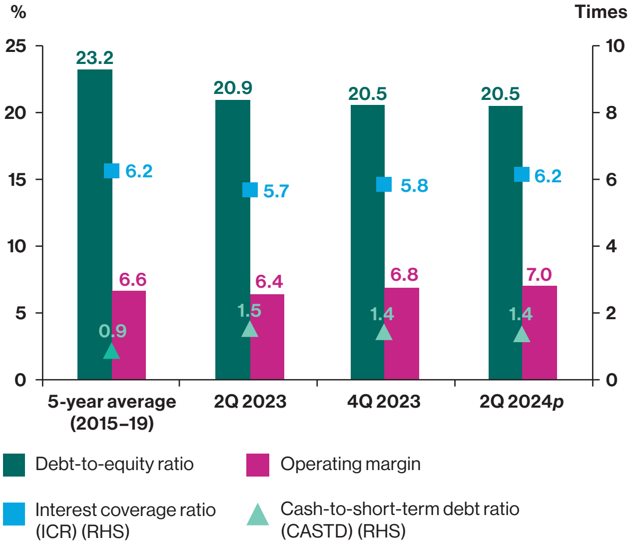
CREDIT RISK

Business activities improved, supported by recovery in economic conditions

Business activities improved in the first half of 2024, supported by the recovery in exports and firm domestic demand conditions. Export-oriented companies benefitted from a recovery in external demand and the global tech upcycle. The continued increase in tourist spending improved earnings for firms in the hotels and restaurants subsector. Earnings for firms in the commodity-related and utility sectors were also stronger on the back of higher production, tariff adjustments[6] and stabilising cost conditions. The recovery in operating margins for most firms has been sustained and remained above their pre-pandemic levels despite ongoing cost pressures. These improvements in business conditions have continued to sustain the debt-servicing ability of businesses, as measured by the median interest coverage ratio[7] (ICR) of 6.2 times (Chart 1.4).

Firms continued to face general cost pressures which have capped overall improvements in earnings. These include higher logistical and compliance costs amid ongoing geopolitical tensions, the rationalisation of diesel subsidies and the implementation of e-invoicing.[8] However, this was partially offset by accompanying mitigating measures such as the availability of diesel fleet cards for key business segments. As a result, aggregate input costs, as measured by the median cost of goods sold ratio,[9] declined slightly for overall businesses to 76.3% (December 2023: 76.7%; 2015–19 average: 75.9%).

Chart 1.4: Business Sector – Key Financial Performance Indicators



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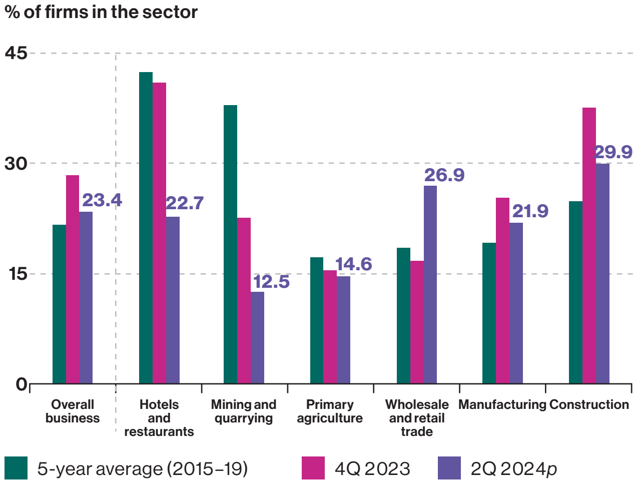
Note: Prudent thresholds for ICR and CASTD are two times and one time respectively.

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

Business performance also remains somewhat uneven across segments, with firms in some segments continuing to face weaker earning prospects. Businesses in the wholesale and retail, and primary-related manufacturing[10] sectors recorded lower profit margins in the first half of the year. Apart from cost pressures that continued to weigh on margins, consumer demand in some segments of non-essential products have also yet to recover to pre-pandemic levels. Smaller firms in the construction sector were also affected by fewer new project starts as existing ones near completion. The share of firms-at-risk[11] in these sectors remains elevated relative to their pre-pandemic levels, although stronger economic activity has improved overall ICRs and contributed to fewer firms-at-risk compared to the fourth quarter of 2023 (Chart 1.5). Debt-servicing ability, including for firms in sectors still facing headwinds, has been further supported by healthy cash buffers with the cash-to-short-term debt ratio above historical levels (Chart 1.6).

6 The water tariff adjustment for domestic users in Peninsular Malaysia and the Federal Territory of Labuan took effect on 1 February 2024, involving an average increase of 22 sen per cubic meter (source: National Water Services Commission, SPAN).
7 Prudent threshold for interest coverage ratio is two times.
8 The first stage of e-invoicing implementation starts in August 2024 and is mandatory for businesses with annual revenue of more than RM100 million.
9 Cost of goods sold (COGS) ratio is calculated by taking a firm's COGS divided by its revenue. A higher ratio indicates that COGS makes up a higher proportion of revenue.
10 Primary-related manufacturing subsectors include the manufacturing of furniture, wood, paper, rubber and plastic products.
11 Firms-at-risk refers to firms with interest coverage ratio below the prudent threshold of two times.

