NO ESCAPE: THE ECB BOARD'S CLIMATE AND NATURE CHALLENGE

CONTEXT

A wind of change is blowing at the European Central Bank (ECB) with President Christine Lagarde prematurely leaving her role in February 2027, and two of her fellow Executive Board Members, Isabel Schnabel departing in January and Philip Lane in May. Another member of the Executive Board, Frank Elderson, may also follow if any of the replacements chosen are also Dutch.[1] These changes will be critical when it comes to future measures to ensure that Europe's economy is resilient to the growing challenges posed by our rapidly changing climate and the damage done to nature.

The current ECB Executive Board, and Lagarde herself, played an important role in ensuring that the issues of climate change and nature degradation were integrated into monetary policy and supervision. But this should not be understood as the result of Lagarde's personal endeavor. The ECB's measures came from the recognition that accounting for climate and nature is necessary to achieve the Bank's mandate to ensure price stability and maintain financial stability. Recent events have shown how the EU's dependency on fossil fuels has been responsible for inflationary shocks that have shaken the EU economy, and how the impacts of climate change and nature depletion are increasingly impacting commodity prices and supply chains.

There is no turning back for the ECB, the only question is how much further the next Executive Board will go.

FROM WORDS TO ACTION

Under the tenure of Lagarde, Schnabel, and Lane, the ECB significantly developed its work on climate change and nature degradation. Having previously given no consideration to these topics, the ECB is now recognized as one of the most advanced central banks on these issues globally.[2] (A detailed overview of the key measures is available at the end of this document).

These decisions emerged from extensive research, including by the ECB, showing that climate change and nature degradation are an urgent and direct threat to price and financial stability.[3] Gradual changes to global temperatures and the state of ecosystems have a direct impact on

[1] Although there is no legal obligation for him to resign if another Dutch person joins the Executive Board, the expectation is that members of the ECB Executive Board should come from different countries to avoid over-representation.
[2] The Green Central Banking Scorecard published by Positive Money and Green Central Banking places the ECB in 4th place, after some national central banks of the Eurosystem.
[3] In its 2025 Monetary policy strategy statement, the ECB highlighted the implications of climate change and nature degradation for price stability.

the economy and push up global prices.[4] For example higher temperatures and change in precipitation patterns lead to lower crop yields which in turn puts pressure on food inflation.[5] In addition, extreme weather events can have sudden and prolonged disastrous economic consequences, destroying property and infrastructure, disrupting supply chains and lowering productivity.[6] In Europe, estimated economic losses from climate damages from 2022-2025 amount to EUR 200 billion, or EUR 50 billion per year.[7]

The ECB has also acknowledged the role of fossil fuels in recent price spikes and has identified the EU's dependency on fossil fuels as a key driver of price instability.[8] Building on a wealth of studies and data, the central bank has underlined that the energy transition is key to protecting EU citizens and the economy and should therefore be accelerated.

Furthermore, the ECB has taken steps to recognize that some of its activities are not climate neutral. In a 2021 speech Isabel Schnabel admitted that by following market neutrality in its asset purchase programmes, the ECB reinforced a market structure that favored carbon intensive companies.[9] This led to the first step towards greening its monetary policy by favoring companies with better climate performance when purchasing corporate bonds.[10]

President Lagarde played an important role in enabling these changes and had the support of her fellow Executive Board Members and some national central bank governors.[11] Most central banks around the world now agree that climate change and nature loss are relevant to their mandate, with the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) counting more than 150 members from over 96 countries.

[4] M. Kotz et al., Global warming and heat extremes to enhance inflationary pressures, March 2024.
O. Wegner et al., Seeds of inflation: Macro Modelling of Nature Related Risks through Agricultural Prices, July 2025.
[5] Research shows that climate change has already decreased agricultural productivity since 1961 and will continue to do so. In Europe, climate change is expected to substantially lower grain maize and wheat yields with some countries in southern Europe facing crop losses of up to 80% under the realistic assumption that water will grow scarcer as temperatures rise.
[6] S. Usman et al., Going NUTS: the regional impact of extreme climate events over the medium term, September 2025.
European Environment Agency, Economic losses from weather- and climate-related extremes in Europe, October 2025.
M. Andersson et al., Heatwaves, coldwaves, floods, and droughts: The short-term impact of extreme weather events on economic activity, March 2026.
[7] European Commission, EU Framework for Resilience.
[8] C. Lagarde, Europe's road to renewables, October 2025.
F. Elderson, Europe's fossil fuel dependence poses risks to price stability, April 2026.
P. Cipollone, The new energy shock: economic scenarios and policy implications, May 2026.
P. Lane, Climate change and monetary policy, May 2026.
[9] I. Schnabel, From market neutrality to market efficiency, June 2021.
[10] ECB, ECB takes further steps to incorporate climate change into its monetary policy operations, July 2022.
[11] For example, Banque de France and De Nederlandsche Bank were supportive of the green turn, playing a decisive role in setting up the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in 2017. Banque de France still hosts its Secretariat.

