

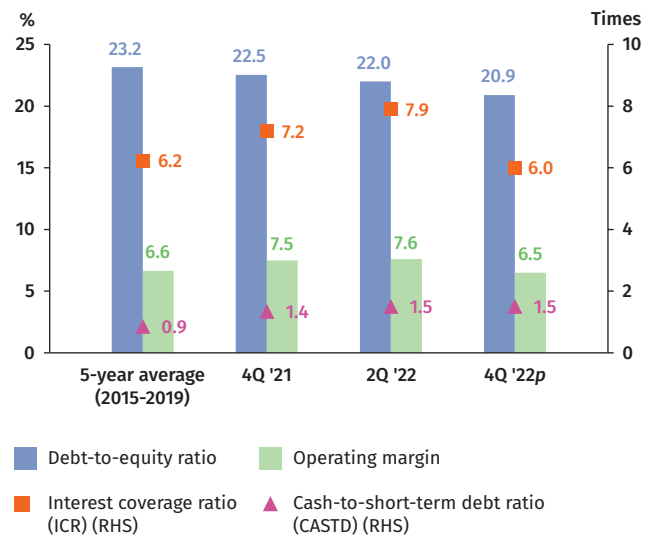
CREDIT RISK

While domestic demand conditions have improved, business performance faced headwinds from elevated cost pressures in 2H 2022

In the second half of 2022, firms in the non-financial corporate sector benefitted from improving domestic demand conditions. Sectors that had previously lagged in the economic recovery continued to improve, as the full reopening of the economy supported discretionary goods and services spending. The leisure and hospitality segments in particular were supported by higher out-of-state travel and social events such as weddings and festive celebrations. However, businesses continued to face a challenging operating environment. Input costs in a number of industries rose significantly amid a confluence of factors including supply-side disruptions, rising global commodity prices due to geopolitical developments, and a weaker ringgit. The increase in input costs for businesses weighed on profit margins, resulting in a decline in overall debt servicing ability. The level of debt servicing ability, as measured by the median interest coverage ratio (ICR), nonetheless remained healthy at three times above the prudent level (Chart 1.4). Businesses have also continued to reduce their overall leverage and maintain stronger liquidity buffers relative to pre-pandemic levels amid the ongoing uncertainties in the operating environment.

Credit risks among listed corporates remained manageable. However, sector- and firm-level variations continued to reflect an uneven recovery. The share of firms-at-risk⁷ edged upwards to 25.1% (2Q 2022: 24.6%) towards the end of the year amid cost challenges which impacted business profitability. This was mainly driven by firms in the construction and manufacturing sectors, where operating costs were affected by rising material prices and labour shortages in the recent period.

Chart 1.4: Business Sector – Key Financial Performance Indicators



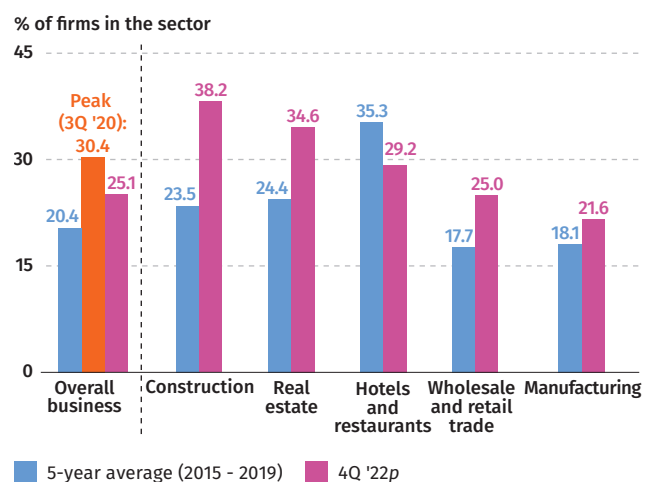
p Preliminary

Note: Prudent thresholds for ICR and CASTD are two times and one time, respectively.

Source: S&P Capital IQ and Bank Negara Malaysia estimates

Meanwhile, improvements were noted in sectors that previously lagged the economic recovery such as hotels and restaurants, and retail trade sectors. In the real estate sector, the share of firms-at-risk remained elevated as persistent oversupply weighed on the commercial real estate market (Chart 1.5).

Chart 1.5: Business Sector – Firms-at-risk for Selected Sectors



p Preliminary

Source: S&P Capital IQ and Bank Negara Malaysia estimates

⁷ Firms-at-risk are defined as listed non-financial corporates with ICR below the prudent threshold of two times.

Key Developments in the Second Half of 2022

Business loans expanded at a slower pace of 3.4% towards the end of the year (June 2022: 5%). Loans for the purpose of investment in fixed assets, including non-residential property, have picked up in pace as businesses revived their investment intentions in line with stronger economic activities. Loan growth was also driven by an increase in small and medium enterprises (SME) loans, mainly for working capital purposes amid elevated cost pressures. Overall loan growth was however dampened by the decline in outstanding loans to the primary agriculture sector amid elevated crude palm oil prices which reduced the need for debt-funding by firms in the sector. Similarly, outstanding loans to the mining and quarrying sector contracted amid weaker demand for working capital loans in line with broader efforts by the sector to deleverage and improve debt discipline since 2020. The latest survey of credit and funding conditions conducted in the fourth quarter of 2022 indicates that banks' perception of business risk going forward remains broadly stable, even after factoring in tighter policy rates. This should continue to support lending activity to the business sector, including SMEs.

