

PARIS COLLABORATIVE ON GREEN BUDGETING

CLIMATE CHANGE AND LONG TERM FISCAL SUSTAINABILITY



HIGHLIGHTS
2020

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Fiscal sustainability reports tend to focus on the future challenge of population ageing. Few OECD countries have attempted to quantify the fiscal impact of climate change. However, climate change is expected to affect the fiscal sustainability of government budgets in the medium and long-term, requiring a balance between tax revenues and public expenditures at the national and sub-national levels.

The paper “*Climate Change and Long-Term Fiscal Sustainability*”¹ aims to address the questions of how governments can better assess the budgetary implications of disruptive and transformative factors from climate change and how governments can improve the assessment and management of fiscal risk for policy response. It was prepared by the Swiss Federal Finance Administration for the OECD Paris Collaborative on Green Budgeting.

This summary provides information from this paper on channels through which climate change has a fiscal impact, the uncertainties that make a quantitative estimate difficult, and initial guidance on how fiscal impacts can be integrated into official fiscal reports.

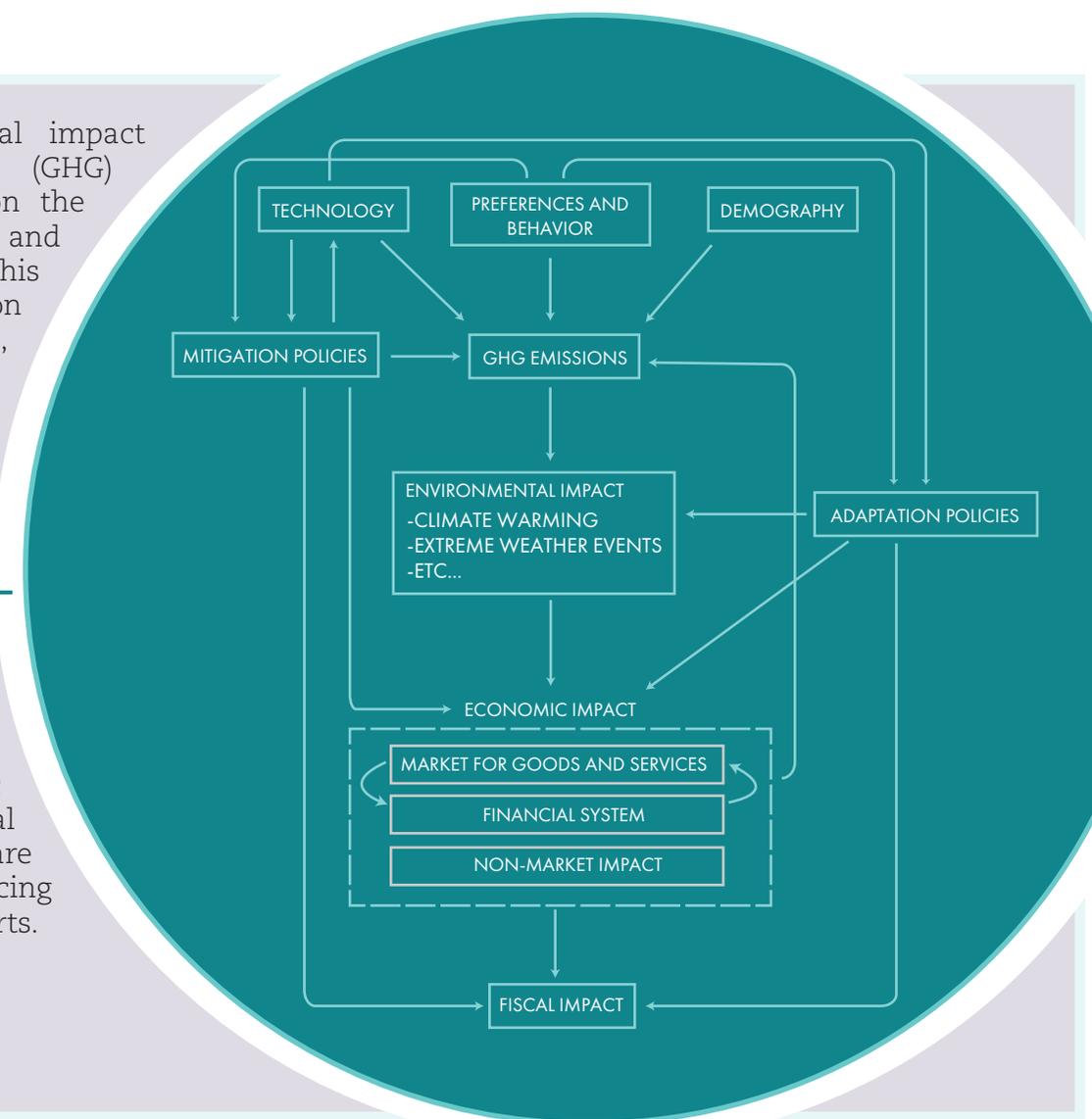
1. Authors: Martin Baur and Pierre-Alain Bruchez



CHANNELS THROUGH WHICH CLIMATE CHANGE HAS A FISCAL IMPACT

Climate change has a fiscal impact because greenhouse gas (GHG) emissions have an impact on the environment and the economy and governments respond to this through implementing mitigation and adaptation, redistribution, and macroeconomic stabilisation policies. The following figure summarises the links between GHG emissions, environmental impact, economic impact and fiscal impact.

There are uncertainties relating to the path of GHG emissions and how these emissions translate into environmental and economic impacts, and then fiscal impacts. These uncertainties are a key challenge to introducing climate change into fiscal reports.



INTEGRATING THE FISCAL IMPACTS OF CLIMATE CHANGE INTO OFFICIAL FISCAL REPORTS

When seeking to integrate the fiscal impacts of climate change into official fiscal reports, a useful first step is to highlight the issue qualitatively and briefly to at least demonstrate awareness of the issue. Thereafter, steps can be taken to go beyond a qualitative assessment, even if they are initially limited to selected channels that are easier to quantify. Building this approach over time will ideally lead to more comprehensive understanding of the fiscal impacts of climate change.

Official reports such as the *Fiscal Risks Report for UK* (OBR, 2019), the *Debt Sustainability Monitor* of the European Commission (European Commission, 2020) and the *Report on the Long-Term Sustainability of Public Finances in Switzerland* (FDF, 2016) are examples that help illustrate the way.

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