THE CHALLENGES AHEAD

The incoming ECB Executive Board members will be appointed for eight years, during which time they will face challenges that will affect their ability to ensure price and financial stability.

Climate change and nature loss intensify with increasing impact on stability

The impacts of climate change will intensify in the next few years, with experts agreeing that global warming will, at least temporarily, drive temperatures beyond the 1.5°C of warming threshold.[12] This overshoot will come with significant disruptions that the ECB will have to navigate, especially since Europe is the fastest warming continent. Limiting as much as possible for how long and by how much we exceed the 1.5°C limit will be essential to minimize irreparable and long-lasting human, environmental, climate and economic consequences.

At the same time, critical ecosystems are expected to continue to deteriorate at an alarming pace, straining the economy and the financial system and amplifying global warming.[13] The European economy is particularly vulnerable to these changes as nearly three quarters of euro area businesses depend on at least one service provided by nature.[14] While nature-related risks are increasingly acknowledged, too little is being done to address the economic activities driving them. The ECB itself contributes to biodiversity loss by enabling the financing of companies with fossil fuel projects in critical biodiversity areas.[15]

The direction and pace of climate change and biodiversity loss suggest that Europe is straying away from the ideal "accelerated and orderly transition" advocated by the ECB in its 2023 economy-wide stress test.[16] As Lagarde highlighted, the summer of 2026 is a "warning" of the challenges ahead.[17] Europe suffered a series of heatwaves, wildfires and droughts which impacted productivity, electricity production, transport, agriculture, property and infrastructure. In total, EUR 113 billion in output losses were recorded, following the heatwaves while food inflation is expected to rise in 2027 due to the lower yields of the major summer crops.[18]

In the next eight years, the ECB will therefore have to cope with the growing economic impact of climate change and nature loss. Protecting price and financial stability will require ensuring

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[12] UNEP, Limiting overshoot: Navigating exceedance of 1.5°C and pathways towards return, September 2026.
[13] For example, over a 52-year period, on average there has been a 73% decline in average size of monitored wildlife populations (WWF, Living Planet Report 2026) and between 1975 and 2020 the Brazilian Amazon (the largest part of the Amazon) has lost between 17% and 21% of its original forest cover (A. Ferreira, Amazon deforestation).
[14] A. Ceglar et al., Nature at risk: Implications for the euro area economy and financial stability, December 2025.
[15] Reclaim Finance, Fueling Extinction: Why the ECB must act on the biodiversity risks of fossil fuels, September 2026.
[16] ECB, Faster green transition would benefit firms, households and banks, ECB economy-wide climate stress test finds, September 2023.
[17] C. Lagarde, A warning from Europe's hot summer, November 2026.
[18] European Commission, EU Framework for Climate Resilience.
Allianz, Allianz Climate Economics Report 2026: A year of escalating costs, September 2026.
E. Bobeica et al., Has food inflation lost its bite?, October 2026.
European Commission Joint Research Centre, European agriculture hit hard by exceptionally hot and dry summer, September 2026.

the resilience of the system to these growing risks, whilst also stopping these risks exceeding a certain tolerable threshold.

Dependence on fossil fuels continues to threaten price stability

Under Lagarde's presidency, the ECB has had to navigate two shocks directly linked to Europe's dependence on fossil fuels – the first following Russia's invasion of Ukraine in February 2022, and the second after the US-Isreal launch of the war on Iran in February 2026. According to ECB research, the full extent of the latest fossil-fuel crisis is still unfolding, with impact on food inflation, for example, expected to be felt more acutely in 2027.[19]

The ECB cannot prevent these types of shocks from happening, but it does decide how to respond to them and how it can contribute to lessening the impact of future similar shocks by supporting the energy transition. As the ECB Executive Board highlighted on multiple occasions, transitioning away from fossil fuels towards renewables is the solution for a more stable and sustainable future.[20]

In Spain, the high uptake of renewables helped shield the country from higher gas prices in 2026 with Spanish households paying EUR 10 less per month for electricity than they would have paid if the country hadn't significantly reduced its dependence on gas.[21]

But the energy transition requires significant investments, and so far, the ECB's response to fossil fuel shocks has effectively contributed to deterring new investment. Generating electricity with renewables is technically cheaper than with fossil fuels.[22] But, unlike fossil fuels which have high operation and maintenance costs, most of the cost of renewables is upfront capital investment. This makes them more vulnerable to changes in interest rates.[23] So, when the ECB raised interest rates, it disproportionately harmed renewables compared to other forms of electricity generation such as fossil fuels.

Measures, such as differentiated interest rates, could limit the effect of high interest rates on renewables and support the energy transition at a time of limited fiscal space. It will be up to the incoming President and Executive Board whether they will want to explore such options to respond to shocks, without hindering the necessary investments for the energy transition.

THE (GREEN) PATH FORWARD

Changes at the top of the ECB are an opportunity to assess what challenges lie ahead and what the appropriate course of action is to tackle them. The extensive research the ECB has conducted over the past few years clearly shows that accelerating the transition to a

[19] E. Bobeica et al., Has food inflation lost its bite?, October 2026.
[20] C. Lagarde, Europe's road to renewables, October 2025.
F. Elderson, Europe's fossil fuel dependence poses risks to price stability, April 2026.
P. Cipollone, The new energy shock: economic scenarios and policy implications, May 2026.
P. Lane, Climate change and monetary policy, May 2026.
[21] EMBER, Renewables shieled Spanish consumers from elevated gas prices, June 2026.
[22] IRENA, Renewable power general costs in 2025, July 2026.
[23] A. Serebriakova et al., Monetary policy and energy installation: Implications for the European green transition, March 2026.

sustainable and nature positive economy is a prerequisite for both price and financial stability, and thus to EU economic development.

So, the key question is how will the new president and board members address this issue?

The departing members of the Executive Board leave them with strong foundations to build upon and with opportunities to strengthen the work initiated under Lagarde's leadership. The upcoming implementation of structural monetary operations, for example, could be used to introduce targeted measures to incentivize bank lending for the energy transition.[24]

One thing is certain, with climate change and nature degradation accelerating, the new president and executive board have no option but to strengthen their approach. Anything less could expose the EU economy and citizens to significant harm, leaving the central bank unable to fulfill its mandate.

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Annex: Overview of key milestones

November 2020: The ECB published a multi-year plan requiring banks to gradually consider climate and environmental risks into their activities.

July 2021: The first climate roadmap was introduced, setting key priorities to integrating climate change into monetary policy. Among other things, the ECB committed to integrating climate change into its monetary portfolios and its collateral framework.

September 2021: The ECB published its first economy-wide stress test highlighting the need for an orderly and swift transition to a zero-carbon economy. The exercise was reiterated in 2023 with the same conclusions.

July 2022: The ECB announced that it would favor companies with better climate performance when purchasing corporate bonds. This announcement came after the ECB admitted that its corporate purchases were biased in favor of high-emitting companies. The measure effectively came to an end when the ECB stopped purchasing corporate assets at the end of 2024, following the war on Ukraine and the change in inflation outlook.

March 2023: For the first time, the ECB published climate-related financial disclosures of both its monetary and non-monetary portfolios in an effort to increase transparency.

[24] ECB, Changes to the operational framework for implementing monetary policy, March 2024.

National central banks across the Eurosystem were also asked to publish climate-related financial information regarding their investment portfolios.

January 2024: A new roadmap was introduced, which for the first time included a specific section on nature.

March 2024: The ECB committed to integrating climate change into its future structural monetary policy operations as part of its new operational framework. These operations are yet to be implemented at the time of this note being written.

July 2025: The ECB announced the first measure to integrate climate change into its collateral framework. A climate factor is added to the assessment of the risk profile of assets used as guarantees. The measure's scope was extended in 2026 to cover corporate credit claims.

End of 2025 – beginning of 2026: The ECB issues two fines to ABANCA and Crédit Agricole for failing to adequately identify climate-related risks.