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Can Central Banks Fight Climate Change?

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WEDNESDAY, October 16, 2019

2:00PM - 3:00PM, IMF HQ1 Atrium (HQ1-1-700)

Can Central Banks Fight Climate Change?

Sponsored by the IMF's Monetary and Capital Markets Department

Can central bankers prevent the financial stresses from climate change from boiling over? What proactive steps can they take to promote a greener world? As concerns continue to mount over the impact of climate change, central banks are taking action in a range of areas within their mandates.

Gianluigi, Giorgioni. 2017.

Development Finance: Challenges and Opportunities. London: Palgrave Macmillan.

This book provides an in-depth overview of the most salient aspects of development finance. It critically reviews the current state of relevant literature on this topic and assesses both the challenges and the opportunities presented by the various forms of finance for development. Chapters from expert contributors examine a range of topics from the link between finance and growth and finance and misallocation, the relationship between financial illiteracy and lack of legal titles on access to finance, to the role of governments in the financial system, the role of overseas development assistance, remittances, microfinance, foreign direct investment (FDI) and stock exchanges on development.

Krogstrup, Signe and William Oman. 2019.

"Macroeconomic and Financial Policies for Climate Change Mitigation: A Review of the Literature." Working Paper 19/185, International Monetary Fund, Washington, DC.

Climate change is one of the greatest challenges of this century. Mitigation requires a large-scale transition to a low-carbon economy. This paper provides an overview of the rapidly growing literature on the role of macroeconomic and financial policy tools in enabling this transition. The literature provides a menu of policy tools for mitigation. A key conclusion is that fiscal tools are first in line and central, but can and may need to be complemented by financial and monetary policy instruments. Some tools and policies raise unanswered questions about policy tool assignment and mandates, which we describe. The literature is scarce, however, on the most effective policy mix and the role of mitigation tools and goals in the overall policy framework.

International Monetary Fund. 2019.

"Fiscal Policy for a Changing Global Economy." In Fiscal Monitor, April, 1–37. Washington, DC: International Monetary Fund.

With global growth slowing and uncertainty rising, fiscal policy should prepare for potential downturns—balancing stabilization and sustainability objectives—and put more emphasis on reforms to foster long-term inclusive growth in a fast-changing global economy. Shifting demographics, rapid technological progress, and deepening international economic integration bring challenges. To remain effective, fiscal policy needs to adapt to these key trends reshaping the global economy. Where there is limited budgetary room, such adaptation will have to occur through inclusive and growth-friendly budget recomposition. International cooperation to improve the taxation of multinational companies, and to tackle climate change and corruption could amplify and spread the reform gains.

Maimbo, Samuel Munzele, Simon Zadek, Francisco Avendaño, Katerina Levitanskaya, Wenxin Li, Aditi Maheshwari, Quyen Thuc Nguyen, Gursimran Rooprai, Peer Benno Walter Stein, Wei Yuan, Rong Zhang, Juan Carlos Mendoza, Mahenau Agha, Iain Henderson, Olivier Lavagne D'Ortigue, Jeremy McDaniels, Felicity Perry, Nick Robins, Sandra Lorena Santamaria Rojas, Eric Usher, and Brandon Kai Yeh. 2017.

"Roadmap for a Sustainable Financial System." Working Paper 121283, World Bank Group, Washington, DC.

Historically, the financial system has responded to the needs of the time. A global consensus has arisen that sustainable growth will be one of the greatest challenges of the 21st century, as demonstrated by the United Nations (UN) Sustainable Development Goals (SDGs) adopted as part of its 2030 Agenda for Sustainable Development, along with the measures to combat climate change and adapt to its effects that are part of the Paris Agreement. As in previous structural transformations, the financial system will play a major role in this process: the full potential of the financial system needs to be harnessed to serve as an engine in the global economy's transition toward sustainable development. The objective of this Roadmap is to propose an integrated approach that can be used by all financial sector stakeholders—both public and private, to accelerate the transformation toward a sustainable financial system. This approach can bring policy cohesiveness across ministries, central banks, financial regulators, and private financial sector participants to focus efforts. The ultimate vision that the Roadmap seeks to reach is one of a financial system that integrates sustainability considerations into its operations, including the full costing of positive and negative externalities that sustainability implies, leading to a reorientation of the flow of resources toward more inclusive and sustainable activities.

de Mooij, Ruud A., Michael Keen, and Ian W.H. Parry. 2012.

Fiscal Policy to Mitigate Climate Change: A Guide for Policymakers. Washington, DC: International Monetary Fund.

Efforts to control atmospheric accumulations of greenhouse gases that threaten to heat up the planet are in their infancy. Although the IMF is not an environmental organization, environmental issues matter for its mission when they have major implications for macroeconomic performance and fiscal policy. Climate change clearly passes both these tests.

