

Gabor Gyura, Head of Sustainable Finance



Energy Community – Western Balkans
Green Center webinar

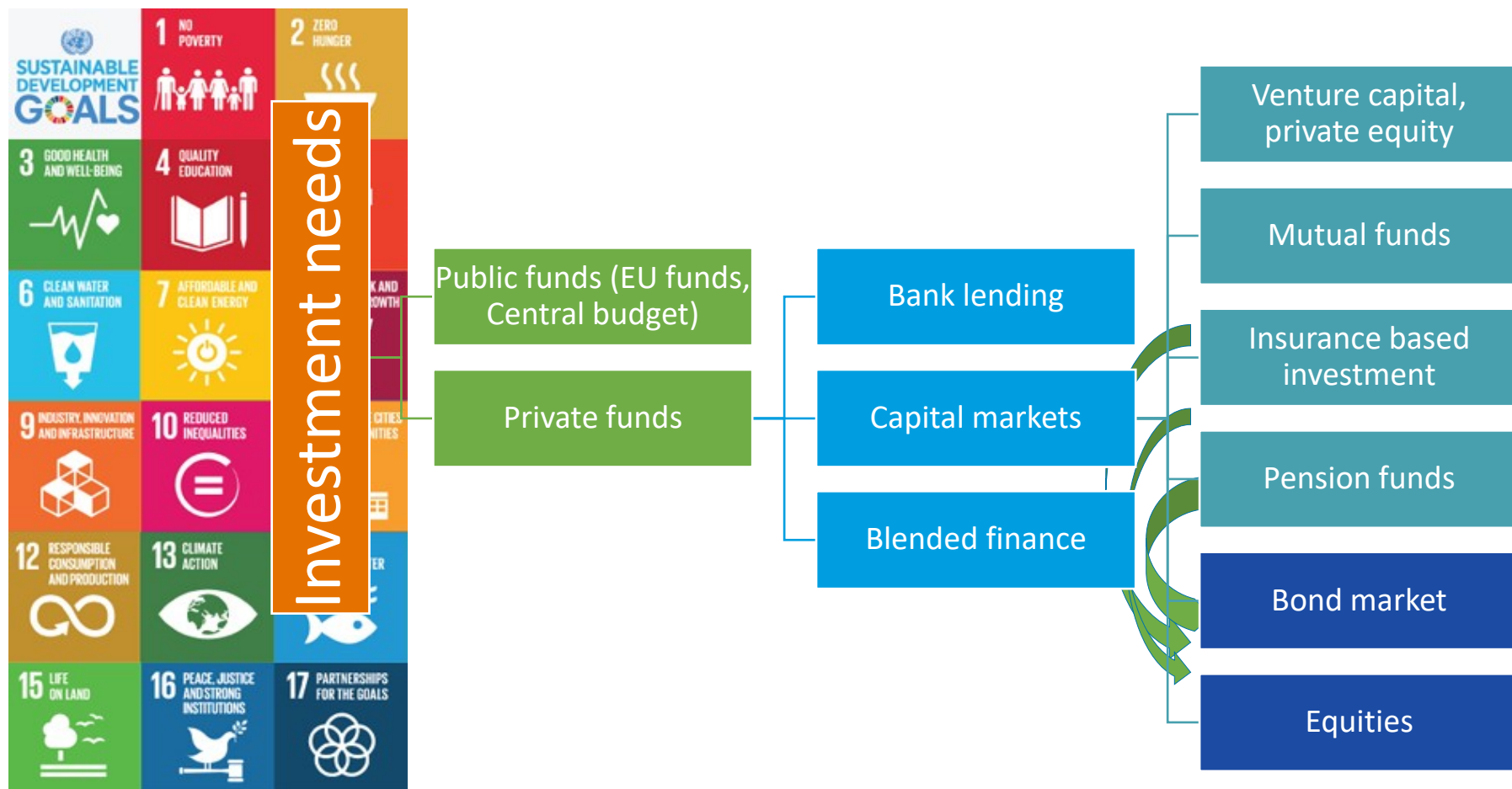
INTRODUCTORY WEBINAR ON GREEN FINANCE AND GREEN BONDS



SOME INGREDIENTS FOR THE SUCCESS OF GREEN FINANCE...



