




EUROPEAN CENTRAL BANK

EUROSYSTEM

Climate change and monetary policy: how far have we come?

Civil Society
Seminar Series

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1.

ECB's action plan

Including climate considerations in
monetary policy

Relevance of climate change for monetary policy

Climate change and the green transition **impact** macroeconomic indicators such as **inflation**, growth and employment, financial stability, and the **transmission of monetary policy**



Climate change affects the value and risk profile of assets on Eurosystem balance sheet, thereby leading to **greater climate-related financial risk**



A year ago, the ECB Governing Council committed to:



Incorporating climate change considerations into its **monetary policy framework and operations**

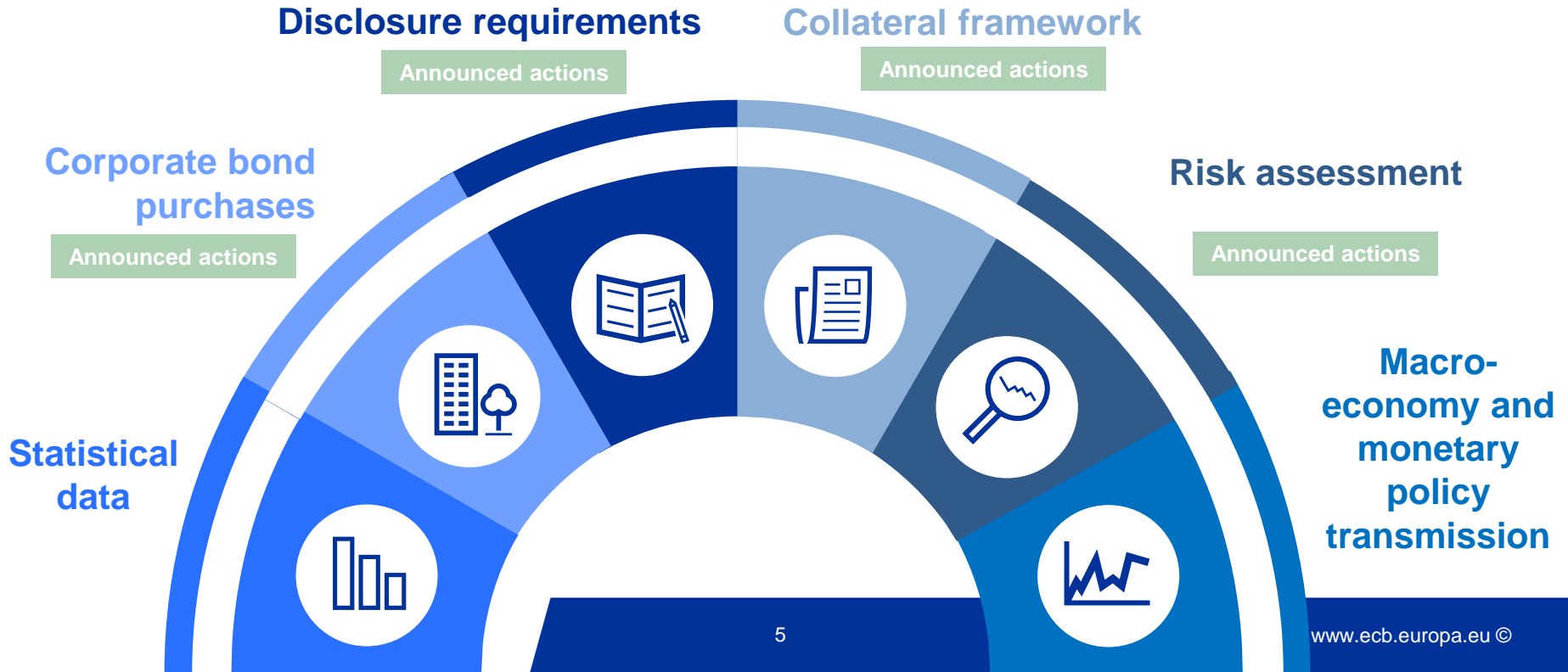


Expanding analytical capacity in modelling and forecasting the economic and financial effects of climate change and green transition



Implementing the action plan in line with progress on EU policies and initiatives in **environmental sustainability disclosure and reporting**

ECB action plan on climate change: Focus areas for monetary policy framework





2.

Update on the implementation of the action plan

Announced policy actions to incorporate climate change in monetary policy implementation framework

