IMF’s Engagement on Climate Issues
FEBRUARY 2023

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Chief, Climate and Development Policy, Strategy, Policy, and Review Department, IMF
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

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

- Pricing of broader emissions
- Sectoral fees and regulations
- Public investment and technology
- Productive and equitable use of pricing revenues
- Industrial competitiveness
- Just transition

Carbon pricing
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

C1. Climate-aware planning
C2. Coordination across public sector
C3. Project appraisal & selection
C4. Budgeting & portfolio management
C5. Risk management
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 change and financial stability

- Policy analysis
- Risk assessment
- Regulation & supervision
- Climate Finance
- Information architecture
- Monetary & central banking operations
- Debt management
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 (typhoons), 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
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

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

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**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
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.
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.