Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

Executive Summary

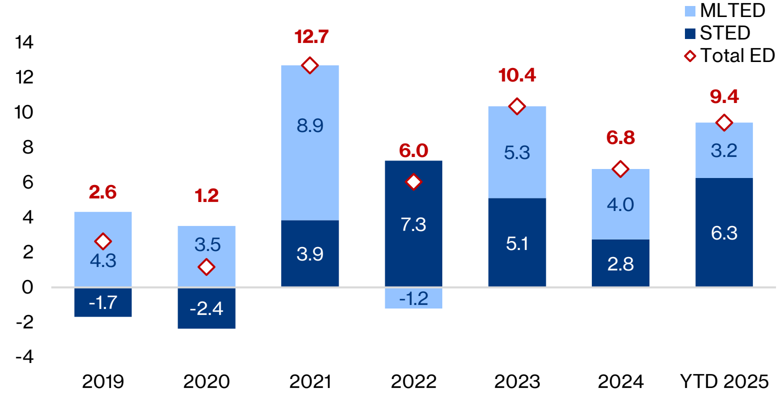
- Malaysia's increasing global integration – characterised by higher cross-border trade, investment flows, and financial linkages – has led to an increase in external borrowing, primarily driven by the banking sector, followed by corporate entities.
- Cross-border interbank borrowing enables banks to diversify their funding sources and increase access to international markets. Meanwhile, trade credits by corporates have grown since the pandemic amid increased trade in export-oriented industries.
- Despite rising short-term external debt, Malaysia's external position remains resilient underpinned by supportive external sector dynamics, prudent regulatory oversight and ample external assets.

Malaysia's external debt: A footprint of growth and openness

Over the past decade,[1] Malaysia's total external debt (ED) expanded at an average annual rate of 6.3%, driven primarily by the continued rise in short-term external debt (STED) (Chart 1). This trend is not unique to Malaysia – short-term external borrowing in upper middle income countries has surged by 107% between 2010 and 2023, reflecting heightened liquidity needs as economies recovered from the Global Financial Crisis (GFC) and COVID-19 pandemic. Against this backdrop, this article examines the key drivers of Malaysia's STED and evaluates their implications for the country's external resilience.

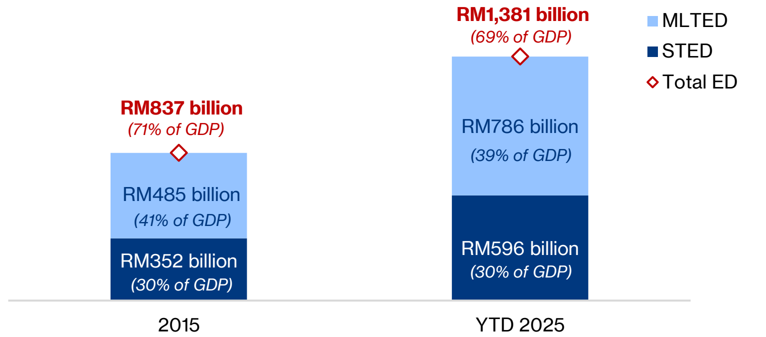
[1] Refers to period between 2014 and 2024.
Note: Year-to-date (YTD) 2025 refers to the period of end-September 2025.

Chart 1: External debt growth by maturity
Annual change (%), contribution to growth (percentage points)



Notes: 1/ MLTED: Medium- and long-term external debt. 2/ YTD 2025 refers to annual change between September 2024 and September 2025.
Source: Bank Negara Malaysia

Chart 2: External debt level by maturity
RM billion, % of GDP



Source: Bank Negara Malaysia

Box Article

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Favourable debt profile reduces rollover risks

