



## *In Conversation with*

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

We started to have internal discussions, brainstormings about climate change and other environmental sustainability issues in 2018. This process – originally an expert level initiative – resulted in our Financial Stability Council formally initiating a Green Program early 2019.

This was also the time when we joined the NGFS. For us it was from the beginning clear that we would like to be a part of this organization for several reasons.

First of all, the links between sustainability and the financial system are extremely complex, and we certainly saw the need for knowledge sharing, learning from other central banks, and of course, contributing to the common wisdom of the central banking community with whatever we have.

Second, we were aware that acting alone would not make any sense. Environmental anomalies are global, mitigation efforts are global and the financial systems are global. It might sound like a cliché, but sustainable finance is inherently a teamwork.

### **2. Can you share with us the key elements of the climate strategy of the Magyar Nemzeti Bank (MNB, Central Bank of Hungary) and how it fits into the broader national strategy in your jurisdiction?**

Our strategy focuses on climate change, but it is important to mention that we have put *environmental risks* in the scope of our Green Program, and not just *climate change*.

The strategy is based on the recognition of the scientific evidence, that Hungary is among the more vulnerable countries within Europe in respect to the physical impacts of climate change, and also on

the consideration that mitigation policies have a potentially huge effect on the economy, too. To mention two examples, Hungary is already frequently faced with major water imbalances because of droughts and floods, whereas the car industry has a substantial share in GDP. But the possible financial implications were almost completely a black box for us back in 2018, and financial market players were even less aware of these issues.

This drove us to set up a Green Program consisting of three pillars:

The **first pillar** consists of our measures in relation to the domestic banking, insurance and capital markets. All the measures here serve either the development of environmental risk management or the greening of the financial market. By *developing risk management*, we mean the central bank's own risk assessment of the financial system (via climate stress testing and other analytical tools) and also our steps to "nudge" market players in this regard (via for instance a recommendation setting out expected ESG risk management and governance practices).

In addition to the risk perspective, we have also very explicitly committed to *greening the financial system*, which is in our view the other side of the same coin. In short, we aim to create a supporting environment for green investments by encouraging banks and other financial entities to increase the supply of sustainable financing compared to brown. One example for our measures here is our temporary capital requirement discount scheme for green loans and green bond purchases.

The **second pillar** focuses on our international and domestic partnerships to create a leverage effect. As for the international dimension, we profit a lot not just from NGFS membership, but also other partners such as the Energy Efficient Mortgages Initiative or the EBRD, not to mention the working groups of the European Supervisory Authorities. Domestically we have built partnership with « unusual suspects » for a central bank, such as green NGOs, authorities responsible from energy markets or the Ministry for Agriculture. And let's not forget universities, with which we started green finance cooperation to launch new courses and start new research projects. Capacity building is extremely important to facilitate deep and wide structural changes.

And the **third pillar** is about our own operations. For central banks, credibility is obviously extremely important and this is even truer in sustainability issues, where the risk of greenwashing is always there. Having recognized this, we have committed to cut back on our greenhouse-gas footprint by 30 per cent in the following two years, and by 80 per cent until 2025. To compensate for all emissions that cannot be reduced further, the MNB will finance habitat restoration projects in cooperation with World Wildlife Fund, which will be capable of absorbing the entire amount of our carbon footprint in the forthcoming years, allowing a carbon-neutral operation. And to be transparent, we are also working on our TCFD report.

Let me finally mention here that more information about our Green Program is available at [www.greenfinance.hu](http://www.greenfinance.hu).

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

For us already and for the launching of our program, the NGFS and its founding members served as inspiration and encouragement. Back in 2019, climate change as a central bank topic still sounded highly unusual, but the simple fact that some central banks were already working on the same challenges strengthened our belief that this was the right thing to do.

Having joined the “club”, we signed up for all the workstreams and have learned a lot from the discussions which take place there. The NGFS publications and especially its recommendations always serve as a kind of a benchmark for all of us, to see where we are in our journey. If you want to see the mapping of MNB measures against the NGFS recommendations, please have a look to the table 4 page 77 of the MNB Green Finance Report published in March 2021<sup>1</sup>.

We also regularly invite speakers from the NGFS to our international events.

But let me tell about just one concrete example which not only demonstrates how knowledge sharing works but also the spirit of NGFS. Having started to think about preparing our own TCFD report, we reached out to colleagues at the Banque de France and the Bank of England to collect ideas. They were immediately available, ready to help, despite being in a very busy period (one of the video calls took place at 7 PM if I can recall it correctly, because that was the first open slot in calendars...). It was a great gesture of partnership!

#### **4. *One last word?***

What else? Can't wait to see after the COVID lockdowns all the great colleagues in the NGFS members, observers and the Secretariat in person!

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<sup>1</sup> <https://www.mnb.hu/letoltes/20210303-zold-penzugyi-jelentes-angol.pdf>