BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 02/04/36 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 25 February 2004

Highlights of the January 2004 Press Release

Positive monetary and financial indicators reflected sustained private sector financing

The ample liquidity in the banking system together with the low and stable interest rate environment supported an increase in the financing of the private sector in January. Loan disbursements, including to SMEs, continued to increase during the month. Higher festival-related consumer spending saw larger issuance of currency during the month. While the annual growth of all the three monetary aggregates moderated to some extent due to the high base effect arising from the exceptionally expansionary Government operations in January 2003, the underlying trend in the monetary aggregates remained consistent with the expansion in output with low inflation.

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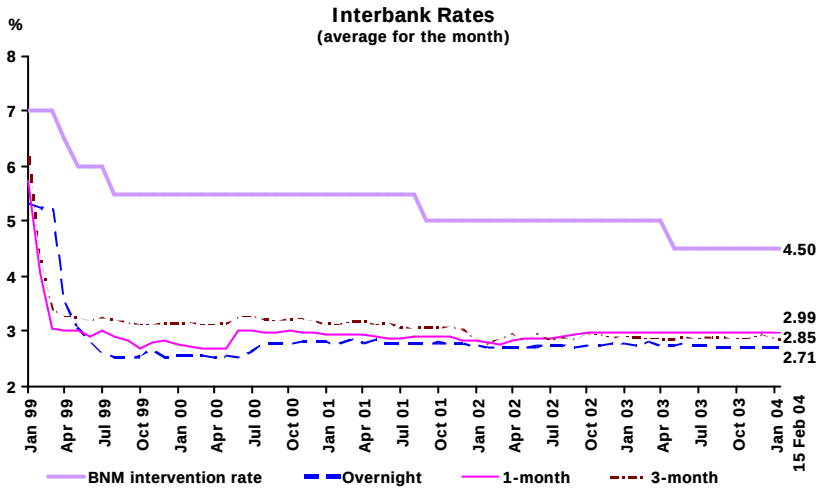
MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2004

Positive monetary and financial indicators reflected sustained private sector financing

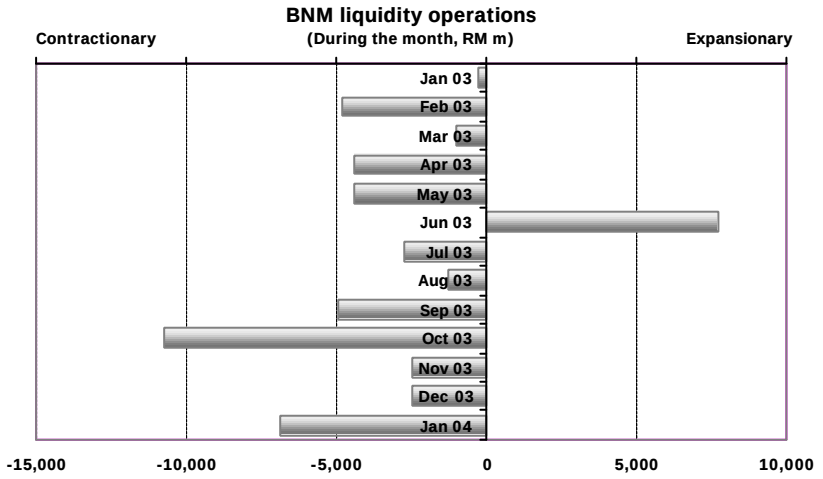
The ample liquidity in the banking system together with the low and stable interest rate environment supported an increase in the financing of the private sector in January. Loan disbursements, including to SMEs, continued to increase during the month. Higher festival-related consumer spending saw larger issuance of currency during the month. Expansionary external and Government operations contributed to the increase in the broad monetary aggregate, M3. While the annual growth of all the three monetary aggregates moderated to some extent due to the high base effect arising from the exceptionally expansionary Government operations in January 2003, the underlying trend in the monetary aggregates remained consistent with the expansion in output with low inflation.

Interest rates remained low and stable

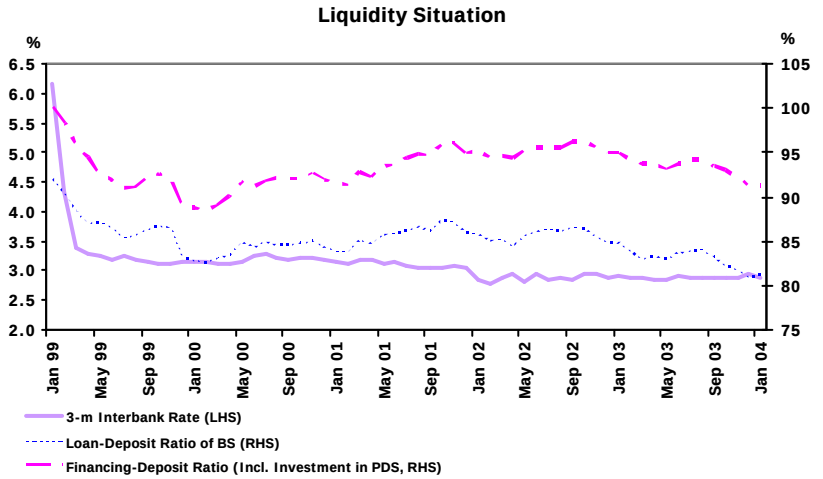
During the month, Bank Negara Malaysia actively managed the additional liquidity, arising from the increase in short-term inflows to ensure stable money market conditions. As a result, the interbank money market rates remained stable.



