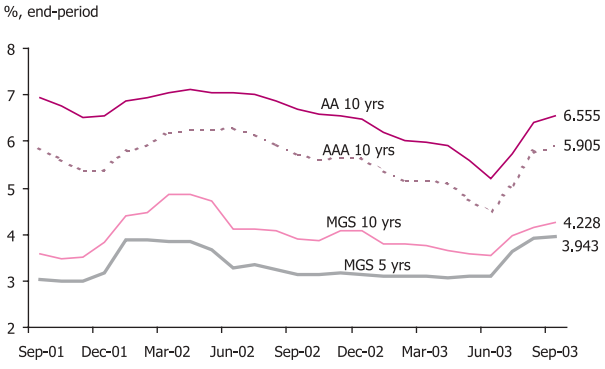
Accommodative monetary policy contributed to robust domestic demand

Monetary and financial indicators for the third quarter also supported the increasing robustness in domestic demand. While the policy rate of Bank Negara Malaysia, the 3-month Intervention Rate remained unchanged at 4.5% during the quarter, the effect of the earlier 50 basis point reduction in May 2003 and increased competitive environment were reflected in the further reduction in average lending rates of commercial banks and finance companies. As consumer and business sentiment strengthened with the improving outlook for the economy, low interest rates were effective in supporting growth, especially in stimulating private investment.

Interest Rates

	2002	2003	
	3Q	2Q	3Q
	At end-period (%)		
3-month Intervention rate	5.0	4.5	4.5
Interbank rates			
Overnight	2.74	2.77	2.75
1- month	2.98	2.98	2.99
Base lending rates (BLR)			
Commercial banks	6.39	6.00	6.00
Finance companies	7.45	6.90	6.90
Average lending rates			
Commercial banks	6.62	6.22	6.17
Finance companies	9.92	9.28	9.16
Fixed deposit rates			
Commercial banks			
3-month	3.20	3.00	3.00
12-month	4.00	3.70	3.70
Finance companies			
3-month	3.20	3.01	3.00
12-month	4.00	3.72	3.68

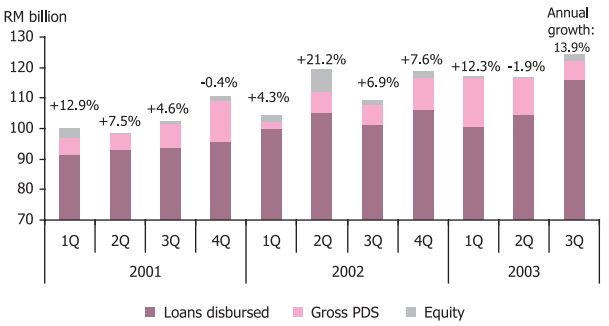
Long-term Interest Rates



Higher financing activity

The improving business confidence and rising domestic demand was reflected in higher financing requirements during the quarter. Total gross private sector financing raised through the banking system and from the capital market increased significantly, at an annual rate of 13.9% in the third quarter to RM124.5 billion (2Q: RM117 billion). A significant portion of the increase in demand for financing was met with funds sourced mainly from the banking system. Notably, there was higher growth in overall loan disbursements as well as the forward-looking indicators of total approvals and applications. During the quarter, loans disbursed by the banking system rose at a stronger annual rate of 14.6%.

Gross Private Sector Financing through Banking System and Capital Market



Financing of the private sector through banking system and capital market

	During the period (RM b)			Annual growth	
	2002	2003		2003	
	3Q	2Q	3Q	2Q	3Q
Gross total financing	**109.3**	**117.0**	**124.5**	**-1.9**	**13.9**
Loans disbursed	101.1	104.5	115.9	-0.3	14.6
Gross PDS[2]	6.2	12.0	6.4	62.1	2.6
Equity	1.9	0.6	2.2	-91.8	14.4
				(At end period, %)	
Net total financing (A)+(B)	**9.6**	**14.1**	**13.0**	**7.7**	**8.2**
Banking system	6.8	8.3	10.1	5.1	5.7
Loans outstanding[1] (A)	4.3	10.4	8.7	3.8	4.7
Holding of PDS	2.5	-2.1	1.4	31.6	24.3
PDS outstanding[2] (B)	5.3	3.7	4.3	27.2	24.9

1 Banking system loans include loans sold to Cagamas and loans sold to Danaharta.

2 Private debt securities (PDS) exclude Cagamas bonds since financing raised by Cagamas is already reflected in banking system loans.

