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The 2026 Drought – An Economic Analysis and Lessons to be Learnt

Franz Sinabell, Gabriel Felbermayr, Thomas Url

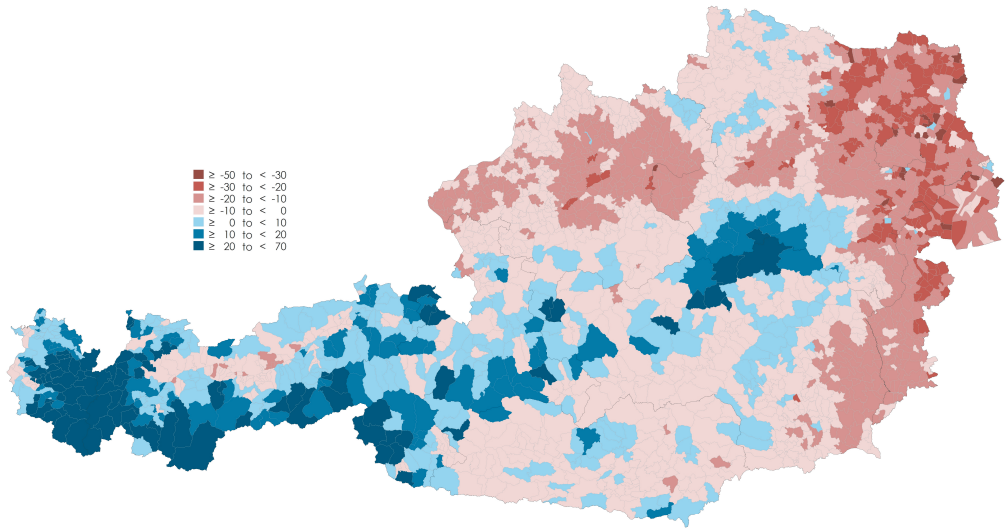
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- The extreme heat and lack of rainfall in the summer of 2026 caused significant damage. The agricultural and forestry sectors were particularly affected.
- The risk management system established in Austria has largely proved its worth. Nevertheless, the federal government has decided to provide additional support to mitigate the damage.
- Strengthening market-based instruments and making more intensive use of the opportunities offered by the tax system are obvious starting points for improving risk management.
- Government support measures must take into account the fact that the dynamics of climate change require ongoing adaptation of risk management.

Grassland yield 2026

Deviation from the 2016-2025 average as a percentage, as at 20 August 2026



"Extreme weather events such as droughts or floods are becoming more frequent due to climate change, which brings with it not only higher average temperatures but also greater variability in precipitation."

In many parts of Austria, the drought led to significant yield losses, which contributed to a severe fodder shortage across the whole country (source: HBLFA Raumberg-Gumpenstein, https://satgrass.at/ (accessed on 20 August 2026); WIFO presentation).

The 2026 Drought – An Economic Analysis and Lessons to be Learnt

Franz Sinabell, Gabriel Felbermayr, Thomas Url

October 2026

The 2026 Drought – An Economic Analysis and Lessons to be Learnt

The heat and drought of recent months have affected the health and well-being of many persons. The Austrian agricultural sector, in particular, has suffered tangible economic damage. This report first presents a preliminary assessment of the relief measures adopted in August 2026. However, the main focus is on the questions of what measures can be taken to limit negative economic impacts and how the risk management system – which functions well in general – can be made fit for the future. Strengthening insurance schemes and the use of loans to finance climate change adaptation measures are market-based approaches in this regard.

JEL-Codes: G22, Q14, Q54 • **Keywords:** Agriculture, drought, natural hazards, insurance

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1. Introduction and problem statement

Improving the management of risks associated with climate change is essential.

A well-coordinated mix of private and public measures and instruments forms the foundation of corporate risk management when dealing with natural hazards. These measures reduce the likelihood of damage occurring, minimise the extent of damage and spread the financial burden. The main burden must be borne by the companies themselves, as they are best placed to know which hazards they are exposed to and what options exist for mitigating damage. Insurance is a further pillar of risk management, as it provides compensation on agreed terms in the event of a claim. Particularly as it is based on private-law contracts, payouts are usually made swiftly and in a predictable manner. Through insurance terms and conditions, observed changes in the risk situation feed into the market as incentives and prompt behavioural adjustments on the part of policyholders. It is only through such market signals that changes in the framework conditions can be successfully reflected in the behaviour of economic actors. The state plays a particularly important role when many actors are affected simultaneously by the same natural event.

Extreme weather events such as droughts or floods are becoming more frequent due to climate change, which brings with it not only higher average temperatures but also greater variability in precipitation (Intergovernmental Panel on Climate Change, 2021). The Alpine region is particularly affected by this (Erb et al., 2024), as was also evident in the summer of 2026. According to data from GeoSphere Austria, the last 12 months in Austria and large parts of Central Europe were the hottest and driest since records began 176 years ago. As agricultural production takes place in the open air, extreme weather events rapidly cause damage. Although drought and heat also affect other sectors, such as forestry, fisheries, inland waterway transport and the construction industry, the focus below is on the agricultural sector.

Research into how climate change is affecting Austria's agriculture has been ongoing for over a decade (see Mitter et al., 2015); consequently, the mechanisms through which damaging events such as those in 2026 occur are well understood. Against the backdrop of foreseeable climate change, the question arises as to whether the currently established risk management systems in agriculture

- are sufficient to cope with the current crisis,
- need to be adapted and expanded to meet future challenges, and whether they
- can help to slow down climate change.

This paper begins by taking stock of the damage to Austrian agriculture as it appeared in mid-August 2026, placing it in a long-term context and analysing it (Chapter 2). The specific characteristics of the 2026 drought are examined in the context of current market conditions in Central Europe. Chapter 3 provides a brief assessment of the relief measures adopted by the federal government.

Agriculture has always had to contend with droughts. A brief overview presents both tried-and-tested and newer approaches to strengthening its resilience and identifies the shortcomings of existing damage-prevention strategies (Chapter 4). The report concludes with proposals and solutions for developing sustainable strategies in the face of increasing pressure from damage.

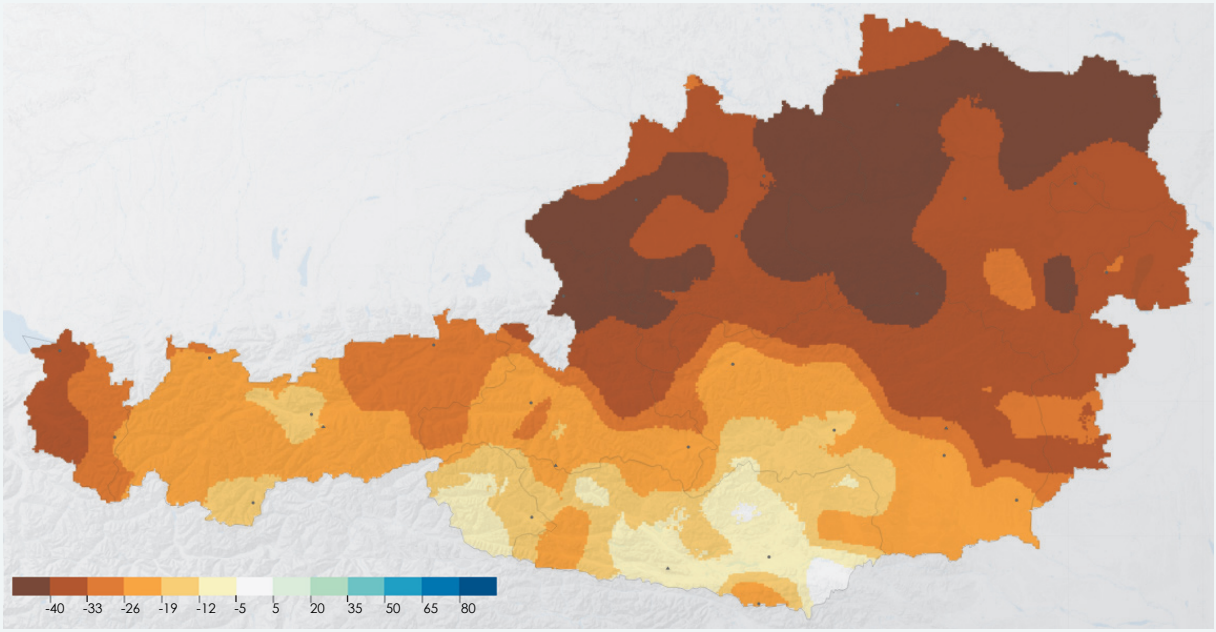
2. The scale of the damage in 2026, in a historical context

The heat and the precipitation deficit of last summer gave a foretaste of situations which, according to current research, climate change will increasingly bring about. It is therefore clear that climate protection measures must be given high priority. Steps to adapt to climate change must also inevitably be taken, as the climate is changing at an accelerating rate and the frequency and intensity of damaging events are increasing[1].

