BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Malaysia Bond Market Report 2025: Assessing Development Priorities for Future Path

By: Bond Market Sub-Committee

Executive Summary

Malaysia's bond market remained resilient and well-functioning in 2025 amid a challenging external environment, supported by sound macroeconomic fundamentals, credible policy frameworks, and disciplined government funding strategies. The July 2025 reduction in the Overnight Policy Rate (OPR), together with easing global financial conditions, contributed to a supportive yield environment and reinforced investor confidence in ringgit-denominated assets. Primary market issuances were executed smoothly across maturities, underpinned by strong auction demand, stable bid-to-cover ratios and orderly secondary market conditions.

Investor participation continued to broaden and deepen in 2025. Principal Dealers (PDs) and Islamic Principal Dealers (iPDs) remained important to the functioning of the primary market, with a combined average allotment of 60.5% in 2025. Allotments also increasingly reflected a more diversified investor base, with higher participation by other domestic institutions at 32.8%, compared to 29.5% in 2024. In parallel, the Islamic bond market gained further prominence. Malaysian Government Investment Issues (MGII) issuances remained closely aligned with Malaysian Government Securities (MGS) volumes, reinforcing benchmark continuity and supporting liquidity development. Improved tradability of MGII benchmarks underscored the strengthening role of Shariah-compliant securities within Malaysia's government bond market. Secondary market activities remained active, particularly in MGS and MGII, enhancing price discovery and reinforcing the depth and resilience of the overall market.

Key Highlights

Orderly primary market performance
Government bond auctions remained well supported in 2025, with healthy bid-to-cover ratios across tenors, ensuring smooth funding operations.

Diversified investor base
Participation expanded beyond PDs/ iPDs, with increasing allocations from insurance companies and non-resident investors, signalling deeper and more diversified demand.

Strong secondary market liquidity
Trading activity remains robust, led by MGS and MGII benchmarks with traded duration concentrated around the mid-curve, supporting improved price discovery.

Growing prominence of MGII
Increased issuance, growing trading volume, and rising investor participation strengthened liquidity and price discovery in the Islamic market.

Sustained non-resident participation
Non-resident participation remains healthy despite heightened market volatility, reflecting continued confidence in the Malaysia bond market.

Part A Market Structure and Conditions

1. Introduction

The Malaysian bond market recorded robust growth in 2025 underpinned higher issuances activity across government and corporate segments, supported by favourable funding conditions, sustained investor demand and stable policy environment. Overall market outstanding amount expanded further by RM157.9 billion, an annual increase of 7.5%, reaching RM2.3 trillion in 2025. A narrowing fiscal deficit together with broad and well diversified investor base, supported the market resilience amid episodes of fluctuating global risk sentiment. Market remained orderly, with continued efficiency in price discovery, healthy primary market issuances, and stable non-resident (NR) holdings.

This report charts the architecture of that resilience. It highlights shifts in government funding strategies, the evolution of investor behaviour, and the growing sophistication of Malaysia's bond market infrastructure. It underscores the rising importance of risk management and hedging practices, sustained structural demand across auctions, and the careful balance between market development and fiscal discipline.

Beyond the data, this report offers a lens in viewing Malaysia's bond market not merely as a capital-raising mechanism, but as an integral component of financial system: one that is adaptive, responsive to macro-financial conditions and progressively deepening over time. The assessment serves both as a stocktake of the market's current position and as a forward anchor for its future trajectory.

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2. Macroeconomic & Fiscal Conditions

Malaysia's macro environment in 2025 recorded a moderate and sustained growth despite facing considerable external uncertainties from global tariff measures and evolving geopolitical developments. While domestic economic fundamentals remained resilient, trade-related headwinds posed additional downside risks to the growth outlook. In view of this, Bank Negara Malaysia reduced the OPR by 25 basis points to 2.75% in July 2025—down from 3.00%—as a pre-emptive policy adjustment to safeguard growth momentum amid benign inflationary pressures.

Headline inflation moderated to 1.4% in 2025, driven by easing fresh food prices and lower inflation in fuel and utilities. Gross domestic product (GDP) expanded by 5.2%, supported by continued resilient domestic demand that helped cushion the economy against a challenging global environment. Household consumption and investment activity remained firm, underpinned by favourable labour market conditions and targeted policy measures.

On the fiscal front, Malaysia's fiscal deficit narrowed to 3.8% of GDP in 2025, improving from 4.1% in 2024. This consolidation was underpinned by stronger tax revenues, prudent expenditure management, and the government's continued commitment to fiscal sustainability under the Fiscal Responsibility Act (FRA) and Medium-Term Fiscal Framework (MTFF).

The Malaysian ringgit appreciated by 10.1% against US dollar in 2025, making it the best-performing major Asian currency amid improved external conditions and underlying macroeconomic strength. Meanwhile, the domestic bond market remained resilient throughout the year, supported by a stable policy environment, credible funding strategies, and sustained demand from both onshore and offshore investors.

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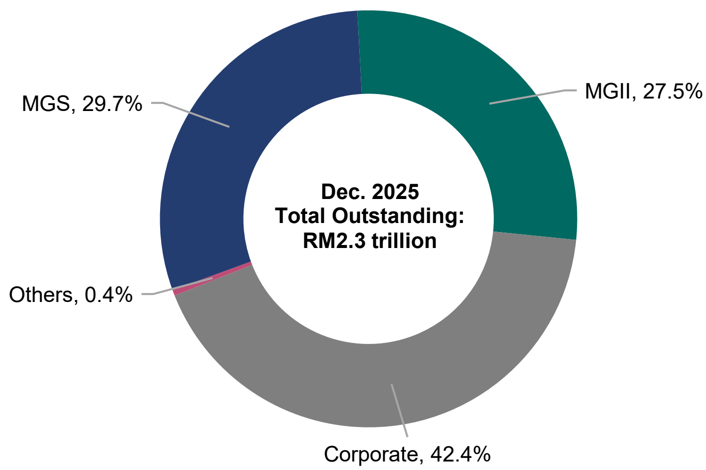
3. Bond Market Size & Composition

Malaysia's bond market expanded further in 2025, with total outstanding reaching RM2.3 trillion—an annual increase of 7.5%. At approximately 111.5% of nominal GDP at end of 2025, the bond market continued to play a significant role in public sector financing and serve as a key channel for institutional investment. In overall outstanding debt-to-nominal GDP terms, the Malaysian bond market ranked third among regional emerging market peers, behind China and South Korea, reflecting its depth and maturity within the region's bond market.

Government securities remained the dominant segment, accounting for 57.6% of the total outstanding bonds, while corporate bonds comprised the remaining 42.4%. Within the government segment, Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) constituted the bulk of supply, anchoring the benchmark yield curve formation and supporting secondary market liquidity. Short-tenor instruments such as Malaysian Treasury Bills (MTB) and Malaysian Islamic Treasury Bills (MITB) played a smaller yet significant role in supporting cash management and facilitating liquidity management.

In line with its medium-term debt management strategy, the government continued to reduce reliance on short-term issuance. This shift aimed to manage rollovers risks by extending maturities and achieving a more evenly distributed maturity profile.

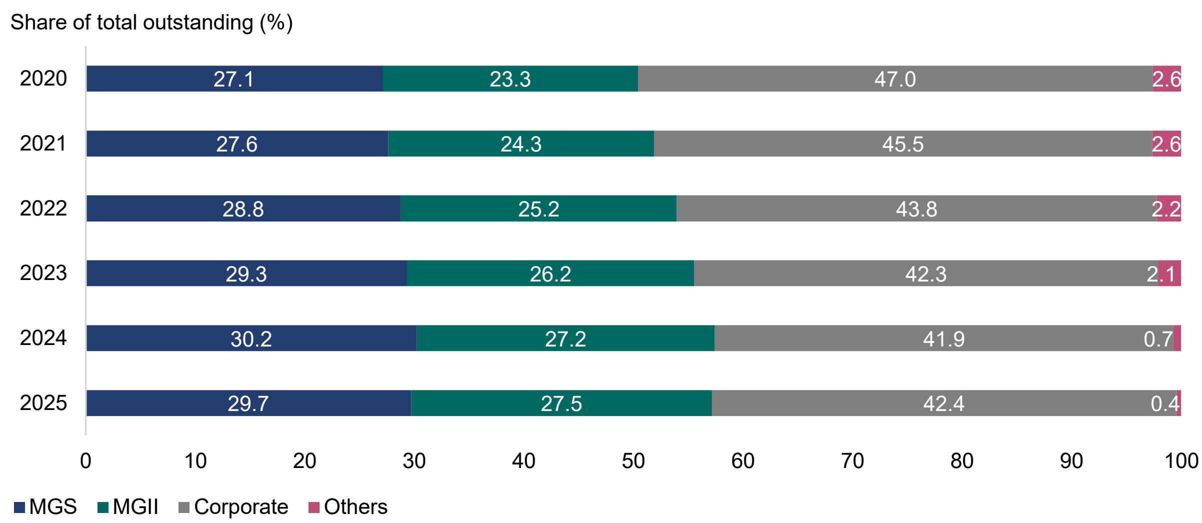
Chart 1: Outstanding Amount by Instrument as at end-2025



