Banque de France – "Research Conference on Climate- and Nature-Related Risks in the Economic and Financial Systems"

Jeudi 12 mars 2026

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Let me thank all of you for your contributions and for attending this two-day conference. I'm impressed by the speed of knowledge-building in this area of research.

We received nearly 200 submissions.

The volume and the quality of the work show that research on climate and nature-related economic and financial risks remains extremely dynamic.

Policymakers in general, and central banks in particular need to rely on solid research and data when they incorporate climate and nature-related issues in their strategies and policy decisions. So, thank you for your efforts.

Consistently, let me start with my takeaways from the conference

From the different contributions, I would like to highlight three key messages.

1. **Climate- and nature-related physical risks cannot be ignored from a macroeconomic standpoint**

Physical risks, whether related to climate or to ecosystem degradation, are no longer a distant concern. They are already disrupting economic activity and affecting inflation, productivity and fiscal sustainability.

One paper[1] [by Sarah Duffy] presented here showed how climate-related physical risks are reflected in sovereign borrowing costs.

Countries that are most vulnerable to climate shocks face higher borrowing rates, especially when their adaptive capacity is limited.

[1] Duffy S., *Climate Change, Adaption, and Sovereign Risk*

These higher financing costs reduce fiscal space, constrain public investment, and further increase the costs of future natural disasters. Hence a feedback loop.

2. **Physical risks matter for financial stability.**

Banks, insurers, and markets are exposed through credit portfolios, underwriting activities, and asset valuation.

Some papers in the conference show that investors are increasingly accounting for nature-related risks, in particular for water scarcity[2], [as shown by Romulo Alves and his co-authors] and, partly, for deforestation risk[3] [as shown by Marc-Philipp Bohnet and his co-authors].

Another contribution [by Koen von den Bosch and his co-authors[4]] showed that climate-related disasters weaken insurers' capital adequacy ratios.

As extreme events intensify, insurers respond by raising premiums or withdrawing coverage, leading to increasing insurance gaps and rippling effects.

With less coverage, households and firms absorb larger losses. Defaults rise and banks' balance sheets are also threatened.

Risk shifts from insurers to households, to banks, and ultimately to governments.

3. **Transition risks are amplified by policy uncertainty**

Transition risks do not stem only from climate and nature mitigation policies. They also arise when existing measures are paused or dismantled. Such stop-and-go creates detrimental uncertainty about public action.

Another paper [by Aras Canipek and his co-authors[5]] presented during the conference examined whether banks account for firms' dependency on nature when pricing syndicated loans. They do.

Firms that rely heavily on ecosystem services face higher borrowing costs, and this pricing is sensitive to policy changes: when the U.S. Endangered Species Act were relaxed in 2019, loan spreads for nature-dependent firms declined.

This suggests that lenders price nature-dependency based on the regulatory constraints linked to biodiversity protection. They don't price the physical risks coming from ecosystem degradation.

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[2] *Thirsty for Returns? The Impact of Water Risk on the Global Stock Market* — Rómulo Alves / Thalassa de Waal / Marloes Hagens / Eline ten Bosch / Mathijs van Dijk

[3] *Not Just Knocking on Wood: The Short- and Long-Term Pricing of Deforestation Risk on Global Financial Markets* — Marc-Philipp Bohnet / Philip Fliegel / Tycho Max Syl-vester Tax.

[4] van den Bosch, K., Kolerus, C., Pereira, J., *Financial Stability and Natural Disasters under Endogenous Adaptation*

[5] Canipek, A., Kundu, S., Tresl, J., Zimmermann, L., *Nature-Related Risks in Syndicated Lending*

Indeed, the firms' exposures to ecosystem disruption did not change after the relaxation of the regulation. Instead, regulatory backtracking reduced the pricing of those risks, creating blindspots, and potential for abrupt repricing in the future.

Another study [by Olivier de Bandt and his co-authors], relying on European and French climate stress-tests, shows that clear policy messages do increase awareness and provide effective incentives for banks' green transition.[6]

It is particularly encouraging to see so many high-quality studies continue to be produced on climate- and nature-related risks.

All this work is conducted in a shifting political environment.

In such a context, research becomes even more essential to continue showing the right path, regardless of the political cycle. This is the appropriate, "look through" approach, as physical risk does not follow the political cycle.

Faced with material climate- and nature-related risks, central banks are active

Banque de France and ACPR remain fully committed to move forward with the work on climate and nature related risks, as part of their mandate of price and financial stability.

Climate change and nature degradation are global challenges that must be tackled collectively, at all levels. We are involved in all of them: international, European, national, and as a corporation.

1. **BdF hosts the secretariat of the NGFS – Network for Greening the Financial System**

Today, the NGFS includes 149 central banks and supervisors around the world, working together to better assess and integrate climate and nature-related risks in monetary policy and bank supervision.

The NGFS has been very active in advancing central banks and supervisors' tools on climate and nature-related risks across all facets of their mandate. Here are three recent examples:

- On climate scenarios, the NGFS published short-term adverse scenarios for the first time in 2025. These scenarios are the first publicly available tool to analyze the immediate effects of climate policies and climate change on financial stability and economic resilience.

[6] de Bandt, O, Nefzi, D. and J. Werner "*Stress Testing European Banks' Transition Risk and Lending Behavior"*.

