

Global Economy

Central banks and sustainable finance: From exoticism to stoicism

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Ten years after the outbreak of the global crisis that led, among other things, to an unprecedented change in the international supervisory architecture and a regulatory tsunami, do you think anyone anticipated in 2008 that central banks and financial supervisors would be called upon to play a key role with regard to the risks of climate change? I didn't.

Central banks and supervisors consider these risks because there is a non-negligible probability that, if they materialise, they will have an extremely negative impact on the financial system and the real economy: climate change affects the economy, business activity and price stability; impacting on the intermediation of savings and investment. In other words, the risks of climate change (physical, transition and liability risks) are also financial risks (mainly credit and market risks).

For this reason it seems congruent that although central banks and financial supervisors may not lead the transition to a sustainable low-carbon economy (CO₂), they should indeed advocate for the entities covered by their radar to consider and manage these risks in the best possible way. For example, central banks can add value through their analytical capacity to assess and measure risks, and supervisors can help the market place a price on the risks of climate change (something that the market may not do well because of the long lead times and the diversity of these risks).

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), created a year ago during the One Planet Summit in Paris (COP23), has two main objectives: to contribute to the development of an analytical framework for managing the risks of climate change and the environment; and to help the transition towards a sustainable economy. It is made up of twenty-four members and five observers. Among the former we should highlight the European Central Bank (ECB), the European Banking Authority (EBA) and the Banco de España (BdE). Among the latter group, at least the Bank for International Settlements and the World Bank.

The ECB has identified the risks of climate change in its assessment for banking supervision purposes for 2019, and these will be among the issues to be addressed qualitatively with individual banks. In addition, a couple of recent speeches by two of its executive directors suggest a turning point and dispel any doubts about the Bank's position and degree of involvement.

In Spain, it appears that consideration could be given to requiring listed companies and credit institutions subject to the supervisory regime of the BdE to prepare an annual report on the financial risks associated with climate change. In addition, the BdE may have to prepare a biannual document assessing this risk to the Spanish financial system and the policies to combat it.

Recently, the United Nations Climate Change Conference (COP24) was held and the European Commission called for a climate-neutral Europe by 2050. This seems far from easy, given the current starting point and the fact that in 2017 the levels of CO₂ emissions increased again.

On the one hand, the impact of climate change requires urgency and ambition. On the other, the degree of ambition needs to be realistic in order to be able to meet the objectives set. It is vital that promises are kept after they have been made. Thus, any risk-taking has to be consistent with the strategy being followed, which in turn has to be clear, credible and achievable, in order to provide certainty and stability that will allow short-term plans to be drawn up in order to achieve longer-term objectives.

There is a need for commitment and coordination among all the actors involved: central banks, supervisors and regulators, governments, international bodies and the financial industry. They play a key role in ensuring that the transition to an economy less dependent on CO2 emissions is made in an orderly rather than an abrupt manner. They must also make society aware that it is facing these risks and their magnitude. This all adds up to a major challenge.

To paraphrase Zeno, it needs to be seen whether thought is stronger than matter, and willpower more powerful than physical or moral suffering.

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