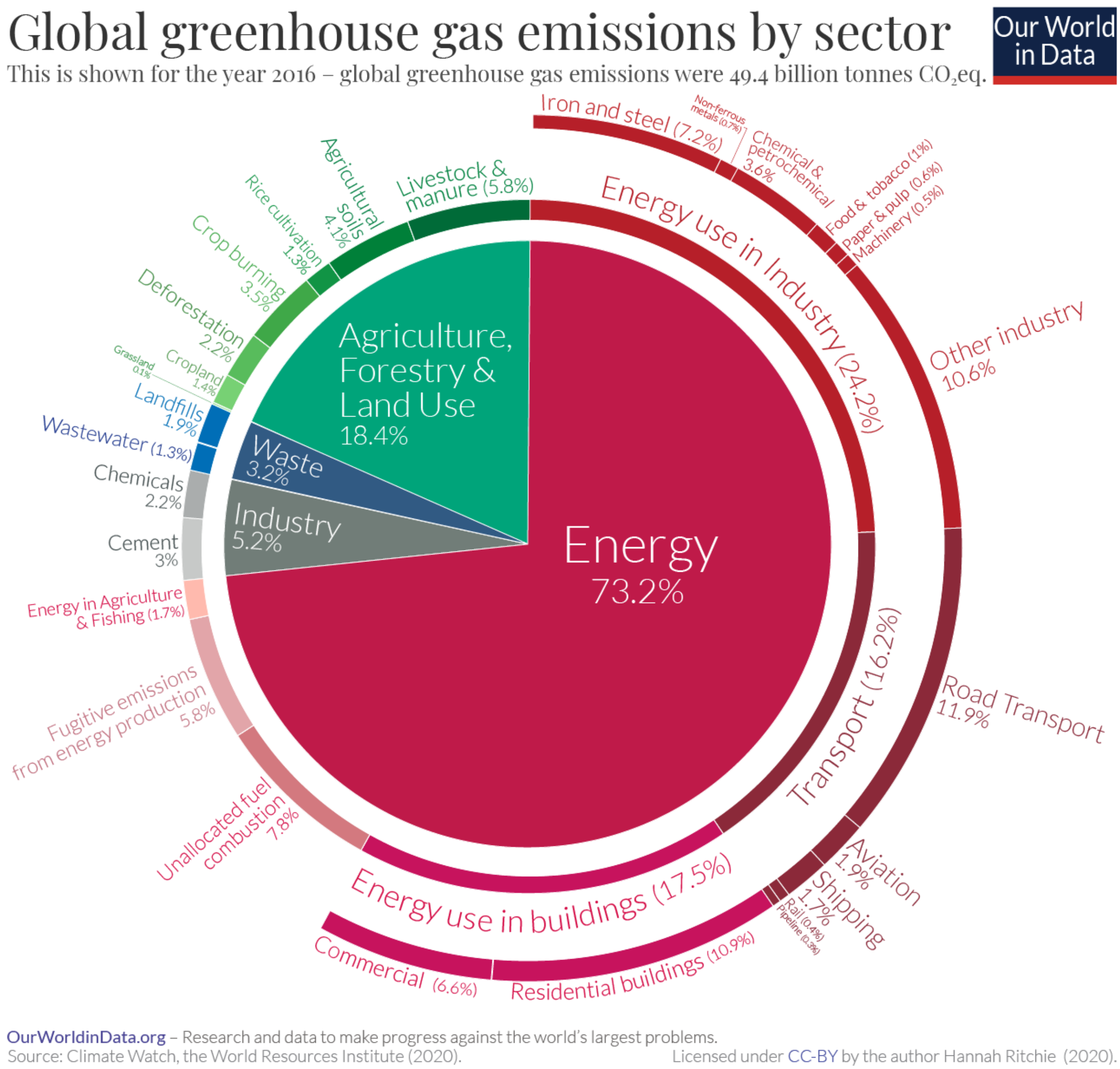
The IMF’s Role: Climate Impact vs Climate Policy

The weight of the economic impacts of climate change are beginning to reveal their burden on society. It’s well established that to sustain our natural environment and our future, we need to find cleaner energy sources. We’ve found those sources, but their cost is one of the roadblocks to implementing them on a large scale.

