

Abdul Rasheed Ghaffour: The significance of Malaysian government bond market – resilience against global backdrop

Closing remarks by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the International Monetary Fund's 20th Public Debt Management Forum, Kuala Lumpur, 28 May 2025.

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The significance of Malaysian government bond market – resilience against global backdrop

It has been a challenging first half of the year, as global markets weather multiple episodes of volatility. Risks of higher inflation and slower growth remain major concerns amid trade policy uncertainty. Despite slower global growth and policy easing in some economies, bond yields have not declined in tandem, as investors demand higher term premia to compensate for the heightened risk environment.

Being a small and open market economy, Malaysia is not shielded from this global development. But I am glad to say that the country has been managing this volatility from a position of strength. Domestically, Malaysia's bond market reached RM2.2 trillion in market size this year. Government bonds which make up nearly 60% of the market continues to grow at a stable pace, reaching about RM1.3 trillion of outstanding issuance as of May 2025. Malaysian government bond yields have been largely stable throughout the year, anchored by resilient domestic demand as well as higher foreign inflows. Domestic demand for government bonds remains robust, driven by both institutional investors and banking institutions.

This is reflected in the primary bond market, where government bond issuances consistently record robust demand. The secondary market is also seeing healthy two-way flows, with higher daily trading volume, amid effective intermediation by market participants and market-making by Principal Dealers. Positive foreign inflows reflect foreign investors' confidence in the local market which is seen as a stable investment destination in the region. Year-to-date, non-resident holding of our government bonds has increased to around 22% in May 2025 with a significant portion comprising stable and long-term foreign investors.

I would like to attribute this positive development to years of effort by the MOF, BNM and financial market participants, to broaden and deepen the domestic ringgit securities market. Over the years, BNM has undertaken proactive efforts to improve bond market liquidity. This includes to promote an interbank securities-driven repo market and to facilitate bond switching operations for the Government. In addition, the dynamic hedging programme, which debuted in 2016, serves to encourage foreign investor participation in the domestic bond market, by providing market access for institutional investors who wish to actively manage FX exposures of their ringgit assets. We have come a long way in this. It is worth recalling that one of the lessons of the Asian Financial Crisis was the lack of or an underdeveloped government bond market that

had exacerbated the crisis. The absence of the domestic risk-free investment avenue led to portfolio investors exiting the domestic currency when volatility and uncertainty were high. Today, I am glad to say that we are no longer in such a position.

Lesson to be learnt from recent global experience

While market development is a crucial element, ultimately, investor confidence and market stability rest upon healthy sovereign credit ratings. Recently, global bond markets have had to weather considerable turbulence as investors grappled with growing fiscal challenges and sovereign ratings downgrade in advanced economies. This situation underscores the importance of responsible governance and prudent fiscal management. It is paramount that we find a balance between providing support and demonstrating fiscal discipline in striving for sustainable economic growth. As such, policymakers must learn from these experiences and prioritise sustainable public finances and pursue structural reforms to safeguard trust and credibility.

For instance, it is important to maintain sound fiscal policy by optimising public spending and generating healthy revenue streams to keep fiscal deficits at a sustainable level. In this regard, the Malaysian Government is committed to fiscal consolidation efforts as reflected in various measures such as tax and subsidy reforms. The enactment of the Fiscal Responsibility Act is also crucial to strengthening governance and institutions in the long term.

In ASEAN, Malaysia alongside our regional peers are working closely to support prudent sovereign debt management by fostering regional cooperation, sustainable infrastructure financing, and resilient financial markets. For example, efforts are being made to facilitate regional economic and debt market integration under the ASEAN Economic Community (AEC) framework. Under the ASEAN Bond Market Initiative, ASEAN member states strive to promote the development of local currency bond markets, channelling regional savings into long-term investments in the region. Meanwhile, the ASEAN+3 Macroeconomic Research Office (AMRO) also plays a crucial role in monitoring ASEAN members' debt risks and providing policy recommendations. As the ASEAN Chairman this year, Malaysia looks forward to further advancing ASEAN's aspirations to deepen regional financial integration and advancing a more connected, sustainable, and inclusive ASEAN financial ecosystem.

Opportunities and challenges

Ladies and gentlemen,

The road ahead is marked with challenges, particularly for a small open economy like Malaysia. Exogenous factors such as rising global interest rates may influence the Government's borrowing costs. This may make debt refinancing relatively costly and could lead to higher debt servicing costs that could impact fiscal sustainability.

It is therefore crucial to maintain a liquid and resilient sovereign bond market, not only to safeguard investor confidence and facilitate efficient public financing, but to also ensure financial stability, which is a core objective shared by both debt managers and central banks alike.

On this note, I would like to highlight the rising role played by alternative instruments such as sukuk in developing a market with both diverse instruments, and a diverse investor base. There is a huge growth opportunity to tap the large and previously underserved base of investors who abide by Islamic finance principles. Malaysia boasts an active sukuk market with 50% of new government bonds being issued in the Islamic structure. As of May 2025, the outstanding government sukuk papers stood at around RM600 billion or 48% of total government bonds. As such, we are happy to work together with interested parties to share our expertise and knowledge and promote further development in this growing sector.

In closing, let me take the opportunity to thank our esteemed moderators, panellists and participants for sharing their insights and expertise over these past two days. I trust that they have led to productive discussions and contributed towards a more efficient and sustainable sovereign debt management practices. I'm sure all of us have useful insights and key takeaways to bring back to our respective countries and organisations.

Congratulations to the organising committee comprising the IMF, the Ministry of Finance, and BNM for organising this successful event. To Miguel and the team at the IMF, on behalf of the organisers, allow me to express our deepest gratitude. We look forward to working again with the IMF to organise forums and exchanges like this one.

Thank you.