

# Financing the energy transition in Hungary

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## 1. Green bonds issuance and their role in financing the energy transition in Hungary

### Keynotes

- **Gireesh Shrimali**, Head of Transition Finance Research at the Oxford Sustainable Finance Group gave an overview of sustainable linked financial instruments.
- **Norbert Kiss-Mihály**, Deputy Director of Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management at the Central Bank of Hungary discussed the current state of affairs in the Hungarian green bond market and recent steps taken to develop the domestic green bond market.

### Panellists

- **Gábor Gyura**, Sustainable Finance Consultant, *United Nations Environment Programme Finance Initiative (UNEP FI)*
- **Domonkos Kovács**, M&A and Capital Markets Director, *Alteo Nyrt.*
- **John Martin**, CEO, *Plutus Consulting Group*
- **Gergely Pókos**, Director, *OTP Bank Green Program Directorate*
- **Moderator: Richárd Végh**, CEO, *Budapest Stock Exchange*

### Key takeaways of the panel and current Hungarian landscape:

- In 2020, the Hungarian government was the first to issue a green bond, and since then the volume and the number of corporate issuances has increased dynamically. Over two years, between November 2020 and 2022, the total issuance amount increased from zero to HUF 2,260 billion. At the sector level, green bonds are mostly associated with real estate, construction, and manufacturing companies. The so-called greenium, ie. the price premium based on the logic that investors are willing to pay extra for a bond with a sustainable impact, is indeed present in the Hungarian market.
- The UK has already made more progress in advancing the alignment of finance with sustainability outcomes. This is illustrated by the fact that green issuance has been an ongoing process since 2013, with a very dynamic increase over the past five years (around 1.7 bn USD worth sustainable debt products issued in 2021, which is about 5 times the 2017 volume).
- Green bonds and other forms of sustainable financing will become the business as usual over the coming years.
- The biggest challenge is the lack of standardization on the reporting side, as there are too many methodologies available. The new [CSRD \(Corporate Sustainability Reporting Directive\)](#) is expected to support this process. The other challenge is the lack of knowledge and information on the companies' side. Hence, the education of stakeholder groups will be key in achieving climate goals. Data collection and standardisation and disclosure is key. If green bonds are not green enough (because not enough data is available, or data is not reported properly), we are locking in emissions instead of eliminating them.

The recording of the panel discussion can be watched [here](#).

## 2. ESG-related risks, their measurement and data requirements in Hungary

### Keynotes

- **Barnabás Ács**, Global Head of Sales Strategy in Sustainable Finance & Investing at the London Stock Exchange Group highlighted that many types of risk fall under ESG risks, but the environmental factor mostly entails the transition risk itself, physical risks due to the changing

climate, biodiversity, and circularity. He emphasised how ESG risks can quickly turn into financial risks.

- **Rita Szalay**, General Manager of ESG Capital Solutions, presented the Hungarian ESG reporting practice and the lack of sustainability-related investment products.
- **Gwil Mason**, Lead Associate in Sustainable Finance at the Financial Conduct Authority of the UK spoke about ESG data and ratings. Ratings can be useful in the development of sustainable financial products and portfolios, and can serve as a benchmark and reference base for businesses.

### **Panellists**

- **Barnabás Ács**, Global Head of Sales Strategy – Sustainable Finance & Investing, *London Stock Exchange Group*
- **Irén Márta**, Managing Director, *Business Council for Sustainable Development in Hungary (BCSDH)*
- **György Szege**, Head of ESG Department, *Bankholding*
- **Zoltán Török**, Head of Research, *Raiffeisen Bank*
- **Moderator: Ákos Lukács**, Partner - Climate Change & Sustainability Services, *EY Hungary*

### **Key takeaways of the panel and current Hungarian landscape:**

- There is a great need for transparency in the emerging regulations, especially in the ESG rating methodology, so that it is transparent and clear what exactly is measured and how.
- There are three important European regulations to pay attention to in the near future: the [CSRD \(Corporate Sustainability Reporting Directive\)](#), the [EU Taxonomy](#) and the [SFDR \(Sustainable Finance Disclosure Regulation\)](#).
- Often, the "E" part of ESG (the environmental aspects) is the most problematic to measure and to change performance in. Larger companies often lack data on the environmental impacts of their operations, and during their own data collection, the companies on which data could and should be collected are not motivated to measure their own operations. The "S" (social) and "G" (governance) aspects often show a better performance in ratings and scorings because these aspects of operation can be changed more easily via company policies and regulations, while decreasing the environmental footprint often requires larger-scale transformations in business operations.
- The most important and primary need for all stakeholders would be a standardised reporting template and guidelines to be used by everyone during the reporting, which could also enable for a more standardized use and aggregation of data that is currently available in a highly fragmented manner only.
- The UK is already more advanced in the ESG space and regulation: the FCA (Financial Conduct Authority, the regulator) has made available a suggested standard factsheet template to use for businesses for reporting. The FCA's ESG strategy is set out with the goal to build trust in the ecosystem, supporting the quality and availability of financial products.

The recording of the panel discussion can be watched [here](#).

## **3. Buildings decarbonisation and its financing in Hungary**

### **Keynotes**

- **Szabolcs Mizsei**, Executive Director of the Hungarian Energy Efficiency Institute, presented the energy efficiency improvements of residential buildings in Hungary.
- **Paul Smyth**, Strategy Director of SALIX Finance, a public institution set up in the UK to cut the public sector's emissions, brought good examples from the UK of how energy can be saved by changing the heating system of buildings and by proper insulation.

