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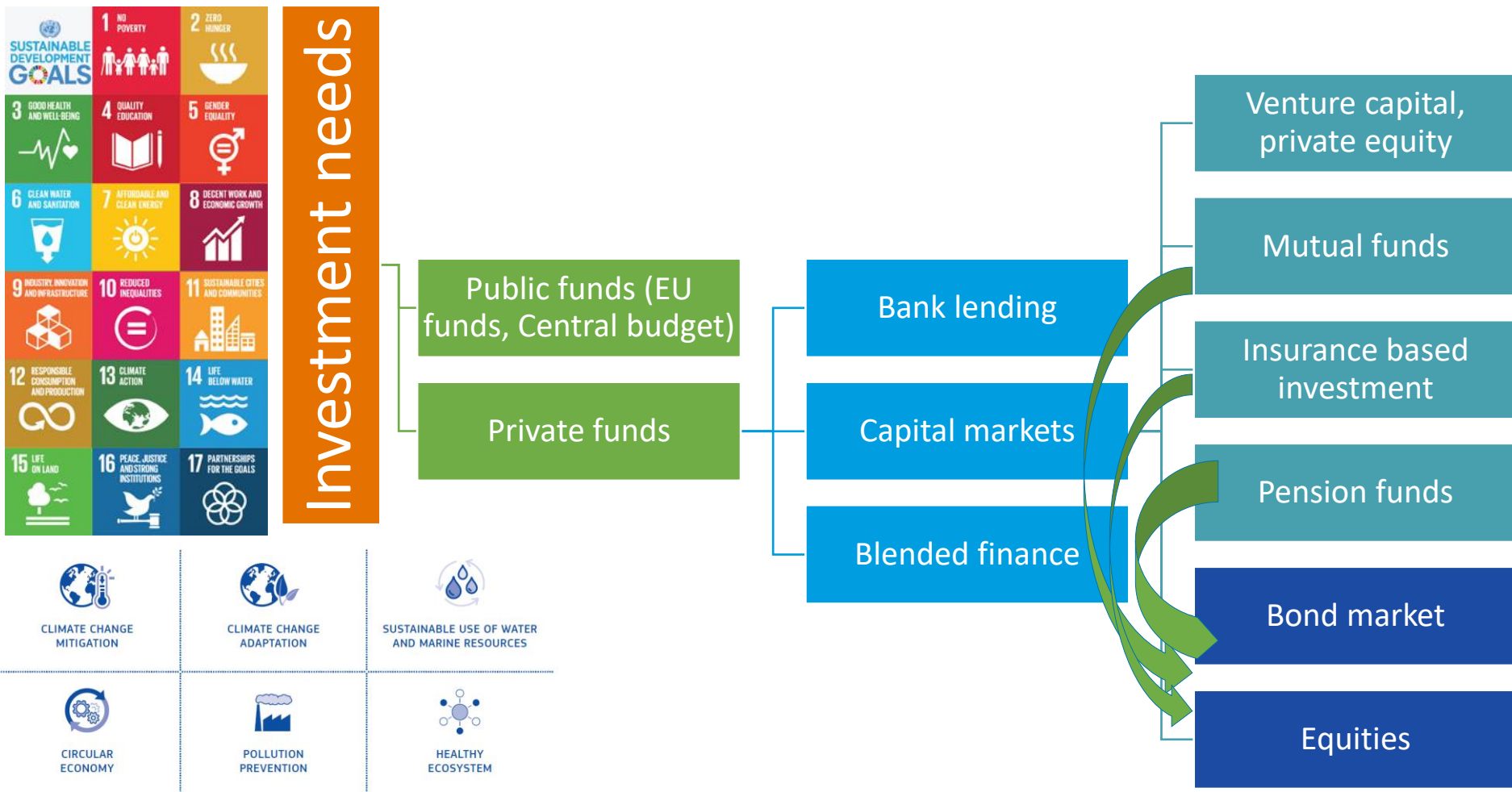
Workshop on Green Finance in the
Energy Community



THE EXPERIENCES AND CHALLENGES SETTING UP A GREEN FINANCE PROGRAMME



THE GOAL OF SUSTAINABLE FINANCE



The goal is to ensure that firms have favourable financing options to make green/sustainable investments. Role for Central Banks but certainly not sole responsibility!

