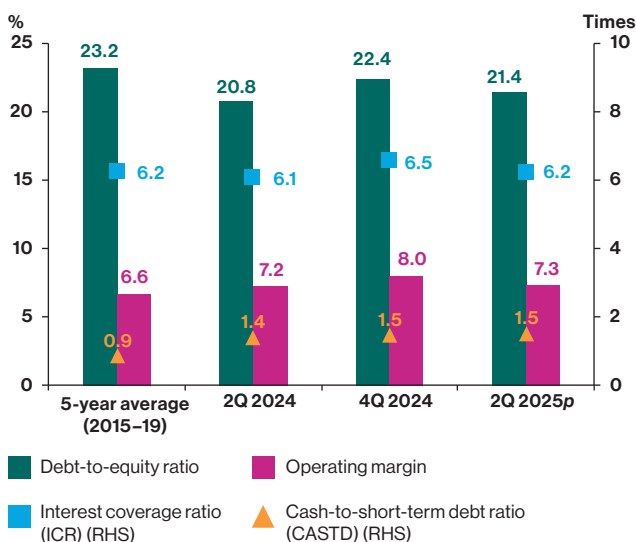


CREDIT RISK

Businesses remained resilient in navigating uncertainties

Business operations remained resilient in the first half of 2025, despite headwinds from global trade uncertainties, geopolitical developments and persistent cost pressures. Robust domestic demand amid positive labour market conditions and the steady expansion of investment activities continued to support businesses during this period. Front-loading activities amid tariff-related uncertainties, particularly in the electrical and electronics (E&E) subsector, helped sustain the performance of export-oriented firms. Firms in the construction sector continued to benefit from robust growth in industrial and housing projects as well as progress of multi-year infrastructure projects. Revenues of firms in the services sector were bolstered by improvements in consumer spending and tourism activity. Collectively, these developments supported firms' revenue and hence, the debt-servicing ability of businesses. This was reflected in the median interest coverage ratio (ICR),³ which stood at 6.2 times (Chart 1.4). The overall share of firms-at-risk⁴ remained broadly stable at 24.4% (Chart 1.5).

Chart 1.4: Business Sector – Key Financial Performance Indicators



p Preliminary

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

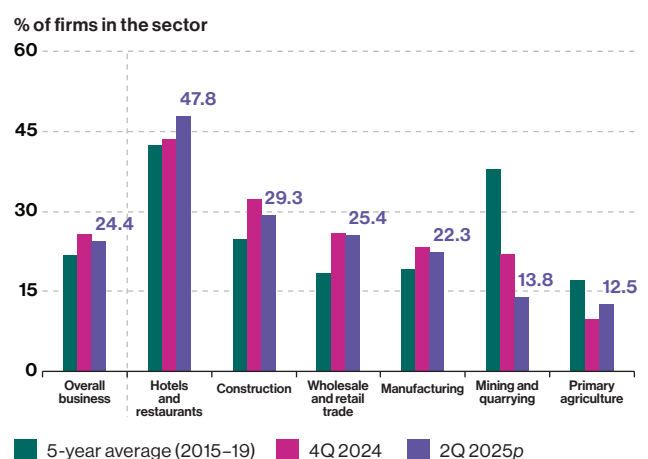
Source: S&P Capital IQ and Bank Negara Malaysia estimates

³ Prudent threshold for ICR is two times.

⁴ Firms-at-risk refers to firms with ICR below the prudent threshold of two times.

Nevertheless, ongoing cost pressures continued to weigh on firms' profit margins. The median cost of goods sold (COGS) ratio⁵ edged higher to 75.4% (December 2024: 74.9%; 2015-19 average: 75.9%). Firms in the hotels and restaurants, wholesale and retail trade, construction and manufacturing sectors were confronted with higher labour and material costs. As a result, the share of firms-at-risk in these sectors remained elevated relative to long-term averages. Looking ahead, firms are expected to continue facing cost pressures in the second half of the year as the impact from the rollout of domestic policies, such as the expanded scope of sales and service tax (SST),⁶ electricity and water tariff restructuring, and the enforcement of mandatory Employees Provident Fund (EPF) contributions for foreign workers, takes effect. The impact of these policies will vary across firms depending on their size, sector, cost structure and ability to pass on higher costs. To navigate these pressures, firms are implementing various strategies to mitigate the impact on their bottom line. Additionally, the moderation in input costs, supported by a decline in the Producer Price Index and softer global commodity prices, should help alleviate some of the domestic cost pressures. These factors, along with healthy cash buffers (Chart 1.6), are expected to continue supporting the debt-servicing capacity of firms.

