

FIXED INCOME

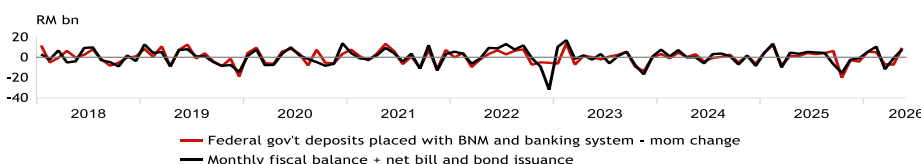
Bond supply intact as May fiscal deficit narrows

- *Solid revenue collection (+10.9% mom) and prudent spending (-7.1% mom) narrowed Malaysia's fiscal deficit to RM6.3bn in May from RM12.1bn in Apr.*
- *Lower oil prices (USD70-75/bbl) and the Budi diesel scheme should further reduce fuel subsidy spending from ~RM4bn in May (Mar-Apr: RM4.7-4.9bn).*
- *Negative net MGS/GII issuance in Jul, together with an expected OPR hold by BNM on 9 Jul, should provide a supportive backdrop for govies.*

A narrower May fiscal gap boosts government's cash buffer

- Malaysia's fiscal deficit declined to RM6.3bn in May from RM12.1bn in Apr. Government revenue rose 10.9% mom (+9.8% yoy) to RM30.4bn, while expenditure fell 7.1% mom—but remained 19.5% higher yoy—at RM36.7bn, partly due to lower RON95 and diesel subsidy outlays of ~RM4.0bn (MOF guidance, Apr: RM4.9bn). With net T-bill and bond issuance of RM14bn exceeding the monthly fiscal gap, federal government deposits with the banking system increased 20.5% mom to RM42.2bn (Apr: RM35.0bn), while placements with BNM rose to RM12.8bn as of 15 Jun (29 May: RM6.3bn, 30 Apr: RM4.1bn, Figure 8).
- Cumulatively, the fiscal deficit widened slightly by 5.0% yoy to RM35.5bn (1.7% of GDP) in 5M26. Revenue collection reached RM138.4bn, or 40.3% of the full-year target, ahead of the 2015-2025 average run-rate of 38.2% (Figure 3), while expenditure accounted for 41.6% of the full-year realization (Figure 5), broadly in line with historical trends despite higher fuel subsidy outlays.
- With oil prices retracing to pre-conflict levels, fuel subsidy pressures should ease in the coming months. However, as 5M26 RON95 and diesel subsidy outlays have already exhausted the full-year budget allocation of RM15bn, any additional subsidy costs would largely need to be offset by expenditure rationalisation and/or stronger revenue collection, although fiscal policy could become more accommodative (Figure 9) to ensure domestic growth engines remain supported as we enter into election cycle.
- That said, the legislative requirement to maintain a non-negative current balance (i.e. revenue ≥ operating expenditure) should limit any sizeable deviation from the official fiscal deficit target of 3.5% of GDP. More importantly, any residual funding requirement can be accommodated through higher MITB and MTB issuance, leaving our gross MGS/GII supply forecast unchanged at RM185bn in 2026 (RM5bn per auction).
- Primary market demand remained resilient despite the heavy May-Jun supply calendar, with seven consecutive auctions well absorbed at a weighted average BTC of 2.60x and tight pricing ranges (1-2bps). Looking ahead, the auction calendar moderates to three auctions in Jul (10Y MGS 07/35, 3Y GII 10/29 and 15Y MGS 01/41). With RM20bn of MGS maturing on 15 Jul, we expect net MGS/GII issuance to turn negative in Jul (-RM5bn), which, together with an expected OPR hold on 9 Jul, should provide a supportive backdrop for MYR government bonds. The unchanged MGS/GII supply outlook, led by easing oil prices, should keep the 3s10s curve anchored around 35-40bps. While election-related uncertainties may trigger temporary curve steepening (Figure 13), we expect such moves to present opportunities to position for subsequent curve normalisation as political uncertainty recedes. We keep our 10Y MGS yield forecast of 3.55-3.70% for 2H26.

