



THE CENTRAL BANK OF HUNGARY

## **Mainstreaming the Transition to a Net-Zero Economy**

### **An overview of the actions and commitments of the Central Bank of Hungary (as of April 2021)**

In October 2020, the Group of Thirty published a report titled Mainstreaming the Transition to the Net-Zero Economy report (“G30 Report”), which sets out key recommendations to governments, central banks, financial intermediaries and corporations supporting the objective to accelerate the global transition to a net-zero emission economy.

The Central Bank of Hungary, Magyar Nemzeti Bank (“MNB”), have been actively engaged in the field of environmental sustainability since early 2019. Within the framework of its Green Program, in the past two years MNB has launched multiple initiatives targeting climate change and environmental issues on various domains, ranging from the domestic financial sector to regional cooperation. The Green Program of MNB is built on the deep conviction that central banks have an important role in the green transition, even though the primary responsibility to lead climate change mitigation efforts rests with governments.

Like governments, central banks provide crucial public goods to society, among others, by safeguarding financial stability and the preparedness of the financial system to withstand adverse economic shocks of various nature. Today it is very clear that the climate crisis jeopardizes the provision of such public goods. Therefore, MNB shares the view that – notwithstanding the aforementioned prime responsibility of governments - central banks potentially are also powerful actors in these respects as regulators of the “lifeblood” of economies, i.e. financial systems, and also as institutions that can lead by example.

As a megatrend, climate change is expected to be the most impactful on the long-term horizon; nevertheless, those adverse impacts will be the results of today’s actions. The challenge to transition financial systems and economies calls for holistic and immediate interventions from policymakers, regulators, financiers and industry. The MNB therefore welcomes the G30 Report and considers it important that stakeholders addressed in the document reflect on their own responsibilities and concrete actions in line with the Report’s recommendations.

MNB believes that many of its interventions so far have been well-aligned with the recommendations of the G30 Report. In addition, the Report has also inspired and induced new commitments that MNB is ready to undertake, i.e. the preparation of a new report based on the TCFD<sup>1</sup>-recommendations. In the following, MNB describes its actions and commitments in the context of the Report's recommendations.

MNB is inviting its domestic and international partners to join us in this effort, continue the dialog and intensify the cooperation.

György Matolcsy  
Governor  
Magyar Nemzeti Bank

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<sup>1</sup> Task Force on Climate-related Financial Disclosures, set up by the Financial Stability Board.



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Recommendation <sup>2</sup>	MNB's steps	References
<p><b>G30 Recommendation 1 sets out the common principles of an effective policy framework that Governments should undertake for putting their economies on a trajectory to reaching net zero by 2050.</b></p> <p><b>Recommendations 1 also calls Multilateral and National Development Banks to work on reducing the cost of capital for sustainable projects.</b></p>	<p>MNB has launched a comprehensive policy framework titled Green Program. This Program acknowledges governments' prime responsibility for climate policy, but at the same time, MNB aims to provide an enabling financial environment that can provide the necessary funding for net zero transition of the domestic economy.</p> <p>While MNB has no direct competence over development banks, it can however facilitate the reduction of the cost of capital for sustainable projects through commercial banks.</p> <p>MNB have therefore taken concrete steps to lower the cost of capital for green economic activities through introducing preferential capital requirements for energy-efficient residential mortgage loans, green corporate loans and green bond investments in the Hungarian banking sector.</p>	<p><a href="#">MNB launches Green Program and award for environment-friendly finance</a></p> <p><a href="#">MNB introduces a Green Preferential Capital Requirement Program</a></p> <p><a href="#">MNB introduces preferential capital requirements for green</a></p>

<sup>2</sup> The recommendations presented in this table do not include all recommendations and their corresponding elements as written in the G30 Report. Here, items with the most relevance to central banks' operations (including the operations of the MNB) were selected. Some specific recommendations were omitted and/or shortened.

Recommendation <sup>2</sup>	MNB's steps	References
	<p>MNB is also committed to actively contribute to the discussion at the EU level (through the European Banking Authority) and the global level (within the Network for Greening the Financial System) about the role of capital requirement regulations to differentiate between green and brown assets, i.e. a key possible policy instrument influencing the cost of capital.</p>	<p><a href="#">corporate and municipal financing</a></p>
<p><b>G30 Recommendation 2</b> lays out the importance of clarity on future climate policy, the role of effective communication and the power of track records in establishing policy credibility.</p>	<p>Recognizing the importance of clarity and transparency in the field of sustainable finance policy, MNB regularly communicates its policy approach in written publications and senior management's public speeches. In particular, MNB's Green Finance Report – published in March 2021 for the first time – is meant to provide transparency and accountability via its analysis of market and regulatory developments.</p>	<p><a href="#">Green Finance Report 2021</a></p>
<p><b>G30 Recommendation 3</b> describes the necessity for companies of setting clear transition paths, milestones, and targets to reduce Scope 1, 2 and 3 emissions. Such transition paths should be underpinned by good corporate governance.</p>	<p>The MNB pledged to reduce its direct GHG emissions deriving from operations by 30% by the end of 2022 (compared to 2019). From 2021 the MNB will offset its remaining GHG emissions to attain carbon neutrality. In line with this, in December 2020, MNB has contracted WWF Hungary to identify the potential ecological restoration projects to compensate the</p>	<p><a href="#">MNB' 2020 environmental statement</a> (in Hungarian only)</p> <p><a href="#">MNB becomes carbon neutral with WWF Hungary</a></p>

