SECTION 4

Debt Management

SECTION 4

Debt Management

Overview

Prior to the COVID-19 pandemic, global public debt stood at around USD75 trillion in 2019, equivalent to 84.1% of world GDP. This ratio surged to 99.8% in 2020, as countries rolled out massive fiscal support measures, before easing to 96% in 2021, supported by robust recovery growth, high inflation and continued fiscal consolidation. In 2024, the debt-to-GDP ratio remained broadly stable around 93% of global GDP, although the nominal level of public debt reached USD102 trillion.[1] While the ratio has stabilised, governments worldwide continue to face mounting fiscal pressures due to rapid growth of debt service charges (DSC) from pandemic-related borrowings. In addition, rising interest rates, intensified geopolitical tensions and substantial climate-related investment requirements, have further escalated the debt level and heightened the risk of debt distress.

Under the Ekonomi MADANI framework, Malaysia emphasises balancing economic growth with long-term fiscal sustainability through prudent debt management, effective borrowing strategy and uphold fiscal accountability. Anchored by the Public Finance and Fiscal Responsibility Act 2023 [Act 850], the Government is committed to reducing the fiscal deficit to 3% of GDP in the medium term, keeping debt level within statutory thresholds and continue leveraging borrowing for development expenditure that supports productive investments. In this regard, the fiscal stance and borrowing strategy will be aligned with the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan) to achieve national fiscal and economic priorities.

Financing

The Federal Government's borrowings remain the sole fiscal instrument to finance deficits and refinance maturing debt obligations. In 2025, gross borrowings are projected to decline further to RM184 billion or 9.1% of GDP (2024: RM197.5 billion; 10.2% of GDP), sourced entirely from the domestic capital market, in line with fiscal consolidation efforts. Of this, RM106.8 billion is allocated for principal repayments, while RM76.7 billion will be utilised for deficit financing. Principal repayments comprise maturing Malaysian Government Securities (MGS) amounting to RM46.5 billion, Malaysian Government Investment Issues (MGII) of RM37 billion, Malaysian Treasury Bills (MTB) totalling RM5 billion, Malaysian Islamic Treasury Bills (MITB) of RM13.5 billion and offshore redemption worth RM4.8 billion, including USD1 billion global sukuk.

Supported by Malaysia's deep and liquid domestic debt capital market, the Government is able to efficiently meet funding and cash flow requirements through the issuance of ringgit-denominated debt instruments. In 2025, total issuances of MGS and MGII are projected at RM82.5 billion and RM88 billion, accounting

[1] Refer to A World of Debt 2025 by United Nations Conference on Trade and Development (UNCTAD).

for 44.9% and 47.8% of total annual gross borrowings, respectively. Meanwhile, issuances of MTB and MITB are estimated to decline to RM4.5 billion and RM9 billion or 2.4% and 4.9%, respectively.

From January to August 2025, RM126 billion or 68.5% of the annual gross borrowings were raised through 25 issuances of MGS and MGII amounting to RM119.5 billion, as well as six issuances of both MTB and MITB totalling RM6.5 billion. The proceeds were utilised for principal redemptions of RM50.8 billion, while the remaining RM75.2 billion was allocated for deficit financing and prefunding of upcoming maturities.

TABLE 4.1. *Federal Government Financing, 2024 – 2025*

	RM MILLION		SHARE (%)	
	2024	2025[2]	2024	2025[2]
Gross borrowings	**197,470**	**184,000**	***100.0***	***100.0***
Domestic	**197,470**	**184,000**	***100.0***	***100.0***
MGS	87,500	82,500	*44.3*	*44.9*
MGII	87,500	88,000	*44.3*	*47.8*
MTB	4,838	4,500	*2.5*	*2.4*
MITB	17,632	9,000	*8.9*	*4.9*
Offshore	**-**	**-**	**-**	**-**
Market loans	-	-	-	-
Project loans	-	-	-	-
Repayments	**120,624**	**106,777**	***100.0***	***100.0***
Domestic	120,397	101,977	*99.8*	*95.5*
Offshore	227	4,800	*0.2*	*4.5*
Net borrowings	**76,846**	**77,223**	**-**	**-**
Domestic	77,073	82,023	-	-
Offshore	-227	-4,800	-	-
Change in assets[1]	**2,320**	**-509**	**-**	**-**
Total deficit financing	**79,166**	**76,714**	**-**	**-**

[1] (+) indicates drawdown of assets; (-) indicates accumulation of assets
[2] Estimate

Source: Ministry of Finance, Malaysia

The Government leverages the Fully Automated System for Issuing/Tendering (FAST) for the issuance, tendering and allotment of government securities to ensure fairness and transparency. In 2025, 82.4% of borrowings are projected to be raised through public auctions via competitive bidding, while the balance will be secured through private placements, primarily comprising longer-tenure instruments in line with strategic investor preferences. In addition, RM90 billion is expected to be raised through nine re-openings of existing papers, while RM80.5 billion will be issued through seven new issuances. This approach is consistent with efforts to consolidate outstanding papers, thereby enhancing the tradability of government securities and establishing new benchmarks in a lower-interest-rate environment.

A well-distributed maturity profile not only mitigates refinancing risk but also accommodates diverse investors' preferences. In this regard, the Government issues a wide range of instruments comprising short-, medium- and long-term maturities.[2] In 2025, the issuance of short- and medium-term instruments is projected to decline, accounting for 7.3% and 32.6% of total gross borrowings, respectively (2024: 11.4%; 36.9%). Meanwhile, the issuance of long-term instruments is anticipated to increase to 60.1% in 2025 (2024: 51.7%), attributed, among others, to the narrowing yield spreads across tenures. Accordingly, the weighted average time to maturity of issuances in 2025 is estimated at 12.6 years (2024: 11.6 years), reflecting the

[2] Short-term refers to less than one year, medium-term refers to 3- to 7-year and long-term refers to 10-year and above.

Government's commitment to balancing the cost of borrowing and smoothing the debt maturity profile, while minimising rollover risk.

The US Federal Reserve (Fed) lowered the Federal Funds Rate (FFR) by 25 basis points (bps) in September 2025 to a target range of 4.00% to 4.25%, marking the first reduction of the year. Consequently, shifting Fed expectations, coupled with heightened risk aversion stemming from trade negotiations and geopolitical tensions, prompted investors to recalibrate their portfolios. On the domestic front, the Monetary Policy Committee maintained the Overnight Policy Rate (OPR) at 2.75% following a 25 bps rate cut in July 2025. The decision was undertaken as a pre-emptive measure to safeguard Malaysia's growth trajectory amid external uncertainties and moderate inflation prospects. These developments collectively contributed to non-resident inflows of RM15.9 billion into Federal Government securities during the first eight months of 2025, contributing to lower domestic bond yields. Sustained net inflows and lower yields signify stronger investor confidence in Malaysia's fiscal position and macroeconomic stability.

During the first eight months of 2025, benchmark yields for MGS with 3- to 10-year maturities declined, ranging between 43 to 54 bps, while yields on MGII of similar tenures decreased between 31 to 49 bps. The downward trend across both instruments underscores strong market demand for benchmark papers, supported by a low-inflation environment and expectations of further monetary policy easing. Consequently, the weighted average cost of borrowing decreased to 3.79% during the period (January – August 2024: 3.90%).

The Government received total bids amounting to RM267.6 billion for issuances of RM98.5 billion in the medium- and long-term papers in the first eight months of 2025. This translated into a robust average bid-to-cover (BTC) ratio of 2.72 times (January – August 2024: 2.36 times), underscoring strong investor appetite for government securities. Demand was particularly pronounced for long-term issuances, recording a BTC ratio of 2.73 times compared to 2.70 times for medium-term instruments (January – August 2024: 2.26 times; 2.45 times), supported by broad investor participation.

Malaysia maintains its strong position in the global sukuk market, accounting for 32.1% of total global sukuk outstanding as of August 2025. Substantial issuances of Shariah-compliant securities underscore the Government's commitment to advancing the development of Malaysia's Islamic capital market. In this regard, the Shariah-compliant issuances, comprising MGII and MITB, are anticipated to reach 52.7% of total gross borrowings in 2025. The higher issuances of these instruments were well-received by the market, reinforced by a broader investor base in Shariah-compliant assets. Strong demand was evidenced by a higher BTC ratio of MGII at 2.89 times compared to 2.52 times for MGS during the first eight months of 2025 (January – August 2024: 2.64 times; 2.09 times).

FEATURE ARTICLE

Securing Our Future: Government Borrowing Strategy in Driving National Development

Introduction

Government borrowing is one of the fiscal tools in stimulating economic development, allowing nations to fund public infrastructures and invest in strategic areas, which in turn improve well-being of nations and propel long-term national progress. This strategic tool also equips the government with necessary resources to bridge the funding gap for immediate priorities, particularly during unforeseen crises, towards longer-term development goals. Such practices are widely adopted by both advanced economies as well as emerging market and developing economies, as part of efforts to accelerate growth and improve living standards.

In Malaysia, government borrowing is crucial for supporting national development, particularly initiatives under the five-year plans. With the exception of the 1993 – 1997 period, Malaysia has operated with a fiscal deficit, making borrowing an essential mechanism for funding strategic development projects, while ensuring macroeconomic stability. Budgetary management is guided by a clear governance framework and strict fiscal rules, which set the debt limit and restrict borrowings be used only for development purposes. This approach promotes prudent debt management, ensuring current actions do not compromise the well-being of future generations.

Salient Features of Financing Strategy in Malaysia

A. Regulations

Government debt and financing are governed by four main laws, namely the Loan (Local) Act 1959 [Act 637], Government Funding Act 1983 [Act 275], Treasury Bills (Local) Act 1946 [Act 188] and External Loans Act 1963 [Act 403]. These Acts bind the Government to borrow solely for financing development expenditure and refinancing existing debt. In addition, through the gazette under these respective Acts, clear safeguards are established, which define the debt limit to ensure debt sustainability, as depicted in Figure 1. Meanwhile, related legislations and administrative circulars, including the Government Procurement Bill 2025, reinforce spending discipline and controls, while facilitating timely implementation of programmes and projects in advancing national development.

