NGFS acknowledges that nature-related risks could have significant macroeconomic and financial implications

Today, the NGFS published a “Statement on Nature-related financial risks”, which acknowledges that nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications is a source of risks relevant for financial stability.

The NGFS is therefore of the view that nature-related financial risks should be considered by central banks and supervisors for the fulfilment of their mandates. The statement also announces the creation of an NGFS task force to mainstream the consideration of nature-related risks across the various NGFS streams of work in the coming years.

These announcements by the NGFS follow the finalisation of the work carried out by the joint Study Group on ‘Biodiversity and Financial Stability’ that published today the report “Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability”. The Study Group was established in April 2021 by the NGFS and the International Network for Sustainable Financial Policy Insights, Research, and Exchange (INSPIRE) to develop a research-based approach to how central banks and supervisory authorities can fulfil their mandates in the context of biodiversity loss. It comprises 103 individuals from 25 NGFS Members and Observers and 28 academic and professional institutions, and it is co-led by Dr Ma Jun (Chair of NGFS workstream on Research and Special Advisor to the Governor of the People’s Bank of China) and Professor Nick Robins (Grantham Research Institute on Climate Change and the Environment).

Ravi Menon, Chair of the NGFS and Managing Director of the Monetary Authority of Singapore: “The NGFS-INSPIRE Study Group’s work has enabled NGFS Members to better understand the consequences of economic decisions and financial flows that do not integrate nature-related risks and opportunities. Nature-related risks can potentially be a threat to financial stability. This is why we have decided to launch an NGFS task force to mainstream these considerations across our activities.”

The report is the third publication of the Study Group, following the publication of a Vision Paper in June 2021 and Interim Report in October 2021. It draws from and builds on the input and summary papers that were prepared by the Study Group members as fundamental background material to inform the report. The document is published as part of the “NGFS Occasional Papers” series and, therefore, the views and opinions expressed do not necessarily represent those of the NGFS.

The Study Group report makes five recommendations to central banks and financial supervisors to help them fulfil their mandates in the face of biodiversity loss:

(i) recognise biodiversity loss as a potential source of economic and financial risk and commit to developing a response strategy to maintain financial and price stability;
(ii) build the skills and capacity among central bank and supervisory staff as well as market participants to analyse and address biodiversity-related financial risks;
(iii) assess the degree to which financial systems are exposed to biodiversity loss, by, for example, conducting assessments of impact and dependency, developing biodiversity-related scenario analysis and stress-tests;
explore options for supervisory expectations for financial institutions’ governance, risk management, strategy, disclosure and financial conduct in relation to biodiversity-related financial risks and opportunities; and

help build the necessary financial architecture for mobilising investment for a biodiversity-positive economy, including by considering how central banks’ monetary policy operations and non-monetary policy portfolio management should be conducted in the context of biodiversity loss.

Dr Ma Jun, Chair of NGFS Workstream on Research and Special Advisor to the Governor of the People’s Bank of China: “International efforts to halt biodiversity loss are intensifying, with agreement expected this year at COP15 in Kunming, China, on a new Global Biodiversity Framework. This report shows that addressing biodiversity-related financial risks clearly falls within the mandates of central banks and supervisors and sets out the role they can play to bring the Framework to life across the financial sector.”

Professor Nick Robins, Grantham Research Institute on Climate Change and the Environment: “Biodiversity loss is potentially as economically and financially impactful as climate change, but has so far received much less attention. This report shows that these twin threats now need to be tackled in a joined-up way by central banks and supervisors to build a nature-positive financial system.”

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 108 central banks and supervisors and 17 observers. Together, they represent five continents and over 85% 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 Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore. The Secretariat, headed by Mr Jean Boissinot, is provided by Banque de France.

About INSPIRE

The International Network for Sustainable Financial Policy Insights, Research, and Exchange (INSPIRE) is an independent research network built to support the central banks and supervisors of the Network for Greening the Financial System (NGFS) in its work to manage climate and environmental risks and mobilise finance to support the transition to a sustainable economy. The INSPIRE secretariat is co-hosted by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science and the ClimateWorks Foundation. It is guided by an Advisory Committee and has commissioned over 30 research projects across a range of critical themes. Its co-chairs are Nick Robins (Professor in Practice at the Grantham Research Institute) and Ilmi Granoff (senior Director at ClimateWorks Foundation).

For more details on the NGFS, visit the NGFS website and Twitter account or contact the NGFS Secretariat at Banque de France sec.ngfs@banque-france.fr
Press Office at Banque de France : +33 (0) 1 42 92 39 00 / presse@banque-france.fr

For more details on INSPIRE, visit the INSPIRE website and Twitter account.