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Workshop on Green Finance in the Energy Community

THE EXPERIENCES AND CHALLENGES
SETTING UP A GREEN FINANCE PROGRAMME
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: Lauch 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
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**
   - Mobilizing additional funds for green investments
   - Steps related to **green bonds**
   - 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
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

English translation available at www.greenfinance.hu
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

Available at: www.greenfinance.hu
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

**The Survivor Function of Energy Efficient (EE) and Non-EE Mortgages**

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

Source | MNB, EeDaPP (2020)
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.
MUTUAL FUNDS, INSURANCE AND PENSIONS MARKET: MUCH ROOM FOR FURTHER GROWTH

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)

Sustainable Capital Markets Strategy Development (2021 Q3)
Green Capital Requirement
Discount for corporate green bond investments

Stock, end of 2020

- Green ratio 5.6%
- Green bonds
- Traditional bonds

Flows in 2020

- Green ratio 11%
- Green bonds
- Traditional bonds

Further work with green covered bonds
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
WORKING TOWARDS CARBON NEUTRALITY

OFFSETTING CARBON FOOTPRINT
WWF COOPERATION

2020
Offsetting the 2019 Green Finance Conference by swamp habitat restoration projects

2021
Offsetting MNB’s whole operation by long-term natural habitat projects

FOOTPRINT REDUCTION

ENCOURAGING OTHERS TO COMMIT TO CARBON NEUTRALITY
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.
COOPERATION IS KEY

- 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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