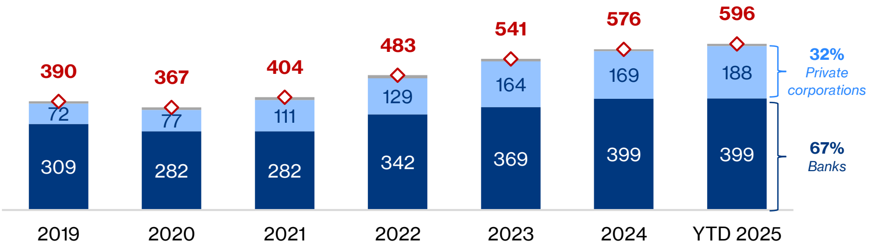
As at end-3Q 2025, Malaysia's total external debt stood at RM1.4 trillion, equivalent to 69% of GDP (end-2Q 2025: RM1.4 trillion; 71% of GDP). Most of this debt is in the form of medium- and long-term external debt (MLTED), amounting to RM786 billion or 57% of the total debt (Chart 2). The longer maturity term enables prudent management of the repayment schedules, limiting borrowers' rollover risks. The remaining RM596 billion (43%) comprises of STED, which has remained stable at just over 40% in the last 10 years.

Since 2021, growth in Malaysia's external debt is driven mainly by short-term debt from the private sector

The private sector continues to be the main contributor to STED, making up 99% of total STED. The public sector's share remains relatively small and stable, consisting mainly of non-resident (NR) holdings of government debt securities (Chart 3). Comparing against other regional peers, Malaysia's share of STED by banks and corporates is slightly above the median level (Chart 4).

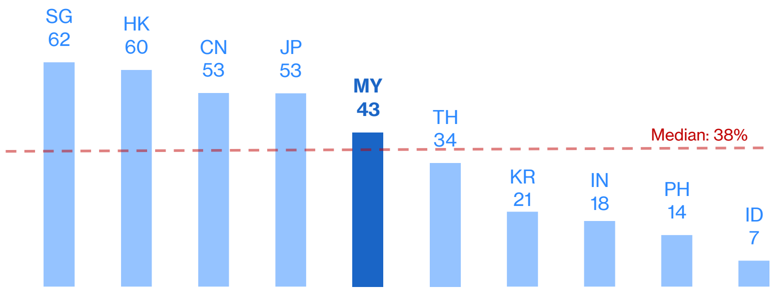
The steady rise in STED reflects Malaysia's increasing integration into the global economy through active participation of the banking sector and private firms in cross-border activities. For each sector, these are largely in the form of: **(i) interbank borrowing**; and **(ii) trade credit**.

Chart 3: STED by institutional sector
RM billion



Note: Public sector refers to public corporations, the Government and Central Bank.
Source: Bank Negara Malaysia

Chart 4: Banks and corporates' STED of selected regional peers
% of total external debt



Notes: 1/ SG = Singapore, HK = Hong Kong, CN = China, JP = Japan, MY = Malaysia, TH = Thailand, KR = South Korea, IN = India, PH = Philippines, ID = Indonesia. 2/ Based on the latest available data as at end-2Q 2025 for other countries, whereas Malaysia's data is as at end-3Q 2025.
Source: Bank Negara Malaysia and CEIC

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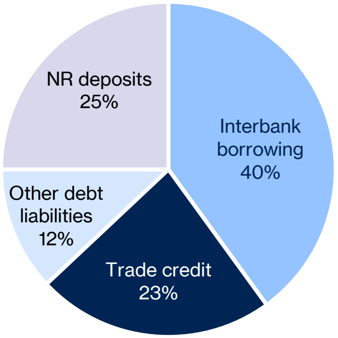
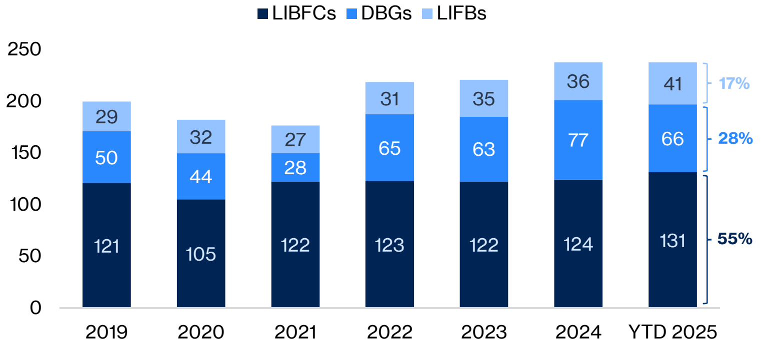
Chart 5: Breakdown of STED by instrument as at end-September 2025
% share of total STED



