BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 06/03/40 (BN)

EMBARGO: Not for publication or broadcast before 1900 hours on Friday, 27 June 2003

Highlights of the May 2003 Press Release

Lower lending rates to support economic activity

Bank Negara Malaysia reduced the 3-month Intervention Rate by 50 basis points to 4.5% on 21 May 2003, aimed at reinforcing the economic measures introduced by the Government to support the overall growth in the economy. Following the reduction, lending rates of commercial banks and finance companies declined across the board. The adjustment in the deposit rates, however, was less than the reduction in the lending rates.

While the stimulus arising from the impact of measures will generate longer lasting self-reinforcing expansionary forces on the economy, the immediate positive developments have been the stronger demand for liquidity and the strengthened performance of the Kuala Lumpur Stock Exchange. Growth in all three monetary aggregates, M1, M2 and M3 strengthened to 9.3%, 8% and 7.8% respectively at the end of May (6.4%, 6% and 6.7% respectively at the end of April). Expansion in monetary aggregates was due to higher bank lending activity as well as expansionary Government and external operations.

In May, total loans outstanding increased further on account of higher loans for both the household and business sectors. Disbursements and repayments of loans were however lower during the month as the demand for new funds were temporarily affected by the impact of SARS on domestic economic activities. Nevertheless, loans extended to the small and medium-scale enterprises (SMEs) continued to expand.

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
MAY 2003

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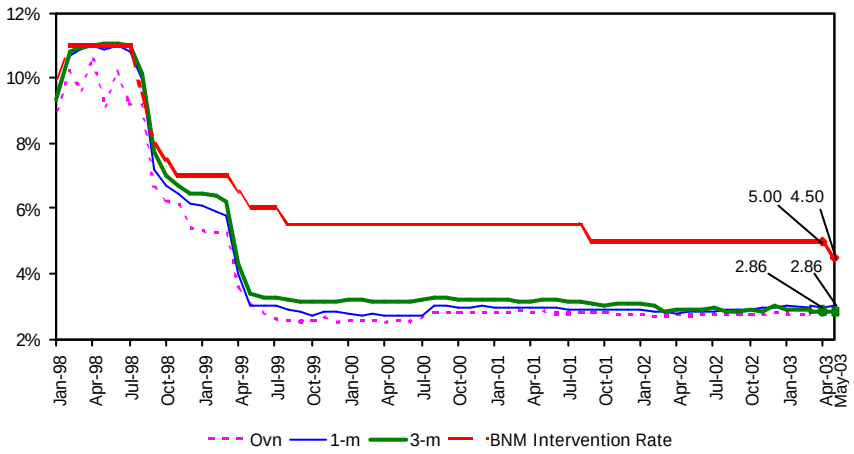
Nevertheless, loans extended to the small and medium-scale enterprises (SMEs) continued to expand.

Lending rates declined

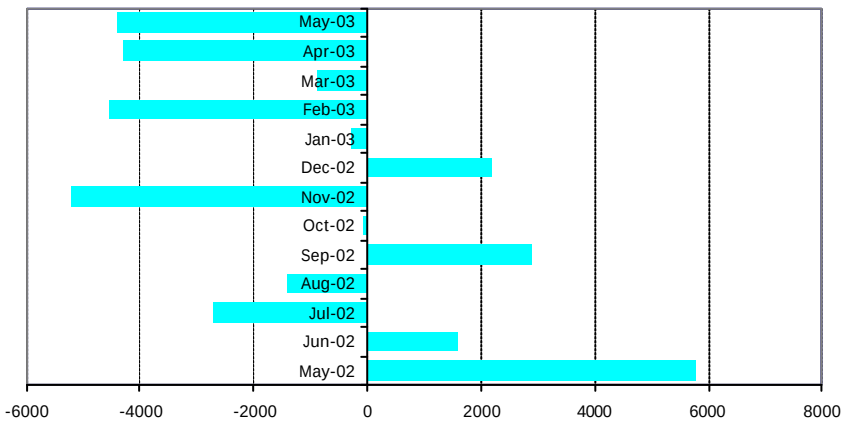
In the interbank money market, BNM money market operations were aimed at stabilising market conditions and balancing the expansionary impact of the Government and external operations on liquidity. Interbank money market rates therefore remained relatively stable.

Interbank Rates
(average for the month)

