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CONSIGLIO PER LE RELAZIONI TRA ITALIA E STATI UNITI

The Big Picture – 29 April, 2021
"Crossing the Rubicon of Price Stability"

The traditionally conservative world of monetary policymaking is undergoing a revolution, with many central bankers now aiming to align their institutions with efforts to combat global warming and inequality. How can policymakers best address these issues with their existing mandates and tools – and should they tackle others, too?

In this Big Picture, **Daniel Gros** of the Centre for European Policy Studies says that greening Europe's monetary policy would encroach on the responsibilities of governments, and is thus incompatible with central banks' political independence. But **Barry Eichengreen** of the University of California, Berkeley, explains why central banks can no longer shy away from addressing climate change and inequality, and advises them to direct their regulatory powers at these problems while using monetary policy to target inflation.

BlackRock's **Isabelle Mateos y Lago** goes further, arguing that central banks' mandates – and specifically, the need to maintain financial stability – not only permit but require them to incorporate climate change into their policies. Likewise, **Megan Greene** of Harvard University's John F. Kennedy School of Government urges the US Federal Reserve to use its discount window to encourage climate-friendly investments and financing.

But **Jean Pisani-Ferry**, while acknowledging that central banks need to address these challenges, argues that explicitly amending their missions would be preferable to letting monetary policymakers decide how their tasks should evolve.

Broadening the debate further, **Anita Bhatia** of UN Women calls for gender-responsive central banking, and outlines four ways in which monetary policy must change in order to combat the COVID-19 pandemic's disproportionate impact on women.

"The Dangerous Allure of Green Central Banking"
(Project Syndicate – December 18, 2020)

Daniel Gros is a member of the board and a distinguished fellow at the Centre for European Policy Studies.

Europe's central bankers have been insulated from political influence to pursue the very narrow mandate of price stability. Greening monetary policy might look attractive at first glance, but it represents a departure that is incompatible with their independence.

BRUSSELS – Central bankers and financial supervisors around the world are increasingly focusing on an issue that is normally outside their remit: climate change. Both the International Monetary Fund and the Bank for International Settlements (the central bank for central banks) have published reports on climate risk recently. And the European Central Bank is seemingly getting ready to target the so-called green spread, or the difference in financing conditions for low-carbon and high-carbon activities.

There are essentially two reasons given for mobilizing central bankers to focus on climate change: risks to financial stability and market failures. But the economic and political logic behind them is weak, especially in Europe.

Although climate change presents a huge risk for everyone, it develops slowly over decades as greenhouse gases (GHGs) accumulate in the atmosphere. Governmental mitigation measures are also likely to make many higher-carbon "brown" business models uneconomic in the long run.

Moreover, all market participants, including the bankers who extend credit to fossil fuel-based enterprises, and the investors who buy their bonds, know these risks. Central bankers and supervisors should not be concerned with the credit risk of any individual corporation or sector, but rather with threats to the stability of the financial system as a whole.

Sudden changes in the time path of decarbonization could conceivably represent such a systemic risk. In an influential 2016 report, the European Systemic Risk Board (ESRB) argued that a late recognition of global warming's costs could lead to the sudden imposition of drastic emission-reduction measures, leading to financial instability. But this risk currently seems remote, particularly in the European Union, where governments recently approved an even more ambitious climate target involving a reduction of net GHG emissions of at least 55% by

2030.

The second argument for greening central banks is that monetary policy must address market failures, whereby someone who contributes to climate change by emitting GHGs does not pay for the resulting environmental damage. ECB Executive Board member Isabel Schnabel has argued that, "In the presence of market failures, market neutrality may not be the appropriate benchmark for a central bank when the market by itself is not achieving efficient outcomes."

But the idea that the ECB should "green" its monetary policy is wrong on several counts. For starters, the market failure has already been addressed by the EU's policy to keep GHG emissions in line with its targets. For example, the bloc's Emissions Trading System (ETS) limits the total amount of emissions in industry and the power sector along a time path consistent with the EU's goals. And member states recently tightened the bloc's overall climate targets.

