

Boštjan Vasle: How can green finance and insurance secure a greener future?

Speech by Mr Boštjan Vasle, Governor of Banka Slovenije, at the conference "*How Can Green Finance and Insurance Secure a Greener Future?*", organised by the British-Slovenian Chamber of Commerce, Ljubljana, 22 March 2024.

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Good morning, ladies and gentlemen,

The topic we will discuss today is of an utmost importance, one that goes beyond traditional economic considerations, and delves into our collective responsibility for future generations.

The atmosphere is gradually warming, and the economic damage from extreme weather events is increasing. Over the past three years, Europe has been hit particularly hard. In Slovenia, the most recent experience are large-scale floods of last year. Of additional concern is the fact that the vast majority of the damage is uninsured. Which amplifies the problems.

To mitigate climate change and its adverse impact, it is crucial, that we move forward globally in coordinated manner, as any delay will only intensify the magnitude of the challenges ahead.

While designing appropriate policies lies primarily within the domain of governments, central banks and other institutions must also do our part, each within the framework of our mandates.

The EU's objectives and framework, which guide and support our actions, are among the most comprehensive in the world and continue to evolve.

Let me now centre the attention to the role of central banks. Climate change and related events affect the fulfilment of our key mandates of price and financial stability.

Firstly and related to our price stability mandate, green transition policies will put pressure on prices and could make it more challenging to maintain price stability. Moreover, climate related shocks and disorderly green transition could hit financial institutions and reduce the flow of credit to the real economy, impairing the effectiveness of monetary policy measures.

In the Eurosystem and at Banka Slovenija we are incorporating these issues into our **analyses** of macroeconomic developments and the transmission of monetary policy.

Regarding the **implementation of monetary policy**, we have started de-carbonizing our corporate bond holdings and we are planning to limit the share of assets issued by entities with high emissions that can be used by banks as collateral in our credit operations.

In terms of our own **financial portfolio that is assets beyond the scope of monetary policy**, we are systematically greening our portfolio, aiming for zero net emissions in the long term.

Secondly and related to our financial stability mandate, banks are significantly exposed to high-carbon and other vulnerable companies through loans and bond purchases, which makes them exposed to transition risk.

As supervisors, it falls upon us to **encourage and direct banks** to identify and measure climate related risks and, above all, to manage them efficiently.

To facilitate this process we issued supervisory expectations already in 2020 that banks should meet by the end of this year. And in 2022, we conducted the first **supervisory climate stress tests** for the banking sector at the euro area level. They showed that banks have made visible progress in meeting the expectations, but also revealed a number of gaps.

Environmental considerations are increasingly becoming part of our annual supervisory review and evaluation process, which can ultimately affect the capital requirements we set.

Regarding the role of **macroprudential policy**, especially the possibility to set higher capital buffer requirements for exposures to carbon-intensive companies, remains a subject of ongoing debate.

More details on our activities are available in the newly published **medium-term climate plan** of Banka Slovenije.

Ladies and gentlemen,

investments made today will shape our future.

With the set of activities I have presented, central banks help motivate banks to steer their financing towards greener projects.

In recent years, banks in Slovenia and in the euro area have increased the extent of green financial products. At the moment, these are still mainly intended for households, and their volume represents a limited share of all bank loans.

Within the overall green finance market, they play much smaller role than ESG funds and climate and sustainability bonds.

But we all aware that policy measures, which have already been adopted, need time to be fully implemented and deliver results. And new ones will eventually be added.

That is why I remain optimistic that the measures we have introduced recently will help to shape the framework, which will enable us to respond to new challenges

Thank you for the opportunity to join you today and be part of that process.