BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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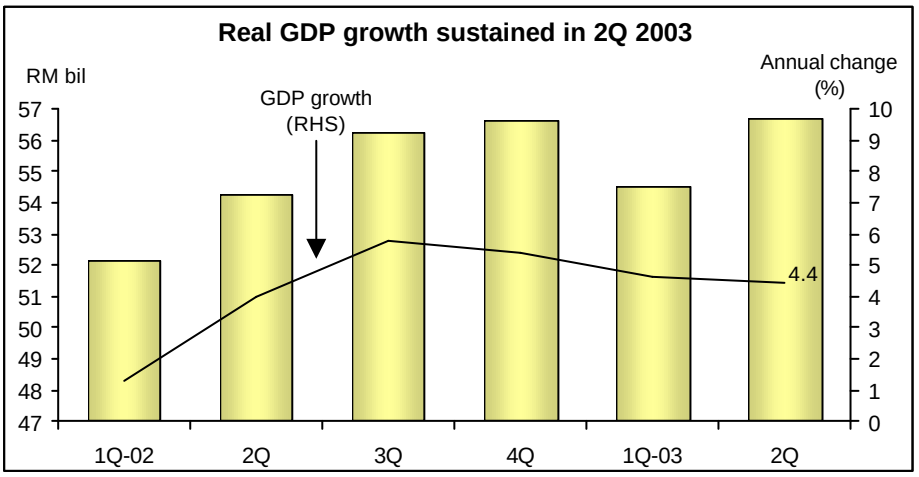
PRESS RELEASE ON SECOND QUARTER 2003 GDP FOR THE MALAYSIAN ECONOMY

Key Highlights of Economic and Financial Developments

Growth momentum was sustained in the second quarter

Real GDP in the Malaysian economy expanded by 4.4% in the second quarter of 2003 (1Q: 4.6%). Proactive policy measures with both fiscal and monetary expansion to stimulate domestic demand, and the diversified and resilient economic base allowed the growth momentum to be sustained despite the Severe Acute Respiratory Syndrome (SARS) outbreak and the uncertain external environment.



Growth was markedly stronger in all sectors except services. Higher growth in the manufacturing sector (6.5%) was driven by strong growth in resource-based industries. In the primary commodities sector, agriculture expanded by 10.4% and mining by 10.5%. Higher prices elicited improved yields which, together with capacity expansion, enabled output to increase in response to export demand. The impact of SARS was seen in a more moderate growth in the services sector of 2.8% (4.5% in the 1Q).

Quarterly GDP by Kind of Economic Activity (at 1987 Prices)

	2002		2003		
	2Q	1H	1Q	2Q	1H
	Annual change in %				
Agriculture	1.4	-1.1	3.4	10.4	7.0
Mining	-1.6	0.0	4.5	10.5	7.4
Manufacturing	5.5	1.6	5.9	6.5	6.2
Construction	3.4	3.1	1.2	1.4	1.3
Services	4.0	4.3	4.5	2.8	3.6
Real GDP (Ann. chg)	**4.0**	**2.6**	**4.6**	**4.4**	**4.5**
Real GDP (Preceding chg.)	**4.1**	**-0.5**	**-3.8**	**4.0**	**-1.5**

Source: Department of Statistics, Malaysia

Growth continued to be driven by aggregate domestic demand, which expanded by 3%. This was reinforced by gross exports of goods, which expanded at a favourable pace of 5.8%. Public sector consumption remained strong, growing by 7.2%, supported

GDP by Expenditure Components (at 1987 prices)

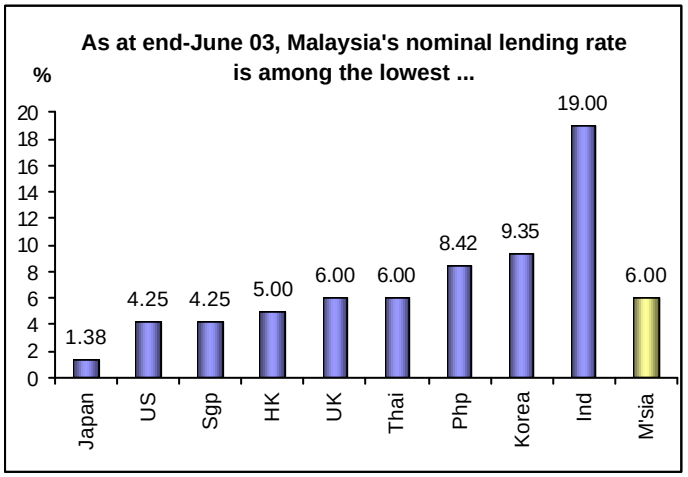
	2002		2003		
	2Q	1H	1Q	2Q	1H
	Annual change in %				
Aggregate Domestic Demand (excluding stocks)	3.9	2.0	5.9	3.0	4.4
Consumption	7.2	5.9	6.9	4.3	5.6
Private sector	*5.6*	*4.4*	*4.3*	*3.4*	*3.9*
Public sector	*12.8*	*12.2*	*18.9*	*7.2*	*12.2*
Gross Fixed Capital Formation	-2.0	-5.1	3.8	0.4	2.0
Exports of Goods and Services	3.1	-1.8	1.9	0.2	1.0
Imports of Goods and Services	6.6	0.8	1.7	-2.9	-0.7
Real GDP	**4.0**	**2.6**	**4.6**	**4.4**	**4.5**

