BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 04/03/47 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 28 April 2003

Highlights of the March 2003 Press Release

Private sector financing activity improved in March

Private sector financing activities expanded further in March. Liquidity remained ample, while average lending rates for finance companies declined further. In a low interest rates environment, loan applications, disbursements and approvals recorded strong double-digit growth rates. Higher funds were also raised in the private debt securities market. Stronger financing activity provided the main impetus for M3 growth, which expanded at an annual rate of 6.8% in March. The 8.4% growth in M1 further indicated that the underlying demand for transaction balances remained strong.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 04/03/47 (BN)

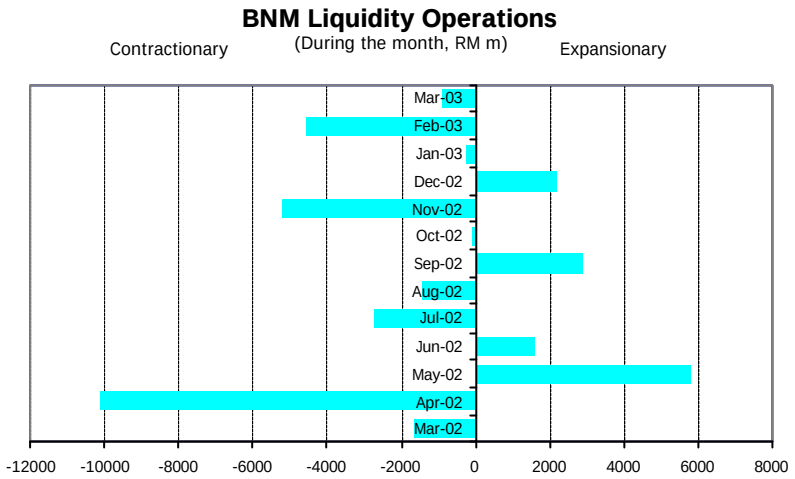
EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 28 April 2003

PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
MARCH 2003

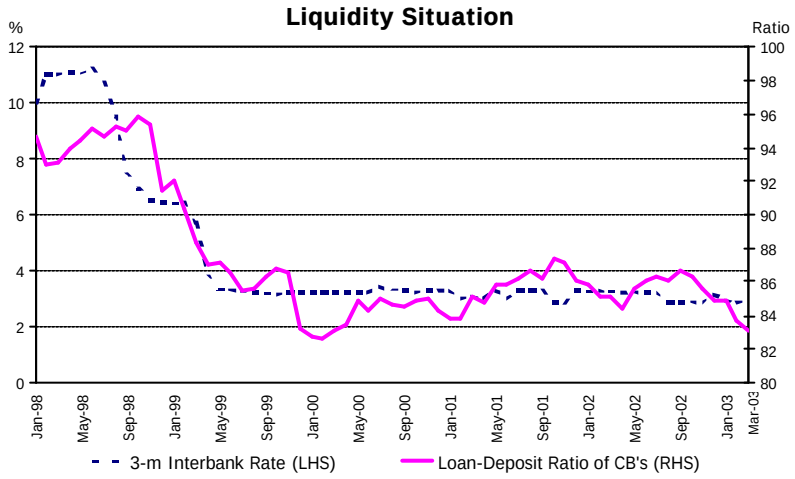
Private sector financing activities expanded further in March. Liquidity remained ample, while average lending rates for finance companies declined further. In a low interest rates environment, loan applications, disbursements and approvals recorded strong double-digit growth rates. Higher funds were also raised in the private debt securities market. Stronger financing activity provided the main impetus for M3 growth, which expanded at an annual rate of 6.8% in March. The 8.4% growth in M1 further indicated that the underlying demand for transaction balances remained strong.

Interest rate levels remained low, supporting demand for financing

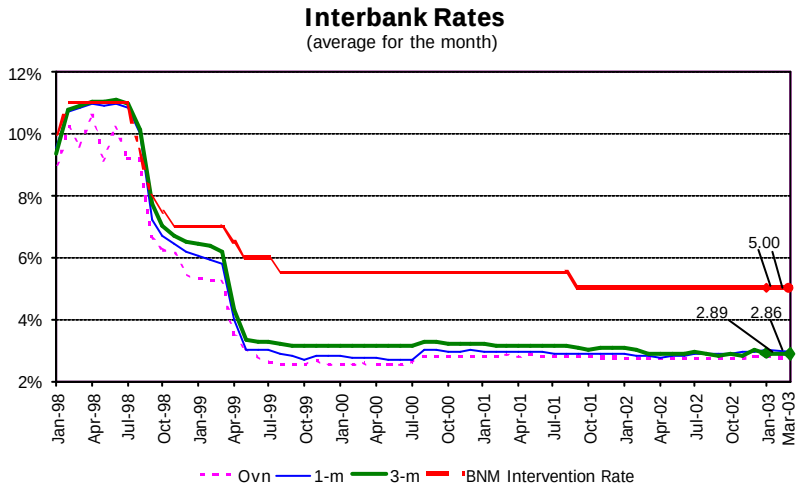
In March, the **interbank money market rates** remained low and stable. During the month, BNM absorbed liquidity from the system to stabilise interest rates at current levels.



