

International Network for Sustainable Financial Policy Insights, Research and Exchange (INSPIRE)

Fourth Call for Research Proposals

A Targeted Call on

Climate change and the macroeconomy - Implications for the conduct of monetary policy and the coordination of monetary, prudential and fiscal policy

1 October 2020

The impact of climate change on the conduct of monetary policy, as well as the contribution of monetary policy for the achievement of the Paris Agreement and the Sustainable Development Goals, are priorities in the NGFS research agenda. With this Fourth Call for Research Proposals, INSPIRE aims at supporting and complementing NGFS research in these areas.

The first part of this call seeks to advance research on the impacts of climate change and of the transition to a low-carbon economy on the macroeconomic variables that are key for monetary policy. It also aims at developing a better understanding of the implications of climate change and the transition to a low-carbon economy for the conduct of monetary policy and for its transmission to the real economy. Finally, it aims at getting a better grasp of the constraints that climate change and the transition to a low-carbon economy induce for other monetary policy objectives, as well as of which monetary policy frameworks are best suited to cope both with climate objectives and traditional policy objectives. The second part of this call focuses on the interactions between monetary, prudential, and fiscal policies. It aims at better understanding how these policy fields should and can be aligned or coordinated to achieve the Paris Agreement and the Sustainable Development Goals, as well as to mitigate physical and transition risks to the financial system.

The COVID-19 pandemic has shed a new light on the role of central banks and monetary policy in both the immediate stabilisation phase and the subsequent recovery. In this context, conventional and unconventional monetary policy instruments have been expanded, new instruments introduced and the interactions between monetary, prudential and fiscal policy has taken a new shape. Against this background, research proposals that highlight the lessons that central bankers and financial supervisors can draw from the COVID-19 crisis responses to advance the climate and environmental agenda will be of particular interest.

With this 4th call for research proposals, INSPIRE invites submissions on the following subject areas:

1. Impact of climate change, the transition to a low-carbon economy and related risks on macroeconomic variables and on the conduct of monetary policy:

- What are the impacts of more frequent and severe extreme weather events on macroeconomic factors relevant for monetary policy (e.g. price dynamics, employment, output gaps and inflation expectations)?
 - What are the longer-term structural effects of global warming on productivity, potential output, and economic growth?
 - What are the effects of the transition to a low-carbon economy on the macroeconomic factors relevant for monetary policy (e.g. price dynamics, employment, output gaps and inflation expectations)?
 - Do extreme weather events, global warming and the transition to a low-carbon economy affect the transmission channels of monetary policy – and how?
 - Do the monetary responses induced by extreme weather events, global warming and the transition to a low-carbon economy constrain central banks' policy responses to other economic shocks (e.g. countercyclical policies, unemployment)?
 - Which monetary policy regimes (e.g. inflation targeting, nominal GDP targeting) and implementation policies (interest rate policy, asset purchases policy) is best fitted to tackle climate change and transition challenges together with other policy objectives (inflation, unemployment, etc.)?
2. Coordination between monetary, prudential and fiscal policy in the context of climate change, the transition to a low-carbon economy and related risks:
- Which policy frameworks ensure an effective coordination of monetary, prudential and fiscal policies to achieve both monetary and environmental objectives?
 - What are the differences between scenarios in which monetary, fiscal and prudential policies are optimised jointly to achieve climate goals and scenarios in which they are set independently, as well as their consequences for policy recommendations?
 - How should monetary, prudential and fiscal policy be coordinated to minimize physical and transition risks for the financial system?
 - How could central banks and monetary policy support the greening of the financial system and the transition to sustainable economy through coordination with fiscal and prudential policy?
 - Which lessons from the monetary and fiscal policy response to the COVID-19 pandemic can be drawn and applied to green economies?

We encourage interdisciplinary teams and the use of interdisciplinary quantitative and qualitative approaches. To further build collaboration, joint projects between policy institutions and academia are strongly encouraged. Furthermore, we also particularly encourage research on the emerging and developing economy-context and research that will create real economy impact.

Details of submission

In this targeted call, INSPIRE aims to support projects with budgets between \$35,000-\$40,000. Projects should last for up to one year and should aim to produce a working paper or journal article. Priority in the selection will be given to work that is expected to substantially enhance the capacity of central banks and supervisors to manage climate-related financial risks and promote green finance. This call is open to all institutions conducting research, with a particular focus on researchers at academic institutions, non-profit organisations, NGOs and international financial and monetary institutions. All funded research would become publicly available.

Research proposals can be submitted via email to INSPIRE@climateworks.org using [this submission form](#). The submission period will span 4 weeks and ends **at 23:59 GMT on Saturday, 31 October 2020**.

The goals and background of INSPIRE

The International Network for Sustainable Financial Policy Insights, Research and Exchange (INSPIRE) has three goals: firstly, to commission independent, gold standard research and policy analysis on central bank and supervisory practice to manage climate risks and promote green finance; secondly, to convene researchers, policymakers and practitioners and thirdly, to widely communicate the results.

INSPIRE is a research stakeholder of the Network for Greening the Financial System (NGFS) and commissions research to inform the NGFS's work, as well as encourage the exchange of insights between researchers and central banks. The NGFS is a global network of central banks and supervisors working to "help strengthen the global response required to meet the goals of the Paris Agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development."

INSPIRE is a global, philanthropy-supported research platform established to commission independent, gold-standard research on the financial oversight of climate risks and the promotion of green finance. INSPIRE was created to support the members of the Network for Greening the Financial System (NGFS), a network of more than 70 central banks and supervisors, and 13 observer organizations from across the globe, as they work to enhance the financial system's ability to manage climate-related financial risks and mobilize capital for green and low-carbon investments. INSPIRE is hosted by ClimateWorks and the Grantham Research Institute at the London School of Economics, and commissions research guided by an Advisory Committee with domain expertise and close interface with the NGFS and its three workstreams. It operates independently from the NGFS, which has recognized INSPIRE as an official research stakeholder. For more information, please see: <https://www.climateworks.org/inspire/>