

Press release

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Firms and banks to benefit from early adoption of green policies, ECB's economy-wide climate stress test shows

- Firms and banks to be severely affected if climate change issues not addressed
- Orderly and swift transition to minimise costs and maximise benefits outweighs short-term cost of transition to zero-carbon economy over medium to longer term
- Investment in sectors and regions heavily exposed to climate risk set to suffer most

The European Central Bank (ECB) today published the [results](#) of its economy-wide climate stress test. The exercise tested the impact of climate change on more than four million firms worldwide and 1,600 euro area banks under three different climate policy scenarios.

The results show that firms and banks clearly benefit from adopting green policies early on to foster the transition to a zero-carbon economy. The exercise also reveals that the impact of climate risk is concentrated in certain regions and sectors of the euro area. In particular, firms located in regions most exposed to physical risk could face very severe and frequent natural disasters, which would in turn affect their creditworthiness.

Climate risk includes both physical risk and transition risk. Physical risk is the economic impact of an expected increase in the frequency and magnitude of natural disasters. In Europe, physical risks are unevenly distributed, with northern regions being more prone to floods and southern regions more exposed to heat stress and wildfires. Transition risk is the cost of introducing policies to reduce CO₂ emissions, particularly for certain high-emitting industries. For example, carbon-intensive industries, such as mining or electricity, would incur considerable costs to reduce CO₂ emissions, which would increase their probability of default over the short to medium term.

That said, the transition to a greener economy is also a golden opportunity. The exercise shows that the advantages of taking action early on outweigh the initial costs over the medium to longer term, also as a result of energy efficiency gains for firms and cheaper energy prices overall.

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“Without policies to transition to a greener economy, physical risks will increase over time. They will increase non-linearly, and due to the irreversible nature of climate change, this increase will continue over time. It is essential to transition early on and gradually, so that we can mitigate the cost of both the green transition and the future impact of natural disasters”, said Luis de Guindos, Vice-President of the ECB.

Euro area banks could be severely affected under a scenario where climate change is not addressed. The expected losses on corporate loan portfolios are shown to rise significantly over time, driven by ever increasing physical risk, with the potential of becoming critical over the next 30 years. In 2050, the average corporate loan portfolio of a euro area bank is 8% more likely to default under the hot house world scenario than under an orderly transition. When distinguishing between different loan portfolios, the climate-induced impact becomes even more pronounced, and particularly over time. Portfolios most vulnerable to climate risk are 30% more likely to default in 2050 compared with 2020 under the hot house world scenario: this increase is five times larger than the average increase under the same scenario.

The final climate stress test results are in line with the preliminary results published in [March 2021](#) and complement these findings by including assessments of banks' resilience to climate risks through loans, security and equity holdings.

The ECB's economy-wide climate stress test marks the first step in the [ECB's climate roadmap](#). The results and methodology will inform the 2022 supervisory climate stress test for the banks that the ECB directly supervises. They will also feature in the climate stress test of the [Eurosysteem balance sheet](#), which is being planned for the first quarter of 2022.

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Notes

- [ECB podcast](#) with Vice-President, Luis de Guindos, and Head of the ECB's climate change centre, Irene Heemskerk, on the results of this economy-wide climate stress test and how it will inform the ECB's work on climate change issues.

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