BNM absorbed liquidity from the system to stabilise interest rates at current levels

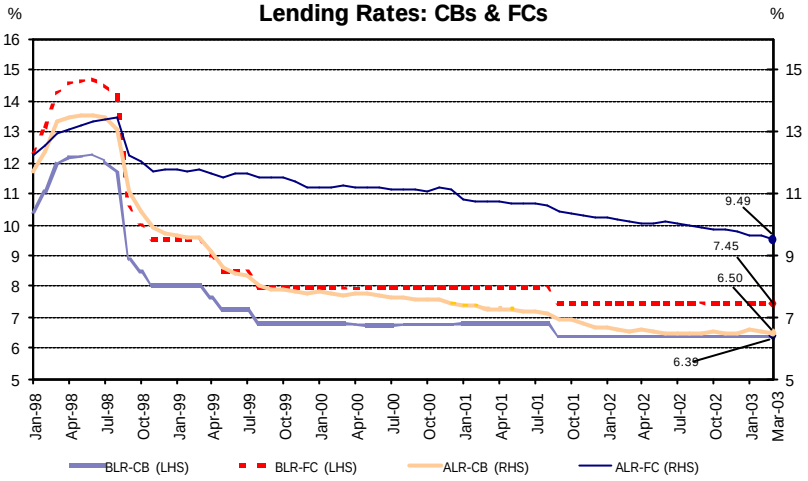


Ample liquidity continued to prevail in the banking system



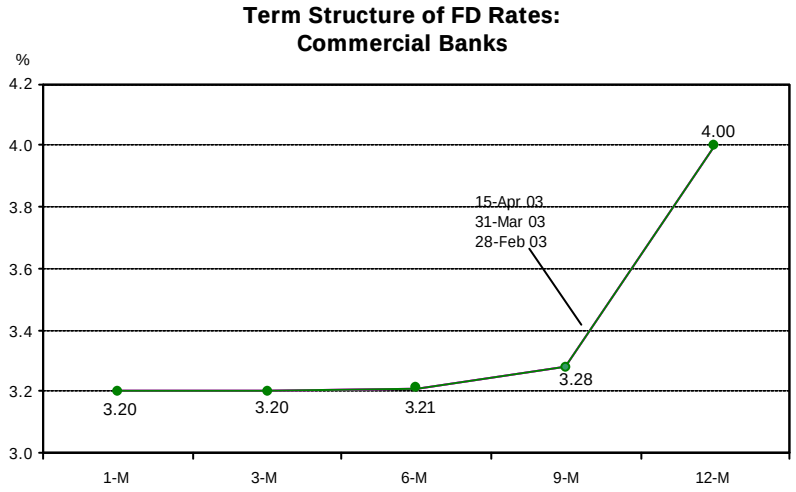
Interbank rates remained low and stable

The **average lending rates (ALR)** of CBs remained stable while that of FCs continued to trend downwards. The **base lending rate (BLR)** of both CBs and FCs remained unchanged.

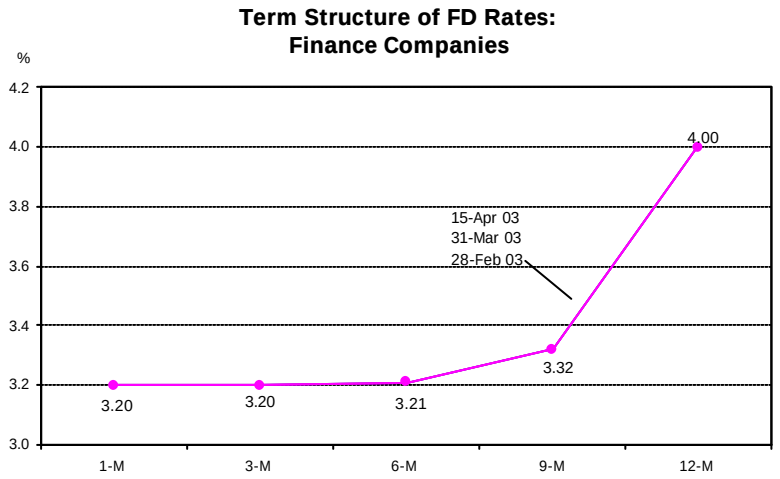


The ALR of FCs continued its downward trend, while that of CBs remained stable. BLR was unchanged.

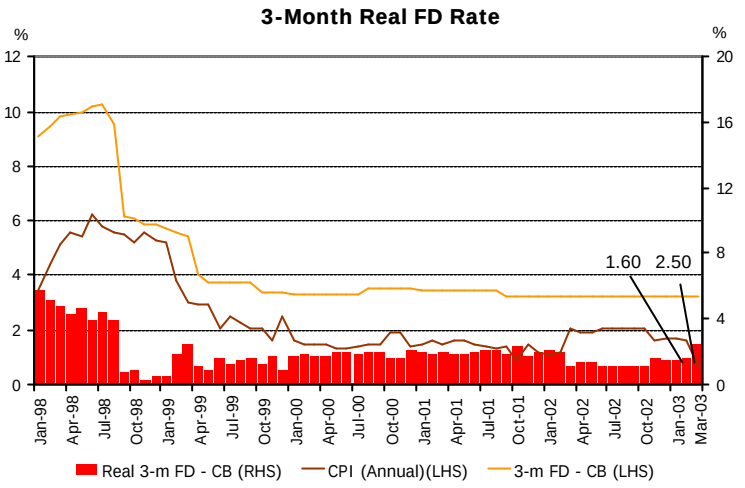
The term structure of **fixed deposit rates** for both CBs and FCs remained unchanged as at 15 April 2003.



