SPEECH

GOVERNOR SIGNE KROGSTRUP'S SPEECH AT THE ANNUAL MEETING OF THE ASSOCIATION OF LOCAL BANKS, SAVINGS BANKS AND COOPERATIVE BANKS IN DENMARK (LOKALE PENGEINSTITUTTER)[1]

DANMARKS NATIONALBANK

CHECK AGAINST DELIVERY

PART 1: OUTLOOK FOR THE DANISH ECONOMY

Slide 1
Thank you for inviting me to speak here today.

I would like to start with a brief overview of the current economic situation – now, just over a year after the coronavirus outbreak.

And then, after talking about a crisis we are emerging from, I will spend the rest of my time talking about another crisis that is still ahead of us: the climate crisis.

Slide 2
Let us start by looking abroad. As we all know, 2020 brought us the worst economic downturn in recent history.

Global economic activity contracted by almost 4 per cent, but with considerable differences across countries and industries. For instance, the Chinese and US economies outperformed the euro area. And manufacturing industries outperformed service industries. I will get back to that momentarily.

We are not yet out of the pandemic – although, in some ways, it may feel like that if we look at the street life. But with the global vaccine rollout, there is light at the end of the tunnel.

[1] I would like to give special thanks to Marcus Mølbak Ingholt for his assistance in writing the speech and to Carsten Andersen, Oliver Hammershøj Bentsen, Mette Højen, Carina Moselund Jensen, Lasse Jygert, Ole Mikkelsen and Karoline Garm Nissen for suggestions and comments.

In the very short term, we still expect global activity to be constrained by travel restrictions and the like. But as people are vaccinated and economies fully reopen, we believe the outlook is for a strong economic recovery.

The global economy has been – and still is – strongly supported by exceptionally accommodative monetary and fiscal policies. Monetary policy measures are helping to mitigate the consequences of the coronavirus restrictions. These measures have kept businesses and consumers afloat.

In the USA alone, relief packages worth 2,800 billion dollars have been adopted in recent months – equivalent to 13 per cent of GDP. The massive stimulus measures are kick-starting the US recovery in earnest.

This is contributory to our expectation that the US economy returns to pre-pandemic levels already by mid-2021. The euro area and the UK will, by contrast, not see their economies return until next year.

Slide 3
Now let us turn our attention at Denmark and rewind to the time before the pandemic. At that point, the Danish economy was experiencing a moderate boom without any major imbalances. In other words, we were well-equipped to weather the economic downturn.

So, how has the Danish economy performed? The most recent figures show that GDP contracted by just less than 3 per cent last year. And in the first quarter of this year, we saw another sharp decline in activity.

The good news is that activity seems to bounce back quickly when society reopens. For instance, payment card use in Denmark shows that consumption has been quick to recover.

In our March projection, we forecast that GDP would grow by about 1½ per cent this year. Since then, we have adopted a slightly more positive stance. The reason for this is that restrictions were lifted more quickly than anticipated. Consumption recovered faster. And Danish exports exceed our projection.

Overall – with the roll-out of vaccines – the risk outlook has become more balanced. That said, we still foresee both upward and downward risks.

On the one hand, some factors may boost economic activity more than anticipated. For instance, the rollout of vaccines may be faster than expected. Consumption and investment may normalise more quickly. And the impact of economic stimulus measures could be stronger than anticipated.

On the other hand, some factors may end up curtailing economic activity more than expected. For instance, factors related to the development of the pandemic and the rollout of vaccines.

Higher pandemic-related government expenditure could also trigger a sovereign debt crisis in some countries. And the fact that the pandemic has rekindled protectionism – that is: an "every country for itself" mentality.

Finally, some companies may not be able to stay afloat when the government relief packages expire.

However, in Denmark we believe that you – the Danish banks – are well positioned to support viable companies when the relief packages come to an end. Banks have considerable capacity to expand lending and absorb any losses.

The release of the countercyclical capital buffer has contributed to this capacity. The very purpose of the capital buffer is to build up capital in good times to be drawn on in bad times, to maintain lending and absorb losses.

So, rebuilding the buffer as we emerge from the crisis is important to make us resilient for future crises. And as I am sure you have noticed, the Systemic Risk Council expects to recommend you to start rebuilding the buffer in mid-2022.

All in all, the timing and pace of the recovery of the Danish economy remains highly uncertain. It is therefore, as we have pointed out on earlier occasions, important that policymakers are ready to adjust fiscal policy.

