BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 03/04/40 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 26 March 2004

Highlights of the February 2004 Press Release

Monetary indicators trended higher as the private sector gained momentum as an engine of growth

The accommodative monetary policy continued to be supportive of economic growth in February. This was reflected in the stronger monetary indicators, which trended higher as the private sector gained momentum as the engine of growth. The ample liquidity in the banking system, together with the low and stable interest rate environment, continued to support the financing needs of the private sector. The annual growth rates of all the three monetary aggregates increased, with M1, M2 and M3 growing by 15.9%, 11% and 9.7% respectively at end-February (end-January: 11.3%, 10.5% and 8.9% respectively). The loan indicators also showed better performance in February 2004, compared with the corresponding period in the previous year. The forward looking indicators of total loan applications and approvals rose further with a total of RM1.8 billion being approved to 5,828 SME accounts, higher than those approved in January.

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MONETARY AND FINANCIAL DEVELOPMENTS FEBRUARY 2004

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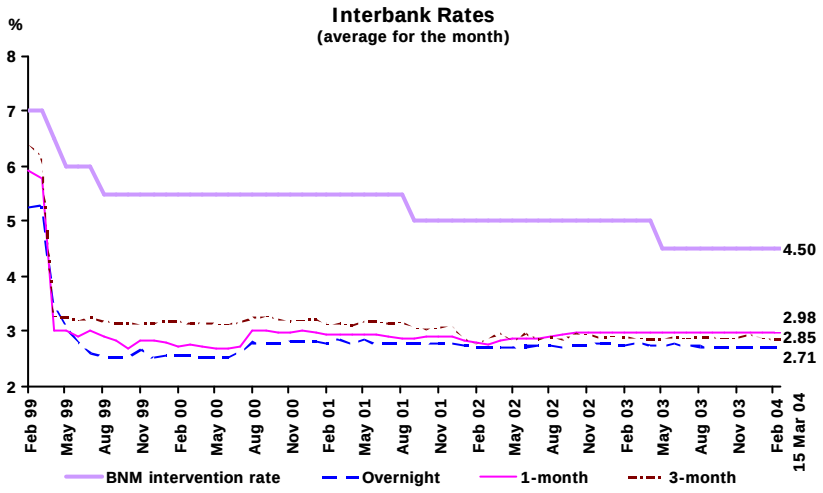
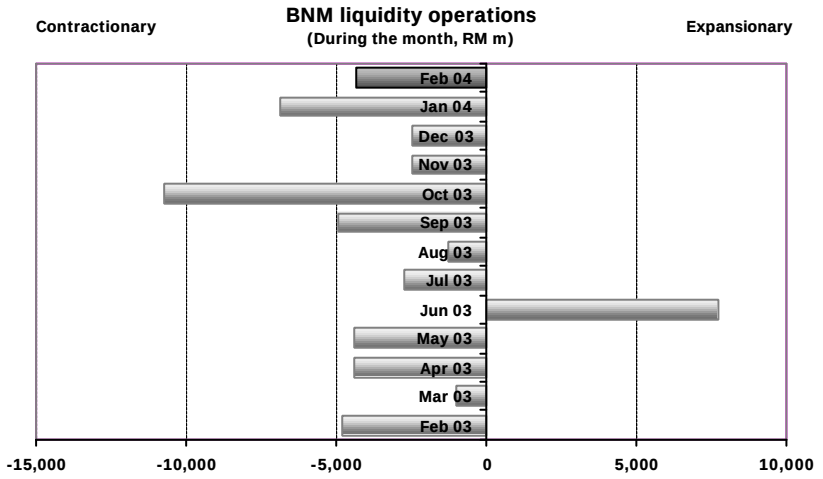
The accommodative monetary policy continued to be supportive of economic growth in February. This was reflected in the stronger monetary indicators, which trended higher as the private sector gained momentum as the engine of growth. The ample liquidity in the banking system, together with the low and stable interest rate environment, continued to support the financing needs of the private sector. The annual growth rates of all the three monetary aggregates increased, with M1, M2 and M3 growing by 15.9%, 11% and 9.7% respectively at end-February (end-January: 11.3%, 10.5% and 8.9% respectively). The loan indicators also showed better performance in February 2004, compared with the corresponding period in the previous year. The forward looking indicators of total loan applications and approvals rose further with a total of RM1.8 billion being approved to 5,828 SME accounts, higher than those approved in January.

Interest rates remained low and stable

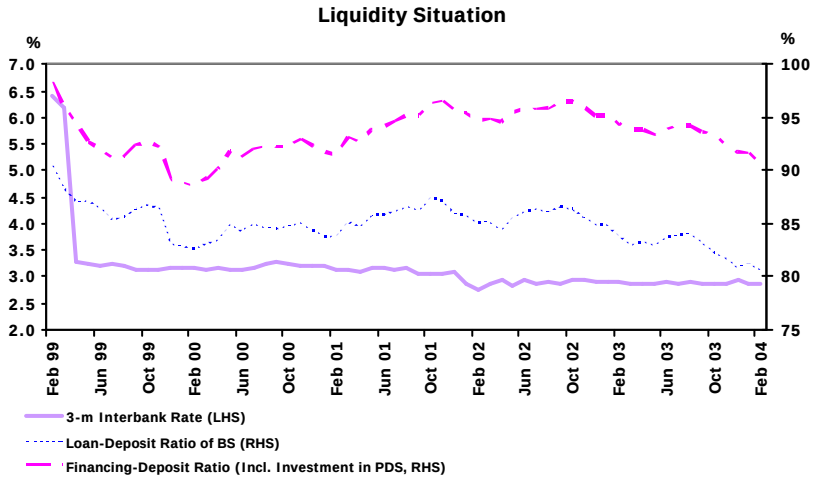
The interbank money market rates remained low and stable. Bank Negara Malaysia continued to absorb the additional liquidity, thereby maintaining stable money market conditions.



