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Scaling Up Green Central Banking for Sustainable Economic Transition in Malaysia

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Chi Xiang Wong[1] (Author); Joe Herbert (Editor, Positive Money)

Malaysia has been identified as among the top ten emitters in Asia-Pacific, and ranks 49th in the Climate Change Performance Index. It is also at high risk of suffering climate-related disasters, alongside its ASEAN counterparts. However, within the ASEAN+3 (APT) region, Bank Negara Malaysia stands out as a leader in the development of green central banking policies, as measured by Positive Money's 2025 East and Southeast Asia Green Central Banking Scorecard. Building on the analysis of the Scorecard, this briefing provides an overview of the current state of green central banking in Malaysia, by reviewing and assessing the progress of BNM in integrating environmental considerations into its policies. The briefing also presents policy case studies from other APT jurisdictions, which can contribute important learning for strengthening the alignment of BNM's monetary and financial policies with addressing the climate and ecological crisis.

A stocktake on the green central banking actions of Bank Negara Malaysia

BNM commenced its climate and ecological policymaking in 2018, via the introduction of Value-based Intermediation (VBI) for Islamic banks and financial institutions under its supervision. In 2019, in collaboration with the Securities Commission Malaysia, BNM launched the Joint Committee on Climate Change (JC3), to serve as a platform of communication between the regulators and industry, which could convene and roll out climate initiatives for the financial sector. Subsequently, a new department, known as the Sustainability Unit, was established to spearhead climate and sustainability initiatives for BNM and its regulated entities.

Since 2019, BNM has gradually scaled up the greening of its functions, developing building blocks for climate risk management, supporting climate finance, as well as integrating sustainability considerations within its internal operations. Several policies, guidelines and toolkits for the financial sector have been launched. Most notable is the Climate Change and Principles-based Taxonomy (CCPT), the first principle-based green

[1] Honorary Secretary of the CFA Society Malaysia.

taxonomy introduced by a central bank and financial supervisor, which served as a key foundation and reference in the subsequent development of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy).

As outlined in the Financial Sector Blueprint (FSB) 2022-2026, BNM is seeking to create a facilitative ecosystem for greening the financial sector, including the aim for half of new financing by banks to be aligned with climate-supporting or energy transition activities.

In 2023, BNM rolled out the Greening Value Chain (GVC) programme, which offers SMEs access to technical training, practical tools for measuring and reporting greenhouse gas emissions, and financing facilities at competitive rates through the Low Carbon Transition Facility (LCTF), to support small and medium enterprises (SMEs) in transitioning to low-carbon operations. In collaboration with the Asian Development Bank (ADB) and United Nations Development Programme (UNDP), BNM also published a playbook, drawing insights from the GVC pilot programme, to guide SMEs on the adoption of low-carbon practices.

Most recently, since the latest Scorecard assessment in 2025, BNM's approach has focused on supporting climate projects and promoting collaboration for innovative financing models; a key initiative being the Climate Finance Innovation Lab (CFIL). The CFIL is a collaborative platform to develop climate finance solutions, including sourcing and developing a green project pipeline, as well as connecting green project owners with relevant knowledge experts and interested capital providers.

Below is a table of key initiatives introduced by BNM (non-exhaustive) in 2025, mapped against the categories of green finance actions and policies utilised in the methodology of the Green Central Banking Scorecard.

Table 1: Summary of key sustainable finance initiatives by Bank Negara Malaysia in 2025

Scope	Activities
Research and Advocacy	• Advocacy through the Network for Greening the Financial System (NGFS), Bank for International Settlements, and ASEAN • Expanded the Greening Value Chain programme to ASEAN member states, in collaboration with ADB and UNDP
Monetary Policy	• Measurement of investment portfolio according to internal ESG metrics • Gradual increase in exposure to ESG-labelled instruments • Development of framework to incorporate climate considerations into monetary policy
Financial Policy	• Establishment of Climate Finance Innovation Lab (CFIL) • Promoted financing models (such as CFIL) for climate and transition programmes, including for the ASEAN Power Grid (APG) • Issued reporting templates to capture how financial institutions apply the Climate Risk Stress Testing