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



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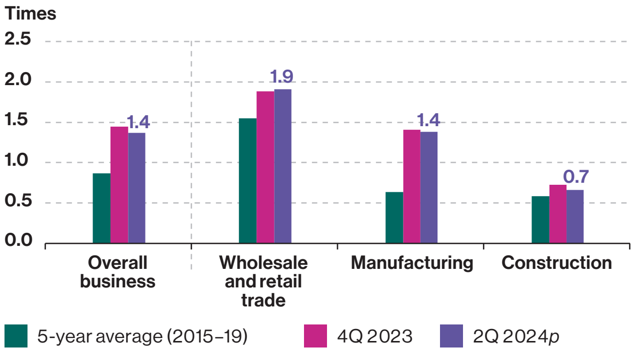
Source: S&P Capital IQ and Bank Negara Malaysia estimates

Chart 1.6: Business Sector – Cash-to-Short-term Debt for Selected Sectors



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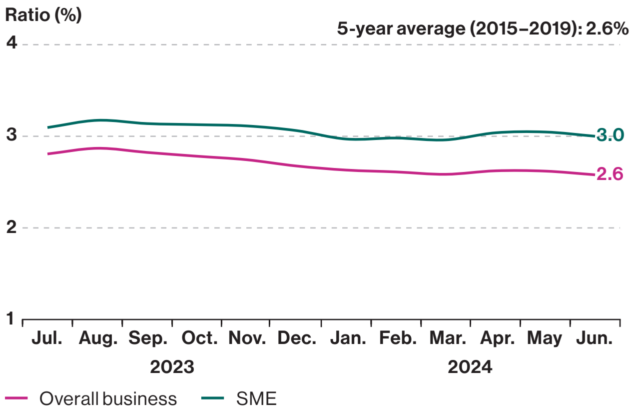
Source: S&P Capital IQ and Bank Negara Malaysia estimates

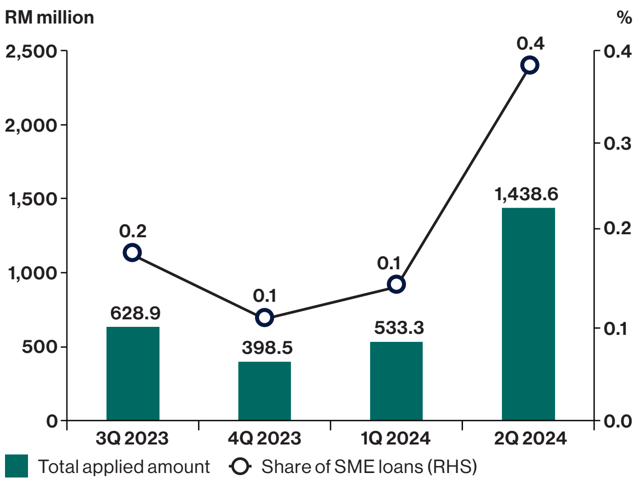
The credit quality of business loans continues to be generally sound. The overall business loan impairment ratio remained stable at 2.6% of business loans (Chart 1.7). Leading indicators of loans with significant increase in credit risks (Stage 2 loans) have also been stable (June 2024: 12.3% of business loans; December 2024: 12.4%). The share of small and medium enterprises (SME) that were delinquent[12] on their loans declined further to 1.7% of total SME loans (December 2023: 2%). Consistent with this, SME loans under repayment assistance continued to trend lower to 4.7% of total SME loans (December 2023: 5.4%), or 0.8% of total banking system and development financial institution (DFI) loans. Banks remained proactive in identifying and offering rescheduling and restructuring (R&R) programmes that are facing temporary financial difficulties, and have further improved coordination with the Credit Counselling and Debt Management Agency (AKPK) to refer distressed borrowers with multiple bank relationships to AKPK. This partly explained the notable increase in the amount of SME loans enrolled into AKPK's repayment assistance schemes (RAS) for small businesses, although the share of debt managed under the schemes remains very small at only 0.4% of total SME loans (Chart 1.8). Higher RAS applications were also attributed to AKPK's increased outreach programmes this year which helped raise awareness among SMEs on avenues available for them to seek help to manage their debt. The vast majority of SMEs that have exited repayment assistance have been able to resume and sustain prompt repayment of their loans. New R&R enrolments by banks and DFIs also continued to remain small at 0.2% of total SME loans.

Chart 1.7: Business Sector – Gross Impaired Loans



Source: Bank Negara Malaysia

Chart 1.8: Business Sector – SME Applications for AKPK Repayment Assistance



Source: Bank Negara Malaysia

[12] Refers to loans with one or two months in arrears, or between 30 and 90 days past due.

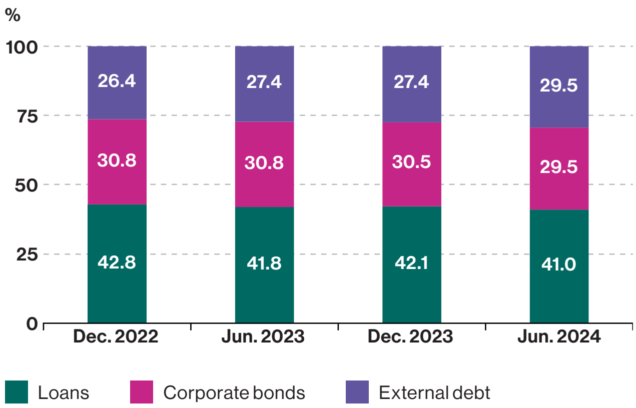
The credit quality of borrowings of larger corporates remained stable amid firm economic growth. The median ICR for the top 50 percentile of listed firms (by asset size) was comfortably above the prudent threshold at 6.2 times (December 2023: 5.8 times). The quality of corporate bond issuers also remained strong, with fewer issuers (five compared to seven issuers in 2023) or 0.8% of total outstanding domestic corporate bonds, downgraded in the first half of 2024.

