



CENTRAL BANK OF  
TRINIDAD & TOBAGO

# Caribbean Central Banks and the Hot Potato – Climate Change

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# Caribbean Central Banks and the Hot Potato – Climate Change



## *Key Points\**

1. The march of climate change is (seemingly) slow, but relentless.
2. All hands are needed on deck!
3. People listen to us as central banks (we believe).
4. Monetary policy will need to deal with the economic repercussions, even if not on a day-by-day basis.
5. Our supervisors need to address the feedback loop between financial institutions and climate actions.
6. While adaptation of our own internal operations can set an influential example.
7. The good news is that Caribbean central banks have already started to assess climate change impacts on their economies...
8. ...while adapting internal operations, external investments and expanding public dialogue.
9. ...with encouraging early results coming in.
10. The journey will be long, and coordinated approaches will take us even further.

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# 1. The march of climate change is (seemingly) slow, but relentless.



- Caribbean countries are in **imminent danger**.
- Rising sea levels due to melting ice caps will **drown coastal communities**.
- More frequent and intense hurricanes will **devastate infrastructure and take lives**.
- Higher temperatures will **compromise local food production**.
- **Negative spillovers** from other affected countries will be strong.

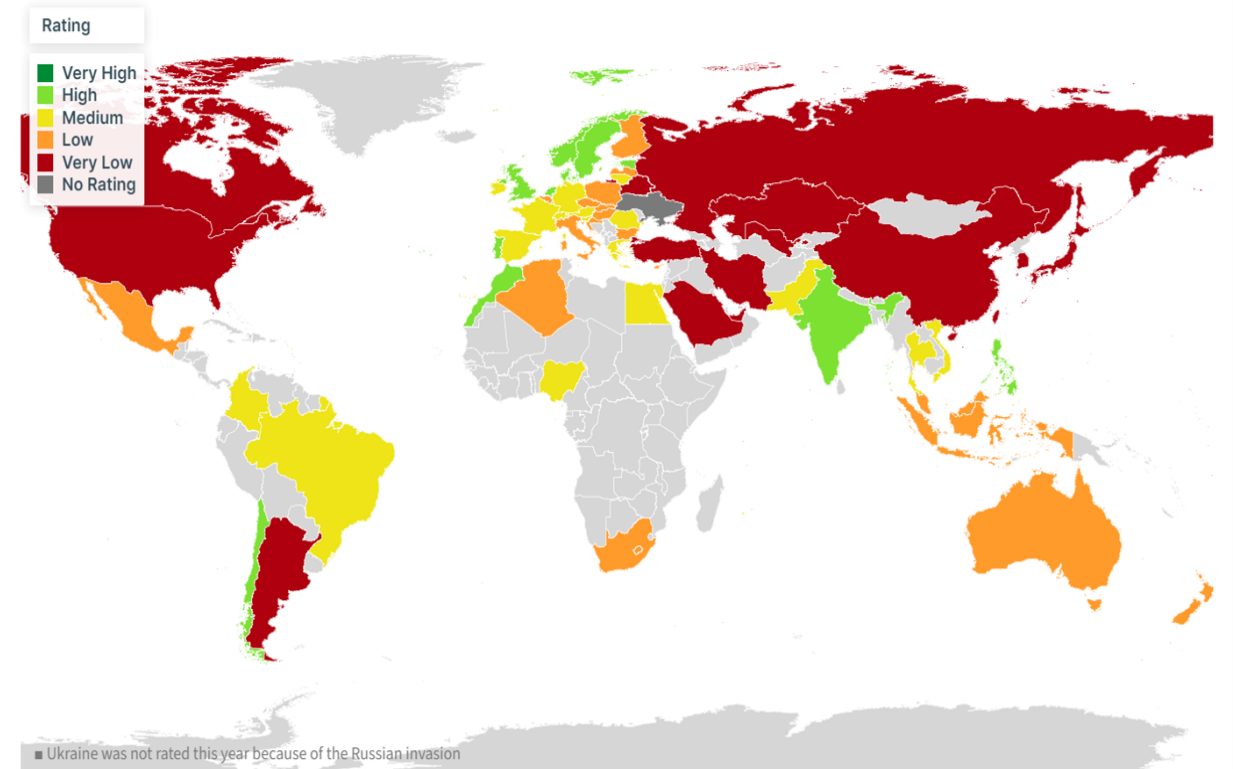


## 2. All hands are needed on deck!



- A global problem requires a **global solution**.
- There have been important **major international advances** to deal with climate change.
- However, **not all countries share the same enthusiasm**.
- And within countries, **all institutions**, including central banks, **need to play their part**.
- The **Climate Change Performance Index (CCPI)** is an independent monitoring tool that shows we still have a long way to go.
- The results show that, even if all countries were as committed as the current frontrunners, **efforts would still be insufficient to prevent hazardous climate change**.
- **Even greater efforts and actions by governments are needed** to set the world on track to keep global warming well below a 2°C increase.

