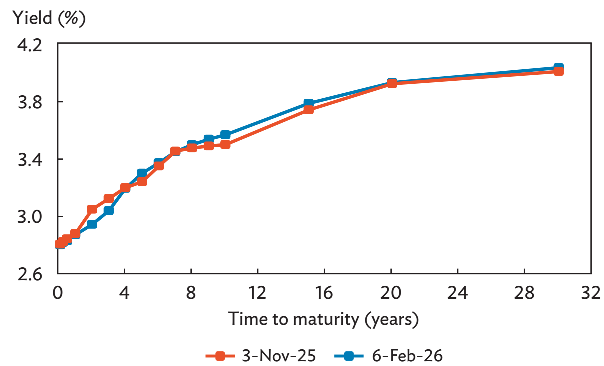
Malaysia

Yield Movements

Malaysia's yield curve slightly steepened between 3 November and 6 February. Bond yields declined an average of 3 basis points (bps) for maturities of 4 years or less, with the 2-year and 3-year bonds posting the largest declines of 10 bps and 8 bps, respectively (**Figure 1**). Yields declined amid improved sentiment as the government aims to reduce the budget deficit in 2026 to 3.5% of gross domestic product from 3.7% in 2025. The improved fiscal outlook spurred investor interest, with foreign inflows skewed toward the front end of the yield curve, exerting downward pressure on shorter-dated yields. Meanwhile, yields rose an average of 4 bps for all maturities of 5 years and longer except for the 7-year maturity, which declined less than 1 bp. The uptick in longer tenors was driven by rising inflation, as consumer price inflation ticked up to 1.6% year-on-year (y-o-y) in January and December from 1.4% y-o-y in November but remained below the government's target range of 2.0%–3.5%.

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

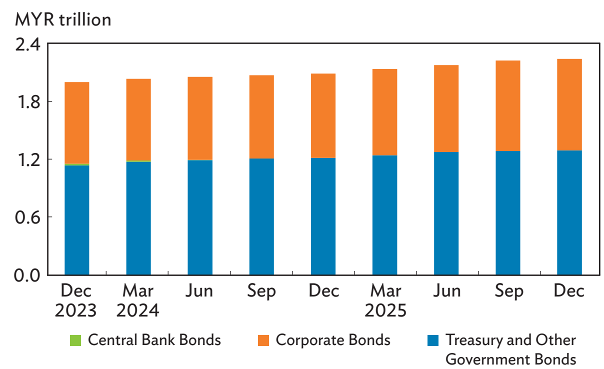


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Malaysia's local currency (LCY) bond market posted a slower expansion in Q4 2025, as issuance fell during the quarter. Total LCY bonds outstanding increased 0.8% quarter-on-quarter (q-o-q) to MYR2.2 trillion, easing from the 2.2% q-o-q expansion recorded in the third quarter (Q3) of 2025 (**Figure 2**). Corporate bonds outstanding inched up 1.1% q-o-q in Q4 2025, decelerating from their 4.1% q-o-q gain in the prior quarter, as softer issuance and higher redemptions capped net growth. Meanwhile, the stock of Treasury and other government bonds advanced 0.5% q-o-q in Q4 2025, moderating from a 0.9% q-o-q expansion in the prior quarter, due to reduced issuance. *Sukuk* (Islamic bonds), remained the dominant segment of the LCY bond market, comprising 63.8% of total bonds outstanding at the end of December.

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia



MYR = Malaysian ringgit.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Total LCY bond issuance contracted in Q4 2025, driven by reduced sales of government securities. LCY bond issuance declined 14.5% q-o-q to MYR109.9 billion in Q4 2025, reversing the previous quarter's 48.1% q-o-q expansion (**Figure 3**). The issuance of Treasury and other government securities dropped 38.4% q-o-q as the Government of Malaysia had front-loaded annual borrowing earlier in the year. Corporate bond issuance edged up 4.0% q-o-q but moderated from the previous quarter's 55.0% growth due to a high base effect in Q3 2025 when companies took advantage of lower yields following a policy rate cut in July. State-owned PNB Merdeka Ventures accounted for the largest share (8.0%) of corporate issuance in Q4 2025 with issuance totaling MYR6.0 billion to finance property development projects.

