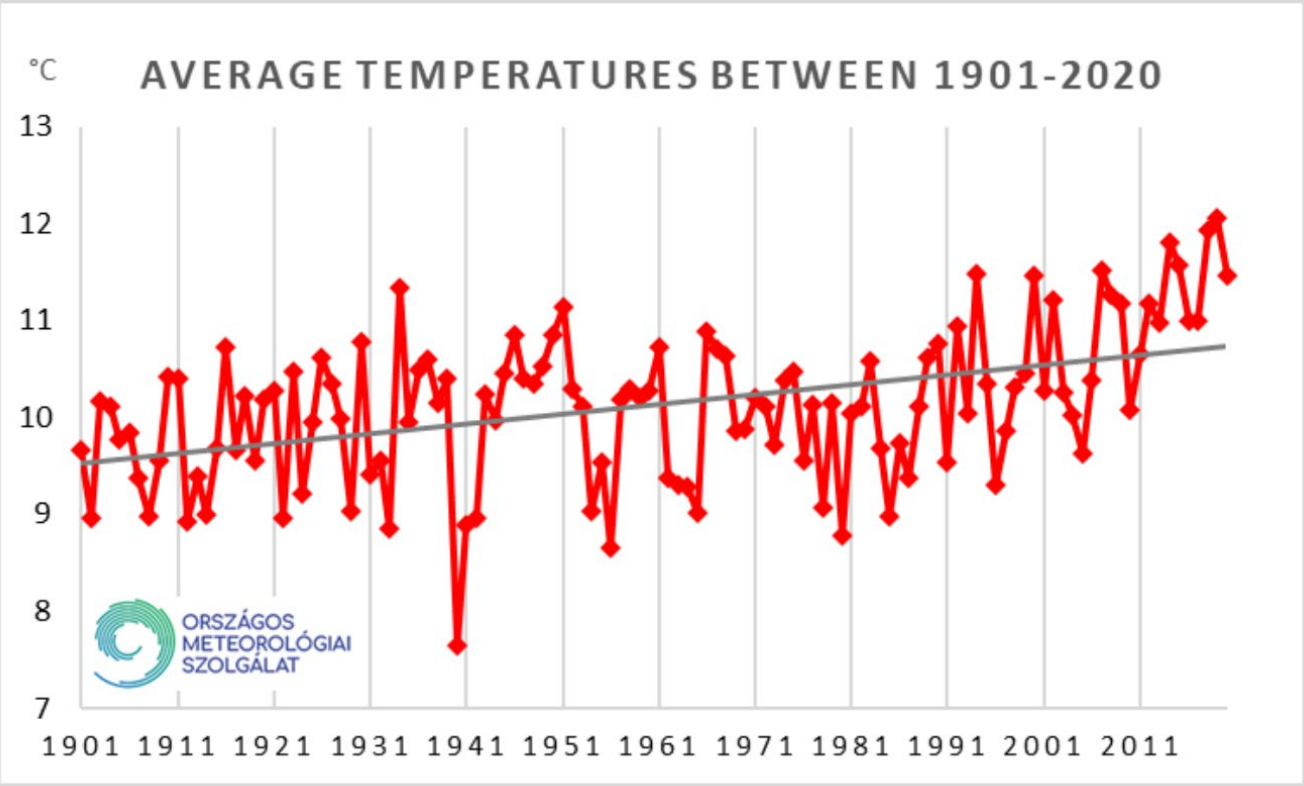
Green Bonds in the EU’s Eastern Partner countries and Kazakhstan – OECD conference

10 June 2022

Gábor Gyura

The Role of the State:
Sovereign Green Bond Issuances and the Regulation of Green Bonds
– the Hungarian experience

The Hungarian context



Source: Hungarian Meteorology Office

- Hungary is already witnessing the consequences of climate change such as the aggravation of floods and droughts, the deterioration of arable land, water and air pollution
- Commitment to EU NDCs under the Paris Agreement.
- Hungary supported the EU climate neutrality target and committed to climate neutrality by 2050 in law.

