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RESEARCH ARTICLE

Economisation as boundary work: Integrating climate change into IMF surveillance

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Abstract

In 2021, the International Monetary Fund (IMF) moved to integrate climate risks into its Article IV surveillance of member states. While the IMF has not traditionally been at the forefront of climate change efforts, this decision involved defining climate change as a risk to macro-economic stability. I argue that the integration of climate change into IMF surveillance can be understood as a case of international organisation (IO) boundary work taking place via the mechanism of economisation: an economic institution addressing a (traditionally non-economic) issue as an economic issue. The study identifies crucial factors shaping this boundary expansion, particularly the agency of IMF staff, as well as preferences within the IMF Executive Board, and institutional ideas. The straightforward integration of physical and transition climate risks is in contrast to the contestation surrounding the integration of mitigation policy. The findings contribute to the literature on IOs and their boundaries, change within the IMF, and the environmental political economy. The analysis reveals the role of IMF staff in this boundary work and, in addition, that institutionalised ideas and the heterogeneous preferences among member states acted as scope conditions limiting how far this economisation could go.

Keywords: boundary work; climate change; climate risk; economisation; IMF

The International Monetary Fund (IMF) is not usually seen as playing an active role in addressing climate change.[1] Yet in July 2021 it incorporated climate risks into its Article IV surveillance of member states' economies and policies, which is undertaken annually for each state. This surveillance now includes an assessment for each state of how climate change and the transition from fossil fuels (e.g. oil assets becoming stranded) could influence its 'balance of payments and domestic stability', and, for the 20 largest emitters, of their mitigation policies in general.[2] By defining climate change as an economic issue that is potentially macro-critical, i.e. it may 'influence members' present or prospective balance of payments and domestic stability',[3] the IMF has now placed

[1] Alexandra Lindenthal and Martin Koch, 'The Bretton Woods institutions and the environment: Organizational learning within the World Bank and the International Monetary Fund (IMF)', *Administrative Sciences*, 3:4 (2013), pp. 166–201; Bretton Woods Project and ActionAid, *IMF Surveillance and Climate Change Transition Risks: Reforming IMF Policy Advice to Support a Just Energy Transition* (London: Bretton Woods Project, 2021); Jakob Skovgaard, *The Economisation of Climate Change: How the G20, the OECD and the IMF Address Fossil Fuel Subsidies and Climate Finance* (Cambridge: Cambridge University Press, 2021).

[2] IMF, *2021 Comprehensive Surveillance Review: Background Paper on Integrating Climate Change into Article IV Consultations* (Washington, DC: IMF, 2021).

[3] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

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climate change firmly within the boundaries of its portfolio.[4] This framing has repercussions for the Fund's assessment of member state climate policies. Not only is Article IV surveillance a comparatively strong kind of international organisation (IO) surveillance, it also has a significant impact on the interest rates that the state subject to surveillance has to pay on its debt.[5] Hence, an IMF assessment of a state's climate policies may increase or decrease the amount (generally billions of dollars) it pays to public and private lenders as interest on this debt.

The IMF staff went beyond the notions of physical (the impact of climate change, for example, natural disasters) and transition (stranded fossil fuel assets) risks from the emerging literature on climate financial risks[6] and also included its own linkage between domestic mitigation policy and international economic and financial stability. The latter kind of risk was subject to discussion among IMF Executive Directors who represent the member states, and who prevented the IMF from assessing a state's climate policies against its will.

In this article, I argue that the integration of climate change into IMF surveillance is a case of IO boundary work taking place via the mechanism of economisation: an economic institution addressing a (traditionally non-economic) issue as an economic issue. Boundary work is used to refer to actors' efforts to establish jurisdictional prerogatives over certain issues vis-à-vis other actors.[7] The article explores how the integration of different climate risks (physical, transition, and mitigation risks) into Article IV surveillance broadened the IMF's authority to address climate issues, and which factors have shaped the boundary work. In terms of factors, I draw on literature on the IMF (and IO in general) bureaucracies and explore the role of the agency of IMF staff[8] and the scope conditions for this agency, specifically member state preferences within the IMF Executive Board and the institutionalised ideas that define the IMF's boundaries, especially the IMF mandate and bureaucratic culture, and how climate change can be addressed as an economic issue. The issue of integrating climate risks into IMF surveillance was characterised by heterogeneous preferences among the member states on the Executive Board as well as by still-emerging scholarly discussions regarding how to understand the economic risks associated with climate change. Existing literature on norm and policy change within the IMF[9] and IOs in general[10] would expect consensus within the Board and/or academia to be preconditions for substantial policy change and would find the degree of integration of climate risks puzzling, even if the Board limited the original proposal regarding the novel concept of mitigation risks. The integration of climate risks into IMF surveillance has been chosen because it constitutes a relatively swift expansion of an institution's boundaries regarding climate change compared to other economic IOs such as the OECD or

[4]Matthias Kranke, 'Exclusive expertise: The boundary work of international organizations', *Review of International Political Economy*, 29:2 (2020), pp. 453–76.

[5]Michael Breen and Elliott Doak, 'The IMF as a global monitor: Surveillance, information, and financial markets', *Review of International Political Economy*, 30:1 (2023), pp. 307–31.

[6]Irene Monasterolo, 'Climate Change and the financial system', *Annual Review of Resource Economics*, 12:1 (2020), pp. 299–320; Stefano Battiston, Antoine Mandel, Irene Monasterolo, Franziska Schütze and Gabriele Visentin, 'A climate stress-test of the financial system', *Nature Climate Change*, 7:4 (2017), pp. 283–8; Gregor Semieniuk, Emanuele Campiglio, Jean-Francois Mercure, Ulrich Volz and Neil R. Edwards, 'Low-carbon transition risks for finance', *Wiley Interdisciplinary Reviews: Climate Change*, 12:1 (2021), p. e678.

[7]Kranke, 'Exclusive expertise'.

[8]Alexander E. Kentikelenis and Leonard Seabrooke, 'The politics of world polity: Script-writing in international organizations', *American Sociological Review*, 82:5 (2017), pp. 1065–92; Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (London: Cornell University Press, 2004); Mark Hibben, 'Coalitions of change: Explaining IMF low-income country reform in the post-Washington Consensus', *Journal of International Relations and Development*, 18:2 (2015), pp. 202–26; Richard Clark and Noah Zucker, 'Climate cascades: IOs and the prioritization of climate action', *American Journal of Political Science*, 68:4 (2024), pp. 1299–314.

[9]Kentikelenis and Seabrooke, 'The politics of world polity'; Hibben, 'Coalitions of change'.

[10]Daniel L. Nielson and Michael I. Tierney, 'Delegation to international organizations: Agency theory and World Bank environmental reform', *International Organization*, 57:2 (2003), pp. 241–76; Erin R. Graham and Alexandria Serdaru, 'Power, control, and the logic of substitution in institutional design: The case of international climate finance', *International Organization*, 74:4 (2020), pp. 671–706.

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the World Bank.[11] Focusing on Article IV surveillance provides unique insights into how climate change is integrated into a core component of IMF policy that has important consequences for all member states. The integration of climate risks into Article IV surveillance was chosen over the related decision to set up the Resilience and Sustainability Trust (RST), established in the summer of 2021, since the RST is less connected with existing IMF policy.

The economisation of climate change has been studied by analysing the decision to integrate of climate risks into IMF surveillance. The analysis has been conducted using key informant interviews (undertaken April 2022–September 2023) as well as official documents to explore how climate change has been framed as a macro-critical risk, the process leading to the decision to integrate climate risks, and the role of the IMF staff therein.

The contributions of this article are threefold. First, it contributes to the literature on IOs and their boundaries[12] by exploring the factors that have shaped the expansion of such boundaries. Specifically, it studies this as a case of economisation and explores the role of agency (especially of IMF staff) within the conditions of Executive Board preference constellations and institutionalised ideas. The concept of economisation constitutes a useful lens for examining the redefinition of the boundaries of international economic IOs and economic governance more broadly speaking. Second, it contributes to the literature on the IMF as well as change within the IMF[13] by studying a case of such change consisting of the inclusion of an issue that the Fund had earlier been reluctant to address, and exploring the agency of IMF staff and the scope conditions for such agency in this respect.[14] Richard Clark and Noah Zucker have argued that the prioritisation of climate change within individual Article IV reports has been driven inter alia by the experience of IMF staff of climate change.[15] This article goes beyond their findings by focusing on (1) the factors shaping the prioritisation of climate change on a more fundamental level, i.e. by defining for the entire Fund how far Article IV consultations can and should go, and (2) what this prioritisation entails in terms of *how* climate change is addressed and not just to what degree. Beyond climate change, gender and inequality have also been defined as macro-critical to integrate them into core IMF activities.[16]

Third, it contributes to the literature on environmental political economy[17] by exploring how climate change can be defined as an economic issue in different ways, as well as the factors that shape such definition. The article underscores that there is not just one kind of economisation, and that contrary to the literature on the shift from neo-classical to Keynesian climate policy ideas

[11] Skovgaard, *The Economisation of Climate Change*; Nielson and Tierney, 'Delegation to international organizations'.

