4.8
Total loans (excluding loans sold to Cagamas and Danaharta)	443.5	5.2	447.6	5.8
Loan-deposit ratio (%)	83.9		84.0	
Loan-deposit ratio including private debt securities (%)	94.2		94.2	
Loans applied during the month	22.7	14.4	21.5	14.9
Loans approved during the month	14.4	25.0	12.5	7.9
Loans disbursed during the month	40.6	19.6	37.4	13.0
Loans repaid during the month	38.0	4.9	34.9	7.5
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.3		13.5	
Net NPLs: 6-month classification (%)	6.7		6.5	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	145.2		146.9	
Reserves in USD (billion)	38.2		38.7	
Months of retained imports	5.9		6.0	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.99[2.99]	
3-month	2.88[2.87]		2.90[2.89]	
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)	104.4	1.0	104.3	1.0
Producer Price Index (PPI) (1989=100)	135.7	2.9		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.3083		4.1323	
Pound Sterling	6.1414		5.9932	
Singapore dollar	2.1594		2.1627	
100 Japanese yen	3.1634		3.2438	
100 Thai Baht	9.0487		9.2267	
100 Philippine Peso	6.9387		6.9135	
100 Indonesian Rupiah	0.0447		0.0445	
100 Korean Won	0.3219		0.3224	
Capital Market				
Net funds raised by: public sector (RM billion)	2.3		...	
private sector (RM billion)	2.1		1.4	
Kuala Lumpur Composite Index (end-period)	720.56		743.30	
KLSE Market Capitalisation (RMb) (end-period)	562.74		579.54	