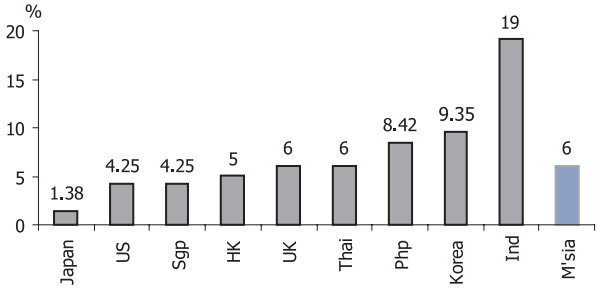
MONETARY AND FINANCIAL DEVELOPMENTS

Lower Interest Rates to Support Economic Activity

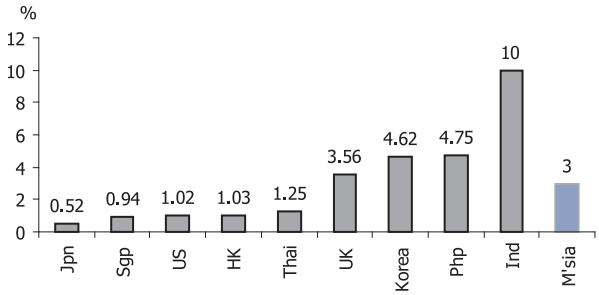
Monetary policy was stimulative during the quarter. While the tensions in the Middle East as well as SARS-related concerns were expected to abate, modest growth in the major economies and continued financial market volatilities had increased uncertainties on the strength of the recovery in the global economy in the second half-year. As a result, on 21 May 2003, Bank Negara Malaysia reduced the 3-month Intervention Rate by 50 basis points to 4.5%. The reduction in the Intervention Rate was a pre-emptive exercise aimed at reinforcing the economic measures introduced by the Government to support the overall growth in the economy. In May, a new special fund, i.e. the Special Relief Guarantee Facility of RM1 billion was made available to assist cash flow management of entrepreneurs in the tourism sector to mitigate the negative impact from the SARS epidemic.

An immediate positive development from the measures has been the stronger demand for liquidity. The reduction in interest rates and the economic package introduced in May 2003 amidst the receding concerns over SARS helped to improve business and consumer sentiment. Demand for financing, which moderated in May on uncertainties of the effects of SARS, recovered strongly in June. All loan indicators for June increased significantly, while monetary aggregates recorded higher growth.

As at end-June 03, Malaysia's nominal lending rate is among the lowest ...



... while the nominal deposit rate is among the highest



Interest Rates

	2002	2003	
	2Q	1Q	2Q
	At end-period (%)		
3-month Intervention rate	5.0	5.0	4.5
Interbank rates (average)			
Overnight	2.73	2.81	2.77
1- month	2.87	2.99	2.99
Base Lending rate (BLR) of CBs	6.39	6.39	6.00
Average Lending rate of CBs	6.50	6.50	6.22
Fixed deposits of CBs			
3-month	3.20	3.20	3.00
12-month	4.00	4.00	3.70

Source: Bank Negara Malaysia

Liquidity operations by Bank Negara Malaysia in the interbank market ensured that interbank rates remained stable. At end-June, the monthly weighted average rates for the overnight, 1-week and 1-month rates were 2.77%, 2.84% and 2.99% respectively (end-March: 2.81%, 2.83% and 2.99% respectively).

Following the reduction in the Intervention Rate by 50 basis points to 4.5% on 21 May, the average base lending rate (BLR) of the commercial banks (CBs) declined by 39 basis points to 6%, while

the BLR of the finance companies (FCs) declined by 55 basis points to 6.9% at end-June. The cumulative decline in the average lending rate for CBs was 28 basis points and 21 basis points for finance companies. Increased competition has also resulted in lower lending rates, especially for new loans. The adjustments in the fixed deposit rates were smaller, by 20-30 basis points for the CBs and 17-28 basis points for the FCs. Given the low inflation rate of 0.8% at end-June, savers continued to earn positive real rates of return on their deposits. The average 3-month and 12-month real fixed deposit rates of CBs stood at 2.2% and 2.9% respectively at end-June (2.5% and 3.3% respectively at end-March). Compared to regional economies, Malaysia has competitive lending rates, while deposit rates are among the higher rates in Malaysia.