[12] Kranke, 'Exclusive expertise'; Bessma Momani and Mark Hibben, 'Cooperation or clashes on 19th Street? Theorizing and assessing IMF and World Bank collaboration', *Journal of International Organizational Studies*, 6:2 (2015), pp. 27–43; Thomas Gehring and Benjamin Faude, 'A theory of emerging order within institutional complexes: How competition among regulatory international institutions leads to institutional adaptation and division of labor', *Review of International Organizations*, 9:4 (2014), pp. 471–98.

[13] Sarah Babb and Alexander Kentikelenis, 'Markets everywhere: The Washington Consensus and the sociology of global institutional change', *Annual Review of Sociology*, 47 (2021), pp. 521–41; Ayse Kaya and Mike Reay, 'How did the Washington Consensus move within the IMF? Fragmented change from the 1980s to the aftermath of the 2008 crisis', *Review of International Political Economy*, 26:3 (2019), pp. 384–409; Ben Clift, 'Contingent Keynesianism: The IMF's model answer to the post-crash fiscal policy efficacy question in advanced economies', *Review of International Political Economy*, 26:6 (2019), pp. 1211–37; Cornel Ban, 'Austerity versus stimulus? Understanding fiscal policy change at the International Monetary Fund since the great recession', *Governance*, 28:2 (2015), pp. 167–83.

[14] Lindenthal and Koch, 'The Bretton Woods institutions and the environment'; Ved P. Gandhi, *The IMF and the Environment* (Washington, DC: The International Monetary Fund, 1998).

[15] Clark and Zucker, 'Climate cascades'.

[16] Ben Clift and Te-Anne Robles, 'The IMF, tackling inequality, and post-neoliberal "reglobalization": The paradoxes of political legitimation within economistic parameters', *Globalizations*, 18:1 (2020), pp. 39–54.

[17] Jonas Meckling and Bentley B. Allan, 'The evolution of ideas in global climate policy', *Nature Climate Change*, 10:5 (2020), pp. 434–8; Michael Grubb with Jean-Charles Hourcade and Karsten Neuhof, *Planetary Economics: Energy, Climate Change and the Three Domains of Sustainable Development* (London: Routledge, 2014); Ryan Katz-Rosene and Matthew Paterson, *Thinking Ecologically about the Global Political Economy* (London: Routledge, 2018).

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among IOs,[18] neoclassical ideas still predominate in IMF climate policy. Economic institutions such as the IMF are characterised not only by their economic worldview rooted in mainstream economics but also by their relative power compared to international environmental institutions (such as the United Nations Framework Convention on Climate Change [UNFCCC]).[19] Furthermore, the activities of economic institutions cut across a wider range of policy areas than environmental policymaking alone.

The article first proceeds with an outline of the concept of economisation, its application to climate change and climate-related financial risks, as well as how it can expand the boundaries of economic institutions. Second, it establishes the analytical framework encompassing the factors that could shape the IMF's economisation of climate change, particularly the agency of IMF staff, as well as the scope conditions for such agency. Third follows a description of the qualitative methodology and collection of data. The fourth section outlines the IMF's earlier treatment of climate change, and how the IMF addressed the integration of climate financial risks into its Article IV surveillance. The fifth section applies the analytical framework to the integration of climate change into Article IV surveillance, finding that the entrepreneurship of IMF staff was important for this integration. The sixth and concluding section summarises these findings and contributions to existing and future research.

Economisation, risks, and climate change

The concept of economisation originates in social and political theory, where it describes wider societal processes that constitute particular 'behaviours, organizations, institutions and, more generally, the objects in a particular society … as "economic"'.[20] Economisation as defined in this article entails an economic institution defining an issue as economic and hence essentially as belonging to its portfolio. Thus, the approach adopted here emphasises the importance of actors shaping whether and how the institution should address the given issue as an economic one. Economisation constitutes a type of boundary work: framing an issue as economic establishes that it falls within the boundaries of the IMF portfolio, and it constitutes a claim that the IMF has the authority to address it in an economic way.[21] As a mechanism of boundary work, economisation is characterised by claims that an issue is economic – claims that often rely on economics literature, and in the case of climate change, often on environmental economics.[22]

Economisation as a mechanism does not only entail integration of an issue into the activities of an institution; it also defines that the issue should be addressed in a way using economic logics and instruments. These logics tie the issue to universal principles of economics (e.g. that free markets are optimal for allocating resources) and make it actionable for economic actors to address with economic instruments such as taxes, risk assessment, etc.[23]

These logics shall be understood as part of an economic 'meta-frame' within which different economic frames may guide how the issue is addressed. The economisation of climate change does not entail one distinct way of addressing climate change. The focus here is on mainstream economic approaches to environmental problems, which emphasise efficiency (understood as

[18] Meckling and Allan, 'The evolution of ideas in global climate policy'.

[19] Jeffrey M. Chwieroth, 'Normative change from within: The International Monetary Fund's approach to capital account liberalization', *International Studies Quarterly*, 52:1 (2008), pp. 129–58; Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (London: Cornell University Press, 2006).

[20] Koray Çalışkan and Michel Callon, 'Economization, part 1: Shifting attention from the economy towards processes of economization', *Economy and Society*, 38:3 (2009), pp. 369–98; Bob Jessop, 'Understanding the "economization" of social formations', in Uwe Schimank and Ute Volkmann (eds), *The Marketization of Society: Economizing the Non-economic* (Bremen: Forschungsverbund 'Welfare Societies', 2012), pp. 5–36.

[21] Kranke, 'Exclusive expertise'; Manuela Moschella, 'Seeing like the IMF on capital account liberalisation', *New Political Economy*, 17:1 (2012), pp. 59–76.

[22] Skovgaard, *The Economisation of Climate Change*.

[23] Oddný Helgadóttir, 'How to make a super-model: Professional incentives and the birth of contemporary macroeconomics', *Review of International Political Economy*, 30:1 (2023), pp. 252–80.

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maximum utility) while leaving questions of equity to other disciplines.[24] Environmental protection is important because it avoids the (long-term and societal) costs to economic growth or stability resulting from environmental degradation, even if such protection may cause short-term economic loss to those subject to the protection measures.[25] Within the IMF, different strands of mainstream economics and approaches to key economic issues have shaped IMF policy at different times.[26]

In the case of climate change defined as a macro-critical issue, a relevant strand of mainstream economics literature focuses on the financial risks associated with climate change and the climate transition.[27] Defining an issue as entailing economic risks is one kind of economisation and entails measuring it in quantifiable, monetary terms, thus making it actionable for economic actors.[28] A key distinction in this respect (in both academic and policy literature) is whether the focus is on 'single materiality', i.e. the impact *of* climate change and climate transition on e.g. the financial system, or 'double materiality', which includes the impact of climate change as well as the financial system's or companies' impact *on* climate change.[29] Efforts to address the single materiality of climate risks only seek to protect the financial system or individual companies from the impact of climate change (e.g. assets being destroyed) or the climate transition (e.g. fossil fuel assets becoming stranded), and not the impact of companies or the financial system on climate change (e.g. through financing fossil fuel extraction). For the purpose of the IMF and hence also for this article, the most relevant kinds of risks concern the risks to and from the financial system as a whole (i.e. macro-critical risks), rather than individual companies or investors.[30]

Regarding the impact of climate change on the financial system, the academic and policy focus has been on the physical impact of climate change, e.g. flooding, heatwaves, etc., and the transition risks stemming from the transition to a low-carbon society, e.g. fossil fuel investments becoming stranded as renewable energy takes over.[31] Importantly, both physical and transition risks may constitute systemic risks, or 'the risk of disruptions to the provision of financial services caused by an impairment of all or parts of the financial system, that had the potential to cause serious negative consequences for the real economy'.[32] Thus, these risks go beyond being a risk to individual companies and countries. Investment patterns at the time of writing (2023) – particularly in fossil fuel extraction – would lead to temperature increases of above 1.5 and 2 degrees Celsius.[33] This incompatibility is addressed by double materiality, but not by single materiality.