Note: Others include MTB and MITB
Source: Bank Negara Malaysia

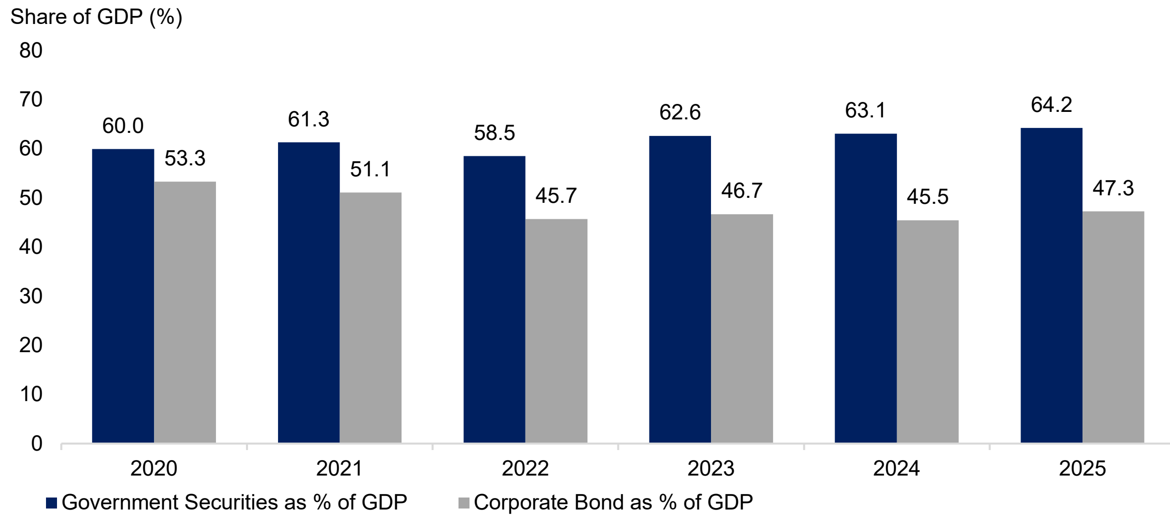
Over the past five years, the share of MGII within total government securities has gradually increased, reflecting the government's commitment to deepening the Islamic finance ecosystem and strengthening the availability Shariah-compliant benchmark instruments.

Chart 2: Composition of Historical Outstanding by Instrument Type



Note: Others include SPK, MTB, MITB and BNM Bills
Source: Bank Negara Malaysia

Chart 3: Government vs Corporate Bonds Outstanding as a % of GDP



Note: Government Securities includes MGS, MGII, SPK, MTB and MITB
Source: Bank Negara Malaysia

Part B Primary Market

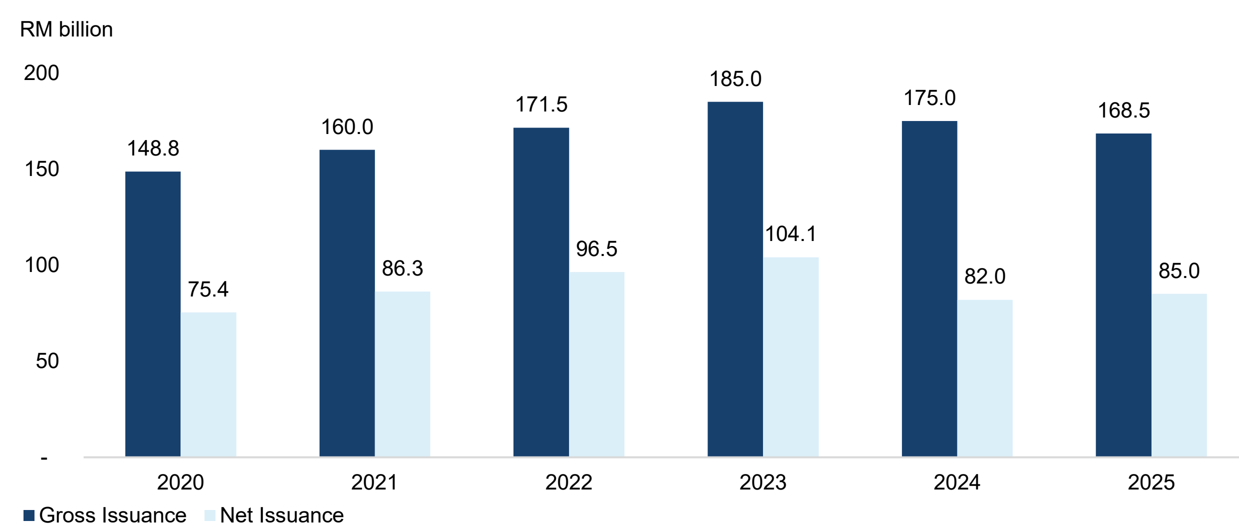
1. Government Bond Issuance

The annual gross government bond issuance moderated to RM168.5 billion in 2025 as the government consolidates the fiscal deficit, following a post-pandemic rise in issuances to RM185.0 billion in 2023 (RM171.5 billion in 2022). This issuance trajectory was shaped by the government's debt management strategy, aimed at smoothening redemption profiles, extending portfolio duration, and preserving liquidity across key benchmark tenors.

The 2025 issuance mix was broadly balanced, with issuance of Malaysian Government Investment Issues (MGII) at 51% and Malaysian Government Securities (MGS) at 49%. The slightly higher proportion reflect government's continued commitment towards deepening and strengthening Malaysia's domestic sukuk market in a gradual manner. In addition, maintaining a balanced mix between MGII and MGS enables the government to diversify its funding sources, broaden its investors base and reduce reliance on any single funding channel.

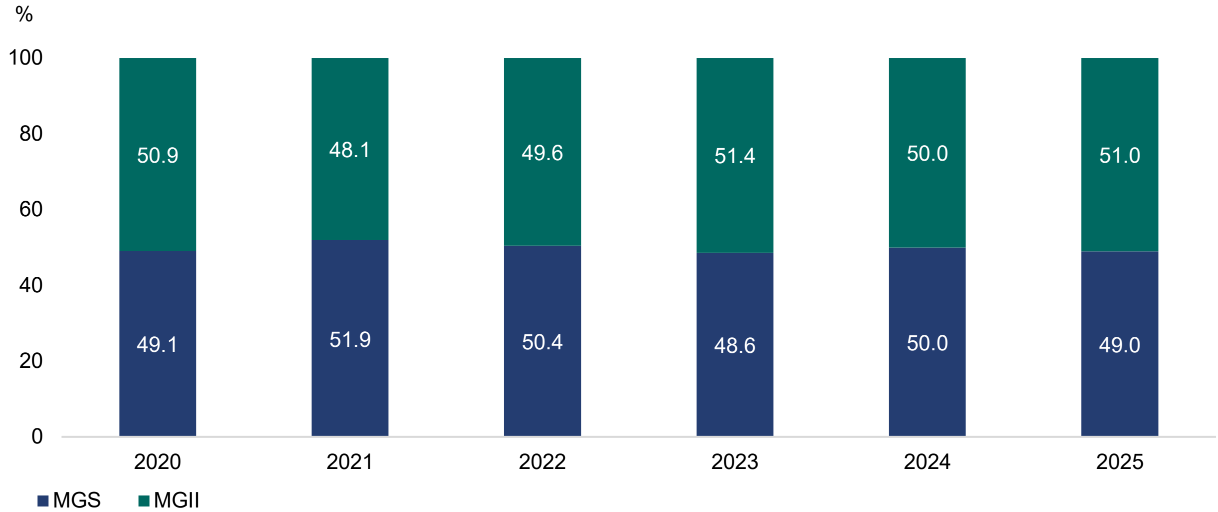
Net issuance totalled RM85 billion in 2025, reflecting a combination of new financing requirements and scheduled redemptions. Despite a steady level of gross issuance, the government maintained a calibrated and disciplined issuance strategy, aligning funding operations with macroeconomic conditions and the medium-term fiscal consolidation path under the Fiscal Responsibility Act (FRA) and Medium-Term Fiscal Framework (MTFF).

Chart 4: Annual Gross vs Net Government Bond Issuance



Source: Bank Negara Malaysia

Chart 5: Gross Government Bond Issuance Breakdown by Instrument

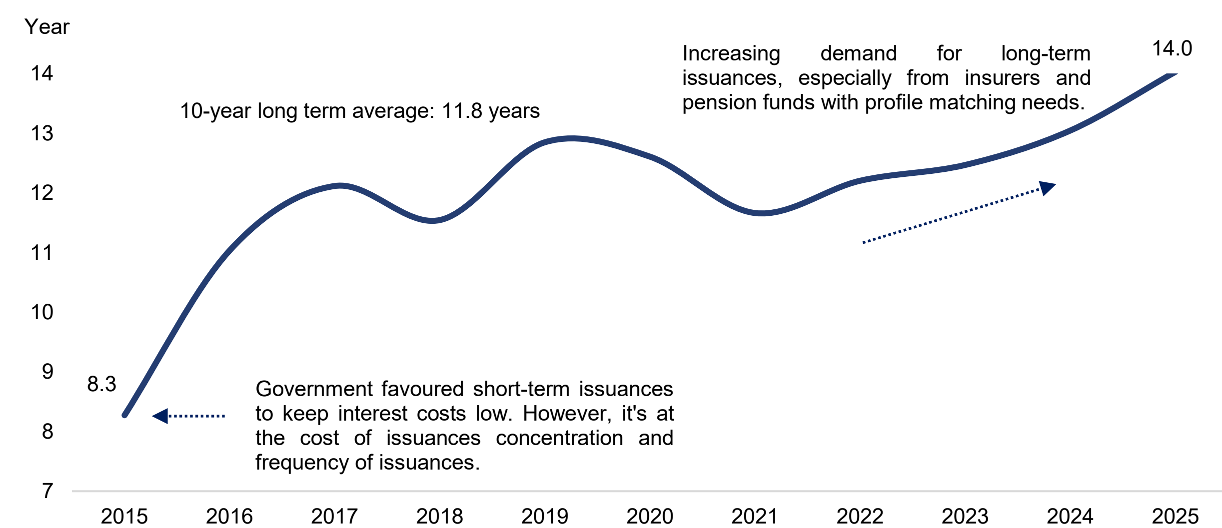


Source: Bank Negara Malaysia

2. Government Bond Issuance Profile

The weighted average maturity of newly issued government securities increased to 14.03 years in 2025, relatively higher than the 10-year long term average of 11.78 years, reflecting a deliberate shift towards lengthening duration. This approach of duration extension was consistent with the government's debt management strategy to optimise funding costs while reducing medium-term refinancing risks whilst meeting demand from investors.

