



EUROPEAN CENTRAL BANK

EUROSYSTEM

Climate Change and the ECB

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Stylised timeline on the involvement of central banks



- 1** Climate change is identified as a potential risk to financial stability
- 2** The concept of climate risks extends to banking supervision
- 3** Growing debate on the role of monetary policy and portfolios

Climate change and ECB role

Fiscal, industrial and other government policies

Tools

- Firm disclosures, taxonomy
- Carbon pricing
- Climate-related regulations
- Public investments and R&D
- Public guarantees
- Education/cultural policy

ECB's role

- Inform debate with state-of-play analysis
- Lead by example (own financial portfolios, carbon footprint, ...)

Financial policy and supervision

- Financial data disclosure
- Prudential regulation
- Market standards
- Micro- and macroprud. supervision
- Supervisory expectations

- Contribute to shape prudential rules
- Analyse financial stability implications and assess policy measures
- Supervise appropriate governance and risk management arrangements and disclosures

Monetary policy

- Monetary policy instruments
- Monetary policy implementation

- Integrate climate-related considerations in
 - Macroeconomic models
 - Central bank asset portfolios
 - Collateral framework
 - Risk management framework

Climate change and monetary policy strategy

Main questions

- Primary mandate: Increased frequency of supply shocks, impacts of transition policies, possibly lower r^* :
Which implications for monetary policy strategy?
- Should the ECB take a **risk-based** role or should it **act proactively** to support the green transition?
- Is ECB monetary policy **permitted or obliged** to address environmental protection objectives? Why prioritise climate change?

Ongoing projects

- **Review of ECB monetary policy strategy**
- **MPC Workstream on “Climate change and monetary policy”**
 - *analyse implications of climate change for conduct of monetary policy (coord. with MOC and RMC)*
 - *coordinate work within the Eurosystem*

Challenges and next steps

Opportunity and feasibility of monetary policy action to support EU objectives

- Improvement in macro modelling will be essential
- Identify public policies that ECB may support and examples of possible avenues for monetary policy
- Compatibility with **market neutrality** in asset purchases

Climate change and the macroeconomy

Main questions

Macroeconomic effects of climate change and climate policies

- How to incorporate climate change, mitigation and adaptation policies in macro **modelling**?
- What is the macroeconomic impact of **transition and mitigation policies**?

Ongoing projects

Understanding the challenges of modelling climate impacts, adaptation and mitigation

- The impact of climate change and policies on **inflation, long term growth and trade**
- The role of regulation and fiscal policies to address climate change (**efficiency** of fiscal instruments, pass-through of **environmental taxes**, the impact on **public finances**)

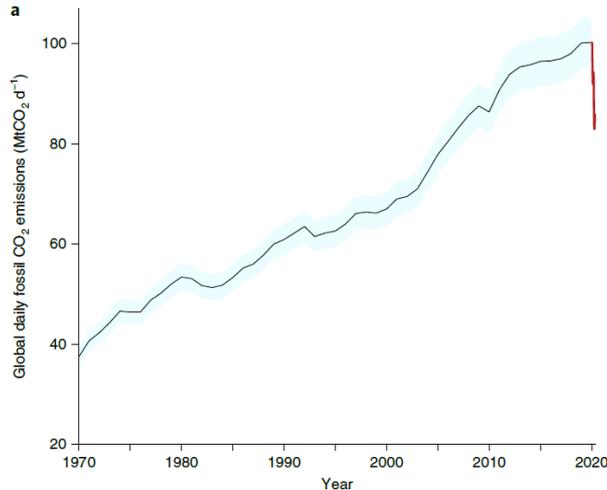
Challenges and next steps

- The integration of climate change and policies in **macro modelling**
- Implications of climate change and climate policies for the **projections and risk assessment**
- Inclusive approach: **all three subgroups of MPC** will contribute to MPC expert group on climate change

COVID-19 crisis and impact on climate change

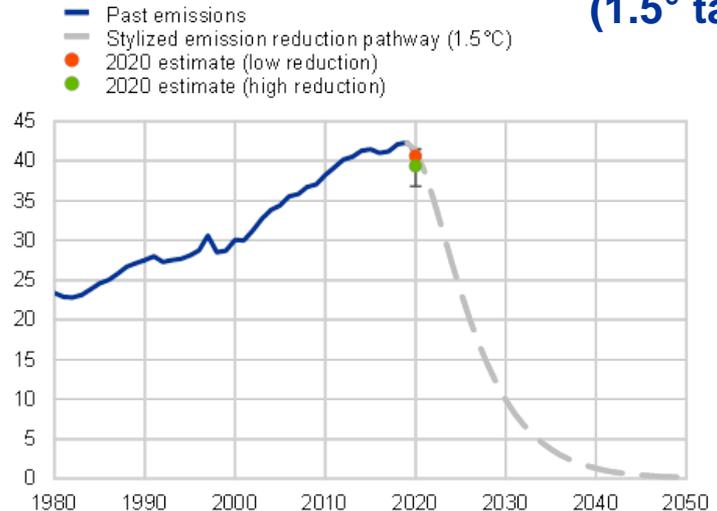
- Expected drop in 2020 global CO₂ emissions of ca. 4-7% annually compared to 2019
- But, limiting global warming to 1.5°C requires decrease in CO₂ emissions of ca. 8% annually
- Recovery from COVID-19 offers opportunities but also entails risks for the green transition

Daily CO₂ emissions



Source: Le Quéré et al.: Temporary reduction in daily global CO₂ emissions during the COVID-19 forced confinement, *Nature Climate Change*, 2020

Annual CO₂ emissions and mitigation curve (1.5° target)



Source: Global Carbon Project

Secondary objective: legal basis in two Treaty provisions

- Art 127[1] TFEU: “[...] **Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union [...].**” Specifically: Art 3[3] TEU: “[...] It shall work for the sustainable development of Europe based on balanced economic growth and price stability, [...], **and a high level of protection and improvement of the quality of the environment.**”
- Art 11 TFEU: “**Environmental protection requirements** must be integrated into the definition and implementation of the Union's policies and activities.”
- In pursuing secondary objectives the ECB shall:
 - not prejudice price stability
 - have discretion to chose which ones to support (no preset hierarchy)
 - not extend the ECB competences (action must not amount to policy-making of its own)
 - “act in accordance” with the open market economy (OME) principle
- **Market neutrality as an expression of OME. Interferences with OME not excluded, but require justification, in light of the secondary objectives, which meets proportionality standards.**
- Can “promoting green finance” be a case to deviate from OME (secondary objective)?