Should monetary policy take account of climate considerations - and if so how?

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CLIMATE CHANGE AND DISASTER RISK:

WHAT DO THEY IMPLY FOR EMERGING MARKET CENTRAL BANKS?

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- My initial reaction was a plain "No!"
  1. Environmental issues are hugely important but not in central banks' mandates and could be subject to legal challenge.
  2. Central banks lack tools.

- My views have shifted:
  - Central banks generally have secondary mandates to support governments' economic policy.
  - Growing public concern about the environment is increasingly reflected in government policy, including in international agreements.
  - Appearing aloof and unwilling to support public policy can put central banks' independence at risk.
  - Growing understanding that environmental changes can cause financial and economic risks that need to be captured, managed and regulated.
  - Realisation that while central banks' tool boxes are limited they are not inconsequential.

- What can central banks and financial regulators do?
    - Ensure that financial risks arising from environmental changes are reflected in credit ratings (and bank capital requirements).
    - As standard setters, promote green bond markets.
    - Give preference to "green" bonds in the portfolios of their pension funds, their own portfolios, or in collateral regulation.
        - This will have small effects on yield differentials but may support the growth of green bonds markets.
    - Promote research and public understanding of how environmental changes impact on financial systems.

- Important with political backing:
    - E.g., SNB Bank Act: *The National Bank shall pursue a monetary policy serving the interests of the country as a whole. It shall ensure price stability. In so doing, **it shall take due ac-count of the development of the economy**.*
    - Presumably, this may be interpreted as the government's efforts to make the economy environmentally sustainable.