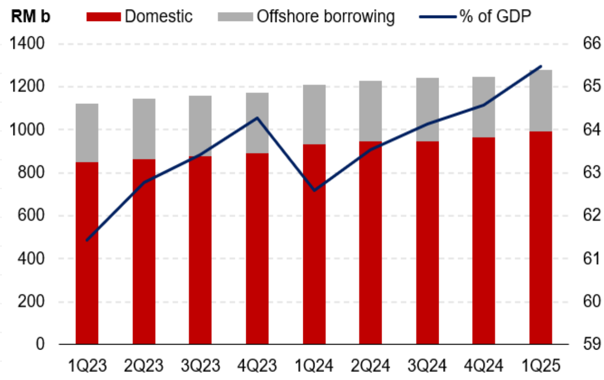
Malaysia 1Q25 Government Debt

Debt hits 65.5% of GDP; buffer still intact

- **Government total current liabilities rose to RM1,277.3b in 1Q25 (4Q24: RM1,247.6b), a record high**
  - On YoY basis, debt growth moderated to 5.6% (4Q24: 6.4%), the weakest since 2Q17 (4.5%).
  - However, QoQ growth picked up to 2.4% QoQ (4Q24: 0.7%), a four-quarter high, in line with seasonal borrowing trend at the start of the year.
  - Based on our calculation, **the government debt to GDP ratio in 1Q25 expanded to 65.5%** (2024: 64.6%), higher than government's calculation of 62.6%.

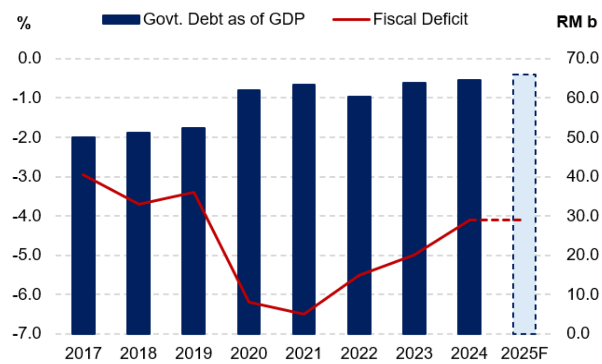
Graph 1: Federal Government Debt



Source: BNM, Macrobond, Kenanga Research

- **Increase in domestic and external debt pushed overall debt higher**
  - **Domestic debt:** slowed to 6.4% YoY (4Q24: 8.3%), the lowest since 4Q19 (4.1%), due to slower growth in the medium and long-term debt (7.2%; 4Q24: 9.2%), which offset continued declines in short term debt (-37.9%; 4Q24: -40.0%). Notably, the short-term debt has now fallen for seven straight quarters.
  - **External debt:** rose 3.0% YoY (4Q24: 0.4%), a two-quarter high, steered by a rebound in medium and long-term debt (2.0%; 4Q24: -0.1%), and a jump in short-term debt (429.0%; 4Q24: 39.1%). By currency, growth was led by ringgit-denominated debt which increased by 4.0% (4Q24: 1.2%), while USD, yen and other currencies declined by 6.4%, 8.1% and 55.1%, respectively.
- **Demand for long-dated government debt remained robust amid resilient domestic fundamentals**
  - The demand for both Malaysian Government Securities (MGS) and Government Investment Issues (GII) remained solid, with the year-to-date average bid-to-cover (BTC) ratio at 2.94x (2024 average: 2.37x). This reflects continued investor confidence, supported by relatively stable macro fundamentals, low inflation, and Bank Negara Malaysia's (BNM) steady policy stance.
- **Domestic capital market remains key funding source for Federal Government**
  - In 1Q25, the Federal Government raised RM51.5b in gross borrowings, fully sourced from the domestic capital market. Issuance comprised of RM23.0b in Malaysian Government Securities (MGS), RM25.0b in Malaysian Government Investment Issues (MGII), and Treasury Bills (MTB and MITB) worth RM3.5b.
  - Of the funds raised, RM21.8b was used to redeem maturing debt instruments, ensuring smooth rollover of existing obligations. The remainder financed the fiscal deficit and prefunded upcoming maturities, in line with prudent debt management to reduce refinancing risk and improve funding predictability.
- **Statutory debt remains contained but fiscal room is narrowing amid the risk of slowing GDP growth**
  - As of April 2025, statutory debt (comprising of MGS, GII, and MITB) stood at RM1,256.9b (~62.3% of GDP), leaving a fiscal buffer of approximately RM66.1b or ~2.7% of GDP before reaching the 65.0% statutory ceiling.
- **Meanwhile, Federal Government guarantees rose 3.7% (4Q24: 1.7%) to RM337.0b.**
- **The fiscal position improved, backed by ongoing structural reforms and fiscal consolidations**
  - The Federal Government posted a slightly higher fiscal deficit of RM21.9b compared to RM21.0b in 4Q24. However, it was an improvement from the same period of last year (1Q24: RM26.4b),

Graph 2: Fiscal deficit & Govt. Debt as of GDP

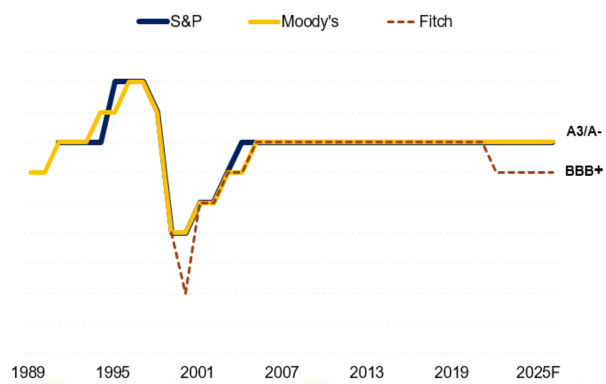


Source: BNM, Macrobond, Kenanga Research reflecting stronger revenue and disciplined spending in line with the consolidation agenda.

