



Ministry
of Finance

MONTENEGRO ECONOMIC REFORM PROGRAMME 2026 - 2028

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List of Abbreviations

AFD	French Development Agency	PFM	Public Finance Management
GDP	Gross Domestic Product	NPL	Non-performing loans ratio
BIS	Bank for International Settlement	NCTS	New Computerised Transit System
BRRD 2	Bank Resolution and Recovery Directive II		
CBCG	Central Bank of Montenegro	PIMA	Public Investment Management Assessment
CRD	Capital Requirements Directive	VAT	Value Added Tax
CET1	Common Equity Tier 1 ratio	ERP	Economic Reform Programme
		PPEKS	Average weighted effective interest rate
EC	European Commission	PBG	World Bank Policy-Based Guarantee
ECB	European Central Bank	PIO	Pension and Disability Insurance
EUREP	Euro-system Repo Facility for Central Banks	ROA	Return on average assets
EBRD	European Bank for Reconstruction and Development	ROE	Return on average equity
		FDI	Foreign Direct Investments
IRMS	Integrated Revenue Management System	SEPA	Single Euro Payments Area
LPIS	Information system for the Land Parcel Identification System	ULC	Unit Labour Cost
IMF	International Monetary Fund		
IIP	International Investment Position		

1. Overall Policy Framework and Objectives

Strategic objective of the economic policy of Montenegro, in the period 2026-2028, is steadfast towards a smart, sustainable, and inclusive economic growth, having a clear ambition to improve continuously the quality of life of all citizens. During the term of the 44th Government of Montenegro, the economic policy is focused on enhancing standard of living, expanding productivity and competitiveness of the economy, and continued strengthening of a stable, predictable and stimulating investment environment, while accelerating economic convergence of income and GDP per capita to the EU average.

Montenegro today is in one of its most import phases in terms of the contemporary political and economic development, and to that end it remains consistently committed to the European perspective and to a clearly defined objective, which is the full European Union membership by 2028. This represents a fundamental development strategy that will ensure long-term stability, sustainable growth, and strengthening the quality of life of all citizens.

All reform processes being implemented and that will be implemented over the medium term are based on the principles of the rule of law, transparency, and institutions modernisation. Special attention is paid to the areas of key importance of the EU agenda – strengthening the judicial system, fight against corruption and organised crime, improving the administrative capacities, and harmonisation with the European standards.

Furthermore, Montenegro is continuously implementing activities in order to be a partner actively contributing to the European community, both through its geographical position, political stability and multicultural character, and through its role as a constructive factor in the Western Balkans. To that end, the strategic objective is clear: by 2028, Montenegro will finalise its key obligations in the negotiations process and thus being prepared for full integration in the European Union. During 2025, Montenegro closed Chapter 5 – Public procurement, whereby it is expected that by the end of 2025 will also temporarily close Chapter 3 (Right of establishment and freedom to provide services), Chapter 4 (Free movement of capital), Chapter 6 (Company law), Chapter 11 (Agriculture and rural development), and Chapter 13 (Fisheries).

As for the economic policy in the next medium-term period, Montenegro will continue with the consistent implementation of measures defined in the Fiscal Strategy, aiming towards further strengthening the public spending control and rationalisation, as well as on improving revenue collection by modernising the tax administration and intensifying activities aimed at suppressing the informal economy. A particular emphasis will be placed on the careful public debt management, including the refinancing of existing obligations under more favourable terms, thus contributing to fiscal stability and optimisation of borrowing costs.

In line with the baseline macroeconomic scenario, the Montenegrin economy will grow at the average annual rate of 3.2 percent in the medium term, or at the following rates year-by-year: 3.2 percent in 2026, 3.1 percent and 3.2 percent in 2027 and 2028, respectively. In respect of the price stability, following the expected inflation rate of 3.8 percent in 2025, a clear



downward trend is projecting leaving the inflation rate at the end of the projection horizon at 2.0 percent.

The macroeconomic projections for the next medium-term period are based on current economic trends and expectation of continued healthy and balanced growth dynamics, whereby key assumptions include the strong domestic demand, further growth of employment and wages, increased investments in priority sectors, and strengthening of the competitiveness and modernisation of the domestic real sector, along with relevant forecasts of economic activity and inflation in Europe.

During the same period, the public revenues continued the growing trend and range from 3,506.1 million euro (40.9 percent of GDP) in 2026 to 3,727.0 million euro (39.7 percent of GDP) in 2028, which confirms the stability and sustainability of the fiscal framework. Despite the reduction of the tax wedge on labour cost, as a result of the reduction of the contribution rate for pension and disability insurance, a continuous increase in public revenues is recorded. This growth is the result of increased collection of key taxes, including the value added tax, excise duties, personal income tax and corporate profit tax, as well as other budget revenues.

The Fiscal Strategy was adopted in December 2024, and after more than one year of implementation of this umbrella strategic document, we can accentuate the most important results achieved from the implemented measures:

- Unemployment rate was single-digit for the first time and is at a historical minimum;
- Improved standard of living and quality of life of citizens resulting from increased pensions and wages through the implementation of the *Europe Now 2* Programme;
- Strong growth of budget revenues compared to 2024;
- Decreased revenues from contributions are fully compensated by the growth of budget revenues from categories of indirect tax;
- Budget revenues based from corporate profit tax in September 2025 exceeded the annual plan, which indicates a strong economic activity and increase in investments;
- Further improvement of the fiscal discipline;
- Timely obligations towards the real sector are fulfilled in timely fashion;
- Significant reforms in the tax sector resulted in the improvement of the fiscal discipline, and from 2026 the Tax Administration will fully implement the new Integrated Revenue Management System, which will replace outdated information systems with modern and efficient digital infrastructure;
- A surplus of current spending is achieved, as an indicator that all current liabilities are covered from current revenues, meaning that the state borrowed exclusively to pay back old debts and invest in infrastructure and development projects.

The period of 2026-2028 features a strong investment cycle underpinned by Capital Budget investments, as well as by significant European Union funds provided under the Growth Plan, including projects concerning construction of key road and railroad infrastructure. In parallel, under the Growth Plan for the Western Balkans, Montenegro will have available significant funds for the implementation of structural reforms and investment in infrastructure. The

remaining funds required for the ambitious infrastructure construction plan, will be secured through favourable borrowing, while balancing risks and costs management.

Through fiscal discipline, responsible debt management, and focus on the key strategic infrastructure investments, Montenegro remains committed to a stable and sustainable growth. All economic and fiscal policy measures for the period 2026-2028, including measures aimed at improving the economy's competitiveness, business environment, and citizens' standard of living, are fully aligned with the EU Joint Conclusions with Montenegro of the ministerial Economic and Financial Dialogue held in May 2025, and are presented in details in the next chapters of the Economic Reform Programme.

2. Implementation of the Policy Guidance

This section sets out the response of Montenegro to the Joint Conclusions of the ministerial meeting held in May 2025, as part of the Economic and Financial Dialogue between the EU and the Western Balkans countries, Türkiye, the Republic of Moldova, and Ukraine. The table below presents an overview of the activities undertaken to respond to the EU Policy Guidance from the 2025 ministerial meeting.

Table 2.1: EU Policy Guidance to Montenegro for the ERP 2026-2028 and the response to Policy Guidance

Policy Guidance No. 1: Contain current spending while using any revenue overperformance and savings from under-execution of capital spending for deficit reduction and accumulation of government deposits. Set up and operationalise the fiscal council in time for it to be able to review the 2026 budget proposal. Review the functioning of the existing fiscal rules, and prepare and share with the Commission an options paper on their possible strengthening.

In the period January-September 2025, the budget recorded a deficit of 88.4 million euro, which represents 1.1 percent of GDP, which is a better result than planned. At the same time, current expenditures ended with a surplus of 99.8 million euro, which confirms the continuity in implementing fiscal discipline measures and limiting current expenditures. Total budget revenues amounted to 2,099.9 million euro, which makes 99 percent of the plan and an increase of 24 million euro (1.2 percent) compared to the same period of the previous year. Growth was recorded mainly comes from VAT (14.3 percent), personal income tax (31 percent), corporate profit tax (8.9 percent), and excise duties (7.8 percent), which offsetted for the drop in revenues from pension insurance contributions.

These results indicate a stable and sustainable collection of public revenues, with a gradual normalisation of trends for contributions in the second half of the year. On the expenditure side, total expenditure amounted to 2,188.2 million euro (27.6 percent of GDP), in line with the planned spending dynamics. Current expenditures were executed at the level of 91.9 percent of the plan, with savings observed in most of the categories - especially with other expenditures and subsidies, where the execution was significantly below the plan due to rationalisation and improved control of assumed spending obligations. Gross wages and employer contributions were executed at 97.5 percent of the plan, as a result of employment restrictions and the postponement of salary increases for public servants. Capital



expenditures amounted to 188.2 million euro, or 95.3 percent of the plan, which is in line with the planned implementation schedule and is an improved level of project implementation compared to the previous year (37.2 percent). Cumulatively, measures for expenditure control, improved revenue performance and current spending restraint have enabled the deficit to remain below the plan, while government deposits have been further strengthened, confirming the continuation of a responsible fiscal policy.

The Fiscal Strategy for the period 2027-2027 was adopted in December 2024. The Fiscal Strategy represents a key development document spanning the term of the incumbent Government and sets out the key economic and fiscal policy measures and other reforms pertaining to the business environment. The very existence of the Fiscal Strategy ensures that the Government's policies and vision have predictability for businesses, investors, and citizens. The main aim in terms of the fiscal policy is to create the preconditions for a comprehensive reform of the tax system in order to expand the tax base, and thus generate new revenue streams; to further amend the regulations to align with the EU legislation, as well as to enhance competitiveness by reducing the tax wedge on labour cost, which will place Montenegro among the countries with the lowest tax wedge on labour cost in Europe. In synergy with numerous additional measures for an improved business environment, the goal is to create a predictable tax policy framework as the backbone of viable doing business and competitiveness of the Montenegrin economy in the years to come.

From a legal point of view, it was determined that in order to establish the Fiscal Council that the amendments to the Law on Budget and Fiscal Responsibility represent the most expedient solution in relation to the legal provisions for setting up of the Fiscal Council. The aforementioned legal provisions entered into force on 16 March 2023, which created for the first time in Montenegro an institution that will provide independent opinions, evaluations, analyses, and recommendations regarding the consistency, compliance and sustainability of the fiscal policy against the fiscal responsibility criteria.

The Parliament of Montenegro launched three public calls so far for the appointment of members of the Fiscal Council, of which two were unsuccessful, while the third one is currently under way. As part of the third Call, out of three candidates one was rejected, and it is expected that by the end of the regular Parliamentary sitting, by the end of 2025, the Members of Parliament will take vote about the two remaining candidates.

Significant World Bank support is envisaged for drafting the procedures and regulations to enable the optimal functioning of the Fiscal Council, to be launched upon the Fiscal Council's establishment.

In the coming period, cooperation with the IMF is planned, aimed at preparing a document that will include options for improving the existing fiscal rules. Based on the request of the Ministry of Finance, the IMF has confirmed its support and technical assistance that will be provided in the upcoming period for the implementation of this activity.

Policy Guidance No. 2: Based on the analysis of the economic and fiscal impact of all tax expenditures, implement budgetary measures to raise public revenue. Prepare and share



with the Commission a comprehensive fiscal risk statement and strengthen further the analysis of SOE-related fiscal risks. Implement the Public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space and ensuring cost-benefit analysis of investment projects, including PPPs.

In 2025, the report on tax expenditures was updated, which includes all tax exemptions, holidays, reduced rates, refunds, and other. The report includes data for 2024, in which legislation was adopted that reduces total tax expenditures, predominantly in the part of value added tax (VAT) by introducing the third reduced rate on the hotel and hospitality industry sector with a strong estimated fiscal impact of around 55 million euro (estimates of the Ministry of Finance). Due to the lack of public data on the estimated real volume of individual tax expenditures, it is not possible to determine precisely their total cost.

The report for 2025 is being prepared, which will take into account updated data, as well as a significantly improved methodology, with the use of several models for estimating tax expenditures for different segments of revenue categories. Based on concrete data and on the Government's priorities, as well as pursuant to the potential fiscal impact, the report may also contain certain recommendations towards reducing tax expenditures.

At the session held on 19 December 2024, the Government of Montenegro considered and adopted the Aggregate Analysis of the Financial Operations of the State-Owned Enterprises Sector for 2023 with the Fiscal Risks Statement and adopted the Conclusions No. 10-430/24-7059/2. The Ministry of Finance continues to assess and monitor the fiscal risks of the State-Owned Enterprises sector continuously. During 2025, analysis of operations and assessment of the financial situation for all state-owned enterprises at the central government level were carried out, and the process of preparing/drafting the Aggregate Report (analysis) on the financial operations of the state-owned enterprises sector for 2024 with a fiscal risks statement is in the final stage, thus it will be adopted by the Government and disclosed publicly by the end of the year.

At the same time, the Ministry of Finance is working to strengthen capacity so that during 2025, employees from the Division for Monitoring Fiscal Risks of State-Owned Business Undertakings had more training for assessment, monitoring and reporting on fiscal risks. During 2025, there were already had 3 IMF missions during which the employees had the opportunity to receive additional training for performing their duties and to upgrade their knowledge and analytical capacities in order to improve the carrying out analyses and assessments of the financial situation and fiscal risks of state-owned enterprises.

In the previous period, the Ministry of Finance undertook activities to improve the regulatory and strategic framework for governance and oversight of the sector of state-owned enterprises. The Draft Law on the Governance of State-Owned Business Undertakings has been prepared, which formalises the continuous monitoring of state-owned enterprises and the fiscal risks arising from their operations, by introducing a coordinated centralized governance mechanism. The new law introduces, for the first time, criteria for the establishment of new state-owned enterprises, criteria for the selection of members of



management bodies and other mechanisms that should enable permanent oversight and provide early warnings in the segment of fiscal and financial risks. Furthermore, the role of the Ministry of Finance is clearly recognised as the competent authority through which coordinated governance is carried out and which, among other things, performs the tasks of: conducting analyses of the financial condition of state-owned undertakings; determining and developing a methodology for assessing the fiscal risks of state-owned undertakings; assessing, monitoring and reporting on financial and fiscal risks of state-owned undertakings and development and improvement of appropriate tools for these purposes; preparing a fiscal risks statement of state-owned undertakings; preparing a comprehensive strategy for exercising state ownership in state-owned undertakings with an action plan; as well as conducting periodic analysis of the entire portfolio of state-owned enterprises in terms of assessing the fulfilment of the conditions for state ownership in these undertakings.

With technical expert support, the Ministry of Finance is working diligently on the reform concerning the public investments planning, set out by the Action Plan for Public Finance Management (PFM); while one of the most significant activities will be the drafting of the Master Plan for the Infrastructure Development of Montenegro, which is expected to be completed and adopted in Q4 of 2025. This document will cover all large infrastructure projects (over 5 million euro) with a focus on the five most important areas (transportation, education, healthcare, ecology and energy) in the next five-year period. The document in question is being prepared in cooperation with line ministries, with the mentoring support of the CEF Facility project in Montenegro, financed from IPA funds.

Moreover, in accordance with the recommendations of the PIMA report and the adopted Action Plan for the public investments management for the period 2025-2026, intensive activities are underway and two more important strategic documents are being drafted. One of them is the Manual for capital budgeting, for which the Ministry of Finance has technical support through the IPA EU4PFM project.

Furthermore, with the technical assistance of external experts, financed by a donation from the World Bank, the drafting of Methodological guidelines for project evaluation (including CBA, CEA and MCA), as well as the document Minimum requirements regarding the content of the feasibility study, is underway, and their completion is also expected by the end of 2025.

Likewise, a technical specification for a new module within the Budget Management Information System (BMIS) is also planned to be prepared, in line with PIMA recommendations.

Finally, amendments to the Law on Budget and Fiscal Responsibility and the Decision on Development of the Capital Budget are being prepared, which will improve the public investments management, but also enable the drafting of updated secondary regulations in the field of public investments.

Training for employees of the Division for Public Investment Management, as well as for representatives of line ministries, in order to become more familiar with the new methodological guidelines aimed at improving the public investments management is planned for January 2026. Moreover, in cooperation with the Administration for Human Resources Management, a training of trainers course will be organised, so that within the training system



framework implemented by the Administration, certified trainers who have the knowledge, skills and tools to conduct independently public investment management trainings will be engaged.

Strengthening mechanisms for managing public investments is one of the priority activities of the Ministry of Finance, which is evidenced by the following:

- Directorate for management of public investment and public procurement policies was set up within the Ministry of Finance, focusing its work on planning and monitoring public investments financed from the Capital Budget (under two implementation units – Ministry of Public Works and Transport Administration) and execution of public contracts;
- Recognising the systemic approach to public investment management, the Ministry of Finance has prepared amendments to the Law on Budget and Fiscal Responsibility, in order to systematically establish public investment management mechanisms and create legal bases for improving the planning and implementation of capital projects. This applies not only to capital budget projects at the central government level, but also to public investments by local self-governments and majority state-owned business entities;
- Activities to develop an e-registry of public investments of Montenegro are underway.

In doing so, new institutional frameworks are created for the improvement of public investments, more efficient coordination and implementation of activities concerning the capital projects and other infrastructure development projects. Special attention in the coming period will be on launching new infrastructure projects in the transport sector and creating preconditions for further economic development of Montenegro.

Activities are being undertaken to create space for new investment forms that combine the authority of public institutions and the expertise of the private sector, achievable through public-private partnerships, in addition to the current model in which the state financed the construction of infrastructure through the capital budget as the sole investor.

Policy Guidance No. 3: Continue to thoroughly assess price developments and possible second-round effects and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability. In line with the principles of central bank independence, ensure a transparent selection of council members, including vice governors, based on candidates' competence and following the process in compliance with the Central Bank Law. Ensure that the Development bank complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection, and a level playing field in the banking sector.

Monitoring and analysing the price developments and secondary effects, the Central Bank further increased the countercyclical buffer from 0.5 percent to 1 percent in December 2024 and extended limits for cash loans for another year. These measures, even though limited in terms of the price levels, contribute to reduction in the lending activity and consequently the reduction of spending, thus reducing pressures of retail prices in a growing demand environment. Besides that, the Central Bank contributed to the reduction prices by lowering



payment transactions costs, given the SEPA membership, as well as through regulatory reforms, precisely by achieving equivalence with the EU legal framework in the banking sector, which affected interest rates and, consequently, operational costs, and indirectly the prices of goods and services in Montenegro.

At the session held on 18 November 2025, the Parliament of Montenegro appointed two vice-governors of the Central Bank of Montenegro. During the autumn session, members of the Central Bank Council will also be appointed, after the procedure carried out by the Parliamentary Committee on Economy, Finance, and Budget, which has completed the interviews with the shortlisted candidates.

The procedure for appointment is carried fully in line with Article 50 of the Law on the Central Bank, which stipulates that the vice-governors are appointed by the Parliament at a proposal of a governor, while four members of the Council, not employed by the Central Bank, at a proposal of the competent Parliamentary Committee.

These processes confirm the commitment of competent institutions to ensure timely, transparent and legal appointments to key functions in the Central Bank, in accordance with the requirements of institutional independence and best EU practices.

In line with the recommendations of the European Commission regarding the Law on the Development Bank, Montenegro has prepared urgent amendments to the Law. In order to harmonise it with the EU legal acquis in chapters 4 and 9, the proposed Amendments to the Law on the Development Bank were tabled, which excludes the deposits taking and the provision of payment services from the scope of the Development Bank's activities. Furthermore, amendments to the Law on Payment Operations were proposed, to be aligned with the proposed amendments to the Law on the Development Bank, precisely to delete the exception where the Development Bank would provide payment services in accordance with the Law on the Development Bank of Montenegro.

Two Parliamentary Committees, the Legislative Committee and Committee on Economy, Finance, and Budget, at the session held on 6 November 2025, consented the adoption of the Proposal of the Law Amending the Law on the Development Bank of Montenegro and Proposal of the Law Amending the Law on Payment Operations.

Members of the Parliament supported adoption of these laws at the plenary sitting of the Parliament of Montenegro, held on 18 November 2025, and on 25 November adopted the proposed laws, after which will be published in the Official Gazette of Montenegro.

With these steps, Montenegro confirms its strong political commitment to the European integration process.

The Central Bank of Montenegro (CBCG) supervises the Development Bank of Montenegro (RBCG). In accordance with the Law on the Development Bank, in August 2025, the CBCG adopted a set of regulatory acts governing the capital adequacy, risk management, asset classification, large exposures, and reporting obligations of the Development Bank. The adopted acts include:

- Decision on capital adequacy;



- Decision on the criteria and method of asset classification and calculation of provisions;
- Decision on minimum risk management standards;
- Decision on large exposures;
- Decision on the reports submitted by the RBCG to the CBCG.

RBCG is one of the most strictly supervised institutions in the financial system of Montenegro. In addition to the direct supervision of the CBCG, the Ministry of Finance, the State Audit Institution, external and internal control mechanisms, as well as the public and the civil sector in accordance with the Law on Free Access to Information, also supervise the work of the Development Bank.



3. Macroeconomic Framework

In 2025, the trades of the global economy were instability and uncertainty, primarily due to the redefining of economic and trade policies of the leading global economies. Despite these challenges, the global economy has shown considerable resilience, thanks in part to the fact that trade shocks have been less intense than initially expected. According to the forecast of the International Monetary Fund (IMF), the global economy growth prospects will remain stable, coupled with a slight deceleration from 3.3 percent in 2024 to 3.2 percent in 2025, 3.1 percent and 2026.¹

Building on the Euro area economic growth in the first nine months of 2025, real GDP growth in 2025 overshot the expectations of the spring forecasts. Notwithstanding the external environment and trade uncertainties, the global activity being stronger than expected, stable inflation and resilient labour market make key fundaments for the projections, which indicate a continuation of positive momentum of economic growth in the years to come. The Autumn Forecast of the European Commission projects real GDP growth in 2025 at 1.4 percent in the EU and 1.3 percent in the euro area, whereby both projects are an upward revision relative to the spring projections. On the other hand, the largest European economy, Germany, is expected to have a very moderate economic growth (0.2 percent) in 20205, with a trend reversal and economic growth output of 1.2 percent in 2026. The most recent inflationary expectations point a sustained low and stable inflation rate in the euro area, around the European Central Bank (ECB) target of 2 percent over the entire projection horizon.²

The Regular Economic Report of the World Bank for the Western Balkans countries³ expects the economic growth in the Western Balkans during 2025 to average at 3.0 percent, which is a mild deceleration relative to the previous period. The moderate recovery of the euro area will also contribute to the growth in the Western Balkans, by expanding investments and imports, thus it is projected that the economic growth of the region will be more dynamic in the following two years 3.1 and 3.6 percent respectively in 2026 and 2027, according to the World Bank estimates.

Table 3.1: GDP growth Forecasts for Montenegro and the Western Balkans countries

Real GDP growth rate, as %	World Bank		IMF		European Commission	
	2025	2026	2025	2026	2025	2026
Montenegro	3.3	3.2	3.2	3.2	3.0	3.1
Serbia	2.8	3.0	2.4	3.6	2.2	3.3
Bosnia and Herzegovina	2.6	3.0	2.4	2.7	1.8	2.2
Kosovo	3.8	3.8	3.9	4.0	n/p	n/p
Albania	3.7	3.5	3.4	3.6	3.6	3.5
North Macedonia	3.1	3.0	3.4	3.2	3.2	3.3

Sources: World Bank - Regular Economic Report for the Western Balkans Countries, autumn 2025; IMF –Global Economic Outlook, October 2025; European Commission – Economic Forecast, autumn 2025

¹ [World Economic Outlook, October 2025: Global Economy In Flux, Prospects Remain Dim \(imf.org\)](https://www.imf.org/en/subjects/global-economy/2025/10/03/global-economic-outlook-october-2025)

² [Autumn 2025 Economic Forecast: Continued growth despite challenging environment - European Commission \(europa.eu\)](https://ec.europa.eu/economy-finance/publications/autumn-2025-economic-forecast_en)

³ [Western Balkans Regular Economic Report, Fall 2025 \(worldbank.org\)](https://www.worldbank.org/en/region/western-balkans)



According to forecasts of international organisations, the similar trend of the economic growth of Montenegro is expected next year: the World Bank and IMF expect the Montenegrin economy to grow at real rate of 3.2 percent in 2026, while the European Commission forecasts the growth of 3.1 percent.

3.1. Recent Economic Developments

3.1.1. Gross Domestic Product

Following the economic growth of Montenegro in 2024 of 3.2 percent, the favourable macroeconomic trends continue also during 2025. The real economic growth of Montenegro in first half of 2025 was at 3.2 percent, whereby the key driver of the growth was private consumption, contributing at 5.4 percentage points. Investments (7.4 percent) and private consumption (6.4 percent) recorded the highest growth in first half of 2025. An analysis of the national economy by quarters shows that Q1 growth was 2.8 percent, while during the same period, the annual growth of EU (27) economies was 1.7 percent. In Q2, the Gross Domestic Product (GDP) of Montenegro grew by 3.5 percent, placing Montenegro amongst the countries with the highest economic growth rates in Europe and again being above the European Union average (1.6 percent).

Economic activity indicators for the first nine months of 2025, signal the growth of the value of completed construction works by 4.0 percent year-on-year. The retail trade turnover increased by 7.6 during three quarters, and the services turnover index in Q3 recorded a growth of 7.3 percent year-on-year. During 2025, the tourism sector is marked by growth, both in terms of the number of tourists and in terms of revenue. The number of overnight stays by domestic and foreign visitors in collective accommodation recorded an annual increase of 4.5 percent in the first nine months of 2025, while the number of transported passengers at Montenegrin airports increased by 8.2 percent. According to the preliminary data of the Central Bank of Montenegro, the revenues from tourism in the first three quarters of the 2025 amounted to 1.33 billion euro and recorded an annual increase of 1.3 percent. In Q3 of 2025 alone, the revenues in tourism reached 900.6 million euro and were higher by 2.7 percent relative to the same quarter of 2024. In the first nine months of 2025, the industrial production shrunk by 3.7 percent year-on-year, driven by decline in electricity generation of 30.6 percent caused by temporary closure of the Thermal Power Plant Pljevlja, due to the ecological reconstruction, but also due to decline in the mining and quarrying, sector by 18.4 percent. On the other hand, the manufacturing sector recorded an annual growth of 17.2 percent.

The difference of projections in the last year's ERP and new ERP is presented in the following table:

**Table 3.1.1: Divergence between the last year's ERP and the most recent estimates for 2025**

Real growth in 2025, as %	ERP 2025-2027	ERP 2026-2028	Divergence (as p.p.)
Real GDP growth	4.8	3.3	-1.5
Household consumption	7.2	5.7	-1.5
Government Consumption	2.7	2.7	0.0
Gross investments	4.7	5.7	1.0
Export of goods and services	2.7	-0.8	-3.5
Import of goods and services	5.3	4.1	-1.2

Source: Projections of the Ministry of Finance

The comparison of projections for 2025 points to moderate divergences in trends of some components of the Gross Domestic Products, whereby the overall picture remains within the framework of stable growth. Revised projections indicate a slight deceleration in real GDP growth, dominantly because of corrected expectations regarding economic flows on the European and global scene, in conditions of increased trade restrictions and a more restrictive international environment. Concomitantly, expectations regarding government spending remained unchanged, while investments were revised upwards, confirming the continuity of positive investments and their growing role in economic activity. Overall, the revised trends indicate an adjustment of macroeconomic assumptions to current trends, while preserving the stability of medium-term expectations.

3.1.2. Inflation

Inflationary flows over the past three years were ranging from a record-high inflation rate of 17.5 percent at the end of 2022, to an average inflation of more than 8 percent in 2023, followed with a drop to 3.3 percent in 2024. Growing inflationary pressures are predominantly the result of external developments, changed supply chains, as well as the energy crisis in Europe, as a result of the Russian Federation's invasion of Ukraine at the beginning of 2022. Montenegro, as a small import-oriented economy, cannot influence on rising import prices, which are reflected in consumer prices in the economy. Likewise, high dependence on external developments also drives the high import of food and food products, as a component that makes up a large part of the average consumption basket of households.

Stabilisation of prices occurred during 2024, thus at the end of the year, annual inflation was at a level lower than the EU average, while monthly inflation recorded a decline. This is a direct result of the measures implemented by the Government, which were dealing with limiting prices in large retail stores, leading to a drop in food prices at the end of the year. The action was carried out several times and continued also in the second half of 2025.

However, during 2025, inflation in the Western Balkan region intensified, with some countries in the region continuously being at the level of 4-5 percent during the year. In Montenegro, for the period January-October, consumer prices grew by an average of 3.9 percent compared to the same period one year ago. The prices of food and non-alcoholic beverages (impact of 1.32 percentage points) and the category 'Housing, water, electricity, gas and other fuels' (impact of 0.90 percentage points) made the biggest contribution to consumer price increase in the first ten months.



In 2025, the prices of industrial products for export recorded a mild decline of 1.7 percent in Q3 relative to Q3 of 2024, due to a drop in prices in the mining and quarrying sector and in the manufacturing sector (decline in production prices of the base metals). Conversely, the import prices of industrial goods stabilised and recorded a mild annual growth of 0.6 percent in Q3 2025.

3.1.3. Employment and Wages

The labour market exhibits continued positive developments, with stable growth in employment spurred implemented fiscal reforms concerning increase in minimum and average wage, but also as a result of expansion of the economic activity, and improved formalisation of labour relations. The employment grew to 269.7 thousand in the nine months of 2025, which is a rise of 4.8 percent year-on-year. The registered unemployment rate in April 2025 was single digit for the first time, while it continued a downward trend for the rest of the year to reach of historical minimum of 8.93% in August (a drop of 2.03 percentage points year-on-year). In the nine months of 2025, the average net wage in Montenegro increased by 7.7 percent year-on-year and was 850 euro. The average gross wage for the first nine months of 2025 was 1,011 euro, which represents an increase of 20.4 percent year-on-year. The growth trend is also noticeable in case of pensions - the average pension in September amounted to 555 euro, which is an annual growth of 6.6 percent, due to the increase in wages and adjustments in accordance with the law

3.1.4. Lending Activity of Banks

In 2025, the banking sector in Montenegro maintained stability and high liquidity, preserved profitability and good capitalisation. All key balance sheet items recorded an increase on annual level, and so as follows: assets by 10.90 percent, credits by 16.28 percent, deposits by 7.67 percent, and capital by 12.33 percent. At the end of September 2025, monetary assets of the banking sector amounted 926.2 million euro, and made 11.97 percent of the total assets. The non-performing loans (NPL) ratio was 2.82 percent as of 30 September 2025, continuing a declining trend and historical minimum levels.

The loans extended to natural persons amount to 2,336.4 million euro, or 43.62 percent of total loans, while the loans to legal persons make 3,020.1 million euro or 56.38 percent of total loans. This percentage ratio is approximately constant during the observed one-year period. During the same period, loans extended to natural persons recorded a growth of 20.25 percent, while the lending to legal persons recorded an increase of 13.38 percent. Loans to natural persons with 43.62 percent have a dominant share in the composition of total loans by key recipients; followed by loans to the corporate sector with 33.23 percent, loans to the Government of Montenegro with 3.03 percent, placements to banks with 16.82 percent, and other loans with 3.31 percent respectively of the total loans. Loans to the corporate sector (business undertakings, both in private and in state ownership) amount to 1,780.2 million euro and recorded a growth of 23.62 percent year-on-year. Loans in other currencies make 2.82 percent of total loans, while loans to non-residents make 19.73 percent of total loans, which mainly refers to assets held on accounts of correspondent foreign banks. Long-term loans, which made 77.72 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make 91.96 percent of total deposits in the system. At the end of



September 2025, the average weighted effective interest rate on the total loans was 6.25 percent and it was lower by 0.34 p.p. relative to the same month of the previous year.