THE STARTING POINT: A COMPLEX WEB OF MARKET FAILURES HINDER GREEN TRANSITION



Corporate governance

- Little awareness in banks' management about environmental issues
- Perceived lack of customer demand

Customers

- Low financial literacy
- Weak but increasing care for environmental issues

Green investment products

- Fairly wide supply of self-labelled products, potential for greenwashing
- Modest volumes

Green banking products

- No externally labelled loan products nor deposits
- Mixed experience with energy efficiency loans
- Possible crowding out from state sponsored products

ORGANIZATIONAL ASPECTS



2018: preparation of
MNB's Green Program



Early 2019: Launch of Green
Program
+ NGFS membership



Late 2019: setting up of a
dedicated Sustainable
Finance Department

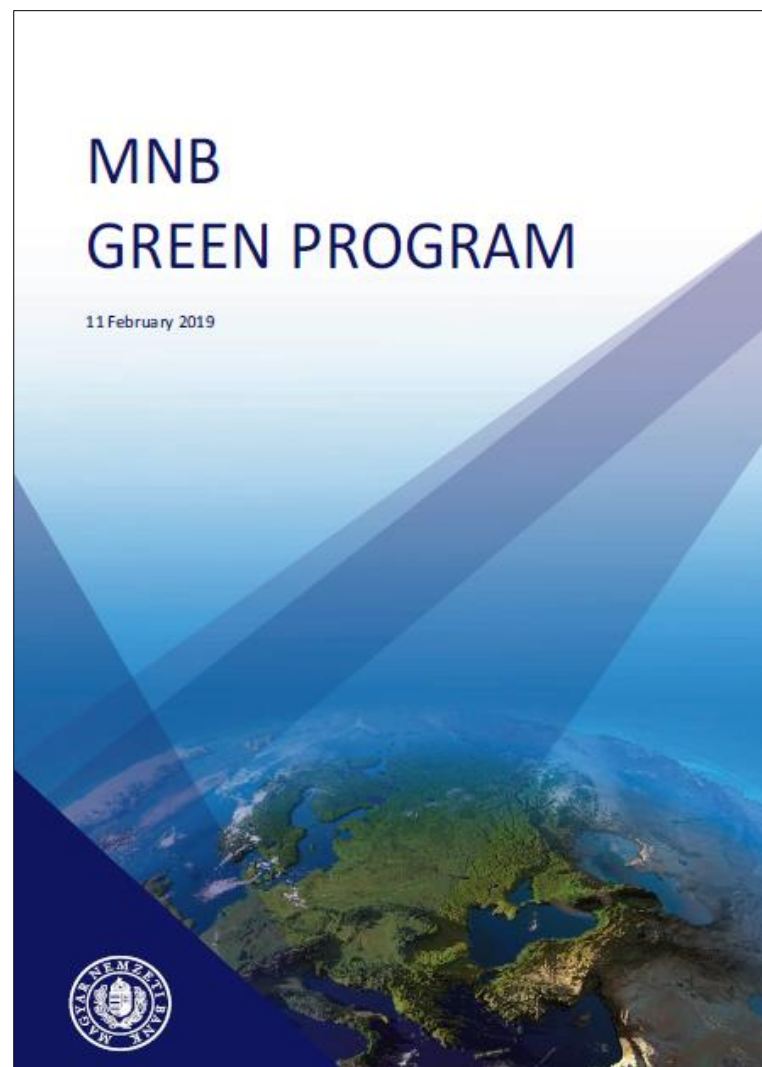
- Dedicated team + additional FTEs for projects (e.g. climate stress test)
- Internal Green Finance hub to involve other departments