- On monetary policy, a recent report of the NGFS explores the different options to incorporate climate change considerations into monetary policy operations, covering both the asset and liability sides of central banks' balance sheets.
- On nature: beyond climate, the NGFS plays a key role in helping to integrate nature-related risks in central banks and supervisors' toolkits. The NGFS will soon publish a new package of reports on nature. It will show how existing data and methods can already be used by central banks and supervisors.

2. International cooperation

France is holding the Presidency of the G7 in 2026.

In this context, we are fostering important discussions on the economic consequences of extreme weather events, and on solutions to better assess and address insurance protection gaps.

The French Presidency has asked the NGFS to provide a technical note that describes case studies based on past extreme weather events that occurred around the world between 2016 and 2025.

Last week, I had the privilege to present the first results of this work to my G7 Deputies colleagues.

The input was well received, the economic and financial impacts of extreme weather events are widely recognized, and several deputies insisted on their satisfaction to see this topic still on the agenda of the French presidency of the G7.

3. Now let me zoom in on Europe, with two concrete examples

First: action vis-à-vis climate-related risk. In July last year, the Governing council of the ECB decided to adapt its collateral framework to account for climate-related risk. Starting in July this year, a climate factor will be applied to certain individual assets, on top of regular evaluation of eligible collateral.

Second: research on physical risks. In 2025, Banque de France launched a two-year collaboration with several EU central banks, including the ECB and the Bundesbank. The goal of this joint initiative is to assess the macroeconomic and financial materiality of water-related risks across Europe.

Our work will focus primarily on the macro-financial effects of droughts which lie at the intersection of climate and nature risks and affect many European countries every year.

Indeed, the summer of 2022 was a powerful reminder of how severe water scarcity can be for Europe.

The economic costs of river transport disruptions, for instance, are particularly high. In 2022, drought conditions caused water levels in the Rhine River to fall sharply, interrupting one of Europe's major trade routes.

Research finds that 30 days of such disruptions on the Rhine can decrease industrial production in Germany by 1%. This corresponds to a GDP loss of roughly 0.3%.[7]

Our European collaboration will also assess the consequences of water pollution.

It will measure the economic impact of PFAS, which are also referred to as "forever chemicals" because of their extreme persistence in the environment and human body.

According to the European Commission, the estimated net present value of depollution costs for the EU could reach up to €1.7 trillion by 2050, largely due to wastewater treatment costs.[8]

4. National cooperation

Banque de France has recently announced the launch of a research chair dedicated to the macroeconomic modelling of nature-related risks macroeconomic modelling.

This chair brings together leading French research institutions, including Paris School of Economics.

We are very committed to these partnerships, which help preserve and strengthen the credibility and long-term sustainability of the climate and nature agenda - especially at a time when this agenda is increasingly under pressure.

5. Leading by example

Finally, the BdF tries hard to lead by example. It has been ranked first in the ranking of the greenest central banks of the G20, by Positive Money.

Our new strategic plan for the period 2026-2028 reaffirms the importance of climate and nature for our missions. Just as the ECB did in 2025.

Like every year, Banque de France will publish its annual Sustainability Report in June.

a) From 2019 to 2024, our greenhouse gas emissions were cut by 32%. This includes scopes 1 and 2 plus a part of scope 3. (we are still waiting for the 2025 figure, to be published in June).
b) Over the same period (2019 to 2024), we reduced the water consumption of our paper mill by 30%. Almost 90% of our purchasing agents have followed a training on responsible procurement with respect to climate and nature.
c) Since 2023, our investment corporate portfolios have been aligned with the 1.5°C objective.

[7] Ademmer, Jannsen and Meuchelböck, 2023.
[8] European Commission: Directorate-General for Environment, WSP, Ricardo and Trinomics, *The cost of PFAS pollution for our society – Final report*, Publications Office of the European Union, 2026, The cost of PFAS pollution for our society - Publications Office of the EU

d) Last year BdF was the first central bank to publish its dependence and footprint on nature.

As for research:

- Currently, more than 50 research projects are being carried out at Banque de France on financial and macroeconomic risks linked to climate and nature.

In 2025, climate and nature-related research accounted for 21% of all Banque de France publications, exceeding our 15% target.

To conclude: the next steps for climate and nature

The quality of the presentations in the past two days illustrate that we can count on academic research to continue pushing further the research frontier about the mutual relations between climate, nature and the economy.

In this regard, we see several themes as of particular importance for the years to come:

1. Despite the international context - or perhaps precisely because of it - we must continue to work on credible transition pathways.

   We need to be realistic and consider the effects of geopolitical fragmentation on the implementation of green transition policies.

   But we should not focus solely on constraints: macroeconomic scenarios are relevant tools to show that transitions also bring opportunities. Not only in terms of innovation[9], employment and competitiveness but also in terms of energy independence and secure access to natural resources.

2. Because transition policies will not eliminate all damages, we must continue to improve our understanding of physical risks, from both a climate and a nature perspective, and enhance our adaptation strategies.

   In particular, we need to keep developing macroeconomic modelling, especially with an international lens, in order to incorporate international spillovers in the analysis.

   Looking, for instance, at the vulnerability of international supply chains to climate hazards.

3. We must strengthen our analysis of the implications of physical risk for the banking and insurance sectors.

[9] *Interest Rates and Energy Efficiency* — Òscar Jordà / Fernando Nechio / Toan Phan / Felipe Schwartzman

In particular, the insurance gap and the broader future of insurability should remain priorities for central banks and the financial community.

Thank you again for your participation to this conference.