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NGFS publishes a first set of climate scenarios for forward looking climate risks assessment alongside a user guide, and an inquiry into the potential impact of climate change on monetary policy

Central banks and prudential supervisors around the world are stepping up efforts to integrate climate-related risks into their work, in particular financial stability monitoring. In addition, central banks increasingly focus on the potential impact of climate change on price stability and its implications for monetary policy.

Highlighting the growing importance of climate change for central banks and supervisors, the NGFS today publishes several deliverables aimed at fostering the integration of climate-related risks into their work:

- A first **set of climate scenarios** alongside a first-of-its-kind **Guide to climate scenario analysis for central banks and supervisors**. The NGFS scenarios have been developed to provide a common starting point for analysing climate risks, while the guide provides practical advice on using scenario analysis to assess these risks to the economy and financial system.
- A **Report examining the possible effects of climate change on monetary policy**. Based on a comprehensive review of existing literature and expert analyses, it provides early answers to the following questions: (i) How does climate change affect key macroeconomic variables? and (ii) What are the effects on the monetary transmission channels and central banks' assessment of their policy space?
- A **Report which lays out and discusses the NGFS research priorities** related to the analysis of the macroeconomic and financial stability impacts of climate change.

Frank Elderson, Chair of the NGFS and executive board member of De Nederlandsche Bank: *“Climate change leads to financial risks and therefore remains a vital issue for central banks and supervisors to address. Today’s NGFS publications on reference scenarios and monetary policy will no doubt complement the other deliverables already released by the NGFS. They will allow the 66 members of the Network and the myriad financial institutions they supervise to better identify, quantify and mitigate climate risks in the financial systems”.*

Changes to our climate are unprecedented. To understand the financial risks and economic costs they bring, we need to look forwards not backwards. And to determine the right actions to take today, we need to look ahead over decades, not just the next few years. Scenario analysis enables us to do that. **The NGFS climate scenarios published today explore the transition and physical impacts of climate change under varying assumptions, with the aim of providing a common reference framework for central banks and supervisors to understand these future risks.** This first iteration of the scenarios

explores climate and policy pathways that are consistent with the NGFS framework published in the First NGFS Comprehensive Report in April 2019. While developed primarily for use by central banks and supervisors, they may also be useful to broader financial, academic and corporate communities. The NGFS climate scenarios were selected in partnership with an academic consortium including the Potsdam Institute for Climate Impact Research (PIK), the International Institute for Applied Systems Analysis (IIASA), the Center for Global Sustainability at the University of Maryland (UMD) and Climate Analytics (CA).¹

The Guide to climate scenario analysis for central banks and supervisors –the first of its kind– provides practical advice on using scenario analysis to assess climate risks to the economy and the financial system. It is based on the initial experiences of NGFS members and observers and also aims to advance the discussion on the methodologies used.

Sarah Breeden, Chair of the NGFS’ “Macrofinancial” workstream and executive director at the Bank of England: *“As central banks and supervisors it is our job to understand the impact of climate change on the economy and on the financial system in a variety of possible future scenarios. Today’s publications represent an important addition to our analytical toolkit and, by helping us size those potentially catastrophic future risks, can drive different decisions now, a long time before the consequences of inaction will be clear. This is however only our first step on that journey. We welcome engagement from all as we further develop this vital work.”*

The Report entitled “Climate Change and monetary policy: Initial Takeaways” investigates the possible effects of climate change on the determinants of monetary policy. Compiled by the NGFS group of experts on monetary policy and climate change, the report finds that climate change and its mitigation will increasingly affect macroeconomic variables essential to the conduct of monetary policy. It highlights the need for central banks to strengthen their analytical toolkits, integrating climate risks into their economic models and forecasting tools.

Dr Sabine Mauderer, Chair of the NGFS’ “Scaling-up green finance” workstream and executive board member of the Deutsche Bundesbank: *“Climate change will increasingly pose a challenge for the work of central bankers and supervisors. Therefore, it is crucial that we continuously enhance the way we capture and disclose the impact of climate change on our predictions and monetary policy deliberations.”*

Looking forward

The NGFS will continue to develop the scenarios to make them more comprehensive, with the aim to be as relevant as possible for economic and financial analyses. To that end, we will be soliciting feedback from a broad range of stakeholders. In addition, the NGFS will continue to work with a consortium of academic partners to refine and expand the scope of the scenarios. Areas of focus will include: (i) expanding the scenario modelling to explore further dimensions of the risks, (ii) improving regional coverage and sectoral granularity, (iii) calculating probabilistic losses from acute climate impacts, (iv) expanding the set of macroeconomic outputs, and (v) improving the NGFS scenario database and portal.

When it comes to monetary policy, NGFS Members will continue to analyse the impact of climate change and, in a next step, look at its implications for monetary policy operations.

New observer

The NGFS is also pleased to announce that the Asian Development Bank joined the NGFS as an observer in June 2020.

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About the NGFS

The NGFS, launched at the Paris One Planet Summit on 12 December 2017, is a group of Central Banks and Supervisors willing, on a voluntary basis, 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 66 central banks and supervisors and 13 observers - representing five continents, around 60% of global greenhouse gas emissions and the supervision of over three quarters of the global systemically important banks and two thirds of global systemically important insurers. The NGFS is chaired by Frank Elderson, executive board member of De Nederlandsche Bank. The Secretariat 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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