Sabine Mauderer: US Senate Democrats’ Special Committee on the climate crisis

Opening remarks by Dr Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank, at the meeting, Washington DC, 17 October 2019.

Chairman Schatz, Members of the Committee:

Thank you for inviting me to this important meeting with central bankers. The Bundesbank is a proud founding member of the NGFS, the Central Banks and Supervisors Network for Greening the Financial System.

The work being done by the NGFS demonstrates that combating climate change is a key factor for the financial system.

Climate change can have long-term impacts on economic structures and activities, productivity and other key macro variables, such as prices. Even if mitigation strategies are put in place, societies and economies are likely to face increasing climate change-related disruptions and supply-side shocks. Apart from climate change itself, policy responses will affect macroeconomic activities as well, with implications for the financial system.

We therefore look at climate change as a source of financial risk, both from the micro- and the macroprudential perspective. The U.S. Senate Democrats’ Special Committee on the Climate Crisis also made this strong point in its letter to the Fed. As Frank Elderson from De Nederlandsche Bank has already covered the banking supervisory perspective, I would like to focus on financial stability.

From a financial stability perspective, the Bundesbank has a clear mandate to take into account a potentially systemic impact of climate-related risks on the financial system.

In this regard, we need a sound understanding of how physical and transition risks arising from climate change affect financial stability. To achieve this understanding, we need more data on individual and systemic climate risk exposures, prudent methods of measuring vulnerabilities to climate risks, and analytical frameworks with longer horizons.

At present it is not entirely clear to what extent market participants adequately price climate-related risks.

If the general market assessment changes, for example as a result of a natural disaster or unexpectedly drastic policy measures, this could have a significant impact on market dynamics.

If many market participants sell at the same time, this could rapidly drive down the prices of affected assets, with spill-overs to other financial market segments.

The result could be a broad decline in asset prices, with repercussions for the entire financial system. While such a chain reaction cannot be ruled out entirely, its probability and impact are difficult to estimate. At the same time, we must stay alert to the potential risk of “green bubbles”. Green investments are not automatically risk-free.

To conclude: The general objective of regulation and supervision is to preserve and to improve individual and systemic resilience against financial risk.

Therefore, any regulatory changes suggested in the context of sustainable / green finance need to follow a risk-based approach.
We in the NGFS are developing an analytical framework in order to quantify and assess the impact of climate-related risks on the economy and the financial system.

This will further strengthen our ability to safeguard financial stability and effectively supervise banks – which is why I look forward to paving the way for a greener, more sustainable financial system.