

# STATEMENT BY DANMARKS NATIONALBANK IN CONNECTION WITH COP26

November 3, 2021

Climate change is impacting society today, and will have further consequences in the future. A successful transition to a green economy requires unprecedented efforts. Both climate change and the transition will affect the economy and financial system in Denmark and abroad.

It is the objective of Danmarks Nationalbank to ensure a robust economy with stable prices and a stable financial system. For this purpose, Danmarks Nationalbank is working to understand how climate change and the transition impact the economy and the financial system.

Climate change and the transition are global in nature, with cross-border implications. A natural consequence of this is to work together internationally. To this end, Danmarks Nationalbank has been a member of the *Network for Greening the Financial System* since 2019. In this forum, Danmarks Nationalbank engages in various workstreams to share knowledge and develop best practice with other members.

In 2019, the *Network for Greening the Financial System* developed six recommendations.<sup>1</sup> The recommendations call on central banks and supervisory authorities to enhance their role in the greening of the financial system and in managing climate-related financial risks. This statement describes how Danmarks Nationalbank works towards the recommendations.

Danmarks Nationalbank publishes the statement in connection with the 26th Conference of the Parties (COP26) to the *United Nations Framework Convention on Climate Change*. The conference follows the ambitions of the Paris Agreement from COP21 to limit the increase in the global aver-

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<sup>1</sup> Network for Greening the Financial System, *A call for action: Climate change as a source of financial risk*, April 2019.

age temperature, requiring countries to undertake rapid reductions of greenhouse gas emissions. Under its mandate, Danmarks Nationalbank commits to continue to address the impact of climate change and the transition on price and financial stability.

**Recommendation no. 1: Integrating climate-related risks into financial stability monitoring and micro-supervision**

- Danmarks Nationalbank will continue to integrate climate-related financial risks into its monitoring and assessment of risks to the financial system. The efforts contribute to fulfilling Danmarks Nationalbank's objective to safeguard financial stability.
- Danmarks Nationalbank has already assessed the impact of flooding on house prices and credit institutions' exposures collateralised by real estate, as well as expectations of climate-related risks in the US equity market. Moreover, Danmarks Nationalbank has stress tested the exposure of credit institutions to the transition to a green economy.
- Danmarks Nationalbank will continue to assess climate-related risks. This includes examining the response of credit institutions to flood risk, expectations of climate-related risks in European financial markets, and risks associated with rising energy prices and loans aimed at energy retrofitting of buildings. It also includes work to further develop climate-related stress tests.

**Recommendation no. 2: Integrating sustainability factors into own-portfolio management**

- Danmarks Nationalbank screens for a number of criteria when investing the foreign exchange reserve, including violation of the United Nations' *Global Compact* principles for human rights, labour rights, the environment, and anti-corruption. Accordingly, shares and bonds issued by companies that violate these responsibility principles are excluded from the foreign exchange reserve.
- Danmarks Nationalbank aims to invest its foreign exchange reserve in alignment with the climate goals of the Paris Agreement.

**Recommendation no. 3: Bridging the data gaps**

- Danmarks Nationalbank will build knowledge around data on environmental, social, and corporate governance factors in companies. The aim is to gain a better understanding of different sources of data

on greenhouse gas emissions from households, companies, and countries.

- Danmarks Nationalbank intends to use data on environmental, social, and corporate governance factors in companies in its bank-wide analytical work. The data could be used to identify Danish and foreign companies' current and expected future greenhouse gas emissions and ultimately Danish financial institutions' climate-related exposures.

**Recommendation no. 4: Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing**

- Danmarks Nationalbank will continue to share its knowledge about the implications of climate change and the transition to a green economy with the public. Dissemination channels include publication of analytical work, presentations, speeches, and coverage in news media.
- Danmarks Nationalbank will continue to engage with the financial sector, relevant authorities, and the political system on climate-related consequences.
- Danmarks Nationalbank will continue to participate in the development of the *GreenREFORM* model with focus on improving the model's ability to capture international and macro-financial linkages. The *GreenREFORM* model is a climate-economic model of the Danish economy.

**Recommendation no. 5: Achieving robust and internationally consistent climate and environment-related disclosure**

- Danmarks Nationalbank is exploring how to measure and disclose the greenhouse gas footprint from its physical operations. The aim is for the measurement to be consistent with international accounting and reporting standards.
- Danmarks Nationalbank is chairing a working party to prepare recommendations on climate-related financial disclosure for central banks, under the auspices of the *Network for Greening the Financial System*. Climate-related disclosures increase the awareness and transparency about climate-related risks.

**Recommendation no. 6: Supporting the development of a taxonomy of economic activities**

- Danmarks Nationalbank agrees that development of taxonomies for polluting and climate-friendly, respectively, economic activity is cru-

cial, in order to manage climate-related financial risks and support green financial markets.

#### **Other initiatives**

- Danmarks Nationalbank is exploring the possibility of issuing green government bonds, together with the Ministry of Finance. Issuance of green government bonds contributes to an establishment of green financial markets and accommodates a large demand among Danish and international investors.
- Danmarks Nationalbank has continuous focus on ensuring sustainable internal management of resources, including reducing greenhouse gas emissions. This is done through, among other initiatives, measurement of greenhouse gas footprint, as well as environment- and climate-friendly policies for procurement, circular economy, travel, and energy management. Reduction of greenhouse gas emissions is also a strategic focus in the restoration and renovation of Danmarks Nationalbank's main building.