COMPREHENSIVE GREEN PROGRAM LAUNCHED EARLY 2019

Gradually built up policy
measures to

1. address climate &
environmental risks
2. create a supporting
environment for green
finance in Hungary



MNB LAUNCHED ITS GREEN PROGRAM IN 2019



I. Initiatives in the financial sector

Analysis of **ecological & financial risks**

Steps related to **green bonds**

Mobilizing additional funds for green investments

Incentivizing greener operations of financial institutions

II. Social and international relations

Enhanced **cooperation** with partners (professional bodies, NGOs etc.)

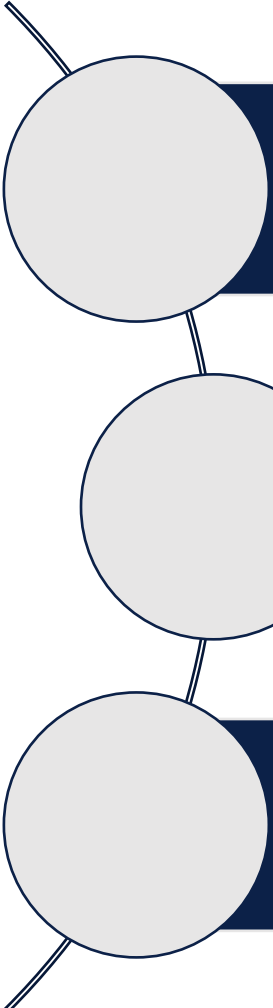
Education and **capacity building** related to green finance

Active participation in **international work** related to climate / green finance

