Financial and Economic Review, Vol. 22 Issue 1, March 2023, 182–188.

Report on the Workshop 'Financing the Energy Transition in Hungary'*

Dóra Fazekas – Boglárka Molnár

The online workshop 'Financing the energy transition in Hungary' was co-organised by Cambridge Econometrics Hungary, in collaboration with the British Embassy Hungary and the Hungarian Economic Association (Magyar Közgazdasági Társaság) in December 2022. A range of experts and industry stakeholders from the UK and Hungary came together to discuss key aspects of the energy transition to net zero in Hungary. This brief report summarises the key takeaways from the online workshop.[1] The note is structured around the four topics which were the focus of the online roundtable discussions, namely: (1) the issuance of green bonds and their role in financing the transition; (2) ESG-risk measurement and data requirements; (3) buildings decarbonisation; and (4) renewables policies and subsidies.

Issuance of green bonds and their role in financing the energy transition in Hungary

The topic of the first roundtable discussion was the issuance of green bonds in Hungary and their role in financing the energy transition in the country.

In his keynote speech, *Gireesh Shrimali*, Head of Transition Finance Research at the Oxford Sustainable Finance Group, gave an overview of sustainability-linked financial instruments (SLF instruments). *Norbert Kiss-Mihály*, Head of the Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management Department at the Magyar Nemzeti Bank (the Central Bank of Hungary, the MNB), discussed the current state of affairs in the Hungarian green bond market and recent steps taken to develop the domestic green bond market.

The panellists of the roundtable discussion were: *Gábor Gyura*, Sustainable Finance Consultant at the United Nations Environment Programme Finance Initiative (UNEP FI), *Domonkos Kovács*, Director of M&A and Capital Markets at Alteo Nyrt., *John Martin*, CEO of Plutus Consulting Group, and *Gergely Pókos*, Director at OTP Bank

* 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.

Dóra Fazekas: Cambridge Econometrics Hungary, Managing Director. Email: df@camecon.com
Boglárka Molnár: Cambridge Econometrics Hungary, Senior Economist. Email: bm@camecon.com

[1] A recording of all four events can be watched at: https://www.mkt.hu/en/2022/12/16/a-zold-atallas-finanszirozasa-magyarorszagon-visszanezheto/

Green Program Directorate. The panel session was moderated by *Richárd Végh*, CEO of the Budapest Stock Exchange.

The first topic of the roundtable discussion was the current state of play in the Hungarian green bond market and the role of the MNB in paving the way in sustainable financing. The Hungarian government first issued a green bond in 2020. Since then, the volume and number of corporate issuances have both increased dynamically. Over two years, between November 2020 and 2022, the total issuance amount increased from zero to HUF 2,260 billion. At the sector level, green bonds are mostly associated with real estate, construction and manufacturing companies. Participants agreed that the so-called greenium, i.e. the price premium based on the logic that investors are willing to pay extra for a bond with a sustainable impact, is indeed present in the Hungarian market.

In the following part, participants discussed the UK experience with green bonds and sustainable finance. The UK has already made more progress in advancing the alignment of finance with sustainability outcomes. This is illustrated by the fact that green issuance has been underway since 2013, with a very dynamic increase over the past five years (with around USD 1.7 bn worth of sustainable debt products issued in 2021, which is about five times the 2017 volume).

One clear consensus in the roundtable discussion was that green bonds and other forms of sustainable financing will become business as usual over the coming years. The biggest challenge will be the lack of standardization on the reporting side, as too many methodologies are available. The new CSRD (Corporate Sustainability Reporting Directive)[2] is expected to support this process. Another challenge is the lack of knowledge and information on the companies' side. Hence, the education of stakeholder groups will be key in achieving climate goals. Data collection, standardisation and disclosure are also essential. If green bonds are not green enough (either because not enough data is available or data is not reported properly), emissions are locked in, instead of eliminated.

ESG-related risks, their measurement and data requirements in Hungary

The topic of the second roundtable discussion was ESG-related risks, their measurement and data requirements in Hungary.

In his keynote speech, *Barnabás Ács*, Global Head of Sales Strategy in Sustainable Finance & Investing at the London Stock Exchange Group, highlighted that many types of risk fall under ESG risks; however it is the environmental factor that entails the transition risk itself, including physical risks due to the changing climate,

[2] https://www.carbontrust.com/news-and-insights/insights/corporate-sustainability-reporting-directive-csrd-explained

biodiversity and circularity. He emphasized how quickly ESG-risks can turn into financial risks.

This was followed by the keynote presentation of *Rita Szalay*, General Manager of ESG Capital Solutions, who talked about the Hungarian ESG reporting practice and the lack of sustainability-related investment products in the market. She underlined that there are currently not many sustainability-related investment products on the domestic market and the volume is also very low. She also highlighted that, first of all, leading companies with significant market power and influence should provide adequate quality data to manufacturers, consumers and investors (i.e. to all stakeholder groups).