Interbank money market rates remained low and stable

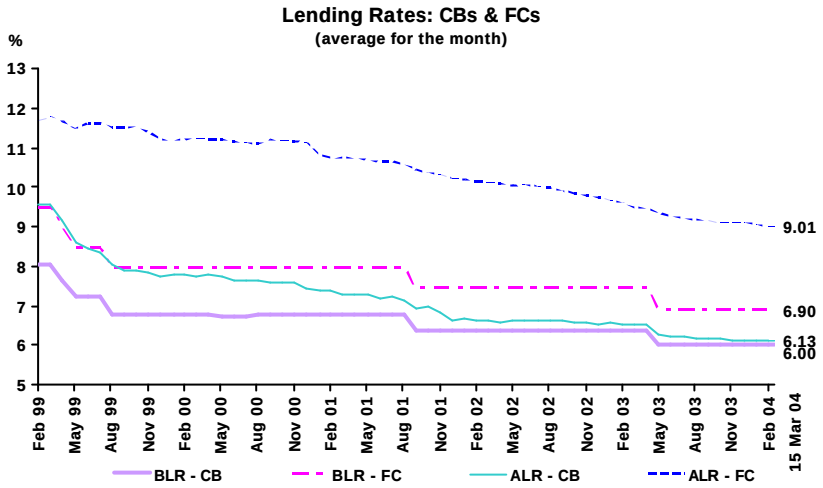


BNM liquidity operations stabilised the impact of liquidity from external inflows



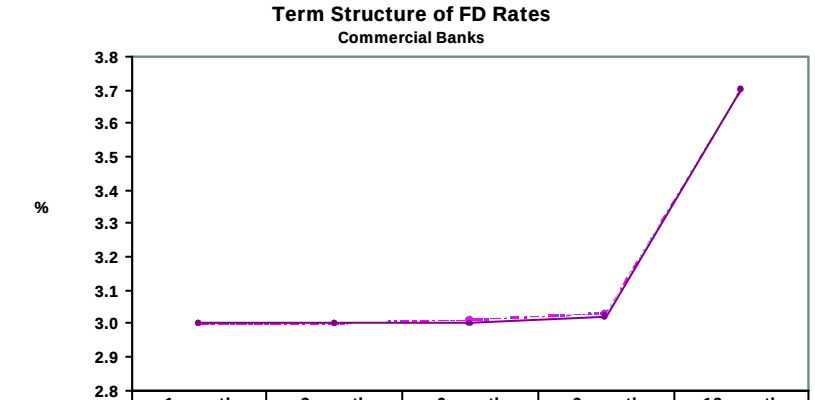
The financing-deposit ratio remained high at 90.5%

In the retail market, the base lending rate (BLR) of commercial banks (CBs) and finance companies (FCs) remained unchanged at 6.00% and 6.90% respectively. The average lending rate (ALR) of CBs remained low and stable at 6.13% while the ALR of FCs was lower at 9.01% (6.12% and 9.06% respectively in January).



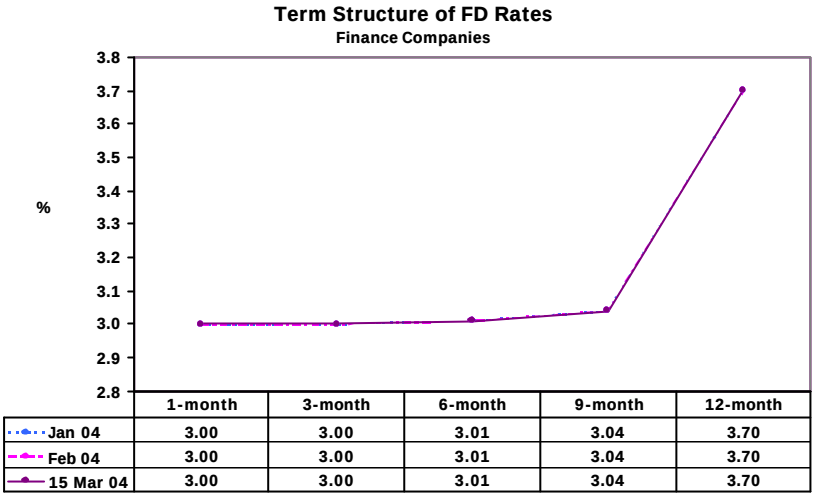
ALR of CBs remained low and stable while ALR of FCs declined marginally

