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Advancing Green Budget Tagging (GBT) in the Republic of Serbia

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Abstract

The Republic of Serbia is the first country in the Western Balkans to integrate Green Budget Tagging (GBT) into its budgetary process. As a public financial management tool, GBT enhances the alignment of public expenditure with climate and environmental objectives. As other European Union candidate countries embark on similar reforms to green their public finances, the Serbian experience provides valuable lessons.

This article examines the design and implementation of GBT in Serbia and identifies the key factors underpinning its successful rollout: an interministerial governance framework ensuring effective coordination among stakeholders; the adaptation of the EU Taxonomy to national circumstances; a phased implementation supported by sustained capacity building; and the integration of GBT into the country's public financial management system.

Key words

Green Budget, public financial management, climate fiscal governance, EU Taxonomy, Budget reform, sustainable finance

Original version

English

Résumé

La Serbie est le premier pays des Balkans occidentaux à intégrer le *Green Budget Tagging* (GBT) dans son processus budgétaire. Cet outil de gouvernance des finances publiques permet d'améliorer l'alignement entre les dépenses publiques et les objectifs climatiques et environnementaux. Tandis que d'autres pays candidats à l'Union européenne sont engagés dans des réformes analogues de verdissement des finances publiques, l'étude du cas serbe permet de tirer certains enseignements.

Ainsi, cet article analyse les conditions de conception et de déploiement du GBT en Serbie et identifie les principaux facteurs de succès : une gouvernance interministérielle assurant la coordination entre acteurs, une adaptation de la taxonomie européenne aux spécificités nationales, une mise en œuvre progressive fondée sur le renforcement des capacités administratives et l'intégration du dispositif au système de gestion des finances publiques.

Mots-clés

Budgétisation verte, finances publiques, gouvernance climatique, taxonomie européenne, réforme budgétaire, finance durable

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Introduction

This article documents how Serbia designed and implemented a green budget tagging (GBT) system and what other countries can learn from that experience. Serbia is the first country in the Western Balkans to formally adopt a GBT methodology and publish a green budget as an annex to its annual Budget Law, a milestone achieved with the 2025 Budget.

The paper traces the conceptual foundations of GBT, situates Serbia's approach within evolving international frameworks, and examines what drove its success. The final recommendations are applicable both to Serbia, as it continues to strengthen the system, and to peer EU candidate countries that are considering how to get started.

1. The place of GBT in climate fiscal governance

Without a tagging layer that marks the climate relevance of public spending, it is impossible to assess whether public finances are working with or against national climate commitments. Governments worldwide have made increasingly ambitious climate commitments through the Paris Agreement, Nationally Determined Contributions (NDCs), and regional initiatives such as the European Green Deal. In many countries, subsidies, transfers, public investments, and tax expenditures substantially outweigh private climate finance flows.[1] Nonetheless, a persistent gap remains between climate and environmental commitments and measurable fiscal action. The explanation is straightforward: conventional budget classification systems fail to adequately capture the climate-related dimension of public expenditure.

GBT helps close this gap by introducing an analytical overlay on the budget: a systematic classification of expenditures (and, in more mature systems, revenues and tax expenditures) according to their contribution to or detraction from climate and environmental objectives. In this paper, GBT is defined as a public financial management (PFM) tool that classifies, tracks, and monitors budget items as "green" (contributing positively), "brown" (having a negative environmental impact), or neutral. This approach facilitates the alignment of national budgets with climate and environmental goals, enhances transparency, and ensures that policies support sustainability objectives.

GBT also needs to be understood in the context of the broader sustainable finance landscape. Sustainable finance frameworks, i.e., the body of standards, taxonomies, disclosure requirements, and principles that guide the allocation of capital to environmentally sustainable activities, have been developing rapidly over the past decade. While these frameworks were designed for private financial actors their logic is increasingly being applied to public finance. This is justified as governments are both the largest single allocators of capital in most economies as well as regulatory setters for the framework within which private actors operate.

