The effects of climate change on the natural rate of interest a critical survey

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This survey reviews the literature about the impact of climate change on the natural rate of interest (r\*), an important yardstick for monetary policy. Economic and financial developments can lower r\* in scenarios with increasing climate-related damages and uncertainty that reduce productivity growth and raise precautionary savings. Instead, in scenarios that assume innovations and investments induced by transition policies, r\* could be affected positively. Orderly climate policies have a pivotal role by facilitating the transition to a carbon-neutral economy and supporting a steady investment flow. We discuss the main models used to simulate the effects of climate change on r\* and summarize the outcomes. The downward effects of climate change on r\* can be substantial, even taking into account the high degree of uncertainty about the outcomes. Moreover, the downward pressure on r\* will further challenge monetary policy in the long run, by limiting its policy space.

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