



IMF's Engagement on Climate Issues

FEBRUARY 2023

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A satellite photograph of Earth showing a complex pattern of white and grey clouds swirling over the continents. The landmasses are visible in shades of brown, tan, and green. The text is overlaid in the center of the image.

Climate change gives rise to pressing macroeconomic policy challenges

Climate change poses threats to macroeconomic and financial stability



Global redistribution induced by climate change has repercussions for **trade and exchange rates**



Revaluation of financial and physical assets to reflect climate risks could impact **financial stability**



Transition to clean energy sources will affect **growth prospects and competitiveness**



Climate-related damages and adaptation investments can put pressure on **fiscal and debt sustainability**



Domestic stability could be threatened as some households and sectors are disproportionately affected

IMF Climate Strategy (2021): Surveillance to cover adaptation, transition management, mitigation



Strengthening resilience to natural disasters, **adaptation** to weather changes, higher sea levels – [60 climate-vulnerable members identified](#)



Managing transition risks e.g., challenges arising when seeking to achieve NDC; need to diversify away from fossil fuels;



Mitigation efforts
Strongly encouraged for the 20 largest emitters, encouraged for others

Climate change considerations have been incorporated into IMF lending

Existing facilities

- Cover natural disasters
- Rapid Financing Instrument and Rapid Credit Facility
- Climate considerations included in existing IMF programs

Resilience and Sustainability Trust

- Support for up to 143 IMF members
- Long-term financing, for climate and pandemic preparedness

Climate and debt

- Climate modules planned for the Debt Sustainability Analysis for market access countries

Our capacity development offerings, developed and planned

Fiscal	Monetary & Financial	Macro	Legal	Statistics	Training
<p>CMAPs</p> <p>Climate PIMA</p> <p>Green PFM</p> <p>Carbon pricing; fossil-fuel subsidies; green budgeting & tax reform</p> <p>Social spending for a just transition</p>	<p>Climate risk scenario analysis/ stress testing in FSAPs</p> <p>Monetary policy frameworks for climate risks</p> <p>Sovereign green bond issuance; and regulation and supervision of climate-related risks</p>	<p>Frameworks integrating macro-climate linkages; debt dynamics and adjustment</p> <p>Modelling global and domestic macro impacts of climate change and policy responses including with just transition</p>	<p>Legal aspects of monetary, financial, and fiscal policies responses to climate change, including border carbon adjustments</p> <p>TA on financial integrity and governance of climate change (anti-corruption & AML/CFT, environmental crimes)</p>	<p>Climate Change Indicators Dashboard</p> <p>TA on development and compilation of indicators of economic impacts of climate, environmental accounts, and new data products on sustainable finance</p>	<p>Climate module in new Inclusive Growth online course</p> <p>Adaptation staff “Climate 101” course for policy makers</p>

Policy analysis

Flagships

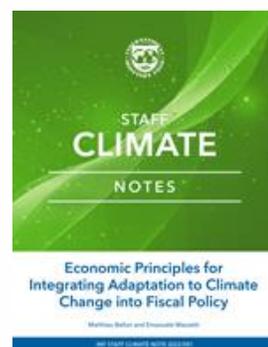
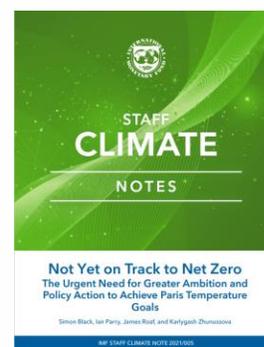
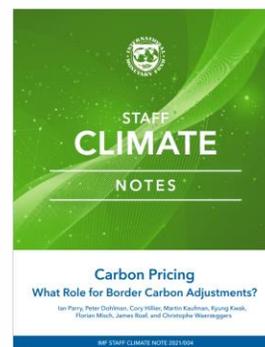
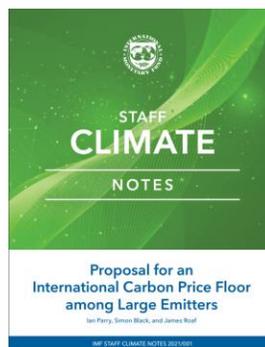
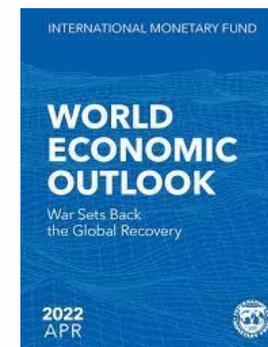
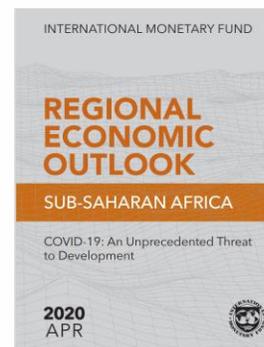
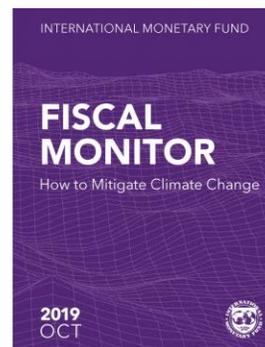
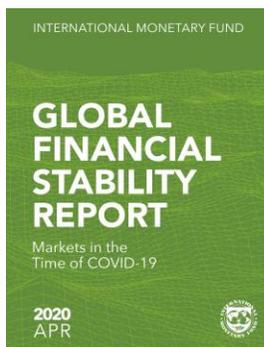
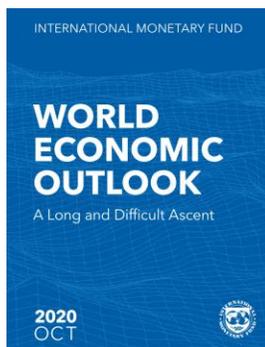
- [WEO October 2020](#)
- [GFSR April 2020](#)
- [Fiscal Monitor October 2019](#)
- [WEO April 2022](#)

