NOTE: This presentation represents the views of the author and not necessarily those of Bank Negara Malaysia (BNM) or BNM policy. The views expressed herein should be attributed to the author and not to BNM.
Core elements of macroprudential policy framework

1. Clear mandate, policy objectives and sound legal framework
   - Well-defined financial stability mandate, powers and accountability framework
   - Reinforces ability and willingness to implement macroprudential policies with clear objectives

2. Integrated systemic risk surveillance and assessment
   - Integrated macro- and micro-prudential surveillance and risk assessment
   - Collection of information and assessment of systemic risk must cover all sources

3. Effective toolkits and implementation strategy
   - Discretionary and preemptive
     - Ensure timely uplift, with careful management of circumvention/arbitrage
   - Progressive and targeted approach
     - Minimise risk of overshooting or unintended spillovers (e.g. shift of risks)
     - Recalibration to respond to changing conditions

4. Strong institutional arrangements, governance and coordination
   - Mechanisms to ensure effective coordination across different policies and authorities
     - Macro-/microprudential policies & fiscal/monetary/other macroeconomic policies
   - Strong check and balance to manage complex trade-offs and ensure credibility of policies

5. Effective communication framework
Clearly defined mandate and powers to address systemic risks

Principal objects
To promote monetary stability and financial stability conducive to sustainable growth of the Malaysian economy

Risks to financial stability

Disrupts, or is likely to disrupt
Financial intermediation process, and orderly functioning of money & FX markets

Affects, or is likely to affect
Public confidence in, or stability of, the financial system

...for consistent exercise of financial stability powers (CBA 2009, FSA 2013, IFSA 2013)

1. Ex-ante surveillance powers for timely risk identification
2. Power to enter into arrangements, advise and make recommendations to other supervisory authorities
3. Pre-emptive powers to avert or mitigate systemic risks
   • Liquidity assistance, capital support, order for financial stability
4. Ex-post powers to minimise impact of instability
   • incl. compulsory transfers and bridge institutions
5. Power to prescribe financial institutions to ongoing regulation and supervision
   • If such entity poses (or is likely to pose) systemic risk, due to its nature, scope, size, concentration or interconnectedness of its activities
## Integrated macro- /micro- assessments and policy measures to safeguard systemic stability

<table>
<thead>
<tr>
<th>Policy Areas/Key Processes</th>
<th>Intelligence &amp; Monitoring</th>
<th>Assessment &amp; Policy Recommendation</th>
<th>Policy Decision &amp; Implementation</th>
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</table>
| **Macroeconomic (system-wide stability)** | Macrosurveillance framework/tool  
- Early warning systems & indicators  
- Cross section/time analyses  
- Market intelligence  
- Scenario-based macro stress test  
- Contagion risk assessment  
- Assessment of collective behaviours | Evaluate the extent, likelihood & impact of systemic risks  
- Procyclicality & cross-sectional  
Propose risk prevention or mitigation policies | Pre-emptive measures to avert or reduce systemic risks  
- Macroprudential policies  
- Limit build-up of systemic risks/imbbalances  
- Strengthen resilience to shocks/downturn  
- Market disciplining mechanisms |
| **Macroprudential (system-wide stability)** | Supervisory Risk-based Framework  
- Consolidated supervision  
- Risk-based or thematic examinations  
- Integrated on- & off-site surveillance  
- Micro stress test | Evaluate institutional safety & soundness & calibrate actions  
- Composite Risk Ratings  
- Ratings panel  
- Supervisory Intervention Guide | |
| **Microprudential (institutional safety & soundness)** | Consolidated inputs from above (increased intensity and flows) | Analyse & propose crisis management/resolution strategies and measures | |
| **Crisis management & resolution** | | | |

**Mutually reinforcing roles and applications of macro- and micro-prudential assessments and policy measures to safeguard systemic stability**

- Emergency liquidity assistance
- Recapitalisation
- Restructuring/ winding-up
- Order for financial stability
Incremental, targeted and coordinated measures
e.g. managing imbalances in the housing market (2010-present)

**Macroprudential**
1. Max 70% LTV on 3rd housing loan onwards (Nov 2010)
2. Max 60% LTV on non-individuals taking loans for residential properties (Dec 2011)
3. Max tenure of 35 years for purchase of properties (July 2013)
4. Prohibit housing loans with interest capitalisation (ICS) or developer interest bearing schemes (DIBS)* (Nov 2013)

**Microprudential**
1. Higher risk-weights for housing loans with LTV>90% (2011)
2. Issued Guidelines on Responsible Financing* (Nov 2011)
3. Issued Guidelines on Risk-Informed Pricing (Dec 2013)
4. Min collective impairment provisions and regulatory reserves of 1.2% of total loans (Feb 2014)

