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**Joint Statement by Mr. Buissé, Mr. Fanizza, Mr. Hilbers, Mr. Pösö, and Mr. von Kleist
on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—
Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We strongly welcome the IMF strategy presented in the report. The science of climate change is clear, and the global, systemic macroeconomic implications are obvious. The challenges facing individual Members differ, and the timing and scope of disruptions may vary. But concerted action everywhere, now and over the next decade will be crucial to mitigate climate change. We therefore agree that the Fund has a key role to play, and strongly support the set of actions and tools outlined in the paper to broaden and deepen the Fund's engagement on macro-critical climate change related issues across its activities. Doing so would help the Membership prevent and address macroeconomic and financial stability risks related to climate change, while ensuring economic sustainability and thus falls squarely in the Fund's mandate. This would be in line with the objectives of the EU Green Deal and would contribute to the alignment of financial flows with the climate goals of the Paris Agreement (Article 2.1.c). The EU is strongly committed to remain in the lead on the climate agenda, having just adopted a comprehensive package with concrete proposals to reduce emissions by 55% in 2030 compared to 1990, and become the first continent to achieve climate neutrality by 2050.

In terms of both **multilateral and bilateral surveillance**, the Fund should systematically provide the Membership with analysis, data and advice on fiscal and financial policies to mitigate and adapt to climate change, as well as to support the transition to a low-emission, sustainable and resilient economy. In addition, the Fund should continue to use its flagship reports to regularly update its Membership and the wider public on the economic and

financial impact of climate change. This could include, for instance, effective carbon pricing and the introduction of an International Carbon Price Floor -ICPF-, either in the form of an Emissions Trading System (ETS) or carbon taxes. When integrating climate change considerations into macro policies, the Fund should also monitor distributional aspects and flag the potential need to support those that are negatively impacted. An analysis of the Paris goal-compatible path of carbon price increases that minimizes adjustment costs and its impact on the competitiveness of the economy would also be welcome.

We strongly support the **integration of adaptation, mitigation, and transition policies into Article IV consultations and underlying macroeconomic framework, on the basis of the appropriate methodological approaches**. Mitigation issues would first feature in Article IV consultations for large polluters under the spillover provision, and could then shift towards a broader inclusion to ensure a fair treatment of Fund's Members and get concrete and tangible results in terms of mitigation efforts.

In line with the Fund's mandate, we also support the integration of the **policy consequences of macro-critical climate-related risks** and spillovers into both Article IV consultations and the Financial Sector Assessment Programs (FSAPs). This can be done on the basis of a comprehensive assessment of climate-change related physical and transition risks for the overall economy (Article IVs), and the stability of the financial sector (FSAPs). A holistic, cross-sectoral approach is key to properly capture spillover effects and potential risk transfers across sectors and borders. Not only the level of risk exposure but also its distribution across the economy should be taken into account. FSAPs should routinely feature climate stress testing and scenario analysis.

When **lending**, the Fund should consider using program conditionality, where appropriate, in order to support borrowing countries in increasing their resilience against climate change, and mitigating future shocks resulting from climate change. Thereby, Fund advice, adjustment measures, and policy conditions agreed in the context of lending programs should ensure sustainable economic development and should not encourage highly emission-intensive growth.

To that end, we welcome the **integration of countries' exposure to climate risk and policy options to manage such risks into the Fund's Debt Sustainability Analyses (DSAs)**. While the debt sustainability framework for low-income countries (LIC DSF) already includes—for countries that are frequently exposed to natural disasters—a stress test scenario that incorporates a large temporary impact on growth, a similar stress test scenario should be incorporated in the debt sustainability framework for market access countries (MAC

SRDSF), taking into account both the costs and benefits from resilience and adaptation policies in terms of growth performance.

Utilizing technical assistance, the Fund should aim at enhancing countries' ability to monitor and adapt to macroeconomic and financial climate-related risks. The Fund should offer strengthened technical assistance notably to developing countries, as they are more vulnerable to macro-critical consequences of climate change. The Climate Macroeconomic Assessment Program (CMAP) should be progressively turned into a key tool for IMF analysis in climate-vulnerable countries.

In order to perform all these tasks, the Fund should **enhance its climate expertise** and ensure coordination across departments and with other relevant international organizations, standard setting bodies, central banks, and NGOs. Fund's efforts should not duplicate, but rather complement existing initiatives. To this end, we would strongly encourage collaboration of the Fund with relevant stakeholders, and the World Bank in particular. We support the emphasis the Fund is putting on collaboration with these institutions, as it could enhance a global response to the climate crisis. To deliver on its ambitious climate agenda, we acknowledge the intention to **scale up its human and budgetary resources devoted to climate work**, including by re-prioritization and balancing against other non-core priorities if needed, while at the same time considering the requests for additional resources as part of the overall budget exercise. In this regard, we highlight that the Fund's ability to perform its core tasks must not be compromised under any circumstance.