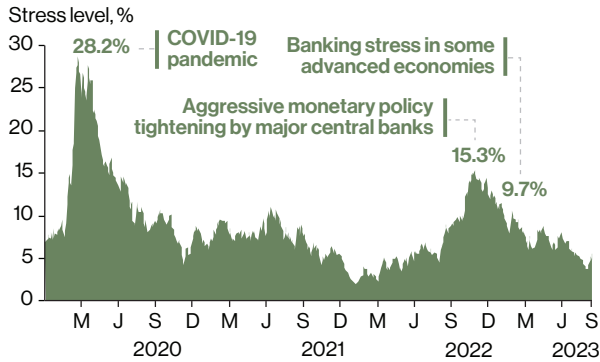


Key Highlights on Financial Stability Review – First Half 2023

Domestic financial market conditions remained resilient despite heightened global market volatility

Financial market stress declined since end-March as global banking sector stresses subsided

Financial Market Stress Index (FMSI)

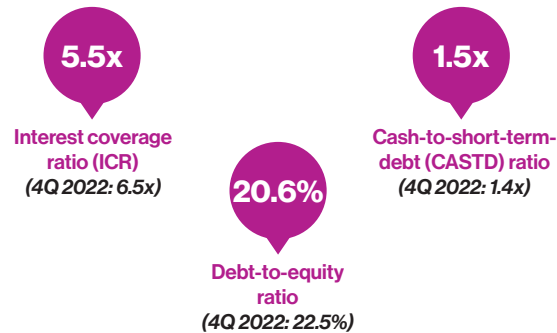


Orderly domestic market conditions continued to be preserved, supported by several key factors

- 1 Deep and liquid domestic capital markets
- 2 Active market risk management and hedging strategies by financial institutions
- 3 Resilient domestic institutional investors
- 4 Manageable FX exposures and sufficient FX buffers

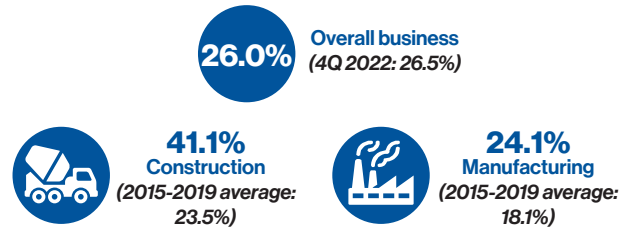
Domestic business activity improved but businesses continued to face a challenging operating environment

Overall business sector remained financially sound...



...but in some sectors, a larger share of firms still face heightened risks from high input costs and weak external demand

Share of firms-at-risk¹



¹ Firms-at-risk refers to firms with an interest coverage ratio below the prudent threshold of two times.

SMEs have been more affected but credit risks remain manageable

SME impairments increased within banks' expectations...



...driven by firms in wholesale and retail, construction, and agriculture sectors

	Loans-in-arrears ² (% of SME loans to the sector)	Outstanding SME loans (% of total banking system loans)
Wholesale and retail	1.8	5.1
Construction	4.5	2.1
Agriculture	6.2	0.5

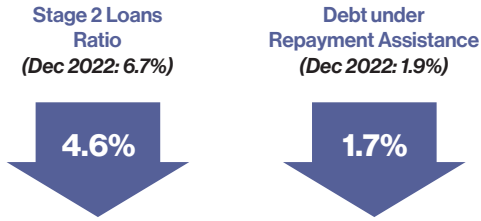
² Refers to loans with 3 months or more in-arrears equivalent to more than 90 days past due.

Risks not expected to lead to a widespread deterioration in credit quality

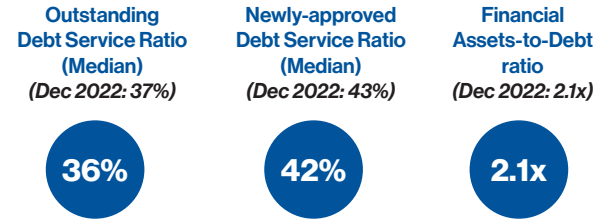


Households' debt-servicing capacity continued to be supported by employment and steady wage growth

Loans with higher credit risk and under repayment assistance have further declined



Debt-servicing levels and financial buffers remain healthy and broadly stable

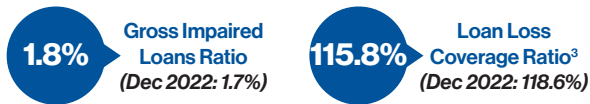


Financial institutions remained well-capitalised with strong buffers to support financial intermediation activities

Banking system's capital and liquidity buffers remain well above regulatory minima



Banks continue to maintain prudent provisioning buffers to absorb potential unexpected losses



Insurers and takaful operators remained well-capitalised, above the regulatory minimum



Financial institutions continue to intensify efforts to combat cyber and financial threats, and align with sustainability goals

Robust countermeasures undertaken to counter fraud threats



Enhanced capability to trace and recover stolen funds following the establishment of National Scam Response Centre

- 997 hotline facilitated efforts to trace suspected fraudulent activity and flag mule accounts
- Over 40,000 mule accounts disrupted by financial institutions since October 2022



Strengthened expectations on Risk Management in Technology (RMiT) to safeguard against risks from cloud adoption and fortify e-banking defences against cybercrimes

Financial institutions are also aligning business operations with environmental and sustainability goals



Adoption of Climate Risk Management and Scenario Analysis policy

Advancing green financing solutions as well as investment and lending decisions that consider environmental impacts



Implementation of Climate Change and Principle-Based Taxonomy (CCPT)

Improving consistency in identification and categorisation of economic activities that contribute to climate resilience



Establishment of SME Focus Group by Joint Committee on Climate Change (JC3)

Raising awareness, reducing transition cost for green certifications and facilitating better disclosures by SMEs

³Including regulatory reserves.

Source: Bank Negara Malaysia