BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 01/04/57 (BN)

EMBARGO: Not for publication or broadcast before 1900 hours on Wednesday, 28 January 2004

Highlights of the December 2003 Press Release

Monetary and financial indicators reflected stronger private sector activities

Improving consumer and business sentiments together with the low interest rates contributed to the further strengthening of private sector activities. In December, all loan indicators were stronger compared with the previous month. Stronger bank lending activities were reflected in higher loan applications, approvals and disbursements to both the business and household sectors during the month. In particular, loan approvals rose significantly by 38.2% in December. Lending to the SMEs also registered strong growth in December, increasing by RM1 billion. In terms of annual growth, loans to SMEs reached a record high of 10%.

For the year as a whole, higher financing from the banking system supported stronger economic growth, particularly for expansion of SME and household sectors. SME loans outstanding expanded substantially by RM7.4 billion in 2003, accounting for 17.3% of total outstanding loans and 38.3% of outstanding loans to businesses as at end-2003 (16.5% and 34.1% respectively as at end-2002).

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MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2003

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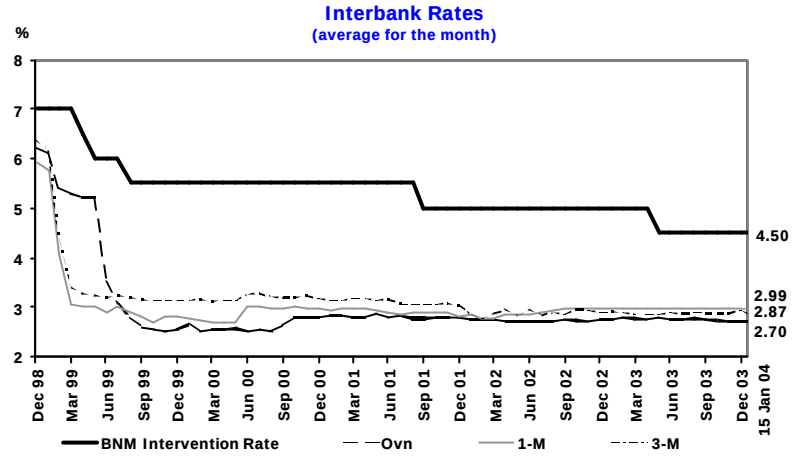
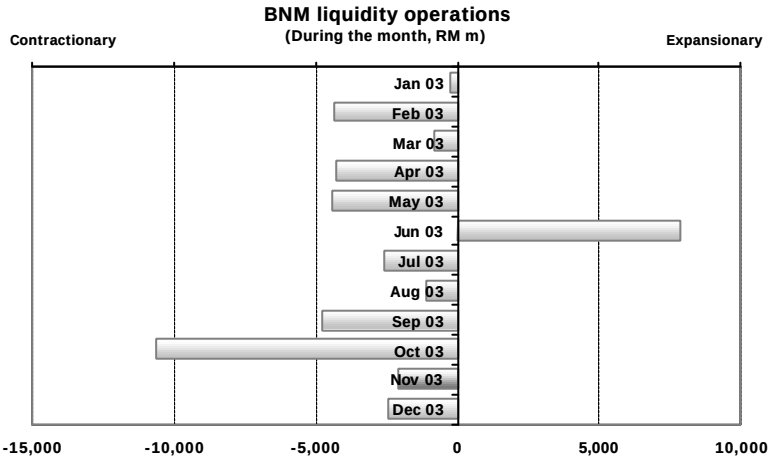
Interest rates continued to remain low and stable

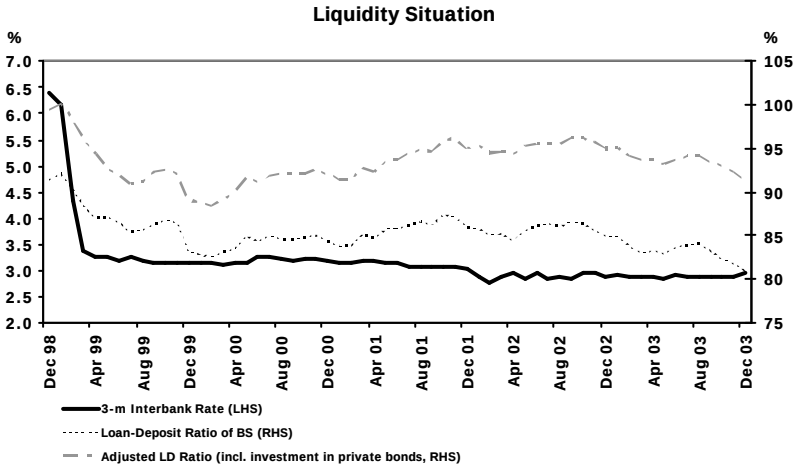
The interbank money market rates continued to remain low and stable during the month. Liquidity operations of the Bank stabilised the impact of liquidity from withdrawals of Federal Government deposits from BNM.



