BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 04/04/41 (BN)

EMBARGO: Not for publication or broadcast before 1700 hours on Wednesday, 28 April 2004

Highlights of the March 2004 Press Release

Private sector activities remained robust as monetary indicators trended higher in March amidst a low inflation environment

Monetary policy continued to be supportive of economic growth amidst a low inflation environment. Monetary indicators trended higher in March, reflecting favourable domestic demand conditions. Total loan applications and approvals rose at annual rates of 24.9% and 27.6% respectively. Lending to the SMEs remained strong with RM2.6 billion approved to 7,641 SME accounts. Higher transactional balances, strong bank lending and expansionary external operations led to higher growth in money supply. All the three monetary aggregates, M1, M2 and M3 rose by 19.8%, 12.6% and 10.7% respectively at end-March.

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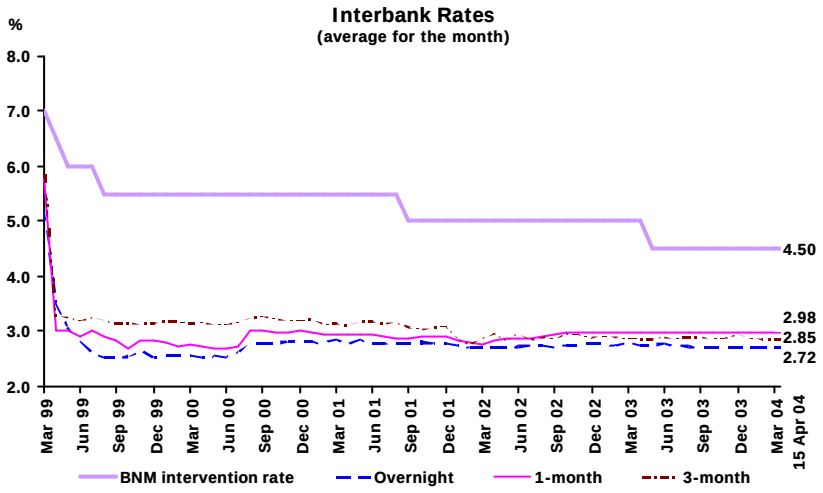
MONETARY AND FINANCIAL DEVELOPMENTS MARCH 2004

Monetary indicators trended higher in March amidst a low inflation environment

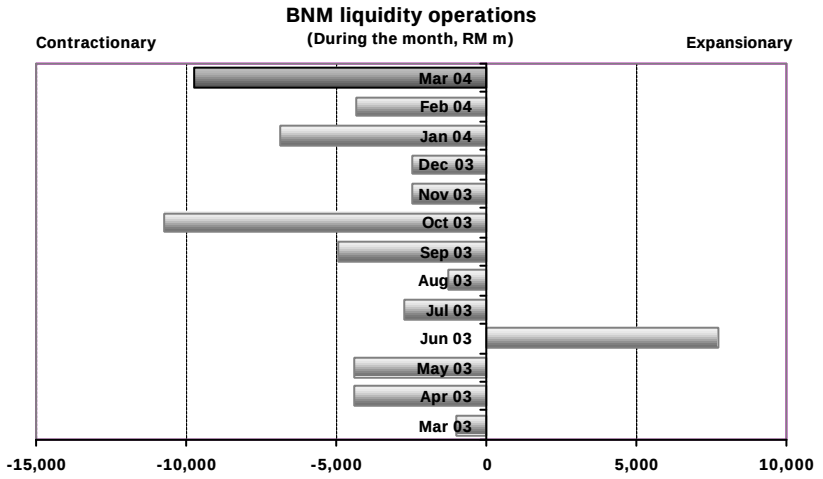
Monetary indicators trended higher in March reflecting stronger private sector activities. Strong bank lending, expansionary external operations as well as increased stock market activities contributed to the higher growth in M1, M2 and M3, which increased at annual rates of 19.8%, 12.6% and 10.7% respectively as at end-March. Total loan applications and approvals increased at annual rates of 24.9% and 27.6% respectively. Lending to the SMEs remained strong, with RM2.6 billion approved to 7,641 SME accounts. Meanwhile, the health of the banking system improved further as reflected in the lower net non-performing loans (NPLs) ratio of 6.7% as at end-March 2004.

Interest rates remained broadly unchanged

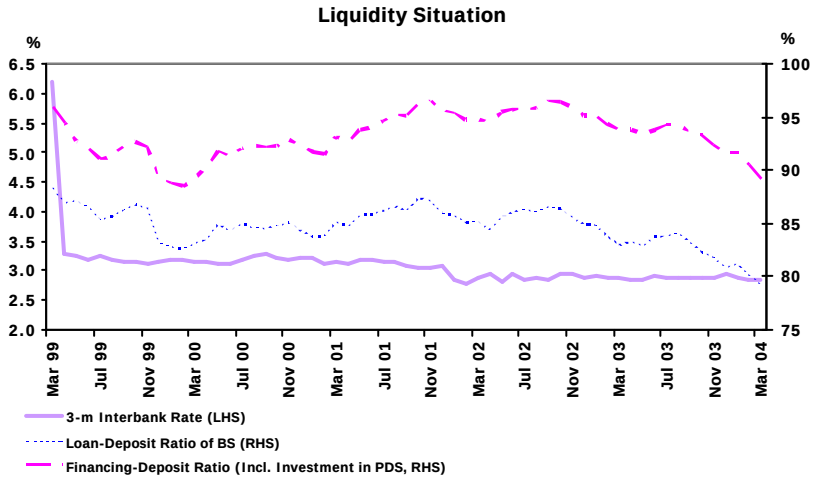
The interbank rates remained broadly unchanged in March. Liquidity conditions in the banking system also remained stable as additional liquidity were absorbed by Bank Negara Malaysia.



