

## Carbon risks of the German economy and stress-test of the German financial sector

February 2017

The transition to a low carbon economy poses risks to the financial sector. In 2015, the G20 already questioned whether investments in fossil-fuel-dependent infrastructure could lead to global financial risks – the so called 'carbon bubble'. As G20 president, the German government by means of the German Environment Agency (UBA) has commissioned a consortium of Ecofys, University of Oxford (Smith School of Enterprise and the Environment), Triple A Risk Finance, Global Climate Forum, University of Zurich (Finexus) and Germanwatch to analyse and evaluate the risk of a 'carbon bubble' in the German financial system.

The term 'carbon bubble' refers to the idea that companies relying on fossil fuels are incorrectly valued on the stock markets as the true costs associated to climate change and respective policies are not yet taken into account in a company's stock market valuation. The goal of the study is (1) to assess the carbon risks in the German economy, (2) to conduct a carbon stress test for German financial institutions and (3) to develop regulatory instruments to mitigate carbon risks in financial markets in Germany and beyond. The outcome of this highly relevant project will enable the German government to detect, understand and mitigate the risks and will support German financial institutions in assessing the carbon risk of individual financial portfolios.

### Contact

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