

# **Supporting the Just Transition**

## **A roadmap for central banks and supervisors**

Pierre Monnin

*CEP Senior Fellow*

*LSE Visiting Professor in Practice*

## Supporting the just transition: a roadmap for central banks and financial supervisors

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### Summary

Shifting to a sustainable economy will reshape the outlook for countries and sectors across the world. Managed well, the net zero transition could lead to more and better jobs as well as reduced risks from climate shocks. Managed poorly, however, it could result not only in stranded assets but also stranded workers and communities – and even stranded countries. In response, government policymakers have stressed the necessity for a ‘just transition’ that leaves no one behind in this process of change.

This objective requires action across all policy fields, including financial and monetary policies. A growing number of commercial banks and institutional investors are starting to incorporate just transition considerations into their climate strategies. Until recently, central banks and financial supervisors have focused their attention on the first order climate risks that confront financial systems and institutions. They have tended not to set out how they can respond to the social risks of decarbonisation and what they could do to support a just transition. However, there are emerging signs that central banks are starting to recognise the just transition agenda.

This paper sets out why it is important for central banks and supervisors to take an active role in supporting the just transition. It suggests a roadmap containing three steps – assessing, advising, and acting – for them to achieve this goal and explores some concrete policy options for aligning monetary policy operations and financial regulation with the imperative of a just transition.



Pierre Mannin  
(Council on  
Economic  
Policies)



Nick Robins  
(LSE)

This paper is part of a toolbox designed to support central bankers and financial supervisors in calibrating monetary, prudential and other instruments in accordance with sustainability goals, as they address the ramifications of climate change and other environmental challenges. The papers have been written and peer-reviewed by leading experts from academia, think tanks and central banks and are based on cutting-edge research, drawing from best practice in central banking and supervision.



Centre for  
Sustainable Finance  
SOAS University of London



Grantham  
Research Institute  
on Climate Change  
and the Environment

# Just Transition is high on the international policy agenda

- Paris Agreement highlights “the imperatives of a just transition”
- G20 Leaders’ Declarations support “sustainable and inclusive, green and just transitions” and
- G20 Sustainable Finance Working Group stresses the importance of an “orderly, just and affordable transition”

# Why central banks and supervisors?

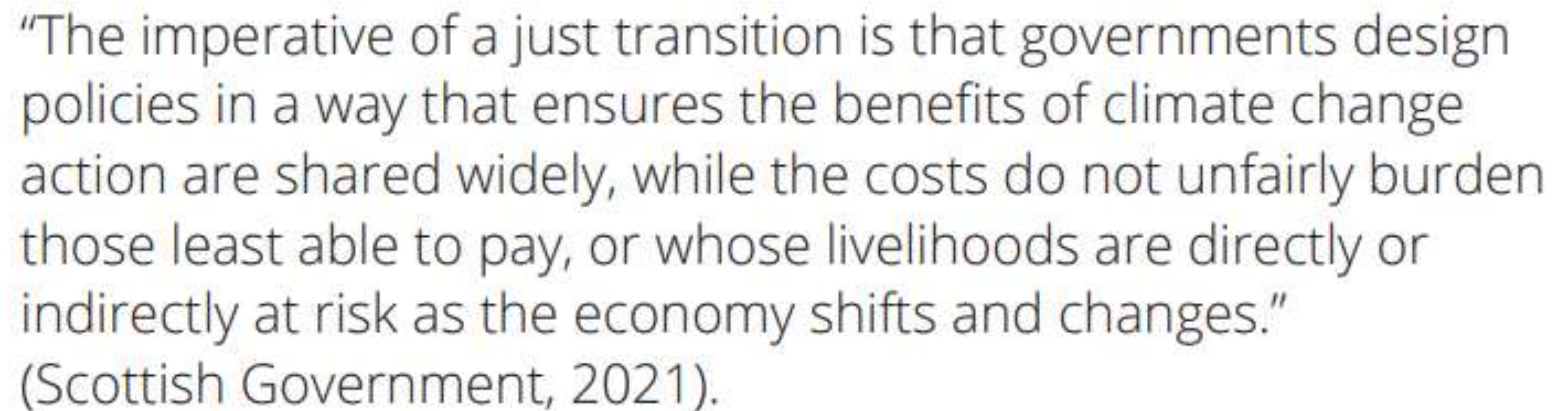
"Net Zero - Act Now, Act Fast, Act Together"

***And we need to act together.*** The climate challenge is too big for governments or any one country to solve. We need a global effort and a whole-of-society approach within each country. Effective partnerships across the public, private, and people sectors will be key to mobilise the financing necessary for an effective and just transition.

