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GREEN BUDGETING IN THE EU

Key insights from the 2023 European Commission survey of green budgeting practices

Executive summary

This note reports the main findings from the 2023 survey on existing and planned green budgeting practices in the EU Member States, launched by the European Commission in January 2023. The information collected feeds into the repository of information on green budgeting¹ which will be updated accordingly. The following findings emerge:

- *Almost two thirds of the Member States have established, or plan to introduce, some form of green budgeting. Since the 2021 survey, Greece, Portugal and Spain have implemented new practices.*
- *An increasing number of countries are now covering a comprehensive set of environmental objectives and unfavourable budget items within their green budget tagging process.*
- *The issuance of sovereign green/sustainable bonds has become a more common practice, facilitating the development of green budgeting.*
- *While information on green budgeting is provided to the parliament together with the budget documents, it is not obvious how it feeds into the decision-making process.*
- *Member States still welcome support by the Commission in further developing green budgeting practices and have put forward some new proposals for such help.*
- *The ongoing country-specific technical support from the Commission (DG REFORM) has been well-received, and some Member States will deepen this workstream further.*

¹ https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu_en

1. INTRODUCTION

Budgets are a crucial instrument for climate action and the green transition. Fiscal policy and the budgets are among the most important instruments that governments have at their disposal to advance national policies on climate and environmental goals. The 2019 Green Deal Communication underlines the role of green budgeting in “redirecting public investment, consumption and taxation to green priorities and away from harmful subsidies”.²

The survey presented in this note and the subsequent repository of information are part of the Commission efforts to support Member States in developing green budgeting practices. The Commission has been holding regular discussions with the Member States on the exchange of experience and best practice since 2019 with national experts. In this context, several notes on green budgeting were presented and published.³ To provide information that is accessible at any time, every second year the Commission conducts a survey on green budgeting practices that feeds into a public database, available on ECFIN’s green budgeting website⁴. To better guide Member States in the development of their green budgeting practices, the Commission has developed a Green Budgeting Reference Framework (GBRF).⁵ This framework has been the cornerstone of the Commission technical support project provided by DG REFORM and DG ECFIN to 23 Member States to help them build administrative and technical capacity on green budgeting.

This note reports the main findings of the 2023 survey. It contains information on practices implemented or planned as of 17 January 2023 and covers a wide range of information on the various methods, highlighting new findings since the 2021 survey, including on the benefits of the country-specific technical support training.

The note is structured along the key elements of the EU Green Budgeting Reference Framework, as follows: Section 2 provides an overview of the green budgeting practices and methods. Section 3 focuses on the institutional setting. Section 4 looks at the reporting and accountability frameworks. Section 5 presents results on enabling factors and challenges in implementing green budgeting. Section 6 summarises the main findings.

² The European Commission Green Deal Communication is available here: https://eurolex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF

³ Since the last survey, the following notes have been published:

- European Commission, IMF and OECD (2021), Green Budgeting: Towards Common Principles, https://ec.europa.eu/info/sites/default/files/economy-finance/cop26_en.pdf
- Pojar, S. (2022), Environmental Assessments within Green Budgeting https://economy-finance.ec.europa.eu/system/files/2022-11/dp175_en.pdf

⁴ https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu_en

⁵ The detailed Green Budgeting Reference Framework is available here: https://economy-finance.ec.europa.eu/system/files/2022-01/european_commission_green_budgeting_reference_framework.pdf

2. GREEN BUDGETING PRACTICES AND METHODS IN THE EU

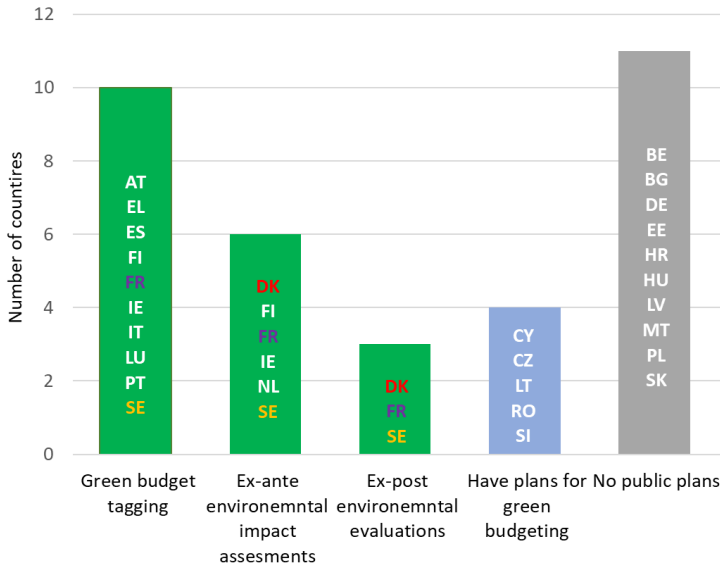
Green Budgeting Reference Framework: elements

