selected professional services provided to companies within the same group. Meanwhile, collection of import duties was lower (-5.5%) in almost all sub-sectors.

At the same time, total expenditure increased by 4.7% to RM19.5 billion due entirely to higher development expenditure. Higher development expenditure was expended mainly for social and economic programmes. In terms of allocation, expenditure was mainly channelled for education (37.5%), infrastructure (13.5%) and industrial development (12.8%).

Higher Federal Government debt - but within sustainable level

The outstanding debt of the Federal Government was higher at RM175.3 billion as at end-March 2003. In terms of GDP, the level of debt was contained at 45.9% of GDP (45.7% of GDP as at end-2002). This level of debt remained manageable, with domestic debt accounting for 78% of the total debt.

The net increase in outstanding debt reflected mainly the increase in net domestic borrowings. The issuance of government securities in the domestic market during the quarter under review amounted to RM19.1 billion. The Federal Government floated five issues of Malaysian Government Securities (MGS) totalling RM17.1 billion by way of open tender through principal dealers, as well as via private placements. A sole issue of the Government Investment Issues (GII) amounting to RM2 billion was also raised. Given the ample liquidity situation, the issuance of these securities did not 'crowd out' the private sector's financing requirements. After adjusting the reclassification of a foreign-denominated syndicated loan as external debt, the total outstanding domestic debt of the Federal Government stood at RM135.9 billion as at end-March 2003.

As part of prudent debt management to reduce the cost of debt servicing, the Federal Government refinanced its dual-currency syndicated loan raised in 1999. Outstanding external debt of the Federal Government increased from RM36.3 billion as at end-December 2002 to RM39.4 billion as at end of March 2002, due mainly to the reclassification of a foreign-denominated syndicated loan. The loan, which was raised in Labuan, was previously classified as a domestic loan. The Federal Government external debt remains low accounting for 21% of the nation's outstanding debt.

Federal Government Debt

	Change over preceding period			As at end of March 2003	
	2002		2003		
	1Q	4Q	1Q		
	RM million				% share
Domestic debt	-2,424	4,118	7,211	135,891	77.5
Government securities	-2,400	4,000	6,800	116,350	66.4
Other loans[1]	-24	118	411	19,541	11.1
External debt	2,665	4,160	3,114	39,397	22.5
Market loans	2,770	3,612	3,137	31,811	18.1
Project loans	-105	548	-23	7,586	4.3
Total	242	8,278	10,326	175,289	100.0

[1] Include Treasury bills, Investment Issues, loans to the Treasury Housing Loans Division and foreign-denominated syndicated loan. In 2003, foreign-denominated syndicated loan was reclassified as external debt.

Numbers may not add up due to rounding.

Monetary and Financial Developments

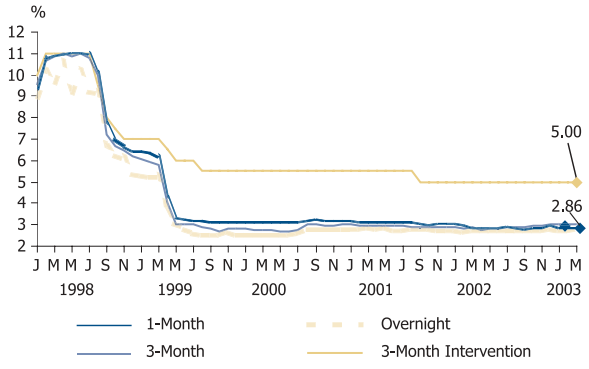
Monetary policy remained accommodative in the first quarter of 2003 to support domestic economic activity. Interbank and retail rates continued to remain low and stable. Liquidity remained ample. Reflecting the low borrowing costs and continued access to financing, financing activity of the private sector was sustained during the quarter. Total gross financing through the banking

system and capital market expanded at an annual rate of 12.2%.

