



Call for Papers

**Climate change and the post-COVID recovery: What role for central banks and financial regulators?**

*For the annual conference of the European Association for Evolutionary Political Economy (EAEPE) from 2-4 September 2021, in addition to the open Call for Papers, the Research Area [J] 'Monetary Economics, Finance and Financial Institutions' invites contributions especially on the topic below.*

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The socio-economic emergency brought by the Coronavirus pandemic has forced governments worldwide to direct their efforts in reducing the extent of recessions by adopting timely and relevant policy responses to counteract its adverse effects. The threats posed by the pandemic are unprecedented, requiring a mix of government-financed stimuli, changes in monetary policy conduct, and relaxation of the macroprudential regulations (Barbier 2020; Engström et al. 2020). The pandemic's recessionary framework is aggravated by the challenges posed by the climate change to the real economy and financial stability (IPCC 2018; Heyd 2020). On the one hand, there can be substantial economic costs and financial losses due to the increasing frequency and severity of climate-related natural events (e.g., storms, floods, heat waves) or changes in climate patterns, which fall under the so-called "physical risks" (Carney 2015). On the other hand, a sudden transition to a low-carbon economy (i.e., the materialization of the so-called "transition risks") can imply the destruction of production capital, the decline in profitability of exposed firms, and the stranding of assets related to, e.g., the fossil fuel sector (Cahen-Fourot et al. 2019).

Furthermore, climate change can affect supply price shocks, market volatility, and economic growth related to inflation through credit spreads, saving rates, and real interest rates (Dafermos et al. 2018). Climate change and physical and transition risks associated with it are thus relevant for monetary policy and financial regulation (Schoenmaker and Van Tilburg 2016, Chenet et al. 2019, Monasterolo 2021, Schoenmaker 2021). Furthermore, financial markets exhibit a misalignment with commitments to the Paris Agreements and are characterized by a so-called carbon bias (D'Orazio and Popoyan 2019). Analysis of massive QE whereby central banks were purchasing corporate bonds shows that newly purchased asset portfolios were largely skewed towards the fossil sectors. This resulted in various ideational shifts - such as the ECB debating the principles of market neutrality of monetary policies, the EIB declaring becoming the "climate bank" - and yet the overall role of key financial agencies, such as central banks in the green transition remains mostly within the narrowly defined mandates of price stability. The recently announced 'green mandate' by the Bank of England is one notable exception. Key financial governance agencies – Central Banks, Ministries of Finance, financial regulatory authorities – are important players in re-defining and re-directing financial markets towards low-carbon sectors and activities (Mikheeva and Ryan-Collins, 2021).



For the 2021 EAEPE conference, the research area [J] invites contributions that aim in particular at the following objectives:

- To shed light on role of central banks and regulators in addressing "Green Swans" (Bolton et al. 2020, Pereira Da Silva 2020), such as those related to climate change and pandemics.
- To identify institutional governance models that take into account issues related to central banks operational objectives and their independence, and other key financial regulatory agencies, such as Ministry of Finance and financial regulatory authorities.
- To study coordination of monetary, prudential and fiscal policy, as well as hybrid forms of off-balance-sheet policymaking such as the EU's Recovery and Resilience Facility or other ad-hoc public investment funds (Guter-Sandu and Murau 2020) in the context of low-carbon transition and long-term post-COVID recovery plans.
- To identify any historical lessons of institutional configurations and policies that facilitated structural transformations in the past (e.g. the New Deal, post-WWII policies) that could be useful for the managed transition to low-carbon post-COVID recovery.

Questions of particular importance in this area of research that we would like to see addressed might involve (but are not limited to) the following ones:

- What role should central banks and other financial governance agencies play in combating climate change?
- What role could central banks and regulators play in promoting a post-pandemic recovery with a lower carbon footprint?
- How could central banks meet their "climate ambitions" by keeping up with their mandates? To what extent the principle of "market neutrality" represents a hindrance for those ambitions?
- Central bank independence: could it, or should it, "vanish" in major economic and financial crises brought by Green Swans?
- Rethinking the post-pandemic recovery framework: can central banks work as blueprints for independent carbon agencies?
- How cooperation among different actors and policymakers, such as central banks, governments, civil society, the private sector etc. could help prevent Green Swans?
- How can we (re)define the financial governance of the green transition and post-COVID recovery plans through coordinated and strategic roles of key financial governance agencies?
- Are there lessons to be learned from central banks having an active economic development role in the 20th century that can be applied to their role in the green transition?

Please submit your paper proposal (300-750 word abstract) **until 1 April 2021** using this link:

[https://eaepe.org/?page=events&side=annual\\_conference&sub=abstract\\_submission](https://eaepe.org/?page=events&side=annual_conference&sub=abstract_submission)

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