Interbank money market rates remained low and stable

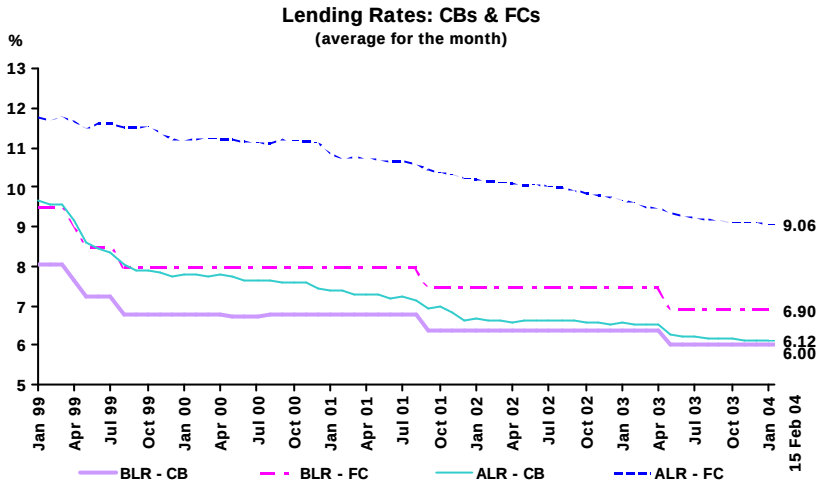


BNM liquidity operations stabilised the impact of liquidity from external inflows



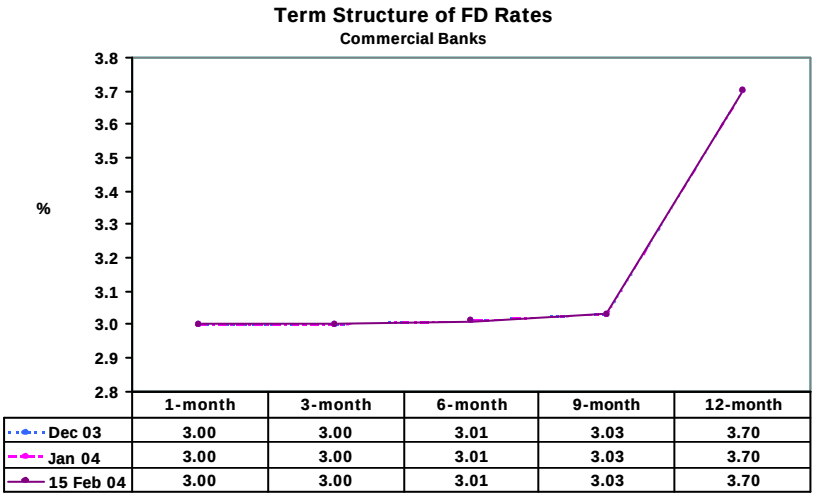
The financing-deposit ratio remained high at 91.3%.

In the retail market, the average lending rate (ALR) of commercial banks (CBs) remained relatively stable at 6.12% (end 2003: 6.11%). The ALR of finance companies declined further (9.06%, end-2003: 9.11%).



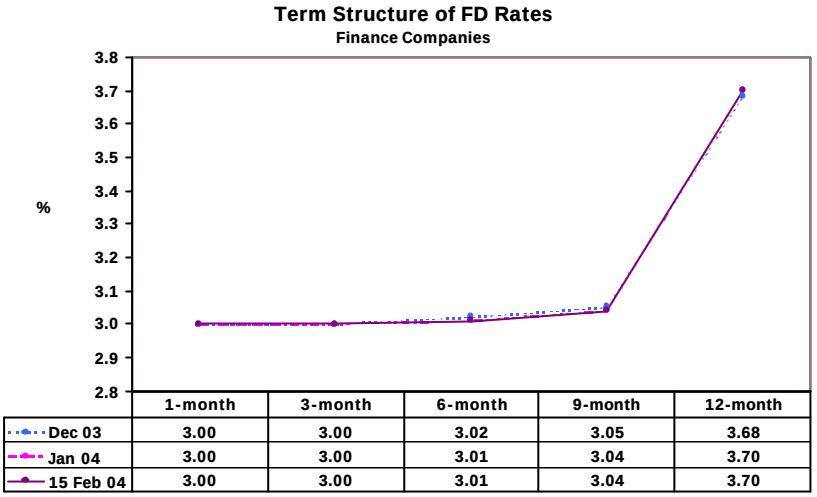
ALR of CBs remained relatively stable while ALR of FCs continued to trend downwards

As at 15 February 2004, the nominal fixed deposit rates for 1-12 month maturity of CBs and FCs, both remained stable at 3 – 3.7%.



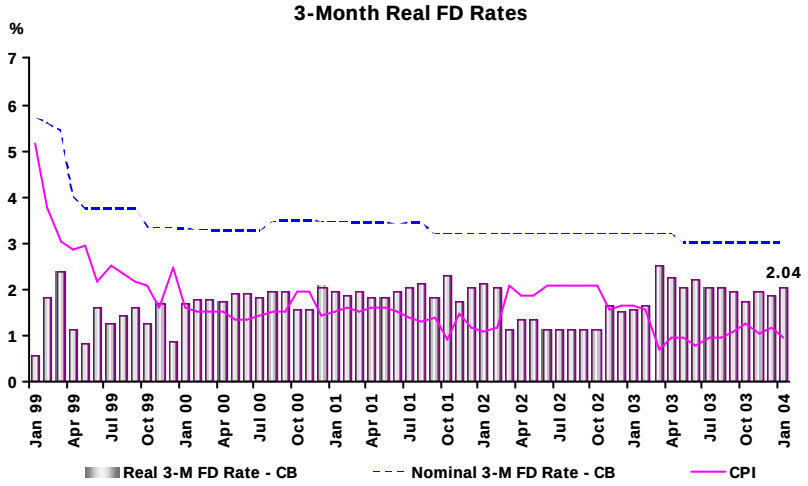
	1-month	3-month	6-month	9-month	12-month
Dec 03	3.00	3.00	3.01	3.03	3.70
Jan 04	3.00	3.00	3.01	3.03	3.70
15 Feb 04	3.00	3.00	3.01	3.03	3.70

FD rates of CBs were unchanged ...



