Talk Title: Will a transition to a low-carbon economy lead to the next financial crisis?

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Abstract

Nowadays, there is a growing concern about the impact of the climate change on macroeconomic and financial stability. Climate change financial risks can be decomposed into two major categories: physical risks (e.g. caused by extreme weather events resulting in damages of the infrastructure) and climate policy risks (risks resulting from the climate policy regulations, e.g. imposing carbon tax or Emission Trading System (ETS), which leads to re-evaluation of the financial assets of the market players). While physical risks of climate change are hardly avoidable, climate policy risks can be evaluated and diminished if recognized early enough. In my lecture, I will discuss the methodology how to estimate climate policy risks and will show computed risks for different institutional sectors (e.g. non-financial firms, governments, insurnace&pension funds, households, and banks) and different countries. In addition, I will also show the monetary estimates of financial exposures between the sectors of the economy and illustrate on specific examples how financial distress can propagate from the financial system to households and real economy and from the real economy to the financial system. This analysis is essential for understanding the conditions leading to the financial crisis (and as result to high social costs), and for improving the assessment of the economic impact of climate policies.