FIGURE 1. *Federal Government Debt Legislation*

Act	Instrument	Statutory Limit
Loan (Local) Act 1959 [Act 637]	MGS	Total MGS, MGII and MITB not exceeding 65% of GDP
Government Funding Act 1983 [Act 275]	MGII MITB	
External Loans Act 1963 [Act 403]	Market Loans Project Loans	Offshore borrowings not exceeding RM35 billion
Treasury Bills (Local) Act 1946 [Act 188]	MTB	MTB not exceeding RM10 billion

Public Finance and Fiscal Responsibility Act 2023 [Act 850]

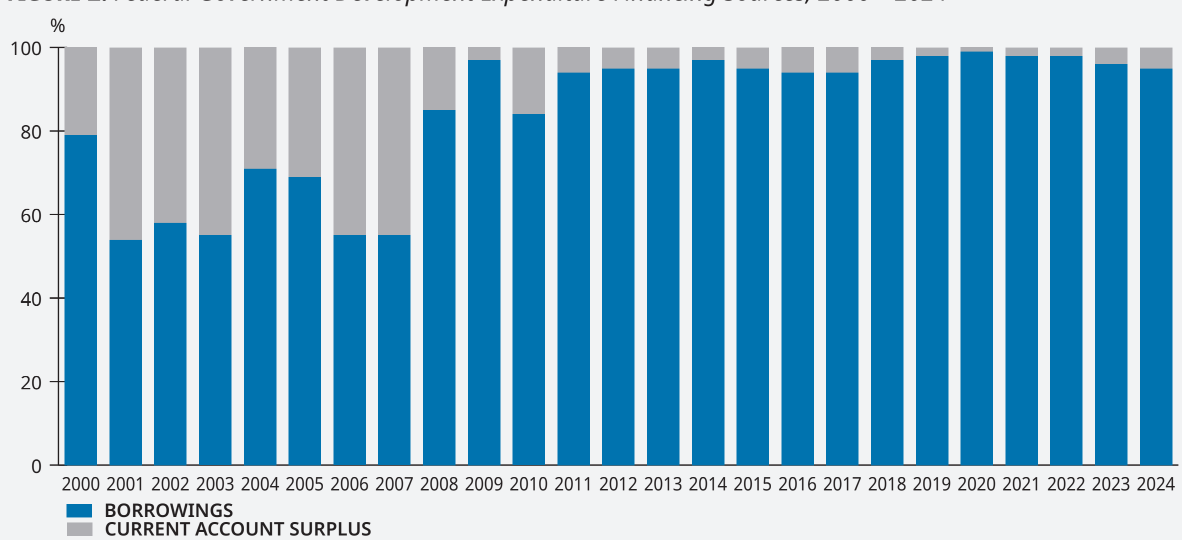
Overall debt should not exceed 60% of GDP in the medium term

Notes: MGS: Malaysian Government Securities; MGII: Malaysian Government Investment Issues; MITB: Malaysian Islamic Treasury Bills; MTB: Malaysian Treasury Bills; Market Loans are loan raised from global markets; Project Loans are loan raised from bilateral and multilateral institutions for specific projects or purposes

Source: Ministry of Finance, Malaysia

The 1997 – 1998 Asian Financial Crisis warrant the Government to adopt expansionary fiscal policy to safeguard economic sustainability. Thus, development expenditure is financed through a combination of current account surplus[1] and borrowings. The current account surplus narrowed further following the 2008 – 2009 Global Financial Crisis (GFC) and subsequently worsened during the COVID-19 pandemic, as shown in Figure 2. This led to higher borrowings to meet increased Government funding in managing crises and stimulating the economy. However, the Government remains vigilant to the need for a more prudent debt and borrowing policy.

FIGURE 2. *Federal Government Development Expenditure Financing Sources, 2000 – 2024*

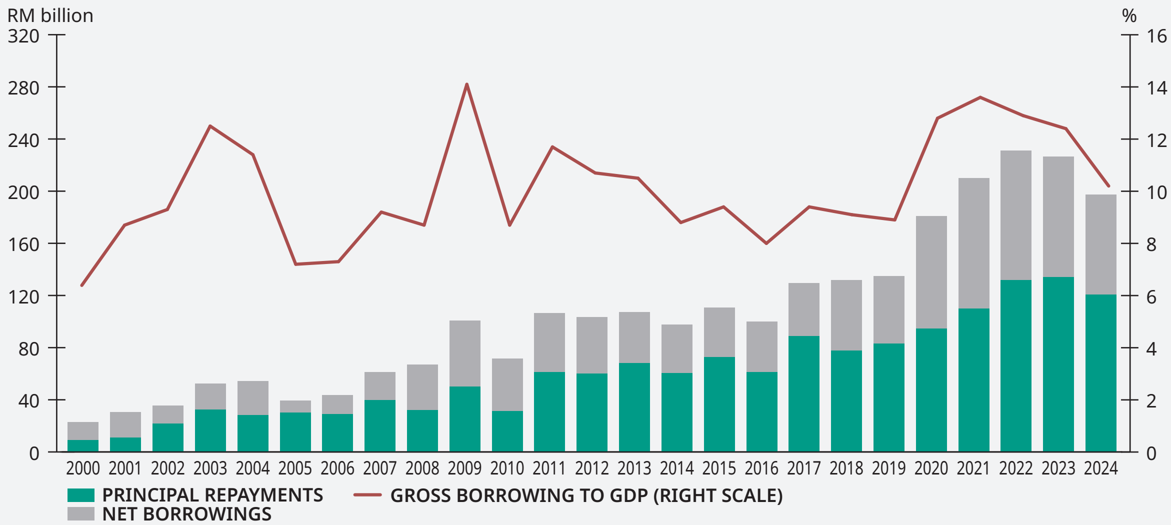


Source: Ministry of Finance, Malaysia

[1] Current account surplus is excess revenue after deducting operational spending.

The COVID-19 pandemic necessitated the Government to respond swiftly by establishing the COVID-19 Fund under the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 [Act 830]. The Act was amended in 2021[2], by increasing the debt statutory limit from 60% to 65% of GDP. Under the Act, the Government was permitted to borrow an additional RM110 billion (2020 – 2022) for the purpose of implementing stimulus packages. This has resulted gross borrowings to peak at 14% of GDP in 2021, as illustrated in Figure 3. The chart shows more than half of the borrowings were channelled for principal repayments, with the remainder representing net borrowings to finance deficits.

FIGURE 3. *Federal Government Borrowings, 2000 – 2024*



Notes: Net borrowing = Gross borrowings – principal repayments
Source: Ministry of Finance, Malaysia

As part of the institutional reforms undertaken post-pandemic, the Government strengthened fiscal discipline through the introduction of the Public Finance and Fiscal Responsibility Act 2023 [Act 850], aimed at gradually reducing the deficit level to 3% and below and debt level not exceed 60% of GDP in the medium term. Act 850 further reinforces prudent limits on public debt and mandating greater financial transparency. This legislation also provides a credible and predictable fiscal framework that enhances market confidence and minimises risk exposure. Within a year after the enactment of the Act, coupled with gradual fiscal consolidation efforts, gross borrowings eased to around 10% of GDP as at end-2024. In addition, the Government continues to manage its debt in a prudent manner, maintaining the debt-to-GDP ratio within the statutory limit and ensuring interest payments remain at a sustainable level.

[2] The Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) (Amendment) Act 2021 [Act A1635].

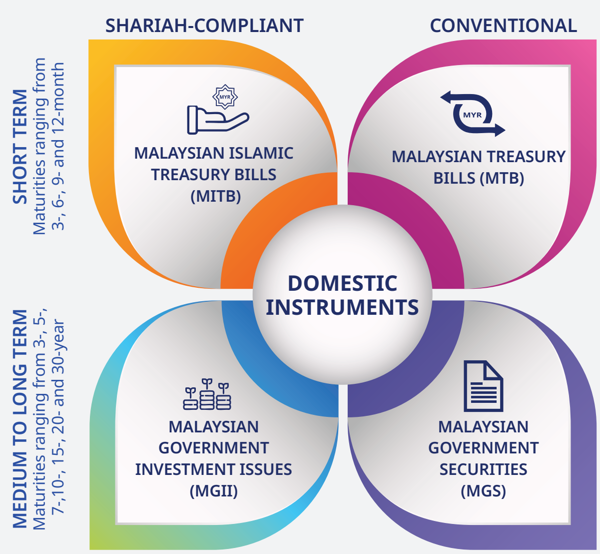
B. Financing Instruments and Composition

An effective debt policy requires a prudent borrowing, appropriate source of fund and reasonable degree of risk towards ensuring debt sustainability and affordability. Government financing in Malaysia is sourced from two main channels, namely the domestic and offshore markets. This strategic combination ensures a manageable and sustainable debt portfolio in the long-run.

Domestic and Offshore Instrument

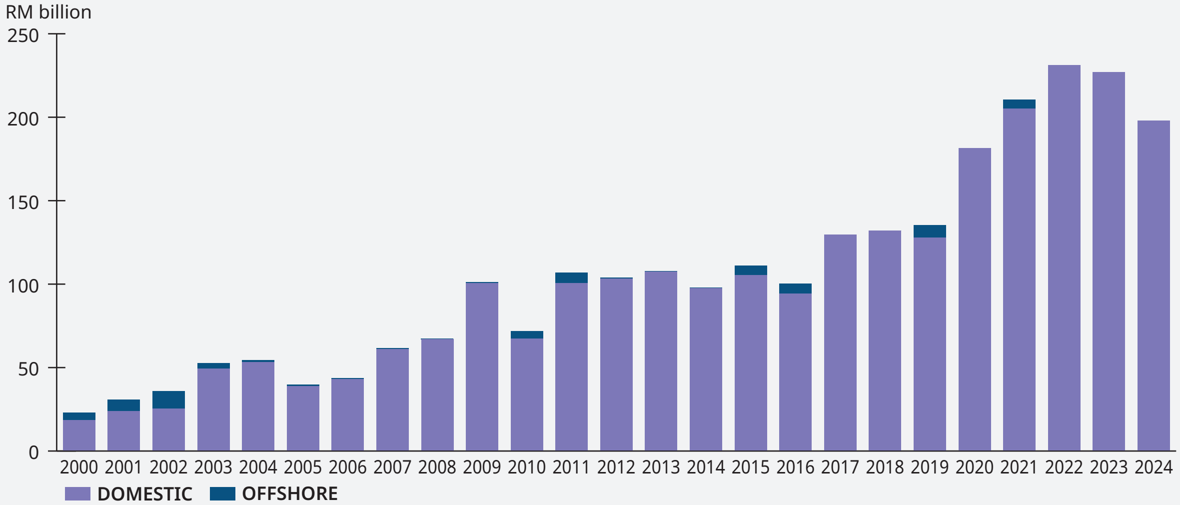
Malaysia's deep and liquid domestic market enables Government to raise its borrowing through conventional and Islamic instruments. Conventional domestic borrowing instruments are Malaysian Government Securities (MGS) for long-term papers and Malaysian Treasury Bills (MTB) for short-term securities, while the Shariah-compliant equivalents are Malaysian Government Investment Issues (MGII) and Malaysian Islamic Treasury Bills (MITB), as depicted Figure 4. Malaysia prioritises ringgit-denominated domestic issuance given the robust domestic financial market, of which institutional investors are capable of absorbing the Government's entire borrowing needs. Figure 5 reflects the composition of issuance, highlighting the prominence of domestic instruments.
This approach has proven effective, particularly during economic crises, enabling the Government to meet its funding requirements domestically at minimal cost while mitigating foreign exchange risk, among others.

FIGURE 4. *Key Features of Federal Government Domestic Instruments*



Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

FIGURE 5. *Composition of Federal Government Domestic and Offshore Issuance, 2000 – 2024*

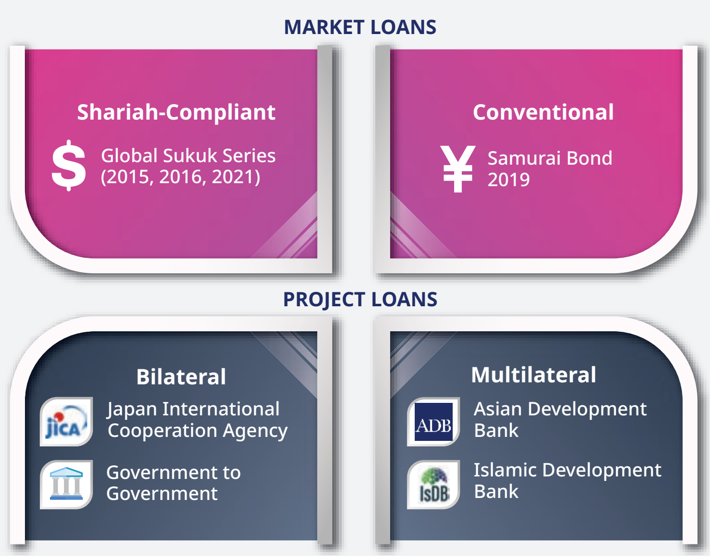


Notes: Domestic issuance consists of MGS, MGII and Treasury Bills (MTB and MITB) while offshore issuance consists of market loans

Source: Ministry of Finance, Malaysia

Offshore borrowings as demonstrated in Figure 6, constitute a smaller proportion of the debt portfolio which comprise market and project loans. Market instruments constitute 88%, mainly issuance of global sukuk and the yen-denominated Samurai Bond. In addition, long-standing multilateral and bilateral project loans such as from the Asian Development Bank (ADB) and the Japan International Cooperation Agency (JICA), form part of offshore borrowings, with the last drawdown made in 2019. Project loans have ceased to be a primary instrument in the Government's financing strategy, due to the availability of deep and ample liquidity in the domestic market. In contrast, offshore market issuances remain strategically important, not only to signal Malaysia's presence in global financial markets, but also to strengthen investor confidence and establish benchmark yield curves for corporate fundraising abroad. Furthermore, the favourable sovereign credit ratings trajectory has supported Malaysia's funding strategy.

