Climate stress-testing

Lucia Alessi
Team Leader – Financial Research
European Commission – Joint Research Centre

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Climate risk assessment toolkit

Scenario analysis

**Long term:** 30 years
**Objective:**
Structure thought on implications of policy-induced emission pathways.

- How might policy-induced climate paths impact the fin. system?
- Provide forward-guidance to financial sector

Efficacy / feasibility assessment

**Medium term:** 5-8 years
**Objective:**
Identify bottlenecks to the green transition.

- Are households constrained?
- Are climate-risks macro-critical factors (impact on sovereign)?
- Efficacy of the financial system to finance green transition

Climate stress test

**Short term:** 3-5 years
**Objective:**
Assess short-term vulnerabilities of the financial system.

- Key tool for policy
Challenge #1: nature of the shocks

• Need to evaluate short-run consequences of long-run risks

• In traditional stress testing the negative shock hits the real economy, then we look at impacts on the financial system

• Climate-related shocks spreading via the real economy and hitting the financial sector: not credible in the short-term

  • Policy implementation is always very gradual
  • The will be winners and losers, but no negative impacts at the aggregate level
Challenge #2: granularity of the data

- Need for firm-level data

- Winners and losers can be within the same sector
  - E.g. energy

- Even within high-carbon sectors firms can be green
  - E.g. cement and steel

- Labelling entire sectors as ‘doomed’ sends the wrong message: we need to finance the transition of those sectors
Thank you

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