SPEECH

Nature in decline, economy on the line: the importance of international cooperation for managing nature-related risks

Opening remarks by Frank Elderson, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the NGFS Annual Plenary Event panel discussion on “Incorporating nature into supervisory practices”

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We are living in unprecedented, turbulent times.

Almost by the week, we see the proliferation of conflicts, an erosion of the international rule-based order and collapsing international cooperation across several domains.

In the face of multiple challenges, the very urgent often overtakes the vitally important. It is tempting, and quite frankly a natural human reaction, to focus on the most immediately visible issues.

With numerous severe challenges vying for our attention, today’s event – where we are welcoming representatives from all six continents to focus on the ongoing climate and nature crises – conveys a powerful and hopeful message. It shows that coming together, cooperating and engaging with one another across borders is possible and indeed imperative in times of profound disruption and volatility.

At a time when some question the value of international cooperation, interest in the coordinated, pragmatic and evidence-based work of the central banks’ and supervisors’ Network for Greening the Financial System (NGFS) remains high – as your participation shows.[1] This is a testament to the undeniable significance of the climate and nature crises for the economy and for the financial system – and hence our mandates as central bankers and supervisors.[2] The NGFS is well-established as the go-to forum for exchanging good practice, consolidating knowledge and helping supervisors maintain forward momentum.

Growing evidence of nature affecting the economy

Nature is the life-support system on which our economies depend.

The World Bank estimates that as much as half of the world’s GDP relies on biodiversity, nature capital and ecosystem services.[3]

In the euro area, nearly 75% of banks’ corporate lending goes to firms that are highly dependent on at least one ecosystem service.[4]

To take a very specific example: over half of essential medicines like antibiotics and painkillers depend on plants and other natural resources.[5]

And yet while nature sustains us, we continue to strain it: intensive land use, climate change, pollution, overexploitation and other anthropogenic pressures are critically depleting our planet's resources at a rapid pace. We are running an ecological deficit by using natural resources 1.7 times faster than ecosystems can regenerate them. Put simply: we are in a structural deficit with nature, year after year.

What's more, degraded nature also impedes our ability to mitigate the climate crisis and strips away our capacity to adapt to its effects. Healthy nature acts as our first line of defence against global heating and related extreme weather events. Take, for instance, marine and terrestrial ecosystems, such as swamps, oceans or forests; they act as natural carbon sinks, absorbing roughly half of all human-induced carbon emissions.[6] Or consider another example: wetlands around rivers act as giant sponges, storing excess rainwater and releasing it slowly, which protects urban infrastructure and agricultural land from flooding and prevents widespread business disruption.

Accounting for nature in banking supervision

If nature degradation continues at its current pace, business revenues will be even more starkly affected than they are now. This will impede loan repayments from firms, take a toll on bank balance sheets and may ultimately put financial stability at risk. In this context, it is no surprise that many supervisors have taken action to incorporate nature-related risks into their prudential oversight.[7]

Take Brazil, for example, where 46% of corporate credit portfolios in the banking sector are allocated to companies that are highly or very highly dependent on one or more ecosystem services.[8] Back in 2021, Brazil's central bank drafted a social, environmental and climate risk document with the goal of collecting relevant information from financial institutions.

Or think of Hungary, where the central bank launched a two-year project with the OECD aimed at mapping the financial risks arising from declining biodiversity.[9]

Or look at the Swiss Financial Market Supervisory Authority, which has published a new circular on climate and nature-related financial risks with proportional timelines for implementation.[10]

Later this month, the NGFS will publish a guide that includes clear recommendations designed to help supervisors and financial institutions address nature-related risks. In addition to providing practical advice on metrics, data and risk monitoring, the guide also stresses the importance of forward-looking tools like scenario analyses and stress testing. With the foundational toolkit developed by the NGFS, all central banks and supervisors around the world can get started, go deeper and move further when it comes to good practices on nature.

At the ECB, in our role as banking supervisor, we already began taking action some time ago.[11]

Since 2020 and the very start of our supervisory engagement with banks on climate and nature, we have been consistent in our clear expectation that banks under our supervision not only manage climate risks, but also material nature-related risks.

