

# ECB presents action plan to include climate change considerations in its monetary policy strategy

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The ECB's Governing Council is strongly committed:

- to further incorporating climate change considerations into its monetary policy framework;
- to expanding its analytical capacity in macroeconomic modelling, statistics and monetary policy with regard to climate change;
- to including climate change considerations in monetary policy operations in the areas of disclosure, risk assessment, collateral framework and corporate sector asset purchases;
- to implementing the action plan in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting.

The Governing Council of the European Central Bank (ECB) has decided on a comprehensive action plan, with an ambitious roadmap ([see annex](#)) to further incorporate climate change considerations into its policy framework. With this decision, the Governing Council underlines its commitment to more systematically reflect environmental sustainability considerations in its monetary policy. The decision follows the conclusion of the strategy review of 2020-21, in which the reflections on climate change and environmental sustainability were of central importance.

Addressing climate change is a global challenge and a policy priority for the European Union. While governments and parliaments have the primary responsibility to act on climate

change, within its mandate, the ECB recognises the need to further incorporate climate considerations into its policy framework. Climate change and the transition towards a more sustainable economy affect the outlook for price stability through their impact on macroeconomic indicators such as inflation, output, employment, interest rates, investment and productivity; financial stability; and the transmission of monetary policy. Moreover, climate change and the carbon transition affect the value and the risk profile of the assets held on the Eurosystem's balance sheet, potentially leading to an undesirable accumulation of climate-related financial risks.

With this action plan, the ECB will increase its contribution to addressing climate change, in line with its obligations under the EU Treaties. The action plan comprises measures that strengthen and broaden ongoing initiatives by the Eurosystem to better account for climate change considerations with the aim of preparing the ground for changes to the monetary policy implementation framework. The design of these measures will be consistent with the price stability objective and should take into account the implications of climate change for an efficient allocation of resources. The recently established ECB climate change centre will coordinate the relevant activities within the ECB, in close cooperation with the Eurosystem. These activities will focus on the following areas:

**Macroeconomic modelling and assessment of implications for monetary policy transmission.** The ECB will accelerate the development of new models and will conduct theoretical and empirical analyses to monitor the implications of climate change and related policies for the economy, the financial system and the transmission of monetary policy through financial markets and the banking system to households and firms.

**Statistical data for climate change risk analyses.** The ECB will develop new experimental indicators, covering relevant green financial instruments and the carbon footprint of financial institutions, as well as their exposures to climate-related

physical risks. This will be followed by step-by-step enhancements of such indicators, starting in 2022, also in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting.

**Disclosures as a requirement for eligibility as collateral and asset purchases.** The ECB will introduce disclosure requirements for private sector assets as a new eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases. Such requirements will take into account EU policies and initiatives in the field of environmental sustainability disclosure and reporting and will promote more consistent disclosure practices in the market, while maintaining proportionality through adjusted requirements for small and medium-sized enterprises. The ECB will announce a detailed plan in 2022.

**Enhancement of risk assessment capabilities.** The ECB will start conducting climate stress tests of the Eurosystem balance sheet in 2022 to assess the Eurosystem's risk exposure to climate change, leveraging on [the methodology](#) of the ECB's economy-wide climate stress test. Furthermore, the ECB will assess whether the credit rating agencies accepted by the Eurosystem Credit Assessment Framework have disclosed the necessary information to understand how they incorporate climate change risks into their credit ratings. In addition, the ECB will consider developing minimum standards for the incorporation of climate change risks into its internal ratings.

**Collateral framework.** The ECB will consider relevant climate change risks when reviewing the valuation and risk control frameworks for assets mobilised as collateral by counterparties for Eurosystem credit operations. This will ensure that they reflect all relevant risks, including those arising from climate change. In addition, the ECB will continue to monitor structural market developments in sustainability products and stands ready to support innovation in the area of sustainable finance within the scope of its mandate, as exemplified by its decision to accept sustainability-linked bonds as collateral (see [press release](#) of 22 September 2020).

**Corporate sector asset purchases.** The ECB has already started to take relevant climate change risks into account in its due

diligence procedures for its corporate sector asset purchases in its monetary policy portfolios. Looking ahead, the ECB will adjust the framework guiding the allocation of corporate bond purchases to incorporate climate change criteria, in line with its mandate. These will include the alignment of issuers with, at a minimum, EU legislation implementing the Paris agreement through climate change-related metrics or commitments of the issuers to such goals. Furthermore, the ECB will start disclosing climate-related information of the corporate sector purchase programme (CSPP) by the first quarter of 2023 (complementing the disclosures on the non-monetary policy portfolios; see [press release](#) of 4 February 2021). The implementation of the action plan will be in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting, including the Corporate Sustainability Reporting Directive, the Taxonomy Regulation and the Regulation on sustainability-related disclosures in the financial services sector.

## Annex: Detailed roadmap of climate change-related actions<sup>1</sup>

		2021	2022	2023	2024
1.	Eurosystem/ECB staff macroeconomic projections	Introduce technical assumptions on carbon pricing for forecasting and regularly evaluate the impact of climate-related fiscal policies on the Eurosystem/ECB staff macroeconomic projections baseline.			
2.	Macroeconomic modelling and scenario analyses		Integrate climate risks into the ECB's workhorse models and assess their impact on potential growth. Conduct scenario analyses regarding transition policies. Model implications of climate change for the transmission of monetary policy.		
3.	Statistical data for climate change risk analyses	Develop indicators on green financial instruments.		Develop new statistical collections related to climate change.	
		Construct indicators on exposures of financial institutions to climate-related physical risks through their portfolios.			
		Derive indicators on the carbon footprint of portfolios of financial institutions.			
4.	Market neutrality and efficiency concepts in monetary policy operations	Assess potential biases in the market allocation amid market inefficiencies and the pros/cons of alternative allocations.	Make concrete proposals for alternative benchmarks, in particular for the Corporate Sector Purchase Programme (CSPP).		
5.	Disclosures in line with EU policies as an eligibility requirement in collateral framework and asset purchases	Proposal and adoption of EU disclosure regulation.		In force.	First regulatory disclosures covering 2023.
			Design adequate policies and conduct legal and operational preparations.	Adaptation period for issuers.	In force.
6.	Climate stress-testing of the Eurosystem balance sheet	Prepare data and methodology.	Conduct pilot stress test based on the 2021 ECB economy-wide climate stress test and 2022 supervisory climate stress test of individual banks.	Build upon the pilot stress test and introduce regular climate stress-testing.	
7.	Climate change risks in credit ratings for collateral and asset purchases	Assess rating agencies' disclosures and understand how they incorporate climate change risk in ratings.		Introduce requirements into the Eurosystem Credit Assessment Framework (ECAAF) targeted to climate change risk, if warranted.	
		Develop minimum standards for internal credit ratings.			

<sup>1</sup> The pink areas represent external developments that the Eurosystem relies on for the implementation of measures. The blue areas represent Eurosystem actions.

		2021	2022	2023	2024
8.	Climate change risks in the collateral framework	Review collateral valuation and risk control framework to ensure that climate change risks are reflected. Assess financial innovation related to environmental sustainability.	Monitor the adequacy of the collateral valuation and risk control framework to ensure that climate change risks are properly reflected. Design and implement changes, if warranted.		
9.	Climate change risks in the CSPP	Conduct enhanced due diligence to incorporate climate change risks.			
		Prepare climate-related disclosures of the CSPP.			
		Develop proposals to adapt the CSPP framework to include climate change considerations.	Adapt CSPP framework.		