

Overview

Global financial markets experienced heightened volatility towards the end of 2024, which is expected to continue in 2025. This was driven by ongoing uncertainties surrounding global monetary and trade policies as well as geopolitical developments. Domestic market stress continued to reflect these external developments, with the Financial Market Stress Index (FMSI) remaining at elevated levels compared to the first half of 2024. Notwithstanding this, domestic financial conditions remained orderly, with effective intermediation of two-way flows in the bond and equity markets. Funding conditions were further supported by healthy liquidity in the government bond market and narrowing corporate bond credit spreads. Interbank money market conditions also improved as banks' seasonal year-end funding demands eased. In the foreign exchange (FX) market, risks remain contingent upon global developments. Since the beginning of 2025, the ringgit has appreciated by 1.1% against the US dollar.¹ Ringgit performance will continue to be supported by Malaysia's strong economic fundamentals, alongside the ongoing implementation of structural reforms to boost the nation's competitiveness and growth potential.

Businesses were supported by sustained domestic and external demand conditions. However, cost pressures continued to weigh on businesses' financial performance in some sectors. Against this backdrop, healthy levels of cash buffers continued to support the overall debt-servicing ability of businesses. Correspondingly, the share of firms-at-risk showed broad-based improvement (December 2024: 23.5%; June 2024: 27.7%). While pockets of risks remained among small and medium enterprises (SMEs) given the persistent cost challenges, the share of delinquent SME loans declined further. A majority of SMEs that have exited repayment assistance programmes continue to be able to sustain their debt repayments. SMEs were also observed to demonstrate some agility in managing their cashflow such as renegotiating with suppliers or reducing their reliance on imported goods. Looking ahead, leading indicators suggest that risks of a widespread deterioration in credit quality are contained.

The share of business loans with increased credit risk (Stage 2 loans) declined further during the period. The overall business loan impairment ratio also declined to 3.1% of total business loans (June 2024: 3.5%). The favourable outlook for domestic demand and sustained exports are expected to continue to lend support to businesses amid the challenging operating environment.

Household resilience continued to be supported by favourable labour market conditions. Overall household debt growth was mainly driven by housing and car loans, while expansion in unsecured financing such as personal financing and credit card remained modest. Risks to households from buy now pay later (BNPL) schemes continued to be limited. While growing at a more rapid pace, outstanding BNPL exposures remained small at 0.2% of total household debt with stable repayment trends. Bank lending continues to be underpinned by sound underwriting standards and loan affordability assessments. This supported healthy debt-servicing capacity among households, with household credit growth closely tracking income levels. The median debt-to-income (DTI) ratio, a measure of borrower leverage, was stable at 1.4 times. The quality of borrowings also remained intact. Household loans with higher credit risk continued to decline to 4.3% of total household loans (June 2024: 4.4%). Some households with low financial buffers are more vulnerable and could face greater difficulties to service their debt amid rising costs of living. However, these borrowers continue to be limited to a small segment of household borrowers. Help for such borrowers also remains available through the Credit Counselling and Debt Management Agency (AKPK) and banks. Of note, the share of household borrowings under repayment assistance offered by banks and AKPK remained low at 1.9% of total banking system and development financial institution (DFI) loans.

Banks continued to maintain healthy liquidity buffers to ensure resilience against both short- and long-term shocks. The aggregate Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) stood at 160.7% and 116.3% respectively. Banks' profitability continued to be supported by higher interest income amid robust loan

¹ Data as of 10 March 2025.

growth and a slower pace of increase in interest expense. Despite improving asset quality, banks remained prudent in their provisioning practices. This reflected banks' continued vigilance, particularly over the potential impact of cost challenges on higher-risk borrower segments in both the household and business sectors. Banks remained well-capitalised against unexpected shocks, with the banking system's total capital ratio remaining healthy at 18.3% and capital buffers of RM136.8 billion, well above the regulatory minimum. This will continue to firmly support financial intermediation in the economy.

The insurance and takaful sector similarly remained resilient. The life insurance and family takaful funds recorded greater underwriting losses in the second half of 2024 due to elevated medical payouts. Overall profitability for the whole of 2024 was supported by the stronger equity market performance for the year. In addressing rising premiums of medical and health insurance/takaful (MHIT) policies, interim measures have been put in place by the insurance and takaful industry to assist affected individuals. Over the longer term, structural reforms to address underlying drivers of medical inflation will be crucial in ensuring the sustainability of MHIT business and continued access to protection against healthcare financing needs for the public. In the general insurance and takaful sector,

gains in operating profits were mainly attributed to better underwriting performance in the motor segment. Overall, the insurance and takaful sector remained supported by strong capital and liquidity positions. The aggregate capital adequacy ratio of insurers and takaful operators (ITOs) stood at 224%, with excess capital buffers of RM41 billion.

The latest macro solvency stress tests conducted by BNM, which incorporated additional downside risks, continue to affirm the resilience of financial institutions against unexpected losses from severe macroeconomic and financial shocks. The stress tests revealed that the post-shock aggregate capital ratios for banks (15.6%), life insurers (152%) and general insurers (173%) remain above regulatory minima at the end of the stress horizon.

Maintaining cyber and operational resilience remains a key focus of BNM and financial institutions, particularly given the rapidly changing cyber threat landscape. Financial institutions continue to invest significant resources to ensure that adequate risk controls are in place and remain effective in managing emerging cyber risks. Banks are also developing more robust and integrated business continuity testing to preserve their ability to ensure uninterrupted service availability in an environment of increasingly complex inter-dependencies.