



Government of
Montenegro



MONTENEGRO ECONOMIC REFORM PROGRAMME

2023-2025

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Programme (ERP) is a principal medium-term programming document for the macroeconomic and fiscal policy of Montenegro. On one hand, it represents an instrument for economic policy planning of a country and managing the reforms aimed at maintaining macroeconomic stability, strengthening international competitiveness, and improving conditions for digital, green, robust, and more resilient economic growth and development. On the other hand, the Economic Reform Programme is a core element of the “fundamentals first” approach as part of Montenegro’s negotiations on the European Union accession, in particular for economic dialogue with the European Union Member States and institutions in terms of macroeconomic, fiscal, and structural reforms.

The broad consultation process with all stakeholders was carried out in preparing the Economic Reform Programme 2023-2025. The consultation for preparation of the Economic Reform Programme started in July and continued in September 2022 with stakeholders that were invited to provide their proposals of reform measures to be integrated into the Economic Reform Programme. They were finalised with a public consultation that lasted from 8 to 29 December 2022. Representatives of the Parliament of Montenegro, international organisations, non-governmental organisations, representatives of local self-governments, trade union associations, and academia participated during this process.

Following the deep recession Montenegro faced in 2020 amid the COVID-19 pandemic, which severely affected the real sector relying on tourism, the Montenegrin economy started to recover in 2021 with the growth rate of 13 percent and estimated growth rate of 7.7 percent in 2022. Therefore, it is expected that economy will return to its pre-pandemic level. However, in addition to the consequences caused by the pandemic, Montenegro is also facing the negative consequences of the war in Ukraine as well as tightening of the financing conditions in the international market. Adverse global trends, and partially, expansion of the private final consumption as well driven by a strong fiscal stimulus, have caused double-digit inflation. All of the above has further influenced the fiscal stance as well. According to the medium-term fiscal scenario for Montenegro in the Economic Reform Programme 2023-2025, the projected public finances deficit is exceeding 6 percent of GDP on average annually, as is projected the upward trend of the public debt. A reason for this is a large increase in mandatory spending for the social protection system, precisely for financing the healthcare and pension system, as well as for the gross wage bill. The current situation creates high borrowing needs, while the main fiscal aggregates are outside the limits established by the fiscal responsibility rules under the Law on Budget and Fiscal Responsibility. Therefore, in the forthcoming medium-term period, it will be necessary to carry out fiscal consolidation measures aimed at optimising spending and more efficient revenue generation, in order to create conditions for the long-term sustainability of public finances. Therefore, this year's Economic Reform Programme does not include more specific fiscal consolidation measures, due to numerous uncertainties in the country and the fact that the Government that lost a no-confidence vote in Parliament is proposing the Economic Reform Programme and a more stable political environment is necessary for major reform efforts over the medium term.

For the period 2023-2025, the Economic Reform Programme projected an average real economic growth rate of approximately 4 percent, stimulated by personal consumption, investments, but also by certain structural reforms that will enable greater competitiveness of the national economy, reduction of the informal economy, and greater activity on the labour market. It is expected that the tourism sector will continue its rapid recovery in the next medium-term period. Economic growth will be above the pre-crisis level, in the medium term it will enable the Montenegrin economy to rise above its potential, and based on growing employment and investments, stimulating innovation activities and increasing the competitiveness of the national economy.

Macroeconomic and fiscal projections in the Economic Reform Programme 2023-2025 are accompanied by a set of 19 priority reform measures in response to the three biggest structural challenges of the Montenegrin economy: (i) high unemployment, especially of women and youth, as well as the problem of long-term unemployment; (ii) an unfavourable regulatory framework; and (iii) the existence of the informal economy; as well as the challenge of the green transition reflected in environmental protection and climate change. The aforementioned reform measures are more administrative in nature, while including changes to the legislative framework, financial investments, and sector support, as well as new institutional provisions, which create preconditions for private sector investments and expansion of the production base. Measures addressing digitalisation and boosting the development of innovation activities are particularly important for the competitiveness and productivity of the national economy.

Generally, the economic and fiscal policy measures, as well as structural reforms contained in the Economic Reform Programme for the next medium term are contributing to achieving more inclusive economic growth, and to a certain extent to the alignment with the joint conclusions of the European Union and Montenegro following the Ministerial Dialogue of 2022.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

This Chapter presents the response of Montenegro to policy guidance, precisely joint conclusions of the Ministerial Dialogue from May 2022 as part of the Economic and Financial Dialogue between the European Union and the Western Balkans countries and Turkey. The following table presents an overview of the activities and reform measures of the Government of Montenegro as a response to the mentioned EU policy guidance from the Ministerial Dialogue held in May 2022. It also contains reform priorities contained in the ERP 2023-2025, largely as a response to the policy guidance made.

Table 1: EU Policy Guidance to Montenegro for the ERP 2023-2025 and proposal of reform measures in the ERP 2023-2025, as response to the policy guidance

<p><i>Policy guidance 1: Strengthen fiscal sustainability by reintroducing the initially planned revenue measures of the 2022 budget while providing additional targeted support to vulnerable households and firms if needed to cushion the impact of adverse shocks. Use any excess revenues to contain the 2022 deficit. Adopt a new medium-term fiscal strategy with the 2023 budget, including concrete consolidation measures and targeting a primary surplus as of 2024 and continued public debt reduction over the medium-term, should the recovery be firmly entrenched.</i></p>
<p>In 2022, amendments and supplements to the Law on Budget for 2022 were adopted in May and September. Budget revenues in 2022, according to the Law Amending and Supplementing the Law on Budget for 2022, were planned to amount EUR 1,931.0 million or 36 percent of GDP, which was at the level of initially planned revenues with changes in composition in the collection of revenue classes. Expenditures of the Budget were increased under the budget revision by EUR 191.3 million, whereby the additional spending was caused by the need for additional allocation for the mandatory budgetary expenditure.</p> <p>Bearing in mind the inflationary pressures caused by the global crisis due to the war in Ukraine, measures were implemented in 2022 aimed at mitigating the effects of the crisis on the standard of citizens. At the same time, the implementation of these measures resulted in a decrease in budgetary revenues, the most important of which are the following:</p> <ul style="list-style-type: none">• Adoption of the Decision on Reducing the Amount of the Excise Tax on Trade of Unleaded Fuel and Gas Oils, whereby the excise tax on trade of these products was reduced since May by 50 percent or 40 percent, depending on their prices levels;• Reduction of the VAT rate on trade and import of the following products:<ul style="list-style-type: none">○ Flour and sunflower oil from 7 percent to 0 percent until 31 December 2022,○ Salt from 21 percent to 7 percent until 31 December 2022,○ Pellet for heating (biomass, pellet, bricket) from 21 percent to 7 percent until 31 December 2022,○ Bread at the rate of 0 percent.

In addition to the above, the central government budget revenues were further reduced by the entry into force of amendments to the Law on Local Self-Government Financing, which reduced the previously collected percentage of collected revenues from the personal income tax, which belonged to the central government budget, in favour of local self-governments, by allocated a higher percentage of assigned revenues.

In addition to the above, the effects of a successful tourism season, improved tax discipline, suppression of illicit trade in the market of tobacco and tobacco products, as well as increased personal consumption, led to a significant increase in revenues above the planned.

Additional increases in spending in 2022 were primarily dealing with covering shortfalls for:

- the need of the Health Insurance Fund;
- the needs of the Pension and Disability Insurance Fund resulting from increase of the minimum pension and pension adjustments in line with trends of rise in the current prices and average wages increases;
- wages resulting from amendments to the Law on Wages of Public Sector Employees in the fields of healthcare and education;
- the needs of implementing the Law on Compensation of Former Beneficiaries of the Benefit on the Account of the Birth of Three or More Children.

In line with the planned levels of revenues and expenditures, the total planned budget deficit for 2022 was EUR 470.8 million or 8.3 percent of GDP. However, the outturn of revenues and expenditures against the plan was somewhat different, resulting in the lower budget deficit than the plan in 2022. Thus the budget deficit in 2022 was EUR 272.22 million or 4.8 percent of GDP and was lower by EUR 198.62 million or 42.2 percent than the planned deficit for 2022, while the primary deficit was lower by EUR 198.13 million or 52.6 percent than the planned primary deficit for 2022.

Taking into account that the Economic Reform Programme 2023-2025 is being proposed after the Government lost a no-confidence vote in Parliament, this year's document was not able to include drafting of the Fiscal Strategy in line with the Policy Guidance No 1 of the Ministerial Dialogue, and thus the more specific fiscal consolidation measures will be subject of considerations over the medium term.

Policy guidance 2: Implement the public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space while avoiding exceptions regarding project selection. Adopt amendments to the Law on Budget and Fiscal Responsibility and take concrete steps towards setting up a fiscal council. Based on an analysis of the economic and fiscal impact of all tax expenditures, prepare concrete budgetary recommendations to reduce tax expenditure (like exemptions, deductions, credits, deferrals, etc.) and share this analysis with the Commission.

PIMA recommendations

In order to strengthen the oversight over the implementation of fiscal policy, especially in the part of *ex-ante* monitoring, with the support of the European Union, activities are underway to create the conditions for the establishment of the Montenegro Fiscal Council as an independent body that would monitor and evaluate the planning and implementation of the fiscal policy. To that end, the Government of Montenegro, based on the policy guidance, the best international practice, as well as in the context of the size of the country, will propose appropriate legislation, in order to provide formal prerequisites for the establishment of Montenegro's Fiscal Council. In order to adopt amendments and supplements to the existing Law on Budget and Fiscal Responsibility, the Ministry of Finance created a working group whose members are from the Ministry of Finance, the Ministry of Economic Development and Tourism, the Parliament of Montenegro, and the civil sector, and the first draft of the law was prepared.

The PIMA Assessment for Montenegro was completed and report was prepared in July 2021. This Report provides an overview of recommendations to improve public investment managements, which will represent the foundation for carrying out reform activities and measures in this area.

Tax Expenditures Analysis

The Ministry of Finance, through the technical support of the IMF, prepared an overview of tax expenditures, and in the coming period, activities will be carried out about their quantification. Measures aimed at reducing outstanding liabilities and VAT refund deadlines were an integral part of the package of economic measures and were implemented in accordance with the policy guidance.

An overview of tax expenditures is presented in the following text:

- tax exemptions related to VAT are stipulated in Articles 26-30 of the Law on the Value Added Tax;
- tax exemptions related to the personal income tax are stipulated in Articles 5, 5a, 6, 32, 32a, 32b, and 32c of the Law on the Personal Income Tax;
- tax exemptions related to compulsory social insurance contributions are stipulated in Articles 18a, 18b, and 18c of the Law on Compulsory Social Insurance Contributions;
- tax exemptions related to the corporate profit tax are stipulated in Articles 6, 31, 31a, 31b, and 32 of the Law on the Corporate Profit Tax;
- tax exemptions related to the tax on immovable property are stipulated in Articles 12 and 13 of the Law on Immovable Property Tax;
- tax exemptions related to the tax on immovable property transactions are stipulated in Articles 12, 13, and 14 of the Law on the Tax Immovable Property Transactions;
- tax exemptions related to the tax on the use of passenger motor vehicles, waterborne crafts, airplanes, and aircraft are stipulated in Article 6 of the Law on Tax on Use of Passenger Motor Vehicles, Waterborne Crafts, Airplanes, and Aircraft;

- tax exemptions related to the tax on transactions of used motor vehicles, waterborne crafts, airplanes and aircraft are stipulated in Article 6 of the Law on Tax on Transactions of Used Motor Vehicles, Waterborne Crafts, Airplanes, and Aircraft.

In the coming period, the expected results in this area refer to the increased possibility of quantifying tax expenditures, the specification of what can be measured as tax expenditure, as well as the contribution to the transparency of their impact on public finances through existing measures. In this way, a basis will be created for the preparation of specific budget recommendations for reducing tax expenditures, in accordance with the aforementioned policy guidance.

In line with the aforesaid, a partial response is provided to Policy guidance No 2 of the Ministerial Dialogue, while a detailed description of the response is contained in Chapter 4 - Fiscal Framework.

Policy guidance 3: Carefully assess and analyse price developments, and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability. Ensure a transparent and accurate reporting of asset quality and adequate provisioning as well as a timely follow up on findings from the Asset Quality Review, and continue to reduce data gaps in particular as regards the real estate sector. Continue to improve and implement legislations to further align with the EU framework on regulation and supervision, including on deposit insurance, and accelerate efforts to provide viable and timely solutions for swift and effective NPL resolution.

Price developments

The Central Bank continuously analyses price developments in Montenegro in order to maintain price stability. A quarterly survey on price expectations is conducted among all banks, and a stratified sample of enterprises and the results were used to prepare the Quarterly Report on Price Stability (including demand and supply components in price development, as well as the publication of one-year projections). In addition, in Q3 2022, due to the strong price growth in Montenegro, special analyses were carried out to analyse the contribution of supply and demand. It is concluded that the main source of price increase is related to import prices: fuel and food, while the new fiscal program has a smaller contribution. Given that the core conclusion is that the causes of inflation are primarily on the side of the supply of goods that are provided mainly by imports, the Central Bank of Montenegro has prepared and submitted to the Government of Montenegro the document Recommendations for Economic Policy for the period 2022-2024. This document points out that the priority of economic policies should be measures aimed at suppressing inflation and ensuring fiscal sustainability. The chief recommendations were to prepare a comprehensive package of anti-inflationary measures aimed at protecting the standard of living of households, especially vulnerable social categories, as well as the competitiveness and sustainability of the real sector and entrepreneurs. The package is aimed at preventing the development of an inflationary spiral. Anti-inflationary measures, according to the

recommendations of the Central Bank, should be temporary , until the distortions in the market are eliminated, and carefully tailored to avoid the possible expansion of the informal economy.

Data on real-estate prices

To reduce the gap in real estate prices, the Central Bank conducts a two-year Survey on the subjective perception of real estate prices among the population. Based on these results, the hedonic index is calculated. To improve the statistical coverage of real estate prices, based on the market development, the Financial Stability Council adopted a conclusion on the establishment of the Register of Immovable Property Traded in Montenegro. It was decided that the Register would be under the jurisdiction of the Real Estate Administration (Cadastre) and that it would include all real estate traded on the territory of Montenegro. This conclusion was submitted again to the Ministry of Finance in June 2022.

Asset Quality Review (AQR)

The AQR was finalised in 2021 and all banking indicators already include effects resulting from the AQR, thus will be included as such in the stress testing that divisions for statistics and supervision will carry out during 2022 as part of their regular annual activities.

NPL resolution

Due to the changes in the Government, in July 2022 the Central Bank of Montenegro coordinated again the establishment of the working group comprised of representatives of the Association of Banks of Montenegro, the Central Bank of Montenegro, the Ministry of Finance, and the Ministry of Justice to improve and align relevant legislation and practice concerning the process of collection of receivables.

The working group is addressing an insufficiently consistent legal framework - the Labour Law, the Law on Property Rights in Montenegro, the Law on Enforcement and Securing of Claims, the inconsistency of the Law on Consumer Credits, and the Law on Consumer Protection of Financial Services Users. The objective is a clearer definition of the content of contracts on banking arrangements, proper calculation of the effective interest rate, elimination of the conflict of various provisions on consumer protection, and the adoption of laws that would improve the process of enforced collection. On the one hand, the enforced collection process would be sufficiently efficient, and on the other hand, it would ensure sufficient protection of the basic rights of the parties in the proceedings according to the *acquis communautaire* of developed countries.

To that end, the Association of Banks of Montenegro made again to the ministries concrete proposals – amendments to laws addressing:

1. Insufficient regulations and incorrect application of the proceedings governing the levying of enforcement against accounts of natural persons who are judgment debtors;
2. Inconsistency of the Labour Law and the Law on Enforcement and Securing of Claims in terms governing limitations concerning the amount of garnishment of wages;

3. Inconsistency of the Law on Consumer Protection in Financial Services Users and the Law on Consumer Credits;
4. Irregularities in the operation of the Pledge Registry of the Commercial Court of Montenegro and inconsistency with the Instruction on Operation of the Pledge Registry.

The line ministries need to provide their proposal for further action in terms of the timeframe for the alignment of proposed laws.

The second initiative is a project for introducing more rigorous training of economic and financial experts. The Netherlands' initiative for the rule of law and the World Bank share a common interest in increasing the efficiency of judicial systems for citizens and enterprises, reaching a higher level of respecting human rights, alignment with the EU standards, and advancement of the business environment. In line with that, a Report analysing the role of court-appointed experts in judicial systems in the Western Balkans was prepared in 2019. That Report considered whether and how the work of court-appointed experts leads to inefficient court proceedings in the judicial systems of four jurisdictions – Serbia, Montenegro, North Macedonia, and Bosnia and Herzegovina.

The Association of Banks of Montenegro and the Chamber of Court-appointed Forensic Experts in Montenegro will submit to the Ministry of Justice a request and request expert support from the EU to develop a specialised programme for financial/banking forensic court expertise with the objective for the programme to become a mandatory course/test for court-appointed forensic experts in the field of economy/finance.

This provides a part of the response to Policy Guidance No 3 of the Ministerial Dialogue, with detailed explanations also contained in Chapter 3 – Macroeconomic Framework of the Economic Reform Programme.

Policy guidance 4: Finalise an analysis of barriers to businesses at the local administration, propose improvements to the institutional and regulatory environment on this basis and start to implement them. Continue implementing digital services for micro, small and medium enterprises and prioritise the development and implementation of interactive e-government platform for transactional electronic services. Adopt a strategic plan for "Montenegro works" and perform an analysis of Montenegrin state-owned enterprises to prepare a proposal for the optimal portfolio of state ownership.

Digital services

The vision of the Ministry of Public Administration is to develop services at a high level of sophistication, which above all provide end users an opportunity to have all communication with the public administration electronically. Digitalisation of services rendered to citizens should ensure that they receive government services quickly, practically, and with good quality, to be available to them anywhere and anytime, all with the aim of easier communication with the public administration, eliminating citizens visiting institutions while saving time and money.

At the beginning of 2021, activities began on the project “E-services and digital infrastructure as a response measure to COVID-19”, financed by the European Commission and implemented by UNDP in close cooperation with the Ministry of Public Administration, having as the ultimate objective to develop priority transaction services. One of the recognized activities is the development and implementation of the new electronic government portal *e-citizen*.

In Q1 2022, the existing solution of the e-government portal was integrated with the system for electronic identification and electronic identity card and the system for electronic payment of administrative fees, which created prerequisites for the improvement of existing electronic services. To that end, electronic payment of fees is provided through the e-government portal for 4 pilot services under the jurisdiction of the Ministry of Justice, so that the citizens and the business sector have the opportunity to submit electronically a request for data from the records.

During the summer of 2022, the information system of the state authorities of Montenegro was the target of a cyber attack, which pointed to the necessity of intensifying measures to strengthen cyber resilience.

When it comes to the digitalisation of priority services, which were recognized through the project “E-services and digital infrastructure as a response measure to COVID-19”, certain services were implemented and numerous activities started the digitalisation of other services. In 2021, eStudent and the COVID certificate services (SafeGO CG App) were implemented.

With the implementation of the eStudent service under the jurisdiction of the Ministry of Education, the possibility of online ennoblement of high school graduates into faculties within the University of Montenegro is enabled. In the same manner, the Ministry of Public Administration provided professional, financial, and technical support to the Ministry of Health in the infrastructure part, as well as the development of a software application for the COVID certificate and connection with the European Union (EU) Digital COVID Certificate system. It is planned to improve the eStudent service and enable electronic enrolment at other faculties, including private ones. Furthermore, online enrolment in school pupil dormitories (high school pupils) was made possible this year, while the e-service that will enable online enrolment of students in dormitories is in the test phase.

In addition to the recognised risk that the implementation of new interoperable services solely depends on the state administration authority in whose jurisdiction is the e-service recognised, additional efforts were made to digitalise other services as well, which were recognised under the mentioned project.

Business undertakings in majority state ownership

In order to improve the performance of state-owned enterprises (SOE), the oversight of their operations needs to be improved.

The Training was held in the previous period in the Ministry of Finance on the assessment of the financial performance of operation of state-owned enterprises by using the IMF's SOE

Health Check Tool. The training continued at the end of 2022 for the needs of the Directorate for Monitoring the Fiscal Risks from Operations of State-owned Enterprises using the remaining IMF tools, which will contribute to strengthening the capacity and improving the practical skills of employees with the main focus on identifying, analysing, managing, and detecting various sources of fiscal risks. With the help of this tool, the Ministry of Finance carried out analysis for certain majority state-owned enterprises and thus partially responded to Policy Guidance No 4 from the Ministerial Dialogue from May 2022.

The Government of Montenegro determined that the regular monitoring of the operations of majority state-owned enterprises must be reformed, and after the assessment, it concluded that the investment in Montenegro Works LLC in the previous period did not result in benefits, and that it did not show the reform potential that would provide the Government legal model for monitoring the operations of majority state-owned enterprises. This business undertaking also, on the basis of existing legislation, could not oversee the work of other majority state-owned enterprises. That is why the Decision on the voluntary liquidation of the Limited Liability Company Montenegro Works was taken, due to the impossibility of it generating income, and having a sustainable and successful operation in the market. For 2023, the Government planned an analysis of the institutional and legal framework for the operation of state-owned enterprises and the definition of a clear road map for further reforms. The establishment of an inter-sectoral working group with the task of analysing the regulatory framework for the field of operations of majority state-owned enterprises is also planned. Likewise, the reorganisation within the Ministry of Finance was completed, with the aim of reforming the Directorate for Monitoring Fiscal Risks from Operations of State-owned Enterprises. This provides a part of the response to Policy Guidance No 4 from the Ministerial Dialogue.

Business barriers analysis

The Government of Montenegro is continuously working with local self-governments on activities to strengthen cooperation and compliance with further recommendations. UNOPS provided support for business centres, with one in Tivat recently opened. Business centres are expected to open in Danilovgrad, Žabljak, and Kolašin.

An analysis was also made on how to achieve better cooperation between the state and municipalities in order to strengthen small businesses in Montenegro. The analysis provides a general overview of the business environment in Montenegro, which shows a certain degree of incentivising potential, but also indicates the need for further adjustment, in order to achieve an affirmative environment that will improve the development of micro, small, and medium-sized enterprises (MSMEs) in Montenegro.

The analysis of support for the development of micro, small, and medium-sized enterprises (MSMEs) in Montenegro through the prism of cooperation between local and national partners was done with the support of the Kingdom of Norway through the project “Norway for you – Montenegro”. This document provides a general overview of the business environment in Montenegro, which shows a certain degree of incentivising potential, but also indicates the need for further adjustments, in order to achieve an affirmative environment

that will improve the development of micro, small, and medium-sized enterprises in Montenegro. During this process, information was collected by reviewing laws, strategies, and accompanying documents, as well as through communication with local self-government representatives, so that the analysis explicitly points to the challenges the stakeholders at the central and local levels are facing in providing support to MSMEs. This primarily indicates the complexity of the legal framework related to the MSME sector, which consists of approximately 280 laws and many enabling regulations, as well as the lack of a synchronised strategic approach, mostly due to the non-participation of local self-governments in their drafting and implementation. The analysis pointed to the need to improve the administrative spectrum that governs operations of economic entities in Montenegro, and primarily to the need to improve communication between local self-governments and state administration authorities, along with improving communication within local self-governments. The lack of information exchange between the national and local level, but also amongst local self-governments, is a key deficiency in the synchronisation of activities between different stakeholders.

In addition to the above-stated, the Competitiveness Council of the Government of Montenegro, as part of its activities, includes work on reducing barriers for the operation of the private sector. The competence of the Council is also to request statements from competent institutions and to monitor the implementation of the action plan. In accordance with the conclusion of the Competitiveness Council, in 2021 the Secretariat of the Council analysed the business barriers faced by the business community and, based on the identified barriers collected statements from competent institutions. Almost one year after the creation of this list and the work on the eliminating barriers, the Secretariat of the Council has updated the list, to which new barriers were added based on additional inputs from the private sector, and those that have been resolved or eliminated were deleted. According to the aforementioned, the document now contains 98 barriers. The Ministry of Finance was identified as responsible for the largest number of barriers, followed by the Ministry of Economic Development and Tourism.

Out of the total number of barriers, competent institutions submitted statements for 73 barriers, or 74 percent. Out of that number, in 44 cases (60.3 percent) the institutions believe that it is necessary to work to remove barriers, while for the rest they believe that it is not necessary or they did not give an answer to that question.

In accordance with the above-stated, a response is provided to the Policy Guidance No 4 of the Ministerial Dialogue. In response to this Policy Guidance, Chapter 5 proposed reform measures No 7, 8, 9, 10, 11, 13, and 14.

Policy guidance 5: Complete the survey on informality and assess the short-term effects of the “Europe Now” programme. Analyse the results and feed them into a comprehensive action plan to tackle informality and start its implementation. Ensure structural cooperation between central and local authorities in the development and implementation

of the plan, including on preventing measures and incentives to legalise informal businesses and employees.

Carrying out the survey among households and enterprises, aimed at determining the scope and structure of the informal economy in Montenegro, which began in February 2022, was completed in July of the same year. According to the survey conducted among enterprises and households, the informal economy in the formal sector in Montenegro in 2022 amounts to 20.6 percent of GDP, which represents a drop of 3.9 percentage points compared to 2014.

Taking into account the joint responsibility of various institutions, representatives of line ministries and other state administration authorities will participate in the development of an action plan to combat the informal economy.

This survey is not designed to assess effects of the “Europe Now” Programme, but the main objectives of the survey are:

- Assess the level of the informal economy, as well as the scope and trends of the informal economy as percentages of GDP;
- Identify what enables the informal economy to be sustained and what could mitigate the scale of the informal economy;
- Identify the main causes of the informal economy and reasons why the companies engaged in those activities;
- Establish the impact of the informal economy on competitiveness in Montenegro;
- Establish the scope of informal employment in the labour market, and other.

Conducting this survey provides a part of the response to Policy Guidance No 5 of the Ministerial Dialogue from May 2022, and a part of the response is provided also in Reform Measure 14 in Chapter 5.

Policy guidance 6: Finalise, in co-operation with all relevant ministries, their agencies and stakeholders, a Youth Guarantee Implementation Plan, adopt it and initiate its implementation. Based on the Roadmap of Reforms on Social assistance and social and child protection services in Montenegro, establish a clear timeline and financial planning for its implementation and continue implementing the reforms. Continue efforts to reform the provision of active labour market policy measures with an emphasis on their labour market relevance, including work-based learning, and establish a continuous monitoring mechanism.

Introducing the Youth Guarantee Programme

The working team for introducing the Youth Guarantee Programme, in cooperation with the International Labour Organisation, worked on the preparation of several analyses based on which the Plan for the implementation of the Youth Guarantee should be prepared. A high-level Inter-sectoral working group was formed. Work on drafting the Implementation Plan for the Programme was intensified. The first Proposal was submitted to the European

Commission for comments on 1 July. At the meeting held on 30 June, the Inter-sectoral Working Group consented to the proposed reforms under the Youth Guarantee Programme. The Ministry of Labour and Social Welfare leads the procedure of reviewing the composition of the Working Team for the introduction of the Programme.

Implementing the Road Map

As for the Roadmap on Social Protection, the status is the following:

- When it comes to the analysis of costs, financial sustainability, and the preparation of a financial plan for the reform of the social and child protection system, UNICEF, in cooperation with the Ministry of Finance and Social Welfare in the previous Government, prepared the terms of reference for carrying out the analysis of costs, financial sustainability and the preparation of the financial plan for the reform of the social and child protection system. A project proposal for financing the analysis was prepared, but not submitted to NIPAC and EUD. Contracting and starting of concrete activities did not happen due to changes in the Government/ministry structures. As for the reform measure from ERP for 2022, based on the Assessment of the Social Protection System and the Social Protection Map of the Government and UNICEF, the World Bank, together with UNICEF, prepared an analysis financed by DG NEAR, which aims to identify broad challenges to implementation of social protection that prevents effective support for the poor and proposes relevant reform priorities. The analysis is submitted to the Ministry and will be published.

As for the activities of the former Ministry of Finance and Social Welfare, the social welfare centres and delivery of services by developing procedures for coordination and improvement of capacities of the social welfare centres, the status is the following:

- UNICEF prepared the terms of reference for consultations for conducting functional analysis and proposing the systematisation of functions and more efficient procedures for oversight, coordination, monitoring and evaluation, while the funding was provided from UNICEF sources. However, the activity was not completed because the Ministry did not give consent to start the analysis, due to changes in the structure and staff turnover.

Administrative reporting (first-instance and second-instance proceedings) and improvement of the Business Intelligence (BI) modules:

- Due to substantial legislative changes, which are not in accordance with the objectives of the Road Map, the activity was redesigned and it is necessary to provide additional time and financial resources for its implementation.

The above-stated is in a function of response to the Policy Guidance No 6 of the Ministerial Dialogue from May 2022, while a part of the response is provided through the Reform measures 1, 2, 3, 4, and 5 in Chapter 5 of this document.

3. MACROECONOMIC FRAMEWORK

Global economy continued with deep uncertainties and challenges during 2022 due to the crisis caused by the aggression of the Russian Federation on Ukraine and rising cost of living caused by strong inflationary pressures and growing prices of food and energy. All relevant international organisations revised several times in 2022 their global growth forecasts. Thus, the International Monetary Fund reduced sizeably the global economy growth forecasts for the next year to 2.7 percent¹, which is 0.9 percentage points lower relative to the April forecast, which already included negative effects of the war in Ukraine.

The crisis will particularly affect Europe, due to its geographical proximity and strong trade ties with Russia and Ukraine, but also its energy dependence on the Russian Federation. In the latest forecasts, the European Commission foresees a slowdown of the Euro area economy to only 0.3 percent in 2023², from 2.3 percent expected at the beginning of the year. In 2022, the European Commission expects a historically record-high inflation of 8.5 percent in the Euro area, with gradual stabilisation, but also continued high growth of prices of 6.1 percent in 2023.

The Western Balkans region is also vulnerable in the new crisis, even though the growth in the first half of 2022 was high and above expectations. The slowdown in global growth will affect economic performance in all six countries of the region, while the high inflation will reduce purchasing power and affect investor confidence³. According to the relevant reports of international organisations, Montenegro will record faster growth than the regional average in 2022 and 2023, which is presented in the following table:

Table 3: GDP growth Forecasts for Montenegro and the Western Balkans countries

<i>Real GDP growth rate, as %</i>	World Bank		IMF		European Commission	
	2022	2023	2022	2023	2022	2023
Montenegro	6.9	3.4	7.2	2.5	7.0	2.9
Serbia	3.2	2.7	3.5	2.7	2.7	2.4
Bosnia and Herzegovina	4.0	2.8	2.4	2.0	n/p	n/p
Kosovo	3.1	3.7	2.7	3.5	n/p	n/p
Albania	3.2	2.3	4.0	2.5	3.2	2.6
North Macedonia	2.1	2.7	2.7	3.0	2.3	2.5

Sources: World Bank - Regular Economic Report for the Western Balkans Countries, autumn 2022; IMF – Global Economic Outlook, October 2022; European Commission – Economic Forecast, autumn 2022.

Estimates of international organisations concerning the growth of the Montenegrin economy in 2022 are similar, the European Commission forecasts growth at 7.0 percent, while the IMF

¹ <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

² https://ec.europa.eu/commission/presscorner/detail/en/ip_22_4511

³ <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

and the World Bank expect 7.2 percent and 6.9 percent, respectively. The World Bank forecasts the growth of the entire Western Balkans region at an average of 3.4 percent in 2022, while it will slow down slightly to 2.8 percent in the following year.

3.1. Recent Economic Developments

3.1.1. Gross Domestic Products

After the opening of the economy in 2021 and recorded a strong growth of 13 percent, dynamic economic trends in Montenegro continued during 2022 as well, despite the negative effects of the war crisis in Ukraine. Accelerated and strong demand, greater tax discipline and the application of electronic fiscalisation supported the high growth for half a year and favourable macroeconomic trends.

According to the preliminary MONSTAT data, the growth of the Montenegrin economy for first three quarters of 2022 was 7.1 percent relative to the same period of 2021, whereby the economic activity grew by 7.1 percent in Q1, while the growth recorded in Q2 was 12.7 percent, which was the single largest in Europe. The real growth generated in Q3 was 3.2 percent. Most of the categories of the national GDP recorded a positive trend in three quarters of 2022, with a strong growth of exports of goods and services (23.1 percent) and private consumption (11.6 percent). The investment activity is recovering, which is an important positive signal for investments for the rest of the year, but also a beginning of a new investment cycle in the forthcoming period.

The short-term indicators by sectors, according to available data, are also favourable. The preliminary data of the Central Bank of Montenegro for nine months of 2022 indicate that revenues from tourism amounted to 916.2 million euro, which is an increase of 30.2 percent relative to the same period of 2021, while they are at the level of 90.2 percent if compared to the record-high 2019, which is in line with the expectations and plans of the Government. Wholesale and retail trade turnover for three quarters of 2022 recorded an increase by 32.0 percent, while in the same period the carriage of passengers in airports was 1,533,291 passengers and recorded an increase of 41.5 percent. There were 4,229,710 overnight stays in tourism in collective accommodation for eleven months of 2022, which is higher by 46.1 percent year-on-year. Tourist arrivals in collective accommodation in July and August 2022 were higher than in the same months of 2019. Adverse hydrological conditions and lower annual electricity generation by 15.4 percent for eleven months of 2022 drove the slight decline of the overall industrial production (-4.2 percent). The other two industry sub-sectors, mining and manufacturing industry, recorded annual growth in eleven months of 2022 of 10.3 percent and 1.7 percent, respectively. The construction activity in three quarters of 2022 recorded a reduced value of total completed construction works by 3.1 percent relative to the same period of 2021.

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 2022

Real growth in 2022, in %	ERP 2022-2024	ERP 2023-2025	Divergence (as p.p.)
Real GDP growth	6.4	7.7	1.3
Household consumption	4.2	11.6	7.4
Investments	1.0	1.8	0.9
Government consumption	2.2	1.8	-0.4
Export of goods and services	19.0	13.6	-5.4
Import of goods and services	7.8	16.7	8.9

Source: Projections of the Ministry of Finance

The comparison of projections points to a slight degree of divergence of the forecasted growth in 2022, due to strong growth of private consumption, but also the similar dynamic of the import activities, in spite of the new was crisis that started at the end of February 2022, which could have not been forecasted in the last year's document.

3.1.2. Inflation

The consumer prices trends in Montenegro during 2022 are primarily a result of an inflationary spiral caused by a number of external factors and growing demand, but also some domestic policies that contributed to inflationary pressures, such as increased wages in the country.

In order to limit the impact of price growth on households and companies, the Government of Montenegro has adopted and proposed numerous measures and support packages, which lower key tax rates for basic food products, production inputs, and limit prices in trade. One of the most significant measures is the lowering of fuel prices by reducing the excise duties on fuel, which deprived the budget of significant revenues on the account of benefiting consumers and the real sector. The measure was introduced in May, has been extended several times until the end of 2022, while according to the plan it will also be in effect in 2023, although with a somewhat lower intensity of the excise duty rate.

Despite the Government's measures, in the period January-November 2022, the average inflation in Montenegro amounted to 12.7 percent, with acceleration in the third quarter (15.3 percent), as well as in October and November (16.8 percent and 17.5 percent, respectively). The biggest positive contribution to the growth of consumer prices for eleven months of 2022 came from the prices of food and non-alcoholic beverages (7.8 percentage points) and transport (2.0 percentage points). In November alone the prices of food (31.1 percent) and fuel (14.6 percent) increased strongly.

Due to strong volatility in the markets of primary commodities, export prices grew by as much as 38.0 percent year-on-year in the nine months of 2022, driven by the increase in prices in the metals sector (68.7 percent), while during the same period import prices increased by 14.1 percent.

3.1.3. Employment and Wages

A significant recovery of the labour market is evident during 2022, as a result of recovery of the demand and economic activity, while from 1 January 2022, the application of a lower tax

wedge on labour commenced. In the first eleven months of 2022, the average number of employees was 223.4 thousand and is higher by 19.5 percent annually.

According to the Labour Force Survey, the average unemployment rate in the three quarters of 2022 was 14.8 percent, down from 17.1 percent in the same period in 2021. In Q3 alone, the unemployment rate was 13.0 percent, which is below the pre-pandemic level and the lowest rate recorded so far. According to the records of the Employment Agency, the number of unemployed persons at the end of November 2022 was 46,389 and is less by more than 9,000 persons compared to November a year earlier. The registered unemployment rate in the same month was 20 percent and is lower by 3.9 percentage points year-on-year.

In the eleven months of 2022, the average gross wage was 881 euro, while the net was 711 euro, which represents an increase of 11.1 percent and 33.9 percent, respectively, compared to the same period of 2021, due to the tax reform and the increase of the minimum wage in the adopted Law on Budget for 2022.

3.1.4. Lending Activity of Banks

The banking sector of Montenegro made a strong contribution to the Montenegrin economy rebound, which was affected heavily by the COVID-19 pandemic in 2020. The banking system in Montenegro maintained stability, high liquidity, preserved profitability, and good capitalisation in 2022 as well. All key balance sheet items recorded an increase on annual level, and so as follows: assets by 18.26 percent, credits by 5.60 percent, deposits by 23.20 percent, and capital by 1.59 percent. At the end of October 2022, monetary assets reached the historic maximum and amounted 1,650.5 million euro. The non-performing loans (NPL) ratio was 6.14 percent.

The loans extended to legal persons amount to 2,066.9 million euro, or 56.89 percent of total loans, while the loans to natural persons make 1,566.5 million euro or 43.11 percent of total loans. This percentage split was rather constant over the observed one-year period. During the same period, loans to natural persons recorded a growth of 8.01 percent, while the lending to legal persons recorded an increase of 3.84 percent. Loans to natural persons with 43.11 percent have a dominant share in the composition of total loans by key recipients; followed by loans to the corporate sector with 34.64 percent, loans to the Government of Montenegro with 4.63 percent, placements to banks with 11.91 percent, and other loans with 5.71 percent respectively of the total loans. Loans to the corporate sector (business undertakings, both in private and in state ownership) amount to 1,258.5 million euro and recorded a growth of 11.46 percent year-on-year. Loans in other currencies make 4.05 percent of total loans, while loans to non-residents make 16.64 percent of total loans. Long-term loans, which made 79.76 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make 91.09 percent of total deposits in the system. At the end of October 2022, the average weighted effective interest rate on the total loans was 5.68 percent. This rate was 5.71 percent in the same period of the previous year.

During ten months of 2022, total of 721.1 million euro of new loans was approved to legal persons, and these loans recorded a growth of 32.85 percent relative to the same period of the previous year, while 447.3 million euro was approved to natural persons, which is approximately 41.19 percent more relative to the same period of 2021. The average weighted

effective interest rate on newly approved loans was 5.59 percent, and compared to October 2021 recorded an increase of 0.59 percentage points. Loans to legal persons were extended at the average weighted effective interest rate of 4.56 percent, which is higher by 0.67 percentage points relative to October 2021, while this rate to natural persons was 7.24 percent, which is higher by 0.02 percentage points relative to the same period of 2020.

At the end of October 2021, the deposits of natural persons amounted to 2,359.5 million euro or 47.16 percent in the composition of total deposits, while deposits of legal persons amounted to 2,643.7 million euro or 52.84 percent. A-vista deposits are dominant, and make 79 percent of total deposits. The banking system is lacking stable long-term deposit potential. The share of non-resident deposits was significant and was 26.03 percent, while the deposits in other currencies made 6.0 percent of the total deposits.

Downward trend is also present in case of deposit interest rates. Namely, in October 2021 the deposit average weighted effective interest rate was 0.25 percent and recorded a year-on-year drop of 0.08 percentage points.

The value of the ratio of loans and receivables over deposits was 76.62 percent, which means that there is 1,369.8 million euro of deposit potential in the system, which exceeds receivables underlying the approved loans.

3.1.5. Financial Sector

At the end of Q3 2022, the main characteristics of the financial sector are stability and moderate level of systemic risk. Temporary measures of the Central Bank, which enabled facilities in a form of moratorium and restructuring of loans to the clients of banks, and acted as stabilising factors both on the finances of the real sector and citizens, as well as on operation of banks, mitigated the adverse effects of the COVID-19 pandemic impact.

Financial sector reached the value of assets of more than 6.5 billion euro at the end of September 2022, which made 121.2 percent relative to the GDP, due to the higher increase in assets of banks relative to the GDP growth. The banking sector makes 94 percent of assets of the financial sector, followed by the insurance sector with 4 percent, and other financial institutions (micro-credit financial institutions, leasing companies and factoring companies) with 2.1 percent. During the nine months of 2021, turnover at the *Montenegroberza* (Montenegro stock exchange) was 49.9 million euro (0.9 percent of the forecasted annual GDP), which is 15.9 million euro or 46.5 percent more than in the same period of the previous year.

The Central Bank carries out continuous supervision of the banking sector; and the banking sector is liquid, solvent, and with non-performing loans at the acceptable level. The liquidity of banks is at the high level. Liquid assets of banks were 1,929.2 million euro and made 31.39 percent of the total assets at the end of October 2022, which points to the fact that banks successfully absorbed significant pressure to liquidity from implementation of the moratorium measure. The banking sector stability is supported with adequate capitalisation, so that both the aggregate (18.43 percent) and individual solvency ratios for all banks in the system (ranging from 11.57 to 27.80 percent) as of 30 September 2022, are well above statutory minimum. These trends are reflected positively on the banking sector profitability.

At the end of October 2022, positive financial result at the system level was 72.7 million euro, while it was 37.1 million euro in the same period of the previous year.

In order to preserve the financial stability, the Central Bank continued to monitor actively further developments and impact of the COVID-19 pandemic and the war in Ukraine on the financial system, the economy and citizens, to analyse macroeconomic and financial system trends, in order to support recovery and further growth and development of the Montenegrin economy in circumstances of constantly present uncertainties, through adequate macro-prudential and monetary policy measures. Focus of the Central Bank was protection of financial position of clients of banks – natural and legal person, in the narrow sense, while in the broad sense to preserve solvency and liquidity of the banking sector by applying 12 packages of temporary measures. Furthermore, acting in precaution the Central Bank has secured 350 million euro from the European Central Bank and the Bank for International Settlements in case of urgent support for liquidity of banks in case of emergencies.

The temporary measures of the Central Bank covered four types of moratoria, of which first two were general moratoria in nature, while the last two were targeted or carefully tailored and directed towards specific sectors of the economy and individual categories of the population, for which it was established that were the most affected by the pandemic-caused crises. The measures also included those aimed at maintaining the banking sector stability, such as for example: prohibition from paying out dividends to shareholders of banks; permission to increase exposures to one person or a group of related parties beyond the statutory exposure limits; reducing the mandatory reserve requirement rates for banks; as well as measures providing incentives for extending and restructuring loans. Furthermore, the measures also include a temporary treatment to mitigate the negative impact of falling prices of certain debt securities on the regulatory capital of credit institutions. Adopted measures made an important contribution to maintaining the banking system stability, which is recording rise in all important balance sheet items; while total deposits and liquid assets of banks reached the highest ever levels.

In compliance with the policy guidance of the European Commission, the Central Bank has continuously conducted activities from within its powers, in order to make a maximum contribution in their implementation and for preserving the financial system stability.

In order to implement the policy guidance No 3 of the European Commission, in the segment *“Carefully assess and analyse price developments, and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability”*, it should be emphasised that the Central Bank continuously analyses and updates projections of price developments in Montenegro in order to maintain price stability. All banks are surveyed quarterly about price expectations, and the stratified sample of companies and results were used to prepare the quarterly Price Stability Report (including demand and supply components in price development, as well as the publication of one-year projections). In addition, in Q3 of 2022, due to the high price growth in Montenegro, a special analysis was completed to analyse the contribution of supply and demand. The conclusion of the analysis is that the main source of price increase is related to import prices: fuel and food. Given that the main conclusion is that the causes of inflation are primarily on the side of the supply of

goods that are mainly provided by imports, the Central Bank prepared and submitted to the Government of Montenegro the document Recommendations for Economic Policy for the period 2022-2024. The key recommendations related to the preparation of a comprehensive anti-inflationary package of measures aimed at protecting the standard of living of households, especially vulnerable social categories, including also the competitiveness and sustainability of the economy and entrepreneurs. The package of measures is intended to prevent the development of an inflationary spiral.

In order to implement the policy guidance No 3 of the European Commission, in the segment *“Ensure a transparent and accurate reporting of asset quality and adequate reserves as well as a timely follow up on findings from the Asset Quality Review, with a reminder that the AQR was completed in 2021 and all banks have applied the effects derived from individual work-blocks on financial information with the balance as of 31 October 2021. All findings from the Asset Quality Review have been implemented. The capital adequacy was maintained even after the implementation of the AQR and all capital requirements and is at a significantly higher level than prescribed by law. Testing of all banks in the system was conducted, and the basis for stress testing was data as of 31 December 2021, which included the results of the AQR. The results of stress testing point to a satisfactory resilience of the Montenegro banking system against unfavourable developments in the macroeconomic environment. Projections for 2022 and 2023 show that all banks would continue to have the solvency ratio above the regulatory minimum in the case of all three scenarios. Reporting to the Central Bank is timely (monthly and quarterly) and has been further improved by the implementation of the Basel III regulation - Decision Amending and Supplementing the Decision on Reports to be Submitted to the Central Bank. Likewise, the Central Bank is continuously working on further harmonisation with the European Union *acquis* in the area of supervision and regulation within its jurisdiction, in accordance with its changes.*

In order to implement the policy guidance No 3 of the European Commission, in the segment *“... and continue to reduce data gaps in particular as regards the real estate sector”*; the Central Bank, through the Financial Stability Council, launched an initiative to create a Database/Register of real estate transactions in Montenegro, following the example of all countries of the region and the European Union, in order to improve real estate price statistics. The working group of the Financial Stability Council proposed a solution that contained the necessary information needed for creating an institutional proposal for establishment of the Database/Register of real estate transactions in Montenegro. The conclusion of the session of the Financial Stability Council concerning this matter was again submitted to the Minister of Finance in June 2022, in order to initiate the process for this solution to become operational.

In order to implement the policy guidance No 3 of the European Commission, in the segment *“Continue to improve and implement legislations to further align with the EU framework on regulation and supervision, including on deposit insurance”*, the activities of the Central Bank will continue to be focused on the application of the new regulatory framework and its further harmonisation with European Union regulations. The Central Bank continues with activities for the preparation of working versions of drafts of the law on amending and supplementing the Law on Credit Institutions and the Law on Credit Institutions Resolution. To that end,

during 2023, work will be done on further improvement of the enabling regulations adopted in order to implement these laws, as well as on the further alignment of the regulations with European Union regulations. Work on the preparation of the Proposal of the Law on Financial Conglomerates will continue, which will implement Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

In order to implement the policy guidance No 3 of the European Commission, in the segment *“and accelerate efforts to provide viable and timely solutions for swift and effective NPL resolution”*; in July 2022 the Central Bank restarted activities of the Working Group, which consists of representatives of the Central Bank, the Ministry of Finance, the Ministry of Justice and the Association of Banks of Montenegro. The working group is working on an insufficiently consistent legal framework - the Labour Law, the Law on Ownership-Legal Relations in Montenegro, the Law on the Enforcement and Securing of Claims, inconsistency of the Law on Consumer Credits and the Law on the Protection of Consumers of Financial Services. The objective is to define more clearly the content of contracts on banking arrangements, to calculate properly the effective interest rate, to eliminate the conflict of various provisions on consumer protection, and to adopt laws that would improve the process of enforced collection. Competent ministries will present their proposal for further activities regarding the timeframe for adjusting the proposed laws. The second initiative refers to the project of introducing more rigorous training of economic and financial court experts, for the realisation of which an expert assistance from the European Union will be needed, as it was assessed, in order to create a Special Programme for Financial/Banking Forensic Court Expertise, with the aim of it becoming a mandatory course/test for court forensics in fields of economics/finance.

3.1.6. External Sector

3.1.6.1. Current Account

In the period January-September 2022, the **current account deficit** was 478.06 million euro and was higher by 90.44 percent relative to the same period of 2021. Expansion of the current account deficit is a consequence of the increase in deficit in the account of goods and is offset partially by increase in surplus on the account of services, as well as in the primary and secondary income accounts.

The **goods account deficit** was 1,994.19 million euro, which represents an increase of 41.18 percent year-on-year. Total export of goods was 568.90 million euro, or 53.31 percent more if compared to the previous year; whereby the strongest contribution to the increase comes from export of electricity and non-ferrous metals. Total import of goods amounted to 2,563.09 million euro and was 43.70 percent higher year-on-year, resulting from increased imports of oil and oil derivatives, electricity and non-ferrous metals.

In the period January-September 2022, the **services account** ended up in a surplus of 1,072.46 million euro, which is 33.13 percent more year-on-year, and is a result of improved revenues from travel and tourism services, as well as from transportation services. Total revenues from services were 1,746.14 million euro or 40.42 percent more year-on-year, while the incurred

expenditures amounted to 673.68 million euro (a rise of 53.82 percent). Estimated revenues from travel and tourism were 916.19 million euro, which was 30.23 percent higher year-on-year. Increase in overnight stays of foreign tourists was recorded in the observed period.

The **primary income** account registered a surplus of 102.19 million euro, which is 33.52 percent more year-on-year. Revenues resulting from the primary income were 285.03 million euro, or 13.35 percent higher year-on-year, with biggest contribution being rise in inflows on the account of compensation to employees. The expenditures on this account were 182.84 million euro and were higher by 4.52 percent year-on year, which is a result in increased outflows on the account of compensation to employees.

The **secondary income** account recorded a surplus of 341.48 million euro, which is 22.23 percent more year-on-year. Total transfers inflow to Montenegro was higher by 21.53 percent, and amounted to 412.01 million euro, of which majority is made of personal transfers from abroad in the amount of 326.81 million euro (increase of 29.55 percent). During the same period, total outflow on the account of transfers abroad was 70.53 million euro (increase of 18.25 percent).

3.1.6.2. Financial Account

The **portfolio investments** account recorded a net outflow of 102.04 million euro, while the net outflow on the other investments account was 339.62 million euro. The main drivers of developments on this account were lower borrowing of the Government, as well as of banks, while in the case of other sectors, an increase of recorded on the account of credits taken, if compared to the previous year.

The net inflow of foreign direct investments was 599.03 million euro in the period January-September 2022, which is an increase of 70.03 percent if compared to the same period of 2021. Total foreign direct investments inflow was 847.83 million euro (an increase of 41.32 percent), of which equity investments made 465.05 million euro (an increase of 53.55 percent), while the inflow in form of intercompany debt was 316.28 million euro and recorded an increase of 36.73 percent year-on-year. As for the composition of equity investments, investments in companies and banks were 142.85 million euro (growth of 20.44 percent), while the investments in real estate were 322.20 million euro (growth of 74.86 percent). Inflow resulting from withdrawing investments from abroad was 66.50 million euro. If observing the composition of the total inflow of foreign direct investments, the inflow from investments in real estate made 38.00 percent, followed by the intercompany debt with 37.30 percent, and investments in companies and banks with 16.85 percent. In the period January-September 2022, total outflow of the foreign direct investments was 248.80 million euro, which is approximately at the same level as during the same period of 2021. The outflow from investments of residents abroad was 92.48 million euro; while the withdrawal of funds of non-residents invested in our country was 156.32 million euro.

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

No	Item	Jan-Sep 2021*	Jan-Sep 2022**	Change in %
1	Current account	-251,029	-478,057	90.4
1.A	Balance of goods and services	-606,938	-921,732	51.9
1.A.a	Goods ***	-1,412,528	-1,994,194	41.2
1.A.a.1	Export, f.o.b.	371,074	568,900	53.3
1.A.a.2	Import, f.o.b.	1,783,602	2,563,093	43.7
1.A.b	Services	805,590	1,072,461	33.1
1.A.b.1	Revenues	1,243,553	1,746,136	40.4
1.A.b.2	Expenditures	437,963	673,675	53.8
1.B	Primary income	76,535	102,192	33.5
1.B.1	Revenues	251,456	285,028	13.4
1.B.2	Expenditures	174,921	182,836	4.5
1.C	Secondary income	279,374	341,483	22.2
1.C.1	Revenues	339,019	412,014	21.5
1.C.2	Expenditures	59,645	70,531	18.3
2	Capital account	-271	-2	-99.4
2.A	Revenues	0	0	
2.B	Expenditures	271	2	
	Balance of current and capital account	-251,300	-478,059	90.2
3	Financial account, net ****	85,518	-3,495	
3.A	Net acquisition of financial assets	259,631	484,867	86.8
3.B	Net increase/incurrence of liabilities	174,113	488,362	180.5
3.1	Direct investments, net	-352,313	-599,030	70.0
3.1.1	Net acquisition of financial assets	3,820	25,973	579.8
3.1.2	Net increase/incurrence of liabilities	356,133	625,002	75.5
3.2	Portfolio investments, net	396,459	102,037	-74.3
3.2.1	Net acquisition of financial assets	47,740	28,307	-40.7
3.2.2	Net increase/incurrence of liabilities	-348,718	-73,730	-78.9
3.3	Financial derivatives, net	-3,930	-13,863	252.7
3.3.1	Net acquisition of financial assets	-3,930	-13,863	252.7
3.3.2	Net increase/incurrence of liabilities	0	0	
3.4	Other investments, net	170,632	339,620	99.0
3.4.1	Net acquisition of financial assets	337,331	276,709	-18.0
3.4.2	Net increase/incurrence of liabilities	166,698	-62,911	
3.5	CBCG Reserve (change)****	-125,330	167,740	
4	Net errors and omissions (3-2-1)	336,818	474,564	40.9

Source: Central Bank of Montenegro

3.1.6.3. International Investment Position

At the end of 2021, the net international investment position was negative, and according to the preliminary data amounted 8.3 billion euro (decrease of 3.2 percent), or 168.4 percent of GDP. At the end of 2021, total external receivables of residents were 3.8 billion euro, and liabilities 12.2 billion euro.

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

	2019	2020	2021	as % of GDP (2021)
1. International Investment Position, net	-8,234.2	-8,620.1	-8,343.2	-168.4%
2. Assets	2,973.8	3,364.9	3,812.3	76.9%
2.1. Direct investments, net	99.7	82.6	79.2	1.6%
2.1.1. Equity capital and reinvestment of earnings	31.4	39.9	47.7	0.8%
2.1.2. Debt instruments	68.3	42.6	31.5	1.0%
2.2. Portfolio investments, net	335.6	367.7	586.3	11.8%
2.3. Financial derivatives	0.1	0.1	0.0	0.0%
2.4. Other investments **	1,171.7	1,176.1	1,398.0	28.2%
2.5. CBCG reserves	1,366.7	1,738.5	1,748.8	35.3%
3. Liabilities	11,208.0	11,985.0	12,155.5	245.3%
3.1. Direct investments	4,819.6	4,742.1	4,854.8	98.0%
3.1.1. Equity capital and reinvestment of earnings	2,876.5	2,666.3	2,646.5	61.2%
3.1.2. Debt instruments	1,943.1	2,075.8	2,208.3	49.7%
3.2. Portfolio investments	1,601.5	2,029.8	1,777.4	35.9%
3.3. Financial derivatives	0.3	0.0	0.0	0.0%
3.4. Other investments	4,786.7	5,213.0	5,523.2	111.5%
GDP (MONSTAT)			4,955.1	

Source: Central Bank of Montenegro

Compared to the end of 2020, the negative net international investment position at the end of 2021 lowered by 276.9 million euro, mainly due to increase in financial assets (by 447.4 million euro), while it was offset to certain extent by contemporaneous increase in financial liabilities (by 170.5 million euro). Preliminary data indicate that compared to 2020 there is an increase in negative net position (assets less liabilities) in case of foreign direct investments (by 116.1 million euro) and in case of other investments (by 88.3 million euro), while the biggest reduction is recorded for portfolio investments, where the net position was decreased by 471.0 million euro.

Increase on the side of assets during 2021 was generated mainly from the increase in other investments and financial derivatives. Analysis of the assets composition by financial instrument shows that the Central Bank of Montenegro reserves have a dominant share (45.9 percent of total assets), as is the case for the currency and deposits, which as part of the other investments categories have a share of 29.7 percent.

The analysis of categories of the total external financial liabilities of Montenegro shows that the highest share goes to other investments of 45.4 percent (5.5 billion euro) and the foreign direct investments of 39.9 percent (4.9 billion euro), of which the major instruments are the equity investments with 54.5 percent (2.6 billion euro).

During 2021, the **other investments** recorded a sizeable growth of 5.9 percent or by 310.1 million euro. Loans have a dominant place as the most important financial instrument on the side of liabilities with an annual decrease of 160.4 million euro and stock of 4.2 billion euro (with share of 34.9 percent in total liabilities), as well as currency and deposits which

amounted 1.2 billion euro at the end of 2021 (with share of 9.6 percent). The share of liabilities on the account of *portfolio investments* amounted to 1.8 billion euro (share of 14.6 percent), of which the biggest portion goes to sovereign liabilities resulting from Eurobonds.

3.2. Medium-term Macroeconomic Scenario

Relying on the strong growth in the first half of the year, favourable short-term indicators for Q3, and the recovery of investment demand, the economic growth rate was revised, with an upward estimate for 2022. Over the medium term, private consumption will be one of the main drivers of dynamic growth, along with the recovery of investments and the continued strong increase in exports of goods. In 2023, tourism is expected to recover if compared to the pre-pandemic level, supported by the extension of the season and the diversification of the structure of foreign visitors and tourism source markets.

Strong household consumption, investment recovery, wage increases for part of the public sector, sectoral support measures, along with relevant external forecasts of economic indicators trends in Europe and price developments, form the core assumptions of the macroeconomic scenario.

The next part of this Chapter presents an overview of macroeconomic projections and identifies risks to the growth and macro-fiscal stability. Furthermore, the newly developed macro-econometric model of the Ministry of Finance assessed impact of the major projects and priority structural reforms, including calculation of net effects on the growth and employment.

3.2.1. Baseline Macroeconomic Scenario 2022-2025 and Risks to its Materialisation

Notwithstanding the strong global economic and geopolitical uncertainties, during 2022 the Montenegrin economy is recording favourable macroeconomic trends. Economic growth in Q2 of 2022 was officially the fastest in Europe. The traditionally strongest sectors of tourism, transport and trade record high growth rates, while industrial production is under the influence of unfavourable hydrological conditions in the first half of the year. The banking sector is stable and highly liquid, the country's external position has improved, while exports are at a record high level. The labour market is recovering if compared to pre-pandemic levels, while inflation is recording historic maximums, which is also the case in majority of developed countries of the world. In order to mitigate the consequences of rising prices, the Government of Montenegro adopted numerous anti-inflationary measures as part of the support package for households and the real sector. Accordingly, the economic growth of the domestic economy was revised, which is now estimated upwards for 2022, while the next period will bring additional uncertainties and instabilities, especially in the European area, which will consequently be reflected in Montenegro as well.

Strong growth in the first half of the year resulted in a need for a revision of the economic growth rate. **The Government of Montenegro now forecasts that the Montenegrin economy will grow by 7.7 percent in 2022, significantly above the previous forecast, despite the effects of the war in Ukraine.** The economic growth and trends in the short term are

more favourable than expected, which is confirmed by the reports on Montenegro of relevant international organisations.

According to preliminary forecasts, an average economic growth rate of around 4 percent is projected in the next three-year period. Economic growth rates will primarily be stemmed by strong domestic demand, with private consumption and investments as drivers of economic activity. An additional contribution to medium-term growth will be provided by net exports, along with growing revenues in tourism and favourable export performance. After extremely high inflation in 2022, a certain levelling of prices on the market is expected in the next year, if the slight decline in food and crude oil prices on international commodities exchanges from the second half of 2022 continues. Domestic forecasts for a slowdown in inflation in 2023 are based on the assumption of a high base from 2022, as well as a slowdown in demand growth, while according to the latest projections of the European Central Bank (ECB), a gradual stabilisation of prices in the Euro area is expected over the medium term, with the calming of global markets and the prices of key inputs and primary commodities. However, dominantly due to the supply-side factors that determine price growth, such as disrupted supply chains, geopolitical challenges, and issues concerning food and energy availability, the inflation will continue to remain elevated. In 2023, consumer prices in the Euro area will continue to be far above the ECB's target, which will also be reflected in Montenegro due to the correlation. According to available trends and forecasts, average inflation in Montenegro for the next three-year period is projected at 3.4 percent. If geopolitical and global economic uncertainties worsen, the inflation may be significantly higher, which is the risk presented in the subchapter on the Alternative Scenario.

During 2022, the labour market recovered significantly if compared to the pre-crisis period, thus in 2023 it is expected that the key indicators of the number of employees and the unemployment rate to be more favourable compared to the level before the pandemic. The recovery in the labour market and the increase in social inclusion will be stimulated by priority reform measures aimed at the employability of youth and women, while addressing long-term unemployment. The measures also include the introduction of the Youth Guarantee Programme in Montenegro, matching the workforce supply and demand, as well as the reform of the social and child protection system. In the period 2023-2025, average employment growth of approximately 3.5 percent is predicted, with slightly higher wage growth, as a result of increased budget allocations for certain categories of employees in the public sector and a mild increase in productivity in the private sector.

Over the medium term, the regulatory framework will be strengthened further by reform measures to establish full electronic company registration, strengthening the institutional, programmatic and legal framework for the innovation and research ecosystem, and by numerous planned measures for digitalisation in the public administration, educational and pedagogical institutions and the healthcare system.

The recovery of investments and their continued high participation in GDP is expected in the forthcoming period, which, according to expectations, will support growth prospects in 2023 and the subsequent years. According to the latest announcements, it is expected that investments will be dominantly focused on the sectors of tourism, energy, road and municipal

utility infrastructure, agriculture, and the telecommunications and IT sectors. Investments in the energy transition will remain strong in the next medium-term period, especially in the field of renewable energy sources. Planned policy measures will further speed up the green transition, which refer to the development of sustainable tourism and green accommodation capacities, investments in the development of agriculture and rural areas, and greater incentives for increasing energy efficiency. The sectoral projects that are expected to make the greatest contribution to economic growth in the next period, in addition to energy, relate to the construction of high value complexes in tourism, the construction of hotel facilities in the northern region on the basis of an investment program of special importance for economic interests, while in the area of municipal utility infrastructure the largest investments relate to waste water treatment projects.

Furthermore, public projects and the first phase of the Economic and Investment Plan for the Western Balkans of the European Commission will spur infrastructure investments and mobilise private sector funds for relevant sector investments. It is expected that foreign direct investments will continue to support economic growth, with a projected participation in the GDP composition of approximately 10 percent in the coming years, in accordance with the past three-year average, as well as due to the high resilience the foreign direct investments showed in a period of significant fluctuations of economic developments in Montenegro.

Responsible public finances management is of key importance for macroeconomic stability, which is also recognised in the baseline scenario as one of the main challenges over the medium term. In order to reduce fiscal risks, reform measures are planned to improve the management of majority state-owned companies, with the establishment of a greater control and oversight function, in order to increase the general level of competitiveness in these companies and achieve better operating results.

All relevant international institutions forecast that the economy of Montenegro in this year and in 2023 will grow faster than the regional average, with improving conditions on the labour market, gradual increase in the number of employees and a further drop in the unemployment rate below the pre-pandemic level.

Macroeconomic projections for 2023-2025 have the following components on the consumption side:

- In the next three-year period, domestic demand will make the strongest positive contribution (3.6 percentage points) to the economic growth, whereby half of this impact will come from the private consumption, due to the accelerated increase in revenues from tourism, high increase of remittances, coupled with a strong expansion of lending activity and growth of employment and wages. Personal household consumption will be stimulated strongly by budgetary measures in 2023 and planned medium-term. Features of the public spending in the forthcoming period will be a higher current spending and strong increase in allocations for wages for part of the public sector employees. The gross investments will be marked by a gradual recovery relative to the pre-crisis level, along with maintaining the high level in the overall structure of the economy, with the forecasted growth of 6.6 percent in the period 2023-2025;

- Net exports, precisely the foreign demand, prompted by a strong tourism expansion, favourable export performance, but also partially limited by strong import dynamic, will make an additional contribution of 0.3 percentage points to the growth over the medium term. The tourism is expected to recover in 2023 if compared to the pre-crisis level. Sizeable growth of prices on the global markets for the most important Montenegrin export products and an expanded production base in agriculture, will guide the forecasted increase in export of goods of 8.2 percent in the next three-year period. The imports will intensify (growth of 4.9 percent), shaped by stronger demand due to high value of capital investments and pronounced growth of the private consumption.