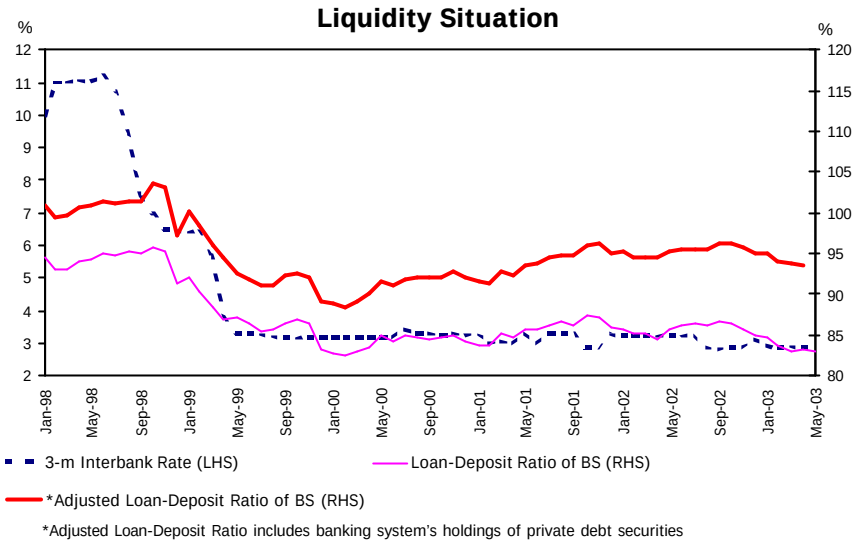


On 21 May, BNM reduced the 3-month Intervention Rate by 50 basis points to 4.5%

BNM Liquidity Operations
Contractionary (During the month, RM m) Expansionary



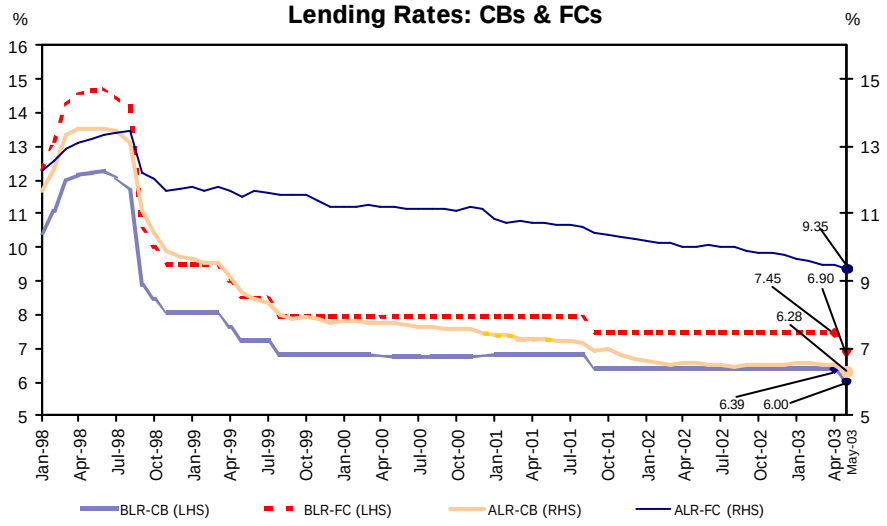
BNM absorbed excess liquidity to stabilise money market conditions



Liquidity in the banking system stabilised. The loan-deposit ratio including private debt securities held by the banking system remained high at 93.2%

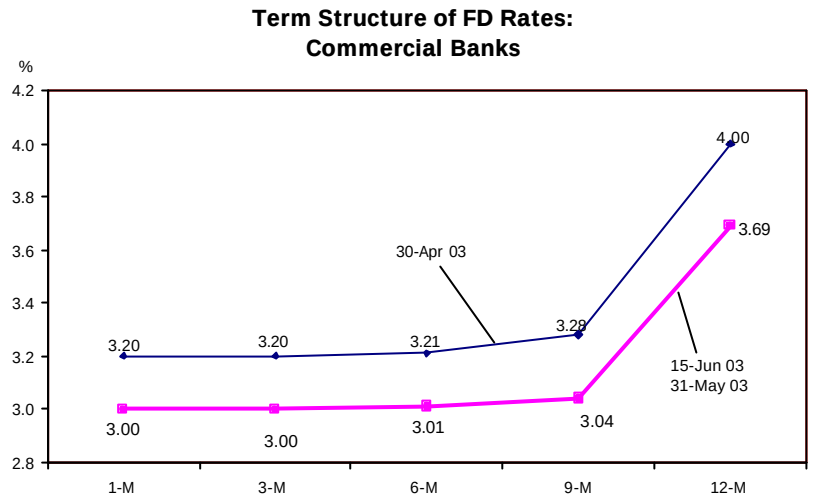
Following the reduction in the 3-month Intervention Rate, the average base lending rate (BLR) of the commercial banks declined by 39 basis points to 6% and finance companies declined by 55 basis points to 6.9%. This resulted in the downward adjustment of the **average lending rate (ALR)** of the commercial banks by 23 basis points, while the ALR of finance companies was lower by 12 basis points. Full adjustments could not take place immediately due to the existence of fixed-rate loans in the system. The smaller decline in the ALR for FCs was due to the higher share of fixed-rate loans in their loan portfolio.

	End-April (%)	End-May (%)
Average Base Lending Rate		
Commercial banks	6.39	6.00
Finance companies	7.45	6.90
Average Lending Rates (ALR)		
Commercial banks	6.51	6.28
Finance companies	9.47	9.35

