



Government of Montenegro



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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Montenegro has prepared the Economic Reform Programme (hereinafter referred to as ERP) for the seventh year in a row. This year's ERP is somewhat specific relative to the previous ones, as it is of transitional nature. In December 2020, Montenegro has formed a new Government, which was formed after the parliamentary elections held in August, where the previous governing majority was replaced.

Bearing in mind that the new Government has opted to postpone adoption of the Law on Budget for 2021 for Q1, it was decided in communication with the European Commission representatives to postpone the preparation of ERP for end of February 2021.

The new Government intends to base its work on seven development pillars, as follows: green economy, digital transformation, regional cooperation and connectivity, improvement of competitiveness, social protection, equal opportunities society, and good governance. In light of the above stated, the seven pillars represent the development policy of the Government, relying on the EU integration process.

Against this backdrop, the strategic development objective of Montenegro is defined as: *smart, sustainable and inclusive economic growth that will contribute to reduction in development gap of the country against the EU average, recovery and improved competitiveness of the real sector, as well as increased quality of life for all its citizens.*

In order to mitigate adverse effects of the coronavirus pandemic on the real sector and citizens, the Government of Montenegro has adopted three socio-economic support packages in 2020 and the Measures to Support the Real Sector and Citizens in Q1 2021.

The first package of measures, with estimated value of 280.6 million euro, was of emergency nature, aimed at supporting the most vulnerable categories of population and creating conditions to maintaining liquidity of the real sector and of the Budget by deferring tax and loan-repayment liabilities.

The second package of measures, with estimated value of 39.2 million euro as of June, was aimed at creating conditions to preserve jobs and achieve faster recovery of the economy. To that end, measures were predominantly created in the form of direct subsidies of wages of employees in economic activities prohibited to operate or with limited operation, whereby tourism and agriculture were in special focus, being the strategic sectors of the economy of Montenegro.

The third package of measures included short-term and long-term measures, aimed at recovery of the economy by diversifying and increasing domestic production. Purpose of the short-term measures was primarily to continue with support to the real sector in a form of wage subsidies, as well as to provide loan facilities under concessional terms in cooperation with commercial banks. As for the long-term measures, those were intended to create conditions to improve competitiveness of the real sector and primarily in the sectors of tourism, agriculture, energy, transport, and information technologies, being the strategic economic sectors. All designed measures could be classified into: tax policy measures, measures of direct support to the real sector, measures aimed at preserving liquidity of the real sector, and measures to support vulnerable categories of population.

Based on the analysis of the measures take so far and the presented requests and needs of the real sector, in January 2021 the new Government adopted the Measures to Support the Real Sector and Citizens for Q1 2021, with estimated value of approximately 163 million euro. The main objectives of the support measures under this package are: support to vulnerable categories of population, support for maintaining the employment level and for new employment, incentives for liquidity of economic

entities, creating conditions for increase in number of tourists, and stability of the agricultural products market. These measures also envisage amendments to a set of tax laws shortly

The next phase represents introduction of support measures that will be of a developmental, long-term nature and will strive to enable the real sector to carry out its business strategies aimed at recovery of the real sector and increase of economic activity. Special focus will be on the needs of micro and small companies, which make more than 90 percent of the Montenegrin economy. These measures will be realised in cooperation with the Investment and Development Fund of Montenegro and commercial banks, based on state aid rules, defined by the Competition Protection Agency.

Macroeconomic projections for the period 2021-2023

The average real economic growth rate in the period 2021-2023 will be 7.6 percent, whereby strong economic recovery of 10.5 percent is projected for 2021, while growth rates of 6.5 percent and 5.8 percent are projected for 2022 and 2023 respectively.

Core assumption of the scenario is based on expectations that the threat of the contagion is sizeably reduced in the first half of 2021, with collective immunity acquired and a large number of vaccines administered, which creates grounds for a faster recovery and growth in 2021 and in the years after. The most important assumption of the trends projected in 2021 refers to tourism revenues reaching 65 percent of those generated in 2019, taking into account comparative experience of the neighbouring Croatia in crisis management and border flexibility in respect of international passenger mobility in 2020. Expectations in tourism are based on available information and announcements from tourism sector, while the most important assumption entails immunisation of the population with the vaccines available in the country in 2021, with the target of 70 percent of adult population either vaccinated or recovered from Covid-19 infection by the summer. This is also aligned with economic projections of the European Commission and similar assumptions for the EU Member States, while similar trends are also expected in the countries of the region. The assumptions of tourism trends are also based on a large interest by the main source markets for tourism in Montenegro, favourable epidemiological measures and open borders for entry into the country, as well as on increased capacities of the tourism sector and announcement of the start of operation of the newly established air carrier ToMontenegro, as from the beginning of the season. Economic activity in 2021 is based on a smart and flexible positioning in tourism, accompanied by renewal of the previous air routes of the company and expected significant contribution from regional visits via road traffic.

Summary of macroeconomic projections of Montenegro for the period 2021-2023.

Makroeconomic Projections, 2020-2023					
	2019	2020	2021	2022	2023
Nominal GDP in million euro	4950.7	4193.2	4636.6	4984.6	5310.5
Nominal growth	6.2	-15.3	10.6	7.5	6.5
Real growth	4.1	-15.2	10.5	6.5	5.8
Inflation (average)	0.4	-0.3	1.2	1.4	1.2
Employment growth	2.7	-7.3	6.2	2.3	1.6

Fiscal framework in the period 2021-2023

The strong impact of the COVID-19 virus pandemic on the economy of Montenegro, in an environment of high tourism dependency, with contemporary closing of state borders during the summer tourism season, have lead to the real GDP drop of 15.2 percent, the public finances outturn at the level of 11.1 percent and accelerated growth of the public debt which was anyway high to the level of 104.2 percent in 2020. The debt of the economic crisis and poor diversification of the economy have asked for implementation of decisive fiscal consolidation measures in order to ensure the public finances consolidation and provided support to the economic growth.

The main objective of the fiscal policy in the coming medium-term period is to create conditions for the gradual recovery of the collection of public revenues in line with the projected increase of macroeconomic indicators and measures for the expansion of public revenues through redefined tax policy, which, together with the sizing down of discretionary public spending and reducing allocations in the capital budget (resulting from the completion of construction of the priority section of the highway) should lead to a balanced public finance over the medium term and downtrend of public debt starting from 2021.

Based on the aforementioned, the two specific objectives of the fiscal policy in the period covered by the Programme may be stipulated in form of two main objectives:

- gradual reduction of public finance deficit in the coming two-year period, with transition of the public finance balance into the positive zone in 2023;
- gradual decrement of public debt to the level of 69.9 percent of GDP in 2023.

Summary of fiscal projections of Montenegro for the period 2021-2023.

Fiscal framework (as % of GDP)		Estimate	Baseline scenario				Low-growth/downward scenario		
		2020	2021	2022	2023	2021	2022	2023	
Fiscal indicators	Direct public revenues	44.6	45.8	43.5	42.8	46.5	44.2	42.6	
	Public spending	55.6	48.7	43.7	41.3	50.1	45.5	42.9	
	Deficit/Surplus	-11.1	-2.9	-0.2	1.5	-3.6	-1.3	-0.3	
	Interest	2.7	2.5	2.3	2.2	2.6	2.4	2.3	
	Primary deficit/surplus	-8.4	-0.3	2.2	3.7	-1.0	1.1	1.9	
	Public debt (% of GDP)	104.2	88.4	77.4	69.9	90.4	80.0	75.2	

Structural reforms in the period 2021-2023

The obstacles to competitiveness and economic growth of Montenegro over the medium term are identified in Chapter 5 of the Economic Reform Programme (ERP). In that context, an adequate set of reform measures makes a separate chapter of the Programme and is designed, while addressing the policy guidance of the European Commission, so as to create space for overcoming the stated obstacles, but also to act preventively against their occurrence over both medium and long term.

The structural reforms agenda contains a set of 20 specific and adequately placed priority structural reforms in eight areas: energy and transport; agriculture, industry and services; business environment and reduction of the informal economy; research, development and innovation, and the digital transformation; economic integration-related reforms; education and skills; employment and labour market; and social protection and inclusion, including the health protection.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

The full implementation of priority reform measures from the Economic Reform Program will contribute to removing obstacles to competitiveness and inclusive growth. The Competitiveness Council monitors the implementation of the reform measures, envisaged by the economic reform program, through regular reporting on semi-annual basis. The European Commission and Council have provided six policy guidance for preparation of the 2021ERP, at the Ministerial Dialogue held in May 2020.

The following table presents an overview of the activities and reform measures of the Government of Montenegro as a response to the policy guidance, which shows alignment of the EU policy guidance and priorities of the Government.

Table 2.1: Policy guidance of the Ministerial meeting held in May 2020 and implementation thereof (already carried or envisaged for 2021)

Policy guidance to Montenegro	Measures carried out as of end 2020 and measures envisaged in 2021
<p>1. Use fiscal policy to mitigate the crisis induced impact on growth and employment. While allowing for due reinforcement of healthcare spending during the crisis, reinforce the medium-term sustainability of public finances by limiting overall spending on wages, also by taking concrete steps towards implementing the public administration optimisation plan. Establish a fully-fledged centralised public sector employment payroll system.</p>	<p><i>Implementation of the measures aimed at protection of human health from negative effects of the pandemic, as well as interruption in the international passenger transport, has resulted in significant limitation of economic activity. To that end, the Government of Montenegro has adopted four packages of measures, aimed at suppressing negative impact of the coronavirus on citizens and the real sector. First two packages were aimed at providing support to the most vulnerable categories of population, creating requisites for preserving the liquidity of the real sector, preserving jobs, and faster recovery of the economy; while the third package, that contains short-term and long-term measures, aimed at recovery of the real sector of Montenegro through diversification of the real sector and increase of the domestic production. The fourth package of measures continued with the wage subsidising for endangered economic activities, provisioning of one-off assistance to unemployed, pensioners and social welfare beneficiaries, and introduced additional measures that should result in support to tourism and agriculture sectors. The measures of support to the real sector and citizens for Q1 2021 were adopted at the Government's session held on 28 January 2021 and in terms of their coverage and intensity were improved to large extent. This support package defined some new measures, improved previous support measures, with increased intensity of support, and expended the list of beneficiaries.</i></p> <p><i>Pursuant to the medium-term fiscal framework, the expenditures for gross wages recorded a growth trend in nominal terms in the previous period, thus the costs optimisation in this segment will be part of the overall public spending optimisation strategy for the next medium-term.</i></p> <p><i>Implementation of the Project "Implementation of Centralised Payroll Calculation" started in January 2019. The planned contract duration is 36 months, of which 18 months are designated for implementation and 18 months for maintenance of the future system. As part of the IT system development for centralised payroll calculation, relevant laws and collective bargaining agreements were analysed, date collection completed, numerous meetings were held with representatives of the Human Resources Administration, the Ministry of Public Administration and other line ministries and spending units in coronation with office of the European Union Delegation and representatives of the contractor. After suppliers provided envisaged technical parts, and evaluation of fulfilment of objectives set for the first year of the contract, the rate of accomplishment of objectives is at the level of 75 percent. As it is envisaged in the TOR, after tender procedure is completed, a contract was signed for "Procurement of equipment with server licenses for functioning of the new centralised payroll calculation and budget system",</i></p>

procurement of needed equipment was finalised, the equipment was delivered during October 2020, installation of components and required licenses finalised, and the server access was enabled in November. After equipment installation is finalised, the plan is to carry out the training plan and to include gradually users in groups, in line with the schedule. The training is planned first for key users, which should be held shortly before the very commencement of use of the new application system. Bearing in mind the development of the epidemiological situation and measures to prevent spread of the coronavirus which are limiting presence of more persons in a single room, the schedule for holding trainings largely depends on those limitations and thus it will be organised in line with new realities, which implies that the planning and holding of training for large number of users is made difficult, and that the initial deadlines for completing the training are called into question to a large extent. Development of the interface to connect the system with the Human Resources Administration data is in the final stage; presentation of services was held in premises of the Ministry of Finance and first impressions from the demonstration are positive. Further testing and possible changes and additions are expected after the system starts with operation.

Detailed description of the measures is provided in Chapter 4 – Public Finances.

Optimisation Plan – central level

During 2019 and 2020, the Ministry of Public Administration, in cooperation with the Ministry of Finance and Social Welfare, has continued to monitor implementation of short-term and medium-term measures of the Optimisation Plan, and to report to the Government of Montenegro thereof.

On the session held on 7 May 2020, the Government has adopted the Report on Carrying out the Public Administration Optimisation Plan 2018-2020, for the period 1 July – 31 December 2019. The Report showed that if observed through a net effect (increase and decrease on all grounds) that there was an increase in employment at the central level by 109 and decrease of employment at the local level by 148.

If observed by sector, the biggest decline in number of employees as a net effect took place in financial (64) and labour and social welfare (33) sectors, while the largest increase as a net effect was in education (305) and health (28) sectors. To that end, the net effect is a difference of increase in number of employees on all grounds and reduction of number of employees on all grounds defined in the Public Administration Optimisation Plan.

Reports on implementation of the Optimisation Plan are being prepared based on data provided by administration authorities and institutions included in the baseline of the Plan.

The sector-based approach is used for data analysis. When sectors were defined, a scope of work of each ministry was taken into account, while two sectors were added – Judiciary and Prosecutors' service and Other bodies constituting public sector. The sector-based approach is coupled with the approach used in developing the annual budget and enables better monitoring and linking implementation of sector policies, budgets, activities and results.

Limiting employment under open-ended and fix-term contracts, as one of the key measures of the optimisation policy, is in effect from July 2018, and the Government of Montenegro has extended application of so called moratorium until 31 December 2020.

In addition to the above mentioned measure of limiting employment, application of the measure of consensual termination of the employment relationship with payment of severance package is very important for reduction of number of employed. As of 17 December 2020, the Ministry of Public Administration, Digital Society, and Media, has received 384 agreements for termination of employment relationship with payment of severance package at the central level. In accordance with the Law on Wages of Public Sector Employees, these persons cannot be employed in the public sector for a period of five years following the day of consensual termination of the employment relationship.

	<p><i>The Report on Carrying out the Public Administration Optimisation Plan 2018-2020, for the period 1 January – 30 June 2020 is finalised. Furthermore, a drafting of the Report on Carrying out the Public Administration Optimisation Plan 2018-2020, for the period July-December 2020 is expected during Q1 2021, as well as the special report that will cover the entire period for implementation of this strategic document.</i></p> <p><i>This policy guidance corresponds to Chapter 4 – Fiscal Framework, where it is elaborated in more details.</i></p>
<p>2. To support economic recovery, make sound cost-benefit analysis an integral part of public investment management. Take steps towards the establishment of a Fiscal council, following consultation of the related options paper with stakeholders, including the EU. Introduce the electronic fiscal invoice system (e-fiscalisation).</p>	<p><i>In order to advance the public investments management process, a new Decision on Development of the Capital Budget and Setting of and Valuating Criteria for Selection of Capital Projects was adopted. Adoption of this Decision has provided for a better quality process of preparing and planning capital budget for 2020.</i></p> <p><i>Key new elements in the process that were provided for with adoption of this Decision pertain to:</i></p> <ol style="list-style-type: none"> <i>1) clearly defined valuation criteria of proposed projects;</i> <i>2) scoring for each criteria;</i> <i>3) changes to the form for nominating capital projects, as well as introduction of the form on meeting conditions for nominating projects and criteria for valuing nominated projects;</i> <i>4) preparing and scoring the list of priority projects by the Commission for Project Appraisal;</i> <i>5) introduction of reporting obligation on implementation of capital projects.</i> <p><i>In addition to the above-mentioned, the Decision has stipulated adoption of the List of Priority Capital Projects, based on the scoring done by the Commission consisting of expert staff members from within the ranks of employees.</i></p> <p><i>In order to enable further progress in this area and bearing in mind the best international practice, the Government of Montenegro has adopted the decision on the needs to carry out Public Investment Management Assessment (PIMA) in Montenegro. In line with the foregoing, the activities have commenced and initial meeting was held with representatives of the International Monetary Fund and with experts that will carry out the PIMA Assessment.</i></p> <p><i>As for the fiscal policy implementation oversight, an EU-funded project “Support in Establishment of the Montenegro Fiscal Council” is being implemented, with the objective to establish an independent body for fiscal oversight. The following activities in the project implementation were finalised so far: an options paper was prepared with overview of best international practices in this field, as well as a proposal of options for establishment of the Montenegro Fiscal Council. In line with the selected option, the expert engaged on the Project has prepared a proposal for amending the legal framework. The next step is adoption of relevant amendments to the Law on Budget and Fiscal Responsibility, which would formally create conditions for forming this body.</i></p> <p><i>In the production [phase of the system], 279 taxpayer with 208 business premises and 140 electronic point-of-sale devices were registered by 11 January 2021. In addition to that, 40 software developers, 40 software maintenance companies, and 43 software applications were registered. A total of 27,515 invoices were fiscalised with total value of 398,163.80 euro and VAT of 55,917.16 euro. Out of the total number of fiscal invoices issued, 92.7 percent were for cash invoices and 7.3 percent for cashless invoices. As for the value, cash payment invoices account for 61 percent, while cashless payment invoices account for 39 percent of the total value of fiscal invoices.</i></p> <p><i>This policy guidance corresponds to Chapter 4 – Fiscal Framework, where it is elaborated in more details.</i></p>

<p>3. Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed, while developing further the supervisory capacity of the Central Bank. Identify and prioritise the removal of obstacles for the swift and successful resolution of non-performing debts, particularly by improving legal, judicial and institutional procedures. Ensure the participation of all banks in the asset quality review on equal terms, transparently publish its findings and promptly take remedial action where needed.</p>	<p>Since the outbreak of the coronavirus in Montenegro, the Central Bank has taken timely and well tuned measures, in close coordination with banks and the Government of Montenegro, and has managed to preserve stability of the banking system, and by doing so of the financial system as well. In the period March-October 2020, the Central Bank has implemented five sets of temporary measures aimed at preserving liquidity position of clients by redirecting the liquidity from the banking system to the real sector and citizens, preserving liquidity position and growth of lending potential of banks, as well as long-term systemic resolution of effects permanent reduction of credit worthiness of clients. These measures and activities are described in detail in the Section on Financial Sector, Development and Reform. The Central Bank continues to monitor carefully the situation in the Montenegrin banking system and EU environment, and will take required activities if needed.</p> <p>The Central Bank has recommended to the Government, in the document “Recommendations to the Government of Montenegro for the Economic Policy in 2021”, to “ensure improvement of the legal framework for resolution of unpaid/non-performing debts outside the competence of the Central Bank”. As part of the activities to implement the Asset Quality Review (AQR) of banks in Montenegro, the Central Bank has signed a contract with the auditing firm Ernst&Young in February 2020 for managing the AQR project. The contract includes organisation and coordination of the process, providing the overall support to the Central Bank concerning the AQR implementation by phases, workblocks, quality assurance, and provision of consulting services. Due to circumstances caused by the COVID-19 pandemic, the project finalisation is moved to Q2 2021 (relative to the initial plan when the deadline was the end of 2020). The Central Bank and its consultant Ernst&Young (Belgrade and Germany offices) have issued consents to banks for renowned AQR auditors, as well as for immovable property appraisers for implementation of AQR process in banks. All activities so far are taking place in line with the set schedule (AQR manual adjusted for the Montenegrin banking system was developed, as well as guidance for selection of immovable property appraisers, preparatory activities for portfolio selection were completed). The portfolio selection ensured the risk-weighted assets (RWA) coverage of the banking sector of 84.43 percent. Activities under workblocks 1, 2 and 3 are completed, and intensive activities under work block 4 are underway, while the activities for other work blocks are proceedings in line with the planned schedule. The AQR process will cover all banks in the system. We expect that the AQR project will be completed in the second quarter of the current year, when the plans for possible recapitalisation of banks will be developed, after final findings are received.</p> <p>This policy guidance corresponds to Chapter 3 – Macroeconomic Framework, where it is elaborated in more details.</p>
<p>4. Ensure smooth and effective support to the private companies and their employees affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. In order to ensure a swift recovery, focus on simplifying tax legislation and reducing the diversity of para-fiscal charges affecting businesses.</p>	<p>The Government of Montenegro has reacted at the outbreak of the COVID-19 pandemic and prepared four packages of economic measures aimed at overcoming adverse economic consequences for the economy and citizens. Implementation of the current Support Measures for the Real Sector and Citizens for Q1 2021 has commenced on 1 February.</p> <p>The Programme of subsidising wages aimed at the mitigating adverse impact of the new coronavirus stands out as the most important measure implemented in the previous period, and will continue with higher intensity of support and expanded list of endangered economic activities, which provided support for 62,431 applications in the amount of 63,225,883 euro for 275,971 employees in the period 1 May 2020 to 31 January 2021.</p> <p>Part of envisaged measures from first three support packages, considering the fact that large part of the measures was not realised, provided for short-term positive effects in mitigating pandemic consequences, by supporting active approach in development of activities aimed at sustainable development and more efficient utilisation of domestic resources. On the other hand, the current Support Measures include measures where the implementation is quite certain, while their objective</p>

is to preserve the economic base, as baseline for future activities having a development nature, which will contribute to increase in economic activity i.e. recovery of the real sector.

Five specific objectives of the current Support Measures are: support to vulnerable categories; support to maintaining level of employment and new employment; incentives for liquidity of economic entities; creating conditions for increase in number of tourists, and stability in the agricultural products market.

In view of the above, the policy guidance corresponds with Chapter 5 – Structural Reforms (measures No 4 and 18), where it is elaborated in more details. All measures gave short-term positive effects in mitigating impact of the pandemic, while supporting the active approach in developing activities aimed at sustainable development. The measures were aimed at support to micro, small and medium-sized enterprise to sustain needed level of spending during the pandemic, sustain operating liquidity, preserve employment, support start-up and development of enterprises.

Activities to improve the company registration process

Based on the Law on Business Undertakings, the **Rulebook on the Procedure for Registration, Detailed Content and Manner of Keeping the Central Registry of Economic Entities** (Official Gazette of Montenegro, No 98/2020) was adopted, which governs in more details the registration procedure, the single registration application of the economic entity, content and the manner of keeping the Central Registry of Economic Entities (CRPS):

- single registration application is a significant change, meaning that previous multiple forms (16 of them) were consolidated into a single one, which enables applicants to fill the application in a clear manner for each of the economic entities they register with the CRPS;
- applying the same principle, the single electronic application for registration is being developed;
- applicant is responsible for accuracy of data in the application;
- requirement to submit extract from the Central Clearing and Depository Company was abolished. Cost of the extract was 6 euro;
- another novelty is introduction of field on gender of the founder and of the executive director in the economic entity, in order to start collecting data for classification by gender.

The Rulebook on Determining the Criteria and Amount of the Fee for Registration of Economic Entities with the Central Registry of Economic Entities (Official Gazette of Montenegro, No 98/2020) was also adopted:

- the registration fee for founding a joint stock company was reduced from 50 euro to 40 euro, while for the registration of other legal forms of economic entities it was reduced from 10 euro to 5 euro;
- On the other hand if a registration of founding an economic entity which is registered with CRPS is done electronically, the registration fee will not be charged;
- Furthermore, the fee for publishing registration of newly established enterprises in the Official Gazette is now 3 euro, instead of the previous 12 euro.

As for the process of registration of enterprises in the Central Registry of Economic Entities, **the previous legal provisions were improved and so as follows:**

- Legislative prerequisites were created for introduction of full electronic registration of enterprises;
- Deadline for making the registration decision was reduced from four to three business days;
- Electronic documents within the meaning of the law governing the electronic documents are also deemed to be original documentation;
- The registration decision does not assign any longer the excise [taxpayer] number, given that this is not a condition for registration.

The Decision on the Structure, Detailed Conditions and Manner of Transaction Accounts Opening and Closing of the Central Bank of Montenegro was amended in the segment concerning the use of the stamp in legal transactions and to create conditions for opening a current account electronically (with the obligation of one physical visit to the bank for identification purposes, in accordance with the Law on Prevention of Money Laundering and Terrorism Financing).

Conditions were created to pay administrative fees electronically, which will enable payment of all charge electronically.

The activities to establish the National System for Collection of Administrative Fees (NS-NAT) is in its final phase. Three point-of-sale (POS) terminals will be installed at the counters of CRPS.

A software application for online registration was created.

Starting from 25 December 2020, the link <https://efirma.tax.gov.me> enables electronic filing of applications for registration of single-member limited liability companies where founders are residents with minimum capital of 1 euro, and where the founder and executive director is the same person, with submitted documentation signed electronically. In addition to this, a service of requesting certificates issued by the CRPS and changing data on enterprise were also established.

Register of Fiscal and Parafiscal Charges

Development of the Register of Charges that contains list of charges on national and local level that natural and legal persons are obliged to pay is in the final stage. The core objective of creating this Register is centralisation of data on charges collected in Montenegro, both on the State and local level, in order to simplify the process of doing business and increase transparency. A web application is created in Montenegrin and English language (www.javninameti.me and soon www.javninameti.gov.me), which enables: search of charges by all attributes; export of results in Excel file; analysis of charges through 4 types of reports for administrators; and comments by citizens, private and public sector, in order for the Register to be continuously upgraded and updated. As of January 2021, 2,279 charges were recorded or 27,626 classifications of charges pertaining to 20 attributes. Charges were entered from 783 regulations, from the national and local level, which represent basis for or stipulate the amount of a charge. The portal also contains an instruction for users and instruction for administrators.

Likewise, in order to create a good quality and accurate database for the Charges Register, legislation stipulating grounds for or amount of charges is monitored continuously. During the preparation of the Register, 416 regulations were identified that should be abrogated. Out of that number, 80 regulations were abrogated so far.

With the aim of increased purposefulness and transparency of business licenses, a database of licenses is added in the Charges Registers. The following activities are planned in the next phase:

- Intensify activities to adopt a new regulation that will define the term “charge”, as well introduction, the manner of operation of the Charges Register, and ownership of the Register (Ministry of Economic Development and Ministry of Finance and Social Welfare);
- Linking the Register with the database of regulations in effect, precisely with the Official Gazette of Montenegro, in order to have regular update of charges and by doing so to expand the Register with new attributes;
- Giving recommendations for deletion of charges.

This policy guidance corresponds to Chapter 5 – Structural Reforms (Measure No 8), where it is elaborated in more details.

Amendments and Supplements to the Law on Value Added Tax

	<p>On 30 July 2020, the Parliament of Montenegro has adopted the Law Amending and Supplementing the Law on Value Added Tax (Official Gazette of Montenegro, No 80/2020), changing, amongst the others, certain provisions concerning taxation of transactions in goods, services and at importation at the reduced rate of 7 percent. Videlicet, it is envisaged for services of preparation and serving the food, bottled drinking water and non-alcoholic beverages in restaurants and facilities providing catering service to be taxed at the reduced rate of 7 percent, and this provision will apply from 1 September 2021. In addition, it is envisaged that the taxation at the reduced rate of 7 percent is applied on services of preparation and serving food, drinks and beverages, other than alcoholic beverages, beverages with added sugar and coffee, in facilities providing hospitality industry services, whereby this provision will apply until 31 August 2021.</p> <p>This Law introduced a new provision enabling taxpayers to direct their business transactions in such manner as it gives the taxpayer an option to issue the invoice in electronic form with prior consent of the recipient of the invoice, in accordance with the law governing the electronic document. A new provision is introduced where the monthly VAT return is to be submitted solely electronically, which is in line with the European taxation acquis, and this provision will commence with application from 5 November 2020.</p> <p>This policy guidance corresponds to Chapter 5 – Structural Reforms (Measures No 5, 6, 7, 8, 11, 12), where it is elaborated in more details.</p>
<p>5. Maintain continuous dialogue with social partners, business organisations and civil society on all decisions taken in response to the Covid-19 pandemic. Provide an active feedback from this dialogue to the public domain. Ensure close cooperation between central and local authorities on all crisis mitigation and economic recovery measures, including through joint and coordinated actions.</p>	<p>The Government of Montenegro reacted to COVID-19 pandemic outbreak and prepared 4 packages of economic measures to overcome negative economic effects on economy and population. Implementation of the current Measures for support to economy and citizens for Q1 2021 began on 1 February.</p> <p>The most important measure implemented in the previous period, which will be continued with greater intensity of support and extended list of affected activities, is the Programme for subsidising wages to mitigate negative effects of the new coronavirus under which 62 applications worth of 63,255,971 euro were approved for 275,971 workers in the period from 1 May 2020 to 31 January 2021.</p> <p>A part of envisaged measures of the first three packages of support, though a significant number of them has not been implemented, created short-term positive impacts on mitigation of effects of the pandemic, by supporting active approach to the development of the activities focused on sustainable development and more efficient use of domestic resources. On the other hand, implementation of the current measures is completely certain; while their goal is to preserve the economic base, which is foundation for future, development activities and which will contribute to the increase of economic activity i.e. economic recovery.</p> <p>There are five specific objectives of the current support measures: support to vulnerable categories of the population; support to the maintenance of the employment level and to the new employment; enhancement of liquidity of business organisations; creation of conditions for increasing the number of tourists and stability of the agricultural products market.</p> <p>Immediately upon identification of the events that might have serious implications on public health, the Public Health Institute of Montenegro started to regularly notify health care institutions, medical workers and other stakeholders in the country. Expert and general public were regularly informed by monitoring developments in real time on website of the Institute.</p> <p>Promotional (informative) materials, recommendations and action plans for the public and for passengers were prepared as well. “Green” telephone informative line was set up to improve communication regarding coronavirus, and later on it was transformed into the call centre 1616.</p>

A specialised portal www.coronainfocg.me was set up to gather all the relevant information on the coronavirus epidemic and activities of state authorities in one place, while citizens were given the possibility of communicating with the national coordination body via special email address: coronainfocg@gov.me.

As for consultation with business organisations and other relevant stakeholders, several meetings were held during the process of preparation of the Second package of economic measures. The Ministry of Economic Development coordinated this process and meetings were held with representatives of business organisations, trade unions, Union of Municipalities, renowned experts from the academic community and the Parliament. During these consultations, numerous initiatives and proposals for measures were launched, and these were carefully analysed and, to the highest extent possible, implemented into the final package of measures.

Moreover, a special session of the Competitiveness Council was held during preparation of the Third package of economic measures. Members of the Council are representatives of all business associations, academic community, Union of Municipalities, Association of Lawyers. The representatives of both trade unions were invited to participate in the Council session in order to ensure that all the stakeholders are consulted and that they participate in the process of preparation of economic measures. Besides consultation with all the relevant stakeholders, the results of the UNDP study on the impact of COVID-19 pandemic on the sector of small and medium-sized enterprises, prepared by local experts hired by UNDP, were presented in the Council session as an additional input for the formulation of measures of the Third package.

Three consultative meetings were held in April with social partners regarding the Programme for support to the economy and citizens, which was prepared by the Government of Montenegro in order to mitigate negative effects of the new coronavirus pandemic. The first of three meetings was held between the Ministry of Labour and Social Welfare¹ and representatives of social partners with the aim of giving opinions and suggestions during preparation of the working version of the Programme for support to the economy and citizens. At that point, social partners gave their proposals and suggestions, each from their own competence (workers and employers). In that context, the Ministry of Labour and Social Welfare adopted a number of proposals given by social partners in respect of the programme which this ministry was tasked to prepare.

During preparation of the Measures for support to the economy and citizens for Q1 2021, two meetings were held in December 2020 and January 2021 respectively with business associations at the initiative of the Ministry of Economic Development, with support from the Secretariat of the Council for Competitiveness.

The second meeting with social partners was held at the level of Presidency of the Social Council of Montenegro with the aim of familiarising with the draft second package of measures for support to the economy and citizens.

The third consultative meeting was held between representatives of social partners, Ministry of Economic Development and Cabinet of the deputy prime minister of the Government of Montenegro responsible for economic policy and financial system. At the end of January 2021, the minister of economic development attended session of the presidency of the Social Council, aware that the existence and functioning of this council is vitally important for strengthening of the social dialogue in Montenegro.

Informative Paper on extension of the programme for the month of December was adopted in the Government session on 24 December 2020.

¹ The Decree on Organisation and Manner of Work of the State Administration was adopted at the Government session on December 7, 2020. Regarding that, the names of the relevant ministries in the priority reform measures related to the previous period have not been changed.

	<p>The Ministry of Economic Development initiated meeting with business associations in December 2020 for the purpose of analysis and further elaboration of the package of support to the economy, with focus on the measures that could be implemented in the short-term. The meeting was organised by the Secretariat of the Competitiveness Council which is also the platform for cooperation between the government and business associations.</p> <p>This policy guidance corresponds to Chapter 5 – Structural Reforms (Measures No 4 and 16), where it is elaborated in more details.</p>
<p>6. Take measures to preserve employment including by ensuring short-time work schemes and flexible working arrangements, as well as through increased provision of active labour market policies to facilitate transition to work and support workers at risk of job loss. Ensure adequate income support and social assistance for the unemployed, and for those at risk of poverty and of social exclusion. Strengthen the healthcare system’s resilience and capacity to improve access and quality provision of health care services.</p>	<p>Labour market</p> <p>The new Labour Law, which entered into force on 7 January 2020, will further increase flexibility in the labour market through various forms of employment (employment contracts), including employment contracts through temporary employment agencies, as well as through easier dismissal of workers and transformation of employment contracts from fixed-term to open-ended, from full-time to part-time etc.</p> <p>More comprehensive regulation of labour relations from the perspective of protection of workers through the employment contract, which will ensure that workers are entitled to annual leave, wage, working hours etc, will contribute to creating conditions for regular and dignified work. In that regard, work of the labour inspection will be facilitated by strengthening sanctions for informal labour which will contribute to the suppression of informal economy.</p> <p>As for the fight against informal economy, the new law sets out entry into employment contracts before the worker starts to work and delivery of one copy of the contract to the worker.</p> <p>The new law sets out obligation of the temporary employment agencies to submit statistical data to the ministry competent for labour affairs regarding the number of posted workers by 30 April of the current year.</p> <p>During preparation of the draft Labour Law, in cooperation with the International Labour Organization, it was agreed that cooperation with this organisation would continue in respect of organising training courses and seminars for the workers of this ministry in order to ensure proper supervision of implementation of the law, with the aim of closing Chapter 19 Social Policy and Employment.</p> <p>The ministry competent for labour affairs cooperates with social partners, Union of Employers of Montenegro, Trade Union Confederation of Montenegro and Union of Free Trade Unions of Montenegro, as appropriate representatives of the employers and workers, in adopting the new General Collective Agreement which will, to the extent legally possible, regulate matters related to extraordinary circumstances.</p> <p>The Government of Montenegro will engage in careful considerations with representatives of workers and employers to ensure that those provisions which cannot be subject of the General Collective Agreement, and which refer to extraordinary circumstances and events, are regulated by amendments to the Labour Law or by a special law.</p> <p>Moreover, active employment policy measures are implemented continuously in order to provide support to employment, keeping of jobs and social inclusion of particularly vulnerable categories of the unemployed in the labour market. In addition to the funds allocated in the budget of Montenegro for these purposes, substantial financial support has been provided for this purpose from the EU funds.</p> <p>Within the second and third packages of the measures for support to the economy under the Programme for support to the economy and workers, a measure for new employment was defined for business organisations which did not reduce the number of workers compared to February 2020, and the aim was to mitigate negative effects of the coronavirus pandemic. The measure was applied in the</p>

period from 01 April to 31 December 2020. The measure set out that a business entity is entitled to a subsidy for the newly employed for a six-month period, provided that the business entity commits to register these workers as employees for at least 12 months after expiry of this measure. Based on this measure, 2,335 workers were employed and subsidies amounting to 2,076,207.59 euro were paid.

One of the adopted measures for support to the economy and citizens for Q1 is "support to the new employment" under which the employer who employs until 31 December 2021 under an open-ended contract the person domiciled in Montenegro, who is also registered with the Employment Office of Montenegro longer than three months, is exempt from the payment of personal income tax and contributions for pension and disability insurance charged to the employee and charged to the employer, on the account of wage paid for a period of three years from the day on which the employment starts. The only requirement to be met by the employer is that this employment increases a number of employees of that employer relative to 31 December 2020. Employer will be exempt from the obligation to pay for the tax and contributions on wages mentioned above, up to the maximum amount of the average gross wage in Montenegro in the previous before, in the following manner: 90% of taxes and contributions – for wages paid in 2021; 60% of taxes and contributions – for wages paid in 2022; 30% of taxes and contributions – for wages paid in 2023.

Health care system

The National Coordination Body and Crisis Medical Headquarters operated until 03 December 2020 for the purpose of ensuring a timely and synchronised response of the overall system and establishing and strengthening coordination among all the relevant entities in the country. At the moment, the activities related to the prevention of spread of COVID-19 are coordinated by the Independent Professional Body for implementation of the activities of removal and elimination of the infectious disease caused by new coronavirus COVID-19 in the territory of Montenegro and Commission for the Protection of Population against Coronavirus.

Health care system is organised in the form of respiratory centres for COVID-19 patients (so-called COVID hospitals) and non-COVID hospitals. In addition, there is a possibility of setting up temporary hospitals in order to accommodate in them a certain number of COVID patients, in the case of a significant increase of the number of the infected.

Many e-services such as e-referrals, e-pharmacies, e-laboratory results, COVID19 etc. were used in order to disburden the system of non-urgent consultation with doctors.

Local experts together with foreign experts via video conference provided health education. Important medical documents and consultations on diagnoses and therapies were exchanged via telemedicine service. Personal protective equipment, medical devices and vehicle fleet were continuously distributed.

From the regulatory point of view, measures (prohibition of movement, closure of facilities, mask wearing, working from home etc.) and recommendations were introduced so as to reduce the transmission of virus, thus containing its spread.

This policy guidance corresponds to Chapter 5 – Structural Reforms (Measures No 16, 17, 19, 20), where it is elaborated in more details.

3. MACROECONOMIC FRAMEWORK

The last year, 2020, will be remembered as a year of an unprecedented economic crisis in recent World's history. The COVID-19 pandemic took away millions of human lives, disrupted economic flows and supply chains, dragged into a deep recessions both developed and undeveloped economies across the globe, and dislocated millions of employees from their places of business due to implementation of measures to contain spread of this contagion. The recovery from this crisis will last over the entire medium-term period, but it could have been even slower and weaker if it not for comprehensive fiscal, monetary and regulatory responses by nation states, which have sustained disposable income of households, protected cash flows of companies, and supported lending.

The European Commission, in its autumn issue for the global economic output forecast estimated the downturn of the global economy to 4.3 percent in 2020, while it envisaged a recovery for 2021 of 4.6 percent². In the first half of the year, the health emergency strongly affected the European region, which caused a severe decline and standstill of economic activities, with an unprecedented two-digit decline of GDP both in the Euro Area and in the European Union. The European Commission has estimated the economic downturn in the Euro Area to 8.0 percent in 2020, in its latest forecasts, which is sizeably higher decline than the one recorded in 2009 (-4.5 percent). The downturn in this year (2020), but also the rebound in the next year (2021), will be asymmetric, with growing divergences in future economic development in countries of the block. The largest EU economy – Germany, will record a real decline of 5.6 percent in this year, according to the European Commission's estimate, while France and Italy will decline at the rate of 9.4 and 9.9 percent respectively. Spain will record the largest estimated decline (-12.4 percent), due to high dependency on tourism, but also due to the severity of the pandemic in the country. The EU policies are aimed at protection of households and the real sector from adverse effects of the crises amounting to several thousand billions euro, have prevented more sizeable drop in employment in the labour markets and preserved income under sever uncertainties lingering. The 750 billion euro Next Generation EU Recovery and Resilience Facility, with complementary EU Multiannual Financial Framework of 1.1 trillion euro, will provide a strong support to the Member States, in particular for those less developed.

The International Monetary Fund has updated several times during the year its forecasts for the global economy downturn, due to extensive uncertainty surrounding the health emergency itself. In the latest October report, the IMF projects the decline of global output of 4.4 percent³ in 2020, which is somewhat lower than in the June forecast (-4.9 percent), but significantly higher than in the Spring Report, when the downturn was estimated at 3 percent, due to large uncertainties concerning spreading of the virus, as well as due to a strong response to the developments by countries across the World. The IMF ascribes present mild optimism, relative to the summer forecast, to better performance of developed economies during second and third quarter of the year, as well as to stronger-than-envisaged recovery of China. In spite of that, according to the IMF estimate, the output reached in 2019 will be regained only in 2022 in most of developed and undeveloped economies (except in China), while some of the countries, which were harder affected by the crisis, will experience a prolonged output recovery extended to 2023. Cumulative loss of the global output relative to the pre-pandemic forecast is now estimated to 11 trillion USD in the period 2020-2021. The IMF Global Economic Outlook describes the recovery in the forthcoming period as long, uneven, and uncertain; highlighting that curbing infection spread continues to be an open question and that it depends on the coverage and mass distribution of vaccines that will prevent further contagion. The IMF has forecasted

²https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en

³<https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

to 5.2 percent the growth of the global economy in 2021, bringing it up by 0.2 p.p. relative to the June forecast.

The Western Balkans region, being strongly impacted by the health emergency, has recorded an economic decline on average of 4.8 percent in real terms in this year, according to the World Bank estimate, which is a steeper decline by 1.7 p.p. if compared to the April forecast⁴. The recession will have particularly pronounced effect on labour markets and social outcomes in the region. The average unemployment in six Western Balkans countries grew by 0.5 p.p. by June 2020, accounting for loss of 139 thousand jobs. As early as by October, the crisis caused by the pandemic has pushed additional 300 thousand persons into poverty in Albania, Kosovo, Montenegro, and Serbia, according to the World Bank's estimates. Likewise, it was stated that the impact on poverty would have been twice as high, if not for numerous measures in the region to mitigate socio-economic consequences of the crisis. The following table presents most recent forecasts for economic downturn in 2020 and recovery in 2021 of relevant financial institutions for Montenegro and the Western Balkans countries:

Table 1: GDP forecasts for Montenegro and the Western Balkans

Real GDP growth rate, as %	World Bank		IMF		European Commission	
	2020	2021	2020	2021	2020	2021
Montenegro	-12.4	6.9	-12.0	5.5	-14.3	6.8
Serbia	-3.0	2.9	-2.5	5.5	-1.8	4.8
Albania	-8.4	5.0	-7.5	6.1	-6.8	3.7
North Macedonia	-4.1	3.6	-5.4	5.5	-4.9	3.8
Bosnia and Herzegovina	-3.2	3.0	-6.5	5.0	n/p	n/p
Kosovo	-8.8	3.7	-7.5	6.0	n/p	n/p

Source: World Bank – Regular Economic Report for WB Countries, autumn 2020; IMF Global Economic Outlook, October 2020; European Commission – Economic Forecast, Autumn 2020

Due to an increased sensitivity of the tourism sector and the current economic structure, in 2020 Montenegro is expected, according to forecasts of international organization, to experience higher economic downturn than the regional average. The European Commission is estimating the contraction to be 14.3 percent, the World Bank at 12.4 percent, while the IMF is forecasting decline of 12 percent in real terms relative to 2019. All these institutions are projecting a partial recovery and relatively strong growth of the Montenegrin economy in 2021. Economic activities in Montenegro, as is the case in the entire World, continue to have a strong pandemic dependency, as well as of the measures to suppress the spread of the pandemic.

3.1. Recent Economic Developments

3.1.1. Gross Domestic Product

According to the final MONSTAT data, in 2019 the Montenegrin economy has generated the real growth of 4.1 percent, which resulted in a three-year growth average of 4.6 percent in the period 2017-2019, coupled with an intensified investment cycle and large number of new jobs in the previous period.

External shocks caused by the pandemic have already had effect on economic developments in Montenegro during 2020. According to the preliminary MONSTAT data, the real annual decline of the Montenegrin economy for six months of 2020 was 10.4 percent, whereby the government spending, as a countercyclical component of GDP was the only item that recorded real growth of 0.4 percent. The largest negative contribution to the six-month GDP drop came from export of goods and services (-13 p.p.) and private spending of 5.2 p.p., due to steep drop in employment, newly-approved credits

⁴<https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

and decline in tourism and associated activities. The personal consumption of households has generated a real decline of 15 percent only in second quarter. Sharp drop in first six months was also recorded for export of goods and services (35.5 percent in real terms), whereby the decline in revenues from tourism of 78.5 percent compared to the same period of 2019 had a highest contribution, and in the second quarter alone it recorded 95.3 percent revenues less relative to the same period of 2019, given that international travel was facing severe restrictions, including also strict epidemiological standards by EU states. Nevertheless, the first quarter of 2020 recorded the economic growth of 2.6 percent, as excellent results in the first two months of the year offset a drop in indicators in March, when measures were implemented to restrict operation of companies with occurrence of first COVID-19 cases in the country. However, the second quarter resulted in severe contraction of 20.3 percent in real terms, in an environment of strict measures of economic and social lockdown aimed at preventing spread of the contagion and protection of public health. At the end of December 2020, the Statistics Administration – MONSTAT published that according to the preliminary estimates, the downturn in Q3 of the economic activity was – 26.9 percent in real terms.

The most recent short-term indicators also show to further economic activity downturn. In 2020, Montenegro registered 79.2 percent less visitors in collective accommodation with 79.8 percent less overnight stays, if compared to 2019. The preliminary data of the Central Bank of Montenegro for 9 months of 2020 indicate an annual drop of 88 percent in revenues from tourism. Apart from tourism, other associated activities have also recorded decline in activity. Retail trade in goods in 2020 registered an annual decline of 16.6 percent in constant prices, while the construction activity recorded an annual reduction in value of works put in place of 7.9 percent. The industrial production had a slight decline of 0.9 percent in 2020, due to drop in sectors of electricity generation of 3.8 percent and manufacturing industries (-0.5 percent), while the mining and quarrying sector recorded a strong annual growth of 7.2 percent. The agricultural sector was proved somewhat more resilient, in spite of enormous drop in demand and lower economic activity, where sales and purchase of goods was higher by 0.6 percent in 2020, if compared to 2019.

Since the beginning of the pandemic, the Ministry of Finance and Social Welfare has developed several macroeconomic scenarios with different assumptions in terms of the pandemic intensity and duration. The new economic reality, being a consequence of intensified pandemic in the rest of the year, has imposed for a new assessment to be developed of health emergency impact on the entire economy and sectors that are biggest contributors to added value creation. Possible risks addressing the development of the health situation in the country included in the previous macroeconomic projections have materialised, thus leading to a much more pronounced negative impact on macroeconomic outlooks in 2020. The existing model of the Ministry of Finance and Social Welfare, as well as the new model the Ministry of Finance and Social Welfare developed through the project Support to the Assessment of Macroeconomic Impact of Structural Reforms, under the European Union support to Montenegro from IPA 2014 Programme, was used to develop the macroeconomic forecasts. The GDP data as of Q2 were available at the time of preparing the estimate for 2020, while the MONSTAT's estimate on Q3 performance was available at the end of 2020. The next GDP estimate is planned for beginning of March 2021, when is also expected for strategic plans covering various policies to be available, as well as new medium-term budgetary framework and the fourth package of measures for support to the real sector and citizens.

The difference of 2020 growth rates by GDP components between projections presented in the last year's ERP and the updated projections contained in the new EPR 2021-2023 is presented in the following table.

Table 2: Divergence between the last year's ERP and the most recent estimates for 2020

Real growth in 2020, as %	ERP 2020-2022	ERP 2021-2023	Divergence (in p.p.)
Real GDP growth	3.4	-14.2	-17.6
Domestic demand	3.3	-10.4	-13.7
Household consumption	2.4	-12.4	-14.8
Gross fixed capital formation	4.6	-15.0	-19.6
Government consumption	4.5	2.1	-2.4
Export of goods and services	3.8	-46.9	-50.7
Import of goods and services	2.4	-29.2	-31.6

Source: Projections of the Ministry of Finance and Social Welfare

As it could be noted, the comparison of these two documents points to a substantial degree of divergence due to the health emergency, which could have not been predicted in the last year's ERP. The biggest difference is notable in estimate of the real rate of export of goods and services, due to drop in tourism.

3.1.2. Inflation

The inflationary developments in 2020 are under impact of pronounced drop in aggregate demand and crude oil prices trends in the global market. The average consumer prices in 2020 were lower by 0.3 percent relative to 2019, while stronger deflationary trends are present since April. If observed by quarters, the inflation in Q1 recorded an increase of 0.8 percent relative to the same period of 2019, in order to record a decline in consumer prices for three consecutive quarters of 0.7, 0.3, and 0.8 percent respectively. A deflation of 0.9 percent was recorded in December 2020, if compared to the same month of 2019. The biggest negative contribution to decline in consumer prices for the period January-December 2020 comes from transportation prices (contribution of -0.7 p.p.), categories *hotels and restaurants* (-0.1 p.p.), and *housing, water, electricity, gas and other fuels* (-0.1 p.p.). Export prices in 2020 were lower by an average of 2.8 percent year-on-year, due to drop in the base metals prices, while the import prices were lower by 1.5 percent.

3.1.3. Employment and Wages

The COVID-19 pandemic and sizeable reduction of economic activity will have long-lasting consequences on the labour market indicators. Unavoidable drop in employment and activity will contribute to further deepening of socio-economic inequalities.

According to the administrative sources of MONSTAT, the average number of employees in 2020 was 176,693 and was reduced by 13.2 percent year-on-year. According to the records of the Employment Office of Montenegro, the number of unemployed at the end of December 2020 was 47,509 and was higher by 26.3 percent relative to December of 2019.

According to available data from the Labour Force Survey for first three quarters of 2020, a drop in employment of 8.0 percent year-on-year was recorded. However, even stronger decline was recorded in Q3 of this year of 15.2 percent. In the third quarter of 2020, 33.8 thousand persons more were left out of the labour force, if compared to the same quarter of 2019. Furthermore, the Labour Force Survey data for Q3 2020 point to an increase in inactive population by 17.5 percent or 35 thousand, if compared to the same quarter of the previous year.

The average gross wage in 2020 was 783 euro and was higher by 1.3 percent year-on-year, while the average wage excluding taxes and contributions of 524 euro, recoded an increase of 1.7 percent relative to 2019. If compared to 2019, the highest growth of average wages was recorded in the Human health and social work activities sector (+12.7 percent), Education (+8.4 percent), and Professional, scientific and technical activities (+7.1 percent). The biggest decline in average wages took place in Agriculture, forestry and fishing sector (+10.2 percent), Accommodation and food service activities sector (-8.6 percent), and Real estate activities sector (+7.2 percent).

According to the currently available data on employment and expected trends by the end of the year, it is estimated that a number of employed will record a steep drop of 5.5 percent in 2020, while it is foreseen for the unemployment rate to reach 17.8 percent in 2020, given trends of factors affecting this category. It was estimated that in the absence of three packages of measures for support to the real sector and citizens during 2020 the negative effects on labour market indicators would be even more unfavourable.

3.1.4. Lending Activity of Banks

Even with the reduction of economic activity as a consequence of outbreak of the new coronavirus pandemic, the banking system in Montenegro maintained stability, high liquidity, and good capitalisation. All key balance sheet positions, except for credits, have recorded a decline year-on-year. The deposit stock of banks continued to be stable, and recorded an immaterial growth relative to the previous month.

At the end of December 2020, the banking sector consisted of 12 banks. Most of the activities are concentrated with four banks (66 percent) which have granted 68 percent of total loans, and where 63 percent of all deposits are deposited. Foreign sources are dominant origin of the capital of banks (74 percent), while the domestic capital accounts for 22 percent and the State capital for 2 percent. Nine banks with majority foreign capital, originating primarily from the large European Union banking groups, control 69 percent of the banking market⁵.

At the end of December 2020, the key balance sheet positions have recorded a decline year-on-year, and so as follows: assets by 0.38 percent, deposits by 2.96 percent, and capital by 1.91 percent, while the credits have recorded an increase by 3.18%⁶.

The credit risk is the most important risk in the system, since the lending activity is dominant in the banking market. Bank credits make 68.88 percent of total assets. Gross non-performing assets (C, D, and E categories) represent 4.69 percent of the total assets, while the non-performing loans (NPL) ratio is 5.45 percent. NPL coverage with value adjustment is 74.99 percent, while their coverage with regulatory reserves is 88.29 percent. The banks with high NPLs are subject to special supervisor's scrutiny. The forbearance loans make 5.17 percent of the loan portfolio.

The loans to legal persons amount 1,748.6 million euro, which is 55.35 percent of total loans, while the loans to natural persons make 1,410.6 million euro, or 44.65 percent of total loan portfolio of banks. This ratio was rather constant over the observed one-year period. During the same period, loans to natural persons have recorded a growth of 2.68 percent, while the lending to legal persons has recorded an increase of 3.59 percent. Loans to natural persons with 44.65 percent have dominant share in the composition of total loans by key recipients; followed by loans to the real sector with 34.94 percent, loans to the Government of Montenegro with 8.24 percent, placements to banks with 7.42 percent, and other loans with 4.75 percent respective shares in total loans. Loans to the real sector (business organisations, both in private and in state ownership) amount to 1,103.7 million euro and have recorded a growth of 2.90 percent year-on-year. Loans in other currencies make 2.90 percent of total loans, while loans to non-residents make 10.07 percent of total loans. Long-term loans, which made 84.23 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make 87.36 percent of total deposits in the system. At the end of December 2020, the average weighted effective interest rate on total loans was 5.84 percent. This rate was 6.01 percent in the same period of the previous year.

During 2020, total of 616.5 million euro of new loans was approved to legal persons, and recorded a growth of 15.23 percent, while 291.9 million euro was approved to natural persons, which is approximately 42.47 percent less relative to the same period of the previous year. The average

⁵Data as of 20 September 2020.

⁶ Preliminary data as of 31 December 2020

weighted effective interest rate on newly approved loans was 5.16 percent, and compared to December 2019 recorded a decline of 0.86 p.p. Loans to legal persons were extended at the average weighted effective interest rate of 4.35 percent, which is lower by 0.55 p.p., while this rate to natural persons was 7.15 percent, which is lower by 0.58 p.p. relative to December 2019.

The Council of the Central Bank of Montenegro, on the session held on 29 October 2020, has adopted the Decision Amending the Decision on Macro-prudential Measures pertaining to Credits approved by Banks to Natural Persons.⁷ Amendments pertain to introduction of an insurance policy for loans as additional collateral for securing loans, in addition to the collateral recognised in accordance with the relevant Decision of 2019. A requirement is for the insurance policy to be issued by an insurance firm with registered office in Montenegro, while the Central Bank will assess acceptability of individual insurance policies in terms of risk coverage to which the banks are exposed.

At the end of December 2020, the deposits of natural persons amounted to 1,750.1 million euro or 51.89 percent in the composition of total deposits, while deposits of legal persons amounted to 1,622.9 million euro or 48.1 percent. A-vista deposits are dominant, and make 71.36 percent of total deposits. The banking system is lacking stable long-term deposit potential. The share of non-resident deposits was significant and was 22.91 percent, while the deposits in other currencies made 5.47 percent of the total deposits.

Downward trend is also present in case of deposit interest rates. Namely, in December 2020 the deposit average weighted effective interest rate was 0.40 percent and recorded a drop of 0.01 p.p. year-on-year.

The value of the ratio of loans and receivables over deposits was 93.66 percent, which means that there is 213.7 million euro of deposit potential in the system which exceeds receivables resulting from approved loans.

3.1.5. Financial Sector

Financial sector reached the value of assets of five billion euro at the end of 2020, which made 116.7 percent relative to the GDP, mainly due to the sizeable decline of GDP caused by the coronavirus pandemic. Main characteristics of the financial sector are stability, dominant share of the banking sector (91.9 percent), and increasing share of the insurance sector (4.9 percent), which was also the case in the previous period. Main features of the insurance market were growth and stability, as well as high market concentration in terms of few types of insurance products. Compulsory transport insurance continues to have the most important share in the insurance market. In spite of that, this market has significant prospects for further growth and development, which is also confirmed by data that insurance premium recorded a decline of merely 1.1 percent during 2020, which is a rather good result during the coronavirus pandemic. The remaining segments of the financial sector – investment funds, micro-credit financial institutions (MFI), leasing companies, factoring firms, and companies for purchase of receivables – have insignificant share of merely 3.2 percent in the financial system composition.

During 2020, turnover at the *Montenegroberza* (Montenegro stock exchange) was 31.4 million euro, which is 286.8 million or 90.1 percent lower than in the same period of the previous year. Highest share in the composition of generated turnover comes from turnover in corporate shares with 73.57 percent and volume of 23.1 million euro, followed by turnover of the government bonds of 23.89 percent with 7.5 million euro volume, and turnover of corporate bonds with 2.19 percent with volume of 686,381 euro. The Restitution Fund bonds turnover accounted for 0.31 percent or 96,666 euro, while the turnover in investment funds shares made only 0.04 percent or 12,033 euro. During the same period, 94.6 million euro of Treasury Bills was realised, which is 49.4 million euro or 34.3 percent less than in the same period of the previous year.

⁷ Official Gazette of Montenegro, No 107/2020

The Central Bank carries out continuous supervision of the banking sector; and the banking sector is liquid, solvent and with non-performing loans at the acceptable level, with constant downward trend of interest rates. The liquidity of banks is satisfactory. Liquid assets of banks were 1,016.1 million euro and made 22.15 percent of the total assets at the end of December 2020, which points to sufficient space for further expansion of the lending activity, in spite of the fact that banks have absorbed significant pressure on liquidity from implementation of the moratorium measure. The banking sector stability is supported with adequate capitalisation, so that both the aggregate (18.52 percent) and individual solvency ratios for all banks in the system (ranging from 13.41 to 27.02 percent) as of 31 December 2020, are well above statutory minimum of 10 percent. The NPL ratio is 5.47 percent, recording a growth of 0.75 p.p. year-on-year, primarily due to more difficult financial standing of legal and natural persons resulting from the COVID-19 impact on the Montenegrin economy and socio-economic position of population. These trends are reflected on the banking sector profitability. Positive financial result at the system level was 22.3 million euro, while it was 48.7 million euro in the same period of the previous year. The aggregate return on average assets (ROA) was 0.55 percent as of 31 December 2020, recording an annual decline of 0.55 p.p. The return on average equity (ROE) was 4.10 percent and recorded a decline of 4.56 p.p. year-on-year.

Taking into account the European Commission policy guidance from May 2020, as well as those from the previous period, the Central Bank has continued to take comprehensive activities from within the scope of its powers, in order to give maximum contribution to their implementation and to preserve the financial system stability.