Larger corporates continued to tap the corporate bond market for funding. Corporate bond issuances rose sharply in the second half of 2022 compared to the same period last year (+82%; 1H 2022: -7.6%), driven mainly by a large issuance by a major toll road operator in December (RM25.2 billion). Meanwhile, external debt increased due to exchange rate valuation effects with the strengthening of the US dollar. For the business sector as a whole, the non-financial corporate debt-to-GDP ratio stood at 98.4%, marginally lower than levels seen prior to the pandemic as GDP growth continued to outpace debt growth.

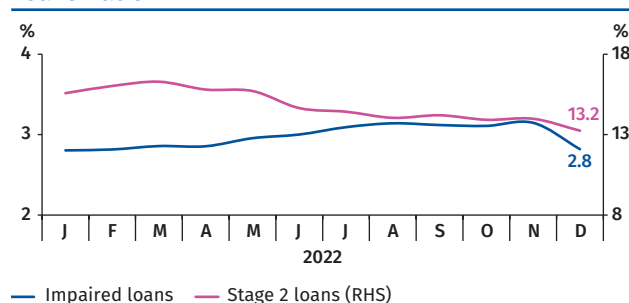
In 2022, funds raised via initial public offerings in the equity market amounted to RM3.4 billion (2021: RM2.7 billion). The bulk of the 56 issuers comprise of smaller businesses listed on the ACE Market. More businesses are also tapping alternative financing platforms such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing to meet their funding needs. In the first nine months of 2022, a total of RM1.2 billion (January to September 2021: RM0.9 billion) was successfully raised through these alternative channels, mainly for working capital and business expansion purposes.⁸ This amount,

⁸ Based on data compiled by the Securities Commission Malaysia as of 30 September 2022. Refer to <https://www.sc.com.my/analytics/digital> for further details.

however, remains small compared to traditional loan financing by the banking system and development financial institutions (DFIs), at 0.1% of total loan disbursements to businesses over the same period. Moving forward, it will be important to further develop the alternative finance ecosystem to meet the increasingly diverse financing needs of businesses⁹ while mitigating financial stability risks, particularly for innovative firms that are involved in new growth areas. Given the higher associated risks, early-stage funding for such firms is ill-suited for traditional forms of bank financing using depositors' monies. Equity funding, including in combination with public-private partnerships, will play a key role in financing innovation, along with measures to improve conditions for innovation.¹⁰

Excluding the write-off of legacy loans in the last quarter, the quality of bank loans was little changed in the second half of 2022. For the year as a whole, business loan impairments increased only modestly with the loan impairment ratio at 2.8% (Chart 1.6), unchanged from 2021. More generally, leading indicators from banks suggest further business impairments should continue to be relatively contained. The share of business loans with increased credit risk¹¹ continued to decline, in line with more favourable business conditions.

Chart 1.6: Business Sector – Impaired and Stage 2 Loans Ratio



Source: Bank Negara Malaysia

Amid improvements in business conditions and the expiry of repayment assistance programmes, the share of SME loans under repayment assistance continued to decline to 5.6% of total SME loans, or 1.0% of total loans from the banking system

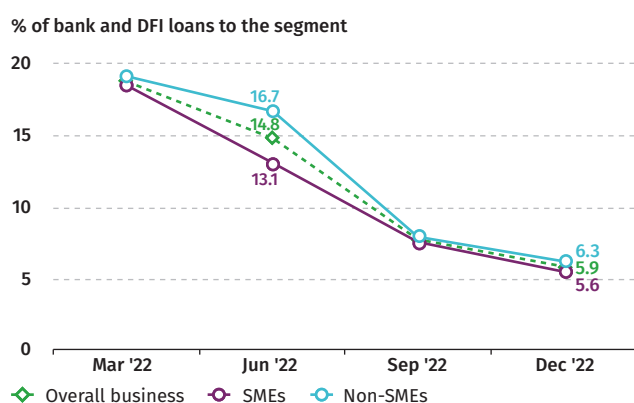
⁹ Refer to the section on 'Strategic Thrust 1: Fund Malaysia's economic transformation' in the Financial Sector Blueprint 2022-2026 for further details on ensuring a resilient funding ecosystem.

¹⁰ For example, developing an open data ecosystem, and enhancing the Companies Act 2016 to expand the coverage of firms eligible for corporate rescue mechanisms.

¹¹ This refers to the share of loans classified as Stage 2 loans under the Malaysian Financial Reporting Standard 9 (MFRS 9).

and DFIs¹² (Chart 1.7). Most SMEs that exited the repayment assistance programmes have been able to service their loans, although a small portion of borrowers continue to face repayment challenges. The delinquency ratio for borrowers exiting repayment assistance programmes increased slightly to 0.9% of total loans at end-2022 (June 2022: 0.7%) driven by sectors that have been more affected by cost challenges. However, this remains comfortably within banks' expectations. Nevertheless, banks remain cautious on the repayment capacity of these borrowers moving forward, given the erosion of buffers since the onset of the pandemic and ongoing uncertainty in business operating conditions. Reflecting this, about a fifth of SME loans that exited repayment assistance (or equivalent to 3.7% of total SME loans) continue to be classified by banks under Stage 2. Notwithstanding this, new enrolments into repayment assistance programmes have been negligible for most banks, indicating continued improvements in business resilience going forward, barring major shocks.

