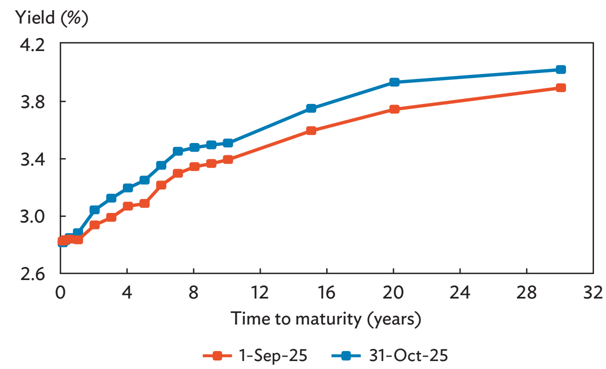
Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yields rose for most maturities between 1 September and 31 October. Bond yields increased an average of 12 basis points for maturities of 6 months and longer, driven by robust economic growth in the third quarter (Q3) of 2025 (**Figure 1**). The economy expanded 5.2% year-on-year (y-o-y) in Q3 2025, outpacing both market expectations (3.8% y-o-y) and the previous quarter's growth (4.4% y-o-y). Gross domestic product growth was buoyed by rapid expansions in the manufacturing and services sectors, underpinned by government support through incentive programs and investments in digitalization. Inflation accelerated to 1.5% y-o-y in September from 1.3% y-o-y in August, partly driven by subsidy rollbacks implemented during the quarter.

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

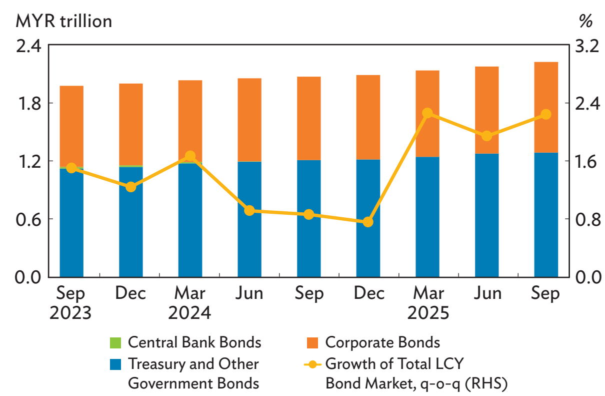


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Malaysia's LCY bond market expanded in Q3 2025 on increased issuance of Treasuries and corporate bonds. Total LCY bonds outstanding rose 2.2% quarter-on-quarter (q-o-q) to MYR2.2 trillion, following a 1.9% gain in the second quarter (Q2) of 2025 (**Figure 2**). Corporate bonds recorded the fastest expansion, rising 4.1% q-o-q in Q3 2025 after a 1.1% q-o-q gain in Q2 2025, buoyed by increased issuance during the quarter. On the other hand, Treasuries and other government bonds outstanding rose 0.9% q-o-q, moderating from a 2.6% q-o-q gain in Q2 2025 despite a large increase in issuance due to more maturities during the quarter. *Sukuk* (Islamic bonds) continued to dominate the LCY bond market, accounting for 64.3% of total outstanding bonds at the end of September.

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia



LCY = local currency, 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 surged 48.1% q-o-q in Q3 2025, rebounding from a 12.9% q-o-q contraction in Q2 2025. The sharp recovery was supported by monetary policy easing by Bank Negara Malaysia, which reduced the overnight policy rate by 25 basis points to 2.75% on 9 July. Government bond issuance rose 40.0% q-o-q in Q3 2025, following a 22.3% decline in Q2 2025, partly driven by borrowing to finance infrastructure investments and ongoing subsidies (**Figure 3**). Corporate bond issuance likewise strengthened, climbing 55.0% q-o-q, aided in part by incentives such as tax deductions for *sukuk* offerings. Cagamas was the leading LCY corporate issuer, with MYR6.2 billion in sales that accounted for 8.5% of total LCY corporate issuance during the quarter.