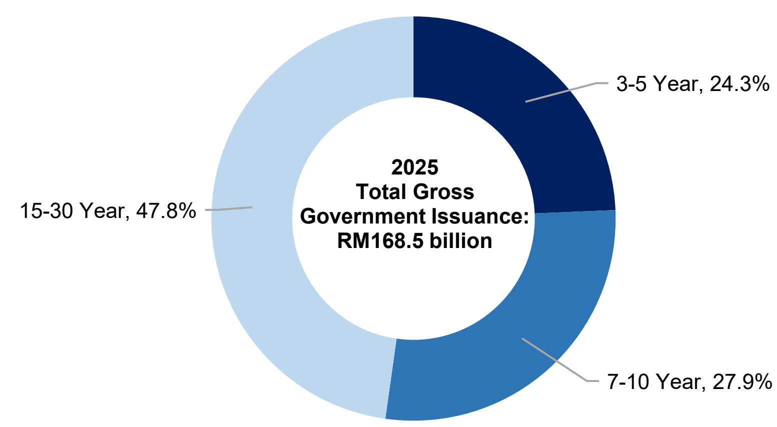
Chart 6: Weighted Average Maturity of Government Bond Issuance



Source: Bank Negara Malaysia

Issuance activity remained concentrated along key benchmark tenors specifically the 10-, 20-, and 30-year segments to reinforce yield-curve continuity, enhance secondary market liquidity, and support index replication needs. During the year, the government introduced seven new bond series alongside 29 reopenings, underscoring its continued emphasis on consolidating issuance lines while preserving sufficient benchmark depth.

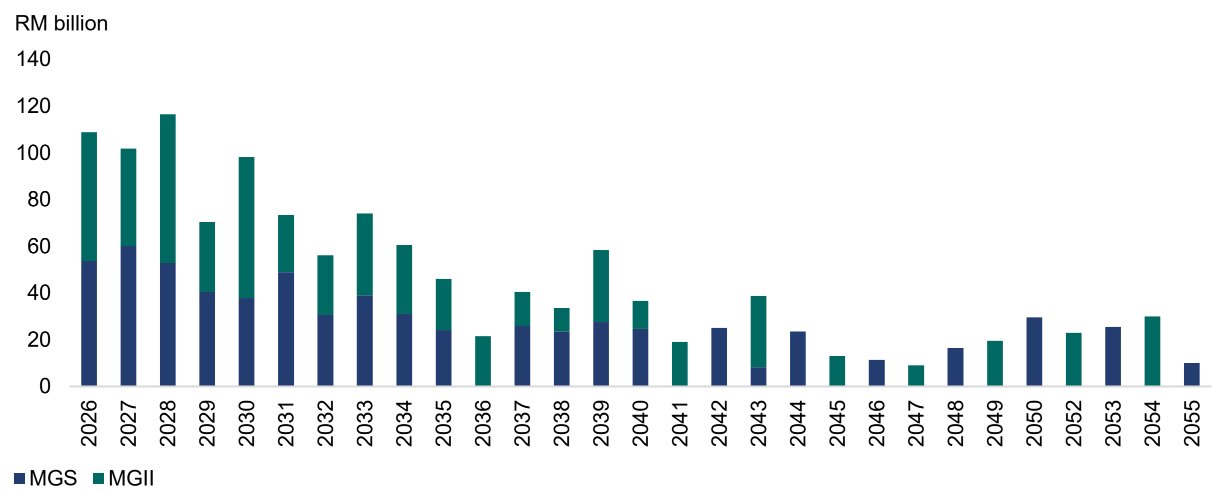
Chart 7: Government Bond Issuance by Tenor in 2025



Source: Bank Negara Malaysia

As a result, the maturity profile of outstanding government bonds remained broadly balanced, with a moderate concentration in the medium- to long-term tenors. Reopenings were deployed strategically to strengthen liquidity while progressively smoothening the overall maturity distribution.

Chart 8: Maturity Profile as at end 2025



Source: Bank Negara Malaysia

Looking ahead to 2026, the government has signalled continuity in its issuance strategy, maintaining the number of new issuance lines at seven, complemented by approximately 30 reopenings. This strategy aims to mitigate concentration risks arising from large outstanding lines, while ensuring adequate depth and tradability at critical points along the yield curve.

Table 1: New Issuances vs Reopenings for 2026

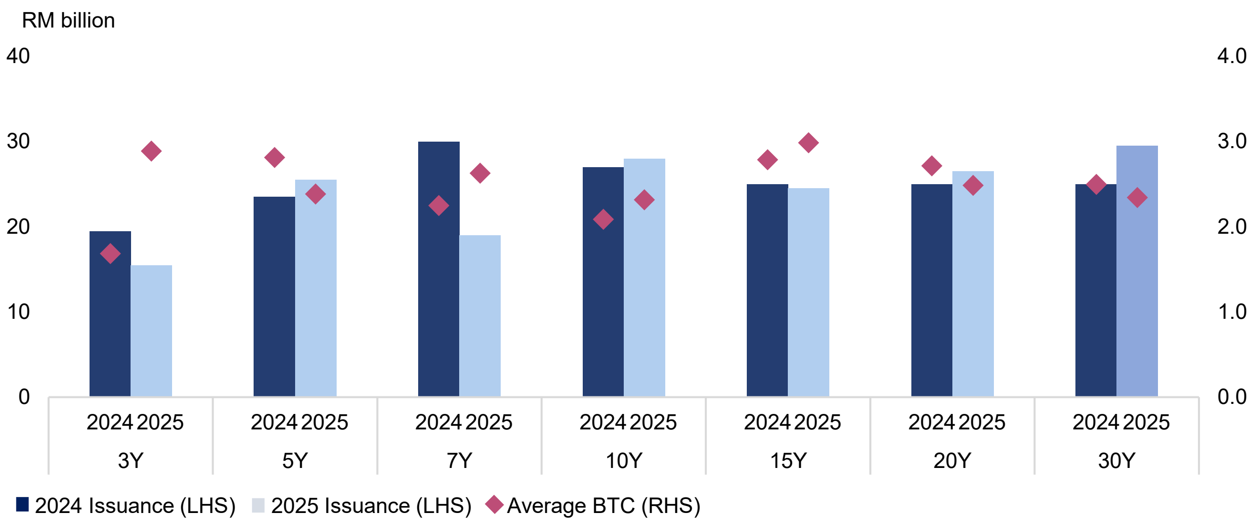
Tenor (year)	**New**	**Reopening**	**Total**
3	2	4	6
5	0	4	4
7	1	3	4
10	1	5	6
15	1	5	6
20	1	4	5
30	1	5	6
Total	**7**	**30**	**37**

Source: Bank Negara Malaysia

3. Government Bond Primary Market Analysis

Government bond auctions remained a cornerstone of Malaysia's capital market operations in 2025, consistently drawing broad-based demand across maturities. Primary issuance exercises were well-supported throughout the year, with an average bid-to-cover (BTC) ratio of 2.55 times, indicating strong and stable absorption capacity across varying market conditions.

Chart 9: Auction Analysis – Issuance and BTC

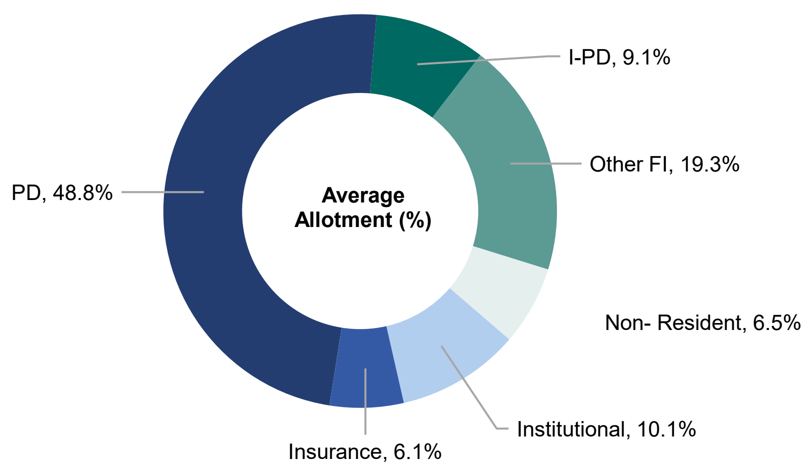


Source: Bank Negara Malaysia

Demand continued to be supported by Principal Dealers (PDs and iPDs), whose participation underpinned smooth execution auction exercise and secondary market liquidity. While PDs and iPDs remained important players in the primary market, the investor base has become increasingly diversified, with growing allotments from insurance companies and non-resident investors. This development reflects improving market depth and attractiveness across investor groups in the Malaysian bond market.

