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## NGFS publishes report on acute physical impacts from climate change and monetary policy

Today, the NGFS released the report [“Acute physical impacts from climate change and monetary policy”](#) which aims to provide a systematic understanding for central banks of the implications of physical hazards for the macroeconomy, with initial insights into what this could mean for monetary policy.

**Global temperatures are rising and are likely to reach new highs over the coming years.** The frequency and severity of extreme weather events resulting from rising temperatures have already increased markedly. In the NGFS [2023 membership survey](#), around three quarters of central banks surveyed indicated that their economies had already experienced damages from such acute climate events over the last decade. Annual global damages from weather-related hazards have more than doubled in real terms in the past twenty years, reaching 275 billion USD in 2022.

**The physical effects of climate change will affect both the demand and supply sides of the economy, and these effects may be further amplified through financial channels.** Importantly from a monetary policy perspective, the effects of extreme weather events will influence output and inflation over both the short- and long-term, potentially giving rise to trade-offs that monetary policymakers will need to manage as they look to deliver on their price stability mandates.

**Sabine Mauderer, Chair of the NGFS and Member of the Executive Board of the Deutsche Bundesbank:**

*“Climate change is intensifying the frequency and severity of natural disasters, such as severe droughts, floods and storms. These events inflict massive damage on communities and infrastructure, with serious implications for economic activity and prices, of food in particular. This affects the core tasks of central banks. The report delves into the transmission channels through which the physical impacts of climate change affect the economy and financial system. It provides central banks with a comprehensive framework to prepare for and respond to the acute impacts of climate change, enabling them to fulfil their mandates in the face of these unprecedented challenges.”*

**The report published today analyses the economic channels through which the acute physical impacts of climate change can propagate to the economy.** It also sets out an analytical framework to help central banks understand the implications from these events on the key macroeconomic variables that are relevant for monetary policy considerations.

**James Talbot, Chair of the NGFS Workstream on Monetary Policy and Executive Director of the International Directorate at the Bank of England:**

*“Central banks have typically treated the macroeconomic impacts of extreme weather events as transitory supply shocks, looking through their impact on output and inflation when setting monetary policy. However, with these events expected to become more frequent and severe around the world,*

*more persistent macroeconomic effects are likely to follow, via both domestic and international spillover channels, making them harder for central banks to look through. This report provides central banks with the foundation on which the macroeconomic impacts of acute physical impacts can be understood, paving the way for future work to focus on the possible implications for monetary policy.”*

**This publication is the first of a series of reports that will be published in the coming weeks by the NGFS on the macroeconomics of climate change and monetary policy.** These reports aim to support central banks in assessing and understanding the macroeconomic effects of climate change and the transition to net zero, as well as the potential implications for the conduct of monetary policy. Following on from this first report on physical impacts, two further reports will be released that focus on the impacts of the green transition on the macroeconomy, and on central banks’ approaches to modelling the effects of climate change.

### **About the NGFS**

The NGFS, launched at the Paris One Planet Summit on 12<sup>th</sup> December 2017, is a group of central banks and supervisors, which on a voluntary basis are willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition toward a sustainable economy. The NGFS brings together 141 central banks and supervisors and 21 observers. The NGFS is chaired by Ms Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank. The Secretariat, headed by Mr Yann Marin, is provided by Banque de France.

**For more details, visit the [NGFS website](#), [LinkedIn](#) and [X account](#) or contact the NGFS Secretariat at Banque de France [sec.ngfs@banque-france.fr](mailto:sec.ngfs@banque-france.fr)**

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