



Greening Financial Sectors in the Western Balkans

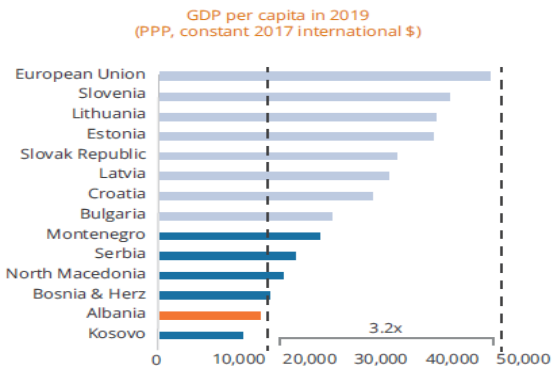


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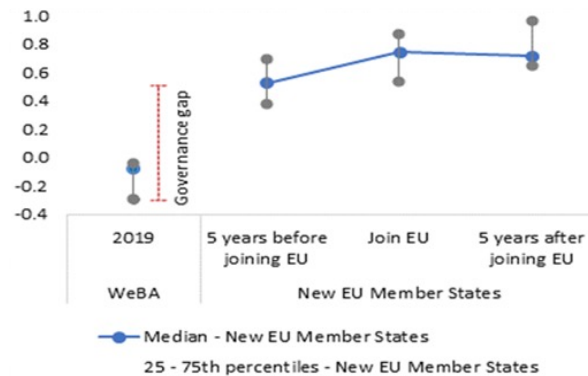
Gunhild Berg
Lead Financial Sector Specialist

Climate change is expected to exacerbate key structural development challenges that the Western Balkans already face

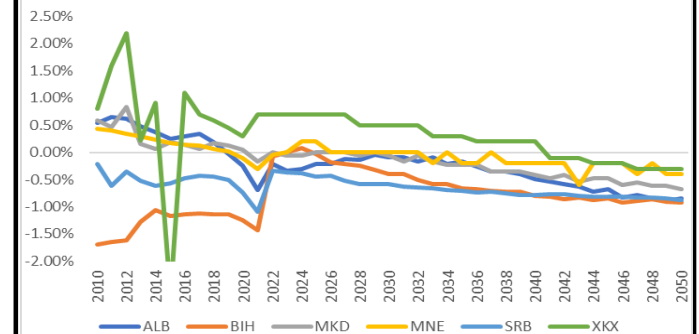
Per capita income is still a long way from EU peers, and the gap isn't being closed



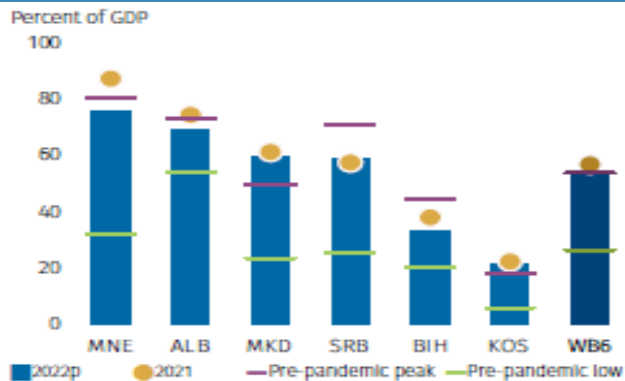
A large governance gap exists with EU peers



