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Green monetary policy

It is well documented that climate change adaptation and mitigation, including the transition to net zero emissions, require financial flows that are several times larger than what is currently observed. In this talk, I review a stock-flow consistent climate-economy model and explain the inherent instability associated with balancing the effects of economic damages caused by climate change and the financial burden incurred to prevent them. I then present a modification of the model that takes into account two different monetary policies that could be implemented by central banks in order to improve the stability of the system: green quantitative easing (that is to say, large scale purchases of financial instruments used to fund green investment) and green capital requirements (that is, measures aimed at making loans for green projects more attractive for banks to hold in their balance sheets). I illustrate the stabilization effects of these polices with examples calibrated to data and similar proposals in the literature.