

## Summary Note

### HP1 Workshop: How to Scope Fiscal Impacts of Long-term Climate Strategies?

*Tuesday, February 1, 2022*

---

With the transition to net zero emissions, the structure of the global economy is expected to change significantly. Clean sectors, such as renewables, are likely to grow while emissions-intensive activities are likely to shrink. The economic structures of individual countries and international trade patterns are also likely to change. Regarding policy making, long term views need to be integrated in decisions made today to avoid “locking in” policies and projects that are incompatible with meeting climate targets. Yet the decision-making environment is partially under ‘deep uncertainty’ as many potential changes are difficult to forecast, and the process of climate change can be sudden and non-linear. How, then, should we prepare for the transformation that lies ahead? What does it mean for our economies and budgetary planning? What fiscal impacts can we expect and how on countries potentially scope and quantify the potential fiscal impacts from the transition to carbon neutral societies?

Scoping the fiscal impacts of net-zero strategies can enable Finance Ministries to promote sustainable economic policies, prepare and adjust for possible major changes, and maintain budget sustainability in this dynamic environment.

The Finnish Innovation Fund Sitra compiled a report [still in draft] for the Coalition of Finance Ministers for Climate Action on this topic and presented the findings on February 1 at a Coalition workshop under the Helsinki Principle 1 workstream. The presentation of the draft report was followed by country case studies and reactions from the Institutional Partners (IPs) of the Coalition. The main objective of the workshop was to discuss different modelling approaches and potential pathways forward to support Members and IPs in developing models in practice as part of climate mainstreaming efforts.

The workshop was opened by Pekka Moren, the Co-chair Sherpa, Finland, who emphasized that developing tools on how to assess the fiscal and economic impacts of climate change is at the core aspect of climate mainstreaming climate in economics. He highlighted the concrete steps and guidance on how countries can develop various modeling approaches covered in the report.

Dr. Saara Tamminen (Leading Specialist, Finnish Innovation Fund Sitra) presented the key findings of the report *How to Scope the Fiscal Impacts of Long-Term Climate Strategies? – a Review of Current Methods and Processes.* The findings are based on a literature review and interviews with 36 research and environmental experts and government representatives. The report also discusses some key challenges and opportunities for improvement and provides advice on potential ways forward for Ministries of Finance. Two technical and non-technical summary notes were also prepared.

The presentation was followed by country cases from the United Kingdom and Spain.

David Taylor (Economic Advisor, Climate Policy Team, HM Treasury, UK) presented the UK's net-zero review and processes, as well as noting the human resources needed for the undertaking. The UK Parliament decided in 2019 to set a net zero greenhouse gas emissions by 2050. Two Net Zero Reviews were subsequently published: [Interim Report](#) in December 2020 and [Final Report](#) in October 2021. During the process, a new cross-departmental Climate Board was established to align work across different functions; for example: macroeconomics, fiscal, tax, spending, and international trade, drawing together expertise also from other departments. Ignacio Argüelles Martínez (Junior Economist, Sustainability and Structural Analysis branch, Fiscal Group, HM Treasury, UK) presented illustrative assessments on the potential fiscal implications of the net zero transition. The analyses are presented in Chapter 6 of the Net Zero Review Final Report and focus on the direct impacts on tax revenues in three parts: i) overview of the tax revenues at risk, ii) illustrative analysis of an expanded carbon pricing regime and the net impact on tax revenues, and iii) context of the net zero transition given wider fiscal pressures from demographic changes.

Mikel González-Eguino (Senior Researcher, BC3, Basque Centre for Climate Change, Spain) presented the Impact Assessment of the Spanish [National Energy and Climate Plan \(NECP\) to 2030](#), a document that was submitted to the EU in January 2020 and includes fiscal, economic, social and health impact assessments of the strategy. The Spanish objectives by 2030 include: reducing greenhouse gas emissions by 23% from 1990 levels, increasing renewables in the final energy mix to 42%, and improving energy efficiency by 39.5%. The Spanish research consortium used various modelling tools to analyze the potential impacts of the strategy and ran different scenarios, including the dynamic econometric national input-output model. The NECP is expected to increase public revenues by boosting economic growth, which will more than offset the public spending needed to finance the NECP.

Representatives from the Institutional Partners – the IMF (Jean Chateau, Senior Economist, Research Department) and the IDB (Dr. Adrien Vogt-Schilb, Senior Climate Change Economist) presented tools and approaches to analyzing the fiscal impacts of the climate transition. The IMF has developed a new Computable General Equilibrium (CGE) model for climate mitigation impact analyses of climate strategies, which covers sectoral and structural changes, as well as being dynamic and global. Dr. Vogt-Schilb noted that the IDB's work on climate mitigation is focused on getting to net-zero emissions by around 2050 and provided examples on impact assessments from Latin American countries where gas and oil revenues have an important fiscal role. The transition to net zero will affect these revenues heavily.

Pekka Moren (Finnish Co-Chair Sherpa) closed by emphasizing that countries could have follow-up discussions on the topic at the national level with relevant experts and policymakers.

The report and the non-technical summary notes are being finalized and will be made public.