



საქართველოს ეროვნული ბანკი
National Bank of Georgia

Speech

Speech given by

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Ladies and Gentlemen,

Let me welcome you to the Sustainable Finance workshop in Tbilisi. It is a pleasure and a privilege to host this workshop in cooperation with International Financial Cooperation (IFC). I hope that today's meeting will be an important contribution to the development of sustainable finance in Georgia. It is becoming more common to incorporate environmental and social sustainability in the central banks' policies in order to ensure financial stability in the long run and support sustainable growth. We, at the National Bank of Georgia, understand that with the increasing environmental, social and sustainable issues and the size of the investments needed to address these issues, the financial systems can play a major role in sustainable development. I am happy to announce that the National Bank of Georgian is the first organization in the region to take the initiative and make first steps towards the development of sustainable finance.

At one glance, it might seem that for small emerging countries, like Georgia, that face a number of challenges on their way to development, thinking about sustainable finance is a luxury that only rich countries can afford. But, I do not think that this is true. By supporting sustainable finance one can pave the way for growth and development. While Georgia does not face the problem of industrial emission, air pollution is a big challenge for us - it hinders the sustainable development in more than one way. Increasing air pollution results in health deterioration and increased healthcare expenses, which create fiscal burden. Polluted air also reduces labor force productivity in the long run. We strongly believe that integrating social and environmental objectives into our work can be a way to overcome those challenges and is an ultimate road towards inclusive growth and long-term sustainability.

One of the main obstacles for creating sustainable financial system is short-termism, since it creates pressure on companies to concentrate on short term financial performance. This is a common challenge that every country faces regardless the stage of development. This problem is even more severe in developing countries, where companies tend to be more short term oriented with less attention paid to strategy, fundamentals and long-term value creation. This can result into mispriced risks and missed opportunities. The research¹ done by McKinsey institute indicated that companies that have long-term outlook have persistently outperformed their short-term oriented peers in terms of earnings and job creation. Besides, strong corporate performance on environmental, social and governance (ESG) factors positively correlates with improved financial performance. Therefore, the role

¹ McKinsey Global Institute (2017): [Measuring the Economic Impact of Short-Termism](#).

Deutsche Asset Management and the University of Hamburg (2015): [ESG and Corporate Financial Performance: mapping the global landscape](#).



of regulators in encouraging ESG integration in developing countries is even more prominent.

Naturally, given day-to-day problems, it's hard to convince people to think long-term and make decisions based on long-term consequences. However I think that one of the important roles of policy-makers, including myself, is to change market's short-term oriented behavior. Decisions with long-term benefits might not be very popular at the beginning, but with the appropriate communication and proper actions to increase the awareness, we hope that market and the society will see the benefits and become the contributors themselves.

Ensuring sustainable development is a joint objective of the whole society. The government of Georgia has an active plan in this regard and our role is to support this process and create a framework in the market that will facilitate sustainable finance. The National Bank of Georgia joined the SBN in September of 2017. By joining the SBN we have expressed our willingness and commitment to support sustainable finance development in Georgia. We have already made some progress in that regard and created an action plan for future. The goal of NBG's current actions is to increase the awareness regarding sustainable finance in the country and signal the market about the NBG's supportive stance.

With the purpose of increasing awareness about the sustainable finance, International Capital Market Association (ICMA) Green Bond Principles have been translated in Georgian language. The document in Georgian is now available on the ICMA website², which also signals international investors about Georgia's interest in development of sustainable finance.

We are actively working with IFC to develop guidelines for sustainable finance. The purpose of these guidelines is to prepare potential investors and issuers and facilitate the development of sustainable financing opportunities. The emergence of this kind of markets comes with clarification of corresponding financial instruments. Our plan for guidelines is to provide the definition of green, social and sustainable development bonds and credit. It will also help issuers and investors to be prepared and better understand this segment of debt market.

As already noted, companies and financial institutions tend to be more short-term-oriented and may ignore the risks coming from environmental and social sustainability considerations. Therefore, another important area, where we are actively working for supporting sustainable finance, is the integration of ESG issues into the corporate

² <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>



governance of commercial banks and capital market participants. This will ensure that financial institutions will start taking into account the risks stemming from sustainability considerations. Initially ESG sections of codes will be based on comply or explain approach, which will prepare the market for more detailed regulation on disclosure of sustainability factors.

Transparency of market participants' activities is essential to a well-functioning financial system. It has been acknowledged worldwide that disclosing ESG aspects is crucial for addressing sustainability issues. The number of regulators that make ESG disclosure mandatory is constantly increasing. To support transparent, consistent and comparable ESG reporting and disclosure practice among financial institutions, NBG plans to publish ESG Reporting and Disclosure Principles. The report will cover the main principles of ESG reporting, will emphasize the importance of transparency and disclosure and will provide the template for ESG reporting.

We are exploring the ways to address sustainable finance issues, including possible regulatory actions. We plan to define the exact scope and scale of such actions in close cooperation with our stakeholders. And we hope that today's workshop will be a fruitful exchange of views in this area.

As the Governor of the Bank of England, Mark Carney said in his well-known 2015 speech³, since market fails to address the “tragedy of the horizon” problem, financial regulators' role to tackle this issue becomes more prominent.

Let me express our willingness and readiness to join leading central banks in breaking the tragedy of the horizon.

Thank you!

³ <https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability>