

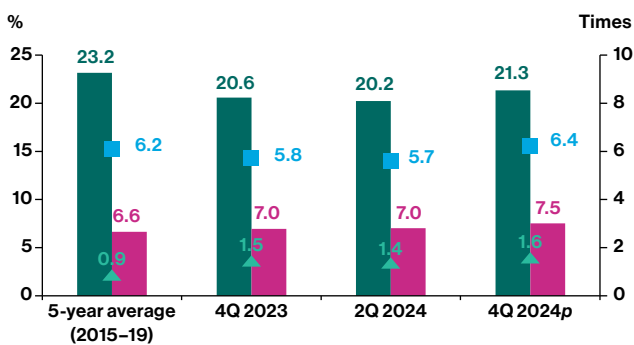
CREDIT RISK

Businesses remained resilient despite elevated cost pressures

Businesses continued to be resilient in the second half of 2024, underpinned by sustained domestic demand and continued growth in external demand. Firms in the construction sector experienced an uplift from new industrial and housing, as well as the ongoing multi-year infrastructure projects. Export-oriented firms continued to benefit from the global trade expansion and the technology upcycle. These developments supported revenue and helped businesses improve their debt-servicing ability, as measured by the median interest coverage ratio⁴ (ICR) of 6.4 times (Chart 1.4). The overall share of firms-at-risk⁵ correspondingly improved to 23.5% (June 2024: 27.7%) (Chart 1.5).

Operating margins have also recovered above pre-pandemic levels although businesses continued to face cost pressures. On aggregate, firms continued to report higher aggregate input costs, as measured by the median cost of goods sold ratio⁶ of 76.9% (June 2024: 75.8%; 2015–19 average: 75.9%). While the relatively stronger

Chart 1.4: Business Sector – Key Financial Performance Indicators



■ Debt-to-equity ratio ■ Operating margin
 ■ Interest coverage ratio (ICR) (RHS) ▲ Cash-to-short-term debt ratio (CASTD) (RHS)

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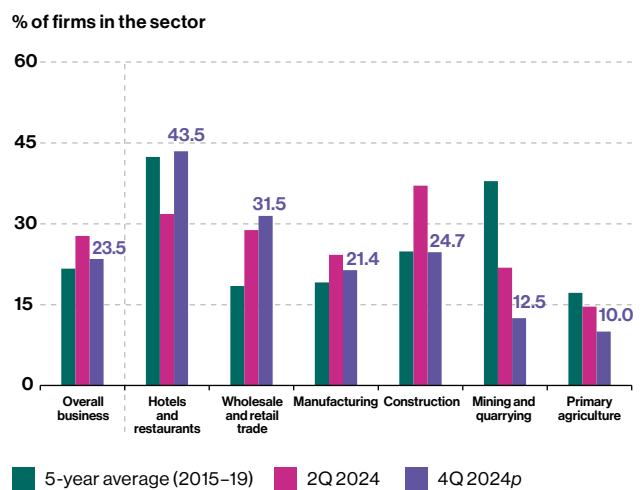
Note: Prudent thresholds for ICR and CASTD are two times and one time, respectively.

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

⁴ Prudent threshold for interest coverage ratio is two times.
⁵ Firms-at-risk refers to firms with interest coverage ratio below the prudent threshold of two times.
⁶ 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.

ringgit compared to a year ago and the stabilisation of global commodity prices helped offset some of these pressures, firms in the manufacturing, wholesale and retail, as well as hotels and restaurants sectors faced persisting higher materials, labour and operating costs. Reflecting this, the share of firms-at-risk in these sectors also remained elevated. Looking ahead, continued cost challenges, the uncertainty surrounding global trade policies as well as domestic policy developments could continue to weigh on business performance, potentially delaying more sustained improvements in firms-at-risk. Notwithstanding this, debt-servicing capacity, including for firms in sectors still facing cost pressures, has continued to be supported by healthy cash buffers with the cash-to-short term debt ratio close to or above historical levels (Chart 1.6).

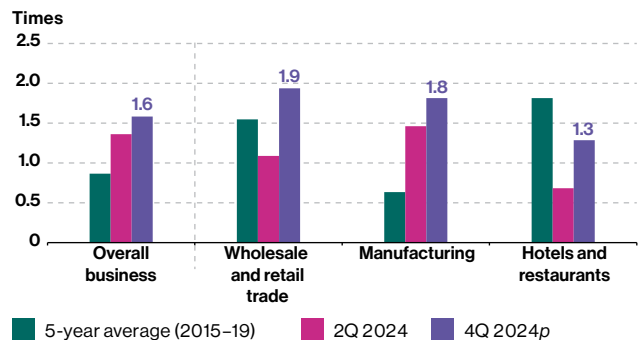
Chart 1.5: Business Sector – Firms-at-risk for Selected Sectors



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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

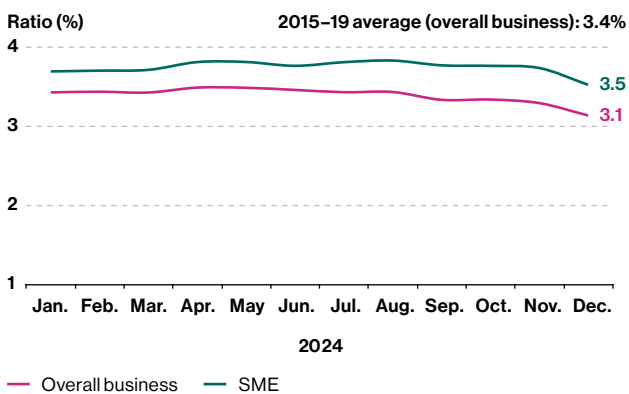


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Source: S&P Capital IQ and Bank Negara Malaysia estimates

