



# THE BANCO DE ESPAÑA AND THE CLIMATE CHALLENGE\*

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\*ENGLISH TRANSLATION FROM THE ORIGINAL IN SPANISH

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### **PRICE STABILITY:**

Managing monetary policy through the Eurosystem

- Climate change and the climate transition have an inflationary impact
- Central banks must lead by example



## FINANCIAL STABILITY:

Systemic risks and vulnerabilities, whether cyclical or structural

- Climate risks (physical and transition risks) are a risk for financial stability
- We must establish frameworks to monitor them



### SUPERVISION:

Compliance with solvency and liquidity regulations and all others that encompass sustainability

- Supervising the specific regulatory framework
- Ensuring that banks identify, measure, manage and disclose these risks

### OVERVIEW OF THE BANCO DE ESPAÑA'S WORK ON CLIMATE CHANGE



Including climate change in research, to **analyse impacts** and develop indicators and statistics

Most economic models suggest that the physical risks affect the credit supply and economic growth

Economic analysis and research

Regulation, supervision and financial stability Within the regulatory framework, supervisors seek to raise awareness of the implications of climate risk, aiming to ensure that banks are able to manage it appropriately

The financial stability area works to measure and assess the potential (physical and transition) risks for the financial system

Central banks' commitment to lead by example, reducing the carbon footprint of their own operations and internal processes, especially banknote management

Environmental and banknote management

Monetary policy and own portfolios

Climate considerations are part of the **monetary policy** strategy review

Central banks apply Sustainable and Responsible Investment criteria to manage their own portfolios





GOAL: to ensure the soundness of the banking system, contributing to the energy transition

#### COORDINATION

Climate and nature-related financial risks are analysed in a coordinated manner to ensure that similar principles, tools and scenarios are used

- Network of Central Banks and Supervisors for Greening the Financial System (NGFS)
- Financial Stability Board (FSB)
- Basel Committee on Banking Supervision (BCBS)
- European Banking Authority (EBA)
- European Central Bank (ECB/SSM)
- European Systemic Risk Board (ESRB)

### **SPECIFIC ACTIONS**

- Incorporating climate considerations into stress tests (FLESB)
- Flood maps, impact of Spain's recent flash floods
- AMCESFI biennial climate risk report
- Analysing the macroprudential framework for climate risks
- Adapting to ESG risks

### **HOLISTIC REGULATION**

- Not only climate but also environmental risk
- Regulation seeks to enhance the awareness and management of these risks and the disclosure of granular and quality data

Climate risk (and ESG risks) materialise in traditional financial risks: credit, market and operational risk

### SUPERVISION: SUPERVISORY ACTIONS. ECB GUIDELINES AND BANCO DE ESPAÑA EXPECTATIONS BANCODE ESPAÑA AN APPROACH THAT IS GRADUALLY EXTENDING FROM CLIMATE TO THE ENVIRONMENT

### **EUROPEAN CENTRAL BANK (significant institutions)**

### **BANCO DE ESPAÑA (less significant institutions)**

2019-20

- In 2019 the ECB included C&E risks in its risk map
- Preparation of SSM Risk Map for C&E risks
- Publication of ECB Supervisory Expectations Guide (November 2020)
- First C&E risk disclosure analysis



2021

- · Assessment of banking practices and implementation plans (selfassessment)
- Second C&E risk disclosure analysis



- Thematic review (TR) on C&E risks
- Climate Stress Test (CST)
- Third C&E risk disclosure analysis
- First on-site inspections (7 banks)
- Thematic reviews of real estate portfolios (CRE-RRE)



