



In Conversation with

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

Climate change affects the domestic and the global economy – and it is therefore a threat to both price stability and financial stability. There is an urgent need to better understand how climate change affects our economies and how central banks best can contribute, within our mandates, to mitigate the climate crisis.

The Riksbank therefore joined the NGFS in December 2018. The NGFS provides a unique opportunity for central banks and regulators to work together to provide research and develop strategies to meet this unprecedented threat to the global economy. We all know that no country alone can combat climate change. By pooling our resources and sharing knowledge, we improve our chances of acting fast enough and decisively enough to make a difference.

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

The Riksbank's primary objective is to maintain price stability. As long as that objective is met, the Riksbank is to support the objectives of general economic policy, which include sustainable growth and high employment. In addition, the Riksbank has an obligation to use public finances prudently and consider financial risks on its balance sheet. Against this background, the Riksbank has decided on a set of guiding principles for its work on climate issues. These include:

- Work on sustainability and climate at the Riksbank uses the United Nations' 2030 Agenda, and the sustainable development goals (SDGs), as the broad starting point. The SDGs include the commitment to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters, and to integrate climate change measures into national policies, strategies and planning.
- While many effective measures to limit climate change fall within the remit of other policy areas, the Riksbank can indeed contribute within its mandate.
- The Riksbank is obliged to ensure that its operations are run efficiently and that it uses public finances prudently. It follows on from this that the Riksbank, among other things, shall manage its own risks associated with e.g. climate change.
- The Riksbank is to promote international cooperation and regulation of the financial system that reduce the risks linked to climate change.

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

The NGFS *Progress report on the implementation of sustainable and responsible investment practices in central banks' portfolio management*¹ and *A sustainable and responsible investment guide for central banks' portfolio management*² have been useful in inspiring and catalysing the work on including sustainability considerations in our portfolio management. Even if there is no one-size-fits all solution, these reports allow central banks to accommodate their individual challenges.

More concretely, effective from January 2021, the Riksbank applies ESG norm-based negative screening in its purchases of corporate bonds.

The Riksbank purchases bonds issued by Swedish non-financial corporations for monetary policy purposes. This is one of many measures to alleviate the effects of the pandemic on the Swedish economy. Since the possibilities to consider sustainability are limited in portfolios held for monetary policy purposes, the Riksbank has carefully looked into the law and legal principles in order not to prejudice its mandate.³

The negative screening means that the Riksbank may exclude bonds issued by companies that do not comply with international standards and norms for sustainability. Applying this method allows the Riksbank to manage government funds prudently and contributes to good management based on the state's core values. It is the Riksbank's assessment that this norm-based negative screening contributes to limiting financial risks as the risks are higher when purchasing bonds issued by companies that infringe norms and principles for sustainability.

The Riksbank is taking sustainability into account in the management of the FX reserves. This is in line with the NGFS recommendation of integrating sustainability factors into central banks' own-portfolio management. The Riksbank's financial risk and investment policy describes how sustainability should be implemented.⁴ Without sacrificing the ability to achieve the primary objectives with the FX

¹ https://www.ngfs.net/sites/default/files/medias/documents/sri_progress_report_2020.pdf

² <https://www.ngfs.net/sites/default/files/medias/documents/ngfs-a-sustainable-and-responsible-investment-guide.pdf>

³ See [Magnus Andersson and Mikael Stenström \(2021\), "Sustainability considerations when purchasing corporate bonds", Economic Commentaries no. 3, Sveriges Riksbank.](#)

⁴ See [The Riksbank's financial risk and investment policy.](#)

reserves⁵, the Riksbank uses two different methods to consider sustainability: (i) In conjunction with our review of new issuers or assets in the FX reserves we evaluate environmental, social and governance risks (ESG factors); (ii) We also take into account the carbon intensity of the portfolio. Consequently, the Riksbank has made some adjustments by selling holdings of states and provinces with high emissions of greenhouse gases – in order to reduce the carbon footprint of the FX reserves.

