

AUGUST 20, 2020  
VICTORIA FORUM 2020

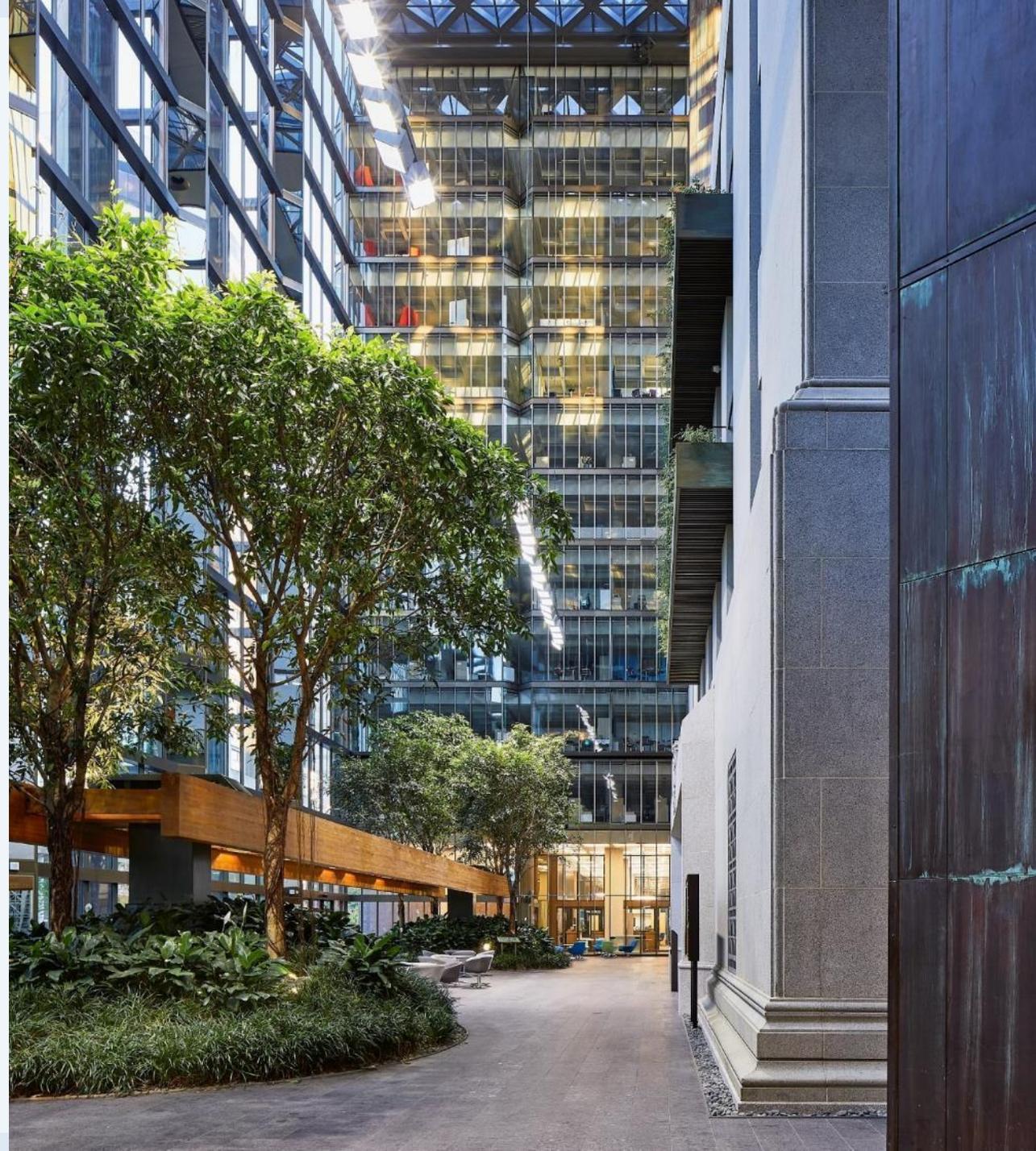
# The Great Reset

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Supporting the transition to a greener,  
smarter economy