THE GOAL OF SUSTAINABLE FINANCE



The goal is to ensure that firms have favourable financing options to make green/sustainable investments. Importance of ESG risk management and the post-covid recovery context

THE WAY SUSTAINABLE FINANCE CAN WORK



More and better financing to sustainable activities

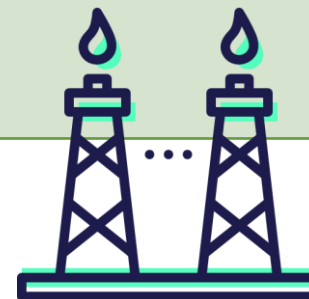
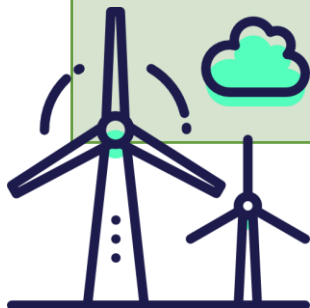
Green loans, bonds and mutual funds etc.

Retail, corporate, municipal, government segments

Less and stricter financing to unsustainable activities

Importance of ESG risk management

Emerging concept of climate risks



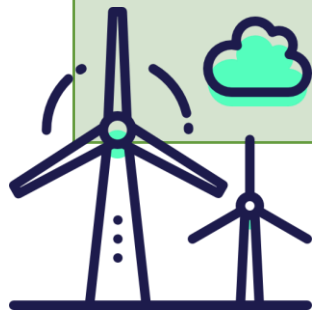
THE WAY SUSTAINABLE FINANCE CAN WORK



More and **better** financing
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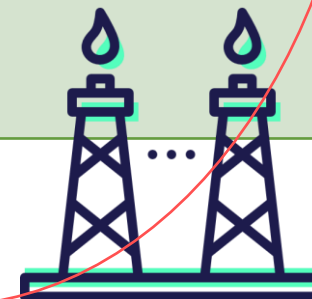
Retail, corporate,
municipal, government
segments



Less and **stricter financing**
to unsustainable activities

Importance of ESG risk
management

Emerging concept of
climate risks





REDUCING THE FUNDING OF UNSUSTAINABLE ACTIVITIES

DECREASING THE FINANCING OF UNSUSTAINABLE ACTIVITIES



Physical risk

Risk of losses due to physical events linked to climate change (droughts, floods etc)



