In Conversation with

Ms Ida Wolden Bache
Deputy Governor, Norges Bank

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1. When and why did your institution join the NGFS?

Thank you for providing me with this opportunity to express views on the NGFS, central banks and climate risk.

Let me start by noting that work on climate change and risk is of a cross-cutting nature and a cross-border effort. Climate change and mitigation measures will affect all parts of the economy and the financial system. Consequently, climate risk is a relevant consideration for central banks.

Norges Bank became a member of the NGFS in December 2018. The objectives of the Network address risks that central banks are facing. The workstreams and other events of the NGFS help advance and spread knowledge and best practices about climate risk management in the financial sector and how to support the transition toward a sustainable economy. Membership in the NGFS is valuable for Norges Bank's policy and operational work on these issues. Norges Bank's mission is to promote economic stability by conducting monetary policy and monitoring the financial system. Our central bank also has the responsibility for managing Norway's Sovereign Wealth Fund (SWF), the Government Pension Fund Global (GPFG), in accordance with a mandate issued by the Ministry of Finance. A feature common to both of these mandated responsibilities is the identification and management of risk. We believe that our perspective is a useful complement to the experiences and insights provided by other members on the strategic direction of NGFS work.

As in other policy areas, there is a crucial role to play for international cooperation also in the field of climate risk. A primary objective of the NGFS is to create an arena for central banks and financial supervisors to exchange experiences and share best practices in developing environment and climate risk management in the financial sector. We consider the NGFS to be an important meeting place to arrive at a well-considered understanding of the role and activities of central banks in this field.

2. Can you share with us the key elements of Norges Bank's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Norges Bank's environmental strategy has four pillars, as described in our 2019 Annual Report, page 27: (i) Norges Bank will contribute to sustainable developments within the limits of its mission and responsibilities. (ii) Established environmental management practices will be integrated in the management of the Bank. (iii) Staff will have environmental competence in the operational areas where this is appropriate. (iv) Norges Bank will be transparent about its environmental responsibility.

Turning to the broader issue of climate risk, the prime responsibility and the most effective tools to mitigate this risk lie with governments. I would emphasise the paramount role of market pricing in the efficient allocation of resources. Pricing the economic cost of greenhouse gas emissions is fundamentally important to reduce such emissions. The key tools in addressing climate risk are therefore primarily those components of fiscal policy that can correct a known market failure through tax-adjusted market prices. However, central banks and financial supervisory authorities can, within their mandates, promote economic and financial stability by ensuring that financial institutions appropriately include climate risk in their risk management and communicate relevant information. Climate risk must be managed in the same way as other risks facing the financial sector. Both financial institutions and authorities must consider how a changing climate and transition to a low-carbon economy may affect the overall risk outlook. This must be integrated in the overall analysis and risk assessment.

For Norway's economy, in the short and medium term, the most important climate risk channel is transition risk, especially related to the large oil and gas sector. There might also be second-order effects for other industries due to reduced demand from petroleum related industries. This adaptation to climate change thus affects the overall economy and entails risks to financial stability. For specifically the insurance industry, the most important effects are associated with physical risks. At Norges Bank we would emphasise that the transition to a greener and more sustainable economy will make substantial demands on businesses and investors, but will also provide opportunities. Technological advances and innovations are a necessary part of the process towards more sustainable economies. At the same time, climate change exposes businesses to a new type of risk.

A substantial part of Norway's petroleum revenues has been transferred to the GPFG (Norway's SWF). The GPFG is managed by Norges Bank and is invested in a diversified portfolio of equities, bonds and real estate around the world. The aim of our SWF is to ensure responsible and long-term management of revenue from Norway's oil and gas resources in the North Sea so that this wealth benefits both current and future generations. The fund seeks to achieve the highest possible return with acceptable risk. Responsible investment supports this in two ways. First, it seeks to improve the long-term economic performance of the investments. Second, it seeks to reduce the financial risks associated with Environmental, Social and Governance (ESG) practices of companies in the portfolio.