Interbank money market rates remained low and stable

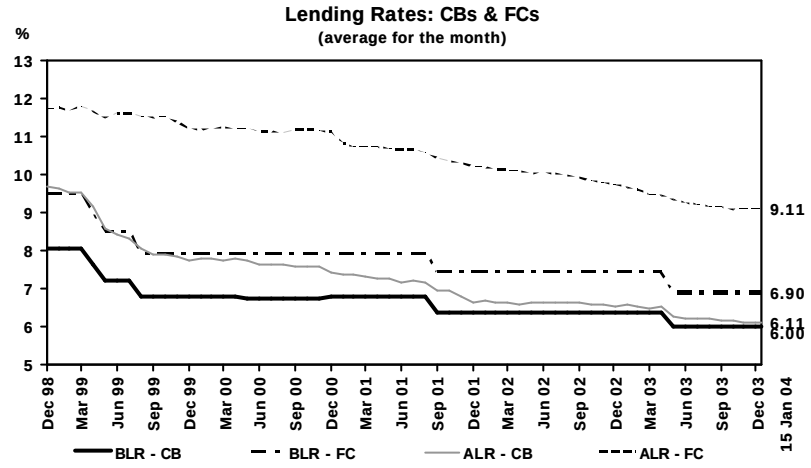


BNM liquidity operations stabilised the impact of liquidity from expansionary Government operations



The loan-deposit ratio including private debt securities held by the banking system remained high at 91.4%.

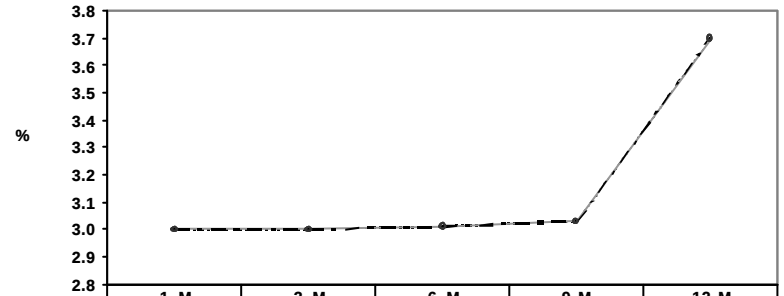
In December, the **average lending rate (ALR)** for commercial banks (CBs) and finance companies (FCs) stabilised at 6.11% and 9.11% respectively (end-November: 6.12% and 9.12% respectively). For the year as a whole, the ALRs were at their historical lows, declining by 0.4 percentage point for CBs and 0.64 percentage point for FCs from end-2002 levels. The **average base lending rate (BLR)** of CBs and FCs also remained unchanged.



BLR remained unchanged and ALR for CBs and FCs stabilised.

As at 15 January 2004, the fixed deposit rates for 1-12 month maturity for CBs and FCs remained unchanged at 3 – 3.70% and 3 – 3.68% respectively.

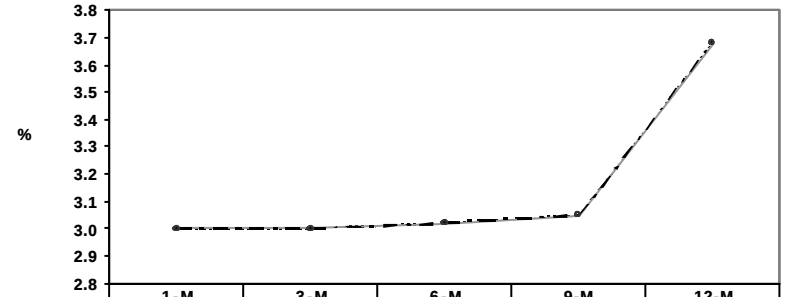
Term Structure of FD Rates
Commercial Banks



	1-M	3-M	6-M	9-M	12-M
Nov 03	3.00	3.00	3.01	3.03	3.70
Dec 03	3.00	3.00	3.01	3.03	3.70
15 Jan 04	3.00	3.00	3.01	3.03	3.70

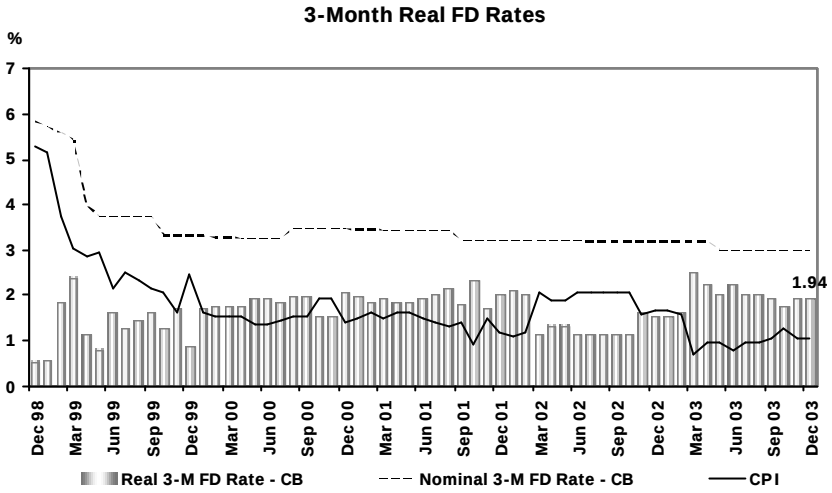
FD rates of CBs remained unchanged ...

