EUROPEAN CENTRAL BANK
EUROSYSTEM

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Civil Society Seminar: ECB's climate and nature plan
28 February 2024

1) Presentation by the ECB on its climate and nature plan 2024-2025

The European Central Bank (ECB) met with representatives of various civil society organisations as part of the civil society seminar series to discuss its climate and nature plan 2024-2025. The ECB presentation outlined the rationale of the plan, what actions have already been taken since the publication of its climate roadmap in 2021, and what actions will be continued and further expanded. Finally, the presenters provided an overview of the three focus areas and the planned activities.

2) Summary of the feedback and exchange session

Questions relating to monetary policy

Will the ECB broaden its scope for targeted refinancing operations or lower interest rates to foster green investments and finance the transition?

The ECB is bound by its mandate and is therefore not the main actor in unlocking financing for the transition.
When exploring refinancing operations with a green lending target in our strategy review in 2021, we found significant challenges related to data coverage and quality, definitions of appropriate green lending targeting criteria, and verification processes and capabilities. These challenges still persist today despite promising regulatory developments, which we are following closely. Any measures we take need to be consistent with our mandate. As mentioned in our climate and nature plan roadmap, we will keep exploring, within our mandate, the case for the further incorporation of climate change considerations in monetary policy instruments and portfolios.

Will the ECB propose new actions to deal with the carbon bias in the corporate sector purchase programme (CSPP) after reinvestment has ceased? The plan does not contain concrete actions on this front.

Our tilting of corporate bond purchases has already proved to be impactful: the weighted average carbon intensity of corporate bond purchase flows decreased by more than 65% after implementation in the fourth quarter of 2022 compared with the first three quarters of that year when our tilting was not yet active. Looking ahead, we foresee that our corporate sector holdings will keep decarbonising on a trajectory consistent with the Paris Agreement until at least the end of 2024.
We will continue to report on our progress whenever we have concrete deliverables that we can share with the public.

On the collateral framework, could you provide more details on the climate-related pool limits and haircuts?
What about including nature-related considerations, i.e. via concentration limits in sectors with a high impact on forests?

Collateral pool limits are planned to be implemented in 2024, provided the necessary technical conditions are in place. For the climate-related disclosures' eligibility requirements in our collateral framework, we are following the timeline for the implementation of the Corporate Sustainability Reporting Directive (i.e. envisaged to start in 2026). We cannot add more at this stage.

The ECB expressed appreciation for the suggestion to consider nature-related risks and, as also already announced with the current plan, we will continue to explore tools and options on all fronts and as appropriate for our policy stance.

How do you respond to the criticism about macroeconomic models underestimating the impact of climate risks. Are you considering reviewing them?

This is a key challenge and we therefore included this area as one of the tasks we are looking at in more depth in our climate and nature plan.

Questions relating to banking supervision

Is the ECB considering issuing guidance for financial institutions on how to tackle nature-related risks, such as deforestation or scarcity of freshwater resources?

The ECB expressed appreciation for the suggestion and set out the approach taken so far. Our supervisory expectations published in 2020 tackle both climate and environmental risks. Similarly, our follow up supervisory exercises (self-assessment in 2021, thematic review in 2022 and good practices document) also assessed both climate-related and environmental risk management practices of banks.

Court cases against banks are increasing on the basis of slow progress and insufficient action on addressing climate change. We see a need for macroprudential interventions on the part of the ECB in setting exposure limits, for example. Can you tell us about your thinking within the plan and your supervisory mandate?

The ECB pointed out that it cannot comment on individual cases, but only on general supervisory practices. The ECB is aware of increasing climate-related litigation. The Network for Greening the Financial System (NGFS) is also following this topic closely and published two reports on the topic in September 2023. As supervisors our aim is that banks should manage all their material risks. This includes material climate-related litigation risk.

Other questions relating to the climate and nature plan

What are your plans with regard to work on the insurance protection gap?

In April 2023 the European Insurance and Occupational Pensions Authority (EIOPA) and the ECB published a discussion paper on policy options to reduce the climate insurance protection gap which was open for comments and feedback. Under the climate and nature plan, we are working on addressing the input received.

Are the national central banks (NCBs) and national competent authorities (NCAs) following the ECB's lead on climate and nature-related work?

The climate and nature plan includes activities that pertain to different levels: the Eurosystem, the European System of Central Banks (ESCB), the Single Supervisory Mechanism (SSM) and the ECB. Many decisions taken and activities planned are at Eurosystem level and are discussed and decided upon by the Governing Council (e.g. on tilting and the collateral framework). The same applies to the supervisory activities of the NCAs and the ECB's Supervisory Board.
In addition, the ECB's climate change centre regularly meets and exchanges ideas and information with the respective teams within the NCBs.

Regarding the ECB's plans to better understand the investment gap, participants recommended that it:

- **analyses which sectors are more likely to contribute to inflation or disinflation;**
- **finds the right key performance indicators from banks to understand the financing of the transition by the banking sector;**
- **improves available data at the national level, including differentiating between public and private investment needs and the different transition pathways.**

The ECB welcomed the suggestions and commented that there is also uncertainty about what world are we adapting to, i.e. whether it is the well below 2°C degrees temperature increase scenario that governments are committed to under the Paris Agreement or the 3°C scenario that is presently seen by climate science as the most plausible baseline, as investment gaps – and in particular the relative importance of investment in mitigation or adaptation – change accordingly. Therefore, more thinking is needed on this front. The ECB indicated that further work on this by participants is very much welcome.

In view of the upcoming European elections, how do you see your role in keeping climate on top of the agenda?

Our analytical work is very useful in providing relevant information to policymakers. The findings of our economy-wide climate stress test, for example, support the case for early transition.
We are not climate and nature policymakers. In the pursuit of our mandate we are climate and nature policy takers. That climate and nature-related risks are a source of financial risk is established consensus among central banks and supervisors worldwide. This implies that accounting for climate and nature-related risks is squarely within our mandate.

Question on collaboration with civil society organisations

How do you see the role of civil society organisations?

The ECB welcomed the suggestions and out-of-the-box thinking of civil society organisations and recognised the fruitful dialogue there has been over the years. It also reflected on how to make this dialogue more interactive over time, for example with thematic discussions.

Looking forward to the continuation of the dialogue!