EUROPEAN CENTRAL BANK

EUROSYSTEM

Sustainability and financial stability

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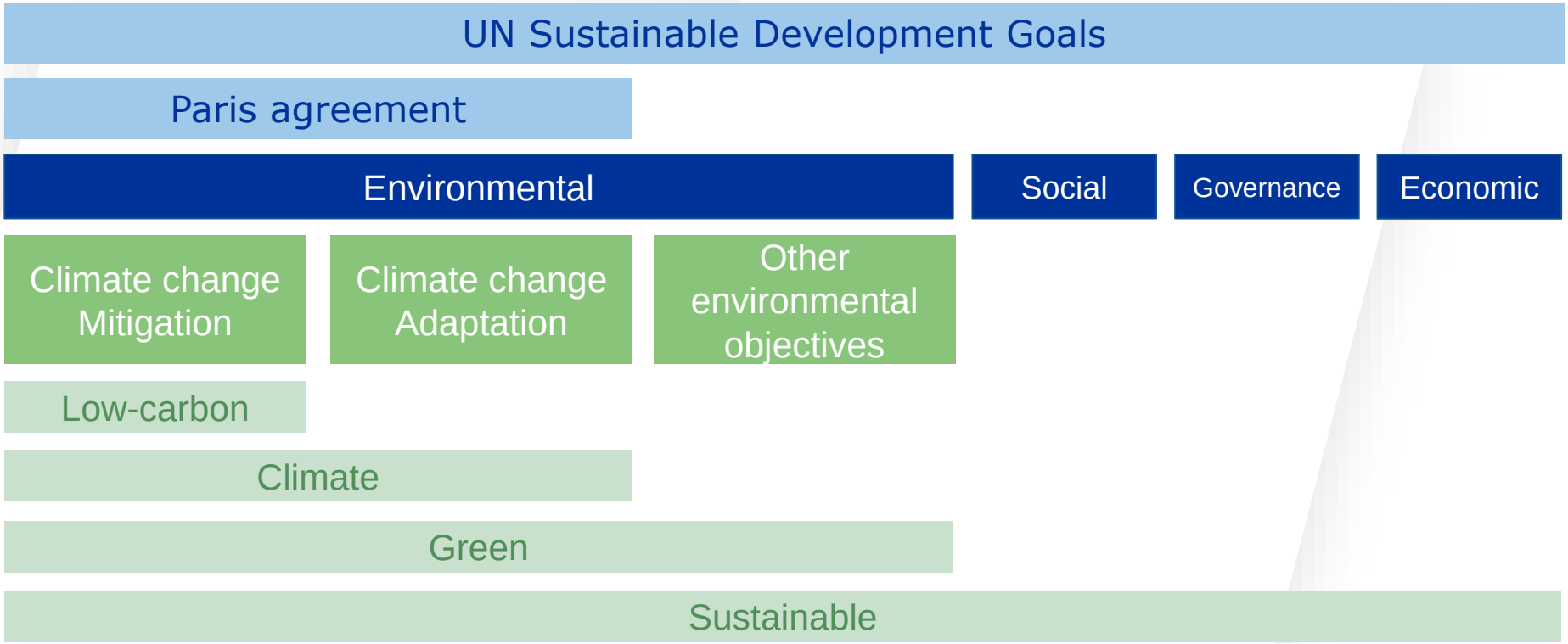
***Disclaimer**: The views expressed in this presentation are those of the presenter only and do not necessarily represent those of the ECB*

