

What is the evolving role of central banks in accelerating sustainable finance?

Financing for Development Section

Macroeconomic Policy and Financing for Development
UN Economic and Social Commission for Asia and the Pacific (UNESCAP)

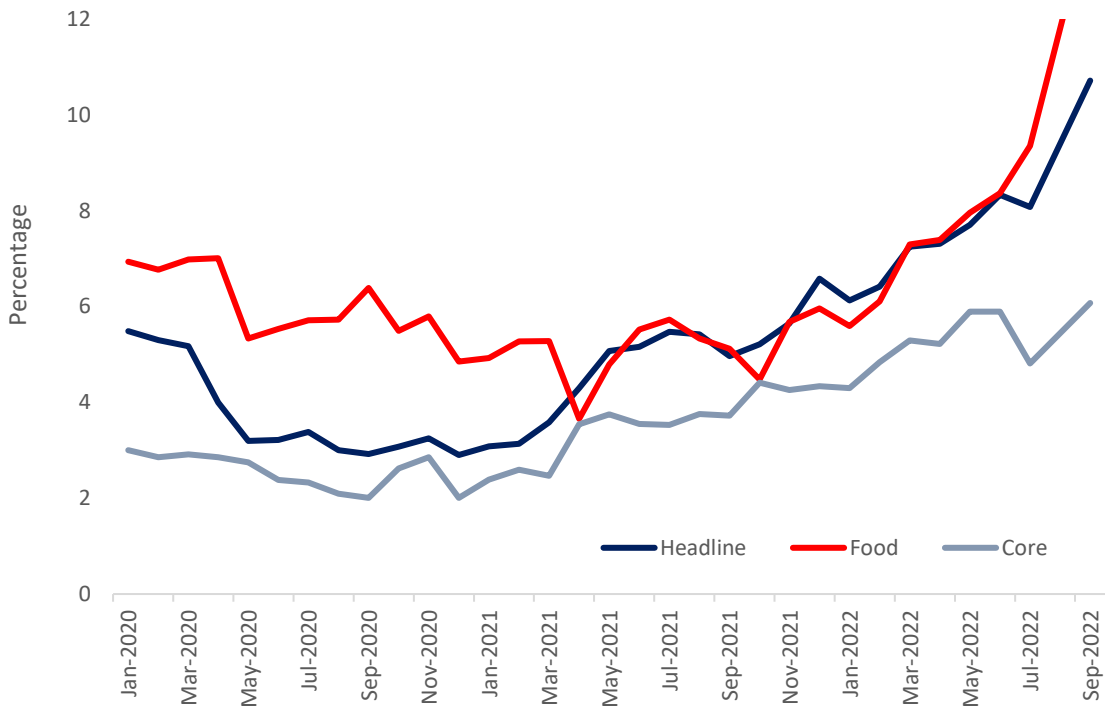


Macroeconomic Outlook

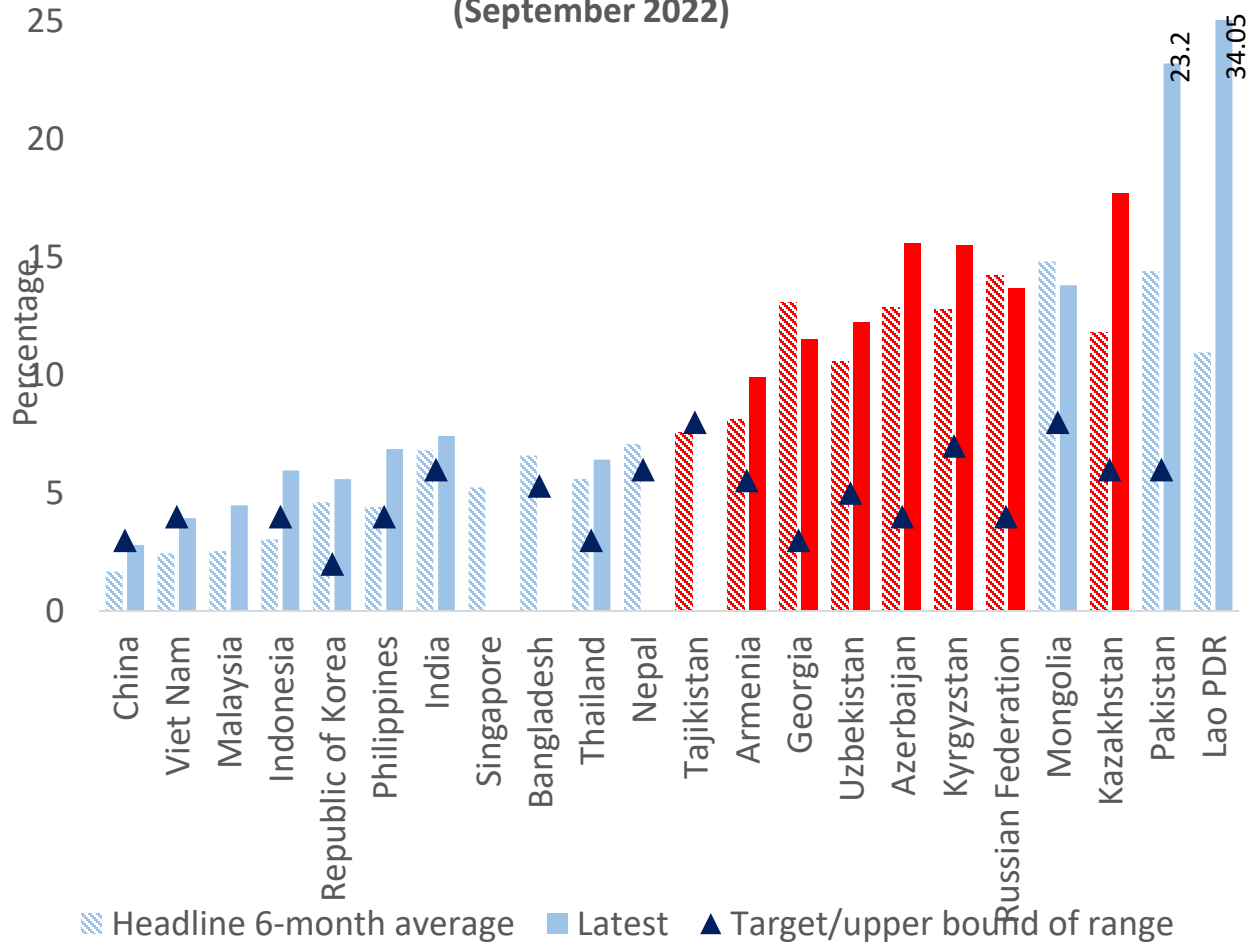


Inflation pressure has reached double digits in several economies, surpassing central bank targets