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



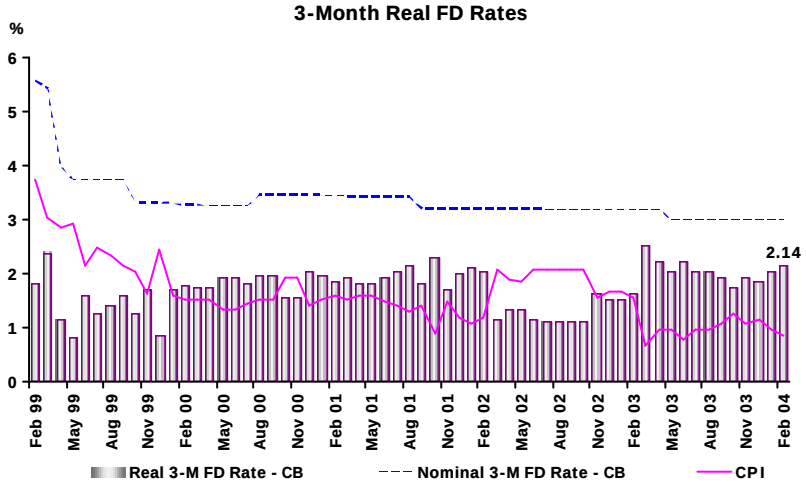
	1-month	3-month	6-month	9-month	12-month
Jan 04	3.00	3.00	3.01	3.03	3.70
Feb 04	3.00	3.00	3.01	3.03	3.70
15 Mar 04	3.00	3.00	3.00	3.02	3.70

FD rates of CBs remained stable ...



	1-month	3-month	6-month	9-month	12-month
Jan 04	3.00	3.00	3.01	3.04	3.70
Feb 04	3.00	3.00	3.01	3.04	3.70
15 Mar 04	3.00	3.00	3.01	3.04	3.70

... similarly for FCs



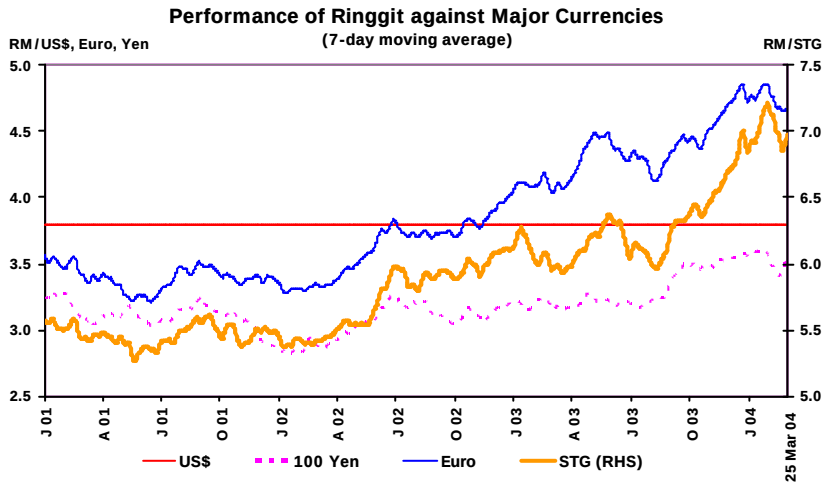
The 3-month real FD rate increased due to lower inflation rate in February

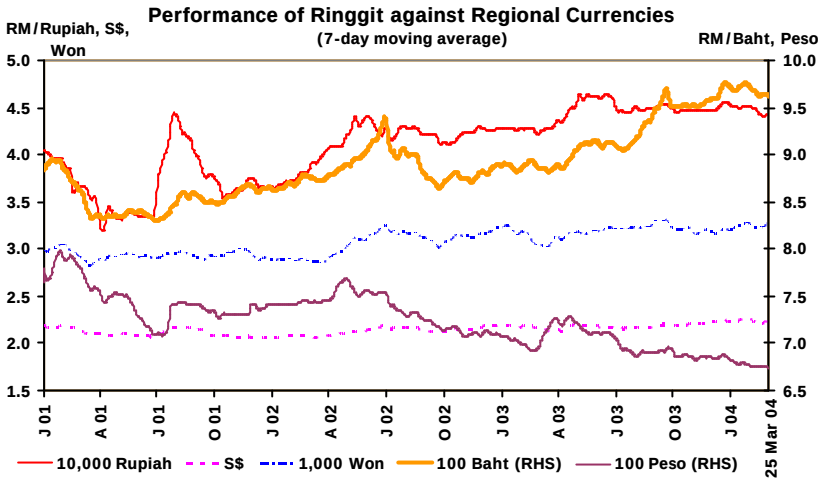
Performance of the ringgit

In February, the ringgit showed mixed patterns against the major currencies, appreciating against the Japanese yen (+3.3%) but depreciating against the pound sterling (-2.5%) and the euro (-0.3%). The yen continued to appreciate against the ringgit in the first half of February, due to the improved economic outlook in Japan, but later, reversed sharply due to terrorism concerns. The pound sterling strengthened further, following an increase in interest rates and a robust economic outlook for the United Kingdom. The depreciation of the ringgit against the euro in the first half of February, which was partially offset by subsequent gains, reflected a confluence of diverse factors affecting the euro-dollar exchange rate, including the ECB's decision to maintain interest rates and mixed US economic data.

On a regional basis, the ringgit appreciated against most currencies in February. The ringgit appreciated against the Philippine peso (+0.5%) as the peso weakened further, following concerns ahead of the May presidential elections. The ringgit had declined vis-à-vis the other regional currencies until mid-February but subsequently appreciated to end the month marginally higher against the Singapore dollar, the Thai baht and the Indonesian rupiah, and relatively unchanged against the Korean won. The depreciation in the Singapore dollar, Thai baht and Korean won was in line with the weaker yen.