Yet:

- Virtually no green finance market before 2020
- Local financial markets appear to largely ignore climate change („the Tragedy of the Horizons”)

Two ways forward for Hungary on the green bond market

Sovereign green bond issuance

Encouraging private sector issuances

Two ways forward

Sovereign green bond issuance

Encouraging private sector issuances

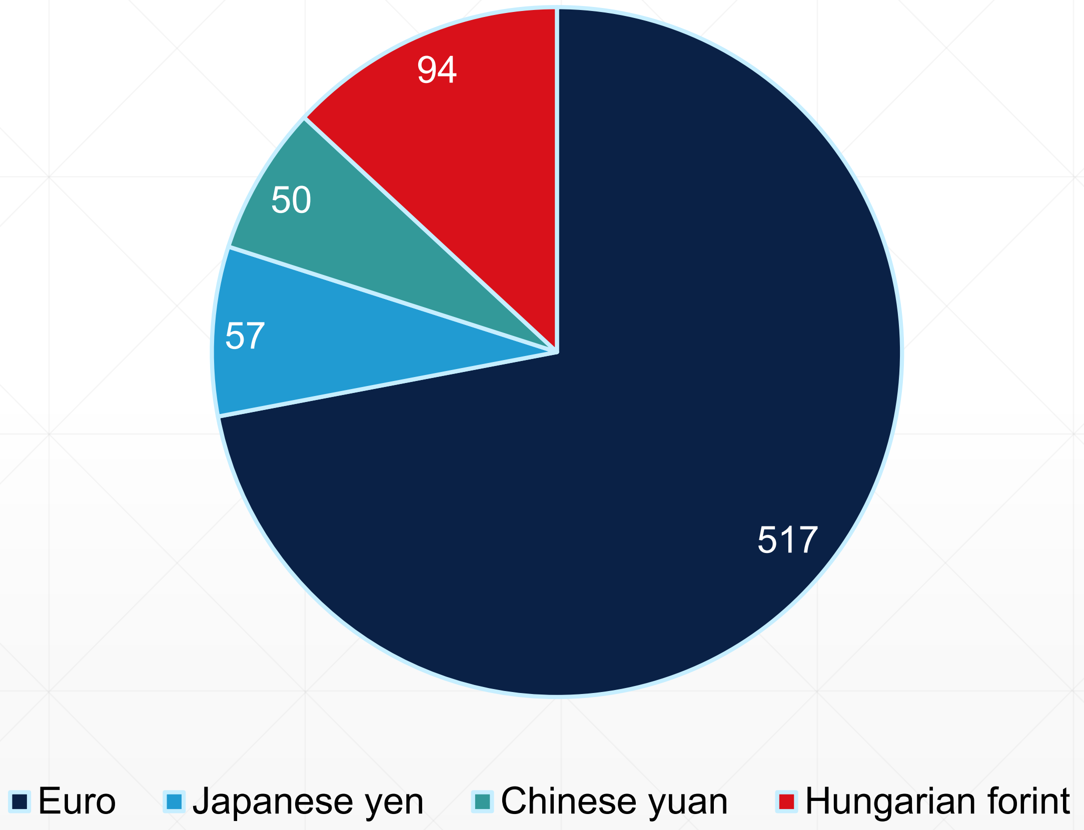
The HU sovereign green bond framework

Hungary’s Green Bonds to support the country’s climate change & environmental commitments with proceeds dedicated to six Eligible Green Expenditures categories and the framework set up in line with the GBPs.