Slide 4

As I mentioned earlier, the economy is currently operating at multiple speeds – both in Denmark and abroad.

On the one hand, segments of the economy are hampered by fear of infection and restrictions. This applies, for instance, to the tourism industry.

On the other hand, activity has returned in other segments of the economy – or is even higher than before the pandemic. This is the case for supermarkets, the IT industry and, not least, the construction industry, where a growing number of companies are even reporting a shortage of labour.

Slide 5

The housing market is a segment that has seen a particular surge in activity during the pandemic. Prices have risen considerably across Denmark, but it is particularly in the Greater Copenhagen area that they are really booming.

House price increases are driven by a surge in housing transactions. Thirty per cent more homes are sold each month than before the pandemic, and housing market activity is at a historically high level, though it fell slightly in April.

The momentum is really strong. In itself, such momentum is cause for raised eyebrows.

The large number of transactions could be the result of a change in Danish housing demand during the pandemic. We have not been able to travel or go to restaurants the way we used to. And we have had to work from home. This may have prompted many Danes to prioritise or bring forward home purchases.

At the same time, the pandemic may have caused homeowners who were planning to downsize or leave the housing market to postpone their sales plans. If the supply of homes does not increase, this alone will result in higher prices.

Red flags are emerging in some segments of the housing market, especially in large urban areas and particularly in Copenhagen. In these locations, the housing burden for owners of owner-occupied flats is relatively high – a trend we have seen in recent years.

Moreover, lending has tended to grow faster than incomes in Copenhagen since 2015. As a result, the loan-to-disposable-income ratio is approaching pre-financial crisis levels.

So, overall, Copenhagen homeowners have become more exposed to a potential fall in their income and to rising interest rates.

Interest rates are currently at a record low, and in 2020 we saw the first increase for years in loans with deferred amortisation. These loans are particularly popular among the most indebted homeowners, with half of the borrowers taking out loans with deferred amortisation.

It is not expedient for such a high proportion of this group to opt for deferred-amortisation loans. Rather, a sound principle for people raising a large amount of debt should be to reduce it to a lower level.

This means that, overall, we are seeing more signs of risk-building due to rising house prices – especially in the Greater Copenhagen area. So vigilance is called for.

As you may have noticed, the Systemic Risk Council has announced that, at its next meeting in June, it expects to recommend to the government that new measures be taken to limit risk building due to higher house prices.

Preventing unsustainable risk building is important. Consequently, measures to smooth housing market fluctuations could usefully be considered.

Such measures could include amortisation requirements for the most indebted homeowners or a lower tax deduction for interest costs. It is also essential that the new housing taxation system – which fluctuates with house prices – is introduced as scheduled in 2024. These measures will have a structural, stabilising impact on the housing market – now and in future.

PART 2: CLIMATE CHANGE AND THE ROLE OF THE FINANCIAL SECTOR

Slide 6

I will move on to talk about climate change and the transition to a green economy – and not least how you – the financial sector – play a key role on the path to achieving the important climate targets.

Climate change and the transition to a green economy are among the greatest challenges facing our society.

We will all be affected. And we all need to decide what our contribution will be. We at Danmarks Nationalbank are no exception – nor are you at your local banks.

The coronavirus crisis and climate change share a common feature: in both cases, society must transition to a new reality within a very short space of time. Also in both cases, this has major economic implications.

But the two transitions differ in that the coronavirus restrictions are temporary, while the green transition is here to stay. Therefore, the economic impacts of the green transition will be higher than those of the coronavirus crisis.

Slide 7

In this part of my presentation, I will address the objectives of a transition to a green economy. I will talk about necessary policy measures – and how the transition will impact the financial system.

And I will talk about the role of the financial sector in the transition to more climate-friendly production and lifestyle.

Then, I will move on to the role of central banks in the transition – and, more specifically, Danmarks Nationalbank's role and climate efforts.

It is relatively new for central banks to address the issue of climate change. But doing so is completely natural.

Let me be absolutely clear: It is not Danmarks Nationalbank's responsibility to drive the transition to a green economy. But it is our role to ensure that Denmark has a robust economy and to contribute to financial stability.

To this end, Danmarks Nationalbank must consider how climate change and the transition impact the economic cycle and the financial system.

By doing so, we help to support – and provide a sound framework for – the transition.

Slide 8

The objectives of the Paris Climate Accord and the Danish Climate Act are absolutely essential. They serve as a good starting point for climate action that promotes behavioural change and ensures the necessary investment.

And the private sector is taking more and more important initiatives to achieve the climate targets.

