

BANK OF MONGOLIA: GREEN VISION AND STRATEGY



MONGOLBANK
CENTRAL BANK OF MONGOLIA

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THE BANK OF MONGOLIA'S GREENING STRATEGY

The climate crisis is transforming our environment, bringing with it significant risks to our economy and our financial system. The Bank of Mongolia recognizes that the physical impacts of climate change, including extreme weather events, desertification and water scarcity, along with the transition to a low-carbon economy, will together have a profound impact on Mongolia's economic landscape.

Our core mission is to ensure the stability of the national currency and to promote balanced and sustained development of the national economy by maintaining the strength of our financial markets and our banking system. To continue to meet these objectives within the context of the climate crisis, we must put climate awareness at the heart of our policies, risk management and future planning.

The proactive measures we take will not only address climate-related risks but also harness sustainable growth opportunities, ensuring a resilient financial system and a sustainable future for the people of Mongolia.

To achieve this, several priority actions have been identified:

I. Strengthen the resilience of Mongolia's financial system to mitigate climate-related risks

We will integrate climate considerations into financial supervision and regulatory frameworks, ensuring banks and financial institutions are well-prepared to manage climate-related risks.

II. Support the orderly transition to a sustainable, low-carbon economy

By promoting green finance, we aim to support the transition to a more sustainable economic model that will benefit both current and future generations. This will help channel capital into sustainable sectors, fostering long-term economic resilience and ensuring that Mongolia meets its NDC goals.

III. Enhance understanding of climate risks in the macroeconomic framework

We will ensure that monetary policy is responsive to evolving climate risks by strengthening the current policy framework and by enhancing research and

data capabilities to better understand the economic implications of climate change. We will develop analytical frameworks and long-term structural and sectoral models and will enhance our technical capacities to work effectively with these models.

IV. Lead by example within our own operations

We will work to reduce our own environmental impact by adopting sustainable practices across operations, governance and decision-making processes. By doing so, we aim to set a clear example for financial institutions, and to demonstrate how organizations can contribute to Mongolia's green transition.

V. Collaborate internationally for a coordinated response

We will align with global best practices and will engage with international counterparts, development banks, financial institutions, government agencies and other stakeholders. We will develop and share expertise in climate-related financial resilience as part of the global cooperative effort to address climate change.

Defining sustainable finance

Bank of Mongolia defines sustainable finance as finance that takes environmental, social and governance (ESG) considerations into account when making investment decisions, thereby promoting long-term investments in economic activities and projects that align with sustainable development goals (SDGs).

Within the ESG framework, sustainable finance encompasses effective financing for projects that mitigate climate risks and support social and economic resilience, as well as considering the sustainability of a financial institution's operations. Sustainable finance integrates policies, regulations and practices to reduce and manage ESG risks and encourage capital

flows towards projects with environmental and social benefits.

Sustainable finance emphasises investment in and support of SDG-related projects and companies that promote environmental objectives, address climate change and manage natural resources responsibly for long-term sustainability. Broadly, sustainable finance involves financing – and ensuring the institutional and market arrangements necessary for – green, sustainable and balanced economic development, thereby directly and indirectly supporting the SDGs.

I. Strengthening the resilience of Mongolia's financial system to mitigate climate-related risks: Banking sector supervision and supervisory expectations

The stability and resilience of the financial system are increasingly dependent on the ability of institutions to assess and manage climate-related risks effectively. These risks include both physical and transition risks, and have the potential to significantly impact the balance sheets, asset values and risk exposures of financial institutions. Recognizing these risks, the Bank of Mongolia will prioritize ensuring that climate risk assessment is not only an essential but a core component of its supervisory framework for financial institutions.

The Bank of Mongolia will follow a supervisory approach that is adaptive and forward-looking, to ensure that financial institutions are resilient in the face of climate-related challenges. The Bank's expectations emphasize practices such as scenario analysis, stress-testing and the integration of climate risks into broader management frameworks and strategies, while also promoting transparency and accountability through enhanced disclosures and ESG reporting. The Bank of Mongolia will monitor and evaluate reporting by institutions in areas such as scenario analysis and stress-testing reports, risk mitigation action plans and integrating climate-related risks into overall risk management frameworks. This will ensure that climate risks are not only being identified and managed but are also holistically incorporated into institutions' strategic planning and decision-making processes.