Democratically elected bodies – national governments, via the European Council, and the European Parliament – have thus addressed the market failure. One might argue that the EU's climate targets, and the ETS as one key instrument for achieving them, are insufficient. But it is not a central bank's task to manage climate goals and instruments.

Moreover, ECB action is unlikely to be effective. One proposal is for the ECB to include only the bonds of "green enterprises" in its asset-purchase program. Such selective bond purchases would thus amount to a sort of "green" monetary or industrial policy.

Evidence from the ECB's bond-buying program suggests that selectively purchasing the bonds of green companies might well succeed in marginally reducing these firms' cost of capital, allowing them to invest more. But any reduction in emissions would be offset elsewhere under the ETS-imposed cap. The lower emissions achieved by some firms that benefit from more favorable financing conditions would simply mean that others need to do less. The price of emission certificates would decrease to the point where emissions remain just equal to the ETS target.

Finally, a green ECB would necessarily become political. Here again, there is a superficial argument for a green monetary policy: Article 127 of the Treaty on the Functioning of the European Union says that the ECB should also support the EU's overall economic policies, provided that this does not endanger price stability. Supporters of a green ECB thus argue that the institution is obliged to help the green transition, which is clearly an EU policy.

But this argument could be applied to many other policy areas. Cohesion, for example, is another of the EU's important goals. Using the green logic, the ECB arguably should also foster cohesion by buying the bonds of poorer countries or regions, and possibly their corporate bonds, too.

Moreover, if the ECB wanted to support green finance, it would have to take a stance on many contested issues, including nuclear energy. It should not be the ECB's task to decide whether bonds issued by a nuclear-power firm are green.

Market failures can be found almost everywhere. Why should the ECB address some and not others? This is a decision that only democratically elected governments should take. Central bankers have been insulated from political influence to pursue the very narrow mandate of price stability. Greening monetary policy might look attractive at first glance, but it represents a departure that is incompatible with their independence.

"NEW-MODEL CENTRAL BANKS"
(Project Syndicate – February 9, 2021)

Barry Eichengreen is Professor of Economics at the University of California, Berkeley, and a former senior policy adviser at the International Monetary Fund. He is the author of many books, including *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era*.

Monetary authorities are increasingly expected to address issues such as climate change and inequality, over the objections of those who insist that central banks' narrow mandate is what sustains their operational *independence. But ignoring these issues, or saying they're someone else's problem, is no longer an option.*

BERKELEY – – We are used to thinking about the remit of central banks as focusing narrowly on price stability, or at most as targeting inflation while ensuring the smooth operation of the payment system. But with the global financial crisis of 2008 and now COVID-19, we have seen central banks intervening to support a growing range of markets and activities, using instruments that extend well beyond interest rates and open market operations.

An example is the US Federal Reserve's Paycheck Protection Program Liquidity Facility, under which the Fed provides liquidity to lenders who extend loans to small businesses in pandemic-related distress. This, clearly, is not your mother's central bank.

Now we hear calls to broaden this ambit still further. European Central Bank President Christine Lagarde and Fed board member Lael Brainard have each urged central banks to tackle climate change. Against the backdrop of the Black Lives Matter movement, US Representative Maxine Waters of California has pushed Fed Chair Jerome Powell to do more about inequality, including specifically racial inequality.

Such calls horrify central-banking purists, who warn that charging central banks with these additional responsibilities risks diverting them and their policy instruments from their primary objective of inflation control. They caution that monetary policy is a blunt instrument for tackling climate change and inequality, which can be more effectively addressed by taxing carbon emissions or strengthening equal housing laws.

Above all, the critics worry that pursuing these other objectives will jeopardize central banks' independence. Central banks enjoy operational independence in order to pursue a specific mandate, because there is a consensus that the mandated objectives are best taken out of elected officials' hands. But independence does not mean central bankers are unaccountable to politicians and public opinion. They must justify their actions and explain how their policy decisions advance the mandated objectives. Their success or failure can be judged by whether or not the central bank achieves its independently verifiable targets.

With a greatly expanded mandate, the relationship between policy instruments and targets would become more complex. Justifications for policy decisions would be harder to communicate. Success or failure would be more difficult to judge. Indeed, insofar as monetary policy has only limited influence over climate change or inequality, targeting such variables would be setting up the central bank to fail. And frustration over failure might lead politicians to rethink the central bank's operational independence.

