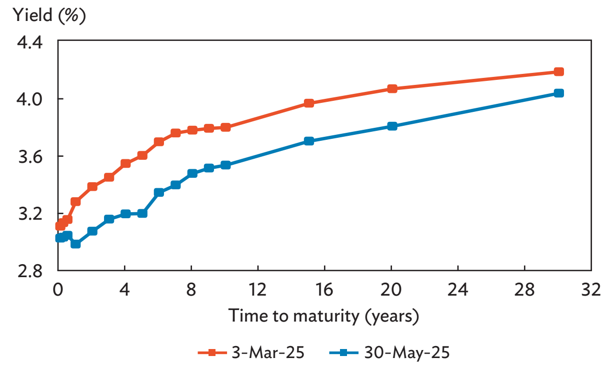
Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted downward between 3 March and 30 May. Bond yields fell an average of 26 basis points across all maturities amid a weakening outlook for domestic growth and escalating global economic uncertainties (**Figure 1**). On 8 May, Bank Negara Malaysia kept the overnight policy rate at 3.00%, with the possibility of a reduction if necessary, noting that downside risks to economic growth have increased due to sharper-than-expected economic slowdowns among key trading partners, heightened uncertainties impacting consumption and investment, and lower-than-anticipated commodity production. Further, Bank Negara Malaysia reduced the statutory reserve requirement ratio from 2.0% to 1.0% to spur financial market activities. The central bank also hinted at a potential downward revision to Malaysia's 2025 growth projection, which currently stands at 4.5%–5.5%. In the first quarter (Q1) of 2025, the Malaysian economy grew 4.4% year-on-year, slower than the previous quarter's 4.9% year-on-year, weighed down by moderating growth in private consumption, exports, and imports. Additionally, domestic growth was dampened amid a contraction in the mining and quarrying sector.

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

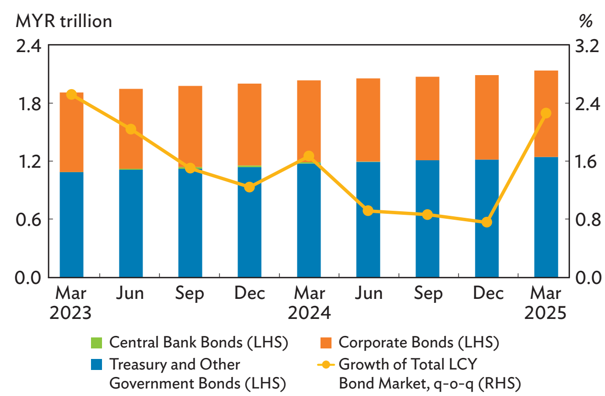


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market of Malaysia expanded in Q1 2025 to reach a size of MYR2.1 trillion at the end of March, driven by faster growth in both Treasuries and corporate bonds. The LCY bond market exhibited growth of 2.3% quarter-on-quarter (q-o-q) in Q1 2025, a faster pace than the previous quarter's 0.8% (**Figure 2**). Outstanding Treasuries and other government bonds increased 2.4% q-o-q, versus 0.6% q-o-q in the quarter prior, due to a higher volume of issuance. Malaysia's corporate bond segment posted 2.0% q-o-q growth in Q1 2025 despite a contraction in issuance due to a lower volume of maturities during the quarter. The central bank has not issued new securities since the third quarter of 2024, resulting in zero outstanding central bank bills at the end of March. *Sukuk* (Islamic bonds) dominated the LCY bond market at the end of March, comprising 63.6% of total bonds outstanding.