Leading by Example	• Measured emissions and strengthened disclosures aligned with Task Force on Climate-related Financial Disclosures (TCFD) and NGFS • Supported development of ASEAN Taxonomy Version 4 • Piloted the use of Task Force on Nature-related Financial Disclosures (TNFD) LEAP approach for assessing nature risk with three financial institutions

Following the 2025 Scorecard, Bank Negara Malaysia has continued to demonstrate positive development and leadership in three of the Scorecard's categories: research and advocacy, financial policy, and leading by example. Its green monetary policies remain relatively less developed, yet efforts to strengthen these – highlighted by BNM in its 2025 annual report – are commendable and welcomed.

BNM's implementation of sustainable finance frameworks and standards requires a coordinated approach, including comprehensive capacity development and technical support to financial market intermediaries, in collaboration with other financial regulators and authorities, to ensure a harmonised shift towards a more sustainable financing landscape and a green transition of the economy.

Green central banking analysis and recommendations for Bank Negara Malaysia

This briefing highlights lessons and case studies from other APT jurisdictions which could be useful to Malaysia's ongoing development of green central banking policies.

The following feasible and actionable recommendations can contribute towards the development of robust green central banking in Malaysia, in line with the strategies BNM has outlined in the FSB to create a facilitative policy environment for industry to advance financial innovations, and to meet the climate mitigation and adaptation financing needs in the country.

1. Relax reserve requirements for banks to encourage green lending

As evidenced by the 2025 Scorecard and more recent progress, BNM's green monetary policies have significant room for further development. This would include the use of asset purchase programmes, monetary reserves, collateral frameworks, funding and refinancing schemes, reserve requirements and interest rates, lending requirements and limits, and coordination with fiscal authorities, in order to restrict financing to ecologically damaging sectors and incentivise green investment.

Among ASEAN member states, Bangko Sentral ng Pilipinas (BSP) is observed in the 2025 Scorecard to be amongst the more active central banks in using monetary tools for green objectives. In 2023, BSP issued Circular No. 1185, which introduced incentives for green lending and sustainable finance, including granting an additional single borrower's limit of 15% percent of net worth on loans, credit accommodation and guarantees for the purpose of financing eligible green or sustainable projects. Projects which qualify for the incentives include transitional activities to decarbonisation. Alongside this, BSP introduced a phased reduction of reserve requirements (from 3% to 0%) on green, social and sustainable (GSS) bonds issued by banks. These incentives were subsequently granted a two-year extension until 2028, in order to sustain momentum in scaling up sustainable finance in the domestic financial market.

In addition to BSP, Bank Indonesia has shown progress in deploying green monetary policy tools. The Macroprudential Liquidity Incentives Policy (KLM), introduced by Bank Indonesia in coordination with Indonesia's Ministry of Finance, offers a 50-basis points reserve requirement reduction for banks offering loans for eco-friendly housing and electric vehicle ownership.

Drawing on the experiences of BSP and Bank Indonesia, BNM could consider introducing reserve requirement reduction for banks, targeting key priority sectors, such as green and sustainable buildings, leveraging the green housing standards recently released by Cagamas Berhad, in collaboration with the Asian Development Bank.

2. Provide preferential lending rates to boost green investment

Lessons for boosting green investment can also be taken from China's journey in building its green finance ecosystem. The People's Bank of China (PBoC) first established in 2015 a policy framework targeting the mobilisation of green finance flows, which were mainly channelled through the banking sector, before scaling up to establish the world's largest green lending and green bond market. As of end-2025, the PBoC's green loans amounted to CNY44.8 trillion (USD6.5 trillion), and outstanding CGT-aligned green bonds, to CNY349.2 billion (USD49.7 billion). The efforts were driven by the PBoC's decarbonisation lending facility. The Carbon Emission Reduction Facility (CERF) provides financial institutions with funds equal to 60% of a loan's principal at a one-year lending rate of 1.75%, with loans worth over CNY880 billion in total disbursed as of mid-2023.

