Greening Central Banks: Learning from Experience
Thursday, 27 June 2024

Event Details

Date and Time: Thursday, 27 June 2024 13:00 – 16:00 CEST
- Georgia: 3 PM to 6 PM
- Mongolia: 7 PM to 10 PM
- Jamaica: 6 AM to 9 AM

Event type: Virtual Webinar (By Invitation Only)
Host: NDC Partnership, Economic and Social Commission for Asia and the Pacific (ESCAP), European Investment Bank (EIB) and Agence Française de Développement (AFD)

Language: English

BACKGROUND

Despite the certainty that increasing greenhouse gas emissions from human activities are triggering climate change and the rising temperatures will have consequential effects on the economies and financial systems of countries, the exact pathway of how these effects will manifest remains uncertain due to the complex, systemic, and interconnected nature of the causal factors. One of the main difficulties in measuring climate risks is that historical data does not shed light on the future and the predictability in evaluating future risks remains weak. Climate risks involve complex dynamics that interact with each other through different aspects in the short, medium, and long term. To address these risks, many regulators have turned to climate risk scenario analysis as an option to assess future long-term risks.

In a survey conducted by the Financial Stability Board (FSB) in 2022 for 53 institutions, from 36 jurisdictions, that have completed, are currently conducting, or are planning to conduct a climate scenario analysis exercise. The survey revealed major challenges experienced by institutions during the first phase of climate scenario analysis, many of whom have faced several common obstacles. For example, the abundance of climate models makes it unclear which models are most relevant for use. Furthermore, climate modeling is extremely technical and difficult to penetrate for non-experts. This is complicated further by the lack of a clear methodological framework for translating climate scenarios into macro-financial analysis. The Network for Greening the Financial System (NGFS) has been working to address these challenges through the creation of common scenario pathways for policymakers. While progress is steadily advancing the approach to analysis, the implementation of such an exercise on a national scale remains a challenging task, especially for countries for which national level data remains rudimentary.

In response to developing countries’ needs, the NDC Partnership launched the Readiness Support for Greening Central Banks (GCB) Initiative at COP26. The GCB aims to equip central banks and financial supervisors with knowledge, institutional capacities, and systems to adopt precautionary approaches to

1 Climate Risk Report on Task Force on Climate-related Financial Disclosures (TCFD)
climate risk, and to safeguard and promote green investments. Through the GCB, central banks in developing countries receive tailored-made support to align their mandate and supervisory tools with the latest science, improve enabling environments for climate finance, and mobilize finance to achieve the NDCs and long-term low emission development strategies (LT-LEDS). Moreover, the GCB plays a pivotal role in promoting collaboration and exchanges among government institutions and relevant stakeholders. These collaborative efforts not only benefit the targeted financial sector but also contribute to wider efforts aimed at greening financial systems.

Requests related to climate risk framework, climate scenario analysis, and stress testing are the most common requests under the GCB. A total of 20 countries, represented by 13 central banks, have requested support in this area, specifically for precautionary risk policies to integrate climate risks into financial systems, data collection, economic impact analysis, and monetary policy frameworks. To date, 17 countries are now benefiting from the GCB with partner support such as AFD, EIB, World Bank, UK PACT as well as through the Partnership Action Fund. The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is supporting the Bank of Mongolia under this initiative.

As climate risk modeling becomes more and more important for central banks to manage financial sector risks, there is a need for greater cross-border cooperation and knowledge sharing, especially due to the early stage of the climate scenario analysis work across jurisdictions. Exchanging experiences in the development of new modeling methods and in the application of climate scenarios is crucial. The NGFS also encourages central banks, supervisors, and financial institutions to build in-house capacity and to collaborate within their institutions, with each other, and with wider stakeholders to improve their understanding of how climate-related factors translate into financial risks and opportunities.²

**EVENT OBJECTIVE AND EXPECTED OUTCOMES**

This closed-door event co-hosted by NDC Partnerships, ESCAP, AFD, and EIB aims to bring together regulators, Central Banks, and experts to share their experiences, challenges, lessons learned, and best practices in undertaking climate scenario analysis. Furthermore, the event is expected to provide a learning opportunity for central banks and regulators planning to undertake similar analyses.

It is of great importance that the learnings from central banks who are now familiar with the exercise are shared with those who are just starting. Regulators who have gone through the first phase of the exercise will share their learnings and challenges, and regulators who plan to conduct the exercise will get a first-hand understanding of the nuances and methodologies. The cases will be complemented by the sharing of international best practices by experts and will facilitate a candid discussion on the process and challenges regulators have faced.

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² A call for action Climate change as a source of financial risk, NGFS April 2019
TARGET AUDIENCES

The webinar is closed door event thus only invited central banks, supervisors and partners can join.

Agenda

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<th>Time</th>
<th>Session</th>
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<tr>
<td>10 min</td>
<td>Opening Remarks&lt;br&gt;Dr. Hamza Malik, Director, Macroeconomic Policy and Financing for Development, ESCAP&lt;br&gt;Joaquim Leite, Head of Climate Finance, NDC Partnership</td>
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<td>20 min</td>
<td>Presentation: The National Bank of Georgia&lt;br&gt;Salome Tvalodze, Head of Sustainable Finance Division, Financial Stability Department, NBG</td>
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<td>20 min</td>
<td>Q&amp;A Discussion</td>
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<td>20 min</td>
<td>Presentation: The Bank of Jamaica&lt;br&gt;Paula-Kay Cousins, Project Lead for the Climate Risk Project&lt;br&gt;Sherene Bailey, Head of the Financial Stability Department</td>
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<td>40 min</td>
<td>Presentation from Technical Experts on Climate Scenario Analysis:</td>
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<td></td>
<td>I. The modeling process under the NGFS framework, output data, and limitations: How to make the most of the NGFS scenarios data.</td>
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<td>- Dr. Oliver Ritchers, Potsdam Institute for Climate Impact Research.</td>
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<td>II. Dealing with the modelling of uncertainties in climate stress testing: The role of informed assumptions in national contexts</td>
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<td>- Prof. dr. Igor Masten, EconLab, Managing partner Professor of Economics, University of Ljubljana</td>
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<td>III. Combining Insights from GEMMES, GCAM and CLIMRISK to Assess Macro-financial Climate Risks in Mexico</td>
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<td>- Sakir-Devrim Yilmaz, Senior Economist, Macroeconomic Modelling Unit, AFD</td>
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<td>20 min</td>
<td>Q&amp;A Discussion</td>
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<td>40 min</td>
<td>Closed Round Table between regulators</td>
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Moderator: Anant Jha, Climate Finance Consultant, UN ESCAP
- Urgamalsuvd Nanjid, Division Head, Monetary Policy Department, the Bank of Mongolia
- Salome Tvalodze, Head of Sustainable Finance Division, Financial Stability Department, the National Bank of Georgia
- Paula-Kay Cousins, Project Lead for the Climate Risk Project, the Bank of Jamaica
- Sherene Bailey, Head of the Financial Stability Department, the Bank of Jamaica

Observing/Participating Banks:
Guiding questions

Guiding points for Central Bank Presentations:

Central Banks are encouraged to share their experiences on the design and execution of the climate scenario analysis in their jurisdictions on the following aspects of the exercise:

- Overview and timelines
- Objectives
- Selection of Scenarios
- Participating Institutions
- Physical Risks Included
- Selection of Scenarios
- Adaptation of Scenarios
- Key sectors
- Financial Risks covered, methodology used for quantification
  - Templates for data collection
  - Approach to the exercise: Top Down, Bottom-Up, Hybrid, Static or dynamic Balance sheet.
  - Qualitative Analysis (Surveys)
  - Support offered to participating institutions

At each of these sub-topics, central banks are requested to highlight the challenges faced (data, scenarios, collection of responses, etc) and how they navigated these challenges to complete the exercise.

Moderate Discussion with Central Banks: Guiding Questions

- What are the key objectives that should be defined for a pilot climate scenario analysis exercise?
- What are the roles of different teams and how should they coordinate for the preparation of the climate scenario analysis?
- What are important elements of communication and support to the financial sector during the climate scenario exercise, how can the active participation of financial institutions be leveraged to maximize the learning potential from the pilot?
  - What are the key capacities that need to be built with central banks’ teams to facilitate climate risk assessment in the long run?
  - What is the frequency at which such an exercise should be repeated? What is the resource burden on central banks to conduct such an exercise without development partner support?
  - How can the monetary policy action spur action on the fiscal side and in the real economy?