These arguments are not without merit. At the same time, central bankers cannot snooze quietly in their bunks in the face of an all-hands-on-deck emergency. Calls for central banks to address climate change and inequality reflect an awareness that these problems have risen to the level of existential crises. If central bankers ignored them, or said, "These urgent problems are best addressed by someone else," their response would be seen as a haughty and perilous display of indifference. At that point, their independence would truly be at risk.

So, what to do? Central banks as regulators have tools with which to address climate change, and their responsibility for ensuring the integrity and stability of the financial system gives policymakers the mandate to use them. They can require more extensive climate-related financial disclosures. They can impose stricter capital and liquidity requirements on financial institutions whose asset portfolios expose them to climate risk. Such tools will discourage the financial system from underwriting brown investments.

The challenge of understanding the risks to financial stability from climate change is that climate events are irregular and nonlinear. When modeling them, it will be important for central banks to avoid the mistakes they made in modeling COVID-19. Those problems arose because economists and epidemiologists worked in their separate silos. So, one might ask advocates like Lagarde and Brainard: How many climate scientists have central banks hired? When will they start?

When it comes to inequality, some central banks already have the relevant mandate. In the United States, the Community Reinvestment Act of 1977 tasks regulators, including the Fed, with ensuring that low- and moderate-income families have adequate access to credit. The Fed has delegated this responsibility to its 12 regional reserve banks, each of which fulfills it in different ways. Stronger guidance from the Federal Reserve Board on exactly how to ensure equal access to credit, with explicit attention to racial disparities, would reinforce existing efforts.

It would be a departure for other central banks, such as the ECB, to address the credit access of minority and underprivileged groups. But the European Parliament can so instruct it. And the ECB Board can work with the national institutions that make up the European System of Central Banks in meeting that call.

Monetary policy has implications for issues beyond inflation and payments, including climate change and inequality. It would be disingenuous, even dangerous, for central bankers to deny those connections, or to insist that they are someone else's problem. The best way forward for central bankers is to use monetary policy to target inflation, while directing their regulatory powers at other pressing concerns.

"THE CHANGING CLIMATE OF CENTRAL BANKING"
(Project Syndicate – April 16, 2021)

Isabelle Mateos y Lago is Managing Director, Global Head of the Official Institutions Group, and a member of the Geopolitical Risk Steering Committee at BlackRock.

In the space of just a few years, the idea that central banks should incorporate climate considerations into their policies has gone from sounding radical to seeming like plain common sense. In fact, the overriding risk is that central banks will do too little to address climate change, rather than too much.

LONDON – Nearly everywhere one looks nowadays – newsrooms, corporate manifestos, and government agendas – climate change has moved from the fringe to center stage. And central banks, after long standing on the sidelines, have recently begun to play a starring role.

The Bank of England, for example, just became the first central bank to include in its policy remit a reference to supporting the transition to a net-zero-emissions economy. The European Central Bank is discussing how – not merely whether – to incorporate climate considerations in its own monetary policy. And the Network for Greening the Financial System (NGFS), a global group of central banks and financial supervisors, has more than doubled its membership over the past two years. Its 62 central banks include those of all but four G20 member states.

Such a speedy shift is bound to invite spirited debate – as well it should. But the overall premise for the change is sound. If anything, the overriding risk is that central banks will still do too little, rather than too much, about climate change.

Over the past few years, a consensus among central-bank leaders regarding climate risks to financial stability has emerged. The Bank for International Settlements database shows that whereas only four central-bank governors delivered speeches on green finance in 2018, 13 did just two years later. And now, nearly half of NGFS members have assessed climate risks, and more than one-tenth have already carried out climate stress tests, according to research by BlackRock.

Central banks' investment activities have duly followed suit. Almost 60% of developed economies' central banks now invest using broad environmental, social, and governance criteria, and Eurosystem central banks have agreed to a common stance on climate-related investments in non-monetary policy portfolios.