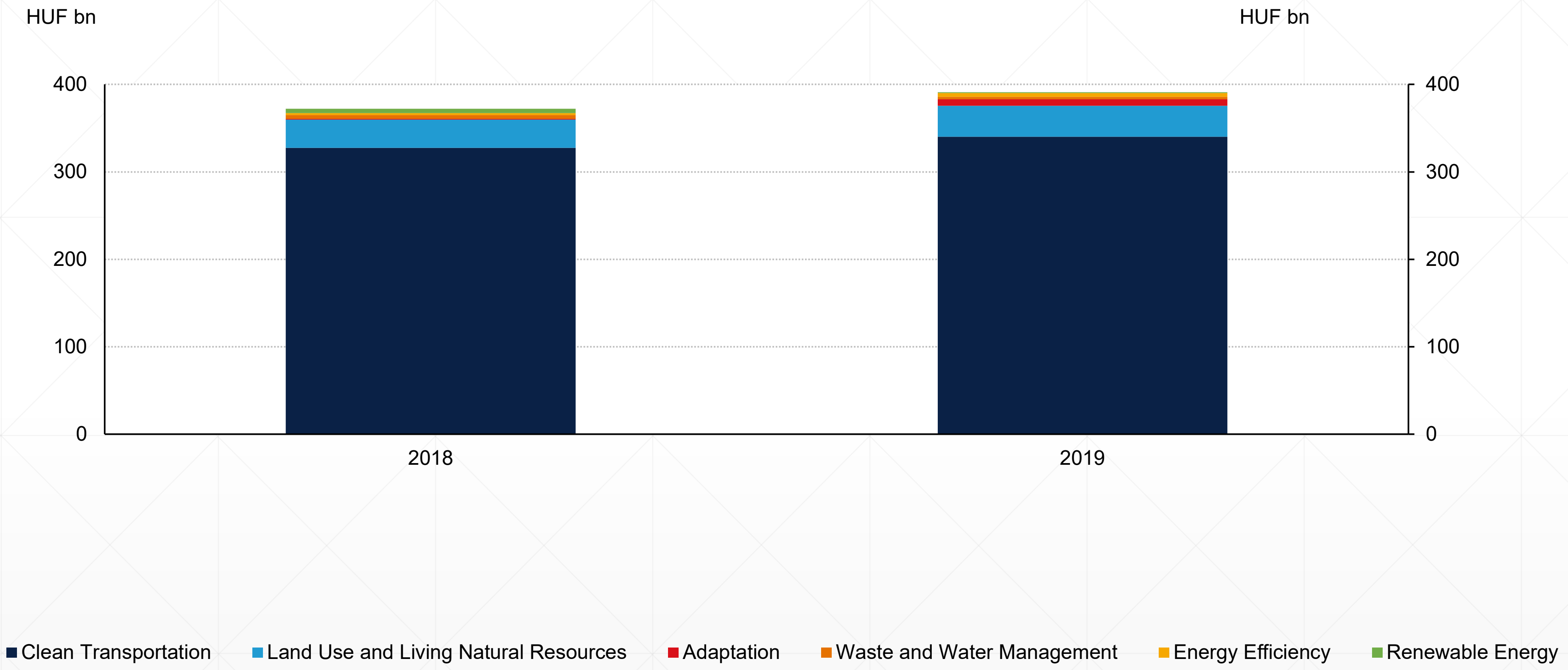
Use of Proceeds	Renewable Energy Land Use and Living Natural Resources Clean Transportation Energy Efficiency Waste & Water Management Adaptation
Process for Expenditure Evaluation and Selection	Ministry of Finance is in charge of coordinating the process ➢ Inter-Governmental Working Group (IWG) evaluates potential green expenditures ➢ Steering Committee approves Eligible Green Expenditures
Management of Proceeds	Ministry of Finance is in charge of Green Bonds proceeds management ➢ IWG monitors the level of Eligible Green Expenditures ➢ Steering Committee approves the proceeds allocation Eligible Green Expenditures can include expenditures from the 2 previous year, the current year and future years.
Reporting	Green Bond Report including Allocation and Impact Reporting
External review	Second Party Opinion from CICERO Shades of Green Allocation Reporting review

Sovereign green bond issuances so far (in HUF bln)

- 2020
  - Eurobond
  - Samurai bond
- 2021
  - Panda bond
  - Domestic bond



Green porject allocation so far



Source: HUNGARY Green Bond Allocation Report 2020

Key Impacts results by Eligible Green Categories

Clean Transportation	Land Use and Living Natural Resources	Waste and Water Management	Renewable Energy	Adaptation	Energy Efficiency
1,106.3 kt CO_2 eq GHG emissions avoided.	More than 120,000 projects supporting sustainable agricultural areas of 794,438 hectares.	The length of sewage system per kilometres of the drinking water system increased to 761 metres.	8.2 kt CO_2 eq GHG emissions avoided.	1.8% decrease in air pollutant particular matter (PM_{10}) between 2018–2019.	49.5 kt CO_2 eq GHG emission avoided.

With the allocated Green Bond proceeds, the progress towards the UN Sustainable Development Goals #6 on Clean Water and Sanitation, #7 on Affordable and Clean Energy, #11 on Sustainable Cities and Communities, #13 on Climate Action and #15 on Life on Land were further strengthened.