[24]Servaas Storm, 'How the invisible hand is supposed to adjust the natural thermostat: A guide for the perplexed', *Science and Engineering Ethics*, 23:5 (2017), pp. 1307–31.

[25]William D. Nordhaus, 'Climate change: The ultimate challenge for economics', *American Economic Review*, 109:6 (2019), pp. 1991–2014; Robert M. Solow, 'The economics of resources or the resources of economics', *The American Economic Review*, 64:2 (1974), pp. 1–14.

[26]Clift, 'Contingent Keynesianism'; Jeffrey M. Chwieroth, *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princeton, NJ: Princeton University Press, 2010).

[27]Michael Barnett, William Brock and Lars Peter Hansen, 'Pricing uncertainty induced by climate change', *Review of Financial Studies*, 33:3 (2020), pp. 1024–66; Emanuele Campiglio, Yannis Dafermos, Pierre Monnin et al., 'Climate change challenges for central banks and financial regulators', *Nature Climate Change*, 8:6 (2018), pp. 462–8.

[28]Brett Christophers, 'Climate change and financial instability: Risk disclosure and the problematics of neoliberal governance', *Annals of the American Association of Geographers*, 107:5 (2017), pp. 1108–27.

[29]Campiglio et al., 'Climate change challenges for central banks and financial regulators'; Mark Carney, 'Breaking the tragedy of the horizon: Climate change and financial stability', speech given at Lloyd's of London, 2015.

[30]Monasterolo, 'Climate change and the financial system'; Battiston et al., 'A climate stress-test of the financial system'.

[31]Semieniuk et al., 'Low-carbon transition risks for finance'; Campiglio et al., 'Climate change challenges for central banks and financial regulators'; Task Force on Climate-related Financial Disclosures, 'Recommendations of the task force on climate-related financial disclosures' (2017).

[32]Tobias Adrian, James Morsink and Liliana Schumacher, 'Stress testing at the IMF', Monetary and Capital Markets Department (Washington, DC: IMF, 2020).

[33]Paddy McCully, *Throwing Fuel on the Fire: GFANZ Financing of Fossil Fuel Expansion* (Paris: Reclaim Finance, 2023).

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The climate risk from and especially to the financial system has led a range of public actors with financial stability as their responsibility – from central banks to the Bank of International Settlements and the IMF – to address this risk.[34]

The most common mainstream policy solution to the financial risks associated with climate change has been to increase transparency regarding such risks, based on the notion that such information will make rational market actors decrease their investment in sectors exposed to climate risks.[35] This approach differs somewhat from the neoclassical environmental economic approaches to climate change that advocates pricing the social costs of climate change, e.g. through Pigouvian carbon taxes or Coasean emissions trading.[36] The neoclassical approach to climate change is again distinct from the Keynesian/Schumpeterian approaches advocating active government steering of markets to protect the environment and enhance growth, as well as de-growth approaches calling for less consumption.[37] The IMF has generally been described as a stronghold of neoclassical economics rather than Keynesianism and de-growth.[38]

A framework for studying the redefinition of IMF boundaries

The IMF integrating climate change into its surveillance is a case of an institution with a defined set of objectives and practices which integrates a new issue into its activities. For the institution to integrate a new issue, actors must define it in terms of constituting a challenge or opportunity for its objectives. In the case of the IMF, it has defined climate change as an economic issue and a macro-critical challenge to economic stability.

It is worth drawing on the literature on the agency of IO staff in general and IMF staff in particular. The technical nature of the revisions to Article IV consultations, the IMF staff's past record of promoting climate change and the preference heterogeneity within the Executive Board point to the importance of such staff.[39] The staff is organised into different Departments, including the Area Departments covering different regions of the world, and the Functional Departments. The Functional Departments include departments undertaking cross-cutting functions, such as the Fiscal Affairs, Research, and Strategy, Policy, and Review Departments. Policy entrepreneurs from these three departments have often promoted change within the IMF, also regarding climate change,[40] and often with the Strategy, Policy, and Review Department acting as a gatekeeper for Fund positions.[41] For the purpose of this article, the focus is on staff acting as policy entrepreneurs advocating new ideas and proposals, including framing new issues in ways that lead to particular policy responses.[42] Of particular relevance is the staff's power to define how policy problems should be understood and addressed.[43] This power relies on the IMF staff being recognised as experts and thus having the authority to define issues such as climate change.

The ability of IMF staff to redefine its boundaries is circumscribed by the formal rules defining its decision-making procedures and degree of autonomy.[44] As regards decision-making, the IMF

[34]Campiglio et al., 'Climate change challenges for central banks and financial regulators'; Luma Ramos, Kevin P. Gallagher, Corinne Stephenson and Irene Monasterolo, 'Climate risk and IMF surveillance policy: A baseline analysis', *Climate Policy*, 22 (2022), pp. 371–88; Patrick Bolton, Morgan Despres, Luiz Awazu Pereira Da Silva, Frédéric Samama and Romain Svartzman, *The Green Swan: Central Banking and Financial Stability in the Age of Climate Change* (Basel: Bank of International Settlements, 2020).

[35]Nadia Ameli, Paul Drummond, Alexander Bisaro, Michael Grubb and Hugues Chenet, 'Climate finance and disclosure for institutional investors: Why transparency is not enough', *Climatic Change*, 160:4 (2020), pp. 565–89.

[36]Grubb et al., *Planetary Economics*; Katz-Rosene and Paterson, *Thinking Ecologically about the Global Political Economy*.

[37]Meckling and Allan, 'The evolution of ideas in global climate policy'.

[38]Ban, 'Austerity versus stimulus?'; David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005).

[39]Skovgaard, *The Economisation of Climate Change*; Clark and Zucker, 'Climate cascades'.

[40]Skovgaard, *The Economisation of Climate Change*; Ban, 'Austerity versus stimulus?'.

[41]Hibben, 'Coalitions of change'.

[42]Chwieroth, 'Normative change from within'.

[43]Barnett and Finnemore, *Rules for the World*; Chwieroth, *Capital Ideas*.

[44]Nielson and Tierney, 'Delegation to international organizations'.

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staff draft all proposals that the Board discusses and decides on. Thus, the staff may define how policy issues are framed and decide which options are on the table, as well as the agenda of the Executive Board. Given the article's focus on the decision to integrate climate risks into Article IV consultations on the level of the entire Fund, rather than individual Article IV reports,[45] the focus is on the Functional Departments that drafted the proposal rather than the Area Departments. The IMF bureaucracy has a high degree of autonomy due to its control over own resources and notable discretion (compared to other IOs) in interpreting its own mandate.

Relevant actors beyond IMF staff include the politically appointed IMF management, member state representatives on the Executive Board, as well as civil society, academia, business, or other international institutions. The role of these actors has also been studied to explore whether they constitute scope conditions for staff agency and provide a full account of the role of IMF staff compared to other actors, and in the case of the Executive Board, whether they constitute scope conditions for staff agency.

Regarding management, the Managing Director in particular may induce change.[46] During the period studied, Kristalina Georgieva was Managing Director.

Policy changes proposed by the IMF bureaucracy are discussed by the Executive Board, the direct channel of influence for member states. The Executive Board consists of 24 Executive Directors. The USA, Japan, Germany, France, and the UK automatically appoint an Executive Director, while the other member states elect the other Directors, who represent larger groups of countries. The Executive Board is actively involved in the day-to-day operations of the Fund, particularly by approving all policy decisions including lending and surveillance reports. Member states without a seat on the Executive Board have little influence on these decisions. Each country's number of votes is determined mainly by a combination of its GDP, current account transactions, and the variability of these transactions over time as well as its official reserves.[47] Yet member states rarely vote, as decisions are generally reached by consensus.[48] The USA is seen by IMF scholars as having an influence that greatly exceeds its share of votes, although it is contested whether it on its own constitutes a de facto veto player, or if it is rather the major economies as a whole that do so.[49] Hence, politics in the USA may play an important role, including the role of the US Congress and the ideological orientation of the president.[50] The Obama and Biden administrations have been in favour of climate action and multilateral institutions, whereas the Trump administration was opposed to both.[51]

When it comes to actors outside the IMF, especially civil society, think-tanks, business, and other international institutions stand out. They can influence IMF decisions by providing new knowledge or policy ideas but will need to convince actors within the IMF to promote their proposals. NGOs may also create public pressure on the IMF.[52] Regarding interaction with other international institutions, the World Bank is particularly important.[53] The two IOs operate based on a shared (post-)Washington Consensus grounded in mainstream economic tenets. The World Bank is typically seen as the more environmentally oriented of the two.