Headline, core and food inflation in developing Asia-Pacific



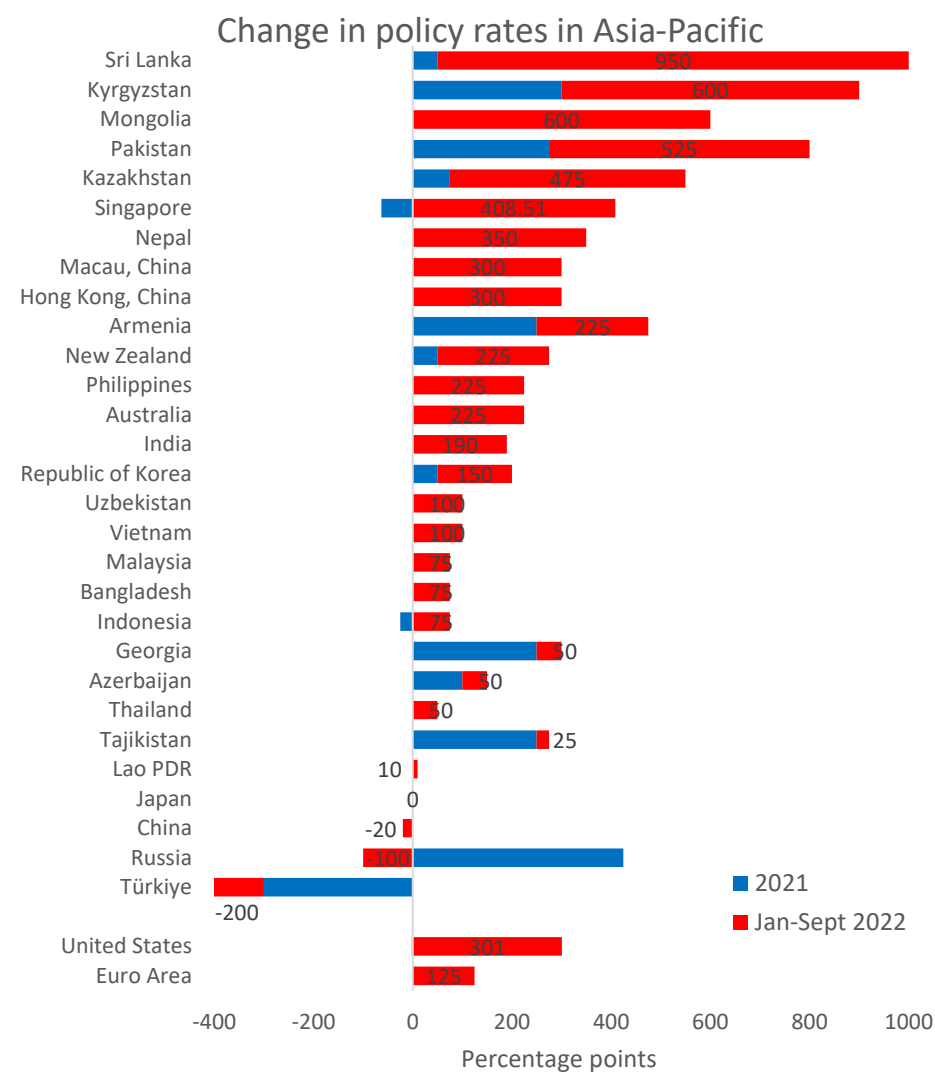
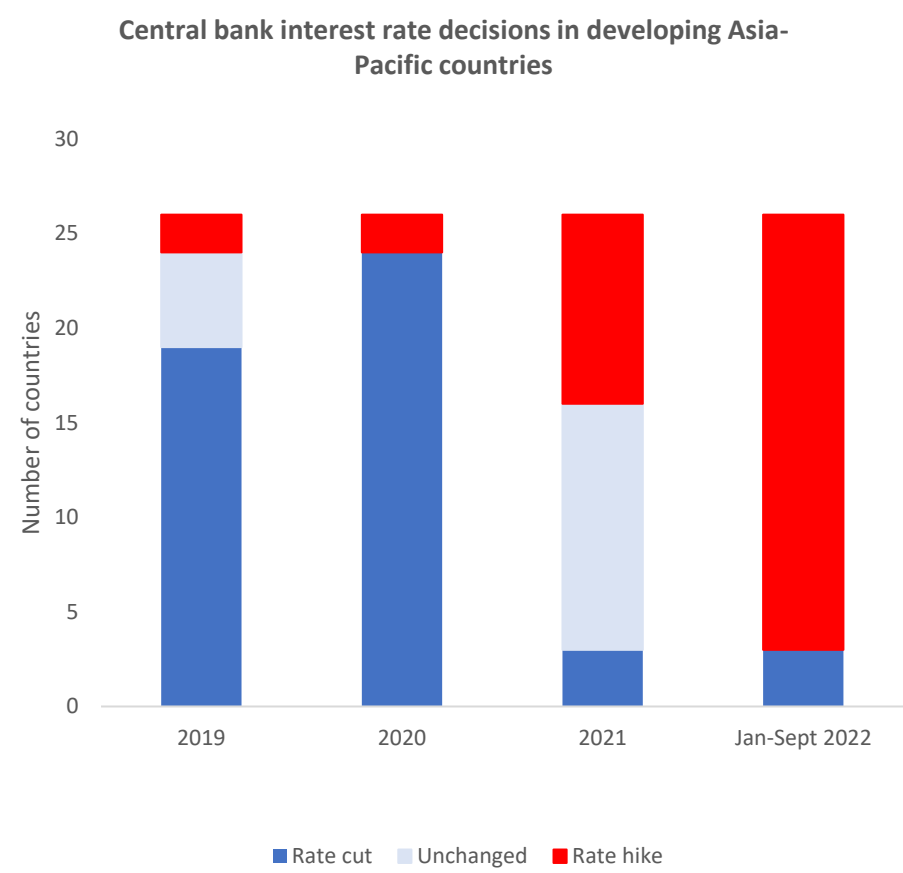
6-month average headline inflation and latest headline rates (September 2022)



Source: Based on CEIC (accessed 21 October 2022).