**Government**
2. Prohibit new developments with elements of DIBS (Nov 2013)
3. Establishment of the National Housing Council (2014)
4. Increase supply of affordable housing (on-going)
5. Increase price floor for purchase of homes by foreigners from RM500k to RM1 mil (2014)

OPR was normalised pre-emptively (cumulative 100bps) to avoid keeping interest rates too low for too long, which could result in a build up of financial imbalances.
Strong institutional & governance arrangements

Financial Stability Executive Committee (FSEC)
- High level committee established under CBA to review and decide on BNM's recommendations:
  - for entities outside of BNM's regulatory perimeter:
    - macroprudential measures
    - orders for financial stability
    - liquidity assistance
  - that involves public funds

Financial Stability Committee (FSC)
- Specific proposals by BNM to avert or reduce systemic risks
- Macroeconomic and microprudential responses
- Supervisory intervention
- Recommend/monitor implementation of approved actions by FSEC

Monetary Policy Committee (MPC)
- Maintain price stability with due regard to economic developments
- Monetary policy formulation

Joint Policy Committee (JPC)
- Deliberation and decision on macroprudential policy responses that may have wider implications on the economy
5 Effective communication framework

Clear and comprehensive engagement process enables effective communication of policies and issues

Continuous engagement with relevant stakeholders ensures commitment from all parties

BNM Communication & Stakeholder Engagement Framework

- Identify
- Analyze
- Engage
- Evaluate

7Cs of communication
- Clarity
- Comprehensive
- Consistent (across time & stakeholders)
- Concise
- Coordinated
- Credible
- Continuous

Policy formulation stage
- Consumer & industry associations
- Focus group sessions with selected financial institutions

Issuance stage
- Coordinated press release with relevant authorities
- Media & briefing sessions
Operationalising the framework – experience since 2010

Mutually reinforcing roles and applications of macro- and micro-prudential assessments and policy measures to safeguard systemic stability

(1) Intelligence and monitoring
(2) Assessment and policy recommendation
(3) Policy decision, implementation and communication
(4) Monitoring effectiveness, spillovers and circumvention
(5) Policy calibration and/or upliftment
1 Intelligence and monitoring

Growth in household (HH) debt peaked in 2010, mainly from expansion by non-banks

Driven by housing loans by banks and personal financing (PF) by non-banks

- HH loans by banks: 48% for housing loans
- HH loans by non-banks: 51% for PF

Outstanding (RM billion) vs. Annual change (%)

- Debt
- Financial Assets
- Annual change - Debt (RHS)
- Annual change - Financial Assets

Debt and Financial Assets Annual Change

- Contribution to HH debt growth, ppt

- 2009 - 2014

- Others
- Credit card
- Personal financing
- Auto financing
- Non-residential property loan
- Purchase of securities
- Housing loan
Intelligence and monitoring (cont.)

House prices grew above long-term trend, partly due to credit-fuelled speculative purchases

Some concerns with lending practices to HHs and other developments

- High housing LTV ratio up to 95-100%
- Long financing tenures
  - Non-banks – PF up to 25 years
  - Banks – Housing loans up to 45 years
- Highly competitive financing rates, particularly for housing loans
- Differences in definition of debt coverage and income source to compute debt service ratio (DSR)
  - Similar DSR threshold for different income groups
- Bundling of overdraft and/or PF facilities with housing loans
- Growing housing and property development projects with developer interest bearing schemes (DIBS)

Source: National Property Information Centre (NAPIC)
Assessment and policy recommendation

Higher delinquencies for borrowers with multiple housing loans and higher LTV ratio

Domestic considerations for policy design

- Enhance responsible financing practices and risk pricing by lenders
- Curb credit-fuelled speculative house purchases
- Curb excessive growth in house prices not supported by fundamentals
- Promote financial education, esp. with new borrowers

Desired Outcomes

- Targeted, to minimise unintended spillovers
  - Sustain access to financing by first time house buyers
- Discretionary
  - Prevent sudden risk build-up, particularly before implementation
- Progressive
  - Allow for calibration and avoid “overshooting”
- Complement/reinforce other policies
  - E.g. monetary, fiscal, supervisory
- Enforceable
### 2. Assessment and policy recommendation (cont.)

