

Green Recovery from the Covid Pandemic – Report on the Online International Green Finance Conference in October 2020*

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Due to the Covid-19 pandemic, regulators and economic actors have found themselves in a bind. Economic growth first nosedived and subsequently returned to a protracted path of recovery. The authorities now need to focus on economic recovery, reaching inflation targets and increasing employment again. In this context, one could be rightly worried that climate-protection efforts may be relegated to the background. Promisingly, decision-makers were quick to realise that the economic shutdown is not only a bane but also a boon and that the recovery can be green, if the efforts supporting climate targets are prioritised. Held in an online format due to the Covid-19 pandemic, the international green finance conference organised by the Magyar Nemzeti Bank (the Central Bank of Hungary, MNB) and the European Bank for Reconstruction and Development (EBRD) discussed the possibility and potential tools of a green recovery, in three sessions, with the participation of renowned Hungarian and foreign presenters.

The importance of environmental sustainability in the light of Covid-19

The full extent of the global economic downturn in the wake of the Covid-19 pandemic has not yet been fully quantified, but more and more information is available on another global issue: namely the economic, social and environmental impacts of unmanaged climate risks as well as their effects on our individual lives, according to the opening address held by *Csaba Kandrács*, Deputy Governor for financial institution supervision and consumer protection at the MNB. The Deputy Governor emphasised the importance of taking action: in this spirit, the MNB has laid down in its Environmental Strategy the gradual reduction of its own operations' emissions, targeting 80 per cent lower carbon emissions in five years. Building on the positive experiences, the MNB will continue to offset the remaining emissions by habitat restoration projects from 2020.

János Áder, the President of Hungary, the conference's chief patron, pointed out the significance of cooperation and a change in attitudes. We have to pay for the fallout

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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from climate change sooner or later, either at the individual level, or, failing that, society as a whole will have to pick up the bill. The President noted that decision-makers need to realise that environmental capital needs to be quantified so that otherwise invaluable resources – such as clean air, fertile land or clean drinking water for human or industrial use – are managed in a sustainable manner.

Pavan Sukhdev, President of WWF International, expounded on why the previously mentioned change in attitudes was important. The Holocene, the current geological epoch, has provided opportunities for unprecedented rapid growth, by creating a safe and predictable environment for human civilisation (one need only think of the predictable cycle of seasons, evenly distributed precipitation or the stability of food supply, thanks to biodiversity). However, while enjoying the benefits of this spectacular development, the physical limits of the planet have been reached, which undermines the safe basis for our ascent. The lack of harmony between humans and nature has resulted in the increasing spread of diseases, and even a pandemic unparalleled for decades. The latter has had profound consequences for all our lives, which may be sufficient to make humans take into account during rebuilding the economy and our private lives what we base them on, namely the environment around us.

Assessing and managing climate and environmental risks

According to *Mattia Romani*, Managing Director of the EBRD, regulatory reforms strengthening private investments are needed to establish a competitive, well-governed, inclusive, integrated, resilient and – in particular – a green market economy. Central banks' prudential instruments should address the exponential asset repricing caused by climate change. The Paris climate targets can be met with the existing technology, but countries' pledges are insufficient for success and further measures are required. *Romani's* closing remark is worth considering: implementation of the 'leave-no-one-behind' principle makes it possible to complete the carbon-neutral transition in time.

In his presentation, *Ma Jun*, Special Advisor to the Governor of the People's Bank of China, described the pillars of the Chinese green framework, the central element of which is the taxonomy used to identify green activities. Similar to the European Commission's taxonomy,¹ its main aim is to determine the activities that can be considered sustainable, thereby curbing the spread of 'greenwashing'. China has developed three different taxonomies, one for lending, another one for green bonds and a third one for green projects.

¹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

Jo Paisley, Co-President of the GARP Risk Institute, discussed financial institutions' exposure to climate risks. While institutions mainly see the opportunities offered by climate change in the next five years, over the long run the negative effects dominate. When it comes to quantifying risks, only a marginal proportion of firms believe that climate risks are priced adequately, which may pose a significant issue when they do materialise. A common framework should be established to ensure the comparability of the results of the models quantifying the effects of climate change, both at the local and the global level.