The low interbank rates remained broadly unchanged

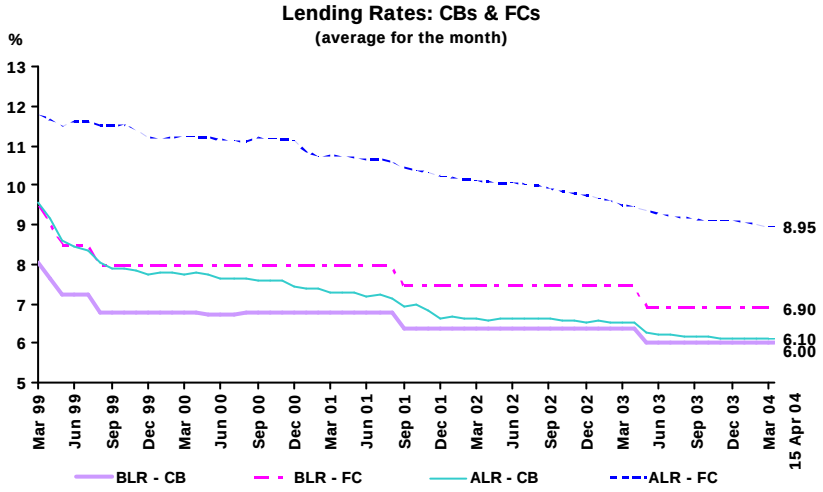


Money market conditions remained stable



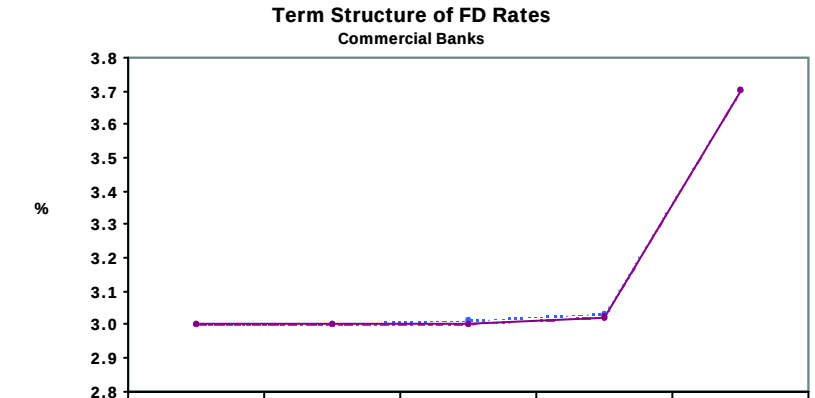
The stronger growth in deposits led to a moderation in the financing-deposit ratio to 89.2%

In the retail market, the average lending rates (ALRs) declined marginally. The ALR of commercial banks (CBs) declined marginally by 3 basis points to 6.10% at end-March (6.13% at end-February). The ALR of finance companies (FCs) exhibited a larger decline of 6 basis points to 8.95% at end-March (9.01% at end-February). Larger composition of new loans priced at lower rates contributed to the decline in the ALRs.