The credit quality of business loans continued to improve in the second half of 2024, reflecting broad-based improvement across non-SME and SME borrowers. The overall business loan impairment ratio declined to 3.1% of total business loans (June 2024: 3.5%) (Chart 1.7). The leading indicator of loans with significant increase in credit risks (Stage 2 loans) has also improved (December 2024: 11.9% of business loans; June 2024: 12.4%). Nonetheless, pockets of risks remained among SME borrowers given persistently elevated costs. SMEs have adopted multiple strategies to manage their cashflow (see information box on ‘SMEs’ Strategies to Navigate an Elevated Cost Environment’) which is a good indication of firms’ ability to meet current obligations, including loan repayments. Consistent with this, most SMEs remained resilient with the share of delinquent⁷ SME loans declining further to 1.6% (June 2024: 1.7%). The share of loans under repayment assistance correspondingly also continued to trend lower to 4.2% of total SME loans

Chart 1.7: Business Sector – Gross Impaired Loans

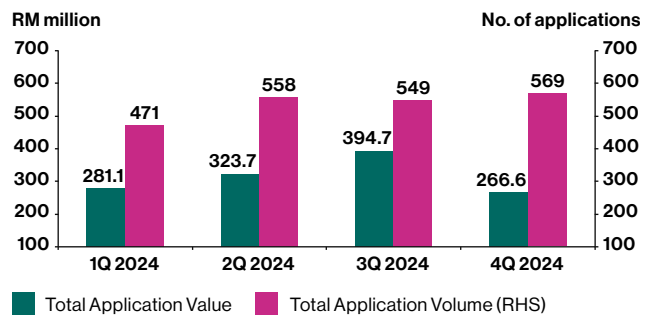


Note: Data refers to banking system and development financial institution (DFI) loans.

Source: Bank Negara Malaysia

(June 2024: 4.7%), or 0.7% of total banking system and development financial institution (DFI) loans. The vast majority of SMEs that have exited repayment assistance have been able to resume and sustain prompt repayment of their loans. New enrolments into rescheduling and restructuring (R&R) programmes by banks also continued to remain small at 0.2% of total SME loans. The number of new SMEs enrolled into the Credit Counselling and Debt Management Agency’s (AKPK) repayment assistance schemes (RAS) continued to rise since AKPK took over the Small Debt Resolution Scheme (SDRS) in 2020 (Chart 1.8). This has been partly attributable to greater awareness of AKPK as an alternative channel for distressed borrowers to help manage their debt. Other indicators do not appear to suggest a broader increase in SMEs facing financial distress, as corroborated by a much slower rate of increase in new SME enrolments with AKPK’s RAS. The share of debt managed under the schemes also remained very small at only 0.1% of total SME loans.

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



Note: The AKPK Repayment Assistance total application value has been revised following the adoption of a system that reflects the latest requirements with more accurate data capture and reporting methodology.

Source: Credit Counselling and Debt Management Agency (AKPK)

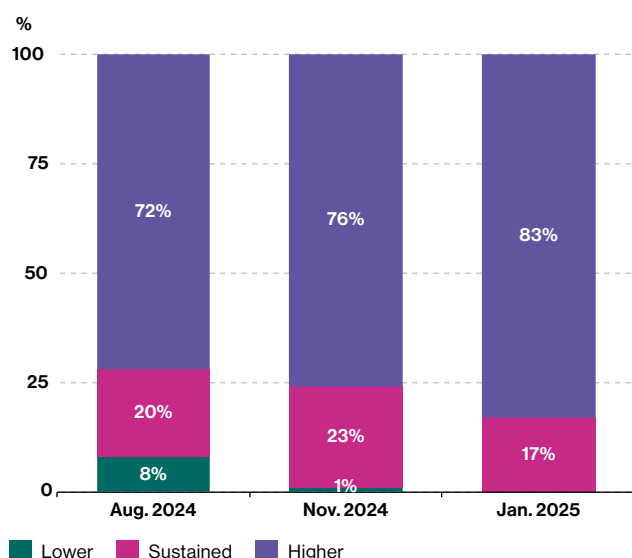
⁷ Refers to loans with one or two months in arrears, or between 30 and 90 days past due.

SMEs' Strategies to Navigate an Elevated Cost Environment

BNM expanded its regional surveillance to include assessments on SME credit risk in the second half of 2024. Direct engagements with SMEs⁸ were conducted via BNM Regional Offices to gauge real-time financial conditions and challenges faced by SMEs.

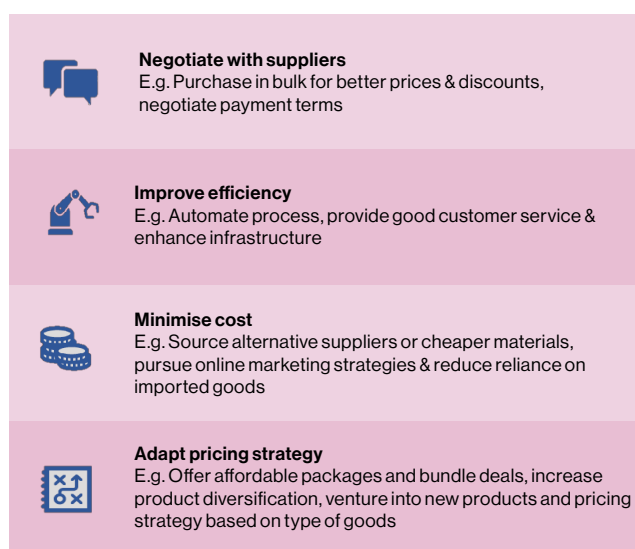
Based on the engagements, most SMEs cited concerns on elevated costs in the second half of 2024 despite having a resilient growth outlook. The higher input cost environment is expected to continue in 2025 (Chart 1.9), stemming mainly from rising global commodity and raw material prices as well as increasing operating costs (e.g. labour costs due to higher minimum wage and utility cost due to the electricity tariff hike). In the near term, a majority of SMEs planned to maintain prices to remain competitive by adopting alternative strategies to manage cost pressures (Diagram 1.1).

