

## READING LIST GROUP PROJECT: Sustainable Finance: Hoax or Necessity?

### Introduction:

The following group project presents a reading list of sources related to Central Banking, Monetary Policymaking, and Climate Change as well as their overlap and interconnections. Additionally, it refers to the European Central Bank (ECB) and People's Bank of China (PBoC) as examples. Climate change currently is reflected in the steady continuous rise of global average temperatures over the past several decades and consequences thereof such as extreme weather events. There has been a tendency to think of tackling climate change through central bank monetary policymaking.

### List of topics:

1. Central Banking and monetary policy making in general
2. Status Quo and contesting of central banks' mandate and instruments
3. Connection between Monetary Policy and Climate Change
4. Examples
  1. European Central Bank and Climate Change
  2. Central Bank of China and Climate Change

### 1. Central Banking in General

- Gabor, D. (2021): Revolution without Revolutionaries - Interrogating the return of monetary financing. Finanzwende & Heinrich-Böll-Foundation. [https://transformative-responses.org/wp-content/uploads/2021/01/TR\\_Report\\_Gabor\\_FINAL.pdf](https://transformative-responses.org/wp-content/uploads/2021/01/TR_Report_Gabor_FINAL.pdf)
  - The paper gives an overview central banking in relation to shadow banking after the Financial Crisis and central banks role as Market Maker of Last Resort.
- ECB (2015): What is <https://www.ecb.europa.eu/ecb/educational/explainers/tell-me/html/what-is-a-central-bank.en.html>
- A quick and easy explainer on central banking and monetary policy for anyone without previous background: IMF. (2022). Monetary Policy and Central Banking. <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/20/Monetary-Policy-and-Central-Banking#:~:text=Central%20banks%20conduct%20monetary%20policy,in%20money%20from%20commercial%20banks.>
- Leeper, E. M., Christopher A. Sims, Tao Zha, Robert E. Hall and Ben S. Bernanke., (1996). What Does Monetary Policy Do?. <https://www.jstor.org/stable/2534619>
- Walsh Carl,E., (2010). Central Bank Independence. [https://link.springer.com/chapter/10.1057/9780230280854\\_3](https://link.springer.com/chapter/10.1057/9780230280854_3)
- Garrigaa Ana, C. and Rodriguez, Cesar M. (2020). More effective than we thought: Central bank independence and inflation in developing countries. <https://www.sciencedirect.com/science/article/abs/pii/S0264999317318266>
- [https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200928\\_1\\_annex~72eb5dc020.en.pdf](https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200928_1_annex~72eb5dc020.en.pdf) press release from ecb
- Durrani, A., Volz, U., & Rosmin, M. (March 2020): The Role Of Central Banks In Scaling Up Sustainable Finance- What Do Monetary Authorities In Asia And The Pacific Think? ADBI Working Paper Series, No.1099. <https://www.adb.org/sites/default/files/publication/575571/adbi-wp1099.pdf>.
  - This paper presents the findings of a survey among 18 central banks from Asia and the Pacific regarding their views on and policies regarding sustainable finance. The paper finds that A number of central banks and supervisory authorities are already promoting sustainable financing options explicitly or

implicitly. While most respondents did not believe that current regulatory frameworks implicitly support high-carbon industries, several are initiating beneficial capital provisions or regulatory frameworks to encourage banks to scale up lending to low-carbon industries. Most of the respondents are yet to develop capacity building or training programs for their staff or the external financial community, although a number of initiatives are underway.

- BIS (2021): Sustainable Finance Data for Central Banks- 2021 Survey Conducted by the Irving Fisher Committee on Central Bank Statistics (IFC). IFC Report No 14. [https://www.bis.org/ifc/publ/ifc\\_report\\_14.pdf](https://www.bis.org/ifc/publ/ifc_report_14.pdf).
  - The Irving Fisher Committee on Central Bank Statistics (IFC) conducted a survey on sustainable finance statistics among its members. It received 63 answers, with detailed information provided by 28 advanced economies (AEs) and 31 emerging market economies (EMEs). The purpose was to identify ESG data needs, availability and gaps from the perspective of the central banking community.

