Sizing the risks and raising awareness: the Banque de France / ACPR experience in designing Climate Stress-Testing Exercises

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Abstract

The Banque de France and the ACPR have developed an analytical framework to quantify climate transition scenarios and assess the associated financial risks. Its first application for France gives an order of magnitude for the possible adversity of the scenarios published by the Central Banks and Supervisors Network for Greening the Financial System (NGFS). It reveals that, while these scenarios may lead to only moderate macroeconomic impacts by 2050, they will entail major structural transformations, which are a source of financial risks for those financial institutions that are particularly exposed to the most impacted sectors and firms. Under disorderly transition scenarios, certain firms would be significantly more likely to default and the credit risk of the exposed financial institutions would increase.

Keywords: Climate Stress Test, Scenario Analysis, Economic Modelling, Financial Stability

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