The drought damage in 2026 will reach a scale previously observed only once every few decades.

Figure 1: **Cumulative precipitation in 2026**

Deviation from the 1991-2020 average as a percentage, as at 11 September 2026



Source: GeoSphere Austria, Climate Monitoring, https://klimaportal.geosphere.at/klimamonitoring/?view=fullscreen&param=rr&period=period-y-2026&ref=4 (accessed on 11 September 2026).

In the current year, precipitation across virtually the whole of the country was below the long-term average (Figure 1). As water is essential for crop growth, crop failures occurred, affecting arable crops (cereals, legumes, etc.), grassland (alpine pastures,

[1] See the Second Austrian Assessment Report on Climate Change (https://aar2.ccca.ac.at/de). Unlike climate protection, which requires a reduction in global greenhouse gas emissions, adaptation to climate change is primarily a national responsibility.

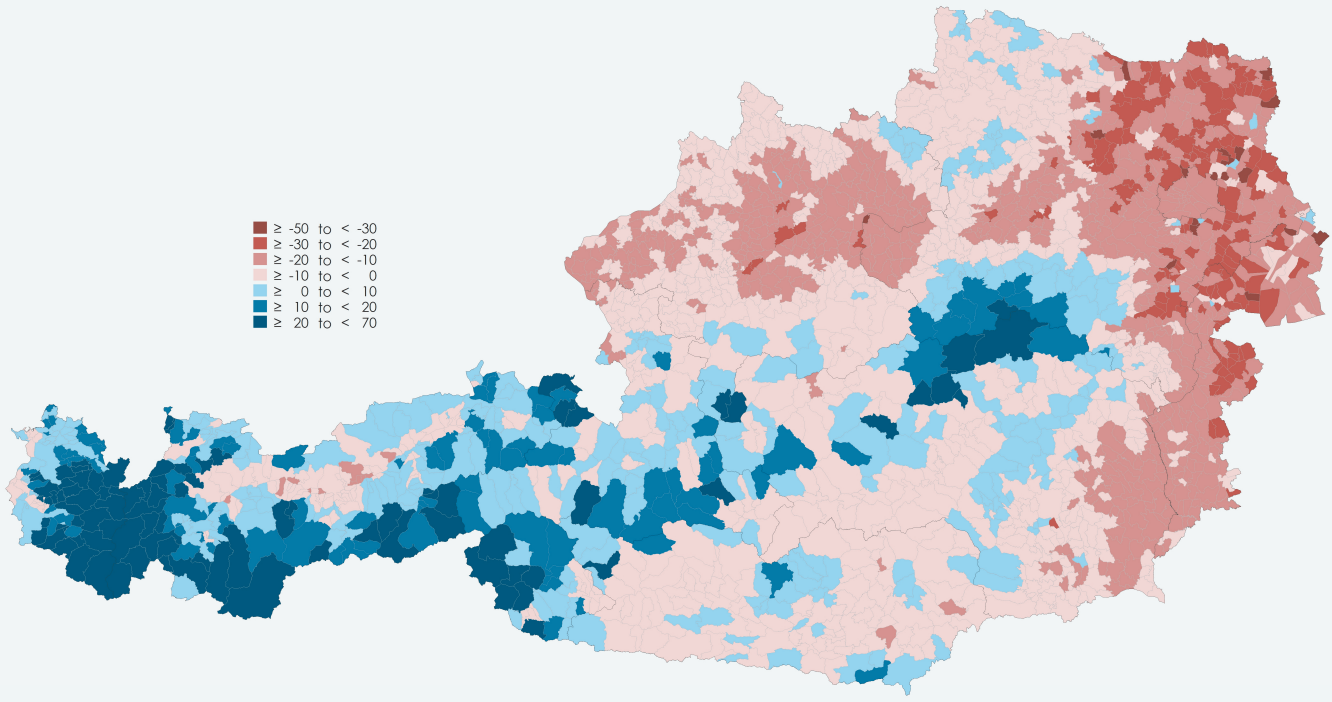
pastures, meadows) as well as vegetables and permanent crops (vineyards, fruit).

Presentations of temperature and precipitation trends alone are not sufficient to explain the extent of damage to agriculture. Figure 2 uses grassland yields as an example to show where production losses compared with the previous year are particularly high (as at August 2026). This map is based on satellite data fed into a yield model, which effectively enables a "nowcast" of crop production on grassland. As the models used for the calculations have not yet been trained to handle a drought situation such as that of 2026, the results for individual regions (e.g. Vorarlberg) should be treated with caution. Actual yields could turn out to be lower[2].

Drought and heat are not only causing problems for agricultural crops, but are also affecting forests. The soil moisture index, a measure of water availability which normally stands at around 35 percent in August, fell to just under 20 percent in 2026. The Federal Research Centre for Forestry (2026) describes this as an alarming development, particularly as such low soil moisture levels have never before been recorded at many monitoring sites. As many farmers also engage in forestry, the risk of extensive forest damage erodes one means of risk diversification. The heat also creates favourable conditions for the bark beetle[3], which causes significant damage, particularly to coniferous stands. Due to the drought and heat, the beetles encounter weakened spruce trees with little ability to defend themselves.

Figure 2: **Grassland yield 2026**

Deviation from the 2016-2025 average as a percentage, as at 20 August 2026



Source: HBLFA Raumberg-Gumpenstein, https://satgrass.at/ (accessed on 20 August 2026); WIFO presentation.

Fisheries and aquaculture are also severely affected by water scarcity. Although the value added by these sectors is comparatively low (Table 1), their production volume has increased in recent years due to rising demand. Water scarcity and heat pose a major problem, particularly in trout farming, which requires sufficient cool fresh water. However, as of mid-August 2026, no damage estimates were yet available in this regard.

[2] According to information provided by Doctor Andreas Schaumberger, Director of the HBLFA Raumberg-Gumpenstein.

[3] Current monitoring data is available on this: http://www.borkenkaefer.at.

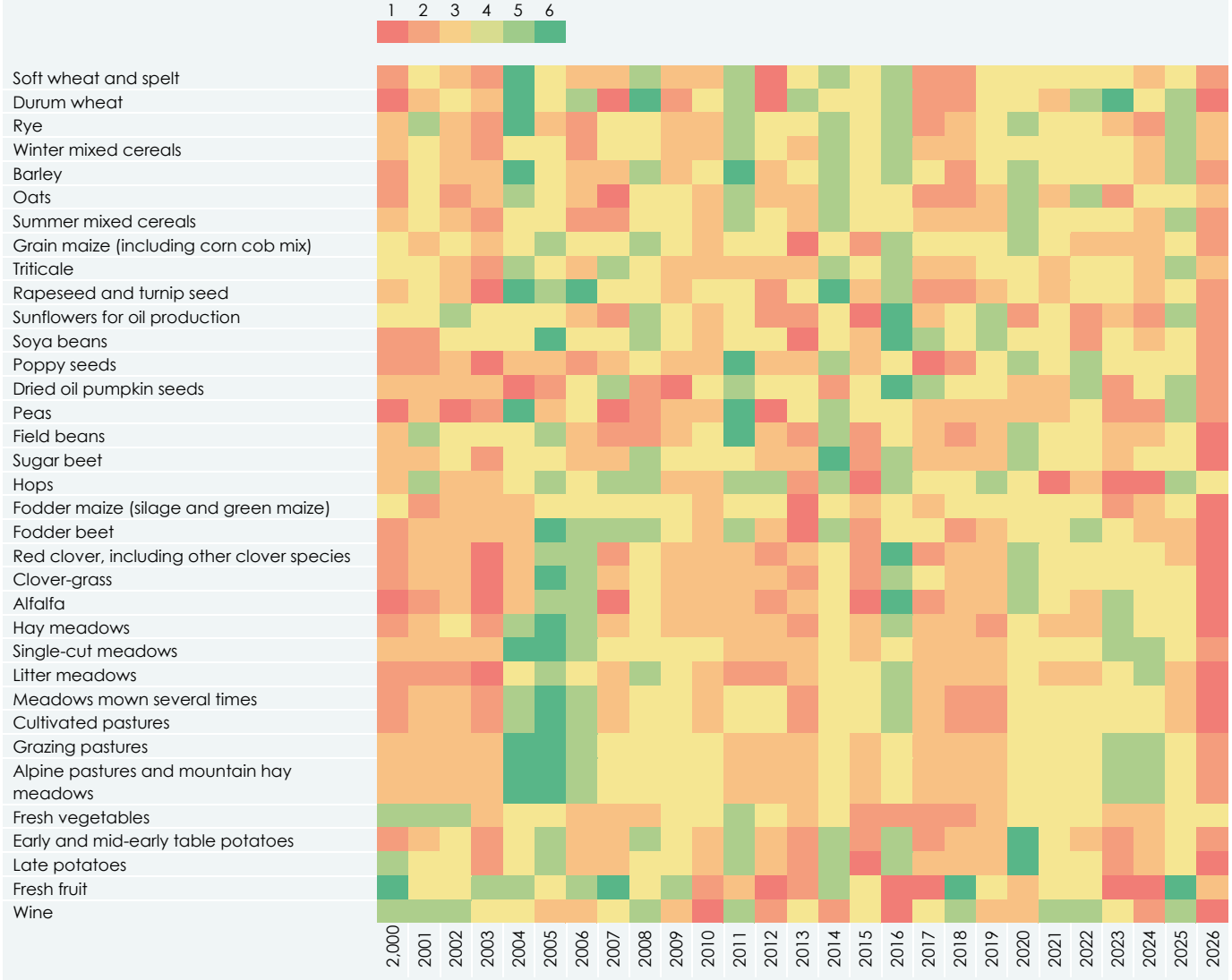
Table 1: **Gross value added in the national economy and in the agriculture and forestry sector**