Ötker, Inci, and Krishna Srinivasan. 2008.

"Bracing for the Storm: For the Caribbean, building resilience is a matter of survival." Finance & Development 55 (1):48-51.

Natural disasters have massive economic and human costs: they take a deep toll on growth prospects and erode fiscal cushions. Huge reconstruction costs in their aftermath crowd out scarce resources for health, education, and social spending. And climate change will only intensify these risks. Countries can adopt policies to reduce the human and economic costs of disasters and build resilience to future shocks through better preparation and a more effective response.

Parry, Ian. 2018.

"5 Things You Need to Know About the IMF and Climate Change." IMFBlog, June 8.

The world is getting hotter, resulting in rising sea levels, more extreme weather like hurricanes, droughts, and floods, as well as other risks to the global climate like the irreversible collapsing of ice sheets. Presented are five ways the IMF helps countries move forward with their strategies as part of their commitment to the 2015 Paris Agreement on Climate Change.

Parry, Ian, Baoping Shang, Philippe Wingender, Nate Vernon, and Tarun Narasimhan. 2016.

"Climate Mitigation in China: Which Policies Are Most Effective." Working Paper 16/148, International Monetary Fund, Washington, DC.

For the 2015 Paris Agreement on climate change, China pledged to reduce the carbon dioxide (CO_2) intensity of GDP by 60–65 percent below 2005 levels by 2030. This paper develops a practical spreadsheet tool for evaluating a wide range of national level fiscal and regulatory policy options for reducing CO_2 emissions in China in terms of their impacts on emissions, revenue, premature deaths from local air pollution, household and industry groups, and overall economic welfare. By far, carbon and coal taxes are the most effective policies for meeting environmental and fiscal objectives, as they comprehensively cover emissions and have the largest tax base.

Tall, Arame; Brandon, Carter J. 2019.

The World Bank Group's Action Plan on Climate Change Adaptation and Resilience: Managing Risks for More Resilient Future. Washington, DC: World Bank Group.

The accelerating impacts of climate change, and the need to avoid much larger impacts in the future, bring urgency to scaling up action on adaptation and resilience. The World Bank Group (WBG) is making adaptation and resilience a key priority of its 2025 Climate Change Targets that will elevate adaptation to an equal footing with climate mitigation actions. Climate change threatens the achievement of all key development objectives, including the Sustainable Development Goals (SDGs), the Sendai Framework for Action objectives and, especially, the sustainable eradication of poverty (World Bank 2015; IPCC 2014b). The world will not be able to achieve its development goals without stronger action on climate change adaptation.

World Bank Group. 2017.

Financing Sustainable Development: Ideas for Action 2017. Washington, DC: World Bank Group.

We are pleased to present the results of the 2017 Ideas for Action (I4A) initiative, a youth competition on financing for development that is jointly organized by the World Bank Group and the Zicklin Center for Business Ethics Research at the Wharton School of the University of Pennsylvania. This is the third year of the competition, and the 2017 winners were selected from among 743 proposals from 118 countries. We focus on youth for this competition because 3 billion people—43 percent of the world's population—are under the age of 25. Today's youth have the most at stake in achieving the 2030 Agenda for Sustainable Development, and its associated Sustainable Development Goals (SDGs). The world's youth will implement this global agenda, contributing their unique solutions and shaping their future and ours. The SDGs are a set of 17 global goals that seek to end poverty, promote peace, and preserve the planet for future generations, all by 2030. More ambitious than their predecessor, the Millennium Development Goals, the SDGs cover a broad range of interconnected issues, from ending hunger, promoting health, addressing inequality, creating jobs and sustainable economic growth to improving governance and addressing global challenges such as climate change.

World Bank. 2019.

International Development in Focus: Fiscal Policies for Development and Climate Action. Washington, DC: World Bank Group.

Climate change is already occurring and will worsen over time. According to the United Nations' Intergovernmental Panel on Climate Change, the increase in global carbon emissions caused by human activity will result in "severe, pervasive, and irreversible impacts for people and ecosystems" (IPCC 2014). These impacts include increasingly frequent weather-related disasters, alongside gradual but potentially devastating processes of ocean acidification and sea-level rise. Climate change is intensifying pressure on communities and ecosystems worldwide. In the past year alone, storms, fires, and hurricanes in the Caribbean and the United States, mudslides in Colombia, monsoonal flooding in Bangladesh, and tropical cyclones in Asia have inflicted a catastrophic economic and human toll. Avoiding a disastrous increase in global temperatures will require a dramatic reduction in emissions growth in both developed and developing countries. If the Paris Agreement's overarching goal of limiting global warming to well below 2 degrees Celsius is not achieved, climate-induced natural disasters will become increasingly frequent and costly.

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