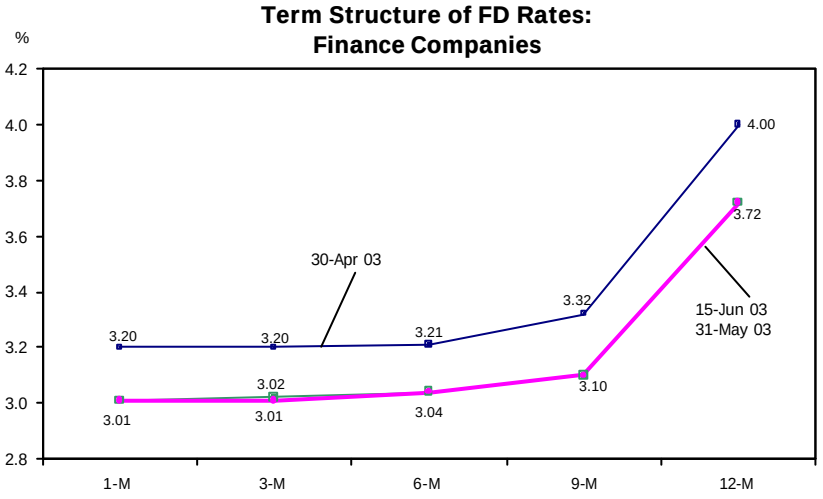


BLR and ALR for CBs and FCs declined

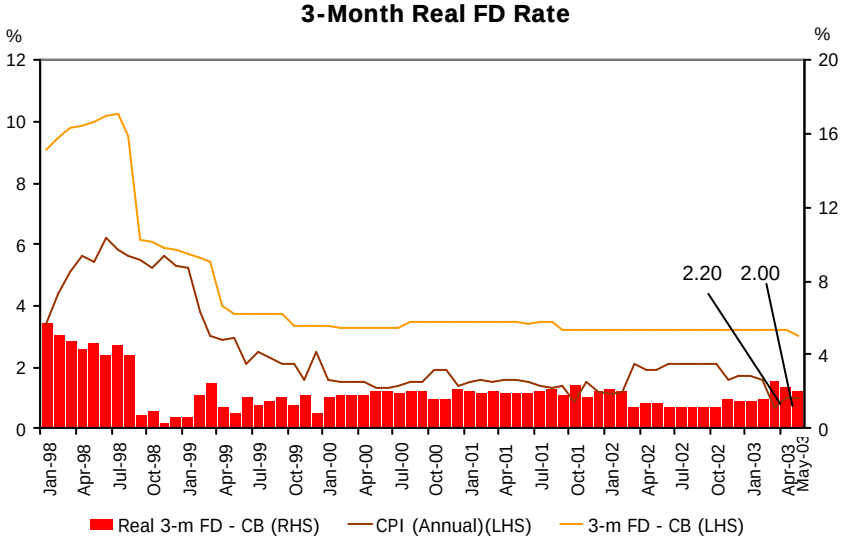
As at 15 June 2003, the fixed deposit rates for 1-12 month maturity for CBs and FCs were marginally lower at 3-3.69% and 3.01-3.72% respectively. The adjustments in the fixed deposits rates of the CBs were small, by 20-31 basis points and FCs by 17-19 basis points, and were less than the adjustment in the 3-month Intervention Rate.



The adjustment in the FD rates of CBs was less than the adjustment in the 3-month Intervention Rate



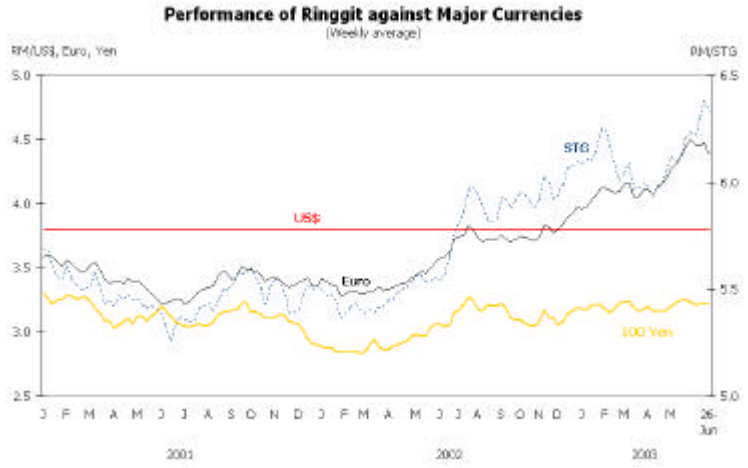
Similarly for FCs



As inflation remained stable, the 3-month real FD rate declined by 20 basis points in May

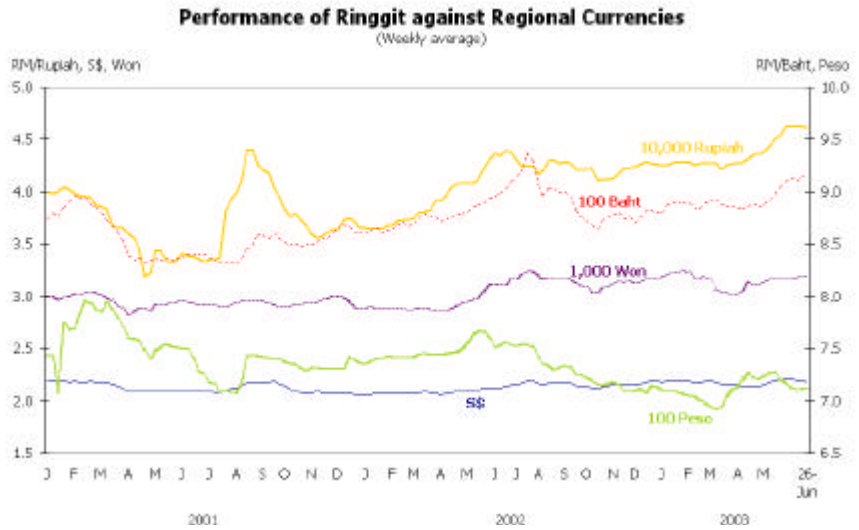
Performance of ringgit

In May, the ringgit depreciated against the major currencies. In tandem with the movement of the weaker US dollar in the international foreign exchange markets, the ringgit depreciated against the euro by 6.4%, the pound sterling by 3.4% and the Japanese yen by 1%. Concerns over the weakness of the US economy resulted in market expectations of a possible lowering of US interest rates and asset reallocation into higher yielding currencies. The US dollar was also adversely affected by market 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 global realignment of currency portfolios.



The ringgit depreciated against major currencies in May.

The ringgit depreciated against most regional currencies in the range of 0.7% - 4.2%. It appreciated against the Philippine peso by 1.2%. In addition to the weak US dollar, regional currencies were also influenced by country-specific factors. The Singapore dollar strengthened following easing concerns over the SARs outbreak. The Indonesian rupiah benefited from improving economic fundamentals, a credit rating upgrade and the strong demand for the currency from exporters. The Philippine peso weakened due to the moderation of remittances from overseas workers and the release of unfavourable economic data.



The ringgit depreciated against most regional currencies.