FIGURE 6. *Federal Government Offshore Financing Instruments*

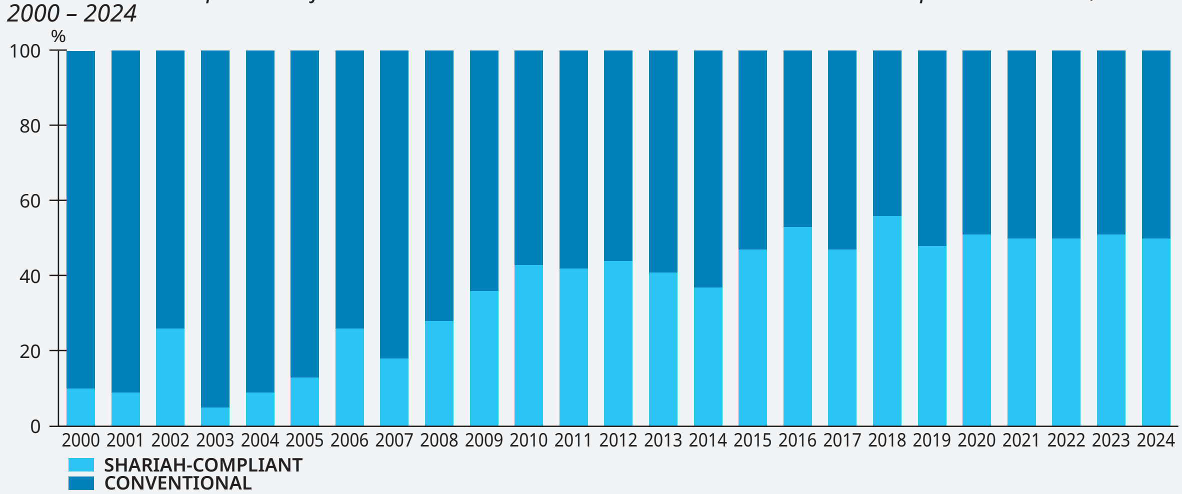


Source: Ministry of Finance, Malaysia

Conventional and Shariah-Compliant Instrument

Government borrowing strategy also incorporates the development of national strategic initiatives, particularly in advancing Islamic finance. In meeting the demand from a diverse investor base, the Government issues both conventional and Shariah-compliant instruments. The adoption of dual market approach has facilitated the share growth of Shariah-compliant Government issuances from approximately 10% in 2000 to 50% in 2024, thus provide a more diversified portfolio in the market. Furthermore, the continuous issuance of Shariah-compliant instruments and deliberate effort to strengthen domestic financial markets has reaffirmed Malaysia's position as a global leader in Islamic finance as shown in Figure 7.

FIGURE 7. *The Composition of the Federal Government Conventional and Shariah-Compliant Issuances, 2000 – 2024*



Notes: Government Shariah-compliant issuances comprise MGII and series of global sukuk, while conventional issuances consist of MGS and yen-denominated market loans

Source: Ministry of Finance, Malaysia

Pursuant to the Government Funding Act 1983, Malaysia issued the first Islamic instrument in the form of Government Investment Certificate, which was subsequently replaced by MGII beginning 2001. Between 2001 and 2019, the MGII were traded at an average spread of 15 – 50 basis points (bps) above MGS of comparable maturities. During 2024 – 2025, the spread narrowed to average 2 bps for 10-year maturity, underscore the increasing competitiveness of MGII in the market.

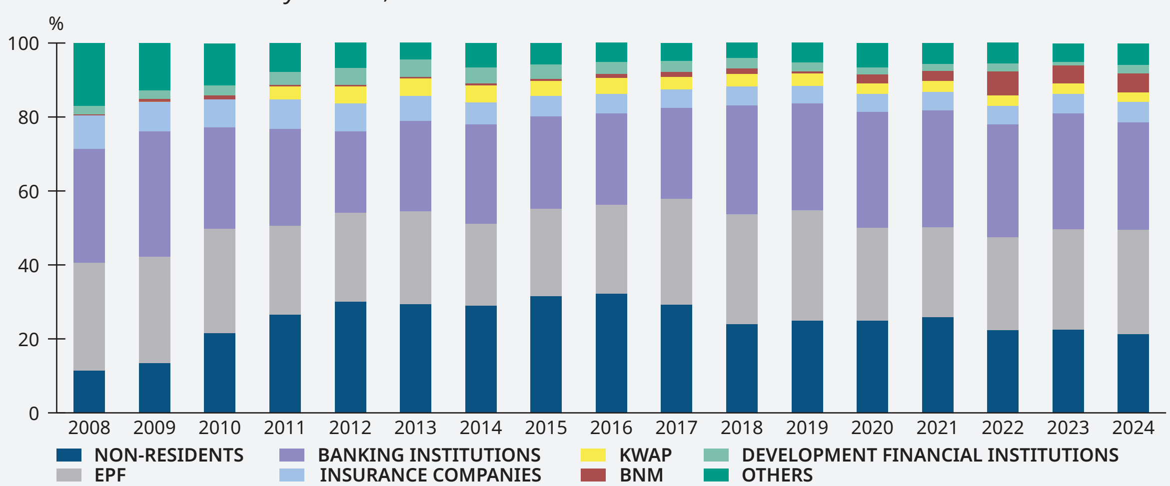
Overall, by offering domestic and offshore issuances as well as balancing both conventional and Shariah-compliant instruments, the Government has diversified funding strategies, and thus, broadening investor base while providing market stability.

C. Investor Base

Maintaining a broad and diverse investor base is as important as having a diversified portfolio of debt instruments. This stabilises borrowing profile and enhances the Government ability to meet financial needs, particularly during economic shocks. Resident holders are the largest investors in Federal Government debt, consistently holding more than 70% of the total outstanding debt.

The primary domestic holders are banking institutions and the Employees Provident Fund (EPF), accounting for over 50% of the total debt since 2017. Other significant resident holders include insurance companies, the Retirement Fund (Incorporated) (KWAP) and Bank Negara Malaysia (BNM). The robust domestic market with high liquidity enables investors to react swiftly to market shifts during crises. This helps to stabilise Malaysia's financial market by minimising volatility and reducing the risk of sudden capital flight. Meanwhile, the non-resident investors participation has been stable, with average share of around 22% for the period of 2022 to 2024, while their absolute holdings have increased by RM26 billion to RM259 billion, showcasing Malaysia's standing as the preferred investment destination. However, the depth and liquidity of the domestic market remains crucial as it reduces reliance on foreign investors and provides a shield against volatility of fund flows as reflected in Figure 8.

FIGURE 8. *Domestic Debt by Holders, 2008 – 2024*



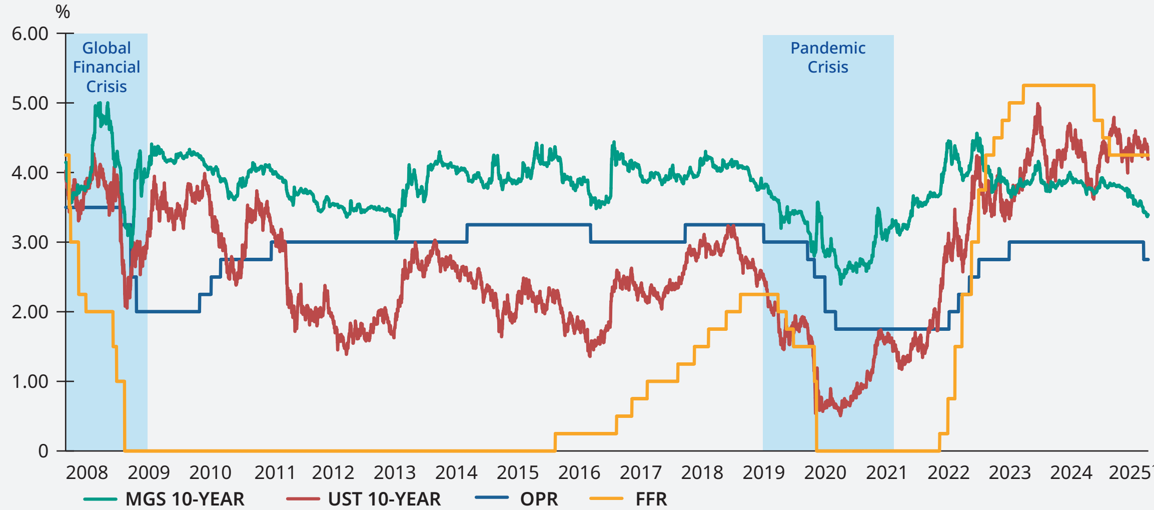
Notes: Instruments consist of MGS, MGII and Treasury Bills (MTB and MITB). Prior to 2011, amount for KWAP was included in "Others" categories. Meanwhile, "Others" include non-bank financial institutions, statutory bodies, nominees and trustee companies, co-operatives, securities placed by institutional investors at the central bank and unclassified items

Source: Ministry of Finance, Malaysia

D. Yield and Maturity Profile

The Government's borrowing strategy is designed to ensure long-term debt sustainability and affordability by securing fundings at the lowest possible cost given the risk exposure. Key factors influencing the issuance strategy include global and domestic bond yields, tenure and the currency composition. Bond yields serve as the primary guide for investors as well as government and are influenced by fundamental factors such as macroeconomic conditions, inflation trends, and global interest rate movements. As portrayed in Figure 9, the 10-year MGS yield has historically mirrored global trends, peaking during the GFC and again during the 2022 – 2023 global monetary tightening cycle. However, a notable shift occurred post-pandemic when US Treasury (UST) yields surpassed MGS yields due to aggressive interest rate hikes by the US Federal Reserve. On the other hand, the quantitative easing policy during the pandemic which led to a decline in yields, indirectly helped the Government lower its borrowing costs and establish more favourable benchmarks in the domestic bond issuances.

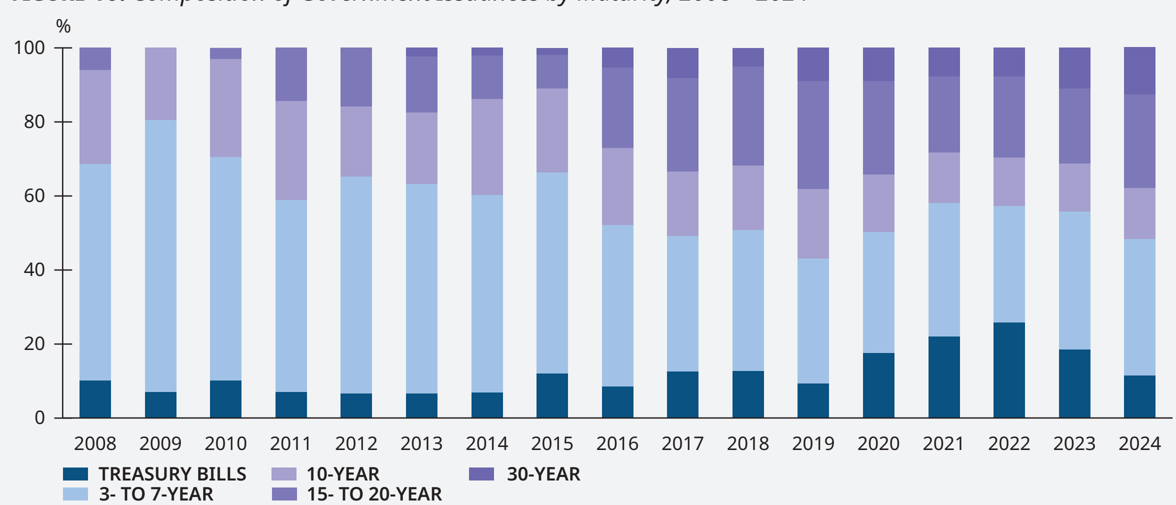
FIGURE 9. *MGS 10-year, UST 10-year, Overnight Policy Rate (OPR) and Federal Funds Rate (FFR), 2008 – 2025*[1]



[1]End-July 2025
Source: Bloomberg

The Government maintains a diversified maturity profile of borrowing instruments for a more effective debt management. This includes a combination of Treasury Bills as well as medium- and long-term instruments, with maturities ranging from three months to 30 years. Treasury Bills consistently represent a small portion of total issuance, while medium- and long-term instruments of MGS and MGII dominate the portfolio, as shown in Figure 10.

