

The Guardian

The world must seize this opportunity to meet the climate challenge

As current and former central bankers, we believe the pandemic offers a unique chance to green the global economy

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We are currently in the midst of the most severe macroeconomic shock since the second world war. The disruption to our daily lives and subsequent impact on our economies has been enormous. We are seeing first-hand that a collective response is needed to defeat a common enemy, as authorities across the world courageously mobilise all available resources to fight the Covid-19 pandemic.

This crisis offers us a once-in-a-lifetime opportunity to rebuild our economy in order to withstand the next shock coming our way: climate breakdown. Unless we act now, the climate crisis will be tomorrow's central scenario and, unlike Covid-19, no one will be able to self-isolate from it.

In the immediate response to the pandemic, governments have taken measures of unprecedented scale to keep economic and financial systems afloat. The IMF estimates that

approximately \$9tn of fiscal support has been provided across the world. This is necessary to limit acute and permanent damage. But as we consider the next stage of recovery, we must look beyond the immediate crisis and think more strategically about *how* we do it.

Collectively, countries around the globe are still far from meeting climate crisis goals, most notably the Paris agreement to limit the increase in global temperature to well below 2C, and to pursue efforts to limit the increase to 1.5C. Over the last year, we have seen record temperatures across Europe, extreme rainfall in the US and wildfires in the Arctic. The effects of the climate crisis are irreversible, so the severity and frequency of these extreme weather events will only increase - by how much depends on our success in transitioning to a net-zero emission world. Recognising this risk, the Network for Greening the Financial System (NGFS) - a coalition of 66 central banks, and supervisors - has been working to "green" the financial system to reduce the costly financial risks that these developments create.

Acting early will help to smooth the transition and avoid a sharp and disorderly adjustment. To meet the goals of the Paris agreement requires a whole economy transition: every business, bank and financial institution will need to adapt. The pandemic has shown that we can change our ways of working, living and travelling, but it has also shown that making these adjustments at the height of a crisis brings enormous costs. To address climate breakdown, we can instead take decisions now that reduce emissions in a less disruptive manner. That requires us to be strategic. To build back better.

This will only happen if financial decisions, including those made by businesses, investors, banks and governments, take the climate crisis into account. The economic recovery plans being developed today offer the chance to build a sustainable, competitive new economy.

Following the global financial crisis, only a fraction of fiscal spending improved sustainability. This time, governments' stimulus packages can be more ambitious; for example, some are already accelerating the transition to clean energy, retrofitting homes and buildings, and linking financial support to climate-related conditions laid out by the Task Force on Climate-related Financial Disclosures (TCFD). Investments in renewable energy infrastructure could also serve a dual purpose, moving us towards an orderly transition path and creating jobs to support the recovery.

Recognising the continued importance of climate risks to the financial sector, the NGFS has continued its work while those on the frontline fight the pandemic. As central banks and supervisors, we must use our financial stability mandates and expertise to ensure climate risks are effectively managed in the financial system.

The challenge is global and will benefit from early action, so we are working together to share best practice and build our capabilities. Last week, the NGFS released a package of reports on climate and environmental risks, including an overview of industry practices and guidance for supervisory authorities, and in the coming weeks it will publish a set of climate reference scenarios. This work will support an orderly transition and raise the bar for the financial sector worldwide.

In the aftermath of the financial crisis the international community rallied together to reform the financial system. These reforms have enabled the financial system to be part of the solution rather than the problem. Once again we have reached a fork in the road. We have a choice: rebuild the old economy, locking in temperature increases of 4C with extreme climate disruption; or build back better, preserving our planet for generations to come.

To meet the climate crisis challenge, we must learn from the Covid-19 pandemic. Let us make a green recovery the first step down that road.

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