

## 2021 CAPP International Conference

**Solidarity, Cooperation and Responsibility: the antidotes to fight injustices, inequalities and exclusions**

**Session 2 - *The role of cooperation between nations and peoples in the pursuit of a fairer, more supportive and inclusive new world***

**Roundtable 12.15-1.00 pm: *Abstract opening remarks Irene Heemskerk*** – Head of the Climate Change Centre, European Central Bank

***Title: Cooperation in economics is possible in addressing the climate crisis? The role of the ECB***

Ladies and gentlemen,

It is a great honour and pleasure to be here with you today to discuss the important topics of Solidarity, Cooperation and Responsibility.

My contribution to today's discussion is on cooperation in economics in addressing the climate crisis and the role of the ECB. As head of the climate change centre at the ECB, I would like to share my personal experiences and personal views.

I would like to start with a quote:

“If the present growth trends in world population, industrialisation, pollution, food production, and resource depletion continue unchanged, the limits to growth on this planet will be reached sometime within the next one hundred years.

You might think that this quote comes from the latest report from the IPCC, the intergovernmental Panel on Climate Change. However, this quote is nearly 50 years old. It is one of the conclusions of the report “Limits to growth” of the Club of Rome, published in 1972. This Club of Rome was founded in 1968, at the Accademia dei Lincei, just a few kilometres south from here.

The Club of Rome rang alarm bells nearly 50 years ago that the impact of our lifestyles and economies would hit the boundaries what the planet can offer us, within one, two, three generations. Still, over the past half decade we have been heading blindly in the same direction of the fata morgana, the illusion of endless resources. Can we than only conclude that we have failed miserably in taking a joined responsibility for our lives, our planet, our children's future, that we have failed miserably in cooperation?

No doubt that we are late. The latest IPCC report published in last August concluded that climate change is widespread, rapid, and intensifying. Over summer we have seen wildfires in Greece and Italy, floods in Germany, Belgium and the Netherlands, heat records in Canada, droughts in Iraq and many many more extreme weather events all over the globe. All events that have devastating effects on people living in those areas and causing widespread destruction and major damage to agriculture and food production. Some say

that we are the first generation to see the widespread impact of the climate crisis unfold before our eyes, and yet we are the last one to be able to address it. So yes, we are late, very late. Very soon it will be too late. Therefore we need cooperation now more than ever. As climate change affects all of us, every continent, every country, every human being, we need cooperation on a global, regional, national level, by all actors.

In this introductory remarks, I will set out:

1. Why climate change is also relevant for economies and central banks
2. How we are cooperating
3. What we at the ECB are doing ourselves to address climate change

### **Why climate change is also relevant for economies and central banks**

- Climate change is a source of financial risk
  - physical risks (acute and chronic), include extreme weather events – such as heatwaves, landslides, floods, wildfires and storms – but also longer-term and more structural climate shifts. The latest edition of the ECB's Financial Stability Review finds that around 80% of European banks are already exposed to climate-related physical risks
  - Transition risks, caused by the climate crisis. They include all costs associated with making the adjustment to a low-carbon or a net-zero economy. Reducing emissions is likely to have a significant impact on all sectors of the economy, particularly financial asset values.
- **While governments are in the driving seat when it comes to climate policies, within our mandates we as central bankers and supervisors have a key role to play.**
  - More extreme weather events, more frequent and disruptive, economic shocks are also likely to become more frequent. This, in turn, can expose the economy to greater volatility in output and prices.
  - At the same time, as transition policies start to penalise carbon-intensive sectors and consumer preferences change, asset prices may fluctuate and large volumes of stranded assets may be generated, all of which will reverberate through the financial markets and the banking sector.
  - When the financial system is weakened, the transmission of monetary policy may be impaired.
- Whatever combination of physical and transition risks materialises, the macroeconomic consequences and financial risks resulting from the climate and environmental crisis will be profound. These consequences lay squarely in the realm of the mandates of central banks and supervisors and require us to act now.

### **How we are cooperating**

- Through existing institutional frameworks
- Creating new networks, club of the willing – the Network for Greening the Financial System

### **What we at the ECB are doing ourselves to address climate change**

- The ECB has been systematically and consistently integrating climate and environmental considerations into its activities, including our monetary policy

and banking supervision mandates, the management of our non-monetary policy-related balance sheet and the conduct of all our operational tasks.