FIGURE 10. *Composition of Government Issuances by Maturity, 2008 – 2024*

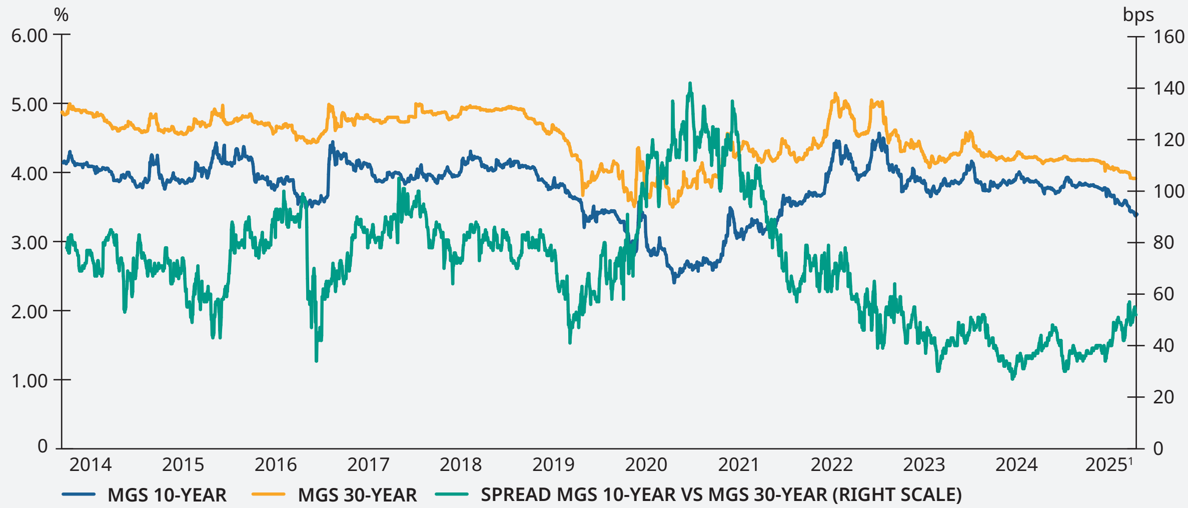


Notes: Instruments consist of domestic issuance MGS, MGII and Treasury Bills (MTB and MITB)
Source: Ministry of Finance, Malaysia

The Government's borrowing strategy involves adjusting the maturity profile of its issuances based on market conditions. During the low-yield period, the Government strategically issues more longer-dated securities to extend the maturity profile of its debt. This reduces rollover risks and allows the Government to lock in favourable pricing. However, during the pandemic, the

Government temporarily increased its issuance of short-term instruments, to meet immediate financing needs without saturating the market for long-term papers. The recent narrowing of the yield spread between 10- and 30-year MGS as reflected in Figure 11, has created a cost-effective opportunity to lengthen the debt's maturity. Hence, the current strategy involves issuing more medium- and long-term instruments to refinance a portion of these short-term obligations and return the debt maturity profile to pre-pandemic levels.

FIGURE 11. *MGS 10-year and 30-year Spread, 2014 – 2025*[1]



[1]End-July 2025
Source: Bloomberg

A well-spread maturity profile not only mitigates refinancing risk but also caters to the diverse needs of investors. Short-term papers appeal to investors who prioritise liquidity, while institutional investors such as pension and insurance funds prefer longer-term securities to match their investment horizons. This broad investor base ensures consistent demand across tenures and supports market liquidity, enabling the Government to raise funds at competitive rates, thus, enhances Malaysia's debt sustainability.

Another key element of Government borrowings is the availability of Fully Automated System for Issuing/Tendering (FAST) platform which enhances market transparency and efficiency. FAST has rigorous internal controls and sophisticated automated systems, which minimises manual intervention, reduces human error, as well as ensures a transparent and efficient borrowing process. Regular audits and transparent reporting further safeguard the integrity of debt management operations. The Government also takes a proactive role to warrant effective borrowing strategies, aligning with broader financial stability goals. As part of this process, the Government engages in regular consultations with key stakeholders, such as BNM and market participants, prior to issuing new debt. These discussions also help gauge market sentiment, secure stronger investor interest and minimise market disruptions.

Way Forward

In ensuring debt sustainability, the Government aims to achieve targets under the Act 850 by gradually reducing its deficit and overall borrowing. This will be accomplished through a two-pronged approach, namely strengthening revenue collection and optimising expenditure. These will be realised through effective tax administration and compliance, as well as enhanced spending toward high-impact projects, with the aim to reduce the country's reliance on deficit financing and build buffers against future economic shocks. In addition, the Government will continue to leverage its broader financial ecosystem, particularly government-linked investment companies (GLICs) and government-linked companies (GLCs) to complement public investments and thus reducing the need for direct Government borrowing. By aligning the performance of GLICs and GLCs with national development goals, Malaysia can create a more sustainable financing model to raise economic potential and strengthen fiscal resilience.

Malaysia will further broaden its investor base by exploring new financing structure to diversify funding access. This includes exploring issuance of sustainability-linked instruments and innovative sukuk structures to attract ethical and Shariah-conscious investors. Moreover, the Government will continue to be selective and strategic in executing offshore issuances, to maintain international market presence and establish benchmark yields for Malaysian corporate issuances. In addition, consistent engagement with investors through transparent and proactive approach will foster investor confidence, reduce uncertainty and ensure competitive borrowing costs.

Conclusion

The effective and sustainable borrowing strategy creates a disciplined, innovative and resilient financing ecosystem for Malaysia. The Government will ensure its borrowing continue to support economic growth and nation building without jeopardising long-term debt sustainability. In this regard, fiscal strategy will be enhanced towards achieving the targets under Act 850. While, debt management policy will be strengthened by diversifying funding instruments, improving investor confidence and leveraging the Government broader financial ecosystem. These approaches not only preserve fiscal space for future generations but also reinforces Malaysia as a benchmark in responsible and innovative financing globally. Ultimately, borrowing with prudence, transparency and foresight will safeguard Malaysia's financial stability and prosperity, hence securing the future of the nation.

Reference

ASEAN +3 Macroeconomic Research Office. (2025, April 21). Navigating Fiscal Strategy Through Uncertainty. *ASEAN+3 Fiscal Policy Report 2025.* https://amro-asia.org/wp-content/uploads/2025/04/AFPR-2025_15Apr2025_for-publication.pdf

Bank for International Settlements. (2011). *Interactions between sovereign debt management and monetary policy under fiscal dominance and financial instability.* https://www.bis.org/publ/bppdf/bispap65l_rh.pdf

Bank Negara Malaysia. (2025). *FMIP.* https://financialmarkets.bnm.gov.my/

Bank Negara Malaysia. (2018). *Profile of Malaysia's External Debt*. https://www.bnm.gov.my/documents/20124/767007/p3ba1.pdf

Fitch Ratings. (2025, March 19). *Malaysia's Debt Capital Market Likely to Slow on Fiscal Consolidation; Sukuk Leadership Sustained.* https://www.fitchratings.com/research/non-bank-financial-institutions/malaysias-debt-capital-market-likely-to-slow-on-fiscal-consolidation-sukuk-leadership-sustained-19-03-2025#:~:text=Malaysia%20has%20the%20largest%20global, within%20the%20'BBB'%20category

International Islamic Financial Market. (2021, July 21). A Comprehensive Study of the Global Sukuk Market. *Sukuk Report 2021.* (10th Ed.). IIFM. https://www.iifm.net/frontend/general-documents/bcd691cfb4233fb37d783550210103921635251580.pdf.

International Monetary Fund. (2025, April). Enhancing Resilience amid Uncertainty. *Global Financial Stability Report.* https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025

International Monetary Fund. (2022, April 26). Making Debt Work for Development and Macroeconomic Stability. *Policy Papers.* https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/04/26/Making-Debt-Work-For-Development-and-Macroeconomic-Stability-517258

Moody's Ratings. (2025, July 30). Moody's Ratings announces completion of a periodic review of ratings of Malaysia, Government of. *Announcement of Periodic Review.* https://www.moodys.com/researchandratings/region/asia-pacific/malaysia/042009

The Bond and Sukuk Information Exchange. (2019, February 13). *Malaysia Government Securities (MGS) and Government Investment Issue (GII) – An Overview*.https://www.bixmalaysia.com/learning-center/articles-tutorials/malaysia-government-securities-(mgs)-and-government-investment-issue-(gii)-%E2%80%93-an-overview

The Organisation for Economic Co-operation and Development. (2025, March 20). Financing Growth in a Challenging Debt Market Environment*. Global Debt Report 2025. OECD Publishing.* https://doi.org/10.1787/8ee42b13-en.

World Bank Group. (2024, December 3). *International Debt Report 2024*. http://hdl.handle.net/10986/42444

Federal Government Debt

The Federal Government remains firmly committed to maintaining a prudent level of indebtedness, in line with the fiscal consolidation targets outlined under Act 850. The Act aims to gradually reduce total Federal Government debt-to-GDP ratio, encompassing both domestic and external borrowings, to below 60% over the medium term. However, the statutory debt ceilings governed under the Loan (Local) Act 1959 [Act 637], Government Funding Act 1983 [Act 275], Treasury Bills (Local) Act 1946 [Act 188] and External Loans Act 1963 [Act 403] continue to form the legal basis for instrument-specific debt limits.

As at end-June 2025, the Federal Government debt stood at RM1,304.2 billion, equivalent to 64.7% of GDP. Of this, 98.3% comprised domestic debt, while offshore borrowings reduced to 1.7% (H1 2024: 2.4%) following the redemption of USD1 billion global sukuk in April 2025. The low foreign-denominated debt minimises the Government's exposure to foreign exchange risks. Furthermore, the outstanding debt for each instrument remained within the statutory limits stipulated under the respective Acts, as outlined in Table 4.2.

Shariah-compliant instruments continue to form a substantial component of the debt structure, accounting for 48.6% of total debt or RM634.3 billion. Of this, 97.8% is attributable to domestic issuances, while the remaining was from global sukuk denominated in US dollars. The sustained issuance of Islamic instruments underscores Malaysia's steadfast commitment to further deepening the Shariah-compliant debt market and reaffirms the nation's global leadership in Islamic finance.

The key objective of the borrowing strategy is to mitigate refinancing risk by maintaining a balanced and sustainable maturity profile. The Federal Government's domestic debt portfolio remains well-diversified across a range of maturities and instruments. As at end-June 2025, short-term instruments comprising 3-, 6-, 9- and 12-month, namely MTB and MITB, amounted to RM2 billion and RM5.5 billion, respectively. Meanwhile, medium- and long-term instruments, namely MGS and MGII, stood at RM659.1 billion and RM614.8 billion, respectively, for maturities of up to 30 years.