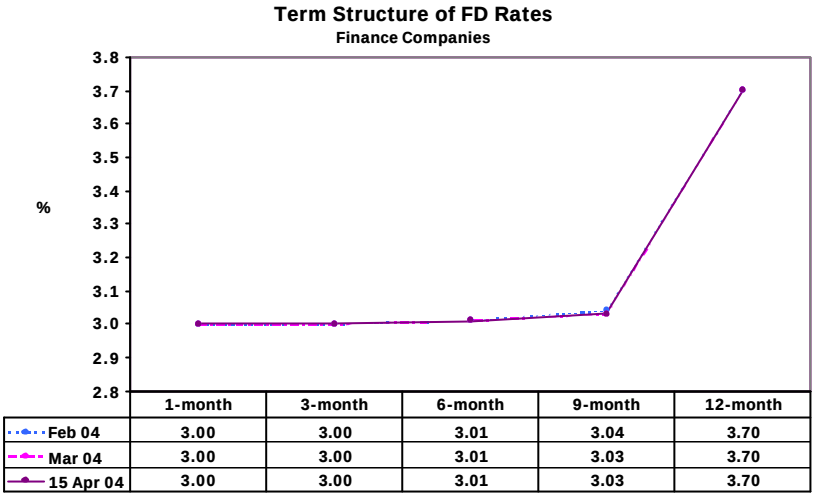
ALRs of CBs and FCs declined

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



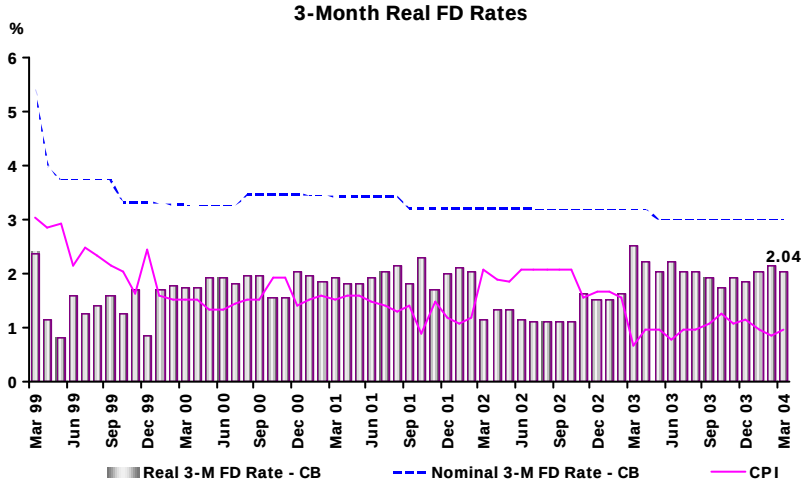
	1-month	3-month	6-month	9-month	12-month
Feb 04	3.00	3.00	3.01	3.03	3.70
Mar 04	3.00	3.00	3.00	3.02	3.70
15 Apr 04	3.00	3.00	3.00	3.02	3.70

FD rates of CBs remained stable ...



	1-month	3-month	6-month	9-month	12-month
Feb 04	3.00	3.00	3.01	3.04	3.70
Mar 04	3.00	3.00	3.01	3.03	3.70
15 Apr 04	3.00	3.00	3.01	3.03	3.70

... similarly for FCs



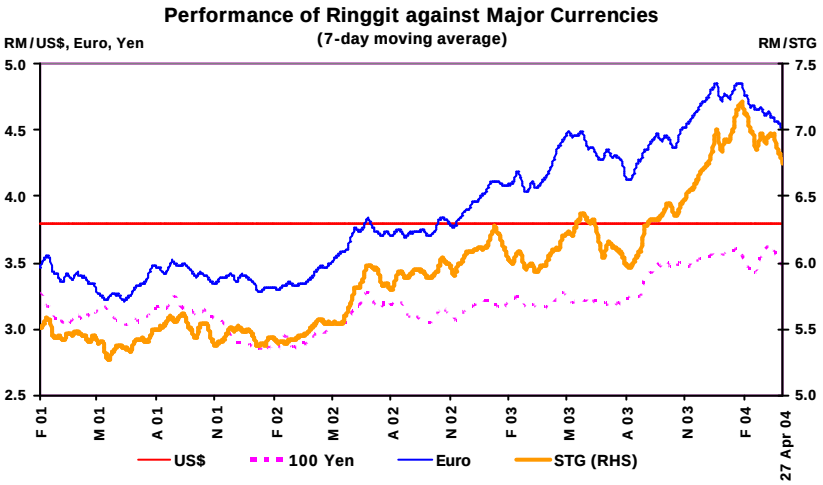
The 3-month real FD rate declined marginally

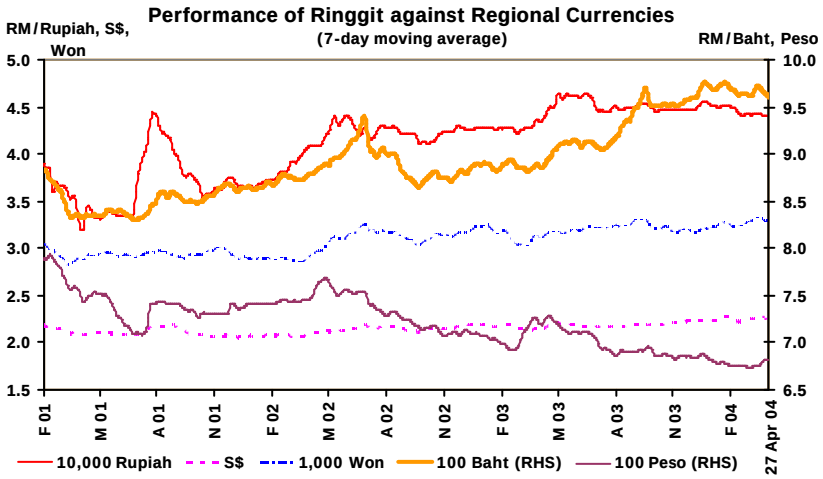
Performance of the ringgit

The ringgit movement against the major currencies were mixed in March, appreciating against the euro (+1.7%) and the pound sterling (+1.7%) but depreciating against the Japanese yen (-4.5%). The US dollar was stronger during the month, influenced primarily by the higher Institute of Supply Management services industry index and the stronger-than-expected job creation in March. On the other hand, the euro was negatively affected by expectations of a possible reduction in interest rates in Europe. The pound sterling depreciated following market reaction to the UK trade figures which were below expectations. The yen however strengthened against all other major currencies during most of the month, reflecting mainly a firming of the Japanese economic recovery.

The ringgit also showed mixed trends against the regional currencies. The ringgit appreciated against the rupiah (+1.5%) and the baht (+0.4%) but depreciated against the Korean won (-2.5%), the Singaporean dollar (-1.4%) and the peso (-0.2%). The rupiah continued its downward trend following security concerns and uncertainty in Indonesia from the upcoming parliamentary election in April. The won strengthened due mainly to positive trade data and strong equity inflows.

In the period 1 – 27 April, the US dollar, and hence the ringgit, appreciated against almost all currencies. The US dollar, supported by favourable economic data strengthened to its highest level in more than five months against the euro, appreciating beyond the USD1.20 level.



