

Public consultation now open: EU geographical indications scheme

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Public consultation now open: EU geographical indications scheme



The European Commission has launched a [public consultation](#) inviting citizens and organisations as well as national and regional public authorities to contribute to the assessment of **how to strengthen the geographical indications system**.

The European Union protects almost 3 400 names of specific products – agricultural products and foodstuffs, fishery and aquaculture products wines, spirit drinks and aromatised wine products – under one of its EU quality schemes: Geographical Indication (GI), Protected Designations of Origin (PDO), Protected Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG).

The goal of the consultation is to gather views on the major challenges identified that would need to be addressed in the planned revision as well as their underlying causes, the set of policy options that can be envisaged to address these challenges and the impacts stemming from these different options.

The questionnaire is available in all EU languages and it can be accessed via the [European Commission web page dedicated to the consultation](#). The deadline for contributions is **9 April 2021**.

BEI respalda la estrategia de innovación de Iberdrola con una financiación de 100 millones de euros



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- **La compañía energética impulsará tecnologías innovadoras y sostenibles en el ámbito de la energía renovable, el hidrógeno verde y la movilidad sostenible y ofrecerá nuevas soluciones eficientes y personalizadas a sus clientes.**

El Banco Europeo de Inversiones (BEI) ha formalizado con Iberdrola, uno de los mayores grupos energéticos por capitalización bursátil a nivel global, una financiación de 100 millones de euros que contribuirá al desarrollo de la estrategia de innovación, investigación y desarrollo de la compañía entre 2021 y 2023. El préstamo ha sido firmado en Madrid por el presidente de Iberdrola, Ignacio Galán, y el vicepresidente del BEI, Ricardo Mourinho Félix, responsable de la actividad del Banco en España y Portugal.

Los fondos obtenidos impulsarán el desarrollo de tecnologías innovadoras y sostenibles, alineadas con los vectores fundamentales de la transformación del sector energético, la descarbonización y la electrificación de la economía. La investigación será aplicada tanto en el ámbito de las energías renovables, en la producción de hidrógeno verde y el desarrollo de

instalaciones eólicas y fotovoltaicas flotantes, como en la integración de energías limpias en el sistema energético, mediante centrales hidroeléctricas de bombeo y baterías.

Asimismo, Iberdrola desarrollará nuevas soluciones para clientes, potenciando un uso más eficiente de la energía y una mayor personalización del servicio, además de la movilidad eléctrica. Para ello, impulsará la digitalización, automatización y la ciberseguridad.

El vicepresidente del BEI, [Ricardo Mourinho Félix](#), responsable de la actividad del Banco en [España](#) y [Portugal](#), ha asegurado: *“El BEI está firmemente comprometido en su apoyo a inversiones que sustenten la mejora de la competitividad de la economía europea y su autonomía estratégica, impulsando proyectos de inversión en investigación, desarrollo e innovación, especialmente aquellos relacionados con el sector energético, dentro del ámbito de la Acción por el Clima del Banco. Este acuerdo pone de manifiesto, una vez más, el papel del BEI como actor clave en la economía europea y principal financiador de inversiones relacionadas con la energía limpia y la acción climática.”*

El presidente de Iberdrola, Ignacio Galán, ha destacado con motivo del acuerdo la importancia de la innovación en Iberdrola: *“La I+D+i está en el ADN de nuestra compañía y seguimos apostando por ser más innovadores, más eficientes y más orientados al cliente. Debemos elevar la ambición y combinar la revolución verde y la innovación como piezas claves de la recuperación económica. Lo venimos demostrando en las dos últimas décadas con carácter pionero y con acuerdos como el alcanzado hoy con el Banco Europeo de Inversiones vamos a reforzar nuestra estrategia de innovación e investigación para seguir adelantándonos al futuro, construyendo soluciones hoy para responder a los retos de mañana.”*

La estrategia I+D+i de Iberdrola contribuye al desarrollo del Plan Estratégico Europeo de Tecnología Energética (SET-Plan) y cumple los nuevos objetivos de la UE en materia de energía limpia. Además de mejorar la competitividad de la empresa y maximizar el uso de tecnología en actividades que aportan valor, mejorando los procesos y la productividad de sus activos o logrando más eficiencia en sus actividades, el apoyo del BEI contribuirá a la lucha contra el cambio climático, a través de tecnologías que permitirán el suministro de soluciones más sostenibles, competitivas y eficientes.

Iberdrola consolida así su liderazgo en inversión en I+D+i en el sector energético europeo y mundial, como herramienta clave para garantizar su sostenibilidad, eficiencia y competitividad y para seguir impulsando la transición hacia una economía verde. Según el informe [‘The 2020 Industrial R&D Investment Scoreboard’](#), elaborado por la Comisión Europea, Iberdrola ha vuelto a ser la primera *utility* privada de la Unión Europea por inversión en I+D+i, tras haber destinado 280 millones de euros en 2019. En este ámbito, la compañía prevé alcanzar los 400 millones de euros a 2025 y, en la última década, sus inversiones en I+D+i se han elevado a 2.000 millones de euros.