As at end-June 2025, the share of outstanding debt with maturities exceeding five years rose to 61.1%, while those with remaining maturities of five years or less declined to 38.9%. As a result, the weighted average time

TABLE 4.2. *Debt Legislation*

ACT	STATUTORY LIMIT	END-JUNE 2025
Loan (Local) Act 1959 [Act 637][1] **Government Funding Act 1983 [Act 275][2]**	Total MGS, MGII and MITB not exceeding 65% of GDP	**63.5% of GDP**
External Loans Act 1963 [Act 403]	Offshore borrowings not exceeding RM35 billion	**RM22.8 billion**
Treasury Bills (Local) Act 1946 [Act 188]	MTB not exceeding RM10 billion	**RM2 billion**

[1] MGS is issued under Act 637
[2] MGII and MITB are issued under Act 275

Source: Ministry of Finance, Malaysia

TABLE 4.3. *Federal Government Debt by Instrument, 2024 – 2025*

COMPONENT	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2024	2025[1]	2024	2025[1]	2024	2025[1]
Domestic debt	**1,219,638**	**1,281,418**	***97.8***	***98.3***	***63.1***	***63.6***
MGS	633,838	659,118	*50.8*	*50.5*	*32.8*	*32.7*
MGII	570,800	614,800	*45.8*	*47.1*	*29.5*	*30.5*
MTB	5,000	2,000	*0.4*	*0.2*	*0.3*	*0.1*
MITB	10,000	5,500	*0.8*	*0.4*	*0.5*	*0.3*
Offshore borrowings	**27,976**	**22,758**	***2.2***	***1.7***	***1.4***	***1.1***
Market loans	24,977	19,804	*2.0*	*1.5*	*1.2*	*1.0*
Project loans	2,999	2,954	*0.2*	*0.2*	*0.2*	*0.1*
Total	**1,247,614**	**1,304,176**	***100***	***100***	***64.6***	***64.7***
Memorandum item: Non-resident holdings of ringgit-denominated debt securities	260,212	278,423	*21.3*	*21.7*	*13.5*	*13.8*

[1] End-June 2025

Source: Ministry of Finance, Malaysia

to maturity of outstanding debt securities is expected to lengthen to 9.6 years by end-2025 (2024: 9.3 years), reflecting proactive debt management aligned with the Government's long-term fiscal sustainability.

Meanwhile, offshore borrowings amounted to RM22.8 billion, comprising RM19.8 billion in market loans and RM3 billion in project-based loans. Market loans include global sukuk and the Samurai Bond, whereas project loans comprised of bilateral and multilateral arrangements to finance specific programmes or infrastructure projects. Of the total offshore borrowings, 61.4% was denominated in US dollars, followed by 38.5% in yen, with the remaining 0.1% in other foreign currencies.

Domestic institutional investors remained the major holders of Federal Government papers, accounting for RM1,006.1 billion or 77.1% of total outstanding debt as at end-June 2025. The Employees Provident Fund was the single largest holder at 27.2%, followed by Bank Negara Malaysia (BNM) at 3.8% and the Retirement Fund (Incorporated) at 2.4%. Meanwhile, banking institutions held 29.4%, followed by insurance companies and development financial institutions at 5.5% and 2.2%, respectively. Robust participation from long-term institutional investors is supported by the Government's strategic focus on medium- and long-term issuances in managing refinancing risk and maintaining a balanced maturity profile.

Non-resident holdings remained generally stable at RM298 billion or 22.9% of total Federal Government debt. Asset management companies were the primary holders among non-resident investors at 7.1%, followed by central bank/government (6.7%) as well as banking institutions (4.8%). Pension funds and insurance companies accounted for 3.5% and 0.5%, respectively, reflecting continued interest from international long-term investors.

In 2025, the Federal Government's DSC are projected to increase by 7.6% to RM54.3 billion, accounting for 16.3% of total revenue (2024: 9.0%; RM50.5 billion; 15.6%). The slower growth of DSC reflects the

TABLE 4.4. *Federal Government Debt by Holder, 2024 – 2025*

COMPONENT	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2024	2025[3]	2024	2025[3]	2024	2025[3]
Resident	**964,014**	**1,006,143**	***77.3***	***77.1***	***49.9***	***49.9***
Employees Provident Fund	343,306	355,114	*27.5*	*27.2*	*17.8*	*17.6*
Retirement Fund (Incorporated)	32,921	31,580	*2.6*	*2.4*	*1.7*	*1.6*
Insurance companies	67,380	72,376	*5.4*	*5.5*	*3.5*	*3.6*
Bank Negara Malaysia	63,630	49,044	*5.1*	*3.8*	*3.3*	*2.4*
Banking institutions	356,015	383,495	*28.6*	*29.4*	*18.4*	*19.0*
Development financial institutions	27,427	28,182	*2.2*	*2.2*	*1.4*	*1.4*
Others[1]	73,335	86,352	*5.9*	*6.6*	*3.8*	*4.3*
Non-resident	**283,600**	**298,033**	***22.7***	***22.9***	***14.7***	***14.8***
Asset management	88,984	92,476	*7.1*	*7.1*	*4.6*	*4.6*
Central bank/government	77,885	86,815	*6.2*	*6.7*	*4.0*	*4.3*
Banking institutions	58,254	61,959	*4.7*	*4.8*	*3.0*	*3.1*
Pension funds	46,159	45,466	*3.7*	*3.5*	*2.4*	*2.3*
Insurance companies	7,714	6,973	*0.6*	*0.5*	*0.4*	*0.3*
Others[2]	4,604	4,344	*0.4*	*0.3*	*0.3*	*0.2*
Total	**1,247,614**	**1,304,176**	***100.0***	***100.0***	***64.6***	***64.7***

[1] Include non-bank financial institutions, statutory bodies, nominees and trustee companies, co-operatives, securities placed by institutional investors at the central bank and unclassified items
[2] Include individuals, non-financial corporations, multilateral and bilateral institutions as well as unidentified sectors
[3] End-June 2025

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Government's commitment to narrow the fiscal deficit from 4.1% in 2024 to 3.8% in 2025. The bulk of DSC, approximately RM53.5 billion, is allocated for domestic instruments' interest and profit payments, while the remaining RM0.8 billion is for servicing offshore borrowings.

From a cost-efficiency perspective, the weighted average cost of borrowing for outstanding domestic debt stood at 4.11% as at end-June 2025 (end-2024: 4.12%). The predominance of fixed-rate coupon structures within government securities continues to insulate the debt portfolio from short-term interest rate fluctuations throughout their remaining tenures. Nevertheless, the marginal decrease in the weighted average cost of borrowing compared to the previous year has helped contain DSC growth.

Malaysia's External Debt

As at end-June 2025, external debt[3] grew by 3.9% to RM1,403.3 billion, equivalent to 69.6% of GDP (end-2024: RM1,350.2 billion; 69.9% of GDP). The increase was driven by stronger non-resident participation in government domestic debt securities as well as higher net issuances of bonds and notes abroad by public corporations. Offshore borrowings, the largest component of external debt, expanded to RM737.1 billion, reflecting liquidity

[3] The nation's external debt constitutes the public and private sector offshore borrowings, non-resident holdings of ringgit-denominated debt securities, non-resident deposits as well as other external debt.

TABLE 4.5. *External Debt, 2024 – 2025*

COMPONENT	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2024	2025[3]	2024	2025[3]	2024	2025[3]
Offshore borrowings	**717,991**	**737,132**	***53.2***	***52.6***	***37.2***	***36.6***
Medium- and long-term debt	461,967	473,875	*34.2*	*33.8*	*23.9*	*23.5*
Public sector	148,098	154,079	*11.0*	*11.0*	*7.7*	*7.6*
Federal Government	23,388	19,607	*1.7*	*1.4*	*1.2*	*0.9*
Public corporations	124,710	134,472	*9.3*	*9.6*	*6.5*	*6.7*
Private sector	313,869	319,796	*23.2*	*22.8*	*16.2*	*15.9*
Short-term debt	256,024	263,257	*19.0*	*18.8*	*13.2*	*13.1*
Non-resident holdings of ringgit-denominated debt securities	**273,957**	**296,072**	***20.3***	***21.1***	***14.2***	***14.7***
Medium- and long-term debt	266,731	288,308	*19.8*	*20.5*	*13.8*	*14.3*
Federal Government	254,073	276,815	*18.8*	*19.7*	*13.1*	*13.7*
Others[1]	12,658	11,493	*1.0*	*0.8*	*0.6*	*0.6*
Short-term debt	7,226	7,764	*0.5*	*0.6*	*0.4*	*0.4*
Non-resident deposits	**149,958**	**145,164**	***11.1***	***10.3***	***7.7***	***7.2***
Others[2]	**208,295**	**224,916**	***15.4***	***16.0***	***10.8***	***11.1***
Total	**1,350,201**	**1,403,284**	***100.0***	***100.0***	***69.9***	***69.6***

[1] Include private sector and public corporations
[2] Comprise trade credits, IMF allocation of Special Drawing Rights and miscellaneous
[3] End-June 2025
Note: Total may not add up due to rounding

Source: Bank Negara Malaysia

management and balance sheet optimisation activities. Non-resident holdings of ringgit-denominated debt securities rose by 8.1% to RM296.1 billion (end-2024: 1.7%; RM274.0 billion), supported by renewed investor demand for government papers. In contrast, non-resident deposits declined to RM145.2 billion, as investors rebalanced portfolios towards higher-yielding or more liquid assets. Meanwhile, other external debt increased to RM224.9 billion, mainly due to greater trade credit utilisation for import-related transactions.

Malaysia's external debt position remains broadly manageable, supported by a favourable maturity structure and diversified currency composition, coupled with prudential safeguards established by BNM. The refinancing risk is effectively contained, with 57.5% of total external debt maturing over the medium to long term. From a currency perspective, approximately one-third of the external debt is denominated in ringgit, while the remaining is in foreign currencies, further reflecting the diversified structure of Malaysia's external debt portfolio.

Public Sector Debt

As at end-June 2025, Malaysia's public sector debt rose by 4.2% to RM1,730.5 billion, equivalent to 85.8% of GDP (end-2024: RM1,660.5 billion; 86% of GDP). The increase was primarily driven by higher Federal Government borrowings, which accounted for 75.4% of total public sector debt.

Guaranteed debt of statutory bodies expanded to RM105 billion, reflecting new issuances by the Public Sector Home Financing Board to support housing loan disbursements.

Meanwhile, net debt of non-financial public corporations increased to RM321.4 billion, mainly due to financing activities undertaken by Malaysia Rail Link Sdn. Bhd., DanaInfra Nasional Berhad and Prasarana Malaysia Berhad. This increase was partially offset by scheduled principal repayments from entities such as Jambatan Kedua Sdn. Bhd. and MKD Kencana Sdn. Bhd. Overall, the public sector's exposure to foreign exchange risk remains manageable, with 91% of total debt denominated in ringgit, underscoring prudent debt composition and effective currency risk management.

TABLE 4.6. *Public Sector Debt, 2024 – 2025*

COMPONENT	RM MILLION		SHARE (%)		SHARE OF GDP (%)	
	2024	2025[1]	2024	2025[1]	2024	2025[1]
Federal Government	**1,247,614**	**1,304,176**	***75.1***	***75.4***	***64.6***	***64.7***
Domestic	1,219,638	1,281,418	*73.4*	*74.1*	*63.1*	*63.6*
Offshore	27,976	22,758	*1.7*	*1.3*	*1.4*	*1.1*
Statutory bodies	**101,878**	**105,013**	***6.1***	***6.1***	***5.3***	***5.2***
Domestic	101,878	105,013	*6.1*	*6.1*	*5.3*	*5.2*
of which: Guaranteed	101,878	105,013	*6.1*	*6.1*	*5.3*	*5.2*
Offshore	-	-	-	-	-	-
Non-financial public corporations	**311,025**	**321,354**	***18.8***	***18.5***	***16.1***	***15.9***
Domestic	188,551	189,073	*11.4*	*10.9*	*9.8*	*9.4*
of which: Guaranteed	188,551	189,073	*11.4*	*10.9*	*9.8*	*9.4*
Offshore	122,474	132,281	*7.4*	*7.6*	*6.3*	*6.5*
of which: Guaranteed	38,940	38,792	*2.3*	*2.2*	*2.0*	*1.9*
Total	**1,660,517**	**1,730,543**	***100.0***	***100.0***	***85.9***	***85.8***

[1] End-June 2025

Source: Ministry of Finance, Malaysia

FEATURE ARTICLE

Debt Sustainability Analysis

Introduction

The Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan) themed *Melakar Semula Pembangunan*, was approved in September 2025. The Plan is anchored on three development dimensions, namely, high-income and sustainable growth, quality and inclusive living, and environmental sustainability. The Government pledges to provide development expenditure (DE) amounting to RM430 billion to implement 27 key priorities during 2026 to 2030. This allocation reflects the Government's multi-pronged strategy to strike a balance between fiscal discipline and economic growth, particularly to achieve fiscal deficit target of 3% of GDP and a high-income nation in the medium-term. As part of a prudent debt management process, the Debt Sustainability Analysis (DSA) has been used as a tool to assess and provide a guidance in formulating macroeconomics and fiscal policies in the medium-term. The DSA determines the ability of the Government to meet its current and future debt obligations during macro-fiscal shocks. This allows the Government to formulate policies towards achieving fiscal and economic resilience as well as long-term debt sustainability.