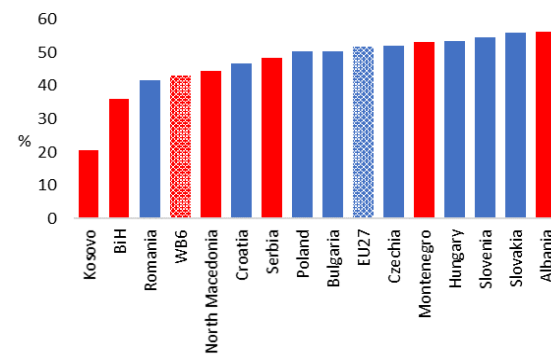
Declining population growth



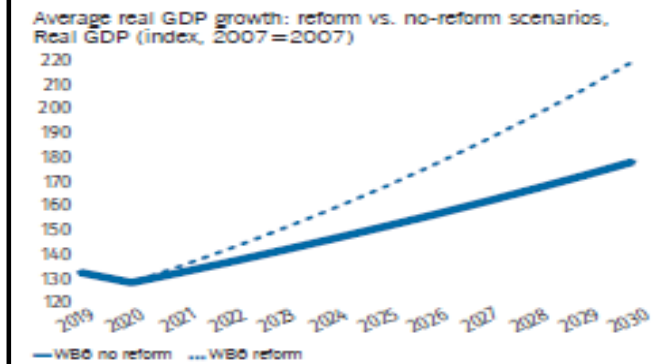
Multiple shocks have depleted fiscal space and left public debt elevated



Labor force participation, particularly for women, is well below peers



Reforms are needed to boost potential growth and achieve peer convergence



Western Balkan exposure to climate-related physical and transition risks is high

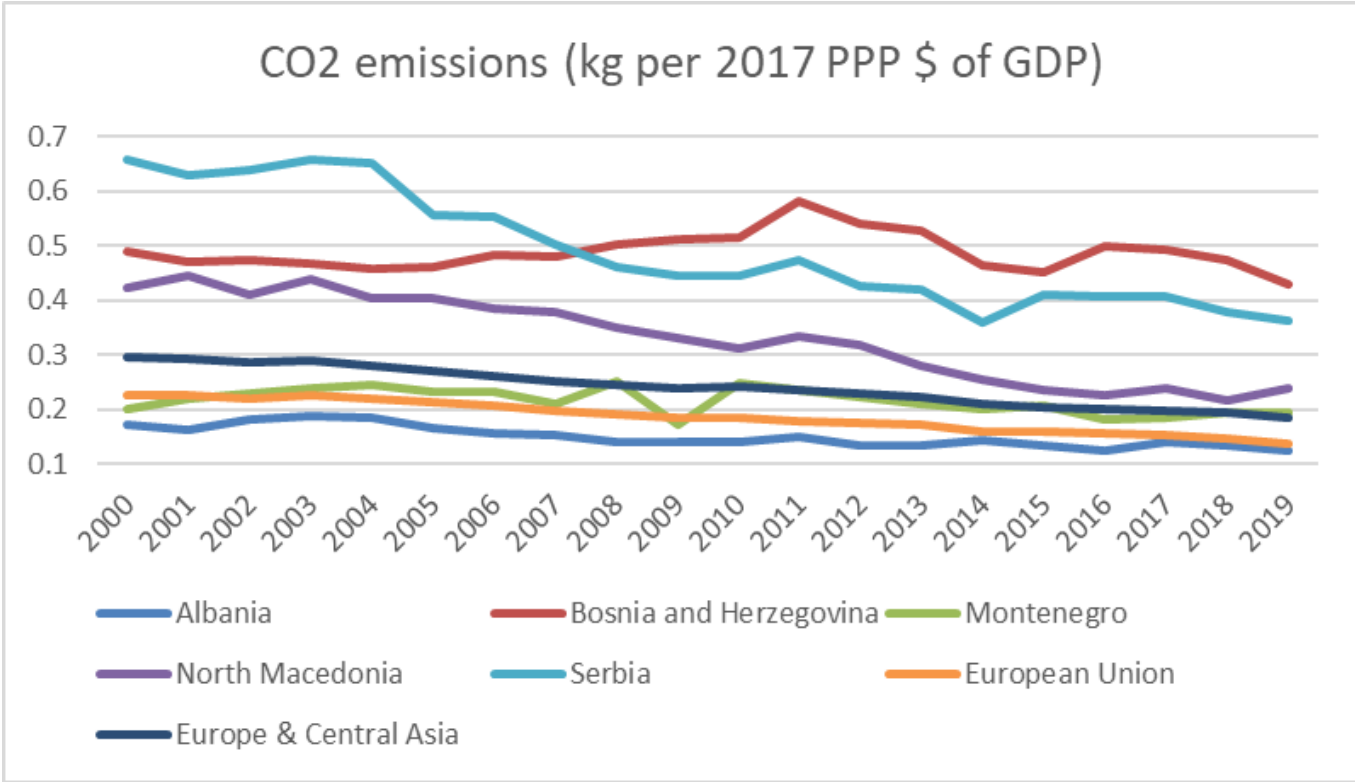
Selected Indicators from the INFORM Risk Index for Climate Risk Management in Western Balkan Countries