Chart 1.7: Business Sector – Share of R&R Loans by Segment



Source: Bank Negara Malaysia

Consistent with this, the impact on the quality of SME borrowings from increased lending rates has been limited. Although 77% of bank exposures to SMEs are floating-rate loans, engagements with banks indicate that most borrowers have thus far been able to manage the impact from increasing borrowing costs. Banks highlighted that repayment difficulties faced by SMEs have generally been associated with higher input cost pressures. Lower buffers and limited pricing power have intensified such pressures for some SMEs. While banks are continuing to proactively engage these borrowers

¹² The 2015 – 2019 average share of SME loans under rescheduling and restructuring (R&R) or repayment assistance is 1.8% of total SME loans, or 0.3% of total banking system and DFI loans.

to offer advice and provide customised assistance programmes as needed, insights from the Credit Counselling and Debt Management Agency (AKPK) and banks indicate opportunities for additional measures by these firms to pivot their business models and enhance efficiencies, including through increased automation and digitalisation, to improve their longer-term resilience.

During the year, six corporate bond issuers (0.8% of total outstanding domestic bonds) were downgraded on account of isolated firm-specific vulnerabilities rather than broader market-wide difficulties. Risks from non-financial corporate external debt also remained manageable given that most exposures of domestic firms are hedged and of medium- to longer-term maturities (beyond 12 months). This continues to be borne out by healthy debt-servicing indicators under the Bank's sensitivity analysis¹³ on the impact of a significant tightening in financial conditions and ringgit depreciation on businesses. The analysis shows that even under stressed macroeconomic scenarios,¹⁴ the median ICR for listed non-financial corporates is expected to remain well above prudent thresholds at 4.5 times.

Going forward, uncertainty surrounding the business outlook remains. The global and domestic growth outlook and cost pressures will remain the key drivers of credit risk conditions in the near term. Stress tests conducted by the Bank affirm that banks' capital buffers are sufficient to absorb a potential increase in credit losses from the business sector under adverse stress scenarios (Refer to the section on 'Assessing the Resilience of Financial Institutions' for further details). Over the longer term, climate transition and physical risks to businesses also present rising risks to the financial sector. The Bank continues to work with financial institutions to build capabilities in climate risk assessments as part of broader efforts to strengthen climate risk management practices and support greater access to transition finance.¹⁵ Given that the impact of actions to mitigate and adapt to climate-related risks will take time to unfold, early mitigation and adaptation actions will be critical to reduce physical risks and to avoid a disorderly transition for the economy.

¹³ This sensitivity analysis assumes severe tightening of financial conditions, including a depreciation of the ringgit by up to 20% and an increase in the average corporate bond yield by 400 basis points.

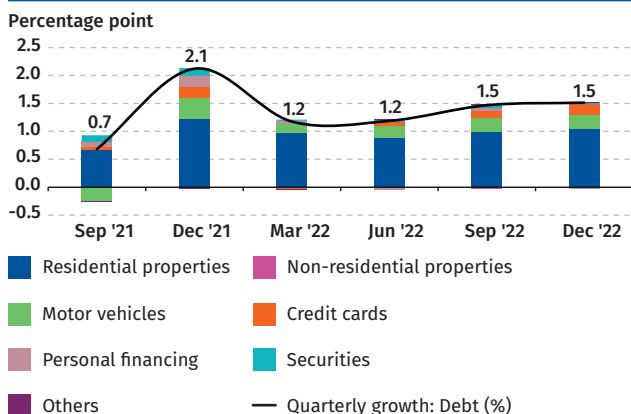
¹⁴ Refer to the section on 'Assessing the Resilience of Financial Institutions' in the BNM Financial Stability Review for Second Half 2021 for further details.

¹⁵ Refer to Spotlight Article titled 'Implementation Progress of the Climate Change and Principle-based Taxonomy (CCPT) in the Financial Sector' for further details.

Credit risk from the household sector remained manageable, supported by improving economic and labour market conditions

In the second half of 2022, quarterly growth of household debt was higher at 1.5%, in line with ongoing improvements in the labour market and income conditions (Chart 1.8). Consequently, in annual terms, household debt expanded at a faster pace of 5.5% (June 2022: 5.3%). Notwithstanding this increase, the ratio of household debt-to-GDP fell further to 81.2% (June 2022: 84.5%), as nominal GDP grew at a stronger pace in the second half of 2022 (Chart 1.9).¹⁶ Household debt continued to be driven by housing loans, pointing to sustained demand for house purchases spurred by measures to encourage home ownership.¹⁷ The growth in car loans was also lifted by higher disbursements for the purchase of vehicles during the sales tax exemption period (December 2022: 7.0%, June 2022: 4.2%).¹⁸ Outstanding credit card loans also recorded faster growth during the period. Nonetheless, the proportion of household debt attributable to consumption loans has remained broadly unchanged (Chart 1.10).

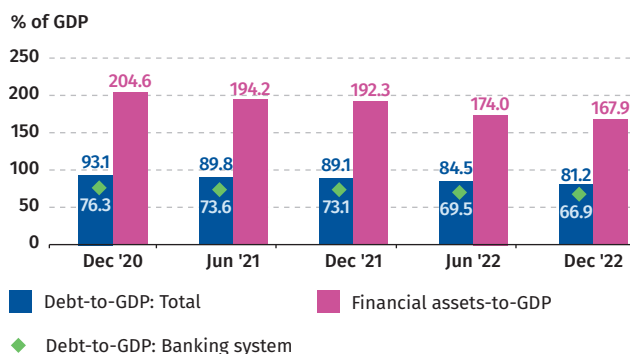
Chart 1.8: Household Sector – Quarterly Growth of Debt



Source: Bank Negara Malaysia

¹⁶ Refer to the BNM Economic and Monetary Review 2022 for more details on GDP growth.
¹⁷ These include stamp duty exemptions announced under the Keluarga Malaysia Home Ownership Initiative (i-MILIKI) for first-time home buyers of properties priced up to RM500,000 and 50% stamp duty discount for properties priced between RM500,000 and RM1 million from 1 June 2022 to 31 December 2023.
¹⁸ 100% sales tax exemption for locally-assembled passenger cars and 50% sales tax exemption for imported passenger cars for purchases made between 15 June 2020 and 30 June 2022. To enable car buyers who booked their cars by 30 June 2022 to enjoy the sales tax exemption, the registration date with the Road Transport Department (JPJ) was extended to 31 March 2023.