	Total gross value added	Agriculture, forestry and fisheries	Agriculture and hunting	Forestry and timber harvesting	Fisheries and aquaculture
			Million €		
1995	158,145.3	3,843.9	2,932.0	906.1	5.8
2000	189,418.9	3,549.1	2,634.0	909.2	5.9
2005	224,194.7	3,236.2	2,304.3	924.6	7.3
2010	261,615.0	3,801.8	2,649.8	1,138.2	13.8
2015	303,845.6	3,912.1	2,754.1	1,134.9	23.1
2020	340,529.9	4,074.7	3,173.0	866.0	35.7
2021	362,536.8	4,936.7	3,682.4	1,220.4	33.9
2022	402,767.1	6,051.0	4,501.2	1,512.3	37.5
2023	429,634.3	5,933.6	4,364.9	1,531.5	37.2
2024	443,546.0	6,011.3	4,506.2	1,467.9	37.2
2025	459,300.0	6,460.0	.	.	.

Source: StatCube – Statistical database of Statistics Austria, main aggregates of the National Accounts: Gross value added by ÖNACE divisions. National Accounts: provisional results for 2025 calculated from quarterly figures, as at June 2026.

Figure 3: **Long-term trend in yields per hectare**

National average; deviation from the respective previous five-year average



Q: Statistics Austria, crop reporting; WIFO. 2026: provisional crop results or WIFO estimates, as at 20 August 2026. Sharp falls in yields per hectare (over 20 percent) are marked in red; sharp increases are marked in dark green. Key: 1 . . . up to –20 percent, 2 . . . –20 percent to –10 percent, 3 . . . –10 percent to –0 percent, 4 . . . +0 percent to +10 percent, 5 . . . +10 percent to +20 percent, 6 . . . over +20 percent.

By contrast, the **direct damage caused by drought** in the form of reduced crop production (arable crops, vegetables, permanent crops, fodder) could already be estimated reasonably accurately in August on the basis of the reduction in expected biomass yield. Austrian Hail Insurance (2026) put the figure at around 1 billion €. Around 70 percent of claims are covered by insurance, which will result in compensation payments to the agricultural sector totalling around 400 million €. Insurance is therefore already making a significant contribution to making the damage more bearable.

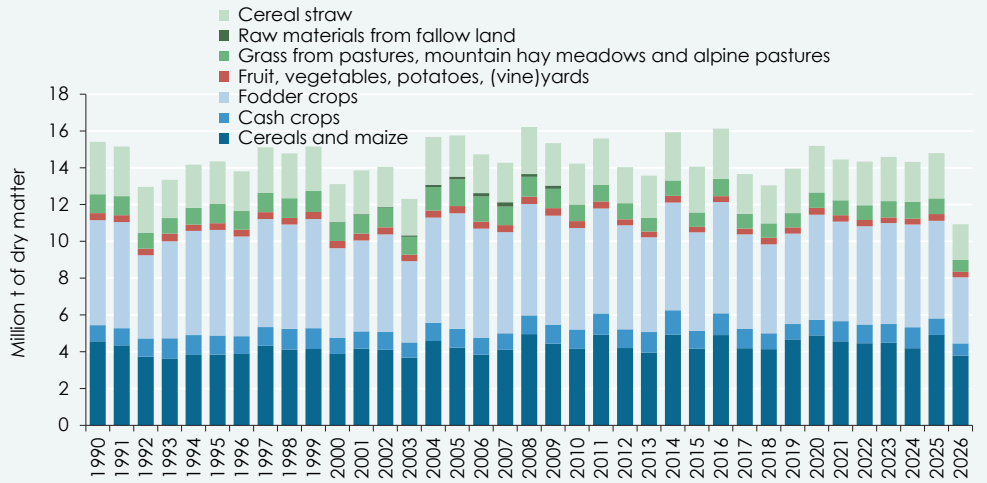
The **indirect damage** caused by the 2026 drought cannot be estimated until some time in 2027, when the effects on livestock farming, processing plants and food prices become apparent. The **induced damage** resulting from the drought's knock-on effects on demand for consumer and capital goods will probably not be quantifiable until 2028.

In 2003, Austria's agricultural sector had already been affected by widespread drought and suffered significant losses of income across almost the entire country (see Scheiblecker et al., 2004). However, no special relief measures were taken at that time. As a result of the floods in 2002, the Disaster Relief Fund had been completely depleted (Sinabell & Url, 2006) and projects such as the procurement of fighter jets had to be drastically scaled back in order to meet the Maastricht criteria shortly after the introduction of the euro.

Figure 3 shows the deviation in crop yields per hectare from the five-year average yield. Particularly high yields were observed in 2004, 2011 and 2016 for many crops, whilst particularly low yields were recorded in 2003 as well as 2026. Years with consistently low yields have so far been rare. In some years, harvest volumes for individual crops were particularly low, whilst for others they were above average. The graph shows the figures for the whole of Austria. In individual regions or farms, the annual variations may, of course, differ significantly from the national average. The figures in the appendix show that harvest fluctuations are pronounced in every crop, but that the amplitude varies depending on the species.

The exceptional nature of the year 2026 is also evident from biomass production (Figure 4). Only in the drought year of 2003 was the yield at a similarly low level. Admittedly, the results for 2026 are provisional, and the yield from autumn crops (maize, sugar beet and soya beans) could still have a positive impact on the overall result if there is sufficient rainfall. In the best-case scenario, however, the biomass yield will be roughly equivalent to that of 2003, and will therefore in any case be significantly lower than in the last two decades.

Figure 4: **Production of economically usable biomass from agriculture**



Source: WIFO calculations based on Buchgraber et al. (2003); DLG feed value table; Resch (2007). Straw is a by-product of cereal production (excluding maize); a uniform grain-to-straw ratio of 1 : 0.9 is assumed. Loss factors for fodder management according to Buchgraber et al. (2003); supply balances according to Statistics Austria. Development of production in Austrian agriculture after deducting losses during harvesting, storage and feeding. Figures for 2026 are based on forecasts from August 2026.

In the long term, biomass yields per hectare show an upward trend. At first glance, this is surprising, as no increases in yield have been recorded for many arable crops in Austria for some time (Figure 4). The increase is therefore attributable to individual crops where yield increases have been possible, primarily due to advances in breeding (maize, sugar beet). On forage grassland, the longer growing season resulting from

climate change also allows for more cuts than in the past and thus, calculated over the year, higher yields per hectare.

A distinctive feature of the years 2003 and 2026 is that it was not only arable farming – which is accustomed to dry conditions – that was or is affected by drought, but also almost the entire fruit-growing sector and large parts of grassland farming. As the area of grassland, including alpine pastures, at 1.5 million ha is larger than that of arable land (1.3 million ha), this fact is of great significance for assessing the situation.

3. A brief assessment of the 2026 drought relief measures

The drought relief measures adopted are appropriate, take effect quickly and strengthen insurance schemes.

At the end of August 2026, the Austrian federal government reached an agreement to mitigate the damage caused by the drought. Before assessing the measures adopted, two of their key features should be highlighted:

- Uninsured farms receive significantly less compensation than those compensated by an insurance company. Insured farmers are therefore not placed at a disadvantage.
- There are no market interventions, such as subsidies for the purchase of hay or other currently scarce inputs.

The first point is particularly important. Until now – most recently in 2024 – farmers could count on being granted compensation even if they had not taken out insurance. The state thus acted as an insurer without charging premiums. In the wake of the 2026 drought, this pattern of state mismanagement was brought to an end. Agricultural policy had already learnt the lesson that discretionary interventions in agricultural commodity markets are counterproductive decades earlier – in the wake of the so-called Fischler Reform, which in 2003 marked a shift away from direct price interventions.