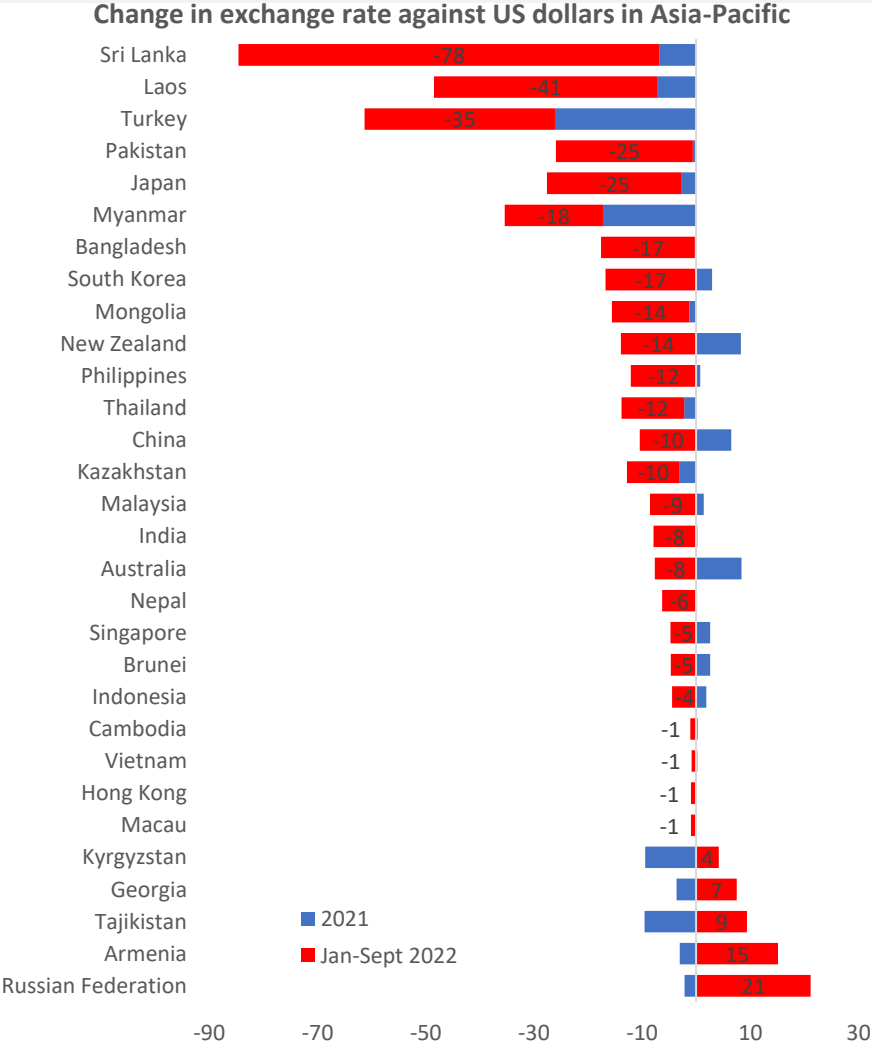
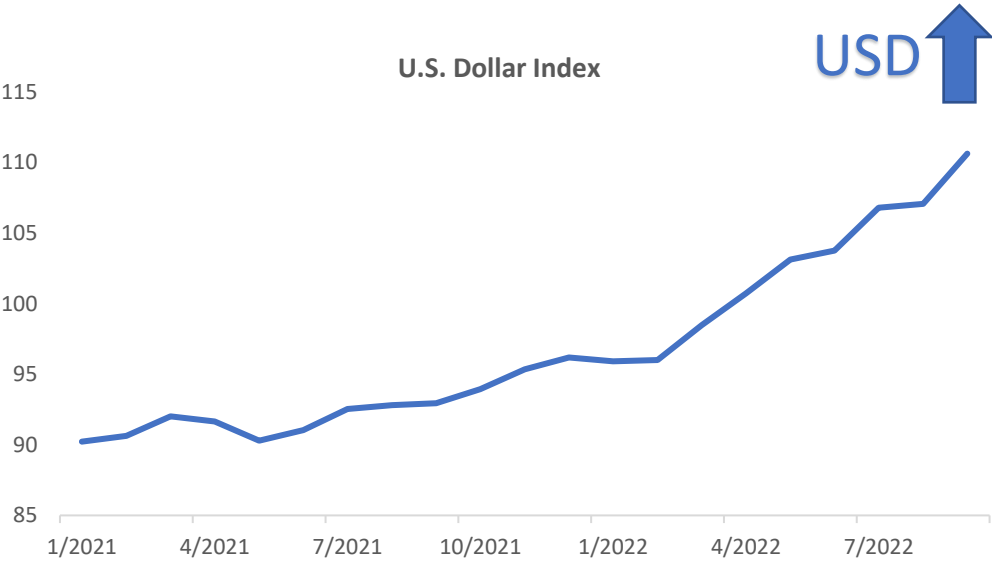
Source: Based on CEIC (accessed 21 October 2022).

Monetary tightening in advanced economies and domestic inflationary pressures are prompting central banks to **increase policy rates** in developing Asia and the Pacific