Note: Other debt liabilities include loans, NR holdings of domestic debt securities, money market instruments issued in international market and non-trade payables.
Source: Bank Negara Malaysia

Chart 6: Interbank borrowing by banking group
RM billion



Note: The banking groups refer to Labuan International Business and Financial Centre (LIBFC), Domestic Banking Groups (DBG) and Locally-Incorporated Foreign Banks (LIFB).
Source: Bank Negara Malaysia

I. Interbank borrowing reflects growing regional footprint

Interbank borrowing, accounting for 40% of total STED, is the main component of Malaysian short-term borrowings (Chart 5). More than half (55%) of these interbank borrowings are intermediated by the Labuan International Business and Financial Centre (LIBFC), reflecting its role as Malaysia's offshore financial hub (Chart 6).[2] Banks operating within LIBFC often act as conduits for regional financial intermediation, with parent institutions abroad channelling funds to their Labuan entities to support liquidity and operational needs. Such funding structure are a common feature of financial centres, where the amount, tenure, and currency are typically matched and subsequently lent to NR clients through 'out-out'[3] transactions, which limits the spillover risks to Malaysia's domestic financial system.

The remainder (45%) of interbank borrowing is attributable to onshore banks, comprising Domestic Banking Groups (DBGs) and Locally-Incorporated Foreign Banks (LIFBs). In particular, 23% of the total interbank borrowings by DBGs and LIFBs occur with non-related entities,[4] while the remaining 22% is between related counterparties within the same banking group. These intragroup borrowings enable banks to access funding from parent institutions and affiliates often times at concessionary rates, thereby mitigating funding risk and risk of sudden withdrawals.

[2] Banks operating in LIBFC are regulated by Labuan Financial Services Authority (LFSA). The external borrowing of LIBFCs are reported under Malaysia's external debt, in line with the IMF Balance of Payments and International Investment Position Manual.
[3] 'Out-out' refers to the placement of externally sourced funds with external counterparties.
[4] Non-related entities are entities which are not of the same parent institution, while related entities share a common parent institution.

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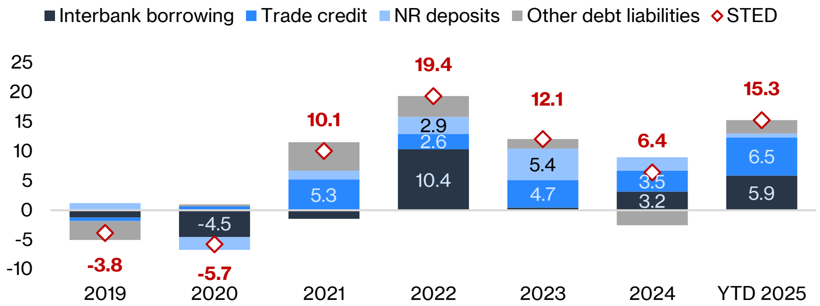
After the pandemic, with the exception of 2023, higher interbank borrowings have been one of the main drivers of the increase in STED (Chart 7). This trend is driven by onshore banks, mainly the DBGs, which have increased their use of short-term financing. This was partly due to DBGs' access to offshore FCY funding to source cheaper funding from abroad.