REOs and Departmental Papers

- [AFR REO April 2020](#)
- EUR Departmental Papers on [sectoral policies](#) and [mitigation](#)

IMF Staff Climate Notes

- [Proposal for an International Carbon Price Floor Among Large Emitters](#)
- [Climate-Sensitive Management of Public Finances—"Green PFM"](#)
- [Strengthening the Climate Information Architecture](#)
- [Carbon Pricing: What Role for Border Carbon Adjustments?](#)
- [Not Yet on Track to Net Zero](#)
- [Climate Change Adaptation Series](#)





FISCAL AFFAIRS

Fiscal Policies for Climate Change

February 10, 2023

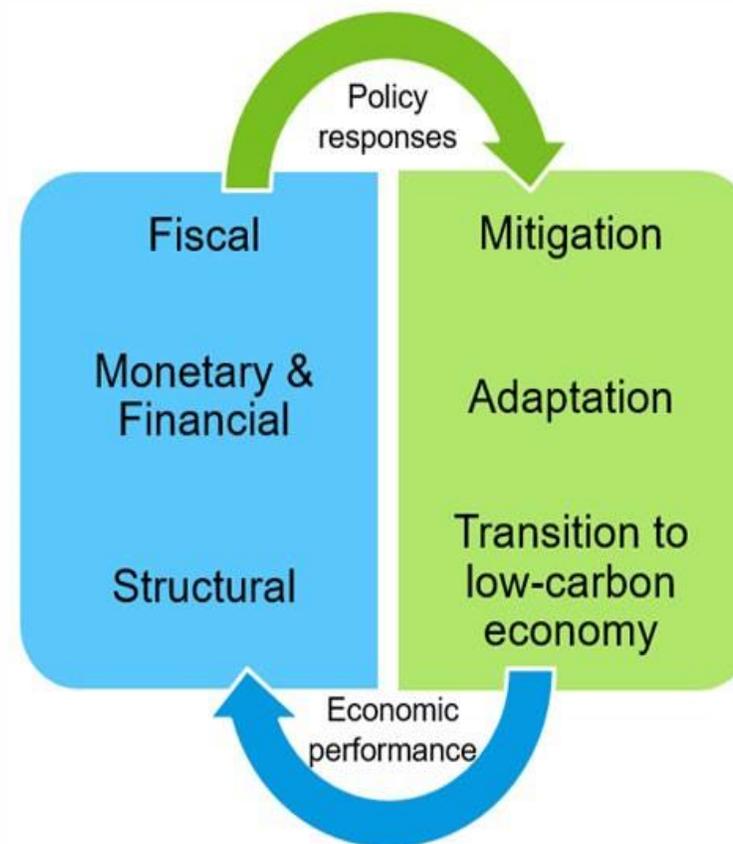
James Roaf

Fiscal Affairs Department



Climate change can be addressed by policy levers – Fiscal, monetary/financial and structural policies

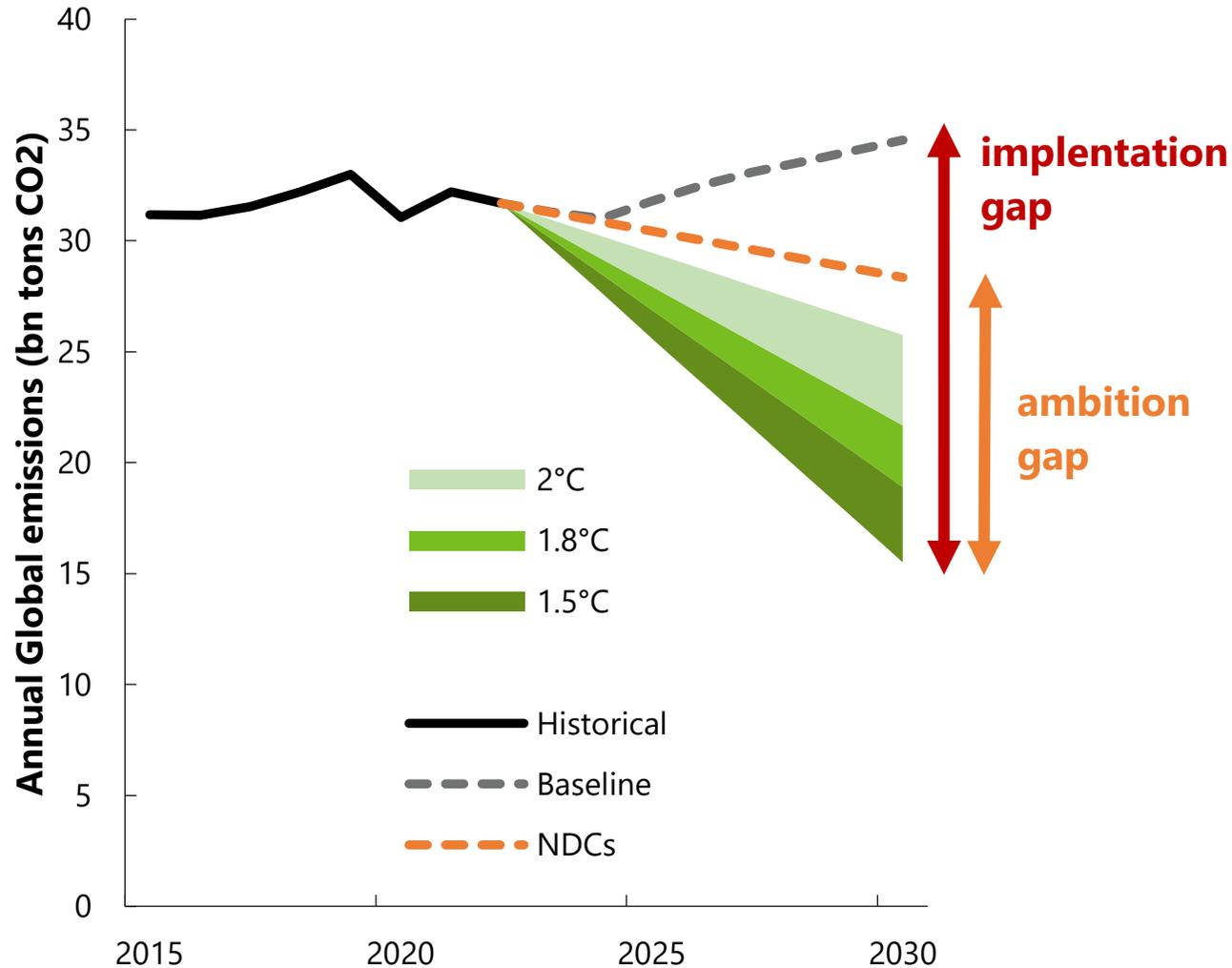
- Climate **mitigation** requires international coordination
- **Transition** to low-carbon economy requires the right policy mix to navigate the transition
- Climate **adaptation** is a pressing issue esp. for many small states and countries vulnerable to natural disasters



