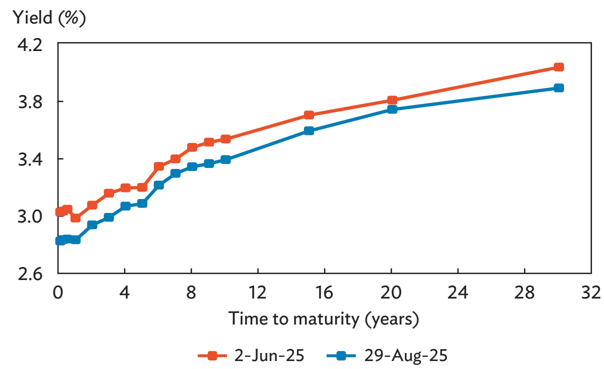
Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted downward between 2 June and 29 August. Bond yields fell an average of 14 basis points across all maturities amid monetary policy easing by Bank Negara Malaysia (BNM) (**Figure 1**). On 9 July, the BNM reduced the overnight policy rate for the first time in 2 years to 2.75%, while on 4 September, it held the policy rate steady, as preemptive measures to keep Malaysia on a steady growth path. In the second quarter (Q2) of 2025, Malaysia's economy grew 4.4% year-on-year, the same pace as the previous quarter, and well within the government's target of 4.0%–4.8%. Q2 2025's growth was partly driven by sustained growth in exports along with an expansion in private consumption, which was supported by policy measures to increase household spending. The BNM and the Government of Malaysia also recognized external downside risks to growth resulting from weakening global trade and muted investor sentiment.

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

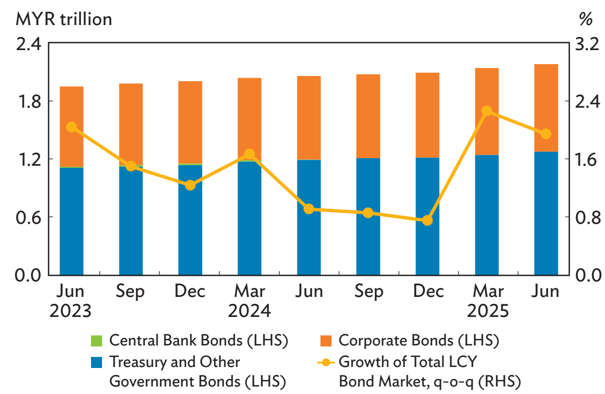


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market of Malaysia expanded in Q2 2025, driven by growth in Treasury bonds. The LCY bond market reached a size of MYR2.2 trillion on growth of 1.9% quarter-on-quarter (q-o-q) in Q2 2025, following the first quarter's (Q1) 2.3% q-o-q expansion (**Figure 2**). Outstanding Treasuries and other government bonds rose 2.6% q-o-q, despite a contraction in issuance due to a lower volume of maturities during the quarter. Malaysia's corporate bond segment posted 1.1% q-o-q growth in Q2 2025, down from the previous quarter's 2.0% q-o-q growth on increased maturities. *Sukuk* (Islamic bonds) continued to comprise a majority of the LCY bond market with a share of 63.5% at the end of June.

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia

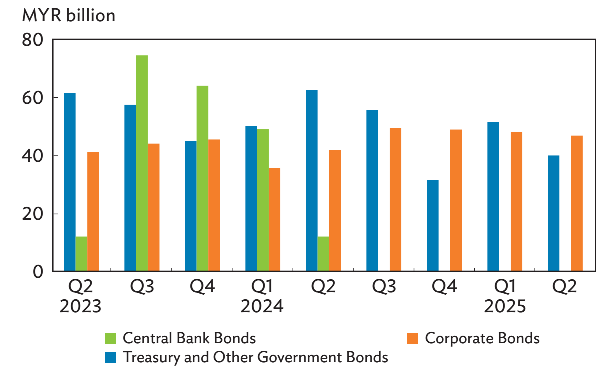


LCY = local currency, LHS = left-hand side, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, RHS = right-hand side.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