Chart 1.9: Business Sector – SMEs' Business Cost Outlook for 2025



Source: Bank Negara Malaysia's engagements with SMEs

Diagram 1.1: Business Sector – Strategies Adopted by SMEs to Cope with Elevated Costs



Source: Bank Negara Malaysia's engagements with SMEs

⁸ A total of 240 SME businesses across the country were engaged between August 2024–January 2025, covering the areas of business performance and challenges, access to finance as well as loan repayment behaviour of the SMEs.

The credit quality of borrowings of larger corporates generally improved amid firm economic growth. For the top 25 percent of listed firms (by asset size), the median ICR was comfortably above the prudent threshold at 6.1 times (June 2024: 5.6 times). The quality of corporate bond issuers also remained strong, with only six issuers (June 2024: five issuers), or 0.9% of total outstanding domestic corporate bonds downgraded in the second half of 2024.

Corporates' external borrowings increased to RM588.3 billion in the second half of the year (June 2024: RM569.1 billion). Around 60% of external borrowings comprise lower risk exposures in the form of intercompany loans, which are accorded flexible terms, and trade credits. Risks are further mitigated by the large share of corporate external debt exposures (71%) which

have longer maturities of more than one year, thus reducing rollover risk. These exposures also remained adequately covered by assets, with corporate external assets at one time of corporate external debt. As at end-2024, the external debt-at-risk⁹ for corporates declined to RM7.8 billion (2023: RM9.2 billion) which is equivalent to only 1.3% of total corporate external debt. Additionally, risks from a currency mismatch are assessed to be limited as most of the exposures of large resident-controlled corporates are hedged either naturally or financially. The share of large resident-controlled corporates' external borrowings that may be susceptible to exchange rate volatility remained stable at

⁹ Corporate external debt-at-risk refers to offshore loans raised and bonds issued by high-risk corporate borrowers. These borrowers are classified as high-risk when more than 50% of their total domestic loan exposures are classified in Stage 2 and Stage 3.

23% of these corporates' total external debt,¹⁰ equivalent to only 1.7% of total business debt. Moreover, the small number of unhedged borrowers have minimal domestic borrowings (less than 0.6% of total domestic banking loans), thus limiting contagion risks to domestic financial stability. In the period ahead, global uncertainties and geopolitical developments could increase FX risks faced by corporates during episodes of heightened volatility in financial markets. However, risks are expected to remain contained given the above mitigating factors.

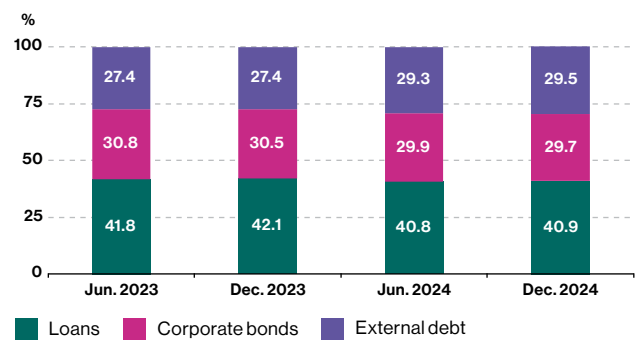
Financing conditions remained supportive of business needs, with businesses continuing to utilise a stable mix of funding sources (Chart 1.10). Business loans grew by 5.1% (June 2024: 5.7%), driven mainly by investment-related loans amid the favourable economic conditions. In line with this, corporate bond issuances also increased, resulting in a slightly higher annual growth of outstanding corporate bonds of 3.3% (June 2024: 3.2%). The increase was driven mainly by the construction and manufacturing sectors for working capital and new investments, as firms took advantage of the relatively cheaper borrowing cost in the capital market given the narrowing of corporate bond spreads.

Looking ahead, risks are expected to remain manageable given the favourable outlook for domestic demand and exports, although there are continued concerns over challenging operating conditions. These include

the uncertainty surrounding geopolitical tensions and international trade policies, as well as elevated cost environment, which will have a bearing on the near-term financial outlook for businesses.

Stress tests¹¹ conducted by BNM affirmed that banks' capital buffers are sufficient to absorb a potential increase in credit losses from the business sector under adverse stress scenarios. Furthermore, the SDRS and corporate debt resolution mechanisms via the Companies (Amendment) Act 2024 continue to provide restructuring options for distressed but viable firms.

Chart 1.10: Business Sector – Composition of Debt by Type



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

¹⁰ Corporate external debt from these large resident-controlled corporates consists of borrowings from non-related entities, as well as bonds and notes. It excludes low risk external debt such as intercompany loans, which are normally more flexible, and trade credits, which are backed by export earnings.

¹¹ Refer to section on 'Assessing the Resilience of Financial Institutions' for more details.