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



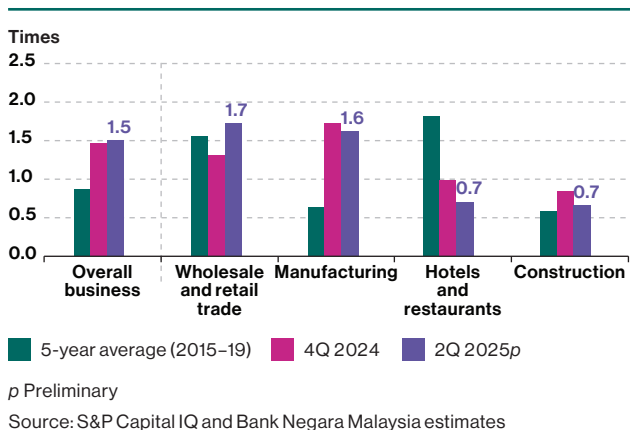
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Source: S&P Capital IQ and Bank Negara Malaysia estimates

⁵ COGS ratio is calculated by dividing a firm's COGS by its revenue. A higher ratio indicates that COGS makes up a higher proportion of revenue.

⁶ The expanded scope of SST includes (i) sales tax on discretionary and non-essential goods and (ii) service tax on new services such as leasing or rental, construction, financial services, private healthcare and education services.

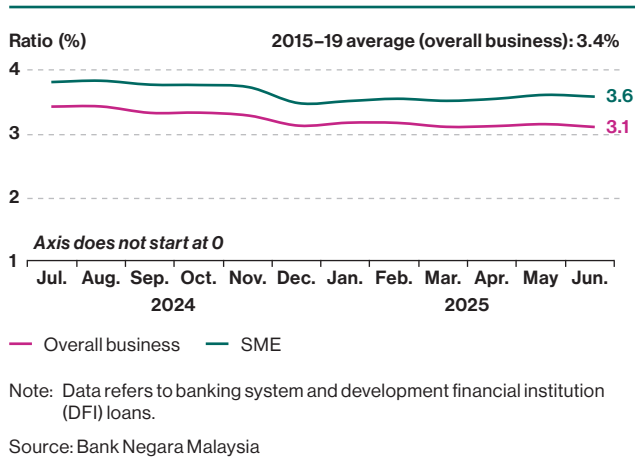
Chart 1.6: Business Sector – Cash-to-Short-term Debt for Selected Sectors



The overall credit quality of business loans remained intact, with the shares of impaired loans and loans with increased credit risk (Stage 2 loans) remaining unchanged at 3.1% and 11.9% respectively. The immediate impact of the US reciprocal tariffs on credit quality was limited, as key export products such as semiconductors were exempted and a lower tariff rate of 10% was applied to non-exempt items amid trade negotiations between April and July 2025. Affected firms, primarily those in the manufacturing sector with sizeable export exposure to the US also benefitted from front-loading activities and took pre-emptive measures ahead of the anticipated tariff rate increases. These measures included securing orders, building up inventory and negotiating cost-sharing arrangements with clients. Repayment trends for borrowings held by firms in this segment have trended in line with those observed for overall business loans. Loan impairments for these borrowings remained stable and lower than those for overall business loans at 2.4%. Generally, credit quality among larger corporates improved, supported by sustained economic growth and stronger financial positions compared to pre-pandemic levels. Larger businesses were also able to navigate headwinds by factoring domestic policy changes into their business plans ahead of implementation dates and re-negotiating contracts to minimise trade disruptions.

A small segment of small and medium enterprises (SMEs), on the other hand, continued to exhibit signs of repayment challenges, with the impairment ratio for SMEs edging slightly higher to 3.6% of total SME loans (Chart 1.7). However, no new pockets of vulnerability were observed, as repayment challenges remained confined to borrowers with pre-existing weaknesses in selected sectors such as manufacturing, construction, and wholesale and retail trade. Insights from BNM’s

