

TOWARDS SUSTAINABILITY:  
CENTRAL BANKING'S CLIMATE  
RISK RESEARCH IN FOCUS

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# A WATERSHED MOMENT FOR CENTRAL BANKS

## **Growing concern**

**64%** of participants said climate change is a concern they are closely monitoring

**27%** said it is a relevant topic, but for other institutions to tackle

# RELUCTANCE TO ADD CLIMATE CHANGE GOALS TO MANDATES

**68%** of participants said they were not in favour of such a change

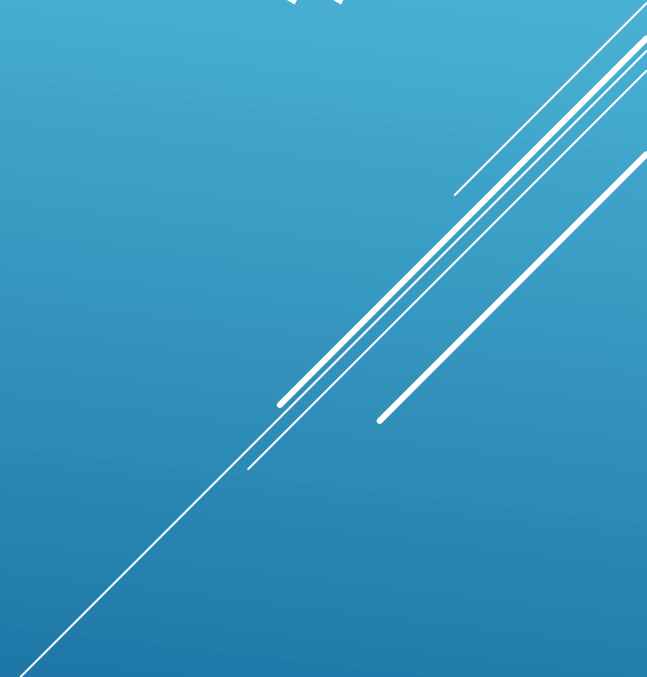
But a meaningful minority of **32%** thought it necessary to incorporate these considerations into mandates

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TO THE EXTENT THAT CLIMATE RISKS ARE PROVEN TO BE RELEVANT TO CENTRAL BANKS' REMITS, IT WOULD HELP IF THIS WAS EXPLICIT IN MANDATES

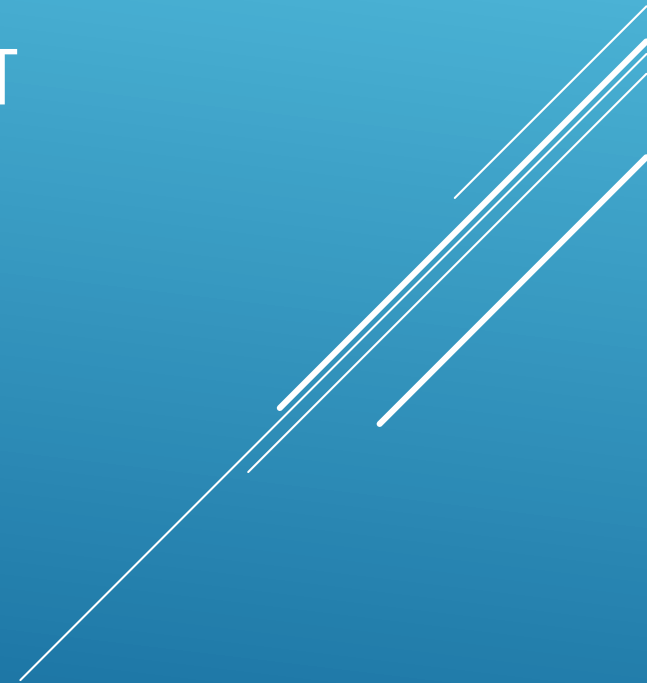
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One participant in favour of modifying mandates



# CENTRAL BANKING

WOULD YOU SUPPORT THE IDEA OF CENTRAL  
BANKS WIDENING THEIR POLICY MANDATE TO  
INCLUDE CLIMATE RISKS WITHIN THEIR CURRENT  
PRICE STABILITY GOAL?



WHAT WOULD BE THE MAIN RISK FOR CENTRAL BANKS ADDING CLIMATE CHANGE RESPONSIBILITIES TO THEIR MANDATES?