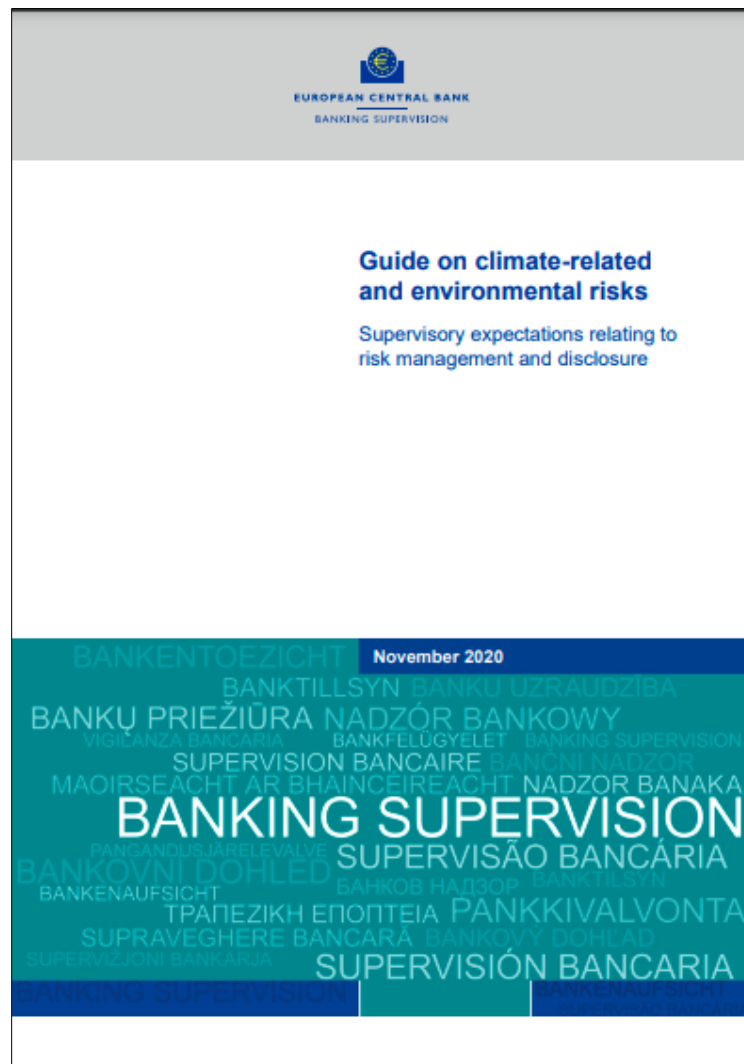
Transition risk

Risk of losses due to the transition to a low-carbon economy

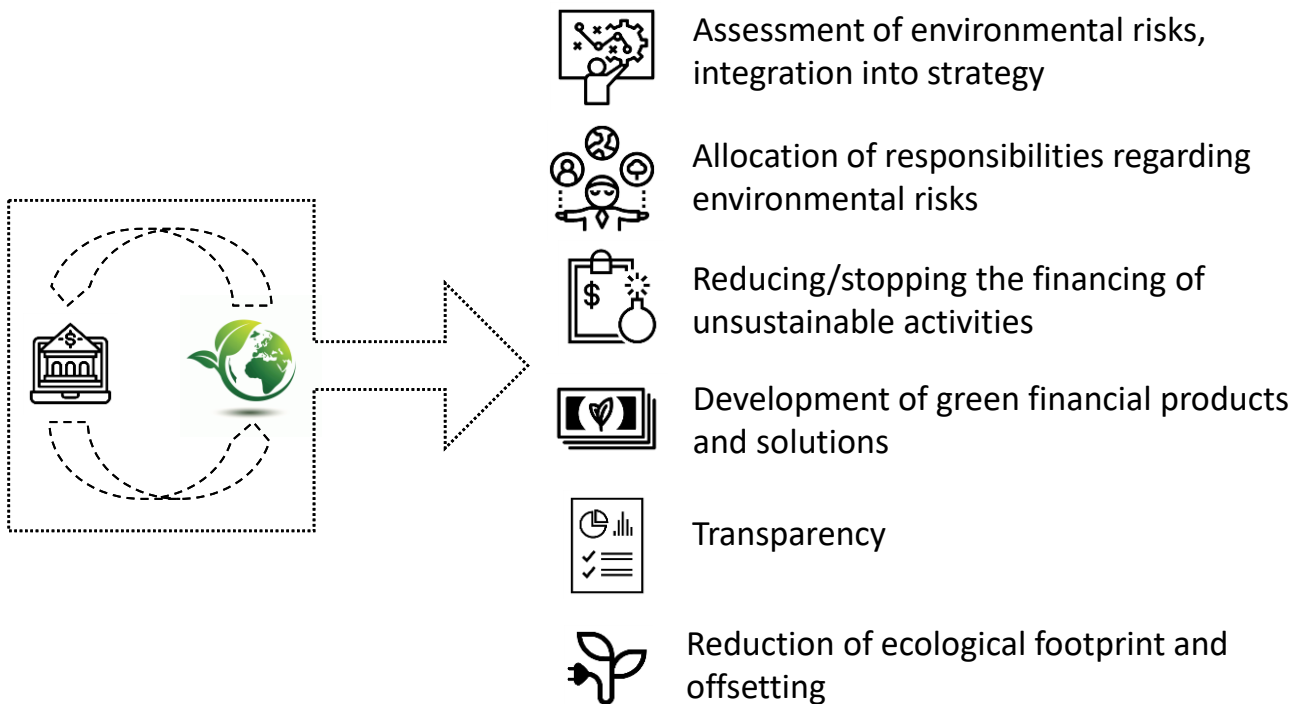


REGULATORY STEPS

- ECB Climate Guide
- MNB Green Recommendation
- Upcoming EU legislation in the Capital Requirement Framework



MNB'S GREEN RECOMMENDATION ALSO REQUIRES THE INTEGRATION OF ENVIRONMENTAL RISKS



English translation available at www.greenfinance.hu

IMPORTANCE OF TRANSITION FINANCE



...The goal is to reduce the funding of unsustainable projects/activities



...companies with currently unsustainable activities should still get financing – in fact, they should be the targets to provide green loans to finance their transition

THE WAY SUSTAINABLE FINANCE CAN WORK



More and better financing to sustainable activities

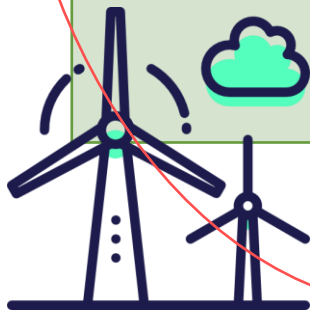
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GREEN FINANCING: A PRIMER

TWO MAIN TYPE OF INSTRUMENTS FOR BOTH BONDS AND LOANS



The Green Bond Principles



The Social Bond Principles



The Sustainability Bond Guidelines



The Sustainability-Linked Bond Principles

Use of Proceeds*

Green, Social, Sustainability Bonds
("GSS" or "UoP")

Core Components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Key Recommendations:

1. Bond Frameworks
2. External Reviews

General Purposes*

Sustainability-Linked Bonds
("SLBs")