Chart 1.7: Business Sector – Gross Impaired Loans



engagements with businesses revealed that some SMEs were drawing down on cash reserves to manage rising cost and tightening cashflows due to delays in collections and shorter payment terms. Some SMEs also reported lower revenue and smaller profit margins amid stiff competition. Nevertheless, the continued implementation of cashflow and cost management strategies by SMEs,⁷ alongside the gradual pass-through of costs, has helped support their repayment capacity and limit deterioration in the quality of borrowings within this segment. While some SME borrowers have responded to these challenges by drawing down existing credit lines, repayment conduct among these borrowers, including those with high credit line utilisation, remains broadly intact. SMEs facing financial difficulties continue to seek repayment assistance from banks and the Credit Counselling and Debt Management Agency (AKPK), though new signs of stress remain muted. The share of new SME loans under rescheduling and restructuring (R&R) programmes⁸ with banks trended lower and remained small at 0.3% of total outstanding SME loans (December 2024: 0.5%). Taking into account AKPK programmes, the total share of outstanding SME borrowings under repayment assistance also trended lower to 4.1% of total SME loans (December 2024: 4.4%), or 0.7% of total banking system and development financial institution (DFI) loans.

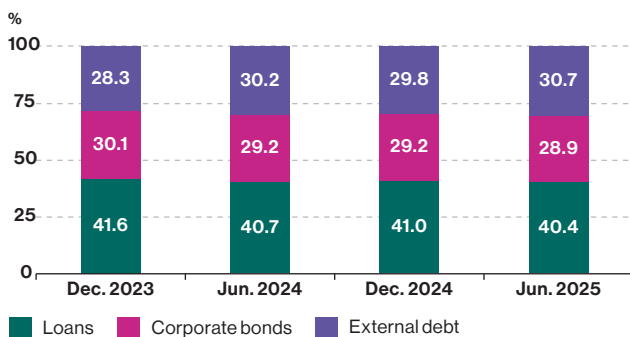
Corporates’ external borrowings increased to RM628.2 billion in the first half of the year (December 2024: RM593 billion), driven by intercompany borrowings and trade credits by multinational corporations to fund

⁷ Refer to the information box on ‘SMEs’ Strategies to Navigate an Elevated Cost Environment’ in BNM’s Financial Stability Review for Second Half 2024.
⁸ Beginning January 2025, figures for new R&R by banks have been revised following refinements aimed at improving accuracy in capturing new repayment assistance accounts. Thus, new R&R figures may not be directly comparable to those reported in previous publications.

existing operations and support expansion plans in Malaysia. These exposures, which form around 60% of total corporate external debt, are assessed to be low-risk given their concessionary terms. Net issuance of bonds and notes abroad, mainly by resident corporations, also contributed to the higher corporate external debt. Most of the external debt exposures from large resident corporates are either naturally or financially hedged, thereby limiting the risk of currency mismatches affecting repayment capacity. Rollover risks are similarly assessed to be low given the large (70%) share of external debt with maturities exceeding one year. Corporate external debt also remained adequately covered by assets, with the external asset to debt coverage ratio at 1 time.

Financing conditions remained supportive of business needs, with businesses continuing to utilise a stable mix of funding sources (Chart 1.8). Business loans grew by 4.5% in the first half of 2025 (December 2024: 5.3%; 2017–19 average: 4.1%), reflecting continued lending activity despite ongoing global uncertainties. Although investment-related loan growth moderated, it remained above its pre-pandemic average. This was partially

Chart 1.8: Business Sector – Composition of Debt by Type



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

offset by stable growth in working capital loans. In addition to loan financing, large corporates continued to tap the corporate bond market amid favourable funding conditions and narrowing bond spreads for high-quality issuers. Growth in outstanding corporate bonds rose to 4.3% (December 2024: 3.4%), driven by higher issuances for various purposes. The rise in issuances for new investment activities was driven by a few large issuances from the construction and services sectors. In contrast, growth in issuances for working capital and loan repayments was underpinned by a broader base of smaller issuances. The credit quality of corporate bond issuers remained strong, with only one issuer downgraded in the first half of 2025 (2H 2024: one issuer), representing just 0.1% of total outstanding domestic corporate bonds.

Moving forward, the business operating environment is expected to remain challenging. Uncertainties surrounding external developments, particularly those related to tariffs and their materialisation, may weigh on external demand and disrupt supply chains. Nonetheless, resilient domestic demand, continued global demand for E&E goods, inbound tourism and the expansion of investment activities are expected to lend support to the business outlook. While the implementation of domestic policy measures could exert upward pressure on businesses' operating costs, the impact is expected to be partly offset by moderating input prices amid contained global cost conditions and firms' proactive cost management strategies. Banks and AKPK remain committed to supporting businesses through tailored repayment assistance programmes, helping them navigate the challenging operating environment. Debt resolution mechanisms such as the Small Debt Resolution Scheme (SDRS), Corporate Debt Restructuring Committee (CDRC) and court-sanctioned corporate rescue mechanisms also remain available to provide restructuring options for distressed but viable firms.

