

# Macroprudential ideas, climate change, and 'thermostatic' shifts at the Bank of England

Frontiers of climate and nature in macroeconomics and finance  
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Monica DiLeo  
University of Queensland  
[m.dileo@uq.edu.au](mailto:m.dileo@uq.edu.au)

# Research directions for central banking and climate change

1. Research that *models* how climate change impacts variables relevant to central bank objectives
2. Research that examines the potential *efficacy* of different policy responses to climate change
3. Political economy approaches that help central banks navigate the *decisions* they face in addressing climate change

# It's not simple...

How does this align with our mandate?

Does this conflict with our other objectives?

What will the government say? Do we care?

What are the distributive consequences?



What is our role? What precedent exists?

What about accountability?

What about “market neutrality”?

Is addressing climate change “political”?

# Research problem

What are different “models” that central banks have used (and can use) to navigate the politics of central banking and climate change?

Today: Case study of the Bank of England (BoE)

[Also included in larger project: People’s Bank of China, Bank of Japan, Federal Reserve]

# Research questions

1. What types of policies have central banks used to address climate change?
2. Why have they selected these policy approaches?
3. Do these approaches to climate change constitute a continuation of central banks' current institutional paradigm, or represent a more fundamental shift in central banking?

Put simply:

1. How?
2. Why?
3. So what?

## Findings (summary)

1. The BoE has primarily pursued policies with *prudential* aims on climate change, but more recently has added *structural* policies to its purview, too.
2. Three factors have been key in enabling this approach:
  1. Macroprudential ideational framework
  2. Domestic political environment and key policies
  3. BoE's two-part mandate
3. The BoE's approach can be understood as the maintenance of its post-GFC "financial stability" paradigm, requiring increasingly structural interventions in the economy given climate change

# Methods

## Content analysis

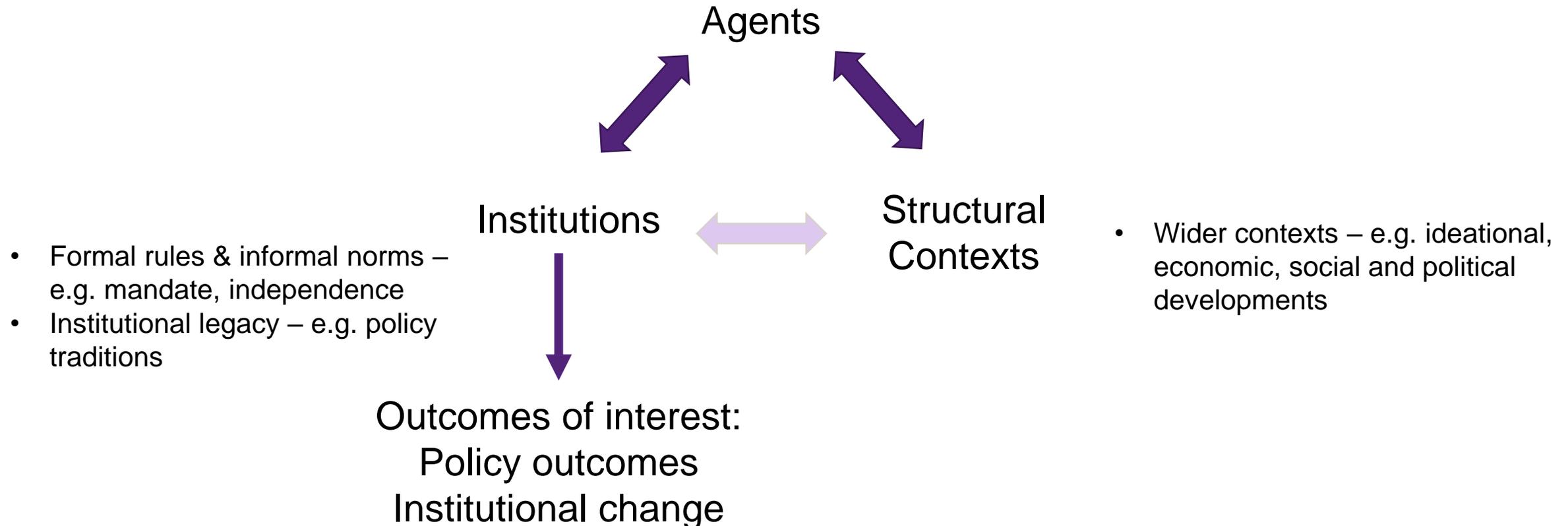
- All BoE speeches, policy documents, and other communications that mention “climate change” (and other related search terms)
  - Approx. 100 documents
- Use grounded theory (a method of *analytic induction*) to code for policy type (intent + mechanism) and drivers (e.g., framing + topics connected to climate change)
- Coding structures informed by historical institutionalist theory

