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**Joint Statement by Mr. Huh and Ms. Lim on IMF Strategy to Help Members Address
Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget
Implications
(Preliminary)
Executive Board Meeting
July 16, 2021**

We thank staff for the comprehensive paper and helpful Q&A session and bilateral outreach. Beyond the issue of macro-criticality, climate change is an existential threat with enormous economic and social costs for many member countries. A more systematic and strategic engagement of the Fund is necessary to help members address climate-related challenges and promote green recovery and transition toward low-carbon economy in the wake of the COVID-19 pandemic. **We welcome the proposed IMF climate change strategy as timely and comprehensive and would like to offer a few comments on its implementation with some caveats.**

We support the Fund's stepping up of climate work to better serve increasing demands of the membership. In carrying out its strategy, the Fund must play to its comparative advantage and remain within its mandate and expertise. Climate change can cause major macroeconomic and financial policy challenges through various channels including fiscal management, monetary policy, financial stability and trade policy. We concur that most of these challenges and policy issues fall within the Fund's mandate. The Fund is well placed to provide high-quality analysis on the economic and financial impacts of climate change and relevant policy advice through bilateral surveillance and capacity development activities. The Fund may also use its unique role of multilateral surveillance and flagship reports to play a useful role in facilitating coordination of global macroeconomic policy responses, given the global public good character of climate change mitigation.

We broadly support the expansion of coverage in bilateral surveillance and continue to stress that the coverage of climate mitigation in bilateral surveillance should be voluntary. Policy recommendation should also reflect country specific circumstances and capacity, including immediate policy priorities amid challenges from the pandemic. We reiterate the need for

authorities to have the flexibility to choose instruments best suited to domestic conditions, both economic and political. While carbon pricing is an efficient way to curb emissions, other instruments such as regulation or climate finance also have significant potential mitigation benefits. We welcome the Fund's work in incorporating climate-related risks—physical risks and transition risks—in FSAPs including through stress testing and assessment of climate-related financial regulation and supervision. We encourage a standardized approach for assessment based on members' consensus. Recommendations from bilateral surveillance should take into consideration, and clearly communicate, limitations of current assessment tools as well as policy constraints facing the authorities. We welcome the launch of the Climate Macroeconomic Assessment Program (CMAP) building on the successful completion of pilot Climate Change Policy Assessment (CCPA). We also see scope for Fund's CD and external training to play a complementary role to help the membership address these challenges, tailored to countries' circumstances and technical capacity. However, we are concerned that staff's vision of direct country engagement described in the paper is too ambitious, though it is a steady state, given the challenge the Fund faces to build capabilities around climate change within a relatively short period of three years. *Could staff provide details of annual plans for staffing and resource allocation for and potential outturn of each activity on climate change over the three-year period and a contingency plan in case that required human resources cannot be secured?*

A close and strategic collaboration with other institutions, including the World Bank, must be done to benefit our members and to increase traction of policy advice. In line with the findings and recommendations of the IEO, a clearer framework for collaboration with the World Bank on climate change is essential in taking this work forward. The Fund should not seek to be the lead organization on climate change given the Fund's overall mandate, expertise and resources. We urge staff to leverage the expertise of other institutions to the maximum extent and avoid duplication of work. The Fund should also play a critical role in catalyzing finance for climate adaptation by helping members build strong institutions and public financial management systems to meet the requirements of development banks and multilateral climate funds. Therefore, close cooperation with these institutions for understanding their requirements and procedures will help facilitate vulnerable countries' access to climate financing.

While noting the need for substantial additional staffing to implement the proposed climate strategy, we look forward to a holistic discussion on the medium-term budget augmentation to consider the appropriate tradeoffs and priorities among competing resource requests. We welcome a flexible approach to the governance by organizing "climate hubs" in different ways in four major functional departments while reinforcing area departments and others as necessary. We see merit in taking a gradual approach to integrate climate change into the Fund's surveillance and CD and emphasize the importance of internal training to appropriately equip existing IMF economists with climate expertise considering the dearth of climate macroeconomists. We are also cautious about unnecessary competition for quality climate economists and potential crowding-out effect in the market which may weaken the capabilities of other international, national and private organizations in climate change response. *Staff comments are welcome.*