Table 3.2.1: Montenegro: Macroeconomic Projections 2022-2025 – Baseline Scenario

Montenegro: Macroeconomic projections, 2021-2024 – Baseline scenario					
	2021	2022	2023	2024	2025
	-	-	-	-	-
Nominal GDP in million euro	4,955.1	5,700.4	6,174.6	6,549.2	6,890.5
Nominal growth	18.4	15.0	8.3	6.1	5.2
Real growth	13.0	7.7	4.4	4.0	3.5
Inflation (average)	2.4	12.0	5.0	3.0	2.2
	(as % of GDP)				
Core characteristics:					
Current account deficit	-9.2	-12.0	-10.5	-9.9	-8.9
Export	42.8	48.2	50.0	51.8	53.5
Import	62.2	71.8	71.7	72.7	73.5
Other	10.2	11.6	11.2	11.1	11.1
Household consumption	73.0	76.5	75.2	74.8	73.9
Gross investments	26.7	29.8	29.5	29.8	30.2
Gross fixed capital formation	22.1	21.9	22.3	23.0	23.7
Changes in inventories	4.5	7.9	7.3	6.9	6.5
Government consumption	19.7	17.3	17.0	16.4	15.9
GDP deflator	4.7	6.8	3.8	2.0	1.6
	(real growth rates as %)				
Real GDP growth	13.0	7.7	4.4	4.0	3.5
Domestic demand	0.1	10.2	3.0	3.4	2.6
Household consumption	4.0	11.6	2.4	2.9	2.0
Government consumption	0.5	1.8	2.5	1.9	1.5
Gross investments	-10.5	12.8	4.6	5.4	4.9
Gross fixed capital formation	-12.3	1.8	6.3	7.1	6.4
Changes in inventories	4.6	66.7	0.0	0.0	0.0
Export of goods and service	81.9	13.6	9.0	7.3	6.6
Import of goods and service	13.7	16.7	5.1	5.3	4.2
	(share in real growth as % of GDP)				
Real GDP growth	13.0	7.7	4.4	4.0	3.5
Domestic demand	0.1	12.2	3.6	4.1	3.2
Household consumption	3.3	8.4	1.8	2.2	1.5
Government consumption	0.1	0.4	0.4	0.3	0.2

Montenegro: Macroeconomic projections, 2021-2024 – Baseline scenario					
	2021	2022	2023	2024	2025
Gross investments	-3.3	3.4	1.4	1.6	1.5
Gross fixed capital formation	-3.4	0.4	1.4	1.6	1.5
Changes in inventories	0.2	3.0	0.0	0.0	0.0
Net export	12.9	-4.5	0.7	-0.2	0.4
Export of goods and service	21.3	5.8	4.3	3.6	3.4
Import of goods and service	-8.4	-10.4	-3.6	-3.8	-3.1
Growth in percentage, unless otherwise indicated					
Macroeconomic indicators:					
Employment growth	-3.1	11.7	4.0	3.2	3.1
Growth of wages (gross)	1.3	11.0	6.0	4.0	3.0
Unemployment rate	16.6	15.5	14.5	13.7	12.9
Net FDI as % of GDP	11.7	10.5	10.5	9.9	9.4
Newly-approved loans	22.1	34.6	10.8	7.9	6.8

Source: Projections of the Ministry of Finance

Macroeconomic indicators:

- Current account deficit in the balance of payments will decline from the estimated 12.0 percent of GDP in 2022 to 8.9 percent of GDP in 2025, due to the expected dynamics for imports and exports of goods and services, with high increase of surplus on accounts of net factor payments and net transfers;
- In line with the previous three-year period the share of net foreign direct investments is projected to approximately 10 percent of GDP over the medium term;
- Newly approved loans to corporate and household sectors will continue to spur rise of the economic activity and will record a strong average growth of 8.5 percent;
- Employment will grow in the period 2023-2025 at the average annual rate of 3.5 percent, due to the growth of the economy and budgetary measures of increase of wages;
- Unemployment rate will return to the pre-crisis level in 2023, and then decline to 12.9 percent at the end of the projected horizon, with rising employment and larger participation of the domestic population;
- The wage growth will be accelerated with budget allocations and in the next period will amount to more than 4 percent on average;
- Consumer prices will continue to be elevated in 2023, with gradual stabilisation over the medium term and with an average inflation of approximately 3.4 percent.

GDP growth contains the following components on the production side:

- The growth in agriculture sector in the period 2023-2025 is projected at 8.0 percent, and is based on increased investments and allocated funds in the agro-budget. It is expected that the improvement of competitiveness of agricultural producers will lead to reduction of food imports through the substitution and growth of exports;
- Electricity supply sector will grow at an average rate of 7.3 percent in line with the planned energy transition and announced projects in the field of renewable energy sources;
- Manufacturing industry will grow at the annual rate of 5.3 percent in the period 2023-2025, with support of industrial policies. Special contribution to the growth of this

industrial sub-sector is expected from the growth of food processing, wood industry, metals processing complex, and production of pharmaceuticals;

- Construction sector is also expected to recover over the medium term at an average annual rate of 5.0 percent as influenced by the projected dynamics of investments;
- This scenario foresees a substantial growth of accommodation and food services, which partly cover the tourism sector, as well as transport sector, at the rate of 11.0 percent and 4.7 percent respectively, in line with the post-pandemic recover of these economic activities and strong demand.

The following table outlines the indicators by aggregated production sectors:

Table 3.2.1.1: Production Sectors – Real growth rates and share in Gross Value Added (GVA)

Sectors	Real growth rates, %				Share in GDP growth, %				Share in gross value added, %			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Agriculture	5.0	8.0	8.0	8.0	0.3	0.5	0.5	0.5	7.6	7.8	8.1	8.3
Industrial production	3.1	5.8	5.0	4.7	0.3	0.6	0.5	0.5	11.7	11.8	11.8	11.8
Construction	-10.0	5.0	5.0	5.0	-0.5	0.2	0.2	0.2	4.8	4.8	4.8	4.8
Services	12.7	5.1	4.5	3.7	7.6	3.2	2.8	2.3	75.9	75.6	75.4	75.0
-of which accommodation and food services	35.0	15.0	10.0	8.0	2.3	1.2	0.9	0.8	10.0	10.9	11.4	11.9
GVA (gross value added)	7.7	4.4	4.0	3.5	7.7	4.4	4.0	3.5	100.0	100.0	100.0	100.0
Taxes less subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A
GDP	7.7	4.4	4.0	3.5	7.7	4.4	4.0	3.5	N/A	N/A	N/A	N/A

Source: Projections of the Ministry of Finance

However, the prospects for growth and macroeconomic stability in the forthcoming period remain extremely uncertain and subject to numerous risks materialising. Given that 2022 was marked by strong geopolitical uncertainties, additional intensification of the war crisis in Ukraine and increased instability, especially in the Europe region, would threaten the growth prospects of the Montenegrin economy. Price developments on the global economic environment also remain very unpredictable in the short term, and represent the biggest challenge to rising domestic inflation, higher costs of living and doing business. Internal political conditions and limited fiscal space for additional response to market instabilities represent also risks to domestic macro-financial stability and public finances.

Delay in implementation of structural reforms, slower pace of planned investments, social unrests, unfavourable weather conditions, could also represent additional challenges to a dynamic growth over the medium term.

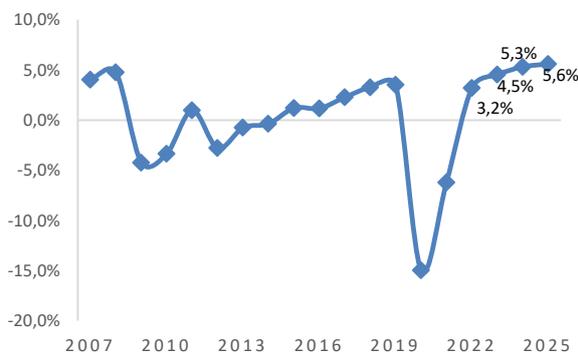
3.2.2. Potential Growth

The new macroeconomic model developed for the needs of Montenegro contains an update for the potential growth of the economy, which is now showing faster convergence and the positive gap between potential and projected real GDP, due to planned budgetary and regulatory policies spurring the aggregate demand.

The calculation of the potential growth takes into account the estimated value of capital stock of the economy, available contingent workforce, domestic demographic trends and constraints in respect of the level of participation in the labour market. The estimate also

includes the most important component of the total factor productivity, which alongside available technologies and degree of innovations in the country, points to optimal ways of combining production inputs.

Figure 3.2.2: Output gap 2007-2025



According to the estimate, the average potential growth of the Montenegrin economy for the period 2008-2022 was 2.2 percent, while in the period 2023-2025 it rises to 3.2 percent. Analysis of the share of production factors shows that the average real growth of the Montenegrin economy was 2.4 percent in the period 2008-2022, which is somewhat above the potential output. For the stated period, the share of

capital in the real growth rate was on the average 2.6 percent, the share of labour force was relatively low 0.6 percent, while total factor productivity had a negative share of 0.8 percent. The average real growth rate of approximately 4 percent is projected for the period 2023-2025, driven by budgetary measures and structural reforms that will enable higher competitiveness and productivity of the domestic economy, reduction of the informal economy, and higher activity in the labour market. High level of public investments in the coming years will also enlarge the capital stock of the potential production. Increase of maximum capacities of the domestic economy will lead to faster convergence towards the development average of the European Union.

Thus, according to the projections, the share of production factors will substantially vary over the medium term, in favour of labour contribution and higher productivity. The share of capital in the economic growth will be on average 1.5 percent, while the contribution of labour will be 2.2 percent, and the productivity will contribute 0.2 percent to growth of the economy.

According to the current scenario of projected trends, a positive **output gap** of 3.2 percent will be recorded in 2022, due to the higher-than-expected growth of the economy, given the war crisis in Ukraine and all accompanying consequences to the global economic environment. Over the medium term the preconditions will be created for growth of the Montenegrin economy above the potential; therefore, the output gap in the period 2023-2025 will be positive and will amount 5.2 percent. Strong growth dynamics and economic output in 2022 above the pre-crisis level, enabled Montenegrin economy developments to be above the potential during the next medium term, all based on increase in employment and investments. However, consistency of the projected potential for the domestic economy is conditioned by much higher growth of the minimum wage than the growth of the productivity and the issue of sustaining the high potential growth rate over the long term.

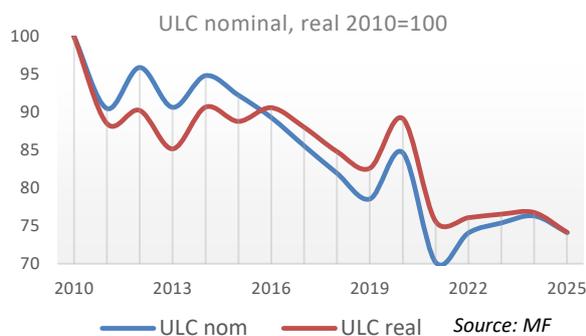
3.2.3. External Sector and Its Medium-term Sustainability

Following the significant expansion of deficit in the external sector in the first year of the pandemic, during the latter two years, the external position of the country recovered and improved. Tourism recovered significantly and is reaching the pre-crisis levels, while the

export of goods was at an all-time maximum in 2022, with potential for further growth over the medium term. According to preliminary projections, the estimated current account deficit of the balance of payments in 2022 will be approximately 12 percent of GDP, which represents an increase from 9.2 percent in 2021, due to stronger import activity dynamics driven by strong demand and private consumption, as well as a partial recovery of investment activities in the domestic economy.

Montenegro continues to be high import-dependent economy, with liberalised trade and investment flows. Its poor diversification of the production base results in a continuous high foreign trade deficit, which is estimated to approximately 45 percent of GDP in 2022. However, during 2022 were recorded positive trends in the export of the Montenegrin economy, primarily with intensive exports of electricity and the metals sector exports, which make more than half of the total exports of goods in 2022. The planned structural reform measures addressing the sectoral policies and budgetary support will provide additional incentive to the domestic food production and purport export potentials of the agriculture sectors.

Figure 3.2.3: Unit Labour Cost (ULC), 2010-2025



On the other hand, the high surplus in the foreign trade on the account of services, as well as on accounts of net factor payments and net transfers, will partially offset the foreign trade deficit on the account of goods. Thus according to the estimates, in 2022, the surplus on the account of services will be 21.8 percent of GDP, while the balance of the primary and secondary income will be 3.5

percent and 8.1 percent of GDP, respectively. Expected surplus on the secondary income account will sizeably increase the available gross national income of Montenegro. The current account deficit is financed by drawing-down reserves, borrowing at the international market, and with net foreign direct investments, which sets the scene for high vulnerability and proneness of the domestic economy to variable currency fluctuations and capital flows. In 2022, due to the war crisis in Ukraine, combining these factors with the high inflation and strong monetary reaction of developed countries in order to tackled the rising inflationary spiral, consequently the import prices are growing as well, which is spilling over to the rise in consumer prices paid by all households.

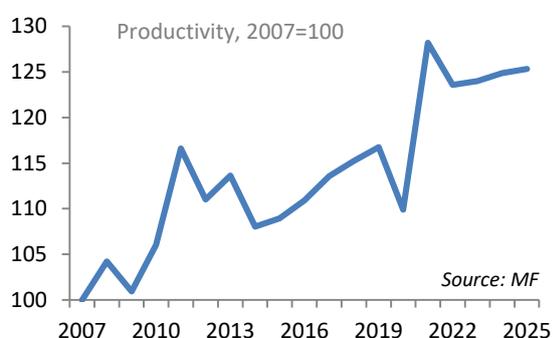
Over the medium term, the projection is that a somewhat faster paste of import activities and stronger exports will push the current account deficit to the projected level below 9 percent of GDP in 2025. Net foreign direct investments inflow is projected at the level of around 10.0 percent of GDP for the period 2023-2025.

The competitiveness analysis done using the unit labour costs (ULC) shows that the labour cost competitiveness recorded a sizeable growth in the period 2010-2019, as a consequence of the growth dynamics of wages, employment, and GDP. The labour cost competitiveness in 2020 was decreased significantly due to growth of wages and costs for their payout, amid the large contraction of GDP midst pandemic crisis. Alongside the strong recovery of the

economy in 2021, the recovery of competitiveness followed due to the much stronger growth of GDP than the growth of wages. In the period 2022-2025, labour costs competitiveness in the domestic economy is expected to increase, even though the nominal wages will record a somewhat higher growth, the real wage bill will stagnate due to the projected inflation rates and to a some degree lower growth of employment compared to the growth of output. Thus the GDP, averaging to 4 percent, will be above the growth of real wages and employment, for which the forecast for increase over the medium term is approximately 1 percent and 3.5 percent, respectively.

Analysis of productivity trends, stated as the ratio between the real GDP and number of employees at the level of the economy, indicates an upward trend in the productivity, at the average rate of 1.6 percent in the period 2008-2022. According to the projections for the period 2023-2025, the productivity will grow at the average annual rate of 0.5 percent, due to the fact that growth of employment will be higher than the growth of GDP, given that the

Figure 3.2.4: Productivity, 2007-2025



economic activity recovered much faster than the labour market indicators. However, the risk of sudden and high increase of the minimum wage in 2022, which exceeds by far the productivity growth, according to the economic theory could lead to increased macroeconomic imbalances and issue of sustaining the high potential growth, without accompanying strengthening of competitiveness and the structural reform

measures that would enable increase in productivity of the private sector and higher value added in the economy.

3.3. Alternative Scenario

Given the pronounced uncertainty of the macroeconomic outlook over the short term and that is subject to fluctuations, an additional scenario of macroeconomic trends needs to be created, which takes into account the possible materialisation of potential risks and challenges to the medium-term growth. They include both the external and domestic environment, while predominantly address the uncertain geopolitical situation, further inflationary pressures, as well as domestic factors of public finance stability and limited fiscal space.

3.3.1. Low-growth Macroeconomic Scenario 2023-2025 (Downside Scenario)

In order to quantify the impact of the identified risks on the economic outlook materialising, an alternative low-growth scenario was created, which clearly specifies all the differences in assumptions and trends compared to the baseline macroeconomic scenario.

The key assumptions of the alternative scenario include a further deterioration of the unfavourable outlook at the global level and a slowdown in the growth of the largest economies, along with a further escalation of the war crisis in Ukraine, which would further threaten the European economy outlook and potentially lead it into recession, which would

consequently also be transferred to the Western Balkans region and the Montenegrin economy. Under such development of events, there would be a decline in trade activity in the Europe area, which would mean lower tourist consumption in Montenegro, and therefore a slowdown in growth. Furthermore, the confidence of investors would be significantly weaker in the growing instability, thus it would determine the decline of foreign direct investments over the medium term.

Rising inflation remains a risk for both the global and domestic outlook, bearing in mind the uncertain factors on the supply side driving the high price growth rates, and especially issues of food and energy availability. Even though policymakers around the world expect a gradual stabilisation of prices starting from mid-2023, inflation could remain at a significantly higher level throughout the entire next year, which would affect vulnerable categories of the population, especially in the Western Balkans. Continuously high inflation would cause a stronger reaction from the monetary authorities of developed countries by them raising reference interest rates, which will further weaken medium-term growth. Private consumption would be further affected as well, and consequently aggregate demand would decelerate.

An additional challenge for the Montenegrin economy is the limited fiscal space in the event of the need for further responses to market instability, which might lead to an increased borrowing pressure and lower public spending in the coming years.

Essentially, by combining the potential risks to macro-financial stability materialising, the effects in the medium term would include significantly slower growth compared to the baseline scenario by approximately 1.5 percentage points on average. Economic growth in 2023 would be halved, while employment growth would also be significantly lower in the alternative scenario. With such trends, it would be realistic to expect that the level of investments would increase significantly slower over the medium term, while the foreign direct investments would record a reduced share in the overall economic structure. In 2023, the inflation would also be close to double-digit, which would threaten further the dynamic growth of the household consumption.

The macroeconomic projections for indicators in the low-growth/downside scenario are presented in the following table:

Table 3.3.1: Montenegro: Macroeconomic Projections, Low-growth/Downside Scenario

Montenegro, Macroeconomic projections, low-growth/downside scenario	2022	2023	2024	2025
Nominal GDP, in million euro	5,700.4	6,046.4	6,399.1	6,699.9
Nominal GDP growth, as %	15.0	6.1	5.8	4.7
Real GDP growth, as %	7.7	2.0	2.9	2.5
Inflation, growth of the average as %	12.0	9.0	4.0	3.0
Household consumption, real growth as %	11.6	1.1	1.4	1.4
Investments, real growth as %	1.8	1.9	2.9	3.4
Employment, growth as %	11.7	1.5	2.5	2.0
Unemployment rate, as %	15.5	15.4	14.8	14.0

Net FDI, % of GDP	10.5	7.4	7.0	6.7
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Source: Projections of the Ministry of Finance

3.4. Impact Assessment

This sub-chapter provides a brief overview of simulation of implementing certain structural reform policies and implementation some of the major sector projects in terms of the impact on the economic growth over the medium term. Two macroeconomic models in the Ministry of Finance were used for the impact assessment analysis, include the newly-developed Montenegrin Macro-econometric Model (MMM), which the Government received with support of the European Commission under the project “Support to the Assessment of Macroeconomic Impact of Structural Reforms” (IPA/2017/384-908).

The subject of the analysis was impact of some structural reform measures in the period 2023-2025, as well as of some major projects, on macroeconomic parameters in the next medium-term. The selected key projects are in the area of high-end quality tourism, public and private energy sector projects tackling the increase of renewable energy sources and energy efficiency, as well municipal infrastructure ones, which are of the exceptional importance for protection of the environment and wastewater treatment. The assessment also covers priority structural reform measures: *1 - Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation; 4 - Digitalisation of the education and development of digital skills; 5 - Reform of the social and child protection system based on the Road Map; 8 - Strengthening the national innovation and research ecosystem; 9 - Improving digitalisation of the public administration by developing and improving digital skills; 10 – Strengthening cyber resilience; 11 - Improving infrastructure for the broadband internet access and introducing next-generation networks; 12 - Improving management of business undertakings in majority state ownership; 13 - Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7; 14 - Strengthening mechanisms for the formalisation of informal economy; 17 - Financial assistance to the households with the aim of implementing energy efficiency measures; and 19 - Improving border crossings – opening of the joint railway border station Bijelo Polje.*

It is important to emphasise that the model generates an impact assessment of only those structural reforms that could be quantified, thus a large number of priority policy measures generate an indirect effect on key macroeconomic aggregates, income, production and employment. The Programme covers the implementation of measures addressing the regulatory and legislative improvement, financial investments and sector support, as well as new institutional provisions. Measures tackling digitalisation and incentives for the development of innovative activities are particularly significant for the competitiveness and productivity of the domestic economy.

Year 2020 was used as the base year (reference year before considered measures have started). Furthermore, it is worth noting that forecasts and assessments generated using the model for assessment of impact of the structural reforms and project implementation on macroeconomic developments do not generate accurate “forecasts”, but they do reflect the structure of and relations in the economy of Montenegro, thus partially take into account exceptionally complex multiplier effects from investments reduction on the private

consumption in the country and the export activity. The Assessment also does not include particularly important major infrastructure projects in the road infrastructure area. The effects of implementation are presented in the following table:

Table 3.4: Effects of Implementation of Selected Structural Measures and Infrastructure Projects

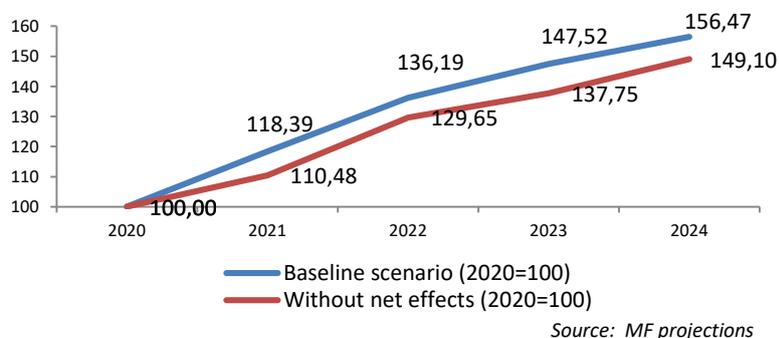
	2021	2022	2023	2024
Real sector				
GDP, net effect in %	6.7	4.8	6.6	4.7
Private consumption, net effect in %	1.9	1.9	2.3	2.8
Investments, net effect in %	23.7	27.1	34.9	26.3
Export of goods, net effect in %	2.1	5.8	9.0	9.5
Import of goods, net effect in %	5.8	5.8	7.1	8.0
Labour market				
Employment, net effect in %	1.2	1.2	1.6	1.3
Unemployment, net effect in %	-0.7	-1.1	-1.0	-1.0
Unemployment rate, net effect in %	-0.3	-0.3	-0.1	-0.1

Source: Estimates of the Ministry of Finance

Expected net effect from the projects mentioned above on the real GDP is 4.8 percent in 2022, 6.6 percent in 2023, and 4.9 percent in 2024. This could be interpreted that the GDP level at the end of 2024 would be lower by 4.6 percent than in the scenario without implementation of the above stated structural reforms and projects.

Graphical presentation of the real GDP growth relative to the base year (2020=100) is shown in the following figure:

Figure 3.4: Real GDP Growth Index



Effects of implementation of the considered structural measures, together with capital infrastructure projects, would have considerable net effect in the private investments growth (27.1 percent in 2022, 34.9 percent in 2023, and 26.3 percent in 2024), as well as on

increase of export of goods (between 5.8 percent in 2022 and 9.5 percent in 2024). Domestic demand, as well as import substitution resulting from it, would be lower without implementation of the support measures for development of agriculture and rural areas. Implementation of listed projects will also influence the labour market. The net effect on the employment is 1.4 percent annually on average, while the unemployment would be lower by 0.2 percentage points relative to the scenario of absence of these projects.

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term goals

Fiscal policy as the main instrument of economic policy aims to create conditions for macroeconomic stability and fiscal sustainability in order to provide long-term sustainability of public finances and fully support economic growth in the conditions of gradual post-pandemic economic recovery.

After the recorded strong growth of economic activity of 13 percent in 2021, dynamic economic trends in Montenegro continued in 2022 despite the negative effects of the war crisis in Ukraine. Accelerated and strong demand, greater tax discipline, and the use of electronic fiscalisation reinforced high growth and favourable macroeconomic trends.

Moreover, strong economic growth in 2022 and the expected continuation of positive trends in the period 2023-2025 will create conditions for further growth of the budget revenues which predominantly depend on the projected rates of macroeconomic indicators.

Fiscal sustainability is largely determined by tax policy and expenditure management policy. In respect of tax policy, emphasis in the period 2023-2025 will be placed on the measures to suppress the informal economy and introduce new tax coverage, as well as on the proposed amendments to the legislation which affect revenue projections and improve tax policy in the medium term, primarily through:

- application of the Decision on reduction of the excise duty on the sales of unleaded gasoline and gas oils, depending on price trends in the market;
- implementation of the Law on Tax Debt Rescheduling;
- amendment to the Law on Local Government Financing in respect of reduction of the revenues which, on this ground, belong to the central budget;
- amendment of the Law on Local Government Financing in respect of real estate sales tax, under which 100 percent of the revenues generated from this type of tax belong to local governments;
- one-time effect of implementation of the Economic Citizenship Programme from previous years, in order to create conditions for investing these funds in the development of local governments through capital projects.
- legislative amendments which will improve conditions in the area of tax policy.

As for budget spending, amendments and adoption of the new legislative provisions on budget expenditures increased current budget spending in 2022 which resulted in the adoption of the Law amending the 2022 Budget Law, and the trend continued in the next medium-term period.

The highest recorded amounts of the budget deficit and public debt at the end of 2020, in the conditions of prolonged duration of the Covid-19 pandemic, indicate the high vulnerability of the Montenegrin economy to changes from the external environment, particularly given the low degree of diversification of the economy and lack of monetary policy mechanisms, except for reserve requirements.

Therefore, the main goal of fiscal policy in the observed period is the stabilisation of public finances and the creation of conditions for dynamic economic growth. In order to provide

support to the growth, measures will be implemented to ensure continuous growth of budget revenues on the one hand and growth of capital spending on the other.

However, despite positive macroeconomic prospects and, consequently, the expected growth of budget revenues, the budget deficit will increase in the medium-term from 5.9 percent of GDP in 2023 to 6.2 percent in 2025, as a result of a significant increase in budget expenditures.

A high share of current budget spending in the total budget spending generates a deficit in current budget spending in all the projected years of about 2.2 percent of GDP on average per year, which means that funds will be borrowed to pay for the current budget spending as well.

Therefore, bearing in mind the great need for borrowing in the next medium-term period and the state of main fiscal aggregates that exceed thresholds established by fiscal responsibility rules under the Law on Budget and Fiscal Responsibility, additional fiscal consolidation measures will need to be implemented in the medium term to optimise spending and generate new sources of revenue.

Response to the policy guidance of the economic and financial dialogue, which proposes the following:

1. Strengthening fiscal sustainability by reintroducing the originally planned budget revenue measures for 2022, while simultaneously providing additional targeted assistance to vulnerable households and businesses, if that is needed to mitigate the impact of negative shocks; use of surplus revenue to reduce the deficit in 2022; adoption of the new medium-term fiscal strategy with the 2023 budget, including specific consolidation measures and targeting primary surplus as from 2024, and continuous reduction of public debt in the medium term, if the recovery is strong.

Amendments to the Law on the 2022 Budget were adopted in May and September 2022.

Under the Law amending the 2022 Budget Law, the planned budget revenues in 2022 amount to EUR 1,931.0 million i.e. 36 percent of GDP, which is at the level of the originally planned total revenues, while structure of the collection from different revenue categories has changed. Budget expenditures were increased by EUR 181.49 million, where additional spending resulted from additional allocations for mandatory budget spending.

Bearing in mind inflationary pressures caused by the global crisis due to the war in Ukraine, measures were implemented in 2022 to mitigate the effects of the crisis on citizens' standards. Implementation of these measures also resulted in a decrease in budget revenues, the most important of which are the following:

- The adoption of the Decision on reduction of the excise duty on the sale of unleaded gasoline and gas oils, under which the excise duty on the sale of these products was reduced as from May by 50 percent or 40 percent, depending on the price trend;
- Reduction of the VAT rate on trade-in and import of the following products:
 - flour and sunflower oil from 7 percent to 0 percent, until 31 December 2022;
 - salt from 21 percent to 7 percent, until 31 December 2022, and
 - heating pellets (biomass heating, pellets, briquettes) from 21 percent to 7 percent until 31 December 2023.
 - bread at a rate of 0 percent.

In addition to the above, central budget revenues were further reduced as a result of entry into force of amendments to the Law on Local Government Financing, under which the earlier percentage of total revenues collected from income tax, which had belonged to the central budget, was reduced in favour of local governments through a higher percentage of ceded revenues.

Despite the abovementioned, effects of the successful tourism season, improved tax discipline, suppression of illicit trade in the tobacco and tobacco products market and increased personal spending significantly increased revenues which were higher than what was planned.

Additional increase in spending in 2022 mainly resulted from the need to finance the shortfall for:

- needs of the Health Insurance Fund;
 - needs of the Pension and Disability Insurance Fund, due to the increase in minimum pension and adjustment of pensions to the current upward trends of prices and average wage;
 - salaries based on amendments to the law on salaries of public sector employees working in health and education sectors;
 - needs to implement the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children.
2. Implement recommendations set out in the Public Investment Management Assessment - PIMA, prioritising key works of public infrastructure within the available fiscal space, while avoiding exceptions in respect of the selection of projects; adopt amendments to the Law on Budget and Fiscal Responsibility and take specific steps to set up the Fiscal Council; on the basis of the analysis of economic and fiscal impacts of all tax exemptions, prepare specific budgetary recommendations for the reduction of tax exemptions (such as deductions, loans, deferrals, etc.) and submit them to the Commission.

In order to strengthen the oversight of fiscal policy implementation, particularly in respect of *ex-ante* assessment, activities are currently implemented with EU assistance to set up the Fiscal Council of Montenegro as an independent body that will supervise and assess the planning and implementation of the fiscal policy. For that purpose, the Government of Montenegro, will propose appropriate legislation based on recommendations, best international practices and the size of the country so as to create formal prerequisites for the establishment of the Fiscal Council of Montenegro. In order to adopt amendments to the existing Law on Budget and Fiscal Responsibility, the Ministry of Finance formed a working group whose members represent the Ministry of Finance, Ministry of Economic Development, Parliament of Montenegro, and civil society and the first draft law has been prepared.

PIMA Montenegro was carried out, and the report was compiled in July 2021. That report outlines recommendations for improving the management of the public investments which will constitute the base for implementation of the reform activities and measures in this area.

The Ministry of Finance prepared an overview of tax exemptions with technical assistance from the IMF and activities will be carried out in the coming period to quantify them. Measures aimed at reducing outstanding liabilities and shortening VAT refund deadlines were

an integral parts of the economic measures package and were implemented in accordance with the policy guidance.

4.2. Budget execution in 2022

Main goal of the fiscal policy in 2022 was to achieve public finance stability, while ensuring gradual economic recovery.

Public revenues generated in 2022 amounted to 2,266.9 million euro i.e. 39.8 percent of the estimated GDP (EUR 5,700.4 million) and compared to those collected in 2021 they are higher by 72.95 million euro i.e. by 3.3 percent. The recorded revenue growth is primarily the result of the successful tourism season, improved tax discipline, suppression of illicit trade in the tobacco and tobacco products market, increased consumer spending and imports.

Bearing in mind inflationary pressures caused by the global crisis due to the war in Ukraine, measures were implemented in 2022 to mitigate effects of the crisis on the citizens' standards. Implementation of these measures also resulted in a decrease in budget revenues, the most important of which are the following

- the adoption of the Decision on reduction of the excise duty on the sale of unleaded gasoline and gas oils, under which excise duty on the sale of these products was reduced as of May by 50 percent or 40 percent, depending on the price trend;
- reduction of the VAT rate on the sale and import of the following products: flour and sunflower oil from 7 percent to 0 percent until 31 December 2022; salt from 21 percent to 7 percent until 31 December 2022, bread at a rate of 0 percent and heating pellets (biomass heating, pellets, briquettes) from 21 percent to 7 percent until 31 December 2023.

Moreover, revenue decrease is also the result of the adoption of the Law amending the Law on Local Government Financing which entered into force in August 2022. Under this law, the percentage of total revenues generated from income tax which used to belong to the central budget was reduced in favour of local governments through a higher percentage of ceded revenues, and the amendment was also made regarding real estate sales tax whereby 100 percent of revenues generated from this type of tax now belong to local governments.

The most significant deviations, compared to what was planned, have been recorded in the following revenue categories:

The most significant growth in 2022 was generated in the collection of revenue from VAT which is higher by EUR 216.1 million i.e. by 31.2 percent compared to those collected in 2021. The good result achieved in the collection of this revenue category largely resulted from increased spending and inflation, as well as from a significant increase in imports. In addition to the above, the successful summer tourism season and electronic fiscalisation of cash registers, which improved tax discipline, significantly stimulated the growth of this revenue category.

Excise revenues amounted to 245.9 million euro i.e. 4.3 percent of GDP, which is EUR 2.8 million or 1.1 percent less, due to the implementation of the Decision on reduction of the excise tax on the sale of unleaded gasoline and gas oils by which excise tax on the sale of unleaded gasoline and gas oil was reduced since May by 50 percent, 40 percent or 25 percent, depending on price trends in the market; this was done to protect citizens' standard. On the contrary, revenues generated from excise tax on tobacco and tobacco products recorded growth by EUR 31.6 million i.e. by 52.3 percent compared to the last year, as a result of

suppression of activities on the illicit tobacco and tobacco products market, and this compensated for the decline in revenues generated from excise taxes on mineral oils and their derivatives.

Revenues generated from corporate profit tax have also significantly increased compared to those generated in 2021 by EUR 15.5 million i.e. by 20.7 percent, which is mainly a result of the economic activity growth during the last year and an indicator of a high degree of tax discipline.

In addition to the above, the compensation category recorded an increase compared to the previous year of EUR 19.1 million i.e. 17.5 percent due to the effects of the implementation of the Economic Citizenship Programme and payments related to oil and gas exploration.

Other generated revenues amounted to EUR 47.6 million i.e. 0.8 percent of GDP, and compared to the previous year they were lower by EUR 23.2 million i.e. by 32.8 percent. The reason for a significantly lower collection compared to 2021 is the fact that during 2022 there were no payments of the profit generated by business undertakings in majority state ownership into the budget.

Moreover, revenues generated from taxes on foreign trade and transactions are higher than those generated in 2021 by 11.9 million euro i.e. by 42.2 percent, mainly as a result of increased imports and higher prices.

On the other hand, taxes and contributions on wages were lower compared to 2021 by 140.3 million euro i.e. by 19 percent as a result of introduction of the non-taxable part of the wage and abolition of the health insurance contributions. This revenue category has recorded a lower collection compared to what had been planned for 2022, primarily due to adoption of the Law amending the Law on Local Government Financing which entered into force in August 2022 under which previous percentage of the total collected tax revenues that belonged to the central budget was reduced in favour of local governments through a higher percentage of ceded revenue.

On the other hand, under the Law amending the 2022 Budget Law, which entered into force in early October, **budget expenditures** were increased by 181.49 million euro i.e. by 8.23 percent, whereby additional spending resulted from additional allocations for mandatory budget spending.

Additional planned spending mainly resulted from:

- a shortfall of the Health Insurance Fund, in the amount of EUR 32 million, due to accumulated liabilities from the previous period;
- a shortfall of the Pension and Disability Fund, in the amount of EUR 36 million, due to the increase in minimum pension and adjustment of pensions to the current trends of price growth and average wage;
- a shortfall for salaries in education and health sectors, in the amount of 24 million euro, due to the need to provide additional funds for salaries, and also due to the application of the Law on Salaries of Public Sector Employees; application of this law began on 01 July 2022;
- a shortfall for implementation of the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children, in the amount of EUR 5 million;

- a shortfall for implementation of the law on exercising the right to financial assistance by persons who were employed in enterprises in mining and metal industry sectors, in the amount of EUR 6 million;
- a shortfall for the payment of subsidies to the employers who employ disabled persons, in the amount of EUR 3 million, due to a significant increase in the number of applications for subsidies;
- a shortfall for the payment of compensation to the unemployed in accordance with valid legislation governing this right, in the amount of EUR 1 million;
- increase in the current budget reserve for the purpose of absorbing unforeseen and insufficiently planned expenditures;
- for the purposes of increasing state capital and state property.

Based on preliminary data on public spending in 2022, in the total structure of spending, current public spending amounted to EUR 2,256.06 million i.e. 39.6 percent of GDP, and is higher by EUR 202.2 million i.e. by 9.8 percent compared to 2021. The largest deviations compared to 2021 relate to the following categories of public spending:

- gross wage bill is higher by EUR 8.27 million i.e. by 1.4 percent due to the minimum wage increase and further wage increases in health sector and at the University of Montenegro.
- social care transfers are higher by EUR 100.95 million i.e. by 17.8 percent, as a result of the planned introduction of child allowance for all children up to 6 years of age and planned effect of amendments to the Law on Social and Child Protection under which all children up to 18 years of age are entitled to child allowance as from 01 October 2022; payment of entitlements in accordance with the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children, as from 01 April 2022; funds on the basis of the minimum pension increase and pension adjustments to the current upward trends of prices and minimum wage;
- transfers to institutions, individuals, NGOs and public sector are higher by 92.94 million euro i.e. by 29.28 percent compared to 2021 and they are primarily related to the shortfall of the Health Insurance Fund and Pension and Disability Fund;
- disbursed funds of the capital budget amounted to 283.08 million euro and are higher by 49.48 million euro i.e. by 21.18 percent compared to 2021. Transport Administration disbursed around 145.36 million euro, of which 68.06 million euro for the highway project, while Administration for Capital Projects disbursed 57.72 million euro. The remaining funds were disbursed within local government budgets.

Debt repayment in 2022 amounted to EUR 303.09 million i.e. 5.3 percent of GDP, while expenditures for the purchase of securities amounted to EUR 27.69 million.

In accordance with the generated revenues and expenditures, the total generated budget deficit for 2022 amounts to 272.22 million euro i.e. 4.8 percent of GDP, while the primary deficit amounted to 178.29 million euro i.e. 3.1 percent of GDP.

Based on the generated revenues and expenditures, the budget deficit for 2022 was lower by EUR 198.62 million i.e. 42.2 percent than the deficit planned for 2022, while primary deficit was lower by EUR 198.13 million i.e. 52.6 percent than the primary deficit planned for 2022.

Therefore, a strong recovery of economic activity driven by the successful summer tourism season resulted in recovery of the revenue collection and the achievement of positive budget results for several consecutive months. The recorded positive results largely compensated the effects that had been planned, but did not have a legal basis at the time of planning. On the other hand, public spending was lower than planned which is why the public finance deficit for 2022 is significantly lower than what was planned.

4.3. Budget plans for 2023

The Main goal of the fiscal policy in 2023 is the complete recovery of the public revenue collection based on economic activity restored to the pre-crisis level and creation of conditions for generating new sources of revenue through the implementation of the measures to suppress informal economy and introduce new tax coverage.

Starting from the basic macroeconomic scenario, gradual stabilisation of macroeconomic conditions and price trends is expected in 2023, as well as the complete recovery of the tourism sector.

The strong recovery of economic activity recorded in 2022 contributed to the significant collection of budget revenues which have recorded an increase in the current year compared to what had been planned, and therefore positive macroeconomic prospects will result in continuous growth of budget revenues in the medium term.

On the other hand, according to the fiscal framework for the period 2023 - 2025, public finances in 2023 will remain under the strong influence of increased budget expenditures resulting predominantly from increased mandatory budget spending, which is why legislation envisaged more allocations for social benefits, pensions and for the Health Insurance Fund, while it also envisaged funds for the payment of the benefits for new-born children, higher allocations for the capital budget, excluding allocations for the highway, as well as the increase in allocations for agriculture, education, science, sports... In addition to the allocations mentioned above, a responsible approach to public finance management in 2022 created conditions for a wage increase of public sector employees in 2023, which reflects the inflation rate.

Revenue growth is based on the following:

- Growth of macroeconomic indicators which influence the trends of budget revenues, according to the basic macroeconomic scenario;
- Existing legislation;
- Tax policy measures in the medium term;
- One-time effects.

Taxes and contributions on salaries in 2023 are planned to total EUR 620.5 million i.e. 11 percent of the projected GDP, which is EUR 21.7 million or 3.5 percent more than what was generated in 2022. This revenue category was planned in accordance with the projected rates of growth of employment and wages, as well as in accordance with the planned effects of the implementation of the Law on Tax Debt Rescheduling.

Corporate profit tax in 2023 is planned to total EUR 121.7 million i.e. 2.0 percent of GDP, which is EUR 31.5 million i.e. 25.9 percent more than what was generated in 2022. This revenue category was planned in accordance with the projected rates of growth of the nominal GDP and based on the expected effects of the new Law on Tax Debt Rescheduling. In

addition, the effects of the progressive rate of profit taxation are expected to be achieved in 2023.

Value added tax in 2023 is planned to EUR total 959 million i.e. 15.5 percent of GDP, which is EUR 50.9 million or 5.3 percent more than the amount generated from this tax in 2022, in accordance with the projections of the growth of household consumption and growth of imports under the macroeconomic scenario. Effects of the new Law on Tax Debt Rescheduling are also included in projections.

Excise revenues in 2023 are planned to total 271.5 million euro i.e. 4.4 percent of GDP, which is 25.6 million euro i.e. 9.4 percent more than the revenue generated from this tax in 2022, primarily due to the projected growth of economic activity and household consumption, but also as a result of gradual restoration of the excise tax on fuel owing to the stabilisation of prices in the market. A decline in revenues generated from **compensations** in the amount of 30.5 million i.e. 31.1 percent is planned for 2023, mainly as a result of expected finalisation of implementation of the Economic Citizenship Programme which belongs to the other revenues category, and for which an increase of EUR 58 million or 54.9 percent was planned compared to the revenues generated in 2022. These revenues will be used to create conditions for investing these funds in the development of local governments through capital projects.

In order to improve tax policy and fair treatment of taxpayers and suppress informal economy next year and in the medium term, effects of amendments of the following legislation are expected:

- Law on Personal Income Tax, which improves the scope of earnings on which tax is paid at the proportionate rate, sets out fairer provisions on the exemption from the payment of the personal income tax, defines safeguard mechanism in respect of taxation based on capital gains tax, as well as calculation and payment of the tax based on court judgments and decisions issued by state authorities;
- Law on Contributions for Mandatory Social Insurance, which sets out that paid contributions are no longer refunded for all types of contributions, but only for pension and disability insurance, while it also prescribes shortening of the deadline for submitting the application for a refund;
- Law on the Prevention of Illegal Business Operations which extends the scope of the prohibition of operations to include persons who will subsequently, under the share transfer agreement, join a business undertaking as founders or shareholders which prevents evasion in the payment of tax liabilities;
- Law on Tobacco, which proposes an improvement of the existing provisions on production, processing, and trade in tobacco products;
- Law on Value Added Tax, which further harmonises the existing provisions on the trade in natural gas and electricity and also harmonises taxation procedure for the trade in investment gold with EU directives: it limits the application of the current legislative solution for taxation of certain services in hospitality facilities at a reduced rate, regulates taxation of taxpayers who perform exclusively occasional international road transport of passengers in Montenegro, more precisely defines tax status of business transaction when purchasing newly built facility used for dwelling;

- Law on Excise Tax, which will further regulate the amount of excise tax in accordance with the excise tax calendar;
- Law on the Games of Chance, which will more precisely regulate the organisation of the (online) games of chance.

Effects of the abovementioned legislative amendments are not projected in the revenue plan for the next medium-term period since the revenue plan is projected on the basis of the applicable legislation. In addition to the financial effect, where some provisions will lead to an increase and others to a decrease in income, the aforementioned amendments will significantly improve situation in the area of tax policy.

Moreover, activities to suppress the informal economy are also planned to be implemented; the new Action Plan for the fight against the informal economy is planned to be drafted in the following period after setting up the working group and completing the survey on the presence of the informal economy in companies and households.

Public spending in 2023 is planned to total EUR 2,790.87 million i.e. 45.2 percent of the estimated GDP (6,174.6 million euro) and compared to what was planned under the Law amending the 2022 Budget Law, it is higher by EUR 131.06 million i.e. by 4.9 percent. In the structure of expenditures, current budget spending amounts to EUR 2,455.66 million i.e. 39.8 percent of GDP, while capital expenditures amount to EUR 282.78 million i.e. 4.6 percent of GDP. The overall increase in expenditures in 2023 is primarily result of the increase in current budget spending, the largest part of which relates to mandatory expenditures whose amount is determined by legislative provisions.

In addition to the aforementioned, amendments to the Law on Salaries of Public Sector Employees were also adopted, under which the „group of tasks D“ will be deleted in order for this group to be recognised by the sectoral collective agreement for administration and justice system, while the amount of increase of the coefficient for the group mentioned above will be agreed upon during negotiations with representatives of the trade union of administration and justice system.

The increase in public spending is mainly the result of:

- planned increase in the gross wage bill, i.e. these expenditures are planned to reach 686.76 million euro i.e. 11.1 percent of GDP, which is EUR 91.2 million i.e. 15.3 percent more than expenditures for the gross wages in 2022. Expenditures for gross wages account for 60.56 percent of total planned current expenditures of Montenegro in 2023. Funds for gross salaries are planned in accordance with the Law on Salaries of Public Sector Employees, as well as by creating additional fiscal room for increasing salaries of group D employees.
- increase in the social care transfers is planned to reach EUR 785.58 i.e. 12.7 percent of GDP, which is EUR 116.72 million i.e. 17.45 percent more than in 2022, as a result of the planned annual effect of the introduction of the child allowance for all children, increase in minimum pension and adjustment of pensions to the increase of prices and average wages, and also due to the shortfall for the Pension and Disability Insurance Fund and implementation of the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children.

The capital budget is planned to reach EUR 282.78 million i.e. 4.6 percent of GDP, which is approximately the same as in 2022, of which the capital budget at the state level amounts to EUR 202.78 million intended for implementation of 374 projects in all municipalities. The

amount of EUR **66.27 million** is planned for the Transport Administration for implementation of **84** projects, of which 21 are new projects. The amount of EUR **136.51** million is planned for the Administration for Capital Projects for financing **290** capital projects, of which 104 are new projects. The remaining amount is planned within budgets of the local governments. Starting from the trends of revenues and expenditures, budget deficit in the medium-term ranges from EUR 364.9 million euro i.e. 5.9 percent of GDP in 2023 to 427.8 EUR million i.e. 6.2 percent of GDP in 2025.

Debt repayment at the level of public spending in 2023 amounts to EUR 350.1 million i.e. 5.7 percent of GDP, with a tendency to grow in the medium term to EUR 768.09 million i.e. 11.1 percent of GDP in 2025.

According to the trends of the budget deficit and debt repayment, the shortfall is projected at EUR 715.8 million in 2023, EUR 842.14 million in 2024 and EUR 1196.56 million in 2025.

Expenditures of local governments in 2023 are planned in the amount of EUR 277.1 million i.e. 4.5 percent of the projected GDP, which is EUR 1.5 million or 0.6 percent more compared to the estimate for 2022. Revenue growth results from implementation of the Law amending the Law on Local Government Financing which significantly increased percentage of the income tax ceded to local governments, as well as the percentage of revenue generated from real estate sales tax which has been entirely ceded to the local governments. Implementation of the Law on Tax Debt Rescheduling will also affect the growth of certain revenue categories. In the medium term, local government revenues tend to grow primarily due to further increase in personal income tax caused by the growth rates of wages and employment under the macro-economic scenario.

Local government expenditures are projected in the range from EUR 277.1 million i.e. 4.8 percent of GDP in 2023 to EUR 279.6 million i.e. 4.1 percent of GDP in 2025.

According to the trends of revenues and expenditures, finances at the local level will be balanced in the medium term, i.e. a slight surplus will be recorded.

4.4. Medium-term budget prospects

According to the established medium-term budget framework, public finance deficit is projected at 6.2 percent of GDP, while public debt is projected at 74.79 percent of GDP in 2025.

Fiscal framework (as the percentage of GDP)		Outturn	Preliminary	Baseline scenario			Low growth scenario		
		2021	2022	2023	2024	2025	2023	2024	2025
Fiscal indicators	Direct public revenues	44.3	39.8	39.3	38.0	37.8	39.6	38.1	38.0
	Public spending	46.2	44.5	45.2	44.2	44.0	46.2	45.3	45.3
	Deficit/Surplus	-1.9	-4.8	-5.9	-6.2	-6.2	-6.5	-7.2	-7.3
	Interests	0.12	1.6	1.8	2.2	2.7	1.9	2.2	2.8
	Primary deficit/surplus	0.4	-3,1	-4.1	-4.0	-3.5	-4.7	-5.0	-4.5
	Public debt (as the percentage of GDP)	84.75	76.15	73,6	74,7 5	74,7 9	75.8 2	78.1 9	79.4 9

Public revenues in the period 2024 - 2025 continue a positive trend and range from EUR 2,425.9 million i.e. 39.3 percent of GDP to EUR 2,603.7 million i.e. 37.8 percent of GDP. Projected economic growth rates and tax policy measures affecting public revenue trends will have a dominant effect on revenue trends in the period 2023-2025, as well as the one-time effects of the following:

- implementation of the Decision on the reduction of the excise duty on the sale of unleaded gasoline and gas oils, depending on the market price trends;
- implementation of the Law on Law on Tax Debt Rescheduling;
- amendments to the Law on Local Government Financing in respect of reduction of the revenues generated from income tax which, on this basis, used to belong to the central budget;
- amendment to the Law on Local Government Financing in respect of real estate sales tax, under which 100 percent of the revenues generated from this type of tax belong to local governments;
- one-time effect of the implementation of the Economic Citizenship Programme from previous years, in order to create conditions for investing these funds in the development of local governments through capital projects.
- reduction of informal economy to enable fair market competition and suppress unfair competition.
- introduction of the progressive taxation on profits generated by legal entities, the effects of which begin in 2023.

Projected economic growth rates and measures affecting public revenue trends will have a dominant impact on expenditure trends in the period 2023-2025:

As for budget spending, amendments and adoption of the new legislative provisions on budget expenditures has in the previous period led to an increase in the current budget spending that will be recorded in 2023, and then continued in the next medium-term period, in respect of:

- higher allocations for social benefits,
- higher allocations for wage increases,
- higher allocations for the Health Insurance Fund,
- funds for payment of the new-born child benefit,
- higher allocations for the capital budget, excluding allocations for the highway,
- higher allocations for agriculture through subsidies, development of education, science and sports sectors.

In addition to the aforementioned allocations, responsible approach to public finance management in 2022 created conditions for increasing wages of public sector employees in 2023 which will reflect inflation rate, while the need to create conditions for dynamising economic growth through capital investments in all municipalities creates additional pressure on public spending, i.e. narrows down the fiscal room.

Therefore, positive macroeconomic prospects will contribute to the growth of revenues in the medium term, while their growth will also be influenced by implementation of the existing legislation, along with stabilisation of prices in the global market and recovery of tourism season to the pre-crisis level.

Revenues generated from value-added tax will grow annually at an average rate of around 7.5 percent, with a stable share of around 15.6 percent of GDP, primarily as a result of the projected growth of economic activity and strengthening of fiscal discipline through the already implemented electronic fiscalisation project.

Revenues from **excise taxes** will range from EUR 271.5 million to EUR 304.8 million, with a stable share of about 4.4 percent of GDP in all years in the medium term. Potential growth of the revenue generated from fuel excise is currently dependent on the adopted Decision on the reduction of the excise duty on sales of unleaded gasoline and gas oils, while collection of the revenue from excise duties on tobacco and tobacco products is at record levels.

After the projected decline in 2022 that resulted from abolition of the contributions for health insurance and the introduction of a non-taxable part of wages, taxes, and contributions on wages will grow at an average annual rate of about 4.5 percent in the period 2023-2025. Such growth will in the medium term be achieved on the basis of the projected growth rates for employment and wages, in accordance with the macroeconomic scenario.

Trends in public spending in the period 2023-2025 are characterised by the controlled growth of current spending through the achievement of the primary goal, which is reduction of the so-called “non-productive expenses”. On the other hand, mandatory expenditures whose amounts are adjusted to the legal obligations and inflation rate (salaries of public sector employees, social benefits, and benefits for pension and disability insurance) will record growth.

In the observed period, significant funds will be provided for the capital budget to stimulate economic growth through investments in infrastructure and other significant development projects.

Annual GDP (in million euro)	5.700,40		6.174,60		6.549,20		6.890,50		6.046,40		6.399,10		6.699,90	
	<i>preliminary</i>		<i>baseline scenario</i>						<i>low growth scenario</i>					
Public finance estimate for the period 2023-2025	2022		2023		2024		2025		2023		2024		2025	
	million euro	percentage of GDP	million euro	percentage	million euro	percentage of GDP	million euro	percentage	million euro	percentage	million euro	percentage of GDP	million euro	percentage of GDP
Public revenues	2.266,93	39,8	2.425,95	39,3	2486,43	38,0	2.603,68	37,8	2397,01	39,6	2436,27	38,1	2544,13	38,0
Taxes	1.543,81	27,1	1.662,44	26,9	1775,41	27,1	1.866,29	27,1	1646,35	27,2	1742,46	27,2	1830,61	27,3
Contributions	462,80	8,1	474,76	7,7	499,71	7,6	525,00	7,6	463,25	7,7	483,99	7,6	502,86	7,5
Fees and charges	147,47	2,6	116,64	1,9	108,5	1,7	109,98	1,6	185,58	3,1	107,33	1,7	108,65	1,6
Other revenues	47,14	0,8	105,68	1,7	36,46	0,6	37,16	0,5	35,4	0,6	36,14	0,6	36,76	0,5
Receipts from loan repayment	14,32	0,3	10,05	0,2	10,05	0,2	10,05	0,1	10,05	0,2	10,05	0,2	10,05	0,2
Donations	51,39	0,9	56,38	0,9	56,3	0,9	55,20	0,8	56,38	0,9	56,3	0,9	55,2	0,8
Public spending	2.539,14	44,5	2.790,87	45,2	2892,81	44,2	3.031,48	44,0	2790,87	46,2	2895,78	45,3	3034,07	45,3
Current public expenditures	2.256,06	39,6	2.508,09	40,6	2577,56	39,4	2.701,44	39,2	2508,09	41,5	2580,65	40,3	2703,87	40,4
Capital budget	283,08	5,0	282,78	4,6	315,25	4,8	330,04	4,8	282,78	4,7	315,13	4,9	330,2	4,9
Repayment of guarantees	0,00	0,0	0,00	0,0	0	0,0	0,00	0,0	0	0,0	0	0,0	0	0,0
Repayment of liabilities from the previous period	0,00	0,0	0,00	0,0	0	0,0	0,00	0,0	0	0,0	0	0,0	0	0,0
Surplus/deficit	-272,21	-4,8	-364,92	-5,9	-406,38	-6,2	-427,80	-6,2	-393,86	-6,5	-459,51	-7,2	-489,94	-7,3
Interests	93,93	1,6	111,93	1,8	141,25	2,2	185,25	2,7	111,93	1,9	141,25	2,2	185,25	2,8
Primary surplus/deficit	-178,28	-3,1	-252,99	-4,1	-265,13	-4,0	-242,55	-3,5	-281,93	-4,7	-318,26	-5,0	-304,69	-4,5
Debt repayment	303,09	5,3	350,09	5,7	435,09	6,6	768,09	11,1	350,09	5,8	435,76	6,8	767,89	11,5
Expenditures for the purchase of securities	27,69	0,5	0,78	0,0	0,68	0,0	0,68	0,0	0,78	0,0	0,61	0,0	0,68	0,0
Financing	602,99	10,6	715,79	11,6	842,15	12,9	1.196,57	17,4	744,73	12,3	895,88	14,0	1258,51	18,8
Loans and credits	135,70	2,4	611,18	9,9	842,14	12,9	1.127,08	16,4	611,18	10,1	845,05	13,2	1.127,08	16,8
Revenues from privatisation and sale of assets	26,52	0,5	13,00	0,2	13	0,2	13,00	0,2	13,00	0,2	13,00	0,2	13,00	0,2
Transfers from the budget	6,83	0,1	9,00	0,1	9	0,1	9,00	0,1	9,00	0,1	9,00	0,1	9,00	0,1
Use of deposits	406,31	7,1	82,61	1,3	-21,94	-0,3	47,48	0,7	111,53	1,8	28,82	0,5	109,42	1,6

4.5 Structural balance (cyclical component of deficit, one-time and interim 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 potentials. It is calculated as the difference between surplus/deficit, as a share of GDP, and estimated cyclical component.

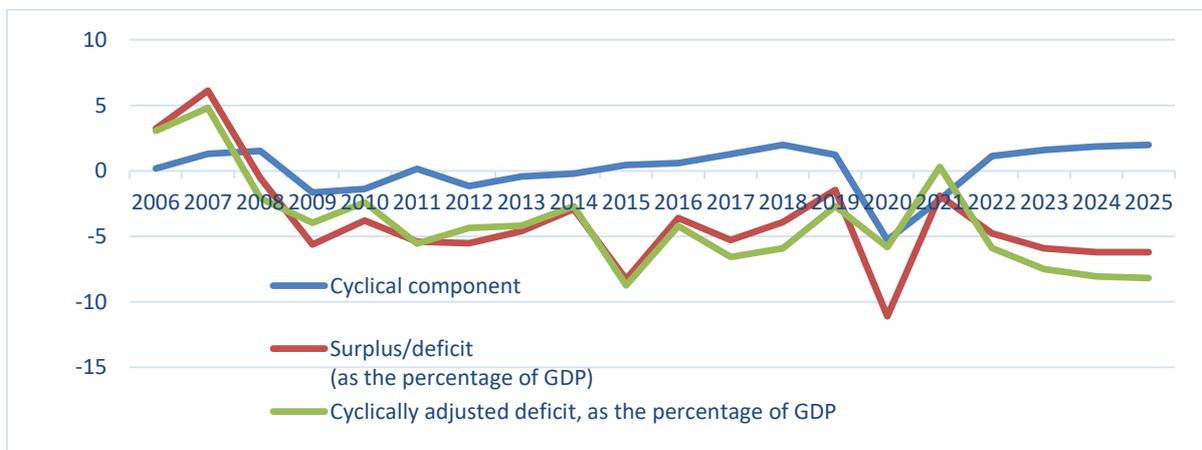
The cyclical component is calculated by following the method used by the European Commission and is implemented in the following two steps:

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

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

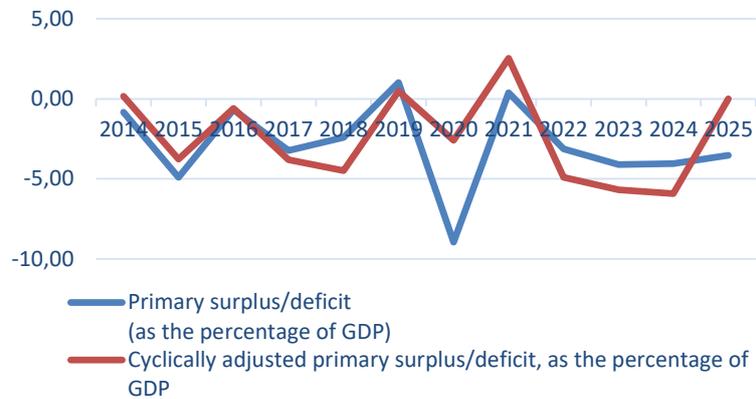
In the second step, the elasticity coefficients of certain categories of revenues were estimated: indirect tax, personal income tax, corporate profit tax and contributions. Each category mentioned above is first considered relative to the relevant base; for example, in the case of personal income the category of employees' wages and contributions is used as base from the estimated income-based GDP, and the elasticity of this revenue component relative to the output gap is calculated by multiplying with the weight (share of a certain revenue category in total revenues).

Figure 4.5.1 – Surplus/deficit trends, cyclical components and cyclically adjusted deficit



The parameter of revenue sensitivity and parameter of sensitivity of public finance balances are calculated by multiplying the elasticity coefficient of the revenue categories mentioned above with the share of total revenues in GDP, because elasticity coefficient of expenditures equals approximately 0. The expenditure category for which elasticity was calculated refers to expenditures on the unemployed, but when one considers a very low share of such expenditures in total expenditures, it is calculated that the total sensitivity parameter of the expenditure side of the budget equals 0.

Figure 4.5.2: Trends of primary surplus/deficit

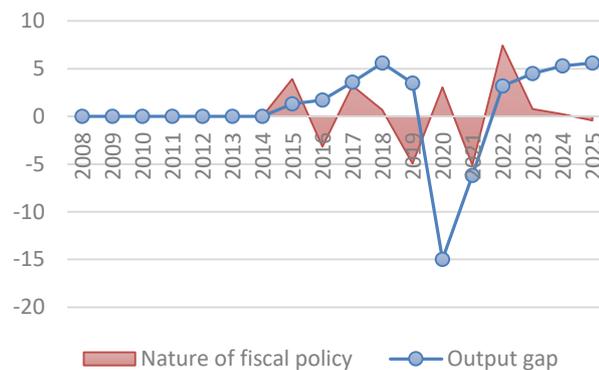


The parameter of sensitivity of surplus/deficit relative to the production gap is estimated at 0.35. Model results are limited due to specificity of the country and frequent changes to the fiscal policy measures, length of time series used in elasticity assessment and changes to

the methodology, but they also reflect essential developments of structural and cyclical components of the public finance balance. Moreover, the cyclically adjusted primary balance was calculated as well (surplus/deficit without interests) and it was additionally reduced by a one-time collection of revenues and one-time expenditures.

A sign for the category of annual change to the cyclically adjusted primary surplus/deficit denotes a fiscal stance and indicates character of the fiscal policy in a specific year. Positive values in figure 4.5.3 represent an expansive fiscal policy, while negative values represent a restrictive fiscal policy.

Figure 4.5.3 – Nature of fiscal policy



Positive output gap in the period 2017 – 2019, primarily caused by intensified works on priority section of the Bar-Boljare highway, but also by a strong investment activity in private sector, enabled implementation of the fiscal consolidation. However, as it can be seen in figure 4.5.3, the year 2017 was characterised by a strong expansive policy despite implementation of the fiscal consolidation measures, which is primarily result of the highway construction costs. If the construction costs are excluded, it is evident that restrictive policy was implemented in 2017, which determined the character of the policy in the upcoming period.

According to the current scenario of the projected trends, a positive **output gap** of 3.2 percent is expected already in 2022 due to a higher than expected growth in the crisis caused by the war in Ukraine and all the accompanying consequences in the global economic arena. In the medium term, preconditions are created for a significant acceleration of the growth of the



Montenegrin economy which will exceed its potential. Therefore, according to the projection, the output gap will be positive and amount to as high as 5.2 percent in the period 2023-2025.

As it can be seen in the figure, the policy in 2022 was expansive as a result of the increased costs, in 2023 the policy will be restrictive, and in 2024 and 2025 it will become expansive again.

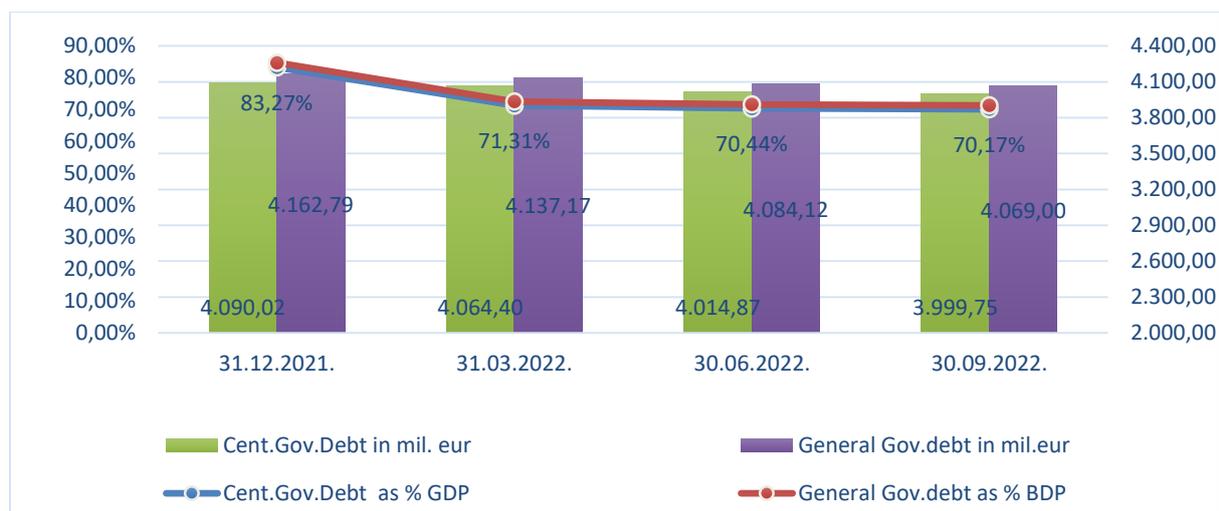
4.6. Levels and trends of borrowing, analysis of the “below the line” operations and adjustments of flows and stock

Public debt of Montenegro on 31 December 2021 totalled EUR 4,162.79 million i.e. 84.75 percent of GDP⁴ and it includes government debt which totalled EUR 4,090.02 million i.e. 83.27 percent of GDP and local government debt which totalled EUR 72.77 million i.e. 1.48 percent of GDP.

Net public debt of Montenegro on 31 December 2021 amounted to EUR 3,697.96 million i.e. 75.29 percent of GDP.

At the end of 2021, deposits of the Ministry of Finance and Social Welfare, which also include 38,477 ounces of gold and local government deposits, totalled EUR 502.44 million, of which deposits of the Ministry of Finance accounted for EUR 464.83 million, while deposits of the local government accounted for EUR 37.61 million.

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



-The debt presented in the figure does not include deposits of the Ministry of Finance and Social Welfare and local government deposits.

⁴ According to MONSTAT data, GDP value for 2021 amounts to EUR 4,911.60 million.