- A) It may imperil independence
- B) It could come into conflict with other goals
- C) It would hamper policy communication
- D) All of the above

## CENTRAL BANKS OPEN TO ADOPT GREEN PRINCIPLES IN RESERVE MANAGEMENT

**69%** were in favour of these measures

**39%** said these strategies would yield both social and financial benefits

**30%** only saw social benefits and failed to see an obvious financial gain

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SUSTAINABILITY ISSUES ARE IMPORTANT, AND CENTRAL BANKS – BEING AMONG THE LARGEST OFFICIAL SECTOR INVESTORS – SHOULD EXPLORE THE SOCIAL IMPACT OF INCORPORATING ESG CRITERIA INTO THEIR INVESTMENT DECISIONS

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One participant summarized the overall responses



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AT THIS MOMENT IN TIME THE ACADEMY AND  
INDUSTRY RESEARCH IS INCONCLUSIVE ON  
THE FINANCIAL GAINS DERIVED FROM TAKING  
THEM INTO ACCOUNT

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## RIKSBANK SELLS AUSTRALIAN AND CANADIAN REGIONAL BONDS

Total federal and regional bonds from these countries represent around 8% of Sweden's over 500 billion krona (\$51.3 billion)

They yield higher returns and greater risk diversification

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AUSTRALIA AND CANADA ARE COUNTRIES THAT ARE NOT KNOWN FOR GOOD CLIMATE WORK. GREENHOUSE GAS EMISSIONS PER CAPITA ARE AMONG THE HIGHEST IN THE WORLD, BUT VARY CONSIDERABLY BETWEEN THE DIFFERENT STATES.

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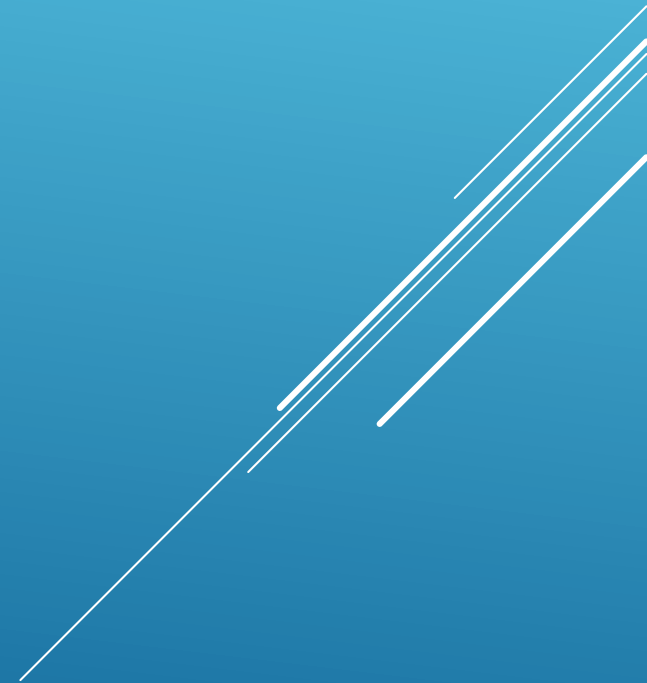
Risikbank deputy governor Martin Flodén

## LIMITED SCOPE

The central bank acknowledged its international reserve portfolio will remain dominated by US and German government debt. Therefore, “the Riksbank’s contribution to a better development of the climate will therefore remain small”

DO YOU THINK EXCLUDING SOVEREIGN-DEBT  
ASSETS FROM RESERVES PORTFOLIOS BASED ON  
ENVIRONMENTAL CONSIDERATIONS MAY  
COMPROMISE INDEPENDENCE?

IS YOUR INSTITUTION SEEKING TO DEVELOP STRATEGIES GOING BEYOND THE EXCLUSION OF ASSETS? FOR EXAMPLE ACCESSING TECHNOLOGY SOLUTIONS SUCH AS UNCONSTRUCTED DATA ANALYTICS



## BROAD CONSENSUS, CLIMATE CHANGE IMPERILS FINANCIAL STABILITY

A clear majority of 79% of respondents said their institutions think environmental risks threaten the financial system

However, only 3% say their central banks take into account these risks in their stress tests

## ECB DEVELOPING A CLIMATE RISK STRESS TEST ANALYSIS

Macroprudential exercise, will first analyse transition risks for banks' solvency, and lending capacity. Final goal to incorporate physical and transitional risks, to better understand their interaction



# CENTRAL BANKING

DO YOU AGREE WITH THE NOTION THAT  
STRESSING ENVIRONMENTAL RISKS IN  
SUPERVISION, CENTRAL BANKS MAY  
OVERLOOK CURRENT RISKS?

A) Yes

B) No

# CENTRAL BANKING

WOULD YOU SUPPORT THE IDEA OF CENTRAL BANKS REQUIRING ESG COMPLIANCE IN THE COLLATERAL THEY ACCEPT WITHIN THEIR REFINANCING OPERATIONS?

A) Yes

B) NO

## IF NOT, WHAT WOULD BE YOUR MAIN RESERVATION?

- A) This policy would always hamper monetary policy transmission, reduce liquidity and tighten financial conditions
- B) It could be implemented in the future, but it is currently too soon given there is no standard definition for ESG assets

**CENTRAL  
BANKING**

THANK YOU VERY MUCH