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[1] For example, explicit (or fiscal) fossil fuel subsidies were USD 725 billion (0.6 percent of GDP) globally in 2024. Implicit subsidies, primarily underpricing of environmental costs, were USD 6.7 trillion (5.8 percent of GDP). (IMF 2025)

2. The Western Balkans regional context

In this landscape, the Western Balkans region faces distinctive structural challenges, both in terms of climate action and governance capacity. Carbon intensity remains significantly above EU averages. This is the case for Serbia, for example, whose energy mix is still heavily dependent on coal. Environmental infrastructure, including wastewater treatment, solid waste management, and air quality monitoring, requires substantial investment. In parallel, ministries of finance are working with constrained administrative capacity, uneven digital infrastructure, and an inter-ministerial coordination culture that is still maturing.

The Green Agenda for the Western Balkans (GAWB), adopted under the Sofia Declaration in 2020, translated the principles of the European Green Deal into a regional commitment framework structured around five pillars: (i) climate action and decarbonization; (ii) circular economy; (iii) environmental depollution; (iv) sustainable agri-food systems; and (v) biodiversity. Importantly, the GAWB implementation guide explicitly references GBT as a tool for mainstreaming environmental commitments into national fiscal frameworks.

GBT is one instrument through which EU candidate countries can begin to build the analytical infrastructure (including taxonomies, classification systems, data processes) that EU membership will eventually require. For EU candidate countries, this connection is reinforced by the conditions attached to EU accession and to EU-sourced financing.[2]

The EU accession dynamic creates both an opportunity and a constraint for GBT. On the one hand, the accession benchmarks provide a legitimizing framework for the reforms of the Ministry of Finance (MoF) that might otherwise struggle to gain political traction.[3] On the other hand, the accession requirements are multidimensional and GBT competes for bandwidth with a very large portfolio of regulatory alignment tasks. Serbia, as the first country in the Western Balkans to formally adopt a GBT system, offers an early test of how this balance can be struck. The institutional choices made and the sequencing followed offer valuable lessons not only for Serbia's own GBT trajectory, but for peer economies in the region facing structurally comparable conditions. These economies share a common profile: high carbon intensity, significant climate vulnerability, early-stage sustainable finance frameworks, and the same accession-driven imperative to align public finance with EU environmental standards.

[2] The EU's multiannual financial framework (MFF) 2021–2027 requires that at least 30 percent of EU budget expenditures support climate objectives, up from 20 percent in 2014–2020. The NextGenerationEU recovery instrument, which channels some EUR 800 billion to member states through the Recovery and Resilience Facility (RFF), requires that at least 37 percent of each national RFF plan be allocated to the green transition.

[3] As a member of the Coalition of Finance Ministers for Climate Action, Serbia has aligned itself with the Helsinki Principles, which include mainstreaming climate in budgeting and aligning fiscal and economic policies with Paris Agreement goals. This political commitment provides the additional mandate under which technical GBT work proceeds.

3. Serbia's climate and environmental commitments

Serbia's climate commitments provide the anchors for GBT classification. The latest Nationally Determined Contribution,[4] submitted in 2025, commits Serbia to reducing greenhouse gas emissions by 40.1 percent (excluding the land-use, land-use change, and forestry sector) by 2035 compared to 1990 levels.[5] The Program of Adaptation to Climate Change (2023–2030), accompanied by an Action Plan for 2024–2026, identifies highly vulnerable sectors, including agriculture, forestry, and water management and defines priority adaptation measures. Under the GAWB, Serbia has committed to sector-specific reforms covering the energy transition, the circular economy, air and water depollution, sustainable agriculture, and biodiversity conservation. The Serbian Law on Greenhouse Gas Emissions Tax and Law on Carbon-Intensive Product Imports Tax, both entering into force in 2026, constitute Serbia's domestic equivalent of the EU's Carbon Border Adjustment Mechanism.