Finally, even monetary policy itself has begun to align with climate issues. Late last year, Sweden's Riksbank announced a new climate-related exclusion policy. Similarly, the BOE is expected to indicate later this year how it will account for the climate impact of its corporate-bond holdings. Several ECB decision-makers have called for climate risks to be incorporated into corporate bond purchases and collateral policy. And the NGFS has just published technical guidance for "adapting central bank operations to a hotter world."

There are three main causes for this shift – all of them legitimate. First, close to 130 governments around the world have committed to large reductions in carbon dioxide emissions over the coming decades. While the policies for achieving this have yet to be fully specified, the premise that meaningful change will occur is no longer merely an act of faith. Central banks that integrate climate considerations into their activities thus can no longer be accused of front-running governments. And where a central bank's mandate includes supporting a state's economic policies, agnosticism (or, in central-banking jargon, market neutrality), will be increasingly untenable if it clashes with official climate commitments.

Second, the case for incorporating climate change into macroeconomic modeling and investment decisions has never been stronger. Extreme weather events have become more frequent, and their impact on growth and inflation more visible.

Moreover, as policy plans take shape, the uncertainty around climate-impact scenarios over the coming decades has become less daunting. Climate-related data have improved enormously in quality and quantity, and the availability of climate-aware investment instruments and strategies has increased dramatically. Their emerging performance record already indicates that they can boost portfolio resilience without sacrificing returns. Accordingly, a majority of institutional investors globally now consider sustainability to be fundamental to their investment strategies.

The third reason for central banks' new stance is a growing recognition that advocacy alone is insufficient. To have a greater impact, they must lead by example. This calls for greater transparency about their own exposure to climate-related risks and how such risks are modeled and priced. Better disclosure will rest, in turn, on the receipt of adequate data from issuers whose assets central banks choose to hold.

As such, central banks will likely exert great influence over the speed with which climate-related risks are priced into the financial system. There are risks in moving both too slowly and too fast, so establishing a clear path ahead is essential.

That said, central bankers' conversion to the climate cause is still in its youth. Many central banks have yet to join the NGFS, let alone integrate climate change meaningfully into their activities. The vast majority of emerging-market central banks have not signed up. And, globally, the BOE is the only central bank so far to have published a statement in line with the most exacting recommendations of the Task Force on Climate-related Financial Disclosures, albeit Eurosystem central banks have committed to do so within two years.

Central banks are understandably wary of mission creep, and of raising expectations that can be met only by becoming reliant on governments. Still, the work of the NGFS and the actions of its leading members should demonstrate to other central banks that their mandates not only permit but in fact require climate change to be incorporated into their activities. Numerous challenges remain, and domestic circumstances differ; but that is no excuse for inaction. Central bankers' response to climate-change risks has plenty of room to grow.

"How the Fed Could Go Green Faster"
(Project Syndicate – April 9, 2021)

Megan Greene, Senior Fellow at Harvard University's John F. Kennedy School of Government, is a member of the Regenerative Crisis Response Committee.

Now that the US Federal Reserve has begun to speak more openly about climate change, it should take a hard look at the tools that it already has available for making a dent in the problem. What it will find is that some green monetary policies serve both the environment and the economy.

BOSTON – The US Federal Reserve has made a number of climate-related announcements in recent months, joining the Network for Greening the Financial System in December and then establishing a new Supervision Climate Committee in February. Yet while these are important first steps, the Fed should do more to address climate change, which in turn can help it meet its mandate.

Although President Joe Biden has made clear that climate considerations will influence all of his administration's fiscal decision-making, this does not take the central bank off the hook. But the Fed, concerned about its independence, is wary about deploying the unconventional tools needed to bring monetary policymaking onto the same page.

The Fed has already gone well beyond manipulating the overnight bank lending rate (the benchmark for borrowers and savers across the economy) and waded deep into unconventional waters, such as when it started buying assets in response to the COVID-19 pandemic. It says it does not want to pick winners and losers, but it already does: anyone holding assets that the central bank buys ends up a winner.

True, even if the Fed was willing to incorporate climate change fully into its monetary policy, its actions would remain legally constrained. The central bank can buy US government obligations directly only in open market operations or through quantitative-easing (QE) programs. To support a particular asset class – like green investments – directly, it would have to receive authorization from the Department of the Treasury to invoke Section 13.3 of the Federal Reserve Act.