Loans disbursed were markedly higher to the small and medium enterprises (SMEs), the household sector as well as large corporations. Overall, loans disbursed to businesses increased at a stronger annual rate of 17% compared with 14.1% in the household sector. By sector, the increase in loans disbursed to businesses was broad-based, with a higher share recorded to the finance, insurance and business services, and transportation, storage and communication sectors. The pick-up in bank lending to businesses reflected the increasing robustness in the economy as well as some postponements in fund raising exercises in the bond market following the steepening of the yield curve on expectations of an improved economic outlook.

Loans by Sector

	Loans disbursed				Loans Outstanding
	During the Quarter			Share of total	Share of total
	2002	2003			
	3Q	2Q	3Q	3Q	
	RM billion			%	
Business enterprises	67.9	71.5	79.5	68.6	49.3
Large Corporations		*52.3*	*57.5*	*49.6*	*33.7*
SMEs		*19.1*	*21.9*	*19.0*	*15.6*
Households	26.8	27.3	30.6	26.4	44.2
By sector					
Agriculture, hunting, forestry and fishing	2.3	2.5	3.1	2.6	2.2
Mining and quarrying	0.5	0.3	0.7	0.6	0.3
Manufacturing	26.0	26.7	27.9	24.1	13.1
Broad Property Sector	18.8	19.0	21.1	18.2	38.5
Construction	*6.6*	*6.6*	*7.3*	*6.3*	*7.1*
Purchase of residential property	*8.0*	*8.6*	*9.7*	*8.4*	*22.1*
Purchase of non-residential property	*2.2*	*2.3*	*2.6*	*2.3*	*5.9*
Real Estates	*2.1*	*1.5*	*1.4*	*1.2*	*3.4*
Electricity, gas and water supply	1.6	1.6	2.0	1.7	1.2
Wholesale, retail, restaurants and hotels	16.0	17.5	17.1	14.8	7.9
Transport, storage and communication	2.5	3.5	4.3	3.7	2.9
Finance, insurance and business services	5.1	6.2	9.7	8.4	6.5
Consumption Credit	17.6	17.3	18.9	16.3	17.2
Of which:					
Credit Cards	*6.5*	*7.1*	*7.9*	*6.8*	*2.3*
Purchase of Passenger Cars	*6.8*	*6.0*	*6.7*	*5.8*	*11.7*
Purchase of securities	2.4	2.7	4.0	3.4	6.0
Purchase of transport vehicles	0.5	0.2	0.2	0.2	0.6
Others	7.7	6.9	6.9	6.0	3.5
Total	**101.1**	**104.5**	**115.9**	**100.0**	**100.0**