Fiscal and other macroeconomic policies are central to mitigation, transition and adaptation

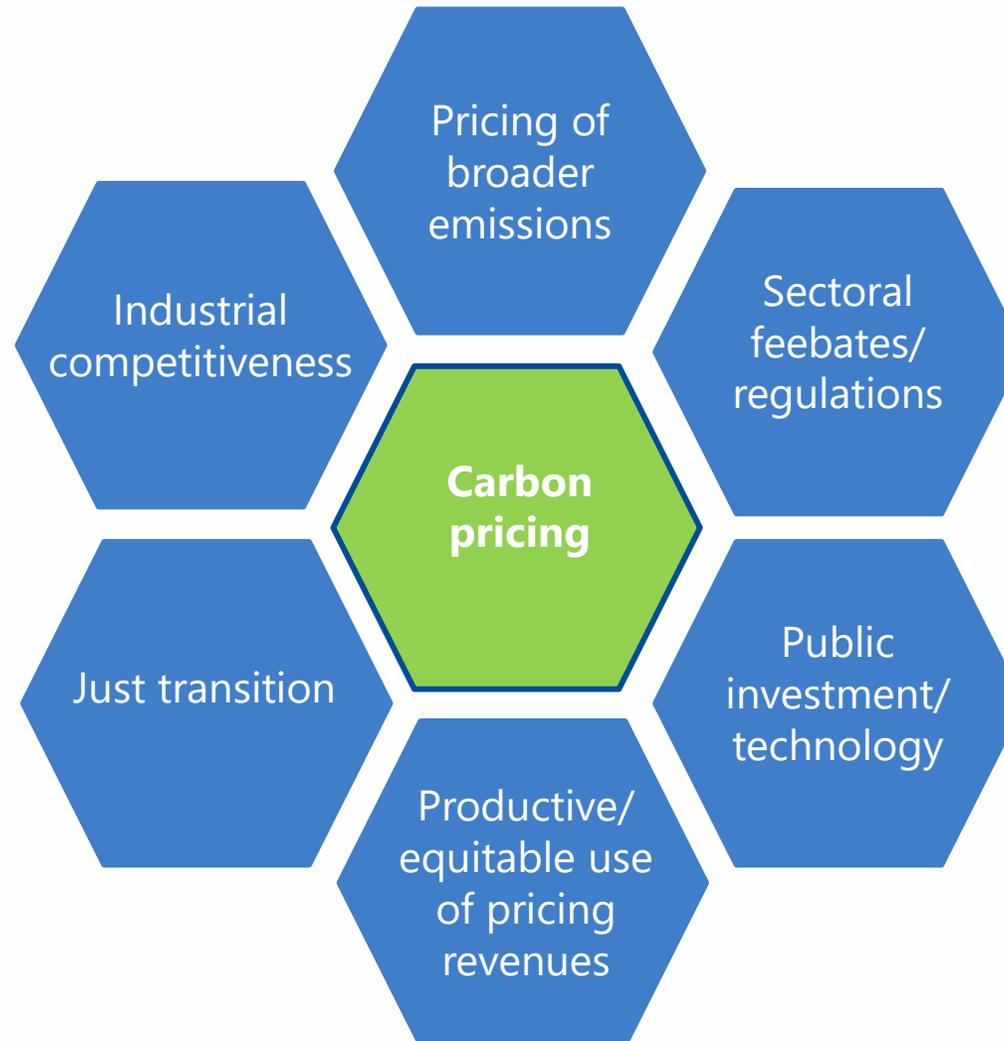
For this decade, two gaps in mitigation policy persist

Historical and Projected Global CO₂ Emissions Aligned with Targets
(1990-2030, bn tCO₂/yr)