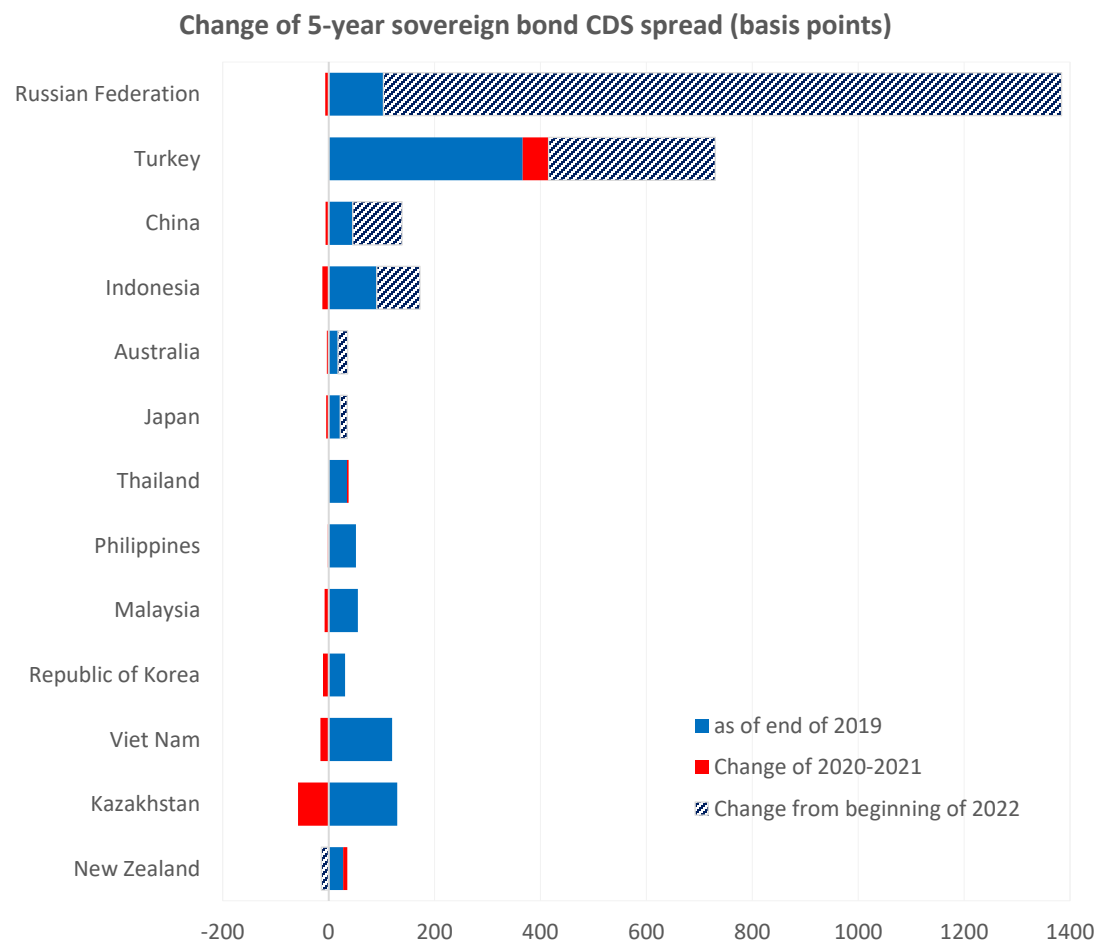
Source: Based on CEIC (accessed 21 October 2022).
Note: Central bank interest rate decisions are based on policy rate data for 26 countries in developing countries in the Asia Pacific region

