

Malaysia

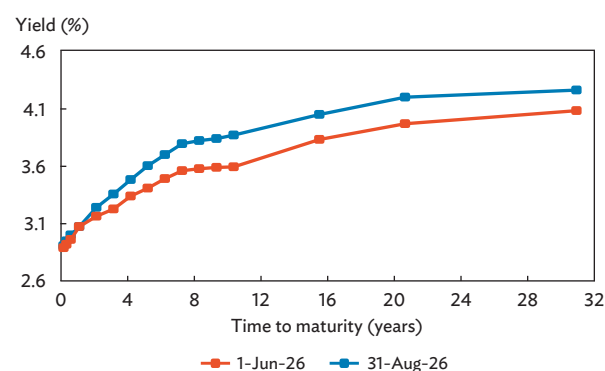
Yield Movements

Between 1 June and 31 August, yields on local currency (LCY) government debt securities in Malaysia rose across all tenors, increasing an average of 15 basis points (**Figure 1**). The uptick in yields was driven by the ongoing conflict in the Middle East. In addition, higher fuel subsidy costs are raising concerns that the **fiscal deficit** may exceed the government's target for 2026. Meanwhile, Bank Negara Malaysia left policy rates steady during its meeting on 9 July as domestic activity remained resilient, supported by sustained demand and stronger-than-expected exports. In its subsequent meeting on 3 September, Bank Negara Malaysia kept its monetary policy rate unchanged.

Local Currency Bonds Outstanding and Issuance

Malaysia's LCY debt securities outstanding rose 2.8% quarter-on-quarter (q-o-q) to MYR2.3 trillion at the end of the second quarter (Q2) of 2026, faster than the 1.6% increase in the first quarter (Q1). Excluding debt securities with maturities of 1 year or shorter, the LCY bond market expanded 3.0% q-o-q to MYR2.2 trillion, accelerating from 1.7% in Q1 (**Figure 2**). On a q-o-q

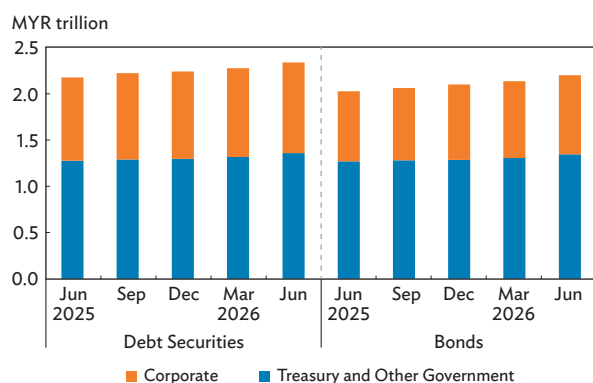
Figure 1: Yields for Local Currency Government Debt Securities in Malaysia



Source: Based on data from Bloomberg LP.

basis, outstanding government and corporate bonds rose 3.2% and 2.7%, respectively, in Q2. The increase in corporate bonds was supported by improved sentiment as the Middle East conflict eased. Total issuance activity also strengthened in Q2, with LCY bond issuance rising 29.7% q-o-q to MYR124.5 billion, reversing a 4.5% decline in the prior quarter (**Figure 3**). The increase was mainly driven by corporate bond issuance, which rose 46.1% q-o-q and included MYR11.5 billion from Urusharta Jamaah, equivalent to 15.4% of corporate issuance during the quarter.

