



Sustainability considerations in Latvijas Banka

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Sustainability – cornerstone in the strategy of Latvijas Banka

- **Sustainable considerations in day-to-day activities and functions**

Communication, consultation, discussion

- **Main areas of focus**

Circular economy, energy, sustainability of financial sector, agriculture, forestry and wood industry, management, social inequality, transport

- **International Framework**

Euro system policy, European Green Deal, The Paris Agreement, UN 17 Goals, Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

- **Sustainability Committee, the Green Group and sub-groups**

Internally organized structures within Latvijas Banka

- **Interaction with market participants**

Raising awareness, expectations, dialogue, "Sustainability Breakfast"

Developments in the macroprudential toolkit

Borrower-based measures: the
Green Factor





Rationale behind

- **Housing stock in Latvia overall is *quite old***

Less than 15% of total buildings are efficient in terms of energy efficiency certificates (EEC) grades (C+)

- **Increased demand towards cheaper and older housing**

Rising interest rates, continuously high prices for the new housing, limited availability of new and renovated housing

- **Slow construction and renovation**

Structural factors contribute to the small amount of construction of new buildings - as well as renovation of the existing buildings has been insufficient

- **Risks**

This deficiency can lead to collateral risks and solvency risk of borrowers as well to risk of formation of stranded assets given the climate related targets – affects financial institutions and borrowers



Way forward

- **Structural shift**

Towards energy-efficient housing - primarily non-macroprudential structural policy measures should be used for the underlying causes (communication with the respective policy makers is ongoing)

- **Possible adjustments in the macroprudential framework**

Growing support towards systemic risk buffer (SyRB) and BBMs as the most appropriate tools

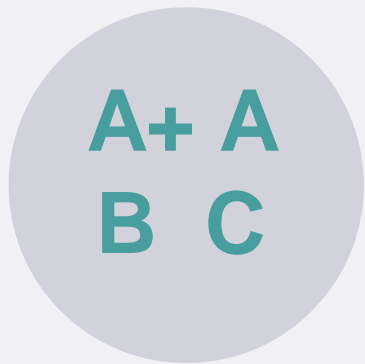
- **Science and finances**

Focus on EEC

- **Adjusted BBMs – saved costs approach**

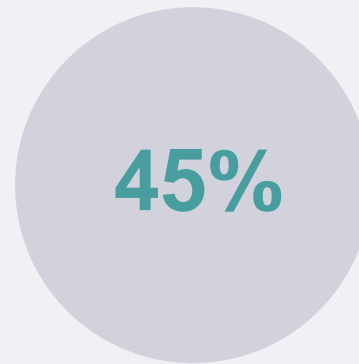
Alleviated BBM only partially promote the structural shift in demand for energy efficient housing

Adjustments in the BBMs framework for loans acquiring energy efficient housing – in force as of 1 January 2024



Energy efficiency certificates (EEC)

- As of now only 15% of the housing stock
- Not only new (A and A+), but also supports renovation (B and C)



Debt-service-to-income (DSTI)

- Higher interest rates - DSTI more binding
- Saved costs towards heating redirected to debt servicing



Debt-to-income (DTI)

- Calibrated proportional to DSTI
- Up to 8 for greater policy support
- Lower interest rates - DTI more binding



Thank you for your attention!

