

# Overview

Similar to other regional markets, Malaysia's financial markets continue to be influenced by global developments. Uncertainties over US tariff developments, global growth prospects and geopolitical tensions have contributed to increased volatility in global financial markets. The domestic Financial Market Stress Index (FMSI) rose temporarily to a peak in May 2025 before easing thereafter. The rise in FMSI mainly reflected volatility associated with positive performance of the ringgit and the domestic bond market. Funding and liquidity conditions remained supportive of financial intermediation throughout this period. Bank Negara Malaysia's (BNM) targeted liquidity operations and the Statutory Reserve Requirement (SRR) reduction from 2.00% to 1.00% effective 16 May 2025 helped ensure adequate domestic liquidity in an environment of greater financial market volatility. In the foreign exchange (FX) market, the ringgit was largely influenced by external developments, appreciating by 6.1% against the US dollar between March and September 2025.<sup>1</sup> Malaysia's favourable economic prospects and ongoing structural reforms are expected to continue supporting the ringgit.

In the first half of 2025, businesses remained resilient, underpinned by robust domestic demand and economic activities, despite global uncertainties and rising costs. The immediate impact of US tariffs on domestic financial stability was limited due to the tariff pause and exemptions on key export products. However, persistent cost pressures continued to pose challenges for businesses. Larger firms were better positioned to manage these headwinds, supported by stronger financial positions compared to pre-pandemic levels. On the other hand, small and medium enterprises (SMEs) with pre-existing vulnerabilities continued to face repayment challenges. Nonetheless, proactive cost management strategies adopted across firms have helped sustain their repayment capacity. As a result, the overall credit quality of business loans remained intact, with the impairment ratio and the share of loans

with increased credit risk (Stage 2 loans) unchanged at 3.1% and 11.9% respectively. Looking ahead, the implementation of domestic policy measures could exert upward pressure on businesses' operating costs. However, moderating input prices amid contained global cost conditions and firms' ongoing mitigation strategies are expected to cushion the impact. Steady domestic demand and continued investment activity will remain as key pillars supporting businesses in this challenging operating environment.

Household resilience continued to be supported by positive labour market conditions. Household debt grew at a steady pace, driven mainly by housing and car loans, while consumption-related credit such as personal financing and credit cards expanded modestly. Although the aggregate household debt-to-GDP ratio edged marginally higher, borrowers' debt-servicing capacity remained healthy, backed by prudent lending standards. The median debt service ratios (DSRs) of newly approved and outstanding household loans were stable at 41% and 33% respectively. Buy now pay later (BNPL) schemes continued to expand rapidly, though the share of outstanding BNPL exposures remained small at 0.2% of total household debt. The establishment of the Consumer Credit Commission is expected to strengthen regulatory oversight of BNPL and other non-bank credit providers. Overall, the quality of household borrowings remained sound, as reflected in the stable impairment ratio and the declining share of household loans under repayment assistance. Despite ongoing cost-of-living pressures and external uncertainties, signs of emerging financial stress among households remain limited. Banks and the Credit Counselling and Debt Management Agency (AKPK) continue to monitor borrowers' financial health and stand ready to provide support where needed.

The banking system remained strong and well-positioned to withstand shocks and support financial intermediation in the economy. Banks remained well-capitalised with total capital ratio at 18.2% and excess capital buffers of RM138.9 billion as at end-June 2025. Funding and

<sup>1</sup> Data as of 19 September 2025.

liquidity positions remained healthy, with Liquidity Coverage Ratio (LCR) of 160.5% and Net Stable Funding Ratio (NSFR) of 115.7%. Banks' profitability was supported by higher interest income amid sustained loan growth and FX revaluation gains from the strengthening of the ringgit. Asset quality remained sound, with the gross impaired loans ratio and the share of Stage 2 loans unchanged at 1.4% and 6.6% respectively. Nevertheless, banks remained vigilant and maintained prudent provisioning, especially for borrowers in more vulnerable segments facing ongoing cost pressures.

The insurance and takaful sector remained resilient, supported by robust capital and liquidity positions. Improved bond investment and underwriting performance helped boost overall profitability of insurance and takaful funds. Reforms to address medical inflation continued to progress. At the same time, motor and fire insurance saw further progress under tariff liberalisation, supported by the ongoing rollout of digital roadside assistance initiatives. Looking ahead, insurers and takaful operators (ITOs) face risks from financial market volatility, rising motor and medical claims costs, and more frequent climate-related events. Nonetheless, ITOs remain well-positioned to manage these risks,

backed by a strong aggregate capital adequacy ratio of 223% and excess capital buffers of RM42 billion.

The financial system remained operationally resilient amid evolving risks. Financial institutions' strengthened system safeguards led to a decline in technological disruptions, thereby improving system uptime and customer service experience. Amid persistent cyber threats, financial institutions continued to bolster their cyber vigilance and response capabilities. This resulted in a more effective containment and management of cyber threats with minimal operational disruptions. Enhanced fraud countermeasures have led to a marked decline in unauthorised transactions within the industry. However, there has been a discernible rise in authorised scams involving social engineering. In response, BNM and the financial industry have rolled out stronger fraud detection measures and expanded public awareness efforts. The National Fraud Portal is being upgraded to better trace suspicious transactions and protect victims. To further enhance the financial industry's cyber resilience, BNM will also be releasing an updated Risk Management in Technology (RMiT) policy. This policy aims to raise service availability standards and strengthen cyber defences across financial institutions and payment service providers.