In the period 1 – 25 March, the ringgit appreciated against the euro (+2.6%) and the pound sterling (+2.1%) in tandem with the US dollar. The US dollar strengthened on numerous positive economic indicators, dampened partially by weak employment data. Meanwhile, the ringgit depreciated against the yen (-3.2%) as the yen was supported by news that the Japanese economy is recovering. Against the regional currencies, the ringgit appreciated against the rupiah (+2%) following political uncertainties in Indonesia and depreciated against the won (-1.9%) due to investors' buying interest in South Korea's equity market.



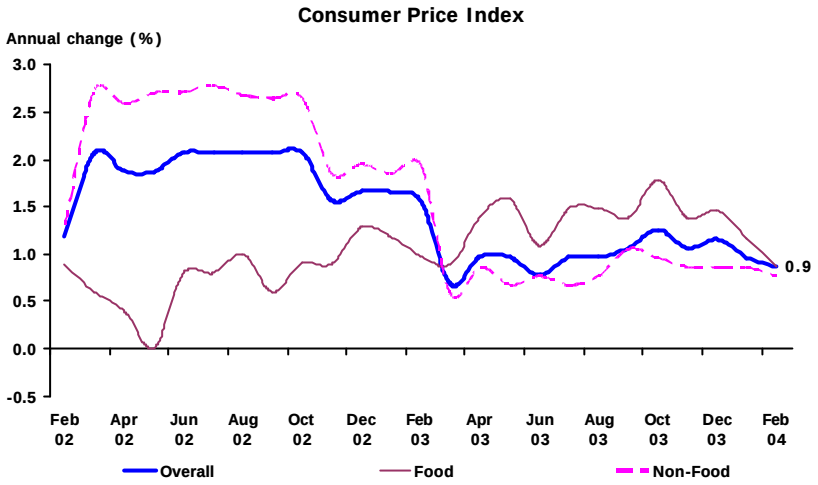


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Feb 04	25 Mar 04	Feb 04	End Feb 04 - 25 Mar 04	End Dec 03 - 25 Mar 04	02 Sep 98 - 25 Mar 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.7297	4.6098	-0.3	2.6	3.7	-
Pound Sterling	6.3708	7.0819	6.9342	-2.5	2.1	-2.4	-8.1
100 Japanese yen	2.7742	3.4703	3.5837	3.3	-3.2	-0.8	-22.6
Singapore dollar	2.1998	2.2311	2.2467	0.1	-0.7	-0.6	-2.1
100 Thai baht	9.3713	9.6594	9.6105	0.1	0.5	-0.2	-2.5
100 Philippine peso	8.8302	6.7466	6.7379	0.5	0.1	1.6	31.1
100 Indonesian Rupiah	0.0354	0.0449	0.0440	0.1	2.0	1.9	-19.6
100 Korean won	0.2827	0.3227	0.3290	0.0	-1.9	-3.4	-14.1

Inflation remained low

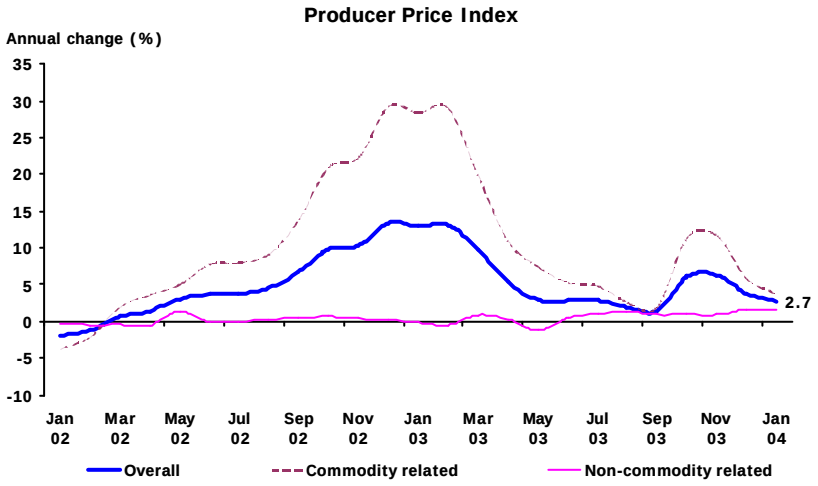
The annual rate of inflation, as measured by the Consumer Price Index (CPI, 2000=100), declined marginally to 0.9% in February (January: 1%). This was mainly due to the slower increase in the prices of food, gross rent, fuel and power as well as continued decline in the prices for clothing and footwear and furniture, furnishing and household equipments.



Annual inflation rate declined marginally to 0.9%

Producer prices increased at a slower rate

The Producer Price Index (PPI, 1989=100) increased at a slower rate of 2.7% in January (December: 3.8%), reflecting mainly the slower increase in prices of crude palm oil and rubber. Excluding commodity-related products, the adjusted PPI increased at an even slower rate of 1.5%.