## Interviews

- In progress

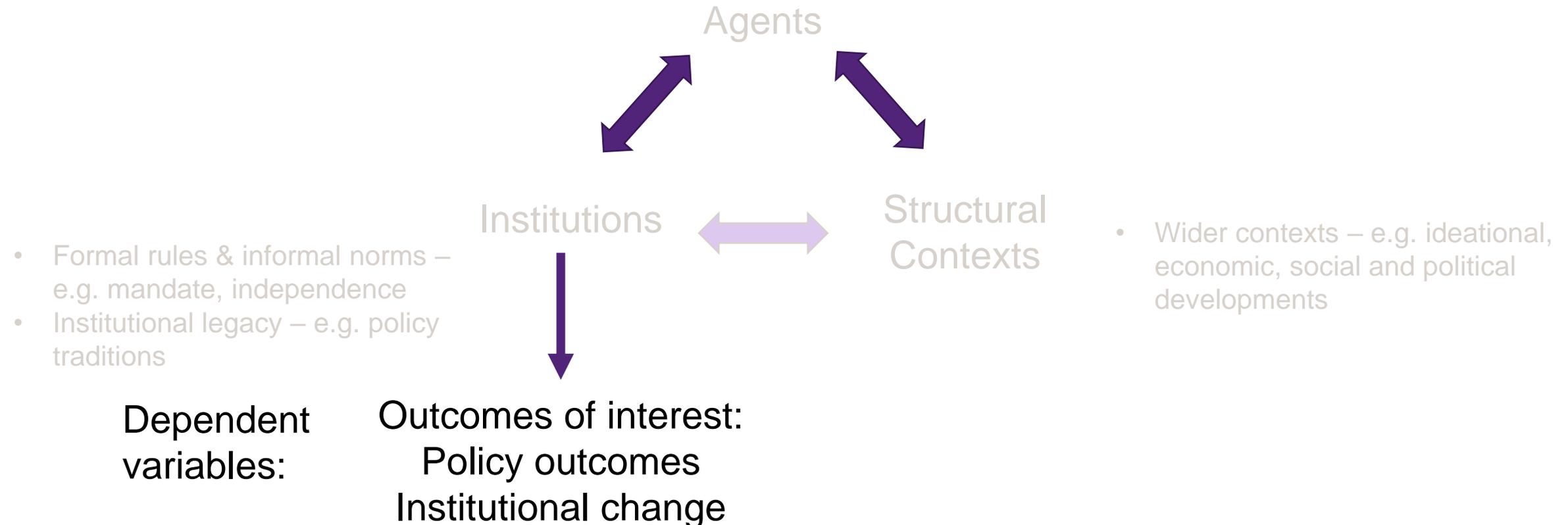
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- Agent ideas about the types of problems their institutions should address, and what tools they can use to do so.



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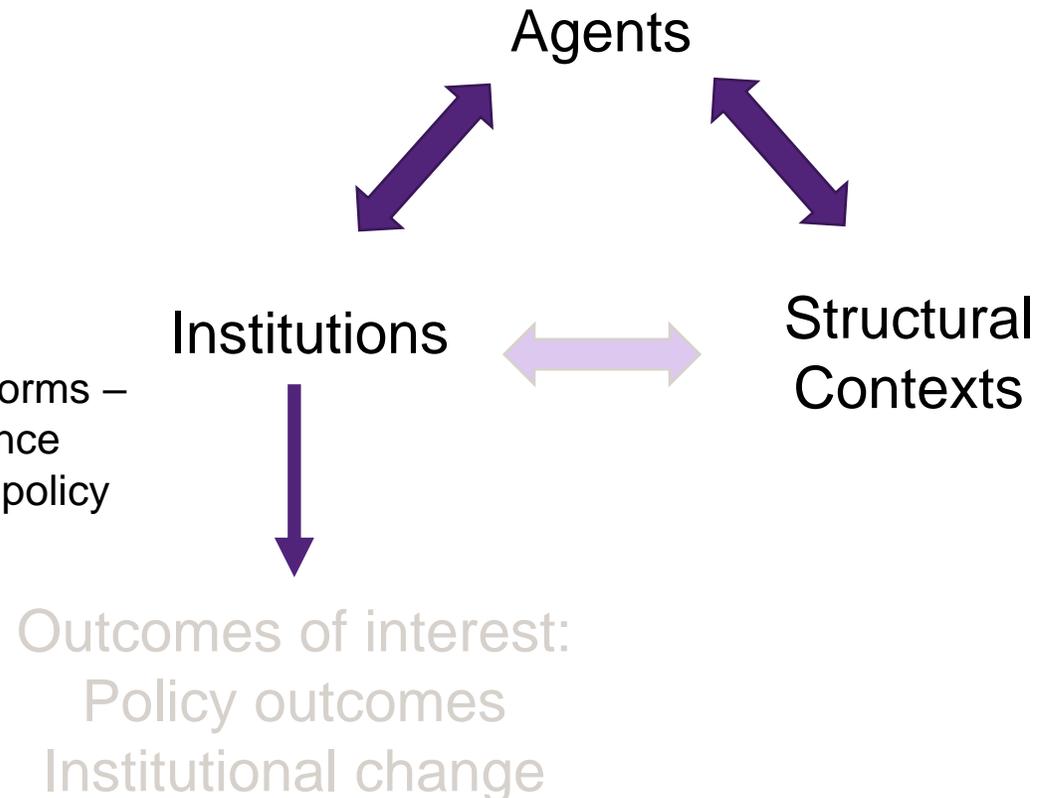