Core Components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

Financial
Instrument
Guidance

USE-OF-PROCEEDS TYPE BONDS/LOANS

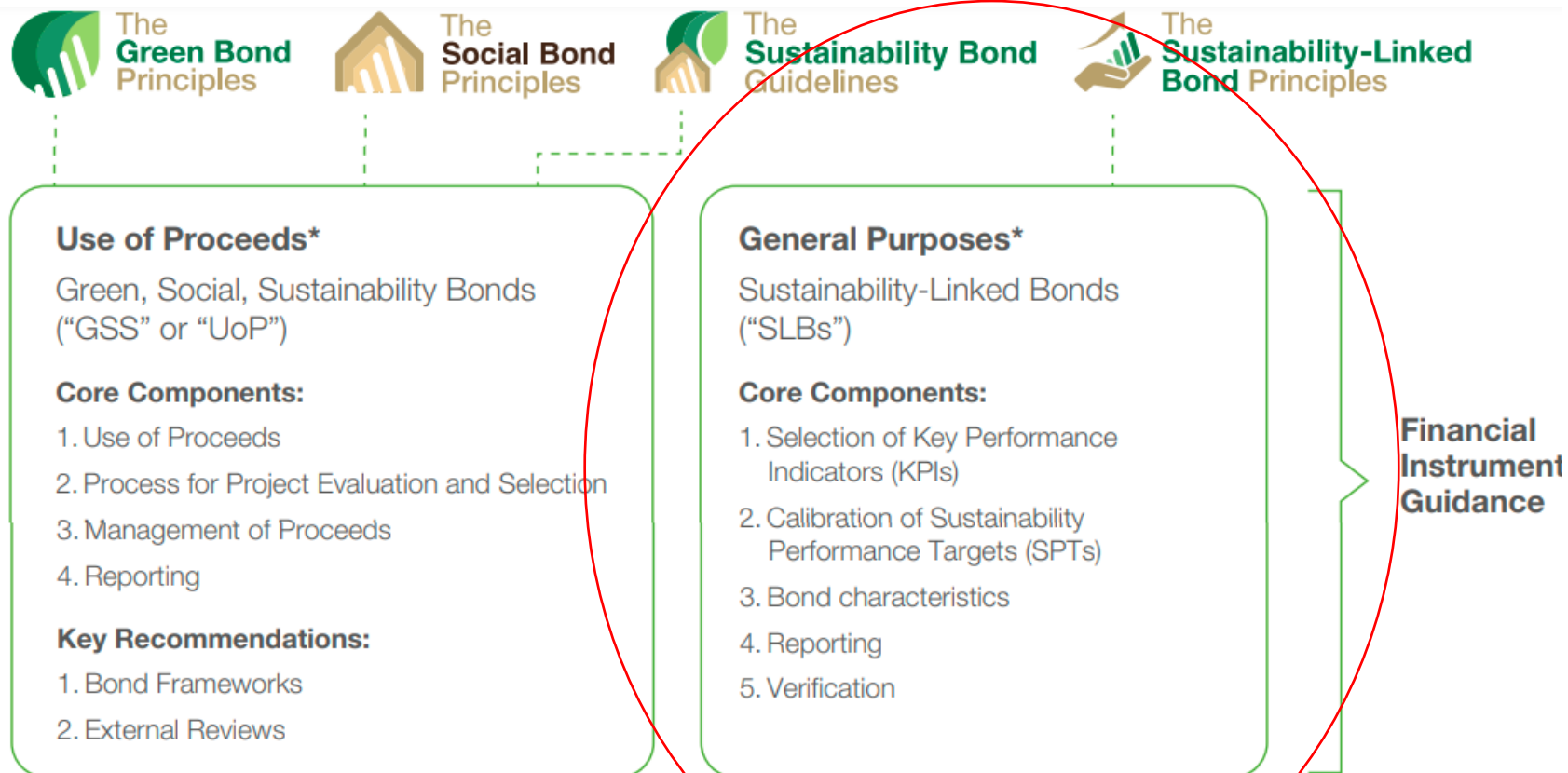
- The key is the utilisation of the proceeds of the bond (loan) for eligible Green Projects, which should be appropriately described in the legal documentation of the instrument.
- All designated eligible Green Projects should provide clear environmental benefits
- Importance of external reviews
- Climate Bond Standards and EU Green Bonds with more stringent criteria



Typical eligible categories under the GBP

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Clean transportation
- Sustainable water and wastewater management
- Circular economy
- Etc.

