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# IMF policies for the Decade of Action need to deliver for climate and member states

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## Introduction

Climate change is a macro-critical issue for countries and will have an impact on prosperity and economic growth. To mitigate and avert the macro-economic impacts emerging from climate change, these risks need to be considered within economic and financial assessments domestically and internationally.

## Background

The IMF sets the direction of travel for global economic and financial policy and contributes to safeguarding stability in times of crisis. Yet, it has made slow progress in integrating climate into its toolkit and lending policies, whilst taking a narrow view with a focus on natural disasters. Less than half of 100 Article IV country reports published from 2019/20 referenced climate,<sup>i</sup> with an emphasis on vulnerable countries. Moreover, climate has been excluded in the Financial Sector Assessment Programs<sup>ii</sup>.

To remain relevant in a fast-changing world the IMF needs to move further and faster. A key element of the IMF's toolkit is its Comprehensive Surveillance Review (CSR), which reviews IMF's efficacy in assessing global economic conditions, and the policy advice it delivers to all IMF's member states (190 countries). The CSR

will shape IMF policy for the next decade 2021-2030.

## Solutions

The G7 and the G20 should ensure that countries have the best available advice at hand on how best to manage and adapt to climate change.

The IMF's Board will vote on the CSR in April. G7 and G20 shareholders at the IMF should push for a strong and holistic integration of climate change, across its entire policy toolbox. This should include the Debt Sustainability Assessment (which the IMF conducts jointly with the World Bank), which will enable G7 and G20 to support countries to have sustainable and repayable debts. Specific issues to address are to:

- Capture climate risks better in macroeconomic and debt sustainability assessments.
- Recognise and assess broad societal resilience as a positive contribution to national economic stability.
- Recognise and assess spillover risks from climate change as a potential macro-critical threat for the global economy.

- Co-develop a vulnerability index with climate experts to better inform resources allocation.
- Recognize the requirement for the IMF to act faster, and that this increased speed of action, coupled with a wider surveillance remit, will require additional resources, which have already been depleted by the crisis.

### Priority Actions for G7/G20

The G20 and G7 should specifically task the IMF with the systematic and comprehensive incorporation of both adaptation and transition risks across all Article IV and FSAP reports, as well as the Debt Sustainability Assessments.

The Financial Stability Board should be tasked to set up a time-limited working group (6-9 months) to reform debt sustainability assessment to incentivize resilience-building, climate and nature productive, investments.

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<https://www.cgdev.org/publication/confronting-macroeconomic-challenges-climate-change-road-ahead-imf>

Staff Guidance notes should be updated as a result of the CSR to treat the negative climate impacts averted as a result of investments in resilience as being equivalent to positive cashflows from traditional infrastructure. IMF country surveillance should assess the financing needs required to support macro-critical resilience investments.

### Conclusion

Ensuring the Comprehensive Surveillance Review recommends the adequate incorporation of climate risks into the IMF's policy toolbox will be a key element of ensuring that the global macroeconomic system remains fit for purpose over the coming decades. It will also be key to ensure that the IMF, as the most influential macroeconomic institution for many countries, remains relevant and credible.

<sup>ii</sup>[https://www.bu.edu/gdp/files/2021/03/GEGI-PB\\_014\\_IMF\\_Climate\\_Surveillance.pdf](https://www.bu.edu/gdp/files/2021/03/GEGI-PB_014_IMF_Climate_Surveillance.pdf)