Capital outflow to safe havens amid increasing global economic uncertainty is exerting **downward pressure** on exchange rates

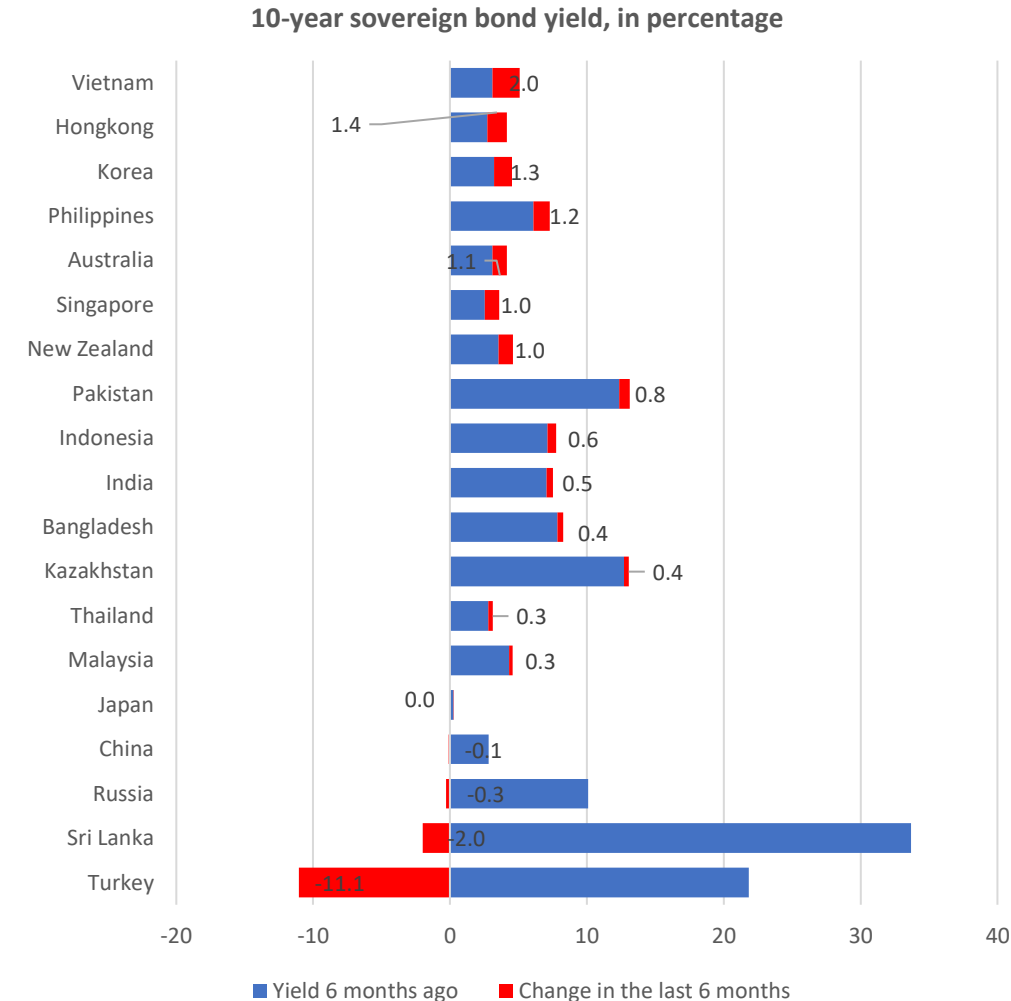


Source: Based on CEIC (accessed 21 October 2022).