To that end and related to monitoring of challenges in the financial stability area as a result of COVID-19 pandemic impact, the Central Bank has managed to preserve the banking sector stability, and by doing so of the financial system as well, by taking timely and well-structured measures in close coordination with banks and the Government of Montenegro. Since outbreak of the coronavirus in Montenegro and introduction of general health protection measure, the Central Bank has implemented five packages of temporary measures aimed at preserving liquidity position of clients by redirecting the liquidity from the banking system to the real sector and citizens, preserving liquidity position and growth of lending potential of banks, as well as long-term systemic resolution of effects coming from permanent reduction of credit worthiness of clients.

The First Set of Temporary Measures was introduced by adopting the Decision on Temporary Measures to Mitigate Adverse Effects of the New Corona Virus on the Financial System⁸ (adopted on 17 March 2020, with application from 20 March 2020), and which included:

- Introduction of mandatory moratorium for repayment of loans of 90 days for all beneficiaries of loans approved by banks, as well as of leasing recipients and beneficiaries of credit of micro-credit financial institutions. The moratorium for repayment of credits includes the temporary standstill on payment of all obligations resulting from loans (principle, interest, penalty interest, and other) during the moratorium. The banks are prohibited from calculating a penalty interest for past due receivables on the account of loans, from initiating the enforcement proceedings or enforced collection, as well as from taking other legal actions aimed at collecting receivables, including calculation of past-due days and reclassification of loans into a worst classification group. Furthermore, the banks cannot request or collect from loans beneficiaries compensation of any administrative costs resulting from use of the moratorium, including any possible costs resulting from amendments of contracts on collateral through annexes;
- The second instrument, which is still in effect, represents a framework on long-term restructuring of loans, treated as newly-approved loans according to the Central Bank of Montenegro decision, thus the banks are freed from any additional encumbrances in a form of provisioning costs;

⁸ Official Gazette of Montenegro, No 19/2020

At the end of March 2020, **second set of temporary measures** was adopted in a form of amendments and supplements to the above-mentioned Decision⁹, introducing two additional measures aimed at providing incentives for the economic activity and preserving stability and security of the banking system of Montenegro under circumstances of risks caused by the coronavirus epidemic:

- Temporary prohibition from paying out dividends to shareholders, except in the form of bank shares; Distribution of dividends is only permitted if transformed in the form of share capital;
- Banks are permitted, in exceptional circumstance, through granting of loans or otherwise, to increase exposures to one person or a group of related parties beyond the statutory exposure limits (25 percent of the bank's own funds), with the prior approval of the Central Bank, enabling debtors with good standing to have faster access to needed funds through additional borrowing with the same bank.

The Council of the Central Bank of Montenegro, on its session held on 7 May 2020, supplemented the above-mentioned Decision¹⁰, reducing by 50 percent, from the previous 12 percent to 6 percent the fee that banks are required to pay to the Central Bank for using stipulated amount of the statutory reserve requirement which they do not repay on the same day.

Bearing in mind the need to increase the lending potential and available liquidity in the banking system, the Council of the Central Bank of Montenegro, on its session held on 11 May 2020, adopted the Decision Amending the Decision on Mandatory Reserve Requirement of Banks held with the Central Bank of Montenegro¹¹, reducing the mandatory reserve requirement rate by two percentage points, and applying the new rate of 5.5 percent instead of previous rate of 7.5 percent (on the part of the base consisting of a-vista deposits and term deposits of up to one year), and the rate of 4.5 percent instead of previous rate of 6.5 percent (on the part of the base consisting of term deposits for a period exceeding one year). This has increased available lending potential of banks by approximately 70 million euro.

As part of the **third set of measures** (19 May 2020), the Decision on Temporary Measures to Mitigate the Adverse Impact of the Impact of the New Coronavirus on the Financial System after Relaxing of Measures to Protect the Population against Contagious Diseases¹² was adopted, which redefined the general moratorium principle (when the banks were obliged to provide to all beneficiaries temporary standstill in repayment of loans), based on analysis of data on the previous moratorium, where the results showed that both natural and legal persons the liquidity of which was not jeopardised by the epidemic have used extensively this measure. In the new set of measures, the banks are able to approve new moratoria for loan repayment of up to 90 days to beneficiaries of loans having their financial standing adversely impacted by the epidemic, whereby they are obliged to publish on their websites until 1 June 2020 detailed conditions for applying for the moratorium. Previously adopted temporary measures prohibiting payout of dividends to shareholders continue to be in effect, except for payouts in the form of bank shares, as well as the possibility to grant loans to a single person or group of related parties beyond the exposure limits set by the Law on Banks.

In spite of the good banking sector liquidity, the Central Bank has acted in precaution and secured a repo facility from the Bank for International Settlements (BIS) from Basel, in the amount of 100 million euro, which could be used to support the banks' liquidity in case of emergencies.

Building on the third package of the Government's measures, at the end of July 2020, the Central Bank has defined the **fourth set of temporary measures** aimed at sectors most affected by the current coronavirus pandemic caused crisis, which included two measures:

⁹ Decision Amending and Supplementing the Decision on Temporary Measures to Mitigate Adverse Effects of the New Corona Virus on the Financial System (Official Gazette of Montenegro, No 28/2020)

¹⁰ Decision Supplementing the Decision on Temporary Measures to Mitigate Adverse Effects of the New Corona Virus on the Financial System (Official Gazette of Montenegro, No 42/2020)

¹¹ Official Gazette of Montenegro, No 43/2020

¹² Official Gazette of Montenegro, No j 46/2020

- Setting an obligation for banks to approve moratorium to beneficiaries of loans (natural and legal persons and entrepreneurs) operating in the tourism sector (for *accommodation and food services* and for *preparing the tourism season*) and in the agriculture, forestry and fishing sector. The right to a moratorium under this measure may be used in the period from 1 September 2020 to 31 August 2021, and is applicable to loan beneficiaries from these sectors who meet the stipulated requirements (those who were not past due in loan repayment for more than 90 days as of 31 December 2019, and that their loan was not classified as non-performing assets on that day);
- Possibility for banks to treat loans approved or restructured to beneficiaries from the above-mentioned sectors, in the period from 1 September 2020 to 31 August 2021, as loans from classification category “A”, which provides incentives for approving and restructuring loans, given that banks will not need additional capital on this basis.

The Central Bank has succeeded, as a result of intensive international activities, to secure from ECB for the first time, a facility for systemic liquidity support. Namely, on 31 July 2020 the ECB Council approved contracting of bilateral repo facility of up to 250 million euro, which could be used to support liquidity of banks in the event of unforeseen situations.

The Decision Amending and Supplementing the Decision on Temporary Measures to Mitigate Adverse Effects of the Contagious Diseases COVID-19 on the Financial System¹³ was adopted at the end of October 2020, which implemented the **fifth set of temporary measures** of the Central Bank aimed at addressing negative consequences of the pandemic. The adoption of this legal document created requisites for alleviating the financial situation of specific groups of population that are or will be significantly affected in the coming period by the COVID-19 pandemic. The measures include the following:

- Introduction of a mandatory moratorium for a period of six months for natural persons - loan beneficiaries whose employment was terminated on 31 March 2020 or later as a result of the COVID 19 epidemic consequences, and who were not past due in loan repayment for more than 90 days as of 31 December 2019, and their loan was not classified as non-performing assets on that day (the introduction of a moratorium also applies to loan beneficiaries with micro- finance institutions and leasing companies);
- Banks were obliged to approve loan restructuring addressing the extensions of the repayment period at the request of natural persons – beneficiaries of loans whose wages have been reduced by employers by at least 10 percent due to the pandemic consequences. For persons whose net wage before the reduction was 550.00 euro (just above the average wage in Montenegro) or more, the restructuring is done if the available income of that person, after the wage reduction and loan instalment repayment, is less than 220.00 euro (which the minimum wage in the country). Through restructuring, the loan repayment period will be extended for this category of beneficiaries, so that the unencumbered part of the wage will not be less than 220.00 euro after the changed loan repayment schedule. For categories of beneficiaries whose net wage before the wage reduction was less than 550.00 euro, the loan repayment period will be extended so that the amount of unencumbered part of the wage will not be less than the unencumbered wage amount the beneficiary had before the wage reduction, after changing the loan repayment schedule. The banks bear all costs related to setting a new loan repayment schedule (loan processing, concluding annexes to the contract on collateral, certification of the contract, and other);

¹³ Official Gazette of Montenegro, No 105/2020

- Based on the Decision on Minimum Standards for Liquidity Risk Management in Banks, the banks are allowed, when calculating due liabilities, to include 20 percent instead of 30 percent of *a-vista* deposits in the calculation of these liabilities, enabling banks to manage their funds more efficiently.

The **sixth set of temporary measures**, adopted at the Council of the Central Bank of Montenegro session held on 1 March 2021 (Decision Amending and Supplementing the Decision on Temporary Measures to Mitigate Adverse Effects of the Contagious Diseases COVID-19 on the Financial System), is aimed primarily at micro, small and medium-sized enterprises, precisely those beneficiaries of loans that were affected the most by consequences of the pandemic-caused crisis. The measures include the following:

- Expanding the coverage of loan beneficiaries entitled to a moratorium, approval and restructuring of loans with preferential regulatory treatment to sectors identified as the most affected by the pandemic's consequences based on the previous analysis;
- Further easing of loan restructuring to natural persons: possibility to extend the repayment period by maximum five years for loan beneficiaries whose wages were reduced by more than 10 percent as a consequence of the pandemic. Likewise, clients are enabled to use the moratorium lasting up to six months in events when the five-year repayment period extension cannot preserve the unencumbered part of their wage;
- Possibility for banks to be able to contract longer term other than the already set, and so up to five years providing that the maturity does not exceed 10 years, when restructuring and classifying loans subject to the Decision on Macro-prudential Measures, pertaining to loans the banks approve to natural persons, as well as in case of loans not secure by collateral in accordance with the regulations;
- Allowing banks, during the validity of the Decision, to exclude financial indicators of loan beneficiaries pertaining to 2020 (profitability, liquidity, capitalisation, indebtedness, and cash flows in that year) when assessing creditworthiness of loan beneficiaries and allocating asset items into relevant classification group.

The following table present effects of all measures (excluding the sixth package) introduced in the period from 31 March 2020 to 31 January 2021:

Table 3: Trends of systemic indicators of loans part of the moratorium, newly approved and restructured loans (in thousand euro)

Date	Total moratorium				Newly approved loans for the sectors of tourism, agriculture, forestry and fishing			Total restructured loans				Total moratorium and restructured loans / total loans
	Loans amount	Number of debtors	Number of loans	% of gross loans	Loans amount	Number of debtor	Number of loans	Loans amount	Number of debtors	Number of loans	% of gross loans	
	1				2			3				
31-Mar-2020	1,182,730	52,399	74,574	41.59%				0	0	0	0.00%	41.59%
30-Apr--2020	1,342,370	62,618	87,481	47.12%				458	1	1	0.02%	47.14%
31-May-2020	1,319,126	62,727	87,781	45.81%				433	2	2	0.02%	45.83%
30-Jun-2020	286,131	14,679	17,148	9.88%				16,929	129	159	0.58%	10.46%
31-Jul-2020	172,903	3,146	3,843	5.88%				99,479	169	208	3.38%	9.26%
31-Aug-2020	177,699	2,817	3,334	6.08%	763	18	20	117,471	253	314	4.02%	10.10%
30-Sep-2020	131,471	1,904	2,223	4.51%	8,833	80	90	133,845	373	459	4.59%	9.09%
31-Oct-2020	69,892	511	626	2.40%	18,773	95	106	174,793	558	674	6.01%	8.42%
30-Nov-2020	61,439	444	536	2.09%	21,388	121	134	200,515	676	808	6.81%	8.90%
31-Dec-2020	67,589	645	767	2.33%	25,276	149	162	217,398	844	926	7.50%	9.83%
31-Jan-2021	71,793	707	835	2.48%	7,772	81	86	217,429	874	964	7.52%	10.01%

The Central Bank will continuously monitor effects of the adopted measures, in the forthcoming period, and take timely steps for further adoption of interim measures from within its powers, with the objective to mitigate consequences of the epidemic and preserve stability of the financial system. In the segment of implementation of the European Commission's policy guidance to "Identify and prioritise the removal of obstacles for the swift and successful resolution of non-performing debts, particularly by improving legal, judicial and institutional procedures", the Central Bank has recommended to the Government, in the document *Recommendations to the Government of Montenegro for the Economic Policy in 2021*¹⁴, to "ensure improvement of the legal framework for resolution of unpaid/non-performing debts outside the competence of the Central Bank". Furthermore, as part of the activities to implement the project of the Asset Quality Review (AQR) of banks in Montenegro, the Central Bank has signed a contract with the auditing firm Ernest&Young in February 2020 for managing the AQR Project. The contract includes organisation and coordination of the process, providing the overall support to the Central Bank concerning the AQR implementation by phases, work-blocks, quality assurance, and provision of consulting services. Due to circumstances caused by the COVID-19 pandemic, the project finalisation is moved to Q2 2021 (if compared to the initial plan when the deadline was the end of 2020). The Central Bank and its consultant Ernst&Young (Belgrade and Germany offices) have issued consents to banks for renowned AQR auditors, as well as for immovable property appraisers for implementation of the AQR process in banks. All activities so far are taking place in line with the set schedule (AQR manual adjusted for the Montenegrin banking system was developed, as well as guidance for selection of immovable property appraisers, and preparatory activities for portfolio selection were completed). The portfolio selection ensured the risk-weighted assets (RWA) coverage of the banking sector of 84.43 percent. Activities under work-blocks 1, 2 and 3 were completed, and intensive activities under work-block 4 are underway, while the activities for other work-blocks are proceeding in line with the planned schedule. The AQR process

¹⁴Document will be published at the web site: <http://www.cbcbg.me>

will cover all banks in the system. We expect that the AQR Project will be completed in the second quarter of the current year, when the plans for possible recapitalisation of banks will be developed, after final findings are received.

Other activities concerning the regulatory powers of the Central Bank in the forthcoming period will be aimed at establishment of the new regulatory framework and its harmonisation with the European Union *acquis*. As part of those activities, at the initiative of banks submitted through the Association of Banks of Montenegro, at the end of July 2020 the Central Bank has decided to take steps to postpone application of the Law on Credit Institutions and the Law on Resolution of Credit Institutions (where the application was supposed to start on 1 January 2021). This decision was taken given the numerous circumstances making difficult the operation, in order to relax capacities of banks and enable them to be fully committed to implement measures for mitigation of the COVID-19 impacts, as well as to activities for implementation of the AQR, being priority tasks. To that end, a working draft of amendments and supplements to these two laws were prepared, proposing postponing their application by one year (starting from 1 January 2022).

Proposals of laws were submitted to the further procedure for adoption, in which the newly-formed Government of Montenegro has confirmed the previously adopted proposal of amendments and supplements to these laws, and submitted them to further consideration and adoption to the Parliament of Montenegro, which were adopted on the session held on 29 December 2020. Given that: the President of Montenegro, in accordance with his powers set in the Constitution of Montenegro, sent back for repeated decision-making all laws adopted by the Parliament at that session; as well as that during this procedure the date for application of the laws has started, the postponement of which was proposed by amendments and supplements; the application of the Law on Credit Institutions and Law on Resolution of Credit Institutions commenced on 1 January 2021. In parallel with the procedure for adoption of proposal of amendments and supplements of the laws, the Central Bank has continued with activities of drafting and preparing for adoption the enabling regulations for these two laws, and adopted all regulations on sessions of the Council of the Central Bank of Montenegro held in November and December 2020.

Since the Parliament voted again on 20 January 2021 to adopt the Law Amending and Supplementing the Law on Credit Institutions and the Law Amending the Law on Resolution of Credit Institutions, which entered into force on 26 January of the current year, the application of the Law on Credit Institutions and the Law on Resolution of Credit Institutions, as well as enabling regulations for implementation of these laws, was postponed for 1 January 2022. On the other hand, given that according to the Law on Credit Institutions, the Law on Banks and enabling regulations adopt pursuant to the Law on Banks were rescinded on 1 January 2021, the adoption of the Law Amending and Supplementing the Law on Credit Institutions has created the following legal situation: from the day of entry into force of the Law Amending and Supplementing the Law on Credit Institutions on 26 January 2021 until 1 January 2022, there are no legal provisions addressing core powers of the Central Bank as the banking system regulator in the legal system of Montenegro. The provisions in question are those applying to establishment and operation of banks, as well as to the control of operation of banks by the Central Bank, providing for protection of interest of depositors and other creditors of banks.

Given this new legal developments, the Central Bank has adopted, on the Council session held on 15 February 2021, the Decision on Actions by Banks and the Central Bank of Montenegro until Commencement of the Application of Regulations Governing the Establishment, Operation and Supervision of Banks¹⁵, mandating to the Central Bank of Montenegro and to banks to apply provisions of the Law on Banks and enabling regulations adopted pursuant to that Law until commencement of

¹⁵ Official Gazette of Montenegro, No 16/2021

application of the Law on Credit Institutions or entry into force of another law that will temporarily govern application of regulations pertaining to establishment, operation and supervision of banks.

During 2021, drafting and adoption of proposal of the Law on Supplementary Supervision of Financial Conglomerates will take place, which will implement the Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate; while the drafting and adoption of the Rulebook on Capital Adequacy of Financial Conglomerates is planned for 2022.

3.1.6. External Sector

3.1.6.1. Current account

According to the preliminary data, in the period January-September 2020, the **current account deficit** was 857.1 million euro and was higher by 111.8 percent relative to the same period of 2019. Expansion of the current account deficit is a consequence of the decline in surplus on the account of services, as well as on the secondary income account.

In the period January-September 2020, the **goods account** deficit was 1.2 billion euro, or 20.4 percent less year-on-year, due to the sizeable reduction in import if compared to export of goods. Total export of goods was 279.9 million euro, which represents a decline of 16.8 percent; whereby the strongest contribution comes from decline of exportation of oil and oil derivatives, electricity and non-ferrous metals. Total import of goods amounted to 1.5 billion euro and was 19.8 percent lower year-on-year, as a consequence of reduced imports of oil and oil derivatives, as well as of road vehicles.

The **services account** ended up in a surplus of 138.2 million euro, which is 85.6 percent less than in the same period of 2019. Total revenues from services were 493.7 million euro or 66.2 percent lower compared to the same period of 2019, while the expenditures amounted to 355.4 million euro (a drop of 29.1 percent). Estimated revenues from travel and tourism in the period January-September 2020 were 122 euro, which was 88 percent less than during the same period of the previous year. A decline in arrivals and overnight stays of foreign tourists was recorded in the observed period.

The **primary income** account registered a surplus of 62.2 million euro, whereby a deficit of 12.7 million euro was recorded on this account in the previous year. Revenues resulting from the primary income were 217.3 million euro, which is 7.1 percent less year-on-year. During the observed period a reduction in overall expenditures of 37.1 percent was recorded, which amounted 155.1 million euro, due to lower outflows for international investment income and for employee compensation.

The **secondary income** account recorded a surplus of 185.2 million euro, which is 11.6 percent lower compared to the first three quarters of 2019. Total transfers inflow to Montenegro were reduced by 9.0 percent year-on-year, and amounted to 246.7 million euro, of which majority is made of personal transfers from abroad in the amount of 177 million euro. During the same period, total outflow on the account of transfers abroad was 61.5 million euro, which was generally at the same level as during the first three quarters of 2019.

3.1.6.2 Financial Account

In the period January–September 2020, the **portfolio investments** account recorded a net outflow of 275.8 million euro, while the net inflow on the other investments account was 392.5 million euro. The main drivers of developments on this account were higher borrowing of the State and banks on the account of credits taken, if compared to the same period of 2019, while other sectors have reduced their credit liabilities.

According to the preliminary data, **the net inflow of foreign direct investments** was 345.4 million euro in the period January-September 2020, which is an increase of 52.2 percent year-on-year. These trends are result of lower level outflows of foreign direct investments along with increase in inflow on the account of intercompany debt, compared to the same period of 2019. Total foreign direct investments inflow was 506.8 million euro, of which equity investments made 164.3 million euro (a decline of 51.1 percent), while the inflow in form of intercompany debt was 311.9 million euro or 32.7 percent more relative to the same period of 2019. Inflow resulting from withdrawing investments from abroad was 30.6 million euro. As for the composition of equity investments, investments in companies and banks were 91.9 million euro (decline by 55.4 percent), while the investments in immovable property were 72.4 million euro (decline by 44.1 percent). Total foreign direct investments outflow was 161.4 million euro in the period January-September 2020, which is 55.8 percent less year-on-year. The outflow from investments of residents abroad was 19.7 million euro; while the withdrawal of funds of non-residents invested in our country was 141.7 million euro.

Table 4: Balance of Payment of Montenegro, in thousand euro

No	Item	Jan-Sep 2019	Jan-Sep 2020	Change in %
1	Current account	-404,671	-857,133	111.8
1.A	Balance of goods and services	-601,443	-1,104,482	83.6
1.A.a	Goods***	-1,561,427	-1,242,723	-20.4
1.A.a.1	Export, f.o.b.	336,224	279,878	-16.8
1.A.a.2	Import, f.o.b.	1,897,652	1,522,601	-19.8
1.A.b	Services	959,984	138,241	-85.6
1.A.b.1	Revenues	1,461,426	493,682	-66.2
1.A.b.2	Expenditures	501,442	355,441	-29.1
1.B	Primary income	-12,703	62,186	
1.B.1	Revenues	233,973	217,258	-7.1
1.B.2	Expenditures	246,676	155,072	-37.1
1.C	Secondary income	209,475	185,162	-11.6
1.C.1	Revenues	271,145	246,654	-9.0
1.C.2	Expenditures	61,669	61,492	-0.3
2	Capital account	-499	9	
2.A	Revenues	0	11	
2.B	Expenditures	499	2	
	Balance of current and capital account	-405,170	-857,124	111.5
3	Financial account, net ****	-444,860	-763,159	71.6
3.A	Net acquisition of financial assets	-83,167	-307,100	269.3
3.B	Net increase/incurrence of liabilities	361,692	456,059	26.1
3.1	Direct investments, net (=assets-liabilities)	-226,901	-345,436	52.2
3.1.1	Net acquisition of financial assets	57,429	-10,852	
3.1.2	Net increase/incurrence of liabilities	284,330	334,584	17.7
3.2	Portfolio investments, net (=assets-liabilities)	124,131	275,756	122.1
3.2.1	Net acquisition of financial assets	16,091	10,975	-31.8
3.2.2	Net increase/incurrence of liabilities	-108,040	-264,781	145.1
3.3	Financial derivatives, net (=assets-liabilities)	249	230	-7.6
3.3.1	Net acquisition of financial assets	174	-34	
3.3.2	Net increase/incurrence of liabilities	-75	-264	252.0
3.4	Other investments, net (=assets-liabilities)	-188,127	-392,513	108.6
3.4.1	Net acquisition of financial assets	-2,650	-5,993	126.2
3.4.2	Net increase/incurrence of liabilities	185,477	386,520	108.4
3.5	CBCG reserves	-154,211	-301,195	95.3
4	Net errors and omissions (3-2-1)	-39,689	93,966	

Source: Central Bank of Montenegro

3.1.6.3 International Investment Position

At the end of 2019, the **net international investment position**¹⁶ of Montenegro was 8.3 billion euro or 168.6 percent of GDP. Total external receivables of residents were 2.9 billion euro, and liabilities 11.3 billion euro.

Table 5: International Investment Position, in million euro

	2018	2019*
1. International investment position, net	-7,861.6	-8,345.9
2. Assets¹⁷	2,636.9	2,636.9
2.1. Direct investments, net	74.7	93.7
2.2. Portfolio investments, net	255.2	325.2
2.3. Financial derivatives	0.0	0.0
2.4. Other investments **	1,281.8	1,170.7
2.5. CBCG reserves	1,038.3	1,341.0
3. Liabilities¹⁸	10,511.6	11,276.4
3.1. Direct investments	4,676.5	4,844.8
3.2. Portfolio investments	1,258.8	1,590.3
3.3. Financial derivatives	0.0	0.0
3.4. Other investments	4,576.3	4,841.4

Source: Central Bank of Montenegro - CBCG

Compared to the end of 2018, the negative net international investment position at the end of 2019 increased by 484.3 million euro, due to increase in financial liabilities (by 764.9 million euro), while it was offset to certain extent by contemporaneous increase in financial assets (by 280.6 million euro). Preliminary data indicate that there is an increase in negative net position across all investment instruments¹⁹, if compared to 2018, but the largest change is recorded under portfolio investments, where the net position (assets less liabilities) was increased by 331.5 million euro (an increase of 26.3 percent), due to increase in liabilities of the State under debt securities (by 330.9 million euro).

Increase on the side of assets during 2019 was generated mainly from the increase in the Central Bank of Montenegro reserves. Analysis of the assets composition by financial instrument, shows that the Central Bank of Montenegro reserves have dominant share (45.8 percent), as well as the currency and deposits (33.2 percent of total assets).

The analysis of categories of the total external financial liabilities of Montenegro shows that the highest share goes to direct investments of 43.0 percent (4.8 billion euro), of which the major instruments are the equity investments with 60 percent (2.9 billion euro), and other investments with 42.9 percent (4.8 billion euro).

During 2019, the portfolio investments recorded a sizeable growth by 331.5 million euro and amounted to 1.6 billion euro (share of 14.1 percent), of which the biggest portion goes to sovereign liabilities resulting from Eurobonds. The other investments have recorded growth of 5.8 percent or by 265.1 million euro. Loans have a dominant place as the most important instrument on the side of liabilities with an annual increase of 210.1 million euro and stock of 4 billion euro (with share of 35.6 percent in total liabilities), as well as currency and deposits which amounted 787.8 million euro at the end of 2019 (with share of 7.0 percent).

¹⁶ Net International investment position is the difference between external financial assets (receivables) and external financial liabilities and capital (liabilities).

¹⁷ Assets consist of net amount of assets of resident (investments minus withdrawals).

¹⁸ Liabilities and capital consist of net amount of assets owned by non-residents (investments minus withdrawals).

¹⁹ Foreign direct investments, portfolio investments, and other investments

3.2. Medium-term Macroeconomic Scenario

Based on the accessible data and available sector indicators, as well as the expectations by the end of 2020, the assessment of downturn of the Montenegrin economy in 2020 was made, while taking into account experience coming from impacts of the previous crisis on the most important macroeconomic indicators, foreign direct investments, and labour market developments. Projections of the macroeconomic indicators for the period 2021-2023 are based on assumptions of partial recovery of economic activity, return to the pre-crisis level, and further economic growth, in accordance with partial upkeep of investment activities and beginning of a new cycle, with sizable high share of exports and private spending.

The most important macroeconomic parameters over the medium term were forecasted with view of commenced and planned structural reforms in the country, the European and regional economic activity, development and distribution of vaccines for treatment of COVID-19 virus, as well as favourable investment framework, along with further improvements in the business climate in the country. The European Union support and adopted Economic and Investment Plan for the Western Balkans, with increase in regional trade exchange, will further improve prospects of the national medium term growth and recovery.

The next part of this Chapter presents three macroeconomic scenarios for developments in the Montenegrin economy for the period 2020–2023: the baseline scenario based on relevant assumptions, possible macroeconomic risks that could jeopardize developments in forecasted trends; and two alternative scenarios that take into account adverse outcomes to some of the presented risks, which could jeopardize quick and balanced recovery, and slowdown growth in the years to come. The third scenario takes into account faster and balanced distribution of vaccines against the contagious disease COVID-19, which could have influence the faster recovery of the tourism sector and associated economic activities, and consequently on the overall economic growth.

The strong impact of the crisis on the Montenegrin economy is presented in the text to follow while considering the policy guidance of the European Commission, agreed as part of the **Joint Economic Dialogue** held in May 2020. With the assistance provided so far, the European Union has expressed high levels of solidarity by providing needed support to the healthcare system of Montenegro, grant funds for mitigating socio-economic consequences of the crisis, as well as by extending macro-financial assistance mechanisms. Continuation of the European Union integration will be of crucial importance for the economic recovery path of Montenegro over the medium term. At the Intergovernmental Conference held on 30 June 2020 in Brussels, at the peak of the health crisis, Montenegro has opened the last negotiation chapter, Chapter 8 – Competition, which is one of the most complex ones, showing clear commitment to the European Union and representing an important incentive for further reaching of the set development objectives.

3.2.1. Baseline Macroeconomic Scenario 2020-2023 and related risks

The macroeconomic scenario for the period 2020-2023 may be split into two time horizons: sizeable economic downturn in 2020; and gradual recovery during the next three-year period. According to Monstat's preliminary quarterly data, the real decline of Montenegrin economy reached 15.2 percent in 2020, with all components in the GDP structure facing decline. This is the biggest contraction in the last several decades in Montenegro, that resulted from closed international borders and large decrease of aggregate demand in tourism and in associated economic activities. The economic decline experienced in 2020 is identical to the estimate of the Ministry of Finance and Social Welfare. The largest decline was recorded in respect of exports of goods and services (-48.9 percent in real terms), which was mainly driven by the annual decline in tourism revenues that reached 87 percent in 2020 given that major restrictions were imposed on international travels, including strict epidemiological standards introduced by the EU countries, which led to such high decline in tourism sector. Gross fixed

capital formation has also made high negative contribution to the GDP rate generated in 2020, reaching 3.4 p.p., due to delay of private and public investments, delay of investment decisions, transfer of a part of investments to the following year and greater level of cautiousness among investors. The available data on net foreign investments point to the high level of resilience, with annual growth of as much as 53.2% in 2020, i.e. 467 million euro in nominal terms; therefore, according to the estimate, the net inflow of FDI accounted for 11.1 percent in GDP in 2020. The labour market will face a substantial shock in 2020, with estimated drop in employment of 7.3 percent if compared to 2019, while the unemployment rate will reach the high level of 17.2 percent, diverging sizeably from the 2019 level, when it was 15.1 percent. It is estimated that the impact on unemployment would have been several percentage points higher if not for measures and adopted packages of state aid, which was especially important as the large level of employment was maintained thanks to the subsidies for part of the wage in the most affected sectors of the economy.

High decrease in collection of budgetary revenues will cause an adverse fiscal stance of the country and will influence the most important fiscal parameters. The European Commission envisages for the public debt to be 87.3 percent of GDP in 2020, while the public finance deficit will be around 9 percent of the estimated GDP. Nevertheless, the bonds issue at the beginning of December 2020 has secured stable financing of the budgetary spending for 2021. Despite strong support of the banking system to the household and corporate sectors at time of the present crisis, and preserved stability of the financial sector, large fall in newly approved loans is expected in 2020, due to lower demand and more stringent financing conditions. The banking sector, whilst having high resilience and favourable operation parameters, is however facing increase of non-performing loans and decline in profit. On the other hand, the real sector having as its main feature structural illiquidity during the crisis is gradually moving to the higher insolvency risk level over very short period. The financially sustainable companies must have access to funds through developmental institutions and traditional banking services in order to overcome the current situation. Furthermore, the decline in export-oriented sectors in 2020, due to the high sensitivity of the Montenegrin economy to external factors, will have negative impact on the country's external position.

Reconstruction of the present economic structure of Montenegro requires time and it could be partially achieved over the medium term only with enormous efforts and commitment of all actors at the economic and social scene. Main features of the period 2021-2023 will be return to trends to a pre-crisis level, further economic growth and increase of potential output of the economy, as well as returning to the track of narrowing the development gap relative to the European Union Member States. Structural weaknesses identified by the European Commission, pertaining to the national economy, such as low labour force participation rates, a regulatory framework for doing business, and formalisation of economic activities will have to be tackled with strong will, and wide range spectrum of public policy measures, coupled with the strong social consensus. The planned structural reform measures, such as reform of the tax administration, implementation of the electronic public procurement system, and other measures, will contribute to suppression of the informal economy and will yield large positive effect on the fiscal sustainability. Improvement of the labour legislation by introducing new labour schemes and strengthening the operational capacity of the Employment Office, along with additional education reforms, will start to address challenges occurring in the labour market.

Over the previous four-year period, the regulatory framework for the business and investment environment was improved significantly through adoption of a set of laws and enabling regulations on the central government and local government level, such as amendments to the Law on Local Self-Government Financing, amendments to the Law on Administrative Fees, adoption of the Law on Public Procurements aimed at increasing public administration efficiency, adoption of the important Law on Public-Private Partnership, as well as of amendments and supplements of the Law on Concessions. The adopted reform measures, aimed at improving private sector competitiveness and providing incentives for potential for further economic growth, during the previous period have included increase of the minimum wage by 15 percent with simultaneous reduction of health insurance

contributions charged to the employer, a set of laws addressing the financial system, and the public administration reform and public finance management reform in order to increase the tax discipline level and to improve collection of budgetary revenues. Further planned support to innovations in industrial production, agriculture and tourism, which will be implemented through relevant state administration authorities, will provide sizeable rise in productivity of these sectors and improve the business environment in the county, coupled with targeted strengthening of the MSMEs competitiveness.

Setting the path towards a downward trend of relatively high public debt will be particularly important for Montenegro in the next medium term, accompanied with appropriate debt management strategies that will contribute to the macro-economic stabilisation. This could be achieved by implementing precisely targeted structural reform measures, dynamizing the economic growth, and through further optimisation of public administration.

According to the projections, the feature of the macroeconomic developments in the period 2021-2023 will be partial and gradual recovery of economic trends, driven primarily by expected tourism sector developments and announced investment projects in the energy sector, agriculture, industrial production, tourism, transport, telecommunications, and the IT sector. The economic governance needs to be optimised and adjusted in line with the new expectations and development potentials in the listed areas, which are expected to be leading sectors of the economy and pillars of economic growth and development over the medium term. In accordance with development plans, economic recovery, based on new postulates of innovations, digitalisation and green development is extremely important for Montenegro, which will improve considerably sustainability and resilience of the Montenegrin economy. The new policies must also affect inclusivity of economic growth and long-term development. To that end, planned policy measures are encouraged by decision makers, such as improvement of legislative and institutional framework for research and development, innovation, and digital transformation. Improvements of the programmatic framework for implementation of the Montenegro Smart Specialisation Strategy, which integrates quoted development principles, are of particularly high importance since Montenegro is the first country outside of the European Union that has adopted this type of strategy.

Substantial focus of the economic policy over the forthcoming medium-term period will be diversification of the economy and sustainable development, which will reduce large negative external position of the country by offsetting part of the high import dependency with own production, especially in agriculture and energy sectors, as well as improvement of competitiveness and larger offer in the manufacturing industry sector, which will contribute to better export performance of the national economy. In absence of planned policies to diversify the real sector, which are embedded in the medium-term macroeconomic framework, the growth of the economy would be lower with much higher satisfying of domestic needs from the external demand. However, this process will be gradual and will bring much larger benefits to the long-term economic development.

The average real economic growth rate in the period 2021-2023 will be 7.6 percent, whereby strong economic recovery of 10.5 percent is projected for 2021, while growth rates of 6.5 percent and 5.8 percent are projected for 2022 and 2023 respectively.

Core assumption of the scenario is based on expectations that the threat of the contagion is sizeably reduced in the first half of 2021, with collective immunity acquired and a large number of vaccines administered, which creates grounds for a faster recovery and growth in 2021 and in the years after. The most important assumption of the trends projected in 2021 refers to tourism revenues reaching 65 percent of those generated in 2019, taking into account comparative experience of the neighbouring Croatia in crisis management and border flexibility in respect of international passenger mobility in 2020. Expectations in tourism are based on available information and announcements from tourism sector, while the most important assumption entails immunisation of the population with the vaccines available in the country in 2021, with the target of 70 percent of adult population either vaccinated or recovered from Covid-19 infection by the summer. This is also aligned with economic

projections of the European Commission and similar assumptions for the EU Member States, while similar trends are also expected in the countries of the region. The assumptions of tourism trends are also based on a large interest by the main source markets for tourism in Montenegro, favourable epidemiological measures and open borders for entry into the country, as well as on increased capacities of the tourism sector and announcement of the start of operation of the newly established air carrier ToMontenegro, as from the beginning of the season.

Economic activity in 2021 is based on a smart and flexible positioning in tourism, accompanied by renewal of the previous air routes of the company and expected significant contribution from regional visits via road traffic.

Most of the macroeconomic indicators are projected to achieve the 2019 level again in 2022, with significant contribution made by tourism, which would account for over 90 percent of the 2019 revenues in that year, as well as by associated activities and recovery of the consumption and investment trends in the country.

Assumptions for the macroeconomic framework over the medium-term period are based on the forecasted developments in the global economic activity and expectations of mass distribution of vaccines to suppress further spreading of the pandemic as soon as possible across the World.

The assumptions for the projections also include the European and regional economic activity, which represent the most important sources of trade exchange, investments and internal tourist consumption [in-country spending]. Strengthening regional connectivity through initiative of establishing a joint regional market will further improve the trade cooperation of the Western Balkans countries. The most important economic parameters in the European Union and the Euro area, such as GDP and inflation trends, are also important indicator of causality to real sector tendencies in Montenegro, and they were used as a starting point for projections of the most important macroeconomic aggregates, given that the European Union is the principal external engine of growth and employment in the region. Projections of relevant international organisations on prices developments for the most important primary commodities in the global markets, such as oil, food, metals products, and other, were also used in assumptions for external environment.

In the next three-year period, the largest positive contribution to the economic growth will be made by domestic demand at the level of 4.6 p.p, driven by recovery of household consumption and gross fixed capital formation. Net exports of 3.3 percent will have a high share in economic recovery and growth, due to a strong growth of exports supported by the growing revenues generated from tourism, transport and other services, as well as by high growth in goods export resulting from diversification of the product base and increase of prices of the relevant exported products in international markets.

Numerous announced projects and investments, both public and private, will maintain the investment cycle to a certain extent, which has exhibited signs of slowdown in 2019. The second section of the Bar-Boljare Highway was not taken into account in development of the medium-term scenario, given the domestic fiscal limitations in terms of its financing, as well as drafting of a study on its sustainability and economic cost-effectiveness, which is a condition required by the European Union when funds are allocated for investment into priority projects.

Macroeconomic projections 2020-2023 have the following components on the consumption side:

- In the next three-year period, domestic demand will make the largest positive contribution of 4.6 p.p. to the economic growth as it will be driven by strong recovery of private consumption and gross investments; Private consumption will, after the high decline of 5.4 percent this year, grow annually at the average real rate of 3.5 percent in the period 2021-2023, in line with the projected tourism revenues, strong growth of foreign remittances, return of employment trends to the pre-crisis level, expansion of credit activity, but also in line with the average increase of real wages of 0.7 percent in the projected horizon, due to output growth and increase of productivity of domestic economy; Investments that have been one of the core drivers of economic growth in the past four-year period will recover in the period 2021-2023 at the average annual growth of 6.1 percent, after the estimated

high decline in 2020, and will remain at the high level of around 32 percent of GDP, which is 1.6 billion euro in nominal terms. Investment activity will be supported by the previously started investment cycle in the country, with huge investments in infrastructure, adopted economic and investment plan of the EU for the Western Balkans and high value of planned foreign investments, which will be additionally stimulated by the Economic Citizenship Programme and announcements of foreign investors in Montenegro; At the end of 2021, contribution of domestic demand to the GDP growth decreases due to the slowdown of the components of aggregate demand and simultaneous intensification of the export potential (goods and services);

- Foreign demand (net export), prompted by a strong real growth of exports in goods and services at the average value of 30.5 percent in the period from 2021 to 2023, will make a high positive contribution of 3.0 p.p. to the real GDP growth during the same period, as opposed to the negative contribution of 8.8 p.p. achieved in 2020; By returning to the pre-crisis level, tourism will make a strong positive contribution to the economic growth rates in the medium term, and in 2021 it will account for 65 percent of the 2019 revenues; Revenues generated from tourism in 2022 are estimated to be at the level of 91 percent of the 2019 revenues, while in 2023 they are estimated to be higher than those generated in the pre-crisis period by around 14 percent. The expected trend of tourism revenues is one of the most important factors for achievement of the medium-term macroeconomic scenario, and is based on available information and announcements from tourism sector and on the most important assumption of massive immunisation of the population by the vaccines available in the country in the first half of 2021, before the beginning of the summer season. The prospects of a strong recovery of domestic tourism sector in 2021 are additionally reinforced by interest of tourists from the countries of the region, and of those from the other important markets (Russia, EU), as well as by the expected favourable epidemiological situation in the country, increased capacities in tourism and start of operation of the new air carrier. Regional visits via road traffic are also expected to make a significant contribution, due to a relatively good and fast accessibility of Montenegro as a destination.

The new air carrier ToMontenegro will gradually take over licences, operating infrastructure, and a part of staff of the previous company;²⁰ The average annual growth of goods export in the period 2021-2023 is projected at 11.3 percent, with metal and energy sectors being dominant component in goods export, while pharmaceutical industry, wood processing and production of food and beverages are sectors that have possibilities for greater export potential. Overcoming bottlenecks in infrastructure and better connectivity with the region through transport corridors will create greater export opportunities; After recovery in 2021, the import of goods and services will grow over the next two years at the rate of 6.7 percent, reflecting the projected dynamics of the trends of personal consumption of households and gross investments, as well as the recovery of demand in tourism sector.

²⁰ At the end of December 2020, Montenegro Airlines flights were grounded under the Government decision; On 30 December 2020, without holding the session and on the basis of consents obtained from the majority of Government members, the Government of Montenegro passed the decision to establish a new airline company 'ToMontenegro' – "Official Gazette of Montenegro, No 129/2020".

Table 6 Montenegro: Macroeconomic projections 2023-2023 – Baseline scenario

MONTENEGRO: MACROECONOMIC PROJECTIONS 2020-2023 – BASELINE SCENARIO	2019	2020	2021	2022	2023
	-	-	-	-	-
Nominal GDP in million euros	4950.7	4193.2	4636.6	4984.6	5310.5
Nominal growth	6.2	-15.3	10.6	7.5	6.5
Real growth	4.1	-15.2	10.5	6.5	5.8
Inflation (average)	0.4	-0.3	1.2	1.4	1.2
	(as % of GDP)				
Core characteristics:					
Current account deficit	-15.0	-26.0	-18.7	-15.1	-11.6
Export	43.7	24.8	37.6	42.3	45.9
Import	64.8	59.7	65.1	66.4	66.8
Other	6.1	8.2	8.8	8.9	9.3
Household consumption	71.4	79.6	75.6	73.2	71.6
Gross investments	31.9	32.6	32.3	32.1	31.4
Gross fixed capital formation	27.3	27.6	27.7	27.8	27.4
Changes in inventories	4.6	5.0	4.5	4.2	4.0
Government expenditure	17.8	22.6	19.7	18.7	17.9
GDP deflator	2.0	-0.2	0.0	1.0	0.7
	(real growth rates in %)				
Real GDP growth	4.1	-15.2	10.5	6.5	5.8
Domestic demand	2.7	-5.3	4.3	3.5	2.8
Household consumption	3.1	-5.4	4.2	3.2	3.0
Government expenditure	1.0	-0.9	-0.5	0.0	0.5
Gross investments	2.9	-7.5	7.9	6.4	3.9
Gross fixed capital formation	-1.7	-12.3	9.4	7.5	4.5
Changes in inventories	53.1	20.8	0.0	0.0	0.0
Export of goods and services	5.4	-48.9	58.3	19.1	14.0
Import of goods and services	2.4	-19.5	17.1	8.0	5.5
	(share in real growth as % of GDP)				
Real GDP growth	4.1	-15.2	10.5	6.5	5.8
Domestic demand	3.3	-6.4	5.9	4.5	3.5
Household consumption	2.2	-3.8	3.4	2.4	2.2
Government expenditure	0.2	-0.2	-0.1	0.0	0.1
Gross investments	0.9	-2.4	2.6	2.1	1.3
Gross fixed capital formation	-0.5	-3.4	2.6	2.1	1.3
Changes in inventories	1.4	1.0	0.0	0.0	0.0
Net export	0.7	-8.8	4.7	2.0	2.3
Export of goods and services	2.3	-21.4	15.0	7.2	5.9
Import of goods and services	-1.6	12.6	-10.3	-5.2	-3.6
Macroeconomic indicators:	growth in percent, unless otherwise indicated				
Employment growth	2.7	-7.3	6.2	2.3	1.6
Growth of wages (gross)	0.9	1.3	1.5	2.5	2.0
Unemployment rate	15.1	17.2	15.6	14.3	13.8
Net FDI as % of GDP	7.0	11.1	10.4	9.6	9.0
Domestic loans (corporate and household)	7.4	-18.4	12.7	9.0	7.8

Source: Projections of the Ministry of Finance and Social Welfare

Macroeconomic indicators:

- Current account deficit in the balance of payments will decline from the estimated 26.0 percent of GDP in 2020 to 11.6 percent of GDP in 2023, due to the planned dynamics for imports and exports of goods and services;
- Due to the high level of confidence among foreign investors and further increase of the inflow of investments over the medium term, the net foreign investments are expected to account for on average 9.7 percent of GDP in the period 2021-2023;
- Newly approved loans to corporate and household sectors will continue to spur rise of the economic activity and will record the average growth of 9.8 percent;
- Employment will grow in the period 2021-2023 at the average annual rate of 3.4 percent, shadowing the economic activity growth and potentials of the domestic labour force;
- Unemployment rate will decline from the estimated 17.2 percent in 2020 to 13.8 percent in 2023, in line with the envisaged recovery of the labour market developments and as a result of the planned policies focusing on increase of participation of the working age population;
- According to the projection, nominal wages will record the annual growth of 2.0 percent in the period 2021-2023, as a result of a dynamic economic growth and increased productivity of the domestic labour force;
- Steady growth of consumer prices is expected in this period, with the average growth rate of 1.3 percent. The projection is based on acceleration of the economic activity in the medium term, change to the excise tax policy, forecasts of the European Commission in respect of the price of the crude oil type Brent in the world market and projections of the European Central Bank in respect of inflation in Euro area.

GDP growth contains the following components on the production side:

- The real growth in agriculture sector in the period 2021-2023 is projected at the average of 7.3 percent. This growth is projected on the basis of increased investments in agriculture, with substantial budgetary support to this sector. Investments in agriculture sector are expected to increase competitiveness of farmers and lead to reduction of food imports through the substitution and/or growth of exports; According to the projection, agriculture will account for 7.5 percent of GDP, which is an increase from 6.4 percent in 2019, with such increase reflecting domestic focus on greater use of the available arable land and better satisfaction of domestic needs from own resources in the economic structure.
- Mining and quarrying sector will continue to grow, at the average annual rate of 4.7 percent in the medium term, as a result of greater domestic production and increase of export potential of the mining sector.
- Manufacturing industry will grow at the average rate of 4.7 percent in the period 2021-2023 as a result of the announced industrial policies and specific support to these; Special contribution to the growth of this sub-sector is expected from the growth of food processing, timber industry, metal complex and production of pharmaceuticals.
- Construction sector will grow in the medium term at a somewhat higher average rate of 8.3 percent per year and will be influenced by the decline experienced 2020 and by the projected dynamics of investments in the coming period. Domestic construction sector companies acquired a certain level of knowledge and know-how over the past four years, as a result of which higher productivity growth and higher added value of this sector in the overall economy are expected in the future;

- This scenario foresees a growth of accommodation and food services, which partly cover tourism sector, as well as transport sector, at the rate of 56.7 percent and 15.3 percent respectively, and also envisages a gradual recovery of these activities in the medium term and their further growth, since they sustained the greatest shock in 2020. Phased completion of the started investments in tourism will increase the supply of higher-category facilities, which is a precondition for strengthening the contribution of this sector to GDP growth. Increase and improvement of the supply in the segment of collective accommodation will particularly contribute to the faster growth of revenues from tourism since consumption in this type of facilities comparatively contributes more to tourism revenues than the private accommodation.

The table below outlines indicators by aggregated production sectors:

Table 7 Production sectors – real growth rates and share in Gross Value Added (GVA)

Sectors	REAL GROWTH RATES, IN %				SHARE IN GDP GROWTH, IN %				SHARE IN GVA, IN %			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Agriculture	0.8	8.0	7.0	7.0	0.1	0.6	0.5	0.5	9.3	8.9	8.8	8.9
Industrial production	-0.8	3.9	4.5	12.5	-0.1	0.4	0.5	0.4	13.9	12.8	12.4	12.0
Construction industry	-5.0	12.0	7.0	6.0	-0.3	0.9	0.5	0.4	8.8	8.7	8.7	8.6
Service activities	-19.6	15.5	8.5	7.3	-11.5	8.6	4.9	4.3	68.0	69.6	70.1	70.5
-of which accommodation and food services	-60.0	100.0	40.0	30.0	-4.7	3.7	2.7	2.6	4.5	8.0	10.4	12.6
GVA (gross value added)	-16.7	9.9	7.3	6.0	-11.9	10.5	6.5	5.7	100.0	100.0	100.0	100.0
Taxes less subsidies	-3.0	1.0	2.6	3.5	-3.4	0.0	0.0	0.2	N/A	N/A	N/A	N/A

Risks for materialisation of the macroeconomic scenario include those that could have impact on the core drivers of growth in the medium term and those that concern fiscal and financial sustainability:

- One of the main risks to materialisation of the baseline scenario of macroeconomic projections is global effort in mass distribution of the COVID-19 vaccine. Following the first several smaller deliveries of the vaccines which were intended for population categories with the most vulnerable health and for priority groups, Montenegro has already secured several larger contingents of vaccines which are delivered in phases, at a considerably faster pace compared to what has been envisaged earlier. The fact that Montenegro was already late with vaccination compared to the other European countries could have compromised efforts of the country to position itself as a tourist destination and could have also weakened the prospects of arrival of international tourists to Montenegro. Still, all capacities focus on achieving the desired threshold of vaccination of the population in the first half of 2021, which would certainly be a positive incentive for the prospects of a faster and stronger growth. A potential risk in this regard could be a low interest of the population in vaccination.
- One of the domestic risks might be the projected fiscal indicators, which will limit the room for further action by the government aimed at achieving more rapid economic development, and this may have negative impact on the ratings assigned by international rating agencies and consequently on investors' mood;
- Delay in implementation of the measures of structural reforms would reduce economic growth potential in the medium term, and would have a negative impact on macroeconomic stability;
- Potential delay in start of the full capacity operation of the new airline company could lead to a fewer number of tourist arrivals to the country, and consequently to lower revenues generated on this basis in 2021. National airline company had a record year in 2019 when it accounted for 25 percent in total number of passengers in the Montenegrin airports in that

year, which needs to be compensated in the short term through operation of the new company.²¹

- Implementation of further and more rigorous measures for the protection of public health and their unfavourable impact on the economy and employment;
- Changed dynamics of private and public investments poses a risk to materialisation of the baseline macroeconomic scenario;
- Unfavourable weather conditions might have impact on tourism, energy and agriculture sectors.
- Degree of global spill over effect of lower domestic and external demand, income decline and greater saving, on private spending, tourism turnover and overall expansion of economic activity.
- Further geopolitical tensions, social unrest, trade tensions, and multilateral cooperation in the post-COVID era;

3.2.2. Potential Growth

The new macroeconomic model developed for the needs of Montenegro contains an update to the potential economic growth, which reflected substantial deviations from the previous assessment since a strong and sudden shock to the economic developments in 2020 led to a huge change of this component within a very short period.

Sudden interruption of the business cycle of the previous period will create a deep output gap in 2020, with gradual recovery of economic potential in the medium term, positive contribution of capital component to the economic growth, increase of activity and employment in the labour market, while the overall productivity growth will depend on the efficiency in using available national natural and human resources, degree of innovation in the country and investments in research and development, as well as on the rationalisation of public services and administration.

The calculation of the potential growth is based on Cobb-Douglas methodology of the production function and takes into account the estimated value of capital stock of the economy, available labour force and domestic constraints in respect of the level of participation and employability in the labour market, as well as the most important component of the total factor productivity.

According to the estimate, the average potential growth of the Montenegrin economy for the period 2008-2019 is 2.2 percent, while in the period 2020-2023 it declines to the average of 1.7 percent. Analysis of the share of production factors and total factor productivity related to them shows that in the period 2008-2019 the average real growth of the Montenegrin economy was 2.5 percent, which is somewhat higher than the potential output, while the share of capital in the real growth rate is on the average 2.8 percent, the share of labour force is 0.8 percent, while total factor productivity had a negative share of 1.1 percent. This shows that the average growth potential has been determined primarily by the growth in physical capital, weak contribution of the labour force and negative share of total factor productivity.

The average real growth rate of merely 1.1 percent is projected for the period 2020-2023 due to the double-digit economic decline in 2020, which indicates that the economy will perform below its potential in the first years of the medium term. The share of production factors somewhat varies and in the period 2020-2023 it is at an average of 2.1 percent for the capital, while the share of labour force goes down to 0.5 percent and total factor productivity as a residual is negative and is 1.5 percent.

Due to a high share of investments in the overall economic structure, increase in capital stock of domestic economy in the previous period resulting from major infrastructural investments, improved

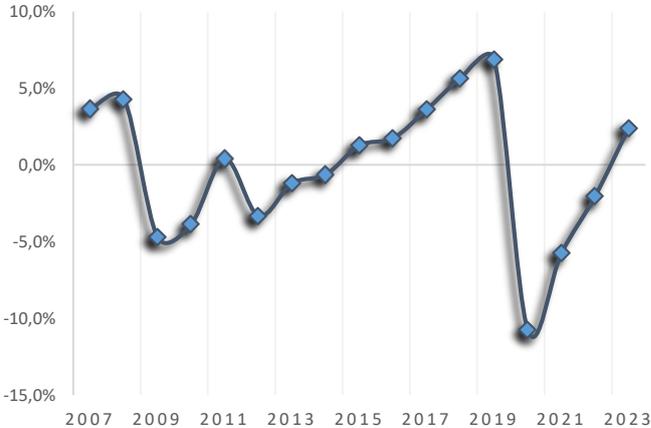
²¹ https://montenegroairlines.com/footer/o_nama/vijesti/vest?id=87

investment climate in the country and regulatory framework, and also due to the record level of investments in 2019, the share of capital as one of the growth components remains positive throughout the entire medium-term period, stabilising itself at a somewhat more sustainable contribution to the real economic growth.

On the other hand, negative demographic trends, which include migration, and limitations of domestic potential of the labour force, indicate a decrease in the share of labour as a component of the potential growth in the medium term.

According to the current scenario of projected trends, a deep **negative output gap** of 10.8 percent will be recorded in 2020, with gradual narrowing of the negative gap in the medium term, while it will transition to the positive output gap at the end of 2022 and at the beginning of 2023. According to the baseline macroeconomic scenario, only at the end of 2022, upon return to the pre-crisis level in the first two years of the term, conditions will be in place for a more rapid economic growth and development. The positive output of 2.4 percent is projected in 2023, with an increase in all three components of the potential, with 2.4 percent share of total factor productivity in the projected real growth.

Figure 1 Output gap 2007-2023



3.2.3. External sector and its medium-term sustainability

Montenegro is a small, open economy, with liberal trade flows and narrow production base that makes it a state highly dependent on imports, which generates high structural deficit in the external position of the country. Investment cycles in domestic economy drive a large volume of imports so as to meet demand for machineries and

equipment for works execution, and demand for energy and other materials, which is why trends in the external sector also show a cyclical component. Due to the large tourism sector, Montenegro also needs and imports a large quantity of food and beverages, while due to the strong private consumption in the country the majority of finished products, road vehicles and other goods are imported as well. As a result of the strong shock sustained by the economy in 2020 and decline in tourism sector, the external position of the country will be further compromised. The current account deficit is estimated to reach as high as 26.6 percent of GDP in 2020, which is a huge leap compared to 15.0 percent of deficit in 2019. A more favourable indicator in 2020, due to a high decline in imports, will be the deficit in goods account, which will go down to the estimated 38.5 percent of GDP, however it still remains the largest generator of negative balance of the current account. Deficit in the foreign trade balance is partly compensated with the surplus in the services account, which will 2020, due to the strong shock sustained by tourism, go down to merely 3.7 percent of GDP from a surplus of 20.6 percent of GDP in 2019, and is also partly compensated with surplus in the secondary income account (5.9 percent in 2020), as a result of the fact that Montenegro generates surplus in net transfers with abroad due to a high inflow of personal remittances. Potential decrease in net remittances by the end of 2020 would have unfavourable implications on formation of the available gross national income.

Due to the lack of domestic accumulation, the current account deficit in Montenegro is financed mainly from the inflow of foreign direct investments, as well as by borrowing by the State in the international financial market, which leaves great vulnerability and susceptibility of domestic economy to the volatile capital flows and currency fluctuations. According to the macroeconomic projections, the current account deficit will gradually reduce in the coming years as a result of tourism recovery, growth in goods exports and greater inflow of the remittances from abroad. Nevertheless, the still high import

dependency, along with a more dynamic economic activity, will result in a high growth of goods imports, which is why the reduction of deficit in external flows will be somewhat limited. Current

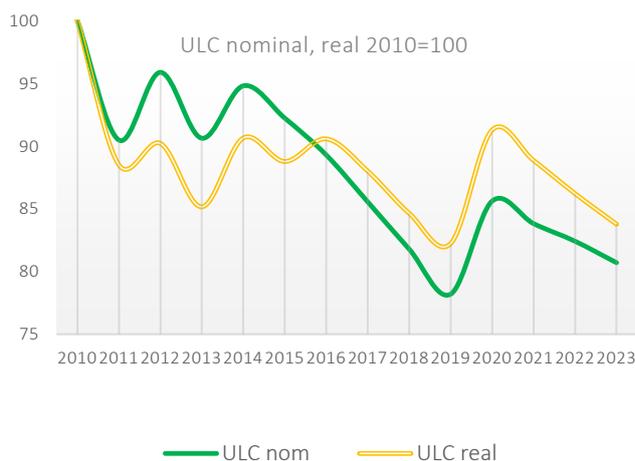
Figure 2: Productivity, 2007-2023



limited, given the structure of domestic production.

Analysis of productivity trends, stated as the ratio between the achieved gross domestic product and

Figure 3 Unit Labour Cost – ULC 2010-2023



account deficit at the end of the projected horizon is estimated at 11.6 percent of GDP. Net inflow of FDI in the period 2021-2023 is projected at 9.7 percent of GDP.

The new economic governance model, which would entail a more efficient use of domestic manufacturing, natural and other resources, would lead to a higher level of satisfaction of domestic demand from own sources, which would have impact on the reduction of external imbalance. Also, overcoming bottlenecks in infrastructure and better connectivity with the region creates greater export opportunities, whose positive effects for Montenegro will still be somewhat

limited, given the structure of domestic production. indicates an upward trend in the productivity, at the average rate of 1.4 percent in the period 2008-2019, which is below the average growth of the total economic activity in that period (2.5 percent). According to the projections for the period 2020-2030, a huge 8.5 percent decline in productivity will occur in 2020, since real GDP will decline more than the employment, while in the period 2021-2023 the productivity will grow at the average annual rate of 3.0 percent. The comparative figure shows productivity trends as a ratio between real GDP and number of employees.