	1-month	3-month	6-month	9-month	12-month
Dec 03	3.00	3.00	3.02	3.05	3.68
Jan 04	3.00	3.00	3.01	3.04	3.70
15 Feb 04	3.00	3.00	3.01	3.04	3.70

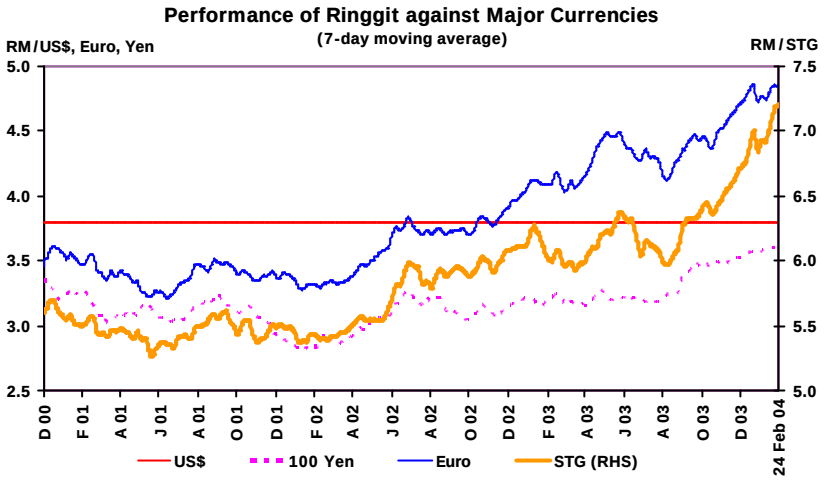
... similarly for FCs



The 3-month real FD rate increased due to lower inflation in January

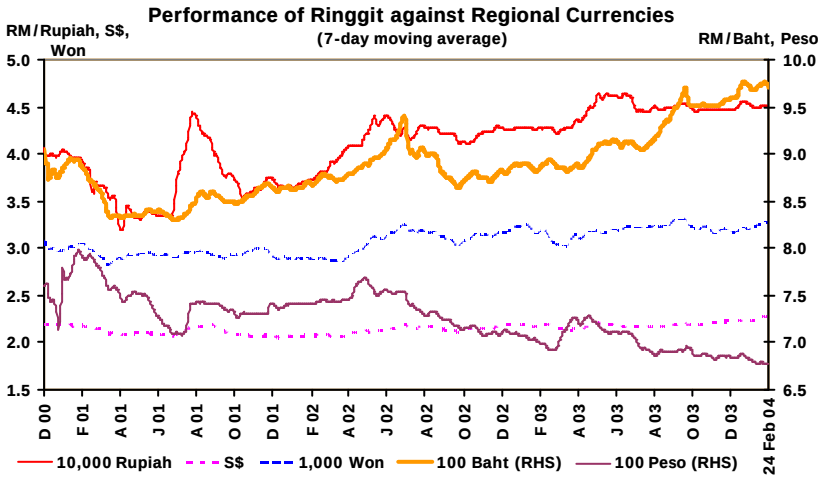
Performance of the ringgit

In January, the ringgit recorded a mixed performance against the major currencies. The ringgit depreciated against the pound sterling (-1.9%) and the Japanese yen (-0.9%). Against the euro, the ringgit appreciated by 1.3% as the dollar reversed its trend and appreciated vis-à-vis the euro. While the euro had risen to its historical high of $1.2844 against the USD by mid-January, it softened towards the end of the month. Meanwhile, the strong external sector and improving growth prospects supported the strengthening of the Japanese yen. The pound sterling strengthened on expectations of further interest rate increases and was supported by the better-than-expected fourth quarter GDP growth in the United Kingdom.



The ringgit was mixed against the major currencies in January

In January, the performance of the ringgit was also mixed against most regional currencies, appreciating against the Philippines peso (+0.9%) and the Singapore dollar (+0.1%) while depreciating against the Korean won (-1.5%) and the Thai baht (-0.8%). The Philippine peso weakened mainly in response to the debt rating downgrade by Moody's in view of its political outlook. The Korean won and the Thai baht continued to appreciate following large foreign inflows into their equity markets, prompting Korea to implement controls on non-deliverable forward contracts in mid-January to curb speculation on the won.



Ringgit had a mixed performance against regional currencies

In the period 1 – 24 February 2004, the ringgit was mixed against the major and most regional currencies. The ringgit depreciated against the pound sterling (-2.5%) and the euro (-1%) while appreciating against the Japanese yen (+2.5%). The dollar depreciated in early February in the absence of a concerted stance on exchange rates at the G-7 meeting held on 6-7 February. The dollar was also affected by, among others, the unexpected widening of the US trade deficit. The pound strengthened on account of the widening interest rate differentials between

the US and UK, following the increase in the reference repo rate by 25 basis points to 4% by the Bank of England.