In the 2025 Article IV Consultation Report on Malaysia, the IMF assessed the debt sustainability and concluded that the country faces a moderate overall risk of sovereign stress. Malaysia's solid medium-term growth prospects and ongoing expenditure reforms provide important support, which are offset by relatively narrow revenue base compared to regional peers. The IMF projected the Federal Government debt to remain at about 64% of GDP during 2026 – 2029, highlighting the urgency of sustained fiscal reforms. The report also identified moderate liquidity risks under the Gross Financing Needs (GFN) and Contingent Liability Modules, with vulnerabilities amplified by large contingent liabilities, particularly those stemming from government guarantees, state-owned enterprises and public-private partnerships.

Analyses: Assessing Debt Sustainability in Support of the Thirteenth Plan

The current global growth outlook continues to be shaped by shifting trade policies, tariff uncertainties and geopolitical tensions. This DSA provides a refreshed assessment of Malaysia's fiscal position and long-term debt trajectory, taking into account the financing needs as well as the growth assumptions under the Thirteenth Plan. The DSA outcomes are expressed through projections of the debt-to-GDP[1] and the GFN-to-GDP ratios. The analysis also outlines the sensitivity of debt and financing requirements to various scenario shocks. For emerging market economies, the DSA framework applies indicative risk thresholds of 70% for the debt-to-GDP ratio and 15% for the GFN-to-GDP ratio.

A. Scenario Analyses

i. Baseline Scenario

The main underlying macro-fiscal assumptions used in the DSA are in line with the Federal Government's Medium-Term Fiscal Framework (MTFF), as shown in Table 1.

[1] Consist of all debt instrument
[2] The financing rate refers to the interest/profit rate of the Federal Government debt instruments.

TABLE 1. *DSA 2026 Macro-Fiscal Indicators*

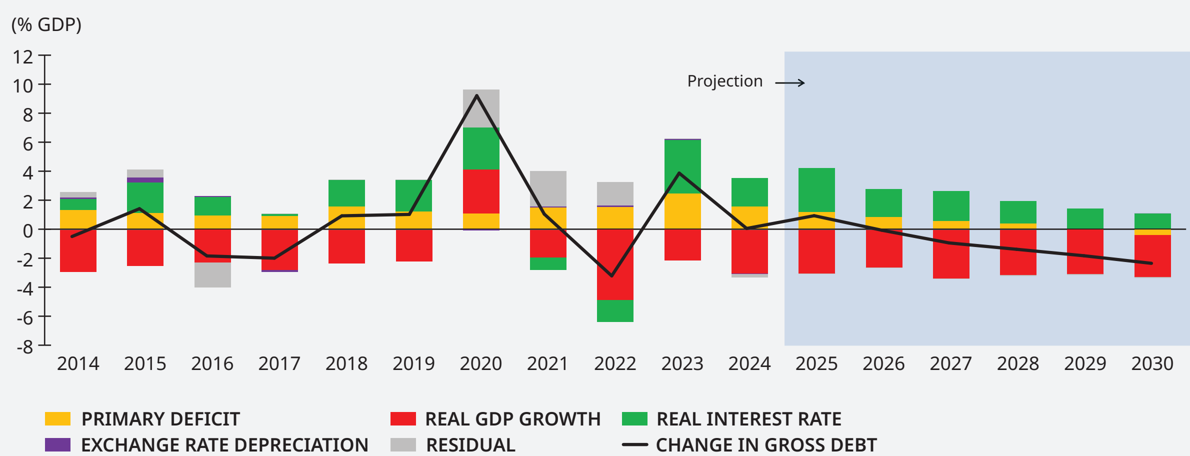
MACRO-FISCAL INDICATORS	AVERAGE 2026 -2030 (% PER ANNUM)
Real GDP growth	4.5 - 5.5%
Revenue growth	4.1%
Non-interest expenditure growth	2.1%
Financing rate[2]	4.4%

Source: Ministry of Finance, Malaysia

The trajectory of the Government debt-to-GDP ratio over the past decade influenced by GDP growth, primary deficits and real interest rate as shown in Figure 1. The primary deficit and real interest rate have been the main factors aggravating the rise of debt-to-GDP ratio, while real GDP growth has generally played a mitigating role, except in 2020 when the sharp contraction exacerbated debt vulnerabilities. However, the strong economic recovery between 2021 and 2022, had mitigated the impact of debt-creating flows, helping stabilise the debt-to-GDP ratio.

The debt-to-GDP ratio is projected to decline gradually between 2026 and 2030, supported by steady growth projection and ongoing fiscal consolidation to reduce the primary deficit. Nonetheless, debt dynamics remain sensitive to rising interest rates relative to growth and the potential materialisation of contingent liabilities. Overall, Government's debt path reflects the relationship between growth, fiscal balances, and structural risks. This shows that sustained debt reduction will require continued fiscal discipline, prudent risk and debt management, coupled with policies that reinforce robust and inclusive economic growth.

FIGURE 1. *Debt-Creating Flow*



Source: Ministry of Finance, Malaysia and International Monetary Fund

Under the baseline scenario, the debt-to-GDP ratio is estimated at 65.8% in 2026 and expected to gradually decline to 60% in 2030, achieving the target in the Thirteenth Plan. Likewise, the annual gross borrowing size reflects the fiscal consolidation trajectory, with the GFN-to-GDP ratio forecast to gradually reduce to 4.9% in 2030 compared with 8.9% in 2026.

ii. Alternative Scenarios

The alternative scenarios reveal potential changes in the country's debt outlook without any changes in the current fiscal policy. It individually evaluates medium-term debt and borrowing projections based on the assumption of a constant primary balance and historical data.

(a) **Constant Primary Balance Scenario**

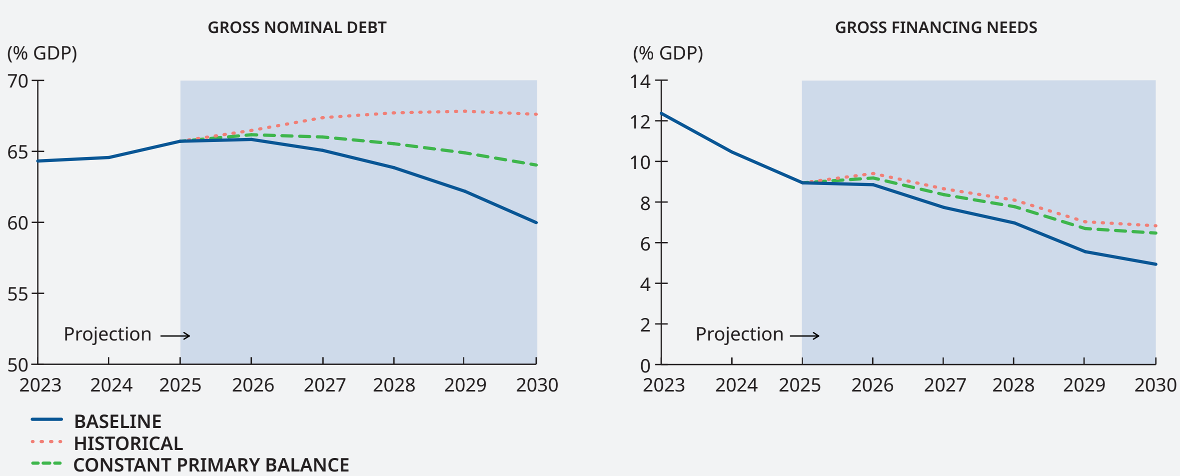
Assuming the primary deficit remains at 1.2% of GDP throughout the five-year projection period, the outcome of the Federal Government's debt-to-GDP ratio is projected to increase to 66% in 2026, before declining gradually to 64% by 2030. Simultaneously, GFN is anticipated to remain elevated, reaching 9.2% of GDP in 2026, before easing to 6.5% by 2030.

(b) **Historical Data Scenario**

Based on the ten-year historical averages (2014 – 2024), comprising a primary deficit of 1.2% of GDP, real GDP growth of 5.4% and an average interest rate of 4.3%, the outcome of the Federal Government's debt-to-GDP ratio is projected to increase to 67.6% by 2030. Concurrently, GFN is projected at 9.4% of GDP in 2026, before moderating to 6.8% in 2030.

Both alternative scenario analyses indicate an increase in debt-to-GDP ratio. This signifies the requirement for firm fiscal measures to ensure debt remains below 60% of GDP. These scenarios are depicted as in Figure 2.

FIGURE 2. *Baseline and Alternative Scenarios*



Source: Ministry of Finance, Malaysia and International Monetary Fund

B. Sensitivity Analyses

Sensitivity analyses or stress tests will enable the Government to anticipate the potential impact of adverse macro-fiscal shocks on debt sustainability. The outcomes help policymakers identify potential vulnerabilities and develop proactive policy interventions to mitigate the risks and sustain market access. Figure 3 and 4 present the results of the Macro-Fiscal Stress Tests and additional stress tests for Malaysia.

i. Primary Balance Shock Scenario

Assuming fiscal support measures were introduced during the 2026 – 2027 period, with the primary deficit increased by about 0.7% of GDP, the Federal Government's debt-to-GDP ratio is projected to rise to 66.5% in 2026, before moderating to 62.8% by 2030. Meanwhile, GFN is expected to peak at 9.5% in 2026 and ease to 5.8% by 2030. This highlights a slight increase in primary deficit could severely rise the debt-to-GDP ratio.

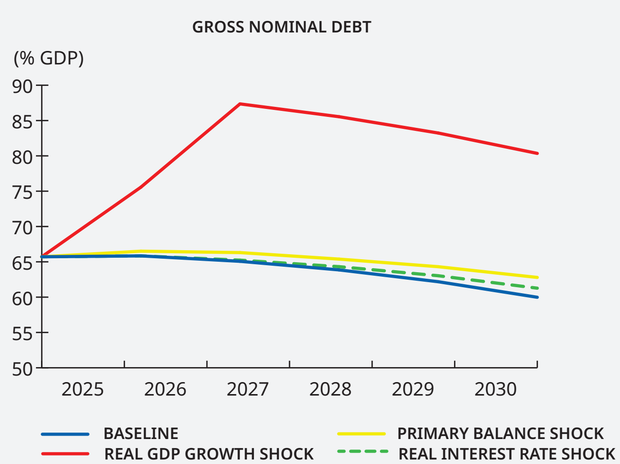
ii. Real GDP Growth Shock Scenario

Assuming a pandemic-like crisis were to happen with real GDP contracting 4.8% in 2026 and 3.5% in 2027, before rebounding to 5.1% in 2028 and subsequently averaging 5%, *ceteris paribus*, the Federal Government's debt-to-GDP ratio is projected to surge to 87.4% in 2027, before gradually easing to 80.3% by 2030. During the same period, the GFN-to-GDP ratio is expected to rise to 13.7% in 2027, before declining to 6.4% by 2030. In this scenario, the debt-to-GDP ratio would breach the DSA threshold and statutory debt limits.

iii. Real Interest Rate Shock Scenario

With the assumption that the interest rate rises by almost 200 basis points annually, the simulation does not significantly deviate the debt-to-GDP and GFN-to-GDP ratio trajectories for 2026 – 2027 from the baseline projections. The widest gap between this shock and baseline scenario is in 2030 of which the debt-to-GDP ratio is estimated at 61.3% (baseline: 60%), while GFN-to-GDP ratio is at 5.4% (baseline: 4.9%). The slight

FIGURE 3. *Macro-Fiscal Stress Tests*



Source: Ministry of Finance, Malaysia and International Monetary Fund

increase in the debt-to-GDP projection ratio is attributed to the increase in cost of borrowings. This scenario shows that the debt and financing projection does not breach the Federal Government statutory debt limit but exceed the target stipulated under Act 850.