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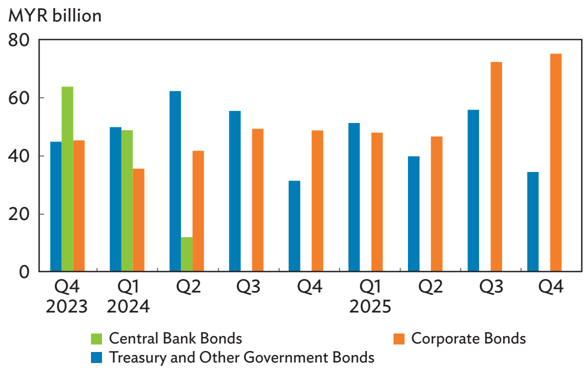
Figure 3: Composition of Local Currency Bond Issuance in Malaysia



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.

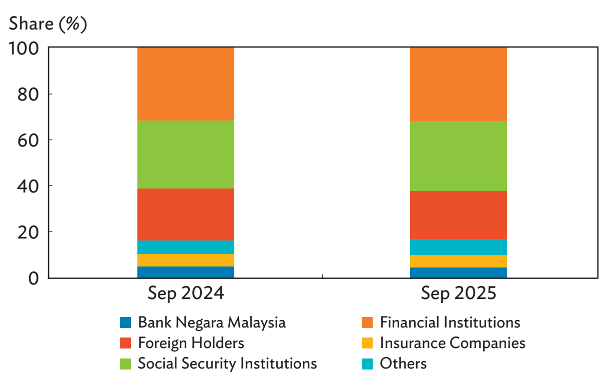
Investor Profile

At the end of September, domestic investors remained the largest investor group in Malaysia's LCY government bond market. Collectively, domestic investors comprised 79.2% of total holdings in Malaysia's LCY bond market. Among these local investors, financial institutions and social security funds remained the largest investor groups, holding shares of 31.8% and 30.5%, respectively (**Figure 4**). Meanwhile, foreign holdings edged down to 20.8% from 22.4% a year earlier amid intermittent foreign outflows driven by weaker global risk sentiment and external trade-policy uncertainties. Malaysia nonetheless recorded one of the highest shares of foreign participation among emerging East Asian economies.[24]

Sustainable Bond Market

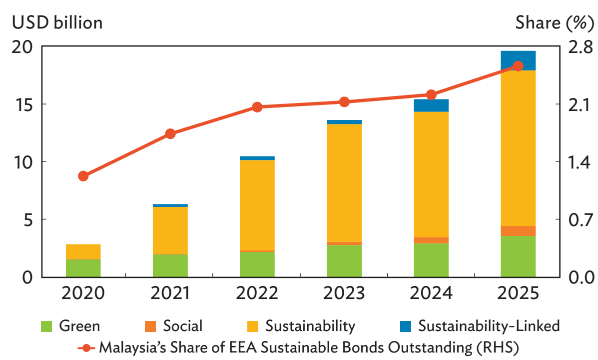
Malaysia's sustainable bond market continued to expand in 2025, buoyed by private sector issuance. Outstanding sustainable bonds reached USD19.6 billion at the end of 2025, representing 2.6% of the emerging East Asian total (**Figure 5**). The market expanded 27.2% in 2025, accelerating from a 13.1% increase in 2024 amid increased private sector issuance. Private sector financing comprised 82.1% of total outstanding sustainable bonds and reached USD16.1 billion at the end of 2025. Private sector issuance climbed to USD4.9 billion on 67.3% y-o-y growth, supported by sales from PNB Merdeka Ventures, which issued USD1.4 billion worth of MYR-denominated sustainability *sukuk* as part of its funding diversification strategy. In contrast, the public sector has not issued any sustainable bonds since its last offering in 2023, but outstanding public sector sustainable bonds still comprised 17.9% of the total. At the end of 2025, 61.9% of outstanding sustainable bonds carried tenors exceeding 3 years, resulting in a size-weighted average tenor of 8.1 years. By instrument type, sustainability bonds accounted for 68.8% of the total, followed by green (18.1%), sustainability-linked (8.6%), and social (4.5%) bonds.

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: Sustainable Bonds Outstanding in Malaysia



EEA = emerging East Asia, RHS = right-hand side, USD = United States dollar.
Notes:
1. Emerging East Asia is defined to include the member states of ASEAN plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
2. Data include both local currency and foreign currency sustainable bonds.
3. Sustainability-linked bonds include transition-linked bonds.

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

[24] 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.