Addressing Climate Change —
The Central Bank of Trinidad & Tobago

CENTRAL BANK OF TRINIDAD & TOBAGO

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Assessing Climate Change: The Central Bank of Trinidad and Tobago
Key Points

1. Climate change is real.
2. The impact on the Caribbean can be severe.
3. Trinidad & Tobago has some work to do.
4. The Central Bank of Trinidad and Tobago is addressing the issue on four fronts.
5. We're taking steps to become more energy efficient internally.
6. We have partnered with other international financial agencies to bring about reforms.
7. International reserves are being directed to environmentally friendly areas.
8. We're integrating climate change considerations in financial sector supervision.

1. Climate change is real.

Climate change presents a **major threat to long-term growth and prosperity**, and it has a direct impact on the economic wellbeing of all countries (International Monetary Fund).

Temperature change is making weather, climate, and water extremes **more frequent and intense** in many places of the world (World Meteorological Organization).

In December 2015, 196 countries signed a **legally binding international treaty** on climate change (the Paris Agreement). Its goal is to achieve a climate neutral world by 2050.

2. The impact on the Caribbean can be severe.

Climate change can have widespread **negative effects in the Caribbean:**

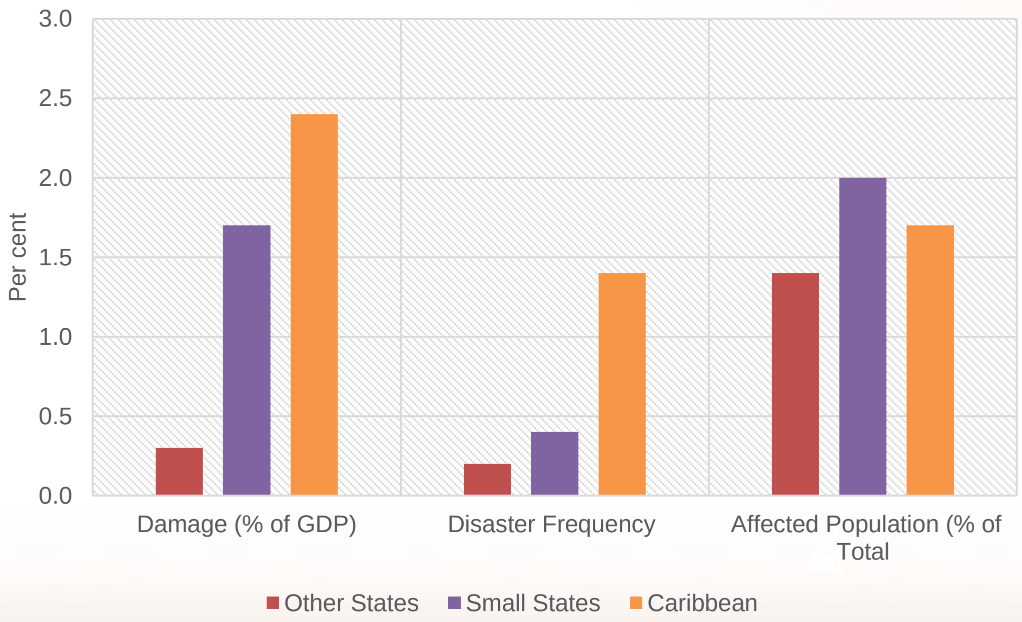
- **Physical risks:** Climate change can spur weather related events which can destroy physical infrastructure and increase mortality.

- **Economic losses:** According to estimates, the region suffered damages of $52 billion from 148 catastrophes between 1950 and 2014 (Acevedo, 2016).

- **Increased Financial Risks:** Physical shocks related to climate change may manifest as credit, market and operational risks to the commercial banking sector (Duke and Persad 2021).

- **Places Pressure on Insurers:** As infrastructural damage materializes increased insurance claims occur.

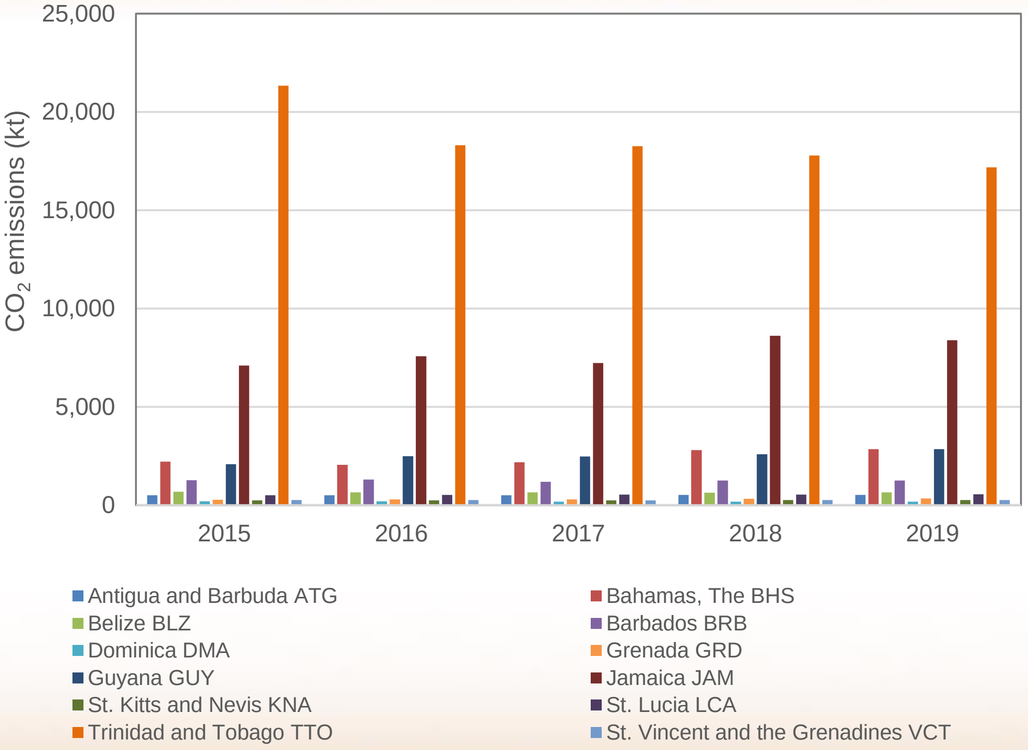
Chart 1: Highly Vulnerable States- Frequency and effect of Natural Disasters