**Ravi Menon**

*Monetary Authority of Singapore  
NGFS Chair*

# Just Transition – A definition



"The imperative of a just transition is that governments design policies in a way that ensures the benefits of climate change action are shared widely, while the costs do not unfairly burden those least able to pay, or whose livelihoods are directly or indirectly at risk as the economy shifts and changes."  
(Scottish Government, 2021).

# Supporting a just transition – a role for central banks and supervisors

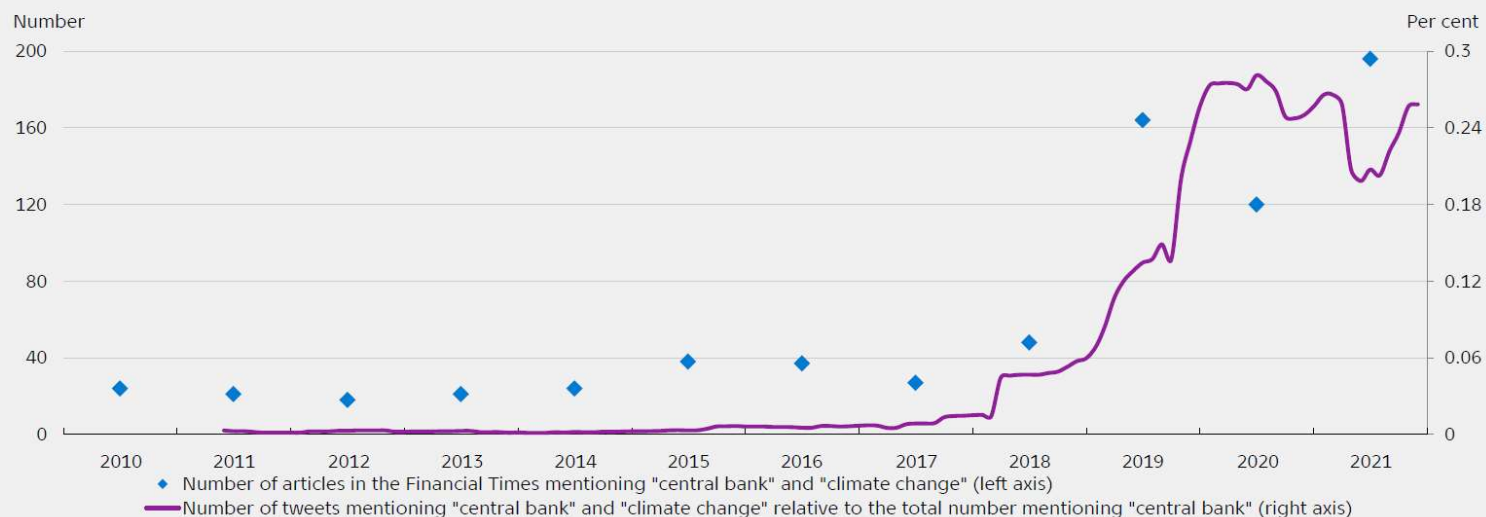
- Why does the Just Transition matter for central banks?
- Roadmap – Assess, Advise, Act
- Challenges and way ahead

# **Why does the Just Transition matter for central banks?**

# At the crossroad of inequality and green transition

## Central banks have increased their focus on climate change and the green transition

Prevalence of the phrases "climate change" and "central bank" in the Financial Times and on Twitter





