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'Malaysia must recalibrate energy transition financing'

► CIMB Islamic sustainable finance head outlines two emerging risks that could undermine progress towards achieving decarbonisation goals

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KUALA LUMPUR: Malaysia must guard against short-term decision-making and recalibrate its energy transition financing assumptions as new demand drivers – particularly data centres – reshape the country's energy landscape outlook.

CIMB Islamic Bank head of sustainable finance Arshad Nuval Othman (*pic*) outlined two emerging risks that could undermine progress towards the nation's decarbonisation goals, even as the financial system remains fundamentally sound.

The first, he said, is what he termed a "perception of convenience" surrounding coal.

"In the current geopolitical environment, with elevated oil and gas prices – especially gas, which makes up a significant portion of our generation mix – there is a tendency to think it's easier to fall back on coal. The infrastructure is already there, and on the surface, it appears cheaper," Arshad said at the Malaysia

Energy, Water and Climate Change Summit 2026 recently.

However, he stressed that this view is increasingly outdated.

"That convenience is largely perceived, not real. Renewable energy infrastructure is now cheaper and, more importantly, it can be deployed quickly. Solar projects, for instance, can be up and running within six months. So while the temptation is there to revert to coal, the economics and timelines clearly favour renewables," Arshad said.

The second risk lies within the financial system itself – specifically the constraints imposed by single counterparty exposure limits.

Under current banking regulations, institutions are restricted to lending no more than 25% of their equity to a single borrower.

"This becomes relevant when we look at the scale of financing

required for the energy transition. When the National Energy Transition Roadmap was first developed, projections accounted for demand up to 2050. But what wasn't fully anticipated then was the surge in data centre investments," Arshad said.

The rapid expansion of data centres, he noted, is materially altering Malaysia's energy demand profile, potentially accelerating the utilisation of available financing headroom.

"If we don't adjust our assumptions, we risk running out of capacity to finance the transition – not because of a lack of capital but because the existing limits will be reached faster than expected," he said.

Arshad called for an update to national energy capacity projections to incorporate the additional load from data centres. This, in turn, would allow regulators and financial institutions to recalibrate exposure limits and maintain sufficient funding channels for renewable energy projects.

Despite these challenges, he emphasised that Malaysia's financial ecosystem remains robust. "Our banking system and capital markets are mature and stable, with strong regulatory oversight. Predictability in the financial markets is not the issue.

What we need is predictability in the energy trajectory," he said.

On that front, Arshad was unequivocal about two commitments that must remain intact.

"The growth in renewable energy capacity must not change. The targets are clear – 30% by 2030 and 70% by 2050 – and we must stay the course regardless of external pressures. Similarly, the planned retirement of coal-fired power plants by 2044 must be upheld," he said.

Arshad acknowledged the on-going "chicken-and-egg" dynamic between policymakers, infrastructure readiness and financing, but maintained that capital availability is not a constraint.

"The money will follow policy. Large power players can access funding through banks or capital markets. What is critical is that policy direction remains consistent and credible. Once that is in place, financing will align accordingly," he said.

Ultimately, Arshad argued, Malaysia's energy transition hinges less on capital constraints and more on disciplined execution and timely policy recalibration.

"We have the capacity to adjust. The key is ensuring our projections reflect today's realities – especially with new demand drivers like data centres – while staying firmly committed to our long-term renewable targets," he said.