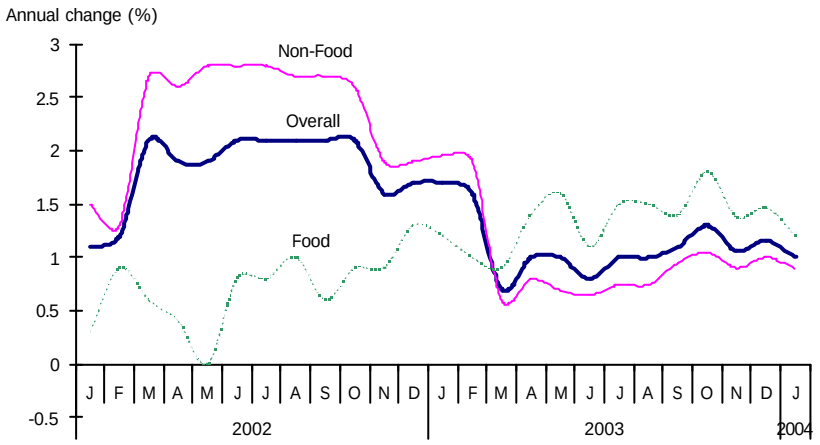
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	31 Dec 03	24 Feb 04	Jan 04	End Jan 04 - 24 Feb 04	End Dec 03 - 24 Feb 04	02 Sep 98 - 24 Feb 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.7783	4.7608	1.3	-1.0	0.4	-
Pound Sterling	6.3708	6.7678	7.0792	-1.9	-2.5	-4.4	-10.0
100 Japanese yen	2.7742	3.5546	3.4973	-0.9	2.5	1.6	-20.7
Singapore dollar	2.1998	2.2342	2.2399	0.1	-0.3	-0.3	-1.8
100 Thai baht	9.3713	9.5947	9.6815	-0.8	-0.1	-0.9	-3.2
100 Philippine peso	8.8302	6.8431	6.7580	0.9	0.4	1.3	30.7
100 Indonesian Rupiah	0.0354	0.0449	0.0449	-0.3	0.1	-0.1	-21.2
100 Korean won	0.2827	0.3180	0.3228	-1.5	0.0	-1.5	-12.4

Inflation remained low

The annual rate of inflation, as measured by the Consumer Price Index (CPI, 2000=100), declined marginally to 1% in January (December 2003: 1.2%). This was mainly due to the slower increase in the prices of food taken at home and the decline in the prices of fruits and vegetables.

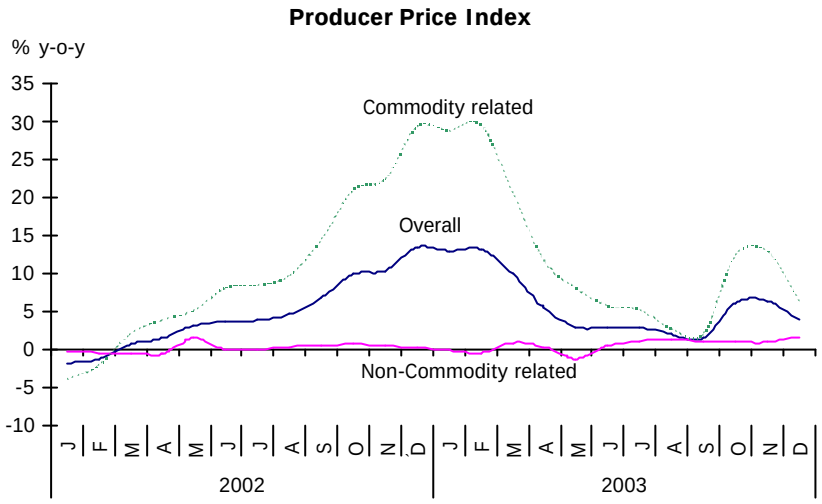
Consumer Price Index



Inflation declined marginally to 1%

Producer prices increased at a slower rate

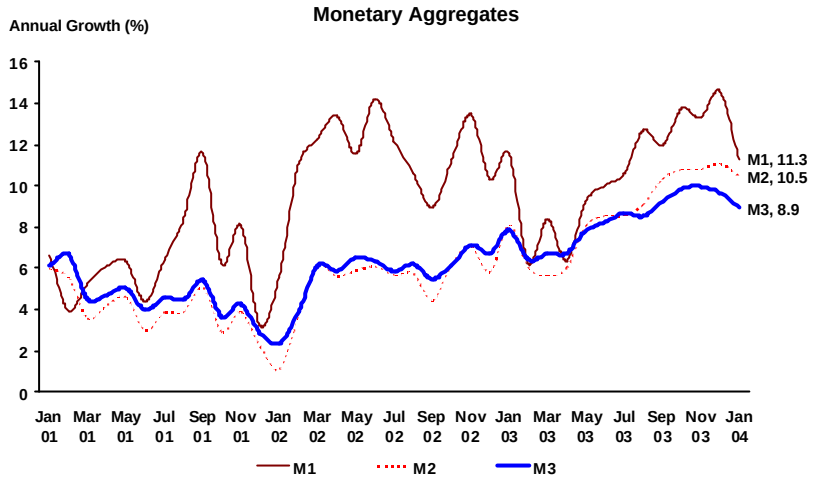
Meanwhile, the Producer Price Index (PPI, 1989=100), increased at a slower rate of 3.8% in December (November: 6.3%) reflecting mainly the decline in prices of rubber and crude petroleum. Excluding commodity-related products, the adjusted PPI increased at an even slower rate of 1.6%.



Producer prices increased at a slower rate

Money supply expanded

In tandem with the higher festival-related consumption spending in January, narrow money, M1, expanded further in January, reflecting mainly the increase in currency in circulation of RM2.9 billion. During the month, large net external inflows and withdrawal of deposits from BNM by the Government contributed to the increase in broad money, M3. On an annual basis, the growth rates in all the three monetary aggregates moderated, to some extent due to the high base effect arising from the exceptionally expansionary Government operations in January 2003. As at end-January, M1, M2 and M3 grew by 11.3%, 10.5% and 8.9% respectively (end-December 2003: 14.6%, 11.1% and 9.7% respectively).



The annual growth rates of all three monetary aggregates moderated but remained at high levels ...

