ECB steps up climate work with focus on the green transition, climate change and nature-related risks

Dear Chair, dear Irene,

As I reaffirmed during my last hearing before the Committee on Economic and Monetary Affairs on 27 November 2023, climate change and the protection of the environment are important for the ECB. While governments are primarily responsible for tackling the climate crisis and have the authority, tools and ability to implement the appropriate policies to do so, we remain committed to playing our part within our mandate.1 This is why, back in 2021, we announced a comprehensive action plan to incorporate climate change into our monetary policy strategy, setting out a roadmap for stepping up our involvement in climate-related matters.2 In July 2022, I informed you about our progress on implementing this action plan, including our decisions to account for climate change in our corporate bond purchases, collateral framework, disclosure requirements and risk management, as well as to extend our climate action roadmap to all areas of the ECB’s activities in our climate agenda.3

Today, I am pleased to announce that the ECB will continue by further stepping up its climate work with a focus on the green transition, climate change and nature-related risks. We made this decision after a comprehensive review of the climate actions we have taken since the launch of our climate agenda. It reflects adjustments to our work plan in response to the evolving landscape and enhancements in data availability and

1 See “Speech by Christine Lagarde, President of the ECB, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament”, 27 November 2023.
2 See “ECB presents action plan to include climate change considerations in its monetary policy strategy”, press release, ECB, 8 July 2021.
3 See Letter from the ECB President to Irene Tinagli, ECON Chair, on progress on climate-related action plan, 4 July 2022. For the updated priorities relating to banking supervision, see the supervisory priorities for 2024-2026, ECB, 19 December 2023.
In our new work programme for 2024 and 2025 we reaffirm our commitment to addressing the climate crisis within our mandate. We will continue to carry out and expand our ongoing climate-related actions and will explore three focus areas with a view to initiating new activities.

First, the **impact and risks of the transition to a green economy**, especially the associated transition costs and investment needs. The ECB will intensify its work on the effects of transition funding, green investment needs, transition plans and how the green transition affects aspects of our economy such as labour, productivity and growth. The results will also inform the ECB’s macro modelling framework. Furthermore, the ECB will explore, within its mandate, the case for further changes to its monetary policy instruments and portfolios in view of this transition.

Second, the **increasing physical impact of climate change**, and how measures to adapt to a hotter world affect the economy. The ECB will deepen its analysis of the impact of extreme weather events on inflation and the financial system, and how this can be integrated into climate scenarios and macroeconomic projections. It will also assess the potential impact of adaptation, or lack thereof, to climate change on the economy and financial sector, including related investment needs and the insurance protection gap.

Third, the **risks stemming from nature loss and degradation**, how they interact with climate-related risks and how they could affect the ECB’s work through their impact on the economy and financial system. The ECB will analyse the close link with climate change, and the associated economic and financial implications. It will also further explore the role of ecosystems for the economy and the financial system.

The work planned for these focus areas will complement the ECB’s ongoing climate-related actions, which include aspects of monetary policy and banking supervision. The ECB will continue to improve its climate-related indicators, risk monitoring and disclosures, and further contribute to the development of climate-related policies in European and international fora. We remain committed to regularly reviewing all our actions to ensure they are fit for purpose and contribute to fulfilling our mandate.

I stand ready to further discuss today’s announcement on our climate work with the Members of the Committee on Economic and Monetary Affairs during the next regular hearing on 15 February.

Yours sincerely,

[signed]

Christine Lagarde