

Malaysia—Update

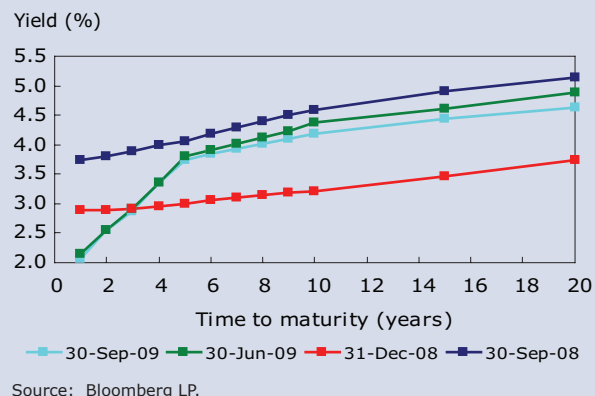
Yield Movements

At the end of September, Malaysian government bond yields were largely unchanged from their end-June levels in the short to middle part of the curve, while yields at the long end dropped (**Figure 1**). The drop in the yields at the long end of the curve was due to a number of different factors, including an outlook of continued low policy rates and sluggish economic recovery in 2010, and little risk of inflation rebounding to significant levels over the next 1–2 years.

Bank Negara Malaysia (BNM) is expected to maintain its low interest rate policy as the consumer price inflation continues to drop. Inflation has declined from 3.9% year-on-year (y-o-y) in January to 2.4% in May. In June, inflation fell to –1.4% and remained in negative territory in July, August, and September at –2.4%, –2.4%, and –2.0%, respectively. The y-o-y declines were due mainly to base effects after the government allowed a massive hike in petrol prices in June 2008. The consumer price index (CPI) for the January–September period increased 0.9% y-o-y. The government expects 2009 consumer price inflation to range between 1.0% and 2.0%.

Malaysia announced its budget for 2010 on 23 October, forecasting gross domestic product (GDP) growth of 2%–3% in 2010 and a reduction of the budget deficit as a percentage of GDP from 7.4% in 2009 to 5.6% in 2010. Government revenues are expected to fall to MYR148.3 billion in 2010 from MYR162.1 billion in 2009. In light of the expected drop in revenues, the government announced plans to cut spending in 2010 by 11.2%, with operating expenditure falling by 13.7% to MYR138 billion and development expenditure being reduced by 4.5% to MYR50 billion.

**Figure 1: Benchmark Yield Curve—
Local Currency Government Bonds**



Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia as of end-September stood at MYR626.64 billion—a 5.5% y-o-y increase—with outstanding government bonds increasing by 4.7% (**Table 1**). Outstanding Bank Negara Malaysia (BNM) bills fell by 50.1%. However, this decline was offset by a substantial increase in central government bonds (e.g., Malaysian Treasury bills, Malaysian Islamic Treasury bills, Government Investment Issues [GII], and Malaysian Government Securities [MGS]), which surged 24.4% y-o-y.

Total LCY government bonds rose by 2.7% quarter-on-quarter (q-o-q) during 3Q09. Outstanding government bonds rose by 2.8% q-o-q as the government continued with its expansionary fiscal policy. However, outstanding BNM bills dropped by 1.8% q-o-q. LCY corporate bonds outstanding amounted to MYR278 billion at the end of 3Q09 for increases of 6.5% y-o-y and 1.5% q-o-q.

GII, which are a type of Islamic bond, accounted for 18.4% of total central government bonds at the end of 3Q09, while corporate Islamic bonds (IBONDS) accounted for 25.9% of total corporate

Table 1. Size and Composition of Local Currency Bond Market in Malaysia

	Amount (billion)						Growth Rate (%)										
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09		Aug-09		Sep-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	610.3	173.6	616.3	175.5	625.3	177.6	626.6	180.7	0.3	4.6	1.0	0.3	4.6	1.5	5.5	2.7	0.2
Government	339.1	96.5	344.2	98.0	351.6	99.8	348.6	100.5	(4.2)	5.5	1.5	(4.2)	5.5	2.1	4.7	2.8	(0.8)
Central Government Bonds	288.0	81.9	297.5	84.7	307.0	87.2	307.0	88.5	17.6	7.3	3.3	17.6	7.3	3.2	24.4	6.6	-
Central Bank Bills	43.7	12.4	39.3	11.2	38.0	10.8	37.4	10.8	(53.9)	(1.8)	(10.1)	(53.9)	(1.8)	(3.3)	(50.1)	(14.4)	(1.6)
Others	7.4	2.1	7.4	2.1	6.6	1.9	4.3	1.2	(49.0)	(12.4)	-	(49.0)	(12.4)	(10.9)	(62.7)	(42.5)	(35.5)
Corporate	271.3	77.2	272.1	77.5	273.7	77.7	278.0	80.2	6.8	3.5	0.3	6.8	3.5	0.6	6.5	2.5	1.6

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY-USD rate is used.
3. Growth rates are calculated from LCY-base and do not include currency effects.
4. Other refers to Khazanah Nasional Berhad and Cagamas Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source:

Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

Table 2: Outstanding Islamic Bonds

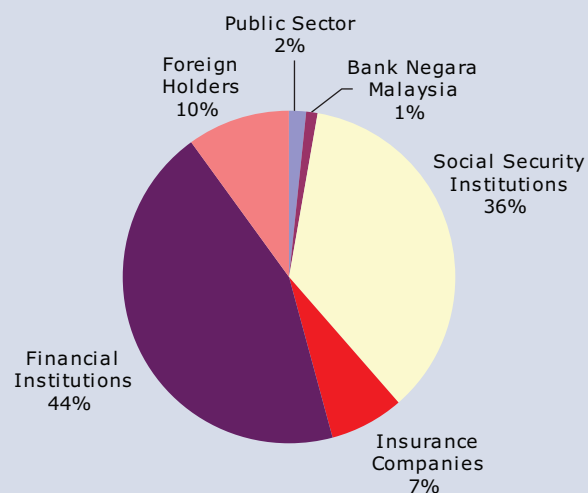
	Dec-08		Sep-09	
	Amount (billion MYR)	as % of Total Bonds	Amount (billion MYR)	as % of Total Bonds
Government Bonds	307.68	54.5	348.63	55.6
of which, GIIs	42.50	7.5	64.00	10.2
Corporate Bonds	257.13	45.5	278.01	44.4
of which, IBONDS	70.91	12.6	71.87	11.5

Source: Bank Negara Malaysia.

bonds at the end of 3Q09 (**Table 2**). The top issuers of corporate bonds include an investment holding company, Binariang GSM (MYR15.1 billion); the national mortgage corporation, Cagamas Berhad (MYR14.4 billion); and the government investment-holding arm, Khazahan Nasional (MYR12 billion). At the end of 3Q09, the top 20 corporate bond issuers account for 48.7% of total corporate bonds outstanding (**Table 3**).

Investor Profile

As of end-September 2009, financial institutions were the largest holders of MGS, with 44% of

Figure 2: Local Currency Government Bonds Investor Profile (June 2009)

Source: Bank Negara Malaysia.

Table 3: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Binariang GSM	–	3.0	–	12.1	15.1
Cagamas	–	–	8.0	6.4	14.4
Khazanah ¹	–	12.0	–	–	12.0
Project Lebuhraya (PLUS)	–	7.1	–	2.7	9.8
Prasarana	5.1	2.0	–	2.0	9.1
Maybank	6.1	2.5	–	–	8.6
Rantau Abang Capital Berhad	–	–	–	8.0	8.0
Malakoff Corp.	–	1.7	–	5.6	7.3
KL International Airport	1.6	5.3	–	–	6.9
Tanjung Bin Power	–	–	–	5.1	5.1
ValueCap	5.1	–	–	–	5.1
Terengganu Investment Authority	–	–	–	5.0	5.0
Jimah Energy Ventures	–	–	–	4.8	4.8
Putrajaya Holdings	–	1.1	–	3.1	4.2
YTL Power International	2.2	–	1.7	–	3.9
Tenaga Nasional Berhad	1.5	2.2	–	–	3.7
Cekap Mentari Berhad	3.5	–	–	–	3.5
CIMP, Bank	3.5	–	–	–	3.5
Hijrah Pertama Berhad	–	2.9	–	–	2.9
Public Bank Berhad	1.2	–	1.4	–	2.6
Total	29.8	39.8	11.1	54.8	135.5
% of total corporate outstanding					48.7%

MTN = Medium-Term Notes.

¹Refers to corporate bonds issued by Khazanah Nasional. The figure does not include Khazanah Bonds issues, which were issued for the specific purpose of serving as a benchmark for Islamic corporate bonds. Issuance of these bonds, however, has not occurred since 2006, and the outstanding amount of these bonds has fallen precipitously to only MYR1 billion as of 3Q09.

Source: Bank Negara Malaysia.

total outstanding MGS, followed by social security institutions, which held 36% (**Figure 2**). Foreign holders and insurance companies hold 10% and 7%, respectively, of total outstanding MGS.

Policy, Institutional, and Regulatory Developments

Malaysia Establishes Corporate Debt Restructuring Committee

To provide assistance to corporations facing difficulties in servicing their debt obligations amid unfavorable economic conditions, the Corporate

Debt Restructuring Committee (CDRC) was formed to provide a platform for corporate borrowers and their creditors to work out feasible debt resolutions without having to resort to legal proceedings.

The committee was first established in 1998 and has successfully resolved 57 cases involving a total of MYR45.8 billion in outstanding debt. As of end-September, CDRC had received three applications with debts amounting to MYR478.7 million and a preliminary enquiry from a company with debt of MYR188.3 million.

Companies seeking to resolve their debt obligations under CDRC must fulfill the following criteria:

- debt obligations of at least MYR100 million,
- at least three financial creditors (banks or private debt securities), and
- not already in receivership or liquidation.

Malaysia Establishes National Financial Guarantee Institution to Support Corporations Raising Funds in Bond Market

In May, the government established a national financial guarantee institution, Danajamin National Berhad (Danajamin). Danajamin will provide financial guarantee insurance for securities issued by investment grade companies, which are defined as rated BBB or higher by a Malaysian rating agency. With Danajamin insurance, an issue would enjoy a rating of AAA. Danajamin has the capacity to insure up to MYR15 billion of investment grade private debt and Islamic securities.

Securities Commission Issues Additional Capital Market Initiatives

In September, the Malaysian Securities Commission (SC) issued the Venture Capital Tax Incentives Guidelines which incorporated new tax incentives for the venture capital industry as stipulated in the government's Income Tax (Exemption) Order 2009. This order stipulates that venture capital companies registered with the SC are eligible for a 5-year tax exemption if they have invested at least 30% of their invested funds in the form of seed capital, as well as start-up and/or early stage financing, in qualified investee companies.

After the Prime Minister's 2010 budget speech in October, the SC announced two additional measures to strengthen Malaysian capital markets: (i) phased liberalization of commission sharing arrangements, and (ii) promotion of electronic payments.

The first stage of liberalization, which took effect immediately, provided for a flexible brokerage sharing rate, with a minimum sharing rate of 40% for *remisiers* (stockbroking agents). The second stage, which will take effect on 1 January 2011, will fully liberalize commission sharing arrangements. Also, all publicly-listed companies will be required to provide e-dividends, or the electronic payment of dividends, by 3Q10.