M3 Determinants
(RM billion)

	Change during period			
	Oct 03	**Nov 03**	**Dec 03**	**Jan 04**
M3	5.3	7.6	1.3	5.2
Net claims on Government	1.2	3.2	4.1	1.9
Claims on the private sector	1.0	2.7	-0.2	-0.7
Net external operations [1]	10.8	1.9	-1.8	12.5
Other influences	-7.7	-0.1	-0.8	-8.5

1/ pre-revaluation

Individual deposits with the banking system expanded significantly

Total deposits mobilised by the banking system increased on a month-on-month basis by RM199 million in January, reflecting mainly higher placements of deposits by individuals with the additional income from bonus payments and year-end dividends received in January. On an annual basis, total deposits mobilised by the banking system rose by 9.1% as at end-January (9.8% at end-December 2003).

Deposits by Holder
(RM million)

	Change during period			
	Oct 03	**Nov 03**	**Dec 03**	**Jan 04**
Federal Government	103	1,031	-759	-534
State Governments	-137	-254	217	-254
Statutory Authorities [1]	674	-269	932	-1,026
Financial Institutions	367	-190	889	-701
Business Enterprises	3,149	4,220	-1,304	-868
Individuals	2,098	1,536	2,850	4,086
Others [2]	667	-411	1,004	-505
Total	6,920	5,664	3,830	199

1/ Include local Governments

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

Deposits by individuals were significantly higher in January, as deposit funds flowed from institutions to individuals...

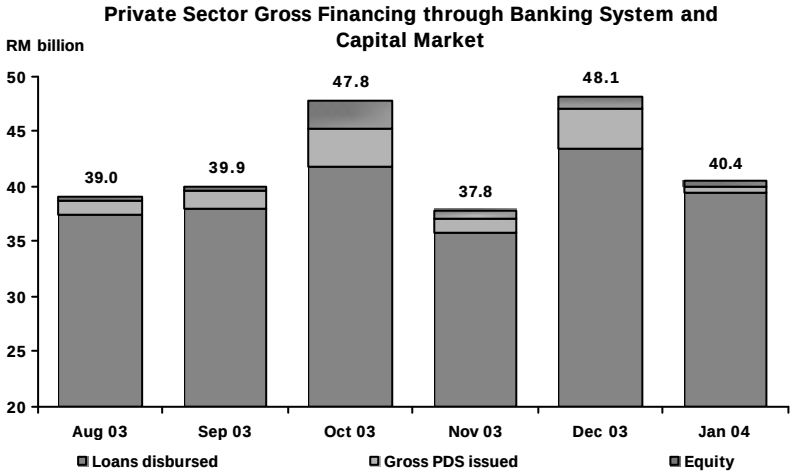
Deposits by Type
(RM million)

	Change during period			
	Oct 03	**Nov 03**	**Dec 03**	**Jan 04**
Fixed deposits	1,305	-952	-2,750	2,486
NIDs	968	395	798	-1,200
Demand deposits	2,293	1,002	3,008	-1,559
Savings deposits	404	428	1,101	1,604
Repos	1,614	2,773	-335	524
FX deposits	-461	36	1,152	-968
SPI deposits	702	1,996	194	-483
Others	96	-14	660	-205
Total	6,920	5,664	3,830	199

... mainly in the form of fixed and savings deposits.

Sustained private sector financing

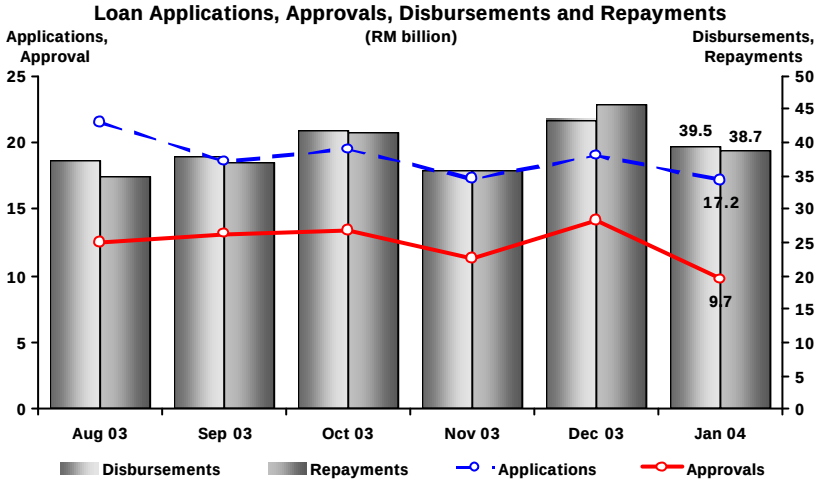
In January, total gross financing of the private sector by the banking system and funds raised through the equity and bond markets amounted to RM40.4 billion. On a net basis, financing provided by the banking system through the extension of loans as well as issuance of private debt securities (PDS) were higher by RM1.9 billion (RM0.9 billion in December 2003). The financing-deposit ratio of the banking system remained high at 91.3% at end-January (91.4% as at end-December).



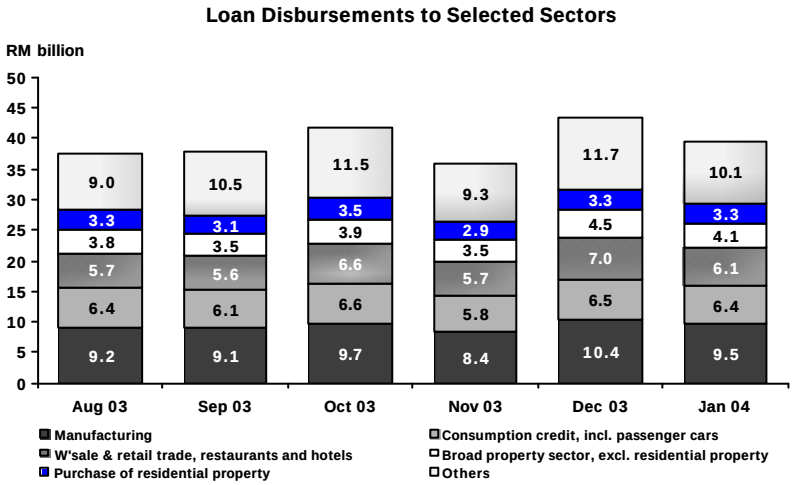
Gross private sector financing was sustained...