The CERF has been extended until 2027 to boost clean energy and environmental protection efforts, aligned with the country's peak carbon and net-zero goals, including an ambitious target of developing an energy-saving industry worth CNY15 trillion, and renewable energy capacity at 1,653GW by 2030. This policy initiative has proved a success in China's development of its green finance ecosystem, and is an instrument that could be replicated in other APT jurisdictions, including Malaysia.

While the existing efforts of BNM - such as the LCTF - are welcomed, BNM could establish a similar facility to the CERF, to direct discounted green finance to key priority industries in Malaysia, such as the green hydrogen and green housing sectors.

3. Integrate environmental considerations into the collateral framework

In 2018, the PBoC expanded the collateral pool for its key liquidity tool, the Medium-term Lending Facility (MLF), to include green bonds. As such, green bonds can be pledged by banks as collateral when borrowing from the central bank, and are given a preferential status relative to other financial instruments.

The Bank of Japan (BOJ), alongside the PBoC, is another regional leader on green monetary policy that the BNM can take reference from, especially with regards to greening its asset purchase programmes and collateral frameworks. Since 2024, the BOJ has integrated Japan Climate Transition Bonds (JCTBs) – a key component of the Green Transformation (GX) strategy introduced by the Government of Japan – into its liquidity management operations, including open market operations and its collateral framework. As of February 2024, JCTBs are treated equivalently to standard Japanese sovereign bonds in these frameworks, making them attractive to financial institutions for liquidity management and risk hedging, thus deepening the liquidity of the domestic green bond market.

BNM should initiate the integration of climate and ecological considerations within its collateral framework. This should cover conventional and Islamic government and corporate securities, to further expand the liquidity and size of the local green bond market, alongside BNM coordinating with the Securities Commission Malaysia to enhance the credibility and quality of such issuances locally. BNM could consider the adoption of an environmental footprint approach, in which eligibility and haircuts are adjusted on the basis of the environmental impact of assets. BNM can affect the demand for bonds and enhance yields for environmental-friendly investments, thus contributing to the reduction of the physical risks at the financial-system level.

4. Green BNM's investment portfolio and internal operations

To lead by example and set good practices, BNM could formally adopt a sustainable investment and disclosure policy, as well as actively green its non-policy portfolios.

A number of APT central banks have taken meaningful steps to green their portfolios. As of 2023, approximately USD20 billion in ESG assets had been incorporated within the Bank of Korea's (BOK) foreign reserves management, with negative screening implemented that subsequently led to the exclusion of coal and fossil fuel-linked companies, as well as a commitment to exploring further expansion of green assets in its reserves and investment portfolio.

An example of a central bank that has implemented sustainable investing is the Hong Kong Monetary Authority (HKMA), which has issued green tokenised bonds and is incorporating responsible investment practices in managing its foreign exchange reserves (known as the Exchange Fund), including prioritising sustainable assets and mandating active ownership by its external managers. As of 2024, 10% of the Exchange Fund's investments are in sustainable assets, and the HKMA issues ESG expectations to investment counterparties. The HKMA monitors and discloses the carbon intensity of its Exchange Fund's portfolios, across various asset classes, including its public equities portfolio. The HKMA has also been a Principles for Responsible Investment (PRI) signatory since 2019.

Another case study that BNM could refer to is the Monetary Authority of Singapore (MAS), which deepened its efforts to develop the local sustainable finance market by farming out USD1.8 billion of its foreign reserves to five external asset managers focusing on environmental and climate considerations, under the Green Investment Programme (GIP). The asset managers subsequently established their Asian sustainability hubs in Singapore, and launched new green and sustainable thematic regional funds, as part of MAS' efforts to build the local sustainable investing professional talent pool. This is an approach that BNM should consider as part of building the local sustainable finance market, drawing on its past experience in developing the Islamic finance and sukuk market for Malaysia.

Meanwhile, BSP has been a signatory to the PRI since 2023, and has an internal responsible investment committee to steer ESG integration in reserve management; an approach that BNM could adopt in order to demonstrate its commitment to sustainable investing to its stakeholders.