Coverage: A comprehensive green budgeting framework should encompass all environmental objectives, the entirety of budgetary elements (i.e., expenditure, revenue and tax expenditure) and all public sector entities. Countries could take a gradual approach, starting by looking at one environmental objective and presenting only favourable items, at the central government level.

Methodology: Countries could start by identifying those budgetary items whose net impacts are clearly favourable or unfavourable to the environment, followed by a more comprehensive approach that identifies the green and brown content of the entire budget, eventually complemented by environmental assessments.

Almost two thirds of the Member States have established or plan to establish some form of green budgeting (Graph 1). The survey shows that 12 Member States are practicing some form of green budgeting, while five plan to introduce such practices in the future.⁶ Compared to 2021, Greece, Portugal, Spain have developed and implemented new practices and some countries have expanded their existing methods (AT, FI, FR, IE, SE). This survey relies on a narrow definition of green budgeting as it considers as green budgeting practices: (i) green budget tagging, (ii) ex-ante environmental impact assessments, and (iii) ex-post environmental evaluations.⁷ The reason for this selection is that these approaches allow assessing the ‘greenness’ of the budget and can be directly tied to the budgetary process.

Graph 1. Green budgeting practices across EU Member States



Source: 2023 European Commission survey on green budgeting

⁶ The Commission launched the survey on 17 January 2023 and it contains information on practices implemented or planned as of this date.

⁷ In the current survey ‘ex-ante impact assessments’ and ‘ex-post evaluations’ are being looked at separately. Previously, the two practices were considered together under ‘environmental impact assessments’. The main reason for this separation is that ‘ex-ante assessments’ help inform budget design and decision making, as they pertain to newly proposed measures, while ‘ex-post analyses’ help understand to what extent the already implemented measures (from past budgets) have delivered on their expected impacts. Such distinction appeared more visible during recent analysis: [Environmental Assessments within Green Budgeting \(europa.eu\)](https://ec.europa.eu/economy_finance/environmental-assessments-within-green-budgeting)

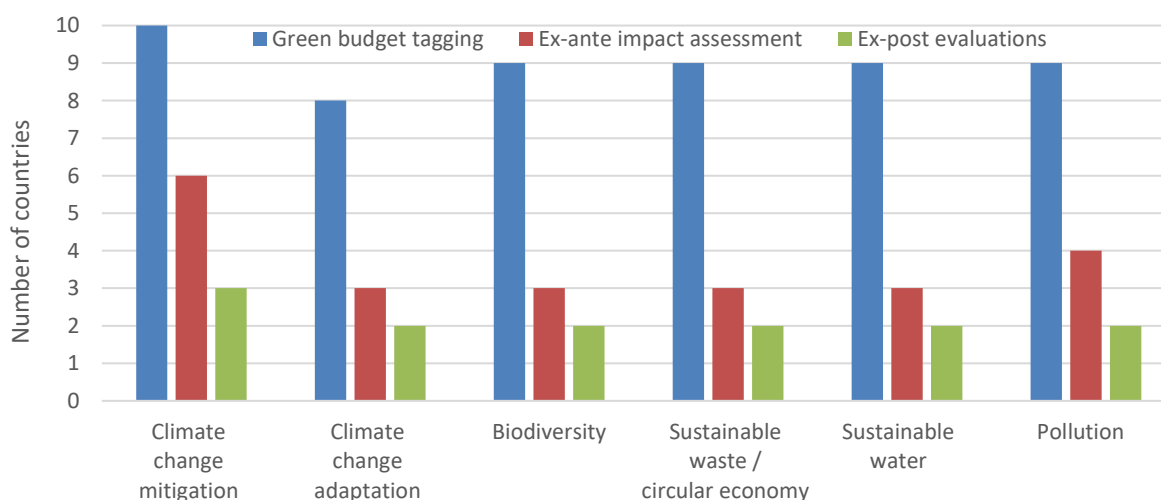
Green budget tagging

Ten reporting Member States use tagging to include green considerations in their budget (AT, EL, ES, FI, FR, IE, IT, LU, PT, SE). Green budget tagging encompasses *practices that seek to identify budget measures contributing, positively or negatively (i.e., 'green' or 'brown') to the environment.*

