

A Comprehensive Review on Green Central Banking Adoption

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Abstract: Central Banks have traditionally managed and conducted monetary policy tools to achieve macroeconomic policy goals. Green Central Banking is a subset of central banking that acknowledges the profound impact of climate change on the economy. The measures undertaken by central banks to address these environmental issues are referred to as “green central banking.” Since the European Central Bank (ECB) introduced this concept in July 2021, central banks have begun to integrate this tool into monetary policy. This study provides a comprehensive overview of central banks' roles and actions in the context of environmental issues through a systematic literature review using WoS and Scopus databases. The results indicate that two main research questions are extensively examined by a large body of literature: (1) whether green monetary policies have an impact on climate change, and (2) whether climate change has an impact on green central banking as a converse causality. The existing literature tends to support the view that there is a bidirectional interaction between green central banking and climate change. It can also be said that the nascent body of literature lacks complementary research questions on how the greening of central banks, considering the costs and benefits of the policies. Thus, the literature focuses on three key rationales: the role of climate policy on green central banking and its monetary policies, the converse interaction from green central banking to climate policy, and the bidirectional interaction between the two.

Keywords: monetary policy, central banking, green central banking