IMF’s Global Financial Stability Report

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The Report's Focus on Private Climate Flows

A shot in the arm for *private climate finance* that is vital to net zero goals at a time when public funds are severely constrained.

COP 27 highlights the urgency for innovative instruments, public-private ties, and participation of banks, insurers and institutional investors.

MDBs/IFIs set the tone for transformational climate action and green finance.

Three Issues from Chapter 2, GFS Report

1. Prevent supply shortages and higher prices of oil and gas from derailing private financing for decarbonization.

2. Don’t let multiple objectives collide with decarbonization, while COP 27 highlights the stalemate on who should do what.

3. Address the mismatch between imperatives of sustainability and IFIs’ (short-term) GDP-driven policy frameworks.

1. Optimistic or Pessimistic on Energy, Fossil Fuels & Renewables?

- 2/3 of installed renewable power in 2021 had lower costs than the coal in the G20. Renewable capacity added in 2021 saves USD 55 billion in 2022*.
- Russia's war in Ukraine, supply chain breakdowns, and extreme weather motivate the search not for renewable sources but also fossil fuels.
- Will the boost in renewable capacity more than offset the scramble for coal, oil and gas, especially in Asia?
- Pipeline of fossil fuel projects in Europe and Asia (despite some decoupling of growth and energy in Europe) is not reassuring.

** See also IMF WEO 2022. https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022*

Overriding Role of Markets and Pricing: a Wish List

Imagine if:

1. All countries adopt **carbon pricing**, for example, via a significant carbon tax on the pollution source.

2. All **subsidies** for fossil fuels are eliminated, while subsidies go to clean energy in accordance with its social benefits.

3. High income countries provide vast **climate financing** to low-income countries.

4. An unprecedented alliance on climate action is struck among the IMF, the World Bank, Asian Development Bank and New Development Bank.

5. MDBs stop encouraging the use of the faulty **GDP** measure, and instead use a measure that nets out damages from externalities.

2. The Air Doesn't Care, but how Carbon Sources are Counted Affects Actions

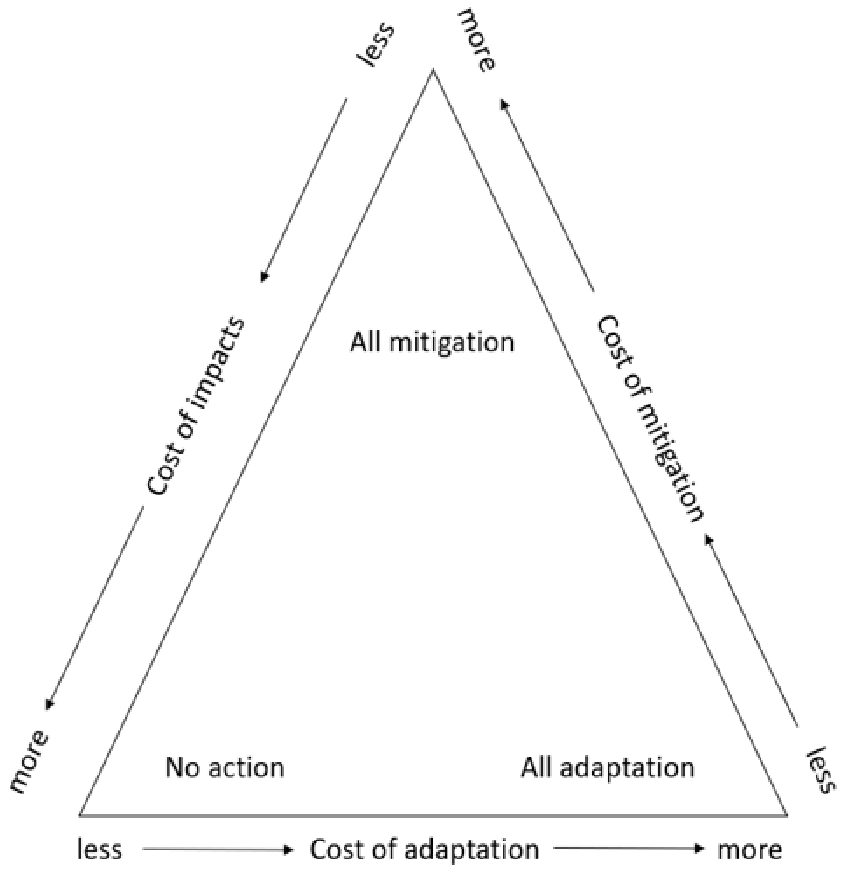
(Source: Hsiang and Kopp 2018)

Cumulative? Total ? Per Capita? (Per GDP?)

