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FONDAZIONE ENI ENRICO MATTEI

Forum per la Finanza Sostenibile in collaboration with ned community amministratori non esecutivi e indipendenti

Financial Risks and Monetary Policy under Climate Change

Streaming on September 14th - 5.30 PM

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Since the horizon at which climate change impacts the economy has shortened, the very likely impact of climate change on growth and future output paths might require more involvement of monetary policy. Although monetary policy aims at short-term output and employment stabilization, it should consider the impact of climate change on output, as well as the potential impact of climate-change-related fiscal policy measures on inflation.

The discussion will present two approaches to the issue. The first one introduces physical and transition risks stemming from climate change in an economic model which contains brown and green assets. The second one seeks to develop a new Keynesian dynamic stochastic general equilibrium model of a closed economy featuring imperfect competition and Rotemberg-type nominal price fixities.

Two other extensions will be discussed: (i) the pricing of “green bonds”; (ii) allowing for the output gap in the traditional objective of the central bank – namely, the minimization of a loss function defined in terms of squared deviations from target output and inflation – to depend on the deviation of temperature from a target path (e.g., the 1.5oC path).

***Discussant:* Prof. Valeria Costantini,** Roma Tre University

This lecture is part of the FEEM/DeRisk-CO project, which aims at stimulating a debate on the importance of assessing and disclosing climate-related risks and opportunities and their impact on financial performance, with a particular focus on Italian businesses.

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