[45]Clark and Zucker, 'Climate cascades'.

[46]Jeffery Chwieroth, 'Neoliberal economists and capital account liberalization in emerging markets', *International Organization*, 61:2 (2007), pp. 443–63.

[47]IMF, 'Reform of quota and voice in the International Monetary Fund: Report of the Executive Board to the Board of Governors' (Washington, DC: IMF, 2008); IMF, 'Factsheet: IMF quotas' (Washington DC: IMF, 2017).

[48]James Vreeland, *The International Monetary Fund: Politics of Conditional Lending* (London: Routledge, 2007).

[49]Randall W. Stone, 'The scope of IMF conditionality', *International Organization*, 62:4 (2008), pp. 589–620; Grigore Pop-Eleches, *From Economic Crisis to Reform: IMF Programs in Latin American and Eastern Europe* (Princeton, NJ: Princeton University Press, 2009).

[50]Babb and Kentikelenis, 'Markets everywhere', pp. 528–9.

[51]Christian Downie, 'Competition, cooperation, and adaptation: The organizational ecology of international organizations in global energy governance', *Review of International Studies*, 48:2 (2022), pp. 364–84.

[52]Hibben, 'Coalitions of change'.

[53]Kranke, 'Exclusive expertise'.

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Studying the role of IO staff in redefining the boundaries of an IO requires attention to the institutionalised ideas that define the IO's portfolio, and the broader set of ideas that can be drawn upon to define the boundaries of this portfolio. These ideas constitute scope conditions for how far staff can redefine the IO's boundaries. The most fundamental ideas define the IMF as an economic IO. They specify – as part of the mandate – that the IMF's objective is to work 'to achieve sustainable growth and prosperity … by supporting economic policies that promote financial stability and monetary cooperation'.[54] An IO's mandate constitutes a highly formal, institutionalised, and legal set of ideas that define what the IO bureaucracy is legally allowed to do, as well as its control over resources and the involvement of member states in the decision-making process.[55] While the IMF mandate grants its bureaucracy considerable autonomy, the mandate still means that any actor from the bureaucracy who seeks to expand the boundaries of the IMF needs to argue how this expansion is in accordance with the IMF addressing economic issues.

Defining an issue traditionally seen as non-economic, e.g. climate change, as posing a macro-critical challenge to economic stability and growth allows the IMF to address such issues and to do so in ways predicated on economic tenets.[56] The broadening of the IMF's boundaries in the early 2010s, including developing the concept of macro-criticality, was part of the IMF's efforts to remain relevant within global governance by addressing issues beyond its traditional strictly economic portfolio.[57] The IMF's mandate was updated in 2012 to include all macroeconomic and financial sector issues that have a bearing on global stability. Its objectives are now to 'achieve sustainable growth and prosperity for all of its 190 member countries … by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being'.[58]

Beyond the mandate, the culture of the IO bureaucracy shapes how boundaries can be redefined.[59] The IMF's bureaucratic culture and resulting worldview is very much rooted in the background of its staff as economists mainly trained within neoclassical economics.[60] From the 1980s onwards, the IMF bureaucratic culture was characterised by the 'Washington Consensus', a policy paradigm emphasising structural reform; trade, financial, and labour market liberalisation; and the protection of private property rights; as well as the IMF's traditional focus on cutting fiscal deficits.[61] The use of policy conditionalities and the surveillance of national economies constituted key components of the Consensus. After the 1997–8 Asian debt crisis, the IMF became less focused on liberalisation and more on poverty reduction.[62] Yet maximising economic welfare is still the key objective, and market-based solutions are defined as the optimal instruments to achieve this.

There are fewer constraints regarding how new issues can be framed due to their lower degree of precedence (prior action on the issue) and determinacy (agreement on how an issue shall be understood and which ideas shall apply).[63] In the case of the integration of climate risks into IMF surveillance, both were particularly low. Regarding precedence, there was little previous experience of such integration, as discussed below. Regarding determinacy, policy change within the IMF is

[54] IMF, 'What is the IMF?', available at: {https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance}.

[55] Michael W. Bauer and Jörn Ege, 'Bureaucratic autonomy of international organizations' secretariats', *Journal of European Public Policy*, 23:7 (2016), pp. 1019–37.

[56] Clift and Robles, 'The IMF, tackling inequality, and post-neoliberal "reglobalization"'.

[57] Interview with civil society representative, 17 November 2022.

[58] IMF, 'What is the IMF?'.

[59] Barnett and Finnemore, *Rules for the World*; Susan Park and Antje Vetterlein (eds), *Owning Development: Creating Policy Norms in the IMF and the World Bank* (Cambridge: Cambridge University Press, 2010).

[60] Chwieroth, *Capital Ideas*.

[61] Chwieroth, 'Normative change from within'.

[62] Hibben, 'Coalitions of change'; Park and Vetterlein, *Creating Policy Norms in the IMF and the World Bank*; Cornel Ban and Kevin Gallagher, 'Recalibrating policy orthodoxy: The IMF since the Great Recession', *Governance*, 28:2 (2015), pp. 131–46.

[63] Andrew Jordan and Dave Huitema, 'Innovations in climate policy: The politics of invention, diffusion, and evaluation', *Environmental Politics*, 23:5 (2014), pp. 715–34; Mark Rhinard, *Framing Europe: The Policy Shaping Strategies of the European Commission* (Dordrecht: Republic of Letters, 2010).

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often shaped by developments in mainstream economics.[64] While the IMF staff has considerable expertise authority to define how issues should be addressed,[65] the discipline of economics is still important for how legitimate a particular framing is. While climate change in general had been addressed by economics scholars for decades, the specific issue of the financial risks associated with climate change was still an emerging issue within economics. Beyond physical and increasingly also transition risks (see above) being considered important, there was little consensus. Thus, determinacy was low apart from the fact that the mandate and bureaucratic culture at a general level specified that climate risk should be addressed in a way that was consistent with ideas of economic rationality.

Methods

The analytical framework has been used to analyse interview material as well as official IMF sources. The analysis has aimed at (1) identifying how climate change has been framed as a macro-critical risk; (2) mapping the process leading to the IMF position on integrating climate change; and (3) identifying the role of (a) the IMF staff, (b) the scope conditions for this agency, and (c) other actors in this process. These elements have been identified by manually coding interview transcripts and official documents using the software program NVivo. The coding has been used to identify segments of the documents that can be used to understand the framing of climate change (aim number 1 above) and to map the policy process and the role of staff, scope conditions, and other actors (aims 2 and 3 above). Aim number 1 has relied on official documents, and aims 2 and 3 on interviews and official documents. Secondary sources have been used to triangulate findings derived from the interviews and official documents, and the interviews and documents have also been triangulated with each other. In general, the sources have to a very large degree corroborated each other.

The interviews have been conducted with IMF officials, member state officials working with the IMF, civil society observers, and experts from think-tanks and academia (16 persons in total). The IMF officials interviewed (seven in total) have all been involved in defining the IMF position on macro-criticality and climate change, and several of them have been part of drafting the key documents outlining this position. They represent departments traditionally important for defining the IMF's policy position, specifically the Strategy, Policy, and Review Department (responsible for the strategic direction), the Fiscal Affairs Department (responsible for fiscal policies globally), the Legal Affairs Department (responsible for interpreting legal boundaries of the IMF mandate), and the Monetary and Capital Markets Department (responsible for monetary, financial sector, and capital markets). The member state officials (five in total) have all been closely involved in defining their country's position on how the IMF should address climate change. The officials were based at their country's representation to the IMF, or in one case the national capital. Three were executive directors when the Board discussed integrating climate change into IMF surveillance, and two were senior officials with a responsibility for their country's position on the IMF and climate change. They represented different groups of countries, including industrialised, emerging, and less-developed countries, and fossil fuel exporters and importers. The civil society observers and academics (four in total) have all specialised in following the IMF and the World Bank, especially their treatment of environmental issues. They have been working closely with the group of countries systemically vulnerable to climate change (V20), including collaborating on developing the position of this group on the IMF and climate change. The identity of informants has been anonymised, and informants have been presented with the references to their interviews to give them the opportunity to correct or retract these references.

[64] Clift, 'Contingent Keynesianism', p. 1214.

[65] Andrea Liese, Jana Herold, Hauke Feil, and Per-Olof Busch, 'The heart of bureaucratic power: Explaining international bureaucracies' expert authority', *Review of International Studies*, 47:3 (2021), pp. 353–76.

