

**MINISTRY OF HIGHER EDUCATION, SCIENCE AND INNOVATIONS  
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**THE IMPLICATIONS OF CLIMATE CHANGE FOR FINANCIAL  
STABILITY**

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## ANNOTATION

This dissertation discusses the potential implications of climate change for financial stability. It investigates channels through which climate-related risks might impact the financial system. It also examines potential mechanisms within the financial system that might amplify the effects of climate-related risk as well as the cross-border transmission of risks. The report draws on existing work by the official and private sector. Such work is, in places, nascent in its consideration of risks to financial stability. In places, therefore, the report raises issues that go beyond those discussed in the existing literature.

Risks to financial stability from climate change can be divided into physical and transition risks. The value of financial assets and liabilities could be affected either by the actual or expected economic effects of a continuation in climate change (physical risks), or by an adjustment towards a low-carbon economy (transition risks). Climate-related risks may also affect how the global financial system responds to shocks. They may give rise to abrupt increases in risk premia across a wide range of assets. This could alter asset price (co-)movement across sectors and jurisdictions; amplify credit, liquidity and counterparty risks; and challenge financial risk management in ways that are hard to predict. Such changes may weaken the effectiveness of some current approaches to risk diversification and management. This may in turn affect financial system resilience and lead to a self-reinforcing reduction in bank lending and insurance provision.

*Key words: financial system, climate-related risks, financial assets, liabilities, climate change, gas emissions, air pollution, climate events, human resources, financial risks, climate policies, carbon emissions, financial stability, financial institutions, climate-related shocks, climate adaptation, climate crisis, physical risks, transition risks, market and credit risks, insurance underwriting risks.*

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## CHAPTER I. INTRODUCTION

Climate change directly contributes to humanitarian emergencies involving heat waves, wildfires, floods, tropical storms and hurricanes, which are increasing in size, frequency and intensity.

Research shows that 3.6 billion people already live in areas highly affected by climate change. Between 2030 and 2050, climate change is expected to increase the number of deaths by approximately 250,000 per year from factors such as malnutrition, malaria, diarrhea and heat stress alone.

The direct costs of negative health impacts (excluding costs in health-determining sectors such as agriculture, water and sanitation) are estimated to be \$2–4 billion per- year.

Areas with weak health infrastructure—mostly in developing countries—will be least able to cope without assistance in preparedness and response.

Reducing greenhouse gas emissions through improved transport, food and energy consumption can lead to significant health benefits, especially by reducing air pollution levels.

Climate change poses a fundamental threat to human health. It impacts the physical environment as well as all aspects of both natural and human systems, including socioeconomic conditions and the functioning of health systems. Climate change is therefore a threat multiplier and could threaten or reverse decades of health progress. As climate conditions change, the frequency and intensity of adverse weather and climate events, including storms, extreme heat episodes, floods, droughts and wildfires, are increasing. These weather and climate hazards have direct and indirect impacts on human health and increase the risk of death, non-communicable diseases, the emergence and spread of communicable diseases, and health emergencies.

Climate change also has negative impacts on human resources and health infrastructure and undermines the ability to achieve universal health coverage