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Economic rebound and green finance: spring in November?

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Ladies and Gentlemen, *konnichiwa*,

I am delighted to join you today for this International Financial Forum in Tokyo, and deeply honoured to share this keynote speech with my colleague and friend Governor Kuroda. A few days after the conclusion of the COP 26 in Glasgow, the theme of this forum, sustainable finance, appears particularly well suited. I will seize the opportunity to recall a few important figures on green finance, and describe the latest actions undertaken by supervisors and Central banks regarding climate risks. But before getting to our main dish, I would like to say a few words about the healthy economic situation in Europe - and more specifically in France. Contrary to what you may think, this is not – at all – unrelated to climate change as it is the backdrop against which the net zero transition has to dramatically accelerate.

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I. A strong economic rebound is underway

After an historical economic downturn in 2020, unprecedented since the Second World War, Europe is today clearly on its way to recover. The Eurozone's GDP grew by 2.2% during the third quarter of 2021; as things stand, it is now only 0.5% away from its pre-crisis level. However, the speed of the recovery varies quite significantly across European countries.

France is doing remarkably well: its GDP increased by **3% in third quarter**, and has already returned to its pre-crisis level – meaning that we have climbed back the 31 percentage “steps” that we faced in April 2020. According to Banque de France's business survey conducted early November, growth should reach 0.75% in the last quarter, which could bring our annual growth rate to 6.75%.

Were it possible to take pictures of the European economy, we would observe clear differences between end 2019 and late 2021: paradoxically, it would not show signs of ageing but rather of renewed youth. The Covid crisis has accelerated Europe's transition to the digital era, and in turn allowed for productivity gains. It is of utmost importance to keep this momentum in the coming months and years, in order to achieve our digital transformation. The

2021 picture would also show a somewhat disorganised background: world supply chains still struggle to meet a higher-than-expected global demand, both in raw materials and industrial goods. As a result, not all economic sectors are equal in the rebound, with industrial manufacturing still experiencing difficulties to source appropriately; this is especially true for the automotive industry for instance.

This imbalance leads to inflationary pressures: inflation reached 4.1% on average in the Eurozone in October – 2.0% core, among which 3.2% in France, marking a new acceleration compared with previous months. Such inflation pace had not been observed since the summer of 2008, and some commentators raise doubt as to whether it is in line with ECB's inflation target of 2% in the medium term.

I would like to stress once more that we deem this evolution as **temporary and contingent** to the current economic recovery. Most underlying factors are expected to fade in coming quarters. Inflation should therefore remain subdued over the medium term, in line with ECB's target. As President Christine Lagarde recently stated, the conditions for an increase in interest rates are very unlikely to be satisfied in 2022.

One component of inflation strongly overweighs others, and therefore catches the attention: energy. Whether consumers will be able to cope with the surge of oil and gas prices during winter is becoming public debate in several countries, with a few governments taking steps. However, turning a blind-eye on the “real cost” of fossil energy is hardly an option given the climate emergency. Some form of price on carbon is needed to complete the transition to a more sustainable economy, complemented with a border adjustment mechanism scheme to the extent necessary and implemented cooperatively. Well-designed and effective public policies are most necessary, but other stakeholders can play their part in order to accompany the transition, notably the financial sector.

II. The future of green finance

The transition to a net zero carbon economy will require 1,000 billion USD worldwide every year, among which 350 billion in Europe. Reorienting investments towards sustainable sectors or projects will partly cover these needs. However, achieving the transition will also entail further joint efforts from the public and private sector. Issuance of green bonds consequently soared over the last years and reached almost 300 billion euros in 2020, half of which in Europe. **France today ranks third** in terms of green bond issuances, and was one of the very first countries to issue a green government bond as early as 2017. As to the European Union, it has just issued a record 12 billion EUR green bond, which was more than eleven times oversubscribed. Yet this record issuance is just an appetizer: the Commission has set a target of 30% of Next Generation EU's 750 billion EUR, roughly 220 billion EUR, to be raised through green bonds.

The future of green finance is bright, on the condition that greater market discipline puts an end to some abuses already observed on this brand new segment. Europe was early in getting aware of these. As the market is developing, **the European Union is taking commensurate regulatory steps**: new laws will progressively enter into force in Europe from now on until 2023, introducing mandatory disclosure against prescriptive standards. That will remove any possibility of greenwashing for unscrupulous issuers or intermediaries. We will further enhance investors' trust through the European Commission's project of an official green label, the so-called *European Green Bond Standard* (EUGBS).