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The key official documents analysed include documents drafted by the IMF bureaucracy: the most important ones are the 2021 'Background Paper on Integrating Climate Change into Article IV Consultations'[66] and the '2021 Comprehensive Surveillance Review—Overview Paper',[67] which integrated the Background Paper as well as background papers on other topics into a set of recommendations on updating IMF surveillance. The 2022 'Guidance Note for Surveillance under Article IV Consultations',[68] which implements the Executive Board decision, has also been included but is treated as less essential. The same applies to other official documents that outline IMF policy on related issues, notably the press releases detailing the Executive Board's discussions on these policy papers.

The IMF's engagement with climate change

Historical background: Earlier treatment of climate change

The IMF's core activities are usually described as (conditional) lending to countries facing a balance of payments crisis, capacity development, and surveillance of member states' economies, particularly in the shape of the so-called Article IV consultations. The IMF has historically not paid much attention to climate change or other environmental issues. Rather, it has been criticised for the negative environmental consequences of its policy conditionalities and advice. This criticism has focused on its advice and conditionalities inducing (especially heavily indebted) countries to exploit natural resources, including rainforests, fossil fuels, and minerals, and to reduce expenditure on environmental protection.[69] In the 1990s, the Executive Board induced the organisation to address environmental issues, leading IMF staff to define environmental degradation as a potential threat to economic objectives.[70] Staff also started to integrate environmental concerns into their interaction with states.[71] Yet IMF staff also stressed that other institutions, especially the World Bank, were more suitable in terms of expertise and mandate to address environmental issues, thus clearly demarcating that environmental issues lay outside its mandate.[72] Consequently, there were no substantial changes to Fund policies.

In 2001, the IMF set up an environmental team within its Fiscal Affairs Department to support the integration of environmental objectives in IMF interaction with states.[73] Since then, the IMF has increasingly focused on climate change, including its macroeconomic impact, fossil fuel subsidies, and carbon pricing.[74] The politically most important output has concerned fossil fuel subsidies, including both inducing countries under IMF lending programmes to reform such subsidies and estimating the size of global fossil fuel subsidies.[75] The IMF bureaucracy has defined

[66] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[67] IMF, *2021 Comprehensive Surveillance Review: Overview Paper* (Washington, DC: IMF, 2021).

[68] IMF, *Guidance Note for Surveillance under Article IV Consultations* (Washington, DC: IMF, 2022).

[69] Bretton Woods Project and ActionAid, *IMF Surveillance and Climate Change Transition Risks*; Harvey, *A Brief History of Neoliberalism*; Matthew Soener, 'Are IMF programs raising greenhouse gas emissions in the Global South?', *Socio-Economic Review* 22:4 (2024), pp. 1637–62.

[70] Gandhi, *The IMF and the Environment*.

[71] Lindenthal and Koch, 'The Bretton Woods institutions and the environment'.

[72] Lindenthal and Koch, 'The Bretton Woods institutions and the environment'; Stanley Fischer, 'What is reasonable to expect of the IMF on the environment', in Ved P. Gandhi (ed.), *Macroeconomics and the Environment* (Washington, DC: IMF, 1996), pp. 247–51.

[73] IMF Survey, *IMF Team Keeps an Eye on Linkages between Environment and Macroeconomic Policies* (Washington, DC: IMF, 2001).

[74] Lindenthal and Koch, 'The Bretton Woods institutions and the environment'.

[75] David Coady et al., *Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates* (Washington, DC: IMF, 2019); David Coady, Ian Parry, Louis Sears and Baoping Shang, *How Large Are Global Energy Subsidies?* (Washington, DC: IMF, 2015).

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carbon pricing as the single most important mitigation instrument.[76] The Fund has also increasingly addressed fiscal resilience to natural disasters, which will become more severe due to climate change.[77] Furthermore, since 2019, the IMF, including its Managing Directors, has emphasised the relevance of climate change and its economic impact to the IMF's work, including in flagship publications such as the Fiscal Monitor and World Economic Outlook.[78]

Yet this output stuck to knowledge production and general policy recommendations (e.g. on carbon pricing) or was driven by non-climate concerns (fossil fuel subsidy reform as part of IMF programmes) and hence did not integrate climate change into the core activities of the IMF. In this context, civil society organisations and vulnerable countries have criticised the IMF for doing too little on climate change and for encouraging unsustainable practices in its policy advice.[79] Only when the IMF bureaucracy proposed integrating climate change into IMF surveillance because of its macrocriticality did it become an inherent part of the Fund's core activities, as is explored in the following section.

Climate change as macro-critical in Article IV consultations

In 2015, the IMF bureaucracy defined climate change as an emerging structural issue, i.e. an issue that could impede 'efficient production of goods and services and the efficient allocation of resources'.[80] In 2019, the Fund bureaucracy went one step further and argued that climate change could be considered macro-critical.[81] That an issue is macro-critical means that it is 'crucial to the achievement of macro-economic and financial stability, which is at the core of the Fund's mandate'.[82] The IMF bureaucracy argued that the impacts of climate change (physical risks) could be macro-critical at the national and potentially also global levels, and that mitigation policies have major fiscal implications and hence *could* be integrated into bilateral consultations with countries (neither transition risk nor Article IV were directly mentioned).[83] The Board acknowledged that climate change impacts could be macro-critical but was divided regarding 'the inclusion of the economic implications of countries' mitigation policies in Fund surveillance', with a majority welcoming this but with six to nine Directors stressing that this should be driven by the individual member states.[84] The Directors opposing the inclusion came mainly from emerging economies and argued that regularly updated assessments of states' mitigation policies could go beyond the IMF mandate. A different group of six to nine, mainly Western European, Directors argued in favour of 'developing a staff guidance note on how to approach climate change in Fund surveillance, focusing in particular on adaptation policies, risk management, and mitigation frameworks'.[85]

The ensuing discussions regarding macro-criticality centred on the integration of macro-critical climate risks into Article IV consultations that are a fundamental part of the IMF's surveillance of the member state economies, especially their exchange rates and balance of payments. In 2020, the

[76] IMF, *How to Mitigate Climate Change* (Washington, DC: IMF, 2019); IMF, 'Mitigating climate change: Growth- and distribution-friendly strategies', in IMF (ed.), *World Economic Outlook* (Washington, DC: IMF, 2020), pp. 85–113.

[77] Stefania Fabrizio, Rodrigo Garcia-Verdu, Catherine Pattillo et al., *From Ambition to Execution: Policies in Support of Sustainable Development Goals* (Washington, DC: IMF, 2015); IMF, 'Small states' resilience to natural disasters and climate change: Role for the IMF' (Washington, DC: IMF, 2016).

[78] IMF, 'Mitigating climate change: Growth- and distribution-friendly strategies'; IMF, *How to Mitigate Climate Change*.

[79] Bretton Woods Project and ActionAid, *IMF Surveillance and Climate Change Transition Risks*; Bretton Woods Project, 'The IMF & climate change: Can the Fund help countries avoid a "climate Minsky moment"?', available at: {https://www.brettonwoodsproject.org/2019/10/the-imf-climate-change-can-the-fund-help-countries-avoid-a-climate-minsky-moment/}.

[80] IMF, 'Staff report on guidance note for surveillance under Article IV consultation' (Washington, DC: IMF, 2015).

[81] IMF, 'Fiscal policies for Paris climate strategies'.

[82] Ulrich Volz, 'Climate-proofing the global financial safety net', *Journal of Globalization and Development*, 13:1 (2022), pp. 1–30.

[83] IMF, 'Fiscal policies for Paris climate strategies'.

[84] IMF, 'IMF Executive Board reviews fiscal policies for Paris climate strategies', p. 3 (Washington, DC: IMF, 2019).

[85] IMF, 'IMF Executive Board reviews fiscal policies'.

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Fund discussed climate change in more than half of its Article IV consultations, although this integration was not consistent, and in less than half, both adaptation and mitigation were discussed.[86] On a pilot basis, the Fund included overall assessments of national mitigation policies in some of its Article IV consultations. Against this background, academics and civil society called for integrating climate change into all IMF country surveillance.[87]

In 2021, the IMF bureaucracy – responding inter alia to the above-mentioned call from a smaller group of Directors – put forward a Background Paper with a set of proposals on how Article IV surveillance should incorporate the macro-critical implications of climate change.[88] These proposals were integrated into the broader Comprehensive Surveillance Review, a regular review undertaken by the IMF bureaucracy every five to seven years to identify 'key surveillance priorities, which are informed by the major trends impacting on the global economy'.[89] The Background Paper explicitly aimed to integrate climate change into Article IV consultations in a consistent manner across all countries – rather than only the countries who volunteered for it – and identified three kinds of macro-critical climate challenges.[90] Two of these challenges – associated with adapting to climate change and transitioning away from fossil fuels – concerned IMF bilateral surveillance of countries and the macro-criticality of the 'policies that can significantly influence present or prospective balance of payments and domestic stability'.[91] The adaptation and transition challenge corresponds to physical and transition risks. The third – the so-called mitigation challenge – concerned IMF multilateral surveillance. Multilateral surveillance monitors 'the spillover effects of a member's exchange rate and domestic and financial policies that may significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability'.[92] As discussed below, IMF staff argued that this also applied to (inadequate) mitigation policies.