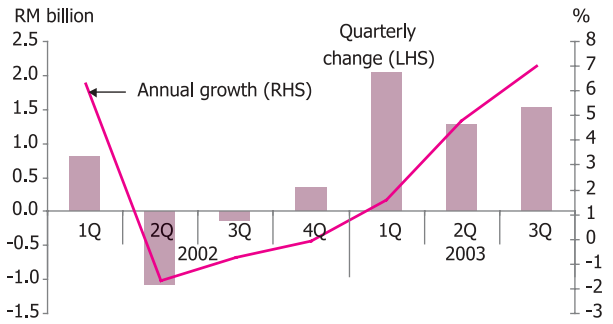
Loan Indicators

	During the quarter			Annual growth		
	2002	2003		2002	2003	
	3Q	2Q	3Q	3Q	2Q	3Q
	RM billion			(%)		
Total						
Loan applications	58.2	53.0	62.8	18.1	-8.2	7.8
Loan approvals	37.4	38.4	40.1	6.1	6.8	7.1
Loan disbursements	101.1	104.5	115.9	8.0	-0.3	14.6
Loan repayments	101.1	96.8	109.9	10.1	-3.3	8.7
Change in outstanding[1]	4.3	10.4	8.7	7.0	3.8	4.7
of which:						
Business enterprises						
Loan applications	35.5	28.3	33.7	n.a.	-16.7	-5.0
SMEs	n.a.	9.7	12.1	n.a.	n.a.	n.a.
Others	n.a.	18.5	21.6	n.a.	n.a.	n.a.
Loan approvals	19.0	19.9	20.3	11.1	11.5	7.0
SMEs	n.a.	5.9	6.4	n.a.	n.a.	n.a.
Others	n.a.	14.0	13.9	n.a.	n.a.	n.a.
Loan disbursements	67.9	71.5	79.5	3.3	-2.8	17.0
SMEs	n.a.	19.1	21.9	n.a.	n.a.	n.a.
Others	n.a.	52.3	57.5	n.a.	n.a.	n.a.
Loan repayments	69.8	66.3	77.0	0.0	-4.0	10.4
Change in outstanding[1]	-1.8	3.8	0.4	-3.3	-1.7	-0.9
SMEs	-0.1	1.3	1.5	-0.8	4.8	7.0
Others	-1.7	2.5	-1.1	-4.2	-4.4	-4.1
Households						
Loan applications	22.4	24.0	28.1	n.a.	9.5	25.2
Loan approvals	17.7	18.2	19.2	2.5	1.7	8.2
Loan disbursements	26.8	27.3	30.6	12.9	6.2	14.1
Loan repayments	20.9	21.6	23.8	14.4	6.5	13.5
Change in outstanding[1]	7.8	5.9	7.9	17.1	12.7	12.2

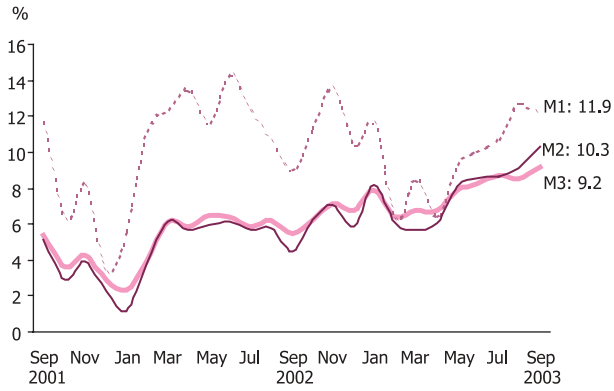
1/ The annual growth is for end-period

On a net basis, total outstanding loans increased at an annual rate of 4.7% at end-September, faster than the growth recorded at end-June of 3.8%. Outstanding loans to the SMEs, which accounted for 15.6% of total outstanding loans and 31.5% of total loans outstanding to businesses, rose

Sustained expansion in bank lending to SMEs



Monetary Aggregates: Annual Growth



at a stronger rate of 7% (4.8% as at end-June). In the first nine months, outstanding loans to the SMEs expanded by RM4.8 billion. During the same period, a total of RM18.9 billion was approved to 57,877 SMEs, while RM62.2 billion was disbursed.

Overall, net financing provided by the banking system through extension of loans and its holdings of PDS expanded by 5.7% as at end-September, while net total financing through the banking system and private debt securities market expanded by 8.2%. The loans to deposits ratio, including holdings of private debt securities, remained high at 93.5% at end-September (93.7% at end-June).

Growth in monetary aggregates increased

Growth in all three monetary aggregates increased, reflective of the significantly improved consumer and business sentiments. While stronger expansion in M1 (11.9%) reflected increased demand for liquidity from consumers and businesses, higher growth in M3 (9.2%) was supported by the increase in lending by the banking system and expansionary external operations.

M3 Determinants

	Change during the quarter		
	2002	2003	
	3Q	2Q	3Q
	RM billion		
M3	7.5	8.7	13.0
Net claims on Government	4.9	5.3	-5.5
Claims on private sector	6.4	8.6	13.0
Net external operations[1]	-2.1	0.3	10.6
Other influences	-1.7	-5.5	-5.1

[1] Pre-revaluation

Capital Markets

Higher funds raised in the market

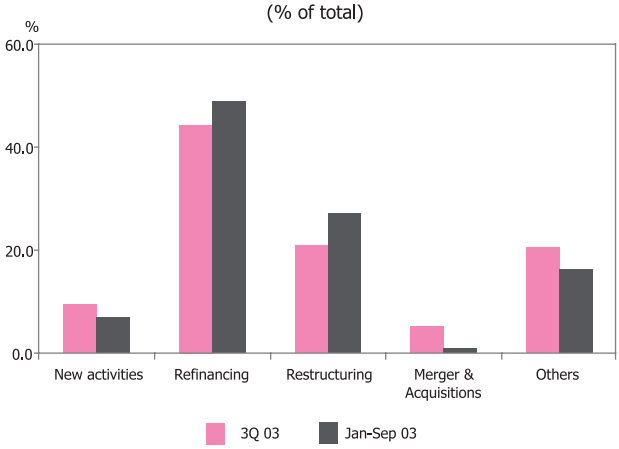
In the third quarter, funds raised through the capital market rose further reflecting the higher funds raised in the equity market. Total net funds raised through new issuances of private debt securities (PDS), new listings on the equity market and several re-openings and new issuances of Malaysian Government Securities (MGS) amounted to RM13.5 billion (RM10.8 billion in the previous quarter).

