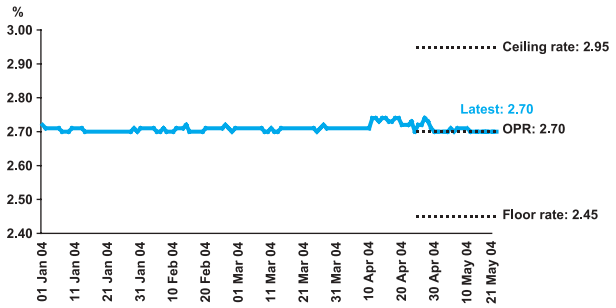
Monetary conditions remained supportive of private sector-led activities

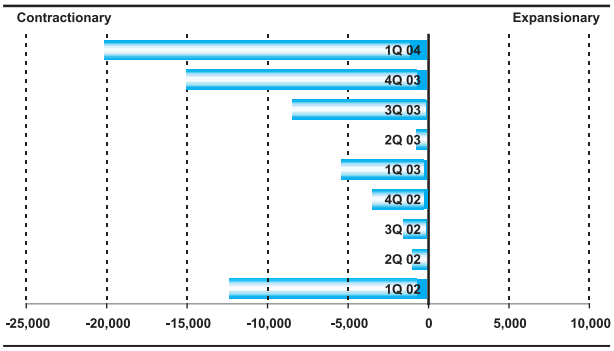
In a low inflation environment, monetary policy continued to be supportive of economic growth in the first quarter of 2004. The ample liquidity and strengthened capacity of the banking system together with the low and stable interest rates continued to support the financing needs of the private sector.

In the first quarter, the interbank rates remained low and stable. The overnight interbank rate ranged between 2.70% - 2.75%. Bank Negara Malaysia absorbed additional liquidity from expansionary external operations to maintain stable money market conditions.

Daily Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM million)



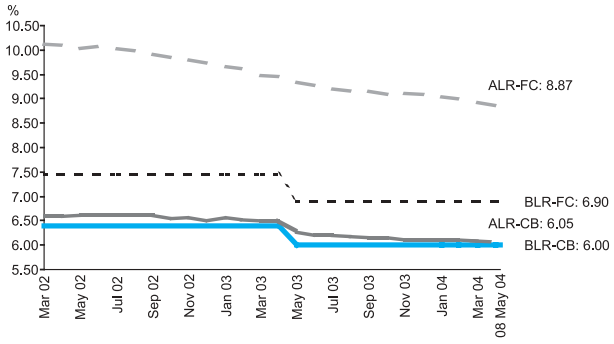
A significant development in the conduct of monetary policy was the implementation of the new interest rate framework on 26 April 2004 by Bank Negara Malaysia. The changes introduced are to enhance the effectiveness of the monetary policy transmission mechanism and promote more efficient pricing by banking institutions. The new framework is designed to enhance the effectiveness of monetary policy by facilitating the transmission of changes in the policy rate to the other market rates and ultimately, to key macroeconomic objectives.

The overnight policy rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance. The new framework represented a change in the system of implementing monetary policy and did not represent a change in monetary policy. To reflect this, the OPR was set at the prevailing interbank overnight rate of 2.70%. Since its introduction, the interbank overnight rate has fluctuated within a narrow margin of around 2.68% - 2.80%, with an average of 2.71% during the period 26 April - 21 May 2004. This reflected the smooth transition to the new framework as market participants responded within expectations.

Under the new interest rate framework, each banking institution will announce its own base lending rates (BLRs) based on its cost structure and business strategies. Since the introduction of the new interest rate

framework, the BLRs of the commercial banks (CBs), with the exception of one institution, remained unchanged at 6.00% while the BLRs of finance companies (FCs) remained unchanged at 6.90% as at 21 May 2004. The average lending rates (ALR) of the CBs and FCs continued to decline marginally to 6.05% and 8.87% respectively as at 30 April 2004, reflecting the larger components of new loans priced at lower lending rates.

