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JVI Climate Webinar #4
The Role of Financial Sector Oversight

MNB GREEN FINANCE REPORT

SUSTAINABILITY OF THE HUNGARIAN FINANCIAL SYSTEM





1. INTRODUCTION

2. NATURAL ENVIRONMENT

3. ECONOMY

4. FINANCIAL SYSTEM

5. CONCLUSIONS



1. INTRODUCTION

I. Financial sector initiatives

Climate-related and environmental risk analysis

Greening the financial services sector, mobilizing green finance

Green bond market development

Incentivizing financial institution's greener operations

II. Social and international relations

1. Enhanced cooperation with domestic partners

Active participation in international work on climate risks and green finance

Education and capacity building on green finance and climate risks

III. Greening MNB's own operations

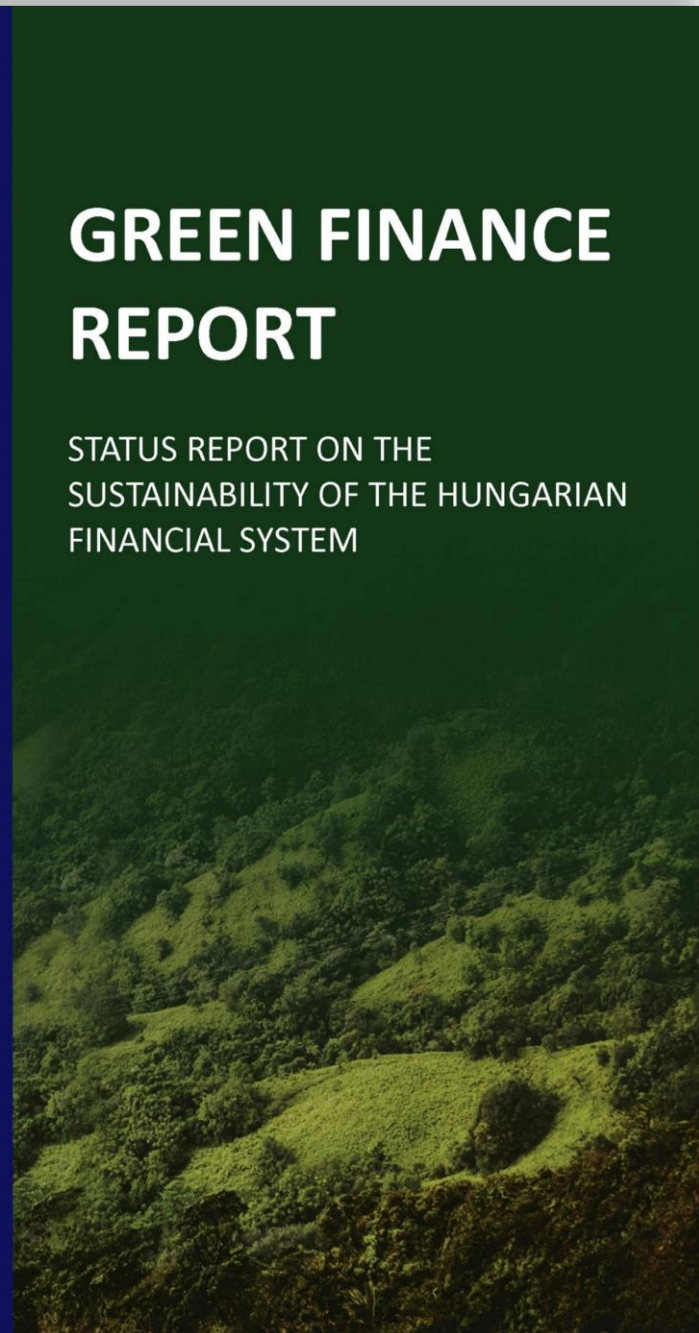
Further reduction of MNB's own ecological footprint and introduction of emissions offsetting scheme

