

Property oversupply persists: Bank Negara

> Household debt-to-GDP ratio moderated to 83.8% at end of second quarter 2018 from 84.2% in 2017

PETALING JAYA: The oversupply issue in the property market continues to persist with the number of unsold housing units rising to 146,196 units as at the end of the first quarter of 2018, according to Bank Negara Malaysia (BNM).

More than 80% of unsold units were priced above RM250,000 each.

The central bank said in its "Financial Stability Review – First Half 2018" that excess supply of office space and shopping complexes is also expected to persist as vacancy rates deteriorated further in the first quarter of 2018.

"Nevertheless, sustained demand for affordable housing, particularly from first-time home buyers and prudent underwriting practice in lending to the property market and related sectors are expected to mitigate risks of a broad-based price correction."

BNM said risks from household sector exposures continue to be mitigated by prudent underwriting and loan affordability assessments by financial institutions and sound risk management practices.

It noted that new household

borrowings remained of high quality as about three-quarters of new loans approved were to borrowers with debt service ratios (DSR) of less than 60%.

"Overall household debt accumulation has also been on a more sustainable path relative to income growth, as a result of the cross-cutting measures that have been implemented since 2010. The ratio of household debt to GDP continued to moderate and currently stands at 83.8% in the 2Q 2018 (2017: 84.2%)."

BNM said the latest stress tests affirm that the Malaysian financial system is expected to remain resilient under severe macroeconomic and financial strains with financial institutions maintaining capital buffers in excess of regulatory minima even under adverse scenarios.

Financial institutions currently maintain excess total capital buffers of RM135.9 billion.

The central bank said liquidity and funding conditions remained conducive to support financial intermediation throughout the first half of 2018 as excess liquidity maintained by the banking system currently stands at RM156.2 billion.

"Continued efforts by banks to diversify their funding base to include more stable medium-term debt instruments coupled with existing buffers of high quality liquid assets well

above the minimum liquidity coverage ratio (LCR) requirement further bolster banks' resilience to liquidity and funding-related stresses moving forward."

Bank Negara said the overall banking system continues to be underpinned by strong capitalisation, a sound credit portfolio and prudent levels of provisioning.

"The financial performance of the banking system in the first half of 2018 was strong with margins improving as banks benefited from continued efficiency gains and improved asset quality."

Overall total impaired loans (net of individual impairment provisions) contracted 10% to RM16 billion or 1% of total net loans, while annual returns on assets and equity were stable at 1.5% and 13.3%.

"Banks' earnings performance is expected to be sustained amid continued efforts to enhance operational efficiency."

Meanwhile, the financial position of Malaysian non-financial corporations (NFCs) remained sound during the first half of the year. Aggregate leverage of NFCs increased at a moderate pace but firms continue to maintain healthy financials with their debt servicing capacity remaining above prudent thresholds (interest coverage ratio of 8.2 times).