LCY bond issuance contracted 12.9% q-o-q in Q2 2025, a reversal of Q1 2025's 23.9% growth. Government bond issuance fell 22.3% q-o-q in Q2 2025, following a 63.5% q-o-q expansion in Q1 2025, as issuance was front-loaded in the first several months of the year (**Figure 3**). Corporate bond sales comprised over half (53.9%) of total issuance in Q2 2025 but saw a 2.7% q-o-q contraction, weighed down by trade uncertainties. Maybank Islamic led LCY corporate bond issuances in Q2 2025 with its debt sales of commercial paper *sukuk* and corporate *sukuk* totaling MYR5.5 billion, or 11.8% of total LCY corporate issuance.

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.

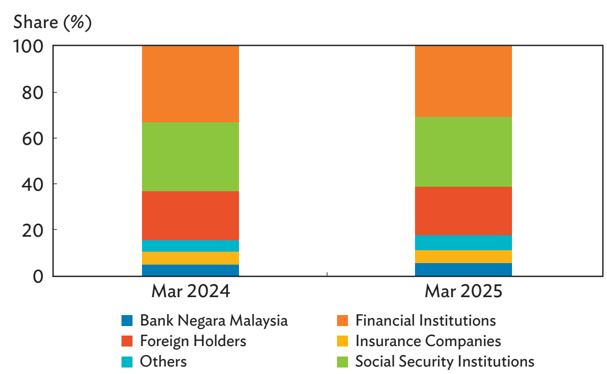
Investor Profile

At the end of March, domestic investors held 79.2% of Malaysia's LCY government bonds outstanding. Malaysia's LCY government bond market was dominated by financial institutions and social security institutions—together comprising an aggregate bond holdings share of 61.2% (**Figure 4**). The share of foreign holdings in Malaysia's government bond market fell to 20.8% at the end of March from 21.2% a year prior on increased uncertainty over the Federal Reserve's monetary policy outlook. Nevertheless, Malaysia maintained the highest foreign holdings share within emerging East Asia.[23]

Sustainable Bond Market

At the end of June, corporate bonds dominated Malaysia's sustainable bond market, which mainly comprised sustainability bonds and bonds denominated in Malaysian ringgit. Outstanding sustainable bonds in Malaysia expanded 2.0% q-o-q, tallying USD16.0 billion at the end of June, 68.9% of which were sustainability bonds, followed by green bonds at 19.0% (**Figure 5**). At the end of June, 78.1% of outstanding sustainable bonds had been issued by corporates, with over half (58.9%) of corporate issuances carrying tenors longer than 5 years. On the other hand, bonds issued by the public sector, which made up 21.9% of total outstanding sustainable bonds, all carried tenors of over 5 years. This resulted in a size-weighted average tenor of 8.3 years in Malaysia's sustainable bond market. A large majority (88.5%) of total sustainable bonds outstanding were denominated in Malaysian ringgit.

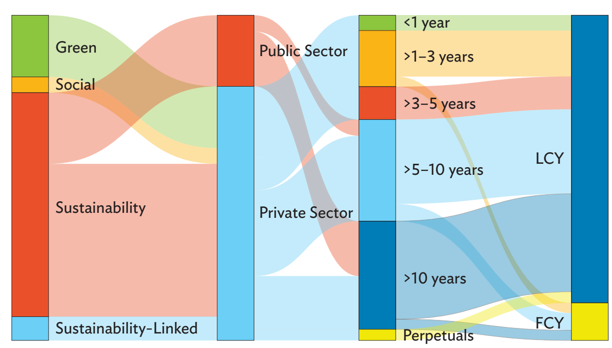
Figure 4: Local Currency Government Bonds Investor Profile



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

Source: Bank Negara Malaysia.

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



FCY = foreign currency, LCY = local currency.

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

[23] 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.