Country	Inform Risk	River Flood	Drought	Vulnerability	Lack of Coping Capacity
Bosnia and Herzegovina	3.1	5.9	2.5	3.8	5
Albania	3.1	4.6	4.4	2.1	4.2
Serbia	2.9	7.7	2.2	3.5	3.7
Montenegro	2.7	1.3	1.6	3.6	3.1
North Macedonia	2.2	4.2	2.4	1.7	3.6
EU Average	1.9	4.4	1.8	2.6	2.0

Source: INFORM, 2023. EU average for 2022.

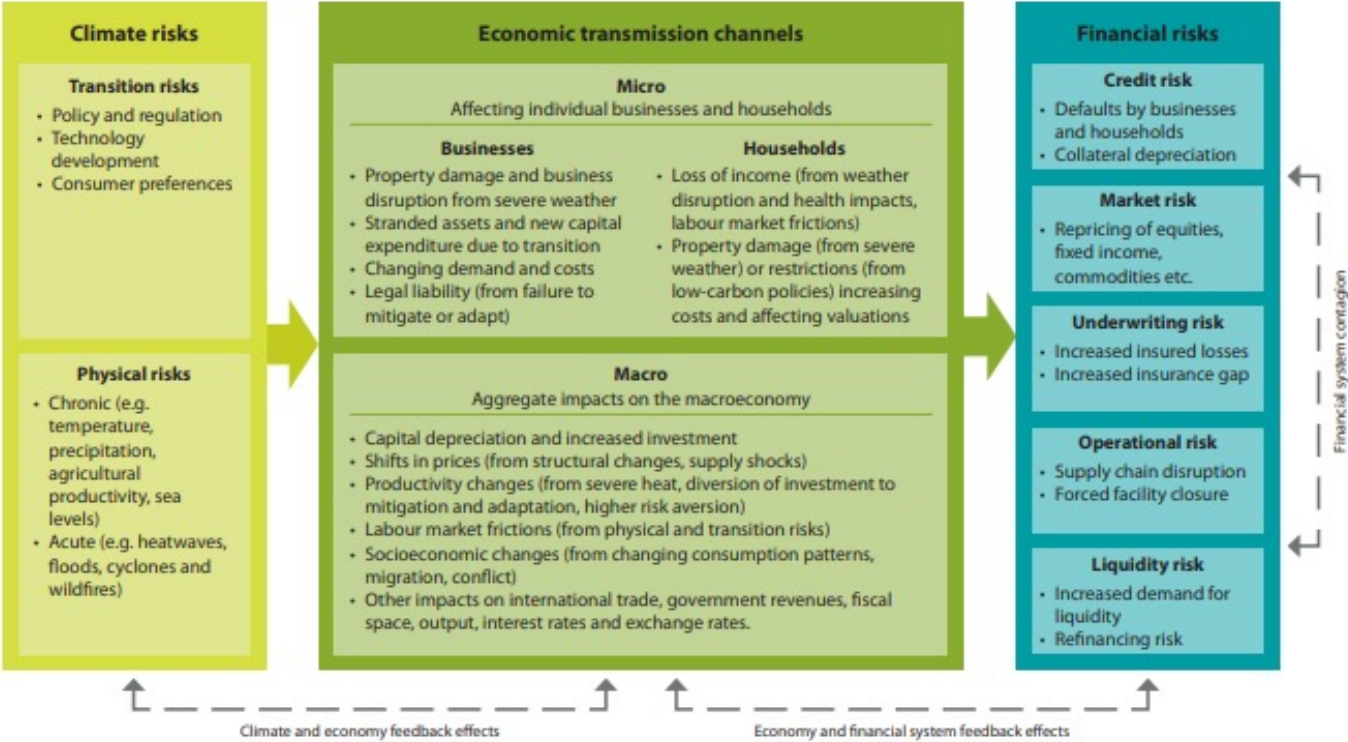
- The Western Balkan countries are vulnerable to numerous physical risks.
- According to the Inform Risk Index, BiH has the highest overall risk, followed by Albania.
- The greatest climate related hazard risks are flooding and drought. Apart from river flooding, coastal flooding risk is high in Albania and Montenegro.
- Earthquake risk – while not climate-related – is significant in the region and affects the overall Inform Risk Index.
- Climate change will exacerbate the frequency and intensity of climate events and associated vulnerabilities.

