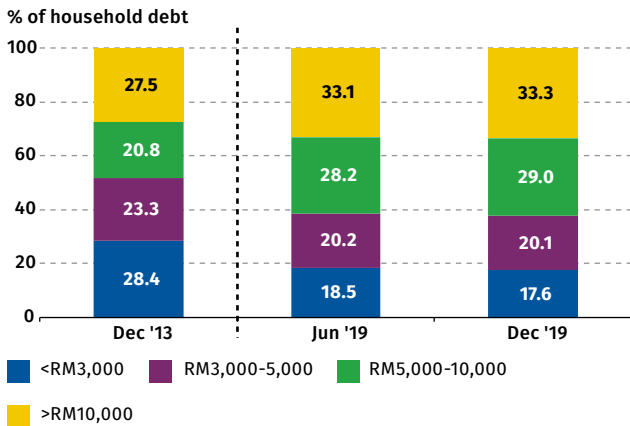


**Chart 1.6: Household Sector – Debt by Monthly Income Group**

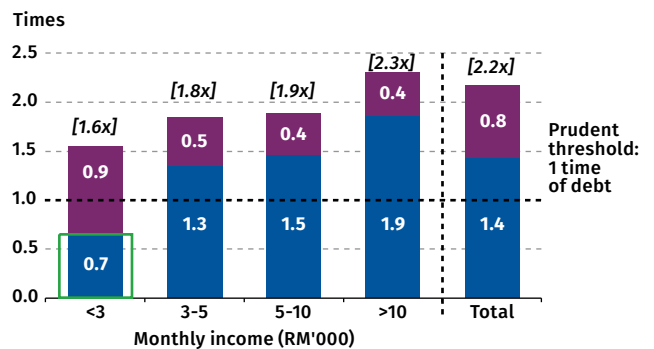
**Exposures to vulnerable borrowers continued to decline**



Source: Bank Negara Malaysia

**Chart 1.7: Household Sector – Financial Assets-to-Debt Ratio by Type and Income Group**

**Vulnerable borrowers have insufficient LFA cover**



Legend: Liquid financial assets (LFA) (blue), Savings in EPF (purple)

[...] refers to financial assets-to-debt ratio

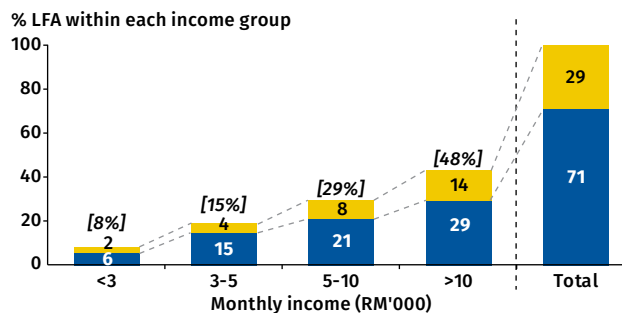
Source: Bank Negara Malaysia, Bursa Malaysia, Employees Provident Fund and Securities Commission Malaysia

**Impact of Equity Market Performance on Households' Resilience**

Since reaching an all-time high in 2018, the domestic equity market has continued to face downward pressure amid challenging global and domestic conditions. With investments in equities and variable price unit trust funds (UTFs) accounting for about 29% of households' liquid financial assets (LFA) (Chart 1.8), this Information Box provides some insights on the impact of a sharp downturn in the equity market on the financial buffers of households. By income group, households earning more than RM10,000 per month hold close to half of household investments in equities and variable price UTFs. These assets also contribute to a higher proportion of their LFA as compared to other income groups, potentially making them more susceptible to vagaries in the performance of the equity market.