Overall household quality of borrowings remained sound, supported by positive labour market conditions

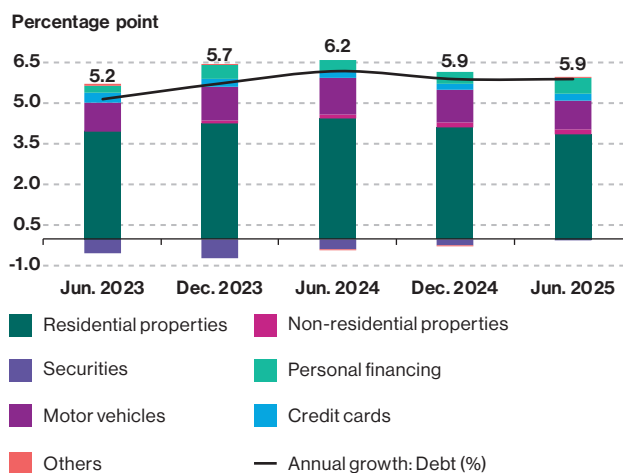
As at the end of June 2025, the stock of household debt expanded at a stable annual pace of 5.9% (Chart 1.9), edging slightly higher than the long-term average (2015–19 average: 5.6%). The expansion in household debt continued to be primarily driven by housing and car loans, which collectively accounted for 75% of total household debt (December 2024: 74.6%). Housing loans grew in line with improving labour market conditions, supported by sustained housing demand amid ongoing government initiatives to promote homeownership, particularly among first-time home buyers (see Information Box on ‘Developments in the Residential Property Market’). Car financing growth moderated slightly amid slower demand for passenger cars in the first half of 2025. Meanwhile, outstanding credit card debt and personal financing loans recorded higher year-on-year growth of 9.2% and 4.7% respectively (December 2024: 8% and 3.5%). However, the contribution of these consumption-driven credit to overall household debt growth remains modest, with their share to total household debt continuing to trend downwards to 15.2% (December 2024: 15.3%; December 2019: 16.8%) (Chart 1.10).

The higher growth in outstanding credit card balances since the post-pandemic period reflects the recovery in economic activity and a greater preference for using payment cards as a payment instrument, rather than an indication of higher debt accumulation.⁹ A more appropriate indicator to assess signs of financial distress is the trend in credit card revolving balances¹⁰ which provides a clearer signal of cashflow pressures faced by borrowers. The share of revolving balances out of total outstanding credit card balances edged up slightly to 48.9% but remains lower than its long-term average (December 2024: 47.7%; 2015–19 average: 60.6%). A deeper assessment on the group of credit card revolvers indicates that incidences of missed repayments (two months-in-arrears or more) across all their loan exposures (including non-credit card loans) remained manageable at 0.9% of their total debt value (December 2024: 0.9%).

⁹ The end-month outstanding credit card balance tends to increase as credit cards are increasingly used for payment transactions. This reflects the timing of data capture, which may record balances before repayments are made, even when cardholders consistently pay off their balances in full within the billing cycle.

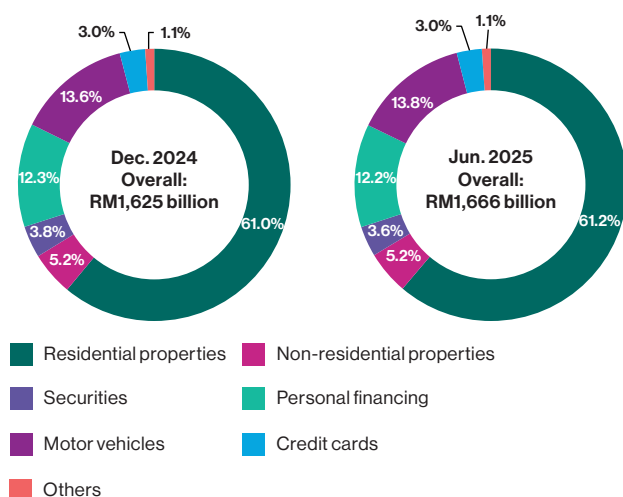
¹⁰ Refers to credit card outstanding balances that remain unpaid by the due date and are carried forward to the next billing cycle.