Low interest rates sustained economic activities

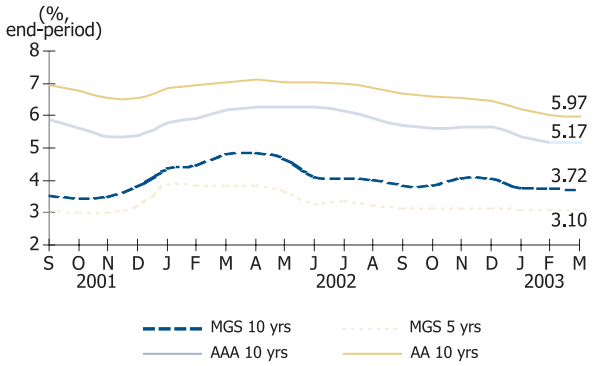
In the first quarter, interest rates remained stable. The monthly weighted average rates for the overnight and 1-week maturities hovered around 2.75-2.81% and 2.78-2.83% during the period (4Q 2002: 2.74-2.79% and 2.76-2.88%), while the 1-month rate stabilised at 2.99% during the period. Meanwhile, the yields of the 5-year and 10-year Malaysian Government Securities (MGS) were lower at 3.098% and 3.722% as at end-March (December: 3.153% and 4.058% respectively). A similar trend was observed in the implied yield of the 3-month Klibor Futures, reflecting market expectations that the interest rates would remain low in the near term.

Interbank Rates
(average for the month)



Borrowers benefited from competitive credit market. Multi-tiered housing loan products and hire purchase rates were offered at below the BLR. While the average lending rates of commercial banks remained stable, the **average lending rates** of finance companies (FCs) continued to decline in

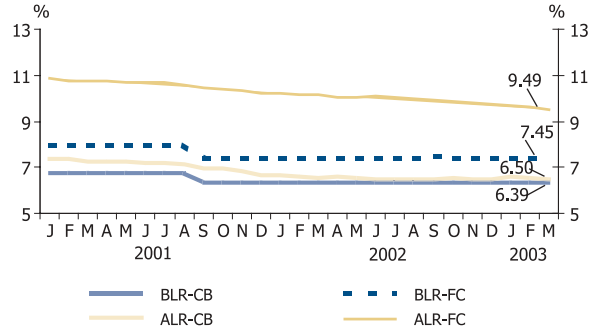
Long-term Interest Rates



March. Given the low inflation during the quarter, depositors continued to enjoy positive real returns on their deposits.

Against a background of modest growth and rising deflationary pressures in the major economies and the increased uncertainties arising from the financial market volatilities, a pre-emptive step was taken to reduce the 3-month Intervention Rate by 50 basis points to 4.5% on 21 May. With the reduction in the policy rate, the ceiling base lending rate (BLR) for CBs and FCs declined to 6% and 6.94% respectively, from 6.42% and 7.46% respectively. Reflecting the lower BLR ceiling, the average BLR of CBs and FCs as at 27 May were 6% and 6.90%

Lending Rates: Commercial Banks (CBs) and Finance Companies (FCs)

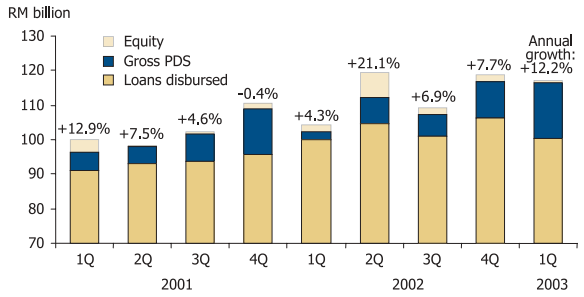


respectively (end-April: 6.39% and 7.45% respectively).

Bank lending activity was sustained

During the quarter, bank lending activity was sustained. Loans disbursements amounted to RM100.4 billion, about the level recorded in the fourth quarter of 2002. Of significance, applications and approvals increased by 14.4% and 14.1%

Gross Private Sector Financing through Banking System Loans and Capital Market

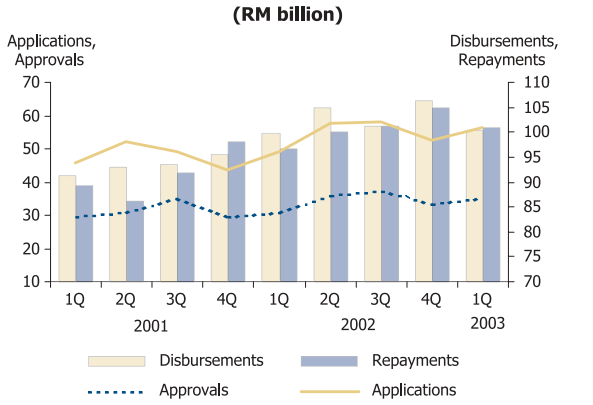


Banking System: Loan Indicators

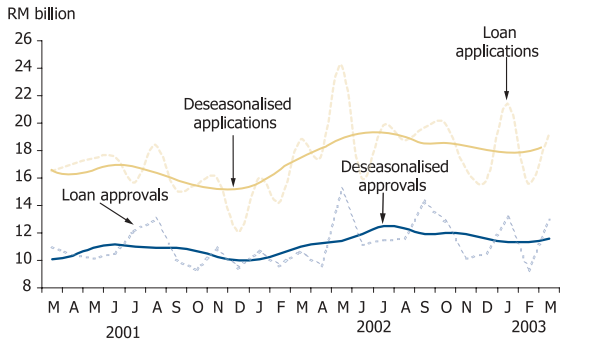
	During the quarter			Annual growth	
	2002		2003	2002	2003
	1Q	4Q	1Q	4Q	1Q
	RM billion			(%)	
Total					
Loan applications	49.0	52.5	56.1	n.a.	14.4
Loan approvals	30.9	33.6	35.3	13.6	14.1
Loan disbursements	99.9	106.0	100.4	10.9	0.5
Loan repayments	96.7	104.9	100.9	7.0	4.3
Change in loans outstanding	5.8	2.7	1.2	4.2*	3.2*
of which:					
Business enterprises					
Loan applications	34.3	31.6	33.7	n.a.	-1.6
Loan approvals	15.1	16.6	18.1	21.8	19.7
Loan disbursements	68.0	72.6	68.1	8.6	0.2
Loan repayments	65.8	71.2	69.4	-2.9	5.5
Change in loans outstanding	-0.5	1.8	-4.5	-1.2*	-2.8*
Households					
Loan applications	17.7	20.4	21.0	n.a.	18.2
Loan approvals	14.9	16.7	16.0	11.2	7.5
Loan disbursements	25.6	27.3	26.2	12.2	2.4
Loan repayments	20.7	22.0	22.5	16.4	8.5
Change in loans outstanding	6.0	5.7	5.0	14.5*	13.5*

* Annual growth at end-period

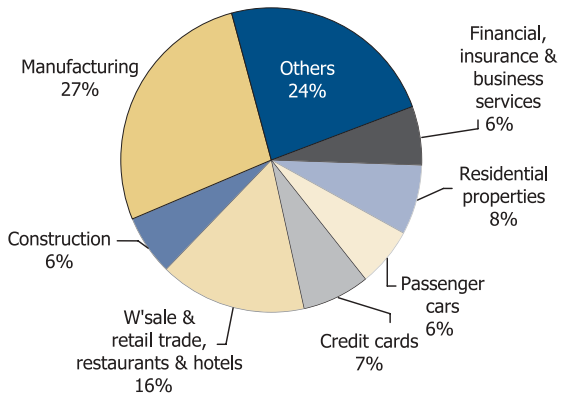
Loan Indicators



Deseasonalised Loan Indicators



Loan Disbursements in 1st Quarter 2003
(RM100.4 billion)



