

Nature degradation could cause a 12% loss to UK GDP, new analysis suggests

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The deterioration of the UK's natural environment could lead to an estimated 12% loss to GDP, according to new analysis. In comparison,

the financial crisis of 2008 took around 5% off the value of the UK GDP, while the COVID-19 pandemic cost the UK up to 11% of its GDP in 2020.

This is according to a first-of-its-kind analysis, led by the GFI, with input from the University of Reading, as well as direction from the [scientific community](#), the Department for Environment, Food and Rural Affairs (Defra), HM Treasury (HMT) and the Taskforce on Nature-related Financial Disclosures (TNFD), and input from the Financial Conduct Authority (FCA).

The report—[Assessing the Materiality of Nature-Related Financial Risks for the UK](#)—analyzes the impact of the degradation of natural ecosystems, both domestically and internationally, to the economy and financial sector in the UK.

Professor Tom Oliver, Professor of Applied Ecology at the University of Reading, one of the lead authors of the report said, "This analysis shows that nature is not a luxury– it provides the foundations for a stable economy.

"We found that nature-related risks, such as soil health decline, antimicrobial resistance and animal-borne disease interact with each other and present significant threats to UK citizens within the next decade. This highlights the need to really step up implementation of domestic environmental protection as well as working internationally to mitigate risks at their source."

Nature depletion

Nature-related risks are as detrimental or more to the economy as those from [climate risks](#), the analysis shows. Yet, while the economic costs of climate change are becoming increasingly accepted, the risks posed by

nature degradation amount to a material cost that has not been sufficiently factored into financial and business decision-making. This is leaving the economy and financial sector exposed, while these risks continue to rise unchecked.

The UK is one of the most nature-depleted countries in the world—three quarters of the UK has a high level of ecosystem degradation, with risks to financial services and the wider economy as a result. The analysis shows however, that half of the UK's nature-related financial risks originate overseas.

Within the analysis, a new inventory charts these domestic and international nature-related risks to the economy, many of which are not currently captured in national risk assessments.

The inventory captures financial risks arising from the deterioration of nature and biodiversity, including: soil health decline; [water shortages](#); global food security repercussions; zoonotic diseases that pass from animals to humans, like [bird flu](#), swine flu, and COVID-19; and antimicrobial resistance, where bacteria and viruses no longer respond to medicines; as well as transition and litigation risks.

Vulnerable sectors

Some sectors in particular face higher levels of nature-related financial risk. Highlighted in the analysis are agriculture, manufacturing, and utilities. For example, the agricultural sector faces risks associated with water, climate regulation, soil quality, and pollution which could impact food production. The utilities sector is dependent on surface water for cooling power stations, and any constraint in water supplies could impede production and raise energy prices.

These impacts on the real economy will also have a material financial

impact on banks and other financial institutions. The analysis estimates that some banks could see reductions in the value of their domestic portfolios of up to around 4–5% in some cases. Noting that these estimates are likely to be conservative, this indicates that nature-related risk will not just impact the economy, but potentially financial resilience.

Demonstrating the significance of the risks, these findings present an opportunity for swift action from governments, central banks, regulators and the financial sector to proactively manage nature-related risks and to position the UK as a global leader in addressing them. For businesses there are early-mover advantages for those that act to improve and support resiliency, particularly within their supply chains.

The GFI and technical team make several recommendations for the public and private sectors. These include disclosures of nature-related risks and taking urgent action to meet the targets included within the Global Biodiversity Framework (GBF).

More information: Report: [Assessing the Materiality of Nature-Related Financial Risks for the UK](#)

Provided by University of Reading

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