Ultimately we need **internationally harmonised** disclosure frameworks. In this regard, the creation of the ISSB (International Sustainability Standards Board), which was announced during the COP26, could prove decisive. Supported among others by the TFCDI, it aims at meeting the strong demand for harmonised and streamlined global standards on environmental, social and governance issues, with two disclosure prototypes already published. I welcome the ISSB's ambition to facilitate compatibility with existing initiatives, in particular the European Union's Corporate Sustainability Reporting Directive, whose

adoption is expected in June 2022. We will closely monitor how these future global standards translate into **mandatory disclosure** across jurisdictions.

III. Central banks' climate action

Referring to Bank of Japan's and JFSA's strategies on climate change and sustainable finance, I am positively struck by the congruence between Japan and Europe. Traditional international fora obviously help achieve consistency, but on this particular topic another kind of international cooperation proved decisive. The NGFS (Network for Greening the Financial System) was created in December 2017 with eight initial members. It now gathers a hundred members across five continents, among which the JFSA since June 2018 and Bank of Japan since November 2019. I recall with great pleasure the announcement by Governor Kuroda, at the same forum in Tokyo two years ago, that the Bank of Japan would join.

Central banks have never been more committed in addressing climate change, which is part of our missions: we act in the very name of our mandates, primarily price stability. [Beginning presentation] Our actions as supervisors and Central banks revolve along two axes, as stylised in this quadrant.

[Slide] On the vertical axis, as **supervisors**, we have made significant progress to identify and help contain climate-related **risks** born by financial institutions. The French ACPR took a decisive step forward with the first "bottom up" climate-related stress test, whose results were published in May 2021ⁱⁱ. A large number of major banks and insurance companies took part on a voluntary basis. The key takeaway from this pilot scenario analysis is that financial risks are better contained in the context of an early and orderly transition to a greener economy.

[Slide] On financial **opportunities** (let me turn now to the lower part of the axis), the market momentum is quite impressive – the few figures quoted earlier demonstrate the strong appetite for sustainable and responsible finance.

[Slide] On the horizontal axis, which brings together our missions as a **Central bank**, we are first very keen on practicing ourselves what we recommend as supervisors. Banque de France's management of its own funds and euro-

denominated non-monetary portfolios is already aligned on a 2° C objective. We also started to exit from non-conventional oil and gas earlier this year, and we will totally exit from coal by end 2024. We now commit to work toward aligning our own portfolios with a 1.5°C objective.

[Slide] On the monetary policy side, the ECB has decided an ambitious action plan by 2024, to which the Banque de France contributed decisivelyⁱⁱⁱ. This action plan includes the three following steps: (1) make economic projections, and therefore model (2) disclose: impose transparency requirements including on counterparties; (3) incorporate climate risk, into our operations on corporates (on both asset purchases and collateral policies).

We generally need to better understand the long-term trade-off, in terms of GDP, between transition and physical risks and the cost of delayed action. [Slide] The chart breaks down the GDP losses under three scenarios into the costs of transition and physical damages. Under the “Paris Agreement” scenario, GDP would be 5% lower in 2060 and around 7% lower in 2100, and most of this reduction can be attributed to transition policies. Under the two “Too-little too-late” scenarios, the transition costs are limited, but by the end of the century the impact of physical risks becomes much larger, leading to overall losses that could range between at least 10 and 20% of world GDP level.

The NGFS has produced detailed macro financial scenarios and the corresponding data that provide the most comprehensive framework to date for financial risk assessment. [End of presentation]

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Akira Kurosawa, one of Japan’s most famous filmmakers with his unforgettable *Seven Samurai*, once said: “To be an artist means never to avert one’s eyes” (*Ātisuto ni naru to iu koto wa, kesshite me o sorasanai to iu kotodesu*). The same holds true for each and every one of us today, in face of the climate change emergency. I thank you for your attention.

ⁱ Taskforce on Climate-Related Financial Disclosure (Financial Stability Board)

ⁱⁱ Autorité de Contrôle Prudentiel et de Résolution (2021), [The main results of the 2020 climate pilot exercise](#)

ⁱⁱⁱ F. Villeroy de Galhau, « The role of central banks in the greening of the economy », speech, February 11 2021.