

Green budgeting in Austria—frameworks, implementation, and lessons learned

Austria—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: Specific analytical tools and approaches relevant to Ministries of Finance

June 2025

Access the full Compendium at www.greenandresilienteconomics.org

This contribution was prepared at the request of, and with guidance from, the Ministry of Finance of Denmark as Lead of the Coalition’s Helsinki Principle 4 initiative ‘Economic Analysis for Green and Resilient Transitions’ and its Steering Group, with input from its Technical Advisory Group. The views, findings, interpretations, and conclusions expressed are those of the authors. While many Coalition members and partners may support the general thrust of the arguments, findings, and recommendations made in this contribution, it does not necessarily reflect the views of the Coalition, its members, or the affiliations of the authors, nor does it represent an endorsement of any of the views expressed herein by any individual member of the Coalition.

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Anthropogenic climate change and its consequences are presenting Ministries of Finance worldwide with unprecedented challenges. The impacts of climate policy measures, as well as the physical effects of a changing climate, also have profound economic and financial implications that urgently need to be analyzed and addressed. These risks can broadly be divided into two main categories: physical risks and transition risks. Physical risks include direct damages from increased occurrence and/or intensification of extreme weather events and long-term shifts in temperatures and weather patterns, which demand significant costs for infrastructure and adaptation measures. Transition risks, on the other hand, stem from the economic and political shifts needed to achieve climate and energy goals. For example, stricter climate policies or technological innovations could quickly force significant adjustments in companies and sectors that have so far been heavily reliant on fossil fuels.

Addressing these risks is of central importance to Austria's MoF, as numerous policy measures—and even inaction—could lead to significant fiscal consequences. In this context, the MoF refers to these as the budgetary risks of climate change. Green budgeting offers a methodological bridge to link budget and climate policies, allowing Austria to respond effectively to the complex challenges posed by climate change.

Austria's approach to green budgeting exemplifies a systematic effort to align public financial management with climate and environmental goals. Initiated by the Austrian MoF, the Austrian Green Budgeting framework was developed to classify federal expenditures and revenues based on their environmental impact.¹ This system allows Austria to track and adjust public spending to better support climate-friendly policies and deliver on its international commitments, such as those outlined in the Paris Agreement and European legislation such as the Effort Sharing Regulation.

The Green Budgeting methodology tries to separately analyze both the money provided (input) as well as the consequences of those funds (impact) and to that end involves a multistep process that evaluates each budget item under a six-level classification, from “intended productivity” for climate-positive measures to “intended counter productivity” for activities designed to counteract climate objectives, to indicate the intention of the respective budget line. Similar to the motivation behind the Rio Markers for Climate, this assessment of the intention of a measure aims to focus the assessment on what the purpose behind a measure might be. In this context, the Austrian Green Budgeting methodology attempts to differentiate, e.g., between a dedicated climate funding program that aims to boost renewable energy systems (which would be +2) or, e.g., infrastructure spending that includes provisions to ensure the financed project is adapted to future impacts of climate change (+1). Similarly, expenditures for fuel and maintenance of Government vehicles (–1) should be considered a different element than Government revenues directly relating to fossil fuel extraction licenses or specific compensation schemes to businesses to counteract the effects of carbon pricing (–2).

In a separate step, the impact of that budget line is estimated—and where possible expressed in terms of impact indicators partly based on bottom-up funding data from the Austrian Transparency Database (e.g., CO₂ reduced, MWh produced, or assets protected from climate impacts). Austria's classification system was carefully based on similar practices used in the EU and the OECD,² ensuring that the methodology aligns with best practices and facilitates international comparability. As a result, this framework offers a structured and transparent method for assessing how national budgets support or counteract climate and environmental targets.

One of the key institutional developments supporting green budgeting in Austria was the creation of a so-called *Climate Hub* within the MoF across all Directorates General in 2024. This Hub coordinates economic, fiscal, tax, and climate policies and underscores the importance of institutionalizing climate

¹ See https://www.bmf.gv.at/themen/klimapolitik/green_Budgeting.html (in German).