Loan approvals and disbursements strengthened

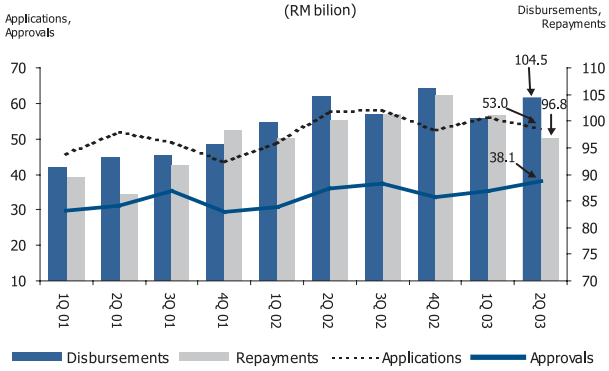
The concerns and uncertainties associated with SARS, led to some moderation in growth of bank lending in May. In June, as SARS impact diminished, lending growth was significantly higher. Overall bank lending activity remained strong in the second quarter, supported by the strength of domestic demand. Loan applications, approvals and disbursements amounted to RM53 billion, RM38.1 billion and RM104.5 billion respectively in the quarter (RM56.1 billion, RM35.3 billion and RM100.4 billion respectively in the first quarter). At end-June, the loan-deposit ratio edged up to 83.7% from 83% at end-March. Including the banking institutions' holdings of private debt securities, the adjusted

Loan Indicators

	During the period					Annual growth				
	2002	2003				2002	2003			
	2Q	1Q	May	June	2Q	2Q	1Q	May	June	2Q
	RM billion					(%)				
Total										
Loan applications	57.8	56.1	16.4	18.3	53.0	n.a.	14.4	-32.6	14.5	-8.2
Loan approvals	35.9	35.3	11.2	13.9	38.1	15.7	14.1	-26.1	24.5	6.1
Loan disbursements	104.8	100.4	31.8	37.7	104.5	12.6	0.5	-12.5	8.5	-0.3
Loan repayments	100.1	100.9	30.7	31.5	96.8	16.2	4.3	-6.9	-3.9	-3.3
Change in outstanding 1/	7.0	1.2	2.2	6.9	10.6	3.8	3.2	2.8	3.9	3.9
Of which:										
Business enterprises										
Loan applications	33.9	33.7	8.6	9.7	28.3	n.a.	-1.6	-40.2	10.2	-16.7
SMEs		12.8	3.0	3.0	9.7					
Others		20.9	5.7	6.7	18.5					
Loan approvals	17.8	18.1	5.3	7.3	19.7	10.2	19.7	-39.5	45.8	10.1
SMEs		6.5	1.4	2.2	5.5					
Others		11.6	3.9	5.2	14.1					
Loan disbursements	73.5	68.1	21.4	26.2	71.5	6.6	0.2	-16.9	6.5	-2.8
of which:										
SMEs		21.1	5.8	6.9	19.1					
Others		47.0	15.6	19.3	52.4					
Loan repayments	69.1	69.4	20.8	21.4	66.3	5.6	5.5	-7.6	-7.0	-4.0
Change in outstanding 1/	1.0	-4.5	0.3	4.0	3.8	-2.8	-2.8	-3.4	-1.7	-1.7
SMEs	-1.1	2.0	0.1	0.7	1.4	-1.7	1.6	3.2	4.9	4.9
Others	2.1	-6.6	0.2	3.3	2.4	-3.8	-5.7	-7.5	-5.4	-5.4
Households										
Loan applications	21.9	21.0	7.5	8.4	24.0	n.a.	19.8	-3.1	14.9	9.5
Loan approvals	17.9	16.0	5.9	6.5	18.2	25.6	7.5	-6.5	6.6	1.7
Loan disbursements	25.7	26.2	8.6	9.6	27.3	26.1	2.4	-0.8	14.3	6.2
Loan repayments	20.3	22.5	7.0	7.2	21.6	17.8	8.5	4.0	12.1	6.5
Change in outstanding 1/	6.7	5.0	1.9	2.1	6.1	16.2	13.5	12.9	12.7	12.7