During the nine months of 2025, total of 879.1 million euro of new loans was approved to legal persons, and these loans recorded a growth of 29.69 percent relative to the same period of the previous year, while 773.5 million euro was approved to natural persons, which is approximately 29.77 percent more relative to the same period of 2024. The average weighted effective interest rate on newly approved loans was 6.23 percent, and compared to September 2024 recorded a decline of 0.41 percentage points. The average weighted effective interest rate for loans to legal persons was 5.48 percent, which lower by 0.32 p.p. relative to September 2024, while the rate to natural persons of 6.91 percent was lower by 0.64 p.p. relative to the same period of the previous year.

At the end of September 2025, the total deposits amounted to 6,099.7 million euro. Over the one-year comparative period, the total deposits recorded a growth of 434.3 million euro or 7.67 percent. As for the composition of total deposits at the end of September 2025, the total deposits to natural persons amounted to 3,070.4 million euro or 50.34 percent in the total deposits, while deposits of legal persons amounted to 3,029.3 million euro or 49.66 percent. The deposits to natural persons at the one-year comparative level recorded an increase of 200.5 million euro or 6.99 percent, while the deposits to legal persons had a growth of 233.8 million euro or 8.36 percent. A-vista deposits are dominant, and make 85.17 percent of total deposits. The banking system still has a maturity mismatch of the deposit potential. The share of non-resident deposits was significant and was 18.71 percent, while the deposits in other currencies made 4.74 percent of the total deposits.

In September 2025, the average weighted effective interest rate on deposits was 0.26 percent, and recorded an increase of 0.01 p.p. if compared to same period of the previous year.

The value of the ratio of loans and receivables over deposits was 87.82 percent, which means that there is 743.2 million euro of deposit potential in the system exceeding receivables underlying the approved loans.

Regulatory Activities

The Central Bank of Montenegro (CBCG) is continuously conducting intensive activities aimed at improving the laws in the field of supervision and resolution of credit institutions, as well as at drafting secondary regulations for their implementation.

In order to reach full harmonisation with BRRD2 requirements, the CBCG prepared proposals for amendments to the Law on the Resolution of Credit Institutions and the Law on Bankruptcy and Liquidation of Banks, which were adopted by the Parliament of Montenegro on 19 November 2024. Furthermore, at the session of the Parliament of Montenegro held on 28 February 2025, the Law Amending the Law on Credit Institutions was adopted, which made the final alignment with the CRD V/CRR II requirements, as well as the Law on Financial Conglomerates, which made the alignment with the Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. Additionally, at the session of the Parliament of Montenegro held on 31 July 2025, amendments to the Law on Bankruptcy and Liquidation of Banks were adopted, which enabled final alignment with Directive 2001/24/EC on the reorganisation

and winding up of credit institutions, which mainly deals with the transposition of provisions on the liquidation proceedings with an international element.

As part of these activities, a significant number of secondary regulations resulting from the aforementioned laws were prepared and aligned, thus ensuring full alignment with European standards and practices.

Namely, in the field of supervision of credit institutions, at the beginning of June 2025, the Council of the CBCG adopted a new Decision on capital adequacy of credit institutions (Official Gazette of Montenegro, No. 65/25), which achieved full alignment with the requirements of the CRR III regulation, which has been in force in the EU since January 2025. Furthermore, in July and September 2025, a package of 13 secondary regulations was adopted, making further harmonisation with EU standards.

In order to maintain the dynamic pace of harmonisation of the national legal framework with EU regulations, at the Council meeting held on 30 September 2025, the Central Bank of Montenegro adopted the Draft Law Amending the Law on Credit Institutions. It covers the final standards related to the requirements for capital and risk management (CRD VI/CRR III package), which will commence with application in the EU from January 2026, as well as requirements on digital operational resilience for the financial market (DORA package) and the new framework for governing crypto-assets (MiCA regulation) to the extent that the CRD is changed. The public consultations for this regulation ended on 5 November 2025, and it is currently in the phase of interdepartmental alignment, with the plan to adopt it as soon as possible.

Moreover, in the field of resolution of credit institutions, a set of 10 secondary regulations for the implementation of the Law on the Resolution of Credit Institutions was adopted in March and April 2025, which further aligned them with EU regulations. In addition, at the session held on 10 November 2025, the CBCG Council adopted the Draft Law Amending the Law on the Resolution of Credit Institutions, which further improves the resolution proceeding and aligns to modern European standards, especially in the context of the introduction of clear regulatory treatment for entities for which the resolution plan provides only bankruptcy, not resolution.

Finally, as part of the project to improve the regulatory framework that governs the operation of financial service providers, based on the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-Guarantee Operations, the CBCG prepared and submitted to the further procedure for adoption in September 2024 the final version of the proposal for amendments to the aforementioned law, which is still in the procedure of interdepartmental alignment.

In accordance with the provisions of the Law on the Development Bank of Montenegro (Official Gazette of Montenegro, No. 99/24) adopted in October 2024, concerning the obligation to report and control the operations of the Development Bank, the CBCG Council, at its session held on 25 July 2025, adopted the following regulations:

- Decision on capital adequacy of the Development Bank of Montenegro (Official Gazette of Montenegro, No. 94/25);

- Decision on the reports submitted by the Development Bank of Montenegro to the Central Bank of Montenegro (Official Gazette of Montenegro, No. 94/25);
- Decision on the criteria and method of asset classification and calculation of provisions for potential credit losses of the Development Bank of Montenegro (Official Gazette of Montenegro, No. 94/25);
- Decision on minimum standards for risk management in the Development Bank of Montenegro (Official Gazette of Montenegro, No. 94/25);
- Decision on large exposures of the Development Bank of Montenegro (Official Gazette of Montenegro, No. 94/25).

The Central Bank continuously communicates with credit institutions and other entities subject to supervision, with the aim of providing support and necessary assistance to these institutions in the application of all existing laws and secondary regulations.

Through its regulatory activities, or the improvement of systemic laws and the accompanying regulatory framework, the CBCG additionally strengthens the resilience and stability of the banking sector, encourages compliance with the highest European standards and contributes to strengthening the trust of citizens, investors and international partners in the financial system of Montenegro. At the same time, in the context of activities related to the accession of Montenegro to the EU, the CBCG sends a clear signal of institutional and regulatory readiness for further progress in the negotiation of EU integration.

3.1.5. Financial Sector

At the end of Q3 2025, the characteristics of the financial sector are stability and moderate level of systemic risk exposure. Cyclical risks are reflected primarily in the higher credit growth and increased level of real estate prices. The credit growth is driven mainly by cash loans, but also by housing loans to citizens, however, with a pronounced increased in lending to the corporate sector.

The countercyclical capital buffer rate of 1 percent, to be applied from 1 January 2026 (an increase from 0.5 to 1 percent announced at the end of 2024), is therefore still appropriate, and in the event of excessive growth of lending or growth in real estate prices, the Central Bank of Montenegro will act by raising additionally the buffer rates, and if necessary, with other instruments. The CBCG's focus in the coming period will be monitoring the indebtedness of natural persons by monitoring of indebtedness coefficients by individual credit lines, with the possible introduction of a limit on said coefficients (so-called borrower-based measures). The validity of macro-prudential measures related to unsecured cash loans of natural persons will be extended most likely until the end of 2026.

Mainly due to structural macroeconomic imbalances, the structural systemic risk buffer of 1.5 percent, introduced in 2022, is still in effect. In addition to the countercyclical buffer and structural systemic risk buffer, the capital buffer for other systemically important credit institutions, as well as the capital conservation buffer, which will reach the final 2.5 percent on 1 January 2025, also applies. Overall, at the end of September 2025, the requirement for all capital buffers ranged from 4.4 percent to 5 percent of the total risk exposure amount, in the form of the highest quality, common equity tier 1 capital (CET1). As a result of amendments to the Law on Credit Institutions (CRD V), starting from 2026, the mandatory



addition of structural systemic risk buffer and buffer for other systemically important credit institutions will begin, whereby the CBCG will not lower any of these buffers, so that the capital position of banks will be further strengthened.

Other segments of the financial system, generally having less importance relative to the banks, do not represent a threat to financial stability. Namely, the financial sector reached the value of assets of more than 8.36 billion euro at the end of September 2025, which made 105.6 percent relative to the GDP. The banking sector makes 92.6 percent of assets of the financial sector, followed by the insurance sector with 4.3 percent, while all other financial intermediaries make 3.1 percent of assets of the financial sector.

During the nine months of 2025, turnover at the *Montenegroberza* (Montenegro stock exchange) was 80.8 million euro, several times more than the turnover generated in the same period of the previous year, even though it makes only 1 percent of the forecasted annual GDP for 2025.

The Central Bank carries out continuous supervision of the banking sector; and under its supervision the banking sector is liquid, solvent, and with non-performing loans ratio that reached the historical minimum values. On the annual level, all parameters of asset quality recorded an improvement. As of 30 September 2025, the gross non-performing assets (C, D and E) for the entire banking system were 213.3 million euro, which represents 2.69 percent of total assets. Compared to the same period of the previous year, it recorded a decrease of 16.46 percent. Gross non-performing loans and receivables (C, D and E) amount 151.1 million euro and recorded a decrease of 17.20 percent, in comparison to the comparative period of the previous year.

The non-performing loans and receivables (NPL) ratio as of 30 September 2025 was 2.82 percent and on the annual level it recorded a decrease of 1.14 p.p. (as of 31 December 2023 it was 5.02 percent, on 31 December 2024 it was 3.51 percent), which indicates an improvement in the quality of the credit portfolio of banks. The coverage of NPLs by value adjustments is 91.59 percent, while their coverage by regulatory reserves is 91.32 percent.

The liquidity of banks is at the high level. The liquid assets of banks were 1,580.1 million euro and made 20.42 percent of the total assets at the end of September 2025. In the structure of the liquid assets, the largest share are: assets held with foreign banks (demand deposits) which make up 50.47 percent of the total liquid assets; followed by the cash and cash equivalents which make 37.91 percent of the total liquid assets; assets held with domestic banks (demand deposits) with share of 1.26 percent of the total liquid assets; while part of the mandatory reserve makes up 10.36 percent of the total liquid assets.

At the end of September 2025, the large portion of liquidity of banks was held in securities (1,337.6 million euro or 17.28 percent of the total assets), of which slightly more than half was placed abroad (714.6 million euro), whereby those were mainly placements in short-term securities having an investment-grade credit rating issued by the euro area Member States. Certainly, the composition of foreign securities is the subject of continuous attention of the Central Bank of Montenegro, including the possible drop in income that may result from this in an environment of declining yields on government debt. Securities represent a liquidity reserve of banks.

The banking sector stability is supported with adequate capitalisation, so that both the aggregate (19.39 percent) and individual solvency ratios for all banks in the system (ranging from 14.97 to 25.35 percent) as of 30 September 2025, are above the statutory minimum. At the end of September 2025, the positive financial result at the system level was 112.5 million euro, while it was 136.3 million euro in the same period of the previous year. The return on average assets (ROA) at the end of September 2025 was 2.03 percent, while the return on average equity (ROE) was 15.85 percent. Both the return on average assets (ROA) and the return on average equity (ROE) recorded a decline compared to the same period of the previous year.

In case of emergency liquidity support for banks in the event of unforeseen circumstances, the Governing Council of the European Central Bank (ECB) decided to extend the deadline to the Central Bank of Montenegro for the use of the EUREP (Eurosystem repo facility for central banks) line until 31 January 2027 under the same conditions. The ECB's EUREP instrument was established in June 2020 and enables the Central Bank of Montenegro, in case of a need, to obtain funds in the shortest possible time to support the systemic liquidity for up to 250 million euro. This is an additional precautionary measure, and its extension is confirming the close cooperation and support of the ECB and national banks of countries outside of the euro system. The Central Bank of Montenegro secured 100 million euro from the Bank for International Settlements (BIS) under a REPO line for the same purpose. The line is renewed annually, and the existing one is in effect until 2 June 2026.

3.1.6. External Sector

3.1.6.1. Current Account

In the period January-September 2025, the **current account deficit** was 909.08 million euro and was higher by 16.35 percent relative to the same period of 2024, as a result of a deficit on the account of goods, as well as of shrinking surplus on the account of secondary income. Total export of goods was 424.66 million euro, or 8.43 percent less if compared year-on-year, whereby the strongest contribution comes from the decline in export of other means of transport and non-ferrous metals. Total import of goods amounted to 3,187.30 million euro and was 7.66 percent higher year-on-year, resulting from increased imports of electricity and road vehicles. The deficit on the **goods account** 2,762.65 million euro, which is an increase of 10.65 percent relative to the same period of 2024. The **services account** ended up in a surplus of 1,442.74 million euro, which is 1.91 percent more year-on-year, and mainly as a result of increased revenues from transportation services. Total revenues from services were 2,231.02 million euro or 2.08 percent higher year-on-year, while the expenditures recorded on this account were 788.29 million euro (increase of 2.40 percent). The **primary income** account registered a surplus of 106.07 million euro, while in the comparative period this account recorded a deficit of 18.58 million euro. Revenues resulting from the primary income were 419.10 million euro (growth of 21.36 percent). The expenditures on this account were 313.03 million euro and were decreased by 13.98 percent relative to the observed period. The **secondary income** account recorded a surplus of 304.76 million euro, which is 4.24 percent higher relative to the observed period of 2024. Total transfers inflow to Montenegro was lower by 1.40 percent, and amounted to 416.20 million euro, of which majority is made of personal transfers from abroad of 313.77 million euro, having an increase of 1.53 percent year-

on-year. During the same period, the total outflow on the account of transfers to abroad amounted 111.45 million euro (an increase of 7.30 percent).

3.1.6.2. Financial Account

The **portfolio investments** account recorded a net inflow of 184.66 million euro, while the net inflow on the other investments account was 153.99 million euro. During the observed period, the main developments on this account were increased borrowing liabilities of banks, the State and other sectors, if compared to the same period of 2024. According to the preliminary data, the net inflow of **foreign direct investments** was 366.13 million euro in the period **January-September 2025**, which is a decline of 1.69 percent if compared to the same period of 2024. Total foreign direct investments inflow was 701.89 million euro, an increase of 6.65 percent year-on-year. The breakdown of inflows is made of equity investments of 448.11 million euro (increase of 6.62 percent), while the inflow in a form of intercompany debt was 221.68 million euro recording (a growth of 2.22 percent year-on-year. As for the composition of equity investments, the investments in companies and banks were 86.33 million euro (a drop of 13.71 percent), while the investments in immovable property were 361.78 million euro (an increase of 12.97 percent). Inflow resulting from withdrawing investments from abroad was 32.10 million euro. If observing the composition of the total inflow of the foreign direct investments, the share of investments in immovable property was 51.54 percent, followed by the intercompany debt with 31.58 percent, and investments in companies and banks with 12.30 percent. Total outflow of the foreign direct investments during the observed period was 335.76 million euro, which is 17.50 percent more year-on-year. The outflow from investments of residents abroad was 80.15 million euro, while the withdrawal of funds of non-residents invested in our country was 255.61 million euro.

Table 3.1.6.2: Balance of Payments of Montenegro, in thousand euro

No	Item	Jan - Sept 2024	Jan - Sept 2025*	Change in %
1	Current Account	-781,342	-909,081	16.3
1.A	Balance of goods and services	-1,080,997	-1,319,908	22.1
1.A.a	Goods	-2,496,743	-2,762,646	10.7
1.A.a.1	Export, f.o.b.	463,756	424,657	-8.4
1.A.a.2	Import, f.o.b.	2,960,499	3,187,304	7.7
1.A.b	Services	1,415,746	1,442,739	1.9
1.A.b.1	Revenues	2,185,580	2,231,024	2.1
1.A.b.2	Expenditures	769,834	788,285	2.4
1.B	Primary income	-18,583	106,071	
1.B.1	Revenues	345,327	419,104	21.4
1.B.2	Expenditures	363,910	313,032	-14.0
1.C	Secondary income	318,239	304,756	-4.2
1.C.1	Revenues	422,103	416,204	-1.4
1.C.2	Expenditures	103,865	111,449	7.3
2	Capital Account	-14	-1,120	8,132.3
2.A	Revenues	0	0	
2.B	Expenditures	14	1,120	8,132.3
	Balance of current and capital account	-781,356	-910,201	16.5

3	Financial account, net	-668,040	-798,427	19.5
3.A	Net acquisition of financial assets	114,607	-226,063	
3.B	Net increase/incurrence of liabilities	782,646	572,364	-26.9
3.1	Direct investments, net	-372,409	-366,131	-1.7
3.2	Portfolio investments, net	-406,601	-184,659	-54.6
3.3	Financial derivatives, net	-18,131	-14,385	-20.7
3.4	Other investments, net	-92,563	-153,985	66.4
3.5	CBCG Reserve (change)	221,663	-79,265	
4	Net errors and omissions (3-2-1)	113,316	111,774	-1.4

*Preliminary data

Source: CBCG

3.1.6.3. International Investment Position

At the end of 2024, the net international investment position of Montenegro amounted 7,976.96 million euro or 104.35 percent of GDP, and if compared to 2023 was increased by 596.74 million euro. Total external receivables of residents were 5,840.03 million euro, and liabilities 13,816.99 million euro. Observing the net position by investment instrument (assets less liabilities), the preliminary data indicate that if compared to the same period of the previous year there was an increase with the foreign direct investments increased by 555.68 million euro and with the portfolio investments by 389.35 million euro, while the other investment recorded a decrease by 104.46 million euro.

At the end of Q2 2025, the net international investment position⁴ of Montenegro amounted -8,612.38 million euro. The total external receivables of residents were 5,675.01 million euro, while the liabilities were 14,287.39 million euro.

If compared to the end of 2024, the negative net international investment position was increased by 635.42 million euro, mainly due to increase in financial liabilities (by 470.40 million euro). Observing the net position by investment instrument (assets less liabilities), the preliminary data indicate that if compared to the same period of the previous year there was an increase of the portfolio investment by 311.93 million euro, as well as with the foreign direct investments which increased by 88.75 million euro, and other investment by 100.50 million euro.

Table 3.1.6.3: Composition of the International Investment Position of Montenegro, in million euro

	2023	2024	Q2-2025	Change in % 2024/2023	Change in % Q2 2025/2024
1. International Investment Position, net	-7,380.23	-7,976.96	-8,612.38	8.09%	7.97%
2. Assets	5,156.86	5,840.03	5,675.01	13.25%	-2.83%
2.1. Direct investments, net	257.97	305.71	342.06	18.51%	11.89%
2.2. Portfolio investments, net	1,200.28	1,468.98	1,507.13	22.39%	2.60%
2.3. Financial derivatives	0.04	0.03	0.00	-19.44%	-86.21%

2.4. Other investments	2,273.58	2,396.42	2,291.25	5.40%	-4.39%
2.5. CBCG reserves	1,424.99	1,668.88	1,534.56	17.12%	-8.05%
3. Liabilities	12,537.09	13,816.99	14,287.39	10.21%	3.40%
3.1. Direct investments	5,713.98	6,317.40	6,442.50	10.56%	1.98%
3.2. Portfolio investments	1,784.15	2,442.21	2,792.28	36.88%	14.33%
3.3. Financial derivatives	2.41	2.46	2.36	2.07%	-4.07%
3.4. Other investments	5,036.55	5,054.92	5,050.25	0.36%	-0.09%

Source: CBCG

3.1.6.4. External Debt

At the end of 2024, the total external debt of Montenegro was 9,678.88 million euro, and compared to the end of December 2023, it was increased by 618.22 million euro. The share of total external debt to GDP at the end of 2024 was 126.61 percent, which represents a decrease of 1.57 p.p. on an annual basis. As for the composition of the external debt of Montenegro at the end of 2024, 44.31 percent or 4,288.64 million euro was the public sector debt, while 55.69 percent or 5,390.23 million euro related to the private sector debt.

According to preliminary data, the total external debt of Montenegro at the end of the Q2 2025 amounted to 9,935.34 million euro. If compared to the end of December of the previous year, this debt was increased by 256.46 million euro, due to a higher increase in the debt recorded in the public sector compared to the private sector. As for the composition of the external debt of Montenegro at the end of the Q2 2025, 45.86 percent was the public sector debt, while 54.14 percent related to the private sector debt. The external debt of the public sector was 4,556.56 million euro, which represents an increase of 267.91 million euro compared to the end of the previous year. This rise is the result of an increase in liabilities coming from the bonds issued on a foreign market. The external debt of the private sector at the end of the Q2 2025 amounted to 5,378.78 million euro, or 11.46 million euro less than at the end of the previous year. Observing the types of financial instruments, the majority of the private sector debt (77.35 percent), amounting to 4,160.28 million euro goes to credits, while the remaining 31.41 percent mainly refers to cash and deposits, and debt securities.

As for the currency breakdown of the total external debt, at the end of the Q2 2025, the euro dominates with about 95 percent of the share, which makes the country's risk relatively low considering that the euro is the legal tender for payments in Montenegro.

Table 3.1.6.4: Composition of the external debt of Montenegro, in million euro

Sector	2023	2024	Q2-2025	Change in % 2024/2023	Change in % Q2 2025/2024
1. General Government	3,517.29	4,183.48	4,458.30	18.94%	6.57%
2. Central Bank	102.04	105.17	98.25	3.06%	-6.57%
3. Deposit institutions, other than central banks	1,434.80	1,539.86	4,556.56	7.32%	3.67%
4. Other sectors	1,736.72	1,668.63	1,596.41	-3.92%	1.25%
5. Direct investments: intercompany debt	2,269.81	2,181.75	1,689.56	-3.88%	-4.08%
Total external debt	9,060.66	9,678.88	9,935.34	6.82%	2.65%

Source: CBCG

3.2. Medium-term Macroeconomic Scenario

The Montenegrin economy recorded a stable and sustainable growth, driven by increased private consumption and investments, as well by expansion in available income and employment.

The macroeconomic projections for the period 2025-2028 are based on expectations of a balanced economic expansion, with a dominant contribution coming from the domestic demand and planned investments in priority sectors. The macroeconomic outlook over the medium term entails also strengthening of the competitive position of the domestic real sector, diversification of economic activities, and modernisation of infrastructure, while expanded employment and increased wages will continue to contribute to improving the standard of living of citizens. The sustainable economic development is underpinned further by fiscal discipline, public finance stability, and favourable environment for domestic and foreign investments, and in doing so creating the footing for long-term prosperous dynamics. The projections are based on a detailed analysis of domestic economic trends, relying on available statistical data and expectations concerning global inflationary pressures and cyclical developments. The next part of this Chapter presents an overview of the medium-term macroeconomic forecasts, while identifying the macro-financial risks; as well as an alternative scenario, or so-called stress test scenario, which simulates a set of possible risks and challenges materialising.

3.2.1. Baseline Macroeconomic Scenario 2025-2028

During the previous period, Montenegro retained stable economic growth rates, overshooting the European average, despite numerous challenges present on the global sphere, including heightened trade tensions, geopolitical insecurities, enduring including inflationary pressures and climate risks. The next medium-term macroeconomic projections are based on current economic trends, along with continued healthy and balances growth dynamics, predicated on strong domestic demand, further labour market expansion and growth of investments in key sectors of the domestic economy.

During 2025, the tourism sector recorded an increase in number of overnight stays in collective accommodation of 4.5 percent, as well as an increase in the revenues from tourism of 1.3 percent year-on-year. Sector indicators, including the sectors of trade, construction, and transport recorded positive development, with exception of industrial production that recorded a decline, due to ecological reconstruction of the Thermal Power Plant Pljevlja and consequently lower electricity generation. Exceptionally strong performance continued to be a feature of the labour market, with an increase in employment and rise in average net wages, coupled with the continuous decline in the unemployment rate. Features of the banking sector are also positive – strong increase of newly approved loans (27.1 percent year-on-year for the first nine months) and growth of total deposits (6.9 percent year-on-year), with gradual decline in interest rates. The external trade position of Montenegro continues to record similar trends of the trade balance deficit as it was the case in the previous period, due to decline in exports of goods in 2025, while imports increases, largely driven by domestic demand. In 20205, inflation recorded mild rise compared to the previous year, however,



reaming stable at 3.9 percent for first ten months, with expectations of its descending trend and stabilisation over the medium term. The inflow of foreign direct investments in nine months recorded a value north of 700 million euro and increased by 6.6 percent on an annual basis, while investments in companies and banks recorded a growth of 44.0 percent, relative to 2024. **Based on the above stated macroeconomic developments, the forecasted growth of the Montenegrin economy in 2025 is at 3.3 percent.**

According to the preliminary projections of the Ministry of Finance, over the medium term the Montenegrin economy will generate an average annual growth at 3.2 percent, by years 3.2 percent in 2026, 3.1 percent and 3.2 percent in 2027 and 2028, respectively. Taking into account the economic growth rate in 2024, in the framework of a complex European and global contexts, the forecasts for the next period are based on the continued growth trend of domestic consumption, sustaining stable and descending inflation, the intensification of the investment cycle, as well as consistent implementation of public policies aimed at economic convergence towards the EU average. The characteristic of the period 2025-2028 is an intensive investment cycle through investments both under the Capital Budget and through grants provided by the European Union, the most significant of which are for the construction of the second section of the Highway and the reconstruction of the railway infrastructure. At the same time, the Growth Plan for the Western Balkans will make available to Montenegro 383.5 million euro in the period 2025-2028 for carrying out structural reforms and investment in infrastructure.

In the coming years, the main pillar of the growth over the medium term is expected to be domestic demand, with projected real growth of 5.2 percent in 2025 and 2.8 percent average annual growth in the medium term. The private consumption will retain a strong momentum, spurring from employment growth, higher wages, and lending activity expansion. After the private consumption reached a growth of 10.5 percent in 2024, thanks to tax and fiscal policy reforms and measures to increase the minimum and average wages and minimum pension that increased the purchasing power of the population, private consumption growth of 5.7 percent in 2025 and stable average annual growth of 2.4 percent in the period 2026-2028 is forecasted. Concurrently, the high growth rate of newly approved loans and the continuous inflow of remittances from abroad will continue to support domestic consumption. Projections of public spending based on high current budget spending and investments from the Capital Budget point to an average annual growth of government spending of 2.2 percent over the medium term. On top of that, implementation of the Reform Agenda, which covers key measures in the areas of improving the business environment, labour market and human capital, as well as digital and green transition, in line with the priorities defined in the European Union Growth Plan, which through available financial instruments provides a strong impetus to implement reforms and improve the overall economic resilience of Montenegro, supports the medium-term economic growth.

As regards to the price stability, after expected average inflation rate of 3.8 percent in 2025, a clear downward trend is projected driving the inflation rate to the level of 2.0 percent at the end of the forecast period. Following the easing of inflationary pressures, which were present at the European and global level, according to the macroeconomic forecasts, it will be 2.5 percent on average over the next three-year period.

The labour market trends mirror the growth of the economy, with an average annual increase in employment of 2 percent. Owing to employment policies and programmes that contributed to greater inclusivity in the labour market, the unemployment rate was reduced at a faster pace than expected during 2024 and 2025, whereat this trend is expected to continue and at the end of the forecast horizon, precisely in 2028, the unemployment rate is expected to be at the level of 8.1 percent. Whilst, following the strong wages growth in 2024 and 2025, following the reforms, moderate wage growth is expected to continue in the coming period, which, in combination with declining inflation, will lead to the expected growth of real earnings and standard of living.

Based on relevant investment plans in the field of tourism, renewable energy sources and energy efficiency, the growth in investment and investment activity, resulting in net foreign direct investments that will amount to about 6.3 percent of GDP is projected in the period 2026-2028. The new instrument for accelerating convergence towards the European development average, the EU Growth Plan, will provide additional financial resources for financing capital projects and planned structural reforms in the economy, which will have consequently an additional positive impact on the intensification of investment activity. Fixed capital formation will represent an important factor of economic growth in the medium term, with projected annual growth of around 6 percent on average and a contribution to GDP of 1.2 percentage points in each year of the medium term.

Prospects for economic growth over the medium term are supported by the strategic priority of closing all negotiation chapters by the end of 2025, in order for Montenegro to become a full European Union member in 2028. Under the Reform Agenda and the European Union Growth Plan, the special focus is directed towards the socio-economic and fundamental reforms, which intensively contribute to spur growth and accelerate convergence towards the European Union. Montenegro remains firmly committed to improving the economic framework and strengthening institutional stability, with the ultimate goal of creating better conditions for citizens and the economy and strengthening the stability and competitiveness of the domestic economy.

Macroeconomic projections for 2026-2028 have the following components on the consumption side:

- In the medium term, the strong domestic demand (impact 3.5 p.p.) coupled with private consumption (impact 1.9 p.p.), and investments (impact 1.2 p.p.), as drivers of the economic activity, will dominantly drive the growth dynamics of the economy of Montenegro. Household personal consumption will be stimulated predominantly by growth in employment and wages, lending activity, and transfers from abroad (remittances). Following the projected growth of 5.7 percent in 2025, the private consumption will retain a stable growth of around 2.4 percent over the next medium-term, while the government spending is forecasted to grow at an average rate of 2.2 percent annually, due to high current spending and planned capital investments financed from public sources. The expansion of investments has bases in dual footing – financial support of the EU Growth Plan, enabling financing for carrying out capital projects and implementing structural reforms, and strategic investments in priority sectors.



Investments in infrastructure, as well as investments plans in tourism, energy, digitalisation, education, and healthcare sectors, in line with the medium-term macroeconomic framework, are expected to yield an average annual growth of about 6 percent.

- Net exports will have marginal negative effect on the economic growth in the coming years, due to simultaneous growth of imports for personal and investment consumption. However, at the end of the forecast horizon, precisely in 2028, this trend is expected to reverse, whereby net imports will have mild positive effect on the economic growth (0.1 p.p.). Building on the increase in consumption and investments, imports are expected to grow at 3.1 percent annually in the period 2026-2028, with a contemporaneous increase in exports at an average of 4.0 percent. Exports will be driven by further rise in revenues from tourism and recovery of the exports of goods resulting from higher electricity exports.

Table 3.2.1: Montenegro: Macroeconomic Projections 2025-2028, Baseline Scenario

Montenegro: Macroeconomic Projections, 2025-2028 - Baseline Scenario					
	2024	2025	2026	2027	2028
Nominal GDP in million euro	7644.5	8124.7	8564.6	8973.5	9389.5
Nominal growth	8.1	6.3	5.4	4.8	4.6
Real growth	3.2	3.3	3.2	3.1	3.2
Inflation (average)	3.3	3.8	2.9	2.5	2.0
Current account deficit, % of GDP	-16.5	-17.8	-17.1	-16.0	-14.6
(Real growth rates as %)					
Real GDP growth	3.2	3.3	3.2	3.1	3.2
Domestic demand	7.6	5.2	3.3	2.7	2.6
Household consumption	10.5	5.7	2.9	2.3	2.1
Government consumption	3.0	2.7	2.5	2.5	1.5
Gross fixed capital formation	10.2	7.0	6.0	5.0	6.0
Export of goods and services	-4.0	-0.8	3.1	3.9	5.2
Import of goods and services	5.7	4.1	3.2	2.8	3.3
Growth in percentage, unless otherwise indicated					
Macroeconomic indicators:					
Employment growth	1.5	2.6	2.1	2.0	1.7
Growth of wages (gross)	9.7	8.0	4.0	4.0	5.0
Unemployment rate (LFS)	11.5	10.5	9.8	9.0	8.1
Net FDI, as % of GDP	6.4	6.8	6.4	6.1	6.4
Newly-approved loans	23.4	20.0	5.0	5.0	6.0

Source: Projections of the Ministry of Finance

Macroeconomic indicators:

- According to the projections, over the next medium-term the inflation rate will be brought down from 3.8 percent in 2025, to the level of 2.0 percent at end of the projection period (2025), which is at the level of the target inflation of the European Central Bank (ECB) for the Euro area;
- The employment will record a moderate and sustained growth in the period 2026-2028, with an annual average rate of around 2 percent. The unemployment rate, according to the projections, will drop to an average of 8.1 percent in 2028 (according to the Labour Force Survey);
- The share of the net foreign direct investments (net FDI) is projected to approximately 6.2 percent of GDP in the period 2026-2028;
- Current account deficit in the balance of payments will decline from the estimated 17.8 percent of GDP in 2025 to 14.6 percent of GDP in 2028, due to the expected dynamics for imports and exports, with increase of surpluses on accounts of services, as well as on the accounts of primary and secondary income.