Term Structure of FD Rates
Finance Companies



	1-M	3-M	6-M	9-M	12-M
Nov 03	3.00	3.00	3.02	3.05	3.68
Dec 03	3.00	3.00	3.02	3.05	3.68
15 Jan 04	3.00	3.00	3.02	3.05	3.68

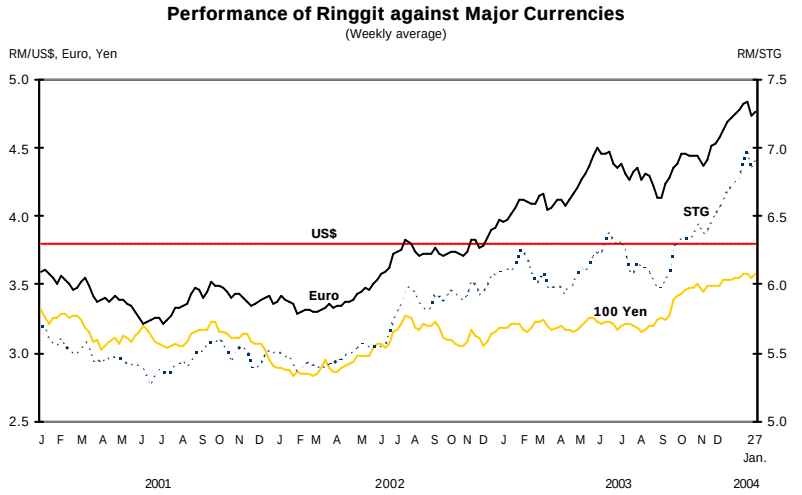
...similarly for FCs



The 3-month real FD rate remained unchanged.

Performance of the ringgit

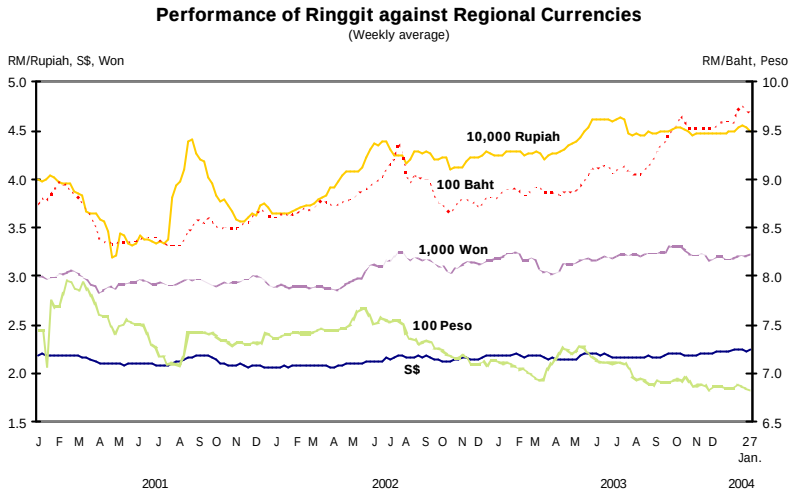
In December, the ringgit depreciated against the major currencies in tandem with the movement of the US dollar in the international foreign exchange markets. The ringgit depreciated against the euro by 5.2%, the pound sterling by 3.8% and the Japanese yen by 2.3%. The dollar was mainly affected by market expectations that US interest rates will remain low for a considerable period of time. Consequently, declining capital inflows with relatively low yields on dollar denominated assets culminated in a weaker dollar. The confluence of dollar negative factors resulted in the US currency depreciating against the euro towards the end of the month.



Ringgit depreciated against the major currencies in December

The ringgit recorded depreciation to a lesser extent against regional currencies. The ringgit depreciated against the Singapore dollar by 1.5%, Thai baht

by 0.8%, Korean won by 0.7%, Philippine peso by 0.4% and Indonesian rupiah by 0.4%.



The ringgit depreciated against regional currencies in December

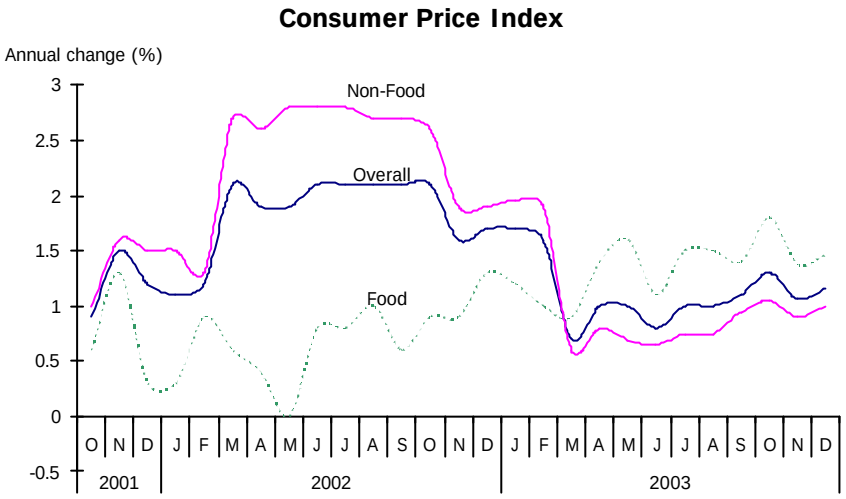
In the period **1 – 27 January 2004**, the ringgit recorded a mixed performance against the major currencies. The major currencies also experienced increased volatility. Strong concerns expressed by the European Central Bank (ECB) officials and euro politicians and positive US economic news reversed the US dollar's declining trend against the euro. The dollar strengthened against the euro and yen but slightly weaker against the sterling. This trend subsequently reversed. In tandem with the movement of US dollar, the ringgit recorded a mixed performance against the major currencies. The ringgit strengthened against the euro by 0.9% while depreciating against the pound sterling by 1.8% and the Japanese yen by 0.7%. Similarly, the ringgit was mixed against the regional currencies. The ringgit strengthened against the Philippine peso (0.5%) while depreciating against other regional currencies in the range of 0.2% - 1.5%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Dec. 2003	27 January 2004	% Change: December 2003	% Change: End-Dec.2003 - 27 Jan. 2004	% Change: End-2002 - 27 Jan. 2004	% Change: 2 Sep. 1998 - 27 Jan. 2004
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.7783	4.7361	-5.2	0.9	-15.9	-
Pound Sterling	6.3708	6.7678	6.8938	-3.8	-1.8	-11.6	-7.6
100 Japanese yen	2.7742	3.5546	3.5800	-2.3	-0.7	-10.6	-22.5
Singapore dollar	2.1998	2.2342	2.2395	-1.5	-0.2	-2.3	-1.8
100 Thai baht	9.3713	9.5947	9.6815	-0.8	-0.9	-9.0	-3.2
100 Philippine peso	8.8302	6.8431	6.8113	-0.3	0.5	4.9	29.6
100 Indonesian Rupiah	0.0354	0.0449	0.0450	-0.4	-0.2	-5.6	-21.3
100 Korean won	0.2827	0.3180	0.3230	-0.7	-1.5	-1.0	-12.5