The tagging methods still vary widely across countries reflecting for example: (i) different definitions of what is green, (ii) different budgetary frameworks within which green budgeting is performed, (iii) various national green agendas and commitments that may form the basis for country-specific 'green' definitions, and (iv) different capacity at the government level and political backing. More specifically:

- In all cases, except for Portugal, tagging is conducted with respect to a **comprehensive set of environmental objectives** such as those pertaining to the EU Taxonomy (Graph 2). Some countries (IT, FI, LU) include even more granular aspects, linked to their national green agenda. **Relevant developments** are seen in **Greece**⁸ and **Spain**⁹, which have commenced the green budgeting process by covering all objectives of the EU Taxonomy (level 3 of the GBRF). **Spain** has designed, and plans to further develop, its methodology in line with the EU Reference Framework. **Ireland** has also expanded the coverage substantially, initially with a focus only on climate aspects.

Graph 2. Environmental objectives covered



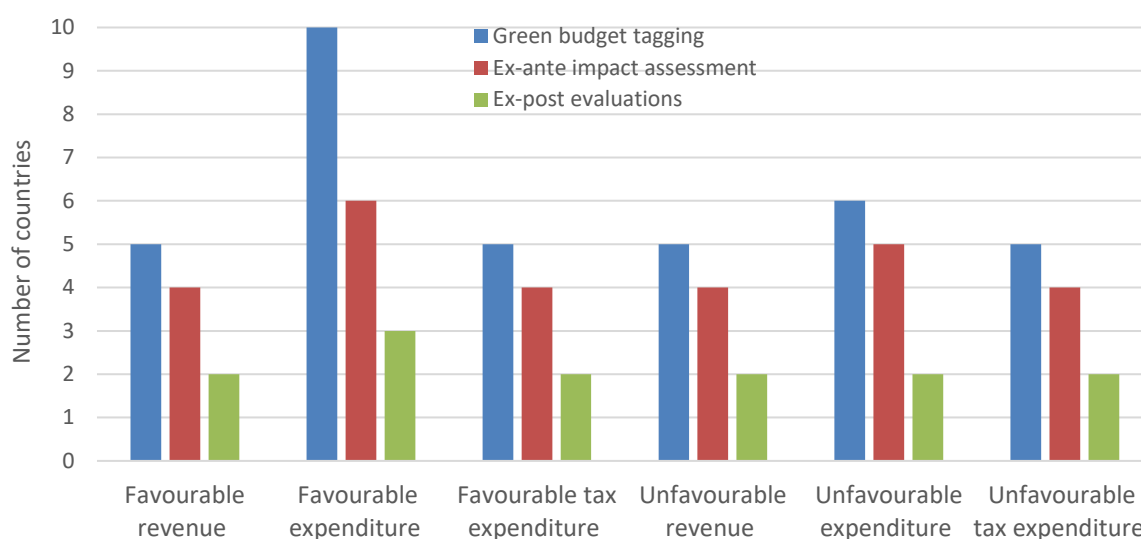
Source: 2023 European Commission survey on green budgeting

⁸ [05ee3c25-fc43-4fa2-8ce2-a3b910f9cf00 \(minfin.gr\)](https://www.minfin.gr/)

⁹ <https://www.sepg.pap.hacienda.gob.es/sitios/sepg/es-ES/Presupuestos/InformesImpacto/IAPGETE2023/Documents/II.%20Metodolog%c3%ada%20y%20alcance.pdf>

- **An increasing number of countries are now also capturing brown budgetary items** (AT, EL, FI, FR, IE, SE) (Graph 3). Analysing the expenditure measures, as opposed to revenue and tax expenditure, is still the most common practice. **New developments** in this area are seen in **Ireland**, which has been recently also tagging revenue measures and tax expenditure¹⁰ and **Finland**, which also began to cover tax expenditure. **Austria** has also strengthened its tagging methodology, using tools from both the Commission and the OECD frameworks.¹¹