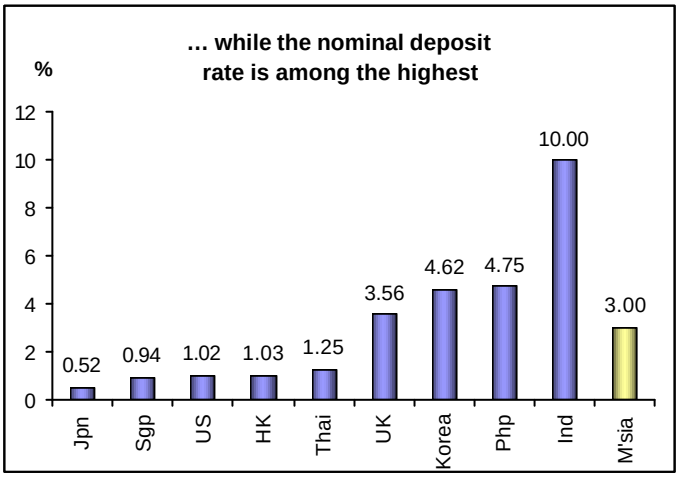
Source: Department of Statistics, Malaysia

by higher expenditure on salaries, defence and supplies. The transitory dampening impact of SARS on private sector demand was reversed following the announcement of the economic package on 21 May. Consumer confidence was restored, resulting in a significant increase in private sector demand in June. Private consumption expenditure expanded by 3.4% during the quarter. Lower interest rates and strong commodity prices amidst stable labour market conditions supported consumer confidence towards the latter part of the quarter.

Stimulative monetary policy to support aggregate demand

Monetary policy, which has been on an expansionary mode since 1998, was eased further during the quarter. The BNM Intervention Rate was reduced by 50 basis points in May. The reduction was a pre-emptive measure to support growth in an environment of a less favourable outlook for the global economy. During the quarter, a Special Relief Guarantee Facility (SRGF) of RM1 billion was also established to alleviate the cash flow problems faced by businesses affected by SARS. The easing of monetary policy resulted in a decline in lending rates of 30-55 basis points. The adjustment in deposit rates was smaller, by 20 - 30 basis points.

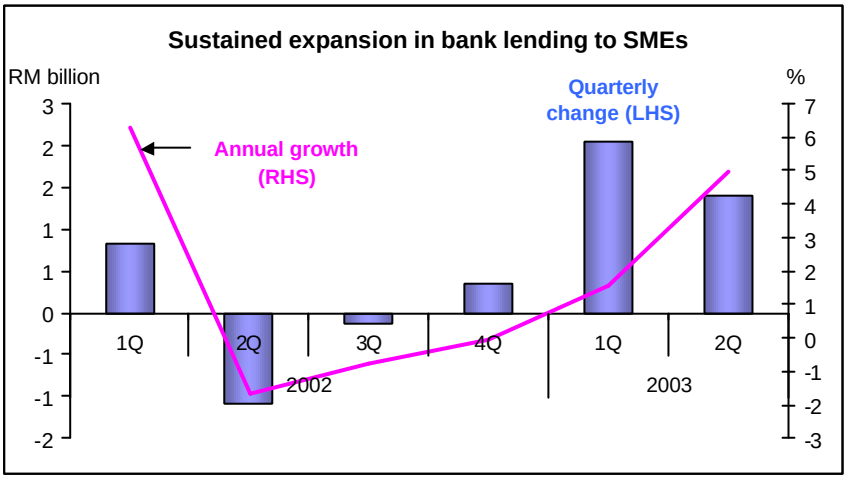




While the stimulus arising from the reduction in interest rates and economic package announced in May was expected to generate long lasting self-reinforcing expansionary forces on the economy, the immediate positive development has been

the stronger demand for liquidity. Growth in all three monetary aggregates, M1, M2 and M3, strengthened to 10%, 8.6% and 8.2% respectively at the end of June.

All loan indicators also increased significantly in June, following the moderation in May. In particular, total loan disbursements expanded by 18.3% in June compared with level in May. The bulk of the loans were extended to small borrowers, consumers and SMEs. Outstanding loans to consumers rose at an annual rate of 12.7% as at end-June. For the quarter as a whole, loan disbursements to the household sector rose at an annual rate of 6.2%. Outstanding loans extended to the SMEs grew at an annual rate of 4.9% to account for 31% of total business loans at end-June. Disbursements to SMEs during the quarter averaged at RM6.4 billion per month compared with RM4.1 billion per month in 2002.