Inflation remained low in December

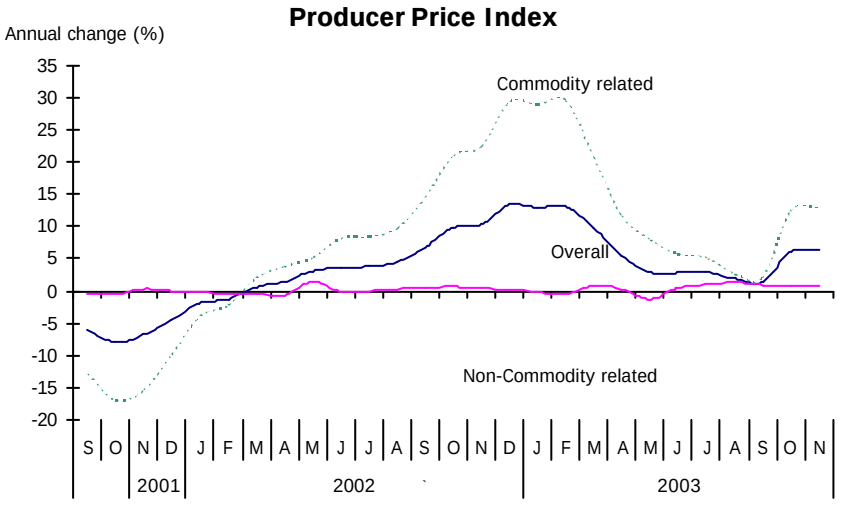
The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **remained low at 1.2%** in December (November: 1.1%). Higher food prices amidst higher demand during festive season were moderated by lower price increases and decline in prices of other products. For 2003 as a whole, inflation moderated to 1.2% (2002: 1.8%) as slower increase in prices for transport and communication, clothing and footwear as well as furniture, furnishing and household equipments more than offset higher prices for food, and beverages and tobacco.



Inflation remained low at 1.2% in December

Higher producer price inflation in November

Producer Price Index (PPI) was higher at 6.3% in November (October: 6.1%). This reflected the higher prices of commodity-related products amidst sustained higher prices of crude petroleum, palm oil and rubber. Excluding commodity-related products, the adjusted PPI increased by only 0.9%.

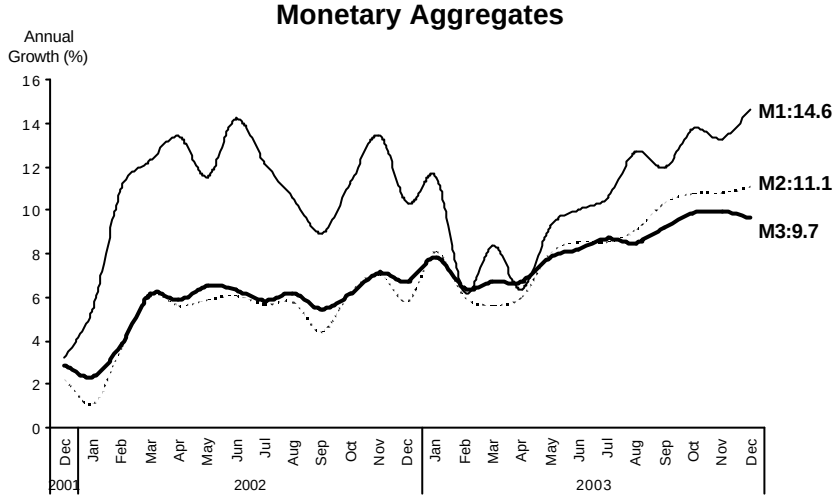


Producer prices, excluding commodity related products increased by 0.9%.

Sustained strong expansion in money supply

In December, all three monetary aggregates continued to expand at a stronger rate in tandem with continued expansion in economic activities. The increase in monetary aggregates largely reflected expansionary Government operations, following higher disbursements to contractors. On an annual basis, the growth in all three monetary aggregates were stronger in 2003, with M1, M2 and M3 expanding at an annual rate of 14.6%, 11.1% and 9.7% respectively at end-December (end-December 2002: 10.3%, 5.8% and 6.7% respectively).

Monetary Aggregates



Growth in all three monetary aggregates was sustained at a high level

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Oct	Nov	Dec	Jan - Dec
M3	5.3	7.6	1.2	19.8
Net claims on Government	1.2	3.2	4.0	6.1
Claims on the private sector	1.0	2.7	-0.2	8.0
Net external operations [1]	10.8	1.9	-1.8	16.2
Other influences	-7.7	-0.1	-0.8	-10.6

1/ pre-revaluation

...reflecting mainly expansionary Government operations

Deposits of the banking system continued to expand in December

Total **deposits** mobilised by the banking system increased on a month-on-month basis by RM3.8 billion or 0.7% in December, reflecting mainly higher placements of deposits by individuals concomitant with the extra income due to bonuses paid at the end of year. On an annual basis, total deposits mobilised by the banking system rose by 9.8% as at end-December (9.7% at end-November).

