Andrew Bailey
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Open letter to Andrew Bailey: The Bank of England must step up, not back, on climate change

16 March 2024

Dear Andrew Bailey,

Upon your appointment four years ago as Governor of the Bank of England, over 100 leading economists, finance experts and civil society figures wrote to you, urging that you take decisive action as Governor to align the financial sector with the UK's climate goals.[1]

Your pledge to decarbonise the Bank of England's balance sheet as a priority, made upon your appointment, was celebrated.[2] The Bank's efforts to green the Corporate Bond Purchase Scheme, the inclusion of climate-related conditions for the Energy Markets Financing Scheme, and the Bank's climate-related financial disclosures, all represent welcome progress toward this goal.

However, progress that extends beyond first steps on stress-testing and disclosures appears to have stalled. We were therefore extremely disappointed to hear your recent comments before the Lords Economic Affairs Committee that the Bank has reduced its resourcing of climate change work.[3]

With the world having now reached the pivotal point of the first year-long breach of the 1.5°C warming limit committed in the Paris Agreement, delays are no longer tenable.

Since your appointment as Governor, the global economy has endured shocks and inflationary pressures that are of unprecedented scale in recent decades. This period has exposed the fragility of the UK's fossil-fuel based economy, demonstrating that central banks' must push forward with ambitious climate and environmental policies, rather than retreating.[4] Supply side shocks, which have been the major drivers of UK headline inflation, will only increase as the impacts of climate change and biodiversity loss intensify. Alongside the Covid-19 pandemic, Russia's invasion of Ukraine, and the ongoing war in Gaza, the past four years have witnessed an increasing frequency of extreme weather events and their impacts on global supply chains. Such events, and associated inflationary pressures, can be

[1] https://positivemoney.org/wp-content/uploads/2020/03/Open-letter-to-Andrew-Bailey.pdf
[2] https://positivemoney.org/2020/03/andrew-bailey-announces-crucial-step-towards-climate-friendly-bank-of-england/
[3] https://committees.parliament.uk/oralevidence/14282/html/
[4] https://positivemoney.org/wp-content/uploads/Inflation-as-an-Ecological-Phenomenon-Jan24-v2.pdf

expected only to increase in frequency and severity, and action must be taken by all actors to mitigate and adapt to further impacts.

Governments, particularly those within nations whose economies have contributed most to global heating, must take the lead in delivering a just and green transition. Central banks can and should play a critical role, using the tools at their disposal, and where possible, coordinating with governments. But despite the Bank of England emerging as an early climate leader, over the past four years we have seen other major central banks outpace the Bank of England on this agenda.[5] Major central banks have now begun adjusting collateral frameworks and capital requirements to reflect climate risks, and momentum is building towards the use of green-term funding schemes to incentivise green lending.[6]

Progress made by other central banks also reflects mounting evidence that attempts to model the financial risk posed by climate change and biodiversity loss are failing woefully to reflect climate science, requiring a precautionary approach.[7] Major UK asset managers have recently highlighted this concern in a letter to the Bank.[8] Despite climate-related financial-risk disclosure initiatives now being widespread, the UK financial sector continues to underprice climate risks, and finance emissions and nature-destruction at a pace and scale that posits a risk to global financial and monetary stability, as well as global climate goals.

These shifts towards proactive climate policies are thus in recognition that environmental risks fall squarely within core central bank mandates for price and financial stability. The Bank of England's green mandate, awarded just over three years ago, reflects this consensus. It was therefore disappointing to hear you attribute resource cuts on climate to the Government's removal of climate change and energy security as a priority for the financial services sector from its letter to the FPC. As the letter affirms, climate remains within the FPC's core mandate for financial stability, and remains within the Government's broader economic policy objectives as are outlined in the remit letter to the MPC. Such a change should thus not undermine the Bank's work in this area.

We therefore urge you to re-prioritise work to align the financial sector with the government's climate goals, reverse resource cuts for this work, and reassert the Bank of England as a climate leader as a matter of urgency.

We look forward to seeing how the Bank's plans evolve, and to continuing to engage with you on this agenda.

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[5] https://positivemoney.org/2022/11/reining-in-fossil-finance-is-key-to-fighting-inflation-report-urges/
[6] https://greencentralbanking.com/2024/01/19/ecb-could-consider-dual-interest-rates-schnabel-says/
[7] https://www.inspiregreenfinance.org/wp-content/uploads/2022/04/Chenet-et-al-April-2022-Developing-a-precautionary-approach-to-financial-policy-from-climate-to-biodiversity.pdf
[8] https://sarasinandpartners.com/wp-content/uploads/2024/02/Letter-to-the-PRA-on-climate-risks-29_01_24.pdf

Signed,

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Areeba Hamid, co-Executive Director, Greenpeace UK

Michael Weatherhead, Development Lead, Wellbeing Economy Alliance

Mick McAteer, co-Director, The Financial Inclusion Centre

Steve Keen, University College London

Dr James Meadway, Progressive Economy Forum council

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Jason Hickel, Professor, ICTA-UAB and LSE

Peter Sweatman, CEO, Climate Strategy

Christine Cooper, Professor, University of Edinburgh

Catherine Howarth, Chief Executive, ShareAction

James Vaccaro, Chief Catalyst, Climate Safe Lending Network

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Josh Ryan-Collins, Associate Professor in Economics and Finance, UCL Institute for Innovation and Public Purpose

James Jackson, Research Associate, University of Manchester

Julius Kob, Warwick Climate Finance Research Fellow, Warwick Business School

Jakob Vestergaard, Associate Professor, Roskilde University

Mark Blyth, Professor of International Economics, Brown University

George Monbiot: author, journalist, environmental activist

Katharina Dittrich, Associate Professor, Warwick Business School

Peter Dietsch, Professor, University of Victoria, Canada

Jeff Powell, Senior Lecturer Economics, University of Greenwich

Cédric Durand, Economist, University of Geneva

Lydia Marsden, Research Fellow, University College London

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