I will mention the following examples from the financial sector:

- pension funds make green investments;
- banks and mortgage credit institutions issue green loans and bonds; and
- your business association, *Finance Denmark*, has developed a model for calculating the total financed carbon footprint of loans and investments.[2]

Manufacturing companies are also reducing their carbon footprint, for instance, by focusing on energy efficiency and through research and development in green technologies.

These sympathetic initiatives provide essential contributions to the green transition.

When the private sector takes so many important initiatives, it is because it is increasingly clear that green initiatives make good business sense – in terms of balance sheets and bottom lines.

So, the driving forces are bottom lines and balance sheets, which is exactly as it should be in a market economy. That is how healthy competition works.

But it is not enough. Despite sound private initiatives, projections by the Danish Council on Climate Change, among others, show that Denmark is a long way away from meeting the 70 per cent target by 2030 and the 2050 climate neutrality target.[3]

In other words, more action is needed to boost society's bottom line.

The reason is that corporate bottom lines do not fully capture the social costs of corporate greenhouse emissions.

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[2] Finance Denmark, "CO_2-model for den finansielle sektor: Principper for måling og opgørelse af finansierede emissioner fra udlån og investeringer" (in Danish only), November 2020.

[3] Danish Council on Climate Change, "Known paths and new tracks to 70 per cent reduction: Direction and measures for the next 10 years climate action in Denmark" (English summary), March 2020.
Danish Council on Climate Change, "Status Outlook 2021: Denmark's national and global climate efforts" (English summary), February 2021.

This is also the case even though consumers increasingly demand green products.

In consequence, policy measures are necessary.

Slide 9
A key purpose of policy measures is to bring about a level playing field. Green investment should be profitable for all companies, while healthy competition is maintained.

Policy measures should ensure that businesses investing in, say, energy efficient technology are not outcompeted by non-green businesses.

Without the policy measures, green manufacturers face the risk of being outcompeted.

Ideally, the policy measures should be global, as global warming makes no distinction between emission locations.[4]

However, agreement on an effective global solution to climate change is not just around the corner, so national measures are needed.

Slide 10
The policy tools to ensure the transition come in three forms: inclusion, investment and information.[5]

By inclusion, I mean that the social costs of global warming should be included in the price of greenhouse gas emissions.

There are different ways of doing so. Many economists point to tax incentives. And especially greenhouse gas taxes that are seen as a cost-effective tool for ensuring that greenhouse gas emissions are priced.[6]

Another way of ensuring inclusion is through technical standards aimed at lower greenhouse gas emissions.

Technical standards implicitly raise the costs of greenhouse gas emissions. This means that the social costs of emissions are included in the prices faced by consumers.

Ultimately, the goal of inclusion is to lower demand for and supply of greenhouse gas-intensive goods and services.

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4 IMF, "Fiscal Monitor: How to Mitigate Climate Change", IMF, October 2019.
5 The concepts "inclusion", "investment" and "information" are inspired by ECB President Christine Lagarde's speech at the *BIS Innovation Summit 2021*.
6 Danish Economic Councils, "Economy and Environment, 2020: Danish climate policy towards 2030" (English summary), March 2021.

Next, we come to investment. Both public and private investment is needed. They should "go hand-in-hand".

For instance, public infrastructure investment is important and may serve as a catalyst for private know-how and financing.

At the same time, private investment in green research and development and in energy renovation is key.

Finally, we come to the concept of information. Requirements on manufacturing companies to report on greenhouse gas emissions – also through their value chains – are particularly important.

This increases the transparency of corporate dependence on greenhouse gas emissions – and makes it easier for banks and investors to assess just how vulnerable business models are to the transition.

The literature emphasises that, when it comes to inclusion, investment and information, clarity about which measures will take effect, and when, is essential.[7]

When measures have been clearly announced all the way to 2030, companies and households will have the information they need to transition. Then, it will be clear how much companies and households will save by investing in lower emissions today.

Thus, clarity adds clout to the measures that must ensure that the transition takes place.

Uncertainty about future measures conversely causes many potential investors to wait for clarity before making significant investments.

This could delay the transition and make it more expensive.

Financial stability may also be challenged if a delayed transition means that, at the stroke of a pen, business models are not profitable when climate measures are finally unexpectedly implemented.

You may have noticed that monetary policy and financial regulation are not included on the slide.

Obviously, monetary policy and regulation must adapt to climate change and the transition to a green economy. However, they cannot drive the transition.