Esta financiación responde a los objetivos del BEI y de la UE, enfocados en el apoyo a la energía sostenible y el fomento de la capacidad tecnológica de

las empresas, poniendo de manifiesto el compromiso del Banco en su apoyo de actividades innovadoras encaminadas a la descarbonización de la economía europea.

Sobre Iberdrola

[Iberdrola](#) es un líder energético global, el primer productor eólico y una de las mayores compañías eléctricas por capitalización bursátil del mundo. El grupo suministra energía a cerca de 100 millones de personas en decenas de países como España, Reino Unido (ScottishPower), Estados Unidos (AVANGRID), Brasil (Neoenergia), México, Australia, Alemania, Portugal, Italia o Francia. Con una plantilla de más de 35.000 personas y unos activos superiores a 122.000 millones, obtuvo una facturación de 36.438 millones de euros y un beneficio neto de 3.406 millones de euros en 2019.

Iberdrola lidera la transición energética hacia un modelo sostenible a través de sus inversiones en energías renovables, redes inteligentes, almacenamiento de energía a gran escala y transformación digital para ofrecer los más avanzados productos y servicios a sus clientes. Gracias a su apuesta por las energías limpias, es una de las compañías con menores emisiones y un referente internacional por su contribución a la lucha contra el cambio climático y a la sostenibilidad.

Fabio Panetta: Sustainable finance: transforming finance to finance the transformation

SPEECH

Keynote speech by Fabio Panetta, Member of the Executive Board of the ECB, at the 50th anniversary of the Associazione Italiana per l'Analisi Finanziaria (by videoconference)

25 January 2021

Introduction

I would like to start by thanking the Italian Association for Financial Analysts (*Associazione Italiana per l'Analisi Finanziaria*, AIAF) for inviting me to speak on the occasion of its 50th anniversary.^[1] Promoting high standards in financial analysis is vitally important for guaranteeing the development and the integrity of markets, to ensure they can serve the real

economy. The work performed by the AIAF over the past 50 years in the fields of research, training and reporting and its strong ties with financial operators and savers have helped bring Italian standards in line with international best practice.

The AIAF's ability to keep pace with innovation is clearly reflected in its commitment to sustainable finance, the subject of my speech today.

In recent years, addressing climate change and the transition to a sustainable development model more broadly have become increasingly important. Under the responsible financing approach, companies still aim to create value while taking into account principles such as fair compensation for employees, respect for ethical and social values and environmental protection. Sustainable finance – also known as responsible finance – incorporates environmental, social and governance (ESG) principles into the decision-making processes of financial operators. It represents an important change designed to ensure the financial system is used for the benefit of our collective well-being; in doing so, it has become a vital tool for addressing climate-related risks, which have become increasingly prominent due to the emergence of irreversible damage to the environment (such as the impact on biodiversity and temperature levels).

In my speech today, I will consider the debate on sustainable development and climate-related risks in the light of the shock caused by the coronavirus (COVID-19) pandemic. I will then examine what can be done to strengthen the impact of responsible finance on the economic system and the ECB's role in tackling climate-related risks.

Sustainable development and climate-related risks in the time of the pandemic

The challenge to find a sustainable development path which meets the needs of present generations without compromising the well-being of future generations is not new. The German economist Hans Carl von Carlowitz was already thinking about how resources could be used sustainably as early as the 18th century.^[2]

But it was not until the 1970s and the publication of The Limits to Growth^[3] report that the sustainability of the growth model gained prominence as an item on European and international policy agendas.

Initial analyses of sustainability focused on the risk of non-renewable natural resources being depleted. This focus has gradually widened to include the extent to which our natural systems can cope with the effects of climate change.

The idea that well-being must take into account factors such as equity – within and across generations – and sustainability was brought to the fore in the 2030 Agenda for Sustainable Development, launched by the United Nations in 2015. In the same year, the Paris Agreement^[4] recognised the need to speed up the economy's reduction of CO₂ emissions and to protect the environment for the benefit of both current and future generations.

In recent months the pandemic shock has caused global economic, social and environmental vulnerabilities to resurface, exacerbating them even further and increasing the risk of greater income inequality and a widening of the wealth gap. The pandemic has also emphasised the urgent need to address the problems that are affecting people's well-being.

The UN estimates that the number of people living in poverty worldwide will increase by between 40 and 60 million as a result of the pandemic, undoing the progress made in recent years.^[5] We may also see an increase in gender and generational discrimination owing to the severe impact the pandemic is having on women and young people.

Low-income countries are not the only ones affected by these problems. The pandemic could also bring about an increase in poverty^[6], social exclusion, inequality and challenges to achieving universal energy access in advanced economies, many of which were already a long way from reaching the 2030 Agenda^[7] goals before the crisis struck (Chart 1).

Chart 1

Distances of OECD countries from 2030 Agenda goals



Notes: The chart provides the distribution of the distances (expressed in standard units) of OECD countries from the 17 goals. The blue diamonds show the median distance for OECD countries. Box boundaries show the first and third quartiles of the distribution of countries' performances, and the whiskers show the 10th and 90th percentiles. See [here](#) for detailed metadata.

These worrying developments, which undermine the foundations of inclusive growth, are accompanied by environmental issues, in particular climate change. Natural disasters that occurred in 2018 caused more than 20,000 deaths worldwide and deprived 29 million people of livelihoods, resulting in damages estimated at USD 23 billion. Together with 2016, 2020 was the warmest year on record. Climate scenarios predict that global temperatures will continue to rise over the course of the 21st century, resulting in more frequent and more intense extreme natural events, with negative implications for ecosystems and public health.

Economic activity is both a cause and a victim of climate change.

It is a cause for example due to the use of fossil fuels for energy: three-quarters of greenhouse gas emissions are generated from fossil fuel combustion. Climate change has also had an impact on human activities: rising average temperatures, with pronounced fluctuations, affect all sectors, particularly those more susceptible to natural events, such as agriculture. Frequent and intense heatwaves and hydrogeological phenomena can have significant economic consequences, while gradually rising sea levels threaten coastal communities throughout the world.

It is clear that we need to ensure the sustainability of our development model, starting by gradually moving away from the use of fossil fuels.

In recent months, the steps taken to limit the consequences of the pandemic have temporarily slowed the rise in emissions. According to NASA, between February and May 2020 atmospheric CO₂ concentrations fell compared to pre-crisis levels to a level consistent with the achievement of the targets set by the Paris Agreement.^[8]

But this will only be a temporary improvement unless climate policy changes course, particularly if there is not an adequate carbon pricing system that penalises emissions.^[9] The challenge facing us now is how to support general well-being while keeping emissions at levels that comply with the Paris Agreement.

Monetary and fiscal authorities are responding by introducing decisive policies designed to revive development. But we cannot just limit our efforts to returning things to how they were before. We must seize this opportunity to modernise our economy, reduce social and environmental vulnerabilities and bring about change that makes development sustainable.

The contribution of responsible finance

In the financial world, interest in sustainable growth has long been limited to a small group of specialist operators.^[10] But things have changed in recent years.

The Paris Agreement explicitly recognised the vital role of the financial system in promoting responsible development.

Since 2015 ESG investment funds have increased the total assets they manage by over 170%. Between January and October 2020, this category of funds in Europe saw net inflows of more than €150 billion, nearly 80% more than in the same period the previous year.^[11] According to market operators, this trend is set to continue.^[12]

Chart 2

Euro area: assets of global ESG funds by asset class (left) and distribution of holdings across euro area sectors (right)

USD billions (left); percentage (right)



Notes: The pie chart on the right is based on a sample of 1,076 ESG funds domiciled in the euro area, comprising 554 equity funds, 262 bond funds and 216 mixed funds. Mixed funds are classified as equity or bond funds if the respective share of equity or bond investments exceeds 50%. ICPFs: insurance corporations and pension funds; IFs: investment funds.

Sources: Bloomberg Finance L.P. and ECB report (left); Bloomberg Finance

L.P., Refinitiv, ECB securities holdings statistics per sector and ECB calculations (right).

This change of pace primarily reflects the impetus coming from the authorities at global level. I have already mentioned the UN's 2030 Agenda and the Paris Agreement. But awareness of social and environmental issues among young people, who are less inclined than the generations before them to separate consumption and investment decisions from sustainability-related issues, has also had an impact.^[13]

According to the UN, implementing the 2030 Agenda will require total investment of between USD 5 to 7 trillion per year.^[14] The European Commission has also estimated that in order for the EU to meet its 2030 climate target, new investment of up to €260 billion per year will be required over the next decade.^[15]

Whether investment programmes of this scale can be implemented will largely depend on the cost and availability of financial resources. The lower cost of capital compared with traditional investments – also referred to as the green premium – could encourage the launch of new sustainable projects. However, empirical analyses show that this premium would be small at best.^[16] It is therefore unrealistic to imagine that the huge volume of investment needed to ensure sustainable development can take place without the involvement of the public sector, for example in order to raise the price of coal by strengthening the emissions trading system^[17] or to support research and development of alternative energy sources.^[18]

In order to boost the contribution made by sustainable finance, the financial instruments offered to investors must be trustworthy and easy to understand. Lenders also need to be able to assess whether investment projects are consistent with their own financial and non-financial objectives.

