

Adnan Zaylani Mohamad Zahid: Welcoming remarks - the Malaysia's Islamic Financial Market Committee (IFMC) and the MIFC Leadership Council (MLC) Roundtable Discussion

Welcoming remarks by Mr Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysia's Islamic Financial Market Committee (IFMC) and the MIFC Leadership Council (MLC) Roundtable on Green Sukuk 2024, Kuala Lumpur, 19 August 2024.

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Distinguished guests, ladies and gentlemen. Assalamualaikum and a very good day. First and foremost, thank you for being here and I warmly welcome each of you to the IFMC-MLC Roundtable Discussion. This event brings together industry leaders, issuers, investors, and regulators as part of our collective efforts towards sustainability.

Ladies and gentlemen,

Amidst global uncertainties, the Malaysian economy remains resilient and on track for continued and stronger growth, with GDP expected to expand around the upper end of the 4%-5% range in 2024. This growth is driven by strong domestic demand and investments, both in the public and private sector, supported by key initiatives such as the National Energy Transition Roadmap, the New Industrial Master Plan 2030, and the Mid-term Review of the Twelfth Malaysia Plan.

Reflecting this economic resilience, the ringgit has shown strong appreciation against the US dollar since July, becoming one of the best-performing currencies in the region. Growing expectations of and clarity over interest rate paths in advanced economies has certainly helped but notably, there has been more, improved financial market sentiment, and increased investor confidence in Malaysia's markets and economy.

We should further build on this momentum. It is crucial for Malaysia to seize this 'window of opportunity' and continue with the necessary structural reforms. These reforms will not only strengthen our resilience and economic competitiveness but also provide ongoing support to the ringgit and financial markets. Sustaining efforts towards structural reforms is essential to boosting investor confidence and realising the country's long-term economic growth prospects.

Distinguished guests,

Advancing sustainability is one of the key themes in the 12th Malaysia Plan (12MP), aimed at ensuring continuous economic growth while safeguarding the environment and upholding Malaysia's commitments to global targets. In line with this aspiration, we are here today to continue to align our efforts with the nation's broader objective of advancing sustainability. In context for this roundtable, green sukuk can further catalyse the development of the sustainable economy moving forward through various Government initiatives mainly through National Energy Transition Roadmap (NETR) which is estimated to require up to RM1.85 trillion in financing by 2050.

Malaysia's pioneering role in Islamic finance has not only fostered the growth of domestic Islamic finance but also established Malaysia as a global hub for Shariah-compliant finance, attracting investors from around the world. The expansion from traditional Islamic finance to the issuance of green sukuk is a natural evolution of Malaysia's leadership in this field. Leveraging its extensive experience and well-established infrastructure, Malaysia is well-positioned to be at the forefront of the global green sukuk market.

In this regard, Malaysia remains a centre of innovation with numerous groundbreaking initiatives, including the issuance of green sukuk. Notably, Malaysia pioneered the first green sukuk with Tadau Energy Sdn Bhd, issued in July 2017. So far, the majority of green sukuk issuances have originated from Malaysia. As of July 2024, out of a total of 291 green sukuk issued globally, 262 were from Malaysia. As a result, Malaysian investment banks are highly regarded for their advisory roles in green sukuk issuances. Further to that, Malaysia also continues its regional leadership in SRI sukuk, with year-to-date issuance of fourteen SRI Sukuk totalling RM1.5 billion while since the launch of the SC's SRI Sukuk Framework¹, total outstanding SRI issuances have approached RM27.3 billion². The country also contributes significantly, accounting for 25% of the total issuance of ASEAN Green, Social, and Sustainability bonds and sukuk amounting to US\$49.1 billion³.

This is a strong foundation. The current ecosystem is already well-positioned to further facilitate green sukuk issuances in Malaysia. The Securities Commission (SC) has established a robust framework and incentives to support these issuances and their development. Additionally, Bank Negara Malaysia (BNM)'s Foreign Exchange Policy (FEP) has always been facilitative of sukuk issuances in Malaysia by residents. For issuances by non-residents, the Bank is exploring initiatives to offer FEP flexibility to support the issuance of ringgit-denominated sukuk for use in Malaysia, including providing ringgit financing to resident entities to further stimulate development projects in the country.