First, the adaptation challenges stemming from climate impacts, e.g. in the shape of climate-induced disasters, was, according to the Fund, primarily likely to have macro-economic and financial impacts in countries vulnerable to climate change. Since the mid-2010s the Fund has addressed such adaptation, especially improving the resilience of small developing states and sub-Saharan Africa.[93] The IMF's role regarding such countries is particularly relevant as many of these countries are already heavily indebted (often to the IMF) and may need major financial support if natural disasters destroy large parts of society. The Background Paper proposed integrating it in a consistent way into Article IV consultations for all countries where the Fund deemed it relevant. The Paper emphasised the importance of building resilient infrastructure and the IMF working in cooperation with other IOs.[94]

Second are transition challenges stemming from fossil fuel reserves and infrastructure becoming stranded due to the transition away from fossil fuels.[95]4 According to the IMF bureaucracy, this challenge is primarily relevant to countries dependent on exporting such fuels. The IMF bureaucracy had earlier called for financial instruments such as 'green stock indices, green bonds, voluntary de-carbonization initiatives to re-allocate investment away from emissions-intense

[86]Valerie Laxton, Caitlin Smith and Carolyn Neunuebel, *How The International Monetary Fund and Member Countries Can Conduct Climate-Informed Article IV Surveillance* (Washington, DC: World Resources Institute, 2022).

[87]Bretton Woods Project and ActionAid, *IMF Surveillance and Climate Change Transition Risks*; Volz, 'Climate-proofing the global financial safety net'.

[88]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[89]IMF, *IMF Executive Board Concludes the 2021 Comprehensive Surveillance Review* (Washington, DC: IMF, 2021).

[90]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[91]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*; IMF, *IMF Executive Board Adopts New Decision on Bilateral and Multilateral Surveillance* (Washington, DC: IMF: 2012).

[92]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[93]IMF, *Small States' Resilience to Natural Disasters and Climate Change* (Washington, DC: IMF, 2016); IMF, *Enhancing Resilience to Natural Disasters in Sub-Saharan Africa* (Washington, DC: IMF, 2016).

[94]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[95]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

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investments to "green" sectors' in order to reduce the risk of stranded assets.[96] In the Background Paper, the Fund bureaucracy followed previous output and called for addressing such risks through 'tax policies … redistribution schemes to mitigate the social and labor market impact of mitigation measures, or reinforcing financial regulation'.[97]

Third, according to the IMF bureaucracy, climate change constitutes a global public good, which will be 'under-supplied in the absence of an effective coordination and enforcement mechanism'.[98] The IMF bureaucracy suggested that the fact that no state can effectively provide sufficient climate change mitigation on its own should be addressed by focusing on the 20 largest emitters, and integrating climate mitigation into the surveillance of these countries. The reasoning behind this proposal is that climate change constitutes a macro-critical risk on the global level – due to both 'tail' risks (which are improbable but which entail a catastrophic impact) and more likely but less catastrophic risks – and that the 20 largest emitters contribute significantly to this risk.[99] These 20 countries account for more than 75 per cent of global greenhouse gas emissions. Thus, the paper argued that there is a potential spillover from these states' mitigation policies to the 'effective operation of the international monetary system'.[100] The surveillance of these countries' mitigation policies would be undertaken at least every three years. For all other countries, coverage of mitigation risks would be 'encouraged but not necessarily expected'.[101]

The IMF bureaucracy itself acknowledged that addressing climate mitigation in its surveillance has less of a clear legal basis than physical and transition climate risks. It proposed using countries' Nationally Determined Contributions (NDCs) under the Paris Agreement as the yardstick for assessing the adequacy of the largest emitters' mitigation policies and comparing these emitters' NDC targets to those of their peers, defined in terms of income and economic structure.[102] Still, the IMF bureaucracy also acknowledged that the combined NDCs are insufficient for meeting the joint targets of the Paris Agreement. The IMF bureaucracy justified using NDCs (which are determined by the states themselves) as a yardstick on the grounds that other options that would involve the Fund setting the yardstick itself would be beyond its mandate, as it would be political rather than economic. Thus, the bureaucracy defined issues it framed as economic as being within the boundaries of the IMF, whereas issues framed as political were defined as being better left to the member states. Yet the comparison to peer countries would involve some level of IMF assessment of the adequacy of the NDC target.

The Fund bureaucracy also highlighted carbon pricing and structural investment as the first-best options for achieving the NDCs and also suggested that the IMF should expand its activities to develop the climate policy making capacity in member states, with an emphasis on carbon pricing, resilience, and attracting climate finance.[103] The emphasis on carbon pricing as the solution provides further insights into the IMF bureaucracy's economisation of climate change. This economisation builds on a neoclassical economic understanding of climate change as an externality best addressed through carbon pricing.[104] Thus, the IMF's approach stands out both from the increasing emphasis on Keynesian and Schumpeterian approaches among IOs, and from the emphasis on transparency as the solution to climate financial risks.[105]

Climate risks, especially adaptation and transition risks, are framed in ways that focus on the single materiality of climate change posing a risk to macroeconomic and financial stability, rather

[96] IMF, *How to Mitigate Climate Change*.

[97] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*.

[98] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, note 4.

[99] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, pp. 8–9.

[100] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 8.

[101] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 9.

[102] IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, pp. 11–12.

[103] IMF, *Strategy to Help Members Address Climate Change-Related Policy Challenges: Priorities, Modes of Delivery and Budget Implications* (Washington, DC: IMF, 2021).

[104] Skovgaard, *The Economisation of Climate Change*.

[105] Meckling and Allan, 'The evolution of ideas in global climate policy'.

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than macroeconomic and financial policy (or the financial sector) posing a risk to the climate. The section on mitigation risk defines mitigating climate change as an objective in its own right, yet this objective is framed as important due to its economic and distributional consequences.[106] This is not surprising considering the IMF's economic mandate and particularly the purpose of Article IV of ensuring macroeconomic and financial stability, but it underscores how the Fund's economisation of climate change still operates with economic objectives as the ultimate end.

The IMF proposals on the surveillance of physical and transition risks were accepted by the IMF Executive Board without much discussion except that such surveillance should not be automatically applied to all countries but only to countries where such risks are indeed macro-critical.[107] Mitigation risks were subject to more discussion between the Executive Directors.[108] The Executive Board as a whole generally agreed it should be strongly encouraged for the largest emitters but also underscored that in terms of policy solutions, the Fund should be open to different approaches, thus delimiting the IMF bureaucracy's promotion of specific policies such as carbon pricing. A few (two to four) Directors from emerging economies 'underlined the need to account for past emissions and the energy needs of developing countries as they grow'.[109] As discussed below, major emerging economies were more hesitant regarding integrating mitigation risks, while European and North American countries were more positive.

Explaining climate macro-criticality in Article IV

To explain why the IMF integrated climate change into Article IV surveillance, the analysis describes how the staff were active in expanding the Fund's boundaries to include climate risks, but the mandate and especially the Executive Board constituted scope conditions limiting the integration of particularly mitigation risks.

IMF staff agency

In the early stages of the policy process, members of staff were highly important. In the early discussions, the notion that physical risk could be macro-critical for small island states, Least Developed Countries, and other vulnerable countries was relatively established and uncontroversial with the Fund, while the macro-criticality of transitional risks was subject to more discussion.[110] Informal networks of IMF economists from different departments were particularly important in promoting the inclusion of transition risks.[111]

Unlike transition and physical risks, the notion of treating inadequate global mitigation as a macro-critical risk originated solely in IMF staff in the Fiscal Affairs and Strategy, Policy, and Review Departments.[112] There were no calls from member states, civil society, or academia for the IMF to address countries' mitigation policies in this way. This inclusion allowed for the Fund assessment of all member states' mitigation policies, which IMF staff had been in favour of for some time[113] but had not been able to justify.

The working group preparing the Background Paper and the IMF position issue was careful to ensure that the surveillance of mitigation risks would be within the IMF mandate.[114] IMF member states are only responsible for their own macroeconomic and financial stability, but, according to

[106]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, pp. 6–7.