Graph 3. Budgetary items covered in the green budgeting process



Source: 2023 European Commission survey on green budgeting

- The coverage of the public sector is mostly limited to the central government, and in a few cases includes some subnational governments (AT), social security (ES, FR) and SOEs (FR). When identifying the contribution of an item to the environment, **several countries are now implementing a scaled approach to tagging**, i.e., using different ‘shades of green’ (AT, ES, FR, IT), while some use a simpler binary method, i.e., the entire cost of an item is considered green or not green (FI, IE, LU, PT, SE). The ‘green’ share of the budget captured in the tagging process varies across countries (between 1% and 7%), largely reflecting different methodologies.

Ex-ante environmental impact assessments

Six Member States reported that they conduct *ex-ante* environmental impact assessments (DK, FI, FR, IE, NL, SE). An environmental impact assessment (EIA) is defined here as *the assessment of budget measures in advance of their inclusion in the budget to ensure environmental and climate implications of decisions are taken into account*. There are **no new/major developments** since the previous survey, but mostly revisions of answers.¹² The revisions involve France, which

¹⁰ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/201243/56e364cf-9bfc-4993-b405-e34784b0c4bc.pdf#page=null>

¹¹ https://www.bmf.gv.at/en/topics/Climate-policy/green_budgeting_en/spending_review_en.html

¹² Bulgaria, which was listed in the 2021 survey as conducting EIA, does not appear as performing such practices in the current survey. This is because the assessment process is part of the regulatory impact assessment in the context of the mandatory Environmental Impact Assessments required by the [EU Directive 2014/52/EU of the European Parliament and of the Council](#). Within the Commission green budgeting framework, such practices are

conducts EIAs for new law proposals, similar to Finland and Sweden, and Ireland, which requires line ministries to measure the impact on emissions when preparing the appraisals for project proposals¹³.

The impact assessment methods vary across reporting countries. All practices cover climate mitigation objectives (Graph 2) and some capture a broader set of objectives (FI, FR, SE). In most cases, EIAs are conducted both for favourable and unfavourable budget items, including revenue and tax expenditure (Graph 3). Similar to the green tagging process, the assessments are performed mostly at the central government level. In **Sweden**, there are ongoing efforts to build knowledge and expertise across government and relevant agencies, particularly on climate policy assessment and evaluation, for which a common methodology was recently developed.¹⁴

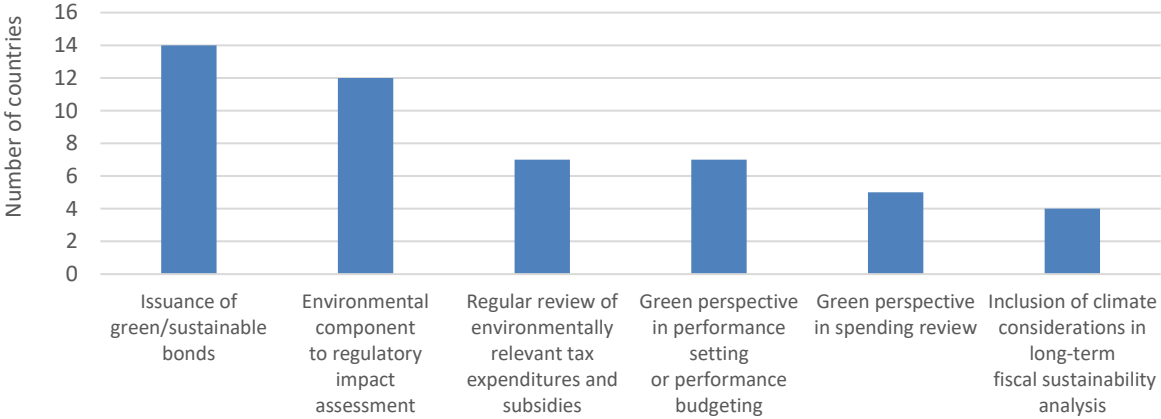
Ex-post environmental assessments

Three Member States reported that they are conducting ex-post environmental evaluations (DK, FR, SE). An environmental assessment is defined here as *the assessment of budget measures after their implementation to help assess how effective they have been in reaching the environmental and climate objectives*. Denmark¹⁵ and Sweden¹⁶ assess every year the total impact of the climate policy and how far the country is from reaching its climate targets. In France, the green budgeting report presents performance indicators for some green tagged measures.¹⁷

Other tools for greening the public finances

Most countries use additional tools, outside the budget process, that help green the public finances and promote green policies (Graph 4). The issuance of **sovereign green/sustainable bonds is an increasing practice** that could facilitate the development of green budgeting, and vice versa.