Monthly Change in Deposits			(RM million)
	2003		
	Oct.	Nov.	Dec.
Holder			
Federal Government	103	1,031	-759
State Governments	-137	-254	217
Statutory Authorities[1/]	674	-269	932
Financial Institutions	367	-190	889
Business Enterprises	3,149	4,220	-1,304
Individuals	2,098	1,536	2,850
Others [2/]	667	-411	1,004
Total	**6,920**	**5,664**	**3,830**

Individuals were main depositors in December ...

[1/] Include local Governments.

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

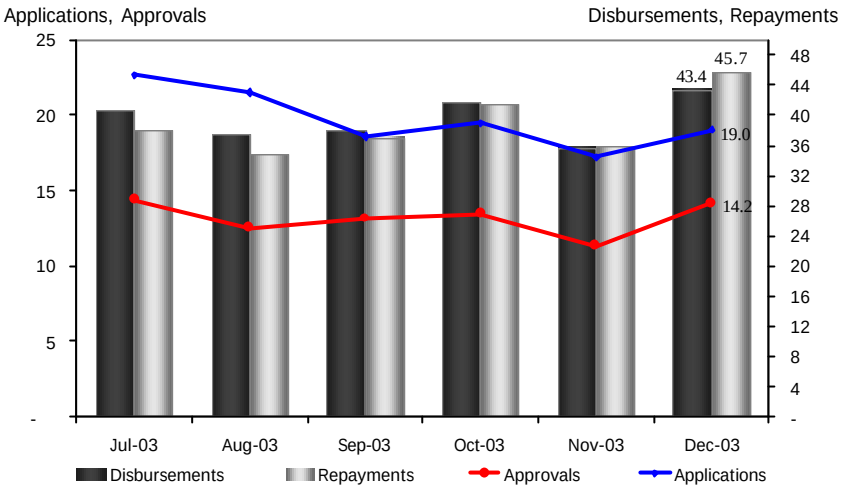
Monthly Change in Deposits			(RM million)
	2003		
	Oct.	Nov.	Dec.
Type			
Fixed deposits	1,305	-952	-2,750
NIDs	968	395	798
Demand deposits	2,293	1,002	3,008
Savings deposits	404	428	1,101
Repos	1,614	2,773	-335
FX deposits	-461	36	1,152
SPI deposits	702	1,996	194
Others	96	-14	660
Total	**6,920**	**5,664**	**3,830**

.....higher deposits were placed in demand, savings and FX deposits

Bank financing activities were higher in December

Amidst continued improvement in consumer and business confidence, demand for financing from both businesses and households expanded further during the month. All loan indicators were higher in December. The loan applications, approvals and disbursements amounted to RM19 billion, RM12.7 billion and RM43.4 billion respectively, significantly higher than the previous month. On an annual basis, loan applications, approvals and disbursements increased by 22.9%, 38.2% and 20.6% respectively. Despite a higher loans disbursed to businesses, loans outstanding declined by RM1.4 billion in December, partly due to higher refinancing by corporations through issuance of bonds and new equities. Nonetheless, on an annual basis, loans outstanding continued to increase at a sustained growth of 4.8%.

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

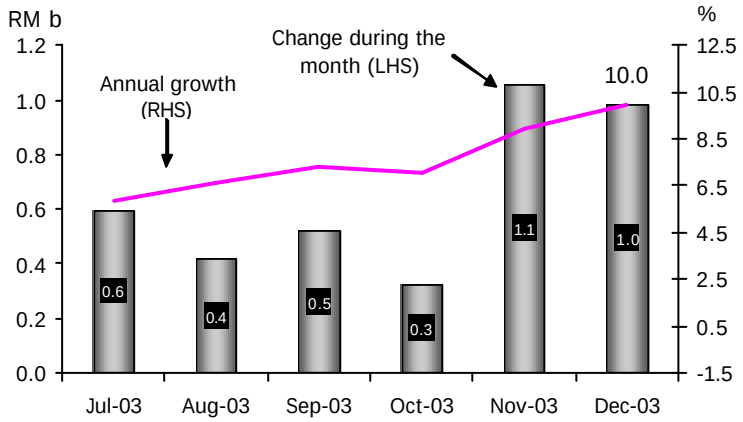


All loan indicators were higher in December

The demand for bank financing from SMEs continued to remain strong while loans outstanding of large corporations declined as increased new financing was sourced from the capital market. Loans outstanding to SMEs expanded further by RM1 billion during the month or at a sustained annual growth of 10% at end-December. During the year, a total of RM25.7 billion was approved to 75,200 SME accounts, while RM87.1 billion was disbursed. As at end-December, SMEs loans accounted for a higher share of 38.3% of business loans outstanding and 17.3% of total loans as at end-2003.