The initial plan contained in the 2022 Budget Law set out that the shortfall for 2022 would amount to EUR 560.8 million. This amount was planned to be covered by deposits realised in 2021 in the amount of 385 million euro, EUR 100 million were planned to be covered from the already granted loans for infrastructural projects financing, while EUR 70 million were planned to be covered by borrowing in domestic and foreign markets.

Amendments to the Law on the 2022 Budget set out an increase in shortfall to the amount of 756 million euro; these funds are planned to be covered from deposits in the amount of EUR 300 million, while the remaining EUR 456 million would be provided through the new borrowing and withdrawals from the existing loan facilities. The Ministry of Finance intends to obtain funds needed for the shortfall primarily from the domestic market, through standard loans and treasury bills, and to obtain the rest from the foreign market.

As for withdrawals realised from loans with Exim China Bank for construction of the priority section of the Smokovac- Uvač - Mateševó highway, EUR 49.1 million (USD 67.40 million) were withdrawn from the loans with Exim China Bank in the three quarters of 2022. The remaining funds in the amount of USD 23.51 million (USD 32.25 million) will be cancelled since the deadline for availability of funds expires on 31 December 2022.

Table 1: Quarterly trends of external and domestic debts, as well as local government debt in million euro during 2022

Year	External debt	Domestic debt	Government debt	Local government debt	Public debt
31 December 2021	3,688.48	401.54	4,090.02	72.77	4,162.79
31 March 2022	3,671.19	393.21	4,064.40	72.77	4,137.17
30 June 2022	3,632.18	382.69	4,014.87	69.25	4,084.12
30 September 2022	3,624.14	375.25	3,999.39	69.25	4,068.64

As on 30 September 2022, the government debt of Montenegro amounted to EURO 3,999.75 million i.e. 70.17 percent of the VAT estimated for 2022⁵. Compared to the end of 2021, government debt has decreased by EUR 90.00 million, primarily due to regular repayment of the debt for loan facilities concluded with foreign and domestic creditors, and also due to the fact that no new loan facilities were concluded during the three quarters of 2022.

Therefore, on 30 September 2022 public debt amounted to EUR 4,069.00 million i.e. 71.39 percent of the estimated GDP.

⁵ According to the Ministry of Finance projections, GDP value for 2022 will amount to 5,700.00 million euro.



Table 2: Trends of external, domestic and local government debts as the percentage of GDP

Year	External debt as the percentage of GDP	Domestic debt as the percentage of GDP	Local government debt as the percentage of GDP
31 December 2021	75.10 percent	8.18 percent	1.48 percent
31 March 2022	64.41 percent	6.90 percent	1.28 percent
30 June 2022	63.72 percent	6.71 percent	1.21 percent
30 September 2022	63.58 percent	6.58 percent	1.21 percent

- Table 1 and 2 outline data on the debt as on 30 September 2022, according to the preliminary data of the Ministry of Finance.

- Table 1 and 2 outline data on the local government debt as on 30 September 2022, according to the preliminary data of the Ministry of Finance.

As for the structure of debt to residents, the largest amount of the debt refers to liabilities arising from loans with commercial banks in the amount of EUR 145.71 million, while in the external debt structure, the debt arising from Eurobonds in the amount of EUR 1,750.00 million is prevailing.

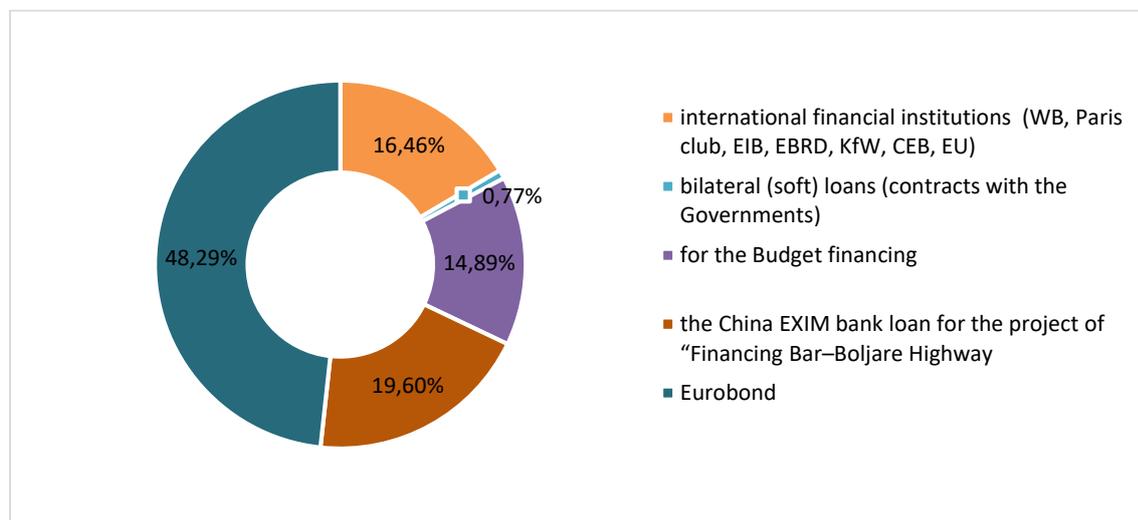
Table 3: The highest debts as on 30 September 2022⁶

Debts to residents	In million euro	Debts to non-residents	In million euro
Loans at commercial banks	103.24	Eurobond	1,750.00
Domestic bonds	142.44	Chinese Exim Bank	710,277
Liabilities on the basis of compensations	79.92	Syndicated loans PBG 1 and PBG 2	460.26
Legal persons and business undertakings	37.44	International Bank for Reconstruction and Development (IBRD)	186.94
Old currency savings	10.32	European Investment Bank (EIB)	95.90

⁶ According to the foreign exchange rate on 30 September 2022.

⁷ Since hedging transaction for the loan facility with Exim Bank is concluded for the period of 14 years, with mandatory termination after 2 years, stock of the hedged debt to Exim Bank will be stated, as from the moment when transaction is effected until expiry of the two-year period, at the agreed exchange rate of EUR/USD 1.18, while the non-hedged part will be stated at the median exchange rate of the Central Bank on the reporting day.

Figure 2: Structure of external debt to creditors on 30 September 2022



Until 30 September 2021, the debt arising from the principal in the total amount of EUR 216.88 million was repaid to residents and non-residents, the debt from the previous period in the amount of EUR 0.03 million was also repaid, as well as the debt arising from the guarantees in the amount of EUR 0.50 million. Repayment of interest to residents and non-residents totalled EUR 57.72 million.

Table 4: Repayment of government debt until 30 September 2022

Budget item	
Repayment of principal to the residents	27.50
Repayment of principal to the non-residents	189.38
Total repayment of principal	216.88
Total repayment of liabilities from previous years*	0.03
Repayment of interest to residents	7.21
Repayment of interest to non-residents	50.51
Total repayment of interest	57.72
Repayment of guarantees	0.50
TOTAL	275.13

*Repayment based on court judgments is not included

Outstanding liabilities from the previous period (contingent liabilities) amounted to EUR 38.76 million on 31 December 2021. They mainly included transfers to institutions, individuals, non-governmental and public sectors in the amount of EUR 18.63 million and capital expenditures in the amount of EUR 5.41 million.

Currency and Interest Structure of Government Debt

As for the government debt stock at the end of Q3 2022, around 95 percent of the debt was stated in domestic currency, i.e. euro, which is why no negative effects of the currency risk which might significantly impact trends of the government debt are expected at the moment. The Ministry of Finance carried out a hedging transaction with four renowned international banks to reduce currency risk for the Exim Bank loan which is stated in USD. In doing so, conversion of the existing debt to the Exim China bank, stated in dollars, in the amount of around USD 818 million, was carried out based on the agreed EUR/USD exchange rate of around 1.18, while the average weighted fixed interest rate in euro was agreed at 0.88 percent. The performed transaction improved currency structure which is, at the end of Q3 2022, characterised by the 94.88 percent share of the debt stated in euro, 2.76 percent share of the debt stated in USD and 2.37 percent share of debt stated in other currencies in the total government debt, compared to the end of Q1 2022 (quarter before the hedging arrangement was performed) at which point the share of debt stated in euro accounted for 80.53 percent and the share of debt stated in USD accounted for 17.08 percent.⁸

As regards the risk of interest rate change, it is evident that borrowing with a fixed interest rate prevails in the total government debt. However, it is highly likely that the currency structure of the debt will change given the significant changes in the global financial markets characterised by a significant increase in interest rates in terms of both fixed margins and variable component of

Figure 3: Currency structure of government debt (on 30 September 2022)

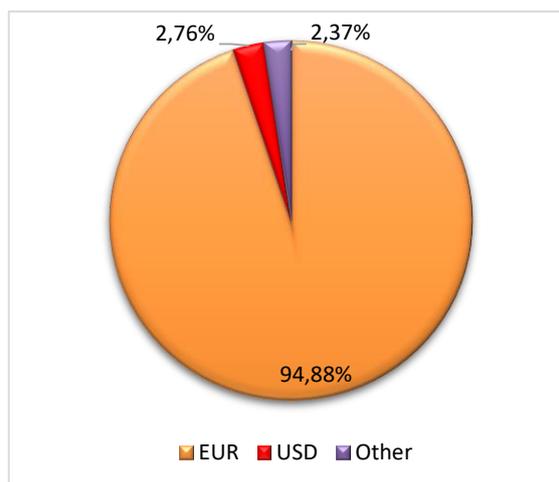
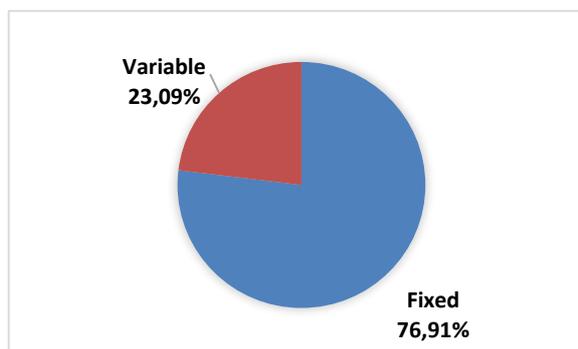


Figure 4: Interest structure of government debt (on 30 September 2022)



⁸ Since hedging transaction for the loan facility with Exim Bank is concluded for the period of 14 years, with mandatory termination after 2 years, stock of the hedged debt to Exim Bank will be stated, as from the moment when transaction is effected until expiry of the two-year period, at the agreed exchange rate of EUR/USD 1.18, while the non-hedged part will be stated at the median exchange rate of the Central Bank on the reporting day.



EURIBOR. Therefore, the costs of borrowing are expected to increase in 2022 and 2023.

Credit rating agency Standard & Poor's confirmed in its 2022 reports that ratings for Montenegro were B/B, with stable outlook for the country, which reflects the view of the rating agency that the economic growth of Montenegro will remain satisfactory. Moreover, credit rating agency Moody's confirmed stable prospects for Montenegro, while maintaining a B1 rating and expecting that the public debt burden will start to decrease as from this year.

Debt Management in 2022

Activities of the Ministry of Finance in the previous years focused on improving the quality of the existing debt which is why all the necessary measures have been taken to improve the parameters of debt quality.

Average debt maturity was extended from 5.9 years at the end of 2019 to 6.9 years at the end of 2020 and shortened to 5.9 years at the end of 2021.

The structure of the government debt at the end of 2020 included a real weighted average interest rate of 2.7 percent which means that the cost of borrowing decreased by 0.1 percent compared to the end of 2019. The downward trend of the average weighted interest rate continued in 2021 reaching 2.2 percent which is primarily result of the repayment of expensive debts from previous years and is also the result of entry into hedging arrangement for the loan facility at Exim China Bank.

Bearing in mind current market conditions, certain changes in the average weighted interest rate are expected due to the increase in EURIBOR. For example, on 21 November 2022 the six-month Euribor was 2.327 percent, while in November 2021 it was -0.573 percent. Moreover, certain borrowing transactions whose interest rates will be above the weighted average from the end of last year will be carried out in the last quarter of 2022 which means that the average weighted interest rate at the end of 2022 is expected to be higher than the one at the end of 2021. years.

Baseline scenario of the government debt trends in the period 2023-2025

In 2023, the shortfall will amount to about EUR 705 million which are planned to be covered partly from the deposits realised in 2022 and partly from credit liabilities on the foreign and domestic markets.

In 2022, the debt is expected to increase in absolute amount compared to 2021, while in relation to GDP, public debt is expected to decrease since the GDP estimated for 2022 is higher by about EUR 788.4 million compared to GDP from 2021. Government debt is therefore expected to account for 74.88 percent of GDP at the end of 2022, while public debt is expected to account for around 76.15 percent of GDP. Debt trends projection in the period 2022-2025 can be outlined as follows:



Table 5: Government debt and public debt trends for the period 2022-2025

Year	2022	2023	2024	2025
GDP	5,700.00	6,174.60	6,549.20	6,890.50
Domestic debt	511.64	568.64	574.64	624.94
External debt	3,756.28	3,902.78	4,248.28	4,455.78
Total government debt	4,267.92	4,471.42	4,822.92	5,080.72
Total government debt as the percentage of GDP	74.88	72.42	73.64	73.74
Local government debt*	72.80	72.80	72.80	72.80
Total public debt**	4,340.72	4,544.22	4,895.72	5,153.52
Total public debt as the percentage of GDP	76.15	73.60	74.75	74.79

*Amount of the local government debt according to the projections of the Ministry of Finance

**Debt outlined in the table does not include deposits of the Ministry of Finance and deposits of the local government.

Low growth scenario

If economic growth slows down and revenues decrease, in accordance with the low growth scenario, such changes will also affect public debt trends. Revenues decline and stagnation of investment growth will require additional borrowing so as to cover the shortfall needed for deficit financing.

Table 6: Debt trends in the period 2022-2025 in million euro – low growth scenario

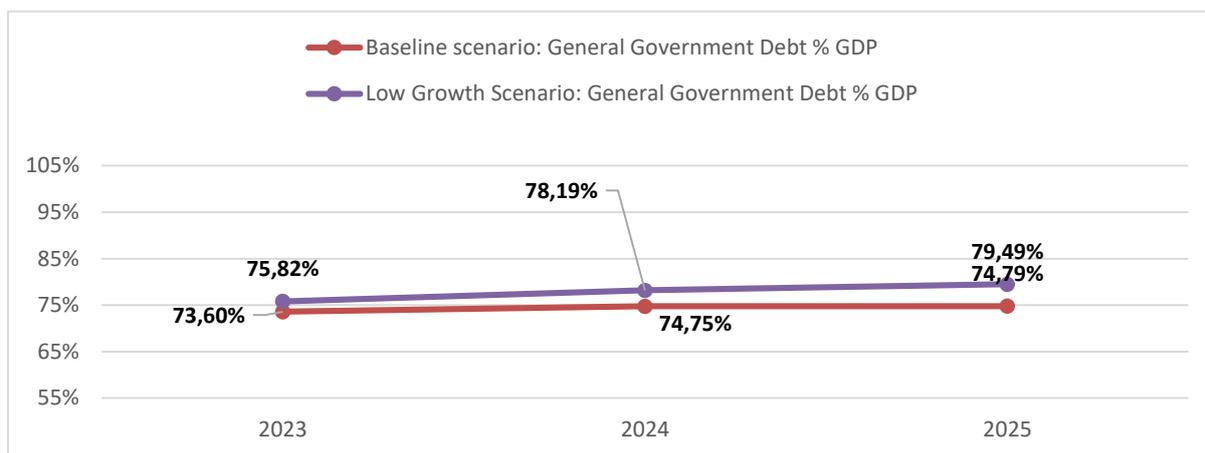
Year	2022	2023	2024	2025
GDP	5,700.00	6,046.40	6,399.10	6,699.90
Domestic debt	511.64	568.64	574.64	624.94
External debt	3,756.28	3,942.78	4,356.28	4,627.78
Total government debt	4,267.92	4,511.42	4,930.92	5,252.72
Total government debt as the percentage of GDP	74.88	74.61	77.06	78.40
Local government debt*	72.80	72.80	72.80	72.80
Total public debt**	4,340.72	4,584.22	5,003.72	5,325.52
Total public debt as the percentage of GDP	76.15	75.82	78.19	79.49

*Amount of the local government debt according to the projections of the Ministry of Finance

**Debt outlined in the table does not include deposits of the Ministry of Finance and deposits of the local government.



Figure 5: Comparative overview of public debt trends in baseline scenario and low growth scenario, in million euro and as the percentage of GDP for the period 2023-2025



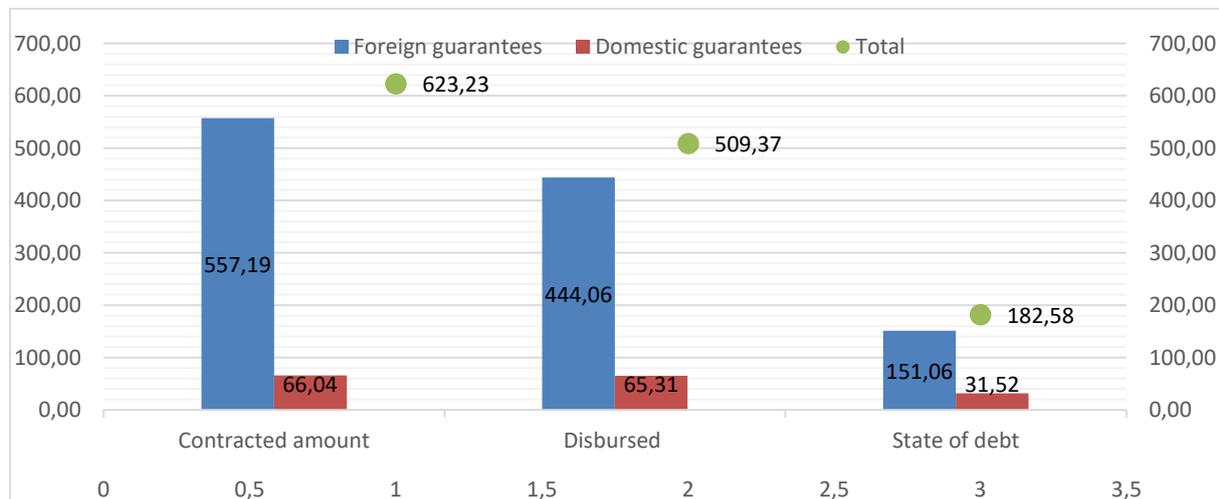
State guarantees

The contracted amount of issued state guarantees amounted to EUR 623.23 million on 30 September 2022. Out of this amount, committed funds amounted to around EUR 509.37 million. Preliminary debt stock on 30 September 2022, based on guarantees issued to domestic and foreign creditors, amounted to EUR 182.58 million i.e. 3.92 percent of GDP.

The committed amount of the guarantees issued by the Government of Montenegro for the loans of foreign creditors is around EUR 541.03 million, while debt stock based on these guarantees amounts to EUR 155.12 million i.e. 3.20 percent of GDP.

The committed amount of guarantees issued by the Government of Montenegro for the loans of domestic creditors was around EUR 65.31 million at the end of Q3 2022, while debt stock based on these guarantees amounted to EUR 31.52 million i.e. 0.55 percent of GDP. The major share of the existing domestic guarantees are guarantees issued to the local governments for implementation of the rehabilitation plans and their debt stock on 30 September 2022 amounted to EUR 16.55 million.

Figure 6: State guarantees stock on 30 September 2022



Montenegro did not issue any new state guarantees in 2022.

Guarantees issued in the past couple of years were mainly connected with the loans used to implement different infrastructural projects, including roads, railways, water supply and sewerage, electricity, support to the development of SMEs or restructuring.

Issuance of new guarantees was also set out in the Proposal for the 2023 Budget Law.

4.7. Sensitivity analysis and comparison with the previous programme

4.7.1. Sensitivity of the public finance projections to alternative risk scenarios

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

Table 4.7.1. Overview of fiscal risks in the medium-term

RISK	POSITIVE	NEGATIVE
Political	<ul style="list-style-type: none"> - Progress in accession to the European Union will increase investor confidence, while improving business environment and access to EU funds; 	<ul style="list-style-type: none"> - Political instability can affect credibility of policies and credit rating of the state on international and domestic capital markets and will negatively affect conditions for obtaining the shortfall needed for budget financing; - Adoption of legislative provisions, whose implementation creates a significant fiscal



		<p>burden, may have negative impact on the sustainability of public finances;</p> <ul style="list-style-type: none"> - Geopolitical risks at the global level can negatively affect the entire global economy, and consequently, the Montenegrin economy as well;
Economic	<ul style="list-style-type: none"> - Reform of the Revenue and Customs Administration has impact on improvement of the business environment, more efficient collection, and therefore on the increase of public revenues; - Strengthened inspection control and implementation of the system of electronic monitoring fiscal cash registers reduces the coverage of informal economy, thus enabling positive impact on public revenues; - Reforms in the budgeting process and in the area of public finance management increase fiscal discipline and transparency of the public finances, which positively reflects on the main fiscal indicators; - Implementation of the new legislative framework in the area of organising games of chance creates conditions for collecting additional revenues compared to those planned on this basis; - Potential revenue collection based on the long-term use of Airport of Montenegro JSC can increase of total public revenues in the medium and long term. - Adoption and implementation of the new legislative framework in the area of illegally acquired property will create preconditions for collecting additional revenues compared to those planned on this basis. 	<ul style="list-style-type: none"> - Limited fiscal space, weaker dynamics of implementation of the planned investments and delay in implementation of structural reforms can negatively affect economic recovery and growth in the medium term. - Further intensification of the external inflationary pressures which are strongly reflected on domestic prices; - Implementation of ESA2010 methodology can expand the existing institutional scope of the budget accounting in general state sector. Accordingly, deficit and debt of the mentioned sector might increase in the medium term. On the other hand, implementation of the mentioned methodology, by following the same principle, can have positive impact on fiscal indicators.

The alternative fiscal scenario relies on a macroeconomic low growth scenario whose basic assumptions are based on a slower recovery of economic activity compared to the baseline



scenario, which is primarily the result of the lower revenue generated from tourism. Macroeconomic low growth scenario is detailed in chapter 3.

Should these risks materialise, public revenues would not be generated as planned in the baseline scenario which would result in a higher public finance deficit in the medium term, and therefore, in greater need for financing public spending.

Given the above mentioned, if the macroeconomic low growth scenario materialises the balance of public finances would be adjusted primarily through a higher deficit in the medium term, which would be maintained in 2025 as well. Consequently, public debt would be higher compared to the baseline scenario which is elaborated in sub-chapter 4.6.

On the other hand, the baseline fiscal scenario does not consider the potential collection of revenues from the possible granting of the concession for the long-term use of the Airports of Montenegro and the effects of the announced legislative solutions that were not incorporated in the baseline scenario, which would lead to a significantly higher amount of public revenues compared to what was planned in the baseline scenario.

4.7.2. Comparison with the Previous Programme

Table 4.7.2. Comparison with the previous programme, in million euro

	ERP 2022-2024			
	2022	2023	2024	2025
Public revenues	2,177.26	2,317.65	2,427.95	
Public spending	2,442.21	2,422.50	2,466.40	
Surplus/deficit of public finances	-264.95	-104.85	-38.45	
	ERP 2023-2025			
	2022	2023	2024	2025
Public revenues	2,266.93	2,425.94	2,486.43	2,603.68
Public spending	2,539.15	2,790.87	2,892.81	3,031.48
Surplus/deficit of public finances	-272.22	-364.93	-406.38	-427.8
	DIFFERENCE			
	2022	2023	2024	2025
Public revenues	89.67	108.29	58.48	
Public spending	96.94	368.37	426.21	
Surplus/deficit of public finances	-7.27	-260.08	-367.73	

As it can be seen from table 4.7.2 public revenues generated in all the projected years will be higher than what was projected in the previous programme. Such revenue growth will be



generated primarily due to the significant rates of economic growth, strengthening of tax discipline, increased spending, effects of the progressive taxation rate on corporate profit tax and effects produced by the Law on Tax Debt Rescheduling.

In the medium term, revenue growth will be driven by the projected growth of economic activity and by the implementation of the proposed set of tax reforms which will broaden tax coverage.

Public spending in 2022 was higher than what had been projected by the previous programme due to additional expenditures resulting from the adopted legislation and financing of the shortfall, as elaborated in chapters 4.1, 4.2, 4.3 and 4.4

This resulted in a difference in the planned deficit which is the lowest in 2022 and increases in the following years.

4.8. Quality of public finance

Public finance management is crucial for economic development, availability of public services and quality of citizens' life.

A responsible approach to public finance management in 2022 created preconditions to increase salaries of public sector employees, increase allocations for social benefits, increase allocations for pensions, increase allocations for the Health Insurance Fund, increase allocations for the new-born child benefits, increase allocations for the capital budget, excluding allocations for the highway, and to significantly increase allocations for agriculture, education, science, and sports.

Concern for the social standard of citizens leads to an increase in pensions, social benefits, and salaries in the part of public sector which will reflect the inflation rate, while the need for large investments in energy, tourism, and transport and incentives for economic development to stimulate economic growth that would increase state revenues and enable repayment of the debts, lead to an increase in the capital budget compared to the previous year, which includes all municipalities.

Revenues were planned conservatively due to the risk which might be the consequence of developments in the global market, in accordance with the current legislative solutions, not including potential revenues which can be generated once the legal framework for them is established in 2023. Revenues were also planned on the basis of economic citizenship which was outside the state treasury system in the previous period, while the revenue side will also include measures to suppress the informal economy and introduce new tax coverage. In 2023, higher allocations are planned for repayment of the debt arising from compensation to



citizens on the account of confiscated property for which the procedure was terminated with the final decision.

The shortfall in the budget is projected at EUR 715.8 million, with a borrowing limit set at EUR 611.2 million, and the rest will be provided from the deposits transferred from the previous year. Having in mind high interests and the fact that EUR 500 million of old debts will become due in 2025, and EUR 750 million in 2027, activities are already undertaken to create conditions for the timely settlement of these obligations.

In order to provide full support to the planned reform processes and increase efficiency of the work done by the Revenue and Customs Administration which collects more than 90 percent of the public revenues, Montenegro implements *Tax Administration Reform* project with assistance from the World Bank; this project introduces an integrated revenue management system (IRMS) and system of online fiscalisation in real time, thus improving tax discipline and largely contributing to the good collection of value added tax.

Moreover, implementation of the project *Assistance to the Customs Administration in respect of Excise Duties* enabled use of the new national application for excise duties in the IT system of the Customs Administration (CIS), as well as interconnectivity and interoperability with other customs applications and future applications. The introduction of the new information system for electronic data exchange enabled the programming connection of software for the exchange of excise data in digital form, which strengthens excise duty collection and ensures a more effective fight against the informal economy.

Public spending in the period 2022-2025 grows in nominal amount, while measured by share in GDP, after the growth in 2023 it declines to 44 percent of GDP until 2025 as a result of dynamic economic growth rates and GDP growth which is faster than the growth of spending.

In terms of public spending structure in the period covered by the programme, the share of current public spending in total spending remains high, at around 88 percent. Mandatory expenditures for gross salaries and social protection transfers, used to finance entitlements in the areas of social protection, pension, disability insurance, and health care account for the largest share in structure of the current public spending, along with other expenditures arising from contractual obligations. In the period covered by the programme, the gross wage bill increases due to the wage increase in 2022 resulting from legislative solutions under which wages of employees in health and education sectors were increased, and also due to the wage increase of public sector employees in 2023.

As for social protection transfers and reforms in that area, wage bill increases in 2022 due to the legislative solutions whose implementation began in 2022, which is why spending did not



cover all the months of 2022, while such wage bill increases in 2023 due to the need to plan these expenditures on an annual basis.

4.9. Fiscal governance and budget framework

The formal framework which governs planning and implementation of the fiscal policy in Montenegro is set out in the Law on Budget and Fiscal Responsibility.

Independent fiscal institutions responsible for the monitoring fiscal outcomes and/or advising government on fiscal policy issues: As regards monitoring and evaluation of the fiscal policy and achieved outcomes, particularly in respect of numerical fiscal rules, their assessment is carried out by the State Audit Institution through *ex-post* evaluation of numerical fiscal rules and also by giving an opinion on the budget for the current year. In order to strengthen oversight of the fiscal policy, particularly with regard to *ex ante* evaluation, the project aims to create conditions for the establishment of the Fiscal Council of Montenegro, as an independent body that would monitor and evaluate fiscal policy planning and implementation, is currently implemented with EU assistance. For that purpose, the Government of Montenegro will propose appropriate legislation based on recommendations, best international practices and country size, in order to create formal prerequisites for the establishment of the Fiscal Council of Montenegro. Preparation of the Proposal for amending the Law on Budget and Fiscal Responsibility began in 2022; the proposal is expected to be finalised soon, after all the inputs are collected. Once finalised, the proposed amendments will be submitted to the European Commission for opinion.

Medium-term budgetary frameworks: Medium-term budgetary framework is established by the Macroeconomic and fiscal policy guidelines and revised during the adoption of the budget for the next fiscal year. In order to improve budget system as a whole, the following projects co-financed with EU funds were implemented in the period 2019-2022:

- project *Enhancement of the Budgetary System, Medium-term Budgetary Framework and Internal Financial Control* which aims to enhance the budgetary system as a whole through full implementation of the programme budgeting, medium-term planning and other elements of the budgeting system. Therefore, the budget contains division of budgets of the spending units per programmes, sub-programmes, activities and indicators which contributed to a greater transparency of planning and spending of public funds;
- project *Enhancement of the Budget Planning IT System* which aims to create conditions for budget planning in the medium term and conditions for a higher quality budget planning and reporting;
- project *Implementation of the Centralised Payroll Calculation System* which aims to develop and implement a programme solution that will facilitate centralisation and ensure a more efficient payroll calculation process, with a higher degree of control and reporting and more efficient management of the spending on wages in the public sector.



Budgeting reform process also included the introduction of the *gender-responsive budgeting* as an integral part of the programme budget and budget cycle which entails inclusion of gender perspective at all levels of the budget programme structure and a higher allocation of budget funds for budget expenditures that promote gender equality. In this regard, the 2023 budget contains an overview of spending units' activities characterised by gender sensitivity during fulfilment of the set goals, with an overview of total expenditures allocated for the aforementioned activities.

After the implementation of the Public Finance Management Reform Programme 2016 - 2020, the Government of Montenegro adopted the Public Finance Management Reform Programme 2022-2026 which was prepared based on evaluations of the public finance management reform in the previous period. The new PFM sets out the following strategic goals which will contribute to the improvement of the state and quality of public finances:

- Strengthened fiscal framework and budget planning
- Budget execution
- Accounting, monitoring and financial reporting
- Financial control.

Availability and quality of fiscal data and alignment with ESA standards: As regards availability and quality of the fiscal data, the official data producer in this area is the Ministry of Finance which carries out its planning and projection, while also reporting on the performance of fiscal indicators on monthly, quarterly and annual bases, in accordance with the national framework. As regards harmonisation of the statistics on public finances with international standards, there is a lack of staff capacities and a lack of systemic distribution of competencies for data production in accordance with ESA2010 methodology, and this will be improved in the coming period in the framework of negotiating chapters 17 and 18, as well as through legislative amendments which will enable alignment with the best practices through the transfer of competencies and more precise defining of the roles in producing the official statistics on government finances.

Establishment of the system of EU's own funds in Montenegro: In order to implement activities set out in the Action Plan for the establishment of the system for EU's own funds in Montenegro and fulfil the final benchmark for the negotiating chapter 33 - Financial and budgetary provisions, implementation of the project *Improvement of the System of EU's own funds in Montenegro* commenced in May 2022 in cooperation with the EU Delegation in Montenegro; the project will end in April 2023. Improvement in this area is planned to be achieved through the parallel development of three components.

- First component concerns capacity building in all institutions responsible for the establishment of the system of EU's own funds in Montenegro.



- Second component includes the establishment of procedures and institutional capacity building.
- Third component includes harmonisation of legislation in the area of own funds, which includes analysis of the existing legislation to identify room and give recommendations for improvement of the legislative framework.

As regards *numeric fiscal rules* on limiting general government deficit to below 3 percent, this will not happen in the period covered by the programme. Therefore, in the next medium-term period, additional fiscal consolidation measures will focus on optimisation of spending and generating new sources of revenue in order to create conditions for the long-term sustainability of public finances.

The rule to constrain public debt up to 60 percent is not fulfilled in any of the years of the observed period due to a high base established in the previous period and borrowing mentioned above. Despite that, public debt continuously declines in all years to 74.8 of the GDP projected in 2025.

4.10. Sustainability of public finances

Long - term fiscal sustainability in Montenegro is largely determined by the social protection system and financing of the health care and pension systems.

Amendments to the Law on Contributions for Mandatory Health Insurance, whose implementation began on 01 January 2022 in order to abolish contributions for mandatory health insurance charged to employees and employers and decrease the tax wedge on labour, resulted in financing the overall health system from general revenues of the state instead of financing it from the system of employees' contribution on one hand and from free health care on the other, as it had been done before.

The legislative arrangement mentioned above significantly reduced revenues generated from taxes and contributions on wages in respect of the contributions for mandatory social insurance.

In addition, the Law amending the 2022 Budget Law set out additional funds for the payment of outstanding liabilities of the Health Insurance Fund, which further increased the starting basis for the funds needed to finance health care system in the coming period. In accordance with the starting basis mentioned above, the funds for the next medium term need to be further planned.

Amendments to the Law on Pension and Disability Insurance of 2022 increased the lowest pension by 36 percent, and after that by an additional 10 percent, which together with the regular adjustment of pensions created the need to further plan funds generated on this basis in 2022. Moreover, additional funds will be needed in 2023 and in the next medium term to finance the increase in minimum pension and adjustment of pensions in accordance with the trends of the increase in prices and average wage.



Social care transfers are further increased due to amendments to the 2022 Budget Law, while implementation of the provisions on the payment of child allowance for children aged between 6 and 18 years, in accordance with the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children, began on 01 October 2022; provisions of the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children entered into force on 01 April 2022, additional funds were planned for this purpose for 2 and 8 months in 2022, and the annual amount is planned for 2023 thus increasing the amounts of allocations for these expenditures.

Ensuring a functional, stable, and sustainable healthcare system i.e. ensuring timely and quality health care is one of the highest priorities of the state. In accordance with the agreement signed with trade unions, salaries in the health sector were additionally increased by 12.5 percent in 2022. Moreover, due to the implementation of the Law on Salaries of Public Sector Employees, which began on 01 July 2022, salaries in health and education sectors were increased, and for that reason, additional funds were allocated for gross salaries.

Given the share of gross wage bill in total expenditures, adequate management of these expenditures is extremely important for the sustainability of public finances. Starting from the baseline fiscal scenario, gross wage bill in 2022 and 2023 grows both in nominal amounts and as a percentage of GDP; after that in 2024 and 2025 it grows in nominal amounts, while as the percentage of GDP it decreases to 9.4 percent in 2025.

Concern for the social standard of citizens created the need to increase salaries in the public sector which will reflect the inflation rate.

In addition to the responsible management of public finances in 2022 and concern for the social standard of citizens, the sustainability of public finances in 2023 will be affected by the planned full recovery of public revenue collection from the economic activity restored to the pre-crisis level and by the creation of conditions for the generation of new sources of revenue by implementing measures to suppress informal economy and introduce new tax coverage, which will significantly mitigate effects of increased public spending that is mandatory.

However, having in mind the large increase in mandatory expenditures for social protection systems for the aforementioned reasons, financing of the health and pension systems, and financing of the gross wage bill in the coming period, additional fiscal consolidation measures will be needed to optimise spending and ensure a more efficient revenue generation in the next medium term, thus creating conditions for the long-term sustainability of public finances.



GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
Central budget	2021		2022		2023		2024		2025	
	mil. €	% GDP	mil. €	% GDP						
Total Revenues	1911,38	38,6	2008,98	35,2	2147,47	34,8	2201,77	33,6	2312,94	33,6
Taxes	1183,87	23,9	1381,13	24,2	1465,46	23,7	1572,54	24,0	1657,45	24,1
Personal Income Tax	126,86	2,6	83,04	1,5	61,04	1,0	63,01	1,0	64,42	0,9
Corporate Income Tax	74,71	1,5	90,17	1,6	121,65	2,0	130,75	2,0	138,72	2,0
Taxes on Sales of Property	2,08	0,0	1,48	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Value Added Tax	691,95	14,0	908,05	15,9	958,98	15,5	1024,73	15,6	1091,77	15,8
Excises	248,72	5,0	245,87	4,3	271,45	4,4	298,88	4,6	304,84	4,4
Tax on International Trade and Transactions	28,30	0,6	40,24	0,7	40,25	0,7	42,71	0,7	44,93	0,7
Other Republic Taxes	11,26	0,2	12,28	0,2	12,09	0,2	12,46	0,2	12,78	0,2
Contributions	554,48	11,2	462,80	8,1	474,76	7,7	499,71	7,6	525,00	7,6
Contributions for Pension and Disability Insurance	343,74	6,9	405,90	7,1	438,73	7,1	459,88	7,0	479,36	7,0
Contributions for Health Insurance	180,57	3,6	25,06	0,4	1,20	0,0	2,45	0,0	5,95	0,1
Contributions for Unemployment Insurance	16,36	0,3	18,40	0,3	20,36	0,3	21,85	0,3	23,21	0,3
Other contributions	13,81	0,3	13,45	0,2	14,47	0,2	15,53	0,2	16,49	0,2
Duties	12,64	0,3	14,70	0,3	14,25	0,2	14,85	0,2	15,38	0,2
Administrative duties	8,28	0,2	9,17	0,2	8,69	0,1	8,95	0,1	9,19	0,1
Court duties	0,88	0,0	1,03	0,0	0,91	0,0	0,94	0,0	0,96	0,0
Residential duty	1,36	0,0	1,79	0,0	2,42	0,0	2,66	0,0	2,87	0,0
Other duties	2,13	0,0	2,71	0,0	2,23	0,0	2,30	0,0	2,36	0,0
Fees	51,10	1,0	72,75	1,3	41,69	0,7	32,65	0,5	33,50	0,5
Fees for use of goods of common interest	1,01	0,0	1,55	0,0	1,23	0,0	1,27	0,0	1,30	0,0
Fees for use of natural resources	3,31	0,1	4,12	0,1	4,44	0,1	4,57	0,1	4,69	0,1
Ecological fees	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Fee for organizing games of chance	8,54	0,2	9,76	0,2	10,64	0,2	10,97	0,2	11,25	0,2
Road fees	3,33	0,1	3,44	0,1	3,50	0,1	3,61	0,1	3,70	0,1
Other fees	34,92	0,7	53,88	0,9	21,88	0,4	12,24	0,2	12,56	0,2
Other revenues	59,32	1,2	29,14	0,5	100,18	1,6	30,96	0,5	31,66	0,5
Revenues from capital	37,21	0,8	2,51	0,0	4,32	0,1	4,32	0,1	4,32	0,1
Fines and seized property gains	11,87	0,2	15,41	0,3	14,48	0,2	14,92	0,2	15,31	0,2
Revenues from own activities of government bodies	2,19	0,0	1,98	0,0	2,42	0,0	2,49	0,0	2,56	0,0
Other revenues	8,05	0,2	9,23	0,2	78,95	1,3	9,23	0,1	9,47	0,1
Receipts from Repayment of Loans	10,10	0,2	14,07	0,2	9,75	0,2	9,75	0,1	9,75	0,1
Grants	39,88	0,8	34,39	0,6	41,38	0,7	41,30	0,6	40,20	0,6
Total Expenditures	2010,90	40,6	2263,60	39,7	2513,78	40,7	2614,08	39,9	2751,84	39,9
Current Budgetary Consumption	1855,38	37,4	2060,51	36,1	2311,01	37,4	2378,83	36,3	2501,80	36,3
Current Expenditures	924,44	18,7	956,19	16,8	1102,61	17,9	1122,20	17,1	1180,38	17,1
Gross Salaries and Contributions	535,13	10,8	542,48	9,5	627,31	10,2	634,28	9,7	642,79	9,3
Other Personal Income	11,28	0,2	18,65	0,3	19,55	0,3	18,64	0,3	18,80	0,3
Expenditures for Goods and Services	95,22	1,9	92,37	1,6	107,40	1,7	101,54	1,6	102,97	1,5
Current Maintenance	21,70	0,4	27,35	0,5	35,58	0,6	34,74	0,5	34,93	0,5
Interests	114,06	2,3	91,95	1,6	109,93	1,8	139,25	2,1	183,25	2,7
Rent	11,19	0,2	12,26	0,2	12,25	0,2	12,13	0,2	12,18	0,2
Subsidies	48,52	1,0	68,43	1,2	60,97	1,0	63,96	1,0	67,18	1,0
Other expenditures	38,70	0,8	41,55	0,7	61,34	1,0	55,85	0,9	55,16	0,8
Current Capital Expenditure	48,65	1,0	61,15	1,1	68,28	1,1	61,82	0,9	63,12	0,9
Social Security Transfers	567,41	11,5	668,39	11,7	785,18	12,7	839,74	12,8	899,83	13,1
Social Security	84,93	1,7	136,40	2,4	190,16	3,1	200,31	3,1	204,91	3,0
Funds for redundant labor	23,09	0,5	27,72	0,5	28,61	0,5	28,61	0,4	28,61	0,4
Pension and Disability Insurance	431,01	8,7	470,08	8,2	529,75	8,6	578,87	8,8	632,55	9,2
Other Health Care Transfers	17,08	0,3	16,74	0,3	21,06	0,3	16,50	0,3	18,15	0,3
Other Health Care Insurance	11,30	0,2	17,44	0,3	15,60	0,3	15,45	0,2	15,61	0,2
Transfers to Institutions, Individuals, NGO and Public Sector	257,07	5,2	343,86	6,0	352,41	5,7	342,34	5,2	347,01	5,0
Capital Budget	155,52	3,1	203,08	3,6	202,78	3,3	235,25	3,6	250,04	3,6
Credits and Borrowings	1,32	0,0	32,09	0,6	4,52	0,1	4,52	0,1	4,52	0,1
Reserves	71,23	1,4	24,96	0,4	38,85	0,6	30,00	0,5	30,00	0,4
Repayment of Guarantees	7,71	0,2	0,50	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	26,21	0,5	34,53	0,6	27,43	0,4	40,02	0,6	40,05	0,6
Net liabilities increase	4,04	0,1	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Surplus / deficit	-99,52	-2,0	-254,62	-4,5	-366,32	-5,9	-412,31	-6,3	-438,90	-6,4
Adjusted Surplus/Deficit	-103,56	-2,1	-254,62	-4,5	-366,32	-5,9	-412,31	-6,3	-438,90	-6,4
Primary balance	10,50	0,2	-162,67	-2,9	-256,39	-4,2	-273,06	-4,2	-255,65	-3,7
Repayment of Debt	437,60	8,8	291,58	5,1	338,09	5,5	423,09	6,5	756,09	11,0
Repayment of Domestic Debt	85,31	1,7	40,53	0,7	96,56	1,6	158,06	2,4	43,06	0,6
Repayment of Foreign Debt	352,29	7,1	251,05	4,4	241,53	3,9	265,03	4,0	713,03	10,3
Expenditures for the purchase of securities	0,51	0,0	27,69	0,5	0,78	0,0	0,68	0,0	0,68	0,0
Financing needs	-541,66	-10,9	-573,90	-10,1	-705,18	-11,4	-836,08	-12,8	-1195,66	-17,4
Financing	541,66	10,9	573,90	10,1	705,18	11,4	836,08	12,8	1195,66	17,4
Loans and Borrowings	123,58	2,5	129,54	2,3	599,18	9,7	830,08	12,7	1115,08	16,2
Domestic Loans and Borrowings	0,00	0,0	55,00	1,0	100,00	1,6	100,00	1,5	200,00	2,9
Foreign Loans and Borrowings	123,58	2,5	74,54	1,3	499,18	8,1	730,08	11,1	915,08	13,3
Revenues from Selling Assets	4,45	0,1	4,52	0,1	6,00	0,1	6,00	0,1	6,00	0,1
Increase / decrease of deposits	409,59	8,3	439,84	7,7	100,00	1,6	0,00	0,0	74,58	1,1

Source: Ministry of Finance



GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
Local government	2021		2022		2023		2024		2025	
	mil.€	% GDP								
Total Revenues	282,60	4,96	257,95	4,53	278,47	4,51	284,67	4,35	290,74	4,22
Taxes	194,67	3,41	162,68	2,85	196,97	3,19	202,87	3,10	208,84	3,03
Personal Income Tax	57,75	1,01	53,00	0,93	84,70	1,37	88,94	1,36	93,38	1,36
Taxes on Immovable Property	80,25	1,62	73,18	1,28	74,64	1,21	76,13	1,16	77,66	1,13
Taxes on Sales of Property	18,56	0,33	20,93	0,37	21,93	0,36	22,10	0,34	22,10	0,32
Local Taxes	38,10	0,67	15,57	0,27	15,70	0,25	15,70	0,24	15,70	0,23
Duties	3,42	0,06	4,31	0,08	4,40	0,07	4,50	0,07	4,60	0,07
Fees	58,23	1,02	55,71	0,98	56,30	0,91	56,50	0,86	56,50	0,82
Other Revenues	11,55	0,20	18,00	0,32	5,50	0,09	5,50	0,08	5,50	0,08
Receipts from repayment of loans	5,11	0,09	0,25	0,00	0,30	0,00	0,30	0,00	0,30	0,00
Grants	9,62	0,17	17,00	0,30	15,00	0,24	15,00	0,23	15,00	0,22
Total expenditures	276,56	4,85	275,55	4,83	277,08	4,49	278,73	4,26	279,63	4,06
Current Budgetary Consumption	198,47	3,48	195,55	3,43	197,08	3,19	198,73	3,03	199,63	2,90
Current Expenditures	92,30	1,62	92,02	1,61	99,68	1,61	101,04	1,54	101,65	1,48
Gross salaries and contributions charged to employer	52,16	0,91	53,09	0,93	59,46	0,96	60,50	0,92	61,00	0,89
Other personal income	4,08	0,07	3,32	0,06	3,50	0,06	3,60	0,05	3,70	0,05
Expenditures for supplies and services	16,10	0,28	16,47	0,29	17,29	0,28	17,50	0,27	17,50	0,25
Current maintenance	6,96	0,12	6,43	0,11	6,50	0,11	6,50	0,10	6,50	0,09
Interests	2,54	0,04	1,98	0,03	2,00	0,03	2,00	0,03	2,00	0,03
Rent	0,65	0,01	0,63	0,01	0,63	0,01	0,64	0,01	0,65	0,01
Subsidies	3,24	0,06	2,92	0,05	3,00	0,05	3,00	0,05	3,00	0,04
Other expenditures	6,57	0,12	7,18	0,13	7,30	0,12	7,30	0,11	7,30	0,11
Social security transfers	0,44	0,01	0,40	0,01	0,40	0,01	0,40	0,01	0,40	0,01
Transfers to institutions, individuals, NGO and public sector	60,38	1,06	66,52	1,17	66,50	1,08	66,70	1,02	66,90	0,97
Capital expenditures	78,08	1,37	80,00	1,40	80,00	1,30	80,00	1,22	80,00	1,16
Loans and credits	2,62	0,05	2,80	0,05	3,00	0,05	3,09	0,05	3,18	0,05
Repayment of liabilities from the previous period	40,32	0,71	31,26	0,55	25,00	0,40	25,00	0,38	25,00	0,36
Reserves	2,4	0,04	2,5	0,04	2,5	0,04	2,5	0,04	2,5	0,04
Repayment of Guarantees	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Net liabilities increase	0,3	0,01	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Surplus/deficit	6,04	0,11	-17,60	-0,31	1,39	0,02	5,94	0,09	11,10	0,16
Adjusted Surplus/Deficit	5,73	0,10	-17,60	-0,31	1,39	0,02	5,94	0,09	11,10	0,16
Primary balance	8,27	0,15	-15,62	-0,27	3,39	0,05	7,94	0,12	13,10	0,19
Repayment of debt	10,91	0,19	11,51	0,20	12,00	0,19	12,00	0,18	12,00	0,17
Repayment of Domestic Debt	8,0	0,14	8,3	0,15	8,5	0,14	8,5	0,13	8,5	0,12
Repayment of Foreign Debt	3,0	0,05	3,2	0,06	3,5	0,06	3,5	0,05	3,5	0,05
Expenditures for the purchase of securities	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Financing needs	-5,18	-0,09	-29,11	-0,51	-10,61	-0,17	-6,06	-0,09	-0,90	-0,01
Financing	5,18	0,09	29,11	0,51	10,61	0,17	6,06	0,09	0,90	0,01
Borrowings and credits from domestic sources	7,1	0,13	4,6	0,08	8,0	0,13	8,0	0,12	8,0	0,12
Borrowings and credits from foreign sources	2,2	0,04	2,6	0,05	4,0	0,06	4,0	0,06	4,0	0,06
Revenues from selling Assets	8,28	0,15	22,00	0,39	7,00	0,11	7,00	0,11	7,00	0,10
Increase/decrease of deposits	-21,67	-0,38	-6,85	-0,12	-17,39	-0,28	-21,94	-0,33	-27,10	-0,39
Transfers from the Central Budget	8,9	0,16	6,8	0,12	9,0	0,15	9,0	0,14	9,0	0,13

Source: Ministry of Finance



GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
General Government	2021		2022		2023		2024		2025	
	mil.€	% GDP	mil.€	% GDP						
Total Revenues	2193,98	44,3	2266,93	39,8	2425,94	39,3	2486,43	38,0	2603,68	37,8
Taxes	1378,54	27,8	1543,81	27,1	1662,44	26,9	1775,41	27,1	1866,29	27,1
Personal income tax	184,61	3,7	136,04	2,4	145,74	2,4	151,95	2,3	157,80	2,3
Corporate Income Tax	74,71	1,5	90,17	1,6	121,65	2,0	130,75	2,0	138,72	2,0
Taxes on Immovable Property	80,25	1,6	73,18	1,3	74,64	1,2	76,13	1,2	77,66	1,1
Taxes on Sales of Property	20,64	0,4	22,41	0,4	21,93	0,4	22,10	0,3	22,10	0,3
Value Added Tax	691,95	14,0	908,05	15,9	958,98	15,5	1024,73	15,6	1091,77	15,8
Excises	248,72	5,0	245,87	4,3	271,45	4,4	298,88	4,6	304,84	4,4
Tax on International Trade and Transactions	28,30	0,6	40,24	0,7	40,25	0,7	42,71	0,7	44,93	0,7
Local taxes	38,10	0,8	15,57	0,3	15,70	0,3	15,70	0,2	15,70	0,2
Other State Taxes	11,26	0,2	12,28	0,2	12,09	0,2	12,46	0,2	12,78	0,2
Contributions	554,48	11,2	462,80	8,1	474,76	7,7	499,71	7,6	525,00	7,6
Contributions for Pension and Disability Insurance	343,74	6,9	405,90	7,1	438,73	7,1	459,88	7,0	479,36	7,0
Contributions for Health Insurance	180,57	3,6	25,06	0,4	1,20	0,0	2,45	0,0	5,95	0,1
Contributions for Insurance from Unemployment	16,36	0,3	18,40	0,3	20,36	0,3	21,85	0,3	23,21	0,3
Other contributions	13,81	0,3	13,45	0,2	14,47	0,2	15,53	0,2	16,49	0,2
Duties	16,06	0,3	19,01	0,3	18,65	0,3	19,35	0,3	19,98	0,3
Fees	109,33	2,2	128,46	2,3	97,99	1,6	89,15	1,4	90,00	1,3
Other revenues	70,86	1,4	47,14	0,8	105,68	1,7	36,46	0,6	37,16	0,5
Receipts from repayment of loans	15,21	0,3	14,32	0,3	10,05	0,2	10,05	0,2	10,05	0,1
Grants	49,50	1,0	51,39	0,9	56,38	0,9	56,30	0,9	55,20	0,8
Total Expenditures	2287,46	46,2	2539,15	44,5	2790,87	45,2	2892,81	44,2	3031,48	44,0
Current public consumption	2053,86	41,4	2256,06	39,6	2508,09	40,6	2577,56	39,4	2701,44	39,2
Current expenditures	1016,74	20,5	1048,22	18,4	1202,30	19,5	1223,24	18,7	1282,03	18,6
Gross salaries and contributions charged to employer	587,29	11,9	595,56	10,4	686,76	11,1	694,78	10,6	703,79	10,2
Other personal income	15,36	0,3	21,97	0,4	23,05	0,4	22,24	0,3	22,50	0,3
Expenditures for Goods and Services	111,32	2,2	108,84	1,9	124,69	2,0	119,04	1,8	120,47	1,7
Current maintenance	28,66	0,6	33,79	0,6	42,08	0,7	41,24	0,6	41,43	0,6
Interests	116,60	2,4	93,93	1,6	111,93	1,8	141,25	2,2	185,25	2,7
Rent	11,84	0,2	12,89	0,2	12,89	0,2	12,77	0,2	12,84	0,2
Subsidies	51,76	1,0	71,35	1,3	63,97	1,0	66,96	1,0	70,18	1,0
Other expenditures	45,27	0,9	48,73	0,9	68,64	1,1	63,15	1,0	62,46	0,9
Current Capital Expenditure	48,65	1,0	61,15	1,1	68,28	1,1	61,82	0,9	63,12	0,9
Social security transfers	567,84	11,5	668,79	11,7	785,58	12,7	840,14	12,8	900,23	13,1
Transfers to institutions, individuals, NGO and public sector	317,44	6,4	410,38	7,2	418,91	6,8	409,04	6,2	413,91	6,0
Capital budget	233,60	4,7	283,08	5,0	282,78	4,6	315,25	4,8	330,04	4,8
Capital Budget MNE	155,52	3,1	203,08	3,6	202,78	3,3	235,25	3,6	250,04	3,6
Capital expenditures of local government	78,08	1,6	80,00	1,4	80,00	1,3	80,00	1,2	80,00	1,2
Loans and credits	3,94	0,1	34,90	0,6	7,52	0,1	7,61	0,1	7,71	0,1
Reserves	73,65	1,5	27,50	0,5	41,35	0,7	32,50	0,5	32,50	0,5
Repayment of Guarantees	7,71	0,2	0,50	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Net liabilities increase	4,35	0,1	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	66,53	1,3	65,78	1,2	52,43	0,8	65,02	1,0	65,05	0,9
Surplus/ Deficit	-93,48	-1,9	-272,22	-4,8	-364,93	-5,9	-406,38	-6,2	-427,79	-6,2
Adjusted Surplus/Deficit	-97,82	-2,0	-272,22	-4,8	-364,93	-5,9	-406,38	-6,2	-427,79	-6,2
Primary Surplus / Deficit	18,77	0,4	-178,29	-3,1	-253,00	-4,1	-265,13	-4,0	-242,55	-3,5
Repayment of debt	448,51	9,1	303,09	5,3	350,09	5,7	435,09	6,6	768,09	11,1
Repayment of principal to residents	93,26	1,9	48,85	0,9	105,06	1,7	166,56	2,5	51,56	0,7
Repayment of principal to nonresidents	355,25	7,2	254,24	4,5	245,03	4,0	268,53	4,1	716,53	10,4
Expenditures for the purchase of securities	0,51	0,00	27,69	0,00	0,78	0,00	0,68	0,00	0,68	0,00
Financing needs	-546,84	-11,0	-603,00	-10,6	-715,79	-11,6	-842,14	-12,9	-1196,56	-17,4
Financing	546,84	11,0	603,00	10,6	715,79	11,6	842,14	12,9	1196,56	17,4
Borrowings and credits	132,97	2,7	136,67	2,4	611,18	9,9	842,08	12,9	1127,08	16,4
Borrowings and credits from domestic sources	7,15	0,1	59,56	1,0	108,00	1,7	108,00	1,6	208,00	3,0
Borrowings and credits from foreign sources	125,83	2,5	77,11	1,4	503,18	8,1	734,08	11,2	919,08	13,3
Revenues from selling assets	12,74	0,3	26,52	0,5	13,00	0,2	13,00	0,2	13,00	0,2
Transfers from Central Budget	8,86	0,2	6,83	0,1	9,00	0,1	9,00	0,1	9,00	0,1
Increase/Decrease of deposits	387,92	7,8	432,99	7,6	82,61	1,3	-21,94	-0,3	47,48	0,7

Source: Ministry of Finance



5. STRUCTURAL REFORMS IN 2023-2025

5.1. Update on the three main obstacles to competitiveness and inclusive growth and related Reform Measures

a. Analysis of main obstacles

During the past two years of recovery from the COVID-19-caused pandemic, the Montenegrin economy generated a robust growth as high as 13 percent in 2021 and an estimated 7.7 percent in 2022. Even though Montenegro reached the pre-pandemic level of GDP, both due to the pandemic consequences, as well as due to the war in Ukraine, Montenegro did not improve its competitiveness and the level of economic freedoms⁹, nor its contribution to achieving the Sustainable Development Goals - SDGs.¹⁰

Political instability and uncertainties in the country, after the 43rd Government lost a no confidence vote in Parliament, are influencing the slowing down in the implementation of economic reforms important for higher competitiveness and sustainable growth of the economy. Therefore, a feature of the Economic Reform Programme 2023-2025 is a continuation of 15 measures from the previous year, given that implementation for many of them is running behind, while at the same time they are important for resolving key structural challenges. The new Economic Reform Programme proposes only four new priority reform measures out of 19, for which is estimated, under the present circumstances, that will be relatively successfully implemented in the coming years. Furthermore, in 2022 Montenegro faced a cyber attack on the information system of the country, which pointed to its vulnerability as support to the functioning of the public administration as a whole and its services to citizens and the real sector. This was one of the additional factors affecting the delay in the implementation of reform measures, making the activities on strengthening cyber security in the forthcoming period among those with the highest priority.

There are three biggest structural challenges for improving the competitiveness of the Montenegrin economy over the medium term and for its more sustainable growth, according to the analysis of the European Commission, but also according to the findings of the Government of Montenegro in the previous Economic Reform Programme. Those are (i) **Increasing employment, especially of women and youth, as well as resolving the long-term**

⁹ In recent years Montenegro has begun to stagnate on international competitiveness lists, while the Heritage Foundation report on the Index of Economic Freedom published in February 2022 indicates a significant decline in economic freedom in the period from the second half of 2020 to the second half of 2021 (from 80th to 103rd place out of 177 ranked countries), taking Montenegro to be a country with the lowest degree of economic freedom in the region.

¹⁰ According to the SDG index for 2022, Montenegro ranked 86th out of 163 countries, and quite lags behind the EU Member States and countries of the Western Balkans region.



unemployment; (ii) Strengthening the regulatory environment, and (iii) Reducing informality in the economy.

Challenge No 1: Increasing employment, especially of women and youth, as well as resolving the long-term unemployment

Montenegro has been facing for years the issue of high unemployment of women and other vulnerable categories, youth, long-term unemployment, as well as extensive regional differences in terms of employment, or unemployment. Although it started to decrease in 2021, the unemployment rate continues to be elevated and is at the level of around 14.6 percent in Q2 2022. The long-term unemployment rate in Montenegro is also high, and at the end of Q2 2022, 73.5 percent of the unemployed had been unemployed for more than one year. The pandemic had a drastic effect on the reduction of the youth employment rate (from 15 to 24 years of age), which fell from 27.3 percent (2019) to 19.8 percent (2020), with a slight recovery in the post-pandemic period. Gradual reduction of unemployment contributed to the reduction of the rate of risk from poverty to 21.2 percent in 2021, but it is still high.

In addition, there is still a large gap in the employment of men and women; given that out of the total number of employed 53.2 percent are men and 46.8 percent are women. According to the European Commission assessment, programmes having as the objective to incentivise enrolment of young women to non-traditional vocational programmes and studies are lacking. When talking about women it is very important to recognise the problems of unpaid house works, which is done by women in Montenegro in 92 percent of cases, the value of which is estimated to EUR 122 million during three months of the COVID-19 pandemic.¹¹ One of the reasons is that the legislative framework of the labour market is not sufficiently flexible and adaptable to present-day circumstances. Further regulation of the labour market is needed, which should keep pace with digital changes, by defining new work schemes that enable remote work, and additional improvement of work from home (teleworking), all aimed at the social protection of employees of this target group and ensuring decent work. The challenges on the labour market include also high labour costs relative to the productivity, the existence of the informal economy, deficiencies in the social welfare and health care systems, difficulties for vulnerable groups to access the labour market. The pandemic also disclosed the necessity of improving the IT platform for the registration of the unemployed, which is outdated and does not support interoperability with other databases in the system of Montenegro. The active labour market policies are not developed sufficiently in order to assist in finding sustainable employment. Thus, in order to increase overall employment as well, it is necessary to develop further socially and fiscally sustainable *social protection*

¹¹ UNDP research from 2020 at the link: <https://www.undp.org/sites/g/files/zskgke326/files/2022-06/Izvjestaj%2Bdoprinosa%2Bzena%2Bekonomiji%2BCG%2BMNE%2BA4%2BFINAL.pdf>



services, so that citizens are protected from the consequences of shocks and increasing poverty. The insufficient number of adequately targeted programs and the insufficient connectivity with the active labour market policies has so far limited the effects of social welfare assistance. Currently, the system is only partially contributing to the reduction of the risk of poverty. Some of the challenges are the fairer distribution of financial support benefits, as well as fairer and easier access to disability-based rights. This is particularly manifested coupled with the fact that the budgetary funds allocated for social and child protection are more than doubled¹² in the Budget for 2023, if compared to 2021, while their distribution is not better targeted towards the poorest groups of the population, given that all social groups are beneficiaries of the social and child protection funds. Therefore, it is necessary to define clear criteria according to which the funds for the social and child protection will be allocated. As early as 2021, in cooperation with UNICEF, the Government requested a study to be developed to review the social protection system and prepared the measure *Road Map for allocation of the social and child protection funds applying clearly defined criteria*, but it is necessary to intensify activities on its implementation in the coming years.

According to the World Bank analysis, measured by the Human Capital Index, a child born in Montenegro today will be at the level of 63 percent of his productivity when he grows up compared to the productivity he could achieve as an adult, if growing up enjoyed complete education and full health care. Montenegro has already faced a learning crisis before the COVID-19 pandemic. Results of students as per PISA for 2015 and 2018 indicate that fifteen-year-old school pupils from Montenegro lag behind their peers in OECD countries for two academic years. The closure of schools, the interruption of the teaching process, and its reorganisation had a negative impact on developmental and academic outcomes. A visible loss is expected in the developmental results, precisely the learning outcomes of all children and children from poor families (in the school year 2020/2021, the enrolment rate of Roma children in preschool education was visibly reduced, compared to the enrolment rate in one year before COVID). Children with developmental disabilities are not able to access distance learning. These are all challenges that must be urgently resolved in order to prevent a “lost generation”. Although no assessment of learning loss was not done in Montenegro, according to the World Bank estimates, the number of children in low and medium-level development countries who have not reached the level of basic literacy by the age of 10 will increase globally from 53 percent to 70 percent. Given that Montenegro was not ready to switch to a good quality and inclusive distance learning system, expectations that the results of PISA 2022 will show an improvement compared to previous tests are not optimistic. The comprehensive analysis of the education sector (ESA), which was completed in 2022, was carried out as a joint initiative of UNICEF and the Ministry of Education, conducted according to the World

¹² They will make approximately 3 percent of GDP if compared to 1.5 percent of GDP in 2021.



Bank/UNICEF/UNESCO methodology, providing a detailed sectoral diagnostics from the aspects of access, quality, equity, management, infrastructure, the impact of the COVID-19 pandemic and funding on education. The findings of the Analysis, which covers the management and financing of education at all levels, including the financial impact of COVID-19, should be used to develop a multi-annual strategy for the education sector and a planned action plan.

Furthermore, the education system in Montenegro shows significant shortcomings in terms of the level of digitalisation of the regular teaching process and content, the use of IT equipment, the development of key digital competencies among school pupils and teaching staff, the use of communication platforms and the creation of and updating the required databases, as well as in terms of the coverage of all schools with fast internet network.

The *healthcare system* is an important factor in the development of human capital with the aim of greater employment and a decent standard of living. During the last few years, the public healthcare system has been facing major challenges that affect its efficiency and sustainability. One of the causes is that the healthcare system is burdened with accumulated debts for pharmaceuticals and medical consumables, insufficient level of efficiency and quality of the provided health care, as well as limited human resources that are mostly centralised and focused on the Clinical Centre of Montenegro, which affects its functionality and sustainability. The problems are also long waiting lists that are not reducing at a satisfactory rate, as well as limited health statistics. Systems for reporting, planning and monitoring parameters of the healthcare system are static, and mostly manual, while the information system is not adapted to the health statistics, without advanced reporting systems, without BI, Data warehouse. Capital medical equipment is used unevenly in regions. Waiting lists for patients are very long, and those not served with medical needs are still many. All of the above-mentioned shortcomings were pronounced in particular with the emergence of the COVID-19 pandemic.

Challenge No 2: Strengthening the regulatory environment

Strengthening the regulatory environment is the second major challenge of the Montenegrin economy, undermining its competitiveness and ability to reach sustainable development goals.

The unfavourable regulatory environment in Montenegro limits job creation in the private sector. Even though certain improvements were made in terms of reducing the tax wedge on labour, and activities were conducted to create a register of para-fiscal charges at the central and local levels, numerous challenges remain for business owners, especially for small enterprises in less developed areas. According to the World Bank analysis¹³, the companies have stated that major difficulties are “*unpredictability of the business environment, the*

¹³Montenegro: Growth and Jobs Agenda



complexity of the regulatory framework, inconsistencies in interpretation and implementation of legislation.” Transparency of decision-making is low, while the consultations with the business community in the process of drafting legislation are insufficient.