Banking System:
Loans Outstanding by Sector

	Change			Outstanding
	2002		2003	2003
	1Q	4Q	1Q	End-March
	RM billion			
Banking system loans outstanding, of which :				
Business enterprises	-0.5	-1.8	-4.5	247.6
Households	6.0	5.7	5.0	211.8
By sector				
Agriculture, hunting, forestry and fishing	-0.3	0.2	-0.3	12.0
Mining and quarrying	-0.3	-0.1	...	1.2
Manufacturing	1.0	-0.3	-0.8	66.4
Broad property sector	2.6	2.0	2.9	189.3
Construction	*-0.2*	*-0.9*	*-0.3*	*37.9*
Purchase of residential property	*3.2*	*3.5*	*3.5*	*104.7*
Purchase of non-residential property	*-0.3*	*-0.2*	*...*	*29.6*
Real estate	*-0.1*	*-0.4*	*-0.2*	*17.1*
Electricity, gas and water supply	-0.4	0.4	-0.6	6.2
Wholesale & retail trade, restaurants and hotels	-0.1	0.2	-0.5	39.0
Transport, storage and communication	-0.2	-0.5	-0.8	11.0
Financial, insurance and business services	0.2	-0.6	-0.7	32.0
Consumption credit	3.0	2.6	1.3	82.7
Of which:				
Credit cards	*0.2*	*0.6*	*0.1*	*10.8*
Purchase of passenger cars	*2.7*	*1.9*	*1.2*	*56.3*
Purchase of securities	0.2	0.6	-0.9	29.7
Purchase of transport vehicles	-0.3	-0.5	...	3.1
Others	0.4	-1.3	1.5	18.9
Total loans outstanding[1]	**5.8**	**2.7**	**1.2**	**491.4**

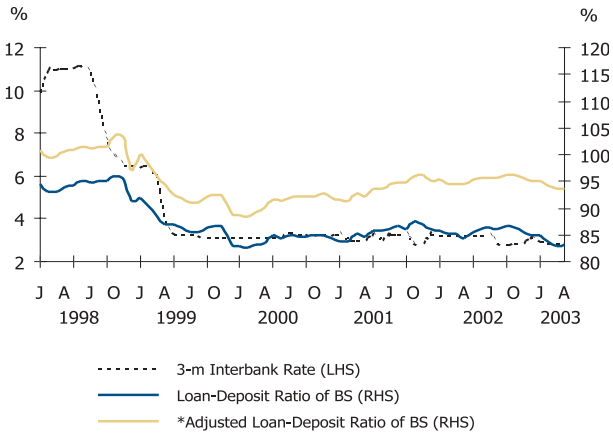
[1] Including loans sold to Cagamas and Danaharta.

respectively compared with the corresponding quarter of 2002 (6.8% and 5.1% respectively compared with the preceding quarter). The increase in loan applications mainly reflected the demand for loans from the household sector. Applications for housing and car loans rose at an annual rate of 14.7% and 30.2% respectively compared with the corresponding quarter of 2002 (2.4 and 3.6% respectively compared with the preceding quarter).

Loans outstanding increased moderately by RM1.2 billion in the first quarter (4Q 2002: +RM2.7 billion; 1Q 2002: +RM5.8 billion). The moderate increase in loans outstanding reflected the high repayments and loans written off. On an annual basis, loans outstanding rose by 3.2% at end-March (4.2% at end-2002).

Consequently, the loans-deposit ratio stood at 83% at end-March (89.2% as at end-96 and 87.4% in 1980 and 1990). Including holdings of private and Government debt securities by the banking system, the loans-deposit stood at 93.7% at end-March.

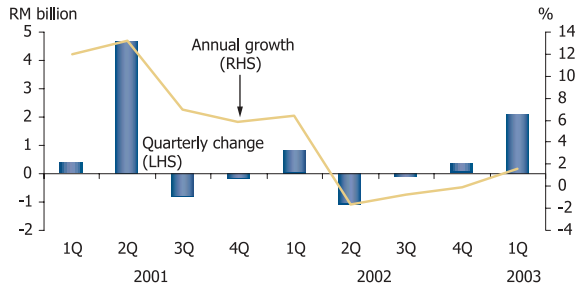
Liquidity Situation



* Includes banking system investment in private debt securities (PDS).

A positive development during the quarter was that outstanding loans extended to the small and medium enterprises (SMEs) expanded further by RM2.1 billion (4Q 2002: +RM0.3 billion; 1Q 2002: +RM0.8 billion). The bulk of these funds were channelled to the manufacturing sector and wholesale trade. Reflecting the increasing importance of SMEs in sustaining business activity and the proactive role of the banking institutions in providing financing to the sector during the quarter,

Loans to Small and Medium Industries



Banking System: Small Loans to Businesses

	Change (RM billion)			Annual growth (%)		% share of total loans	
	2002		2003		2003		2003
	1Q	4Q	1Q	2002	Mar	2002	Mar
Outstanding loans to businesses of size:							
Below RM500,000	3.1	-0.1	0.3	5.1	-0.2	12.4	12.4
Below RM100,000	3.6	-0.4	0.6	18.9	2.8	5.0	5.2
RM100,000 - RM500,000	-0.5	0.3	-0.4	-2.7	-2.3	7.4	7.3

the share of SME loans to total loans outstanding, has continued to increase to 17.9% at end-March (17.4% at end-2002).