Lending Rates: Commercial banks & Finance Companies
(average for the month)



Interest Rates

	1Q 03	4Q 03	1Q 04
	At end-period (%)		
3-month intervention rate *	5.00	4.50	4.50
Interbank rates			
Overnight	2.81	2.71	2.71
1-month	2.99	2.99	2.98
Base lending rates (BLR)			
Commercial banks	6.39	6.00	6.00
Finance companies	7.45	6.90	6.90
Average lending rates			
Commercial banks	6.50	6.11	6.10
Finance companies	9.49	9.11	8.95
Fixed deposit rates			
Commercial banks			
3-month	3.20	3.00	3.00
12-month	4.00	3.70	3.70
Finance companies			
3-month	3.20	3.00	3.00
12-month	4.00	3.70	3.70

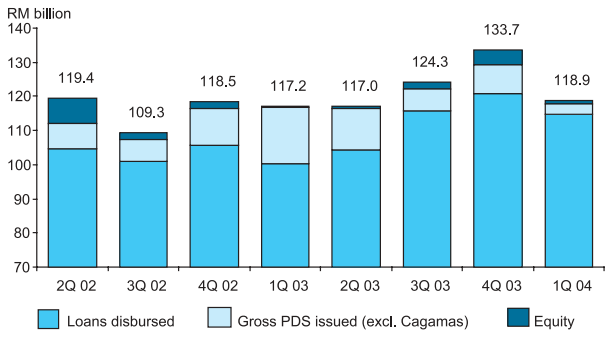
* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

Source: Bank Negara Malaysia

Sustained private sector financing

Private sector demand for financing remained high during the quarter due to the prevalence of continued low borrowing cost, sustained domestic demand conditions and improved external economic conditions. Gross private sector financing through the banking system and the capital market remained strong at RM118.9 billion in the first quarter of 2004. On a net basis, outstanding banking system loans and PDS continued to increase at a strong annual rate of 8.2%.

Gross Private Sector Financing through Banking System and Capital Market



Reflecting improved business and consumer sentiment, most loan indicators grew at a strong pace during the quarter. Total loan applications rose further to RM58.6 billion, exceeding the quarterly average in 2003, while loan approvals remained high at RM37.2 billion. Loan applications were higher for both businesses and households compared with the fourth quarter of 2003. Total loans disbursed increased at an annual rate of 14.4% to RM114.9 billion. Loans disbursed to the manufacturing and wholesale sectors accounted for 39.5% of total loans disbursed.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2003	1Q 03	4Q 03	1Q 04	2003	4Q 03	1Q 04
Gross total financing	**492.2**	**117.2**	**133.7**	**118.9**	**9.0**	**12.8**	**1.4**
Loans disbursed *	441.7	100.4	120.9	114.9	7.3	14.3	14.4
Gross PDS (excl. Cagamas)	42.8	16.2	8.3	2.8	60.5	-22.3	-82.5
Equity	7.8	0.6	4.6	1.2	-41.5	116.5	104.4
Outstanding total financing (A)+(B)	**57.8**	**17.3**	**11.1**	**6.9**	**10.3**	**10.3**	**8.2**
Banking system	28.1	5.7	4.5	3.3	5.9	5.9	5.3
Loans outstanding (A)	*21.6*	*1.2*	*1.3*	*5.3*	*4.8*	*4.8*	*5.7*
Holding of PDS	*6.6*	*4.5*	*3.2*	*-2.0*	*23.8*	*23.8*	*0.0*
PDS outstanding (B)	36.2	16.0	9.8	1.6	33.4	33.4	17.5
Memorandum item							
Gross PDS (incl. Cagamas)	51.0	17.4	10.5	6.0	40.8	-10.3	-65.3

* Banking system loans include loans sold to Cagamas.