In the last keynote speech, *Gwil Mason*, Lead Associate in Sustainable Finance at the Financial Conduct Authority of the UK, spoke about ESG data and ratings. He underscored that ratings can be useful in the development of sustainable financial products and portfolios, but more importantly they can serve as a benchmark and reference base for businesses.

The panellists in the roundtable discussion were: *Barnabás Ács*, Global Head of Sales Strategy – Sustainable Finance & Investing at the London Stock Exchange Group, *Irén Márta*, Managing Director of the Business Council for Sustainable Development in Hungary (BCSDH), *György Szege*, Head of ESG Department at Hungarian Bankholding, and *Zoltán Török*, Head of Research at Raiffeisen Bank. The panel session was moderated by *Ákos Lukács*, Partner of Climate Change & Sustainability Services at EY Hungary.

The lively panel discussion revealed that the "E" part of ESG (the environmental aspects) is often the most problematic to measure and to change performance in. Larger companies often lack data on the environmental impacts of their operations, and during their own data collection, the companies on which data could and should be collected are not motivated to measure their own operations. The "S" (social) and "G" (governance) aspects often show better performance in ratings and scorings because these aspects of operation can be changed more easily via company policies and regulations, while decreasing the environmental footprint often requires larger-scale transformations in business operations. The panellists agreed that there are three important European regulations to pay attention to in the near future: the CSRD (Corporate Sustainability Reporting Directive),[3] the EU Taxonomy[4] and the SFDR (Sustainable Finance Disclosure Regulation).[5]

[3] https://www.carbontrust.com/news-and-insights/insights/corporate-sustainability-reporting-directive-csrd-explained
[4] https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en
[5] https://www.eurosif.org/policies/sfdr/

This panel session benefited from two UK-relevant keynote speeches which successfully set the stage for the discussion of UK-specific experiences in the panel discussion. Not surprisingly, one key observation was that the UK is already more advanced in the ESG space and regulation than Hungary. As the discussion revealed, as a key action the FCA (Financial Conduct Authority, the regulator) has made available a suggested standard factsheet template to use for businesses for reporting. The FCA's ESG strategy is set out with the goal of building trust in the ecosystem and thus supporting the quality and availability of financial products.

One key takeaway of the discussion was that, first and foremost, there is a great need for transparency in the emerging regulations in the Hungarian market, especially regarding the ESG rating methodology so that it is transparent and clear what exactly is measured and how. The most important and primary need for all stakeholders would be a standardised reporting template and guidelines to be used by everyone during reporting, which could also enable a more standardised use and aggregation of data, which is currently only available in a highly fragmented manner.

Buildings decarbonisation and its financing in Hungary

The topic of the third roundtable discussion was the decarbonisation of the buildings sector and its financing options and perspectives in Hungary.

In the first keynote speech of this panel session, *Szabolcs Mizsei*, Executive Director of the Hungarian Energy Efficiency Institute, presented the energy efficiency improvements of residential buildings in Hungary. In the second keynote presentation, *Paul Smyth*, Strategy Director of SALIX Finance, a public institution set up in the UK to cut the public sector's emissions, discussed good examples from the UK of how energy can be saved by changing the heating system of buildings and with proper insulation.

The panellists in the roundtable discussion were: *Ada Ámon*, Chief Advisor to the Mayor of Budapest on Climate Affairs at the Budapest City Hall, *László Balogh*, Chief Business Expert at ingatlan.com, *Zsombor Barta*, Director of the Hungary Green Building Council, and *James Hooton*, Programme Director at the UK Green Finance Institute. The panel session was moderated by *Áron Horváth*, Head of Centre at ELTINGA Centre for Real Estate Research.

The panel discussion focused on four topics of interest: (i) the Hungarian building stock's current energy use and efficiency; (ii) the targeted goals to be achieved in the same; (iii) options for financing the transition in the buildings sector; and (iv) the potential financial innovations that are needed for decarbonisation.

The panel discussion revealed that currently 40 per cent of the energy used in Hungary is consumed by buildings and their users, and Hungarian homes use 60 per cent more energy for heating than the EU average. However, the participants made the point that these high shares also present a great opportunity in the market. For instance, as one of the participants pointed out, energy consumption could be cut in half just by improving the energy efficiency of buildings. Hence, incentivising deep renovations, through which significant energy savings can be achieved, is extremely important.

