

**EXECUTIVE
BOARD
MEETING**

SM/15/275
Correction 2

November 23, 2015

To: Members of the Executive Board

From: The Secretary

Subject: **Addressing Global Climate Change—The Role of the Fund**

Board Action: The attached correction to SM/15/275 (11/6/15) and Cor. 1 (11/17/15) has been provided by the staff.

Evident Ambiguity **Page 1**

Comment: The title of the paper has been changed to "Addressing Global Climate Change—the Role of the Fund" to eliminate any ambiguities regarding the nature and status of the Board discussion on Wednesday.

Questions: Mr. Keen, FAD (ext. 34442)
Ms. Pattillo, SPR (ext. 37319)
Mr. Parry, FAD (ext. 39724)



NOVEMBER 6, 2015

THE MANAGING DIRECTOR'S STATEMENT ON THE ROLE OF THE FUND IN ADDRESSING GLOBAL CLIMATE CHANGE **ADDRESSING GLOBAL CLIMATE CHANGE— THE ROLE OF THE FUND**

The Fund has a role to play in helping its members address those challenges of climate change where fiscal and macroeconomic policies are an important component of the required policy response. The greenhouse gas mitigation pledges submitted by 150 countries ahead of the pivotal Climate Conference in Paris in December represent an important step by the international community towards containing the extent of global warming.

Limiting greenhouse gas emissions—a source of negative externalities—is inherently a fiscal issue: carbon pricing, by taxation or similar means, will be critical to meeting the mitigation pledges that countries are now entering into in an efficient and effective way, while also raising substantial revenues that can be used to reduce other, more distorting taxes. Carbon pricing, through its incentive effects, will also help mobilize private finance for mitigation activities and spur the innovation needed to address climate challenges. Finance ministries have a key role to play in promoting and administering these policies and ensuring efficient use of the revenue raised.

The process of climate change is set to have a significant economic impact on many countries, with a large number of lower income countries being particularly at risk. Macroeconomic policies will need to be calibrated to accommodate more frequent weather shocks, including by building policy space to respond to shocks; infrastructure will need to be upgraded to enhance economic resilience. It will be important that developing countries seeking to make these adaptations have access to financial support on generous terms.

Financial markets will play an important role in helping economic agents and governments in coping with climate change-induced shocks. And heightened climate vulnerabilities and the structural adjustments associated with a shift towards a low-carbon economy over the medium-term will have important implications for financial institutions and financial stability.

This paper identifies areas in which the Fund has a contribution to make in supporting its members deal with the macroeconomic challenges of climate change. It draws on materials contained in a forthcoming Staff Discussion Note (Farid et al. 2015) and has benefited from the discussion at an informal Board meeting on IMF work on climate change held on September 30th.