

Keynote speech by Yannis Stournaras, Governor of the Bank of Greece at the Athens Circular Forum II

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It is a great pleasure to be here with you today and have the opportunity to share my thoughts on climate neutrality, circularity and sustainable finance.

Economic growth has come at a growing cost to the environment. It is telling that humanity's demand for ecological resources and services in a given year exceeds what Earth can regenerate in that year, in fact we need more than 1.5 planets to support our current consumption patterns.^[1] Sustainability is therefore highly relevant for our generation, as well as for generations to come, and redefining the concept of growth in a sustainability context will be crucial for our future path.

Under conditions of depletion of natural resources worldwide, a focus on more efficient use and minimisation of waste emerges as the only and urgent option. The model of a "linear" economy prevailing today (sourcing – manufacturing – usage – disposal), on which most economies since the Industrial Revolution have relied, is no longer sustainable. Just like nature, which operates in a "circular" manner, business activities can become sustainable by switching from the "linear" model to a "circular" one. Circular economy means that the value of products, materials and resources is maintained in the economy for as long as possible and waste generation is minimised.

In changing the current extractive industrial model, the circular economy model aims to redefine growth and provide society-wide benefits by decoupling economic activity from the consumption of finite resources, by transitioning to renewable energy sources and by reducing the negative impacts of the linear economy.

The development of circular business models will require innovation and structural change of production and consumption systems alongside technological change. For example, interventions on the supply side, such as eco-design and longer life cycles of products, as well as on the demand side, through a change in consumption and dietary patterns and a more efficient management of waste.

This transition is expected to have a positive effect as the circular model builds economic, natural and social capital and represents a systemic shift that builds long-term resilience by generating business and economic opportunities, with environmental and societal benefits.

According to UNEP, the transition to a circular economy could generate USD 4.5 trillion^[2] in annual economic output by 2030. Financial institutions have a critical role to play, scaling up financing, accelerating the shift towards circular business models, managing related risks and exploring opportunities, such as the redesign and manufacturing process of products and services, digital solutions, waste management models, etc. At the moment though, financial institutions lack awareness of circularity and still need to develop expertise, products and services to harness opportunities. Of course, there is also an important role for governments and policy makers that need to provide incentives, policies and frameworks in order to integrate circularity into financial products and services alongside current planning for the transition to a carbon neutral economy.

There is no question that climate change is today one of the most pressing sustainability challenges we are currently facing. In this context, the process of addressing climate change can undoubtedly be accelerated if established growth models are adjusted in order to ensure long-term sustainability. It is therefore important in tackling climate change to plan for a double transition, to a carbon neutral and circular economy.

In this double transition, there are indeed certain risks. For example, transition risks as assets may become stranded or businesses that may incur costs and disruptions. Yet, a careful and timely transition will also open up opportunities, associated with innovation and new technologies, circular and renewable energy products, new processes, new infrastructure and new jobs.

Although methodologies for calculating climate-related risks are still being developed, estimates suggest that the impact of these risks is likely to be significant. For example, the ECB has estimated that, on average, 15% of significant institutions' exposures are to the most carbon-intensive firms and an abrupt transition to a low-carbon economy could have severe impact on climate-sensitive economic sectors.[3] Regarding physical risks, around 30% of the credit exposures of euro area banks are to businesses with high or increasing exposure to at least one source of physical risk.[4]

In this context, central banks and supervisors are progressively looking into playing an active role in the debate and working with banks to prepare for and manage climate risks. Indeed, as part of the strategy review the ECB is already exploring ways of taking the risk of climate change into account.[5] It is clear however that since climate change poses risks to price stability, central banks could, within their traditional mandate, advance their efforts to support the transition to a sustainable economy and a resilient future.

Central banks can help by considering how the physical and transition impact of climate change can be included in macroeconomic forecasting and financial stability monitoring. Also, central banks can help by integrating climate-related risks into prudential supervision, engaging with financial firms to ensure that climate-related risks are understood and integrated in risk management and investment. And, of course, central banks can help by including sustainability factors into own-portfolio management.

Indeed, climate and sustainability have always been high on our agenda and I personally have been addressing those issues on every occasion.[6],[7] It is telling that the BoG, the ECB and the Bank of England, have been named the three most vocal central banks worldwide.[8] Also, recognizing the significant climate and environmental risks that the financial system is facing, we set up in 2009 an interdisciplinary committee of scientists, the [Climate Change Impacts Study Committee \(CCISC\)](#), a workgroup dedicated to the study of climate change in Greece.

In tackling the climate crisis, the financial and the insurance sectors have an important role, supporting a sustainable economy and a more inclusive growth. Financial institutions can be drivers of change mobilising capital towards investment that supports societies' goals. Sustainable finance can help by aiming to integrate environmental, social and governance (ESG) criteria into business and investment decision making. In the context of climate action, sustainable finance should also aim to mobilise capital towards investment for mitigation and adaptation policies. If we are to meet the Sustainable Development Goals of the United Nations and the objectives of the Paris Agreement, the financial sector needs to maximise its contribution and align itself with these goals.

