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FINANCING RESIDENTIAL ENERGY EFFICIENCY PROJECTS

WHAT TO & WHERE TO FINANCE?

ENERGY EFFICIENCY (EE) HAS A KEY ROLE IN ACHIEVING CLIMATE GOALS

EE IS NEEDED TO ACHIEVE CLIMATE AND ENERGY SAVING TARGETS

- 32% of final energy consumption is connected to households, 72,5% of this goes towards **heating**
- National Energy and Climate Plan: out of 4 million residential buildings, 2,6 million unit should be renovated
- Long-term Renovation Strategy: We need to achieve 20% of energy reduction until 2030

MEASURE AND MANAGE CLIMATE RISKS

- 52% of households' wealth are owned properties –*EE can lead to stable property value*
- Volume of household housing loan surpassed HUF 5 800 billion (EUR 14.5 billion) – *debtor's loan performance may be affected by EE*

CENTRAL BANKS ARE STEPPING UP TO TACKLE CLIMATE CHANGE



In May 2021, Central Bank of Hungary (MNB) was among the first central banks in Europe to receive a sustainability mandate by the government:

*„Without prejudice to its primary objective, ...and shall support the economic policy of the Government and its policy related to **environmental sustainability** using the means at its disposal."*



MNB launched its Green Programme in 2019 setting out its work plan to increase the financial sector's resilience to environmental risk, and to promote green financing in Hungary.

SUPPORTING THE GREEN TRANSITION BY GIVING CAPITAL DISCOUNT ON GREEN HOUSING EXPOSURES



Construction/Purchase of new energy efficient housing



Single actions to improve energy efficiency of housing



Energy improving renovation of used housing



Purchase and renovation of used housing

GREEN PREFERENTIAL CAPITAL REQUIREMENTS (GPCR)

- Incentive to finance EE homes/projects
- Incentive to lower financing costs of energy effienct homes/projects

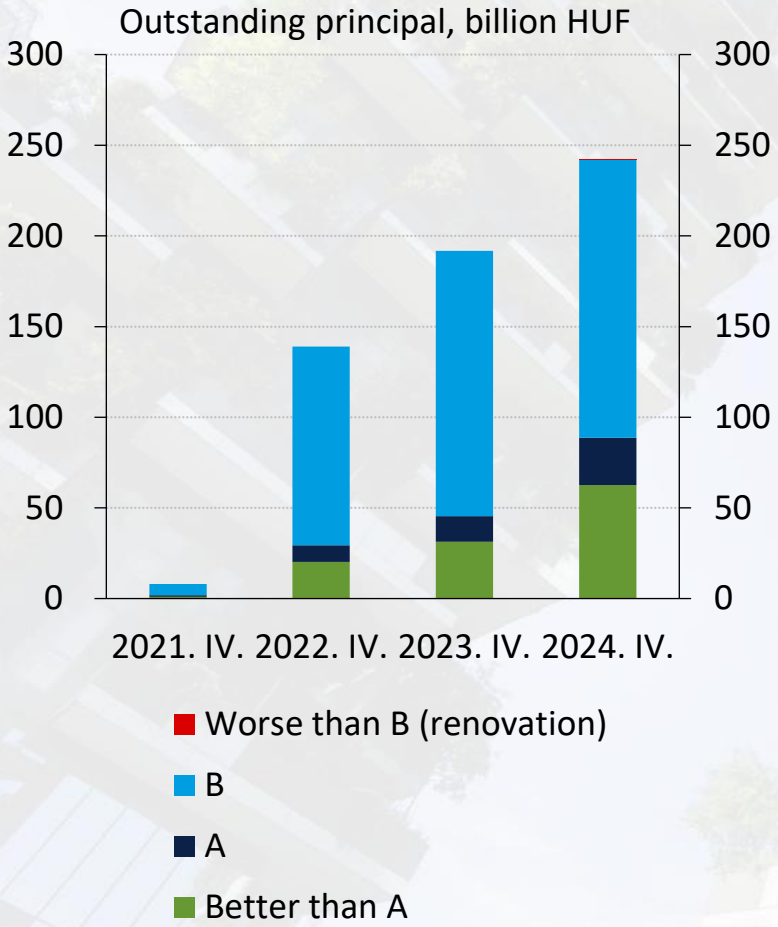
Green Home Programme

- Incentive to finance EE homes in 2021-22 by providing low-interest central bank fund
- 8,600 households could build or buy an energy-efficient home