Graph 4. Other tools relevant to the greening of public finances



Source: 2023 European Commission survey on green budgeting

considered as complementary tools relevant to the greening of public finances rather than green budgeting practices.

¹³ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/45078/b7dbf515ad694c3e8b2c37f1094b7dca.pdf#page=null>

¹⁴ <https://www.naturvardsverket.se/contentassets/9f062007e3dc4f7f9265ad918fcb3bef/vagledning-klimateffektbedomningar.pdf>

¹⁵ <https://www.regeringen.dk/aktuelt/tidligere-publikationer/klimaprogram-2021/>

¹⁶ <https://www.naturvardsverket.se/om-miljoarbetet/sveriges-miljomal/fordjupad-utvardering-av-sveriges-miljomal-2023/>

¹⁷ <https://www.budget.gouv.fr/documentation/file-download/19125> (Section G)

Forward looking

Most Member States that perform green budgeting plan to further develop their practices in the future. Some countries committed to such developments in their Recovery and Resilience Plans (RRP) (AT, FR, IT, ES). For instance, Austria aims to promote an integrated budgetary approach focusing on the ecological impact of budget measures. Denmark is developing a green macroeconomic model, which can show the economic effects of climate policy and vice versa. In Sweden, there is ongoing work to develop new regulation on impact assessment, that would reinforce the use of such practices when proposing a new regulation. Some countries plan to expand the coverage of the exercise in line with the GBRF so to better capture the central government expenditure (PT), analyse ‘brown’ and tax expenditure items (ES), or develop methodologies at the local/regional government (FR). Some Member States, not yet performing green budgeting, have committed to develop such practices as part of their RRP (RO, SI) or other national long-term plans (CY, CZ, LT).

3. LEGAL BASIS AND GOVERNANCE

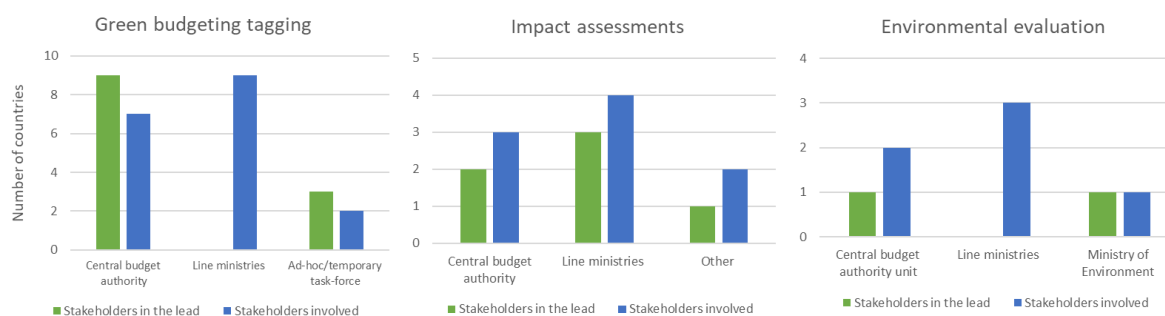
Green Budgeting Reference Framework: element

Governance: Strong leadership and coordination among the stakeholders involved help an effective implementation of green budgeting practices. A national framework should ensure that the roles and responsibilities of the different stakeholders are clearly defined, together with the timeline for action and deliverables. It should also ensure that the required human and administrative resources are assigned.