The aid package adopted by the federal government has a planned volume of 240 million € (Agricultural Information Centre – AIZ, 2026)[4]. The key measures are:

1. Temporary suspension of social security contributions: The temporary waiver of contributions amounts to 140 million €.
2. Interest subsidies for working capital loans, which can be used to finance items such as seeds or animal feed.
3. Deferrals on agricultural investment loans: farms are granted additional time to repay existing loans.
4. A one-off increase in the premium subsidy for drought insurance by 10 percentage points to 65 percent for policies taken out in 2027.

The first three measures are designed to alleviate liquidity shortages. They are available to all agricultural and forestry businesses.

Through the social security scheme for the self-employed, those eligible for relief through the temporary suspension of social security contributions can be clearly identified as belonging to the agricultural sector. To improve accuracy, data from the drought index insurance scheme or the SatGrass platform[5] could be used to narrow down the geographical scope. However, as damage incurred in sectors such as forestry or fisheries cannot yet be quantified, the improved accuracy must be weighed against the benefits of rapid and tangible relief. Particularly as key details of the exact procedure are not yet known, the appropriateness of the contribution reduction cannot be assessed at present. Should the federal government require additional funds for this, it would jeopardise the budgetary path.

Low-interest loans for working capital or deferrals of investment loan repayments have proved effective in comparable cases and in other sectors. Here, too, the question of precision arises: investments aimed at adapting to climate change should be given priority over other projects.

Alongside the support package for the agricultural sector, the coalition government has finalised key elements of the Climate Act, adopted an amendment to speed up environmental impact assessments and agreed on the Carbon Capture and Storage Act. In the area of soil protection, a target pathway with measures to limit soil sealing to 2.5 ha per day will also be established by the end of 2026. The federal government is thus signalling that prevention – that is, slowing down climate change – is given the same priority as supporting adaptation.

[4] According to AIZ (2026), the offsetting funding is provided as follows: "The contribution rate for health insurance under the farmers' social insurance scheme is generally 387 percent. This will be reduced by 50 million € annually as agriculture's contribution to the federal budget for the years 2027-2031. This measure has no negative impact on farmers covered by the scheme. The interest subsidies and deferrals are financed by the federal and state governments. The federal contribution is provided through reallocations within the Ministry of Agriculture. The premium subsidy is financed in the same way as the existing premium support scheme, with the federal and state governments each contributing an equal share."

[5] https://satgrass.at/ (HBLFA Raumberg-Gumpenstein).

4. An overview of risk management in agriculture

4.1 Strategies for damage mitigation on farms

There is a wide range of measures for adapting to climate change.

Agriculture has faced drought (water scarcity) for as long as it has existed. However, as drought is only one of many hazards – which also include, for example, hail, flooding, pest infestations or heat stress – numerous approaches have been developed to mitigate the consequences of such events.

At the heart of traditional risk management, farms have long relied on a broad portfolio of products. For centuries, the combination of livestock farming with arable farming and fruit production was the organisational model that allowed losses in one area to be offset by yields in others. In recent decades, however, farms have become more specialised in order to generate productivity gains. Whilst this is a welcome development in itself, it does require a fresh perspective on the associated reduction in operational risk diversification.

For several decades now, the combination of agricultural income with income from other sources has been gaining in importance in Austria. According to the latest survey on agricultural structure, only 35 percent of farms in Austria are run as a main occupation (Statistics Austria, 2026). Consequently, in most farms, household income can remain stable even in years with high production losses.

Table 2: **Current water demand by sector and source of water abstraction**

	Well abstractions	Spring water use	Deep groundwater	Total groundwater		Surface water		Total water demand	
	Million m³ per year				As a percentage	Million m³ per year	As a percentage	Million m³ per year	As a percentage
Total	**826**	**395**	**11**	**1,232**	**100.0**	**1,908**	**100.0**	**3,140**	**100.0**
Water supply	407	335	11	753	61.1	0	0.0	753	24.0
Agriculture	85	33	–	119	9.6	6	0.3	125	4.0
Irrigation	57	6	–	64	5.2	6	0.3	70	2.2
Livestock farming	28	27	–	55	4.5	0	0.0	55	1.8
Industry[1]	330	23	–	353	28.7	1,857	97.3	2,210	70.4
Selected services	4	3	–	8	0.6	45	2.4	53	1.7
Snowmaking	1	3	–	4	0.3	43	2.3	48	1.5
Golf course irrigation	3	0	–	3	0.3	1	0.0	4	0.1

Source: Federal Ministry of Agriculture, Regions and Tourism (2021), see "Methodological Notes". – [1] Industry and manufacturing. Cooling and process water. Up to 5.1 billion m³ per year can be sustainably abstracted from groundwater without overexploitation or harm to ecosystems. This volume is referred to as the 'available groundwater resource'.

Markets provide effective mechanisms for mitigating the impact of adverse events.

In production technology, there are a wide range of measures to prevent or mitigate damage caused by natural hazards. These include the use of hail nets, irrigation (Table 2) and, above all, the selection of suitable crops and management practices. Traditionally, barley was grown in Austria in the spring. With improved seed, it is now possible to sow in the autumn, and winter moisture helps to bridge any water deficits. Durum wheat is also increasingly being sown as early as the autumn. However, the advantages must be weighed against the disadvantages, such as frost damage. Crops not previously widespread in Austria, such as rice, peanuts, olives, figs and melons, have been cultivated with increasing frequency in recent years. Soil-conserving and evaporation-reducing tillage methods are also becoming increasingly prevalent, but require specialised machinery and, in practice, specific adaptation of minimum tillage to each individual farm.

4.2 Smoothing the losses caused by adverse events through agricultural markets

In the markets for agricultural commodities, the economic consequences of drought and other adverse events are cushioned in various ways, for example through price rises when supply is reduced. In the past, virtually all agricultural commodities were subject to such price fluctuations. However, thanks to improved import options, significant price rises following domestic crop failures are now limited to a few commodities with high transport costs (potatoes, silage, hay, etc.). Farms with multiple sources of income have so far had an advantage when it comes to price volatility. However, compensatory mechanisms for specialised farms also reduce the risk. In the event of a severe feed shortage, for example, pig farmers sell their feed maize to cattle farms. Although this leaves them without feed for fattening, it can still be economically viable to leave the

barn empty for a few months. The knock-on effect is a decline in sales of fattening piglets produced by specialised farms. Consequently, a drought can reduce the profitability of piglet rearing operations that are not directly affected – a typical example of indirect damage in the agricultural sector.

As commodities such as maize and cereals are traded internationally, stable market prices are disadvantageous for producers affected by drought, but advantageous for processing businesses (pig fattening, poultry and egg production). International trade can therefore serve as a form of insurance. The good harvest in Romania and Ukraine in 2026 could help alleviate a tight supply situation in Central Europe.

4.3 Income smoothing through the tax system

Farmers in Austria have three options for the taxation of profits from agriculture and forestry:

- Full flat-rate scheme: the tax burden is independent of any kind of loss event.
- Partial flat-rate scheme: profit is calculated as business income minus a fixed percentage and fixed costs such as social security contributions.
- Neither: profits are determined using double-entry bookkeeping or the income-expenditure method.

The full flat-rate scheme is not available to larger farms; like other businesses, they must determine their profit on the basis of their accounts. Unlike the other methods of profit determination, the full flat-rate scheme does not take into account the opportunities and risks associated with production. However, as most businesses using the full flat-rate scheme are part-time farmers who are not liable for income tax at all, they have little incentive to switch to a different method of profit determination[6].

Since the 2020 tax year, businesses not using the full flat-rate scheme have also had the option of calculating profits over a three-year period. High profits in particularly good years can thus be offset against losses or low profits in lean years. In the event of business disasters, tax law also provides for the carry-forward of hidden liabilities (Peyerl, 2010).

4.4 Claims settlement by insurance companies

Many categories of agricultural loss are insurable. Payment of the premium before sowing is a prerequisite for compensation in the event of a claim. The options are very diverse, and different insurance products can be combined. A typical feature of agricultural insurance is that the policyholder specifies the maximum amount for which they wish to be insured; this also allows for partial cover. The premium is set accordingly, being higher or lower. A second feature is a deductible, which is either calculated as a percentage or as a lump sum to be borne by the policyholder in the event of a claim.

In Austria, the extent of the damage is determined in two ways: either through on-site inspections, i.e. an individual damage assessment, or through an automated damage model (index-based insurance). The advantages of index-based insurance are low administrative costs and rapid settlement.

The key advantages of insurance in general can be summarised as follows:

- As insurance companies compete with one another, policyholders can usually choose between different providers. In Austria, however, Österreichische Hagelversicherung is the only provider offering index-based insurance.
- Taking out an insurance policy is a legal transaction. If the claim is accepted, there is a legal entitlement to payment under the previously agreed terms.
- The level of premiums reflects the frequency and severity of the insured risk. Rising premiums thus make other loss-mitigation strategies more attractive, such as installing hail nets instead of taking out hail insurance or sowing winter instead of summer crops.
- Deductibles and partial cover make risk mitigation measures within traditional risk management, cf. Chapter 4.1, attractive.
- Reinsurance offers the possibility of involving the global financial markets in loss compensation.