The combined impact of these challenges on countries has led to **higher risk premia and rising borrowing costs**

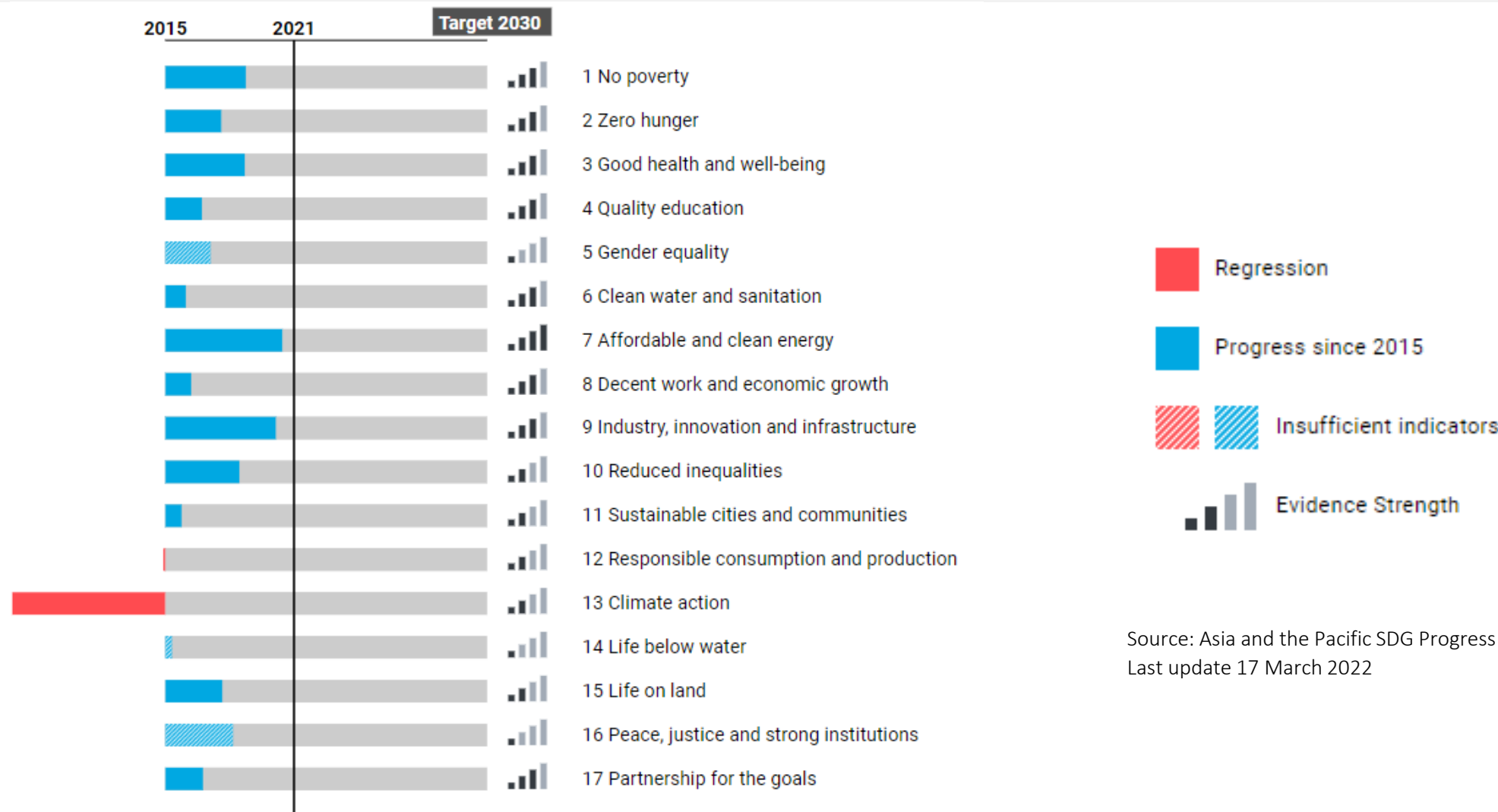


Source: <http://www.worldgovernmentbonds.com/> , IMF Fiscal space, updated on 24 Oct 2022



Source: <http://www.worldgovernmentbonds.com/> updated on 24 Oct 2022

At the same time, **SDG and climate progress** in Asia and the Pacific is still **lagging**.