Country	Cumulative 1751-2014	% Global	Emissions 2014	% Global	Emissions per capita 2014
	(Gigatons CO_2)		(Gigatons CO_2)		(tonnes CO_2)
China	174.7	12%	10.3	30%	7.5
United States	375.9	26%	5.3	16%	16.2
India	41.7	3%	2.2	6%	1.7
Russia	151.3	11%	1.7	5%	11.9
Japan	53.5	4%	1.2	4%	9.6
Germany	86.5	6%	0.7	2%	8.9
Iran	14.8	1%	0.6	2%	8.3
Saudi Arabia	12	1%	0.6	2%	19.5
South Korea	14	1%	0.6	2%	11.7
Canada	29.5	2%	0.5	1%	15.1
Brazil	12.9	1%	0.5	1%	2.6
South Africa	18.4	1%	0.5	1%	9.1
Mexico	17.5	1%	0.5	1%	3.8
Indonesia	11	1%	0.5	1%	1.8
United Kingdom	75.2	5%	0.4	1%	6.5
World	1434		34.1		4.7

Vast Scope for Private Climate Finance

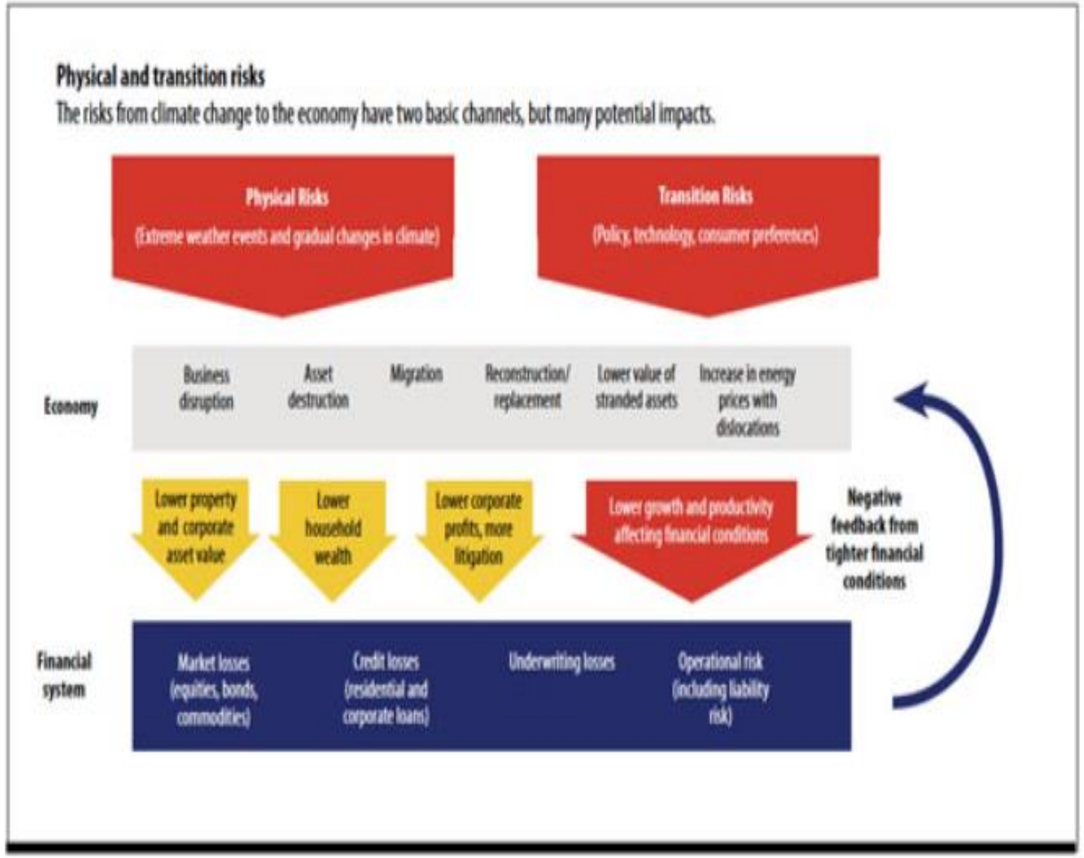
1. The report shows big financing gaps for both mitigation and adaptation.
2. For countries, adaptation raises fewer free rider concerns.
3. But adaptation without mitigation will be pointless in the face of runaway climate change.
4. Developed and developing countries need to lift mitigation and adaptation investments.
5. Blue/green hydrogen, carbon capture?