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia

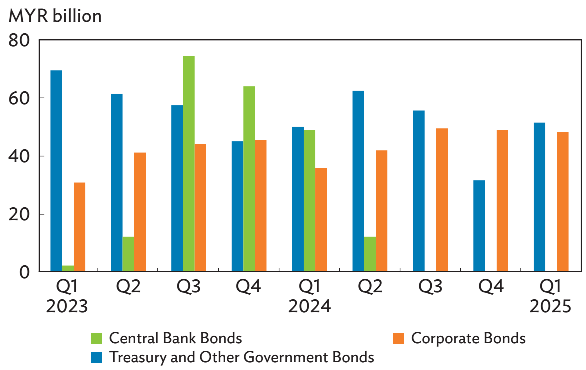


LCY = local currency, LHS = left-hand side, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, RHS = right-hand side.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Led by government bonds, LCY bond issuance expanded 23.9% q-o-q to MYR99.6 billion in Q1 2025. Government bond issuance rose 63.5% q-o-q, reversing the previous quarter's 43.4% q-o-q contraction, following increases in bond sales of both conventional bonds and *sukuk* (**Figure 3**). On the other hand, corporate bond issuance contracted 1.6% q-o-q in Q1 2025. The largest issuer of LCY corporate bonds in Q1 2025 was Cagamas, having issued MYR5.7 billion worth of conventional and *sukuk* commercial paper and Islamic medium-term-notes, accounting for 11.8% of total LCY corporate issuance during the quarter.

This market summary was written by Justin Adrian Villas, consultant, Economic Research and Development Impact Department, Asian Development Bank, Manila.

Figure 3: Composition of Local Currency Bond Issuance in Malaysia



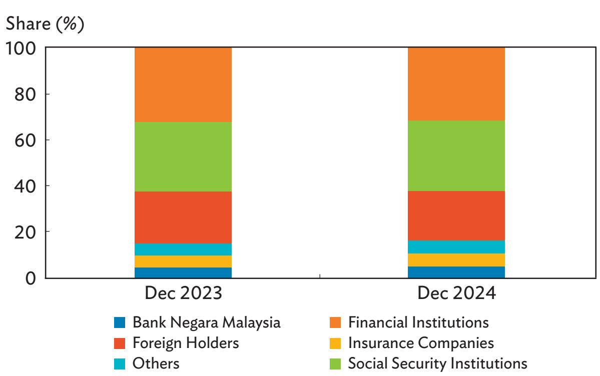
MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Investor Profile

At the end of December, domestic investors held 78.7% of Malaysia's LCY government bonds outstanding. The two largest holdings shares belonged to financial institutions and social security institutions at 31.5% and 30.7%, respectively (**Figure 4**). Foreign holdings in Malaysia's government bond market edged down to 21.3% at the end of December 2024, compared to 22.5% a year prior, due partly to uncertainties over the future path of monetary policy in the United States. Nonetheless, Malaysia's foreign holdings share remained the highest among its emerging East Asian peers.[13]

Figure 4: Local Currency Government Bonds Investor Profile



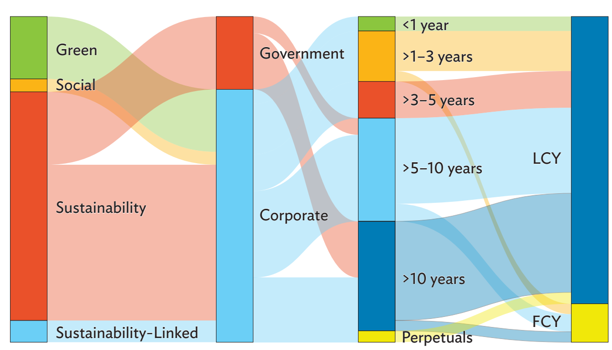
Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.

Source: Bank Negara Malaysia.

Sustainable Bond Market

Sustainable bonds outstanding in Malaysia at the end of March mostly comprised sustainability bonds, corporate issuances, and bonds denominated in Malaysian ringgit. Total sustainable bonds outstanding tallied USD15.7 billion at the end of March on growth of 1.9% q-o-q, with most issuances denominated in Malaysian ringgit (88.2%). By type of bond, sustainability bonds comprised a majority of the sustainable bond stock (70.2%), followed by green bonds (19.2%) (**Figure 5**). Malaysia's sustainable bond market is dominated by corporate bonds, which comprised 77.6% of total outstanding sustainable bonds at the end of March. Further, 59.8% of corporate sustainable bonds outstanding carried tenors of more than 5 years. Bonds issued by the public sector comprised 22.4% of outstanding sustainable bonds, all of which carried tenors of more than 5 years. At the end of March, the size-weighted average tenor in Malaysia's sustainable bond market was 8.6 years.

Figure 5: Market Profile of Outstanding Sustainable Bonds in Malaysia at the End of March 2025



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[13] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.