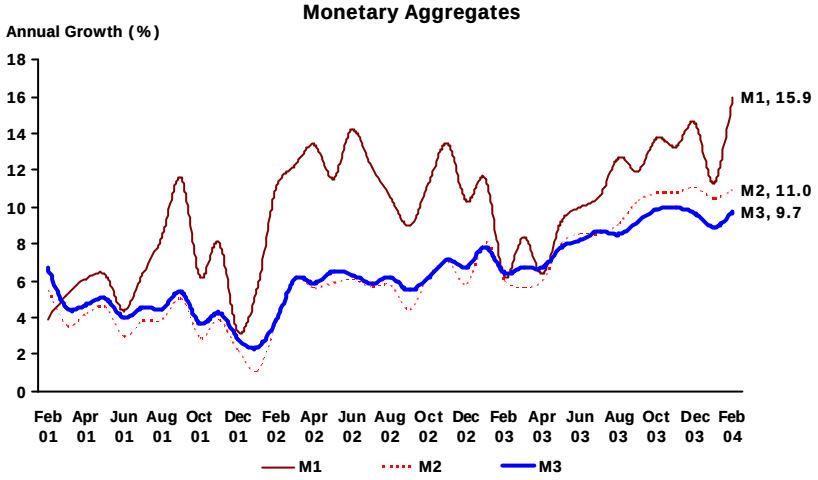
Producer prices increased at a slower rate

Money supply rose further

Money supply rose in tandem with higher private sector activities. On an annual basis, all three monetary aggregates rebounded, with M1, M2 and M3 growing by 15.9%, 11% and 9.7% respectively at end-February (end-January: 11.3%, 10.5% and 8.9% respectively).

During February, expansionary external operations and higher financing by the banking system to the private sector contributed to the increase in broad money, M3. This was partially offset by the increase in deposits with Bank Negara Malaysia as the Government placed the proceeds from the issuance of MGS during the month.

Monetary Aggregates



Money supply trended higher on an annual basis

M3 Determinants
(RM billion)

	Change during period			
	Dec 03	**Jan 04**	**Feb 04**	**Jan - Feb 04**
M3	1.3	5.2	6.0	11.1
Net claims on Government	4.1	1.9	-5.9	-4.0
Claims on the private sector	-0.2	-0.7	1.8	1.1
Net external operations *	-1.9	12.6	10.6	23.2
Other influences	-0.7	-8.7	-0.5	-9.2

* Pre-revaluation

Total deposits with the banking system expanded significantly

Total deposits mobilised by the banking system increased significantly by RM8.2 billion in February, reflecting mainly higher placements of deposits by business enterprises amidst improved performance in earnings. Individual deposits also recorded a significant increase, due partly to the re-depositing of currency after festivities. On an annual basis, total deposits mobilised by the banking system rose by 9.6% as at end-February (9.1% at end-January).

Deposits by Holder
(RM million)

	Change during period			
	Dec 03	**Jan 04**	**Feb 04**	**Jan - Feb 04**
Federal Government	-759	-534	-37	-571
State Governments	217	-254	298	44
Statutory Authorities [1]	932	-1,026	371	-655
Financial Institutions	889	-701	1,736	1,035
Business Enterprises	-1,304	-868	2,896	2,028
Individuals	2,850	4,086	2,220	6,306
Others [2]	1,004	-505	731	227
Total	3,830	199	8,215	8,414

1/ Include local Governments

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

Higher placement of deposits by business enterprises and individuals ...

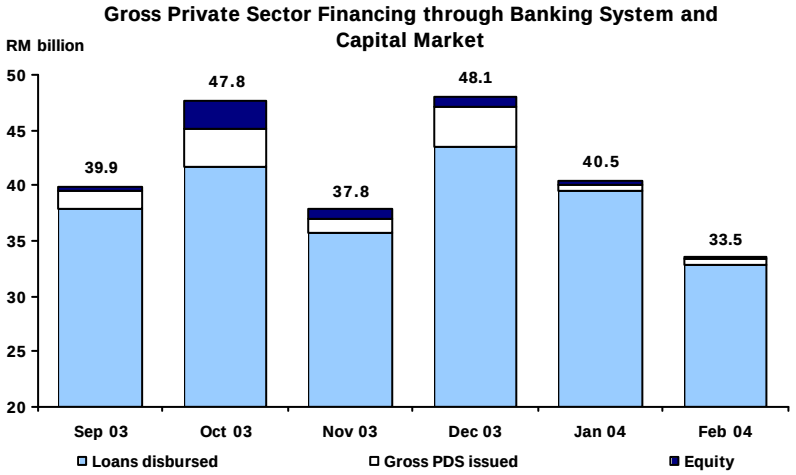
Deposits by Type
(RM million)

	Change during period			
	Dec 03	**Jan 04**	**Feb 04**	**Jan - Feb 04**
Fixed deposits	-2,750	2,486	5,151	7,637
NIDs	798	-1,200	-400	-1,600
Demand deposits	3,008	-1,559	1,781	222
Savings deposits	1,101	1,604	593	2,197
Repos	-335	524	-843	-318
FX deposits	1,152	-968	409	-560
SPI deposits	194	-483	1,033	550
Others	660	-205	491	287
Total	3,830	199	8,215	8,414

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

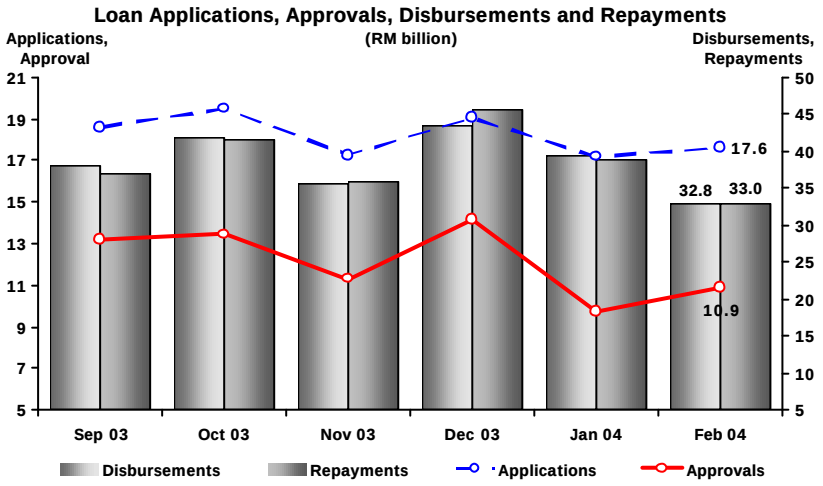
Private sector financing remained high

Private sector financing remained high in February. Total gross financing of the private sector by the banking system and through the capital market amounted to RM33.5 billion (RM31.7 billion in the corresponding period of 2003). The financing-deposit ratio of the banking system remained high at 90.5% at end-February (91.7% as at end-January).

