Global Central Banks and Climate Change

- Central banks in our global economy are analyzing the impacts of climate change on long-term economic growth and inflation.
- Policymakers deem this as essential to quantify in order to pursue their objectives of price and financial market stability.
- The Bank of England has been at the forefront with in-depth analysis and communications to the broader public.

There is substantial evidence to show that climate change affects economic activity. While some data indicate that it can foster growth in certain sectors (e.g., construction), the bulk of the impact is negative on economic growth. Central banks in each country monitor and assess all of the influences on economic activity, inflation, and financial stability as they set a course for monetary policy. In so doing, many central banks have stepped up their investigation of how climate change is influencing the macroeconomic environment. None have been more vocal and active than the Bank of England (BOE).

In April 2018, BOE Governor Carney gave a speech at a conference on international climate risk. Several key points emerged from his remarks:

- The financial system is exposed to climate change risks which are not properly incorporated into decisions regarding insurance against losses and other adverse impacts on consumers and businesses. The top chart shows the rising level of uninsured losses have trended higher since 1980.

- Capital markets will be unable to function properly without information about the risks and opportunities posed by the ongoing threat of climate change. Because it is important for the financial system to assess and protect against risk “surprises,” policymakers must quantify these risks and make them transparent so that consumers and businesses can make informed decisions.

- Governor Carney emphasizes that the transition to a low carbon economy is a significant opportunity for greater growth in investment, financed by liquid credit markets. The BOE estimates that infrastructure spending will advance at quadruple the current rate. In the U.S., second quarter 2018 nonresidential construction spending, adjusted for inflation, stood at $550 billion, or 3% of GDP (2nd chart). Since mid-2009, construction spending has grown at an annual rate of less than 1%. A quadrupling of growth to 4% would contribute significantly to GDP growth in isolation, with construction spending rising above $1 trillion by 2035 (3rd chart). But, of course, other factors will detract to offset this favorable construction impact on economic growth and jobs.

“...the future will be past. That is, climate change is a tragedy of the horizon which imposes a cost on future generations that the current one has no direct incentive to fix.”

Bank of England Governor Carney
6 April, 2018