In the period **1 –26 June 2003**, the ringgit recorded mixed performances against the major currencies. The ringgit reversed to appreciate against the euro by 2.9% while continuing to depreciate against the Japanese yen by 0.2% and pound sterling by 1.1%. The US dollar had strengthened against the euro following the release of more favourable economic data, including indications of better-than-expected US services sector performance. The favourable inflation data for May also eased downward pressure on the US dollar by allaying market expectations of an interest rate cut by the US Federal Reserve Bank. The pound sterling continued to benefit from inflows into high-yielding sterling assets. Against these developments among the major currencies, the ringgit depreciated against most regional currencies in the range of 0.6% - 1.6%. It reversed to appreciate against the Singapore dollar by 0.7% and continued to appreciate against the Philippine peso by another 0.3%.

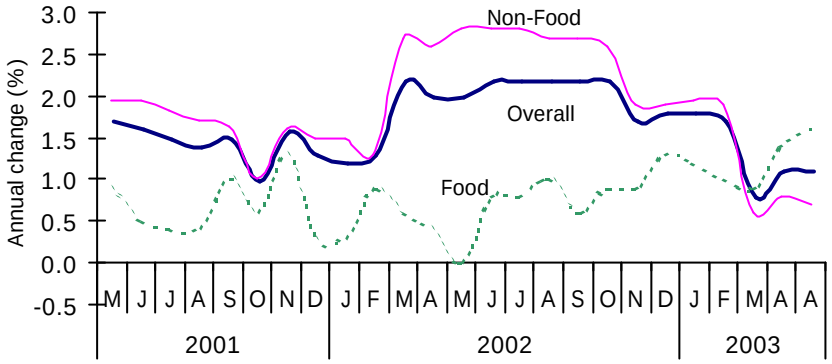
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-May 2003	26 June 2003	% Change			
				May 2003	End-May - 26 June 2003	End-2002 - 26 June 2003	2 Sep. 1998 - 26 June 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5117	4.3846	-6.4	2.9	-9.2	-
Pound Sterling	6.3708	6.2761	6.3490	-3.4	-1.1	-4.0	0.3
100 Japanese yen	2.7742	3.2115	3.2177	-1.0	-0.2	-0.5	-13.8
Singapore dollar	2.1998	2.1956	2.1805	-2.4	0.7	0.4	0.9
100 Thai baht	9.3713	9.0996	9.1555	-2.5	-0.6	-3.8	2.4
100 Philippine peso	8.8302	7.1382	7.1188	1.2	0.3	0.4	24.0
100 Indonesian Rupiah	0.0354	0.0457	0.0462	-4.2	-1.1	-8.0	-23.4
100 Korean won	0.2827	0.3153	0.3204	-0.7	-1.6	-0.2	-11.8

Inflation stabilised in May

The annual rate of **inflation,** Consumer Price Index (CPI, 2000=100), **stabilised at 1%** in May (April: 1%). Prices for food were higher during the month due to higher prices for food taken at home. Prices for transport and communication registered a slower increase with the elapse of the effect of 2 sen increase in retail petrol price, which was implemented on 1 May 2002.

Consumer Price Index

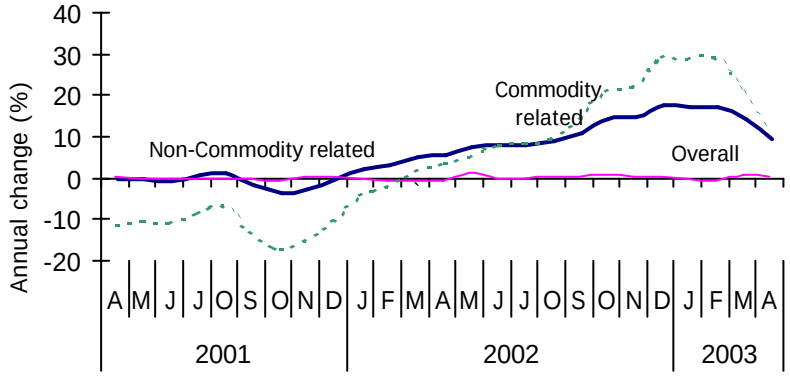


Inflation stabilised in May

Producer prices continued to increase

The **Producer Price Index** (PPI), increased by 5.4% in April (March: 9.8%), reflecting mainly higher prices of crude palm oil and rubber. Excluding commodity-related products, however, the adjusted PPI increased by only 0.3%.

Producer Price Index

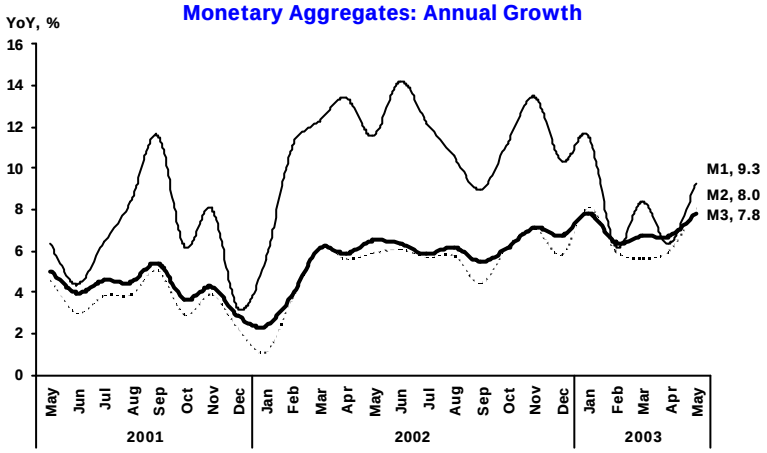


Producer prices continued to increase

Growth in money supply strengthened

Growth in all three monetary aggregates, M1, M2 and M3 strengthened to 9.3%, 8% and 7.8% respectively at the end of May (6.4%, 6% and 6.7% respectively at the end of April). The significant increase in M1 was due to the strong demand for currency, particularly in the last week of May. This higher demand for liquidity followed the announcement of the bonus payments by the Government and other measures in the economic package to stimulate consumption. Broad money M3 also expanded further by RM6.1 billion, arising from higher bank lending activity, higher Government expenditures as well as continued increase in international reserves.