Acting as a role model in environmental disclosures



GREEN FINANCE REPORT

STATUS REPORT ON THE
SUSTAINABILITY OF THE HUNGARIAN
FINANCIAL SYSTEM





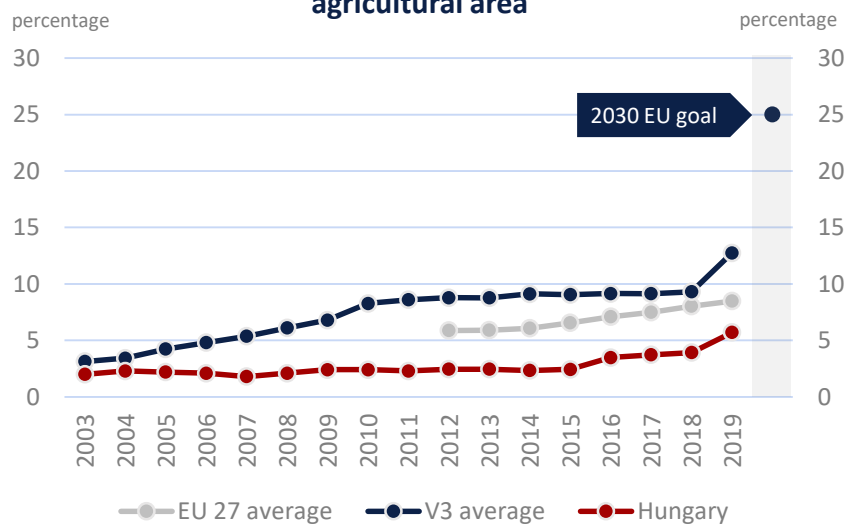
2. NATURAL ENVIRONMENT

HUNGARY IS LAGGING BEHIND IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS, ESPECIALLY IN TERMS OF ENVIRONMENTAL GOALS