TWO MAIN TYPE OF INSTRUMENTS FOR BOTH BONDS AND LOANS



SUSTAINABILITY- LINKED INSTRUMENTS

- The bond's financial and/or structural characteristics vary depending on whether the selected KPI(s) reach the predefined targets
- The potential variation of the coupon is the most common example



Source: ICMA

The KPIs should be:

- relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/ or future operations;
- measurable or quantifiable on a consistent methodological basis;
- externally verifiable; and
- able to be benchmarked

Examples: Annual energy savings, renewable energy capacity, Scope 1-3 GHG emission reduction etc



GREEN FINANCE: THE EXPERIENCE OF HUNGARY SO FAR

WHAT WE SEE ON MORE DEVELOPED MARKETS...



Sustainable Financing for SMEs

Grow your business with HSBC's green financing solutions.

Get in touch

This advertisement features a background image of a modern city at night with illuminated buildings and a river. The text is overlaid on a dark, semi-transparent banner.

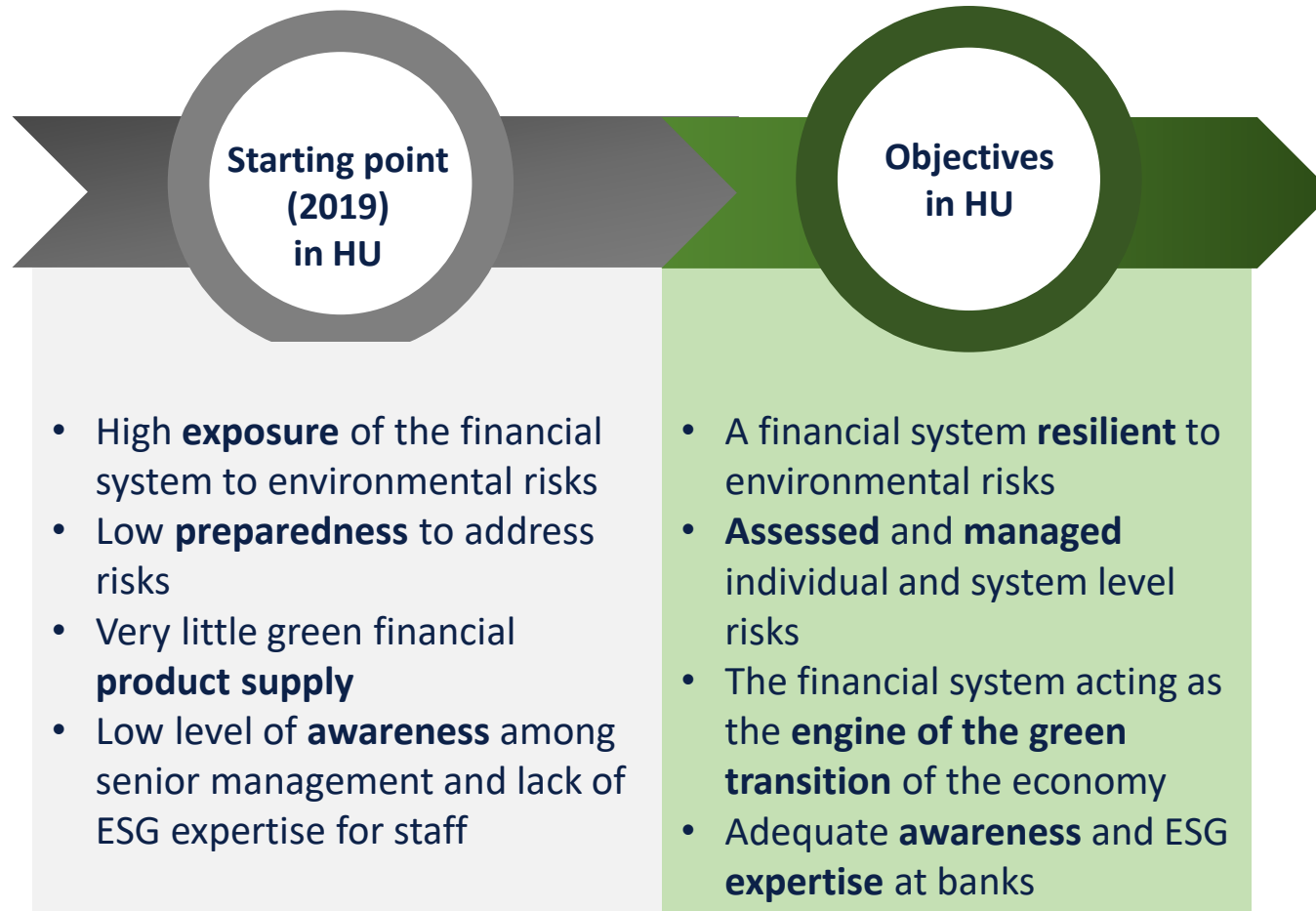
LOANS | Act. 17 Sep 2019

BBVA extends its green loan portfolio to help SMEs and the self-employed purchase sustainable vehicles

Barclays Green Loan
Good for the planet, good for your business

The BBVA advertisement includes a small graphic of a car and a leaf. The Barclays advertisement has a vertical blue line on the left side.

