



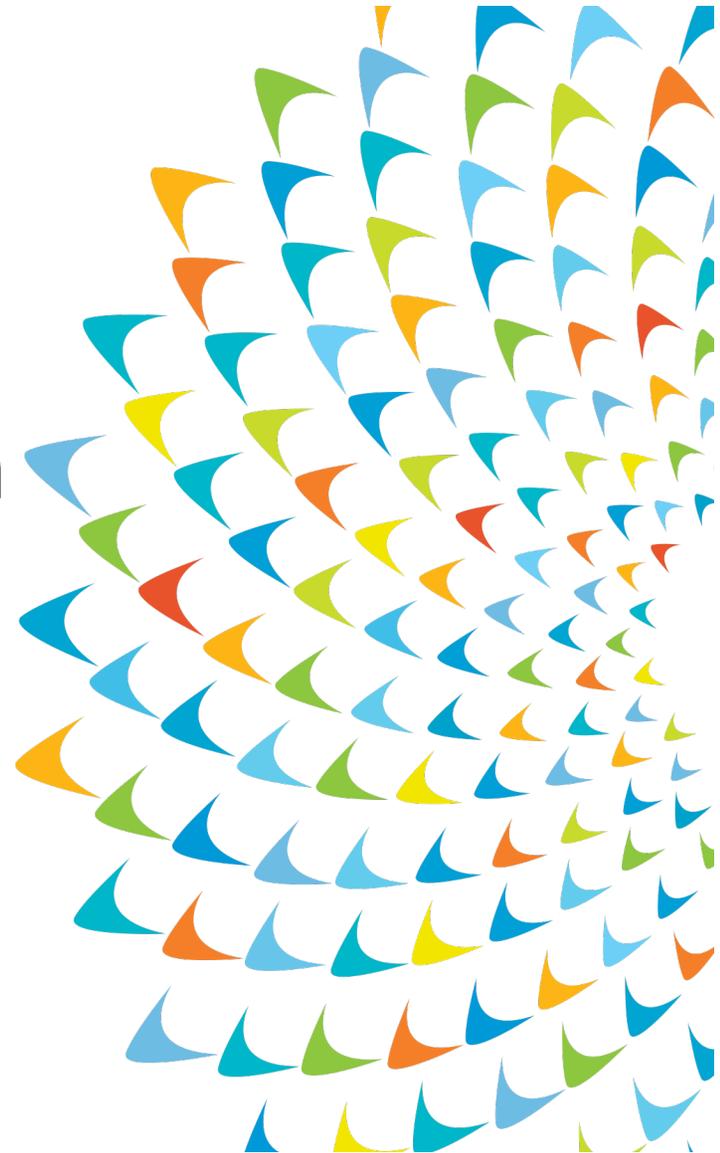
Role of the Central Banks in Greening the Financial System

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**HIGH-LEVEL INTERNATIONAL CONFERENCE
MODERN CENTRAL BANKING: CHALLENGES AND PROSPECTS**

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SESSION 4. GREENING THE FINANCIAL SYSTEM: THE ROLE OF CENTRAL BANKS AND SUPERVISORS IN THE SUPPORT OF CLIMATE-FRIENDLY BUSINESSES UNDER FINANCIAL STABILITY





Outline

- Why is climate risk important for central banks?
- Central banks' role in greening the financial system
- IFI's role in greening the financial system

