

REMARKS BY AGUSTIN CARSTENS

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I would like to thank the Italian presidency for organising this panel and devoting a full-day conference to the important topic of climate change.

The challenge is enormous and we need to consider every good idea to combat climate change. Otherwise, it will not be possible to fill the investment gap – in particular as we are already late in tackling climate change.

A way to conceptualise the huge challenge that we face is to understand the need to engineer a huge reallocation of resources – across sectors, across time and across countries. The reallocation of resources on a large scale is difficult – as the COVID pandemic shows. The recovery will require a very large reallocation of resources, which has been compounded by technological change and globalisation. Many sectors are suffering. As a first step, we need to realise that it will not be an easy task to achieve the reallocation of resources required to mitigate climate change.

Therefore, we need to use carbon taxes, offsets – and all other policy instruments at hand. We also need to use all available instruments at the international level including multilateral development banks – they are essential, in particular to effectively reallocate resources across countries.

Central banks also have a role to play. One of the strengths of central banks is their intellectual capacity. We should use this capacity to improve our understanding of the economic problems that climate change will create and the capacity of the financial system to deal with the effects. Central banks can help to work on data, taxonomies, on our understanding of how financial vulnerabilities will materialise, and on how to map these findings into financial regulation.

Perhaps the most effective instrument for resource reallocation is markets. Financial markets are precisely the place where resources are allocated and can travel through time, across sectors and countries. We are facing the huge task to make finance more sustainable. We should work towards financial markets providing much better signals so that financial market can effectively reallocate the resources towards greener investments. It is essential that we provide the infrastructure needed for markets to provide the right signals. Today, this signalling mechanism is not working as it should.

A key challenge in sustainable finance we are facing is the lack of a clear alignment of taxonomies and the ultimate policy goals of substantially mitigating climate change. This

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is similar to inflation targeting – a terrain that central banks are familiar with. Central banks have a clear goal, which is the inflation target, and therefore central banks organise themselves around this target. In sustainable finance, however, the link between taxonomies or ESG ratings and climate change is not clear.

Green labels and ESG ratings have often not been sufficiently clear on the promised environmental benefits, and in fact often offer little assurance that such benefits will materialise – much less at the scale required to mitigate climate change. Indeed, such labels and ratings are seldom aligned with high-level policy goals such as the transition to a low-carbon economy.

To ensure alignment and transparency, taxonomies should be based on measurable sustainability benefits – such as carbon emission reductions. This could channel investor demand in the right direction and boost demand further. This will help to make sustainable finance more transparent and provide certainty for investors of the non-financial benefits it can bring. It will make finance more sustainable.