But the Fed can get around these constraints by encouraging private banks to channel their lending in a certain direction. The Fed charges banks for direct loans through its discount window, and this discount rate is currently set above the federal funds rate. As a result, any bank that borrows through this window must pay a premium, inviting suspicions that it would only do so if it were in trouble. But this needn't be the case. In the 1970s and 1980s, the discount rate was below the federal funds rate, and the Fed could effectively subsidize banks that borrowed through the discount window by cutting the discount rate deeply into negative territory.

To encourage green investment, then, the Fed could stipulate that funds borrowed at the discount window at a preferential rate must be used for a climate-aligned purpose. And by maintaining a positive bank lending rate, it could ensure that the introduction of negative rates does not penalize savers or banks.

There is already a precedent for such targeted lending. After the global financial crisis, the Bank of England launched its Funding for Lending Scheme to encourage real-estate investment, and then redeployed this mechanism for targeted lending to small and medium-size enterprises during the pandemic. Similarly, in April 2020, the European Central Bank introduced targeted longer-term refinancing operations in which banks generating new loans to the real economy borrowed at an interest rate below the main deposit rate. And in October, the Bank of Israel introduced its own separate interest rate for targeted lending.

But how can the Fed identify "green investments" when that concept remains so vaguely defined? For starters, it should offer targeted lending for two asset classes that it already supports: real estate (by securities purchases through QE) and autos (by lending to a special purpose vehicle that purchases auto loans through the Term Asset-Backed Securities Loan Facility).

According to the US Environmental Protection Agency, residential and commercial real estate account for roughly one-third of US greenhouse-gas (GHG) emissions, and transportation accounts for around 28%. By encouraging the greening of these assets, the Fed could significantly affect the United States' contribution to climate-change mitigation.

Moreover, the Fed does not have to reinvent the wheel to determine which properties or autos qualify as green. Both Fannie Mae and Freddie Mac offer green loans and green certifications for single and multifamily homes. The Fed and the Federal Housing Finance Agency – Fannie and Freddie's regulator – thus could come together to determine the best standards to use, and the FHFA could then become the screener for green properties.

On autos, the Fed could follow the standards set by the voluntary emissions agreement between the California Air Resources Board and five large automakers (Ford, Honda, BMW, Volkswagen, and Volvo), which requires 3.7% annual reductions in GHG emissions from new passenger cars.

Beyond adopting clear standards, the Fed also must ensure that banks do not pocket the entire subsidy. For new loans, it should require that a certain minimum percentage of the subsidy be passed on to the end user. And for existing loans that meet green requirements, it should offer repricing for banks to qualify for the negative rate.

Targeted lending using the discount rate is not only a powerful measure to address climate change; it also would strengthen the Fed's toolkit more generally. By offering specific borrowers a negative rate while maintaining a positive federal funds rate, the central bank would benefit borrowers and savers at the same time.

This would provide unambiguous stimulus for the economy following an unprecedented decline in activity – and after an even longer period during which the Fed has struggled to fulfill its mandate on inflation. Targeted green lending would enable the Fed to do its job while addressing one of the biggest crises of our time.

"Central Banking's Brave New World"
(Project Syndicate – February 23, 2021)

Jean Pisani-Ferry, a senior fellow at Brussels-based think tank Bruegel and a senior non-resident fellow at the Peterson Institute for International Economics, holds the Tommaso Padoa-Schioppa chair at the European University Institute.

Leading central banks are now keen to take on responsibility for policy objectives they previously shied away from, such as reducing inequality and combating climate change. But explicitly amending the central banks' missions would be preferable to letting monetary policymakers decide how their tasks should evolve.

PARIS – Twenty years ago, central bankers were proudly narrow-minded and conservative. They made a virtue of caring more about inflation than about the average citizen, and took great pains to be obsessively repetitive. As future Bank of England (BOE) governor Mervyn King said in 2000, their ambition was to be boring.

The 2008 financial crisis abruptly dashed that objective. Ever since, central bankers have been busy developing new policy instruments to fight fires and ward off emerging threats. Nonetheless, many secretly dreamed of returning to the good old days of cautious conservatism (with financial stability taken seriously).