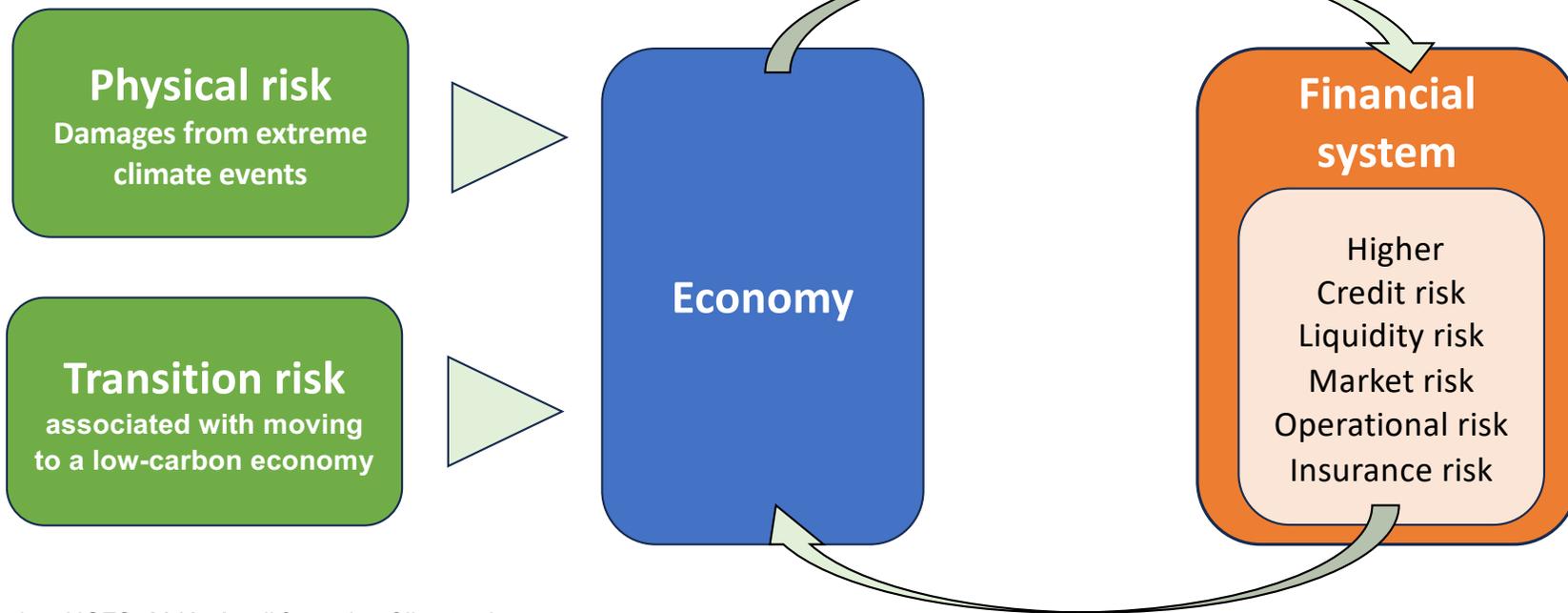


Why is climate risk important for the central banks?



Climate change impact on the financial stability

Wider economic deterioration impacting financial conditions



Based on NGFS. 2019. *A call for action Climate change as a source of financial risk: First comprehensive report*
https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

Financial contagion feedback to the economy

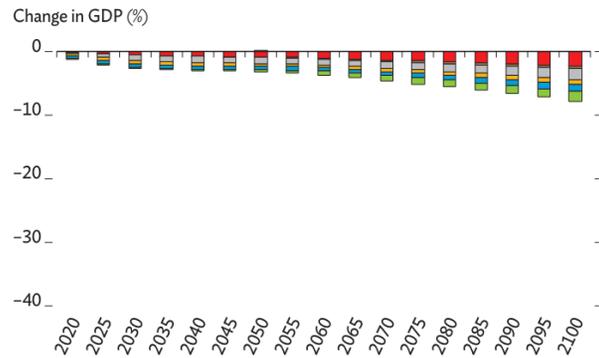


Asia may suffer more from climate change

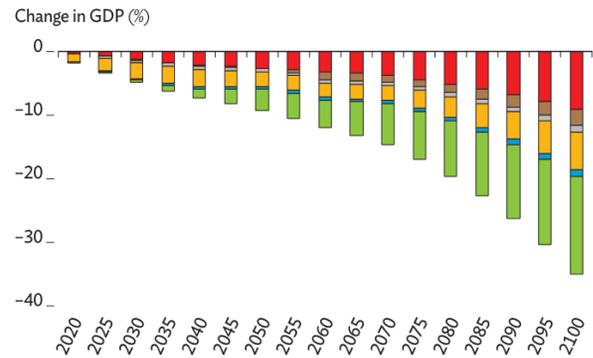
Economic Losses from Climate Change in Developing Asia under a High Emissions Scenario by 2100