Most Member States have adopted an inclusive governance for green budgeting, reflecting the whole-of government approach, where specific sectorial knowledge and skills related to the budgetary process are crucial (Graph 5). In general, the leading stakeholder provides guidance to line ministries and other parties involved on how to conduct budget tagging and EIAs. More specifically:

- For the green budget tagging process, the central budget authority is most often leading the process, closely involving relevant line ministries. In a few cases, a dedicated working-group has been tasked with developing the methodology and coordinating the process (AT, ES, FR, PT), while supervision is shared with the central budget authority or integrated within the ministry of finance.
- Line ministries are often responsible for conducting the impact assessments pertaining to their measures/policy proposals. A common practice is the close involvement of external agencies and experts in conducting environmental assessments, complementing the sectorial knowledge of the line ministries.
- In Denmark and Sweden, the ministry of environment/climate prepares annual environmental evaluation reports in cooperation with relevant agencies (e.g., the Danish Energy Agency and the Swedish Environmental Protection Agency). These agencies often publish additional supporting/complementary reports. In France, the work on green evaluation is coordinated by the Budget Directorate in close cooperation with line ministries.

Graph 5. Governance of the green budgeting process



Source: 2023 European Commission survey on green budgeting

4. REPORTING, TRANSPARENCY AND ACCOUNTABILITY

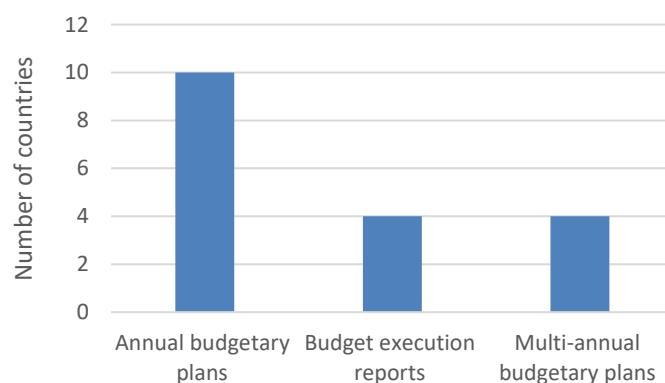
Green Budgeting Reference Framework elements

Deliverables: The green budgeting information should be reported in both annual budgetary plans and executed budgets. This can be done in various ways, e.g., through sections, annexes or tables in the dedicated budget documents. Countries could also present information on green budgeting in their multi-annual budgetary plans and report on green items pertaining to extra-budgetary entities.

Transparency and accountability: all deliverables should be public, and the methodology should be subject to an independent expert assessment. At a later stage, practices should include independent evaluations of the reports, parliamentary scrutiny and regular *ex-post* reviews of the methodology.

Most countries report the green budgeting information in their annual budgetary plans and some also in the budget execution reports (FR, IT, IE, NL) and/or multi-annual plans (FI, IE, IT, LU) (Graph 6). Some publish separately detailed green budget statements alongside the budget (AT, FR, IT).

Graph 6. Ways in which countries report the green budgeting information



Source: 2023 European Commission survey on green budgeting

In most cases, relevant information on green budgeting is provided to the parliament together with the budget documents. Yet, it is not obvious whether such information is also discussed during budget approval debate. A unique practice is seen in **Denmark** where the Minister for Climate, Energy and Utilities must present to the parliament a report on the effects of the government climate policy and answer any questions at an interpellation debate in the parliament.

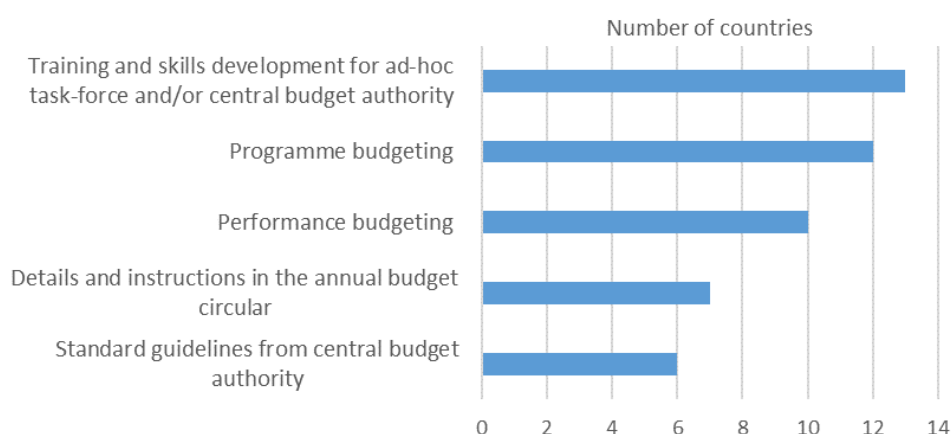
Ex-post validations and/or evaluations of the green budgeting methods and relevant reports still have not been developed. Some countries revise their methodology regularly, given the changing nature of the environmental objectives or to reinforce their green budgeting practices (DK, EL, FR, IE, LU, PT, SE). To enhance transparency, some countries conduct structured dialogue with civil society bodies and other stakeholders on the climate or environmental impact of budget decisions (AT, FI, FR, SE). Often, independent climate councils are involved in evaluating the overall climate policy and government efforts but not the green budgeting methodology as such. In **Portugal**, the fiscal council has provided an overall assessment of the new green budgeting process, including by mapping the practice against the EU GBRF.¹⁸ In **France**, the national Court of Audit is looking into ways to review the green budgeting methodology.