The World Bank's Country Climate and Development Report (CCDR) for the Western Balkans (2024) identifies priority reforms across the air quality, water, waste management, and energy efficiency sectors. Beyond energy, the CCDR highlights several near-term reform priorities: the adoption of comprehensive air quality legislation; implementation of the Circular Economy Program and Waste Management Action Plan; and accelerated enforcement of the energy efficiency legislation adopted in 2021. In the water sector, a deep-dive assessment identifies extremely low water productivity and significant deficits in irrigation infrastructure as urgent adaptation priorities.

[4] See: https://unfccc.int/sites/default/files/2025-09/NDC3%20of%20the%20Republic%20of%20Serbia.pdf.

[5] The latest NDC also aligns with the country's National Energy and Climate Plan and with the country's first Biennial Transparency Report.

4. Pre-2023 baseline: challenges to tracking "green" spending

Before 2023, when the Ministry of Finance operationalized the GBT approach, the starting point was characterized by several overlapping challenges:

- **Substantive challenges** centered on the absence of a clear operational link between Serbia's environmental and climate policy commitments and its budget allocations. Environmental priorities were articulated in sectoral strategies and the NDC, but these were not reflected in tagged budget lines. Data on the environmental impact of public expenditure were limited, unsystematic, and confined to a few sectors.
- **Capacity challenges** reflected limited understanding of green budgeting concepts among technical specialists in both line ministries and the MoF. While some officials were familiar with the EU Taxonomy in its private finance application, applying taxonomy principles to public expenditure classification was unfamiliar territory. The interdisciplinary expertise required, spanning environmental science, fiscal economics, and PFM, was not systematically available.
- **Procedural and technical challenges** included the absence of a defined tagging process: no roles and responsibilities had been assigned for GBT across the budget cycle, and the existing Financial Management Information System (FMIS) lacked the functionality needed to capture, code, and report tagged expenditures at the required level of granularity.
- **Methodological challenges** were the most fundamental. Serbia had no national sustainable finance taxonomy adapted to its context. Applying the EU Taxonomy directly would have been technically complex and potentially impractical given the differences between Serbia's and EU's regulatory baselines. Developing a fully bespoke taxonomy from scratch was resource-intensive and slow. Without a credible classification framework, any tagging exercise would have risked appearing arbitrary and losing the confidence of the stakeholders.

5. Success factors for rollout of GBT in the Republic of Serbia

5.1. Institutional architecture: the Inter-Ministerial Working Group

Serbia first made an institutional decision: rather than assigning GBT to a single ministry, it established an Inter-Ministerial Working Group (IMWG) bringing together senior officials from Finance, Environmental Protection, Mining and Energy, Agriculture Forestry and Water Management, Construction Transport and Infrastructure, and Public Investment Management. The IMWG was given a clear mandate to develop a national GBT Methodology and an accompanying Implementation Roadmap.[6]

Grounding GBT in an inter-ministerial structure rather than within the MoF was important. Meaningful expenditure tagging requires environmental expertise that finance officials alone cannot provide. At the same time, responsibility for budget rests with the MoF; the Ministry of Environment cannot drive fiscal classification changes unilaterally. The IMWG institutionalized this interdependence, establishing joint ownership of the methodology and creating a standing channel for ongoing dialogue between fiscal and sectoral specialists. The IMWG adopted the GBT Methodology and Roadmap which were published on the MoF website in December 2023. The Budget Instruction for the 2025 Budget, issued by the MoF in July 2024, mandated application of the Methodology by all budget beneficiaries. This marked the transition of GBT from a voluntary initiative to a formal regulatory requirement.[7]

5.2. Methodological design considerations

The Serbian GBT Methodology uses the EU Taxonomy's six environmental objectives and its "Do No Significant Harm" (DNSH) principle as its conceptual foundation. However, the EU Taxonomy was developed for private-sector actors operating under EU law, and its technical screening criteria assume a regulatory baseline that Serbia has not yet fully achieved. Applying it wholesale would risk classifying objectively pro-environmental activities as non-green given Serbia's current development stage. The operational screening criteria were therefore adapted to Serbia's national strategic documents, i.e., the NDC, the National Adaptation Plan, and sectoral energy and environment strategies, rather than imported directly.