FD rate of CBs remained unchanged



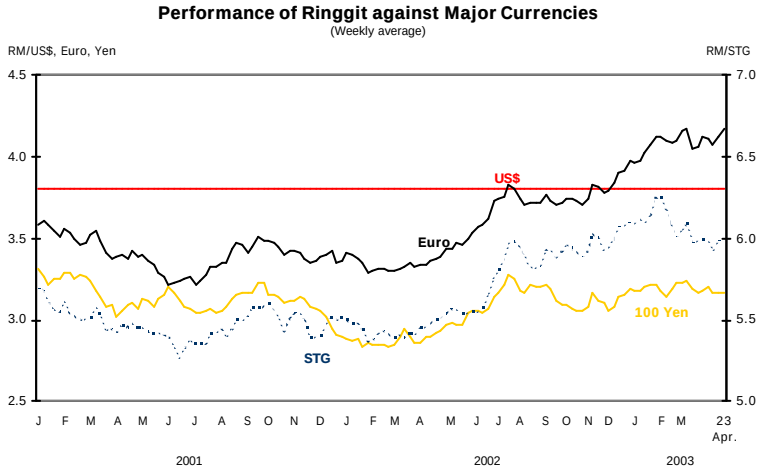
…similarly, for FCs



The higher real 3-month FD was due to lower inflation in March

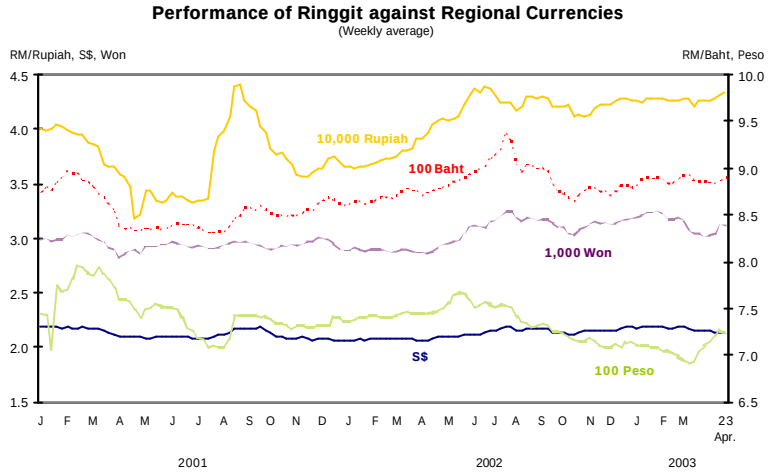
Performance of ringgit

In March, **the ringgit recorded a mixed performance against the major currencies.** In tandem with the movement of the US dollar in international foreign exchange markets, ringgit appreciated against the Japanese yen and the pound sterling by 1.6% and 0.2%, respectively, while depreciating against euro by 0.7%. Despite the initial strength of the US currency following the outbreak of war in Iraq, the US dollar subsequently weakened against the euro on market concerns that the war in Iraq could be longer than expected. The weakness of pound sterling reflected some high-profile resignations in the ruling Labour Party over Britain's involvement in the Iraqi conflict.



The ringgit recorded a mixed performance in March.

The ringgit also recorded a mixed performance against the regional currencies. The ringgit appreciated against several regional currencies in the range of 0.6% - 5.9%, while depreciating against the Philippine peso by 1.7% and remaining relatively unchanged against the Indonesian rupiah. In addition to remittances from overseas workers, the Philippine peso received support from the introduction of a series of measures by the central bank to curb speculative activities and a government directive to halve the required oil reserves to be held by oil refiners to only 15 days of inventory. In contrast, the Korean won was adversely affected by escalating tensions over developments in North Korea, as well as concerns over an accounting scandal involving Korea's fourth largest conglomerate.



The ringgit was also mixed against regional currencies.

In the period **1 – 23 April 2003**, the ringgit recorded a mixed performance against major currencies, while depreciating against most regional currencies. In line with the movements of the US dollar, the ringgit appreciated against the Japanese yen by 0.4%, while depreciating against the euro by 1.3% and remaining relatively unchanged against the pound sterling. The US dollar was supported mainly by the release of some positive economic data, including the better than expected retail sales data for March, the strong rise in March producer prices, and the sharp increase in the University of Michigan consumer sentiment survey reading for April. In addition, the US dollar also benefited from a weaker yen following the high net purchases of foreign bonds by Japanese investors in the first two-weeks of April. However, the euro continued to strengthen against the US dollar as investors took advantage of the higher euro area interest rates relative to the US dollar rates. The ringgit meanwhile depreciated against most regional currencies in the range of 0.4% - 3.1%.