“Renewable energy is too expensive,” proclaim the green energy sceptics. Costs are coming down for renewables, but some forms of clean energy are not yet economically viable.

However, data is emerging that perhaps the cost of inaction is higher than the upfront costs of clean energy. It’s easy to look at oil prices compared with an expensive renewable source like green hydrogen and surmise that oil is the cheaper option. Upfront, yes, it appears that way. Considering the system as a whole, though, provides a murkier answer.

Energy production from fossil fuels is the largest contributor to GHG emissions worldwide. GHG emissions are the largest contributor to human-induced climate change. Climate change and global warming are creating an increasing frequency of severe climate events like floods, droughts, wildfires, heatwaves, and tropical cyclones.



Source: Visual Capitalist

An influx of new reports suggests that severe climate events are a major contributing factor to inflation.

To mitigate the economic effects of climate change combined with the strains felt by the global pandemic, the International Monetary Fund (IMF) began issuing reserve money to its member countries. It's a nice gesture, but the countries most in need are receiving less than their fair share once again.

What are the Economic Impacts of Climate Change?

The evolving climate crisis brings more severe and frequent weather events. These events have a statistically significant impact on global economies.

The 2021 heatwave in Western North America, which scientists say was [virtually impossible without the impacts of climate change], caused hundreds of deaths, hospitalizations, and severe illnesses.

Findings from the analysis of the July 2021 floods in Western Europe, which were responsible for more than 200 deaths, have concluded with high confidence that [human-induced climate change played a significant role] in sparking the disaster.

The toll that extreme weather events like these take on human lives is horrible. Death, disease, injury, and illness are immediate medical hazards of the disasters. Access to clean drinking water, food, shelter, and first aid can all be hindered in the aftermath of such events.

Growing bodies of research show that on top of humanitarian emergencies, extreme weather events are also generating shocks to the global economy.

Source: Wartsila

The European Central Bank confirms that climate change plays a role in price instability. “Hot summers increase food price inflation in the near term, especially in EMEs (emerging market economies).”

The Financial Times also reports that “food prices remain high into 2022 on shortages due to extreme weather.”

The impact of climate-induced inflation is limited in advanced economies, but the effect can be substantial in developing economies and persist for years.

