November 2026

Declaration on the macro-financial dimension of the energy transition

In the lead-up to the 31st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP31), the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) issues this declaration to highlight the macro-financial dimension of the energy transition and the dependence on fossil fuels, as well as to reaffirm our commitment to supporting an orderly transition in accordance with our respective mandates, taking into account national circumstances and differing economic structures.

Recent volatility in energy markets and energy supply-chain disruptions related to geopolitical tensions have weighed significantly on the global macroeconomic environment, with energy prices projected to surge by at least 24% on average in 2026[i]**.** These developments underline the importance, for central banks and supervisors, of understanding how changes in energy systems, energy markets, and energy security may affect inflation, economic activity and financial stability. The COP31 Presidency's Action Agenda, including its proposed goal of expanding the share of electricity in final energy demand while scaling up renewable energy supply[ii], reflects the convergence between the energy transition, energy security and economic resilience.

Recent NGFS work demonstrates how large carbon-intensive energy price shocks can pose significant challenges to price stability. A sustained 25% increase in carbon-intensive energy prices could raise inflation by around two to five percentage points in the short run, depending on the weight of carbon-intensive sectors in each economy[iii]. As economies progress in the transition and the composition of energy supply and demand changes, the exposure to fossil fuel price volatility may decline for energy-importing economies, while hydrocarbon-producing economies may face material transition risks via global demand-side adjustment. In this context, the case for a globally coordinated transition towards lower-carbon, more resilient energy systems is reinforced on grounds of price and financial stability

Meanwhile, the frequency and intensity of climate-related shocks are rising and will continue to rise in a non-linear manner while changes in climate and weather patterns accelerate, as highlighted by recent extreme weather events. The NGFS analysis for the G7 finds that extreme weather events related to climate change affect output, employment and prices, with estimated economic losses amounting up to 57% of GDP in the most exposed small island economies, and inflationary effects reaching up to 17 percentage points in the most severe cases[iv]. These impacts propagate internationally through trade, supply chains and financial linkages, and are transmitted to the financial system through traditional financial risks such as credit and liquidity risk. The effects of climate-related risks on price and financial stability are closely connected to, and often amplified by, nature-related financial risks[v].

Building on our COP30 Declaration on the Economic Cost of Climate Inaction[vi], we reaffirm that delayed and uncoordinated climate action carries material economic and financial risks with implications for the core mandates of central banks and financial supervisors. For instance, it is becoming increasingly difficult for monetary policymakers to "look through" climate shocks[vii], and supervisors must address system-wide climate and nature-related vulnerabilities and ensure that financial institutions adequately manage these risks[viii]. Climate change mitigation through the reduction of green-house gas emissions is the most effective way to limit global warming and reduce climate-

related risks at the source, while adaptation and resilience measures help reduce exposure and vulnerability to impacts when these do occur. As our short-term and long-term scenarios show, the pace and credibility of mitigation efforts shape the risks the financial system will be required to manage over time.

The transition toward a low-carbon and climate-resilient economy will require a whole-of-economy effort, with action by firms and financial institutions consistent with their respective responsibilities. Financial institutions can play a central role in facilitating access to new opportunities to real economy actors as the transition accelerates, including through their own transition planning and engagement with clients. Enhanced transparency, robust disclosure standards, scenario analysis, and transition planning remain key for financial institutions to identify, assess, and manage climate and nature-related risks[ix] and opportunities.

Sustained international cooperation and collaboration across institutions and jurisdictions is necessary to build such an enabling environment. In this regard, the NGFS' collaboration with G7 and G20 presidencies, the Joint Dialogue Platform with the Coalition of Finance Ministers for Climate Action, as well as the newly established NGFS Regional Groups serve as important channels to support experience-sharing and adoption of context-relevant practices that support the implementation of the Paris Agreement.

As members of the NGFS, we remain committed to developing science-based and innovative analyses that strengthen our collective understanding of climate and nature risks and allow all members and the broader financial community to move from principles to practice[x]. Ultimately, these efforts will strengthen the foundations of price and financial stability, contributing to the enabling environment on which governments, corporates and households can act with confidence to support an orderly transition away from fossil fuels[xi] and towards a low-carbon and climate-resilient economy[xii].

References

[i] World Bank (2026), Commodity Markets Outlook, April 2026
[ii] COP31 Presidency (2026), COP31 Presidency announces "35% by 2035" electrification target as part of Action Agenda launch
[iii]NGFS (2025), Macroeconomic effects of carbon-intensive energy price changes
[iv] NGFS (2026), Note on the economic and financial impacts of extreme weather events
[v] NGFS (2026), Taking Action for Nature: Supporting Financial Stability and Sustainability
[vi]NGFS (2025), Declaration on the Economic Cost of Climate Inaction.
[vii]NGFS (2026), Climate change and monetary policy strategy: a guide for central banks
[viii] NGFS (2026), Guide for supervisors: Integrating climate and nature-related risks into prudential supervision
[ix]NGFS (2024), Transition Plan Package
[x] NGFS (2026), NGFS Strategy for 2026-2027: From Principles to Practice
[xi] UNFCCC (2023), COP28 Decision 1/CMA.5 – First global stocktake and consideration of its outcome
[xii] NGFS (2024), Climate Scenarios for central banks and supervisors ; NGFS (2025) Short-term Climate Scenarios

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 152 central banks and supervisors and 24 observers. The NGFS Chair is Olaf Sleijpen, President of De Nederlandsche Bank and member of the Governing Council of the European Central Bank. The Secretariat, headed by Yann Marin, is provided by Banque de France.

For more details, visit the **NGFS website**, **Linkedin** and **2024 Annual Report** or contact the NGFS Secretariat at Banque de France **sec.ngfs@banque-france.fr**

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