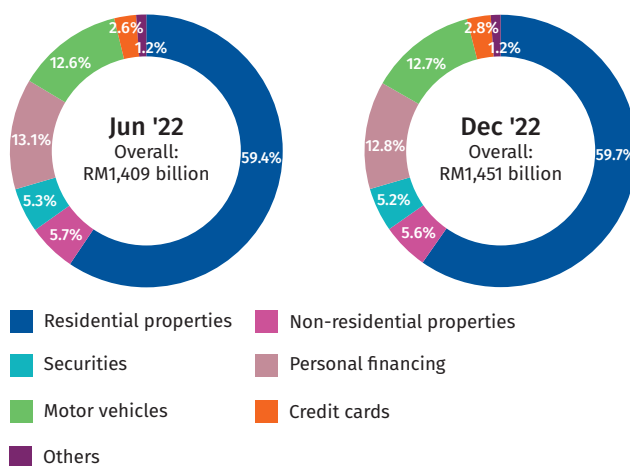
Chart 1.9: Household Sector – Key Ratios



Note: The loan/financing data from 2021 onwards are based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology.

Source: Bank Negara Malaysia, Bursa Malaysia, Department of Statistics, Malaysia, Employees Provident Fund and Securities Commission Malaysia

Chart 1.10: Household Sector – Composition of Debt by Purpose

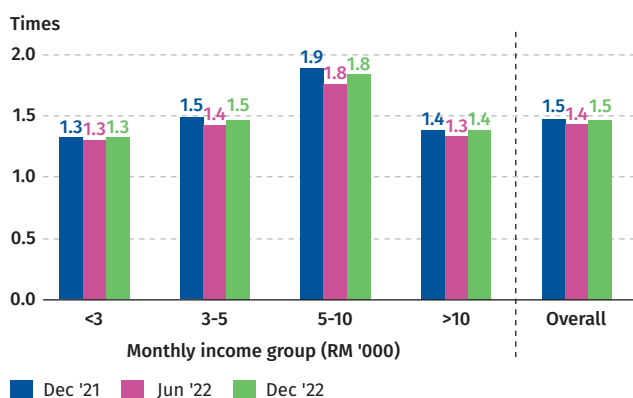


Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Bank lending to households continued to grow in the second half of 2022 (5.9%; June 2022: 5.7%). For the year as a whole, loan growth has recovered close to pre-pandemic levels (2015-2019 average: 6.2%). Credit growth continues to closely track household incomes as evidenced by the relatively stable median debt-to-income (DTI) ratio at 1.5 times (June 2022: 1.4 times) (Chart 1.11). Other indicators of debt-servicing capability remained sound as well. The median debt service ratios (DSRs) of newly approved and outstanding household loans remained prudent at 43% and 37%, respectively (June 2022: 42% and 35%). Two-thirds of newly approved loans in 2022 had DSRs below 60%, a proportion unchanged since 2018.

Chart 1.11: Household Sector – Median Debt-to-Income Ratios by Income Group



Source: Bank Negara Malaysia

A quarter of household borrowers have DSRs exceeding 60% and they account for 33.9% of total banking system loans. As the bulk (69%) of these credit exposures are held by middle- and high-income¹⁹ borrowers, credit risks are assessed to be contained by their larger buffers available to support loan repayments in the event of financial difficulties. Impairments have remained low among borrowers with DSRs over 60% (1.2% of outstanding loans of borrowers in this segment). Forward-looking indicators such as the share of riskier loans for this segment has also been declining (Stage 2 loans ratio: 7.4%; June 2022: 9.1%), broadly consistent with the trend observed for overall household loans. Nevertheless, banks have indicated that they are increasingly vigilant over the impact from rising interest rates and higher costs of living on available household buffers. This could mean that further improvements in indicators of household asset quality could be more modest going forward.

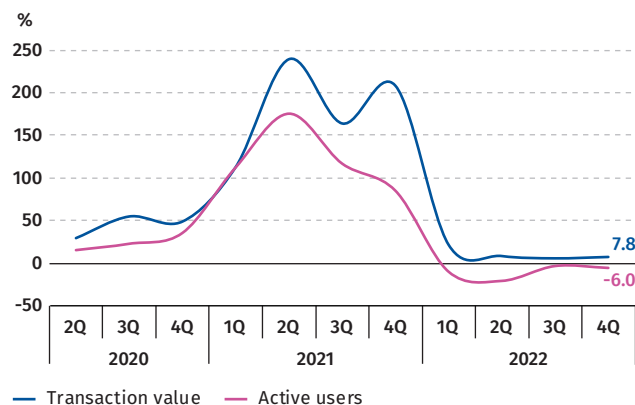
Buy-now-pay-later (BNPL) schemes grew at a more moderate pace in 2022 (Chart 1.12) amid tapering customer demand. The schemes continue to target selected segments of Malaysian households with the majority of users being younger and lower-income borrowers. About 44% of BNPL users are aged between 18 and 30 years old.²⁰ More than 80% of BNPL users earn less than RM3,000 a month,²¹ and therefore, are more susceptible to financial stress. The relatively easier access to BNPL facilities may place users at a

¹⁹ The middle-income group refers to individuals earning a monthly income of between RM5,000 to RM10,000 while the high-income group includes individuals earning above RM10,000 per month. Individuals with monthly income less than RM5,000 are categorised as lower income.

