Box 7. Climate change – tendencies and preparedness of financial institutions

Banks' exposures to climate risk remain high, while loans to firms in climate policy relevant sectors (CPRS) amount to lei 101.8 billion, accounting for 53 percent of corporate loan portfolios (December 2023).

These sectors are also relevant in terms of banks' profitability. Specifically, according to the *Climate Change Survey*[1], banks' income from interest and commissions generated by CPRS financing ranged between 41 percent and 60 percent of total income. The analysis shows that most credit institutions have implemented policies aiming to mitigate climate risks at portfolio level. However, it is difficult to calculate Scope 1, 2 and 3 carbon emissions[2], especially Scope 3 emissions. Almost half of surveyed banks calculated Scope 1 and 2 emissions, but only a small part of them computed the Scope 3 emissions generated by their counterparties. Banks stated that the most widely used technologies to estimate Scope 3 emissions are PCAF (Partnership for Carbon Accounting Financials) and GHG Protocol (Greenhouse Gas Protocol). The efforts of financial institutions to estimate emissions and assess exposure to the transition risk are hindered by the lack of dedicated reports from firms.

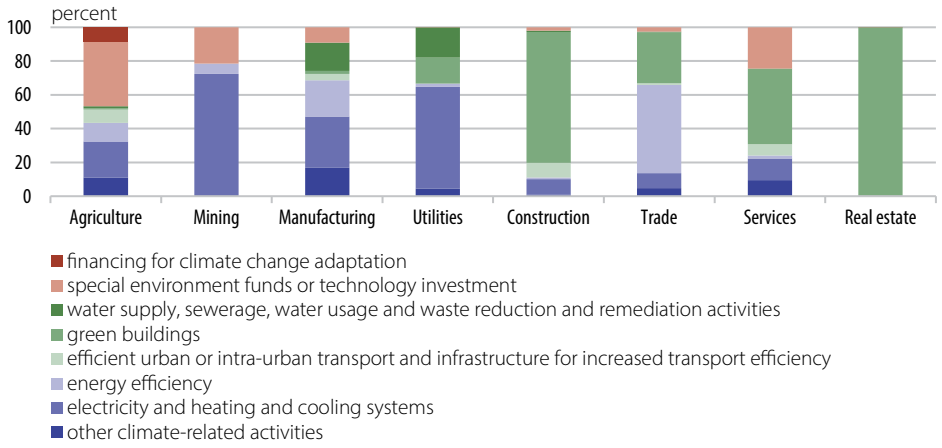

Chart A
Purpose of green loans by economic sector, December 2023

Source: MF, NBR, NBR calculations

According to the new non-financial reporting requirements for sustainability [Directive (EU) 2022/2464 as regards corporate sustainability reporting (Corporate Sustainability Reporting Directive – CSRD)], companies shall disclose information, such as the impact of their activity on environmental, social and governance (ESG) factors, how ESG factors affect their development, financial position and performance, as well as risks and opportunities in the value chains. The first categories of companies shall implement the new rules starting with the 2024 financial year (large companies

1 The survey is available at https://www.bnr.ro/DocumentInformation.aspx?idDocument=44541&directLink=1 (Romanian only).

2 Scope 1 emissions stem from the consumption of fuels used by a combustion plant to produce electricity, technological steam, heat, energy. Scope 2 emissions are indirect emissions from the generation of purchased energy from a utility provider, namely all GHG emissions released in the atmosphere from the consumption of purchased electricity, steam, heat and cooling. Scope 3 GHG emissions are the result of activities from assets not owned or controlled by the reporting organisation and are linked to the company's operations. Scope 3 emissions include all sources not within the limits of Scope 1 and 2.

in the EU, listed on the stock exchange, with more than 500 employees shall start collecting data in January 2024 and report in 2025). ESG expectations and regulatory requirements are challenging for some entities, particularly for small-sized enterprises[3] that can have limited knowledge, human or financial resources.

As of June 2022 the NBR has started the process of collecting, in its Central Credit Register, information on the degree of EU Taxonomy alignment of loans granted, as well as on their green purpose. According to data as at December 2023, out of total green loans, the degree of EU Taxonomy alignment is easier to be established for loans granted for renewable energy projects, green buildings, efficient transport and infrastructure for increased transport efficiency. Green loans amount to approximately lei 4.3 billion (in terms of volume, December 2023) and are directed particularly towards green buildings, electricity, heating and cooling systems, and energy efficiency (Chart A).

[3] Listed SMEs shall disclose the information required by the CSRD starting with the 2026 reporting year, with reports due in 2027.