This is consistent with international good practice. The Institute for Climate Economics (I4CE)[8] analysis of environmental budget tagging systems concludes that successful systems must respond to country-specific needs and be embedded within existing administrative cultures and processes. Over-reliance on externally imposed frameworks without internal ownership is identified as a recurrent source of implementation failure.

[6] Commitments anchored in concurrent development policy operation with the AFD and the World Bank.

[7] Initial tagging efforts were effectively made for the 2024 budget proposal but with limited engagement from the spending units.

[8] See: https://www.i4ce.org/en/.

Similarly, the IMF's technical assistance recommends developing a country-specific taxonomy that build on international frameworks rather than replicating them. The OECD's Green Budgeting Framework positions country-specific adjustment as a feature of mature GBT systems.

The AFD's Green Budgeting Transition framework adds a further practical emphasis: budget tagging should be integrated into the budget planning phase, not confined to ex-post reporting. Embedding tagging within budget formulation is what gives it genuine influence over spending decisions.

5.3. Phased introduction

A robust GBT system cannot be developed within a single budget cycle. Ideally, it is constructed progressively, through a medium-term roadmap that sequences analytical ambition against available institutional capacity. The EU's Green Budgeting Reference Framework (GBRF) provides one of the clearest available models for understanding this progression in practice.

The GBRF's three-level architecture begins at Level 1 (Essential), which focuses exclusively on climate change mitigation and adaptation objectives and identifies only environmentally favorable ("green") budget items. This entry level is intentionally limited in scope. It concentrates on the two most analytically tractable environmental dimensions, limits the classification burden to clearly positive expenditures, and establishes the data infrastructure: taxonomy, data collection tool, reporting templates, on which subsequent stages depend. For Serbia, this corresponds to the initial, "light" green tagging applied to the 2025 Budget.

The progression to Level 2 (Developed) and ultimately Level 3 (Advanced) under the GBRF adds both environmental breadth and analytical depth. At Level 2, the scope expands beyond climate to include the full six-objective architecture of the EU Taxonomy, and introduces the identification of environmentally unfavorable ("brown") items alongside green ones. At Level 3, coverage extends further to tax expenditures, extra-budgetary funds, and the full public sector including state-owned enterprises. The introduction of a brown classification is a critical methodological milestone, transforming GBT from a green performance narrative into a genuine fiscal coherence instrument.[9]

For Serbia, whose GBT Roadmap maps the progression from initial tagging (2025 Budget) through more rigorous tagging with DNSH screening (2026 Budget) toward eventual advanced tagging, the GBRF levels provided a useful calibration tool. On one hand, it confirms that Serbia's current position corresponds broadly to a transition between GBRF Level 1 and Level 2. On the other hand, it provides horizon objective that strive towards Level 3 and gives the roadmap its direction. Anchoring Serbia's national roadmap explicitly to the GBRF demonstrates that Serbia's GBT development trajectory is not idiosyncratic but is converging toward the standard that EU member states are progressively adopting.

[9] The GBRF is explicit that the green and brown lists it provides are indicative, not exhaustive, they are meant to guide national taxonomy development rather than replace it

SERBIAN GBT, MAIN FEATURES

- Scrutiny of the entire budget (but incomplete coverage to date)
- Classification by six environmental objectives
- Overall classification - Favorable-Unfavorable- Mixed - Unknown- Not tagged (but only favorable tagged to date)
- Tagging results attached to the draft budget
- Line ministries (tagging) and Inter-ministerial working group (lead & quality assurance)

5.4. Human and technical capacity development

Serbia and its partners invested in building the human and technical foundations needed to make GBT sustainable.

The most useful feature of Serbia's implementation approach was the emphasis on peer-to-peer learning. With AFD and World Bank support, an inter-ministerial delegation of senior government officials from the MoF, Environment and key line ministries visited France in early 2024 to study its Green Budgeting model. France produces a dedicated annex analyzing the environmental impact of all government expenditures and tax measures against EU Taxonomy objectives, which provided a concrete reference point for what an advanced GBT system looks like in practice.[10]

The IMWG benefited from subsequent rounds of technical capacity development, which included both environmental and PFM expertise during the initial implementation cycles.

