

New initiatives in budget aims to boost M'sia Islamic finance
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Attracting private sector firms has become more important this year because the central bank has shifted away from selling its own sukuk, causing total global issuance to drop by about 40 percent.

KUALA LUMPUR: Malaysia is hoping new incentives for “ethical” Islamic bonds and home loans will strengthen the country’s sharia-compliant investment market and lure more private players to one of the world’s largest Islamic financial sectors.

The government announced the new incentives in the 2016 budget which was delivered in parliament on Friday, as Prime Minister Najib Razak doled out populist incentives to shore up support.

The government originally introduced the concept of “ethical” sukuk to finance “sustainable and responsible investment” (SRI) in projects such as wind and solar power generation or affordable housing, in 2013.

Sovereign wealth fund Khazanah sold 100 million ringgit (\$23.7 million) of SRI sukuk in May this year but so far there have been no other issues in the ethical sukuk market.

In Friday’s budget, Najib said Malaysia would cut taxes on issuance costs of SRI sukuk, and also that sharia-compliant loan instruments would be given a 20 percent stamp duty exemption when they were used to finance home purchases.

Other initiatives for the Islamic finance sector will be announced later, Najib said without elaborating.

Malaysia, with a mostly Muslim population, has been at the forefront of innovation in Islamic finance but has largely relied on state-linked firms to launch new products, while participation from corporations has been sporadic.

Last year, \$74.9 billion worth of sukuk were issued from Malaysia but only \$13.5 billion came from corporate issuers, according to data from Zawya, a Thomson Reuters company.

Attracting private sector firms has become more important this year because the central bank has shifted away from selling its own sukuk, causing total global issuance to drop by about 40 percent.

Also, low oil and commodity prices mean Malaysia may be in for years of slower growth, making it harder for Islamic banks and insurers, which remain smaller than their conventional competitors, to invest in developing products and expertise to narrow the gap.

– Reuters

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