With extensive regional presence and international operations, these DBGs also centralise their liquidity management through treasury operations based in Malaysia. The Malaysian head offices act as central conduits, pooling funds from overseas operations and reallocating them across branches to optimise funding efficiency. This process is facilitated through interbank borrowing and lending. In general, these short-term transactions are primarily used by banks to manage short-term funding requirements and preserve their liquidity buffers. DBGs' transactions with counterparties in key jurisdictions have risen sharply, such as the United Kingdom (2021–25: 54%; 2015–19: 4%), Vietnam (2021–25: 52%; 2015–19: 28%), Indonesia (2021–25: 34%; 2015–19: -16%), and China (2021–25: 21%; 2015–19: 13%).[5]

Chart 7: STED growth by instrument

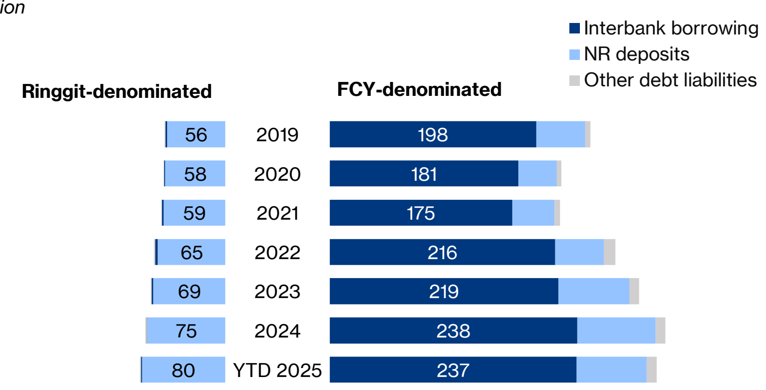
Annual change (%), contribution to growth (percentage points)



Notes: 1/ YTD 2025 refers to annual change between September 2024 and September 2025. 2/ Other debt liabilities include loans, NR holdings of domestic debt securities, and money market instruments issued in international market, and non-trade payables.
Source: Bank Negara Malaysia

Chart 8: Banks' STED by currency and instrument

RM billion



Note: Other debt liabilities include NR holdings of domestic debt, bonds and notes as well as loans.
Source: Bank Negara Malaysia

[5] Refers to average annual growth between 2015 and 2019 as well as 2021 and YTD 2025.

II. Corporates' short-term borrowings are primarily for trade and has contributions to long-term growth

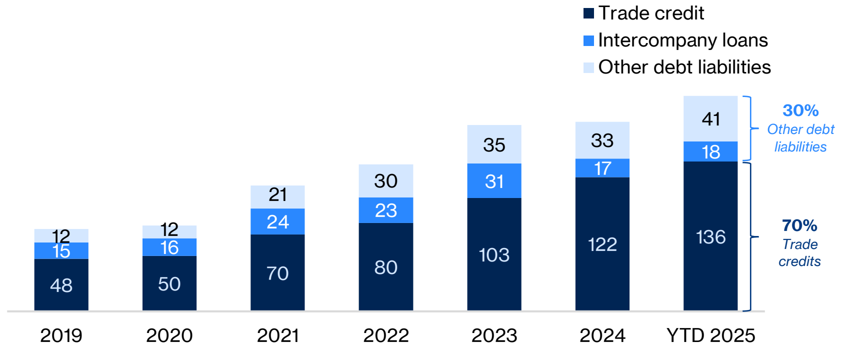
Corporate STED is predominantly comprised of trade credit arrangements, which account for 70% of total corporate STED (Chart 9). The remainder comprises other short-term liabilities such as intercompany loans, pending insurance claim disbursements, and interest payables on bonds and notes – reflecting the diverse nature of firms' short-term debt obligations.

Trade credit allows firms to acquire inventory without immediate payment, providing a cost-effective alternative to traditional loans and allowing effective liquidity management. These arrangements are particularly beneficial during periods of high seasonal demand, enabling firms to stock up in advance without straining cash reserves. Repayment is typically aligned with export proceeds, ensuring that cash inflows match debt servicing needs.

Since the pandemic, corporate STED has increased by 64%, underscoring firms' adaptive use of trade credit facilities to finance import-related activities. Much of this growth is concentrated in export-oriented manufacturing sectors, notably electrical and electronics (E&E) and petroleum refining (Chart 10). This trend is further reinforced by broader participation, with roughly one-third of the top 100 players[6] being new entrants post-pandemic, highlighting the increasing integration of domestic firms into global trade networks.

