

## Gediminas Šimkus: Creating pathways towards the green economy

Welcome remarks Mr Gediminas Šimkus, Chairman of the Board of the Bank of Lithuania, at the Economics Conference "Creating Pathways Towards the Green Economy", Vilnius, 21 October 2021.

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Good morning, honourable Minister for the Environment, dear colleagues, members of the academia, representatives from business and public sectors.

Good morning dear guests, distinguished speakers. A sincere thank you for joining us at the annual – already the fifth – Lithuanian economics conference, organised by the Bank of Lithuania.

I am very pleased to welcome you all. I am especially glad to finally see you in person after such a long time. Let me also express a heartfelt virtual welcome to those who could not join us live today but are taking advantage of the hybrid conference format.

If it weren't for the pandemic, a hybrid conference format probably wouldn't exist. As Nobel laureate **Milton Friedman** once said, "*Only a crisis – actual or perceived – produces real change*".

This period is short of neither crises nor challenges. At the same time, it opens new opportunities. For example, an opportunity to substantially transform the economy.

To quote our honourable guest and the keynote speaker of this conference, Professor **Ian Goldin**, '*COVID-19 has demonstrated the importance of the umbilical relationship between human and planetary health*'. The pandemic demonstrated that now is the time to combat climate change and its catastrophic consequences. We can win this fight by employing comprehensive greening measures. Please allow me to quote our keynote speaker once again: '*While the threat from the pandemic is temporary, the threat from climate change is permanent*'. Professor Ian Goldin, I am very much looking forward to your presentation.

Colleagues,

I know that I will not surprise you in stating that climate change is one of the biggest challenges for the World.

Since 1850, the average global temperature has increased by almost 1°C. If we fail to take real, sufficient and, most importantly, consistent, and targeted actions, in 2030 our planet will be by as much as 1.5°C hotter compared to the period before the industrial revolution. Temperature extremes, increasingly frequent floods, draughts, and the rapidly rising sea levels are among the most prominent manifestations of the ongoing process of climate change. In the worst-case scenario, the sea levels could rise by two meters already by 2100. For Lithuania it would mean the flooding of a huge territory in the Nemunas delta and washed away coastal sand-dunes. The consequences for other countries, located lower relative to the sea level than Lithuania, would be even more disastrous.

Climate change also exacerbates air pollution problems. The rise in temperature increases the concentration of the bad ozone in the atmosphere, which is harmful to the human health. According to the World Health Organisation, every year more than 400,000 people die prematurely due to air pollution. In Lithuania, around 2,500 people die annually due to air pollution-induced illnesses.

It is estimated that in Europe, the annual losses due to climate change-related factors, including the additional pressure on the health care system and the premature deaths, amount to over €15

billion, and this figure is continuously increasing.

The bigger the threats of the climate change both to the ecosystem and the economy, the more ambitious are the emission reduction targets. Neither climate nor climate change has borders: as this challenge is of a global nature, a successful mitigation of the related risks is only possible through international coordination. The Kyoto Protocol, which was signed in 1997 and came into force in 2005, was the first international commitment to reduce pollution with the aim of halting climate warming. However, its actual impact was minimal, as only the advanced economies were involved, while large emerging economies were gradually becoming the major contributors to the global pollution. The Paris Agreement, signed in 2015, rectified this situation. It is a remarkable diplomatic achievement that the Paris Agreement was signed by 186 countries which are jointly responsible for 96% of the greenhouse gas emissions. The green policy has become a priority in many nations.

Nonetheless, today we witness that the commitments under the Paris Agreement do not suffice. Even if all signatory countries delivered on their commitments under this Agreement, by the end of the century the average temperature in the world would be 2.7°C higher than in the mid-19th century. As I have already mentioned, the consequences of this would be catastrophic. That is why we must set climate change-oriented targets that are even more ambitious than those set in the Paris Agreement.