Whilst BNM has started factoring in sustainability considerations to its investments by gradually increasing its exposure to ESG-labelled instruments and measuring its portfolios across internal ESG metrics, such indicators are not publicly disclosed and are not available for comparison with APT counterparts. Not only would the disclosure of such metrics increase transparency regarding BNM's sustainable investments, but it would also provide clear signaling to the financial sector – including BNM's external asset managers – on its commitment to greening its investment portfolio. BNM can also draw on the experience of the Employees' Provident Fund, which has published its Sustainable Investment Policies since 2022, alongside a stewardship policy published in 2024. External fund managers are required to adhere to these policies, which are aligned with the Sustainable Investing Framework for government-linked investment companies, released by the Ministry of Finance in 2023.

Another action which BNM should consider is the issuance of a sustainability report. With a number of mature APT central banks and financial supervisors publishing an annual sustainability report detailing their green policies and sustainability disclosures – notwithstanding the fact that BNM is a key contributor and advocate of the National Sustainable Reporting Framework (NSRF) – it is timely for BNM to publish its own sustainability report for its operations and investments.

BNM should also start disclosing the alignment of its investment portfolio with the Climate Change and Principle-based Taxonomy, which it issued in 2021, and require regulated entities to submit self-assessment reporting to the central bank. This would further demonstrate leadership in sustainability reporting and support for the national disclosure frameworks covering the banking, insurance and capital market sectors. MAS, for instance, published its inaugural sustainability report in 2021, following the launch of the GIP, signalling its sustainability commitment to financial market stakeholders.

5. Coordinate and align green financial policies with other regulatory authorities

Continued deepening of sustainable finance markets and greening of the financial system require coherent and facilitative regulatory frameworks, with clear policy expectations communicated to the financial sector. Central banks cannot be the sole and main players to address the climate and ecological crisis, which rather requires concerted efforts across the financial system, including coordination between fiscal and monetary policy authorities, to spur the development of key green economic industries. Leveraging its role as the central bank and primary financial regulator, BNM should maintain close coordination with the Securities Commission Malaysia and other government agencies, to steer the regulation of, and disincentivise financing for, ecologically destructive industries. This should include implementation of green taxonomies, sustainability disclosures, and policy tools to guide the issuance of green and sustainable finance instruments and products.

For instance, the development of China's green finance taxonomy and standards started in 2015, when the PBoC first issued the Green Bond Endorsed Project Catalogue to mobilise capital markets in support of the green transition. Subsequently, the National Development and Reform Commission (NDRC) issued the Guidelines on Green Bond Issuance to encourage investments in green priority sectors and projects. In 2019, seven ministries and commissions, led by the PBoC, jointly developed the Green Industry Guiding Catalogue, which introduced a harmonised definition of green economic activities for green bond issuance. Most recently, in 2025, the PBoC, National Financial Regulatory Administration (NFRA), and China Securities Regulatory Commission (CSRC), jointly published a revised catalogue which applies to a broader range of green financial products.

The taxonomy development experience in China underlines the importance of a coordinated approach across relevant policymakers and authorities, to ensure alignment on the definition of green activities throughout the financial sector; lessons which can be leveraged by BNM and relevant financial and environmental authorities to further support the development of green finance in Malaysia.

Efforts to develop a unified Malaysian taxonomy – announced in August 2025 – that is interoperable with regional and global taxonomies, should lead to reduced funding costs and relevant verifier expenses for sustainable financial product issuance in Malaysia. It should also reduce compliance costs for banks and financial institutions, with a set of harmonised green screening criteria applied across the banking, insurance and capital market sectors.

6. Strengthen talent development and research and advocacy initiatives

In addition to continuing its participation in international green finance initiatives, BNM can play a greater role as an international and regional thought leader by further integrating green finance principles into its research and analysis, including co-publication of materials with international organisations or research institutes. This would serve as an example to financial institutions supervised by BNM in Malaysia, as well as to central banks and financial supervisors in the APT.