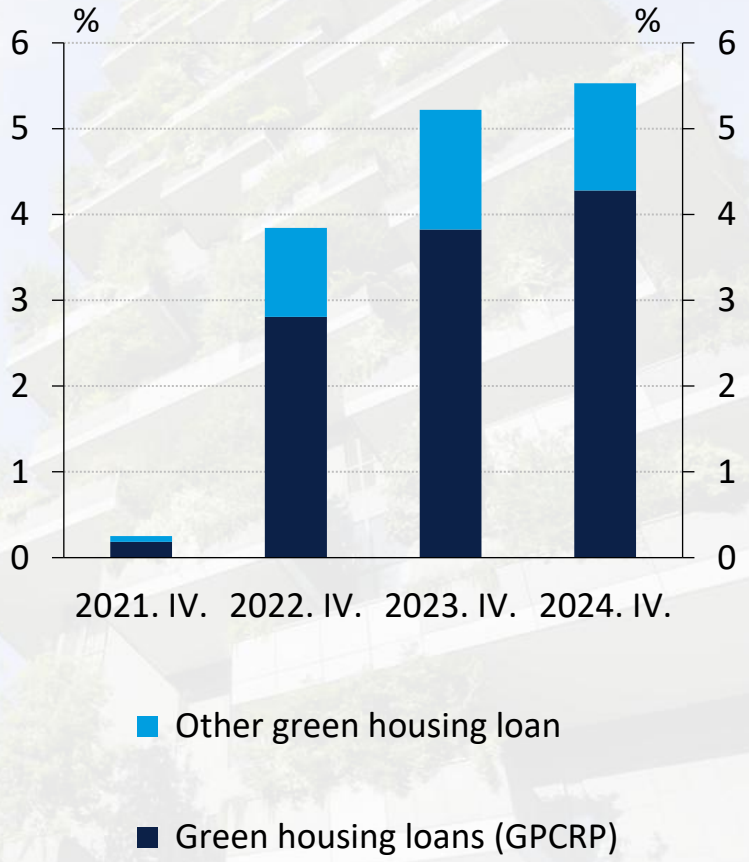
Capital discount	*5% or 7% discount from Pillar 2 capital*	*Discount limit*	*1,5% of RWA*

