

Is «Green Central Banking» a Good Idea?

Erdem Başçı

Comments

Ankara, TEPAV, 30 Jan 2025

Press Release

January 17, 2025

Federal Reserve Board announces it has withdrawn from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

For release at 1:30 p.m. EST

Share 

The Federal Reserve Board on Friday announced it has withdrawn from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

While the Board has appreciated the engagement with the NGFS and its members, the work of the NGFS has increasingly broadened in scope, covering a wider range of issues that are outside of the Board's statutory mandate.

The Macroeconomics of Green Transitions*

Gregor Boehl[†]
University of Bonn

Flora Budianto[‡]
TU Wien

Előd Takáts[§]
BIS

This Draft: November 2024

First Draft: October 2024

Abstract

The paper investigates the macroeconomics of an energy transition – a shift from brown to green energy production through carbon taxation. Using a medium-scale DSGE model with energy production sectors and endogenous innovation in the green energy sector, we show that an energy transition – initiated through a brown energy tax – resembles a large supply side shock, causing a surge in inflation and energy prices and a decline in consumption. Innovation increases the efficiency of green energy production and drives energy prices down in the medium run. We document that monetary policy plays a critical role for the dynamics and pace of the transition, even if the transition is not explicitly part of the policy rule. A monetary policy with less emphasis on inflation stabilization allows for temporarily higher inflation and energy prices, which boosts R&D and innovation, enhancing welfare and accelerating the transition.

Keywords: Energy transition, innovation, inflation dynamics, monetary policy

JEL-Codes: O44, E31, E52, E58

Mandates of Central Banks

- Dual Mandate (Federal Reserve)
- Price Stability, Goal Independence (ECB)
- Price Stability, Lexicographic (Other Central Banks)

Tools of Central Banks

- Communication
- Monetary Policy
- Prudential Policy

Warning words in a warming world: central bank communication and climate change

Emanuele Campiglio, Jérôme Deyris, Davide Romelli
and Ginevra Scalisi

January 2025



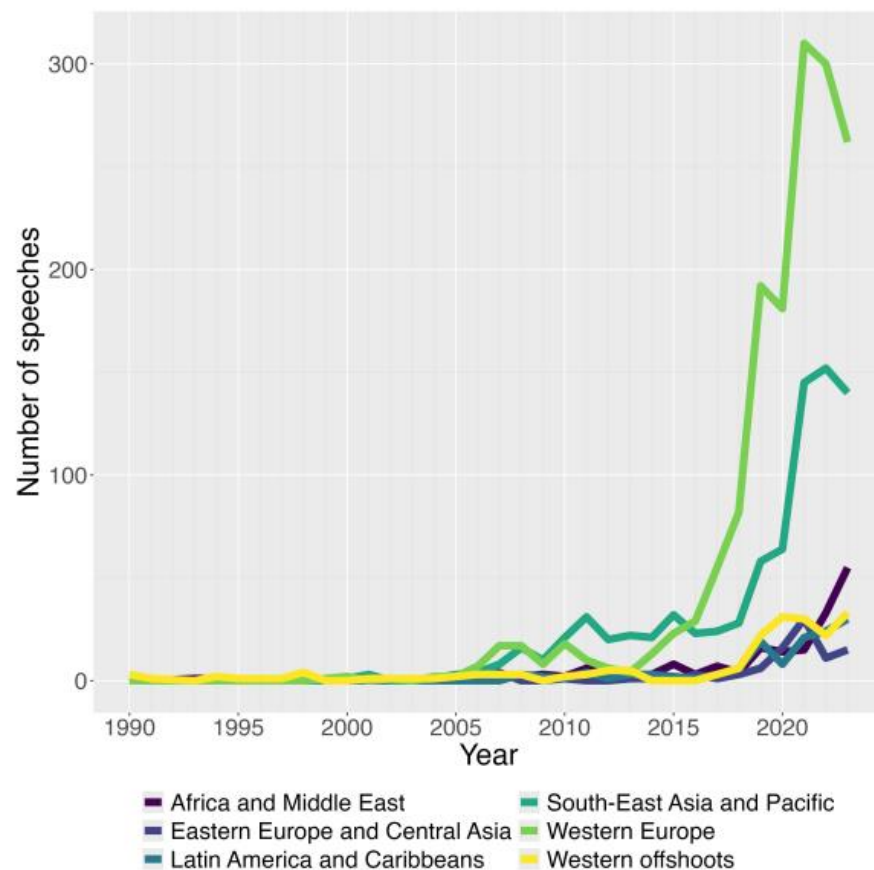
Communication - Speeches

- A rich data set which is freely available:
- <https://cbspeeches.com/>
- Cite: Campiglio et al. (2025)