[107]IMF, *IMF Executive Board Concludes the 2021 Comprehensive Surveillance Review*.

[108]Interview with former IMF Executive Director, 29 June 2023; interview with civil society representative, 11 April 2022; interview with senior IMF official, 11 April 2022.

[109]Interview with former IMF Executive Director, 29 June 2023; IMF, *IMF Executive Board Concludes the 2021 Comprehensive Surveillance Review*.

[110]Interview with civil society representative, 17 November 2022.

[111]Interview with senior IMF official, 11 April 2022.

[112]Interview with senior IMF official, 11 April 2022.

[113]IMF, 'Fiscal policies for Paris climate strategies'.

[114]Interview with civil society representative, 11 April 2022.

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its mandate, the IMF should in general (not just when it comes to climate change) monitor whether there is a risk of 'outward spillover' from the member states' policies to global stability.[115] Applied to the case of climate change, the Background Paper argued that there is a 'significant spillover' from member states' policies to climate change and thus to the impacts of climate change on global economic and financial stability.[1164] Yet it is difficult to translate this impact into a 'metric robust enough to underpin this assessment'.[117] While it is straightforward to establish a causal relationship between climate change and economic and financial stability, it is more difficult to establish a similar relationship between an individual state's policies and climate change. The IMF mandate only justifies surveillance of domestic policies if they may '*significantly* influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability'.[118] The solution put forward by IMF staff was to strongly encourage it for the 20 largest emitters.[119] The strong encouragement meant no country could be forced to accept surveillance of its contribution to mitigation risk, and the focus on the 20 largest emitters meant that the Fund could not be perceived as singling out specific countries, which could ask why another important emitter was not also included.[120]

Deciding which countries to include was not the only potentially controversial issue. The question of how the IMF should determine to what degree a country's mitigation efforts were adequate could also cause pushback, given that different yardsticks could provide highly different results for individual countries. The Background Paper discussed inter alia an equitable burden-sharing between countries but concluded that determining what would constitute equity would be beyond the mandate expertise of the Fund and should be determined by a 'political process'.[121] Instead, the Background Paper suggested that adequacy should be determined on the basis of a country's Nationally Determined Contribution (NDC) to the Paris Agreement, but that this target would also be assessed in the light of these NDCs' overall insufficiency for meeting the global targets of the Paris Agreement as well as of the NDCs of countries with similar income levels and economic structures.[122]

In terms of policy recommendations, the IMF would 'primarily assess policies for whether they are effective for achieving mitigation' but also stated that it would be legitimate to compare 'an actual mitigation policy package with an economically (more) efficient package'. Furthermore, the Paper states that 'Article IV reports will typically discuss mitigation and the management of the transition to a low carbon economy as a comprehensive policy package. This includes measures to address distributional and competitiveness issues that can arise from climate change mitigation policies.' Thus, the IMF would not just assess how much mitigation a state's policies will deliver, but also its economic efficiency and distributional and competitiveness consequences. Economic efficiency must be seen in the light of the Background Paper defining comprehensive carbon pricing as the first-best option for mitigation, and contemplating that 'an average carbon price of US$75 per ton in 2030[123] and/or Net Carbon Neutrality by 2050' can be used as a yardstick in the rare cases of countries without an NDC.[124] Nonetheless, the Background Paper also acknowledges that the first-best option can be difficult to implement,

[115]IMF, *Modernizing the Legal Framework for Surveillance: An Integrated Surveillance Decision* (Washington, DC: IMF, 2012).
[116]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 7.
[117]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, pp. 8–9.
[118]IMF, *Modernizing the Legal Framework for Surveillance*.
[119]Interview with senior IMF official, 11 April 2022; interview with senior IMF official, 2 June 2022.
[120]Interview with former IMF Executive Director, 29 June 2023.
[121]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 10.
[122]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 11.
[123]IMF, 'Mitigating climate change'.
[124]IMF, *Background Paper on Integrating Climate Change into Article IV Consultations*, p. 11.

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and that 'economically less efficient mitigation strategies, such as emissions regulation … or measures to increase the supply capacity for green energy' are more common, and that the Fund should be open to such approaches. Altogether, climate change including climate mitigation, was brought into the 'procedural methodology' of the Article IV consultations, including the checklists staff would use when conducting the consultations.[125] In an institution where there could be scepticism of having to deal with 'non-tractable economic problems' (which are difficult to address using standard models), a rigorous methodology based on economic principles for addressing an issue was important for the acceptance of the approach among the staff.[126]

Scope conditions for staff agency

The IMF **Executive Board** played a highly important role in deciding the final extent of integrating climate change into surveillance. After the Background Paper had been adopted by the IMF bureaucracy, it – as part of the overall surveillance review – was discussed by the Board. While the recommendations regarding the surveillance of physical and transition risks were welcomed by the Board as a whole, integrating mitigation risks was met with more diverse opinions.[127] In terms of actors, European countries such as France and the UK, vulnerable developing countries, as well as Canada and the USA, welcomed the suggestions.[128] For the USA, the most powerful member state, this constituted a complete turnaround compared to the Trump presidency, which had been strongly opposed to integrating climate change into the Fund's activities. Most informants underscored that without the change in US government, climate change could not have been integrated into IMF surveillance, and definitely not mitigation risks. For the other states, it was in line with their previous positions on the IMF and climate change. Some European countries such as Germany are generally in favour of international climate action but also of the IMF not branching out into new areas, leading them to keep a lower profile on the issue than other European countries.[129] Altogether, the voting power of proponents of climate integration mattered, especially that of the USA.

The Executive Directors who were more sceptical of integrating mitigation policies represented emerging economies, particularly Saudi Arabia, Brazil, Indonesia, China, and India, but also Japan, Australia, and some African countries.[130] Directors from these countries, particularly the emerging ones, 'underlined the need to account for past emissions and the energy needs of developing countries as they grow'.[131] These Directors also stressed that the IMF staff should be open to different policy approaches when assessing countries' mitigation policies, rather than promoting carbon pricing. These countries highlighted that it would be problematic for the IMF to branch out into climate change, an area where it had little expertise.[132] Rather, it was an area best left to the UNFCCC and the World Bank. Some developing, including African, country Directors were also sceptical of the emphasis on mitigation rather than adaptation, since they were opposed to having their relatively small emissions monitored and wanted assistance in their adaptation.[133] The fact that

[125] Interview with civil society representative, 17 November 2022.

[126] Interview with civil society representative, 17 November 2022.

[127] IMF, *IMF Executive Board Concludes Surveillance Review*; interview with former IMF Executive Director, 14 September 2023; interview with former IMF Executive Director, 12 October 2023.

[128] Interview with former IMF Executive Director, 29 June 2023; interview with former IMF Executive Director, 14 September 2023; interview with civil society representative, 9 September 2022.

[129] Interview with former IMF Executive Director, 14 September 2023.

[130] Interview with former IMF Executive Director, 29 June 2023.

[131] IMF, *IMF Executive Board Concludes Surveillance Review*.

[132] Interview with former IMF Executive Director, 29 June 2023; interview with former IMF Executive Director, 14 September 2023; interview with former IMF Executive Director, 12 October 2023.

[133] Interview with former IMF Executive Director, 29 June 2023.

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industrialised countries had not delivered on their UNFCCC commitment to mobilise 100 billion USD in climate finance by 2020 only added to their scepticism.

Beyond the Board, the **mandate** constituted an important scope condition for IMF staff agency, as evident in the process of drafting the Background Paper. The IMF mandate was important for the economic framing of climate change as a problem, but also restricted how far IMF surveillance (and thus the boundaries of IMF activities) could go. The role of the mandate became even more evident in the Executive Board discussions. While the Board agreed to an expanding of the boundaries of the IMF to include climate change, there was disagreement regarding how far the mandate allowed this expansion to go. Opponents of the integration of mitigation argued that the integration of climate change should be in the line with the mandate, and that the Fund addressing climate change beyond immediate and direct impacts of climate change and climate policy would go beyond this mandate. They argued for maintaining a sharp boundary between the IMF and international institutions created to address climate change.

The emphasis on carbon pricing revealed that the economic framing was about more than just staying within the Fund's mandate. The consequences of climate change would have to be framed in economic terms for it (and especially mitigation risks) to fall under the IMF's mandate, but to define carbon pricing as the optimal solution (combined with investment) was not something that originated in the mandate or in the economic literature on climate risks. Rather, it reflected the **bureaucratic culture** of the IMF, which had earlier framed climate change as an economic externality and carbon pricing as the economically rational solution to it.[134] In the Executive Board discussions, the bureaucratic culture did not play a discernible role.

