



In Conversation with

Ms Irene Heemskerk

Head climate change centre, European Central Bank

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1. When and why did your institution join the NGFS?

I am pleased that the European Central Bank (ECB) has been part of this important collective journey almost from the very beginning, when eight central banks and supervisors founded the NGFS in December 2017. Shortly after, in April 2018, the ECB joined the NGFS for two main reasons.

First, better understanding. Climate change affects the ECB's core tasks as a central bank and supervisor, but we needed to better understand how. In 2018, the NGFS recognised¹ that "climate-related risks are a source of financial risk, and therefore fall squarely within the mandates of central banks and supervisors". Fortunately, these notions are now well-known, but at the time they were still considered by many as a breakthrough. The ECB was part of the group of central banks that endorsed this consensus, and there was a collective need to better assess how climate risks and the transition towards a green economy could impact the economy and financial sector. After all, understanding the climate crisis and its implications for the economy and financial sector is essential to deliver on the ECB's primary mandate and core tasks. Besides, without prejudice to price stability, the ECB must also support the EU's general economic policies including climate goals.

Second, acting together. Climate change affects us all globally, requiring greater action on all fronts to address the urgency of the global challenge it poses. The ECB is firmly committed to doing its part to address climate change and sought to become more actively involved in international activities to contribute where possible and to learn from others. While the ECB and other central banks and supervisors from around the world are not climate policymakers, they have an important role to play in addressing climate change within their mandates, with rigorous analysis being a key tool. For this

¹ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf.

reason, joining forces with the NGFS was an obvious choice for the ECB, as it brings together – as of today – 138 members from all over the world, and its evolving workstreams.

2. Can you share with us the key elements of the European Central Bank's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Over the past years, the ECB has made significant progress on addressing the impact of climate change in all the tasks we have at hand and delivered on our commitments. To name a few examples:

- **Analysing:** we have been advancing in our analysis quantifying the potential impact of climate on the economy and the financial system. Some of our key findings show that delaying the transition will be more costly in the long term², climate-related risks can pose systemic risks to financial stability³, and degradation of nature potentially poses additional risks for financial stability⁴.
- **In our role as a central bank**, we are for example adjusting⁵ our monetary policy operations, “tilting” the composition of corporate sector securities towards companies with a better climate performance. As a result, our portfolio is gradually becoming less carbon intensive. Since tilted reinvestments started in October 2022, the weighted average carbon intensity of corporate bond purchases has decreased by more than 65%.
- **In our role as a supervisor of European banks**, we have urged banks to ensure the sound management of climate and nature-related risks, using the supervisory expectations we published in 2020 as a starting point. Although progress has been made since we started discussing climate-related and environmental (C&E) risks with banks in 2019, the job is not yet done⁶. This year will be crucial, as we expect all banks under our supervision to be fully aligned with our supervisory expectations by the end of 2024. But it is not the end of the journey, we will continue to walk this path together with banks to help them increase their resilience to climate and nature risks.

Looking ahead, the ECB has recently entered the **next phase** of its climate work. Following a stocktake of our climate actions and building on the lessons learned⁷, we are not only expanding our work, but also exploring new frontiers. As outlined in our climate and nature plan for 2024 and 2025⁸, three new focus areas guide our efforts to respond to the urgency of the climate and nature crisis.

- 1- Further analysing the **implications of the transition to a green economy**, especially the associated transition costs and investment needs. We will assess how the green transition affects our economy, for example, through labour, productivity and growth, and inform our macro modelling

² See Emambakhsh, T. et al. (2023), [The Road to Paris: stress testing the transition towards a net-zero economy](#), *Occasional Paper Series*, No 328, European Central Bank.

³ See the ESRB-ECB joint report (December 2023), [Towards macroprudential frameworks for managing climate risk](#).

⁴ See Boldrini, S. et al. (2023), [Living in a world of disappearing nature: physical risk and the implications for financial stability](#), *Occasional Paper Series*, No 333, European Central Bank.

⁵ https://www.ecb.europa.eu/mopo/implement/app/html/ecb.faq_cspp_climate_change.en.html

⁶ For example, our [analysis](#) of 95 banks covering 75% of euro area loans shows currently banks' credit portfolios are substantially misaligned with the goals of the Paris Agreement, leading to elevated transition risks for a striking 90% of these banks. And financial risks are not limited to climate change, we also [found](#) that 75% of all bank loans in the euro area are to companies that are highly dependent on at least one ecosystem service.

⁷ See the ECB's [2021 action plan](#), [2022 climate agenda](#) and [2024-2026 supervisory priorities](#).

