



In Conversation with

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

The Central Bank of Iceland joined the NGFS in December 2020, on the third anniversary of the Network. For some time the Bank had been thinking about the implications of climate change for its own operations, the financial sector and the economy as a whole, and exploring options to accelerate its learning, build expertise and expand its work on climate-related matters. The Bank concluded that there would be no better affiliation than the NGFS to support it on that journey. The NGFS, a dynamic and growing forum of central banks and supervisors, is unique in bringing together the relevant experts and promoting effective collaboration among its members.

Having access to resources such as those of the NGFS is invaluable for a small bank like the Central Bank of Iceland. No single party can alone combat climate change, but cooperation on developing and sharing best practices not only increases the chances of success but also ensures better consistency in the overall approach.

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

The Central Bank of Iceland recently established a climate and environmental strategy for its own operations that commits the Bank to cut its net emissions by 40% by 2030. This goal is consistent with

the Icelandic Government's Paris Climate goals. The Bank's strategy is complemented by an action plan that focuses on reducing the carbon footprint from travel, energy use, waste management, food services, and procurement. It also puts emphasis on education and training for staff on sustainable practices.

Additionally, the Bank has committed to concrete actions tied to its mandate on financial supervision, financial stability and monetary policy. The Bank will, for example, introduce guidance for supervised entities on identifying, measuring and monitoring climate risks, enhance stress testing of the financial system to include climate-related risk factors, and incorporate standards for inclusion of climate-related risks into the Bank's reserve management policies. The Bank's strategy and actions, ultimately, support economic and financial stability as well as sustainability.

Another goal of the Bank is to scale up its knowledge in the area of climate change, with particular focus on the implications of physical and transition climate risks for its own balance sheet and that of its counterparties and supervised entities. In that context the Bank has hosted a series of meetings with domestic parties to listen to and learn from their perspectives and priorities as well as to deepen its understanding of specific domestic risks, such as rising sea levels and ocean acidification.

The Bank took great pride in publishing these goals as part of the Central Bank of Iceland's pledge¹ in support of the NGFS Glasgow Declaration². As stated by the Chair of NGFS, Frank Elderson, on the occasion of the COP26, the NGFS is evolving from a "coalition of the willing" to a "coalition of the committed".

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

The Bank has found the NGFS's work extremely valuable in furthering its thinking around climate change and associated risks in the main policy areas. To name a few NGFS publications that have already had a meaningful impact on the work of the Central Bank of Iceland, one can mention the First comprehensive report "A call for action"³, the "Guide for Supervisors: integrating climate-related and environmental risks into prudential supervision"⁴, and the "Guide to climate scenario analysis for central banks and supervisors"⁵.

The Central Bank of Iceland contributes to a healthy economy and resilient financial sector by promoting price and financial stability as well as the integrity of financial institutions through supervision. Climate and sustainability issues are becoming increasingly important and it has been very useful to tap the NGFS for expertise and guidance as the Bank begins to integrate climate-related risks into its policies and practices. Additionally, green investments and financing are on the rise, which calls for related competence in regulation and supervision.

The NGFS has inspired the Bank to study the issues in a systematic way, distribute its findings among staff and reach out to as many domestic stakeholders as possible to hear their views on these issues.

¹ https://www.cb.is/library/Skraarsafn---EN/International/211103_NGFS%20COP26%20Pledge_Central%20Bank%20of%20Iceland_EN.pdf

² <https://www.ngfs.net/sites/default/files/ngfsglasgowdeclaration.pdf>

³ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

⁴ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

⁵ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_scenario_analysis_final.pdf

It has also been valuable in conversations with domestic parties to be able to share the current knowledge and best practices and what is being done globally by other central banks and supervisors.

The Bank has also established an internal working group with members from across the Bank where NGFS papers are discussed and where further exploration of relevant topics is encouraged, and consensus formed on various climate related actions. The Bank also launched a series of monthly internal lectures that have relied heavily on the NGFS publications. As an example, next December, the preliminary findings of the first stress test of the financial system based on the NGFS scenarios will be presented and discussed.

The Bank is impressed by the NGFS's work on collating the emerging thinking on central banks' and supervisors' responsibilities and its approach in publishing a wide range of subject matter guides to help lead the way. In a field that can be complex and controversial, it is important to let the membership nurture and mature the ideas and not to assume one size fits all.

The Central Bank of Iceland has found participating in the various NGFS workstreams to be immensely valuable even though its capacity constraints limit somewhat its ability to contribute on all fronts. Recently, the Bank participated for the first time in authoring an NGFS publication, which was a rewarding experience⁶.

4. One last word?

Climate change affects us all as the recent IPCC report outlines clearly. We must all unite around the goal of a more sustainable planet. Climate change is the biggest challenge of our times, posing an existential threat to human welfare and prosperity. No responsible economic actor can stand idly by. Government policies and actions, including but not limited to carbon pricing and tax incentives, remain the most effective way to combat this threat. However, the financial sector is an inimitable force and should not be overlooked, neither as regards understanding and taking action on the various climate risks on its balance sheet nor with respect to the extreme benefits it can bring when responding to the right incentives. It is the role of central banks to guide and oversee the financial system on this journey. We have to ensure that we fully understand the potential risks and impact of climate change on the macro-economy and on the resilience of the financial system.

⁶ [“Scenarios in Action : A progress report on global supervisory and central bank climate scenario exercises” \(October 2021\)](#)