

OPINION



CENTRAL BANKS CAN EASE GREEN ECONOMY TRANSITION WHILE MAINTAINING THEIR MANDATES

Even in oil-rich countries like Iraq, central banks can contribute to cultural change, writes Mazen Sabah Ahmed, director general, investments and foreign remittances department, Central Bank of Iraq.

THE response to climate change is often hindered by a lack of public information. To many, the issues are too abstract or vague, contrasting with the tangibility of a global pandemic. Increasingly, however, environmental developments and advances in research have clearly illustrated the capacity of climate change to impact billions of people's lives.

At the Central Bank of Iraq, we believe that central banks are essential in combatting climate change. Although it is difficult for central banks to integrate climate change risks into their analytical frameworks and modelling, they can still play a role in acting, studying the impacts of climate change and encouraging the transition to net zero. It can do all of this while maintaining a functioning financial system and managing inflation, interest rates, growth, prudential policy and behavioural incentives.

Climate-related risks pose distinctive challenges to central banks. The first problem is a one of reliable information about the green transition. Second, the real dangers of climate change and a disruptive green transition may not be linear and manifest over the medium to long term. Third, the future of environmental change and action is difficult to predict and relies heavily on political events.

Despite this, central banks have various ways of mitigating climate-related risks. They can reduce the size of polluting corporations and support new businesses that aim to reduce their carbon

footprints through financing channels. They can help kindle broader reform – central banks can restrict the ability of commercial banks to provide financing to businesses that have a high carbon footprint while offering low interest loans to green and renewable energy projects. Given this, the focus now is on macroprudential management and guidelines, administrative assumptions and stress testing.

In embracing greener monetary policy, the Central Bank of Iraq is deeply concerned about the impact climate change will have on the Iraqi economy. After dramatic weather events – with temperatures hitting record highs exceeding 50 degrees – Iraq has experienced parched land and a lack of clean water from both the Tigris and Euphrates rivers and groundwater. We estimate that these trends could result in a decrease of Iraq's real gross domestic product by 4%, regardless of any gains in GDP levels caused by higher oil prices.

The central bank operates in one of the world's major oil-exporting countries and is highly dependent on crude oil revenue, which constitutes over 95% of Iraq's fiscal budget and around 60% of its GDP. Yet, the significant risks posed by climate change have pushed the central bank to take urgent action. For instance, we are currently offering 1tn Iraqi dinars (\$800m) in low interest, eased-term loans for water, green and renewable energy projects. These loans will be provided through local banks. In addition, we are working with local government partners to raise awareness about the economic impacts of climate-related risks on the Iraqi people. Our hope is that, by taking such an approach, we can avoid accelerating the severity of climate risks and collaborate with government, media and private organisations to achieve a necessary cultural change. •

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