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NGFS presents options for central banks to adapt monetary policy operations

Today, the NGFS released a report entitled **“Adapting central bank operations to a hotter world: Reviewing some options”** which assesses nine options available to central banks to factor climate-related risks into their operational framework. This report builds on previous NGFS work on [possible effects of climate change on the determinants of monetary policy](#) and on a [survey on monetary policy operations and climate change](#).

Under all possible scenarios, climate-related risks will have consequences for the economic outlook, for the financial system in which central banks operate and, thus, for the conduct of monetary policy. The timing and severity of these consequences depend on how swift and effective transition policies are. Moreover, climate change poses new financial risks to central banks’ monetary policy operations. Climate-related financial risks may directly impact both central banks’ counterparties and financial assets used in monetary policy operations.

As a result, climate-related shocks can generate financial losses for central banks’ balance sheets. In extreme cases, climate-related shocks can affect the smooth implementation of monetary policy by exposing various monetary policy transmission channels to the impacts of physical and transition risks.

Frank Elderson, Chair of the NGFS and member of the ECB’s Executive Board: *“Climate change carries important risks for central banks in the pursuit of their mandates. I warmly welcome that the members of the NGFS have rallied behind the highly topical insight that climate change has implications for the conduct of monetary policy. This new NGFS report provides concrete proposals on how central banks can address climate risks in the design of their frameworks for monetary policy implementation.”*

The assessment provided by this new NGFS report is based on four criteria: (1) Consequences for monetary policy effectiveness; (2) Contributions to mitigating climate change; (3) Effectiveness as risk protection measures and (4) Operational feasibility. All in all, adjusting central bank operational frameworks to more adequately reflect climate-related considerations is feasible. Yet the climate-related adjustments of central bank operations have to overcome a range of practical and analytical challenges, including data gaps and uncertainties with regard to risk quantification.

Dr Sabine Mauderer, Chair of the NGFS’ “Scaling up green finance” workstream and executive board member of the Deutsche Bundesbank: *“Central banks ought to be aware of climate risks for the integrity of their balance sheets. Even more so, they should get ready to respond to such risks swiftly and with determination. Our report is a great blueprint to support central banks in making strategic choices on how to reflect climate risk in their monetary policy operations.”*

Upcoming publications

The NGFS will continue to leverage the best practices identified within its membership to help central banks and supervisors, as well as the relevant stakeholders, to better assess and mitigate climate-related risks. In particular, some other documents dedicated to market dynamics will be released shortly.

New members

The NGFS is also pleased to announce that six members have joined the NGFS since the beginning of 2021: Australian Prudential Regulation Authority, Central Bank of Trinidad and Tobago, National Bank of Ukraine, Banco Central de Chile, Bank of Albania, National Bank of the Republic of North Macedonia.

About the NGFS

The NGFS, launched at the Paris One Planet Summit on 12 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 mobilize mainstream finance to support the transition toward a sustainable economy. The NGFS brings together 89 central banks and supervisors and 13 observers. Together, they represent five continents and around 75% of global greenhouse gas emissions, and are responsible for the supervision of all of the global systemically important banks and two thirds of global systemically important insurers. The NGFS is chaired by Frank Elderson, member of the ECB's Executive Board. The Secretariat, headed by Morgan Després, is provided by Banque de France.

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

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