## 2. Status Quo and contesting of central banks' mandate and instruments

- Klüh, U.; Urban, J. (2022): Independently green? An integrated strategy for a transformative ECB, ZNWU Discussion Paper, No. 9, Hochschule Darmstadt, Fachbereich Wirtschaft, Zentrum für Nachhaltige Wirtschafts- und Unternehmenspolitik ZNWU, Darmstadt. <http://hdl.handle.net/10419/251966>
  - central bank transformation in generell plus critique of new strategy
- Braun B., Downey, L. (2020): Against Amnesia: Re-Imagining Central Banking. <https://www.cepweb.org/wp-content/uploads/2020/01/CEP-DN-Against-Amnesia.-Re-Imagining-Central-Banking.pdf>
  - The purpose of the paper is to identify and challenge contemporary adherence to the core of the prevailing monetary policy consensus. They argue that one should think of central banking not as a hammer – a tool to hit inflation where it rears its ugly head – but as a Swiss army knife – a multipurpose tool with many instruments.
- van't Klooster, J., van Tilburg, R. (2020): Targeting a sustainable recovery with Green TLTROs. Positive Money. <http://www.positivemoney.eu/wp-content/uploads/2020/09/Green-TLTROs.pdf> ; shorter here: <https://www.project-syndicate.org/commentary/ecb-interest-rate-hikes-financial-stability-green-transition-by-jens-van-t-klooster-1-2022-06?>
  - The authors recommend expanding central banks' toolkit and propose Green TLTROs, which are refinancing operations that provide banks with cheap funding if they lend in accordance with the EU's taxonomy of green activities.
- Eliet-Doillet, A. and Giulio Maino, A (2022): 'Central Banks' "Green Shift" and the Energy Transition. OIES Paper: ET No. 10. <https://www.econstor.eu/handle/10419/253284>.
  - This paper compares the central banks of the European Union and the United Kingdom in their green policy initiatives.
- Dikau, S. & Volz, U. (2021): Central Bank Mandates, Sustainability Objectives and the Promotion of Green Finance. Grantham Research Institute, London School of Economics and Political Science, 32 Lincoln's Inn Fields, Holborn, London WC2A 3PH, UK. [https://www.researchgate.net/publication/350165690\\_Central\\_bank\\_mandates\\_sustainability\\_objectives\\_and\\_the\\_promotion\\_of\\_green\\_finance](https://www.researchgate.net/publication/350165690_Central_bank_mandates_sustainability_objectives_and_the_promotion_of_green_finance).
  - This article examines how addressing climate-related risks and supporting mitigation and adaptation policies fit into central bank mandates. It conducts an analysis of mandates and objectives using the IMF's Central Bank Legislation Database and compare these to sustainability-related policies central banks have

adopted in practice. Out of 135 central banks, only 12% had explicit sustainability mandates, while 40% were mandated to support the government's policy priorities, which mostly include sustainability goals. However, given that climate risks can directly affect central banks' traditional core responsibilities, recommendation was made for all central banks to incorporate climate related physical and transition risks into their policy frameworks to safeguard macro-financial stability.

- Dafermos, Y., Gabor, D., Nikolaidi, M., Pawloff, A. and van Lerven, F. (2020): Decarbonising is easy: Beyond market neutrality in the ECB's corporate QE. London: New Economics Foundation. <https://eprints.soas.ac.uk/id/eprint/34178>
  - argues that the ECB should abandon its market neutrality approach, the key driver of this carbon bias, and adopt alternative low-carbon strategies. We suggest two such strategies in which carbon-intensive bonds are replaced with more climate-friendly bonds. These strategies would significantly reduce the climate footprint of the ECB corporate QE and would make companies' access to finance more aligned with the targets of the Paris Agreement.

### 3. Connection between Monetary Policy and Climate Change

- Batten, S., Sowerbutts, R. and Tanaka, M. (2020): Climate change: Macroeconomic impact and implications for monetary policy, in Walker, T. et al. (eds). Ecological, Societal, and Technological Risks and the Financial Sector. Palgrave Macmillan (Palgrave Studies in Sustainable Business In Association with Future Earth). doi: 10.1007/978-3-030-38858-4.
  - This paper gives an general overview of how the transitional and physical risks of climate change could affect central banks' ability to meet their monetary and financial stability objectives.
- Löscher, A., Kaltenbrunner, A. (2022): Climate change and macroeconomic policy autonomy in developing and emerging economies', *Journal of Post Keynesian Economics*, accessed at <https://doi.org/10.1080/01603477.2022.2084630>.
  - This paper addresses the macroeconomic challenges stemming from the double affectedness of climate change and dependence on external finance in peripheral countries. The paper uses the Post-Keynesian concept of an asset's own rate of return to assess how susceptibility to the combined effects of erratic capital flows and the vulnerability vis-a-vis the physical and transitional risks of climate change reduces macroeconomic policy space.
- Dikau, S. & Volz, U. (2019). *Central Banking, Climate Change, and Green Finance*. Asian Development Bank Institute. [https://doi.org/10.1007/978-981-13-0227-5\\_17](https://doi.org/10.1007/978-981-13-0227-5_17).
  - Central Banks, through their regulatory oversight over money, credit and the financial system, are in a powerful position to support the development of green finance models and enforce an adequate pricing of environmental and carbon risk by financial institutions. This chapter of the book explores the public financial governance policies through which central banks, as well as other relevant financial regulatory agencies, can address environmental risk and promote sustainable finance.

## 4. Examples

### 4.1. European Central Bank

- Dullien, S., Tober, S. (2021): ECB strategy: Best practice and new frontiers, IMK Policy Brief, No. 105, Hans-Böckler-Stiftung, Institut für Makroökonomie und Konjunkturforschung (IMK), Düsseldorf. <http://hdl.handle.net/10419/237920>

- Preventing or reversing labor market hysteresis should factor into monetary policy decisions as should climate change considerations. In contrast, the lack of owner-occupied housing services in the HICP is often overstated and might lead to the potentially detrimental inclusion of asset prices in the inflation measure. A political solution to the euro area's safe asset problem - outside the ECB's remit - would facilitate monetary policy, increase the overall resilience of the euro area and bolster the international role of the euro
- Flaherty, E., Green Central Banking (2020): Options for the ECB on Climate Change. <https://www.iieta.com/images/uploads/resources/Green-Central-Banking-Options-1.pdf>
  - Outlines different options for the ECB
- [https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210125\\_1~2d98c11cf8.en.html](https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210125_1~2d98c11cf8.en.html)
  - The European Central Bank (ECB) manages the euro and frames and implements EU economic & monetary policy. Its main aim is to keep prices stable, thereby supporting economic growth and job creation. In order to support economic growth and job creation. The ECB ensures that investors who want to invest their funds are aligned to ESG criteria. Also ECB ensures that financial markets (working in green finance) & institutions are well supervised by national authorities. By supervision they have to check is the activities these institutions are engaging themselves favorable to the environment. And if those institutions are not abiding to the regulations set by ECB. The ECB can impose sanctions on those institutions.
- Cipollone, P.(11-12 March 2022): The Role of Central Banks for Green Finance- A Speech by Deputy Governor of the Bank of Italy. Università di Firenze. <https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2022/Cipollone-2022.03.11.pdf>.
  - This speech examined the role of European policy, The financial system, central banks and the data challenge in enhancing green financing. On the role of central banks, the speech revealed that specifically, the European central bank has ensured the inclusion of Climatic factors in macroeconomic models to monitor the transmission of monetary policy and in monetary policy operations in the areas of disclosure, risk assessment, the collateral framework and corporate sector asset purchases. Also, the ECB has also started to include climate and environmental risks in its banking supervision mandate. In order to promote the smooth operation of payment systems, the Eurosystem has developed important market infrastructure for payment settlement such as the TARGET Instant Payment Settlement, TIPS, allowing instant payments in central bank money, which is a climate friendly payment system as compared to other payment systems.

#### **4.2. Central Bank of China and Climate Change**

- OECD (2021): Sustainable finance definitions and taxonomies in China in *Developing Sustainable Finance Definitions and Taxonomies*. OECD Publishing. <https://doi.org/10.1787/134a2dbe-en> and [https://www.oecd-ilibrary.org/finance-and-investment/developing-sustainable-finance-definitions-and-taxonomies\\_134a2dbe-en](https://www.oecd-ilibrary.org/finance-and-investment/developing-sustainable-finance-definitions-and-taxonomies_134a2dbe-en).
  - This chapter in the OECD comparative report on sustainable finance classifications in various jurisdictions presents an explanatory overview of China's various policy areas and definitions in their approach to sustainable finance.
- Yi Wu, (2016): China's Green Finance Market: Policies, Incentives, Investment Opportunities. China Briefing. <https://www.china-briefing.com/news/chinas-green-finance-market-policies-incentives-investment-opportunities/>.
  - A brief overview of Chinese public authorities' green finance policies, including the Chinese Central Bank since 2016.