Sustainability is not only about the climate…



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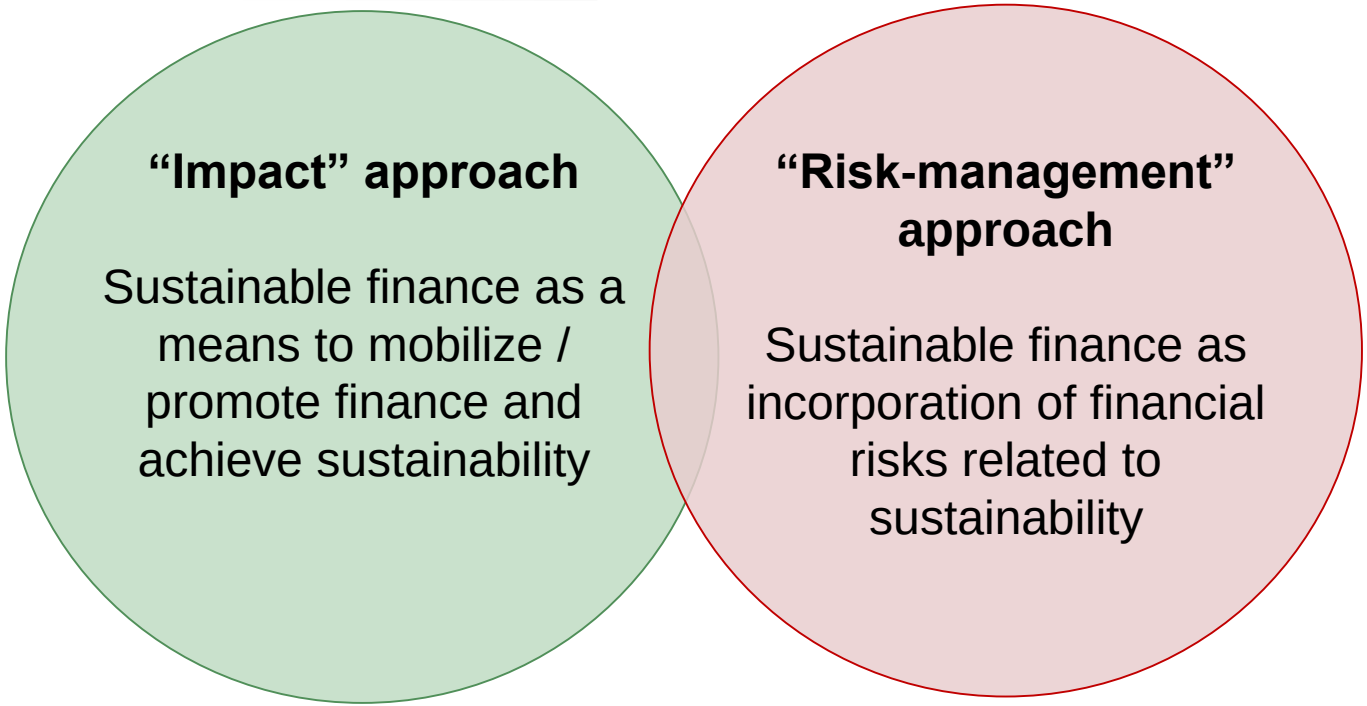
Two ways of looking at sustainable finance



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Sustainability matters for financial stability

Physical risks: risks arising from climate and weather-related events as a result of high global temperatures

Transition risks: risks arising from the process of adjustment towards a low-carbon economy

Mark Carney, *Breaking the tragedy of the horizon* (2015)

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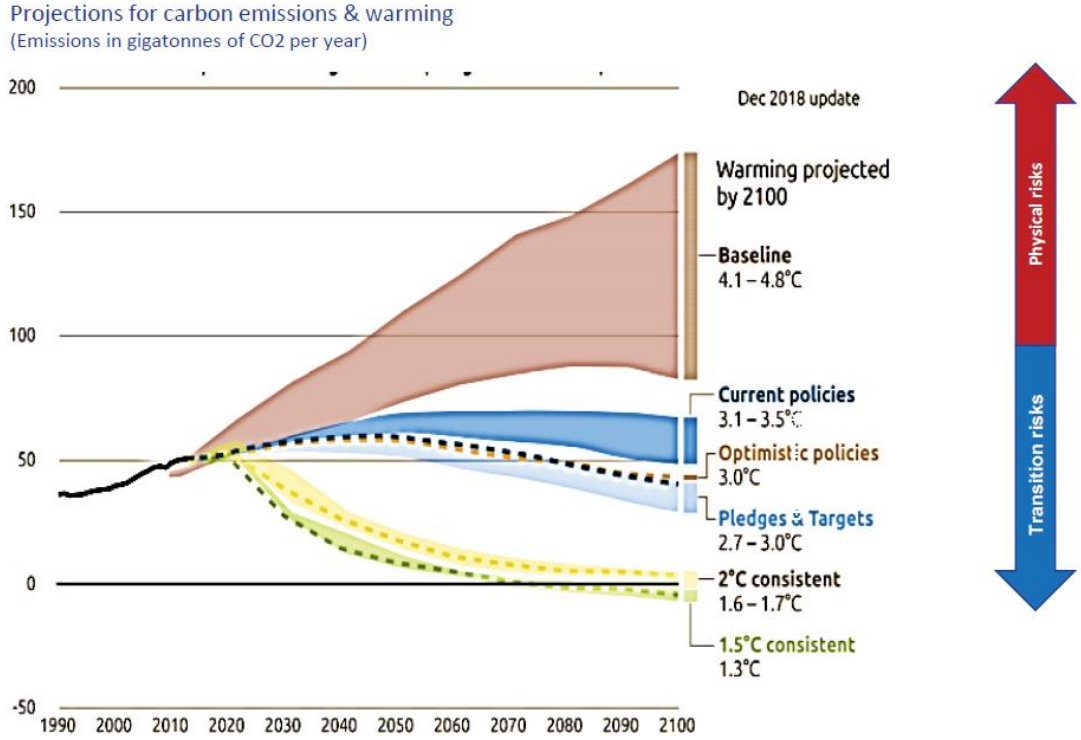
Highly uncertain but potentially disruptive impact from physical and transition risks