Source: International Monetary Fund

3. Trinidad and Tobago has some work to do.

Chart 2: CO_2 emissions – Selected Caribbean/CARICOM countries



Source: World Bank Database

Trinidad and Tobago has **high carbon dioxide (CO^2) emissions per capita**, even though the country contributes less than 1 per cent global GHG emissions.


In 2015, Trinidad and Tobago adopted a **Carbon Reduction Strategy** on the basis of which its Nationally Determined Contribution (NDC) to emissions reduction has been calculated.

In 2016 T&T signed the Paris Agreement committing to an overall cumulative **emissions reduction of 15 per cent relative to a baseline by 2030** from its three major emitting sectors - power generation, transport and industry.

Extracts from The First Biennial Update Report to the UN, Ministry of Planning (September 2021).

4. The Central Bank is addressing the issue on four fronts.

1. Changes in **internal operations**
2. **Partnership** with international agencies and other central banks
3. Investing **international reserves** in ESG (environment, social, governance) instruments
4. Adaptation of **financial sector supervision**

5. We’re taking steps to become more energy efficient internally.

A review of energy use was completed.
A Level II ASHARE (American Society of Heating, Refrigerating and Air-Conditioning Engineers) was conducted during August 2021 which produced an energy use index for the Bank.

Plans are underway to measure our carbon footprint.
Using the GHG Emission Calculation Tool, the Bank has commenced the calculation of its carbon footprint, starting with data from 2019 to present.

Specific steps are/will be implemented towards more energy efficiency.
Starting with the development and implementation of an Energy Management Plan, which will encompass Energy Conservation and Energy Efficiency, the Bank intends to regularly evaluate, monitor and continuously look for methods to improve and change the impact of the company’s processes on the environment.

6. We have partnered with other international financial agencies to bring about reforms.

- The Central Bank of Trinidad and Tobago became a member of the **Network for Greening the Financial Sector (NGFS)** in February 2021.

- Established in 2017, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) is a group of Central Banks and Supervisors willing, on a voluntary basis, to exchange experiences, share best practices, **contribute to the development of environment and climate risk management in the financial sector**, and to mobilize mainstream finance to support the transition toward a sustainable economy.

- The Network's purpose is to help strengthen the global response required to meet the goals of the Paris agreement and to **enhance the role of the financial system to manage risks** and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.

- As of April 2022, the NGFS has structured its work into **four dedicated Workstreams**:
    1. Supervision
    2. Scenario Design and Analysis
    3. Monetary Policy
    4. Net Zero for Central Banks

- The Bank has representation on the Plenary and two Workstreams:
    1. **Supervision** - *The objective of the Workstream is to foster progress among NGFS members towards incorporating climate-related and environmental risks within their supervisory frameworks and practices.*
    2. **Scenario Design and Analysis** - *The objective of the Workstream is to help NGFS members in their journey to undertake climate scenario analysis and promote its use within the financial system more broadly.*

7. International reserves are being directed to environmentally friendly areas.

In **July 2022** our Board approved a change in investment strategy for international reserves

This allows for up to **2 per cent of reserves** (or about US$120 million currently) to be invested in ESG (environment, social, governance) instruments

In September 2022 we invested **US$30 million** in World Bank Sustainability Bonds

8. We’re integrating climate change considerations in financial sector supervision.

- The **Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) Guideline** requires financial institutions to consider the **impact of climate risks on their capital adequacy**. Specifically, the financial institution should:
    1. include a **climate risk assessment** which considers the likely impact of climate events on all aspects of operations
    2. embed climate risk in its **risk management frameworks**
    3. develop a **contingency plan** to deal with material climate risk impacts.

- Domestic banks indicate that they are pursuing energy-efficiency in their operations, have joined the **UN-convened Net-Zero Banking Alliance** (with a commitment to have their operations reach net-zero carbon emissions by 2050) and follow the **UN Principles for Responsible Banking**.

- Local insurers are also assessing **the impact of climate change on insurance and reinsurance risks**, particularly as they relate to catastrophic events.

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