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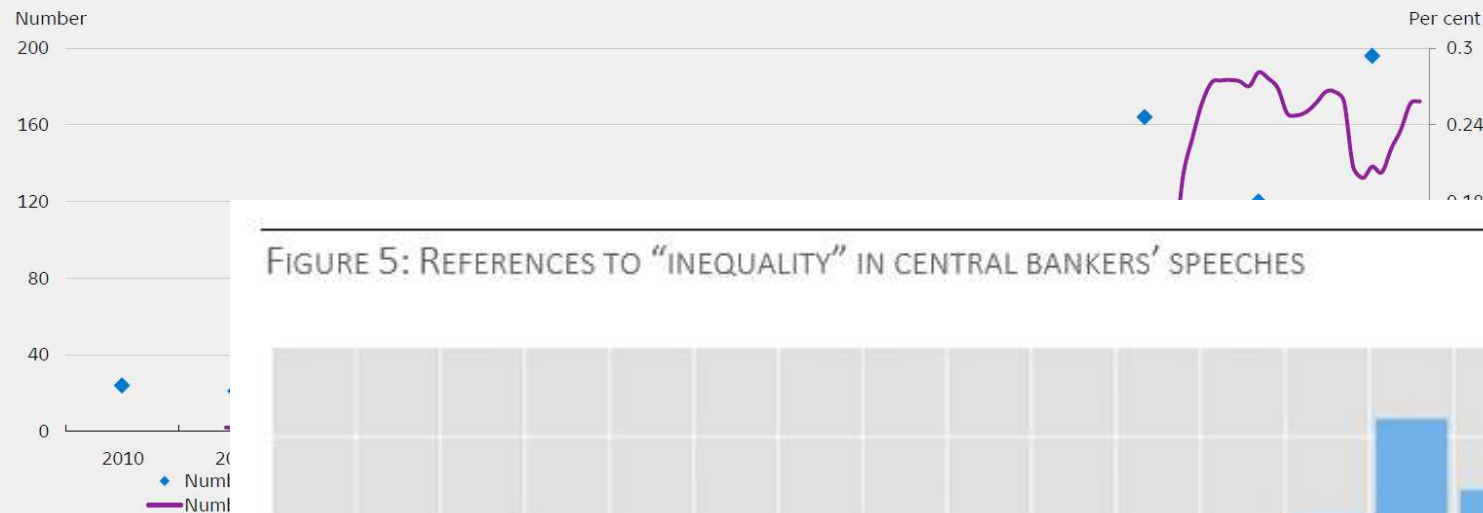
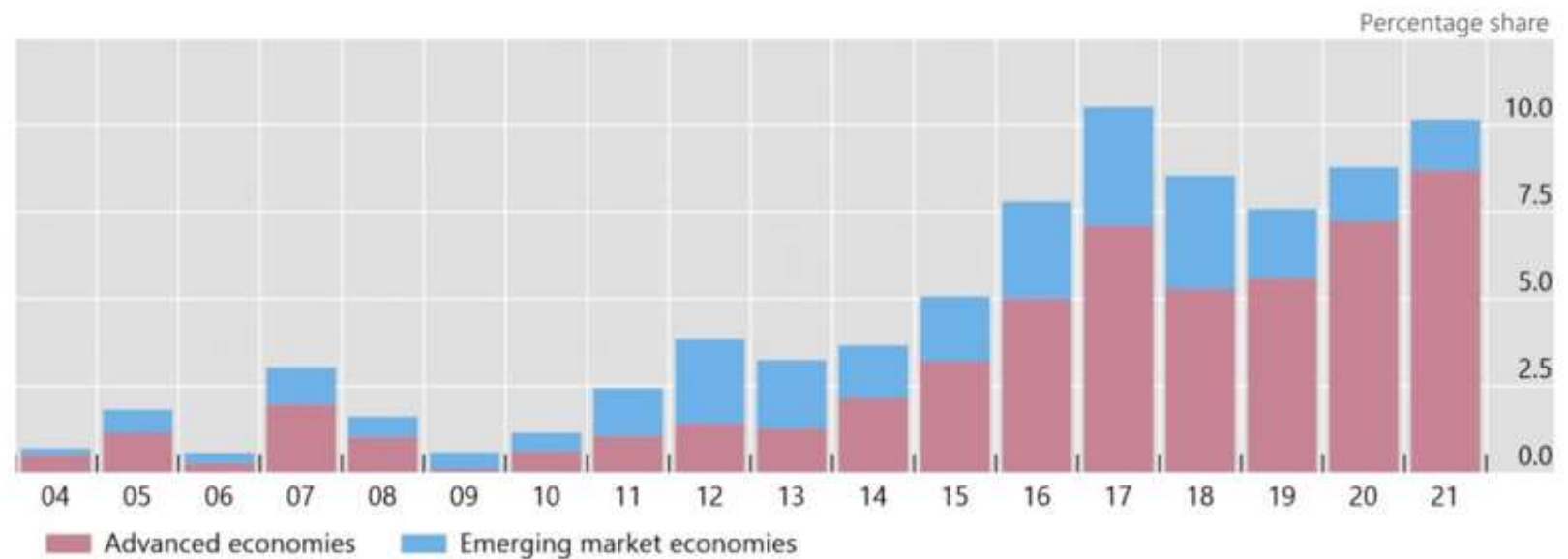


FIGURE 5: REFERENCES TO "INEQUALITY" IN CENTRAL BANKERS' SPEECHES



Speeches of central bankers mentioning the keyword "inequality" and "distributional consequences/impact of monetary policy" expressed as a share of all central bankers' speeches in the BIS database. Data until February 2021.

Source: BIS calculations, taken from Carstens (2021).