Climate action in monetary policy implementation – today's announcements

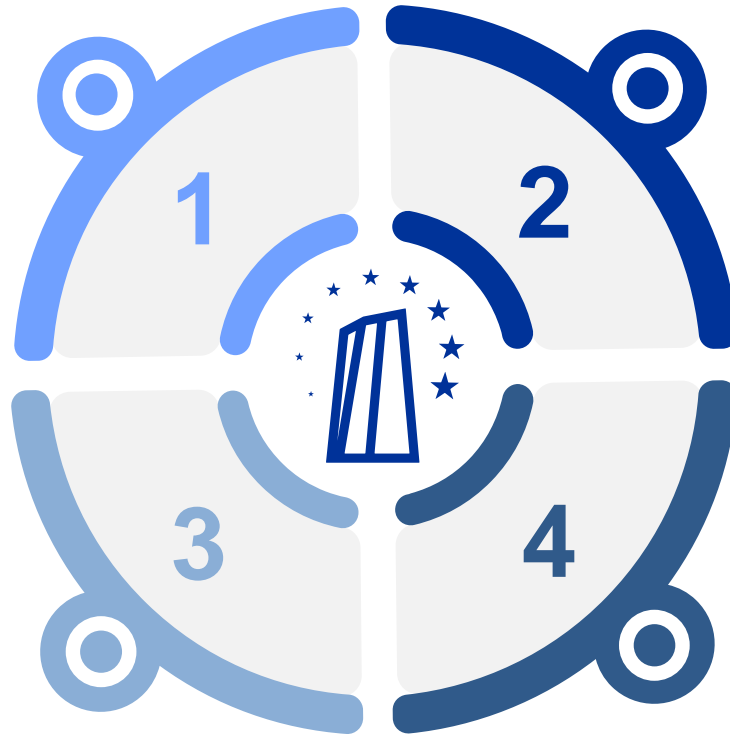
Corporate bond purchases

Adjustment of market capitalisation benchmark to account for climate change factors

Collateral framework

Collateral pool composition limits

Integrate climate change risks in haircut reviews



Disclosure requirements

CSRD-based disclosure requirements for issuers

Promote harmonized climate disclosures for structured finance (not in scope of CSRD)

Risk assessment

Engage for more transparency in credit ratings

Common standards for Eurosystem in-house credit assessment systems

Corporate bond holdings

- **Gradual decarbonisation** of the portfolio, on a path aligned with the goals of the Paris Agreement
- Reinvestments will be tilted towards issuers with better climate performance
 - Market capitalisation benchmark tilted in favour of issuers with lower carbon emissions, more ambitious reduction targets and better climate-related disclosures
- Implementation expected as of October 2022
- Annual publication of climate-related information on corporate bond holdings regularly as of first quarter of 2023



Climate-related disclosure requirements

- Eurosystem will only accept marketable assets and credit claims as collateral in Eurosystem credit operations from companies and debtors that are **CSRD-compliant**
 - CSRD = Corporate Sustainability Reporting Directive
 - Applies to all companies within the scope of CSRD
 - Expected application as of 2026 – following full implementation of CSRD
- Support to better and harmonised disclosures of climate-related data for **asset-backed securities and covered bonds**
 - These assets do not fall under the CSRD but are significant for Eurosystem collateral framework
 - Close engagement with relevant authorities



Collateral framework

- **Limits to collateral pools:** For individual counterparties, Eurosystem will limit the share of high-carbon assets that they can mobilise as collateral when borrowing from the Eurosystem
 - Applicable to marketable debt instruments issued by non-financial corporations first – additional asset classes may be included once data quality improves
 - Application expected by end-2024
 - Test runs to help early preparation
- Climate change risks included in Eurosystem's **regular reviews of haircuts** applied to corporate bonds used as collateral



Risk assessment

- Eurosystem urges **rating agencies** to
 - Increase transparency about how climate risks are incorporated in credit ratings and
 - More ambitious disclosure requirements on climate risks
- Close dialogue with relevant authorities
- Internally, Eurosystem has agreed on common minimum standards for considering climate-related risks in national central banks' **in-house credit assessment systems**
 - Expected application by end-2024





Annex

Climate change - Eurosystem roadmap I

Focus area	2021	2022	2023	2024
Macroeconomic projections	Introduce assumptions on carbon pricing Evaluate impact of climate-related fiscal policies on the baseline			
Macroeconomic modelling and scenario analyses		Integrate climate risks into ECB models and assess impact on potential growth Scenario analyses on transition policies Model implications for monetary policy transmission		
Statistical data	Develop indicators on green financial instruments Construct indicators on portfolio exposures of financial institutions to physical risks Derive carbon footprint indicators of portfolios of financial institutions		Develop new statistical collections related to climate change	
Market neutrality and efficiency concepts	Assess potential biases in market allocation and the pros/cons of alternatives	Alternative proposals with focus on corporate sector purchases (CSPP)		

Climate change - Eurosystem roadmap II

Focus area	2021	2022	2023	2024
Disclosures as eligibility requirement (in line with EU policies)	<i>[Memo item: Proposal and adoption of EU disclosure regulation]</i>		<i>Entry into force (now only 2024)</i>	<i>First disclosures in 2026 for 2025 data</i>
		Design and (operational and legal) preparations	Adaptation period	Enter into force
Climate stress test of Eurosystem balance sheet	Prepare data and methodology	Pilot climate stress test	Regular climate stress tests	
Credit ratings for collateral and asset purchases	Assess how credit rating agencies incorporate climate change in ratings and disclosures Develop minimum standards for internal ratings		Potentially introduce climate change-related requirements into Eurosystem Credit Assessment Framework	

Climate change - Eurosystem roadmap III

Focus area	2021	2022	2023	2024
Collateral framework	<p>Review valuation and risk controls to ensure climate change risks are reflected</p> <p>Assess financial innovation related to environmental sustainability</p>	<p>Monitor adequacy of valuation and risk control frameworks from climate change perspective</p> <p>Potentially design and implement changes</p>		
Corporate asset purchases	<p>Enhanced due diligence to incorporate climate change risks</p> <p>Prepare climate-related disclosures of corporate asset purchases (CSPP)</p> <p>Develop proposals to include climate change in CSPP</p>	<p>Adapt framework</p>		