- Revenue rose 3.0% YoY to RM72.1b, driven by higher tax receipts, notably from Sales and Services Tax (SST) collections and individual income tax, on the back of better compliance and economic activity.
- Expenditure fell 2.5% YoY to RM94.2b, mainly due to lower subsidy payouts following diesel subsidy rationalisation and softer global crude oil prices.
- Despite this, the government maintained its commitment to social protection focus, with increased allocations to targeted assistance schemes such as Sumbangan Tunai Rahmah (STR), Sumbangan Asas Rahmah (SARA), the Fish Landing Incentive, and the Paddy Price Subsidy Scheme. Transfers to statutory bodies were also streamlined, reflecting improved operational efficiency and institutional performance.

- **Government debt is projected to rise to RM1,330.6b or 65.9% of GDP in 2025 (previous forecast: 64.7%; 2024: 64.6%) amid slower growth and potential delays in fiscal reforms**
  - **Fiscal outlook:** The higher debt projection also reflects our fiscal deficit forecast of 4.1% of GDP (2024: 4.1%), based on a revised GDP growth forecast of 4.3% (previous: 4.8%). This accounts for downside risks such as lower oil prices, potential subsidy reforms delays, and ongoing external uncertainties driven by Trump's tariff.
  - **Credit rating outlook:** Malaysia's sovereign credit outlook could improve in the medium term, between 2026 and 2027, with Fitch (BBB+ positive), S&P (A- positive), and Moody's (A3 stable) signalling possible upgrades if fiscal discipline, structural reforms, and strengthening fundamentals continue.

Graph 3: Malaysia Sovereign Credit Rating



Source: Macrobond, Kenanga Research

  - **Bond market outlook:** Malaysia should continue attracting foreign portfolio inflows, supported by fiscal prudence, macro stability, and relatively attractive real yields. A stronger ringgit may further lift demand for local bonds and exert downward pressure on MGS yields. Based on this bullish outlook, we have revised our year-end forecast for MGS yields lower to 3.46% from 3.83%. On supply, we have marginally revised gross issuance projections to RM166.5b —slightly higher—due to greater funding needs. The primary driver of issuance expectations is based on the fiscal deficit projection of 4.1% of GDP. However, the impact on supply dynamics is partially offset by fewer MGS and GII maturities, easing rollover pressures.

Table 1: Central Government Debt

	2023	2024	1Q24	2Q24	3Q24	4Q24	1Q25
Total Current Liabilities							
Value (RM Billion)	1,172.6	1,247.6	1,209.2	1,227.5	1,239.1	1,247.6	1,277.3
As of GDP (%)	64.3	64.6	62.6	63.5	64.1	64.6	65.5
YoY %	8.6	6.4	7.9	7.2	7.1	6.4	5.6
MoM %	1.4	0.7	3.1	1.5	0.9	0.7	2.4
Short-term debt (RM Billion)	20.0	15.0	17.0	20.5	19.0	15.0	13.5
Medium- and long-term debt (RM Billion)	1152.5	1,232.6	1,192.2	1,207.0	1,220.1	1,232.6	1,263.8
Domestic Debt							
Value (RM Billion)	891.0	964.9	933.8	946.2	944.8	964.9	993.7
YoY %	8.5	8.3	10.0	9.6	8.0	8.3	6.4
MoM %	1.8	2.1	4.8	1.3	-0.1	2.1	3.0
Short term debt (RM Billion)	16.2	9.7	16.4	18.2	12.9	9.7	10.2
Medium- and long-term debt (RM Billion)	874.8	955.2	917.5	928.0	931.9	955.2	983.5
External debt							
Value (RM Billion)	281.5	282.7	275.4	281.3	294.3	282.7	283.7
YoY %	9.1	0.4	1.6	-0.1	4.5	0.4	3.0
MoM %	-0.1	-3.9	-2.2	2.2	4.6	-3.9	0.3
Short term debt (RM Billion)	3.8	5.3	0.6	2.3	6.1	5.3	3.3
Medium- and long-term debt (RM Billion)	277.7	277.5	274.7	279.0	288.1	277.5	280.3
External debt, by currency (Billion)							
RM	256.3	259.4	250.2	256.8	272.1	259.4	260.3
USD	15.0	14.7	15.5	15.5	13.5	14.7	14.5
Yen	10.0	8.7	9.6	9.0	8.7	8.7	8.8
Other	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Debt guaranteed by Federal Government (RM Billion)	327.3	332.8	325.1	330.8	326.5	332.8	337.0

Source: BNM, Kenanga Research

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