

Assessing the fiscal risks of physical climate change

Mexico—Ministry of Finance

A contribution to the 'Compendium of Practice from a Global Community of Ministries of Finance and Leading Organizations: Economic analysis and modeling tools to assist Ministries of Finance in driving green and resilient transitions'

Topic: Addressing the climate policy questions facing Ministries of Finance: the economic and fiscal impacts of climate change

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The Mexican Ministry of Finance integrates considerations on climate into its budget through the submission of two essential reports to Congress each year: one in April (the Pre-economic Guidelines), and the other in September (the Economic Guidelines). These reports have a section on the risks to baseline macroeconomic scenario, which briefly discusses how issues related to physical climate risk can affect the projected variables. Specifically, the MoF follows the National Oceanic and Atmospheric Administration's latest update on extreme climate phenomenon for the following months. Based on its forecast, the possible effects on agriculture are incorporated, and depending on the regions and crops most affected by draughts or hurricanes, the Ministry anticipates tailwinds to the inflation and interest rates projections.

However, what is called for is a more detailed quantitative analysis, such as econometric models with the Mexican economy structure, so that the adverse scenarios—macroeconomic in nature—and their effects on public finances with respect to income, expenses, and debt can be fully measured. Given the industrial structure and interrelations of the Mexican economy, there is substantial interest in measuring transition risks, as Mexico faces an opportunity for technology adoption and innovation. Such analyses would strengthen discussions with policymakers by providing clearer insights into the fiscal risks associated with physical climate risks, leading to more informed decisions within both data constraints and projection complexity constraints.