In Austria, substantial funds from the Disaster Relief Fund are used to subsidise agricultural insurance premiums (the legal basis for this is the Hail Insurance Subsidy Act, Federal Law Gazette No. 64/1955, as amended). Other businesses cannot rely on such support for ordinary production losses or operational disruptions, e.g. machinery damage, supply bottlenecks or power cuts, but must generally bear such risks themselves or cover them through private business interruption insurance.

Table 3 provides an overview of key indicators for the agricultural insurance market. Further details are set out in the Annex (Tables 4, 5 and 6).

Insurance is a key component of risk management.

[6] According to information provided by tax expert Professor Hermann Peyerl of the University of Natural Resources and Life Sciences.

Table 3: **Development of selected key figures for the agricultural insurance market in Austria**

	Sum insured	Claims expenditure[1]	Combined ratio[2]	Insurance coverage ratio[3]				Payments by farms, including subsidies
				Multi-risk insurance	Grassland drought index	Drought Index for Arable Farming	Drought and Frost in Orchards	
	Billion €		As a percentage	As a percentage				Million €
2007	2.4	60.4						
2008	2.7	85.5						
2009	2.7	86.5	113.5					
2010	2.7	41.1	49.0					
2011	2.8	50.5	57.0					
2012	2.9	84.1	95.7					84,763
2013	3.0	64.5	68.5					90,865
2014	3.0	51.6	53.1					93,265
2015	3.1	86.9	91.2	46	3		5	91,927
2016	3.2	84.7	102.1	48	11	17	6	96,577
2017	3.4	134.4	117.1	50	13	17	41	115,516
2018	3.8	107.4	82.6	51	14	20	57	124,104
2019	4.7	113.9	71.9		23			162,014
2020	5.1	116.0	65.8		27			180,721
2021	5.3	172.7	101.5		29			185,096
2022	5.9	160.4	79.9		30			216,920
2023	6.3	214.4	91.5		34			249,687
2024	6.6	210.1	83.5					270,087

Q: Federal Ministry of Agriculture, Forestry, Regions and Water Management – BML, Green Report 2025, Table 5.3.1.6. – [1] Including acquisition costs. – [2] The combined ratio is a key figure for insurance balance sheets which expresses the sum of administrative costs and claims payments as a proportion of premiums written. Net figures are used. This key figure relates solely to the Austrian Hail Insurance Company. – [3] The insurance coverage rate indicates the ratio of the insured area to the area that is actually insurable (based on data from the Integrated Administration and Control System – INVEKOS).

Through targeted measures, policymakers can effectively support the private sector in crisis management.

4.5 Agricultural policy measures and measures in other policy areas

Policy measures to mitigate damage caused by natural hazards are diverse and highly differentiated. A study by the World Bank (2026), which presents the systems of five EU member countries in detail, provides a current overview of the strategies, their advantages and disadvantages and approaches to improving agricultural risk management (ARM). Austria relies on a number of approaches that are less commonly used in other countries:

- Measures to adapt to climate change are explicitly supported by the Austrian Agri-Environmental Programme. Compared with other EU countries, this programme is of a substantial scale. Consequently, water-saving practices are being implemented on many farms in Austria.
- Agricultural policy also funds operational groups under the European Innovation Partnership (EIP). In numerous projects, researchers are working alongside farmers to develop ideas for improving climate resilience to the point where they can be put into practice.
- Austria has a disaster relief fund. Among other things, this fund finances preventive measures such as flood defences and fire services (which supply water when wells run dry), from which the agricultural sector benefits.
- The Agricultural Crisis Reserve is an instrument of EU agricultural policy designed to support EU member countries in financing emergency aid measures (see Article 16 of Regulation (EU) 2021/2116). A total of 450 million € per year is available for this purpose under the current financial framework. Austria received payments from this fund in 2024 and 2026.
- As a further measure, subsidies are provided for premiums on agriculture-specific insurance policies. According to the 15th report by the Federal Minister for Finance on the Disaster Fund Act 1996 (Federal Ministry of Finance, 2024), annual grants under the Hail Insurance Subsidy Act rose from 48 million € in 2020 to 68 million € in 2023. The federal states make payments on the same scale[7]. Consequently, the total subsidy has increased from 96 million € to 136 million € within three years. The premium subsidy improves the affordability of insurance, meaning that a considerable proportion of drought damage in Austria will be covered in 2026 (Table 6).
- In Austria, alongside the federal government, the federal states are also responsible for regulating water use. Permits are required for irrigation, and the authorities monitor water levels and ensure sustainable use. Public grants make it easier to finance irrigation projects. The Marchfeldkanal operating company manages

[7] See https://transparenzportal.gv.at/tdb/tp/leistung/1038975.html.

the infrastructure that enables many agricultural businesses to irrigate their crops.
- In recent years, training and advisory services have increasingly focused on content designed to support farm management in adapting to climate change. Federal research institutions are developing information systems and practical applications (e.g. https://www.satgrass.at) to facilitate climate-resilient adaptations.
- Austria also has the Climate Fund, which finances relevant research projects – albeit now on a smaller scale than in the past (see https://www.klimafonds.gv.at).
- The Federal Ministry of Agriculture, Forestry, Climate and Environmental Protection, Regions and Water Management – BMLUK – also funds many relevant research projects[8].

5. A selection of approaches to improve risk management

Approaches to improve the management of risks associated with climate change must take account of its dynamic nature.

Drought is one of many natural hazards. The widespread impact observed in the summer of 2026 is reminiscent of the floods in September 2024, which affected numerous businesses and private households (Friesenbichler et al., 2024). On that occasion too, many of those affected were compensated by the insurance industry swiftly and in a predictable manner, with over 600 million € paid out (Austrian Insurance Association, 2024).

Due to a legal arrangement that was – from an economic perspective – counterproductive, victims who had not taken out insurance also received public funds from the disaster relief fund at that time. The funds were channelled via the federal states, which received a special-purpose grant of up to 144 million €[9]. Their provisions stipulate the following – taking Vienna as an example: "Funding is only available for that part of the loss which is not covered by insurance" (City of Vienna, 2026). Such regulations override market signals and undermine private precautionary measures. Risk-neutral individuals are more likely to prioritise savings on premiums over insurance cover if they can expect compensation from the disaster fund in the event of a loss.

In each of the areas outlined in Chapter 4, there is scope for improvement or an urgent need for new approaches. The following list of proposals is not exhaustive and should be expanded and, if necessary, revised as part of a follow-up study.

Strengthening business resilience

- Specialisation in a limited number of products is an effective strategy for increasing farm productivity through economies of scale. Building up own reserves and taking out insurance policies make it possible to reap the full benefits of specialisation without sliding into a crisis that threatens the farm's very existence.
- The product portfolio and the focus of the farm's operations must be continuously adapted to changing natural production conditions. One lesson to be learnt from the drought of 2026 for many grassland farms will be that, whilst the changing climate allows for more cuts, it also brings with it years of massive yield losses. Building up stocks of long-lasting fodder is therefore an effective measure for strengthening resilience to crises.
- Active participation in agricultural policy measures (e.g. promoting water-efficient farming, taking part in training programmes and EIP projects) supports adaptation to climate change.

Restricting the full flat-rate scheme in agriculture to micro-farms

- Both farms subject to partial flat-rate taxation and those determining profits through bookkeeping currently benefit from the recognition of natural disasters under tax law. Full flat-rate taxation in agriculture should therefore be restricted to micro-farms. In such farms, income is likely to derive predominantly from sources other than agricultural production, thereby enabling production risks to be better managed.

Removing barriers that hinder market-based solutions

- Trade barriers that hinder the import of cereals from Ukraine into the EU are clearly counterproductive in 2026. The direct damage caused by the drought to crop production may be overshadowed by the indirect damage to livestock production. Affordable feed could help to limit the damage. As dried maize can be used effectively in pig feed, pig farmers would not necessarily have to suspend production if they sold their own maize for silage to cattle farms.

Tools that facilitate market-based solutions

- Publicly funded information systems are already improving the information available to the agricultural sector[10] and

[8] Current projects and the results of completed studies are available at https://www.dafne.at.
[9] https://www.ris.bka.gv.at/Dokumente/BgblAuth/BGBLA_2024_I_158/BGBLA_2024_I_158.html.
[10] For example https://www.preise.agrarforschung.at in Austria and https://agriculture.ec.europa.eu/data-and-analysis/markets/price-data/price-monitoring-sector_en in the EU.

should be continuously optimised to support farm-level decision-making.
- Specific financial products such as futures and options are available to hedge against price risks. However, in Europe these currently cover only a narrow range of products (wheat, maize, rapeseed). Expanding this range would better meet the needs of many farmers.