While the carbon intensity of Western Balkan growth is declining, it is several times above EU levels



Source: Eurostat, national statistical offices.

Climate physical and transition risks can have negative impacts on the economy and as a result pose risks to the financial sector



Source: NGFS

Financial sector exposure to climate-related risks likely to be significant in the Western Balkans

High-level results from Green Finance Diagnostics in Albania, North Macedonia and Serbia suggest notable levels of exposure to climate risks in the financial sectors.

Exposures can vary significantly by institution.

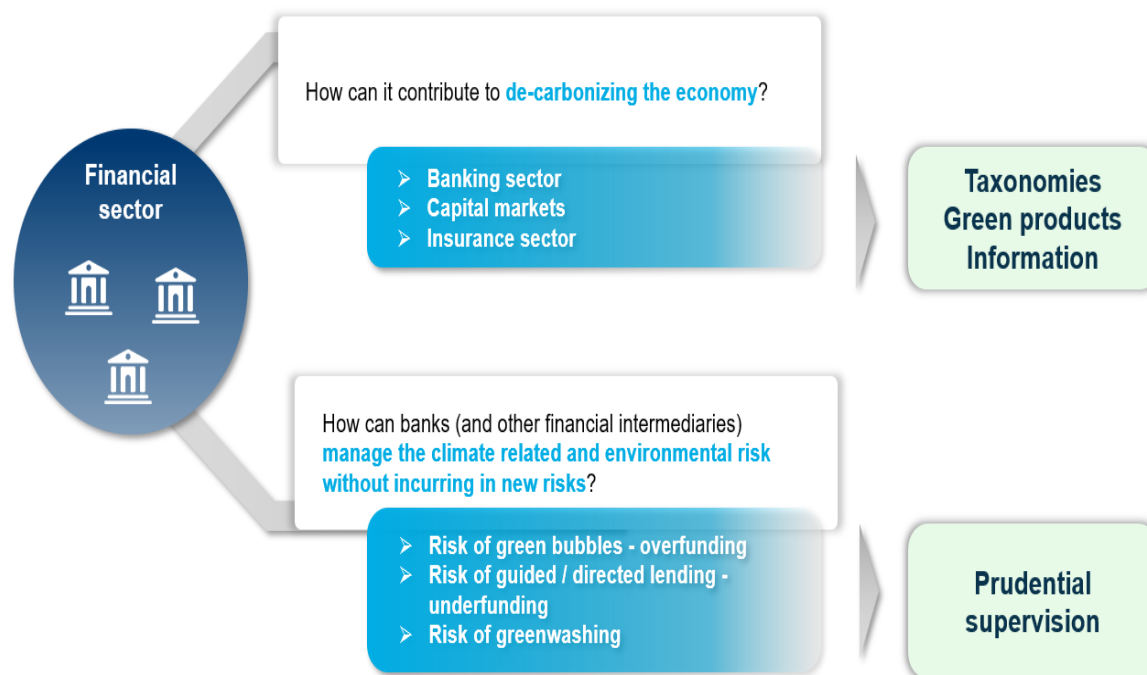
Physical risk

- Lending is highly concentrated in certain geographical regions, especially in capital cities, suggesting that exposure to physical risk could be high.
- Overlaying geographical lending data by bank with hazard information is necessary for an accurate picture of physical risks.

Transition risk

- Transition risks account for approximately 30-50 percent of bank loans in some countries with exposures mainly in the manufacturing, construction, mining, transportation and agriculture sectors.
- In some countries, the climate policy relevant sectors comprise the equivalent of nearly half of GDP.

The financial sector has an important role to play in addressing climate change



- Most of the Western Balkan economies are at initial stages of greening their financial sectors...
- ...with limited availability of green finance products, especially outside of bank loans.
- Countries are taking first steps towards the preparation of green finance strategies and developing green taxonomies (interoperable with the EU taxonomy).