III. Greening of MNB's own operations

Further decreasing of MNB's own **ecological footprint**

Acting as a role model in **environmental disclosures**

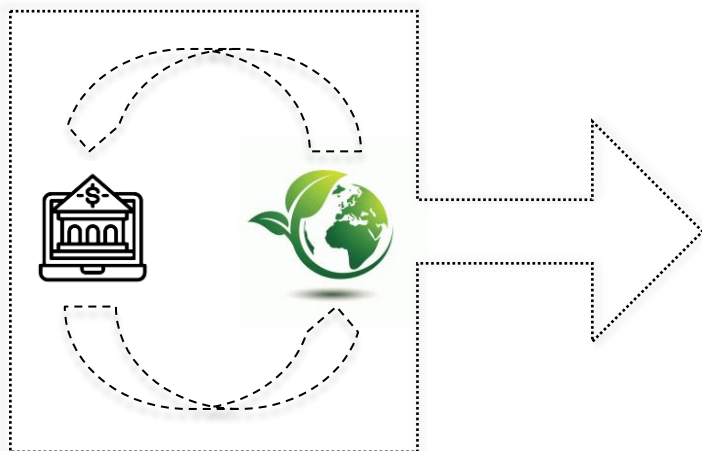


Screening of banks' awareness of climate risks + general awareness raising

Development of a climate stress test

Development of a green recommendation

GREEN RECOMMENDATION JUST PUBLISHED



Assessment of environmental risks, integration into strategy



Allocation of responsibilities regarding environmental risks



Reducing/stopping the financing of unsustainable activities



Development of green financial products and solutions



Transparency



Reduction of ecological footprint and offsetting

OUR MEASURES SO FAR TO ENCOURAGE GREEN FINANCING



Endorsement of UN Principles for Responsible Banking

Publishing green loan market analyses

Pillar 2 Capital Requirement Discount Programme for green loans

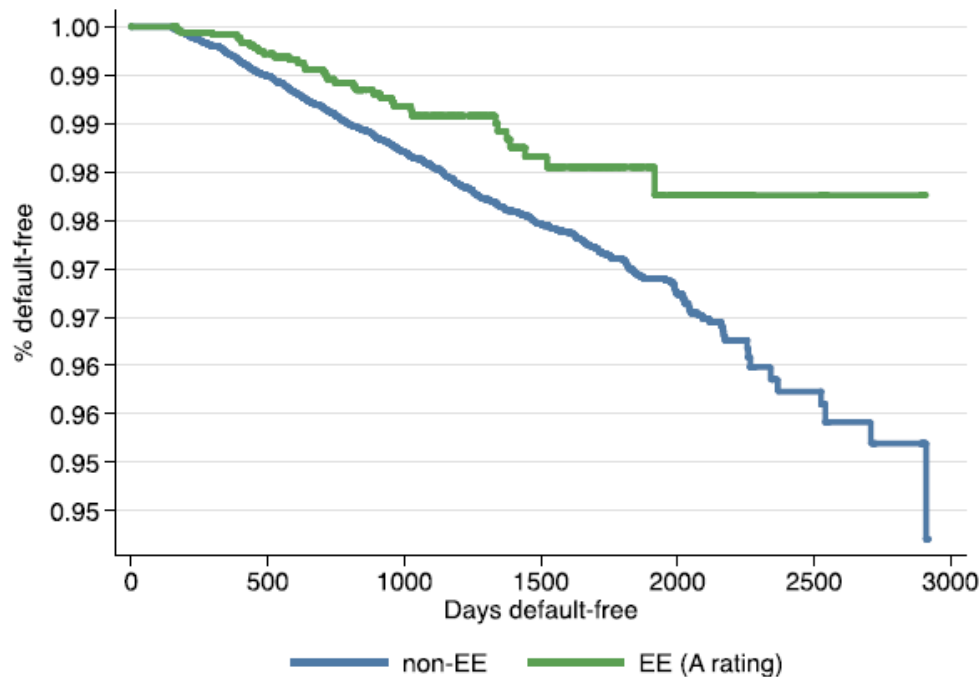
Development of a Sustainable Capital Markets Strategy



FINANCING THE HUNGARIAN RENEWABLE ENERGY SECTOR

CHALLENGES AND OPPORTUNITIES





THE SURVIVOR FUNCTION OF ENERGY EFFICIENT (EE) AND NON-EE MORTGAGES

Loans disbursed between 2012 and 2019 from an Italian sample of 72 980

An unprecedented preferential capital requirement program introduced in 2020 by the MNB

Theoretical background

- *Lower default rates and better survival prospects of green housing loans*

Operating mechanism:

- *Preferential capital requirement treatment for banks*
- *Lower interest rates for customers*

Goals:

- *Incentivizing green risk consciousness*
- *Enhancing market development*
- *Data gathering to underpin lower credit risk on a domestic level*

NEW GREEN CORPORATE FINANCING CAPITAL REQUIREMENT DISCOUNT SCHEME



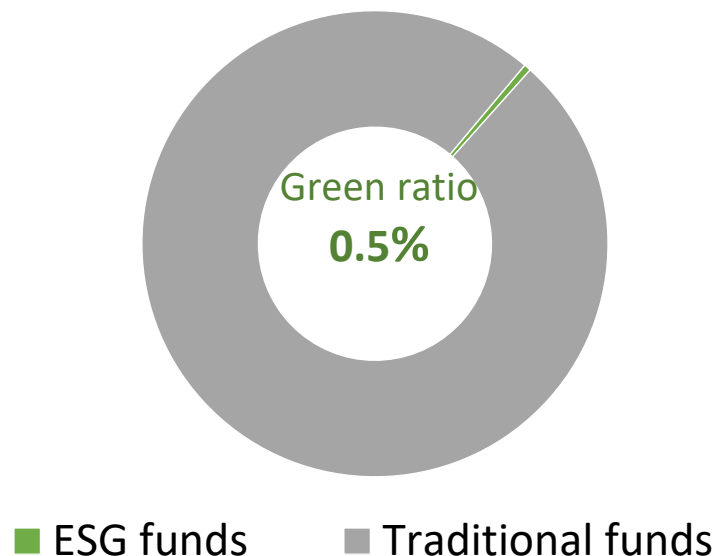
Following the scheme for Energy Efficient Retail Loans, MNB has recently launched a new program to encourage green corporate financing.