Monetary Aggregates: Annual Growth



Strong transaction demand and bank lending resulted in the expansion of monetary aggregates

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Mar	Apr	May	Jan - May
M3	**2.8**	**2.4**	**6.1**	**21.1**
Net claims on Government	0.5	4.0	2.5	11.3
Claims on private sector	1.7	0.4	2.7	10.3
Net external operations [1]	-2.1	0.9	1.6	0.4
Other influences	2.6	-3.0	-0.7	-1.0

1/ pre-revaluation

Expansion of broad money was due to higher bank lending as well as expansionary Government and external operations

Banking system deposits were higher in May

Total **deposits** mobilised by the banking system continued to increase by RM5.4 billion or 1% in May. The increase continued to reflect the higher deposits of business enterprises and individuals, as well as financial institutions. On an annual basis, total deposits mobilised by the banking system rose by 7% as at end-May.

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

	2003		
	Mar.	**Apr.**	**May**
Holder			
Federal Government	335	-229	-691
State Governments	-52	132	295
Statutory Authorities[1/]	180	235	-307
Financial Institutions	2,659	-2,615	1,662
Business Enterprises	1,276	3,083	3,761
Individuals	-148	-35	653
Total	**4,249**	**572**	**5,372**

[1/] Include local Governments.

Higher deposits was placed by business enterprises...

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

	2003		
	Mar.	**Apr.**	**May**
Type			
Fixed deposits	4,168	960	747
NIDs	2,004	-2,177	-209
Demand deposits	-596	-687	557
Savings deposits	-801	146	-264
Repos	-242	926	3,179
FX deposits	-396	295	237
SPI deposits	208	1,041	1,055
Others	-96	69	70
Total	**4,249**	**572**	**5,372**

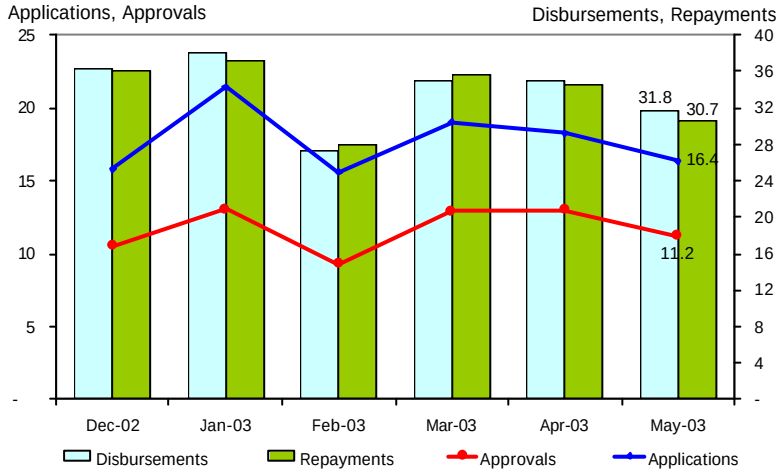
.... mainly in repos and SPI deposits

Financing of the private sector was higher in May

Total loans outstanding increased further in May by RM2.2 billion (+RM1.5 billion in April) on account of higher loans for both the household and business sector. On an annual basis, loans outstanding rose by 2.8% as at end-May (3.3% at end-April).

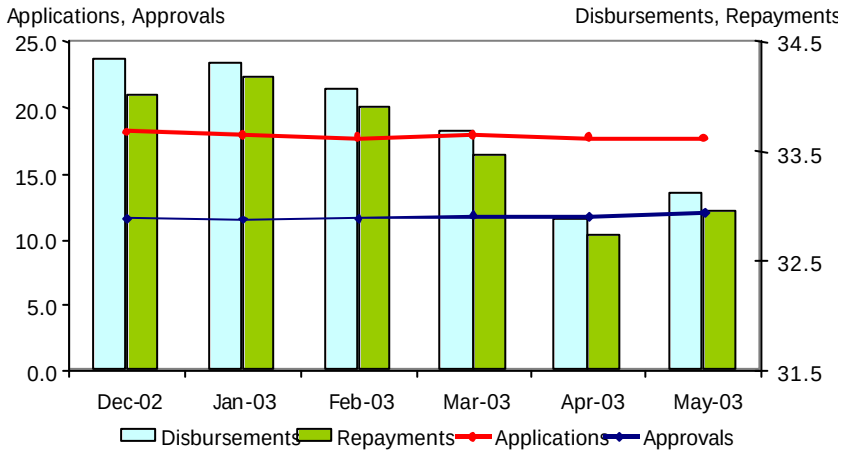
Demand for new funds was temporarily affected by the impact of SARS on business activities, reflected in the loan applications, approvals and disbursements which amounted to RM16.4 billion, RM11.2 billion and RM31.8 billion respectively (RM18.3 billion, RM13 billion and RM35 billion respectively in April).