Energy and transport Forestry Labor productivity Riverine flooding Sea level rise Agriculture

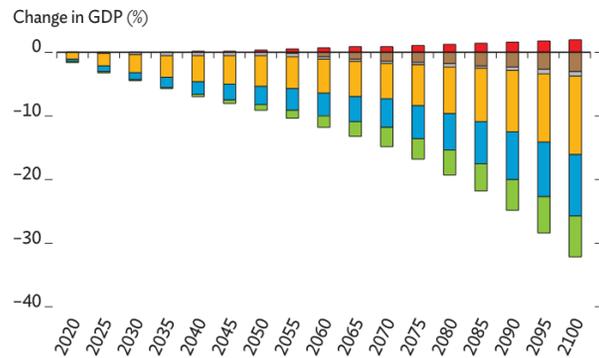
People's Republic of China



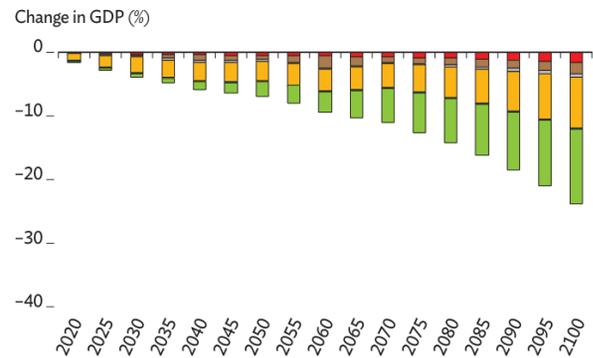
India



Southeast Asia



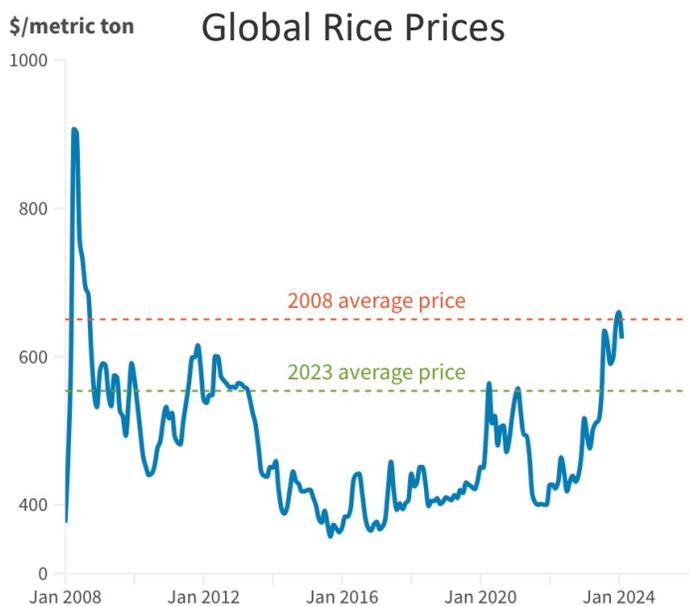
Rest of South Asia



Source: ADB. 2023. *Asia in the Global Transition to Net Zero*. Asian Development Outlook 2023 Thematic Report. 2023.
<https://www.adb.org/publications/ado-2023-thematic-report>