The lack of inadequate corporate governance in the state-owned enterprise represents an additional challenge. The fact that it is not aligned with the OECD corporate governance criteria and that there is no clear mechanism for oversight of operations of majority state-owned enterprises (SOEs) makes it difficult to improve their performance and increases the fiscal risks of their operations. In 2021, the majority SOEs in Montenegro operated at loss, and in addition to profitability problems, they are also facing increasing solvency risks, and some of them, especially in the transport sector, are facing liquidity risks. Even though the Ministry of Finance has taken the first steps in monitoring the fiscal risks of SOEs' operations, with the support of the IMF developing key tools for their assessment and monitoring, it is necessary to prepare a broader analysis of the institutional and legal framework for the operation of SOEs, and to define a road map with directions for further reform. This will also help ensure a more competitive market competition, which should be equal for state-owned and for private enterprises.

The procedure for registration of business undertakings is also recognised as one of the regulatory barriers, which is complicated and involves several institutions (depending on the type of the economic entity being registered), of which the most important is the Revenue and Customs Administration, precisely the Central Registry of Economic Entities (CRPS) tasked with registration. Electronic registration is enabled only for a single-member limited liability companies, while other forms of business undertakings cannot be registered electronically. In order to accelerate the process of providing services and reduce the costs of administrative procedures for enterprises and citizens, it is necessary to work on further digitalisation of the public administration.

In August 2022, the Government's information infrastructure and information-communication network was the target of a cyber attack of great intensity and complexity, which resulted in the interruption of key information systems necessary for the smooth functioning of the state administration and services provided to citizens and the real sector. In order to respond in the best and most efficient way to incident situations within the state administration, it is necessary to have a high-quality organisational hierarchy that will provide adequate management of cyber security in Montenegro in the most efficient, long-term, and sustainable manner. Cyber attacks in the world have been growing exponentially for years, they are becoming more complex, with increasing consequences for infrastructure, the functioning of public administration and citizens, cyber defence capacities must be developed continuously, while the strategic and legislative framework must be improved.

The analysis of support for the development of micro, small and medium-sized enterprises in Montenegro through the prism of cooperation between local and national partners was done



with the support of the Kingdom of Norway through the project “Norway for you – Montenegro”. It shows a certain degree of incentivising potential, but also the complexity of the legal framework related to the micro, small and medium-sized enterprises sector, which consists of about 280 laws and numerous enabling regulations, as well as the lack of a synchronised strategic approach, mostly due to the non-participation of local self-governments in their creation and implementation. The analysis pointed to the need to improve the administrative spectrum, which governs operations of economic entities in Montenegro, and primarily to the need to improve communication between local self-governments and the state administration authorities, along with improving communication amongst local self-governments. In addition to the above, the Competitiveness Council of the Government of Montenegro analysed the business barriers faced by the business community by creating a list of barriers. The list now contains 98 barriers. The Ministry of Finance was identified as responsible for the largest number of barriers, followed by the Ministry of Economic Development and Tourism.

Even though significant advancements were made to support *Innovation* in recent years, certain challenges remain, such as: insufficient level of innovation in enterprises; insufficient cooperation of the private sector with the academia; limited access to financing and infrastructure for support to business (such as business incubators); advisory support; lack of legal framework to govern intellectual property, and other. In its Report on Competitiveness in South East Europe 2021, OECD states: “*with increased financing for research by the public sector and increasing attractiveness of scientific research as a profession in order to develop human capital and prevent brain drain, the innovation systems could be the economic growth driver in the region.*”

Moreover, the liberalisation of regional trade under the CEFTA should contribute to the downsizing of obstacles and deepening of regional cooperation in the field of trade facilitation, trade in services, electronic commerce, movement of highly qualified workforce, regional investments, etc.

Challenge No 3: Reducing informality in the economy

The third key challenge to improving the competitiveness of Montenegro is formalising the informal economy. According to a recent survey conducted for the needs of the Government of Montenegro¹⁴, the share of the informal economy within the formal sector in Montenegro in 2022 made 20.6 percent of GDP, which represents a reduction of 3.9 percentage points relative to 2014. According to the European Commission assessment, “*the informal sector, spurred by shortcomings in the institutional and regulatory environment and weaknesses in the labour market, insufficient capacity of public authorities for implementation, corruption, and failure to comply with tax liabilities*”. According to the survey on the informal economy

¹⁴ Household and enterprises survey to determine the volume and composition of the informal economy, carried out by IPSOS



conducted for the Ministry of Finance, the most frequent manifestations of the informal economy in Montenegro are informal employment both with business undertakings and entrepreneurs, as well as with unregistered businesses. The unpaid labour of (dominantly) women of working age, especially in households, essentially represents one of the aspects of the informal economy. The sizable informal sector is spurred also by relatively high costs of doing business for enterprises. The informal economy is present in almost all segments of doing business, primarily in form of not recording transactions of trade in goods and services, sale of excisable goods in public spaces, by avoiding entering into employment contracts, and paying out wages without paying taxes and social insurance contributions, irregularities when hiring seasonal workers whether those are residents or non-residents, by pursuing an economic activity without a license and without prior tax registration; and other. The informal economy has a particularly negative impact on the operations of small and medium-sized enterprises that operate legally, especially those that are innovative. It adversely affects the lowering of the level of their competitiveness, making their goods and services more expensive compared to their unfair competition. This consequently leads to difficulties in expanding their businesses and opening new jobs.

Based on the *three key structural challenges of the Montenegrin economy* presented in the Montenegro Economic Reform Programme 2022-2024, as well as based on reform activities carried out in 2022, the European Commission issued six policy guidance to Montenegro during the 2022 Ministerial Dialogue, which are important for the preparation of the Economic Reform Programme for 2023. Out of these six policy guidance, the last three are partially addressed in Chapter 5.

b. Reform measures in response to three key challenges

In response to the three key structural challenges of the Montenegrin economy, the reform measures are presented in the text to follow and so for each of 13 reform areas contained in the European Commission Guidance Note for Economic Reform Programme. Thereby 15 measures continued from the previous Economic Reform Programme with introduction of four new.

A detailed overview of measures from the previous Economic Reform Programme with explanations why some of them were not continued is presented in the following table.

Measures from ERP 2022-2024	Measures from ERP 2023-2025	Status
Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation	Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation	Measure continued
Reform measure 2: Introducing new work schemes and work-life balance	The measure was not continued, since its full implementation is expected through activities of amendments and supplements of the Labour Law, which are underway.	/



Measures from ERP 2022-2024	Measures from ERP 2023-2025	Status
Reform measure 3: Introducing the Youth Guarantee Programme in Montenegro	Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro.	Measure continued
Reform measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market	The measure was not continued because its implementation has not started at all, nor it would commence in foreseeable future, and some activities of this measure will be part of the future Education Development Strategy and active labour market policies.	/
Reform measure 5: Digitalisation of the education and development of digital skills	Reform measure 4: Digitalisation of the education and development of digital skills.	Measure continued
Reform measure 6: Reform of the national system for disability assessment	The measure is not part of ERP due to difficulties in securing infrastructural prerequisites in its implementation, while the time for resolving this issue is not known. The measure will be certainly implemented as soon as bottlenecks for its implementation are removed.	/
Reform measure 7: Defining financial preconditions for reforms proposed by the Road Map	Reform measure 5: Reform of the social and child protection system based on the Road Map	Measure continued
Reform measure 8: Improving access to and quality in delivery of healthcare services and the digitalisation of the healthcare system	Reform measure 6: Digitalisation of the healthcare system in Montenegro	Measure continued
Reform measure 9: Establishing a full electronic registration of enterprises	Reform measure 7: Establishing a full electronic registration of enterprises	Measure continued
Reform measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund	The measure was not continued given that the institutional framework was not established for its implementation, as planned under ERP 2022. More specifically, during 2022 activities was concluded that the need to create a Credit-Guarantee Fund as an independent institution should be further considered, thus the option for its establishment within the Investment and Development Fund should be considered, bearing in mind that the Law on the Investment and Development Fund already envisages issuing guarantees by the Investment and Development Fund.	/
Reform measure 11: Strengthening competitive position of MSMEs by establishing a single access point	The measure was implemented.	/
Reform measure 12: Strengthening the national innovation and research ecosystem	Reform measure 8: Strengthening the national innovation and research ecosystem	Measure continued
Reform measure 13: Improving digitalisation of the e-government by developing platform for complex e-services	The measure was not continued, given that after the cyber attack in Montenegro in 2022 it is linked with a measure in the new ERP dealing with strengthening the cyber resilience.	/
Reform measure 14: Improving legislative and regulatory framework for further development of broadband internet connection infrastructure	Reform measure 11: Improving the infrastructure for broadband internet access and introducing next-generation networks	Measure continued



Measures from ERP 2022-2024	Measures from ERP 2023-2025	Status
Reform measure 15: Improving management of business undertakings in majority state ownership	Reform measure 12: Improving management of state-owned enterprises	Measure continued
Reform measure 16: Suppressing informal economy through the tax administration reform	Reform measure 14: Strengthening mechanisms for the formalisation of informal economy	Measure continued
Reform measure 17: Improving the business environment by reducing the labour tax wedge	The measure was implemented through amendments of a set of tax laws, which are in effect.	/
Reform measure 18: Information system and mobile application for monitoring the tourism parameters	The measure was not continued, because activities were not carried out due to the need for the terms of reference to be redefined as a base for development of the information system, including a supporting software application. Likewise, also due to structural and personal changes in the Government and institutions recognised as responsible and partners for realisation of the measure.	/
Reform measure 19: Sustainable green tourism	Reform measure 15: Sustainable green tourism	Measure continued
Reform measure 20: Financial support to households aimed at applying energy efficiency measures	Reform measure 17: Financial support to households aimed at applying energy efficiency measures	Measure continued
Reform measure 22: Support to investments in the food manufacturing sector aimed at strengthening the competitiveness	Reform measure 16: Investments aimed at the development of agriculture and rural areas	Measure continued
Reform measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products	Reform measure 18: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products	Measure continued

The text to follow presents priority reform measures under the Economic Reform Programme 2023-2025.

Reform measures as response to Challenge 1: Increasing employment, especially of women and youth, and fight against the long-term unemployment problem

Reform measures aimed at responding to the challenge of increasing employment, especially of women and youth, the fight against long-term unemployment, as well as contributing to greater digitalisation of the public administration to that end, are contained in several reform areas. Thus, in response to this challenge, measures are proposed in the area of *Employment and labour market* dealing with the digitalisation of the Employment Agency in order to strengthen its operational capacity in providing services, then the introduction of the Youth Guarantee Programme in order to increase their employability, which will contribute as a response to the challenge of long-term unemployment. In the area of *Education and skills*, in response to the challenge of unemployment, the measure from the previous year, which refers to the process of digitalisation of education, continues, as well as a new measure for the development of an integrated approach to increasing the quality and inclusiveness of education. Furthermore, bearing in mind that the Economic Reform Programme recognises



that inadequately targeted social welfare benefits do not contribute to the reduction of unemployment and poverty to the extent necessary, it is proposed to continue last year's measure "Reform of the social and child protection system based on the Road Map", in order to contribute to increasing employment and reducing poverty. Moreover, bearing in mind that greater efficiency and coordination of the healthcare system is necessary in order to increase human capital and reduce unemployment and poverty, part of the answer to the above-stated is provided by the measure "Digitalisation of the healthcare system in Montenegro".

Measures in the area of *Employment and labour market*, as a response to Challenge 1, are presented in the text to follow.

Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation

1. Description of measure: The objective of the measure is to reform the Employment Agency aimed at improving efficiency in the delivery of services to beneficiaries, to unemployed persons on one hand and employers on the other. The measure supports interoperability with other databases in the country's system of and adequate data exchange for improved quality in monitoring unemployed people. This measure is a continuation of the measure from the previous year, given that this measure is of a multi-annual nature and due to the fact that its implementation was partly slowed down. It is a part of the response to unemployment, which was identified as a structural challenge in the country.

Improving the capacities and functionalities of the Montenegro Employment Agency will contribute to fulfilling the closing benchmarks for Negotiating Chapter 2 and Negotiating Chapter 9. In the context of the policy guidance No 6 of the Ministerial Dialogue, the measure is a direct contribution to reaching the objectives of the Digital Agenda and the Green Agenda. Furthermore, the measure is direct contribution to achieving objective No 4 of the National Employment Strategy 2021-2025 dealing with the efficient functioning of the labour market, as well as will contribute to achieving the Millennium Development Goals: SDG 1 – No poverty, and SDG 8 – Decent work and economic growth. Activities envisaged by this measure are part of the Instrument for Pre-accession Assistance (IPA).

The Action Plan for interoperability among selected information systems and databases with a role in managing the labour market in Montenegro was prepared in the previous period, and which the Government of Montenegro adopted at the meeting held on 22 December 2022. Final activities are taking place on improving the capacities of the Montenegro Employment Agency for use of online tools through pre-accession assistance and support of the International Labour Organisation. Additional support for improving the administrative capacities of the Employment Agency will be provided through a twinning project (IPA 2020).



Furthermore, activities are being finalised on improving the online module for registration of unemployed persons and vacant job positions.

- a) Activities planned in 2023:** Carrying out the procedure for launching a tender for procurement of hardware and selection of possible contractor for implementation of the procurement contract for the project “Development of the new Information system for the Montenegro Employment Agency” from IPA 2020; Starting implementation of activities envisaged under the Twinning project for improving the capacities of the Montenegro Employment Agency;
- b) Activities planned in 2024:** Making operational the new IT equipment, as well as installing the new software, which should enable improvement in existing and creating new modules aimed at establishing full interoperability; Continued implementation of the Twinning project for improving capacities of the Montenegro Employment Agency in the segment of creating active labour market policy measures, with particular focus on carrying out activities of monitoring and evaluation.

Institution tasked to implement this measure: Ministry of Labour and Social Welfare

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2025)
New IT platform of the Montenegro Employment Agency established, which enables more efficient work of advisors with beneficiaries	Present IT solution does not enable interoperability of databases among institutions	Hardware procured	New IT solutions of the Montenegro Employment Agency established which enables interoperability of data with other systems for more efficient work with beneficiaries
Share of unemployed persons who filed the online registration for employment as total number of registered unemployed persons in the records of the Montenegro Employment Agency	0	10% of the total number of registered persons	30% of the total number of registered persons
Percent of employees/users trained to use the new information system	0	30% employees/users of the total number of employees in the Montenegro Employment Agency	90% employees/users of the total number of employees in the Montenegro Employment Agency



3. Expected impact on competitiveness: Improving the efficiency in the delivery of services to unemployed persons should enable enhanced inclusion and employment of unemployed persons and their faster transition into the labour market. At the same time, further dynamics and labour market fluctuations should enable faster and more efficient cooperation with employers and enhanced competitiveness.

4. Estimated cost of the activities and the source of financing: Total cost for implementation of the measure in 2023-2024 is EUR 2,941,176.00. Financing for the implementation of this measure is provided within activities of two projects from AD IPA 2020, with 15 percent co-financing by the state. The projects in question are: the project *“Development of the new information system of the Montenegro Employment Agency”* with a total value of EUR 2,117,647.00 and the twinning project *“Strengthening capacities of the Montenegro Employment Agency in terms of Active Labour Market Measures, future participation in the European Social Fund and facilitation of labour force mobility”* in the total amount of EUR 823,529.00 . The total planned funds for this measure will be spent on the procurement of new software and hardware for the Employment Agency, consulting services, and training for the Montenegro Employment Agency employees, and employees of the Ministry.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: Improving the quality of services and measures provided by the Montenegro Employment Agency will contribute to improved employability and employment of persons registered as unemployed, which will have an important effect on improving the standard of living of those persons, and consequently on poverty reduction, resulting all in increased equality and cohesion, which is directly connected with reaching the SDGs 1 and 8. All activities under this measure are supporting the gender equality dimension.

6. Expected impact on the environment and climate change: The measure has an impact on the environment in terms of reduced pollution resulting from future digitalisation processes, which are reducing consumption of natural resources and supporting their more efficient use. These are at the same time pillars of the Green Agenda for the Western Balkans.

7. Potential risks in implementing the measure:

Risk	Probability of risk materialising	Planned risk mitigating action
Capacities of institutions for the implementation of the new approach in work are limited both qualitatively and quantitatively	High	Implementation of the twinning project with a focus on the direct implementation of recommendations of experts for improving the work of institutions, with direct oversight of the EU Delegation to Montenegro



Risk	Probability of risk materialising	Planned risk mitigating action
Linking the Montenegro Employment Agency with databases of other institutions is difficult due to IT incompatibility of the systems	High	Full implementation of the Action Plan for interoperability of databases
Implementation of the measure is not in accordance with the plan, due to staffing changes in institutions, as well as frequent changes of the state administration at the political level	High	Extending deadline for implementation of the measure

Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro

1. Description of measure: This measure is a systemic support to young people aimed at their inclusion in the labour market and response to the challenge of exceptionally high unemployment rate of this population, which was 32.5 percent in 2021 (age 15-29), while the share of young people who are not in education, employment, or training (NEET) is at the level of 26.5 percent. The measure continues from the previous year, given that it is multi-annual, and its implementation will be slower than it is envisaged in the previous year. Its implementation should ensure the inclusion of youth in further education or professional development programmes, provide for possibilities to engage in internship or employment, as well as reduce their informal employment, in which they are without access to social protection.

The measure is aligned with the EU Council Recommendation (2020/C 372/01), and policy guidance No 6 of the Ministerial Dialogue from May 2022. It should contribute directly to achieving SDGs 1, 4, and 8. The introduction of the Youth Guarantee Programme was also identified in the National Employment Strategy 2021-2025 as one of the instruments for the reduction of high youth unemployment.

During 2022, the Working Team, constituted of various stakeholders, prepared a Draft Plan for the implementation of the Youth Guarantee Programme, which was approved by the Inter-sectoral high-level working group and submitted to the European Commission for comments on 1 July. After a review of the document in line with the provided comments, the draft Plan was resubmitted to the European Commission for comments. After the Implementation Plan is adopted, the reform policies and initiatives, important for introducing the system for service delivery from the Programme, will be implemented.

- a) Activities planned in 2023:** Amendments to legal provisions in order to create assumptions for unhindered implementation of the Youth Guarantee Programme,
- Carrying out activities envisaged under the Twinning project for improving capacities of the Montenegro Employment Agency in the segment of improving the system for the introduction of the Youth Guarantee Programme;



b) Activities planned in 2024: In accordance with the Plan for Programme Implementation, carry out the phase of informing the young people, as well as new programmes for active labour market policies intended for youth;

c) Activities planned in 2025: Implement the pilot phase of the Programme.

Institution tasked to implement this measure: Ministry of Labour and Social Welfare and Montenegro Employment Agency, NGO

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2025)
Increase of the employment rate of youth aged 15-29	30.0% ¹⁵	33.0%	35% ¹⁶
Percent of completed activities from the Youth Guarantee Programme	0	50%	100% ¹⁷

3. Expected impact on competitiveness: Participation of young people in the Youth Guarantee Programme will have a positive effect on increasing the workforce activity, but also on its competitiveness. They will acquire knowledge and skills required and demanded in the labour market through education, professional development, internship, or through work, ultimately leading to narrowing the structural labour market disbalances.

4. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care: The measure will have a direct impact on an increase in employment, through youth employment on the open labour market with financial support to be provided under the Programme. At the same time, employment will have an effect on social inclusion and poverty reduction as well. All activities under this measure will support the gender equality dimension.

5. Estimated cost of implementing the reform measure and the source of financing: Costs of financing the measure will be defined with more precision in the forthcoming period, while part of the costs will be covered from the Budget.

6. Expected impact of the reform measure on the environment and climate change: The measure will have an indirect impact through opportunities to acquire knowledge about the meaning and importance of the green transition, or to have the possibility to be employed in one of the green economy jobs via a traineeship or professional development.

7. Potential risks connected with implementing the reform measure:

¹⁵ These are the latest available data from the LFS for 2021, because only quarterly data are available for 2022.

¹⁶ Data from the National Employment Strategy 2021-2025.

¹⁷ Data refers to the initiatives to be carried out under the Twinning projects for improving capacities of the Montenegro Employment Agency 2023 and 2024.



Risk	Probability of risk materialising	Planned risk mitigating action
Delays in approving funding through pre-accession funds	High	Continuity of negotiations with the European Commission
Lack of capacities to implement the Programme	High	Training of human resources through already prepared support projects for strengthening capacities, as well as strengthening of the inter-institutional cooperation

Reform measure 3: Developing an integrated approach to improving education quality and inclusivity

1. Description of measure: Objective of this measure is to develop a strategic framework for an integrated approach to improving the quality and inclusivity of education aimed at improving learning outcomes. This is a new reform measure, which should contribute to providing a response to the long-term unemployment challenge, especially of young people, due to a lack of alignment between the knowledge and skills against the labour market needs. The Measure gives a partial response to policy guidance No 6 of the Ministerial Dialogue from May 2022. To that end, the development of a comprehensive, evidence-based medium-term Education Sector Strategy, with a Road Map, for an integrated approach to improving the quality and inclusivity of education, should bring advancements in the learning outcomes to be reflected in better PISA test results and in increasing the human capital index.

The proposed measure will also support Montenegro to implement criteria for the European Union accession contained in three EU negotiations chapters: Chapter 19 – Social policy and employment, Chapter 23 – Judiciary and fundamental rights, and Chapter 26 – Education and Culture. Specifically, the proposed measure will contribute to key issues from the EU 2021 report in the segment dealing with Chapter 26. The measure is connected with the process of implementation of the following strategic documents: National Strategy for Exercising the Rights of Children (2019-2023), National Sustainable Development Strategy of Montenegro by 2030, Strategy of Early and Pre-School Pedagogy and Education (2021-2026), Inclusive Education Strategy (2019-2025), Strategy for Social Inclusion of Roma and Egyptians in Montenegro (2021-2025), Strategy of Early and Pre-School Pedagogy and Education (2021-2025), Digital Education Strategy (2022-2027), EU Action Plan for Digital Education (2021-2027). It is also aligned with the **IPA III Programming Framework**, which emphasises strengthening the approach to and quality of education, including the training system, in particular of schoolteachers and school managers, management of and creating strategic policy, as well as with the **EU Economic and Investment Plan for the Western Balkans (2020)**, which focuses on the digital transformation.



a) Activities planned in 2023:

- Improve capacities of representatives of the Ministry of Education, and other relevant institutions for evidence-based planning, budgeting, monitoring and evaluation of plans in the education sector,
- Develop the Education Sector Strategy (2024-2030) and an Action plan for its implementation (which will definitely include changes to curricula),
- Establish a working group for the curricula reform,
- Develop and implement an advocacy plan that will mobilise broad support for the development and implementation of the Strategy and the Action plan;

b) Activities planned in 2024:

- Design and implement a campaign to strengthen the positive attitude of citizens and change behaviour aimed at reaching good quality and inclusive education for all children,
- Assess the system for the professional development of schoolteachers, develop a comprehensive database on human resources (kindergarten teachers, class teachers, schoolteachers, secondary school teachers), which will include also the system of career monitoring, professional development of class teachers and school teachers, employee fluctuations,
- Improve quality and inclusivity of the education process, support and accessibility of services for children with developmental disabilities in preschool education, and primary schools, with special emphasis on first cycle of the primary school (from 1st to 4th grade),
- Improve the quality of early education of Roma children and quality of the education support in primary education, with special emphasis on the first cycle of the primary school (from 1st to 4th grade);

c) Activities planned in 2025:

- Continued improvement of quality and inclusivity of pedagogical services for children with developmental disabilities in pre-school education, and primary schools, with special emphasis on first cycle of the primary school (from 1st to 4th grade),
- Continued improvement of quality of early education of Roma children and quality of the education support in primary education, with special emphasis on the first cycle of primary school.

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2024)	Target (2025)
Enrolment rate in preschool education institutions (total for aged 3 to 6 years)	75.99%	78%	80%



Average score reached in the PISA test (rank for reading, mathematics, science)	55.6 / 53.8 / 51.8	/	Results will be available only in 2026
Percentage of expenditure for education (as % of GDP)	3.9%	4.5%	5.5%

3. Expected impact on competitiveness: Implementation of education system reforms from preschool to higher education level will contribute to the improvement of skills and competencies for the 21st century of all participants in the process. This will ensure an easier and faster integration of school pupils and teaching staff into the labour market, a better supply and fluctuation of the workforce, as well as improving the competitiveness of enterprises operating in Montenegro. By using modern and inclusive approaches and information technologies in education, it will be possible to improve the quality, efficiency, effectiveness, and cost-effectiveness of education and to apply the learning outcomes in the labour market.

4. Estimated cost of the activities and the source of financing: Implementation of the reform measure will be financed from IPA funds of 1 million euro in the period 2023-2025, with co-financing from the Budget of Montenegro of EUR 200,000 euro. UNICEF will also provide a contribution to financing.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: Acquiring present-day knowledge in a high-quality and inclusive manner, which will raise the level of understanding of the acquired learning outcomes, mastering the necessary ICT knowledge and skills, will make students better prepared for the labour market, to find faster a path to employment and better-paid jobs.

6. Expected impact on the environment and climate change: The development of digital skills, which depends on the very degree of digitalisation of education, equipping schools with the objective of equal access to digital content and the training of teachers in the application of contemporary digital methods, directly contributes to the implementation of the Green Agenda for the Western Balkans, which relies on the skills necessary to monitor the implementation of sustainable development policies, as well as the European Green Deal. Furthermore, reaching a good quality and inclusive education, which requires general social consensus, contributes to the creation of perception and acceptance of the importance of green policies and to changes in behaviour concerning the environment.

7. Potential risks:

Risk	Probability of risk materialising	Planned risk mitigating action
Unclearly defined roles and responsibilities of participants included in the	Moderate	Full involvement of all participants in the process, with clearly defined and consensual acceptance of roles in the process for all stakeholders; defined and monitoring of inter-



Risk	Probability of risk materialising	Planned risk mitigating action
implementation of the process.		communication in the process; constant review of risks, escalation
Absence of adequate political commitment and decisive approach towards the objective of the Action	Moderate	Relevant state-level stakeholders are committed to developing a strategic approach by adopting and implementing plans and models. In order to sustain commitment and decisiveness, close coordination and communication mechanisms will be established for unhindered and regular interaction, while all strategic documents of the Action will be designed together with relevant Government stakeholders.

Reform measure 4: Digitalisation of the education and development of digital skills

1. Description of measure: The objective of this measure is to develop new electronic services, improve the public sector functioning, and inter-sectoral cooperation, create appropriate prerequisites in the education and pedagogical institutions for successful improvement of all digital processes and thus contribute to the quality and inclusivity of the education, develop and advance digital skills of school pupils. They are needed for further learning/life-long learning process, labour market, and functioning in the society and knowledge and innovation-based economy.

The COVID-19 crisis and closure of education and pedagogical institutions had further accelerated the exigency for digitalisation of the education system that would make it more resilient to the future crisis and thus create basis for the establishment of a good quality system for distance learning under regular and extraordinary circumstances, as well as digitalisation of another process in the education system.

The measure is aligned with the strategic national goals set in the following documents: **Education System Digitalisation Strategy 2022-2027; Cyber Security Strategy; Digital Transformation Strategy; and Smart Specialisation Strategy. The Recommendation of the European Parliament and of the Council (2006/962/EC)** recognises digital competence as one of eight key competencies for lifelong learning. **The European Union Digital Education Action Plan 2021-2027** offers a long-term strategic vision for high-quality inclusive and accessible digital education. The measure continues from the previous year, but some of its features are delays of certain activities due to organisational changes in the public administration organisation and taking over legal acts dealing with the powers of the former Ministry of Education, Science, Culture, and Sports, which is a lengthy process. The measure represents a response to the challenge of long-term unemployment, especially of youth and women.

a) **Activities planned in 2023:** Prepare and adopt the Rulebook on the Manner of Keeping Data in the Education Information System; Prepare and adopt the Rulebook on the



Manner of Appointing School and Regional ICT Coordinators; Create training programmes for ICT Coordinators and carry out trainings; Amend the General Education Law in the segment of organisation of educational and pedagogical process (digital teaching, digital textbooks); Draft the Rulebook on governing copyrights for digital education content; Establish a model for online collaboration for the Ministry of Education, Institute for Teaching, Centre for Vocational Education, Examination Centre, and Institute for Textbooks and Teaching Material; Procure and implement new equipment in the Data Centre; Procure equipment and establish the Data Recovery Site; Create a module in the Education Information System for identification of children not in schooling in Montenegro and identification of children with illegal stay in Montenegro; Procure and equip educational and pedagogical institutions with computer equipment;

- b) Activities planned in 2024:** Establish a remote backup for the Education Information System; Improve software modules *School, Reports, IT Administration*; Implement the module in the Education Information System for record-keeping on maintenance of buildings of educational and pedagogical institutions; Advising directors, deputy directors, form teachers, teachers and associates on record-keeping and using modules in the Education Information System; Develop a Framework for development of digital competences of teachers; Develop a curriculum for ICT course for primary education schools; Improve existing curricula for ICT courses for secondary education schools; Develop procedures for renting computer equipment to school pupils; Installing local computer networks in secondary education schools and pre-school institutions; Develop digital education content as supplement to the printed textbooks and develop digital education content independent of printed textbooks and develop digital education content for children with special educational needs; Create material for self-learning on the digital platform for children, parents, and pedagogical and teaching staff; Training of employees in education and pedagogical institutions in line with the ECDL start model and for application of the Digital School concept; Training of teachers for use of key digital competences, for acquiring digital professional competences, for work with talented students in the ICT field, and use of ICT in work with children with special educational needs; Cyber security training of employees in pedagogical and educational institutions;
- c) Activities planned in 2025:** Develop and implement database on conducted trainings of employees in educational and pedagogical institutions; Create a module in the Education Information System for recording post-secondary non-tertiary specialisation (level V); Equip education and pedagogical institutions with computer equipment; Improve the staffing structure in the Ministry of Education engaged in IT tasks; Develop digital education content as supplement to the printed textbooks and develop digital education content independent of printed textbooks and develop digital education content for children with special educational needs; Create material for self-learning on the digital



platform for children, parents, and pedagogical and teaching staff; Training of employees in education and pedagogical institutions in line with the ECDL start model and for application of the Digital School concept; Training of teachers for use of key digital competences, for acquiring digital professional competences, for work with talented students in the ICT field, and use of ICT in work with children with special educational needs; Cyber security training of employees in pedagogical and educational institutions.

Institution tasked to implement this measure: Ministry of Education

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023-2024)	Target (2025)
Computer to student ratio (number of school pupils per one computer)	1:15	1:14	1:13
Percentage of buildings with local computer network	65%	70%	75%
Number of users of the platform for self-learning	547	1,000.	20,000.
Percent of trained employees in educational and pedagogical institutions for applying the Digital School concept	40%	50%	60%

3. Expected impact on competitiveness. Given that this Measure covers the education area, it may have an impact on competitiveness; however, not during its implementation but rather after the end of the period, precisely after 2025. Improved competitiveness may be seen in all areas of work which will be improved through this Measure and through equal access for everyone.

4. Estimated cost of implementing the reform measure and the source of financing. In 2023, the Budget of Montenegro allocated EUR 1.8 million to be spent for the development of digital content and textbooks, for development of new modules for a software applications in the Education information system. Funds of EUR 6.5 million from the European Investment Bank (EIB) are planned for procurement of computer equipment for primary and secondary education schools (approximately 50 percent of the needs), as well as for the procurement of computer equipment for the new Data Centre and establishment of the Disaster Recovery Site. During 2024 and 2025, EUR 1.8 million each is planned from the Budget of Montenegro for the procurement of the remaining computer equipment needs.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to healthcare. The Reform Measure will improve knowledge in one of the three key competencies, which is digital knowledge. Employability will be enhanced by improving digital competencies. Gender equality and involvement of all age and education strata will be considered when training is organised.



6. Expected impact on the environment and climate change: Improving the digital skills will also lead to an enhanced business environment in the segment of work of organisations dealing with the environmental protection. Withal, the establishment of interoperability among institutions, as well as the development of electronic services, also has a direct impact on environmental protection as it reduces the need for certificates, visiting each institution, etc. This application in a large system such as the education system has significant impact on reducing the need for consuming paper, tonners, fuel, and other.

7. Potential risks connected with implementing the reform measure:

Risk	Probability of risk materialising	Planned risk mitigating action
Insufficient budget funds	Moderate	Promoting importance of this measure from the proceeds secured from EIB
Insufficient IT staff employed in the Ministry of Education	High	Increase number of job positions (3 job positions) and increase wages to employees, as there is shortage of these staff in both public and private sector.

Measures in the area *Social protection and inclusion*, as part of the response to the challenge No 1, are provided in the text to follow.

Reform measure 5: Reform of the social and child protection system based on the Road Map

1. Description of measure: Comprehensive objective of the reform of the social protection system is strengthening the coverage and targeting of financial support and services, precisely the efficiency and financial sustainability of the system aimed at a comprehensive and timely response to the needs of beneficiaries. This measure has as its objective to support sound and evidence-based financial planning of reform measures in line with the objectives, as the basis for making decisions on introducing, cancelling, or continuing new or existing benefits and services in the social protection system. Defined financing mechanisms should clearly recognise sources and volume of financing in order to achieve continuity, sustainability, and adequate monitoring of the reform measures implementation.

The measure is addressing several key obstacles recognised in a comprehensive analysis of the social protection system; precisely: planning of financial benefits and social protection services is not entirely evidence-based and based on costs analysis, more specific consideration of fiscal space for their implementation. A Strategy for financing the reform social protection measures was not prepared, which is slowing down the process of planning and implementing reforms, because their financial viability was not established. In close



cooperation with the Ministry of Labour and Social Welfare, UNICEF has finalised the analysis of the existing system of social protection using an internationally recognised methodology. This analysis gives to the Ministry a foundation for acceleration of the much-needed reform of the social and child protection system. New data of the EU SILC for 2021 show that the exclusion of social transfers from the income of the population contributes to the poverty reduction by only 6 percentage points, while there is a large potential for further reduction of the poverty headcount by increasing the efficiency of financial benefits and allocated funds by improving the coverage and targeting of poor and vulnerable groups and by enhancing currently allocated funds (amounting approximately 3 percent of GDP).

The social protection reforms are recognised also in the Economic and Investment Plan for the Western Balkans, as well as within the framework of the European Pillar of Social Rights. The measure in part provides a response to policy guidance 6 of the Ministerial Dialogue, which are addressing amongst others youth employment and social protection reform. *Based on the Roadmap of Reforms on Social assistance and social and child protection services in Montenegro, establish a clear timeline and financial planning for its implementation and continue implementing the reforms.* Implementation of this measure will further contribute to achieving the Sustainable Development Goals SDG 1 – No poverty and SDG 10 – Reduced inequalities. The measure continues from the previous year, because its implementation was slowed down with amendments to the Law on Social and Child Protection of 2021, when the base of beneficiaries expanded without defined criteria (introduction of the child benefit for all children in Montenegro up to 18 years of age), whereby expenditures for child benefit were increased from EUR 1.7 million in November 2021 to EUR 4.1 million in November 2022. The measure is financed from the IPA III, as well as from IPA project currently being implemented (detailed provided in Annex II).

a) Activities planned in 2023:

- In cooperation with the Ministry of Labour and Social Welfare, UNICEF should carry out an analysis of costs, and financial sustainability, and prepare a financial plan for the Reform of the social and child protection system;
- Ministry of Labour and Social Welfare will improve coordination and cooperation with Social Welfare Centres and providers of services by developing a procedure for coordination function of the Ministry of Labour and Social Welfare (clearly defined procedures for oversight, coordination, monitoring, and evaluation);
- Improve social welfare centres capacities to be able to provide case management services and referral of beneficiaries;

b) Activities planned in 2024:

- Define obligations under the law, methodologies, criteria and processes which will be used in evidence-based (realistic needs in the field, input from beneficiaries, simulation, financial sustainability, and analysis of effects of the social and child



protection programmes) decision-making process about introduction, continuation or cancellation of social and child protection programmes – competent institutions Ministry of Labour and Social Welfare and Ministry of Economic Development;

- Continue with and improve coordination of the Ministry of Labour and Social Welfare, Social Welfare Centres and providers of services through the implementation of oversight and coordination function of the Ministry of Labour and Social Welfare and enhance further capacities of the system to provide case management services and referrals of beneficiaries - competent institutions Ministry of Labour and Social Welfare, Social Welfare Centres;
- Further improvement of the Social Welfare Information System – ISSS - competent institution Ministry of Labour and Social Welfare;
- Develop a comprehensive monitoring framework with process and performance indicators to be used to monitor the annual level of implementation; Concept design for the feedback mechanism for appeal and complaints analysis, followed by integration of collected information to guide future system development and adjustment - competent institution Ministry of Labour and Social Welfare.

c) Activities planned in 2025:

- Apply the statutory obligations and methodology for the introduction, cancellation or continuation of social and child protection programmes for the purpose of sustaining efficient and effective social protection programmes - Ministry of Labour and Social Welfare;
- Carry out periodical evaluations of programmes and services in the area of social and child protection within the process of policy reform; develop an Analysis of statistical data connected with the results of carrying out the procedures - Ministry of Labour and Social Welfare.

Institution tasked to implement this measure: Ministry of Labour and Social Welfare

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024 target)
Number of social and child protection programmes evaluated based on the methodology for deciding on introduction, continuation or cancellation of programmes	0	0	2
Number of annual evaluations of the social and child protection programmes	0	0	2



Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024 target)
Percentage increase of the number of case managers in Social Welfare Centres	0	20%	30%

3. Expected impact on competitiveness: Better targeting and coverage of financial benefits and social services is reducing poverty (not only income poverty but also multidimensional) and inequality, which at the same time represents long-term investment in human capital and productivity of the population. Competitiveness is achieved further through support to families in accessing social services, which enables their increased rate of entering the labour market and contributing to the economy.

4. Estimated cost of implementing the reform measure and the source of financing: Estimated costs are presented in Table 10a, whereby the Ministry of Labour and Social Welfare and UNICEF cover part of the costs, while part will be requested from IPA funds. According to the latest job classification of the Ministry of Labour and Social Welfare, it was envisaged that 14 additional case managers will be employed in the Social Welfare Centres, thus those costs should be allocated to the central government budget. The calculation is based on the assumption that 14 staff have a gross wage of EUR 900, resulting in the annual costs of the gross wage of EUR 151,200. In order to implement this reform measure, support from the IPA framework in a form of special programmes proposed under IPA III (Child Guarantee, Youth Guarantee, Support to de-institutionalisation, as well as possible sectoral budget support) is also needed.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: Over the medium and long term, the measure will contribute to a sustained and continuous poverty reduction by strengthening the preventive functions of the system and enabling the population to exit the social and child protection framework, precisely not to have a need for its support. Reallocation of funds for social and child protection towards those most in need will have impact on reducing the poverty risk, especially for children. On the other hand, the reform will affect those beneficiaries who fail to fulfil the criteria for social welfare benefits to become active in the labour market, which will contribute to employment. The measure is gender-neutral.

6. Expected impact on the environment and climate change: The measure does not have impact on the environment.

7. Potential risks connected with implementing the reform measure:



Risk	Probability of risk materialising	Planned risk mitigating action
Commitment of the Government to carry out systemic reform which also requires multi-sector coordination as well as human resources which should be responsible for implementing a complex reform in a relatively short time frame.	Moderate	Adoption of the Road Map for social protection reforms by the Government and consultations with the Parliament in order to ensure political will for implementing the reforms.
Lack of financial resources for the implementation of the reform	Moderate	More efficient use of domestic and international financing through improved coordination of donors

Measures in the area of **Healthcare** are as follows:

Reform measure 6: Digitalisation of the healthcare system in Montenegro

1. Description of measure: The proposed reform measure deals with strengthening Digital health in Montenegro. The objective intended to be achieved under this measure is to improve and upgrade existing and introduce new healthcare services that could be exercised by using information and communication technologies.

The COVID-19 pandemic accelerated trends in the use of digital technologies in order to enable the continuity of provisions of services and unhindered functioning of the system. It was proven that the utilisation of resources of the existing system could be significantly increased by introducing new digital services, including amongst them Telemedicine, eHealth service, as well as mHealth service.

The earlier Economic Reform Programme for 2021 recognised a priority reform measure 20 called *Use of telemedicine services in Montenegro through the establishment of the information system for telemedicine and the development of mHealth*. However, this plan needs to envisage larger coverage of the measure, and not to limit it only to telemedicine and m-Health, but to cover the entire digital health.

The introduction of this measure will result in higher efficiency of the healthcare system and alleviate bottlenecks. The introduction of advanced services for the electronic tracking of pharmaceuticals, so-called track and trace system – from manufacturer to consumer, will contribute significantly to strengthening the oversight function in the healthcare system, expected to end in rationalisation in consumption of pharmaceuticals, which is recording an increase in consumption in recent years, as well as many other inputs necessary for decision makers to receive right information (use of antibiotics aimed at reducing resistance and similar). Furthermore, medical data would be exchanged easier and faster with the introduction of the e-Health Card or Electronic health records (EHR) that should be accessed by all healthcare institutions, public and private, with the consent of a patient. The Ministry of Health is in the process of amending the Law on Healthcare Protection, which will govern



the subject of digital health, telemedicine, m-Health, e-Health, but also the management of the digital system from the technical point of view. According to the legislation in Montenegro, everyone is entitled to universal healthcare protection, and this reform would contribute to achieving this challenging objective.

In addition to the Law, this measure is aligned with the Integrated Healthcare Information System and eHealth Development Strategy. The EU regulations covering this area are eHealth Action Plan 2012-2020 – Innovative Health Care for the 21st Century¹⁸, the EU Health Policy¹⁹, EU Public Health – eHealth: Digital Health and Care²⁰, Europe’s Digital Decade²¹, State of Health in the EU²², Green Paper on Mobile Health (mHealth)²³.

As for the SDGs, sustainability will be achieved with the provision for better health and well-being for all citizens of Montenegro.

a) Activities planned in 2023:

- Amend legislation governing digitalisation in health care; Law on Healthcare Protection, Law on Data Catalogues, and enabling legislation;
- Replacement of computer infrastructure;
- Develop a new Digital Health Strategy;
- Track & Trace system implemented for monitoring flow of pharmaceuticals from production to the patient;
- Project of teleradiology implemented in the Clinical Center of Montenegro (KCCG) and healthcare institutions;
- Analysis of the system and preparation of terms of reference for the telemedicine IS, e-Health Card or electronic health records (EHR), mHealth platform;
- Education of medical staff on the advantages of using modern ICT solutions and the benefits they provide;

The Ministry of Health would coordinate activities and implement them with the support of the overall healthcare system and UNDP.

b) Activities planned in 2024:

- Activities to develop and test the telemedicine IS and introduction of new services;
- Activities to develop and test the e-Health Card or electronic health records (EHR) IS, a system of advanced reporting using BI and Data Warehouse introduced;
- Activities to develop the mHealth platform;
- Introduction of health-based mobile applications;
- Education of medical staff on the advantages of using modern ICT solutions and the benefits they provide;

¹⁸https://health.ec.europa.eu/document/download/39c9a1ee-6afa-4ab9-a472-ddeac925d14f_en?filename=com_2012_736_en.pdf

¹⁹https://ec.europa.eu/health/eu-health-policy_en

²⁰https://ec.europa.eu/health/ehealth-digital-health-and-care_en

²¹<https://digital-strategy.ec.europa.eu/en/policies/europes-digital-decade>

²²https://ec.europa.eu/health/state-health-eu_en

²³<https://digital-strategy.ec.europa.eu/en/library/green-paper-mobile-health-mhealth>



The Ministry of Health would coordinate activities and implement them with the support of the overall healthcare system and UNDP.

c) Activities planned in 2025: All activities from 2024 will continue in 2025.

The Ministry of Health would coordinate activities and implement them with the support of the overall healthcare system and UNDP.

Institution tasked to implement this measure: Ministry of Health

2. Results indicators:

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Reduced number of patients referred outside their place of residence for radiology	40% of all examinations done for citizens gravitating outside the place of residence		30% of all examinations done for citizens gravitating outside place of residence
Number of interactive mHealth service in use in Montenegro through development and implementation of the mHealth platform	1 (mHealth platform)		3
Number of Track and Trace systems for tracking pharmaceuticals from production to the patient introduced	0		Target: 1 Track and trace system introduced

3. Expected impact on competitiveness: Introducing new and upgrading existing services in the field of digital health will provide for higher competitiveness and transition towards the green economy, while more efficient management and more rational use of available resources will result in less spending and higher utilisation of available resources. The existing information systems cover business processes at all healthcare levels, but those systems must be optimised and enhanced, so that they are following modern digital health trends and are more end-beneficiary/patient-oriented. Prevention in the healthcare system is important, and modern technologies, software applications, and services may encourage patients to lead a more active and healthier life, but also to observe their trends and habits and to correct them. From the point of view of the business sector, it will enable the emergence in the market of specialised firms, and institutions that will render services in the digital health field.

4. Estimated cost of the activities and the source of financing: The Law on Budget for 2023 allocated to the Ministry of Health funds EUR 1.4 million, which will serve for implementing the activities under the proposed reform measure. Implementation of the activities will be done in cooperation with UNDP, while under the strategic response within the IPA programming period 2021-2017, the Ministry of Health proposed digitalisation of the healthcare system as one of the projects for the financing of EUR 3.5 million, which would enable continuity and contribute significantly to the implementation of envisaged activities.



Implementation of this measure will give a significant contribution to strengthening the financial oversight of costs in the healthcare system, which currently are not at a satisfactory level, in particular in terms of expenditures for pharmaceuticals and medical consumables, which make up 30-35 percent of the budget, as well as costs for wages that have the same share. Implementation of activities under this measure will provide an insight into the accurate consumption of pharmaceuticals, as well as performance indicators for medical doctors, which will strengthen the oversight function of the Ministry and of the Health Insurance Fund.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care: Reform measures will enable better health and well-being of all citizens of Montenegro, all in line with SDG 3. It will have a particular impact on target 3.8, as it will enable better access to healthcare services, reduce waiting lists, and increase patient satisfaction. Access to services will be easier with the use of the telemedicine service, and health data will be more available with mHealth and eHealth services, Electronic health records oriented toward patients, and mobile applications created to help spur preventive activities and monitor health parameters.

6. Expected impact of the reform measure on the environment and climate change: The measure may have an impact on the environment and climate change as it will lead to a reduction in patient’s mobility in order for them to exercise rights to health care. The use of telemedicine, for example, teleradiology will enable patients to have their images taken in the healthcare institution nearest to their place of residence, while the images will be sent electronically for reading to an institution with specialised staff. This will prevent unnecessary travel taking place, the emission of greenhouse gases by using vehicles, while the State provided needed radiological equipment in all general hospitals.

7. Potential risks connected with implementing the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Outstanding system-level issues: <ul style="list-style-type: none"> – Management of the health information system, – Maintenance and planning of development and expansion of existing and introduction of new solutions; – Reaching higher level of integration and interoperability, – Statistics and advanced reporting, – Defining standards and access rights, data exchange between the system and software applications, – Defining standards and access rights, data exchange between physicians and citizens, – Policy for development, improvement and use of new technologies 	High	Dialogue and agreement of all stakeholders in the healthcare system to find the most adequate solution for all issues, and vision and support of the Ministry of Health to revolve issues



Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Legislation unaligned and adopted, in line with the solutions for system level issues	High	Ministry of Health support in the implementation
Financing from IPA III not secured	High	Ministry of Health support in the implementation
Resistance of employees to accept new technologies and new knowledge	High	Ministry of Health support in the implementation
Political stability for implementation of a long-term project	High	Ministry of Health support in the implementation

Reform measures as response to Challenge 2: Strengthening the regulatory environment

In response to the structural challenge of *Strengthening the regulatory environment*, reform measures are proposed in the areas of *Business environment and reduction of the informal economy*, *Research, development and innovation*, *Economic integration reforms*, *Public financial management and Digital transformation*. More specifically, in order to reduce administrative barriers and simplify the process of enterprise registration, the priority reform measure tackling the full electronic registration of enterprises will continue. Furthermore, support for innovation through strengthening the national innovation and research ecosystem is kept in this year's Economic Reform Programme, as a response to the challenge of enhancing the regulatory environment. Likewise, bearing in mind the obligations of the Government in the digitalisation process to reduce administrative barriers and for a better regulatory environment, as well as the necessity to strengthen cyber security, measures are proposed to improve the public administration digitalisation through development and advancement of digital skills, as well as the measure of strengthening the cyber resilience. A multi-annual measure for improving broadband internet access and introducing new generation networks is continued from the previous Economic Reform Programme addressing the alignment of the legal framework in this field with the European Union *acquis*, precisely further improvement of the regulatory framework aimed at increased competitiveness of the economy. Moreover, in response to the challenge of improving the regulatory environment, continued implementation of the measure on improving the management of majority state-owned business undertakings and reducing fiscal risks from their operations is proposed. This is a part of an overall public finance management (PFM) reform. Additionally, considering the importance of regional economic integration for improving the regulatory framework, in order to eliminate barriers to economic cooperation with the neighbourhood and improve the competitiveness of Montenegro, a new measure is this year's Economic Reform Programme is proposed dealing with facilitation of trade in



goods and services through the implementation of CEFTA Additional Protocols 5, 6, and 7, which was part of the Economic Reform Programme prior to 2022.

Thus, the measures as a response to the challenge of *Strengthening the regulatory environment* are provided in the text to follow.

Reform measure 7: Establishing a full electronic registration of enterprises

1. Description of measure: Electronic registration of enterprises means that the entire process of establishing an enterprise (from reserving name until such time an enterprise is able to perform legal transactions) is carried out electronically and thus made more efficient. The measure represents a response to policy guidance No 4, as well as No 5 of the Ministerial Dialogue in the segment dealing with the digitalisation of the public sector and the development of transactional electronic government services as a priority, in order to speed up and enhance the economic recovery. The expectations are that the implementation of this measure will contribute to reaching of the objectives recognised in the Digital Agenda for the Western Balkans. Full electronic registration of enterprises is possible only after data exchange amongst all authorities participating in this process is established, precisely by enabling their registries to exchange data using the Single information system for electronic data exchange (JISERP).

The establishment of interoperability and data exchange between all institutions participating in the company registration process, via the *Single information system for electronic data exchange* (JISERP), will enable full single [registration] application. This means that the founder/representative will initiate a single step registration procedure and in that process is obliged to submit only such documents and data that cannot be otherwise obtained *ex officio*. For business owners that means they will have only two core steps: electronic submission of documentation and data, and a visit to the commercial bank for identification purposes in the bank account opening process. Filing of the application includes submission of documentation signed by a digital signature and entering required data, as well as electronic payment of stamp duties using the National System for Collection of Stamp Duties (NS-NAT).²⁴ By connecting the above-listed registries, a more transparent environment will be created, along with expanded options for reducing the informal economy by faster and easier access to data.

Furthermore, in line with the conclusion of the Competitiveness Council, adopted at the meeting held on 11 March 2022, a Working group was established to draft regulations for the registration of economic and other entities. Adoption of a new Law on Registration of Economic and Other Entities will enable further legal security in the process of registration of

²⁴ Business owners will use the same system they are using to access the electronic registration of enterprises to access NS-NAT as well.



economic and other entities. The first working draft of the Law on Registration of Economic and Other Entities was submitted on 4 August 2022 to all members of the Working group for comments and suggestions, after which the comments were considered, and the text updated in line with the accepted suggestions. It is expected that the Government will adopt a proposal of the Law at its session at the beginning of 2023 and for it to be submitted to the Parliament of Montenegro.

a) Activities planned in 2023:

- Adoption of the new Law on the Registration of Economic and Other Entities and amendments and supplements to other relevant laws (primarily the Law on Business Undertakings) and enabling regulations in order to commence with the implementation of full electronic registration of enterprises;
- Enable payment of fees for registration of enterprises and electronic publication in the Official Gazette (via e-commerce services on the e-Firm portal and/or by using applications of commercial banks);
- Develop instructions for registration of enterprises for CRPS employees (for electronic filing of application and filing of application in person) and for beneficiaries (founders/representatives);
- Establish an option for the registration of business entities electronically and simplification of the process of in-person (physical) registration of enterprises for other types of business undertakings.

b) Activities planned in 2024:

- Connection with systems in banks with the objective to enable the opening of a current account without filing paper documentation;²⁵
- Establish an option for the registration of business entities electronically and simplification of the the process of in-person (physical) registration of enterprises in the event the founder and/or executive director is a foreigner;
- Simplification of the in-person (physical) registration of enterprises (for those that do not wish to use electronic registration) with electronic data exchange among institutions and fully operational POS terminals in the CRPS, and Enabling payment of all fees in one place;
- Promotional activities;

c) Activities planned in 2025:

- Increase the number of trained employees of the Central Registry of Business Entities

²⁵ It is important that during the registration of business entities no bank account needs to be opened, but to reach an agreement between the banks and the Revenue and Customs Administration for the initial/founding capital to be paid to the so called transitional account in banks and after that for the banks to send confirmation directly to the CRPS that the initial/founding capital is paid in. In such case the opening of bank account will follow after the establishment, and if the Law on Prevention of Money Laundering and Terrorism Financing allows, the bank account could be opened even without visit to the bank i.e. electronically. After that and following the agreement between the Revenue and Customs Administration and the Central Bank of Montenegro, the Revenue and Customs Administration should receive the current account number details from the Central Bank of Montenegro, and there is no need to enter it in the Single Employee Registration which is submitted to the Revenue and Customs Administration at the event the enterprise is established.



using adequate workshops and training to equip them for operational use of the application software designed to enable acceptance and processing of electronic registration applications, as well as for preparing and sending electronically and handling digital assets;

- Promotional activities.

Institutions tasked to implement this measure: Ministry of Economic Development and Tourism, Revenue and Customs Administration, Ministry of Public Administration. The report on operations is to be submitted quarterly to the Competitiveness Council, while the Secretariat of the Competitiveness Council supports the implementation of all activities and coordinates the work of the Working Group.

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (target 2024)
Increase number of trained employees of CRPS	2	4	4
Increase in number of electronic registrations in one year	10 percent for registrations of single-member LLCs	20 percent for registrations of all types of business undertakings	20 percent for registrations of all types of business undertakings
Ranking in international reports targeting business environment (WEF and Fraser Institute)	73 (WEF) 42 (Fraser)	71 (WEF) 40 (Fraser)	69 (WEF) 38 (Fraser)

3. Expected impact on competitiveness: Bearing in mind that the ultimate objective of enabling full electronic registration of all business entities is to make the process more efficient, and by doing so employees be freed of manual, repetitive activities, room for new sources of revenue by introducing new services covering the needs of the State, real sector, associations, etc, is being opened. Over the medium term, all this will contribute to improved competitiveness of the country by shortening procedures, and cutting costs and time needed to register an enterprise.

4. Estimated cost of the activities and the source of financing: Implementation of this measure does not envisage additional allocations from the budget.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: Registration application contains for the first time a field for gender, which is an important step forward relative to the previous period in terms of statistical data provided through questionnaires for specific international reports.

6. Expected impact on the environment and climate change: The measure is neutral in terms of impact on the environment and climate change.

7. Potential risks connected with implementing the reform measure:



Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Resistance of business owners for electronic registration of enterprises	Low	Strong promotion of benefits of the electronic registration of enterprises, with an appropriate education of users
Untimely changes to legislation	Low	Adequate and specific analysis of changes to legislation will contribute to shortening of the procedure for adoption of legislation.
Threat from cyber attack to the information infrastructure, jeopardising data and system protection	High	Investments in corporate security and early detection of threats, investments in cyber security measures

Measure in the area “Research, development and innovation” as a response to the Challenge 2, is provided in the text to follow.

Reform measure 8: Strengthening the national innovation and research ecosystem

1. Description of measure: The objective of this reform measure is to strengthen foundations for management and institutional networking in the research and innovation system by advancing the institutional, programme and legal framework for science and innovation; incentivise technological transfer, programme directions that will spur synergy and continuity in the development of the smart specialisation priorities and thus consolidate incentive environment for the development of research and innovation.

The reform measure builds on the measure with the same title adopted in the Economic Reform Programme 2022-2024 and represents the continuity of reform efforts in the area of research, development and innovation. The Smart Specialisation Strategy (S3) 2019-2024 and Operational Programme for S3 Implementation 2021-2024 represent a strategic framework for the implementation of the measure and are aligned with the EU recommendations for this area, with a special focus on recommendations provided in a conditional positive opinion about the Smart Specialisation Strategy.

In the previous year, the Montenegro Innovation Fund, as a key implementation body for the innovation policy, became fully operational and using two projects of support²⁶ worked continuously to strengthen the team. After the successful implementation of two programme lines in 2022, it is ready to assume implementation of all programme lines of support to the development of innovation and smart specialisation by amending the Innovation Programme

²⁶ The second phase of the project “Improving the system support to innovation and development MSMEs – Norway for You”, implemented by UNDP; and the IPA 2020 project of Technical support to the implementation of the Smart Specialisation Strategy (TASIS)



2021-2024. The Council for Innovation and Smart Specialisation managed to maintain the continuity of work, despite the changes in its composition caused by changes in the organisation structure of the Government, and to activate coordination of activities in the area of innovation policy and smart specialisation. Prerequisites are created for a stronger impact and role of innovation infrastructure in the innovation ecosystem. Successful continuation of works on reconstruction and refurbishment of the facility where the Montenegro Scientific and Technological Park is to be located was enabled, but activities are taking place in parallel to review the strategic direction for its development, to prepare a support programme for users and to strengthen skills of the team, in order for this infrastructure to be as soon as possible fully functional after the official opening. Thus, the focus of the reform measure is to establish continuity in advancing the programme framework for support to innovation and consolidation of all parts of the framework for implementation of the smart specialisation.

Dynamic and vision for the establishment of a new strategic framework through adoption of the Strategy of Scientific and Research Activity and the Road Map for research infrastructure were amended in the new organisational structure of the Government of Montenegro, thus the adoption of these documents are expected during 2023. Montenegro is thoroughly committed to participate in the European Union Research and Innovation Programme–Horizon Europe (2021-2027) and to involving the scientific community in the most-advanced projects in the field of research and innovation on an equal basis with institution from EU27. Montenegro had notable results in the first year of participation in the Horizon Europe Programme. Furthermore, Podgorica is amongst the cities that participated in the EU Mission for climate-neutral and smart cities by 2030, along with 100 cities from 27 European Union Member States and 12 cities from countries associated with the Horizon Europe Programme. During 2022, the strengthening of the scientific-research community for participation in the Horizon Europe Programme, for bilateral and international cooperation continued with a focus and smaller-scale instruments for support to the scientific-research community.

a) Activities planned in 2023:

- Consolidation of the new framework for implementation of innovation and smart specialisation (Ministry of Science and Technological Development, Montenegro Innovation Fund, Montenegro Scientific and Technological Park, Innovation and Entrepreneurial Centre Tehnopolis – Nikšić);
- Improvement of the legal framework for incentive measures in the area of research and innovation (Ministry of Science and Technological Development and Ministry of Finance);
- Adoption of the revised programme framework for innovation programmes and the Action Plan for the implementation of the Smart Specialisation Strategy 2023-2024 (Ministry of Science and Technological Development and line ministries);



- Setting the new strategic framework for scientific-research activities – the adoption of the Strategy of Scientific-Research Activity (2023-2027) and of the Road Map for research infrastructure (2023-2027) (Ministry of Science and Technological Development);
- Setting the new legal framework for scientific-research activities (Ministry of Science and Technological Development);
- Implementation of the new programme framework for scientific-research activities (scientific-research projects, scholarships for doctoral research) (Ministry of Science and Technological Development);

b) Activities planned in 2024:

- Strengthen programme activities of the Montenegro Innovation Fund and innovation infrastructures (Ministry of Science and Technological Development, Montenegro Innovation Fund, Montenegro Scientific and Technological Park, Innovation and Entrepreneurial Centre Tehnopolis – Nikšić);
- Preparatory activities for developing the S4 strategy (Ministry of Science and Technological Development, Council, Inter-institutional S3 group, innovation working groups);

c) Activities planned in 2025:

- Adoption of the new strategic guidance (Ministry of Science and Technological Development).

Institution tasked to implement this measure: Ministry of Science and Technological Development

2. Results indicators:

Indicator	Baseline 2022	Intermediate target 2023	Target 2025
Increase in the investment of the private sector in innovation programmes and projects co-financed by the state	300,000.00 ²⁷		
Number of registered entities for innovation activity	80	100	130

²⁷ Note: Indicative information on the total amount of private sector investment in innovation programmes and project co-financed by the State in 2022. This amount will be more precise only after the innovation projects, which were implemented during 2022, are evaluated, but it is used as indicative value in 2022 relative to which the percentage increase is calculated in the indicators table for 2023 and 2025.



3. Expected impact on competitiveness: The establishment of an efficient framework for the implementation of innovation policy and S3 will require better coordination of support instruments and spur additional investments, which will have a positive effect on the increase in investments in research and innovation, both by the public and the private sector, while focusing the instruments on specific development areas, productivity will be encouraged, which will have a positive effect on GDP growth and the competitiveness of the economy. The implementation of the new legal framework for innovation and scientific-research activity, will enable the creation of a favourable environment for investments of the business sector in *Research, development and innovation*, for strengthening human resources in this area, and linking science and the real sector, and this will also achieve more visible effects on the competitiveness of companies on the market. The effects of this could be measured with the indicator *Innovation activity of enterprises*²⁸, as well as with the international indicators available in the European Innovation Scoreboard and the OECD's SME Policy Index, which take separate track of innovation policy in micro, small and medium-sized enterprises, on which outcomes from this reform measure have a direct impact.

4. Estimated cost of the activities and the source of financing: Funds for 2023 include budgetary funds for new programme lines for supporting participation in international programmes in the innovation field (Ministry of Science and Technological Development) of EUR 300,000, programme lines supporting the development of innovation of the Montenegro Innovation Fund and for its operational functioning of EUR 2,400,000. Furthermore, financing for the operation of the innovation working groups of the Council for Innovation and Smart Specialisation of EUR 400,000, EUR 900,000 for IPA 2020 grant schemes for innovation projects in the smart specialisation areas, and EUR 50,000 for technical support for strengthening institutional capacities and human resources of the Fund and of the Council from IPA 2020 funds, as well as EUR 100,000 of the UNDP expert support. In the field of scientific and research activities, the budgetary funds for 2023 are allocated for new programmes, and so as follows: national scientific and research projects of EUR 600,000, scholarships for doctoral research at universities in Montenegro of EUR 250,000, support for participation in the Horizon Europe and COST programmes of EUR 130,000, as well as co-financing of key smaller-scale mechanisms for support to the scientific and research community of EUR 250,000. Implementation of the third research year for two centres of excellence FoodHub and CEBIMER will be financed with EUR 512,000. Funds for 2024 include programme support for the development of research and innovation. Additional funds are yet to be determined that could be obtained in these years from IPA funds and donor

²⁸ https://www.monstat.org/uploads/files/inovacije/Inovativne%20aktivnosti%20preduze%C4%87a_Saop%C5%A1tenje.pdf.

According to the statistics of innovation activity of enterprises: in the period 2018-2020, 56.2 percent of enterprises introduced at least one of the listed innovation activities, while 43.8 percent stated that did not have innovation activities. Out of the total number of surveyed enterprises, 43.8 percent had innovation of products (goods or services).



financing. A progressive increase in the national budget for research and innovation is expected in 2025.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care: Implementation of this measure contributes to the creation of a favourable environment and infrastructure prerequisites that will spur initiatives for self-employment and networking of science and businesses that generate new jobs and new activities in the innovation area. The programme support for the innovation and research sector sets as a special aspect of new employment during the period of support, whereby the intent is to create conditions and provide incentives for the sustainability of jobs even after innovation and scientific-research programmes and projects are finished. The measure is gender neutral and neutral in terms of access to healthcare services.

6. Expected impact on the environment and climate change: The measure does not have a direct impact on the environment. However, implementation of the innovation and science and research programmes and projects in the smart specialisation areas, as key strategic direction, with the connectivity of investment priorities, has as the objective to achieve the significant effect on the green transition and digital transformation.

7. Potential risks connected with implementing the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Insufficient funds for the sustainable functioning of the framework for the implementation of innovation and smart specialisation	Low	Allocation from the national budget for functioning of the framework is supported with additional funds from projects implemented by UNDP and IPA projects to support the implementation of the Smart Specialisation Strategy
Insufficient networking of institutions for structural connectivity of priorities and better centralisation of programme support to innovation	Low	Involvement of representatives of all four sectors in various structures of the framework for implementation of innovation policy and smart specialisations enabled; Coordination body – Council for Innovation and Smart Specialisation has an increasing stronger role and guides towards coordination of investments with its conclusions



Measures in the area “*Digital transformation*”, which serve as response to the structural Challenge “*Strengthening the regulatory environment*”, are provided in the text to follow.

Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills

1. Description of measure: The ultimate objective of the reform measure is to create a systematic and continuous process of job-skills training and professional development of target groups in the field of digital and complementary skills, for the sake of sustainability and continuous improvement of digitalisation of the public administration and digital transformation of the Montenegrin society. Essentially, the scope of the Digital Academy is to create quick programmes for the advancement of competencies and skills for the digital transformation of Montenegro, as well as to raise the level of digital awareness of the Montenegrin society and the digital competitiveness of the IT sector. The Digital Academy, being the key activity under this measure, through special modules intended for school pupils, students, youth, elderly, and vulnerable categories in society, spurs their inclusion and increases their opportunities in the labour market. With the establishment of the Digital Academy, the state is contributing to more efficient use of ICT sector potentials, as well as to adaptation of the real sector and all target groups to the dynamic changes in the labour market. Likewise, it supports improvements in productivity and enhancement of the public sector efficiency by strengthening the knowledge and competencies of attendees of the Academy.

