



**BANCO CENTRAL
DEL URUGUAY**

In Conversation with

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1. When and why did your institution join the NGFS?

The country as a whole has decided to move forward very strongly on the sustainability agenda. In November 2020, the Central Bank of Uruguay (CBU) decided to join the NGFS and initiated work on a sustainability roadmap that was launched in 2022.¹ Our main goal when joining the Network was to share experience and views with other central banks, and to update our framework to better face the impacts from climate change.

We faced multiple challenges at the beginning of this process. It was important for us to better account for the effects from climate change on monetary policy, reserve management and financial sector activities. In addition, to ensure that the central bank's climate goals were aligned with the defined sustainability agenda on a national level, it was crucial to coordinate with other institutions within the country. From our experience, the first challenge to overcome is to make initial progress on the defined targets in the roadmap, and to continuously reflect on it can become even more ambitious. To achieve progress on defined (climate) goals, it is necessary to grant sufficient human and financial resources within the institution as well as to ensure upskilling of staff's expertise and knowledge in this area.

The sustainability roadmap launched in 2022 aims at identifying, assessing and monitoring climate-related and environmental risks in the financial sector, as well as developing and implementing climate-related and environmental disclosure and reporting standards, in line with international standards.

¹ <https://www.bcu.gub.uy/Comunicaciones/Paginas/Detalle-Noticia.aspx?noticia=185&title=El-Banco-Central-publica-su-Hoja-de-ruta-de-Sostenibilidad>

2. Can you share with us the key elements of the Central Bank of Uruguay's climate strategy and how it fits into the broader national strategy in your jurisdiction?

The first step taken by CBU in 2020 was to set the targets and give transparency to the market through CBU's public commitments. Since then, we have been building capacity internally through a number of initiatives (notably via technical support from the IMF in 2022). In 2024, we are planning a training in climate risk assessment in the financial sector, which will be led by the CBU with the support of international actors, to promote better practices within financial institutions. The financial sector participants are increasingly aware of climate and environmental risks but some of them have limited experience in how to properly manage those risks.

On physical climate risk and financial stability/insights for supervision, we have made some progress since 2022 with the support of the IMF during the Financial Sector Assessment Program (FSAP) mission to the country, where we have been working on a climate risk assessment considering the impacts from the sea level rise on the financial system (banks only). Although Uruguay is exposed to climate risk emanating from sea level rise, droughts and floods, among other hazards, the lack of data has not yet allowed to assess the impacts from those physical hazards as well as for the transition impacts. Given this commitment there is a challenge to get ahead in closing the gap of data availability to improve the assessment and meet our defined objectives.

Regarding climate change assessment in the central bank's own portfolio, CBU approved in 2020 a strategy to invest part of the foreign exchange reserves in green assets. Eligible counterparties are selected based on their environmental performance in the credit rating assessment to allocate funds.² The main challenge in this area is to have more transparent and comparable data availability. This is crucial to better assess the counterparty performance and take better financial investment decision.

On Carbon Footprint Measure, we decided to measure our carbon emissions to have a tool to reduce the environmental impact of all our activities (CBU as a corporate entity and in financial portfolios). We are in the process of measuring our greenhouse gas (GHG) emissions using the 3 'scopes' defined by the Greenhouse Gas Protocol. Important to highlight that the scope 3 emissions (indirect emissions) also include the financed emissions associated with our foreign exchange reserves investment, following the broad lines of the standards of the PCAF (Partnership for Carbon Accounting Financial) methodology. Going forward, we plan to (i) establish a target for reducing or mitigating our carbon emissions, (ii) formulate a strategy for achieving that target, and (iii) report on performance against it. In September 2024, CBU will publish a methodological note to provide more information on these steps.

CBU and other national authorities (Ministry of Finance together with the Ministry of Environment) are working to strengthen the capacity of the financial sector, notably by developing a green taxonomy. In December 2021, the first meeting of the Sustainable Finance Roundtable took place, comprising

²<https://www.bcu.gub.uy/Comunicaciones/Paginas/Detalle-Noticia.aspx?noticia=187&title=Uruguay-present%C3%B3-ante-el-Banco-Mundial-su-estrategia-de-inversi%C3%B3n-de-reservas-en-activos-sostenibles>

various actors from the financial system, with the objective of better coordinating the financial sector efforts to strengthen the Uruguayan capital markets in green-related aspects and to mobilise more capital for sustainable development. While much progress has already been made promoting sustainable finance (such as sharing local and international experiences offer related courses to train staff and providing technical guidance on sustainable activities to the financial sector), others key issues such as the development of a green taxonomy remain on our agenda. Nature and its mainstreaming in central bank activities is another topic to which we attribute high importance going forward.

As regards monetary policy, we have initiated work on how to incorporate physical impacts from climate change into our macroeconomic models. Uruguay's exposure to extreme climate events has been increasing over recent decades, which is causing substantial economic losses. In addition, CBU is working in partnership with other authorities (INDECO) to incorporate physical hazards (such as floods and droughts) into variables predictive models. At the time being, the tools at disposal for greening CBU's monetary policy operations remain rather limited, since the CBU does not include corporate assets in its monetary policy operations, neither as collateral nor in its asset purchases.

3. To which extent did the Central Bank of Uruguay leverage the work of the NGFS in its own domestic journey? Any concrete examples?

One example where in which international experience is been helping us is reporting and disclosure. We are following 2019 NGFS' call for action recommendation number five³ to generate adequate information on environment and climate change measuring risk and reporting evolution, according international standards. We are aligned with this principle, and we are devoted to measuring the Weighted Average Carbon Intensity (WACI) following the reporting recommendations published by the NGFS in 2024.⁴

4. One last word?

At the very beginning of our climate journey, we experienced a certain internal resistance to understand the impact of climate and environmental factors on the conventional core objectives of central banking. After four years working on greening the financial sector, we feel that every relevant actor is aligned on the importance to address these challenges, to build capacity and to make progress in the implementation of these actions, always conditioned by the data availability and the cost of regulation. As we are all in a learning process, being part of NGFS is helping us to improve by sharing experience and to motivate each other on this road.

³ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

⁴ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_information_note_on_improving_ghg_emission_data.pdf