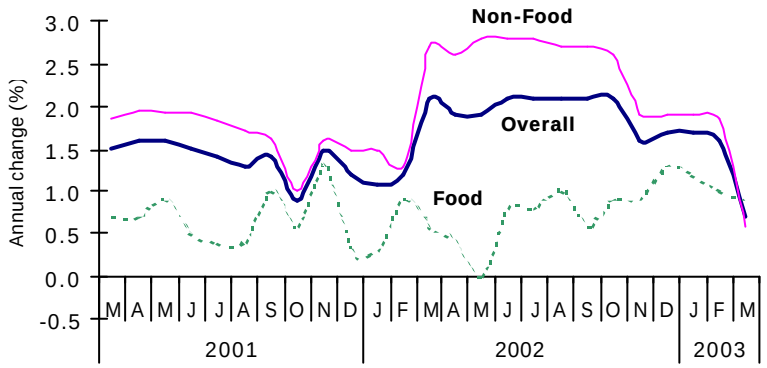
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Mar. 2003	23 April 2003	% Change			
				March 2003	End-Mar. - 23 Apr. 2003	End-2002 - 23 Apr. 2003	2 Sep. 1998 - 23 Apr. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.1145	4.1669	-0.7	-1.3	-4.5	-
Pound Sterling	6.3708	5.9898	5.9915	0.2	0.0	1.7	6.3
100 Japanese yen	2.7742	3.1774	3.1636	1.6	0.4	1.2	-12.3
Singapore dollar	2.1998	2.1523	2.1391	1.6	0.6	2.3	2.8
100 Thai baht	9.3713	8.8588	8.8941	0.6	-0.4	-0.9	5.4
100 Philippine peso	8.8302	7.0948	7.2305	-1.7	-1.9	-1.2	22.1
100 Indonesian Rupiah	0.0354	0.0427	0.0433	0.0	-1.5	-1.9	-18.3
100 Korean won	0.2827	0.3019	0.3117	5.9	-3.1	2.6	-9.3

Inflation declined in March

The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), declined to 0.7% in March (February: 1.6%). This reflected mainly the elapse of the effect of price adjustment on telephone charges, which was implemented on 1 March 2002.

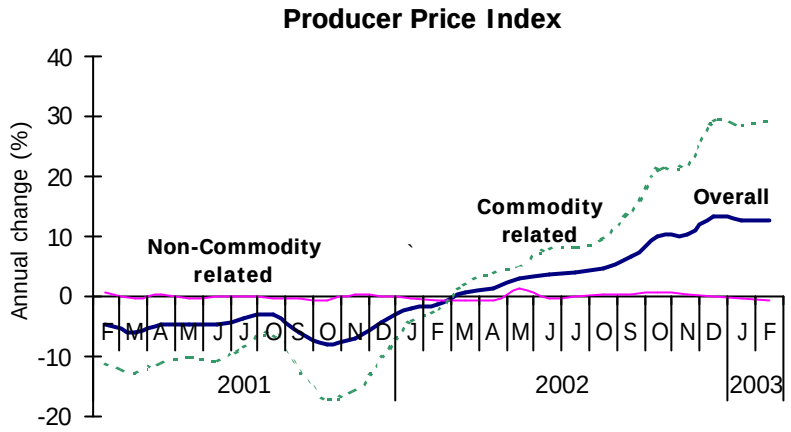
Consumer Price Index



Inflation declined in March

Producer prices continued to increase

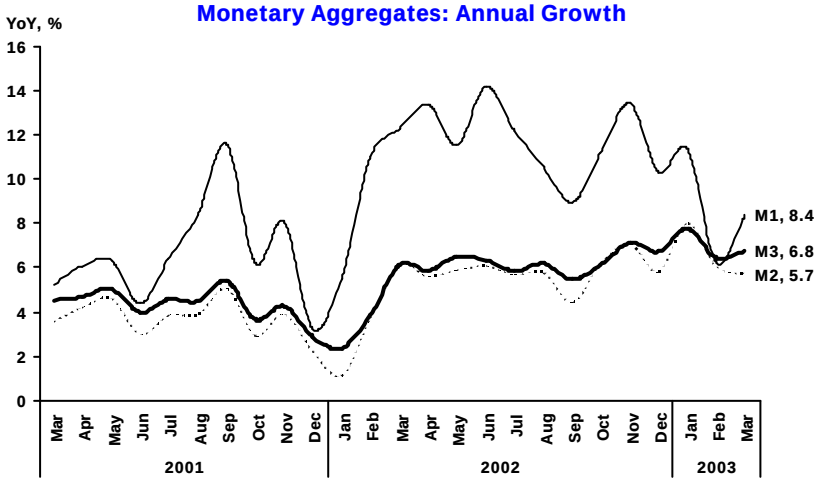
Producer prices, as measured by the Producer Price Index (PPI), increased by 13.1% in February (January: 12.9%), reflecting mainly higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, however, the adjusted PPI declined by 0.5%.



Producer prices continued to increase

Monetary aggregates continued to expand

On an annual basis, all three monetary aggregates, M1, M2 and M3, continued to expand by 8.4%, 5.7% and 6.8% respectively at end-March (6.2%, 6% and 6.4% respectively at end-February). During the month, the expansion in broad money, M3 (+RM2.8 billion) emanated largely from higher financing activity reflecting higher holdings of private debt securities (PDS) by the banking system (+RM3.3 billion). The withdrawal of deposits by a non-financial institution from BNM and lower provisions for loan losses were also expansionary on the system. The continued strong growth in M1 reflected the strong underlying demand for transaction balances.



