

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

A warming planet has catastrophic consequences for this and future generations worldwide. This Note examines the potential economic impact of climate change on Trinidad and Tobago. It is the fifth instalment in a Public Education Series introduced by the Central Bank to explain important economic concepts and monetary policy actions to a broad audience in simple, non-technical terms. The Central Bank looks forward to comments and feedback, as well as topic suggestions for upcoming Notes, at info@central-bank.org.tt.

1. What is climate change?

[Climate change](#) refers to the large-scale, long-term shift in the earth's average temperature. Activities like burning fossil fuels and animal farming release harmful 'greenhouse gases' (carbon dioxide, methane, and nitrous oxide) into the atmosphere. This leads to the deterioration of the '[ozone layer](#)', which helps to moderate the earth's temperature. As a result, the planet heats up, glaciers melt quickly, sea levels rise, and weather patterns change—becoming more extreme.

The world is progressively [getting hotter](#) since the 1980s and the consequences are already evident. It is [estimated](#) that the world is currently losing species at a rate 1,000 times greater than at any other time in recorded history, and about a million species risk extinction within the next few decades. Each year, weather-related factors take the lives of around 13 million people, displacing a further 23 million and [exacerbating poverty conditions](#).

2. What is the world doing to address climate change?

Most analysts agree that the earth is in a [climate emergency](#), and policymakers have come together to forge international action. Two prominent manifestations of this are the United Nations Conferences on [Biodiversity](#) and [Climate Change](#). The latest Biodiversity Conference was held in Colombia in October 2024, while the 2024 Climate Change Conference is being held in Azerbaijan from November 11-22. At the 2015 meeting, 196 parties signed the [Paris Agreement](#), which involves voluntary commitments by countries to lower emissions and adapt to climate change.

Developing [fair and appropriate measures](#) on a country basis to counteract climate change has not been straightforward. A key bone of contention is whether each country's measures (and [financial responsibility](#)) should be based on the country's contribution to the problem. Moreover, the countries most at immediate risk due to climate change are often the [smallest ones](#) who have contributed the least to the problem and have the [fewest resources](#) to mitigate the impacts.

3. How is Trinidad and Tobago being affected by climate change?

As small islands, the rise in sea levels is already affecting coastal communities. [Signs of environmental degradation](#) are apparent across both islands, with declines in the coverage of mangroves, encroaching of the seas on coastal properties and roads, coral bleaching, and lower marine biodiversity, as reflected in a drop in the population of key species like clams, oysters, and mussels.

Extreme weather occurrences such as storms, flooding, forest fires and drought will also impact food supplies, public infrastructure and private buildings, with implications for the cost of living and fiscal support. Altered fish migratory patterns will continue to constrain coastal fishery catch volumes.

As an energy exporter, Trinidad and Tobago must also contend with the [global move away from the use of fossil fuels](#) as an energy source. Over time, this drive is expected to lead to less demand for oil and natural gas—two products that support the domestic economy as regards government revenues and foreign exchange earnings—resulting in lower prices for these exports and less investment in these areas. Admittedly, this will take some time, especially given the current heavy global reliance on these energy sources and geopolitical tensions that help keep energy prices up, but the direction is clear.

The spillover effects will be felt in the local [financial sector](#). Most directly, consumers and private businesses can find their capacity to repay being compromised, affecting the quality of banks' loans. At the same time, while the need will increase, the cost of insurance could skyrocket in light of the rise in adverse weather events.

On a sectoral basis, investments are likely to move towards activities that mitigate, control, or compensate for climate change. Examples include renewable energy projects, such as solar or wind generation, as part of a general diversification away from depleting fossil fuels. Proper advance planning could allow Trinidad and Tobago to take advantage of [emerging opportunities](#).

4. How can Trinidad and Tobago prepare for climate change and its risks?

Active participation in the international dialogue is essential given the country's extreme vulnerability, along with public sensitization on the issue. Trinidad and Tobago was among the first countries to sign and ratify the UN Framework Convention on Climate Change in 1994. Since then, the Government has outlined a [National Climate Change Policy](#) and [Carbon Reduction Strategy](#). Under the Paris Agreement, the country committed to an overall cumulative emissions reduction of 15 per cent by 2030 from 3 major emitting sectors - power generation, transport and industry.

Meanwhile, the Central Bank has engaged in [public education](#), measured its own [carbon footprint](#) as the basis of adopting energy conserving measures, participated in the [Network for Greening the Financial Sector](#) (an international collaboration among financial institutions) and invested part of the [international reserves in ESG](#) (environmental, social and governance) bonds.

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