During the month, total loan disbursements amounted to RM39.5 billion, higher than the monthly average in 2003 of RM36.8 billion. On an annual basis, loans outstanding increased by 4.6% (4.8% at end-2003). Loans channelled to the business sector (69%) were mainly to the manufacturing sector (35% of disbursements to business sector), wholesale and retail trade, restaurants and hotels (22%) and finance, insurance and business services (13.1%). Loans disbursed to the household sector remained high at RM10.3 billion (RM10.3 billion in December 2003), reflecting continued lending for the purchase of residential properties (32% of

disbursements to the household sector), for credit cards (29%) and for the purchase of passenger cars (18%).

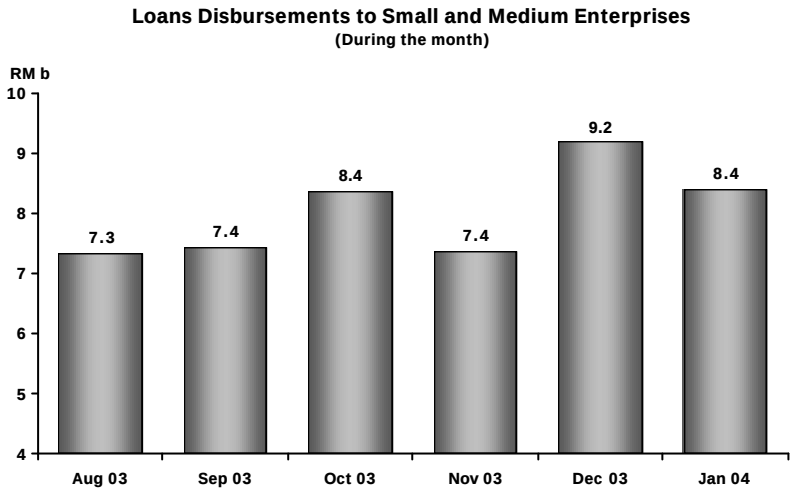


Loan disbursements remained high...

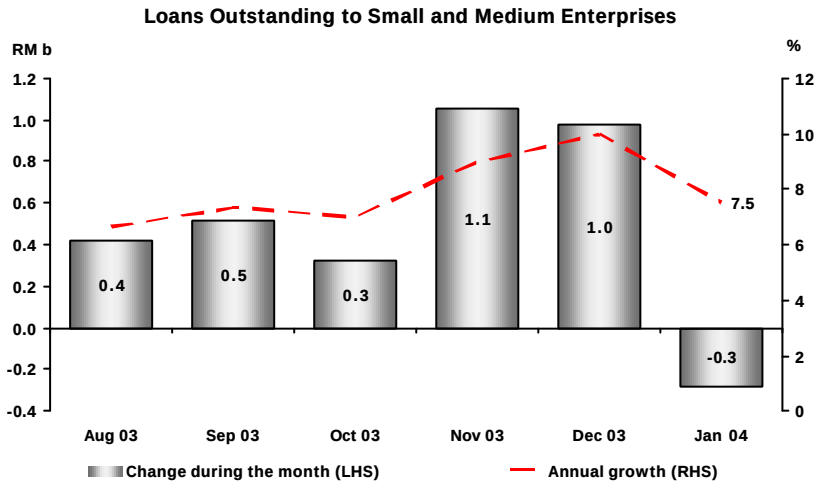


....and were across the board

Loan disbursements to the SMEs also remained high at RM8.4 billion (RM9.2 billion in December 2003; monthly average of RM7.3 billion in 2003). During the month, a total of RM1.4 billion was approved to 5,235 SME accounts. Higher repayments during the month resulted in outstanding loans to SMEs increasing at an annual rate of 7.5% (10% as at end-2003). Lending to SMEs continued to account for a significant share of business loans, at 38.3% of outstanding business loans, and 17.2% of total outstanding loans as at end-January.



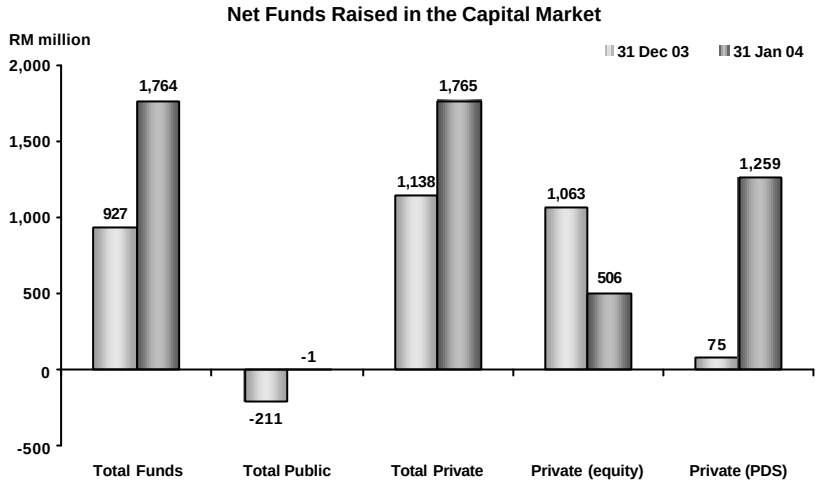
Loan disbursements to SMEs remained high