On an annual basis, all monetary aggregates continued to expand ...

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Jan	Feb	Mar	Jan - Mar
M3	7.8	2.1	2.8	12.7
Net claims on Government	5.4	-0.9	0.3	4.7
Claims on private sector	4.2	1.3	1.7 [1/]	7.1
Net external operations [2/]	-0.4	0.3	-2.1	-2.1
Other influences	-1.3	1.4	2.9	3.0

1/ Including loan write-offs, claims on private sector would be higher by RM3.5 billion

2/ Pre-revaluation

... due mainly to higher bank financing activity

Banking system deposits were higher in March

Total **deposits** mobilised by the banking system increased further by RM4.2 billion or 0.8% in March. The increase reflected the higher deposits of individuals and business enterprises as well as higher interplacements of funds among the financial institutions. On an annual basis, total deposits mobilised by the banking system rose by 6% as at end-March.

Monthly Change in Deposits **(RM million)**

	2003		
	Jan.	**Feb.**	**Mar.**
Holder			
Federal Government	122	-457	325
State Governments	290	187	-52
Statutory Authorities[1/]	697	-1,145	214
Financial Institutions	-789	-1,249	2,444
Business Enterprises	414	3,880	783
Individuals	2,436	4,080	535
Total	**3,169**	**5,296**	**4,249**

[1/] Include local Governments.

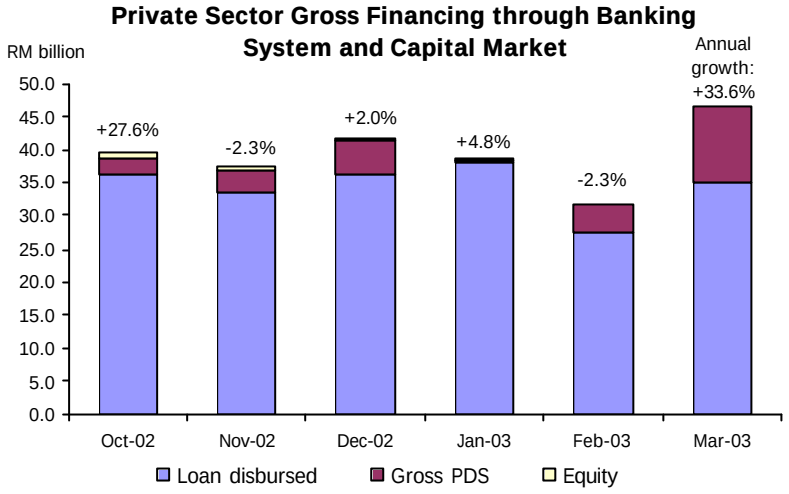
Higher deposits continued to be placed by business enterprises and individuals...

Monthly Change in Deposits **(RM million)**

	2003		
	Jan.	**Feb.**	**Mar.**
Type			
Fixed deposits	3,331	2,469	4,168
NIDs	468	-563	2,004
Demand deposits	340	-517	-596
Savings deposits	603	464	-801
Repos	-1,217	3,083	-242
FX deposits	9	131	-396
SPI deposits	-154	-192	208
Others	-209	421	-96
Total	**3,169**	**5,296**	**4,249**

