



Flossbach von Storch
RESEARCH INSTITUTE

ECONOMICS & POLITICS 27/06/2024

The Bundesbank on a climate journey

by CHRISTOF SCHÜRMAN

Abstract

The Bundesbank reports on the carbon footprint of its 61-year-old gold reserves for the first time. The question is what this is all about.

Zusammenfassung

Die Bundesbank berichtet erstmalig über die Klimabilanz ihrer 61 Jahre alten Goldreserven. Fragt sich, was das soll.



Have you ever thought about the climate footprint of the Krugerrand that your grandparents might have given you as a graduation or wedding present? Probably not. That's exactly what the Deutsche Bundesbank has done - until now. The venerable Frankfurt-based institution, founded in 1957, has diligently collected gold and has so far paid little attention to the climate impact of its 61-year-old holdings.

But since this June, everything has changed. The Bundesbank not only presented its new climate report¹, but also calculated for the first time the footprint that its gold holdings of 3,353 tonnes once left on the planet. Favourable for the future global climate: the Co2 footprint comes from the past, namely from gold production. So if the Bundesbank no longer expands its precious metal reserves, there will be virtually no additional impact on the climate. This is important, as the Bundesbank, according to its own statements, is now also fighting resolutely against change. Sabine Mauderer, the responsible member of the Executive Board, expressly thanks "all colleagues" for this.²

Longer holding period reduces carbon footprint

The Bundesbank's climate report is exemplary of the zeitgeist: Almost every public institution and every private company has to make a confession on climate issues.

And the Bundesbank is a good example: it's not that simple. The gold holdings, for example, would represent an estimated annual carbon footprint of 4.3 to 7.4 tonnes for every million euros invested. Whether it's a good four or seven tonnes - that's a considerable difference for everyone to see. The problem: empirical findings on greenhouse gas (GHG) emissions from historical gold production methods are "extremely limited", according to the Bundesbank.³

Be that as it may, the ex post roughly estimated CO2 impact will in any case be reduced ex ante: the longer the holding period, the more gold enables "more greenhouse gas-efficient value retention than conventional securities investments", writes the central bank. This is what the climate impact arithmetic, for the calculation of which there are numerous approaches and standards, wants.⁴

¹ <https://www.bundesbank.de/de/publikationen/suche/klimabezogene-berichterstattung-der-deutschen-bundesbank-2024-927690>

² op. cit. Foreword

³ Climate Report, page 49

⁴ <https://www.flossbachvonstorch-researchinstitute.com/de/kommentare/marlbom-man-schlaegt-elon-musk/>



If the stock remained the same, the CO₂ load of the gold stock would fall to 2.2 to 3.8 tonnes per million investments in 2083.⁵ It would never disappear completely, not even in a million years. This means that the next but one generation could still accuse the Bundesbank of missing the net zero target.

In any case, the information on the old gold bars is at best suitable for dinner conversation. They have no moral value. Sorry, dear Bundesbank, this applies to the 60-page report as a whole, even if it is celebrated as the "latest milestone" on a "sustainability journey".⁶

What is sustainable is above all securing jobs, which is not a bad thing per se. In August 2023, the Bundesbank established a "central specialist, strategy and coordination department" for this purpose. Although (or precisely because?) "almost all areas of the Bundesbank already deal with sustainability issues and, in particular, the consequences of climate change and climate policy for the financial system".

In addition to its gold holdings, the central bank also scrutinises its "non-monetary policy financial assets". These include foreign exchange reserves and certain bonds. In doing so, it discloses the GHG and other "climate-related metrics". These are intended to indicate risks or serve to measure the climate compatibility of the portfolio.

Insufficient information

The good news first: the euro portfolio has seen a positive, i.e. declining, trend in greenhouse gases. However, there is a lack of information on the "asset class of development banks", for example. The data situation for collateralised securities (mortgage bonds) from banks is "inadequate". In general, this is "characterised by a lack of high-quality microdata" in the area of *sustainable finance*.

