MEDIA STATEMENT
BY SELENA LING, ECONOMIST, OCBC BANK

2012 Malaysia Economic Outlook

Kuala Lumpur, 31 May 2012 - While economic growth has moderated to 4.7% yoy in Q1, the Malaysian economy has outperformed expectations in the period, partly driven by the better-than-expected exports growth especially in the first 2 months of the year. What was particularly encouraging is the fact that private consumption growth has remained strong, staying above 7% yoy for the third consecutive quarter. More importantly, investment growth reached a record high of more than 16% yoy in the period. While this would have been partly driven by the continuation of the various private-public partnership projects, it also emphasizes the robustness in Malaysia's domestic demand. Both business and consumer confidence has rebounded strongly from the sharp dip seen at the end of last year and, if sustained, this could deliver an upside surprise to our current 4.2% yoy GDP growth forecast for Malaysia for 2012.

Ms Selena Ling, Head, Treasury Research & Strategy, Global Treasury, OCBC Bank

The strength of domestic demand is crucial for Malaysia's growth prospects this year, as exports remain a clear drag to the economy given tepid external demand in the advanced economies. The areas of concern include the weak exports recovery of the Electronics & Electrical products (E&E), but more importantly the possibility of a sharp moderation in the shipments of commodity products. The latest available data for March indicates that volume of key commodity exports, including palm oil, has fallen almost to the level seen before the commodity boom in 2009. Coupled with the recent slump in commodity prices due to the resurfaced concerns over the possible break-up of the Eurozone, falling commodity export earnings would weigh on Malaysia's growth momentum ahead. As industrial production growth has continued to track exports growth in recent months, we see a marked slowdown in exports growth as a major risk factor going forward.

Malaysia's ability to sustain its robust domestic engine may come under some pressure from the external front. The current wave of risk aversion in the global markets could prove detrimental to Malaysia's domestic demand. The key support underpinning the accelerated pace of expansion in domestic investment in Q1 was the strong underlying tone in the Malaysian Ringgit, which made it cheaper to import capital goods. Should the current risk-off environment persist, there could be sustained depreciative pressure on the Ringgit, and this could in turn moderate investment growth in the next few quarters. This would only add to the additional drag created by the negative income effect from the falling stock market. Domestically, some businesses might also hold off their investment projects at the margin ahead of the widely anticipated elections, just like what was observed in the run-up to the 2008 election.

On the Ringgit itself, it benefits from the fact that Malaysia is only one of the few economies in Asia that still runs a sizeable current account surplus. However, the ongoing market turmoil due to the Eurozone debt crisis has contributed to the broad USD tone gaining strength in recent months and this may remain prevalent until the global growth momentum regain traction. With foreign ownership of Malaysian government bonds at a record high of just under the 30% handle, which is currently the highest in the region, the risk of a sizeable reversal or outflow from this front would have a material impact on the Ringgit. Note that in a recent Global Financial Stability report released by the IMF, the Ringgit was listed as one of the most vulnerable EM currencies should there be a significant and rapid deleveraging of European bank assets out of the Emerging Markets – which is a scenario that could be triggered should there be a disorderly Greek exit from the Eurozone.

About OCBC Bank

OCBC Bank is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second largest financial services group in Southeast Asia by assets and one of the world's most highly-rated banks, with an Aa1 rating from Moody's. It is ranked by Bloomberg Markets as the world's strongest bank in 2011 and 2012.

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.

OCBC Bank offers Islamic banking products and services in Malaysia through its wholly-owned subsidiary, OCBC Al-Amin Bank Berhad.

For more information, please visit www.ocbc.com.my