



## Workstream “Monetary Policy”

### Mandate - April 2022 / April 2024

Chair of the workstream: James Talbot (Bank of England)

Members of the Secretariat: Léa Grisey and Benjamin Alford

#### A. Objective

The objectives of this workstream are to ***deepen the collective understanding of how climate change, and the actions designed to mitigate it, should be considered in relation to the conduct of monetary policy***; what ***options central banks have to take into account climate-related risks***; and, where applicable, what ***options central banks have to ensure monetary policy operations are supportive of the transition to a low-carbon economy***. The workstream will aim to develop and share a framework for how central banks should assess, and respond to, diverse climate-related developments. The workstream will consider both the framework and implementation of monetary policy and, accordingly, work on both the macroeconomics underpinning monetary policy formulation and the monetary policy operations.

#### B. Relevance to the work of the NGFS

Central banks need to assess the wide-reaching diverse impact of climate-related changes on the economy and review their operational frameworks to safeguard the continued smooth conduct and efficacy of monetary policy. Contingent on their mandate, central banks may also seek to ensure that monetary policy operations do not undermine the transition to a low-carbon economy and/or explore ways in which they can support that transition.

The NGFS has published various reports to lay the groundwork in this field, and now intends to deepen its analysis on integrating climate-related considerations into monetary policy analyses, strategies and operational frameworks, taking into account the mandates of its members. This workstream will provide a platform for NGFS members to exchange views and experiences, and enhance their understanding of the impact of climate-related changes in relation to monetary policy frameworks and objectives.

#### C. Tasks

The workstream will work both on the macroeconomic and operational aspects related to the impact of climate-related changes on monetary policy and the possible integration of climate-related considerations into monetary policy operations, building on previous NGFS work.

## 1. Analyse macroeconomic impacts from climate change and net zero transition

The workstream will deepen the analysis of *possible effects of climate change and the net zero transition on the macroeconomy from a monetary policy perspective*. The workstream can build on the NGFS [Research priorities](#) (published in June 2020) and the NGFS report [Climate change and monetary policy: initial takeaways](#) (published in June 2020), which explored questions that are still relevant to the NGFS membership:

- i. How could the transition to a low carbon economy affect inflation over the short and long term, via e.g. their impact on energy prices? What could this imply for the conduct of monetary policy?
- ii. How do and could climate-related physical shocks affect the economic outlook, and especially the dynamics of price adjustments in the economy, in the short and medium term? Which challenges may this pose for the conduct of monetary policy?
- iii. What do the transition and climate-related physical shocks imply for an economy's potential and the equilibrium rate of interest?
- iv. How might climate-related developments interact with different monetary policy regimes?
- v. What are the effects of climate-related developments and risks on the monetary policy transmission channels?

The workstream will help to reinforce central banks' analytical toolkits by reviewing *approaches to incorporate climate-related developments and risks into central banks' macroeconomic models and forecasting tools*. This work will factor in the varying degrees of sophistication of the existing tools used by central banks and the different challenges they might face. The objective is to provide a practical toolkit, to help central banks better analyze the impact of climate-related transition and physical risks on the economy as well as assess the effectiveness of policy measures they have taken or are looking to implement.

The workstream will also offer a platform for an *exchange of views and experience with regard to analysis and modelling of climate-related effects*.

## 2. Account for climate change in monetary policy operations frameworks

The workstream will work towards equipping central banks with a better understanding of *possible climate-related adjustments they could implement* in order to improve risk management practices and to support the transition where relevant, bearing in mind each institution's own circumstances, and building on the NGFS report "[Adapting central bank operations to a hotter world: Reviewing some options](#)" (published in March 2021), which assesses nine options available to central banks to factor climate-related risks into their operational framework.

Specifically, the workstream will offer a platform for an exchange of views and experience-sharing among NGFS members with regard to *adjustments made to operational frameworks of monetary policy* to account for climate-related risks, so as to help central banks better understand how and under which conditions such adjustments can be implemented and, where it falls under central banks' remit, and how they can support the transition to a net-zero emissions economy.

Another key focus of the group will be on strengthening capacity building for monetary policy-related topics (both macro analysis and operational considerations), to help spread awareness and

understanding of the NGFS findings on monetary policy, both internally and externally. To this end, the workstream will closely liaise with the NGFS task force on capacity building and training.

The workstream will coordinate, where needed, with other NGFS workstreams, and in particular with the workstream on “Scenario Design and Analysis” and the NGFS experts’ networks on Research and, possibly, Data. The workstream will also coordinate closely, where relevant, with other international policy work on the macroeconomic impacts from transition and physical risks and their interaction with monetary policy, and may seek the views of external researchers and academics.