Avoiding measures that undermine insurance schemes

- In the past, uninsured farmers in Austria have repeatedly received public funds following the occurrence of damage, even though appropriate insurance policies were available. Such support was granted in part by the federal government, but also by individual federal states (e.g. in 2016, frost relief amounting to 100 million €; AIZ, 2016a, 2016b, 2016c). Such interventions have severely undermined the willingness to take out insurance and are still having an impact today. They must be avoided, even if calls for such support are gaining traction among the public (Kronen Zeitung, 2026).

Strengthening the insurance sector as a core element of risk management

- In Austria, the range of insurance products is highly diversified and market penetration is high due to public funding. Nevertheless, it is worth looking at other countries and the approaches adopted there (e.g. mutual funds, income stabilisation schemes; see World Bank, 2026; Sinabell et al., 2016; Url et al., 2018).
- It is foreseeable that drought insurance premiums will rise in 2027. Some existing policyholders might therefore decide against renewing their cover, on the assumption that rare events such as droughts will not occur twice within two years. The announced one-off increase in the premium subsidy in 2027 could mitigate this effect and make it easier for new policyholders to decide to take out cover, particularly if the increased subsidy is linked to continued cover in the following year.
- The terms and conditions of drought insurance were amended at the end of 2025, with effect from 2026, to the detriment of policyholders (Mittinger, 2025). Given the benefits of greater take-up of insurance, measures that make insurance less attractive should be reconsidered. However, actuarially necessary adjustments should not be ignored, because if the claims frequency increases, public subsidies should actually decrease in order to steer production decisions towards loss mitigation.

Policy adjustments and expansion of the policy mix

- The EU Agricultural Reserve is designed in such a way that there is an incentive for EU member countries to make heavy use of it (Kranen et al., 2023). Consequently, the funds are quickly exhausted. The criteria for drawing on the reserve should be amended so that subsidies are granted only in particularly severe cases.
- Liquidity shortages are a major problem for farms affected by drought, particularly those without insurance. One remedy would be to pay out agricultural subsidies earlier than the usual December date following large-scale damage events. The systems for processing subsidies should be adapted to enable advance payments in the event of major damage in future.
- Drought-related liquidity shortages can also be alleviated through low-interest loans and the deferral of current loan repayments. In general, agricultural businesses should have access to the same instruments as other businesses. This requires better coordination between agricultural and business policy.
- The suspension of social security contributions is another possible form of assistance, but it may reduce pension entitlements. Furthermore, the measure lacks precision because it does not take individual circumstances into account. It should therefore only be considered with caution.
- Small businesses (not just agricultural ones) can face existential crises due to the death, accident or illness of key staff members. Events such as a drought can further exacerbate such emergencies. Solidarity-based support should be offered in cases where businesses are affected by multiple such crises.
- In Austria, once flood damage has been cleared up, an incident report is drawn up to identify weaknesses in risk management and to learn lessons from the damage suffered. In view of the considerable damage caused by the drought of 2026 and the large number of persons affected, an incident report should also be drawn up in this case, including a catalogue of measures to strengthen crisis resilience. Such an assessment should also take into account the options listed below for increasing resilience in the face of changing environmental conditions.

6. Lessons from the 2026 drought for sustainable risk management

As highlighted in this article using the example of drought, businesses exposed to natural hazards have a wide range of options for preventing losses or limiting their impact. Insurance is a highly effective and, moreover, market-driven instrument for stabilising income levels. As changing environmental conditions only lead to behavioural changes via market signals, the state should refrain from measures that override such market signals.

The further development of the insurance system requires specific adjustments.

6.1 On the question of market-based and forward-looking measures

Loans at preferential interest rates to those affected – both those who were insured but had to bear a considerable portion of the loss themselves due to the deductible and those who were uninsured – are acceptable if this prevents the state from having to pay compensation to the uninsured, as was the case in 2024. If a large number of persons is affected, the government is inevitably faced with demands to implement emergency relief measures. Low-interest loans are a suitable, market-based option, as only those who are committed to the future – in order to be better prepared should a similar situation arise – take on the associated obligations.

Premium subsidies are another option for combining market-based solutions to natural hazards with affordability; they also counteract the phenomenon of underinsurance against natural hazards (Meyer & Kunreuther, 2017). Sinabell and Url (2006) justify this in the context of flood insurance by pointing out that local authorities, through poor planning, have designated unsuitable areas as building land. They therefore bear joint responsibility for the fact that many buildings are situated in flood-prone areas. In the context of growing natural hazards caused by climate change, the state bears shared responsibility if measures to avert climate-related damage are delayed or implemented only half-heartedly. However, premium subsidies alleviate the pressure on beneficiaries to adapt to climate change. This fact must be taken into account in the specific design of such schemes.

6.2 On the issue of sustainability for insurers

Offering insurance cover for potentially widespread drought damage creates an underwriting problem, because in such cases, the redistribution of losses amongst policyholders is only possible to a limited extent; in other words, the benefits paid to policyholders may be considerably higher than the premium income for the current year. This problem is exacerbated by climate change, as extreme weather events tend to occur more frequently. When setting premium levels, insurers must proactively take into account a higher claims frequency. As the rate of climate change is not precisely known, safety buffers must also be factored into the premium. Furthermore, the insurance company's solvency must remain assured even in the event of extreme incidents. Possible solutions include building up reserves over time, the insurance company providing a sufficiently high level of equity capital, entering into international reinsurance contracts or the public sector granting a loss excess guarantee. All these hedging measures also drive up premiums. Whilst the international diversification of drought risk is expensive, reinsurance allows for a mix with risks from other natural hazards, meaning that hedging costs may be lower than with national solutions. Reinsurers can also transfer the risk to the capital market in the form of "cat bonds" – fixed-income bonds that become due in the event of an extreme event – which reduces the need for equity capital and reserves.

6.3 On the issue of compulsory insurance

Following major loss events, in which the public sector is forced to implement costly special measures, the question of compulsory insurance regularly arises. If all businesses were adequately insured, they would have legal claims to compensation and would not have to rely on uncertain political solutions. If insurance products are designed sensibly, the premiums reflect the risks, thereby providing businesses with incentives to adopt risk-mitigating behaviour.

To date, insurance in the agricultural sector has been on a voluntary basis. In other sectors, such as health insurance, however, insurance is compulsory. This is typically justified on the grounds that, without such a requirement, adverse selection would occur, which would significantly reduce the market; for insurance is least worthwhile for those whose individual probability of a claim occurring is lowest compared to the average. These "good risks" would therefore drop out of the insurance scheme. In extreme cases, this process can continue until insurance is no longer possible at all. In the agricultural sector, this problem is less pronounced because all farms in a region face the same risks. In many professions in Austria, liability insurance is available to cover the risks associated with specific activities.

Nevertheless, there is one argument in favour of compulsory insurance: businesses might speculate that they will receive support from the public sector in the event of a claim, even if they are not insured, and therefore refrain from paying premiums. As history shows, such expectations are to some

extent justified, because the state does indeed provide assistance in view of the existential threat facing many businesses, and cannot credibly rule out providing such assistance in advance. Compulsory insurance could resolve this problem.

Compulsory insurance does, however, constitute an encroachment on private autonomy. Consequently, in most countries, no such obligation applies to businesses. There are, however, exceptions. Within the EU, Cyprus and Greece have state-administered compulsory insurance schemes under which farmers are legally obliged to pay contributions in return for cover against natural disasters such as drought, frost or hail. Japan has one of the oldest compulsory insurance schemes. For the most important strategic staple crops (such as rice, wheat and barley), Japanese farmers with farms above a certain minimum size (usually from 0.3 ha) are required to take out state-subsidised crop insurance. In India, too, crop insurance – which also covers damage caused by drought – was for many years a strict requirement for farms that took out government agricultural loans. The system has since been formally converted to a voluntary basis; however, in practice, crop insurance remains unavoidable for millions of farmers when it comes to obtaining loans.

6.4 Conclusions

A comprehensive risk management system is built on risk prevention by businesses, insurance companies and the state. Prevention is the most important lever in this regard. However, as climate change is already underway, adaptation to it must also be taken into account. Government measures must therefore be chosen with care, as extreme weather events are expected to become more frequent in the future. Support for those affected should be designed in such a way that it encourages targeted behaviour aimed at mitigating damage.

