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MARA UNIVERSITY OF TECHNOLOGY

THE IMPACT OF ECONOMIC SLOWDOWN ON RESIDENTIAL PROPERTY MARKET

-EFFECTIVENESS OF GOVERNMENT FINANCIAL MEASURE

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PREAMBLE

September 1997 will always be remembered by all the Malaysian people as the date where never before the country having such a stiff and crucial test against its economic structure. After almost a decade of economic prosperity, Malaysia, which was also known as one of the Asian economic tiger, was thrown into an economic debacle as currency and financial turmoil battered the whole region. Caught by surprise, the Government at that time, following an advice from International Monetary Fund (IMF) had introduced several fiscal and financial measure to cater for the situation arise, but unfortunately, the measure taken proved to be disastrous and bring the economic almost to a halt. Realising the effect of the measures taken, the Government embarked on new strategies of economic reformation to deal with the crisis and to prevent a more damaging impact to the country's economic system.

This study was made as part of the learning module for B.Sc. (Hons) Estate Management programme, at Mara University of Technology. For the purpose of this paper, a study was made on the definition of economic slowdown in terms of cause, market event, effect and extent of damages against the demand and supply of residential property in Malaysia with objectives to know how effective the current financial measures taken by the Government in regenerating the residential industry.

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Thank You.

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PACT OF ECONOMIC SLOWDOWN ON RESIDENTIAL PROPERTY MARKET
- The Effectiveness of Government Financial Measures

CHAPTER 1 – INTRODUCTION

CHAPTER 2 – ECONOMIC SLOWDOWN: DEFINITION AND EFFECT ON RESIDENTIAL PROPERTY MARKET

Definition

Effect To Residential Property Market

CHAPTER 1

(A) RESEARCH PROBLEM

A shocking revelation from our Prime Minister Dr. Mahathir Mohamad in September 1997 admitting that the country economic situation had been set back ten years (Gill, 1997) signaled the end of nearly a decade of Malaysian economic prosperity and growth. As currency and financial turmoil battered a once dynamic and prosperous region, Malaysia well known as one of the " tiger " in regional economic is left to face the most crucial time in its history to salvage and redeem the bruised economies. A contraction in economic growth to minus 4.8% in the last quarter of 1997 compared to an average of 8% previously compounded by a tight liquidity in the market had forced the Government to intervene by introducing several fiscal and financial measures to prevent further slide.

The research was made to determine the impact of the current economic slowdown faced by the East Asian country in general and Malaysia itself particularly on the residential property market and to what extent has the government measures helped to regenerate the residential property market. It is proven that the slowdown has caused a drop in demand for residential properties. The reasons for the drop in demand are shown in Chart 1 below: -

Chart 1

Causal	**Effect**	
Economic slowdown ----------------------------	Residential Property Market	
	Supply	Demand
	Difficulties in: - - Obtaining project financing - Obtaining financing For land acquisition	Difficulties in - obtaining end financing - Less purchasing Power

It is noted from chart 1 above that the economic slowdown has an impact on the demand for residential property market particularly due to financial constraint. The key reason as to why this has happened is due to reluctance of the Financial Institutions to release funds to finance the purchase of residential units.

In light of these the government via Bank Negara Malaysia and Ministry of Housing has set several financial measures to be followed by the Financial Institutions in order to regenerate the residential property market industry. These measures range from:-

a) Reducing the Statutory Reserve Requirement (SRR) of Financial Institutions from nearly 15% before the crisis to as low as 4% at the peak of economic crisis. SRR is a compulsory saving requirement to be deposited to bank Negara based on percentage of monthly profit achieved by respective Financial Institution. By reducing the SRR ratio to 4% had allowed a release of around RM30 Billion into capital market.
b) Reducing the Base Lending Rate (BLR) by recalculating the Risk Weightage Capital Ratio (RWCR) of each Financial Institution. Risk Weightage Capital Ratio is a formula used in determining the lending rates of financial institutions. To arrived at the ratio, items such as financial institution's loan portfolio, deposit portfolio and inter bank borrowing rates need to be determined and will be calculated against Bank Negara intervention rates.
c) Recapitalisation of Financial Institutions to strengthen in terms of wider customer base, shareholder fund/capital and competitiveness. Initial move taken by the Government to recapitalise by using a tiering system which is proven to be disastrous and subsequently were replaced by merging and creating 10 group of Financial based Institutions lead by an "anchor".
d) Reclassification of Non Performing Loan (NPL). The term "reclassification" were used as previous effort done were to shorten the period of non performing loan from 6 month to 3 month resulting to a halt in economic growth. Realising the mistakes, Government made a reversal in its policy by sticking to the original time frame thus resulting a "breathing space" for the economy.