Analysis of competitiveness which was prepared on the basis of the unit labour cost (ULC) shows that price competitiveness recorded a sizeable growth in the period 2010-2019, as a consequence of the growth dynamics of wages, employment, inflation and GDP. Total growth of expenditures for wages in the period mentioned above was 6.4 percent, while reduction of the contributions for health insurance from 4.3 percent to 2.3 percent in 2019 decreased the costs borne by employers and led to a decline in the costs of paid wages, which mildly stimulated growth of price competitiveness of labour in that year. In the period 2010-2019, inflation growth was 16.8 percent, while real wages decreased by 8.9 percent which is an indicator of internal devaluation. Cumulative growth of employment in that same period was 16.5 percent, while cumulative real growth of GDP was 32.5 percent. Relatively continuous decline in unit labour costs until 2019 is demonstrated by both, real and nominal indicators, which corresponds to the productivity growth and competitiveness growth. According to the projection for the period 2020-2023, unit labour costs will increase substantially in 2020 in both, nominal and real terms, because the decrease in the costs of paid wages at the aggregate level (as a result of lower employment) is much lower than the decrease in output in 2020. In the period 2021-2023, it is estimated that competitiveness will increase further and that downward trend of the unit labour cost will return, as a result of the projected dynamics of wages, employment, inflation and GDP.

3.3. Alternative scenario

Due to a large uncertainty in the projected trends of health situation in 2021 globally, in addition to the baseline scenario of the projected developments the Ministry of Finance and Social Welfare developed two additional ones, which include different directions of recovery and growth of the economy in the medium term. The part of the document below outlines their starting assumptions, as well as the comparative overview of all the three scenarios.

3.3.1. Low-growth macroeconomic scenario 2021-2023

In the period of turbulent developments in the global market, it is extremely difficult to make precise macroeconomic projections, particularly in the context of interdependence of market economies. Likewise, having in mind the developments in 2020, it is necessary to identify as many as possible risk factors that might have a negative impact on the core drivers of recovery and growth in the medium and long term, and which would have impact on financial and fiscal sustainability.

Guided by the identified macroeconomic risks, in addition to the main scenario the line ministry also prepared additional 2 scenarios of developments of the most relevant economic parameters in the period 2021-2023. The key difference between scenarios is to be found in revenues generated from tourism, whose different intensity over the years has determined dynamics of economic recovery.

One of the main risks to materialisation of the baseline scenario of macroeconomic projections is further course of the pandemic globally. Several corporations developed a vaccine and Montenegro has already secured a delivery and allocated funds for several contingents of vaccines of different producers. However, the next challenge is success of the vaccine, its duration and percentage of the population that will be vaccinated which is a reason for concern in respect of duration and return of society to the functioning without extraordinary circumstances.

Tourism is an extremely vulnerable economic sector, and in Montenegro is the main driver of the economy. It is certain that there will not be many arrivals of international guests during the New Year's holidays, due to further restrictions imposed by the health and sanitary measures, and that there will not be many entertaining events during winter season. In summer, even in the case of mass vaccination and return to the "previous condition", Montenegrin tourism would face fierce competition of larger destinations which are able to offer dumping prices (e.g. Turkey or Egypt). Decline in standards of the neighbouring countries would cause decline in demand for the tourism product of Montenegro. For that reason, there is a concern that the recovery of tourism might be below expectations. Instead of the expected revenues from tourism in 2021 at the level of 65 percent of revenues from 2019, it is possible to reach only 55 percent, which is a crucial difference from the baseline scenario, while assumptions are based on less favourable health situation in the country which leads to a lower inflow of foreign tourists and associated revenues. In this scenario, the average rate of economic growth for the next three-year period is 6.5 percent.

According to the developed macroeconomic scenarios, different intensity of generating tourism revenues by years determines the pace of economic recovery in the medium term.

Change in dynamics of investments taking place poses a risk to the materialisation of the baseline macroeconomic scenario. Still, net FDIs in alternative scenario would have as high as 9.3 percent of share in GDP structure. FDIs remain a very important factor for recovery of the Montenegrin economy. It has been recognised that the restriction of action of the state aimed at fostering economic development might have negative effect on rating assigned by credit rating agencies and on the mood of investors. Delay in implementation of the measures of structural reforms would diminish potential for economic growth in the medium term and would have negative impact on macroeconomic stability. After 2020, in which there has been an estimated 15.2 percent decline in GDP, a recovery might be

expected under alternative scenario at the growth rates of 7.3 percent, 5.9 percent and 6.3 percent in 2021, 2022, and 2023 respectively.

Unfavourable weather conditions may have impact on tourism, energy and agriculture sectors. Increased precipitation in 2010 damaged crops, and release of large quantities of water from the Albanian accumulations caused floods on Lake Skadar. Snowfalls in 2013 caused problems in transport and electricity supply. Likewise, hot winter and absence of precipitation might lead to the reduced generation of electricity, and also to the development of plant pests which may cause the greatest damage to organic agriculture.

Potential problems are further geopolitical tensions, social unrests, trade tensions and multilateral cooperation. However, in the alternative scenario we did not take into consideration the extraordinary circumstances.

Table 8 Montenegro: Macroeconomic projections 2020-2023, low-growth/downside scenario

Montenegro: Macroeconomic projections, 2020-2023				
	2020	2021	2022	2023
Nominal growth	-15.3	8.1	6.2	6.9
Real growth	-15.2	7.3	5.9	6.3
Inflation (average)	-0.3	0.8	1.2	1.2
Core characteristics:	(real growth rates)			
Real GDP growth	-15.2	7.3	5.9	6.3
Domestic demand	-5.3	4.3	1.4	2.5
Household consumption	-5.4	4.3	2.2	3.5
Government consumption	0.5	0.0	-4.2	0.4
Gross investments	-7.5	7.1	3.0	1.2
Gross fixed capital formation	-12.3	8.4	3.4	1.4
Changes in inventories	20.8	0.0	0.0	0.0
Export of goods and services	-48.9	47.8	20.4	16.6
Import of goods and services	-19.5	17.9	4.8	5.5
Macroeconomic indicators	(growth in percent, unless otherwise indicated)			
Employment growth	-7.3	5.2	2.4	2.5
Growth of wages	1.3	1.0	2.0	2.0
Unemployment rate	17.2	15.6	15.1	14.5
Net FDI as % of GDP	11.1	9.9	9.3	8.7

Source: Projections of the Ministry of Finance and Social Welfare

3.3.2. Faster economic recovery/Upside macroeconomic scenario 2021-2023

In 2020, movement was restricted, cities were under lockdown and population across Europe was quarantined, while in 2021 massive use of the vaccines developed by several consortia will be possible. Vaccines should primarily be administered to the medical and social workers, the elderly, decision makers and hospitality sector employees. Mass vaccination of the population in Montenegro would position Montenegro as a desired tourist destination, while smart marketing management in tourism (e.g. subsidising PCR tests for entry to/exit from Montenegro by hotels instead of spending budget on the printed material, and setting up "green corridors") would further attract foreign tourists and recover tourism sector.

In that case, we might expect recovery of tourism at the level of 75 percent from the record year 2019, while already in 2022 tourism revenues might exceed those generated in the record year 2019. Higher net inflow would lead to recovery of the household consumption (growth of 3.9 percent per year in the period 2021-2023), gross investments (6.4 percent in the period 2021-2023), retail sector, construction industry, hospitality industry and foreign trade. Likewise, structural reforms would not be delayed which would contribute to the strengthening of economy. Finally, positive macroeconomic

trends according to the optimistic scenario would lead to the GDP growth of 12.0 percent in 2021, 6.2 percent in 2022 and 5.1 percent in 2023, i.e. to the average of 7.8 percent in the three-year period.

Table 9: Montenegro: Macroeconomic projections 2020-2023, higher-growth/ upside scenario

Montenegro: Macroeconomic projections, 2020-2023				
	2020	2021	2022	2023
Nominal growth	-15.3	11.9	7.3	5.7
Real growth	-15.2	12.0	6.2	5.1
Inflation (average)	-0.3	1.4	1.4	1.2
Core characteristics:	(real growth rates)			
Real GDP growth	-15.2	12.0	6.2	5.1
Domestic demand	-5.3	4.6	3.6	3.4
Household consumption	-5.4	4.7	3.3	3.5
Government consumption	-0.9	-0.5	0.0	0.5
Gross investments	-7.5	7.9	6.4	4.8
Gross fixed capital formation	-12.3	9.4	7.5	5.5
Changes in inventories	20.8	0.0	0.0	0.0
Export of goods and services	-48.9	68.1	17.3	10.6
Import of goods and services	-19.5	19.4	7.9	5.5
Macroeconomic indicators	(growth in percent, unless otherwise indicated)			
Employment growth	-7.3	6.6	2.1	1.6
Growth of wages	1.3	1.5	2.5	2.0
Unemployment rate	17.2	15.5	14.3	13.8
Net FDI as % of GDP	11.1	10.2	9.5	9.0

Source: Projections of the Ministry of Finance and Social Welfare

The table below shows comparative analysis of the baseline scenario, low-growth/downside scenario and faster socio-economic recovery/upside scenario:

Table 10: Comparative analysis of the estimate of GDP growth according to three scenarios, 2020-2023

	Baseline scenario				Downside scenario				Upside scenario			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Nominal growth	-15.3	10.6	7.5	6.5	-	8.1	6.2	6.9	-15.3	11.9	7.3	5.7
Real growth	-15.2	10.5	6.5	5.8	-	7.3	5.9	6.3	-15.2	12.0	6.2	5.1

Source: Projections of the Ministry of Finance and Social Welfare

3.4. Impact Assessment

The impact analysis was performed by using Montenegro Macro-econometric Model (MMM) which the Government received from the European Commission under the project IPA 2017 "Support to the Assessment of Macroeconomic Impact of Structural Reforms."²² The subject of the analysis was impact of the existing infrastructure projects in the period 2015-2022 on macroeconomic parameters in 2020 and in the next medium-term.

The quantitative assessment included the following projects: construction of the priority section Smokovac-Uvač-Mateševo of the Bar-Boljare highway; Regular and capital maintenance, reconstruction and construction of the state roads; Construction, maintenance, reconstruction and modernisation of the railroad infrastructure; Municipal utilities infrastructure (overhaul and expansion of the water supply system, construction of the waste water treatment facilities and waste management) and construction and reconstruction of education sector facilities.

²²Contract IPA/2017/384-908

Table 11: Investments of funds from public sources, in million euro

	2015 Outturn	2016 Outturn	2017 Outturn	2018 Outturn	2019 Outturn	2020 Plan	2021 Plan	2022 Plan
1. Construction of the priority section Smokovac–Uvač-Mateševo of the Bar-Boljare Highway	-	171.2	176.3	199.0	182.6	150.1	-	21,5
2. Regular and capital maintenance, reconstruction and construction of state roads	22.8	11.9	37.3	34.3	32.4	37.2	35,0*	35,0*
3. Construction, maintenance, reconstruction and modernisation of railroad infrastructure	12.8	15.0	18.7	19.6	14.0	13.0	13,0	13,0
4. Municipal utilities infrastructure	21.9	9.1	40.6	10.9	16.3	61.9	48,8	30,4
5. Construction and reconstruction of education sector facilities	6.2	1.1	3.0	3.2	10.0	15.0	12,0	13,0
Total (1+2+3+4+5)	63,7	208,3	275.9	267.0	255.3	277.2	108.8	112.9

**approximated amounts for the Model needs*

Net effects of implementation of started infrastructure projects represent a difference in results presented in the scenarios with projects and without projects. The year 2015 was used as the baseline year (benchmark year before start of considered measures). It is worth noting that forecasts and assessments produced by applying the model for impact assessment of the structural reforms and implementation of projects on macroeconomic developments (Module II) do not generate the exact "prognoses", but they do maintain structure and relations in the Montenegrin economy. The effects of implementation are presented in the table below:

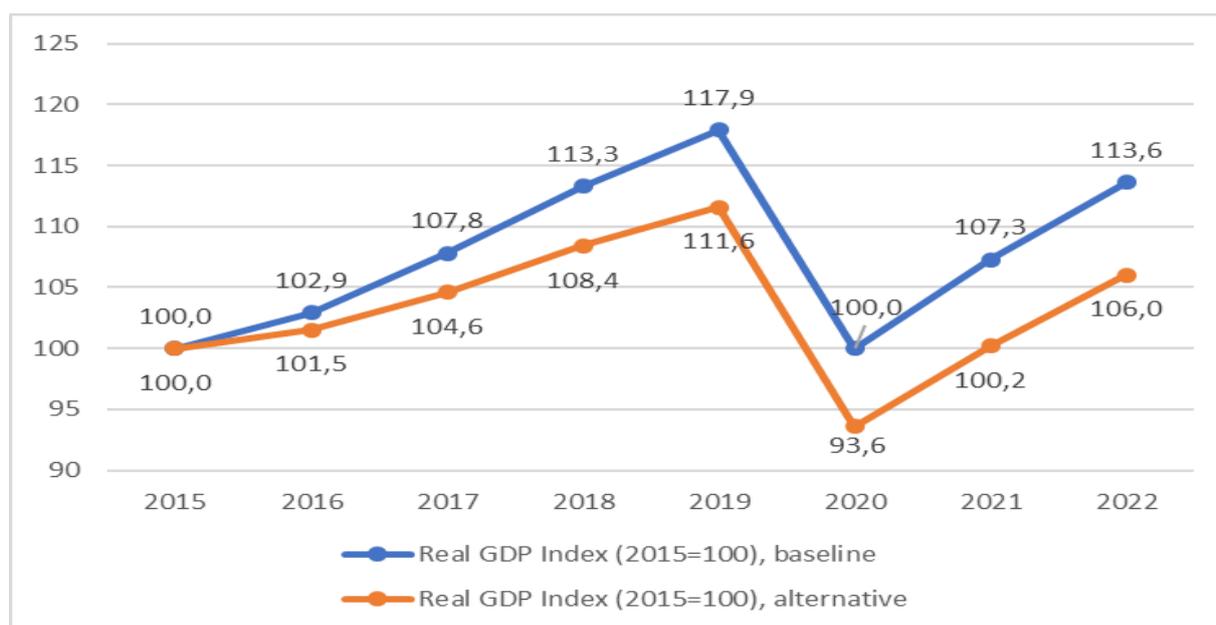
Table 12: Effects of implementation of infrastructure projects

	2016	2017	2018	2019	2020	2021	2022
Real sector							
GDP (2010 prices), net effect in %	1.8	3.4	4.7	5.8	6.8	7.0	7.1
Private consumption (2010 prices), net effect in %	2.2	4.1	5.7	7.0	8.3	8.5	8.6
Private investments (2010 prices), net effect in %	6.7	9.7	10.3	10.9	11.7	9.1	9.3
Export of goods (2010 prices), net effect in %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export of services (2010 prices), net effect in %	12.4	13.2	12	11	14.2	6.7	6.6
Import of goods (2010 prices), net effect in %	11.1	11.8	11	10	12.7	6.1	5.9
Import of services (2010 prices), net effect in %	3.3	6.3	8.7	10.7	12.7	13.0	13.3
Labour market							
Labour force, net effect in %	0.5	0.9	1.2	1.4	1.7	1.7	1.8
Employment, net effect in %	0.6	1.2	1.6	2.0	2.3	2.4	2.4
Unemployment, net effect in %	-0.3	-0.6	-0.8	-1.0	-1.2	-1.3	-1.3
Unemployment rate, net effect in p.p.	-0.1	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5
Nominal wage, net effect in %	1.8	3.4	4.7	5.8	6.8	7.0	7.1

Source: Projections of the Ministry of Finance and Social Welfare

Expected net effect from the projects mentioned above on real GDP is 6.8 percent in 2020, 7.0 percent in 2021 and 7.1 percent in 2022. This means that GDP at the end of 2022 would be lower by 7.1 percent than in the scenario without implementation of the projects mentioned above. Graphical overview of real GDP relative to the baseline year (2015=100) is shown in the following figure:

Figure 5: Real GDP growth index



Baseline year (2015=100); Prices= 2010
 Source: Projections of the Ministry of Finance and Social Welfare

Without the projects mentioned above, in 2020 GDP would be lower than in baseline year 2015 by 6.7 percent. Effects of these projects are expected to influence GDP growth in the period 2020-2022, in comparison to 2015, by 6.8 p.p., 7.0 p.p. and 7.1 p.p. respectively.

In addition, significant positive effects on labour market are expected and these refer to the following:

- Employment – from 2020 to 2022, number of the employed would be lower by 2.3 percent to 2.4 percent compared to the scenario with implemented infrastructure projects. Prior to 2020, this effect had a smaller impact;
- Unemployment – in the same period, the number of the unemployed would be higher by 1.2 percent, and by 1.3 percent in comparison to the scenario with implemented infrastructure projects;
- Unemployment rate – would be higher by 0.5 p.p. respectively in 2020, 2021 and 2022 in comparison to the scenario with implemented infrastructure projects.

Likewise, implementation of the listed projects has impact on increase of the foreign trade deficit, primarily due to the increase in import of goods, in particular machinery, equipment and materials for the highway construction. After construction of the priority highway section is finalised, reduction of the net impact on import of goods is expected from 12.7 percent in 2020 to 6.1 percent in 2021 and 5.9 percent in 2021.

Actual effects of implementation of the measures mentioned above will be visible in the long term, and these are impossible to quantify. These projects have a strong multiplying effect on the majority of economic sectors, they contribute to economic competitiveness and this will, amongst other things, have impact on the export potential of Montenegro.

4. FISCAL FRAMEWORK

4.1 Policy strategy and medium-term objectives

The fiscal policy of Montenegro in the period from 2017 to 2019 focused on implementation of the fiscal consolidation measures in order to ensure stability and sustainability of public finance in the long-term.

The outbreak of COVID-19 pandemic and the measures focused on the prevention of its transmission restricted economic flows which, in addition to disruption of the international traffic and focus on tourism as the most vulnerable economic sector in crisis, had immensely negative effects on the economy. Dramatic decline in economic activity and compromised liquidity of the economy, on one hand, and the need to finance socio-economic measures to support the economy and citizens and additional pressures on the healthcare system, on the other, led to the highest public spending deficit since the regaining independence, while further compromising sustainability of the public debt.

The strong impact of the COVID-19 virus pandemic on the economy of Montenegro, in an environment of high tourism dependency, with contemporary closing of state borders during the summer tourism season, have lead to the real GDP drop of 15.2 percent, the public finances outturn at the level of 11.1 percent and accelerated growth of the public debt which was anyway high to the level of 104.2 percent in 2020. The debt of the economic crisis and poor diversification of the economy have asked for implementation of decisive fiscal consolidation measures in order to ensure the public finances consolidation and provided support to the economic growth.

The main objective of the fiscal policy in the coming medium-term period is to create conditions for the gradual recovery of the collection of public revenues in line with the projected increase of macroeconomic indicators and measures for the expansion of public revenues through redefined tax policy, which, together with the sizing down of discretionary public spending and reducing allocations in the capital budget (resulting from the completion of construction of the priority section of the highway) should lead to a balanced public finance over the medium term and downtrend of public debt starting from 2021.

Based on the aforementioned, the two specific objectives of the fiscal policy in the period covered by the Programme may be stipulated in form of two main objectives:

- gradual reduction of public finance deficit in the coming two-year period, with transition of the public finance balance into the positive zone in 2023;
- gradual decrement of public debt to the level of 69.9 percent of GDP in 2023..

In the coming medium-term period, the collection of public revenues is expected recover as a result of:

- projected growth in economic activity;
- suppression of informal economy by improving work of inspection authorities and with full implementation of electronic fiscalisation of fiscal cash registers, and by doing so contribution to expansion of tax base;
- increasing Budget revenues resulting from taxation of undeclared property;
- introducing marking of mineral oils and derivates thereof;
- abolishing maximum annual threshold for payment of contributions;

- increasing excise taxes aimed at suppressing adverse effects on health of citizens from use of tobacco products, alcoholic beverages, and products with added sugar, as well as for the need for further alignment of the excise duty level on cigarettes with the requirements of the Montenegro's European Union accession process and in order to increase public revenues;
- payment of dividends and participations in profit from enterprises with majority state ownership and subsidiary enterprises, in accordance with the share of Government ownership.

The public spending, starting from 2021 will be set on a downward trend as a result of optimisation of current public spending by reduction of discretionary expenditures, which will along with relaxation of capital spending that results from finalisation of the construction of the priority section of the highway, enable continued trend of public spending even over the medium term.

The structure of public spending contains a high share of "mandatory" expenditures which have increased further in the previous period as a result of an increased cost of gross wage bill and of allocations for the payments for pension and disability protection entitlements, which implies that further optimisation is necessary in this regard. Therefore, optimisation of public administration has been set as one of the main objectives in agenda of the new Government, and the first step has been made by reorganising the public administration through reduction of the number of ministries and administration authorities.

Gradual increase of public revenues, on one hand, and reduction of public spending due on the other hand, create conditions for the expected reduction of public finances deficit and its transition into the positive zone at the end of the period covered by the Programme.

In parallel with fiscal consolidation measures, activities will be implemented to improve fiscal management, transparency of public finance and oversight of the planning and implementation of fiscal policy, which is elaborated in more detail in the sections below, and which will be an integral part of the new Public Finance Management Reform Programme.

At the same time, in order to make savings and reach transparencies in use of public funds, for the first time the programme budgeting is fully implemented in budget preparation. The programme budget will enable direct linking of policies and objective of the Government with results, thus enabling easier setting of priorities and better allocation of funds. On the other hand, the programme budget provides a base for better planning of future activities and medium-term planning.

Reply to the guidance that resulted from the economic and financial dialogue:

1. Use fiscal policy to mitigate the crisis-induced impact on growth and employment. While allowing for due reinforcement of healthcare spending during the crisis, reinforce the medium-term sustainability of public finances by limiting overall spending on wages, also by taking concrete steps towards implementing the public administration optimisation plan. Establish a fully-fledged centralised public sector employment payroll system.

In order to limit negative consequences of the pandemic on the population health, in the previous period a number of orders, measures and recommendations that put the pandemic under control were adopted. On the other hand, implementation of measures regarding protection of population health and disruption of international passenger traffic led to a significant restriction of economic activity. For that purpose, the Government of Montenegro adopted four packages of measures that aimed to suppress negative effects of the coronavirus on citizens and economy. The first two packages focused on the provision of assistance to the most vulnerable categories of the population, creation of conditions for the preservation of liquidity of the economy, preserving jobs and faster economic recovery, while the third package, which contains short-term and long-term measures, focuses on economic recovery of Montenegro through economic diversification and increase of domestic production. The fourth package of measures enabled continuation of subsidising wages for the

affected sectors, provision of one-off assistance to the unemployed, pensioners and socially vulnerable population, while it also introduced additional measures, which should result in support to tourism and agriculture sectors.

In line with the medium-term fiscal framework, expenditures for gross wages in nominal terms have recorded a growth trend in the previous period, as a result of which optimisation of costs in this regard will be a part of the overall strategy of optimising public spending in the next medium-term period.

Activities under the project "Implementation of Centralised Payroll" began in January 2019. The envisaged duration of the contract is 36 months, of which 18 months for implementation and 18 months for the maintenance of the future system. Under the project for development of IT system for the centralised payroll, the relevant laws and collective bargaining agreements were analysed, data were collected, numerous meetings were held with representatives of the Human Resource Administration, Ministry of Public Administration, and other line ministries and spending units in coordination with EUD and representatives of the contracting authorities. After the envisaged technical deliveries by suppliers and evaluation of fulfilment of the goals set for the first annual period of the contract, the level of the fulfilment of the objectives was 75 percent. As set out in the TOR, after the envisaged tender procedure the contract on "Procurement of equipment with server licences for functioning of the new system for centralised system of payroll and budget" was signed, the procedure for procurement of the necessary equipment was finalised, equipment was delivered in October 2020, installation of components and necessary licences was finalised, and the access to server was enabled in November. After finalisation of equipment installation process, the training plan will be implemented and users will be gradually introduced in groups in accordance with the estimated time schedule. The planned training, first for key users, should be delivered shortly before the beginning of use of the application of the new system. Having in mind the epidemiological situation and measures for prevention of the transmission of coronavirus which restrict presence of several persons in one room, the dynamics of training has significantly been conditioned by the limitations mentioned above and training will be delivered in line with the new circumstances, which means that planning and delivery of training courses for a large number of users has become difficult, while the initial deadlines set for the training are largely called into question. Development of the interface for connecting with data of the Human Resource Administration is in the final stage, presentation of the service was given at the Ministry of Finance and Social Welfare and first impressions from the demonstration have been positive. Further testing and potential modifications are expected after it becomes operational.

2. To support economic recovery, make sound cost-benefit analysis an integral part of public investment management. Take steps towards the establishment of a fiscal council, following consultation of the related options paper with stakeholders, including the EU. Introduce the electronic fiscal invoice system (e-fiscalisation).

In order to improve the public investments management process, new Decision on preparation of the capital budget and establishment and evaluation of the criteria for the selection of capital projects was adopted at the end of 2018. Adoption of this decision ensured a higher quality preparation and planning of the 2020 capital budget.

The key novelties in the process that were introduced through adoption of this Decision are:

- 1) clear defining of the criteria for evaluation of the proposed projects;
- 2) assignment of points based on each criterion;
- 3) change of the template for submitting proposal for the capital project and introduction of the template on the fulfilment of the conditions for proposing projects and criteria for the evaluation of proposed projects;
- 4) preparation and evaluation of the list of priority projects by the Projects Evaluation Committee;
- 5) introduction of the obligation to report on implementation of capital projects.

Furthermore, the Decision sets out that the List of Priority Capital Projects is to be compiled, based on the points assigned by the Committee which is comprised of expert staff.

In order to enable further advancement in this area, given the best international practice, the Government of Montenegro adopted the decision on the need of Public Investment Management Assessment (PIMA) in Montenegro. Therefore, activities have been initiated and the initial meeting was held with representatives of the International Monetary Fund and experts which will carry out PIMA.

As for oversight over implementation of the fiscal policy, the project "Support to Establishing the Fiscal Council of Montenegro" funded by the European Union is implemented for the purpose of setting up an independent body in charge of fiscal oversight. During project implementation so far, the "options document" was prepared and it contains an overview of the best international practice in this area, as well as the proposal of options for establishing the Fiscal Council in Montenegro. In line with the selected option, the expert hired on the project prepared the proposal for amending the legal framework. The next step is adoption of the appropriate amendments to the Law on Budget and Fiscal Responsibility by which conditions will be formally in place for the establishment of this body.

4.2 Budget execution in 2020

COVID-19 pandemic and its impact on economic developments have largely determined public finance trends in 2020. A significant decline in public revenues caused by the decline in economic activity, pressure on spending due to the need for additional financing of the healthcare system and support provided to the economy and citizens led to an increase in public spending deficit which is the highest since the restoration of independence.

Strong economic shock has been largely offset by using deposits transferred from the previous year and by additional borrowing on favourable terms, which maintained liquidity of the budget in the conditions of a significant decrease in the collection of public revenues.

In the original budget plan, the main objective of the fiscal policy of Montenegro was to further reduce public finance deficit and create conditions for the decrease of public debt in 2020. Suspension and limitation of operations in certain sectors, disruption of international traffic and dramatic decline in tourism traffic required review of the budget plans, as a result of which the budget revision was adopted in June.

As a result of budget revision, budgetary revenues were reduced in line with the projection of decline in economic activity, while in respect of public spending all discretionary expenditures were reduced so as to create fiscal room for financing socio-economic measures focused on the limitation of negative effects of the pandemic on the population and economy. Therefore, the central government budget deficit was planned at 7.3 percent of the estimated GDP.

Impact of COVID-19 pandemic on public finance in 2020

	Original Plan		Estimate		Difference	
	in million euro	% of GDP	in million euro	% of GDP	in million euro	%
Public revenues	2324.9	46.2	1869.4	44.6	-455.5	-19.6
Public spending	2324.2	45.4	2333.2	55.6	9.0	0.4
Budget balance	0.7	0	-463.8	-11.1	-463.1	-
Debt repayment	602.6	12	678.8	16.2	76.2	12.6
Financing	602.9	12	1143.5	27.3	540.6	89.7

According to the preliminary data, the public revenues in 2020 were 1,869.4 million euro i.e. at 44.0 percent of the estimated GDP (4,193.2 million euro). Compared to what was planned under the Law amending the Law on 2020 Budget, they are lower by 69.3 million euro i.e. by 3.6 percent, while compared to those collected in 2019 they are lower by 282.1 million euro i.e. by 13.1 percent.

The estimated decline in revenues was largely caused by the decline in tourism traffic, which is why the largest negative deviation compared to what was planned was recorded in respect of value added tax in the amount of 86.0 million i.e. 14.0 percent and excise tax, in the amount of 16.0 million euro i.e. 7.2 percent. Compared to 2019, the revenue categories mentioned above have recorded a significant decline by 166.0 million euro or 23.9 percent, and by 30.1 million euro or 12.8 percent respectively, as a result of the contracted economic activity caused by the coronavirus pandemic.

On the other hand, revenues collected on the basis of taxes and contributions for wages in 2020 are higher by 43.3 million euro or by 6.6 percent compared to what by planned by budget revision, despite the projected 5.5 percent decline in the employment rate. Higher collection, compared to what was planned, resulted from subsidising wages for the employed in economic sectors that have been particularly affected by the measures for the restriction of the performance of activities in the framework of the second and third packages of economic measures, while the condition for receiving subsidies was regular payment of liabilities on this ground, which means that employers were to keep the number of employees they had prior to the pandemic. Compared to the year before, taxes and contributions on wages have recorded a decline of 27.3 million euro or 3.8 percent, primarily due to the decline in revenues generated from contributions for the health insurance (as a result of the reduced rate by 2 p.p. since July 2019), as well as due to the deferral in collection of revenues on this ground, which was one of the Government measures that primarily focused on keeping jobs in the conditions of challenging business operations caused by the pandemic.

As a result of the strong growth of economic activity in the year before, revenues from the corporate profit tax are higher compared to what has been planned in the revised budget by 10.8 million euro or by 16.0 percent, while compared to the year before they are higher by 5.6 million euro or by 7.7 percent.

As for non-tax revenues, the revenues collected from fees and charges are significantly lower compared to those collected in 2019 due to the Government measures for reduction on negative effects of the coronavirus on the economy and citizens, and as a result of the Order on temporary closure of a large number of businesses and administrative bodies.

According to the preliminary data, the public spending in 2020 was 2,333.2 million euro or 55.6 percent of estimated GDP and compared to the amount planned by the budget revision it is higher by 63.5 million euro or by 2.8 percent, while compared to 2019 it is higher by 109.4 million euro or by 4.9 percent.

Compared to what was planned under budget revision, the current public spending has increased primarily due to the need for additional financing of the healthcare system during pandemic, and also for financing of three packages of socio-economic measures focused on the suppression of negative effects of the pandemic and support to citizens and economy. On the other hand, expenditures in the capital budget were reduced due to the decreased intensity of works on the priority section of the highway.

In terms of structure, compared to 2019 the highest growth was generated in the *reserves* category in the amount of 91.4 million euro, which is four times higher, and this is the result of implementation of the package of measures for support to economy and citizens, whereby the highest share refers to the subsidies for wages of employees in order to preserve jobs.

Also, a significant growth in the amount of 84.0 million euro or 33.5 percent has been recorded in the category *transfers to institutions, individuals, non-governmental and public sector* primarily as a result of higher transfers to the Health Insurance Fund for the purpose of mitigating effects of the pandemic.

Due to the increase of salaries of the employees in education and healthcare sectors, and also due to one-off payments for incentives and overtime work of healthcare workers during the pandemic, the *gross wages* category is higher by 24.3 million euro or by 4.6 percent compared to 2019 outturn.

Since the pandemic also limited execution of works on the priority section of the highway, the executed capital budget in 2020 was by 75.5 million euro or by 22.3 percent less compared to the year before.

The preliminary public finance deficit in 2020 was at 463.8 million euro or at 11.1percent of GDP, which is higher by 391.6 million euro compared to 2019, while in comparison to the deficit envisaged in the revised budget it is higher by 132.8 million euro.

Measures for suppressing negative effects of the pandemic on citizens and economy

In order to suppress negative effects of the coronavirus pandemic on economy and citizens, the Government of Montenegro adopted three packages of socio-economic measures.

The first package of measures, worth of 280.6 million euro, was a form of intervention and focused on the provision of support to the most vulnerable categories of the population and creation of conditions for the liquidity of economy and budget, while the possibility was also given to defer the payment of tax and credit liabilities.

The second package of measures, worth of 39.2 million euro, until and including June, focused on creation of conditions for the preservation of jobs and faster recovery of the economy. For that purpose, measures have predominantly been created in the form of direct subsidies of salaries of the employed in sectors in which work was either prohibited or limited, while focus was placed on tourism and agriculture as strategic sectors of the economy of Montenegro.

The third package of measures contains short-term and long-term measures focused on economic recovery of Montenegro through diversification and increase of domestic production. The purpose of short-term measures is primarily to continue provision of support to the economy by subsidising salaries and granting favourable credit facilities in cooperation with commercial banks. Long-term measures are focused on the creation of conditions for improving competitiveness of the economy primarily in: tourism, agriculture, energy, transport and information technologies as the strategic economic sectors. The third package covers the four-year period and its total value is estimated at over 1.2 billion euro.

All the created measures may be divided into: tax policy measures, measures for direct support to the economy, measures focused on the maintenance of liquidity of the economy, measures of support to the healthcare system, other measures and long-term measures.

The table below contains assessment of the budgetary impact of measures implemented in 2020 (in respect of revenues, expenditures, budgetary deficit and public debt), not including effects of the measures implemented through the Investment and Development Fund, commercial banks and other entities that are not integral part of the budget of Montenegro.



Estimated fiscal impact of Covid-19 crisis in 2020	As a result of one-off discretionary measures (in million euro)	As a result of one-off discretionary measures (as % of GDP)	As a result of other discretionary measures (in million euro)	As a result of other discretionary measures (as % of GDP)	As a result of slowed down economic activity (in million euro)	As a result of slowed down economic activity (as % of GDP)
On budgetary expenditures	3.4	0.1%	33.7	0.8%	0.0	0.0%
One-off monetary assistance to the pensioners with the lowest pensions and beneficiaries of the financial benefit, in the amount of 50 euro	1.1					
Reduction of salaries for the groups of jobs A and B referred to in articles 22, 23 and 24 of the Law on Wages of Public Sector Employees during validity of the second package of measures	1.1					
One-off monetary assistance to the unemployed registered with the Employment Office who are not entitled to the monetary compensation and for pensioners who receive proportionate pensions, the amount of which does not exceed the amount of the lowest pension	0.9					
Payment of extraordinary compensation to the beneficiaries of old-age benefits	0.2					
Payment of one-off assistance to the professional fishermen	0.2					
Payment of contributions to the insured in agriculture sector for six months			0.1			
Programme for Market Interventions			1.3			
Subsidising interest rate for IDF loans to farmers and fishermen			0.2			
Subsidies in the amount of 50-100% of gross wages of the employed			59.3			
Support to the healthcare system			25.3			
Other measures			7.5			
Reduction of discretionary spending			-60.0			
On budgetary revenues	-34.6	-0.8%	17.4	0.4%	-264.0	-6.2%
Decline in economic activity					-264.0	
Subsidies in the amount of 50-100% of gross wages of the employed			23.4			
Application of the lowered VAT rate of 7% to the preparation and serving of food, drinks and beverages, except for excise goods and coffee, in hospitality activities			-5.0			
Deferment of the payment of taxes and contributions on wages and of the payment of liabilities in accordance with the Law on Restructuring by up to 90 days	-34.6					
Suspension of the payment of fees for organising the games of chance			-1.0			
Total budgetary impact	-38.0	-0.9%	-16.4	-0.4%	-264.0	-6.2%

On public debt	-38.0	-0.9%	-16.4	-0.38%	-264.0	-6.2%
Potential liabilities						

The fourth package of measures for support to the economy and citizens, worth of 163.4 million euro, was adopted on 28 January 2021; the package contains several segments of support. The first segment refers to the support to socially vulnerable population through payment of one-off assistance to pensioners, unemployed persons, and beneficiaries of social welfare benefits. The second segment refers to support to the economy through: continuation of subsidising salaries of employees, deferment and restructuring of taxes and contributions on salaries, shortening deadline for VAT refund, subsidising new employment, and other. The third segment is related to the continuation of support to tourism and hospitality industry by issuing tourist vouchers to the employees in education and healthcare sectors. Support to the agriculture sector is also envisaged through the programme for intervention in the agricultural products market.

4.3 Budget Plans for 2021

In present protracted uncertainty when controlling outbreak of the COVID-19 virus pandemic is in question at the global scene, one of the key objectives of the fiscal policy for 2021 is to ensure stability of public finances in tandem with the gradual recovery of the economy.

The set objective will be achieved with gradual recovery of public revenues collection driven by the projected growth of economic activity and expected effects on generating new revenues. On the other hand, it is projected that the public spending will decline relative to 2020, given that it was necessary, due to the pandemic-caused health situation, to carry out an expansionary fiscal policy through increased spending for financing the needs arising from the socio-economic measures for support to citizens and the real sector in addressing negative consequences of the pandemic, as well as for financing increased needs of the healthcare system.

In order to secure fiscal space for continuation of the support to the real sector in repairing consequences of the pandemic on their operation, as well as to secure funds for implementation of new policies, in an environment of gradual economic recovery, all categories of discretionary spending were reduced in 2021 down to the level that ensures regular servicing of all public functions. On the other hand, mandatory spending (gross wages, social transfers) will be regularly adjusted in line with the adopted legislation.

In spite of the fact that the Law on Budget for 2021 was not adopted within the statutory deadlines, the borrowing taken at the international market at the end of 2020 has secured funds for the budget financing in 2021, which enables regular servicing of all obligations of the country.

Public revenues in 2021 are projected to amount 2,123.7 million euro or 45.8 percent of estimated GDP (4,636.6 million euro) and are higher by 254.2 million euro or by 13.6 percent in comparison to the preliminary data for 2020. The forecasted increase in budget revenues is primarily a result of recovery of the economic activity, as well as of planned measures aimed at created conditions for increase in overall public revenues.

Increase of public revenues, in addition to the electronic fiscalisation of fiscal cash registers that has already started with implementation with full implementation planned for second half of the year, will also be achieved through implementation of new tax policy measures with planned implementation from 1 July 2021, and which pertain to:

- **Increase of the excise duty on tobacco and tobacco products**

In order to suppress negative effects from the use of tobacco products on the health of citizens, to provide for further align the excise duty level on cigarettes with the requirements of the Directive 2011/64/EU defining that the minimum level of excise duties for all cigarettes cannot be less than 90 euro per 1,000 pieces of cigarettes, but also to increase budget revenues, the specific excise duty will be increased from 1 July of the current year to 51 euro per 1,000 pieces of cigarettes, while the *ad valorem* excise duty will remain at the level planned for 2021 of 29 percent of the retail selling price. If we take into account that the average weighted price will be **2.5 euro**, the total excise tax burden will amount to 87.25 euro per 1,000 pieces of cigarettes and will require another step next year to achieve full alignment with the European Union requirements. In addition to the excise tax on cigarettes, excise tax on other tobacco products will be also redefined, thus the excise on fine cut tobacco will be increased to 55 euro per kilogram, while the excise tax on heat-not-burn tobacco to 70 percent of the minimum excise. Amendments to the existing legislative provisions has also planned to introduce excise tax on chewing tobacco and snuff with the excise tax of 35 euro per kilogram, as well as increase of the excise tax on other tobacco products from 25 to 35 euro per kilogram.

Since the proposed changes carry a risk of increase of trade in tobacco products in the informal market, additional measures of inspection oversight will be taken.

Fiscal effect: The planned increase of the excise duties and introduction of new excise product will result in increase of the budget revenues on the account of excise tax and the value added tax, while the total annual fiscal effect is estimated to the level of approximately 16.8 million euro. These funds will be used for improving the public health in Montenegro.

- **Increase of the excise tax on carbonated beverages with added sugar or other sweeteners or aromatisation agents and introduction of the excise tax on products made of sugar, cocoa and ice-cream:**

Since the diabetes is one the most common metabolic disorders in the modern life, and according to the data from the diabetes register kept by the Public Health Institute, with 12 percent prevalence Montenegro is at the very top in Europe, the taxation mechanism of products containing sugar plans to reduce this negative trend, while the planned funds to be collected on these ground will be used for improvement of the healthcare system.

To that end, an increase of the excise tax on carbonated beverages with added sugar or other sweeteners or aromatisation agents is planned to 35 euro per hectolitre and introduction of new excise tax on confectionary and ice-cream which will amount 0.6 euro per kilogram.

Fiscal effect: The planned increase of the excise duties will result in increase of the budget revenues on the account of excise tax and the value added tax, while the total annual fiscal effect is estimated to the level of approximately 4.0 million euro. On the other hand, the annual fiscal effect of introduction of the excise tax on products made of sugar, cocoa and ice-cream will amount approximately 6.2 million euro.

- **Increase of the excise tax on alcohol and alcoholic beverages:**

Redefining the level of excise duties plans to increase the excise tax for the following alcoholic beverages:

- Excise duty on sparkling wines will be increased from the present 35 euro per hectolitre to 40 euro per hectolitre,
- Excise duty on other sparkling fermented beverages will be increased from 35 euro per hectolitre to 40 euro per hectolitre,
- Excise duty on beer will be increased from present 5 euro to 7 euro per content of alcohol by volume per hectolitre of beer, except for small brewers,

- As for the excise duty on other non-sparkling fermented beverages, the coverage will be increased and the excise duty from null (0) euro per hectolitre will be increased to 35 euro per hectolitre;

Fiscal effect: The planned increase of the coverage and excise duties level will result in increase of the budget revenues on the account of excise tax and the value added tax, while the total annual fiscal effect is estimated to the level of approximately 4.2 million euro.

- **Marking mineral oils and derivatives thereof:**

In order to suppress illegal trade in oil derivatives, to increase budget revenues, but also to improve the quality of derivatives in the market, a marking of oil derivatives is planned from 1st July. The most modern nanotechnologies, and the process itself means inserting of special chemical elements into the fuel that does not affect the fuel quality, but enables determining whether the fuel is from legal trade. By doing so it will be prevented to place in trade flow fuels not marked in the prescribed manner. Aside from increase of the budget revenues, owners of motor vehicles will also have direct benefits, since only fuel of prescribed quality will be in placed in trade channels.

Fiscal effect: The planned manner of marking fuels will result in increase of the budget revenues on the account of excise tax and the value added tax, while the total annual fiscal effect is estimated to the level of approximately 14.0 million euro.

- **Reducing the VAT rate for eggs from 21 percent to 7 percent:**

Reduction of the VAT rate for eggs as a basic food commodity is planned from 21 percent to 7 percent.

Fiscal effect: It is estimated that the reduction of the rate will result in lower budget revenues on the account of the value added tax on annual level by 2.28 million euro.

- **Increase of the maximum annual base for payment of contributions:**

Amendments to the Law on Contributions for Compulsory Social Insurance plan to increase the maximum annual base for payment of contributions, which is currently at the level of approximately 53.0 thousand euro.

Fiscal effect: The estimated annual fiscal effect is 3.5 million euro.

- **Proceeds from illegally gained property:**

Improvement of tax system efficiency and prevention of abuse/misuse resulting in possession of property that could not be justified by legal revenues of the natural person is the objective of planned amendments to legislation. The need for prevention of abuse/misuse in cases where the value of property of natural person is not justified by its source or origins from invisible source, has imposed the need for an adequate legislative provisions of the tax procedure. Legislating the procedure determining the origin of property enables not only for fiscal objective to be achieved, but for social objectives as well. They consists in reducing gaps in financial and social standing of taxpayers by narrowing differences among taxpayers whose property matches revenues they generate and those taxpayers where there is disproportion between these two facts that represent grounds for setting the tax liability. At the same time, taxation of property the origin of which cannot be proven by legal revenues represents one of efficient tools in fight against corruption. Such policy of the State takes away a lucrative component of avoidance of declaring legal revenues or engraining in illegal activities, thus it acts as prevention to all natural persons venturing in such practices to increase their property. Tax avoidance and tax evasion are not only affecting reduction of public revenues, but represent a threat to fair market competition. Thus, the establishment of a mechanism to suppress these phenomena contributes to building a market economy.

Fiscal effect: The estimated annual fiscal effect amounts to approximately 40 million euro.

In addition to the abovementioned tax policy measures, a decision of the Government will requires from representatives of the State in enterprises with majority state ownership and subsidiary enterprises to vote for distribution of net profit from the previous year and to pay funds into the Budget commensurate to the participating interest of the State. The estimated revenues from capital

and corporate profit tax (on dividend) resulting from this ground are planned in amount of 43.5 million euro.

Revenues from increase of the minimum wage to 250 euro from July of the current year are also planned in the category tax and contributions on wages, while the annual fiscal effect is estimated to amount 11.4 million euro.

Taxes and contributions on wages in 2021 are planned in the total amount of 792.2 million euro or 17.1 percent of the projected GDP, which are higher by 93.2 million euro or 13.3 percent relative to the preliminary data for 2020. Taxes and contributions on wages are projected in accordance with expected growth rates for employment and wages, minimum wage increase, planned collection of these categories in line with the Law on Restructuring of Tax Receivables and the Decree on Conditions for Deferral of Tax and Non-tax Receivables for 24 Months, as part of the first package of measures to support the real sector. Furthermore, continuation of the wage subsidising for employees in affected economic activities will contribute to the growth and regular payment of associated obligations. In addition to the aforesaid, the income will grow from taxation of undeclared property as explained before. On the other hand, increase in contributions will result from abolishing the limit for annual maximum paid contributions for compulsory social insurance.

Revenues from the corporate profit tax in 2021 are projected in the amount of 60.0 million euro or 1.3 percent of GDP, which is less by 18.4 million euro or 23.5 percent relative to 2020. The highest rate of decrease forecasted for this class of revenues is a result of pronounced downturn in economic activity in 2020, caused by impact of the COVID-19 virus pandemic and measures aimed at preventing its spreading which restricted the real sector activity, in turn having as a consequence decline in overall generated profit at the level of the real sector. Estimates for this class of revenues are made based on projected contraction of nominal GDP for 2020, as well as data on generated profit by sector and by taxpayers for 2019, adjusted with corresponding rates of change in line with the estimated GDP contraction by economic activity for 2020, short-term macroeconomic indicators, as well as with available financial reports of large economic entities for nine months of or annual reports for 2020. The positive impact on collection of revenues for this class in 2021 will also come from a decision of the Government that will require payment of profit to the State from companies with majority State ownership and their subsidiary enterprises.

Revenues from the value added tax in 2021 are forecasted in the amount of 611.8 million euro or 13.2 percent of GDP which is higher by 92.0 million euro or 15.5 percent if compared to the preliminary data for 2020, the reason for this comes from the expansion in the household spending and increase in import in line with the macroeconomic scenario, projected growth in revenues from tourism, collection of tax arrears under the restructuring of tax receivables scheme, implementation of the electronic fiscalisation of fiscal cash registers, but also from a redefined excise tax policy. The projection also includes a decrease on the account of reduction of the value added tax rate for hospitality industry starting from August 2020, as part of the third package of measures to support the real sector in suppressing adverse effects of the pandemic. In addition to the aforementioned, it includes decrease resulting from raising the turnover threshold for mandatory registration as taxable person for the value added tax, which is one of the measures included in the fourth package of measures.

Revenues from excise taxes in 2021 will amount 241.0 million euro or 5.2 percent of GDP, which is more by 35.6 million euro or 17.3 percent relative to 2020, which is primarily a result of previously mentioned excise tax policy measures, but also due to the recovery of the economic activity.

In 2021, the non-tax revenues coming from fees will be higher by 3.7 million euro or 27.9 percent, due to the low base from the previous year, which was a result of temporary closure of certain number of enterprises and public administration authorities in accordance with the Government's order.

Contrastingly, the projected growth in revenues resulting from fees in the amount of 20.2 million euro is dominantly due to the effects coming from implementation of new legislative provisions governing the area of organising games of chance, which will regulate in a comprehensive manner the games of chance market, define new types of games of chance, and will also enable complete and higher quality oversight of online providers.

A significant increase in 2021 of 31.3 million euro or 65.8 percent is expected in the class of other revenues, specifically revenues from capital, which is a result of a decision of the Government that will require payment of profit to the State from companies with majority State ownership and their subsidiary enterprises.

Taking into consideration the announced second tranche of the European Union support for addressing the coronavirus pandemic-caused consequences, along with the implementation of projects co-financed from IPA funds, an increase in donation of 10.2 million euro or 15.6 percent is expected in 2021, if compared to 2020.

The public spending in 2021 is projected at the level of 2,255.9 million euro or 48.7 percent of GDP and it is lower by 77.3 million euro or 3.3 percent in comparison to 2020. In the structure of overall public spending, the current spending is planned at the level of 1,997.5 million euro or 43.1 percent of GDP, whereas the Capital Budget is projected at the level of 258.5 million euro or 5.6 percent of GDP.

The current public expenditure in 2021 is being lowered due to the higher base set in 2020, following the increased financing of the healthcare system aimed at fight against the COVID-19 virus pandemic and the financing for three packages of measures as a means to curb adverse effects of the pandemic on citizens and the real sector. Besides the aforementioned, the additional fiscal adjustments were made through reduction of all classes of spending of discretionary nature, due to circumstances coming from the narrowed fiscal space, but also a continued need to provide assistance to the real sector through the support package already adopted in Q1 2021, as well as due to expectations for the support to continue in the event of protracted duration of the pandemic.

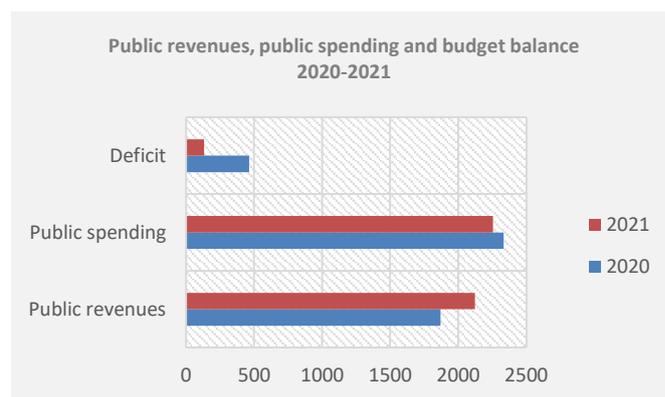
At the same time, it is forecasted that the level of mandatory expenditures will remain at a high level under the influence of further growth of gross wage bill for employees in the public sector, primarily due to the increase of wages for education and healthcare sectors by additional 3 percent if compared to the wages in 2020, as well as increase in spending for the pension and disability protection area owing to projected number of new beneficiaries as well as the effect of the new Law on Pension and Disability Insurance adopted in 2020.

Overall increase of the Capital Budget is guided by the continuation of construction of the priority Highway section, precisely carrying forward funds planned in 2020 to 2021 due to reduced intensity in execution of works because of to the COVID-19 virus pandemic, as well as continuation of started projects.

Transfers for social protection are growing in the composition of the current spending, in accordance with the regular annual adjustment with macro indicators and changes to legislation addressing entitlements to child benefit.

The gross wages bill in this period will also go up, whereby the projection started with the present number of employees and adjustments for regular annual adjustment for years of service, precisely it did not take into account possible effect from planned implementation of the public administration optimisation. Starting from the aforesaid, the narrowing of the public finances deficit is projected in 2021, impelled by recovery of revenues caused primarily by recovery of tourism, but also by expected effect of measures to increase revenues on one hand and reduction of the discretionary public spending on the other hand.

In line with the forecasted levels of revenues and expenditures, the public finances deficit is estimated to be 132.2 million euro or 2.9 percent of GDP in 2021. For the needs of the Debt Repayment in 2021, the amount of 454.9 million euro or 9.8 percent of GDP will be allocated; whereby the deposit funds created by issuing government bonds in the international market in December 2020 will be mainly used for its financing. The remaining amount of funds pertains to the already contracted loan facilities, primarily intended for financing of public investments.



4.4. Medium-term Budgetary Outlook

One of the key objectives of a public finances strategy in the period 2022-2023 is balancing of public finances, which is to be achieved by generating a primary surplus, as well as current spending surplus, thus enabling further reduction of the public debt up to the projected level of 69.9 percent of GDP in 2023.

Fiscal framework (as % of GDP)	Estimate	Baseline scenario			Low-growth/downward scenario		
	2020	2021	2022	2023	2021	2022	2023
Direct public revenues	44.6	45.8	43.5	42.8	46.5	44.2	42.6
Public spending	55.6	48.7	43.7	41.3	50.1	45.5	42.9
Fiscal indicators							
Deficit/Surplus	-11.1	-2.9	-0.2	1.5	-3.6	-1.3	-0.3
Interest	2.7	2.5	2.3	2.2	2.6	2.4	2.3
Primary deficit/surplus	-8.4	-0.3	2.2	3.7	-1.0	1.1	1.9
Public debt (% of GDP)	104.2	88.4	77.4	69.9	90.4	80.0	75.2

On top of the projected growth of economic activities, the previously defined measures driving the trend of public revenues developments will also continue during the observed period/

As defined in the macroeconomic framework, continued recovery of the economic activity is projected for 2022 and 2023, and consequently gradual recuperation to the pre-pandemic level of the most important classes of public revenues.

The public revenues in 2022 are projected to amount 2,167.6 million euro or 43.5 percent of GDP, which is higher by 44.0 million euro or 2.1 percent if compared to the projections for 2021. The public revenues in 2023 will continue an upward trend in nominal terms and will amount 2,270.4 million euro or 42.8 percent of GDP, which is an increase of 102.8 million euro or 4.7 percent if compared to the projections for 2022, resulting predominantly from the projected growth of economic activity.

With view of the aforesaid, these will be the developments for main classes of tax revenues, wherein the macroeconomic indicators developments, as well as defined measures, will affect their growth:

- *Value added tax* – revenues from this tax will grow by an average annual rate of 6.0 percent with stable share in GDP of approximately 13.0 percent, as a consequence of projected growth rate of household spending, government spending and importation of goods and services, increase of excise taxes, as well as of expected effect from implementation of the electronic fiscalisation of fiscal cash registers project used for collection of this class of revenues;
- *Excise taxes* will grow by an average annual rate of 7.6 percent in the period 2022-2023, as result of economic activity recovery, continued implementation of redefined excise tax policy, as well as of strengthened inspection oversight;

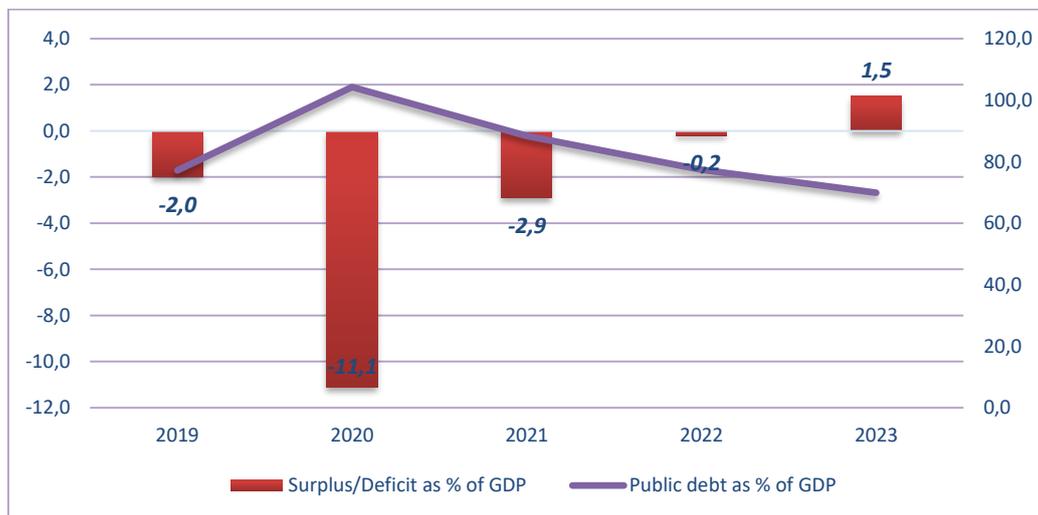
- *Taxes and contributions on wages* – revenues from this sources will grow annually by an average rate of 5.0 percent, as a result of projected positive labour market developments, but also of collection of tax on income from undeclared property;
- *Revenues from donations* will be on a lower level in 2022 as well, given that in 2020 and 2021 two tranches of the European Union support for addressing consequences caused by the coronavirus pandemic are planned.

After a pronounced drop in 2021, according to the projection the public spending in the period 2022-2023 will be set on the mild upward trend from projected 2,176.5 million euro in 2022 to 2,192.3 million euro in 2023. Measured by the percentage share in GDP, it is expended to maintain the descending trend to the level of 41.3 percent of GDP in 2023.

The following measures are steering the public spending development trends:

- After reduction of all classes of discretionary spending projected in 2021, the public spending in 2022 will be further reduced as a result of clearing the capital spending due to completion of the Highway priority section;
- Increase in mandatory expenditures driven by regular adjustments of pension benefits, increase of social transfers by introducing a child benefit in accordance with new legislative provisions, and expansion of the gross wage bill due to regular annual adjustment for years of service.

The capital budget in this period will be at the level of 148.1 million euro in 2022 and 146.2 million euro in 2023. These funds will be allocated for financing infrastructure projects as well as planned repayment of the guaranteed deposits to the contractor for works for the Highway priority section. The fiscal framework does not include projects that will be financed under the European Investment Plan for the Western Balkans, which will secure additional funds for investments in public infrastructure improvement.



In keeping with the developments of revenues and expenditures, more balanced public finances are expected in 2022, precisely a deficit at the level of 8.9 million euro, followed in 2023 by budget balance entering into a positive zone and recording a surplus of 78.1 million euro or 1.5 percent of GDP.

Surplus of current spending is forecasted for this period, as well as primary surplus of public finances, and by doing so creating requisites for the continued public debt downward trajectory.

