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23 OCTOBER 2009

*In conjunction with the release of the National Budget for 2010*

Kuala Lumpur, 23 October 2009 – OCBC Bank (Malaysia) Berhad is pleased to present its views on the 2010 National Budget presented by our Prime Minister this evening.

**Introduction**

In the 2010 National Budget, the Prime Minister has hit the right notes to reshape the economy by focusing on education, ICT and green technology to propel the nation into a high income economy. At the *rakyat* level, consumers would now enjoy a greater level of disposable income via the various tax deductions and other personal tax relief.

The budget deficit for 2010 is estimated at 5.6% of GDP, which we believe is achievable. The lower deficit position is mainly due to the government's proposed total allocations of RM191.5b, down 11.2% from the previous 2009 allocations of RM215.7b. The move toward improving fiscal discipline is laudable especially since the Malaysian economy is expected to see a less severe contraction of 3% this year and should recover to grow by 2-3% in 2010. Generally, we view the Government's intention to reduce its deficit position will be positive to the debt capital market as the supply of Government securities are no longer expected to blow out of proportion.

The budget's focus on private investment, especially in attracting FDIs and privatising companies under MOF, is a good economic initiative to strengthen the growth drivers.

**Retail banking**

While we understand the Government's effort to encourage prudent spending, we are concerned over the imposition of the service tax of RM50 for principal credit cards and RM25 for supplementary cards respectively. This may only increase the burden of both the industry and the consumer. The credit card is a product of payment convenience and facilitates cash substitution. Therefore, the imposition of this tax would not curb its usage or necessarily encourage prudent spending.

The imposition of the 5% real capital gains tax on properties is a counter-productive move in encouraging property investments among local and foreign investors, particularly in attracting REITs investors. Furthermore, this would make Malaysia's property market less attractive as compared to our neighbouring countries in Southeast Asia despite our property prices being among the lowest in the region.

### **Capital markets**

The tax neutrality between conventional and Islamic financing has been further fine-tuned to ensure that the non-RM sukuk market is given further prominence with various tax incentives. These include tax exemptions on profits derived and expenses incurred from the issuance of sukuk and special purpose vehicles (SPV) established under the Offshore Companies Act for the purposes of issuance of Islamic securities, amongst others.

Whilst these measures will indeed drive the supply of non-RM sukuk and thus position the country as a strong regional Islamic sukuk hub, critical measures are still required to be undertaken to develop a regional-level sukuk market. These entail, amongst others, developing a regional clearing & settlement system, a vibrant secondary market by virtue of price transparency, promoting regional credit rating agencies and harmonising Shariah standards.

### **Islamic banking**

We are encouraged by the Government's continued commitment to Islamic banking with the various tax incentives that continue to be granted. This augurs well for our efforts to make Malaysia a vibrant Islamic finance hub.

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### **About OCBC Bank**

OCBC Bank is Singapore's longest established local bank. It has assets of S\$183 billion and a network of more than 480 branches and representative offices in 15 countries and territories including Singapore, Malaysia, Indonesia, China, Hong Kong SAR, Brunei, Japan, Australia, UK and USA. This network includes more than 360 branches and offices in Indonesia operated by OCBC Bank's subsidiary, Bank OCBC NISP. OCBC Bank and its banking subsidiaries offer a wide range of specialist financial services, from consumer, corporate, investment, private and transaction banking to treasury and stock-broking services to meet the needs of its customers across communities.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia, in terms of assets and market share, and its asset management subsidiary, Lion Global Investors is one of the largest asset management companies in Southeast Asia.

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

Additional information may be found at [www.ocbc.com](http://www.ocbc.com).