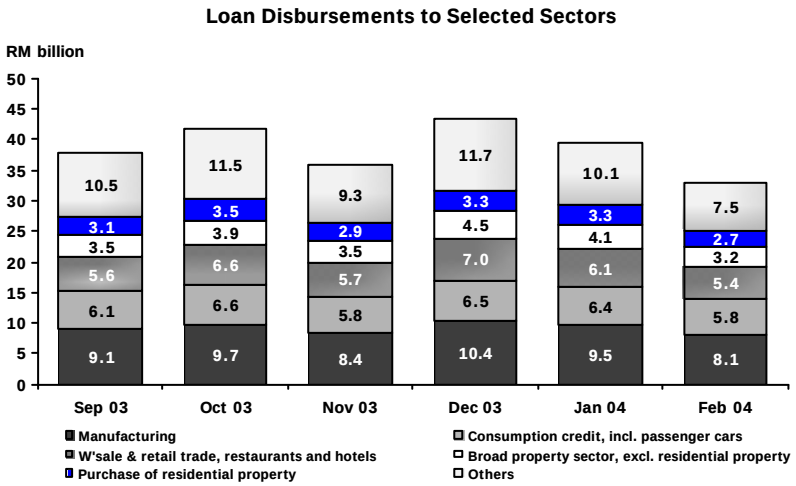


Gross private sector financing remained high...

The loan indicators showed better performance in February, compared with a year ago. Forward looking indicators saw total loan applications and approvals rising by RM17.6 billion and RM10.9 billion respectively (January: RM17.2 billion and RM9.7 billion respectively), reflecting continued financing by the banking system to meet the higher demand for loans. Loans disbursed also remained high at RM32.8 billion (RM27.4 billion in February 2003). The bulk of the loans disbursed were channelled to the business sector (67.1% of total loans disbursed), mainly to manufacturing (37% of disbursements to business sector), wholesale and retail trade, restaurants and hotels (24.5%) and finance, insurance and business services (11.4%). Loans disbursed to the household sector remained high, reflecting continued lending for the purchase of residential properties (30.1% of disbursements to the household sector), for credit cards (28.4%) and for the purchase of passenger cars (19.6%). On an annual basis, loans outstanding increased by 5.1% (4.6% at end-January).



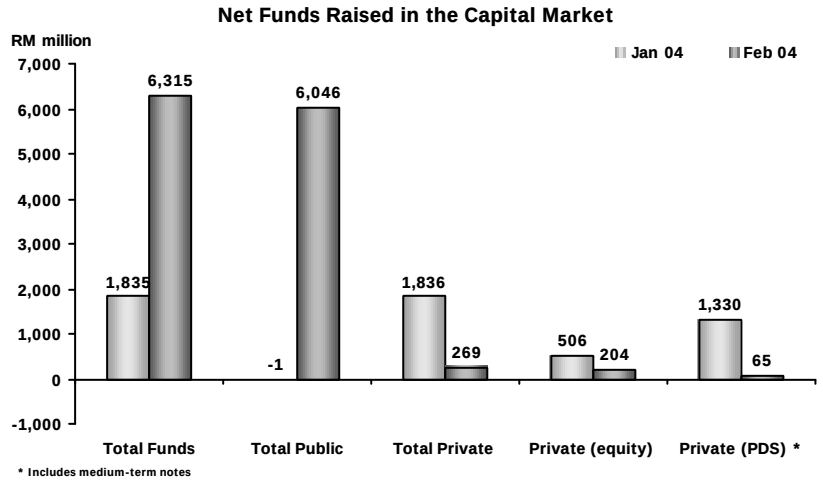
The loan indicators were higher in February compared with the corresponding period in the previous year



Loans to SMEs remained high in February, with a total of RM1.8 billion approved to 5,828 SME accounts, higher than those approved in January. Higher repayments during the month resulted in outstanding loans to SMEs increasing at an annual rate of 5.5% (7.5% as at end-January). Lending to SMEs continued to account for a significant share of business loans, at 37.8%, and 16.9% of total outstanding loans as at end-February.

Higher net funds raised in capital market

In February, higher net funds were raised in the capital market, reflecting gross funds of RM6.5 billion raised by the public sector. This total comprised two 5-year MGS issues amounting to RM6 billion to finance Government development expenditure and the first issue of the Merdeka Savings Bond by Bank Negara Malaysia amounting to RM500 million. The Merdeka Savings Bond was issued to provide an additional savings instrument for senior citizens not employed on a full-time basis as well as retired Malaysian Armed Forces personnel. Gross funds raised from two corporate bond issues amounted to RM537 million and were for new activities and refinancing. Cagamas Berhad also issued bonds of RM640 million. On a net basis, total funds raised from the PDS market were virtually neutral since Cagamas bonds worth RM1 billion were redeemed. Meanwhile, RM147.1 million was raised in the equity market from seven initial public offerings.