Lending activities under the special funds also rose during the first quarter of 2003. Disbursements under the six active special funds increased further by 21% during the quarter. Applications and approvals were also higher by 9% and 14% respectively. As a result, outstanding loans extended under these funds increased by RM432 million (+RM149 million in 4Q 2002 and RM174 million in 1Q 2002). As part of the continuous effort to ensure access to funds at reasonable costs to the SMEs, the size of two special funds were expanded in March. The allocation to Fund for Small and Medium Industries 2 (FSMI2) was increased by RM600 million to RM1,250 million, while the allocation of funds for the New Entrepreneurs Fund 2 (NEF2) was raised by RM400 million to RM900 million.

In tandem with the continued expansion in economic activities, all three monetary aggregates continued to expand, with M1, M2 and M3 growing by 8.4%, 5.6% and 6.7% respectively as at end-March (10.3%, 5.8%, 6.7% as at end-2002). Reflecting sustained consumption spending, the demand for transaction balances remained strong during the quarter. Increased bank financing activities of the private sector (RM7.2 billion) provided the main impetus to broad money expansion (RM12.6 billion; RM11 billion in the fourth quarter). In addition, expansionary Government operations (RM4.7 billion) also contributed to the increase in M3 as the Government withdrew its deposits from BNM to finance its outlays. In the first quarter, higher deposits were mobilised from individuals and business enterprises mainly in the form of fixed deposits. Improved income over recent years saw higher placements of deposits by individuals, raising the individuals' share to total

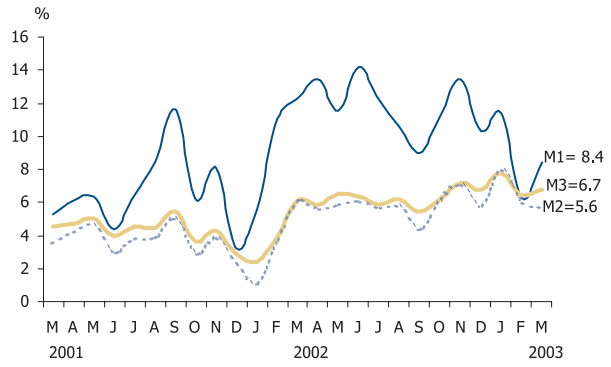
Status of Selected Special Funds

	Approvals			Utilisation Rate		Disbursements			Outstanding		
	As at end		Change			As at end		Change	As at end		Change
	2002	Mar-03	1Q 2003	2002	Mar-03	2002	Mar-03	1Q 2003	2002	Mar-03	1Q 2003
Fund for Food	1,296	1,340	44	99.7	103.0	1,124	1,170	46	675	683	9
New Entrepreneur Fund 2	652	780	128	130.4	86.7	326	467	141	316	452	136
Fund for SMIs 2	1,049	1,310	261	161.4	104.8	510	819	309	457	749	292
Bumiputera Entrepreneur Project Fund	317	377	61	105.6	125.7	257	283	26	111	102	(9)
Rehabilitation Fund for SMIs	323	324	1	64.5	64.7	284	293	9	240	245	5
Entreprenuer Rehabilitation & Development Fund	2	3	1	0.4	0.6	1	1	-	1	1	-
TOTAL	**3,638**	**4,133**	**495**	**97.0**	**87.0**	**2,503**	**3,033**	**530**	**1,800**	**2,232**	**432**

Note: The size of FSMI2 and NEF2 was expanded in March 2003 by RM600 million and RM400 million respectively.

deposits from 40.9% at the end of 1996 to 47.6% at the end of March 2003.