Efforts continued to support access to financing by the small and medium enterprises (SMEs). Bank lending to the sector remained strong in the first quarter of 2004. Higher approvals from previous quarters resulted in an annual growth rate of 12.3% in loan disbursements to the SMEs, amounting to RM23.7 billion during the quarter. However, higher loan repayments contributed to a moderation in the annual growth rate of outstanding loans to the SMEs, to 5.3% at end-March 2004 from 10% at end-2003. During the quarter, a total of RM5.7 billion was approved to 18,703 SMEs.

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2003			2004	2003			2004
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	56.1	55.8	227.6	58.6	14.4	6.8	4.8	4.4
Loan approvals	35.3	38.9	152.7	37.2	14.3	16.8	11.0	5.2
Loan disbursements	100.4	120.9	441.7	114.9	0.5	14.3	7.3	14.4
Loan repayments	100.9	123.0	430.5	112.5	4.3	17.5	6.9	11.5
Change in loan outstanding *	1.2	1.3	21.6	5.3	3.5	4.8	4.8	5.7
Of which:								
Business enterprises								
Loan applications	33.9	28.6	124.9	30.5	-1.3	-9.4	-7.7	-9.9
Loan approvals	18.2	18.8	77.2	17.2	20.1	13.9	12.7	-5.1
Loan disbursements	68.1	84.4	303.4	78.2	0.2	16.2	7.6	14.9
Loan repayments	69.4	86.9	299.6	75.6	5.5	22.2	8.6	8.9
Change in loan outstanding *	-4.5	-5.0	-5.2	-0.4	-3.2	-2.4	-2.4	-0.6
SMEs								
Loan applications	12.8	9.8	44.5	10.5	n.a.	n.a.	n.a.	-17.8
Loan approvals	6.8	6.6	25.7	5.7	n.a.	n.a.	n.a.	-16.1
Loan disbursements	21.1	24.9	87.1	23.7	n.a.	n.a.	76.0	12.3
Change in loan outstanding *	2.3	2.4	7.4	-1.1	1.9	10.0	10.0	5.3
Large corporations								
Loan applications	21.0	18.8	80.4	20.0	n.a.	n.a.	n.a.	-5.0
Loan approvals	11.3	12.2	51.5	11.5	n.a.	n.a.	n.a.	1.5
Loan disbursements	47.0	59.5	216.4	54.6	n.a.	n.a.	-6.9	16.0
Change in loan outstanding *	-6.7	-7.3	-12.7	0.6	-5.8	-8.8	-8.8	-3.9
Households								
Loan applications	21.0	25.5	98.5	27.2	27.2	26.8	20.2	29.9
Loan approvals	16.0	18.7	72.0	19.3	7.5	13.3	7.6	20.8
Loan disbursements	26.2	30.4	114.5	30.8	2.4	12.5	8.9	17.5
Loan repayments	22.5	26.3	94.1	26.8	8.5	20.6	12.4	19.2
Change in loan outstanding *	5.0	7.4	26.2	6.0	13.7	12.8	12.8	13.0

* The annual growth is for end-period.
Source: Bank Negara Malaysia

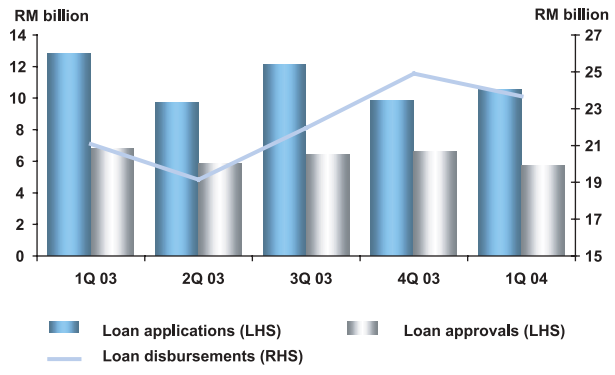
For the household sector, improved household income and consumer sentiment were reflected in the increase in all the major loan indicators for households compared with the previous quarter. Loan applications, approvals and disbursements grew at higher annual rates of 29.9%, 20.8% and 17.5% respectively. Approvals were granted mainly for the purchase of residential properties (44.3% of total loans approved for households). Loans disbursed for the purchase of residential properties accounted for 30.8% of disbursements to households, followed by credit cards (27.2%) and purchase of passenger cars (19.4%).