Observing at the production side, the growth of the Montenegrin economy in the medium term will be dominated by the sectors of tourism, construction, with a continued recovery and growth of agricultural production. During 2025, services, having a dominant position, record a strong increase, thus their further growth are expected in the medium term, in particular in the segments of growth in transport and tourism.

The following table outlines the indicators by production sectors:

Sectors	Real growth rates, as %				Share in GDP growth, %				Share in GVA, as %			
	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
Agriculture	1.0	3.0	3.0	7.0	0.0	0.1	0.1	0.2	4.3	4.3	4.3	4.4
Industrial production	-6.1	6.5	5.7	4.6	-0.5	0.5	0.4	0.4	9.6	9.8	10.0	10.1
Construction	3.0	4.0	2.0	4.0	0.1	0.2	0.1	0.2	4.9	4.9	4.8	4.8
Services	3.7	3.4	3.5	3.5	2.4	2.2	2.2	2.3	81.2	81.0	80.9	80.6
<i>-of which accommodation and food services</i>	7.5	7.0	7.0	7.0	0.6	0.6	0.6	0.6	10.1	10.4	10.8	11.1
GVA (gross value added)	-3.2	2.2	2.1	2.2	2.0	3.0	2.9	3.0	100.0	100.0	100.0	100.0
Taxes less subsidies	6.5	1.0	1.0	1.0	1.3	0.2	0.2	0.2	N/A	N/A	N/A	N/A
GDP	3.3	3.2	3.1	3.2	3.3	3.2	3.1	3.2	N/A	N/A	N/A	N/A

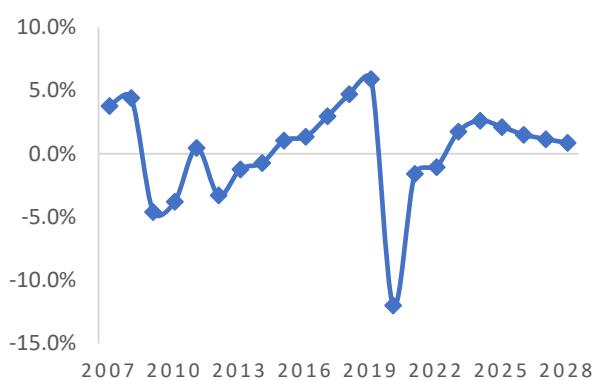
Source: Projections of the Ministry of Finance

The planned outturn of macroeconomic and fiscal indicators over the medium term is based on the current public policies and planning documents, as well as assumptions of the economic cycle in the European Union, along with the foreseen reform measures that support the materialising of the baseline forecasts scenario. However, due to the uncertain context of the domestic and external environment, the projected indicators remain subject to certain departures, in line with the identified risks to macroeconomic and financial stability.

The key risks that could affect the growth prospects in the coming period are provided as follows:

- Deceleration of the European economy and growing inflationary pressures, given that the effects of significant changes in economic developments in the EU are directly spilling over into the Montenegrin economy;
- Slower pace of executing investment plans and structural reforms in the economy;
- Uncertainties in international trade policy in the context of the increase in custom tariffs by the USA towards key partners, whereby indirect impacts would be expressed through the slowdown of economic growth in the countries of the region and the EU, which are the key markets for tourism, investments and foreign trade of Montenegro;
- Climate change may have an effect on the growth dynamics of the economy in the medium term, due to its impact on the sectors of tourism, agriculture, and energy.

Figure 3.2.2: Output gap 2007-2028



3.2.2. Potential Growth

During the last few years, the Montenegrin economy has recorded strong rates of economic growth, driven by strong demand, expanding consumption, and reform measures, steered by pronounced demand, expansion in spending and reform measures, and enters a cycle of convergence towards its potential growth.

The growth of the Montenegrin economy in the period preceding the forecast macroeconomic period, precisely in the period 2007-2024, was around or somewhat above the estimated potential for this period, thus the average growth of the Montenegrin economy in this period was 2.7 percent; whereby the increase in capital, as production factor, was a commanding driver.

For the period 2025-2028, a new assessment of the growth categories of the Montenegrin economy, its potential growth, as well as the output gap was done. The analysis was carried out using the macroeconomic model in the Ministry of Finance, obtained as a result of the IPA project, as well as using the newly established model by the World Bank through the project to strengthen fiscal management, financed by the European Union. The analysis itself is based on the method of production factors and their contribution to the growth of economy, and over the medium term the Montenegrin economy is estimated to grow at an annual average

rate at the level of its potential around 3.3 percent, with an additional contribution of labour force as a production factor, and marginal contribution of technological development stated as the total factor productivity.

After 2025, the output gap is narrowing over the medium term, given that the Montenegrin economy enters a more mature business cycle phase, thus the positive output gap is forecasted, ending in the medium-term as the growth convergence towards the potential growth. Stemming from the tax and fiscal policy reform, and increase in disposable income resulting from rise of the minimum and average wage, the gap between potential and projected real GDP in 2025 is somewhat higher and is positive. In addition to the fiscal policy reform, the convergence in the years to come will be guided by announced structural reforms towards the EU integration, creating regulatory prerequisites for maintaining a sustainable and stable growth of the economy and increase in competitiveness and productivity.

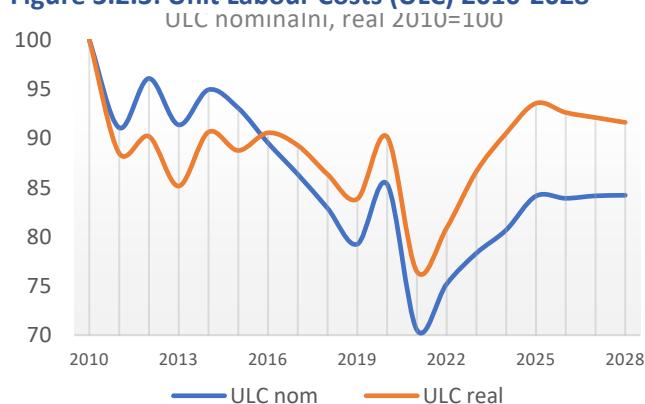
3.2.3. External sector and its medium-term sustainability

The insufficient diversification of the Montenegrin economy and pronounced fluctuations in export levels, resulting from high concentration and share of the electricity sector and the metal processing industry, precisely the aluminium, cause a high foreign trade deficit. The negative foreign trade balance, being a difference of export and import of goods, is estimated to grow from 44.3 percent of GDP in 2025, to 44.5 percent of GDP in 2028. The main factor contributing to these trends is the reconstruction of the Thermal Power Plant Pljevlja, which will result in temporary suspension of operation of this plant, resulting in a high need to import electricity in 2025. The growing deficit in trade in goods is projected to drive the current account deficit from 17.1 percent of GDP in 2024 to 17.8 percent of GDP in 2025.

After 2025, in the medium term, a gradual downward trend of the current account deficit is expected, with an increase in the surplus on the accounts of services (growth in tourism), primary income and secondary income (employee compensation, international remittances, and other). Sustainable economic growth, further expansion of tourism, and strengthening the energy generation capacity from renewable sources, along with the growth of the aforementioned surplus on other accounts, will pilot the decline of the current account deficit to 14.6 percent of GDP in the medium term. Foreign direct investments and other external sources of financing will finance the current account deficit.

The competitiveness analysis prepared using the **unit labour costs (ULC)**, addressing how

Figure 3.2.3: Unit Labour Costs (ULC) 2010-2028



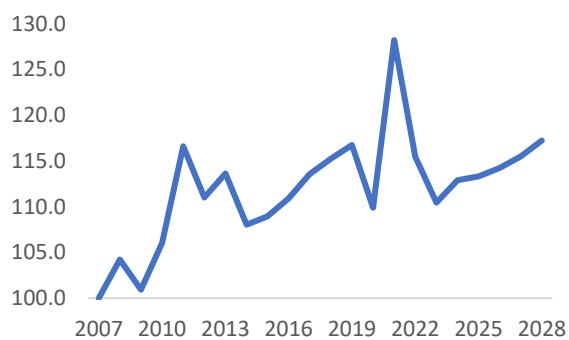
much real labour costs have increased in relation to the increase in economic activity, shows that the labour cost competitiveness recorded a sizeable growth in the period 2010-2019, which was a consequence of the growth dynamics of wages, employment, and GDP. The labour cost competitiveness in 2020 was decreased; while in 2021 was improved as a direct consequence of the Corona Virus crisis and subsequent

recovery. The declining trend of the labour costs competitiveness is noticeable during past several years, due to the faster growth of wage bill in the economy than the economic activity was increasing. In 2025, there was a strong increase in the minimum wage in the economy, where a part of the increased costs was offset by reducing in the social contribution rate for pension and disability insurance charged to employers. Precisely, the increase in the minimum and average wages is accompanied by a decrease in the tax wedge on labour. Furthermore, taking into account a pronounced informal economy on the labour market (payment of wages cash on hand and/or undeclared work), the Government's reforms enabled a significant reduction of the informal economy on the labour market, as evidenced by a significant increase in the number of employees after the implementation of the reforms. Consequently, the conclusion could be drawn that a significant share of the formal increase in labour costs is actually the result of the redirection of costs from informal to formal flows. The record-high revenues collected from taxing the profits of business undertakings also support this claim.

In the period 2026-2028, the labour costs competitiveness in the domestic economy is expected to improve gradually, given that the real wage bill (inflation-adjusted total cost of labour in the economy) will lower than the increase of GDP, due to the projected inflation rates and increase in employment. The model analysis assumption is based on the average nominal annual growth of wages in the economy at around 4 percent over the medium term and assumption of unchanged tax policy, precisely the tax rates for the labour taxation (taxes and social contributions on wages).

Estimated labour productivity, stated as the ratio between the real GDP and number of employees at the level of the economy, oscillated over the years and grew by approximately 1 percent in the period 2008-2025. In the period 2026-2028, a growth of labour productivity is projected, at an average annual rate of 1.2 percent, due to the predicted faster growth of real GDP and newly created value in the economy resulting from the increase in the number of employees, bearing in mind that the expansion of the investment cycle based on the tax and fiscal policy reforms, lead to higher private investment of domestic and

Figure 3.2.4: Productivity, 2007-2028



foreign investors, alongside strong Government Capital Budget, as well as assumptions that stable and sustainable employment rate will be reached at the labour market, following the domestic potential.

3.3. Alternative Scenario

Given the pronounced uncertainty of the macroeconomic outlook over the short term and their sensitivity to frequent fluctuations, the Ministry of Finance prepared an alternative scenario. This scenario enables assessment of possible materialisation of potential risks and challenges to the medium-term growth. The identified risks include both the domestic



environment and external environment factors, which could cause lower economic growth, decline in consumption, drop in spending, and weaker investment activity than the one initially planned, if materialised. In order to provide a detailed low-growth scenario analysis and stress testing of the macroeconomic system resilience, the Ministry of Finance used the Macro-fiscal Model.

3.3.1. Low-growth Macroeconomic and Fiscal Scenario 2026-2028 (stress-test scenario)

The key assumptions of the alternative scenario include a weaker dynamic of increase in private consumption and lower capital investments. Deceleration of the economic activity would further result in the lower tourism revenues, due to limited air travel accessibility. Alignment of Montenegro with the common foreign and security policy of the European Union requires the introduction of visas for citizens of 12 countries, many of which represent important tourist markets. Such a measure may cause a decrease in the number of tourists and a lower investment inflow from those countries, especially in the real estate sector.

Further risk factors are global and regional instabilities that can cause additional rise in inflation, whereby the domestic production sector is insufficiently developed to absorb external shocks. A moderate drop in demand is forecasted, while high reference interest rates would be maintained and geopolitical uncertainty present, which would result in a lower level of investment and employment, with continued elevated inflation. Overall, all the above-mentioned effects would decelerate economic growth in the coming period.

Table 3.3.1: Montenegro: Macroeconomic projections, low-growth scenario – stress test scenario

Macroeconomic projections, 2026-2028 – Low-growth scenario (stress test)			
	2026	2027	2028
Nominal BDP, in million euro	8,434.1	8,756.3	9,049.1
Nominal growth (%)	3.8	3.8	3.3
Real growth (%)	1.6	2.1	2.0
Inflation (average)	3.4	2.7	2.6
Private consumption, real growth u %	1.6	1.8	1.6
Investments, real growth u %	5.0	4.4	4.5
Employment, growth as %	0.3	0.2	0.2
Unemployment rate, as %	10.6	10.4	10.3

Source: Projections of the Ministry of Finance

Essentially, by combining the potential risks to macro-financial stability, the economic growth over the medium term would yield an average of 1.8 percent, which is 1.4 percentage points lower if compared to the baseline forecast scenario. The more moderate growth in investments, partial departure of foreign workers, and somewhat weaker increase in revenues from tourism would have an impact on significant slowing down in employment growth over the medium. Unfavourable macroeconomic performance would reflect on weaker inflow of the budgetary revenues, which would translate to reduced household consumption.

Overall, the macroeconomic outlook would remain positive, but would reflect the context of an altered international environment and higher external risks. In keeping with this

simulation, the growth of the economy would be below expected level in 2026, while a recovery would take place in 2027 and 2028 due to the integration with the European Union market, diversification of the economy and tourist markets from Eastern Europe and Central Asia opting towards the Western European countries. The expected integration would yield positive expectations in terms of the increase of average wages and stabilisation of the investment environment, setting the macroeconomic trends over the medium term.

In the view of intensity of the shocks that were addressed by the alternative macroeconomic stress test scenario, such trends would be reflected in the paste of budgetary revenues collection and, consequently, a lower outturn compared to the baseline scenario. According to the model forecasts, the fiscal effects on the revenue side would imply lower revenues by more than 70 million euro on average annually, over the medium term. As the effect builds up over the years, the greatest effect is in 2028, being at the level of about 115 million euro less revenues than the estimated baseline scenario, which is the level of approximately 1.2 percent of GDP. The largest single effect would be effectuated in lower revenue outturn from the value added tax (VAT), social contribution on wages, as well as the personal income tax. Therefore, the simulated scenario would affect both indirect, and direct taxes and social contributions, given that the alternative scenario would include significantly lower economic growth, consumption and investment, as well as stagnation of employment and wages on the labour market.

Table 3.3.2: Montenegro: Budget Revenue Projections, Low-growth scenario – stress test scenario

GDP in million euro	8434.1		8756.3		9049.1	
	2026		2027		2028	
Title	Million euro	% of GDP	Million euro	% of GDP	Million euro	% of GDP
Direct revenue	3043.1	35.5	3113.4	34.7	3166.4	33.7
Taxes	2332.6	27.2	2402.2	26.8	2469.1	26.3
Social contributions	440.0	5.1	447.2	5.0	451.0	4.8

4. Fiscal Framework

4.1. Policy Strategy and Medium-Term Objectives

The objective of fiscal policy during the mandate of the 44th Government of Montenegro is further implementation of a predictable and stimulating fiscal strategy that will further facilitate the country's attractiveness as an investment destination and based on which further activities will be implemented to improve competitiveness of the economy and business environment. The focus is on securing new and diversified sources of economic growth, job creation and faster convergence towards the EU development average.

In this context, all planned fiscal policy measures in the medium term aim to improve business environment and strengthen competitiveness of the economy, as well as to improve the living standards of citizens, while consistently preserving macroeconomic and fiscal stability. In addition, Montenegro will close all negotiation chapters by the end of 2026, which unequivocally emphasises quality and success of the reforms in the coming period.

In accordance with the fiscal framework for the period 2026-2028, projected public revenues range from 3,506.1 million euro (40.9 percent of GDP) in 2026 to 3,727 million euro (39.7 percent of GDP) in 2028. The expected growth of public revenues is the result of increased expenditure, strengthening of economic activity and reduction of the volume of informal economy. These trends were further encouraged by growth of the minimum and average wages, introduction of the third rate of value added tax amounting to 15 percent, as well as by expansion of the tax base to new products, including non-carbonated beverages with added sugar and still wines. Sustainability of public revenues will be achieved through a combination of comprehensive fiscal reforms and stable, favourable macroeconomic environment.

In the next mid-term period, Montenegro will continue implementing measures set out in the Fiscal Strategy focusing on: further strengthening of control and rationalisation of public expenditure; improvement of revenue collection through the modernisation of tax administration and fight against informal economy; careful management and refinancing of public debt; prioritizing capital investments in growth-enhancing projects; as well as on further consolidation of fiscal discipline, which has already been significantly improved compared to the period before the major tax reforms. Consistent implementation of the reforms provides a strong basis for maintaining the budget deficit within the limits established by the budget, while preserving stability and trust of citizens and investors. The Tax Administration will fully transition to the new Integrated Revenue Management System from 2026, thus replacing all outdated information systems, which will facilitate adjustments and increase voluntary tax compliance. This is a significant step towards reducing business barriers and increasing transparency of the collection of budget revenues.

4.2. Budget Implementation in 2025

Source revenues in 2025 are estimated at 2,886.1 million euro i.e. 35.5 percent of the estimated gross domestic product (8,124.7 million euro) and are at the level planned under the 2025 Budget Law. Compared to the execution in 2024, budget revenues are higher by 130.4 million euro i.e. by 4.7 percent.

Fiscal stability was maintained in 2025 due to the consistent application of economic policy measures. The effects of the implemented fiscal strategy exceeded expectations, resulting in revenues surpassing planned targets. Enhanced fiscal discipline and efficient public finance management created additional room for planning a sustainable budget for 2026. Positive macroeconomic trends and the successful implementation of reform measures enabled the revenue side of the budget for the upcoming period to be based on realistic and sustainable assumptions.

According to the estimates for the period until the end of 2025, the most significant growth compared to 2024 was achieved in the following categories of budget revenues: **value added tax** by 150.0 million euro i.e. by 12.3 percent; **corporate income tax** by 5.9 million euro i.e. by 2.8 percent; **excise duty** by 34.9 million euro i.e. by 9.5 percent and **personal income tax** by 20.2 million euro i.e. by 22.9 percent. Furthermore, according to the available data, the increase in revenues generated from indirect taxes compensates for the decrease in revenues

generated from contributions for pension and disability insurance, confirming stability of the fiscal system.

On the other hand, the Law amending the Law on the 2025 Budget, set out budget expenditures in the amount of 3,164.2 million euro which is 38.9 percent of the estimated GDP.

Compared to 2024, the most significant increase was recorded in allocations for mandatory expenditures and infrastructure projects in the following sectors: social welfare 51 million euro, transport 44 million euro, health 32 million euro, education, science and sports 18 million euro, spatial planning and environmental protection 14 million euro etc.

The amount of 1,040.5 million euro was allocated for **social welfare**, which accounts for 26 percent of total budget expenditures, making this sector the largest sector in the structure of budget expenditures (excluding debt repayment). Three regular adjustments were made in 2025 in this sector in order to provide funds for the entitlements arising from social and disability insurance.

The amount of 474.4 million euro has been allocated for the **health sector**, which is an increase of 31.9 million euro compared to 2024 and these allocated funds will predominantly serve to meet the needs of the Health Insurance Fund and to finance public health institutions.

The **capital budget**, as a development component, amounted to 280 million euro in 2025 which is an increase of 43 million euro compared to 2024. Under the Law amending the Law on the 2025 Budget of Montenegro, funds were allocated for implementation of the capital projects of the Traffic Administration, in the amount of 165 million euro, and projects of the Ministry of Public Works, in the amount of 97 million euro.

On the basis of estimated revenues and planned budget expenditures in 2025, the state budget deficit is planned at the level of 278.1 million euro which is 3.4 percent of the revised estimated GDP for 2025.

4.3. Budget Plans for 2026

The Fiscal Strategy was adopted in December 2024 as an overarching strategic document valid during the period of the Government's mandate setting out medium-term fiscal framework and reforms to be implemented, as well as the expected effects. For that purpose, the macroeconomic framework is significantly pre-determined by the set strategic objectives, with additional updates resulting from the announcement of the new capital investment projects, reform activities under the Reform Agenda and other international commitments. Projections were further strengthened this year through implementation of the new models for macro fiscal planning, which were developed with the technical support of the International Monetary Fund (IMF) and the World Bank and funded by the EU.

The primary basis for planning the 2026 budget includes:

- Projections of macroeconomic indicators that influence the trend of budget revenues, based on the basic macroeconomic scenario;
- Existing legislation, including tax legislation and regulations related to public finances;



- Tax policy measures aimed at improving revenue collection and ensuring fiscal sustainability.

Together, these elements ensure that the 2026 Budget is based on realistic economic assumptions, in accordance with the legal framework, and harmonised with strategic fiscal objectives.

The planned fiscal framework for 2026 confirms sustainability of public finances, while strengthening fiscal discipline. Revenue growth is based on realistic economic assumptions and represents an important foundation for further implementation of economic reforms.

Source budget revenues in 2026 are planned in the amount of 3,084.4 million euro which is 36 percent of the estimated GDP (8,564.6 million euro) and compared to 2025 they are higher by 198.4 million i.e. by 6.9 percent.

Public revenues have increased continuously despite a reduction in the labour tax wedge due to lower pension and disability insurance contribution rates. This growth results from improved collection of key tax categories including value added tax, excise taxes, income tax and corporate profit tax, and collection of other budget revenues.

Projected revenue growth in 2026 is based on the following economic and fiscal indicators:

- Growth of economic activity in accordance with the basic macroeconomic framework;
- Further increase in personal consumption and investment cycle according to the expected projects;
- Expansion of the base for calculating personal income tax, with the expected reduction in the volume of the informal economy on the labour market and growth of employment and wages in the medium term;
- Expansion of the tax base, including non-carbonated beverages with added sugar and excise taxes on still wines;
- Taxation of winnings from the games of chance and application of the new legislation on organising the games of chance;
- Implementation of the Programme to Suppress Informal Economy, with the aim of reducing informal sector.

It is important to emphasise that the Fiscal Strategy, besides comprehensive reform of tax and fiscal policy, also sets out a number of sectoral measures aimed at improving investment environment and strengthening overall business environment in the country. These measures seek to create a stable and predictable economic system which will encourage sustainable growth and increase competitiveness of the economy.

Explanation per main categories of public revenues

Total public revenues planned for 2026 amount to 3,506.1 million euro i.e. 40,9 percent of GDP. In 2026, the planned values of the main categories of public revenues suggest

continuation of the positive fiscal trends supported by economic growth, tax policy reforms and improvements in fiscal discipline.

Personal income tax in 2026 is planned at a total amount of 214.2 million euro i.e. or 2.5 percent of the projected GDP. The expected growth of this revenue category in the medium term is based on the following factors: continuous growth in employment and wages, expansion of the tax base due to increases in the minimum and average wage, a record-low unemployment rate recorded in 2025 and effects of the fiscal strategy which exceeded initial projections.

Contributions in 2026 are planned in the total amount of 456.0 million euro i.e. 5.3 percent of the projected GDP. The trend of this income category was affected by reform of the pension and disability contribution system which reduced rates charged to employees from 15 percent to 10 percent and rates charged to the employer from 5.5 percent to 0 percent. This measure, applied from the end of 2024, has a strong stimulating effect on formal employment, increase in net earnings and reduction of labour costs, which further improves competitiveness of the business environment. Despite the reduction in rates, the revenue generated from contributions is expected to grow, primarily as a result to the growth of employment, increased wages and reduction of informal economy.

Corporate income tax in 2026 is planned in the amount of 243.7 million euro i.e. 2.8 percent of GDP. This result reflects the high efficiency of collection stimulated by strong economic growth in 2024, increased profitability of economic operators and improvement of tax discipline. Profit tax has proven to be an increasingly important source of budget revenues in the medium term.

Value added tax in 2026 is projected in the amount of 1,474.3 million euro i.e. 17.2 percent of GDP. This projection is based on the expected growth of household consumption and overall economic activity, in accordance with the macroeconomic framework that includes the growth of earnings, consumption and investment. Effects of the implemented reforms are already visible which indicates that domestic demand has been strengthened and that living standard has improved. Additional revenue was generated by introduction of the third VAT rate of 15 percent, especially through equalisation of the tax rate on accommodation services with the rate for serving food and beverages, which ensured consistency of the tax system and preserved competitiveness of the tourism sector.

Revenues from **excise taxes** in 2026 are planned in the amount of 429.3 million euro which is 5 percent of GDP. The growth of this revenue category is based on the projected increase in economic activity and consumption, while the excise calendar will be further harmonised with EU regulations. In 2025, Montenegro received award by the Bloomberg Foundation for global tobacco control which confirms the success of the excise policy and efforts to suppress informal economy in the tobacco sector.

Revenues generated from charges in 2026 are planned to amount to 171.1 million euro which is 2 percent of GDP, primarily as a result of the expected implementation of the new legislation governing the games of chance.

Other revenues in 2026 are planned in the amount of 85.5 million euro which is 1 percent of GDP and their trend in the medium term will depend on future Government decisions and implemented programs.

Revenue generated from **donations** in 2026 is planned at the level of 164.3 million euro which is 1.9 percent of GDP. These funds are expected to be generated through the withdrawal of financial support under the Growth Plan for the Western Balkans, in accordance with the reform activities set out by the Reform Agenda of Montenegro for the period 2024-2027, as well as in accordance with the planned situations on the expenditure side regarding continuation of the construction of the second section of the highway, through funds and grants planned for 2026.

Public expenditure⁵ in 2026 is projected at 3,785.2 million euro, i.e. 44.2 percent of the estimated GDP and compared to 2025 it is higher by 209.8 million euro i.e. 0.2 percent.

The total increase in expenditures in 2026 is primarily the result of an increase in current budget spending, amounting to 1,452.5 million euro i.e. 17 percent of GDP, which is an increase of 61 million euro compared to 2025, with the largest share related to mandatory expenditures, the amount of which is established by the current legislation.

Transfers for social protection which amount to 1,158.0 million euro i.e. 13.5 percent of GDP also significantly contributed to the growth of public expenditures, and their amount increased by 87 million euro i.e. by 8.2 percent. Capital expenditures, amounting to 490.1 million euro which is 5.7 percent of GDP, also increased by 31.1 million euro i.e. by 6.8 percent.

These indicators confirm that the budget policy in 2026 is aimed at preserving social stability, implementing infrastructure projects and fulfilling legal obligations, while maintaining fiscal discipline.

Based on the projected revenues and expenditures of the general government (budget of the government and local self-governments), the deficit of public spending in 2026 is projected at 279.1 million euro, i.e. at 3.3 percent of the estimated GDP.

4.4. Medium-term Budgetary Outlook and Supporting Policies

Medium-term prospects are based on improving the efficiency of public spending, optimising the functioning of the state administration and creating adequate social programs, thereby strengthening overall fiscal stability. In the medium and long term, the focus is on the realisation of prioritised capital and infrastructure investments. This will contribute to sustainable economic growth, supported by prudent debt management. This is further substantiated by the projected surplus of current expenditures, which was estimated for all years of the medium term period. Montenegro runs surplus of current expenditures in accordance with the golden rule of public finances, according to which current budget expenditures are fully covered by current revenues. Under this rule, new borrowing is used exclusively to finance capital projects that generate new value and stimulate long-term economic growth, as well as to repay debts from previous periods.

⁵ Estimated data on the execution of the general government for 2026

Fiscal framework (as a percentage of GDP)		Outturn	Preliminary	Baseline scenario			Low growth scenario		
Fiscal indicators	Source public revenues	41.7	40.6	40.9	40.4	39.7	40.5	39.6	38.5
	Public expenditures	45.0	44.0	44.2	43.1	42.5	44.2	43.1	42.5
	Deficit/Surplus	-3.3	-3.4	-3.3	-2.7	-2.8	-3.7	-3.6	-4.0
	Interests	2.0	2.0	2.1	2.2	2.4	2.1	2.2	2.4
	Primary deficit/surplus	-1.4	-1.4	-1.2	-0.5	-0.4	-1.7	-1.4	-1.6
	Public debt (as a percentage of GDP)	61.3	64.3	69.4	64.4	63.8	69.4	64.4	66.3

Therefore, public revenues continue their upward trend in the period from 2026 to 2028, ranging from 3,506.1 million euro (40.9 percent of GDP) in 2026 to 3,727.0 million euro (39.7 percent of GDP) in 2028, confirming stability and sustainability of the fiscal framework.

Revenues generated from corporate profit tax in the period from 2026 to 2028 are projected to range from 243.7 million euro in 2026 to 261.0 million euro in 2028. The estimate of the revenues generated from corporate profit tax is based on projected nominal GDP growth, expected effects of collecting rescheduled tax liabilities in accordance with the Law on the Rescheduling of Tax Claims and additional tax policy measures. During the period mentioned above, this revenue category records an average annual growth rate of around 5.9 percent.

VAT revenues in the period from 2026 to 2028 are planned on the basis of growth in household consumption and increase in imports, growth in wages and consumption as a result of implemented tax reforms and are projected to amount to 1,474.3 million euro in 2026, rising to 1,582.4 million euro in 2028. In the medium term, average annual growth in VAT revenues of around 4.9 percent is expected, with a stable share in GDP of approximately 17 percent.

In the medium term, **excise duty** revenues are projected to range from 429.3 million euro in 2026 to 456.9 million euro in 2028. Revenue growth in the medium term results from increased economic activity and consumption, expansion of the scope of excisable products and continued fight against illegal trade in tobacco and tobacco products. In the period from 2026 to 2028, excise revenues are expected to record an average annual growth rate of around 4.2 percent, with a GDP share of approximately 5 percent, further driven by legislative amendments and expansion of the tax base.

Donation revenues in the period mentioned above are projected to range from 164.3 million euro (1.9 percent of GDP) in 2026 to 152.7 million euro (1.6 percent of GDP) in 2028. These funds predominantly originate from grants and donations for construction of the second section of the Bar–Boljare highway and from the Growth Plan for the Western Balkans, in line with Montenegro's Reform Agenda 2024–2027.

Additional measures and policies, including the Law on Legalisation of Illegal Structures, airport concession fee and amendments to several legislative acts, including the Law on



Games of Chance, will have a positive impact on the fiscal outcome, while the effects of certain measures are expected to materialise in the forthcoming period. In order to maintain a conservative approach to public revenue planning, the effects of these measures have not been fully incorporated into the medium-term fiscal framework. As from 2026, the Tax Administration will fully transition to a new Integrated Revenue Management System, thus replacing outdated information systems, facilitating reconciliation of liabilities and increasing voluntary tax compliance. This is a significant advancement towards greater efficiency, transparency and reduction of administrative barriers for businesses.

Trends of public expenditures in the 2026–2028 period are characterised by a controlled growth of current expenditure, along with steady growth of mandatory expenditures, the dynamics of which are determined by regular adjustments in accordance with applicable legislation.

Nominal expenditure growth over the next three-year period is primarily driven by:

- a significant increase in allocations for the financing of capital expenditures related to infrastructure projects;
- increase in social welfare transfers (based on projected adjustments of pension and social benefits in line with average wage growth and inflation);
- transfers to institutions, individuals, NGOs and to the public sector, primarily for the purpose of financing the healthcare system.

In line with the projected revenues and expenditures of the general government, the deficit of public expenditure is expected to range from 3.3 percent of GDP in 2026 to 2.8 percent of GDP in 2028.

The following table provides an overview of the main categories of revenues and expenditures and key fiscal indicators.