The Bank of Mongolia expects institutions under its supervision to assess and manage climate-related risks proactively at the institutional level. Banks are encouraged to develop relevant capacities, building on the pilot exercise of regulatory climate scenario analysis. They are also expected to develop internal processes to incorporate climate-related elements in their stress-testing models and frameworks, explore scenarios that incorporate material physical and transition risk assessments based on their portfolios, and incorporate both short- and long-term assessments to provide a holistic view of potential outcomes under different trajectories of climate mitigation. The Bank of Mongolia will also consider incorporating climate-related risks into future methodologies such as the Internal Capital Adequacy Assessment Process (ICAAP) and other related regulations.

Addressing climate-related risks across the financial sector requires transparency and accountability. In line with international best practices, the Bank of Mongolia will take a phased approach to introducing climate-related disclosures into its regulatory framework. This would initially involve voluntary disclosures aligned with the **Climate-Related Disclosures Guidelines of 2025**, while at the same time building necessary capacities and identifying data gaps. The Bank of Mongolia intends to move gradually to mandatory reporting, starting with systemically important banks, and gradually extending the measures to all banks over time.

The Bank of Mongolia also expects institutions under its supervision to embed climate risk considerations into their strategic and governance frameworks. Effective governance is essential, with boards instrumental in providing oversight on climate-related financial risks and other key areas. Banks should have risk management frameworks in place that specifically address climate risks, including physical and transition risks, alongside credit, market and operational risks. These frameworks must be integrated across all operations and updated as climate risk evolves. The Bank of Mongolia emphasizes the importance of capacity-building in climate risk management. It requires banks to develop expertise in assessing and managing environmental risks and ensure staff at all levels are equipped to address these emerging challenges. For risk monitoring and reporting, banks must implement systems to track and report on climate-related financial risks in real-time, ensuring transparency and enabling the Bank of Mongolia to supervise and manage systemic climate risks effectively.

To further enhance climate risk management, the Bank of Mongolia expects banks to conduct ESG assessments, collect climate-related data from clients, expedite the development of a climate stress-testing framework, and develop risk modelling capabilities as a key risk management tool. In accordance with the **Banking ESG Risk Assessment and Management Methodology**, the Bank of Mongolia will regularly receive implementation reports from banks and will monitor progress. Based on climate-related disclosures, risk management of climate risks will be assessed at both institutional and systemic levels.

II. Supporting the orderly transition to a sustainable, low-carbon economy: Scaling up green and sustainable finance

There is a growing financing gap between the finance required to meet the sustainable development goals (SDGs) and the finance currently apportioned to them. For finance to be directed towards the SDGs at the required scale and pace, appropriate financial regulations and policies are needed. To achieve this in Mongolia, the Bank of Mongolia will exercise prudent policy-making, building on evidence-based analysis through data collection, stress-testing, transparent reporting and effective collaboration. The Bank of Mongolia will formulate monetary and macroprudential policies that take into account climate risks to long-term development (such as interest rate environments, low and stable inflation, and financial stability).

As the reporting environment matures through the

adoption of guidelines for climate-related disclosures and ESG reporting, the Bank of Mongolia will evaluate regulatory measures and incentives in areas such as, but not limited to, incentives for green collateral, the green performance of banks, asset purchases, reserve requirements and prudential ratios. Using a technology-based approach, the Bank of Mongolia aims to support robust data collection. It also seeks to leverage international cooperation to align with global best practices.

III. Enhancing understanding of climate risks in the macroeconomic framework

Price stability is increasingly challenged by the complex and far-reaching impacts of climate-related risks. The global and non-linear nature of these risks makes them difficult to quantify and mitigate effectively. As physical and transition climate risks intensify, they pose significant threats to inflation, economic growth trajectories and overall economic stability. To address these challenges, it is essential for the Bank of Mongolia to monitor and assess climate risks comprehensively, ensuring that its monetary policy remains effective in maintaining price stability over the medium- and long-term.

