



NORGES BANK

Statement by Norges Bank to the COP26ⁱ UN Climate Change Conference in Glasgow, UK, 31 October – 12 November 2021

Addressing climate change is a global challenge. To limit global warming in line with the goals of the Paris Agreement, greenhouse gas emissions must be cut sharply. Under international agreements it is the government's responsibility to meet Norway's commitments to reduce greenhouse gas emissions. Nevertheless, this also concerns Norges Bank in that climate change and mitigation measures affect the Norwegian and global economy, with implications for Norges Bank's mission – promoting economic stability and managing substantial assets on behalf of the Norwegian people. To this end, Norges Bank is a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Norges Bank supports the NGFS Glasgow Declaration.ⁱⁱ

Norges Bank conducts monetary policy, promotes financial stability, and manages the Bank's foreign exchange reserves. In its conduct of monetary policy, Norges Bank is responsible for maintaining price stability while promoting high and stable employment and output and seeking to mitigate the build-up of financial imbalances. In its efforts to promote financial stability and mitigate systemic risks, Norges Bank monitors financial institutions, the payment systems and financial infrastructure. Norges Bank is responsible for setting the countercyclical capital buffer rate and for giving advice on the systemic risk buffer.

Norges Bank is also tasked with managing the Government Pension Fund Global (GPF) and is thereby a major investor in global capital markets. The GPF aims to obtain the highest possible return within the framework set by the mandate. Norges Bank's Executive Board has delegated the operational management of the GPF to Norges Bank Investment Management (NBIM).

Increasing Norges Bank's expertise on climate-related issues will be a priority in the period ahead. Norges Bank will continue engaging with international networks and organisations such as the NGFS, the Bank for International Settlements, the International Monetary Fund and other central banks to exchange knowledge and share best practices.

Norges Bank's ambitions outlined below reflect what the Bank has communicated in its 2020 *Annual Report* and other publications.ⁱⁱⁱ

Central Banking Operations

Norges Bank is seeking to enhance its expertise on and understanding of how climate-related changes influence macroeconomic developments and the financial sector, both internally and through international cooperation. Since December 2018, Norges Bank has actively participated in the NGFS's work related to both monetary policy and financial stability issues.

Norway is a large producer of energy – both from hydropower and fossil fuels. Climate change and the global low-carbon transition affect large parts of the Norwegian economy, with implications for monetary policy. Policy measures, such as higher carbon prices, may for example influence both overall inflation and activity in a number of sectors. As the effects of both climate change and the transition will vary widely across groups and sectors, the transmission of monetary policy to the economy could also change. Flexible inflation targeting is a good starting point for managing new developments, shocks and risks generated by climate change.

Climate change and the transition to a low-carbon economy will be one of the greatest challenges facing Norwegian firms in the years ahead. Borrowers who are unable to tackle these changes adequately will pose risks to the banking sector. Central banks and supervisory authorities can, within their mandates, promote financial stability by ensuring that the financial sector includes climate risks in risk assessments while communicating relevant information and ensuring that all risks are backed by sufficient capital. Norges Bank has emphasised climate-related risks in its *Financial Stability Report* over the past two years.

Going forward, Norges Bank will:

- Increase our knowledge of how climate change and the low-carbon transition affect the Norwegian economy and further integrate this knowledge into the Bank's analyses.
- Continue emphasising sustainability in the management of foreign exchange reserves.
- Work actively to better understand the effects of climate change and associated risks for the financial sector. Integrate climate risk in its credit risk and systemic risk assessments, with a view to including climate scenario analyses in stress testing.
- Closely follow international work on new reporting requirements for both non-financial corporations and financial institutions.
- Continue actively contributing to NGFS's workstreams related to monetary policy and financial stability.

Management of the GPFG

As the manager of the GPFG, Norges Bank is exposed to climate-related financial risks. Given the uncertainty about the timing and magnitude of the consequences of climate change, Norges Bank addresses climate-related risks and opportunities through its investment and ownership decisions.

The transition to a low-carbon economy requires changes at the companies in which Norges Bank invests. Decarbonisation of the GPFG mainly occurs through the decarbonisation of its portfolio companies. Norges Bank (NBIM) initiated its climate ownership work in 2006 and published its first expectations on how companies should address climate change in 2009. The three pillars of our responsible investment strategy provide the foundation for this work: i) establishing principles; ii) exercising ownership; and iii) investing sustainably.

Through its contributions to standard setting, investor expectations and active ownership, Norges Bank seeks to ensure that the companies in its portfolio are well equipped to manage risks and opportunities associated with the low-carbon transition. In the past two years, Norges Bank has engaged with companies that collectively represent about 50 percent of the carbon footprint of the GPFG's equity portfolio. Through targeted risk-based divestments, Norges Bank has reduced its exposure to climate risk. Norges Bank has also excluded companies from the GPFG on the basis of climate change-related norms criteria in line with the guidelines set by the Ministry of Finance. Norges Bank estimates that the carbon footprint of the GPFG's equity portfolio in 2020 was 12 percent lower than the carbon footprint of its equity index.

Going forward, Norges Bank will:

- Increase its efforts to promote climate transition plans and more meaningful, consistent and comparable climate reporting across listed companies, using the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) as a starting point.
- Expect portfolio companies to set science-based reduction targets for emissions that take account of the Paris Agreement, with concrete targets for the short, medium and long term. May vote against company boards that fall significantly short of our expectations or are unresponsive to our engagements.
- Engage with peer investors, academic institutions, external initiatives and researchers from different disciplines to build knowledge about and experience with climate risk indicators and scenario analysis in investment management, and further develop its own capability to measure, manage and report on climate risk in the GPFG.

Furthermore, an expert group appointed by the Ministry of Finance has recently assessed the implications of climate-related financial risks and investment opportunities for an investor like the GPFG. Based on its input, the Ministry's assessment of how climate risk should be handled in the management of the GPFG will be laid out in a white paper to be submitted to the Storting (Norwegian parliament) in spring 2022.^{iv}

Norges Bank's own operations

Norges Bank's Executive Board has developed a climate and sustainability strategy that sets out objectives and measures for the organisation.^v

Norges Bank is a certified Eco-Lighthouse. The certification applies to the operation of the head office and provides access to tools for measuring and improving the organisation's environmental performance. As part of the Eco-Lighthouse certification, Norges Bank prepares an annual carbon account for the operation of the head office.

In its *2020 Annual Report*, Norges Bank disclosed its climate-related risks and opportunities for the first time, based on the widely recognised TCFD framework.

Going forward, Norges Bank will continue to:

- Develop its climate and sustainability strategy.
- Develop specific emission reduction objectives for its own operations.
- Develop its climate and sustainability reporting.

i 26th session of the Conference of the Parties

ii See link: <https://www.ngfs.net/sites/default/files/medias/documents/ngfsglasgowdeclaration.pdf>

iii See in particular Norges Bank's 2020 *Annual Report*, Chapter 7, "Corporate Social Responsibility and sustainability": https://www.norges-bank.no/contentassets/4f5b42f6218843968c078c34dfd5d3e6/nb_annualreport_2020.pdf?v=04/12/2021080137&ft=.pdf, and the letter to the Ministry of Finance, 2 July 2021: <https://www.nbim.no/en/publications/submissions-to-ministry/2021/climate-risk-in-the-government-pension-fund-global/>

iv <https://www.regjeringen.no/en/aktuelt/report-from-the-expert-group-on-climate-risk-and-the-government-pension-fund-global/id2868253/>

v <https://www.norges-bank.no/en/topics/about/climate-and-the-economy/climate-strategy/>