On the technical side, the MoF led an effort to expand FMIS functionalities to support GBT scenarios, enabling tagging, coding, and reporting to take place as part of routine budget processes rather than as a parallel, one-off exercise. This integration is essential for sustainability. GBT systems that operate outside the FMIS tend to be resource-intensive, inconsistently applied, and abandoned when external technical assistance ends.

[10] France explicitly flags both green and brown items, including fossil fuel subsidies, enabling full fiscal coherence analysis.

6. Results and conclusions

The November 2024 amendment to the Budget System Law formalized GBT as a permanent requirement of the Serbian budget process, removing its dependence on annual ministerial discretion. This legal anchoring distinguishes a pilot from a system and makes the Serbian experience credible as a model rather than a one-cycle exercise.

Rapid deployment of comprehensive GBT is genuinely challenging, and the difficulty is not primarily methodological. The Serbian experience confirms what the comparative literature suggests. Namely, both the I4CE and OECD note that the analytical demands of identifying environmentally harmful expenditures are greater than those required for identifying environmentally beneficial ones, and that introducing both dimensions simultaneously in the first year of implementation risks overwhelming institutional capacity and undermining the credibility of the exercise.

The 2026 Budget marked Serbia's transition to a more rigorous phase of GBT. This advance involved two specific methodological additions: (i) the application of the DNSH principle, requiring that tagged projects do not significantly harm any of the six environmental objectives;[11] and (ii) the use of the existence of an Environmental Impact Assessment (EIA) (for relevant projects) as an eligibility indicator in determining the green classification. These additions represent a meaningful increase in analytical rigor, representing a move from asking "does this project contribute to environmental goals?" to also asking "does this project avoid environmental harm?". This distinction directly addresses the greenwashing vulnerability of simpler systems.

Looking ahead, the next phase of Serbia's GBT trajectory will test the limits of the current framework in new ways. Extending tagging to brown and fiscally harmful expenditures, including energy subsidies and tax expenditures, requires a different type of political economy management than green tagging alone. Linking GBT data to green bond issuance and sovereign sustainable finance instruments raises questions of auditability and external verification. These are foreseeable challenges and Serbia's experience suggests that embedding the system early, and building institutional ownership before expanding its scope is precisely what creates the conditions for addressing them.

Notwithstanding the future challenges, the broader significance of Serbia's experience lies in its transferability. The Western Balkans economies, which share Serbia's structural profile,[12] are at different stages along the same path. North Macedonia has progressed furthest in the sustainable finance space, having issued sovereign green bonds using EU Taxonomy and ICMA principles. Albania is developing its national green taxonomy, with full harmonization targeted for 2027. Bosnia and Herzegovina and Montenegro do not yet have standalone national taxonomies.

[11] Applying the DNSH principle as operationalized in the Serbian GBT Methodology, which adapts EU Taxonomy screening criteria to Serbia's national strategic framework rather than applying EU regulatory standards directly.

[12] i.e., high carbon intensity, significant climate exposure, early-stage sustainable finance frameworks, and accession-driven alignment pressure.

What is most readily transferable is the institutional logic: anchor GBT in an inter-ministerial working group before expanding its scope; integrate it into the Financial Management Information System before adding analytical layers; and legislate it at the appropriate moment to lock in gains without constraining future development. Each of these steps is replicable, and none requires a level of institutional infrastructure that the region's economies do not already have.

7. Policy recommendations

The Serbian experience with GBT offers useful guidance for peer countries, particularly EU candidate economies in the Western Balkans facing the same combination of high carbon intensity, early-stage sustainable finance frameworks, and accession-driven alignment pressure. While many of the challenges encountered prior the GBT rollout remain to be fully tackled, the Serbian approach highlights the importance of local ownership, realistic ambitions setting and the gradual development of institutional capacity over time. The recommendations below are addressed both to Serbia as it deepens the system, and to governments considering how to initiate GBT.