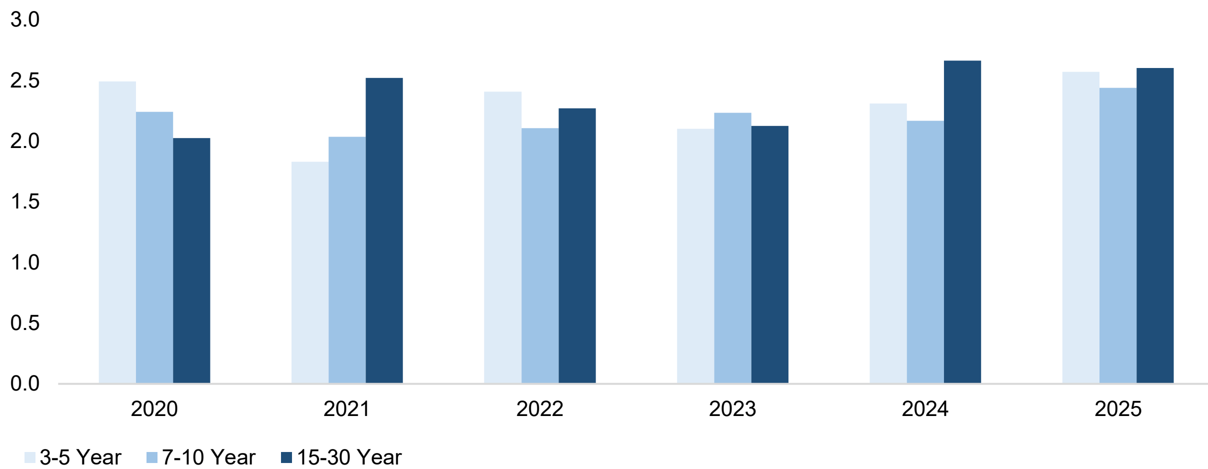
Against this backdrop, investor participation in 2025 was notably broad-based, encompassing both domestic institutions and non-resident investors. Domestic institutions including banks, pension funds, asset managers, and insurance companies continued to form the core of auction demand, providing a stable funding base. Meanwhile, non-resident participation was more pronounced in short-to-mid term MGS and MGII tenors, consistent with duration-averse strategies. This well-diversified investor base strengthened the primary market resilience, supported stable demand across tenors, and contributed to efficient and orderly price discovery throughout the yield curve.

Chart 10: PD vs Non-PD Average Allotment (%) for 2025 Government Bond Issuance



Source: Bank Negara Malaysia

Chart 11: Breakdown of Average BTC by Tenor



Source: Bank Negara Malaysia

Over the 2020-2025 period, average BTC ratios across short-, medium-, and long-tenor benchmarks remained resilient. Shorter tenors generally attracted marginally higher cover ratios, reflecting lower duration risk, while demand for longer-dated bonds remained robust despite episodes of global market volatility. This durability at the long end of the curve highlighted the credibility of Malaysia's yield curve and sustained investor confidence in long-duration local currency assets.

4. Principal Dealers and Islamic Principal Dealers (PDs and iPDs)

Principal Dealers remain integral to the effective functioning of Malaysia's government bond market. As of 2025, there were 20 appointed PDs, including seven Islamic Principal dealers (iPDs), forming the backbone of primary issuance and secondary market liquidity. Their consistent participation in auctions, active engagement across the yield curve, and firm commitment to continuous secondary market-making have been central to sustaining orderly market conditions and reinforcing investor confidence.

Over the past years, PDs have supported the domestic bond market through their strong facilitation of primary market demand, provision of reliable two-way pricing, and contribution to trading depth across both conventional and Shariah-compliant securities as well as market development initiatives. These institutions have also strengthened the structural resilience of Malaysia's bond market, supported efficient price discovery, and enhanced the market's overall capacity to absorb issuance across cycles.

Part C Government Bond Secondary Market

1. Trading Volume & Turnover

Malaysia's secondary government bond market remained active and liquid in 2025, with average daily trading volume rising to RM6.2 billion from RM3.8 billion in 2024. Trading activity continued to be dominated by MGS and MGII, which collectively accounted for 87% of total turnover. The remainder comprised MTB, MITB, and corporate bonds.

Chart 12: Share of Volume Traded

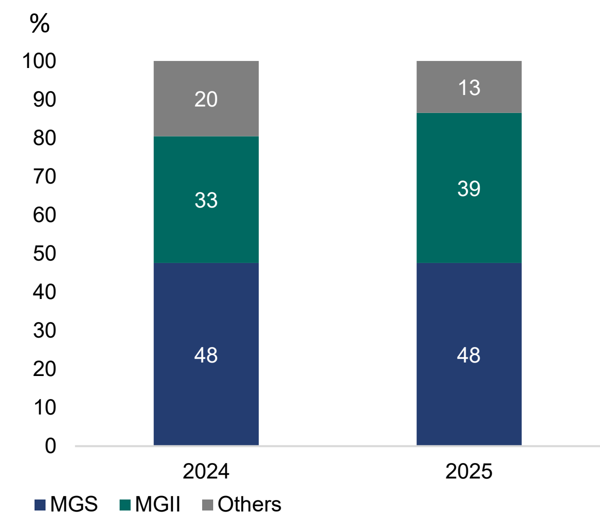
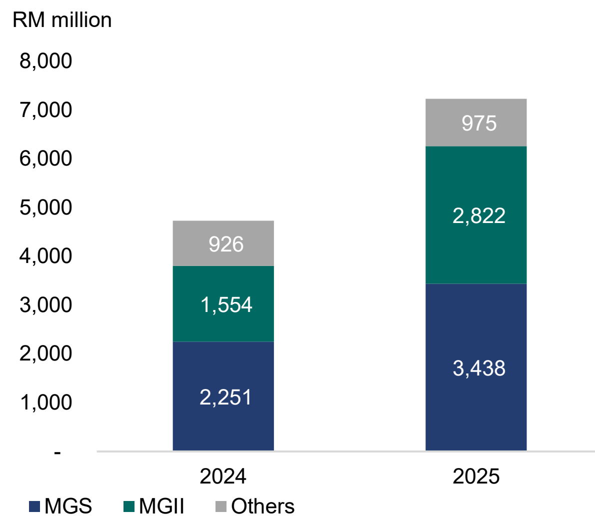


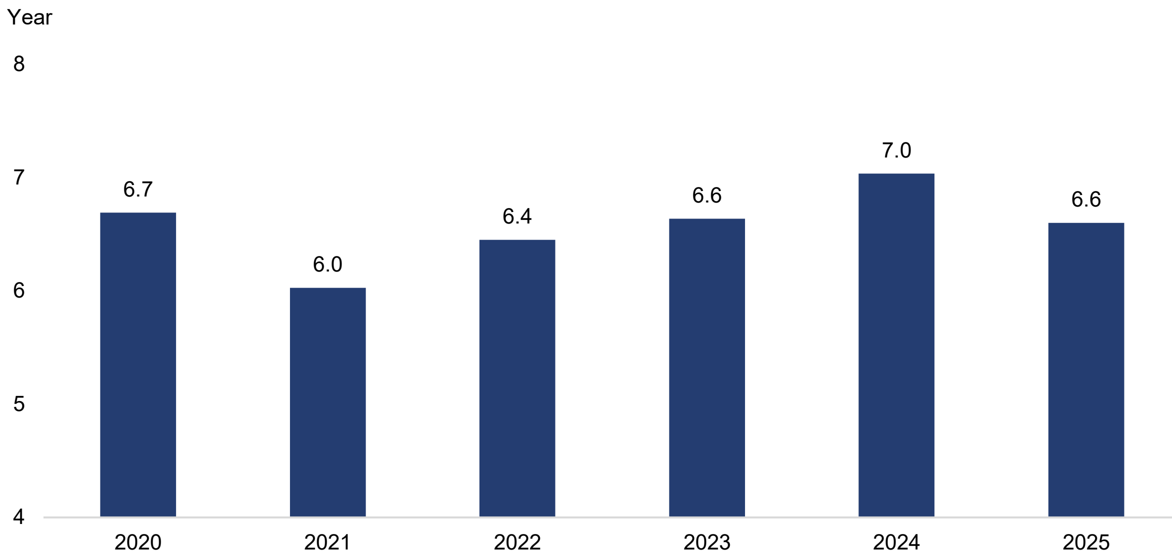
Chart 13: Average Trading Volume



Note: Figures may not add up due to rounding
Source: Bank Negara Malaysia

Market activity continued to shift further along the curve, with average traded duration reaching 6.6 years in 2025 — above the past five-year historical average. This trend was driven by a larger share of long-tenor issuance, anchoring trading activity more firmly in the intermediate and long segments of the curve. The resulting improvement in curve dynamics supported stronger two-way flows and enhanced price discovery, particularly in the 15- and 20-year tenors.

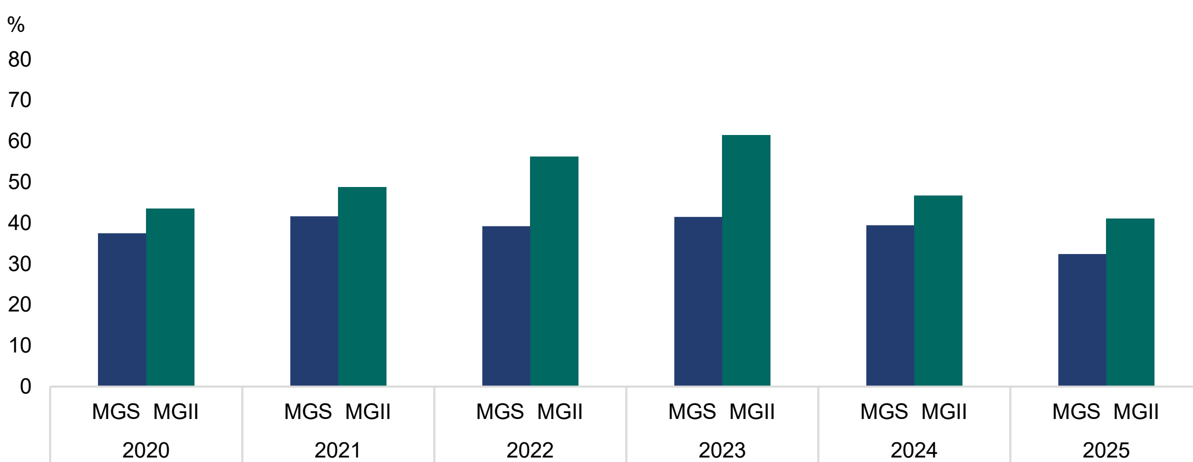
Chart 14: Average Traded Duration for MGS and MGII



Source: Bank Negara Malaysia

Trading activity in MGII gained notable momentum, driven by higher issuance volumes and growing acceptance of Islamic benchmarks by regional real-money investors. This strength extended into 2025, with average daily trading volume for MGII surging 81.6% year-on-year to RM2.8 billion, while MGS volumes increased by 52.7% to RM3.4 billion. The pronounced increase in MGII turnover signal substantial improvement in liquidity conditions within the Islamic segment. As liquidity deepened across both MGS and MGII, secondary market flows became more balanced, reflecting even distribution of flows between the conventional and Shariah-compliant markets.