Figure 1: A narrower fiscal deficit in May – below net T-bill and bond issuance of RM14bn – lifts federal government deposits



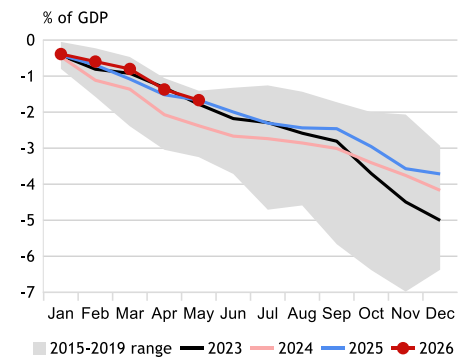
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

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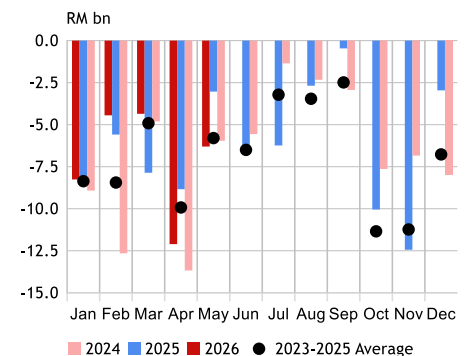
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Cumulative fiscal deficit



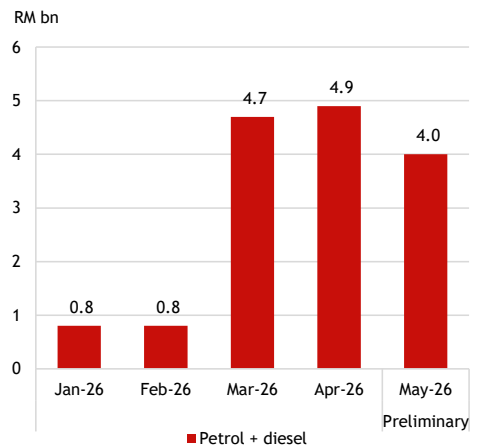
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Fiscal deficit tends to narrow in 3Q



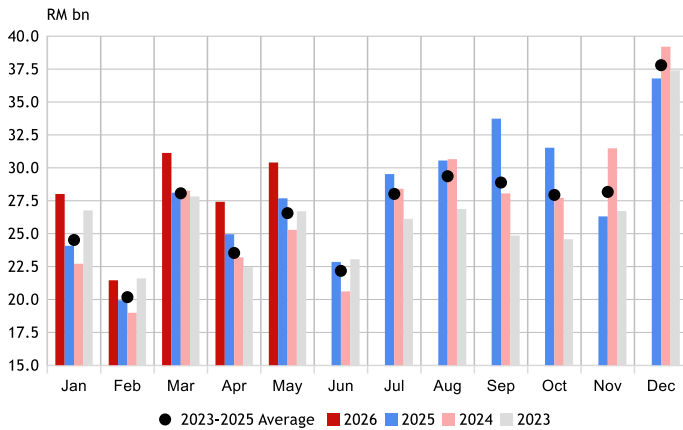
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Petrol and diesel subsidies eased in May



SOURCE: MOF

Figure 2: Monthly government revenue collection remains solid in May



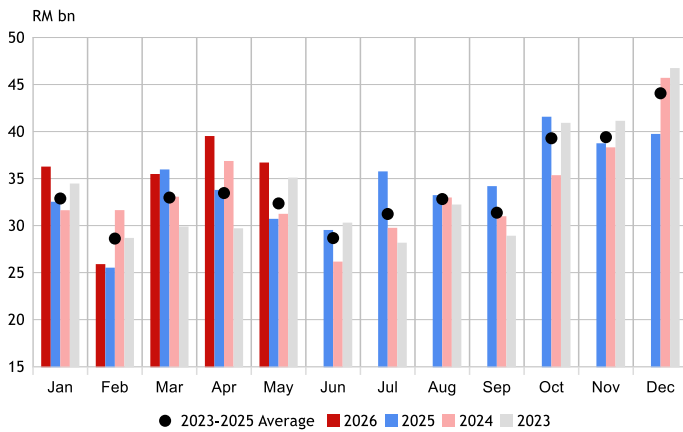
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Figure 3: 5M26 revenue collection was ahead of average 2015-2025 run-rate of 38.2%