## **Panellists**

- **Ada Ámon**, Chief Advisor to the Mayor of Budapest on Climate Affairs, *Budapest City Hall*
- **László Balogh**, Chief Business Expert, *ingatlan.com*
- **Zsombor Barta**, Director, *Hungary Green Building Council*
- **James Hooton**, Programme Director, *UK Green Finance Institute*
- **Moderator: Áron Horváth**, Head of Centre, *ELTINGA Centre for Real Estate Research (HU)*

## **Key takeaways of the panel and current Hungarian landscape:**

- 40% of the energy used in Hungary is consumed by buildings and their users, but this high share also presents a great opportunity as energy consumption could be cut in half by improving the energy efficiency of buildings. Hungarian homes use 60% more energy for heating than the EU average. This is also why deep renovations are important, with which significant energy savings can be achieved.
- Although the energy ratings of domestic buildings are based on EU principles, the methodology may differ from country to country, which makes international comparison difficult. Yet, the proportion of really energy efficient homes is very low in Hungary, accounting for less than 10 percent of total stock.
- The lack of publicly available data also causes problems and makes it difficult to get an accurate picture of the situation of the Hungarian housing market. In addition to the lack of data, perhaps an even more worrying problem is the lack of public money for the renovation of residential properties with poor energy efficiency – as opposed to the UK –, and most of the Hungarian population has no savings to carry out the critically important energy efficiency renovations.
- In order to achieve the climate goals and improve the situation of people living in energy poverty, a quick and targeted resource mobilization is needed, ideally as a private-public partnership.
- As the core problem with the modernisation and decarbonisation of buildings is clearly an infrastructure issue, large-scale infrastructure investment is needed and for that to happen, public money is indispensable. Furthermore, policy measures are short-sighted, while a more systematic thinking, foreseeable and longer lasting programmes would be needed for lasting results.

The recording of the panel discussion can be watched [here](#).

## 4. Renewables policies and subsidies in Hungary

### Keynotes

- **Ede Borbély**, Head of Renewables and Energy Efficiency at MOL presented what the market perspectives look like in green power generation from the businesses' point of view in the CEE region. A statement of the speech was that the greenest energy is the energy that we are not consuming, hence it is key to focus on energy efficiency investments, MOL for example has been putting an increasing emphasis on such efforts lately.
- **Simone Cooper-Searle**, Head of Hydrogen Strategy, *Department for Business, Energy and Industrial Strategy (BEIS)* presented why and how the UK sees a really important and significant role of hydrogen in its net-zero strategy. The UK's ambition is to have 10 GW of low carbon hydrogen production capacity installed by 2030, half of it coming from electrolytic hydrogen (green hydrogen). Hydrogen has a significant role to play in the UK economy, by covering 20-35% of final energy consumption by 2050. The first production projects will be supported by revenue support (Contract-for-Differences) and CAPEX co-funding, and they expect 2 GW of production to be in construction or operation already by 2025.

### Panellists

- **Attila Aszódi**, Full Professor – Department of Nuclear Energy, *Budapest University of Technology and Economics*
- **Edward Jones**, Senior Policy Manager, *Energy UK*
- **Anita Simon**, Deputy CEO – Sustainability and Circular Economy, *Alteo Group*
- **László Szabó**, CEO, *Corvinus University of Budapest - Regional Centre for Energy Policy Research (REKK)*
- **Moderator: Claudia Patricolo**, Editor-in-Chief, *CEEnergyNews*

### Key takeaways of the panel and current Hungarian landscape:

- In Hungary, renewables roll-out has been almost exclusively focusing on solar PV.
- Money and time will be the decisive factors for further improvements in renewables and diversification of energy sources will also be key.
- Nuclear is also key to decarbonisation, providing stable base load for the increasing energy demand from industry.
- Technical issues can effectively limit the potential for renewables expansion: without improving the necessary control systems, significant grid developments and large-scale storage development, increasing deployment of renewables will not be possible.
- Demand-side policies will also play an important role: the examples of Spain and Portugal, show, for example that renewables producers are not asking for subsidies, yet they pay to have the access to the grid.
- Security of supply is one of the key considerations in the field of renewables,
- The stability of policies and regulation, and a consistent tax system are also crucial to invest.
- PPEs (public-private partnerships) should also play a central role in further developing the market and in boosting investments.
- Decarbonising district heating systems and improving geothermal capacity present important opportunities in Hungary.
- Energy efficiency measures and improvements are not only necessary but unavoidable if we are to meet the climate targets.

Moderator of the Panel Ms Claudia Patricolo has summarised the takeaways in four C-s: **Commitment** is needed so that all key stakeholders (government, industry, consumers) understand the need and relevance to take on an active role in the energy transition, **cooperation** is required from the different actors to work together towards the shared goals, **cost-efficiency** will be key to put the business case behind the targeted aims, and lastly, a **combination** of these solutions is needed to really achieve the clean energy transition.

The recording of the panel discussion can be watched [here](#).

## Useful references

[portfolio.hu \(2022-12-13\) Összeérnek az ESG és a pénzügyi kockázatok - Új világ felé sodródunk](#)

[portfolio.hu \(2022-12-14\) Energiaszegénységbe kerül sok magyar háztartás - Fel kell újítani az otthonokat, de nincs miből](#)