

Abdellatif Jouahri: Macroeconomic effects of climate change

Speech by Mr Abdellatif Jouahri, Governor of Bank Al-Maghrib (Central Bank of Morocco), at the conference organised in collaboration with the Bank of Spain, Rabat, 2 February 2024.

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Mr. the Governor of the Banco de España,
Ministers,
Mr. The President of The Finance and Economic Development Committee of the House of Representatives,
Mr. the Ambassador of Spain to Morocco,
Chairmen and General Directors
Dear friends and colleagues,
Ladies and Gentlemen,

It is a real pleasure for me to welcome you to Bank Al-Maghrib and thank you for accepting our invitation to this conference dedicated to the macroeconomic effects of climate change.

Special thanks go to our honorable guest speaker today, my friend Pablo Hernández de Cos, Governor of the Banco de España, who kindly agreed to make the trip to Morocco to share with us his insights and the experience of the Banco de España and the Euro system on the subject matter.

I would also like to extend a warm welcome to His Excellency Ricardo Díez-Hochleitner, Ambassador of Spain to Morocco. I seize this opportunity to express my heartfelt thanks to His Excellency, at the end of his mission in our country, for all the efforts he has made to deepen and strengthen ties between Morocco and Spain in general, and between Bank Al-Maghrib and the Banco de España in particular. With His Excellency, we initiated the idea of today's meeting, and I am delighted that it is taking shape before his departure.

I would like to express my sincere thanks as well to the Spanish firms based in Morocco. They are hundreds and they are making a tangible contribution alongside their Moroccan counterparts to the development of our country and the strengthening of its economic relations with Spain; our leading economic partner.

Ladies and Gentlemen,

Clearly, the relevance of the topic we are tackling needs no further demonstration. The manifestations of climate change are tangible, often taking the form of increasingly recurrent extreme events.

In Morocco, droughts and their repercussions, and increased water stress, are becoming the most worrying. Over and above the almost daily figures on temperature rises and low dam-filling rates, the overall assessments of the macroeconomic impact are cause for concern.

According to the World Bank estimates, in its Climate and Development report published in October 2022, the reduction in water availability and the drop in crop yields could reduce GDP by up to 6.5 percent and could result in out-migration to urban areas of up to 1.9 million Moroccans by 2050.

Fortunately, the public authorities are well aware of this situation. I won't go into an exhaustive inventory of what has been achieved; I'll just point out that the country was among the first to ratify international climate conventions, notably the United Nations Framework Convention on Climate Change 1995, the Kyoto Protocol in 2002 and the Paris Agreement in 2016. More recently, the kingdom has launched several major sectoral programs and strategies, including the "2020-2030 National Climate Plan"; the "National Low Carbon Strategy 2050"; the "2020-2050 National Water Plan". -

Aspirations in the energy sector are also high and the target set for 2030 is to achieve 52 per cent of the energy mix from renewable sources. Finally, it is worth recalling that in November 2021, Morocco submitted an updated Nationally Determined Contribution raising ambition to 45.5 percent reduction of its greenhouse gases emissions by 2030.

Regarding fiscal policy, the Framework Law on Taxation adopted in 2021 sets forth, as one of its objectives, promoting environmental protection, mainly through the introduction of a carbon tax. We believe that its successful implementation could have a significant impact.

That said, it should be noted that combating climate change and mitigating its impacts require the mobilization of massive funding in a global context marked by extremely high public and private debt rates and shrinking fiscal buffers. In the case of Morocco, the World Bank estimates the investment needed for the period 2022-2050 at around \$78 billion.

Ladies and Gentlemen,

One of the questions that arises in this context is related to the role of central banks. What is evident is that they will have to consider the impact of climate change in carrying-out their missions.

Indeed, this change affects growth, employment and inflation, the main variables on which monetary policy decisions are based. Besides, climate-related risks are bound to have an impact on the banking and insurance industries, and on financial stability in general.

However, the issue of central banks' contribution to the fight against climate change remains open to debate. Should they? Do they have the necessary capacity and resources? Are their toolkits adapted to the expansion of their mandates? What would be the consequences on their conventional missions? On their independence? -

Debate and discussions are ongoing within central banks and international bodies such as the Financial Stability Board and the Network for Greening the Financial System (NGFS), which brings together over a hundred central banks and financial supervisors.

Ladies and Gentlemen,

At Bank Al-Maghrib, we have been involved in these national and global efforts to combat climate change and its impacts for several years. In 2016, on the sidelines of COP22 held in Marrakech, the Bank rallied regulators and stakeholders in the national financial sector around a roadmap on sustainable finance.

In the same vein, Bank Al Maghrib is working alongside the Ministry of Finance and other financial regulators to draw up a strategy for financing the fight against climate change. This should make it possible to assess the green financing gap and identify measures and mechanisms to enable the national financial sector, as well as foreign financial institutions, to amplify their contribution to green and climate finance.

It will be supported by the adoption of a green finance taxonomies, necessary to channel financial flows and prevent "green washing".

Regarding banking regulation, Bank Al-Maghrib issued in 2021 a directive on the management of financial risks related to climate change and the environment. To assist banks in its deployment, Bank Al-Maghrib, with the support of the World Bank, has carried out an assessment of the banking sector's exposure to physical and transitional climate risks, as well as an analysis of climate shock scenarios.

Bank Al-Maghrib is currently working on new regulatory guidelines to provide banks with guidance on the data to be collected as well as the indicators and metrics to be put in place to measure climate-related risks emanating from major borrowers and to assess the green and sustainable portion of their portfolios. They also aim to transpose international sustainability transparency standards to enhance market discipline within the banking sector.

In terms of managing its foreign exchange reserves, Bank Al-Maghrib incorporates the principle of sustainability into its investment guidelines, by promoting sustainable and responsible investments. As of 2016, at COP22 hosted in Marrakech, the Bank invested \$100 million in green bonds issued by the World Bank. More recently, in 2023, it made a similar investment of 200 million dollars. Its investments in green, social and sustainable bonds currently account for 7 percent of foreign exchange reserves, with a long-term target of 10 percent.

Bank Al-Maghrib strengthened its commitment to the environment in recent years, setting it up as a major component of its corporate social responsibility policy. In 2019, it established a dedicated structure for a greater consideration of climate change in its missions and to reduce the environmental footprint in its activities. In this respect, the Bank carried out an assessment of its greenhouse gas emissions in 2021 and defined a plan to decrease them. This plan mainly comprises energy efficiency programs, the use of renewable energies as well as sustainable mobility. In 2022, as part of the national efforts to rationalize water resources, the Bank adopted a charter of commitments to achieve a responsible and sustainable management of this resource.

Finally, aware that tangible progress on a global challenge such as climate change can only be achieved within a global framework, the Bank actively takes part in the work of numerous international bodies such as the NGFS, in which the Bank is member of the

Steering Committee and is strengthening cooperation in this area with partner central banks and international institutions. The purpose is always the same: better understanding, wiser actions.

Thank you for your attention.