There needs to be detailed information about whether investments meet sustainability criteria. At the moment, the data available are scarce and of poor quality – for example, the ESG ratings of individual companies produced by a range of analysts are based on different methods and are poorly correlated (Chart 3).^[19] Here too, public sector involvement, in particular effective regulation, is necessary.

The European Union is leading the way internationally in terms of regulating sustainable finance. But further progress would be welcome, also in view of the launch of the European Green Deal^[20] and the European Commission's soon-to-be-published renewed sustainable finance strategy.

The review of the Non-Financial Reporting Directive could result in significant progress being made^[21] by expanding the range of companies subject to sustainability reporting requirements, establishing common assessment criteria and ensuring an appropriate degree of data granularity. Empirical evidence indicates that disclosure makes firms pay closer attention to sustainability without worsening their performance.^[22]

Chart 3

Correlation of environmental scoring performance by Bloomberg and Refinitiv



Notes: The Bloomberg and Refinitiv environmental scores give values between 0 and 100, whereby a higher value indicates a better performance in terms of environmental variables. Sources: Bloomberg, Refinitiv EIKON and ECB own reports.

There is a need for the definitive launch of the classification system (or taxonomy) of sustainable activities^[23], planned for 2022. The use of this tool by analysts, banks and companies will require further steps, such as approving delegated acts and establishing guidelines.

The new regulatory framework will need to offset investors' information requirements against the need to avoid overly complex and burdensome transparency obligations for issuers, particularly small and medium-sized ones.^[24]

Lastly, the development of sustainable finance requires global cooperation, also considering that around 90% of the global emissions are produced outside Europe. Coordination is necessary in order to adopt a common set of rules and practices for taxonomies and non-financial reporting criteria, and to establish procedures to prevent opportunistic behaviour and regulatory arbitrage. This year's G20 presidency provides Italy with a unique opportunity to put these issues at the top of the international agenda.^[25]

What is the ECB's role?

In recent months the ECB has launched a reflection process to identify policies through which it can contribute to the climate transition in full accordance with its mandate under EU law.^[26]

Article 127 of the Treaty on the Functioning of the EU states that the primary objective of the ECB is to maintain price stability. The Treaty also states that, as a secondary aim, the ECB shall support the achievement of the EU's objectives. And Article 3 of the Treaty includes sustainable development among these objectives.

The monetary policy stance has at best only a negligible impact on environmental risks. This is due to both its very different time horizon compared with climate change^[27] and the fact that it cannot target individual sectors. However, the economic and monetary analysis that underpins the monetary policy stance should also take into account the shocks caused by climate change to both conjunctural and structural developments.^[28]

The ECB can contribute to environmental policies in the implementation of monetary policy – what we refer to as the operational framework. We have already taken steps in this direction, for example by including sustainable

finance instruments – the sustainability-linked bonds – among the collateral that can be used in refinancing operations.^[29] In addition, to ensure that it remains financially sound, the ECB has to protect its balance sheet from the financial risks caused by climate change that are not correctly priced by the markets.^[30] By performing its own analysis of these risks on the basis of rigorous methodologies, the ECB can contribute to the accurate valuation of these climate-related risks and promote awareness among investors, thereby helping to combat climate change. These issues are currently being considered as part of our monetary policy strategy review.

But it is not just monetary policy that is affected. Climate change has an impact on the overall stability of the financial system. The most vulnerable intermediaries are those that operate with long time horizons and are exposed to the consequences of extreme events, such as insurance companies. We are currently defining models that could be used to measure the systemic risks caused by climate change, including through specific stress analyses.

ECB Banking Supervision – the ECB’s supervisory arm – has also recently published its expectations on how banks should manage climate and environmental risks in their balance sheets. Looking ahead, this could then influence banks’ capital and public disclosure, increasing awareness among intermediaries and investors of these risks.^[31]

Lastly, the ECB is actively involved in European and international initiatives aimed at improving information on the environmental impact of companies and intermediaries.

Conclusion

Advanced economies have long been characterised by a high level of savings and insufficient investment. Productivity growth is subdued, while interest rates and inflation are at historically low levels.

The pandemic shock has squeezed the spending capacity of households and businesses and caused widespread uncertainty, accentuating these trends. Exiting the crisis will require prolonged support from economic policies – both monetary and fiscal – and a significant increase in productive investment.

Sustainable investment projects can play a crucial role in helping to reabsorb excess savings and raise growth potential, while also setting out a growth path that reduces social vulnerabilities and counteracts climate and other environmental risks.

The recovery and resilience plans that European countries are being asked to prepare so that they can access the Next Generation EU funds are an opportunity to relaunch growth, steering it to a sustainable path.

