

Research on the Impact of Climate Risk on Financial Stability

Wenyou Song*

School of Economics and Management, China University of Petroleum (East China), Qingdao, China

Email address:

1229872314@qq.com (Wenyou Song)

*Corresponding author

Abstract

Climate change is not only a prominent environmental problem in today's society but also an important factor affecting financial stability. Climate risk will affect financial stability through enterprises, financial institutions, governments, financial markets and other channels, and the impact will be amplified through the circular feedback network. Based on the monthly data of China from January 2010 to December 2023, this paper uses TVP-VAR model to analyze the time-varying impact of climate risk on financial stability. The main conclusions are as follows: firstly, the impact of climate risk on financial stability is mainly concentrated in short-term shocks, and the impact of climate risk on financial stability exhibits obvious time-varying effects. Secondly, the impact of different types of climate risks on financial stability is also significantly heterogeneous. The physical risk has a generally negative impact on financial stability, while the impact of transition risk shows a trend of first negative and then positive. Finally, the impact of climate risk on financial stability will be affected by major emergencies, and the physical risks are more likely to be affected than the transition risks. Based on the above conclusions, policy suggestions from three aspects, namely government, enterprises and financial institutions, are put forward to mitigate climate change.

Keywords

Climate Risk, Financial Stability, Climate Finance