Source: Western Balkans Regular Economic Report, Fall 2022

Central Banks and regulators are expected to take the lead in managing climate risks in financial sector

01



1st stage

- Risk Assessment Exercises
- Survey / questionnaires to the banking sector

02



2nd stage

- Preparation of a Regulation / guidelines on management environmental risks
- Request for strategic plans for assessing climate risks

03



3rd stage

- Update of the supervisory methodologies to assess climate risks
- Development of specific tools for assessing climate change risks
- On-site activities for assessing climate change

04



4th stage

- Pillar 3 reporting requirements for banks
- Climate change stress testing

05

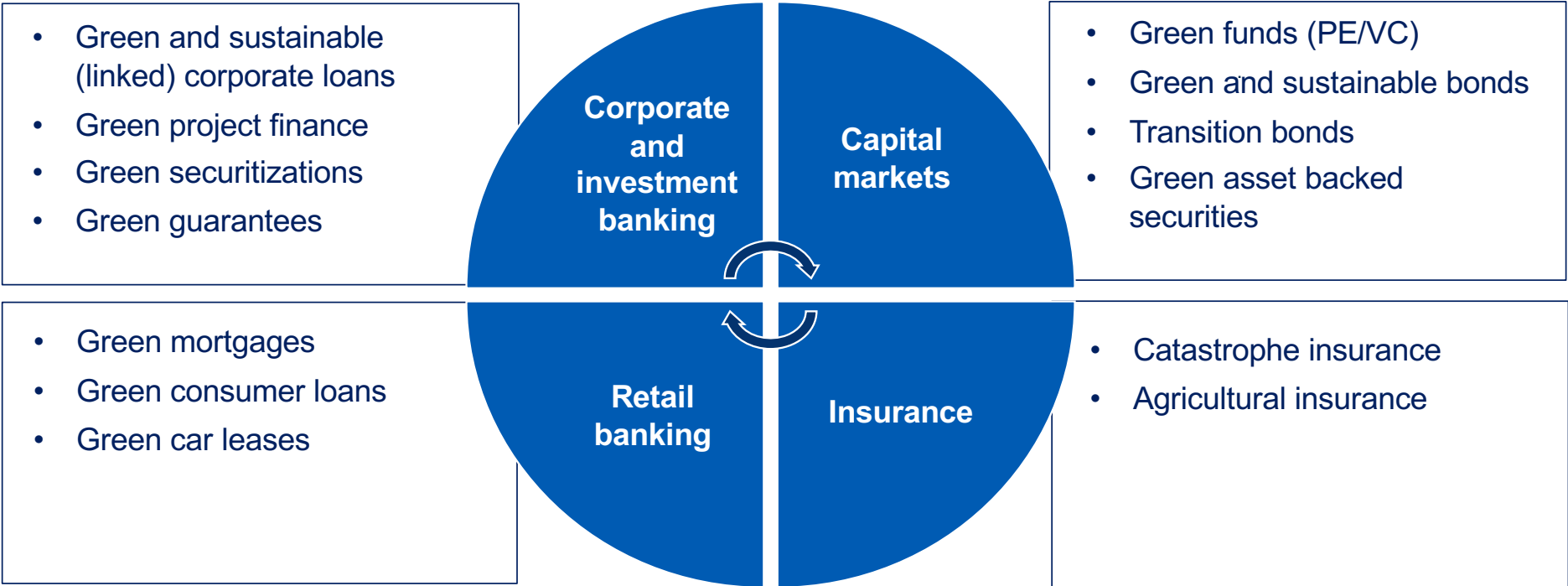


5th stage

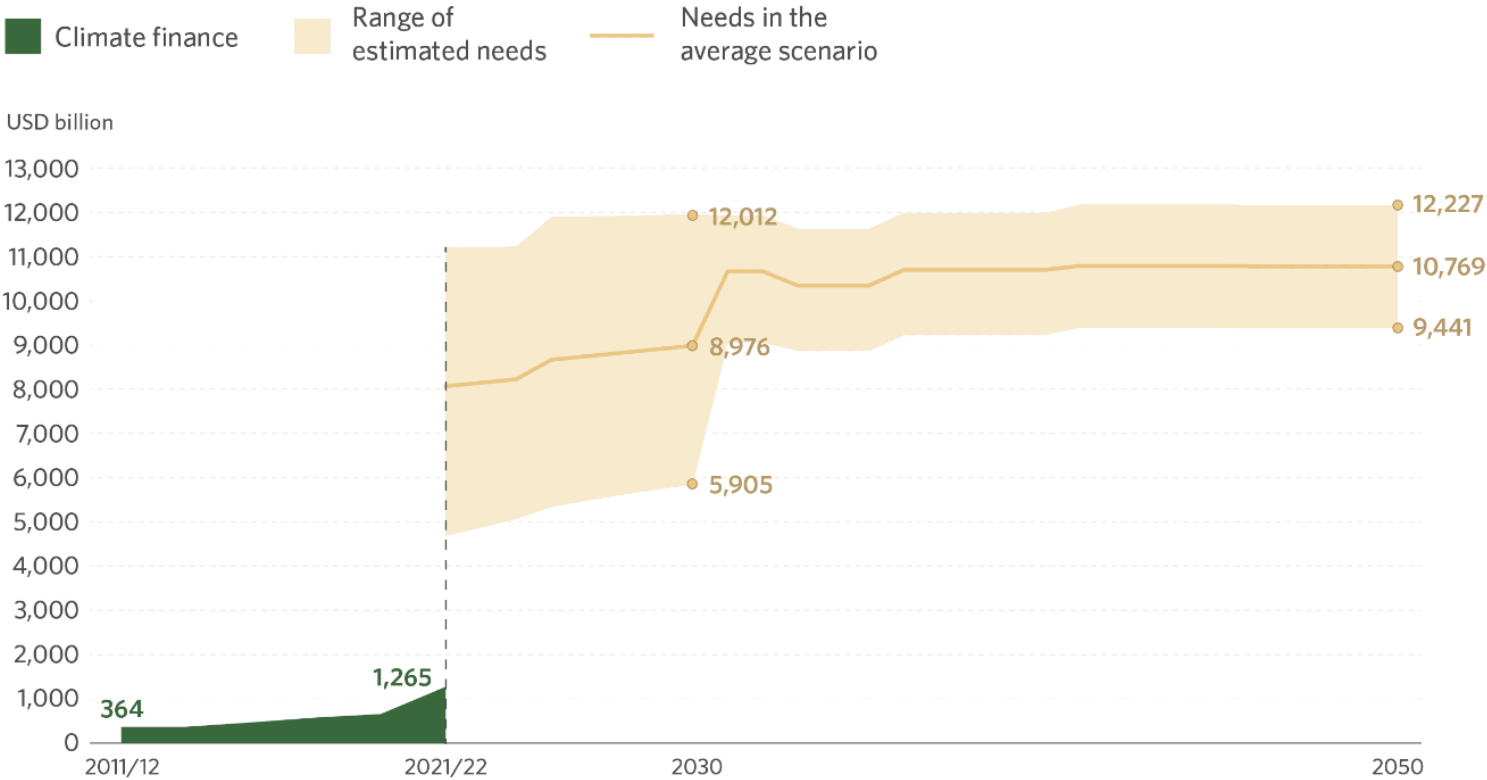
- Setting capital requirements for climate change risks

The World Bank (through FinSAC) has been working with Central Banks in the region (e.g., Albania, North Macedonia) on understanding climate risks for the financial sector and developing strategies

The development of green finance instruments presents an opportunity for the region



While climate finance globally has been expanding, it is still falling far short of estimated needs



Source: Climate Policy Initiative

The World Bank is engaged in 50+ countries on climate related financial risks & opportunities

Morocco

- CAT DDO / Risk Financing Strategy
- Climate stress test
- Supervisory guidelines / regulations and monitoring
- Taxonomy
- Training and events

Colombia

- Taxonomy + green standards
- Climate stress testing
- Climate + ESG reporting standards investors and issuers