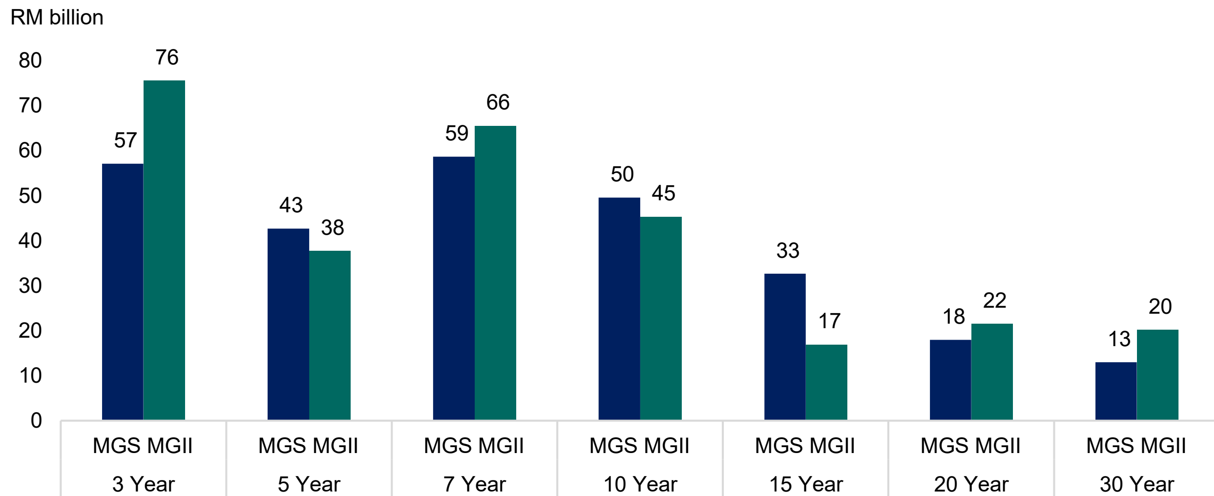
Chart 15: Share of Benchmark Papers in Total Trading Volume



Source: Bank Negara Malaysia

Historical trends over the past five years underscore the deepening liquidity and improving efficiency of the MGII market. Benchmark MGII securities consistently accounted for a larger share of total MGII trading volume, averaging 50.9% over the period and regularly exceeded the corresponding benchmark share within the MGS market. In 2025, MGII instruments in the 3-year, 7-year and 20-year-and-above maturity segment recorded higher benchmark trading volumes than their MGS equivalents, signalling enhanced tradability and growing investor participation across the Shariah-compliant yield curve.

Chart 16: Total Trading Volume of Benchmark Papers by Tenor in 2025



Source: Bank Negara Malaysia

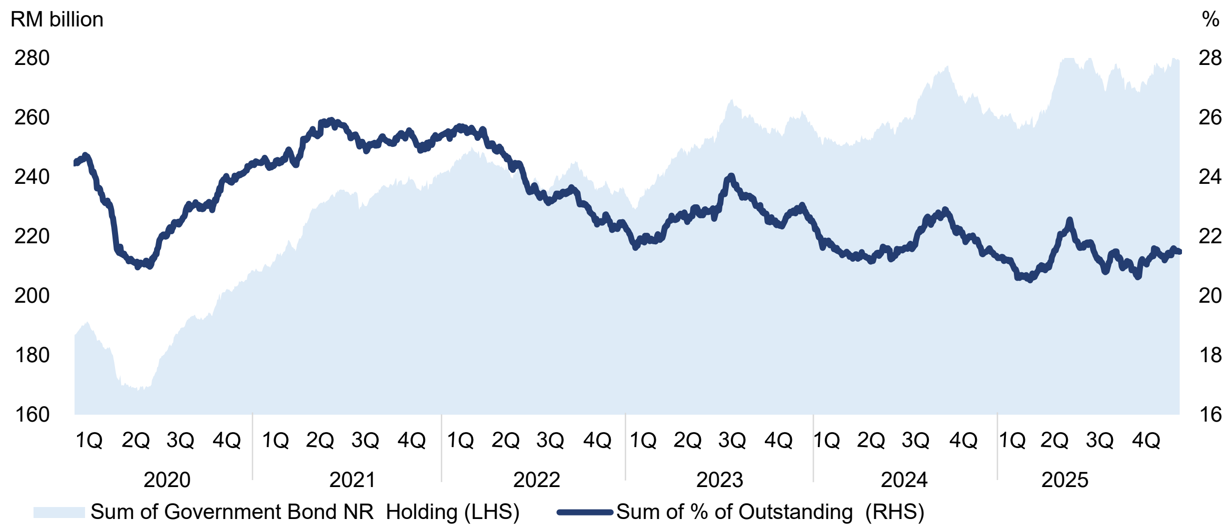
The increase in traded volume and effective duration was accompanied by more active portfolio rebalancing by resident and non-resident investors. Net buy-sell patterns in 2025 revealed a clearer distinction between strategic accumulation at the long-end of the curve and more tactical tenor rotation in response to shifting macroeconomics signals and yield-curve dynamics.

Domestic pension funds and insurance companies selectively increased allocations to longer-dated securities in line with liability-matching strategies, while non-resident investors reduced duration exposure during a volatile second quarter before rebuilding positions toward year-end. MGII instruments, particular, experienced heightened rotation flows as issuance increased and liquidity improved. This was most evident among Shariah-focused real-money accounts, reinforcing the Islamic market's increasingly integral role within Malaysia's broader fixed-income market.

2. Net Flows by Investor Type

The domestic fixed income market continued to draw robust participation from both resident and non-resident investors in 2025. Non-resident inflows remained resilient overall, supported by stable monetary policy conditions, favourable yields differentials relative to regional peers, and Malaysia's continued inclusion in major global bond indices.

Chart 17: Outstanding Non-Resident Holdings Since 2020 to 2025



Note: Include MGS, MGII, SPK, MTB and MITB
Source: Bank Negara Malaysia

Non-resident trading activity strengthened modestly in 2025 compared with the preceding year, reflecting an improvement in investor sentiment amid a series of US monetary easing and broader recovery in global risk appetite. Non-resident allocations were particularly concentrated in the 7- to 10-year segments of MGS and MGII, underpinned by yield curve stability and consistently strong bid-to-cover ratios at primary auctions.

Non-resident holdings continued to grow in absolute terms, reflecting sustained participation from non-resident investors over the years. While the share of non-resident holding moderated marginally, this was primarily due to higher overall issuance of government securities, which outpaced the increase in non-resident holdings. At the same time, the composition of the non-resident investor base shifted towards central banks and other official institutional investors, relative to global asset managers. Consequently, the proportion of index-tracking investors moderated, contributing to the lower percentage share despite continued growth in overall non-resident holdings. Notwithstanding this trend, the shifting investor profile has resulted in a more stable and long-term-oriented non-resident investor base, supporting market resilience and reducing the sensitivity of flows to short-term market volatility.

Among domestic investors, pension funds and insurance companies remained steady net buyers, gradually increasing exposure to longer-dated benchmarks in line with liability-driven investment mandates. In contrast, non-resident real money investors—including global asset managers and reserve managers—adopted a more tactical approach, trimming risk during selected episodes of market volatility.

This interplay between strategic accumulation by domestic real-money and two-way flows from non-resident investors helped anchor secondary market pricing, support market liquidity, and maintain orderly yield curve dynamics throughout the year.

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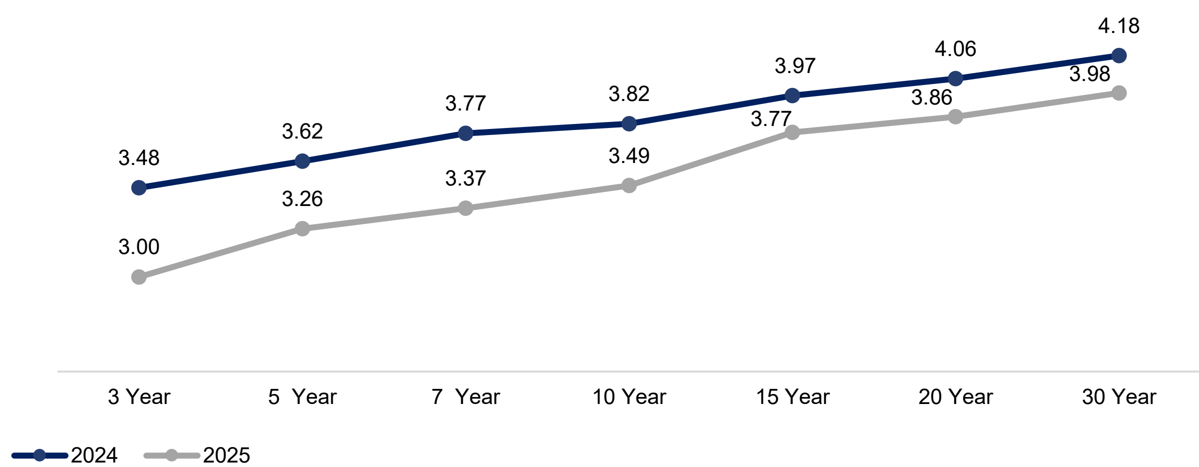
3. Yield Curve & Credit Spread Movements

In 2025, MGS yield curve experienced a bull steepening following BNM's decision to lower the OPR by 25 basis points in July, from 3.00% to 2.75%. The rate cut prompted a broad downward adjustment in yields, with more pronounced declines at the front end of the curve. This movement was further reinforced by sustained non-resident inflows into MGS, particularly in short-dated maturities, which compressed front-end yields and resulted in a steeper curve overall.