1/ Annual growth at end-period
Source: Bank Negara Malaysia

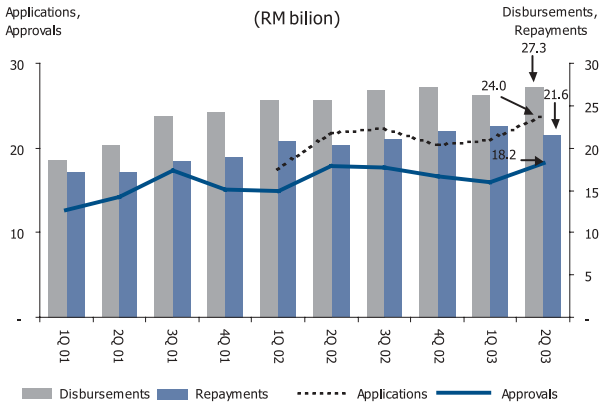
Loan disbursements remained high



loan-deposit ratio stood at 93.8% at end-June (93.7% at end-March).

The strength in loan growth continued to be underpinned by the demand from the household sector and the small and medium enterprises (SMEs). The demand for loans for the purchase of residential property continued to be supported by low interest rates and the stable employment outlook. Amidst increased competition, mortgage loans were priced at below BLR. Demand for loans for the purchase of cars, however, moderated reflecting the plateauing demand for cars after the rapid growth in the past three years. Reflecting

Sustained lending to household sector



mainly the demand for loans for purchases of residential property and consumer credit, loan applications by households expanded at an annual rate of 9.5% during the second quarter.

Demand for business loans, which was temporarily affected by the impact of SARS on business sentiments in April and May, rebounded in June as concerns over SARS and the Iraq war abated. Loan disbursements to businesses remained broad based, notably to the manufacturing, wholesale and retail trade, restaurants and hotels sectors.

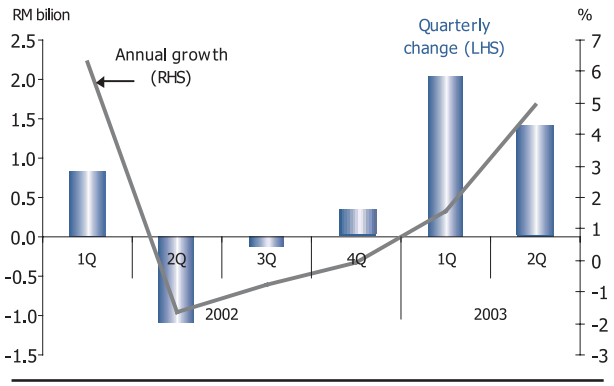
Loans by Sector

	Change during the quarter			Outstanding	% Share of Total
	2002	2003		2003	
	2Q	1Q	2Q	End-June	
	RM billion				%
Banking system loans outstanding of which :					
Business enterprises	1.0	-4.5	3.8	251.4	50.1
Households	6.7	5.0	6.1	217.9	43.4
By sector					
Agriculture, hunting, forestry and fishing	0.0	-0.3	-0.1	11.9	2.4
Mining and quarrying	0.0	0.0	0.0	1.2	0.2
Manufacturing	-1.4	-0.8	0.7	67.1	13.4
Broad property sector	3.7	2.9	3.6	192.9	38.4
Construction	1.0	-0.3	-0.8	37.0	7.4
Purchase of residential property	3.3	3.5	4.0	108.7	21.7
Purchase of non-residential property	0.0	0.0	0.2	29.8	5.9
Real estate	-0.7	-0.2	0.3	17.3	3.5
Electricity, gas and water supply	1.0	-0.6	0.5	6.7	1.3
Wholesale & retail trade, restaurants and hotels	0.8	-0.5	1.1	40.2	8.0
Transport, storage and communication	0.6	-0.8	2.0	12.9	2.6
Financial, insurance and business services	-0.4	-0.7	0.7	32.7	6.5
Consumption credit	3.2	1.3	2.3	85.0	16.9
Of which:					
Credit cards	0.5	0.1	0.4	11.2	2.2
Purchase of passenger cars	2.5	1.3	1.8	58.0	11.6
Purchase of securities	-0.5	-0.9	0.1	29.8	5.9
Purchase of transport vehicles	0.0	0.0	0.0	3.1	0.6
Others	-0.1	1.5	-0.2	18.6	3.7
Total Outstanding loans [1]	7.0	1.2	10.6	502.0	100.0

1 Including loans sold to Cagamas and Danaharta.
Source: Bank Negara Malaysia

Of significance was the sustained expansion in loans to SMEs. Loans outstanding extended to the SMEs increased by RM1.4 billion during the quarter, channeled mainly to the manufacturing as well as the wholesale and retail trade, restaurants and hotels sectors. As a result, SMEs loans accounted

Sustained expansion in bank lending to SMEs



for 15.5% of total loans outstanding and 31% of total business loans as at end-June (15.6% and 30.9% respectively as at end-March).

