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Central Bank of Ireland

Eurosystem

Climate change, the financial system and the role of central banks

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Key points

- The financial system can – and has to – play a key role in the transition to a low-carbon economy
- For this to happen, the financial system itself needs to be resilient to climate-related risks.
- Central banks globally – including the Central Bank of Ireland – are working together towards a climate-resilient financial system.



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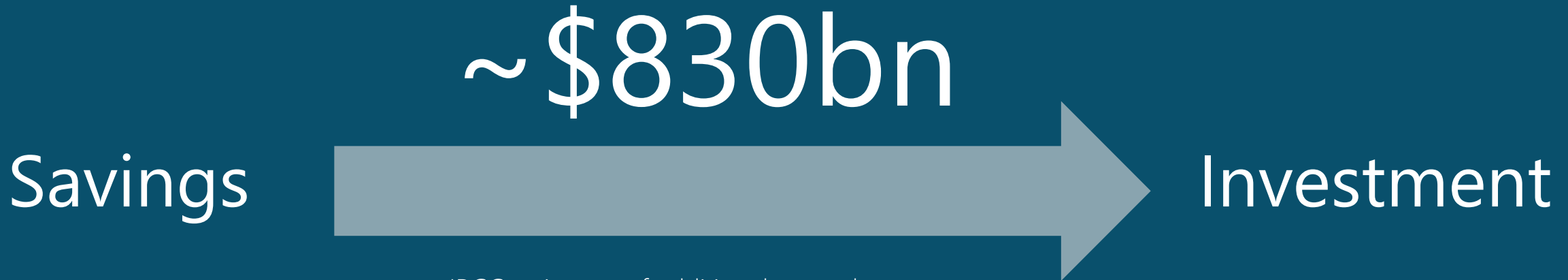
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Financing the transition

- Investment is needed to finance the transition to a low-carbon economy, for example, through:
 - *Developing* new, disruptive innovations, including some that we may not already have thought about, such as different ways of capturing and storing carbon;
 - *Expanding* the use of technologies that help reduce our dependence on carbon, including those that rely on cleaner sources of energy;
 - *Adapting* existing infrastructures, such as retrofitting homes and offices to make them more energy efficient.



Enabling the channelling of savings into sustainable investments



IPCC estimates of additional, annual, energy-related investment needed at a global level – from now until 2050 – to limit warming to 1.5°C.

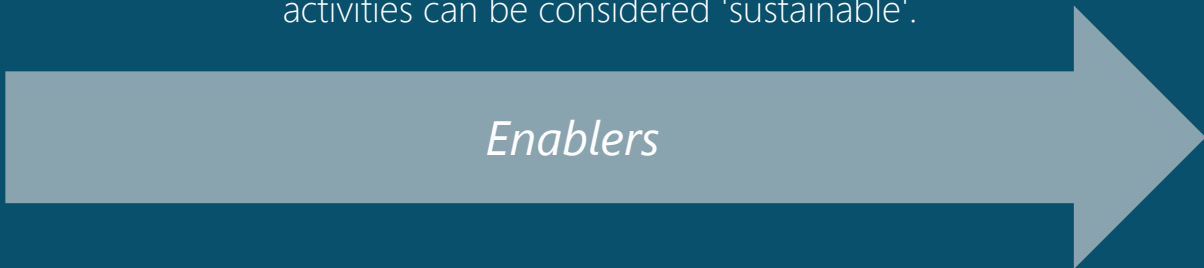


Enabling the channelling of savings into sustainable investments

Definitions

EU taxonomy: A unified classification system – or taxonomy – that will provide clarity on which activities can be considered 'sustainable'.

Savings



Investment

Disclosure

Information to allow investors to genuinely understand and assess the climate-related aspects of different businesses.