Source: Climate Action Tracker, Warming Projections Global Update, Dec 2018.

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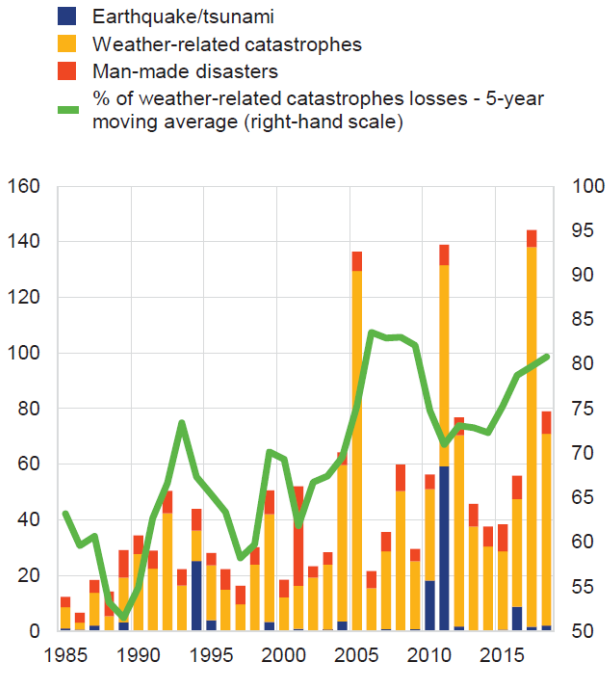
Extreme wheatear events (and their costs) are increasing

Global insured catastrophe losses

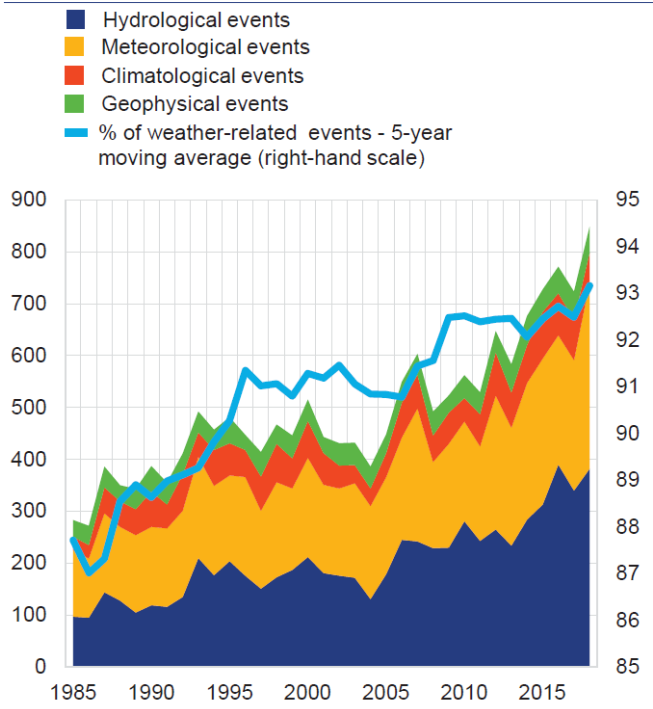
left-hand scale: USD billions; right-hand scale: percentages;



Sources: Swiss Re Institute, Munich Re NatCatService and ECB calculations.