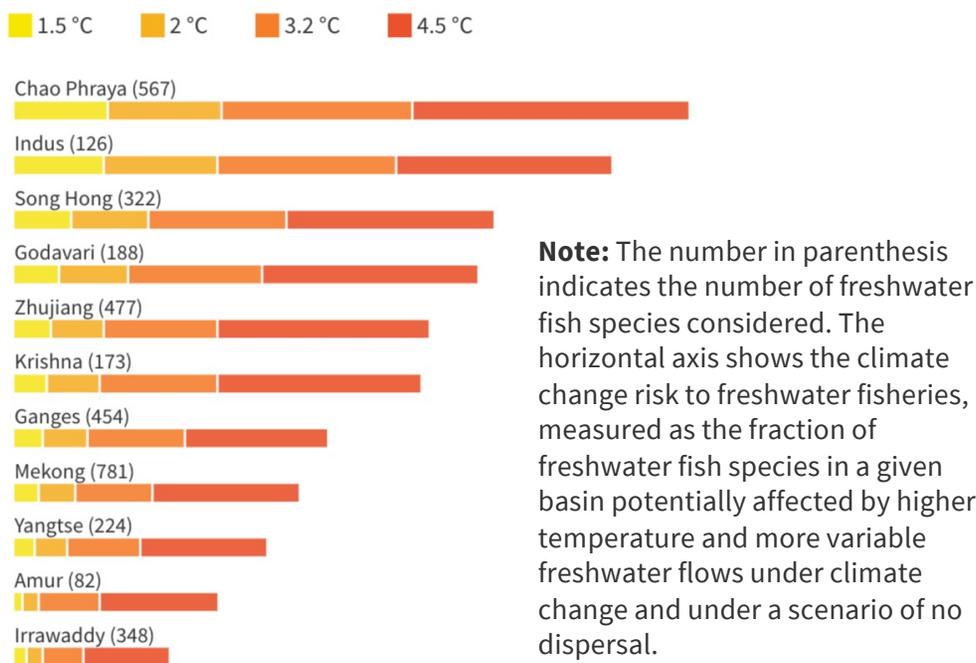
Climate change will directly impact Asia's food production; thus, additional supply shocks



Note: Data refers to average monthly price of Thai rice, 5%.

Source: Asian Development Bank. 2024. *Asian Development Outlook April 2024*

Climate change impacts on freshwater fisheries in Asia's largest river basins



Note: The number in parenthesis indicates the number of freshwater fish species considered. The horizontal axis shows the climate change risk to freshwater fisheries, measured as the fraction of freshwater fish species in a given basin potentially affected by higher temperature and more variable freshwater flows under climate change and under a scenario of no dispersal.

Source: Asian Development Bank. 2024. *People and Planet: Addressing the Interlinked Challenges of Climate Change, Poverty and Hunger in Asia and the Pacific*



Challenges in promoting sustainable finance

- Lack of domestic climate policies and financial supervisory body to set standards and guidance;
- Partial implementation of the necessary building blocks to develop the enabling ecosystem due to fragmentation of regulatory bodies;
- Lack of strong incentives, especially in fossil-fuel resource-rich countries;
- Lack of awareness and/or understanding of climate risks among the industries;
- Capacity gaps of both supervisors and financial institutions;
- Lack of data on risks and opportunities;
- Implementation cost for SMEs to comply with regulations

Based on ADB. 2023. *Greening the Financial System Climate Financial Risks and How ADB Can Help*
<https://www.adb.org/publications/greening-financial-system>



Central banks' role in greening the financial system



NGFS's recommendations to central banks

1. Integrating climate-related risks into financial stability monitoring and micro-supervision.
2. Integrating sustainability factors into own-portfolio management
3. Bridging the data gaps
4. Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing
5. Achieving robust and internationally consistent climate and environment-related disclosure
6. Supporting the development of a taxonomy of economic activities



Central banks' actions for climate change

- Central Bank as a monetary policy decision-maker
 - Central banks may be able to take action through monetary operations
- Central Bank as a bank supervisor
 - Central banks should monitor the physical risk and transition risk of the financial system as well as those of individual banks
- Central Bank as an asset owner (foreign reserve manager)
 - Central banks may consider allocating their assets, including foreign reserves for green bonds



Selected stylized 9 options for promoting climate finance through monetary operations

Credit operations

1. Adjust pricing to reflect counterparties' climate-related lending
2. Adjust pricing to reflect the composition of pledged collateral
3. Adjust counterparties' eligibility

Collateral

1. Adjust haircuts
2. Negative screening
3. Positive screening
4. Align collateral pools with a climate-related objective

Asset purchases

1. Tilt purchase
2. Negative screening

According to NGFS survey (2023), “Adjustments to asset purchase programmes appear to be the most commonly adopted measure with **35%** of central bank respondents having taken such measures (of which 79% were central banks from the euro area, plus a handful from other AEs and EMDEs).

- Adjustments to collateral frameworks have also been implemented by almost a third (**31%**) of central bank respondents (of which 88% were from euro area central banks).
- **5%** of central bank respondents (mainly EMDEs) have amended conditions and criteria for credit operations.”