Recommendation <sup>2</sup>	MNB's steps	References
	<p>central bank's remaining carbon footprint (Scope 1 &amp; 2).</p> <p>Within the next 5 years, MNB's environmental strategy is to further reduce its direct GHG emissions by 80% (compared to 2019). MNB is operating an environmental management system certified by the Environmental Management and Audit Scheme (EMAS) of the EU.</p>	
<p><b>G30 Recommendation 4 encourages companies to disclose their transition plans and actions to realign to a net-zero economy. Central banks are invited to lead by example and publish fully TCFD-compliant recommendations. Furthermore, stock exchanges need to develop common guidance on climate disclosure that is consistent with the TCFD recommendations.</b></p>	<p>MNB commits to publish disclosures in 2022 based on the TCFD recommendations. The new disclosures will explain MNB's approach in relation to climate risks in terms of governance, strategy, risk management, and metrics and targets.</p> <p>At year-end 2020, The Budapest Stock Exchange, the subsidiary of MNB, initiated public consultation about ESG reporting for issuers on the Hungarian stock exchange. The final outcome of the consultation will be the ESG Reporting Guide, currently in draft form, which comprises the recommendation for TCFD-aligned disclosures.</p>	<p><a href="#">Budapest Stock Exchange ESG Reporting Guide</a></p>
<p><b>G30 Recommendation 5 advocates financial institutions' assessing and aggregating climate-related risks on their counterparties, recommends using climate scenarios in their risk management and</b></p>	<p>In 2019 MNB publicly endorsed the UN's Environmental Program Finance Initiative's Principles for Responsible Banking to encourage Hungarian banks to become signatories and aim at fostering</p>	<p><a href="#">MNB encourages banks to make sustainability commitments</a></p> <p><a href="#">MNB starts public consultation on its Guide on Climate-</a></p>

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<p><b>moving towards a strategic decision-making related to these risks.</b></p> <p><b>Furthermore, central banks and supervisors are advised to start running regular climate stress tests.</b></p>	<p>environmental protection, social sustainability, and responsible corporate governance.</p> <p>In particular, the Principles require that signatory banks undertake a thorough impact analysis and publicly report the findings, followed by setting targets that must be ambitious enough to objectively bring the bank's business and portfolio into alignment with the respective Sustainable Development Goals and Paris Climate Agreement.</p> <p>In December 2020 MNB published for public consultation its draft guidelines, setting out expectations related to the treatment of climate-related and environmental risks covering, among others, aspects of internal governance, strategy development, risk management and disclosures. Following the consultation, MNB plans to publish its final Recommendation on Climate-related and Environmental Risks in April 2021.</p> <p>2020 saw also the commencement of MNB's long-term climate risk stress test of the Hungarian banking system, the result of which is expected to become available in the second half of 2021.</p>	<p><a href="#">related and Environmental Risks</a> (in Hungarian only)</p> <p><a href="#">MNB Guide on climate-related and environmental risks with considerations for the integration of environmental sustainability into bank's activities</a> (in Hungarian only)</p>
<p><b>G30 Recommendation 6 calls for financial institutions to support their clients in transitioning to net zero, by offering both capital and advice on how to</b></p>	<p>As a financial regulator, MNB's draft Recommendation on Climate-related and Environmental Risks contains explicitly the encouragement for banks to</p>	

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<p>realign their businesses with the net-zero economy.</p>	<p>contribute to climate- and other sustainable development related goals, inter alia, by developing sustainable finance products for their clients.</p> <p>As a financial entity itself, in 2019 MNB was among the first central banks to create a dedicated green bond portfolio within its foreign exchange reserves.</p> <p>Moreover, in 2020 MNB has launched the planning of a potential green mortgage bond purchase program, with which it aims to foster the development of the domestic green financial market, thereby contributing to long-term sustainability, efforts to combat climate change, and to broadening the base of conscious investment decisions.</p> <p>In the past two years MNB has also been engaged in, sponsored or led numerous capacity building, advocacy, research and educational activities in the field economic and financial aspects of climate change and environmental issues. In October 2020 MNB organized the second Central European Green Finance Conference. All these awareness raising efforts are meant to inform businesses about climate risks and the importance of a transition to a low-carbon economy.</p>	<p><a href="#">MNB among the first central banks to create a dedicated green bond portfolio within foreign exchange reserves</a></p> <p><a href="#">MNB prepares for purchases of green mortgage bonds</a></p> <p><a href="#">International conference on green finance: the goal is a 'green recovery' from COVID-19</a></p>