Source: AKK

Benefits of green sovereign issuance

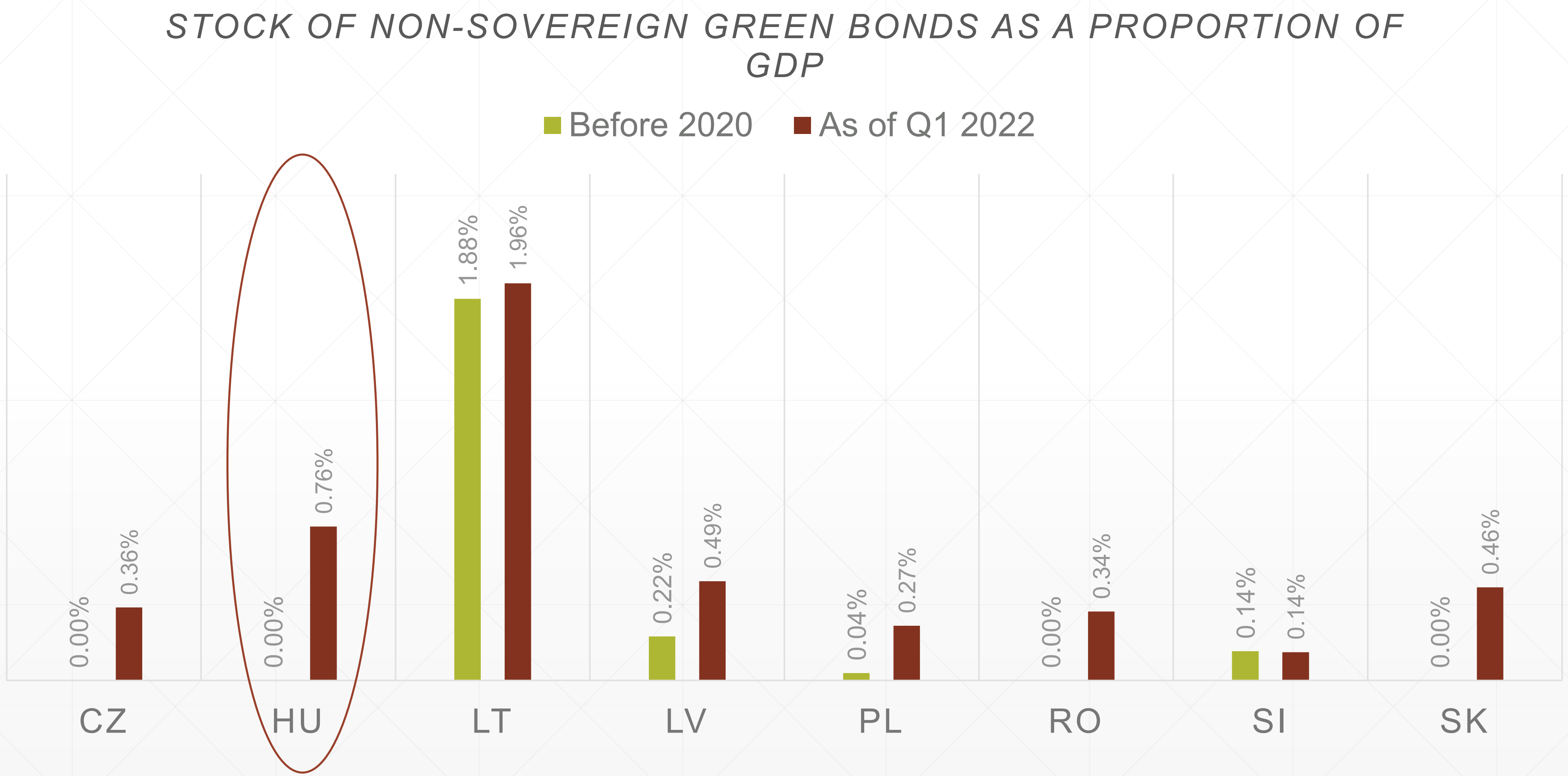
- Issuances were successful (favourable pricing and/or long maturity)
- Reaching new investors, diversification
- Increasing the supply of green assets for domestic ESG mutual funds and other investors
- Sending a strong message to potential private sector issuers of Hungary