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2003	1Q 03	4Q 03	1Q 04		
	RM billion				%	
Business enterprises	303.4	68.1	84.4	78.2	68.1	44.6
Large corporations	*216.4*	*47.0*	*59.5*	*54.6*	*47.5*	*27.6*
SMEs	*87.1*	*21.1*	*24.9*	*23.7*	*20.6*	*16.9*
Households	114.5	26.2	30.4	30.8	26.8	49.4
By sector						
Agriculture, hunting, forestry and fishing	11.1	2.5	3.0	3.1	2.7	2.3
Mining and quarrying	1.7	0.3	0.5	0.5	0.5	0.2
Manufacturing	110.4	27.3	28.5	27.2	23.6	12.7
Broad property sector	78.9	17.2	21.6	21.0	18.3	40.2
Construction	*27.5*	*6.3*	*7.2*	*7.0*	*6.1*	*6.1*
Purchase of residential property	*35.6*	*7.6*	*9.7*	*9.5*	*8.2*	*25.1*
Purchase of non-residential property	*9.7*	*2.0*	*2.7*	*2.7*	*2.4*	*6.1*
Real estates	*6.1*	*1.3*	*1.9*	*1.8*	*1.5*	*3.0*
Electricity, gas and water supply	6.0	1.5	1.0	1.5	1.3	1.1
Wholesale, retail, restaurants and hotels	70.1	16.1	19.3	18.3	15.9	8.2
Transport, storage and communication	12.0	1.9	2.4	2.5	2.1	2.3
Finance, insurance and business services	36.7	6.1	14.7	10.6	9.2	6.2
Consumption credit	72.4	17.2	18.9	19.5	17.0	18.9
Of which:						
Credit cards	*30.5*	*7.1*	*8.5*	*8.4*	*7.3*	*2.5*
Purchase of passenger cars	*24.5*	*6.1*	*5.7*	*6.0*	*5.2*	*13.1*
Purchase of securities	12.9	2.8	3.4	3.7	3.2	4.1
Purchase of transport vehicles excluding passenger cars	1.2	0.4	0.3	0.3	0.2	0.7
Others	28.3	7.1	7.3	6.8	5.9	3.2
Total	**441.7**	**100.4**	**120.9**	**114.9**	**100.0**	**100.0**

Source: Bank Negara Malaysia

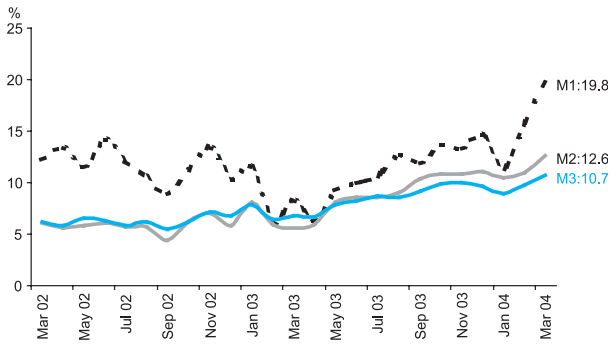
Bank Lending to SMEs



Further expansion in monetary aggregates

In line with the higher growth in private sector-led economic activities and the improved external sector, all three monetary aggregates expanded during the quarter. The annual growth rates of M1, M2 and M3 were higher at 19.8%, 12.6% and 10.7% respectively at end-March 2004 (14.6%, 11.1% and 9.7% respectively at end-December 2003). The higher growth in M1 reflected stronger demand for transaction balances due to higher consumption spending as well as higher turnover in the equity market. Meanwhile, broad money, M3, expanded by RM19.1 billion during the quarter, reflecting the continued repatriation of export earnings and inflows of foreign funds for portfolio and direct investments as well as higher financing by the banking system to the private sector. This was partially offset by the increase in deposits with