Natural loss events worldwide

left-hand scale: number of events; right-hand scale: percentages



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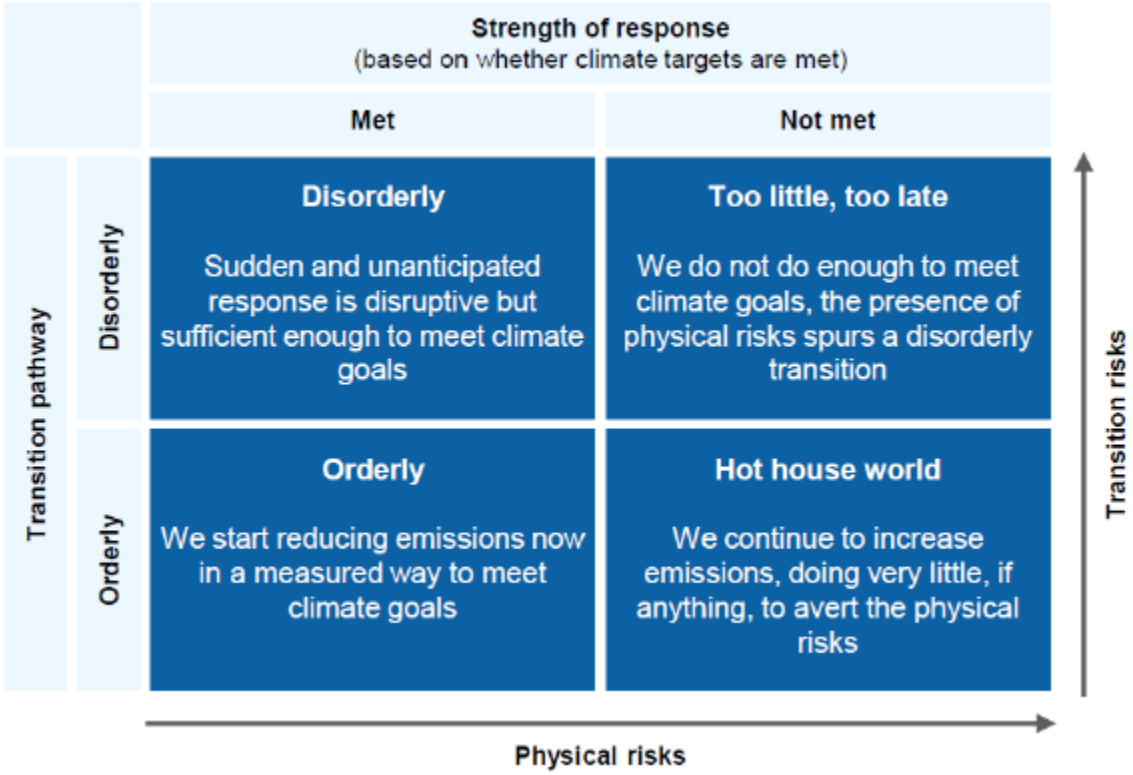
Impact on fin. stability depends on policy response



Source: NGFS: First comprehensive report, April 2019.

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What are central banks and supervisors doing?

NGFS
Central Banks and Supervisors
Network for Greening the Financial System

As of November 28th 2019, the NGFS consists of **51 members** and 12 observers, representing **5 continents**

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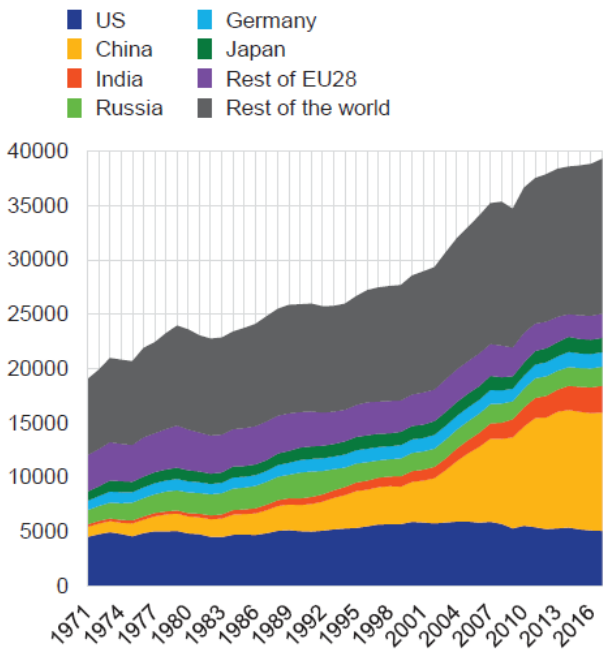
Country-level perspective