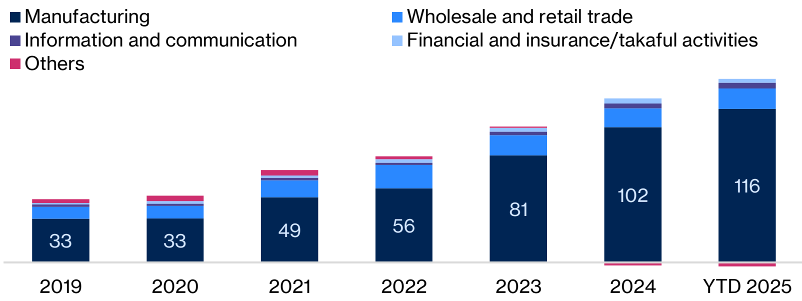
[6] Based on the quarterly International Investment Position (IIP) survey conducted jointly by Bank Negara Malaysia and the Department of Statistics, Malaysia.

Chart 9: Corporates' STED by instrument
RM billion



Note: Other debt liabilities include loans, NR holdings of domestic debt securities, money market instruments issued in international market, and non-trade payables.
Source: Bank Negara Malaysia

Chart 10: Corporates' trade credit by industry
RM billion



Note: Others include administrative and support service activities, real estate activities, construction, professional, scientific and technical activities, mining and quarrying, and transportation and storage.
Source: Bank Negara Malaysia

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Malaysia's external sector resilience anchored by sound fundamentals and robust policy safeguards

The external sector has been one of the key pillars supporting Malaysia's economic strength, providing a strong buffer against external shocks. This resilience is anchored by supportive external sector dynamics, favourable debt structure, prudent policies and strong external buffers.

A. Supportive external sector dynamics

Malaysia's external position remains fundamentally sound, with risks from STED and FCY liabilities exposure remaining contained. A higher share of medium- and long-term external debt reduces rollover risks, while FCY exposures are prudently managed through hedging instruments. In addition, a sustained current account surplus since 1998 further underscores Malaysia's strong external fundamentals.

B. Favourable short-term external debt profile

Around one-third of FCY-denominated STED is backed by export earnings, providing a natural hedge against currency risk. Furthermore, some of these short-term borrowings occur between related counterparties, which are on flexible and concessionary terms and thus reduces refinancing and credit risks. These factors collectively limit the vulnerabilities arising from short-term external obligations.

C. Strong prudential and regulatory frameworks

BNM enforces a comprehensive regulatory framework and macroprudential surveillance to ensure the banking sector remains resilient. Banks are required to maintain sufficient liquidity buffers and strong capital positions, enabling them to meet short-term obligations and absorb external shocks. This enhances resilience during periods of heightened global uncertainty and contributes to broader financial stability. Meanwhile, under the Foreign Exchange Policy (FEP) rules, resident corporates' external borrowings from non-related parties amounting above RM100 million also require BNM's approval. This ensures that such borrowings are supported by earnings, adequately hedged, and used for productive purposes, thereby minimising systemic risks to the economy.

D. Sufficient external liquidity buffer and strong external asset position

Progressive liberalisation of the FEP has enabled banks and corporates to accumulate sizeable non-reserve FCY external assets amounting to RM1,949 billion, of which RM1,044 billion is liquid and can be drawn upon to meet short-term obligations. These strong external assets underpin Malaysia's positive Net International Investment Position (NIIP) of RM77 billion, or 3.9% of GDP. This reaffirms Malaysia's status as a net creditor nation with ample buffers to mitigate against external shocks.

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Conclusion

Malaysia’s rising STED reflects structural shifts in cross-border financial intermediation rather than heightened vulnerabilities. The key components driving STED – interbank borrowing and trade credit – are expanding in line with regional banking strategies and deeper global trade integration. These borrowings enhance liquidity management and operational flexibility for banks and corporates, with exposures largely concentrated within related entities and supported by stable FCY revenue streams. Moreover, Malaysia’s strong prudential frameworks and comprehensive surveillance mechanisms provide an additional safeguard, ensuring early detection and mitigation of emerging external risks.

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