Amidst a low interest rate environment, large corporations raised longer-term funds in the PDS market at lower cost, while relying on the banking system for short-term working capital requirements. After taking into account redemptions, total financing raised by the private sector through the banking system and the bond market grew by 7.8% at end-June 2003. For the banking system, financing extended directly through loans and indirectly through holdings of private debt securities (PDS) expanded by 5.2% as at end-June. Consequently, including the banking institutions' holdings of private debt securities, the loan to deposit ratio remained high at 93.8% as at end-June

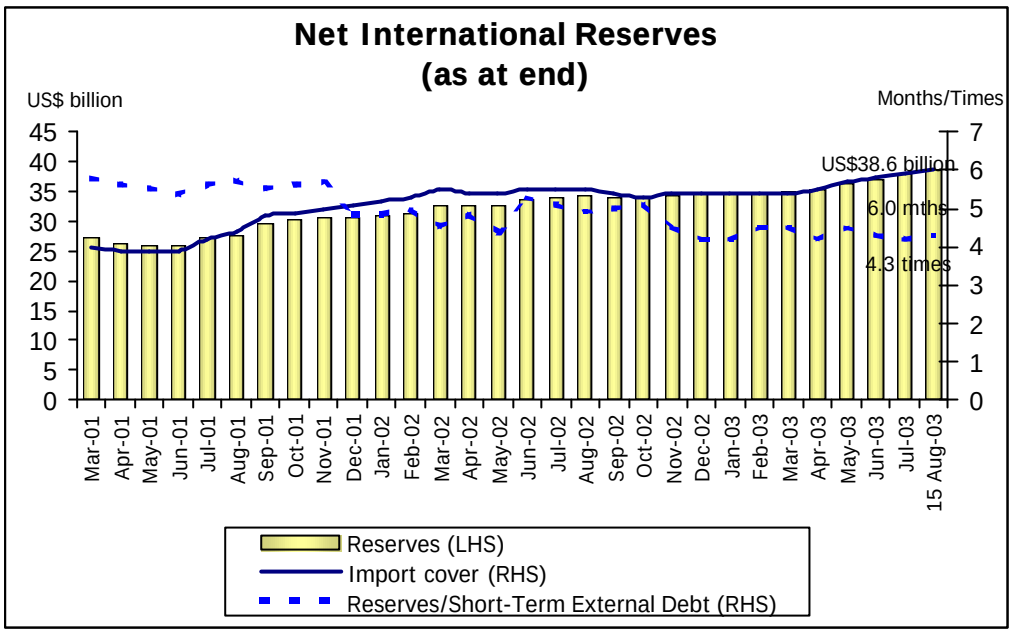
(93.7% at end-March). Total financing extended by the banking system was more than ample to fund real economic activities

More robust growth in the second half of 2003

Going forward, more recent developments point towards stronger growth in the second half year. On the external front, indicators are turning more optimistic for improved growth performance in the United States and Japan. In particular, fixed investment spending in the United States has turned positive, reflecting improved business confidence following reduction in uncertainties. Expansionary monetary policies in the G3 countries and in Asia would also support growth in the second half-year. In regional economies, the recovery in the travel and retail sectors, the continued underlying strength of consumption as well as the improved prospects of the electronics cycle, lend support to higher export demand. Stronger fundamentals also provide regional economies with both monetary and fiscal policy flexibility to address potential shocks.

On the domestic front, conditions favour further increases in aggregate domestic demand. Lending rates, especially for new loans, continue to trend downwards. Fiscal expenditure in education, health and infrastructure will continue to support growth. Stronger corporate balance sheets with improved cash flows amidst rising capacity utilisation augur well for higher investments. Positive sentiment has emerged in the KLSE with seven IPOs attracting oversubscriptions. Other factors include lower energy prices and recovery in household and business confidence.

The underlying fundamentals of the Malaysian economy continue to remain strong with low inflation and stable labour market conditions. The external position remains robust with international reserves increasing to US$38.6 billion as at mid-August 2003, which is adequate to finance 6 months of retained imports and is 4.3 times the short-term external debt.



The banking sector continued to record lower NPLs amidst higher capitalisation with RWCR of 13.1% at end-June 2003. Given the resilience of the economy, the expected improvement in the external environment and the positive effects of the Government's economic package, growth is expected to strengthen in the second half of the year.

	2002			2003	
	Jun.	Sep.	Dec.	Mar.	Jun.
Core-capital ratio (%)	10.9	11.0	11.1	11.0	10.6
RWCR (%)	13.2	13.3	13.2	13.2	13.1
Net NPL ratio					
- 6 months	8.2	7.7	7.5	7.0	6.8
- 3 months	11.0	10.5	10.2	9.9	9.5

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