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[7] Models for greenhouse gas taxation provide for a tax growth rate between the risk-free interest rate and the economic growth rate, see Frederick van der Ploeg, "Macro-Financial Implications of Climate Change and the Carbon Transition", outline, ECB Forum on Central Banking 2020: Central banks in a shifting world, October 2020.

Monetary policy instruments – for instance green asset purchase programmes – can, at best, emulate the impact of tax incentives or green government investment funds.

The policies are similar in that they make some forms of investment more expensive – and others cheaper.

The same applies to financial regulation. Manipulation of risk weights here away from a risk-based approach can make green lending more attractive for banks.

But if we compare with tax instruments and government funds, there are no advantages to using monetary policy instruments to support a green transition. That is important for me to underline.

On the other hand, there are a great number of disadvantages:

First, central banks do not have the expertise of the financial sector in risk management of loans to manufacturing companies.

Second, the use of monetary policy tools could conflict with other monetary policy goals, for instance the Danish fixed exchange rate policy.

Third, we do not have the public and democratic legitimacy necessary to make the policy choices and trade-offs involved in crafting climate policy.

So, overall, Danmarks Nationalbank cannot compete with fiscal policy in ensuring the transition to a green economy.

This does not mean to say that we do not have a role to play – or that we do not contribute to the transition – because we do. But before I get to that role, let us touch on your role – the role of the financial sector.

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The financial sector is at the centre of the transition, due to its important role in society as an intermediator of finance for new investments.

In this way, the sector plays a key role in the necessary reallocation of finance from unsustainable projects to profitable green projects.

Here, traditional financial crafts come to the fore: credit assessment and risk management.

It is therefore particularly important for the financial sector to have strong skills and an understanding of the implications of climate change and the transition. Fortunately, the financial sector is already well on the way in developing these competencies.

The transition will require large-scale investment in electric cars, additional insulation of houses, wind farms and so on. The good news is that financing conditions are very accommodative right now.

Interest rates are low, and there is no shortage of access to credit. This is due, among other factors, to a high global propensity to save.[8]

Slide 12
Now, I would like to start addressing three important issues relating to Danmarks Nationalbank's role and efforts with regard to the climate.

The key issues are:

- Why has the climate become a focal point for central banks?
- How does the climate impact Danmarks Nationalbank's responsibilities?
- How does Danmarks Nationalbank work with climate change?

Slide 13
Climate change efforts are expanding rapidly in many central banks across the world.

This is reflected in the Financial Times and on Twitter – with an increasing number of articles and tweets mentioning climate change and central banks in recent years.

Another example of this trend is the review of the ECB's monetary policy strategy, which is currently underway – and is expected to be published this year. Here, climate change is a main topic.

Why has the climate become a focal point for central banks, when ensuring the transition to a green economy is not their responsibility?

The explanation is that, over the past few years, it has become increasingly clear that climate change and the transition have the potential to challenge the price and financial stability objectives of central banks.

Many central banks concordantly take climate change into account, because it is their responsibility to ensure stable prices and financial stability.

It is essential to understand and respond to climate change and the transition to fulfil the mandate.

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8 Jesper Pedersen, "The Danish Natural Real Rate of Interest and Secular Stagnation", Working Paper, No. 94, Danmarks Nationalbank, March 2015.

You might say that taking the climate into account has become due diligence for central banks. Something we need to master.

Slide 14
As Denmark's central bank, Danmarks Nationalbank has three main objectives: to ensure stable prices and contribute to financial stability and safe payments.

Climate change and the transition to a green economy have an impact on both the first and second objectives.

Stable prices first:

This objective is aligned with that of other central banks with inflation targets – but in Denmark, we stand out by ensuring stable prices through our fixed exchange rate policy. The ultimate goal is the same: to ensure a robust economy and a smooth economic cycle.

Climate change and the transition will be among the most important factors affecting the Danish economy in the coming decades.

We need to understand how these factors will impact the business cycle and price setting in Denmark. To this end, we perform extensive analyses.

The challenges originate from climate change, as well as from the transition.

Let us start with physical climate change. Viewed in isolation, a warmer climate may bring both advantages and disadvantages for the Danish economy.[9]

For instance, the crop yield could rise or the tourism industry may grow.

But droughts may also cause crop yields to fluctuate from year to year – thus being more uncertain. This will affect food prices and the business cycle.