Similarly, countries have not yet developed tools to measure the impact of their green budgeting process but, there are some early signs of positive effects. Assessing the impact of green budgeting in promoting climate and environmental perspectives in policy development is important for improving the process over time. Currently, only **Austria** reported that it is developing such tools.¹⁹ Yet, some countries report early signs of positive effects at sectoral level (AT, DK, EL, ES, IE, LU, SE). Such effects stem mostly from the fact that green considerations become more prominent during budget design and discussions as line ministries have to perform green tagging and/or impact assessments for their proposed measures. Thus, there is an increasing awareness of the (potential) environmental impact of budget measures among policy makers. More concrete results from conducting green budgeting may be achieved once such processes become better established in the national frameworks.

5. ENABLING ENVIRONMENT AND CHALLENGES

In general, countries have already in place various tools that can support the implementation of effective green budgeting practices (Graph 7).

Graph 7. Enabling factors for green budgeting



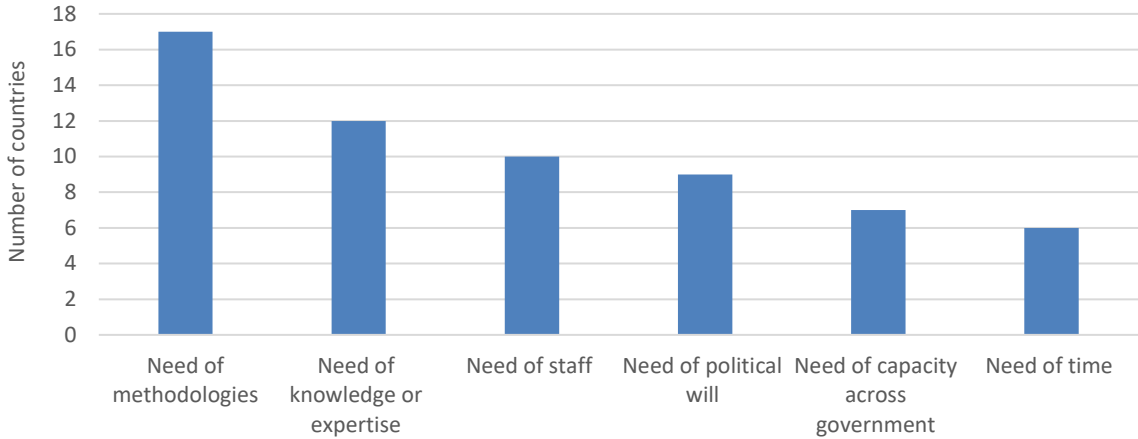
Source: 2023 European Commission survey on green budgeting

¹⁸ <https://www.cfp.pt/pt/publicacoes/orcamento-do-estado/analise-da-proposta-de-orcamento-do-estado-para-2023>

¹⁹ The tools refer to: (1) Pilot project for reporting impact indicators in the Austrian transparency database, and (2) Impact reporting project in the context of green bonds. Once completed, the information will be available at: <https://www.bmf.gv.at/en/topics/Climate-policy.html>.

Member States have reported several challenges with introducing or implementing green budgeting practices (Graph 8). The need for methodologies, relevant knowledge, expertise and staff remains the most common impediments.