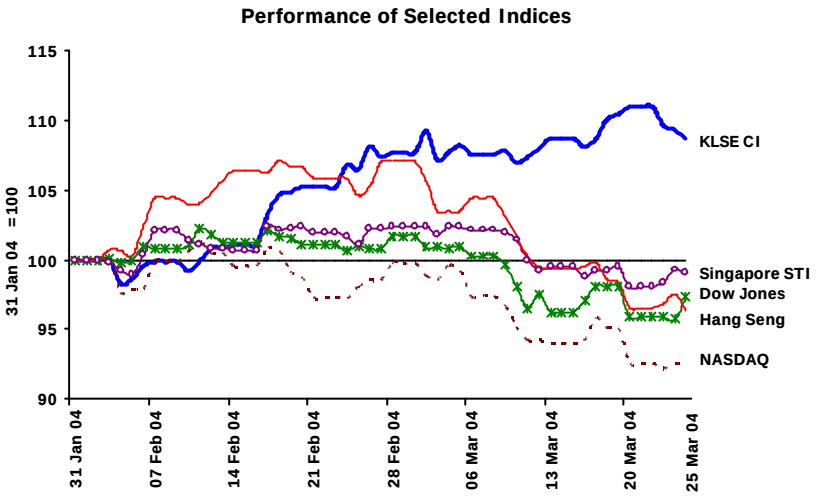


Higher net funds raised in capital market mainly by the public sector...

Building on the momentum since the end of 2003, share prices in the Malaysia Securities Exchange Berhad (MSEB) increased in February, supported by the favourable news concerning the domestic economy and the positive sentiments of both foreign and local investors. While other overseas share markets also rose

during the month, the KLSE CI registered the largest gains in the region. The stronger outcome largely reflected the better-than-expected fourth quarter GDP growth of 6.4% and the broad improvements in corporate earnings. Moody's upgrade of Malaysia's foreign currency ratings from stable to positive, reinforced the positive prospects for the local market.

As at end-February, the KLSE CI closed at 879.2 points (+7.4% since end-January). The market capitalisation was higher at RM713.4 billion (+7.4% since end-January) and the daily average turnover for the month was higher at 740.4 million units.

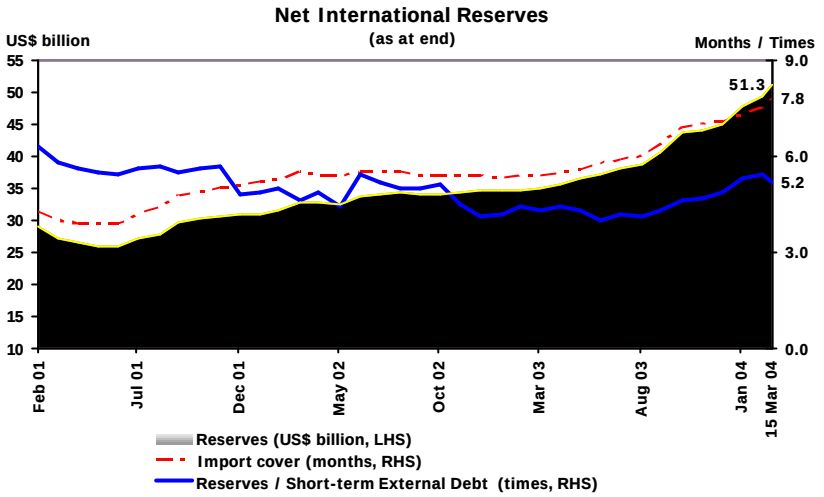


KLSE CI improved by 8.7% over the period 1 February – 25 March 2004

In the first three weeks of March, share prices were influenced mainly by the sentiments surrounding the general election held on 21 March 2004. As at 25 March 2004, the KLSE CI closed at 890.14 (+1.2% since end-February). The market capitalisation was higher at RM721.7 billion (+1.2% since end-February) and the daily average turnover during the period was higher at 677.5 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased further by RM5.7 billion or US$1.5 billion during the month of February to RM187.1 billion or US$49.2 billion as at 28 February 2004. The increase in reserves during February was due mainly to sustained repatriation of export earnings and larger inflows of portfolio funds. Outflows during the period reflected largely payments for imports of goods and services. The reserves increased further to RM194.9 billion or US$51.3 billion as at 15 March 2004, adequate to finance 7.8 months of retained imports and is 5.2 times the short-term external debt.