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DEPUTY GOVERNOR



## **The pandemic, central banks and climate change**

- COVID-19 is a shock and an opportunity
- Pivot to a greener, smarter economy?
- Focus here on climate-related issues
- Our contributions to scenario analysis
- To start: how we view climate change risk

# Two sets of risks from climate change

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## ***Physical risks***

Damage or destruction caused by extreme weather/higher temperatures



## ***Transition risks***

Costs involved in the move toward a low-carbon economy



# Different roles in facilitating a transition

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- Governments: setting environmental policy
- Corporate sector: investing in technology
- Households: shifting preferences/behaviour
- Financial sector: financing transition
- Central banks: smoothing the transition to
  1. ensure the financial system is up to challenge
  2. maintain economic activity close to capacity
  3. understand the potential economic effects



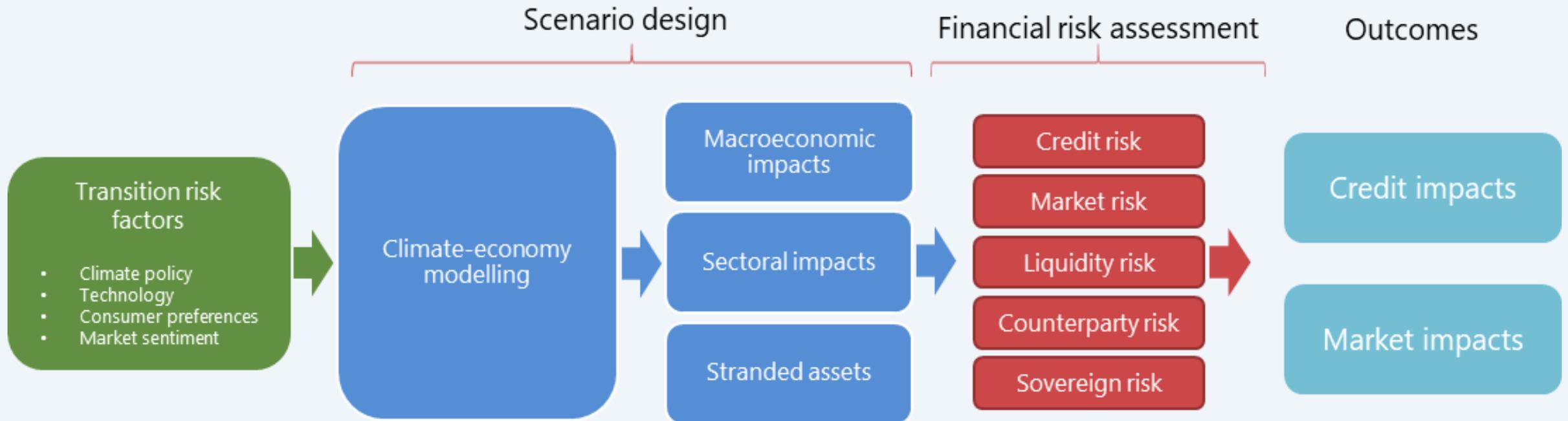
# Scenario analysis: a useful tool given uncertainty

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- Scenario analysis describes plausible future pathways
- It is not what **will** occur, but what **could** occur
- Useful given the high degree of uncertainty related to:
  - climate change
  - policy
  - technological development
  - evolving consumer and investor preferences

