

**Dr. Jens Weidmann**  
Präsident

Mr Paul Schreiber  
Supervision of financial institutions  
Reclaim Finance

Frankfurt am Main, 5 May 2021

Dear Mr Schreiber,

Please accept my apologies for not replying sooner to the letter you mailed us on 22 March. Unfortunately, it was sent to a blocked email address and was therefore late in arriving.

I very much appreciate the opportunity to clarify my views. We both agree that climate protection is one of the most pressing and challenging tasks facing our generation and that 2021 will be a decisive year for climate action.

I am convinced that, within their respective remits, institutions can all step up their efforts to protect the climate. This is also true for central banks. When the Network for Greening the Financial System (NGFS) was founded in 2017, the Bundesbank was one of its founding members. Its membership has since grown to 90 members and 14 observers. A recent report by the NGFS reviews potential climate-related adjustments to monetary policy operational frameworks. As part of the current review of the Eurosystem's monetary policy strategy, we are still in the process of assessing, amongst other topics, what role climate protection can play with regard to fulfilling our mandate. The ECB Governing Council intends to conclude this review by September, but it is safe to say that climate issues will play a much more prominent role in our future framework.

While I firmly believe that greater efforts to protect the climate are urgently needed, it is also clear that central banks' actions have to be in keeping with their respective mandates. For the Eurosystem, this is to maintain price stability. Without prejudice to the objective of price stability, the Eurosystem is also expected to support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union. Against this background, I would like to comment on some of the points you raise in your letter, in particular the issue of a carbon bias in our treatment of assets, the limited leverage of monetary policy instruments as a means of

fostering a green transition, and the underestimated importance of treating climate-related financial risks properly.

The monetary policy operations of the Eurosystem, including the ongoing large-scale asset purchases, are aimed at maintaining price stability. In the present environment of stubbornly low inflation, it is important to stimulate the economy as a whole. That is why our purchase programmes are broad by design. Our asset purchases should interfere as little as possible with the functioning of markets and price formation, and we regularly assess whether any unintended bias has crept in, relative to the universe of eligible assets. Monetary policy can only achieve its primary mandate when it is credible. The credibility of central banks rests on several factors, one of the most important of which is financial independence. Thus, a solid balance sheet to protect against financial losses is essential to fulfil our primary mandate and safeguard price stability.

This has implications for our asset purchase framework. To be eligible for purchase, assets need to fulfil certain criteria. In particular, minimum credit quality requirements must be met in order to protect our balance sheet, a requirement that has also been emphasised by the German Federal Constitutional Court in its PSPP ruling. Therefore, any potential bias should be measured against the universe of eligible assets, not against the market as a whole. Bundesbank staff have investigated whether the Eurosystem's holdings of corporate bonds purchased under the corporate sector purchase programme (CSPP) and under the pandemic emergency purchase programme (PEPP) systematically deviate from the benchmark of eligible assets. This involves checking for any bias towards issuers of higher carbon emission intensity. According to our preliminary results, no such systematic bias has been found at the company level, in line with the results of a sectoral comparison of CSPP-eligible bonds and actual CSPP holdings by Liebich et al. (2020).

But this does not mean that our asset purchases would not have an impact on non-eligible assets that could foster the green transformation. Numerous studies suggest that the Eurosystem's corporate bond purchases have compressed yield spreads not only for the bonds purchased but also for non-eligible bonds because our purchases are pushing investors into riskier asset classes.

Moreover, monetary policy is cyclical by nature, and our asset purchase programmes are not a long-term fixture. When necessary in order to maintain price stability, the Eurosystem will have to scale back its asset purchases and reduce the stock of purchased assets. But the need to promote the transition of the economy will not simply vanish. In my view, this underlines that the main contribution to fighting climate change and decarbonising the economy has to come from governments and parliaments. They have both the legitimacy to do so and effective and efficient

tools at their disposal, one of which is carbon pricing. And I am glad that the Federal Constitutional Court, in its latest ruling, has emphasised that responsibility and demanded a more concrete path for emission reductions.

That said, I am convinced that central banks can support climate policies within their mandates. In particular, they should do more to address climate-related risks. Both climate change and the transition to a climate-neutral economy can be sources of financial risks. These risks also relate to central banks' securities holdings, including their monetary policy portfolios. And that is why central banks are well-advised to incorporate climate-related financial risks into their risk management, like other financial risks, too.

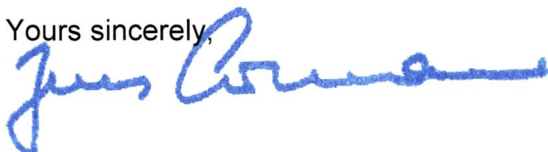
In addition, as regards the Eurosystem, my recommendation is that we should only purchase securities or accept them as collateral going forward if their issuers meet certain climate-related reporting obligations. Moreover, we should examine the idea of using only those ratings into which rating agencies have incorporated climate-related financial risks appropriately and transparently. By taking such measures, the Eurosystem would help foster market transparency and standards at rating agencies and banks. This way, we could spur change in the financial system and support climate policies in the EU without overstressing our mandate.

Given that politics takes the necessary action in terms of climate policy, having a high degree of transparency, e.g. surrounding carbon footprints and their financial consequences, is indispensable to ensure that markets can price in climate change-related costs and risks.

At the beginning of your online petition, you implicitly allude to my opinion piece in the Financial Times by writing that I wouldn't use a magic wand to stop the climate crisis even if I had one. Actually, I wrote that I would use magical powers, if I had them. Unfortunately, no one is gifted with such miraculous abilities, which makes it all the more important to employ more conventional, but effective climate action instruments instead. These tools are not there for central banks to use, and attention should not be diverted away from crucial decisions or omissions at the political level. NGOs play a key role in sharpening the public's view, and their ongoing pressure on governments to embrace more ambitious climate policies will certainly remain of the essence.

I can assure you that the Bundesbank is engaged in an ongoing dialogue with environmental NGOs to improve our mutual understanding of each other's positions.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jens Weidmann', is written over the text 'Yours sincerely,'.

**Deutsche Bundesbank**

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