Two ways forward

Sovereign green bond issuance

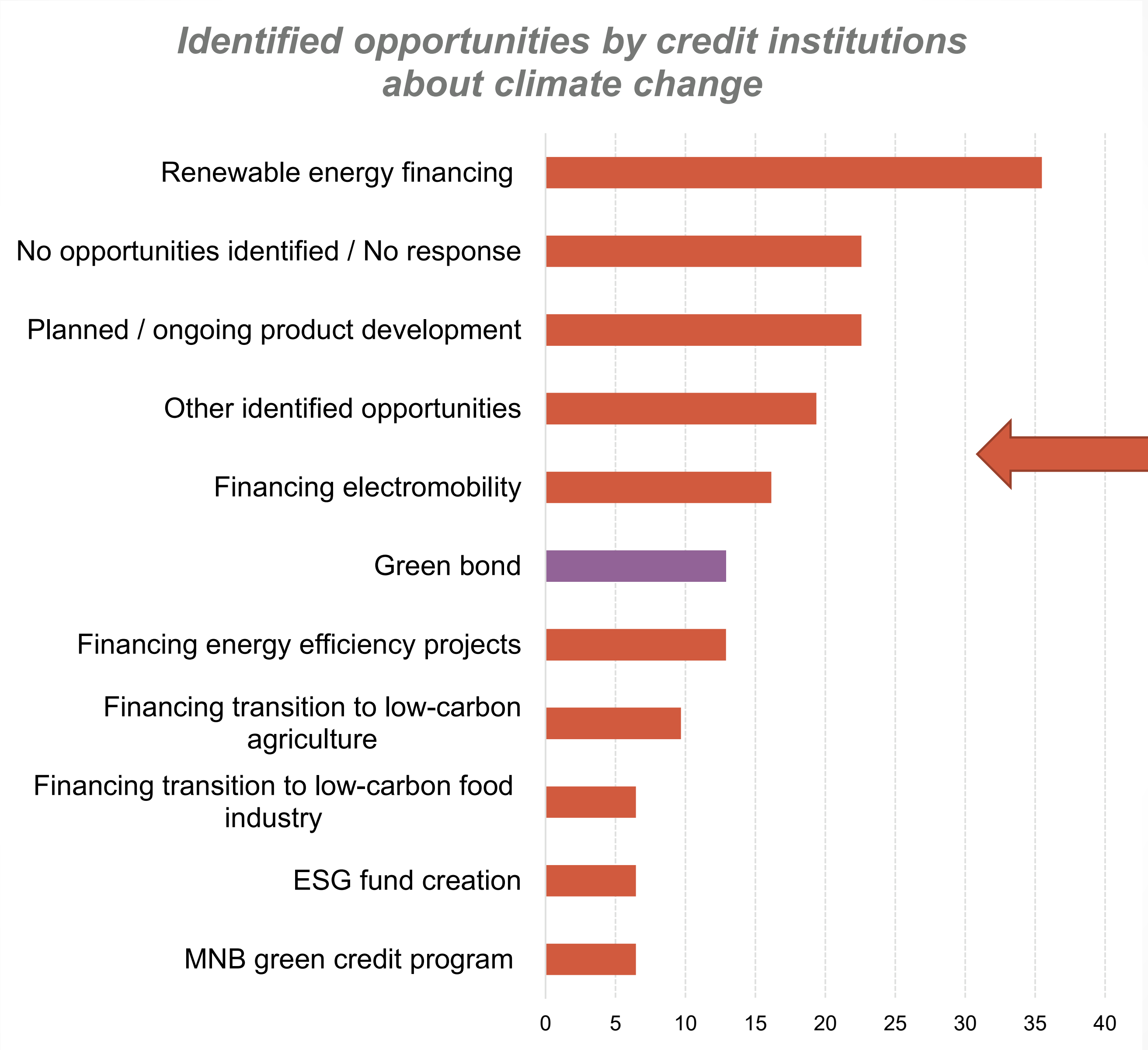
Encouraging private sector issuances

Private sector issuances: a (virtually) non-existing green finance market in Hungary back in 2019…



Source: Bloomberg, Eurostat

Note: GDP at market prices, using 2021 figures (for both time periods).



Source: MNB (2021c)

The barriers for the green bond market in Hungary

Underdeveloped capital markets

Little awareness and capacities about green finance in the financial sector

Low penetration of ESG mutual funds (0,5%)

Less responsible consumers (e.g. Eurobarometer surveys)