In aggregate, financing provided by the banking system through direct extension of loans and holdings of private debt securities expanded by RM8.5 billion or 5.2% in the second quarter (RM5.5 billion or 4.5% in the first quarter). Total financing raised by the private sector through the banking system and the bond market rose at an annual rate of 7.8% as at end-June 2003 (3.1% as at end-March).

Net Financing through Banking System
Loans and PDS rose significantly by 7.8%

	Change during quarter (RM billion)			Annual growth (at end period, %)	
	2002	2003		2003	
	2Q	1Q	2Q	Mar	Jun
Financing by banking system	5.0	5.5	8.5	4.5	5.1
Loans outstanding (1)	7.0	1.2	10.6	3.2	3.9
Holdings of PDS	-2.1	4.3	-2.1	29.2	31.9
Total PDS outstanding 1/ (2)	-19.4	15.5	3.6	2.8	27.2
Total (1) + (2)	-12.4	16.7	14.2	3.1	7.8

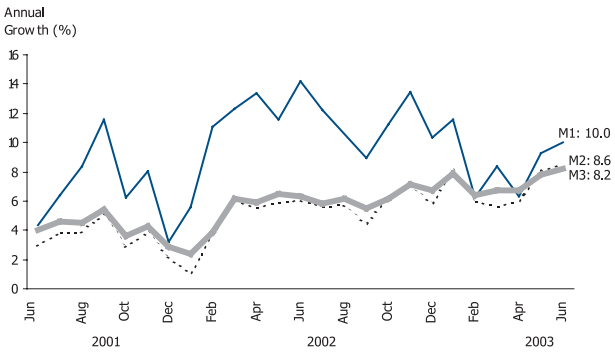
1/ Refers to total PDS issued by the private sector with original maturity of more than one year.
Exclude debt securities issued by banking institutions, Khazanah, Cagamas, Danaharta and Danamodal.

Source: Bank Negara Malaysia

Monetary aggregates recorded higher growth

In tandem with the increased economic activity and sustained consumption spending, growth in monetary aggregates was higher, with M1, M2 and M3 expanding at annual growth rates of 10%, 8.6% and 8.2% respectively at end-June (8.4%, 5.6% and 6.7% respectively at end-March). Of significance, demand for transaction balances remained high, indicating sustained consumer spending by households and businesses continuing to build up demand deposits for near-term expenditure. The primary source of broad money expansion emanated from higher bank financing and the expansionary Government operations.

Monetary aggregates recorded higher growth



Capital Market

The capital market remained an important source of financing

Total gross funds raised in the capital market remained high at RM21.4 billion in the second quarter of 2003. Gross funds were mainly raised through the bond market (RM21 billion). Gross funds raised by the public sector were mainly through a new issuance and one reopening of Malaysian Government Securities (MGS).

The low interest rate environment continued to encourage the private sector to issue long-term debt at competitive costs. Funds