Monetary Aggregates: Annual Growth



Capital Market

The capital market remained a significant source of financing

Total **funds raised in the capital market** were significantly higher in the first quarter of 2003. In the public sector, total funds raised amounted to RM20.3 billion, mainly raised through the issuance of Malaysian Government Securities (MGS). During the period, there were three new MGS issued and two re-openings. There were also redemptions of MGS which amounted to RM10.3 billion.

Net funds raised in the private sector were also significant amounting to RM15.8 billion. Funds raised through the private debt securities (PDS) market were RM15.2 billion, issued mainly by a major corporation for its debt restructuring purpose. In the equity market, total funds raised amounted to RM542 million. During the quarter, there was a total of 12 IPOs issued, of which two were listed on the Main Board, three on the Second Board while another six on MESDAQ Market. The amount raised through the IPOs totalled RM236.1 million and was issued mainly by companies in the technology, consumer and industrial products sectors.

Funds Raised in the Capital Market

	2002		2003[p]
	1Q	4Q	1Q
	RM million		
By Public Sector			
Government Securities, *gross*	3,408	6,000	17,730
Less Redemptions	5,400	2,000	10,300
Less Government holdings	0	0	0
Equals Net Federal receipts	(1,992)	4,000	7,430
Khazanah Bonds *net*	0	0	878
Govt. Investment Issues *net*	0	738	1,729
Malaysia Savings Bond *net*	472	(2)	(2)
Net Funds Raised	(1,520)	4,736	10,035
By Private Sector			
Shares	2,051	2,112	542
Debt securities[1]	4,850	11,701	17,405
Less Redemptions	3,669	10,271	2,176
Equals Net issues	1,181	1,430	15,229
Net Funds Raised	3,232	3,542	15,772
Total Net Funds Raised	1,712	8,278	25,806
Short-term Papers and Notes *net* [2]	(1,461)	413	743
Total	251	8,691	26,549

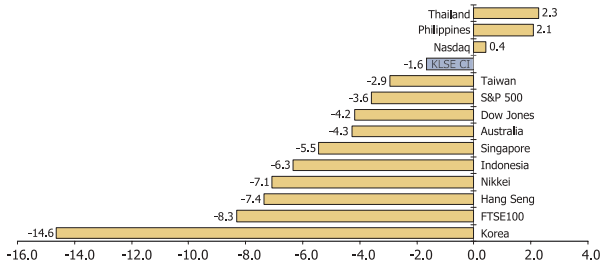
[1] Excludes debt securities issued by banking institutions.
[2] Refers to Commercial Papers and Cagamas Notes only.
[p] Preliminary.

Performance of KLSE affected mainly by external developments

The performance of the Kuala Lumpur Stock Exchange (KLSE) in the first quarter of 2003 was subdued, with sentiment affected mainly by external developments, particularly expectations on the impact of the war in Iraq. In January, the market commenced on a positive note, supported by an earlier announcement of the establishment of a new fund management company owned by public sector related trust funds as well as several encouraging corporate developments. However, the market eased gradually thereafter, affected by uncertainties on the global economic outlook following increased

geopolitical tensions in the Middle East. In the later part of March, the market performance improved slightly following expectations of a brief war. For the quarter as a whole, the KLSE Composite Index (KLSE CI) declined by 10.6 points or 1.6% since end-2002, to close at 635.72 points. Market capitalisation declined by 0.9% since the end of 2002 to RM477.39 billion. Nevertheless, total trading volume increased by 39.3% during the quarter, with 12.4 billion units traded and valued at RM21.3 billion. On a daily average basis, volume traded during the quarter was also higher. The KLSE CI has fared relatively better than most selected regional and global markets in the first quarter of 2003.

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



KLSE: Selected Market Indicators

	As at end				
	2002				2003
	1Q	2Q	3Q	4Q	1Q
Price Indices					
- Composite	756.10	725.44	638.01	646.32	635.72
- EMAS	181.72	176.5	155.39	157.25	153.98
- Second Board	132.29	119.84	102.89	98.24	93.00
Average daily turnover					
- Volume (million units)	304.9	299.3	159.1	143.4	213.6
- Value (RM million)	636.1	643.8	349.2	275.8	367.1
Market capitalisation (RM b)	517.63	505.89	476.35	481.62	478.3
No. of companies listed	826	843	859	865	874