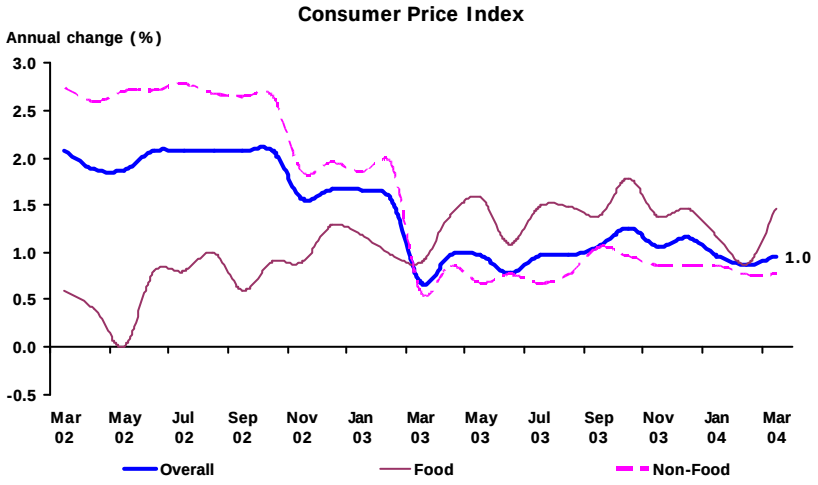


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Mar 04	27 Apr 04	Mar 04	End Mar 04 - 27 Apr 04	End Dec 03 - 27 Apr 04	02 Sep 98 - 27 Apr 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.6522	4.5019	1.7	3.3	6.1	-
Pound Sterling	6.3708	6.9667	6.7893	1.7	2.6	-0.3	-6.2
100 Japanese yen	2.7742	3.6334	3.4986	-4.5	3.9	1.6	-20.7
Singapore dollar	2.1998	2.2633	2.2406	-1.4	1.0	-0.3	-1.8
100 Thai baht	9.3713	9.6239	9.5960	0.4	0.3	0.0	-2.3
100 Philippine peso	8.8302	6.7580	6.8370	-0.2	-1.2	0.1	29.2
100 Indonesian Rupiah	0.0354	0.0442	0.0441	1.5	0.4	1.8	-19.7
100 Korean won	0.2827	0.3308	0.3298	-2.5	0.3	-3.6	-14.3

Inflation remained low

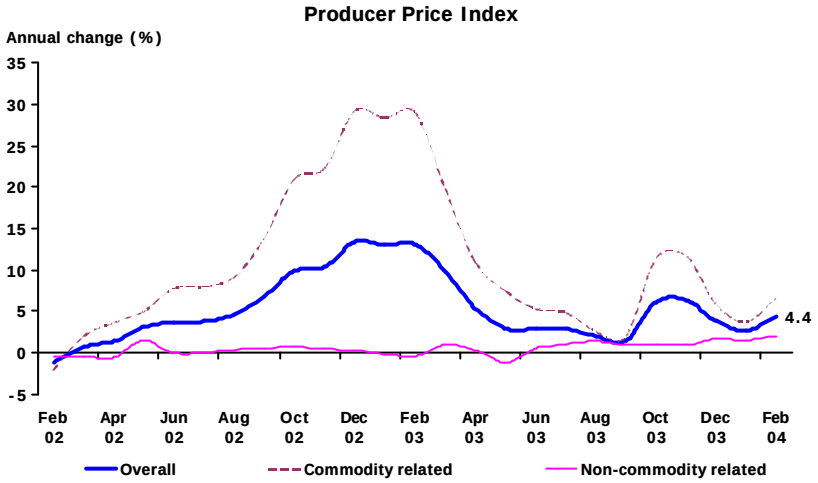
The annual rate of inflation, as measured by the Consumer Price Index (CPI, 2000=100), remained low at 1% in March (0.9% in February). Higher increases in the prices of food, as well as beverages and tobacco were partially offset by the decline in prices of clothing and footwear. There were lower price increases for transport and communication mainly due to the lapse of price adjustment in petrol prices that had been implemented in March 2003.



Annual inflation rate remained low at 1%

Producer prices increased

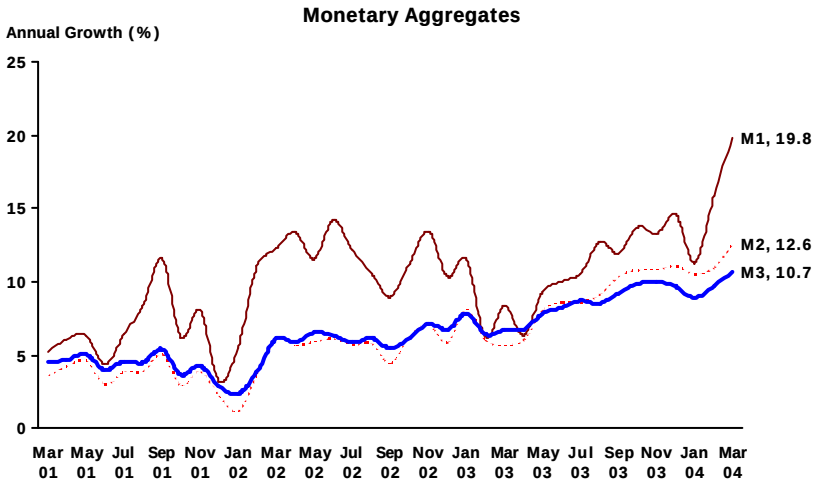
The Producer Price Index (PPI, 1989=100) increased at an annual rate of 4.4% in February (2.7% in January), reflecting mainly higher commodity prices, particularly prices for rubber, crude palm oil and crude oil. Excluding commodity-related products, the adjusted PPI increased at a slower annual rate of 2% (1.5% in January).



Producer prices increased

Monetary aggregates expanded

Money supply expanded in March in tandem with stronger private sector activities. On an annual basis, all the three monetary aggregates increased, with M1, M2 and M3 growing by 19.8%, 12.6% and 10.7% respectively at end-March (15.8%, 11% and 9.7% respectively at end-February). The high growth in M1 reflected stronger demand for transactional balances and the higher turnover in the equity market. Meanwhile, broad money, M3, expanded by RM8 billion reflecting the expansionary external operations and higher financing by the banking system to the private sector.



Money supply trended higher on an annual basis

M3 Determinants
(RM billion)

	Change during period			
	Jan 04	**Feb 04**	**Mar 04**	**Jan - Mar 04**
M3	5.2	5.9	8.0	19.1
Net claims on Government	1.8	-5.9	-1.9	-6.0
Claims on the private sector	0.5	1.8	1.8	4.1
Net external operations *	12.6	9.3	11.4	33.3
Other influences	-9.8	0.7	-3.2	-12.4

* Pre-revaluation

Banking system deposits increased

Total deposits mobilised by the banking system increased by RM11.1 billion or an annual rate of 10.9% in March (9.6% in February). The increase reflected mainly higher placements by business enterprises on account of improved external performance.

Deposits by Holder
(RM million)

	Change during period			
	Jan 04	**Feb 04**	**Mar 04**	**Jan - Mar 04**
Federal Government	-533	-37	925	355
State Governments	-254	298	227	271
Statutory Authorities [1]	-1,026	371	-557	-1,212
Financial Institutions	-701	1,736	2,564	3,599
Business Enterprises	-868	2,896	4,902	6,929
Individuals	4,086	2,220	2,234	8,540
Others [2]	-505	731	826	1,053
Total	200	8,215	11,121	19,535

1/ Include local Governments

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

Higher placement of deposits mainly by business enterprises ...

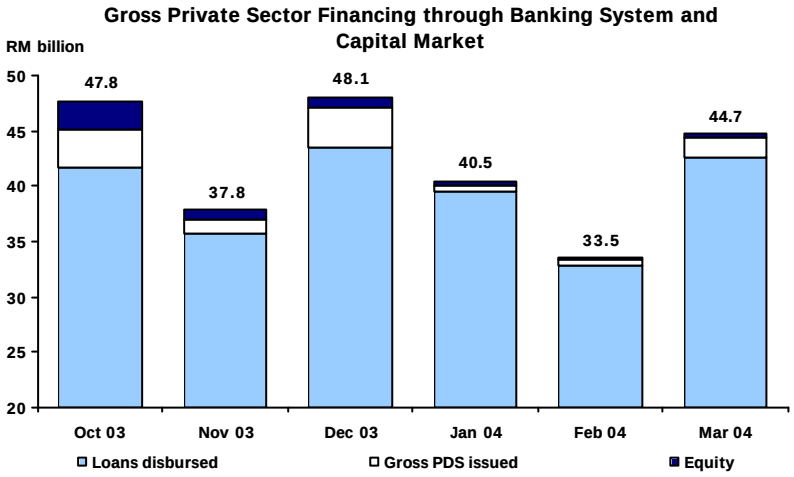
Deposits by Type
(RM million)

	Change during period			
	Jan 04	**Feb 04**	**Mar 04**	**Jan - Mar 04**
Fixed deposits	2,486	5,151	639	8,276
NIDs	-1,200	-400	1,938	338
Demand deposits	-1,559	1,781	1,804	2,026
Savings deposits	1,604	593	57	2,254
Repos	524	-843	5,207	4,889
FX deposits	-968	409	-627	-1,186
SPI deposits	-483	1,033	1,553	2,103
Others	-204	491	548	835
Total	200	8,215	11,121	19,535

... largely in the form of repos

Private sector financing was higher

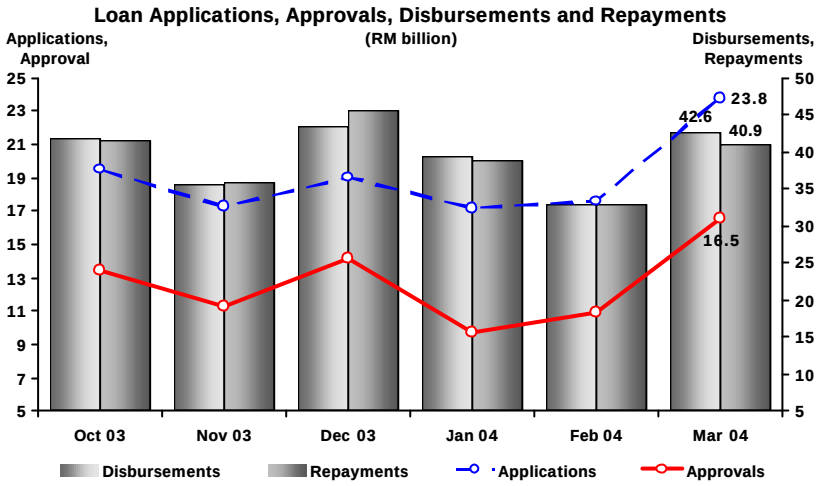
Total gross financing of the private sector by the banking system and through the capital market was higher in March amounting to RM44.7 billion (RM33.5 billion in February). The financing-deposit ratio of the banking system moderated to 89.2% as at end-March due to a larger increase in deposits (90.5% at end-February).



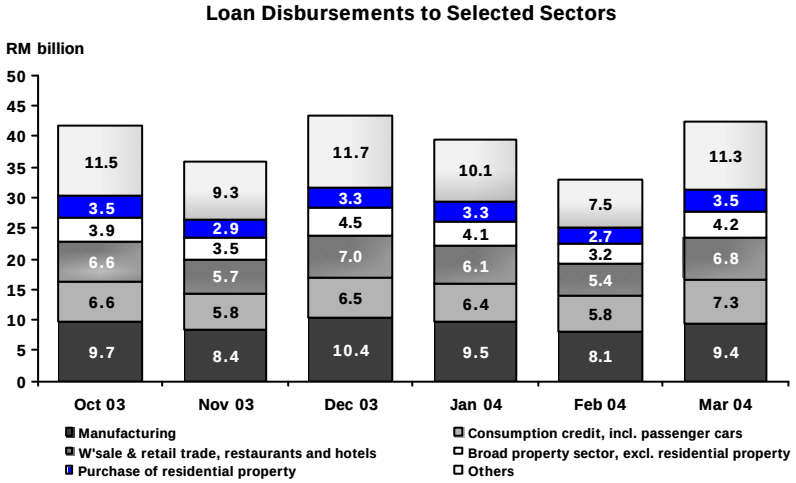
Gross financing of the private sector was higher

All major banking system loan indicators[1] were higher in March. Total loan applications and approvals were higher, growing at annual rates of 24.9% and 27.6% to RM23.8 billion and RM16.5 billion respectively (RM17.6 billion and RM10.9 billion respectively in February). Loans disbursed were also higher at RM42.6 billion (RM32.8 billion in February) growing at an annual rate of 21.6% (19.7% in February). The bulk of the loans disbursed were channelled to the business sector (68.1% of total loans disbursed), mainly to manufacturing (32.6% of disbursements to the business sector), wholesale and retail trade, restaurants and hotels (23.4%) and finance, insurance and business services (15.6%) sectors. Loans disbursed to the household sector remained high, with continued lending for the purchase of residential properties (30.4% of disbursements to the household sector), for credit cards (25.1%) and for the purchase of passenger cars (20.7%). On an annual basis, loans outstanding increased by 5.7% (5.1% at end-February).

[1] Refers to total loan applications, total loan approvals, total loan disbursements, total loan repayments and total loans outstanding.



All major banking system loan indicators were higher in March



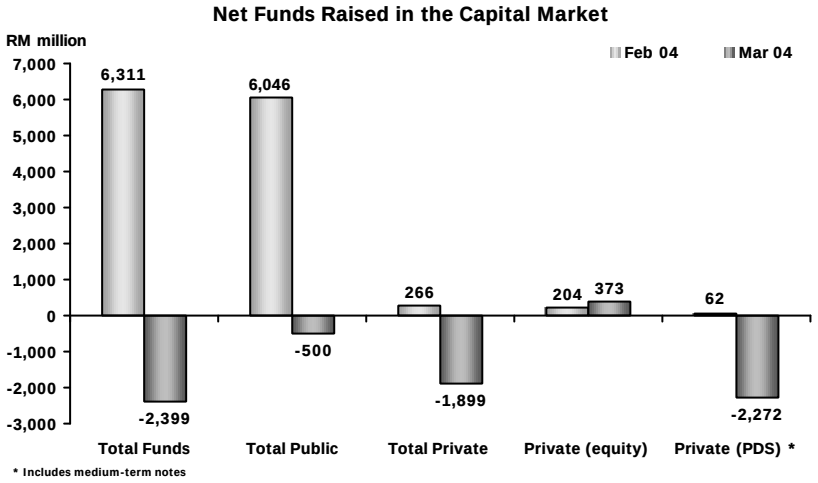
Loan disbursements were higher across all major sectors

In line with the higher trend in the overall loan indicators, loans to SMEs were also higher in March, with a total of RM2.6 billion approved to 7,641 SME accounts (RM1.8 billion approved to 5,828 SME accounts in February). Total loans outstanding to SMEs increased during the month by RM370 million or an annual growth rate of 5.3% at end-March (5.4% as at end-February). Lending to SMEs continued to account for a significant share of banking system loans. At the end of March, outstanding loans to SMEs accounted for 38% of outstanding business loans and 16.9% of total outstanding loans.

Higher new issuance of private debt securities

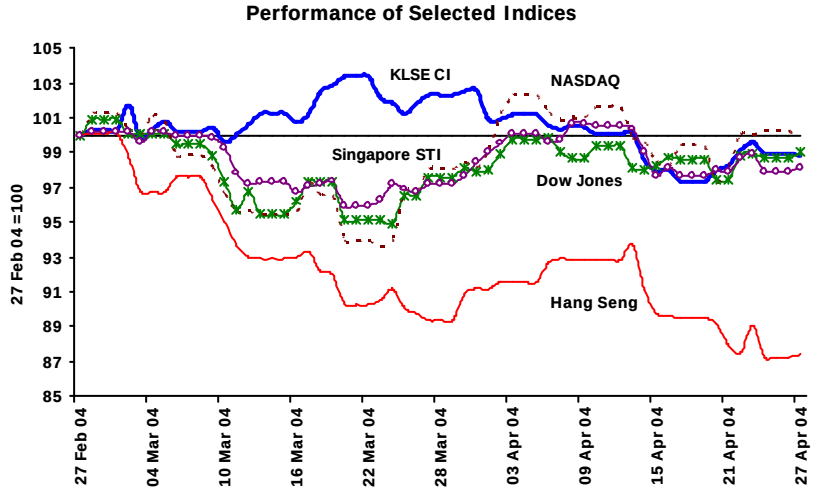
More PDS was issued in March (RM3.3 billion), mainly for new activities. Despite the higher issuance of PDS, it was offset by higher redemptions due mainly

to redemptions by Danaharta, resulting in a net redemption of RM2.3 billion. Funds raised in the equity market was higher amounting to RM372 million mainly through rights issues (RM195.5 million) and six initial public offerings (RM146.1 million). In the public sector, the Government raised RM5 billion from the reopening of MGS 1/04 while the redemption of MGS amounted to RM5.5 billion. Overall, the capital market recorded a net redemption position of RM2.4 billion in March.



Higher new issuances were offset by redemptions

While most major and regional equity markets declined in March, KLSE CI rose by 2.6% to 901.85 points at end-March compared with end-February. Equity prices were influenced mainly by positive sentiments surrounding the general election held on 21 March. The favourable forecast made by Bank Negara Malaysia on growth prospects in 2004 also contributed to the positive investor sentiments. Market capitalisation was higher at RM724.2 billion (+1.5% since end-February) and daily average turnover for the month was at 647 million units (-12.7% from February).

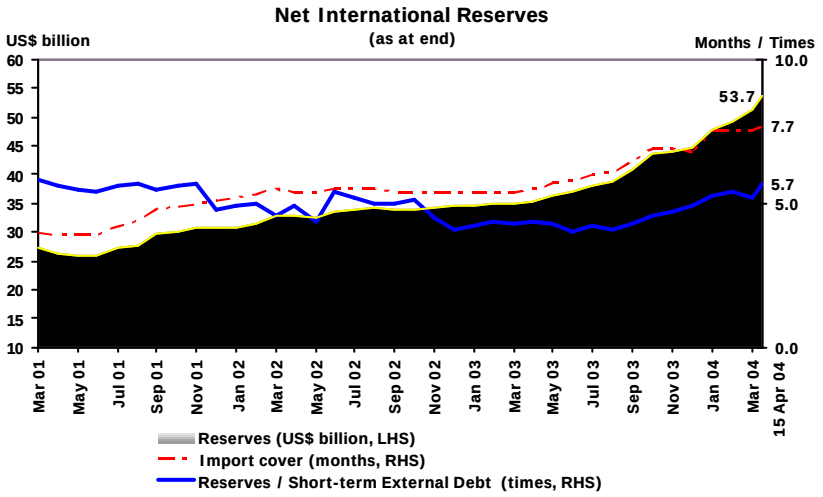


KLSE CI declined by 1.2% over the period 1 March – 27 April 2004

In the first three weeks of April, the market consolidated due to the absence of fresh leads. Towards the end of the month, the market eased slightly due to the resurgence of SARS cases in China. As at 27 April 2004, the KLSE CI closed at 868.32 (-3.7% since end-March). Market capitalisation was lower at RM704.4 billion (-2.7% since end-March) and daily average turnover during the period was also lower at 378.6 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased further by RM8 billion or US$2.1 billion during March to RM195.1 billion or US$51.3 billion as at 31 March 2004. The increase in reserves during March was due mainly to sustained repatriation of export earnings, larger inflows of portfolio funds and foreign direct investment. Outflows during the period reflected higher payments for imports of goods and services, repatriation of dividends and the repayment of external loans by the private sector. The reserves level at the end of March has taken into account the quarterly adjustment of the foreign exchange revaluation loss amounting to US$421 million. The reserves increased further to RM204 billion or US$53.7 billion as at 15 April 2004, adequate to finance 7.7 months of retained imports and is 5.7 times the short-term external debt.



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

Lower non-performing loans while capitalisation remained high

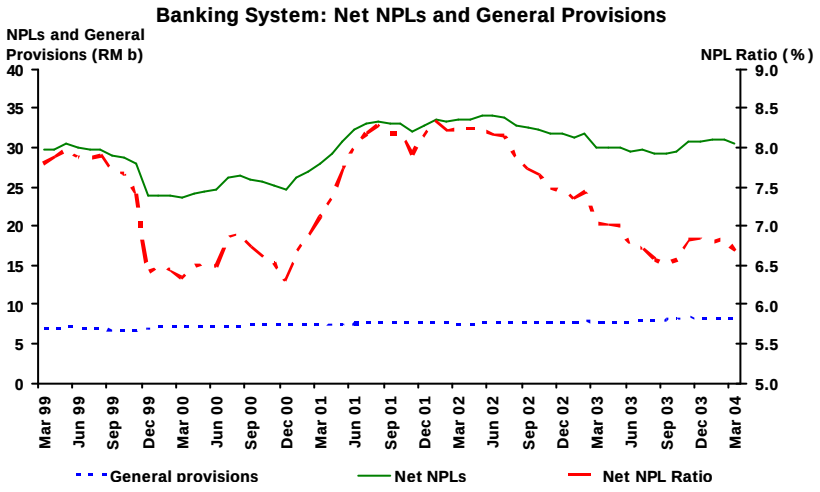
Net non-performing loans (NPLs) based on the 6-month classification declined by RM0.5 billion and combined with a higher loan base, resulted in a lower net NPL ratio of 6.7%. Meanwhile, both the risk-weighted capital ratio (RWCR) and

core capital ratio of the banking system declined marginally by 0.2 percentage points to 13.5% and 10.9% respectively due mainly to higher risk-weighted assets.

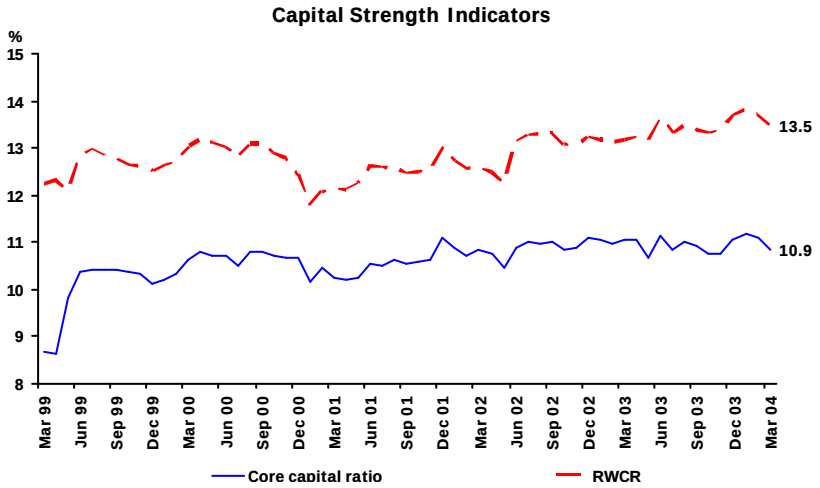
Banking System Health Indicators *

	As at end-							
	1999	2000	2001	2002	2003	Jan 04	Feb 04	Mar 04
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.2	11.1	10.9
RWCR	12.5	12.5	13.0	13.2	13.7	13.8	13.7	13.5
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.8	6.8	6.7
Amount (RM million)	23,849	24,700	32,775	31,703	30,764	30,867	30,941	30,474
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8

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



Net NPL ratio (6-month classification) decreased marginally to 6.7%



RWCR and core capital ratio declined marginally to 13.5% and 10.9% respectively

Bank Negara Malaysia
28 April 2004

Key Monetary and Banking Statistics

		Jan 04		Feb 04		Mar 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		49.7	3.8	47.3	8.9	47.0	9.0
M1		103.6	11.3	103.4	15.8	105.9	19.8
M2		430.2	10.5	433.0	11.0	439.7	12.6
M3		554.8	8.9	560.7	9.7	568.7	10.7
Banking System							
Total deposits		554.0	9.1	562.2	9.6	573.4	10.9
Total loans (including loans sold to Cagamas)		475.6	4.6	477.2	5.1	479.1	5.7
Loan-deposit ratio (%)		81.2		80.1		79.2	
Financing-deposit ratio [1] (%)		91.7		90.5		89.2	
Loans applied (during the period)		17.2	-19.8	17.6	12.8	23.8	24.9
Loans approved (during the period)		9.7	-25.7	10.9	17.3	16.5	27.6
Loans disbursed (during the period)		39.5	3.8	32.8	19.7	42.6	21.6
Loans repaid (during the period)		38.7	4.3	32.9	17.4	40.9	14.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.8		13.7		13.5	
Net NPLs: 6-month classification (%)		6.8		6.8		6.7	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		181.3		187.1		195.1	
Reserves in USD (billion)		47.7		49.2		51.3	
Months of retained imports		7.5		7.5		7.5	
Interest Rates at end-period [average for the month]							
Interbank:	1-month	2.99 [2.99]		2.98 [2.99]		2.97 [2.98]	
	3-month	2.89 [2.87]		2.85 [2.85]		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	1.0	105.1	0.9	105.0	1.0
Producer Price Index (PPI) (1989=100)		143.4	2.7	146.8	4.4		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.7152		4.7297		4.6522	
Pound Sterling		6.9018		7.0819		6.9667	
100 Japanese yen		3.5861		3.4703		3.6334	
Singapore dollar		2.2323		2.2311		2.2633	
100 Thai Baht		9.6729		9.6594		9.6239	
100 Philippine Peso		6.7827		6.7466		6.7580	
100 Indonesian Rupiah		0.0450		0.0449		0.0442	
100 Korean Won		0.3227		0.3227		0.3308	
Capital Market							
Net funds raised (in RM b) by:	public	...		6.0		-0.5	
	private	2.0		0.3		-1.9	
Kuala Lumpur Composite Index (end-period)		818.9		879.2		901.9	
KLSE Market Capitalisation (RMb, end-period)		664.3		713.4		724.2	

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