Figure 2: Local Currency Debt Securities Outstanding in Malaysia

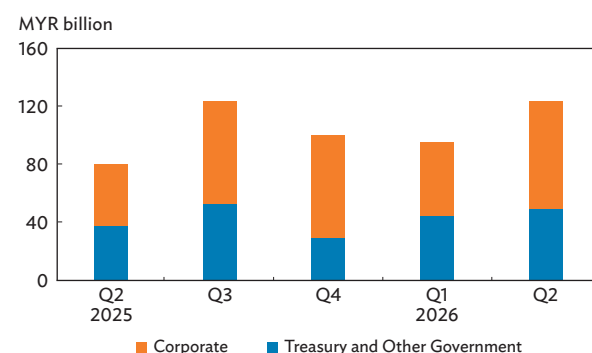


MYR = Malaysian ringgit.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

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

Figure 3: Local Currency Bond Issuance in Malaysia



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

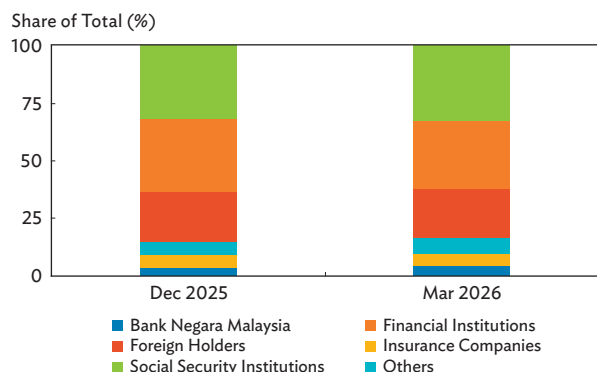
Note: Bonds are defined as debt securities with maturities longer than 1 year.

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

Investor Profile

Domestic investors accounted for 78.6% of Malaysia's outstanding LCY government debt securities at the end of Q1, unchanged from the end of the previous quarter. Social security institutions remained the largest investor group with a holdings share of 32.6%, while the share of financial institutions declined to 29.5% from 31.6% at the end of December (**Figure 4**). Foreign holdings edged up 1.6% q-o-q, leaving their share unchanged at 21.4%, as the favorable domestic economic performance and fiscal consolidation supported investor sentiment.

Figure 4: Local Currency Government Debt Securities 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 sustainable bond market expanded 11.1% q-o-q to USD22.4 billion at the end of June, accelerating from a 3.1% increase in Q1. Sustainability bonds remained the largest bond type at USD15.4 billion, accounting for 68.5% of the total (**Figure 5A**). Corporate issuers comprised 84.4% of the sustainable bond market at the end of Q2, up from 82.6% in Q1. With 59.8% of corporate sustainable bonds carrying tenors exceeding 5 years, their dominance supported the market's long-tenor profile, with the size-weighted average tenor rising to 8.5 years from 8.1 years in Q1 (**Figure 5B**).

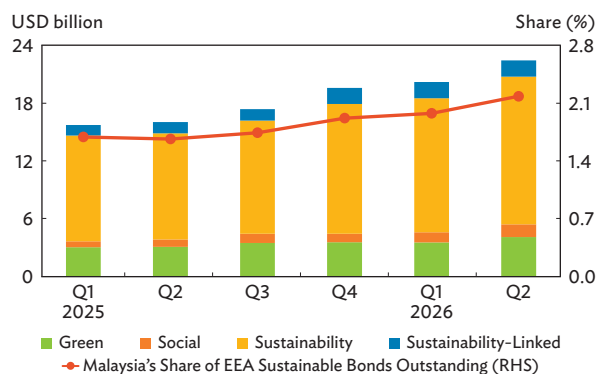
Policy and Regulatory Developments

Malaysia Strengthens Maqasid Al-Shariah Alignment in Sukuk Market

On 29 June, the Securities Commission Malaysia issued a guidance note to strengthen the alignment of *sukuk* (Islamic bonds) issuances with Maqasid Al-Shariah, or the broader objectives of Islamic law that emphasize ethical and societal outcomes. The guidance note sets out considerations on the use of proceeds, *sukuk* structuring, governance, disclosure, and inclusivity. It also provides practical illustrations for assessing such alignment. The measure seeks to encourage more ethical and value-based *sukuk* issuance and support the continued development of Malaysia's Islamic capital market.

Figure 5: Sustainable Bonds in Malaysia

A. Bonds Outstanding by Type of Security



EEA = emerging East Asia, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Notes:

- Emerging East Asia is defined to include the member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
- Data include both local currency and foreign currency sustainable bonds.
- Sustainability-linked bonds include transition-linked bonds.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

B. Maturity Profile by Sector