# Theoretical model: Historical institutionalism

- Agent ideas about the types of problems their institutions should address, and what tools they can use to do so.

Independent variables:

- Formal rules & informal norms – e.g. mandate, independence
- Institutional legacy – e.g. policy traditions



- Wider contexts – e.g. ideational, economic, social and political developments

# Policy framework

Order	Description
<b>First order: Policy setting</b>	For example, climate-related eligibility conditions
<b>Second order: Policy aim</b>	Prudential: Mitigate financial risks posed by climate change Structural: Shift allocation of credit to greener enterprises
<b>Third order: Policy paradigm</b>	Hierarchy of goals that drives both policy instruments and their settings

Framework builds on work by Hall (1993), Baer et al. (2022), Caldecott (2020), and Dafermos (2021)

# Findings: The Bank of England

**RQ1:** The BoE has utilised primarily *prudential* and more recently *structural* policies to address climate change.

## *Prudential*

Supervisory expectations (2019)  
(2021)

Climate scenarios included in  
stress testing (2019, 2021, 2022)

## *Structural*

Greening of corporate bond purchases

# Findings: The Bank of England

**RQ2:** There are three key factors that have enabled the BoE's leadership on climate change.

1. The ideational and institutional impacts of the **Global Financial Crisis** in introducing systemic risk monitoring to central banking.

- Climate impacts are usually framed in relation to financial stability.
- This frame allows for non-financial sources of systemic risk to be relevant.
- Importantly, this provides a framework for both *prudential* and *structural* policies (e.g., orderly transition).

# Findings: The Bank of England

**RQ2:** There are three key factors that have enabled the BoE's leadership on climate change.

## 2. A broadly supportive domestic **political environment**.

- The UK's support for the Paris Agreement and subsequent net-zero legislation have been key in setting a transition pathway, thus abdicating the BoE from distributive decision-making itself.
- Both major political parties are not only supportive of climate action but have actively engaged in defining the BoE's role in mitigating climate change via the Bank's remit.

# Findings: The Bank of England

**RQ2:** There are three key factors that have enabled the BoE's leadership on climate change.

3. The BoE's two-part **mandate** has been a key tool for legitimacy that has amplified and constrained the first two drivers.

- Secondary mandate to support the economic priorities of the government enabled *structural* turn. But...
- Connecting both *prudential* and *structural* policies to the BoE's primary mandate remains key for legitimacy.

# Findings: The Bank of England

**RQ3:** The BoE's work on climate change is a 'thermostatic'<sup>1</sup> shift in policy instruments used to achieve the BoE's goals, in response to a changed policy environment. It has not necessitated a paradigm shift in the BoE's role.

- The BoE's primary goals of price and financial stability have remained primary.
- The BoE's work on climate is an evolution of its post-GFC financial stability regime.
  - Consistent utilisation of remit and secondary mandate and structural interventions
- This regime is consistent with a version of a "regulatory" approach to central banking, whereby *structural* policies are required to maintain system-wide aims.

# Implications for central banks

**This research highlights how discrete policy aims can shift for central banks alongside a changing policy environment, while higher-level goals remain consistent**

Thinking in terms of how different types of climate-related policy actions can align with different central bank paradigms can empower central bankers to pursue climate-related policies

This research also provides models of how central banks find political legitimacy for climate-related policies