UN: Hungary, 2020. <https://eu-dashboards.sdindex.org/profiles/hungary>

Shares of area under organic farming within the agricultural area



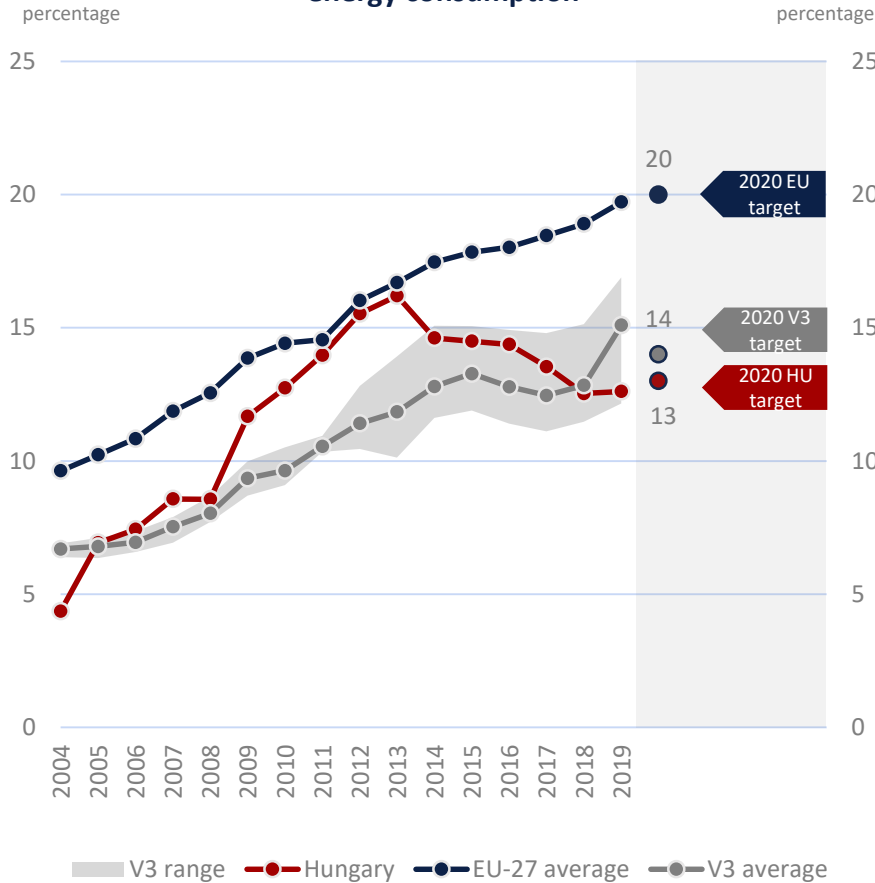


3. ECONOMY

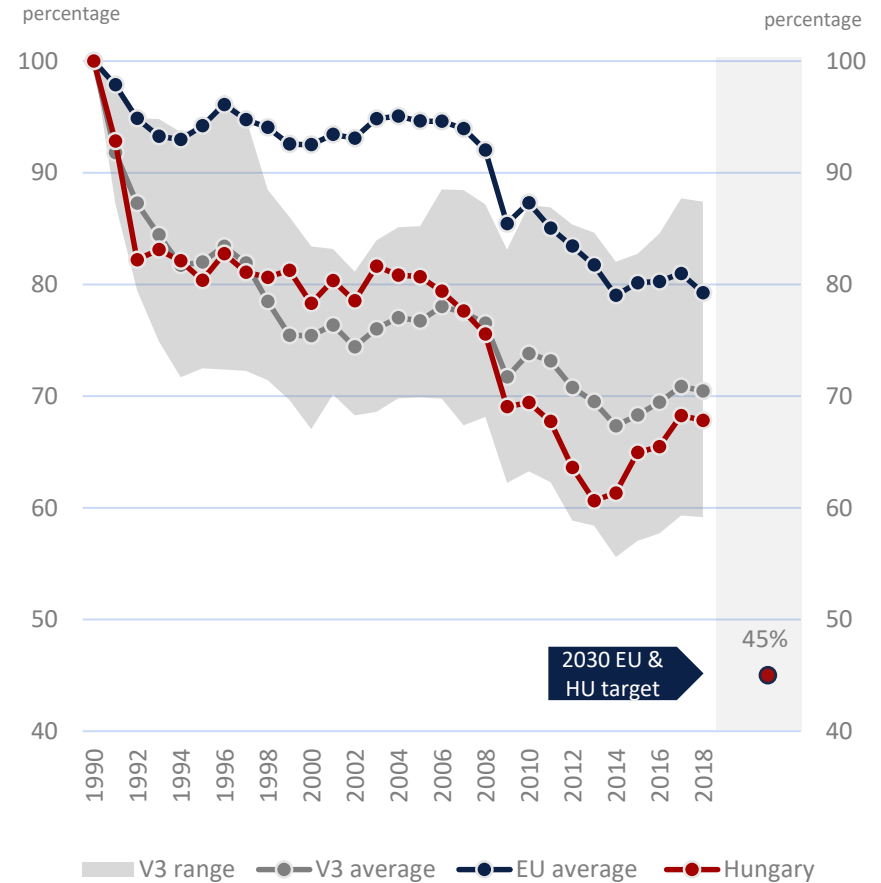
INDICATORS DESCRIBING THE ENVIRONMENTAL SUSTAINABILITY OF THE HUNGARIAN ECONOMY ALSO PAINT A RATHER UNFAVORABLE PICTURE



