



Side Event at 54th ADB Annual Meeting
Climate Change and Sovereign Risk
5 May 2021, Zoom Platform
16:00 – 17:30 (Japan Standard Time) / 15:00 – 16:30 (Philippine Time)

Background

Economies in Asia and the Pacific are among those most heavily affected by climate change. The number and intensity of extreme weather events in the region has been increasing markedly, often leading to the loss of life, homes and livelihoods and causing severe economic damage. Economies in the region are also exposed to gradual effects of global warming as well as transition risks stemming from policies aimed at mitigating climate change, the development of more climate-friendly technologies, and changes in consumer preferences. While climate change and its hazards in climate-vulnerable regions have substantial negative effects on economic activity and output, there can also be associated risks to the longer-term sustainability of public debt. Moreover, when sovereign credit risk worsens, the higher cost of borrowing has negative ramifications for important public investment areas such as health and education, creating additional financial burdens for the government in the long run.

Despite the material impact that climate change can have on sovereign credit risk, there is still limited research on the transmission channels that amplify the economic losses on public funding and the possible policy efforts to mitigate such losses. Attempting to fill that gap, recent ADBI work with partners explores the nexus between climate change and sovereign risk, finding that economies more highly exposed to climate change incur premia of up to 275 basis points on sovereign bond yields. This research also demonstrates that measures aimed at improving resilience to climate change help to reduce the cost of sovereign borrowingⁱ. Other empirical work in this field points more broadly to the need for urgent action, whereby, if climate change is not addressed in a timely and appropriate manner, the costs may reach 23% or more of a country's Gross Domestic Product (GDP) by 2100ⁱⁱ.

Understanding the implications of climate change for sovereign risk is of crucial importance at the current juncture whereby public finances are already under considerable strain due to the COVID-19 pandemic. Indeed, the pandemic has highlighted the pressing need for building resilience into social, economic, and financial systems, and strong and sustainable public finances are crucial for this. Thus, this situation calls for a collaborative effort among policymakers, field experts and scholars from various institutions. Governments must climate-proof their economies and public finances to prevent an ever-worsening spiral of climate vulnerability and unsustainable debt burdens. Against this backdrop, this webinar features a presentation of recent ADBI research that explores the transmission channels and empirical link between climate change affects sovereign risk, establishing a platform for a policy dialogue on how climate-related sovereign risks can be managed in practice.



Objectives

This webinar aims to provide a platform to:

1. Explore the material impact of climate change on the cost of sovereign borrowing;
2. Understand the transmission channels through which climate change affects sovereign credit risk, and the implications for the sustainability of public debt;
3. Share best practices and present policy recommendations on how governments can mitigate and manage the climate-related sovereign risks.

Format

This webinar is a side event conducted in conjunction with the 54th ADB Annual Meeting and is comprised of two parts. First, a presentation of recent ADBI research on transmission channels and the empirical relationship between climate change and sovereign risk, and second, a policy dialogue about possible approaches to managing and mitigating climate-related sovereign risks in practice.

Expected Participants

Government officials and central bankers from ADB member countries, field experts from ADBI, ADB, and other international organizations, and scholars from various universities and research institutions.

Program

Time	Content
16:00 – 16:05 JST 15:00 – 15:05 PHT	Opening Remarks Tetsushi Sonobe, Dean & CEO Asian Development Bank Institute (ADBI)
16:05 – 16:15 JST 15:05 – 15:15 PHT	Keynote Address Ingrid van Wees, Vice President, Finance and Risk Management, Asian Development Bank (ADB)
16:15 – 16:30 JST 15:15 – 15:30 PHT	Presentation: Climate Change and the Cost of Sovereign Borrowing John Beirne, Research Fellow, ADBI
16:30 – 17:15 JST 15:30 – 16:15 PHT	Panel Discussion: Mitigating and Managing Climate-related Sovereign Risks in Asia and the Pacific <u>Moderator:</u> Peter Morgan, Vice Chair of Research and Senior Consulting Economist, ADBI <u>Panelists:</u> Simon Buckle, Head, Climate Biodiversity and Water Division, Environment Directorate, Organisation for Economic Co-operation and Development (OECD)

	<p>Aladdin Rillo, Senior Economic Advisor, Economic Research Institute for ASEAN and East Asia (ERIA)</p> <p>Wencai Zhang, Vice President, Agricultural Development Bank of China, People’s Republic of China</p> <p>Aigul Kussaliyeva, Chief Strategy Officer, AIFC Green Finance Centre, Kazakhstan</p> <p>Nurun Nahar, Joint Chief, Programming Division Bangladesh Planning Commission, Ministry of Planning</p>
<p>17:15 – 17:25 JST 16:15 – 16:25 PHT</p>	<p>Q&As</p>
<p>17:25 – 17:30 JST 16:25 – 16:30 PHT</p>	<p>Closing Remarks Seungju Baek, Deputy Dean, ADBI</p>

ⁱ Volz, U., J. Beirne, N. Ambrosio Preudhomme, A. Fenton, E. Mazzacurati, N. Renzhi and J. Stampe. 2020. *Climate Change and Sovereign Risk*. London, Tokyo, Singapore, and Berkeley, CA: SOAS University of London, Asian Development Bank Institute, World Wide Fund for Nature Singapore, and Four Twenty Seven. See also Beirne, J., N. Renzhi and U. Volz. 2020. “Feeling the Heat: Climate Risks and the Cost of Sovereign Borrowing”. ADBI Working Paper No. 1160; and Beirne, J., N. Renzhi U. Volz. 2021. “Bracing for the Typhoon: Climate Change and Sovereign Risk in Southeast Asia”. *Sustainable Development* (forthcoming).

ⁱⁱ Burke, M., S.M. Hsiang, and E. Miguel. 2015. Global Non-linear Effect of Temperature on Economic Production. *Nature* 527 (November), 235–239.