Outstanding loans to SMEs moderated due to higher repayments

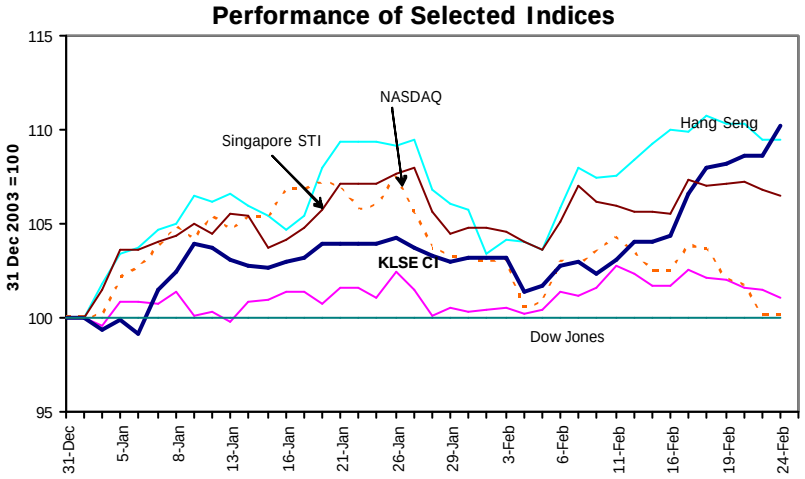
Higher net funds raised in the capital market

In January, net funds raised in the capital market was higher, amounting to RM1.8 billion, of which RM1 billion was through the issuance of Cagamas bonds. Gross funds of RM465 million raised through three corporate bond issues were for refinancing and a corporate acquisition exercise. In the equity market, RM506 million was raised, including RM90 million from five initial public offerings.



Net funds raised was higher in January

The performance of the Kuala Lumpur Stock Exchange (KLSE) improved in January. While the year started with mild selling activities, sentiment was lifted in the second week of January following the appointment of the new Deputy Prime Minister and some changes in the Cabinet. The CI declined marginally in the third week of January following profit-taking activities as investors liquidated their shares ahead of the Chinese New Year. As at end-January, the KLSE CI closed at 818.94 (+3.1% since end-December). The market capitalisation was higher at RM664.26 billion (+3.7% since end-December) and the daily average turnover for the month was higher at 570.4 million units.



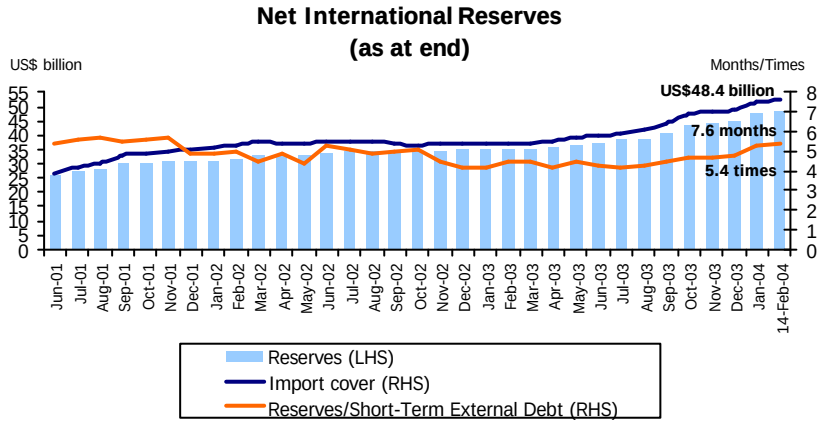
KLSE CI improved by 10.2% over the period 1 January – 24 February 2004

In the first three weeks of February, the KLSE CI continued to register gains with growing interests from both domestic and foreign investors as well as better-than-expected quarterly corporate results. As at 24 February 2004, the KLSE CI closed at 874.82 (+6.8% since end-January). The market capitalisation was higher at

RM709.4 billion (+6.8% since end-January) and the daily average turnover during the period was higher at 696.9 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased by RM10.7 billion or US$2.8 billion during the month of January to RM181.4 billion or US$47.7 billion as at 31 January 2004. The reserves increased further to RM183.9 billion or US$48.4 billion as at 14 February 2004. The increase in reserves during the first half of February was supported by higher repatriation of export earnings, and some inflow of portfolio funds. Outflows during the period reflected mainly payments for imports of goods and services and repayments of external loans by the private sector. The reserves position is adequate to finance 7.6 months of retained imports and is 5.4 times the short-term external debt.



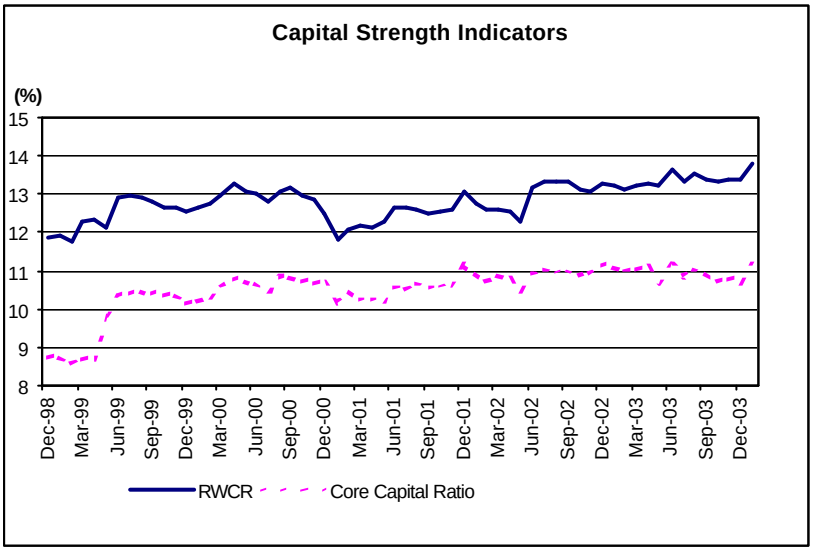
Reserves continued to increase supported by higher repatriation of export earnings and some inflow of portfolio funds

