Malaysia—Update

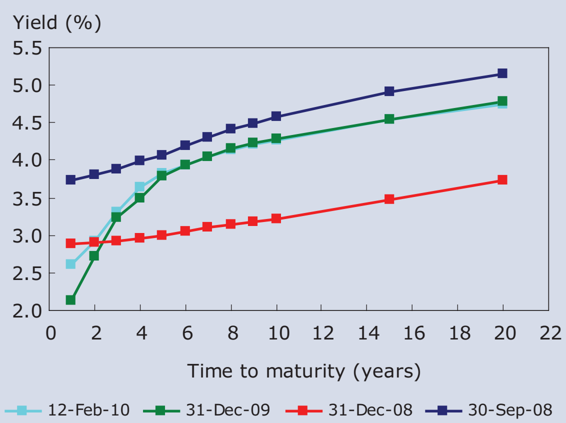
Yield Movements

Malaysian government bond yields increased at the short-end of the curve between end-December 2009 and mid-February, while the middle and long-end of the curve remained unchanged **(Figure 1)**. Yields in the belly and in the long-end of the curve, however, have risen from their end-December 2008 levels and are almost near their end-September 2008 levels (post-Lehman Brothers collapse). Expectations of monetary tightening have had the effect of flattening the longer-end of the Malaysian government bond yield curve.

Malaysia's economy grew 4.5% year-on-year (y-o-y) in 4Q09, driven by both domestic and external demand. Private consumption increased 1.7% y-o-y in 4Q09, while public sector spending posted 1.3% y-o-y growth as fiscal stimulus gained momentum during the quarter. For the full-year 2009, Malaysia's GDP contracted 1.7%, compared to the government's forecast of a 3.0% contraction for the year. The government expects economic growth to return in 2010.

Malaysia's consumer price inflation in December rose to 1.1% y-o-y and then to 1.3% y-o-y in January, after staying in negative territory over the June–November period. Full-year inflation for 2009 was reported at 0.6%, lower than the government's target range of 1.0%–2.0%. For 2010, the central bank once again expects modest inflation and forecasts a range of 1.0%–2.0%.

Figure 1: Malaysia's Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg, LP.

On 4 March, Bank Negara Malaysia (BNM) raised its benchmark rate by 25 basis points to 2.25%. The increase was widely expected as the BNM had earlier expressed the need for the normalization of rates as the economy recovers, given that a prolonged low-interest rate regime could lead to financial imbalances. The overnight policy rate was kept at its historic low of 2.0%, where it has remained since February 2009, amidst the threat of an economic downturn. According to BNM's policy statement, the monetary policy will remain accommodative and supportive of economic growth.

On 23 October, Malaysia announced its budget for 2010, forecasting a reduction in the budget deficit—as a percentage of GDP—from 7.4% in 2009 to 5.6% in 2010.

Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia at the end of 2009 rose to MYR635.3 billion, up 10.3% y-o-y. Government and corporate LCY bonds outstanding grew 10.9% and 9.6%, respectively, in 2009 **(Table 1)**. Total central government bonds outstanding increased 19.9% y-o-y as bond issuance surged to fund the government's MYR60 billion stimulus package.

On a quarter-on-quarter (q-o-q) basis, total LCY government bonds outstanding declined 0.5% as outstanding BNM bills dropped 19.8% q-o-q. Total LCY corporate bonds outstanding increased 3.7% q-o-q.

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	626.6	180.7	631.1	185.1	638.0	187.8	635.3	184.7	5.5	2.7	0.7	1.1	10.3	1.4	(0.4)
Government	348.6	100.5	350.4	102.8	350.6	103.2	346.9	100.9	4.7	2.8	0.5	0.1	10.9	(0.5)	(1.1)
Central Government Bonds	307.0	88.5	304.1	89.2	310.6	91.4	312.6	90.9	24.4	6.6	(0.9)	2.1	19.9	1.8	0.6
Central Bank Bills	37.4	10.8	42.0	12.3	35.7	10.5	30.0	8.7	(50.1)	(14.4)	12.3	(15.0)	(29.2)	(19.8)	(16.0)
Others	4.3	1.2	4.3	1.3	4.3	1.3	4.3	1.2	(62.7)	(42.5)	-	-	(56.0)	-	-
Corporate	278.0	80.2	280.7	82.3	287.4	84.6	288.4	83.9	6.5	2.5	1.0	2.4	9.6	3.7	0.4

