Box 12. Green finance and the role of the central bank

Climate risk can generate vulnerabilities over the medium and long term for the financial system and real economy, while mitigating the potential negative effects calls for a mix of predictable, transparent and coherent policies adopted by both public authorities and private stakeholders. According to the World Economic Forum's *Global Risks Report 2021*[1], inaction on tackling climate change is the most impactful and second most likely long-term risk.

Taking into account the banking sector's large exposure to transition climate risk[2], the role of the central bank is essential for (i) increasing awareness of climate risks among the institutions under its supervisory remit, (ii) integrating climate risk into risk management, (iii) transparently communicating assessments on climate risk implications and (iv) increasing transparency and disclosure of relevant information. The last aspect seeks to ensure the uniform, coherent and comparable transmission of environmentally relevant non-financial information as concerns both supervised institutions' and central banks' portfolios[3].

The transition to a low-carbon economy can bring new funding opportunities for the financial system. The European Commission aims to be climate-neutral by 2050, an objective that requires substantial financial resources[4]. Green finance props up both the areas with a positive environmental impact and the polluting sectors for the purpose of decarbonising them, by mitigating losses in the event of climate risk materialisation and enhancing the capacity to manage the difficulties that carbon-intensive firms may encounter. In addition, facilitating green finance aims to prevent the materialisation of a scenario envisaging the slower transition to a low-carbon economy. In this scenario, Romania could face competitiveness losses vis-à-vis the countries in the region.

For Romania, implementing climate policies and fostering green finance represent a significant economic opportunity. Supporting green finance could change the structure of the economy in favour of sectors with higher value added and could also lead to the relocation of production chains into the country, by attracting foreign direct investment and developing environmentally sustainable projects at a local level. Furthermore, it could increase the access to finance of enterprises, SMEs included, for green/sustainable projects, whereas the development of green saving products could provide consumers with more options for their savings and investments, while also informing them about the environmental impact of these investments.

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1 World Economic Forum, *The Global Risks Report 2021*.

2 NBR, *Financial Stability Report*, Special feature, December 2019.

3 The ECB and the national central banks in the Eurosystem have defined a common stance for applying sustainable and responsible investment principles in the euro-denominated non-monetary policy portfolios. They will also start making annual climate-related disclosures for these types of portfolios within the next two years, using the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

4 At European level, the estimates of the High-Level Group on Sustainable Finance show that additional yearly investments of approximately EUR 180 billion are necessary to achieve the targets for energy and climate policy alone. Moreover, according to the UN's Intergovernmental Panel on Climate Change (UN IPCC), the financing necessary for the mitigation of climate change effects and adaptation is in the USD 343-385 billion range annually, the funds being earmarked for energy efficiency, green transition in industry and transport, green buildings, etc.

Therefore, in view of the climate risk implications, the objectives assumed by each country and the developments at European level, the NCMO General Board decided to set up a working group tasked with identifying possible solutions to support green finance[5]. The working group is coordinated by the NBR and comprises representatives of the financial system, public authorities and private companies in relevant industries. It prepared an in-depth report that was released to the general public in June 2021. According to the report, the stakes of climate change agenda for the Romanian economy and financial system are high in terms of opportunities, but also costs if green transition is delayed. Based on a thorough analysis, the Working Group identified 16 proposals of recommendations addressed to the authorities, which cover three categories of measures: (i) sustainable increase in the financing of green projects, (ii) supporting structural changes in the economy towards generating higher value added and (iii) enhancing transparency and raising awareness about the impact of climate change on the economy and the financial system[6]. On 3 June 2021, the NCMO General Board decided to adopt a recommendation on the implementation of these proposals.

5 http://www.cnsmro.ro/en/sedinta-cnsm-din-14-octombrie-2020/

6 NCMO, Analysis of the NCMO Working Group on supporting green finance (http://www.cnsmro.ro/res/ups/Summary-Report-NCMO-green-finance.pdf)