Banking system capitalisation strengthened to the highest level

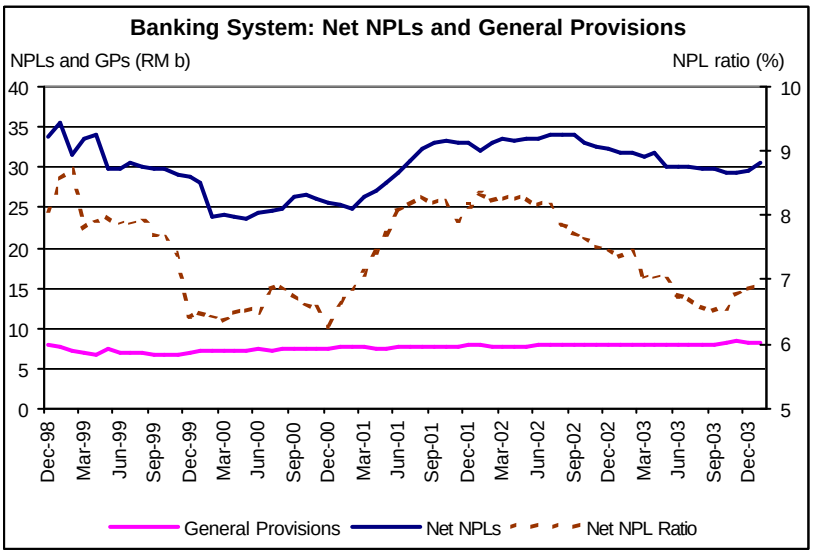
The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system strengthened to 13.8% and 11.1% respectively, the highest levels since the Asian financial crisis. This was primarily due to the inclusion of audited profits into the capital base as well as capital raising exercises by two banking institutions to strengthen their capital position. Meanwhile, the net non-performing loan (NPL) ratio on the 6-month classification declined to 6.8% while the Net NPL ratio on the 3-month classification remained stable at 9% at end-January 2004.

Banking System Health Indicators*								
	1998	1999	2000	2001	2002	2003		2004
	Dec.	Dec.	Dec.	Dec.	Dec.	Nov.	Dec.	Jan.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.8	10.7	11.1
RWCR	11.8	12.5	12.5	13.0	13.2	13.4	13.4	13.8
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.8	6.9	6.8
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,710	30,862	30,894
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.9	1.8	1.8

** Beginning June 1999 onwards, the figures include Islamic banks*



.... RWCR strengthened to 13.8%



.... Net NPL ratio (6-month classification) declined marginally to 6.8%

Bank Negara Malaysia
25 February 2004

Key Monetary and Banking Statistics

	November 2003		December 2003		January 2004	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	47.7	9.5	45.5	6.9	49.7	3.8
M1	99.7	13.3	102.1	14.6	103.6	11.3
M2	423.5	10.8	426.0	11.1	430.2	10.5
M3	548.4	10.0	549.5	9.7	554.8	8.9
Banking System						
Total deposits	550.0	9.7	553.8	9.8	554.0	9.1
Total loans (including loans sold to Cagamas)	475.4	4.8	474.0	4.8	475.6	4.6
Loan-deposit ratio (%)	81.7		80.9		81.2	
Financing-deposit ratio [1] (%)	92.2		91.4		91.3	
Loans applied during the period	17.3	3.1	19.0	22.9	17.2	-19.8
Loans approved during the period	11.3	11.1	14.2	38.2	9.7	-25.7
Loans disbursed during the period	35.7	6.4	43.4	20.6	39.5	3.8
Loans repaid during the period	35.8	8.7	45.7	27.2	38.7	4.3
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	13.4		13.4		13.8	
Net NPLs: 6-month classification (%)	6.8		6.9		6.8	
International Reserves of BNM (end-period)						
Reserves in RM (billion)	167.0		170.6		181.4	
Reserves in USD (billion)	44.0		44.9		47.7	
Months of retained imports	7.0		7.1		7.5	
Interest Rates at end-period [average for the month]						
Interbank: 1-month	2.99[2.99]		2.99[2.99]		2.99[2.99]	
3-month	2.87[2.87]		2.87[2.94]		2.89[2.87]	
Fixed deposits of commercial banks: 1-month	3.00[3.00]		3.00[3.00]		3.00[3.00]	
3-month	3.00[3.00]		3.00[3.00]		3.00[3.00]	
BLR of commercial banks	6.00[6.00]		6.00[6.00]		6.00[6.00]	
Prices						
Consumer Price Index (CPI) (2000=100)	104.7	1.1	105.0	1.2	105.0	1.0
Producer Price Index (PPI) (1989=100)	143.1	6.3	143.2	3.8		
Exchange Rates of Ringgit against Selected Currencies (end-period)						
Euro	4.5290		4.7783		4.7152	
Pound Sterling	6.5138		6.7678		6.9018	
Singapore dollar	2.2016		2.2342		2.2323	
100 Japanese yen	3.4717		3.5546		3.5861	
100 Thai Baht	9.5190		9.5947		9.6729	
100 Philippine Peso	6.8192		6.8431		6.7827	
100 Indonesian Rupiah	0.0447		0.0449		0.0450	
100 Korean Won	0.3157		0.3180		0.3227	
Capital Market						
Net funds raised by: public sector (RM b)	2.8		-0.2		...	
private sector (RM b)	1.7		1.1		1.8	
Kuala Lumpur Composite Index (end-period)	779.28		793.94		818.94	
KLSE Market Capitalisation (RMb, end-period)	629.19		640.52		664.26	

[1] Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.