In 2022 almost 40% of banks had no defined approach to managing nature-related risks, whereas today 75% of banks have quantitative approaches to assess nature-related risks as part of their materiality assessment.

Despite this progress, most banks do not yet systematically link their materiality assessment to a risk management response – there is clearly more work required to move from risk awareness to risk preparedness.

Even if banks' practices to manage climate-related risks are still more advanced, we are also seeing many banks across Europe adopting a growing set of good practices in the area of nature-related risk. This is the case, for example, in scenario analysis, real estate collateral and capital calculations.

To further support banks, we will also include good practices on nature-related risks in the updated compendium that will be published in May this year.

Improving risk assessments related to ecosystem services

Admittedly, accounting for nature and ecosystem services is not an easy task. Unlike for the climate crisis – which can be quantified through carbon emissions and their direct links to rising temperatures – there is no single obvious metric that can be used to quantify the wide range of ecosystem services.

Encouragingly, a range of stakeholders – in academia, firms, banks, central banks and supervisory authorities – are taking action to better account for the implications of ecosystem degradation for variables of economic interest like growth, inflation and financial risks.

To that end, the ECB has teamed up with experts from the University of Oxford and the London School of Economics with the objective of improving our understanding of how much economic activity is actually at risk from nature degradation.

Our analysis finds that too much water, too little water or polluted water pose the most urgent risk to economic output in the euro area from a value-added perspective. Surface water scarcity alone could put up to 24% of euro area economic output at risk.

Using AnaCredit data covering about €4.4 trillion of bank loans, we found that 19% are exposed to surface water scarcity, rising to 22% when also considering groundwater scarcity. The economic sectors most affected are real estate, manufacturing and trade. This tells us that worsening water scarcity and declining water quality could become material sources of credit risk, potentially amplifying systemic vulnerabilities in the euro area financial system.

In the coming months we will publish research that analyses in detail how much banks' credit portfolios will deteriorate in the economic sector most affected by dwindling ecosystems.

The Banque de France recently published a study that shows how ecosystem service disruptions in France could drive up food prices by over 2% and add about 0.5% to inflation[12], highlighting once again the relevance of nature degradation for central banks' price stability mandate.[13]

Work by the Banco de España shows that a combination of extreme weather events and environmental degradation in the Mar Menor – Europe's largest saltwater lagoon – has resulted in real estate losses of more than €4 billion. Strikingly, this figure is ten times higher than the amount earned over the last 20 years from converting the surrounding land into irrigated farmland, which is one of the main drivers of the environmental degradation.[14]

And a nature stress test conducted by McKinsey on five African banking systems – in Ghana, Mauritius, Morocco, Rwanda and Zambia – found that an orderly transition scenario could significantly reduce credit risk in most countries. In the case of Zambia, losses would be reduced by almost 20% by 2050.[15]

Close cooperation is more important than ever

Clearly, the effects of nature degradation are far-reaching and material, and the contribution nature can make to our economies – and our way of life – is steadily diminishing.

Today around 80% of arable land worldwide is affected by soil erosion, salinisation and biodiversity loss.[16] These pressures are projected to reduce global food productivity by 12% by 2040, increasing food prices by up to 30%.[17]

In its recent landmark report, approved by more than 150 member governments, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) warns that biodiversity loss is among the most serious threats to businesses.[18]

Put bluntly: if we keep destroying nature, we keep destroying economic activity. And this leads to risks surging, prices rising and instability spreading to every part of society and across borders.

Therefore all of us – central banks, supervisors, banks and the research community – must work closely together in lockstep with the latest scientific evidence to further develop practices for addressing nature-related risks.

The NGFS is really the place where all these initiatives and actions come together to better grasp risks and ultimately keep financial systems resilient in the face of the accelerating nature crisis.

Working together within the NGFS we can make sure that a foundational climate and nature toolkit for central banks and supervisors is readily available for whoever wants to get started and make further progress in this field.

So let us keep moving forward.

Let us refine our approaches and continue sharing sound practices.

Let us shape solutions that match the scale of the task at hand.

Because in the face of the ongoing nature crisis, inaction is never neutral.

Where fragilities form, where risks rise, where resilience recedes, we must continue to act.

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

1.

Despite political headwinds, the NGFS today is a global coalition of 149 members and 24 observers.

2.

Central banks and supervisors are not nature policymakers, rather they are policy-takers. Preventing nature degradation is the responsibility of elected governments, as they set environmental policy. For our part as central banks and supervisors, we must take nature-related risks into account in the pursuit of our price stability and financial stability mandates.

3.

World Bank (2025), *Mainstreaming Nature into World Bank Macroeconomic Models: Overview Report*, Washington, D.C.

4.

For dependency analysis, 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, ECB.

5.

World Health Organization (2025), "Biodiversity", *Fact Sheets*, 18 February.

6.

According to the 2025 carbon budget assessment, land and ocean have drawn down 21% and 29% of human-induced CO_2 emissions in the past decade. Owing to the effects of climate change and deforestation, land and ocean CO_2 sinks are 25% and 7% smaller, respectively, than they would otherwise have been. Combined, this is equivalent to the total sink (land and ocean) being nearly 20% smaller than it should be.

7.

In doing so, many supervisors took inspiration from the NGFS conceptual framework on nature-related risks that details how nature degradation can create physical and transition risks.

8.

Financial Stability Board (2024), "Stocktake on Nature-related Risks – Supervisory and regulatory approaches and perspectives on financial risk", 18 July.

9.

Magyar Nemzeti Bank (2024), "The joint biodiversity project of MNB and OECD with the support of the European Commission".

10.

Swiss Financial Market Supervisory Authority FINMA (2024), "FINMA publishes new "Nature-related financial risks" circular", press release, 17 December.

11.

In addition to the steps taken from a supervisory perspective, the ECB takes nature degradation into account equally seriously in the pursuit of its price stability mandate. See Elderson, F. (2025), "Deepening our commitment to confronting the climate and nature crises", welcome address at the International Monetary Fund OEDNE/World Bank Group EDS19 Constituency Meeting, Luxembourg, 4 July; and Lagarde, C. (2025), "Strategy assessment: lessons learned", introductory speech at the opening reception of the ECB Forum on Central Banking, Sintra, 30 June.

12.

It finds that a one-off shock to major crop yields could raise food inflation by over 2 percentage points and add about 0.5 percentage points to headline CPI inflation (within one to two years) in France. Repeated or intensified shocks would risk more persistent inflation. See Wegner, O. et al. (2025), "Seeds of Inflation: Macro Modelling of Nature-Related Risks through Agricultural Prices", *Working Paper Series*, No 1006, Banque de France, Paris, 29 July.

13.

Considering the pivotal role of nature in fulfilment of the price stability mandate, the ECB's Governing Council – in its latest strategy assessment – committed, within its mandate, to ensuring that it fully takes into account the implications of both climate change and nature degradation for monetary policy and central banking. See ECB (2025), "ECB's Governing Council updates its monetary policy strategy", press release, 30 June.

14.

Lamas, M. and Pérez Quirós, G. (2024), "What is the economic impact of climate change and environmental degradation? The case of house prices in the Mar Menor area", *Banco de España Blog*, Banco de España, 20 June.

15.

FSD Africa and the African Natural Capital Alliance (2024), *Nature stress test: Assessing exposure of five African banking systems*, McKinsey & Company, July.

16.

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) estimates that between USD 235 billion and USD 577 billion worth of annual global food production is at risk due to the decline of pollinators, as outlined in IPBES (2025), *The assessment report on pollinators, pollination and food production – summary for policymakers*.

17.

Wegner, O. et al. (2025), op. cit.; United Nations Environment Programme (2021), *Becoming #GenerationRestoration: Ecosystem restoration for people, nature and climate*, Nairobi; Kopittke, P.M. et al. (2019), "Soil and the intensification of agriculture for global food security", *Environment Internationa*l, Vol. 132, Elsevier, Amsterdam, November.

18.

Jones, M. et al. (2026), *IPBES Business and Biodiversity Assessment: Summary for Policymakers*, United Nations, Manchester, United Kingdom, 8 February.

CONTACT
European Central Bank
Directorate General Communications
Sonnemannstrasse 20
60314 Frankfurt am Main, Germany
+49 69 1344 7455
media@ecb.europa.eu

Media contacts

European Central Bank