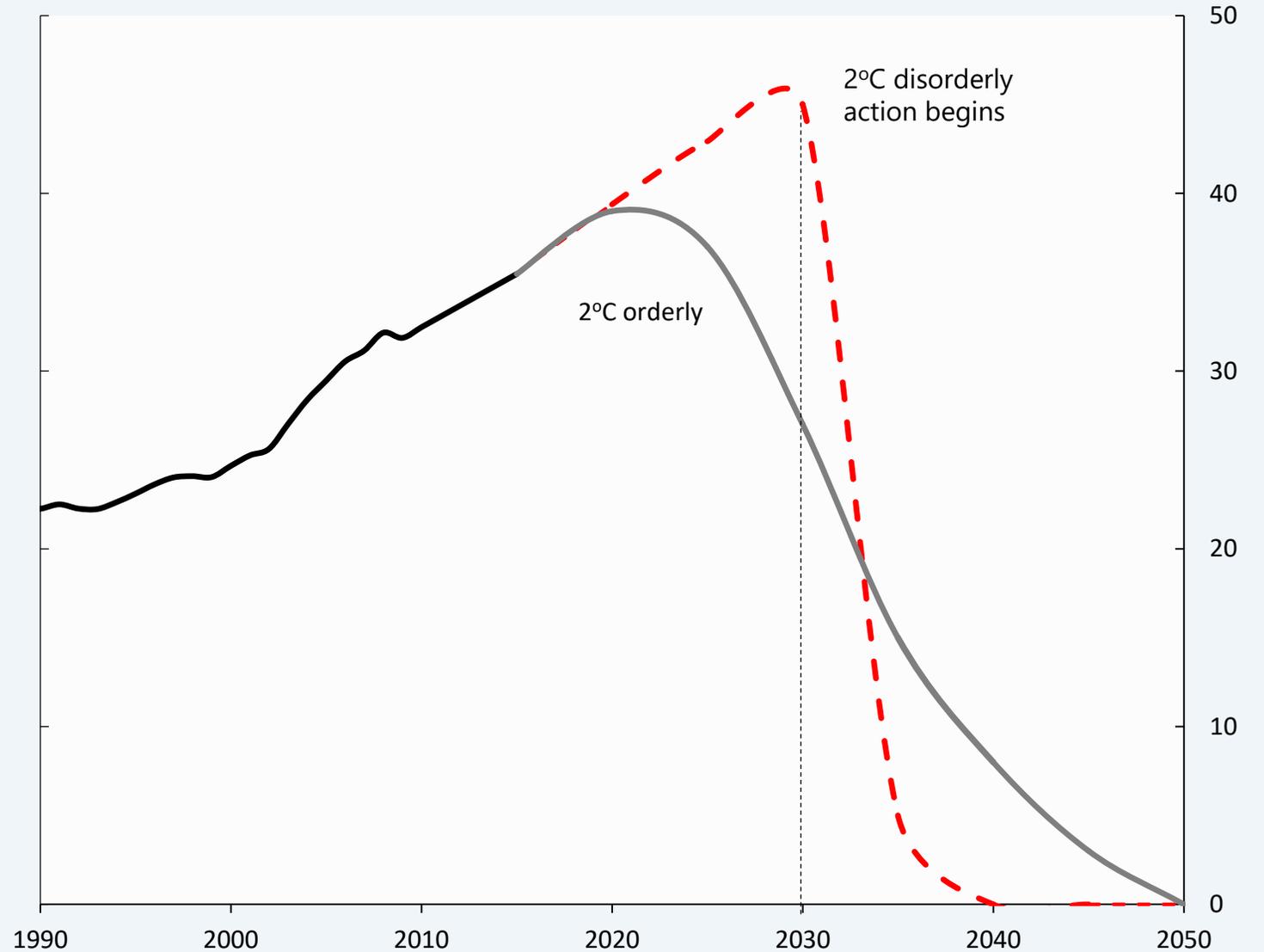


# Scenario analysis framework