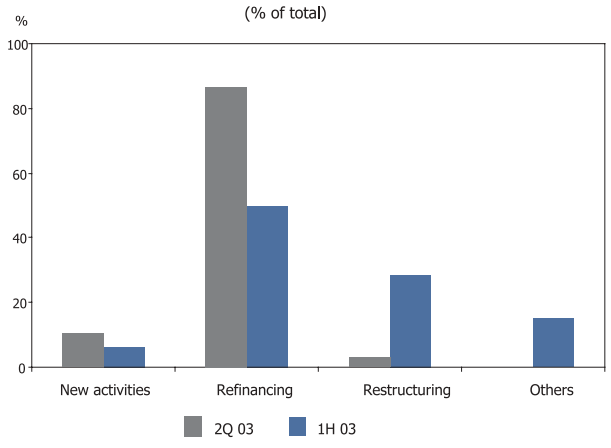
Funds Raised in the Capital Market

	2002		2003 P		
	2Q	2H	1Q	2Q	2H
	RM million				
By Public Sector					
Government Securities, gross	3,181	6,589	17,730	8,132	25,862
Less Redemptions	500	5,900	10,300	1,500	11,800
Less Government holdings	0	0	0	0	0
Equals Net Federal receipts	2,681	689	7,430	6,632	14,062
Khazanah Bonds, net	0	0	878	(138)	740
Govt. Investment Issues, net	0	0	1,729	0	1,729
Malaysia Savings Bond, net	(3)	469	(2)	(2)	(4)
Net Funds Raised	2,678	1,158	10,035	6,492	16,527
By Private Sector					
Shares	7,193	9,244	601	396	997
Debt securities [1]	11,189	16,039	17,406	12,911	30,317
Less Redemptions	16,739	20,408	2,176	9,237	11,413
Equals Net issues	(5,550)	(4,369)	15,230	3,674	18,904
Net Funds Raised	1,643	4,875	15,831	4,070	19,901
Total Net Funds Raised	4,321	6,033	25,866	10,562	36,428
Short-term Papers and Notes, net [2]	(813)	(2,274)	743	85	828
Total	3,508	3,759	26,609	10,647	37,256

[1] Excludes debt securities issued by banking institutions.
[2] Refers to Commercial Papers and Cagamas Notes only.
P Preliminary.

raised were mainly for refinancing purposes which accounted for 86.5% of the total funds raised in the private debt securities (PDS) market. PDS issued for new activities and debt restructuring purposes accounted for 10.4% and 3.1% respectively. During the quarter, higher redemptions were recorded by both the public and private sectors. As at end of June, total bonds

Private Debt Securities Issued by Purpose



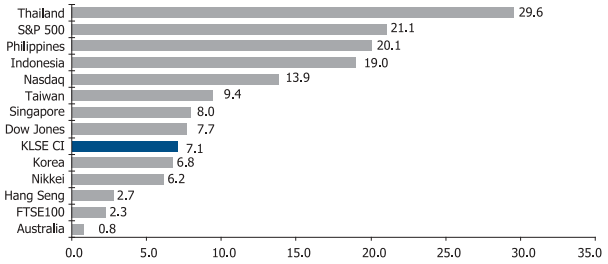
KLSE: Selected Market Indicators

	As at end				
	2002		2003		
	2Q	1H	1Q	2Q	1H
Price Indices					
- Composite	725.44	725.44	635.72	691.96	691.96
- EMAS	176.50	176.50	153.98	170.23	170.23
- Second Board	119.84	119.84	93.00	108.96	108.96
Average daily turnover					
- Volume (million units)	299.3	302.0	213.6	286.7	251.4
- Value (RM million)	643.8	640.1	367.1	457.2	413.7
Market Capitalisation (RM b)	505.89	505.89	478.30	532.45	532.45
No. of Companies Listed	843	843	874	877	877

outstanding stood at RM308 billion, of which private sector bonds accounted for a share of 54.1% of the total outstanding.

Total funds raised in the equity market amounted to RM396 million in the second quarter. There was a total of 7 IPOs issued, of which two were listed on the Main Board, three on the Second Board and two on the MESDAQ Market. The amount raised through the IPOs totalled RM173.4 million and was issued mainly by companies in the infrastructure, industrial products and technology sectors. During the quarter, four companies were delisted.

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



KLSE: Turnover of Corporate Securities

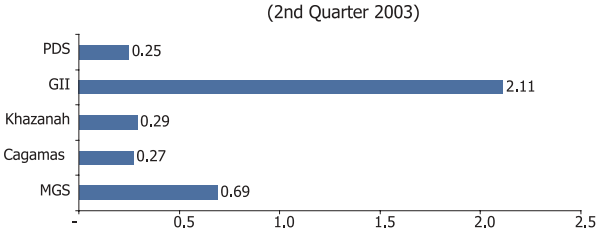
	2002				2003					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	18,555	39,913	36,239	76,808	12,387	21,294	17,775	28,349	30,162	49,642
of which:										
Main Board	16,122	35,720	30,891	66,765	10,609	19,397	14,421	24,648	25,030	44,045
of which:										
- Consumer Products	406	2,473	1,053	5,089	309	1,481	509	1,959	818	3,440
- Industrial Products	1,069	1,939	2,361	3,686	711	1,535	1,429	2,105	2,139	3,640
- Construction	1,458	3,290	2,643	5,950	1,482	1,687	1,181	1,796	2,663	3,483
- Trading/Services	4,384	13,211	7,457	23,384	2,791	7,165	3,329	9,009	6,119	16,173
- Finance	2,000	6,949	4,670	14,366	1,532	3,784	1,908	4,422	3,440	8,205
- Properties	2,173	2,135	3,695	3,514	1,370	966	2,942	2,210	4,312	3,176
- Plantations	415	1,739	756	3,009	296	1,283	307	1,129	602	2,413
- Mining	98	290	160	402	48	91	53	92	101	183
Second Board	2,320	4,117	5,208	9,932	1,591	1,807	2,685	3,377	4,276	5,184