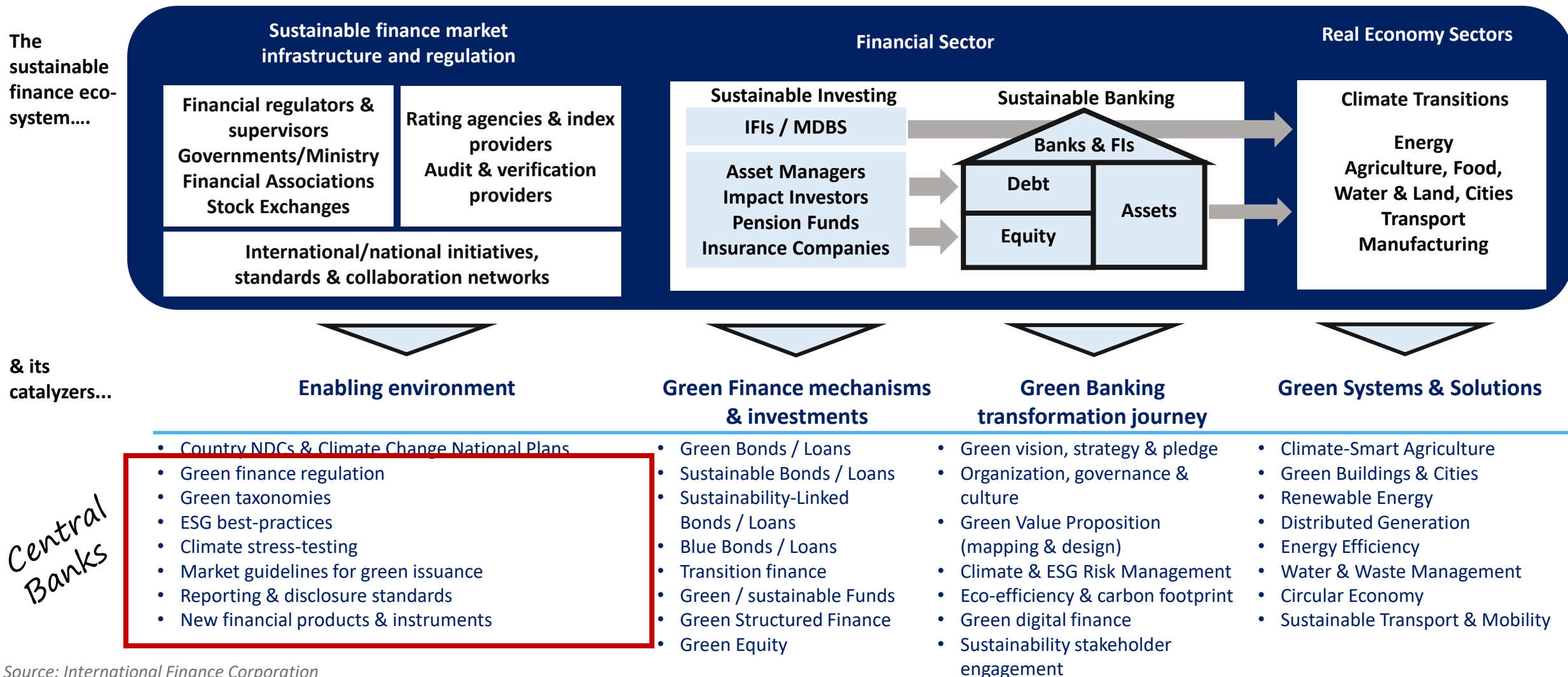


Source: Asia and the Pacific SDG Progress Report 2022
Last update 17 March 2022

Two tracks of sustainable finance



The sustainable finance ecosystem



Two tracks of Sustainable Finance

1

Sustainable Finance: Track 1

Sustainable use or outcome-based finance



Capital is invested in activities that deliver sustainable development (e.g. Use-of-proceeds defined green bonds, or outcome –linked Sustainability Bonds)

Countries need to scale access to this sustainable finance

2

Sustainable Finance: Track 2

Sustainably-managed finance



Banks, issuers, investors and regulators are aware of and actively manage finance according to Environmental, Social and Governance (ESG) risks