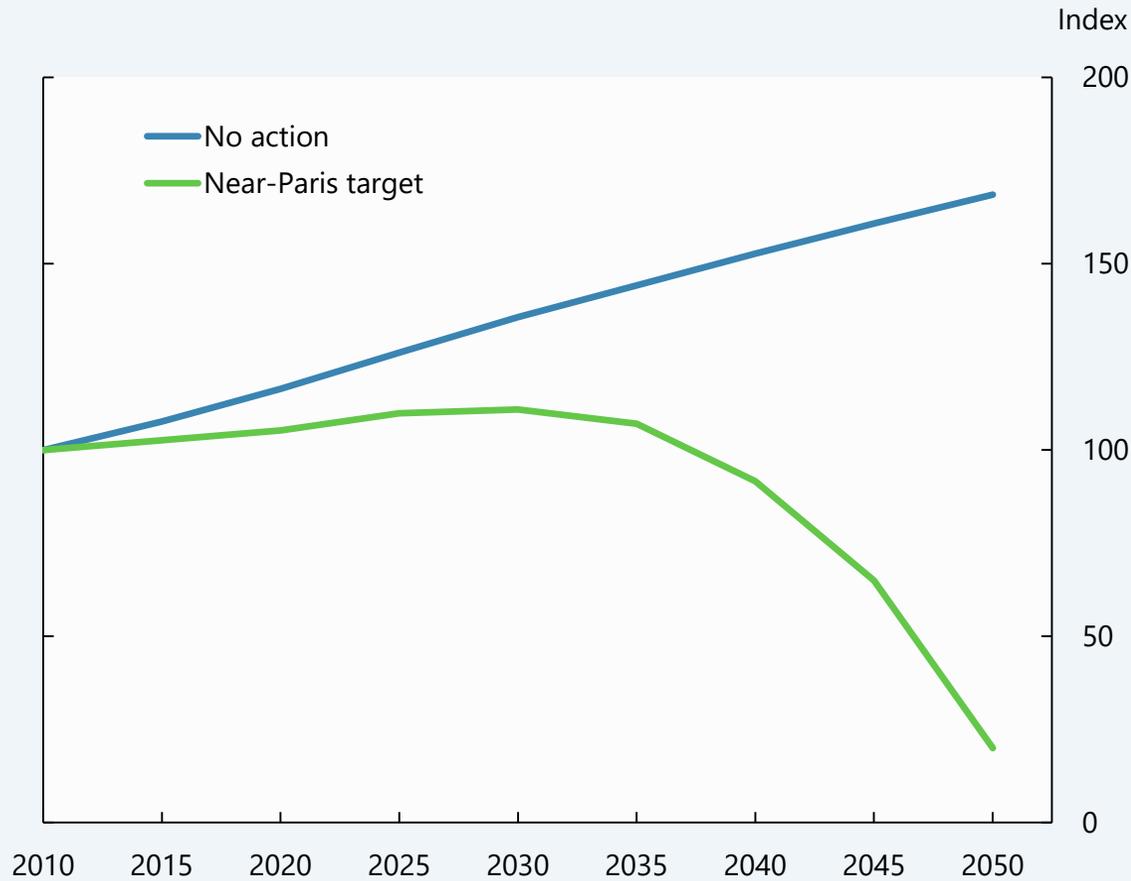
**Delayed action  
leads to a disorderly  
adjustment**

