



Thirty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics

Washington, D.C.
October 18–20, 2022

BOPCOM—22/03f
For discussion

***BPM7* Annex 10. Sustainable Finance in External Sector Statistics: Climate Change Related Indicators: Annotated Outline**

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(New *BPM7* annex)

I. Introduction

This Annex is intended to support data compilers on the type of data they can provide to users in regard to climate change and does not intend to present a framework as one does not exist yet. It will present some items from the balance of payments/IIP framework and possible additional breakdowns that could be relevant for understanding the risks that climate change pose, financing related to addressing climate change and its impacts, and relevant exports and imports of goods and services. The introduction section will include a brief discussion on the importance of sustainable finance and the growing need for statistical information. This annex will focus on “climate change” rather than more broadly on sustainable finance.³

II. Definitions of Key Concepts Related to Climate Change

The Annex will begin with some definitions of key concepts related to climate change, such as climate change, adaptation, mitigation, transition risks and physical risks, using references from existing sources (e.g., Intergovernmental panel on Climate Change, OECD).

III. Capturing Financial Risks Related to Climate Change in External Sector Statistics

Balance of payments statistics incorporating the items on the financial risks arising from climate change should, be relevant at the national (or at most, institutional sector) level and contain a clear resident-non-resident dimension. These statistics would allow to examine the risks of (exposures to) a decrease in the value of financial assets due to physical risks related to climate change as well as those due to the transition risks arising from the transition to a low-carbon economy.

While a wide range of indicators may be useful to facilitate exploring financial risks from a cross border perspective, below are the information initially recommended as the most feasible in the short term. The initial focus is on additional detail and breakdowns of existing Balance of Payments and IIP items.

a. Investments in specific sectors

Breaking down direct Investment by economic activity would be valuable to assess the industrial sector specific climate change related risks that nonfinancial corporations are directly exposed to through their direct investments in specific sectors, such as agriculture or real estate (for physical risks) or carbon-intensive sectors (for transition risks). Financial

¹ Prepared by Evrim Bese Goksu (BPM editor, IMF) and Carl Obst (SNA lead), and cleared by BPM Project Manager.

² All the recommendations on new data collections in this Annex will be subject to the outcome of the Holistic Review of *BPM6* Update Priorities.

³ Given the constantly evolving nature of the topic, this annex could be updated under the supervision of the Committee, to reflect advances in methodology and data availability as well as the development of a broader framework that would better enable us to identify the cross-border aspects of climate change related risks.

corporations are also subject to such risks, mainly indirectly through the lending portfolios of their subsidiaries abroad.

The classification of direct investment would cover deposit-taking corporations (except the Central Bank), other financial corporations and a more granular breakdown of non-financial corporations aligning with other statistics (e.g., with the International Standard Industrial Classification (ISIC) revision).⁴

b. Physical location of investments

*Direct Investment by counterparty country:*⁵

Direct investment in certain host economies may be more exposed to physical risks due to extreme weather events, hence the need for immediate counterparty country data, the ultimate goal being direct investment by ultimate counterparty. Even though more detailed data (city, postal level) would be most useful given the geolocational variation of climate change risks within countries, national data would also be useful as the macro-stability implications of climate change may still extend to the national level in the host country. In addition, national information could be useful in assessing transition risks since policies guiding the transition are often set at the national level.

c. Type or nature of investments

The type or the nature of investments would be useful to understand the extent to which financial institutions are contributing to financing the investments that would mitigate climate-related risks.

The Annex will introduce a supplementary “of which” category for transactions and positions in green bonds as well as for interest in the returns earned on them.

Green bonds are typically defined as those bonds for which the proceeds are exclusively allocated to green or climate-related expenditures and investments. However, there is no internationally agreed consistent taxonomy for green vs. other assets. Therefore, the recommendation will initially be to compile the data according to the national definition of the compiling country for both assets and liabilities. This could be updated as progress is made in international fora (e.g., G-20 Data Gaps Initiative) to bridge existing taxonomies to facilitate their use for statistical purposes or to develop a consistent taxonomy for green vs. other assets. Therefore, at this stage it is paramount to provide users with in-depth metadata about the instruments classified as “green”.

d. International cooperation grants to low-income countries

Supplementary data on international cooperation grants to low-income countries to finance climate change mitigation and adaptation. These could be in form of current or capital

⁴ ISIC classification has some limitations for its use for climate change purposes (e.g., energy sector does not differentiate between electricity generated from renewable resources and from coal).

⁵ While information on country/sector information of portfolio investment would be analytically useful, it is far more challenging to introduce into the BPM framework at this stage because it requires very granular data.

transfers between governments or between international organizations and governments used by recipient countries to mitigate and adapt to the adverse effects of climate change. Separately identifying these climate related grants is important in view of the magnitudes, macroeconomic implications for recipient economies and the feasibility of separately identifying them.

IV. Other Useful Information from the Balance of Payments

Information on how complementary groupings of transactions that are recorded within the balance of payments, such as trade in low carbon goods and in environmental goods and services, could be presented. This would be linked to work to improve the trade classifications to better identify environmentally friendly goods, environmentally damaging goods, low-carbon technology goods, and minerals critical for the transition to a low carbon economy that are being considered for the update of the international trade manuals. In addition, waste treatment and depollution services and separate reporting of cross-border transactions in CO₂ emissions permits could be among other useful information that could support work on sustainable finance.

V. Analytical Usefulness and Limitations of the Indicators (tbd)

VI. Future Work

- Green lending, and equity: Green lending,⁶ including intercompany debt, and equity.
- Source of funding (exposures of financing sources to climate change related risks)
- Climate related financial derivatives
- A supplementary item identifying exceptionally large insurance claims from natural catastrophes recorded as capital transfers to provide visibility to all cross-border insurance transactions to monitor an economy's ability to insure and reinsure across borders.

⁶ Apart from private financing, cross border climate financing in form of lending by international organizations is also growing steadily. Climate finance by the World Bank to developing countries, for instance amounted to US\$21.4 billion in 2020 and is expected to be scaled up over the period 2021–2025. Climate Change Action Plan 2021–2025 Supporting Green, Resilient, and Inclusive Development. The IMF Resilience and Sustainability Trust approved by the Board is also designed to complement the IMF's existing lending toolkit by focusing on longer-term structural challenges—including climate change and pandemic preparedness.

Schematic Overview

I	Introduction
II	Definitions of key concepts related to climate change
III	Capturing financial risks related to climate change in external sector statistics
IV	Other useful information from the balance of payments
V	Analytical usefulness and limitations of the indicators (tbd)
VI	Future work

Question for the Advisory Expert Group on National Accounts (AEG)/IMF Committee on Balance of Payments Statistics (Committee)

- 1) *Does the Committee and the AEG have any suggestions on the draft outline of the Annex?*
- 2) *Does the Committee and the AEG agree with the proposed structure and coverage of topics in the Annex presented in this outline?*
- 3) *What does the Committee and the AEG consider as the most important limitations of the climate change related information proposed by this Annex?*

References

- GN B.6 Sustainable Finance
- SNA chapter on Well-being and Sustainability, *ISIC, Update of the HS Codes, International Merchandise Trade Statistics Manual*

Key Stakeholders Consulted

- System of National Accounts and Balance of Payments Manual editors, and SEEA team.