Source: NGFS. 2023. Monetary policy and climate change, Key takeaways from the membership survey and areas for further analysis

Source: NGFS. 2021. *Adapting central bank operations to a hotter world*
https://www.ngfs.net/sites/default/files/media/2021/06/17/ngfs_monetary_policy_operations_final.pdf



Case study: Bank Negara Malaysia

- BNM's Low Carbon Transition Facility aims to support SMEs for their capital expenditure or working capital to initiate or facilitate the transition to low-carbon and sustainable operation
 - A favorable financing rate (5.0% max including a guarantee fee) will be provided through banks.

Source: https://www.bnm.gov.my/documents/20124/6025157/lctf_broc_en.pdf

- BNM also launched the Greening Value Chain Program to assist SMEs by offering technical advice and free carbon management toolkits and education through program partners
 - The GVC program will help corporate buyers measure, track, and manage emissions arising from SMEs in their supply chain

Source: <https://pantas.com/greening-value-chain/#:~:text=The%20GVC%20programme%20aims%20to,change%20to%20green%20their%20operations.>



Central banks as bank regulators

- Based on the NGFS scenario analysis, the central banks can identify potential risks in their financial systems as a macro-prudential assessment
- Higher physical and transition risks may show higher vulnerability and exposure of individual financial institutions. As a micro-prudential approach, bank regulators should promote tighter risk management and control by banks.
- It's important to note that, at this stage, there is no consensus on the extent to which bank regulators should adjust capital adequacy levels to account for these risks.
- Climate financial risk mitigations should not be limited to banking regulations. For example, further public investments in climate adaptation, insurance protection, and improving a national disaster prevention and response system may be more effective. Therefore, coordination and collaboration with other governmental agencies should inform the role of central banks.



Central banks as asset owners

- Central banks may invest in green bonds.
- To support the central banks' asset allocation for green, BIS launched Asia Green Bond Funds to help channel central bank reserves to green projects in the Asia Pacific region. Through the AGBF, BIS invests in high-quality bonds issued by sovereigns, supranationals, and corporates with strict international green standards.

Source: <https://www.bis.org/press/p220225.htm#:~:text=The%20BIS%20Asian%20Green%20Fund,financing%20community%20and%20other%20stakeholders>.

- The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) also agreed to investment in green bonds through the Asian Bond Fund (ABF).
 - ABF was established in 2005 to support the development of local currency-denominated bond markets by the EMEAP central banks. They provided seed money to invest in the local currency bonds.

Source: <https://www.emeap.org/wp-content/uploads/2021/11/Final-2nd-Press-Release.pdf>



IFI's role in greening the financial system



NGFS's recommendations to central banks

1. Integrating climate-related risks into financial stability monitoring and micro-supervision.
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ADB can provide knowledge support to the central banks to implement these



ADB's direct contributions to climate actions

- Scale up its own financing (direct and indirect) and syndication
 - ADB can provide financial intermediation loans to financial institutions earmarked for climate investments.
- Build an enabling environment for green investments in ADB's developing member countries
 - ADB can help develop the necessary ecosystem to develop sustainable finance.
- Facilitate local currency financing for green investments
 - Local currency financing is important for risk mitigation.
- Facilitate the issuance of green or sustainability bonds
 - ADB can provide hands-on support to stakeholders.
- Deploy innovative financing instruments such as blending or results-based financing
 - ETM, IF-CAP

Source: ADB. 2023. *Greening the Financial System Climate Financial Risks and How ADB Can Help*
<https://www.adb.org/publications/greening-financial-system>



Role of ADB in promoting sustainable finance

Advisory Support – Creating the Market / Mobilize Public & Private Capital



PROJECT SELECTION



GREEN / SUSTAINABLE
FRAMEWORK
DEVELOPMENT



EXTERNAL REVIEW



SHOWCASE THE
TRANSACTION IN
INTERNATIONAL
DISCUSSION

Building Ecosystem

Local Verifiers

Sustainability Disclosures

Regulatory Development

Green Taxonomy

Capacity Building

Sustainability-linked / Transition Finance



ADB



Thank you!