Annual GDP (in million euro)	4,193.2		4,636.6		4,984.6		5,310.5		4,532.5		4,814.5		5,144.4	
	Estimate				Baseline scenario				Low-growth/downward scenario					
Estimate of public finances for 2020-2023	2020		2021		2022		2023		2021		2022		2023	
	mill €	% of GDP	mill €	% of GDP	mill €	% of GDP	mill €	% of GDP	mill €	% of GDP	mill €	% of GDP	mill €	% of GDP
Public revenues, of which:	1,869.4	44.6	2,123.7	45.8	2,167.6	43.5	2,270.4	42.8	2,108.4	46.5	2,129.7	44.2	2,190.5	42.6
Personal income tax	168.0	4.0	210.4	4.5	229.9	4.6	236.0	4.4	210.2	4.6	227.4	4.7	230.9	4.5
Value added tax	529.8	12.6	611.8	13.2	651.4	13.1	687.6	12.9	600.3	13.2	631.0	13.1	640.7	12.5
Excise taxes	205.4	4.9	241.0	5.2	266.2	5.3	279.0	5.3	239.9	5.3	262.8	5.5	272.8	5.3
Local taxes	98.5	2.3	89.3	1.9	91.5	1.8	92.8	1.7	89.3	2.0	91.5	1.9	92.8	1.8
Contributions	531.0	12.7	581.8	12.5	610.3	12.2	637.4	12.0	580.8	12.8	601.0	12.5	618.5	12.0
Public spending, of which:	2,333.2	55.6	2,255.9	48.7	2,176.5	43.7	2,192.3	41.3	2,270.9	50.1	2,191.5	45.5	2,207.3	42.9
Gross wages	548.8	13.1	574.4	12.4	589.7	11.8	597.2	11.2	574.4	12.7	589.7	12.2	597.2	11.6
Interest	113.6	2.7	116.8	2.5	117.0	2.3	117.0	2.2	116.8	2.6	117.0	2.4	117.0	2.3
Transfers for social protection	559.2	13.3	575.1	12.4	588.2	11.8	598.6	11.3	575.1	12.7	588.2	12.2	598.6	11.6
Capital budget	263.3	6.3	258.5	5.5	148.1	3.0	146.2	2.8	258.5	5.7	148.1	3.1	146.2	2.8
Transfers to institutions, individuals, non-governmental, and public sector	334.6	8.0	308.6	6.7	313.4	6.3	316.5	6.0	308.6	6.8	313.4	6.5	316.5	6.2
Surplus/deficit	-463.8	-11.1	-132.2	-2.9	-8.9	-0.2	78.1	1.5	-162.5	-3.6	-61.9	-1.3	-16.8	-0.3
Primary surplus/deficit	-350.2	-8.4	-15.4	-0.3	108.0	2.2	195.1	3.7	-45.7	-1.0	55.1	1.1	100.2	1.9
Debt repayment	678.8	16.2	454.9	9.8	301.8	6.1	259.8	4.9	454.9	10.0	301.8	6.3	259.8	5.0
Expenditures for purchase of securities	0.9	0.0	0.9	0.0	0.6	0.0	0.6	0.0	0.6	0.0	0.6	0.0	0.6	0.0
Financing, of which:	1,143.5	27.3	587.7	12.7	311.3	6.2	182.3	3.4	618.0	13.6	364.2	7.6	277.2	5.4
Borrowing abroad	1,193.7	28.5	169	3.6	44	0.9	44	0.8	169	3.7	44	0.9	44	0.9
Borrowing in the country	176.1	4.2	8	0.2	8	0.2	58	1.1	8	0.2	8	0.2	58	1.1
Use of deposits	-235.5	-6.0	387.7	8.4	237.3	4.8	58.3	1.1	419.0	9.2	290.2	6.0	153.2	3.0

4.5 Structural Balance (cyclical component of deficit, one-off and provisional measures, fiscal stance)

Cyclically adjusted balance shows actual imbalances of public spending, and refers to the actual surplus/deficit to GDP ratio, which would prevail if the economy grows at the level of its potential. It is calculated as the difference between surplus/deficit as a share of GDP and estimated cyclical component.

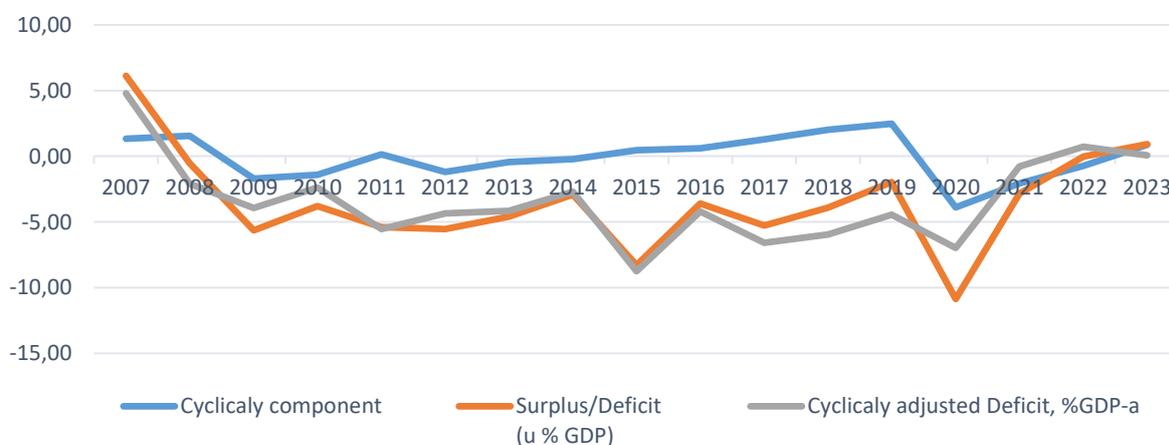
Cyclical component is calculated on the basis of the method used by the European Commission and is implemented in two steps, and so as follows:

1. *Assessment of the output gap as the indicator of the economic cycle;*
2. *Estimate of the elasticity of public revenues and public expenditures relative to the gap;*

Values of the potential growth rate, potential GDP and potential output gap needed for the calculation are presented in Chapter 3 – Macroeconomic Framework.

In step 2, the coefficients of elasticity are estimated for the some revenue categories: indirect taxes, personal income tax, corporate profit tax, and contributions. Each of these categories is first taken in relation to the relevant base, such as for example, in the case of the personal income tax where the category of salary and contributions of the employees from the estimated GDP calculation under the income approach is taken as the base, then after multiplication with the weight (share of certain category of revenues in total revenues) the elasticity of this revenue component is obtained in relation to the output gap.

Figure 4.5.1 – Trends of surplus/deficit, cyclical components and cyclically adjusted deficit



Multiplication of the elasticity coefficients for the mentioned revenue categories with the share of total revenues in GDP results in revenue-sensitivity parameter, and at the same time the parameter of sensitivity of the balance of public revenues, since coefficient of expenditures elasticity is approximately equal to 0 (zero). The category of expenditures for which elasticity was calculated includes expenditures on the unemployed, but when the extremely low share of the mentioned categories in total expenditures is taken into account, the obtained total sensitivity parameter of the expenditure side equals to 0 (zero).

Sensitivity parameter of surplus/deficit relative to the production gap is estimated at 0.36. Results of the model are limited due to the specificities of the country and frequent changes of fiscal policy measures, length of the time series used in the assessment of elasticity, change of methodology, but they reflect the core trends of structural and cyclical components of the balance of public finances.

Calculation of the cyclically adjusted primary balance (surplus/deficit excluding interest rates) was carried out as well, which is further reduced by the one-off collection of revenues and one-off expenditures. Since three packages of support to the economy and citizens were adopted in 2020 in order to mitigate consequences of the coronavirus pandemic, a large number of one-off expenditures was identified, and they primarily concern subsidies for wages of the employees in the affected sectors, funds for technological redundancies, as well as various one-off social benefits (more details provided in Chapter 4.2).

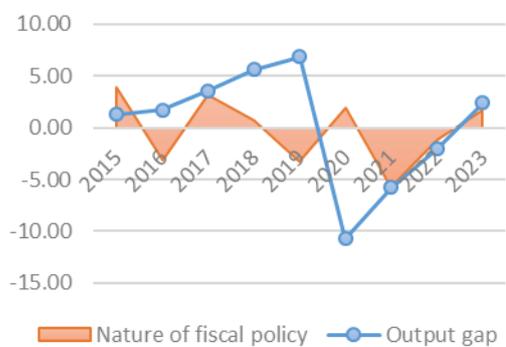
Figure 4.5.2 – Primary surplus/deficit trends



The sign for the category of the annual change of cyclically adjusted primary surplus/deficit denotes fiscal stance and speaks of nature of fiscal policy in a given year. Positive values on figure 4.5.3 represent expansionary fiscal policy, while negative values represent contractionary fiscal policy.

Positive output gap in the period 2017–2019 resulted principally from the intensified works on the priority section of the Bar-Boljare Highway, but also from strong investment activity in the private sector, which enabled successful implementation of fiscal consolidation measures. However, as presented on figure 4.5.3, the year 2017 was marked by a strong expansionary policy despite implementation of the fiscal consolidation measures, which is principally the result of the highway construction. Once the costs of the highway construction are excluded, one can notice a contractionary policy in 2017, which determined the nature of the policy in the coming period. It is also worth noting that in all years of implementation of the fiscal consolidation measures, according to the scenario which excludes costs of the highway construction, the cyclically adjusted primary budgetary balance was positive.

Figure 4.5.3 – Fiscal policy stance



After positive macroeconomic trends in 2019 and at the beginning of 2020, and after fiscal consolidation which improved fiscal position, Montenegro faced COVID-19 virus pandemic in March, which determined macroeconomic trends in 2020. In order to restrict negative effects on population health, series of orders, measures and recommendations were adopted to put the pandemic under control. On the other hand, implementation of measures focused on the protection of population health, as well as disruption of international passenger traffic led to a significant restriction of economic activity, which resulted in the decline of collection of budget revenues. Contemporarily, the need for additional financing of the healthcare system and implementation of the measures to support economy and citizens in facing negative effects of the pandemic, created the need to reallocate funds within public spending. As a result, the figure 4.5.3 shows negative output gap which exceeds 10 percent, while on the other hand the expansionary policy was implemented, which means that counter-cyclical fiscal policy was implemented as well.

As a result of the gradual recovery of economic activity in 2021 and 2022, the output gap will be significantly reduced, while in 2023 the growth of the economy above potential is expected. On the other hand, the reduction of public spending in 2021 compared to the high level in 2020 caused by the pandemic, but also the completion of priority sections of the Highway, which will further reduce

public spending in 2022, a character of contractionary policy is visible. In 2023, according to the growth of the economy above potential, budget revenues will return to the level before the pandemic, which with the controlled growth of public spending, will lead to a balance of public finances and the conduct of expansionary policy.

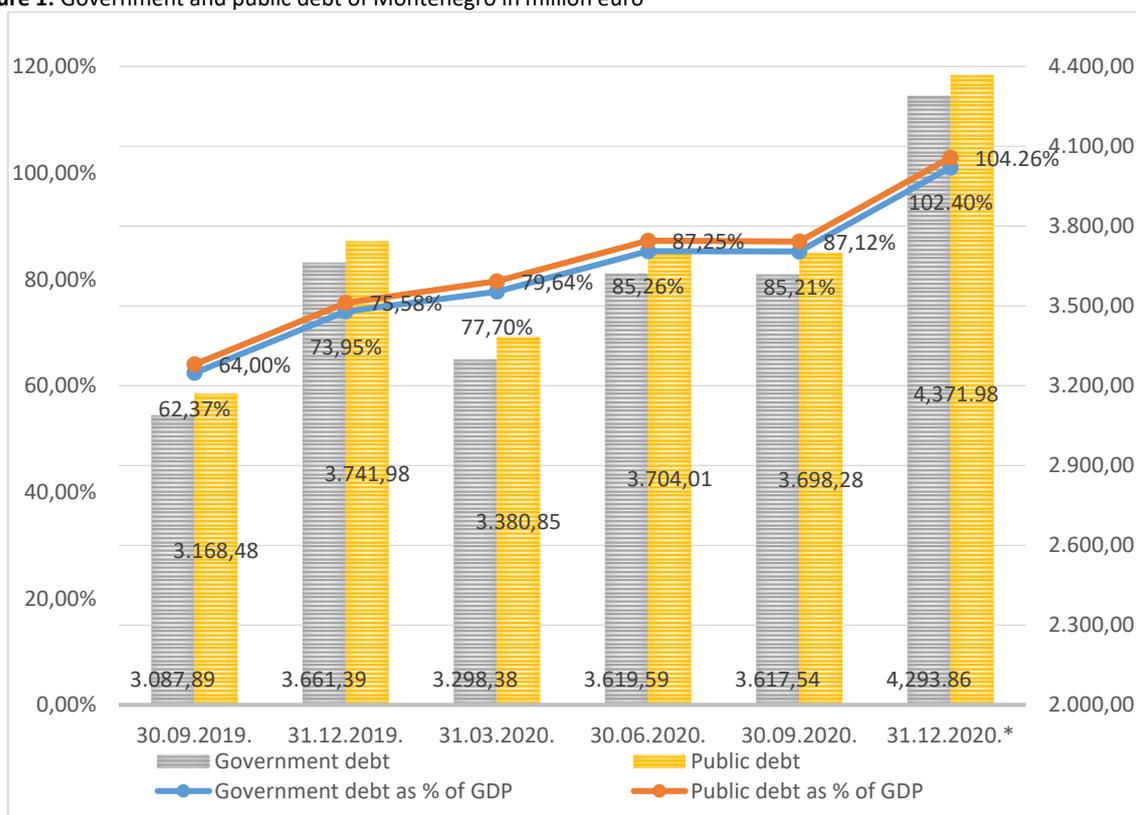
4.6 Debt levels and developments, analysis of below the line operations and stock-flow adjustments

4.6.1 Government and public debt in 2020

Public debt of Montenegro on 31 December 2019 amounted to 3,741.98 million euro, which is 75.58 percent of GDP²³; it consisted of government debt amounting to 3,661.39 million euro, which is 73.95 percent of GDP, and local self-government debt which amounted to 80.59 million euro, which is 1.63 percent of GDP.

Deposits of the Ministry of Finance, which also include 38,477 ounces of gold, and deposits of the local self-government at the end of 2019 amounted to the total of 630.68 million euro, of which deposits of the Ministry of Finance amounted to 597.13 million euro and deposits of the local government amounted to 33.55 million euro. Net public debt of Montenegro on 31 December 2019, including deposits of the Ministry of Finance and local self-government, amounted to 3,111.3 million euro, which is 62.84 percent of GDP.

Figure 1: Government and public debt of Montenegro in million euro²⁴



-Amount of the local self-government debt on 31 December 2020, according to the projections of the Ministry of Finance and Social Welfare

-Debt shown on the figure does not include deposits of the Ministry of Finance and Social Welfare and deposits of the local self-government.

²³ According to the MONSTAT data, the value of GDP in 2019 was 4,951.00 million euro.

²⁴ Data are aligned with EDP methodology. The overview does not include debt of the railway and debt for pension arrears, in accordance with EDP methodology.

In the original Law on 2020 Budget, the shortfall amounted to 590 million euro. Since the State issued bonds in the international market in 2019 in the amount of 500 million euro, for the purpose of debt financing in 2020, the Law on Budget mentioned above set out that deposits in the amount of 490 million euro would be used to overcome the shortage of the funds mentioned above. This Law also gives the possibility to the Government to borrow up to 250 million euro, and this was done under the arrangement with the commercial banks which was backed by the World Bank guarantee (PBG2).

However, the spending increased in corona crisis due to implementation of the measures which aimed to alleviate effects of crisis on health care and economy. On the other hand, budgetary revenues decreased significantly due to the contraction of economic activities since operations of a large number of economic undertakings were limited in order to stop the spread of the virus. In this situation it was necessary to redefine fiscal parameters, so in line with the amendments and supplements to the Law on 2020 Budget the shortfall amounted to 878 million euro, and these funds were to be covered by deposits made by that time in the amount of 540 million euro, while the remaining 338 million euro of the shortfall were to be provided by borrowing either in domestic or in international market. The amount mentioned above was secured from the PBG2 loan of 250 million euro, as well as by borrowing from the IMF through the Rapid Financing Instrument in the amount of 74 million euro, borrowing from the European Commission under the Macro-financial Support project in the amount of 60 million euro (of which 30 million euro were withdrawn in 2020, while the second tranche of 30 million euro will be withdrawn in 2021), borrowing from EXIM Bank of China through the existing facility for construction of the highway up to the amount needed for the implementation of activities, as well as by borrowing 73 million euro from domestic commercial banks.

In addition, the Law provided for the possibility for the Government to borrow additionally in order to refinance debt and create reserves for 2021, and this was done in the fourth quarter of 2020. In fact, seeking to act proactively and secure the most favourable sources of financing for 2021, and to use the most favourable market conditions, in December 2020 Montenegro issued Eurobond in the amount of 750 million euro, with the maturity period of 7 years and interest rate of 2.875 percent per year, which is one of the most favourable conditions of borrowing through Eurobonds ever.

Table 1: Trends of external and domestic debt, as well as of the local self-government debt in million euro

year	External debt	Domestic debt	State debt	Local self-government debt	Public debt
30 Sep 2019	2,623.4	464.5	3,087.9	80.6	3,168.48
31 Dec 2019	3,128.7	532.7	3,661.4	80.6	3,741.98
31 Mar 2020	2,807.8	490.5	3,298.4	82.5	3,380.85
30 Jun 2020	3,105.2	514.4	3,619.6	84.5	3,704.06
30 Sep 2020	3,089.8	527.7	3,617.5	80.7	3,698.28
31 Dec 2020*	3,835.27	458.59	4,293.86	78.12	4,371.98

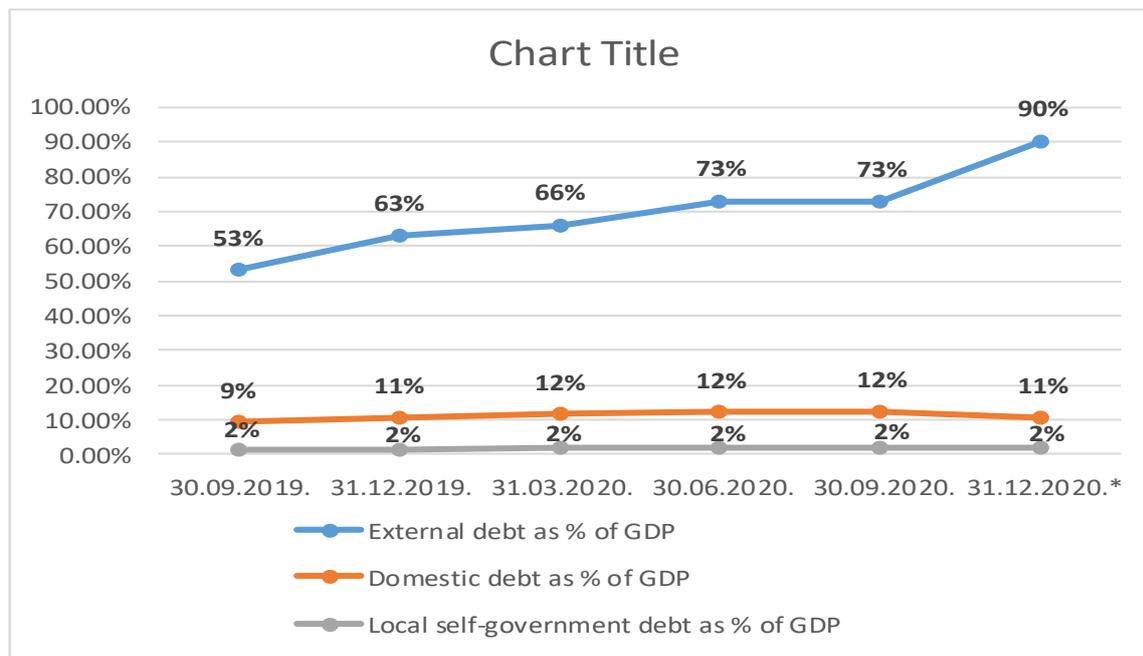
In line with the above stated, according to the preliminary data the state debt of Montenegro on 31 December 2020 amounted to 4,293.86 million euro, 102.40 percent of the estimated GDP for 2020. This increase was largely the result of the increase of the external debt, which amounted to 706.55 million euro.

The internal debt was reduced by around 79.85 million euro compared to the end of 2019, mainly due to the repayment of bonds issued in the domestic financial market, in the amount of around 80.41 million euro.

Bearing in mind the afore stated, according to the preliminary data of the Ministry of Finance and Social Welfare, the public debt at the end of 2020 will amount to 4,371.98 million euro or 104.26 percent of the estimated GDP²⁵.

²⁵ According to the projections of the Ministry of Finance and Social Welfare, the GDP value for 2020 will reach 4,193.20 million euro.

Figure 2: Trends of external, domestic and local self-government debts in 2020, as percentage of GDP²⁶

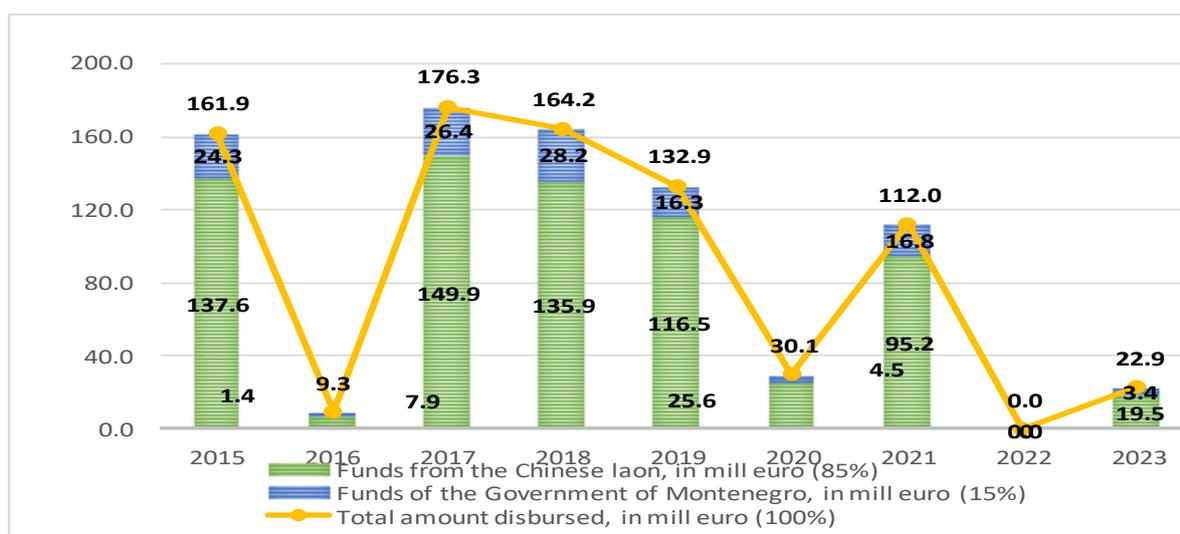


-Table 1 and figure 2 show data on the state of debt as of 31 December 2020, according to the data of the Ministry of Finance and Social Welfare.

-Debt shown in the figure does not include deposits of the Ministry of Finance and Social Welfare and deposits of the local self-government.

In addition to the described financial activities, increase of external debt in 2020 was the result of the withdrawal of credit funds for implementation of infrastructural projects, primarily for construction of the priority section Smokovac-Uvač-Mateševo, in the amount of 28.56 million euro.²⁷ (35.07 million USD). Additional 95 million euro will be withdrawn in 2021. In accordance with the Loan Agreement, the remaining 19.5 million euro will be withdrawn in 2023.

Figure 3: Funds for the highway construction project – priority section Smokovac-Mateševo, in million euro²⁸



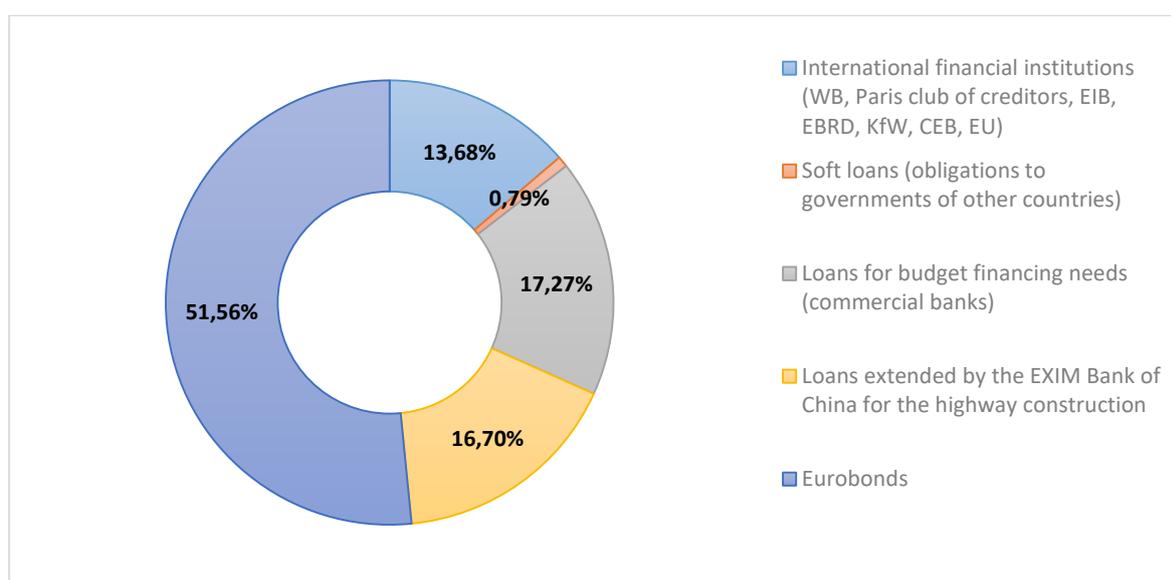
²⁶ Data are aligned with EDP methodology. The overview does not include debt of the railway and debt for pension arrears, in accordance with EDP methodology.

²⁷ According to the foreign exchange rate as of 31 December 2020.

²⁸ According to the agreed fixed exchange rate EUR/USD 1,3718

In addition, the funds amounting to around 60.21 million euro were disbursed for implementation of other development projects. These include the World Bank projects for the improvement of agriculture, energy efficiency and tax administration; projects of the European Bank for Reconstruction and Development (EBRD) for the construction and reconstruction of the road infrastructure and waste water treatment plants; German Development Bank (KfW) projects for the construction of systems of water supply, discharge and treatment of wastewater, and energy efficiency; Council of Europe Development Bank (CEB) for the Social Housing Project 1000+; projects of the European Investment Bank (EIB) for the purpose of construction and reconstruction of road infrastructure, project of construction of the water supply system and wastewater drainage, project of development of clusters in agriculture which is financed from the credit funds of the International Fund for Agriculture Development (IFAD); project of procurement of the helicopters for the Army of Montenegro, upgrade to armoured vehicles and similar.

Figure 4: External debt structure by creditors as on 31 December 2020



As for the composition of debt to residents, the highest share of debt is related to the liabilities resulting from issued domestic bonds in the amount of 142.44 million euro, while the highest share in the external debt structure is that based on Eurobonds in the amount of 1,977.45 million euro.

Table 2: Highest debts as on 30 December 2020²⁹

Debt towards residents	Amount in million euro	Debt towards non-residents	Amounts in millions of euro
Loans with commercial banks	177.68	Eurobond	1,977.45
Liabilities in respect of restitution	83.52	EXIM bank of China	640.54
Treasury bills	41.70	Syndicated loans PBG1 and PBG2	500.00
Domestic bonds	142.44	International Bank for Reconstruction and Development (IBRD)	181.53
Old FX savings	10.49	European Investment Bank (EIB)	109.66

According to the data until 31 December 2020, the debt was repaid, in respect of principal, to residents and non-residents, in the total amount of 571.25 million euro, while the debt repayment from the earlier period amounted to 0.41 million euro. Repayment in respect of interest, to residents and non-residents, amounted to the total of 110.83 million euro.

²⁹ According to the foreign exchange rate as of 31 December 2020.

Table 3: Repayment of state debt until 31 December 2020

Budget line item	2020
Repayment of principal to the residents*	149.59
Repayment of principal to the non-residents	421.65
Total repaid principal	571.24
Total repaid liabilities from earlier years**	0.33
Repayment of interest to residents	12.81
Repayment of interest to non-residents	98.02
Total repaid interest	110.83
TOTAL	682.40

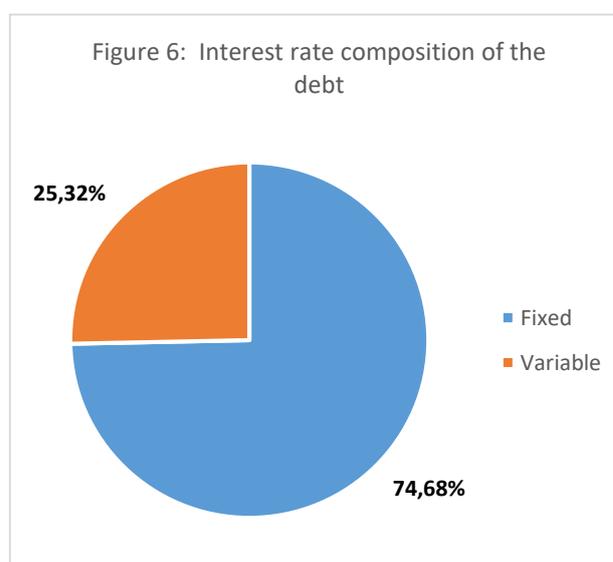
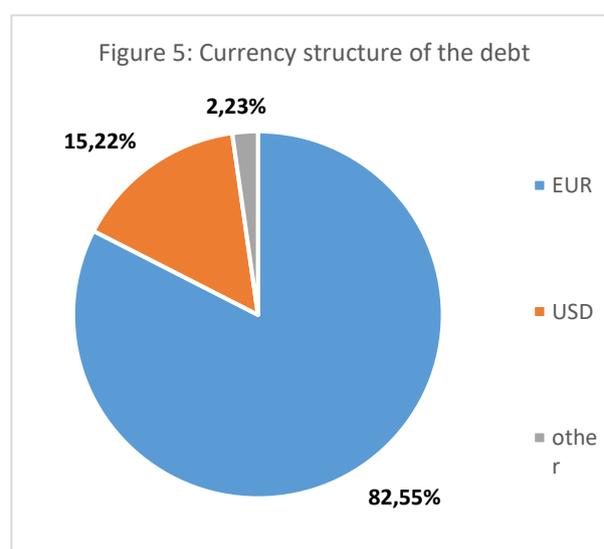
*Line item 4611 does not include the amount for refinancing treasury bills, which equals 94.6 million euro

**This does not include repayment on the basis of court judgments

Currency and interest structure of government debt

Based on the current government debt stock, approximately 82 percent of the debt is stated in domestic currency, i.e. euro, and at this point effects of the currency risks are not expected to have a significant impact on the government debt. Considering the share of debt stated in US dollars for the credit extended by EXIM Bank of China for the construction of highway in total government debt (which at this point accounts for 14.79 percent of the government debt), actions need to be taken to avoid negative effects of the potential change of the exchange rate in favour of US dollar. The plan is to start with currency hedging activities before the beginning of debt repayment which is envisaged in July 2021 so as to ensure protection against currency risk. In that regard, the Ministry of Finance and Social Welfare is engaged in negotiations with six renowned banks in order to agree on ISDA agreement, which constitutes legal ground for concluding hedging transactions. It is worth noting that the USD/EUR foreign exchange is favourable at this point, unlike the earlier period in which USD was significantly stronger.

As regards the risk of an interest rate change, it is evident that the debt with fixed interest rates prevails in the total government debt; therefore, the risk of an increase in liabilities on this ground is low and no significant burden on the budget is expected in case of possible changes to the borrowing conditions in the market. Nevertheless, developments of variable interest rates should be monitored, since EURIBOR has so far had a negative value, but that does not mean it will remain so in the future.



Credit rating agencies Standard&Poor's and Moody's in the new 2020 reports confirmed ratings for Montenegro B+/B and B1 respectively, with stable outlook for the country. However, the rating agency Standard and Poor's (S&P) released an extraordinary assessment of the credit rating at the global level when it has changed credit rating outlooks for about 40 countries. In fact, at the end of April 2020 the revised projections made by this agency for the country it monitors showed that due to COVID 19 virus outbreak the rating outlook for Montenegro changed from stable to negative, while the score B+ was maintained. The outlook for the majority of countries was changed due to COVID-19 pandemic. Compared to the last assessment from 2017, the rating B+ was maintained, while stable outlook was changed to negative. In March 2021, the latest official credit rating report of the Standard&Poor's agency was published, wherein the credit rating score for Montenegro was downgraded from B+ to B, with stable outlook.

Debt Management Strategy

At the end of March 2018, the Government adopted the Medium-term Debt Management Strategy for the period 2018-2020. In accordance with the generally accepted goals of state debt management, the main goal of the Strategy was to minimise costs of financing of the general government debt within reasonable risks, with a particular focus on the risk of refinancing the existing debt portfolio. Therefore, the key focus of the Strategy is reduction of refinancing risk in the medium-term.

Transactions conducted in 2019, which relied on the Strategy guidelines, contributed to the improvement of debt quality in 2018 by extending the average maturity of the debt. Therefore, the average maturity of the debt was extended from 4.6 years as it was at the end of 2017 to 5.2 years as it was at the end of 2018. The state debt structure at the end of 2018 had a real weighted average interest rate of 3 percent, which means that the borrowing cost was reduced by 0.1 percent compared to the end of 2017.

As for implementation of the guidelines from the Debt Management Strategy, Montenegro took one step further in 2019 by issuing domestic bonds in the first half of this year in the amount of around 143 million euro. Out of that amount, 50 million refers to the seven-year bond with the annual interest rate of 3.5 percent, while the remaining amount of around 93 million euro refers to the five-year bond with the annual interest rate of 3 percent. Implementation of another guideline of the Strategy related to development of the domestic market of state securities (bonds) began, which has impact on diversification of the sources of financing and which will contribute to achieving better borrowing conditions and better negotiating position of Montenegro.

These transactions had impact on further improvement of the debt quality indicators which is why the average maturity of the debt was extended from 5.2 years as it was at the end of 2018 to 5.9 years as it was at the end of 2019. As for the average weighted interest rate, it was reduced from 3 percent, as it was at the end of 2018 to 2.8 percent at it was at the end of 2019. Debt quality parameters for 2020 are expected to improve as well.

Since the Strategy which was adopted previously covers the period from 2018 to 2020, the new Debt Management Strategy is expected to be drawn up in 2021 and that Strategy will cover the next three-year period. The Strategy will be drawn up after adoption of the Fiscal Strategy for the next four-year period.

4.6.2 Baseline Scenario of the Government Debt Trends in the period 2020-2023

According to the Law on Budget for 2020, the shortfall will amount approximately 575 million euro.

New borrowing will not be required in order to finance this amount, given that the State has issued 750 million euro Eurobond in the international market in December 2020, intended for the budget financing and debt repayment in 2021. The new borrowings are expected only for the needs of

completion of infrastructural projects, such as the disbursement from the loan with the EXIM Bank of China for the needs of the implementation of the Bar-Boljare highway construction project. In addition to the above stated, the second tranche of the loan facility entered into with the European Commission will be disbursed in amount of 30 million euro.

As for the shortfall, Montenegro is expecting to face the more favourable conditions in 2022, given that if compared to 2021 it is expected for sizeable reduction shortfall to be recorded and will amount around 310 million euro. The shortfall in 2023 will amount approximately 183 million euro.

In addition to the aforementioned, the debt trend will also be impacted by the implementation schedule of concluded loan facilities for the needs of development and infrastructure projects, for which the commitment of loan funds of approximately 40 million euro annually is envisaged

Table 4: Developments of government and public debt in the period 2020-2023 - baseline scenario³⁰

	2020	2021	2022	2023
GDP	4,245.2	4,636.6	4,984.6	5,310.5
Domestic debt	458.6	372.7	332.8	351.3
Foreign debt	3,835.3	3,650.7	3,447.4	3,283.1
Total government debt	4,293.7	4,022.9	3,780.2	3,634.4
% of GDP – government debt	102.4	86.8	75.8	68.4
Local self-government debt	78.1	78.1	78.1	78.1
Total public debt	4,372.0	4,101.1	3,858.3	3,712.5
% of GDP – public debt	104.2	88.4	77.4	69.9

* The amount of local self-government debt is according to the projections of the Ministry of Finance.

** The debt presented in the Table excludes deposits of the Ministry of Finance and local self-government deposits.

As it could be noted in the Table, at the end of 2020, the government debt was 102.4 percent of GDP, whereas the public debt will be at the level of 104.2 percent of estimated GDP for 2020.

In 2021, the debt reduction is expected, primarily due to the repayment of debt in respect of bonds issued in 2016 in the amount of approximately 227 million euro. Likewise, there will be realistic need in 2021 for new borrowing except, as described above, for implementation of infrastructure projects currently underway or are being implemented under facilities that have already started. The value of the government debt in 2021 will amount 88.6 percent of GDP, while according to the projections the public debt will amount 88.4 percent of GDP.

Decreasing government and public debt will characterise 2022 as well, so that the government debt will amount 75.8 percent of GDP, while the public debt will be 77.4 percent of GDP. As for 2023, the declining in levels of the government debt is expected to continue, thus it is estimated that at the end of 2021, the government debt value will reach 68.4 percent of GDP, while the public debt will be around 69.9 percent of GDP estimated for 2023.

4.6.3 Low-growth/downward Scenario

If it comes to economic growth slowdown and decrease of revenue level, according to the low-growth/downside scenario, the mentioned changes will also affect the public debt developments. Reduced revenues and investment growth stagnation will lead to the need for additional borrowings in view of providing for shortfall for deficit financing.

³⁰ The presented overview excludes the railway debt and outstanding pensions debt, in accordance with the EDP methodology.

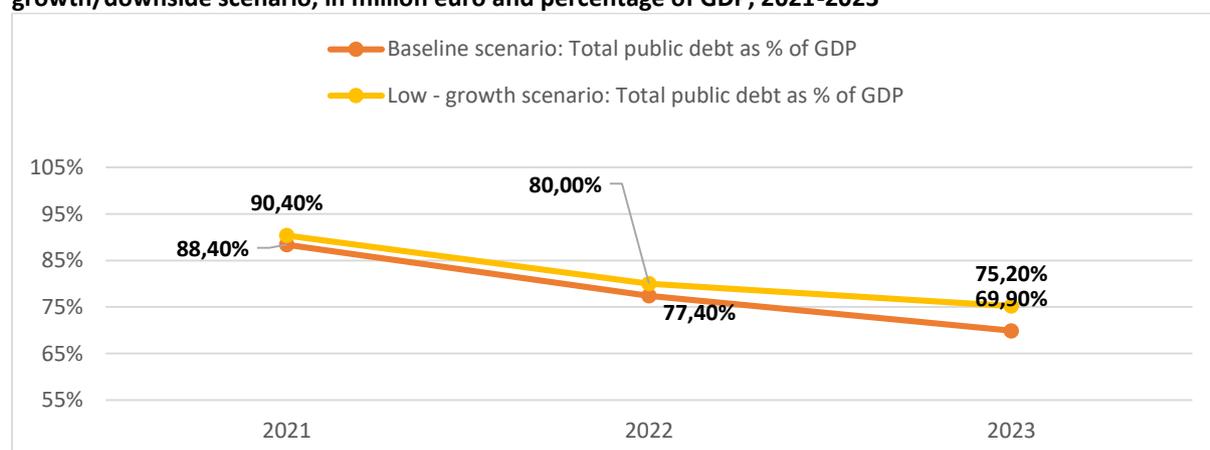
Table 5: Debt developments for the period 2020-2023 – low-growth/downward scenario³¹

	2020	2021	2022	2023
GDP	4,193.2	4,532.2	4,814.5	5,144.4
Domestic debt	452.9	367.0	327.1	355.6
Foreign debt	3,835.3	3,650.3	3,447.4	3,433.1
Total government debt	4,288.1	4,017.2	3,774.5	3,788.7
% of GDP – government debt	102.3	88.6	78.4	73.6
Local self-government debt *	78.1	78.1	78.1	78.1
Total public debt **	4,366.3	4,095.4	3,852.6	3,866.8
% of GDP – public debt	104.1	90.4	80.0	75.2

* The amount of local self-government debt is according to the projections of the Ministry of Finance

** The debt presented in the Table excludes deposits of the Ministry of Finance and local self-government deposits.

Figure 7: Comparative overview of public debt developments in the baseline scenario and the low-growth/downside scenario, in million euro and percentage of GDP, 2021-2023

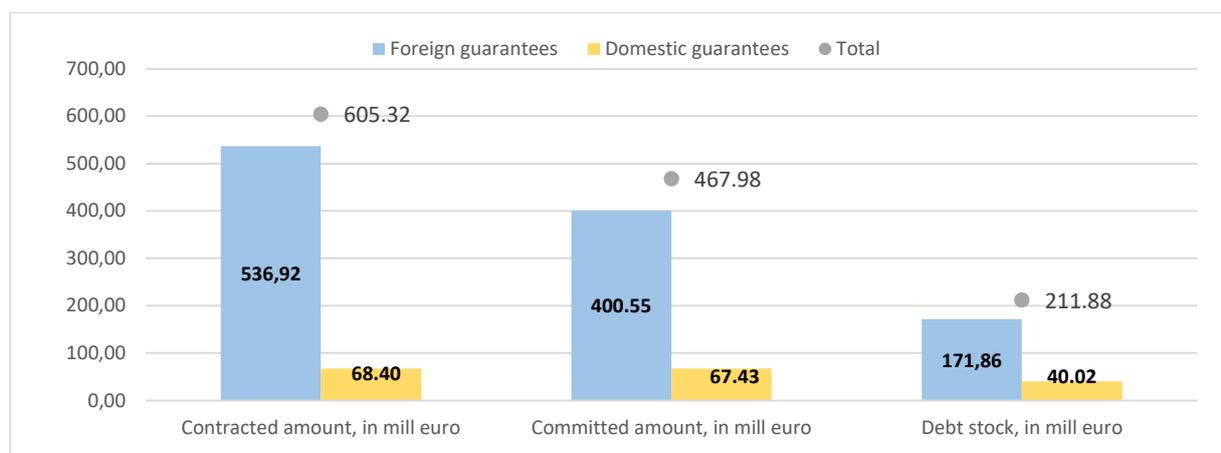


4.6.4 State guarantees

As of 31 December 2020, the state guarantees amounted to 605,32 million euro. Out of this amount, 467,98 million euro are committed funds. The debt stock on 31 December 2020, based on guarantees issued to domestic and international creditors, amounts to 211.88 million euro, which is 5 percent of GDP.

³¹ Data aligned with the EDP methodology. The stated stock excludes the debt of the railways, in accordance with the EDP methodology.

Figure 8: State guarantees stock on 31 December 2020



During 2020, there was no calling upon of state guarantees on the basis of loans; likewise, the risk of new guarantees being called upon is not expected in the coming period.

In accordance with the Law on Budget for 2020, the Government of Montenegro has issued the following guarantees:

- for the needs of the credit arrangement between the Deposit Protection Fund of Montenegro and the European Bank for Reconstruction and Development (EBRD), in the amount of EUR 50.00 million.
- for the needs of the credit arrangement between the Innovation and Entrepreneurship Center Tehnopolis and the First Bank, in the amount of EUR 1.00 million.

The guarantees issued over the several previous years were mainly related to the loans that served for implementation of various infrastructure projects, roads, railways, water supply and sewage, electricity, provision of support to the development of small and medium-sized enterprises or restructuring.

The committed amount of guarantees issued by the Government of Montenegro for the loans extended by foreign creditors amounts to around 400.7 million euro, whereas the debt stock for these amounts to 171.9 million euro or 4.02 percent of GDP.

The committed amount of guarantees issued by the Government of Montenegro for the loans extended by domestic creditors was around 67.3 million euro as of the end of 2020, whereas the debt stock in that respect amounts to 40.1 million euro or 0.94 percent of GDP. The largest portion of the existing domestic guarantees was issued for local self-government for implementation of the rehabilitation plans, and debt stock for these amounted to 23.19 million euro on 31 December 2020.

Entering into new guarantees will be envisaged in the new 2021 budget law, which is currently prepared.

4.7. Sensitivity Analysis and Comparison with the Previous Programme

4.7.1 Sensitivity of the Public Finances Projections to Alternative Scenarios and Risks

The main risks to the materialisation of fiscal projections, be they negative or positive, reflect on the baseline scenario of public finances. Overview of the main economic risks to materialisation of the fiscal projections concerned is presented in the table below:

Table 4.7.1 Overview of fiscal risks in the medium-term

Positive	Negative
<ul style="list-style-type: none"> - Refinancing of the existing credits improves credit structure of debt and reduces the costs of financing; - Improvement of corporate operations of the enterprises that are in majority state ownership has impact on their financial autonomy and on collection of revenues by the state on the basis of the share in ownership; - Reform of the Revenue Administration, implementation of electronic monitoring of fiscal cash registers and intensification of the fight against informal economy will expand the tax base, thus enabling increase in public revenues; - Gradual reduction of the wage bill though rationalisation of jobs in public administration will lead to additional optimisation of public spending; - Potential collection of revenues by granting concession for the long-term use of the Airports of Montenegro JSC increases total public revenues in the medium-term; - The reforms conducted in the budgeting process increase fiscal discipline and transparency of public finances which has positive impact on core fiscal indicators; - Implementation of new legal framework for organising the games of chance will create conditions for the collection of additional revenues relative to those planned on this basis. 	<ul style="list-style-type: none"> - Uncertainty in respect of expectations from the summer tourism season combined with uncertainty in respect of duration and intensity of COVID-19 virus pandemic and success in mass immunisation may reduce revenues generated based on tourist traffic. On the other hand, better effects of summer tourism season compared to what has been planned have positive impact on the collection of overall public revenues; - Increased risk on the basis of operations of public enterprises during pandemic which, on one hand, might require additional allocation of budgetary funds, while on the other it reduces payments by companies on the basis of ownership share of the state; - In the event of an increased price of construction of the highway, total public expenditures are increased as well, which has negative impact on budget balance developments; - Implementation of ESA2010 methodology may lead to expansion of the existing institutional coverage of budgetary accounting by including public service enterprises which should, under ESA2010 qualitative and quantitative criteria, be presented in the general government sector. Therefore, there is a possibility of the increase in deficit and debt of the sector mentioned above in the medium term, in accordance with ESA 2010 methodology. On the other hand, application of the methodology mentioned above, by following the same principle, may also have positive effects on fiscal indicators.

Alternative fiscal scenario is based on the downside macroeconomic scenario whose main assumptions are based on a recovery of economic activity, which is slower than that projected in the baseline scenario, and this is primarily the result of lower revenues generated from tourism. The downside macroeconomic scenario is thoroughly elaborated in Chapter 3.

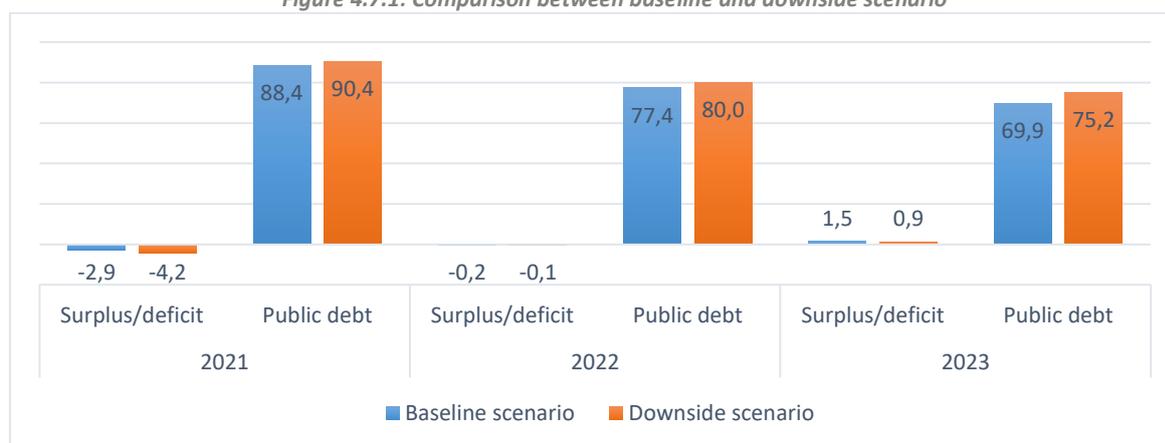
If these risks materialise, public revenues would not be achieved at the level planned under the baseline scenario, while in the event of a slower recovery of economic activity it would be necessary to continue financing of the measures for support to the economy and socially vulnerable categories of the population which would have impact on the increase of public spending. Reduced collection of revenues and higher government spending under this scenario would result in a higher deficit of public finances in the medium term, and thus in the greater need to finance public spending. However, in

the event of materialisation of the downside scenario, the financing of public spending would not be compromised given the stock of deposits secured through the borrowing at the end of 2020.

Having in mind the aforementioned, in the event of materialisation of the downside macroeconomic scenario the balance of public finance would be adjusted primarily through a higher deficit over the medium term, which would be maintained in 2023 as well. Consequently, the public debt would be higher compared to the baseline scenario which is presented in sub-chapter 4.6.

On the other hand, the baseline fiscal scenario does not take into account potential collection of revenues on the basis of possible granting of the concession for long-term use of the Airports of Montenegro which would enable one-off amount of public revenues which is substantially higher than those planned under the baseline scenario.

Figure 4.7.1: Comparison between baseline and downside scenario



4.7.2 Comparison with the Previous Programme

The previous Economic Reform Programme reflected stabilisation of public finances and establishment of a positive trend in line with the results of fiscal consolidation conducted in the period 2017-2019. Declaration of the COVID-19 virus pandemic and its impact on the economy of Montenegro considerably deteriorated the projected macroeconomic and fiscal parameters as a result of restriction of economic activity and interruption of international traffic. In that respect, contrary to the projected generating of public finance surplus starting from 2021 and establishment of the downward trend for public debt starting from 2020, this Programme is focused on gradual economic recovery which, along with the rationalisation of public spending, enables decline in public finance deficit to 2.9 percent in 2021, followed by more balanced public finances and shift towards positive balance in 2023.

Drastic decline in economic activity and two-digit deficit of public finance generated in 2020 indicates the depth of impact of the pandemic on the economy of Montenegro and thus the expected gradual recovery in the next medium-term period.

Table 4.7.2 Comparison with the previous programme, in million euro

ERP 2020-2022				
	2020	2021	2022	2023
Public revenues	2324.91	2214.74	2257.47	
Public spending	2324.17	2144.35	2185.04	
Surplus/deficit of public finances	0.74	70.39	72.43	
ERP 2021-2023				
	2020	2021	2022	2023
Public revenues	1,869.43	2,123.67	2,167.62	2,270.44
Public spending	2,333.23	2,255.91	2,167.54	2,192.33
Surplus/deficit of public finances	-463.79	-132.24	-8.92	78.11
DIFFERENCE				
	2020	2021	2022	2023
Public revenues	-455.48	-91.07	-89.85	
Public spending	9.06	111.56	-17.5	
Surplus/deficit of public finances	-464.53	-202.63	-81.35	

As it can be seen from table 4.7.2, in all years of the forecast, the generated public revenues will be substantially lower than those projected by the previous Programme due to the high recorded decline in the collection of revenues in 2020 and their expected gradual recovery. Therefore, public revenues are expected to return to the pre-pandemic level in 2022. The recovery of revenues is pronouncedly accelerated due to implementation of the fiscal adjustment measures on the revenue side.

On the other hand, according to the preliminary data, the public spending in 2020 will be higher compared to the previous Programme having in mind financing of the three packages of measures for support to citizens and economy in facing negative effects of the pandemic and financing of the healthcare system in the circumstances of the pandemic. The expected higher growth of public spending compared to what has been achieved is the result of the reduction of discretionary expenditures started because of the conditions of contracted fiscal space in 2020, which enabled funds for financing measures mentioned above.

Therefore, in addition to the allocations for support to the economy and socially vulnerable categories of the population in order to mitigate effects of the pandemic through three packages of measures, the public spending is moderately higher compared to the previous Programme, primarily due to reallocation among categories on the expenditure side of the budget and savings generated in respect of non-mandatory spending.

Despite considerable fiscal consolidation in respect of current spending, the projection of public spending for 2021 is higher due to carrying forward of expenditures for the construction of the priority section of the highway from 2020 to 2021, as a result of limitation of the executed works imposed by the pandemic in the previous year. Due to the projected finalisation of the priority section of the highway in 2021 and consolidation performed in respect of current spending, the total public spending in 2022 will be lower compared to the previous Programme.

4.8 Quality of public finance

The quality of public finance management is crucial for long-term fiscal stability, availability and quality of public services, and thus overall economic development.

In the conditions of threatened fiscal stability caused by the impact of the negative effects of the pandemic, and consequently the drastically narrowed fiscal space, the importance of high-quality management of public resources has become even more important.

Observing the public expenditure structure in the Programme period, the share of current public expenditure in total expenditure remains at an extremely high level of about 90 percent while the remaining part is the capital budget, which, in both the previous period and in 2021, is predominantly influenced by the construction of the Bar-Boljare highway priority section. In the structure of current public expenditure, the largest share refers to mandatory expenditures related to Gross wages and Transfers for social protection through which the entitlements in the field of social protection, pension and disability insurance and entitlements in the field of healthcare are financed, which account for about 60 percent of the total current expenditure. Having in mind the growing trend of the gross wage bill and the need to put it under control, i.e. to relieve public expenditure in that respect, the Government of Montenegro will take steps in the coming period to meet the goal of gradually reducing the total wage bill through, first of all, the optimisation of jobs. The first step towards that was the adoption of a new organizational structure of the state administration, which rationalised the number of ministries and administrative bodies. When it comes to trends in transfers for social protection and reforms in this area, a more detailed explanation is given in Chapter 4.10.

With the completion of the construction of the priority section of the Highway, the allocations for the implementation of infrastructure projects will be significantly reduced, and the planned share of the capital budget in GDP will amount to about 3.0 percent. On the other hand, the announced support by the European Union for the Western Balkans countries regarding infrastructure projects will lead to a renewed intensification of investments through the capital budget.

The tax policy implemented by Montenegro is based on the creation of a competitive and stable tax system based on simple and clear legal solutions and procedures, competitive tax rates and efficient and professional administration, along with continuous harmonization with the European Union standards.

The highest tax burden in Montenegro, although continuously decreasing, relates to labour, while capital is taxed at low rates. The tax wedge in Montenegro is at the level of the European average and has been reduced from over 60 percent on 1 euro of gross employee wage (in the 1990s), and from about 50 percent in the years when the euro was introduced, to about 39 percent as is today. The latest reform in this area was implemented in July 2019, when the rate of health insurance contribution charged to the employer was reduced by 2 p.p., while increasing the minimum wage to 222 euro. Furthermore, since 1 January 2020, the so-called crisis tax has been abolished, and the higher income tax rate has been reduced from 11 percent to 9 percent, and since then all income levels have been taxed at a flat rate. An increase in minimum wage to 250 euro is planned from 1 July 2021, which will improve the standard of living of employees with lowest earnings. As the increase in minimum wage increases overall labour costs for employers, a decision on reducing overall tax wedge will be reached in a dialogue with social partners and based on a comprehensive analysis of all fiscal and para-fiscal charges on labour, addressing optimal approach for employers, employees, and public finances.

The implementation of the Support to the Customs Administration in the field of excise duties project is underway, and it is aimed at the development and implementation of a new national software application for excise duties in the Customs Administration IT system (CIS), its implementation in the IT system and interconnection and interoperability with other customs software applications as well as with future software applications. The introduction of a new information system for electronic data exchange will enable the software-based connection of the software for the exchange of excise data in digital form, which will contribute to strengthening the collection of excise duty as well as a more efficient fight against the grey economy. The implementation of the provisions related to the information system, in accordance with the Law on Excise Taxes, which was adopted in July, is planned for 1 January 2021. To this end, the Ministry of Finance and Social Welfare has adopted a Rulebook on the detailed functioning of the information system for electronic data exchange and the procedure for electronic exchange of excise data.

The implementation of the Revenue Administration Reform Project is also underway, which includes the introduction of an integrated information system and the implementation of electronic monitoring of fiscal cash registers. Namely, so far the focus of activities has been on the areas of internal control and integrity, tax returns and accounting, tax audit, and services provided to taxpayers. In addition to the above, at the beginning of July 2020, a contract was signed for the procurement of a system for online electronic fiscalisation of cash and non-cash transactions in real time in Montenegro, after a successful tender. The Project Plan was prepared and adopted, and the implementation started accordingly. The issue of hardware, software and internet access was resolved, and communication was enabled between the internal network of the Revenue Administration and the EFI network on which the application servers are located. This reform should ensure more efficient collection of budget revenues through better control of taxpayers and improvement of the capacity of the Revenue Administration.

4.9 Fiscal governance and budget framework

The formal framework governing the planning and implementation of fiscal policy in Montenegro is contained in the Law on Budget and Fiscal Responsibility.

Independent fiscal institutions for monitoring fiscal outcomes and/or advising the Government regarding fiscal policy issues: As regards the monitoring and evaluation of fiscal policy and achieved outcomes, particularly concerning numerical fiscal rules, their evaluating is carried out by the State Audit Institution by ex-post evaluation of numerical fiscal rules and also by giving an opinion on the Budget for the current year. In order to strengthen fiscal policy oversight, particularly with regard to ex-ante evaluation, with the European Union support, a project is being implemented with a view to creating conditions for the establishment of the Montenegro Fiscal Council, as an independent body that would monitor and evaluate fiscal policy planning and evaluation. During 2020, an expert engaged in the project prepared an options document, which contains an overview of comparative international practices regarding the functioning of the fiscal oversight body, but also proposed options for establishing a fiscal council in Montenegro. The formal establishment of the Fiscal Council is to be carried out through amendments to the Law on Budget and Fiscal Responsibility, and the Government will decide on proposing these regulatory changes in the coming period.

Medium-term budgetary frameworks: Medium-term budgetary framework is established by the Macroeconomic and fiscal policy guidance and reviewed on the occasion of the budget adoption for the following fiscal year. In order to improve the budget system as a whole, in 2019, the implementation of the projects financed from the European Union funds commenced, and they are as follows:

- the project "Enhancement of the Budgetary System, Medium-Term Budgetary Framework and Internal Financial Control" aims to result in an enhancement of the budgetary system as a whole, through full implementation of programme budgeting, medium-term planning and other elements of budgeting system;
- the project "Budget Planning IT System Enhancement" will create, through the enhancement of the system for budget planning, the conditions for budget planning in the medium term as well as the conditions for qualitative budget planning and reporting;
- the project "Implementation of the System of Centralised Payroll Calculation" aims to develop and implement a programme arrangement that will facilitate the centralisation and an efficient process of payroll calculation, with higher degree of control and reporting, as well as efficient management of spending for wages in public sector.