...COULD SERVES AS INSPIRATION FOR HUNGARY AND OTHER COUNTRIES IN THE REGION...



MNB STRATEGIC APPROACH TO GREEN BONDS



Need for the development of the bond market in general

Dilemmas to set the bar at the right level (market barriers vs. greenwashing)

Demand driven aspects (green/ESG mutual funds)

GREEN BOND SEGMENTS



Sovereign



Corporate



Bank (covered)

GREEN BOND SEGMENTS



Sovereign

- The successful issuances bring a strong message to markets



Corporate

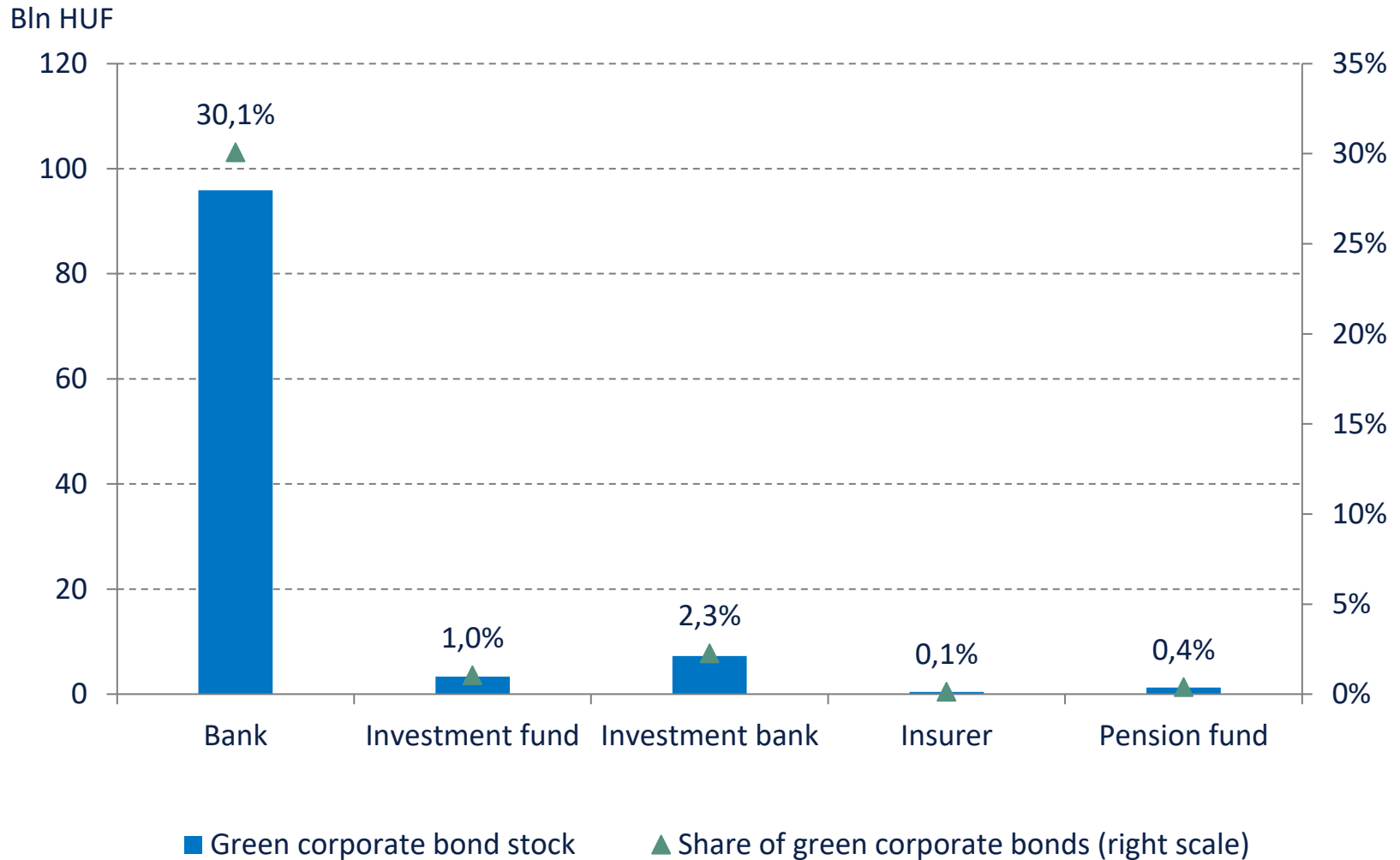
- Rapid growth in 2020-21
- GBP-alignment
- Dominance of domestic investors
- Role of central bank measures