MNB PROGRAMS JUMPSTARTED GREEN HOUSING LENDING, BUT THEIR SHARE IS STILL LOW IN THE BANKING PORTFOLIO

DISTRIBUTION OF FINANCED GREEN BUILDINGS BY EFFICIENCY IN THE GPCR

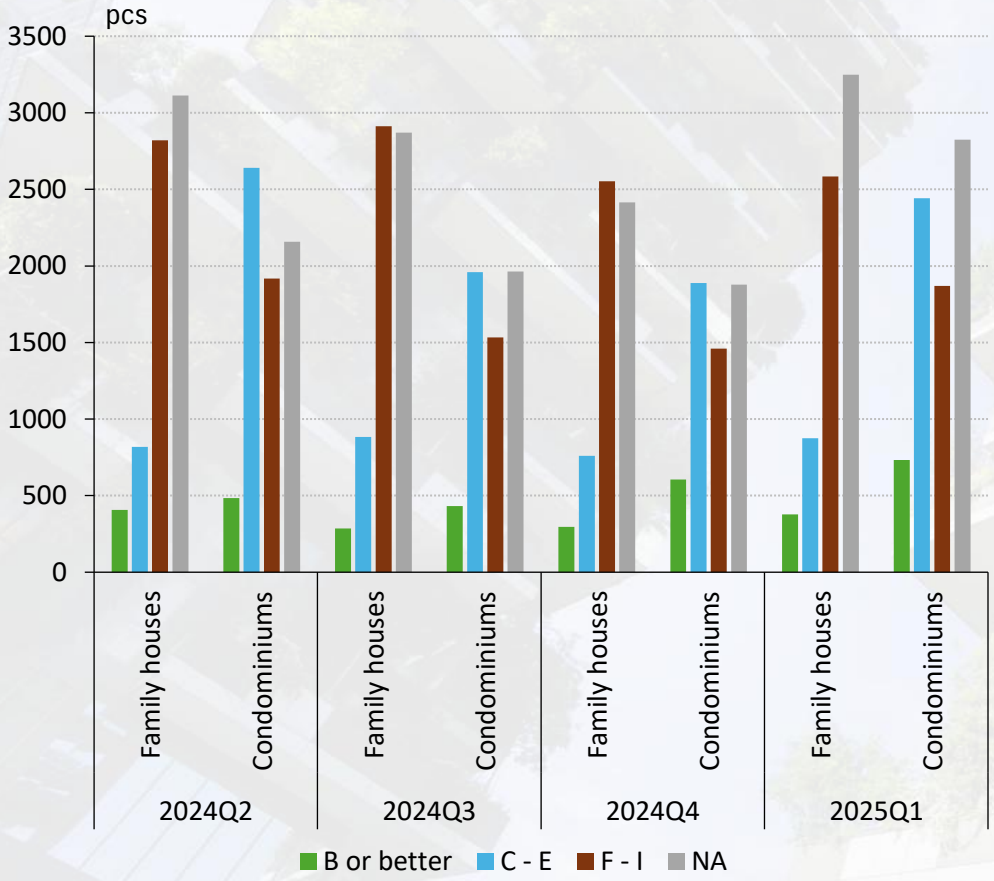


SHARE OF GREEN HOUSING LOANS COMPARED TO TOTAL HOUSING LOAN STOCK



OVERCOMING SIGNIFICANT DATA GAPS - NEW SOLUTIONS

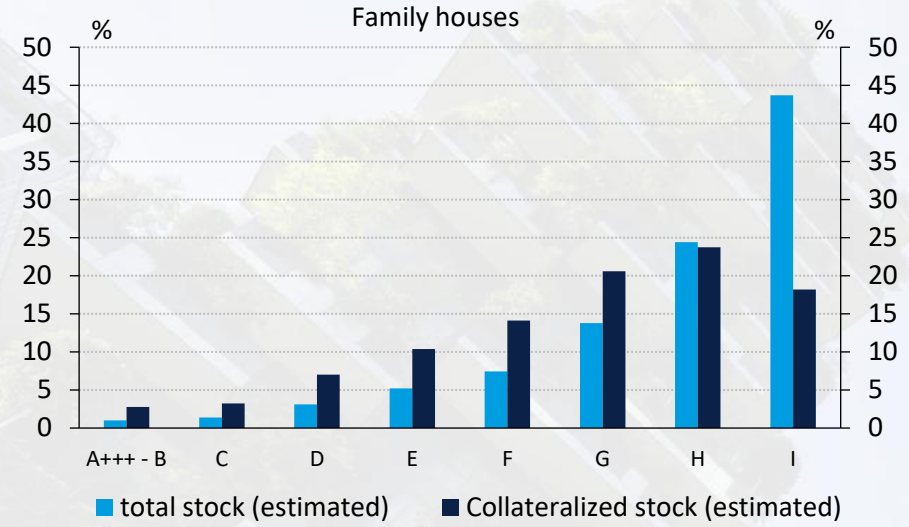
PROPERTIES TAKEN AS COLLATERAL IN THE GIVEN QUARTER BY THEIR EE RATING

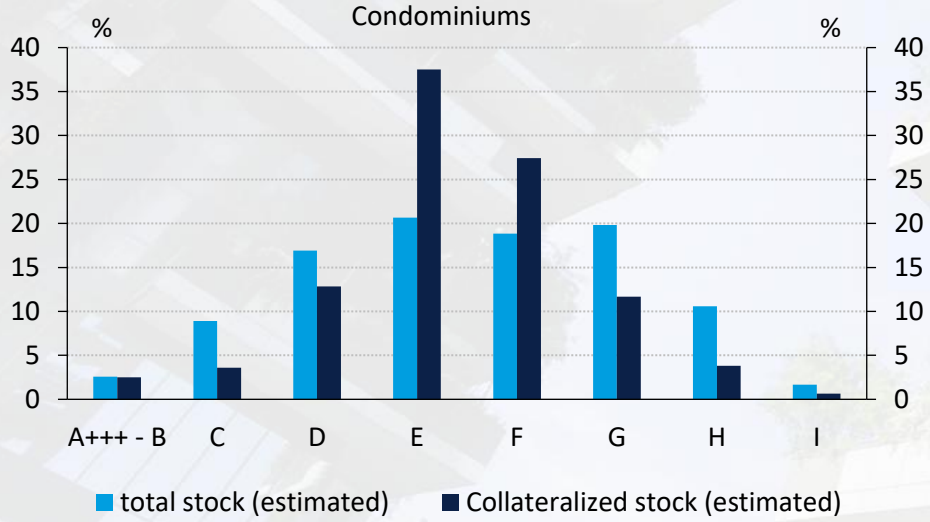


A lot of Energy Performance Certificate (EPC) data is still missing for newly contracted housing loans (varying between 30-50%)
For the total housing loan collateral stock the situation is similar (around 45% of collateral has EPC data)

With OLS and random forest (RF) predictions, we can complement available EPC data, **this can be used to identify areas in need of support**

THE FINANCED PORTFOLIO HAS BETTER EE THAN THE ENTIRE PROPERTY STOCK





Nearly 90% (approximately 2.5 million units) of the total family house stock fall into the four lowest energy classes (F, G, H, I)

Among loan-financed family houses, this share is “only” 77 percent (approximately 300,000 units)

For condominiums, the gap between the energy profiles of the overall stock and the financed segment is narrower

MARKET FAILURE: BANKS FINANCE LESS WHERE MOST PROPERTIES HAVE LOW EE (FINANCING GAP)

