



In Conversation with

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

The Bank of Albania joined the Network for Greening the Financial System (NGFS) at the end of 2020, becoming the first central bank in the region to do so. At that time, there were not many members from our region, making our participation even more significant. Our decision to join the NGFS was driven by a commitment to addressing climate-related financial risks and aligning our strategies with global best practices. By joining this network, we aimed to leverage international expertise and collaborate with other central banks and supervisors to enhance our domestic frameworks and policies on green finance.

The NGFS membership provided us with access to a wealth of knowledge and resources, which were crucial in developing our own Medium-Term Green Strategy (2023-2025).¹ This strategy emphasizes the integration of climate risk management into our financial stability mandate and supports Albania's broader national and international climate commitments. Membership gave exposure to our efforts and contributed toward many successful partnerships that are proving crucial in the set up and implementation of Bank of Albania's Green Strategy. Our participation in the NGFS has enabled us to stay at the forefront of global developments in sustainable finance and to incorporate cutting-edge methodologies into our regulatory and supervisory practices.

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

¹ https://www.bankofalbania.org/About_the_Bank/Green_finance/

The Albanian authorities have committed to addressing climate change through both mitigation and adaptation measures, participating actively in international sustainability agreements. The Bank of Albania's climate strategy is a pivotal element of the nation's comprehensive efforts to tackle climate change, showcasing our commitment to these measures. This strategy aligns closely with Albania's broader national and international sustainability commitments, including the Paris Agreement, and supports the country's progression towards EU integration, particularly in line with the European Green Deal and forthcoming regulations from the European Banking Authority (EBA).

Our climate strategy is encapsulated in the Medium-Term Green Strategy (2023-2025), developed in collaboration with the World Bank's Financial Sector Advisory Center (FinSAC) and approved in May 2023. This strategy outlines a detailed action plan aimed at identifying, monitoring, and managing climate-related risks effectively, thereby ensuring the stability and sustainability of our financial system.

Central to our strategy is the promotion of green finance, which involves raising awareness among banks about the necessity of identifying, measuring, and monitoring climate risks. This includes developing guidelines to encourage banks to incorporate these risks into their risk management frameworks, aligning with initiatives by the European Central Bank and best practices from other countries. Additionally, our strategy emphasizes strengthening cooperation with local and international partners, which is crucial for exchanging information, expertise, and best practices.

Our collaboration with FinSAC and other international entities such as the Swiss State Secretariat for Economic Affairs (SECO) has been instrumental in developing and implementing this strategy. These partnerships have enhanced our knowledge, awareness, and ability to address climate-related financial risks effectively.

The Bank of Albania actively participates in global networks like NGFS and the Sustainable Banking and Finance Network (SBFN). These engagements facilitate the exchange of information, expertise, and best practices, which are crucial for tackling the global challenge of climate change.

We are developing supervisory guidelines for managing climate-related risks, to be sent for consultations during 2024. These guidelines set expectations for banks to incorporate climate risks into their risk management practices and conduct self-assessments to ensure compliance. An important analytical tool under development is the Green Dashboard, which provides an in-depth view of climate risks within the financial sector. This tool integrates various indicators, including emission data, economic metrics, and financial sector statistics, to offer comprehensive insights into the sector's exposure to climate risks.

A key focus of our strategy is on identifying relevant data, their collection, and analysis, as well as identifying data gaps. Establishing a comprehensive data infrastructure is crucial for accurate risk modelling and ensuring that our climate risk assessments are based on robust and reliable information.

One of the significant challenges we face is accurately quantifying climate-related financial risks due to limited business disclosures and the absence of a bespoke Green Taxonomy. However, the government's commitment to developing this taxonomy and enhancing sustainable finance benchmarking against EU standards is crucial for overcoming these obstacles.

In conclusion, the Bank of Albania's Green Strategy for 2023-2025 underscores our commitment to integrating climate considerations into the core of our financial stability framework. It reflects our proactive approach to risk identification, monitoring, and management, and aligns with Albania's broader national and international efforts to combat climate change. Through strategic planning and

international collaboration, we aim to ensure a sustainable and resilient financial ecosystem that actively contributes to the global sustainable development agenda.

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

The Bank of Albania has significantly leveraged the resources and expertise provided by the NGFS to advance our domestic initiatives on climate risk management. One of the primary examples is our use of NGFS climate scenarios for conducting top-down stress tests planned for 2024-2025. These scenarios provide a robust framework for assessing both transition and physical risks, helping us develop comprehensive methodologies for stress testing.

Additionally, the NGFS guidelines and best practices have been integral to the development of our supervisory expectations for managing climate-related risks. Our Green Dashboard development and preliminary exposure analysis are informed by the NGFS's best practices and recommendations. By aligning our strategies with NGFS insights, we ensure that our approaches are consistent with international standards, thereby improving the resilience of our financial sector.

4. One last word?

The Bank of Albania is deeply committed to advancing green finance and integrating climate risk management into our regulatory frameworks. Our proactive approach and active participation in international networks like the NGFS underscore our dedication to maintaining financial stability amidst evolving climate challenges. As we continue to refine our strategies and build on our achievements, we remain focused on fostering a sustainable and resilient financial system that can effectively navigate the complexities of climate risks.