The Riksbank has also taken the **NGFS recommendation of achieving robust and internationally consistent climate and environment-related disclosure** (NGFS core recommendation No 5) into consideration. We have now started measuring and publishing the carbon footprint of our corporate bond portfolio.⁶

In this work we have gained concrete experience of the practical challenges when developing climate information disclosure. We see the need for improved data and modelling practises as crucial in measuring and managing the potential magnitude of risks related to climate change. Standardized and reliable disclosure will provide better access to the data required to appropriately manage and identify these risks, and to compare climate risks across businesses and sectors.

This underscores the importance of global efforts – such as the TCFD disclosure initiatives – that can improve transparency and encourage the development and standardisation of climate-related risk metrics. Therefore, the Riksbank encourages the widespread adoption of the TCFD recommendations by financial and non-financial firms. By assessing and publishing the carbon footprint by our corporate bond portfolio, we are also taking steps towards TCFD-aligned reporting ourselves.

In **financial stability analysis and monitoring**, the NGFS first comprehensive report in 2019 provided meaningful guidance for us in **integrating climate-related risks into financial stability monitoring** (core recommendation No 1). Deeper work on developing stress testing and methods for measuring climate-related risk is important going forward. The Riksbank has, for example, analysed sea level rises as a result of global warming and the risks they pose on the housing market.⁷ Currently, we **assess the extent to which the major Swedish banks are exposed to climate-related risks** and how vulnerable they are in different climate scenarios, using various sources of data and methods.

In the area of macroeconomic analysis and **projections we intend to draw on the ongoing work of the NGFS on developing climate scenarios**. We plan to use these scenarios and, with the help of our macroeconomic model, study how these can affect the Swedish economy.

Other analytical work performed by the Riksbank includes **a study on the potential impact of climate change on long-run real interest rates**.⁸ Climate change weakens growth prospects, increases uncertainty over economic developments and elevates the risk of disasters. According to economic theory, these developments could imply a lower long-run real interest rate.

⁵ The purpose of the Riksbank's foreign exchange reserve is to guarantee that the Riksbank can perform its statutory tasks, namely keeping inflation low and stable and promoting financial stability.

⁶ See Johan Blixt, Emma Brattström, and Maria Ferlin (2021), "[Sustainability reporting – a need for increased standardisation and transparency](#)", Economic Commentaries, no. x, Sveriges Riksbank.

⁷ See Mattias Danielsson (2020), "[Rising sea levels due to global warming will entail increased risks to housing](#)", Economic Commentaries, no. 10, Sveriges Riksbank.

⁸ See Emma Bylund and Magnus Jonson (2020), "[How does climate change affect the long-run real interest rate?](#)", Economic Commentaries no. 11, Sveriges Riksbank.

4. *One last word?*

To conclude, I would like to reiterate the **high value we see in coming together with other central banks and supervisors under the NGFS umbrella**. We are impressed by the quality and relevance of the work that the NGFS has already delivered, and as highlighted above this work has fed into concrete action at the Riksbank. The fight against climate change needs to be coordinated at the global level, and therefore it is very positive to see the speed with which the NGFS membership has grown. The NGFS agenda is complemented by the ambitious climate work carried out in other international groups where we participate actively such as in the Financial Stability Board, the Basel Committee and the ESRB. The analysis and sharing of experiences provided in our international cooperation is a global public good that our institutions can and should benefit from.

Another point to re-emphasize is that in order to perform our role in an effective and meaningful way, **disclosure of comparable and reliable data will be absolutely fundamental**. Therefore establishing best practices and standards for high quality data is something we should put considerable effort into going forward.

Lastly, going forward we should **remain open to address the wider aspects of sustainability** in our work. Recently, for example, the financial system's exposure to biodiversity risks has been increasingly highlighted.