Chart 18: Malaysian Government Securities (MGS) Yield Curve Shift (%)

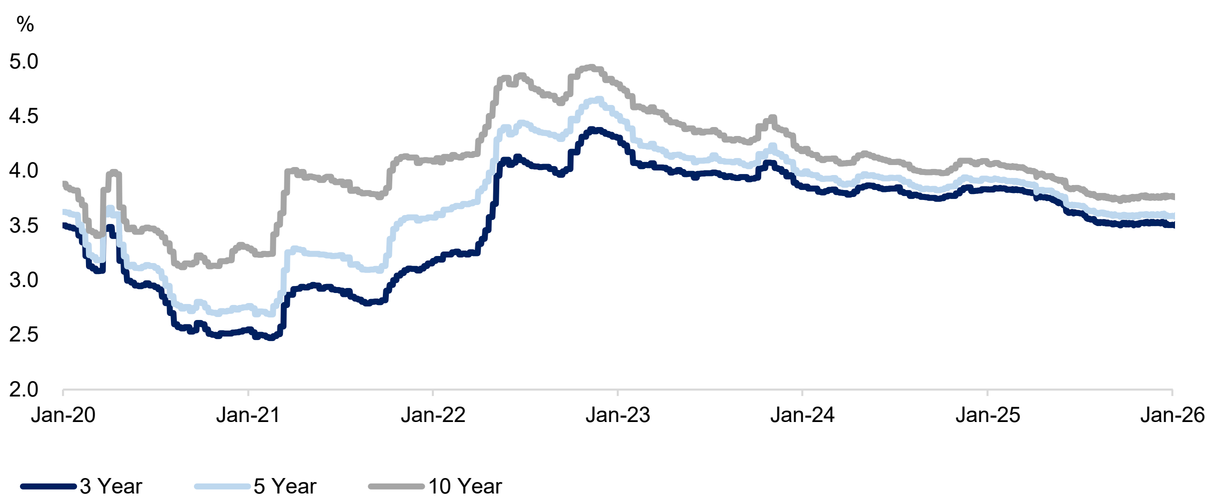


Source: Bank Negara Malaysia

In the corporate bond market, yields continued to move broadly in line with government bond yields, reaffirming the sovereign curve's strong role as a stable and reliable pricing benchmark. Although liquidity conditions remained selective—particularly for lower-rated credits—trading activity reflected deliberate investors positioning and constructive sensitivity to market developments rather than underlying market fragility.

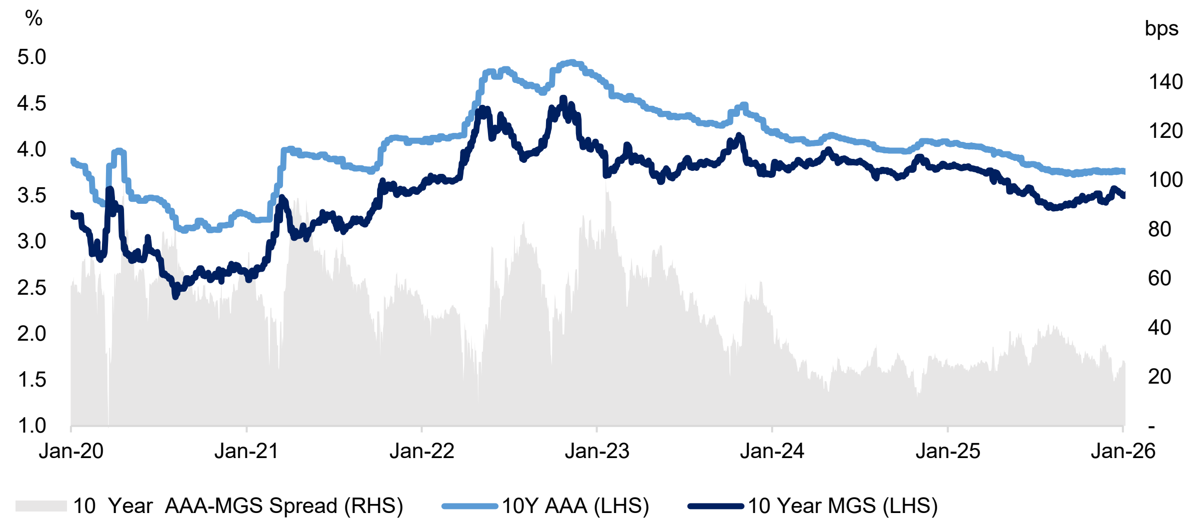
Credit spreads for AAA-rated corporate bonds stayed well-contained, remaining within historically stable ranges relative to MGS. In contrast, AA-rated bonds experienced intermittent spread widening, largely concentrated during episodes of elevated market volatility or issuer-specific credit developments such as rating actions. Overall, the average spread between AAA-rated corporate bonds and equivalent-tenor MGS stood at around 20-42 basis points in 2025, highlighting sustained investor confidence and continued preference for high-quality credits amid more nuanced risk differentiation.

Chart 19: AAA Corporate Yield Movement



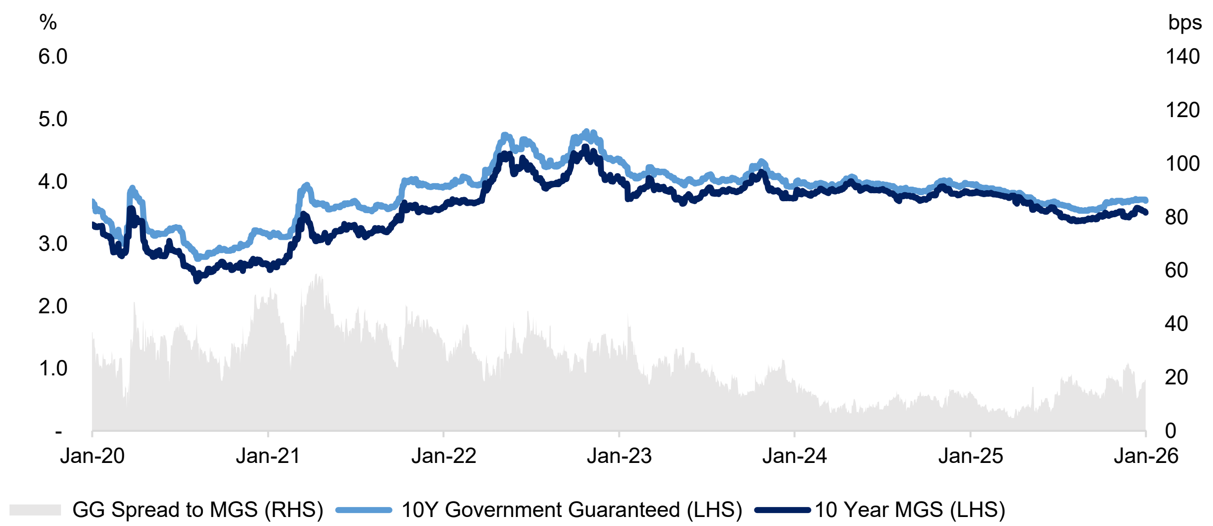
Source: Bloomberg

Chart 20: AAA Spread to MGS



Source: Bloomberg

Chart 21: GG Spread to MGS



Source: Bloomberg, BPAM

Part D Investor Holdings

1. Resident

Resident investors continued to account for a dominant share of Malaysia's domestic government securities market, holding over 78.5% of total outstanding amounts. This high level of resident ownership underscored the market's strong domestic anchoring and funding stability.

The investor composition was well diversified across key institutional segments. Pension funds and banks remained the largest holders, accounting for 41.6% and 42.9% of outstanding government securities, respectively. Insurance companies held 7.9%, while asset management companies accounted for 3.4%. Bank Negara Malaysia held 1.3%, reflecting its active role in liquidity management, while other holders—including non-financial corporates, individuals and other government agencies make up the remaining 2.9%.

Pension funds expanded their holdings in the post-pandemic period, supported by improved contribution inflows and a stable long-term interest rate environment that aligns well with liability-driven investment objectives.