² This is implemented, for example, by integrating the Green and Brown List of the European Commission and the Rio Markers for Climate and Biodiversity, developed by OECD DAC, into the Green Budgeting decision-making. Each budget line is evaluated against these reference frameworks for their relevance. If a budget line represents activities covered by those frameworks, they are marked for their relevance and evaluated carefully according to the steps of the Green Budgeting methodology. In January 2025, Austria further published an exploration of how the Green Budgeting methodology might evolve based on the experiences and resources contained in the EU Taxonomy—further attempting to ensure comparability and consistency across systems.

action across government operations. The Climate Hub's mandate reflects the MoF's commitment to integrating climate considerations across all fiscal decision-making.

As part of its wider Green Budgeting methodology, Austria has embarked on a comprehensive tagging of federal revenues and expenditures. An initial baseline review completed in 2022 revealed that approximately 11.4% of federal expenditures and 11.5% of revenues were relevant to climate, energy, and environmental objectives. This analysis has been used as a foundation for refining the tagging process and is now a standard element in Austria's budget preparation cycle. Since 2022, all budget items have been analyzed, with each budget showing a relevance for 16.7% (by value) of expenditures under the 2024 Federal Budget. This includes about €10.9 billion of green spending.

The tagging process itself is embedded within Austria's Green Public Finance Management framework, which not only tracks and categorizes climate-relevant spending but also evaluates the financial and environmental risks associated with budget items and strategies. Overall, climate policy questions in the Austrian MoF are framed as budgetary risks associated with climate change. These risks not only include potential compliance costs associated with missing the targets mandated by the EU's climate policy framework—estimated by the MoF in 2022 to be around € 4.7 billion based on current projections until 2030—but also include, e.g., the increased costs for adaptation (and maladaptation) and budgetary implications of transition risks.

To evaluate and prepare for those budget risks, a number of analytical tools are used. For instance, the Green Budgeting methodology allows the identification of counterproductive expenditures and revenues. In January 2025, an extensive stakeholder process was started to evaluate those counterproductive incentives against impact dimensions such as environmental impact, distributional implications, and significance to economic development. The environmental impact of those expenditures and incentives is either estimated based on bottom-up subsidy or tax data (e.g., through the tax data systems or the Austrian Transparency Database) or taken from existing studies and the wider (academic) literature. The potential compliance costs of not achieving Austria's climate targets, based on EU legislation, allow each additional emission through those subsidies to be assigned a shadow carbon price. This framework therefore helps Austria mitigate "greenwashing" risks, ensuring the identified expenditures genuinely contribute to climate action rather than merely giving the appearance of sustainability.

A key lesson from Austria's experience with green budgeting is the importance of a gradual and adaptive approach. Rather than imposing a comprehensive tagging system all at once, Austria's MoF has implemented tagging progressively, refining the methodology in successive budget cycles to address evolving needs and incorporate the lessons learned. This flexibility has enabled Austria to respond to challenges such as the high costs associated with green procurement and the political sensitivities surrounding carbon taxation. Furthermore, Austria's systematic tagging of budget items has proven valuable in aligning fiscal policies with EU climate regulations, which could lead to significant financial consequences for failing to meet emission reduction targets. These budgetary risks highlight the economic imperative for Austria's MoF to ensure budget policies align with long-term climate goals—a necessity also reflected in Article 2.1c of the Paris Agreement, which places the greening of financial flows as one of its three long-term targets.

Austria's green budget tagging serves as a valuable model for other MoFs. It showcases how transparent financial tracking and institutional alignment can enhance the effectiveness and credibility of public climate policies. Through Austria's experience, other countries can learn the importance of building institutional capacity, promoting accountability, and gradually adapting Green Budgeting methodologies to meet both national and international climate objectives.³

3 See https://service.bmf.gv.at/Budget/Budgets/2024/beilagen/Klima-_und_Umweltschutz_2024.pdf for the most recent report (in German).