South Africa

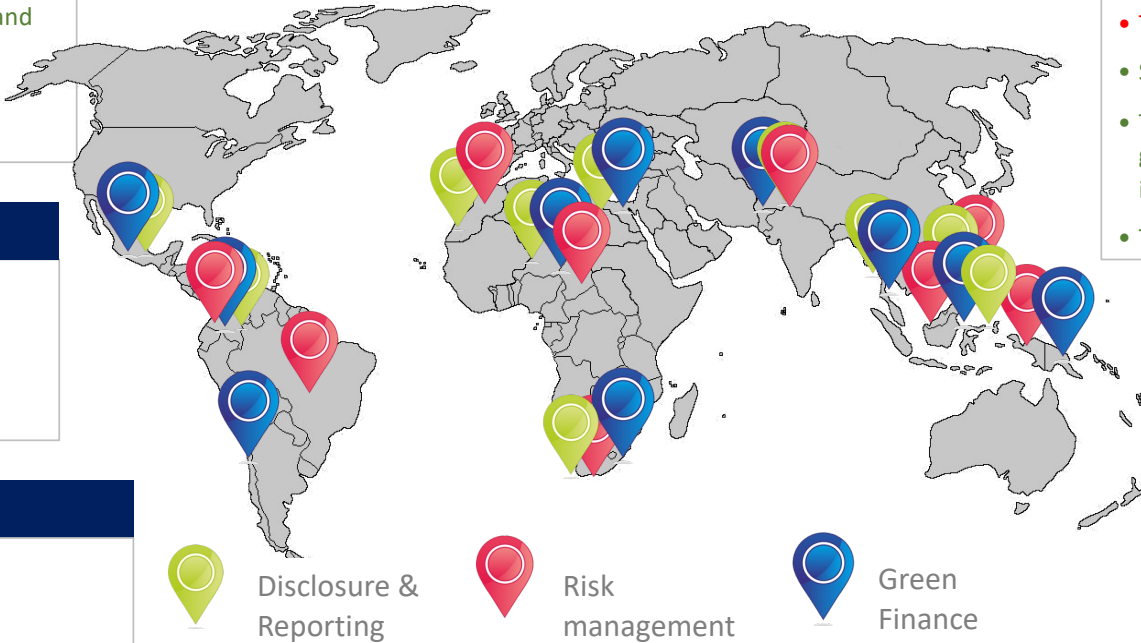
- Disaster Risk Finance diagnostic
- FSAP climate analysis
- Climate stress test
- Supervisory guidelines and monitoring
- Training and events