²⁰ Based on data from the top four non-bank BNPL players which account for 96% of transaction value in 4Q 2022.

²¹ Only selected BNPL players provide income information.

Chart 1.12: Household Sector – Quarterly Growth of Transaction Value and Active Users for BNPL Schemes



Note: Based on data from the top four non-bank BNPL players which account for 96% of transaction value in 4Q 2022. These exposures are not currently captured in the total of household debt.

Source: Bank Negara Malaysia

higher risk of spending beyond their means, without considering their ability to promptly repay the full loan amount. Given the lack of transparency over fees and charges, particularly late payment charges and processing fees imposed under these schemes, users may also be unaware of the total amount that they must repay. Anecdotal evidence among selected larger BNPL players point to an increasing trend in missed repayments, suggesting that such risks may be rising (share of BNPL users with overdue payments: 4Q 2022: 17.0%; 2Q 2022: 14.0%; 4Q 2021: 7.0%).

Financial stability risks associated with BNPL schemes remained limited as BNPL exposures accounted for only 0.05% of total household debt.²² Nevertheless, the Bank is cognisant of the conduct risks that BNPL poses to consumers and has taken steps to mitigate this for BNPL schemes offered by entities that are regulated by the Bank. This includes requiring licensed financial institutions (banks, prescribed DFIs) and approved e-money issuers to adhere to existing responsible lending standards for BNPL schemes offered.²³ They are also required to conduct more holistic suitability and affordability assessments at the point of onboarding new customers that take into account the customer's exposures/borrowings with other lenders. The Bank will also impose additional

²² As at 4Q 2022, the average total amount spent by an active BNPL account holder is RM545.20.

²³ The Bank has issued a consultation letter on BNPL in October 2022 to banks and prescribed DFIs to solicit feedback on enhancements to the Policy Documents on Responsible Financing (PDRF) and Personal Financing (PDPF) relating to BNPL. The revised PDRF and PDPF are scheduled for issuance in the first half of 2023.

measures to improve disclosures of all applicable fees and charges to BNPL users, as well as any applicable terms and conditions at the point of onboarding. Further, consistent with principles on the fair treatment of financial consumers issued by the Bank, licensed financial institutions and approved e-money issuers will be required to demonstrate that the imposition of late payment charges on consumers who missed scheduled repayments are not excessive.

In parallel, the Ministry of Finance, the Bank and the Securities Commission Malaysia remain committed to expediting the tabling of the proposed Consumer Credit Act (CCA).²⁴ Once enacted, non-bank credit providers such as BNPL providers will be required to comply with relevant prudential and conduct standards. Apart from promoting a level playing field between banks and non-bank BNPL providers, these ongoing efforts aim to accord the same level of protection to financial consumers in relation to BNPL schemes regardless of which provider they deal with. These efforts will also help to mitigate risks from over-indebtedness building up among younger and lower-income borrowers.

With nearly 60% of household debt made up of housing debt, risks from higher-than-anticipated default rates and/or sharp falls in house prices remain in focus. As at end-2022, the median loan-to-value (LTV) ratio of outstanding housing loans remained stable at 65.5% (June 2022: 65.3%). This provides ample buffers for both borrowers and banks against declines in house prices. Owner-occupiers²⁵ continued to drive overall growth of house financing (contributing 71.4% to the overall housing loan growth as at December 2022). The bulk (66.7%) of these loans were granted to first-time home buyers.²⁶ Such home buyers typically borrow with larger initial financing margins (i.e., with initial LTV ratio of 90% and above). While this can increase access to housing loans, it also increases the risk of these loans falling into negative equity²⁷ if economic conditions worsen, affecting both bank and household resilience should

it become widespread. Housing loan guarantees²⁸ and loan affordability assessments conducted by banks continue to play an important role in mitigating the credit risks associated with such loans. Some banks have also strengthened their assessments of loan affordability to account for the possibility of further rises in interest rates. Consequently, notwithstanding higher initial financing margins, the median DSR for newly-granted home financing remained prudent at 50.9%, below the 2015-2019 average of 54.8%.

Credit risks among individual property investors,²⁹ who are more likely to default if their mortgages fall into negative equity or if their rental income is lost, remain limited. Loan growth in this segment has slowed a little (2022: 5.2%; 2021: 5.6%). Banks also continue to maintain prudent lending standards when financing borrowers in this segment. The bulk (88.4%) of new loans were extended to individual property investors with higher monthly incomes of at least RM5,000. The median income of these borrowers (RM10,275) is almost double that of owner-occupiers (RM5,452), pointing to better loan repayment capacity and financial buffers. The median LTV ratio of outstanding housing loans of individual property investors remained prudent at 62.0%. Loan from this segment also remained performing, with only 1.1% of such loans in a negative equity position.

Overall household resilience remains intact amid rising borrowing costs, supported by healthy debt-servicing capacity

Missed loan repayments by households increased given the current environment of rising borrowing and living costs, albeit marginally. This is largely anticipated. The household loan impairment ratio has edged up slightly, while the delinquency ratio is expected to normalise closer to the pre-pandemic level as more borrowers exit repayment assistance programmes (2015-2019 average: 1.0% and 1.3%, respectively) (Chart 1.13). Banks expect impairment ratios to rise modestly in 2023, driven mainly by financial strains among vulnerable household borrowers, especially among those in lower-income

²⁴ The CCA will also pave the way for the establishment of the Consumer Credit Oversight Board (CCOB) as an independent competent authority to oversee consumer credit providers and credit service providers. The CCA bill is expected to be tabled at the Parliament in the second half of 2023.