Steady expansion in household debt, with favourable labour market conditions and improving economic activity supporting household resilience

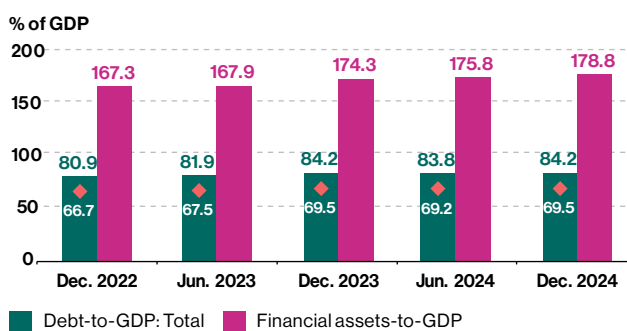
The aggregate household debt-to-GDP ratio edged higher to 84.2% (Chart 1.11) as household debt¹² continued to expand at a steady pace of 5.9% (Chart 1.12) in the second half of 2024, in line with continued improvements in labour market conditions and economic activity. The growth in overall debt was mainly driven by housing and car loans, collectively comprising 74.6% (Chart 1.13) of household debt. Housing loan growth was bolstered by robust activity in the residential property market amid measures to encourage homeownership, with further incentives announced in Budget 2025¹³ expected to provide continued support into 2025 (see Information Box on 'Developments in the Property Market'). Meanwhile, the take-up of car loans was sustained by strong car sales in 2024.¹⁴

Despite sustained household spending recorded in the second half of 2024, the take-up of unsecured financing such as personal financing and credit card debt remained relatively stable as indicated by the year-on-year growth of 3.5% and 8% as of December 2024 (June 2024: 3.3% and 8.9%) respectively. The combined share of personal financing and credit card debt has remained largely unchanged at 15.3% (June 2024: 15.2%) of total household debt. Of note, the expansion in both personal financing and credit card debt was minimal among the lower-income segment and predominantly driven by higher-income borrowers. The latest Financial Capability and Inclusion Demand Side (FCI) survey¹⁵ indicated that despite being more affected by cost pressures, lower-income households are more likely to turn to family or savings rather than borrowing from financial institutions, in the event of shocks. A closer look at credit card usage indicators also points to a declining share of revolving credit. The proportion of outstanding credit card balances that are not paid in full when they are due continued to

decline (2H 2024 average: 48.2%; 1H 2024 average: 49%), while the share of revolvers¹⁶ as a proportion of total credit cardholders has remained broadly stable (2H 2024 average: 24%; 1H 2024 average: 24.2%).

Two notable developments during the period warrant continued vigilance. Following the implementation of the upward revision of civil servant salaries, an uptick in personal financing disbursements to civil servant borrowers has been observed since December 2024. Monthly personal financing disbursements to civil servant borrowers increased sharply to an average of RM6.4 billion in December 2024 and January 2025 (2023–24 monthly average: RM3.6 billion), outstripping personal financing disbursements to other borrowers which expanded more moderately at an average of RM4.5 billion in the same period (2023–24 monthly average: RM4.1 billion). Banks generally continue to observe prudent lending standards, including conducting affordability assessments that also take into account minimum net disposable income in addition to limits on debt service ratio (DSR). Secondly, organised fraudsters have targeted borrowers with repayment arrears, mostly civil servants, to refinance their existing debt while significantly increasing their debt exposures with the false promise of lucrative returns from dubious investment schemes. Both developments have so far been contained with banks increasing their vigilance during credit assessments alongside an intensification of financial education efforts. Crucially, sound lending standards observed by banks will remain key to support household resilience, particularly among non-prime borrowers¹⁷ in an environment of rising costs of living.

Chart 1.11: Household Sector – Key Ratios



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

¹² Extended by both banks and non-bank financial institutions.

¹³ This includes individual income tax relief of up to RM 7,000 for first-time home buyers purchasing properties below RM500,000 and up to RM5,000 for first-time home buyers purchasing properties between RM500,000 and RM750,000. The relief allows claims for a maximum of three years (i.e. the first three consecutive years of mortgage interest payments) for properties purchased between January 2025 and December 2027.

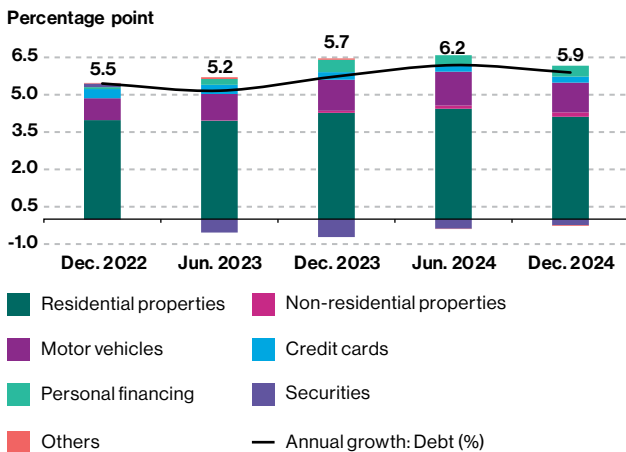
¹⁴ Sales of new motor vehicles surpassed 800,000 units in 2024, driven mainly by the passenger cars subsegment. The strong sales figures were further supported by resilient domestic economy and successful new model launches (source: Malaysian Automotive Association).

¹⁵ See the Feature Article on 'Financial Capability and Inclusion Demand Side Survey 2024' in BNM's Annual Report 2024 for more details.

¹⁶ Refers to credit cardholders who only pay a portion of their outstanding balance due.

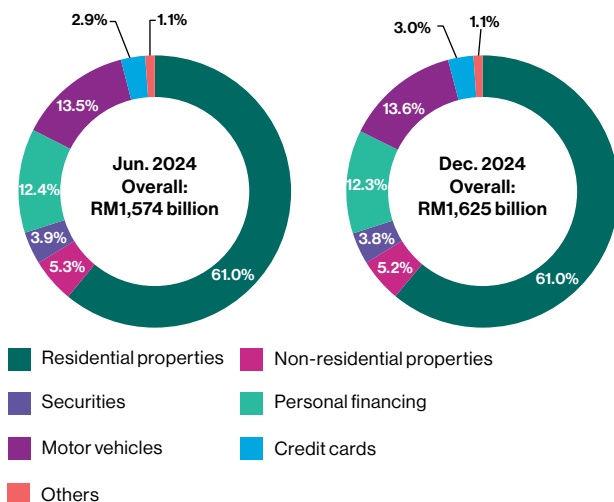
¹⁷ Refers to less-creditworthy borrowers, including those with records of missed repayments.