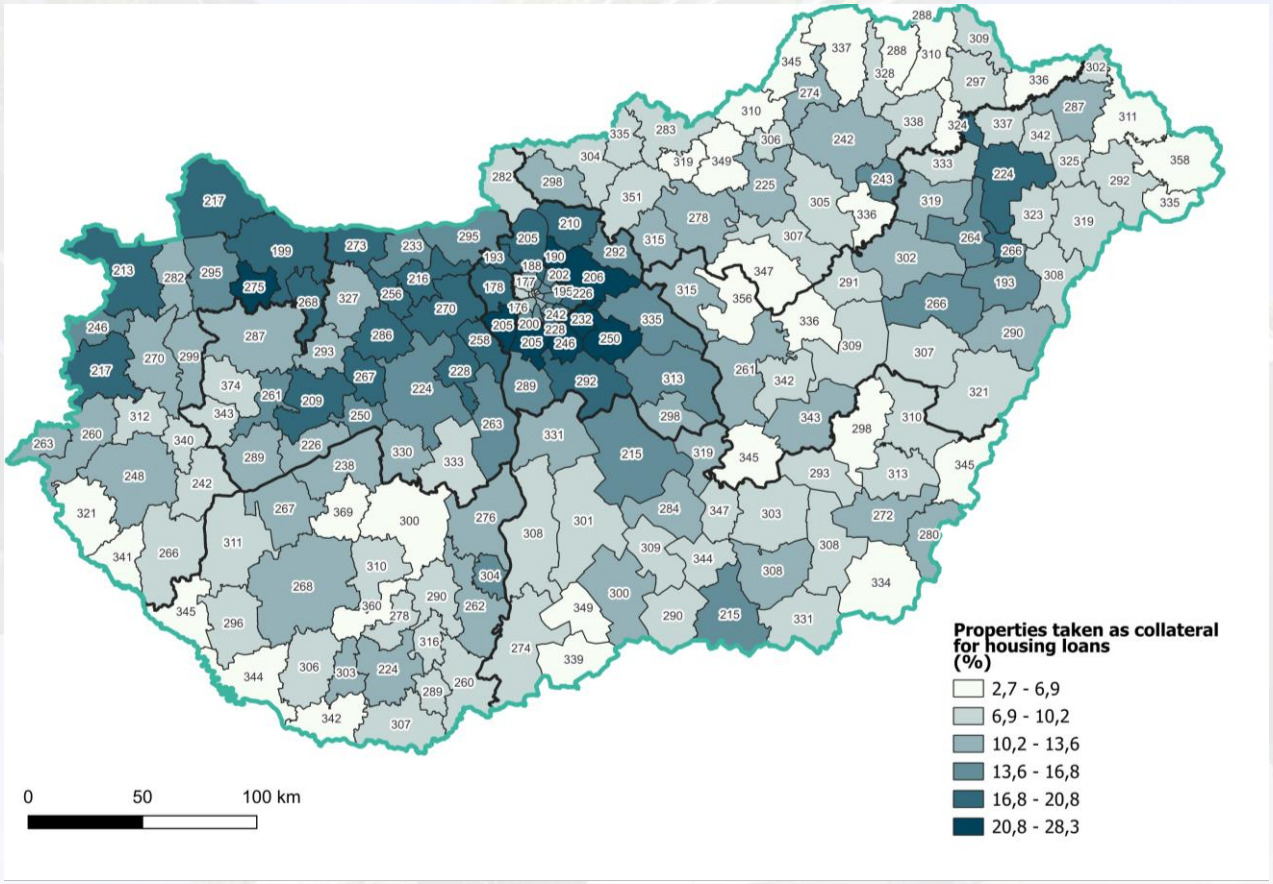
Financing activity: percentage of the existing building stock taken as collateral in a given district (colour scale)

The better the energy quality of the real estate stock, the higher the proportion of buildings that have received bank financing.

Possible reasons:

- Socio-economic status of debtors
- Properties that are in better condition are more likely taken as collateral
- Internal migration

AVERAGE PED (KWH/M2/YEAR) OF FINANCED PROPERTIES ACROSS DISTRICTS (JÁRÁS)



CONCLUSION: WE NEED TO ACCELARATE FINANCE IN DISRTICTS LAGGING BEHIND

MNB supports the green transition by giving capital discount on green housing loans to banks

Due to poor data availability, advanced methodological solutions are needed

The energy quality of financed properties is better than the entire building stock

A significant number of family houses need renovation

The financing gap is greater where the energy characteristics of the properties are worse

Geographical aspects should be considered when creating EE programs

Loan-based programs could have significant limitations.

THANK YOU FOR YOUR ATTENTION!

SOURCES

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