In the listed strategic documents, as well as in the Medium-term Work Programme of the Government of Montenegro 2022-2024, the Ministry of Public Administration identified the need to establish a modern platform for the education of civil servants, school pupils, students, youth, elderly, and vulnerable categories of the society and citizens. Complementary and parallel processes are taking place between the Public Administration Reform Strategy 2022-2026 and the Digital Transformation Strategy 2022-2026 in the segments of increasing coverage and modernisation of the ICT infrastructure; development and improvement of digital skills; raising awareness of citizens and the real sector on the importance of digital development; and improving quality, quantity and use of e-services.

The implementation of the measure contributes to the achievement of the following Sustainable Development Goals: quality education, gender equality, decent work and economic growth, and industry, innovation and infrastructure. The Digitalisation of processes in Montenegro will be one of the key priorities in the post-COVID recovery, as evidenced by the large number of reforms in the Programme addressing this area, and will take place in line with the Digital Agenda for the Western Balkans.

a) Activities planned in 2023:



- Defining the Training plan for curricula/modules for various target groups for 2023 which includes designing the Module curricula training plan for getting digital skills that would be available to various target groups (responsible institution: Ministry of Public Administration)
- Establish infrastructure for the realisation of the Digital Academy - for the needs of implementation of the project, adequate computer and ancillary equipment need to be provided, in order for the project team of the Ministry to implement all phases of the project efficiently and with good quality technical support (responsible institution: Ministry of Public Administration)
- Establish the online platform for the Digital Academy, which also includes the implementation phase covering: programming, development and maintenance of the software, purchasing licenses and other activities that will enable implementation of the online platform (responsible institution: Ministry of Public Administration)
- Designing, creating, and conducting webinars, recording lectures, training in cooperation with lecturers, which covers engaging lecturers from the national and international academic, IT and business community, work on the development of modules and their production in line with the technical specifications (responsible institution: Ministry of Public Administration)
- Promotion of the Digital Academy (responsible institution: Ministry of Public Administration)

b) Activities planned in 2024:

- Defining the Plan for curricula/ Training modules for various target groups for 2024 (responsible institution: Ministry of Public Administration);
- Maintenance and improvement of the developed software for the online platform for the Digital Academy, which includes Phase 2 of the project implementation, which would cover all those additional functionalities that will be recognised as needed, which are not recognised in the Phase 1 of the project implementation (responsible institution: Ministry of Public Administration),
- Designing, creating, and conducting webinars, recording lectures, training in cooperation with lecturers for 2024 (responsible institution: Ministry of Public Administration),
- Promotion of the Digital Academy (responsible institution: Ministry of Public Administration);

c) Activities planned in 2025:

- Defining the Plan for curricula/ Training modules for various target groups for 2025 (responsible institution: Ministry of Public Administration),



- Designing, creating, and conducting webinars, recording lectures, training in cooperation with lecturers for 2025 (responsible institution: Ministry of Public Administration),
- Promotion of the Digital Academy (responsible institution: Ministry of Public Administration).

Institution tasked to implement this measure: Ministry of Public Administration

2. Results Indicators:

Indicator	Baseline (2022)	Intermediate target (2023-2024)	Target (2025)
Number of attendees of the Digital Academy	0	200	300
Number of Training programmes/modules delivered at the Digital Academy	0	10	15
Number of licensed programme at the Digital Academy	0	5	10

3. Expected impact on competitiveness: Implementation of this reform measure may contribute to better use of the ICT sector potentials, and better adaption of the business sector and target groups to dynamic changes in the market of services and the labour market. With the implementation of this measure, attendees of the Academy will be more competitive in the labour market and will increase their digital skills and competencies. On the other hand, the reform measure will end up strengthening the capacities of the public administration aimed at enhancing public administration efficiency and simplifying procedures. An efficient public administration is correlated directly with international agencies' ratings, precisely with a more attractive business environment and thus investments as well.

4. Estimated cost of the activities and the source of financing: Activities planned in 2023 will be financed in line with the Law on Budget of Montenegro for 2023 with EUR 331,233.78. Even though the planned funds will be allocated under the central government budget, the plan is to apply to the EUIF fund (IPA III programming framework) in order to secure additional funds given the importance of the project. The amount of funds for activities of this reform measure for 2024 and 2025 is EUR 300,000 each and the source of financing will be determined in the next period.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: Implementation of the reform measure will contribute to increased use of digital skills and competencies for all target groups and better adjustment to the labour market needs. The foundation of digitalisation is on principles of equality and inclusivity, whereby the Digital Academy with special modules intended for



school pupils, students, youth, unemployed, and vulnerable categories of society incentivises their inclusion and increases their opportunities in the labour market.

6. Expected impact of the reform measure on the environment: The reform measure will have a positive impact on the environment due to further digital transformation of the public administration and of society, which implies paperless administration and accessibility of online services for citizens and the business sector.

7. Potential risks connected with implementing the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Insufficient interest of future attendees to attend the training provided by the Digital Academy	Low	Promotional activities and brand of the Ministry of Public Administration supporting this project, as well as the influence of partners on the project, could be of significant motivation for members of target groups to apply to attend offered training.
Insufficient financial resources due to the global economic and energy crisis, as well as different planning of priority costs in the central government budget	Moderate	By applying the so called blending method - the Ministry of Public Administration will secure required funds from the EU and other international organisations, as well as from the central government budget, applying with donors and participating in regular activities of creating the current budget.
Insufficient interest of lecturers for the training programmes of the Digital Academy	Moderate	Motivate lecturers through promotional activities of the Digital Academy, while emphasising the importance of personal promotion of renowned lecturers in various fields

Reform measure 10: Strengthening cyber resilience

1. Description of measure: In 2022, Montenegro faced cyber attacks, which required updating of the existing mechanisms for responding to them, but also the implementation of innovative responses, especially those dealing with crisis management, raising awareness and education about the importance of cyber security, as well as protection of privacy and personal data. The objective of the proposed new reform measure of strengthening the cyber resilience is to establish an advanced security ecosystem and implement a set of tools necessary for an efficient detection system in order to ensure efficient conditions for effective responses to potential and future threats in the field of cyber security. This is a partial response to Policy Guidance No 4 of the Ministerial Dialogue from May 2022.

The importance of cyber security is recognised in the Montenegro Cyber Security Strategy 2022-2026, while the Action Plan for the implementation of the Strategy for the period 2022-



2023 defines activities that will improve this segment. The creation of cyber resilience is defined by a series of activities at the legislative, organisational, and operational levels. The Ministry of Public Administration commenced with activities of drafting a new Law on Information Security which will be harmonised with the European Union regulations and which will recognise mechanisms for strengthening the cyber security in Montenegro. Likewise, the proposed reform measure directly deals with “*Strengthening the Digital Economy and Society*” recognised as one of the objectives of the Digital Agenda for the Western Balkans, while also could be connected with goal 8 - *Decent Work and Economic Growth*, and goal 9 - *Industry, Innovation and Infrastructure* of the Sustainable Development Strategy 2020-2030. The Digital Agenda for Europe 2020 was focused on online public services, while one of the key items of the European digital transformation by 2030 is “*Cyber security*”.

a) Activities planned in 2023:

- Adoption of the new Law on Information Security, which will make alignment with the Proposal for a Directive of the European Parliament and of the Council on measures for a high common level of cybersecurity across the Union and repealing Directive 2016/1148 (NIS 2 Directive) (responsible institution: Ministry of Public Administration),
- Adoption of the new action plan for the period 2024-2025 for implementation of activities from the Cybersecurity Strategy 2022-2026 (responsible institution: Ministry of Public Administration),
- Establish and make operational a new organisational unit within the Ministry of Public Administration - Directorate for Information Security - Government CERT, amend the Rulebook on Internal Organisation and Classification of Jobs. The new directorate will have the role of a security operations centre for cyber attacks countering, in which 24/7 monitoring will be established. This activity will also require the equipping of the newly established unit, premises, equipment, and tools, all with the objective to enable its smooth functioning (responsible institution: Ministry of Public Administration),
- Preparatory activities for the establishment of the Cybersecurity Agency (responsible institution: Ministry of Public Administration), which includes the provision of premises for the work of the Agency and the organisational structure itself, as well as preparatory activities for its equipping,
- Sustainable training program for cyber experts and a training program for the state administration employees and management-expert staff (responsible institution: Ministry of Public Administration), which will enable continuous education,
- Preparatory activities for establishment of a new Data centre for strengthening critical information infrastructure and cyberspace (responsible institution: Ministry of Public



Administration), which includes initial analyses, defining the location for construction, as well as defining the conceptual and main design for construction of the new Data Center,

- Promotional activities aimed at raising awareness on and importance of cybersecurity (responsible institution: Ministry of Public Administration);

b) Activities planned in 2024:

- Establishment of the Cybersecurity Agency at full capacity (responsible institution: Ministry of Public Administration),
- Sustainable training program for cyber experts and a training program for the state administration employees and management-expert staff (responsible institution: Ministry of Public Administration),
- Establishment of a new Data centre for strengthening critical information infrastructure and cyberspace (responsible institution: Ministry of Public Administration), which includes construction works based on the adopted concept for the construction of the new Data Center, oversight and preparation of infrastructure, development of a detailed analysis of required equipment, as well as plan and schedule for equipping. It also covers defining of a plan for the synchronisation of the old and new Data centre,
- Promotional activities aimed at raising awareness on and importance of the cybersecurity (responsible institution: Ministry of Public Administration);

c) Activities planned in 2025:

- Strengthening capacities of the Cybersecurity Agency (responsible institution: Ministry of Public Administration), specifically internal capacities with a focus on the protection of critical infrastructure, control of applying defined standards in accordance with the law, organisation of national/international exercises, etc,
- Sustainable training program for cyber experts and a training program for the state administration employees and management-expert staff (responsible institution: Ministry of Public Administration) (continuation from the previous year),
- Establishment of a new Data centre for strengthening critical information infrastructure and cyberspace (responsible institution: Ministry of Public Administration) (continuation of the activity from the previous year),
- Promotional activities aimed at raising awareness of and importance of cybersecurity (responsible institution: Ministry of Public Administration);

Institution tasked to implement this measure: Ministry of Public Administration



2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023-2024)	Target (2025)
Reformed institutional framework for cybersecurity	/	Cybersecurity Agency established	Needed number of expert staff for work in the Agency secured
Number of trainings for cyber experts implemented	/	6	9
Number of trainings for the state administration employees and management-expert staff	/	2	3

3. Expected impact on competitiveness: Implementation of this reform measure will stimulate productivity advancements and improve the efficiency of the public sector, through increased data safety and security and its improved efficiency in servicing the real sector and citizens, who depend to a large extent for their activities on the accessibility and efficiency of the public administration system. This further has an impact on competitiveness of the economy as a whole

4. Estimated cost of the activities and the source of financing: Part of the activities for implementation of the measure in 2023 will be financed from the central government budget of Montenegro (establishment of a new organisational unit in the Ministry of Public Administration – Directorate for Information Security), where EUR 700,000 is allocated for tools, while for the equipment EUR 150,000 was allocated which will be financed from the EU funds. In 2024, EUR 750,000 will also be allocated for the Directorate for Information Security, while EUR 800,000 will need to be allocated in 2025 from the central government budget of Montenegro. For other activities envisaged under this measure, applications will be submitted for financing from donations. Those include activities for the establishment of the Cybersecurity Agency – EUR 3,000,000 , establishment of the new Data Centre – EUR 9,000,000; sustainable training program for cyber experts and training program for the state administration employees and management-expert staff – EUR 200,000 annually; and for promotional activities aimed at raising awareness on and importance of the cybersecurity – EUR 50,000 annually. Total estimated costs for a three-year period would amount EUR 15,150,000, of which EUR 2,250,000 from the Budget of Montenegro, while the amount of EUR 12,900,000 from donations.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to healthcare: The reform measure has an impact on social outcomes given that a more cyber-resistant public administration will be more efficient in delivering its services to citizens, such as issuing certificates, reports, publishing data, etc., relevant for obtaining certain rights based on social and healthcare protection, employment



applications, which is in the function of increasing employment and reducing poverty. The measure is gender- neutral.

6. Expected impact of the reform measure on the environment: The reform measure will have positive impact on the environment due to further digitalisation and optimisation of processes, which contribute to savings of paper and support to the green transition.

7. Potential risks connected with implementing the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigation actions
Lack of financing for implementation of envisaged activities from this reform measure	Moderate	Ministry of Public Administration will try to secure needed funds from the EU and other international organisations by applying with donors
Slower administrative processes aimed at the adoption of new legislation covering this field	Low	Emphasize importance due to the cyber security at the highest management level
Insufficient number of education/training in the area of cybersecurity	Low	Implementation of this activity depends on the available resources which need to be secured from donations, given that renowned lecturers/mentors from this field are highly ranked and require enormous funds for individual education.

Reform measure 11: Improving the infrastructure for broadband internet access and introducing next-generation networks

1. Description of measure: The goal of the reform measure is to ensure a higher percentage of coverage of households by fixed broadband internet access at the speed of 100Mbps. Implementation of the reform measure has an impact on the investments in “white zones” which have so far been unattractive and non-profitable for investments by electronic communication operators, while the introduction of the new generation networks reduces obstacles to competitiveness, accelerates digitalisation of the economy and public administration, creates opportunities for the implementation of digital services and digitalisation of production. The measure is a continuation of the reform measure set out in the Economic Reform Programme 2022-2024 and an upgrade from the perspective of implementation of the policies on introducing new generation networks, and it also partly responds to the policy guidance no. 4 of the Ministerial Dialogue from May 2022. Strategically speaking, the reform measure is aligned with EU policy guidance in this area and relies on the implementation of the project *Development of Infrastructure for the Broadband Internet Connection in Montenegro* which was placed on the Single List of priority infrastructure



projects of the Government of Montenegro in the digital infrastructure sector. Given the importance of this project, in 2022 Montenegro applied for the new grant which will include a revision of the existing Study on the Development of Broadband Internet Access, cost-benefit analysis and market model, as well as preparation of the necessary tender documents. That document proposes the best type of infrastructure to be built in the areas where market participants show no commercial interest to invest, while it also proposes the most acceptable cost model. In the coming period, the focus will be placed on reform components and development of the new legislative framework for electronic communications and strategic framework for the introduction of the new generation networks. Activities for the preparation of this project are scheduled to start at the beginning of 2023, which is the main reason why the National Plan for the Development of Broadband Internet Access was not implemented in 2022. The starting point for the introduction of new-generation networks is the Study on the Strategy for Introduction of 5G Mobile Communication Networks in Montenegro (2021). It will form the base for drafting the Strategy for the Introduction of 5G Mobile Communication Networks in Montenegro which will be accompanied by the two-year Action Plan whose draft has already been developed.

In December 2021, the Government of Montenegro passed the Roadmap for introduction of 5G mobile communication networks. The Draft Strategy for the introduction of 5G mobile communications network and accompanying Action Plan were drafted on the basis of that document and they will be available for public consultation in Q1 2023.

a) Activities planned in 2023:

- Adoption of the Strategy for the introduction of 5G mobile communications in Montenegro and the accompanying Action Plan;
- Adoption of the new Law on Electronic Communications;
- Adoption of the National Plan for the Development of Broadband Internet Access;
- Fulfilment of obligations arising from the AP for the Strategy for the introduction of 5G mobile communication networks in Montenegro.

b) Activities planned in 2024:

- Adoption of secondary legislation on the basis of the new Law on Electronic Communications;
- Implementation of legislative solutions in the area of electronic communications;
- Fulfilment of obligations arising from the Action Plan for the Strategy for Introduction of 5G Communication Networks in Montenegro.

c) Activities planned in 2025:

- Fulfilment of obligations arising from Action Plan for the Strategy for Introduction of 5G Communication Networks in Montenegro;
- Preparatory activities to further develop the area of electronic communications.



Institution tasked to implement this measure: Ministry of Economic Development and Tourism, Agency for Electronic Communications and Postal Services, telecommunication operators

2. Results indicators:

Indicator	Baseline 2022	Intermediate target 2023-2024	Target 2025
Percentage of the coverage of households by fixed broadband internet access at the speed of 100 Mbps	76.7 percent	79 percent	81.6 percent
Installation of 5G base stations (BS)	0 BS	3 BS	33 BS

3. Expected impact on competitiveness: Growth of investments in the networks proportionally reflects the growth of the number of new connections, i.e. users, which affects the penetration of the broadband access, competitiveness and economic growth. The 5G network will be the most secure network ever developed; the network will be able to create a more secure space for data transmission: this aspect is critically important in sectors such as healthcare and finance. In addition, 5G will provide users with a stable and reliable connection. Companies will be able to see, try and achieve more, thus creating new opportunities for business growth as they rethink and reconfigure the way they do business in the post-pandemic world. By enabling new cases of use and business models, 5G networks will directly create greater value—for businesses, employees, users, and, ultimately, for the entire economy, with the first major effects expected after 2025.

4. Estimated cost of the activities and the source of financing: Funds for 2023 were provided through the grant in the amount of EUR 525,000 euro by WBIF for the development and review of technical designs, preparation of environment protection study and Environmental Impact Assessment for the project for development of the broadband internet access in Montenegro. Additional funds will be needed for implementation of the project of development of the broadband internet access in Montenegro. The amount of funds, model and justification of investment in further development of the infrastructure for broadband Internet access are not known at the moment and will be determined after updating Cost and Benefit Analysis and market model and upon finalisation of the consultation with stakeholders, at which point it will become clearer which model is the most appropriate one for Montenegro. Moreover, it is also necessary to include budget funds in the amount of EUR 30,000 for operating costs and costs of development of the National Plan. Funds in the amount of EUR 10,000 were planned for the costs of adoption of the Strategy for introduction of 5G mobile communications in Montenegro and its Action Plan. In addition, to enable implementation of the reform measure in 2024 it is necessary to include budget funds in the amount of EUR 50,000 for operating costs and costs of drafting secondary legislation.



5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to healthcare: Implementation of the Strategy for the introduction of 5G in Montenegro enables the development of the broadband networks, which leads to the development of the new electronic services and creates opportunities for stimulating innovative solutions which result in a larger number of new jobs in the ICT sector that are crucial in the implementation of the policy on electronic communications development.

6. Expected impact of the reform measure on the environment: According to the current assessment, this measure has no impact on the environment. Certainly, in the course of preparation of the National Plan and 5G Strategy, the environmental impact analysis will be carried out to analyse risks associated with cables and tower installation works, including official permits, land use, occupational health and safety, areas, disruptions to the public and random-access procedure.

7. Potential risks associated with the implementation of the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Lack of interest of the private sector to invest in the development of the broadband networks	Low	Development of the new services which use 5G networks encourages private sector to invest in the development and participate in the competitive market
Insufficient administrative capacities for monitoring implementation of the new legislative and strategic solutions	Low	Establishment of inter-institutional cooperation, provision of expert assistance
Insufficient funds for implementation of the legislative and strategic frameworks for electronic communications	Low	Active search and finding funds from international sources (bilateral and multilateral cooperation in the area of electronic communications, etc.)



Reform measure in the area *Public Finance Management Reform* is the next in responding to the challenge *Strengthening of Regulatory Environment*.

Reform measure 12: Improving management of state-owned enterprises

1. Description of measure: The measure aims to establish a functional system of monitoring and planning, reporting, and supervision of the operations performed by state-owned enterprises (SOEs) in accordance with best practices of OECD countries, for the purpose of achieving better performances of their operations. More specifically, the measure aims to improve corporate governance of SOEs and to establish functions of evaluation and monitoring of the financial and fiscal risks to their operations. The measure responds to the challenge of growing fiscal risks of operations to the SOEs on the basis of their financial indicators, as the consequence of weaknesses in their corporate governance and lack of accountability and implementation of the best international practice in this area. The measure is continued from the previous year, with a change in the mechanisms for its implementation due to the fact that the 43rd Government of Montenegro established the company Montenegro Works LLC in 2021 in order to strengthen oversight over operations of the SOEs. However, since the existing legal framework, harmonised with the EU acquis, such as the Company Law, did not allow this company to supervise other companies in the country and since there was a risk that operations of this company would not generate income and would not be sustainable, the Government made a decision on its voluntary liquidation in August 2022. After that, the Government passed conclusions on designing a more comprehensive concept of reforming business operations of SOEs, which led to a change in the activities of this reform measure compared to those described in the previous Economic Reform Programme. In this way, the Government partially responded to policy guidance no. 4 of the Ministerial Dialogue from May 2022.

Other activities that were implemented in 2022, as part of the implementation of this measure, relate to administrative capacity building for the purpose of measuring fiscal risks faced by SOEs. More specifically, the IMF delivered training courses for civil servants in January 2022 on how to use the SOE HTC (SOE Health Check Tool) to assess the financial and fiscal risks of each individual SOE and overall financial and fiscal risks to their operations. Training courses delivered by the IMF continued at the end of 2022 through technical assistance for the needs of the Ministry of Finance, by using the remaining IMF tools that will contribute to capacity building and to the improvement of the practical skills of employees to identify, analyse, manage and detect various sources of fiscal risks.

By using the IMF *SOE Health Check Tool*, the Analysis of operations of SOEs was also prepared. Moreover, additional activity in 2022 also involved restructuring within the Ministry of Finance in order to set up a Sub-directorate for Monitoring Fiscal Risks to SOEs at the Directorate for Central Harmonisation and Development of Internal Controls.



In the coming period, the government will continue to implement two groups of activities. The first one includes the development of a strategic framework for the management of business undertakings in the majority ownership of Montenegro in accordance with OECD Guidelines for corporate governance in state-owned enterprises (OECD, 2015). It will also include formation of an interdepartmental working group that will analyse the regulatory framework for the business operations of SOEs. The second group of activities refers to further capacity building of the Ministry of Finance for the purposes of evaluation, monitoring, and reporting on fiscal risks arising from the operations of the SOEs. Moreover, proposed amendments to the Law on Budget and Fiscal Responsibility also set out the establishment of the Fiscal Council of Montenegro (for more details see chapter 4 of the Economic Reform Programme) which will, amongst other things, contribute to the evaluation of the potential fiscal risks faced by SOEs by giving its opinions and performing analyses.

a) Activities planned in 2023:

- Establishment of the interdepartmental working group in Q1 2023 that will analyse the regulatory framework governing operations of SOEs, with the aim of proposing further amendments to the existing norms. This analysis will also include compliance with the criteria of corporate governance of the SOEs, as well as the overview of financial and fiscal risks to their operations.
- Drafting comparative analysis of the best practices of EU countries regarding the legal framework for monitoring operations of the SOEs;
- After the analyses are drafted, the roadmap for further reforms in this area will be developed as well;
- In parallel, the capacity of the competent sub-directorate at the Ministry of Finance will be further strengthened in respect of the performance of the assessment of fiscal risks to operations of the SOEs and the preparation of analyses and reports on them.
- Criteria will be developed in accordance with international standards for the selection of members of the management bodies of the SOEs, which will be regulated by secondary legislation of the Government of Montenegro.

b) Activities planned in 2024:

- On the basis of performed analysis of the regulatory framework governing the SOEs operations, and the roadmap prepared in 2023, legislative amendments will be made to introduce mechanisms for further reforms;
- In accordance with the procedures adopted in 2023, the Ministry of Finance will prepare secondary legislation with the methodology for fiscal risk assessment for the purpose of carrying out regular assessments of these risks and preparing regular reports on fiscal risks arising from SOEs operations;



- Application of innovative procedures will start at the level of the Government of Montenegro regarding proposals for the selection of the members of the board of directors, other management bodies and audit committees, along with designing selection criteria that link the needs for formal knowledge to the essential needs of quality business and institutional biographies.

c) Activities planned in 2025:

- On the basis of the established suitable supervisory framework, criteria for appointment of members of the management bodies of business undertakings in majority state ownership will be fully applied.
- Annual analysis of fiscal risks faced by SOEs will continue and measures will be proposed to reduce such risks.

Institution tasked to implement this measure: Ministry of Finance

2. Results indicators:

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Number of SOEs facing high fiscal risk ²⁹	17	15	13
Percentage share of net results of SOEs in GDP	-0.1	0.1	0.3
Number of the boards of directors appointed on the basis of new selection criteria	0	10	15

3. Expected impact on competitiveness: Strengthening the practice of good corporate governance is expected to increase the competitiveness of SOEs and to create more loyal competition on the market since the SOEs are in many cases in a more favourable competitive position than private enterprises. Implementation of the measure will encourage members of the management bodies of SOEs to manage them more efficiently.

4. Estimated cost of the activities and the source of financing: No additional funding is needed to implement the measure in 2023, while funds will be planned in 2024 and 2025 depending on the dynamics of administrative capacity building.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: Improved oversight and improved corporate governance of business undertakings in majority state ownership will ensure more profitable operations of business undertakings in majority state ownership, more efficient use of

²⁹ Assessment of fiscal risks faced by business undertakings in majority state ownership is analysed by using the IMF tool SOE Health Check Tool within the portfolio which includes 47 business undertakings if which the government is majority owner and founder.



resources and greater transparency of the recruitment policy. Moreover, the implementation of the measure will significantly contribute to the corporate social responsibility of these business undertakings and to the provision of more efficient services to the citizens.

6. Expected impact of the reform measure on the environment: The proposed reform measure will not have an impact on the environment and climate change.

7. Potential risks associated with implementation of the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Lack of parliamentary support	High	Current parliamentary situation is unfavourable in terms of obtaining full support needed for the potential amendments to regulations which would improve oversight of the business undertakings in majority state ownership and enable the full application of the objective criteria for appointment of members of the boards of directors.
Lack of staff	High	Two employees currently work at the Sub-directorate for monitoring fiscal risks of the business undertakings in majority state ownership. Launching open calls for hiring qualified staff will result in expanding the team that will improve operations of the state-owned enterprises.



<p>Hesitancy of the management of business undertakings in majority state ownership to provide detailed information on business activities of the business undertakings</p>	<p>Moderate</p>	<p>Due to the imprecise regulatory framework in this area, there is a possibility of inadequate/unsatisfactory cooperation between the Ministry of Finance and management of business undertakings in majority state ownership, which is reflected in the lack of transparency of the business undertakings' data.</p> <p>The proposed risk will be reduced and ultimately eliminated by establishing appropriate regulatory framework, through adoption of the proposed amendments to the existing norms and/or the adoption of new legislative solutions.</p>
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Measure in the area *Economic Integration Reforms*, as a response to the structural challenge number 2, is outlined below.

Reform measure 13: Facilitation of trade in goods and services through the implementation of CEFTA Additional Protocols 5, 6 and 7

1. Description of measure: Essential goal of the measure is to intensify, improve, diversify and ensure further growth of foreign trade of Montenegro at the regional level through the implementation of the obligations assumed in the framework of CEFTA Additional Protocols and Common Regional Market Action Plan of the Berlin Process. Priorities defined within this reform measure relate to the deepening of cooperation in the field of trade facilitation, liberalisation of trade in services, electronic trade, movement of the highly qualified labour force, an increase of FDI, more efficient and effective procedures for resolving trade disputes and numerous other mechanisms for monitoring full implementation of CEFTA Agreement, which is especially important if we take into account that Montenegro will preside CEFTA in 2023.

The measure is new compared to the Economic Reform Programme 2022-2024, but it was implemented in the previous cycles of the Economic Reform Programme drafting.

Obligations set out in CEFTA AP 5 are recognised by the National Trade Facilitation Strategy which identifies measures that need to be actively implemented to improve transparency and access to information, harmonise and rationalise formalities, documentation and charges, carry out procedures to ensure simplified and accelerated customs clearance of goods, improve cooperation, increase the effectiveness of border controls and expand automatic processing and electronic data exchange. CEFTA AP 6 on trade in services, on the other hand,



aims, amongst other things, to increase the export of services from the territory of CEFTA parties; as well as to increase foreign direct investments by opening a large number of service sectors; it also aims to increase the mobility of the highly qualified workforce by defining categories of these persons and measures for entry and temporary stay in the territory of CEFTA parties. It also constitutes a legal base for the mutual recognition of qualifications, intra-regulatory cooperation and establishment of dialogue in the field of electronic commerce. It is important to emphasise that Additional Protocol 6, which entered into force on 1 January 2021, has limited application since two CEFTA parties (Moldova and Kosovo) have not yet ratified the mentioned Protocol, which is why it has not yet entered into force in their territory. It is also important to point out that SEED+ platform was crucial for the implementation of CEFTA initiative *Green Corridors* due to the mitigation of the socio-economic consequences caused by COVID pandemic. It was used to speed up the process of clearance of essential goods by sending beforehand the information on shipments of essential goods to all relevant agencies involved in the clearance of goods so that the agencies could prepare themselves and give those shipments priority passage. This initiative, as one of the most successful initiatives in the region, remains a priority during Montenegro's presidency of CEFTA in 2023.

In addition, the measure responds to challenges within the framework of the negotiated Chapter 3, which concerns the right to establish company and the freedom to provide services with regard to harmonisation of national legislation with the Services Directive, which actually ensures freedom to provide cross-border services.

a) Activities planned in 2023:

- AP5 - Development and implementation of IT applications for NCTS at the national level; Establishment of the functional system at the Directorate for Food Safety, Veterinary and Phytosanitary Affairs as the base for inclusion in SEED+;
- AP6 – Full implementation of AP6 (ratification of AP6 by CEFTA parties: Moldova and Kosovo); Adoption of Regional Disciplines on domestic regulations in accordance with WTO rules; Establishment of the Single Contact Point (SCP) in order to further liberalise services;
- AP7 – Finalisation of negotiations, ratification and entry into force.

b) Activities planned in 2024:

- AP5 – Accession of Montenegro to the Convention on a Common Transit Procedure and Convention on Trade Facilitation in Goods and application of NCTS at the international level. Linking and establishment of electronic data exchange between national border authorities within SEED+;
- AP6 - Revising obligations set out in Additional Protocol 6 in order to further liberalise trade in services; Facilitating the electronic exchange of documents between regulatory bodies, extending SEED+ to include trade in services; Establishment of the Single Contact Point (SCP) in order to further liberalise trade in services.



c) Activities planned in 2025:

- AP6 - Establishment of the Single Contact Point (SCP) in order to further liberalise trade in services.

Institutions tasked to implement this measure: Ministry of Economic Development and Tourism and Revenue and Customs Administration.

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Increase in the services trade in CEFTA region, CEFTA databases		8 percent	10 percent
Improved functionality of the Single Contact Point (SCP) as a result of the implementation of the software for its establishment	/	Functional SCP	Functional SCP

3. Expected impact on competitiveness: Implementation of the measures set out in AP5 and AP6 will reduce the time and costs of customs clearance of goods and remove barriers in the trade in services, thus increasing the competitiveness of the Montenegrin enterprises (especially small and medium-sized ones) on international markets. Furthermore, it is also expected to improve the position of Montenegro in the international research of cross-border trade.

4. Estimated cost of the activities and the source of financing: Funds for implementation will be provided by the budget of Montenegro, through various projects and programmes of international donors, the EU Instrument for Pre-accession Assistance, and other international sources. For that purpose, funds amounting to EUR 211,738.48 were planned for implementation of this reform measure in 2023, of which EUR 108,142.93 will be financed from the central budget, while the remaining EUR 103,595.55 will be financed from EU funds. Funds in the amount of EUR 58,142.93 were allocated in the budget of Montenegro for the contribution for CEFTA membership, while EUR 50,000.00 were allocated for regular activities related to Montenegro's obligations during its presidency of CEFTA in 2023.

Under the project *Increasing capacity of institutions for harmonisation and implementation of the EU acquis in the area of competitiveness and innovation (IPA/2022/433-729)*, three-year assistance is planned for the establishment and operationalisation of SCP for services (component 1 of the project). Total project value is EUR 932,360.00, of which one third of the funds are planned for SCP (EUR 310,786.67), while assistance is available from June 2022 to June 2025. Moreover, assistance is also expected from other international sources such as GIZ, RCC etc.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: The measure will have a positive impact on additional employment and indirectly on poverty reduction and respect for gender equality.



All obligations arising from the CEFTA Agreement are focused on trade facilitation, trade in services, investments and transparency, with the aim of stimulating socio-economic development through the development of trade and boosting investments that generate employment growth.

6. Expected impact of the reform measure on the environment: The measure will have a positive impact on the environment due to further digitalisation of the procedures for customs clearance of goods, which reduces the need for carrying out traditional paper procedures.

7. Potential risks associated with implementation of the reform measure:

Risk	Probability of risk materialising	Planned risk mitigating action
Delays in implementation of the SEED+ project at the CEFTA level	Moderate	Active participation in CEFTA structures to encourage beginning of implementation of SEED+ project;
Availability of technical-expert assistance for additional training and development of administrative capacities for implementation of measures	Moderate	Explore different models of providing technical assistance, including participation in donor conferences and/or organisation of such conferences etc.; Organise training for employees who currently do not have the necessary knowledge and skills; Identify and carry out reassignment of employees;
Lack of administrative capacity in the competent organisational unit of the Ministry of Economic Development for implementation of CEFTA Additional Protocol 6 and Action Plan in accordance with CRM (Common Regional Market)	Moderate	Hiring staff on a temporary basis

Reform measures as a response to challenge no. 3: Formalisation of economy

Measures that provide a specific answers to the challenge of the formalisation of economy are part of the area entitled *Business Environment and Reduction of the Informal Economy*. In that context, reform measure 14 was proposed; title of the measure is *Strengthening mechanisms for the formalisation of informal economy* and it entails strengthening the information system of the Revenue and Customs Administration to ensure more efficient suppression of informal economy and includes an action plan to suppress informal economy. Moreover, several measures that were elaborated in the responses to challenge no. 2, and the responses to the challenge no. 3. These are particularly measures: 7, 10, 11 and 12.



Reform measure 14: Strengthening mechanisms for the formalisation of informal economy

1. Description of measure: Implementation of the measures for the formalisation of informal economy so far and challenges over the past few years have demonstrated that it is necessary to take a multi-sectoral approach to the policy on suppressing the informal economy which undermines the business environment and has an unfavourable impact on economic activity. For that reason, the implementation of this measure, which mainly continues from last year, consists of two components.

The first component refers to the formalisation of the informal economy through the adoption and implementation of the action plan.

According to the survey conducted among companies and households, the informal economy in the formal sector in Montenegro in 2022 accounted for 20.6 percent of GDP, which is a 3.9 percentage point decline compared to 2014. The main objectives of the survey were related to the assessment of the scope of the informal economy, as well as the scope and share of the informal economy in GDP; assessment of the factors that enable the informal economy to persist and factors that might mitigate the scope of the informal economy; identification of the main causes leading to the informal economy and of the reasons why companies turn to those activities; determination of the impact of the informal economy on competitiveness in Montenegro; identification of the scope of the informal employment on the labour market etc. Implementation of this measure will improve consistency and indiscriminate and effective enforcement of law, while enabling effective work and data exchange of all inspection services and equal treatment of all participants in the informal economy which is crucial for its suppression. The working group is currently being set up in order to draft the new Action Plan to suppress informal economy; the working group will analyse the results of the new tax policy programme and incorporate them into the comprehensive action plan to suppress the informal economy, and will also start its implementation. Moreover, the plan is to ensure structural cooperation between central and local authorities in drafting and implementation of the plan, including preventive measures and incentives for the formalisation of the informal economy. Since the nature of the work of inspections is very different and requires the existence of special laws, implementation of this measure will improve the coordination of inspections to ensure more efficient data exchange through synchronised action of all competent institutions, which can contribute to the significant reduction of the informal economy.

The second component is dedicated to introduction of a new integrated IT revenue management system (IRMS).

The Revenue Administration Reform Project, financed by the World Bank loan and implemented by the Revenue and Customs Administration, will improve the effectiveness of operational functions of the Revenue and Customs Administration and reduce costs of



taxpayers - legal entities when complying with tax obligations. Increased settlement of tax obligations will generate greater revenue from which basic services for citizens will be provided. In this way, an additional contributions to the strengthening of tax discipline will be achieved and, accordingly, the room for the informal economy will be reduced. Moreover, the project will enable the use of clean data, risk analysis, and comparison of turnover in real-time with that reported in tax returns, which will lead to the reduction of tax evasion, fraud and tax gap. Implementation of the DWH/BI system will enable the use of an electronic fiscalisation system in full capacity by using risk analysis (issuance of fictitious invoices). Implementation of IRMS will create conditions for digitalisation of the business processes and for the provision of electronic services to taxpayers without having to go to the counters, whereas one of the modules will be intended for the exchange of information related to FATCA and the OECD model, as well as for the exchange of information and connecting with other authorities which will enable detection of tax evasion and reporting the profit which was actually generated.

The measure is a response to policy guidance no. 5 of the Ministerial Dialogue from May 2022.

a) Activities planned in 2023:

Component 1:

- Establishment of the interdepartmental working group that will draft the new Action Plan to suppress the informal economy which will include the existing and new measures, with clearly defined activities of competent institutions;
- Adoption of the Action Plan to suppress the informal economy;
- Establishment of the body for implementation and monitoring of activities undertaken to suppress the informal economy;
- Introduction and analysis of the effects of the application of the principle of rotation of inspectors (this will enable inspectors carrying out oversight in a certain region to contribute to the reduction of the informal economy by carrying out oversight in other regions – central, southern and northern);

Component 2:

- Continuation of the cleansing of data and their transfer to the data analytics platform (DWH/BI);
- Start the activities to implement an integrated IT revenue management system;
- Establishment of the data analytics platform DWH-BI.

b) Activities planned in 2024:

Component 1:

- Implementation of the Action Plan to suppress the informal economy;

Component 2:

- Introduction of the new integrated IT revenue management system - IRMS;



- Procurement of the remaining part of the software for IRMS; Control of data migrated into the new system, final quality controls to check whether all participants are ready for the transition to the new system.

a) Activities planned in 2025:

Component 1:

- Conducting a new survey on the scope and structure of the informal economy among households and businesses, in order to determine progress compared to 2022;
- Carry out a promotional campaign to raise awareness about benefits of the cashless payment, in order to ensure better financial inclusion of the entire society;
- Undertaking incentivising measures to expand the use of payment cards;
- Establishment of the regulatory framework to suppress advertising the sale of goods online by non-registered entities.

Component 2:

- Fully operational IT system for revenue management.

Institution tasked to implement this measure: Ministry of Finance, Revenue and Customs Administration and other institutions designated as implementers of activities in the Action Plan.

2. Results indicators:

Indicator	Baseline (2023)	Intermediate target (2023-2024)	Target (2025)
Component 1:			
Reduction of the share of informal economy in GDP	20.6 percent	-	15.5 percent
Component 2:			
Percentage of the accuracy of data owned by Revenue and Customs Administration	50 percent	Data clean 100 percent	Unhindered functioning of the Data Analytics Platform (DWH/BI)
Degree of operationalisation of the Data Analytics Platform (DWH/BI)	Base for the platform established	90 percent	Data Analytics Platform (DWH/BI) operational 100 percent
IRMS – Integrated IT Revenue Management System operational	0	Revenue management system operational 70 percent	Revenue management system operational 100 percent



3. Expected impact on competitiveness: Reduction of the share of the informal economy as the percentage of GDP will have a long-term impact on competitiveness. As a result of the implementation of the Action Plan to suppress the informal economy, the share of unfair competition will be reduced and more competitive market competition will be encouraged. The introduction of the integrated information system, based on modern business processes, will constitute a base for systemic risk analysis at the Revenue and Customs Administration. It is also one of the crucial mechanisms for the control of taxpayers, primarily those operating in the informal sector. In this way, competition originating from the informal sector, which directly threatens the viability of the taxpayers operating in legal channels, will be minimised. This will boost the competitiveness of the business entities operating legally and increase the efficiency of the Revenue and Customs Administration, which will increase the competitiveness of the economy as a whole.

4. Estimated cost of the activities and the source of financing: The measure will have a positive impact on the budget as a result of more efficient controls leading to a higher collection of revenues. Remuneration to the members of the working group tasked with drafting the Action Plan to suppress the informal economy and funds for the implementation of new survey will be provided from the budget of Montenegro in the amount of approximately EUR 150,000. The source of financing is the World Bank loan in the amount of EUR 18,800,000.00, of which EUR 12,200.00.00 have still not been disbursed. Since the project will evidently be delayed, it needs to be restructured. Following negotiations with the World Bank, an extension of 30 months was proposed. The total costs of DWH amount to EUR 1,759,000. The total costs of IRMS amount to EUR 8,400,000.00 (if the project is restructured, the funds will be spent in 2024 and 2025).

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to healthcare: Reduction of the scope of the informal sector will create conditions for increasing the number of employees and for shifting them from informal to formal business flows. Reduction of undeclared work will have a positive impact on employment, while improvement of the labour and working conditions in the medium-term will lead to poverty alleviation and social equality. Undeclared work i.e. a number of workers employed in the informal economy will be reduced and the labour market will function better as a result of better supervision and coordinated action of several inspections. The public will be better informed and visibility of inspectors' work in the field will be more visible.

6. Expected impact of the reform measure on the environment: The measure will have multiple positive environmental impacts through the digitalisation of business processes, as a result of an increased number of inspection controls in various segments (tourism, forestry, labour, social protection etc.).

7. Potential risks associated with implementation of the reform measure:



Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Component 1:		
Lack of coordination in the implementation of the planned activities	High	Raising awareness about the need to act together, while improving operations through innovation
Component 2:		
Possibility of delaying deadlines set for project implementation	High	Timely implement activities involving project restructuring and development of the Action Plan
Lack of administrative capacity at the Revenue and Management Administration	Moderate	Additional training courses for the purpose of successful project implementation

5.2. Analysis of obstacles in other areas (not covered in Section 5.1) and related structural reform measures

Challenge no. 1 Obstacles to the support of green transition

a. Analysis of main obstacles:

One of the challenges in the further development of the Montenegrin economy, which is not directly covered in subchapter 5.1, concerns **support for green transition, primarily through environment protection and mitigation and adaptation of the effects of climate change, by linking activities in energy, transport, and agriculture sectors.**

By signing the Green Agenda for the Western Balkans, Montenegro committed to achieving carbon neutrality by 2050. By adopting the Nationally Determined Contribution on 3 June 2021, Montenegro set a new target for the reduction of greenhouse gas emissions at 35 percent by 2030, relative to 1990 that is the reduction of 2117 kilotons which is planned by 2030. Bearing in mind global and European scenarios for achieving low-carbon development, it is necessary to design and implement reforms that support climate ambitions. One of the obstacles to environmental protection and reduction of air pollution is a production by the Thermal Power Plant in Pljevlja which generates about 50 percent of the electricity in the country. In addition to Pljevlja, Podgorica and Nikšić also face air pollution. Moreover, addressing the issue of environmental hot spots is one of the challenges in environmental protection; one example is an environmental hot spot – red mud pond in the territory of the capital Podgorica.



Additional challenges related to the environmental impact exist in transport and transport networks, as well as in assessing the environmental impact of the construction of the next highway. The lack of proper physical infrastructure and an insufficiently efficient system of interstate crossings are factors that limit economic growth and development. Long waiting time for the means of transport at border crossings significantly affects the dynamics of traffic, exploitation costs, the volume of transport, and degree of utilisation of the means of transport and constitutes a business barrier that has also been recognised by the European Union (EU). The situation was further complicated by the outbreak of the COVID-19 pandemic which prompted the establishment of the so-called green corridors in the Western Balkans. The usual waiting time of trains at the border ranges from 30 to 120 minutes, state authorities perform practically duplicate operations when controlling trains crossing the state border, which means that single border crossing points need to be established. In order to eliminate obstacles such as long waiting times at border crossings, the Southeast Europe Transport Community initiated measures to facilitate cross-border movement and establish joint border crossing points.

The challenge of improving the environment also includes the issues of improving waste management and wastewater treatment. Montenegro has not yet made the transition from landfills to circular economy which is one of the problems faced by the waste management system. The Law on Waste Management which is, to the greatest extent, harmonised with EU legislation, and also takes into account national circumstances, has not been adopted yet. According to the 2017 Report on the Implementation of the State Waste Management Plan in Montenegro, about 10 percent of the total quantity of municipal waste was either reused or recycled. In order for greenhouse gas emissions from waste to be reduced and in order for the waste generation to be reduced as well, the use of biotic and new synthetic materials needs to be replaced by recycled waste and steps should be taken to use waste as a resource. As for the introduction of e-mobility, the infrastructure is partially developed and does not form a whole because there are not enough additional public places for charging electric vehicles. Integration of the use of renewable energy sources for e-mobility purposes would contribute to decarbonisation at the lowest cost.

The tourism sector, as the largest contributor to economic development in Montenegro, is a significant consumer of natural materials and producer of carbon footprint, either directly or indirectly through accommodation, transportation, food, and beverage services. The challenges in the sustainable use of natural resources should be overcome by producing high-quality agricultural and food products. An increase in the capacity of agricultural production, the development of ecological agriculture, and local and regional brands are some of the strategic priorities in the country. Moreover, the green transition process and environmental protection depend on further reforms of the energy market in terms of increasing production and use of renewable energy sources. Montenegro is characterised by high amortisation of



the existing energy infrastructure and the need for its accelerated revitalisation and technological modernisation, while the efficiency and reliability of electricity supply also need to be improved. The Energy Development Strategy until 2030 states that challenges in the energy sector, which have an impact on the environment, include insufficient development of the institutional framework for energy efficiency, uncontrolled use of biomass: uncontrolled cutting of forests, inefficient use of biomass for the preparation of sanitary hot water and for premises heating, underutilised possibilities of using biomass for the production of wood fuel or biomass for district heating. Moreover, another challenge is the trend of constructing buildings with inadequate energy features; a lack of energy management in the public sector (at the state and local levels) and among large energy consumers.

b. Reform measures

Reform measures as a response to Challenge 1: Obstacles to the support of green transition

As a response to the **challenge related to green transition and better environmental protection and climate change**, the 2023 Economic Reform Programme proposes the following measures: *Sustainable green tourism, Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products* in the field of a *green transition*. It also proposes the following measures: *Financial assistance to households aimed at implementing energy efficiency measures* in the field of *energy market reforms*, the measure *Support to investments in the food production sector with the aim of boosting competitiveness* in the field of *Agriculture, industry, and services*, while in the area of *Transport Market Reform* it proposes the measure that includes the construction of the joint border crossing points in the framework of the Berlin Process.

In response to the challenge of better environmental protection and climate change, including transport, energy, and tourism sectors, the Economic Reform Programme includes the continuation of certain reform measures from last year. Since the tourism sector is one of the producers of the carbon footprint, implementation of the priority reform measure, which entails the development of sustainable green tourism, continued. Moreover, sustainable use of natural resources, with a special focus on the production of high-quality agricultural and food products by using innovative and traditional production methods, supports environmental protection and a green transition, which is why it is proposed to continue the measure that entails investments in the development of agriculture and rural areas. Bearing in mind the insufficiently developed institutional framework for energy efficiency and need to construct and reconstruct buildings based on the principle of energy efficiency, it was proposed to continue the measure involving financial assistance to households in order to further apply energy efficiency measures in households. Implementation of the measure involving reduction of the circulation and use of lightweight plastic carrier bags and single-use



plastic products also continues in order to improve waste management. Moreover, in order to improve the transport infrastructure and its contribution to simpler cooperation in the region, the measure involving improvement of border crossings was proposed – it entails the opening of common railway border station Bijelo Polje.

Reform measure 15: Sustainable green tourism

1. Description of measure: The measure entails more efficient, and higher quality establishment of the sustainable component (green transition and circular economy), improvement of the offer of hospitality facilities and services and enhancement of the development of the diversified tourism product, primarily in the north of Montenegro. This will contribute to the extension of the tourism season. The measure is implemented in compliance with the principles of sustainability until 2030. It concerns the diversity of Montenegro in terms of natural, socio-cultural, historic, and ethnic characteristics and constitutes strong base for development of the specific and unique types of the tourism offer. The measure is complementary to the main priorities of the government and responds to the identified challenge involving green transition. It is implemented in compliance with the principles of sustainability and is harmonised with the National Plan of Sustainable Development until 2030, UN Sustainable Development Agenda until 2030, and EU Green Deal. It supports the implementation of the Tourism Development Strategy of Montenegro 2022-2025, National Employment Strategy 2022-2025, and Smart Specialisation Strategy of Montenegro 2019-2024 (Sustainable and Health Tourism). It also creates preconditions for a more equitable tourism offer from a regional perspective, enables an increase in the number of newly created jobs (increase in the number of employed women and youth + family businesses), and reduces migration from the north to the coastal region, while raising the living standard of the population.

The measure was transferred from previous years because firstly, it requires gradual implementation, and secondly, COVID 19 and various developments in Ukraine affected its implementation. Having in mind the aforementioned and fundamental function of the measure – which is to promote sustainable development of tourism products focusing on the northern region of Montenegro, it was deemed necessary to transfer the measure from the previous period. Even more so, because the measure is still complementary to the main government priorities and responds to one of the identified main structural challenges: the well-being economy.

a) Activities planned in 2023:

- *Development of green types of accommodation capacities*
Stimulation (co-financing) of decarbonisation and introduction of new environmentally friendly technologies in hospitality facilities / in certain areas (such as beaches, NP and



other protected areas...) through favourable dedicated loan facilities/ financial resources from EU funds - support to green investments: for construction/ reconstruction/ adaptation/ equipping of hotels and other accommodation facilities which enables: introduction of the new environmentally friendly technologies and standards (emission standards that entail: increased energy efficiency, use of renewable energy sources, heating, restrictions on the use of fossil fuels, expanding green areas, more efficient use of resources (circular economy)): and implementation of environmental standards to preserve natural, landscape and cultural values of the area.

- *Diversification of tourism product*

Implementation of incentives and project activities set out in action plans accompanying programmes for the development of rural, cultural, health, nautical, sports and event tourism:

- innovation projects in rural tourism, thematic/educational trails combined with panoramic/hiking/cycling/mountain trails etc.
- tourism valorisation of cultural and historic heritage,
- development of innovative models of health tourism,
- blue growth,
- tourism valorisation of natural resources – expansion of the range of offers in both, coastal and other municipalities in Montenegro,
- events, festivals...

b) Activities planned in 2024-2025 will represent the continuation of the activities from 2023 which will be implemented with either planned or modified intensity, depending on potentially uncertain health-epidemiological conditions and depending on the financial possibilities of service providers in view of the economic situation caused by the war in Ukraine.

Institution tasked to implement this measure: Ministry of Economic Development and Tourism

2. Results indicators:

Indicator	Baseline (2019)	Intermediate target (2023)	Target (2024 target)
Number of hospitality facilities/services which apply green practice	14	20	25
Percentage of increase in the number of overnight stays in the northern region of Montenegro	315,815 overnight stays	3-5 percent	3-5 percent
Total share of tourism in GDP	31 percent	20 percent	25 percent

3. Expected impact on competitiveness: The measure aims to boost the competitiveness of the tourism product of Montenegro, while contributing to the promotion of sustainable and



inclusive economic growth, as well as to the broader and more productive employment and creation of adequate workplaces for everyone. The measure reduces seasonality of tourism industry; reduces regional imbalance; improves tourists' experience by incorporating innovative solutions and modern technologies in offer. It will improve destination management, strengthen public-private partnerships and raise the standard of living of the population. It also contributes to the improvement of the quality of the Montenegrin tourism product, primarily in the north of Montenegro, which will become more competitive compared to tourist destinations with a similar offer, which is why the share of tourism in the GDP is expected to grow up to 25 percent in 2025.

4. Estimated cost of the activities and the source of financing: The measure will be co-financed by the ministry from the budget funds intended for strengthening the tourism market, through incentive measures in tourism; these funds are allocated for co-financing projects which aim to raise the quality of service by implementing innovative solutions in the the development of tourism products. Project activities will also be financed from budget funds of the ministry in accordance with the action plans for development of special forms of tourism: rural, cultural, and health. In addition, the sources of funding include commercial banks which grant favourable dedicated loans, EU funds and other international funding.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: Implementation of project activities in the framework of the measure will contribute to an increase in the total number of employees; since women account for the largest share of employees in the tourism sector, the measure contributes to the financial strengthening of women which ultimately contributes to poverty reduction. Moreover, positive effects of the implementation of the measure include reduction of migratory movements on the north-south route increase in the number of young people who remain in rural areas and the creation of more optimal work conditions.

6. Expected impact on the environment: Activities envisaged by the measure are implemented in compliance with the principles and standards of sustainability (from economic, ecological, cultural and social perspectives) in order to ensure the optimal use of environmental resources, which is a key element of sustainable tourism development. In this way, preconditions are in place for implementing activities envisaged by the measure with a minimal negative impact on the environment / climate change. On the other hand, tourism valorisation of natural potential and cultural and historical heritage contributes to their revitalisation, more effective protection and better conservation.

7. Potential risks associated with the reform measure:



Risk	Probability of risk materialising	Planned risk mitigating action
Impact of crisis situations (uncertain epidemiological – health circumstances, war – economic and financial uncertainty, political instability in the country)	High	- improvement of a healthy and secure environment in tourism operations – introduction, development and application of the new health and sanitary-hygienic standards/conditions/measures in the provision of tourism services; - considerable financial assistance / projects co-financed by the government, Investment and Development Fund (IDF), commercial banks, EU funds...
Failure to implement planned activities due to carrying out tender procedures	Moderate	Detailed elaboration of the terms of reference with the provision of the logistics (round tables, training courses, panels...) in preparation of tender documentation
Lack of coordination/lack of efficiency in implementation of project activities	Moderate	Raising awareness about the need to act together, while improving operations through innovation and digitalisation
Lack of human resources	Moderate	Development of new standards of education, competences, skills, improvement of vocational/dual education, life-long learning

Reform measure 16: Investments aimed at the development of agriculture and rural areas

1. Description of measure: This reform measure aims to ensure a stable income for agricultural producers and sustainable use of natural resources, with a special focus on the production of high-quality agricultural products and food products using innovative and traditional production methods. This measure is implemented continuously, i.e. it is transferred from last year and further expanded since most investments require a longer period. The reform measure is harmonised with obligations assumed by signing the Green Agenda for the Western Balkans, chapter *Sustainable agriculture and food production*. It is linked to the implementation of IPARD II programme, while it was also expanded to include potential investments from the IPARD III programme. Implementation of the previously launched open calls under IPARD II programme is still ongoing, though at a slightly slower pace since COVID-19 and developments in Ukraine caused disruption on the market and an enormous rise in prices of the construction materials, machinery, equipment, and services. However, disruption on the market that had the greatest impact on food production was increase in the price of inputs (fodder, seeds, seedlings, artificial fertilisers and pesticides). The measure seeks to implement SDGs: 2, 9 and 15.

The measure consists of two components:



Component I - IPARD II - This component supports the development of the primary production (seeding perennial plants, procurement of specialised machinery (including tractors), construction and reconstruction of facilities, investment in renewable energy sources, the introduction of new technologies and innovation and creation of new market opportunities), while it also supports manufacturing of agricultural and fishery products (procurement of manufacturing equipment, construction and reconstruction of facilities for manufacturing agricultural and fish products to improve food safety standards through gradual harmonisation with EU quality standards, and investing to reduce negative environmental impact) and diversification of economic activities.

Component II - IPARD III - This component, in addition to investments from IPARD II component, also supports investments in rural infrastructure (roads, water management, waste management, energy supply and modern technologies), and agricultural-environmental payments.

a) Activities planned in 2023:

Implementation/payments of the contracted projects under IPARD II programme (component I). Accreditation of the measures to be implemented under IPARD III programme, launching open calls and contracting projects of component II.

b) Activities planned in 2024:

Launching open calls and the realisation of investments which concern the following measures: investments in physical capital on farms, investments in physical capital for manufacturing and marketing of agricultural and fishery products, diversification of farms, development of operations, and agricultural-climate measures.

c) Activities planned in 2025:

Activities from 2024 will repeat in 2025, while investments in public rural infrastructure will also be added.

Institution tasked to implement this measure: Ministry of Agriculture, Forestry and Water Management.

2. Results indicators:

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2025)
Value of realised investments under the IPARD Programme ³⁰ (in euro)	10,000,000	15,000,000	15,000,000
Number of implemented infrastructural projects under IPARD programme	0	0	5
Number of farms actively involved in agricultural-environmental-climate measures	0	0	200

³⁰ IPARD Programme started with implementation in 2018.



3. Expected impact on competitiveness: Better supply of the manufacturing sector with domestic raw materials and enabling manufacturing on farms will contribute to the increase of added value in production/manufacturing, as well as to the reduction of import dependence and greater competitiveness of domestic products. The production of traditional products on farms enables the development of the short supply chains which will result in better control of food safety, reduction of the informal market and, evidently, additional income for the producers. Increasing use of new technologies aims to bring producers closer to the market, and to a large extent to the consumer. In addition, owing to the support to rural infrastructure, the market is brought closer of the rural areas through better infrastructural connections and easier circulation of goods and services.

4. Estimated cost of the activities and the source of financing: Total planned amount of assistance for 2023 is EUR 15.3 million, of which EUR 11.4 million are from IPA funds and EUR 3.8 million is national co-financing. Total planned amount of assistance for 2024 is EUR 15 million, of which EUR 11.3 million is from IPA funds and EUR 3.7 million is national co-financing. Total planned amount of assistance for 2025 is 13.6 million euro, of which EUR 10.2 million are from the IPA funds and EUR 3.4 million is national co-financing. Implementation of this measure envisages contribution by the private sector in the amount of 50 percent of the total investment. Funds planned for 2023 refer to IPARD II programme (component I), while funds of IPARD III programme (component III) refer to budgetary years 2024 and 2025. Funds are awarded to the final beneficiaries in the form of subsidies.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: Targeted assistance to rural areas and young entrepreneurs has an impact on halting depopulation of this area and creating new business opportunities by means of tourism, manufacturing, and sale of products on farms. The social result of the measure is reflected in motivating women and young people through project evaluation and awarding a higher number of points to the projects which they implement. In order to enable equitable development of all areas in the country, additional assistance is allocated for the investments located 600 meters above sea level which puts additional emphasis on the development of the north of the country and less developed municipalities. COVID 19 pandemic even had a positive impact on the marketing of agricultural products by using new technologies (social networks, various online platforms) whereby farmers made their products more accessible to tourists and domestic consumers, which increased income and reduced poverty.

6. Expected impact on the environment and climate change: Assistance can be provided only to those users whose investment, at the latest at the time of payment, meets EU standards for environmental protection, while the entire farm or enterprise must meet national standards for environmental protection. Measures promote environmental protection in such a way that those applications which concern waste management or applications whose



one part envisages investments in waste management score additional 10 points during the ranking, i.e. a part of the investment related to waste management receive additional 10 percent grant assistance. The intention behind the assistance is to contribute to the development of the sustainable land management practices through organic agriculture and other agricultural-ecological practices. This reform measure also supports investments related to climate change mitigation.

7. Potential risks associated with implementation of the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigation action
Problem with pre-financing	High	<p>After performing analysis of whether it is justified to engage a special line/multiple lines of financing for IPARD beneficiaries, Montenegrin authorities together analyse the appropriate model of the pre-financing mechanism for the realisation of IPARD investments. Since the idea of the mechanism is still at the early stage and activities must be further coordinated between institutions, the appropriate measures will be designed in Q1 2023.</p> <p>Activities to create a positive environment with commercial banks in order to finance the agriculture sector under the most favourable conditions possible.</p>
Price fluctuations	High	<p>Due to Covid 19 pandemic and developments in Ukraine, there have been significant fluctuations in the prices of construction materials, services, equipment and machinery, which altogether creates an unfavourable environment for investment despite the approved/contracted applications for assistance.</p>
Administrative barriers	Moderate	<p>To implement these measures, the Government of Montenegro adopted the information, and issued a conclusion under which, at all levels of administration, priority is given to documentation that is required for obtaining assistance under IPARD II Programme. This practice will continue in the coming period.</p>
Uncertain repayment of credit funds	Moderate	<p>A decrease in the purchasing power of the population may lead to a lower sale of agricultural products on the market, which may cause delay in repayment of the loan funds.</p> <p>Increase in input prices will inevitably increase price of the final product which may, due to the relatively small volume of production, put domestic products at a disadvantage among customers with average purchasing power.</p>

In response to the challenge involving green transition, environment protection and climate change, one reform measure was proposed in the field *Energy Market Reforms*.



Reform measure 17: Financial assistance to the households with the aim of implementing energy efficiency measures

1. Description of measure: The goal of the measure is to generate energy savings in the households sector and improve living conditions; while protecting the environment. The reform measure entails the provision of interest-free loans to the interested households for the purchase and installation of highly efficient heating and cooling systems, facade thermal insulation of residential buildings and energy-efficient facade carpentry. The reform measure will be implemented under the title *Energy Efficient Home* programme (“the programme”). It is aligned with the Energy Policy of Montenegro until 2030, the Energy Development Strategy of Montenegro until 2030 and the Smart Specialisation Strategy of Montenegro 2019-2024. This measure will contribute to the implementation of the *European Green Agreement*, as well as to the achievement of the sustainable development goals of the United Nations and the implementation of the Green Agenda for the Western Balkans since it increases citizens' access to sustainable and modern energy, provides sustainable form of energy consumption and generation, enables efficient use of natural resources, while reducing energy poverty. The measure will contribute to the achievement of the goals set for energy efficiency and renewable energy and to the fulfilment of Montenegro's obligations in the EU accession process. In previous years, the activities envisaged by this reform measure were successfully implemented. The Ministry of Capital Investments successfully implemented all activities planned for this measure in 2022; activities envisaged by this measure included carrying out the procedure to select partner banks in the programme, carrying out tender procedure to select qualified companies i.e. works contractors, implementation of two open calls intended for households after which energy efficiency measures envisaged under this measure started to be implemented in households. The entire process is repeated every fiscal year. A total of 170 citizens submitted the required documents for the two open calls mentioned above. According to the preliminary data, partner banks approved 107 interest-free loans and energy efficiency measures were implemented in the households as planned.

a) Activities planned in 2023: Carrying out public procurement procedure for the selection of banks - providers of loans to households for implementation of energy efficiency measures in the new fiscal year, by the ministry responsible for energy; carrying out public procurement procedure for the selection of companies - suppliers and installers of systems, equipment and materials for the implementation of the energy efficiency measures, by the ministry responsible for energy; delivery and installation of systems, whose purchase and installation are enabled under the programme (heating systems for modern forms of biomass (pellets, briquettes), heating and cooling systems with highly efficient heat pumps, delivery and installation of the facade thermal insulation and



energy-efficient facade carpentry on residential facilities of the households), by selected companies; payment of funds in the amount of approved loans into the accounts of selected companies, by the selected banks; payment of funds for the loan interest rates to the banks - partners in the programme, by the ministry responsible for energy; repayment of interest-free loans in monthly instalments, by loan beneficiaries - households participating in the programme.

- b) **Activities planned in 2024:** Implementation of the same activities as in 2023, in the new cycle of the programme for fiscal year 2024;
- c) **Activities planned in 2025:** Implementation of the same activities as in 2023 and 2024, in the new cycle of the programme *Energy Efficient Home*

Institution tasked to implement this measure: Ministry of Capital Investments

2. Results indicators:

Indicator	Baseline (2021)	Intermediate target (2023)	Target (target year 2025)
Total generated energy savings under the programme <i>Energy Efficient Home</i>	1.2 GWh in one year	1.4 GWh in one year	4.2 GWh
Number of households supported under the programme <i>Energy Efficient Home</i>	136	150	400

3. Expected impact on competitiveness: The aforementioned will have a positive impact on the overall electricity balance of Montenegro and on increasing the possibility to export electricity. The measure is also expected to make a significant contribution to the development of the market of materials and products that contribute to the increase in energy efficiency.

4. Estimated cost of the activities and the source of financing: Total planned assistance at the annual level for 2023, 2024, and 2025 is EUR 0.15 million from the budget of Montenegro, which will be allocated for the payment of loan interests of the households which apply energy efficiency measures. Based on the funds earmarked for interest payments, the banks, that are partners in the programme, are expected to approve EUR 0.9 million annually for the loans to households that are beneficiaries of the programme. Investments expected in the observed three-year period are expected to total EUR 2.7 million. In the following period, consideration will be given to the possibility of providing funds or a part of funds for implementation of the measure from other sources of financing (EU, IFI, donors, etc.). This measure was implemented for the first time in the framework of the Economic Reform Programme in 2021.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: The measure is expected to have positive impact on employment in the companies which deliver and install systems, equipment and materials for implementation of energy efficiency measures. It is also expected to have multiple impacts



on poverty alleviation as a result of reducing the costs of energy consumed in households and creating greater employment opportunities. In addition, the measure should contribute to the improvement of housing conditions and preservation of population health. From the perspective of employment, the measure will have a particularly positive impact in the short and medium run, while in terms of reducing poverty and preserving health it will have a positive impact in the long run. As for gender equality, the measure will have a positive impact on women, especially in households in the north, as well as on men.

6. Expected impact on the environment and climate change: Planned activities will have positive impact on the increase in energy efficiency and use of renewable energy sources, as well as on reduction of the greenhouse gas emissions and reduction of negative impact on climate change and the environment. The measure will contribute to a more efficient energy transition, achievement of the goals set by the *European Green Agreement* and *Green Agenda for the Western Balkans*, as well as to the fulfilment of Montenegro's international obligations.