To this effect, the Bank of Greece is the 1st central bank worldwide to endorse the Responsible Banking Principles of the United Nations Environment Programme Finance Initiative (UNEP FI). The Principles for Responsible Banking^[9] aim to define the role and the responsibilities of the banking sector in a sustainable future, where banks align their business practices with the global community goals and create value for the society. The Principles set out the criteria for responsible and sustainable banking, through a holistic evaluation of risks and opportunities stemming from banks' activities. Furthermore, they encourage banks to identify and assess the effect of their asset allocation decisions and be transparent on their positive but also their negative impact on society and the environment.

The Bank of Greece is also a member of the central banks and regulators' Network for Greening the Financial System (NGFS).^[10] The NGFS is a global organization currently consisting of more than 100 members and observers, committed to working together to improve the analysis and management of climate-related and environmental risks. The common objective is the strengthening of the global response required to meet the goals of the Paris Agreement and the enhancement of the role of the financial system in managing risks and mobilising capital for an environmentally sustainable development.

At this point, I would also like to stress out the importance of resilience. Towards a sustainable and resilient future, scientific research and current developments confirm the need for a strategy and an action plan, spanning across multiple economic, social and environmental policy areas, to adapt to the changing climate. Climate change adaptation, as a process of adjusting to the climate impact in order to moderate the negative and enhance the potential positive effects of climate change is a crucial issue that promotes the resilience of our societies. On fostering climate change adaptation, we are currently working, under the coordination of the Hellenic Ministry of Environment and Energy and alongside key national actors, on the [Life IP AdaptInGR](#), a programme that aims to guide the implementation of the National Climate Change Adaptation Strategy, with the overarching objective to strengthen the Greece's resilience to the impact of climate change.

The world today has an opportunity to build back better by embracing a greener pathway to COVID-19 recovery. One key structural change is to achieve this is by adopting circular economy approaches.

To the question, “Are we building back better?” the answer is: not yet.[11] Over the next months and possibly years, it is estimated that countries will invest over \$20 trillion to recover from the fallout of COVID-19.[12] These financial and investment decisions will determine to a great extent the future of our societies and our ability to respond to the environmental challenges that the world is already facing today.

The pandemic recovery effort presents an excellent opportunity to reboot the economy, re-think, re-skill and re-design a more inclusive, sustainable, circular and carbon neutral development pathway, aligned with the UN Agenda, the SDGs and the Paris Agreement.

This is an opportunity we cannot afford to miss.

Thank you.

[1] <https://www.overshootday.org>

[2] According to UNEP and Accenture, see more at <https://www.unepfi.org/publications/general-publications/financing-circularity/>

[3] Keynote speech by Andrea Enria, Chair of the Supervisory Board of the ECB, at the European Central Bank Climate and Environmental Risks Webinar, Frankfurt am Main, 17 June 2020, <https://www.bankingsupervision.europa.eu/press/speeches/date/2020/html/ssm.sp200617~74d8539eda.en>

[4] Keynote speech by Luis de Guindos, Vice-President of the ECB, at the joint ECB and European Commission conference on “European Financial Integration and Stability”, Frankfurt am Main, 27 May 2021, <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210527~6500964615.en.html>

[5] Interview with Christine Lagarde, conducted by Dominique Lecoq and Marc Aubault on 29 July and published on 31 July, <https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200731~7df348b85b.en.html>

[6] Statements by the Governor of the Bank of Greece on the occasion of the World Environment Day on June 5th 2019 <https://www.bankofgreece.gr/enimerosi/grafeio-typoy/anazhthsh-enhmerwsewn/enhmerwseis?announcement=2d9a3a31-a62f-49a0-ab3c-4bfb9acc6267> and June 5th 2020 <https://www.bankofgreece.gr/enimerosi/grafeio-typoy/anazhthsh-enhmerwsewn/enhmerwseis?announcement=17fce009-57ce-4a7e-bda6-65145811ec27>

[7] OMFIF Special Report: Central banks and climate change, <https://www.omfif.org/wp-content/uploads/2020/02/ESG.pdf>

[8] OMFIF tweet following the Special Report: Central banks and climate change <https://twitter.com/OMFIF/status/1156559680120008704>

[9] The Responsible Banking Principles of the United Nations Environment Programme Finance Initiative <https://www.unepfi.org/banking/bankingprinciples/>

[10] <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system>

[11] “Are we building back better?” March 2021, UNEP report
<https://wedocs.unep.org/bitstream/handle/20.500.11822/35281/AWBBB.pdf>

[12] <https://www.unenvironment.org/news-and-stories/story/learning-green-recovery>