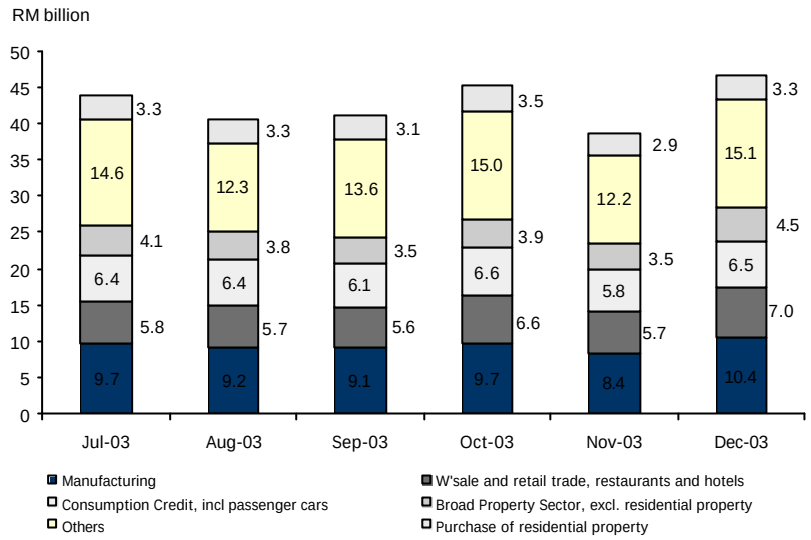
Meanwhile, demand for loans from household sector remained firm and continued to expand by RM2 billion. This largely reflected a sustained demand for financing for the purchase of houses and passenger cars as well as for consumption credit, amidst a further improvement in employment and income outlook.

Loans Outstanding of the Small and Medium Enterprises



Outstanding loans of SMEs continued to expand at strong growth rate

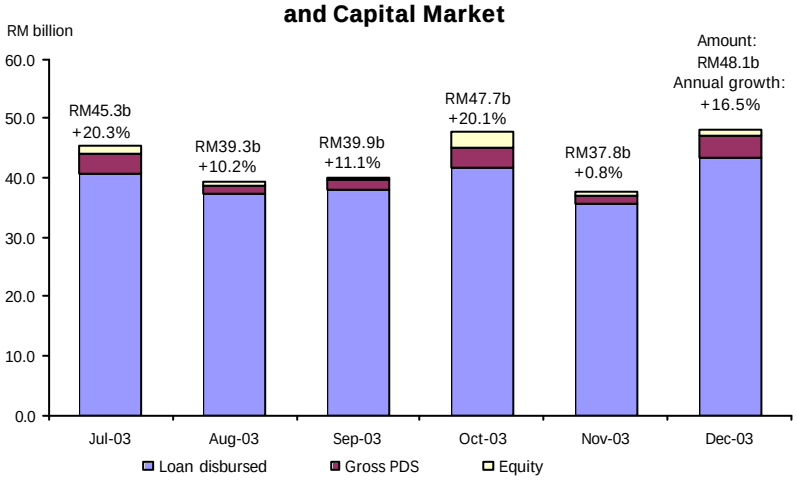
Loan Disbursements to Selected Sectors



Disbursements were higher across the board

Total gross financing of the private sector by the banking system and funds raised in the capital market increased to RM48.1 billion (RM37.8 billion in November). On a net basis, financing provided by the banking system through extension of loans and its holdings of private debt securities (PDS) expanded at an annual rate of 5.9% as at end-December (5.8% as at end- November). Loan-deposit ratio, including private debt securities held by the banking system, stood at 91.4% as at end-Decemberr (92.2% as at end-November).

Private Sector Gross Financing through Banking System and Capital Market

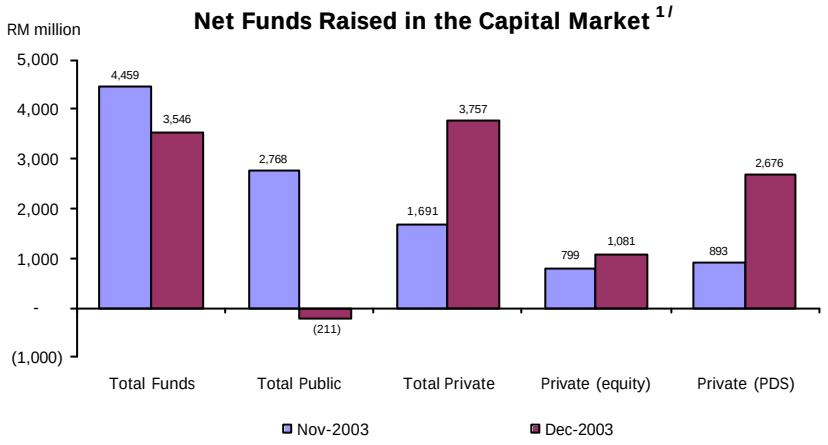


Gross private sector financing expanded at an annual rate of 16.5%

For the year as whole, loan applications, approvals and disbursements were higher than in 2002, reflecting of stronger economic activity in 2003. Higher recourse to financing from the bond market was also seen in 2003, reflecting a continued diversification of financing by large corporations. On the whole, total gross financing from the banking system and capital market increased by 9% in 2003.

Higher net funds raised by the private sector

A higher amount of RM3.8 billion was raised by the private sector in December. The private sector raised RM2.7 billion through the private debt securities market, reflecting mainly refinancing activities by the companies, and RM1.1 billion through the equity market, reflecting mainly rights issues. On a net basis, RM3.5 billion was raised in the capital market in December.