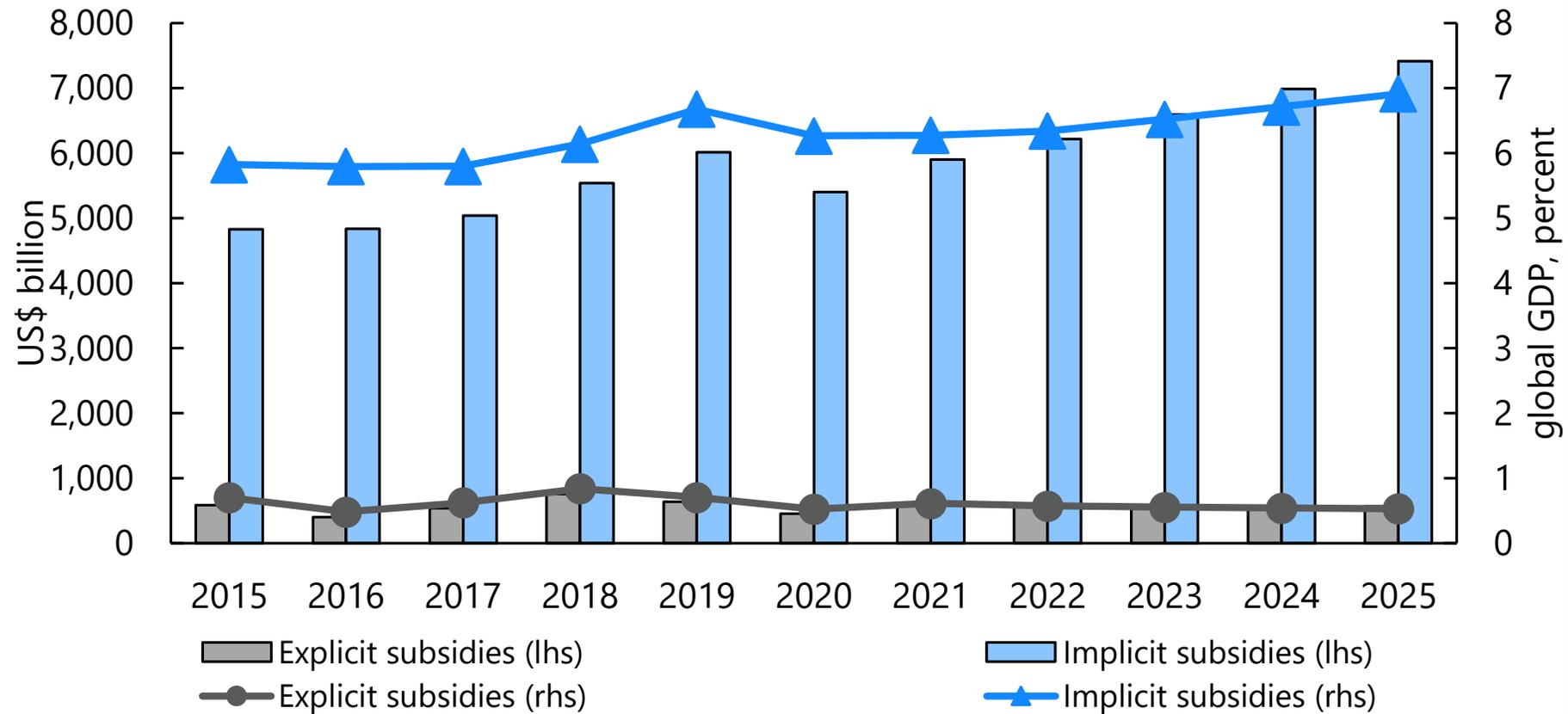


Source: IMF staff

Supporting Policies Needed to Enhance Effectiveness and Acceptability of Mitigation Strategy



Fossil Fuel Subsidies: The Global Picture



Source. IMF staff.

Note. Figures from 2019 and 2021 onwards use projections for fuel use and fuel prices, respectively.

Mitigation policy

ACTION IS URGENT

Current global ambition still achieves **less than one half** of what's needed for 2°C and about one fifth for 1.5°C.

Policies exceeding global carbon price of **\$75/ton in 2030** are needed.

Coordination better than individual efforts with border carbon adjustment: *International Carbon Price Floor proposal for large emitters*

Framework for instrument choice **at country level**



Strong case for carbon pricing

Effective, revenue, domestic environmental, administrative

Quantitative framework (*Climate Policy Assessment Tool (CPAT) – 200+ countries*)



Impacts of carbon pricing, Trade-offs with other instruments

Compensate vulnerable households and regions (“*just transition*”)