Risks to financial stability

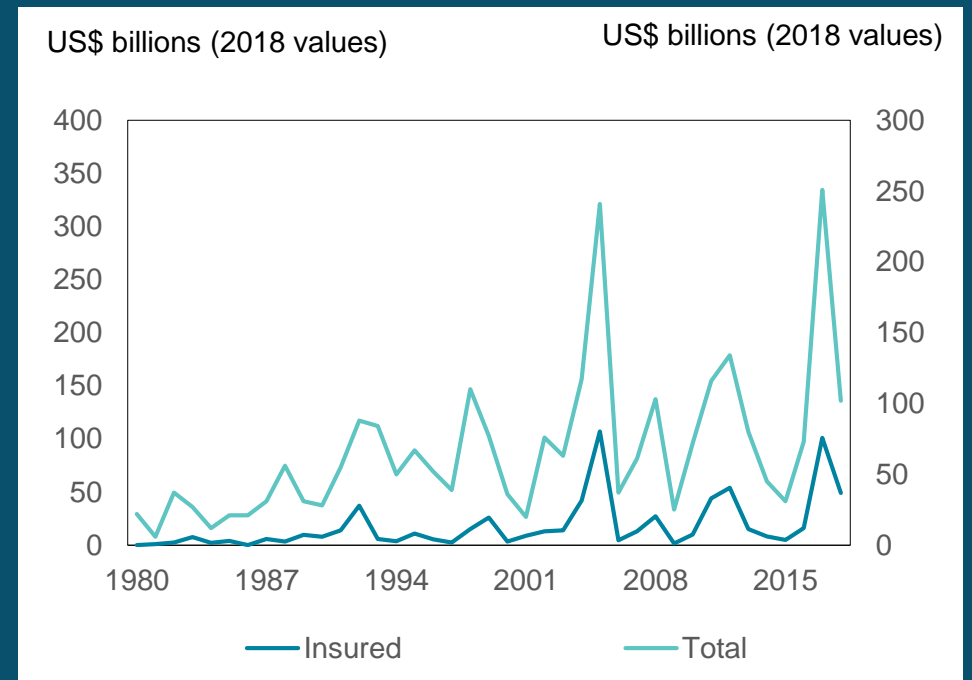
- Climate-related financial risks are unusual for a number of reasons:
 - **Broad based** – Climate change will affect all agents in an economy, across all sectors and all geographies
 - **Foreseeable nature** – High degree of certainty that some combination of risks will crystallize. But precise horizon, nature and scale of these risks highly uncertain.
 - **Planning horizon** – Horizon over which financial companies need to plan to manage these climate-related risks is probably longer than their typical planning cycle.



Physical risks

Risks relating to increased frequency of **extreme events**, like heatwaves, landslides, floods or storms as well as **longer-term structural shifts in our environment**, such as rising sea levels, growing weather variability, or changes in precipitation.

Catastrophic weather-related losses worldwide, inflation-adjusted (1980-2018)



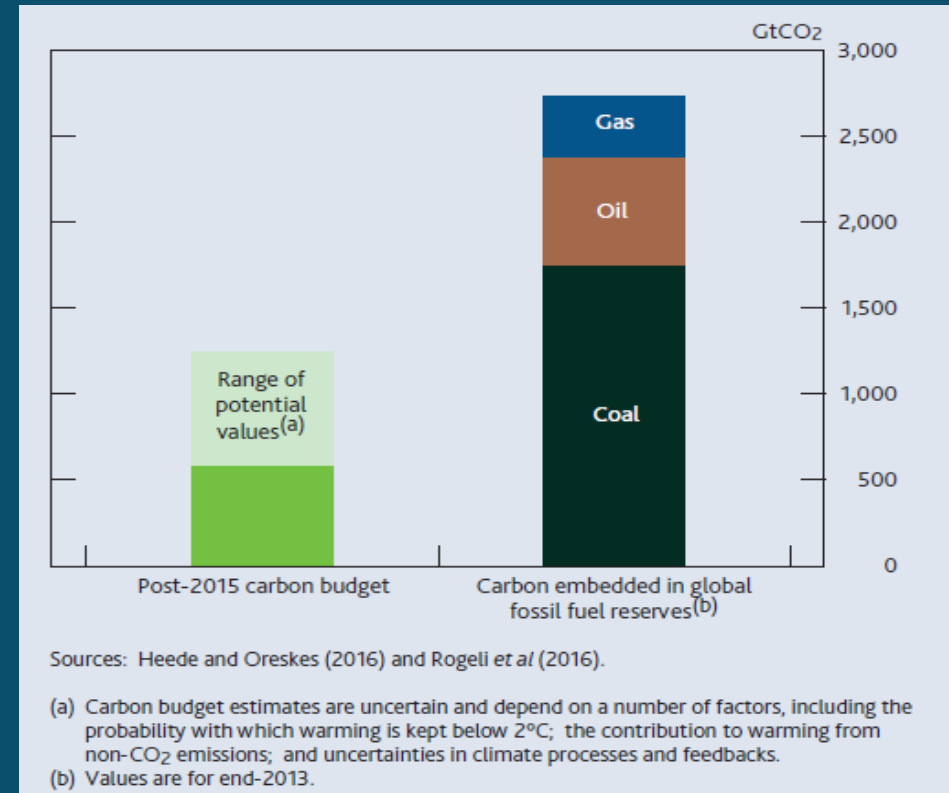
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Transition risks

Risks relating to the **path of adjustment towards a low-carbon economy**. A delayed and abrupt transition could result in significant changes in the valuation of some assets, with adverse implications for the balance sheets of financial institutions and losses for investors.

2°C carbon budget versus carbon embedded in global fossil fuel reserves



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Central banks' role in building a climate-resilient financial system

Central banks globally – including the Central Bank of Ireland – are shifting their own focus. We will increasingly be embedding climate risk issues into our financial stability assessments and supervision.

Key ingredients:

- Better understanding of the transmission channels of climate-related risks, as relevant to Ireland.
- Identifying data gaps on exposures and seeking to fill these.
- Gradually, building our understanding of the potential impact of climate-related scenarios on the financial system.
- Enhancing climate risk management by regulated firms themselves.



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