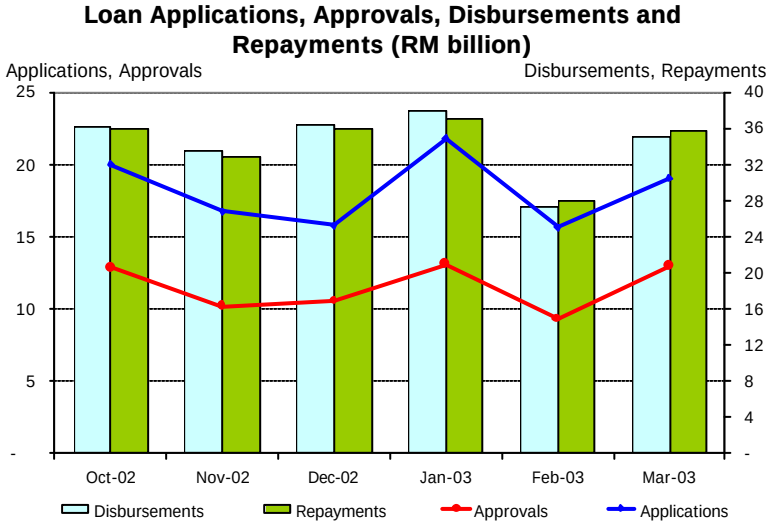
.... mainly in fixed deposits and NIDs

Financing of the private sector increased



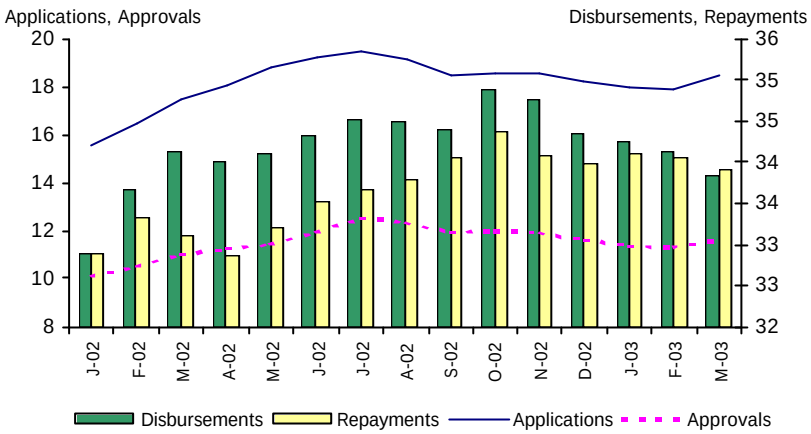
Gross financing expanded significantly

Gross financing to the private sector by the banking institutions and through funds raised from the capital market increased significantly in March, amounting to RM46.7 billion (RM31.7 billion in February). Lending activity by the banking system increased further in March, with loan applications, approvals and disbursements rising by 22.1%, 39.1%, and 27.8% respectively. Based on the deseasonalised series, the underlying demand for funds was sustained for loan applications and approvals, the two leading indicators of lending activity. During the month, higher loans were disbursed to the manufacturing sector (an increase of 19.8% compared with February); wholesale and retail sale (+11.5%); as well as financial and business services (+75.1%). Disbursements to individuals, which accounted for 26% of total loans disbursed, were mainly for the purchase of residential property (7.6% of total disbursement) and passenger cars (6.1%).



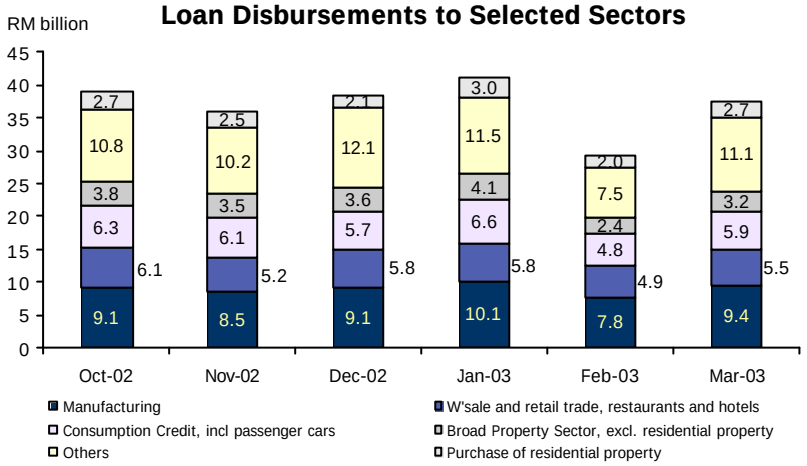
Loan applications, approvals and disbursements improved in March

Deseasonalised Loan Indicators (RM billion)



Based on the deseasonalised series, demand for loans was sustained

Loan Disbursements to Selected Sectors



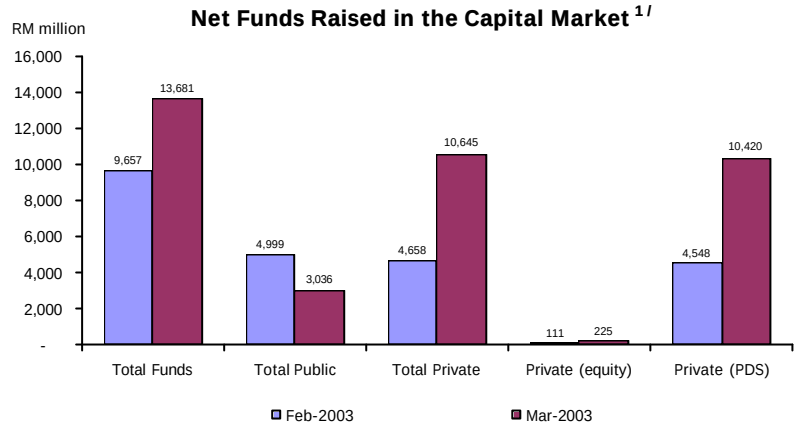
The bulk of the disbursements continued to be channelled to businesses

Outstanding loans for the purchase of residential property and passenger cars increased during the month, rising by RM1.2 billion and RM0.4 billion respectively. Total outstanding loans, however, declined reflecting higher repayments as well as loans written off and conversions. On an annual basis, outstanding loans expanded further by 3.2% at end-March (3.9% at end-February). Including loan written-off and conversions, outstanding loans growth at 3.2%.

Net funds raised in the capital market were higher

Net funds raised in the capital market were higher in March (RM13.7 billion; RM9.7 billion in February), mainly attributed to higher issuance of private debt securities (PDS). A large portion of the PDS issued during the month (66.6% of the gross PDS issued) was by a major corporation for its corporate debt restructuring purpose. Funds raised through the equity market remained low amidst weak market sentiment. In the public sector, a total of RM13.3 billion was raised through the issuance of Malaysian Government Securities, Government Investment