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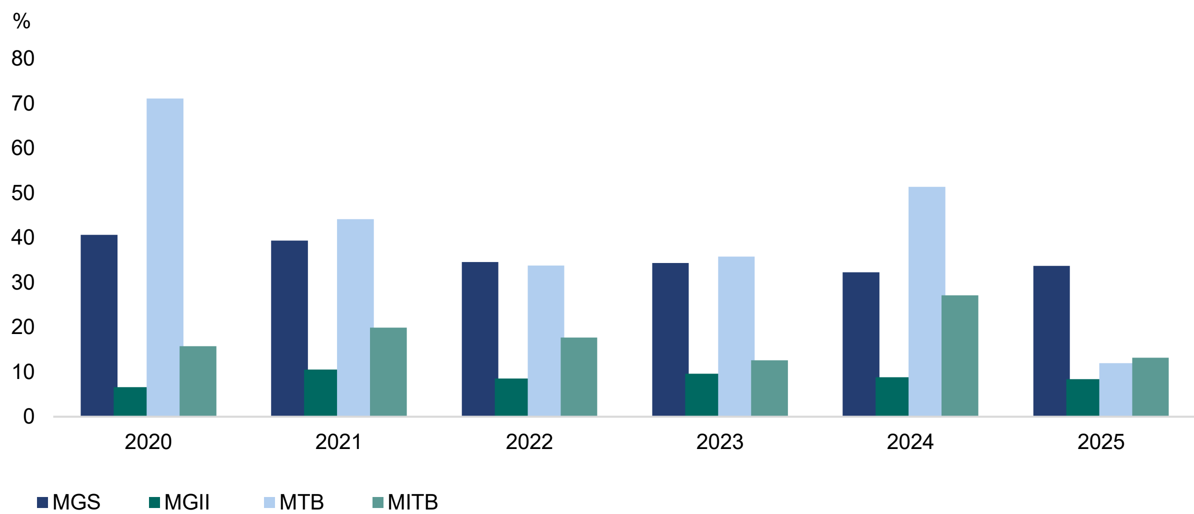
2. Non-Resident Holdings

Non-resident investors remained a critical component of Malaysia's government bond market in 2025, contributing meaningfully across both primary and secondary market activity. As at end-2025, non-resident holdings of domestic government securities stood at RM279.2 billion, equivalent to 21.5% of total outstanding. These holdings spanned the full curve, encompassing MGS, MGII, as well as shorter-dated instruments such as MTB and MITB, underscoring the breadth and depth of foreign participation.

Non-resident holdings across MGS and MGII increased from RM185.4 billion (24.4%) in early 2020 to RM278.0 billion (21.6%) by end-2025, reflecting sustained foreign confidence in Malaysia's macroeconomic fundamentals, policy credibility, and market infrastructure. While MGS continued to be the key instrument for non-resident investors, with foreign holdings accounting for 33.7% of total MGS outstanding (2020: 40.6%), MGII ownership has increased to 8.4% (2020: 6.6%), reflecting structural market initiatives, including the consolidation of MGII benchmark through reopening exercises.

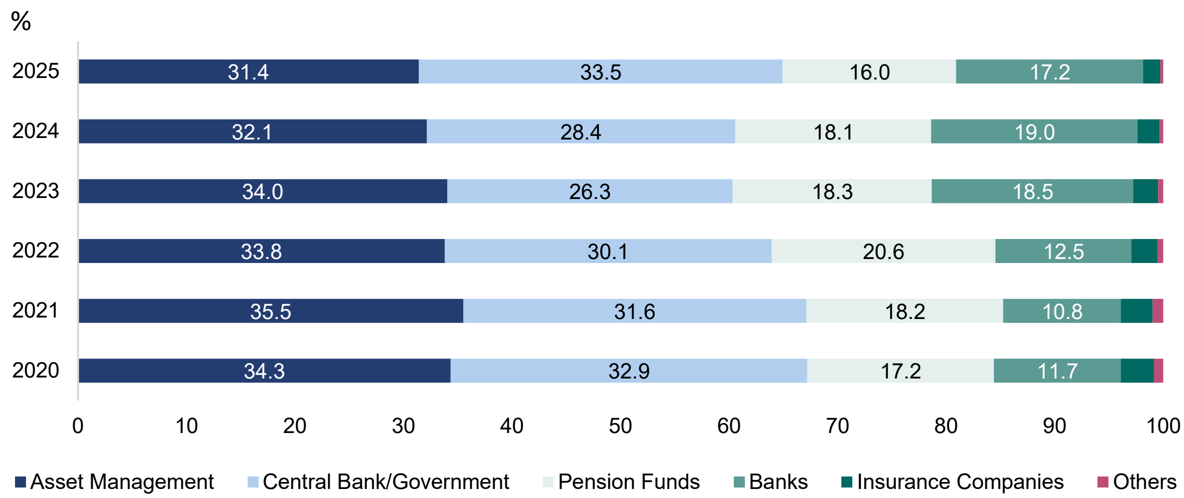
Chart 22: Non-Resident Holdings of Government Securities by Instrument



Source: Bank Negara Malaysia

By investor type, foreign central bank and government institutions emerged as the largest non-resident holder group in 2025, accounting for approximately 33.5% of total non-resident government bond holdings. Their exposure was concentrated primarily in MGS, reflecting preference for duration anchors, liquidity, and stable sovereign risk. Global asset managers comprised around 31.4% of non-resident holdings, with demand focused on liquid MGS and longer-dated MGII in line with global aggregate and emerging market benchmark strategies. Pension funds and insurance companies accounted for 17.6%, increasingly allocating into long-term MGII instruments consistent with liability matching. The remaining 17.5% comprised global banks, hedge funds, and macro accounts, which were more active traders across both ends of the curve, favouring short term government bonds for FX driven allocations.

Chart 23: Non-Resident Holdings of Government Securities by Investor Type



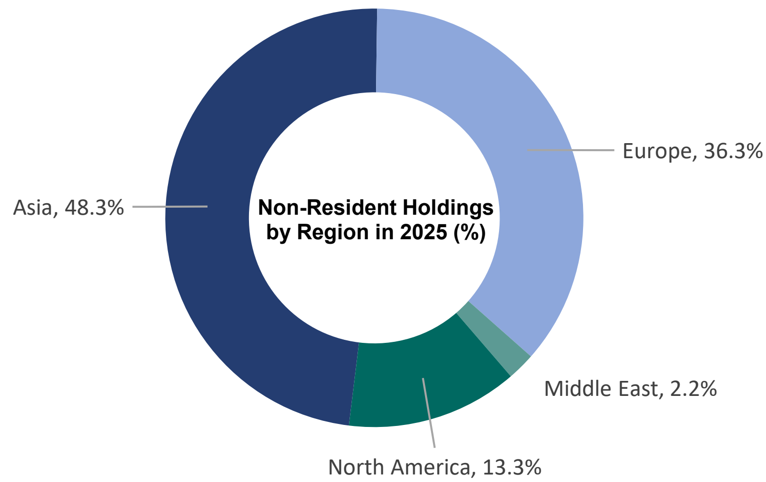
Note: Government securities refer to MGS, MGII, MTB and MITB
Source: Bank Negara Malaysia

From a regional perspective, Asia remained the largest source of non-resident investment, accounting for 48.3% of total foreign holdings, driven primarily by inflows from Singapore, China, and Japan. European and UK-based investors followed with a 36.3% share, consisting largely reserve managers and real-money institutions. North American funds accounted for 13.3%, typically through passive or blended emerging market mandates, while the remaining 2.2% originated from the Middle East and other Islamic finance-linked jurisdictions, where demand for MGII and MITB remained steady, supported by Shariah-compliant investment structures.

At country level, the United States emerged as the largest non-resident investor country in 2025, surpassing Singapore which held the position between 2022 through 2024*. US-based investors accounted for approximately 12.2% of total non-resident holdings, largely through global asset management firms. The change in investor composition reflects the expansion and diversification of the overall foreign investor base in 2025, highlighting deeper market liquidity and broader international participation.

Note: Country of origin is defined based on the investor entity's address of incorporation. However, the actual exposure may differ due to corporate structures and the actual management activities conducted through certain financial centres.

Chart 24: Non-Resident Holdings by Region in 2025



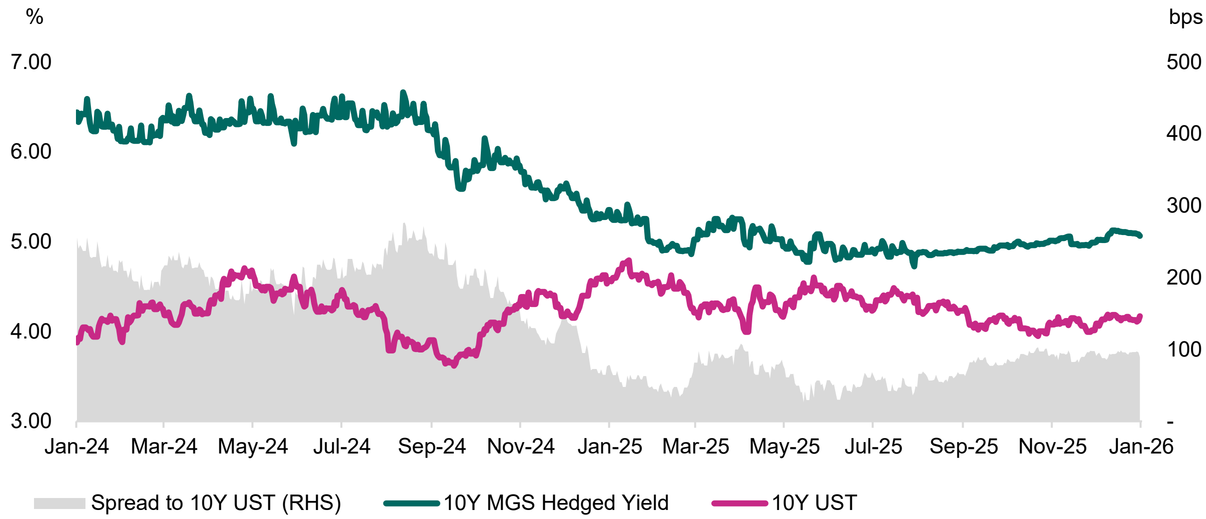
Note: Figures may not add up due to rounding.
Source: Bank Negara Malaysia

In addition to Malaysia's strong macroeconomic backdrop and fiscal reforms, non-resident participation across tenors and instruments was underpinned by attractive FX-hedged returns. In 2025, the 10-year MGS continued to provide positive yield pick-up over the 10-year U.S. Treasuries on a fully USD-hedged basis, attracting both structural allocations and tactical positioning.