KLSE: Turnover of Corporate Securities

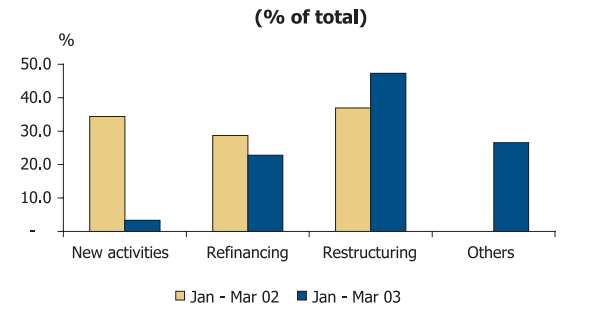
	2002				2003	
	1Q		4Q		1Q	
	million units	RM million	million units	RM million	million units	RM million
Turnover	17,684	36,895	8,890	17,098	12,387	21,294
of which:						
Main Board	14,769	31,045	7,276	14,914	10,609	19,397
of which						
- Consumer Products	647	2,616	255	1,095	309	1,481
- Industrial Products	1,291	1,747	575	1,213	711	1,535
- Construction	1,185	2,660	869	1,199	1,482	1,687
- Trading/Services	3,073	10,173	1,791	5,384	2,791	7,165
- Finance	2,670	7,418	1,244	3,335	1,532	3,784
- Properties	1,522	1,378	996	749	1,370	966
- Plantations	341	1,269	178	737	296	1,283
- Mining	62	112	38	72	48	91
Second Board	2,888	5,814	1,523	2,162	1,591	1,807

Higher funds raised in the bond market

The ringgit bond market remained a significant source of financing during the first quarter. Total net funds raised amounted to RM25.3 billion, of which RM15.2 billion were raised by the private sector. The low interest rates environment continued to provide a conducive setting for companies to issue long-term debt at competitive costs. Funds raised were mainly for refinancing and restructuring purposes, accounting for 47.3% and 22.8% of total funds raised respectively. In terms of tenure, the private debt securities (PDS) issued were mostly within the range of 1 to 5 years (47% of total) followed by between 5 years to 10 years (43%). As at end of March, total bonds outstanding stood at RM298.6 billion, of which private sector bonds accounted for 54.8% of the total outstanding.

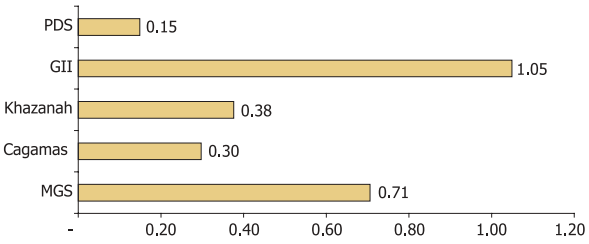
Secondary trading in bonds rose to RM132.2 billion (4Q 2002: RM114.4 billion) as investors

Private Debt Securities Issued by Purpose



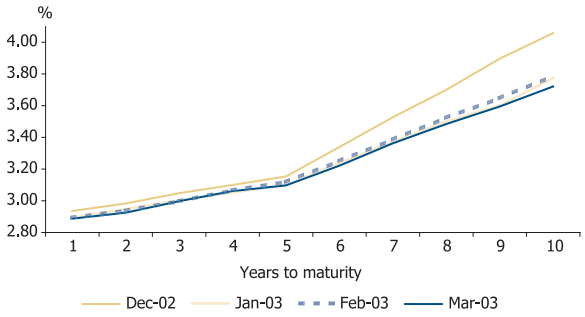
continued to shift to safe-haven investments during the period. Trading was concentrated in the Government and quasi-Government securities. The Malaysian Government Securities (MGS) and Government Investment Issues (GII) accounted for 67.7% of the total trade, while Cagamas bonds and Khazanah bonds contributed 8.1%. The GII and MGS were the most liquid papers, registering total turnovers of 1.1 and 0.7 times its outstanding amount respectively. Trading on corporate bonds centered mainly around higher-rated issues.

