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## NGFS publishes a conceptual note on short-term climate scenarios

The Network for Greening the Financial System (NGFS) released a [Conceptual Note on Short-term Climate Scenarios](#) today on its thinking on the range of short term scenarios in focus and a roadmap of the analytical work to be undertaken by the NGFS.

Short-term scenarios are a significant step forward for central banks and supervisors to better understand the near-term macro-financial impact of transitioning to a net zero economy, including the consequences of severe natural disasters. By covering a three-to-five-year horizon, short-term scenarios overcome limitations in the analysis of macroeconomic and financial risk resulting solely from the analysis of climate-economy relationships over the medium to long term. As the current NGFS climate scenarios focus on the longer term horizon, introducing short-term scenarios in the NGFS framework has been identified as a key priority in the [public feedback survey](#) launched in February 2023.

Five different climate scenario narratives are proposed to underpin the short-term dynamics associated with various transition and physical impacts. The narratives are driven by different geopolitical, economic and technological factors to result in a range of plausible futures. Three of them focus on mitigation efforts through stringent climate policies with different timings and combinations of macro-financial and technology shocks. They exhibit significant transition risks and are designed to be consistent with long-term scenarios that lead to the effective mitigation of global warming. One scenario highlights high physical risks in the near term, while a final scenario considers both significant transition and physical risks due to international divergence in policy ambition. A selection of these scenarios will be implemented by an experienced modelling team identified based on the [Call for Expression of Interest](#) launched by the NGFS in May 2023.

The narratives not only differ in the source of shocks but also shed light on different transmission channels, key model parameters as well as of accompanying fiscal and monetary policy choices. They have been developed by the NGFS Workstream on Scenario Design and Analysis to provide the basis for climate stress testing related to central banks' prudential and supervisory responsibilities. However, they can also provide useful insight into macroeconomic impact assessments related to monetary policy questions, a key focus of the NGFS Workstream on Monetary Policy.

**Ravi Menon, Chair of the NGFS and Managing Director of the Monetary Authority of Singapore:**

*"The publication of the Conceptual note on short-term scenarios could not have been timelier. The impacts from recent extreme weather events on the real economy and recent tensions in energy markets, are reminders that climate change and the dependence on traditional energy sources are already causing considerable disruptions around us. By introducing short-term scenarios, the NGFS aims to provide central banks and supervisors with a tool to better understand the implications of*

*climate risks on near-term macro-financial developments, the possible transmission channels and as well as the trade-offs feeding into the monetary policy decision-making process.”*

**Livio Stracca, Chair of the NGFS Workstream on Scenario Design and Analysis, and Deputy Director General Macroeprudential Policy and Financial Stability of the European Central Bank:**

*“Scenario analysis helps to shed light on a highly uncertain future with respect to energy production and distribution, not least due to geopolitical tensions. Over the past three years, the NGFS scenarios have enabled users to assess the impact of climate policies and physical risks over a long-term horizon. However, risks from climate change can arise also in the short term. NGFS short-term scenarios is a key addition to our toolkit, which will help to better capture the adverse implications of a disorderly transition and severe natural disasters in the near future.”*

### **About the NGFS**

The Network for Greening the Financial System (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 is 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 127 central banks and supervisors and 20 observers. Together, they span across five continents, operate in economies that account for more than 88% of global greenhouse gas emissions and are collectively responsible for the supervision of all global systemically important banks and 80% of the internationally active insurance groups. The NGFS is chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore. The Secretariat, headed by Jean Boissinot, is provided by Banque de France.

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**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](mailto:sec.ngfs@banque-france.fr)**

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