



**The Coalition  
of Finance Ministers  
for Climate Action**

# **Key messages from the report ‘The economic implications of climate action’**

**France Stratégie**

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**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 the green transition

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**Access the full Compendium at [www.greenandresilienteconomics.org](http://www.greenandresilienteconomics.org)**

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Achieving greenhouse gas emissions-reduction targets is central to climate-action policies. These policies, which will play a key role in many areas of public policy, will only be sustainable if proper consideration is given to their full economic and social implications. It is therefore crucial to have solid tools for analyzing and simulating the impacts of these policies on the economy.

The report 'The economic implications of climate action' commissioned in September 2022 by France's Prime Minister, Elizabeth Borne, and co-authored by Jean Pisani-Ferry and Selma Mahfouz, provides such an analysis. The report was published in May 2023, and was accompanied by 11 thematic reports (all available on France Stratégie's website),<sup>1</sup> which covered the following themes: well-being, competitiveness, loss and damage and adaptation, indicators and data, distributive issues, inflation, capital markets, labor markets, modeling, productivity, and sufficiency.

The report is the result of a major collective endeavor, with the participation of around 100 experts from Government bodies, economic institutes, and the academic community. Indeed, France Stratégie brought together all the main institutional players involved in producing and using analytical tools that could help understand the macroeconomic impact of climate transition in France.

The key messages of the report are as follows:

- Achieving climate neutrality is possible, but it requires a transformation comparable to an industrial revolution.
- This transformation will be global, fast, and primarily driven by public policies rather than by technological innovations.
- The shift will be based on redirecting technological progress toward green technologies, reducing energy consumption beyond efficiency gains, and substituting fossil fuels with capital.
- Contrary to common belief, it appears there is no permanent trade-off between economic growth and climate action: green growth can surpass carbon-intensive growth thanks to the falling cost of renewables.

However, to meet emissions reduction targets by 2030 and achieve climate neutrality by 2050, efforts must be significantly accelerated, requiring contributions from all sectors. Binding carbon budgets at both European and national levels are essential. Emissions reductions will mainly come from substituting capital for fossil fuels, with sufficiency playing a smaller but significant role, enhancing well-being without necessarily reducing growth.

Decarbonization of the French economy demands substantial additional investments, exceeding 2% of GDP per year by 2030. These investments, while stimulating demand, could also temporarily slow down productivity growth and necessitate labor reallocations, leading to economic and social costs in the short to medium term. The transition will impact the well-being of citizens in ways not always captured by GDP. It will inherently create inequality, making substantial public support necessary to make changes affordable for households (particularly middle class households). Some necessary regulations such as carbon pricing will be challenging to put in place because of their distributional consequences. Public debt is expected to increase, but delaying climate mitigation efforts would only raise future costs. Financing the transition may involve temporary tax or social contribution increases. Considering these two elements will be particularly crucial for Ministries of Finance to design adequate economic policies in the next decades. The transition may also cause inflationary pressures, requiring central banks to clarify their policy approach and possibly adjust inflation targets.

Understanding precisely the effects and mechanisms at work during the transition toward net zero will therefore require comprehensive analysis across technical, microeconomic, spatial, macroeconomic, and international dimensions. Improved tools will be needed to assess the economic implications accurately. In particular, the main models used by public administrations (ThreeMe and Imaclim in

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<sup>1</sup> <https://www.strategie.gouv.fr/publications/incidences-economiques-de-laction-climat>.

France) need to improve along three dimensions. First, since the models only use a representative household, the regressive effects of redistributive instruments and mechanisms are not adequately taken into account. Second, the quantitative impact of specific climate measures will depend on their credibility, but modeling the effects of such tools would mean making assumptions about the expectations of economic agents and the credibility of public action, which is not the case in current models. Third, taking into account the international perspective is necessary not only to analyze the consequences of implementing climate actions in partner countries, but also to understand the impact of coordinated measures between countries. In terms of modeling, a multi-regional model would thus be needed. The report allowed the French administration and other stakeholders to take stock of the situation and to identify the main strengths and weaknesses of France's macroeconomic toolbox in these areas. It would be useful for other countries to do the same.

Finally, despite converging climate ambitions globally, policies remain divergent, as seen with the U.S. Inflation Reduction Act. Balancing subsidies, regulation, and carbon pricing is crucial, as maintaining price signals is essential for decentralized decision-making. In that regard, the EU and France currently have a better mix of these instruments compared with the U.S., and China. The EU faces competitiveness challenges due to high energy prices and an imperfect Carbon Border Adjustment Mechanism. It must also balance climate leadership with competitiveness and sound fiscal policies. A new governance framework is needed for effective implementation of its climate strategy.