Economic Reform Programme 2026-2028

Annual GDP (in million euro)	8,124.7		8,564.6		8,973.5		9,389.5		7,716.9		7,877.3		8,012.1	
	preliminary				baseline scenario				Low growth scenario					
Estimate of public finances for 2023-2025	2025		2026		2027		2028		2026		2027		2028	
	mil. €	% of GDP	mil. €	%	mil. €	% of GDP	mil. €	%	mil. €	%	mil. €	% of GDP	mil. €	%
Public revenues, of which:	3,296.3	40.6	3,506.1	40.9	3,624.6	40.4	3,727.0	39.7	3,464.8	40.5	3,549.4	39.6	3,611.7	38.5
Personal income tax	198.0	2.4	214.2	2.5	223.4	2.5	231.5	2.5	210.0	2.5	214.4	2.4	216.4	2.3
Value added tax	1,372.6	16.9	1,474.3	17.2	1,527.2	17.0	1,582.4	16.9	1,454.9	17.0	1,499.8	16.7	1,546.6	16.5
Excise duties	403.5	5.0	429.3	5.0	441.9	4.9	456.9	4.9	429.3	5.0	441.9	4.9	456.9	4.9
Local taxes	22.9	0.3	23.2	0.3	25.8	0.3	25.0	0.3	23.2	0.3	25.8	0.3	25.0	0.3
Contributions	449.1	5.5	456.0	5.3	480.2	5.4	505.7	5.4	440.0	5.1	447.2	5.0	451.0	4.8
Public spending, of which:	3575.4	44.0	3785.2	44.2	3869.4	43.1	3989.2	42.5	3785.2	44.2	3869.4	43.1	3989.2	42.5
Gross wages	794.3	9.8	806.0	9.4	820.0	9.1	832.1	8.9	806.0	9.4	820.0	9.1	832.1	8.9
Interests	162.8	2.0	178.1	2.1	197.0	2.2	224.6	2.4	178.1	2.1	197.0	2.2	224.6	2.4
Social welfare transfers	1070.3	13.2	1158.0	13.5	1204.2	13.4	1250.6	13.3	1158.0	13.5	1204.2	13.4	1250.6	13.3
Capital expenditures	459.0	5.7	490.1	5.7	518.2	5.8	542.1	5.8	490.1	5.7	518.2	5.8	542.1	5.8
Transfers to institutions, individuals, NGOs and public sector	545.5	6.7	600.6	7.0	593.9	6.6	605.6	6.4	600.6	7.0	593.9	6.6	605.6	6.4
Surplus/deficit	-279.1	-3.4	-279.1	-3.3	-244.8	-2.7	-262.2	-2.8	-320.4	-3.7	-320.0	-3.6	-377.5	-4.0
Primary surplus/deficit	-116.3	-1.4	-101.0	-1.2	-47.8	-0.5	-37.6	-0.4	-142.3	-1.7	-123.0	-1.4	-153.0	-1.6
Debt repayment	835.9	10.3	400.3	4.7	1182.5	13.2	356.0	3.8	400.3	4.7	1182.5	13.2	356.0	3.8
Expenditures for the purchase of securities	34.2	0.4	34.2	0.4	17.6	0.2	4.8	0.1	34.2	0.4	17.6	0.2	4.8	0.1
Financing, of which:														
Loans and credits	897.7	11.0	496.4	5.8	727.5	8.1	504.5	5.4	537.7	6.3	802.6	8.9	619.9	6.6
Use of deposits	224.0	2.8	191.1	2.2	689.4	7.7	91.0	1.0	191.1	2.2	689.4	7.7	91.0	1.0

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

Cyclically adjusted balance shows real disbalances in public spending and refers to the real surplus/deficit relative to GDP which would prevail if the economy would grow at the level of its potential. In other words, it provides insight into the fiscal position of the state by eliminating the impact of temporary effects of economic cycles, thereby allowing a better assessment of actual fiscal sustainability.

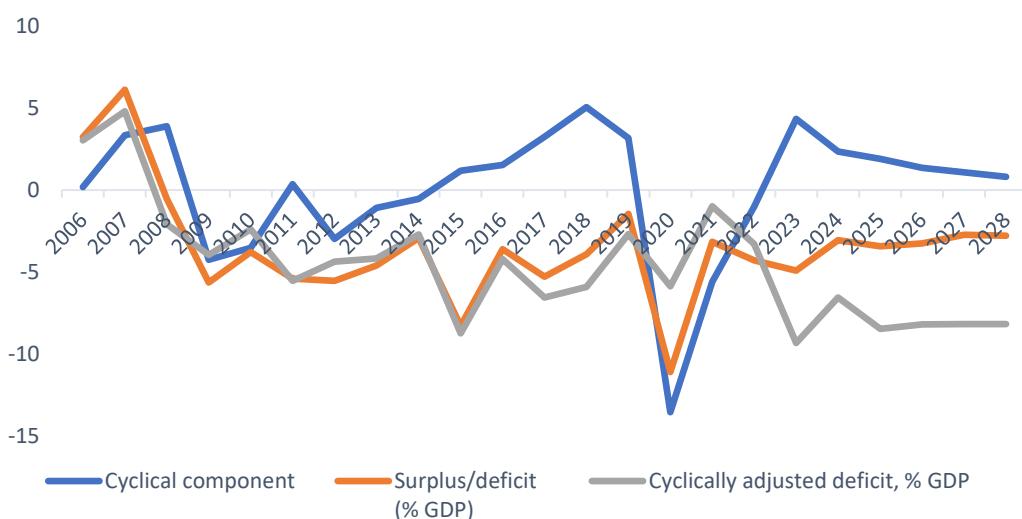
Cyclical components of the adjusted balance are calculated as the difference between actual surplus or deficit in the percentage of GDP and estimated **cyclical component**, which reflects the impact of the economic cycle on fiscal revenues and expenditures.

Definition of the cyclical component is set out in the methodology of the European Commission and includes two main steps:

- Estimation of the **output gap**, defined as the difference between actual and potential GDP, which indicates phase of the economic cycle (expansion or recession);
- Estimation of the **elasticity of public revenues and expenditures** in relation to the output gap, in order to quantify the expected automatic fiscal response to the economic cycle.

The values required for the calculation, including the **potential growth rate, potential GDP, and the output gap**, are presented in Chapter 3 – Macroeconomic Framework. These values serve as the basis for accurate calculation of the cyclically adjusted balance and consistent analysis of fiscal policy in relation to economic potential.

Figure 4.5.1: Trend of Surplus/Deficit, Cyclical Component and Cyclically Adjusted Deficit



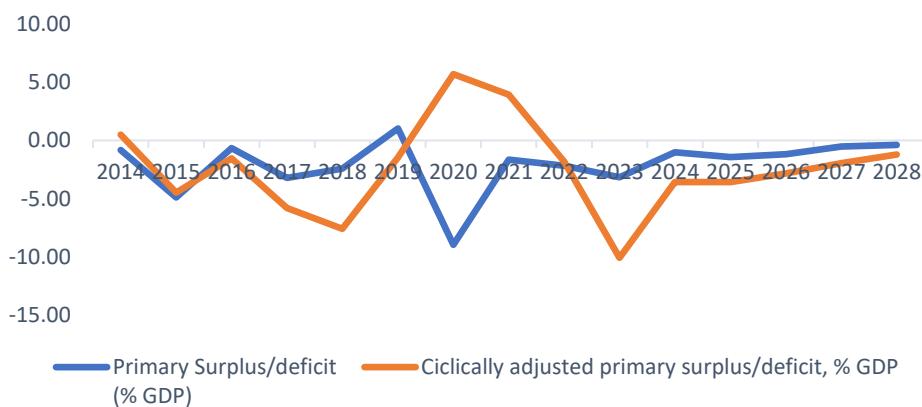
Elasticity coefficients of key revenue categories, such as indirect taxes, income taxes and contributions and corporate income taxes, are determined in the second step. Multiplying



these by the weight (the share of each revenue category in total revenues) shows the elasticity of revenues with respect to the output gap. These coefficients are then multiplied by the share of total revenues in GDP, which shows revenue sensitivity parameter and, given the low expenditure elasticity, it also shows sensitivity parameter of the public finance balance.

Expenditures for the unemployed have minimal impact due to their small share in total expenditures, therefore the overall expenditure-side sensitivity parameter is practically zero. Based on the trends of the cyclical component and cyclically adjusted deficit, it can be concluded that fiscal policy in 2025 plays a stabilising role with a positive output gap, while in 2026 it takes on moderately procyclical characteristics, and from 2027 onward it again assumes a stabilising role due to the implemented fiscal measures.

Figure 4.5.2: Trend of Primary Surplus/Deficit



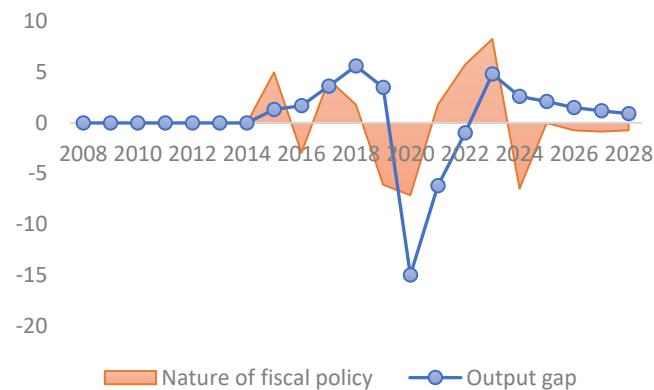
In the period 2026-2028, fiscal policy shows a gradual strengthening of consolidation, with both primary and cyclically adjusted primary deficits approaching neutral values. This means they gradually decrease and converge toward a balanced fiscal stance, indicating a weakening of cyclical effects and a transition to an even more stable and sustainable fiscal stance.

The model results have limitations due to country-specific factors, frequent changes in fiscal measures and limited length of the time series used to estimate elasticities, but they still reflect the main trends of the structural and cyclical components of public finances. Cyclically adjusted primary balance (surplus/deficit excluding interest payments) was calculated and further adjusted for one-off revenues and expenditures.

The sign of the annual change in the cyclically adjusted primary surplus/deficit reflects the fiscal stance and indicates the nature of fiscal policy in a given year. Positive values in Figure 4.5.3 reflect an expansionary fiscal policy, while negative values indicate characteristics of a restrictive fiscal policy.

In 2024, despite a positive output gap, fiscal policy took on a restrictive character, confirming its stabilising (counter-cyclical) role. In 2025, fiscal policy showed an expansionary character alongside a positive output gap, while in 2026 and 2027 it moved toward a slightly restrictive stance, maintaining positive output gap, thereby reaffirming its stabilising nature. Due to the output gap of around 0.9 percent and fiscal policy remaining neutral-restrictive, the transition of fiscal policy in 2028 toward a neutral and long-term sustainable position is confirmed, without causing any procyclical pressures on the economy.

Figure 4.5.3: Nature of Fiscal Policy



4.6. Debt Levels and Trends, Analysis of Below-the-line Operations and Stock-flow Adjustments

4.6.1. State Debt and Public Debt in 2025

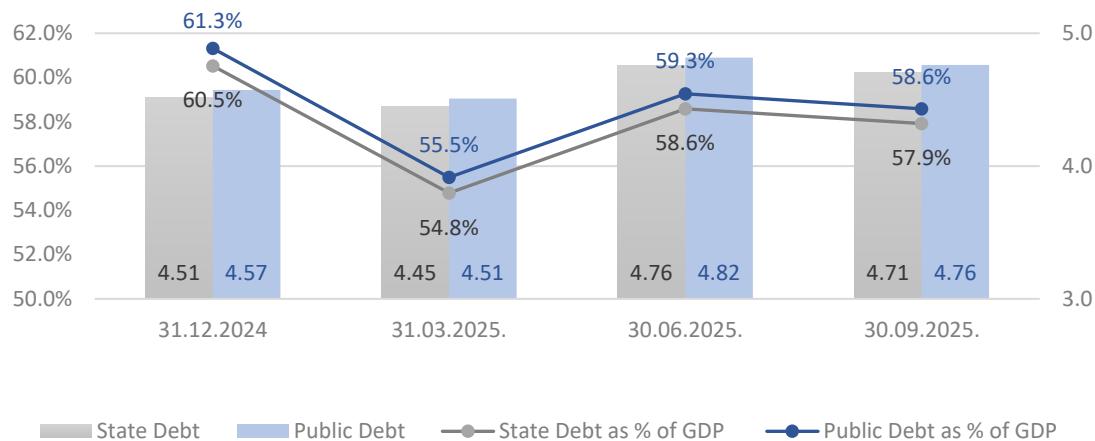
The total public debt of Montenegro as of 31 December 2024 amounted to 4,573.9 million euro i.e. 61.3 percent of GDP⁶ and it includes state debt, which amounted to 4,514.8 million euro i.e. 60.5 percent of GDP, and local government debt, which amounted to 59.1 million, i.e. 0.8 percent of GDP.

Net public debt of Montenegro as of 31 December 2024, including total deposits of the Ministry of Finance⁷, amounted to 4,188.5 million on 31 December 2024 representing 56.1 percent of GDP.

⁶ According to the MONSTAT data, GDP for 2024 amounted to 7,459.21 million euro.

⁷ Total deposits of the Ministry of Finance also include 38,477 ounces of gold, the value of which amounted to 96.12 million euro as of 31 December 2024.

Figure 1: State Debt and Public Debt of Montenegro in billion euro and as a Percentage of GDP in 2025

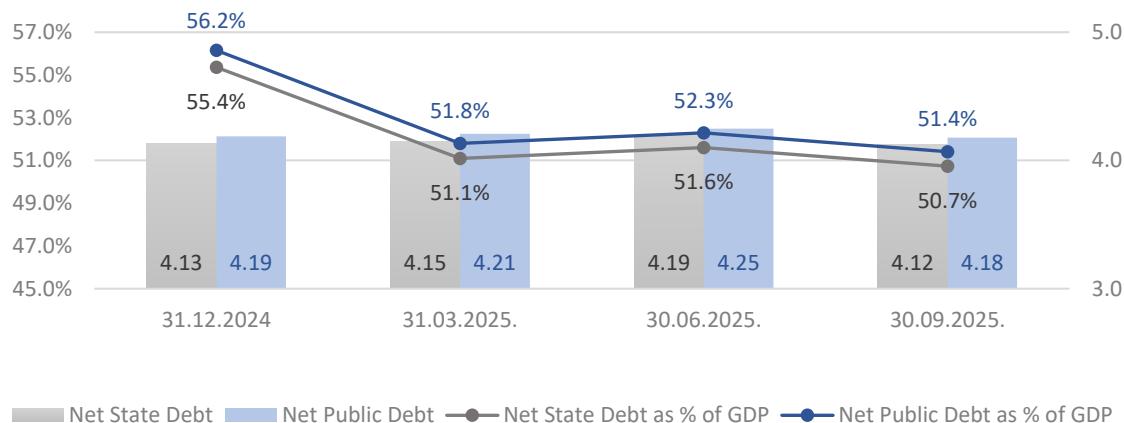


As of 30 September 2025, public debt increased by 186.5 million euro compared to the end of 2024, reflecting the net effect of debt growth from new borrowings and reductions resulting from regular debt repayments in 2025. However, taking into account the amount of deposits at the end of the Q3, net public debt decreased by 11.7 million euro compared to the end of the year.

At the end of 2024, the government concluded DPL loan facility with the World Bank in the amount of 80.0 million euro, French Development Agency (AFD) in the amount of 50.0 million euro and OPEC Fund for International Development in the amount of 50.0 million euro. The funds from these borrowings were included in the total deposit balance at the end of 2024, which was used to finance debt repayments and capital expenditures in 2025. Additionally, at the beginning of the Q2, the government issued bonds on the international market amounting to 850.0 million euro. Out of these funds, 500.0 million euro were disbursed in the second half of April to repay Eurobonds issued in 2018. Due to this bond issuance, the Ministry of Finance held a significant amount of deposits at the end of Q2 and Q3 of 2025, which positively affected net debt values during 2025.

Figure 2 shows the trend of net state debt and public debt in absolute terms and relative to GDP during 2025.

Figure 2: Net State Debt and Net Public Debt of Montenegro in billion euro and as a Percentage of GDP in 2025



The trends of government and public debt during the first three quarters of 2025 were primarily influenced by new borrowings, as well as by the regular repayment of external and domestic debt.

The trends of external and domestic debt, both in absolute terms and relative to GDP during 2025, are presented in Table 4.6.1.

Table 1: Trends of External Debt and Domestic Debt, as well as of the Local Government Debt during 2025

Period	External debt in million euro and as a percentage of GDP		Domestic debt in million euro and as a percentage of GDP		State debt in million euro and as a percentage of GDP		Local government debt in million euro and as a percentage of GDP		Public debt in million euro and as a percentage of GDP	
31-Dec-2024	4,183.5	56.1%	331.3	4.4%	4,514.8	60.5%	59.1	0.8%	4,573.8	61.3%
31-Mar-2025	4,129.8	50.8%	321.1	3.9%	4,450.8	54.8%	57.6	0.7%	4,508.4	55.5%
30-Jun-2025	4,459.1	54.9%	300.8	3.7%	4,759.8	58.6%	55.8	0.7%	4,815.7	59.3%
30-Sep-2025	4,417.7	54.4%	287.6	3.5%	4,705.3	57.9%	55.0	0.7%	4,760.3	58.6%

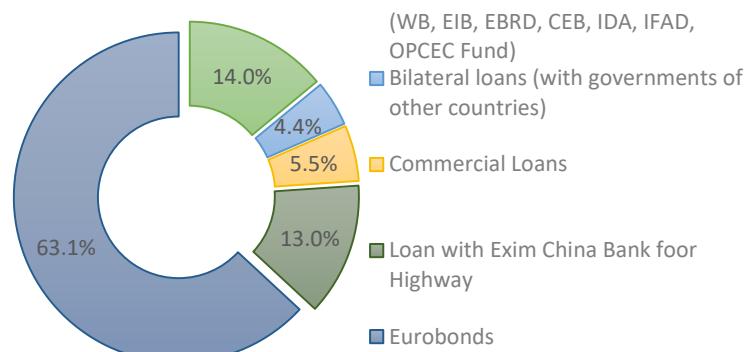
At the beginning of April 2025, the Ministry of Finance issued international bonds worth 850.0 million euro with a maturity of seven years and annual interest rate of 4.875 percent. Additionally, in the second quarter, a loan facility was concluded with the European Commission under the Reform and Growth Facility, totalling 273.4 million euro, of which approximately 21.0 million euro had been drawn by the end of Q3 of 2025. Furthermore, during the first three quarters of 2025, debt growth was also influenced by withdrawals from the existing loan facilities for the purpose of implementing infrastructure and development projects, in the amount of 92.1 million euro. During the same period, external debt repayments amounted to 705.3 million euro.

As a result, compared to the end of the previous year, external debt increased by 234.2 million euro primarily due to the issuance of the aforementioned Eurobond, while domestic debt decreased by 43.7 million euro. Domestic debt was significantly reduced as a result of regular debt repayments and due to the fact that there were no new borrowings from domestic sources in the period mentioned above.

The trends of external and domestic debt resulted in an increase in government debt by 190.5 million euro, while relative to GDP, it decreased by approximately 2.6 percentage points.

In the structure of external debt, which amounted to 4,417.7 million euro at the end of Q3, the debt to international finance institutions⁸ amounted to around 14.0 percent, debt for bilateral (soft) loans amounted to around 5.5 percent, debt to the Chinese Exim bank amounted to 13.0 percent, debt for commercial loans for budget financing amounted to approximately 5.5 percent, while debt arising from Eurobonds accounted for around 63.1 percent of total external debt.

Figure 3: Structure of External Debt on 30 September 2025



The amount of external debt does not include liabilities related to the unresolved debtor-creditor issues with Libya and Kuwait, totalling approximately 1 percent of GDP. Montenegro's debt to the governments of these two countries resulted from the allocation of unassigned debt (5.88 percent out of 38 percent for Serbia and Montenegro) and, according to the Vienna Agreement on Succession Issues dated 29 June 2001, the debt issue is to be resolved through coordinated positions within the Committee for the Division of Financial Assets and Liabilities of the former SFRY.

Structure of the domestic debt, which amounted to 287.6 million euro at the end of Q3 of this year, predominantly includes liabilities under loans from domestic commercial banks, accounting for 47.0 percent and liabilities under domestic bonds accounting for 17.4 percent, while liabilities to legal entities and businesses accounted for 8.4 percent. Other domestic debt liabilities are from previous periods, including old foreign currency savings, restitution and outstanding pensions, and these account for approximately 24.3 percent of total domestic debt.

⁸ World Bank (IBRD, IDA) EIB, EBRD, CEB, European Commission, IFAD

Figure 4: Domestic Debt Structure on 30 September 2025

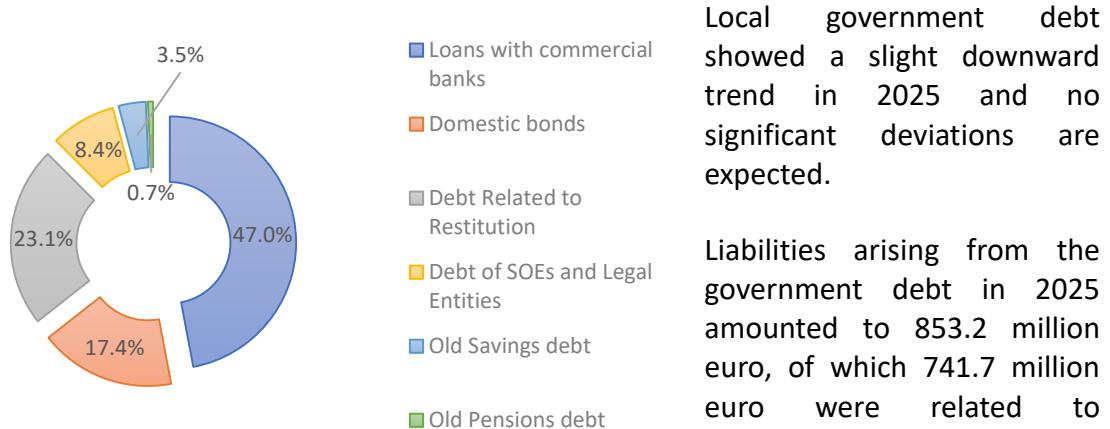


Table 2: Repayment of State Debt and Debt arising from State Guarantees during the First Three Quarters of 2025

Category	30-Sep-2025
Repayment of principal to residents	36.4
Repayment of principal to non-residents	705.3
Total repayment of principal	741.7
Repayment of interest to residents	8.5
Repayment of interest to non-residents	103.0
Total repayment of interests	111.5
Repayment of foreign state guarantees	4.1
TOTAL	8573

Up until 30 September 2025, the following loan facilities were concluded:

- Loan agreement with the European Investment Bank (EIB) for the financing of the **Montenegro Education Enhancement Program – additional financing**, in the amount of 18 million euro;
- Loan agreement with the European Commission under the Reform and Growth Facility, in the amount of 273.4 million euro;
- Loan agreement with the European Bank for Reconstruction and Development (EBRD) for the financing of the **construction of the second section of the Bar-Boljare highway (Andrijevica–Matešev section)**, in the amount of 200 million euro;
- Loan agreement with the World Bank for the Montenegro **Financial Infrastructure Modernisation and its Alignment with SEPA standards Project – TIPS Clone Project**, in the amount of 8 million euro;

- Agreement with the Montenegrin Commercial Bank **for the financing procurement of military logistics vehicles**, in the amount of 20 million euro;
- Agreement with the Council of Europe Development Bank (CEB) for the financing of the **Health Infrastructure Improvement Project in Montenegro (construction of the General Hospital in Pljevlja, City Kvart Primary Health Centre in Podgorica and Haematology Clinic of the Clinical Centre of Montenegro in Podgorica)**, in the amount of 83 million euro.

4.6.2. Debt Management in 2025

At the end of 2024, the Government of Montenegro adopted the Medium-term Debt Management Strategy 2025–2027 which lays down guidelines for debt management over the next three-year period. The strategy focuses on identifying and mitigating key risks in debt management including refinancing risk, as well as currency and interest rate risk. Several objectives are laid down in the strategy and the main are:

- Extending average debt maturity to 5–7 years;
- Maintaining minimum deposit balance (buffer) of 100.0 million euro;
- Diversifying sources of financing;
- Strengthening relations with international investors;
- Ensuring that at least 20 percent of debt denominated in currencies other than euro is hedged using financial instruments;
- Limiting debt with variable interest rates to a maximum of 20 percent of the total debt portfolio during 2025–2027.

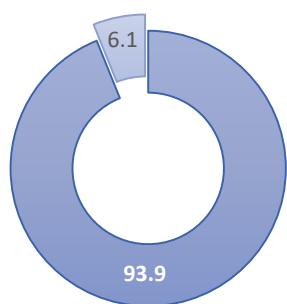
The proactive approach of the Ministry of Finance in securing cash reserves for debt repayment, concluding loan facilities with longer maturities and new creditors - such as DPL facilities and the 2025 syndicated loan, execution of hedging transactions and other measures collectively contributed to improvements of all debt quality parameters and ensured that debt structure reflects achievement of the objectives set out in the 2025–2027 Debt Management Strategy.

External debt dominates in the state debt and it accounted for 93.9 percent of the total state debt at the end of Q3 of 2025, while domestic debt accounted for 6.1 percent of the total state debt.

By the end of Q3 of 2025, only 0.30 percent of the existing state debt was denominated in non-euro currencies, of which 0.24 percent was denominated in USD and 0.06 percent in SDRs, while 99.7 percent was denominated in EUR. Favourable currency composition of the state debt is the result of cross-currency swap facilities related to the loan agreement with the Chinese Exim Bank for the construction of the first section of the Bar-Boljare highway and facilities for the U.S. dollar-denominated bond issued in 2024.

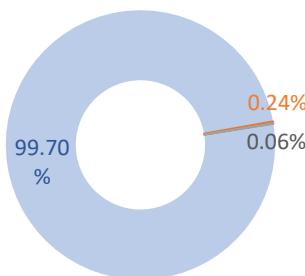
As for interest rate structure of the debt, the fixed-rate debt is dominant accounting for approximately 85.8 percent of the total state debt, while variable-rate debt accounts for 14.2 percent of the state debt.

Figure 5: Ratio of External to Domestic Debt (30 September 2025)



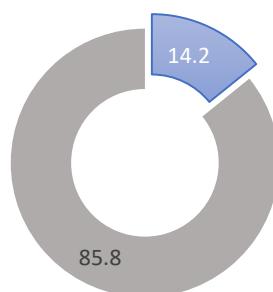
■ External debt ■ Domestic debt

Figure 6: Currency Structure of State Debt (30 September 2025)



■ EUR ■ USD ■ SDR

Figure 7: Interest Structure of State Debt (30 September 2025)



■ Floating ■ Fix

4.6.3. Projections of Government Debt and Public Debt Developments in the period 2025-2028

In the upcoming period, borrowing levels will primarily be influenced by the amounts of funding gaps defined in the 2025–2028 fiscal framework, which means that the government will borrow only to cover debt repayments and finance the capital budget.

Liabilities arising from foreign and domestic bonds, repayments of loans to the Chinese Exim Bank for the construction of the first section of the Bar-Boljare highway, commercial facilities supported by World Bank guarantees from 2018 and 2020 (PBG) and loan from Deutsche Bank in 2023 account for the largest share in the structure of the debt to be repaid in the coming years. The largest one-off repayments include Eurobonds maturing in April 2025 amounting to 500.0 million euro, domestic bonds maturing in 2026 amounting to 50.0 million euro and Eurobonds maturing in 2027 amounting to 750.0 million euro.

Funding gap for 2025 is estimated at 1,140.8 million euro. According to the 2025 Budget Law and the Decision on Montenegro's Borrowing for 2025 (Official Gazette of Montenegro, No. 11/25), the government may borrow up to 900.0 million euro in 2025 to cover the funding gap. Additionally, an extra 500.0 million euro are allowed to be borrowed on domestic or foreign markets for debt refinancing and for building fiscal reserve for 2026 and 2027.

The government issued bonds in April 2025 on the international market totalling 850.0 million euro and these proceeds are to be used exclusively to finance the funding gap, i.e. for repayment of the existing debt and financing of the capital budget.

A loan facility was also concluded in Q2 of 2025 with the European Commission for the implementation of the Reform and Growth Facility totalling 273.4 million euro, of which approximately 21.0 million euro had been drawn until 30 September 2025.

Moreover, the government issued an open call for the subscription of retail bonds on the domestic market, for up to 50.0 million, with the possibility to borrow up to 100.0 million euro. The bonds had a maturity of two years and annual interest rate of 3.75 percent. The issuance was carried out in two rounds: the first round was exclusively intended for citizens, while the second round was open to all legal entities registered in Montenegro. In the first round, 22.2 million euro were subscribed and paid by individual citizens, while in the second round, legal entities subscribed and paid 27.7 million euro. The primary objective of issuing domestic bonds was to diversify financing sources and foster the development of the domestic capital market. This issuance serves as a basis for further development of the domestic market and for reducing reliance on external financing sources.

Since the 2025 Budget Law and Borrowing Decision allow for an additional 500.0 million euro to be borrowed in order to build fiscal reserve for 2026 and 2027, the Ministry of Finance explored the possibility of concluding a loan facility by the end of the year if market conditions were favourable. Following market research and negotiations, a loan agreement was concluded in late November with a syndicate of banks including Merrill Lynch International, MUFG Bank, Ltd, Societe Generale, OTP Bank Plc, Erste Group Bank AG, AKA Ausfuhrkredit-Gesellschaft mbH and Eurobank Private Bank Luxembourg S.A. amounting to 450.0 million euro for a 5-year term, with annual interest rate of 6-month EURIBOR plus a fixed margin of 2.5 percent.

The legal framework for borrowing in 2025 also allows for concluding loan facilities for various development projects up to 1,137.0 million euro. In the first three quarters of 2025, loan facilities totalling approximately 329 million euro were concluded for the purpose of: construction of the second section of the highway (with EBRD for 200.0 million euro), construction and modernisation of hospitals (with CEB for 83.0 million euro), improvement of the payment system with foreign countries – TIPS Clone (with IBRD for 8.0 million euro); reconstruction and construction of educational institutions (with EIB for 18.0 million euro), and procurement of the military logistics vehicles (with CKB bank for 20.0 million euro). A total of 20.1 million euro were withdrawn from the contracted new loan facilities.

Approximately 383.6 million euro will be needed in 2026 for debt repayment in order to ensure regular repayment of the 2014 loan of the Chinese Exim Bank, payment of the 2019 domestic bond of 50.0 million euro, regular repayment of commercial loans concluded with World Bank guarantees (PBG 1 and PBG 2) from 2018 and 2020 and regular repayment of the Deutsche Bank loan from 2023.

However, approximately 1.2 billion will be needed in 2027 to repay debt from the previous period, the largest share of which is to be used for payment of the 2020 bond amounting to 750.0 million euro, regular repayment of the 2014 Chinese Exim Bank loan and repayment of the 2020 PBG loans.

Table 3: BASELINE SCENARIO: Projections of Trends of the State Debt and Public Debt in the Period 2025-2028, in million euro and as a Percentage of GDP

	2025	2026	2027	2028
GDP ⁹	8,124.7	8,564.6	8,973.5	9,389.5
State debt	5,165.1	5,881.6	5,716.3	5,928.1
State debt as a percentage of GDP	63.6	68.7	63.7	63.1
Local government debt	60.0	60.0	60.0	60.0
Public debt	5,225.1	5,941.6	5,776.3	5,988.1
Public debt as a percentage of GDP	64.3	69.4	64.4	63.8
Deposits ¹⁰	598.4	906.6	350.0	197.6
Net state debt	4,566.6	4,975.1	5,366.3	5,730.5
Net state debt as a percentage of GDP	56.2	58.1	59.8	61.0
Net public debt	4,626.6	5,035.1	5,426.3	5,790.5
Net public debt as a percentage of GDP	56.9	58.8	60.5	61.7

In 2028, approximately 338.3 million euro will be needed for debt repayment, primarily to finance regular repayment of the 2014 loan from the Chinese Exim Bank, repayment of PBG loans from 2018, repayment of DPL loans from 2024 and repayment of liabilities under other loans from international financial institutions and domestic banks.

As it can be seen from the previous table containing debt projections for the period 2025–2028, a significant increase in gross public debt is expected in 2026 both in absolute terms and relative to GDP. The main reason for this anticipated increase in 2026 is the Ministry of Finance's effort to secure larger cash deposits in advance to cover debt repayments in 2027. Therefore, it is important to consider debt not only in gross terms, but also in net terms: when deposits, estimated at 906.5 million euro in 2026 are subtracted, the net public debt is projected at 58.1 percent of GDP in 2026. After 2026, a declining trend in debt relative to GDP is expected.