**Chart 1.8: Composition of Liquid Financial Assets by Components and Income Group**

**Larger holdings of equities and variable price unit trust funds among higher-income group**



Legend: Investment in equities and variable price UTFs (yellow), Other liquid financial assets (deposits, fixed-price UTFs and insurance policies) (blue)

[...] refers to the composition of total investment in equities and variable price UTFs

Note: Numbers may not necessarily add up due to rounding

Source: Bank Negara Malaysia, Bursa Malaysia and Securities Commission Malaysia

**Scenario Simulation**

Two stress scenarios were simulated to assess households’ resilience<sup>12</sup> to an equity market shock (Table 1.1).

**Table 1.1**

**Equity Market Shock – Stress Scenarios and Rationale**

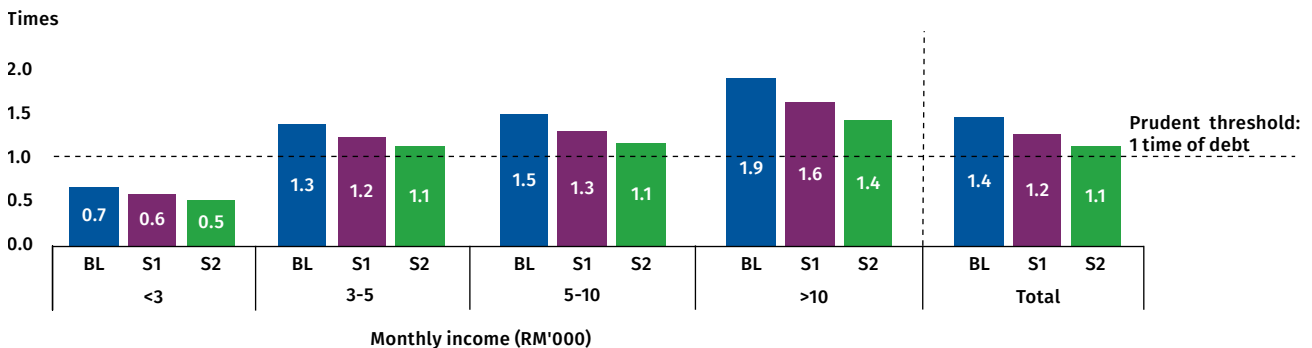
Shock Scenario	Parameters	Rationale
S1	45% decline in value of equity and variable price UTF holdings	Based on the 45% drop in FTSE Bursa Malaysia KLCI (FBM KLCI) in 2008
S2	77% decline in value of equity and variable price UTF holdings	Based on the 77% drop in FBM KLCI in 1997

Source: Bank Negara Malaysia and Bursa Malaysia

Consistent with their higher exposures, households earning more than RM5,000 per month are more sensitive to an equity market correction as reflected in the larger decline in their LFA cover<sup>13</sup> relative to other income groups (Chart 1.9). Nonetheless, these borrowers who account for 62.3% of household debt are expected to be able to continue servicing their debt with sufficient LFA over debt above the prudent threshold (more than 1 time) under both scenarios. Under S2, the LFA cover of borrowers earning between RM3,000 to RM5,000 per month fell to just above the prudent threshold. For the vulnerable group (i.e. those earning less than RM3,000 per month), the LFA cover declined marginally from a level already below the prudent threshold.

**Chart 1.9: Pre- and Post-shock Scenarios – LFA Cover by Income Group**

**While higher-income groups are more sensitive to equity market volatility, their asset cover remained above the prudent threshold**



BL: Baseline

Source: Bank Negara Malaysia, Bursa Malaysia and Securities Commission Malaysia

Although weakness in the equity market will reduce the LFA cover of households, the overall impact on household resilience is manageable. Results of this simulation show that most households would still maintain an LFA cover above the prudent threshold even after a severe correction in the equity market. This reflects the composition of households’ LFA, more than 60% of which are held in bank deposits and investments in *Amanah Saham Nasional Berhad*’s fixed-priced UTFs, which are not affected by movements in the equity market.

<sup>12</sup> This simulation, however, does not consider second round effects, in particular the impact of volatility in the equity market to financial institutions where households save at or invest in.

<sup>13</sup> Ratio of liquid financial assets to total debt (times).