

Mexico City, January 23, 2019

Speech of Dr. Rafael Del Villar, Chief Advisor to the Governor of Banco de México, at the Green Finance Seminar

Good afternoon,

I want to have this opportunity to dwell on two topics: the first is a general comment for our friends, central banks and supervisors that were kind enough to accept our invitation to this Seminar. I just want to stress the importance of awareness as a key precursor to action and the role central banks should play in guiding the discussion about climate change in our countries. And secondly I want to tell you more about the strategy that Mexico has in the green finance arena.

As to awareness, I think central banks can play a role in inducing a profound change in economic activity, be it households, firms, and public bodies. We can in fact change habits, change perceptions. Central banks are good at what? At sending signals. This is what we do. I mean, we do it for our main goal which is price stability. But, because central banks are perceived to be boring if reflexive and immutable to political pressure, we are the type of institution that if willing, can send the appropriate signals and are likely to be heard and listened to.

This means that if central banks and supervisors partner with scientists like Elmar Kriegler, who spoke before lunch; that know what they are talking about, then central banks can really start focusing on the environmental and climate impact on the economy and the financial stability. We don't need to apologize for that. We don't need to worry too much by saying: "well, this is not part of our mandate". As central banks, we are a sort of the last resource cleaners of the "room". So, while we hope that the sweeping team goes and cleans the room, if the room is very dirty, it is us coming in to clean the room! What do I mean? We are the guys that in the end have to bail out, have to come out and provide financial stability. So, we should be very careful if experts like Elmar Kriegler state to us that there is a lot of dirt in the room and that the sweeping machines of the central banks may not be strong enough to clean the room. Thus we should not be afraid to say: "hey, hey, hey, this is pretty dangerous and it is probably getting out of control!" Thus, we should not be apologizing for that.

How much time do we still have at the current trend of carbon emissions? Scientists are pointing to the danger of procrastinating for another 10 years to 12 years. It is uncomfortable to take responsibility. We humans like to avoid responsibility and shift in responsibility to others. In this case to our kids, who do not even understand that we are shifting the responsibility to them.

So, let's use the calling power that we have in our countries and team up with the experts that know and either convince ourselves of the exercise of leadership we need to have in this field or not convinced ourselves. If scientists are not good enough at convincing central banks and supervisors that this is a real issue then, of course, why should we economists be held responsible. But if it is us who are not listening it may be appropriate for them to say: "you guys are being immature, you guys are not facing up, and you are not up to your responsibilities". Then we, central bankers and supervisors, are in a hold. This was the first message to take back to your countries. Let's not be too cautious and get more in touch with guys like Elmar Kriegler to convince ourselves that this is a big issue.

The second part has to do of how we are approaching this problem in Mexico.

Mexico has too many problems, a lot of poverty, growth is insufficient, a lot of social challenges, price stability is a big challenge, in which, we can always take excuse, and so greening the economy

has not been very high up in the agenda of the government. However the governor, whom you heard yesterday night, spoke for the first time, extremely forcefully, about the need to act. So, slightly more than a year ago, I talked with then governor Carstens and with then deputy governor Diaz de León, about the wonderful conversation with Morgan Despres to form the NGFS. So Banco de México became a founding member of the NGFS and we are learning a lot.

As said, the government is involved in many problems, and this particular problem may not be catching its attention also because of the tragedy of the horizon. There are many hurricanes, we have now the *sargazo* devastating the Riviera Maya, and we have many issues, but nothing seems to catch enough attention for action to take place.

In this context, we have turned to a dialogue with the private sector, with the *Consejo Consultivo de Finanzas Verdes* (Green Finance Advisory Board) and the Mexican Banking Association, and told them, “Ok guys, let’s do it together, we cannot do it alone and, at this stage, we don’t want to be pushing a regulatory agenda. Let’s keep the momentum together”. We have to avoid a regulatory agenda that feeds distrust from the private sector. Let us not go with a hammer with the banking association and say “guys you have to do this, and this, and this!” So we are trying to work softly, because we know that this agenda is moving, that parts of the private sector is moving, and we don’t have all the information. The governor yesterday stressed, as have many others in this conference, that institutional investors and the investors in general are important actors for promoting a sustainable environment and promoting green finance. So that brings me back to awareness. So let us work in saying this is what we want and this is where we want to go.

More than giving you a recipe of concrete actions, which we have mapped, but I think it is a little bit of a waste of time right now to present them to you, it is better to emphasize what we are trying to do. Namely, to get good communication with key players and get those key players involved. So let me tell who they are. These include national development banks, who know very well what reputational risk is. So they tend to listen to the government and the central bank, and they listen very carefully to multilateral and bilateral development banks, to the Germans, to the French, to the British, among many others. They have been at the forefront of change in greening the financial system in Mexico. The multinational commercial banks, as Valerie Smith and Antoni Ballabriga mentioned earlier, are moving quite dramatically and that is having an influence on their operations in Mexico. The domestic commercial banks in Mexico are very much moving into the greening of finance because investors and international equity holders are demanding it.

In the absence of a strong political commitment this strategy could make sense. Let us not waste time lamenting on the lack of a clear guidance from the very top, as is the case in China where the very highest bosses have said “move”. As for Banco de México it seemed to me from the governor’s speech yesterday that he said “move”. That is the signal that we need to catalyze action.

Thank you very much.