Source: Taken from Parry 2009

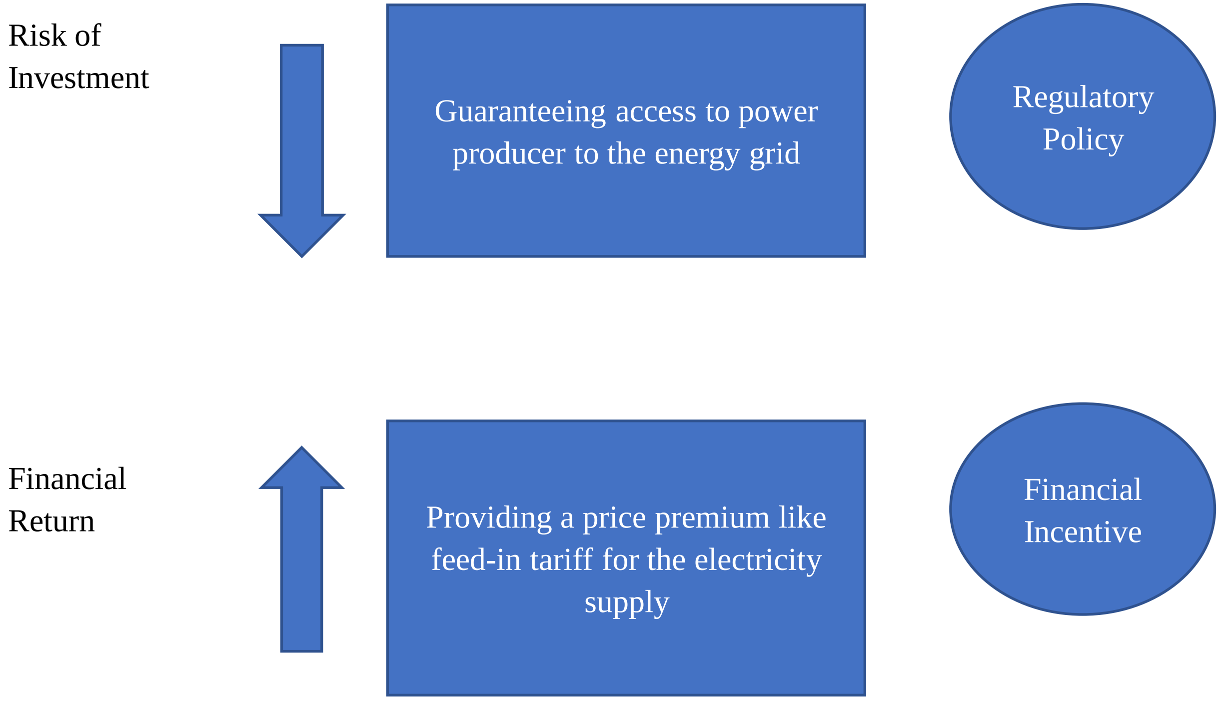
3. Very High Returns on Paper but Unrealized

Financial and Economic Damages are Vast



https://www.imf.org/en/Publications/fandd/issues/2019/12/climate-change-central-banks-and-financial-risk-grippa; see also IMF 2022. https://www.imf.org/en/Publications/staff-climate-notes/Issues/2022/07/12/Approaches-to-Climate-Risk-Analysis-in-FSAPs-519515

But Hard to Realize the Benefits of Avoided Damages



Source: Based on Glemarec, Rickerson, and Waissbein (2012)