Monthly Liquidity Ratio: Turnover/Outstanding (1 Quarter 2003)



The increased interest in fixed income instruments had resulted in the downward shifting and the narrowing of yields. Amidst uncertainties over the Iraq war, investors' interests in the medium- to long-term papers increased, lowering the yields at the longer-end. Spreads between the MGS 5- and 10-year papers narrowed from 90 basis points in December 2002 to 62 basis points in March 2003. The corporate bond yields mirrored the movement of the MGS yields. The AA-rated papers registered the biggest decline in yields due to the higher interest in the AA-rated papers which provide higher return as well as the availability of more issues in this category.

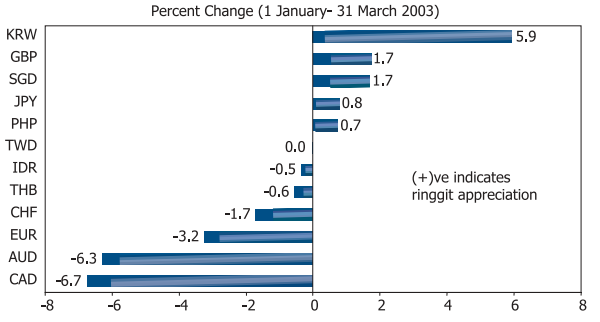
Trend in MGS Yield



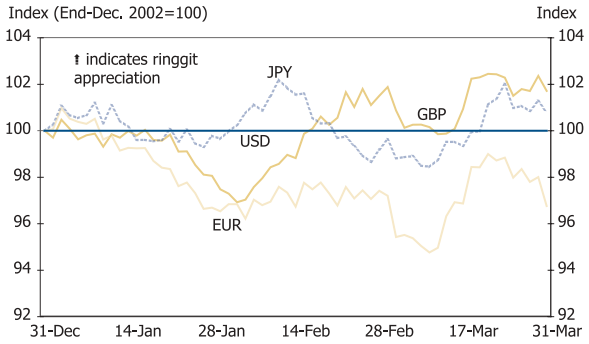
Exchange Rates

The ringgit recorded a mixed performance against both major and regional currencies in the first quarter of 2003, in tandem with the movements of the US dollar in the international foreign exchange markets (Charts 1, 2 and 3). The dollar was

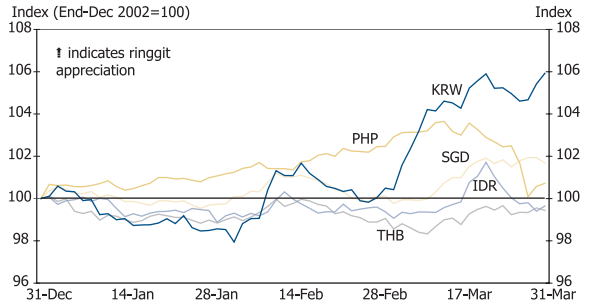
Summary of Ringgit Performance Against Selected Currencies



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



adversely affected by market risk aversion resulting from developments in Iraq as well as positive interest rate differentials in favour of other major currencies. Of significance, the euro reached a 4-year high against the US dollar on 10 March due to capital inflows from the US. Among the regional currencies, the Korean won depreciated sharply due to the North Korean tensions and disclosures of a corporate misdemeanour involving the fourth largest conglomerate in Korea.

The ringgit exchange rate continues to be supported by a 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.

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	End 4Q 2002	End 1Q 2003	% change since[1] End-June 1997	% change since[1] 2 September 1998	% change since[1] End 4Q 2002
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.9811	4.1145	-	-	-3.2
Pound Sterling	4.1989	6.3708	6.0924	5.9898	-29.9	6.4	1.7
100 Japanese yen	2.2088	2.7742	3.2020	3.1774	-30.5	-12.7	0.8
Singapore dollar	1.7647	2.1998	2.1887	2.1523	-18.0	2.2	1.7
100 Thai baht	9.7470	9.3713	8.8096	8.8588	10.0	5.8	-0.6
100 Philippine peso	9.5878	8.8302	7.1462	7.0948	35.1	24.5	0.7
100 Indonesian rupiah	0.1038	0.0354	0.0425	0.0427	143.1	-17.1	-0.5
100 Korean won	0.2842	0.2827	0.3197	0.3019	-5.9	-6.4	5.9

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