But recent announcements by the US Federal Reserve and the European Central Bank suggest that there is no going back. Central bankers are now keen to take on responsibility for policy objectives they previously shied away from – in particular, tackling inequality and climate change.

Start with inequality. If there was a red line in the delineation of responsibilities between elected and unelected officials, it was that distributional, give-and-take choices belonged solely to the former.

Yet, the Fed has announced that it will now pay attention to "shortfalls" of employment from its maximum level, instead of "deviations." According to Chair Jerome Powell, the main reason for this change is the realization that a tight labor market benefits low-income communities and ethnic minorities. Only when the aggregate unemployment rate is very low do those on the fringes of the labor market benefit from significantly better access to jobs and higher wages.

Policymakers have long known that a high-pressure economy benefits the unskilled and minorities, and the Fed is special in having a dual congressionally assigned mandate of achieving both price stability and full employment. What is new is that instead of defining its own tasks in purely macroeconomic terms, the Fed has now indicated a willingness to take part in a collective anti-poverty effort.

The reason, the Fed says, is that listening to citizens has convinced it of the heterogeneity of the US labor market and the benefits of testing the downward limits of unemployment. But in yesterday's world, the Fed was proud to be insulated from politics and therefore not to listen to citizens.

The ECB has not completed its policy review yet. But it is unlikely to draw the same conclusions. Whereas the Fed can regard higher inflation in Colorado as an acceptable price to pay for a tight labor market in Mississippi, the ECB cannot operate the same way. European countries have limited appetite for such solidarity. Instead, what European central bankers are increasingly considering is support for climate action.

The ECB is not entering new territory here. In a landmark 2015 speech, then-BOE Governor Mark Carney emphasized the financial-stability risks arising from climate change and the responsibility they imposed on regulators. This insight made climate risks a topic of concern for financial-system supervisors.

But today's eurozone central bankers are going further. ECB President Christine Lagarde has said she intends to "explore every avenue available in order to combat climate change," while fellow board member Isabel Schnabel has alluded to excluding brown bonds from monetary-policy operations. And Banque de France Governor François Villeroy de Galhau has suggested applying a carbon-related haircut to assets accepted as collateral.

Favoring green assets would imply a departure from the market neutrality that ensures maximum monetary-policy effectiveness. It would also cross another red line by turning the ECB into the implementer of a policy for which it has no other mandate besides the general clause that, subject to maintaining price stability, the central bank supports the policies of the European Union.

To orthodox critics, this is anathema. The Hoover Institution's John Cochrane (who is no climate-change denier) accuses the ECB of engaging in self-defined mission creep. Bundesbank President Jens Weidmann is notably unenthusiastic. And the Fed itself is much more cautious than its European counterpart regarding climate action.

It is no accident that both the Fed and the ECB are venturing into new terrain. With inflation having vanished, at least temporarily, neither institution wants to be the high priest of a forgotten deity. Their quasi-parallel moves are indicative of the tectonic shifts currently affecting civil societies, and illustrate the desire of independent policy institutions to remain attuned to social preferences in order to retain their legitimacy.

But these moves entail risks. The Fed is now caught in a bind between its own commitment to testing the lower limits of unemployment and the disregard of President Joe Biden's administration for the dangers of providing too much economic stimulus. It may have tied its hands at the wrong moment.

As for the ECB, the financial-stability justification for greening its policies is only partly convincing. After all, green bubbles are a threat, too. And there is also financial-stability risk in extending credit to firms that invest in decarbonized technology on the assumption that governments will set the carbon price high enough to make these investments profitable in the future. Governments often fall short of fulfilling their promises.

This is not to say that central banks should do nothing. Inequality and the climate emergency are immense challenges that policy institutions cannot overlook. But explicitly amending the central banks' missions would be preferable to letting monetary policymakers decide how their tasks should evolve.

This especially applies to the ECB, which has an extremely narrow price-stability mandate under the Treaty on the Functioning of the EU (the Fed, in addressing inequality, arguably remains within its mandate). Because EU treaties are so difficult to amend, the ECB is right to explore and experiment. But decisions about what aims the institution serves should ultimately rest with its principals – the member states.

