# Deputy Governor Marja Nykänen: Opening remarks at the Conference on Systemic Risk Analytics, 1 July 2021

Deputy Governor Marja Nykänen
Opening remarks at the 2021 RiskLab/BoF/ESRB Conference on Systemic Risk Analytics
1 July 2021

### opening remarks

Ladies and Gentlemen,

On behalf of the Bank of Finland and other organisers of this conference I would like to welcome you all to this year's Conference on Systemic Risk Analytics.

Despite the ongoing COVID-19 pandemic, we have been fortunate to receive several excellent papers this year. A big thanks to the organising team for making this conference happen and to everyone who submitted their papers – without your efforts this conference would have not been possible.

The focus in financial analysis is changing from looking at issues in the rear-view mirror towards a more forward-looking approach. In my opinion, it is important that we find the right balance between the two. It is important to learn from the past, but it is equally important to prepare for the future. This will be a central theme throughout the conference.

In this opening speech I will be highlighting two challenges that we have in financial analysis related to climate change, and I will propose two solutions. But these are general issues and relevant not only in the case of climate change; instead, they exemplify the challenges that we also face in many other fields.

The first challenge is that financial analysis related to climate change is a relatively new topic in our field. This means that the analytical methodologies and relevant data are still in their infancy.

The first lessons learned in this process have been that traditional methodologies and data are inadequate for financial stability analysis related to climate change. Climate change is not evident in past data; instead, we need data to cover the future. Similarly, we require information beyond financial disclosures. And in many cases, comparable and reliable data does not even exist.

The same goes for analytical methods. Climate change needs forward-looking approaches with a time horizon in the range of several decades instead of a couple of years. Our financial models need to be complemented with non-financial information.

What are known as Integrated Assessment Models, thus far used in much of financial climate analysis, are a good start. But to really make progress, we may need to be able to integrate the climate into the traditional central bank forecasting models to make climate issues more relevant to macroeconomic analysis.

The second challenge is a lack of expertise. The relevant analytical knowhow is rare, as this topic has not been included in the mainstream economics or finance curricula in the universities. So far, basically everyone within the central banking community involved with climate has had to study the issue for themselves.

Without proper and widespread analytical capabilities it will be impossible to make sure financial questions related to climate change get the attention they deserve. It is not enough that authorities and financial institutions have the capabilities. Non-financial corporations also need to have at least a basic understanding in order to be able to determine the investments needed for their own transition to climate neutrality. Given the time horizon to meet our climate goals, it is imperative that the knowhow and capabilities are developed quickly.

And coming to the solutions, my first proposal would be to more actively try to find new data sources and combine different datasets. This work is underway, and many non-traditional datasets have already been found, but it is safe to assume a lot more can be done in this regard.

Furthermore, we need to relax our assumptions about the extent to which we can rely on official statistics and accounting. Even if approved, it will take years until we have adequate environmental accounting on which to rely. We need something in the meantime. Perhaps machine learning, AI and data mining can be useful ways of decoding qualitative and text-based information into metrics that we can use in our analysis.

As we compile datasets covering future decades, it becomes apparent that our traditional methodologies and assumptions are inadequate. We need to have a better grasp of scenario analysis methodologies to be able to include climate and relevant long-term possible futures in traditional economic analysis. This requires us to work even more with experts from outside our own field.

And all this leads to the second solution, which relates to the need to build analytical capacity and understanding. For this we need people who can teach others. The central banks and supervisors' Network for Greening the Financial System, or NGFS for short, and others are already building their own training programmes. But we need more.

A lot of interdisciplinary cooperation is needed to build the relevant capabilities. We are already seeing more collaborative action between climate scientists and financial analysts, which helps in finding new ways to do things. Similarly, this cooperation enables us to use metrics and approaches originally developed for other purposes. The NGFS Scenarios are a prime example of this.

It is my hope that academia, too, will acknowledge its role in this. Thus far, sustainable finance has not been an integral part of economics or finance in the universities. But we need solid research foundations upon which to build our models; hence, this situation needs to change. And we at the central banks must play our part in taking this discipline forward. After all, it is in our own interest to be able to assess the financial stability impact of climate change as well as the climate risks posed on our own balance sheets. We need to lead the way.