Chart 1.12: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

Chart 1.13: Household Sector – Composition of Debt by Purpose



Note: Figures may not add up due to rounding.

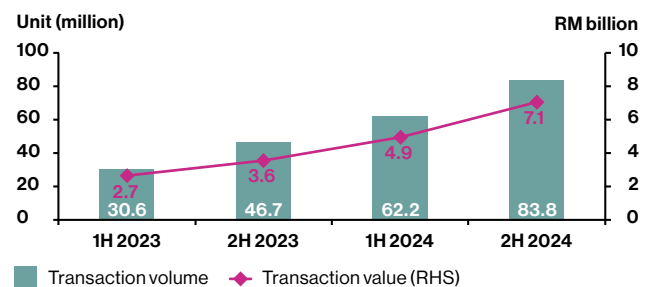
Source: Bank Negara Malaysia

Buy now pay later¹⁸ (BNPL) schemes continued to see sustained interest among consumers. While BNPL activity has grown rapidly, total outstanding BNPL debt remained a small proportion of overall household debt at RM2.8 billion, equivalent to 0.2% of total household debt as of December 2024. In the second half of 2024, the total amount of purchases made via BNPL, both in terms of transaction volume and value, increased to 83.8 million transactions and RM7.1 billion (1H 2024: 62.2 million transactions and RM4.9 billion)

¹⁸ All BNPL figures refer to transactions made by users of non-bank BNPL providers only.

respectively (Chart 1.14).¹⁹ As of end-December 2024, the number of active²⁰ users reached 5.1 million (June 2024: 4.3 million). BNPL providers have also been observed to offer facilities for higher-value transactions alongside longer instalment periods of up to 24 months (compared to the typical one to six months previously observed). Nonetheless, risks associated with BNPL remain contained. The level of BNPL overdue amount²¹ remained low at 2.9% of total BNPL outstanding balances during the period (June 2024: 2.6%). BNPL providers also continue to observe practices that serve to mitigate concerns over broader risks from distressed borrowers. These include observing lower credit limits for new users, immediately suspending facilities upon a missed repayment, and proactively managing credit limits of users with anticipated repayment difficulties. Furthermore, the enactment of the Consumer Credit Act (CCA) in 2025 will enable the establishment of the Consumer Credit Commission to regulate and supervise non-bank credit providers and credit service providers which are currently not regulated, including businesses offering BNPL schemes. This will strengthen existing regulatory and supervisory arrangements for the protection of credit consumers.

Chart 1.14: Household Sector – BNPL Transaction Value and Volume



Note: Data refers to BNPL transactions with non-bank providers.

Source: Consumer Credit Oversight Board Task Force

Lending to households continued to be underpinned by sound credit underwriting standards. Overall household indebtedness continued to track income levels with the median debt-to-income (DTI) ratio (a measure of borrower leverage) remaining stable across borrowers at 1.4 times in 2024 (June 2024: 1.4 times; December 2023: 1.4 times). Borrowers' debt-servicing capacity, as

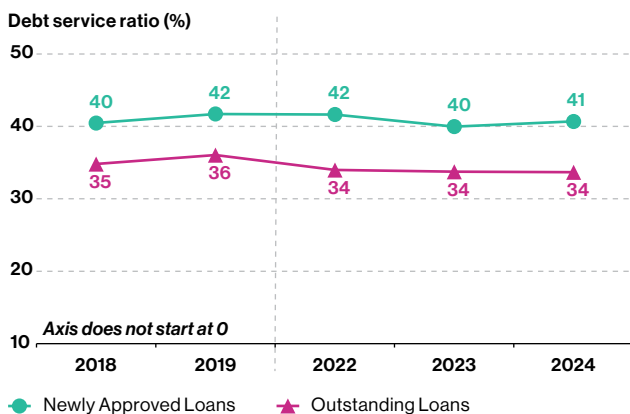
¹⁹ The transactions were diversified across different merchant sectors, such as retail, food and restaurant, professional and commercial services, and transportation.

²⁰ Refers to BNPL accountholders with at least one BNPL transaction in the past 12 months. A credit consumer may own multiple BNPL accounts with different providers.

²¹ Refers to BNPL accounts with one or more days past due.

measured by the DSR, also remained healthy with limited evidence of borrowers overstressing themselves to take on new credit. The median DSRs²² of borrowers with newly approved loans and outstanding loans remained relatively stable at 41% and 34% in 2024 (2023: 40% and 34%) respectively, providing adequate buffers for households to meet their loan obligations (Chart 1.15). The share of borrowers deemed riskier²³ correspondingly remained small, accounting for 6.5% of total household borrowers (June 2024: 6.1%). Impairments among these borrowers remained low at 1% of their total exposures (June 2024: 1.2%).

