Anna Breman

Deputy Governor

# Climate change and the monetary policy response

- **Climate change is a threat to price stability**
  - Empirical research on extreme weather events already shows significant effects on inflation through their **impact on food and energy prices** (Heinen et al. 2019; Parker, 2018, Kim et al 2021)

- **High volatility makes forecasting more difficult and increases the risk of policy mistakes**

- **Credibility problem vis-à-vis households and firms when facing large difference between headline and core inflation**

# Should central banks care about climate change?

- Climate change is a threat to price stability
- We need to better model, analyse and prepare for difficult trade-offs in setting monetary policy
- Central banks have an obligation to consider the risks posed by climate change to our economies and act in accordance with their individual mandates

# Thank You