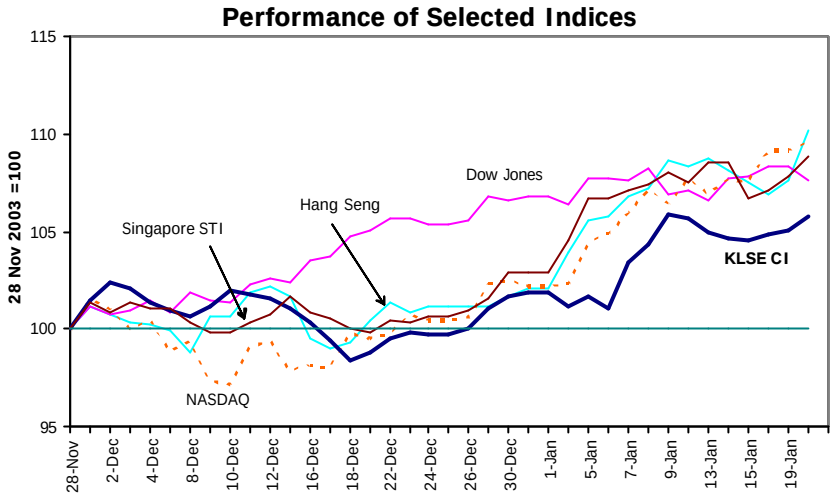


1/ Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

Higher net issuance by the private sector

The performance of **Kuala Lumpur Stock Exchange (KLSE)** was mixed in December. The absence of new developments in the market, coupled with the new SARS case reported in China that dampened regional market sentiment. However, towards the end of the month, the KLSE CI improved due to bargain hunting activities on some index-linked stocks. On a monthly basis, small gains were recorded in terms of the performance of the KLSE CI and market capitalisation. Reflecting the festive season, trading activities were significantly lower as reflected in the decline in the daily average turnover. As at end-December, the KLSE CI closed at 793.94 points (+1.9% since end-November). The market capitalisation was higher at RM640.28 billion (+1.8% since end-November) and the daily average turnover during the period stood at 505.80 million units

For the year as a whole, the KLSE recorded significant gain in terms of prices and trading activities. The better outlook for the domestic economy as well as favourable capital market measures introduced by the Government, helped to improve market sentiment, in the second half of 2003.



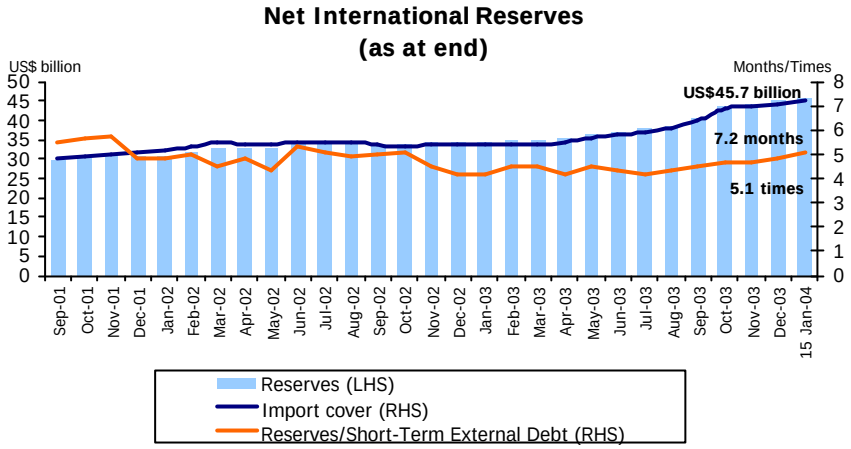
KLSE performance was in line with the regional markets

In the first three weeks of January 2004, the KLSE CI was stronger on improved sentiments following the appointment of Deputy Prime Minister and reshuffling of cabinet. As at 16 January 2004, the KLSE CI closed at 817.3 (+2.9% since end-December). The market capitalisation was higher at RM659.6 billion (+3.0% since end-December) and the daily average turnover during the period increase to 629.65 million units.

International reserves remained high

The international reserves of Bank Negara Malaysia increased in December to RM170.6 billion or US$44.9 billion as at 31 December 2003, supported by sustained repatriation of export earnings and foreign direct investment. The reserves level as at the end of December 2003 had taken into account the quarterly adjustment of the unrealised foreign exchange revaluation gain amounting to US$1.8 billion. Reserves increased further to RM173.5 billion or US$45.7 billion as at 15 January 2004. The increase reflected mainly higher repatriation of export earnings, foreign direct investment and larger inflows of portfolio funds. Outflows during the period were due mainly for import payments for goods and services and repayment of external loans. The current level of reserves is adequate to finance 7.2 months of retained imports and is 5.1 times the short-term external debt.

Compared with end-2002, the international reserves increased significantly by RM39.2 billion or US$10.3 billion. Inflows from the repatriation of export earnings as well as portfolio funds were substantially higher, while inflows of foreign direct investment funds were sustained. Outflows during the year reflected higher payments for imports of goods and services, repatriation of profits and dividends and repayment of external loans by the public and private sectors.



The international reserves increased in December, supported by sustained repatriation of export earnings and foreign direct investment

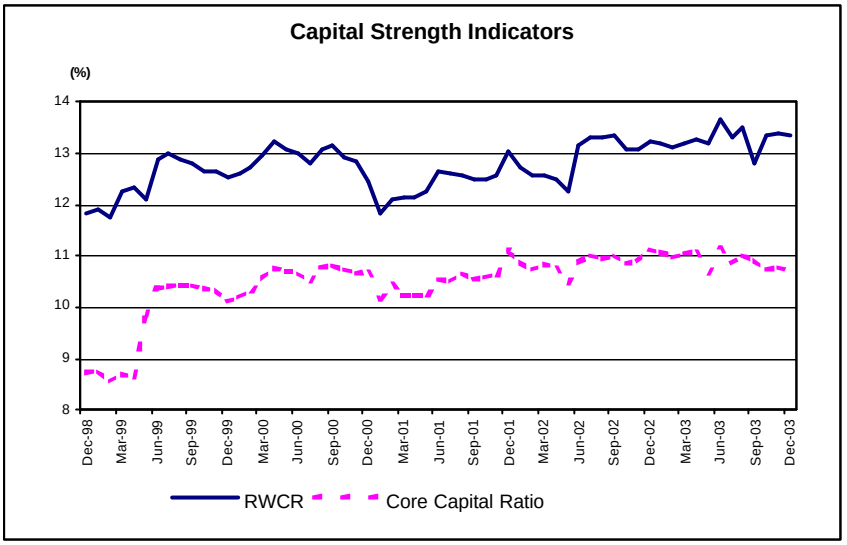
Capitalisation sustained at high level.