Complement with investment/sectoral policies, regulations, feebates

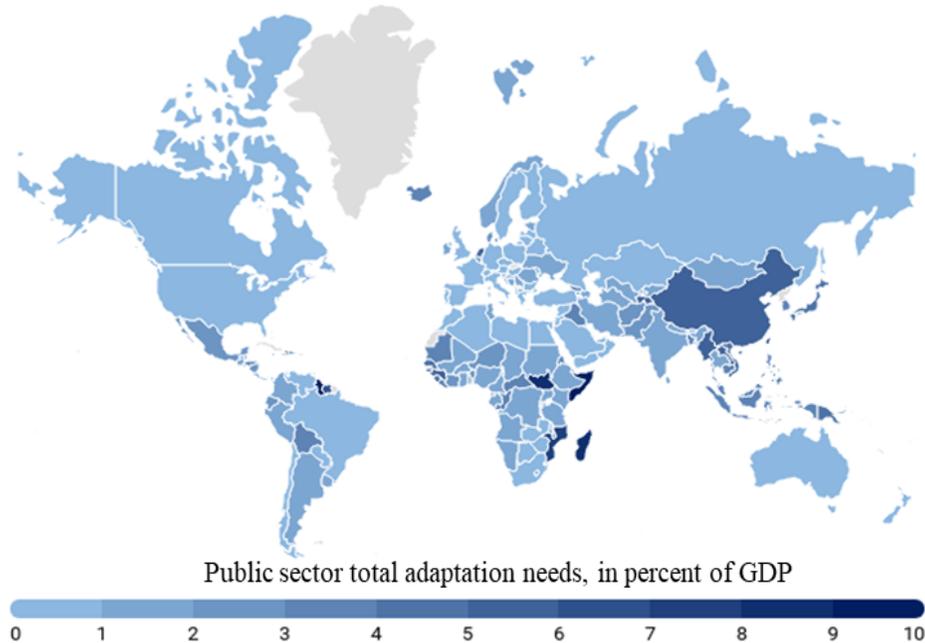


Adaptation needs are large

Annual Upgrading, Retrofitting, and Protection Investment Costs

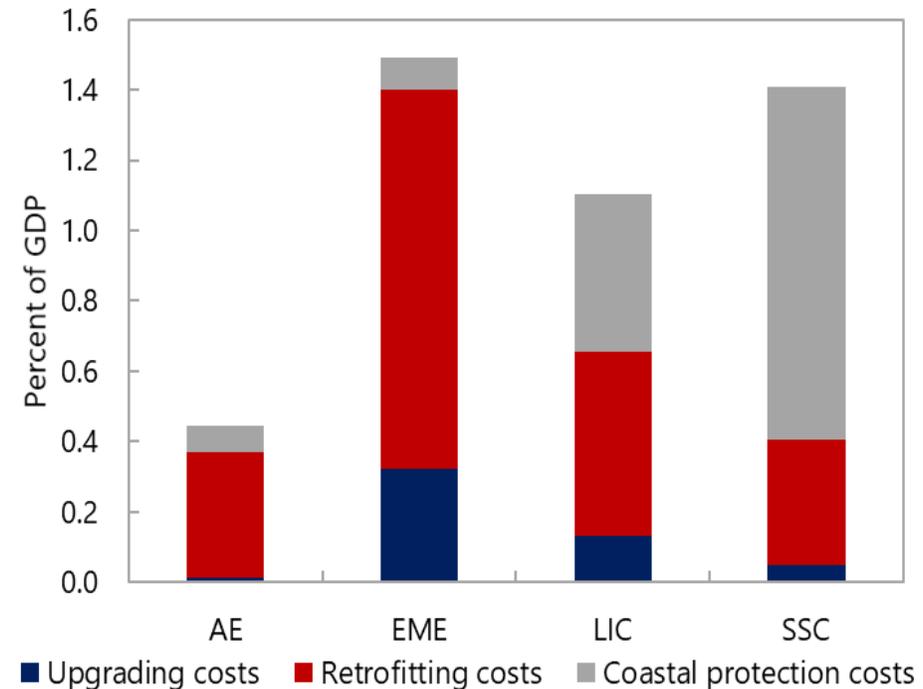
1. Country Level

(Percent of GDP)



2. By Country Groups

(GDP weighted average)



Sources: Nicholls and others 2019; Rozenberg and Fay 2019; IMF, Investment and Capital Stock 2019 Dataset; IMF, World Economic Outlook database; and IMF staff estimates.

Staff Climate Notes on Adaptation

Economic principles for integrating climate change adaptation into fiscal policy

- Maximizing the use of finite public resources for a just adaptation to climate change, facilitating private adaptation, dealing with uncertainty

The macro-fiscal implications of adaptation

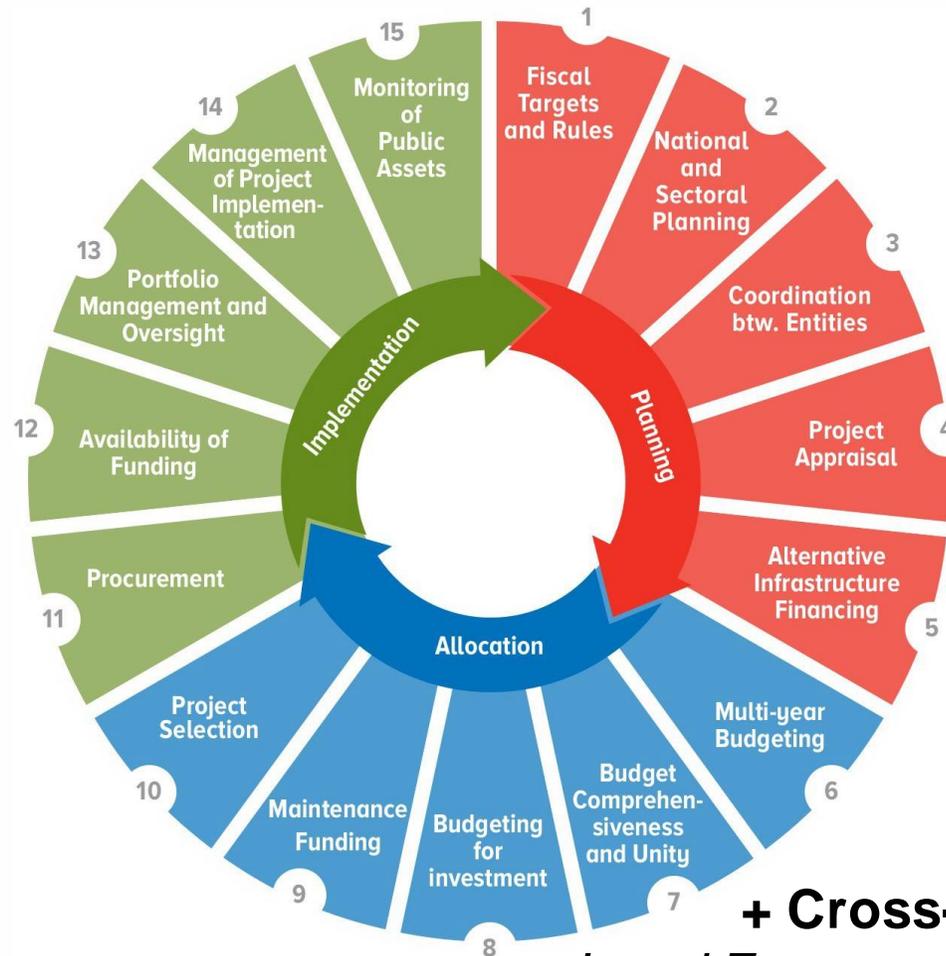
- Estimates of adaptation costs, benefits and gaps and their implications for macro-fiscal analysis; call for international support