And leading the way is what this conference has always been about. The Systemic Risk Analytics conference has always taken onboard excellent papers that are innovative in terms of their approach and topic.

To continue this tradition, I was delighted to see what we have on the agenda at this year's conference. For what I see in the presentations is a lot of novel thinking and new approaches to analysis. These are the kinds of action we need in order to take things forward, which is a necessity, given the tasks ahead.

I hope that the presentations in this conference give you ideas on how to extend your thinking beyond the traditional approaches. And I hope this in turn helps you to develop new approaches that might take your own field of research forward. So, I wish you all a fruitful conference.

# Johtokunnan varapuheenjohtaja Marja Nykänen: Vastuullisuus - uhka vai mahdollisuus finanssialalle?

Johtokunnan varapuheenjohtaja Marja Nykänen
Vastuullisuus - uhka vai mahdollisuus finanssialalle?
Lammin Säästöpankin vastuullisuusseminaari
Online, 31.5.2021
Esityskalvot (PDF)
**Johtokunnan varapuheenjohtaja Marja Nykänen: Vastuullisuus – uhka vai mahdollisuus finanssialalle?** from **Suomen Pankki**

# Johtokunnan varapuheenjohtaja Marja Nykänen: Eurooppalainen pankkivalvonta, Basel III ja makrovakaus

Johtokunnan varapuheenjohtaja Marja Nykänen
Eurooppalainen pankkivalvonta, Basel III ja makrovakaus
Finanssiala ry:n hallituksen kokous
Online, 25.5.2021
Esityskalvot (PDF)
**Johtokunnan varapuheenjohtaja Marja Nykänen: Eurooppalainen pankkivalvonta, Basel III ja makrovakaus** from **Suomen Pankki**

# Deputy Governor Marja Nykänen: Maintaining the EU as Global Leader in Sustainable Finance

Deputy Governor Marja Nykänen
13th European SSM Round Table, Digital Conference, 21.5.2021

### Maintaining the EU as Global Leader in Sustainable Finance

Ladies and Gentlemen,

The EU has been the global leader in sustainable finance for as long as sustainable finance has been a thing. And this does not mean only green bonds and similar traditional green investment instruments; it also covers more recent instruments such as sustainability-linked loans. And while in this speech I will be focusing mainly on the green, it is worth remembering that the EU is also among the world leaders in social finance.

It is worth noticing that the EU is not alone in increasing green investments. Other countries and regions are also growing and, in some cases, even faster than the EU, albeit from lower initial levels. Therefore, we should not become complacent.

After all, with constantly increasing climate goals it is evident that the investments in a climate-neutral economy will need to increase significantly. And this is where sustainable finance comes into play. Many of the world’s largest institutional investors have committed to invest responsibly, so there is ample investor demand for sustainable finance opportunities.

This naturally begs the question of what we need in order to maintain our global leadership in sustainable finance. The EU Green Deal and the Next Generation EU will be important drivers that will mobilize capital for financing the EU’s climate goals. These initiatives are not only about public money; through various programmes, they will also attract private capital.

There are also barriers to increasing sustainable finance in the EU, from the lack of green investment opportunities to the fragmented capital markets within the EU. Putting these obstacles to one side, I would like to highlight some aspects more closely related to sustainable finance.

Firstly, we need a taxonomy and common standards for sustainable investments. These will create certainty and eliminate the need for all actors to verify the greenness of an investment. This will lower the costs associated with green investments, which is one of the requirements for further mainstreaming sustainable finance.

But taxonomy and standards alone are not enough unless we have proper data. Only with proper data will it be possible to actually determine the environmental impact of companies and their business models. Thus, we need timely and wide-ranging reporting from companies.

The EU is well on its way in bringing all these into being, but the last steps might be the most difficult. The taxonomy and standards need to be credible to prevent greenwashing, but inclusive enough to allow sustainable investment products to be developed. Similarly, the company disclosure regime needs to be credible. But at the same time, it should not place an undue burden on companies.

Thus, with sustainable finance we constantly need to balance between different perspectives. We need to try to make sustainable finance inviting, but not at any cost. This is best exemplified in the discussion on promoting sustainability with the prudential framework.