Corporates' external borrowings increased in the first half of the year, mainly driven by trade credit and intercompany loans to fund existing operations and business expansions. Risks arising from these exposures remained manageable given the self-liquidating nature of trade credits and more flexible terms of intercompany loans. Meanwhile, despite higher volatility associated with movements in the ringgit experienced during the first half-year, currency risks from non-financial corporate external debt were largely mitigated. Close to 80% of large resident corporate external exposures[13] are hedged either naturally or financially. Corporate external exposures also remained adequately covered by assets, with the external asset to debt coverage ratio of 1.1 times.

Financing conditions continued to be supportive of economic activity with businesses, including large corporates, continuing to deploy a healthy mix of funding sources between loans and bonds (Chart 1.9). Business loans grew by 5.7% (December 2023: 3.7%), driven by higher growth in both investment-related and working capital loans. Over 50% of new bank financing to businesses in the first half of the year was also directed towards climate-supporting and transition activities, with banks continuing to play a pivotal role in supporting business financing for transition to greener and more sustainable practices. Additionally, activities in the corporate bond market remained robust with broad-based issuances across sectors by firms of high credit standing. This was supported by favourable costs of raising funds with corporate bond yield spreads (over MGS) remaining stable and lower compared to pre-pandemic averages.

Looking forward, business resilience is expected to improve further in the second half of the year amid a sustained expansion in economic activity. Cost pressures are expected to moderate in line with lower commodity prices and the ringgit appreciation. Measures by the Government[14] to mitigate the impact of higher business costs from the targeted implementation of fuel subsidy rationalisation will further contain cost pressures. Downside risks to business resilience will continue to stem mainly from external shocks, including weaker global growth outturns, geopolitical conflicts and financial market volatility that could lead to higher input prices and dampen earnings growth.

Chart 1.9: Business Sector – Composition of Debt by Type



Source: Bank Negara Malaysia

[13] Corporate external exposures comprise of borrowings from non-related entities, bonds and notes only (excluding low risk external debt such as intercompany loans which are normally more flexible and trade credits which are backed by export earnings).

[14] These measures include the availability of fleet cards provided under the Subsidised Diesel Control System 2.0 (SKDS 2.0) for approved logistics vehicles.

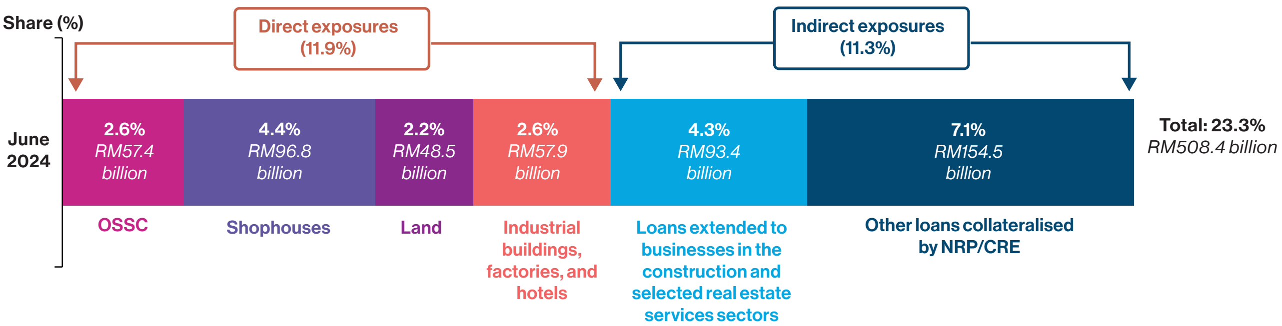
Developments in the Non-Residential Property Market

Commercial real estate (CRE) markets drew renewed attention globally over the past year as weak market conditions in several jurisdictions led to heightened concerns over the quality of banks' CRE exposures. As economies transitioned into an environment of higher interest rates, many borrowers who had taken out CRE loans during the preceding period of exceptionally low interest rates struggled to cope with higher borrowing costs. This problem was especially prevalent in the office and retail space segments where rental incomes could not keep up with now-higher loan repayments, precipitating concerns over a possible wave of defaults. These segments were further beset by post-pandemic remote working and consumption trends which affected demand for office and commercial retail space. As losses on CRE loans emerged, concerns have increased over the health of banks with large CRE exposures, as well as broader spillovers from tighter credit conditions and a sharp correction in commercial property prices.

In Malaysia, pre-existing vulnerabilities in the non-residential property (NRP)[15] sector continue to be an area of focus in Bank Negara Malaysia's (BNM) surveillance of financial stability risks. The bulk (51%) of NRP exposures of banks in Malaysia is in the form of end-financing for the purchase of NRP. As at end-June 2024, direct end-financing exposures to NRP accounted for 11.9% of total outstanding banking system loans (Chart 1.10). Of this, over half (56%) of NRP end-financing by banks is for the purchase of land and shophouses which presents substantially lower risks. Unlike shopping complexes, shophouses are mostly purchased by households and SMEs for their own business activities and living, and thus have been observed to exhibit risks comparable to owner-occupied residential properties (Chart 1.11). Meanwhile, banks typically apply very conservative practices for the purchase of land, with a median outstanding loan-to-value (LTV) ratio of only 37% (overall NRP financing: 52%).

