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For discussion

Sustainable Finance: How to Move Forward

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This paper aims to update the members of the IMF Committee on Balance of Payments Statistics (the Committee) on the progress made on developing indicators and statistics on sustainable finance and seek their inputs on the way forward for the update of the Balance of Payments and International Investment Position Manual, sixth edition (BPM6).

1. **During the 2019 meeting of the Committee, the members agreed to include exploratory work on the feasibility of measuring cross-border flows and positions on sustainable finance to better inform financial stability analysis, including potential risks from climate change in its research agenda.** In this context, staff of the IMF jointly with the De Nederlandsche Bank (DNB) started to explore existing initiatives to quantify sustainable finance to leverage synergies from the various work streams at the international fora focusing on this topic. This note presents a brief update on the work so far and asks the Committee for guidance on next steps.

2. **While the concept of “sustainability” is wide and includes environmental, social, and governance dimensions,² the work thus far has focused specifically on climate change.** This is primarily because the changing climate may pose significant *risks* for the financial sector and for financial stability more broadly, including both physical risks³ and transition risks⁴. At the same time, financial institutions may play an important role in financing the changes necessary to mitigate climate change and are, indeed, encouraged by the general public and supervisory authorities to explore ways to make a more positive impact. The increased relevance of climate change for financial stability more broadly has been paired with an exponentially growing demand by users for high-quality, internationally comparable statistics and indicators to measure these risks and developments, which are very often of a cross-border nature. At the moment, such statistics are not yet available. Several international developments have recently emerged however that aim at tackling this point.

3. **One important work stream with a common focus is the European Central Bank Statistics Committee’s Expert Group on Climate Change and Statistics (ECB STC EG), chaired by DNB, whose work is intended to serve as input to the discussions on how the European System of Central Banks (ESCB) Statistical Function could support the wider debate on climate change and the global financial system with data and statistics.** To this end, the group has engaged in a stocktaking of existing and ongoing work within European institutions related to climate change, on the variety of data sources that are used and available, and of users’ needs, in order to arrive at priorities for the ECB Statistical Work Program. At the time of writing, three priorities are proposed: (i) indicators on

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² See IMF Global Financial Stability Report, October 2019, Chapter 6.

³ Physical risks are risks associated with exposures of asset portfolios to acute and long-term shifts in climate patterns, such as extreme weather events like floods or hurricanes, and structural changes such as rising temperatures or water scarcity.

⁴ Transition risks concern the financial implications of the move (transition) towards a lower-carbon economy which may result in increased credit risk or large changes in asset values—potentially resulting in higher probabilities of default, higher losses-given-default, or “stranded assets”.

physical risk, (ii) indicators on carbon emissions, and (iii) indicators on 'green' instruments (such as 'green' bonds or loans).

4. **To leverage this significant undertaking and complement it with increased country coverage beyond Europe, the IMF has participated in the ECB STC EG as an observer and has approached the Committee members for their inputs for the stocktaking exercise.** Unfortunately, so far, the response rate from the Committee members has been very low.

5. **In addition, the IMF and ECB are currently co-chairing the “bridging the data gaps” workstream of the Network on Greening the Financial System (NGFS).** In this workstream, Central Banks and Supervisory authorities aim to strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. The “bridging the data gaps” workstream is currently undertaking similar outreach initiatives which can help broaden the country coverage of the ECB STC EG and IMF outreach.

6. **The main focus of the work on “bridging the data gaps” is on improving the availability of granular data on investment and loan portfolios (security-by-security, loan-by-loan, etc.), which can be linked with additional data sources in order to arrive at the desired indicators, although many hurdles related to data access, quality, and methodology will still need to be overcome.** However, for a more aggregate framework such as the Balance of Payments, one of the purposes of which is to monitor financial stability, enhancements can be envisaged that would respond to users' needs. Examples include additional breakdowns or supplementary data for the portfolio investment account to assess the share of 'green' portfolio investment, or the exposure of countries to physical risks elsewhere via their direct investments (and the income that is derived from these investments).

7. **The IMF Statistics Department (STA) also anticipates intensified needs for climate change-related data and is working on a project to collect data on climate change to develop a Climate Change Indicators Dashboard (CID).** The data needs for the CID are informed by an internal stocktaking exercise on departments' critical data needs for surveillance. In addition, STA is working with other international organizations to better reflect the climate change data needs during the ongoing update of the international statistical standards. It will also host the ninth IMF Statistics Forum in November 2021, with a focus on the climate change statistics.

8. Committee members' responses to the questions below are sought to begin discussions on how to frame the way that cross-border flows and positions on sustainable finance could be reflected in *BPM7*.

Questions for the Committee:

- 1) *Could you support efforts of the IMF outreach by filling out the above-mentioned stocktaking survey and NGFS work, if necessary, by engaging with relevant departments or institutions within your jurisdiction?*
- 2) *Are there any existing/planned work at the national level to compile climate change-related data that is relevant from a cross-border perspective?"*

- 3) *What should be the focus of the work going forward: more narrow, focusing on climate change in particular; or more broad, including other aspects of sustainability?*
- 4) *Do you have any views on which variables in particular would need to be considered in BPM7? For example: identifying cross-border financing for the transition to a low-carbon economy, or climate-related goods and services, or green bonds under the financial accounts? Should the focus be on the financing aspects or is there also interest in income and expenditures relevant to climate change?*