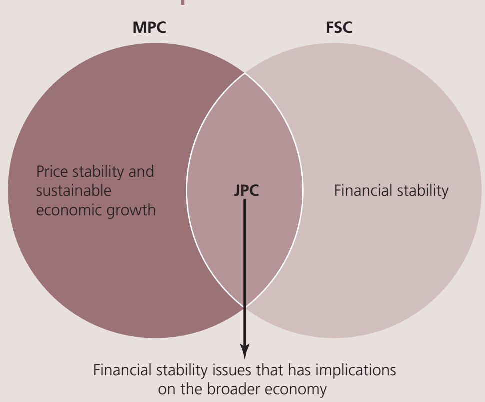
Bank Negara Malaysia's Joint Policy Committee

Bank Negara Malaysia has always recognised the interdependence of monetary policy and financial stability. The financial crisis in the advanced economies has amplified the importance of the relationship between these two types of policies. While the effective conduct of monetary policy presupposes a sound and stable financial system to provide an effective monetary transmission mechanism, continued financial stability, in turn, requires sound macroeconomic conditions, including an effective monetary policy. For example, given the pivotal role of the financial system in the intermediation process, a breakdown in financial stability can disrupt the monetary transmission mechanism by disrupting financial intermediation and the flow of credit to the economy, rendering monetary policy less effective. Similarly, a monetary policy stance that allows for prolonged low interest rates could lead to the build-up of financial imbalances, which in turn, increases the risks to financial stability.

As monetary and financial policies are highly interdependent, effective coordination of these policies is critical towards preserving sustainable macroeconomic conditions. In recognition of this, the Bank has established the Joint Policy Committee (JPC), a high-level internal policy committee, to deliberate on cross-cutting issues and to ensure the effective coordination of policies that may have an impact on the financial system and the broader economy. The joint forum framework facilitates broader surveillance and a more comprehensive risk assessment of issues by combining macroeconomic surveillance with micro-level analysis of the financial sector. This allows the Bank to act pre-emptively on emerging issues in a more coordinated and timely manner. The JPC is equipped with a broad range of powers and macroprudential instruments to undertake its mandates.

Chart 1

Demarcation of Responsibilities



The JPC is activated when either the Monetary Policy Committee (MPC) or Financial Stability Committee[1] (FSC) escalates an issue that has implications on both monetary and financial stability[2]. The Bank convened the inaugural JPC meeting on 7 September 2010. The current Committee consists of the Governor, Deputy Governors and Assistant Governors of the Bank.

Since its inception, several important issues have been brought to the attention of the JPC. Of significance, the JPC discussed the analysis of credit conditions from several perspectives. Given the downside risks to the domestic economy that were emanating from the weak global environment and the threat of higher inflation from rising global commodity prices in recent years, the JPC

[1] Refer to white box on 'Operationalisation of the Central Bank of Malaysia Act 2009', Annual Report 2010.
[2] As such, there is no fixed schedule or frequency for JPC meetings.

assessed the resilience of households to income shocks, with the evaluation being undertaken at both the aggregate level and at the disaggregated income levels. More recently, the JPC deliberated on the sustainability of household indebtedness, with detailed analysis of credit trends relative to the fundamentals of the economy and the health of household balance sheets across various income and age groups. This was supplemented by an assessment of the increasing role of non-bank financial institutions in the financing of the household sector. Another issue discussed was the developments in the property market and overall credit conditions in the residential and non-residential property sectors. The analysis on the property market was approached at both the national level, as well as by specific localities. The cumulative outcome of the JPC meetings was the implementation of several targeted macroprudential measures to ensure prudent levels of household debt and prevent excessive speculation in the property market.

Table 1

Outcome of the Joint Policy Committee (JPC) Meetings

Measure	Implementation		Rationale
Maximum loan-to-value (LTV) ratio for housing loans	Nov 2010	• Maximum LTV ratio of 70% applicable on the third and subsequent house financing facilities taken out by a borrower	• Mitigate excessive investment and speculative activity which was resulting in significant house price increases in certain locations
	Dec 2011	• Maximum LTV ratio of 60% for housing loans by non-individuals	
Guidelines on Responsible Financing	Jan 2012	• Financial institutions are required to make appropriate enquiries into a prospective borrower's income after statutory deductions for tax and retirement fund, and consider all debt obligations, in assessing the borrower's affordability • Maximum hire purchase financing of 9 years	• To promote prudent, responsible and transparent retail financing practices by financial institutions • To encourage sound borrowing by helping consumers to consider their ability to service all their debt obligations without recourse to further debt or substantial hardship
Propose for the increase of the real property gains tax (RPGT)	Jan 2012	• The Government increased the real property gains tax to 10% for sales of property within two years of purchase and to 5% for sales between 2 to 5 years	• To discourage speculative activity in the property market