Stronger performance in the equities market

For the second quarter as a whole, the performance of the KLSE CI improved by 8.8% since the end of the first quarter of 2003 and by 7.1% since end-2002. Market capitalisation and trading activities during the quarter were significantly higher than the previous quarter. Market sentiments improved following the announcement of the new economic package by the Government, containment of the SARS impact and the introduction of the standard 100-unit board lots which encouraged retail participation.

Secondary trading in bonds rose to RM153.1 billion (1Q 2003: RM132.3 billion), as investors continued to favour fixed-income investments given concerns over the impact of SARS and anticipation of an interest rate cut. In terms of total turnover, trading activities were concentrated in the Government and quasi-Government securities. Trading activities on the PDS market were also higher and accounted for 24.7% of the total turnover during the quarter (16.8% in the previous quarter). The GII and MGS were the most liquid papers, registering total turnovers of 2.11 times and 0.69 times of its outstanding amount respectively.

Liquidity Ratio



Liquidity in the PDS market improved as the liquidity ratio increased to 0.25 times from 0.15 times registered in the previous quarter.

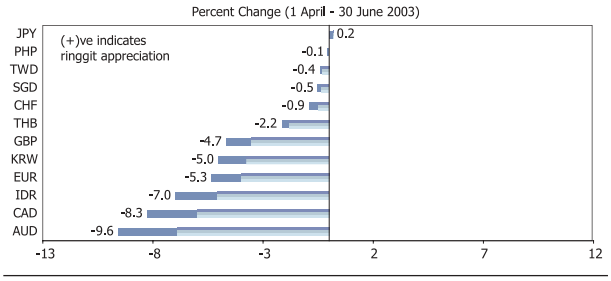
Ringgit exchange rates continues to benefit trade and investments

In line with the weaker US dollar in the international foreign exchange markets, the ringgit depreciated against most major and regional currencies in the second quarter of 2003. The dollar was adversely affected by market concerns over the weakness of the US economy and the perception that the administration was no longer advocating a 'strong dollar' policy. In contrast, the euro resumed its upward trend to reach a four-year high on 29 May, exceeding the level at which it was launched in January 1999. The euro was supported by inflows into higher yielding euro denominated assets and the global realignment of currency portfolios.

Among the regional currencies, the Indonesian rupiah appreciated significantly on improving economic fundamentals and strong capital inflows.

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

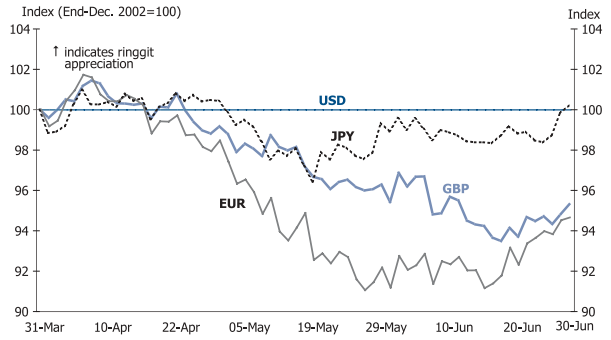


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	End-1Q 2003	End-2Q 2003	% change since [1] End-June 1997	2 September 1998	End-1Q 2003
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.1145	4.3463	-	-	-5.3
Pound Sterling	4.1989	6.3708	5.9898	6.2835	-33.2	1.4	-4.7
100 Japanese yen	2.2088	2.7742	3.1774	3.1708	-30.3	-12.5	0.2
Singapore dollar	1.7647	2.1998	2.1523	2.1631	-18.4	1.7	-0.5
100 Thai baht	9.7470	9.3713	8.8588	9.0541	7.7	3.5	-2.2
100 Philippine peso	9.5878	8.8302	7.0948	7.0995	35.0	24.4	-0.1
100 Indonesian rupiah	0.1038	0.0354	0.0427	0.0459	126.1	-22.9	-7.0
100 Korean won	0.2842	0.2827	0.3019	0.3178	-10.6	-11.0	-5.0

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

Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies