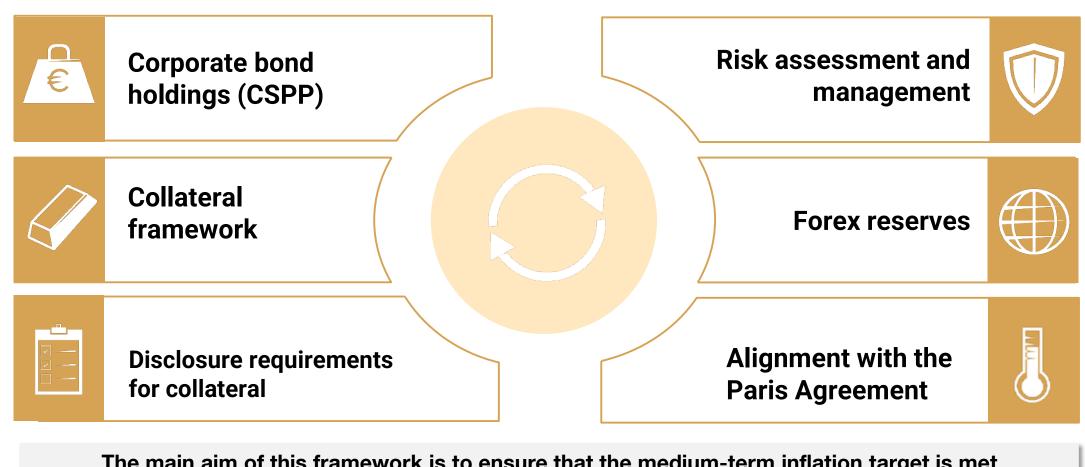
2022

- 2023-24
- Compliance review of TR and CST communications
- Gradual inclusion of C&E risks in SREP
- On-site inspections (annual plan)
- Pillar 3 review on ESG risks (recurring activity)
- Fit-for-55 (scenario analysis exercise)
- First analysis of credit portfolio alignment

- Survey of institutions on ESG risk
- Inclusion in international groups (ECB, NGFS, EBA)
- Thematic meetings with the industry
- Publication of Banco de España Supervisory Expectations (October 2020)
- Request for response to a first self-assessment questionnaire on C&E risks
- Thematic meetings with the industry
- Horizontal analysis of the first questionnaire, including general comments on the 2022 Capital Decision
- Participation in the ECB's TR with 4 less significant institutions (LSIs)
- Participation in the ECB's third disclosure analysis with 4 LSIs
- Request for response to a second questionnaire (with supporting documentation)
- Individual analysis of the second questionnaire, with supervisory dialogue and recommendations in the 2023 Capital Decision
- Horizontal analysis (off and on-site): 10 LSIs according to their credit exposure to more polluting sectors. Assessment of the overall framework and implementation over the full credit risk cycle



The ECB carried out a review of monetary policy strategy in 2021 and decided to incorporate climate considerations through an action plan 2022-24

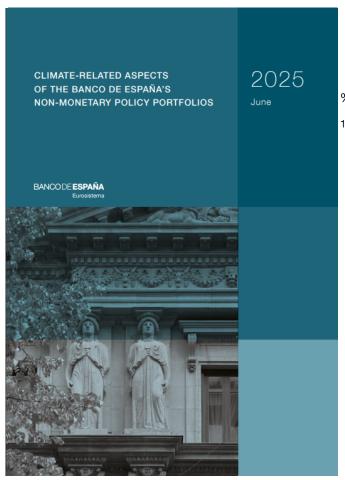


The main aim of this framework is to ensure that the medium-term inflation target is met

### MANAGING THE BANCO DE ESPAÑA'S NON-MONETARY POLICY PORTFOLIOS ...

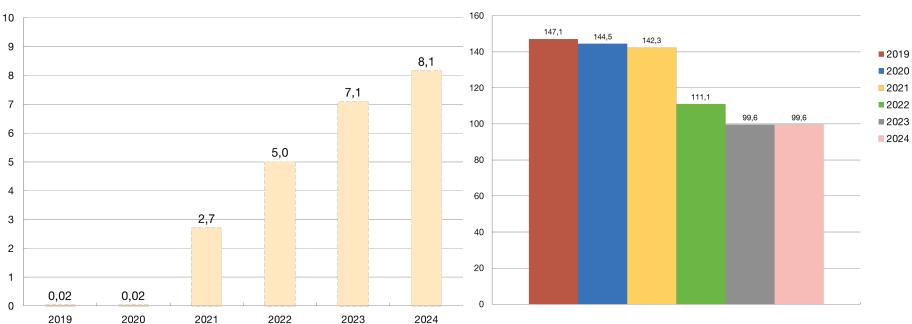


... IN ACCORDANCE WITH RESPONSIBLE INVESTMENT PRINCIPLES



### Green bonds as a percentage of the holdings in EURO-denominated investment portfolios

### Carbon footprint of sovereign bonds in EURO-denominated portfolios, 2019-24



### ECONOMIC ANALYSIS, RESEARCH AND STATISTICS

ANCODEESPANA

THE BASES TO ENSURE PRICE STABILITY AND A SOUND FINANCIAL SYSTEM

FRAMEWORK Implications for monetary policy and central banking

- Conceptual development of the **microprudential and macroprudential framework**: the need to use geolocation data
- Including sustainability factors in public debt markets, portfolio management and monetary policy conduct

### THE BANCO DE ESPAÑA AND THE CLIMATE CHALLENGE

ANALYSIS
Assessing the effects of climate change and policies to address it

- Impact of green transition policies on **intiation**: effects on pusiness competitiveness and households' well-being
- Impact on house prices, credit, financial stability, etc. of materialisation of physical risks in Spain: aridity, wildfires, biodiversity loss, drought, etc.
- Modelling the impact of the risks on natural capital and nature services for the Spanish economy, and of the policies designed to promote regeneration and foster the circular economy

TOOLS
New indicators and statistics

- Databases of sustainability indicators of firms (Central Balance Sheet Data Office) and banks (Project Gaia – BISIH)
- Satellite data for the development of green finance

BIENNIAL REPORT ON CLIMATE CHANGE RISKS TO THE FINANCIAL SYSTEM **2025** 

AMCESFI Autoridad Macroprudencial Consejo de Estabilidad Financiera







# GOAL: to calculate the environmental impact of banknotes and of the Banca de España as a "firm"

#### **FRAMEWORK**

- The Banco de España as a manufacturer (of banknotes)
- The Banco de España as an institution

### **CHARACTERISTICS**

- Production, packaging, transportation and destruction of banknotes
- Carbon footprint analysis of the Bank's activities (installations, business travel, etc.)
- Implementation of an ISO 14001 environmental management system

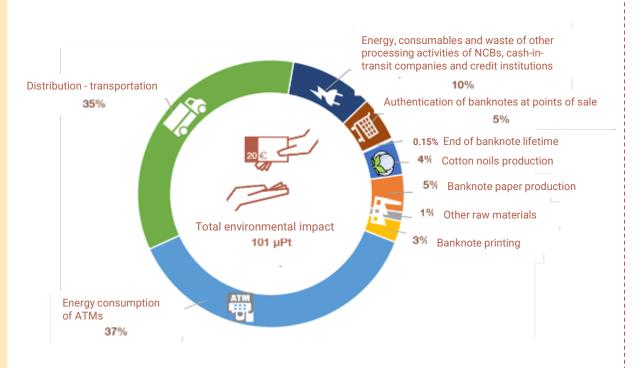
### **OUTCOME**

- Decline in carbon footprint since 2019
- Impact of business travel below the ECB average
- Residual impact of banknote use (equivalent to driving a car 8 km)



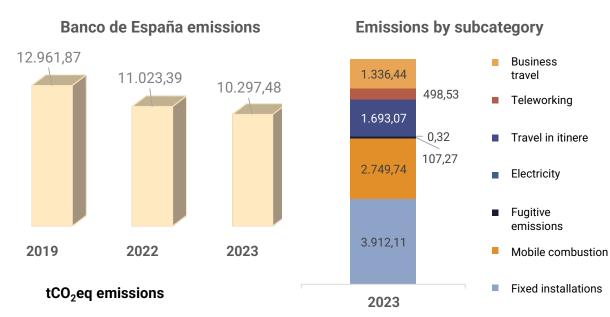
THE BANCO DE ESPAÑA COMPLEMENTS ITS EFFORTS WITH AWARENESS SESSIONS: GREEN FRIDAYS

### **Environmental footprint of banknotes (ECB, 2019)**



Using euro banknotes during one year is equivalent to driving a car 8 km

### Carbon footprint 2019-23











# Thank you