The risk weighted capital ratio (RWCR) of the banking system was sustained at 13.4% at end-December 2003. The expansion of RM2.3 billion (+0.4%) in risk weighted assets was supported by a corresponding increase in capital base as a result of capital raising exercise by a number of banking institutions. Although newly classified non-performing loans (NPLs) declined during the month, net NPLs on the 6-month classification increased marginally by 1.4% to account for 6.9% of net total loans at end-December 2003 due to the deferment of the loan restructuring scheme by certain corporations.

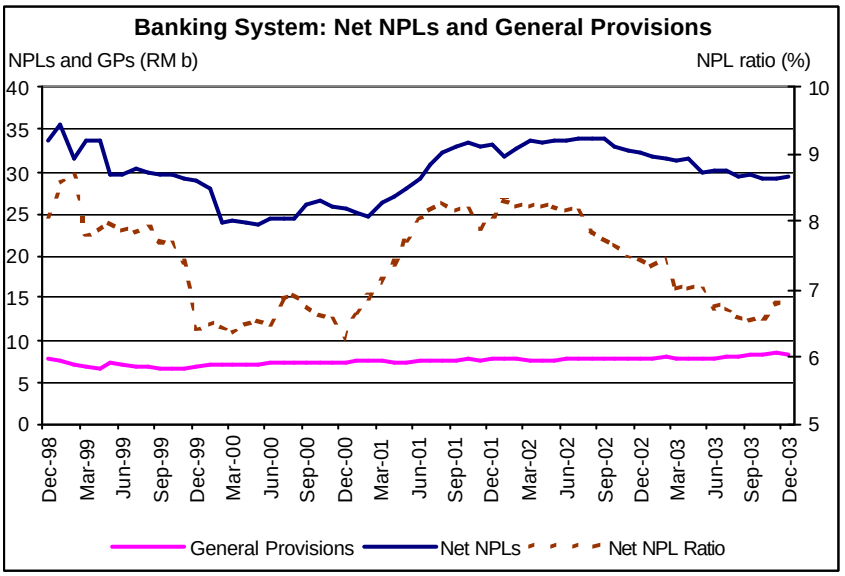
Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Oct.	Nov.	Dec.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.7	10.8	10.7
RWCR	11.8	12.5	12.5	13.0	13.2	13.3	13.4	13.4
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.6	6.8	6.9
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	29,506	30,428	30,858
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.9	1.8

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



.... RWCR sustained at 13.4%



.... Net NPL ratio (6-month classification) stabilized at 6.9%

Bank Negara Malaysia
6 February 2004

Key Monetary and Banking Statistics

	November 2003		December 2003		2003	
	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	45.5	6.9
M1	99.7	13.3	102.1	14.6	102.1	14.6
M2	423.5	10.8	426.0	11.1	426.0	11.1
M3	548.4	10.0	549.5	9.7	549.5	9.7
Banking System						
Total deposits	550.0	9.7	553.8	9.8	553.8	9.8
Total loans (including loans sold to Cagamas)	475.4	4.8	474.0	4.8	474.0	4.8
Loan-deposit ratio (%)	81.7		80.9		80.9	
Loan-deposit ratio including private debt securities (%)	92.2		91.4		91.4	
Loans applied during the period	17.3	3.1	19.0	22.9	227.6	4.8
Loans approved during the period	11.3	11.1	14.2	38.2	152.7	11.0
Loans disbursed during the period	35.7	6.4	43.4	20.6	441.7	7.3
Loans repaid during the period	35.8	8.7	45.7	27.2	430.5	6.9
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	13.4		13.4		13.4	
Net NPLs: 6-month classification (%)	6.8		6.9		6.9	
International Reserves of BNM (end-period)						
Reserves in RM (billion)	167.0		170.6		170.6	
Reserves in USD (billion)	44.0		44.9		44.9	
Months of retained imports	7.0		7.1		7.1	
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]		2.87[2.94]	
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	1.2
Producer Price Index (PPI) (1989=100)	143.1	6.3				
Exchange Rates of Ringgit against Selected Currencies (end-period)						
Euro	4.5290		4.7783		4.7783	
Pound Sterling	6.5138		6.7678		6.7678	
Singapore dollar	2.2016		2.2342		2.2342	
100 Japanese yen	3.4717		3.5546		3.5546	
100 Thai Baht	9.5190		9.5947		9.5947	
100 Philippine Peso	6.8192		6.8431		6.8431	
100 Indonesian Rupiah	0.0447		0.0449		0.0449	
100 Korean Won	0.3157		0.3180		0.3180	
Capital Market						
Net funds raised by: public sector (RM b)	2.8		-0.2		24.7	
private sector (RM b)	1.7		3.8		40.1	
Kuala Lumpur Composite Index (end-period)	779.28		793.94		793.94	
KLSE Market Capitalisation (RMb, end-period)	629.19		640.52		640.52	