The office space and shopping complex (OSSC) subsegments which tend to be of higher risk represent a much smaller share of 2.6% of total banking system loans.[16] Past Financial Stability Reviews[17] have highlighted risks from the persistent oversupply in these subsegments which have led to depressed rental yields and elevated vacancy rates which pre-dated the pandemic, and have since deteriorated further especially for office spaces (Chart 1.12). As a result, the impairment ratio for exposures to the OSSC subsegment (June 2024: 2.1%) has been consistently higher than the overall NRP segment (June 2024: 1.6%).

Chart 1.10: Property Market – Banking System Exposure to NRP



Note: Figures may not add up due to rounding.

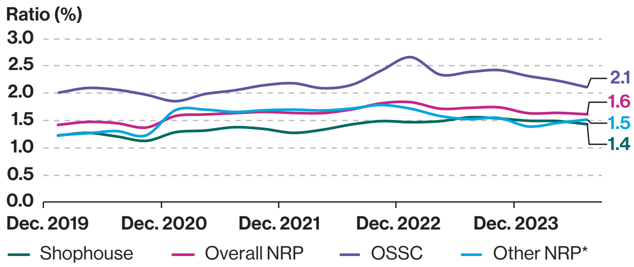
Source: Bank Negara Malaysia

[15] When discussing the Malaysian market in this box, we use the term 'non-residential property' which covers the office space & shopping complex (OSSC) segments and shophouses (which are typically classified as CRE in Malaysia), in addition to other non-residential exposures such as industrial buildings and land purchases.

[16] Shopping complexes only: 1%; office space only: 1.6%.

[17] Refer to the section on 'Risk Developments and Assessment of Financial Stability – Credit Risk' in the BNM Financial Stability Review for Second Half 2019 for further details.

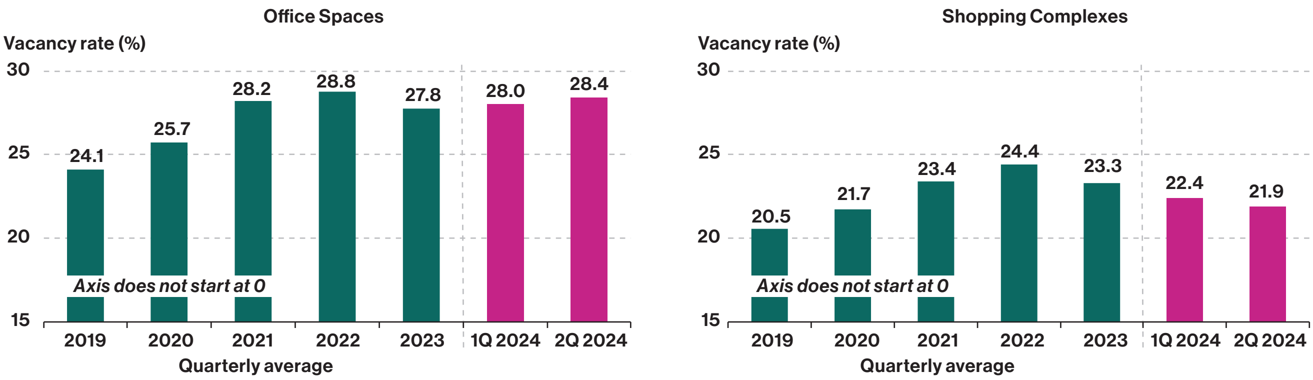
Chart 1.11: Property Market – Loan Impairment by Type of Property Purchased



* Refers to loans for the purchase of industrial buildings, factories and land.

Source: Bank Negara Malaysia

Chart 1.12: Property Market – Vacancy Rate of Office Spaces and Shopping Complexes



Source: National Property Information Centre (NAPIC) and Bank Negara Malaysia estimates

Risks to banks from direct NRP exposures continue to be limited. As noted earlier, banks' end-financing exposures to the higher-risk OSSC subsegment remain small and have been declining over the years (June 2024: 2.6%; December 2019: 3.2%; December 2013: 4%). The median LTV ratio on outstanding NRP financing also remains prudent at 52% (OSSC subsegment only: 59%). This provides substantial buffers against a significant price correction, although risks of this occurring are expected to recede further with the continued expansion of economic and business activities. Moreover, almost all NRP financing in Malaysia are amortising loans[18] over the financing tenure. This further reduces risks to both banks and borrowers by allowing for better monitoring and management of debt over the loan tenure compared to loans that are structured under bullet repayment terms.

Banks are also exposed to risks from indirect NRP exposures. This can arise from bridging loans and working capital loans extended to businesses in the construction sector and selected real estate services. Such exposures have remained a relatively small share (4.3%) of total banking system loans. A more significant source of indirect risks is that associated with loans for other purposes (typically working capital) that are collateralised by NRP. These exposures account for 7.1% of total outstanding banking system loans. The performance of these loans continues to be primarily driven by the financials of businesses. This reflects banks' lending practices that prioritise the borrower's ability to repay the loan from its ongoing business cashflow rather than a reliance on the underlying collateral. They are therefore shielded from adverse developments in the NRP sector as long as the borrower's core business activities continue to perform.

[18] Amortising loans are loans which require borrowers to repay both principal and interest gradually over a regular repayment schedule.