### CCPI 2025: Ranking and Results

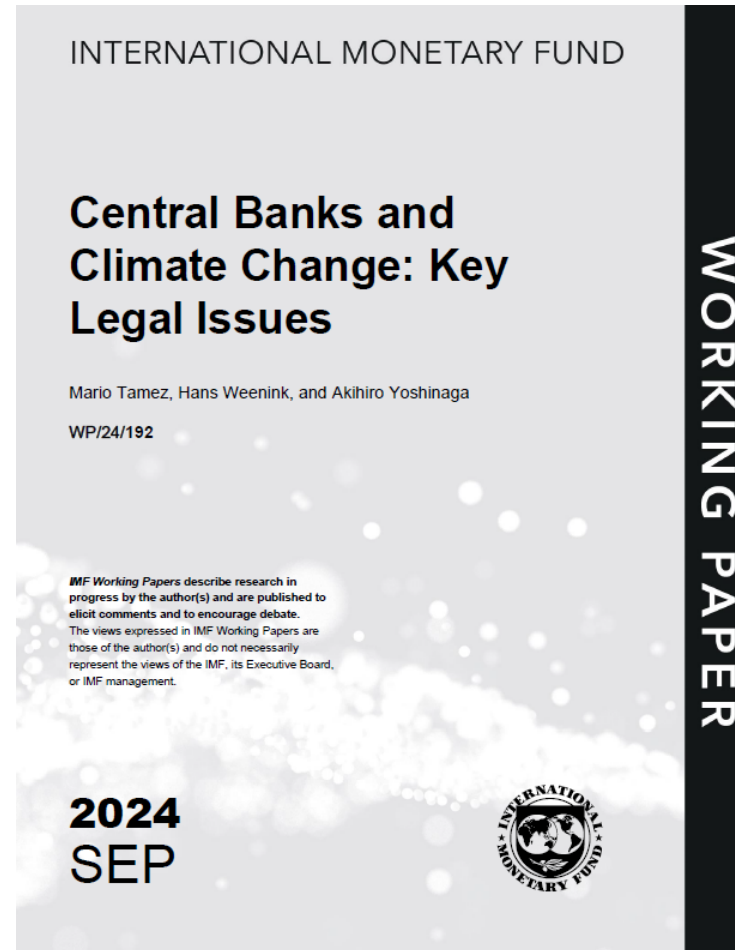


The Climate Change Performance Index (CCPI), published annually since 2005, is an independent monitoring tool for tracking countries' climate mitigation performance. It increases transparency in national and international climate policy and enables comparison of individual countries' climate action efforts and progress. The CCPI indicates the climate mitigation efforts of 63 countries and the EU, which collectively account for over 90% of global greenhouse gas (GHG) emissions. <https://ccpi.org/>

### 3. People listen to us as central banks (we believe).



- Some may argue that it's the **job solely of the governments** to devise, implement and fund climate change policies.
- ... and **central banks have no business** in getting involved.
- But, like it or not, and especially in small countries, the **words and actions of central banks carry a lot of weight** with the public.
- Our central banks also have **access to research resources, global financial links,** and arguably a **longer policy time horizon** unconnected to political cycles.



*“...while governments have committed to contribute to the response to climate change, **central banks are facing mounting pressure** to play an active role...while central banks agree that they are **not in the driving seat**... [they] have adopted a number of actions **to integrate climate change considerations in their policies.**”*

*(IMF, 2024)*



## 4. Monetary policy will need to deal with the economic repercussions, even if not on a day-to-day basis.



- Over time, climate change will alter **Caribbean countries' macroeconomic structures**.
- **Comparative advantages** in tourism and other sectors will likely be reshaped.
- Similarly, **a global movement away from fossil fuels** will affect demand for Caribbean energy exports.
- Parameters of the **monetary policy transmission** mechanisms will be affected.
- Even if, on a day-to-day basis, we **may not be able to delineate the impact of climate change** on each monetary policy action.

