



GREEN ASPECTS OF THE CENTRAL BANK OF HUNGARY'S MONETARY POLICY TOOLKIT



SUSTAINABILITY MANDATE PROVIDES A LEGAL BASIS AND COMMITMENT FOR POLICY ACTIONS



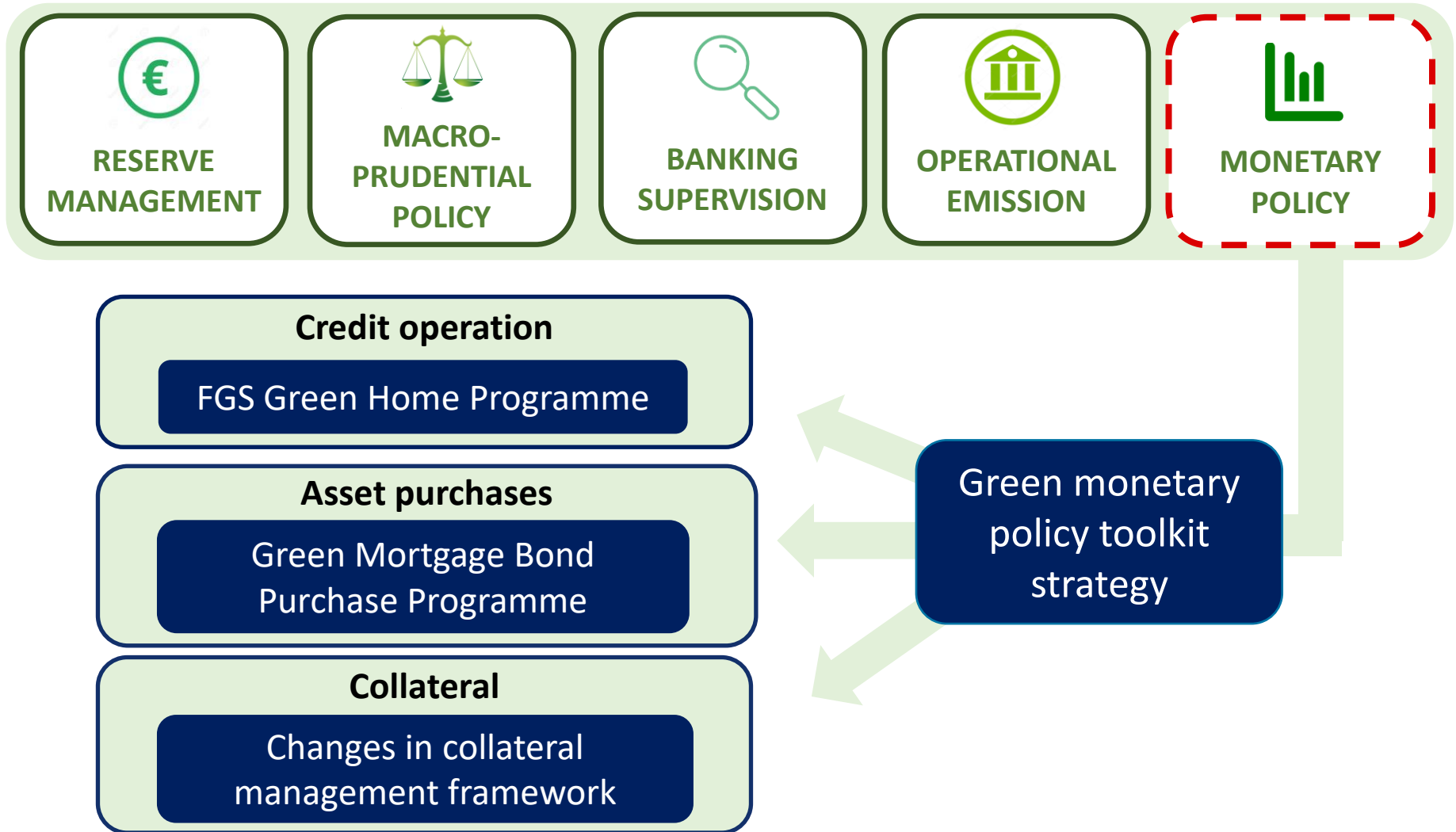
- **Magyar Nemzeti Bank (MNB)** is a member of the European System of Central Banks but **not part of the Eurosystem**
 - **Independent monetary policy with close cooperation**
- Primary objective is to achieve and maintain price stability
- Secondary objectives can be pursued only without endangering price stability:
 - Maintain the **stability of the financial intermediary system**
 - Support the **government's economic policy**



In May 2021, MNB was among the first central banks in Europe to receive a **sustainability mandate** by the government:

*„Without prejudice to its primary objective, ...and shall support the economic policy of the Government **and its policy related to environmental sustainability** using the means at its disposal.”*

THE MNB HAS TAKEN SEVERAL STEPS IN GREENING ITS CORE OPERATION AND POLICY TOOLS



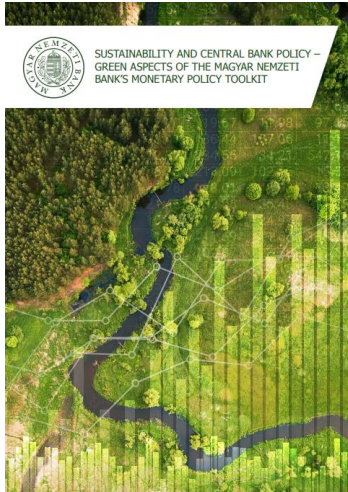
THE MNB STARTED TO IMPLEMENT GREEN ASPECTS TO ITS MONETARY POLICY TOOLKIT IN 2021



MNB published its [green monetary policy toolkit strategy](#) in July 2021

Laid out the goals, high level principles and possible directions of green monetary policy.

- *Announced two programmes supporting green housing loans (FGS Green Home Programme, Green Mortgage Bond Purchase Programme)*
- *Green elements in the collateral framework*
- *MNB made a commitment to publish the first TCFD report in 2022*



The MNB intends to be proactive, leading by example among central banks, in supporting the transition to a low-carbon economy



FGS GREEN HOME PROGRAMME

AS PART OF ITS NEW STRATEGY, MNB ANNOUNCED TWO NEW PROGRAMMES IN JULY 2021



FGS Green Home Programme

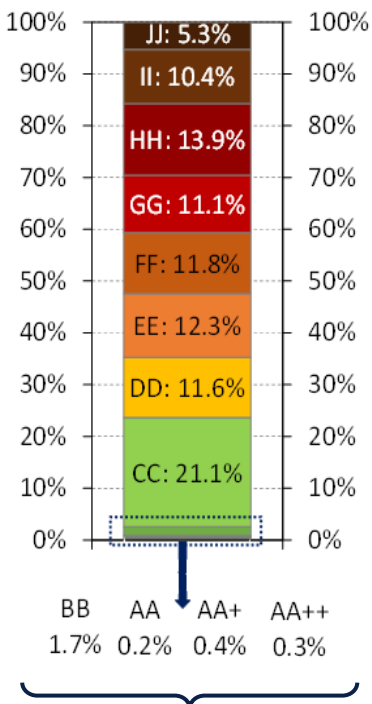
Green Mortgage Bond Purchase Programme



Directly and indirectly support the green mortgage lending activity

Main considerations and motivations:

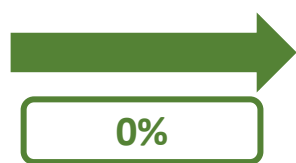
- **Low energy efficiency** of the domestic real estate while they are responsible for 33% of energy consumption in Hungary
- **Renewal rate** of housing market is low
- Large rates of **homeownership** (91% of the population live in their own home)
- Banks did not incorporate green components into mortgage loan products
- Suitable for „standardized” policy tools.



GREEN HOME PROGRAMME PROVIDED DIRECT SUPPORT FOR THE GREEN RESIDENTIAL MORTGAGE MARKET THROUGH REFINANCING LOANS

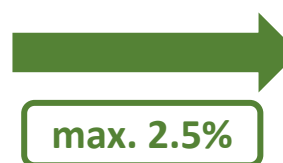


Refinancing (total amount of HUF 300 billion)



Commercial banks

Mortgage loan



Residential customers

MAIN CONDITIONS OF FGS GREEN HOME PROGRAMME



constructions or purchases of new residential real estate



min. BB classification



max. 80* kWh/m²/year primary energy consumption

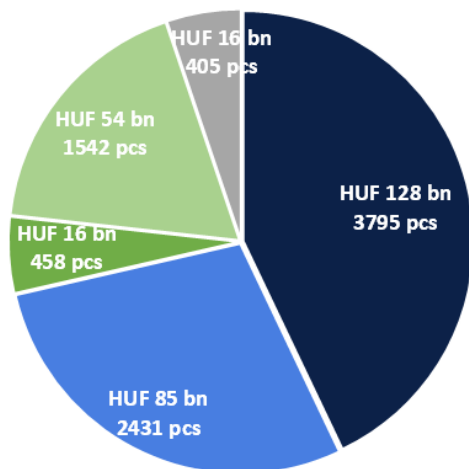


max. HUF 70 million loan amount



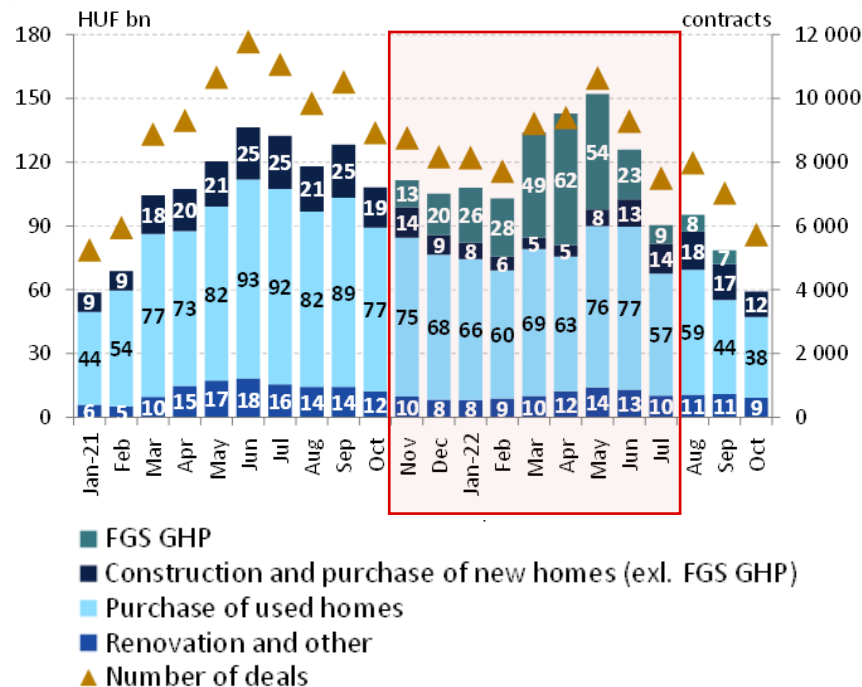
max. 25 year maturity

DURING ITS LIFESPAN THE PROGRAMME GENERATED ADDITIONAL DEMAND ON THE MORTGAGE MARKET



- Construction of detached house
- Purchase of complete detached house
- Purchase of complete flat
- Purchase of semi-finished flat
- Purchase of semi-detached, terraced, other house

DISTRIBUTION OF THE CONTRACTED VOLUME BY LOAN PURPOSE AND PROPERTY TYPE



NEW HOUSING LOANS TO HOUSEHOLDS IN THE CREDIT INSTITUTION SECTOR

- Favourable conditions resulted excessive demand that contributed to a significant increase in the volume of new housing loans.
- Households took 43 pct of loans for construction of detached houses.



GREEN MORTGAGE BOND MARKET IN HUNGARY

MAIN MOTIVATIONS BEHIND THE ANNOUNCEMENT OF THE PROGRAMME



Key objectives of Green Mortgage Bond Purchase Programme

Market building

- Encourage **first green issuances** in close cooperation with all mortgage banks.
- Establish **best practices** for bond issuances and reporting schemes.
- Expect a high degree of **transparency** standards from issuers.
- Increase secondary **market liquidity**.

Support green housing

- Indirectly support the construction of **new residential buildings**
- **Retrofitting** of existing homes to improve energy consumptions.
- Support one of the **flagship economic policies** of the government.

GREEN MORTGAGE BOND PURCHASE PROGRAMME WAS A DEDICATED TOOL TO CREATE A NEW MARKET SEGMENT



Purchased assets: fixed-rate HUF mortgage bonds compliant with one of the two most recognized standards:

- > ICMA Green Bond Principles
- > CBI Climate Bonds Standard



Verification by independent external party is required



Annual public report: Provide information on the main characteristics of the underlying lending activity, the progress in reducing carbon dioxide emissions etc.



Stock market listing: Issuer must initiate the listing of the mortgage bond to Budapest Stock Exchange within 15 days of the auction.



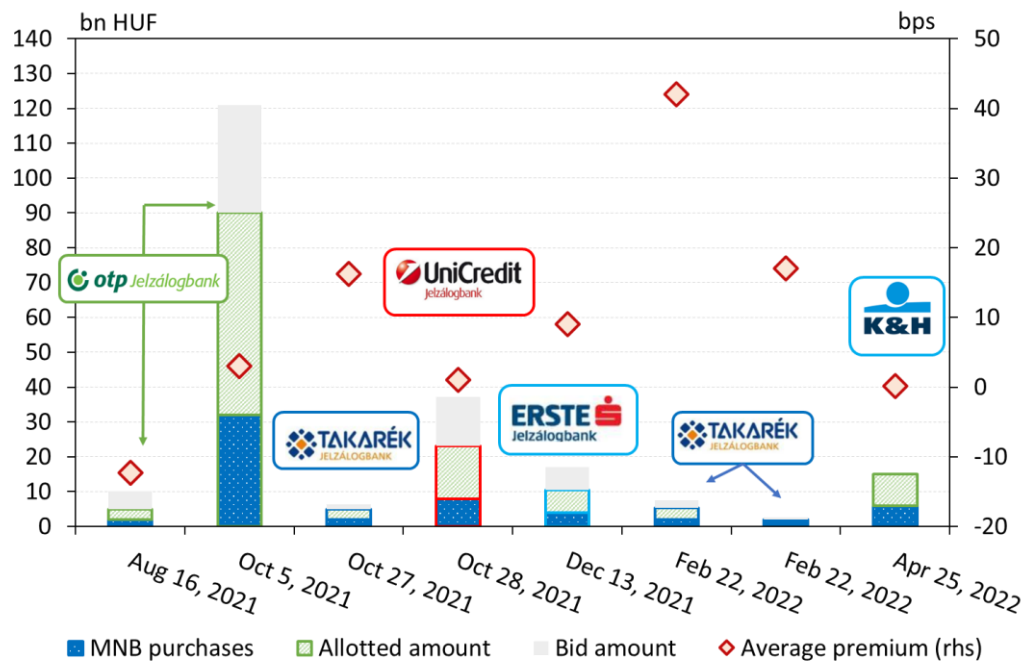
Market purchases: focus on the auctions (primary market), continuous presence with smaller purchases on the secondary market



Launch of the programme: 2 August, 2021

First review: 5 April, 2022 – *currently suspended*

HUNGARIAN MORTGAGE BANKS MADE SIGNIFICANT PROGRESS IN BUILDING THE GREEN MORTGAGE BOND MARKET



GREEN MORTGAGE BOND ISSUANCES

Aug 2021 – May 2022

- **All 5 mortgage banks** have issued mortgage bonds in total of 156 billion HUF.
 - Total market share reached 10 pct
- Estimated greeniums are small or not significant, nonetheless, increasing demand was observed.
- **Green bond frameworks:**
 - 4 ICMA Green Bond Principles
 - 1 CBI Climate Bonds Standard
- Green issuances continued after the suspension of the programme.



COLLATERAL MANAGEMENT FRAMEWORK

THE GREENING OF COLLATERAL MANAGEMENT FRAMEWORK



Transparency

Reliable and comparable data is essential for a well-functioning green bond market

Strategy

As part of the green monetary policy toolkit strategy the MNB has begun integrating climate risk aspects into the collateral management framework

Toolkit

The MNB is one of the most progressive central banks in terms of collateral management

2020

Eligibility of green bonds as collateral

- *Green bonds as collateral at the MNB*

2021

Green haircut

- *Preferential haircuts for green bonds*
 - *80% of previous value*
 - *Up to 5%*
- *Accepted bond standards (ICMA, CBI) in line with other tools*

2022

Transparency

- *Annual allocation report and impact report to maintain green haircut*
- *Green transparency report for mortgage bond*



EXPERIENCES AND CHALLENGES

EXPERIENCES AND CHALLENGES: APPLICATION OF GREEN BOND FRAMEWORKS



- **ICMA Green Bond Principles** provides a **flexible approach**, rigorousness of the bond framework is essentially depending on the issuer.
 - **Loose criteria set** and missing taxonomy for green buildings.
 - **Statistical estimation** is allowed to determine the volume of green assets if sufficient data is not available (energy efficiency indicators).
- **Limited data availability** and the flexible approach of ICMA could lead to differences in the green bond frameworks.
 - Only Energy Performance Certificates (EPC) of collaterals have been collected earlier by banks, more accurate data (**kwh/m2**, share of renewable sources) are scarce.
 - Issuers **definition of green mortgage loans** can slightly differ (minimum thresholds for energy consumption).

Key conclusions:

- Data availability and quality is key
- Acute need for transparent, stringent and unified standards (EU GBS)



- **Active involvement** of MNB was essential and the central bank needs to keep playing a leading role in building green financial market locally.
- Green **policy actions have limited options in tightening cycle** despite recent developments highlight the importance of energy efficient housing and green transition of the economy.
- Active tools can **boost issuances** and **strengthen market transparency** without endanger the central bank primary objective:
 - **Green haircuts:** Preferential green haircut in MNB's collateral management framework for green bonds and bonds with allocation and impart reports
 - **Preferential treatment of green bonds in macroprudential regulation:** Preferential weighting of green assets in case of the Mortgage Funding Adequacy Ratio
 - **Green transparency:** Mortgage banks provide key data on outstanding bonds (in line with CRR 129. Art) that include green attributes (incl. energy efficiency data) of collaterals



THANK YOU FOR YOUR
ATTENTION

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