Improved performance of the Kuala Lumpur Stock Exchange (KLSE) in the third quarter

encouraged the private sector to source financing from the equity market. Funds raised in the equity market were significantly higher during the quarter totalling RM2.2 billion. There were 19 new listings on the KLSE, with seven listings on the Main and Second Board each and five listings on MESDAQ. The amount raised through the IPOs totalled RM505 million and was issued by companies in the technology, industrial and consumer product sectors. During the quarter, seven companies were delisted.

On a gross basis, new issues of PDS (excluding Cagamas bonds) declined to RM6.4 billion (RM12 billion in the previous quarter). The steepening yield curve on expectations of an improved economic outlook prompted some corporations to delay issuance and seek bridging financing from the banking system. The new issues were mainly in the form of asset-backed securities and straight bonds. After adjusting for redemption, the net funds raised through the PDS market were lower amounting to RM3.7 billion (RM4.5 billion in the previous quarter). Funds raised through the PDS market during the quarter were mainly for refinancing (44.3% of total issuance) and restructuring purposes (20.7%).

Private Debt Securities Issued by Purpose



Funds Raised in the Capital Market

	2002		2003[p]		
	3Q	Jan-Sep	2Q	3Q	Jan-Sep
	RM million				
By Public Sector					
Government Securities, *gross*	3,677	10,266	8,132	12,632	38,494
Less Redemptions	1,000	6,900	1,500	6,800	18,600
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	2,677	3,366	6,632	5,832	19,894
Khazanah Bonds, *net*	-	-	(138)	(183)	556
Govt. Investment Issues, *net*	-	-	-	-	1,729
Malaysia Savings Bond, *net*	(3)	466	(2)	(2)	(7)
Net Funds Raised	2,674	3,832	6,492	5,647	22,172
By Private Sector					
Shares	1,935	11,179	592	2,157	3,349
Debt securities	8,456	24,495	12,911	10,165	40,483
Private Debt Securities (PDS)	*6,211*	*16,025*	*11,966*	*6,370*	*34,522*
Cagamas	*2,245*	*8,470*	*945*	*3,795*	*5,960*
Less Redemptions	3,458	23,866	9,240	4,482	15,898
Net Issues	4,997	628	3,671	5,684	24,584
Net issues (excluding Cagamas)	*5,077*	*(2,795)*	*4,497*	*3,744*	*23,776*
Net Funds Raised	6,932	11,808	4,263	7,840	27,934
Total Net Funds Raised	9,606	15,640	10,755	13,487	50,107

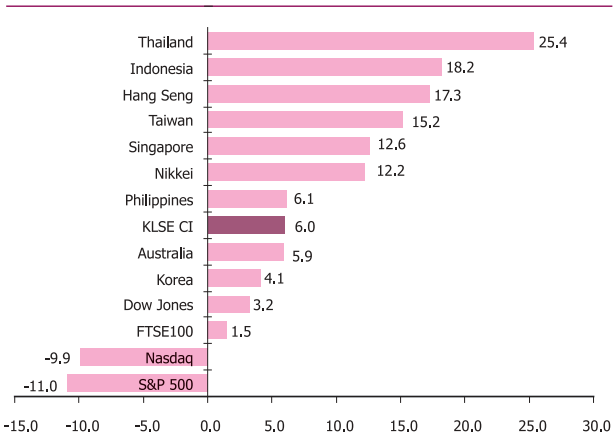
[p] Preliminary.

Further strengthening of the equity market

The performance of the KLSE improved further in the third quarter. Market sentiment was lifted by improved outlook for growth in the Malaysian economy performance, favourable corporate developments and the generally strong performances of global and regional bourses. For the third quarter, the KLSE CI was higher by 6%, and registered a rise of 13.5% since end-2002. Market capitalisation and average daily trading activities were higher at RM572.3 billion and 644.3 million units respectively. Renewed foreign interest was strongly present in the KLSE, while the active retail participation reflected, to some extent, the conversion of board lots to 100 shares on 26 May 2003.