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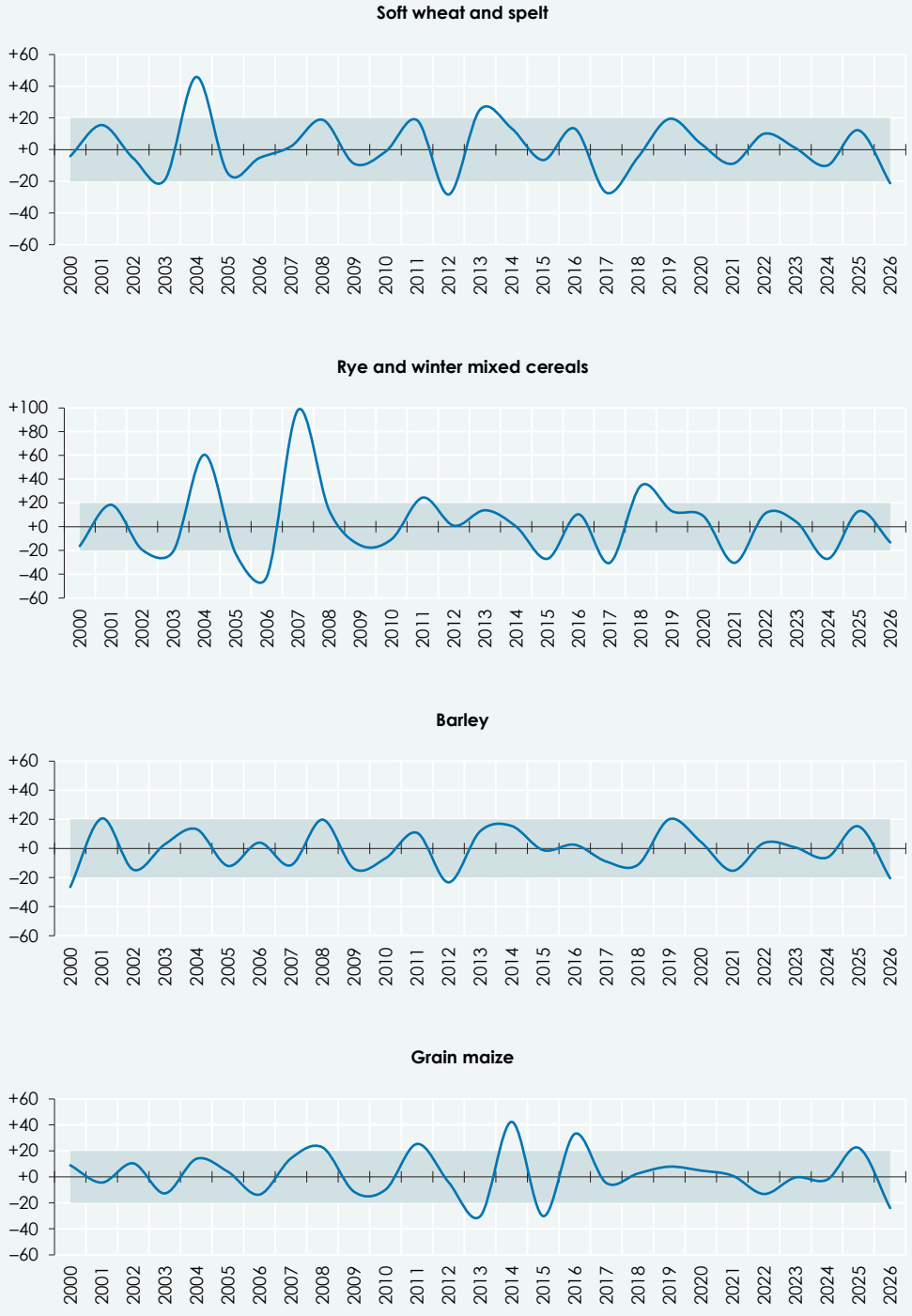
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8. Appendix

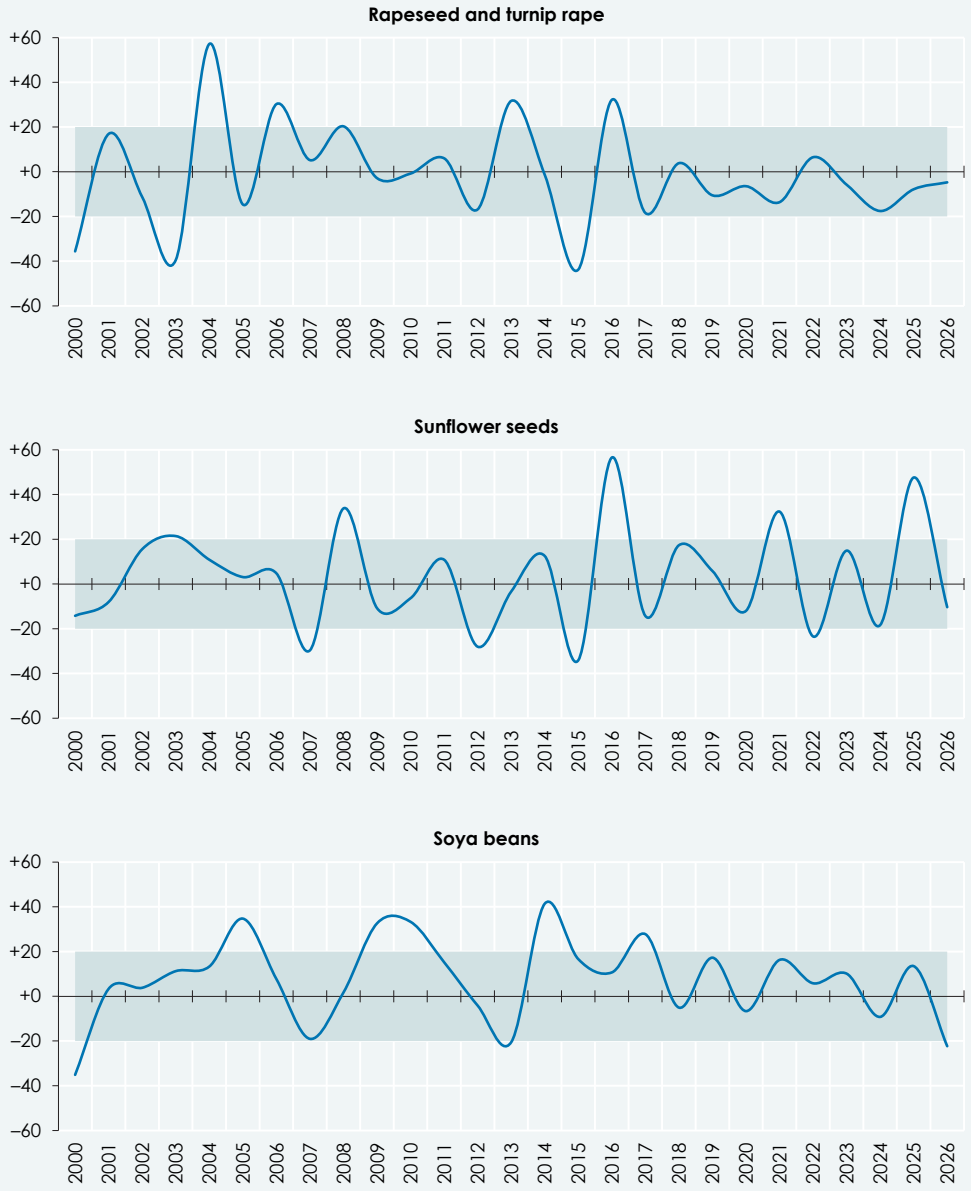
Figure 5: **Trend in final cereal production volumes compared with the previous year**

As a percentage



Source: Statistics Austria, harvest reporting; WIFO. 2026: preliminary harvest results or WIFO estimates, as at 20 August 2026.