Chart 1.9: Household Sector – Annual Growth of Debt



Source: Bank Negara Malaysia

Chart 1.10: Household Sector – Composition of Debt by Purpose



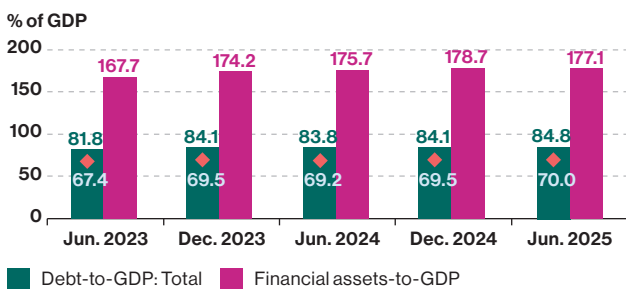
Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Despite stable household debt growth, the aggregate household debt-to-GDP and banking system household debt-to-GDP ratios rose marginally to 84.8% and 70% respectively (Chart 1.11). While debt ratios remain elevated at the aggregate level, prudent underwriting standards and loan affordability assessments by banks continue to ensure that borrowers can sustainably service their debt obligations. Household debt growth remains consistent with borrowers’ annual income levels, as evidenced by the stable median debt-to-income ratio of 1.4 times (December 2024: 1.4 times). Other measures of debt-servicing capacity also indicate prudent debt management at the individual level. The median debt service ratios (DSRs) of newly approved and

outstanding household loans were stable at 41% and 33% respectively (December 2024: 41% and 34%) (Chart 1.12), indicating that households can viably meet their loan obligations and monthly expenditures. Additionally, new financing extended to household borrowers deemed riskier¹¹ has remained limited in recent periods. The share of newly approved loans to these borrowers has decreased to 8.3% (December 2024: 9.1%). The share of outstanding household loans held by these riskier borrowers has also declined (9.1%; December 2024: 9.3%).

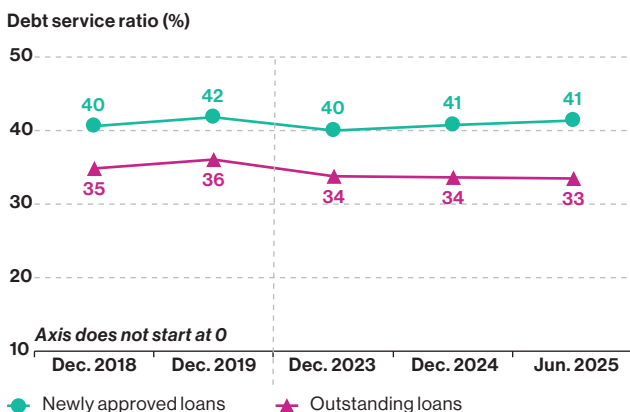
Chart 1.11: Household Sector – Key Ratios



Note: Data for the 'Total' debt series covers banking system, development financial institution (DFI) and selected non-bank financial institution (NBFI) loans.

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

Chart 1.12: Household Sector – Median Debt Service Ratio of Borrowers with Newly Approved Loans and Outstanding Loans

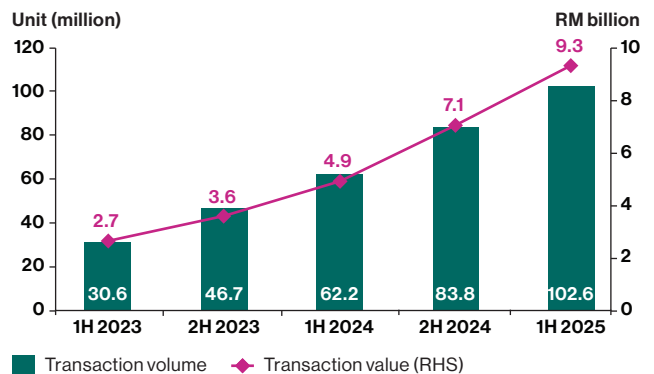


Source: Bank Negara Malaysia

¹¹ Refers to borrowers with high DSR (exceeding 60%) and low monthly net disposable income (below RM1,000).

