

Caroline Lucas MP



HOUSE OF COMMONS
LONDON SW1A 0AA

October 8th 2021

Open Letter to Andrew Bailey, Governor of the Bank of England

Dear Governor Andrew Bailey

We welcome the commitments you have made towards greening the financial system during a year of profound upheaval for the UK economy.

With only weeks to go before the UK hosts the COP26 climate conference, the Bank of England has an unprecedented opportunity to shape the global green finance agenda and help ensure the UK leads the way in this crucial area. While governments must drive the decarbonisation effort, central banks have an essential role to play in supporting this and aligning private finance with government plans.

Climate change and biodiversity loss already pose huge risks to the Bank's ability to meet its core objectives of maintaining monetary and financial stability. We therefore welcome the Chancellor's announcement of updated remits for the Bank's policymaking committees, to explicitly include supporting the government's net zero emissions target and wider environmental policies. This places the green transition unequivocally within the Bank's mandate.

Through the legally binding Paris Agreement, the UK has committed to keeping global warming well below 2°C and pursuing efforts towards 1.5°C. In May, the International Energy Agency warned that investment in new oil, gas and coal supply must stop this year if the world is to reach net zero by 2050, and said that annual global investment in clean energy needs to increase by more than triple, to \$4tn by 2030. ⁴These goals will require an urgent reorientation of finance away from fossil fuels and towards green alternatives, using all policy levers available.

In this decisive year for climate action, the financial sector the Bank of England oversees continues to underprice climate-related risk, and insufficient capital is being allocated to the green investments required to align the economy with the commitments made by the UK under the Paris Agreement.

Emissions from projects financed by the UK banking sector are greater than those of other European countries. Barclays and HSBC alone have poured more than £185 billion (US\$255 bn) into fossil fuels since the signing of the Paris Agreement in November 2015, more than three times the amount it would cost to power all UK homes with offshore wind by 2030. In 2019, UK banks invested more than £258 billion in sectors which the government and scientists agree are primary drivers of biodiversity

destruction. The Bank of England's own asset purchases are currently aligned with 3°C of warming - double the target the UK is committed to targeting via the Paris Agreement.

We support the Bank operationalising its new climate and environmental remit in a manner commensurate with the scale and urgency of the challenges we are facing. With the right policy decisions, the Bank can play an instrumental role in mobilising and steering private finance to help deliver the government's goals, incentivising job creation and encouraging essential investments in green infrastructure.

We, the undersigned, encourage the Bank of England to:

1. Unleash green investment

The Bank of England needs to actively support a green Build Back Better recovery by using the policy tools at its disposal. This could involve supporting green investment in the real economy by adjusting its lending schemes to provide cheaper credit to commercial banks, conditional on banks expanding their lending for sustainable projects, particularly to SMEs. In collaboration with the Treasury, the Bank should also explore partnering with the new UK Infrastructure Bank, to provide additional capital to support increased investment in a fair and green transition.

2. Regulate private finance

UK financial regulators need to ensure that private finance supports, rather than obstructs, the government's climate and levelling up goals. The Bank of England should work with the Treasury to mandate that all UK financial institutions outline credible transition plans aligned with the Paris Agreement. They should also introduce measures that ensure that the high risk of fossil fuel lending is reflected in regulation, and push for Paris-aligned regulation of the financial system at the international level.

Crucially, in taking the above steps the Bank of England must work closely with bodies such as the Treasury, BEIS, and the Climate Change Committee, and develop real economy targets such as on green job creation and emissions reductions, for which Parliament can hold policymakers to account.

Signed,

MPs

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