Chart 1.15: Household Sector – Median Debt Service Ratio of Borrowers with Newly Approved Loans and Outstanding Loans



Source: Bank Negara Malaysia

Household balance sheets remained sound. On aggregate, household financial assets remained in excess of debt by 2.1 times, providing households with healthy buffers against adverse shocks. In line with improvements in employment and income conditions, household financial assets grew strongly (8.7%; June 2024: 8.6%; 2015–19 average: 6.1%) (Chart 1.16) driven by (i) higher savings held in the Employees Provident Fund (EPF) and deposits, and (ii) improved valuation of domestic equity holdings amid the favourable market performance of Bursa Malaysia in 2024. Collectively, savings held in the EPF and deposits accounted for 67.6% of total financial assets. Growth in EPF savings was also bolstered by higher voluntary contributions by members including through the i-Saraan scheme.²⁴ Although the introduction of Akaun Fleksibel allows EPF

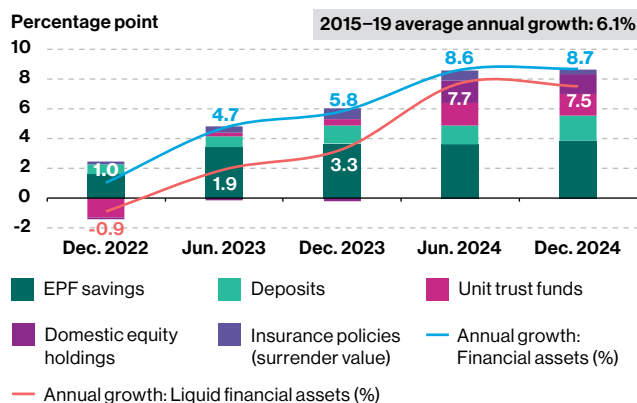
²² Beginning June 2024, DSR figures have been revised following refinements to improve the accuracy in capturing the debt servicing burden of borrowers with joint loan accounts. Thus, DSR figures may not be directly comparable to those reported in previous publications.

²³ Refers to borrowers with high DSR (exceeding 60%) and low net disposable income (below RM1,000).

²⁴ A voluntary contribution for self-employed persons and casual workers without fixed income.

members to withdraw savings for their short-term needs, only 31% of the total eligible members were reported to have availed of this flexibility to date.²⁵ Meanwhile, retail participation in the domestic equity market has returned to pre-pandemic levels at 19% in the second half of 2024 (1H 2024: 22%; 2015–19 average: 19.3%). This would reduce the impact of equity price movements on household balance sheets. As observed previously, loans for the purchase of quoted securities also remained small at 0.5% of total banking system loans (June 2024: 0.5%).

Chart 1.16: Household Sector – Annual Growth of Financial Assets

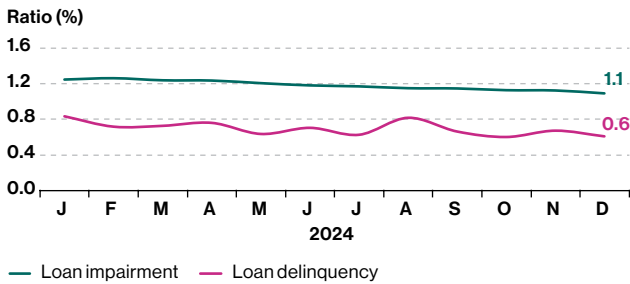


Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

The quality of borrowings improved against the backdrop of favourable labour market conditions and sustained income growth. Loan delinquencies and impairments have declined across all income groups and most loan purposes (Chart 1.17). New signs of stress also remain muted with the share of household loans classified as Stage 2 (identified as having higher credit risk) declining further to 4.3% (June 2024: 4.4%; peak (December 2021): 8%). Vulnerabilities remain confined to a small segment of borrowers with low buffers and who are more impacted by rising costs or changes in their financial circumstances (such as income reduction, job loss or having to deal with unanticipated expenses). While the take-up of loan assistance offered by banks and AKPK continues to be high, driven by intensified efforts to proactively assist borrowers facing financial difficulties, the share of new loans under assistance remained small at 0.3% of total banking system and DFI loans (June 2024: 0.3%). Overall, the total share of household borrowings under repayment assistance (banks' R&R and AKPK's Debt Management Programme, DMP) continued to decline and remained low at 1.9% of total banking system and DFI loans (June 2024: 2%).

²⁵ A total of RM12.2 billion has been withdrawn from EPF Akaun Fleksibel as of December 2024. This involves 31% of EPF members below the age of 55 years old (source: Employees Provident Fund).

Chart 1.17: Household Sector – Loan Impairment and Delinquency Ratios



Note: Data refers to banking system and development financial institution (DFI) loans.

Source: Bank Negara Malaysia

Moving forward, households' debt-servicing capacity will continue to be supported by favourable labour market conditions and sustained income growth. Continued efforts to rationalise blanket government subsidies in 2025 are not expected to significantly affect household financial resilience given corresponding income support measures that are anticipated to still be available to most households.

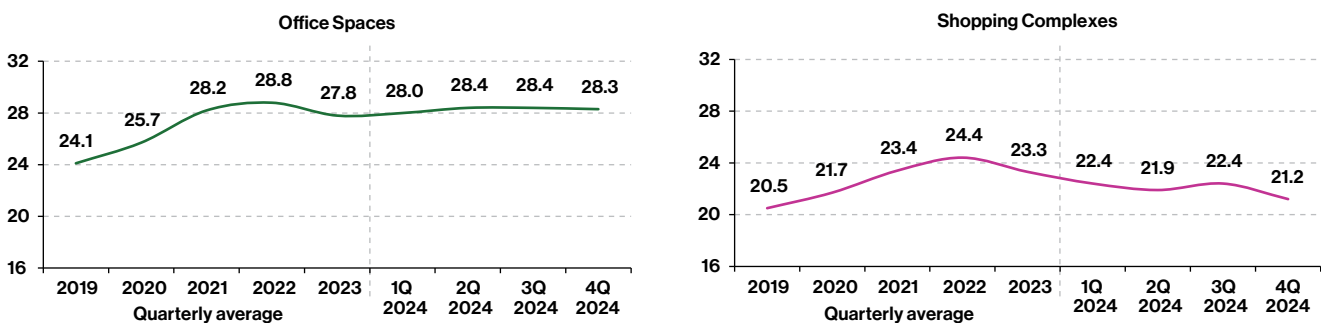
Income growth, supported by policies such as the upward revision of the minimum wage and civil servant salaries, is expected to further improve households' resilience. While improvements in household income may in turn contribute to a faster pace of debt expansion commensurate with the higher borrowing capacity of households, credit risk is expected to be contained given the sound lending practices of financial institutions.

