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**The role of central banks in the post-pandemic world in supporting the  
sustainable economy**

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Ladies and Gentlemen,

I am very pleased to be with you “virtually” in the Vatican today. I would like to express my gratitude to the CAPP Foundation and to all those who made this event possible for inviting me. Personally, I am very moved to be here – as a Christian who takes very much to heart the words of Pope Francis in *Laudato Si*: “A true ecological approach always becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor.” But today, in my professional capacity as a central banker, I would like to explain how our “technical” duty for 2020 overlaps with the Pope’s prophetic call from 2015.

Although a lot has happened over the past few months, one thing has not changed. Climate-related disruptions are here to stay and their frequency and strength are increasing. Wild fires in California or in Australia recently reminded us how devastating climate risk can be. The need to act in order to curb carbon emissions is as urgent as ever.

Beyond the climate, more can certainly be done to achieve a more sustainable economy. And let these not be just words but concrete realities. Social, Responsible and Green: this is my conception of a sustainable economy. I will concentrate here on the green aspect of the topic.

**1. The post-Covid-19 world provides us with a unique opportunity to address the urgency of climate change**

The Covid-19 crisis is a preview of what a full-blown climate crisis could look like. In order to qualify climate risk and its radical uncertainty, some researchers – including from the Banque de France – have formulated the expression “green swan”, in an analogy with the concept of “black swans” described by Nassim Nicholas Taleb: an extremely disruptive event that traditional backward-looking risk assessments and economic models cannot anticipate accurately enough. However, unlike black swans, green swans are increasingly certain to occur from a scientific perspective (although we do not exactly know when, where and

how), and they can cause irreversible damage to economies, societies and ecosystems, meaning that no single agent can hedge against them. As such, avoiding green swans demands strong, rapid and coordinated action from multiple agents (fiscal and regulatory authorities, central banks, private sector, and so on).

Just like climate change, the global pandemic is a "green swan" in at least its consequences and the necessary response to it. Regarding its consequences, the pandemic has led to a devastating global health and economic crisis, with the same consequences that we expect climate change to have:

- An **extreme** and unprecedented shock;
- **Nonlinear** amplification mechanisms;
- Some irreversible losses (all the human lives lost to the virus).

Second, regarding the response needed to address the crisis. As an immediate response to Covid-19, governments and central banks have rightly taken unprecedented and coordinated financial measures and provided stimulus packages to bridge economies through a return to a more normal level of activity.

Beyond the immediate response to the crisis, the economic recovery cannot be a simple re-build of the old economy: we should not "put new wine into old wineskins" (Mt, 9, 17). The post-crisis era offers a unique opportunity to lay the groundwork for an orderly transition to a more sustainable economy and climate-resilient financial system – a "green" recovery.

This is the ambition of the European Union Recovery Plan. In July 2020, the European Council adopted an historical EUR 750 billion recovery plan, which will mainly be distributed among European Union Member States. It is an historical breakthrough in terms of solidarity, but also of **ecology**. At least 30% of the funding will be allocated to the fight against climate change. Under the agreement, the Commission will also propose in the first half of 2021 a "carbon border adjustment mechanism", a tool that will ensure that EU companies can

compete on a level playing field with companies from countries which do not regulate CO<sub>2</sub> emissions from industry.

Let me mention two other examples of Europe being at the forefront of the climate agenda:

- In December 2019, Ursula von der Leyen, President of the European Commission, already proposed a "European Green Deal", with the aim of achieving carbon neutrality in the European Union by 2050.
- Europe also took an historic step forward by adopting a unified sustainable taxonomy for economic activities.

## **2. In order to address climate-related risks, central banks and supervisors have a key role to play**

We need a global coalition, including citizens, business, and NGOs. But at the forefront, policymakers are definitely the ones to take proper policy actions. Nothing will replace carbon pricing for instance. And governments have to ensure the predictability of policy actions. On our side, as a central bank and supervisor, we must do everything we can to support and complement the action undertaken by governments. This is a great challenge for our community. This is our "new frontier".

Even though they should not be "the only game in town", central banks and supervisors have to do their part, within the remit of their mandates. As climate change is a global threat, a global answer is therefore needed. This is precisely why the Banque de France created the NGFS – Network for Greening the Financial System – alongside 7 other founding members. The network now counts more than 70 members covering 5 continents: it is an unprecedented success. The "coalition of the willing" philosophy of the NGFS has definitely helped a lot to increase awareness among our community and inspire its members to take action.

In particular, as climate-related risks are a source of financial risk, our role as **supervisors** is to ensure that the financial system is resilient to these risks. Financial institutions are exposed to both (i) **physical risks**, related to the physical impact from climate change, and (ii) **transition risks**, related to the adjustment to a net-zero economy. In this regard, the ACPR and Banque de France are conducting a unique, climate pilot stress-test exercise, in order to get a prospective view of the risks linked to climate change for banking and insurance establishments. We will publish our aggregated results by April 2021.

As well as supervision, let me mention **monetary policy**. Central banks must also take this opportunity to accelerate their green transition and support public policies: the ECB, for instance, has included climate change in its strategic review. Beyond resilience, climate-related risks also fall within the remit of our price stability mandate. Therefore, three aspects of the impact of climate change deserve to be explored further:

- Fighting global warming is already a requirement of our mandate: the effects of climate change will have an impact on price stability and inflation, we can even see them now. You perhaps hear a debate in some countries about central banks “politicising” when they voice concerns about climate change, about mission creep. Don’t listen to these voices, to this “call for inaction”. We have a duty to act.
- Hence, we must achieve **a strategic breakthrough**: incorporate the assessment of these effects into our macroeconomic models and long-term forecasting;
- And we must achieve **an operational breakthrough**: systematically integrate climate risk into the valuation of the assets we take as collateral. This would be a global signal, much more powerful than just buying green assets.

## **Conclusion**

The Covid-19 has laid bare the interdependencies between nature-related risks in general and financial risks. My strong technical feeling is that we need coordinated and common actions from governments, academia, industry and the central banking community to address those risks. And hence this awful year 2020 could be a call to make a reality of Pope Francis's strong words: "We need to strengthen the conviction that we are one single human family. There are no frontiers or barriers, political or social, behind which we can hide, still less is there room for the globalization of indifference."<sup>ii</sup>

Thank you for your attention.

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<sup>i</sup> Laudato Si, section 49

<sup>ii</sup> Laudato Si, section 52