Malaysians need more BMWs

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Late last year, Bank Negara Malaysia announced a series of pre-emptive measures to preserve household sector resilience. These included capping the loan-to-value ratio of loans for third houses, stricter income eligibility rules for new credit card issuance and tighter criteria for vehicle financing.

Vehicle financing, in particular, received a lot of attention because of its potential downside impact on the automotive industry and car buyers. The new ruling requires banks to assess vehicle loan applications based on net income (after statutory deductions such as income tax, EPF and other debt obligations). It also sets the maximum vehicle loan repayment period at nine years.

Although not popular, viewed from a wider perspective, the measures introduced were timely and necessary because household borrowing has increased at an annual rate of 12.5% over the last 10 years. In 2009, the Malaysian household debt-to-GDP ratio was 76.6%, much higher than in many developing countries of similar income levels, and even developed countries such as Japan (65.1%), South Korea (61.9%) and Singapore (51.3%).

For most of us, household income has not risen as fast as our debt and this raises the question of how the debt is ever going to be repaid. If the rise of household debt is not checked, higher interest rates or a fall in income due to economic slowdown will cause a rise in non-performing loans that can threaten the health of the banking system.

At first sight, the automotive financing ruling seems to affect only the auto industry, potential buyers and the banking sector. But in actual fact, it brings into focus a number of important future issues. We need to seriously think about affordability and the debt level of households, the future growth of our domestic automotive industry, and the connections between housing, public transport and the workplace.

The first issue is household affordability. It is quite common for household debt to be high in developed countries. For example, in 2010, the ratio of household debt to GDP was 126% in Ireland, 115% in Switzerland and 106% in the UK. However, for developing countries it was much lower — Brazil's ratio was 13%, China 12% and India 10%.

For Malaysia, even though we are a middle-income country, our debt level is like those developed nations. This is understandable because we have a good standard of living and consumption is rising.

Unfortunately, our income growth lags behind our needs. In 2009, Malaysia's household debt was 140.4% of personal disposable income, while it was 105.3% in Singapore and 101% in South Korea. Therefore, the issue of raising real income is pertinent and this must be done through improvements in productivity. Of course, we should also find ways to reduce the cost of products and services, for example by lowering import duties and ensuring healthy and true competition.

The second issue is the future of the domestic automotive industry. According to the World Bank, in 2008, Malaysia had 298 passenger cars per 1,000 people and was ranked No 35 in the world. The other countries that have more passenger cars are mostly in Europe. In Asia, the only country with a higher ranking is Japan (319 passenger cars).

Time and time again, the domestic automotive industry has reaffirmed its plans to export in order to sustain growth, but little progress has been made. The new financing rule is a good wake-up call to prompt the industry to double its export effort and to face cold facts about the limitations of the domestic market.

Availability of cheap financing should not be the main method to grow the industry. Are we prepared to introduce a more stringent passenger vehicle replacement policy? If not, growth based on the domestic market is limited. It is the larger export market that will provide the long-term growth.

The third issue is the connectivity between housing, public transport and the workplace. As land in cities gets more expensive, our new housing areas are being built further and further away from city centres. This makes commuting to work, mostly in the cities, a long and time-consuming journey.

In most of these new suburbs, public transport is awfully inadequate and cars are a must-have. So, it is common to hear people say that a car is not a luxury but a necessity. It is understandable that people are willing to bear high costs (direct and indirect) for cars, often beyond their financial resources, to get ease of mobility.

It is essential that we put together comprehensive policies and measures that link housing and public transport, and ensure mobility within local areas and also to and from the place of work. Efforts to provide affordable housing by building suburbs far away from our cities will be vitiated if it means higher transport costs (need to have cars, toll payments and higher petrol consumption), not to mention commuting time.

Thus, the development of suburban housing areas must come with good local public transport as well as efficient and cost-effective transport connections to the workplace. In this way, the need to own a car can be reduced.

Related to this are bus services. The government has recognised this as a priority by establishing the Land Public Transport Commission (SPAD) to oversee the provision and service quality of public transport. Building an MRT is essential for moving people en masse, but it is equally important to pay attention to bus services. Buses are a critical component of public transport as they have more access points and greater flexibility. They are an essential mode of local transport as well as a feeder for the mass rapid transit (MRT) and train stations.

If we want to encourage more use of public transport, the bus service must be expanded and improved. We should recognise that if we want a good and efficient bus service, the public sector may have to be involved directly because it is unlikely that private bus companies can be commercially profitable.

SPAD is in the midst of formulating its Bus Transformation Plan, which includes reviewing various successful models in use in other countries. Delivering bus services can be done quickly and relatively cheaply, and thus must be given some urgency.

The mantra that applies to public transport also applies to infrastructure — flood the market with supply and the demand will come. If we have extensive and good bus services, the public will use them more and this will lessen the demand for car ownership.

We should have the ultimate objective of having the majority of us commute to work by BMW. No, I don't mean the Bavarian variety, but Bus, MRT and Walking! This is the prevailing commuting mode in developed countries. So enjoy your cars before we reach that stage!

In conclusion, this ruling on eligibility to purchase cars should spark discussion and reflection on the wider issues of household affordability, industrial growth, housing and public transport. We can no longer view each issue in isolation, but have to understand and anticipate the effect a policy might have on other aspects of our economy. In this way, I hope, we can have comprehensive and well-thought-out policies and measures, leading to economic competitiveness and a good standard of living for Malaysians. E

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