Market sentiment has continued to improve as result of a number of positive developments, including the upgrade of Malaysia's long-term foreign currency sovereign credit rating by Standard & Poor's. As at 14 November, the KLSE CI closed at 792.2 points (+8.1% since end-September) with market capitalisation higher at RM636.7 billion (+11.3% since end-September).

Performance of Selected Global and Regional Markets in the Third Quarter of 2003



KLSE: Selected Market Indicators

	As at end				
	2002		2003		
	3Q	Jan-Sep	2Q	3Q	Jan-Sep
Price Indices					
- Composite	638.01	638.01	691.96	733.45	733.45
- EMAS	155.39	155.39	170.23	182.03	182.03
- Second Board	102.89	102.89	108.96	122.03	122.03
Average daily turnover					
- Volume (million units)	159.1	251.3	286.7	644.3	389.4
- Value (RM million)	349.2	536.8	457.2	958.1	605.0
Market Capitalisation (RM b)	476.35	476.35	532.45	572.26	572.26
No. of Companies Listed	859	859	877	889	889

Source: Kuala Lumpur Stock Exchange

KLSE: Turnover of Corporate Securities

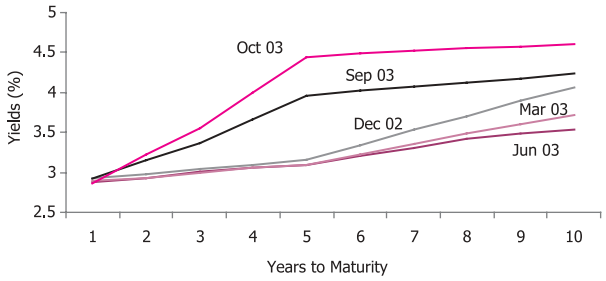
	2002				2003					
	3Q		Jan-Sep		2Q		3Q		Jan-Sep	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	10,501	23,045	46,740	99,854	17,775	28,349	41,877	62,274	72,039	111,916
of which:										
Main Board	8,857	20,888	39,748	87,653	14,421	24,648	27,849	46,225	52,879	90,270
of which:										
- Consumer Products	327	1,504	1,379	6,593	509	1,959	857	2,768	1,675	6,208
- Industrial Products	738	1,447	3,098	5,133	1,429	2,105	3,911	5,406	6,050	9,046
- Construction	745	1,516	3,388	7,465	1,181	1,796	2,088	3,967	4,751	7,450
- Trading/Services	2,382	8,171	9,839	31,555	3,329	9,009	5,993	14,829	12,113	31,002
- Finance	1,370	4,386	6,039	18,753	1,908	4,422	3,497	8,471	6,937	16,676
- Properties	963	765	4,658	4,279	2,942	2,210	5,215	4,567	9,527	7,743
- Plantations	234	1,016	990	4,024	307	1,129	675	1,815	1,278	4,228
- Mining	45	106	205	509	53	92	42	67	143	251
Second Board	1,462	2,079	6,670	12,010	2,685	3,377	8,069	12,103	12,345	17,286

Source: Kuala Lumpur Stock Exchange

Lower secondary trading in the bond market

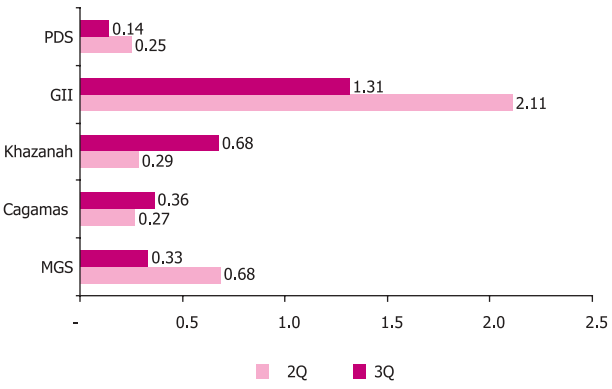
Total turnover in the secondary bond market contracted to RM97.4 billion in the third quarter amidst a steepening yield curve (RM153.1 billion in the previous quarter). During the quarter, the yields for MGS increased by 85 basis points for 5-year MGS and 70 basis points for 10-year MGS. The higher yields on all papers and tenures were affected by higher yields in the US Treasury market and improved optimism on the global, regional and domestic economic outlook.