Accordingly, it is important to emphasise that future increases in debt will predominantly result from the financing of capital, infrastructure and development projects, averaging around 350.0 million euro per year. Planned borrowings are aimed at development and infrastructure projects in education, healthcare, defence, road and rail infrastructure, communal infrastructure, energy, digital infrastructure, environmental protection and other sectors.

4.6.4. Low-growth Scenario

If economic growth slows down and revenues decline compared to the baseline scenario, projections of state debt and public debt relative to GDP will be changed in the medium term.

9 Estimated GDP for the period 2025–2028, according to the projections of the Ministry of Finance

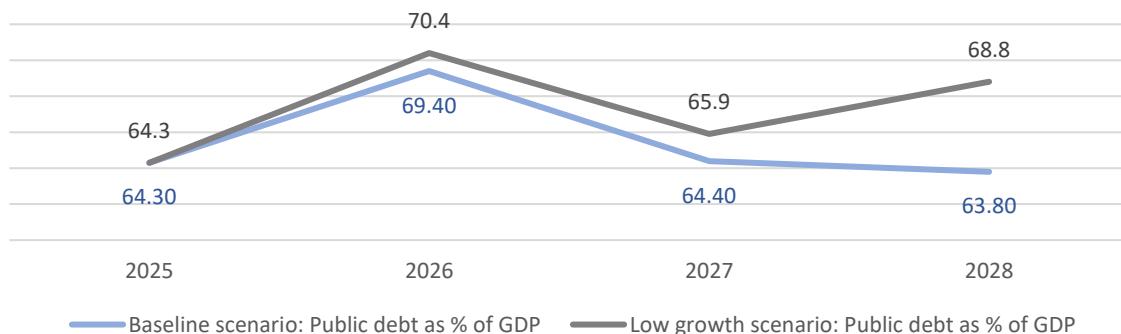
10 Including also 38.477 ounces of gold.

In nominal terms, only a slight increase is expected in 2028 due to the need for additional borrowing to cover budgetary needs.

Table 4: Low Growth Scenario – Projected Developments of State Debt and Public Debt in the Period 2025-2028, in million euro and as a Percentage of GDP

	2025	2026	2027	2028
GDP ¹¹	8,124.7	8,434.1	8,756.3	9,049.1
State debt	5,165.1	5,881.6	5,716.3	6,163.1
State debt as the percentage of GDP	63.6	69.7	65.3	68.1
Local government debt	60.0	60.0	60.0	60.0
Public debt	5,225.1	5,941.6	5,776.3	6,223.1
Public debt as the percentage of GDP	64.3	70.4	65.9	68.8
Deposits ¹²	598.4	853.0	243.1	200.4
Net state debt	4,566.7	5,028.6	5,473.2	5,962.7
Net state debt as the percentage of GDP	56.2	59.6	62.5	65.9
Net public debt	4,626.6	5,088.6	5,533.2	6,022.7
Net public debt as the percentage of GDP	56.9	60.3	63.2	66.6

Figure 8: Comparative Overview of the Trend of Public Debt in Baseline and Low Growth Scenario, in Million Euro and as a Percentage of GDP, 2025-2028



4.6.5. Trend of Government Guarantees until 30 September 2025

The contracted amount of issued state guarantees at the end of Q3 of 2025 amounted to approximately 475.4 million euro. Debt stock at end of September 2025 arising from the issuance of guarantees to domestic and foreign creditors totalled 121.2 million euro, accounting for 1.5 percent of GDP.

¹¹ Estimated GDP in accordance with the low growth scenario for the period 2024-2027, according to the projections of the Ministry of Finance.

¹² Including also 38.477 of ounces of gold.

Most of the issued guarantees relate for the implementation of various infrastructure projects including roads, railways, water supply and sewage systems, electricity, support for the development of small and medium-sized enterprises or restructuring.

Debt stock arising from government guarantees issued to foreign creditors amounts to 107.8 million euro i.e. 1.3 percent of GDP, while debt arising from guarantees issued to domestic creditors amounts to 13.4 million euro i.e. 0.2 percent of GDP.

Figure 9: Overview of Status of Government Guarantees as of 30 September 2025



No state guarantees were issued until 30 September 2025.

4.6.6. Credit Rating of Montenegro

Montenegro's credit rating was upgraded in 2024 by the credit rating agencies Standard & Poor's (S&P) and Moody's.

Specifically, the credit rating agency S&P positively revised Montenegro's credit rating twice in 2024: in March 2024, it upgraded the outlook of the B rating from stable to positive and in August 2024 it raised the credit rating from B to B+ with a stable outlook.

In September 2024, Moody's also upgraded Montenegro's credit rating for the first time since 2013 raising it from B1 to Ba3 with a stable outlook. This upgrade confirmed that Montenegro is improving its economic indicators, maintaining macroeconomic stability and sending positive signals and assurance to the existing and potential investors.

Montenegro's credit ratings were confirmed by both credit rating agencies in 2025 as well.



4.7. Sensitivity Analysis and Comparison with the Previous Programme

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

Important strategic documents and policies, assumed trends of the EU economic cycle, and planned reform measures aimed at the implementation of the basic scenario of projected developments - these provide the foundation for the planned fulfilment of the macroeconomic and fiscal indicators over the medium term. However, as the economic activity takes place amid high uncertainty, in particular on the international scene, the projected macro-fiscal indicators remain subject to changes, in view of possible materialisation of the identified risks pertaining to macroeconomic and financial stability.

The key risks that could affect the macroeconomic and financial stability in the forthcoming period are outlined below.

Table 4.7.1: Overview of fiscal risks in the medium term

RISK	POSITIVE	NEGATIVE
Political	<ul style="list-style-type: none">Obtaining the Interim Benchmark Assessment Report for the negotiation chapters 23 and 24 (IBAR) creates the prerequisites for accelerating the process of Montenegro's accession to the European Union, as well as for receiving EU financial assistance for Montenegro and use of EU structural funds, which strengthens the country's economy and accelerates implementation of structural reforms, while also boosting investors' confidence;	<ul style="list-style-type: none">Geopolitical risks at the global level can negatively affect the entire world economy, and consequently, the Montenegrin economy;
Economic	<ul style="list-style-type: none">Implementation of the EU Growth Plan for the Western Balkans generates additional revenues for the financing and implementation of key reforms in the priority areas;Montenegro's joining the Single Euro Payments Area (SEPA) enables lower transaction costs and better competitiveness of the economy;Reform of the Tax Administration and Customs Administration enables improvement of the business environment and more efficient revenue collection, thus increasing public revenues;Intensification of activities to reduce informal economy, through increased inspection control and more efficient institutional coordination, will have a positive impact on public revenues;Reforms in the budgeting process and strengthening of the budget inspection increase fiscal discipline and transparency of public finances, which has a positive impact on the main fiscal indicators;Potential collection of revenues from the long-term use of the Airport of Montenegro JSC can increase total public revenues in the medium and long term;Continuation of highway construction will have a positive impact on better connectivity between the northern, central and southern	<ul style="list-style-type: none">Delayed implementation of certain measures aimed at increasing public revenues may affect the increase of the projected budget cash deficit and public debt in the medium term;With the slowdown of the European economy and persistent inflationary pressures at the global level, vulnerabilities of the domestic economy remain strong. Effects of significant changes in the economic trends of the EU are dominantly related to the potentially lower growth of tourism in Montenegro, investments and consumption, and consequently to the lower economic growth;Climate change could affect the dynamics of economic growth in the medium term due to the impact on the following sectors: tourism, agriculture and energy;Limited fiscal space, weaker dynamics of implementation of the planned investments and delays in implementation of the structural reforms can negatively affect the economic growth in the medium term.

- regions, greater tourist attractiveness and economic activity;
- Legalisation of illegally constructed facilities will create conditions for generating public revenues and increase the degree of fiscal and budgetary discipline.

4.7.2. Comparison with the Previous Programme

Table 4.7.2: Comparison with the previous Programme, in million euro

	ERP 2025-2027			
	2025	2026	2027	2028
Public revenues	3,283.0	3,410.3	3,527.2	-
Public spending	3,560.8	3,669.6	3,793.2	-
Surplus/deficit of public finances	-277.8	-259.3	-266	-
	ERP 2026-2028			
	2025	2026	2027	2028
Public revenues	3,296.3	3,506.1	3,624.6	3,727
Public spending	3,575.4	3,785.2	3,869.4	3,989.2
Surplus/deficit of public finances	-279.1	-279.1	-244.8	-262.2
	DIFFERENCE			
	2025	2026	2027	2028
Public revenues	13.3	95.8	97.4	-
Public spending	14.6	115.6	76.2	-
Surplus/deficit of public finances	-1.3	-19.8	21.2	-

The outturn of public revenues over the medium term will be higher than what was projected in the previous Programme. The anticipated revenue growth results primarily from the implementation of the **Tax Policy Reform** programme, stronger economic growth and private consumption increase, more efficient countering of the informal economy, and the implemented and planned set of measures on the revenue side. Furthermore, the increase in revenues is directly correlated with the implementation of the key reform measures envisaged under the **Fiscal Strategy**, in particular the ones relating to broadening the tax base, reducing the tax expenditures, strengthening the technical and software capacities and tools of the Tax Administration, and improving the digitalisation of tax processes. These measures contribute to a more stable and sustainable revenue increase, opening up space for the implementation of development policies and gradual reduction of structural fiscal deficit.

In the given context, public revenues retain the growth trend and range from 3,506.1 million euro (40.9 percent of GDP) in 2026 to 3,727 million euro (39.7 percent of GDP) in 2028. Almost all revenue categories will increase over the medium term.

Budget revenues from VAT will record a growth of around 4.9 percent in the medium term, with a stable share in GDP at around 17 percent, primarily as a result of the levelling of the VAT rate and increased consumption driven by higher disposable income of citizens and economic activity growth.

Revenue from the personal income tax will grow at the rate of some 5.5 percent, mostly as an effect of the implementation of the *Europe Now 2 Programme*, which increased employees' wages and expanded the base for the personal income tax, but also due to the employment

rate increase and reduced informal economy in the labour market. For the first time, Montenegro registered a **single-digit** unemployment rate in 2025.

Budget revenues from the corporate profit tax will grow at a rate of 6 percent in the medium term, predominantly due to the growth of economic activity, but also further strengthening of tax discipline, along with the start of a new investment cycle.

In the medium term, the excise taxes will grow at a rate of approximately 4.2 percent, foremost as a result of the expansion of the scope of excisable goods, but also of increase in consumption and further excise policy harmonisation.

Contributions will increase on average by approximately 4 percent in the medium term, following the implementation of the Europe Now 2 Programme, with the expanded base for the collection of this category of budget revenues generating increase over the medium term.

On the other hand, a stable growth in public spending is projected in 2026 and 2027, predominantly due to the trends in mandatory spending, namely social protection transfers and gross wages.

Given the projected revenues and expenditures, the deficit in 2026 is higher relative to the previous Programme, in nominal terms; however, the share of deficit in the GDP is expected to remain stable due to the economic activity growth. In 2027, despite a slightly lower deficit in nominal terms, the difference relative to the previous Programme suggests a slight worsening of the fiscal stance. In 2028, the deficit stabilises, with a continuation of investment activities and preserved fiscal discipline.

4.8. Quality of Public Finances

From the beginning of its term, the Government has clearly set out the key priority of improving citizens' living standard through targeted economic measures aimed at increasing disposable income and strengthening sustainable growth. In this context, reform activities have been implemented that substantially reduced the burden on labour and supported the creation of a more competitive and predictable tax environment.

The minimum wage increase to 600 euro for the employees holding up to V degree of qualifications, i.e. 800 euro for those holding degrees VI and higher, along with the reduced rate of pension and disability insurance contributions payable by both the employees and the employers constituted one of the most comprehensive reforms of the labour market in the past decade. These measures achieved a twofold effect: a significant increase in the disposable income of citizens and a reduction in the labour cost for the businesses, generating one of the most competitive labour tax systems in Europe.

The results of the implemented policies are reflected also in the macroeconomic and fiscal indicators. A steady increase in total budget revenues was recorded in 2025, with the revenues from the corporate profit tax exceeding the annual projections already in September. That pace indicates an increase in corporate profitability and testifies to a conducive business and investment environment. In parallel, the strong increase in the collection of indirect taxes, with regular payment of liabilities to businesses, reflects an increase in domestic consumption and an expansion of economic activity.

At the same time, the Ministry of Finance, together with the relevant tax and customs authority, remains committed to a strong fight and resolute steps in countering illegal trade in tobacco products, all in the aim of improving citizens' health and ensuring stable budget revenues from tobacco excise. The official data available to the Ministry of Finance support this argument: extraordinary results have been recorded in this regard in the tobacco product market, primarily in terms of cigarettes, since 2020. The market is therefore showing strong recovery, mainly due to the comprehensive fight against illegal trade, and the Government of Montenegro strategic measures, as illustrated chiefly by the fact that, according to preliminary data, the illegal cigarette market amounted to 10-15 percent in 2024.

Concerning the tobacco excise policy, in the previous period the Government focused on increasing the excise rates to reach the EU levels, while adhering to the gradual increase in excise rates, mindful of market stability and regional aspect of price harmonisation, as large differences in the prices of tobacco products among the countries of the region would further exacerbate the problem of illegal trade, fostering cross-border trade and illegal distribution.

Since the Free Zone of the Port of Bar was used to smuggle tobacco products, thereby causing damage to the Budget and to the international reputation of Montenegro, the key measure was the 2021 Government of Montenegro decision banning storage of tobacco products at the Free Zone of the Port of Bar, together with the Government of Montenegro decision of 5 September 2024 repealing the approval for the establishment of the free zone "Novi Duvanski Kombinat". The decision banned storage of tobacco products at the Free Zone of Port of Bar, and the tobacco products that were found within the territory of the Free Zone and were not removed within the set deadline were seized by the customs authority.

The implementation of the Decision banning storage of tobacco products within the territory of the Free Zone of the Port of Bar and such implementation of the excise policy on tobacco products rendered tangible results that had multiple effects, such as suppression of illegal trade, results in legal cigarette trade and, in parallel, increase in budget revenues from paid excise duties.

Continuous monitoring and stronger control exercised by the customs authority together with the other institutions from the security-and-intelligence system, in cooperation with the international partners, contribute to countering the smuggling and illegal activities in the Zone. In that regard, according to the data of the Tobacco Directorate, the sales of legal tobacco products have grown steadily over the past five years, with 607 tonnes of cigarettes sold in 2020; 1,224 tonnes in 2024, and 1,119 tonnes in the first ten months of 2025. Total sales in 2025 are expected to largely surpass those from 2024.

In addition, it is worth noting that the Government of Montenegro signed a 14 million euro Loan Agreement for the Revenue Administration Reform Project with IBRD in 2018, followed by an Additional Financing Agreement in 2019 which approved further 4.8 million euro of loan proceeds for the project. The Project is being implemented by the Montenegrin Tax Administration, its envisaged duration is 2018-2025, and Project Development Objective is enhancing the effectiveness of the operational functions of the Tax Administration and reducing the costs of compliance for taxpayers.

The key activity within the Project is the procurement of the new Integrated Revenue Management System (IRMS), compliant with the international standards. The documents

related to the Conceptual Design, IRMS System Architecture, and Migration Plan have been prepared, with the test and development environments set up. As for the functionalities of the prospective system, the functionalities are being developed for the registration module, with modalities being considered for registration data migration.

Procurement of 1.1 million euro worth hardware necessary for the operation of the new IRMS was contracted under the Project; the hardware has been delivered, and installation and integration completed.

The IRMS should be fully implemented and operational as of January 2026. It will ensure digital data consolidation, which will contribute to a better and more transparent data analysis, control and quality. Besides, the IRMS will provide full support to risk monitoring, and therefore also to the fight against informal economy. The foregoing will boost citizens' trust and lead to a fairer and more efficient tax administration system.

The New Computerised Transit System (NCTS) is the paperless transit system based on electronic submission of transit declarations and electronic data exchange between the respective customs authorities of the signatories of the Convention on a Common Transit Procedure. Implementation of new NCTS and accession to the Convention on a Common Transit Procedure are very important for Montenegro's accession to the EU, as they constitute a requirement for the accession.

Montenegro acceded to the Convention on the Simplification of Formalities in Trade in Goods and the Convention on a Common Transit Procedure on 1 November 2025. The Parliament ratified both conventions on 30 July 2025.

That means that international transit of goods between Montenegro and other countries parties to the Convention on the Simplification of Formalities in Trade in Goods (including EU Member States, EFTA, United Kingdom, Serbia, North Macedonia, Turkey, Ukraine and Georgia) is now conducted via the NCTS electronic system.

The stability of public finances was particularly reinforced through improvements to public debt management, with a particular focus on reducing currency risk and optimising currency structure. With the entering into the hedging arrangement for the USD-denominated debt to Chinese Exim Bank in January 2024, the total amount of liabilities was converted to euro, at considerably more favourable borrowing terms than before.

In line with the best international practice in active debt management, an additional transaction was executed of a cross currency swap for the USD-denominated bond issued in March 2024. That transaction enabled debt conversion from USD to euro and substitution of the previous interest rate with a considerably lower euro rate from the hedging arrangement.

These measures did not just significantly lower the country's exposure to currency risk – which dropped to below 1 percent at the end of Q3 2024 – but also evidently improved the currency structure of the public debt, whilst also cutting the interest costs. At the end of Q3 2025, the share of euro in the total debt was 99.7 percent, confirming the full alignment of debt management with the strategic objective of preserving fiscal stability.

The enhanced quality of public finance management is reflected also in the successful issue of retail government bonds in the domestic market in the aim of diversification of sources of

financing and strengthening the pool of domestic investors. The issue provided a strong impetus to the development of the domestic capital market and contributed to lessening the state's dependence on external sources of financing, thus further reinforcing the stability and resilience of public finance.

With regard to more efficient governance and fiscal risk monitoring in the SOE sector, the Ministry of Finance undertook significant activities to set up an efficient system of fiscal risk assessment, monitoring and reporting, as well as a new regulatory framework. An aggregate analysis of the financial performance of the SOE sector for 2023 with a Fiscal Risk Statement was developed and adopted by the Government of Montenegro as the first document of the kind. The Ministry of Finance has set up the routine practices of conducting separate analyses for each SOE and of monitoring fiscal risks; the aggregate analysis will be developed at least once a year and shared with the Government for information and adoption.

The new regulatory framework (Draft Law on SOE Governance and Draft State Ownership Policy) formalises continuous monitoring of SOEs and of the fiscal risks arising from their operations through the introduction of a coordinated centralised governance mechanism. The new Law introduces for the first time the criteria for the establishment of new SOEs, criteria for the appointment of members of governing bodies, and other mechanisms that should enable permanent oversight and early warnings concerning fiscal and financial risks. The role of the Ministry of Finance is clearly delineated as that of the competent authority through which coordinated governance is implemented and which performs, *inter alia*, the following tasks: conducting analyses of the financial position of SOEs; determining and developing the methodology for SOE fiscal risk assessment; assessment, monitoring and reporting on the financial and fiscal risks of SOEs and developing and upgrading appropriate tools to serve those purposes; preparing the fiscal risk statement on the SOEs; preparing a comprehensive strategy for exercising state ownership in SOEs with an Action Plan, and conducting a periodical analysis of the entire portfolio of SOEs to assess the status of fulfilment of the requirements for state ownership. By enacting the mentioned Law, Montenegro will make a stride forward in terms of reform, ensuring the protection of state assets, better performance of SOEs, lower costs and fiscal risks, and more revenues for the state; that will in turn ensure greater trust in SOE operations among citizens and the general public.

All of the foregoing confirms the strengthening of the macroeconomic environment and suggests that fiscal consolidation is being implemented alongside the preservation of public finance sustainability. At the same time, there is an evident increase in the confidence of market players and improved fiscal discipline; combined, these provide a stable foundation for further economic development and implementation of the Government's strategic priorities in the medium term.

4.9. Fiscal Governance and Budgetary Frameworks

The Law on Budget and Fiscal Responsibility contains the formal framework governing the planning and implementation of fiscal policy in Montenegro, and sets the numerical fiscal rules. Namely, the Chapter on Fiscal Policy and Responsibility defines the criteria to be complied with when planning and executing the fiscal policy and the national budget.

Going forward, consideration will be given to the need for revising the defined fiscal rules, with the aim of strengthening and improving the system for responsible fiscal management of public finances, through the possible introduction of additional rules or reinforcement of the current processes of annual and medium-term planning. Cooperation with the IMF is planned in the aim of developing documents that will capture the options for improving the existing fiscal rules. In addition, **fiscal risk management measures** are envisaged for the forthcoming period, in particular in relation to SOEs.

Independent fiscal institutions:

With regard to monitoring and evaluating the fiscal policy and achieved results, in particular with regard to compliance with the numerical fiscal rules, the State Audit Institution assesses the rules by conducting the ex-post evaluation of the numerical fiscal rules and by providing an opinion on the current year's budget. Amendments to the Law on Budget and Fiscal Responsibility were introduced in 2023, with EU support, to strengthen the monitoring of fiscal policy implementation, in particular the ex-ante evaluation, creating the prerequisites for the establishment of the Fiscal Council. Namely, the Fiscal Council is being established in order to enhance independent and objective monitoring of public finance management, as well as to meet Montenegro's obligations under the Negotiating Chapter 17 – *Economic and monetary policy*, which covers the expanded framework for the EU *acquis* on economic and in particular fiscal management. This framework consists of a set of legislation – the Six-Pack, the Fiscal Compact, and the Two-Pack – each containing provisions on national fiscal councils. Amendments to the Law will define the Fiscal Council as a separate independent institution that will assess the application of the fiscal responsibility criteria (fiscal rules), assess macroeconomic and fiscal projections, annual Budget Laws and amendments thereof, and provide assessments and opinions on other regulations and their impact on the fiscal stability and application of fiscal rules.

Medium-term budgetary frameworks:

The medium-term budgetary framework is determined by the Fiscal Strategy, which is adopted by the Parliament upon a proposal of the Government as the umbrella document for the Government's Fiscal Policy during the term of office of the Government.

Based on the Fiscal Strategy, the Government adopts the annual **Macroeconomic and Fiscal Policy Guidelines**, setting the medium-term policies and projections for the three-year period.

In September 2024, the Government adopted the text of the Fiscal Strategy proposal and sent it to the Parliament of Montenegro for consideration and adoption. The document was adopted in December 2024 and covers the period 2024–2027.

The Fiscal Strategy is a key development document for the term of office of the Government, setting out the core economic and fiscal measures and business environment reforms. The existence of the Fiscal Strategy enables the predictability of the Government policies and vision, for businesses, investors and citizens.

The Macroeconomic and Fiscal Policy Guidelines for 2026-2029 will be developed in 2026 and will include updated macroeconomic projections and medium-term fiscal policy objectives.

Public Finance Management (PFM Programme) – measures for 2025–2026

Within the PFM Programme, the following measures are envisaged with regard to the fiscal framework and budget planning:

- Development of procedures for the operation of the Fiscal Council;
- Development of the methodology on the fiscal risks for the SOE sector;
- Improvement of the medium-term budget planning by means of amending the Law on Budget and Fiscal Responsibility;
- Increasing the number of spending units with improved function of medium-term budget planning;
- Improving the gender dimension of the programme-based budgeting;
 - Strengthening the public investment management through the legal framework, project register, cost-and-benefit analysis methodology, and development of the **Master plan of Infrastructure Projects**.

Availability and quality of fiscal data and alignment with ESA standards

Consistent improvement and keeping of public finance statistics represents an essential precondition for meeting the benchmarks under the Negotiating Chapter 17 – Economic and Monetary Union and Negotiating Chapter 18 – Statistics, and for Montenegro's further progress in the EU accession process.

Through the IPA 2022 GRANT project, the Ministry of Finance, the Statistical Office - Monstat and the Central Bank of Montenegro (CBCG) continued the activities towards establishing regular production of data from the field of government finance statistics. In this regard, data on government finance and excessive budget deficit for the period 2017-2023 were shared with Eurostat in April 2025. The project included four expert missions that focused on further improvement of the calculation of GFS/EDP¹³ statistics by subsectors and elements of debt. As per the Project Work Plan developed with the assistance of the designated expert, the Working Group is addressing the activities of calculation and implementation of government finance statistics. For the purpose of the October reporting on the 2025 EDP statistics, the central government, local government and social security funds will each be tracked separately, with a view to becoming separate subsectors. All the data at the level of the three subsectors will be calculated in real time for the 2013-2025 series. In line with the Project Work Plan, data on government finance and excessive budget deficit from 2023 onwards for the general government sector, including the SOEs categorised into that sector, should be shared with Eurostat in November 2025. A list of units for the general government sector is also to be prepared and shared with Eurostat.

In the context of precise division of responsibilities between the Statistical Office, Ministry of Finance and the Central Bank of Montenegro, in the field of production of government finance statistics in line with the ESA 2010 methodology, the Law Amending the Law on Official Statistics and System of Official Statistics was adopted. The Law envisages a transfer of

¹³ GFS – Government Finance Statistics; EDP – Excessive Deficit Procedure, definitions in line with the application of the European ESA 2010 methodology in public finance.



government finance statistics responsibilities from the Ministry of Finance to the Statistical Office. In that regard, and pursuant to Article 70a "Deferred Implementation" of the Law Amending the Law on Official Statistics and System of Official Statistics, the Statistical Office started officially to implement the production and dissemination of these statistics within the macroeconomic statistics and national accounts as of 01 June 2025. Following the adoption of the new Law on Official Statistics and System of Official Statistics as the legal basis, the Statistical Office, the Central Bank of Montenegro and the Ministry of Finance signed a new **Memorandum of Cooperation** which contains a clear and precise definition of the respective institutions' responsibilities and competences in the preparation and production of government finance statistics. The aim is to define a systemic division of responsibilities in the given field for the purpose of the state of Montenegro's long-term commitment to timely and efficient meeting of the obligations towards Eurostat and the European Commission. Following the signing of the new Trilateral Memorandum of Cooperation in the field of statistics, a new Strategy for the implementation of ESA2010 methodology in the public finance statistics should be developed, with an Action Plan as its integral part.

The activities related to the adoption of amendments to a systemic law and signing of the trilateral Memorandum were critical for further advancement and planned closing of the benchmarks in the Negotiating Chapters 17 and 18.

As for ***the application of the numerical fiscal rules*** on keeping the general government deficit below 3 percent of GDP, the projections show that medium-term deficit is within the boundaries of fiscal sustainability. Deficit is projected at 279.1 million euro, i.e. approximately 3.3 percent of GDP in 2026, and is expected to drop to 244.8 million euro, i.e. 2.7 percent of GDP in 2027, which is close to the prescribed 3 percent of GDP. The deficit is to stabilise at 262.2 million euro, i.e. 2.8 percent of GDP in 2028, staying within the boundaries of fiscal discipline.

With regard to the criterion stipulating the public debt below 60 percent of GDP, a stable public debt level is expected over the next medium-term, with the average share of 62-63 percent of GDP, indicating public finance sustainability and gradual convergence with the European fiscal responsibility standards.

4.10. Sustainability of Public Finances

Good public finance management remains one of the core prerequisites for the overall macroeconomic and fiscal stability, considering that Montenegro still does not have available monetary policy instruments. Given the above stated, a transparent tax policy, a predictable business environment, and rational expenditure management remain the key objectives when it comes to the quality of public finances.

Pursuant to the 2026-2028 fiscal framework, the stabilisation of economic trends is achieved through the projected increase in public revenues, the optimisation of discretionary expenditures, and strong investment cycle, contributing to the long-term sustainability of public finances. Achieving a surplus of current budget spending in all years of the projection is of special importance, as it opens up the space for new borrowing solely for the financing of capital projects and repayment of old debts.

Dynamic economic growth rates are contributing to the growth of public revenues; however, in the circumstances of strong growth in mandatory spending, fiscal discipline remains key for balancing the public finances. To that end, the new Fiscal Strategy of the Government formulates new tax policy measures, expenditure measures and structural reforms that should contribute to acceleration of economic growth and enhanced resilience of Montenegrin economy.

Public finance stability and long-term sustainability are chiefly determined by the tax policy and the public spending management policy.

The main features of the fiscal policy over the medium term will be the following:

- Further lowering of the labour tax wedge;
- Implementing the programme to reduce informal economy and strengthen fair market competition;
- Reforming the tax and customs administrations;
- More efficient strategy to reduce tax arrears;
- Aligning the excise tax policy with the EU directives in order to tax goods having adverse impact on the health of population;
- Introducing a middle VAT rate for levelling the VAT rates in tourism;

Pursuant to the fiscal framework, the direct budget revenues in the period 2026-2028 have a positive trend, ranging from 3,084.4 million euro in 2026 to 3,281.8 million euro in 2028, which constitutes a stable level of some 35-36 percent of GDP. The stability of revenues is ensured through the implementation of new tax policy measures and business environment improvement.

On the other hand, the expenditures of the central government budget will have an upward trajectory, ranging from 3,362.8 million euro in 2026 to 3,543.5 million euro in 2028. The nominal increase in expenditures in the next three-year period is primarily caused by:

- Increase in allocations for capital projects (highway, railroad, health, education);
- Increase in the social protection transfers (adjustments of pensions and social benefits with wage increase and inflation);
- Increased allocation for the health system and education.

The strategy in the area of public spending management policy in 2026–2028 will be based on the rationalisation of current spending, influenced by the increase in mandatory expenditures. The focus will be on the redistribution within spending in order to finance the expenditures that have a positive effect on economic growth and development. Special importance belongs to the pension and health system reform, public administration optimisation, public sector wages reform and SOE reform, reducing fiscal risks and boosting fiscal potential.

Implementation of the Programme for Suppressing the Informal Economy will continue during the period 2026–2028, with a focus on the sectors of tourism, trade, transport, construction and agriculture. The aim is reducing the share of informal economy through more efficient control and incentives, promoting the advantages of formal business operations and registration of unregistered business.

Surplus of current budget spending exists across the years covered by the projections (from 2.5 percent of GDP in 2026 to 3 percent of GDP in 2028), with the budget deficit averaging 2.9 percent of GDP, generated solely by the financing of capital projects. The level of net public debt remains stable, averaging approximately 59 percent of GDP, with a clearly set “golden rule” that new borrowing serves only for capital projects and debt repayment.

5. The Reform Agenda of Montenegro and its Consistency with the Macroeconomic Framework

5.1. Introduction

The Reform Agenda of Montenegro 2024-2027 for the EU Reform and Growth Facility within the EU Growth Plan for the Western Balkans is a key document that aims to accelerate Montenegro’s economic convergence with the EU average and implementation of the reforms necessary for faster EU integration. The European Commission (EC) adopted the regulation concerning the Growth Plan for the Western Balkans, projecting a positive impact of the reforms and EU financial support on the candidate countries’ economic growth. The Plan envisages an envelope of 6 billion euro for 2024-2027, consisting of grants and concessional loans. The allocation for Montenegro amounts to 383.5 million euro – 110 million in grants and 273.5 million in concessional loans.

Of the total amount of support, 178.5 million euro is to be allocated in the form of budget support, with the remaining 205 million euro to be allocated for the financing of infrastructure projects and implemented through the Western Balkan Investment Framework (WBIF).

The funds that will be available to Montenegro are conditioned by the successful implementation of the reform measures set out in the Reform Agenda – hence the document’s importance for the economic and political development of Montenegro and for accelerated European integration. Once the full-fledged document was prepared, the final version of the Reform Agenda was agreed and adopted by the Government on 26 September 2024.

The final document includes 32 indicative priority reform measures across four policy areas, 14 policy sub-areas (sectors) and 130 steps identified as prerequisites for the reforms. The identified steps include performance indicators which will serve as the basis for monitoring the progress in implementation of reform measures and for the EU assessment of the fulfilment of requirements for allocation of funds.