Asia's Priorities in a Climate Breakthrough

Demand for Financing

- ESG scores & social CBA

  Big Gaps: EA; SA; SEA; CA

- MDBs*, IFIs & global public goods

  IMF, WBG, DFIs, Private

Returns on Financing

Carbon Markets and Pricing

China, Singapore, SE Asia

Financial Instruments

Blended; Pub-Pvt; Climate

**COP27 calls for reform in MDBs' and significantly increasing their climate ambition.*

IFI Frameworks Must Boost Green Finance

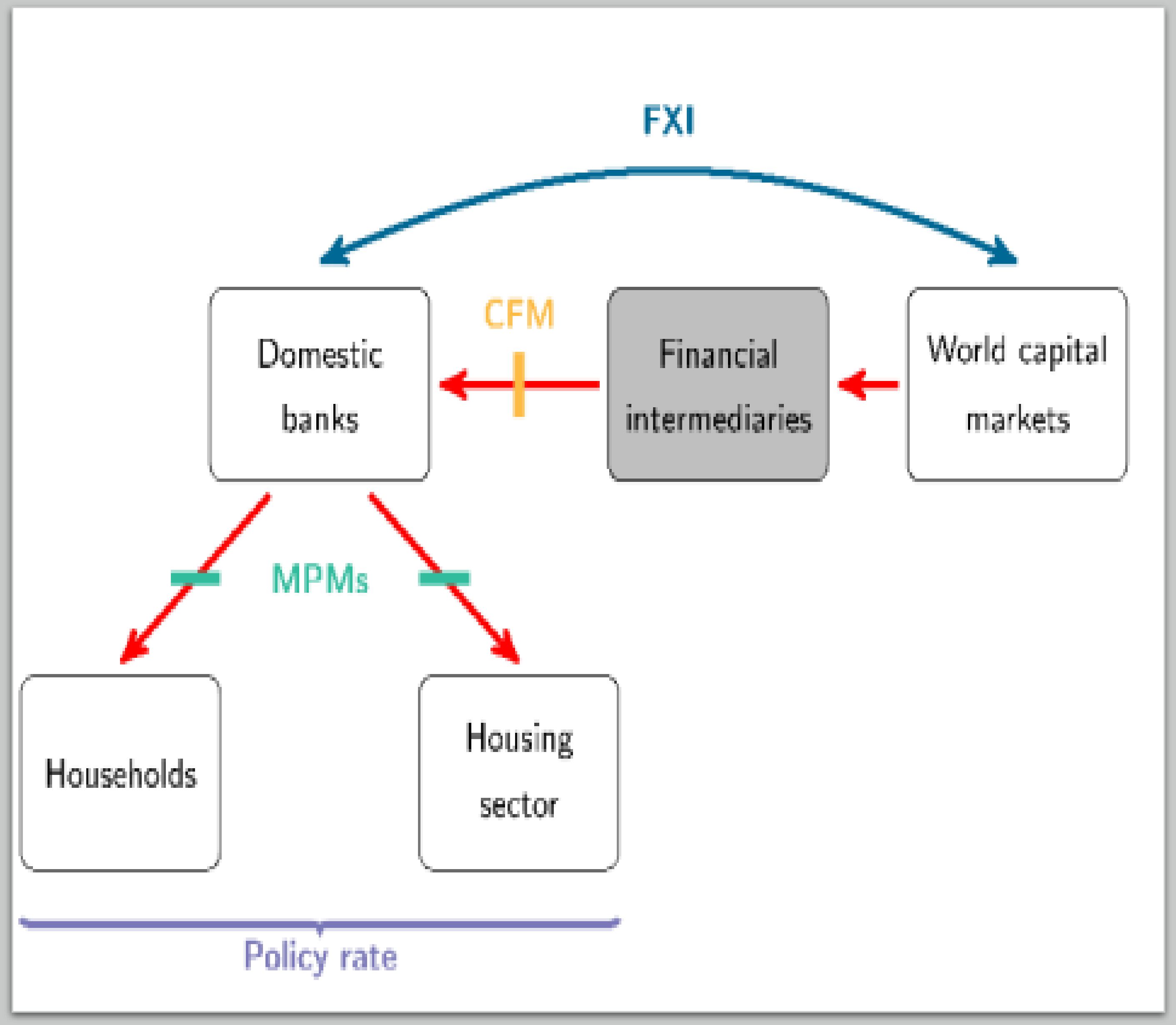
Right Direction

- The IMF framework rightly stresses domestic flows influencing external flows, balances and stability.
- It highlights the need to internalize economy-wide spillovers from individual behavior.

Crucial Gap

- Why not factor in the destabilization from climate change in IMF's mainstream projections?
- Why not do so for both long- and short-term frameworks to nudge immediate actions?

Source: IMF's Integrated Policy Framework



Conclusion

To drive private climate finance and promote sustainable development, MDBs' and IFIs' policy frameworks make a difference.

They must fully value negative spillovers across countries and regions like GHGs and air pollution to signal the preference for sustained growth.

They must revise policy mandates to promote and finance, together with the private sector, global public goods, like cleaner air, health systems and biodiversity.

Thank You!