

Economist sees rate hike hitting property speculators hardest

www.themalaymailonline.com/malaysia/article/economist-sees-rate-hike-hitting-property-speculators-hardest

January 25, 2018



An economic analyst believes Bank Negara Malaysia's move to raise interest rate may deter property speculation by making it more expensive. — File picture by Choo Choy May

PETALING JAYA, Jan 25 — Bank Negara Malaysia's move to raise the interest rate could deter property speculation by making it more expensive, suggested economic analyst Prof Hoo Ke Ping.

Aside from curbing new speculation, he said the increase could also prompt existing operators to start disposing of their holdings to avoid attracting higher repayments.

He said this would most affect speculators who buy in blocs as they would likely have taken massive loans to finance the purchases.

Hoo added that while the increase would also affect the general public, it would not be to the same extent as major speculators.

“It is not unthinkable that many will seek to unload properties at a much lower price, potentially benefiting those who are currently unable to own homes,” he said, referring to speculators.

Hoo also said the interest rate hike could also force developers to relook their prices to reduce excess supply, particularly in the high-rise segment that currently has an overhang.

“Stock owned by property developers in the form of apartment lots and units and others will have to be sold at a lower price as consumers would be less interested in bank loans, which would cost them more.

“To encourage sales, developers will have to lower their prices making them more affordable to consumers.”

Hoo also called BNM Governor Tan Sri Muhammad Ibrahim proactive for the move, saying the latter was acting with greater foresight than predecessor Tan Sri Zeti Akhtar Aziz in addressing speculation.

He pointed out that pro-speculation gambits such as the developer interest bearing scheme (DIBS) were introduced during her tenure, which he said caused the “bubble” surrounding the current property market.

Asked if the hike’s timing was opportune, Hoo said the move was inevitable.

“If the interest rate is not hiked now, it cannot be avoided down the road, this move will stop a possible chain reaction and suppress the expectation of inflation,” he said.

BNM announced a 25 basis point increase to the overnight policy rate today, raising it to 3.25 per cent.

The last increase was in 2014, also by the same amount.

The central bank said its monetary policy committee “decided to normalise the degree of monetary accommodation” as the economy remains firmly on a steady growth path.

Separately, Alliance Bank chief economist Manokaran Mottain described the decision as “a tough one”, but said it would ultimately protect consumers by controlling inflation.

“With a strong growth momentum, low interest rates are feared to result in financial imbalances.

“We believe the decision was largely due to high inflation rates, over 3.7 per cent in 2017, which were eroding deposit rates which were on average 3.1 per cent as of Nov 2017. Real interest rates have been negative over the past 12 months.”

Manokaran said one positive outcome of the move would also be the temporary strengthening of the ringgit, which was already recovering.

“As of 24 January 2018, the ringgit has rallied to RM3.92 per US dollar, registering a 2.5 per cent gain since the start of the year.

“In the meantime, the rise in will likely improve Malaysia’s attractiveness amongst foreign investors, leading to stronger capital inflows and further appreciation of ringgit,” he said.

“Overall, we do not see this to be the start of a monetary tightening process. In other words, we do not expect any more hikes for the next 12 months, at least,” he added.