sector

CAPITAL REQUIREMENTS AND OTHER REGULATORY TOOLS

IN SEARCH OF NEW APPROACHES TO
 SUPPORT EE IN THE RESIDENTIAL SECTOR

WHY IS ENERGY EFFICIENCY IMPORTANT FOR A FINANCIAL REGULATOR?





Reduction of transition risks at the macro level

Assumed lower credit risk at the micro level

AT THE EU LEVEL...



Banking Package 2021: new EU rules to strengthen banks' resilience and better prepare for the future

EBA to assess if and how capital requirements could be differentiated depending on the environmental and social impact of the assets held by institutions. The final results of that analysis are expected in 2023.

Positions: "neutrals" vs. "brown penalizing" vs. "green support"

THE CENTRAL BANK OF HUNGARY'S PRACTICE



Capital requirement discount for green loans and green bond investments until 2025

Mixed experience so far

First retail energy efficient mortgage scheme not used by banks

Corporate scheme used by almost all banks



KEY AREA: ENERGY EFFICIENT LENDING



MNB provides incentives to Hungarian banks incentives to prioritize energy efficient properties in lending

Higher disposable income for loan service (PD)



Less volatile collateral values (LGD)



Lower credit risk (ceteris paribus)

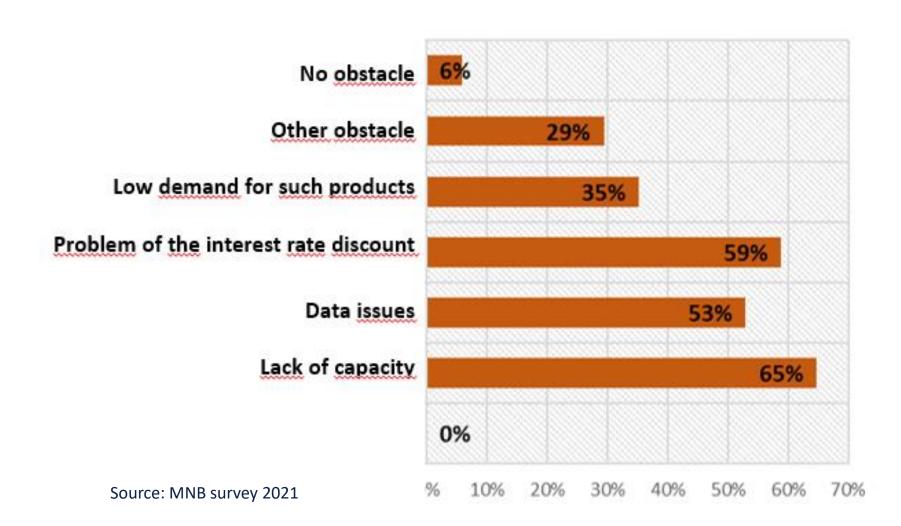




LESSONS WITH THE FIRST RETAIL SCHEME



More than half of the respondents planned to provide a green mortgage or green renovation loan, but only at a later stage....why?



LESSONS WITH THE FIRST RETAIL SCHEME





Acess to EPC data can be a huge obstacle



Legal (GDPR) and IT issues



Outstanding loan stock poses the biggest challenge



Burden of reporting requirements



Question of mandatory interest rate discounts

LESSONS WITH THE FIRST RETAIL SCHEME





Acess to EPC data can be a huge obstacle





Revised scheme to address most of this points and linked to the central Bank's points and imked refinancing program

Breen mortgage and requirements

Breen mortgage and requirements

SOME THOUGHTS ON OUR CORPORATE SCHEME



With no micro-level hypothesis on risk differentials in place, the goal is to reduce transition risks in bank balance sheets and to reduce macro-level climate risks





Buying green bonds

Financing renewable energy production

Energy efficiency investments



Sustainable agriculture



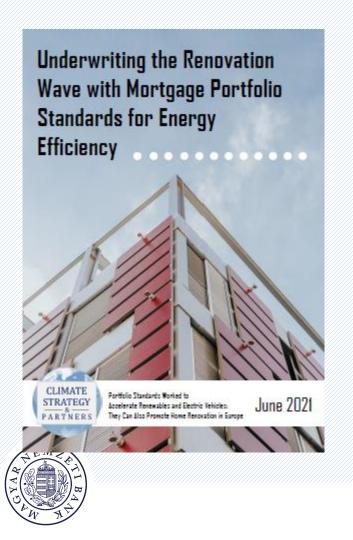
Green transportation

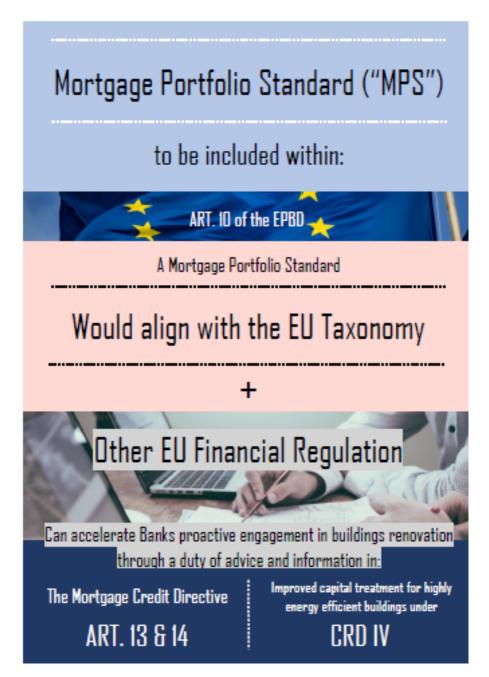


Circular economy



FURTHER RECOMMENDED READING...





MAIN POINTS



The problem of building energy (in)efficiency is a clear case of externality

Governmental (climate&energy) policy is best placed to internalize...

...but the financial system can also be a key player through loans and (covered) bonds

Energy efficient mortgages are the most suitable candidates for preferential treatment given the assumed better credit risk features

When applying regulatory incentives, need for a careful design of conditionality



THANK YOU FOR YOUR ATTENTION!

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