Although the energy ratings of domestic buildings are based on EU principles, the methodology may differ from country to country, which makes international comparison difficult. Nonetheless, the proportion of really energy efficient homes is very low in Hungary, accounting for less than 10 per cent of total stock. The lack of publicly available data causes many problems and makes it difficult to obtain an accurate picture of the situation in the Hungarian housing market. In addition to the lack of data, an even more worrying issue is the lack of public money for the renovation of residential properties with poor energy efficiency, while most of the Hungarian population has no savings to carry out the critically important energy efficiency renovations. It is assumed that approximately HUF 20 thousand billion, i.e. around one third of Hungarian GDP, would be needed for the reconstruction of the Hungarian residential stock to a cost-efficient level. Participants agreed that in order to achieve the climate goals and improve the situation of people living in energy poverty, a quick and targeted mobilization of resources would be needed, ideally as a private-public partnership.

The discussion also highlighted that the core problem with the modernization and decarbonisation of buildings in Hungary is clearly an infrastructure issue, and therefore large-scale infrastructure investment is needed and for that to happen, public money is indispensable. Participants agreed that policy measures are often short-sighted in the sector, while for lasting results, a more systematic approach, and foreseeable, longer lasting programmes would be needed.

Renewables policies and subsidies in Hungary

The topic of the fourth, final roundtable discussion was renewables policies and subsidies in Hungary.

This panel session opened with the keynote speech of *Ede Borbély*, Head of Renewables and Energy Efficiency at MOL Group, who presented what the market perspectives look like in green power generation from the businesses' point of view in the CEE region. One key statement of the speech was that the greenest energy is the energy that we are not consuming, and hence it is vital to focus on energy efficiency investments. MOL Group, for example, has been leading the way on the market, putting more and more emphasis on such efforts in its operations lately.

As the second keynote speaker, *Simone Cooper-Searle*, Head of Hydrogen Strategy, Department for Business, Energy and Industrial Strategy (BEIS), presented why and how the UK envisages a really important and significant role for hydrogen in its net-zero strategy. The UK's ambition is to have 10 GW of low carbon hydrogen production capacity installed by 2030, with one half of this coming from electrolytic hydrogen (green hydrogen). Hydrogen has a significant role to play in the UK economy, by covering 20–35 per cent of final energy consumption by 2050. The first production projects will be supported by revenue support (via contract for differences) and CAPEX co-funding, and they expect 2 GW of production to be in construction or operation by 2025 already.

The panellists of the roundtable discussion were: *Attila Aszódi*, Professor at the Department of Nuclear Energy of the Budapest University of Technology and Economics, *Edward Jones*, Senior Policy Manager at Energy UK, *Anita Simon*, Deputy CEO responsible for Sustainability and Circular Economy at the Alteo Group, and *László Szabó*, CEO of the Regional Centre for Energy Policy Research (REKK) at Corvinus University of Budapest. The panel session was moderated by *Claudia Patricolo*, Editor-in-Chief at CEEnergyNews.

The panel participants agreed that, especially in light of the current energy crisis, security of supply is one of the key considerations in the field of renewables as well. Money and time will be the decisive factors for further improvements in renewables, but at the same time, the diversification of energy sources will also be key. In Hungary, the renewables roll-out focused almost exclusively on solar PVs over the past years. Participants agreed that while somewhat controversial and debated in the decarbonisation topic from an environmental perspective, nuclear is also key to decarbonisation, providing stable base load for the increasing energy demand from industry.

As a key observation, the discussion revealed that technical issues can effectively limit the potential for renewables expansion: increasing the deployment of renewables will not be possible without improving the necessary control systems, significant grid developments and large-scale storage development. At the same time, demand-side policies will also play an important role: the examples of Spain and Portugal show, for example, that renewables producers are not asking for subsidies, yet they pay to have access to the grid.

With regards to financing, a key suggestion from the UK side was that governments should do their best to keep country risk at the lowest level possible. This can be done via announcing changes in advance and by keeping the pre-set terms and conditions of the available renewable energy schemes. The stability of policies and regulation, and a consistent tax system are crucial for investors and other stakeholders in the market as well. Public-private partnerships (PPPs) should play a central role in further developing the market and in boosting investments.

The participants agreed that energy efficiency measures and improvements are not only necessary but unavoidable if the climate targets are to be met. Furthermore, the discussion concluded that the decarbonisation of district heating systems and improvement of geothermal capacities present important opportunities in Hungary – both financially and from a transition perspective.

The moderator of this last panel session, *Claudia Patricolo*, Editor-in-Chief at CEEnergyNews, summarised the takeaways of the discussion with four C-s: *Commitment* is needed so that all key stakeholders (government, industry, consumers) understand the need and relevance to play an active role in the energy transition. *Cooperation* is required from the different actors to work together towards the shared goals. *Cost-efficiency* will be key to make the business case behind the targeted aims. Finally, a *Combination* of these solutions is needed to really achieve a clean energy transition.