We still have no idea to what extent the greenness of an investment correlates with the financial risks. And as we should preserve the prudential framework to insure against risks, we should figure out other ways for incentivizing sustainable investments.

For financial institutions and supervisors, my advice is to take climate risks seriously. Many already do, despite the difficulties with the data and methodologies, and especially in communicating the results of climate risk analysis. The ECB climate stress test coming in 2022 will further ensure that everyone starts thinking about climate risks.

Central banks and supervisors all around the world have joined forces in the Network for Greening the Financial System, or NGFS for short. This network is, among other things, working to bridge the data gaps and build scenarios for the long-term forward-looking analysis required for climate risks. The results of this are available to all. I encourage you all to take a look at them and investigate if these can help you in your own efforts.

Helping the financial institutions in analysing their climate risks is not the only thing that central banks do. Many central banks want to lead by example and are measuring the climate risks in their own portfolios, while embracing responsible investment policies. The NGFS is doing its part in identifying best practices and spreading them across all central banks.

According to the latest NGFS survey, central banks mentioned "reputational risks" and "to set a good example" as their main motivations to adopt responsible investment practices. It is worth mentioning that the NGFS survey is a global, not a European survey, with 40 central banks in over five continents participating.

I would also like to highlight the joint decision made by Eurosystem central banks earlier this year to measure and disclose the climate-related risks of the euro-denominated non-monetary policy portfolios. Non-monetary policy portfolios fall within Eurosystem national central banks' independent decision-making. Yet, all the 19 national central banks and the European Central Bank decided to adopt a common stance.

At the Bank of Finland, we have been working very actively on responsible investments and are increasing our own non-financial disclosure. Within the last year alone, we have published our responsible investment principles as well as several articles and blogs on climate-related issues.

In our most recent annual report, we have substantial sections on sustainability issues. And not just for our asset management activities, but on our other central banking activities too, such as the environmental impact of issuing and circulating bank notes.

By setting a good example through transparent disclosure, we also feel more confident to ask for more disclosure from the entities we invest in. This in turn leads to better data quality and better data coverage. More importantly, as we all know, what gets measured, gets managed. This also helps to fill the data gaps and improve the data quality.

Through analysing, identifying and managing climate risks and opportunities we can all do our part to combat climate change and biodiversity loss. Climate issues seem like a walk in the park compared with biodiversity. Let us hope that it won't take us as long to wake up to the importance of biodiversity as it took us to notice climate change.

Central banks should not be the primary actors in mitigating climate change and reducing biodiversity loss. Value judgements should be left for the representatives chosen at general elections. Central banks need to respect their mandates in order to not become politicized. But our efforts are needed to support the policymakers, just like everyone else's. If we don't set a good example, how can we expect others to act and follow in the right direction?

In this short keynote I have painted the picture of where we are and where we should be heading in terms of sustainable finance. I hope that this SSM Round Table will bring you new ideas on what to do next. For sustainable finance is not only an opportunity for the EU, it is an opportunity for all financial institutions. And, therefore, we should all be asking what we can do.

# New instruments to rein in household debt

Deputy Governor Marja Nykänen
Bank of Finland
New instruments to rein in household debt
Bank of Finland Bulletin press conference 4 May 2021
New instruments to rein in household
debt (PDF)
**Deputy Governor Marja Nykänen: New instruments to rein in household debt** from **Suomen Pankki**

# Deputy Governor Marja Nykänen: How can banks help COVID-19 resilience and recovery

Deputy Governor Marja Nykänen
Keynote Speech at Sustainable Investment Forum Europe 2021
22 April 2021

## How can banks help COVID-19 resilience and recovery?

Ladies and gentlemen!

It is an honour to be invited to give this keynote speech on such an important topic in such an interesting forum.

Last spring, giving a virtual keynote speech in an online conference was something new and exciting. Today, over a year later, it is not like that anymore. Hopefully, it won't be too long before we get back to a bit more of a normal situation again.

Today, in this virtual contribution, I will be talking first about the reaction of the authorities to the economic shock from the COVID-19 pandemic. Then I will talk about how banks have been a part of the solution. Finally, I will conclude by looking at the future and talk about how increasing the role of the capital markets can help to increase the resilience of the EU economy.