The continued expansion of buy now pay later (BNPL)¹² schemes remains a focus of surveillance for BNM. In the first half of 2025, the total volume and value of BNPL transactions increased to 102.6 million and RM9.3 billion respectively (2H 2024: 83.8 million transactions and RM7.1 billion) (Chart 1.13). Correspondingly, total outstanding BNPL debt increased to RM3.8 billion as at end-June 2025 (December 2024: RM2.8 billion). Growth in the BNPL segment appears to be primarily driven by a sharp expansion in active¹³ BNPL users. This is evidenced by the rise in active BNPL accounts, which grew to 6.5 million as at end-June 2025 (December 2024: 5.1 million). The share of overdue¹⁴ BNPL debt increased to 3.2% of total outstanding BNPL debt (December 2024: 2.9%), although it remains below the levels observed during the early stages of the segment's emergence (March 2023: 6.0%). While total outstanding BNPL debt represents only 0.2% of total household debt, the segment's rapid growth warrants close monitoring. In this regard, the Consumer Credit Commission, once established, will regulate and supervise previously unregulated non-bank credit providers and credit service providers, including BNPL providers. This is expected to augment existing regulatory and supervisory efforts, further safeguarding credit consumers.

Chart 1.13: Household Sector – BNPL Transaction Volume and Value



Note: Data refers to BNPL transactions with non-bank providers. Source: Consumer Credit Oversight Board Task Force

Household financial assets expanded at a more moderate pace in the first half of 2025 (5.4%; December 2024: 8.7%) (Chart 1.14), due to lower valuations of domestic equity holdings and unit trust funds amid heightened volatility and dampened retail investor sentiment in the equity

¹² All BNPL figures refer to transactions made by users of non-bank BNPL providers only.
¹³ 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.
¹⁴ Refers to BNPL accounts with one or more days past due.

Key Developments in the First Half of 2025

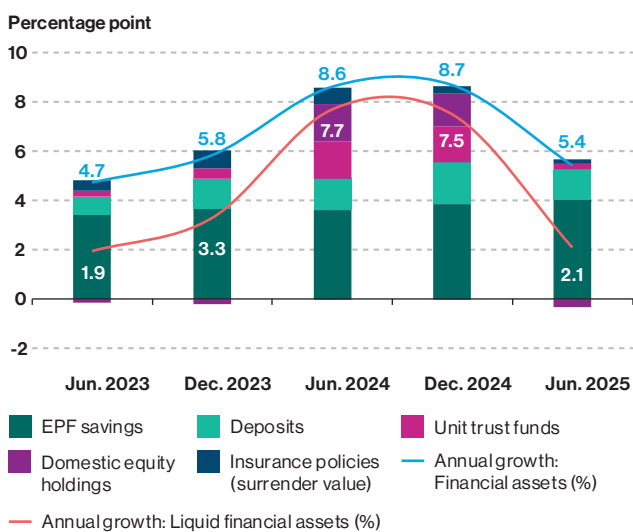
market. Meanwhile, household financial asset growth continued to be driven by savings held in deposits and contributions to the Employees Provident Fund (EPF). These two components collectively accounted for 68.4% (December 2024: 67.6%) of household financial assets. Overall, household balance sheets remain robust on aggregate. The total value of household financial assets continued to remain at 2.1 times higher than household debt, providing households with ample buffers against adverse shocks.

The overall quality of household borrowings remained sound, supported by healthy debt-servicing capacity and positive labour market conditions. As at end-June 2025, the household loan impairment ratio was stable at 1.1% (December 2024: 1.1%) (Chart 1.15). The share of household loan exposures under repayment assistance continued to decline (1.7% of total banking system and DFI loans; December 2024: 1.8%). Thus far, signs of emerging stress amongst household borrowers appear

to be limited and isolated, with no broad-based trends in missed payments across specific income groups, employment sectors or regions.

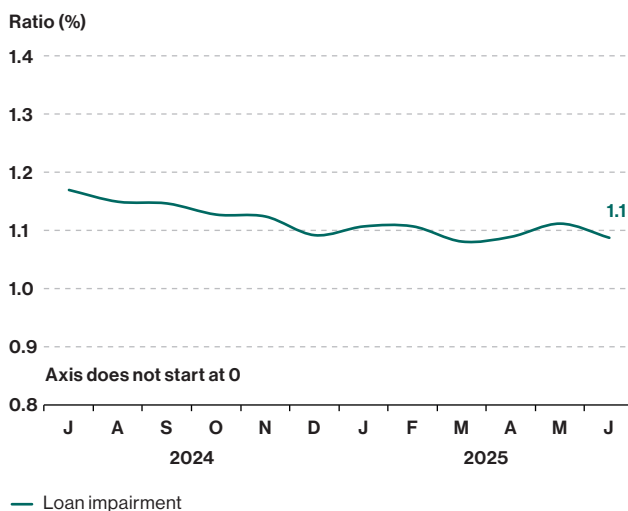
Looking ahead, household credit risk is expected to remain stable and manageable, anchored by positive labour market conditions and sound household debt-servicing capacity. Amidst cost-of-living pressures and external uncertainties, banks and AKPK continue to monitor signs of financial distress among borrowers, offering loan assistance to support those in need. The recent 25 basis points reduction in the Overnight Policy Rate (OPR), announced by BNM in July 2025, may lend some support to household debt-servicing capacity through lower monthly debt obligations. While lower borrowing costs, coupled with positive income growth, could contribute to higher debt uptake in the near term, the observed prudent lending standards by financial institutions are expected to ensure sustainable debt accumulation by households.

