



In Conversation with

Ms Marja Nykänen

Deputy Governor, Suomen Pankki/Bank of Finland

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1. When and why did your institution join the NGFS?

The Bank of Finland joined the NGFS in summer 2018. When the NGFS started admitting new members earlier that year, we initiated an internal discussion on the merits of joining the network. We quickly took the decision to join. Observing the workplan of the NGFS and after building our internal competencies, we recently started participating in two more workstreams.

In 2017 it was not evident that central banks and supervisors were active in climate change-related analysis. Joining the NGFS in order to be in the vanguard of progress in climate change-related risk analysis was one of the main factors supporting our decision to join. Participating in the NGFS work enables sharing of expertise among the members, being part of developing and sharing best practices, and it also helps development of internal capabilities. The effects of climate change on the financial industry is such a topic that in smaller countries there is a limited number of experts in this field, while the NGFS facilitates discussion with many experts around the world.

2. Can you share with us the key elements of the Bank of Finland's climate strategy and how it fits into the broader national strategy in your jurisdiction?

The Bank of Finland contributes to building a future that is socially and ecologically sustainable. To guide this, the Bank of Finland has set up a sustainability programme. Our sustainability work focuses on the promotion of sustainable growth, exercise of influence via information and management of climate risks.

Our sustainability programme includes the following value propositions:

- We invest responsibly – the Bank of Finland became the second central bank to sign the UN Principles for Responsible Investment (UN PRI)¹ and in so doing we have committed to

¹ <https://www.suomenpankki.fi/en/media-and-publications/releases/2019/bank-of-finland-signs-the-un-principles-for-responsible-investment-as-part-of-our-sustainability-programme/>

recognising environmental, social and corporate governance (ESG) issues in our investment practices.

- We operate in an efficient, economical and environmentally sustainable manner – Already in 2009, the Bank of Finland introduced an environmental programme aimed at reducing the use of energy and the amount of waste by means of ecological solutions.
- We recognise climate risks in the monitoring of financial stability – We monitor climate change and its effects on the real economy and financial markets. We share information and publish analyses on various sustainable finance themes. For example, we have published an analysis on carbon border tax (*CO2 emissions embodied in EU-China trade and carbon border tax*²) and another on risks in using the prudential framework as an incentive to sustainable investing (*Could the Green Supporting Factor help mitigate climate change?*³). We also contribute to the global discussion by taking part in the work done within the NGFS and also the Eurosystem. In order to enhance exchange of views and ideas globally on sustainable finance we co-hosted a Greener Finance for Sustainable Future conference⁴ with the Finnish Ministry of Finance in autumn 2019.
- Our target is to reduce the environmental impact of cash and currency supply. We are a member of the Joint Euro Tender (JET) group, consisting of 8 euro area countries, which aims to increase the use of sustainable cotton in banknotes to a full 100 per cent. Due to the country's relatively small population and large geographical size, transportation is one major challenge in Finland. To tackle this, we have been making efforts to reduce cash transportation by means of a variety of storage systems.

As a jurisdiction, Finland has been active and ambitious in climate issues. Finland has announced that it will be carbon neutral by 2035, already 15 years before the EU target. This timeline poses significant challenges for the domestic economy, given the composition of industries and the characteristics of the country.

Large Finnish pension funds have been among the first globally to embrace green investments as part of their portfolios. Similarly the Finnish banking sector is active in climate-related considerations, including the issuance of green bonds.

At the central bank, we support this national transition in active dialogue with the financial industry. Furthermore, by supporting the financial sector in smooth financial intermediation, the central bank also helps funding to flow to sustainable companies. By incorporating responsible investment principles into our own fund investments and committing to the UN PRI principles, we are showing our commitment to investing sustainably.

3. To which extent did the Bank of Finland leverage the work of the NGFS in its own domestic journey? Any concrete examples?

As already mentioned, our sustainability programme aims to incorporate sustainability holistically into every aspect of the work done within the Bank of Finland. One of the first tasks within the sustainability programme was to reflect our relevant work against the six recommendations issued by the NGFS in

² <https://helda.helsinki.fi/bof/bitstream/handle/123456789/16561/bpb0420.pdf?sequence=1&isAllowed=y>

³ <https://www.bofbulletin.fi/en/2020/articles/could-the-green-supporting-factor-help-mitigate-climate-change/>

⁴ <https://www.suomenpankki.fi/en/financial-stability/events/green-finance-2019/>

its First Comprehensive Report⁵. We did this by going through all departments and divisions within the bank, identifying work relevant to these recommendations. Based on a gap analysis, we formulated a plan to incorporate these recommendations into all relevant parts of our activities.

In addition, our policy work has been partly shaped by the NGFS reports. For example, we recently submitted our contribution to the European Commission consultation on renewed sustainable finance strategy. In our reply, we highlighted that despite the importance of incentivising sustainable investments, the risk-based approach to prudential regulation should not be abandoned. NGFS reports published in May 2020⁶ showed that there is no obvious evidence as yet that there is a risk-differential between green and other assets. With no evidence of this risk-differential we at the Bank of Finland see no risk-basis to lower risk weights of green assets, at least for now. Similarly, the NGFS reports have given us valuable input into our dialogue with the industry. While we at the central bank are looking at the use of the NGFS scenarios⁷ in our financial stability analysis, several financial institutions have already expressed their interest in looking at using the scenarios in their own work.

4. *One last word?*

We are now witnessing a pandemic that has significant social and economic costs throughout the world. Given its effects, it is of utmost importance that politicians and other decision-makers focus their attention on mitigating the effects of the COVID-19.

As governments tackle these effects, it is important, however, that they also focus on forward-looking investments with regard to issues that are aligned with a sustainable future. This is what the NGFS also pointed out in its June statement on the need for a green recovery⁸. A careful balance needs to be achieved between short-term economic and social support and long term sustainability.

An acute crisis, such as the COVID-19 pandemic, tends to draw the attention of all policy-makers. But since climate change is not going away, it is important that work continues on mitigating and adapting to climate change. While the role of the financial sector in climate change mitigation should be supportive of the climate goals of society, the current recovery from the pandemic should provide an opportunity to push sustainability agenda forwards within the financial sector.

At the same time, COVID-19 has exposed the global interconnections and long value chains associated with today's companies. It is no longer adequate to know the environmental impact of any one company, as its business model may depend on an environmentally non-friendly supplier.

Finally, I would like to thank the NGFS for its great work on globally facilitating the greening of the financial system. The pioneering work of the NGFS has been essential in increasing awareness and building competencies within the central bank and supervisory community. A lot of work remains to be done, however, and I expect the NGFS to take the leading role in coordinating this work.

⁵ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

⁶ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_status_report.pdf

⁷ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_climate_scenarios_final.pdf

⁸ https://www.ngfs.net/sites/default/files/medias/documents/green_recovery_statement_-_june_2020.pdf