**Central Banks, Supervisors and public authorities support bank lending**

In the early spring of 2020, the effects of COVID-19 started to become clearer, and, for a brief moment, it seemed as if the economy would go into freefall. However, the public authorities responded swiftly and decisively in order to minimize the social and economic costs of the pandemic and the lockdowns.

Central banks were among the first responders, with the ECB pandemic emergency purchase programme, PEPP, now standing at 1,850 billion euro. In addition, the ECB has been offering a significant amount of financing to banks through targeted longer-term refinancing operations.

Fiscal authorities around the world made emergency payments and gave support for companies and households. The EU even reached an agreement where the EU itself would secure 750 billion euro from the markets and distribute it among the Member States.

In addition to direct financing, countries in Europe made changes to insolvency laws to prevent companies going bankrupt. In several countries a moratorium was put in place to help households and companies with debt repayments. Furthermore, public guarantees were extended to bank loans to ensure that companies could attain credit.

Supervisors used the flexibility built into the legislative framework and relaxed the available capital buffers, further enabling banks to keep lending. And these are just some of the examples of how the public sector has supported the economy amid COVID-19.

**Banks have been part of the solution**

The banks have seized the opportunity given by supervisors, central banks and the public authorities to maintain their lending to the real economy. By enabling access to funding, banks have allowed companies in the real economy to keep people on their payroll despite the uncertainty.

At the same time, public support to households, companies – especially SMEs – and the moratoria have kept delinquencies at a record low in many countries. This has meant that bank balance sheets have not seen an increase in NPLs as one would have assumed given the economic shock.

But history has shown that there is a lag between an economic shock and the associated insolvencies. In this crisis, given the moratoria and other public support measures, it is to be expected that this lag might be longer than in previous crises.

Thus, it is premature to extrapolate the future losses in this crisis from the credit losses so far. And, therefore, it is imperative that banks maintain prudent capital positions to maintain their resilience and to ensure that this crisis will not become a banking crisis.

Because of this, it is a bit disappointing to see that few banks are not heeding the supervisors' recommendation to restrict dividends for the time being.

This behaviour is unfortunate for two reasons. Firstly, it dilutes the banks' capital buffers, thus making them more susceptible to any future deterioration in economic conditions. This will increase the risks to financial stability.

Secondly, such behaviour may even seem like profiteering from the crisis. A better than expected situation in any bank now is not due to the excellent business skills or risk management at the bank, but is more of a windfall from the multi-trillion euro of public support.

**In future, the capital markets will play a role in sustainable finance by complementing bank lending**

Once again, this crisis has shown the extent of Europe's dependency on banks to provide funding for the real economy. Now, don't get me wrong, we need banks and their role will still be critical in the future. But it is time to turbocharge the development of the Capital Markets Union, the CMU.

The CMU would provide complementary funding sources for companies, especially in turbulent times when banks are not able to lend as much as needed. Furthermore, the capital markets could allow riskier companies to attain funding, as bank loans are not suited for all.

The CMU would also allow banks to attain funding, securitize their loans and sell them to investors. This could have the potential to distribute risks more evenly across countries, thus absorbing future shocks. Furthermore, active capital markets require banks to act as intermediaries, thus it could provide stable or even a countercyclical source of revenue for banks.

It is also critical that we build back better after COVID-19, focusing on environmental sustainability and helping the EU and Member States to transition to climate neutrality by 2050. The capital markets would enable different types of green instruments to be developed to help towards this goal. And, as the current crisis has shown, there are ample opportunities for Member States and the EU to issue social bonds that can help to build more inclusive and equitable societies. Efficient and liquid capital markets could provide a solid foundation for extending this.

**To conclude**

The public authorities' role in helping society cope with the economic impacts of the COVID-19 pandemic has been significant.

Most EU banks have understood the gravity of the situation and have continued to provide funding to households and companies while at the same time preserving prudent capital positions.

Going forward, we need to increase the role of the capital markets to enhance the resilience of our economies. For this we need the CMU, which could help the EU to become socially, environmentally and economically more sustainable. I think it is a goal worth pursuing.