7. Potential risks associated with implementation of the reform measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Low interest of banks to grant loans to households under the programme, due to the current economic and energy crisis	Low	Explore the possibility of providing funds from others sources to support the implementation of the programme.
Low interest of citizens to implement energy efficiency measures under this measure, due to the rise in energy prices and prices of materials and services in this sector	High	Explore the possibility of granting additional subsidies to the households so that they participate in this programme.

One of the reform measures which responds to the challenge involving better environment protection refers to *green transition*.

Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products

1. Description of measure: Systemic solution for waste management and waste treatment was identified as one of the biggest challenges for closing Chapter 27 - Environment and Climate Change for the accession of Montenegro to the European Union. Although statistical data on plastic waste and recycling are limited, the 2017 Report on implementation of the National Waste Management Plan states that around 10 percent of the total quantity of municipal waste was either reused or recycled, while in 2020 around 14 percent of the total quantity of municipal was recycled. Therefore, the Law on Waste Management is currently being drafted and, in accordance with the Programme of Accession of Montenegro to the



European Union 2021-2023, that law is planned to transpose EU acquis in this field. This measure aims to reduce the use of single-use plastic products and to encourage the transition to a circular economy by including innovative and sustainable business models, products, and materials. The adoption of the Waste Management Law (planned to be adopted in Q2 2023) creates conditions for defining the ways to implement closing benchmarks for chapter 27 in this field. The measure was transferred from last year to create preconditions and raise awareness in this area prior to the adoption and entry into force of the Law on Waste Management. Activities planned for 2022 were moved to 2023. Last year's amendments to the Law on Excise Taxes introduced excise taxes on lightweight carrier plastic bags and some single-use plastic products; work was done to carry out a campaign which raised public awareness on this topic, Proposal for the Law on Waste Management is in the phase of being submitted for the opinion of the EC, work was done to design methodology for calculating plastics in the sea and to introduce this concept in public administration. The measure is aligned with the National Sustainable Development Strategy until 2030, the National Strategy of Circular Transition until 2030 and the accompanying Action Plan for the period 2023-2024, the Green Deal and the Green Agenda for the Western Balkans, and it directly contributes to the implementation of the UN Agenda for Sustainable Development until 2030 (SDG 12, but also indirectly SDGs: 11 and 14). This measure requires the action from all stakeholders in the single-use plastic value chain, from producers, designers, brands, and retailers, to entities dealing with recycling and, ultimately, consumers.

a) Activities planned in 2023:

Expansion of the coverage of the excise tax on single-use plastic products as a result of amendments to the Law on Excise Taxes: Ministry of Finance; Adoption and consistent application of the Law on Waste Management (adoption of this law is planned for Q2 2022, along with drafting the by-laws): Ministry of Ecology, Spatial Planning and Urbanism; Introduction of the concept of reducing the use of lightweight carrier plastic bags and single-use plastic products in public administration: Ministry of Ecology, Spatial Planning and Urbanism and Office for Sustainable Development, Secretariat General of the Government; Carrying out campaign to inform the public and raise awareness of all stakeholders in the single-use plastic value chain about its harmful negative impact on the environment: Ministry of Ecology, Spatial Planning and Urbanism and Office for Sustainable Development, Secretariat General of the Government; Development of the piece of secondary legislation which defines methodology for determining the quantity of waste for which targets were set: Ministry of Ecology, Spatial Planning and Urbanism; Adopt the piece of secondary legislation which regulates in more detail the extended accountability of producers: Ministry of Ecology, Spatial Planning and Urbanism; Encourage circular transition through assistance programmes intended for the business sector: Ministry of Economic Development and Tourism.

b) Activities planned in 2024:



Implementation of the campaign to inform the public and raise awareness of all stakeholders in the single-use plastic value chain about its harmful negative impact on the environment: Ministry of Ecology, Spatial Planning and Urbanism; Training courses for all the stakeholders in the single-use plastic value chain, from producers, designers, brands, and retailers, entities dealing with recycling and, ultimately, consumers: Ministry of Ecology, Spatial Planning, and Urbanism;

Assessment of capacities, education and possible expansion of capacity of the competent inspection services: Ministry of Ecology, Spatial Planning, and Urbanism; Establishment of the mechanism for control of implementation of the law in respect of extended accountability of producers: Ministry of Ecology, Spatial Planning, and Urbanism; Implementation of measures to introduce the concept of reducing the use of lightweight carrier plastic bags and single-use plastic products in public administration: Office for Sustainable Development/Secretariat General of the Government.

c) Activities planned in 2025:

Implementation of the campaign to inform the public and raise awareness of all stakeholders about the single-use plastic value chain, and about its harmful negative impact on the environment, as well as about extended accountability: Ministry of Ecology, Spatial Planning and Urbanism. Consistent implementation of penal policy on site, accompanied by application of legal solutions and inspection control: Ministry of Ecology, Spatial Planning and Urbanism.

2. Results indicators:

Indicator	Baseline (2021)	Intermediate target (2027)	Target (2030)
Reduction of the production and consumption of the lightweight carrier plastic bags	600-700	300	40
Increase in the recycling rate	14.354 percent	20 percent	50 percent

3. Expected impact on competitiveness: Reduction of the use of plastic bags contributes to a cleaner and healthier environment, as well as to the green transition that directly affects the perception of Montenegro as a tourist and ecological country and strengthens its competitive position. The introduction of excise duties through amendments to the law on excise duties led to an increase in levies on these products i.e. the price of these products is higher and is directly borne by the end users. Revenues generated from excise taxes can be used for other environmental purposes, which further improves achievement of the ultimate goal. In this way, the measure should contribute to reducing the use of these products which directly affects the market of these products and the demand for them.

4. Estimated cost of the activities and the source of financing: The cost structure by years for the implementation of this measure is outlined below.



The amount of EUR 330,000.00 is planned for 2023, of which: EUR 115,000.00 will be paid from the budget of the Ministry of Ecology, Spatial Planning and Urbanism, EUR 5,000.00 from budget of the Office for Sustainable Development, EUR 200,000.00 from budget of the Ministry of Economic Development and Tourism, EUR 10,000.00 by UNDP.

The amount of EUR 144,000.00 is planned for 2024, of which: EUR 142,000.00 will be paid from the budget of the Ministry of Ecology, Spatial Planning and Urbanism and EUR 2,000.00 from budget of the Office for Sustainable Development.

The amount of EUR 70,000.00 is planned for 2025 and that amount will be paid from the budget of the Ministry of Ecology, Spatial Planning and Urbanism.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: The goal of the measure is to protect the environment and lay the foundations of the new economy that includes plastics in a way that designs and production take into account reuse, repair and recycling of materials, while providing incentives for the production and use of more sustainable materials. In this way, it is possible to create new green jobs in which gender balance is taken into consideration. Moreover, planned campaigns that aim to expand information and education and raise public awareness about the negative effects of plastic on the population’s health and healthy environment, which is a fundamental human right, will contribute to the social dimension of sustainable development.

6. Expected impact on the environment and climate change: Reduced production and reduced use of these products will contribute to the preservation of the population’s health and a healthy environment. The EU invited Montenegro to present information on the measures to prevent waste generation that should be implemented, including the development of a programme for the prevention of waste generation. In the course of drafting the Law on Waste Management, consideration will be given to the new EU plans under which by 2030 all plastic packaging on the EU market will be suitable for recycling, consumption of single-use plastics will be reduced and use of microplastics will be limited.

7. Potential risks associated with implementation of the measure:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Failure to adopt the law within the set deadline	Moderate	Until adoption of the law, undertake promotion activities, i.e. carry out campaign to raise awareness about the new trends introduced by the law.
Failure to perform activities according to the defined schedule and plan	Moderate	Detailed elaboration of the plan and deadlines for the performance of activities.
Failure to carry out tender procedures in accordance with the set deadlines	Moderate	Detailed elaboration of the terms of reference, and provision of logistics (round tables, trainings,



Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
		panels...) in the preparation of tender documentation.
Available human resources	Moderate	Development of the new standards of education, competencies, skills, improvement of professional/dual education, life-long learning.
Insufficiently high prices of single-use plastic bags and single-use plastic products	Moderate	Solutions to be found through the future Law on Waste Management
Inconsistent enforcement of penal policy of the future Law on Waste Management	Moderate	Assessment of capacities of the inspection control , capacity building, alternative solutions
Loss of the market for single-use plastic bags and single-use plastic products	High	Incentives for the production of alternative products, through training and education, awareness raising, potential financial assistance as the stake for future development, i.e. green jobs and green transition
Low awareness among end-users and producers	High	Informative-educational campaign to raise awareness of the public and all stakeholders in the single-use plastic value chain about its negative environmental impact.

As a response to the challenge concerning environment protection and climate change, one of the measures refers to the *Transport Market Reform*.

Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje

1. Description of measure: The reform measure includes the construction and opening of the joint railway border station between Montenegro and Serbia in Bijelo Polje which will shorten the waiting time and necessary procedures at the border crossing between Montenegro and Serbia, enable the unhindered flow of people and goods and increase the scope of utilisation of the transport means. Implementation of the measure is linked to the broader context of regional cooperation within the Berlin Process, Southeast Europe Transport Community and Transport Facilitation Action Plan of the Southeast Europe Transport Community which planned construction of the railway joint border crossing between Serbia and Montenegro. The aforementioned Action Plan defines the construction and/or modernisation of the existing infrastructure at common border crossings between countries of the region as a general obligation in order to remove the identified physical and technical barriers by Q4 2023.



The proposed reform measure elaborates only one border crossing which is more mature for implementation compared to some others (e.g. Tuzi on the border with Albania, which is also part of the Action Plan), for which financial structure still needs to be fully defined and appropriate procurement procedures should be initiated. This reform measure can be perceived as part of a broader effort to stimulate corridor development and shorten the time of cargo transportation from the Port of Bar to Serbia.

Back in 2009, Montenegro recognised the need to start optimising operations at the railway border crossings (as a more environmentally friendly mode of transport) and started activities with the neighbouring countries (Serbia and Albania) related to the signing of inter-state agreements on joint border stations (Bijelo Polje and Tuzi) and signing of all necessary protocols between state authorities (police, customs, phytosanitary inspection) and railway companies that will operate trains at Bijelo Polje station. For Bijelo Polje station, these procedures were finalised in 2010 and the station building still needs to be adapted and reconstructed. After applying to receive IPA funding, this project of adaptation and reconstruction of the station building was approved by the EU and after conducting the tender procedure in 2021, the contractor was selected and works began in Q1 2022, with an expected duration of one year. These works will enable the adaptation and construction of a sufficient number of offices for all employees at Bijelo Polje joint station and create preconditions for work in the border zone in accordance with EU procedures, shortening the waiting time and necessary procedures at the border crossing between Montenegro and Serbia.

The COVID-19 pandemic particularly accelerated the emergence of the green corridors owing to the support by the CEFTA initiative, the Transport Community, and the Council for Regional Cooperation. CEFTA signatories and regional partners are now working to extend the green lanes to all border crossings in the CEFTA region and to expand cooperation between CEFTA members and neighbouring EU member states. The goal is to reduce waiting time at border crossings by at least 30 percent.

a) Activities planned in 2023:

The following activities are planned for 2023: finalisation of adaptation and reconstruction works on the station building in Bijelo Polje, development of the station square and access to the station and installation of new lighting on all tracks of the Bijelo Polje station. The authorities competent for the implementation of the reform measure are the Ministry of Capital Investments and Railway Infrastructure of Montenegro.

b) Activities planned in 2024:

The following activities are planned for 2024: works completion, verification of all the signed protocols, redeployment of state authorities of both countries and start of operation of the joint border station Bijelo Polje. The authorities competent for the implementation of the



reform measure are the Ministry of Capital Investments and Railway Infrastructure of Montenegro.

c) Activities planned in 2025:

The following activities are planned for 2025: full operationalisation at the station, while giving proposals for how to improve operation. The authorities competent for the implementation of the reform are the Ministry of Capital Investments and Railway Infrastructure of Montenegro.

Institution tasked to implement this measure: Ministry of Capital Investments

2. Results indicators:

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Type of train operation improved	Classic train operation	Joint train operation	Joint train operation
Percentage of reduction of the waiting time at the border crossing	0 percent	20 percent ³¹	30 percent

3. Expected impact on competitiveness: Implementation of the reform measure will shorten the waiting time of international trains in both passenger and freight traffic by 30-90 minutes per train, which will enable shorter train travel times, thus attracting new passengers and goods that will be transported by rail in the coming period. Waiting time of trains in border zones in the Western Balkans has been a problem for years and analyses have shown that most of the non-productive time in train operation is spent waiting in border zones. This reform measure has a direct impact on the competitiveness of the railway traffic compared to the other modes of transport, shortening the time spent at border crossings and speeding up necessary border control and customs clearance procedures. Control of trains at one joint station, in addition to reducing travel time, also increases economic activities in the border zone which are related to the operations of freight forwarders, manoeuvres with a larger number of trains and operators, use of information and communication technologies, etc.

4. Estimated cost of the activities and the source of financing: In accordance with the concluded contract, the costs of adaptation and reconstruction of the station building in Bijelo Polje amount to EUR 1.93 million, and together with the costs of developing the main design and supervision the costs reach EUR 2.142 million. The funds are partially provided from IPA 2017 pre-accession fund, where the European Union's contribution to this project amounts to EUR 1.168 million, i.e. 54.55 percent, and the rest is financed from the state budget.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare: The measure has no particular impact on employment,

³¹ In 2024 the planned works will be executed in one part, and during the probation period it will be necessary to check all the protocols between several involved entities to ensure full functionality of the joint railway border crossing between the states.



poverty alleviation, gender equality and access to health services. The measure could be linked to the 9th global sustainable development goal of the United Nations - Industry, innovation, and infrastructure because it aims to create quality cross-border infrastructure which drives economic development, and improves the standard of living, while this goal also includes infrastructure development with broader adoption of clean and environmentally friendly technologies by 2030, and railway is treated as a more environmentally friendly solution which is why it is promoted in relation to the other modes of transport.

6. Expected impact on the environment and climate change: Railway is treated as a more environmentally friendly solution which is why it is promoted in relation to other modes of transport; the reform measure has no particular impact on the environment and climate change. The reform measure is certainly aligned with Sofia Declaration on the Green Agenda for the Western Balkans, which sets shifting of transport from roads to more environmentally friendly solutions as one of the main goals and encourages implementation of the Transport Facilitation Action Plan of the Southeast Europe Transport Community.

7. Potential risks associated with implementation of the reform measure:

Risk	Probability of risk materialising (low or high)	Planned activities to mitigate negative effects and risks
Potential increase in costs due to additional and unforeseen works	Low	Quality supervision of activities
Occurrence of unforeseen circumstances in the field	Low	Quality supervision of activities
Failure to understand managerial responsibility of all participants in the project management model	Low	Clear distribution of duties and continuous communication

5.3. Summary of Reform Measures

This section includes a table containing and overview with the 19 reform measures addressing the three key challenges contained in the sections 5.1 and 5.2.

<p>A) Reforms addressing the three key challenges:</p> <p><u>Challenge 1: Increasing employment, especially of women and youth, and fight against the long-term unemployment problem</u></p> <p>Area “Employment and labour market”</p> <p><i>Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation</i></p> <p>The measure should support larger interoperability with other databases in the system of Montenegro and adequate data exchange aimed at better quality of monitoring the unemployed persons.</p> <p><i>Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro</i></p> <p>The measure refers to inclusion of youth in the further education or professional development programmes, or employment.</p>



Reform measure 3: Developing an integrated approach to improving education quality and inclusivity

The objective of the measure is a comprehensive approach to increasing quality of education and learning outcomes.

Area “Education and skills”

Reform measure 4: Digitalisation of the education and development of digital skills

The objective of this measure is to develop new electronic services, and create appropriate prerequisites in the education and pedagogical institutions for successful improvement of all digital processes, and to develop digital skills of school pupils.

Area “Social protection and inclusion”

Reform measure 5: Reform of the social and child protection system based on the Road Map

The objective of the measure is to improve efficiency and effectiveness of the social protection schemes for poverty reduction.

Area “Healthcare”

Reform measure 6: Digitalisation of the healthcare system in Montenegro

The objective is to improve and upgrade existing and introduce new healthcare services that could be achieved using the information and communication technology.

Challenge 2: Strengthening the regulatory environment

Area “Business environment and reduction of the informal economy”

Reform measure 7: Establishing a full electronic registration of enterprises

The objective of the measure is faster, cheaper, and more transparent services to business owners through electronic registration.

Area “Research, development and innovation”

Reform measure 8: Strengthening the national innovation and research ecosystem

The objective of the measure is to strengthen foundations for management and institutional networking in the research and innovation system, and to incentivise technology transfers. The measure is continuation from the previous year.

Area: “Digital transformation”

Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills

This is a new measure, which represents a Digital Academy addressing the area of digital and complementary skills of civil servants at all levels of administration, as well as of other target groups.

Reform measure 10: Strengthening Cyber Security

The objective of the proposed reform measure is to establish advanced security ecosystem for effective response to potential and future threats in the area of cybersecurity.



Reform measure 11: Improving the infrastructure for broadband internet access and introducing next-generation networks

The measure is continuation of the reform measure set out in ERP 2022-2024, as well as an upgrade in the segment of implementing the policies on introduction of the next-generation networks.

Area “Public Financial Management”

Reform measure 12: Improving management of state-owned enterprises

The measure is continuation from the previous year, whereby the objective is to establish an oversight function of the Government in enterprises where it is the majority owner and founder, and monitor fiscal risks from their operation.

Area “Economic integration reforms”

Reform measure 13: Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7

The objective of the measure is to increase transparency of the export of services from the territory of CEFTA parties; to increase foreign direct investments and to increase mobility of the highly qualified labour force.

Challenge 3: Formalising the informal economy

Area “Business environment and reduction of the informal economy”

Reform measure 14: Strengthening mechanisms for the formalisation of informal economy

The measure is an upgrade to the measure from the previous year, and deals with the development of a comprehensive action plan to combat the informal economy and introduction of IRMS in the Revenue and Customs Administration.

B) Reforms addressing other challenges:

Challenge 1: Obstacles to the green transition support

Area “Agriculture, industry and services”

Reform measure 15: Sustainable green tourism

The measure entails a more efficient and higher quality establishment of the sustainable component (Green transition and circular economy) in improving offer of the hospitality facilities and services.

Reform measure 16: Investments aimed at the development of agriculture and rural areas

The objective of the reform measure is support to the production of high-quality agricultural produce and food products using innovative and traditional production methods.

Area “Energy market reforms”

Reform measure 17: Financial support to households aimed at applying energy efficiency measures



The measure entails provision of interest-free loans to the households for implementing energy efficiency measures.

Area “Green transition”

Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products

The objective of this measure is to reduce impact of the single-use plastic products and to encourage transition to circular economy.

Area “Transport market reforms”

Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje

The measure includes shortening the waiting time and necessary procedures at the border crossing between Montenegro and Serbia, and enable unhindered flow of people and goods, in the CEFTA region.



6. THE COST AND FINANCING OF STRUCTURAL REFORMS

The sixth chapter of the ERP 2023-2025 outlines the total amount of additional costs and financing of 19 priority reform measures covered by chapter 5 of the document. In line with the Guidance Note for ERP drafting, the selected priority reform measures are strongly focused on legislative and administrative reforms, as well as on financial instruments in the form of grants and credit and guarantee schemes, but not on infrastructural projects which are covered by the projections in chapters 3 and 4 of this document. Since priority reform measures outlined in the ERP are not infrastructural in nature, but are rather administrative-legislative measures and measures implemented by means of financial instruments, the additional funds for their implementation are lower than those needed for infrastructural improvements. In this context, additional funds for the financing of 19 priority reform measures contained in the ERP 2023-2025 will amount to around EUR 99.31 million, of which 39.79 million euro will be disbursed in 2023, EUR 30.56 million in 2024 and EUR 28.95 million in 2025.

The Montenegrin Macro-econometric Model, designed by the Government of Montenegro a few years ago with the assistance of the European Union under the project *Support to the assessment of the macroeconomic impact of structural reforms (IPA/ 2017/384-908)* was used in analysis of the impact of certain priority reform measures on economic growth in the medium term. This impact is described in more detail in chapter 3 of the ERP which elaborates medium-term macroeconomic framework. Moreover, impact of the mentioned 19 priority reform measures on public finances is outlined in chapter 4 of the ERP which elaborates the medium-term fiscal framework of Montenegro.

As presented in table 6.1, "subsidies and transfers" account for about 59.42 percent of the total additional costs of financing of the priority measures in the period 2023-2025, and the largest part of these costs is incurred with regard to reform measure 17: Investments aimed at the development of agriculture and rural areas and reform measure 8: Strengthening the national innovation and research ecosystem, as well as the reform measure 15: Sustainable green tourism. The second largest category of the calculation of additional cost, which accounts for about 31.96 percent of total additional costs for implementation of the priority reform measures, includes "goods and services" which means that the costs of hiring consultants, purchasing equipment, and services are envisaged in implementation of the majority of measures.

The amount of additional costs in 2024 and 2025 for ERP implementation will be smaller at the annual level than in 2023. This is due to the fact that a large part of the activities related to the implementation of the priority measures should be completed already in 2023 since these are multi-annual measures. Moreover, the financial structure of the financing of reform



measures is precisely determined only for the first year of the three-year period, while it is tentative for the second and third years.

Table 6.1: Summary table of the costs of structural reform measures (in euro)

Total	Salaries	Goods and services	Subsidies and transfers	Capital expenditures	Total
2023	375,600.00	10,398,972.26	20,591,666.00	8,430,000.00	39.796.238,26
2024	451,200.00	10,814,914.48	19,299,998.00	0.00	30,566,112.48
2025	651,200.00	9,951,738.48	18,350,000.00	0.00	28,952,938.48

Source: Calculations by the Ministry of Finance based on table 10a contained in annex

In addition to the above, an important element in the analysis of the additional costs of structural reforms are sources of financing of the priority reform measures contained in the ERP 2023-2025. Unlike previous years, when priority reform measures were mostly financed from the central budget, the most dominant source of financing reform measures in the period 2023-2025 will be IPA funds which will amount to EUR 42.05 million or 42.71 percent of the total sources of financing during a period of three years (see table 6.2). The second largest source of financing for the priority reform measures will be *Other national public sources of financing* which will account for 20 percent of the total sources of financing in the period 2023-2025. The third largest source of financing is the central budget which will in the next three years account for about 16 percent of the sources of financing. *Other grants*, as the sources of financing priority reform measures, have a negligible share in the additional financing of this ERP.

Table 6.2: Summary table of the sources of financing structural reform measures (in euro)

Year	Central budget	Local budget	Other national public sources of financing	IPA funds	Other grants	Project loans	To Be Determined	Total
2023	8,848,776.71	0.00	6,569,166.00	15,414,295.55	7,205,000.00	1,759,000.00	0,00	39.796.238,26
2024	4,196,968.93	0.00	6,762,499.50	14,236,644.05	70,000.00	0.00	5,300,000.00	30,566,112.48
2025	4,199,342.93	0.00	6,900,000.00	12,403,595.55	100,000.00	0.00	5,350,000.00	28,952,938.48

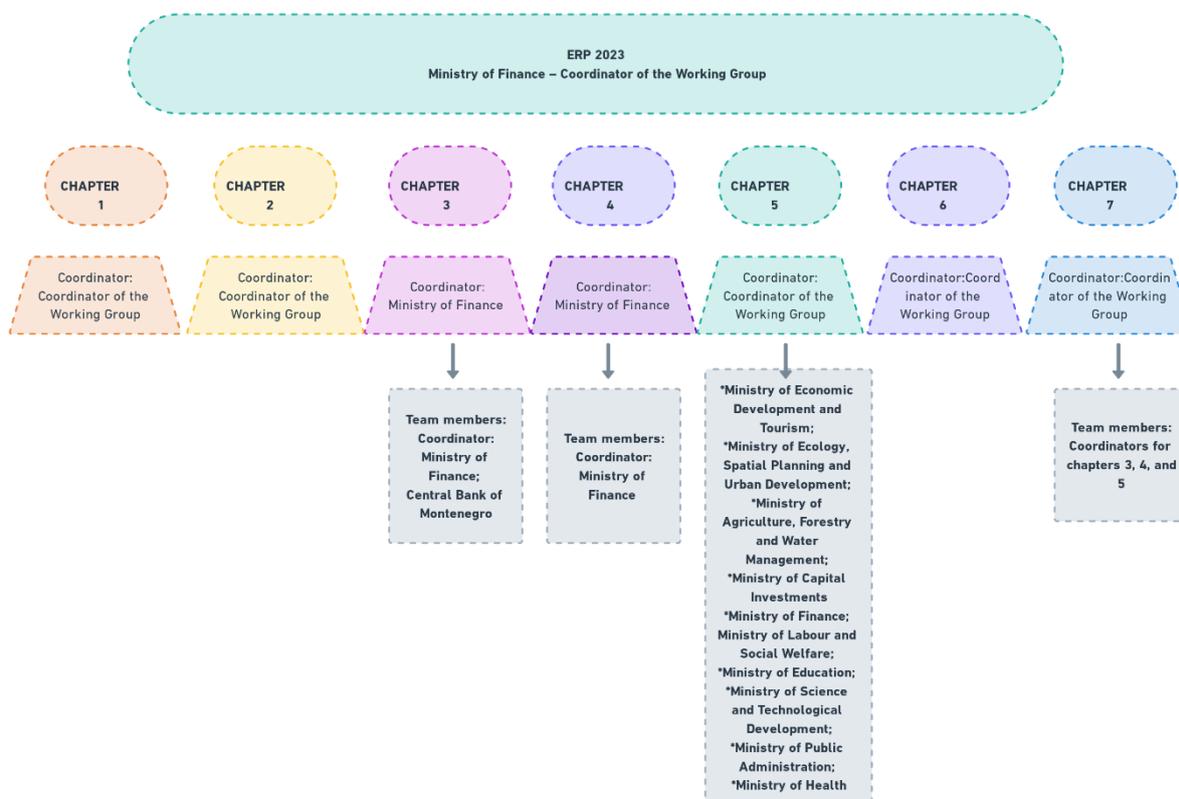
Source: Calculations by the Ministry of Finance based on table 10a contained in annex

For 2023, funds from the central budget are planned in the budget of Montenegro, while IPA funds and project loans are planned in accordance with the planned implementation of the projects and measures. The financial structure for 2024 and 2025 will be adjusted in accordance with the annual budgets for those years.



7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of preparation of the Economic Reform Programme for Montenegro started with an initial meeting with members of the working group in July 2022. Moreover, in July 2022 the Government of Montenegro adopted Information on Preparation of the Economic Reform Programme for Montenegro for the period 2023 – 2025. This year’s work on the chapter on structural reforms is characterised by intensive horizontal and vertical coordination of all key stakeholders. That included continuous communication and joint work with all members of the Working Group and representatives of line ministries. Meetings with representatives of the Ministry of Finance and Social Welfare (MFSW), Ministry of Economic Development and Tourism (MEDT), Ministry of Public Administration (MPA), Ministry of Ecology, Spatial Planning and Urbanism (MESPU), Ministry of Education (ME), Ministry of Capital Investments (MCI), Ministry of Health (MH) and Ministry of Finance (MF) were held in July to ensure preparation of the highest quality chapters. National coordination of the ERP, coordination of chapters, and institutions whose representatives participated in drafting the ERP 2023 are depicted in the scheme below:





Consultations during preparation of the ERP were conducted in two phases.

The process of preparation of the new ERP this year is also characterised by the involvement of representatives of the general public already at the initial phase of drafting. On this occasion, the meeting was held on 12 September and it was attended by representatives of UNICEF, Statistics Office (Monstat), Union of Free Trade Unions of Montenegro, Secretariat of the Competitiveness Council, municipalities of Bar, Pljevlja, Andrijevica, Berane, Budva, Tuzi, Bijelo Polje, Petnjica, the capital Podgorica, Zeta, Chamber of Commerce, Montenegrin Employers Federation, Institute for Strategic Studies and Forecasts, University of Donja Gorica, UNDP, Delegation of the European Union in Montenegro, Parliament of Montenegro and others.

Consultations continued in December with the aim of discussing the first draft of the entire document. For that purpose, public debate was launched in the period from 9 to 29 December 2022. Draft programme was available to media representatives and the general public on the Government's website:

- <https://www.gov.me/clanak/javna-rasprava-o-nacrtu-programa-ekonomskih-reformi-cg-2023-2025-rasprava-ce-trajati-do-29-decembra-2022-godine>.

Round table, as part of the public debate on draft ERP, was held on 16 December 2022. The round table was attended by representatives of the Confederation of Trade Unions of Montenegro, Union of Free Trade Unions, Delegation of the EU in Montenegro, Chamber of Commerce, Union of Employers, Statistical Office, municipality of Bijelo Polje, Capital City of Podgorica, Old Royal Capital Cetinje, as well as by representatives of the relevant ministries in the Government of Montenegro and others. Certain proposals were announced during the debate; these proposals concerned the improvement and creation of new policies for citizens, institutional mechanisms of comprehensive control and formalisation of employment of the persons working undeclared, fiscal policy, employment policy, reduction of food imports and financial system, amount of the founding capital when establishing a limited liability company, more rational spending of budget funds, contributions for mandatory social insurance and waste management as one of the priority problems. The structure of the document was praised as well.

Written proposals for improving the text of the PER draft were submitted by the Centre for Women's Rights, Union of Free Trade Unions of Montenegro and Capital City of Podgorica, and they are attached to this document. The document was also considered by the Parliamentary Committee for Economy, Finance and Budget. After receiving all the proposals and suggestions during the consultation process, and on the basis of these, the document was finalised and submitted for consideration and adoption at the session of the Government of Montenegro.



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

GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
Central budget	2021		2022		2023		2024		2025	
	mil. €	% GDP	mil. €	% GDP						
Total Revenues	1911,38	38,6	2008,98	35,2	2147,47	34,8	2201,77	33,6	2312,94	33,6
Taxes	1183,87	23,9	1381,13	24,2	1465,46	23,7	1572,54	24,0	1657,45	24,1
Personal Income Tax	126,86	2,6	83,04	1,5	61,04	1,0	63,01	1,0	64,42	0,9
Corporate Income Tax	74,71	1,5	90,17	1,6	121,65	2,0	130,75	2,0	138,72	2,0
Taxes on Sales of Property	2,08	0,0	1,48	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Value Added Tax	691,95	14,0	908,05	15,9	958,98	15,5	1024,73	15,6	1091,77	15,8
Excises	248,72	5,0	245,87	4,3	271,45	4,4	298,88	4,6	304,84	4,4
Tax on International Trade and Transactions	28,30	0,6	40,24	0,7	40,25	0,7	42,71	0,7	44,93	0,7
Other Republic Taxes	11,26	0,2	12,28	0,2	12,09	0,2	12,46	0,2	12,78	0,2
Contributions	554,48	11,2	462,80	8,1	474,76	7,7	499,71	7,6	525,00	7,6
Contributions for Pension and Disability Insurance	343,74	6,9	405,90	7,1	438,73	7,1	459,88	7,0	479,36	7,0
Contributions for Health Insurance	180,57	3,6	25,06	0,4	1,20	0,0	2,45	0,0	5,95	0,1
Contributions for Unemployment Insurance	16,36	0,3	18,40	0,3	20,36	0,3	21,85	0,3	23,21	0,3
Other contributions	13,81	0,3	13,45	0,2	14,47	0,2	15,53	0,2	16,49	0,2
Duties	12,64	0,3	14,70	0,3	14,25	0,2	14,85	0,2	15,38	0,2
Administrative duties	8,28	0,2	9,17	0,2	8,69	0,1	8,95	0,1	9,19	0,1
Court duties	0,88	0,0	1,03	0,0	0,91	0,0	0,94	0,0	0,96	0,0
Residential duty	1,36	0,0	1,79	0,0	2,42	0,0	2,66	0,0	2,87	0,0
Other duties	2,13	0,0	2,71	0,0	2,23	0,0	2,30	0,0	2,36	0,0
Fees	51,10	1,0	72,75	1,3	41,69	0,7	32,65	0,5	33,50	0,5
Fees for use of goods of common interest	1,01	0,0	1,55	0,0	1,23	0,0	1,27	0,0	1,30	0,0
Fees for use of natural resources	3,31	0,1	4,12	0,1	4,44	0,1	4,57	0,1	4,69	0,1
Ecological fees	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Fee for organizing games of chance	8,54	0,2	9,76	0,2	10,64	0,2	10,97	0,2	11,25	0,2
Road fees	3,33	0,1	3,44	0,1	3,50	0,1	3,61	0,1	3,70	0,1
Other fees	34,92	0,7	53,88	0,9	21,88	0,4	12,24	0,2	12,56	0,2
Other revenues	59,32	1,2	29,14	0,5	100,18	1,6	30,96	0,5	31,66	0,5
Revenues from capital	37,21	0,8	2,51	0,0	4,32	0,1	4,32	0,1	4,32	0,1
Fines and seized property gains	11,87	0,2	15,41	0,3	14,48	0,2	14,92	0,2	15,31	0,2
Revenues from own activities of government bodies	2,19	0,0	1,98	0,0	2,42	0,0	2,49	0,0	2,56	0,0
Other revenues	8,05	0,2	9,23	0,2	78,95	1,3	9,23	0,1	9,47	0,1
Receipts from Repayment of Loans	10,10	0,2	14,07	0,2	9,75	0,2	9,75	0,1	9,75	0,1
Grants	39,88	0,8	34,39	0,6	41,38	0,7	41,30	0,6	40,20	0,6
Total Expenditures	2010,90	40,6	2263,60	39,7	2513,78	40,7	2614,08	39,9	2751,84	39,9
Current Budgetary Consumption	1855,38	37,4	2060,51	36,1	2311,01	37,4	2378,83	36,3	2501,80	36,3
Current Expenditures	924,44	18,7	956,19	16,8	1102,61	17,9	1122,20	17,1	1180,38	17,1
Gross Salaries and Contributions	535,13	10,8	542,48	9,5	627,31	10,2	634,28	9,7	642,79	9,3
Other Personal Income	11,28	0,2	18,65	0,3	19,55	0,3	18,64	0,3	18,80	0,3
Expenditures for Goods and Services	95,22	1,9	92,37	1,6	107,40	1,7	101,54	1,6	102,97	1,5
Current Maintenance	21,70	0,4	27,35	0,5	35,58	0,6	34,74	0,5	34,93	0,5
Interests	114,06	2,3	91,95	1,6	109,93	1,8	139,25	2,1	183,25	2,7
Rent	11,19	0,2	12,26	0,2	12,25	0,2	12,13	0,2	12,18	0,2
Subsidies	48,52	1,0	68,43	1,2	60,97	1,0	63,96	1,0	67,18	1,0
Other expenditures	38,70	0,8	41,55	0,7	61,34	1,0	55,85	0,9	55,16	0,8
Current Capital Expenditure	48,65	1,0	61,15	1,1	68,28	1,1	61,82	0,9	63,12	0,9
Social Security Transfers	567,41	11,5	668,39	11,7	785,18	12,7	839,74	12,8	899,83	13,1
Social Security	84,93	1,7	136,40	2,4	190,16	3,1	200,31	3,1	204,91	3,0
Funds for redundant labor	23,09	0,5	27,72	0,5	28,61	0,5	28,61	0,4	28,61	0,4
Pension and Disability Insurance	431,01	8,7	470,08	8,2	529,75	8,6	578,87	8,8	632,55	9,2
Other Health Care Transfers	17,08	0,3	16,74	0,3	21,06	0,3	16,50	0,3	18,15	0,3
Other Health Care Insurance	11,30	0,2	17,44	0,3	15,60	0,3	15,45	0,2	15,61	0,2
Transfers to Institutions, Individuals, NGO and Public Sector	257,07	5,2	343,86	6,0	352,41	5,7	342,34	5,2	347,01	5,0
Capital Budget	155,52	3,1	203,08	3,6	202,78	3,3	235,25	3,6	250,04	3,6
Credits and Borrowings	1,32	0,0	32,09	0,6	4,52	0,1	4,52	0,1	4,52	0,1
Reserves	71,23	1,4	24,96	0,4	38,85	0,6	30,00	0,5	30,00	0,4
Repayment of Guarantees	7,71	0,2	0,50	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	26,21	0,5	34,53	0,6	27,43	0,4	40,02	0,6	40,05	0,6
Net liabilities increase	4,04	0,1	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Surplus / deficit	-99,52	-2,0	-254,62	-4,5	-366,32	-5,9	-412,31	-6,3	-438,90	-6,4
Adjusted Surplus/Deficit	-103,56	-2,1	-254,62	-4,5	-366,32	-5,9	-412,31	-6,3	-438,90	-6,4
Primary balance	10,50	0,2	-162,67	-2,9	-256,39	-4,2	-273,06	-4,2	-255,65	-3,7
Repayment of Debt	437,60	8,8	291,58	5,1	338,09	5,5	423,09	6,5	756,09	11,0
Repayment of Domestic Debt	85,31	1,7	40,53	0,7	96,56	1,6	158,06	2,4	43,06	0,6
Repayment of Foreign Debt	352,29	7,1	251,05	4,4	241,53	3,9	265,03	4,0	713,03	10,3
Expenditures for the purchase of securities	0,51	0,0	27,69	0,5	0,78	0,0	0,68	0,0	0,68	0,0
Financing needs	-541,66	-10,9	-573,90	-10,1	-705,18	-11,4	-836,08	-12,8	-1195,66	-17,4
Financing	541,66	10,9	573,90	10,1	705,18	11,4	836,08	12,8	1195,66	17,4
Loans and Borrowings	123,58	2,5	129,54	2,3	599,18	9,7	830,08	12,7	1115,08	16,2
Domestic Loans and Borrowings	0,00	0,0	55,00	1,0	100,00	1,6	100,00	1,5	200,00	2,9
Foreign Loans and Borrowings	123,58	2,5	74,54	1,3	499,18	8,1	730,08	11,1	915,08	13,3
Revenues from Selling Assets	4,45	0,1	4,52	0,1	6,00	0,1	6,00	0,1	6,00	0,1
Increase / decrease of deposits	409,59	8,3	439,84	7,7	100,00	1,6	0,00	0,0	74,58	1,1

Source: Ministry of Finance



GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
Local government	2021		2022		2023		2024		2025	
	mil.€	% GDP								
Total Revenues	282,60	4,96	257,95	4,53	278,47	4,51	284,67	4,35	290,74	4,22
Taxes	194,67	3,41	162,68	2,85	196,97	3,19	202,87	3,10	208,84	3,03
Personal Income Tax	57,75	1,01	53,00	0,93	84,70	1,37	88,94	1,36	93,38	1,36
Taxes on Immovable Property	80,25	1,62	73,18	1,28	74,64	1,21	76,13	1,16	77,66	1,13
Taxes on Sales of Property	18,56	0,33	20,93	0,37	21,93	0,36	22,10	0,34	22,10	0,32
Local Taxes	38,10	0,67	15,57	0,27	15,70	0,25	15,70	0,24	15,70	0,23
Duties	3,42	0,06	4,31	0,08	4,40	0,07	4,50	0,07	4,60	0,07
Fees	58,23	1,02	55,71	0,98	56,30	0,91	56,50	0,86	56,50	0,82
Other Revenues	11,55	0,20	18,00	0,32	5,50	0,09	5,50	0,08	5,50	0,08
Receipts from repayment of loans	5,11	0,09	0,25	0,00	0,30	0,00	0,30	0,00	0,30	0,00
Grants	9,62	0,17	17,00	0,30	15,00	0,24	15,00	0,23	15,00	0,22
Total expenditures	276,56	4,85	275,55	4,83	277,08	4,49	278,73	4,26	279,63	4,06
Current Budgetary Consumption	198,47	3,48	195,55	3,43	197,08	3,19	198,73	3,03	199,63	2,90
Current Expenditures	92,30	1,62	92,02	1,61	99,68	1,61	101,04	1,54	101,65	1,48
Gross salaries and contributions charged to employer	52,16	0,91	53,09	0,93	59,46	0,96	60,50	0,92	61,00	0,89
Other personal income	4,08	0,07	3,32	0,06	3,50	0,06	3,60	0,05	3,70	0,05
Expenditures for supplies and services	16,10	0,28	16,47	0,29	17,29	0,28	17,50	0,27	17,50	0,25
Current maintenance	6,96	0,12	6,43	0,11	6,50	0,11	6,50	0,10	6,50	0,09
Interests	2,54	0,04	1,98	0,03	2,00	0,03	2,00	0,03	2,00	0,03
Rent	0,65	0,01	0,63	0,01	0,63	0,01	0,64	0,01	0,65	0,01
Subsidies	3,24	0,06	2,92	0,05	3,00	0,05	3,00	0,05	3,00	0,04
Other expenditures	6,57	0,12	7,18	0,13	7,30	0,12	7,30	0,11	7,30	0,11
Social security transfers	0,44	0,01	0,40	0,01	0,40	0,01	0,40	0,01	0,40	0,01
Transfers to institutions, individuals, NGO and public sector	60,38	1,06	66,52	1,17	66,50	1,08	66,70	1,02	66,90	0,97
Capital expenditures	78,08	1,37	80,00	1,40	80,00	1,30	80,00	1,22	80,00	1,16
Loans and credits	2,62	0,05	2,80	0,05	3,00	0,05	3,09	0,05	3,18	0,05
Repayment of liabilities from the previous period	40,32	0,71	31,26	0,55	25,00	0,40	25,00	0,38	25,00	0,36
Reserves	2,4	0,04	2,5	0,04	2,5	0,04	2,5	0,04	2,5	0,04
Repayment of Guarantees	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Net liabilities increase	0,3	0,01	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Surplus/deficit	6,04	0,11	-17,60	-0,31	1,39	0,02	5,94	0,09	11,10	0,16
Adjusted Surplus/Deficit	5,73	0,10	-17,60	-0,31	1,39	0,02	5,94	0,09	11,10	0,16
Primary balance	8,27	0,15	-15,62	-0,27	3,39	0,05	7,94	0,12	13,10	0,19
Repayment of debt	10,91	0,19	11,51	0,20	12,00	0,19	12,00	0,18	12,00	0,17
Repayment of Domestic Debt	8,0	0,14	8,3	0,15	8,5	0,14	8,5	0,13	8,5	0,12
Repayment of Foreign Debt	3,0	0,05	3,2	0,06	3,5	0,06	3,5	0,05	3,5	0,05
Expenditures for the purchase of securities	0,00	0,00								
Financing needs	-5,18	-0,09	-29,11	-0,51	-10,61	-0,17	-6,06	-0,09	-0,90	-0,01
Financing	5,18	0,09	29,11	0,51	10,61	0,17	6,06	0,09	0,90	0,01
Borrowings and credits from domestic sources	7,1	0,13	4,6	0,08	8,0	0,13	8,0	0,12	8,0	0,12
Borrowings and credits from foreign sources	2,2	0,04	2,6	0,05	4,0	0,06	4,0	0,06	4,0	0,06
Revenues from selling Assets	8,28	0,15	22,00	0,39	7,00	0,11	7,00	0,11	7,00	0,10
Increase/decrease of deposits	-21,67	-0,38	-6,85	-0,12	-17,39	-0,28	-21,94	-0,33	-27,10	-0,39
Transfers from the Central Budget	8,9	0,16	6,8	0,12	9,0	0,15	9,0	0,14	9,0	0,13

Source: Ministry of Finance



GDP (u mil. €)	4955,1		5700,4		6174,6		6549,2		6890,5	
	2021		2022		2023		2024		2025	
	mil.€	% GDP	mil.€	% GDP						
General Government										
Total Revenues	2193,98	44,3	2266,93	39,8	2425,94	39,3	2486,43	38,0	2603,68	37,8
Taxes	1378,54	27,8	1543,81	27,1	1662,44	26,9	1775,41	27,1	1866,29	27,1
Personal income tax	184,61	3,7	136,04	2,4	145,74	2,4	151,95	2,3	157,80	2,3
Corporate Income Tax	74,71	1,5	90,17	1,6	121,65	2,0	130,75	2,0	138,72	2,0
Taxes on Immovable Property	80,25	1,6	73,18	1,3	74,64	1,2	76,13	1,2	77,66	1,1
Taxes on Sales of Property	20,64	0,4	22,41	0,4	21,93	0,4	22,10	0,3	22,10	0,3
Value Added Tax	691,95	14,0	908,05	15,9	958,98	15,5	1024,73	15,6	1091,77	15,8
Excises	248,72	5,0	245,87	4,3	271,45	4,4	298,88	4,6	304,84	4,4
Tax on International Trade and Transactions	28,30	0,6	40,24	0,7	40,25	0,7	42,71	0,7	44,93	0,7
Local taxes	38,10	0,8	15,57	0,3	15,70	0,3	15,70	0,2	15,70	0,2
Other State Taxes	11,26	0,2	12,28	0,2	12,09	0,2	12,46	0,2	12,78	0,2
Contributions	554,48	11,2	462,80	8,1	474,76	7,7	499,71	7,6	525,00	7,6
Contributions for Pension and Disability Insurance	343,74	6,9	405,90	7,1	438,73	7,1	459,88	7,0	479,36	7,0
Contributions for Health Insurance	180,57	3,6	25,06	0,4	1,20	0,0	2,45	0,0	5,95	0,1
Contributions for Insurance from Unemployment	16,36	0,3	18,40	0,3	20,36	0,3	21,85	0,3	23,21	0,3
Other contributions	13,81	0,3	13,45	0,2	14,47	0,2	15,53	0,2	16,49	0,2
Duties	16,06	0,3	19,01	0,3	18,65	0,3	19,35	0,3	19,98	0,3
Fees	109,33	2,2	128,46	2,3	97,99	1,6	89,15	1,4	90,00	1,3
Other revenues	70,86	1,4	47,14	0,8	105,68	1,7	36,46	0,6	37,16	0,5
Receipts from repayment of loans	15,21	0,3	14,32	0,3	10,05	0,2	10,05	0,2	10,05	0,1
Grants	49,50	1,0	51,39	0,9	56,38	0,9	56,30	0,9	55,20	0,8
Total Expenditures	2287,46	46,2	2539,15	44,5	2790,87	45,2	2892,81	44,2	3031,48	44,0
Current public consumption	2053,86	41,4	2256,06	39,6	2508,09	40,6	2577,56	39,4	2701,44	39,2
Current expenditures	1016,74	20,5	1048,22	18,4	1202,30	19,5	1223,24	18,7	1282,03	18,6
Gross salaries and contributions charged to employer	587,29	11,9	595,56	10,4	686,76	11,1	694,78	10,6	703,79	10,2
Other personal income	15,36	0,3	21,97	0,4	23,05	0,4	22,24	0,3	22,50	0,3
Expenditures for Goods and Services	111,32	2,2	108,84	1,9	124,69	2,0	119,04	1,8	120,47	1,7
Current maintenance	28,66	0,6	33,79	0,6	42,08	0,7	41,24	0,6	41,43	0,6
Interests	116,60	2,4	93,93	1,6	111,93	1,8	141,25	2,2	185,25	2,7
Rent	11,84	0,2	12,89	0,2	12,89	0,2	12,77	0,2	12,84	0,2
Subsidies	51,76	1,0	71,35	1,3	63,97	1,0	66,96	1,0	70,18	1,0
Other expenditures	45,27	0,9	48,73	0,9	68,64	1,1	63,15	1,0	62,46	0,9
Current Capital Expenditure	48,65	1,0	61,15	1,1	68,28	1,1	61,82	0,9	63,12	0,9
Social security transfers	567,84	11,5	668,79	11,7	785,58	12,7	840,14	12,8	900,23	13,1
Transfers to institutions, individuals, NGO and public sector	317,44	6,4	410,38	7,2	418,91	6,8	409,04	6,2	413,91	6,0
Capital budget	233,60	4,7	283,08	5,0	282,78	4,6	315,25	4,8	330,04	4,8
Capital Budget MNE	155,52	3,1	203,08	3,6	202,78	3,3	235,25	3,6	250,04	3,6
Capital expenditures of local government	78,08	1,6	80,00	1,4	80,00	1,3	80,00	1,2	80,00	1,2
Loans and credits	3,94	0,1	34,90	0,6	7,52	0,1	7,61	0,1	7,71	0,1
Reserves	73,65	1,5	27,50	0,5	41,35	0,7	32,50	0,5	32,50	0,5
Repayment of Guarantees	7,71	0,2	0,50	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Net liabilities increase	4,35	0,1	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	66,53	1,3	65,78	1,2	52,43	0,8	65,02	1,0	65,05	0,9
Surplus/ Deficit	-93,48	-1,9	-272,22	-4,8	-364,93	-5,9	-406,38	-6,2	-427,79	-6,2
Adjusted Surplus/Deficit	-97,82	-2,0	-272,22	-4,8	-364,93	-5,9	-406,38	-6,2	-427,79	-6,2
Primary Surplus / Deficit	18,77	0,4	-178,29	-3,1	-253,00	-4,1	-265,13	-4,0	-242,55	-3,5
Repayment of debt	448,51	9,1	303,09	5,3	350,09	5,7	435,09	6,6	768,09	11,1
Repayment of principal to residents	93,26	1,9	48,85	0,9	105,06	1,7	166,56	2,5	51,56	0,7
Repayment of principal to nonresidents	355,25	7,2	254,24	4,5	245,03	4,0	268,53	4,1	716,53	10,4
Expenditures for the purchase of securities	0,51	0,00	27,69	0,00	0,78	0,00	0,68	0,00	0,68	0,00
Financing needs	-546,84	-11,0	-603,00	-10,6	-715,79	-11,6	-842,14	-12,9	-1196,56	-17,4
Financing	546,84	11,0	603,00	10,6	715,79	11,6	842,14	12,9	1196,56	17,4
Borrowings and credits	132,97	2,7	136,67	2,4	611,18	9,9	842,08	12,9	1127,08	16,4
Borrowings and credits from domestic sources	7,15	0,1	59,56	1,0	108,00	1,7	108,00	1,6	208,00	3,0
Borrowings and credits from foreign sources	125,83	2,5	77,11	1,4	503,18	8,1	734,08	11,2	919,08	13,3
Revenues from selling assets	12,74	0,3	26,52	0,5	13,00	0,2	13,00	0,2	13,00	0,2
Transfers from Central Budget	8,86	0,2	6,83	0,1	9,00	0,1	9,00	0,1	9,00	0,1
Increase/Decrease of deposits	387,92	7,8	432,99	7,6	82,61	1,3	-21,94	-0,3	47,48	0,7

Source: Ministry of Finance



Table 1a: Macroeconomic prospects

	ESA Code	Year	Year	Year	Year	Year	Year	
		2021	2021	2022	2023	2024	2025	
		Level (bn €)	Rate of change					
1. Real GDP at market prices	B1*g	4,731	13,0	7,7	4,4	4,0	3,5	
2. GDP at market prices	B1*g	4,955	18,4	15,0	8,3	6,1	5,2	
Components of real GDP								
3. Private consumption expenditure	P3	4	4,0	11,6	2,4	2,9	2,0	
4. Government consumption expenditure	P3	1	0,5	1,8	2,5	1,9	1,5	
5. Gross fixed capital formation	P51	1	-12,3	1,8	6,3	7,1	6,4	
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0	3,1	7,0	7,6	7,0	6,6	
7. Exports of goods and services	P6	2	81,9	13,6	9,0	7,3	6,6	
8. Imports of goods and services	P7	3	13,7	16,7	5,1	5,3	4,2	
Contribution to real GDP growth								
9. Final domestic demand		5,5	0,0	9,2	3,6	4,1	3,2	
10. Change in inventories and net acquisition of valuables	P52+P53	0,1	0,2	3,0	0,0	0,0	0,0	
11. External balance of goods/services	B11	-1	12,9	-4,5	0,7	-0,2	0,4	

Table 1b: Price developments

	ESA Code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. GDP deflator		4,7	6,8	3,7971	2,0	1,6
2. Private consumption deflator		2,3	8,0	4,0	2,5	2,0
3. HICP		3,3	:	:	:	:
4. National CPI change ³²		2,4	13,0	5,0	3,0	2,2
5. Public consumption deflator		2,8	-0,8	4,0	0,1	0,5
6. Investment deflator		7,2	12,0	3,5	2,2	2,0
7. Export price deflator (goods & services)		7,3	14,0	3,0	2,4	2,0
8. Import price deflator (goods & services)		6,2	13,8	3,0	2,2	2,0

³² 2015=100



Table 1c: Labour markets developments

	ESA	Year	Year	Year	Year	Year	Year
	Code	2021	2021	2022	2023	2024	2025
		Level	Rate of change				
1. Population (thousands)			619,2	:	:	:	:
2. Population (growth rate in %)			-0,3	-100,0	:	:	:
3. Working-age population (persons) ¹²			423	452	463	473	483
4. Participation rate			60,3	62,2	62,4	62,5	62,6
5. Employment, persons ¹³			213	238	247	255	263
6. Employment, hours worked ¹⁴			:	:	:	:	:
7. Employment (growth rate in %)			-3,1	11,7	4,0	3,2	3,1
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ¹⁵			16,6	15,5	14,5	13,7	12,9
11. Labour productivity, persons ¹⁶		22,3	16,7	-3,6	0,3	0,7	0,4
12. Labour productivity, hours worked ¹⁷			:	:	:	:	:
13. Compensation of employees	D1	1,9	6,0	:	:	10,2	7,3

Table 1d: Sectoral balances

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of the world	B.9					
of which:						
- Balance of goods and services		-19,4	-23,6	-21,7	-21,0	-20,0
- Balance of primary incomes & transfers		19,4	23,6	21,7	21,0	20,0
- Capital account						
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of general government						
4. Statistical discrepancy						

Table 1e: GDP, investment and gross value added

	ESA Kod	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	5,0	5,7	6,2	6,5	6,9
Investment ratio (% of GDP)		22,1	21,9	22,3	23,0	23,7
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-0,5	:	:	:	:
2. Industry (excluding construction)		4,7	:	:	:	:



3. Construction		-4,8	:	:	:	:
4. Services		18,6	:	:	:	:

Table 1f: External sector developments

Euro mill. Unless otherwise indicated		Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. Current account balance (% of GDP)	% of GDP	-10,5	-23,6	-21,7	-21,0	-20,0
2. Export of goods	bn. EUR	0,5	0,7	0,8	0,8	0,9
3. Import of goods	bn. EUR	2,4	3,3	3,6	3,9	4,1
4. Trade balance	bn. EUR	-1,9	-2,6	-2,8	-3,0	-3,2
5. Export of services	bn. EUR	1,6	2,0	2,3	2,6	2,8
6. Import of services	bn. EUR	0,6	0,8	0,9	0,9	1,0
7. Service balance	bn. EUR	1,0	1,2	1,5	1,7	1,8
8. Net interest payments from abroad	bn. EUR	-0,1	:	:	:	:
9. Other net factor income from abroad	bn. EUR	0,2	:	:	:	:
10. Current transfers	bn. EUR	0,4	:	:	:	:
11. Of which from EU	bn. EUR	:	:	:	:	:
12. Current account balance	bn. EUR	-0,5	-1,3	-1,3	-1,4	-1,4
13. Capital and financial account	bn. EUR	-0,2	:	:	:	:
14. Foreign direct investment	bn. EUR	0,6	0,6 ³³	0,7	0,7	0,7
15. Foreign reserves	bn. EUR	0,0	:	:	:	:
16. Foreign debt	bn. EUR	9,5	:	:	:	:
17. Of which: public	bn. EUR	3,8	:	:	:	:
18. Of which: foreign currency denominated	bn. EUR	:	:	:	:	:
19. Of which: repayments due	bn. EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1,0	1,0	1,0	1,0	1,0
21. Exchange rate vis-à-vis EUR (annual average)	%, year-on-year	1,0	1,0	1,0	1,0	1,0
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	:	:	:	:	:

³³ Estimates 2022-2025



Table 1g: Sustainability indicators

	Dimension	Year	Year	Year	Year	Year
		2018	2019	2020	2021	2022
1. Current Account Balance	% of BDP	-17,0	-14,3	-27,0	-10,5	-23,6
2. Net International Investment Position	% of BDP	-168,6	-165,5	-205,0	-167,5	:
3. Export market shares	%, g/g	:	:	:	:	:
4. Real Effective Exchange Rate	%, g/g	:	:	:	:	:
5. Nominal Unit Labour Costs	%, g/g	0,0	0,1	12,5	-23,1	27,2
6. Private sector credit flow	% BDP	:	:	:	:	:
7. Private sector debt	% BDP	:	:	:	:	:
8. General Government Debt	% BDP	:	:	105,3	84,0	72,1

Table 2a: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2021	2021	2022	2023	2024	2025
		Level (bn NCU)	% GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-0,0935	-1,9	-4,8	-5,9	-6,2	-43.950,4
2. Central government	S1311	4,1620	84,0	76,1	73,6	74,7	74,8
3. State government	S1312	4,0900	82,5	74,9	72,4	73,6	73,7
4. Local government	S1313	0,0728	1,5	1,3	1,2	1,1	1,1
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	2,1940	44,3	39,8	39,3	38,0	37,8
7. Total expenditure	TE	2,2875	46,2	44,5	45,2	44,2	43.988,2
8. Net borrowing/lending	EDP.B9	-0,0935	-1,9	-4,8	-5,9	-6,2	-43.950,4
9. Interest expenditure	EDP.D41 incl. FISIM	0,1160	2,3	1,6	1,8	2,2	2,7
10. Primary balance		0,0225	0,5	-3,1	-4,1	-4,0	-43947,7
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,2395	25,0	25,1	25,1	25,4	25,4
12a. Taxes on production and imports	D2	0,9802	19,8	21,2	20,8	21,1	21,1
12b. Current taxes on income and wealth	D5	0,2593	5,2	4,0	4,3	4,3	4,3
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	0,5545	11,2	8,1	7,7	7,6	7,6
14. Property income	D4	0,1009	2,0	1,7	1,6	1,5	1,4
15. Other (15 = 16-(12+13+14))22		0,2991	6,0	4,8	4,9	3,5	3,3
16 = 6. Total revenue	TR	2,1940	44,3	39,8	39,3	38,0	37,8
p.m.: Tax burden		1,7940	36,2	33,3	32,8	33,0	33,0
Selected components of expenditures							
17. Collective consumption	P32	:	:	:	:	:	:



18. Total social transfers	D62 + D63	0,5678	11,5	11,7	12,7	12,8	13,1
18a. Social transfer in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	0,5678	11,5	11,7	12,7	12,8	13,1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,1160	2,3	1,6	1,8	2,2	2,7
20. Subsidies	D3	0,0518	1,0	1,3	1,0	1,0	1,0
21. Gross fixed capital formation	P51	0,2330	4,7	5,0	4,6	4,8	4,8
22. Other (21 = 22-(16+17+18+19+20))		1,3189	26,6	25,0	25,1	23,3	43966,7
23. Total expenditures	TE [1]	2,2875	46,2	44,5	45,2	44,2	43988,2
p.m. compensation of employees	D1	:	:	:	:	:	:

Table 2b: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year
		2021	2021	2022	2023	2024
Level (bn NCU)						
Net lending (B9) by sub-sectors						
1. General government	S13	-0,09	-0,27	-0,36	-0,41	-3028,40
2. Central government	S1311	4,16	4,34	4,54	4,90	5,15
3. State government	S1312	4,09	4,27	4,47	4,82	5,08
4. Local government	S1313	0,07	0,07	0,07	0,07	0,07
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	2,19	2,27	2,43	2,49	2,60
7. Total expenditure	TE	2,29	2,54	2,79	2,89	3031,00
8. Net borrowing/lending	EDP.B9	-0,09	-0,27	-0,36	-0,41	-3028,40
9. Interest expenditure	EDP.D41 incl. FISIM	0,12	0,09	0,11	0,14	0,19
10. Primary balance		0,02	-0,18	-0,25	-0,26	-3028,21
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,24	1,43	1,55	1,66	1,75
12a. Taxes on production and imports	D2	0,98	1,21	1,28	1,38	1,45
12b. Current taxes on income and wealth	D5	0,26	0,23	0,27	0,28	0,30
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	0,55	0,46	0,47	0,50	0,53
14. Property income	D4	0,10	0,10	0,10	0,10	0,10
15. Other (15 = 16-(12+13+14))		0,30	0,28	0,30	0,23	0,23
16 = 6. Total revenue	TR	2,19	2,27	2,43	2,49	2,60
p.m.: Tax burden (D2+D5+D61+D91-D995)		1,79	1,90	2,02	2,16	2,28
Selected components of expenditures						
17. Collective consumption	P32	:	:	:	:	:



18. Total social transfers	D62 + D63	0,57	0,67	0,79	0,84	0,90
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	0,57	0,67	0,79	0,84	0,90
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,12	0,09	0,11	0,14	0,19
20. Subsidies	D3	0,05	0,07	0,06	0,07	0,07
21. Gross fixed capital formation	P51	0,23	0,28	0,28	0,32	0,33
22. Other (21 = 22- (16+17+18+19+20))		1,32	1,42	1,55	1,53	3029,52
23. Total expenditures	TE	2,29	2,54	2,79	2,89	3031,00
p.m. compensation of employees	D1	:	:	:	:	:

Table 3: General government expenditure by function

% GDP	COFOG Code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. General public services	1	6,7	4,9	5,7	5,3	5,8
2. Defence	2	10,1	0,9	1,3	1,2	1,3
3. Public order and safety	3	3,2	2,8	3,2	3,1	2,9
4. Economic affairs	4	5,4	5,6	4,7	4,9	4,8
5. Environmental protection	5	0,4	0,4	0,3	0,3	0,3
6. Housing and community amenities	6	0,0	0,0	0,0	0,0	0,0
7. Health	7	6,7	7,4	6,5	6,3	6,1
8. Recreation, culture and religion	8	0,8	0,9	1,1	1,1	1,0
9. Education	9	4,2	4,0	4,7	4,4	4,2
10. Social protection	10	11,9	12,5	13,1	13,3	13,5
11. Total expenditure (item 7 = 23 in Table 2)	TE	46,2	44,5	45,2	44,2	43.988,2

Table 4: General government debt developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Gross debt		84,0	72,1	74,2	76,4	77,3
2. Change in gross debt ratio		-21,3	-11,9	2,2	2,1	0,9
Contributions to change in gross debt						
3. Primary balance		-0,5	3,1	4,1	4,0	43947,7
4. Interest expenditure	EDP D.41	2,3	1,6	1,8	2,2	2,7
5. Real growth effect		-11,6	-5,6	-2,9	-2,8	-2,6
6. Inflation effect		-4,2	-5,0	-2,5	-1,4	-1,2
7. Stock-flow adjustment		-7,4	-6,1	1,7	0,1	-43945,8
<i>of which:</i>						



- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		2,6	2,3	2,7	3,1	3,7
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
		2021	2022	2023	2024	2025
1. Real GDP growth (%)	B1g	13,0	7,7	4,4	4,0	3,5
2. Net lending of general government	EDP.B.9	-1,9	-4,8	-5,9	-6,2	-43.950,4
3. Interest expenditure	EDP.D.41	2,3	1,6	1,8	2,2	2,7
4. One-off and other temporary measures ⁴¹		:	:	:	:	:
5. Potential GDP growth (%)		2,5	-2,5	3,0	3,2	2,2
Contributions:						
- labour		1,4	1,3	1,4	1,5	1,6
- capital		-2,0	7,6	2,6	2,1	2,0
- total factor productivity		13,7	-1,3	0,3	0,3	-0,1
6. Output gap		-6,2	3,2	4,5	5,3	5,6
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance (8-3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year	Year	Year	Year	Year
	2021	2022	2023	2024	2025
1. GDP growth (% g/g)					
Previous programme	-0,4	1,3	-0,7	-0,5	:
Latest update	13,0	7,7	4,4	4,0	3,5
Difference (percentage points)	13,4	6,4	5,1	4,5	:
2. General government net lending (% GDP)					
Previous programme	:	:	:	:	:
Latest update	-1,9	-4,8	-5,9	-6,2	-43950,4
Difference	:	:	:	:	:
3. General government gross debt (% GDP)					
Previous programme	84,8	76,2	75,8	78,2	79,49
Latest update	84,0	72,1	74,2	76,4	77,3
Difference	-0,8	-4,1	-1,6	-1,8	-2,2



Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
<i>of which: age-related expenditures</i>			n/a	n/a	n/a	n/a	n/a
- Pension expenditure	/	/	n/a	n/a	n/a	n/a	n/a
- Social security pension	/	/	n/a	n/a	n/a	n/a	n/a
- Old-age and early pensions	/	/	n/a	n/a	n/a	n/a	n/a
- Other pensions (disability, survivors)	/	/	n/a	n/a	n/a	n/a	n/a
- Occupational pensions (if in general government)	/	/	n/a	n/a	n/a	n/a	n/a
- Health care	/	/	n/a	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	n/a
Education expenditure	/	/	n/a	n/a	n/a	n/a	n/a
Other age-related expenditures							
Interest expenditure	/	/	n/a	n/a	n/a	n/a	n/a
Total revenues							
<i>of which:</i>							
property income	/	/	n/a	n/a	n/a	n/a	n/a
trade-related revenue, royalties, concessions etc.	/	/	n/a	n/a	n/a	n/a	n/a
from pensions contributions (or social contributions, if appropriate)	/	/	n/a	n/a	n/a	n/a	n/a
Pension reserve fund assets	/	/	n/a	n/a	n/a	n/a	n/a
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	/	/	n/a	n/a	n/a	n/a	n/a
Assumptions							
Labour productivity growth	4,2	5,1	-5,9	:	:	:	:
Real GDP growth	6,8	2,7	-15,3	:	:	:	:
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	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			n/a ³⁴	
	Subtotal			
Others			0.18258 ³⁵	0.011 ³⁶
	Subtotal			
Total			0.18258	0.011

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

	Dimension	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
Short-term interest rate	Annual average	-0,5	0,2	3,1	3	:
Long-term interest rate	Annual average	-0,4	1,2	2,3	2,4	:
USD/EUR exchange	Annual average	1,18	1,04	0,98	0,98	:
Nominal effective exchange rate	Annual average	1,3	-4,3	-0,5	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	6	3,1	2,9	3,4	:
EU GDP growth	Annual average	5,5	2,5	-0,2	1,4	:
Growth of relevant foreign markets	Annual average	5,6	2,7	0,9	1,8	:

³⁴ No covid 19 related guarantees issued in 2022.