Steepening of MGS Yield Curves



Amidst subdued trading, MGS remained as the most actively traded paper, accounting for 43.1% of total trade. Cagamas bonds and Khazanah bonds recorded higher trading activity during the quarter,

Liquidity Ratio: Turnover/Outstanding

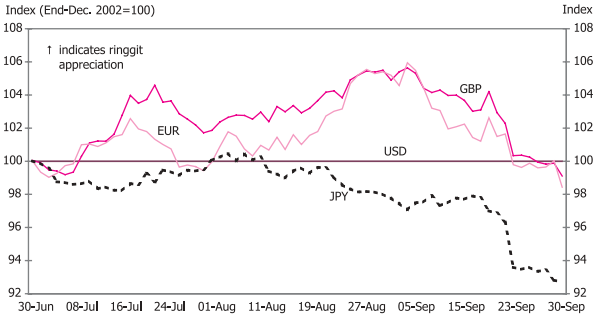


due partly to the higher issuance of Cagamas bonds as well as a new issue of Khazanah bond to replace a maturing issue.

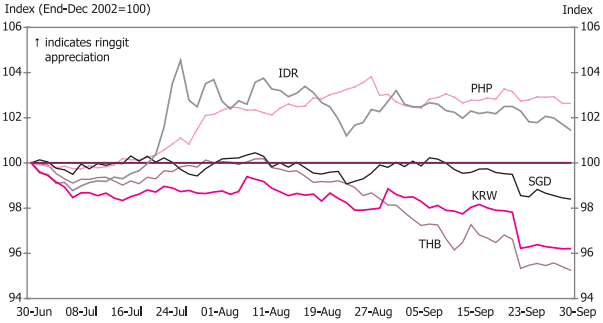
Exchange Rates

In line with the movements of the US dollar in the international foreign exchange markets in the third quarter of 2003, the ringgit depreciated against the major currencies while recording a mixed performance against regional currencies. The dollar firmed earlier in the quarter on market optimism over improved prospects for US economic recovery. However, the dollar weakened towards the end of the period as markets shifted their focus onto the large current account and fiscal

Ringgit Performance Against Major Currencies



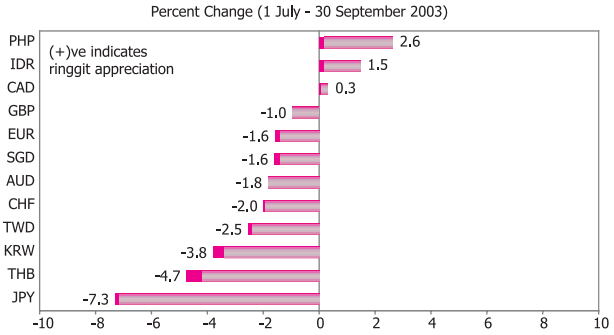
Ringgit Performance Against Regional Currencies



deficits. 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 expectations that exchange rate interventions would be less aggressive. Regional currencies largely benefited from market expectations of a global economic recovery, portfolio inflows and a firmer Japanese yen.

The ringgit exchange rate continues to be well supported by the strong level of foreign exchange reserves, low inflation, continued surpluses in the current account, low external debt as well as a strong and resilient banking system.

Summary of Ringgit Performance Against Selected Currencies



Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	End 2Q 2003	End 3Q 2003	% change since [1] End-June 1997	% change since [1] 2 September 1998	% change since [1] End 2Q 2003
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.3463	4.4160	-	-	-1.6
Pound Sterling	4.1989	6.3708	6.2835	6.3439	-33.8	0.4	-1.0
100 Japanese yen	2.2088	2.7742	3.1708	3.4205	-35.4	-18.9	-7.3
Singapore dollar	1.7647	2.1998	2.1631	2.1984	-19.7	0.1	-1.6
100 Thai baht	9.7470	9.3713	9.0541	9.5048	2.5	-1.4	-4.7
100 Philippine peso	9.5878	8.8302	7.0995	6.9179	38.6	27.6	2.6
100 Indonesian rupiah	0.1038	0.0354	0.0459	0.0452	129.6	-21.7	1.5
100 Korean won	0.2842	0.2827	0.3178	0.3304	-14.0	-14.4	-3.8

[1] (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.