Gigatons of CO<sub>2</sub> equivalent emissions, global annual data



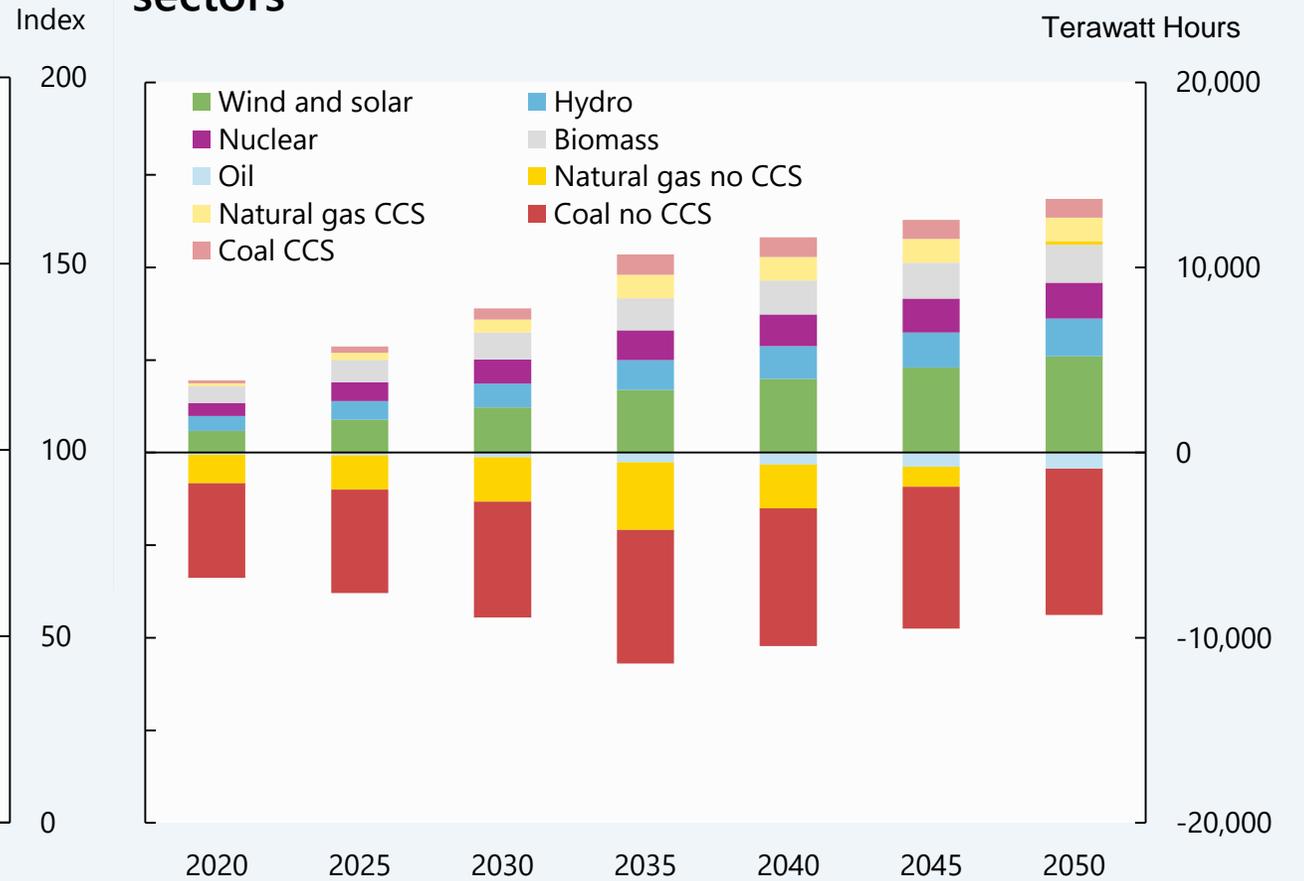
# How to quantify macroeconomic and sectoral impacts?

## Global oil production could fall sharply



Index of crude oil production (2010 = 100), annual data

## Large structural shifts could occur across sectors



Variation in electricity generation from 2010, annual data



# Looking ahead: scenario analysis and lessons of COVID-19

- Scenario analysis as a journey
  - Multi-year process
  - Time to build in-house expertise and tools and to address data gaps
- COVID-19 as a disrupter that offers new insights on climate change
  - An example of a structural shock with broad impact worldwide
  - If you knew 30 years ago that COVID-19 was coming, how would you prepare?
  - Preparation can reduce risks
  - Structural changes as we pivot to a greener, smarter economy
  - Opportunity to employ scenario analysis

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are arranged in a way that they appear to converge towards the top of the frame, creating a sense of height and scale. The sky is a clear, bright blue with scattered white clouds. The glass reflects the sky and each other, creating a complex pattern of light and color. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, containing the text "THANK YOU" in white, bold, sans-serif capital letters.

**THANK YOU**