CO2 emissions over time

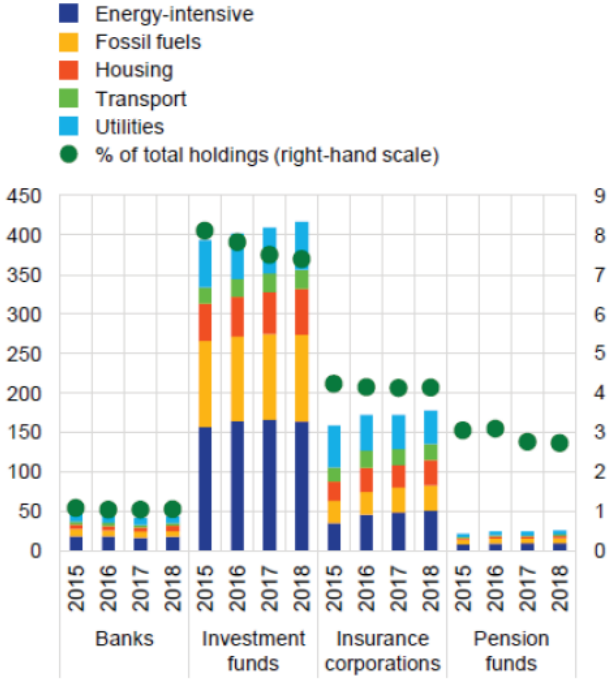
Thousands of tonnes



Sector-level perspective

Evolution of investment exposures to climate-sensitive sectors

left-hand scale: € billions; right-hand scale: % of total holdings



Sources: Sources: EDGAR, SUP. (LHS chart). RHS chart = ECB supervisory statistics, European Commission EDGAR dataset, Eurostat, ECB SHSS, ECB CSDB and ECB calculations. Notes: Left panel: the share of carbon emissions is calculated from Eurostat data on air emissions accounts by NACE activity, which cover the EU28, Turkey and Serbia. Electricity and gas supply also includes steam and air conditioning supply. Right panel: the classification of climate-sensitive assets follows the approach of Battiston et al. (2017). Sectoral holdings are classified according to the NACE categorisation in the ECB's Centralised Securities Database (CSDB).

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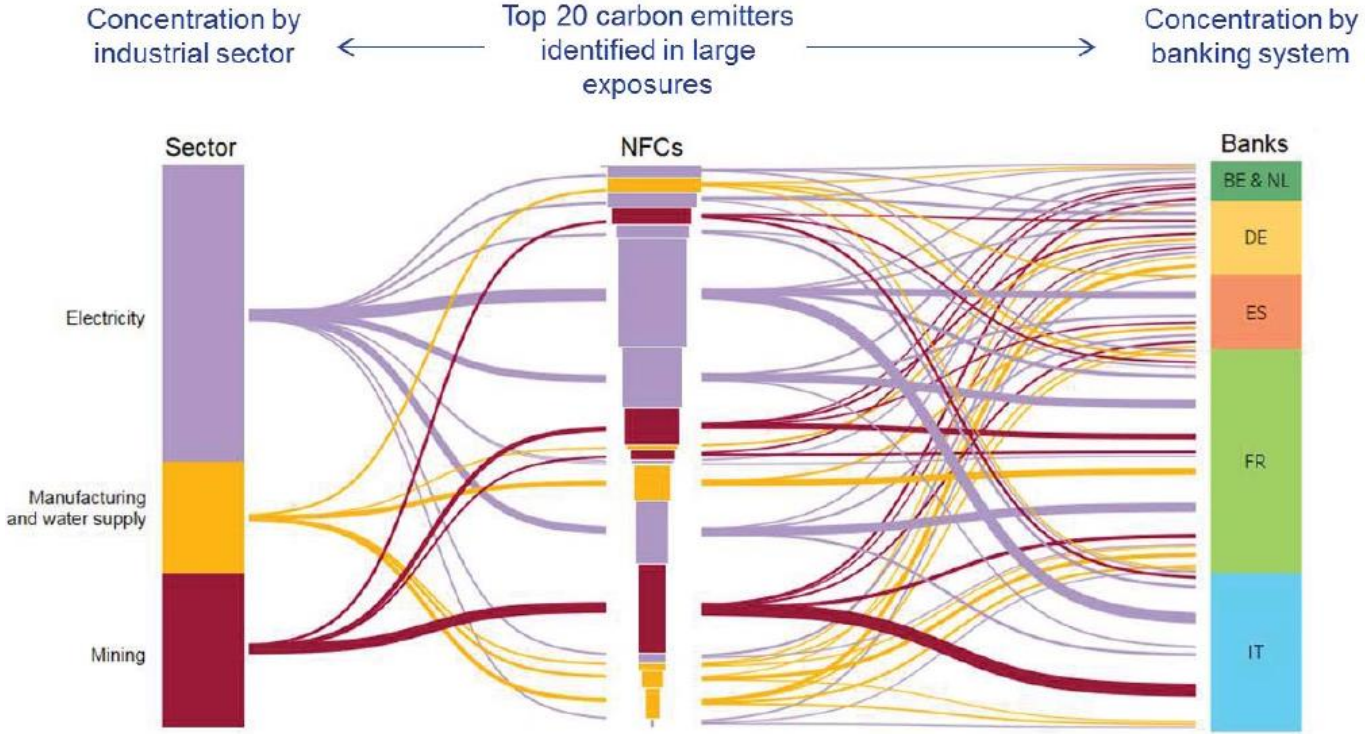
Individual bank level