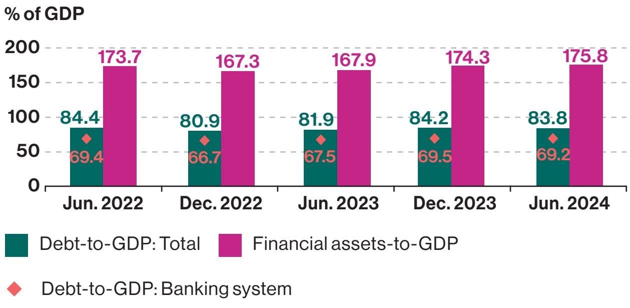
Quality of household borrowings remained intact, supported by favourable economic and labour market conditions

The aggregate household debt-to-GDP and banking system household debt-to-GDP ratios stood at 83.8% and 69.2% respectively (Chart 1.13), broadly unchanged as household debt[19] continued to expand in line with economic activity in the first half of 2024 (Chart 1.14). Housing loan growth was sustained by robust demand for residential property and the continued availability of government support measures to encourage homeownership (see Information Box on 'Developments in the Residential Property Market'). Car loans, meanwhile, expanded faster on the back of higher passenger vehicle sales, including electric and hybrid models, compared to the first half of 2023.

Unsecured financing by households, comprising credit card debt and personal financing, remained stable at 15.2% of total household debt as at June 2024 (December 2023: 15.5%) (Chart 1.15). Outstanding credit card debt declined slightly but remains above pre-pandemic levels. This corresponds to the higher usage of credit cards as a payment instrument rather than an indication of higher debt accumulation. Revolving balances as a proportion of outstanding credit card balances remain well below pre-pandemic levels (June 2024: 48.5%; December 2023: 47.9%; 2015–19 average: 60.6%). Credit card cash advance transactions have also trended lower at 1.2% of total card transactions (December 2023: 1.3%; 2015–19 average: 2.2%). Despite ongoing cost of living pressures faced by lower-income households, personal financing growth has remained modest across most income segments. This is consistent with continued positive income growth and a lower share of households reporting difficulties in meeting monthly expenditures.[20]

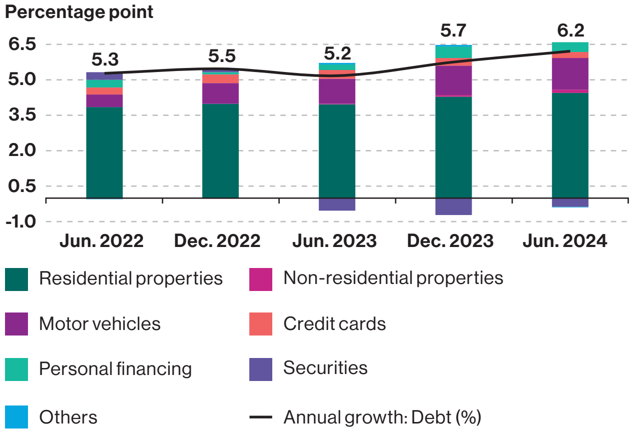
Over the past year, buy now pay later (BNPL) schemes have continued to gain traction. As at end-June 2024, users of BNPL schemes have increased to 4.3 million active users, a 27.6% increase since end-December 2023. Young and middle-aged adults make up over 90% of the active user base. With wider familiarity, demand for BNPL schemes is expected to increase further. However, risks to financial stability are currently assessed to be limited on account of low credit limits leading to predominantly low-value transactions,[21] short financing tenures (typically between one and three months), expectations[22] of providers to conduct affordability assessments for higher risk transactions, and prudent measures[23] observed by providers to avoid excessive debt burdens when repayment difficulties emerge. Consistent with this, outstanding BNPL exposures as a share of overall household debt remain small at just over 0.1% as of June 2024. The share of overdue[24] BNPL financing is also low and declining at 2.6% of total exposures (December 2023: 3.4%).

Chart 1.13: Household Sector – Key Ratios



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

Chart 1.14: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

[19] Extended by both banks and non-bank financial institutions.

[20] Based on BNM's monthly Consumer Sentiment Survey (CSS). The survey aims to gauge general economic and financial sentiments and expectations of Malaysian households on a variety of topics such as household financial positions, labour market developments and cost of living. The survey is based on a representative sample of households across all income levels nationwide. In the July 2024 CSS, the share of households reporting difficulties in meeting monthly expenditures decreased to 40% from 43% in December 2023.

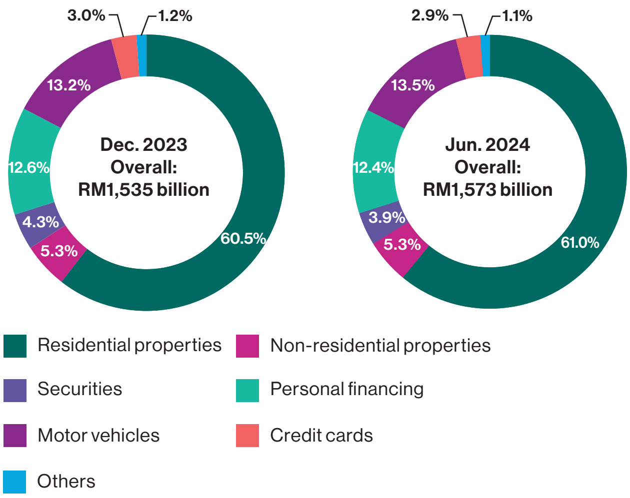
[21] About 80% of active BNPL users have a credit limit of RM3,000 or less, while the average transaction value was RM75 in the first half of 2024.