Bank (covered)

- First issuances taking place in 2021
- Huge potential in modernizing the building stock
- Role of central bank measures

HU GREEN CORPORATE BONDS: IMPORTANCE OF DOMESTIC BANKS AS INVESTORS



WHAT THE CENTRAL BANK IS DOING



Funding for growth bond purchase program (stopped)



Capital requirement incentives to purchase green bonds / provide green loans



Green covered bond purchase program

WHAT THE CENTRAL BANK IS DOING



Funding for growth bond purchase program (stopped)



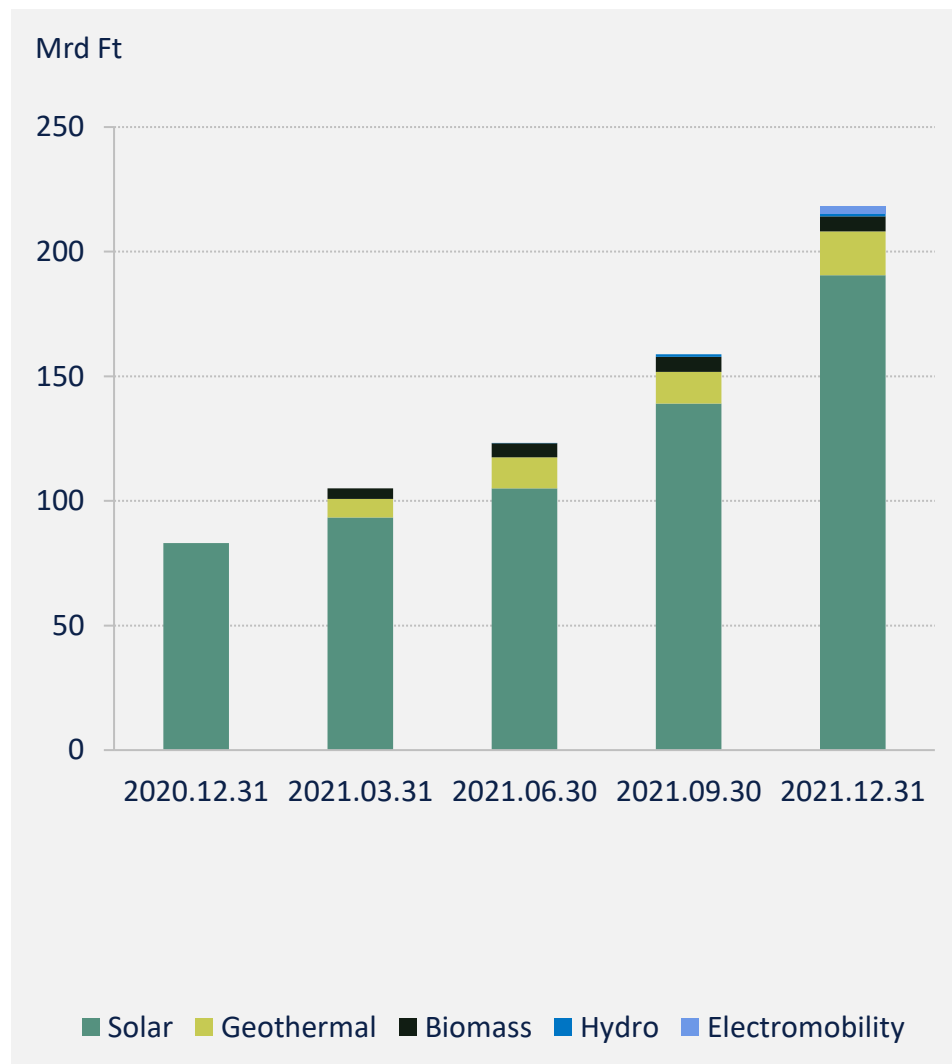
Capital requirement incentives to purchase green bonds / provide green loans



Green covered bond purchase program

CAPITAL REQUIREMENT INCENTIVES TO PURCHASE CORPORATE GREEN LOANS AND BONDS

- 5 year program to jump-start the market
- Deduction of 5% (GBP or other general green definition) vs. 7% (EU Taxonomy) of national amount from capital requirements



GREEN LOANS PROVIDED WITH CAPITAL REQUIREMENT INCENTIVE

FURTHER CENTRAL BANK PLANS



Green financial product finder website

Retail demand

Practical guide on how to issue green bonds

Corporate supply

Helping full implementation of SFDR regulation to support ESG/green fund segment

Institutional investor demand

Education, training, university research

Retail demand and supply capacity

THE WAY FORWARD...