% of annual	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	7.7	14.9	22.3	30.6	38.6	46.2	54.2	64.3	73.0	81.9	90.4	100.0
2015	7.9	16.4	23.5	31.7	39.8	48.7	56.9	65.4	74.4	82.8	92.0	100.0
2016	6.7	13.1	23.0	30.3	38.9	45.3	52.5	63.6	71.8	80.8	89.6	100.0
2017	7.0	13.9	21.2	28.1	37.2	44.0	53.3	62.7	70.7	80.5	89.9	100.0
2018	8.1	13.0	23.3	30.9	39.8	45.9	55.0	62.5	71.2	80.6	90.9	100.0
2019	8.1	15.8	24.1	32.0	39.9	47.6	55.9	64.7	73.6	83.1	93.2	100.0
2020	7.8	14.7	20.1	28.7	37.2	45.2	50.2	59.4	65.8	74.5	85.9	100.0
2021	7.1	12.9	21.2	30.7	38.6	45.5	52.4	59.4	67.5	79.2	90.0	100.0
2022	7.2	12.0	21.3	27.9	34.8	42.2	50.4	58.9	70.5	81.6	92.6	100.0
2023	8.5	15.4	24.2	31.3	39.8	47.1	55.4	63.9	71.8	79.6	88.1	100.0
2024	7.0	12.8	21.6	28.7	36.5	42.8	51.6	61.0	69.7	78.2	87.9	100.0
2025	7.2	13.1	21.5	28.9	37.1	43.9	52.7	61.8	71.8	81.2	89.1	100.0
2026	8.2	14.4	23.5	31.5	40.3							
2015-2025	7.5	13.9	22.3	29.9	38.2	45.3	53.3	62.1	70.8	80.2	89.9	100.0
2023-2025	7.6	13.8	22.4	29.6	37.8	44.6	53.2	62.3	71.1	79.7	88.4	100.0

SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 4: Monthly government expenditure (OPEX and net DE) collection accelerated in Apr-May



SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 5: 5M26 government expenditure exceeded average 2015-2025 run-rate of 41.5%

% of annual	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	7.6	15.8	24.1	32.9	39.6	46.9	54.9	62.3	70.5	78.7	87.0	100.0
2015	9.4	16.6	24.7	34.2	40.5	47.8	54.4	62.5	71.5	80.0	88.1	100.0
2016	9.7	17.6	26.5	35.7	43.3	51.4	57.6	66.0	74.6	83.3	91.5	100.0
2017	9.0	17.4	25.6	34.2	43.1	50.3	57.1	64.6	72.5	82.3	92.8	100.0
2018	9.4	14.9	23.0	34.4	44.7	48.1	55.3	62.4	70.0	79.6	89.4	100.0
2019	7.1	14.3	22.4	31.8	40.2	46.9	54.6	63.0	71.7	81.2	89.9	100.0
2020	9.8	16.7	25.9	37.5	44.7	52.6	60.6	66.3	75.4	84.3	94.4	100.0
2021	9.7	18.2	28.5	37.0	44.2	52.2	58.5	64.7	74.8	81.8	93.1	100.0
2022	7.5	14.2	23.4	31.2	37.3	45.0	51.5	58.7	67.2	77.0	87.8	100.0
2023	8.5	15.5	22.9	30.2	38.9	46.3	53.2	61.2	68.3	78.4	88.5	100.0
2024	7.8	15.7	23.9	33.0	40.7	47.2	54.6	62.8	70.4	79.2	88.7	100.0
2025	7.9	14.1	22.9	31.1	38.5	45.7	54.4	62.5	70.8	80.9	90.3	100.0
2026	8.7	14.9	23.4	32.8	41.6							
2015-2025	8.7	15.9	24.5	33.7	41.5	48.5	55.6	63.1	71.6	80.7	90.4	100.0
2023-2025	8.1	15.1	23.2	31.4	39.4	46.4	54.1	62.1	69.8	79.5	89.2	100.0

SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 6: 1Q26 revenue breakdown

RM bn	1Q25	4Q25	1Q26	% yoy	% qoq
Federal Government Revenue	72.1	94.6	80.6	11.8	(14.8)
Tax	56.8	64.6	61.8	8.8	(4.4)
Direct Tax	38.2	43.3	38.9	1.8	(10.2)
Companies Income Tax	21.4	23.0	20.3	(4.8)	(11.7)
Individuals Income Tax	9.9	10.0	12.0	21.1	19.4
Petroleum Income Tax (PITA)	2.8	4.8	2.0	(27.1)	(57.7)
Stamp Duties	2.5	3.5	2.7	7.0	(22.7)
Indirect Tax	18.6	21.3	22.9	23.3	7.3
Export Duties	0.5	0.4	0.5	(2.8)	26.1
Import Duties	0.7	0.8	0.7	3.2	(14.6)
Excise Duties	3.0	3.5	2.7	(10.2)	(23.9)
Sales Tax	5.2	7.1	7.1	35.8	(0.2)
Service Tax	7.6	7.9	10.7	40.4	35.1
Non-Tax	14.4	26.0	16.2	12.5	(37.6)
Interest & Returns on Investment	7.7	21.0	9.5	23.5	(55.0)
Licences & Permits	2.3	2.6	2.5	4.8	(6.5)
Petroleum Royalty	2.8	-	2.5	(10.7)	-
Other Non-Tax Revenue	1.6	2.4	1.8	11.4	(24.2)
Non-Revenue Receipts	0.9	4.0	2.6	185.1	(35.0)

SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

- Revenue remained resilient despite weaker oil-related receipts. Federal government revenue grew 11.8% yoy to RM80.6bn (23% of the full-year target), supported by stronger SST (+38.5% yoy), personal income tax (+21.1% yoy) and investment income (+23.5% yoy), which more than offset declines in corporate income tax (-4.8% yoy), petroleum income tax (-27.1% yoy) and excise duties (-10.2% yoy).

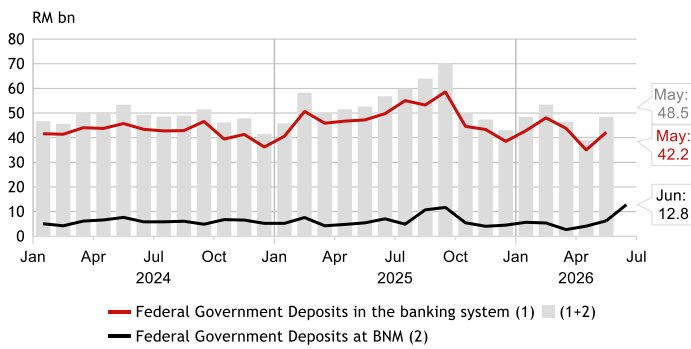
Figure 7: 1Q26 expenditure breakdown

RM bn	1Q25	4Q25	1Q26	% yoy	% qoq
Operating Expenditure	76.5	92.4	83.2	8.8	(10.0)
Emoluments	26.0	25.3	27.0	4.1	6.8
Pension & Gratuities	10.1	9.7	11.0	8.2	13.1
Debt Service Charges	8.5	15.2	12.0	41.0	(21.0)
Supplies & Services	7.8	15.1	6.6	(15.5)	(56.3)
Subsidies	12.9	16.6	17.2	33.7	4.1
Grants & Transfers	10.9	9.6	9.2	(15.8)	(4.2)
Asset Acquisition	0.1	0.7	0.0	(73.9)	(95.7)
Others	0.1	0.2	0.1	11.0	(37.2)
Development Expenditure	17.8	28.2	14.8	(17.1)	(47.7)

- The 1Q26 fiscal breakdown points to disciplined expenditure management.
- Operating expenditure (OPEX) rose 8.8% yoy to RM83.2bn, equivalent to 25% of the full-year budget and broadly in line with the 10-year average. Lower supply and services spending (-15.5% yoy), likely reflecting government cost-saving measures, partly offset the sharp increase in subsidy payments (+33.7% yoy).
- Development expenditure (DE) declined 17.1% yoy to RM14.8bn, accounting for just 18.2% of the annual allocation versus the 2016-2025 average of 22.6%.