³⁵ As explained in narrative part of ERP the debt based on guarantees as of 30/09/2022 amounts 182.58 million €.

³⁶ U decembru 2022. godine izdata je garancija za kreditni aranžman zaključen između ZICG i EBRD u iznosu od 11 miliona € ili 0,011 milijardi €. In December 2022, a guarantee was issued for the credit arrangement concluded between Railway Infrastructure of Montenegro and EBRD in the amount of €11 million or €0.011 billion.



World import volumes, excluding EU	Annual average	11	4,8	2,5	3,7	:
Oil prices (Brent, USD/barrel)	Annual average	59,8	98,4	86,4	79,3	:

Table 9a: Social scoreboard indicators

	Data source	2018	2019	2020	2021	2022
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	Information system of Ministry of Education	1866 participants, respectively 71% of the total number of participants	2139 participants, respectively 72% of the total number of participants	1434 participants, respectively 71% of the total number of participants	1301 participants, respectively 71% of the total number of participants	1401 participants, respectively 71% of the total number of participants
2. Share of early leavers from education and training, age 18-24		4.6	5,0	3,6	6,7	/ ³⁷
3. Share of population with basic overall digital skills or above, age 16-74	MONSTAT	n/a	52.2%	N/A	47.2% ³⁸	n/a
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	e	21,0	21,3	26,6	26,5	/ ³⁹
5. Gender gap in employment rate, age 20-64	e	13.8	13.3	12.9	11.1	/ ⁴⁰
6. Income quintile share ratio - S80/S20	e					
Working conditions						
7. Employment rate, age 20-64	e	59,8	60,8	55,2	54,2	/ ⁴¹
8. Unemployment rate, age 15-74	e	15,2	15,1	17,9	16,6	/ ⁴²
9. Long-term unemployment rate, age 15-74	e	11,4	11,9	13,4	11,0	/ ⁴³

³⁷ Data will be available on 3/29/2023.

³⁸ Break of the series from 2021 for the given indicator

³⁹ Data will be available on 3/29/2023.

⁴⁰ Data will be available on 3/29/2023.

⁴¹ Data will be available on 3/29/2023.

⁴² Data will be available on 3/29/2023.

⁴³ Data will be available on 3/29/2023.



10. Gross disposable income of households in real terms, per capita	EU-SILC (Monstat)	4.234 ⁴⁴	4.241	4.449	4.338	/
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EU-SILC	41.2	36.5	37.6	38.9	n/a
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EU-SILC	48.5	43.5	45.0	45.5	n/a
13. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	31.2	29.5	27.8	27.2	n/a
14. Disability employment gap, age 20-64	e	21,2	18,7	n/a	n/a	n/a
15. Housing cost overburden rate	EU-SILC	14.7	11.7	9.4	8.0	n/a
16. Children aged less than 3 years in formal childcare	MONSTAT	2017/2018. school year 5279	2018/2019. school year 5479	2019/2020. school year 6051	2020/2021. school year 5469	2021/2022. school year 6277
17. Self-reported unmet needs for medical care		2.3	3.1	2.1	1.6	n/a

Table 9b: Other selected indicators

	Data source	2018	2019	2020	2021	2022
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP		n/a	n/a	n/a	n/a	n/a
2. Public healthcare expenditure in % of GDP	Ministry of Health	5,18	5,14	7,21	n/a	n/a
3. Household out-of-pocket payments as a % of total health expenditure		n/a	n/a	n/a	n/a	n/a
4. Percentage of population not covered by health insurance ⁴⁵	Ministry of Health	<5%	<5%	<5%	<5%	<5%

⁴⁴ In EUR (€).

⁴⁵ Item 4 - Number of insured persons by the Fund is higher relative to the statistical data on population of Montenegro. The reason for this is persons insured by the Fund include also foreigners with temporary residence who are employed in Montenegro or other foreigners entitled under the law to be insured as family members.



5.Ratio of doctors per 1000 inhabitants	Institute for public healthcare	2,78	2,75	2,77	2,81	2,78
6.Ratio of nurses per 1000 inhabitants	Institute for public healthcare	4,89	4,90	5,02	5,33	4,89
Environment						
7.Total environmental tax revenues as a share of total revenues from taxes and social contributions	Environment Protection Agency	281.598,45€	316.614,29€	490.803,96€	779.714,51€	453.794,79€
8.Greenhouse gas emissions per capita	Inventory of pollutants in cooperation with the Austrian Agency; Third National Report of Montenegro on Climate Change (Third National Communication)	2,39tCO ₂ – with abysse ⁴⁶ 6,38tCO ₂ – without abysse	2,09tCO ₂ – with abysse ^s 6,15tCO ₂ – without abysse ^s	n/a	n/a	n/a ⁴⁷
9.Generation of waste excluding major mineral wastes	- 2017 – Report on implementation of the State Plan on Waste Management for 2017; - 2018 – State Plan on Waste Management in Montenegro for the period 2015-2020; - 2019 – State Plan on Waste Management in Montenegro for the period 2015-2020; - 2020 – Report on implementation of the State Plan on Waste Management for 2020.	248.015,7 t	255.127,7 t	228.852,4 t	240.798,9 t	n/a ⁴⁸
Digital economy						

⁴⁶ Abyss is any process, activity or mechanism by which greenhouse gases, aerosols or precursors of greenhouse gases are removed from the atmosphere.

⁴⁷ Data for 2020, 2021 and 2022 are unavailable and will be collected during the preparation of the Fourth National Communication, which is currently being prepared.

⁴⁸ In accordance with the Law on Waste Management, the Ministry of Ecology, Spatial Planning and Urbanism is obliged to submit a Report on the implementation of the State Plan for Waste Management by November 30, 2023, and the data for 2022 are not available.



<p>10. Percentage of households with broadband access (mobile and fixed)</p>	<p>Data provided to the Agency for Electronic Communications and Postal Services by the operator via the system for collecting and processing data the on electronic communications market</p> <p><u>Note:</u></p> <p>As for the mobile access, this data pertains to the number of users who accessed internet via mobile phone during December each year and is counted as ratio to the population number. It is not calculated as percentage of households. Data for 2022 refer for November 2022, since the end of 2022 data are not yet available.</p> <p>Regarding fixed broadband, the percentage of households that have a fixed broadband connection is greater than 100%, due to the fact that all Internet connections were taken into account, and in the coastal and certain municipalities in the central part of Montenegro, the number of connections is significantly higher compared to the number households. (For example, in Budva we have more than 2 and a half connections per household)</p>	<p>Fix: 75,77%</p> <p>Mob: 74,52%</p>	<p>Fix: 90,33 %</p> <p>Mob: 81,53 %</p>	<p>Fix: 93,19 %</p> <p>Mob: 87,02 %</p>	<p>Fix: 95,92 %</p> <p>Mob: 90,63 %</p>	<p>Fix: 100,04 %</p> <p>Mob: 102,51 %</p>
<p>11. Share of total population using internet [NB: population 16-74]</p>	<p>MONSTAT</p>	<p>77.1%</p>	<p>79.6%</p>	<p>81.4%</p>	<p>86.3%</p>	<p>88.2%</p>
Energy						
<p>12. Energy imports dependency (%)</p>	<p>MONSTAT</p>	<p>31,06</p>	<p>32,86</p>	<p>27,42</p>	<p>n/a</p>	<p>n/a</p>
<p>13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro</p>		<p>263,25</p>	<p>263,06</p>	<p>278,80</p>	<p>n/a</p>	<p>n/a</p>



14. Share of renewable energy sources (RES) in final energy consumption (%)	Ministry of Capital Investments	38,69	39,75	43,76	n/a	n/a
Transport						
15. Railway Network Density (meters of line per km ² of land area)	Ministry of Capital Investments	18	18	18	18	n/a
16. Motorization rate (Passenger cars per 1000 inhabitants)	MONSTAT	332	350	338	358	n/a
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	MONSTAT	6.7	6.4	7.6	6.5	n/a
18. Share of employment (Agriculture, Forestry and Fishing)	MONSTAT	8.0	7.1	7.5	6.4	n/a
19. Utilised agricultural area (% of total land area)	MONSTAT	18.6	18.6	18.7	18.5	n/a
Industry (except construction)⁴⁹						
20. Share of gross value added	Monstat	11,9%	13,5%	13,31 %	12,5 %	n/a
21. Contribution to employment (% of total employment)	Monstat	11.4	10.9	11.3	11.2	n/a
Services⁵⁰						
22. Share of gross value added	Monstat	79.3	80.2	77.3	79.6	n/a
23. Contribution to employment (% of total employment)	Monstat	81.3	81.2	81.5	81.1	n/a
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	World Economic Forum		71.	73.	n/a	n/a
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Ministry of Finance ⁵¹					
Research, Development and Innovation						

⁴⁹ Data refer to the industries covered by sectors B, C, D, and E.

⁵⁰ This data represents the participation of sectors B, C, D and E in the total number of employees.

⁵¹ According to the research conducted among companies and households, the informal economy in the formal sector in Montenegro in 2022 amounts to 20.6% of GDP, which represents a decrease of 3.9 p.p. compared to 2014.



26. R&D intensity of GDP (R&D expenditure as % of GDP)	Ministry of Science and Technological Development	0,50%	0,36%	There is no data, the statistical research on scientific research activity for 2020 has not been done due to difficult working conditions due to the COVID-19 pandemic.	There is no data - MSTD has started the collection process, with the aim of publishing statistical data on research and development for 2021. The publication of the data is planned until the end of June 2023.	There is no data
27. R&D expenditure – EUR per inhabitant	Ministry of Science and Technological Development	37,88 EUR ⁵²	29,01 EUR ⁵³	There is no data on expenditures (gross expenses	There is no data on expenditures (gross expenses	

⁵² Expenditures (gross expenditures for IR) in 2018 amounted to 23,490,044 €. The number of inhabitants according to the last census from 2011 is 620,029.

⁵³ Expenditures (gross expenditures for IR) in 2019 amounted to 17,984,722 €. The number of inhabitants according to the last census from 2011 is 620,029.



				ditures for IR) for 2020.	ditures for IR) for 2021. The publication of the data is planned until the end of June 2023.	
Trade						
28. Export of goods and services (as % of GDP)	Central Bank of Montenegro	42.9	43.8	26.0	42.8	n/a
29. Import of goods and services (as % of GDP)	Central Bank of Montenegro	66.7	65.0	61.0	62.2	n/a
30. Trade balance (as % of GDP)	Central Bank of Montenegro	-23.9	-21.2	-35.0	-19.4	n/a

Table 10a: Costing of structural reform measure

Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	1. 417 000,00	0,00	0,00	0,00	1. 417 000,00
2024	1. 524 176,00	0,00	0,00	0,00	1.524 176,00
2025	0,00	0,00	0,00	0,00	0,00
Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro⁵⁴					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	0,00	0,00	0,00	0,00
2024	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00

⁵⁴ In November 2022, the implementation plan of the Youth Guarantee was once again sent to the EC for comments, and work is currently underway to harmonize it with the same. The funds for the implementation of the Plan cannot yet be specified, because the planned change in legal provisions that will condition the reallocation of budget funds will only follow after the adoption of the Plan by the Government of Montenegro, and the additional support expected from IPA III funds has not yet been contracted.



Reform measure 3: Developing an integrated approach to improving education quality and inclusivity					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	450 000,00	0,00	0,00	450 000,00
2024	0,00	550 000,00	0,00	0,00	550 000,00
2025	0,00	200 000,00	0,00	0,00	200 000,00
Reform measure 4: Digitalisation of the education and development of digital skills					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	1.800 000, 00	0,00	6.500 000, 00	8.300 000, 00
2024	0,00	1.800 000, 00	0,00	0,00	1.800 000, 00
2025	0,00	1.800 000, 00	0,00	0,00	1.800 000, 00
Reform Measure 5: Reform of the social and child protection system based on the Road Map					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	75 600, 00	130 000, 00	0,00	0,00	205 600, 00
2024	151 200, 00	70 000, 00	0,00	0,00	221 200, 00
2025	151 200, 00	0,00	0,00	0,00	151 200, 00
Reform measure 6: Digitalisation of the healthcare system in Montenegro					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	1.400 000, 00	0,00	0,00	1.400 000, 00
2024	0,00	1.000 000, 00	0,00	0,00	1.000 000, 00
2025	0,00	2.000 000, 00	0,00	0,00	2.000 000, 00
Reform measure 7: Establishing a full electronic registration of enterprises					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	0,00	0,00	0,00	0,00
2024	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00
Reform measure 8: Strengthening the national innovation and research ecosystem					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total



2023	0,00	190 000, 00	3.600 000, 00	0,00	3. 790 000.00
2024	0,00	0,00	3.000 000.00	0,00	3.000 000.00
2025	0,00	0,00	3.500 000.00	0,00	3.500 000.00
Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	331 233, 78	0,00	0,00	331 233, 78
2024	0,00	300 000, 00	0,00	0,00	300 000, 00
2025	0,00	300 000, 00	0,00	0,00	300 000, 00
Reform measure 10: Strengthening Cyber Security					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	2.250 000, 00	0,00	0,00	2.250 000, 00
2024	0,00	5.000 000, 00	0,00	0,00	5.000 000, 00
2025	0,00	5.050 000, 00	0,00	0,00	5.050 000, 00
Reform measure 11: Improving the infrastructure for broadband internet access and introducing next-generation networks					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	30 000, 00	525 000, 00	0,00	555 000, 00
2024	0,00	50 000, 00	0,00	0,00	50 000, 00
2025	0,00	0,00	0,00	0,00	0.00
Reform measure 12: Improving management of state-owned enterprises					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	300 000, 00	0,00	0,00	0,00	300 000, 00
2024	300 000, 00	0,00	0,00	0,00	300 000, 00
2025	500 000, 00	0,00	0,00	0,00	500 000, 00
Reform measure 13: Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	211 738, 48	0,00	0,00	211 738, 48
2024	0,00	161 738, 48	0,00	0,00	161 738, 48
2025	0,00	161 738, 48	0,00	0,00	161 738, 48



Reform measure 14: Strengthening mechanisms for the formalisation of informal economy					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	1.759 000,00	0,00	0,00	1.759 000, 00
2024	0,00	15 000, 00	0,00	TBD* ⁵⁵	15 000, 00
2025	0,00	120 000, 00	0,00	0,00	120 000, 00
Reform measure 15: Sustainable green tourism					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	100 000, 00	1.000 000, 00	0,00	1.100 000, 00
2024	0,00	200 000, 00	1.100 000, 00	0,00	1.300 000, 00
2025	0,00	250 000, 00	1.100 000, 00	0,00	1.350 000, 00
Reform measure 16: Investments aimed at the development of agriculture and rural areas					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	0,00	15.316 666, 00	0,00	15.316 666, 00
2024	0,00	0,00	15.049 998, 00	0,00	15.049 998, 00
2025	0,00	0,00	13.600 000, 00	0,00	13.600 000, 00
Reform measure 17: Financial support to households aimed at applying energy efficiency measures					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	0,00	150 000,00	0,00	150 000,00
2024	0,00	0,00	150 000,00	0,00	150 000,00
2025	0,00	0,00	150 000,00	0,00	150 000,00
Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	330 000, 00	0,00	0,00	330 000, 00
2024	0,00	144 000, 00	0,00	0,00	144 000, 00
2025	0,00	70 000, 00	0,00	0,00	70 000, 00
Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje					

⁵⁵ TBD* represents the amount that needs to be determined, and it refers to the costs for IRMS, the total value of which is €8,400,000.00 (if there is a restructuring of the project, this is the amount that is determined to be spent in 2024 and 2025).



Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2023	0,00	0,00	0,00	1.930 000, 00	1.930 000, 00
2024	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00

Table 10b: Financing of structural reform measure

Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	212 550,00	0,00	0,00	1.204 450,00		0,00	0,00	1.417 000,00
2024	228 626,00	0,00	0,00	1 295 550,00	0,00	0,00	0,00	1.524 176,00
2025	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2024	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Reform measure 3: Developing an integrated approach to improving education quality and inclusivity								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	0,00	400 000,00	50 000,00	0,00	0,00	450 000,00
2024	0,00	0,00	0,00	500 000,00	50 000,00	0,00	0,00	550 000,00
2025	0,00	0,00	0,00	100 000,00	100 000,00	0,00	0,00	200 000,00
Reform measure 4: Digitalisation of the education and development of digital skills								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	1.800 000,00	0,00	0,00	0,00	6.500 000,00	0,00	0,00	8.300 000,00
2024	1.800 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.800 000,00
2025	1.800 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.800 000,00
Reform Measure 5: Reform of the social and child protection system based on the Road Map								



Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	75.600,00	0,00	0,00	100.000,00	3.000,00	0,00	0,00	205.600,00
2024	151.200,00	0,00	0,00	50.000,00	20.000,00	0,00	0,00	221.200,00
2025	151.200,00	0,00	0,00	0,00	0,00	0,00	0,00	151.200,00
Reform measure 6: Digitalisation of the healthcare system in Montenegro								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	1.400 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.400 000,00
2024	0,00	0,00	0,00	1.000.000,00	0,00	0,00	0,00	1.000 000,00
2025	0,00	0,00	0,00	2.000.000,00	0,00	0,00	0,00	2.000 000,00
Reform measure 7: Establishing a full electronic registration of enterprises								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2024	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Reform measure 8: Strengthening the national innovation and research ecosystem								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	2.740.000,00	950 000,00	100 000,00	0,00	0,00	3.790 000,00
2024	0,00	0,00	3.000 000,00	0,00	0,00	0,00	0,00	3.000 000,00
2025	0,00	0,00	3.500 000,00	0,00	0,00	0,00	0,00	3.500 000,00
Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	331 233,78	0,00	0,00	0,00	0,00	0,00	0,00	331 233,78
2024	0,00	0,00	0,00	0,00	0,00	0,00	300 000,00	300 000,00
2025	0,00	0,00	0,00	0,00	0,00	0,00	300 000,00	300 000,00
Reform measure 10: Strengthening Cyber Security								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total



2023	2. 250 000, 000	0,00	0,00	0,00	0,00	0,00	0,00	2. 250 000, 000
2024	0,00	0,00	0,00	0,00	0,00	0,00	5.000 000, 00	5.000 000, 00
2025	0,00	0,00	0,00	0,00	0,00	0,00	5.050 000, 00	5.050 000, 00
Reform measure 11: Improving the infrastructure for broadband internet access and introducing next-generation networks								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	30 000, 000	0,00	0,00	0,00	525 000, 00	0,00	0,00	555 000, 00
2024	50 000, 000	0,00	0,00	0,00	0,00	0,00	0,00	50 000, 000
2025	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Reform measure 12: Improving management of state-owned enterprises								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	300 000, 00	0,00	0,00	0,00	0,00	0,00	0,00	300 000, 00
2024	300 000, 00	0,00	0,00	0,00	0,00	0,00	0,00	300 000, 00
2025	500 000, 00	0,00	0,00	0,00	0,00	0,00	0,00	500 000, 00
Reform measure 13: Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	108 142, 93	0,00	0,00	103 595, 55	0,00	0,00	0,00	211 738,48
2024	58 142, 93	0,00	0,00	103 595, 55	0,00	0,00	0,00	161 738, 48
2025	58 142, 93	0,00	0,00	103 595, 55	0,00	0,00	0,00	161 738, 48
Reform measure 14: Strengthening mechanisms for the formalisation of informal economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	0,00	0,00	0,00	1.759 000, 00	0,00	1.759 000, 00
2024	15 000, 00	0,00	0,00	0,00	0,00	TBD* ⁵⁶	0,00	15 000, 00
2025	120 000,00	0,00	0,00	0,00	0,00	0,00	0,00	120 000,00
Reform measure 15: Sustainable green tourism								

⁵⁶ TBD* represents the amount that needs to be determined, and it refers to the costs for IRMS, the total value of which is €8,400,000.00 (if there is a restructuring of the project, this is the amount that is determined to be spent in 2024 and 2025).



Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	1.100 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.100 000,00
2024	1.300 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.300 000,00
2025	1.350 000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.350 000,00
Reform measure 16: Investments aimed at the development of agriculture and rural areas								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0,00	0,00	3.829 166,00	11.487 500,00	0,00	0,00	0,00	15.316 666,00
2024	0,00	0,00	3.762 499,50	11.287 498,50	0,00	0,00	0,00	15.049 998,00
2025	0,00	0,00	3.400 000,00	10.200 000,00	0,00	0,00	0,00	13.600 000,00
Reform measure 17: Financial support to households aimed at applying energy efficiency measures								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	150 000,00	0,00	0,00	0,00	0,00	0,00	0,00	150 000,00
2024	150 000,00	0,00	0,00	0,00	0,00	0,00	0,00	150 000,00
2025	150 000,00	0,00	0,00	0,00	0,00	0,00	0,00	150 000,00
Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	330 000,00	0,00	0,00	0,00	0,00	0,00	0,00	330 000,00
2024	144 000,00	0,00	0,00	0,00	0,00	0,00	0,00	144 000,00
2025	70 000,00	0,00	0,00	0,00	0,00	0,00	0,00	70 000,00
Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	761 250,00	0,00	0,00	1.168 750,00	0,00	0,00	0,00	1.930 000,00
2024	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
2025	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00



Table 11: Reporting on the implementation of the structural reform measures of the ERP 2022-2024

Priority reform measure 1: Strengthening operational capacities of the Employment Office for carrying out services and measures via digitalisation		Stage of reform implementation (1-5)
Activities planned for 2022	1. Drafting the Action Plan for establishing an IT database for the Employment Office;	5
	2. Implementation of the Action Plan for interoperability of databases;	3
	3. Improving capacities of the Montenegro Employment Office for use of online tools through pre-accession assistance and support of the International Labour Organisation;	3
Description of implementation and explanation if partial or no implementation	1. Action Plan for establishing an IT database of the Employment Office completed;	
	2. A Proposal of the Action Plan for the interoperability of databases was sent to relevant institutions for opinion. The Action Plan for interoperability between selected information systems and databases with a role in the labour market management was adopted at the session of the Government held on 2 December 2022;	
	3. Activities are underway on improving capacities of the Montenegro Employment Office and supporting the International Labour Organisation (ILO) in cooperation with the Montenegro Employment Office. Testing of the online module for registration of unemployed persons and vacant positions has not yet started. The report on needs and directions for improvement of the Montenegro Employment Office IT platform, prepared in cooperation between the ILO and the Montenegro Employment Office from the pre-accession assistance funds, preceded establishment of the Montenegro Employment Office IT platform. Based on this report, required tender documentation for implementation of the procurement contract for the project "Development of the new Information System of the Montenegro Employment Office" from IPA 2020, is being prepared. The entire documentation was finalised and sent to the EU Delegation to Montenegro on 21 December 2022 for comments and possible approval. Development of the software and procurement of hardware is planned to commence in 2023, while the finalisation of this activity is expected in 2024.	

Results indicator for the Priority reform measure 1

Indicator	Baseline	Target planned for 2022	Target achieved in 2022
Action Plan for establishing the IT database of the Employment Office prepared	There is no Action Plan	2022 – Draft Action Plan prepared	Action Plan for interoperability of databases between selected information systems and databases with a role in the labour market management adopted
New IT platform of the Employment Office established which enables more	The existing IT platform of the Employment Office is	2022 – Report on the requirements and directions for improvement of the	2022 - Report on needs and directions for improvement of the Montenegro Employment Office IT platform prepared



Indicator	Baseline	Target planned for 2022	Target achieved in 2022
efficient work to counsellors with users	outdated	IT platform of the Montenegro Employment Office is prepared.	

Priority reform measure 2: Introducing new work schemes and work-life balance		Stage of reform implementation (1-5)
Activities planned for 2022	1. Activities concerning amendments and supplements to the Labour Law	5
Description of implementation and explanation if partial or no implementation	A working group to draft the Law Amending and Supplementing the Labour Law was established; Currently, the working group is drafting the Law Amending and Supplementing the Labour Law; Activities concerning the adoption of the Proposal of the Law Amending and Supplementing the Labour Law will continue in 2023 and 2024, when is planned for it to be adopted.	

Results indicator for the Priority reform measure 2

Indicator	Baseline	Target planned for 2022	Target achieved in 2022
Number of fathers using the right to parental leave	445	-	234
Number of persons that entered into an employment contract for work performed outside the employer's premises	13		27
Number of performed inspection oversights by the Administration for Inspection Affairs relative to the employment contract for teleworking and homeworking	0	0	0

Priority reform measure 3: Introducing the Youth Guarantee Programme in Montenegro		Stage of reform implementation (1-5)
Activities planned for 2022	1. Drafting and adoption of the Plan for implementation of the Youth Guarantee;	3
	2. Implementation of the Youth Employment Programme	3
Description of implementation and explanation if partial or no implementation	1. Proposal of the Plan for implementation of the Youth Guarantee is prepared, which the high-level inter-sectoral working group deliberated and which was submitted on 1 July 2022 to the European Commission for comments. The European Commission submitted comments to the Proposal of the Plan for the implementation of the Youth Guarantee,	



Priority reform measure 3: Introducing the Youth Guarantee Programme in Montenegro	Stage of reform implementation (1-5)
	<p>after which the Plan was adjusted and sent again to the European Commission for comments on 25 November 2022; Continuation of activities of building capacity of the Montenegro Employment Office deals with monitoring and evaluation of pilot measures for activation of young women, aimed at getting ready for implementation of the Youth Guarantee Programme;</p> <p>2. As for the implementation of the Youth Employment Programme, the Employment Office carried out activities in order to implement two measures envisaged under the Programme. Those are programmes: <i>“Youth as support for the development of agriculture,”</i> being implemented in cooperation with the Ministry of Agriculture, Forestry and Water Management with 30 participants; while programme <i>“Support for job-skills training and employment of youth for inspection oversight activities”</i> is implemented in cooperation with the Administration for Inspection Affairs for 60 participants. Participants of the programme entered an employment relationship on 16 May 2022 via an agency for the temporary secondment of employees for a period of 9 months. The Programme of professional development of persons who acquired high education is implemented in line with the planned schedule.</p>

Results indicator for the Priority reform measure 3

Indicator	Baseline	Target planned for 2022	Target achieved in 2022
Plan for implementation of the Youth Guarantee Programme adopted			Draft Plan for implementation of the Youth Guarantee Programme prepared
Implementation of the Youth Guarantee Programme	-	Draft Plan for implementation of the Youth Guarantee prepared	In line with the Proposal of the Plan for implementation of the Youth Guarantee, the pilot phase is planned for 2024
Increase of the employment rate of youth age 15 to 29	30.7%	27.2%	



Priority reform measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market		Stage of reform implementation (1-5)
Activities planned for 2022	1. During 2022, it was envisaged for the labour market needs analysis will be carried out in order to designate which adult education programme will be financed and for how many unemployed adults. The analysis was not completed and is yet to be done. After the analysis is prepared, the Ministry of Education will propose and issue new licenses to existing or new adult education organisers, the objective being to issue supplements to or new licenses for lacking programmes, in particular for ICT programmes and foreign language training. After the analysis is completed and procedure for licensing organisers for lacking programmes finalised, a training plan for unemployed persons will be prepared for 2023 and 2024.	0
Description of implementation and explanation if partial or no implementation	1. Implementation of the measure did not start, but the Ministry of Education commenced the process of creating a working group to implement activities stated in the Economic Reform Programme 2022-2024.	

Results indicator for the Priority reform measure 4

Indicator	Baseline	Target achieved in 2022
Number of new education programmes available for adults	15	-
Number of adults attending trainings	0	-
Number of new education programmes available for adults	0	-

Priority reform measure 5: Digitalisation of the education and development of digital skills		Stage of reform implementation (1-5)
Activities planned for 2022	1. Procurement of computer equipment through the European Investment Bank project;	3
	2. Amend the General Education Law;	3
	3. Adopt the Quality Standards for digital content;	5



	4. Create a training programme for ICT coordinators and carry out training, Adoption the Rulebook on the Manner of Appointing School and Regional ICT Coordinators, Preparation and adoption of the Rulebook on the Manner of Keeping data in the education information system;	3
	5. Amend the curricula, Analyse curricula in the area of digital skills with recommendations for improvement;	1
	6. Prepare procedures for the development of digital education content, their installation, and management of platforms for self-learning (autodidacticism);	5
	7. Establish a digital system/platform for self-learning;	5
	8. Establish a model for online collaboration for the Ministry of Education, Institute for Teaching, Centre for Vocational Education, Montenegro Examination Centre, and Institute for Textbooks and Teaching Material;	4
	9. Amend the Rulebook on taking professional exam for teachers and the Rulebook on detailed conditions, manner of and procedure for issuing and renewing license for teacher, director and deputy director in the educational and pedagogical institutions.	3
Description of implementation and explanation if partial or no implementation	1. Approximately 5.5 million euro is envisaged for equipping schools with ICT equipment and 750,000 euro for refurbishing the Data Centre and establishing the Disaster Recovery Site under the project with the European Investment Bank. A kick-off meeting was held on 1 June 2022 and the EIB project implementation formally commenced. This investment will be implemented under this project. Technical part of the tender documentation is prepared and launching of the tender for IT equipment is expected by the end of January 2023.	
	2. The Commission for monitoring implementation of the Strategy for Digitalisation of the Education System is drafting a proposal on amendments to the General Education Law.	
	3. The National Education Council adopted the Quality Standards for digital editions of textbooks and instruction materials.	
	4. Training programme for ICT school coordinators, draft Rulebook on the Manner of Appointing School and Regional ICT Coordinators, as well as the draft Rulebook on the Manner of Keeping data in the education information system are in the final drafting phase. It is expected for the rulebooks to be submitted for adoption after the General Education Law is adopted.	
	5. Amendments to the curricula for acquiring key digital competences planned to be initiated after adoption of the Analysis of the education sector in order to apply also other recommendations under the amended curricula. The Analysis was finalised in November 2022. The Analysis of curricula in the area of digital skills with recommendations for improvement was completed.	



	6. Procedures for development of digital education content, their installation and management of platforms for self-learning was completed.
	7. Digital platform for self-learning was established, which currently contains 997 courses, 11,341 lessons, and 496 quizzes in 49 categories. Total number of platform users (teachers, children and parents) is 23,901.
	8. System for online collaboration for the Ministry of Education, Institute for Teaching, Centre for Vocational Education, Montenegro Examination Centre, and Institute for Textbooks and Teaching Material was established (from the technical point of view); training of employees needs to be carried out.
	9. Proposals for amendments of two rulebooks were prepared: Amendments to the Rulebook on taking professional exam for teachers and the Rulebook on detailed conditions, manner of and procedure for issuing and renewing license for teacher, director and deputy director in the educational and pedagogical institutions.

Results indicator for the Priority reform measure 5

Indicator	Baseline (2021)	Target planned for 2022	Target achieved in 2022
Implementation of the Loan Agreement with EIB	Negotiations with EIB have not commenced	Negotiations started and preparatory activities for procurement of equipment commenced	Negotiations started and preparatory activities for procurement of equipment carried out
Amendments to the General Education Law in order to define digital classes and use of digital textbooks	General Education Law does not define digital classes and use of digital textbooks	Amend the General Education Law in order to define digital classes and use of digital textbooks	Activities to prepare proposal of amendments to the General Education Law are underway, carried out by the Commission for monitoring implementation of the Strategy for Digitalisation of the Education System
Quality Standards for digital editions of textbooks and instruction materials prepared	There are no Quality Standards for digital editions of textbooks and instruction materials	Preparation of Quality Standards for digital editions of textbooks and instruction materials	The National Education Council adopted the Quality Standards for digital editions of textbooks and instruction materials
Rulebooks and procedures governing area of the education system digitalisation adopted	There are no rulebooks that govern the subject area	Preparation and adoption of the Rulebook and procedures for Keeping data; Safekeeping Backup Copies; appointing school IT coordinators; governing copyrights; creating digital education content and their upload on the self-learning platform	Proposals for amendments of two rulebooks were prepared: Rulebook on taking professional exam for teachers and the Rulebook on detailed conditions, manner of and procedure for issuing and renewing license for teacher, director and deputy director in the educational and pedagogical institutions. New rulebooks planned to be prepared this year have not yet been prepared and depend on amendments to the General Education Law, which are planned to take place this year.



Indicator	Baseline (2021)	Target planned for 2022	Target achieved in 2022
Training programmes for ICT school coordinators created	There are no training programmes for ICT school coordinators	Training programmes for ICT school coordinators developed	The plan is to prepare training programmes and draft Rulebook on the Manner of Appointing School and Regional ICT Coordinators by the end of the year
Curricula for acquiring key digital competences improved	Curricula for acquiring key digital competences do not correspond with contemporary requirements of the market and teaching methods	Curricula for acquiring key digital competences improved	Amendments to the curricula for acquiring key digital competences planned to be initiated after adoption of the Analysis of the education sector in order to apply also other recommendation under the amended curricula. The Analysis is the final stage (editing and design).

Priority reform measure 6: Reform of the national system for disability assessment		Stage of reform implementation (1-5)
Activities planned for 2022	1. Adoption of the Law on Single Body for Disability Assessment (Bureau) in Q2 2022, which would enter into force in Q3 2023;	3
	2. Adoption of the new uniform Methodology for disability assessment (Decree) in Q2 2022 in cooperation with the Montenegro Public Health Institute; Adoption of enabling regulations; Adoption of constitutional documents of the Bureau	3
	3. Information system developed and tested by the end of 2022, and Trial application of new system for disability assessment in Q4 2022; Possible reviews resulting from trial application findings; Legal framework completed;	1
	4. Premises for the Bureau provided and equipped, and capacity-building programme for the Bureau implemented, including equipping and refurbishing premises, professional and IT training for work of employees.	1
Description of implementation and explanation if partial or no implementation	1. The activity is partially implemented. Namely, the activities to draft the Law on Single Body for Disability Assessment (Bureau) continued, but its adoption by the Government (draft Law) was moved for Q3 2022 in the Work Plan of the Government. Key reasons for postponing it were because of the change in the composition of ministries, delays in appointment of a person task to oversee the project on behalf of the line Ministry, cancelling the employment contract for the legal expert, proposal for changing the composition of the Working group managed by the Ministry of Labour and Social Welfare, but primarily in order to enable space for good quality public consultations.	



Priority reform measure 6: Reform of the national system for disability assessment	Stage of reform implementation (1-5)
	<p>2. Activities on drafting the uniform Methodology for disability assessment continued. Two segments of the Methodology were completed. The process of finalising the third segment of the uniform Methodology dealing with the assessment of needs of persons with disabilities, in line with the UN Convention on the Rights of Persons with Disabilities is underway. Under the auspices of the Public Health Institute, five multi-disciplinary teams are working the Methodology, which are divided into sub-groups for children and adults. This is a rather complex subject-matter, and the working groups are provided support in a form of international expertise. Finalisation of the Methodology was planned for the end of 2022. The activities are underway concerning drafting of enabling regulations, which in addition to the Decree on the uniform Methodology for disability assessment include also constitutional documents of the Bureau and other enabling regulations. In addition to the Methodology itself, the Decree will also contain all procedural provision concerning the process of assessment. Given the changes in the timing for drafting the Law on Single Body for Disability Assessment (Bureau) and since the work on enabling regulations is conditioned with the adoption of the Law, it is expected from them to be completed by the end of 2022.</p> <p>3. Activities concerning the Information system developed and Trial application of new system for disability assessment were postponed until the new Law and enabling regulations are adopted, since those are a core prerequisite for the functional design, precisely the drafting of the technical documentation for the information system.</p> <p>4. Activities concerning providing for and equipping the premises for the Bureau are not taking place in line with the project schedule. Namely, a request was re-submitted to the Ministry of Labour and Social Welfare, in line with the conclusions of the Project Management Steering Committee (dated June 2021) and request of UNDP (dated February 2022), for the premises for the Disability Assessment Bureau to be assigned in order for UNDP to carry out timely procurement procedures concerning the renovation/refurbishing and equipping premises with office furniture and computer equipment. This problem is slowing down implementation of the planned project activities, and thus spending of planned funds the EU has allocated for the Project implementation. In addition to that, non-governmental organisations dealing with persons with disabilities are continuously supported under the project implementation (grant scheme) engaged in promoting this reform and the rights of persons with disabilities. Six projects were implemented successfully so far directed at promotion of the reform and the rights of persons with disabilities.</p>

Results indicator for the Priority reform measure 6

Indicator	Baseline (2021)	Target planned for 2022	Target achieved in 2022
1. Establish new legal framework by the end of Q1 2022	Adoption of the Law on Single Body for Disability Assessment (Bureau) in Q2 2022, which would enter into force in Q3 2023	Adoption of the new uniform methodology/criteria for disability assessment (Decree) in Q2 2022 in cooperation with the Montenegro Public Health Institute	Partially completed, it is expected to be finalised during Q1 2023.



Indicator	Baseline (2021)	Target planned for 2022	Target achieved in 2022
2. Development of the information system for disability assessment, which will generate an e-Register of persons with disabilities	/	<ul style="list-style-type: none"> – Adoption of enabling regulations; – Adoption of constitutional documents of the Bureau; – Information system developed and tested by the end of 2022; – Trial application of the new system for disability assessment in Q4 2022 Possible reviews resulting from trial application findings;	Activity is not completed, given that the prerequisite for its implementation is the adoption of the Law, which is planned and expected to take place in Q3 2022. After the Law is adopted, activities on drafting supporting enabling regulations will be finalised, and the tender for the development of the information system will be launched.
3. Reformed system of assessing disabilities operational in Q3 2023	/	<ul style="list-style-type: none"> – Premises for the Bureau provided and equipped; – Capacity building programme for the Bureau implemented, including equipping and refurbishing premises, professional and IT training for work of employees. 	Activity is not completed. The condition for implementation of the activity is that premises for the Disability Assessment Bureau be assigned, in line with the conclusions of the Project Management Steering Committee (dated June 2021) and repeated requests of UNDP (dated February and July 2022), in order for UNDP to carry out procurement procedures concerning the refurbishing and equipping premises.

Priority reform measure 7: Defining financial preconditions for reforms proposed by the Road Map		Stage of reform implementation (1-5)
Activities planned for 2022	1. Carry out analysis of costs, and financial sustainability, and prepare a financial plan for reform of the social and child protection system;	3
	2. Improve coordination of the Ministry of Finance and Social Welfare, Social Welfare Centres and provides of services by developing procedures for coordination function of the Ministry of Finance and Social Welfare (clearly defined procedures for oversight, coordination, monitoring, and evaluation);	3
	3. Improve the social welfare centres capacities to be able to provide case management services and referral of beneficiaries	



Priority reform measure 7: Defining financial preconditions for reforms proposed by the Road Map	Stage of reform implementation (1-5)
<p>Description of implementation and explanation if partial or no implementation</p>	<p>1. Draft Terms of reference for the analysis of costs, financial sustainability, and financial strategy for reform of the social and child protection system in accordance with the Road Map prepared;</p> <p>In agreement with the Ministry of Labour and Social Welfare, it was decided for the implementation to be postponed until such time it will be certain that the reform of the social and child protection system will commence in line with the findings, taking into account that the part of funds would need to be secured from the EU funds. Consequently, the schedule for implementation is conditioned by the decision on the overall reform process. The final decision on continuing the reform/activity in 2023 will be within the purview of the Ministry of Labour and Social Welfare and the Government of Montenegro. UNICEF office as a partner supporting this process remains available to support the implementation of the measure.</p> <p>2. Improve coordination and cooperation of the Ministry of Labour and Social Welfare, Draft Terms of reference for improving procedures in the Ministry of Labour and Social Welfare prepared. According to the draft Terms of reference, the functional analysis would open the process of analysing the existing functions and procedures, as input for their further improvement and elaboration.</p> <p>UNICEF informed the Ministry of Labour and Social Welfare on the ability to implement the functional analysis. During June and July 2022, the UNICEF office asked for confirmation about the implementation of the activity by the Ministry of Labour and Social Welfare in 2022, stating also that due to their internal procedure the confirmation needs to be provided by no later than Friday 22 July 2022. The activity would be financed entirely by the UNICEF office.</p> <p>Having in mind that UNICEF office did not receive feedback by 22 July 2022, it is possible to continue with the activity next year, if the Ministry of Labour and Social Welfare considers this activity to be carried forward in 2023.</p> <p>3. Improve the Social welfare centres capacities to be able to provide case management services and referral of beneficiaries</p> <p>The Institute for Social and Child Protection recognised the need and, in cooperation with the UNICEF representative office in Montenegro and with the financial support from the European Union, started to work on development of an online platform for the needs of professional staff in the field of social and child protection. Development of this online platform would have as the objective to facilitate work for professionals in the social and child protection system given the new circumstances. The platform is located on the following link: https://online.zsdzcg.me/. Using this platform, the Institute for Social and Child Protection organised 5 pieces of training for professionals in the social and child protection system, including also case managers:</p> <ul style="list-style-type: none"> • Outsourced problems in the behaviour of children and adolescents – (held on 25 and 26 February 2022); • Application of specific procedures in working with persons with disabilities and children with developmental disabilities – (held on 28 February and 1 February 2022); • Individual planning in social work – where are we today? and Role of supervision in modern social work: Challenges of conceptualising organisation and supervision in the social protection system – (held on 11 and 12 April 2022); • Social work in the digital age and role of experts: supportive practice in an online environment as a response to the user needs – (held on 12 and 13 May 2022); • Assessing development risk and safety of children as a foundation for planning and monitoring social-welfare interventions – (held on 30 and 31 May 2022); • Furthermore, with financial support of the UNICEF office in Montenegro, the training “Capacity building for employees of the Institute for Social and Child Protection concerning



Priority reform measure 7: Defining financial preconditions for reforms proposed by the Road Map		Stage of reform implementation (1-5)
	the external supervision” was held in the period September 2019 – May 2022.	

Results indicator for the Priority reform measure 7

Indicator	Baseline	Target achieved in 2022
Analysis of costs and financial sustainability, accompanied with the financial plan for implementing the reform of the social and child protection system is completed	It does not exist	Drafting underway
Methodology for deciding on introduction, continuation or cancellation of the social and child protection programmes is introduced	It does not exist	There is no set obligation or methodology for deciding on introduction, continuation or cancellation of the social and child protection rights
Procedure for coordination and oversight by the Ministry of Finance and Social Welfare with Social Welfare Centres and service providers is introduced	It does not exist	<ul style="list-style-type: none"> – Procedures for coordination and oversight in the social and child protection system are not clearly defined; – There is no obligation for periodic evaluation of social and child protection programmes
Social Welfare Centres have increased capacities for case management and referral services.	<ul style="list-style-type: none"> – An insufficient number of case managers has an impact on quality of case management and referral to services. – Currently the system employs 85 case managers. UNICEF’s analysis from 2017 suggested an increase of 80 percent in cases (50 professional staff) in order for the case management to be in line with the standard of 50 cases per case manager. 	Quality of case management and referral to services is improved through an increase in a number of case managers, reducing their caseload and implementation of trainings.
Reporting on the efficiency of final outcomes in the second-instance administrative procedure	Improved record-keeping of Social Welfare Centres; all appeals, complaints and requests should be recorded by Social Welfare Centres with all necessary details in order to	



Indicator	Baseline	Target achieved in 2022
	improve receipt of information (feedback) from beneficiaries.	

Priority reform measure 8: Improving access to and quality in delivery of healthcare services and the digitalisation of the healthcare system		Stage of reform implementation (1-5)
Activities planned for 2022	1. Implementation of the Electronic Health Records - Comprehensive analysis of the current state and of needed prerequisites – Ministry of Health, Health Insurance Fund, public healthcare institutions; Establishing a legislative framework to govern in details conditions, organisation and manner of establishing the Electronic Health Records – Ministry of Health, Health Insurance Fund	2
	2. Development of the telemedicine system: - Comprehensive analysis of the current state and of needed of prerequisites, coupled with recommendations for further improvement and development of telemedicine within healthcare institutions in Montenegro - Ministry of Health, Clinical Center of Montenegro – KCCG; Adoption of programme documents and defining through legislation telemedicine services and mobile healthcare (m-Health) in the segment of delivery of healthcare services (e.g. tele-diagnostic, tele-monitoring of patients, emergency medical assistance, e-learning, etc.) - Ministry of Health, Health Insurance Fund	2
Description of implementation and explanation if partial or no implementation	1. Amendments to the Law on Health Care are underway, and the law is being prepared. The new Law governs issues concerning telemedicine, e-Health, m-Health.	
	2. Under the proposal of the current budget for the Ministry of Health, funds of 1.4 million euro are allocated. Cooperation with UNDP agreed on implementation of activities.	

Results indicator for the Priority reform measure 8

Indicator	Baseline	Target achieved in 2022
Legislative framework		Rulebook on the Electronic Health Records adopted



Priority reform measure 9: Establishing a full electronic registration of enterprises		Stage of reform implementation (1-5)
Activities planned for 2022	1. Amendments and supplements to relevant laws and enabling regulations in order to commence with the implementation of full electronic registration of enterprises;	3
	2. Enable payment of fees for registration of enterprises and electronic publication in the Official Gazette (via e-commerce services on the e-Firm portal and/or by using applications of commercial banks);	3
Description of implementation and explanation if partial or no implementation	<p>Given the large number of proposed amendments and supplements to the Law on Business Undertakings, activities to draft a completely new law have started and its current working draft has 620 Articles. This text was agreed upon several times within the Working group and the last version, the Working draft of the Law on Business Undertakings, was submitted to the Ministry for further proceedings on 27 December 2022. As for the Working group for drafting a regulation on registration, a restricted session of the working group (Central Registry of Business Entities (CRPS) and Secretariat of the Competitiveness Council, with the support of the Association of Jurists of Montenegro) prepared a first working draft of the Draft Law on Registration of Business and Other Entities, which was submitted to all members of the Working group for comments and suggestions on 4 August 2022, after which the comments were considered and the text amended in line with the accepted suggestions. The work of the working group also covered and completed the analysis of the need to align the text of the Law with the EU Directive 2019/1151, as well as with other regulations of relevance for this area. It is important to emphasize that is necessary for this Law and proposals for amendments and supplements to the Law on Business Undertakings to be deliberated as a package and to complement each other without non-compliances. Bearing in mind that the Working group for drafting the Law on Registration followed the work of the Working group for drafting the Law on Business Undertakings the entire time, thus both laws will be ready to be submitted simultaneously for the public consultations procedure, or for further adoption.</p> <p>It should be emphasised that the procedure for enabling full electronic registration is improved with one more service, which is dealing with making operational service concerning the electronic change of business name of the business undertaking.</p>	

Results indicator for the Priority reform measure 9

Indicator	Baseline	Target achieved in 2022
Increase number of trained employees of CRPS	2	4
Electronic registration of business entities	Electronic registration for single-member LLCs	Preconditions created for electronic linkage and registration of multi-member LLC
Number of electronic registrations in one year	30	Higher by 10 percent for registrations of single-member LLCs
Ranking in international reports targeting business environment (WEF and Fraser Institute)	73 (WEF) 42 (Fraser)	71 (WEF) 40 (Fraser)



Priority reform measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund		Stage of reform implementation (1-5)
Activities planned for 2022	<ol style="list-style-type: none"> 1. Adoption of the Law on the Credit-Guarantee Fund; 2. Finalisation of a business plan using the assumptions for operation of the Credit-Guarantee Fund (premises, wages, remunerations, consultations with business and financial sector); 3. Consultations, trainings, involvement and registration of financial institutions in the Credit-Guarantee Fund; 4. Adoption of rules and procedures that will govern operation of the Credit-Guarantee Fund; 5. Allocation of funds in the amount of 10.4 million euro; 6. Training for management and employees; 7. Promotion 	2
Description of implementation and explanation if partial or no implementation	<p>After the phase 1, as part of the initial analysis, when consultants held meeting with seven commercial banks, two leasing firms, three micro-financial institutions, the Association of Banks and the Central Bank of Montenegro, a Road Map for establishing the Montenegro Credit-Guarantee Fund was developed, which includes also a draft Law on the Credit-Guarantee Fund. In drafting this document the best international practices, analysis of the best practice in other credit-guarantee funds across the globe, the European Commission directives, legal and regulatory framework of Montenegro, as well as specificities of the Montenegrin business and financial sector were taken into consideration. A Brief on activities undertaken to establish the Montenegro Credit-Guarantee Fund was adopted at the session of the Government of Montenegro on 4 November 2021, along with allocation of funds of 10.4 million euro for 2022 from the budgetary reserve for the founding capital of the Fund, which represented also one of the key conditions for functioning and full operationalisation of the Fund and further support by EBRD. The draft Law on the Credit-Guarantee Fund was deliberated with relevant state institutions, business associations and representatives of the banking sector. In order to carry out additional consultations and receive suggestions, the draft Law was sent again for opinion to the business associations and political parties.</p> <p>New meeting with representatives of the EBRD team and consulting firm Crimson Capital Corp, which was attended by the ministers of economic development and finance. Conclusion of the meeting was that it should consider further a need to establish the Montenegro Credit-Guarantee Fund as an independent institution, while considering the possibility for it to be established within the Investment and Development Fund, taking into account that the Law on the Investment and Development Fund already envisages for the Investment and Development Fund to issue guarantees. The Ministry of Finance will initiate a new meeting to be also attended by representatives of the Investment and Development Fund, in order to take a final position on further steps on establishing the Montenegro Credit-Guarantee Fund.</p>	



Results indicator for the Priority reform measure 10

Indicator	Baseline	Target achieved in 2022
Number of guaranteed loans	-	-
Number of new jobs	-	-
Increased participation in terms of number of enterprises owned by women in total number of enterprises in Montenegro	-	-

Priority reform measure 11: Strengthening competitive position of MSMEs by establishing single access point		Stage of reform implementation (1-5)
Activities planned for 2022	Design and development of the SAP portal for SMEs which entails the following activities: coordination with all stakeholders to understand what information is available to and relevant for SMEs, with the aim of proposing a relevant SAP structure for SMEs. This also entails close cooperation of consultants with representatives of the Ministry of Economic Development in designing and developing the portal and deciding on tools and on additional services that can be offered: downloadable content, questions and answers section, calculators, possibility of submitting online application for the use of assistance programmes, monitoring of application status and reporting on implementation of the approved funds etc. Coordination with other state institutions and stakeholders that provide support to SMEs to ensure their participation in exchange of the relevant data on the portal. Promotion of the portal, presenting its performance and benefits of using it to the public.	4
Description of implementation and explanation if partial or no implementation	<p>Design and establishment of SAP portal have been successful. In the first stage of portal development, assistance programmes of the Ministry of Economic Development and Tourism were presented and other services were included, such as a questions and answers section and direct connection for submitting online application for using the assistance programme. Moreover, the portal was promoted at the public event when the public was informed about its performance, benefits of using it etc.</p> <p>In the second phase, the plan is to include on the portal the assistance programmes of all other institutions, at national and local levels, in order to establish a single point where businesses can find all the relevant information on available assistance. Our goal is to jointly create a sustainable address that will contain answers to the questions important for our businessmen and businesswomen, through which they can turn to the competent institutions for all additional information, advice and help.</p>	



	<p>Invitation to submit this information was sent to the other state authorities and local government units, which submitted assistance programmes and designated contact persons.</p> <p>However, the portal has not been active due to cyber-attack on the infrastructure of the Government of Montenegro since the end of August, therefore it was impossible to update the existing programs and add the new ones.</p>
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Results indicators for the priority reform measure 11

Indicator	Baseline	Target achieved in 2022
Portal created	-	Software solution developed Testing phases completed Dysfunctionalities eliminated, functioning improved
Number of visits to the portal	-	5,000
Number of SMEs that applied for assistance programmes	300	450

Priority reform measure 12: Strengthening national innovation and research ecosystem		Stage of reform implementation (1-5)
Activities planned for 2022	1. Strengthening capacities of the Innovation Fund of Montenegro;	3
	2. Establishing assistance programmes of the Innovation Fund and implementation of the pilot programme lines for the assistance to innovation from IPA funds;	3
	3. Capacity building of the Council for Innovation and Smart Specialisation;	3
	4. Adoption of the Strategy of Scientific and Research Activity (2022-2026);	3
	5. Implementation of secondary legislation in the field of scientific and research activities;	4
	6. Implementation of legislative provisions in the field of innovative activities and incentives.	3
Description of implementation and	<p>1. Capacity building of the Innovation Fund of Montenegro: Innovation Fund is beneficiary of two projects that are important for capacity building:</p> <ul style="list-style-type: none"> ➤ The second phase of the project <i>Enhancing Systemic Support for Innovation and MSMEs Development - Norway for You</i> is implemented by UNDP - one national expert works 	



<p>explanation if partial or no implementation</p>	<p>with the Fund employees every day for the purpose of efficient performance of activities, while three international experts were hired to draft programme lines, programme documentation, empower potential beneficiaries of the programme, build capacity related to intellectual property etc. Two important study visits also took place in the framework of the programme (Serbia and North Macedonia); and</p> <ul style="list-style-type: none">➤ IPA 2020 technical assistance project <i>Strengthening capacity to support implementation of the Smart Specialisation Strategy (TASI S3)</i> - in the reporting period, focus was on preparation of the S3 programme, state aid, monitoring and evaluation. Assistance to the capacity building will be provided until the end of 2023. <p>2. Establishment of assistance programmes of the Innovation Fund and implementation of pilot programme lines to support innovation from IPA funds</p> <ul style="list-style-type: none">➤ With expert assistance, complete documentation was drafted for two assistance programmes (innovation vouchers and collaborative innovation grants) and both were published (one on 01 March 2022 and the other on 28 June 2022) and successfully implemented in 2022. Two more programmes are in the final stage of preparation (grant programme for innovation in enterprises and acceleration programme). Since the Fund will take over all innovation assistance programme lines, the Innovation Program 2021-2024 is being amended to transfer assistance lines from the Ministry to the Fund, and this is an opportunity to conceptually improve the existing programmes in accordance with the needs of the innovation community and experience with implementing programme lines in the past two years. <p>An IPA grant scheme for innovative projects in the area of smart specialisation is being prepared.</p> <p>3. Capacity building of the Council for Innovation and Smart Specialisation</p> <ul style="list-style-type: none">➤ In the second phase of the project <i>Enhancing Systemic Support for Innovation and MSMEs Development - Norway for You</i>, with the assistance of UNDP, a national expert was hired to perform the duties of the secretary of the Council for Innovation and Smart Specialisation and to work daily with smart specialisation team at the Ministry of Science and Technological Development. In 2022, the Council held four sessions (18 March 2022, 25 July 2022, 09 November 2022 and 14 December 2022). After the changes in the organisational structure of the government at the end of April 2022, the new composition of the Council was approved on 08 July 2022. From 01 September 2022, innovative working groups of the Council have also been actively working in priority areas. <p>4. Adoption of the Strategy of Science and Research Activity (2022-2026)</p> <ul style="list-style-type: none">➤ Drafting of the strategy began at the end of January 2022 and is still ongoing. The final report on the implementation of the previous Strategy of Science and Research Activity 2017-2021 is being drafted in order to formulate guidelines and recommendations for the new strategic cycle which will cover the period 2023-2027. <p>5. Implementation of secondary legislation in the area of scientific and research activity</p> <ul style="list-style-type: none">➤ Rulebook on the conditions and detailed criteria for awarding the prizes for scientific achievements and on the amounts of the prizes was adopted in November 2022, while work is underway to adopt the remaining secondary legislation in the field of scientific and research activities (licensing of scientific and research institutions and financing and evaluation of scientific and research programmes and projects). <p>6. Implementation of legislative provisions in the area of innovation activity and incentives</p> <ul style="list-style-type: none">➤ Implementation of both laws was made possible in September 2021 owing to the adoption of the secondary legislation. An online platform for submitting applications
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	<p>for registration with the Register of innovation activity and for incentives to research and development has been active since October 2021. Implementation of the incentives indicated the need for increased promotion and interdepartmental coordination of this process. Consultations with the innovation community began and closer cooperation between ministries was established within various working bodies and commissions that should contribute to a more efficient implementation of incentives. The working group of the Ministry of Science and Technological Development and the Ministry of Finance was set up in November 2022 to prepare amendments to the Law on Incentives for the Development of Research and Innovation; this working group began its work.</p>
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Results indicators for the priority reform measure 12

Indicator	Baseline	Target achieved in 2022
Capacities of the Innovation Fund of Montenegro strengthened	(2021) Innovation Fund of Montenegro established	- Team of the Innovation Fund set up - Programme lines of the Innovation Fund created - Implementation of programme lines of the Innovation Fund began
Capacities of the Council for Innovation and Smart Specialisation strengthened	(2021) Council for Innovation and Smart Specialisation established	- At least two sessions of the Council held - Innovation working groups established - Organisational unit for smart specialisation set up - Inter-institutional S3 group set up
Number of researchers FTE	(2019) 469	475
Private sector expenditures for research and development	(2019) 12 percent	17 percent

Priority reform measure 13: Improving digitalisation of e-government through the platform of complex e-services		Stage of reform implementation (1-5)
Activities planned for 2022	<ol style="list-style-type: none"> Assessment of the needs of citizens and enterprises for e-government; Development and implementation of the new e-Citizen portal along with the implementation of new interoperable e-services for citizens and businesses. 	4
Description of implementation and explanation if partial or no implementation	<p>Assessment of the needs of citizens and enterprises for e-government – the survey of satisfaction of citizens and business community with electronic services and digitalisation, as well as on their needs in this area in the period 2021-2022, is planned to be carried out within the scope of this activity. The first cycle of the research on citizens’ and businesses satisfaction with the existing e-services and on the identification of the needs for new e-services in Q1 2022 was carried out, while activities of the second cycle of the research also began.</p> <p>Development and the implementation of the new e-Citizen portal along with implementation of a new interoperable e-services for citizens and businesses – in the scope of this activity the</p>	



	<p>plan is to develop and implement a new e-government portal and to integrate it with the other e-government systems such as electronic identification system, electronic payment system, a system for electronic data exchange between state administration authorities which enables implementation of the complex e-services that will be available at one centralised place. Moreover, the abovementioned activity includes implementation of the new digitalised services, which primarily provide end users with the opportunity to completely communicate electronically with public administration. In order to establish a new e-government portal and define an ideal concept of digital ecosystem, activities commenced at the end of July 2022 under the project <i>e-Services and Digital Infrastructure as a Response Measure to COVID 19</i> in order to develop technical specifications for new e-government portal and for improvement of the system for electronic data exchange between public administration authorities. Representatives of the Ministry of Public Administration and UNDP representatives defined the final document for the specification of the two systems mentioned above and in the next few days, UNDP will initiate internal and administrative procedures for the procurement of a new software that is planned by the aforementioned reform measure. Due to the complexity and value of the mentioned technical specification, the planning and design process took longer than expected, therefore development and implementation of the new e-government portal and its integration with the key shared systems are expected to be finalised at the end of 2023.</p> <p>As for digitalisation of the priority services, which were recognised under the project <i>e-Services and Digital Infrastructure as a Response Measure to COVID 19</i>, certain services were implemented and numerous activities started in order to digitalise other services. E-Student services were implemented in 2021 in cooperation with the Ministry of Education, while Covid certificate was introduced in cooperation with the Ministry of Health. The plan is to improve e-Student service and enable electronic enrolment to other faculties, including primarily private ones. Online enrolment service in student dormitories was provided in 2022 in cooperation with the Ministry of Education.</p> <p>The existing solution of the e-government portal was integrated with the system for electronic identification and electronic identity card and with the system for electronic payment of administrative fees and charges in Q1 2022, which created prerequisites for the improvement of the existing electronic services. In this regard, electronic payment of charges was enabled via e-government portal for four pilot services that fall within the jurisdiction of the Ministry of Justice, so that citizens and businesses have the opportunity to electronically submit an application for the delivery of data from criminal and misdemeanour records without having to go to the banks and state institutions.</p> <p>Recognising the risk of implementation of new interoperable services being exclusively dependant on the state administration authority responsible for e-service, additional efforts have been made to digitise the following services: online payment of real estate taxes, online applications and scheduling of wedding appointments (initially only on the territory of the Capital City); online NGO registration; online review of fines and payment from the register of criminal and misdemeanour records (for citizens and the businesses); e-Business etc.</p> <p>Although implementation of the activity <i>Establish the Network of ICT practitioners</i> was planned for 2023, some of the sub-activities were started and implemented in 2022. The first workshop was organised for the representatives from 17 public administration institutions at the central level in Q1 2022 in order to bring together IT officers who are directly involved in development/implementation/upgrade and maintenance of the key platforms and systems of state administration and who contribute to the development of interoperable e-services for citizens and the businesses. In the following period, the ICT network is planned to be formalised after defining its form and way of functioning.</p>
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Results indicators for the priority reform measure 13

Indicator	Baseline	Target achieved in 2022
Number of conducted surveys with the results presented	/	2
Number of new interoperable (digitised) e-services for citizens and businesses	/	5
New e-government portal <i>e-Citizen</i> established	/	/
Network of ICT practitioners established – operating team Number of workshops organised for ICT practitioner	/	/

Priority reform measure 14: Improving legislative-regulatory framework for further development of infrastructure for the broadband internet access		Stage of reform implementation (1-5)
Activities planned for 2022	1. Start of the activities of drafting the Strategy for the Development of 5G Networks in Montenegro with Action Plan for implementation of the Strategy for the Development of 5G Networks in Montenegro;	4
	2. Continuation of activities of establishing the National Plan for Broadband Development	3
	3. Continuation of activities of drafting the new Law on Electronic Communication	3
Description of implementation and explanation if partial or no implementation	<p>1. Activities have started to draft the Strategy for the Development of 5G Networks in Montenegro with an Action Plan for the implementation of the Strategy for the Development of 5G Networks in Montenegro by procuring the strategy drafting service and setting up the working group responsible for drafting the strategy. Draft Strategy for the Development of 5G Networks in Montenegro with an Action Plan for implementation of the Strategy for the Development of 5G Networks in Montenegro has been prepared and it will be open for public consultation in Q1 2023. (Given the aforementioned, adoption of this document is planned to be rescheduled to Q1 2023).</p> <p>2. Montenegro applied for and received a new assistance grant through WBIF (04 March 2022) in the total amount of 525,000.00 euro, which will cover revision of the Feasibility Study and Cost-Benefit Analysis, evaluation of market models and selection of the best model, screening of environmental impact, creation of public procurement models and tender documentation. In this regard, activities of development of the National Plan for the Development of Broadband Internet Access are expected to continue. (Given the aforementioned, it is anticipated that the adoption of the aforementioned document will be postponed to Q4 2023).</p> <p>3. The activities of drafting the new Law on Electronic Communications have started by procuring the services for drafting the draft law and setting up the working group which has started its work. (Given the aforementioned, it is anticipated that the adoption of the aforementioned document will be postponed to Q4 2023).</p>	



Results indicators for the priority reform measure 14

Indicator	Baseline	Target achieved in 2022
Establishment of the National Plan for the Development of High-Speed Broadband Networks	Cost benefit analysis and market model developed	National Plan for the Development of High-Speed Broadband Networks adopted
Transposition and efficient implementation of the EU Directive establishing the European Electronic Communications Code 2018/1972	Two TAIEX workshops held – Implementation and transposition of the new directive 2018/1972	Law on Electronic Communications adopted
Establishment of the National Office/Directorate for the broadband internet access	Study on the office for broadband internet access prepared	National Office/Directorate for the broadband internet access established
Development of the Strategy/Plan for the introduction of 5G in Montenegro	Study on the strategy for introduction of 5G mobile communication networks in Montenegro developed	Strategy/Plan for the introduction of 5G in Montenegro developed

Priority reform measure 15: Improving management of business undertakings in majority state ownership		Stage of reform implementation (1-5)
Activities planned for 2022	<ol style="list-style-type: none"> 1. Work organisation <i>Montenegro Works LLC</i> established and it ensures more efficient and more transparent management of business undertakings in majority state ownership; 2. The goal for 2022 is adoption of the new law; 3. Establishment of standardisation of the financial reporting by increasing the frequency of reporting from annual to quarterly level and drafting a business plan for monitoring the projected versus achieved performance at the monthly level; 4. Strategic Development Division will be set up at this company; the division will employ experts from each sector who will design performance indicators for each business undertaking, while frequently monitoring the projected versus achieved performance at the monthly level; 5. Performance of financial analyses of all business undertakings – The plan is to develop a set of guidelines on corporate management through seminars and training courses for leadership in business undertakings in majority state ownership. 	2-3



<p>Description of implementation and explanation if partial or no implementation</p>	<p>On 03 August 2021, the Government of Montenegro passed the Decision on the establishment of the Limited Liability Company <i>Montenegro Works</i> (Official Gazette of Montenegro 085/21, 086/21) with the aim of establishing a company that will monitor and analyse financial situation in business undertakings in majority state ownership and provides professional assistance in carrying out reforms in order to manage them more efficiently. Moreover, on 18 August 2021, the Government of Montenegro adopted Statute of the Limited Liability Company <i>Montenegro Works</i> (Official Gazette of Montenegro 090/21) with the aim of establishing work organisation Montenegro Works LLC. Report on the results of the external audit of business undertakings in majority ownership by the state of Montenegro for the period 2016-2020, submitted by the Ministry of Finance and Social Welfare, was considered at the session of the Government of Montenegro held on 31 March 2022; Employees of <i>Montenegro Works LLC</i> compiled the report in cooperation with civil servants of two directorates of the Ministry of Finance and Social Affairs by using the IMF tool SOE Health Check Tool, prepared for the needs of the ministry. The Government considered <i>Information on recommendations for improving the performance of the board of directors through clear membership criteria</i> and Conclusion no. 04-2375 of 27 April 2022, and it also tasked the Ministry of Finance and Social Welfare to intensify activities and conduct additional consultations with the Ministry of Economic Development, Ministry of Public Administration, Digital Society and Media and Ministry of Capital Investments regarding proposed criteria for the selection of qualified members of the boards of directors in business undertakings in majority state ownership.</p> <p><i>Information on monitoring fiscal risks of business undertakings in majority state ownership</i> was adopted at the 13th session of the Government held on 22 July 2022. The Information emphasises that the need to reform regular monitoring of operations of business undertakings in majority state ownership was identified in cooperation with international partners. It was assessed that investment in <i>Montenegro Works</i> did not result in benefits with reform potential that would provide the government with a legislative model for monitoring operations of these business undertakings. Therefore, the decision was made to establish the model of a complete, regulatory-based monitoring of their operations and to systematically move selection of the management members, who have for decades failed to ensure development of business undertakings, out of the sphere of political and non-transparent influences. Decision on voluntary liquidation of the Limited Liability Company Montenegro Works was also adopted at the same session. After detailed analysis, it was concluded that main activity of the company was not in accordance with the applicable legislation of Montenegro, that it was financially unsustainable and that voluntary liquidation was to be carried out due to the impossibility of generating revenue and ensuring sustainable and successful operations on the market. Training courses were organised in the previous period regarding the improvement of operations of the business undertakings in majority state ownership by using the SOE HTC (Health Check Tool). Analysis of operations of certain business undertakings in majority state ownership was prepared by using the IMF tool <i>SOE Health Check Tool</i>; this analysis was performed by employees of the Directorate for Local Government and Business Undertakings in Majority State Ownership and Directorate for Central Harmonisation of the Ministry of Finance and Social Welfare, and with this they partially responded to the Policy Guidance no. 4 of the Ministerial Dialogue. In order to improve monitoring of operations of the business undertakings in majority state ownership, the Ministry of Finance was reorganised with the aim of reforming the sub-directorate of the Directorate for monitoring fiscal risks of business undertakings in majority state ownership. Furthermore, training delivered through technical assistance was organised in November for the Directorate for monitoring fiscal risks of the business undertakings in majority state ownership by using the</p>
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	remaining IMF tools in order to build capacity and improve practical skills of employees so that they are able to identify, analyse, manage and discover different sources of fiscal risks.
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Results indicators for the priority reform measure 15

Indicator	Baseline	Target achieved in 2022
Improvement of financial performances of business undertakings through establishment of <i>Montenegro Works LLC</i>	<p>Establishment of the limited liability company and registration with the Central Registry of Business Undertakings of Montenegro (CRPS);</p> <p>Signing key contracts in the areas of accounting and IT;</p> <p>Launching competition for position of the financial analyst and auditor, and selection of the preliminary graphic design of the company's logo.</p>	<p>Work organisation <i>Montenegro Works LLC</i> established and ensures more efficient and more transparent management of business undertakings in majority state ownership.</p> <p>The goal for 2022 is adoption of the new law;</p> <p>Standardisation of financial reporting and increasing reporting frequency from annual to quarterly level;</p> <p>Standardisation of preparing business plan for monitoring the projected versus achieved performance at the monthly level;</p> <p>Strategic Development Division will be set up at the company and that division will employ experts from each sector who will design key indicators for each business undertaking, while frequently monitoring projected versus achieved performance at the monthly level.</p>
Preparation of the analysis and guidelines for business undertakings in majority state ownership	Creation and determination of development of a set of strategic guidelines for the company.	Preparation of financial analysis of all the business undertakings – The plan is to develop a set of guidelines on corporate management through seminars and training courses on leadership in business undertakings in majority state ownership and to regularly monitor implementation of these.