Share of renewable energy sources in total final energy consumption



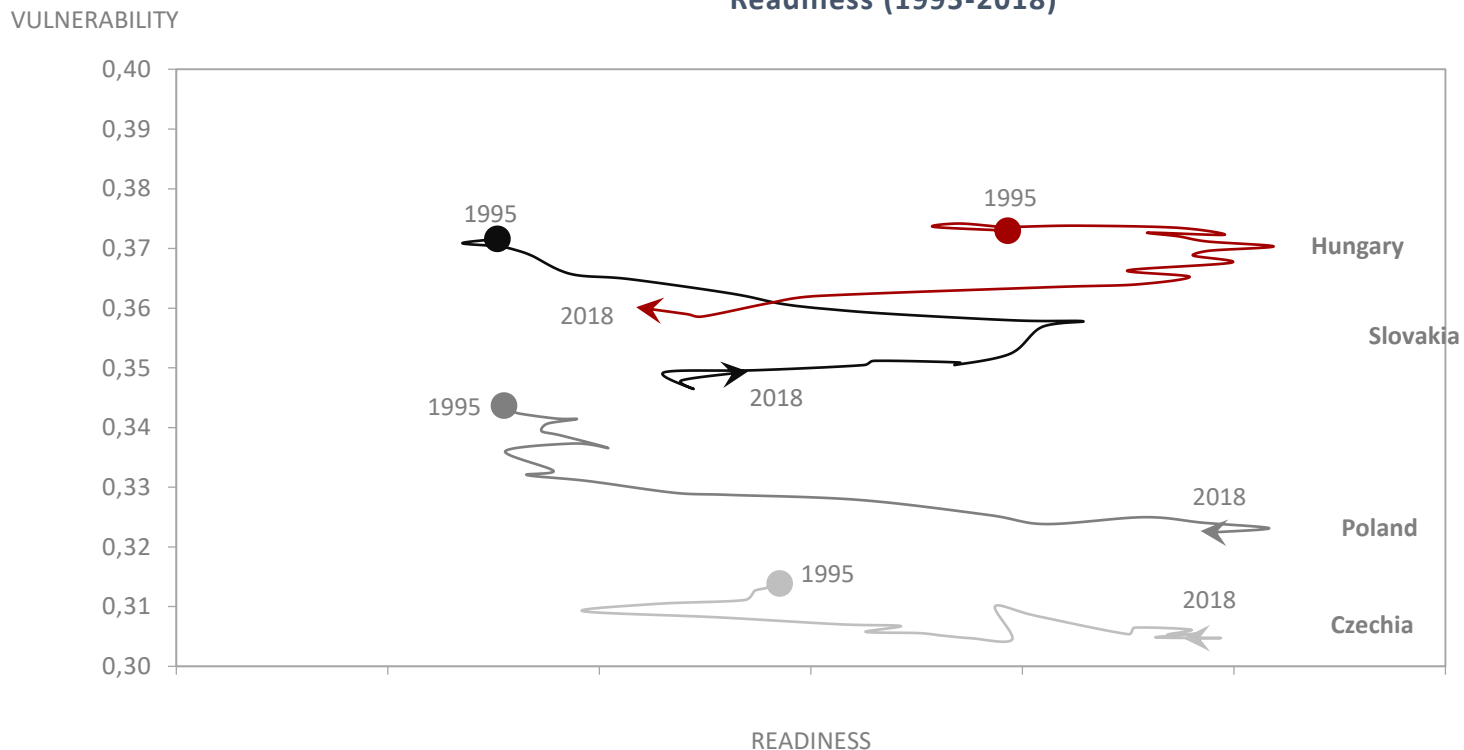
Change in greenhouse gas emissions since 1990



ALTHOUGH SOME PROGRESS HAS BEEN MADE, MANY COMPOSITE INDICATORS POINT TO A NEGATIVE TENDENCY IN SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE READINESS



Notre Dame Global Adaptation Initiative Index - Climate Change Vulnerability and Readiness (1995-2018)



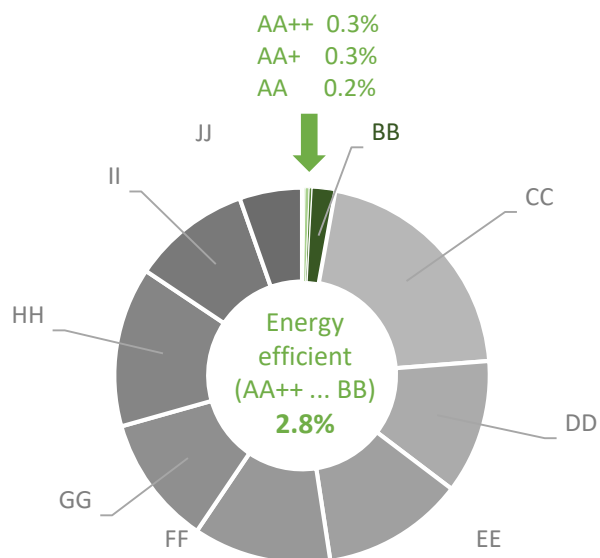
ALL THIS UNDERLINE THE URGENT NEED FOR ECONOMIC TRANSFORMATION, IN WHICH THE FINANCIAL SYSTEM THAT ALLOWS FINANCING TO HAPPEN CAN PLAY A KEY ROLE ALSO IN HUNGARY



4. FINANCIAL SYSTEM

UNTIL NOW, THE FINANCIAL SYSTEM HAS ONLY MARGINALLY INTEGRATED ENVIRONMENTAL SUSTAINABILITY ASPECTS INTO ITS OPERATION...

Indicator	Unit	Hungary	EU
Ratio of green bonds – central government - stock	%	1.90	0.95
Ratio of green bonds – central government - 2020	%	3.90	n/a
Ratio of green bonds – corporate - stock	%	5.60	5.00
Ratio of green bonds – corporate - 2020	%	11.40	n/a
Ratio of green bonds – MNB FX reserve - stock	%	1.00	n/a
Ratio of green corporate loans (solar PV only)	%	2.50	n/a
Ratio of energy efficient residential buildings	%	3.00	9.80
Green/ESG based investment funds – stock	%	0.50	15.10
Insurance sector – ratio of green unit-linked funds	%	1.70	n/a
Green/ESG based voluntary pension funds	%	0.90	n/a



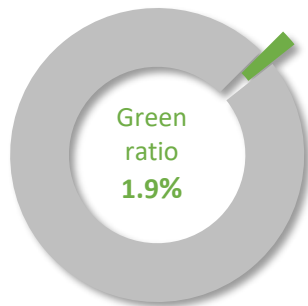
■ Unassigned corporate loans ■ Green corporate loans

... WHICH ALSO MEANS THAT WE STILL HAVE LITTLE DATA ON "GREEN FINANCE" TODAY.

IN THE CAPITAL MARKETS, THE 2020 LAUNCH OF THE GREEN BOND MARKET IN HUNGARY IS AN IMPORTANT MILESTONE, WHICH MAY BE ACCOMPANIED BY THE MARKET PENETRATION OF ESG-BASED INVESTMENT PRODUCTS

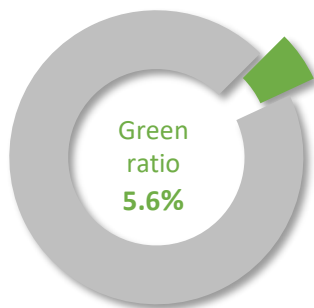


Stock of debt securities issued by the **central government** at market value on 31 December 2020



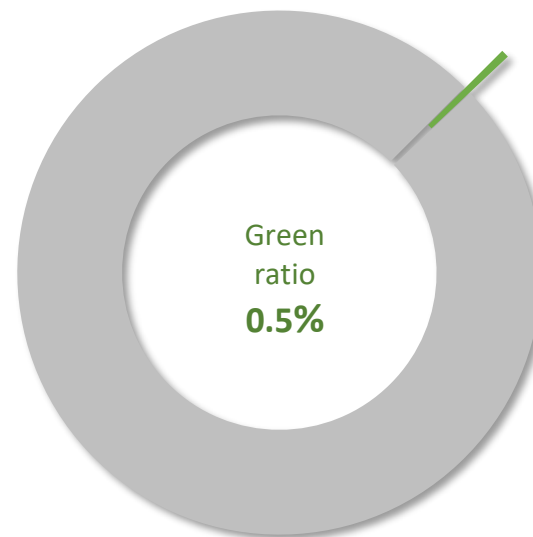
■ Green bonds ■ Traditional bonds

Stock of debt securities issued by **non-financial corporations** at market value on 31 December 2020



■ Green bonds ■ Traditional bonds

Share of assets managed as **ESG funds** in Hungary



■ ESG funds ■ Traditional funds



Bank Carbon Risk Index – Hungarian banking sector



THE GREEN ASPECTS HAVE CLEARLY STRENGTHENED IN CASE OF BANKS LAST YEAR, THE HUNGARIAN BANKING SECTOR IS STILL AT A SERIOUS DISADVANTAGE COMPARED TO EURO AREA INSTITUTIONS

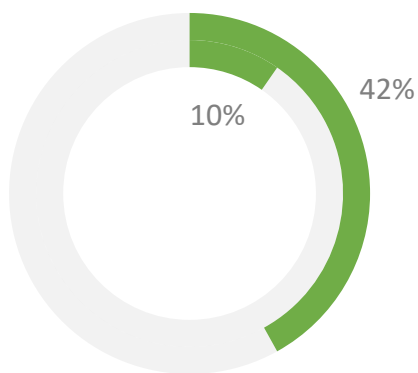


Indicator	Unit	Hungary	EU
Ratio of banks where the highest decision making body does not discuss climate risks.	%	68.00	25.00
Ratio of banks with no person or team dedicated to climate risks.	%	58.00	n/a
Ratio of banks where the probability and effect of climate risks have not been analysed.	%	81.00	48.00
Ratio of banks where no information is disclosed on sustainability.	%	45.00	14.00
Ratio of banks where no metrics on sustainability are disclosed.	%	68.00	50.00
Ratio of banks where disclosures are fully in line with the TCFD recommendations.	%	-	3.00
Ratio of banks joining global initiatives on sustainability.	%	35.00	n/a

Identification of climate risks

inner ring year 2019
outer ring year 2020

■ Identified climate risks ■ Identified no climate risks



Decision makers and climate risks

■ Discussed at regular intervals
■ Not discussed at regular intervals



IN ADDITION TO THE MEASURES OF MNB TO PROMOTE GREEN FINANCE, EU AND GLOBAL INITIATIVES CAN ALSO QUICKLY TRANSFORM THE HUNGARIAN AND EUROPEAN FINANCIAL MARKETS.



#	NGFS recommendation	MNB measures
1	Integrating climate-related risks into financial stability monitoring and micro-supervision	<p>Issued the Guide on climate-related and environmental risks that is aimed at laying the groundwork for integrating climate-related and environmental risks into micro-prudential supervision.</p> <p>Launched green preferential capital treatment programmes that will contribute to the mitigation of transition risks.</p>
2	Integrating sustainability factors into own-portfolio management	<p>Constructed a dedicated green portfolio.</p> <p>Initiated the Green Mortgage Purchase Programme (under implementation).</p>
3	Bridging the data gaps	As part of the green preferential capital treatment programmes, data reporting on green exposures is required.
4	Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing	Signed the UN Principles for Responsible Banking.
		Launched university education and research programs, banking and capital markets courses.
		Publication of reports on green finance, articles and studies.
		Organisation of international green conferences.
5	Achieving robust and internationally consistent climate and environment-related disclosure	Issued the Guide on climate-related and environmental risks, in which a chapter entirely focuses on disclosures.
		Supported disclosure obligations under the SFDR by means of a MNB management circular.
6	Supporting the development of a taxonomy of economic activities	Simplified application of EU green taxonomy under preferential capital treatment programmes.



5. CONCLUSIONS

CONCLUSIONS

- Enhanced transparency for broad set of stakeholders
- Green transition of the economy is required and the financial system must play a role
- Potentially large risk exposure combined with insufficient preparedness in Hungarian banking sector
- No need for perfect and complete data to act
- Evidence-based green regulatory policies
 - Expansion of green preferential capital treatment programme
 - Inclusion of physical risks in climate stress testing
 - Refined climate risk disclosure requirements roadmap for banks
 - Development of MNB TCFD report
 - ...

„The MNB is committed to taking the necessary actions, even through the introduction of innovative measures, to enable the Hungarian economic and financial systems to contribute to Hungary's environmental sustainability and climate neutrality.“

MNB Green Finance Report



THANK YOU FOR YOUR ATTENTION!

SUSTAINABLE.FINANCE@MNB.HU

APPENDIX 1/2 - KEY INDICATORS IN THE GREEN FINANCE REPORT



Category	Indicator	Unit	Hungary	EU
Real economy	Share of area under organic farming within the agricultural area	%	5.71	8.49
	Share of the protected land areas	%	22.24	26.00
	Internal renewable water resources per capita	m ³ /inhab./year	617.20	3 065.00
	Share of renewable energy sources in total final energy consumption	%	12.61	19.73
	Energy intensity of the economy	Oil equivalent (kg)/€ thousand	206.09	119.64
	Net energy import	%	69.70	60.60
	Percentage of newly registered plug-in electric vehicles	%	0.11	0.75
	Recycling rate of municipal waste	%	35.94	47.60
	Change in greenhouse gas emissions since 1990	%	- 32.18	- 20.74
	CO ₂ emissions per unit of production	Thousand tons CO ₂ / \$ million	0.17	0.16
	Share of GHG emissions under the scope of EU ETS in Hungary	%	29.04	40.00
	EU ETS CO ₂ market price	EUR/tCO ₂ e	32.71	32.71
	Fossil fuel subsidies	GDP %	0.19	0.40
	Environmental tax revenues	GDP %	2.37	2.40
	Environmental Performance Index (EPI)	index	63.70	70.67
	Adjusted net savings (ANS)	GNI %	14.53	11.50
	Adjusted national net income (ANNI) growth rate (2009-2018 average)	%	1.75	1.00
Risk	Natural resources rents	GDP %	0.38	0.20
	ND-GAIN vulnerability	index	0.36	0.34
	ND-GAIN change in vulnerability between 1995 and 2018	%	- 3.43	- 2.57
	ND-GAIN readiness	index	0.50	0.61
	ND-GAIN change in readiness between 1995 and 2018	%	- 8.01	7.44
	Ecological deficit (biocapacity – ecological footprint)	Million global hectares / capita	1.16	2.53
	Ratio of banks where the highest decision making body does not discuss climate risks.	%	68.00	25.00
	Ratio of banks with no person or team dedicated to climate risks.	%	58.00	n/a
	Ratio of banks where the probability and effect of climate risks have not been analysed.	%	81.00	48.00
	Bank Carbon Risk Index (Linear)	index	0.08	n/a
	Bank Carbon Risk Index (Gompertz)	index	0.15	n/a

APPENDIX 2/2 - KEY INDICATORS IN THE GREEN FINANCE REPORT



Category	Indicator	Unit	Hungary	EU
Mobilisation	Ratio of green bonds – central government - stock	%	1.90	0.95
	Ratio of green bonds – central government - 2020	%	3.90	n/a
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	Insurance sector – ratio of green unit-linked funds	%	1.70	n/a
	Green/ESG based voluntary pension funds	%	0.90	n/a
Reporting	Ratio of banks where no information is disclosed on sustainability.	%	45.00	14.00
	Ratio of banks where no metrics on sustainability are disclosed.	%	68.00	50.00
	Ratio of banks where disclosures are fully in line with the TCFD recommendations.	%	-	3.00
Global Initiatives	Ratio of banks joining global initiatives on sustainability.	%	35.00	n/a