If used wisely – to increase human capital, to invest in technology and to protect the environment – these funds can help us transition from a crisis with dramatic implications to an opportunity for progress. We need to be bold and forward-looking in seizing this opportunity and do so in a timely manner.

Responsible finance can play an important role in reconciling development with environmental, ethical and social values. The next European strategy on sustainable finance provides an opportunity to align financial flows with these values.

The ECB has started to reflect on how it can contribute to responsible development. A central bank that is responsive to the needs of citizens – both now and in the future – has a duty to be mindful of the demands of sustainable development in order to ensure stability in all its forms: first and foremost monetary stability, but financial, environmental and social stability too.

[Christine Lagarde: Climate change and central banking](#)



SPEECH

Keynote speech by Christine Lagarde, President of the ECB, at the ILF conference on Green Banking and Green Central Banking

Frankfurt am Main, 25 January 2021

In the famous fable “Belling the Cat”,^[1] a group of mice gather to discuss how to deal with a cat that is eating them one by one. They hatch a plan to put a bell on the cat so they can hear it coming and escape before being caught. When it comes to who will actually do it, however, each mouse finds a

reason why they are not the right mouse for the job, and why another mouse should do it instead. The cat never does receive a bell – and the story ends poorly for the mice.

In many ways, that fable describes mankind's reaction to the threats posed by climate change. Already in 1986, the front cover of *Der Spiegel* showed Cologne cathedral half-submerged by water and the headline declared a "Climate Catastrophe".^[2] This is just one example, among many, that demonstrates that people were aware of the risks posed by climate change a generation ago. Yet, while many people agreed on the seriousness of the issue, and that something had to be done, concrete action has been much less prevalent.

It is with this history in mind that I want to talk about the role of central banks in addressing climate change. Clearly, central banks are not the main actors when it comes to preventing global heating. Central banks are not responsible for climate policy and the most important tools that are needed lie outside of our mandate. But the fact that we are not in the driving seat does not mean that we can simply ignore climate change, or that we do not play a role in combating it.

Just as with the mice in the fable, inaction has negative consequences, and the implications of not tackling climate change are already visible. Globally, the past six years are the warmest six on record, and 2020 was the warmest in Europe.^[3] The number of disasters caused by natural hazards is also rising, resulting in \$210 billion of damages in 2020.^[4] An analysis of over 300 peer-reviewed studies of disasters found that almost 70% of the events analysed were made more likely, or more severe, by human-caused climate change.^[5]

That said, there are now signs that policy action to fight climate change is accelerating, especially in Europe. We are seeing a new political willingness among regulators and fiscal authorities to speed up the transition to a carbon neutral economy, on the back of substantial technological advances in the private sector.

This increased action is often considered as a source of transition risk, which we need to take into account and reflect in our policy framework. This is not "mission creep", it is simply acknowledging reality. Yet the transition to carbon neutral is not so much a risk as an opportunity for the world to avoid the far more disruptive outcome that would eventually result from governmental and societal inaction. Scenarios show that the economic and financial risks of an orderly transition can be contained. Even a disorderly scenario, where the economic and financial impacts are potentially substantial, represents a much better overall outcome in the long run than the disastrous impact of the transition not occurring at all.^[6]

It now seems likely that faster progress will be made along three interlocking dimensions. Each of them lies outside the remit of central banks, but will have important implications for central bank balance sheets and policy objectives.

Including, informing and innovating

The first dimension along which we expect rapid progress is including the true social and environmental cost of carbon into the prices paid by all sectors of the economy.

Appropriate pricing can come via direct carbon taxes or through comprehensive cap and trade schemes. Both are used to some extent in the EU. It is likely, though, that the next steps in Europe will come mainly via the EU's Emissions Trading System (ETS), a cap and trade scheme. The ETS is an essential infrastructure, although it has not always been successful in the past at delivering a predictable price of carbon. Moreover, it currently covers only around half of EU greenhouse gas emissions and a significant amount of allowances continue to be given for free.

The effective price of carbon is expected to rise if the EU's targets for reducing emissions are to be reached. Modelling by the OECD and the European Commission^[7] suggests that an effective carbon price between €40-60^[8] is currently needed, depending on how stringent other regulations are. The introduction of the ETS Market Stability Reserve and the review of the ETS scheduled for this year should provide the opportunity to deliver a clear path towards adequate carbon pricing.

The second dimension where we expect to see progress is greater information on the exposure of individual companies. At present, information on the sustainability of financial products – when available – is inconsistent, largely incomparable and at times unreliable. That means that climate risks are not adequately priced,^[9] and there is a substantial risk of sharp future corrections. Yet for an open market economy to allocate resources efficiently, the pricing mechanism needs to work correctly.

This requires a step change in the disclosure of climate-related data using standardised and commonly agreed definitions. While TCFD-based^[10] disclosures have underpinned public/private efforts to better inform, disclosure needs to be at a far more granular level of detail than is currently available. In Europe, climate disclosures are governed by the Non-Financial Reporting Directive (NFRD), which is currently under review.^[11] The Eurosystem has advocated for mandatory disclosures of climate-related risks from a far greater number of companies, including non-listed entities. Moreover, disclosures should be complemented by forward-looking measures that assess the extent to which both financial and non-financial firms are aligned with climate goals and net zero commitments.

The European Taxonomy Regulation^[12] that entered into force last year is also an important milestone along this path. But it still needs to be fleshed out with concrete technical criteria and complemented by an equivalent taxonomy for carbon-intensive activities. A further essential step is the consistent and transparent inclusion of climate risks in credit ratings. Here, again, we have high hopes that progress will now speed up.

While adequate carbon prices and greater information on exposures will help

provide incentives to decarbonise, that economic transformation cannot take place without the third dimension: substantial green innovation and investment. Both, however, require a complex ecosystem of which finance is a key element,^[13] so we expect to see increasing availability of green finance. Green bond issuance by euro area residents has grown sevenfold since 2015, reaching €75 billion in 2020 – this represents roughly 4% of the total corporate bond issuance.^[14]

We need to see funding for green innovation increasing from other market segments as well, especially as recent analyses point to the beneficial role of equity investors in supporting the green transition.^[15] Assets under management by investment funds with environmental, social and governance mandates have roughly tripled since 2015, and a little more than half of these funds are domiciled in the euro area. Completing the capital markets union should provide a further push to support equity-based green finance by fostering deep and liquid capital markets across Europe.

Simultaneous progress along each of these three dimensions increases the likelihood of substantial economic change in the near term. That is so because movement along each dimension reinforces progress along the others and magnifies the effectiveness of climate policy.

For example, the economic impact of higher carbon prices depends on the availability of alternative green technologies. In the past, a sudden and substantial increase in carbon taxes could have resulted in an economic downturn, substantial stranded assets and threats to financial stability. Today, however, solar power is not only consistently cheaper than new coal or gas-fired plants in most countries, but it also offers some of the lowest cost electricity ever seen.^[16] Green finance and innovation are also developing rapidly. Introducing well-signalled carbon pricing therefore becomes more feasible and could further sharpen incentives both to develop new technologies and to carry out the substantial investment required for the widespread adoption of the green technologies that already exist.

Climate change and central banks

Today, then, central banks face two trends – more visible impacts of climate change and an acceleration of policy transition. Both trends have macroeconomic and financial implications and have consequences for our primary objective of price stability,^[17] for our other areas of competence including financial stability and banking supervision, as well as for the Eurosystem's own balance sheet. Central banks are both aware of those consequences, and determined to mitigate them. Much has already been accomplished and more is under way:

The founding of the Network for Greening the Financial System (NGFS), with membership including all major central banks, is testament to that collective engagement with climate change.

At the ECB, we are now launching a new climate change centre to bring together more efficiently the different expertise and strands of work on

climate across the Bank. Climate change affects all of our policy areas. The climate change centre provides the structure we need to tackle the issue with the urgency and determination that it deserves.

In the area of financial stability and banking supervision, the ECB has taken concrete steps towards expanding the financial system's understanding of climate risks and its ability to manage them. We have issued a guide on our supervisory expectations relating to the management and disclosure of climate-related and environmental risks.^[18] A recent survey of the climate-related disclosures of 125 banks suggests there is still a way to go. It evaluated climate disclosures across several basic information categories. Only 3% of banks made disclosures in every category, and 16% made no disclosure in any category.^[19] ECB Banking Supervision has requested that banks conduct a climate risk self-assessment and draw up action plans, which we will begin assessing this year. We will conduct a bank-level climate stress test in 2022.

The ECB is also currently carrying out a climate risk stress test exercise to assess the impact on the European banking sector over a 30-year horizon. Preliminary results from mapping climate patterns to the address-level location of firms' physical assets show that in the absence of a transition, physical risks in Europe are concentrated unevenly across countries and sectors of the economy.

But there is more: climate change also impacts our primary mandate of price stability through several channels. This is why climate change considerations form an integral part of our ongoing review of our monetary policy strategy. Climate change can create short-term volatility in output and inflation through extreme weather events,^[20] and if left unaddressed can have long-lasting effects on growth and inflation. Transition policies and innovation can also have a significant impact on growth and inflation. These factors could potentially cause a durable divergence between headline and core measures of inflation and influence the inflation expectations of households and businesses.

The transmission of monetary policy through to the interest rates faced by households and businesses could also be impaired, to the extent that increased physical risks or the transition generate stranded assets and losses by financial institutions. According to a recent estimate by the European Systemic Risk Board, a disorderly transition could reduce lending to the private sector by 5% in real terms.^[21]

And climate change can also have implications for our monetary policy instruments. First, the Eurosystem's balance sheet itself is exposed to climate risks, through the securities purchased in the asset purchase programmes and the collateral provided by counterparties as part of our policy operations.

Furthermore, several factors associated with climate change may weigh on productivity and the equilibrium interest rate, potentially reducing the space available for conventional policy. For example, labour supply and productivity may diminish as a result of heat stress, temporary incapability

to work and higher rates of mortality and morbidity.^[22] Resources may be reallocated away from productive use to support adaptation, while capital accumulation may be impaired by rising destruction from natural hazards and weaker investment dynamics related to rising uncertainty.^[23] And the increase in short-term volatility and accelerated structural change could hamper central banks' ability to correctly identify the shocks that are relevant for the medium-term inflation outlook, making it more difficult to assess the appropriate monetary policy stance.

Our strategy review enables us to consider more deeply how we can continue to protect our mandate in the face of these risks and, at the same time, strengthen the resilience of monetary policy and our balance sheet to climate risks. That naturally involves evaluating the feasibility, efficiency and effectiveness of available options, and ensuring they are consistent with our mandate.

The ECB is also assessing carefully, without prejudice to the primary objective of price stability, how it can contribute to supporting the EU's economic policies, as required by the treaty. Europe has prioritised combating climate change and put in place targets, policies and regulations to underpin the transition to a carbon-neutral economy. While the Eurosystem is not a policy maker in these areas, it should assess its potential role in the transition.

We recognise that our active role in some markets can influence the development of certain market segments. The ECB currently holds around a fifth of the outstanding volume of eligible green bonds. Standardisation helps nascent markets gain liquidity and encourages growth. And our eligibility criteria can provide, in this context, a useful coordination device. For example, since the start of this year, bonds with coupon structures linked to certain sustainability performance targets have been eligible as collateral for Eurosystem credit operations and for outright purchases for monetary policy purposes.

We have also taken action with regards to our non-monetary policy portfolio, namely our own funds and pension fund. The ECB raised the share of green bonds in its own funds portfolio to 3.5% last year and is planning on raising it further as this market is expected to grow in the coming years. Investing parts of the own funds portfolio in the green bond fund of the Bank for International Settlements marks another step in this direction. A shift of all conventional equity benchmark indices tracked by the staff pension fund to low-carbon equivalents last year significantly reduced the carbon footprint of the equity funds. Other central banks are also aligning decisively their investment decisions with sustainability criteria.^[24]

Conclusion

Let me conclude.

Climate change is one of the greatest challenges faced by mankind this century, and there is now broad agreement that we should act. But that

agreement needs to be translated more urgently into concrete measures. The ECB will contribute to this effort within its mandate, acting in tandem with those responsible for climate policy.

Unlike the mice in the fable, not only do we have to recognise that we cannot keep waiting for someone else to act, we also must recognise that the burden cannot fall on one party alone. There is no single panacea for climate change, and combating it requires rapid progress along several dimensions. Relying on just one solution, or on one party, will not be enough to avoid a climate catastrophe. And here we can actually learn something from mice. As the Roman playwright Plautus wrote, “How wise a beast is the little mouse, who never entrusts its safety to only one hole.”^[25]

[“Challenge, resilience and accountability: the path to transformation” – Speech by President Charles Michel at the EIB Annual Economic Conference](#)



I’m delighted to take part in this event. As you know, I attach great importance to the EIB’s role in our European recovery and transformation strategy. Our personal cooperation is proof of this.

One year ago yesterday – 21 January 2020 – is a day we all remember. The day the Italian government announced the lockdown of the Lombardy region. I remember the shock. And the disbelief. Then similar lockdowns rolled across Europe, becoming the “new normal”. But there is nothing normal about this pandemic. Just look at the numbers. Today we count over four million COVID deaths worldwide. More than 650.000 here in Europe.

In one year, we have learned a lot from this virus. Covid-19 has taught us some brutal lessons, exposed our weaknesses and our vulnerabilities. Weaknesses that were hidden or that we chose not to see.

We came to appreciate the basic value of health, and of good healthcare systems – one of our most precious assets. And the resilience of our societies – vital to coping with hardship and crises. And digital technology, that suddenly took centre stage, like never before, in our day-to-day lives.

Finally, Covid has been a warning shot, marking the existential danger for our environment and our biodiversity. Since the Club of Rome published the Meadows report, in 1972, we have known our growth model is not sustainable.

But the road to awareness and action has been a long one.

In Europe, we took a bold step in 2019, committing to climate neutrality by 2050. This resulted in our European Green Deal. And in parallel, we forged an ambitious new Digital Agenda. Taken together, our Green and Digital ambitions represent a powerful twin-engine strategy for growth.

Covid has both reinforced the need for it ... and our determination... We see our post-Covid recovery ... and our twin transition, as two sides of the same coin. It's our European transformation project.

This is a monumental challenge. We have the capabilities. And for this to work, each pillar of our system needs to take up its responsibilities.

The Challenge

So, our challenge today is to pivot to a new growth paradigm. And it starts with our "peace treaty" with nature. Shifting from a model of unchecked exploitation, to one that respects and protects our natural resources. A new paradigm that remodels the relationship between our economy, our environment, and the needs of our citizens. And I want to share a thought.

Today we are only beginning to grasp the vast potential of data and artificial intelligence. But at this crucial moment, we must not repeat the mistakes of the past: we must not abuse this data.

We have seen the dangers of misusing data. In private companies, or in States, such as China, where the centralisation and processing of data is used to control individuals.

We know the damage caused by the abusive exploitation of natural resources. So we must use our digital resources wisely – to protect the "environment" of our fundamental values: democracy and individual freedoms.

This protection is not just a political issue. It's also about the economic sustainability of these new resources. Will citizens accept to be transformed into objects, to see their personal and consumption choices guided by algorithms? Will they want to see artificial intelligence replace their own intelligence and free will?

In short, will people allow this new digital resource to be abused, like we have abused our natural environment?

I don't think so. I believe it's precisely a digital model anchored in our fundamental values, that will guarantee the sustainability of the digital revolution. Like we are doing now, in Europe, with the Digital Services Act and the Digital Markets Act.

2021 is Year One of the paradigm shift. We have set our climate goals. We have set our digital goals. And, we have the means to do it. 1,8 trillion euro, including 750 billion for the post-Covid recovery fund. 30% of the total will go to climate-related projects. And at least 20% of the Recovery and Resilience Facility will be made available for the digital transition.

Resilience

Covid-19 has been a massive crisis with tragic consequences. But it has also revealed our extraordinary human capabilities, our genius. People, and nations, are capable of adapting, innovating and cooperating in the face of adversity. Remember how health workers adapted and coped with the influx of Covid patients... Remember how restaurant owners adapted to take-away service. And how factories converted to producing masks or medical equipment.

And the most striking example: vaccines. International mobilisation to fund research – the EU played a leading role. Also through the EIB, which supported BioNTech with 100 million euro. And the unprecedented speed of scientists in developing vaccines in less than a year, compared to the usual 8 to 10 years or more.

We now need to sustain this spirit of innovation and resilience, to better prevent and manage future crises.

Accountability

Each pillar of our societies will need to share the responsibility of addressing these challenges. Citizens and civil society; public authorities; and the private sector. Each bears an individual responsibility. And a responsibility towards each other.

Together, we form a dynamic, virtuous circle. Citizens are where this circle starts, and where it ends. It's the citizens – workers, consumers, small entrepreneurs – who are the driving force behind innovation and growth. And it's the citizens who give legitimacy to public authorities.

Citizens act on the changes they demand from their elected representatives. The young people protesting in the streets, in 2019, on behalf of the climate is the best example. They put pressure on political leaders and, at European level, pushed for the Climate Law.

This is where the responsibility of the public authorities comes in, regarding civil society. It's up to them to encourage and explain the change. Because without broad support from the society, change is simply not possible.

Last year, in response to the COVID crisis, we decided to mobilise a huge financial package. We want to create a favourable framework for companies to participate in our collective recovery. And to take full advantage of the potential of our climate and digital transitions. European companies are ready. According to the EIB Investment Survey, more than two-thirds of European firms have invested, or plan to invest, in climate-related projects. A much higher proportion than in the US.

The green and digital transformation of our economies requires massive investment. That's why the completion of the Banking Union and the creation of the Capital Markets Union should be a top priority. This will help unlock additional funding for our green and digital transformation.

This is why, last December, we called for rapid progress on measures to support the EU's leadership in green finance. A leadership to which, you, the EIB, has contributed with the green bonds.

Finally, the private sector has a responsibility towards citizens. I'm convinced that "Digitally Made in Europe" or "Stored in Europe" will be attractive European brands with a competitive edge in the global marketplace.

Europe, this so-called "Old Continent", has always been a pioneer. We were a pioneer with the Treaty of Rome, the Single Market, enlargement, the Schengen area, and our single currency. And still today, we are pioneers. Leading the way, laying the concrete foundations of the new paradigm.

The road ahead will be hard, but exciting. If we succeed in driving forward the virtuous circle of shared responsibility, we will be stronger than ever. For the benefit of all.

Let's make this year, 2021, the first year of the new European century. Thank you.