Planning and integrating adaptation in fiscal policies

- Adaptation plans, frameworks for a comprehensive design and mainstreaming of adaptation policies

Climate PIMA: making public investment green and resilient

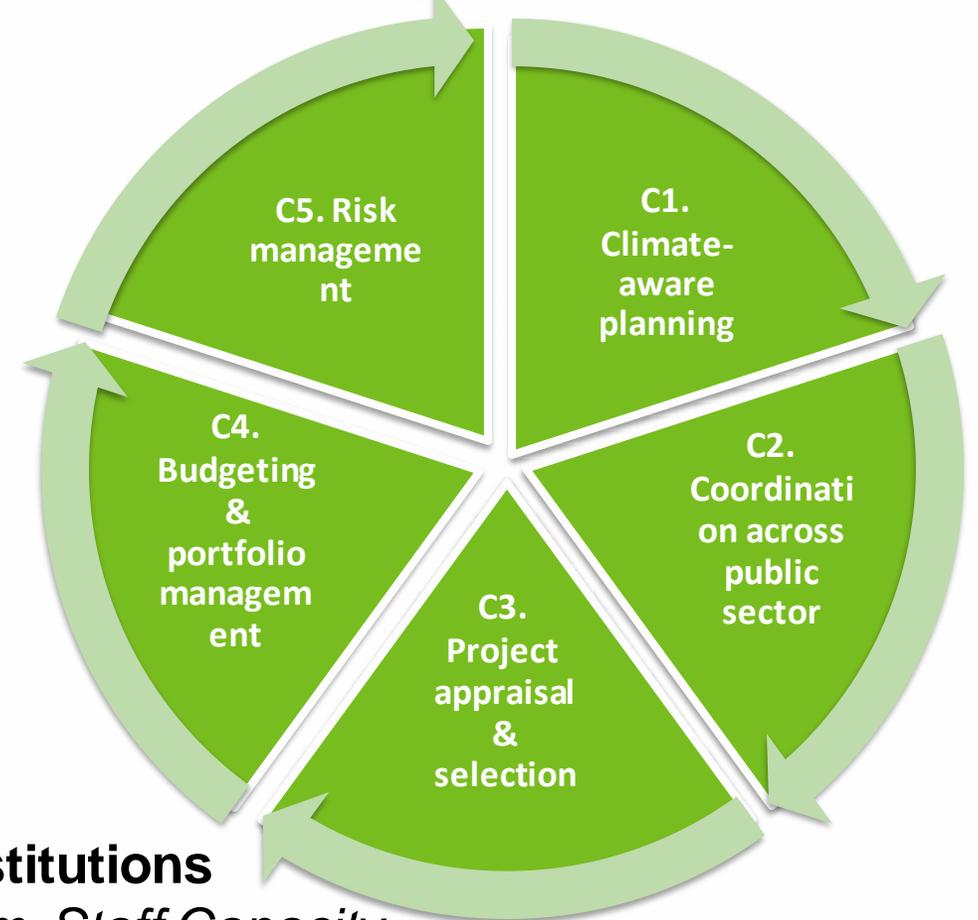
PIMA Framework



+ Cross-Cutting Institutions
Legal Framework, IT System, Staff Capacity

Climate PIMA (CPIMA)

Module developed with the financial support of the EU



Coalition of Finance Ministers for Climate Action

Finance Ministries

80 country members covering approx.
39 percent of global emissions

25 institutional partners

**Secretariat provided by World Bank
and IMF**

Workstreams based on six “Helsinki Principles”, including:

- Carbon pricing
- Green budgeting/public financial management
- Facilitating private investment in mitigation and adaptation