So the footprint is not known that precisely here either. The Bundesbank also criticises the fact that "sustainability-related information at micro level is almost exclusively provided by private data providers".⁷ "Public, structured data sources" are "hardly available". It should also be noted that around half of the measured declines in the *Weighted Average Carbon Intensity (WACI)* in the Bundesbank's portfolio are driven by inflation. Blimey, but even that.

The Bundesbank also admits, albeit between the lines, that there is a dissonance between the central bank's mandate to keep the value of money stable and saving the global climate.

⁵ Own calculation

⁶ Climate report, page 11

⁷ Climate Report, page 17



Framework decision of the ECB

In March, the European Central Bank (ECB) decided to adapt its monetary policy framework to allow climate-related aspects to be taken into account as part of its mandate when implementing monetary policy. "In line with the secondary monetary policy objective, the general economic policy in the European Union, and in particular the transition to a green economy, is to be supported, provided there is no conflict with the primary objective of price stability," says the Bundesbank. It sees reputational risks in the public eye if it does not take sufficient account of climate-related aspects:⁸

Sustainability is now an issue in "almost all" of the 16 portfolios it manages. Firstly, there is a "negative screening" for issuers, which analyses whether there are violations of "international minimum standards". If this is the case, the issuer's securities are no longer considered investable.

However, it is not possible to exclude entire countries. Reason: "Restrictions on bonds issued by central governments (USA, Japan, Australia, Canada and China) are hardly possible due to the overriding monetary policy requirements."

The fight against climate change is therefore limited to low-ranking issues, such as those from development banks. If the climate profile is too poor, the Bundesbank is even considering actively selling the corresponding securities holdings.

In concrete terms, this also means that foreign currency investments are not made in securities whose issuers "significantly finance sectors that are harmful to the climate and the environment, such as the fossil fuel industry". How a clear distinction can be made remains a mystery.

Co2 footprint of a cruise

The Bundesbank has total assets of a good 2.5 trillion euros. "GHG metrics" are initially recorded for a portfolio of just 7.3 billion euros. Here, 810 kilograms of CO₂ are produced for every million euros of gross revenue. This is roughly how much a minibus powered by petrol or diesel emits on a journey from Madrid to Milan and back.

All in all, the Bundesbank comes to 762 tonnes of Co₂ for the euro portfolio area covered by the end of 2023. This corresponds to an 18-month cruise for one person on a luxury ship with fewer than 500 passengers in the "Suite" category.

⁸ Climate Report, page 30



Things are getting more uncomfortable with the currency reserves. As at 31 December 2023, the Frankfurt central bank had 25.64 billion euros stashed away there. Net emissions - calculated per million euros of economic output of the respective country - have fallen from an estimated 370 tonnes of CO₂ in 2015 to just under 295 tonnes. That would be 20.4 per cent less. Adjusted for inflation, however, the decrease is only 9.9 per cent.

In any case, there are clear indications that declines in GHG metrics could be significantly overestimated without adjusting for inflation, the Bundesbank states. This may be a hidden indication that the portfolios of other institutions are not as green as promised to investors. But perhaps this is just a suspicion.

The Holy Grail of climate neutrality

In total, the Bundesbank's foreign currency reserves recently amounted to net emissions of five million tonnes. That would be 0.00013 per cent of the world's current annual CO₂ emissions. Assuming a constant figure and extrapolated over 100 years, two zeros are added after the decimal point. Net zero would then come closer, but would still remain the unattainable Holy Grail. Unless, of course, the countries from which the Bundesbank holds foreign currency one day become completely climate-neutral in the sense of net zero.

In order to achieve this goal alone in the foreseeable future, the Bundesbank would probably only have one way out: the Eurosystem and the central banks integrated into it would abolish themselves. Thank goodness for all those involved: climate is only a secondary objective. So far.

Oh, how much easier everything would be if we could agree on a clean regulatory solution for reducing greenhouse gases: carbon pricing! The resources used to produce the 60-page climate report could have been used in a more climate-friendly way by referring to it.



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