Chart 1.14: Household Sector – Annual Growth of Financial Assets



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

Chart 1.15: Household Sector – Loan Impairment Ratio



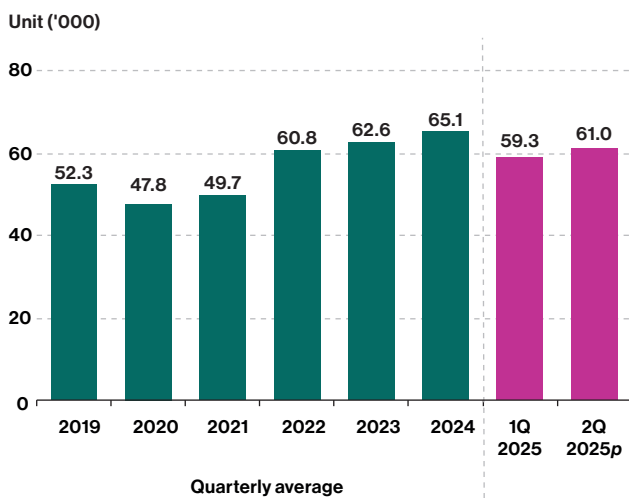
Note: Data refers to banking system and development financial institution (DFI) loans.

Source: Bank Negara Malaysia

Developments in the Residential Property Market

Housing transaction volume remained broadly above the long-term average in the first half of 2025 (Chart 1.16), supported by sustained housing demand amid improving income and employment conditions, as well as continued growth in household formation. Government initiatives to promote homeownership¹⁵ among first-time home buyers further supported demand, particularly in the mass-market segment (houses priced RM500,000 and below), which accounted for 77.4% of total transactions during the period. Notwithstanding this, the stock of unsold housing units (Chart 1.17) edged further upwards, indicating supply-demand mismatches amid the recent strong momentum in new launches (2024p: 90,754 units; 2023: 66,576 units).¹⁶ Unsold completed units also recorded a slight increase during the period (2Q 2025: 47,246 units; 4Q 2024: 45,238 units), after sustained improvements from the peak in the fourth quarter of 2021 (63,432 units).

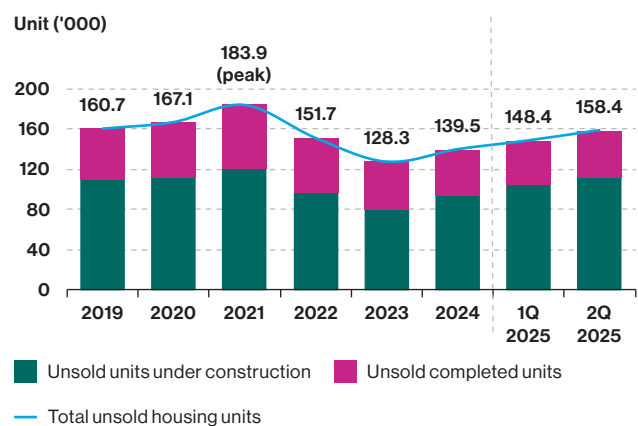
Chart 1.16: Property Market – Housing Transaction Volume



p Preliminary

Source: National Property Information Centre (NAPIC)

Chart 1.17: Property Market – Volume of Unsold Housing Units



Note: Figures include both unsold units under construction and unsold completed units for residential, serviced apartments, and small office, home office (SOHO) units.