²⁵ Proxied by individual borrowers with one housing loan.

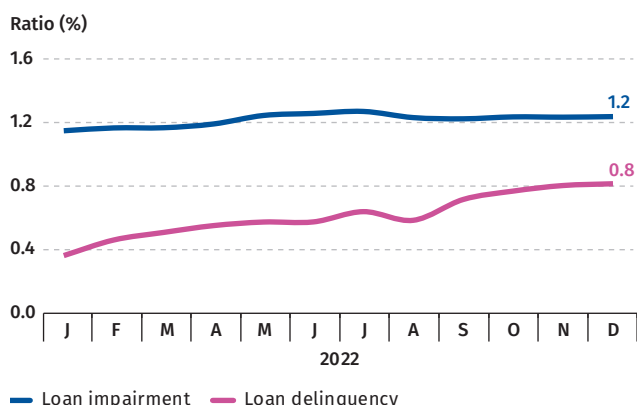
²⁶ Proxied by individual borrowers with no record of outstanding or settled housing loans prior to the approval of the new housing loan application.

²⁷ Where the outstanding housing loan exceeds the collateral value, in this case, the house price.

²⁸ Comprise guarantee schemes offered by Cagamas Berhad and Syarikat Jaminan Kredit Perumahan Berhad (SJKP). Collectively, housing loans approved under these guarantee schemes account for 3.8% of total housing loans in the banking system.

²⁹ Individual property investor refers to an individual borrower with more than one housing loan.

Chart 1.13: Household Sector – Loan Impairment and Delinquency Ratios in the Banking System



Source: Bank Negara Malaysia

groups, and those who are either self-employed or employed in economic sectors that are still recovering from the pandemic. Bespoke repayment assistance remains in place to support such borrowers, including personal financial management assistance provided through AKPK, to help them get onto a firmer financial footing.

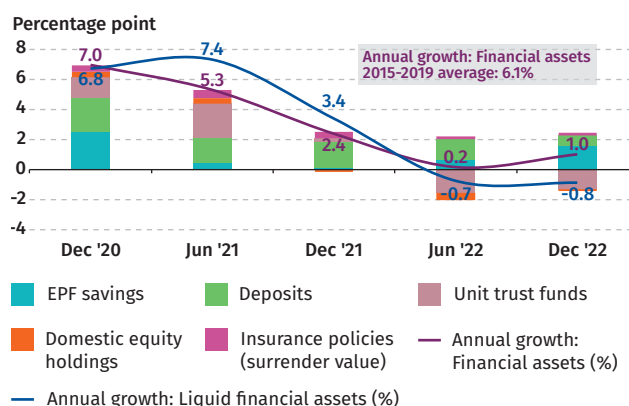
During periods of exceptionally low interest rates, risks of overborrowing can increase as loans become more affordable. A review of new floating-rate loans disbursed between July 2020 and April 2022 (when the OPR stood at a historical low of 1.75%) affirmed that these loans continue to hold up well following the successive OPR increases. Repayment trends for new floating-rate loans taken out during this period have been largely in line with that observed for all other household loans. Impairment and delinquency ratios among these new loans also remain lower than the household sector average, both at 0.5%, respectively. This implies continued prudence observed by banks in the conduct of affordability assessments.

As of December 2022, the share of household loans classified as Stage 2 by banks improved further to 6.7% (June 2022: 8.0%), in line with the continued decline in household debt under repayment assistance (December 2022: 1.9%; June 2022: 3.2% of total loans from the banking system and DFIs). Most borrowers who have exited repayment assistance programmes have resumed servicing their loans without much difficulty. Loan delinquencies and impairments among these borrowers, while higher than for overall household loans, remained low at 1.4% and 1.8%, respectively. The trend in Stage 2 loans is expected to continue to

improve in 2023 as more Stage 2 borrowers who have exited repayment assistance programmes complete a minimum observation period of loan servicing (usually six months, with a number of banks observing longer periods of up to 12 months) before their loans are reclassified as Stage 1. As noted earlier, banks remain vigilant to the possible increase in credit risk posed by borrowers with higher debt service burdens, as well as those exiting repayment assistance programmes, and continue to actively engage these borrowers.

Household financial assets continued to grow at a slower pace than household debt in the second half of 2022 (1.0%; June 2022: 0.2%; 2015-2019 average: 6.1%) due mainly to the weaker equity market performance and lower growth of savings held as deposits (Chart 1.14). Despite the slower expansion, households continue to hold financial assets in excess of debt, with the aggregate value of financial assets remaining steady at 2.1 times of total household debt (June 2022: 2.1 times; December 2019: 2.2 times). While this continues to support overall household resilience, increasing vulnerabilities are emerging among household borrowers who are highly leveraged and have limited financial buffers, particularly in the current environment of escalating cost of living pressures. For example, 51.5% or 6.67 million Employees Provident Fund (EPF) members under the age of 55 have extremely low savings of less than RM10,000 in their EPF savings accounts.³⁰ Furthermore, a recent survey by RinggitPlus revealed that in 2022, 70% of Malaysians save less than RM500 a month or did not save at all (2021: 52%).

Chart 1.14: Household Sector – Annual Growth of Financial Assets



Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

³⁰ '6.67mil EPF members have less than RM10,000 savings: Chief strategy officer'. New Straits Times. Refer to <https://www.nst.com.my/business/2023/01/873081/667mil-epf-members-have-less-rm10000-savings-chief-strategy-officer>.