### A region at risk





## 5. Our supervisors need to address the feedback loop between financial institutions and climate actions.



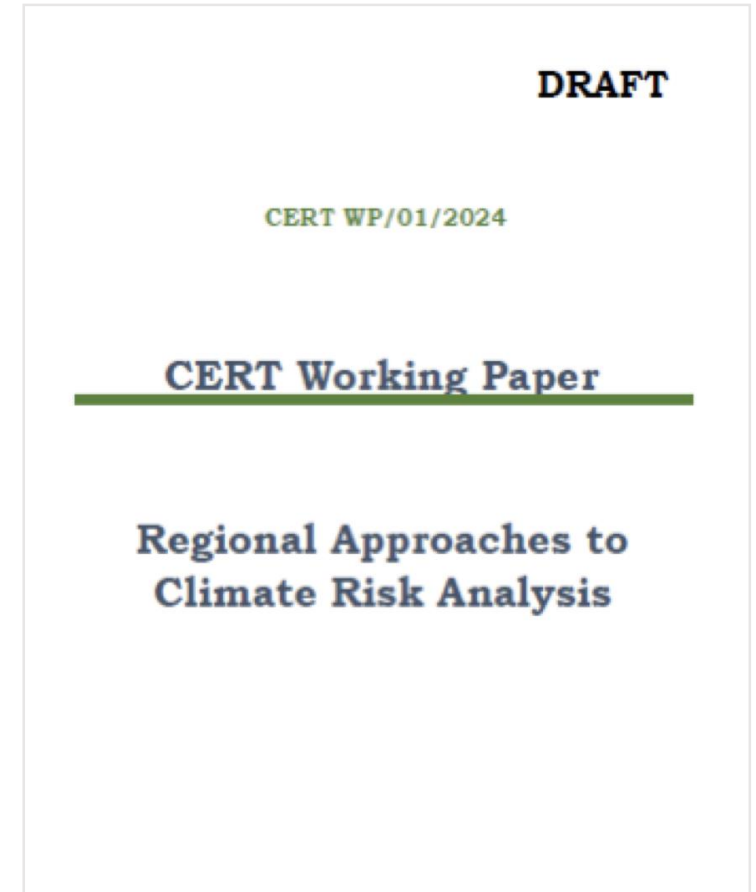
- Adversely affected borrowers will have **problems servicing their loans**.
- The **demand for property insurance** in vulnerable areas will rise.
- Left unchecked, however, whole swaths of communities may find themselves **uninsured**.
- It will be a **delicate balancing act** to guide the financial system away from contributing to climate problems.
- The US Fed Chairman's February 2025 Congressional testimony on the **impact of climate change in the US** is also applicable to the Caribbean: *"If you fast forward 10 or 15 years, there are going to be regions of the country where you can't get a mortgage"*.



## 6. While adaptation of our own internal operations can set an influential example.



- Although relatively small, central banks like other institutions can **economise on their own greenhouse gas emissions.**
- **Publicly partnering with other agencies** can help to build momentum.
- While their **research efforts and international financial leverage** can incentivise climate adaptation funding.
- Central Banks' **own investments** can also take into account climate factors.





## 7. The good news is that Caribbean central banks have already started to assess climate change impacts on their economies...



- In 2020, CBTT introduced **Pillar 2 under Basel II**—the Internal Capital Adequacy Assessment Process (ICAAP) which requires banks to account for climate considerations in assessing their capital requirements. Reporting commenced in 2022.



- The Central Bank of Barbados' Macroeconomic Forecasting Model was used to assess the **impact of six climate scenarios on the Barbadian economy**. The shocks were mitigated through a drop in tourism sector activity.



- Planned use of **Jamaica Systemic Risk Assessment Tool (J-SRAT)** to highlight areas exposed to climate risks.
- Two-phase approach which addresses both physical and transition risks through **enhanced supervisory practices, data management, and stress testing**.



- The ECCB engages in **climate stress testing** including weather events, banking sector stability and transition risk scenarios.