Loan Applications, Approvals, Disbursements and Repayments (RM billion)

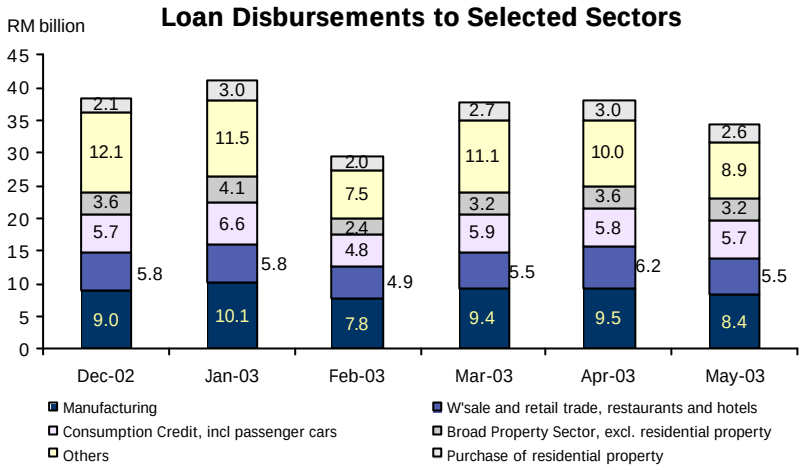


Demand for funds was temporarily affected by the impact of SARS on business activities

Deseasonalised Loan Applications, Approvals, Disbursements and Repayments (RM billion)

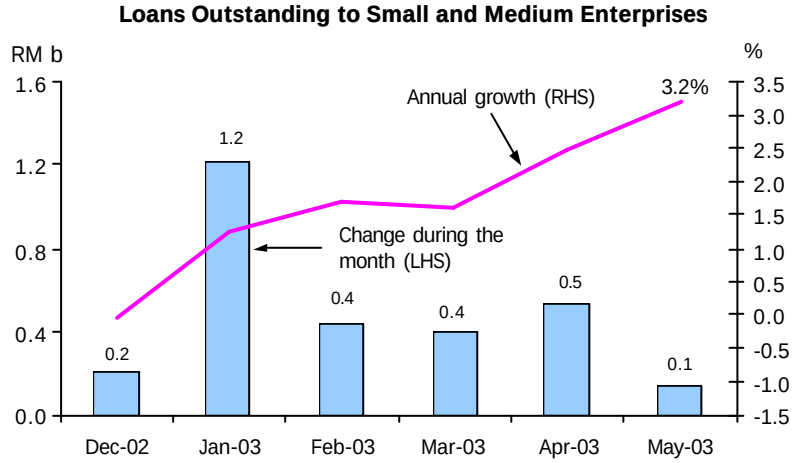


Deseasonalised data suggests that the underlying demand remained relatively stable



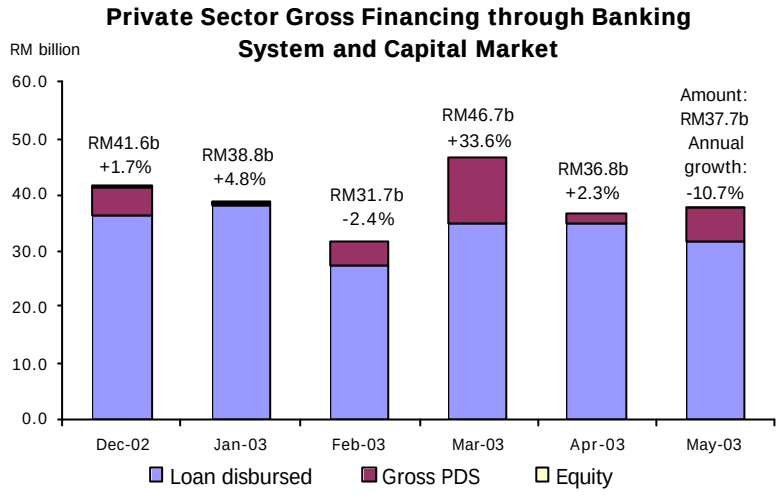
The bulk of the disbursements continued to be channelled to the business sector

Of significance, bank lending activity to the small and medium enterprises (SMEs) expanded further. In the first five months of 2003, a total of RM9.8 billion was approved to 31,787 SMEs, while RM33.3 billion was disbursed. The outstanding loans extended to the SMEs increased by RM140 million in May. In total, the cumulative increase in loans to this sector was substantial in the first five months of 2003, rising ten-folds to RM2.7 billion compared with only RM268 million in the corresponding period of 2002. On an annual basis, loans to SMEs rose at a higher annual rate of 3.2% as at end-May (2.5% at end-April) and accounted for 17.8% of total outstanding loans and 36.1% of total loans outstanding to business enterprises (17.4% and 34.1% respectively as at end-2002).



Loans to SMEs continued to increase

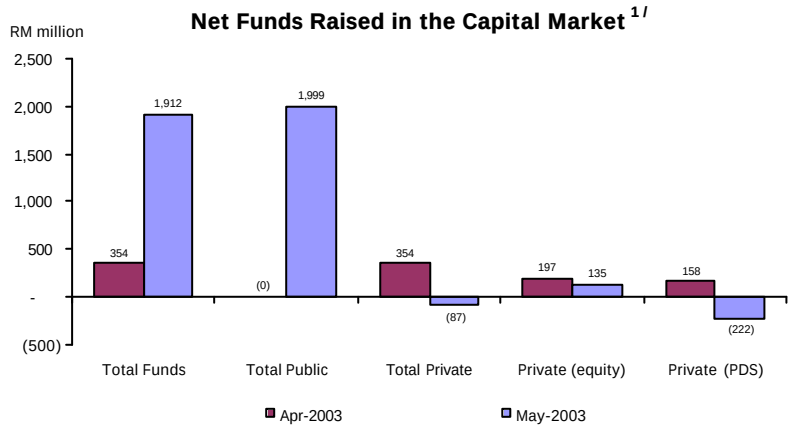
Gross financing of the private sector by the banking institutions as well as through funds raised from the capital market were higher in May at RM37.7 billion (RM36.8 billion in April), mainly on account of higher funds raised from the private bond market and sustained loan disbursements by the banking system.



