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**Statement by Mr. Trabinski and Mr. Makhammadiev 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**

The discussion on how to address climate change challenges within the IMF’s activities more systematically is timely. We thus welcome staff’s work on plans for changes to the internal organization of the IMF to support and monitor mitigation and adaptation activities. The impact of climate change on the economy and financial markets is potentially wide-ranging and substantial, which is also reflected in an increased demand by the membership for advice on climate-related issues. At the same time, much remains to be learned about the transmission channels of climate change risks to financial market valuations and macroeconomic performance. We thank staff for concisely laying out the market failure and economic cost rationales for policy action, made more pressing still due to apparent non-linearities.

We agree that the Fund needs to broaden and deepen its engagement on macro-critical climate change issues across its activities. Moreover, we are reassured that such an engagement is already being mainstreamed throughout the Fund. However, we agree that due to the cross-cutting nature of the topic, an interdisciplinary approach to climate change is of the essence and that climate-related knowledge should be further disseminated within the Fund. While selective training will be needed, we think that staff economists already have strong skill sets. Still, the Fund should proceed with caution to preserve its knowledge base in its field of expertise.

Recent policy discussions have clarified the Fund’s role in climate change work relative to its mandate. The CSR and the FSAP reviews have confirmed the Fund’s responsibilities on climate in multilateral and bilateral surveillance. Also, the review of pilot cases that launched the CMAP has defined how this diagnostic tool can be employed to assess climate vulnerabilities with a strong macroeconomic and financial emphasis. We agree that for these activities, as well as for program-related work, macro-criticality is a key prerequisite. To

provide impactful advice on climate-related issues, the Fund should focus on its remit and expertise in enhancing macroeconomic and financial stability. In particular, the Fund should systematically provide its members with analysis, access to reliable data, and advice on fiscal and financial policies aimed at mitigating and adapting to climate change, including supporting the transition to a low-emission, sustainable and resilient economy.

We support the integration of adaption, mitigation, and transition policies into Article IV consultations and the underlying macroeconomic framework, based on the appropriate methodological approaches. We agree that these issues could be included in Article IV consultations with large emitters and could then be incorporated more broadly to ensure equitable treatment of IMF members and to achieve specific and measurable mitigation efforts. Nevertheless, we would like staff to present to the Board more specific criteria and consistent methodology used in preparing the list of large emitters. We also support the integration of policy consequences of macro-critical climate-related risks and spillovers into both Article IVs and FSAPs, based on a comprehensive assessment of climate change-related physical and transition risks for the overall economy (Article IV) and stability of the financial sector (FSAPs).

The envisaged new steady state is ambitious. Stepping up the engagement on climate is less a question of direction, but one of scale, pace, and reliance on internal staff resources. We wonder whether pursuing output targets, e.g., the number of climate chapters in Article IV reports per year, rather than formulating objectives in terms of outcomes will ensure high-quality advice, traction, or impact for members. *We ask staff to elaborate.* Recalling earlier experience from integrating financial sector analysis into surveillance suggests that an internal upskilling on climate can only be gradual and needs time. A more measured pace would be more realistic and workable, not least given the rapid methodological developments in this area. Such an approach would also allow to better take advantage of the existing staff pool and to better reshuffle FTEs within the organization. *Did staff evaluate the option of a more gradual approach?*

The implementation of the climate strategy is subject to decisions on the overall budget envelope and budget allocation choices. The consolidated budget will demand that the relative priorities of the Fund's activities be spelled out. We note that requests for substantial increases in FTEs have also been flagged in other areas. These resource requests have to be assessed and agreed upon jointly, not sequentially. Foreshadowing the upcoming discussion on a possible budget increase, we believe that the flat real budget has served the Fund well as has required continuous realignment of resources to priorities and needs. This implies that additional FTEs which are allocated to priority areas, including climate change, would have to be largely compensated through judicious reprioritization and savings.

Close and effective cooperation is needed among international bodies and various international initiatives that seek to advance work on climate change. We encourage an effective division of labor among these fora with the clear objective to avoid duplication of work. The FSB roadmap on climate-related risk and the upcoming G20 sustainable finance roadmap are welcome steps towards more coordinated action in this area. The Fund should partner with and draw on the analysis of the FSB and NGFS, among others, e.g., in the area

of climate scenario analysis. We echo earlier calls by the Board to strengthen the collaboration with the World Bank through a specific framework on climate-related work. In doing so, and to provide impactful member advice, the Fund must contribute first and foremost with its proven expertise in fiscal, monetary, exchange rate, and financial sector policies.

Lastly, as a more technical remark on terminology, we would suggest using the term “low-emission economy” instead of a “low-carbon economy”, as we believe that this would better underscore the need to reduce all greenhouse gas emissions rather than solely those based on carbon compounds.