## 8. ...while adapting internal operations, external investments and expanding public dialogue

- At the Central Bank of Trinidad and Tobago:
  - **Public education** on climate issues has expanded;
  - **Measuring carbon footprint** and implementing energy saving projects with;
  - **Direct involvement in community efforts;**
  - And **investing international** reserves in environmental, social and governance (ESG) areas.
- For many regional Central Banks energy conservation programs are underway e.g.
  - The ECCB **partnered with the World Bank on financing arrangements** for renewable energy.
  - ECCB also pioneered a major **solar project**.



Published a public education piece.



PUBLIC EDUCATION SERIES - #5/2024 NOVEMBER 2024

HOW IS CLIMATE CHANGE AFFECTING TRINIDAD AND TOBAGO'S ECONOMY?



**Commenced measuring our carbon footprint and implementing energy efficiency measures.**

Using the GHG Emission Calculation Tool, the Bank has commenced the calculation of its carbon footprint and developed an Energy Management Plan.



**60 trees for 60 years**



**ESG Portfolio**

In May, 2022, The CBTT Board approved investment of up to 2% of international reserves for environmental, social and governance (ESG) purposes.





## 9. ...with encouraging early results coming in.



- The **media has been reporting** our climate change actions to broader audiences.

- We are being called upon more to **contribute to national and international efforts.**

- CBTT participates in **two work streams** of the **Network for Greening the Financial System (NGFS)** – Scenario Design & Analysis and Supervision.
- Caribbean perspectives feature in the meetings of **Commonwealth Central Bank Governors and Finance Ministers** on climate change.

- The **energy conservation efforts** have started to yield measurable benefits via cost saving and recycling.

- Trinidad and Tobago **invested \$42.8 million USD in sustainable development bonds** issued by the World Bank (IBRD), European Investment Bank (EIB) and the Inter-American Development Bank (IADB).

Chart 1: ESG Bonds

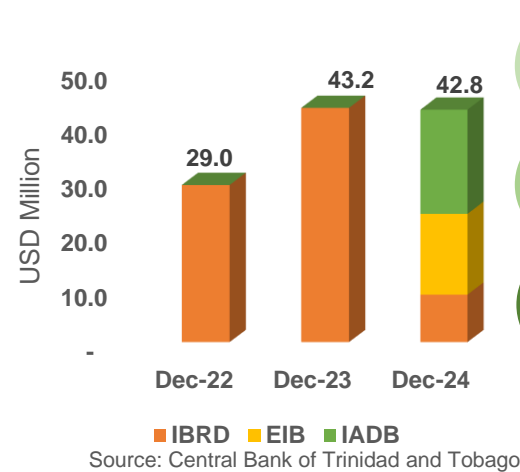


Figure 1: Sustainable Development Bonds Investment Impact<sup>1</sup>



**4 million** people with improved electricity service



**27 billion** mega joules of energy or fuel use saved



**11.1 million** people with essential health, nutrition and population services



**4.9 million** students with direct interventions to enhance learning



**-6.4 million** tco<sub>2</sub> eq net GHG emissions annually



**4.3 million** people with access to improved water sources

Source: World Bank Impact Report 2023

<sup>1</sup> In FY2023 proceeds total of \$25.5 billion were disbursed to aid member countries.

- Financial institutions **are becoming more sensitised** as the supervisory framework is taking shape.

# 10. The journey will be long, and coordinated approaches will take us even further.



1. **The Caribbean's voice will be much more effective when we provide a unified front** on climate negotiations, particularly financing, which the IMF estimates at \$100 billion per year (IMF 2023).
  - **Aligning with similarly affected and like minded parties across the world** (e.g. Small Island Developing States (SIDS)) will draw in more technical expertise and meaningful projects.
2. In a similar vein, Caribbean central banks will need to steadfastly **build on the foundation of regional collaboration on climate issues.**
3. There are **avenues for empirical research by central banks** to fill the many knowledge gaps on climate change:
  - Some international efforts include the use of Integrated Assessment Models (**IAMs**) and the National Institute's Global Econometric Model (**NiGEM**) as well as mining data sets of **central bank public speeches.**
  - CERT recently completed an assessment of where regional central banks are on the **data front.**
  - The current focus on building a **common green taxonomy** should help keep attention on climate change matters.
4. There is scope for using the expertise of central banks' personnel in **developing climate financing** e.g. The Green and Blue bonds of Barbados, Belize, Jamaica, and The Bahamas. Direct investment of central banks' reserves in these instruments will however need to take into account issues of **credit quality (rating), return and liquidity.**



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