Stress tests conducted by BNM show that under adverse scenarios of high unemployment rate and high inflation, some segments of vulnerable borrowers such as lower-income borrowers and highly-indebted borrowers with thin financial buffers remain susceptible to financial distress. The latest stress test showed that up to 5.6% of total banking system loans from the household sector are at risk of defaulting by end-2027, in the event of severe labour market shocks with the unemployment rate reaching as high as 6%. However, this remains within the comfortable range of banks' excess capital buffers (refer to the section on 'Assessing the Resilience of Financial Institutions' for more details).

Developments in the Property Market

In the non-residential property (NRP) sector, risks remained contained despite continued challenges in the office space and shopping complex (OSSC) segments in the second half of 2024. Concerns surrounding elevated vacancy rates for office spaces remained as new supply continued to outstrip demand. The total stock of office space²⁶ in the Klang Valley increased further to 121.7 million square feet in the fourth quarter of 2024 (2Q 2024: 121 million square feet). Continued observations of preferences for more flexible tenancy contracts and hybrid work arrangements suggest adjustments in supply still have some way to go. As at the fourth quarter of 2024, vacancy rates in the office space segment remained elevated at 28.3% (3Q 2024: 28.4%; 2Q 2024: 28.4%). Meanwhile, the shopping complex segment improved slightly during the period as observed by the marginal decline in vacancy rates amid higher footfall and favourable demand conditions (Chart 1.18).

Chart 1.18: Property Market – Vacancy Rate of Office Spaces and Shopping Complexes

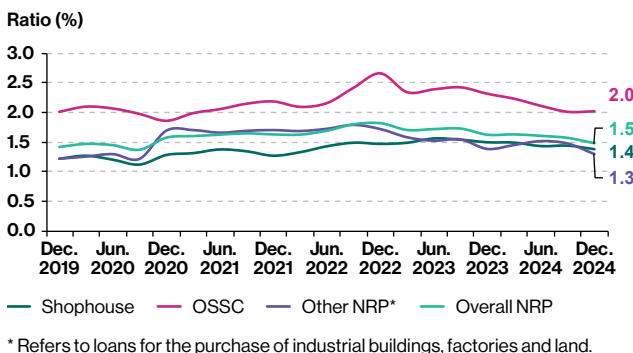


Source: National Property Information Centre (NAPIC) and Bank Negara Malaysia estimates

²⁶ Source: Jones Lang Wootton.

Risks to financial stability arising from the longstanding weaknesses observed in the OSSC segments are assessed to remain contained. Exposures of the banking system to the OSSC segments are limited, representing only a small share of total banking system loans (2.5%; June 2024: 2.6%). The asset quality of OSSC loans remained stable with an impairment ratio of 2% as at end-December 2024 (June 2024: 2.1%) (Chart 1.19). The median outstanding loan-to-value (LTV) ratio for the OSSC segments also remained prudent (December 2024: 59.5%; June 2024: 58.9%). Looking ahead, the short-term outlook for OSSC remains cautious given existing weaknesses in the segments.

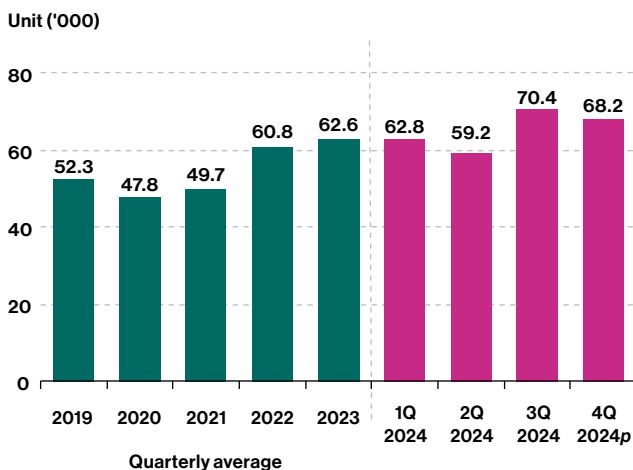
Chart 1.19: Property Market – Loan Impairment by Type of Non-residential Property Purchased



Source: Bank Negara Malaysia

In the residential property sector, market activity was robust in the second half of 2024, supported by conducive labour market and income conditions, availability of financing and ongoing incentives to promote homeownership. Market transactions increased, mainly driven by the mass-market segment (houses priced RM500,000 and below) (Chart 1.20). The number of overhang units²⁷ continued to decline (Chart 1.21). Nevertheless, unsold housing units under construction²⁸ continued to rise in 2024, reflecting the increase in new launches from previous years (2024p: 75,784 units; 2023: 66,576 units; 2021–22 average: 54,707 units).²⁹

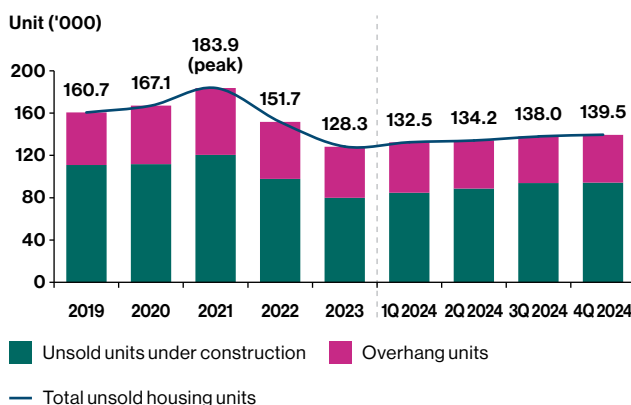
Chart 1.20: Property Market – Housing Transaction Volume



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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 units under construction for residential, serviced apartments, and small office, home office (SOHO) units.