Green loans and green bonds of municipalities are also eligible.



Share of assets managed as ESG funds in Hungary



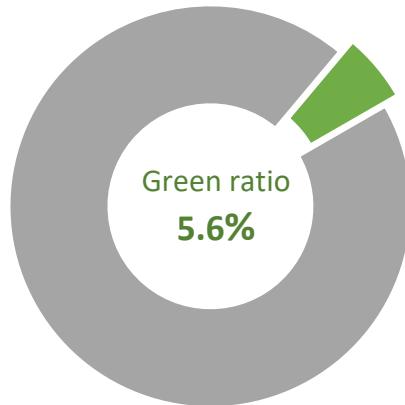
- Low level of ESG penetration in the mutual fund segment
- Investments mainly in foreign assets
- No „Article 9” product so far

SFDR Circular (Q1 2021)

GREEN BOND MARKET: RAPID DEVELOPMENT IN 2020

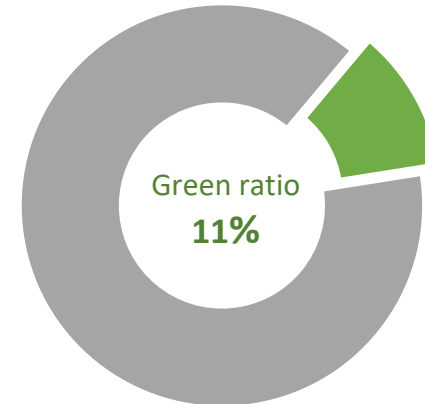


Stock, end of 2020



■ Green bonds ■ Traditional bonds

Flows in 2020



■ Green bonds ■ Traditional bonds

Green Capital Requirement
Discount for corporate green
bond investments



Further work with green covered bonds

THE DEVELOPMENT OF A SUSTAINABLE CAPITAL MARKET

Supported by the European Commission, a comprehensive project has been launched in cooperation with EBRD and consultants

- Creation of supportive environment for green investments
- Enhancement of green / ESG-based investment funds and other green products
- Maximize impact of upcoming EU Sustainable Finance Regulations
- Increasing retail costumers' awareness for sustainable finance products