Graph 8. Key challenges to introduce and/or implement green budgeting



Source: 2023 European Commission survey on green budgeting

Member States would still welcome support by the Commission in further developing green budgeting practices. Most countries would like to continue the ongoing support related to identifying international best practices, international meetings for sharing country experiences and country-specific technical training. Some countries would welcome support with **evaluating the (national) green budgeting approach, its effectiveness and impact.** Other **new ideas for support** have emerged. France signalled that it could benefit from hindsight on the **green budgeting results for the EU budget** in order to tag the share of its state budget that is contributes to the EU budget. Portugal mentioned setting up a **permanent helpdesk** at the EU level, that could help Member States on continuous basis with work related to green budgeting, including at a technical level. Poland considers useful setting up a database with contacts of green budgeting counterparts from each Member State, which would facilitate cooperation between countries. Estonia pointed out that it may be useful to **extend the training to more civil servants** as now it covers only a handful of people in the administration. As last time, about six counties called for a harmonised methodology, common guidelines and/or definitions for classifying green/brown items.

The ongoing country-specific technical support has been well-received, and some Member States will deepen this workstream further. Most of the 23 participating countries have reported that the training provided by the Commission has been overall helpful. Some Member States will receive further support through a fourth module, which will focus on peer-to-peer and practice-oriented exchanges within country-clusters. This module, and the setup of clusters, are tailored to the requesting countries’ needs and interest concerning their national practices. Separately, not captured by the survey, some Member States (will) receive support from the Commission (DGs REFORM and JRC) on developing a methodology for applying the do-no-significant-harm (DNSH) principle when designing new, mainly investment-related, measures. Such a training could support the implementation and further development of green budgeting practices.

6. CONCLUSIONS

Since 2021, the green budgeting processes have somewhat developed, in terms of both new practices and enhanced methods. Almost two thirds of the EU Member States have established, or plan to introduce, some form of green budgeting in their country. New practices emerged in Greece, Portugal and Spain. Regarding the green budget tagging exercise, which is the most common tool used so far, an increasing number of countries are now covering a comprehensive set of environmental objectives. Similarly, more countries are also now capturing brown budget items, both when conducting tagging and/or ex-ante environmental impact assessments. The implementation of *ex-post* environmental evaluations is still limited.

Most Member States that perform green budgeting plan to further develop their practices in the future, reflecting the complexity of the process but also a general commitment to such practices. Some countries have committed to either implementing or further developing green budgeting in their Recovery and Resilience Plans, or other national plans, showing thus strong commitment around the process. Several Member States have acknowledged the link between issuing sovereign green/sustainable bonds and green budgeting, and that the two processes can reinforce each other. This may lead to some convergence between the two exercises, including the development and use of the same resources, knowledge and expertise.

Countries would still welcome support from the Commission in further developing green budgeting practices. In addition to the ongoing support, some Member States see some benefits in the Commission helping them with: (i) evaluating the (national) green budgeting approach, its effectiveness and impact, (ii) setting up a permanent ‘green budgeting’ helpdesk at the EU level, (iii) extending the training to more civil servants. The ongoing country-specific technical support has been well-received overall, and some Member States will deepen this workstream further.

Annex 1: European Union Green Budgeting Reference Framework

ELEMENTS	LEVEL 1- Essential	LEVEL 2 - Developed	LEVEL 3 - Advanced
Coverage <i>Environmental objectives</i>	Climate-related	Climate-related Some other objectives	All objectives
<i>Budgetary items</i>	Favourable expenditure Favourable revenue	Favourable items Unfavourable items	Favourable items Unfavourable items Tax expenditure
<i>General government</i>	State (incl. social security)	State (incl. social security) Subnational governments	State (incl. social security) Subnational governments Other (e.g. SOEs + extra-budgetary)
Methodology	Tagging methodology	Tagging methodology	Tagging methodology <i>Ex-ante</i> impact assessment of policies methodology <i>Ex-post</i> evaluation of policies methodology
Deliverables	Identification in annual budget Reporting on budget execution	Identification in annual budget Reporting on budget execution Estimates in multi-annual plans	Identification in annual budget Reporting on budget execution Estimates in multi-annual plans Extra-budgetary spending reports
Governance	Ad-hoc central task force	Permanent central structure (not necessarily separated)	Permanent central structure (not necessarily separated) Green budgeting correspondents in various ministries/agencies
Transparency & Accountability	All deliverables public Independent expert assessment of methodology	All deliverables public Independent expert assessment of methodology Independent assessment of deliverables Parliamentary discussion	All deliverables public Independent expert assessment of methodology Independent assessment of deliverables Parliamentary discussion Ex-post review