



No. 43/2022

Directional Paper on Transitioning towards Environmental Sustainability
Under the New Thai Financial Landscape

In February 2022, the Bank of Thailand (BOT) issued the Financial Landscape Consultation Paper on Repositioning Thailand's Financial Sector for a Sustainable Digital Economy. The Consultation Paper sets the overall direction in developing the financial sector, with the aim to strike a balance between promoting innovation and managing risks in order to support the transition towards a digital and environmentally-friendly economy.

In continuation to the Financial Landscape Consultation Paper, the BOT has issued this Directional Paper on “**Transitioning towards environmental sustainability under the new Thai financial landscape**” to provide guidelines in driving the financial sector to prepare for environment-related changes while also assisting the business sector and the public in transitioning smoothly towards an environmentally friendly economy, in accordance with Thailand's goal of achieving carbon neutrality and net-zero emission. In driving such a change, both the context and readiness of each business sector must be taken into account, since Thailand is still highly reliant on fossil fuels and still employs traditional technologies that are not yet as environmentally-friendly as they should ideally be. Meanwhile, market mechanisms in the financial system that should incentivize businesses to transition, particularly SMEs, are not yet functioning optimally, which may have an impact on their competitiveness both in the short term and long term.

To ensure the readiness of the financial sector, the BOT has therefore designed a directional plan that takes into account both the timing and speed of such transition, and also strikes a balance between transitioning and the potential impact. In doing so, the business sector should neither be rushed to the point where they are unable to adapt, nor should it be so slow that that they neglect to adapt, resulting in long term negative consequences. The plan therefore consists of the following 5 key building blocks.

(1) **Adjusting the business operations of financial institutions to encourage the offering of products and services that meet the needs of the business sector** by issuing policy guidelines in the third quarter of 2022 for financial institutions' business operations that take into account environmental factors. This would enable financial institutions to incorporate standardized environmental considerations into their operations, while also incentivizing businesses through the provision of credit and financial products and

services that would best accommodate businesses, particularly SMEs, in making their environment-related transitions.

(2) **Establishing a taxonomy that defines and classifies economic activities based on their environmental impact**, in collaboration with both public and private sectors as well as financial institutions. The initial stage would entail classifying activities with high greenhouse gas emission rates e.g. energy and transportation sectors, to be completed by January 2023. This would also serve as a guiding reference for all sectors and help them in evaluating their own environment-related operations.

(3) **Developing data platforms for environment-related data and setting data disclosure standards for financial institutions**, in collaboration with government agencies, the private sector, and financial institutions to systematically develop such platforms beginning in the fourth quarter of 2022. These data platforms would give all sectors sufficient access to the data required to conduct analyses on environment-related opportunities and risks as part of their policymaking, strategy planning, and risk management, as well as to facilitate decisions for investments and consumption of financial products and services that support environmentally-friendly activities.

(4) **Supporting the creation of appropriate incentives** to encourage financial institutions, the business sector, and consumers to recognize the urgency of making environment-related transitions, as well as to alleviate any cost burden that they may incur. In setting an example, the BOT has recently introduced transformation loans under the Soft Loan Emergency Decree to provide low-interest credit lines to SMEs in enhancing their businesses, with environmental aspects being one of the transformation activities that is essential in promoting their competitiveness in the new normal world.

(5) **Enhancing the knowledge management and skills of financial sector personnel through capacity building**, by jointly developing courses with both domestic and international experts with the aim to create awareness and understanding, and improve their capability in assessing environment-related opportunities and risks as well as in providing advisory support to businesses.

Mobilizing all economic sectors to adapt to environment-related changes in a timely manner while averting widespread negative impact would require a collaborative effort and integrated action from the public sector, business sector, and the financial sector. The BOT is therefore prepared to closely cooperate with all sectors in order for the country to achieve its environmental, social, and economic goals in a sustainable manner.

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