In accordance with the activities carried out within the project "Enhancement of the Budgetary System, Medium-Term Budgetary Framework and Internal Financial Control", during 2020, intensive work was done on the implementation of the program budget. In accordance with the above, methodology for drafting the programme budget was developed and adopted by the Government, and the programme structure of all budget users was revised. This improves the presentation of the budget and contributes to greater transparency of planning and spending of public funds. The mentioned changes were accompanied by the development of a new IT system for budget planning so that all budget users submitted requests for budget funds electronically, through the budget planning system.

At the same time the performance indicators were developed, which provide for measurement of effects achieved by spending budgetary funds and adequate reporting during the budget year.

Availability and quality of fiscal data and adjustment to ESA standards: As regards availability and quality of fiscal data, the official producer of data in this area is the Ministry of Finance and Social Welfare, which carries out its planning and forecasting, and also reports on the fulfilment of fiscal indicators on monthly, quarterly and annual level, in accordance with national framework. With regard to the harmonisation of the government finance statistics with international standards, no progress was made during 2020, given primarily the lack of human resources but also the lack of systematic division of responsibilities for data production in accordance with the ESA2010 methodology, which was stated in the report for Montenegro for negotiating chapters 17 and 18.

4.10 Sustainability of public finance

Despite the favourable macroeconomic environment, the sustainability of public finance at the end of 2016 was threatened, which resulted in high levels of deficit and public debt, especially in conditions of significant burden on current public expenditure, but also the beginning of construction of the priority section of the Highway.

In order to ensure the stability of public finances and create conditions for their long-term sustainability, in the period from 2017 Montenegro implemented fiscal adjustment measures that significantly improved fiscal indicators in 2019, with the continuation of the positive trend in the first quarter of 2020. According to the projections of all relevant international financial institutions, Montenegro would achieve economic growth in 2020, with the continuation of positive trends in the field of public finances, through the projected reduction of the budget deficit and the transition of public debt to a downward trajectory. However, the confrontation with the COVID-19 virus pandemic and the implementation of measures aimed at protecting the health of the population, i.e. bringing the pandemic under control, led to significant restrictions on economic activity, which also reflected on developments in the fiscal sector.

Long-term fiscal sustainability in Montenegro is, to the largest extent, determined by the social protection systems, i.e. the funding of the healthcare system and pension system. In the context of a pandemic, the need for additional financing of the healthcare system, on the one hand, and the reduction of revenues generated by contributions conditioned by negative developments in the labour market, on the other, deepened the existing deficits of the Pension and Disability Insurance Fund and the Health Insurance Fund, and thus further jeopardized the sustainability of public finances.

In addition to reduced collection of contribution revenues, with the possibility of deferring the payment of taxes and contributions on wages during the pandemic, as one of the Government's measures to help the economy, additional pressure on public finances was created by the adoption of the Law Amending and Supplementing the Law on Pension and Disability Insurance in July 2020 with retroactive application from the beginning of the year, the implementation of which requires additional budget allocations.

In order to ensure the adequacy of pension benefits, the amendment to the aforementioned Law changed the way of adjusting pensions, so that instead of the previous formula of adjusting with 75 percent of inflation measured by the consumer price index and 25 percent of wage growth, the concept of the so-called "rotating formula" was introduced: 75 percent of a higher parameter and 25 percent of a lower parameter.

In dialogue with the social partners, the Law Amending and Supplementing the Law on Pension and Disability Insurance reduced the retirement age from 67 to 66 for men and 64 for women. In addition, $\frac{1}{4}$ of the insurance period that is most unfavourable for the insured person has been excluded from the calculation period used for calculating the amount of pension, until 2030. A novelty in the Law is also the increase of the nominal amount of the lowest pension to 145 euro.

All the mentioned changes represent an advantage from the aspect of social justice, but they put additional pressure on public spending.

In order to ensure the stability and sustainability of the pension system, one of the novelties of the Law refers to the gradual abolition of special retirement conditions (until 31 December 2021), after which all insured persons will be entitled to a pension under general conditions applicable to all insured persons. The age limit of 61 years is prescribed for persons who become entitled to a pension after completing 40 years of contributing to service, while the age limit for early retirement has been raised from 62 to 63 years of age in the transitional period from 2020 to 2025. These measures should have the effect of preventing early exit from the labour market and early retirement.

Ensuring a functional, stable and sustainable health system, i.e. ensuring timely and high-quality healthcare in the conditions of the coronavirus pandemic, represents a significant financial challenge given the large decline in budget revenues. In addition, unfavourable demographic trends characterized by the tendencies of gradual aging of the population, falling birth, fertility and natural population growth rates, increasing mortality rates, along with the pandemic, additionally endanger the long-term sustainability of public finances.

Besides the additional costs at the time of the pandemic, since April 2020, salary bonuses in the healthcare sector have been granted to healthcare professionals treating patients infected with COVID-19 virus. Pursuant to the agreement signed with the trade unions, an additional increase of salaries of 3 percent for the healthcare sector is planned in 2021.

In addition to the health and pension systems, the management of the gross wage bill, as well as the state of local public finances, greatly affect the long-term sustainability of public finances.

In order to improve the efficiency of public administration and the quality of public services delivery, and at the same time optimize the cost of gross wages at the central and local levels, activities defined by the Public Administration Optimization Plan 2018-2020 are being implemented. Restricting permanent and temporary employment, as one of the key optimization policy measures, has been in

force since July 2018, with such "moratorium" on employment to apply until 31 December 2020. In order to achieve an optimal balance between the requirements for strengthening human resources needed in the process of Montenegro's accession to the European Union and the need for rationalization, reflected in achieving the defined staff reduction indicators at both the local and central level, the process of restrictive Government approval of new jobs has continued in order to limit the number of new employees in the public sector. In addition to the aforementioned employment restriction measure, the termination of employment by mutual agreement after the payment of severance is another important measure applied to reduce the number of employees.

Despite the activities carried out to optimize the number of employees in the public administration, allocations for the payment of gross wages at both the central and local levels have increased from 10.9 percent of GDP in 2018 to 12.8 percent of GDP in 2020, largely due to the increase in wages in the two largest sectors of public administration in terms of the number of employees – Health and Education. Consequently, the wage bill management remains one of the significant challenges.

The adoption of the Law on Local Self-Government Financing had positive effects on local self-government budgets in the first year of implementation. Namely, in 2019, all indicators of the state of public finances at the local level were significantly improved. However, at the time of the pandemic caused by the COVID-19 virus, the satisfactory and stable fiscal positions of local self-governments were partially distorted.

The epidemiological situation significantly affected economic activities and, consequently, the overall public finances, which, among other things, affected the reduction of both direct and assigned revenues of local self-governments.

Although they faced numerous problems due to the new situation, all local self-government units, in accordance with their capabilities, adopted measure programs to support citizens and the economy in order to reduce the negative consequences caused by the COVID-19 virus epidemic. In addition, among the measures resulting in reducing the budget expenditure and representing solidarity in the situation of lower revenues, and thus weaker budget filling, local self-governments have also adopted adequate measures to reduce current budget expenditure.

In order to create preconditions for long-term sustainability of public finances in the coming period, activities will be carried out to create conditions for expanding the tax base, introducing a system of electronic fiscalisation of tax cash registers, as well as combating the "grey" economy through increased oversight and work of inspection services.

5. STRUCTURAL REFORMS IN THE PERIOD 2021-2023

5.1 Identification of Key Obstacles to Competitiveness and Inclusive Growth

The Economic Reform Program (ERP) provides a detailed identification of barriers to Montenegro's competitiveness and economic growth and to the development of Montenegro over the medium term. In this context, an adequate set of reform measures constitutes a separate chapter in the Programme and is designed in such a way that, in line with the policy guidance of the European Commission, it creates space for overcoming barriers mentioned above, while it also prevents their occurrence in the medium and long term.

The European Commission conducted independent analysis of the Montenegrin economy in order to identify key structural challenges to competitiveness and inclusive growth by using ERP of Montenegro and other sources. This concise analysis shows that the country is facing several structural and intersectoral weaknesses despite the progress made in certain areas.

The main challenges in boosting competitiveness and ensuring long-term inclusive growth are (i) increase in activity in the labour market, (ii) strengthening of regulatory environment, and (iii) formalisation of economy.

Structural weaknesses have been exacerbated by the Covid-19 pandemic, highlighting the strong need for structural reforms. Effective and well-coordinated structural reforms will contribute to mitigating the impact of the pandemic and accelerate the post-crisis economic recovery. The government's policy response will be critical to shape the economy in the post crisis context. The recovery would also benefit from further efforts to tackle corruption, improve the rule of law, enhance transparency and strengthen institutions and social dialogue.

As regards specific structural reforms, the main challenges posed by Covid-19 are linked to strengthening the public health sector, preserving employment and improving social protection, enhancing the business environment and providing support to the private sector. The pandemic is putting the health system under stress, revealing persistent under-funding and weak capacities to cope with the crisis. Despite improvements in the labour market in the past few years, the pandemic is now putting jobs at risk, including in the informal sector. Underfunded, inadequate and insufficiently targeted social assistance and unemployment benefit schemes become further stretched. The crisis has also highlighted the need to review the social protection system with the aim of improving its coordination with employment activation and its capacity to reduce social exclusion and poverty. Businesses, in particular SMEs, self-employed and small family enterprises are considerably affected by the pandemic and are in need of urgent support, such as provision of liquidity and further easing the regulatory and tax burdens. The effectiveness of support measures depends on good governance, coordination and inclusiveness.

In line with the identified challenges, six policy guidance were given in the Ministerial Dialogue held in May 2020 regarding preparation of the ERP 2021, three of which addressed structural reforms and read as follows:

1. Ensure smooth and effective support to the private companies and their employees affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. In order to ensure a swift recovery, focus on simplifying tax legislation and reducing the diversity of para-fiscal charges affecting businesses.

2. Maintain continuous dialogue with social partners, business organisations and civil society on all decisions taken in response to the Covid-19 pandemic. Provide an active feedback from this dialogue to the public domain. Ensure close cooperation between central and local authorities on all crisis mitigation and economic recovery measures, including through joint and coordinated actions.
3. Take measures to preserve employment including by ensuring short-time work schemes and flexible working arrangements, as well as through increased provision of active labour market policies to facilitate access to work and support workers at risk of job loss. Ensure adequate income support and social assistance for the unemployed, and for those at risk of poverty and of social exclusion. Strengthen the healthcare system's resilience and capacity to improve access and quality provision of health care services.

5.2 Summary of Reform Measures

The chapter summarises priority reform measures that are defined on the basis of identified challenges and as a response to the problems related to competitiveness and growth, through eight areas, in line with the EC's policy guidance. The table shows, in an integrated manner, the significance of the proposed measures in line with their estimated impact on economic competitiveness/growth, employment and fiscal sustainability. The aforementioned represents a link between certain measures and policy guidance for Montenegro at the May 2020 Ministerial Meeting and identifies institution competent for implementation of the measure.

Table 5.2: Overview of Montenegro's priority reform measures in the Economic Reform Programme 2021-2023 and their reference to the policy guidance to Montenegro given at the May 2020 Ministerial Meeting

#	Priority reform measure	Impact score (weighting)*	Impact on competitiveness	Impact on employment	Impact on fiscal sustainability	Reference to the policy guidance given at the May 2020 Ministerial meeting (number)	Implementing ministry
Energy and transport market reform							
1	Financial support to the households enabling them to adopt energy efficiency measures and generate electricity for their own needs	14	Substantial	Direct	Neutral	/	Ministry of Capital Investments
Agriculture, industry and services							
2	Supporting investments in the food manufacturing sector with the aim of boosting competitiveness	7	Medium	Indirect	Positive	/	Ministry of Agriculture, Forestry and Water Resource Management
3	Stimulating investments in manufacturing sector with the aim of boosting competitiveness	6	Medium	Indirect	Neutral	/	Ministry of Economic Development
4	Sustainable tourism in the new reality	15	Substantial	Direct	Positive	5	Ministry of Economic Development
Business environment and reduction of the informal economy							
5	Boosting competitiveness of MSMEs and access to the new markets	8	Large	Indirect	Negative	4	Ministry of Economic Development
6	Improving and implementing the measures for suppression of informal economy	13	Substantial	Indirect	Positive	4	Ministry of Finance and Social Welfare
7	Suppressing the informal economy by reforming the Tax Administration	10	Large	Indirect	Positive	4	Ministry of Finance and Social Welfare

8	<i>Establishing the register of charges</i>	12	Substantial	Indirect	Neutral	4	Ministry of Economic Development / Ministry of Finance and Social Welfare
9	<i>Implementation of the electronic public procurement system (EPPS)</i>	10	Large	Indirect	Positive	/	Ministry of Finance and Social Welfare
Research, development and innovation (RDI) and the digital transformation							
10	<i>Improvement of legislative-regulatory framework and further development of infrastructure for broadband internet connection</i>	8	Medium	Indirect	Neutral	/	Ministry of Economic Development
11	<i>Improvement of the programme framework for implementation of the Smart Specialisation Strategy of Montenegro</i>	9	Large	Indirect	Neutral	4	Ministry of Economic Development
12	<i>: Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors</i>	10	Large	Direct	Positive	4	Ministry of Economic Development
Economic integration reforms							
13	<i>Implementation of measures to facilitate trade in goods and services in accordance with WTO obligations and CEFTA Additional Protocols 5 and 6</i>	6	Medium	Indirect	Neutral	/	Ministry of Economic Development/ Ministry of Finance and Social Welfare
Education and skills							
14	<i>Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's</i>	8	Medium	Direct	Neutral	/	Ministry of Education, Science, Culture and Sports
15	<i>Reform of study programmes for bachelor and master studies with strong focus on apprenticeship</i>	6	Small	Direct	Neutral	/	Ministry of Education, Science, Culture and Sports
Employment and labour market							
16	<i>Improvement of labour legislation by</i>	12	Large	Direct	Positive	6	Ministry of Economic Development

	<i>introducing new work schemes</i>						
17	<i>Operational capacity building at the Employment Office for the performance of services and measures through digitalisation</i>	6	Medium	Indirect	Neutral	5	Ministry of Economic Development
Social protection and inclusion, including health care							
18	<i>Building and functioning of senior citizens' homes</i>	6	Small	Direct	Neutral	6	Ministry of Finance and Social Welfare
19	<i>Reform of the national disability determination system</i>	4	Small	Indirect	Neutral	6	Ministry of Finance and Social Welfare
20	<i>Use of telemedicine services in Montenegro through establishment of the information system for telemedicine and development of mHealth</i>	7	Medium	Indirect	Positive	6	Ministry of Health

Note: The weighting that indicates importance of individual structural measures is calculated on the basis of the OECD tool for evaluation of structural measures that considers impact of a structural measure on economic competitiveness/growth (substantial, large, medium or small impacts); employment (direct, indirect or small impact on employment) and fiscal sustainability (positive, neutral and negative impact on fiscal sustainability). On the basis of the tool, weighting is automatically assigned when selecting the type and level of impact of a measure. Larger weightings reflect greater importance of the measure, always in terms of its impact on economic competitiveness/growth, employment and fiscal sustainability.

5.3 Analysis by Area and Structural Reform Measures

5.3.1 Energy and Transport Market Reform

Description/analysis of main issues and obstacles to development of the area: Natural gas market has not yet been established in Montenegro, since Montenegro does not have access to the natural gas, nor does it have a developed gas infrastructure. Main obstacles to development of the electricity market include: few market participants (in particular active suppliers); undeveloped day-ahead market and insufficient level of integration in the regional electricity market; insufficient infrastructure for interconnections with regional systems; incomplete alignment of support schemes for electricity generation from renewable sources with the most recent support schemes in the EU; difficulties in connecting new power-plants to the electrical energy system; as well as unfavourable degree of energy efficiency, and insufficient results in terms the energy poverty reduction.

Addressing structural measures in the area of **transport** includes dealing with all modes of transport (road, rail, air, and maritime).

Liberalisation of the market and creating an independent regulatory body was proposed for the **rail transport**, taking special note of policy guidance from previous Ministerial meetings, and this recommendation was implemented.

As for the **road transport**, a measure proposed for the last year, dealing with Enhancement of inter-city scheduled passenger transport in road traffic, having as its primary focus to deal with drafting of the Study on improvement of the intercity scheduled passenger transport in road traffic, which is set

to be finalised during 2020, and which will once completed, depending on its result and recommendations, define more precisely further activities and budget, including also drafting of relevant laws and enabling regulations, in particular having regard of the coverage of the Study itself. The **road transport** measure could be addressed in the ERP for next year, in particular bearing in mind that the implementation of this measure essentially includes also cooperation with other institutions (Chamber of Economy of Montenegro and other), and the regulatory initiative that would tackle introduction of ecological vehicles is not an activity solely in domain of competences of the Ministry of Capital Investments, but rather requires broader consultations.

Priority reform measure No 1: Financial support to the households enabling them to adopt energy efficiency measures and generate electricity for their own needs

Description of measure: This reform measure deals with providing interest-free loans for households interested in buying and installing: highly efficient heating and cooling systems, façade thermal insulation for residential buildings, energy-efficient façade joinery and systems for electricity generation from renewably sources for own needs with electricity exchange at the point-of-connection. The reform measure will be implemented under the Programme **Energy Efficient Home** (Programme) which is envisaged in the Montenegro Energy Efficiency Action Plan for the Period 2019-2021 (adopted by the Government in June 2019) and the Third package of socio-economic measures – adopted by the Government in July 2020 to mitigate consequences of the COVID-19 pandemic. The measure is aligned with the Montenegro Energy Policy by 2030, the Montenegro Energy Development Strategy by 2030 and the Smart Specialisation Strategy of Montenegro 2019-2024.

This measure will contribute to implementation of the European Green Deal and to achieving the United Nations Sustainable Development Goals, as it increases access for citizens to a sustainable and modern energy, ensures sustainable modes of energy consumption and generation, and efficient use of natural resources, and impacts on reduction of the energy poverty by creating conditions for improvement of energy efficiency, energy savings and higher user of renewable energy, as well as by improving socio-economic status of citizens. Likewise, the measure will also contribute to achieving certain objectives set in the field of energy efficiency and renewable energy, and fulfilling obligations of Montenegro from its EU accession process.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Carrying out the public competition procedure for selection of banks – providers of credits for households for implementing energy efficiency measures and for electricity generation for own needs by the ministry in charge of energy affairs; carrying out a public competition procedure for selection of companies – suppliers and installers of systems, equipment and material for implementing energy efficiency measures and electricity generation for own needs by the ministry in charge of energy affairs; supply and installation of the system procured and installed enabled under the Programme (heating systems for modern biomasses (pellets, briquettes), heating and cooling systems with high-efficient heat pumps, electricity generation systems for own needs), as well as supply and installation of façade thermal insulation and energy-efficient façade joinery for residential buildings of households, by selected companies; payment of funds in the amount of the approved credit to accounts of selected companies by selected banks; payment of funds for interest on credits to banks – partners in the Programme by the ministry in charge of energy affairs; repayment of interest-free credits in monthly instalments by users of credits –members of households participating in the Programme.
- b) **Activities planned in 2022:** Implementing same activities as in 2021, as part of the new cycle for the Energy Efficient Home Programme.

c) **Activities planned in 2023:** Implementing same activities as in 2021 and 2022, as part of the new cycle for the Energy Efficient Home Programme.

Institution responsible for the implementation of measure: Ministry of Capital Investments

Results indicators:

Results indicator	Baseline (year) 2020	Intermediate target (year) 2021	Target (year) 2023
Total energy savings made under the Energy Efficient Home Programme	0	5.5 GWh (for 560 households)	16.5 GWh (for 1680 households)
Total electricity generated under the Energy Efficient Home Programme	0	1.2 GWh (for 375 households)	3.6 GWh (for 1125 households)

Expected impact on competitiveness: Expected effects of this measure are savings in energy consumption and increases in electricity generation. The measure will also impact reduction of electricity losses in the electrical energy system through decentralisation of electricity generation. The result of all of the above will be positive impact on the overall electrical energy balance of Montenegro and to an increased possibility for electricity export.

Estimated cost of the activities and the source of financing: Total planned support annually for 2021, 2022, and 2023 amounts to 0.5 million euro from the Budget of Montenegro, earmarked for payment of interest for credits taken by households, which are intended for implementing the energy efficiency measures and electricity generation for own needs. Based on the funds earmarked for payment of interests it is expected that the banks – partners in the Programme, will approve 3 million euro annually for credits to households – beneficiaries of the Programme. Total level of investments expected in the observed three-year period is 9 million euro.

Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care (healthcare accessibility): It is expected that this measure will have positive impact on employment in companies engaged in supply and installation of systems, equipment and materials for implementing the energy efficiency measures and electricity generation from renewable sources. Furthermore, multiple impacts on poverty reduction are also expected, through reduction of costs for energy consumed in households and increased employment possibilities. Moreover, the measure should also contribute to improvement of living conditions and preserving health of the population. As for the employment, the measure will have a particular positive impact over a short and medium-term, while for the poverty reduction and health preservation it will have positive impact over a long-term. The measure is gender-neutral.

Expected impact on the environment: The planned activities will have positive impact on increase of energy efficiency and use of renewable energy sources, reduction of the greenhouse gas emissions effect and of the negative impact on climate changes and the environment. The measure will contribute to a more efficient energy transition, reaching the objectives set by the European Green Deal, and fulfilling international obligations of Montenegro.

Potential risks:

Risk	Probability (low or high)	Planned mitigating action
Lower interest of households to participate in the Energy Efficient Home Programme due to effects caused the COVID-19 pandemic. ³²	Medium	Explore possibilities to secure a grace period for credit repayment.
Lower interest of banks to approve credits to households under the Programme, due to adverse economic situation caused the COVID-19 pandemic.	Low	Explore possibility to secure funds from other sources to support the Programme implementation.

5.3.2 Agriculture, Industry and Services

Analysis of main obstacles: Key development sectors in Montenegro are industry, agriculture, and services, primarily those in tourism. In that regard, the reform measures stated under the ERP 2021 are covering the areas of industry, agriculture, and tourism, while diagnostics of the condition in these areas is outlined below.

Agriculture: Agriculture is one of the strategic development sectors in Montenegro. Its share in GDP in 2019 accounted for 6.4 percent. Gross value of production in agriculture, forestry, and fisheries sectors in 2019 accounted for 519.6 million euro and was higher by 0.85 percent compared to 2018. The main objective of agricultural policy of Montenegro is to boost competitiveness of agricultural production, improve living conditions in rural areas, and to enable sustainable use of available resources. The main obstacles to strengthening competitiveness of food manufacturing sector in Montenegro are low productivity per a unit of area, unfavourable age structure in rural areas, underdeveloped rural infrastructure, as well as lack of a proper form of association of agricultural producers in the majority of sectors of agricultural production.

In the previous period, significant funds have been made available to the Montenegrin producers from the central government budget, as well as under the World Bank funded project MIDAS, with the aim of strengthening the food manufacturing sector. As a result of investments in food manufacturing facilities and achievement of EU food safety standards, the food manufacturing facilities have improved, thus the number of those complying with the EU requirements has increased significantly (in 2014 – 3 facilities, now 67 facilities). At the moment, Montenegro has 14 facilities that have been granted approval to export to the EU.

Industry: Due to the crises caused by COVID-19, the main priority for support to the SMEs and industry sectors was implementation of COVID19-related measures from the Government's packages of economic measures, such as subsidising support to the real sector and employees in order to preserve jobs, moratorium on credit lines, lending support for liquidity, interest rates subsidies, etc. Following the needs, recommendations and interest of the Montenegrin real sector in previous years, and having in mind in particular the new challenges caused by the coronavirus pandemic that especially affected the real sector, the Programme for Improvement of the Real Sector Competitiveness is being implemented under the development package of the Government's measures as its well-known mechanism but with additional improvements aimed at supporting competitiveness of the national economy, primarily by preserving the existing pool of businesses, as well as competitiveness of those companies capable to withstand a test of international competition.

As for the statistical indicators, the share of industry in the GDP structure in 2019 was 9.8 percent and is lower compared to the share in 2018, when it was 10.3 percent. Gross value added of the industry sector in 2019 slightly increased compared to 2018 (by 1.1 percent). The share of manufacturing in

³² Due to the unfavorable economic situation caused by the Covid 19 pandemic, there is a potential risk of insufficient possibility for citizens to invest in projects covered by this measure.

total industry was 50.7 percent in 2019; with manufacturing employing 13,022 workers, which makes 58.5 percent of employment in the industry sector and 6.4 percent of the total employment in Montenegro. The share of industry in exports was at the level of 91.4 percent, with manufacturing taking 68 percent. Total investments in fixed assets, according to the preliminary data for 2019, amounted to 1,111 million euro, of which the investment in the industry sector were 133.755 million euro and makes 12.03 percent of total investments, while those in the manufacturing sector were 49.376 million euro which is 14 percent more relative to 2018.

The latest available statistical data³³ show that the industrial production in Q4 2020 has recorded an increase of 06 percent relative to the Q3, whereby the decline in the manufacturing was 3.2 percent; while if comparing Q4 and Q3 the industrial production recorded a growth of 17 percent, dominantly driven by growth in the electricity supply sector of 39.6 percent, whereby the manufacturing sector recorded an increase of 0.6 percent.

In line with recognised strategic and operational objectives of the industrial policy, in particular under the circumstance of an increased real sector exposures to adverse effects of the epidemic on the economic activity, while bearing in mind the size and composition of Montenegrin companies, one of the key identified challenges is support to the real sector to be able to introduce new technologies and investment in production and manufacturing, increase of capacities and complying with standards and certificates, which would all ensure stable quality of production over the long term and ensure higher presence on the domestic and foreign markets. Support to investments in industry sectors through measures addressing modern technology and their application, in particular in manufacturing, will contribute to efficiency of investments and support production to be upgraded to a higher processing complexity. The intensive support measures and significant investments in production capacities over the next period will enable elimination of bottlenecks in production processes, increase productivity and volume of production, with focus on investments in facilities that will provide higher added value products.

Tourism: The following were identified as main obstacles/constraints for faster development of tourism in Montenegro in the previous period:

- Insufficient number of higher-quality accommodation capacities;
- Still high level of seasonality of tourism industry; and
- Regional unbalanced development of tourism supply.

The new reality in the environment of spread of COVID-19 has led to certain constraints segment to be “transformed” into potential that could be used as an advantage in terms of finding a relatively quick response to problems that have occurred, as well as pool for future development potential, in particular of the “green” tourism, whereby the one being addressed is primarily regional unbalanced development, specifically still insufficient development supply in the Northern region of Montenegro. In order for the development of potentials to yield satisfactory effects for the further development of tourism, priority is given to activities in the field of recovery of the tourism industry from the negative consequences of the new coronavirus, through:

- preserving operation (jobs and revenues) of the tourism industry – continuation of implementation of measures for recovery of tourism – financial support for: loans restructuring, liquidity of operations, and operating assets; support for tour-operations, maintaining existing and opening new jobs with introduction of new category of jobs – permanent seasonal worker;
- introduction of innovations and digitalization of the tourism operations – Implementation of innovative technological solutions in business with digital and targeted marketing (with core motivation being based on preserved natural resources, aimed at targeted distant markets, the regional and domestic markets, with use of digital communication channels);

³³ Indices of production and turnovers in the industry, Q4 2021, preliminary data

- improvement of the health and safety environment in the tourism business – introduction, development and application of new health and sanitary-hygiene standards/conditions/measures in provision of tourism services – continuous compliance with health and sanitary-hygiene measures by the tourism industry through implementation of the measures of competent institutions with monitoring those measures and measuring impact of COVID-19 on the tourism developments.

Priority reform measure No 2: Supporting investments in the food manufacturing sector with the aim of boosting competitiveness

Description of measure: The measure consists of three components:

- **I - Support to investments in the food-manufacturing sector in order to achieve the EU standards;** This component supports new plantations of crops, increase of livestock, the purchase of specialised machinery, construction and reconstruction of primary production facilities, procurement of processing equipment, introduction of new technologies, and innovation and creation of new market opportunities, construction and reconstruction of facilities for processing of agricultural and fishery products in order to improve the food safety standards, animal health and welfare, and plant health, through gradual harmonisation with EU food quality and safety standards. Support is granted in the form of subsidising part of investments. This sub-measure has started in 2020, in accordance with the plan, and the administrative control of achieved requirements is underway to be followed by the project implementation.
- **II - Diversification of economic activities on agricultural holdings** focuses on development of rural tourism and processing of agricultural produce on agricultural holding by providing support to construction and reconstruction of necessary facilities and by procuring equipment, machinery and other items, through support in the form of subsidies of part of the investment. There was a certain departure from the planned implementation and was moved to mid 2020, thus this measure will be made available to perspective beneficiaries in Q4 2020.
- **III - Favourable credit lines for agriculture and fisheries:** This sub-measure attempts to mitigate effects of the COVID-19 pandemic, in such way that the registered agricultural producers, food manufacturers and fishermen will have credits available under concessional terms for procurement of assets in order to start new and improve existing production with interest rates being subsidised by the Ministry of Agriculture, Forestry and Water Resource Management.

This measure is being implemented in line with the Agriculture and Rural Development Strategy 2015-2020, the Agriculture and Rural Development Programme 2016-2020 (IPARD II), the Montenegro Smart Specialisation Strategy 2019-2024, and the Government's second package of economic measures for support to citizens and real sector.

Period for the implementation of measure: This reform measure is divided into three activities: Component I - Investments in physical capital agricultural holdings, Investments in physical capital related to processing of agricultural and fishery products; and Component II - Diversification of economic activities on agricultural holdings; whose implementation will continue until 2023 which is in line with the programming period of IPARD II. The Promotion Plan for the IPARD II Programme envisages that the successive publication of calls annual will take over the next three years will, which are dealing with different areas (primary production, processing of agricultural products and fisheries products, and rural tourism). The Component III - Favourable credit lines for agriculture and fisheries – will be implemented until the funds earmarked for it are spent or until a decision is made to withdraw the credit line.

The Ministry of Agriculture, Forestry and Water Resource Management is responsible for implementation for Components I and II, while the Component III is being implemented in cooperation with the Investment and Development Fund of Montenegro.

In addition to above indicators, the entire implementation of Components I and II, precisely of the IPARD II Programme, is monitored by the IPARD II Programme Monitoring Committee and by the European Union.

Component I – Support to investments in the food-manufacturing sector in order to achieve the EU standards

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2023)
Value of investments made	2,321,000.00	19,679,000.00	11,000,000.00
Newly built processing facilities	3	12	8
Entities in food sector business that reached EU standards	5	33	19

Component II - Diversification of economic activities

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2023)
Number of holdings that have diversified activities	0	70	80
Value of investments made	0	4,500,000.00	5,000,000.00

Component III - Favourable credit lines for agriculture and fisheries

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Number of executed/paid applications	0	50	200
Value of investments made	0	500,000.00	2,500,000.00

Impact on competitiveness: The measure will contribute to increased production in primary production and processing sectors. Better supply of the processing sector with domestic raw materials will contribute to the increase in value added in production, reduction of import dependency, and greater competitiveness of domestic products. Growth in exports of dried and smoked meats, processed meats, fruits, wine, beer, spirits and essential oils has also been recorded in the last few years. Production of traditional products on agricultural holdings gives the opportunity for development of the short food supply chains, which will result in better food safety control, reduction of informal market and thus result in additional revenue generated by producers. Improvement of the rural tourism offer will put to best use natural resources of Montenegro in sustainable and inclusive manner, while it will also create new jobs in rural areas and increase self-sufficiency of the agriculture sector.

Expected impact on employment and gender equality: Social impact of the measure is reflected in incentives for women and young people by assigning, during evaluation, more points to their projects. This also promotes their role and provides incentives for starting of businesses in food production sector, i.e. opening of new jobs. In order to ensure more balanced development, additional support was provided for investments situated in places at height above 600 meters above sea level, which places additional emphasis on development of the northern region of the country and of the underdeveloped areas. Targeted support for rural areas and young entrepreneurs is aimed at halting

depopulation of this area and creating new business opportunities through tourism, food processing and sale of produce at the very agricultural holding.

Expected impact on the environment: IPARD II programme (Components I and II) envisages that support may be provided only to those beneficiaries whose investments meet, at the latest at the moment of the payment, the EU's environmental protection standards, while the entire holding or enterprise must meet national environmental protection standards. The measures promote environmental protection by assigning additional 10 points to the applications which are related to or which include investments in waste management (manure, wastewater, production waste), i.e. a part of investment which concerns waste management receives additional 10 percent of the grant funds. The intention behind this is to contribute to the development of sustainable practices in soil management through organic agriculture and other agricultural and ecological practices. The beneficiaries of the Component III are legal and natural persons already pursuing agriculture and fisheries economic activities in accordance with applicable laws.

Potential risks

Risk	Expected risk level	Planned mitigating action
Problem with pre-financing and reduction in the number of support users due to the COVID -19 pandemic	High	Establishing a special IDF line of credit which is compatible with IPARD II programme, while it is also favourable for beneficiaries of support (lower interest rates, acceptable collateral). Work to establish a guarantee fund which will aim to animate potential users; Activities to create positive environment with commercial banks in order to ensure financing of agricultural sector under the most favourable terms possible.
Administrative barriers	Medium	In order to implement these measures the Government of Montenegro adopted the informative brief and passed conclusion under which advantage is given at all levels of administration to the documentation which is necessary to obtain assistance under IPARD II programme. This practice will continue in the coming period.
Uncertainty of repayment of loan funds	Medium	Reduced purchasing power of the population may lead to poorer sales of agricultural products in the market, which as a consequence may have delays in repayment of loan funds and making it difficult to obtain credit funds.

Estimated cost of the measure/activities and budgetary impact: Components I and II - Total planned support in 2021 amounts to 9.7 million euro, of which 7 million are from IPA funds and 2.7 million euro are national contribution, while the co-financing from the private sources is 9 million euro . Total planned support in 2022 is 9.7 million euro, of which 7 million are from IPA funds and 2.7 million euro are national contribution, while the co-financing from the private sources is 9 million euro . Total planned support in 2023 is 9.6 million euro, of which 7 million are from IPA funds and 2.6 million euro are national contribution, while the co-financing from the private sources is 9 million euro .

Component III – IDF has made available 10,000,000 euro for this measure. The measures is limited with spending of allocated funds and drawing down credit lines by the Government.

Priority reform measure No 3: Stimulating investments in manufacturing sector with the aim of boosting competitiveness

Description of measure: Two complementary Programme Lines with focus on supporting modernisation of capacities and improving technologies, which are components of this measure, are being implemented in accordance with priorities and the action plans for Implementation of the Industrial Policy 2019-2023 and the SMMSE Strategy 2018-2022, through the Programme for the Improvement of Competitiveness of Economy. The main focus of this measure –**programme line for support of manufacturing processes**, began realization in the second half of 2020, is aimed at investments in equipment needed for implementation of an investment project, and so for: starting, improving, expanding existing capacities or expanding production to new products and manufacturing processes, as well as for increasing the volume of production, through participation in co-financing for procurement of production equipment and equipment directly used in the production processes. The Ministry of Economic Development is implementing the Programme line and monitoring its implementation by analysing and evaluating submitted project proposal under predefined criteria for project assessment, which in turn is used to determine the amount of refund in accordance with the project score. Refund is made after contracted activities are completed and evidentiary documentation submitted that the activities were finalised, with the deadline for completion of contracted activities set at 12 months following the day of signing of the Contract. Subsidies/requirements: maximum allowable amount of subsidy for economic entities may amount up to 40 percent of justifiable costs for implementation of the investment project, i.e. of the total value of the procured equipment and a minimum of 10,000 euro and maximum of up to 150,000 euro, VAT excluded.

Within referred reform measure, the new program line is accompanied with **the Programme Line for modernisation of manufacturing** being constantly implemented from 2016, through investments in equipment and technical and technological equipping, aimed at strengthening competitiveness of economic entities, through adoption of new technologies in order to enable modernisation of manufacturing processes. The Programme Line for modernisation of manufacturing implies that the beneficiary of the Programme realizes procurement of equipment, in part or in full, through credit facilities with the Investment and Development Fund. In the period of realization 2016-2019, over 377,000 euro in grants were awarded, which supported the procurement of new and used machinery and equipment worth over 2.6 million euro. Subsidies/requirements: up to 30 percent of total value of procured equipment for micro, small and medium-sized economic undertakings, in the amount from 3,000 to 30,000 euro, VAT excluded; in line with that, the value of procured equipment for which the grant is being allocated ranges from 10,000 to 100,000 euro.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Implementation of the Programme Line for incentives for production processes, being implemented by the Ministry of Economic Development, covers activities of technical processing of received applications in two phases, administrative checks of project proposal against the predefined evaluation criteria, and the evaluation phase of project proposal, after that contractual obligations are defined and the Government proposes a Decision on Award of Funds for Projects qualified for grant support. The Programme Line for Modernisation of manufacturing is implemented for already established principles of procurement of equipment from loan facilities of the IDF Montenegro, based on which the Ministry of Economic Development approves grants up to 30 percent of the value of procured equipment in line with the predefined procedure.
- b) **Activities planned in the period 2022-2023:** Continuation of the Programme activities aimed at implementing the Programme lines for incentives production processes and modernisation of the manufacturing industry.

Institution responsible for the implementation of measure: Ministry of Economic Development (in cooperation with IDF Montenegro in the part of the Second component)

Results indicators: For this measure, the success is measured at the level of the performance indicator, by increased investment in equipment in the manufacturing industry, as well as by increase in value of exports of the manufacturing industry.

Indicator	Baseline (year) 2019	Intermediate target (year) 2022	Target (year) 2023
Level of investments in the manufacturing industry	49.376 mil euro ³⁴	10% growth compared to the baseline year	20% growth compared to the baseline year
Value of export in the manufacturing industry	282.516 mil euro	10% growth compared to the baseline year	20% growth compared to the baseline year

Expected impact on competitiveness: This measure aims to increase competitiveness of economic entities, improve their operations and increase production, internationalisation, reduce import, as well as to create new jobs through investments in equipment. The investments into new or for expansion of existing industrial capacities, as well as investments into innovation and ICT technology and modernisation of the industry will contribute to increase in production's quality and quantity, which will improve business performance and contribute to diversification of the production range. Implementation of the support measures envisaged under these lines, when fully implemented, should contribute over the medium term to increase of the share of industry in GDP, increase of the manufacturing GVA and export potential.

Estimated cost of the activities and the source of financing: Based on the analysis and projections of expected effects from implementation of the measure, under the activities of the programme line for supporting production processes through participation in co-financing the procurement of equipment needed for the production process, in the period 2021-2023 the funds to be allocated will amount to 1.3 million euro, annually. The activities aimed at modernisation in the manufacturing industry need a budget allocation in the period 2021-2023 at the annual level of 300,000 euro, for co-financing the procurement of equipment under the IDF Montenegro credit arrangement in the amount of 1 million euro annually.

Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care: The social aspects of the measure in its segment of the programme line for support to production processes are reflected through precisely defined criteria for project assessment enabling higher scores for projects: opening new jobs, projects owned by women or young up 35 years of age, envisaging employment or other benefits for women, young, persons with disabilities, addressing development of local self-governments on the territory where business activities are carried out, as well presence of production facilities in the rural area, and other.

Expected impact on the environment: In the segment of impact on the environment, the activities for support for investment in equipment for production and production processes in manufacturing will be implemented in line with the environment protection concept (rational energy consumption, waste quantity, recycling) and minimisation of potential negative impacts of the introduction of modern technologies.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Willingness and awareness of companies for technological modernisation, absorption capacity and interest of the industrial sector for the programme support	Low	Promotional activities through organisation of thematic events and provision of technical support to potential applicants

³⁴ Investments in fixed assets in 2019: <https://www.monstat.org/cg/page.php?id=228&pageid=228>

Priority reform measure No 4: Sustainable tourism in the new reality

Under the new circumstances caused by the COVID-19 virus pandemic consequences, the measure *Sustainable tourism in the new reality* is aimed at more efficient establishment of the sustainable component (green growth with digitalisation) of the tourism development (improved offer). The measure is being carried out in compliance with the sustainability principle (National Sustainable Development Strategy by 2030, UN Sustainable Development Agenda by 2030 – UN Sustainable Development Goals, EU Green Deal), it creates conditions for regionally balanced tourism offer (Montenegro Regional Development Strategy 2014-2020), enables increase in number of new jobs (high number of young and women – family businesses), and reduces migration from the Northern region toward the Coastal region while increasing the standard of living of the population (National Employment and Human Resources Development Strategy 2016-2020, UN Sustainable Development Goals, and the European Commission recommendations). The implementation of tourism projects is instrument for implementation of the Government's development documents: Montenegro Development Directions 2018-2021 (Tourism and Cultural Tourism), Montenegro Smart Specialisation Strategy 2019-2024 (Sustainable and Health Tourism), as well as regional initiatives (Adriatic-Ionian and Central-European).

Period for the implementation of measure:

- a) Activities planned in 2021:** Given that the aim of the Measure which is providing preconditions for sustainable green growth along with raising the level of product competitiveness - the activities are:
- 1. development of green tourism with improving the efficiency of resource use** (circular economy) through: development of "green" types of accommodation facilities with the improvement of their business and which means intensifying the application of new technologies / digitalization with continuous training / development of employees - environmental certification;
 - 2. sustainable use for tourism of natural resources - existing and future protected areas:** development of diversified tourism products based on nature – focus on individualized service and healthy lifestyles (continuation of activities of sub-projects: Mountaineering and Cycling, Panoramic Roads of Montenegro, Programme of incentive measures, and All Miracles of Montenegro).
- b) Activities planned in 2022 and 2023:** will be activities under specific measures continued from 2021, to take place with lower or higher intensity, depending on the circumstance in the given period, primarily depending on the health and epidemiological situation caused by the COVID-19 pandemic.

Results indicators – with implementation of activities under the measure, it is expected that the core indicators of tourism activities, number of tourists and overnight stays, in 2021 will reach the level of 50 percent of 2019, while in 2023 will be at the level of 2019; the 2019 is used as a baseline year for comparison.

Indicator	Baseline (year) 2019	Intermediate target (year) 2021	Target (year) 2023
Number of tourists	2.6 million	50%	100%
Number of overnight stays	14.4 million	50%	100%

Expected impact on competitiveness: Mitigating negative effects of the COVID-19 pandemic on operation of tourism industry while creating prerequisites for transformation of tourism into a more

resilient, inclusive and sustainable economic activity will provide for increase in the tourism competitiveness level, observed through several segments:

- Establishing a more favourable, safer and sustainable business environment – green economy (with strengthening of micro, small and medium-sized enterprises),
- Inclusive growth model (closer intersectoral cooperation – tourism provides impetus for development of other economic sectors),
- Diversification of offer/products (higher quality use of natural wealth and cultural and historical heritage; reducing business seasonality),
- Vocational and lifelong education (development of new skills and competences),
- Establishing improved systems (with new technologies/digitalisation) for collection, processing and data analysis on tourism activities, direct and indirect effects of tourism on the economy, as well as basic systems for crisis management.

Implementation of the measure will achieve the objective of prolonged duration of the main tourism season, which will spur higher use of accommodation capacities while creating preconditions for continuous opening of new jobs. The measure will also contribute to raising the awareness on sustainable development of the environment (since the most of the measure is directed towards the nature-based tourism product – green tourism) and primarily through use of natural potential, and cultural and historic heritage for tourism. Permanent improvements (sustainable/green growth with digitalisation) of the tourism industry are expected to provide for further increase in the export component of the tourism services with multiplier effects on other economic sectors: transport, agriculture, trade, artisanship, etc.

Implementation of the measure increases the competitiveness of Montenegro as a tourist destination and not only in the region but also in broader terms, because the product being created is very specific/unique (consolidating offer of the Coast and of the North), i.e. it enables tourists to have a very diverse experience over a relatively short time, compatible with offer in the neighbouring countries.

Estimated cost of the activities and the source of financing: For implementation of activities, the 2021 Budget planned the amounts of 500,000.00euro (with estimated reduction of revenues from VAT in the amount of 16 million euro). The measure will also be financed in 2022 and 2023 in the above-described manner.

Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care (healthcare accessibility): Since tourism is labour-intensive activity, implementation of project activities under the Measure will contribute to the increase in the total number of employees (correlation with the National Employment and Human Resource Development Strategy), and since women account for majority of the employed in tourism sector this will also contribute to the economic empowerment of women (correlation with the Strategy of Development of Women's Entrepreneurship and activities aimed at achieving gender equality), which will ultimately also contribute to poverty reduction (correlation with the UN Sustainable Development Goals).

In addition, significant positive effect of implementation of the measure is also reflected in reduced migrations from the north to the south and increased number of young people who stay in rural areas.

Expected impact on the environment: Activities within the measure are implemented in compliance with the principle and standards of sustainability (from economic, environmental, cultural and social aspects) in order to ensure optimal use of environmental resources which are crucial element of tourism development. In this manner, prerequisites are created to implement activities within the measure with the minimum negative impact on the environment. On the other hand, putting natural potential, as well as cultural and historic heritage to best use in tourism contributes to their

revitalisation and more efficient protection and better conservation, which essentially has a positive impact on their further potential from the perspective of their tourism function.

Potential risks: Given that the implementation of activities under this Measure includes large number of participants (directly and indirectly involved both on national and local lever), the main risks are: impact of COVID-19 on business operations, tender procedures, coordination/efficiency of work in implementation of project activities within the measures, and available human resources.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Impact of COVID-19 on operations of the real sector	High	- implementation of measures for recovery of tourism – financial support for: loans restructuring, liquidity of operations, and operating assets; support for tour-operations, maintaining existing and opening new jobs with introduction of new category of jobs – permanent seasonal worker; - improvement of the health and safety environment in the tourism business – introduction, development and application of new health and sanitary-hygiene standards/conditions/measures in provision of tourism services
Failure to implement activities as planned caused by carrying out tender procedures	High	Detail elaboration of terms of reference with provision of logistical support (round tables, trainings, panels, etc) in preparing documentation
Coordination/efficiency of work in implementation of project activities	Low	Raising awareness on the need for acting in concert along with improvement of operations through use of innovations and digitalisation
Available human resources	Low	

5.3.3 Business Environment and Reduction of the Informal Economy

Analysis of main obstacles: Reduction of informal economy and enhancement of business environment, in addition to the labour market, were recognised by the European Commission and the Government of Montenegro as key challenges in the field of competitiveness.

Montenegro needs to *Ensure smooth and effective support to the private companies and their employees affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. In order to ensure a swift recovery, focus on simplifying tax legislation and reducing the diversity of parafiscal charges affecting operation of businesses.*

The pandemic has affected enterprises to a large extent, in particular small and medium-sized enterprises, self-employed and small family businesses and they needed a support to secure liquidity and further relaxing of regulatory and tax burdens. Within that context, the Government of Montenegro has reacted promptly upon occurrence of the COVID-19 pandemic and prepared three packages of economic measures in 2020 aimed at overcoming negative economic consequences for the real sector and population. In the period from 1 May 2020 to 31 January 2021, it support 62,431 applications in the amount of 63,225,883 euro for 275,971 employees. Importance of the measures is reflected through its objectives: mitigate overall consequences and bridge the period of crisis duration in order to avoid short-term or complete shutdown of businesses; maintain the needed amount of consumption and demand for domestic products; maintain the liquidity in operation and

financial support for maintaining business activities; preserving employment; incentives for new employment, and restart and development of business operations of enterprises.

The Government adopted, on its session on 28 January, the Support Measures for the Real Sector and Citizens for Q1 2021, which define higher intensity for support and expanded range of beneficiaries. The current measures have started with implementation on 1 February 2021 and are aimed at support for maintaining the employment level, incentives for liquidity, increase in number of tourist, stability of agriculture, as well as support to vulnerable categories of population. The objective of these Support Measures is more intensive support to the real sector, in order to preserve its base, as a prerequisite for further recovery measures and growth of economic activity.

The system of coordination of activities of the fight against informal economy was institutionalised through establishment of a relevant directorate in the Ministry of Finance and Social Welfare. Lack of proper indicators for monitoring results of the measures set out in the Action Plan has been recognised as a weakness of the existing Action Plan for the Fight against Informal Economy. Furthermore, it is also necessary to improve quality of administrative framework for the fight against informal economy by capacity building of institutions that are key institutions for the process. In this context, the system of functioning of the tax administration was recognised as the challenge that requires additional reforms.

As for improving business environment, the challenges have been recognised in respect of administrative and regulatory barriers, establishment of digital processes, as well as reduction of parafiscal charges at national and local levels.

Bearing in mind the indentified obstacles in the segment of business environment dealing with reduction of informal economy, the five measures are being proposed dealing with strengthening of MSMEs competitiveness and access to new markets, fight against informal economy through improvement and implementation of measures and the tax administration reform, and introduction of digital processes through establishment of register of parafiscal charges as well as of an Electronic Public Procurement System.

Priority reform measure No 5: Boosting competitiveness of MSMEs and access to the new markets

Bearing in mind that the entire 2020 was marked by COVID-19 virus pandemic, the Government of Montenegro has intervened with a **specific package of measures aimed at overcoming negative consequences of the pandemic**, which are directed towards preserving the MSMEs liquidity, preserving jobs and better use of available resources all aimed at raising competitiveness and growth and development of MSMEs. All measures have made short-term positive impacts in mitigating the consequences of the pandemic, by supporting active approach in development of activities aimed at sustainable development. The measures have had the objective to support micro, small and medium-sized enterprises during the pandemic in order for them to keep required level of spending, maintain liquidity of operations, preserve employment, provide incentives for new employment, bust restart and development of operations.

Observing the **trends in the sector of small and medium-sized enterprises, the growth tendency is observed both in terms of number of enterprises and in terms of number of employees**. There were 33,157 SMEs at the end of 2020, according to the Revenue Administration data, which is an increase of 78.54 percent relative to 2011 (number of MSMEs was 18,571). According to the Revenue Administration data, number of micro, small and medium-sized enterprises and of employees have recorded a continuous growth, when only in 2019 the number of registered enterprises was higher by 8.39 percent relative to 2018, while to total number of employees grew by 7.59 percent. In 2019, the share of SMEs in total employment is 76.41 percent, and in gross value added around 71 percent. Thus, **the MSMEs sector shows stability both in terms of its development and growth**, while the

specific forms of support and continued improvement of the business environment, the contribution to the sustainable economic development of Montenegro could be both improved and accelerated.

In order to create a more favourable business environment for creating new, improving, and developing existing economic entities, all with the objective to support continuously development of entrepreneurship and businesses in Montenegro, the Ministry of Economic Development has created **the Programme for Improvement of Competitiveness of the Economy**. Observing growing trends both in terms of expressed interest and in number of supported beneficiaries for all programmes, it is expected that growth trend of number of enterprises will continue the upward trend, with programme lines supporting their project activities. Total number of enterprises supported in 2019 relative to those in 2018 is higher by 204 percent, with amount of approved subsidies increasing by 136 percent.

In order to create support that will be aligned with the needs of business owners, at the beginning of 2020 the Ministry of Economic Development has carried out **the evaluation of programme lines, precisely of beneficiaries of the support from 2018 and 2019**. A sample of 70 out of 101 supported economic entities during 2018 and 30 beneficiaries from 2019 was analysed. Based on the received results of beneficiaries from 2018, the conclusion was that the operating revenues for all analysed beneficiaries have increased by 15.03 percent, while at the same time expenditures grew by 9.57 percent. A logical conclusion that could be drawn is that the economic efficiency has increased due to more intensive growth of revenues by 4.98 percent. The overall business efficiency, due to implementation of measures from the Programme and market commitment by management is confirmed by profitability growth rates of business operations of 17.39 percent. Precisely, in 2017 one euro of business revenues generated a profit of 0.2141 euro in operating profit for beneficiaries. In 2018, after application of programme measures, one euro of business revenues generated a profit of 0.2515 euro in operating profit. All this points to conclusion that the group of 70 analysed beneficiaries have had positive effects from the Programme. The beneficiaries of the Programme in 2019 have had the opportunity to evaluate relevance of three potential new programme lines under the Programme. Based on the data, it is evident that the possible programmes in field of IT technologies and support for internationalisation were assessed as very relevant. Namely, more than 20 out of 30 interviewed entities believe that these programme lines are very relevant for their businesses. When asked to provide general (overall) score for the Programme from 2019, the prospective beneficiaries of the Programme gave it an average score of 3.93, in other words a very good score.

According to the 2019 SBA (Small Business Act) Report, Montenegro is above average of the Western Balkans and Turkey for areas such as entrepreneurial learning, women's entrepreneurship, establishment of institutional and regulatory framework for SME policy making, and support services for SMEs. The reason for that is systemic approach in creating framework and strategic documents/policies, as well as specific support programmes. However, better results need to be obtained in other dimensions as well. **Below average are areas such as skills for SMEs, innovation and export promotion**

The EU has also recognised the entering new markets as one of the priorities of the SBA. The market of Montenegro is not large and if MSMEs wish to grow, develop and modernise themselves they must internationalise their operations. Enterprises in Montenegro are insufficiently export oriented. This is confirmed by the data **that less than 5 percent of MSMEs are engaged in export, which is significantly lower percentage relative to the EU average, where every fourth MSMEs is exporting**. Likewise, lack of complete knowledge about export procedures, implementation of intellectual property rights, as well as insufficient knowledge of modern trends in use of information technologies, are all indicators that there is a need for further development of support for implementation of international quality standards, digitalisation and business internationalisation. That is why the support to SMEs to overcome these obstacles, in the form of obtaining information on possible partners, business environments, and requirements needed to enter a specific market, are desirable and justified interventions. The SMEs are using ICT on daily basis but are not digitalising their operations. Current

situation has spurred enterprises to start digitalising their services, but it is not yet sufficient. The main obstacle to digitalisation is limited offer, high prices of services for application solutions, high fees for use of e-commerce and other.

The reform measure includes: Implementation of the Programme for Improving Competitiveness, which will be created in line with the needs of the real sector, all aimed at further growth and development of existing enterprises, in order to start new investment, which should contribute to stability of the real sector and sustainability of the future development, as to create real assumptions for the faster recovery of the Montenegrin economy in the next period. The support measures will be aimed at incentives for further development of the industry, craftsmanship, women's entrepreneurship, green economy, digitalisation, and internationalisation. As response to the COVID-19 pandemic and improvement of inter-institutional cooperation in order to provide documentation *ex officio*, an option for online application was introduced using the bespoke software application, which represents another added value to increase in quality of programme implementation, emphasising its innovative component, translated into the need for the entire process to be digitalised allowing options for electric applications by beneficiaries and faster processing of applications; **Implementation of the Support to Improve Export Readiness of MSMEs and Access to New Markets** which has at its objective assistance to the existing and prospective exporters to learn all about principles, processes, and skills to be able to export by strengthening institutional capacities, assessing export readiness – Export Readiness Assessment (ERA), and direct promotion at the targeted markets. **Implementation of the Project Improvement of Entrepreneurship through Advisory Support and Information Services** – includes advisory support programme for SMEs in Montenegro by linking enterprises with national and international consultants in order for them to acquire knowledge about best practices within a specific economic activity for them to improve operation, as well as establishment of single focal point for enterprises through IT platform development. Single focal point for business information intends to enable to entrepreneurs and other economic entities a centralised database and single address where they can request all information, advice and assistance.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Realisation of the Programme for Improving Competitiveness of the real sector - Ministry of Economic Development; Realisation of the export development programme – Ministry of Economic Development/EU IPA,³⁵ Realisation of the Project for Improvement of Entrepreneurship through Advisory Support and Information Services;
- b) **Activities planned in 2022:** Continuation of the Programme for Improving Competitiveness of the real sector with additional improvements, establishing continuous support to SMEs for export, as well as further improvement of entrepreneurship;
- c) **Activities planned in 2023:** Continued implementation of listed activities.

Institution responsible for the implementation of measure: Ministry of Economic Development

Results indicators:

Indicator	Baseline (2019)	Target (2022)
Number of MSMEs	32,013	Increase by 5%
Number of employees in MSMEs	76.41%,	Increase by 5%
Increase in export of MSMEs	5%	Increase by 10%

Expected impact on competitiveness: Implementation of the reform measure, primarily by using online solution for applications by business for the Programme for Improving Competitiveness of the real sector, will improve the work of the administration and contribute to its digital transformation. At the same time, the implementation of planned activities will affect further strengthening of MSMEs competitiveness on the domestic and international market, export readiness, increase in the GVA share, incentives for innovation and creativity, strengthening recognisable Montenegrin products and

³⁵ Promoting the Internationalisation of Montenegrin Economy with a Focus on SMEs - CFCU/MNE/142

services and enable opening of new jobs, which contribute to the economic and regional development of Montenegro.

Estimated cost of the activities and the source of financing: Planned budgetary expenditures for implementation of the measures in 2021 amount to 4,505,207.00 euro, of which the amount of subsidies for implementation for the Programme for Improving Competitiveness of the real sector is 3,430,000.00 euro³⁶, while the planned amount for contribution for participation in the COSME programme is 80,407 euro on annual basis. Implementation of the support for improving export readiness of MSMEs and for access to new markets in 2021 will be financed from IPA funds from awarded grant with the value of grant being 294,800.00 euro. As part of the Annual Action Programme for the Competitiveness and Innovation sector of IPA 2016, the Ministry of Economic Development implements the project Improvement of Entrepreneurship through Advisory Support and Information Services in cooperation with the European Bank for Reconstruction and Development, where the amount allocated for 2021 is 700,000.00 euro. Budget allocation in the period 2022-2023 is expected to amount to minimum 3,570,407.00 euro annually for implementation of the planned activities, while the donor funds amount to 700,000.00 euro.

Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care: Availability of numerous support programmes available to enterprises will have direct impact on generating growth and development of existing SMEs, opening of new enterprises, as well as on creating new jobs. Raising level of knowledge, competences and skills in the area of export operations and adoption of international standards will contribute to increase in export, as well as to adoption or increase in use of new technologies in business operations. The support programmes are intended for both young and women in business.

Expected impact on the environment: The measure has positive impact on the environment. The application of international standards in operations, improvement of innovative capacities and strengthening through digitalisation, as well as introduction of the circular economy concept have direct impact on achieving the strategic objectives and reaching relevant environmental standards over the short and long term.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Interest of the real sector for support programmes	Low	Promotion of support instruments

Summary Table ERP 2021-2023

Planned funds for implementation of the measures in 2021 amount to 3,805,208.00 euro, whereby the budgetary funds amount to 4,505,207.00 euro, of which the amount of subsidies for implementation for the Programme for Improving Competitiveness of the real sector is 3,430,000.00 euro, while the planned amount for contribution for participation in the COSME programme is 80,407 euro; while the implementation of the support for improving export readiness of MSMEs and for access to new markets and improvement of entrepreneurship through advisory support and information services financed from IPA funds (grant) amount to 994,800.00 euro. Budgetary allocation in 2022 is expected to amount to 3,570,407.00 euro, and so as follows: for implementation of the Programme the budgetary allocation planned is 3,430,000.00 euro; for COSME contribution and for export-promotion of 110,407.00 euro; and donor funds amount to 700,000.00 euro. Budgetary allocation in 2023 is expected to be the same as in 2022 an to amount to 3,570,407.00 euro.

³⁶ The budget is not included in the Programme Line for modernisation of the manufacturing and the Programme Line for Production processes, as those are covered under the chapter: Agriculture, industry and services.

Priority reform measure No 6: Improving and implementing the measures for suppression of informal economy

Description of measure: Implementation of measures to transfer informal sector into legal flows so far, as well as additional challenges caused by the COVID-19 pandemic, have pointed to a need of an integrated multi-sectoral approach in suppressing informal economy. Furthermore, bearing in mind lack of clarity in terms of competences for coordination activities, the Ministry of Finance and Social Welfare has established a Directorate for Coordination, Reporting and State Aid, that will carry out tasks of coordination in drafting strategic documents, action plans, analysis, briefs, as well as monitoring and reporting to the Government on implementation of activities. In order for a strategic document on suppression of informal economy to be prepared in an adequate manner, new survey on households and enterprises needs to be carried out in order to determine scope and structure of the informal economy (the last survey was carried out by UNDP in 2014). After the survey is conducted, the inter-sectoral working group, which also includes social partners, will define the action plan or programme for suppression of the informal economy based on results of the survey, existing recommendations, available academic studies and other inputs.

The Action Plan/Programme will be based on an integrated approach and will provide a set of control and supportive measures, in order, on one hand, to more efficiently control and prevent informal economy and to facilitate economic operations, on the other. The Action Plan/Programme will seek to reach the following objectives: more efficient supervision of the flows of informal economy, improvement of the work done by the Revenue Administration for the purpose of ensuring more efficient tax collection, incentives for fair competition, legal entrepreneurship and employment, removal of administrative burdens and raising public awareness of citizens and business community about importance of suppressing informal economy. Likewise, the key objective of the Action Plan/Programme will be to provide a comprehensive approach to the informal economy, primarily by combining improvement of the business environment, removing administrative barriers, simplifying paying taxes procedures on one hand, and strict implementation on the other hand.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Analysis of the situation in informal economy in order to establish nature of the measures set out in the Action Plan, continuation of which is desirable in the future. Carrying out survey and defining a strategy for suppressing the informal economy in the future period, aimed at establishing a relevant (adequate) database of indicators for monitoring implementation of activities to suppress the informal economy; Defining a new Action Plan/Programme that will be adopted by the Government in second half of 2021, which will define activities of all institutions involved in suppressing the informal economy; the Action Plan/Programme will include present and new measures for suppressing the informal economy; Inter-ministerial working group will have a multidisciplinary approach, where each ministry and other state administration authorities will propose plans for removing administrative obstacles and plans for improving application of laws, including clearly set measurements.
- b) **Activities planned in 2022:** Implementation of the Action Plan/Programme for suppressing the informal economy, monitoring indicators for suppressing the informal economy in the coming period in order to continue with activities to suppress the informal economy – strengthening fiscal discipline and eliminating unfair competition, as well as raising awareness on importance of legal operation. Strengthening administrative capacities directed at carrying out trainings or relevant professional developments which will be in line with the needs of technological development of relevant institutions, in order to fulfil measures envisaged under the Action Plan/Programme.
- c) **Activities planned in 2023:** Implementation of the Action Plan/Programme for suppressing the informal economy, monitoring indicators for suppressing the informal economy in the

coming period. Improving joint activities and mutual cooperation of all authorities included in the suppression of illegal pursuit of economic activities (Ministry of Finance and Social Welfare, Revenue Administration, Customs Administration, Inspection Affairs Administration, Police Administration, Ministry of Economic Development, Ministry of Ecology, Spatial Planning and Urban Development, Ministry of Interior Affairs, Ministry of Agriculture, Forestry and Water Resource Management, local self-governments, and other). Carry out a new survey of households and enterprises, in order to define scope and structure of informal economy as to establish progress relative to 2021.

Institution responsible for the implementation of measure: Ministry of Finance and Social Welfare

Results indicators:

2021: establishing a database of indicators for monitoring implementation of activities to suppress the informal economy, with special focus on development and monitoring of indicators pertaining to share of informal economy in the gross domestic product (informal economy as share of GDP) and undeclared (unregistered) labour;

2022: Reducing share of informal economy in the gross domestic product relative to 2021;

2022: Reducing undeclared (unregistered) labour by strengthening oversight and through further reforms relative to 2021;

2023: Reducing share of informal economy in the gross domestic product relative to 2021 and 2022;

2023: Reducing undeclared (unregistered) labour by strengthening oversight and through further reforms relative to 2021 and 2022.

Results indicators

Results and performance indicator	Baseline (year) 2021	Intermediate target (year)	Target (year)
Establishing a database of indicators for monitoring implementation of activities to suppress the informal economy	2021 Informal economy as % of GDP Undeclared labour as % of total number of employees		
Defining an Action Plan/Programme to be adopted by the Government	2021.		
Informal economy as percentage of GDP	2021 (X)	2023 (X-5%)	2025 (x-10%)
Reducing undeclared (unregistered) labour	2021 (Y)	2023 (y-10%)	2025 (y-20%)

Expected impact on competitiveness: Reduction of the share of informal economy as percentage of GDP, labour and services will have long-term impact on competitiveness.

Estimated cost of the activities and budgetary impact: The measure will have positive impact on the budget over the medium term, by increasing revenues through efficient controls that will increase collection of revenues. In this period, the funds from the budget of the Ministry of Finance and Social Welfare will be allocated for carrying out surveys and studies on share of informal economy in the gross domestic product. Preliminary request for budgetary allocation is planned at the level of 100,000 euro annually or 300,000 euro for the next three years, and 20,600 euro annually for salaries of two employees, one of them has already been employed, and the other will be employed during December 2020, i.e. after the completion of administrative procedures.

Expected impact on social outcomes, such as employment, poverty reduction, equality, and gender: Reduction of undeclared labour will have positive impact on employment, while improvement of quality of work and working conditions over the medium term will reduce poverty and social inequality.

Expected impact on the environment: Positive impact on the environment will result from implementation of the measures pertaining to suppression of informal economy, primarily in the sectors of tourism and forestry.

Potential risks:

Risk	Probability (low or high)	Planned mitigating action
Lack of public trust	Low	Ensuring good coordination between ministries and other relevant institutions and establishing clear cross-sectoral rules for implementation of policy measures for the promotion of good work.

Priority reform measure No 7: Suppressing the informal economy by reforming the Tax Administration

Description of measure: The Montenegro Revenue Administration implements the Tax Administration Reform Project (RARP) aimed at improving efficiency of the Administration and reducing costs to taxpayers. The project started in 2018 and is based on Montenegro's long-term vision that the entire tax administration should rest on modernised business processes based on systemic risk assessment, which will ultimately contribute to a more efficient collection of public revenues from all sources of economic activity. To that end, one of the core instruments of the new system will be integrated revenue management system (IRMS). This, along with establishment of a highly automated system, will have impact on increasing transparency of the paying taxes process and consequently on reduction of discretionary powers which create opportunities for informal zone. The completion of the entire project is planned for 2023, with a possibility for certain departures depending on the implementation paste.

In addition to the implementation of IRMS, a new system for electronic fiscalisation for transactions in goods and services is designed to improve control of transactions, further reduce administration of taxes and create more favourable conditions for efficient management of tax audits and enforced collection procedures. Full implementation of the system is expected to ultimately minimise share of informal economy, boost competitiveness of enterprises operating legally and encourage healthy competition in the market. According to the Feasibility Study for Project Implementation,³⁷ an increase in tax revenues is expected in the first year of introduction of electronic fiscalisation in the amount from 13 to 17 million euro, of which 5-7 million euro on the account of VAT, 6-7 million euro on the account of personal income tax and contributions, and 2-3 million euro on the account of corporate profit tax. Application of the system, pursuant to the Law on Fiscalisation for Transactions in Goods and Services was adopted (Official Gazette of Montenegro, No 46/19, 73/19 and 08/21), is 1 January 2021 for those private sector stakeholders who are ready to implement it, while for the rest is 1. Jun 2021. The Rulebooks³⁸ for implementation of the Law were adopted and published in the Official

³⁷ Montenegro Electronic Fiscal Invoices – Feasibility Study for Project Implementation, 2018

³⁸ - Rulebook on the Content of Application of the Fiscal Service Operator Designation, the Manner of Generating the Identification Code of the Person Liable of Fiscalisation and the Manner of Providing Data and Generating Designation on Business Premises of Persons Liable of Fiscalisation (Official Gazette of Montenegro, No 54/2020 of 8 June 2020);

- Rulebook on the Content and Manner of Authenticated Invoices Register Journal, the Manner of Submitting Invoices without the Unique Identification Invoice Code and the Manner Verifying Invoices for which the Fiscalisation Process was not Done (Official Gazette of Montenegro, No 54/2020 of 8 June 2020);

Gazette of Montenegro (No 54/2020 of 8 June 2020). Furthermore, the electronic fiscalisation projects formally started on 8 July 2020 and its full implementation is planned for a period of one year. The activities for introducing the electronic fiscalisation planned for 2020 were successfully implemented.

As for implementation of IRMS, the preparation of functional requirements documents for introduction of the new integrated revenue management IT system (IRMS) is underway. After the functional requirements documents are finalised and the other tender documentation prepared, a tender procedure for procurement of the new IRMS system is to be launched. Bearing in mind that the very data cleansing process and subsequent migration into the new system represent a continuous activity, the Data Cleansing Strategy/Action Plan was prepared, as well as the procedure for the data cleansing process, and the data cleansing process itself has started. The activities under both projects are synchronised in order to avoid overlapping. Likewise, the activities are directed towards creating additional prerequisites for preventive action and suppressing manifestations of the informal economy, which is directly connected with the Policy guidance No 2.

Actions will be taken in the segment of strengthening administrative capacities to define optimal model for strengthening administrative capacities, with special focus on retaining highly qualified employees with special knowledge and skills, which is in line with the recommendations of the European Commission for Negotiation Chapter 16 – Taxation. The Project of electronic fiscalisation will also include activities of training the Revenue Administration employees on use of the new system.

Period for the implementation of measure:

- a. **Activities planned in 2021:** Start with the production phase of the electronic fiscalisation system.³⁹ Continue with activities on introduction of IRMS and procurement of part of the needed software and hardware.⁴⁰
- b. **Activities planned in 2022:** Continue with activities on introduction of IRMS and procurement of remaining software and hardware.⁴¹
- c. **Activities planned in 2023:** Procurement of the remaining software for IRMS; Control of migrated data into the new system, final quality control to verify if all participants are ready for transition into the new system; Start with the production phase of the system.

Results indicators:

Indicator	2021	2022	2023
E-fiscalisation system for all taxpayers functions in full capacity.	All three phases for introduction of the system completed.	Full implementation of the e-fiscalisation system and its further improvement	Full implementation of the e-fiscalisation system
IRMS equipment fully functional	Tender launched and equipment procurement procedures finalised.	Procurement of additional equipment	Equipment fully functional
Functional IRMS database established	Data cleansing process continued.	Data cleansing process continued with data migration.	Data migrated and integrated in the IRMS.

Expected impact on competitiveness: Implementation of the Tax Administration Reform Project will lead to establishment of an integrated information system based on modern business processes which

- Rulebook on the Format and Structure of Messages and Security Mechanisms for Messages Exchange on Fiscal Invoices and the Manner of Submitted Invoices issued in the event of Interruption of Permanent Internet Link (Official Gazette of Montenegro, No 54/2020 of 8 June 2020).

³⁹ This includes data collection, its processing through risk analysis and deregistration of existing fiscal systems;

⁴⁰ This includes activities of data cleansing and ensuring quality in the process of new system introduction. Furthermore, it includes implementation of the Data Analytics Platform (Data Warehousing/Business Intelligence System - BI/DWH).

⁴¹ This includes continuation of activities of data cleansing and data migration, activities for ensuring quality in the process of new system introduction, and further implementation of the Data Analytics Platform (Data Warehousing/Business Intelligence System - BI/DWH).

will serve as the basis for systemic risk analysis at the Revenue Administration as one of the key mechanisms for audit of taxpayers, particularly those operating in informal sector. In this way, competition coming from informal sector, which directly compromises sustainability of taxpayers operating legally, will be minimised. The result of the aforementioned will boost competitiveness of economic entities operating legally, while increasing efficiency of the Tax Administration, which will have impact on boosting competitiveness of the economy as a whole.

Estimated cost of implementing the structural measure and the planned source of financing: The project is financed from the World Bank loan of 18.8 million euro (which includes additional financing of 4.8 million euro for electronic fiscalisation). The envisaged duration of the project is from 2018 to 2023. Amount of 840,000 euro was spent in 2020 for both projects, which are mainly used for procurement of equipment for e-fiscalisation and for services for introducing IRMS. Fund planned for 2021 are mainly covering remaining equipment for electronic fiscalisation, as well as part of the equipment for IRMS, including data warehousing and business intelligence system (BI/DWH). In 2022, the procurement of remaining software and hardware for IRMS is planned as well as BI/DWH in the amount of 4,980,000 euro. Finalisation of software procurement for IRMS is planned in 2023.

2021: from the project loan proceeds: 9,895,000 euro;

2022: from the project loan proceeds: 4,980,000 euro;

2023: from the project loan proceeds: 905,000 euro.

Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care (healthcare accessibility): Reduction of informal sector over a long period creates conditions for the system based on healthy competition which will contribute to the increased competitiveness of the Montenegrin economy and consequently to increase in the standard of living and poverty reduction.

Expected impact on the environment: The measure will have positive impact on the environment due to continued digitalisation of procedures connected with implementation of tax regulations.

Potential risks:

Risk	Probability	Planned mitigating action
Transition to the new system will incur certain costs for taxpayers that have fiscal cash registers which they will not be able to adjust to the new system, which may cause some resistance among this group of taxpayers during implementation.	Low	By successfully implementing regulations and raising awareness through adequate public and promotional campaigns. Use of so called soft introduction, which will enable taxpayers that ready to start using the system to start from 1 January 2021, while other will be given a possibility to adjust to the system by no later than 1 July 2021.
Delay in implementation of the IRMS Project.	Medium	Successful project management by defining the project management structure, through adherence to the set deadlines will eliminate this risk.
Parallel activities – implementation of the electronic fiscalisation system and BI/DWH system.	Medium	Carry out analysis of impact on regular project activities, and strengthen capacities engaged in implementation.

Priority reform measure No 8: Establishing the register of charges

Description of measure: The measure includes activities for improvement of business environment with objective to establish a register that would consolidate all charges on the national and local level. Establishment of the register is through creation of a database, which will enable decision-makers easier identification of charges, which will result in higher transparency of charges, but will also create grounds for abolishing or preventing for additional charges for economic entities to be introduced. When observed over the medium term, thanks to the establishment of the register, the easier planning will contribute to timely incentives for the real sector needed for further development. The Measure will be part of the Montenegro Public Administration Reform Strategy 2021-2025, and will be also aligned with the World Bank publication *Growth and Jobs*, which has identified parafiscal charges and proposed introduction of a register of parafiscal charges in the next short-term. It is important to mention that update and expansion of the functions of a registry is one of the conditions for second tranche of the macro-financial assistance (MFA)⁴².

Activities of establishing the Register of charges will have an additional importance for adoption of incentive measures for suppressing the COVID-19 pandemic consequences. The list of charges, classified by sector and by municipality, will help in designing strategies for reducing fiscal charges. The issues dealing with improving the business environment gain additional importance in the environment of the COVID-19 pandemic. The register will certainly be a good tool for identification of areas with heavy burden coming of charges and will serve in designing tax policies.

The register is created in a form of a web portal (www.javninameti.me, and will be accessible on www.javninameti.gov.me from March 2021). Thanks to such approach, the business owners will be able to calculate in advance and plan costs, to understand why and to which categories the charges pertain. The digitalisation of the entire process will enable online access for the interested public to present proposals about reduction and removal of tax burdens and obstacles to freedom of doing business. On the other side, the decision makers will have the opportunity for easier elimination of charges, through reports to be generated electrically by the register itself.

Period for the implementation of measure:

a) Activities planned in 2021:

- Inventory of all charges (excises, contributions, securities, interests, loans, penalties, fees, taxes and surtaxes, borrowings, revenues, sales, duties, costs, custom duties);
- Adoption of the secondary legislation to define charges, as well the creation and the manner of operation of the register;
- Final consultations with representatives of ministries, local authorities and public-service enterprises and real sector in order to check data entered in the register, as well as to consolidate recommendations from use of the portal so far (e.g. deleting charges and regulations not in use in practice);
- Linking the register with the database of current legislation, precisely with the Official Gazette of Montenegro, in order to have regular update of charges;

b) Activities planned in 2022:

- Supplementing the register with charges not in the database of applicable legislation, and which are identified by surveying various entities;
- Defining the method and methodology for calculation of the competitiveness index for local self-governments;
- Creating a calculator for calculation of the competitiveness index for local self-governments (depending on the amount of charge, collection frequency, area of coverage and similar, an index could be calculated for each municipality which will enable entrepreneurs to make

⁴² For Montenegro, the policy conditions for its 60 million euro MFA programme relate to strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

informed decisions when opening enterprises or branches in a given municipality, and provide additional incentive to municipalities to improve their business environments).

c) Activities planned in 2023:

- Regular update of the register in line with the database of applicable legislation and its maintenance.

Results indicators:

Results and performance indicator	2021	2022	2023
Updated Register of Charges accessible to the public Law prepared; Software procured for connecting the Register with the Official Gazette	<ol style="list-style-type: none"> 1. Development of the Register of Charges completed; 2. Legislation adopted by the Government 3. Software procured for connecting the Register with the Official Gazette 4. Register published on public websites of the Government and of local self-governments, and its owned by the Ministry of Economic Development and Ministry of Finance and Social Welfare; 5. Register is regularly updated in accordance with all regulations; 6. Connecting the Register with the database of current legislation, precisely with the Official Gazette of Montenegro, in order to regularly update charges. 	<ol style="list-style-type: none"> 1. Expand the Register with charges from the database of current legislation, which were identified by surveying various entities. <p>Register is regularly updated in line with all regulations that envisage a new charge (fiscal, parafiscal).</p>	Register is regularly updated in line with all regulations that envisage a new charge (fiscal, parafiscal).
Calculator for calculation of the competitiveness index for local self-governments created	<ol style="list-style-type: none"> 1. 	<ol style="list-style-type: none"> 1. Method and methodology for calculation of the competitiveness index for local self-governments defined. Calculator for calculation of the competitiveness index of local self-government created 	Calculator in use for calculation of the competitiveness index

Expected impact on competitiveness: Comprehensive register of charges will enable for a more transparent pictures of the volume and composition of the entire system of charges to be created.

The surveys of business associations for years now indicate that various charges create burden and clearly point to a need for all charges in the country to be presented in an integrated and transparent manner. The register is a useful instrument that will enable the State to monitor the overall burden on each sector of the economy, to have grounds to analyse necessity of existence of current charges, to have an overview of overlaps of charges and to decide in which instances the charge could be reduced, abolished, and similar. On the other hand, such register represents a possibility for businesses to calculate in advance and to plan costs, and to understand to which categories those charges apply.

The online portal will enable interested public to give proposals with respect to reduction of charges and removal of various charges being paid on the same grounds, which in turn will contribute to an improved competitiveness. The measure will also contribute to raising the awareness on the need to reduce burden for economic entities, in order to create an environment that will attract investments.

New measure / transferred measure: The implementation of the measure started in 2020.

Estimated cost of the activities and the source of financing: Overall funds for development of the Register of charges are provided from the budget of the Secretariat of the Competiveness Council supported by EBRD-, as follows: for development of web application in the amount of 10,000 euro and for hiring an expert to upload existing charges of 10,000 euro. Additional funds that need to be provided to connect the web application with the database of the Official Gazette amount to approximately 5,000 euro. Funds for maintaining the register are estimated at 2,000 euro. The Plan is for the Ministry of Finance and Social Welfare to update regularly the Register with internal capacities.

Expected impact on social outcomes, such as employment, poverty reduction, equality, and gender: The Register of charges represent grounds for initiating amendments to laws and other important legislation tackling charges, which will result in a practice that no charge is introduced without comprehensive analysis.

Expected impact on the environment: The measure does not have impact on the environment.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Connection with the database of applicable legislation, which must such that the registry at all times contains valid regulation or deletes the regulation not in force any longer.	Probability is low given that there is a possibility to connect the web application with the Official Gazette.	Data export into Excel files under the web interface on the side of the ICT system in the Official Gazette of Montenegro. This will replace manual entry and update of Excel files with automatic data transfer.
Use of the Register	low	Once the database is finalised and public access to the register allowed, the reaction of the public must be expected, from either businesses or citizens. Some immediate reactions could be in a form of abrogating some legislation not in use, correcting amounts stipulated by legislation, or in form of need for additional clarifications on justification for stipulated charges.

Priority reform measure No 9: Implementation of the electronic public procurement system (EPPS)

Description of measure: Successful implementation of the project *Implementation of the Electronic Public Procurement System*, implemented with the support of the European Commission and financed from IPA funds, has created prerequisite for introduction of an entire electronic system for public procurement in Montenegro. New digital technologies are offering numerous opportunities for simplification of the public procurement procedures, as well for monitoring transparency of procedures. Since the public procurements represent a strategic instrument in the package of economic policy measures in any country, the objective of introducing the electronic public procurement system is to receive the highest possible value for money, as well as to achieve better

results in terms of social and other public policy objectives while increasing the efficiency of public spending at the same time. The electronic public procurement system will represent a tool for improving efficiency of processes of public procurement of goods, services and works, which will lead to savings in the public sector. The electronic public procurement system will apply in a comprehensive manner the electronic means of communication to the public procurement procedures, as a replacement for paper-based procedures, i.e. it supports introduction of an electronic process in various phases of the public procurement procedures starting from preparing and publishing tender documentation, through electronic submission of bids, electronic review and evaluation of bids, to the very procedure of monitoring execution of the contract. The new regulatory framework, which was in use from July 2020, as well as new technical solutions for the electronic system, will ensure sizeably higher degree of transparency and by doing so it will lead to the reduction of irregularities in the public procurement system. After internal verification of the system, the Ministry of Finance and Social Welfare will start with training of contracting parties and bidders to provide for efficient rollout and use of the new e-system. The new electronic system, planned to start as of 1 January 2021, is one of the most important steps in the electronic government segment, and along with the new legislation, it represents a new concept of public procurements in Montenegro

Period for the implementation of measure:

a) Activities planned in 2021

- Start with the electronic public procurement system (January 2021);
- Aligning secondary legislation to make it compatible with the electronic public procurement system;
- Delivery of training for all users of the system;
- Strengthening administrative capacities of the Ministry of Finance and Social Welfare, as administrator of the electronic system;
- Improving and upgrading instructions for use of the electronic public procurement system;
- Raising awareness on importance of the public procurement and electronic system by strengthening cooperation with the NGO sector;
- Monitor procurement procedures with most frequent errors and issue recommendations for their correction;
- Establish cross-institutional cooperation with the Revenue Administration and the Ministry of Justice, Human and Minority Rights in order to connect the system and expert data exchange (GSB);
- Expanding the EPPS with a module for public-private partnerships.

b) Activities planned in 2022

- Implementation of measures from the Strategy on Development of Public Procurement and Public-private Partnerships Systems 2020-2024;
- Continuous education of contracting parties for application of the Law on Public Procurements;
- Continuous education of contracting parties and bidders for use of the EPPS;
- Monitoring of public procurement procedures.

c) Activities planned in 2023

- Implementation of measures from the Strategy on Development of Public Procurement and Public-private Partnerships Systems 2020-2024;
- Continuous education of contracting parties and bidders;
- Continuous education of contracting parties and bidders for use of the EPPS;
- Monitoring of public procurement procedures.

Institution responsible for the implementation of measure: Ministry of Finance and Social Welfare

Results indicators:

Results and performance indicator	2021	2022	2023
<i>Number of delivered training courses on public procurement</i>	20	20	20
<i>Number of trained officers for public procurement</i>	300	300	300
<i>Number of training courses for EPPS</i>	40	30	25
<i>Number of trained officers for work with EPPS</i>	300	200	200
<i>Number of trained bidders for work with EPPS</i>	1000	600	500
<i>Number of announced tender documentations on the EPPS with estimated value of goods and services exceeding 20,000 euro and for works 40,000 euro</i>	1000	1000	1000
<i>Number of announced simplified procurements on the EPPS</i>	5000	5000	5000
<i>Institutional framework</i>	<i>Ministry of Finance and Social Welfare</i>		
<i>Strategic document</i>	<i>Strategy on Development of Public Procurement and Public-private Partnerships Systems 2020-2024</i>		
<i>Drafting of enabling legislation</i>	<i>Drafting of enabling legislation for the electronic public procurement system</i>		

The result of the measure could be measured through number of trainings in order to ensure good quality application of legislation and of the electronic system and by doing so staff productivity is developed and room for abuse narrowed, while the transparency is strengthened.

Expected impact on competitiveness: Implementation of the measure will contribute to establishment of clear framework of the Government's policy in order to promote public procurements and electronic system, as well as the use of public procurement-related principles and requirements which are aligned with best practice and provisions of the European Union directives.

Estimated cost of the activities and the source of financing: The electronic public procurement system is financed through an IPA Project, where the value of system was 1,400,000.00 euro. The expansion of the project is expected in 2021 with module for public-private partnership in the amount of 300,000.00 euro. In the period 2021-2023, employment of three staff members is planned (one each year), and this employment will be financed from the Budget of Montenegro. Procurement of additional computer equipment is planned, as well as for drafting of training material and advertising services for all three years, which will be financed from the Budget of Montenegro.

Expected impact on social outcomes, such as employment, poverty reduction, equality, and gender: The measure has indirect impact on employment, as it contributes to the development of new types of investments, innovation, establishing and expanding the sector for carrying out public works and public services, and thus enables new employment. The measure is gender-neutral.

Expected impact on the environment: The legal framework for public procurements is moving towards the principle where the analysis justifying the procurement should be oriented to

environmental protection and promotion of criteria for economically most-favourable offers, as well as to include the whole-life cost.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
<i>Delays in adoption of enabling legislation</i>	<i>Low</i>	<i>There are no risks, all implementing acts were adopted by 7 July 2020 when the new Public Procurement Law started to implement.</i>
<i>Level of education of public procurement officers at contracting authorities and the persons engaged by bidders due to limited capabilities for organization of training caused by COVID-19 pandemic measures</i>	<i>High</i>	<i>Training sessions are organized online as a result of measures imposed due to COVID-19 pandemic, while it is necessary to include almost 4,000 persons who will use the system in the future</i>

5.3.4 Research, Development and Innovation (RDI) and the Digital Transformation

Montenegro was the first candidate country for EU membership to adopt the Smart Specialisation Strategy (S3) (2019-2024) in June 2019. This reaffirmed strong commitment of the state to building and fostering sustainable research and innovation system, which entails encouraging synergies between science and economy in clearly defined priority sectors of development, thus stimulating economic growth and development of the country. S3 became a key link bringing together several sectoral policies, which will serve as the basis for further national investments. Information and communication technologies are deemed to be the key technologies that should impact the increase in competitiveness of the priority sectors: agriculture, energy, and tourism. The strengthening of the digital economy is brought into focus in the context of the S3 Strategy, amplified with the corona-virus pandemic and the third package of measures for socio-economic recovery of the Government of Montenegro.

The latest official research and development statistics for 2018 indicate that investments in research and development have increased and make 0.5 percent of GDP (compared to 0.37 percent in 2017), with share of investment from private sector of 0.19 percent. The state investments in science and innovation which have recorded steady growth from 2018 up to as much as 120 percent for 2020 compared to 2017, were used to launch numerous financial support instruments which also require own investments by beneficiaries and will have long-term impact on the overall increase in investments.

Two new laws have entered into force in August 2020 governing the field of innovation and technological development: the Law on Innovation Activity (Official Gazette of Montenegro, No 82/20) and the Law on Incentive Measures for Development of Research and Innovation (Official Gazette of Montenegro, No 82/20), which were part of the previous ERP cycle. Those laws define in a better way the overall National Innovation System, establish grounds for founding the Innovation Fund of Montenegro, and define a set of incentive measures to renew scientific, research and innovation activity and increase investments in the economy. The Innovation Fund is also defined to be an implementing body for the Smart Specialisation Strategy, while the Council for Innovation and Smart Specialisation established earlier is a body responsible to enhance coordination of several line ministries. *The forthcoming activities for full implementation of the laws include preparation of enabling regulations and development of information system.

However, the S3 implementation framework especially in the structures which ensure continuous Entrepreneurial discovery process still need to be set up, the fragmented and short-term planning

overcome (the European Commission comment for conditional acceptance of the Smart Specialisation Strategy), and the missing links within the ecosystem established. Important effects to enhance the overall system are expected from the innovation infrastructure currently under development (Science and Technology Park of Montenegro with a National Technology Transfer Office). Improvement, connectivity and open access to the existing research infrastructure, as well as investments in the new ones should also strengthen the backbone of the National Innovation System. The European economic and investment plan for the Western Balkans has recognised the value of a regional project, a major scientific and medical infrastructure – SEEIIIST, whose development was led by Montenegro in the period 2017-2020. The establishment of strong clusters aligned with S3 is yet to take place, as well as entities for networking and connectivity within the knowledge triangle and similar bodies spurring the exchange of knowledge, internationalisation and accelerating commercialisation of high-value products. Many small and medium-sized enterprises need support services for digital transformation in order to be able to integrate online operations with traditional business methods under the new circumstances caused by the pandemic.

The human resources for research and innovation (researchers, but also technical and support staff), in particular for priority areas defined under the S3 strategy, continue to be insufficient. Official 2018 data indicate that total number of researchers in that year was 1,596, i.e. 479 FTE researchers. Number of researches, entrepreneurs and innovators need to be increased by a sizable number and to be done continuously, while fostering creativity, critical thinking and problem solving ability need to be enhanced – in addition to improving quality of basic knowledge and skills. An increased number of IT experts, as well as advancement of digital skills in the general population make a fundament for the digital economy of the future.

Present support mechanisms of the Ministry of Economic Development, Ministry of Education, Science, Culture and Sports, as well as from other ministries taking part in the Action Plan of the Smart Specialisation Strategy as well as of the future Innovation Fund, are not being implemented in full digital mode, while there are also differences in conditions and procedures for various competitions that lead to uncertainties among final beneficiaries. In order to achieve digitalisation, the procedures for all support mechanisms should be standardised before digitalisation, through improvement of enabling regulations in this area, all in accordance with the state aid rules for the research and innovation field, which were fully transposed by Montenegro from EU rules into the Law on State Aid Control. The next step is for an integrated information system for research and innovation to be established, which would considerably improve accessibility and accuracy of data needed for the analysis of state support in R&I and its effects, and would also facilitate administrative processes.

Under the circumstances of socio-economic crisis caused by the corona virus pandemic, there is a risk for the budgetary spending for research and innovation to be reduced, that is why a strong focus needs to be placed on drawing from the available EU funds, and that are directly connected with the S3 strategies and the Green Deal. To that end, a higher degree of alignment of national policies with the EU policies needs to be achieved, and for intermediary bodies to be established (such as innovation infrastructure subjects, knowledge and innovation centres connecting the knowledge-triangle entities, digital innovation hubs to stimulate digital and innovation culture etc.) having an important role in increasing the absorption of EU funds. Furthermore, export capacities of economic entities need to be further enhanced, in particular through digitalisation and strategic networking.

The digital economy concept has been developing lately due to multifaceted and dynamic nature and transformation of digital technologies. The digital economy is the most important driver of innovations, competitiveness and growth in the World; in other words, it accelerates economic development, increases productivity of existing industries, fosters and spurs new markets and industries.

The digital economy, as a method of doing business, uses the information and communication technologies and internet alongside knowledge from the fields of economics, programming, telecommunications, computer sciences, and digital electronics.

The Digital Transformation Strategy, under development, will provide more details for further development and potentials for development of the digital economy in Montenegro. This document will define next development directions for the digital transformation, objectives, success indicators, methods for monitoring and implementing the Strategy, as well as other matters of importance for the digital transformation advancement.

High-speed broadband internet networks have an important role in introduction of innovation services, which means that the entire territory of the country needs to be covered with good quality communication infrastructure and next generation broadband network. Increase in accessibility and reserving capacity on high-capacity networks will enable wide use of products, services and application on an integrated digital market.

In the previous period, Montenegro has made prominent progress in terms of coverage with high-speed broadband access networks, but more needs to be done to create an inviting investment environment in this field. Therefore, the adoption of the legal and regulatory framework in this field will stipulate measures that will provide incentives, accelerate, facilitate and reduce costs of installing high-speed electronic communication networks, and provide incentives to operators without commercial interests to invest in the next generation networks in rural areas.

Priority reform measure 10: Improvement of legislative-regulatory framework and further development of infrastructure for broadband internet connection

Description of measure: Following guidance of the European Union, the Economic Reform Programme 2019-2021 sets out the following measure: “Improving legislative-regulatory framework with the aim of reducing costs of deploying high-speed electronic communication networks”.

In order to improve legislative and regulatory framework, and thus cut costs of construction works on the deployment of networks and build an integrated infrastructure (coordinated construction – simultaneous building and deployment of multi-purpose infrastructure), which also includes next generation electronic communication networks, intensive efforts were made in 2019 to draw up the Law on the Use of Physical Infrastructure for the Deployment of High-speed Electronic Communication Networks (which is based on EU Directive 2014/61) and bring it into conformity with the Law on Spatial Planning and Construction of Structures.

This Proposal for the Law was adopted by the Government of Montenegro in the session held on 19 December 2019. Pursuant to Article 69 paragraph 2 of the Rules of Procedure of the Parliament of Montenegro, the Legislative Committee submitted in the session held on 28 February 2020 the Report on consideration of the Proposal for the Law on the Use of Physical Infrastructure for the Deployment of High-speed Electronic Communication Networks and agreed that this proposal was to be submitted to the Parliament for adoption. However, due to global COVID-19 pandemic this Proposal for the Law has still not been put on the agenda for parliament sessions.

Adoption of this law will substantially cut costs of construction works on the deployment of networks, through application of instruments for and regulations on construction of integrated infrastructure, whereby coordinated construction would include simultaneous building and deployment of the multi-purpose infrastructure, including next generation electronic communication networks.

In respect of the process of mapping electronic communication infrastructure, the procedure for public procurement of the service of improving georeferenced database of the electronic communication infrastructure was launched twice, in October 2018 and March 2019, but these procurements did not end successfully. Only based on the public procurement procedure launched on

14 February 2020, the Decision on the selection of the most favourable bid was adopted on 30 April 2020, while public procurement contract was concluded with WinSoft doo from Podgorica on 20 May 2020. The system was handed over at the end of December 2020 and it is operational.

Mapping will make it possible to have a precise and detailed picture of the current development of networks and to identify areas with no availability of broadband connection, while it will also create conditions for examining potential of the market to eliminate the existing infrastructure gap and for determining zones of potentially failed market operation.

In line with strategic directions of development and indicators set for broadband access in the Strategy for Information Society Development of Montenegro by 2020, and taking into account the current aggravating circumstances, the values achieved by September 2020 are as follows: NGA broadband availability – percentage of households in the area served by NGA (30 Mbit/s) is about 80 percent (target value for 2020: 100 percent); Penetration of broadband connections for households – share of households using at least broadband access (2 Mbit/s) is 93.19 percent (target value for 2020: 100 percent). Presence of high-speed broadband connections – share of broadband internet connections using high speed fixed network (30 Mbit/s) in the total number of fixed broadband connections is 67.38 percent (target value for 2020: 70 percent). Penetration of ultrafast broadband connections (households) – share of households using ultrafast broadband access (100 Mbit/s), and NGA (30 Mbit/s), is 28.79 percent (target value for 2020: 50 percent).

In July the Ministry of Economic Development started implementation of the project “Development of Infrastructure for the Broadband Internet Access in Montenegro” which is on the List of Priority Projects of the Government of Montenegro in digital infrastructure sector. The project includes preparation of the National Plan for Development of the New Generation Broadband Networks which sets out defining of the type of infrastructure to be built in the areas in which market participants show no commercial interest to invest, as well as preparation of the Feasibility Study and Cost-effectiveness Analysis in certain zones. The National Plan for Development of the New Generation Broadband Networks will also give a recommendation for the optimal models of incentives, i.e. for public-private partnership for its construction. The general goal of this project is to strengthen economic and social development of Montenegro through deployment of the broadband infrastructure. Increased access to ICT will reinforce digital connectivity between Montenegro and other countries in the region and EU, while it will also reduce digital gap and contribute to development of the region. Project implementation will enable construction of proper infrastructure for fast and secure internet access for all households, businesses, educational and health care institutions in Montenegro for the purpose of supporting digital transformation of the society and economy. The National Plan for Development of the New Generation Broadband Networks is expected to be finalised no later than the end of 3rd quarter 2021.

This measure is a continuation of implementation of the measure set out in the Economic Reform Programme 2019-2021, in line with the established time schedule.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Start of the activities regarding preparation of the new Law on Electronic Communications (in line with Directive EU 2018/1972 establishing the European Electronic Communications Code) and completion of activities regarding preparation of the National Plan for Development of the New Generation Broadband Internet Access in Montenegro and coverage of population with the new generation access networks. In this year, Law on the Use of Physical Infrastructure for the Deployment of High-speed Electronic Communication Networks will be adoption.
- b) **Activities planned in 2022:** Completion of preparation of the new Law on Electronic Communication and its adoption. Implementation of the National Plan for Development of the New Generation Broadband Internet Access in Montenegro and coverage of population with the new generation access networks.

c) Activities planned in 2023: Implementation of the Law on Electronic Communication.

Institution competent for implementation of measure: Ministry of Economic Development

Results indicators:

Activity	Results indicator	Baseline (year)	Intermediate target (year)	Target (year)
Preparation of the National Plan for Development of Broadband Internet Access in Montenegro	Percentage of households in the area served by next generation access network (NGA):	2020 80 percent	2021-2022 90 percent	2023 95 percent
Measure	Results indicator	Baseline (year)	Intermediate target (year)	Target (year)
Improvement of legislative-regulatory framework and further development of infrastructure for broadband internet connection	Increase of equitable regional development, use of internet and new technologies, digital skills and e-Government services	2020	2021-2022	2023

Expected impact on competitiveness: Development of the broadband network, combined with other measures to be defined by the Digital Transformation Strategy such as development of digital skills and e-Government, fosters productivity growth and employment growth and improves public sector efficiency.

Estimated cost of the activities and the source of financing: Funds have been provided by the WBIF grant amounting to 0.55 million for preparation of the National Plan for Development of the Broadband Internet Access in Montenegro. Funds will be needed for implementation of the National Plan for Development of the Broadband Internet Access. The amount of funds, model and justification of investing into further development of the infrastructure for broadband internet access are not known at this point and will be determined during preparation of the Plan.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Digital services and digital connection contribute to development and economic growth of the country. Development of the broadband access and services has considerable impact on the development of other economic sectors, and of the society in general. Construction of infrastructure in rural areas, predominantly in the northern region of Montenegro, also fosters a more equitable regional development and contributes to the increase of attractiveness of these areas for potential investors.

Expected impact on the environment: It is currently estimated that this measure has no impact on the environment. Certainly, during preparation of the National Plan the environmental impact assessment will be carried out, i.e. analysis of risks associated with works on installation of cables and tower, including official permit, land use, occupational health and safety, protection of areas, other disruptions to the public and coincidence detection procedures.

Potential risks

Risk	Probability (low or high)	Planned mitigation action

There are no risks in implementation of the Law on the of Physical Infrastructure for Deployment of High-speed Electronic Communication Networks, and in the phase of preparation of the National Plan.	Low	
Small market, lack of interest of private sector and/or lack of fiscal room for project co-financing	Medium	Funds have been provided by the WBIF grant amounting to 0.55 million for preparation of the National Plan for Development of the Broadband Internet Access in Montenegro.
There are no risks in implementation of the new Law on Electronic Communication.	Low	

Priority reform measure 11: Improvement of the programme framework for implementation of the Smart Specialisation Strategy of Montenegro⁴³

Description of measure: The measure would lead to consolidation of all assistance mechanisms into a single multiannual programme which would introduce systematicity, full coverage, implementation plan with the plan of financing from several line ministries and from other sources; it would also define structural projects dealing with S3 topic, infrastructure, all human resource mechanisms, scientific and research thematic projects and projects for assistance to the entire innovation cycle. Since smart specialisation strategy is one of the mechanisms for reaching the goals set in the Green Deal, the program would also contain priorities set in the Green Deal. This measure originates from the European Commission recommendations given in the letter on conditionally positive assessment of S3 strategy⁴⁴. The measure will contribute to the compliance of further implementation of S3 strategy with the European Green Deal, particularly with the EU Green Agenda for the Western Balkans by compiling, amongst other things, a list of structural projects along with their elaboration, which are ready to become operational either with budgetary funds, or with the EU funds, or are ready to be nominated to private investors. Structural projects are driving force of the new development based on knowledge, innovation and green economy which contributes to the creation of a new demand by enterprises and to creation of new and higher quality jobs. Implementation of this measure is already supported by the EC Joint Research Centre and UNDP. The measure is a follow-up to the measure 13 from the previous ERP, which was implemented as planned; however, there was a need for a comprehensive programme approach in order to achieve a stronger strategic effect on S3 implementation, but also on the Strategy of Sustainable Development of Montenegro – given the strong EU focus on green agenda and the possibility of competing for funds with mature projects.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Operational Programme for S3 implementation, with the sub-programmes for all 4 strategic priorities, adopted and includes linkage to the adequate policy instruments (grant schemes and potential new schemes in accordance with state aid rules) - Ministry of Economic Development, Inter-ministerial Operational Group for S3 implementation, Council for Innovation and Smart Specialisation; Structural projects and multiannual financial plan defined – all the relevant S3 ministries, under the coordination of the Council for Innovation and Smart Specialisation; Implementation of the traditional assistance mechanisms (opening competition in 2021); ; Competition for start-up projects (MED); Competition for EUREKA projects (MED); Competition for S3 projects in enterprises EU-IPA (Directorate for Finance and Contracting of the EU Assistance Fund – CFCU and MED);

⁴³ This measure is follow-up to the measure 13 from ERP 2020-2022.

⁴⁴ Technical recommendations for Montenegro following the conditionally positive assessment of the Smart Specialisation Strategy of Montenegro (2019-2024).

Competition for human resources development in research (CFCU-MESCS); Competition for pre-accelerator programme for start-ups (MED); Competition for innovative projects in creative industries (Ministry of Education, Science, Culture and Sports - MESCS); Competition for fostering innovation in enterprises (MED);

- b) Activities planned in 2022:** Implementation of the Operational Programme for S3 through open calls and other forms of financing – Innovation Fund of Montenegro, MESCS, other line ministries competent for the areas covering S3 areas, CFCU, (possibly also Eco Fund, Montenegrin Investment Agency); New competition for establishment of the centres of excellence (MESCS + 2 line ministries); New competition for PhD scholarships (MESCS); New competition for science and research projects (MESCS); New competition for fostering participation in the programmes Horizon Europe, COST and other international cooperation programmes (MESCS); The support schemes for innovation under the Innovation Fund, as defined in the Fund’s Business Plan (Programme for the development of innovative enterprises; Programme for the verification of innovative concept; Vouchers for fostering innovation; Programme for the development of venture capital funds; Programme for development projects contributing to S3); Preparation of tender documentation for IPA III 2023 calls.
- c) Activities planned in 2023:** Implementation of the Operational Programme through open calls and other forms of financing – Innovation Fund of Montenegro, Ministry of Economic Development, other line ministries responsible for the areas covered by S3, CFCU, (possibly also Eco Fund, Montenegrin Investment Agency); New competitions as in 2021; With the establishment of the Innovation Fund, assistance schemes for innovation will be updated, as defined in the Fund’s Business Plan (Programme for the development of innovative enterprises; Programme for the verification of innovative concept; Vouchers for fostering innovation; Programme for the development of venture capital funds; Programme for the development of projects contributing to S3). Preparation of tender documentation for IPA III 2025 programming cycle (MED + other line ministries).

Results indicators

Indicator	Baseline (year)	Intermediate goal (year)	Target (year)
Annual assistance funds for research and innovation in the form of grants contracted	0.4 million euro (2021)	5.35 million euro (2022)	1.3 million euro (2023)
Annual funds for structural projects under S3 and Green Agenda contracted	1.8 million euro (2019 – centres of excellence)	(2022)	2 million euro (2023 – centres of excellence)

Expected impact on competitiveness: The measure will have impact on the growth of the following indicators of competitiveness and sustainable development of Montenegro:

- Employment increase in high technology and knowledge-intensive services by 1 percent (estimate total of 20,000 employees = 200 newly employed) over a three-year period, as direct employment in supported projects; Baseline: Employment in medium and high technology and knowledge-intensive services⁴⁵ = score 68.9 (Innovation Scoreboard 2020, data on the period 2016-2018)⁴⁶.

Estimated costs of the activities and the source of financing: Financing for 2021 includes budgetary funds in the amount of 0.4 million euro for newly contracted assistance. Financing for 2022 includes

⁴⁵ SDG indicator

⁴⁶ Low reliability data (Eurostat)

budgetary funds (3.45 million euro), contracting IPA 2020 (1.9 million euro). Financing for 2023 includes budgetary funds (3.3 million euro).

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: The measure is expected to have impact in terms of creating approximately 70 new jobs per year through supported projects. These are jobs in medium- and high technologies and knowledge-intensive services, which is one of SDG indicators in the goal No 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation).

Expected impact on the environment: Measure includes implementation of structural projects which link science and innovation with sustainable development (S3+SDG), therefore impact on the environment is expected; however, it is not possible to determine the impact at this point since the first phase of the measure includes planning of specific projects and their nominating for EU assistance.

Potential risks

Risk	Probability (low or high)	Planned mitigation action
Efficiency of the Council for Innovation and Smart Specialisation in connecting different departments, institutions and economic associations	High	Government's commitment to strengthening the role of S3 Council in managing the innovation system; Further support from UNDP projects (and other donors) in strengthening the Secretariat of the Council.
Public finance crisis which jeopardises development segment of the budget	High	Strong focus on the absorption of EU funds which will be at disposal for the Green Agenda for the Western Balkans (including regional / trans-national programmes, and competing for the EU programme Horizon Europe

Priority reform measure 12: Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors⁴⁷

Description of measure: Measure includes development of new secondary legislation (based on the two new laws, adopted in 2020) and improvement of the existing one, standardisation of procedures and full compliance of national policies and assistance instruments with state aid rules. This measure was established in the Strategy of Scientific and Research Activity (2017-2021), while the new EU Innovation Agenda for the Western Balkans and EU Communication on European Research Area (ERA)⁴⁸ set out that belonging to ERA should serve as a driving force of national reform and improvement of policies, towards setting up science and innovation systems which lead to higher quality products. The EU will support this reform through Horizon Europe and other instruments. Development of the comprehensive information system for the digitalisation of operations in research and innovation should improve and facilitate monitoring of the implementation of laws, assistance instruments and administrative operations. At the institutional level, that means putting the Innovation Fund into operation and strengthening its role in implementation of the EU assistance for innovation, putting the Science and Technology Park of Montenegro into full operation, with a national Centre for Technology Transfer within it, as well as establishment of the centres for improvement of cooperation within the knowledge triangle based on EIT model (European Institute of Innovation and Technology) (knowledge-innovation hubs). Particularly important objective of this institutional strengthening is more intensive absorption of the available EU funds for the areas covered by S3 and Green Agenda for the Western Balkans, including regional and macro-regional IPA. Measure may be implemented by combining national and EU funding. Technical assistance will be provided through IPA II 2020 (project of horizontal assistance to the sector competitiveness) and by

⁴⁷ This measure is follow-up to the measure 12 from ERP 2020-2022.

⁴⁸ COM(2020) 628; 30/09/2020

applying for the Policy Support Facility (Horizon Europe). Measure contains activities from the Third Package of measures of the Government of Montenegro for mitigation of the consequences of coronavirus pandemic, and concerns a stronger associating among highly competitive companies in IT sector for the purpose of strengthening human resources, better positioning of the Montenegrin IT sector in the international market, creating stronger synergistic effect with activities in academic sector and making stronger contribution to the implementation of the Smart Specialisation Strategy of Montenegro.

Period for the implementation of measure:

- a) Activities planned in 2021:** Start of the IPA 2020 TA project for strengthening of the S3 implementation framework; Completion of preparation of five pieces of secondary legislation based on the two new laws adopted in 2020: namely, Law on Innovation Activity and Law on Incentives for the Development of Research and Innovation (Official Gazette of Montenegro 82/20); Contracting establishment of an integrated information system for the digitalisation of the science and innovation departments in public administration and start of execution of the contract; Alignment of secondary legislation in the field of financial assistance to science and innovation with state aid rules – preparation of a single rulebook for state aid to science and innovation; Establishment of the Innovation Fund of Montenegro; Execution of works on the STP building in Podgorica; Establishment of the ICT cluster and start of its operation.
- b) Activities planned in 2022:** Harmonisation of all crucial internal rules, procedures and forms so as to adjust them to the transition to digital operations (project applications, evaluation procedure, payments, co-financing, monitoring, statistics, reporting etc.); Full implementation of the information system and transition to digital operations; Further improvement of systems and procedures, in accordance with the development in ERA; Putting the Innovation Fund into full operation, completion of staff recruitment and transfer of financial assistance instruments from the ministries to the Fund; Completion of works on STP; Preparation of tender documentation for IPA III 2023 (grant scheme for new S3 clusters); Preparation of tender documentation for IPA III 2023 (equipment for laboratories of the STP); Preparation of tender documentation for IPA III 2023 (new cycle of TA for S3/S4 implementation framework);
- c) Activities planned in 2023:** Preparation of the Fund for joint implementation with CFCU of EU-IPA funds intended for innovation; Opening of the calls for tenders for the 3 planned IPA III 2023 contracts.

Results indicators

Indicator	Baseline (2020)	Intermediate goal (year)	Target (year)
5 new rulebooks developed	0	5 (2021)	5 (2023)
Integrated information system for NIID (science, innovation and research activity) developed	0	Project contracted (2021)	Full implementation and upgrade of the information system
Innovation Fund established	/	Memorandum of association passed and Business Plan of the Fund adopted; Capacity building (2021) Fund operational and is implementing programmes (2022)	Fund ready for joint implementation of IPA funds with CFCU (2023)

Science-Technology Park of Montenegro completed	Legal entity established (2019), works started (2020)	Works completed (2021)	STP with Technology Transfer Office fully operational (2023)
S3 domain clusters established	First call for ICT cluster completed (2020)	1 (ICT) S3 cluster established (2021)	New call for support of 3 S3 domain clusters (2023)

Expected impact on the competitiveness: Measure will have impact on effectiveness of the assistance and innovation instruments, facilitated monitoring, better activity planning and greater transparency. Indicators of assistance measures that would be assumed by the Innovation Fund are: The value of generated investments in R&D from private sector supported through the Fund, in the period from 2021 to 2027 is 1,152,500 euro; Mobilised financial resources from the EU funds supported by the Fund, in the period from 2021 to 2025 amount to 1,500,000 euro.

Indicators of impact of the Science-Technology Park include numbers of new or significantly improved innovative products / services, 10 such products in 2023 .

The measure (ICT cluster) will have an impact on increasing the number of professionally trained IT staff through accredited life-long learning programmes for 100 people per year and on increasing export of software services of cluster members by 60 percent compared to the period before the cluster became operational.

Estimated costs of the activities and the sources of financing: Financing for 2021 includes budgetary funds for information system and technical assistance in preparation of the rulebook (120,000 euro), as well as donor funds for technical assistance (373,700 euro) as well as capital budget funds for STP construction (5 million euro). Financing for 2022 includes budgetary funds for operation of the Fund (0.6 million euro) and resources from the capital budget for STP works (3 million €)). Financing for 2023 includes financial resources for operation of the Fund (0.6 million euro) and more extensive absorption of financial resources from the EU funds for new activities of the Fund. As for the ICT cluster, financing for 2021, 2022 and 2023 includes budgetary funds for cluster co-financing, in the amount of 300,000 euro per year, and that same amount which will be financed by the cluster members.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Implementation of legislative reform in science and innovation, introduction of a modern information system and digitalisation of operations have direct impact on equal access to the available assistance mechanisms, reduction of insecurity in using assistance and increase of transparency of the operation of public administration. Activities of the Innovation Fund and Science-Technology Park have direct and indirect effects on employment of highly educated staff and young people in medium- and high-technologies and knowledge-intensive services. The cluster will have impact on professional education for IT profession offering opportunity for reskilling / upskilling for adults in the occupation which has recorded a high global demand and which can be performed from Montenegro for the foreign market. This will have impact on employment increase and poverty reduction. Strong focus will be placed on involving women in education and training programmes so as to reduce the existing gender gap in this profession.

Expected impact on the environment: Measure includes establishment of the Innovation Fund whose role is to ensure a stronger implementation of S3 strategy which consolidates economic and sustainable development. Green and digital transition are increasingly referred to as “twin” transitions. Activities within the scope of the measure substantially contribute to digital transition and are expected to have positive impact on the environment as well .

Potential risks

Risk	Probability (low or high)	Planned mitigation action
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Insufficient commitment of state authorities to the work on legislative reform, due to daily workload	High	Ensuring donor support for additional staff Commitment of the management to this activity
Public finance crisis which jeopardises development section of the budget	High	Strong focus on the absorption from EU funds which will be at disposal for the Green Agenda for the Western Balkans.
Insufficient capacities of enterprises for investing in operation of the cluster, due to the current crisis	Low	Business plan of the cluster should generate savings and new sources of revenue for the members; Capacity building provided in 2021 from BESME-IPA project

5.3.5 Economic Integration Reforms

Description/analysis of main issues and obstacles to development of the area: According to the final data, Montenegro's total foreign trade in goods for the period January-December 2019 amounted to 3,016.2 million euro which is a 2.1 percent growth compared to the same period last year. The value of goods export was 415.5 million euro, while the value of import was 2,600.7 million euro. Compared to the same period last year, export was higher by 3.8 percent, while import was higher by 1.8 percent. The coverage of import by export was 16 percent and is higher compared to the same period last year, at which point it was 15.7 percent. The largest foreign trade partners in exports were: Serbia (107.9 million euro), Hungary (45.0 million euro) and Bosnia and Herzegovina (29.8 million euro). The largest foreign trade partners in imports were: Serbia (500.4 million euro), Germany (244.2 million euro) and China (221.9 million euro). Foreign trade in goods was the most extensive with CEFTA signatories and with the European Union.

Montenegro generated a surplus in foreign trade in services in 2019 in the amount of one billion euro, which is a 8.9 percent increase compared to the previous year. The generated surplus is the result of a more sizeable increase in revenues relative to the expenditures on this ground. This trend predominantly results from the increase of revenues generated from other business services, transport services and travel and tourism services. The expenditures for telecommunication, computing and IT services were also reduced significantly in the observed period. Total volume of trade in services in 2019 was 2.4 billion euro, which is a 8.5 percent increase compared to the previous year. Total revenue generated from services amounted to 1.7 billion euro which is a 8.6 percent increase compared to the previous year. The highest revenues were generated in travel and tourism (1.1 billion euro), transport (352.8 million euro), other business services (111.1 million euro) and telecommunication, computing and IT services (56.3 million euro).

As for trade in goods, trade facilitations constitute one of the key elements for strengthening economic integration, at the regional level and beyond. According to the World Bank Doing Business report, Montenegro's cross-border trade in goods takes significantly more time and incurs significantly higher costs compared to the EU average in member states and in the countries of CEFTA region. When it comes to the ease of cross-border trade, Montenegro is ranked 41st in the 2020 World Bank Doing Business report. The Trade Facilitation Strategy 2018-2022, accompanied by a detailed plan for its implementation, was adopted in order to simplify, harmonise and reduce time and costs of procedures in the cross-border trade. This made it possible to consolidate all the obligations set out in the WTO Trade Facilitation Agreement and CEFTA Additional Protocol 5, as well as the obligations arising from accession of Montenegro to the EU which are related to trade facilitations. Implementation of trade facilitation measures set out in the Strategy will lead to elimination of administrative inefficiencies and bottlenecks in cross-border trade which is expected to have an indirect positive impact on export growth and direct impact on boosting economic competitiveness. In addition to the Trade Facilitation Strategy, the trade facilitation measures are

closely linked to and will have impact on the implementation of measures set out in the Integrated Border Management Strategy and Business Strategy of the Customs Administration.

As far as trade in services is concerned, CEFTA Additional Protocol 6 on Trade in Services (AP 6) will aim to develop and expand cooperation so as to achieve progressive liberalisation and mutual opening of the services market, in the context of European integration, while taking into account relevant provisions of the General Agreement on Trade in Services (GATS) and commitments undertaken by parties - WTO members under GATS. It constitutes a framework for further development and improvement of trade and economic cooperation and is directly linked to elimination of the existing restrictions and simplifications of administrative procedures. CEFTA parties adopted AP 6 on 18 December 2019. Serbia, Albania, North Macedonia and Bosnia and Herzegovina finalised ratification procedures and entry into force is expected in 1st quarter 2021. Adoption of the Regional Disciplines on Domestic Regulation in accordance with the WTO rules constitutes a framework which, amongst other things, sets out that in cases where permit for the performance of activities is needed the documentation may be submitted electronically, and that authenticated documents are also accepted in accordance with domestic legislation. Moreover, for the purpose of transparency, every CEFTA party should designate a contact point for services. Expanding SEED+ to the trade in services would contribute to the exchange of information between competent authorities of CEFTA parties, while during revision of the obligations arising from AP 6 aimed at further liberalisation of the trade in services, account would be taken of the assessment of the degree of restriction of the measures affecting trade in services by applying methodologies established by the World Bank and OECD.