The **mainstream economic literature** has mainly focused on how transition and adaptation risks could be addressed through transparency and is much less determinate when it comes to the more boundary-defining issue of mitigation. The efforts of the Financial Stability Board and central banks to address adaptation and transition financial risks were important in increasing awareness of these risks among states and hence making it less controversial for the IMF to address them.[135] Concerning mitigation, while there has been extensive academic discussion on the nature of climate mitigation as a public good, including within economics,[136] the link between individual countries' mitigation policies and global economic and financial stability is less established. Thus, there has been a lower degree of determinacy as regards the mainstream economic discussion on this link, something which increased the scope of the IMF staff to define it according to their bureaucratic culture.

Other relevant actors

Beyond the staff itself, the **Managing Director** was an important permissive factor in the integration of climate change in Article IV consultations. Shortly after her appointment as Managing Director in October 2019, Kristalina Georgieva publicly expressed an openness to the integration of transition risks.[137] She supported the inclusion of mitigation challenges in Article IV – as well as other measures to integrate climate change within IMF core activities – while there was some opposition from parts of the senior IMF staff.[138]

[134] IMF, 'Fiscal policies for Paris climate strategies'; interview with senior IMF official, 2 June 2022; Ian Parry, Dirk Heine, Elisa Lis and Shanjun Li, *Getting Energy Prices Right: From Principle to Practice* (Washington, DC: IMF, 2014).

[135] Interview with civil society representative, 17 November 2022.

[136] Nordhaus, 'Climate change'; William Nordhaus, 'Climate clubs: Overcoming free-riding in international climate policy', *The American Economic Review*, 105:4 (2015), pp. 1339–70.

[137] Bretton Woods Project, 'IMF joins discussion on greening financial sector, as climate risks threaten macro-stability' (2019).

[138] Interview with civil society representative, 11 April 2022; interview with civil society representative, 9 September 2022; interview with senior academic, 7 September 2022.

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Civil society organisations and **academics** have since at least 2019 called for the IMF to address physical as well as transitional risks.[139] Beyond outright advocacy, the emerging discussions regarding how to understand transition risks and stranded assets within academia,[140] civil society,[141] the financial sector,[142] and other governance institutions[143] have also influenced IMF staff's thinking about transition risk. Transition risk was still a novel concept when IMF staff started addressing it, but its indeterminacy had been reduced by academic and policy debates outside the Fund.

Conclusions

The analysis has shown how the IMF has integrated climate change into its Article IV surveillance in a way that extended its boundaries. The inclusion of adaptation and transition risks changed which topics the IMF can bring up, but it is the inclusion of mitigation policy that potentially constitutes the most important change and was the most controversial expansion. It is important since the inclusion of mitigation policy extended the boundaries of what the IMF could do regarding member states' climate policies and tied the Fund's assessment of these policies to economic principles such as carbon pricing. While it at the time of writing is too early to gauge the impact on Article IV consultations, since 2022 there seems to have been a very substantial increase in the references to climate change in the Article IV reports.

This article has explored the role of IMF staff in shaping this boundary work. A smaller group of IMF staff initiated and shaped this process, especially regarding mitigation policy. In terms of scope conditions for the successful agency of the staff, heterogeneous preferences within the Board and the mandate restricted IMF staff agency, while the lack of consensus within the academic literature rather enhanced it. The mandate meant that climate change had to be defined in terms of economic risks to address it within Article IV surveillance, and that there are limits to the Fund's ability to address member state policies that do not directly influence the state's own economic and financial stability. Whereas addressing physical and transition risks was clearly within the mandate, addressing mitigation was on the margins. Consequently, it was easier for Executive Directors from countries sceptical of the IMF addressing climate change to argue that far-reaching surveillance in the context of mitigation risks was beyond the mandate. Without the support from industrialised and some vulnerable countries, especially the newly elected Biden administration, mitigation policy would not have been integrated into Article IV surveillance. Unlike physical and transition risks, defining a country's mitigation policy as macro-critical did not originate from the economics literature – but rather from entrepreneurs among the IMF staff – and constituted a new way of framing the consequences of climate change as a risk to economic and financial stability. The IMF staff went beyond the notion of transparency as the solution to climate-related financial risks and called for carbon pricing, a notion rooted in the bureaucratic culture of the IMF.

Other actors also played important roles. External pressure from civil society and vulnerable countries helped move the process forward concerning transition and physical risks. The support from the Managing Director was also influential.

The findings of the article contribute to three bodies of the literature. First, they contribute to the literature on IO boundaries by demonstrating the influence of IO staff on the boundary work of IOs, and how this influence was conditional on mandate, bureaucratic culture, and heterogeneous member state preferences. Specifically, climate change was defined in economic terms because of the mandate and bureaucratic culture, and together with the heterogeneous member state preferences

[139] Bretton Woods Project, 'The IMF & climate change'; Interview with senior IMF official, 11 April 2022.

[140] Campiglio et al., 'Climate change challenges for central banks and financial regulators'.

[141] Carbon Tracker Initiative, *Unburnable Carbon: Are the World's Financial Markets Carrying a Carbon Bubble?* (London: Carbon Tracker Initiative, 2011).

[142] Carney, 'Breaking the tragedy of the horizon'.

[143] Task Force on Climate-related Financial Disclosures, 'Recommendations'.

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they limited how far the boundaries could be expanded. Second, the findings contribute to the IMF-specific literature by demonstrating the role of IMF staff (in the Fiscal Affairs and Strategy, Policy, and Review Departments) and how it had to operate within the confines of ideas institutionalised in the mandate and the bureaucratic culture, including ideas about what constituted economic risks. Third, they contribute to the literature on environmental political economy by exploring how neoclassical ideas dominate IMF (climate) policy, and how staff make these ideas central to how climate change should be addressed, e.g. through carbon pricing. While neoclassical economisation of climate change may play an increasing role on the international level, it will still be limited by ingrained fault lines among states and may only add to the fragmentation of international climate politics as more Keynesian approaches spread internationally and domestically.

The findings are relevant for the transformational potential of economisation by the IMF. Such potential exists in terms of integrating climate change into non-environmental policies, integration necessary for the climate transition to succeed.[144] Yet the fact that economisation entails defining climate change in economic terms also shapes its transformational potential. As has been discussed here, the IMF's economisation of climate change holds little transformational potential in terms of breaking with the economic, growth-oriented models which lie at the heart of the IMF.[145]

Altogether, integrating climate change into Article IV consultations may be an important step in changing an economic institution that is crucial for the transformation to sustainability. It may also turn out to maintain the status quo of the economic system rather than transform it, as it has been the case with earlier attempts to address the financial risks associated with climate change.[146] Such institutions have historically mainly affected the transformation negatively,[147] and either their behaviour vis-à-vis the transformation or their power must change to achieve sustainability. The integration of climate change into IMF surveillance may open space for fundamental changes also in other aspects of IMF policy (particularly lending). Future research could explore (1) to what extent these changes take place, (2) if the IMF findings are generalisable to other economic institutions, and (3) what is their impact.

Specifically, (1) could be answered by studying how the IMF addresses a wider set of climate issues. Such research could explore what degree the constellation of factors (agency of IO bureaucracy, ideational structures, and member state preferences) identified here also apply, e.g. in the case of lending. The newly established RST in particular could be relevant, since it constitutes a case characterised by a different set of interests, with the industrialised countries having to provide financial backing for the Trust, and developing and emerging countries benefiting from it.

Generalisability beyond the IMF (2), can be studied in other economic IOs, such as the OECD, WTO, International Labour Organization (ILO), or World Bank, to identify whether similar factors apply in IOs that differ from the IMF in terms of member state decision-making (the OECD, WTO) and adherence to neoclassical economics (the OECD and especially the ILO). This research could also provide insights into the (3) impacts of economisation in terms of how it plays out based on other economic paradigms, and the potential effects of fragmentation in terms of different kinds of economisation.

Video abstract. To view the online video abstract, please visit: https://doi.org/10.1017/S026021052400086X.

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[144] Åsa Persson, Hens Runhaar, Sylvia Karlsson-Vinkhuyzen et al., 'Editorial: Environmental policy integration. Taking stock of policy practice in different contexts', *Environmental Science and Policy*, 85 (2018), pp. 113–15.

[145] Matthew Paterson, 'Climate change and international political economy: Between collapse and transformation', *Review of International Political Economy*, 28:2 (2021), pp. 394–405.

[146] Ameli et al., 'Climate finance and disclosure for institutional investors'.

[147] Soener, 'Are IMF programs raising greenhouse gas emissions'.

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