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

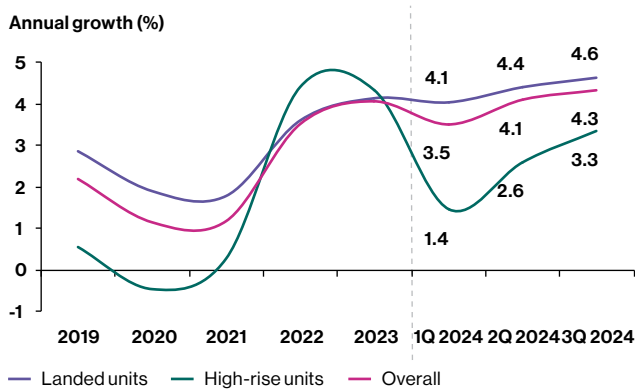
²⁷ Overhang units denote properties that are unsold for at least nine months after launch but are completed and have received a Certificate of Completion and Compliance.

²⁸ Unsold units under construction refer to properties that are unsold for at least nine months after launch but are still under construction.

²⁹ Excludes new launches of serviced apartments. Figures for 2024 are preliminary and often revised upwards in subsequent data releases, typically over the next two quarters.

Despite strong market activity, house price growth remained within a moderate range in the third quarter of 2024 (4.3%; 2Q 2024: 4.1%) (Chart 1.22). However, during the same period, the serviced apartment segment³⁰ registered a notable moderation in price growth, in contrast to the stronger overall price growth for high-rise units as defined in the Malaysian House Price Index (MHPI). Currently, the serviced apartment segment already forms 34.8% of total unsold housing units³¹ despite comprising only 6.3% of the total estimated existing stock of dwelling units.³² Coupled with persistent incoming supply, risks of a price adjustment remain for the segment. The direct risk from overall unsold units is, however, assessed to be low as loan exposures to developers with unsold properties, including serviced apartments, form only 0.9% of total banking system loans. Improving demand conditions have also limited broader spillovers to the residential property market that could stem from a prolonged period of weak house price growth due to unresolved unsold properties.

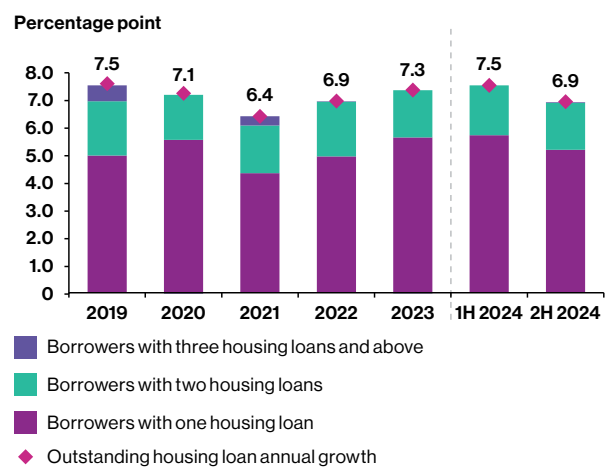
Chart 1.22: Property Market – Annual Growth of Malaysian House Price Index (MHPI) by Type



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

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

Chart 1.23: Property Market – Contribution to Annual Growth of Housing Loans by Type of Borrower



Source: Bank Negara Malaysia

Banks remained forthcoming in providing financing to the residential property market. Financing for residential property construction, which further supports new launches in the market, expanded at 12.9% (June 2024: 4%; 2015–19 average: 9.5%). Overall outstanding housing loans grew by 6.9% year-on-year (June 2024: 7.5%), of which loans to owner-occupiers (proxied by individual borrowers with one housing loan, including first-time home buyers) contributed 5.2 percentage points to the annual growth. Signs of credit-fuelled investment activity were limited, as the contribution to housing loan growth from borrowers with three or more housing loans remained small (December 2024: 0.03 percentage points; June 2024: -0.01 percentage points) (Chart 1.23). On asset quality, housing loans were largely performing across all borrower types, in tandem with positive income growth. Sustained repayment capacity was observed, with the overall impairment ratio remaining low at 1.2% as at December 2024 (June 2024: 1.3%). Of note, individual property investors³³ were observed to exhibit low impairment ratios (0.9%), even when compared to owner-occupiers (1.3%). This appears consistent with the profile of investors, 80% of whom earn more than RM5,000 monthly.

The median LTV ratio of overall outstanding housing loans remained prudent, providing adequate cushion against a possible house price correction (December 2024: 69.7%; June 2024: 68.9%). With current stable economic conditions, risks of a severe price correction remain unlikely. Downside risks to financial stability emanating from the property market are assessed to remain low in the near term, underpinned by sound lending standards.

³⁰ As per the National Property Information Centre's (NAPIC) Serviced Apartment Price Index (SA-PI). This index was recently introduced by NAPIC in September 2024. In the third quarter of 2024, prices of serviced apartments grew by 2% in the Klang Valley, 3.9% in Johor Bahru and -0.1% in Pulau Pinang (4Q 2023: 5.4%, 4.7% and 3.7% respectively). Klang Valley consists of Kuala Lumpur and Selangor.

³¹ Total unsold housing units here includes overall residential properties and serviced apartments.

³² Over three-fifths of all unsold serviced apartment units are in the above RM500,000 price category.

³³ Individual property investors refer to borrowers with two or more outstanding housing loans.