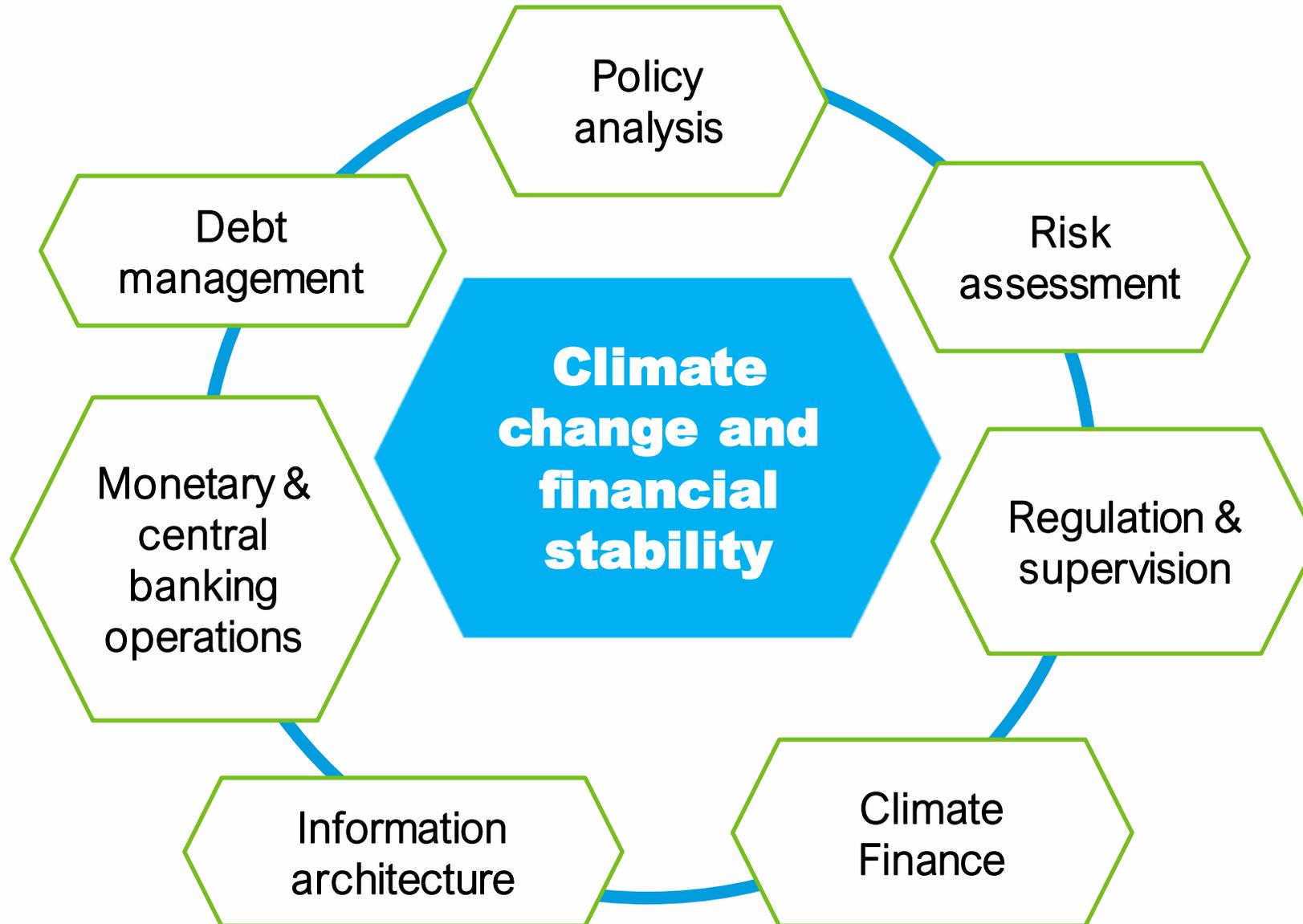
Financial Sector Policies for Climate Change

February 10, 2023

Dulani Seneviratne,

Monetary and Capital Markets Department

The Financial Stability Relevance of Climate Change



Climate Risk Analysis in FSAPs

OBJECTIVE:

1. Raise awareness of the risk and adaptation needs
2. Illustrate potential pressure points for the financial system due to physical climate shocks and in the transition to a low-carbon economy

Pilots so far

- **Physical risk:** *Philippines* (typhons), *Mexico* (floods and tropical cyclones), *Uruguay* (costal floods), *Ireland* (river floods), *Chile* (floods and droughts), *South Africa* (droughts)
- **Transition risk:** Chile, Colombia, Ireland, Norway, Mexico, South Africa, the UK

Development of analytical tool for FSAPs (and TA):



- **Physical risk:** Estimating damages due to physical risk hazards for all IMF member countries; DATA!
- **Transition risk:** Short term impact of transition risk; Use of CGE models; DATA!

Collaboration:

- World Bank
- Authorities
- Network for Greening the Financial System



Climate Risk Supervision and Regulation

Surveillance

- Assessed as part of financial sector oversight policies
- **Pilot:** comprehensive, in-depth analysis (Sweden, Iceland)
- **References:** NGFS guide; Basel Core Principles; BCBS principles for climate risk

Capacity Development

- Disseminate emerging best practices for climate-related risk supervision & regulation
- Series of specific workshops: (8 events, +500 supervisors, +80 jurisdictions)
- Dedicated course to be offered in FY24; topic included in most events

Policy Development

- Work with International Standard Setters: ISSB, FSB, NGFS, BCBS, IAIS, SIF
- Climate Information Architecture
- Role of financial sector supervisors

External Collaborations: Key Activities



Sustainable
Banking and
Finance
Network





The Resilience and Sustainability Trust

February 10, 2023

Andrea Gamba,
Strategy, Policy and
Review Department

Reminder: IMF Climate Strategy

Support members' LT growth and prosperity by supporting adaptation and transition through policy advice, financing, and capacity development



Strengthening resilience to natural disasters, **adaptation** to weather changes, higher sea levels – [60 climate-vulnerable members identified](#)



Mitigation efforts
Advice to reduce emission and help members meet their NDC, focused on the top 20 emitters



Managing transition risks
provide financing and build buffers to manage challenges, especially mitigating social impacts; support economic diversification; update financial regulations and support stability, e.g. **Financial sector stress testing**

The Resilience and Sustainability Trust - overview



The RST aims to help address **qualifying longer-term structural challenges**—climate change and pandemic preparedness —that entail significant macroeconomic risks.