The European Union (EU) is leading in this field: the transition to a climate-neutral economy is a priority objective for the EU, and the green policy is being integrated in multiple fields. The European Commission has published the European Green Deal. Its main objective is transforming the economy and becoming a climate neutral continent by 2050. I am sure that we will hear more about the European Green Deal, especially how it was altered when faced with the coronavirus pandemic, from Professor **Thomas Sterner** during the first session of this conference.

Unsurprisingly, the COVID-19 pandemic did not restrain the ambitions of the EU to significantly reduce the greenhouse gas emissions. On the contrary, those ambitions were only strengthened. These ambitious EU goals urge us to take decisive actions, especially in the agriculture, transportation and energy sectors which are currently the major contributors to climate pollution.

The Lithuanian agriculture sector generates a significant [part<sup>1</sup>](#) of the greenhouse gas emissions, therefore, undoubtedly, this field plays a key role in achieving the European Green Deal targets. Today, Emeritus Professor **Alan Buckwell**, research director of the RISE -*Rural Investment for a Sustainable Europe* - Foundation, will share with us his expert insights into how the green transition is altering the EU Common Agricultural Policy. Some aspects of this are likely to be particularly relevant for Lithuania.

Similarly, serious improvement measures need to be taken to transform the Lithuanian transport sector, which is responsible for almost a third of the country's pollutant gasses. Investment in modern public transport, environmentally clean private vehicles and the development of infrastructure that is crucial to them could contribute to the decarbonisation of the transport sector and reduce air pollution.

Regarding the fossil fuels, it should be noted that the recent substantial increase in gas and gas-based energy prices clearly demonstrates the need to urgently invest in renewable energy as a way to reduce the dependency on fossil fuels and external energy suppliers.

Green energy is the key to energy autonomy of Lithuania and the European Union as a whole. If Europe becomes self-sufficient in terms of green energy, the influence of oil and gas will diminish. At the same time, their impact on fluctuations in consumer prices would also weaken, contributing to the overall price stability. Moreover, climate-friendly investment, for example, the

creation and development of clean energy technology as well as production of other related products, the demand of which will rise in the future, would not only solve climate change problems but also help the country's economy to boost its value chain.

However, we must accept that the practical implementation of these ambitions will not be a walk in the park. The green direction and the corresponding economic transformation are fundamentally changing the potential of the Lithuanian economy. New and sustainability-oriented economic models created an opportunity for countries to return to the starting line. To thrive, we must have a clear policy vision and help businesses discover new profitable business models that would reflect the green needs of the consumer and be a part of a circular economy. We must make every effort to ensure that the green transition in Lithuania is a success story. We must ensure that the funding under the EU Recovery and Resilience Facility – almost 1 billion euros earmarked for Lithuanian green goals – is absorbed fully and in a targeted way, bringing Lithuania among the leaders of sustainable economic growth.

The topics of the economic aspects of the green transformation will be covered during the second session of the conference this afternoon. Ms **Rasa Tumaševičiūtė** and Ms **Jurgita Giržadienė** will share their insights on how the Lithuanian businesses can become more competitive in seeking green solutions, and the honourable Minister of Environment of the Republic of Lithuania **Simonas Gentvilas** will give a more in-depth explanation of a long-term vision for curbing climate change and energy policy. Ms Rasa and Jurgita, honourable Minister, I am glad you agreed to join our discussions today.

Dear colleagues,

The transformation of the economy is only feasible with the creation of an adequate incentive system.

International institutions, including the International Monetary Fund, claim that taxes, especially the CO<sub>2</sub>-related taxation is the most efficient tool for combating climate change.

Unlike investments or the regulation of pollution, the benefits of taxation on exhaust gasses are twofold: they not only correct the market failures but also generate tax revenues. The CO<sub>2</sub>-type of taxation is not yet in place in Lithuania. On the contrary, we have quite a few tax reliefs for fossil fuels. I will be honest: to achieve our climate targets, Lithuania must explore ways to change its taxation system and impose a bigger levy on pollution. It is important to stress here that all taxes must be imposed in compliance with the principles of justice and promoting sustainable economic growth. On the other hand, taxes will only be effective provided the possibility to manipulate them is curbed. For that the EU contribution is vital. In particular, we have to agree on the Carbon Border Adjustment Mechanism (CBAM) of the EU.

I am thrilled that today **Mrian Parry**, Principal Environmental Fiscal Policy Expert of the International Monetary Fund, will tell us more about the role of fiscal policy in mitigating climate change.

Although fiscal measures play the main role in fighting the global warming, central banks can also contribute to greening the economy. In principle, all areas of activity within our competence can be adjusted to become greener. At the Bank of Lithuania, we believe that in order to change the world, we must first change ourselves. Sustainability is one of the strategic objectives of the Bank of Lithuania. Our goal is a green bank and sustainability in all areas of our activities, be it public procurement or the financial assets investment portfolio of the Bank of Lithuania, which we are restructuring to completely meet all the principles for responsible investing.

Regarding external sustainability, the direction of the Bank of Lithuania that is pointed towards greening of the financial sector, I would like to mention some priority areas that contribute to attaining our goals.

First, it is necessary to effectively manage risks related to climate change and elements of sustainability. I mean the Environmental, Social and Governance risks that are usually referred to as the ESG. Both the physical climate risks of draughts, floods and other similar cataclysms, and the risks related to the period of transition towards a new model of sustainable economy must become an integrated part of the financial stability monitoring efforts.

The second objective is integrating the ESG risks into the supervision of financial market participants, by identifying climate change-related risks that are relevant to them and by integrating the green aspects into all the stages and actions of supervision. It means that the green criterion will be considered when conducting business model analysis, assessing compliance with the capital and liquidity requirements, stress testing and in other supervision exercises.

Moreover, one of our priorities is making sure that funding is available, sufficient, and focused on greening the real economy. Particular attention must be paid to the small and medium-sized firms, the SMEs, which are the backbone of our economy.

Finally, the monetary policy. Two months ago, the European Central Bank concluded its review of the monetary policy strategy. One of the outcomes of the review is a strong commitment of the European Central Bank to continue integrating climate change aspects into the monetary policy framework. It means that sustainability will be included into monetary policy operations in fields of information disclosure, risk assessment, collateral framework, and asset purchase programs.

Nevertheless, sustainability is a new field for central banks that poses many challenges. That is why I highly look forward to hearing the remarks by a colleague from the Central Bank of the Netherlands, a member of the Governing Board, **Olaf Sleijpen**, on standardising climate change-related risk estimates, how central banks can assess the impact of their reserves on the CO2 emissions, as well as the possibility of mitigating the effects of climate change on local financial markets through central bank investment portfolios.

Dear all,

We are at a point of no return. There is only a way forward, and that way must be green.

The coronavirus pandemic has demonstrated that people can change their habits, if needed. Governments can take determined actions that change economic prospects. We can green our economies as well as manage the risks of transformation to a more climate-friendly economy. We know that we can identify the employees and regions most affected by such an economic transformation and we must create compensatory mechanisms, ensure effective retraining, and create new jobs in climate-friendly activities.

However, economies cannot become entirely green until the green thinking does not prevail in our societies. Environmental, economic, and financial literacy here plays a crucial role. Therefore, we have set economic and financial education as one of strategic objectives at the Bank of Lithuania.

It's symbolic that today, during our main yearly economic conference, we present a gold collector coin dedicated to the Social Sciences. This coin completes the 'Lithuanian Sciences' series.

The design of the coin reflects the multidisciplinary nature and interconnectedness of social sciences, economics being their integral part. The reverse of the coin, which contains a carved geometric symbol of separate cubes, forming the common societal construction, demonstrates that **only by acting together, we can overcome the challenge of climate change and implement the vision of a sustainable future.**

Today's discussions bring together many competent and professional participants from Lithuania and abroad. I am glad that this topic draws the attention of the representatives of Seimas, ministries, and non-governmental organisations. I believe that our conversation can give an impetus to make better use of emerging opportunities when **creating pathways towards the green economy**.

Thank you for your attention and I wish you a meaningful discussion.

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<sup>1</sup> 17% directly and 14% through land use.