

ECB-PUBLIC

Christine LAGARDE

President

Mr Bas Eickhout
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 22 January 2026

L/CL/26/015

Re: Your letter (QZ-020)

Honourable Member of the European Parliament, dear Mr Eickhout,

Thank you for your letter, which was passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 December 2025.

Within its mandate, the ECB is committed to taking into account the implications of climate change and nature degradation for monetary policy and central banking. Climate change is already bringing about more frequent and extreme climate events that affect output and increase inflation volatility and uncertainty, which matters for the conduct of our monetary policy to maintain price stability.

The European Commission invited the ECB and the European Supervisory Authorities to assess the financial stability impact of the implementation of the Fit for 55 package and the financing capacity of the EU's financial system under different conditions of stress. Across all scenarios, the exercise assumes that the Fit for 55 package will be fully implemented as planned and that its objectives will be achieved by 2030.¹ The results of the Fit for 55 climate scenario analysis, as published in 2024, indicate that transition risk losses associated with the package alone are unlikely to threaten financial stability in the EU.

In your letter, you inquire about how long policy action can be delayed before facing adverse financial stability consequences.

¹ Fit for 55 refers to the commitment of all EU Member States to transition to a climate-neutral economy by 2050 and to reduce emissions by at least 55% by 2030, compared with 1990 levels.

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First, please note that climate scenario analyses are by design conditional on assumptions about the timing, stringency and credibility of policies, as well as about market and technological developments. They do not aim to identify specific thresholds beyond which additional policy measures would generate adverse economic or financial consequences; rather, they are designed to compare the risk implications of alternative transition pathways. Second, within this framework, the ECB has not produced, nor does it currently have at its disposal, an assessment that would allow it to quantify how long policy action can be delayed before adverse financial stability effects materialise. Instead, ECB analysis supports findings consistent with the conclusions drawn from the scenarios of the Network for Greening the Financial System (NGFS), which show that the longer ambitious climate action is postponed and the more abrupt the eventual policy response, the higher the associated risks for the economy and the financial system.²

In this context, the recently published NGFS short-term scenarios show that a delay of only a few years in implementing ambitious climate policies could lead to significantly higher costs and risks associated with a net-zero transition, which could materialise already this decade.³ The scenarios indicate that early and gradual policy action facilitates a more sustainable reinvestment of carbon tax revenues into the economy and allows financial markets to adapt more smoothly. At the same time, delayed and abrupt climate policies are associated with higher financing costs and uncertainty, which can lead to sudden adjustments in asset valuations. These are key reasons why orderly transition scenarios, involving early and predictable action, are associated with lower financial stability risks. Moreover, ECB analysis finds that timely and balanced implementation of the Fit for 55 package and associated national measures would have limited impact on inflation and growth.⁴

Finally, to enhance the understanding of climate-related risks to financial stability and to support the resilience of the financial system, the ECB will continue to improve and further develop climate stress tests and scenario analyses. Together with the European Banking Authority and the national central banks and supervisory authorities in the EU, the ECB is developing a framework to incorporate climate risks into regulatory stress testing. The objective is to assess the resilience and loss absorbing capacity of the EU's financial system against adverse but plausible climate events from both a short and long-term perspective, including scenarios that assume a delayed or disorderly transition. This work will contribute to a more comprehensive assessment of climate-related risks and vulnerabilities for the EU's financial system, while being aligned with the regulatory stress testing framework.

Yours sincerely,

[signed]

Christine Lagarde

² See Alogoskoufis, S. et al. (2021), "[ECB economy-wide climate stress test](#)", *Working Paper*, No 281, ECB, and Network for Greening the Financial System (2024), "[NGFS long-term scenarios for central banks and supervisors](#)", November.

³ See Network for Greening the Financial System (2025), "[Short-term Scenarios for central banks and supervisors](#)", May.

⁴ See Aguilar García, P. et al., (2025), "[The macroeconomic impact of climate change policies in the euro area](#)", in *Eurosystem staff macroeconomic projections for the euro area*, ECB, 3 December.

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