[22] Providers adopt an affordability threshold (AT), above which an affordability assessment must be carried out. The AT serves to prevent users from accumulating unaffordable debt. Currently, the AT is set at RM1,000 per user of each non-bank provider. However, a lower AT may be set for a specific segment of users with higher credit risk.

[23] Providers will automatically suspend accounts with any missed payments from being further utilised for new transactions until all arrears are fully settled.

[24] Refers to BNPL accounts with one or more days past due.

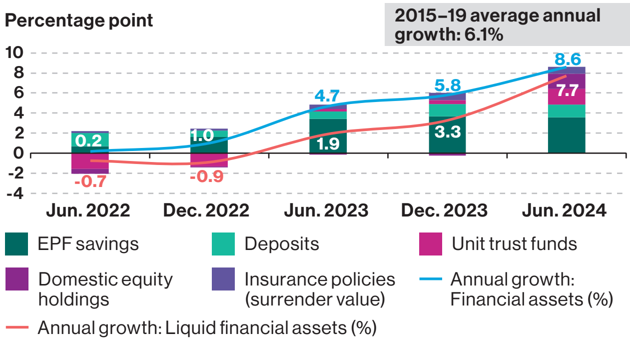
Chart 1.15: Household Sector – Composition of Debt by Purpose



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Chart 1.16: Household Sector – Annual Growth of Financial Assets

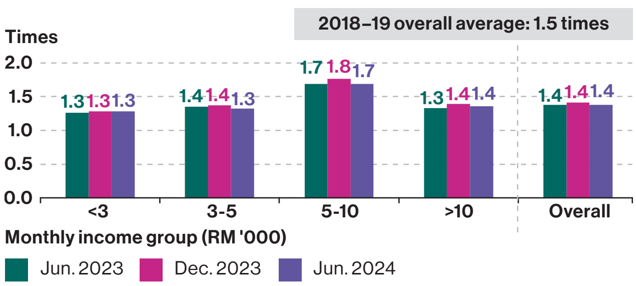


Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

On aggregate, household balance sheets remain healthy. Household financial assets continued to outweigh household debt by 2.1 times. During the period, household financial assets expanded at a faster pace (8.6%; December 2023: 5.8%; 2015–19 average: 6.1%) (Chart 1.16), mainly driven by (i) higher Employees Provident Fund (EPF) balances and deposits on the back of favourable labour market conditions, and (ii) higher valuations of domestic equity holdings in line with the strong market performance of Bursa Malaysia. The introduction of a flexible account under EPF's account restructuring initiative will further contribute to household resilience.[25] This initiative aims to strengthen retirement income security by raising income allocations that are set aside for retirement savings, while providing greater flexibility for members to access a part of their savings without restrictions to meet more immediate financial needs as necessary. As of July 2024, household retirement accounts were bolstered by RM5.6 billion, while RM12.6 billion was placed in flexible accounts that can be drawn upon by households when needed following the one-time permitted transfers effected by members. The increase in household retirement savings saw an additional 43,000 members achieve Basic Savings.[26]

Banks' prudent lending standards continue to play an important role in keeping households' debt accumulation in check and in line with debt-servicing capacity. Debt expansion continued to closely track income levels, resulting in relatively stable median debt-to-income (DTI) ratios among households (Chart 1.17). Higher-income borrowers (earning more than RM5,000 per month) remain the primary contributors to household debt growth, accounting for 72.1% of outstanding household debt (Chart 1.18). Prudent debt service ratios (DSRs) for newly approved and outstanding household loans continued to be observed at 41% and 35% respectively (December 2023: 41% and 35%), providing adequate buffers for households to meet their loan obligations. Reflecting better income conditions, the share of borrowers with high DSR (exceeding 60%) also continued to decline (June 2024: 24.1%; December 2023: 25.0% of total household borrowers). More than two-thirds of high-DSR debt is held by middle- and high-income borrowers who typically have larger financial reserves to sustain loan repayments in the event of financial shocks. Of the high-DSR borrowers, those that also have low net disposable income in level terms are considered more at risk. Signs of stress among such borrowers remain limited, with the value of loans with three or more month-in-arrears declining further (June 2024: 2.4%; December 2023: 2.9%; December 2019: 3% of total exposures) amid continued positive income growth (see Box Article 'Looking Beyond DSR to Assess Households' Debt-Servicing Capacity').

Chart 1.17: Household Sector – Median Debt-to-Income Ratios by Income Group

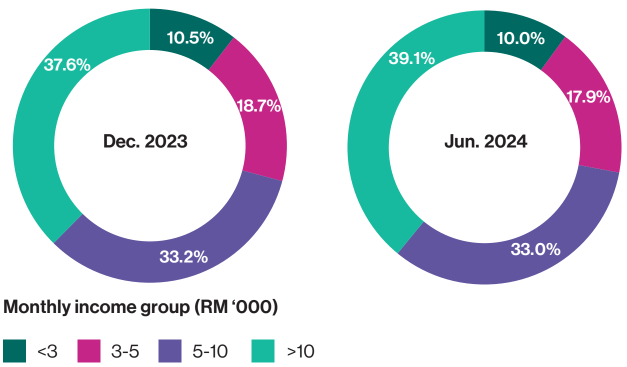


Source: Bank Negara Malaysia

[25] Through the restructuring initiative, members' savings will now be distributed among Akaun Persaraan (75%), Akaun Sejahtera (15%), and Akaun Fleksibel (10%), shifting from the previous structure of Akaun 1 (70%) and Akaun 2 (30%).

[26] Basic Savings refers to a pre-determined amount in Akaun Persaraan set according to age, designed to enable members to achieve a minimum savings of RM240,000 by age 55.

Chart 1.18: Household Sector – Composition of Banking System Debt by Income Group

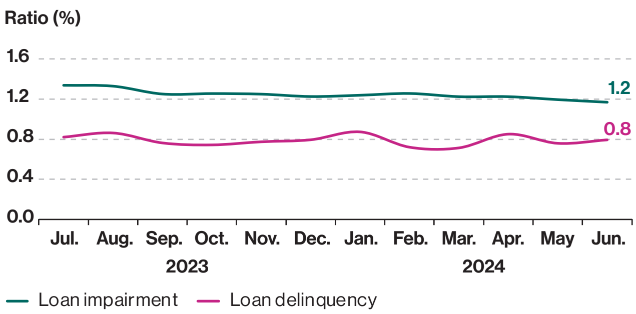


Note: 1. Figures exclude loan accounts with incomplete income information.
2. Figures may not add up due to rounding.

Source: Bank Negara Malaysia

The overall quality of household borrowings remained intact during the period, as the vast majority of borrowers continued to be able to service their debts (Chart 1.19). The share of household loans classified as Stage 2 (identified as having higher credit risk) decreased further to 4.4% (December 2023: 4.8%) reflecting sustained loan repayments by most households, including those that have exited repayment assistance programmes. Further, new signs of stress have been muted, as newly R&R household loans declined to RM3.3 billion in the first half of 2024 (2H 2023: RM 4.6 billion), equivalent to 0.1% of total banking system and DFI loans.

Chart 1.19: Household Sector – Loan Impairment and Delinquency Ratios in the Banking System



Source: Bank Negara Malaysia

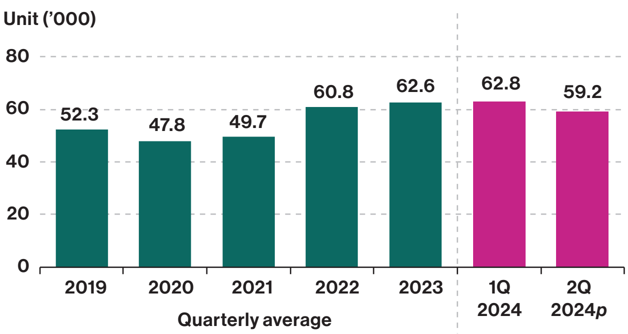
While banks have largely returned to their pre-pandemic R&R practices, borrowers who remain in need of further assistance but are ineligible for banks' R&R programmes are referred to AKPK for a more holistic debt restructuring assistance. Along with intensified outreach and awareness efforts undertaken by AKPK, this partly contributed to slightly higher enrolments into AKPK's Debt Management Program (DMP) in the first half of 2024. The total share of household borrowings under repayment assistance (banks' R&R and AKPK's DMP) however remains low at 2% of total banking system and DFI loans (December 2023: 2.2%).

Looking ahead, favourable economic and labour market conditions as well as sound lending standards will underpin the sustained debt repayment capability of households. Cost of living pressures could continue to challenge some households with pre-existing vulnerabilities (e.g. from lower-income segments), but any impact on broader financial stability risks is expected to be well contained. Amid improving economic conditions, prospects of further subsidy rationalisation initiatives that are paired with mitigating measures by the Government (in the form of cash transfers and other targeted assistance to lower-income borrowers) is also not expected to materially affect household financial resilience.

Developments in the Residential Property Market

Housing market transactions were broadly sustained above pre-pandemic levels in the first half of 2024 (Chart 1.20). The mass-market segment (houses priced RM500,000 and below) continued to be the primary driver of activity, accounting for almost 80% of total transactions during this period. Demand has been further supported by stamp duty exemptions under the Malaysian Home Ownership Initiative (i-Miliki) that remain in place for first-time home buyers purchasing residential properties valued at RM500,000 and below until end-2025. Furthermore, over 60% of new launches in 2023[27] were in the RM500,000 and below price category. This is a positive development towards improving supply-demand mismatches that reduce housing affordability and contribute towards higher household debt. The stock of unsold housing units (Chart 1.21), however, inched upwards in recent months (June 2024: 134,170 units; 2015–19 average: 130,210 units), driven by an increase in unsold units under construction. This appears to reflect a pick-up in new launches post-pandemic in line with the recovery of the housing market. Meanwhile, completed units that remain unsold continued to decline.[28]

Chart 1.20: Property Market – Housing Transaction Volume



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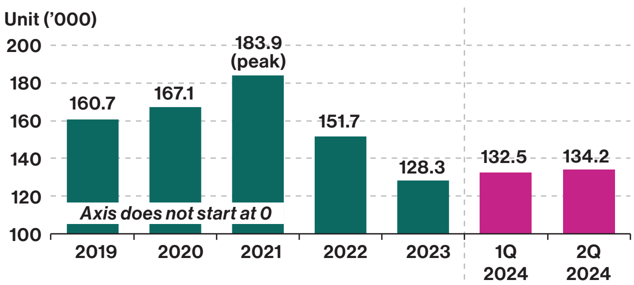
Source: National Property Information Centre (NAPIC)