Increase in reserves was due mainly to sustained repatriation of export earnings and larger inflow of portfolio funds

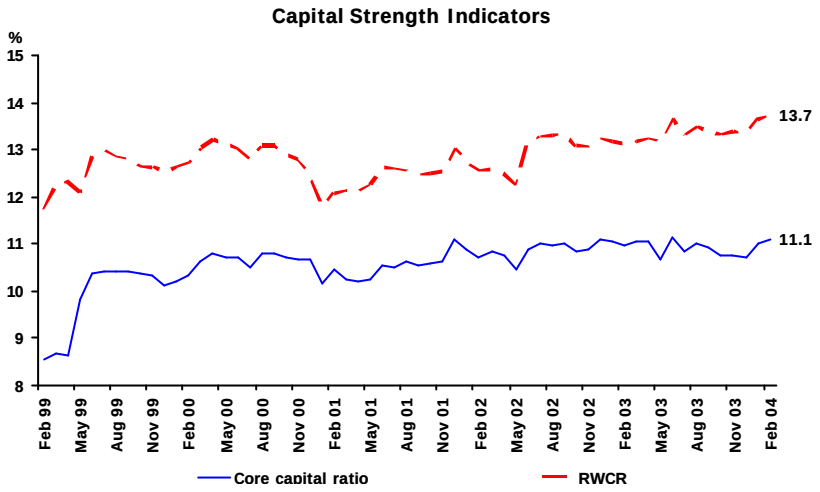
Banking system capitalisation strengthened to the highest level

The risk-weighted capital ratio (RWCR) of the banking system was sustained at 13.7%, while the net non-performing loan (NPL) ratio on the six-month classification remained at 6.8% as the increase in net NPL of RM46.3 million (0.1%) was mitigated by higher increase in loan base at end-February 2004.

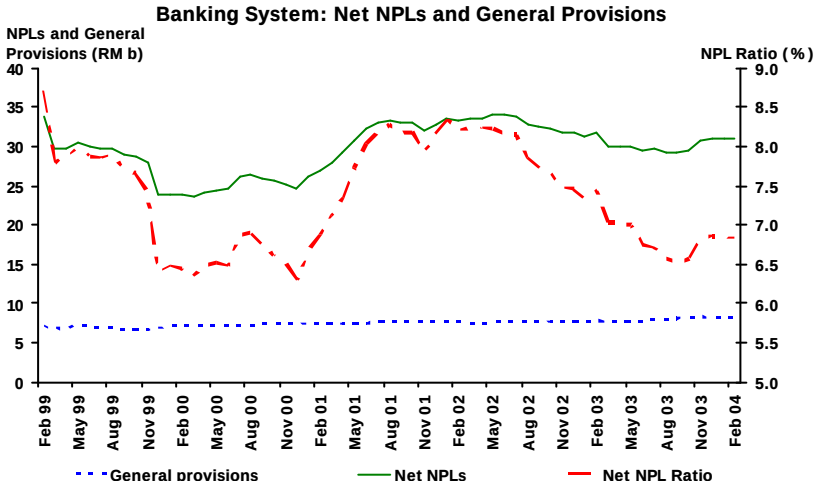
Banking System Health Indicators *

	As at end-							
	1998	**1999**	**2000**	**2001**	**2002**	**Dec 03**	**Jan 04**	**Feb 04**
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.7	11.0	11.1
RWCR	11.8	12.5	12.5	13.0	13.2	13.4	13.7	13.7
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.9	6.8	6.8
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,862	30,894	30,940
GP / Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8

* Beginning June 1999 onwards, the figure include Islamic banks.



RWCR sustained at 13.7%



Net NPL ratio (6-month classification) remained at 6.8%

Bank Negara Malaysia
26 March 2004

Key Monetary and Banking Statistics

		Dec 03		Jan 04		Feb 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		45.5	6.9	49.7	3.8	47.3	8.9
M1		102.1	14.6	103.6	11.3	103.5	15.9
M2		426.0	11.1	430.2	10.5	433.1	11.0
M3		549.6	9.7	554.8	8.9	560.8	9.7
Banking System							
Total deposits		553.8	9.8	554.0	9.1	562.2	9.6
Total loans (including loans sold to Cagamas)		474.0	4.8	475.6	4.6	477.2	5.1
Loan-deposit ratio (%)		80.9		81.2		80.6	
Financing-deposit ratio [1] (%)		91.7		91.7		90.5	
Loans applied (during the period)		19.0	22.9	17.2	-19.8	17.6	12.8
Loans approved (during the period)		14.2	38.2	9.7	-25.7	10.9	17.3
Loans disbursed (during the period)		43.4	20.6	39.5	3.8	32.8	19.7
Loans repaid (during the period)		45.7	27.2	38.7	4.3	33.0	18.0
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.4		13.7		13.7	
Net NPLs: 6-month classification (%)		6.9		6.8		6.8	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		170.5		181.3		187.1	
Reserves in USD (billion)		44.9		47.7		49.2	
Months of retained imports		7.1		7.3		7.5	
Interest Rates at end-period [average for the month]							
Interbank:	1-month	2.99 [2.99]		2.99 [2.99]		2.98 [2.99]	
	3-month	2.87 [2.94]		2.89 [2.87]		2.85 [2.85]	
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)		105.0	1.2	105.0	1.0	105.1	0.9
Producer Price Index (PPI) (1989=100)		143.2	3.8	143.4	2.7		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.7783		4.7152		4.7297	
Pound Sterling		6.7678		6.9018		7.0819	
100 Japanese yen		3.5546		3.5861		3.4703	
Singapore dollar		2.2342		2.2323		2.2311	
100 Thai Baht		9.5947		9.6729		9.6594	
100 Philippine Peso		6.8431		6.7827		6.7466	
100 Indonesian Rupiah		0.0449		0.0450		0.0449	
100 Korean Won		0.3180		0.3227		0.3227	
Capital Market							
Net funds raised (in RMb) by:	public	-0.2		...		6.0	
	private	1.1		1.8		0.3	
Kuala Lumpur Composite Index (end-period)		793.9		818.9		879.2	
KLSE Market Capitalisation (RMb, end-period)		640.3		664.3		713.4	

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