Key Developments in the Second Half of 2022

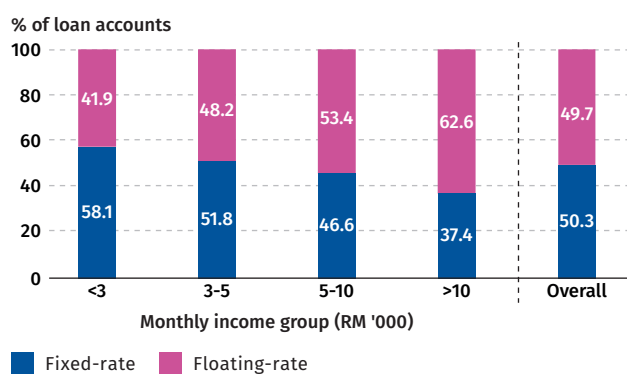
Meanwhile, 63% of respondents indicated that they could only survive 3 months or less with their savings (2021: 50%).³¹ Maintaining sound lending standards and rebuilding household buffers will therefore remain important.

Consistent with earlier studies by the Bank, the debt servicing capacity of household borrowers continues to be most affected by income and employment shocks, rather than increases in borrowing costs. Stress tests conducted by the Bank show that if borrowers face severe labour market shocks with the unemployment rate rising to as high as 6.0%, up to 4.3% of household loan exposures in the banking system could be at risk of default by end-2025.³² This remains comfortably within banks' excess capital buffers. As expected, the bulk (65%) of at-risk household borrowers earn below RM5,000 per month. However, the latest stress tests also shows that additional borrowers earning between RM5,000 and RM10,000 monthly could be susceptible to distress under severe economic shocks, reflecting reduced buffers in the more recent period among these households. Improvements in income and employment prospects therefore remain key in supporting household debt servicing capacity going forward. Beyond severe economic shocks, household borrowers are assessed to be generally resilient to upward movements in borrowing costs. This is due largely to the composition of their debt, as half of total household loan accounts are on fixed-rate terms which do not fluctuate with changes in OPR (Chart 1.15). The impact of higher borrowing costs on debt-servicing capacity varies by income group. For lower-income borrowers, their larger share of fixed-rate loan accounts helps cushion the immediate effects of higher borrowing costs relative to other borrowers.

While some borrowers continue to experience financial difficulty due to the uneven recovery and rising cost of living, lower bankruptcy cases were recorded in 2022 (5,695 cases; 2021: 6,554 cases).³³ This is on account of various factors, which include the bankruptcy threshold being raised to

RM100,000 from RM50,000, effective September 2021.³⁴ For banks, bankruptcy action also remains as the last recourse, as other pre-bankruptcy rescue mechanisms are available. These include referrals to, and Voluntary Arrangement services offered by, AKPK that allow financially distressed borrowers an opportunity to regain control of their finances. Enrolments into the Debt Management Programme offered by AKPK increased to 34,670 borrowers in 2022, up from 23,711 in 2021 (Chart 1.16). Distressed borrowers also continued to avail themselves of repayment assistance arrangements offered by their banks.

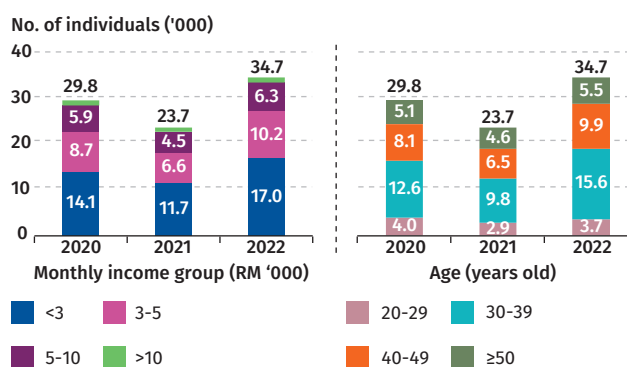
Chart 1.15: Household Sector – Share of Fixed-rate and Floating-rate Loan Accounts by Income Group



Note: Excludes credit cards.

Source: Bank Negara Malaysia

Chart 1.16: Household Sector – Debt Management Programme Approved by AKPK



Source: Credit Counselling and Debt Management Agency (AKPK)

³¹ Based on the RinggitPlus Malaysian Financial Literacy Survey 2022. Refer to <https://ringgitplus.com/en/blog/wp-content/uploads/2022/12/RMFLS-2022-Survey-Report-FINAL.pdf>.

³² Refer to the Chapter on 'Assessing the Resilience of Financial Institutions' for more details.

³³ Bankruptcy Statistic 2022. Refer to <https://www.mdi.gov.my/index.php/legislation/statistics/75-bankruptcy>.

³⁴ The bankruptcy threshold under Section 5(1)(a) of the Insolvency Act 1967 has been raised to RM100,000 from RM50,000 with effect from 1 September 2021. Prior to that, the bankruptcy threshold was temporarily raised to RM100,000 from RM50,000 in October 2020 under the Temporary Measures For Reducing The Impact Of Coronavirus Disease 2019 (COVID-19) Act 2020.