**Combination of policies to address HH indebtedness and rising house prices**

<table>
<thead>
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<th>Sound and sustainable household sector</th>
<th>Responsible behaviour by borrowers and financial institutions</th>
<th>Sound and sustainable housing market</th>
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<tr>
<td>Stricter credit card requirements</td>
<td>Loan-to-value ratio limits on housing loans</td>
<td>Establishment of the National Housing Council</td>
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<tr>
<td>Guidelines on Responsible Financing</td>
<td>Prohibition of housing loans with interest capitalisation (ICS) or developer interest bearing schemes (DIBS)</td>
<td>Government initiatives to increase supply of affordable homes</td>
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<tr>
<td>Prohibition on offering of pre-approved products</td>
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<td>House price transparency</td>
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<td>Guidance on debt service ratio and reporting requirements</td>
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<td>Price floor for purchase of homes by foreigners</td>
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<td>Intensified financial education outreach</td>
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<td>Tighter real property gains tax (RPGT)</td>
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<tr>
<td>Financial and debt management services provided by Agensi Kaunseling dan Pengurusan Kredit (AKPK)</td>
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<tr>
<td>Capped tenure of personal use and property financing</td>
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</tbody>
</table>

*Consistent application on all major credit providers, in coordination with relevant authorities*
Assessment and policy recommendation (cont.)

Promoting financial literacy among Malaysian adults

Agensi Kaunseling Dan Pengurusan Kredit helps financial consumers manage their debt

Set up in 2006 → “Make Prudent Financial Management A Way of Life” for Malaysians

Financial education
Lead agency to deliver adult financial education

Financial counselling
Provides advice on managing finances (e.g. budgeting, money management and credit-related issues)

Debt management programme
Supports borrowers in financial difficulty to restructure/reschedule outstanding loans with lenders (Scope expanded to cover borrowers of credit co-operatives and MBSB)

POWER! Programme focuses on key financial disciplines

Ch1: Cash flow management
Ch2: Borrowing basics
Ch3: Using a credit card
Ch4: Buying a car
Ch5: Buying a house
Ch6: Importance of debt management

Delivered through: Individual workshops, National Service Training Programmes, workplace financial education, community-based programmes

Since 2011, nearly 200,000 have attended POWER! programme
500,000 have benefited from AKPK’s financial education programme since 2006.
3 Policy decision, implementation and communication

Example: July 2013 measures on lending to HHs

- Effective collaboration across authorities to minimise regulatory arbitrage or shifts to informal sectors
- Effective communication strategy, including engagements with relevant stakeholders (players, borrowers, agencies, etc)
- Improvements in data collection and management for analyses

Policy formulation stage

- **Consumer & industry associations** – to reinforce policy clarity & objectives, secure support & seek feedback
- **Focus group sessions with selected institutions** – to identify & address specific concerns & implementation issues
- **Cooperatives Commission Malaysia (SKM)** – early engagement to coordinate implementation of similar requirements on responsible practices for credit cooperatives

Issuance stage

- **Coordinated press release by BNM & SKM** – consistent implementation ensures level playing field
- **Media & briefing sessions** – to create public awareness & promote understanding of policy rationale

Monitor compliance
- Joint on-site supervision of non-bank lenders with regulator

Monitor efficacy
- Slower pace of growth in HH debt
- Sustained debt repayment capacity of HHs
- Further strengthening of lending practices, particularly to vulnerable borrowers
- Reduced credit-fuelled speculative purchases of residential properties
- Slower growth in house prices across major states in response to measures to curb speculative purchases

Circumvention
- Post-introduction of 70% LTV limit on 3rd outstanding housing loan per individual borrower (Nov 2010), BNM observed rising trend of housing loans by non-individuals (i.e. businesses)
- In Dec 2011, BNM introduced 60% LTV limit on all housing loans obtained by non-individuals

Spillovers
- On-going monitoring of potential shift towards lending by moneylenders, pawnbrokers, etc.
  - e.g. bank borrowings to fund business, growth in lending portfolio and lending practices
**BNM study on effectiveness of LTV ratio limits (part of joint IMF study)**

**LTV ratio limit dampened demand for credit-fuelled speculative housing loans as intended**

- But effects on house prices, transactions and growth in housing loans were only temporary
  - Average house price
    - Slight increase in MHPI, both before the announcement was made – buyers could have brought forward purchases, encouraged by marketing by developers and banks
    - Negative impact on house price was only transitory
  - Growth in housing loans
    - Slower growth leading up to the announcement was short-lived, as time dummy recorded positive values thereafter
  - Number of transactions in the housing market
    - Seems immune to the measure, as impact seems transitory
    - Sustained demand likely from first-time buyers due to demographic and structural factors

**Findings highlighted importance of:**

- Other policy interventions (particularly fiscal measures) to provide holistic and long-term solution to address house price increases
- Timely and willingness to calibrate and/or uplift policies are critical

*BNM Working Paper (to be published in 2015): Mr Muhamad Shukri Abdul Rani & Ms Chin Ching Lau*
Q&A

Terima kasih!

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