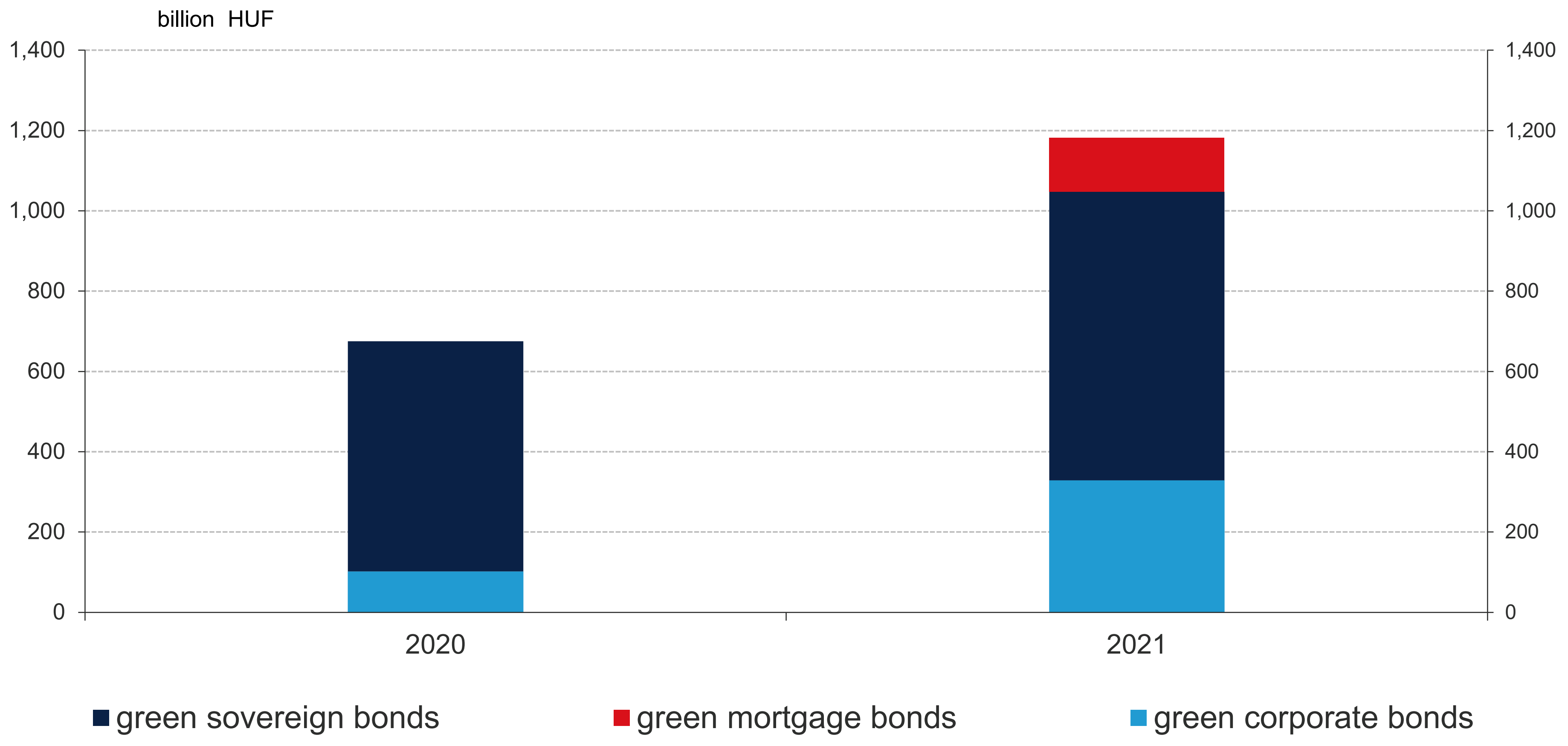
... by the end of 2021

- The share of **green corporate bonds** reached about **10 percent** of the Hungarian corporate bond market (compared to estimated European average of about 3.5 percent.

- Among the bank issuers, the share of **green covered bonds** exceeded **8.7 percent** (as a proportion of the total covered bond market), which compares to an estimated 1.2 percent average share in Europe (Becsi et. al. (2022).

This sharp growth in Hungary can very much be attributed to dedicated central bank measures to step-up green finance. Between 2019 and 2021 a combination of monetary policy and prudential measures have been implemented.

Sovereign and private sector green bond issuances



Source: MNB

Measures of the Central Bank of Hungary

Prudential

- Capital requirement incentives
- Liquidity requirement incentives

Monetary policy

- Corporate bond asset purchase scheme (no green element)
- Green covered bond purchase scheme

Other

- Leading by example – green bond portfolio as a part of FX reserves
- Awareness raising, capacity building
- Green bond issuance manual

A zoom on the capital requirement incentives – the corporate segment

- Scope: In the corporate segment, banks can apply the discount for both green loans and green bond investments.
- Green bond eligibility:
  - if the eligible assets' definition is in line with the EU Taxonomy (future EU GBS), the higher discount applies,
  - whereas investments in green bonds in line with ICMA'S Green Bond Principles or with the Climate Bond Standards make it possible to apply the lower discount.
- Reasoning: to improve the risk profile of the banking sector and encourage green lending through a positive incentive, thereby **reducing transition risks** in bank balance sheets.

The overall long-term effects remain to be seen, but the measure proved to be effective to jump-start issuances.

Thank you for your attention!

Contact: gyura.gabor@gtk.bme.hu