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

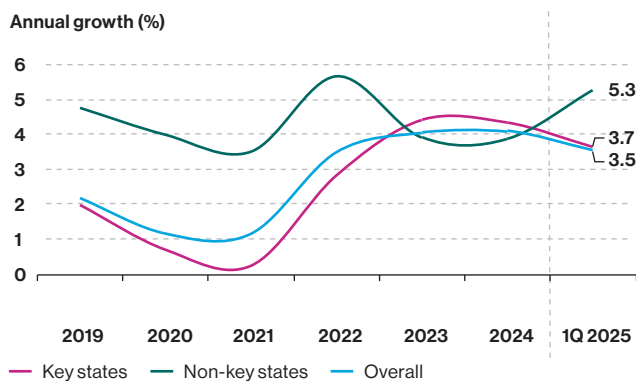
In line with market activity, overall house prices, as measured by the Malaysian House Price Index (MHPI), expanded at a moderate pace of 3.5% in the first quarter of 2025 (4Q 2024: 4.4%; 2015–19 average: 5.3%) (Chart 1.18). House prices in non-key states rose by an average of 5.3%, outpacing the 3.7% average increase in key states.¹⁷ Growth in most key states was relatively modest, at 1.6% in Pulau Pinang, 1.7% in Kuala Lumpur and 2.4% in Selangor. Johor, however, recorded a higher expansion of 9% in the first quarter, as its property market continues to be supported by ongoing infrastructure projects such as the Johor Bahru-Singapore Rapid Transit System (RTS) Link and initiatives under the Johor-Singapore Special Economic Zone (JS-SEZ).

¹⁵ Under the Malaysian Home Ownership Initiative (i-Miliki), first-time home buyers purchasing residential properties valued at RM500,000 and below are eligible for stamp duty exemptions until end-2025. First-time home buyers will also be eligible for income tax relief on mortgage interest payments (up to RM7,000 for properties valued below RM500,000; up to RM5,000 for properties valued between RM500,000–RM750,000) until 31 Dec 2027, as announced in Budget 2025.

¹⁶ Excludes new launches of serviced apartments and small office, home office (SOHO). Figures for 2024 may be revised upwards in subsequent data releases.

¹⁷ Key states refer to Johor, Kuala Lumpur, Pulau Pinang and Selangor.

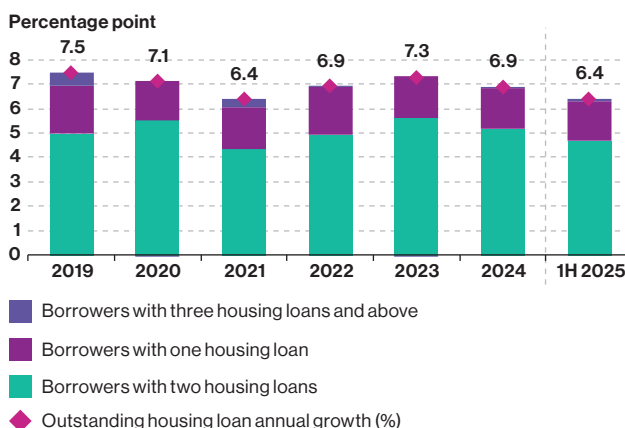
Chart 1.18: Property Market – Malaysian House Price Index (MHPI) Growth by State



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

Financing activity for the purchase of residential properties remained robust in the first half of 2025, with both loan applications and approvals edging higher compared to the same period in 2024. Against this backdrop, housing loan approval rates remained stable, supporting access to financing, especially for first-time home buyers. As at end-June 2025, outstanding housing loans grew by 6.4% (December 2024: 6.9%) (Chart 1.19), driven predominantly by owner-occupiers (proxied by individual borrowers with one housing loan) who accounted for nearly three-quarters of the increase in outstanding housing loans over the past year. The median loan-to-value (LTV) ratio of overall outstanding housing loans remained prudent at 70.2% (December 2024: 69.7%), providing ample buffers for banks and borrowers in the event of a house price correction. Nonetheless, given current economic conditions and stability in the property market, risks of a broad-based, sharp and sudden correction in house prices remain low.

Chart 1.19: Property Market – Contribution to Annual Growth of Housing Loans by Type of Borrower



Source: Bank Negara Malaysia

The credit quality of housing loans remained stable across all borrower segments. The overall housing loan impairment ratio improved slightly to 1.1% (December 2024: 1.2%). Risks associated with credit-fuelled investment activity also remained contained. Borrowers with two or more housing loans grew by only 2.3% year-on-year (December 2024: 2.2%) and continued to contribute modestly to outstanding housing loan growth. The impairment ratio of housing loans held by these borrowers remained steady at 0.9% (December 2024: 0.9%).

The Malaysian residential property sector is expected to remain broadly steady in the near term. Accordingly, risks to financial stability arising from the sector are assessed to remain low, underpinned by healthy debt-servicing capacity among borrowers alongside sound underwriting practices by banks.