Priority reform measure 16: Suppression of informal economy through tax administration reform		Stage of reform implementation (1-5)
Activities planned for 2022	1. Operating system of electronic fiscalisation	5
	2. Continuation of activities of introducing IRMS and procuring a part of necessary software and hardware, as well as DWH/BI system	3
Description of implementation and explanation if partial or no implementation	<p>1. Use of online fiscalisation system in real time began on 01 June 2021 for all entities obligated under the law. All the envisaged phases of the project were finalised. Once implementation of the DWH/BI system has been finalised, and the system is expected to be fully operational with the possibility of using risk analysis and historic data without any restrictions.</p> <p>2. The document FRD – functional requirement was finalised; the missing part of tender documentation related to criteria-requirements to be met by the business undertakings in order to implement IRMS system has been furnished. Tender for procurement of the IRMS system is expected to be launched in October 2022.</p> <p>3. Data cleansing activities continued. DWH/BI - company for project implementation was selected. Phase 0 (which includes preparation of the action plan, formation of teams, preparation of the Charter of Contracts) was completed. Activities of phase 1 are currently being implemented. The date envisaged for contract execution is September 2023.</p>	

Results indicators for the priority reform measure 16

Indicator	Baseline	Target achieved in 2022
E-fiscalisation system for all taxpayers operates at full capacity.	All three phases of system establishment are finalised.	EFI system operational; The amount of 674,817.00 euro transferred to the consortium OSA-NEOS and thus contractual obligations towards the contractor were fulfilled.
Equipment for IRMS fully functional.	Tender launched and procedure for the procurement of equipment finalised.	Besides evident delay in implementation of IRMS, procedure for approval of the tender documentation for launching the tender for IRMS is at the final stage. That is a precondition for restructuring RARP project which will end on 31 March 2023.



Priority reform measure 17: Improving business environment by reducing tax wedge on labour		Stage of reform implementation (1-5)
Activities planned for 2022	<ol style="list-style-type: none"> Monitoring implementation through the established Coordinating Body for monitoring implementation of the programme entitled <i>New Tax Policy</i> and increased inspection control so as to reduce informal economy on the labour market and unfair competition arising from it. Adoption of laws and secondary legislation that will enable full implementation of the programme entitled <i>New Tax Policy</i>. 	
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> Coordinating Body for monitoring implementation of the programme entitled <i>New Tax Policy</i> was set up in January 2022. According to the survey conducted among business undertakings and households, informal economy in the formal sector in Montenegro in 2022 amounted to 20.6 percent of GDP, which is a 3.9 p.p. decline compared to 2014; Contribution to reduction of the informal economy was achieved through a lower tax wedge on labour, as a result of which employers are less motivated not to register workers and pay wages in cash; Increase in the number of IOPPD forms submitted to the Revenue and Customs Administration; Increased tax discipline of taxpayers and compliance with legislation. 	

Results indicators for the priority reform measure 17

Indicator	Baseline	Target achieved in 2022
Number of formally employed	188,964	223,434 ⁵⁷

Priority reform measure 18: Information system and mobile application for monitoring parameters in tourism		Stage of reform implementation (1-5)
Activities planned for 2022	<ol style="list-style-type: none"> Implementation of the new information system with accompanying mobile application 	0
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> Activities were not carried out since it was necessary to reformulate the terms of reference which is the base for developing information system with the accompanying application, as well as due to structural and personnel changes in the government and in the institutions recognised as implementers and partners in implementation of the activity concerned. 	

⁵⁷ Reporting according to the specified indicator is relevant on the annual basis. The given data refer to the average number of employees in the period January-November 2022. Source, MONSTAT



Results indicators for the priority reform measure 18

Indicator	Baseline	Target achieved in 2022
Residence tax collected	9.6 million euro	130 percent
Reduction of informal economy in tourism sector	x	x-5 percent

Priority reform measure 19: Sustainable green tourism		Stage of reform implementation (1-5)
Activities planned for 2022	<p>1.Sub-measure – Development of green types of accommodation capacities</p> <p>Activity – introduction of ecological standards in hospitality facilities</p> <p>2.Sub-measure – Diversification of tourism product</p> <p>Activity – Incentives in tourism sector (open calls), and</p> <p>Implementation of action plans within programmes for the development of rural, cultural and health tourism</p>	3
Description of implementation and explanation if partial or no implementation	<p>1. Activities aimed at implementing both sub-measures took place in accordance with the defined terms of reference and in accordance with the measures and objectives set out in action plans of individual programmes for development of the special forms of tourism.</p> <p>All activities took place in difficult conditions due to the lack of financial resources, the complexity of the public procurement procedures, insufficient coordination and efficiency of the work of the institutions, as well as due to structural and personnel changes in the institutions responsible for the implementation of the activities.</p>	

Results indicators for the priority reform measure 19

Indicator	Baseline	Target achieved in 2022
Number of hospitality establishments with green practices	15	20
Number of overnight stays in the northern region of Montenegro	315,815	1-3 percent

*data refer to the number of overnight stays only in collective hospitality establishments in the period January-October 2022, due to the standard methodology of MONSTAT on data publishing



Priority reform measure 20: Financial assistance to households with the aim of implementing energy efficiency measures		Stage of reform implementation (1-5)
Activities planned for 2022	1. Implementation of the public procurement procedure for the selection of banks - providers of loans to households for the implementation of energy efficiency measures and generation of electricity for own needs -by the ministry responsible for energy; implementation of the public competition procedure for the selection of companies - suppliers and installers of systems, equipment and materials for the implementation of energy efficiency measures - by the ministry responsible for energy; delivery and installation of systems whose purchase and installation are enabled within the programme (heating systems for modern forms of biomass (pellets, briquettes), heating and a cooling systems with highly efficient heat pumps), and delivery and installation of the façade thermal insulation and energy-efficient façade carpentry on housing structures of households - by the selected companies; payment of funds of the approved loans into the account of selected companies that are partners in the programme - by the selected banks; payment of the proceeds for interests on loans to the banks - partners in the programme, by the ministry responsible for energy; repayment of interest-free loans in monthly instalments - by loan beneficiaries - household members participating in the programme.	5
Description of implementation and explanation if partial or no implementation	1. On 22 March 2022, the Ministry of Capital Investments published an open call to all commercial banks in Montenegro to submit a letter of interest for the programme. The deadline for submitting bids was 13 April 2022. In addition, a public call was published for all companies in Montenegro to submit bids according to the requirements of the tender documentation, with the aim of selecting qualified contractors. The deadline for submission of offers was 29 April 2022. The selection of partner banks and qualified contractors was successfully completed and after completion of the procedures for signing the agreement on cooperation between the Ministry of Capital Investments with commercial banks and companies, i.e. qualified contractors, all the conditions have been met for the start of the implementation of the new phase of the <i>Energy efficient Home</i> , to the satisfaction of all parties involved. In accordance with the project procedures, the Ministry of Capital Investments implemented two public calls intended for citizens to apply for participation in the programme, from 12 July until 05 August 2022 and from 07 September until 30 September 2022. For these two calls, 170 citizens submitted the requested documentation. According to the preliminary data, partner banks approved 107 interest-free loans. Energy efficiency measures were implemented in households as planned and finalisation of the procedure for the transfer of funds to the banks by the Ministry of Capital Investments is underway, in order to subsidise interests and fees for processing of the disbursed loans, in accordance with project procedures.	



Results indicators for the priority reform measure 20

Indicator	Baseline	Target achieved in 2020
Total energy savings generated under the programme <i>Energy Efficient Home</i>	0	5.5 GWh in one year
Number of households supported under the programme <i>Energy Efficient Home</i>	0	560

Priority reform measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products		Stage of reform implementation (1-5)
Activities planned for 2022	1. Adoption of the Law on Waste Management	1
Description of implementation and explanation if partial or no implementation	1. Drafting the proposal for the law is in the final stage of receiving positive opinions from the most important state administration authorities. Bearing in mind the above, the plan is to submit draft law next month to the European Commission for their opinion, in order for this very important law to be adopted in the Parliament of Montenegro in the first half of the next year. Representatives of the Ministry of Ecology, Spatial Planning and Urbanism are intensively working on adoption the law concerned as soon as possible in order to apply the measures from the law in practice.	

Results indicators for the priority reform measure 21

Indicator	Baseline	Target achieved in 2022
Reduction of the production and consumption of carrier plastic bags	Estimated 600-700 pieces per inhabitant	-
Increase in recycling rate	10 percent	-

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT POLICY DOCUMENTS

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
Reform measure 1: Strengthening operational capacities of the Employment Office for carrying out services and measures via digitalisation	The Measure is a response to the recognised key structural challenge, which refers to Increasing employment, especially of women and youth, as well as resolving long-term unemployment. Improving the efficiency in the work of institutions through digitalisation is a prerequisite for resolving the structural challenge issue.	The Measure is response to part of a Policy Guidance No 6 of the Ministerial Dialogue.	This measure is aligned with recommendations from the Enlargement package in the segment of the public reform administration.	Implementation of the Measure will contribute to achieving the Millennium Development Goals, and so as follows: SDG 1-No poverty, SDG 8-Decent work and economic growth.	Digitalisation of works contributes to fulfilling the Green Agenda guidelines.	The Measure is a direct response to the Digital Agenda priorities.	The Measure is implemented with the financial support from IPA funds, and so for two projects from the AD IPA 2020: <i>“Development of the new information system of the Montenegro Employment Agency”</i> and the twining project <i>“Strengthening capacities of the Montenegro Employment Agency in terms of Active Labour Market Measures, future participation in the European Social Fund and facilitation of labour force mobility”</i> .
Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro	The Measure is a response to the recognised key structural challenge, which refers to Increasing employment, especially of women and youth, as well as resolving	The Measure is A direct response to part of a the Policy guidance 6 of the Ministerial Dialogue.	The Flagship Initiative 10 of the Economic and Investment Plan for Western Balkans (EIP), states that the governments	Implementation of the Measure will contribute to achieving the Millennium Development Goals, and so as follows:	The Measure will have an indirect impact on fulfilling the objectives of the Green Agenda through the	The Measure will have indirect impact on fulfilling objectives of the Digital Agenda through education of participants in the measure, their training, internship, or employment.	It is planned for the Measure to be implemented with financial support from IPA funds, and so as the



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	the long-term unemployment.		should implement Youth Guarantees in line with the EU Youth Guarantee, therefore the defined measure is directly aligned with EIP implementation.	SDG 1-No poverty, SDG 4- Quality education, SDG 8- Decent work and economic growth.	education of participants in the measure, their training, internship, or employment.		IPA III – Strategic response
Reform measure 3: Developing integrated approach to improving education quality and inclusivity	The Measure is a response to the recognised key structural challenge, which refers to Increasing employment, especially of women and youth, as well as resolving the long-term unemployment.	The Measure is a partial response to the Policy guidance No 6 of the Ministerial Dialogue.	Proposed measure will also support Montenegro to implement criteria for the European Union accession, contained in three EU negotiations chapters: Chapter 19 – Social policy and employment, Chapter 23 – Judiciary and fundamental rights, and Chapter 26 – Education and Culture. The measure will contribute to all key issues from the EU 2021 report in the	n/a	Digital technologies are key drivers for achieving the sustainability goals of the Green Deal in many different sectors. In accordance with the EU framework policy, this measure will contribute to the improvement of the training system in order to equip teachers with the necessary skills	The EU Economic and Investment Plan for the Western Balkans (2020) emphasises that the EU will continue to support the development of evidence- based policies and reforms to address the main challenges and priorities of the education system tackling the governance, funding, quality, equality, and relevance, with a focus on adapting educational systems to digital transformation and knowledge-based economies. Moreover, the urgent need to invest in the digital future was highlighted, stating that “the region also needs to develop and implement its digital	n/a



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			<p>segment dealing with the Chapter 26.</p> <p>“In the next year, Montenegro should especially: intensify reform efforts aimed at improving inclusive education and access to good quality education in general; adopt and start implementing a new strategy on early and pre-school education 2021-2025, in order to improve enrolment in preschool institutions and inclusiveness for all children; A comprehensive analysis of the education system was carried out, the outcome of which may serve as a solid basis for a broad</p>		<p>for digitalisation and technological changes.</p>	<p>education strategies with support for training of teachers, as well as initiatives for online learning and online content”.</p> <p>The EU Digital Education Action Plan (2021 – 2027) presents a vision for improving digital literacy, skills, and capacities at all education and training levels and for all levels of digital skills (from basic to advance). The Action Plan will support the goals of the Skills Agenda in order to ensure that 70 percent of youth 16-74 years old have at least basic digital skills by 2025. It defines measures for high quality and inclusive digital education and training that will require a combination of actions and policies in order to be efficient.</p> <p>The education system digitalisation and the digital skills development were also recognised as a priority measures in the Economic</p>	



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			discussion - with all relevant stakeholders - about the development of a qualitative, budgeted, multi-annual education strategy for sustainable reforms.”			Reform Programme 2022-2024.	
Reform measure 4: Digitalisation of education and development of digital skills	The Measure is response to the challenge of long-term unemployment, especially of women and youth.	The Measure is a partial response to Policy Guidance No 6 of the Ministerial Dialogue.	Funds from the European Investment Bank should have been spent, which were allocated under a loan facility. Currently, the activities are underway to obtain an EIB grant of 6.5 million euro, which is the reason why the procurement of equipment has not started.	The National Sustainable Development Strategy by 2030 also defines requirements for management measures for establishing an information system and the database, being key instruments to enable application of measurable indicators for monitoring progress in implementation of the sustainable		The European Union Digital Education Action Plan 2021-2027 sets two priority areas: Fostering the development of a high-performing digital education ecosystem; and Enhancing digital skills and competencies for digital transformation; The European Union Digital Strategy through objectives: strengthening digital skills of citizens; and protection against cyber threats; The EU Economic and Investment Plan for the Western Balkans (2020,	Actions planned under IPA III: – Contract on services: Improving digital services and digital competencies in the education system in Montenegro;; – Contract on procurement of IT equipment for schools.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
				development goals. Measures of relevance include: 1.3.4 – Improve conditions for lifelong learning, informal education and education of adults with focus on vulnerable groups; and 1.3.4.2 – Expand IT literacy of youth and adults.		through key area – Digital future.	
Reform measure 5: Reform of the social and child protection system based on the Road Map	The Measure is a response to the recognised key structural challenge, which refers to Increasing employment, especially of women and youth, as well as resolving long-term unemployment.	The Measure is a partial response to the Policy guidance No 6 of the Ministerial Dialogue, which amongst others deals with youth employment and social protection reform.	One of the key recommendations for social protection and social inclusion, Chapter 19: Social protection and employment: Montenegro should in particular continue the evidence-based reform of the social protection system based on the Roadmap of Social Protection Reform,	SDG 1 & 10 Objective of the reform is to improve the social inclusion of vulnerable groups in line with their needs and international and EU standards. One of the specific objectives is the transition from institutional accommodation of beneficiaries to care outside of institutions.	Energy poverty is a social dimension of the energy transition that must be addressed for households that cannot afford basic energy services in order to achieve a basic standard of living and inclusion. Effective programs should be designed to address	The measure entails an information system, amongst others, which is a way that the measure is addressing goals of the Digital Agenda for the Western Balkans.	1. Improving the system of recording in the second-instance proceedings for social protection will be financed under the project: Social Welfare Information System - ISSS (e-Social card), financed by the Government of Montenegro (90%) and UNDP (10%); 2.2. Topic of the measure can also be connected with the IPA project that is



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			<p>bearing in mind employment and social inclusion, with focus on combating poverty.</p>	<p>Implementation of this measure will further contribute to achieving the Sustainable Development Goals SDG 1 – World without poverty and SDG 10 – Reduced inequalities.</p> <p>SDG Agenda</p> <p>Social protection is a key instrument to abolish poverty and to provide people access to opportunities for an independent and dignified life, in such a way as to contribute to the realisation of the sustainable development goal 1. National social protection systems can also contribute to the achievement of other sustainable</p>	<p>affordability issues, reduce energy bills, and help the environment. Partners should also be assisted in the implementation of programmes that would address energy poverty in the region.</p>		<p>currently being implemented. The project Strengthening the capacity of the social and child protection system in Montenegro, financed by the EU, aims to ensure the application of social rights and improve the quality of life of current and future beneficiaries of the social and child protection system. The purpose of the project is to: 1) improve the administrative and professional capacities of the social and child protection system at the national level in the area of policy making and quality assurance, and 2) provide support to local self-governments, social</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
				development goals, including food security, good health, decent work, gender equality, reduced inequalities, and cohesive communities.			welfare centres, and local service providers in improving existing and creating innovative mechanisms at the local level to meet the needs of citizens. The initial terms of reference was expanded at the initiative of the Ministry of Labour and Social Welfare to include for several additional activities that use the data-based decision-making approach: 1) conducting a final evaluation of the implementation of the current Montenegro Social and Child Protection Development Strategy 2018-2022; 2) implementation of additional trainings about programmes



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>aimed at reducing poverty; and 3) drafting the document: Directions of changes in the immediate future in social and child protection programmes in Montenegro. The focus of the document Directions of changes in the immediate future in social and child protection programmes in Montenegro, which is being prepared as part of the project for the Ministry of Labour and Social Welfare, will be social-welfare monetary benefits directed at the poor and social protection services. , In addition to the aspects of adequacy and scope, the Direction of changes in social and</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>child protection programmes will also cover expenditures and the sustainability of individual benefits. The project is financed by the EU, and the contracting authority for the implementation of the project is the Directorate for Financing and Contracting EU Funds, Ministry of Labour and Social Welfare. The beneficiary institution is the Ministry of Labour and Social Welfare - Directorate for Programming and Implementation of EU Funds, as the Project Implementation Unit (PIU) of the former Ministry of Labour and Social Welfare. The target groups of the project are:</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>Ministry of Labour and Social Welfare, Institute for Social and Child Protection, Inspectorate for Social and Child Protection, local self-governments, social welfare centres and local service providers. The Project budget is 388,937.50 euro. Duration of the project is 26 months (from September 2019 to November 2021). The project is implemented by Archidata s.r.l. (consulting firm from Milan, Italy).</p> <p>3. Note: The measure deals with the Road Map (coordinated by the Ministry of Labour and Social Welfare and UNICEF), where the emphasis is placed on strengthening social protection and</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>social inclusion both throughout the document and through 15 reforms.</p> <ul style="list-style-type: none"> Roadmap for the reform of the social and child protection system in Montenegro: The main donor is UNICEF, which participates with 187,017.57 euro. The national contribution (Government of Montenegro) is 29,466.66 euro, with a total of 216,484.23 euro; Montenegro is in the process of joining the European Union and one of the core objectives of its development agenda is that no



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>one is left behind. Previous assessments pointed to the need to reconsider the coverage and use of social protection measures aimed at accelerating the poverty reduction. At the request of the Ministry of Labour and Social Welfare, the UNICEF representative office in Montenegro conducted a study to determine the scope of the terms of reference in 2018, and then engaged the Economic Policy</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>Research Institute (EPRI) in 2019. EPRI conducted an analysis of the social protection system in Montenegro using the internationally recognised Core Diagnostic Instrument (CODI) for the analysis of the social protection system, which was developed within the framework of ISPA (Interagency Social protection Assessment);</p> <ul style="list-style-type: none"> • Based on the discussions from the workshops and the contribution of relevant



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							stakeholders, the draft Roadmap document was confirmed at the meeting of the Steering Committee on 28 May 2021.
Reform measure 6: Digitalisation of the healthcare system in Montenegro	The Measure is a response to the recognised key structural challenge, which refers to Increasing employment, especially of women and youth, as well as resolving long-term unemployment.	Objective of the measure is to improve and upgrade the existing and introduce new healthcare services that could be exercised by using information and communication technologies.	/	The Reform measure will enable better health and well-being for all citizens of Montenegro, in line with SDG 3. It will have a particular impact on target 3.8, as will enable better access to healthcare services, reduce waiting lists, and increase patient satisfaction.	https://ec.europa.eu/health/eu-health-policy_en https://ec.europa.eu/health/ehealth-digital-health-and-care_en https://ec.europa.eu/health/stat-e-health-eu_en https://digital-strategy.ec.europa.eu/en/library/green-paper-mobile-health-mhealth	https://digital-strategy.ec.europa.eu/en/policies/europes-digital-decade	Through its strategic response for the IPA III programming period 2021-2027, the Ministry of Health proposed digitalisation of the healthcare system as one of the projects for financing in the amount of 3.5 million euro, which would enable continuity and significantly contribute to the implementation of all planned activities.
Reform measure 7: Establishing a full electronic	The Measure is a response to the recognised key structural challenge, which refers to	The Measure is a response to the Policy guidance No 4, as well as No 5 of the Ministerial Dialogue in	n/a	At this moment, it is not recognised under the Measure.	At this moment, it is not recognised under the Measure.	It is expected that the implementation of the Measure will contribute to achieving the objectives recognised in the Digital	At this moment, it is not recognised under the Measure.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
registration of enterprises	strengthening the regulatory environment.	the segment dealing with digitalisation of the public sector and development of transactional electronic services for e-government as a priority, in order to accelerate and improve economic recovery.				Agenda for the Western Balkans.	
Reform measure 8: Strengthening the national innovation and research ecosystem	The European Commission had three policy guidelines of importance for the structural reforms, which do not pertain directly to the area of Research, development and innovation. Indirectly, all reform activities in the field of Innovation and science contribute to a stronger regulatory environment.	In the ERP Guidance Notes 2022, structural reforms refer to the area of Research, development and innovation, and in this part it is necessary to describe public policies directly affecting the capacity of the economy/businesses to absorb technology and innovate (e.g. public investments and incentives for private investments in research and development, SMART specialisation and	Chapter 25: Science and Research, which also includes innovation, was temporarily closed in 2012, thus the reform activities in that regard deal with the strengthening of legislative, strategic, and institutional framework, and the measure is harmonised in that respect.	n/a	One of the crucial areas in the strategic documents, which constitute the basis for further development of the proposed reform measure is Energy and Sustainable Environment. To that end, all the institutional and programme actions established by the reform measure also	The Western Balkans is right now defining the development of research and innovation, while strategic documents, which constitute basis for further development of the reform measure, contain a section on information and communication technologies and recognise the Digital Transformation being a representative programme.	INNOVATION: IPA 2020: Technical Assistance for Supporting the Implementation of Strategy for Smart Specialization (TASIS) started with implementation from January 2022 Grant scheme Support for the innovation project in S3 areas - under preparation IPA III WINDOW 4: Competitiveness and inclusive growth Thematic priority 2: Private sector



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
		inter-linkages between research institutions and businesses, innovation-specific support to SMEs, etc.). Key obstacles should be defined in a given reform area (including COVID-19 and Russia's aggression on Ukraine) and their impact on competitiveness and economic growth, transition, low-carbon and circular economy, and digital transformation.			refer to this area which addresses the green response.		development, trade, research and innovation Programming year 2023 Action No. 1 S3 Implementation Framework and Innovation Fund; Action No. 2: Innovation programmes and projects (S3 clusters, acceleration programme, circular economy); Action No. 3. Innovation infrastructure SCIENCE AND RESEARCH: Sector "Education, Employment and Social Policies" - SOPEES 2015-2017 Collaborative grant scheme for innovative project ideas -13 grant projects in the total amount of 952,669.46 euro are being implemented. Finalization of all project activities is expected in the fourth quarter of 2022. IPA II 2020



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>Grant scheme - Scientific potential in the service of innovation: Total budget: 1,176,470.60 euro</p> <p>The specific objective of this Grant Scheme is to improve cooperation between academia and the private sector in line with the priorities of the Smart Specialization Strategy (2019-2024) through the mobility of young researchers.</p>
<p>Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills</p>	<p>This measure is a response to the need to strengthen digital skills aiming at better quality and more sustained digitalisation of the public administration and digital transformation of society. To that end, the measure includes activities of strengthening the capacities of target groups, in order to respond to the challenges identified in this area.</p>	<p>The Measure is a response to the Policy guidance No 4 of the Ministerial Dialogue.</p>	<p>This Measure is linked with the public administration reform policy and the information society policy (Chapter 10), and in connection with the EC 2021 policy guidance, certain measures and activities planned are compatible</p>	<p>Implementation of the Measure contributes to achieving the following sustainable development goals: Quality education, Gender equality, Decent work and economic growth, and Industry, innovation and infrastructure.</p>	<p>Link between the Measure and the EU Green Agenda is in giving importance to the protection and sustainable use of resources and better human health. In this area the education is most needed and potentially the most useful for</p>	<p>Digitalisation of the processes in Montenegro will be one of the key priorities in the post-COVID recovery, evidenced by also a large number of reforms in the Programme covering this area, and will take place in line with the Digital Agenda for the Western Balkans. The Digital Agenda highlights that are also important education activities and awareness-raising campaigns for the broader public, and that the</p>	<p>Currently not applicable</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			with the expected results and impact from implementing the Digital Academy.		the economy, the society and the environment.	digital era should be about empowerment and emancipation, while skills should not be an obstacle to accessing this potential.	
Reform measure 10: Strengthening cyber resilience	Proposed measure is recognised as being of strategic importance for the development of Montenegro in this area.	The Measure is a partial response to the Policy guidance No 4 of the Ministerial Dialogue.	The Reform measure does not directly address some of the recommendations from the Enlargement package 2021, but certainly contributes to the development of the information society in Montenegro.	Proposed Reform measure could be linked with goal 8 – Decent work and economic growth and Goal 9 – Industry, innovation and infrastructure.	The Reform measure does not affect directly the defined objectives of the Green Agenda for the Western Balkans.	The Reform measure directly refers to the objective <i>Strengthening the digital economy and society</i> recognised in the Digital Agenda for the Western Balkans.	Currently not applicable
Reform measure 11: Improving infrastructure for broadband internet access and introducing next-generation networks	The Measure is a response to the recognised key structural challenge, which refers to Strengthening the regulatory environment. The Measure is focused on the adoption and implementation of the Law on Electronic Communications (aligned in with Directive (EU) 2018/1972), the national	The Measure is a partial response to Policy guidance No 4 of the Ministerial Dialogue.	Montenegro continues to be moderately prepared in the area of the Information society and media. Limited progress was achieved during the reporting period, in particular in	Digital technologies are crucial for the achievement of the sustainability goals of the Green Deal in many different sectors.	n/a	The Digital Agenda for the Western Balkans includes a plan for smoother lowering of roaming charges, support for introducing broadband access in the region, and development of e-government, e-Health, and digital skills.	n/a



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	plan for the development of the broadband access and Strategy for 5G Networks Development. The reform is relevant and undoubtedly will contribute to the development of a competitive and modern real sector. A detailed description of expected results on competitiveness, society, and labour is recommended.		electronic communications and information technology.				
Reform measure 12: Improving management of business undertakings in majority state ownership	The Measure is a response to the recognised key structural challenge, which refers to Strengthening the regulatory environment. Given that operations of business undertakings in majority state ownership have so far demonstrated numerous differences and problems in the segments that are important for the State, and which primarily deal with the financial condition of enterprises, management method, performance of oversight and control over them, we	The Measure is a partial response to the Policy guidance No 4, which deals with the obligation to adopt a strategic plan for <i>Montenegro Works</i> LLC and perform an analysis of Montenegrin state-owned enterprises to prepare a proposal for the optimal portfolio of state ownership. Given that the company was liquidated, with establishment of an	Even though the Enlargement Package 2022 does not include direct recommendations related to this measure, it states that the Western Balkans region faces difficulties, which prevent the countries situated in this region to achieve full economic potential. Inadequate	Implementation of the Measure will contribute to the achievement of the following millennium development goals: SDG8 – Promote inclusive and sustainable economic growth, full and productive employment, and decent work for all; SDG9 - Build resilient infrastructure, promote	n/a	n/a	As for the IPA – Reform Facility, we would like to note that at this time we do not have information when the support to the reform of the management of business undertakings in majority state ownership at the central and local level will be available from this instrument.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	<p>believe that the planned solutions will lead to improvements in operations, predominantly through the transformation of business processes, but also through cost optimisation and more efficient use of the existing resources.</p> <p>Moreover, since the existing regulatory environment is not business-oriented and it halts a more dynamic development of state enterprises, the efforts should be made to improve the management of business undertakings in majority state ownership will contribute to improving institutional and regulatory framework in Montenegro, which is one of the critical challenges that the European Commission recognised in the new Assessment of the Montenegrin economy.</p>	<p>inter-sectoral working group, the Fiscal Council and improvement of the organisational model, the intention is to establish an adequate regulatory framework and financial controls in the area of operations of business undertakings in majority state ownership, and to ensure continuity in performing activities in line with adequate procedures.</p>	<p>management of state-owned enterprises, and insufficiently utilised potential which these enterprises have, with insufficient financial control are only some of the problems which impact the economy of the country and which may be mitigated by this measure.</p>	<p>sustainable industrialisation and foster innovation;</p>			
Reform measure 13: Facilitation of trade in goods and services through	<p>The Measure is response to the recognised key structural challenge, which refers to</p>	<p>The Measure is a partial response to the Policy guidance No 4 of the Ministerial</p>	<p>Implementation of the Measure is in direct correlation with identified</p>	<p>The Measure is directly aligned with the identified</p>	<p>The Reform measure affects the defined objectives of the</p>	<p>The Reform measure is aligned with the Digital Agenda for the Western Balkans.</p>	<p>Funds for the implementation of the Reform measure will be provided from the EU</p>



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
implementation of CEFTA Additional Protocols 5, 6 and 7	Strengthening the regulatory environment.	Dialogue.	priorities in the trade policy, both at the regional and on the international level, and the activities envisaged for implementation under this reform measures are identified as priority in the context the European Commission recommendations.	priorities of SDGs 2030.	Green Agenda for the Western Balkans.		support through the Instrument of Pre- accession Assistance (IPA Funds). Under the project <i>Enhancing capacities of institutions for harmonisation and implementation of EU Acquis communautaire in the field of competitiveness and innovation</i> (IPA/2022/433-729) a three-year support for establishment and operationalisation of the Point of Single Contact for services.
Reform measure 14: Strengthening mechanisms for the formalisation of informal economy	The Measure is a response to the recognised key structural challenge, which refers to formalisation of the economy. With reducing the level of the informal sector, conditions are created to increase employment by converting informal flows into the formal flows of operations, as well as better information of the public and larger visibility of work of	Reform measure is a partial response to the Policy guidance No 5 of the Ministerial Dialogue.	Even though the Enlargement Package 2022 does not include directly recommendations related to this measure, it states that the Western Balkans region continuously faces difficulties, which prevent the countries situated	This reform measure is aligned with Goal 9 (SDG 2020-2030) – Industry, Innovation and Infrastructure. In addition to suppressing the informal economy and ensuring greater transparency in tax collection, the aim of introduction of	n/a	This Measure is aligned with the Digital Agenda for the Western Balkans. One of the core objectives of this Agenda is digitalisation of industry in the Western Balkans in order to ensure that all sectors benefit from digital innovation.	n/a



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	inspectors in the field. A part of the measure, which refers to establishment of the Integrated Revenue Management System (IRMS), aims to increase transparency of the tax payment process, thus reducing the informal economy.		in this region to achieve full economic potential. One of these difficulties is the problem with informal economy and this reform measure seeks to reduce it.	the Integrated Revenue Management System (IRMS) is also to digitalise the Montenegrin tax system.			
Reform measure 15: Sustainable green tourism	The Measure is a response to one of the identified key structural challenges – well-being economy.	Enhancing the sustainable green tourism product.	The Measure is aligned with the Green Agenda and sustainable component of operations.	This reform measure is aligned with the Goals 8 and 12 (SDG 2020-2030) – Decent work and economic growth, and Responsible consumption and production.	Development of the tourism offer based on nature and well-being economy.	Implementing activities based on technological advances and innovation.	n/a
Reform measure 16: Investments aimed at the development of agriculture and rural areas	Montenegro is a net food importer, importing an average EUR 500 million annually, and exporting only EUR 50 million. Agricultural exports to the EU remain largely untapped due to the limited volume of agricultural production and the need to meet EU veterinary and health requirements. Agricultural	The proposed Measure has a direct impact on policies increasing diversification and complexity of the economy (e.g. linking agriculture and industrial production, as well as services with the global value chains to enhance	The Measure is aligned with enlargement policies from Chapters 11 and 12.	The Measure is trying to fulfil the following SDGs: 2 – Zero hunger, by producing a sufficient quantity of safe, good quality and easily accessible food; 9 – Industry, innovation and infrastructure, through innovation	The Measure refers to the implementation of measures of IPARD II and IPARD III programmes. The IPARD III programme is written in line with the EU	The envisaged investments serve to provide incentives for investments enabling a stronger impact of digital technologies in the primary production and placement of agricultural products. Furthermore, the measure of investments in infrastructure allocated support for new technologies, which are primarily dealing with the	The Measure consists of two IPA programmes in the area of agriculture and rural development.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	production mainly consists of small, often family farms with high production costs, limited organisation and lack of appropriate equipment. The development of ecological agriculture, local and regional brands and food processing are among the priorities of the Smart Specialisation Strategy.	export).		in production and improving rural infrastructure, all aimed to bring rural areas closer to the market; and 15 – Life on land, through sustainable use of natural resources.	recommendation , and a separate chapter deals with the alignment of the Programme with the Green Deal.	introduction of fast communication technologies.	
Reform measure 17: Financial support to households aimed at applying energy efficiency measures	Policy guidance of the European Commission did not address this measure. The Measure will have a positive impact on increasing energy efficiency and using renewable energy sources, poverty reduction and preserving the health of citizens, as well as on reducing greenhouse gasses emissions.	The Measure is carried forward from the previous ERP, along with certain improvements, acknowledging the ERP Guidance Note.	Implementation of the Measure ensures direct support for the promotion of high-efficiency technologies and solutions in line with requirements of the updated EU framework for the energy efficiency area.	Implementation of the Measure contributes to the achievement of the UN Sustainable Development Goals, especially of the SDG 7 (Ensure access to affordable, reliable, sustainable, and modern energy for all).	Implementation of the Measure contributes to achieving objectives of the European Green Deal and the Green Agenda for the Western Balkans. The Measure covers activities envisaged by the Economic and Investment Plan for the Western Balkans under the initiative Renovation Wave.	This Measure is not directly linked with the European Digital Agenda and the Digital Agenda for the Western Balkans.	There are no projects under IPA III supporting this measure.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products	The Measure is a response to the challenges of supporting the green transition.	n/a	n/a	The Measure is a direct contribution to achievement of SDG 12, by reducing waste quantity, but also through product redesign and their reuse, via recycled materials. The Measure has an indirect impact on Goals 11 and 14, in the context of reducing waste polluting cities, seas and oceans.	This Measure is directly addressing objectives of the Green Deal, or the Green Agenda for the Western Balkans dealing with the circular economy.	n/a	The Measure is financed under IPA 2017.
Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje	Increasing competitiveness creates grounds for expanding volume of the transit transport reducing the recovery time, and needed procedures at the border-crossing points. The Measure could be seen also as it represents an activity to remove obstacles in operation while enabling unhindered movement of people and goods/	The measure is treated under the area <i>Transport Market Reform</i> , which requires continuous efforts in order to achieve proclaimed EU objectives and standards in the transport sector.	The Measure is aligned with incentives for the common economic space.	The Measure could be linked with the United National Sustainable Development Goal 9 - Industry, innovation and infrastructure, since it is directed towards better quality inter-city infrastructure serving the economic development and improving the standard of living,	The Measure is aligned with the Sofia Declaration on the Green Agenda for the Western Balkans, where one of the objective is to shift traffic from road to more environmentally friendly modes (which the railway is considered to be), and	n/a	The Measure if financed under IPA 2017.



Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2022	Enlargement package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
				and in doing so the same objective covers development of infrastructure untilm2030 by adopting more of clean and environmentally acceptable technologies, whereby the railway is considered environmentally acceptable solution, which is why it is promoted against other modes of transport.	supports implementation of the Southeast Europe Transport Community Action Plan on Transport Facilitation		



ANNEX 3: EXTERNAL CONTRIBUTION TO ERP 2023-2025

Area which the comment refers to	Comment received (including date when it was received, format and main content)	Stakeholder who sent the comment/contribution (including institution, contact person and other contact details) /	Status of the comment (accepted/not accepted)	Comment (reasoning for acceptance/non-acceptance)
<p>General comments</p>	<p>-Comment received on 29 December 2022</p> <p>Main content:</p> <p>Since activities are being planned for the "development of the strategic framework for the management of SOEs", it is important to keep in mind provisions of the Directive of the European Parliament, adopted on 22 November 2022, so called Women on Boards Directive⁵⁸ which sets out a more balanced participation of women and men in boards of directors and in managerial positions with the aim of achieving minimum 30 percent representation of women by 2025 and minimum 40 percent by 2030, through the adoption of new policies and improvement of legal framework. This is also directly</p>	<p>Stakeholder: Centre for Women’s Rights Contact person: Maja Raičević Contact details: Bokeška 20, Podgorica 81000, Montenegro T +382 20 664 193 E maja.raicevic@t-com.me W www.womensrightscenter.org</p>	<p>The comment/proposal was mainly accepted.</p>	<p>Instead of stating that the measure is gender neutral, the document was modified in this section by reformulating the existing statement as follows: “In terms of gender equality, the measure will affect both, women and men.”</p> <p>In the coming period, the Government of Montenegro will strive to develop an adequate strategic framework for the management of SOEs in the majority ownership of Montenegro in accordance</p>

⁵⁸ For more details visit: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52012PC0614>



	<p>related to the reform measure no. 13 in the document. In analysis of the conditions in which these SOEs operate, it is necessary to insist on amending the law by expanding competence of the Administrative Inspectorate to these SOEs as well. At the moment, a huge share of capacities of the Administrative Directorate is “consumed” on the reports of labour rights infringements of employees in these SOEs that must be handled as a priority, which reduces presence of this inspection in the real sector. In detailed analyses which we performed with the Administration for Inspection Affairs we concluded that reported cases referred to the minor infringements of labour rights (such as unpaid overtime work) which are certainly much less serious than the infringements present in the informal economy in the private sector which also fall within competence of the Administration.</p> <p>Chapter 3.1.3 which outlines the data on earnings and number of employees at the annual level also needs to indicate that there is a lack of gender segregated data on comparative earnings of men and women (which would show whether there is a gender pay gap and how large it is). Moreover, such information needs to be supplemented with gender classified data of Monstat on the number of employees.</p>			<p>with the OECD Guidelines for corporate governance in state-owned enterprises (OECD, 2015).</p> <p>The plan is to set up an interdepartmental working group in 2023 that will analyse regulatory framework governing operations of the SOEs and propose amendments to the existing norms. The comments mentioned here will be taken into consideration in analysing this area and in the search for the most favourable solution for its improvement.</p> <p>In budgeting of the measures, the Ministry of Agriculture, Forestry and Water Management took into consideration gender budgeting.</p> <p>As for the reform measure 17 – Investments aimed at the development of agriculture and rural areas, it relies on IPARD II and IPARD III programme which</p>
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	<p>'Investments in energy transition will remain strong in the next medium-term period, especially in the area of renewable energy sources'. It is necessary to explain how implementation of these measures will affect position of women and men, especially in socially and economically vulnerable categories and particularly in the north of the country. Energy transition measures must be synchronised with estimates of the scope of energy poverty in the country for which there are currently no official data. Comment regarding reform measure 18: Financial assistance to the households for the purpose of applying energy efficiency measures, which is estimated to be gender neutral. If we consider that statistics show that women are at a greater risk of poverty than men (they are less employed, they work for less pay for equal work, over 90 percent of them do unpaid work at home etc.), that women are more often present in single-person and single-parent families, that we lack data on women in the north of the country and on the conditions in which they live, then the conclusion that this measure is gender neutral is premature, if not unfounded.</p> <p>Planned policy measures will further accelerate green transition and they relate to the development of sustainable tourism and green accommodation capacities, investments in the development of</p>			<p>contain chapters that elaborate the position of women, environmental impact, those actively engaged in agriculture etc.</p>
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	<p>agriculture and rural areas and greater incentives for increasing energy efficiency⁷. Will there be a special programme targeted at unemployed women from the north?</p> <p>'Growth of the agriculture sector in the period 2023-2025 was projected at 8 percent as a result of increased investments and allocated funds in the agricultural budget'. According to the Proposal for the Budget Law, budget of the Ministry of Agriculture, Forestry and Water Management totals 52,393,562.78 euro. Some of the special budget programmes are: support to agriculture, social transfers to the rural population; support for rural development, measures to strengthen the competitiveness of food producers; measures to improve quality of life and expand economic activities in rural areas. In all these segments, it is extremely important to introduce gender-sensitive budgeting and monitoring of how these funds are spent. In addition, these measures need to be linked to the suppression of the informal economy since there are indications that a large number of women work on farms in highly exploitative conditions, including forced child labour. The comment also concerns reform measure no. 17: Investments aimed at the development of agriculture and rural areas.</p> <p>In a set of several reform measures targeting employment policies with a strong</p>			<p>As for the development of rural tourism, a part of last year's activity was related to rewarding, among others, the best housewife in the rural household. In this way, women from the north are also encouraged to participate in hospitality activities.</p> <p>In the coming period, the possibility of possibly developing a separate programme for the unemployed women from the north will be considered since documents with the action plans for 2023 are currently being drafted.</p> <p>The ERP 2022-2024 included the reform measure that set</p>
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	<p>focus on women, it is very important to recognise the problem of unpaid domestic work which is in 92 percent of cases performed by women in Montenegro and whose value was estimated at 122 million during the three months of the COVID 19 pandemic⁵⁹. Formalisation of the unpaid work of (predominantly) able-bodied women, especially by transforming it into paid care services, can essentially contribute to growth thus following the example of developed countries. This primarily includes the obligation to invest in care and nursing services and this need was particularly highlighted during the pandemic when women were disproportionately affected by the closure of kindergartens and centres for the care for people with disabilities. This further entails the need to invest in traffic infrastructure and projects for which assessments of the impact on lives of men and women will be made beforehand (in accordance with legal obligation). Ultimately, this document must offer analysis of the causes of obstacles faced by the unemployed women in the domestic market. This analysis should constitute the basis for the essential impact of economic reforms on the quality of life of women and men in the country.</p>			<p>out adoption of amendments to the Labour Law in 2022. Having in mind complexity of the matter and the need to reach agreement with social partners, adoption of the Law was rescheduled to 2024. Amendments to the law seek to harmonise the law with European Union legislation, i.e. with the directives on establishing a balance between the private and business life of parents and care providers, as well as with the directive on transparent and predictable working conditions. Establishment of a balance between private and business life will have impact on equal distribution of the unpaid housework.</p> <p>The model for identifying children who do not attend school is applicable to all children in the system, including Roma and Egyptian children. The main problem is the fact that not</p>
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⁵⁹2020 UNDP survey may be found on link: <https://www.undp.org/sites/g/files/zskgke326/files/2022-06/lzvjestaj%2Bdoprinosa%2Bzena%2Bekonomiji%2BCG%2BMNE%2BA4%2BFINAL.pdf>



	<p>Regarding reform measure no. 4: Digitalisation of education and development of digital skills: the plan is to create a module in the information system of the education sector in 2023 for identification of the children who do not attend school in Montenegro and who reside illegally in Montenegro. This measure is particularly important for Roma and Egyptian children and needs to be further elaborated so as to connect all the links of the system: from the records on Roma children who do not attend compulsory primary education to the competence for actions by institutions that should ensure eradication of this practice. In order to respond effectively to the problem, local governments need to be invited to get involved through affirmative and specially designed measures (such as transportation to school provided for these children and free textbooks and other teaching aids). In addition, it is necessary to constantly monitor and report on the success of the performed activities. These measures should supplement the section related to the expected impact on social goals such as employment, poverty alleviation, equality, gender equality and access to health care.</p> <p>The document states the expected results of implementation of the reform measure no. 5 are: Reform of the social and child protection system based on the roadmap</p>			<p>all Roma and Egyptian children have unique citizen number (JMBG) which is why this model cannot guarantee that every child will be recognised. The model will perform a cross-reference of the data on children of a certain age contained in the Central Population Register and data of the Information System of the education sector. If some Roma and Egyptian children are not registered with the Central Population Register they will not be recognised by the system. As for transportation, free textbooks and other, this already exists in the system in the form of models of the support for this population group. This activity has an impact on reducing poverty, as well as other social problems: informal economy, crime, etc.</p>
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	<p>has no impact on gender. We think that such a statement is not based on reliable figures from the records of the social work centres. For example, according to the available data of the Social Work Centre of Podgorica⁶⁰, the Department for Material Benefits and Legal Affairs issued a total of 33,505 decisions in 2021. However, these data are not classified by gender which is why it is not possible to make a reliable conclusion on the position of women in the social protection system. In this regard, and first of all, it is necessary to start collecting data on all types of services provided by the social work centres that are classified by gender of the rights holder and only then can the impact of the policy on gender equality be assessed. In addition, there is no data on how social assistance is distributed within the family and whether all family members benefit equally from the state social assistance. This is important if we take into account prevailing gender roles and distribution of power in Montenegrin families, including the custom that men make decisions about how the household budget is spent.</p> <p>There is no impact assessment of the measure no. 6: Digitalisation of the health system in Montenegro to ensure gender</p>			
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⁶⁰ For more details visit: <https://www.csrcg.me/images/Podgorica/izvjestaj%20o%20radu%20za%202021.%20godinu.pdf>



	<p>equality. In fact, there is no statistical data on the health of men and women in Montenegro⁶¹, (e.g. on the prevalence of diseases) based on which indicators would be designed to describe the current situation and the disproportionate impact of climate change on women and men. It is important to consider how the measure contributes to accessibility of health services to the elderly, Roma and Egyptian women, women in rural areas, women with disabilities, LBT women, etc.</p> <p>We believe that the measure no. 8: Strengthening national innovation and research ecosystem cannot be gender neutral. On the contrary, it is necessary to clearly indicate the obligation to take gender parity into account, particularly when awarding scholarships for scientific and doctoral research having in mind MONSTAT' s data according to which the number of women enrolled in tertiary education is traditionally higher.⁶²</p> <p>Even though the measure no. 12: Diversification of tourism product was transferred from the previous programme and although it is complementary with the 'main Government priorities', the fact that documents that are strategically important</p>			
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⁶¹ Information taken over from the document which the Gender Equality Commission, of which the Centre for Women' s Rights is a member, sent to the Public Health Institute in December 2021.

⁶² Statistics to be found on the link: <https://monstat.org/uploads/files/publikacije/Žene%20i%20muškarci%20u%20Crnoj%20Gori.pdf>



	<p>for development of the country expired two years ago and that new ones have not been adopted raises concern. We primarily refer to the Strategy of Regional Development of Montenegro 2014-2020 and Directions of Development of Montenegro 2018-2021. Comprehensive economic reforms are impossible without these strategies and without a precise and targeted long-term development of the country which is why these documents should be adopted within the shortest time possible.</p> <p>Regarding reform measure no. 15. Reinforcement of mechanisms for the formalisation of the informal economy requires <i>ex-ante</i> gender analysis to be performed, which did not happen. Montenegrin Employers Federation recently initiated the establishment of the committee for hairdressing and beautician services and for trade in clothes and shoes; these activities are deemed to be significantly affected by informal economy, while the share of women in them is bigger than that of men. Although there is a lack of official, gender-disaggregated data on the categories of population that are most involved in informal employment, according to the European Commission's assessment women are one of the most vulnerable groups on the labour market⁶³.</p>			<p>The part of the text that concerns development documents adopted by the government has been updated.</p>
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⁶³ See European Commission Country Report, https://neighbourhoodenlargement.ec.europa.eu/montenegro-report-2022_en



	<p>For that reason, is important to recognise and assess the impact of measures to suppress informal employment from gender perspective.</p> <p>Regarding reform measure no. 15: Improvement of cross-border crossings - opening of the joint railway border station Bijelo Polje, we believe that its impact on gender equality and access to health care, which was estimated to be non-existent, should be re-evaluated. Any investment in transport infrastructure that will contribute to the connection of insufficiently accessible and remote places directly affects the quality of life of men and women living in those places. Regional data reveal that only 30 percent of women have driver's licenses, while that number declines significantly in rural and less developed places. Women are therefore forced to use public transport services, often for basic life needs (going shopping, visiting a doctor), not to mention access to courts and social work centres and other forms of protection.</p> <p>Finally, chapter 5.3. Summary of Reform Measures is completely gender-neutral and concisely outlines the main goals and expected results of the ERP 2023-2025. Therefore, it should be thoroughly revised so as to include, amongst other things, assessments of the impact on gender equality. This is important because synthesis of the entire document must</p>			
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	<p>provide concise and precise information to all the stakeholders involved in the process of adoption and reporting on the document.</p>			
	<p>Main content:</p> <p>Adding another reform measure entitled "Resolving environmental hot spot – red mud pond" located in territory of the Capital City of Podgorica, in accordance with information of the interdepartmental working group which is at the final stage (https://www.gov.me/clanak/rjesavanje-crne-ekoloske-tacke-bazena-crvenog-mulja).</p> <p>Priorities that may be added to certain parts of measures contained in draft ERP (http://skupstina.podgorica.me/wp-content/uploads/2020/02/3.-Prijedlog-Strateškog-plana-razvoja-Glavnog-grad-Podgorice-za-period-2020.-2025.-godine.docx):</p> <p>Priority 1.5: Strategic Development Plan – Construction of the centre for integration of the persons with disabilities into labour market – Zabjelo (<i>Reform measure no. 5 - Reform of the social and child protection system based on the Roadmap</i>), Reconstruction of the youth centre in Gornja Gorica (<i>Reform measure no. 5 - Reform of the social and child protection system based on the roadmap</i>); Priority 2.2: Development of e-services (<i>Reform</i></p>	<p>Stakeholder: Capital City of Podgorica Contact person: Marjan Junčaj Contact details: Njegoševa 13, 81000 Podgorica T +382 20 665 046 E marjan.juncaj@podgorica.me W www.podgorica.me</p>	<p>The comment/proposal is not accepted.</p>	<p>The proposal is rejected since rehabilitation of the red mud pool cannot start without resolving property-legal issues first, and given the current dynamics of negotiations on this matter it is very likely that this issue will not be resolved even during the next year; therefore, we are not sure whether it is realistic to expect that everything will be finalised during the period covered by ERP.</p> <p>Since location with the red mud pond at KAP is privately owned (WEG Kolektor Berane LLC) and since the owner did not express interest in using the loan funds for the purpose of rehabilitation, which limits the ability of the competent authorities to act, the possibility of starting expropriation procedure was also considered in order to return the site concerned</p>



	<p><i>measure no. 9 – Improving digitalisation of public administration through the development and enhancement of digital skills); Priority 2.3: Establishment of Agricultural Business Centre in Zeta (Reform measure no. 17- Investments aimed at the development of agriculture and rural areas); Priority 2.4: Development of the planning documents for forests and forest land, development of feasibility study for the plantation cultivation of poplar and agroforestry stimulation (Reform measure no. 17- Investments aimed at the development of agriculture and rural areas); Priority 3.4: Glamping (Reform measure no. 17 – Investments aimed at the development of agriculture and rural areas); Priority 3.4; Glamping (Reform measure no. 16 – Development of green types of accommodation capacities and services and no. 17- Investments aimed at the development of agriculture and rural areas).</i></p>			<p>to the state ownership which is a prerequisite for implementation of the above-mentioned models for solving the problem and rehabilitating the red mud pond.</p> <p>In November 2017, the Government of Montenegro established the Public Institution Centre for Professional Rehabilitation - Podgorica. In fact, the facility called Centre for Integration of Persons with Disabilities was renamed to Public Institution Centre for Professional Rehabilitation – Podgorica.</p> <p>With regard to the reform measure 17 – Investments aimed at the development of agriculture and rural areas, it relies on IPARD II and IPARD III programme, which contain clearly specified assistance measures that are programmed in line with EU recommendations.</p> <p>Programmes were approved by the EU and the funds may be used exclusively for the</p>
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				costs envisaged by these programmes.
	<p>- Comment received on 29 December 2022</p> <p>Main content:</p> <p>Improvement and creation of new policies will result in a large number of citizens and workers in Montenegro being able to resolve their housing status, through measures and benefits created by the state for that purpose, which otherwise they would not be able to do in the market conditions. We emphasise that only 3 percent of young people have resolved their housing status, while the majority of them aged 30 and over still live with their parents. We are the country where employees, even after 40 years of service, are not able to resolve their housing status, the country where the privileged enjoy numerous benefits and citizens remain trapped in poverty, discouraged that things will change for them and for the generations to come. For that reason, we propose that the programme includes the initiative which the</p>	<p>Stakeholder: Union of Free Trade Unions of Montenegro Contact person: Marko Subotić Contact details: Avda Međedovića Street no. 108, Stari Aerodrom, 81000 Podgorica T +38220232315 E usscg@usscg.me W www.usscg.me</p>	<p>The comment/proposal is not accepted.</p>	<p>Change of VAT rate from 21 percent to 17 percent would have negative impact on budget revenues planned for 2023, which would also have direct negative impact on the financing of budget beneficiaries.</p> <p>It is important to mention that the general VAT rate is one of the lowest compared to the region and EU countries.</p> <p>Moreover, there are no plans to change general VAT rate; however, activities will certainly be undertaken to further harmonise the existing VAT legislation with the Council Directive 2006/112/EC on the</p>



	<p>Confederation of Free Trade Unions of Montenegro has been proposing for years, and it concerns the resolution of this issue by offering specific ways to overcome the existing problems whereby the state would start constructing social housing which would be offered to citizens for rent at affordable prices, and the proceeds earned from the rent would be used for maintenance of the existing and construction of the new housing units that would be owned by the state.</p> <p>Initiate institutional mechanisms for comprehensive control and formalisation of employment of the persons employed informally (according to the unofficial data, approximately 40,000 persons work informally in our country). Therefore, competent institutions need to take specific, rather than declarative, action to bring a part of this population into a legal employment relationship, which requires a dedicated and well-designed comprehensive action at the level of government agencies. Besides filling up the budget, benefits for the society would be massive and multiple, such as creating conditions for dignified work, eliminating unfair competition in favour of socially responsible companies and entrepreneurs who comply with their legal obligations towards society.</p>			<p>common system of value added tax, particularly in respect of tax legislation that is contrary to the EU standards, and in this way the national tax legislation will be further harmonised in line with dynamics envisaged for the in the negotiating position for joining the EU.</p> <p>Furthermore, when it comes to changing, i.e. increasing corporate tax rate for 2023, there are no plans to change corporate tax rate because such increase in corporate tax rate would have direct negative impact on the dynamics of attracting domestic and especially foreign investments, and in principle that would have negative impact on the economic sector at the moment given the economic situation at the local and global level.</p>
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	<p>Restore VAT rate to the level of 2012 when it was 17 percent. In the period 2013-2017, VAT rate increased as high as twice and despite the increase in revenue generated on that basis, the state deficit remained high.</p> <p>Increase corporate profit tax for everyone or only for the profits exceeding a certain amount (our corporate profit tax is progressive and amounts to 9-15 percent, it is currently one of the lowest in Europe and there is enough room to increase it). In the EU and neighbouring countries, this tax is two or even three times higher than in our country. On the other hand, low corporate profit tax did not attract investments as expected, especially not high-quality investments for which corporate profit tax is crucial for investing in a country;</p> <p>Reduce import of foodstuffs, enable guaranteed purchase from domestic farmers and livestock breeders thus encouraging development of these economic sectors, but also give chance to the domestic healthy farming. Agricultural land owned by the state which is not being used should be offered to agricultural entrepreneurs, while quality incentive loans should be granted and purchase of their produce should be guaranteed. Moreover, we import huge quantities of water even though we are one of the countries in Europe with the richest water potential in</p>			
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	<p>terms of the number of sources of drinking water in the entire territory of the country. The similar goes for the import of meat, fruit and vegetables.</p> <p>Increase the amount of founding contribution when setting up limited liability company and increase liability of the founders when liquidating it (when setting up a company, it should be emphasised that in the event of liquidation the founders are obligated to use a part of their property as a collateral for the payment of the claims due). We have witnessed many limited liability companies shutting down, while obligation to pay claims due to the employees is shifted to the state, i.e. to the Labour Fund. Irresponsible entrepreneurs open a new limited liability company after the shutdown.</p> <p>Abolish the highest annual base for the payment of contributions for compulsory social insurance. This is due to the fact that individuals with enormous earnings manage to recover large amounts of money on this basis and are thus additionally privileged to the detriment of social funds.</p> <p>Abolish the privilege of public officials to receive compensation of salaries from the budget for one year or two years if that much time is left until their retirement (this mechanism unjustifiably puts privileged</p>			
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	<p>individuals in an even more privileged position compared to all other civil servants and state employees and also leaves large room for manipulations to the detriment of the budget).</p>			
	<p>-<i>Comment received on 16 December 2022</i></p> <p>Main content:</p> <p><i>Reform measure no. 5: Reform of the social and child protection system on the basis of the roadmap</i></p> <p>Poverty issue is not resolved in this way. Individual benefits from the social and child protection system should be reviewed. Social protection transfers have increased significantly. When resources are limited, they should then be distributed to those who really need them for their existence.</p> <p>The question arises as to whether it is justified to introduce child allowance for all children up to 18 years of age. Not all children are at risk of poverty. As the educational level of parents increases, the rate of children at risk of poverty decreases.</p> <p>The Law on Compensation to the Former Beneficiaries of the Benefits for Mothers with Three or More Children once again discriminates women who cannot become mothers, who are mothers to one child or two children, mothers who were not registered with the Employment Office</p>	<p>Stakeholder: Trade Union Confederation of Montenegro Contact person: Stanica Dragaš Contact details: Novaka Miloševa Street no. 29, Podgorica 81000, Montenegro T +382 20 230 547 E stanica.dragas@t-com.me W www.sindikacg.me</p>	<p>The comment/proposal is accepted.</p>	<p>The reform that combines child allowance and material benefit can potentially reduce poverty by 5.3 percentage points and move 31,800 inhabitants of Montenegro out of the zone of the risk of poverty. This is one of the conclusions of the publication entitled <i>Poverty reduction in Montenegro through adequate social and child protection based on solid indicators: an overview of sustainable reform scenarios</i>.</p> <p>The publication was produced as part of the joint initiative of the United Nations entitled <i>Activate! Integrated Social Protection and Employment to Accelerate Progress for Young People in Montenegro</i> which was supported by the Joint SDG Fund. The survey was</p>



	<p>even though the Constitutional Court of Montenegro and European Court of Human Rights in Strasbourg abolished this right. “New entitlements” were introduced in the period of withdrawal of proceeds from IPA funds for education, employment and inclusion; instead of using active employment measures, passive measures are applied.</p> <p><i>Reform measure no. 13: Improvement of management of business undertakings in majority state ownership</i></p> <p>This reform measure is extremely important. Special care should be taken when selecting personnel; they should have professional references for the activity performed by the business undertaking, i.e. they should have the knowledge, skills and competencies needed for the successful operation of the business undertaking. The main selection criteria should be competence, not political activism and nepotism.</p>			<p>conducted by the University of Maastricht based on an internationally verified methodology and in cooperation with the Ministry of Finance and Social Welfare of Montenegro, Statistical Office – Monstat, UNICEF and UNDP.</p> <p>Every fourth citizen of Montenegro and every third child are already living at the risk of poverty. This study outlines social policy options which decision-makers can consider as part of the national poverty reduction strategy.</p> <p>According to analyses performed by the World Bank and UNICEF, the universal child allowance for children will contribute to poverty reduction.</p> <p>Based on the 2021 Survey of Income and Living Conditions (SILC), it was estimated that 30.5 percent of children under the age of 18 are at risk of poverty.</p>
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				<p>The previous child allowance model was inadequate because it had a high rate of exclusion errors. Earlier, child allowance was provided only to certain parts of the population which mainly included children who were beneficiaries of the other benefits such as material benefit, care and assistance allowance or personal disability allowance. In 2019, 14,721 children received the allowance, which is about 9.7 percent of the estimated population of children aged 0-19 years, despite one third of all children in that age group being at risk of poverty. The new quasi-universal child benefit for all children up to the age of 18 now covers additional 122,220 children. Universal allowance amounts to 30 euro per child per month, while beneficiaries of other social assistance programmes and children without parental care will continue to receive different amounts of the</p>
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				<p>allowance. Children in the families receiving material benefit or unemployment benefit receive 44 euro, which is an increase of 24.41 euro per month; beneficiaries of the care and assistance allowance receive 52 euro; and children who receive personal disability benefits or those without parental care receive 60 euro.</p> <p>In accordance with the activities planned for 2024, based on analysis of the regulatory framework governing operations of business undertakings in majority state ownership and roadmap prepared in 2023, legal norms will be amended to introduce mechanisms through which the state could more efficiently supervise operations of business undertakings in majority state ownership. Moreover, implementation of innovative procedures at the level of the Government of Montenegro to the</p>
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				<p>proposals for selection of members of the board of directors and other management bodies and well as audit committees will begin, along with designing selection criteria that link the needs of formal knowledge with the essential needs of quality business and institutional biographies, and in this way the suggestions proposed for the reform measure no. 13 will be adopted.</p>
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