Monetary Aggregates: Annual Growth



M3 Determinants

	Change during the period				
	Yearly		Quarterly		
	2002	2003	1Q 03	4Q 03	1Q 04
	RM billion				
M3	31.6	48.5	12.6	14.3	19.1
Net claims on Government	11.5	12.9	4.7	8.5	-6.0
Claims on private sector	27.7	31.3	7.2	2.4	3.8
Net external operations *	1.2	20.7	-2.1	12.0	33.3
Other influences	-8.9	-16.5	2.8	-8.6	-12.0

* Pre-revaluation
Source: Bank Negara Malaysia

Bank Negara Malaysia as the Government placed the proceeds from the issuance of MGS during the quarter.

Higher funds raised in the capital market

In the first quarter of 2004, higher net funds amounting to RM5.9 billion were raised in the capital market. The higher net funds reflected higher gross funds of RM11.5 billion raised by the public sector with three issuances of MGS. The first issuance of the Merdeka Savings Bond by Bank Negara Malaysia on 4 February 2004 amounted to RM500 million. Merdeka Savings Bond is an additional savings instrument for senior citizens not employed on a full-time basis as well as retired Malaysian Armed Forces personnel. On a net basis, taking into account the MGS and Malaysia Savings Bond redemptions, total net funds raised by the public sector was higher, amounting to RM5.5 billion (RM2.6 billion in 4Q 2003).

The Government securities auction calendar was announced during the quarter, with 17 issues planned for the year. The auction calendar was designed to further lengthen the benchmark MGS and GII yield curves with a new issuance of 15-year MGS, and a new issuance of 7-year GII during the year.

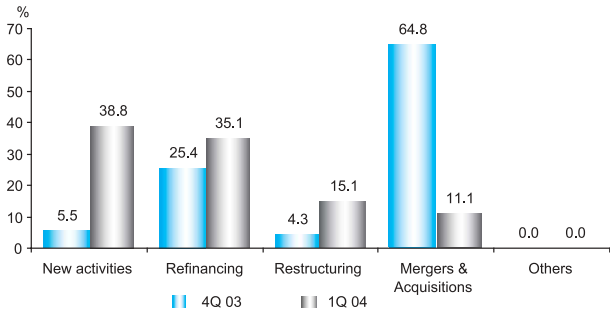
In terms of private issuance, on a gross basis, new issues of private debt securities (excluding Cagamas bonds) amounted to RM2.8 billion, issued mainly by companies in the manufacturing sector. Funds raised through the PDS market during the quarter were mainly for new activities (38.8% of total PDS) and refinancing (35.1%). The new issues were mainly in the form of medium-term notes (MTN) and straight bonds. Cagamas Berhad also issued bonds worth RM3.2 billion. On a net basis, the PDS market recorded a net redemption of RM880 million. In the equity market, RM1.2 billion was raised, of which RM383 million were from 19 initial public offerings. There were 21 new listings on the Bursa Malaysia during the period, with three listings on the Main Board, 11 on the Second Board and seven on MESDAQ.