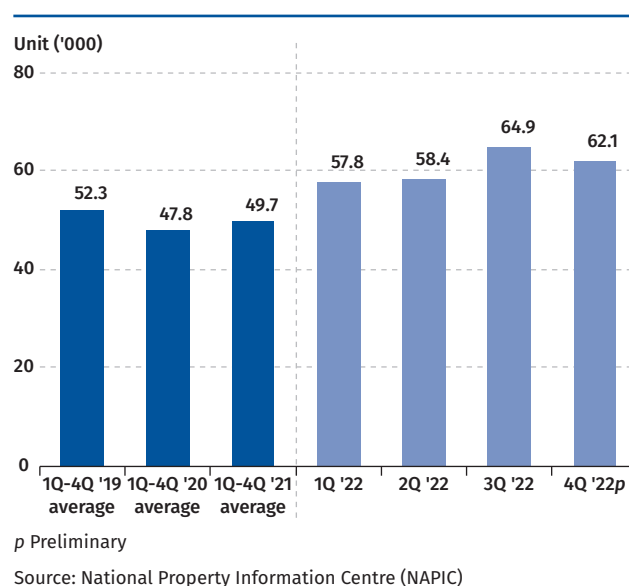
Developments in the Residential Property Market

Activity in the housing market continued to be robust following the resumption of economic activities and improved employment conditions. Property market transactions continued to hover above the pre-pandemic levels in the second half of 2022, driven largely by transactions for the purchase of properties priced at RM500,000 and below (Chart 1.17). Consequently, the growth in house prices³⁵ trended higher, towards its long-term average (3Q 2022: 5.1%; 1H 2022: 2.5%; 2015-2019 average: 5.3%). Despite rising inflationary and cost of borrowing pressures, activity in the housing market is anticipated to sustain its recovery momentum, backed by the gradual improvement in income and business conditions, and policy measures. Such measures include the extension of the full stamp duty exemption for properties priced at RM500,000 and below, and 75% stamp duty discount on properties priced above RM500,000 to RM1 million.

Nonetheless, the housing market continues to face downside risks arising from persisting demand and supply imbalances. The number of unsold housing units has been on a declining trend, but remained high compared to the historical average (151,683; 4Q 2021 (peak): 183,918; 2015-2019 average: 130,210) (Chart 1.18).³⁶ Almost two-thirds of these units have remained unsold for more than three years, largely due to the price levels that are beyond the affordability of households, particularly in key states. The slow take-up rate of these units is not expected to materially depress broader house prices given that there are no significant concentrations of these units to key areas or projects. Projects with high levels of unsold units (i.e. above 80% unsold rate) accounted for only 10% of total projects with unsold units. This reduces the risk of large numbers of developers engaging in widespread and deep price cuts to clear unsold stock, which could have broader spillovers to the housing market. Meanwhile, the incoming supply of newly launched residential properties continued to shift towards the mass market segment, with a higher share of properties priced at RM300,000 and below (44.3%; 2021: 38.4%; 2015-2019 average: 35.2%). This is a positive development in helping to reduce further risks of demand-supply imbalances.

Financing activity for the purchase of residential property improved, in line with market activity. Loan applications increased in the second half of 2022 across all price ranges (Chart 1.19). With improved visibility on repayment behaviour, banks have been forthcoming in approving housing loans while observing prudent loan affordability assessments. This has resulted in the overall loan approval rate recovering above its pre-pandemic average level (76.4%; 2021: 73.4%; 2015-2019 average: 75.9%).

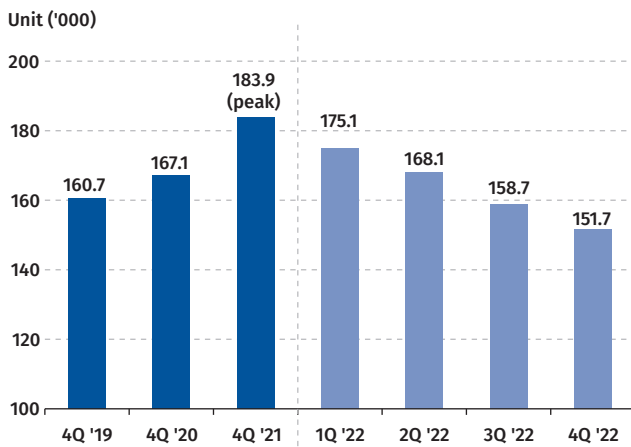
Chart 1.17: Property Market – Housing Transaction Volume



³⁵ As measured by the Malaysian House Price Index.

³⁶ Comprises overhang and unsold under construction (35.6% and 64.4% of total unsold units, respectively) for residential, serviced apartments and small office, home office (SOHO) units.

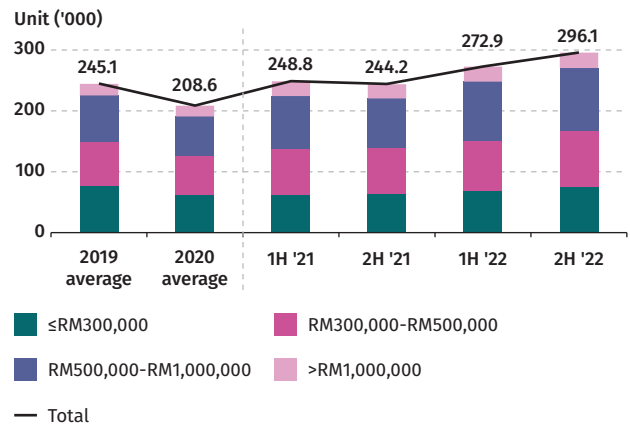
Chart 1.18: Property Market – Volume of Unsold Housing Units



Note: Figures include both overhang and unsold under construction for residential, serviced apartments, and small office, home office (SOHO) units.

Source: National Property Information Centre (NAPIC)

Chart 1.19: Property Market – Volume of Housing Loan Applications by Price Segment



Note: The loan/financing data from 2021 onwards are based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology.

Source: Bank Negara Malaysia