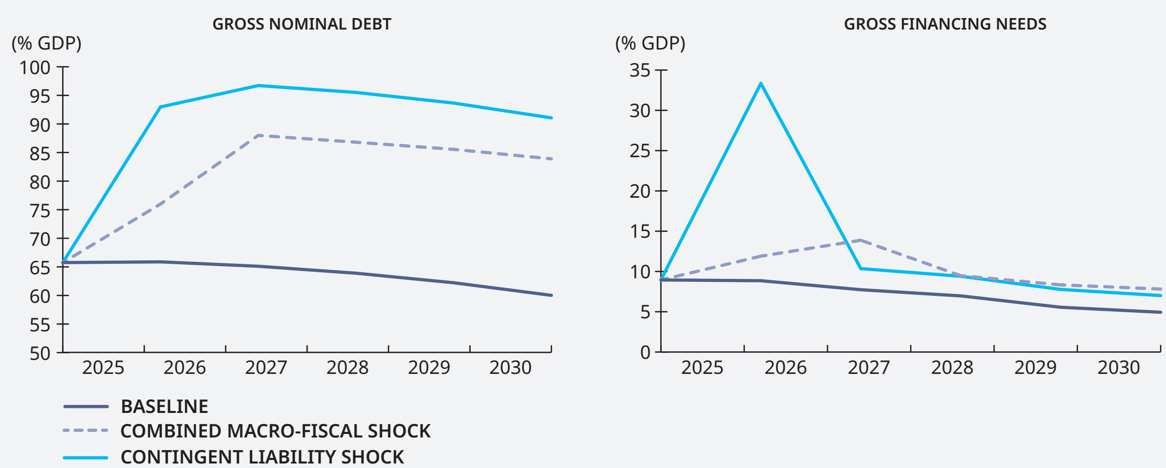
iv. Combined Macro-Fiscal Shock Scenario

If all macro-fiscal shocks were to occur concurrently, Malaysia's debt trajectory would deteriorate sharply, with the debt-to-GDP ratio breaching the DSA threshold (70%) as early as 2026 at 76% and climbing further to a peak at 88% in 2027 before moderating about 84% in 2030. In contrast, the GFN-to-GDP ratio would reach 13.9% in 2027, still below the DSA threshold (15%), before moderating to 7.8% by 2030. This scenario highlights how a severe macro-fiscal shock could amplify financial and macroeconomic pressures, as well as accelerating debt accumulation. Without adequate fiscal space, well-targeted and coordinated mitigation measures, such an adverse path would present significant risks to fiscal and economic stability.

v. Contingent Liability Shock Scenario

In this scenario, assuming crystallisation of contingent liabilities at 15% of GDP in 2026, the debt-to-GDP ratio would escalate to 92.9% in 2026 and peak at 96.7% in 2027. At the same time, the GFN-to-GDP ratio would spike to 33.3% in 2026, making this the most severe scenario among all shocks. This skyrocketing ratio reflects the debt-scarring effect of additional borrowings to fulfil these obligations. Importantly, it is also the only scenario in which the GFN ratio breaches the DSA threshold.

FIGURE 4. *Additional Stress Tests*



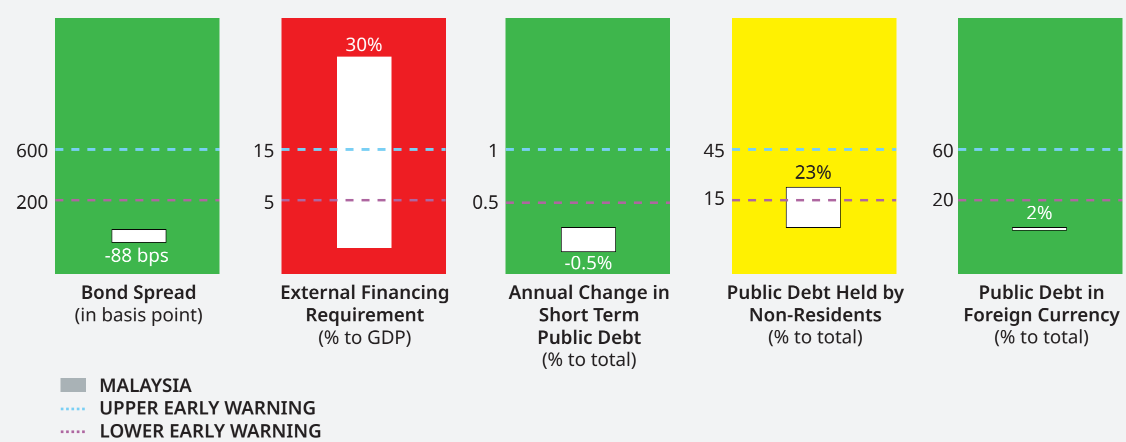
Source: Ministry of Finance, Malaysia and International Monetary Fund

C. Risk Assessment

Debt Profile Risk

Beyond the macro-fiscal and contingent liability stress tests, the DSA also undertakes a comprehensive risk assessment of the current debt profile of a country. Under this assessment, the external debt financing requirement for Malaysia which include public and private sector offshore borrowings and non-resident holdings of ringgit denominated debt securities, is classified as high risk as it exceeds the upper early warning threshold, thereby heightening exposure to foreign exchange risk. Meanwhile, Federal Government securities held by non-residents are assessed as a moderate risk, since their share surpasses the lower threshold. In the event of capital outflows, it could trigger an oversupply of the government papers in the domestic market. Nonetheless, these risks are currently mitigated by substantial external asset holdings by the private sector, a deep and liquid domestic capital market as well as strong domestic institutions that can swiftly absorb the reversal. The Government also continues to closely monitor the orderly functioning of the financial markets. The lower and upper risk thresholds for each debt profile parameter is illustrated in Figure 5.

FIGURE 5. *Debt Profile Vulnerabilities*



Source: Ministry of Finance, Malaysia and International Monetary Fund

Finding - Heat Map

The Heat Map illustrates the severity of risks to the country's debt level and GFN arising from different macro-fiscal shock scenarios and the underlying debt profile. The assessment aims to compare the heat map of DSA 2025 with the previous DSA 2023. Figure 6a shows simulation of DSA Heat Map 2025 and the risks indicators as shown in Figure 6b.

The 2025 DSA Heat Map assessment shows Malaysia's debt level, GFN and debt profile remain manageable with similar outcomes as in 2023 assessment. This reflects the country's strong macroeconomic fundamentals, sound public finance and prudent debt management amid more challenges and uncertainties of global development.

Although the risks associated with external debt financing remains high, the likelihood of default is low due to the ability of borrowers to meet its debt services obligations, supported by ample asset buffers, strong issuer creditworthiness, and robust regulatory framework on offshore borrowings, liquidity and funding risk management. Nonetheless, the Government has maintained a cautious approach to external borrowing given ample domestic liquidity, thus offshore borrowings are for benchmarking purposes. This strategy has been supported by the continued development of Malaysia's domestic capital markets, which provided the main source of financing and reduced the reliance on external debt.

FIGURE 6a. *2025 DSA Heat Map for Malaysia*

Debt Level	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Source: Ministry of Finance, Malaysia and International Monetary Fund

FIGURE 6b. *Risk Indicator for Debt Level, GFN and Debt Profile*

Heat Map	Debt Level	Gross Financing Needs	Debt Profile
Low Risk	If the debt level does not exceed the 70% of GDP threshold under baseline or specific shock scenarios.	If the gross financing needs do not exceed the 15% of GDP threshold under baseline or specific shock scenarios.	If the country's value is less than the lower early warning parameters.
Moderate Risk	If the debt level exceeds the 70% of GDP threshold under the specific shock scenarios but not baseline.	If the gross financing needs exceeds the 15% of GDP threshold under the specific shock scenarios but not baseline.	If the country's value is in between the lower and upper early warning parameters.
High Risk	If the debt level exceeds the 70% of GDP threshold under baseline.	If the gross financing needs exceeds the 15% of GDP threshold under baseline.	If the country's value exceeds the upper early warning parameters.

Source: Ministry of Finance, Malaysia and International Monetary Fund

Real GDP growth shocks continue to pose a moderate risk to the debt level, supported by strong domestic economic momentum despite ongoing external uncertainties. Similarly, public debt held by non-residents remains at a moderate risk level, with its composition consistently below 25% since 2019. Even though contingent liabilities indicate moderate risk, however it poses a major concern on fiscal risk as the materialisation could substantially raise financing needs and debt levels. This underscores the importance of decisive government action, where efforts to strengthen fiscal discipline and enhance debt management serve as safeguards in containing this risk and maintaining overall debt sustainability.

Malaysia's debt outlook for 2026 – 2030 remains broadly manageable, within low to moderate risk parameters. Nonetheless, the heightened risk stemming from external financing requirements, and the sustained moderate risk from contingent liabilities, emphasise the importance of enhancing fiscal buffers, improving the transparency of liability commitments, and strengthening the resilience of the domestic capital markets. Continued implementation of fiscal reforms and sound debt management practices are essential to sustain stability and gradually shift risks towards the lower end of the spectrum.

Conclusion

The DSA highlights that Malaysia's debt level remain manageable and sustainable in the medium term. These outcomes also indicate Malaysia is able to finance the Thirteenth Plan without jeopardising debt-to-GDP level while ensuring that key development priorities can be fully implemented towards ensuring resilient economy growth. In addition, the Government will continue to implement bold fiscal reforms initiatives to provide adequate fiscal space as well as enhance effective debt management and borrowing strategies towards attaining debt sustainability in the long-term.

Reference

International Monetary Fund. (2025, March 3). *Article IV Consultation—Press Release; and Staff Report* [Press Release]. *https://www.imf.org/en/Publications/CR/Issues/2025/03/03/Malaysia-2025-Article-IV-Consultation-Press-Release-and-Staff-Report-562916*

Ministry of Finance. (2023). *Fiscal Outlook and Federal Government Revenue Estimates 2024: Malaysia Debt Sustainability Analysis 2023.* Percetakan Nasional Malaysia Berhad. https://belanjawan.mof.gov.my/pdf/belanjawan2024/revenue/section4.pdf

Outlook for 2026

As Malaysia advances towards a more resilient and inclusive economic structure, the Government remains committed to safeguarding fiscal sustainability while advancing national development priorities under the Thirteenth Plan. In 2026, the debt management and financing strategy will continue to focus on optimising the debt profile, strengthening risk management practices and diversifying funding sources to ensure stable and cost-effective access to financing.

The strategy will continue to prioritise a prudent balance between domestic and external borrowings, with a strong preference for ringgit-denominated instruments to mitigate exposure to foreign exchange risks. At the same time, external financing will be selectively explored through innovative instruments to widen the investor base while strengthening Malaysia's leadership in Islamic finance.