Source: MNB

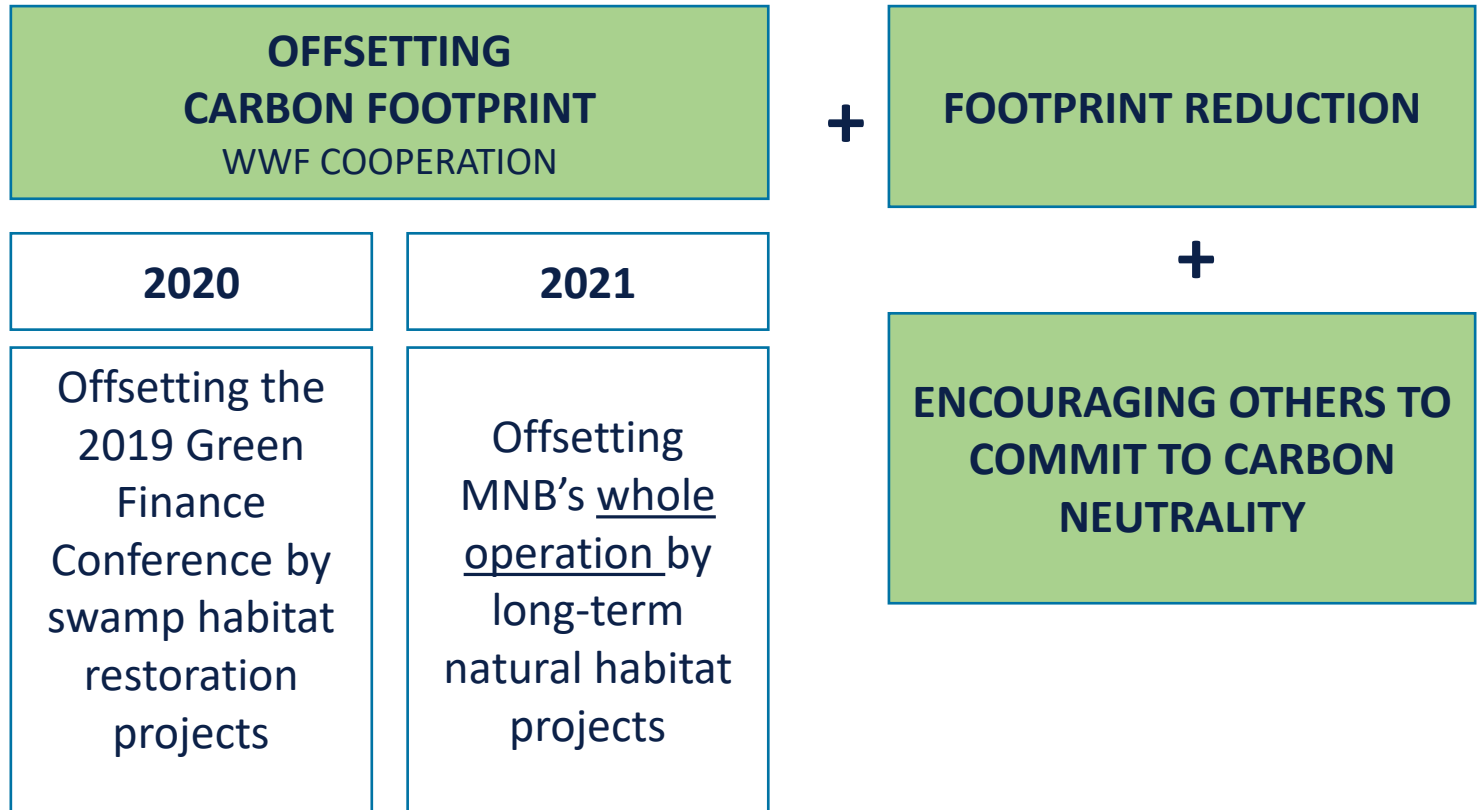


Structural Reform Support Programme



European Bank
for Reconstruction and Development

WORKING TOWARDS CARBON NEUTRALITY



- Environmental risk management
- ESG in asset management
- Green lending
- Compliance with EU and domestic green finance regulations



BUDAPESTI
CORVINUS
EGYETEM
GEO Intézet



MIROS
**NEUMANN
JÁNOS
EGYETEM**



Budapest University of Technology and Economics

- Dedicated green finance subjects at universities
- Applied research
- Expanding university partnerships
- Development of a public knowledge hub

TRAININGS, EDUCATION AND RESEARCH



Capacity and expertise is a key condition to the rise of green finance.

The goal is to educate both students and those already on the labour market.

- Coordination of sustainable finance related activities through tripartite working group with Ministry of Innovation & Technology + Ministry of Finance
- University cooperation programmes initiated on green finance
- Green NGO consultations and cooperations (13 NGOs involved)
- Broader engagement with finance experts, scientists and public through trainings, articles, website and planned newsletter

- Importance of cooperation with other central banks & supervisors
- NGFS membership and active participation in workstreams
- Being a part of the Energy Efficient Mortgages Initiative
- Contribution to EBA, ESMA, EIOPA workstreams
- Organization of conferences, workshops and other events



**THANK YOU FOR YOUR
ATTENTION!**

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