5.2. Objectives of the Reform Agenda

Given the current situation and challenges in the context of economic development, in conjunction with the need to accelerate the key reforms in the EU accession process, the overall goal of Montenegro’s Reform Agenda is to leverage the EU incentives available under the Reform and Growth Facility for the Western Balkans to implement the key reform measures in the areas of strategic importance for faster economic growth and convergence with the EU Member States. To achieve this ambitious goal in terms of economic growth, the Government of Montenegro has identified and specified the reform measures in 4 key policy areas: **business environment and private sector development; digital and energy/green**

transitions; human capital development, and fundamental rights/rule of law. In addition, the strong prioritisation of the reforms required to expedite the EU accession process and the reforms concerning the fundamental rights, including rule of law and the fight against corruption and organised crime, are cross-sectoral reforms and are crucial for implementing the Reform Agenda.

Given the key challenges being faced by the Montenegrin economy, all of the measures proposed in the Reform Agenda have been aligned with the following objectives:

- Accelerating the transition of beneficiaries towards sustainable and inclusive economies capable of withstanding the competitive pressures of the Union's single market, towards a stable investment environment;
- Incentivising regional economic integration, in particular on the basis of progress in establishing a common regional market;
- Incentivising the economic integration of beneficiaries with the European Union single market;
- Supporting regional economic integration and greater integration with the EU single market through better connectivity of the region in line with trans-European networks;
- Accelerating the green transition in line with the 2020 Green Agenda for the Western Balkans in all economic sectors, in particular energy, including the transition to a climate-resilient, decarbonised, climate-neutral, circular economy;
- Accelerating the digital transformation as a driver for sustainable development and inclusive growth;
- Incentivising innovation, in particular for SMEs, and supporting the green and digital transitions;
- Fostering quality education, training, reskilling and upskilling and employment policies;
- Further strengthening the foundations of the enlargement process, including the rule of law, democracy, respect for human rights and fundamental freedoms, among other things promoting judicial independence, enhanced security, and the fight against fraud, corruption, organised crime, terrorism financing, money laundering, tax evasion, and tax fraud; compliance with international law; strengthening media freedom and academic freedom and a supportive environment for civil society; promoting social dialogue; promoting gender equality, non-discrimination, and tolerance to guarantee and strengthen the rights of minority members, and
- Strengthening the effectiveness of public administration and fostering transparency, structural reforms and good governance at all levels, including in the areas of public finance management, public procurement and control of state aid; support to the initiatives and bodies involved in encouraging and ensuring respect for international justice among the Western Balkans beneficiaries.

Reforms in the area of **business environment and private sector development** will focus on improving the business environment (including the reforms related to SOE governance), facilitating companies' access to finance, and implementing several measures aimed at enhancing the regulatory environment and strengthening business competitiveness. Private sector development requires an appropriate financial framework that seeks to ensure favourable access to finance for SMEs by facilitating access to the available models of financing



and generating new models, designed to meet the needs of SMEs. Further improvements of the regulatory business environment and reduction of administrative burden on companies remain important objectives of government policy.

The general priority ***in the area of digital and energy/green transition*** is in line with the European Green Deal and the European Union energy policy, impacting further energy sector development through green energy transition and decarbonisation, increased use of renewable energy sources, improved energy efficiency, and implementation of carbon pricing mechanisms, as well as enhancement of infrastructural capacities for connecting with the neighbouring energy systems. Therefore, the reform aims to continue implementing the measures from the EU's Third Energy Package and the Clean Energy Package in the electricity and gas sectors, as well as to create 7 functional energy markets that can integrate into the EU's single energy market.

To become a part of the EU single market for knowledge and skills, a series of key reform measures have been developed with the aim of ***stimulating human capital development***, mainly through improving employment opportunities, support for activation, and reform of social services, along with education and skills development, and enhancement of the innovation environment. Research and innovation go hand in hand with the proposed reforms; under the umbrella of the key strategic orientation of Smart Specialisation, Montenegro aims to improve research and innovation among all relevant parties at all levels, with a particular focus on supporting the two parallel transitions. Implementation of the Education System Digitalisation Strategy 2022-2027 places the main emphasis on the introduction of digital technologies in teaching, as well as the digitisation of all processes in the education system through the development of electronic services for students, teachers, and parents, and strengthening of digital skills and competencies.

Finally, mindful of the need to accelerate not just the economic convergence but also the EU accession process, it is important to cover the objectives in the area of ***fundamental rights***.

Regarding the ***rule of law***, with the adoption of the closing benchmarks for Chapters 23 and 24, Montenegro gained the backing of all EU Member States, along with a message emphasising that the concluding phase of the negotiations demands a consistent focus and a level of dedication to reforms, especially in the areas of the judiciary, fight against corruption and organised crime, freedom of expression and the media. One of the key strategic goals in this area will be improving access to justice and transparency of and trust in the judiciary, thereby enabling legal certainty, order, and the rule of law as a cross-cutting precondition for economic activity and implementation of all the measures defined in the Reform Agenda.

5.2.1. Implementation of the Reform Agenda in 2025

Pursuant to the provisions from the EU Regulation 2024/1449 on establishing the Reform and Growth Facility, Montenegro ratified the Facility Agreement in the first half of 2025 and signed the Loan Agreement, thus meeting the preconditions for the release of the pre-financing equal to 7 percent of the total allocation. Subsequently, the pre-financing of 26.84 million euro was approved on 15 May 2025. Out of that amount, 14,355,398 euro was allocated for the financing of infrastructure projects through the Western Balkan Investment Framework

(7,704,063 grant and 6,651,334 loan). The remaining amount of 12,489,196 was paid to Montenegro as a loan.

Two semi-annual reports on the implementation of the Reform Agenda under the Reform and Growth Facility 2024-2027 were submitted to the European Commission (15 March and 15 July 2025) along with the relevant requests for payment. Following the review of the first semi-annual report and the implemented reforms, 7 of the total of 14 reforms steps were found to have been fully implemented. The total allocation in the form of the first regular tranche for the successfully implemented steps was approximately 10.17 million euro, after subtracting the prorated pre-financing amount, which the country is required to justify with each variable tranche. Thus, the amount paid to Montenegro in late August 2025 was some 4.73 million euro; the remaining funds of some 5.44 million euro will be allocated for the infrastructure projects nominated by Montenegro within WBIF.

Following the review of the second semi-annual report and the implemented reforms, 5 of the total of 18 due reform steps (7 of which were carried over from the first reporting period) were found to have been fully implemented, so the total amount of the second regular tranche was approximately 8 million euro, after subtracting the prorated pre-financing amount. The amount of the loan paid to Montenegro in late October 2025 was some 3.76 million euro, while the remaining amount of some 4.3 million euro was allocated for the infrastructure projects nominated by Montenegro within WBIF.

The third semi-annual report will be submitted to the European Commission by mid-January 2026. It will cover 45 reform steps – 32 due by end of 2025 and 13 carried over from the previous two reporting periods.

With regard to the infrastructure projects envisaged to be funded through the WBIF, bearing in mind the available allocations from the already disbursed tranches of support, the following projects were positively evaluated under the two calls for projects:

1. *Construction of a 110 kV transmission line Herceg Novi – Vilusi, reconstruction of the 110/35 kV TS Vilusi and expansion of the 110/35 kV TS Herceg Novi, Montenegro.* Total project value is **18.3 million euro**; grant funds were requested in the amount of **3.22 million euro**. The lead IFI is the European Bank for Reconstruction and Development (EBRD);
2. *Introduction of SCADA in the distribution system operator in Montenegro.* Total project value is **26.46 million euro**; grant funds were requested in the amount of **5.16 million euro**. The lead IFI is the European Bank for Reconstruction and Development (EBRD);
3. *Construction of the TS 400/110 kV Brezna – stage II, Montenegro.* Total project value is **35.57 million euro**; grant funds were requested in the amount of **6.46 million euro**. The lead IFI is the European Bank for Reconstruction and Development (EBRD);
4. *Preschool education infrastructure in Montenegro - 2: Bar, Berane, Podgorica, Ulcinj.* Total project value is **27.6 million euro**; grant funds were requested in the amount of **5.7 million euro**. The lead IFI is the Council of Europe Development Bank (CEB);
5. *Programme for improvement of Montenegrin education.* Total project value is **29.50 million euro**; grant funds were requested in the amount of **7.1 million euro**. The lead IFI is the European Investment Bank (EIB).

5.3. Estimated Impact of the EU Growth Plan on the Macroeconomic and Fiscal Developments

Since the Growth Plan brings concrete economic and financial benefits, in terms of the available financial instruments for the financing of projects and reforms that contribute to stronger economic growth and better business environment, an assessment has been conducted of the medium-term impact of Growth Plan implementation on the macroeconomic and fiscal framework.

Project simulation used the tools and models developed by the Ministry of Finance, with the assumed high rates of absorption of available finance and readiness of projects and reforms. The expected net effect of the projects envisaged under the Growth Plan on the real GDP of Montenegro is approximately 0.9 percent, i.e. the GDP at the end of 2027 would be 0.9 percent lower without the implementation of these investments. Further positive effects include a private consumption increase by some 0.7 percent, export sector increase – in particular services – by some 0.8 percent, and import increase due to the weak manufacturing base by some 1 percent. The projects will also have a positive impact on the labour market, with an expected employment growth of some 0.4 percent by 2027.

Figure 10 shows the GDP trends against the baseline year (2024=100), with and without the effects of the investments financed from the Growth Plan.

The model's effects and assessments provide approximate simulations, since the effects of some reforms that are not quantifiable or that are not categorised as a public investment are difficult to assess in a complex macroeconomic framework. The multiplier effects of regulatory measures, investment in education and digitalisation may lead to better productivity and greater impacts on the economy; however, the model does not enable a precise assessment.

The assessment of the Reform Agenda's impact on the fiscal trends in the country, i.e. budget revenues, used the model for projecting the medium-term budget revenues. The estimates relied on available information, bearing in mind the conservative principle of impact assessment and budget revenue planning, and taking into account the assessment of the Reform Agenda impact on the macroeconomic indicators.

Figure 10: Growth Plan impact on Montenegro's GDP

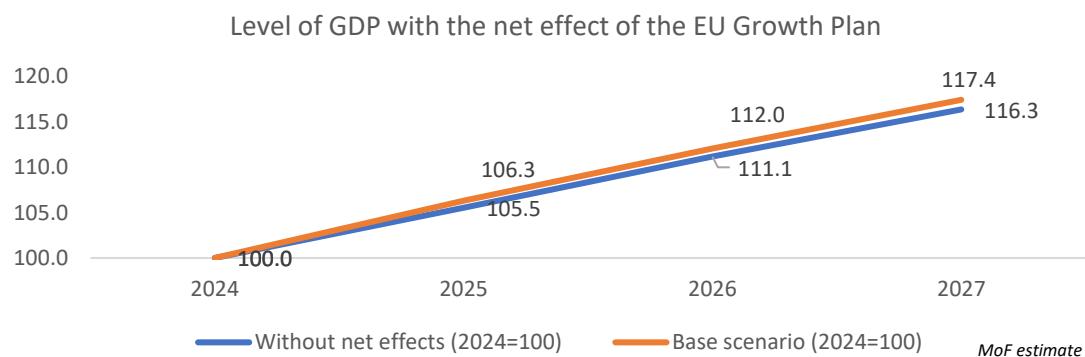


Table 5.3: The EU Growth Plan Fiscal Impact Assessment

Budget revenues (million €)	2025	2026	2027
Corporate Profit Tax	243.7	254.7	261.0
Reform Agenda impact	4.0	7.5	7.5
Personal Income Tax	121.9	129.2	136.4
Reform Agenda impact	1.0	3.5	2.5
Contributions	456.0	480.2	505.7
Reform Agenda impact	3.0	5.5	3.5
Tax on International Trade and Transactions	70.4	72.1	72.2
Reform Agenda impact	2.50	2.50	2.50
VAT	1474.3	1527.2	1582.4
Reform Agenda impact	5.0	19.0	15.0

Source: Ministry of Finance estimates.

Given the nature of the reforms and the significant number of planned infrastructure projects, the budget revenue categories taken into account are the ones that will increase in line with the increase in employment and wages, the launch of a new investment cycle and the resulting expected major economic growth. In line with the foregoing and driven by the expected increase in import due to the implementation of infrastructure projects, VAT (in particular import VAT) and tax on international trade and transactions are expected to increase. Overall, the expected fiscal impact of the Growth Plan on budget revenues is around 85 million euro over the 2025-2027 period, i.e. around 0.9 percent of revenues, peaking during the years of expected intensified infrastructure projects and relevant disbursements, as per the macroeconomic scenario.

The implemented Reform Agenda measures, in particular those improving the business environment, contribute to stronger economic activity and indirectly also to budget revenue increase. Elimination of business barriers further reinforces a more conducive environment for the investors; in the long term, this results in more budget revenues, although the impact is difficult to assess with precision. Digitalisation of administrative processes enhances efficiency and transparency, indirectly fostering economic dynamics and tax revenue increase. The reform measures aiming to modernise the business environment create the preconditions for private sector development, but their individual fiscal impact is not easily quantified. Clearly, facilitated procedures and reduced regulatory barriers impact an improvement in the business climate, which is in turn reflected in the more stable budget revenue increase.

Although the impacts of innovative digital solutions and administrative reforms are not directly measurable as in the investment projects, their contribution is evident. Public service modernisation and greater availability of e-services generate a more efficient economic system, which indirectly boosts budget revenues.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of preparation of the ERP 2026-2028 started in October 2025, when the Government adopted the briefing note on the preparation. The Ministry of Finance coordinates the ERP at the national level. In addition to the Ministry of Finance, the Central Bank of Montenegro had a significant role in the preparation of Chapter 3.

In line with the European Commission guidance, the process of development of the ERP must be a joint exercise of the Government and other stakeholders. To that end, public consultations were conducted 02-22 December 2025. Draft Programme was made available to the representatives of the media and the general public via the Government website: <https://www.gov.me/clanak/javna-rasprava-o-nacrtu-programa-ekonomskih-reformi-crne-gore-2026-2028-rasprava-ce-trajati-do-22-decembra-2025-godine>.

The Roundtable Discussion held as part of the public consultations on the Draft Economic Reform Programme took place on 16 December 2025 and was attended by representatives of the Employers' Federation, Union of Free Trade Unions of Montenegro, AmCham, Capital City of Podgorica, Municipality of Bijelo Polje, international organisations and other stakeholders.

The written inputs provided by the stakeholders with a view to improve the draft ERP are presented in Annex 2 below. Draft ERP was also discussed by the Parliamentary Committee on Economy, Finance, and Budget. Upon receiving all the proposals and suggestions during the consultative process and using them to improve the text of the ERP 2026-2028, the document was finalised and forwarded to the Government of Montenegro for consideration and approval.



ANNEX 1: TABLES TO BE CONTAINED IN THE ECONOMIC REFORM PROGRAMME AND THEIR UPDATES

GDP (u mil. €)	Central Government	8124.7		8564.6		8973.5		9389.5	
Economic classification CODE	Economic classification	2025 Revision		2026		2027		2028	
		mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
	Current revenues	2886.1	35.5	3084.4	36.0	3188.6	35.5	3281.8	35.0
71	Taxes	2183.6	26.9	2356.7	27.5	2443.0	27.2	2527.5	26.9
7111	Personal income tax	108.3	1.3	121.9	1.4	129.2	1.4	136.4	1.5
7112	Tax on Profits of Legal Person	219.9	2.7	243.7	2.8	254.7	2.8	261.0	2.8
7113	Taxes on Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7114	Value Added Tax	1372.6	16.9	1474.3	17.2	1527.2	17.0	1582.4	16.9
7115	Excises	403.5	5.0	429.3	5.0	441.9	4.9	456.9	4.9
7116	Tax on International Trade and Transactions	64.0	0.8	70.4	0.8	72.1	0.8	72.2	0.8
7118	Other State Taxes	15.3	0.2	17.1	0.2	17.9	0.2	18.6	0.2
712	Contributions	449.1	5.5	456.0	5.3	480.2	5.4	505.7	5.4
7121	Contributions for Pension and Disability Insurance	397.3	4.9	399.7	4.7	419.1	4.7	446.5	4.8
7122	Contributions for Health Insurance	6.0	0.1	5.0	0.1	7.0	0.1	2.0	0.0
7123	Contributions for Insurance from Unemployment	26.0	0.3	29.8	0.3	31.3	0.3	33.9	0.4
7124	Other contributions	19.7	0.2	21.4	0.3	22.7	0.3	23.3	0.2
713	Duties	17.8	0.2	20.0	0.2	20.9	0.2	21.9	0.2
7131	Administrative duties	10.8	0.1	11.6	0.1	12.2	0.1	12.8	0.1
7132	Court duties	1.5	0.0	1.9	0.0	2.0	0.0	2.1	0.0
7133	Residential duty	2.5	0.0	3.0	0.0	3.1	0.0	3.3	0.0
7136	Other duties	2.9	0.0	3.4	0.0	3.5	0.0	3.7	0.0
714	Fees	74.2	0.9	81.9	1.0	74.5	0.8	76.0	0.8
7141	Fees for use of goods of common interest	2.2	0.0	2.3	0.0	2.5	0.0	2.6	0.0
7142	Fees for use of natural resources	4.9	0.1	5.1	0.1	5.3	0.1	5.6	0.1
7143	Ecological fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7144	Fee for organizing games of chance	40.0	0.5	39.3	0.5	42.8	0.5	43.3	0.5
7148	Road fees	3.6	0.0	4.1	0.0	4.3	0.0	4.5	0.0
7149	Other fees	23.5	0.3	30.9	0.4	19.5	0.2	20.0	0.2
715	Other revenues	52.3	0.6	64.8	0.8	70.0	0.8	60.7	0.6
7151	Revenues from capital	24.5	0.3	25.5	0.3	29.5	0.3	25.5	0.3
7152	Fines and seized property gains	18.0	0.2	25.0	0.3	25.5	0.3	26.0	0.3
7153	Revenues from own activities of government bod	2.3	0.0	2.3	0.0	2.3	0.0	2.4	0.0
7155	Other revenues	7.4	0.1	12.0	0.1	12.7	0.1	6.8	0.1
74	Grants	109.2	1.3	105.2	1.2	100.0	1.1	90.0	1.0
	Expenditures	3164.2	38.9	3362.8	39.3	3432.9	38.3	3543.5	37.7
41	Current expenditures	1252.8	15.4	1310.4	15.3	1321.6	14.7	1362.1	14.5
411	Gross salaries and contributions charged to emplo	717.4	8.8	726.1	8.5	737.5	8.2	749.0	8.0
412	Other personal income	24.5	0.3	24.6	0.3	25.2	0.3	25.7	0.3
413	Expenditures for goods	50.0	0.6	46.4	0.5	46.3	0.5	47.1	0.5
414	Expenditures for services	101.3	1.2	103.4	1.2	90.2	1.0	88.6	0.9
415	Current maintenance	38.6	0.5	61.0	0.7	58.9	0.7	59.0	0.6
416	Interest	159.5	2.0	174.8	2.0	193.7	2.2	221.1	2.4
417	Rent	13.3	0.2	14.3	0.2	13.2	0.1	13.4	0.1
418	Subsidies	69.0	0.8	74.6	0.9	71.2	0.8	71.6	0.8
419	Other expenditures	79.3	1.0	85.3	1.0	85.4	1.0	86.7	0.9
42	Social security transfers	1068.0	13.1	1155.7	13.5	1201.9	13.4	1248.2	13.3
421	Social security related rights	221.5	2.7	249.2	2.9	255.0	2.8	260.8	2.8
422	Funds for redundant labor	27.0	0.3	27.0	0.3	27.1	0.3	27.1	0.3
423	Pension and disability insurance rights	777.2	9.6	837.2	9.8	877.1	9.8	917.1	9.8
424	Other rights related to health care	25.6	0.3	25.6	0.3	26.0	0.3	26.5	0.3
425	Other rights related to health care insurance	16.7	0.2	16.7	0.2	16.7	0.2	16.7	0.2
	Transfers to institutions, individuals, NGO and public sector	446.5	5.5	500.3	5.8	490.9	5.5	499.4	5.3
44	Capital outflows of current budget	326.2	4.0	351.2	4.1	377.0	4.2	397.2	4.2
462	Repayment of Garantees	4.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
463	Repayment of Arrears	23.6	0.3	5.2	0.1	6.5	0.1	6.5	0.1
47	Reserves	43.1	0.5	39.9	0.5	35.0	0.4	30.0	0.3
	Current budget Surplus/Deficit/	-278.1	-3.4	-278.3	-3.2	-244.3	-2.7	-261.7	-2.8
	Primary Surplus/ deficit	-118.6	-1.5	-103.5	-1.2	-50.7	-0.6	-40.6	-0.4
	Current budget Deficit/ Surplus	48.0	0.6	72.9	0.9	132.7	1.5	135.5	1.4
	Repayment of debt	820.9	10.1	383.6	4.5	1165.4	13.0	338.3	3.6
4611	Repayment of principal to residents	56.8	0.7	97.8	1.1	143.3	1.6	23.3	0.2
4612	Repayment of principal to nonresidents	764.1	9.4	285.8	3.3	1022.1	11.4	315.0	3.4
4418	Purchase of securities	34.2	0.4	34.2	0.4	17.6	0.2	4.8	0.1
45	Loans and credits	7.5	0.1	8.0	0.1	7.5	0.1	7.5	0.1
	Financing needs	-1140.8	-14.0	-704.1	-8.2	-1434.7	-16.0	-612.3	-6.5
	Financing	1140.8	14.0	704.1	8.2	1434.7	16.0	612.3	6.5
751	Borrowings and credits	885.0	10.9	488.3	5.7	719.0	8.0	496.5	5.3
7511	Borrowings and credits from domestic sources	100.0	1.2	100.0	1.2	100.0	1.1	100.0	1.1
7512	Borrowings and credits from foreign sources	785.0	9.7	388.3	4.5	619.0	6.9	396.5	4.2
72	Privatisation revenues	6.0	0.1	6.0	0.1	6.0	0.1	6.0	0.1
73	Receipts from repayment of loans	9.7	0.1	9.7	0.1	9.7	0.1	9.7	0.1
	Increase/decrease in deposits	240.0	3.0	200.0	2.3	700.0	7.8	100.0	1.1



GDP (u mil. €)	Local Government	8124.7		8564.6		8973.5		9389.5	
Economic classification CODE	Economic classification	2025		2026		2027		2028	
		mil. €	% GDP						
	<i>Current revenues</i>	410.2	5.0	421.6	4.9	436.0	4.9	445.2	4.7
711	Taxes	239.9	3.0	246.1	2.9	254.0	2.8	259.6	2.8
7111	Personal income tax	89.7	1.1	92.3	1.1	94.2	1.0	95.1	1.0
71131	Real estate tax	99.9	1.2	100.8	1.2	102.8	1.1	105.9	1.1
71132	Real estate transfer tax	27.5	0.3	29.8	0.3	31.2	0.3	33.5	0.4
	Local taxes and other revenues from the equalization fund	22.9	0.3	23.2	0.3	25.8	0.3	25.0	0.3
713	Duties	6.3	0.1	6.4	0.1	6.6	0.1	6.6	0.1
714	Fees	86.7	1.1	89.3	1.0	93.0	1.0	94.7	1.0
715	Other revenues	19.1	0.2	20.7	0.2	21.3	0.2	21.8	0.2
74	Grants	58.2	0.7	59.1	0.7	61.2	0.7	62.7	0.7
	<i>Expenditures</i>	411.1	5.1	422.4	4.9	436.6	4.9	445.7	4.7
41	Current expenditures	138.5	1.7	141.9	1.7	148.7	1.7	150.6	1.6
411	Gross salaries and contributions charged to employer	76.9	0.9	79.9	0.9	82.5	0.9	83.2	0.9
412	Other personal income	6.6	0.1	6.5	0.1	6.5	0.1	6.7	0.1
413	Expenditures for goods	0.0							
414	Expenditures for services	23.4	0.3	23.3	0.3	26.6	0.3	27.1	0.3
415	Current maintenance	7.7	0.1	8.7	0.1	8.9	0.1	9.1	0.1
416	Interest	3.3	0.0	3.3	0.0	3.4	0.0	3.4	0.0
417	Rent	0.7	0.0	0.7	0.0	0.8	0.0	0.8	0.0
418	Subsidies	7.9	0.1	8.0	0.1	8.2	0.1	8.4	0.1
419	Other expenditures	12.1	0.1	11.5	0.1	11.8	0.1	12.0	0.1
42	Social security transfers	2.3	0.0	2.3	0.0	2.3	0.0	2.4	0.0
43	Transfers to institutions, individuals, NGO and public sector	99.1	1.2	100.2	1.2	103.0	1.1	106.2	1.1
44	Capital outflows of current budget	132.9	1.6	138.9	1.6	141.3	1.6	144.9	1.5
462	Repayment of Garantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
463	Repayment of Arrears	35.4	0.4	36.0	0.4	37.0	0.4	37.0	0.0
47	Reserves	3.1	0.0	3.1	0.0	4.3	0.0	4.6	0.0
	Deficit/ Surplus	-0.9	0.0	-0.8	0.0	-0.5	0.0	-0.5	0.0
	Deficit/ Surplus	-0.9	0.0	-0.8	0.0	-0.5	0.0	-0.5	0.0
	Primary deficit	2.3	0.0	2.5	0.0	2.9	0.0	3.0	0.0
	Current budget Deficit/ Surplus	132.0	1.6	138.1	1.6	140.7	1.6	144.4	1.5
	Repayment of debt	15.0	0.2	16.7	0.2	17.1	0.2	17.7	0.2
4611	Repayment of principal to residents	12.5	0.2	12.8	0.1	13.0	0.1	13.5	0.1
4612	Repayment of principal to nonresidents	2.5	0.0	3.8	0.0	4.1	0.0	4.2	0.0
4418	Purchase of securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
43	Borrowings and credits	1.5	0.0	1.8	0.0	2.1	0.0	2.2	0.0
	Financing needs	-17.5	-0.2	-19.3	-0.2	-19.8	-0.2	-20.4	-0.2
	Financing	17.5	0.2	19.3	0.2	19.8	0.2	20.4	0.2
751	Borrowings and credits	12.7	0.2	8.1	0.1	8.5	0.1	8.0	0.1
7511	Borrowings and credits from domestic sources	3.1	0.0	4.1	0.0	3.5	0.0	3.0	0.0
7512	Borrowings and credits from foreign sources	9.7	0.1	4.0	0.0	5.0	0.1	5.0	0.1
72	Privatisation revenues	10.5	0.1	10.0	0.1	11.4	0.1	11.0	0.1
73	Receipts from repayment of loans	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0
	Transfers from the budget of Montenegro	10.0	0.1	10.1	0.1	10.5	0.1	10.5	0.1
	Increase/decrease in deposits	-16.0	-0.2	-8.9	-0.1	-10.6	-0.1	-9.0	-0.1



BDP (u mil. €)	General Government	2024.7		8564.6		8973.5		9389.5	
Economic classification CODE	Economic classification	2025		2026		2027		2028	
		mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
	Current revenues	3296.3	40.6	3506.1	40.9	3624.6	40.4	3727.0	39.7
711	Taxes	2423.5	29.8	2602.8	30.4	2697.0	30.1	2787.1	29.7
7111	Personal income tax	198.0	2.4	214.2	2.5	223.4	2.5	231.5	2.5
7112	Tax on Profits of Legal Person	219.9	2.7	243.7	2.8	254.7	2.8	261.0	2.8
71131	Real estate tax	99.9	1.2	100.8	1.2	102.8	1.1	105.9	1.1
71132	Real estate transfer tax	27.5	0.3	29.8	0.3	31.2	0.3	33.5	0.4
7114	Value Added Tax	1372.6	16.9	1474.3	17.2	1527.2	17.0	1582.4	16.9
7115	Excises	403.5	5.0	429.3	5.0	441.9	4.9	456.9	4.9
7116	Tax on International Trade and Transactions	64.0	0.8	70.4	0.8	72.1	0.8	72.2	0.8
	Local taxes and other revenues from the equalization fund	22.9	0.3	23.2	0.3	25.8	0.3	25.0	0.3
7118	Other State Taxes	15.3	0.2	17.1	0.2	17.9	0.2	18.6	0.2
712	Contributions	449.1	5.5	456.0	5.3	480.2	5.4	505.7	5.4
7121	Contributions for Pension and Disability Insurance	397.3	4.9	399.7	4.7	419.1	4.7	446.5	4.8
7122	Contributions for Health Insurance	6.0	0.1	5.0	0.1	7.0	0.1	2.0	0.0
7123	Contributions for Insurance from Unemployment	26.0	0.3	29.8	0.3	31.3	0.3	33.9	0.4
7124	Other contributions	19.7	0.2	21.4	0.3	22.7	0.3	23.3	0.2
713	Duties	24.1	0.3	26.4	0.3	27.5	0.3	28.4	0.3
714	Fees	160.9	2.0	171.1	2.0	167.5	1.9	170.7	1.8
715	Other revenues	71.3	0.9	85.5	1.0	91.3	1.0	82.4	0.9
74	Grants	167.4	2.1	164.3	1.9	161.2	1.8	152.7	1.6
	Expenditures	3575.4	44.0	3785.2	44.2	3869.4	43.1	3989.2	42.5
41	Current expenditures	1391.3	17.1	1452.3	17.0	1470.3	16.4	1512.8	16.1
411	Gross salaries and contributions charged to employer	794.3	9.8	806.0	9.4	820.0	9.1	832.1	8.9
412	Other personal income	31.0	0.4	31.1	0.4	31.7	0.4	32.4	0.3
413	Expenditures for goods	50.0	0.6	46.4	0.5	46.3	0.5	47.1	0.5
414	Expenditures for services	124.7	1.5	126.7	1.5	116.8	1.3	115.7	1.2
415	Current maintenance	46.2	0.6	69.6	0.8	67.8	0.8	68.1	0.7
416	Interest	162.8	2.0	178.1	2.1	197.0	2.2	224.6	2.4
417	Rent	14.0	0.2	15.0	0.2	14.0	0.2	14.2	0.2
418	Subsidies	76.9	0.9	82.5	1.0	79.4	0.9	80.0	0.9
419	Other expenditures	91.3	1.1	96.8	1.1	97.2	1.1	98.7	1.1
42	Social security transfers	1070.3	13.2	1158.0	13.5	1204.2	13.4	1250.6	13.3
43	Transfers to institutions, individuals, NGO and public sector	545.5	6.7	600.6	7.0	593.9	6.6	605.6	6.4
44	Capital outflows of current budget	459.0	5.7	490.1	5.7	518.2	5.8	542.1	5.8
462	Repayment of Garantees	4.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
463	Repayment of Arrears	58.9	0.7	41.2	0.5	43.5	0.5	43.5	0.5
47	Reserves	46.2	0.6	43.0	0.5	39.3	0.4	34.6	0.4
	Deficit/ Surplus	-279.1	-3.4	-279.1	-3.3	-244.8	-2.7	-262.2	-2.8
	Primary deficit	-116.3	-1.4	-101.0	-1.2	-47.8	-0.5	-37.6	-0.4
	Current budget Deficit/ Surplus	180.0	2.2	211.0	2.5	273.4	3.0	279.9	3.0
	Repayment of debt	835.9	10.3	400.3	4.7	1182.5	13.2	356.0	3.8
4611	Repayment of principal to residents	69.3	0.9	110.7	1.3	156.3	1.7	36.8	0.4
4612	Repayment of principal to nonresidents	766.6	9.4	289.6	3.4	1026.2	11.4	319.2	3.4
4418	Purchase of securities	34.2	0.4	34.2	0.4	17.6	0.2	4.8	0.1
45	Loans and credits	9.0	0.1	9.8	0.1	9.6	0.1	9.7	0.1
	Financing needs	-1158.2	-14.3	-723.4	-8.4	-1454.5	-16.2	-632.7	-6.7
	Financing	1158.2	14.3	723.4	8.4	1454.5	16.2	632.7	6.7
751	Borrowings and credits	897.7	11.0	496.4	5.8	727.5	8.1	504.5	5.4
72	Privatisation revenues	16.5	0.2	16.0	0.2	17.4	0.2	17.0	0.2
73	Receipts from repayment of loans	10.0	0.1	9.8	0.1	9.7	0.1	9.7	0.1
	Transfers from the budget of Montenegro	10.0	0.1	10.1	0.1	10.5	0.1	10.5	0.1
	Increase/decrease in deposits	224.0	2.8	191.1	2.2	689.4	7.7	91.0	1.0

**1a: Macroeconomic prospects**

	ESA Code	Year	Year	Year	Year	Year	Year	
		2024	2024	2025	2026	2027	2028	
		Level (bn €)	Rate of change					
1. Real GDP at market prices	B1*g	7.293	3.2	3.3	3.2	3.1	3.2	
2. GDP at market prices	B1*g	7.645	8.1	6.3	5.4	4.8	4.6	
Components of real GDP								
3. Private consumption expenditure	P3	6	10.4	5.6	2.9	2.2	2.0	
4. Government consumption expenditure	P3	1	1.6	2.7	2.5	2.5	1.5	
5. Gross fixed capital formation	P51	2	10.2	7.0	6.0	5.0	6.0	
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0	3.8	4.7	4.4	4.2	4.0	
7. Exports of goods and services	P6	3	-4.0	-0.8	3.1	3.9	5.2	
8. Imports of goods and services	P7	5	5.7	4.1	3.2	2.8	3.3	
Contribution to real GDP growth								
9. Final domestic demand		8,7	10.1	6.4	4.0	3.3	3.2	
10. Change in inventories and net acquisition of valuables	P52+P53	0,3	-1.1	0.0	0.0	0.0	0.0	
11. External balance of goods/services	B11	-2	-5.8	-3.1	-0.8	-0.2	0.1	

Table 1b: Price developments

	ESA Code	Year	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028	
1. GDP deflator		4.8	2.9	2.1	1.7	1.4	
2. Private consumption deflator		3.1	3.1	2.4	2.2	1.9	
3. HICP ¹⁴		3.6	:	:	:	:	
4. National CPI change ¹⁵		3.3	3.8	2.9	2.5	2.0	
5. Public consumption deflator		5.1	1.3	1.5	-0.5	-1.0	
6. Investment deflator		1.2	0.0	0.0	0.0	0.0	
7. Export price deflator (goods & services)		0.1	2.2	1.8	1.8	1.8	
8. Import price deflator (goods & services)		0.2	1.2	1.2	1.2	1.2	

¹⁴ HICP data: MONSTAT does not publish HICP data.¹⁵ 2015=100

Table 1c: Labour markets developments

	ESA	Year	Year	Year	Year	Year	Year
	Code	2024	2024	2025	2026	2027	2028
	Level	Rate of change					
1. Population (thousands)		623.5	:	:	:	:	:
2. Population (growth rate in %)		0.0	-100.0	:	:	:	:
3. Working-age population (persons)		501	:	:	:	:	:
4. Participation rate		63.7	:	:	:	:	:
5. Employment, persons		283	290	296	302	307	
6. Employment, hours worked		:	:	:	:	:	:
7. Employment (growth rate in %)		1.5	2.6	2.1	2.0	1.7	
8. Public sector employment (persons)		54.4	:	:	:	:	:
9. Public sector employment (growth in %)		1.1	:	:	:	:	:
10. Unemployment rate		11.5	10.5	9.8	9.0	8.1	
11. Labour productivity, persons		25.8	1.6	0.7	1.1	1.0	1.5
12. Labour productivity, hours worked		:	:	:	:	:	:
13. Compensation of employees	D1	3.0	1.9	6.3	6.9	6.7	6.7

Table 1d: Sectoral balances

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	:	:	:	:	:
of which:		:	:	:	:	:
- Balance of goods and services		-22.5	-23.9	-23.5	-22.6	-21.5
- Balance of primary incomes & transfers		22.5	23.9	23.5	22.6	21.5
- Capital account		:	:	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	3.3	3.4	3.3	2.7	2.8
3. Net lending/borrowing of general government		-3.3	-3.4	-3.3	-2.7	-2.8
4. Statistical discrepancy		:	:	:	:	:

Table 1e: GDP, investment and gross value added

	ESA	Year	Year	Year	Year	Year
	Code	2024	2025	2026	2027	2028
GDP¹⁶ and investment						
GDP level at current market prices (in domestic currency)	B1g	7.6	8.1	8.6	9.0	9.4
Investment ratio (% of GDP)		21.1	21.2	21.3	21.4	21.6

¹⁶ GDP production side projections: Ministry of Finance preliminary estimates.



Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture			:	:	:	:
2. Industry (excluding construction)			:	:	:	:
3. Construction			:	:	:	:
4. Services			:	:	:	:

Table 1f: External sector developments¹⁷

Euro mill. Unless otherwise indicated		Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
1. Current account balance (% of GDP)	% of GDP	-17.1	-17.8	-17.1	-16.0	-14.6
2. Export of goods	bn. EUR	0.7	0.6	0.6	0.7	0.7
3. Import of goods	bn. EUR	4.0	4.2	4.4	4.6	4.9
4. Trade balance	bn. EUR	-3.3	-3.6	-3.8	-4.0	-4.2
5. Export of services	bn. EUR	2.7	2.8	2.9	3.1	3.3
6. Import of services	bn. EUR	1.1	1.1	1.1	1.2	1.2
7. Service balance	bn. EUR	1.6	1.7	1.8	1.9	2.2
8. Net interest payments from abroad	bn. EUR	-0.1	-0.1	-0.1	-0.1	-0.1
9. Other net factor income from abroad	bn. EUR	0.1	0.1	0.1	0.1	0.1
10. Current transfers	bn. EUR	0.4	0.5	0.5	0.5	0.6
11. Of which from EU	bn. EUR	:	:	:	:	:
12. Current account balance	bn. EUR	-1.3	-1.4	-1.5	-1.4	-1.4
13. Capital and financial account	bn. EUR	-1.2	:	:	:	:
14. Foreign direct investment	bn. EUR	-0.5	0.6	0.6	0.6	0.6
15. Foreign reserves	bn. EUR	0.2	:	:	:	:
16. Foreign debt	bn. EUR	9.7	:	:	:	:
17. Of which: public	bn. EUR	4.3	:	:	:	:
18. Of which: foreign currency denominated	bn. EUR	:	:	:	:	:
19. Of which: repayments due	bn. EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	:	:	:	:	:
p.m. exchange rate vis-à-vis EUR (annual average)	%, year-on-year	:	:	:	:	:
21. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1,0	1,0	1,0	1,0	1,0
p.m. exchange rate vis-à-vis EUR (end-year)	%, year-on-year	0,0	0,0	0,0	0,0	0,0
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

¹⁷ External sector projections: Ministry of Finance estimates.

Table 1g: Sustainability indicators

	Dimension	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. Current Account Balance	% of BDP	-9.3	-12.9	-11.2	-17.1	-17.8
2. Net International Investment Position	% of BDP	-158.6	-123.7	-104.4	-104.3	:
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate	%, yoy	:	:	:	:	:
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	116.5	96.5	77.0	70.5	:
8. General Government Debt	% of GDP	:	:	58.4	59.8	64.3

Table 2a: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2023	2024	2025	2026	2027	2028
		Level (bn NCU)	% GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-0.25	-3.3	-3.4	-3.3	-2.7	-2.8
2. Central government	S1311	1.74	22.8	22.8	22.9	22.1	21.8
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	0.43	5.7	5.1	4.9	4.9	4.7
5. Social security funds	S1314	1.25	16.4	16.1	16.4	16.1	15.9
General government (S13)							
6. Total revenue	TR	3.19	41.7	40.6	40.9	40.4	39.7
7. Total expenditure	TE	3.44	45.0	44.0	44.2	43.1	42.5
8. Net borrowing/lending	EDP.B9	-0.25	-3.3	-3.4	-3.3	-2.7	-2.8
9. Interest expenditure	EDP.D41 incl. FISIM	0.15	2.0	2.0	2.1	2.2	2.4
10. Primary balance		-0.10	-1.3	-1.4	-1.2	-0.5	-0.4
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2.10	27.4	28.3	28.9	28.6	28.2
12a. Taxes on production and imports	D2	1.69	22.2	23.1	23.5	23.2	23.0
12b. Current taxes on income and wealth	D5	0.40	5.3	5.1	5.3	5.3	5.2
12c. Capital taxes	D91	0.00	:	:	:	:	:
13. Social contributions	D61	0.58	7.6	5.5	5.3	5.4	5.4
14. Property income	D4	0.12	1.6	1.6	1.5	1.5	1.5



15. Other (15 = 16-(12+13+14))22		0.38	5.0	5.2	5.2	5.0	4.6
16 = 6. Total revenue	TR	3.19	41.7	40.6	40.9	40.4	39.7
p.m.: Tax burden		2.68	35.1	33.8	34.2	33.9	33.6
Selected components of expenditures							
17. Collective consumption	P32	:	:	:	:	:	:
18. Total social transfers	D62 + D63	1.01	13.2	13.2	13.5	13.4	13.3
18a. Social transfer in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	1.01	13.2	13.2	13.5	13.4	13.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.15	2.0	2.0	2.1	2.2	2.4
20. Subsidies	D3	0.09	1.2	0.9	1.0	0.9	0.9
21. Gross fixed capital formation	P51	0.44	5.8	5.7	5.7	5.8	5.8
22. Other (21 = 22-(16+17+18+19+20))		1.74	22.7	22.2	21.9	20.8	20.2
23. Total expenditures	TE [1]	3.44	45.0	44.0	44.2	43.1	42.5
p.m. compensation of employees	D1	0.76	9.9	9.8	9.4	9.1	8.9

Table 2b: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
		Level (bn NCU)				
Net lending (B9) by sub-sectors						
1. General government	S13	-0.25	-0.28	-0.28	-0.24	-0.26
2. Central government	S1311	1.74	1.85	1.96	1.98	2.05
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	0.43	0.41	0.42	0.44	0.45
5. Social security funds	S1314	1.25	1.31	1.40	1.44	1.49
General government (S13)						
6. Total revenue	TR	3.19	3.30	3.51	3.62	3.73
7. Total expenditure	TE	3.44	3.58	3.79	3.87	3.99
8. Net borrowing/lending	EDP.B9	-0.25	-0.28	-0.28	-0.24	-0.26
9. Interest expenditure	EDP.D41 incl. FISIM	0.15	0.16	0.18	0.20	0.22
10. Primary balance		-0.10	-0.12	-0.10	-0.05	-0.04
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		2.10	2.30	2.47	2.56	2.65
12a. Taxes on production and imports	D2	1.69	1.88	2.01	2.08	2.16
12b. Current taxes on income and wealth	D5	0.40	0.42	0.46	0.48	0.49



12c. Capital taxes	D91	0.00	0.00	0.00	0.00	0.00
13. Social contributions	D61	0.58	0.45	0.46	0.48	0.51
14. Property income	D4	0.12	0.13	0.13	0.13	0.14
15. Other (15 = 16-(12+13+14))		0.38	0.42	0.45	0.45	0.43
16 = 6. Total revenue	TR	3.19	3.30	3.51	3.62	3.73
p.m.: Tax burden (D2+D5+D61+D91-D995)		2.68	2.75	2.93	3.04	3.15
Selected components of expenditures						
17. Collective consumption	P32	:	:	:	:	:
18. Total social transfers	D62 + D63	1.01	1.07	1.16	1.20	1.25
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	1.01	1.07	1.16	1.20	1.25
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.15	0.16	0.18	0.20	0.22
20. Subsidies	D3	0.09	0.08	0.08	0.08	0.08
21. Gross fixed capital formation	P51	0.44	0.46	0.49	0.52	0.54
22. Other (21 = 22- (16+17+18+19+20))		1.74	1.81	1.88	1.87	1.89
23. Total expenditures	TE	3.44	3.58	3.79	3.87	3.99
p.m. compensation of employees	D1	0.76	0.79	0.81	0.82	0.83

Table 3: General government expenditure by function

% GDP	COFOG Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
1. General public services	1	10.9	10.5	10.2	9.7	9.7
2. Defence	2	1.3	1.1	1.0	1.1	1.1
3. Public order and safety	3	2.6	2.7	2.9	2.8	2.7
4. Economic affairs	4	5.2	5.0	5.0	4.9	5.0
5. Environmental protection	5	0.3	0.3	0.2	0.2	0.2
6. Housing and community amenities	6	0.1	0.2	0.2	0.2	0.3
7. Health	7	6.0	5.8	6.1	5.7	5.5
8. Recreation, culture and religion	8	0.7	0.7	0.8	0.7	0.7
9. Education	9	4.1	4.1	3.9	3.8	3.6
10. Social protection	10	13.8	13.5	14.0	13.8	13.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	45.0	44.0	44.2	43.1	42.5

Table 4: General government debt developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
1. Gross debt		59.8	64.3	69.4	64.4	63.8
2. Change in gross debt ratio		1.5	4.5	5.1	-5.0	-0.6
Contributions to change in gross debt						
3. Primary balance		1.3	1.4	1.2	0.5	0.4
4. Interest expenditure	EDP D.41	2.0	2.0	2.1	2.2	2.4
5. Real growth effect		-1.7	-1.9	-2.0	-2.0	-2.0
6. Inflation effect		-0.6	-0.6	-0.6	-0.7	-0.6
7. Stock-flow adjustment		0.0	0.0	0.0	0.0	0.0
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		3.7	3.6	3.4	3.3	3.9
Other relevant variables						
8. Liquid financial assets		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Table 5: Cyclical developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
1. Real GDP growth (%)	B1g	3.2	3.3	3.2	3.1	3.2
2. Net lending of general government	EDP.B.9	-3.3	-3.4	-3.3	-2.7	-2.8
3. Interest expenditure	EDP.D.41	2.0	2.0	2.1	2.2	2.4
4. One-off and other temporary measures ⁴¹		:	:	:	:	:
5. Potential GDP growth (%)		2.9	3.2	3.2	3.1	3.2
<i>Contributions:</i>						
- labour		0.8	1.8	1.4	1.3	1.5
- capital		1.1	1.5	1.6	1.4	1.3
- total factor productivity		1.0	-0.1	0.2	0.4	0.4
6. Output gap		2.6	2.1	1.5	1.2	0.9
7. Cyclical budgetary component		2.4	1.9	1.4	1.1	0.8
8. Cyclically-adjusted balance (2-7)		-5.6	-5.3	-4.6	-3.8	-3.6
9. Cyclically-adjusted primary balance(8-3)		-3.6	-3.3	-2.5	-1.6	-1.2
10. Structural balance (8-4)		:	:	:	:	:

**Table 6: Divergence from previous programme**

	Year	Year	Year	Year	Year
	2024	2025	2026	2027	2028
1. GDP growth (% y/y)					
Previous programme	-0.6	-1.5	0.0	0.0	:
Latest update	3.2	3.3	3.2	3.1	3.2
Difference (percentage points)	3.8	4.8	3.2	3.1	:
2. General government net lending (% GDP)					
Previous programme	:	:	:	:	:
Latest update	-3.3	-3.4	-3.3	-2.7	-2.8
Difference	:	:	:	:	:
3. General government gross debt (% GDP)					
Previous programme	:	:	:	:	:
Latest update	59.8	64.3	69.4	64.4	63.8
Difference	:	:	:	:	:

Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which: age-related expenditures	:	:	:	n/a	n/a	n/a	n/a
- Pension expenditure	:	:	:	n/a	n/a	n/a	n/a
- Social security pension	:	:	:	n/a	n/a	n/a	n/a
- Old-age and early pensions	:	:	:	n/a	n/a	n/a	n/a
- Other pensions (disability, survivors)	:	:	:	n/a	n/a	n/a	n/a
- Occupational pensions (if in general government)	:	:	:	n/a	n/a	n/a	n/a
- Health care	:	:	:	n/a	n/a	n/a	n/a
- Long-term care (<i>this was earlier included in the health care</i>)	:	:	:	n/a	n/a	n/a	n/a
Education expenditure	:	:	:	n/a	n/a	n/a	n/a
Other age-related expenditures	:	:	:				
Interest expenditure	:	:	:	n/a	n/a	n/a	n/a
Total revenues	:	:	:				
of which:							
property income	:	:	:	n/a	n/a	n/a	n/a
trade-related revenue,	:	:	:	n/a	n/a	n/a	n/a
royalties, concessions etc.	:	:	:	n/a	n/a	n/a	n/a
from pensions contributions (or social contributions, if appropriate)	:	:	:	n/a	n/a	n/a	n/a
Pension reserve fund assets	:	:	:	n/a	n/a	n/a	n/a
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	n/a	n/a	n/a	n/a



Assumptions							
Labour productivity growth ¹⁸	4.2	5.1	-5.9				
Real GDP growth ¹⁹	7.1	2.8	-15				
Participation rate males (aged 20-64)	69.1	67.1	74.6	:	:	:	:
Participation rates females (aged 20- 64)	53	51.7	59.9	:	:	:	:
Total participation rates (20-64)	61	59.3	67.2	:	:	:	:
Unemployment rate	19.4	19.8	17.8	:	:	:	:
Population aged 65+ over total population ²⁰	12.9	12.9	15.6	:	:	:	:

Table 7a: Contingent liabilities

Measures		Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID- 19			21	
	Subtotal			
Others			22	
	Subtotal			
	Total			

¹⁸ Productivity growth projections: long-term Ministry of Finance estimates.¹⁹ GDP growth projections: long-term Ministry of Finance estimates.²⁰ Population 65+ projections: MONSTAT publication from 2014, medium fertility rate variant:<http://monstat.org/cg/page.php?id=210&pageid=210>²¹ In previous years, this table requested only information on COVID-related guarantees. Given that the form has been changed, we have inserted data on the stock of debt related to state guarantees at the end of 2024, as well as the amount of called guarantees during the year. The debt stock at the end of 2024 related to state guarantees amounted to €131.5 million, while during the year, an amount of €4.1 million was called and paid. It is not expected that any additional guarantees will be called.²² Data related to guarantees:

- Contracted amount of the issued State Guarantees as of 30 September 2025 was 475.4 mil. €.

- The debt stock related to the State Guarantees as of as of 30 September 2025 was 121.2 mil. €.



Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
Short-term interest rate	Annual average	3.6	2.2	1.9	2	:
Long-term interest rate	Annual average	2.3	2.6	2.7	2.9	:
USD/EUR exchange	Annual average	1.08	1.13	1.16	1.16	:
Nominal effective exchange rate	Annual average	2.95	4.59	2.28	0	:
Exchange rate vis-à-vis the EUR	Annual average	1.00	1.00	1.00	1.00	1.00
Global GDP growth, excluding EU	Annual average	3.7	3.4	3.4	3.5	:
EU GDP growth	Annual average	1.1	1.4	1.4	1.5	:
Growth of relevant foreign markets	Annual average	3.4	3.1	3.1	4	:
World import volumes, excluding EU	Annual average	4.3	3	2	3	:
Oil prices (Brent, USD/barrel)	Annual average	80.5	68.9	62.4	63.3	:

Annex 2: External Contribution to the ERP 2026-2028

Remarks area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
General comment	<p>Comments received on 17-Dec-2025</p> <p>Comments are as follows:</p> <p>ECONOMIC POLICY</p> <ul style="list-style-type: none"> – we deem it is necessary to increase in the calculation value of the coefficient from 90 to 100 euro (gross), which has not changed for 14 years, in order to preserve the positive effects of the Europe Now 1 and 2 Programmes, which were affected by inflationary trends in the previous period. Whereby, we had in mind the position of the World Bank, which requires us to reduce public spending and maintain wages in 2026 at the level of 2025. However, we believe that expenditures from the Budget for employees' wages, which would follow the increase of the calculation value of the coefficient, could be offset from internal reserves, so that the Budget does not expand. This it refers to the savings of individual budget line items on the expenditure side of the Budget, especially those that have been significantly and unnecessarily increased in the previous two years, such as the costs of: consulting services, service contracts, development and maintenance of software, transfers to political parties, etc., as well as the line item "other costs", which appears with each budget spending unit and which in some cases amounts to up to 80% of the planned main costs for that budget spending unit. Moreover, it is important to note that the proposed 	<p>Stakeholder: Union of Free Trade Unions</p> <p>Contact person: Marko Subotić</p> <p>Contact details: usscg@usscg.me</p>	Comments are rejected	<p>ECONOMIC POLICY</p> <ul style="list-style-type: none"> – When it comes to increasing the calculation value of the coefficient from 90 to 100 euro (gross), it is important to point out that the Europe Now 1 and Europe Now 2 programmes in the previous period already had a significant positive impact on wage growth and the standard of living in Montenegro, through an increase in minimum and average wages, with the minimum wage cumulatively rising from 250 euro to 600 euro or 800 euro through the two programmes, and the average wage at the end of last year, under the Europe Now 2 Programme, exceeded 1,000 euro. It is key to point out that the increase in wages was not only a nominal increase, but a real wages also increased in the conditions of inflation (which is in line with the inflation levels in the region), which indicates that the increases reflect the real income of citizens. Furthermore, the increase of the calculation value of the coefficient from 90 to 100 euro, or



Remarks area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
	<p>2026 Budget already planned a wage increase of 24 million net, compared to the current year, which provides additional argument for the validity of our proposal;</p> <ul style="list-style-type: none">– the privatisation process of the remaining socially-owned property and valorisation of natural resources must be transparent, whereby the systems such as the "Dr. Simo Milosevic" Institute, EPCG, mines, railways, Port of Bar, Plantations, Airport, communal utility services, etc., which are of special value and importance for the population, remain in the majority state ownership (annex: Resolution on the protection of economic entities of national interest). At the same time, it is necessary to review the previous privatisation processes with a special focus on the most strategically important enterprises/land that have been privatised;– depoliticize the governance of publicly-owned enterprises and limit wages and severance pay for members of the management of these enterprises;– carry out a decisive and uncompromising fight to suppress the informal economy through the design of measures for the efficient legalisation of the employment of a worryingly large number of persons on undeclared work, inspection oversight over online trade and enabling the entry of inspectors into private facilities where unregistered economic			by roughly 11%, is significantly above the projected inflation, thus has no basis in terms of economic flows. Likewise, the increase would have a significant fiscal effect on the state budget, which was not analyzed and submitted with this initiative, with a note that the wage increase would have a long-term character, unlike possible compensatory ones that are proposed through the reduction of other budget line items, which are of a one-off nature. When it comes to the proposal to reduce individual budget line items, the proposal needs to be concrete, because the budget line items are accounting statements of the implementation of individual public policies. If is proposed to abandon a certain public policy of the Government in order to create a fiscal effect for the mentioned increase of wages, that proposal would have to be concrete. On the other hand, proposing to reduce accounting categories of budget expenditures without a concrete basis or connection with public policies could



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	<p>activities are carried out, which would expand the tax base, and the perpetrators of the "informal economy" would be adequately punished. Amendment of legal provisions to this end must necessarily imply the involvement of social partners;</p> <ul style="list-style-type: none">– transform unstable contracts on hiring employees (fixed-term contracts, contracts on temporary and occasional jobs, agency contracts, services contracts...) into stable labour contracts (open-ended employment contracts), especially in the public sector, in order to provide these employees with dignified working and living conditions. Estimates are that in tourism alone, Montenegro loses approximately 86 million euro annually due to unregistered private accommodation;– increase the amount of the founding contribution when establishing a limited liability company or increase the liability of the founder with personal assets in the event of bankruptcy or liquidation thereof;– establish the responsibility of the State for compensation of employees whose employers did not pay wages, or wage compensations to employees, including obligations for compulsory social insurance, especially in the case of using pregnancy, maternity and parental leave, in the way that they were closing limited liability companies and			<p>undermine the implementation of certain comprehensive public policies, thus the proposed reduction of consultancy could affect allocated funds to be insufficient for the drafting of project documentation for a significant number of capital projects (taking into account that 2/3 of these expenditures are allocated under the Capital Budget), reduced expenditures for maintenance and software would mean abandoning the creation of certain digitalisation processes as well as potential inability to pay existing valid contracts for the maintenance of software applications, and like. Finally, we believe that the further increase in wages should be considered through systemic changes to the regulatory framework that governs the public sector wages.</p> <p>– In the segment of recommendations for combating the gray economy, the fight against the informal economy is a priority of economic and fiscal policy, which is addressed systematically through the improvement of the fiscal framework and the strengthening of tax</p>



Remarks area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
	<ul style="list-style-type: none">– opened new companies under a different name in order to avoid obligations to employees and the State;– encourage the development of agriculture, provide and guarantee a "secure purchase" for domestic farmers and herders, and thus promote the development of these economic sectors, giving a chance to domestic and healthy production, and thus reducing the import of foodstuffs;– preserve from further devastation the land that is defined as agricultural land by the spatial plan which is being increasingly used for the construction of commercial and residential buildings;– create a special "green fund" from which policies for the settlement of rural areas would be financed on a non-refundable basis, especially incentive measures for young married couples who plan to stay in the countryside, until the achievement of strategic goals in agriculture;– simplify the application procedure for public calls for the use of IPA funds for farmers;– ensure the rational spending of budgetary funds by introducing accountability mechanisms for all users of these funds through transparent and adequate sanctioning of any irresponsible and illicit behaviour in the management of these funds;			discipline. The reform implemented to reduce the pension and disability insurance contributions, from a total of 20.5% to 10%, led to an increase in the net wages of employees and a simultaneous reduction in gross costs for employers, significantly contributing to the strengthening of formal employment and the reduction of incentives for undeclared work, which was also reflected in the gradual expansion of the tax base. The effects of this reform are recognised in the labour market development, which shows extremely positive trends throughout the year. In addition, in the Draft Economic Reform Programme 2026-2028, in the segment "4.8 Quality of Public Finances", pages 55-58 of the document, presents the activities and key results of the operational authorities, as well as the results in the implementation of the excise tax policy and the collection of public revenues and reforms in the field of governance of the majority state-owned enterprises.



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	<ul style="list-style-type: none">– limit the privileges of public officials to receive wage compensation from the budget for one year, or two years if they have that much left until retirement;– adopt a law on the review of the origin of property in order to create conditions for more efficient detection and confiscation of illicitly acquired property for the benefit of social funds and the Budget;– amend the Law on Business Undertakings so that a foreign company branch is recognised as a separate legal person in which it is possible to carry out inspection control. It is necessary to align the Law on Business Undertakings with Directive 2017/1132 relating to certain aspects of company law, especially Article 133 in terms of enabling employees to have their representatives in the employer's decision-making bodies (management and supervisory boards);– urgently proceed with the establishment of the Institute for Occupational Medicine as a reference institution for the determining occupational diseases, preventive action and the collection of statistical data necessary for the improvement of one of the key areas, which is the health of the working-age population. Montenegro is one of the few countries that, although it aspires to become the next full member of the EU, does not have a reference			<ul style="list-style-type: none">– Additional activities refer to the adopted amendments to the Law on Prevention of Legal Doing Business, which bring a series of new measures aimed at suppressing the gray economy and increasing tax discipline, which was also discussed by representatives of the Ministry of Finance at the organised round table during the public consultations. The Law clearly defines what is considered illegal doing business; it introduces bans on the establishment of new business undertakings for persons with blocked financial accounts, as well as significantly higher fines for misdemeanours. It is particularly significant that persons who have more than 30 percent of participating interests in companies that have initiated a bankruptcy or liquidation proceedings, or whose accounts have been blocked due to tax debts, will not be able to establish new business undertakings, register as entrepreneurs or acquire participating interests in other companies.



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	<p>institution for the determination or verification of occupational diseases, which puts the working-age population in a situation where they cannot determine an occupational disease, and therefore cannot enjoy other rights that would be entitled to on that basis, which are in the service of further protection of their life and health. Funds from the Growth Plan and funds provided for strengthening the healthcare system through the Agreement between the European Union and Montenegro on membership in the "EU4Health" program, worth 5.3 billion euro, should necessarily be directed in part to the establishment of the Institute for Occupational Medicine as one of the key prerequisites for improving productivity, preserving and protecting the health of employees, but also as one of the steps of essential importance for overall socio-economic, fair and sustainable development;</p> <p>– set 2049 or 2050 as the year of the coal phase out, i.e. as the final date of closure of the Pljevlja Coal Mine. This time frame provides enough space for planning a just transition, retraining of workers and development of alternative economic sectors. Until the specified period, the Union requires the conduct of a continuous and constructive social dialogue, which implies the direct involvement of the trade union (but also of all social partners) and employees</p>			<p>– As for the digitalisation and the lack of personnel in that area, the Human Resources Administration has established cooperation with the Regional School for Public Administration (ReSPA), within which, among other things, (further) education programs in the area of digitalisation will be designed. Funds have been earmarked for these purposes and activities in this field will be intensified during the next year.</p> <p>TAX POLICY</p> <p>– Measures aimed at preventing the creation of new tax debt have been taken already, as evidenced by the results achieved in the collection of budgetary revenues based on key tax forms. Such results represent clear evidence of the both expansion of the tax base and strengthening of fiscal discipline. In parallel with that, activities are carried out continuously to collect arrears of tax receivables, in accordance with the previously adopted Law on reprogramming of tax receivables, as</p>



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	<ul style="list-style-type: none">– of the Coal Mine and Thermal Power Plant, in all processes from planning to decision-making, which are important for the transition;– provide funds for the establishment of labour courts or special departments for labour disputes within the framework of existing courts in order to improve access to justice and improve efficiency in proceedings. In addition to providing legal certainty regarding the duration of labour disputes, labour courts would also contribute to the reduction of millions of budget allocations based on lost court cases, of which, according to the official reports of the State Audit Institution, over 90% are on the account of labour disputes;– improve the work of inspections with a special focus on the Labour Inspection and the Tax Inspection. Design measures that lead to the improvement of the capacity and working conditions of inspection authorities for their stronger and more efficient work;– create an environment for opening new jobs and introduce incentives for hiring new workers;– include social partners in all processes related to just transition, because it can only be truly just if those most affected are included in the decision-making process (social partners are not included in the Just Transition Council!);			<p>well as the Law on write-off of interest, which, as a measure implemented under the Fiscal Strategy, which exceeded the projected effects many times over.</p> <ul style="list-style-type: none">– The Fiscal Strategy, as well as new tax policy measures, reformed the VAT system, reduced tax exemptions and more favourable treatment for certain economic activities on the market. At the same time, the scope of taxation was increased in the part of taxation of excise products and personal income tax.– Regarding the suggestions related to the increase of corporate profit tax, as well as other proposals submitted by the Trade Union, it is important to point out that the tax policy of Montenegro is one of the most competitive in Europe. This is also the case when it comes to corporate taxation, but also in matters of labour taxation, since the tax wedge on labour cost in Montenegro, according to the latest reform Europe now 2, is the lowest in Europe.