Chart 1.21: 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) and Bank Negara Malaysia estimates

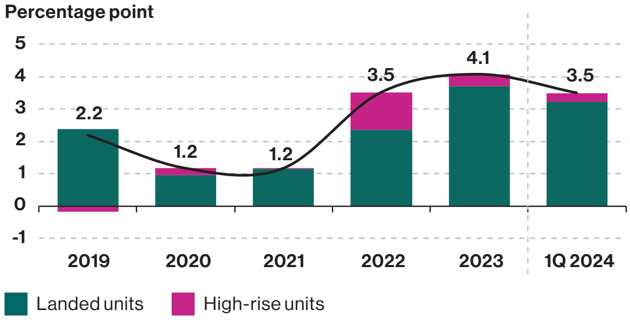
House prices expanded at a moderate pace of 3.5% in the first quarter of 2024 (4Q 2023: 3.8%), largely driven by higher prices for landed properties (Chart 1.22). Properties in the high-rise segment continued to exhibit weaker and more volatile price movements. This may be attributed to several factors, including a higher elasticity of supply compared to landed properties and a persistent overhang of unsold units. Of late, a notable development has been the rising popularity of serviced apartments which are constructed on commercial-titled land, allowing for denser developments. Imbalances could build up fairly quickly in this segment if the rate of supply significantly outstrips demand and purchases are fuelled by inflated expectations of price appreciation. Recent efforts by the National Property Information Centre (NAPIC) to collect and publish price data on the serviced apartment segment are both welcome and timely to promote better-informed purchasing decisions among market participants. At present, the serviced apartment segment remains relatively small (6% of total dwelling stock) compared to traditional high-rise properties (28.7% of total dwelling stock).[29]

[27] Preliminary data for first half of 2024, which may be revised over the next two quarters, indicates that 63% of new launches were priced at RM500,000 or below.

[28] Unsold units under construction refer to properties that have been on the market for at least nine months after launch but are still under construction. Overhang units denote properties that are unsold for at least nine months after launch but are completed and have received a Certificate of Completion and Compliance.

[29] This calculation includes serviced apartments as part of the overall dwelling stock. Serviced apartments are however excluded from NAPIC's residential property statistics.

Chart 1.22: Property Market – Malaysian House Price Index (MHPI) Growth by Type

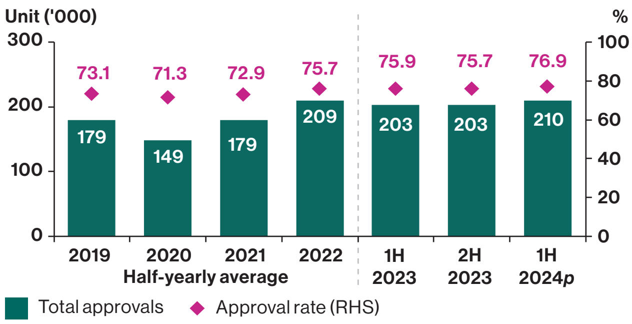


Note: High-rise units include condominiums, apartments and flats but exclude serviced apartments.

Source: National Property Information Centre (NAPIC) and Bank Negara Malaysia estimates

Financing for residential property purchases remained forthcoming, with stable growth in loan applications and approvals in the first half of 2024 (Chart 1.23). Outstanding housing loan growth (June 2024: 7.5%; December 2023: 7.3%) continued to be primarily driven by owner-occupiers, who accounted for 76% of the increase in outstanding loans over the past year. The share of new loans associated with investment purchases (proxied by borrowers with two or more housing loans) increased slightly (June 2024: 24%; December 2023: 23%) amid the improvements in market activity and continued strong competition among lenders that has kept lending rates low (average lending rate in 1H 2024: 4.1%; 2H 2019: 4.4%). This contributed to a higher-than-average level of housing transactions. Despite these observations, speculative activity in the property market remains contained. Notably, the number of borrowers with three or more housing loans has been on a downtrend with consecutive negative annual growth over the last three quarters. As of June 2024, such borrowers form a very small share of all housing loan borrowers at 2.9%.

Chart 1.23: Property Market – Volume of Approvals and Approval Rate for Housing Loans



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Note: Approval rate calculated based on volume of approvals.

Source: Bank Negara Malaysia

The median loan-to-value (LTV) ratio of overall outstanding housing loans remained prudent (June 2024: 68.9%; December 2023: 68.2%), providing comfortable buffers for banks and borrowers against possible corrections in house prices. Prudent LTV ratios were also observed for the high-rise segment (median outstanding LTV ratio: 69.8%). Under current relatively stable market conditions and sustained repayment capacity of households, risks of a broad-based, steep and sudden correction in house prices remain low. Nevertheless, a lack of transparency over the provision of discounts and rebates for the purchase of new properties could distort LTV calculations where such discounts and rebates are not disclosed to financing banks, increasing residual risks to banks and borrowers. Recent engagements with market players and industry professionals suggest that where such practices are present, actual LTVs could be eight to 33 percentage points higher than reported LTVs. Potential risks are compounded for high-rise properties, where the combined effects of muted price growth and a higher propensity of discounts and rebates could increase vulnerabilities to a potential house price correction. Improving house price transparency therefore remains crucial.