EXECUTIVE BOARD MEETING

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March 14, 2019

To: Members of the Executive Board

From: The Secretary

Subject: **Fiscal Policies for Implementing Paris Climate Strategies—From Principle to Practice—Draft Press Release**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Monday, March 18, 2019**
Publication:	Proposed, with main paper
Questions:	Mr. Parry, FAD (ext. 39724) Mr. Keen, FAD (ext. 34442)

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March 18, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Reviews Fiscal Policies for Paris Climate Strategies

On March 18, 2019, the Executive Board of the International Monetary Fund (IMF) discussed a paper providing country-level guidance on the role, and design of, fiscal policies for implementing climate mitigation strategies that countries have submitted for the 2015 Paris Agreement and for addressing vulnerabilities in disaster-prone countries.

On the mitigation side, the paper presents a spreadsheet tool for judging the likely impact on emissions, fiscal revenues, local air pollution mortality, and economic welfare of a range of instruments including comprehensive carbon taxes, emissions trading systems, taxes on individual fuels, and incentives for energy efficiency. For example, the paper finds that for G20 countries as a group an emissions price of $35 per ton of CO_2 in 2030 would likely be sufficient to meet Paris mitigation pledges although the needed prices differ substantially across countries. The paper also emphasizes the value of carbon pricing revenues for lowering the burden on the economy from taxes on labor and capital, or funding investments for Sustainable Development Goals. Finally, the paper discusses the cases for voluntary carbon price floor arrangements at the regional level, or among large-emitting countries, to reinforce domestic initiatives and help address concerns about competitiveness without resorting to trade penalties on other countries.

The paper stresses that mitigation instruments other than carbon taxes can have an important role if, for example, higher fuel prices are politically difficult or have limited impacts in countries that do not consume coal. One such approach is the use of revenue-neutral tax-subsidy schemes to promote cleaner power generation, shifting to cleaner vehicles, and improvements in energy efficiency without an increase in fuel prices.

On the adaptation side, the paper stresses that a holistic strategy, going well beyond physical climate-proofing investment, is needed in vulnerable countries. Ideally, national strategies would encompass a variety of ways to diversify natural disaster and climate risks, such as building up contingency funds or participating in regional insurance schemes. The risk of future damages also needs to be factored into projections of national output and debt sustainability levels.

The paper considers the role that the IMF can play, working with other organizations, in advising on the implications of climate commitments for countries' fiscal and macro policy given its expertise, universal membership, and frequent interaction with finance ministers. In turn, finance ministries have a central role in integrating carbon charges into fuel taxes, ensuring carbon pricing revenues are productively used, assisting vulnerable groups, and including climate investments in national budgets.

Executive Board Assessment[1]

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[1] An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.