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
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. Others refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas, Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

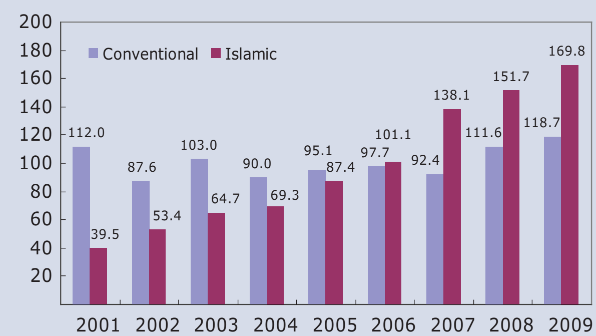
Source: Bank Negara Malaysia, and Bloomberg LP.

Reflecting the government's effort to boost Malaysia's Islamic capital market, Islamic-based LCY corporate bonds outstanding have been steadily increasing, amounting to MYR169.76 billion by the end of 2009 from only MYR39.5 billion in 2001. Conventional LCY corporate bonds have remained stable in a range of MYR90 billion to MYR118.7 billion over the last decade **(Figure 2)**.

In the meantime, the internal structure of the Islamic bond market is changing rapidly. In 2009, Islamic medium-term notes rose 30.6% to reach MYR88.35 billion, while the stock of more traditional Islamic bonds issued by corporations (IBONDS) was almost unchanged at MYR71.46 billion. Islamic corporate papers actually declined to MYR4.03 billion while Islamic asset backed securities dropped to MYR5.92 billion **(Table 2)**.

A comprehensive regulatory and tax framework for Islamic finance, and a sound infrastructure platform has provided the impetus for *sukuk* (Islamic bond) issuance in Malaysia. In 2009, Bursa Malaysia topped the world's exchanges in terms of the value of *sukuk* listings. Since its inaugural *sukuk* listing

Figure 2. Outstanding LCY Corporate Bonds
(MYR billion)



Source: Bank Negara Malaysia.

Table 2: Breakdown of Islamic-Based Local Currency Corporate Bonds (MYR billion)

Year	IABS/ ABS-IMTN	IBONDS	ICP	IMTN
2001	-	33.29	4.46	1.75
2002	-	46.11	4.69	2.57
2003	0.99	52.09	6.21	5.43
2004	0.60	55.09	3.62	9.97
2005	3.25	62.88	4.49	16.75
2006	3.21	65.05	5.89	26.96
2007	5.55	70.99	6.46	55.07
2008	6.17	71.95	5.89	67.67
2009	5.92	71.46	4.03	88.38

Notes:
IABS = Islamic asset-backed securities - Islamic bonds issued pursuant to a securitisation transaction; ABS-IMTN = Asset-backed securities - medium-term notes issued pursuant to a securitisation transaction; IBONDS = Islamic bonds issued by corporations; ICP = Islamic commercial papers issued by corporations, IMTN = Islamic medium-term notes issued by corporations
Source: Bank Negara Malaysia.

in August 2009, the bourse has listed 12 *sukuks* totaling USD17.60 billion.