Higher funds raised from the bond market

Higher net funds raised in the capital market

On a gross basis, the total funds raised by the private sector increased during the month. However, due to high redemption of PDS, the private sector recorded a net redemption position amounting to RM87 million. Consequently, the higher net funds raised in May of RM1.9 billion were due mainly to the issuance of Malaysian Government Securities.

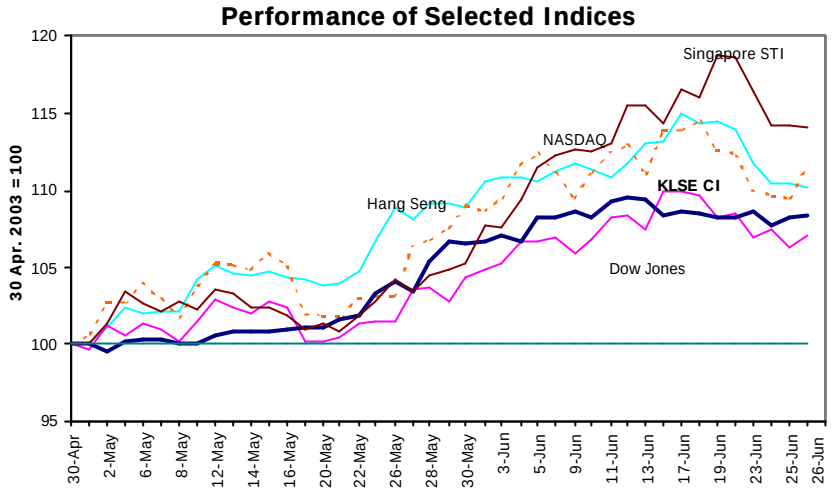


1/ Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

Higher funds raised in May due to the issuance of MGS.

In May, trading in the **Kuala Lumpur Stock Exchange** (KLSE) was higher following several favourable developments, including the positive announcements made by World Health Organisation on the containment of SARS and the release of the Government's pre-emptive pro-growth economic package. As at 30 May, the KLSE CI closed at 671.46 points (+6.5% since end-April) with higher market

capitalisation of RM509.08 billion (+6.9% since end-April). The daily average turnover also rose to 222.26 million (152.8 million units in April).

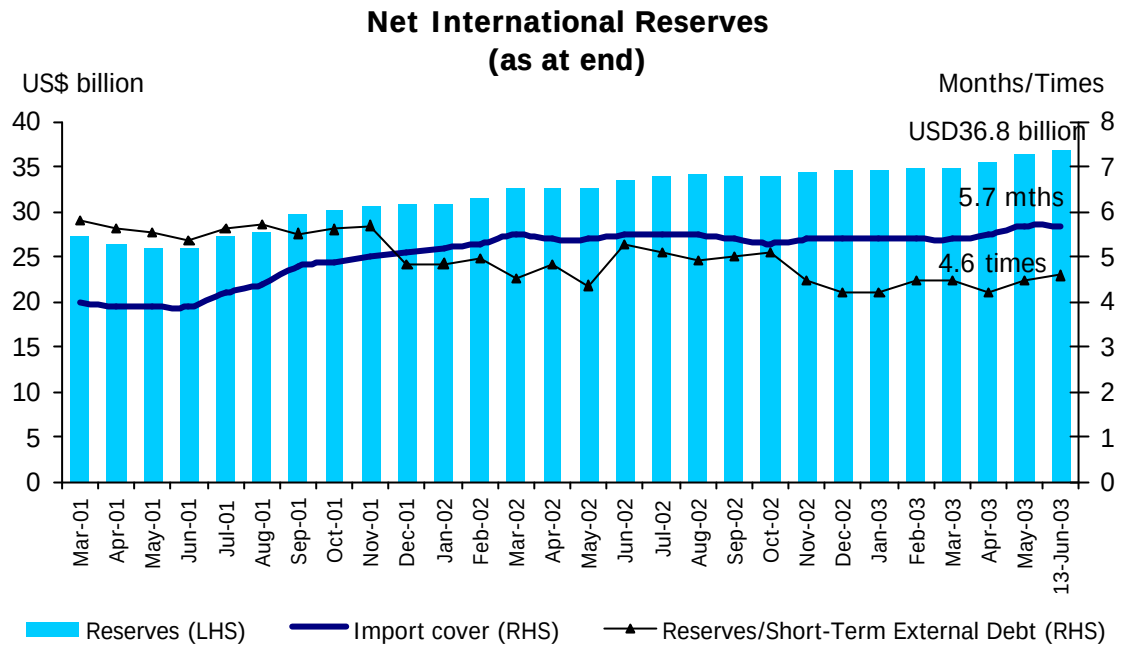


Favourable KLSE CI performance in May and June

The KLSE CI continued its rising trend during the first three weeks of June. Market sentiments improved markedly with favourable response to economic measures introduced by the Government and in line with improved performance in the global and regional markets. In addition, the introduction of standard 100-unit board lots has also increased interest in the KLSE. As at 26 June, the KLSE CI closed at 682.72 points (+1.7% since end-May) with market capitalisation at RM522.64 billion (+2.7% since end-May). The daily average turnover during the period was significantly higher at 471.03 million units.

International reserves

The net international reserves of Bank Negara Malaysia increased in May to RM138.5 billion or US$36.5 billion as at 31 May 2003, supported by the higher repatriation of export earnings. Reserves increased further to RM139.7 billion or US$36.8 billion as at 13 June 2003. The increase of RM1.2 billion or US$0.3 billion during the first half of June was largely due to the sustained inflows of export earnings, net inflow of foreign funds and foreign direct investment. Outflows reflected mainly the payments for imports of goods and services, dividend repatriation and some repayment of external loans. The reserves position is adequate to finance 5.7 months of retained imports and is 4.6 times the short-term external debt.