Monetary policy formulation will consider the medium- and long-term impacts of climate risks within the central bank's mandate, with forecasts and analyses accounting for supply and demand shocks to the macroeconomy. The Bank of Mongolia's statistical database and data analysis will be improved, along with the digital transformation of systems.

Well-anchored inflation expectations are essential for giving central banks the flexibility to support employment, when necessary, without destabilizing inflation. The Bank of Mongolia aims to play a

proactive role in communicating to the public and businesses, information relating to policies and mitigation measures to manage the effects of climate change and their impact on price stability, to manage the impact on inflation expectations.

Managing the impacts of climate change on monetary policy operations will require a sound understanding of several mitigation measures. To improve information transparency and literacy on issues around climate change, the Bank of Mongolia will incorporate effective

communication strategies through press releases, research publications and interviews relating to climate change, thereby building public awareness of climate risks and how they relate to their everyday decisions. As capacities are built and augmented models are developed, climate change considerations will also be incorporated into relevant policy statements, inflation reports and economic outlooks.

IV. Leading by example: Greening the Bank of Mongolia's own operations

The Bank of Mongolia recognizes that greening our own operations is not just a commitment to sustainability but a powerful statement of leadership. As a regulator, our actions have the potential to set standards and inspire the broader financial sector. By embedding sustainable practices in our internal operations – such as minimizing our carbon footprint, adopting energy-efficient processes and ensuring responsible use of resources – we reinforce our commitment to

environmental stewardship and resilience. Our goal is to lead by example to guide the financial system towards a sustainable future and build trust with our stakeholders. In taking these actions, the Bank of Mongolia aims to demonstrate that sustainability is a foundational value in our pursuit of price stability, economic stability and sustainable economic growth.

Sustainable daily operations

The Bank of Mongolia will integrate broader sustainability goals into its daily operations through the introduction of an E-office environment (reducing paper consumption and with efficient use of office supplies), improved waste management (segregation and recycling) and optimized electricity consumption

(through energy efficiency measures). The Bank of Mongolia will also support the sustainability of operations in its branches and relevant offices¹ through digital transformation, and will promote sustainable procurement practices and staff training on sustainable practices.

¹ Local branches and headquarter offices

The Bank of Mongolia portfolio and reserves

As the market for green and sustainable assets in Mongolia grows and matures, the Bank of Mongolia aims to evaluate its holdings and portfolio to minimize climate-related risks. The Bank of Mongolia will evaluate how to incorporate more green assets into its portfolio and will actively support development of the market through incentives, improved data collection and research. The Bank of Mongolia will also review its investment guidelines to include international green bonds, while balancing the risk and return profiles of its holdings. It also aims to incorporate sustainable value chain management for its domestic gold purchases for reserve management.

Central bank disclosures

Under its goal of leading by example, the Bank of Mongolia aims to publish its own climate-related disclosures by 2030. While it continues to work towards reducing its carbon footprint, it will initiate the process by setting credible metrics and targets, building capacities within the central bank and creating a framework of climate-aligned reporting, with clearly defined responsibilities for relevant departments of the central bank, and clear identification of climate-related risks, transition plans and net-zero targets for the central bank's physical operations.

VI. Collaborating internationally for a coordinated response

The Bank of Mongolia will engage proactively in international peer-learning initiatives, forums and consortia to engage with other regulators on the topic of greening central bank operations and managing climate-related risks. It will also contribute to the ongoing debate through research and publications as it continues to develop frameworks, models, scenarios and stress tests to assess climate-related risks in the Mongolian Financial System.

The Bank of Mongolia's **"Greening Vision"** is a forward-thinking strategy that aims to safeguard Mongolia's financial system against the growing impacts of climate change while simultaneously promoting sustainable economic growth. The Bank of Mongolia aims to contribute to the country's transition to a low-carbon economy by integrating climate risks into its wider policy framework and promoting green investment. Ultimately, its **"Greening Vision"** provides a strategic roadmap that not only addresses current climate risks but also ensures that Mongolia can effectively capitalise on opportunities arising within the global shift towards a more sustainable and resilient economic future. By embedding climate considerations at the heart of its financial and monetary policy, the Bank of Mongolia is setting a strong foundation for Mongolia's transition to a greener, more prosperous economy.