⁸ https://www.ecb.europa.eu/ecb/climate/our-climate-and-nature-plan/shared/pdf/ecb.climate_nature_plan_2024-2025.en.pdf.

framework accordingly. The ECB will also explore, within its mandate, the case for further changes to its monetary policy instruments and portfolios in view of this transition.

- 2- Deepening our analysis of the **increasing physical impact of climate change** and how measures to adapt to a hotter world affect the economy. We will assess the impact of extreme weather events on inflation and the financial system, and how this can be integrated into climate scenarios and macroeconomic projections. We 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.
- 3- Looking at the **risks stemming from nature loss and degradation**. The ECB decided to explicitly add nature to its work to 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.

As head of the ECB's climate change centre, I lead a team with a clear and essential mission: to bring the ECB's climate and nature plan to life in all the tasks we have at hand, work closely with the different business areas to keep our activities on track and accelerate where needed.

3. To which extent did the European Central Bank leverage the work of the NGFS in its own domestic journey? Any concrete examples?

The work carried out by all members of the NGFS has been instrumental for the ECB, helping us advancing on our own climate and nature work. There have been many areas of work by the NGFS from which we have benefitted greatly, but to name a few examples:

- The **NGFS Workstream on Supervision** undertook in 2020 an assessment of the progress made by supervisors that I had the pleasure to lead. It resulted in the publication of the 'Guide for Supervisors Integrating climate-related and environmental risks into prudential supervision'⁹. This assessment ran in parallel with the drafting of the ECB's supervisory expectations. Having ECB's experts working on both at the same time provided us an excellent opportunity to learn and onboard practices from supervisors around the globe in our work.
- The **NGFS Task Force on Biodiversity Loss and Nature-related Risks** has been a driving force in putting nature and biodiversity high on the agenda for central banks and supervisors and we have benefitted greatly from the work. The 'Conceptual Framework for Nature-related Financial Risks'¹⁰ published in 2023 established a common language to better understand what nature-related financial risks mean for central banks and supervisors.

We at the ECB are also pleased to be actively collaborating with its members and driving certain areas of the NGFS work programme, such as:

- The **NGFS Workstream on Scenario Design and Analysis**¹¹, chaired by ECB's Cornelia Holthausen from April 2022 to September 2023) and currently by Livio Stracca (since September 2023). The fourth vintage¹² of the NGFS climate scenarios provide an important climate risk assessment tool to help inform and guide policymakers across the globe. We at the ECB, for example, base our climate stress tests on the NGFS scenarios to explore the macroeconomic and financial implications of different possible states of the future.

⁹ [Guide for Supervisors Integrating climate-related and environmental risks into prudential supervision](#)

¹⁰ [Conceptual Framework for Nature-related Financial Risks](#)

¹¹ https://www.ngfs.net/sites/default/files/workstream_scenario_design_and_analysis_mandate.pdf.

¹² <https://www.ngfs.net/en/ngfs-climate-scenarios-phase-iv-november-2023>.

- The **NGFS Expert Network on Legal Issues**, previously known as the NGFS Legal Task Force on climate-related litigation, currently being chaired by the ECB's Prof. Chiara Zilioli since its launch. The technical document¹³ on climate-related litigation published in 2021 played a key role in helping to raise awareness of this growing source of risk, focusing on the perspective of supervisory authorities.

4. *One last word?*

I have been involved in the work of the NGFS from the very start, attending the first meeting in my role as advisor to the first NGFS chair Frank Elderson and working closely with then Head of the NGFS Secretariat Morgan Després and his team at Banque de France to build the Network from scratch. Since a few years, when I joined the ECB, I represent the ECB in the NGFS Steering Committee. It is amazing to see how far we got in the 6 years and it really exceeded my expectations. Not only in size in membership from the 8 founding members to the 138 members and 21 observers today, but as well the instrumental role the NGFS has played to scale up actions at all fronts.

The job is however far from finished. Many consequences resulting from climate change and nature degradation only materialise in years and decades to come. Yet, we as society have to take decisions already today that will pave the way for a green and resilient future. Our Board Member Frank Elderson had just outlined in a speech¹⁴ these challenges and questions behind to get us started to think and act more long-term.

I am committed to playing my part and contributing where I can to build a green financial system.

¹³ https://www.ngfs.net/sites/default/files/medias/documents/climate_related_litigation.pdf.

¹⁴ See speech „Know thyself” – avoiding policy mistakes in light of the prevailing climate science” by Frank Elderson, 12 April 2024, [“Know thyself” – avoiding policy mistakes in light of the prevailing climate science \(europa.eu\)](https://www.europa.eu/press-communications/speeches/detail/speech-12-april-2024-know-thyself-avoiding-policy-mistakes-in-light-of-the-prevailing-climate-science)