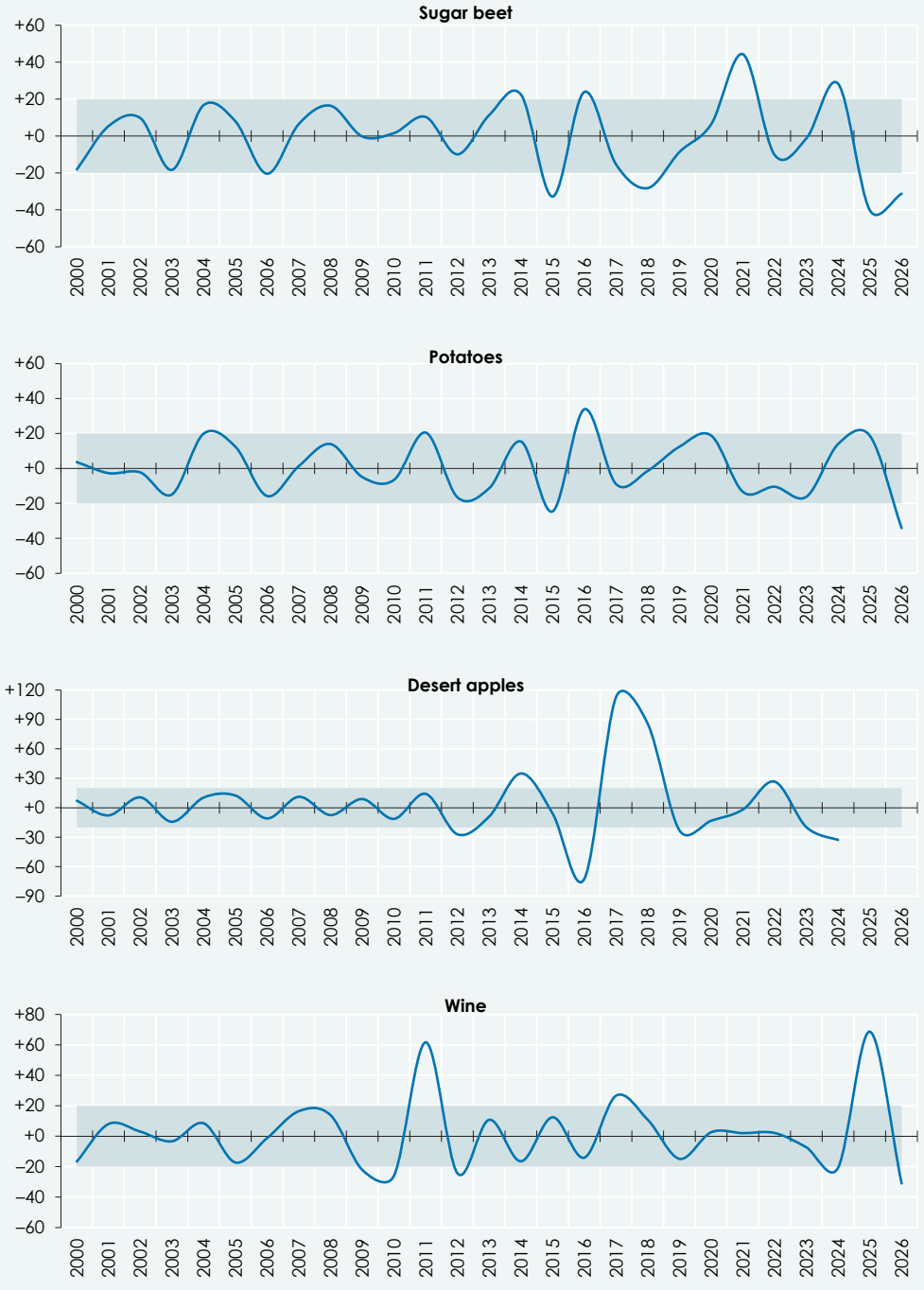
Figure 6: **Trends in final production volumes of oilseeds compared with the previous year**
As a percentage



Source: Statistics Austria, harvest reporting; WIFO. 2026: preliminary harvest results or WIFO estimates, as at 20 August 2026.

Figure 7: **Trends in final production volumes of other plant products compared with the previous year**

As a percentage



Source: Statistics Austria, crop reporting; WIFO. 2026: preliminary crop results and WIFO estimates, as at 20 August 2026.

Table 4: **Insured area and degree of coverage in hail and frost insurance**

	Total area according to INVEKOS	Area covered by hail insurance	Area covered by natural hazard insurance	Hail	Frost
	In ha	Insured area in ha		Insurance coverage[1] as a percentage	
Arable land					
2016	1,139,756	895,173	696,370	79	61
2017	1,133,688	898,427	722,488	79	64
2018	1,127,139	896,591	729,171	80	65
2019	1,122,175	896,915	763,247	80	68
2020	1,120,283	899,131	784,755	80	70
2021	1,119,560	896,763	804,520	80	72
2022	1,130,075	915,485	839,285	81	74
2023	1,111,151	920,992	860,606	83	77
2024	1,100,383	921,916	882,974	84	80
Grassland					
2016	855,343	270,118	264,216	32	31
2017	852,274	273,088	268,225	32	31
2018	930,444	279,046	274,728	30	30
2019	856,653	311,034	308,582	36	36
2020	856,658	336,842	334,749	39	39
2021	851,055	344,222	342,512	40	40
2022	837,305	356,146	354,665	43	42
2023	818,738	372,763	371,714	46	45
2024	818,397	388,287	387,112	47	47
Vineyards					
2016	40,486	28,207	10,285	70	25
2017	41,261	29,861	14,666	72	36
2018	41,762	29,893	16,274	72	39
2019	41,805	29,341	16,576	70	40
2020	45,173	28,613	16,154	63	36
2021	45,228	28,203	15,981	62	35
2022	45,017	28,132	16,885	62	38
2023	44,798	28,004	16,736	63	37
2024	44,456	27,959	16,940	63	38
Orchards					
2016	14,053	8,359	5,379	59	38
2017	14,670	9,092	6,553	62	45
2018	14,675	9,021	6,855	61	47
2019	14,451	8,575	6,629	59	46
2020	14,205	8,190	6,743	58	47
2021	14,042	8,215	6,763	59	48
2022	13,878	8,107	6,794	58	49
2023	13,088	7,657	6,421	59	49
2024	12,910	7,387	6,188	57	48

Source: Federal of Agriculture, Forestry, Regions and Water Management – BML, Green Report 2025, Table 5.3.1.7. INVEKOS . . . Integrated Administration and Control System. – [1] The area affected by frost and the corresponding percentage were included in the area affected by natural hazards. All insurable damage in crop production constitutes natural disaster damage; hail is assessed separately only because it is a mandatory basic element of all insurance products.

Table 5: **Insured cattle units (large livestock)**

	Burgen-land	Carinthia	Lower Austria	Upper Austria	Salzburg	Styria	Tyrol	Vorarl-berg	Vienna	Austria
	Percentage shares of all cattle units (large livestock) according to the animal register, INVEKOS									
2018	32.2	36.2	34.2	42.0	38.1	29.3	25.8	25.6	0.0	35.0
2019	38.4	37.5	37.5	47.8	44.3	31.8	28.3	31.1	0.0	38.9
2020	45.0	38.8	40.1	50.3	47.3	35.8	35.8	31.9	0.0	42.1
2021	48.3	40.8	39.7	49.5	48.1	38.1	37.3	34.1	0.0	42.8
2022	45.9	42.4	41.2	50.8	49.6	39.5	39.4	35.0	0.0	44.3
2023	48.2	43.0	43.6	53.8	51.6	41.2	41.0	38.5	0.0	46.4

Source: Federal Ministry of Agriculture, Forestry, Regions and Water Management – BML, Green Report 2025, Table 5.3.1.7a. INVEKOS . . . Integrated Administration and Control System.

Table 6: **Crop and livestock insurance – grants from the federal and state governments in accordance with the HVFG**

	Burgen-land	Carinthia	Lower Austria	Upper Austria	Salzburg	Styria	Tyrol	Vorarl-berg	Vienna	Austria
	Million €									
2007	3,177	1,116	7,766	3,353	0,312	6,713	0,389	0,096	0,337	23,258
2008	3,065	1,152	7,722	3,801	0,363	7,501	0,531	0,103	0,320	24,558
2009	3,872	1,544	9,679	4,024	0,377	9,050	0,576	0,110	0,359	29,590
2010	4,766	1,910	11,290	6,343	0,480	10,650	0,749	0,125	0,570	36,883
2011	4,931	1,861	11,744	6,363	0,449	9,744	0,739	0,122	0,583	36,536
2012	5,198	1,895	11,721	6,425	0,443	8,925	0,745	0,114	0,578	36,043
2013	5,564	1,881	13,047	6,827	0,456	9,417	0,889	0,113	0,623	38,817
2014	5,624	1,870	13,102	6,784	0,479	9,189	0,861	0,111	0,572	38,593
2015	5,441	1,806	12,874	6,385	0,460	8,985	0,808	0,104	0,577	37,441
2016	6,400	2,847	16,349	8,607	0,592	8,897	1,037	0,145	0,728	45,602
2017	7,960	3,190	18,511	9,082	0,666	12,994	1,232	0,157	0,742	54,535
2018	8,742	3,466	21,338	10,517	0,704	14,985	1,338	0,172	0,791	62,052
2019	10,302	5,778	28,763	18,548	1,884	18,953	2,127	0,518	0,841	87,714
2020	10,644	6,063	32,494	22,138	2,244	20,375	2,575	0,525	0,843	97,901
2021	11,497	6,111	32,996	21,801	2,322	21,296	2,779	0,570	0,814	100,186
2022	14,600	6,950	38,909	25,374	2,488	24,541	3,104	0,623	0,911	117,499
2023	16,528	8,598	44,463	28,778	3,219	28,241	3,637	0,826	1,012	135,302
2024	15,369	8,633	48,492	34,643	3,912	28,831	4,369	1,023	1,058	146,329

Source: Federal Ministry of Agriculture, Forestry, Regions and Water Management – BML, Green Report 2025, Table 5.3.1.6. HVFG . . . Hail Insurance Promotion Act.