Priority reform measure 13: Implementation of measures to facilitate trade in goods and services in accordance with WTO obligations and CEFTA Additional Protocols 5 and 6

Description of measure: The Action Plan for Joint Regional Market 2021-2024 (hereinafter: AP JRM) adopted at the summit of the Western Balkans leaders in Sofia on 10 November 2020 recognises importance of trade facilitations and trade in services through components of the intersectoral measure, free movement of goods and services. Obligations arising from CEFTA AP 5 are recognised in the national Trade Facilitation Strategy which identifies measures requiring active engagement in order to improve transparency and access to information, harmonise and optimise formalities, documentation and duties, implement procedures for simplified and expedited goods clearance, improve cooperation, increase effectiveness of border controls and expand automatic processing and electronic exchange of data.

On the other hand, CEFTA AP 6 aims, amongst other things, to increase export of services from the territories of CEFTA parties; increase foreign direct investments by opening a large number of sectors of services; and to increase mobility of highly qualified labour force through the established categories of these persons and measures related to entry and temporary stay in the territories of CEFTA parties. It also constitutes a legal basis for mutual recognition of qualifications, intra-regional cooperation and establishment of dialogue in electronic trade.

In respect of trade facilitation, the measure is included in the Economic Reform Programme 2020-2022 and is a continuation of the activities initiated in 2019. Activities from 2020 were partly implemented due to certain delays of activities within SEED+. Implementation activities for the measure included development and implementation of IT applications for NCTS. Establishment of a functioning IT system at the Administration for Food Safety, Veterinary and Phytosanitary Affairs is basis for the involvement into SEED+. Limited administrative capacities and implementation of measures in the field of investment activities are the greatest challenge in employing the trade facilitation concept.

Period for implementation of the measure:

- a) **Activities planned in 2021:** AP 5 – Development and implementation of IT applications for NCTS at the national level. Establishment of a functioning IT system at the Administration for

Food Safety, Veterinary and Phytosanitary Affairs as the basis for the involvement into SEED+. AP 6 – Adoption of the Regional Disciplines on Domestic Regulation in accordance with the WTO rules.

- b) Activities planned in 2022:** AP 5 – Accession of Montenegro to the Convention on Common Transit and Convention on the simplification of formalities in trade in goods and use of NCTS at the international level. Connecting national border authorities within SEED+ and establishing electronic data exchange between them; AP 6 – Enabling electronic exchange of documents between regulatory bodies by expanding SEED+ to include trade in services
- c) Activities planned in 2023:** AP 6 - Revising obligations from AP 6 in order to further liberalise trade in services

Institution responsible for the implementation of measure: Ministry of Finance and Social Welfare/Ministry of Economic Development in cooperation with responsible departments (AP 5); Ministry of Economic Development in cooperation with responsible departments (AP 6)

Results indicators

Indicator	Baseline (2020)	Intermediate target (2021-2022)	Target (2023)
percent of customs declarations processed in NCTS	0 percent	0 - 100 percent	100 percent ⁴⁹
Shortening the time needed for goods clearance	Results of the 2020 Study on the time needed for goods clearance	Reduction by 10 percent	Reduction by additional 10 percent
Improvement of international exchange of services in CEFTA region	2019 Annual macroeconomic report of the Central Bank of Montenegro		
Increase in the number of e-licences	Register of licences	10 percent	15 percent

Expected impact of measure on competitiveness: Implementation of measures from AP 5 and AP 6 will have impact on reducing time for and costs of customs clearance, eliminating obstacles in the trade in services and thus on increasing competitiveness of the Montenegrin enterprises (particularly small and medium-sized ones) in international markets. It is also expected to have impact on improvement of the ranking of Montenegro in international research into cross-border trade.

Estimated costs of measure/activities and budgetary impact: Funds for implementation will be allocated in the budget of Montenegro – mainly as part of the performance of regular tasks by state authorities; these funds will also be provided from various projects and programmes of international donors, EU Instrument of Pre-accession Assistance and international sources. Execution of the measure also entails implementation of the Project for Establishing New Computerised Customs System, the budget of which in the amount of 3,300,000 euro was provided through IPA 2014, including national co-financing. Project implementation began in 2019. In respect of the trade in goods, the measure also includes activities in implementation of the SEED+ Inclusion Project, the budget of which at the regional CEFTA level for 6 CEFTA parties is 5,300,000 euro from EU sources. For that purpose, 792,500 euro have been allocated for 2021 for implementation of the reform measure mentioned above, of which 59,250 euro will be financed from the central budget, while the remaining funds, in the amount of 733,250 euro, will be provided from the EU sources. Implementation of the activities arising from CEFTA AP 6 will not have any budgetary impact, given

⁴⁹ This percentage reflects application of NCTS at the international level, within which all transit declarations will be submitted and processed electronically.

the regional nature of the activities arising from this Protocol and from AP JRM; assistance from international sources is expected.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Activities will have positive impact on further employment, and indirect impact on poverty reduction and respect for gender equality.

Expected impact on the environment: Measure will have positive impact on environment due to further digitalisation of customs clearance procedures, which reduces the need for traditional procedures conducted on paper.

Potential risks:

Risk	Probability (low or high)	Planned mitigation action
Delays in implementation of SEED+ project at CEFTA level	Medium	Active involvement in CEFTA structures so as to foster start of implementation of SEED+ project
Availability of technical-expert assistance for further training and administrative capacity building for implementation of measures	Medium	Explore different models of the provision of technical assistance, including participation in donor conferences and/or organising them etc; Organise training courses of employees who currently lack necessary knowledge and skills; Identify and carry out reassignment of employees;
Lack of administrative capacities at the competent organisational unit of the Ministry of Economic Development for implementation of the AP 6 and MAP REA	Medium	Hiring employees on a temporary basis

5.3.6. Education and Skills

Description/analysis of main issues and obstacles to development of the area: Quality and relevance of vocational education for the labour market largely depend on the quality of apprenticeship. For that reason, apprenticeship should be given particular attention. Apprenticeship accounts for up to 50 percent of the total annual number of lessons in the three-year educational programmes. Data show that in the past three years students have demonstrated greater interest than before in enrolling in the three-year educational programmes which directly lead to the labour market and facilitate faster employability. A total of 389 students enrolled in the first grade of the programmes mentioned above in the school year 2014/2015, 484 were enrolled in the school year 2015/2016, 566 in the school year 2016/2017, 727 in the school year 2017/2018, 1560 in the school year 2018/2019 and 1549 in the school year 2019/2020. A considerable number of students enrolled in four-year programmes continues education in higher education institutions. Even though EUROSTAT data show that youth unemployment for the age group 18-24 years is decreasing (35.9 percent in 2016; 31.7 percent in 2017; 29.4 in 2018), the share of young people in the unemployment structure is still substantial. There is a structural mismatch between supply and demand in the labour market, as demonstrated by data of the Employment Office of Montenegro. Employers also believe there is a mismatch between skills and knowledge which the students acquire in the educational system and those demanded in the labour market. Consequently, and facing the challenge regarding the need to improve labour force skills due to changes in labour market demand, and due to an increasing need for the use of new technologies and mismatch between demand and supply of skills which hinders economic development and new jobs creation, the concept of new apprenticeship at the employer's was introduced in the school year 2017/2018 (referred to as dual education). The Law on Vocational Education prescribes that funds for remunerations to students in dual education for the first and second grades are allocated in the budget, while remunerations to students of the third grade are paid by employers.

Priority reform measure 14: Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's

Description of measure: Pursuant to the Law on Vocational Education, funds for remunerations to the first and second grade students who receive apprenticeship at the employer's (dual education) are allocated in the budget, while remunerations to the third grade students are paid by the employer. Students receiving apprenticeship spend at the employer's one day in the first grade, two days in the second grade and three days in the third grade. Business community was involved in preparation of the legislation and it supported this arrangement. The campaign is conducted in cooperation with employers to promote vocational education, scarce skills and dual education as the form of work-based learning in real working environment which facilitates transition of young people to the labour market. Around 570 students received dual education in the school year 2018/2019, and around 800 students received it in the school year 2019/2020. The coordination body, formed on a partnership basis, monitors provision of dual education. Provision and results of dual education need to be monitored and evaluated in order to establish quality of apprenticeship at the employer's and reliable outcomes of dual education. Amongst other things, the analysis will show impact of COVID-19 on cooperation between schools and employers, role of digital technologies in the jobs for which students are educated and number of students who became employed after completing their education. Analysis and use of the evaluation results should enable improvement of the system and establishment of a quality and efficient apprenticeship in which students will acquire work-related skills and experience, learn by doing and acquire core competences, which facilitates entry of young people into the labour market, their career advancement and employment.

The measure is a continuation of the measure "Conducting Apprenticeship at the Employer's" which was fully implemented last year and is a response to the recommendation number 6 of the European Commission in respect of the need to establish mechanism for monitoring and evaluation of the provision and results of apprenticeship.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Development of the methodology for continuous monitoring and evaluation of the quality of provision of dual education in accordance with the European Framework for Quality and Effective Apprenticeships, 2018/C 153/01; Implementation of the professional orientation programmes for career teams in primary and secondary schools; Training teachers of apprenticeship, organisers of apprenticeship and instructors of apprenticeship; Carrying out research of the results of dual education in the school year 2020/2021; Preparation of the report on the results of dual education in accordance with Cedefop analytical framework, including interpretation of results and recommendations. ; The Ministry of Education Science, Culture and Sports, is responsible for implementation of the activities.
- b) **Activities planned in 2022:** Implementation of the professional orientation programmes for career teams in primary and secondary schools; Training teachers of apprenticeship, organisers of apprenticeship and instructors of apprenticeship; Carrying out research of the results of dual education in the school year 2021/2022; Preparation of the report on the results of dual education in accordance with Cedefop analytical framework, including interpretation of results and recommendations. The Ministry of Education, Science, Culture and Sports is responsible for implementation of the activities.
- c) **Activities planned in 2023:** Implementation of the professional orientation programmes for career teams in primary and secondary schools. Training teachers of apprenticeship, organisers of apprenticeship and instructors of apprenticeship. Carrying out research of the results of dual education in the school year 2022/2023. Preparation of the report on the

results of dual education in accordance with Cedefop analytical framework, including interpretation of results and recommendations.

The Ministry of Education, Science, Culture and Sports is responsible for implementation of the activities.

Results indicators

Results and performance indicators	Baseline (year)	Intermediate target (year)	Target (year)
Results indicator: Instructors of apprenticeship trained	50 (2020)	100 (2021)	200 (2022)
Organisers and teachers of apprenticeship trained	50 (2020)	150 (2021)	200 (2022)
Training on professional orientation organised for career orientation school teams in primary and secondary schools	Minimum 20 schools involved	Minimum 30 schools involved	Minimum 40 schools involved
Methodology of continuous monitoring and evaluation of the quality of provision of dual education developed			
Research into dual education results for the period 2018-2022 conducted			
Reports with analyses of dual education results and recommendations prepared			
Performance indicators: Percentage of students who became employed after completing dual education	35 percent (2021)	40 percent (2022)	45 percent (2023)

Impact on competitiveness: Dual education and work-based learning constitute a recognised approach to development of the competitive labour force. A necessary precondition for the apprenticeship to be relevant for the labour market is its compliance with quality assurance procedures in the provision of apprenticeship in both, school and dual forms. The quality of apprenticeship has direct impact on competitiveness.

Estimated costs of implementation of the structural measure and the planned sources of financing:

2021 - 5,000.00 euro from the budget, 4,000.00 euro IPA funds⁵⁰

2022 - 15,000.00 euro from the budget

2023 - 20,000.00 euro from the budget

The funds are intended for the training of staff on whose competencies the quality of practical education depends, as well as for the improvement of professional orientation in schools:

- 2021 - 9,000.00 euro (Budget 5,000.00 euro, IPA funds 4,000.00 euro). The funds are intended for the training of teachers, organizers and instructors of practical education and school teams for professional orientation - a total of about 250 people.
- 2022 - 15,000.00 euro (Budget). The funds are intended for the training of teachers, organizers and instructors of practical education and school teams for professional orientation - a total of about 400 people.

⁵⁰ Planned under current IPA Programme - Sectoral Operational Programme on Employment, Education and Social Policies 2015-2017 (SOPEES), Service contract "Development of Vocational Education Qualifications in Line with Labour Market Needs" CFCU/MNE/088, under Activity 2.2

- 2023 - 20,000.00 euro (Budget). The funds are intended for the training of teachers, organizers and instructors of practical education and school teams for professional orientation - a total of about 550 people.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Provision of apprenticeship at the employer's, in compliance with the system of quality at the overall education system level and school level, will enable easier transition of young people attending vocational schools to the labour market, while reducing the risk of unemployment of students graduating from vocational schools. Programmes are available to all students, regardless of gender.

Expected impact on the environment: There is no direct impact on the environment.

Potential risks

Risk	Probability (low or high)	Planned mitigation action
Insufficient interest of students to enrol in three-year programmes	Medium	Strengthening professional orientation activities in elementary school Promotional activities to raise awareness about dual education
Insufficient interest of employers to involve in dual education	High	Promotion of dual education by the Chamber of Commerce Intangible incentives for employers – state assuming the obligation to pay remunerations for the first two grades

Priority reform measure 15: Reform of study programmes for bachelor and master studies with strong focus on apprenticeship

Description: In the previous period, we have had a change of the model from classical four-year higher education to 3+1+1+3, and to 3+2+3 since the study year 2017/2018. These changes were aimed at harmonising with the Bologna declaration and European Higher Education Area and ensuring a better response to the labour market needs.

General tendency to reduce the number of the unemployed is a significant indicator, not only for higher education, but also for the labour market as a whole. This is particularly so because unemployment of university graduates has significantly dropped over a four-year period from 11,375 to 7,262, which certainly resulted from higher education reforms and better synergy with the economy.

The majority of the unemployed have VII1 educational sublevel and they account for between 57 and 64 percent (sublevel 180+60 ECTS, 240 ECTS, 300 ECTS and 360 ECTS credits); they are followed by the unemployed with the VI educational level who account for between 32 to 40 percent (bachelors 3 years 180 ECTS credits) and those with VII2 educational level account for between 3 to 4 percent (masters).

Despite these results, the analyses conducted with employers and data at disposal of the Ministry show that provision of apprenticeship and improvement of teaching and learning methods have been recognised as a challenge in the time to come. The 2017 Law on Higher Education introduced mandatory apprenticeship which accounts for minimum 25 percent per study programme, i.e. year.

The Proposal for the Higher Education Strategy 2020-2024 recognises apprenticeship as one of the challenges, along with curriculum reform and amendments to job descriptions which are needed in order to recognise new qualifications and further increase employability of those with bachelor degrees.

Teaching hours per se are not sufficient for full implementation of apprenticeship and for the creation of equal conditions, i.e. practical segment for all students, which is why it is necessary to conduct additional analyses and precisely define activities of institutions and teaching hours needed to provide apprenticeship.

Given the current situation with the global pandemic, strong focus in the coming period needs to be placed on strengthening IT skills of university graduates and on equipping institutions, even though that was recognised in the Higher Education Strategy (2016-2020), in order to enable quality continuity of teaching in this kind of situation as well. The Proposal for the new Strategy recognises improvement of teaching and learning methods as one of important activities that will contribute to a better synchronisation between education and labour market.

Period for the implementation of measure

In order to conduct reforms of certain study programmes and respond to the labour market needs and challenges posed by COVID-19 pandemic, the first thing to be done is performance of the analysis of study programmes and of the success achieved by the first generation educated with the new study model (3+2+3), while results of the Study of monitoring older generations (3+1+1+3) should be used as well.

Period: January 2021 - April 2022

Responsible authorities: Higher education institutions, Agency for Quality Control and Assurance of Higher Education (AQCAHE) and Ministry of Education, Science, Culture and Sports

After these analyses are complete, it is necessary to start developing standards and guidelines for accreditation of the study programmes, with strong focus on apprenticeship, assessment of the fulfilment of the minimum teaching hours, i.e. of the number of apprenticeship lessons. Accreditation of the reformed and new study programmes will be conducted in accordance with the new guidelines and standards.

Period: 2021

Responsible authority: Agency for Quality Control and Assurance of Higher Education (AQCAHE)

Besides apprenticeship, strong focus in the coming period should be placed on improvement of the teaching and learning methods related to digitalisation of the higher education, i.e. use of platforms and other models for online teaching which will not compromise continuity and quality of teaching.

Period: Continuous activity

Responsible authorities: Higher education institutions

Special role in the implementation of these activities will be played by employers who, besides participation in apprenticeship, should also recognise new qualifications through amendments to systematisations.

Period: January 2021- December 2022

Responsible authorities: Employers in public and private sectors

Estimated costs of the activities and the sources of financing: Cost of the implementation of activities in the first year will be determined within the budget of institutions, ie the Ministry of Education, Science, Culture and Sports and the Agency for Control and Quality Assurance of Higher Education. For the preparation of a study on the perception of employers on higher education, with special reference to the success of the generation according to the reformed study model, it is necessary to plan approximately 30,000 euro in the budget of the Ministry of Education, Science, Culture and Sports for 2022. For the development or amendment of existing guidelines and standards for the accreditation of study programs, it is necessary to provide approximately 5,000 euro in the budget of the Agency for Control and Quality Assurance of Higher Education. Activities related to the analysis of the study programs themselves are the responsibility of higher education institutions that are regularly conducted and are in line with the autonomy of the institution. No additional funds are needed to amend the acts on the internal organization and systematization of jobs with public and private sector employers, because this is a regular activity of employers. Activities related to further

improvement of digitalization, teaching methods, as well as support for better implementation of practical teaching, will be nominated for funding from the upcoming IPA programs.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Implementation of the proposed activities should, besides creation of higher quality and more competitive staff, also contribute to a better recognisability of bachelor and master qualifications, which will result in greater employability of those who acquired higher education. Moreover, changes to the teaching and learning methods, higher number of contracts on the provision of apprenticeship concluded with employers and introduction of digitalisation will improve work of the institutions and their recognisability in the labour market.

Results indicators

Results and performance indicators	Baseline (year)	Intermediate target (year)	Target (year)
Results indicator: Analysis of study programmes and of the success of first generation educated on the basis of the new model of studying (3+2+3) conducted	Start of activities (2020)		
Standards and guidelines for accreditation of study programmes adopted	Valid standards and guidelines	Standards and guidelines adopted (2021)	
Acts on internal organisation and job descriptions adopted	Number of institutions and companies which amended their systematisation acts (2020)	10 (2021)	20 (2022)
Performance indicator: Better perception of employers about higher education		Perceptions index for higher education 50	Perceptions index for higher education 70
Reduced number of unemployed university graduates according to the data of the Employment Office		by 5 percent	by 10 percent

5.3.7. Employment and Labour Markets

Analysis of main obstacles: The need to regulate further labour market is conditioned additionally by COVID-19 outbreak. The necessary health measures that were, and still are, applied have impacted functioning on the labour market. Many enterprises, particularly micro, small and medium-sized ones, have been affected by this crisis despite measures taken by the Government of Montenegro to resolve the newly emerged problems. This is, amongst other things, also evidenced by labour market indicators which, according to the Labour Market Survey for the 3rd quarter 2020, recorded a decline compared to the 1st and 2nd quarters of this year, and decline compared to the 3rd quarter 2019. Activity rate (15+) is 53.1 percent, employment rate is 43 percent and unemployment rate reached 19 percent.

Legal framework for the labour market, particularly in extraordinary conditions resulting mainly from the corona-virus, is not sufficiently regulated, nor adjusted to the newly emerged circumstances. This limitation of the legal basis in the Labour Law led to the initiative to regulate all the matters related to extraordinary circumstances and events in the new General Collective Agreement, to the extent which is legally possible. However, evidently not all issues to be debated in respect of this topic may be regulated under the General Collective Agreement; in that case, some provisions on extraordinary

circumstances and events will be prescribed in the amendments to the Labour Law or in a separate law.

On the other hand, interaction with the unemployed and implementation of active labour market policy measures during COVID-19 pandemic also stressed the need to urgently revise the model and method of operation of the Employment Office of Montenegro. This primarily refers to internal procedures for interacting with both, the unemployed and the employers. Services and measures provided are not sufficiently supported through the existing IT platform of the Office. Improvement of the work process and work flow and their better design are preconditions for an efficient digitalisation process. The use of IT platform, along with streamlined internal procedures, will lead to introducing automation of processes wherever that is feasible. This is a precondition for functioning of modern public employment services in the EU.

Report on implementation of the EC Recommendations of May 2020: In response to the recommendations and especially in context of last year measure no 16 Increasing participation in the labor market, especially of vulnerable groups of unemployed persons, active employment policy measures are continuously implemented. These measures have been reduced in the previous period due to the newly emerged situation (limited budgetary funds and health measures), as a result of which 1,349 unemployed persons have been included over the 2020. In the total number of participants in the program of active employment policy, women participate with 57.18 percent, young people with 49.39 percent, while the participation of long-term unemployed persons is 1.86 percent. Members of the RE population participate with 2 percent, and persons with disabilities with 6.79 percent.

In addition, measures and activities related to professional rehabilitation and employment of people with disabilities include 443 persons with disabilities, of whom 65.46 percent are women. Right to salary subsidy is exercised by 1141 employers for 2040 persons with disabilities (women – 1,122). A total of 920 people with disabilities are employed for a fixed term, whereas 1,120 people are employed for an indefinite period. The projects for awarding grants through the grant schemes included 420 persons with disabilities, of whom 140 will be employed also after finalisation of the project for at least 9 months.

Additional support to bringing the unemployed to the labour market is provided through financing under the Employment, Education and Social Policies Sectoral Operational Programme - SOPEES 2015-2017, IPA II, in which 8.7 million euro were allocated for various activities with the aim of increasing employability and creating new jobs.

Of that amount, 3.5 million euro were allocated to the support for self-employment. The first call for the award of grants for self-employment was published on 14 October 2019 and following this call 93 grant beneficiaries started their own businesses, of which 44 were signed with females, 27 with young people under 35, while 68 contracts were signed with long-term unemployed. The second call was published on 12 June 2020 and of the 216 projects proposed for funding, 136 are women, 106 young people under 35 and 127 long-term unemployed.

- Moreover, 1.6 million euro were allocated for support to training and employment of the unemployed with scarce occupations in Montenegro, as well as to strengthening employability of the unemployed Roma and Egyptians. In this call, the grants worth of 966,358.29 euro were awarded. Nine grant contracts were signed and their implementation started at the end of 2019 and at the beginning of 2020. Of these, four contracts cover training and education activities for scarce occupations, while the remaining 5 cover activities for increasing employability of Roma and Egyptians.

A part of the programme is support to employment in underdeveloped municipalities which will assist employers, small and medium-sized enterprises in the private sector to train and hire labour force in line with their specific needs. The call for the award of grants, total value of which is 2,758,823.53 euro, was officially published on 4 September 2020 and it lasted until 03 December 2020.

Around 470,000 euro was allocated for establishment of the local employment partnerships, the aim of which is capacity building of local actors.

Preparations are underway for adoption of the National Employment Strategy 2021-2024, as a strategic framework for establishing a stronger and more comprehensive context for addressing structural challenges in the labour market. Initial consultation process is finished. First draft of the document is being prepared.

Priority reform measure 16: Improvement of labour legislation by introducing new work schemes

Description of measure: Implementation of the new Labour Law, which entered into force on 7 January 2020, led to the conclusion that functioning of the labour market needed to be improved further by introducing new work schemes, which is even more necessary during COVID-19 outbreak.

Therefore, incorporation of the new work schemes into provisions of the General Collective Agreement will be considered, which will be the result of negotiations between the Government and the social partners, and which applies to all employees in Montenegro, both public and private sector. Legal arrangements that cannot be subject of the General Collective Agreement will be further considered and incorporated either into amendments to the Labour Law or into a separate law which will, should it be adopted, regulate extraordinary circumstances and unforeseeable events.

The implementation of the measure will be ensured through the revision of certain norms of the Labor Law, which refer to the institute of interruption of work without the fault of the employee, certain types of paid leave, as well as the regulation of working hours, the so-called. work from home.

The intention is to further regulate the above through the new General Collective Agreement, otherwise solution is to enact a special law, which will more comprehensively regulate labour relations during the pandemic caused by the outbreak of the COVID virus 19.

The measure is also a response to the conclusion reached at the Ministerial Council in which Montenegro was invited to take measures to preserve jobs, and to provide short-term work schemes and flexible work arrangements. Implementation of this measure will additionally contribute to achievement of the sustainable development goal COR 8 – Decent work and economic growth, while it will also empower social dialogue in the country.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Work on and implementation of the new General Collective Agreement and its implementation, Government of Montenegro, Employers' Federation of Montenegro, Union of Free Trade Unions of Montenegro and Trade Union Confederation of Montenegro;
- b) **Activities planned in 2022:** Further improvement of regulations in the field of labour legislation, Government of Montenegro, Montenegrin Employers' Federation, Union of Free Trade Unions of Montenegro and Trade Union Confederation of Montenegro, NGO;
- c) **Activities planned in 2023:** Monitoring implementation of regulations in the field of labour legislation, Ministry of Economic Development, Administration for Inspection Affairs through Labour Inspection

Results indicators

Indicator	2021	2022	2023
General Collective Agreement adopted	Preparation and adoption	Implementation	Implementation
Separate law adopted or the existing Labour Law amended	-	Adoption	Implementation

Impact on competitiveness: Introduction of short-term work schemes will safeguard jobs and enable survival of businesses in the labour market during extraordinary circumstances and unforeseeable events. In doing so, favourable environment will be created for both, employers who run the risk of abolishing a working position and employees who run the risk of becoming jobless.

Estimated costs of implementation of the structural measure and the planned sources of financing: The implementation of this measure in the next three years will not require additional costs that would be financed from the budget of Montenegro.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Creation of more favourable conditions for employers and employees in order to eliminate problems resulting from extraordinary circumstances, with strong focus on pandemics, will create conditions for safeguarding and creating new jobs for employees and for continuation of the operations of businesses in the labour market.

Expected impact on the environment: We cannot give assessment of the impact of measure on the environment.

Potential risks

Risk	Probability	Planned mitigation action
Despite the measures taken, layoffs still might happen as a result of poor business results	Medium	Further improvement of business environment in line with newly emerged circumstances
Termination of operations of a number of businesses	Medium	Further improvement of business environment in line with newly emerged circumstances
Measure implemented in accordance with the established time schedule, in particular, there is a possibility of non-adoption of the General Collective Agreement within the legal deadline	Medium	Continuation of negotiations between the Government and social partners

Priority reform measure 17: Operational capacity building at the Employment Office for the performance of services and measures through digitalisation

Description of measure: The aim of the measure is identification and revision of internal and external procedures of the Employment Office of Montenegro whose improvement will increase efficiency in the provision of inclusive services to all beneficiaries. The identified procedures will be translated to algorithms and available via IT platform. Digitalisation of procedures will also enable better monitoring and evaluation of the activities implemented by the Office on the basis of the new, reformed legal framework. At the same time, special emphasis is placed on the design of active labor market measures, including training for their evaluation. This is also a step towards a modern and efficient public employment service. The reform will enable the Institute to focus its activities to a greater extent on direct individualized work with clients, leaving advisors more time to devote themselves in a quality manner to particularly vulnerable and difficult to employ categories of persons.

These activities are closely linked to the future EU intervention in supporting upgrade of the information system of the Employment Office of Montenegro, through the action document IPA 2020 "Strengthened capacities of the Employment Office of Montenegro for application of active labour market measures, future participation at the ESF and facilitation of labour force mobility". Finally, implementation of the activities mentioned above will contribute to the fulfilment of closing benchmarks for the negotiating chapter 2 and negotiating chapter 19.

Period for the implementation of measure:

- a) **Activities planned in 2021:** Preparation of technical report which contains solutions for establishment of IT base; innovated internal and external procedures; held trainings for the

application of new procedures with special emphasis on monitoring and evaluation, as well as designing a new active employment policy measure for the vulnerable category of unemployed persons;

b) Activities planned in 2022 – Report validation, fine-tuning, adoption; This will be done by the International Labour Organization on behalf of the Ministry of Economic Development and Employment Office of Montenegro.

c) Activities planned in 2023 – Implementation – establishment of IT platform.

Results indicators

Indicator	2021	2022	2023
Technical report with recommendations on automation and technical specifications for IT platform (software and hardware) of the Employment Office prepared	Preparation	Presentation and validation	Implementation
Innovated internal and external procedures; trainings were held for the application of new procedures with special emphasis on monitoring and evaluation, as well as the design of a new APL measure for the vulnerable category of unemployed persons	Preparation and implementation	Implementation	Implementation

Impact of measure on competitiveness: Improvement of efficiency of the provision of services to the unemployed should enable greater inclusion and employability of the unemployed and their faster transition to work environment. In parallel, additional dynamics and fluctuation in the labour market should enable faster and more efficient cooperation with employers in order to meet the needs for labour force. Timely and efficient supply of the necessary labour force has impact on operations and competitiveness of enterprises.

Estimated costs of the activities and the sources of financing: The costs of this measure through the direct grant modality amount to EUR 399,000, of which part of the funds is provided through the European Integration Facility, and part from the budget of the International Labor Organization (ILO). In addition, this measure includes activities from the project "Mitigation of the effects of COVID 19 crisis on the world of work in Montenegro" which will be implemented by the ILO, with the total financial support of the Fund for Good Governance of the United Kingdom Government in the amount of 386,470.00 euro. 186,970.00 euro realized.

-2021 - funds in the amount of 147,000 euro will be provided from IPA funds, while the amount of 52,500 euro will be provided by the ILO; Additionally, funds in the amount of 199,500.00 euro will be provided behind the Good Governance Fund.

-2022 - funds in the amount of 147,000.00 euro will be provided from IPA funds, while the amount of 52,500.00 euro will be provided by the ILO. So, a total of 199,500.00 euro during 2022.

- 2023 - no additional costs.

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: This measure should ultimately contribute to unemployment decrease and indirectly to poverty reduction, and thus to the increase in equality and cohesion. All activities within this measure underwent gender markers and indicators.

Expected impact on the environment: Measure has impact on the environment in terms of lower pollution, since future digitalisation processes reduce depletion of natural resources.

Potential risks

Risk	Probability	Planned mitigation action
Limited capacities of institutions for implementation of the new approach in work	Medium	Proper planning and fine-tuning of activities
Connecting with bases of other institutions difficult	Medium	Timely preparation and inter-institutional cooperation and networking
Measure not implemented in line with the established time schedule	Low	Extension of deadline for implementation of the measure

5.3.8 Social Protection and Inclusion, including Health Care

Description/analysis of main issues and obstacles to development of the area: Improvements to the social and child care are made in framework of the projects “Continuation of Reform of the Social Care System” and “Capacity Building for the Provision of Social Care Service in Montenegro”, in accordance with the 2013 Law on Social and Child Care, its amendments from 2015, 2016 and 2017 and strategic documents. In the coming period, a functioning and financially sustainable social and child care system will be established in accordance with the documents mentioned above and planned legislative amendments in the area of social and child care. It is worth noting that around 75 million euro are allocated per year for social and child care entitlements, of which 56 percent or around 42 million euro are allocated for entitlements for which financial standing of the individual and of the family is not taken into account.

In order to improve services, the Ministry of Labour and Social Welfare⁵¹ has so far issued 55 licences for the performance of social and childcare activities. Focus is placed on the development of the services ensuring care for the elderly and persons with disabilities.

In order to improve care for the elderly, 13 day-care centres have been set up for adults and elderly with disabilities. Public Institution “Komanski most” in Podgorica provides accommodation service to persons with intellectual disabilities and autistic spectrum disorders. Accommodation service for adults with disabilities and the elderly is provided at the Public Institution: Senior Citizens’ Home “Grabovac” in Risan, Public Institution: Senior Citizens’ Home “Bijelo Polje” in Bijelo Polje and Public Institution: Senior Citizens’ Home “Pljevlja” in Pljevlja. Two private senior citizens’ homes have also been established. In the previous period, work has been done to increase accommodation capacity for the elderly in Montenegro and for that purpose the public institutions for accommodation of adults with disabilities and the elderly were established in Podgorica and Nikšić at the end of 2020. In pursuit of the general objective of continuation of reform of the social care system, the aim of which is to improve social inclusion of vulnerable groups in line with their needs and international and EU standards, the Ministry of Labour and Social Welfare also organises the service that includes home assistance which is funded by the Ministry of Labour and Social Welfare through an open call; since February 2020, this service has been provided by the Red Cross of Montenegro. The service is used by 1150 beneficiaries, and 119 female assistants have been hired to perform it.

⁵¹ The Decree on Organisation and Manner of Work of the State Administration was adopted at the Government session on December 7, 2020. Regarding that, the names of the relevant ministries in the priority reform measures related to the previous period have not been changed.

In the coming three-year period, priority will be given to reforming disability determination system, without which it would not be possible to finalise social care system reform, nor would its further development be possible. In parallel, analysis will be performed so as to improve legal provisions on social care, primarily in respect of a fairer distribution of financial benefits so that they are received by people who are the most socially disadvantaged, particularly in current economic crisis. This must be accompanied by digitalisation, i.e. further development of the information system (e-Social Card) in order to apply new legal provisions in practice, calculate financial benefits and entitlements in a timely fashion, and monitor and analyse expenditures and social indicators.

Cooperation between the Employment Office and social welfare centres is successful and is based on the Agreement on the Process of Social Activation of Able-bodied Beneficiaries of Financial Assistance which focuses on social activation of the beneficiaries of family financial assistance (MOP).

The Ministry of Labour and Social Welfare⁵² implemented three sets of Government measures in a timely fashion so as to provide support to the socially disadvantaged citizens and thus reduce negative effects of coronavirus pandemic. A new functionality (software solution) for the social card (ISSS) has been put in place for extraordinary calculation and payment of financial benefits, through which benefits were extraordinarily calculated twice and cheques were prepared for the payment of one-off cash benefits for 8,538 most vulnerable families with 28,953 members.

Ensuring a functioning, stable and sustainable health care system and available, timely and quality health care, particularly during crises (such as, for instance, COVID-19 pandemic) poses a huge social, organisational and consequently economic challenge for any country. Considering a large presence of chronic non-communicable diseases and main demographic features of the country (characterised by the tendency of progressive aging of the population, declining birth rate, fertility rate and population growth, rising mortality rate) the coronavirus pandemic makes Montenegro particularly sensitive (vulnerable). Access to health care in the conditions of extreme crises such as epidemiological crisis becomes far more complex, particularly for members of risk groups. Lack of access to the basic health care services due to disruptions in their provision may have dramatic negative consequences for the patients infected with COVID-19. Moreover, impossibility of accessing important services of preventive health care (for instance, screening programmes for malignant diseases) might result in further increase of morbidity and mortality rates in the future.

Therefore, the use of telemedicine as an innovative approach to the provision of health care services ensures their better availability, greater comfort of patients and lower risk of COVID-19 infection.

Priority reform measure 18: Building and functioning of senior citizens' homes

Description of measure: The reform measure envisages improvement of care for the elderly by increasing the number of accommodation capacities. The past period has seen an increase in the number of applications for institutional accommodation of the elderly, with the existing capacities not being able to respond to such demands and not being appropriate for different categories of beneficiaries, distributed by regions and local communities.

The reform measure is aligned with the Strategy for Development of Social Care System for the Elderly 2018-2022, National Strategy of Sustainable Development (NSSD) by 2030 and Regional Development Strategy 2014-2020. It is in line with Recommendation No. 6 of the EC from the Ministerial Dialogue from 2020, which refers to the obligation of Montenegro to take measures to preserve employment, provide appropriate support and social assistance to those at risk of poverty and social exclusion.

Period for the implementation of measure:

⁵² The Decree on Organisation and Manner of Work of the State Administration was adopted at the Government session on December 7, 2020. Regarding that, the names of the relevant ministries in the priority reform measures related to the previous period have not been changed.

a) Activities planned in 2020: acts were adopted on establishing two senior citizens' homes, namely Public Institution: Home for Accommodation of Persons with Disabilities and the Elderly "Podgorica" in Podgorica and Public Institution: Home for Accommodation of Persons with Disabilities and the Elderly "Nikšić" in Nikšić; management bodies have been elected and recruitment of the new staff is also planned.

b) Activities planned in 2021: institutions licensing is planned, along with admission of beneficiaries and accordingly the increase in the number of staff.

- The plan for 2021, 2022 and 2023 is to expand the scope of the provision of services and to increase the number of staff relative to the increase of the number of beneficiaries; therefore, in addition to the accommodation services, the acts on establishment also set out development of the following services: support to community-based life; provision of advisory-therapeutic and social-educational services and provision of professional support and delivery of appropriate training to the providers of family accommodation service. These services need to be licensed, each one individually.

Estimated costs of implementation of the structural measure and the planned sources of financing:

- Construction of the Public Institution: Home for Accommodation of Persons with Disabilities and the Elderly "Podgorica" is the project of the Government of Montenegro and Directorate of Public Works.

- According to the principal contract, the contracted value of works totals 9,116,380.19 euro. The facility is expected to be completed in the 1st quarter 2021. Institution capacity is 270 beneficiaries and 200 staff members.

- Funds for the start of operation and salaries of 30 staff members have been allocated in the state budget.

- Public Institution: Home for Accommodation of Persons with Disabilities and the Elderly "Nikšić" is constructed in two phases. The first phase includes reconstruction of two facilities and one ancillary facility and funds were provided under the Regional Housing Programme in the amount of 2,317,274.70 euro; construction completion deadline is 31 January 2021.

- The second phase will include reconstruction of two facilities and development of the yard, for which 2,000,000.00 euro were provided; construction completion deadline is 30 March 2021.

- Accommodation capacity is 220 places, and maximum number of staff members is 139. Funds for the start of operation and salaries of 30 staff members have been allocated in the state budget, while the remaining staff members will be employed depending on dynamics of filling up accommodation capacities of the home.

Funds to cover the costs of beneficiaries' accommodation at the institution are provided in accordance with provisions of the Law on Social and Child Care which prescribes that based on the established criteria the beneficiary pays for the costs either in full or partially, and where the beneficiary is not able to pay for accommodation costs these will be covered from the budgetary funds allocated for social and child care.

Since activities of the two homes are performed continuously and since dynamics depends on COVID-19 pandemic and available funding, at this point it is not possible to precisely plan funds for the service mentioned above for 2021, 2022 and 2023 which are needed to finance staff recruitment and their salaries, material expenditures for operation on the institution, costs of accommodation service provided to the beneficiaries and development of other services specified in the act on establishment. Beneficiaries submit applications for the use of services mentioned above and these are not received ex officio, which is why at this point it is not possible to give any precise data on their interest, given the current pandemic situation.

- The plan is to introduce Information System (e-Social Card) immediately upon the start of operation of both institutions, i.e. upon admission of first beneficiaries of the accommodation, in order to connect these two new institutions to the social care system - namely to the social welfare centres, other public institutions offering accommodation and Ministry of Labour and Social Welfare.

Expected impact of measure on competitiveness: Implementation of the measure will have a positive impact on the labour market in terms of increasing the number of staff who will provide accommodation service at the institution.

Expected social outcome of the measure: Implementation of the measure will have positive impact on the care for persons with disabilities and care for the elderly, poverty reduction and socialisation, as well on employment increase.

Potential risks in implementation of the measure: Real risks in implementation of the measure may include reduced pace of implementation due to COVID-19 pandemic in respect of both, completion of works within the set deadline and financing appropriate number of staff.

Priority reform measure 19: Reform of the national disability determination system

The aim of the reform is to set up a single body for disability determination (Institute) and establish uniform national criteria (based on social model) for disability determination.

Description of measure: This is a complex reforming venture which includes five departments (social care, employment, pension and disability and veterans care and education), and without its implementation the reform of the social care system cannot be complete. The use of various entitlements by about 50,000 citizens and their families directly depends on the disability determination system.

Upon establishment of the new system, these persons will exercise their rights in a fairer and easier manner, while this is also the way to cope with potential misuses of social and other benefits and services. The reform should lead to suspension of around 30 existing commissions and establishment of a single body (Institute) which would provide expertise based on a new, uniform, national methodology for all departments. Commissions are currently operating on the basis of six laws and 27 pieces of secondary legislation, with a huge number of staff and external associates.

New definition of disability was adopted following adoption of the UN Convention on the Rights of Persons with Disabilities (2009). Under the Convention, persons with disabilities include those who have long-term physical, mental, intellectual or sensory impairments which, in interaction with various barriers, may hinder their full and effective participation in society on an equal basis with others.

After trial run of the new system, the plan is to prepare financial budget impact analyses and to redesign categorical social benefits; the new system makes this possible.

Institution responsible for the implementation of measure: Ministry of Labour and Social Welfare, in cooperation with the Ministry of Health and Ministry of Education, Science, Culture and Sports.

The Ministry of Labour and Social Welfare appointed an inter-departmental working group, comprised of the representatives of the Ministry of Labour and Social Welfare, Ministry of Health, Ministry of Education, Science, Culture and Sports, Employment Office of Montenegro, Pension and Disability Insurance Fund and two representatives of the organisations of persons with disabilities; the working group is responsible for overseeing the entire process and for providing support to it within its competences.

Once the new system is in place, it is up to the Government to decide whether to pass decision on the revision of entitlements of the existing beneficiaries (around 50,000 of them) or to process only new applications.

So far, the project has been well accepted by the NGO movement of persons with disabilities, as well as by the EU and several UN agencies which will monitor and support this reform.

Period for the implementation of measure:

- a) **Activities planned in 2020 (October) – 2021** Analysis, amendments to the existing legislative framework and adoption of the new Law on the Single Body and Uniform Methodology for

Disability Expertise (for all departments) and repealing the existing provisions, i.e. rulebooks. Revising the Single List of Impairments – by which all the existing lists are repealed. Development of the new uniform methodology/criteria based on the remaining functionalities, with involvement of the Institute of Public Health. The new system enables performance of expert evaluation of the remaining capability/functionality of the person for performance of the activities of daily living (hygiene maintenance, food preparation, grocery shopping, care for health etc.), as well as for work (related to the Professional Rehabilitation Fund).

- b) Activities planned in 2022:** Abolition of all the existing commissions (around 30 of them) and establishment of the Single Body for Disability Determination (possibly with one regional office) which issues finding and opinion by using new methodology, i.e. carries out expert evaluation for all departments in the country. The Government of Montenegro is to provide work premises and compensation of salaries of staff of the single body (Institute), while funds for staff training, adaptation and equipping of premises for operation of the central body have been provided through a project. Trial run the new system, upgrade on the basis of trial run findings.
- c) Activities planned in 2023:** Technical and IT training for the purpose of building staff capacities. Development of the Information System, which will be connected to the e-Social Card and e-Health Card (possibly with the Information System of the Ministry of Education, Science, Culture and Sports (MEIS) and Information System of the Pension and Disability Fund and of the Employment Office of Montenegro). This system will also generate national e-Registry of persons with disabilities.

Estimated costs of the activities and the sources of financing: Funds for the implementation of the project, in the amount of one million euro for three years, were provided by the Delegation of the European Union (DEU) in Montenegro, which concluded a direct agreement with UNDP, which is in charge of operational implementation. The project started on 1 October 2020 and will last until 01.10.2023.

Premises for work with accompanying costs and salaries of employees and employees in the Bureau of Expertise, as well as fees for the costs of the second instance procedure must be provided from the budget, while the project provided funds for all other key activities.

Until the work on the analysis and simulations is completed, it is not possible to give an estimate of the costs of this measure, i.e. the analysis, among other things, aims to assess the impact on public finances. Funds for the analysis were provided by UNDP, i.e. UNICEF, which is working in parallel on the issue of additional analysis, which, in addition to social, also has a focus on child protection. The presentation of both findings of the analysis is expected at the end of this or the beginning of next year.

Expected impact on social outcomes: fairer distribution of categorical social benefits and of the exercise of all other entitlements in all departments, on the basis of disability.

Expected impact on the environment: Measure has no impact on the environment.

Priority reform measure 20: Use of telemedicine services in Montenegro through establishment of the information system for telemedicine and development of mHealth

Goal of the measure: Ensure continuity in the provision of health care services and their equal availability to all the patients in need of health care

Description of measure: Strategic documents of Montenegro in health sector (e.g. Strategy for the Development of Integrated Health Information System and e-Health) sets out introduction of telemedicine services in certain activities in the health sector (cardiology, radiology, emergency medical aid, pathology etc.) as one of the priorities, the aim of which is to ensure safe and efficient

data exchange so as to increase availability and improve quality of health care, in line with the relevant documents of the European Union. Despite being included in strategic frameworks as one of the priorities in further development of the health care system, the use of telemedicine requires many preconditions to be met in order for it to be acceptable from the standpoint of the health care system of a country. Telemedicine was recognised as one of the ways of providing health care services in Montenegro only in 2020, through amendments to the Law on Health Care (Official Gazette of Montenegro 82/2020). In this way, legal basis was created for telemedicine to be further regulated, organisationally recognised and standardised in processes. Although telemedicine has been present globally for a long time, it is COVID-19 pandemic that served as a catalyst for its regulation and more frequent use in Montenegro. In the current global crisis, that resulted from COVID-19 outbreak, the possibility of providing remote medical care to the patients has become increasingly important in extraordinary health conditions, particularly for vulnerable (risky) population groups whose exposure to the additional health risks needs to be minimised. Moreover, telemedicine services would be particularly important in certain parts of Montenegro where fast and efficient provision of health care is limited due to the lack of staff, lack of equipment, terrain configuration etc.

Three pilot telemedicine centres have so far been set up in Montenegro, namely in general hospitals in Bar, Berane and Pljevlja, together with the central unit at the Clinical Centre of Montenegro. Also, continuous implementation of activities under the project "Strengthening health care system in Montenegro (phase 2)", implemented in partnership between the Ministry of Health and UNDP, creates even more favourable environment for further development of telemedicine in Montenegro.

Period for implementation of the measure:

a) Activities planned in 2021

Activity title	Activity implementer
Comprehensive analysis of current condition and necessary preconditions, together with recommendations for further implementation and development of telemedicine in health care institutions in Montenegro	Ministry of Health - MH
Establishment of regulatory framework which regulates in more detail the conditions, organisation and method of performance of health care services by using telemedicine	MH; Clinical Centre of Montenegro - CCM; Health insurance Fund - HIF
Adoption of programme documents and regulation of the services of telemedicine and mobile health care (mHealth) in health care provision (e.g. tele--diagnostics, tele-surveillance of patients, emergency medical aid, e-learning etc.)	MH; HIF

b) Activities planned in 2022

Activity title	Activity implementer
Development of protocols and procedures for optimal use of telemedicine	MH; CCM
Development of terms of reference	MH; CCM
Preparation and launch of tender procedure for the procurement of specialised radiological software tools	MH
Preparation and launch of tender for the procurement of necessary hardware	MH; CCM
Preparation and launch of tender for the procurement of necessary ICT equipment	MH; CCM; hospitals

Preparation and launch of tender for adaptation and reconstruction of the health care facilities in which hardware equipment will be placed	MH; CCM; hospitals
Medical staff training	CCM; hospitals

c) Activities planned in 2023

Activity title	Activity implementer
Review of the established system	MH
Preparation of pilot project	MH; HIF; Health Care Centre in Podgorica
Preparation and launch of tender for the procurement of hardware for one health care centre	MH; Health Care Centre in Podgorica
Signing contract with reference medical centres in the region for the purpose of exchanging digital medical data	MH
Connecting Integrated Health Information System with information system of the reference medical centre in the region for the purpose of exchanging digital medical data	MH; CCM; HIF

Results indicators

Results and performance indicators	Baseline 2021	Intermediate target 2022	Target 2023
<p>Results indicator:</p> <p>Regulatory framework adopted</p> <p>Preparation of project documentation</p> <p>Medical and non-medical staff trained</p> <p>Upgrade to hardware and software infrastructure</p>	<p>Secondary legislation adopted</p> <p>Comprehensive analysis of the current condition</p> <p>Minimum 20 people</p>	<p>Necessary protocols and procedures adopted</p> <p>Terms of reference prepared and start of project implementation</p> <p>Minimum 50 people</p> <p>Procurement of specialised radiological software tools; expansion of the system in three general hospitals to include other radiological equipment (currently only CT devices are networked);</p> <p>establishment of the platform for connecting the remaining 6 hospitals;</p> <p>procurement of appropriate hardware;</p> <p>ensuring necessary licences for medical workers; integration with the existing Integrated Health Information System;</p>	<p>Signing contract with regional and EU medical centres on data exchange</p> <p>Project implementation and its review</p> <p>150 people</p> <p>Establishment of the platform for connecting health care centres; provision of appropriate hardware for one health care centre (pilot project)</p>
Performance indicator:	50 checks	100 checks	200 checks

Number of provided health care services via telemedicine			
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Impact on competitiveness: Implementation of the measure and use of telemedicine has impact on improving availability, timeliness and quality of health care, which improves quality of life and creates conditions for social growth and development, thus impacting economic competitiveness. The use of innovative information and communication technologies in the provision of health care services stimulates transfer of knowledge, innovation and technologies and development of private sector, while opening up room for possible public-private partnership.

Development of a quality, reliable and comprehensive telemedicine system may contribute significantly to the “economic component” of the health care system – health tourism. This system would enable a reliable and fast exchange of medical data between regions and beyond, which creates additional certainty and trust among patients and beneficiaries of health tourism.

Estimated costs of implementation of the structural measure and the planned sources of financing:

2021 - 20.000,00 euro from the budget

2022 - 1.000.000,00 euro from the budget

2023 - 100.000,00 euro from the budget

Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Healthy nation is a precondition for development of any country. Timely and quality health care has impact on labour force productivity and quality of life. Fostering private sector development and opening up opportunities for public-private partnership will create preconditions for new jobs, improvement of standard and thus for poverty reduction. Telemedicine services enable provision of health care beyond spatial and time boundaries, and oftentimes beyond social and cultural barriers as well.

Expected impact on the environment: “Information travels” in the use of telemedicine services, instead of people, which has impact on reducing the need to use transport services, leading to lower emissions of exhaust gases.

