# [***ECB underscores economic threat from biodiversity loss; Natural environment***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:68DM-KKH1-JCBW-N0TP-00000-00&context=1516831)

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**Body**

A top European Central Bank executive has hit back at accusations of mission creep, arguing that understanding the threats from ***biodiversity*** ***loss*** is critical for the economy and "not some kind of flower power" exercise.

In an interview to mark its first major investigation into the economic and financial risks stemming from the degradation of the natural environment, Frank Elderson, an ECB executive board member, said 72 per cent of eurozone companies and three-quarters of bank loans in the region were exposed to ***loss*** of ***biodiversity***.

"Destroy nature and you destroy the economy," Elderson said to critics who have claimed the ECB's work on such risk is overstepping its mandate and distracts from its mission to fight inflation.

"This is not some kind of a flower power, tree-hugging exercise ... this is core economics," he said. "Even if I couldn't care less about the planet, even if I couldn't care less about ***biodiversity***, I would say the exact same things."

Former Bank of England governor Mervyn King has said central banks are risking their independence by "moving into the political arena" with their work on climate and environmental risks, while US Federal Reserve chair Jay Powell has promised to "stick to our knitting" and not become a "climate policymaker" after its first assessment of how climate-related events could affect six big US banks in January.

The central bank studied data on 4.2mn companies in the 20-country bloc to assess how many relied on at least one "nature-related service" such as pollination, clean water, healthy soil, timber or sand, Elderson said, adding that 72 per cent was "quite a lot".

Illustrating the agricultural sector's dependence on pollination, he said: "We see insect populations dwindling and this will negatively affect crop yields.

"These physical risks affect supply and they could also affect prices. This is where it could get into the realm of monetary policy, of price stability and of inflation."

The ECB found 75 per cent of eurozone bank loans by number were to companies that are nature-dependent.

The central bank is to publish its full report in the autumn but it has been stepping up pressure on banks to tackle the risks from ***biodiversity*** ***losses***. In 2020 it published a guide on how lenders change their risk management and disclosure to address climate and environmental risks.

Elderson expects the bank to do more to address green issues. "The economy relies on the services of nature. This is also why we have to dig deeper."

He said 40 per cent of eurozone banks had not yet fully assessed their exposure to nature-related risks when it reviewed this last year, but some lenders had started to earmark capital for environmental threats in their risk calculations, stressing the ECB would use "carrots and sticks" to encourage others to tackle the issue. "The glass is not yet half full."

Elderson's remarks underline how central banks are starting to assess the potential economic and financial risks from a degradation of nature, on top of the work they have already been doing to tackle climate change threats.

The issues partially overlap. Deforestation increases the risk of flooding, soil erosion and ***loss*** of tourism income, as well as adding to global warming. But Elderson said some areas of ***biodiversity*** ***loss*** were unrelated to climate change, such as flooding risk from a reduction of mangrove forests.

Similar assessments to the ECB's have been carried out in France, the Netherlands, Brazil, Malaysia and Singapore.

The BoE is studying potential financial risks from nature ***loss***, and a report is due at the end of the year, after it found 72 per cent of UK loans were to companies reliant on "ecosystem services".

**Graphic**

Pollination fear: fewer insects 'will negatively affect crop yields'

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