Monetary policy and climate change

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It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred.

(IPCC 2021)
The economic perspective of climate change

• Problem stems from the failure to put a price on a negative externality, the emission of greenhouse gases.

• The best policy response is therefore to put a *global* price on carbon

• Climate policy need to cause a change in the *relative price* between goods and services that emit greenhouse gases and those that don’t.
Should central banks contribute to mitigating climate change?

- Research
- Regulation
- Re-adjustment of balance sheet tools
Climate changes affects the economy – new challenges for monetary policy

**Physical risks**
- Extreme weather events
- Gradual warming

**Transition risks**
- Carbon taxes
- Changed consumption patterns

**Economic effects**
- Inflation och inflation expectations
- Output and employment in the short and long run
- Long-term real interest rate

**Challenges for monetary policy**
- Temporary versus structural changes
- Major unpredictable shocks
- Monetary policy room for manoeuvre
- Impact of monetary policy

**Risks of tipping points**
- Rainforest decimation
- Melting icecaps
Example: Climate change and inflation?

Note. Annual percentage change and percentage points respectively. Sources: Statistics Sweden and the Riksbank.
Should central banks contribute to mitigating climate change? – the potential tools

- Research
- Regulation
- Readjustment of balance sheet tools
Regulation - international cooperation is key
Should central banks contribute to mitigating climate change?

- Research
- Regulation
- Re-adjustments of balance sheet tools
FX Reserves: The Riksbank rejects issuers with a large climate footprint

Note. Greenhouse gas intensity = GHG (kt CO2e) / GDP (mm USD). Striped bar shows country average.

Source: The Riksbank.
Large scale asset purchases: Negative screening ESG for corporate bond purchases

Note. Available data for companies that comply with the Riksbank’s purchase criteria. Three companies has been removed due to lack of data.

Report emissions

Sources: Bloomberg, Sustainalytics and the Riksbank.
Large scale asset purchases: Negative screening ESG for corporate bond purchases

Listed companies

Non-listed companies

Note. Available data for companies that comply with the Riksbank's purchase criteria.

Sources: Bloomberg, Sustainalytics and the Riksbank.
Concluding comments

• Climate change is a threat to price and financial stability

• Climate change affects income inequality

• Climate change mitigation opens up questions regarding interaction between monetary and fiscal policy
Thank You