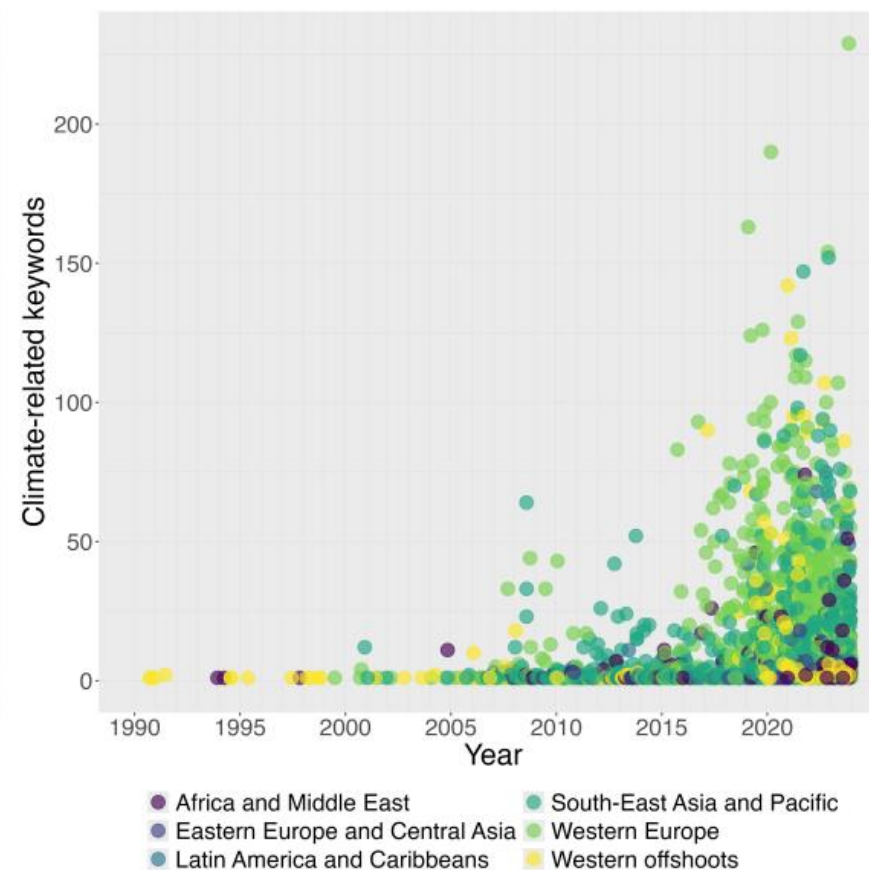
Table 2: Dictionary of climate-relevant n-grams

Keyword	Speeches #	Keyword	Speeches #	Keyword	Speeches #	Keyword	Speeches #
abrupt transition	19	brown penalising factors	3	carbon emission	68	carbon emissions	265
carbon price	62	carbon prices	56	carbon pricing	92	carbon tax	72
carbon taxes	62	climate action	177	climate actions	19	climate adaptation	29
climate aligned	8	climate change	2007	climate changes	34	climate crisis	122
climate damage	2	climate data	47	climate economics	5	climate event	4
climate events	60	climate exposure	1	climate exposures	7	climate extremes	6
climate finance	75	climate friendly	56	climate goals	67	climate harm	1
climate hazard	2	climate hazards	7	climate impact	44	climate impacts	19
climate metrics	3	climate minsky moment	15	climate policies	108	climate policy	151
climate protection	57	climate related	745	climate relevant	6	climate risk	432
climate risks	480	climate scenario	50	climate scenarios	110	climate science	20
climate sensitivity	3	climate shock	1	climate shocks	25	climate stability	9
climate stress test	63	climate stress tests	51	climatologist	2	climatologists	7
climatology	1	cotwo	174	decarbonise	43	decarbonised	10
decarbonising	23	decarbonization	59	decarbonize	9	decarbonized	9
decarbonizing	6	disorderly transition	51	disorderly transitions	4	environment risk	4
environment risks	3	environmental risk	122	environmental risks	276	global warming	341
green bond	240	green bonds	300	green economy	115	green finance	458
green finances	1	green investment	114	green investments	118	green monetary	6
green policies	10	green policy	13	green qe	6	green quantitative easing	8
green supporting factor	10	green supporting factors	5	green swan	27	green swans	8
green technologies	82	green technology	48	green transition	254	green transitions	6
greener	325	greenhouse	378	greening	529	low carbon	432
ngfs	357	paris agreement	274	physical risk	91	physical risks	237
stranded asset	4	stranded assets	68	sustainable finance	607	sustainable finances	12
sustainable investing	50	tcfd	139	transition risk	117	transition risks	310

Note: This table reports the list of keywords used in our dictionary. Speeches # indicates the number of speeches using each n-gram at least once.



(a) Climate speeches per year and region



(b) Climate-related keywords per speech

Figure 4: Temporal evolution of central bank climate-related communication

Tools of Central Banks

- Communication: Broadly useful, but handle with care
- Monetary Policy: Broadly risky
- Prudential Policy: Broadly useful, but design with care

Is «Green Central Banking» a Good Idea?

Erdem Başçı

Comments

Ankara, TEPAV, 30 Jan 2025