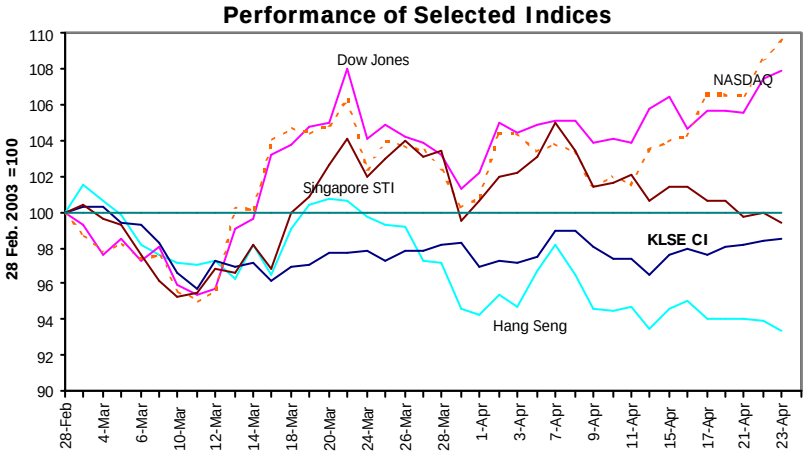
Issues and Khazanah bonds. After adjusting for redemptions, however, the net public sector funds raised amounted to RM3 billion.



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

Higher net funds raised in the capital market

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) trended lower in March. In the period of 1-19 March, KLSE CI declined by 3.3%, affected by uncertainties surrounding the tension in the Middle East. Subsequently, market performance improved following expectations that the Iraq war would be swiftly concluded. For the month as a whole, the KLSE CI closed at 635.72 points on 31 March, a decline of 1.7% since end-February. Market capitalisation stood at RM477.39 billion, a decline of 1.7% since end-February. The daily average turnover was slightly higher at 163.2 million units, which reflected mainly higher trading activities between 20-31 March.

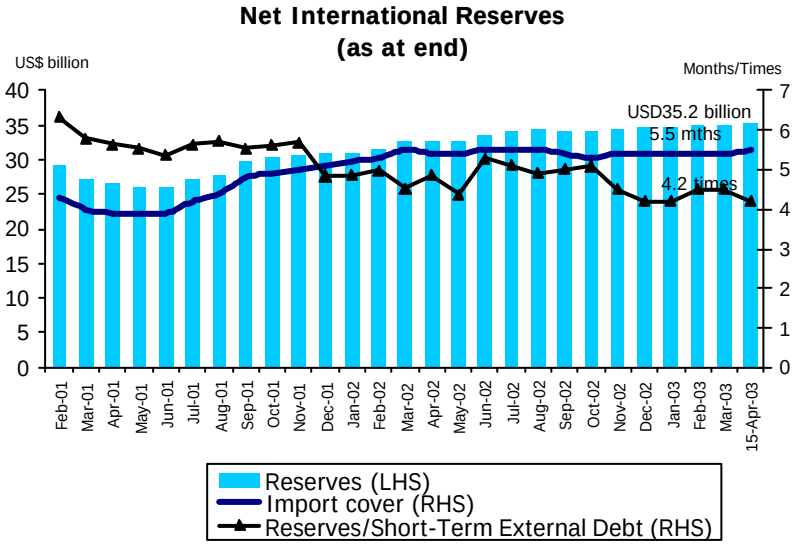


KLSE CI remained low in April

In the first three weeks of April, trading in the KLSE remained subdued as sentiment was affected by the uncertainties in the post Iraq war period and the outbreak of the Severe Acute Respiratory Syndrome (SARS). With selected index-linked stocks in the tourism and services industries being affected, the KLSE CI closed at 635.61 points as at 23 April, a decline of 1% since end-March. The daily average turnover was slightly lower at 155.75 million units with market capitalisation of RM477.64 billion (-0.3% since end-March).

International reserves

The net international reserves of Bank Negara Malaysia increased to RM132.6 billion or US$34.9 billion as at 31 March 2003, after taking into account the quarterly adjustment of the unrealised foreign exchange revaluation gain amounting to US$211 million during the first quarter. The larger repatriation of export earnings and continued inflows from investment income and foreign direct investment in March were offset by higher payments for imports of goods and services, portfolio outflows and repayment of external debt. Sustained repatriation of export earnings and investment income supported a further increase in the international reserves during the first half of April. Reserves increased by RM1 billion or US$0.3 billion to RM133.6 billion or US$35.2 billion as at 15 April 2003. Outflows during the period reflect largely payments for imports of goods and services, and some portfolio outflows and external loan repayment. The reserves position is adequate to finance 5.5 months of retained imports and is 4.2 times the short-term external debt.