# Central banks have own interest in supporting the green transition

- Strengthens financial stability
- Strengthens price and economic stability
- Contributes to sustainability goals
- Mitigates risk in their balance sheet

# Central banks have own interest in mitigating inequalities

- Challenge the effectiveness of monetary policy
- Challenge financial stability
- Challenge their mandate
- Challenge their independence

# **Roadmap**

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## **Assess, Advise, Act**

# Basis: NGFS work on the green transition



# Assess

Central banks and supervisors are exceptionally well-placed to

- understand the systemic dynamics of distribution and interaction with financial systems
- assess consequences on macroeconomic and price dynamics
- improve public knowledge with research and key economic datasets

# Advise

Governments are primarily responsible for setting the economic and fiscal frameworks for the Just Transition

Central banks and supervisors can however contribute by

- supporting framework development through dialogue, expertise, and advocacy with governments and other agencies.
- advise, support and feed into national and international collective initiatives

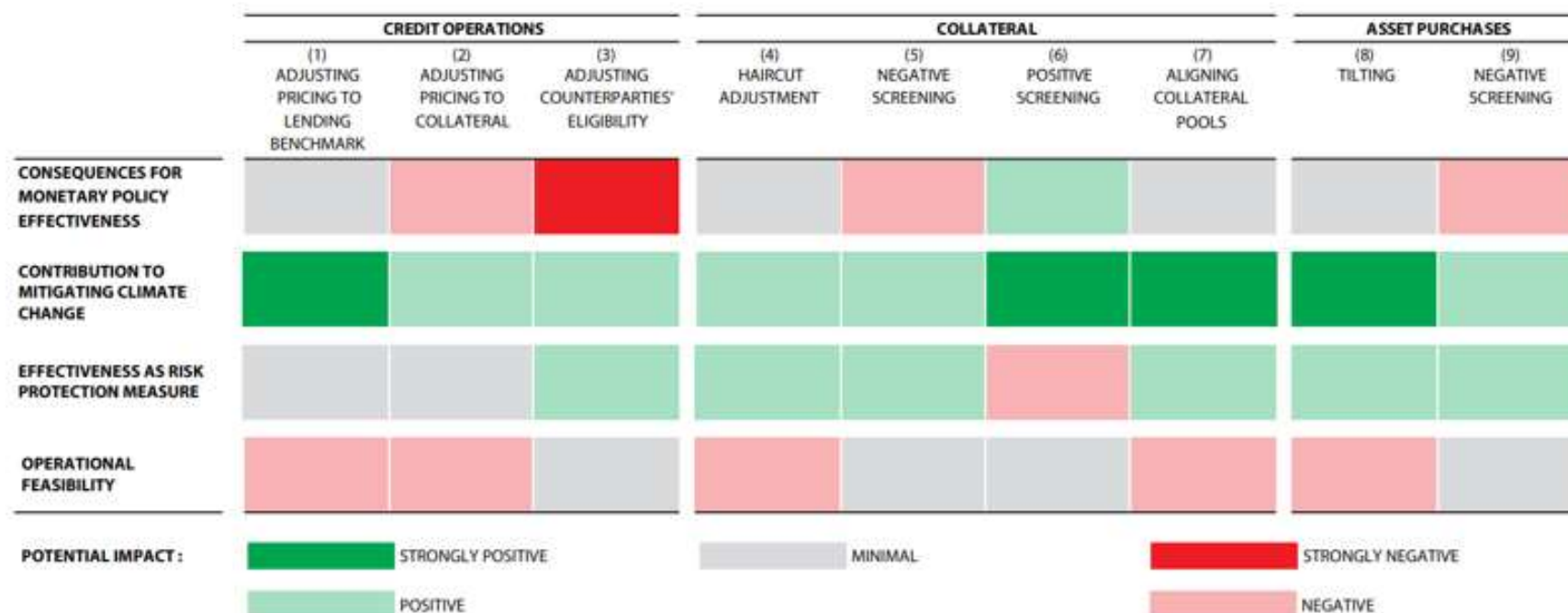
# Act – Macro monetary measures

- Employment
  - Key objective of central banks, sometimes explicitly in the mandate
  - Set a higher priority
- Inflation
  - Key impact on inequality
  - Higher weight for low-income households' inflation



# Act – Monetary policy operations

FIGURE 4: SIMPLIFIED COMPARATIVE ASSESSMENT OF MONETARY POLICY OPERATIONS OPTIONS FOR CLIMATE



Source: NGFS (2021.1)

# Act – Financial policy measures

- Rebalance risk channels
  - Risks from weaker financial position vs benefit from investment in the transition
  - Setting supervisory expectations?
  - Cross-country support?
- Scaling up transition finance
  - Capital requirements?
  - Supporting just transition-aligned financial assets?

# Challenges and way forward

# Challenges

- Too blunt of an instrument to support the Just Transition
- Instruments have a marginal impact on the Just Transition
- Supporting the Just Transition can conflict with other objectives

## Next steps (own wishlist...)

- Improve own and common knowledge of Just Transition dynamics in the economy, financial systems and monetary policy
- Support the development and implementation of Just Transition financial instruments and practices in the financial sector
- From NGFS to NIJT (Central Banks and Supervisors Network for Implementing the Just Transition)