Effect of Climate Policies on the Financial System

Name

Institutional Affiliation

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In the current global warming era, disruptive changes in the formulation and implementation of climate policies have been witnessed in many parts of the world. The main motivation behind these changes has been the desire to mitigate the already present effects of global warming such as rising temperatures, melting ice sheets, and rising sea levels. Two of such policy changes are Green and ESG investments. Governments and economic blocks around the globe are encouraging their citizens to invest in green bonds, thus, directly impacting the financial systems in more ways than one. For instance, through the coupons earned from trading green bonds, investors get to have sufficient income for spending.

The relationship between financial performance and Environmental, Social, and Governance (ESG) criteria dates back to the 1970s. As early as then, climate change had started worsening, and thus, promising a green revolution. Nothing concrete became of it until a few years ago when it has become definite that due to the evidence of climate change and global extremities, there is a need for policymakers to give a consideration to green energy. Therefore, investors around the world have jumped on the fray of demanding socially and environmentally conscious investment options like green bonds. The reason these kinds of bonds were not very much exploited in the earlier years was the unavailability of adequate information about them. Hence, in the journal *ESG and Financial Performance: Aggregated Evidence from More Than 2000 Empirical Studies*, the authors – Alexander, Friede, and Busch – deeply dived into the subject and reviewed over 2000 publications on the gains of ESG investments input on the financial systems. Their findings benefited the financial systems in the form of improved liquidity in the economy through investments.

From as early as the 1970s, governments around the world have kept increasing their investments and subsidies for green industries. Thus, a paradigm shift has over the years been witnessed in the investors' patterns from the traditional stocks on the course to green bonds. As a result, significant steps have been achieved through this paradigm shift since the green bonds became the most valuable companies in some parts of the world (Friede, Busch & Bassen, 2015). Looking into the future, there are analysts and pundits who hold the view that green investments will eclipse the current technology giants due to the tighter regulatory frameworks being implemented on technology. To avoid missing on the long term prospects that green investments will offer, most investors are expected to diversify their portfolios to include green bonds and stocks. Effectively, the financial systems of the regions in which green bonds are popular are set to benefit by more than tenfold. These benefits will come in the form of the creation of employment opportunities within the green companies. In turn, this will give most people much purchasing power for commodities that are good for the economy.

In the 2017 journal *A Climate Stress Test of the Financial System*, Stefano Battiston and Gabriele Visentin revealed that more than ever before, investors are willing to $3 more for a share in a green company than to donate to charity courses. The journal also revealed that firms that are exercising a negative social impact were placed at a valuation of $2.5 lower than their green counterparts (Battiston, Mandel, Monasterolo, Schütze & Visentin, 2017). Based on these findings, therefore, it suffices to say that the financial system and the economy at large is the largest beneficiary of the ongoing uptakes of green bonds and ESG investments around the world. Through these revolutionary investment options, the world is strategically positioning itself to kill two birds with one stone in the long run. Therefore, these birds are climate change and the endemic problem of unemployment, which in turn reduces people's purchasing powers.

References

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