

Bank Negara aims to spoil credit party
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By Clara Chooi

KUALA LUMPUR, Jan 16 — Bank Negara Malaysia seems to be living by the old adage that its job is to take away the punch bowl just as the party gets going.

It was among the first in Asia to begin raising interest rates in early 2010, after the financial crisis subsided. That early response helped to neutralise the inflationary threat that stalked most of its neighbours last year.

Now Malaysian central bank chief Tan Sri Zeti Akhtar Aziz is taking on household credit, cracking down on excessive borrowing even though the economy counts on consumer spending to generate more than half of its gross domestic product.

“The central bank has had their finger on the pulse lately,” said Fred Gibson, an economist with Moody’s Analytics in Sydney. “They have been pretty proactive.”

Malaysia is not a country that is regularly praised for its strong institutions. It came in at an unimpressive 56th on Transparency International’s annual ranking of corruption perceptions, just below South Africa. It regularly runs large fiscal deficits despite rising oil revenues, a problem that ratings agencies cite frequently as an obstacle to any upgrade.

So the fact that Zeti has earned international recognition as a proactive and independent central banker stands out. Global Finance magazine named her one of the world’s six best in 2011, joining better known peers such as Australia’s Glenn Stevens and Israel’s Stanley Fischer.

Reuters interviewed a half-dozen economists in Kuala Lumpur over the past two weeks and found that Zeti also enjoys strong support at home, across the political spectrum.

That is no small achievement in a country that has been deeply divided by the high-profile sodomy trial of opposition leader Datuk Seri Anwar Ibrahim, who was acquitted on January 9. Malaysia is likely to hold national elections in the next six months, adding to the political tension.

Malaysia, Southeast Asia’s third-largest economy, weathered the 2011 global turmoil surprisingly well, thanks in large part to rising revenue from its vast palm oil and petroleum industries, which has helped to support domestic growth.

The predominantly Muslim country of 28 million has built its reputation as an Islamic finance centre, and Zeti often points to that as another source of financial stability.

Zeti, a US-trained economist, has headed Malaysia’s central bank since 2000, and the 64-year-old was appointed to another five-year term last April.

That long tenure gives her more clout to go against the political grain.

Taking away the punch bowl — a quote attributed to William McChesney Martin, who was US Federal Reserve chairman from 1951 to 1970 — often means making unpopular decisions at inopportune moments.

Under Zeti's leadership, Bank Negara Malaysia has set stricter limits on mortgages for speculative property purchases and capped credit card borrowing for lower-income households. That could clash with the government's aim of sustaining strong economic growth at least beyond the next election.

Zeti has good reason to worry about consumer credit. Household debt stood at 76 per cent of GDP in 2011, second highest in Asia after South Korea's 84 per cent.

Defaults remain low, however, thanks in large part to rising incomes from Malaysia's commodity riches. But that could quickly change if Europe's crisis takes a turn for the worse.

A recent report from Nomura showed Malaysia trailing only Hong Kong and Singapore in terms of Asia's exposure to European bank claims, although Zeti has said the amount was far smaller than Nomura estimated.

The central bank's latest measure, which took effect at the start of 2012, requires banks to look at borrowers' net income, after taxes and other statutory deductions, rather than the gross amount. That will reduce the amount of money households can borrow for mortgages, auto loans and other credit.

Earlier in 2011, Bank Negara clamped down on credit card issuance, limiting households earning RM36,000 or less per year to two credit cards with a maximum credit line of no more than twice monthly income.

Compare that with the United States, where retail chain stores routinely entice customers to sign up for credit cards by offering discounts on purchases for those who obtain on-the-spot credit.

Some of Malaysia's conservative approach toward consumer credit stems from the Asian financial crisis of the late 1990s, which proved how important it is to ensure banks are healthy enough to withstand a sudden swing in sentiment.

But Zeti is also well aware that consumer borrowing has risen rapidly since then. Households accounted for about 55 per cent of total loans in 2011, up from 16 per cent in 1998, according to the Malaysian Rating Corp, or MARC.

"While the pre-emptive regulatory measures are likely to help dampen household loan growth, the continuous escalation in household sector debt cannot be reined in unless there is a fundamental change in business strategies of Malaysian banks," MARC wrote in a 2011 report on household borrowing.

"Although a moderate expansion in household credit is essential for any economy, an excessive expansion can potentially destabilise any financial system."

The International Monetary Fund, in its most recent assessment of Malaysia, found little cause for alarm, saying there were no signs of strains in servicing debt and "no signs of

systemic froth in property markets.”

Patricia Oh, an economist at TA Securities in Kuala Lumpur, said consumer spending has held up well despite the tighter lending rules, and she expects that to continue through 2012.

But if domestic growth falters or Europe’s crisis deepens, look for Zeti to respond quickly. — Reuters

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