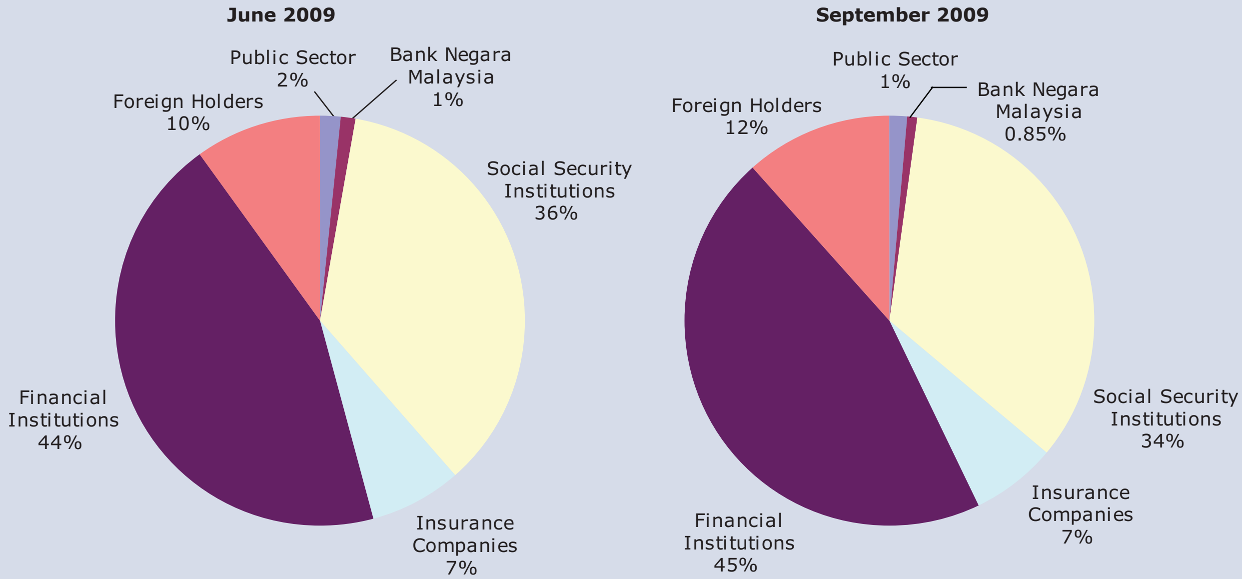
The top 20 corporate issuers in Malaysia made up about 47.7% of total corporate bonds outstanding as of end-2009 **(Table 3)**. National mortgage corporation Cagamas Berhad is the top issuer of corporate bonds with MYR16.4 billion outstanding in conventional and Islamic medium-term notes. The next two largest issuers were investment holding company Binariang GSM and government investment-holding arm Khazanah Nasional.

Table 3: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	-	-	9.2	7.2	16.4
Binariang GSM	-	3.0	-	12.1	15.1
Khazanah	-	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
Valuecap	5.1	-	-	-	5.1
1 Malaysian Development Berhad	-	-	-	5.0	5.0
Jimah Energy Ventures	-	-	-	4.8	4.8
Tanjung Bin	-	-	-	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
CIMB Bank	3.5	-	-	-	3.5
Public Bank Berhad	1.2	-	1.9	-	3.1
Hijrah Pertama Berhad	-	2.9	-	-	2.9
Total	29.8	39.8	12.8	55.2	137.6
% of Total Corporate Outstanding					**47.7%**

MTN = medium-term note.
Source:Bank Negara Malaysia.

Figure 3: Local Currency Government Bonds Investor Profile



Source: Bank Negara Malaysia.

Investor Profile

As of end-September 2009, financial institutions were still the largest holders of Malaysian Government Securities (MGS). Financial institutions held 45% of outstanding MGS and social security institutions held 34%, down from 36% at end-June **(Figure 3)**. Foreign holdings as a percentage of total MGS outstanding increased from 10% at end-June to 12% at end-September. Meanwhile, insurance companies and the public sector held 7% and 1%, respectively, of total MGS outstanding.

Policy, Institutional, and Regulatory Developments

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under the CDRC must fulfill the following criteria:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

Also, the revised criteria extends eligibility to any company listed on Bursa Malaysia that has been classified as PN17 (Main Market—the merged main board and second board of Bursa Malaysia) or GN3 (ACE market—the revamp of the Malaysian Exchange Securities Dealing and Automated

Quotation [MESDAQ]) irrespective of the amount of debt outstanding.

Government Plans to Introduce Goods and Services Tax in 2011

To increase its revenue base and help reduce the budget deficit, the Malaysian government is planning to introduce a new goods and services tax (GST) in 2011. The proposed 4.0% GST is expected to generate MYR1 billion in revenue per year. However, 40 basic goods and services, including foodstuffs, residential accommodation, education, health services, public transportation, and domestic water and electricity supply will be exempted from the GST to protect the welfare of low-income groups. The GST has been successfully implemented in 140 countries. Among member countries of the Association of Southeast Asian Nations (ASEAN), only Brunei, Malaysia, and Myanmar have not implemented a GST.