If there are more floods, buildings and machinery will be destroyed.[10]

Climate change is likely to affect countries south of Denmark much more severely. This could have large negative implications for Danish exports and lead to political instability and increased migration pressures.[11]

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[9] Marshall Burke, Solomon M. Hsiang and Edward Miguel, "Global non-linear effect of temperature on economic production", *Nature*, vol. 527, pp. 235–239, October 2015.
[10] Miles Parker, "The impact of disasters on inflation", Working Paper, No. 1982, ECB, November 2016.
[11] Matteo Ferrazzi, Fotios Kalantzis, Sanne Zwart and Tessa Bending, "What's your climate change risk?", European Investment Bank, April 2021.

Let us turn now to the implications of the transition. Here, greenhouse gas taxes may lead to higher costs in industries with high emissions. This could temporarily bring along higher inflation.

Accordingly, higher costs may cause job losses, if the affected companies cannot transition through technology.

But other jobs are also created, and the overall employment impact is uncertain. For instance, more skilled labour may be needed – among other reasons, to install new technology and for energy renovation projects.[12] This may result in bottlenecks – and labour shortages – in other industries.[13]

Both global warming and the transition may impact investment needs and saving in Denmark and globally – and, by extension, interest rates, the current account and fiscal sustainability.[14]

At Danmarks Nationalbank, we keep a close eye on these factors. And that is precisely the reason why we are conducting analyses and studies.

Slide 15

Danmarks Nationalbank's responsibility is also to oversee and contribute to financial stability.

The concern in this respect is that financial stability could be challenged by both climate change and the transition.

Let me give you some examples:

Many of you have probably noticed that Denmark has experienced several severe floods during recent years.[15] Floods – or expectations of floods – pose a risk to the housing market.

If global warming causes more floods, house prices in the affected areas could fall. This would reduce the value of mortgage collateral. As a result, banks and mortgage credit institutions may incur losses on mortgage loans.

If the losses occur on a sufficiently grand scale, it could be a problem for the entire financial sector.

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[12] Nicoletta Batini, Mario Di Serio, Matteo Fragetta, Giovanni Melina, and Anthony Waldron, "Building Back Better: How Big Are Green Spending Multipliers?", *IMF Working Paper*, March 2021.

[13] Estimates show that the number of jobs created in, for instance, the manufacturing industry and private service sectors may, more or less, be equal to the number of jobs lost in agriculture and the food industry to achieve the 70 per cent target by 2030, see Danish Economic Councils, "Economy and Environment, 2020: Danish climate policy towards 2030" (English summary), March 2021.

[14] Alexander Dietrich, Gernot Müller and Raphael Schoenle, "The Expectations Channel of Climate Change: Implications for Monetary Policy", Discussion Paper, No. 15866, Centre for Economic Policy Research.

[15] The global average number of floods per year increased from 26 in 1970-1979 to 147 floods in 2010-2019, according to data from "OFDA/CRED International Disaster Database", Centre for Research on the Epidemiology of Disasters, Université Catholique de Louvain.

If we next turn to the transition, it could produce various types of "stranded" assets.

A "stranded" asset is an asset that suddenly loses its value. For instance, equities in a high-emission corporation whose business model suddenly becomes unprofitable due to the implementation of greenhouse gas taxation.

Another example is housing, where higher energy costs could send house prices plunging, because heating is expensive.

Those types of "stranded" assets generate losses for asset owners.

The losses could spill over to banks or mortgage credit institutions if they own the assets themselves – or if the banks or mortgage credit institutions have granted loans to asset owners who are then unable to repay their debts.

If large banks are affected – or too many small banks are affected at the same time – this could be a problem the entire financial sector.

Danmarks Nationalbank focuses on the financial implications of climate change and the transition to a green economy through various types of analysis. Again, this list is not exhaustive.

For instance, we stress test how the financial sector will perform during the transition if the sector has to write down corporate debt.[16] This is again the "stranded" assets, I am referring to.

Examining the risk of flooding to homes is another focus area – and whether this risk affects house prices and mortgage lending.[17]

We also examine whether banks and investors are pricing climate risk.[18]

A major challenge is lack of transparency and information about the exposure of companies – and, by extension, financial institutions – to climate change and the transition.

In this context, enhanced reporting of corporate dependence on greenhouse gas emissions is essential.

Again, it is the concept of information – which I mentioned earlier, when I talked about inclusion, investment and information.

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16 Olivia Helmersen, Søren Korsgaard and Rasmus Pank Roulund, "A gradual green transition supports financial stability", Analysis, No. 21, Danmarks Nationalbank, November 2020.

