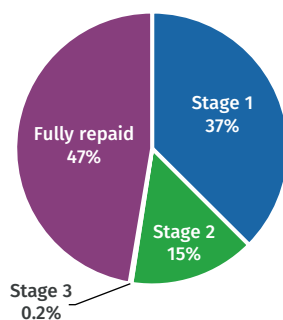


Revised Assumptions of Maturing Bullet Business Loans

In the previous exercise, the sectoral profiling model²³ was used to project impairments for businesses where firm-level financial data were not readily available. One of the key assumptions of the sectoral profiling model was that firms in vulnerable business sectors would default immediately on all their maturing bullet loans²⁴ as and when they become due. This assumption was premised on the large and immediate nature of bullet loan repayments, and limited visibility over the financial capacity of businesses in vulnerable sectors to meet such payments given the pandemic. Coupled with the high degree of uncertainty then, this highly conservative approach allowed the Bank to assess if banks could withstand harsher realisations of given economic shocks. Based on this assumption, maturing bullet business loans over the stress test horizon contributed 35% of new banking system impairments, or 28% of the increase in total credit costs to banks in the previous exercise.

With greater visibility over the actual repayment behaviour following the end of the blanket automatic loan moratorium, the Bank has refined this assumption based on observable data. Post-automatic moratorium, 47% of maturing bullet loans were fully repaid by December 2020. The remaining maturing bullet loans yet to be fully repaid had received some form of repayment assistance, with the bulk of these loans continuing to perform based on revised repayment terms. Only 15% of the total original maturing bullet repayments were assessed by banks (and reviewed by auditors) to exhibit signs of a significant increase in credit risk, while a very small portion (0.2%) of maturing bullet loans have turned impaired (Chart 2.24). Reflecting these observations, the updated stress test assumes that 15% of outstanding bullet loans of firms operating in identified vulnerable segments maturing during the stress test horizon will turn impaired under AS1. Under AS2, a considerable degree of conservatism has been maintained, reflecting lingering uncertainties over repayment behaviour. In this scenario, 50% of outstanding maturing bullet loans of firms operating in vulnerable sectors are assumed to turn impaired.

Chart 2.24: Macro Stress Test: Business Sector – Profile of Vulnerable Sectors’ Maturing Bullet Loans Post-automatic Moratorium



Note: Figures may not add up due to rounding

Source: Bank Negara Malaysia

²³ Refer to the Information Box on 'Forecasting Business Impairments: Two-pronged Approach' in the BNM Financial Stability Review for First Half 2020 for further details.

²⁴ Revolving credits are excluded as historical experience indicates that these exposures are typically rolled over.