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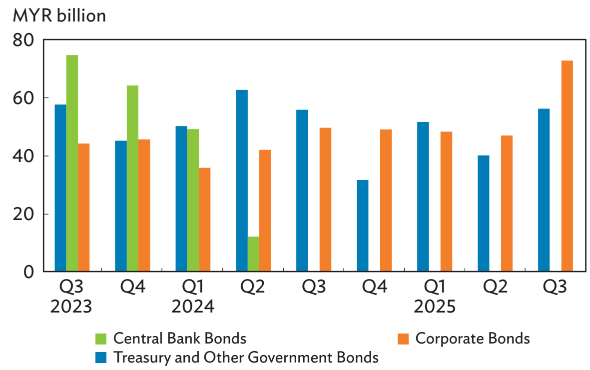
Figure 3: Composition of Local Currency Bond Issuance in Malaysia



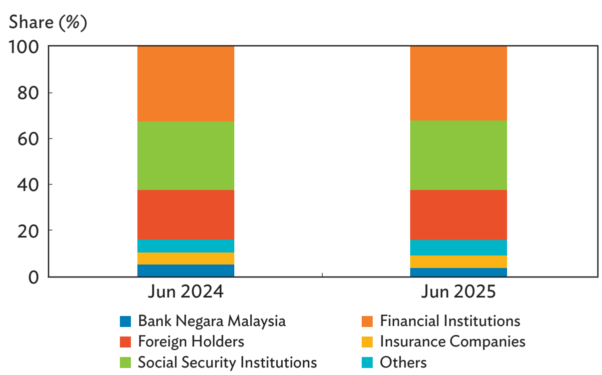
MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

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

Investor Profile

At the end of June, domestic investors accounted for 78.3% of Malaysia's LCY government bonds outstanding. Financial institutions and social security funds remained the largest investor groups, collectively holding 62.3% of total bonds outstanding (**Figure 4**). Foreign holdings edged up to 21.7% from 21.4% a year earlier, supported by improved global sentiment and optimism over trade relations with the United States. Malaysia continued to post the highest share of foreign holdings among emerging East Asian economies.[25]

Figure 4: Local Currency Government Bonds Investor Profile



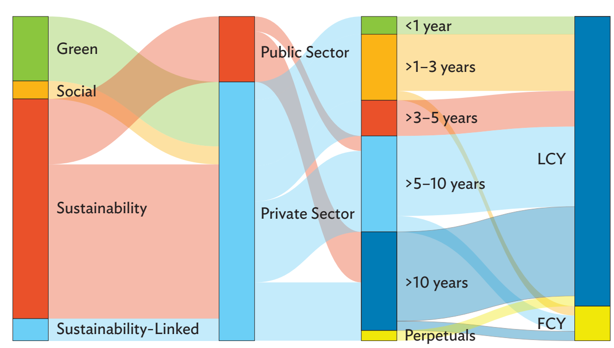
Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.

Source: Bank Negara Malaysia.

Sustainable Bond Market

Malaysia's outstanding sustainable bonds expanded 8.3% q-o-q to reach USD17.3 billion at the end of September, driven by increased corporate bond issuance. Sustainability bonds dominated outstanding sustainable bonds, accounting for 67.8% of the total (**Figure 5**). Green, social, and sustainability-linked bonds, collectively comprising 32.2% of the total, have been issued solely by the private sector. Corporate issuers accounted for 79.8% of the sustainable bond total. More than half (53.8%) of all corporate sustainable bonds carried remaining maturities longer than 5 years, leading to a size-weighted average tenor of 6.5 years. Public sector sustainable bonds comprised the remaining 20.2% of outstanding sustainable bonds, all with tenors exceeding 5 years, resulting in a longer size-weighted average tenor of 12.8 years for the public sector. Most sustainable bonds (89.4%) were denominated in Malaysian ringgit. The Malaysia Rail Link led corporate sustainable bond sales in Q3 2025, issuing MYR2.6 billion worth of sustainability bonds.

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



FCY = foreign currency, LCY = local currency.

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

[25] 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.