Potential risks

Risk	Probability (low or high)	Planned mitigation action
Lack of interest among medical staff in using telemedicine	Low	Promotion of importance and benefits of the use of telemedicine services Training medical staff on how to use the service
Lack of motivation among medical staff in using telemedicine	High	Establishment of the system for promotion and motivation of medical staff
Beneficiaries/patients not informed	High	Promotions, campaigns etc. Connecting health care system to the competent institutions so as to raise digital literacy level

Medium term tables – fiscal framework

GDP (in million euros)	4193.2		4636.6		4984.6		5310.5	
Central Budget of Montenegro	Preliminary 2020		2021		2022		2023	
	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP
Direct revenues	1639.3	39.1	1880.2	40.6	1918.9	38.5	2018.6	38.0
Taxes	966.1	23.0	1105.1	23.8	1189.6	23.9	1249.5	23.5
Personal income tax	118.3	2.8	155.0	3.3	170.9	3.4	176.1	3.3
Corporate profit tax	78.4	1.9	60.0	1.3	62.2	1.2	65.7	1.2
Tax on immovable property transactions	1.5	0.0	1.6	0.0	1.6	0.0	1.7	0.0
Value added tax	529.8	12.6	611.8	13.2	651.4	13.1	687.6	12.9
Excise tax	205.4	4.9	241.0	5.2	266.2	5.3	279.0	5.3
Tax on international trade and transactions	22.6	0.5	24.8	0.5	26.1	0.5	27.9	0.5
Other government revenues	10.0	0.2	10.9	0.2	11.2	0.2	11.6	0.2
Contributions	531.0	12.7	581.8	12.5	610.3	12.2	637.4	12.0
Contributions for pension and disability insurance	330.8	7.9	362.0	7.8	380.6	7.6	397.5	7.5
Contributions for health insurance	171.6	4.1	187.4	4.0	196.4	3.9	205.1	3.9
Contributions for unemployment insurance	15.4	0.4	17.5	0.4	17.7	0.4	18.5	0.3
Other contributions	13.2	0.3	14.9	0.3	15.6	0.3	16.3	0.3
Duties	10.6	0.3	12.8	0.3	13.9	0.3	15.0	0.3
Fees	27.8	0.7	40.5	0.9	37.3	0.7	38.5	0.7
Other revenues	36.7	0.9	65.8	1.4	31.3	0.6	32.1	0.6
Receipts from repayment of loans	9.3	0.2	9.2	0.2	9.2	0.2	9.2	0.2
Donations	57.7	1.4	64.9	1.4	27.4	0.5	36.8	0.7
Expenditures	2064.6	49.2	2019.3	43.6	1937.1	38.9	1951.1	36.7
Current budgetary spending	1886.4	45.0	1815.8	39.2	1844.0	37.0	1859.9	35.0
Current expenditures	909.6	21.7	893.4	19.3	964.5	19.4	967.4	18.2
Gross wages and contributions charged to employer	499.1	11.9	523.2	11.3	537.5	10.8	544.5	10.3
Other personal earnings	12.9	0.3	12.3	0.3	13.0	0.3	13.1	0.2
Expenditures for material and services	107.4	2.6	80.5	1.7	113.0	2.3	105.1	2.0
Current maintenance	24.4	0.6	23.3	0.5	28.8	0.6	28.6	0.5
Interest	111.0	2.6	113.1	2.4	113.2	2.3	113.1	2.1
Rent	11.4	0.3	10.8	0.2	13.3	0.3	13.4	0.3
Subsidy	36.3	0.9	49.8	1.1	53.6	1.1	53.8	1.0
Other expenditures	40.5	1.0	41.0	0.9	44.8	0.9	45.0	0.8
Capital expenditures in current budget	66.7	1.6	39.4	0.8	47.4	1.0	50.8	1.0
Social protection transfers	558.7	13.3	574.3	12.4	587.3	11.8	597.7	11.3
Social protection-related entitlements	80.5	1.9	83.4	1.8	81.5	1.6	81.5	1.5
Funds for technological redundancies	20.1	0.5	18.6	0.4	19.1	0.4	19.1	0.4
Pension and disability insurance-related entitlements	428.1	10.2	445.5	9.6	455.4	9.1	465.4	8.8
Other health protection-related entitlements	20.2	0.5	15.3	0.3	19.3	0.4	19.3	0.4
Other health insurance-related entitlements	9.8	0.2	11.5	0.2	12.0	0.2	12.4	0.2
Transfers to institutions, individuals, non-government and public sectors	281.3	6.7	257.2	5.5	261.0	5.2	263.6	5.0
Capital budget	178.2	4.3	203.5	4.4	93.1	1.9	91.2	1.7
Borrowings and credits	1.6	0.0	1.6	0.0	1.6	0.0	1.6	0.0
Reserves	116.4	2.8	75.1	1.6	15.0	0.3	15.0	0.3
Repayment of guarantees	0.0	0.0	3.9	0.1	0.0	0.0	0.0	0.0
Repayment of liabilities from the previous period	18.8	0.4	10.4	0.2	14.6	0.3	14.6	0.3
Surplus/deficit	-425.3	-10.14	-139.1	-3.0	-18.2	-0.4	67.4	1.3
Primary deficit	-314.3	-7.5	-26.0	-0.6	95.0	1.9	180.6	3.4
Debt repayment	665.8	15.9	435.9	9.4	282.8	5.7	240.8	4.5
Debt repayment to residents	244.2	5.8	85.9	1.9	39.9	0.8	36.5	0.7
Debt repayment to non-residents	421.7	10.1	350.0	7.5	242.9	4.9	204.3	3.8
Expenditures for acquisition of securities	0.9	0.0	0.6	0.0	0.6	0.0	0.6	0.0
Shortfall	-1092.1	-26.0	-575.6	-12.4	-301.5	-6.0	-173.9	-3.3
Financing	1092.1	26.0	575.6	12.4	301.5	6.0	173.9	3.3
Borrowings and credits	1353.3	32.3	165.0	3.6	40.0	0.8	90.0	1.7
Borrowings and credits from domestic sources	167.5	4.0	0.0	0.0	0.0	0.0	50.0	0.9
Borrowings and credits from foreign sources	1185.7	28.3	165.0	3.6	40.0	0.8	40.0	0.8
Proceeds from sale of property	8.5	0.2	6.0	0.1	6.0	0.1	6.0	0.1
Increase/decrease of deposits	-269.7	-6.4	404.6	8.7	255.5	5.1	77.9	1.5

GDP (in million euros)	4193.2		4636.6		4984.6		5310.5	
Local government	Preliminary 2020		2021		2022		2023	
	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP
Direct revenues	230.15	5.49	243.47	5.25	248.69	4.99	251.88	4.74
Taxes	162.2	3.87	161.5	3.48	167.9	3.37	170.7	3.21
Personal income tax	49.68	1.18	55.44	1.20	58.99	1.18	59.93	1.13
Tax on immovable property transactions	13.97	0.33	16.79	0.36	17.42	0.35	18.01	0.34
Local taxes	98.53	2.35	89.25	1.92	91.45	1.83	92.76	1.75
Duties	2.72	0.06	4.30	0.09	4.39	0.09	4.48	0.08
Fees	46.70	1.11	54.14	1.17	55.00	1.10	55.00	1.04
Other revenues	10.89	0.26	13.04	0.28	13.43	0.27	13.70	0.26
Receipts from repayment of loans	0.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Donations	7.51	0.18	10.50	0.23	8.00	0.16	8.00	0.15
Expenditures	268.61	6.41	236.62	5.10	239.44	4.80	241.21	4.54
Current spending of local government	183.5	4.38	181.6	3.92	184.4	3.70	186.2	3.51
Current expenditures	86.31	2.06	82.93	1.79	84.51	1.70	85.54	1.61
Gross wages and contributions charged to employer	49.69	1.19	51.18	1.10	52.20	1.05	52.72	0.99
Other personal earnings	4.32	0.10	4.24	0.09	4.32	0.09	4.41	0.08
Expenditures for material and services	14.63	0.35	13.14	0.28	13.40	0.27	13.60	0.26
Current maintenance	6.32	0.15	4.23	0.09	4.29	0.09	4.36	0.08
Interest	2.54	0.06	3.74	0.08	3.79	0.08	3.85	0.07
Rent	0.63	0.02	0.63	0.01	0.64	0.01	0.65	0.01
Subsidy	1.83	0.04	1.31	0.03	1.33	0.03	1.35	0.03
Other expenditures	6.36	0.15	4.46	0.10	4.52	0.09	4.59	0.09
Social protection transfers	0.48	0.01	0.88	0.02	0.89	0.02	0.91	0.02
Transfers to institutions, individuals, non-government and public sectors	53.32	1.27	51.36	1.11	52.39	1.05	52.91	1.00
Capital budget	85.08	2.03	55.00	1.19	55.00	1.10	55.00	1.04
Borrowings and credits	2.90	0.07	3.00	0.06	3.09	0.06	3.18	0.06
Repayment of outstanding liabilities from the previous period	37.99	0.91	40.00	0.86	40.00	0.80	40.00	0.75
Reserves	2.5	0.06	3.5	0.07	3.6	0.07	3.7	0.07
Repayment of guarantees	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Net increase of liabilities	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Surplus/deficit	-38.45	-0.92	6.85	0.15	9.25	0.19	10.67	0.20
Adjusted surplus /deficit	-38.45	-0.92	6.85	0.15	9.25	0.19	10.67	0.20
Primary deficit	-35.92	-0.86	10.58	0.23	13.04	0.26	14.52	0.27
Debt repayment	12.91	0.31	19.00	0.41	19.00	0.38	19.00	0.36
Debt repayment to residents	10.0	0.24	14.0	0.30	14.0	0.28	14.0	0.26
Debt repayment to non-residents	3.0	0.07	5.0	0.11	5.0	0.10	5.0	0.09
Expenditures for acquisition of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shortfall	-51.37	-1.23	-12.15	-0.26	-9.75	-0.20	-8.33	-0.16
Financing	51.37	1.23	12.15	0.26	9.75	0.20	8.33	0.16
Borrowings and credits from domestic sources	8.5	0.20	8.0	0.17	8.0	0.16	8.0	0.15
Borrowings and credits from foreign sources	7.9	0.19	4.0	0.09	4.0	0.08	4.0	0.08
Proceeds from privatisation and from sale of property	11.73	0.28	7.00	0.15	7.00	0.14	7.00	0.13
Use of local government deposits	16.24	0.39	-15.85	-0.34	-18.25	-0.37	-19.67	-0.37
Transfers from the budget of Montenegro	6.9	0.17	9.0	0.19	9.0	0.18	9.0	0.17

GDP (in million euros)	4193.2		4636.6		4984.6		5310.5	
Public spending	Preliminary 2020		2021		2022		2023	
	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP	million euros	% of GDP
Direct revenues	1869.43	44.6	2123.67	45.8	2167.62	43.5	2270.44	42.8
Taxes	1128.28	26.9	1266.57	27.3	1357.45	27.2	1420.18	26.7
Personal income tax	168.02	4.0	210.40	4.5	229.87	4.6	236.02	4.4
Corporate profit tax	78.43	1.9	60.02	1.3	62.24	1.2	65.75	1.2
Tax on immovable property transactions	15.51	0.4	18.40	0.4	19.05	0.4	19.68	0.4
Value added tax	529.78	12.6	611.81	13.2	651.36	13.1	687.56	12.9
Excise tax	205.39	4.9	240.97	5.2	266.19	5.3	278.97	5.3
Tax on international trade and transactions	22.64	0.5	24.78	0.5	26.11	0.5	27.88	0.5
Local taxes	98.53	2.3	89.25	1.9	91.45	1.8	92.76	1.7
Other government taxes	9.98	0.2	10.94	0.2	11.18	0.2	11.56	0.2
Contributions	531.02	12.7	581.84	12.5	610.34	12.2	637.41	12.0
Contributions for pension and disability insurance	330.81	7.9	362.03	7.8	380.57	7.6	397.54	7.5
Contributions for health insurance	171.56	4.1	187.40	4.0	196.41	3.9	205.07	3.9
Contributions for unemployment insurance	15.42	0.4	17.50	0.4	17.74	0.4	18.47	0.3
Other contributions	13.23	0.3	14.91	0.3	15.62	0.3	16.32	0.3
Duties	13.36	0.3	17.08	0.4	18.30	0.4	19.50	0.4
Fees	74.52	1.8	94.68	2.0	92.26	1.9	93.53	1.8
Other revenues	47.57	1.1	78.87	1.7	44.69	0.9	45.84	0.9
Receipts from repayment of loans	9.48	0.2	9.23	0.2	9.23	0.2	9.23	0.2
Donations	65.20	1.6	75.40	1.6	35.35	0.7	44.75	0.8
Public spending	2333.23	55.6	2255.91	48.7	2176.54	43.7	2192.33	41.3
Current public spending	2069.91	49.4	1997.45	43.1	2028.47	40.7	2046.15	38.5
Current expenditures	995.96	23.8	976.37	21.1	1049.05	21.0	1052.96	19.8
Gross wages and contributions charged to employer	548.84	13.1	574.40	12.4	589.70	11.8	597.22	11.2
Other personal earnings	17.20	0.4	16.57	0.4	17.37	0.3	17.48	0.3
Expenditures for material and services	122.00	2.9	93.61	2.0	126.39	2.5	118.71	2.2
Current maintenance	30.68	0.7	27.57	0.6	33.05	0.7	32.99	0.6
Interest	113.57	2.7	116.81	2.5	116.95	2.3	117.00	2.2
Rent	12.00	0.3	11.48	0.2	13.95	0.3	14.01	0.3
Subsidy	38.15	0.9	51.08	1.1	54.97	1.1	55.15	1.0
Other expenditures	46.81	1.1	45.49	1.0	49.30	1.0	49.64	0.9
Capital expenditures in current budget	66.70	1.6	39.36	0.8	47.38	1.0	50.77	1.0
Social protection transfers	559.16	13.3	575.13	12.4	588.19	11.8	598.62	11.3
Transfers to institutions. individuals. non-government and public sectors	334.58	8.0	308.58	6.7	313.35	6.3	316.51	6.0
Capital budget	263.32	6.3	258.46	5.6	148.07	3.0	146.17	2.8
Capital budget of Montenegro	178.24	4.3	203.46	4.4	93.07	1.9	91.17	1.7
Capital budget of local government	85.08	2.0	55.00	1.2	55.00	1.1	55.00	1.0
Borrowings and credits	4.51	0.1	4.55	0.1	4.69	0.1	4.78	0.1
Reserves	118.94	2.8	78.53	1.7	18.56	0.4	18.67	0.4
Repayment of guarantees	0.00	0.0	3.86	0.1	0.02	0.0	0.02	0.0
Net increase of liabilities	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Repayment of liabilities from the previous period	56.77	1.4	50.43	1.1	54.60	1.1	54.59	1.0
Surplus/deficit	-463.79	-11.1	-132.24	-2.9	-8.92	-0.2	78.11	1.5
Adjusted surplus /deficit	-463.79	-11.1	-132.24	-2.9	-8.92	-0.2	78.11	1.5
Primary deficit	-350.22	-8.4	-15.43	-0.3	108.03	2.2	195.11	3.7
Debt repayment	678.76	16.2	454.91	9.8	301.76	6.1	259.77	4.9
Debt repayment to residents	254.15	6.1	99.89	2.2	53.90	1.1	50.49	1.0
Debt repayment to non-residents	424.61	10.1	355.02	7.7	247.86	5.0	209.28	3.9
Repayment of liabilities from the previous period	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Expenditures for acquisition of securities	0.94	0.00	0.59	0.00	0.59	0.00	0.59	0.00
Shortfall	-1143.49	-27.3	-587.74	-12.7	-311.27	-6.2	-182.25	-3.4
Financing	1143.49	27.3	587.74	12.7	311.27	6.2	182.25	3.4
Borrowings and credits	1369.74	32.7	177.00	3.8	52.00	1.0	102.00	1.9
Borrowings and credits from domestic sources	176.06	4.2	8.00	0.2	8.00	0.2	58.00	1.1
Borrowings and credits from foreign sources	1193.68	28.5	169.00	3.6	44.00	0.9	44.00	0.8
Proceeds from privatisation and from sale of property	20.28	0.5	13.00	0.3	13.00	0.3	13.00	0.2
Transfers from the budget of Montenegro	6.93	0.2	9.00	0.2	9.00	0.2	9.00	0.2
Use of government deposits	-253.46	-6.0	388.74	8.4	237.27	4.8	58.25	1.1

Table 10a: Estimate of additional costs of structural reform measures

Priority reform measure No 1: Financial support to the households enabling them to adopt energy efficiency measures and generate electricity for their own needs					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	500.000,00 €	0	500.000,00 €
2022	0	0	500.000,00 €	0	500.000,00 €
2023	0	0	500.000,00 €	0	500.000,00 €
Priority reform measure No 2: Supporting investments in the food manufacturing sector with the aim of boosting competitiveness⁵³					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	19.700.000,00	0	19.700.000,00
2022	0	0	9.700.000,00	0	9.700.000,00
2023	0	0	9.600.000,00	0	9.600.000,00
Priority reform measure No 3: Stimulating investments in manufacturing sector with the aim of boosting competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers ⁵⁴	Capital expenditure	Total
2021	0	0	1.600.000,00	0	1.600.000,00
2022	0	0	1.600.000,00	0	1.600.000,00
2023	0	0	1.600.000,00	0	1.600.000,00
Priority reform measure No 4: Sustainable tourism in the new reality					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	100.000,00	400.000,00	0	500.000,00
2022	0	100.000,00	450.000,00	0	550.000,00
2023	0	100.000,00	500.000,00	0	600.000,00
Priority reform measure No 5: Boosting competitiveness of MSMEs and access to the new markets					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	1.075.207,00	3.430.000,00	0	4.505.207,00
2022	0	810.407,00	3.430.000,00	0	4.240.407,00
2023	0	110.407,00	3.430.000,00	0	3.540.407,00
Priority reform measure No 6: Improving and implementing the measures for suppression of informal economy					

⁵³ For the implementation of this measure, co-financing is required from the private sector (agricultural entities) in the amount of € 9,000.00.00.

⁵⁴ The realization of the activities of the second component implies lending by IRFCG, within the credit arrangement in the amount of € 1 million per year, in the period 2021-2023.

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	20.600,00	100.000,00	0	0	120.600,00
2022	20.600,00	100.000,00	0	0	120.600,00
2023	20.600,00	100.000,00	0	0	120.600,00
Priority reform measure No 7: Suppressing the informal economy by reforming the Revenue Administration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	345.000,00	0	9.550.000,00	9.895.000,00
2022	0	280.000,00	0	4.700.000,00	4.980.000,00
2023	0	5.000,00	0	900.000,00	905.000,00
Priority reform measure No 8: Establishing the register of charges					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	5.000,00	0	0	5.000,00
2022	0	1.300,00	0	0	1.300,00
2023	0	1.300,00	0	0	1.300,00
Priority reform measure No 9: Implementation of the electronic public procurement system (EPPS)					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	10.500,00	40.000,00	0	300.000,00	350.500,00
2022	21.000,00	40.000,00	0	0	61.000,00
2023	31.500,00	40.000,00	0	0	71.500,00
Priority reform measure No 10: Improvement of legislative-regulatory framework and further development of infrastructure for broadband internet connection					
Year	Salaries	Goods and services	Subsidies and transfers ⁵⁵	Capital expenditure	Total
2021	0	292.000,00	0	0	292.000,00
2022	0	0	0	0	0
2023	0	0	0	0	0
Priority reform measure No 11: Improvement of the programme framework for implementation of the Smart Specialisation Strategy of Montenegro					
Year	Salaries ⁵⁶	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	400.000,00	0	400.000,00

⁵⁵ The planned amount of financing in the form of approved IDF loans under the COSME Guarantee Fund for 2020 is € 9,000,000, for 2021 it is € 11,000,000, and for 2022 it is € 14,000,000, from national public funding sources.

⁵⁶ Earnings of new employees and goods and services are included in the next measure because the implementation of part of the funds will go through the Innovation Fund

2022	0	0	5,350,000.00	0	5,350,000.00
2023	0	0	3,300,000.00	0	3,300,000.00
Priority reform measure No 12: Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors					
Year	Salaries	Goods and services	Subsidies and transfers⁵⁷	Capital expenditure	Total
2021	70,000.00	523,700.00	300,000.00	5,000,000.00	5,893,700.00
2022	300,000.00	300,000.00	300,000.00	3,000,000.00	3,900,000.00
2023	300,000.00	300,000.00	300,000.00	0	900,000.00
Priority reform measure No 13: Implementation of measures to facilitate trade in goods and services in accordance with WTO obligations and CEFTA Additional Protocols 5 and 6					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	1.852.745,00	0	0	1.852.745,00
2022	0	455.000,00	0	0	455.000,00
2023	0	0	0	0	0
Priority reform measure No 14: Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	9.000,00	0	0	9.000,00
2022	0	15.000,00	0	0	15.000,00
2023	0	20.000,00	0	0	20.000,00
Priority reform measure No 15: Reform of study programmes for bachelor and master studies with strong focus on apprenticeship					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	5.000,00	0	0	5.000,00
2022	0	30.000,00	0	0	30.000,00
2023	0	0	X ⁵⁸	0	0
Priority reform measure No 16: Improvement of labour legislation by introducing new work schemes					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	0	0	0
2022	0	0	0	0	0
2023	0	0	0	0	0
Priority reform measure No 17: Operational capacity building at the Employment Office for the performance of services and measures through digitalisation					

⁵⁷ Part of this cost is included in the previous measure, because part of the funds will be implemented through the Fund and part through the Ministry

⁵⁸ If proposals and approved funds for the improvement of practical training had accepted through IPA III, it would imply certain transfers to institutions and employers for the implementation of practical training (which is recognized as a continuous activity through this reform measure).

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	399.000,00	0	0	399.000,00
2022	0	199.500,00	0	0	199.500,00
2023	0	0	0	0	0
Priority reform measure No 18: Building and functioning of senior citizens' homes					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	22.800,00	0	0	0	22.800,00
2022	424.560,00	0	0	0	424.560,00
2023	279.360,00	0	0	0	279.360,00
Priority reform measure No 19: Reform of the national disability determination system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	214.334,00	0	0	214.334,00
2022	0	341.752,00	0	0	341.752,00
2023	0	443.914,00	0	0	443.914,00 ⁵⁹
Priority reform measure No 20: Use of telemedicine services in Montenegro through establishment of the information system for telemedicine and development of mHealth					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	20.000,00	5.000,00	0	0	25.000,00
2022	20.000,00	300.000,00	0	700.000,00	1.020.000,00
2023	20.000,00	20.000,00	0	80.000,00	120.000,00

⁵⁹ Preliminary amount. A more precise presentation of additional budgetary sources of financing will be based on the financial analysis which development is planned for 2022.

Table 10b: Financing of structural reform measures

<i>Priority reform measure No 1: Financial support to the households enabling them to adopt energy efficiency measures and generate electricity for their own needs</i>								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	500.000,00 €	0	0	0	0	0	0	500.000,00 €
2022	500.000,00 €	0	0	0	0	0	0	500.000,00 €
2023	500.000,00 €	0	0	0	0	0	0	500.000,00 €
<i>Priority reform measure No 2: Supporting investments in the food manufacturing sector with the aim of boosting competitiveness⁶⁰</i>								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	2.700.000,00	0	10.000.000,00	7.000.000,00	0	0	0	19.700.000,00
2022	2.700.000,00	0	0	7.000.000,00	0	0	0	9.700.000,00
2023	2.600.000,00	0	0	7.000.000,00	0	0	0	9.600.000,00
<i>Priority reform measure No 3: Stimulating investments in manufacturing sector with the aim of boosting competitiveness</i>								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	1.600.000,00	0	0	0	0	0	0	1.600.000,00
2022	1.600.000,00	0	0	0	0	0	0	1.600.000,00
2023	1.600.000,00	0	0	0	0	0	0	1.600.000,00
<i>Priority reform measure No 4: Sustainable tourism in the new reality</i>								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	500.000,00	0	0	0	0	0	0	500.000,00
2022	550.000,00	0	0	0	0	0	0	550.000,00
2023	600.000,00	0	0	0	0	0	0	600.000,00

⁶⁰ For the implementation of this measure, co-financing is required from the private sector (agricultural entities) in the amount of € 9,000.00.00.

Priority reform measure No 5: Boosting competitiveness of MSMEs and access to the new markets								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	3.510.407,00	0	0	994.800,00	0	0	0	4.505.207,00
2022	3.540.407,00	0	0	700.000,00	0	0	0	4.240.407,00
2023	3.540.407,00	0	0	0	0	0	0	3.540.407,00
Priority reform measure No 6: Improving and implementing the measures for suppression of informal economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	120.600,00	0	0	0	0	0	0	120.600,00
2022	120.600,00	0	0	0	0	0	0	120.600,00
2023	120.600,00	0	0	0	0	0	0	120.600,00
Priority reform measure No 7: Suppressing the informal economy by reforming the Revenue Administration								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	0	9.895.000,00	0	0	9.895.000,00
2022	0	0	0	0	4.980.000,00	0	0	4.980.000,00
2023	0	0	0	0	905.000,00	0	0	905.000,00
Priority reform measure No 8: Establishing the register of charges								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	0	5.000,00	0	0	5.000,00
2022	1.300,00	0	0	0	0	0	0	1.300,00
2023	1.300,00	0	0	0	0	0	0	1.300,00
Priority reform measure No 9: Implementation of the electronic public procurement system (EPPS)								

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	50.500,00	0	0	300.000,00	0	0	0	350.500,00
2022	61.000,00	0	0	0	0	0	0	61.000,00
2023	71.500,00	0	0	0	0	0	0	71.500,00
Priority reform measure No 10: Improvement of legislative-regulatory framework and further development of infrastructure for broadband internet connection								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	0	292.000,00	0	0	292.000,00
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
Priority reform measure No 11: Improvement of the programme framework for implementation of the Smart Specialisation Strategy of Montenegro								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	400,000.00	0	0	0	0	0		400,000.00
2022	3,450,000.00	0	0	1,900,000.00	0	0	0,00	5,350,000.00
2023	3,300,000.00	0	0	0,00	0	0	0,00	3,300,000.00
Priority reform measure No 12: Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	5,520,000.00	0	0	290,000.00	83,700.00	0	0	5,893,700.00
2022	3,900,000.00	0	0	0,00	0	0	0	3,900,000.00
2023	900,000.00	0	0	0	0	0	-	900,000.00
Priority reform measure No 13: Implementation of measures to facilitate trade in goods and services in accordance with WTO obligations and CEFTA Additional Protocols 5 and 6								

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	163.019,00	0	0		1.689.726,00	0	0	1.852.745,00
2022	23.500,00	0	0	0	431.500,00	0	0	455.000,00
2023	0	0	0	0	0	0	0	0
Priority reform measure No 14: Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	5.000,00	0	0	4.000,00	0	0	0	9.000,00
2022	15.000,00	0	0	0	0	0	0	15.000,00
2023	20.000,00	0	0	0	0	0	0	20.000,00
Priority reform measure No 15: Reform of study programmes for bachelor and master studies with strong focus on apprenticeship								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	5.000,00	0	0	0	0	0	0	5.000,00
2022	30.000,00	0	0	0	0	0	0	30.000,00
2023	0	0	0	X ⁶¹	0	0	0	
Priority reform measure No 16: Improvement of labour legislation by introducing new work schemes								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0

⁶¹ An amount needs to be determined. Same comment as in Table 10a

Priority reform measure No 17: Operational capacity building at the Employment Office for the performance of services and measures through digitalisation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	147.000,00	252.000,00	0	0	399.000,00
2022	0	0	0	147.000,00	52.500,00	0	0	199.500,00
2023	0	0	0	0	0	0	0	0
Priority reform measure No 18: Building and functioning of senior citizens' homes								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	22.800,00	0	0	0	0	0	0	22.800,00
2022	424.560,00	0	0	0	0	0	0	424.560,00
2023	279.360,00	0	0	0	0	0	0	279.360,00
Priority reform measure No 19: Reform of the national disability determination system								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	214.334,00	0	0	0	214.334,00
2022	0	0	0	341.752,00	0	0	0	341.752,00
2023	0	0	0	443.914,00	0	0	0	443.914,00 ⁶²
Priority reform measure No 20: Use of telemedicine services in Montenegro through establishment of the information system for telemedicine and development of mHealth								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	20.000,00	0	0	0	0	0	5.000,00	25.000,00
2022	1.000.000,00	0	0	0	0	0	20.000,00	1.020.000,00
2023	100.000,00	0	0	0	0	0	20.000,00	120.000,00

⁶² Preliminary amount. A more precise presentation of additional budgetary sources of financing will be based on the financial analysis which development is planned for 2022.

Table 11⁶³: Reporting on the implementation of the structural reform measures of the ERP 2020-2022⁶⁴

Priority reform measure No 1: Enhancement of ownership and managerial structure of electric power companies with state-dominant ownership		Stage of reform implementation (1-5)
Activities planned for 2020	Finalisation of analysis of ownership and managerial structure of electric power companies with state-dominant ownership and selection of optimal ownership and managerial models; start of implementation of the selected models in the companies concerned.	3
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> – Negotiations were held on concluding a contract on joint partnership between the <i>Berza električne energije DOO</i> Podgorica (Electricity exchange LLC) – BELEN and the Norwegian company Nord Pool; – Certain activities were carried out to prepare the terms of reference for preparing analysis of ownership and managements structure of EPCG (<i>Electric Power Company of Montenegro</i>); – Implementation of planned activities was made difficult due to the crisis caused by the COVID-19 virus. 	

Priority reform measure No 2: Enhancement of inter-city scheduled passenger transport in road traffic		Stage of reform implementation (1-5)
Activities planned for 2020	Preparation of the Study on improvement of the intercity regular passenger transport in road traffic and administrative capacity building of the Ministry of Transport and Maritime Affairs – Road Traffic Directorate (professional training).	5
Description of implementation and explanation if partial or no implementation	<p>The first step in improving the intercity transport is preparation of the Study on improvement of the intercity scheduled passenger transport in road traffic. The drafting of the Study has started in September 2019 with the deadline for preparation of the Study is 12 months. The drafting of the above-mentioned Study is proceeding in accordance with the planned schedule. The following activities were completed in the previous period: Inception meeting was held, the Inception Report was delivered, as well as Interim Report for Q1, which are integral part of drafting of the Study as documents prepared of the contractor for drafting of the Study. These reports have provided an overview of state of affairs in the road intercity transport in Montenegro, by analysing the sector and capacities developed in the road passenger transport. Furthermore, it is important also to emphasize the research of the regulatory framework addressing the approach to the passenger transport market. Finalisation of the Study on reform of the intercity scheduled passenger transport in road traffic was planned for September 2020, as well as continuation of administrative capacity building of the Ministry of Transport and Maritime Affairs - Road Traffic Directorate (holding of trainings and professional education.).</p> <p>The Study was developed; Final report was submitted on 30 December 2020.</p>	

Priority reform measure No 3: Support to technological modernisation of the manufacturing industry		Stage of reform implementation (1-5)
Activities planned for 2020	1. Continuous implementation of the Programme Line for modernisation of the manufacturing industry, aimed at modernising production processes, developing new products and services through procurement of new or used manufacturing equipment - Ministry of Economy/IDF of Montenegro;	4
	2. Implementation of a pilot project of financial assistance to implement energy efficiency measures in manufacturing industry sector - Ministry of Economy.	2

⁶³ Bearing in mind that the Table 11 represents reporting on annual level for 2020, and the Decree on Organisation and Manner of Work of the State Administration was adopted on the session of the Government held on 7 December 2020, name of competent ministries for priority reform measures from the Economic Reform Programme 2020-2022 were not changed.

⁶⁴ Stages of reform implementation: 0 = no implementation; 1 = implementation is being prepared; 2 = initial steps have been taken; 3 = implementation ongoing with some initial results; 4 = implementation is advanced; 5 = full implementation. The Commission will not accept any tables reporting on the implementation of entity-level measures.

Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. After successful implementation of the Programme for Improving Competitiveness of the Real Sector for 2019, under which is implemented the Programme Line for modernisation of the manufacturing industry, a supplemented and improved Programme for Improving Competitiveness of the Real Sector for 2020 was prepared, as part of the development package of economic measures for support to the real sector adopted by the Government of Montenegro at the end of July of the current year. On 1 August 2020, the public call for participating in the process for awarding funds from the Programme for Improving Competitiveness of the Real Sector for 2020 was launched, and was open until 5 December. The Programme Line for modernisation of the manufacturing industry, as an important segment of this Programme, is further improved and adjusted to the needs of the present times. Eight applications were received for the Programme Line for modernisation at the launched Public Call, where only one company, operating in the sector of machine metal processing, complied with all stipulated requirements, with total value of equipment to be procured of 93,106 euro, while the value of grant funds of 30 percent amounts to 27,931 euro. 2. During the observed period, the activities under the IPA 2014 Project <i>Enhancement of Business Environment and Competitiveness of the Private Sector in Montenegro (BESME)</i> were implemented in the segment of improving energy efficiency in the manufacturing industry sector. The preparatory activities were carried out to assess potential for energy efficiency improvements in the manufacturing industry sector, which included mapping of manufacturing industry sector companies, visit to companies, data collection and preparation of the analysis of potential for implementation of energy efficiency measures in selected companies; data processing was completed and proposal of activities for implementation for individual companies was prepared. Furthermore, the report covering 12 companies in the manufacturing industry sector was received, which was used as basis for preparation of the <i>Brief on activities related to implementation of measures for improving the energy efficiency in the manufacturing industry sector</i>, which was adopted by the Government of Montenegro on the session held on 2 July 2020, in accordance with the Work Programme of the Government. Due to the COVID-19 pandemic, the activities envisaged for preparation of proposal of the programme for implementation of the energy efficiency improvement measures in the manufacturing industry sector were not implemented in line with the plan. The request for extension of the project for the subject component was rejected, thus a model for continuation of project activities will be needed to define in the next period, in particular in the segment of establishing an energy management system (EMS), where according to the analysis it was established that there is significant room and potential for improvement of energy efficiency in the observed companies. 	

Priority reform measure No 4: Support to investments in food manufacturing sector with the aim of boosting competitiveness	Stage of reform implementation (1-5)
Activities planned for 2020	<ol style="list-style-type: none"> 1. Support to investments in the sector of manufacture of food products, aimed at reaching the EU standards 2. Diversification of economic activities
Description of implementation and explanation if partial or no implementation	<p>During 2020, a public call was launched for <i>Investments in physical capital of agricultural holdings</i> as well as a public call for <i>Investments in physical capital related to processing and marketing of agricultural and fisheries products</i>.</p> <p>An extensive information campaign for the Second public call for <i>Investments in physical capital of agricultural holdings</i> was carried out. The deadline for applications for support was extended by 90 days, due to the pandemic, in order to provide sufficient time to prospective beneficiaries to prepare required documentation under the new conditions.</p> <p>Implementation of current and previously launched public calls under the IPARD II Programme continues, but with somewhat slower pace, given that the COVID-19 epidemic has partly slowed down processes.</p> <p>The measure <i>Diversification of economic activities on agricultural holdings</i> was accredited and the administrative preparations are underway in order to create conditions for launching a public call, which would also enable specific implementation of the Component II of this Priority Reform Measure.</p>

Priority reform measure No 5: Diversification of tourism product		Stage of reform implementation (1-5)
Activities planned for 2020	1. Development of green accommodation capacities	3
	2. Mountaineering and Biking	4
	3. Panoramic Routes	4
	4. Programme of Incentives in Tourism Sector	4
	5. All Miracles of Montenegro	0
Description of implementation and explanation if partial or no implementation	Implementation of the measure <i>All Miracles of Montenegro</i> was postponed for 2021.	

Priority reform measure No 6: Implementation of new regulatory framework for public procurement and public-private partnership policy		Stage of reform implementation (1-5)
Activities planned for 2020	1. Implementation of the new legislative framework for public procurement and public-private partnership;	5
	2. Preparation and implementation of secondary legislation in the areas of public-private partnership and public procurement;	5
	3. Establishment of institutional framework for public-private partnership and public procurement (Investment Agency of Montenegro and section at the Directorate for Public Procurement Policy within the Ministry of Finance);	5
	4. Preparation of a new strategic document that will systematically identify further steps for the improvement of public procurement policy with focus on public-private partnership;	4
	5. Continuous training for both contracting authorities and bidders in order to develop capacity for implementation of the new legislative framework for public procurement and public-private partnership;	3
	6. Expert support in implementation of new legislation;	5
	7. Promotion of new legislation.	5
Description of implementation and explanation if partial or no implementation	<p>1. The Law on Public-Private Partnership is a basis for further investment activities, infrastructure investments, as well as for improvement of the investment environment in the areas of importance for pursuing activities of public interest. The Law on Public-Private Partnership envisages the establishment of the Montenegro Investment Agency, as central investments body. The Law introduces a new model of public contracts that will combine authority of public institutions with knowledge and skills of the private sector, with the aim of improving quality of public works, construction and reconstruction of public infrastructure and ultimately increasing quality of public services.</p> <p>The Law on Public Procurement is harmonised with the European Union directives (4 directives and 2 regulations in this area), while it also incorporated all suggestions received from the European Commission in the harmonisation process, improves negotiating position within Chapter 5 - Public Procurement and is one of its closing benchmarks. Essential parts include achievement of greater efficiency in conducting procurement procedures, strengthening of transparency, as well as monitoring and oversight of the public procurement system. Additional benefits of this legal framework are simplification of public procurement procedures and reduction of costs of participation, which will result in greater participation of SMEs in public procurement procedures, which contributes to the greater market competition and to the increase in average number of bids with positive effect in the form of more efficient and more rational spending of public funds.</p> <p>The reason for delay in adoption of these two legislations comes from the intent of the proposing party, and ultimately of the Government of Montenegro, to have full alignment with the directives in this area,</p>	

	<p>as well as with all suggestions provided by the European Commission. At the same time, the Ministry of Finance carried out additional consultations with employers' associations, civil sector, and parties mandated to apply the laws.</p> <p>2. The measure was implemented successfully; trainings are being organised online, they are on continuous basis and established in such manner that are aligned with the recommendations of the profession and compliance with measures resulting from the COVID crisis. The Strategy for Development of the Public Procurement System for the period 2020-2024 is in its final stage; its adoption is expected at the end of 2020 or early 2021.</p>
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Priority reform measure No 7: Introduction of electronic public procurement system		Stage of reform implementation (1-5)
Activities planned for 2020	1. In Q1 2020, it is expected that the system will be established and the pilot phase of the project will commence;	3
	2. Training of employees at the Ministry of Finance who will be working on the system, 6 contracting authorities and bidders who will test the system and training of trainers;	5
	3. During 2020, the activities to eliminate potential deficiencies of the system will be done;	5
	4. Preparation of the Training Plan and materials needed for training of end-users of the system (contracting authorities and bidders);	5
	5. Expert support for the implementation of the new system;	5
	6. Promotion of the system.	4
Description of implementation and explanation if partial or no implementation	<p>In order to establish an efficient, transparent and competitive public procurement system in Montenegro, it is necessary to introduce state-of-the-art electronic procurement system. To that end, necessary infrastructure will be developed, training for system users and administrators will be delivered, and awareness-raising activities on electronic procurement will be implemented. In December 2018, contract was signed with project implementer, while during 2019, the initial phase that lasted 6 months was completed and the phase of system development began. Implementation of the electronic public procurement system started in 2020 with a pilot project. Full execution and implementation will take place in 2021.</p> <p>Majority of the measure was implemented.</p>	

Priority reform measure No 8: Enhancement and implementation of measures for suppression of informal economy		Stage of reform implementation (1-5)
Activities planned for 2020	1. Enhancement and implementation of measures for suppression of informal economy - Analysis of the situation in informal economy in order to establish nature of the measures set out in the Action Plan, continuation of which is desirable in the future; Establishing extent of stimulating, preventive and restrictive measures; Creation of a relevant (adequate) database of indicators for monitoring implementation of the aforementioned activities.	1
Description of implementation and explanation if partial or no implementation	<p>The implementation so far of the measures for transitioning informal sector into legal flows, as well as additional challenges cause by the COVID-19 pandemic, have shown that a holistic, multi-sector approach to the policy of suppressing the informal economy is required. Furthermore, bearing in mind lack of clarity in responsibility for coordination of the measures, the Ministry of Finance has recently established the Directorate for Coordination, Reporting and State Aid, which will carry out tasks pertaining to the coordination of drafting of strategic documents, action plans, analysis, information, as well as for monitoring and reporting on implementation of activities to the Government.</p> <p>Due to the COVID-19 virus epidemic, the activities aimed at implementation of planned activities during 2020 are still under preparation, given that the inspection authorities were directed to control compliance with measures stipulated by the National Coordination Body for Contagious Diseases.</p>	

	<p>The Activities planned during 2021 are the adoption of the new Action Plan/Programme which will be adopted by the Government in second half of 2021 and which will define activities of all institutions taking part in suppression of informal economy. The Action Plan/Programme will include existing and new measures for suppression of informal economy. Inter-sectoral working group will ensure a multidisciplinary approach, where each ministry and other state administration authorities, will propose plans for removing administrative barriers and plans for improving implementation of laws, including clearly set benchmarks. The activities planned during 2022 include implementation of the Action Plan/Programme for suppression of informal economy, as well as monitoring of indicators for suppression of informal economy.</p>
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Priority reform measure No 9: Suppression of informal economy by reforming tax administration		Stage of reform implementation (1-5)
Activities planned for 2020	1. Adoption of secondary legislation for implementation of the Law on Fiscalisation for Transactions in Goods and Services; and procurement of the system for introduction of electronic fiscalisation;	5
	2. Activities of education of the Tax Administration civil servants;	2
	3. Preparation of functional requirements for introduction of the new Integrated Revenue Management System (IRMS), as well as launching procedure and selection of the supplier of the new system (software); activities concerning cleansing of data that will be migrated to the new system; and procurement of a part of hardware necessary for the start of operation of IRMS.	2
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> Activities were completed. It is planned for the new system to start with production on 1 January 2021; Certain number of workshops were carried out in online mode; Activities to prepare functional requirements for introduction of IRMS are underway, as well as preparatory actions to launch tender for procurement of equipment. The data migration activities are being carried out continuously. 	

Priority reform measure No 10: Enhancement of support to micro, small and medium-sized enterprises		Stage of reform implementation (1-5)
Activities planned for 2020	1. Implementation of credit guarantees for entrepreneurs and MSMEs under the COSME guarantee fund – approval of guarantees in the amount of 50% for certain categories of start-ups (university graduates, youth, women in business, agricultural producers, craftsmen, etc) and for the MSMEs which are either lacking or do not have sufficient collateral to access loans for establishment and development of operations;	5
	2. Implementation of the Programme for the Improvement of Competitiveness of the Real Sector – 17 programme lines for financial and non-financial support;	5
Description of implementation and explanation if partial or no implementation	<p>In March 2019, the Investment and Development Fund of Montenegro signed a Contract with the European Investment Fund on accessing the COSME Guarantee Fund. The Contract covers the portfolio of 75 million euro for a three-year period. In November 2019, the IDF of Montenegro started with use of this arrangement through a guarantee schemes programme under 2 earmarked credit lines: EU COSME Programme of support to investments – for credits solely earmarked for investments in fixed assets; and EU COSME Programme for financing operating assets - for credits solely earmarked for procurement of goods, raw materials, intermediate products and finished products. During 11 months of 2020, 5.48 million euro was approved for 55 placements covered by the COSME guarantee. This type of support will also continue in 2021.</p> <p>The Programme for the Improvement of Competitiveness of the Real Sector for 2020 was prepared, which is an integral part of the Third Package of Socio-Economic Support Measures for the Real Sector. The public call for implementation of the Programme was launched on 1 August 2020 and was open until 2 November 2020. The Programme contains 17 programme lines, of which 7 are new and 10</p>	

	<p>existing were further improved. The Programme is further upgrade with ne programme lines for financial, which pertain to internationalisation of micro, small and medium-sized enterprises and their digitalisation, circular economy, support to youth and women in business, launching new and improving manufacturing activities, and four programme lines that will be promoted and implemented in parallel. Special novelty in the Programme implementation, relative to the previous year, comes in the option to apply online, which is another added value in the Programme's implementation quality, with emphasis on it innovation component, reflected in the need to digitalise the entire process with options for electronic application for users and faster and more efficient applications processing.</p> <p>Under the Public Call, 493 applications were received, while the number of currently contracted (approved) projects is 335.</p> <p>In 2020, as part of the Second Package of Measures, in order to preserve jobs and create prerequisites for faster recovery of the economy, the Government has adopted the Programme for Support to the Real Sector and Employees, aimed at mitigating negative effects of the new coronavirus COVID-19 pandemic. The Programme deals with direct subsidising of wages of employees in economic entities, which were prohibited to operate, or their work was largely jeopardised as a consequence of the Ministry of Health's orders aimed at suppressing the epidemic. In the period 1 May -31 December 2020, 62,431 applications were approved and the amount of 63,225,883 euro for 275.971 employees was paid.</p>
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Priority reform measure No 11: Enhancement of legislative and regulatory framework and further development of infrastructure for broadband internet access		Stage of reform implementation (1-5)
Activities planned for 2020	1. Beginning of preparation of the Broadband Internet Access Development Plan in Montenegro and coverage of population by the next generation access networks;	4
Description of implementation and explanation if partial or no implementation	<p>The Ministry of Economy started a preparation of the National Broadband Internet Access Development Plan of Montenegro with funds provided from the Western Balkans Investment Framework and technical assistance from the European Commission.</p> <p>The activity of drafting the National Broadband Internet Access Development Plan of Montenegro is funded with the WBIF grant funds of 0.55 million euro. Out of the allocated funds, 258,000.00 euro was spent in 2020, while the remaining funds of 292,000.00 euro are planned for 2021.</p> <p>It is expected that the document National Broadband Internet Access Development Plan of Montenegro will be finalised by no later than May 2021.</p>	

Priority reform measure No 12: Enhancement of legislative and institutional framework for innovation		Stage of reform implementation (1-5)
Activities planned for 2020	1. Amendments to the legislative framework and introduction of incentives for innovation (new Law on Innovation Activity (Q3), Rulebook Amending and Supplementing the Rulebook on Detailed Requirements for Registration of Legal Persons in the Registry of Innovative Organisations (Q4); and the Law on Incentives for the Development of Research and Innovation (Q3));	3
	2. Setting up a Secretariat to the Council for Innovation and Smart Specialisation;	3
	3. Setting up legal grounds for establishment of the Innovation Fund, as primary implementation body for S3; Setting up National Implementation Body for S3 and Innovation (Q4).	3
Description of implementation and explanation if partial or no implementation	<p>1. Two new laws were adopted in Q3, while the enabling regulations drafting was prolonged due to changes occurred in the ministries. The enabling regulations and information system to support implementation of laws are expected to be finalised by Q2 2021.</p> <p>2. The team of the Secretariat started with work in March 2020; however, the Secretariat was not formalised as body on the session of the Innovation and Smart Specialisation Council, because no sessions were held during 2020 (COVID-19 followed by current political changes).</p>	

	3. The legal framework for setting up the Fund was established; however, its forming was postponed for Q1 2021 due to the current political changes.
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Priority reform measure No 13: Enhancement of system for support to innovation and human resource strengthening		Stage of reform implementation (1-5)
Activities planned for 2020	1. Grants to support innovation (grants for innovative projects, grants for centres of excellence, and grants for innovative start-ups);	3
	2. Support to human resources in research and innovation (grants for innovative project ideas and scholarships for doctoral and post-doctoral research)	4
Description of implementation and explanation if partial or no implementation	<p>1. Out of the listed activities, a call for start-ups was not completed, even though it was prepared, due to political changes and hold-up on decision making about new activities. The call will be launched in 2021.</p> <p>2. All envisaged calls were implemented.</p>	

Priority reform measure No 14: Implementation of Measures for Trade Facilitation under WTO Trade Facilitation Agreement and CEFTA Additional Protocol 5		Stage of reform implementation (1-5)
Activities planned for 2020	1. Development and implementation of IT applications for NCTS;	3
	2. Establishment of a functional system in the Administration for Food Safety, Veterinary and Phytosanitary Affairs as a basis for inclusion in SEED+;	2
Description of implementation and explanation if partial or no implementation	<p>1. Activities to develop an IT application are underway and they will be finalised during 2021.</p> <p>2. Part of the regional SEED+ Project; Activities to identify current capacities of competent border services to implement SEED+ are underway, to be followed by preparation of a detailed specification for software requirements with additional business functionalities needed.</p>	

Priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of apprenticeships with employers		Stage of reform implementation (1-5)
Activities planned for 2020	1. Preparation of instruments and implementation of dual education evaluation - period from school year 2017/2018 to school year 2019/2020	5
	2. Conduct a survey on dual education with employers, students, schools, schools and associations of employers;	5
	3. Preparation of relevant report on results of the dual education in line with the Cedefop analytical framework, including interpretation of results and recommendations;	5
	4. Preparation of guidelines for implementing dual education;	5
	5. Implementation of the professional orientation programme in elementary schools;	3
	6. Implementation of training of trainers for apprenticeships.	2
Description of implementation and explanation if partial or no implementation	<p>5. Due to the COVID-19 pandemic, it was not possible to implement fully the professional orientation in elementary schools.</p> <p>6. Implementation of training of trainers for apprenticeships is planned as part of the IPA project, Component 2.2 - <i>The Development of Vocational Education Qualifications in Line with the Labour Market Needs</i> (EuropeAid/139998/IH/SER/ME). It was not possible to implement the activity due to the COVID-19 pandemic, as experts were unable to come. Working materials for the training were prepared. Implementation of the activity is moved to 2021.</p>	

Priority reform measure No 16: Increased participation in labour market, particularly of sensitive groups of unemployed persons	Stage of reform implementation (1-5)
Activities planned for 2020	<p>1. Implementation of active employment policy measures in accordance with the Employment Action Plan 2020, with a special focus on education and skilling programmes for adults, employment incentives, direct opening of jobs, and incentives to entrepreneurship.</p> <p style="text-align: center;">3</p>
Description of implementation and explanation if partial or no implementation	<p>As part of the budget allocation for active employment policy measures in 2020, the programmes are being implemented for 1,402 unemployed persons from the records of the Employment Office. Participation of persons in the active employment policy programmes if compared to number of unemployed on 31 December 2020 (47,509) was 2.95 percent. If we compare number of persons participating in the active employment policy measures in 2020 relative to the number of unemployed as of 31 December 2019 (37,516), when the measures were planned, their participation is 3.73 percent.</p> <p>Composition of participants in the active employment policy programmes implemented in 2020 is as follows: share of female participants was 57.18 percent, youth 49.39 percent, while the share of long-term unemployed was 1.86 percent. Participants of Roma and Egyptian population had a share of 2 percent, while the share of persons with disabilities was 6.79 percent.</p> <p>Participation of unemployed persons in the measures and programmes was as follows:</p> <p>The active employment policy measures and job skills training of adults were implemented through the following programmes:</p> <ul style="list-style-type: none"> • Programme of job skills training for independent work The Programme of job skills training for independent work is carried out with 228 participants with 76 employers-implementers of the programme, of which the women make 58.77 percent, while the share of youth was 66.22 percent and share of beneficiaries of social welfare support was 2.63 percent. One person with disabilities participated in the programme and tow long-term unemployed persons; • Programme of job skills training for work with the employer Programme of job skills training for work with the employer is carried out for 250 persons registered with the Employment Office with 64 employers – implementers of the programme, of which the women make 50.4 percent, long-term unemployed 0.8 percent, while the share of youth was 43.2 percent. Share of persons with disabilities participating in the programme was 4.0 percent, while share of beneficiaries of social welfare support in the programme was 3 percent; • Programme of education and job skills training of adults Due to prohibition and limitation of work educational institutions which are organisers of education of adults, due to the epidemiological situation caused by COVID-19, the Employment Office was not able to carry out this Programme. <p>The active employment policy measure for direct opening of jobs was implemented through the following programme:</p> <ul style="list-style-type: none"> • Public Works Within the Public Works Programme activities <i>Personal Assistant</i>, <i>Care for Elderly</i> and other community-beneficial programmes have employed 606 persons registered with the Employment Office. In addition to these programme, a project <i>Let it be clean</i> was also implemented in 2020, which employed 95 persons. Composition of participants in these programmes is as follows: share of long-term unemployed was 1.2 percent, share of youth was 31.7 percent, while share of female participants was 64.5 percent. Participants of Roma and Egyptian population had a share of 2.3 percent in the programme, while the share of persons with disabilities was 13.2 percent and share of beneficiaries of social welfare support was 3.0 percent. <p>The active employment policy measure for incentives to entrepreneurship was implemented through the following programme:</p> <ul style="list-style-type: none"> • Updated Programme for continuous incentives for employment and entrepreneurship

	<p>Eleven (11) credits for 13 new jobs were financed in 2020. Out of this number, eight credits were financed for unemployed persons covering eight jobs, while three credits were for legal persons covering dive jobs. Female participants had share of 45.5 percent, while the share of long-term unemployed was 9.5 percent out of the total number.</p> <p>The second active employment policy measure was implemented through the following programme:</p> <ul style="list-style-type: none"> • <i>Programme Stop to Informal Economy</i> The Programme is being implemented for 210 participants, of which the programme is implemented in cooperation with the Tax Administration for 84 participants, in cooperation with the Administration for Inspection Affairs for 64 participants, in cooperation with the Police Administration for 44 participants, with the Customs Administration for 14 participants, while the Programme is being implemented for 4 participants in cooperation with the Ministry of Transport. Female participants had share of 62.38 percent in this Programme, out of the total number. The share of long-term unemployed was 0.48 percent in this Programme, and the persons with disabilities had the same share. <p>1b) As for the measure of professional rehabilitation and employment of persons with disabilities as of 31 December 2020, the following activities took place:</p> <ul style="list-style-type: none"> – 1,141 employers exercised the right to wage subsidy for 2,040 persons with disabilities (men -918, women – 1,122). Under a fixed-term contract 920 persons with disabilities were employed, while 1,120 persons were employed under an open-ended contract; – 443 persons with disabilities were included in measures and activities of professional rehabilitation. Out of the total number of participants, 65.43 percent were female; – The financing of projects for employment of persons of disabilities – grant schemes, involved 420 persons with disabilities, of which 293 persons were employed during the project duration, while 140 persons will be employed after completion of the project for a minimum duration of nine months. <p>1c) The participation of vulnerable groups in the labour market in the European Union and Montenegro Programme for employment, education and social protection – <i>Programme of Self-Employment Grants</i> was as follows:</p> <ul style="list-style-type: none"> – 2019 Call: out of 93 signed contracts, 44 were signed with female participants, 27 with youth of up to 35 years of age, while 68 contracts were signed with long-term unemployed persons; – 2020 Call: out of 216 projects proposed for financing, 136 are for women. Out of the total number of grant beneficiaries, 109 were for youth of up to 35 years of age, and 131 were for long-term unemployed persons.
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Priority reform measure No 17: Adoption of the National Employment Strategy 2021-2024		Stage of reform implementation (1-5)
Activities planned for 2020	Preparation and adoption of a new National Employment Strategy 2021-2024, with Employment Action Plan for 2021	2
Description of implementation and explanation if partial or no implementation	<p>In accordance with the Decree on Selection of Representatives of Non-governmental Organisation in Working Bodies of State Administration Authorities and Carrying out Public Debates in Preparation of Laws and Strategies (Official Gazette of Montenegro, No 41/18), the Ministry of Labour and Social Welfare has initiated the Public Call to bodies, organisations, associations and individuals to take part in the initial phase of preparing the Draft National Employment Strategy 2021-2024, with Employment Action Plan for 2021, and to submit their initiatives, proposals, suggestions, and comments in written and electronic format.</p> <p>Furthermore, in accordance with the above-mentioned Decree, the Ministry of Labour and Social Welfare has also published the Public Call for proposing participant of non-governmental organisations in the Working Group for preparing the Draft National Employment Strategy 2021-2024, with Employment Action Plan for 2021.</p> <p>After these procedures were completed, the Ministry of Labour and Social Welfare has created Working Group for preparing the Draft National Employment Strategy 2021-2024, with Employment Action Plan for 2021 tasked to prepare the text of these documents, in line with the guidance set in the Methodology for Developing Policies, Developing and Monitoring Implementation of Strategic Documents.</p>	

	<p>As part of the World Bank support, an expert was also engaged to support preparation of the proposal for the Draft National Employment Strategy 2021-2024, with Employment Action Plan for 2021.</p> <p>The Working Group for drafting this document was established and first Draft of the document was prepared.</p>
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Priority reform measure No 18: Development of day-care service for the old aged		Stage of reform implementation (1-5)
Activities planned for 2020	Opening of at least one day-care facility for the elderly is planned for 2020.	5
Description of implementation and explanation if partial or no implementation	A day-care centre for the elderly was opened in the Pljevlja Municipality in June 2020.	

ANNEX: External Contribution to Preparation of the Economic Reform Programme 2021-2023

COMMENTS TO THE DRAFT PROGRAMME

1. Contribution of stakeholders during the consultation process: Representatives of the general public were involved already at the initial phase of preparation of the Programme. In respect of that, and in line with measures and recommendations of the National Coordination Body which were in force, an open call was sent on 7 September for the purpose of receiving inputs for preparation of the Economic Reform Programme 2021-2023. The call was, amongst others, sent to representatives of the private sector, NGOs, local community and other interested stakeholders. For the purpose of improving text of the Programme, all representatives were invited to contribute by making comments and giving suggestions and to submit their inputs by 22 September 2020 to the email address of the Ministry of Finance. In the overall consultation process, four representatives of general public and interested stakeholders submitted suggestions and comments.⁶⁵

1.1. Replies to the comments received in writing after the open call had been sent

UNICEF representatives: Contribution to the preparation, material received by email after the open call had been sent. UNICEF representative office to Montenegro submitted its inputs in respect of draft ERP for Montenegro 2021-2023, as a contribution to this important document. These inputs concerned the fields of **social inclusion, poverty alleviation, equal opportunities and education and skills.**

Reply by the proponent: Competent line institutions have for years maintained good cooperation with UNICEF in order to improve child rights in Montenegro. Good cooperation is expected to continue in future in order to ensure better conditions for all children.

The state creates conditions for free and responsible parenthood through the measures of social, health and legal protection, system of education and information, employment policy, housing and tax policies, as well as through the development of other activities which benefit families and their members.

Montenegro has achieved considerable progress in respect of the protection of child rights. The line ministry has been conducting a comprehensive reform of the social and child protection system for more than two decades now. All the adopted national documents, strategies and action plans are based on recommendations of the UN Committee on the Rights of the Child and on guidelines for setting priorities in reform of the child protection.

Rights of families with children facing financial, health and other problems are prescribed in the fields of social and child protection.

Social care primarily mitigates consequences of the problems faced by families with children, while not mitigating those areas that are more important in preventing such problems from occurring in the first place.

Online learning platform #UčiDoma was set up in March in one week during the pandemic. A total of 1,700 lectures were recorded for 17 subjects. Around 200 teachers from 35 schools took part. Lectures were broadcast on three channels which were viewed by over 80 percent of the citizens of

⁶⁵ In line with the methodology for drafting Economic Reform Programme which sets out a limited number of pages for all chapters, and given the number of comments that were received, the replies to these were short.

Montenegro. A website was created and it recorded over 400,000 visits of almost 100,000 users. YouTube channel was created as well, with over three million views.

Since October, pupils from first to sixth grades of elementary schools and first grade of secondary schools attend classes in schools, in compliance with the valid measures, while other pupils attend online classes and come to schools for consultation every 15th day. UNICEF recommendations will be further elaborated and considered through future measures in the fields of social care and education.

Representatives of the Chamber of Economy: Reduction of wage contributions.

Reply by the proponent: Recommendations will be considered and elaborated through future measures of economic policy.

Representatives of the Chamber of Economy: Connecting tourism and agriculture by incorporating traditional domestic products into the modern tourism offer, with the aim of improving the level of quality and competitiveness of the tourism offer of Montenegro.

Reply by the proponent: The suggestion was accepted in chapter 5 of the earlier economic reform programmes – under priority reform measure 5: Diversification of Tourism Product. This year's measure concerning tourism entitled *Sustainable Tourism in New Reality* is a comprehensive measure which was proposed in line with the current situation resulting from the COVID-19 virus outbreak.

Representatives of the Chamber of Economy: Research, development, innovation, and digital transformation, it is necessary to adopt a new measure – Digital Transformation.

Reply by the proponent: For more details see chapter 5, priority reform measures No 11 and 12 – Improvement of the programme framework for implementation of the Montenegro Smart Specialisation Strategy and Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors.

Representatives of the Chamber of Economy: Development of qualifications and curricula in accordance with labour market needs and implementation of apprenticeship at the employer's.

Reply by the proponent: *Suggestion is accepted. For more details see chapter 5, priority reform measure No 14:* Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's.

Representatives of the Employers' Federation: Digital transformation and green jobs

Reply by the proponent: For more details see chapter 5, priority reform measures No 11 and 12 - Improvement of the programme framework for implementation of the Montenegro Smart Specialisation Strategy and Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors.

That process has been visible in the use of information and communication technologies in finances, health sector, education sector, commerce and in many other spheres of life and work over the past months, which is the result of the goals and efforts of the Government of Montenegro in the previous period focused on improving services availability.

Representatives of the Employers' Federation: Improvement of regulatory framework

Despite evident changes and positive shifts over the past years, the business practice shows that regulatory framework in Montenegro as such still fails to foster the growth of enterprises. Besides problems which the COVID-19 crisis additionally intensified and made visible, the following problems are particularly visible in this area: inconsistent and/or selective application of the legislation, inefficient and costly administration, overlapping of competencies of the institutions (division of competences and improper coordination among various state bodies, and between state bodies and local government bodies – which leads to redundant, complicated and costly procedures), with wage costs remaining high.

Some of the measures for establishing regulatory framework for sustainable enterprises: greater involvement of the representatives of real sector in drafting strategic documents, laws and by-laws which regulate business operations; introduction of the practice of parallel adoption of laws and by-laws (in that way, collision of norms, legal gaps and impossibility of law application are avoided); simplification of necessary procedures, abolishing redundant procedures and cutting costs of conducting procedures; compiling an inventory of all fiscal and parafiscal charges payable at national and local levels (this activity has already started, while development of the registry is coordinated by the Secretariat of the Competitiveness Council); elimination of all forms of bureaucratic arbitrariness (particularly at local level) and rollout of the one-stop shop concept (to all the areas where that is possible); further simplification of the tax collection procedures; capacity building of state administration (increasing accountability, transparency, work efficiency and improvement of the coordination of tasks within the prescribed mandates); continuation of the activities focusing on cutting the labour costs (labour tax wedge); scaling the penal policy so that it corresponds to the economic power of economic entities and/or seriousness of misdemeanours; improvement of the work performed by justice system bodies (reducing the length of judicial procedures, increased accountability – both, personal and institutional – in delivering judgments) etc. Since COVID-19 crisis put the majority of Montenegrin employers at a disadvantage, there is a special need to urgently amend the Labour Law or to adopt the new law (*lex specialis*), with the aim of improving labour legislation in line with new circumstances and provide support to the process of (an indispensable) adjustment to the new working conditions.

Reply by the proponent: This is a systemic recommendation and is included in several strategic documents of the Government of Montenegro. This is elaborated in chapter 5 of the ERP, within measures concerning business environment and employment and labour market.

Representatives of the Employers' Federation: Reduction of informal economy (transition to formal operations).

Reply by the proponent: The suggestion was accepted, for more details see chapter 5, priority reform measure 6: Improving and implementing the measures for suppression of informal economy and priority reform measure No 7: Suppressing the informal economy by reforming the Tax Administration.

Representatives of the Employers' Federation: Facilitated access to finance.

Reply by the proponent: The suggestion was accepted in previous years' programmes. In chapter 5 of the Economic Reform Programme 2021-2023 the priority reform measure No 5 refers to the strengthening of competitiveness of MSMEs and access to new markets.

Representatives of the Employers' Federation: Harmonisation of education system with the needs of the economy.

Reply by the proponent: The suggestion is accepted. For more details see chapter 5, priority reform measure No 14: Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's.

Representatives of the Employers' Federation: Strengthening the role and influence of the Social Council of Montenegro.

Reply by the proponent: The suggestion was accepted through adoption of the new Law on Social Council in 2018 which improved this area considerably.

Representatives of the Employers' Federation: Incorporate goals of the UN Sustainable Development Agenda 2023 (SDG) into the new ERP – with particular focus on SDG 8.

Reply by the proponent: Montenegro joined the Decent Work Programme 2019-2021 in March 2019. The majority of priorities set out in the Programme are recognised in the measures of chapter 5 which concern business environment, reduction of informal economy, skills and education and employment and labour market, as well as research, development and innovation and digital transformation.

Representatives of the Confederation of Free Trade Unions of Montenegro: The following measures are proposed to be included in the new Economic Reform Programme: increase of minimum wage from 222 euro to 250 euro; new Programme should include the initiative to resolve housing status by offering the means of overcoming the existing problems, in respect of using the Montenegrin Fund for Solidarity Housing Development as a platform for the construction of social flats that would be offered for rent to the citizens at affordable prices, while financial resources collected from the rent would be used for maintenance of the existing and construction of the new housing units that would be state owned; introducing persons working informally into legal employment; as a result of numerous increases in prices and tax rates, and given that value of the coefficient for wage calculation (lowest labour cost) in the period 2007-2020 increased by merely 5 euro net, i.e. from 55 euro in 2007 to 60.3 euro which is its value now, the wage increase must be the first systemic measure to be taken to prevent outflow of labour from Montenegro; return VAT rate to the original level; halt the emergence of the new tax debt; increase profit tax for all or only for profits exceeding certain amount; introduce tax for legal persons and entrepreneurs for financial transactions exceeding a certain limit; abolish tax benefits and other benefits of companies enjoying preferential treatment since many of these leave room for manipulations to the detriment of the budget; increase amount of the founding capital; conduct pension reform; ensure rational spending of the budgetary funds by increasing the level of accountability; more efficiently detect and confiscate illegally acquired property; abolish or limit to 6 months the privilege of public officials to receive wage compensation from the budget for one year, or two years if that much time is left before their retirement.

Reply by the proponent: Proposed suggestions refer to a broad range of competences, from economic policy to the rule of law. As such, not all of them can be recognised by the ERP. Certainly, the recommendations will be considered and elaborated in future measures of economic policy of the Government and in the activities focusing on further improvement of the rule of law.

Minimum wage increase from 222 euro to 250 euro has been agreed, starting in the 2nd half of the year, which improves the standard of living of the citizens with the lowest income. However, a mere wage increase, with high labour tax wedge of around 39%, increases the costs for employers per employee with minimum wage, and in the long term it has an adverse impact on employment and budget. Based on the aforementioned, and given the current economic situation, as well as the issues of long-term stability and sustainability of public finance, the goal of the Government in the coming period is to find an optimal solution, i.e. to adequately reduce labour tax wedge, so as to compensate costs borne by employers as a result of the increase of minimum wage.