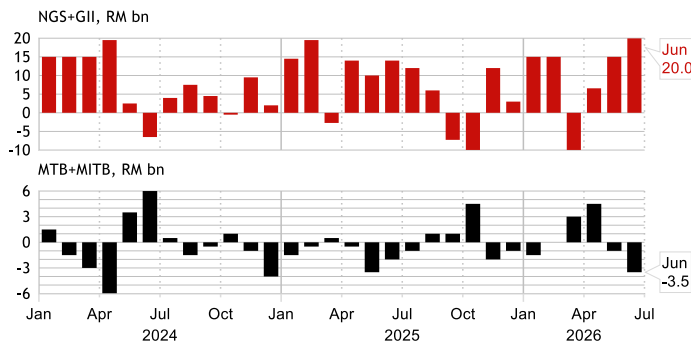
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 8: Federal government deposits increased



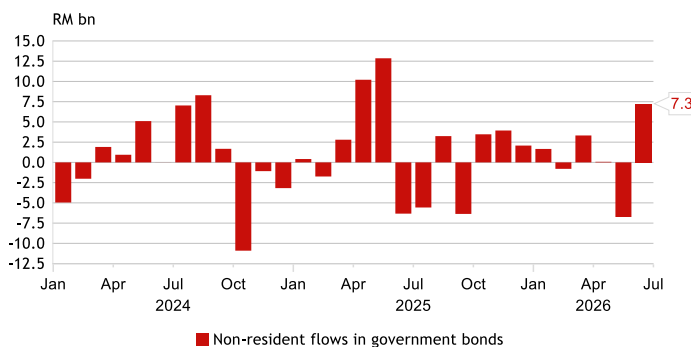
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 10: Negative net MGS and GII issuance of RM5bn expected in Jul...



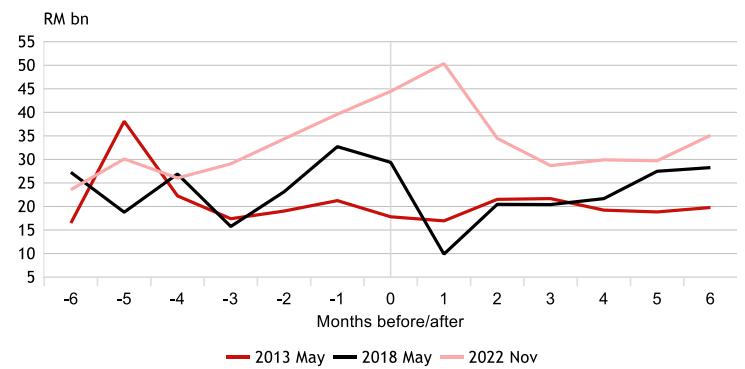
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 12: Non-resident flows in government bonds - monthly



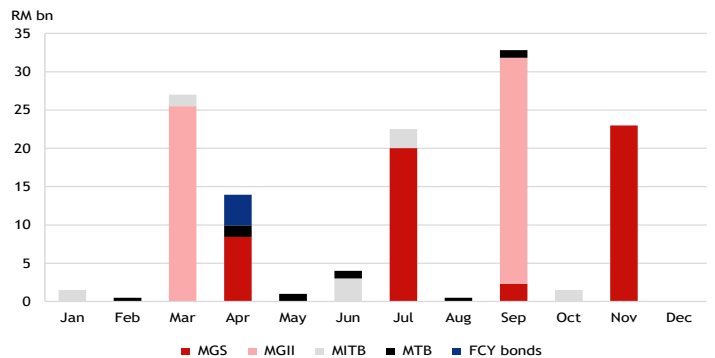
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 9: Government expenditure rose 2 months ahead of the general elections in 2018 and 2022



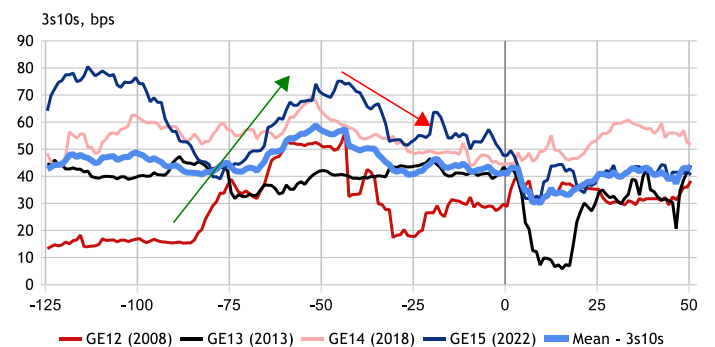
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 11: ...amid MGS maturities of RM20bn



SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 13: 3s10s spread widens briefly three months ahead of GE



SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

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