During the panel discussion, *Linda Zeilina*, CEO of International Sustainable Finance Centre, compared the current situation to a potential future Minsky moment arising from climate change, where regulatory bodies need to take unconventional measures to protect the economy.

Katalin Sipos, Director of WWF Hungary, pointed out the benefits of financing a habitat restoration project, stressing that as a first step, it is always more effective to reduce emissions than engaging in carbon offsetting projects. Besides climate change, an emergency is caused by the reduction of the world's environmental capital, and habitat restoration projects may have a direct positive effect.

Opportunities for a green recovery

No central bank can disregard the climate change transition risks, said MNB Deputy Governor *Csaba Kandrács*, in his presentation held in the second session. In cooperation with the NGFS,² the MNB wishes to develop a climate stress test that assesses the vulnerability of the economy in three scenarios. The Deputy Governor explained that the MNB had introduced an unprecedented green capital requirement discount scheme for banks in 2020 that is expected to boost, via lending, the renovation of Hungarian buildings, which have low energy efficiency. Another objective is to enhance the market for green financial products in Hungary and focus institutions' attention on sustainable risk management.

Sean Kidney, CEO of Climate Bonds Initiative, underlined that humanity needs to face the negative effects of climate change, which may not always be evident (such as extreme weather events), as for example pandemics similar to Covid-19 may also become more frequent. Fortunately, in itself, the reallocation of the capital amassed around the world for financing sustainable projects would be enough for a climate-neutral transition. The only task is to provide the necessary green financial instruments, for example in the form of green bonds.

² Network of Central Banks and Supervisors for Greening the Financial System

Representing the energy sector, *Gurbuz Gonul*, Director for Country Engagement and Partnership at IRENA,³ presented the programme of this 161-member, international organisation, which principally aims to foster the transition to renewables. According to IRENA's estimates, investments of USD 2 trillion per year are required in the energy sector in 2021–2023 to achieve the climate targets laid down in the Paris Agreement. More than half of the investments need to go towards improving energy efficiency, while the second largest area to be financed is renewable energy production.

Green bonds in Central Europe

Jacek Kubas, Associate Director of the EBRD, opened the panel discussion with four participants by describing the three features of green bonds, namely awareness-raising, action and accountability. In cooperation with the EBRD, the Hungarian regulatory authorities will develop a sustainable capital market strategy to catalyse (non-sovereign) green bond issuances, which are still in their infancy. According to *Flavia Micilotta*, a partner at Deloitte Luxembourg, the state subsidies that have been financing the transition should be replaced by inclusive market instruments, offering access to this source of financing to both funders and issuers. *Christian Zima*, Senior Fund Manager at Raiffeisen Capital Management, believes that green bonds are characterised by substantial excess demand, and issuing them is easier than one would think. *Gregor Lojk*, Chief Financial Officer of GEN-I Group, reported a complete lack of market experience as the first green bond issuer in Slovenia. The only reference points they had were the Green Bond Principles, i.e. the relevant international standard. The fact that they regarded transparency and accountability, required by the standards, as opportunities, earned them the confidence of investors, which paved the way for the successful issuance.

Nowadays it is perhaps becoming widely accepted that climate change and its economic impact cannot be ignored by regulators, market participants or even individuals, and that successful implementation of the efforts described above is in everyone's best interest, and is also the responsibility of the financial sector, even in the 'shadow' of the Covid pandemic. The conference contributed to this with the presentations and discussions on the financial solutions and financial regulatory measures necessary for the green turnaround, as well as with messages that can prove useful for Hungarian and foreign players in the coming months.

The presentations of the conference are available at <https://www.mnb.hu/greenfinance/english>, and a recording of the entire event can be watched on the MNB's YouTube channel.

³ International Renewable Energy Agency