Banking system strength preserved

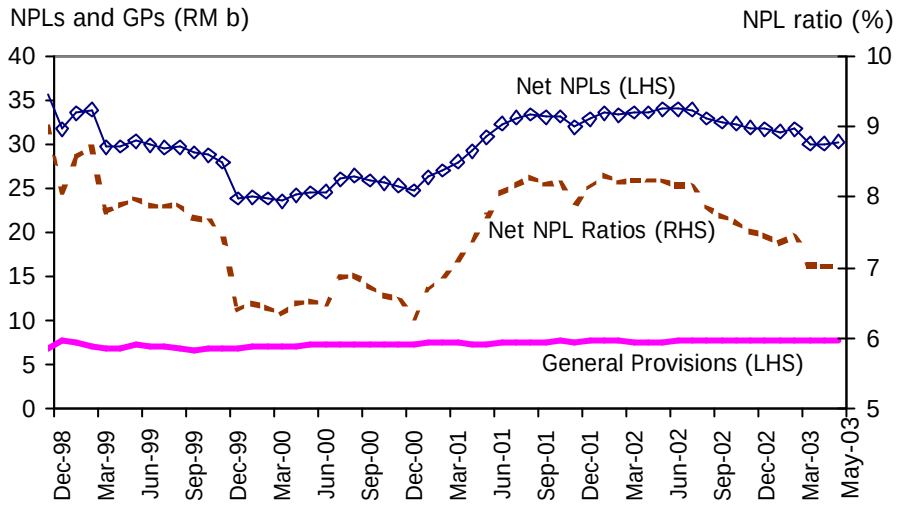
The banking system remained strong with the RWCR at 13.2% as at end-May 2003. The net non-performing loans ratio (6-month classification) stabilised at 7% at end-May 2003.

Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Apr.	May
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.9	11.1	10.7
RWCR	11.8	12.5	12.5	13.0	13.2	13.1	13.2	13.2
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.0	7.0	7.0
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,037	30,054	30,201
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8

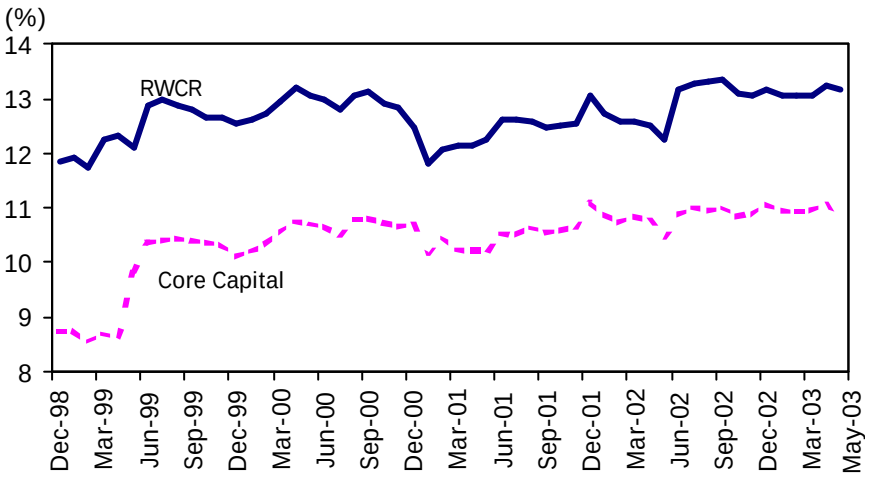
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Net NPLs and General Provisions



....Net NPL ratio stabilised at 7.0%

Capital Strength Indicators



....Capital position remained strong with RWCR at 13.2

Bank Negara Malaysia
27 June 2003

Key Monetary and Banking Statistics

	April 2003		May 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	42.8	4.8	43.1	5.0
M1	87.5	6.4	88.2	9.3
M2	394.2	6.0	401.2	8.0
M3	516.1	6.7	522.2	7.8
Banking System				
Total deposits	517.8	5.6	523.2	7.0
Total loans (including loans sold to Cagamas and Danaharta)	492.9	3.3	495.1	2.8
Total loans (excluding loans sold to Cagamas and Danaharta)	431.3	4.1	433.9	3.6
Loan-deposit ratio (%)	83.3		82.9	
Loan-deposit ratio including private debt securities (%)	93.7		93.2	
Loans approved during the month	13.0	35.4	11.2	-26.1
Loans disbursed during the month	35.0	3.8	31.8	-12.5
Loans repaid during the month	34.6	0.7	30.7	-6.9
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.2		13.2	
Net NPLs: 6-month classification (%)	7.0		7.0	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	134.9		138.5	
Reserves in USD (billion)	35.5		36.4	
Months of retained imports	5.5		5.7	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.98]		2.99[2.99]	
3-month	2.86[2.86]		2.86[2.86]	
Fixed deposits of commercial banks: 1-month	3.20[3.20]		3.00[3.00]	
3-month	3.20[3.20]		3.00[3.00]	
BLR of commercial banks	6.39[6.39]		6.00[6.00]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.2	1.0	104.3	1.0
Producer Price Index (PPI) (1989=100)	134.8	5.4		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.2231		4.5117	
Pound Sterling	6.0627		6.2761	
Singapore dollar	2.1421		2.1956	
100 Japanese yen	3.1807		3.2115	
100 Thai Baht	8.8692		9.0996	
100 Philippine Peso	7.2264		7.1382	
100 Indonesian Rupiah	0.0438		0.0457	
100 Korean Won	0.3130		0.3153	
Capital Market				
Net funds raised by: public sector (RM billion)	...		2.0	
private sector (RM billion)	0.35		0.09	
Kuala Lumpur Composite Index (end-period)	630.37		671.46	
KLSE Market Capitalisation (RMb) (end-period)	476.35		509.08	