Funds Raised in the Capital Market

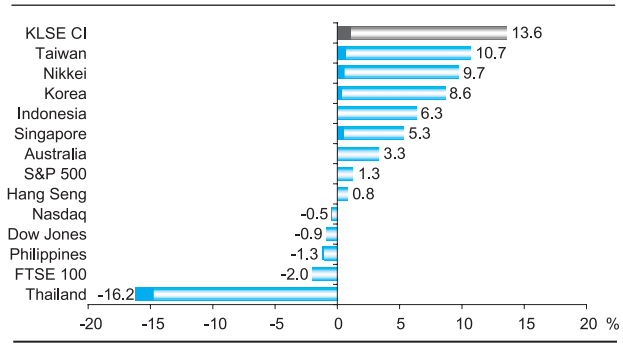
	4Q 02	1Q 03	4Q 03	1Q 04
	RM million			
By Public Sector				
Government Securities, *gross*	6,000	17,730	2,768	11,000
Less Redemptions	2,000	10,300	0	5,500
Less Government holdings	0	0	0	0
Equals Net Federal receipts	4,000	7,430	2,768	5,500
Khazanah Bonds, *net*	0	878	-210	0
Govt. Investment Issues, *net*	738	1,729	0	0
Malaysia Savings Bond, *net*	-2	-2	-2	-455
Merdeka Savings Bond, *net*	0	0	0	500
Net Funds Raised	4,736	10,035	2,556	5,545
By Private Sector				
Shares	2,112	587	4,573	1,200
Debt securities	11,701	17,405	10,493	6,041
Private Debt Securities (PDS)	*10,636*	*16,185*	*8,268*	*2,836*
Cagamas	*1,065*	*1,220*	*2,225*	*3,205*
Less Redemptions	10,271	2,176	16,940	6,924
Net Issues	*1,430*	*15,229*	*-6,447*	*-883*
Net issues (excluding Cagamas)	*685*	*15,536*	*-8,672*	*-2,088*
Net Funds Raised	3,542	15,816	-1,874	317
Total Net Funds Raised	8,278	25,851	682	5,862
Short-term papers and notes, *net* *	413	1,620	-884	-3,793
TOTAL	**8,691**	**27,471**	**-202**	**2,069**

*Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



Performance of Selected Global and Regional Markets in the First Quarter of 2004



KLSE CI registered significant gains

The KLSE CI strengthened further during the first quarter of 2004. Share prices in the Bursa Malaysia increased, supported by the favourable corporate performances and better economic outlook. While other overseas share markets also rose during the quarter, the KLSE CI registered significant gains. The KLSE CI breached the 900-point threshold to reach 908.96 on 22 March 2004.

During the first quarter, KLSE CI gained 107.9 points (+13.6% since the end of fourth quarter of 2003). Market capitalisation during the quarter was also higher at RM724.2 billion (+13.1% since the end of the fourth quarter of 2003) while average daily trading activities stabilised at 650.6 million units.

Bursa Malaysia: Turnover of Corporate Securities

	During the period									
	4Q 02		1Q 03		3Q 03		4Q 03		1Q 04	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	8,890	17,098	12,387	21,294	41,877	62,274	40,144	71,970	37,737	77,036
of which:										
Main Board	7,276	14,914	10,609	19,397	27,849	46,225	27,495	51,391	27,626	61,454
of which:										
Consumer Products	255	1,096	310	1,481	857	2,768	944	3,086	1,173	3,905
Industrial Products	575	1,213	711	1,535	3,911	5,406	3,735	5,369	4,087	6,067
Construction	869	1,199	1,482	1,687	2,088	3,967	2,177	5,415	1,693	4,044
Trading / Services	1,791	5,384	2,791	7,165	5,994	14,829	6,118	16,632	5,632	19,975
Finance	1,244	3,335	1,532	3,784	3,497	8,471	3,468	9,065	4,536	14,521
Properties	996	749	1,370	966	5,215	4,567	5,138	5,446	4,159	5,145
Plantations	178	737	296	1,283	676	1,815	638	1,981	762	3,106
Mining	38	72	48	91	42	67	36	102	43	140
Second Board	1,523	2,162	1,591	1,807	8,069	12,103	10,100	18,229	6,258	11,249

