



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Markus Ferber  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 5 February 2021

L/CL/21/19

**Re: Your letter (QZ-075)**

Honourable Member of the European Parliament, dear Mr Ferber,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 17 December 2020.

Let me first emphasise that climate change is very relevant to our mandate. The scale and irreversibility of the related consequences call for immediate action from all stakeholders, each within their own areas of competence. Climate change may affect our economy in ways that could pose a severe threat to price and financial stability in the medium and long term, especially if not addressed in a timely and satisfactory manner. Climate change may also lead to financial risks that could have implications for our risk management frameworks. Rising global temperatures and more frequent natural disasters may have macroeconomic and financial implications and could have consequences for our primary objective of price stability, by further weighing, for instance, on the equilibrium interest rate around which central banks calibrate their policies. Under plausible scenarios, the ability of central banks to react to standard business cycle fluctuations and the effective transmission of monetary policy may be impaired. Against this background, the ECB has to reflect on the emerging risks related to climate change in the pursuit of its Treaty objectives. As you are aware, as part of its ongoing strategy review, the ECB is assessing how environmental sustainability considerations are relevant in the pursuit of its mandate.

Without any prejudice whatsoever to the outcome of the strategy review, I would like to point out that the notion of market neutrality has been considered by the ECB as an appropriate and useful operational

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concept to help guide our monetary policy frameworks. In pursuing our primary objective, however, market neutrality acts in combination with other notions and principles, such as those requiring, for instance, prudent policy implementation and sound risk management. A clear example of this is the existence of eligibility requirements for collateral and purchase programmes, which render certain asset types or classes ineligible.

Regarding your final question on the implications for financial stability, I note that the various proposals that may be considered differ in scope, aim, technical details and implementation aspects, so that it is not possible to comment in abstract terms on the impact of this agenda on financial stability. Let me recall that according to our mandate, the ECB shall contribute to financial stability. When evaluating possible future action in the context of the forthcoming discussions held as part of the strategy review, we are thus looking closely – among several other elements – at financial stability considerations. Considering the growing economic importance of climate change and the increasing evidence of the financial impact it has<sup>1</sup>, action across the ECB’s various areas of competence might in fact be required to contribute to financial stability. In line with this objective, the ECB has been taking concrete steps to strengthen the role of climate risk in banking supervision<sup>2</sup> and financial stability monitoring<sup>3</sup>. A large part of the action we take is aimed at promoting disclosure by financial institutions, which is intended to contribute to improved price discovery and help to correct market mispricing, information and allocation failures related to climate risk, thereby reducing financial fragilities<sup>4</sup>. More generally, let me reassure you that the ECB monitors climate risk for banks and non-bank financial institutions and reports its related findings to the public in its Financial Stability Review and other reports. In addition, we closely follow the developments in the green and sustainable finance markets<sup>5</sup>, which should help us to ensure that we recognise well in advance any abrupt change in financial stability risks, including, among other things, those related to any policies that tackle climate change.

<sup>1</sup> See “Climate change and financial stability”, *Financial Stability Review*, ECB, May 2019, available at: [https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart201905\\_1~47cf778cc1.en.html](https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart201905_1~47cf778cc1.en.html) and “Euro area banks’ sensitivity to corporate decarbonisation”, *Financial Stability Review*, ECB, May 2020 available at: [https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2020/html/ecb.fsrbox202005\\_03~eaf7ae06be.en.html](https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2020/html/ecb.fsrbox202005_03~eaf7ae06be.en.html).

<sup>2</sup> In November 2020 ECB Banking Supervision published the *Guide on climate-related and environmental risks*, available at: <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf>. In 2021 ECB Banking Supervision will also initiate a supervisory dialogue with institutions.

<sup>3</sup> The ECB is integrating climate risk by: (i) developing a state-of-the-art monitoring framework: in this context, the Eurosystem and the ESRB published a joint report entitled *Positively green: Measuring climate change risks to financial stability*, available at: [https://www.esrb.europa.eu/pub/pdf/reports/esrb.report200608\\_on\\_Positively\\_green\\_-\\_Measuring\\_climate\\_change\\_risks\\_to\\_financial\\_stability~d903a83690.en.pdf?c5d033aa3c648ca0623f5a2306931e26](https://www.esrb.europa.eu/pub/pdf/reports/esrb.report200608_on_Positively_green_-_Measuring_climate_change_risks_to_financial_stability~d903a83690.en.pdf?c5d033aa3c648ca0623f5a2306931e26). Work in this area is continuing in 2021; (ii) improving banks’ awareness and preparedness to manage climate risk; (iii) integrating climate risk in the stress-testing framework. The ECB is developing a top-down climate stress-test, and initial results will be published by mid-2021. ECB Banking Supervision has also launched the preparatory phase of the 2022 supervisory climate risk stress test.

<sup>4</sup> See “Climate risk-related disclosures of banks and insurers and their market impact”, *Financial Stability Review*, ECB, November 2019, available at: <https://www.ecb.europa.eu/pub/financial-stability/fsr/html/ecb.fsr201911~facad0251f.en.html#toc27>

<sup>5</sup> See *The performance and resilience of green finance instruments: ESG funds and green bonds*, ECB Financial Stability Review, November 2020, available at: [https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2020/html/ecb.fsrbox202011\\_07~12b8ddd530.en.html](https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2020/html/ecb.fsrbox202011_07~12b8ddd530.en.html).

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Yours sincerely,

[Signed]

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