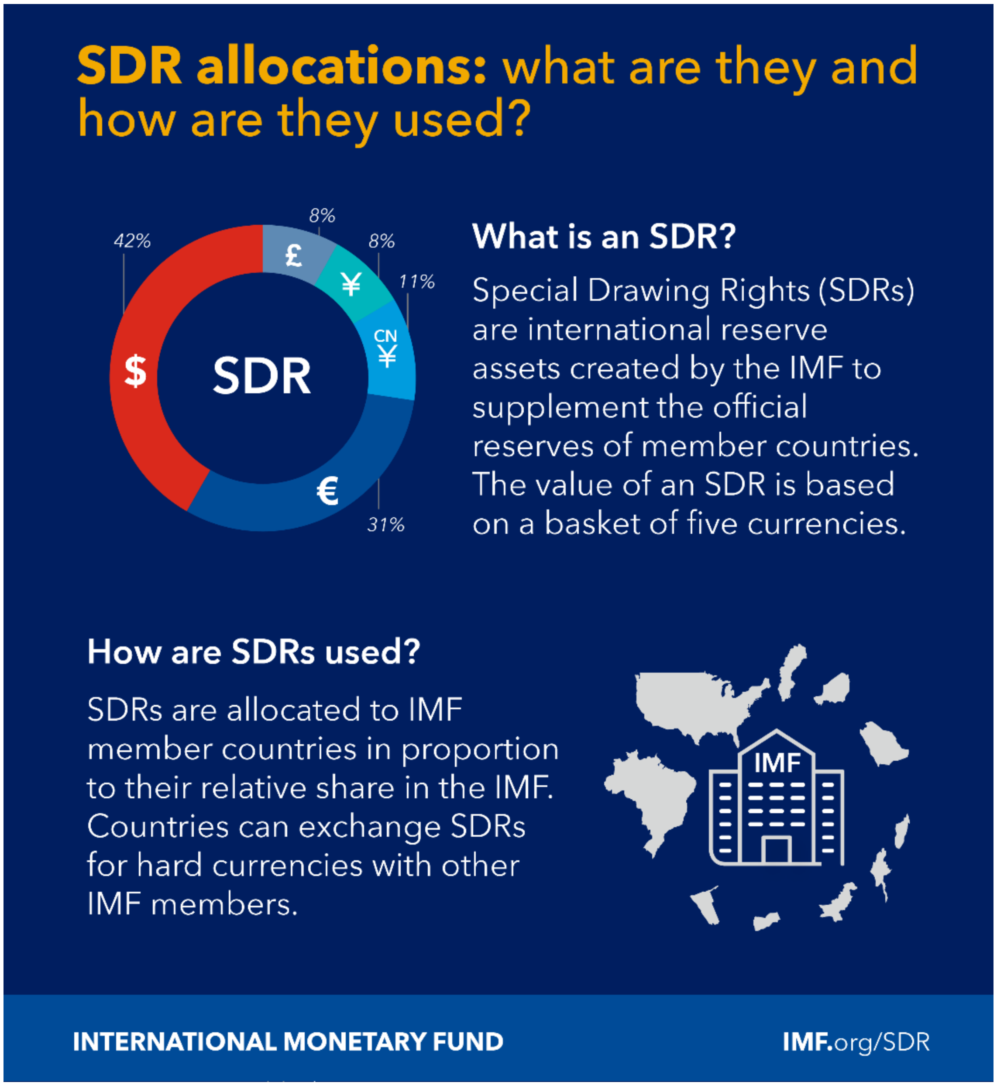
Added to the impact on food prices, climate events also generate a shock to the energy market. Many factors cause fluctuations in energy prices - like geopolitical events, carbon pricing, and supply shortages, but human-induced climate change compounds the problem.

Some people like to blame carbon taxes on the rising costs of energy. But research shows that carbon tax prices play a limited role in price fluctuations and have a marginal impact on energy prices, according to the EU climate chief.

To alleviate the impacts of inflation, the IMF has stepped in to provide countries with added funding. While undoubtedly helpful, it has been met with a lot of criticism.

How is the IMF Alleviating the Economic Impacts?

The IMF uses Special Drawing Rights (SDRs), a reserve-like currency, to provide financial support in times of crisis.



Source: IMF

The size of the recent SDRs issued was USD 650 billion, and the consensus is that it provided some much-needed relief at a difficult economic time.

That said, there is some criticism of the unequal distribution. Most of the $650 billion went to wealthy countries that arguably need the least money. Funds are distributed based on IMF quota shares. The more you contribute to the IMF, the more they'll scratch your back.

In the deployment of SDRs, only 3.2% of the money ($21 billion) went to low-income countries. Granted, low-income countries can generally do more with less, but they are also in the most need of international support in times of crisis.

To appease the critics, the IMF has proposed a $50 billion Resilience and Sustainability Trust (RST) to divert some of the SDR funds intended for rich countries to low-income and lower-middle-income countries.

The V20 Group, a similar concept to the G20 but made up of vulnerable countries, has voiced its concerns with the RST project. They see this as another instance of rich countries dictating to lower-income countries how they should conduct their business. Not to mention, it is the actions of major economies and their climate pollution that are pushing lower-income countries into vulnerable status.

The V20 is calling for more inclusion of their multilateral and regional development banks in the RST design and decision-making process.

Asian Countries Are Some of the Most Vulnerable to Climate Change

The climate crisis is pushing countries into economic uncertainty. Reducing reliance on fossil fuels is one way to help, as is international cooperation from multilateral institutions like the IMF.

Asian countries are some of the most vulnerable to climate events. One surefire way to mitigate the effects of climate change is to accelerate the transition away from fossil fuel energy and towards more sustainable, cleaner sources.

As experience shows, reliance on the international community to provide relief has uncertain outcomes. Help may come, but it likely won’t be sufficient. Renewable energy is the best bet to reduce the negative impacts of climate change on the Asian economy.