First sovereign green bond

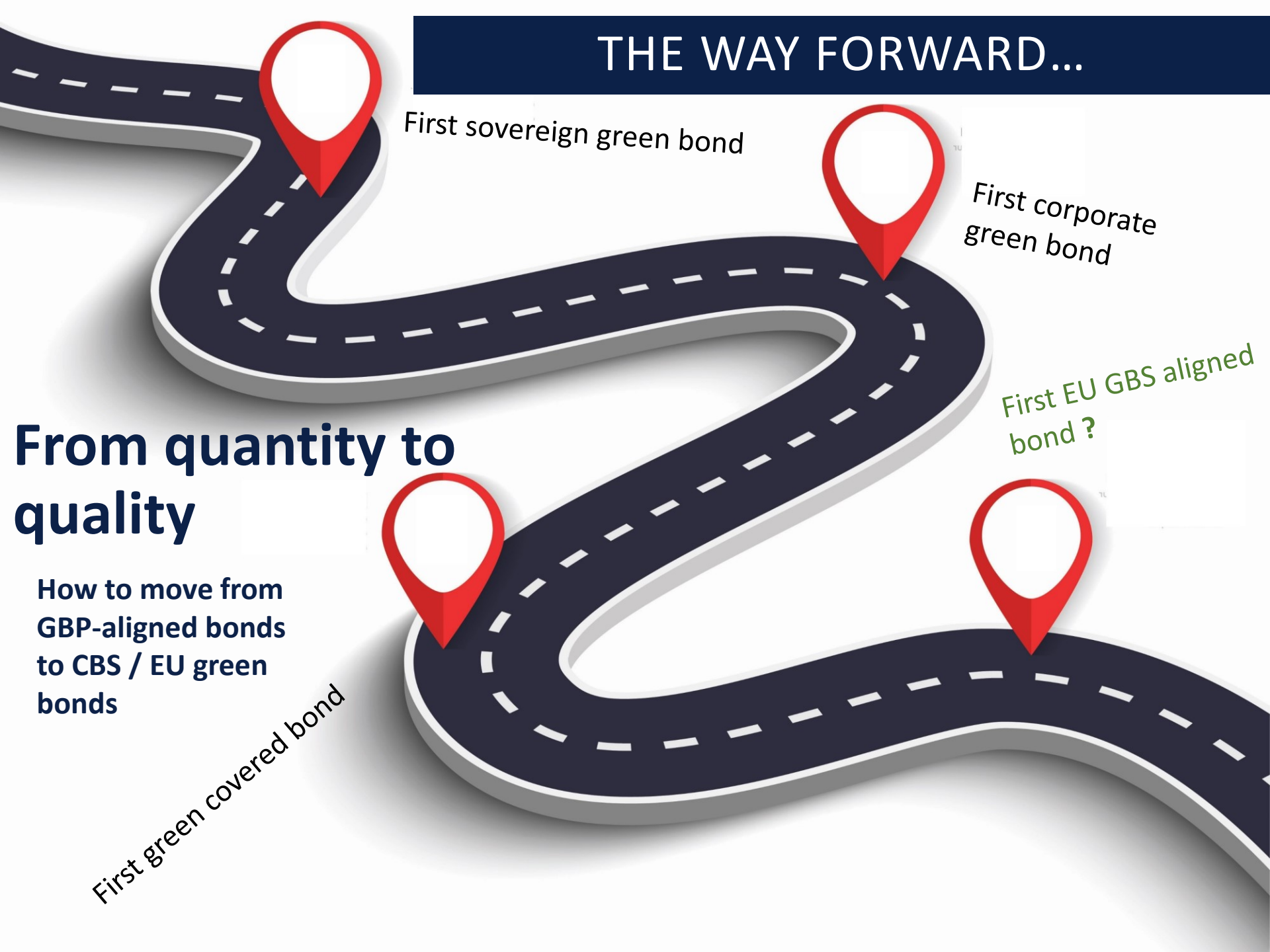
First corporate green bond

First EU GBS aligned bond ?

First green covered bond

From quantity to quality

How to move from GBP-aligned bonds to CBS / EU green bonds





THANK YOU FOR YOUR ATTENTION!

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