

New international standards encourage financial institutions to be more transparent about their exposure to climate related risks.

It is against this backdrop that the recent decision by the South African Reserve Bank (SARB) to join the Network on Greening the Financial System must be viewed. The Network consists of 42 central banks and banking supervisory authorities, including central banks from China, England, France, Malaysia, Mexico, the Netherlands and the European Central Bank.

The Network's aim is to promote effective environment and climate risk management in the financial sector. It also aims to mobilise mainstream finance to support the transition toward a sustainable economy. Its members recently warned that if banks don't adjust to climate change they will fail to exist.

The creation of the Network is an implicit acknowledgement that central banks and other financial sector regulators have not always paid adequate attention to the environmental impacts of the financial sector. The Network's existence is also an acknowledgement that the financial sector has a responsibility to become more environmentally responsible.

This is a challenge for central banks. Their independence requires them to act without fear or favour. But addressing climate change requires them to encourage financial institutions to favour certain types of activities over others. For example, the Lebanese central bank changes the amount of reserves it requires banks to hold against their deposits according to how much they lend for renewable energy projects.

If central banks do not discriminate, financial institutions may continue financing activities that increase greenhouse gas emissions. This can raise the risk of droughts, floods, and more extreme temperature variability. This in turn can affect