Sources: Thomson Reuters, ECB supervisory statistics (large exposures) and ECB calculations.

Notes: The top 20 carbon-emitting companies reported in the large exposures dataset. The companies are ranked in descending order according to their total carbon emissions over the last three years (middle bar); the height of the NFC (non-financial corporation) rectangles represents total loans extended to the respective corporation, whereas the width of the rectangles represents the carbon emissions of the corporation. The NFCs are classified according to the NACE categorisation (left bar). The chart is intended only for illustrative purposes.

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Major data gaps and methodological challenges

- Lack of granular data (harmonized corporate disclosure)
- Lack of common classification of assets/economic activities (taxonomy)

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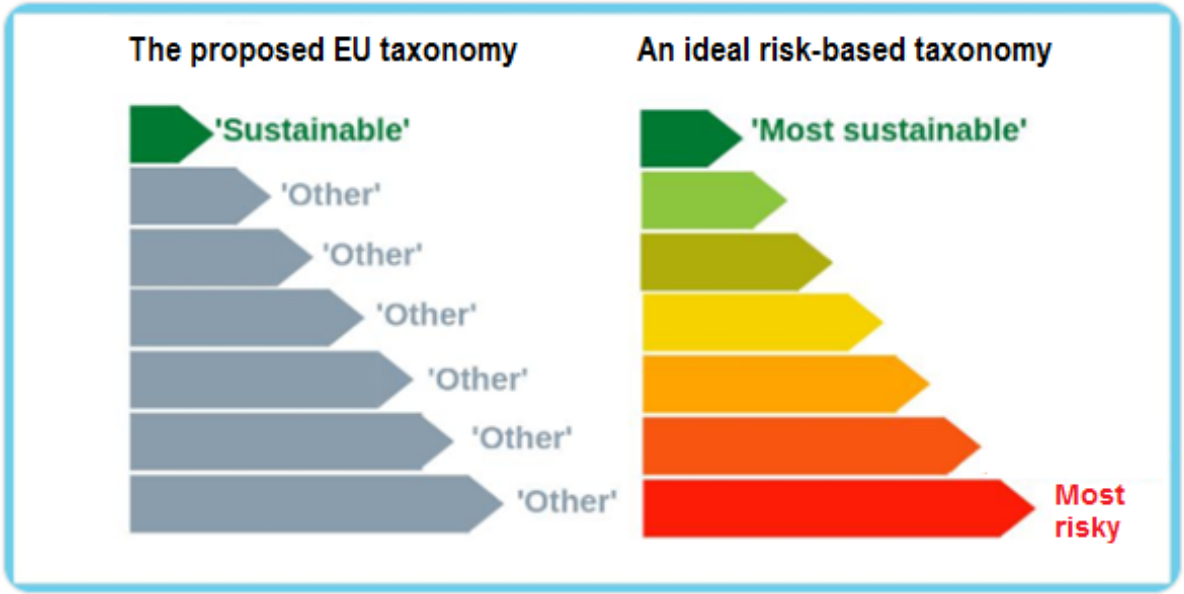
The EU Taxonomy: fit for use for risk-management?



Source: own elaboration based on WWF

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Major data gaps and methodological challenges

- Lack of granular data (harmonized corporate disclosure)
- Lack of common classification of assets/economic activities (taxonomy)
- Need for forward looking analysis: feedback between policies and outcomes

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Conclusion

Sustainability relevant for financial stability

- Most immediate focus on climate change and related risks
- Climate change may have significant impacts on the economy, both directly and indirectly through the actions taken to address it
- Supervisors and central banks are increasingly aware. Global network
- Work is ongoing but important analytical and methodological challenges

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Thank you for your attention!

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