Our pillars underpinning responsible investment are, first, establishing principles; a set of international principles and standards from the UN and the OECD provides a framework for the Bank's work with companies and other stakeholders. Our investment organization has contributed to the development of international principles and standards in support of well-functioning and sustainable markets. We were a founding member of the UN Principles for Responsible Investment (PRI) and have expressed support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Second, exercising active ownership; our voting at annual general meetings is the most important tool for active ownership. And third, investing sustainably; the Ministry of Finance has given us dedicated environment-related mandates.

I take note that both national public authorities as well as international institutions and networks in recent years have stepped up their work on climate-related risks to promote sustainable finance. In March 2020, Norway joined the International Platform on Sustainable Finance (IPSF). The Norwegian government supports the objective of scaling up the mobilization of private capital towards environmentally sustainable investments. As a central banker, I find the work undertaken on climate-related risk by well-established international institutions – e.g. the IMF, World Bank, BIS and the Basel Process – and recently established networks like the NGFS and the Coalition of Finance Ministers – to be important in enhancing knowledge and its dissemination in this field. Harmonization of initiatives and the identification of best practices deepen the impact of sustainable finance initiatives globally.

3. To which extent did Norges Bank leverage the work of the NGFS in its own domestic journey? Any concrete examples?

Norges Bank has been engaged in practical NGFS work since becoming a member. Representatives from Norges Bank have participated actively in the macrofinancial workstream and the workstream on scaling up green finance. The work of the NGFS has been an important input to our in-house work in many areas. Let me mention three concrete examples. First, the NGFS work on scenario analyses; this forms a key input to Norges Bank's own analyses of climate risk and financial stability. Second, the NGFS work on climate risk and monetary policy; the work done so far shows that we still have a lot to learn in this area. Third, the NGFS work on sustainable and responsible investment (SRI); I refer to the brief description of our Bank's responsible investment endeavors in the chapter 7 of the October 2019 SRI report. This is an area where our SWF has been at the forefront since the early years of this century. Overall, we have found the NGFS engagement very fruitful and we have appreciated both the level of cooperation and quality of the work conducted by the Network.

Let me add a word related to transparency and data availability. The April 2019 NGFS First Comprehensive Report, "A Call for Action", had two recommendations on achieving consistent climate and environment-related disclosure, as well as on developing a taxonomy of economic activities. Our experience underlines the importance of transparency in ESG efforts. The ways in which firms prepare for possible future restructuring will affect expected return and risk, many investors impose requirements on firms' reporting on climate-related issues. An important obstacle that hinders the integration of environmental and social risks in financial decision-making is the current state of corporate sustainability reporting, which does not fully meet the needs of investors. Investors in their decision-making need better information on risk exposure, on risk management, and on performance. There is a need to reach a common vocabulary, and clear definitions, with the help of international cooperation.

4. One last word?

The current context is exceptional – health-, economy- and policy-wise. The COVID-19 pandemic has caused a major shock to the global economy. National authorities, including central banks, have been fully preoccupied with responding to the COVID-19 developments and their economic and financial impact. Strong multilateral cooperation is paramount to address the global nature of the shock and leverage the impact of national policy action to restore stability and lay the groundwork for a robust recovery.

As regards the policy road ahead, while the time horizons are different, there may well be useful lessons to learn from the COVID-19 experience in addressing the issues of climate risk and greening the economy. Also in the current unprecedented situation we should be mindful of our longer term objectives. These comprise allowing for structural changes, and not losing sight of the crucial need to continue cooperation across nations to address the global challenge of climate change to meet agreed objectives.

At the same time, it is essential for the credibility of each institution, a central bank as well as the NGFS, to stick to its mandate, and cooperate with other institutions working in the same area to avoid undue overlapping work as well as leverage competence and knowledge. While it is the governments' role to pursue climate policy, central banks and the financial sector play an important role in knowledge-building and integration of climate risk into the overall analysis as basis for decisions, recognizing that one should not promise more than can be delivered.

Thank you for your attention.