

The Bank of England must act on the climate crisis by *Yannis Dafermos, Senior Lecturer in Economics, SOAS* (29 October 2021) yannis.dafermos@soas.ac.uk

The Bank of England needs to play a leading role in the decarbonisation of the UK financial system. So far, instead of supporting it, the Bank has been a barrier to the transition to a climate neutral economy. During the pandemic, the measures taken by the Bank to support the UK economy did not consider environmental criteria. As a result, its corporate quantitative (QE) easing programme – which was expanded after the COVID-19 outbreak – continues to suffer from a [carbon bias](#): the bonds issued by carbon-intensive sectors are over-represented in the Bank’s programme compared to the contribution that these sectors have made to UK economic activity and employment as a whole. **As host of the COP26, the UK government is uniquely placed to urge the Bank of England to address this carbon bias immediately and decisively, and thereby also send a strong signal to all central banks.**

In the past, the Bank justified its climate inaction based on the fact that its mandate did not include environmental considerations. This, however, changed in March 2021 when the [UK Government explicitly included the support for the transition to a net zero economy in the mandate of the Bank](#). With this **environmental mandate**, the Bank must now act on climate change.

However, the Bank’s response to the change in its mandate has so far fallen short of what is needed in today’s climate emergency. Although the Bank announced that by the end of 2021 it intends to [align its corporate QE programme with the UK’s aim of reaching an economy with net zero emissions by 2050](#), it does not intend to exclude high-polluting companies from its programme - at least in the short run: Its [plan](#) is to only consider such exclusions in the future. This is problematic since the urgency of the climate crisis suggests that we have no time to waste. The Bank needs to be more ambitious by **penalising companies** that have a historical responsibility for the climate crisis and have no credible plans to decarbonise their production. Penalising them would send a powerful signal to the financial markets.

Moreover, the Bank has no specific plans about the **decarbonisation of the UK banking system**. It is well-known that [UK banks continue to provide a significant amount of financing to fossil fuel companies](#). The Bank should use its power to regulate banks in order to prevent this from happening. As part of its responsibility to protect the financial system from systemic risks, it should ask banks to hold a significantly higher amount of capital when their lending supports carbon-intensive projects. This would discourage them from providing financing for polluting activities. **In sum, the UK government should recommend that the Bank of England:**

- **Adopt an ambitious approach to the decarbonisation of its corporate quantitative easing programme by excluding high-polluting companies from this programme.**
- **Take action to ensure that financial regulation penalises banks when they provide loans that support fossil-fuel and other carbon-intensive projects.**

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