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	<ul style="list-style-type: none">legally regulate the work of online platform workers and freelancers, especially from the aspect of exercising labour and social rights and tax policy;ensure timely information and inclusion of social partners in planning the spending of aid and support from European funds. <p>TAX POLICY</p> <ul style="list-style-type: none">stop the creation of new tax debt through a policy of zero tolerance towards failure to pay taxes and contributions for compulsory social insurance;increase the corporate profit tax rate, which is still one of the lowest in Europe;revise the Law on Personal Income Tax in order to recognise certain benefits from the employment relationship such as winter food preparation allowance, bonuses, awards, etc. as non-taxable income, which would result in the acceleration of collective bargaining;introduce a tax on financial transactions that exceed a certain limit;abolish tax and other incentives for privileged companies, especially since many of them leave room for manipulations to the detriment of the budget;tax the newly built commercial and residential space at the expense of the investor if it is not valorised			<ul style="list-style-type: none">It is particularly important to emphasise that the tax policy of Montenegro is significantly harmonized with the regulations of the European Union, with regular harmonization with the remaining EU directives which are in effect. Bearing in mind all the above, the conclusion is that Montenegro conducts a predictable and responsible tax policy, in accordance with the obligations arising from the relevant negotiation chapters, as well as with defined national priorities, all with the aim of preserving a favourable business environment and strengthening the investment climate. <p>SOCIAL POLICY</p> <ul style="list-style-type: none">With respect to the social policy reform, the line ministry is working intensively on new laws and changes to existing legal provisions. Recently, the Law on the Unified Disability Assessment was adopted, which implements a complex reform of a system level and finally regulates the system on which the use of various rights directly depends for

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	<ul style="list-style-type: none"> – within 6 months from the date of construction completion; – abolish the amount of the maximum annual base for paying contributions for mandatory social insurance (prescribed by Article 14, paragraph 2 of the Law on Contributions for Compulsory Social Insurance), so that contributions are not refunded to persons who receive income above that base. <p>SOCIAL POLICY</p> <ul style="list-style-type: none"> – reform social welfare policy by introducing a social card system for all households in order to adequately respond to the needs of women who are in a state of real social vulnerability through a fair and expedient distribution of funds; – reform the housing policy through the construction of state-owned apartments so that employees and citizens of Montenegro, who are unable to do so due to market conditions, could solve the housing issue through leasing at affordable prices (annex: Resolution on the necessity of housing policy reform); – continue with support and incentives for housing cooperatives, or the housing funds that were created for the needs of employees in certain sectors (such as education, health, Ministry of Interior, University, student and pupils dormitories,...); 			<p>about 50,000 citizens and their families. This Law prescribes the application of a model of a unified disability assessment, which for the users will enable the exercise of rights more fairly and easily, as well as dealing with possible abuses of social welfare benefits and other entitlements. In addition to this Law, amendments to the Law on Social and Child Protection are in final preparation, and the adoption of the Law on Professional Rehabilitation is planned for next year, which would all in all make a full reform of the social protection system.</p>

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	<ul style="list-style-type: none"> – introduce the obligation of employers to direct a certain percentage of profits to funds for solving the housing needs of employees of these employers; – amend the Law on Compulsory Health Insurance in order to establish the minimum wage as the lowest basis for determining compensation for temporary incapacity for work; – extend the deadline for legalisation, precisely for the registration of illegally constructed buildings in the immovable property cadastre. <p>The Trade Union places a special emphasis on the importance of timely and adequate involvement of social partners in all activities related to overall reform measures (amendment and creation of the legislative and strategic framework; monitoring and supervision of the Reform Agenda with a focus on the processes of decarbonisation and digitalisation, which processes have the greatest impact on the labour market and employment...).</p>			
	<p>Comments received on 21-Dec-2025</p> <p>Comments are as follows:</p> <ul style="list-style-type: none"> – It is necessary to include a part about meeting the Maastricht criteria. Namely, of the 4 Maastricht criteria, Montenegro fulfills only one - foreign 	<p>Stakeholder: Miloš Vuković Contact person: Contact details: milos.vukovic@me.com</p>	<p>Comments are rejected</p>	<p><i>It is necessary to include a part about meeting the Maastricht criteria. Namely, of the 4 Maastricht criteria, Montenegro fulfills only one - foreign exchange rates, because it has been using the euro as legal tender for 25 years</i></p>



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	<p>exchange rates, because it has been using the euro as legal tender for 25 years.</p> <ul style="list-style-type: none">○ Price stability: Member States should have price developments that are sustainable, and an average inflation rate that, during the period of one year before the evaluation, does not exceed by more than 1.5 percentage points the inflation rate of the three Member States that achieved the best results in terms of price stability. Montenegro does not meet this criterion;○ Budget position of the Government: Member States should avoid situations of excessive budget deficit, precisely the ratio of the planned or realized state deficit to the gross domestic product should not be higher than 3%, and the ratio of (general) government debt to GDP should not be higher than 60%, unless the exceeding of the reference value is exclusively exceptional or temporary, or these ratios have been significantly and continuously reduced. Montenegro does not meet this criterion;○ Exchange rates: Member States should have respected the normal fluctuation margins under the Exchange Rate Mechanism (ERM), without serious tensions, for at least two years before the assessment. In particular, a Member State cannot devalue, on its own initiative, the bilateral central			<ul style="list-style-type: none">– Comment is not accepted. Convergence criteria are prescribed for joining the Euro area. According to projections, at the end of the projected horizon, Montenegro will achieve a public finances deficit of below 3% of GDP, inflation at around 2%. Furthermore, in addition to meeting the formal criteria, it is necessary to show a clear intention of convergence towards the Maastricht criteria, which the Government's projections confirm. The examples of individual Member states Show clear deviations from these rules when it comes to public debt as a percentage of GDP, which is confirmed by the examples of Croatia, Cyprus and other countries at the time of joining the EU.– Additionally, the Law on Budget and Fiscal Responsibility foresees the application of Maastricht criteria in the area of budget deficit and public debt, as well as the need to act in case these criteria are not met. To that end, in order to ensure the stability of public finances, while at the same time defining the fiscal policy for the



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	<p>exchange rate of its currency in relation to the currency of any other Member State in the same period. Montenegro has been using the euro since 2001.</p> <ul style="list-style-type: none">○ Long-term interest rates: Member States, during the period of one year before the assessment, should have had an average nominal long-term interest rate that does not exceed by more than 2 percentage points the long-term interest rate of the three best performing Member States in terms of price stability. Montenegro does not meet this criterion.– It is necessary to enter the part about the application of fiscal responsibility criteria in 2024 from the findings of the SAI Assessment of Fiscal Compliance Criteria based on the analysis of strategy, guidelines and the annual budget law:<ul style="list-style-type: none">○ The Budget Law of Montenegro and the Law on Amendments to the Law on the Budget of Montenegro for the year are not aligned with the binding spending limit defined by the Macroeconomic and Fiscal Policy Guidelines for the period 2023 - 2026.○ In accordance with Article 17 of the Law on Budget and Fiscal Responsibility, the Government of Montenegro has not prepared a fiscal strategy			<p>duration of the Government's mandate, the Parliament, at the proposal of the Government, adopted the Fiscal Strategy, which defined fiscal and economic policy measures that ensure convergence towards the fulfilment of the fiscal responsibility criteria defined in Articles 19 and 20 of the Law on Budget and Fiscal Responsibility, in the coming period.</p> <p><i>It is necessary to make a comparison of budget revenues from VAT in Montenegro and EU member states</i> <i>Namely, revenues from VAT in Montenegro account for 50% of budget revenues, while it is only 17% at the EU level. In addition, the budget revenues from VAT in relation to GDP in Montenegro amount to about 17%, while at the EU level it is about 7%. From the above, it can be concluded that the enormous dependence of the budget on VAT is one of the key drivers of significantly higher inflation than in the EU.</i></p> <p>– Comment is not accepted. Budget revenues resulting from VAT are determined not only by the growth of</p>



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	<p>proposal for the duration of the government's mandate.</p> <ul style="list-style-type: none">○ The fiscal strategy for the period from 2024 to 2028 is planned to:<ul style="list-style-type: none">▪ Achieving a cash budget deficit in the amount of more than 3% of GDP;▪ Realization of the primary budget deficit by 2027;▪ Realization of the growth of the public debt in the amount of 21.81% by 2027;▪ That GDP growth relies significantly on public spending financed through an increase in net public debt.○ The Government of Montenegro did not adopt Fiscal Policy Guidelines for the period 2024-2027 in accordance with Article 18 of the Law on Budget and Fiscal Responsibility.○ The proposal of the Law on the final account of the budget of Montenegro for 2024 is harmonized with the binding spending limit established by the Law on Amendments to the Law on the Budget of Montenegro for 2024.○ The macroeconomic and fiscal policy guidelines for the period 2025-2028 are largely aligned with the Fiscal Strategy for the period 2024-2027.○ The Law on the Budget of Montenegro and the Law on Amendments to the Law on the Budget of			<p>personal consumption of citizens, but also by the growth of economic activity, which is evident taking into account macroeconomic and fiscal indicators, strong fiscal discipline, as well as the reduction of the gray economy. Collected revenues from VAT in the first 10 months of 2025 are higher by 14% compared to the same period in 2024, while inflation in 2025 is at the level of 4% on average. This confirms the strong collection of VAT as a result of the Government's measures since the revenue collection is significantly above the rate of inflation in the country. Tax rates in Montenegro, including VAT rates, are extremely competitive and similar to rates in key EU countries where tourism has a significant share. On the other hand, the tax wedge on labour cost is many times higher in some EU countries than in Montenegro, which is a significant indicator of domestic competitiveness. Bearing in mind the very limited number of pages for drafting the Economic Reform Programme, as well as the prescribed</p>



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	<p>Montenegro for 2025 are aligned with the binding spending limit defined in the Macroeconomic and Fiscal Policy Guidelines for the period 2024-2027.</p> <ul style="list-style-type: none">○ Assessment of fiscal compliance criteria based on the assessment of indicators:<ul style="list-style-type: none">▪ That in the case of static indicators, in the process of budget planning, one of the four indicators was realized, namely the indicator related to the planning of current revenue and donations in a larger amount than current expenditures and transfers, while the indicators related to the planning of the primary budget surplus, budget cash deficit below 3% of GDP and public debt below 60% of GDP were not realized.▪ That in the case of static indicators, in the process of the budget execution, three out of four indicators were realized, namely the indicators that require the outturn of a budget cash deficit below 3% of GDP, the public debt below 60% of GDP and the indicator that obligates current revenues and donations are greater than current expenditures and transfers, while the indicator related to the outturn of a primary budget surplus was not realized.			<p>methodology for writing the document by the European Commission, as well as the fact that comparative analyses are predominantly the subject of other strategic documents and analyses, the comment is not accepted.</p> <p>– The VAT rate of 15% in Montenegro, which is applied to hospitality and tourism services, will not negatively affect the competitiveness of the destination. On the contrary, it is in accordance with the practice in the region and Europe, and compared to competing countries, Montenegro maintains a more favourable fiscal environment:</p> <ul style="list-style-type: none">○ Comparative overview of reduced VAT rates in tourism:<ul style="list-style-type: none">▪ Croatia: 13%, whereby the general VAT rate is 25%,▪ Greece: 13%, with the general VAT rate of 24%,▪ Italy: 10%, with the general VAT rate of 22%,▪ Spain: 10%, with the general VAT rate of 21%,



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	<ul style="list-style-type: none">▪ That in the case of dynamic indicators, viewed as the relationship between plan and outturn in 2024, two out of three indicators were realized, namely the indicators related to the growth rate of the capital budget and budget reserves, while the indicator of the growth rate of the current budget and the budget of state funds was not realized.○ That in the case of dynamic indicators, viewed as the outturn ratio in 2023 and 2024, there were no realized indicators, precisely the indicators related to the growth rates of the current budget and the budget of state funds, the capital budget and the budget reserve were not realized.○ That the criterion of local government in the planning process was not implemented in 12 municipalities, and in the budget execution process it was not realised in 13 municipalities.– It is necessary to make a comparison of budget revenues from VAT in Montenegro and EU member states Namely, revenues from VAT in Montenegro account for 50% of budget revenues, while it is only 17% at the EU level. In addition, the budget revenues from VAT in relation to GDP in Montenegro amount to about 17%, while at the EU level it is about 7%. From the			<ul style="list-style-type: none">▪ France: 10%, with the general VAT rate of 20%,○ When it comes to the overall tax environment, we must also add data for the corporate profit tax and labour tax wedge:<ul style="list-style-type: none">▪ Montenegro: rates of 9, 12, and 15%,▪ Croatia: 18%,▪ Slovenia: 19%,▪ Greece: 22%,▪ Italy: 24%,▪ Spain: 25%,▪ France: 25%,▪ Germany: 30%,▪ Austria: 23%,▪ Hungary: 9% (lowest in EU, but a highest VAT with 27%).Montenegro has one of the lowest corporate tax rates in the region, which is a significant advantage.○ Tax wedge on labour cost:<ul style="list-style-type: none">▪ Montenegro: around 11-16.10%,▪ Croatia: around 22%,▪ Germany: around 30%,▪ France: around 33%,▪ Italy: around 28%,



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	<p>above, it can be concluded that the enormous dependence of the budget on VAT is one of the key drivers of significantly higher inflation than in the EU.</p> <ul style="list-style-type: none">When analysing the tourism sector (page 12), it should be noted that the growth of revenues from tourism is lower than the inflation rate. Likewise, it is necessary to cover the entire tourism sector and not only collective accommodation.On page 39, it is necessary to clarify the structure of public revenues and public expenditures, because the sum of the subcategories does not give the stated amount.It is necessary to provide preliminary data on deficit and public debt according to ESA2010 standards.It is necessary to prepare and explain the deviations between the projections of ERP 2025-2027 and this year's ERP in the part of deficit and public debt.There is no plan to reduce the primary deficit. The document needs to be supplemented with a plan to reduce the primary deficit.			<ul style="list-style-type: none">Spain: around 27%,Greece: around 25%,Austria: around 31%,Slovenia: around 24%,Hungary: around 28% <p>The tax wedge on labour cost in Montenegro is half what it was a few years ago and significantly lower than in most EU countries.</p> <p>VAT is not a cost of the real sector, as the end user - in tourism (hotel guests) pays it, about 90% of whom are foreigners. VAT proceeds are returned through infrastructure, air connectivity, season extension, staff training and quality service - all factors that increase Montenegro's competitiveness in the long term.</p> <p>When considering VAT, corporate profit tax and tax wedge on labour cost, Montenegro has a more favourable tax environment than most European destinations, which is a strong argument that the increase in VAT does not threaten competitiveness, but is compensated through systemic measures.</p>



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	<ul style="list-style-type: none">– It is necessary to correct the document on page 54 "Montenegro for the first time achieved a registered single-digit unemployment rate in 2025." This is not true; the single-digit unemployment rate was registered for the first time in 2008.– There is no detailed analysis of the failure to implement the plan for collection of pension and disability insurance contributions. The document needs to be updated accordingly.– The document mentions the reform of the pension system in one place, without any elaboration. It is necessary to present the mentioned reform, considering that it is the most sensitive reform.– The document promises a significant suppression of the shadow economy and improvement of fiscal discipline, but does not show concrete quantification of these effects, instead relying on general claims. It is necessary to refine the document in this context.– The document mentions nowhere a possible decline in the competitiveness of Montenegro as a destination due to the 114% increase in VAT in the tourism sector. There are no measures that the Government should implement in order to mitigate			<ul style="list-style-type: none">– Proposal for measures: The VAT rate of 15% in the tourism sector will not threaten the competitiveness of Montenegro as a destination, because the overall tax environment is more favourable than most European countries. However, in order to preserve and further improve competitiveness, it is necessary to define clearly the measures that follow the fiscal policy and direct VAT proceeds into development projects. Measures to preserve and strengthen competitiveness that are the focus of the Government:<ul style="list-style-type: none">○ Investment in infrastructure: modernisation of roads, utility equipment, tourist zones and digital infrastructure in order to improve the quality of the destination;○ Air accessibility: strengthening air connectivity through opening new lines and subsidizing strategic routes to key tourist outbound markets;○ Human resources development: Training and professionalization of employees in tourism, creation of a



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	<p>the decline in competitiveness. The document needs to be revised to that end.</p> <ul style="list-style-type: none">– There is no detailed analysis of the impact on the budget due to the drop in the number of tourist arrivals that will occur when we introduce visas to countries such as the Russian Federation and the Republic of Türkiye, whose citizens make up 25% of the total number of overnight stays. The document needs to be modified accordingly.– Given that foreign direct investments also come mostly from the Russian Federation and the Republic of Türkiye, it is necessary to analyse the impact of the FDI decline on the Montenegrin economy.			<p>system for continuous education and certification;</p> <ul style="list-style-type: none">○ Extension of the tourist season: Development of content outside the summer months – cultural, sports, congress and winter tourism;○ Diversification of services: ethno tourism (authentic villages, local gastronomy), Health tourism (wellness, spa, rehabilitation centres), Active tourism (hiking, cycling, nautical);○ Opening and attracting the Western market: targeted campaigns and partnerships with Western European and North American markets to increase the number of tourists with high purchasing power;○ Digitalisation and innovation: Development of smart tourist applications, online reservation systems and promotions through digital channels;○ Sustainable development and green transition: Investment in environmentally friendly projects,



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				<p>energy efficient hotels and protection of natural resources, thus positioning Montenegro as a "green destination".</p> <p><i>When analysing the tourism sector (page 12), it should be noted that the growth of revenues from tourism is lower than the inflation rate. Likewise, it is necessary to cover the entire tourism sector and not only collective accommodation.</i></p> <ul style="list-style-type: none">– Comment is not accepted. Montenegro monitors the tourism sector through comprehensive statistical sources, whereby the analysis within the ERP focuses on available official data that provide a representative view of tourism's contribution to GDP. Collective accommodation is presented bearing in mind the positive trends and achieved growth, despite the fact of the mentioned increase in the VAT rate on accommodation services in hotels, which shows that competitiveness has been preserved. Additionally, the real indicator in tourism related to the number of tourist arrivals is increasing



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				<p>in 2025, according to available data, by 5.5% in total accommodation (private and individual). The allegation that the growth of tourism revenues does not exceed the rate of inflation is not included in the ERP, because such a statement could be misinterpreted, given that the available indicators and trends show the positive contribution of tourism to the overall economy and public revenues.</p> <p><i>On page 39, it is necessary to clarify the structure of public revenues and public expenditures, because the sum of the subcategories does not give the stated amount.</i></p> <ul style="list-style-type: none">– The main categories of revenues and expenditures are listed on page 39. All individual categories are listed in the annex tables. Therefore, all subcategories are already part of the document. <p><i>It is necessary to provide preliminary data on deficit and public debt according to ESA2010 standards.</i></p>



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				<ul style="list-style-type: none">– Comment is not accepted. The improvement of public finance statistics is crucial for fulfilling Montenegro's obligations in negotiations with the EU (Chapters 17 and 18). Through the IPA 2022 project, the Ministry of Finance, the Statistics Administration (MONSTAT) and the Central Bank of Montenegro continued the establishment of regular production of GFS/EDP statistics, along with the submission of data to EUROSTAT for the period 2017–2023 and the implementation of expert missions. In 2026, further reporting to EUROSTAT is planned, including separate observing of subsectors of the general government and preparation of a list of units of the general government sector.– With the adoption of amendments to the Law on Official Statistics and the System of Official Statistics, the authority over government finance statistics was transferred from the Ministry of Finance to the Statistics Administration (MONSTAT), which took over the production and dissemination



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				<p>of this data from 1 June 2025. A new trilateral agreement was signed which clearly defined the competences of the institutions, and the next step is the creation of accompanying protocols and procedures for the implementation of the ESA methodology.</p> <p>– Preliminary data on deficit and public debt according to ESA 2010 standards are in the experimental phase and are not publicly available.</p> <p><i>It is necessary to prepare and explain the deviations between the projections of ERP 2025-2027 and this year's ERP in the part of deficit and public debt.</i></p> <p>– According to the Guidance Note of the European Commission, the table and explanation of the trends of public finances (revenues, spending, surplus/deficit) are an integral part of the document in the segment: 4.7.2 Comparison with the previous program, on pages 53-54.</p> <p><i>It is necessary to correct the document on page 54 "Montenegro for the first time</i></p>



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				<p><i>achieved a registered single-digit unemployment rate in 2025." This is not true; the single-digit unemployment rate was registered for the first time in 2008.</i></p> <ul style="list-style-type: none">– The source for the statistical data on the rate of registered unemployment: Report on Work of the Montenegro Employment Service for H1 2025: 2025 - Zavod za zapošljavanje Crne Gore ZZZCG <p><i>There is no detailed analysis of the failure to implement the plan for collection of pension and disability insurance contributions. The document needs to be updated accordingly.</i></p> <ul style="list-style-type: none">– Comment is not accepted. The Ministry of Finance, through the Report on the budget execution, states monthly the deviations of the collection of pension and disability insurance contributions in relation to the plan. Estimate of possible deviation for 2025 is part of the internal reports of the Ministry of Finance under the fiscal risks register.



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				<p><i>The document mentions the reform of the pension system in one place, without any elaboration. It is necessary to present the mentioned reform, considering that it is the most sensitive reform.</i></p> <p>– Comment is not accepted. The pension reform is not an integral part of the document. Due to demographic challenges and issues of emigration, the Ministry of Finance has started discussions with international organisations in the context of assessing the long-term impact and pressures of financing the pension system. Technical support is expected during 2026 with expected recommendations for reforms.</p> <p><i>The document promises a significant suppression of the shadow economy and improvement of fiscal discipline, but does not show concrete quantification of these effects, instead relying on general claims. It is necessary to refine the document in this context.</i></p> <p>– Comment is not accepted. Assessments of all legal provisions and measures are</p>



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				<p>an integral part of the regulatory impact assessment of the Ministry of Finance. ERP is a strategic document that provides an overview of the state and the projection of public revenues based on existing regulations, new measures and policies, and the macroeconomic framework.</p> <p><i>The document mentions nowhere a possible decline in the competitiveness of Montenegro as a destination due to the 114% increase in VAT in the tourism sector. There are no measures that the Government should implement in order to mitigate the decline in competitiveness. The document needs to be revised to that end.</i></p> <ul style="list-style-type: none">– Comment is not accepted. We cannot talk about a decrease in competitiveness or a real increase in the tax wedge in tourism, since the change in the VAT rate is the result of harmonization through the introduction of the third rate, whereby the standard rate was reduced at the same time from



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				<p>21% to 15%, while the reduced rate was increased from 7% to 15%.</p> <p>– In hotel accommodation, the number of arrivals increased by 4.8% in the 10 months of 2025, while the number of overnight stays was only slightly higher (0.2%) compared to 2024. This confirms that the increase of the VAT rate on hotel accommodation had no impact on competitiveness in tourism.</p> <p>– A nominal comparison of rates that leads to the conclusion of a "VAT increase of 114%" is methodologically unacceptable, because it does not reflect the growth of the tax wedge, but the harmonization of the VAT system and the redistribution of taxation between existing rates, without negative implications for the price competitiveness of the destination.</p> <p><i>There is no detailed analysis of the impact on the budget due to the drop in the number of tourist arrivals that will occur when we introduce visas to countries such as the Russian Federation and the Republic of Türkiye, whose citizens make up 25% of</i></p>



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				<p><i>the total number of overnight stays. The document needs to be modified accordingly.</i></p> <ul style="list-style-type: none">Comment partially contained in the document, in segment 3.3.1 Low-growth macroeconomic and fiscal scenario o 2026-2028 (stress test scenario) on pages 30-31. <p><i>Given that foreign direct investments also come mostly from the Russian Federation and the Republic of Türkiye, it is necessary to analyse the impact of the FDI decline on the Montenegrin economy.</i></p> <ul style="list-style-type: none">Comment partially contained in the document. Despite the significant participation of investments from the Russian Federation and the Republic of Türkiye, the latest available data indicate that the structure of investments is sufficiently diversified that the fluctuation of individual investment flows does not represent a systemic risk for the economy, especially bearing in mind that Montenegro currently has FDI from countries such as Germany, the USA,



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				the United Arab Emirates, Great Britain and other countries. The Economic Reform Programme, chapter 3.3.1 Low-Growth macroeconomic and fiscal scenario 2026-2028 (stress test scenario) on page 31 contains the low-growth macroeconomic scenario of lower growth, which includes the mentioned effects.
	<p>Comments received on 22 -Dec-2025</p> <p>The comments are as follows:</p> <p>The Prime Minister of Montenegro stated the following in his exposé, under the heading STRONG PUBLIC FINANCES FOR A STRONG MONTENEGRO: "Special focus of the 44th Government will be placed on the reform of the pension system". Furthermore, under the heading SOLIDARITY-BASED SOCIETY FOR A DIGNIFIED LIFE reads: "We will commence the reform of the pension and disability insurance system."</p> <p>However, the Draft Economic Reform Programme 2026-2028 does not mention pension system whatsoever, despite serious erosion of the fundamental principles on which the pension system relies, including the principles of fairness and equality. As a result, individuals who</p>	<p>Stakeholder: Jovo Pajović Contact person: Contact details: jovo8pajovic@gmail.com</p>	Comments are not accepted.	Raising the living standards of all citizens of Montenegro remains an unequivocal priority of the 44 th Government's economic policy. In this context, this objective, as set out in the prime minister's exposé, has been directly implemented through the increase of the minimum pension to 450 euro as of 1 January 2024, along with adoption and execution of the Government's Fiscal Strategy. These measures have substantially increased pensioners' disposable income and improved their overall living standards. As a result of the minimum pension increase and subsequent reforms, which led to further pension adjustments linked to wage growth, the average pension in Montenegro



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	<p>contributed to the pension and disability insurance system for 40 years based on the average salary (which currently amounts to over 1,000 euro) receive nearly the same pension as those who have contributed for only 15 years at the minimum contribution base, which is not only illogical but also raises significant constitutional and legal concerns.</p> <p>More than a year before the minimum pension was raised to 450 euro and prior to the adoption of Montenegro's Fiscal Strategy 2024–2027, the World Bank—widely recognised as an authority on pension reform—warned about this. In its Western Balkans Regular Economic Report, No. 22, Autumn 2022, regarding the Montenegrin pension system, the Bank noted the following:</p> <p>“In December 2021, the Parliament increased minimum pensions by 36 percent, followed by an additional 10 percent increase. Both adjustments are scheduled for implementation in September. These increases, in the absence of complementary reform measures, significantly elevate pension expenditures and undermine both the sustainability and fairness of the pension system.”</p> <p>Furthermore, following the selective increase of only the lowest pensions in Montenegro as of 01 January 2025, while other pensions were not adjusted proportionally, the position of pensioners, who contributed more than the beneficiaries of the lowest pensions and who are covered</p>			<p>reached 554 euro in October 2025, representing an increase of over 30 percent compared to 425 euro in November 2023, when the 44th Government took office.</p> <p>The fundamental principles of the pension system and its financing remain fully identical to the objectives that existed before this government took office and continue to be based on the first pillar of intergenerational solidarity. Moreover, the 2026 budget allocates record funding for pension and disability insurance entitlements, representing the largest individual item in next year's budget. Consequently, the Pension and Disability Fund is financed in a stable and secure manner, with the fundamental principles of Montenegro's pension system intact. Regarding pension adjustment, the current legal framework provides for automatic regular increases three times per year under the so-called Swiss formula, which links pension adjustments to inflation and average wage growth, thereby ensuring real growth in pensions. In 2025, pensions were adjusted by 6.85 percent in January, 3.1 percent in May, and 1.98 percent in</p>



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	<p>by the general regulations has significantly deteriorated because their pensions are calculated based on the earnings and contribution base on which pension and disability insurance contributions were paid; consequently, they are now disproportionately disadvantaged.</p> <p>In an effort to at least partially address the difficult situation of pensioners who acquired their pension rights under the general regulations, and to remedy their unequal position compared to pensioners who benefited from more favourable conditions (i.e. those who receive significantly higher pensions than the contributions they actually paid), and taking into account pre-election promises made during the presidential and parliamentary elections that, following the increase of the minimum pension to 450 euro, all other pensions would also be substantially increased so that the average pension in Montenegro would reach 600 euro (see, for example: https://www.vijesti.me/vijesti/politika/659192/spajic-nakon-konsolidacije-sljedi povecanje-minimalne-penzije-na-450-eura), I addressed the Ministry of Social Welfare, Family Care and Demography (Official Journal No. 01-136/24-681/1 of 17 September 2024) and Government of Montenegro (Official Journal No. 01-040/24-3436 of 19 September 2024), proposing for the Government to URGENTLY draft and submit to Parliament for adoption</p>			<p>September, resulting in a cumulative adjustment of approximately 12.15 percent for the year. This upward trend, with a somewhat moderated growth in January, is expected to continue. Moreover, from 2026 onwards, all pensions, including minimum pensions, will be adjusted in accordance with the law.</p> <p>Long-term demographic trends are a key determinant of further sustainable economic growth and continued viability of the pension, healthcare and social systems. As observed in developed European countries, demographic challenges place increasing pressure on public finances and the broader socio-economic context, necessitating the formulation of new policies. Taking into account these challenges encountered by Montenegro, the Ministry of Finance has initiated discussions with the IMF and the World Bank to assess these effects in the medium and long term, particularly with regard to fiscal pressures arising from pension system expenditures. Technical support on this issue is expected to be implemented during 2026. Demographic factors and population emigration exert</p>

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	<p>Draft Law amending the Pension and Disability Insurance Act, which would provide for:</p> <p>1) that a substantial extraordinary increase of pensions and of the value of a single pension point be implemented as of 1 October 2024, in the manner and by the percentage I elaborated in the proposal I submitted on 7 August 2024 to the Government of Montenegro and to the relevant ministries, which included my analysis, comments, and suggestions on the Draft Fiscal Strategy (the funds used for the last adjustment of minimum pensions on 1 January 2024 (51.85 percent) should have been used to increase all pensions, which would have resulted in an approximate 17 percent increase of all pensions, as well as in a corresponding increase in the value of one pension point), and</p> <p>2) regular pension adjustments and recalculation of the value of a single pension point, scheduled for 1 January 2025 and 1 May 2025, should be based on statistical data reflecting the growth of average net wages, rather than gross wages.</p> <p>- so as to ensure that current and future pensioners are not permanently disadvantaged (as occurred at the outset of implementation of the Europe Now 1 Programme).</p> <p>However, no measures were taken based on the aforementioned proposals, which has significantly deteriorated the situation of pensioners who acquired</p>			<p>additional pressures on sustainability because a declining number of employed individuals contribute to pensions under the current intergenerational solidarity principle. It is anticipated that expert cooperation with international organisations will produce concrete recommendations for further reforms to ensure the long-term sustainability of the pension system.</p>



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	<p>their rights under the general regulations, and whose pensions are calculated based on earnings and contribution base on which pension and disability insurance contributions were paid.</p> <p>In the meantime, two regular adjustments of pensions and of the value of a single pension point were carried out: by 6.85 percent as of 1 January 2025, and by 3.1 percent as of 1 May 2025. Had these adjustments of pensions and single pension point been carried out in accordance with my proposal (which would have been fair) and in accordance with legislative amendments, by using statistics on the growth of average net wages rather than gross wages (to prevent pensioners from being disadvantaged relative to employees), the adjustments of pensions would have amounted to 9.87 percent as of 1 January 2025, and 4.24 percent as of 1 May 2025.</p> <p>Accordingly, had the legal amendments been implemented in line with the fundamental principle underlying the pension system—that pension rights depend on the duration of contributions and the base on which contributions are paid—pensions in Montenegro, calculated based on actual contributions, and the value of a single pension point would have been more than 20 percent higher. This would have, at least partially, remedied the poor situation of pensioners who acquired rights under the general regulations and their unequal</p>			



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	<p>treatment compared to pensioners who were granted pensions under more favourable conditions, i.e. those whose pensions were calculated at higher amounts than the contributions they paid. I proposed this approach to the Government of Montenegro, the Ministry of Social Welfare, Family Care and Demography, and the Ministry of Finance, based on my experience leading previous pension reform initiatives, supported by thorough and publicly available analyses.</p> <p>I propose that the Draft Economic Reform Programme 2026–2028, in line with the exposé of the prime minister of Montenegro, includes pension system reform, which should, among other measures, cover the increase of pensions and value of a single pension point in the manner and at the rate explained above. I would like to recall that I presented the concept of pension system reform during the public consultation on the Fiscal Strategy, through a presentation at the roundtable held on 26 July 2024, as well as in my official act of 7 August 2024 submitted to the Ministry of Finance, in which I provided written comments, proposals, and suggestions on the Draft Fiscal Strategy. Despite this, these recommendations were completely ignored by the competent state authorities, resulting in the current state of the Montenegrin pension system.</p>			



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	<p>Furthermore, although pensioners in Montenegro were disadvantaged in 2023 due to significant failures by the competent state authorities (primarily the competent ministry and the Pension and Disability Fund) resulting in inadequate pension adjustments amounting to approximately 5.6 million euro, and although the decisions on extraordinary adjustments (which serve as an undervalued basis for future adjustments) were unlawful and null and void, with adjustment dates being arbitrary and some percentages incorrect (to the detriment of pensioners), no measures were taken or proposed by the competent authorities to remedy these irregularities or compensate pensioners. This occurred despite the fact that, following my warning, funds were allocated in the Pension and Disability Fund budget for 2023, through budget revision, but were evidently used for other purposes instead of compensating Montenegrin pensioners.</p> <p>Therefore, I propose that the issue of correcting serious failures and errors made by the competent state authorities, to the detriment of pensioners in Montenegro, be addressed through the pension system reform, which should certainly be included in the Draft Economic Reform Programme 2026–2028.</p>			