Meanwhile, the demand outlook for ESG-focused investments remains strong. As of early 2024, global assets under management in sustainable investments have surpassed USD30 trillion and are projected to reach USD40 trillion by 2030⁴, reflecting a significant increase and a growing interest in ESG-focused investments. With sustainable investment assets growing at a compound annual growth rate (CAGR) of approximately 15-20% over the past decade, the Asia-Pacific region, while still developing compared to the U.S. and Europe, is experiencing rapid growth. In 2023, ESG sukuk made up 6.2% of the total sukuk issued, amounting to USD214.9 billion – a 9% increase year-on-year – demonstrating a strong upward trend in sustainable investments within the region.

Going forward, how can we scale up this ecosystem further. First, given the financing needs there is a need to ensure a continuous facilitation and supply of green sukuk issuances. To date, while we have the numbers, Malaysia's share of green sukuk in terms of the size remains small, constituted only 7.5% of the global green sukuk issuances (July 2024: USD25 billion)⁵. Furthermore, issuances were concentrated on Renewable Energy (RE) and green real estate which made-up over 80% of total green sukuk issuances up to 2023. As such, we need to expand and promote the use of green

sukuk to finance a wider range of sectors within the green projects universe, such as waste management, resilient infrastructure, energy-efficient building construction, reforestation, protection against extreme events, sustainable agriculture, and biodiversity conservation. One potential catalyst that can be explored is the establishment of a green asset repository, which could also help accelerate the development and issuance of green sukuk, facilitating further progress in this area.

Second, to support this growth, government and regulatory backing through incentives and favourable regulatory treatment are essential. The 2025 Budget is in the midst of development. This is the opportunity for the industry to formulate and present specific requests and proposals related to green initiatives to the government. Additionally, the roundtable can also discuss specific measures to motivate Islamic financial institutions (IFIs), corporates, and asset managers to include green sukuk in their investment mandates and encourage secondary trades for green sukuk.

Ladies and gentlemen,

Today, and through the following sessions, I hope we will get a good perspective of where we are, what the country wants to do in this space, and how we can play a part in this. Ahead of that, some thoughts that we can have at the back of our minds are:

- **First**, we also should develop effective strategies to encourage larger businesses to collaborate with micro, small, and medium-sized enterprises (MSMEs) within their supply chains. This collaboration could focus on making necessary adjustments to reduce Scope 3 emissions across the entire value chain by leveraging green sukuk issuance to fund the transition. Additionally, issuing large-scale sukuk is crucial, and participation from key issuers such as the Government of Malaysia (GOM) and Government-Linked Companies (GLCs) will be vital.
- **Second**, collaboration among government bodies, regulators, market participants, and other stakeholders is crucial to driving progress. Under Strategic Thrust 4 of the Financial Sector Blueprint (FSBP) 2022-2026, which aims to ensure a smooth transition to a greener economy, BNM will focus on enhancing this collaboration. Additionally, potential issuers can benefit from the Securities Commission's (SC) NaviGate programme, a one-stop centre designed to accelerate learning and foster connections among issuers, investment banks, and investors, thus enhancing awareness of Sustainable and Responsible Investment (SRI) opportunities.
- **And finally**, we must broaden our investor base by actively promoting green and SRI sukuk at every opportunity. This effort not only requires consistent engagement with potential investors and a substantial enhancement of our promotional activities. For example, the NETR offers a significant opportunity to attract new investors. They can participate in key initiatives such as the ten flagship catalyst projects, including the Renewable Energy Zone (RE Zone). Additionally, large-scale solar (LSS) parks, co-developed by TNB in partnership with SMEs, cooperatives, and state economic development corporations, also present valuable opportunities to draw investments into Malaysia.

Distinguished guests,

"Remember when your Lord said to the angels, 'I am going to place a successive human authority on earth.'"[Al-Baqarah: verse 30].

It is crucial for success that both the general public and the financial industry support the sustainability agenda with the goal of ensuring "peace and prosperity for people and the planet." Green sukuk can play a key role in helping Malaysia achieve its target of net zero carbon emissions by 2050.

I hope this Roundtable can provide the various stakeholders in the market-issuers, sukuk structuring and advisory teams at financial institutions, investors, rating companies, consultants and many more – to discuss on actionable priorities and strategies in driving the green sukuk market forward. This indeed, is part of our aspiration for Malaysia via the Malaysia International Islamic Financial Centre's (MIFC) agenda to be the global gateway for Islamic finance.

On this note, let's begin the discussion. I wish you all a productive and insightful exchange ahead.

Thank you.

[1](#) Bond+Sukuk Information Exchange (BIX)

[2](#) Source: Securities Commission Malaysia

[3](#) Source: Securities Commission Malaysia

[4](#) Source: Bloomberg Intelligence

[5](#) Source: Bloomberg