RSFs (Facilities) will **complement standard Fund-supported programs** – which focus on addressing short- to medium-term BoP problems – to help build resilience to alleviate costs of future external shocks.



143 countries are RST-eligible, including all low-income (PRGT), and vulnerable small states and middle-income countries, with the list reviewed periodically.

RST - Access & Lending terms

Normal access is 75 percent of quota – BoP needs, strong reforms and capacity to repay may justify higher access, up to 150 percent of quota or SDR 1 billion, whichever lower

Consistent with the longer-term nature of the risks, RST loans have **longer grace period and maturity** (10½ years and 20 years respectively).

A **tiered interest rate structure** provides higher degree of affordability for lower-income members.

Group A	SDRi + 55 bps; no service charges	<i>PRGT-eligible countries that are not presumed blenders</i>
Group B	SDRi + 75 bps; 25 bps upfront one-time service charge on each disbursement	<i>Presumed blenders and non-PRGT eligible small states with per capita GNI below ten times the IDA operational cutoff</i>
Group C	SDRi+ 95 bps; 50 bps upfront one-time service charge on each disbursement	<i>All other RST-eligible countries</i>

Conditionality – Climate Examples

Conditionality based on diagnostics (CCDR, CMAP) and CD (C-PIMA, PFM)

Adaptation

Implement policy reforms to support investment in sectoral and infrastructure resilience

Mitigation

Issue regulations on carbon pricing policy (e.g., remove fuel subsidies or implement a tax)

Transition

Design social protection strategy that mitigates impacts of climate shocks on most vulnerable and supports a just energy transition

Green Public Finance Management / Climate PIMA

- Integrate climate in economic decision making and budget documents
- Mandatory reflection of climate risks in investment decisions

Financial Sector Risks and Risk Transfer

- Put in place **regulatory and supervisory frameworks** to better assess climate-related financial sector risks
- Adopt a **disaster risk financing strategy** that includes options for risk reduction, risk transfer (e.g., through climate contingent instruments or insurance), and risk retention (e.g., through budget)

Examples for **conditionality for pandemic preparedness** are being developed

RST – Catalytic Effect

Climate finance needs large relative to RST resources, so catalytic effect key

RST can play a catalytic role by creating a conducive environment for climate investment:

Reforms that improve investment climate and macro framework (e.g., green budgeting, climate PIMA) => Enhance governance and transparency => Additional financing from donors, MDBs/RDBs, and climate funds



Regulatory reforms to support private sector engagement



Use the RST as coordinating device (fund seed financial instruments, galvanize parallel financing through donor roundtables, etc.)

Credibility and commitment to reforms is key

RST – Now operational

Building experience

with first set of countries



Demand is strong



4 RSFs have been approved (Costa Rica, Barbados, Rwanda, Bangladesh), one additional RSFs expected in February, and several requests coming

Fundraising continues

Good progress on SDR 33 million target has been made, but timely delivery of remaining pledges and additional pledges key

Good cooperation with other institutions

(e.g., World Bank) has been key to success. We continuously seek relevant expertise and diagnostics.



Need to build momentum for climate finance

– official and private



Thank you... and we invite you to visit our website for further information:

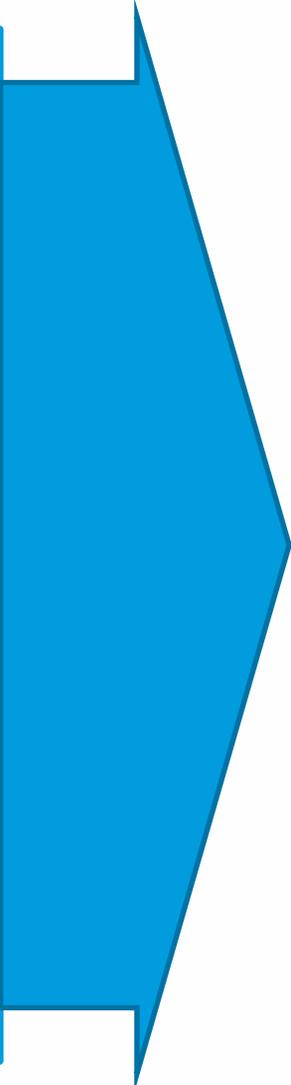
[IMF.org/climate](https://www.imf.org/climate)

[IMF.org/RST](https://www.imf.org/RST)

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RST - Strong Qualification to support Catalytic Role

- ❖ Package of **high-quality reform measures (RMs)** addressing the qualifying longer-term structural challenges.
- ❖ Concurrent **IMF-supported program** (“UCT Program”) with at least 18 months remaining prior to its expiry:
 - ❖ **Financing** (SBA, EFF, FCL, PLL, SCF, ECF) or **non-financing** (PCI, PSI);
- ❖ **Safeguards:** Sustainable debt and adequate capacity to repay the Fund.



Catalyze
additional
developmental
and private
financing

RST – Design & Synergies

Reform strength relies on good diagnostics as a "starting point", and consider that Capacity Development takes time



Hence, coordination with other institutions is critical

WB/IMF: reform package informed by country diagnostics developed in both institutions; policy priorities identified in coordination to promote complementarity and delineate areas of responsibility according to each institution's mandate and role.

WB/WHO/IMF: a framework for **pandemic preparedness** is being discussed

Engagement with **other regional Multilateral Development Banks** is also pursued.



No project financing but can catalyze or leverage it through budget.