Net international reserves continued its rising trend

Banking system sustained its strength

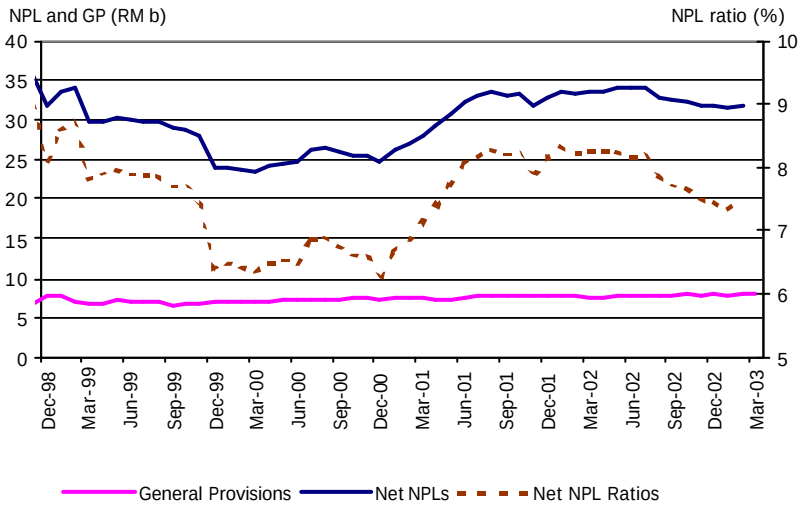
The capital strength of the Malaysian banking system was sustained at a high level at end-March 2003. The risk weighted capital ratio (RWCR) was marginally higher at 13.1%. The expansion in risk weighted assets was mitigated by a higher increase in capital base following the inclusion of audited profits by a number of banking institutions. Net non-performing loans (6-month classification) declined by RM1.7 billion to RM30 billion or 7% of net total loans at end-March 2003. The decline was primarily due to conversion of loans of a large borrower under the CDRC-led restructuring exercise and loan write-offs.

Banking System Health Indicators*

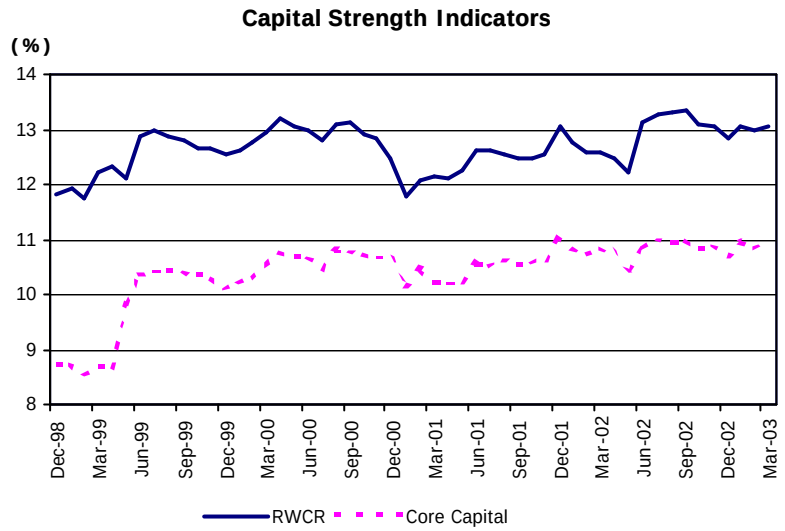
	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Jan.	Feb.	Mar.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	10.7	10.9	10.9	10.9
RWCR	11.8	12.5	12.5	13.0	12.8	13.0	13.0	13.1
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.3	7.4	7.0
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	31,359	31,721	30,037
GP/Net total loans (6-month, %)	2	1.9	1.9	1.9	1.8	1.8	1.8	1.8

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

Banking System: Net NPLs and General Provisions



..Net NPLs ratio improved to 7.0%



....Capital position remained strong with RWCR and core capital ratio at 13.1% and 10.9% respectively

Bank Negara Malaysia
28 April 2003

Key Monetary and Banking Statistics

	February 2003		March 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	43.4	4.3	43.1	5.4
M1	89.3	6.2	88.4	8.4
M2	390.4	6.0	390.7	5.7
M3	511.1	6.4	513.9	6.8
Banking System				
Total deposits	513.0	5.5	517.2	6.0
Total loans (including loans sold to Cagamas and Danaharta)	492.3	3.9	491.4	3.2
Total loans (excluding loans sold to Cagamas and Danaharta)	429.7	3.8	429.1	3.2
Loan-deposit ratio (%)	83.8		83.0	
Loans approved during the month	9.3	-3.1	12.9	20.8
Loans disbursed during the month	27.4	-10.5	35.0	2.5
Loans repaid during the month	28.0	-2.5	35.7	10.7
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.0		13.1	
Net NPLs: 6-month classification (%)	7.4		7.0	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	132.2		132.6	
Reserves in USD (billion)	34.8		34.9	
Months of retained imports	5.4		5.4	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.87[2.98]		2.99[2.99]	
3-month	2.86[2.89]		2.90[2.86]	
Fixed deposits of commercial banks: 1-month	3.20[3.20]		3.20[3.20]	
3-month	3.20[3.20]		3.20[3.20]	
BLR of commercial banks	6.39[6.39]		6.39[6.39]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.2	1.6	104.0	0.7
Producer Price Index (PPI) (1989=100)	140.6	13.1	n.a	n.a
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.0867		4.1145	
Pound Sterling	6.0021		5.9898	
Singapore dollar	2.1865		2.1523	
100 Japanese yen	3.2281		3.1774	
100 Thai Baht	8.9087		8.8588	
100 Philippine Peso	6.9744		7.0948	
100 Indonesian Rupiah	0.0427		0.0427	
100 Korean Won	0.3196		0.3019	
Capital Market				
Net funds raised by: public sector (RM billion)	5.0		3.036	
private sector (RM billion)	4.658		10.645	
Kuala Lumpur Composite Index (end-period)	646.80		635.72	
KLSE Market Capitalisation (RMb) (end-period)	485.76		478.30	