Countries need to strengthen this finance to be more sustainable

Sustainable, green and climate finance overlap

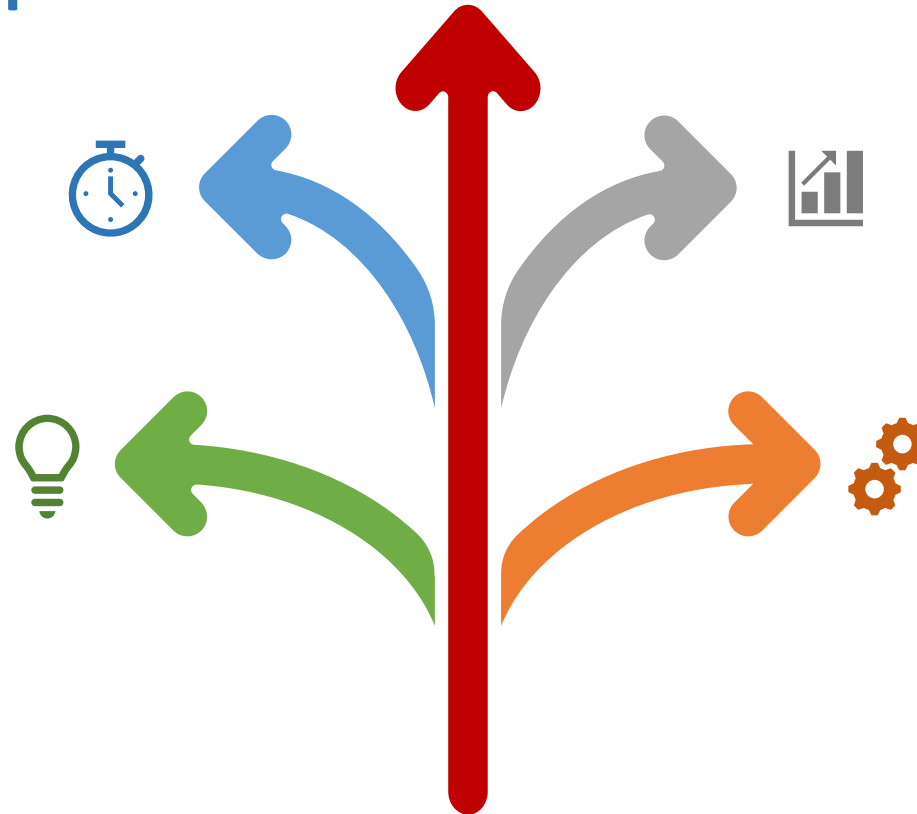
EU Regulation

Sustainable investment includes investments in economic activities that contribute to an environmental objective, which should include investments into environmentally sustainable economic activities within the meaning of this regulation

IFC's Sustainable Banking and Finance Network

Sustainable Finance refers to policies, regulations and practices (in the banking sector) that reduce and manage ESG risks, and encourage the flow of capital to assets that have environmental and social benefits (paraphrased).

Sustainable Finance



Climate Finance

UNFCCC - Refers to local, national or transnational financing – that seeks to support mitigation and adaptation actions that will address climate change

Green Finance

Lending and investment that contributes to climate mitigation, climate adaptation, resilience and other environmental objectives

Evolving role of central banks globally



With regards to sustainable finance, central banks are being asked to...

1 Align with national and international goals and commitments

2 Manage prudential and increasingly, assess and integrate climate risks re financial stability

3 Define, classify and enforce ESG and/or climate tracking, reporting and disclosure



4 Ensure minimum ESG/climate capacity and skills in the system to define, implement and enforce

5 Assess their role in influencing the allocation of capital to sustainable uses (beyond trinity of liquidity, safety, return)

6 Assess use of informational, coercive and/or incentive-driven methods to drive both tracks of sustainable finance

At the same time, challenges abound

Interface between policymakers and regulators

1 Lack of coordination between regulatory bodies e.g. capital markets, department of companies, central bank

2 Missing costed, national adaptation plans in line with NDCs

3 Lack of credible, consistent, timely and comparable data to inform coordination

Interface between regulators and banks

1 Inadequate volumes of capacity and skills across the banking sector

2 Most banks still rooted in sector, product and risk exposures, do not yet track sustainable uses, nor do they model climate risk

3 Banks that receive international investment (e.g. MDB/DFI capital) have two sets of regulations in two currencies

Interface between banks and real economy corporates

1 Inadequate volumes of capacity and skills across the corporate sector even more than banks

2 Added compliance costs affects corporate margins, turning some projects into no-go

3 Lack of a level playing field between jurisdictions may create arbitraging opportunities ('vote with feet')

Align with national and
international goals
and commitments

How can we bridge this gap? Discussion



Questions

- How do we ensure that ESRM guidelines encourage credit institutions to lend more to MSMEs with sustainable business and operating models? How do we avoid putting more barriers in access to finance for MSMEs?
- Should ESRM guidelines be compliance- or risk-based, and what are the pros and cons of different approaches?
- How have ESRM guidelines evolved? Are there benefits in different models of adoption - voluntary versus mandatory versus explanatory? How did the public and private sector collaborate in the development of the guidelines, if at all?
- What is the best way to roll-out guidelines? What support in terms of sensitisation, training, and capacity building was required?



Questions

- How were the guidelines received by the industry? Was there any resistance to adoption and how did you handle this?
 - What can be done with the ESRM data we are collecting from credit institutions, and how can we use it to benefit the sector as a whole?
 - Do you have any plans for financial or non-financial incentives for credit institutions that adopt exemplary values and behaviours vis-a-vis ESRM?
 - What should the international community be doing to support or assist with ESRM development and adoption?
- 