Beyond yield considerations, Malaysia's continued inclusion in major global bond indices provided a steady baseline of demand from index-aligned portfolios. Key milestone included the inclusion of MGS in the Bloomberg Global Aggregate Index in 2006, the FTSE World Government Bond Index (WGBI) in 2007, and the inclusion of both MGS and MGII in the J.P. Morgan GBI-EM Index in 2016. These inclusions, combined with Malaysia's liberal onshore FX convertibility framework and reliable repatriation mechanisms, enhanced the market's appeal relative to regional peers.

Increasing non-resident participation supported by index inclusion and a resilient onshore FX ecosystem also contributed to deepening of the FX-hedged bond market. The continued development of onshore forward and swap markets enabled investors to hedge currency exposure efficiently and at competitive pricing, allowing MGS to consistently offer attractive hedged yield advantages over US Treasuries. Together with robust market access channels, these factors reinforced Malaysia's position as a preferred local currency debt market within ASEAN for both tactical and long-term cross-border capital allocation.

Chart 25: FX-Hedged Yield Comparison – 10Y MGS vs 10Y UST



Note: 10Y MGS hedged yield calculated based on annualised 1M USDMYR forward points
Source: Bloomberg, Bank Negara Malaysia

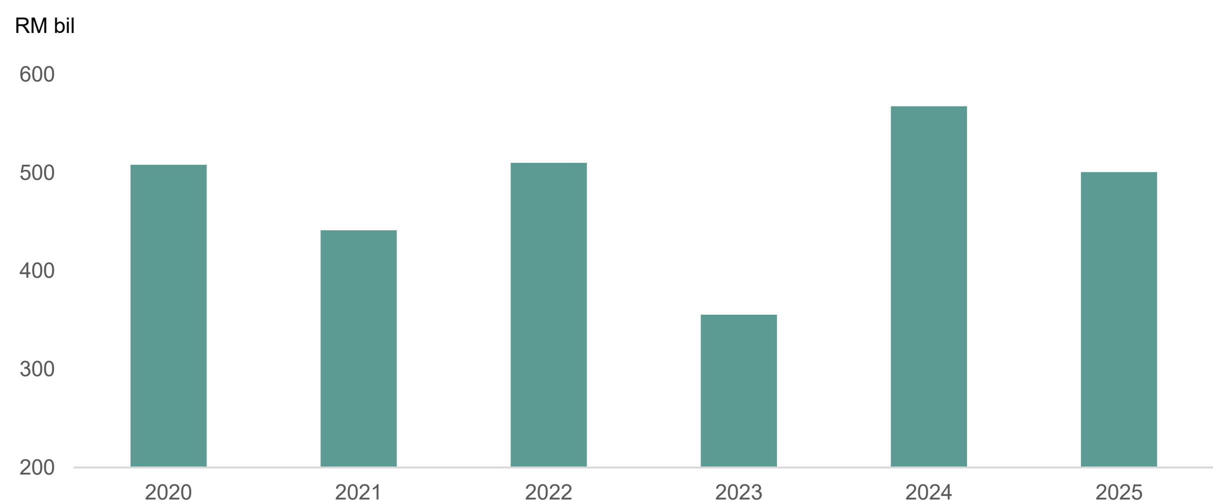
Part E Repurchase Agreement Market

1. Interbank Repo Market

The repo market plays an important role in facilitating the smooth flow of cash and securities within the financial system. As a secured funding instrument, repo transactions support liquidity management among market participants while contributing to liquidity and price discovery in the underlying bond market.

Interbank repo activity remained robust in 2025, with average daily transactions amounting to RM500.7 billion, broadly in line with the average level of RM481 billion recorded since 2020. Activity moderated slightly during the year, reflecting lower funding demand amid ample system liquidity following the Statutory Reserve Requirement (SRR) reduction and sustained capital inflows into the domestic financial market.

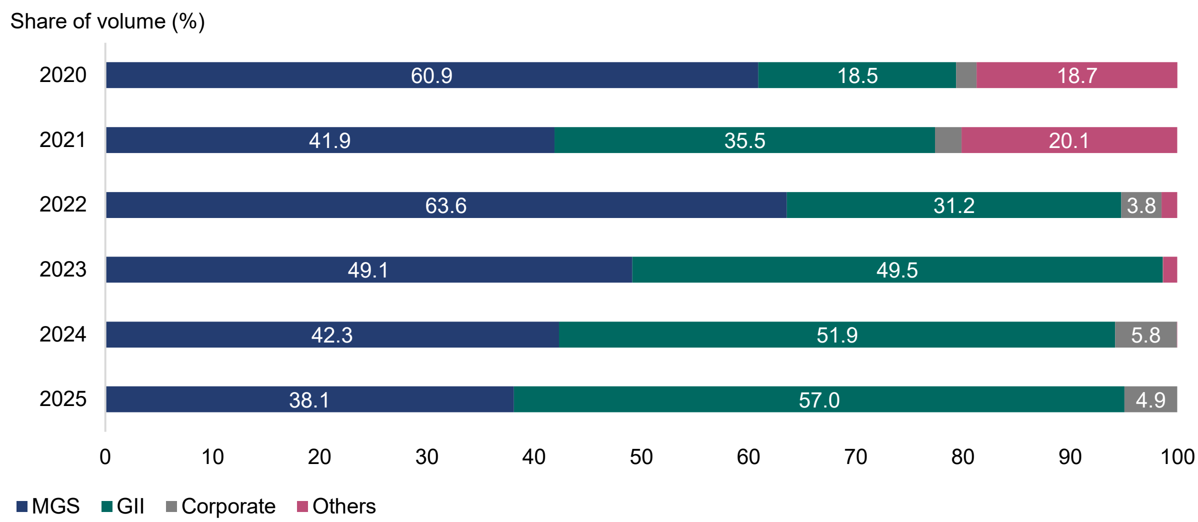
Chart 26: Interbank Repo Volume by Tenor



Source: Bank Negara Malaysia

The interbank repo market continued to be underpinned by high-quality government collateral, with MGS and MGII accounting for 95.1% of total interbank repo transactions in 2025. The predominance of government bond reflected their high liquidity, strong credit quality and widespread acceptance among market participants

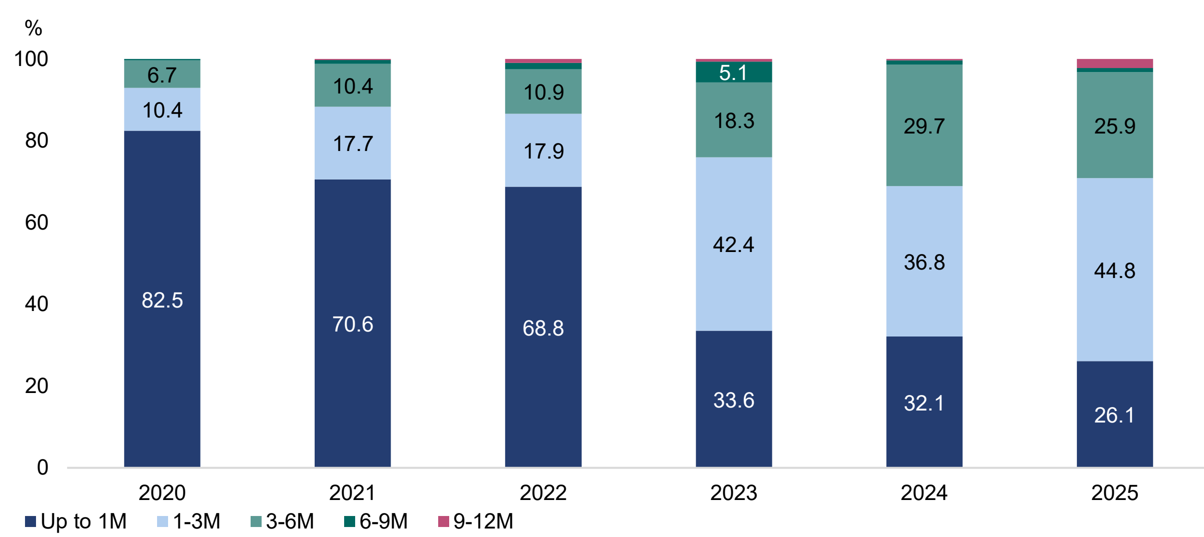
Chart 27: Share of Interbank Repo by Instrument



Note: Others refer to MTB, MITB and SPK
Source: Bank Negara Malaysia

In terms of maturity profile, activity became more evenly distributed across tenors compared with previous years, indicating a broader range of liquidity management and funding strategies employed by market participants. While shorter-dated transactions remained an important segment of the market, trading activity was less concentrated in tenors of less than one month, with greater participation observed across longer maturities. This development reflects improved market depth and a more balanced distribution of liquidity along the maturity spectrum.

Chart 28: Share of Interbank Repo by Tenor



Source: Bank Negara Malaysia

Overall, the interbank repo market remained resilient and continued to support effective liquidity intermediation within the financial system. The sustained level of activity, together with the predominance of high-quality sovereign collateral and a more balanced tenor distribution, reflects the growing maturity of the market. These developments have strengthened the role of the repo market in facilitating liquidity redistribution among financial institutions, enhancing funding flexibility and supporting the efficient functioning of the domestic financial markets.

Authors

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