The Philippines

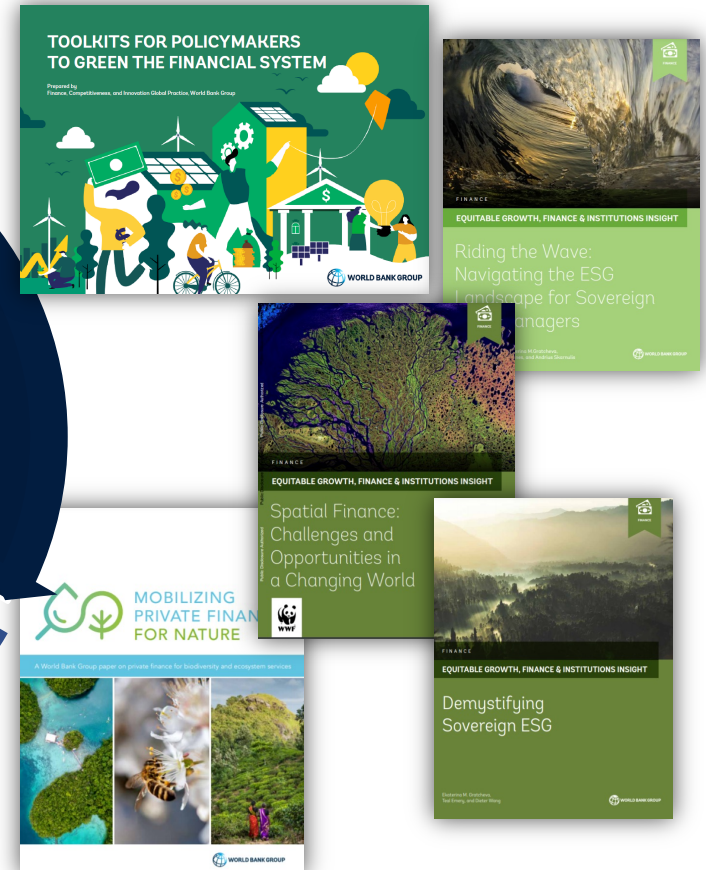
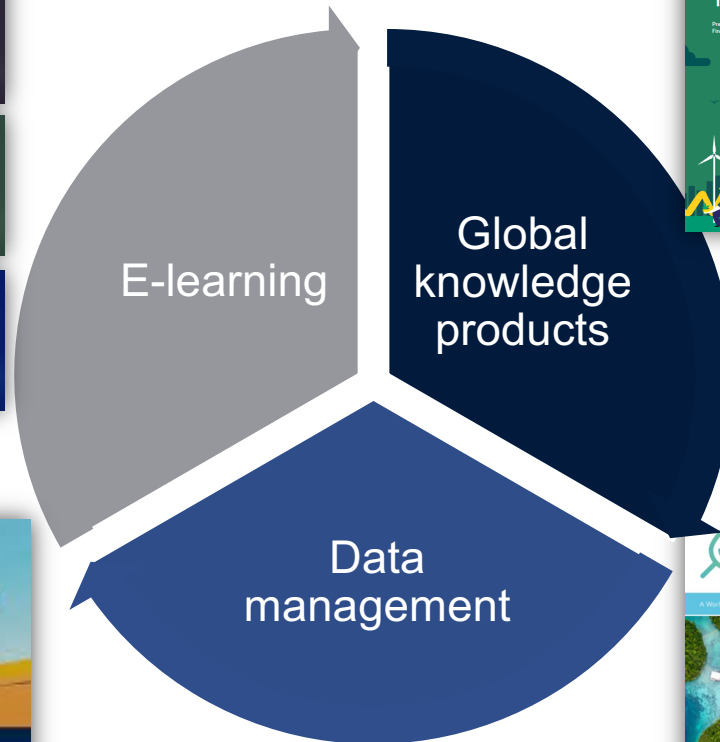
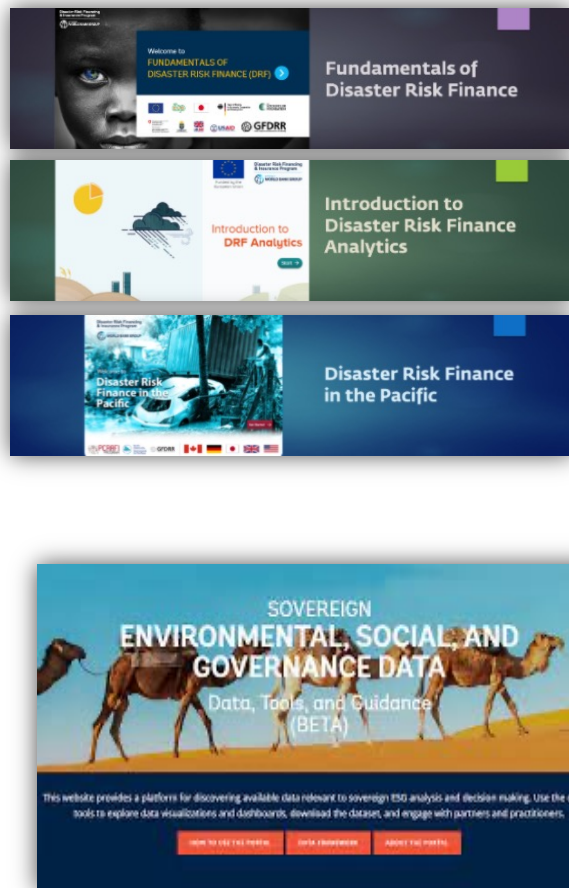
- CAT DDO
- FSAP climate analysis
- Typhoon stress test
- Supervisory guidelines and monitoring
- Taxonomy, ESG reporting/disclosure guidelines/ monitoring, guidelines for institutional investors
- Training and events

Malaysia

- Assessment of biodiversity risks
- Supervisory guidelines
- Taxonomy
- Workshops and seminars
- Green Sukuk



Engagements are supported by knowledge creation and sharing





Thank you!

For more information:
Western Balkans Regular Economic Report
No.22 | Fall 2022
worldbank.org/eca/wbrer