17 Danmarks Nationalbank, "Climate change can have a spillover effect on financial stability", Analysis, No. 26, December 2019.

18 Rastin Matin and Renato Faccini, "Are climate change risks priced in the US stock market?", Analysis, No. 3, Danmarks Nationalbank.

Information is a precondition for enabling banks and mortgage credit institutions to take climate risks into account in their risk management and capital planning.

Slide 16

So far, I have been talking about climate change and Danmarks Nationalbank in general terms. Now, I will give you a brief rundown of how the bank has organised its climate efforts.

The analytical aspects of the work are anchored in our analytical agenda, which involves various departments across the bank. This suitably reflects that climate change issues are interdisciplinary in nature – requiring interdisciplinary solutions.

We conduct macroeconomic and financial analyses – such as the stress tests I mentioned earlier.

We also exchange knowledge and build competencies through our participation in external collaboration, mainly in the *Network for Greening the Financial System*, which is an international network of central banks and supervision authorities.[19]

And we follow the progress of the Danish Ministry of Finance's *GreenREFORM* model, which is a climate-economic model for the Danish economy.[20]

We are also exploring the possibility of issuing green government bonds on behalf of the Ministry of Finance. The purpose is to ensure cheaper green public investment – and to support the development of green financial markets.

Finally, our objective is to invest the Danish foreign exchange reserve in a sustainable manner.

More specifically, we do so by excluding assets that do not meet the standards of the *UN Global Compact's Principles* for responsible investment. These principles are based on the UN Sustainable Development Goals and, therefore, include sustainability goals.

We are continuing our sustainability efforts.

As part of these efforts, we examine how to measure whether the corporations in which the foreign exchange reserve is invested are transitioning in alignment with the Paris Climate Accord.

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[19] Website: www.ngfs.net/en.
[20] Website: https://dreamgroup.dk/greenreform/.

We are also examining how to measure the carbon footprint of the bank's physical operations.

Our aim is to ensure that our actions are aligned with the Danish Parliament's (*Folketinget*) climate objectives.

Slide 17
So, what is Danmarks Nationalbank's contribution to the transition?

As I mentioned earlier, Danmarks Nationalbank's objective is to ensure that Denmark has a robust economy – with stable prices and financial stability.

A robust and stable economy provides the best possible conditions for facilitating the transition. That way, we, at Danmarks Nationalbank, are helping to support the transition of the Danish economy and society.

Stable planning horizons for companies and households create better conditions for long-term investment.

Stability also expands the fiscal scope – and ensures low financing costs. And that makes green investments more affordable.

In addition to this important task, we also contribute in many other respects.

In itself, increased knowledge and data about the implications of climate change and the transition for the financial sector may contribute to the transition.

This could happen if increased attention to climate risk by banks and investors strengthens the pricing of this type of risk.

As a positive side effect, this will help to mitigate climate change, because investors will find it riskier to back companies that do not transition.

On the other hand, companies that are able to substantiate that they are carbon-effective may benefit from cheap financing conditions. So, overall, the transition incentive is strengthened when climate risks are priced.

That is why enhanced information about climate risk is so important.

Slide 18
I would like to round off my talk with a brief recap of some of my main points:

A concrete implication of the climate crisis is that it impacts our economy by forcing us to adapt at multiple levels: our conduct and our way of production.

The financial sector is a key partner in the transition to a green economy.

The sector's task is to provide capital for the necessary investment – and to ensure that the projects launched are profitable and prudently risk-managed.

But private initiatives – driven by a demand for green solutions – cannot stand alone.

To ensure the transition, the private initiatives must "go hand-in-hand" with fiscal measures.

Clear announcement, also of future fiscal measures, is essential. This provides companies and households with the important information and the incentive to make the necessary adjustments to transition to a new world.

Danmarks Nationalbank's mandate is to ensure that Denmark has a robust economy – and the robust economy is a prerequisite for the green transition.

We and fellow central banks contribute to these efforts. At Danmarks Nationalbank, we do so through analyses and stress tests, among other things.

The point is that by taking into account how the climate and the transition impact the business cycle and the financial system, we can support the transition.

However, it is fiscal policy "hand-in-hand" with private initiatives – and supported by economic and financial stability – that are supposed to ensure the transition.

Consequently, it is essential that political measures and the private sector ensure the following:

- first, inclusion of the social costs of emissions in the prices faced by consumers;
- second, investment in green technologies;
- and third, information about how companies and households will be impacted financially by climate change and the green transition.

Thank you for your attention.