"Why We Need Gender-Responsive Central Banking"
(Project Syndicate – April 22, 2021)

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Now that the pandemic has deepened a wide range of gender disparities and imposed a disproportionately large toll on women, central banks must recognize that they have a role to play in reversing these trends. Better economic conditions for women will mean a stronger recovery for all.

NEW YORK – The coronavirus pandemic has hit women especially hard, particularly where they are most vulnerable: their incomes, health, and safety. Women make up the majority of workers in many of the sectors of our economies that came to a standstill last year. Making matters worse for women, health systems have cut or delayed sexual and reproductive health services to streamline treatment for COVID-19. And lockdowns and curfews have coincided with a spike in domestic violence.

These problems foretell a protracted reduction in women's capacity to join the labor force, repay loans, post collateral, or start businesses. Worse, these threats to national economies could become permanent, unless policymakers act swiftly. That includes central banks, which have a number of tools for combating the pandemic's worst effects on women.

The problem, of course, is that central banks are notoriously male-dominated institutions. Historically, they have never made gender a priority in the design and execution of policies affecting monetary positions, bank regulation, deposit insurance, or bond issuance. Changing this pattern will require four shifts in the policymaking process.

First, we need gender-responsive stimulus packages. Governments responded to the crisis with fiscal and monetary packages meant to stabilize aggregate demand. These included tax cuts, loan guarantees, wage protections, discounted utility bills, suspension of social security contributions, and direct cash transfers. Central banks, for their part, expanded their balance sheets to unprecedented levels and at staggering speed, printing money to buy not just government bonds but also corporate financial assets. In many countries, particularly advanced economies, the overall response was massive, because it had to be.

But data gathered through UN Women's COVID-19 Global Gender Response Tracker show that only a handful of countries tailored their policies to account for women's specific needs. The result has been a slower recovery for everyone. As the world prepares for another wave of stimulus spending and investment in reconstruction, it is crucial that these interventions be designed not just with women in mind, but with women in the room.

Second, women need loans, and central banks have an important role to play in how credit is directed to specific sectors. Accordingly, it is important to ensure that financing makes it to sectors where the majority of women work. As more women lose or are displaced from jobs – even in the informal economy – banks will have to reassess and possibly reclassify the segments of their loan portfolios that cater to female borrowers.

These segments – spanning hospitality, food, retail, tourism, domestic services, garment, and other industries where women form a majority of the labor force – are generally conceived to be "lighter on collateral." But before the pandemic, they had been growing fast in emerging and developing economies, especially among local banks. That growth was driven as much by a commitment to equality as by the commercial potential of a previously ignored client cohort. If the recovery fails women, banks' profitability will suffer.

Third, governments need new sources of finance, because fiscal balances were decimated by the pandemic. Public debts have grown exponentially and will need to be rolled over in the next few years, with sovereigns competing for funding in international bond markets. Looking for an edge in that competition, many will resort to thematic bonds earmarked to address environmental and social development issues.

The demand for such securities is large and growing, now that more than 3,000 investment houses (with a combined $100 trillion under management) have signed on to the UN-sponsored Principles of Responsible Investment. But while many private corporations and state-owned enterprises have issued "gender bonds," no sovereign has yet done so. That must change, and when it does, central banks should be a part of the process.

Finally, we need better forecasting. Central-bank models, and the policies that derive from them, may be biased and incomplete, because they are based on assumptions that ignore the realities of how households consume, save, invest, borrow, and work. For example, most models treat female workforce participation as a binary choice between labor and leisure, rather than a trinary choice also comprising unpaid labor such as childcare.

Similarly, projections of growth – and thus of money demand and interest-rate transmission – are built on systems of national accounts that do not properly measure the care economy, a fast-growing but mostly nonmarket sector where women make up most of the workforce. The pandemic, which has led to an explosion of demand for care, has turned that weakness into a major gap.

To their credit, central banks have been quick to recognize the challenges posed by climate change; and some are already arguing for solutions and leading initial reform efforts. But even though gender disparities are an equally systemic challenge, central banks have yet to forge similar partnerships with gender advocates. Such partnerships are urgently needed to inform the design and implementation of global and country-level reforms. The benefits – both for women and men – would be enormous.

ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

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