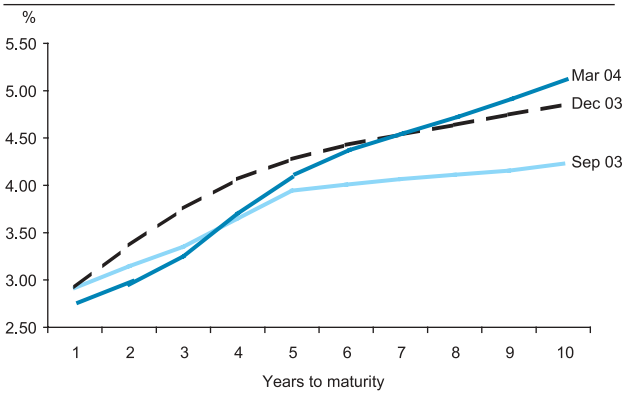
Source: Bursa Malaysia

Bursa Malaysia: Selected Market Indicators

	As at end				
	4Q 02	1Q 03	3Q 03	4Q 03	1Q 04
Price Indices					
Composite	646.32	635.72	733.45	793.94	901.85
EMAS	157.25	153.98	182.03	195.57	219.76
Second Board	98.24	93.00	122.03	140.64	135.33
Average daily turnover					
Volume (million units)	142.3	213.6	644.3	658.1	650.6
Value (RM million)	275.9	367.1	958.1	1,179.8	1,328.2
Market Capitalisation (RM b)	481.62	478.30	572.26	640.28	724.15
No. of Companies Listed	865	874	889	906	923

Source: Bursa Malaysia

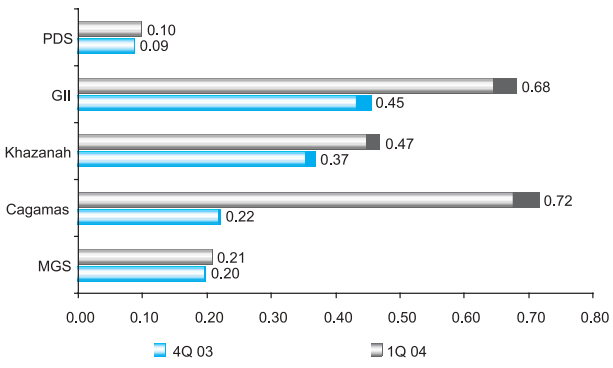
Trend in MGS Yield



Higher secondary trading in the bond market

Secondary trading activities were higher as investors favoured fixed income investment, following concerns over economic outlook arising from the outbreak of Avian influenza across Asia in January and the geopolitical concerns in March. Trading activities were concentrated in the 3-5 year Government and quasi-Government securities, which accounted for 78.5% of total trade. In terms of liquidity, the Cagamas bonds and Government Investment Issues were the most liquid papers, with total turnover of 0.72 and 0.68 times respectively. The shorter to medium end of the MGS benchmark yield curve shifted downwards during the quarter influenced mainly by the Avian influenza in January and the geopolitical concerns in March.

Liquidity Ratio: Turnover/Outstanding

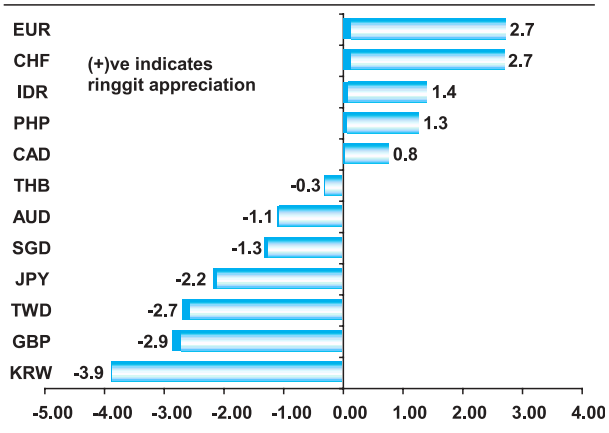


Performance of the ringgit

In the first quarter of 2004, the ringgit recorded mixed performance against the major and regional currencies. The ringgit appreciated against the euro but depreciated against the yen and the pound sterling. The US dollar regained strength vis-à-vis the euro in 1Q 2004 given improved economic conditions in the US as reflected by the higher Institute of Supply