The Government will continue active engagement with multilateral institutions, credit rating agencies and international investors to reinforce market confidence and safeguard Malaysia's credit standing. Likewise, efforts will be intensified to deepen the domestic capital market, expand the institutional investor participation and broaden investor base, of which are critical to building resilience and financing long-term infrastructure needs.

The 2026 outlook reflects a carefully balanced approach, which prioritises both fiscal support and responsible borrowing. Debt sustainability will be anchored by ongoing fiscal reforms, gradual deficit reduction and greater accountability in debt management. This strategy is designed to preserve the principle of intergenerational equity, ensuring future generations are not unduly burdened by current financial decisions. Ultimately, the goal is to maintain Malaysia's public debt at a sustainable and affordable level, aligning with the country's long-term development agenda.

Conclusion

As Malaysia embarks on the Thirteenth Plan to accelerate national development agenda and safeguard the welfare of the rakyat, a sound and sustainable fiscal framework remains imperative. Anchored by Act 850, the Government's strengthened fiscal governance demonstrates its commitment to fiscal discipline, transparency and the acceleration of structural reforms. Additionally, prudent debt management and strategic borrowing practices continue to enable the Government to meet financing requirements while mitigating fiscal and market risks. These measures provide a platform to secure competitive borrowing costs, extend the maturity profile and strengthen long-term debt sustainability.

Moving forward, Malaysia will further enhance debt management in line with global best practices. These efforts will be essential in sustaining a stable debt trajectory, ensuring fiscal resilience and maintaining macroeconomic stability. Above all, these efforts will enable the Government to channel national resources towards inclusive growth and long-term prosperity, guided by the Thirteenth Plan.

FIGURE 4.1. *Issuance by Maturity*

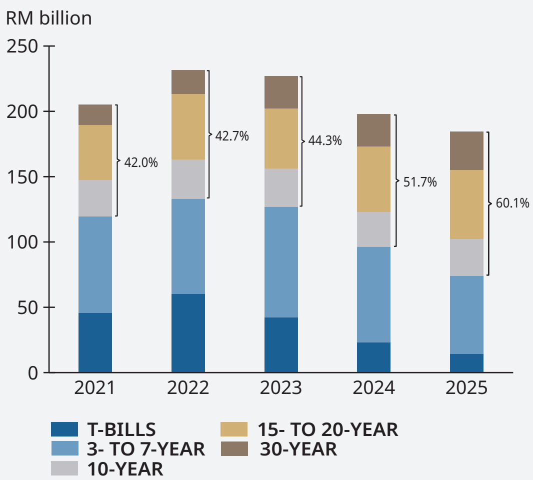


FIGURE 4.2. *BTC Ratios of MGS and MGII Issuances*

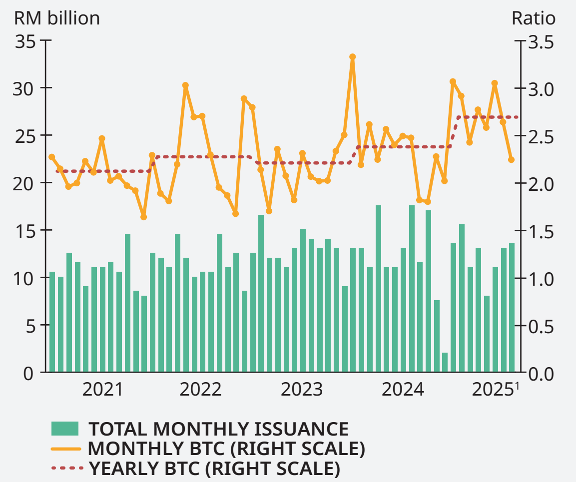


FIGURE 4.3. *MGS Benchmark Yield Curve*

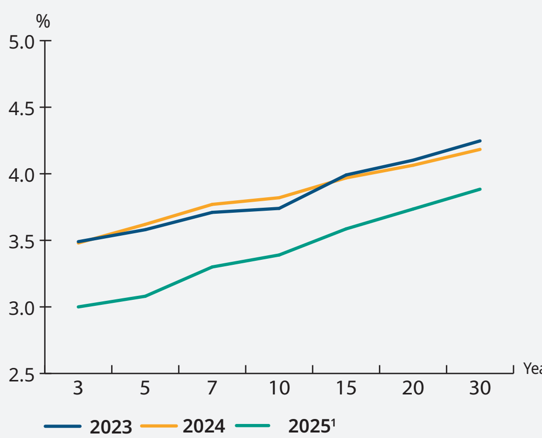
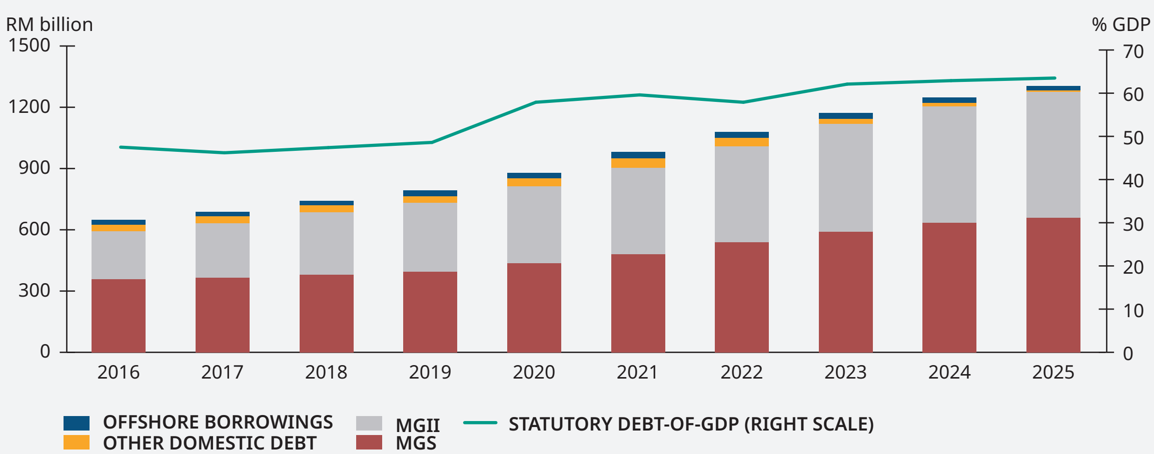


FIGURE 4.4. *MGS Indicative Yields*

FIGURE 4.5. *Federal Government Debt Composition*



¹ End-August 2025

Source: Ministry of Finance, Malaysia, Bank Negara Malaysia and Bloomberg

FIGURE 4.6. *Federal Government Debt by Holder*

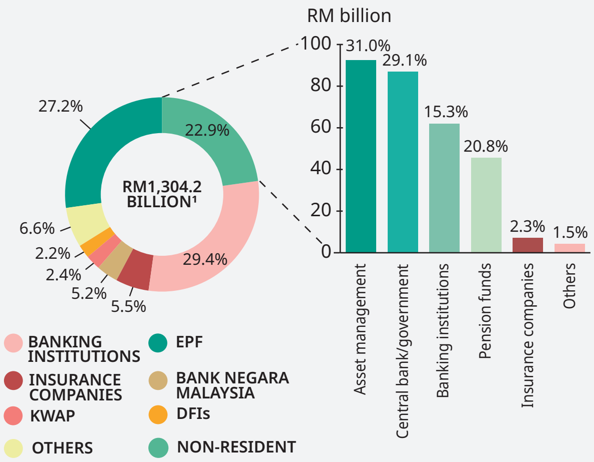


FIGURE 4.7. *Non-Resident Holdings of Ringgit-Denominated Debt Securities*

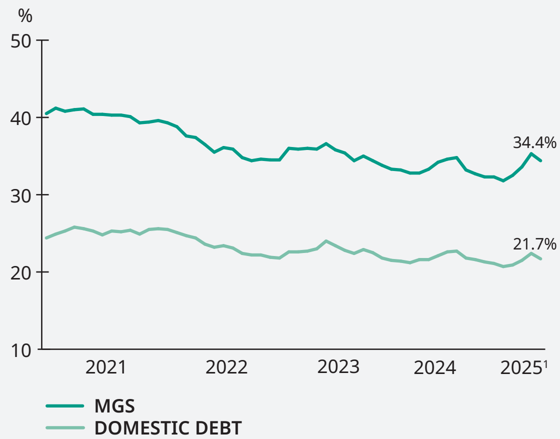


FIGURE 4.8. *Federal Government Debt by Remaining Maturity*

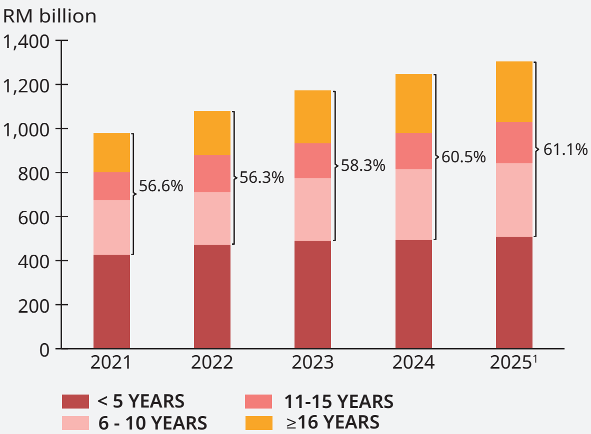


FIGURE 4.9. *Debt Service Charges*

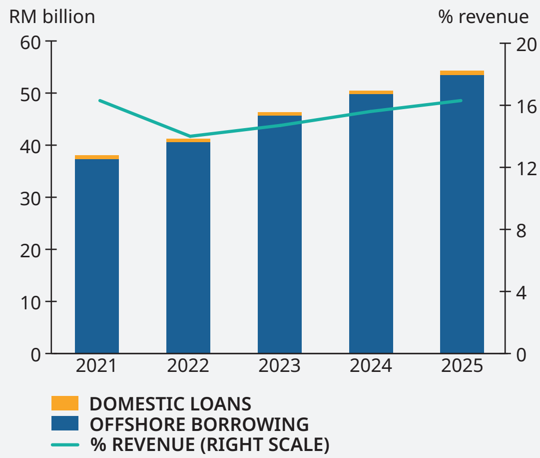
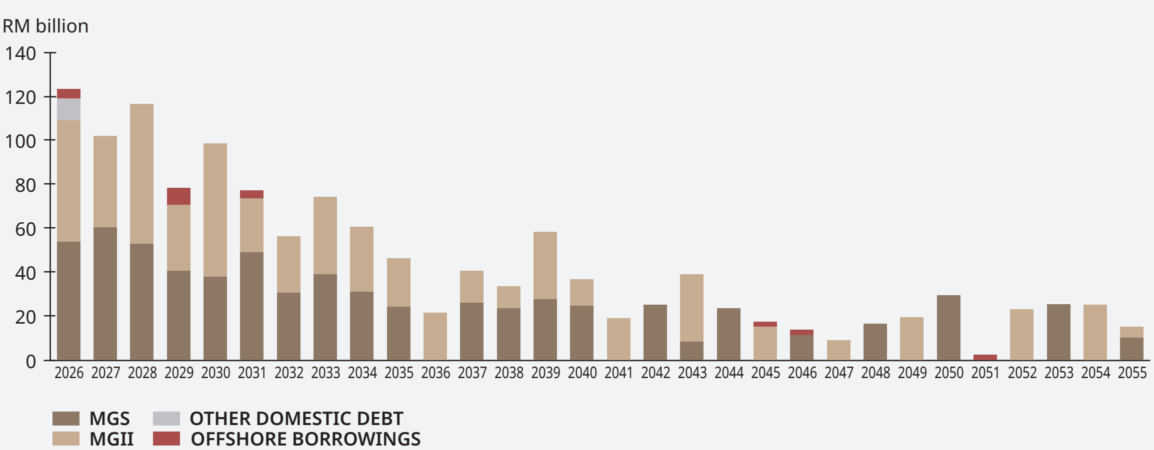


FIGURE 4.10. *Debt Maturity Profile*



[1] End-June 2025

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia