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MEDIA STATEMENT
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In conjunction with the release of the National Budget for 2013

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Kuala Lumpur, 28 September 2012 – **As a whole, the 2013 Budget is likely to boost market confidence** which is certainly positive for near-term growth prospects, given the planned fiscal consolidation to cut the budget deficit to 4 percent of GDP in 2013 and further to 3 percent by 2015, down from 4.5% percent, as well as the pledge that the debt-to-GDP ratio will not exceed 55 percent of GDP compared to the current 53.7 percent of GDP. Moreover, the budget deficit position will also be financed mainly through domestic sources. The commitment to prudent financial management, even in a pre-election budget, is noteworthy.

The economic outlook remains relatively sanguine, with the government tipping GDP growth to sustain at 4.5 to 5.5 percent, comparable to the estimated 5 percent growth for 2012. The key growth drivers are likely to remain strong domestic demand. Private and public consumption are projected to expand by 4.2 percent in 2013. In addition, the government anticipates a recovery in export growth as global growth improves in the second half of 2013. The Malaysian economy has also crossed a new threshold in terms of achieving a nominal Gross Domestic Product (GDP) of more than RM1 trillion for the first time. The vibrancy of domestic investments suggests that the Economic Transformation Programme (ETP) is bearing fruits.

On economic fundamentals, the focus on improving competitiveness and labor productivity, growing the SMEs (under the SME Masterplan), promoting Malaysia as an Oil and Gas Hub, intensifying tourism, strengthening education, skills and training, and R&D measures bode well for medium-term competitiveness and Malaysia's growth potential. We expect the significance

of the country to continue growing especially with the huge potential of the region and Malaysia is in a good position to complement the likes of Singapore and Hong Kong as a regional powerhouse, especially in international finance.

We welcome the new initiatives for the financial sector especially given Malaysia's aim to make the improvement of it as a key support to developing the Greater KL region and also part of the approach to attract and retain talents – both of which are crucial pillars to Malaysia's 2020 ambitions. There have been encouraging developments associated with Malaysia's aim of becoming an international financial centre, including record-breaking IPOs witnessed this year and the development of Islamic Banking in the past recent years.

Two key tax incentives include the 100 percent waiver for 10 years and exemption of withholding tax and stamp duty for private entrepreneurs in the oil and gas industry, as well as the tax incentive for the Global Incentive for Trading (GIFT) programme to make Malaysia an international commodity trading hub in line with global demand for liquefied natural gas (LNG). Moreover, the recently launched Tun Razak Exchange (TRX) is expected to provide new investment opportunities, attract 250 international financial services companies and offer 40,000 knowledge and skilled job opportunities.

In terms of capital markets activity, Malaysia accounted for 71% or RM171 billion of the total global sukuk issuance in the first seven months of 2012, and plans to build on this thrust with the framework on the issuance of AgroSukuk, as well as encouraging issuance and participation in retail bonds and retail sukuk. Other initiatives include the establishment of Capital Market Promotion Centre and a Graduate Representative Programme to increase the supply of professionals to support growth of the capital market and further stimulate the financial market.

On the expenditure front, the additional spending on welfare and infrastructure projects is positioned as a "gesture of appreciation" to Malaysians, but is likely also a nod to the upcoming elections that must be called by June 2013. In particular, the subsidy bill may balloon by 17 percent to RM42.4 billion, before declining to RM37.6 billion in 2013. The Malaysian government had temporarily put on hold a plan to cut petrol subsidies since December 2010, and had to make additional allocations during the year to finance subsidies, cash assistance for the poor and salary increments for civil servants. As a result, government expenditure may hit RM252.4 billion, which is 9.4 per cent higher than what was initially proposed. As part of the plan to improve infrastructure, Malaysia will also spend RM47.8 billion in 2013 on roads, railways and hospitals and education.

Despite the planned deficit in Budget 2013, inflation is not expected to

pose a significant challenge. Headline CPI is forecast to remain stable and average between 2 per cent and 3 per cent in 2013. Consequently, BNM sits in a fairly comfortable monetary policy position as to managing upside inflationary risks and promoting growth.

However, the plan to trim total and operating expenditures appear very modest. Budget 2013 will only cut 2013 total and operating expenditure by 1.1 percent to RM249.7 billion and 0.3 percent to RM201.92 billion respectively amid steps to rein in discretionary spending. Note that operating expenditures are currently already running at about 138% of total tax revenues, of which the contribution from the oil & gas sector makes up a significant portion of the government's overall revenues. Hence a diversification away from this should be beneficial for public finances in the longer-term.

Should the 2013 global economic recovery fail to materialise, then the 2013 revenue projections may fall short, and put to some risk the expected narrowing of the budget deficit. Budget 2013 forecasts revenue at RM207.24 billion, up 11.8% from 2011, of which direct tax and indirect tax revenues are forecast to increase by 4.4% and 4.3% respectively, backed by steady corporate earnings, continued access to financing, stable labour market and income and income growth.

The market expectations going forward could well be one that fiscal consolidation has to pick up even more speed post-elections with the eventual implementation of the Goods and Services Tax (GST) in the coming years to strengthen the revenue base. At this stage though, there is no real need to fret about the possibility of a Malaysia's sovereign credit rating being put on a negative watch or even a downgrade in the immediate future as the economic fundamentals for the Malaysian economy remains rock solid.

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OCBC Bank and its subsidiaries offer a broad array of specialist financial and wealth management services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services.

OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. It has a network of over 500 branches and representative offices in 15 countries and territories, including about 400 branches and offices in Indonesia that are operated by its subsidiary, Bank OCBC NISP.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia. Private banking services are provided by subsidiary Bank of Singapore, which continued to gain industry recognition in 2011 including being voted "Outstanding Private Bank in Asia Pacific" by Private Banker International.

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