Recommendation 1: Introduce GBT gradually, beginning with initial ("light green") tagging.

Countries new to GBT should resist the temptation to design a comprehensive system from the outset. The Serbian experience, along with the broader comparative literature, confirms that starting with a focused exercise is more effective than attempting comprehensive coverage immediately. Initial tagging serves multiple purposes: it builds institutional familiarity with classification logic; it generates the baseline data needed to design more ambitious systems; it demonstrates to political stakeholders that GBT is operationally feasible; and it avoids the credibility risks associated with a rushed first exercise based on unreliable classifications.

For EU candidate countries in particular, initial tagging should prioritize alignment with EU Taxonomy environmental objectives, even if full DNSH screening and brown expenditure tagging are deferred to a later phase. This ensures that the classification architecture remains coherent with the regulatory framework, toward which the country is converging, and that produced data are potentially usable for EU reporting purposes.

Recommendation 2: Design the phasing trajectory before launching the first exercise.

The transition from initial to advanced tagging should be planned, rather than improvised. This requires defining, from the outset, the milestones that will trigger progression, such as two successful budget cycles of initial tagging, FMIS integration verified, training coverage above a specified threshold across line ministries, and the specific analytical additions that will constitute each stage of advanced tagging. An explicitly phased design has three advantages: it manages stakeholder expectations; it provides a roadmap for capacity-building investment; and it prevents the system from stagnating at the initial level due to the absence of a clearly defined transition path.

Recommendation 3: Set realistic, sequenced objectives, beginning with fiscal transparency and accountability.

The ultimate ambition of GBT is to realign public finance with environmental and climate objectives: to shift budget allocations toward green activities and away from brown ones, and to measure progress against national commitments. The initial and most immediately achievable objective is fiscal transparency: providing policymakers, legislators, and citizens with an accurate picture of how much public expenditure is directed toward climate-relevant activities, across which sectors, and in relation to which policy commitments.

Transparency enables oversight and accountability and is valuable in its own right. It establishes the data foundation for subsequent, more ambitious uses. The Serbian approach, which initially concentrates GBT within the budget annex as a transparency tool, before integrating it into budget decision-making, reflects sound sequencing.

Recommendation 4: Embed GBT in a medium-term action plan with dedicated capacity-development resources.

A common failure mode in GBT implementation is the absence of a medium-term plan that aligns ambition with available resources. Countries announce a GBT system, conduct a first tagging exercise with intensive external support, and then find that maintaining and improving the system in subsequent years exceeds domestic capacity. A proven solution is the adoption of a formal medium-term GBT action plan that sets out annual milestones, the capacity-building activities required to achieve them, and the domestic and external resources allocated to each stage. Serbia's GBT Roadmap provides a model that can help mobilize resources (both technical assistance and local capacity) to achieve these milestones.

Capacity development should be understood in broad terms, covering not only technical training for finance and environment officials, but also digital skills for FMIS management, communication skills for public reporting, and legal drafting capacity for embedding GBT requirements in the Budget System Law and budget instructions.

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For the purposes of this study, the authors also drew on a selection of Serbian Environmental Laws and Strategic Documents, available on the Ministry of Environmental Protection website (in Serbian). https://www.ekologija.gov.rs/dokumenta.

List of acronyms

AFD Agence française de développement

CCDR Country Climate and Development Report

DNSH "Do No Significant Harm"

EIA Environmental Impact Assessment

FMIS Financial Management Information System

GAWB Green Agenda for the Western Balkans

GBRF Green Budgeting Reference Framework

GBT Green Budget Tagging

GDP Gross Domestic Product

I4CE Institute for Climate Economics

IMF International Monetary Fund

IMWG Inter-Ministerial Working Group

MFF Multiannual Financial Framework

MoF Ministry of Finance

NDC Nationally Determined Contribution

OECD Organisation for Economic Co-operation and Development

PFM Public Financial Management

RFF Recovery and Resilience Facility

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