Summary of Ringgit Performance Against Selected Currencies

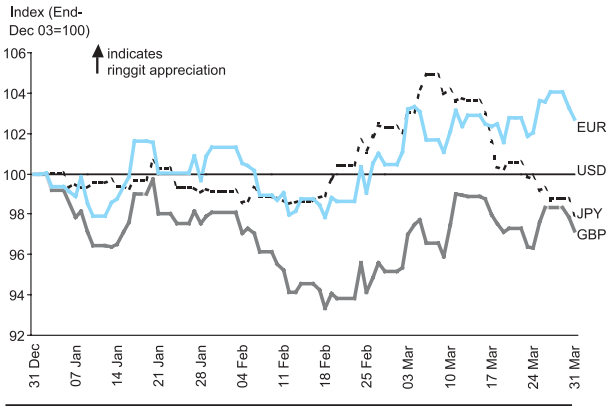
Percent Change (1 January - 31 March 2004)



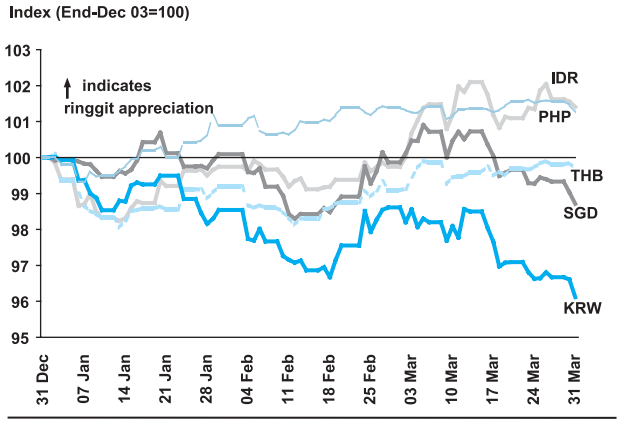
Management services industry index and the stronger-than-expected job creation. Meanwhile, stronger yen and pound sterling was supported by the strengthened economic growth in both Japan and the United Kingdom.

Against regional currencies, the ringgit appreciated against the rupiah following security concerns and uncertainty in Indonesia in the lead-up to the parliamentary elections in April. The ringgit also appreciated against the Philippine peso as the peso weakened in response to the debt rating downgrade by Moody's. The ringgit depreciated against the Korean won (-3.9%), the Singapore dollar (-1.3%) and the Thai baht (-0.3%). The won strengthened due mainly to positive trade data and strong equity inflows, which prompted Korea to implement controls on non-deliverable forward contracts in mid-January to curb speculation on the won. Despite the volatility of the exchange rates of major and regional currencies, the ringgit's trade-weighted value continued to remain consistent with the underlying fundamentals of the economy.

Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since *		
	30 Jun 97	02 Sep 98	4Q 03	1Q 04	30 Jun 97	02 Sep 98	4Q 03
US dollar	2.5235	3.8001	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.7783	4.6522	-	-	2.7
Pound sterling	4.1989	6.3708	6.7678	6.9667	-39.7	-8.6	-2.9
100 Japanese yen	2.2088	2.7742	3.5546	3.6334	-39.2	-23.6	-2.2
Singapore dollar	1.7647	2.1998	2.2342	2.2633	-22.0	-2.8	-1.3
100 Thai baht	9.7470	9.3713	9.5947	9.6239	1.3	-2.6	-0.3
100 Philippine peso	9.5878	8.8302	6.8431	6.7580	41.9	30.7	1.3
100 Indonesian rupiah	0.1038	0.0354	0.0449	0.0442	134.6	-20.0	1.4
100 Korean won	0.2842	0.2827	0.3180	0.3308	-14.1	-14.5	-3.9

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.