The PBoC is a leader in demonstrating the development of a national ecosystem of sustainable finance enablers, including supporting cross-agency initiatives. Huzhou is one of China's green finance reform and innovation pilot zones; a programme introduced by the Chinese government in 2017, to stimulate financing for green projects. The PBoC plays a key role in the development and application of sustainable finance frameworks in Huzhou. It coordinates with six ministries on overall goals, whilst local governments lead local stakeholder engagements. The involvement of the PBoC in supporting the pilot zone was strengthened through the co-development of research projects with Huzhou government stakeholders, with the knowledge products subsequently published through casebooks and annual progress reports to ensure that experiences were disseminated outside of the pilot zone. This is a testament to the trust between the PBoC, Huzhou local authorities and various other government agencies, built through communication, use of expert groups, and stakeholder engagement.

Taking inspiration from such case studies, BNM should scale up its capacity-building activities for relevant stakeholders in the Malaysian ecosystem. This can take the form of workshops, seminars or participation in international training programmes. In addition, BNM should mobilise the insurance sector, by facilitating knowledge sharing between global and domestic insurance and takaful operators, and talent development in the local market.

BNM should also deepen consideration of environmental risks beyond climate – including nature and biodiversity loss – as well as social considerations, in the development of its green central banking practices. This would facilitate the advancement of value-based finance, advocated by BNM since 2018, while positioning the financial system to support a greener and sustainable economy, in line with FSB 2022-2026 and the Maqasid al Shariah aspirations for better social and governance practices in the conduct of financial services. Furthermore, expansion beyond climate considerations is aligned with the NGFS dashboard on scaling up green finance, which includes volumes of social bonds issued and maturing, in addition to green bond issuance and climate finance flows, within its tracking metrics.

Summary of recommendations

Based on key observations and lessons from Positive Money's experience in monitoring the development of green central banking across the APT region, these insights are intended to serve as a reference for BNM as it continues to develop its green central banking policies, but may also be of interest to wider stakeholders in the Malaysian financial system. The six policy perspectives and instruments proposed in this briefing provide a practical path for BNM to further develop its response to the climate and ecological crisis, and to strengthen its regional and international leadership in green central banking. BNM should leverage its role as the monetary policy authority and a key financial sector supervisor in Malaysia to curtail ecologically destructive financial flows and create favourable conditions for the financing of green economic transition.

Table 2: Summary of recommendations

Category of the Green Central Banking Scorecard	**Recommendations**
Research and Advocacy	• Strengthen talent development, research and advocacy initiatives, and expand environmental and social perspectives beyond climate change
Monetary Policy	• Relax reserve requirements for banks, to encourage green lending • Provide preferential lending rates to banks to boost green lending • Integrate environmental considerations into the collateral framework
Leading by Example	• Green the investment portfolio and operations • Coordinate and align green financial policies with other regulatory authorities

About Positive Money

As an international think tank and research institute working to redesign economic systems for social justice and a liveable planet, Positive Money has tracked the development of green central banking and sustainable finance in the UK, EU, and G20 for over a decade, adding coverage of East and Southeast Asia since 2024. Positive Money has been recognised internationally as a leading assessor of progress by central banks and financial supervisors on greening their policies and operations, and leading central banks such as the Bank of England, European Central Bank, Banque de France, and Magyar Nemzeti Bank have referenced and consulted the work of Positive Money. Since 2021, Positive Money has tracked the development of green central banking through its Green Central Banking Scorecard series. The Scorecard highlights lessons and best practices, with the aim of expanding the adoption of green central banking policies, and accelerating green economic transition globally.

In its East and Southeast Asia green central banking programme, Positive Money is collaborating with central banks and ecosystem stakeholders in the APT to identify shared policy goals, and drive forward progress on green central banking in the region. This includes examining the specific characteristics shaping green central banking in different jurisdictions, and tailoring policy recommendations to reflect the local institutional, political and economic context.

For more information, contact Joe Herbert at joe.herbert@positivemoney.org.uk, or visit positivemoney.org.