Government of Montenegro

Montenegro Economic Reform Programme 2020-2022

Podgorica, January 2020

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List of Abbreviations

AQR	*Asset Quality Review*
GVA	*Gross Value Added*
CEFTA	*Central European Free Trade Agreement*
CGES	*Crnogorski elektroprenosni sistem AD (Montenegrin Electricity Transmission System JSC)*
COSME	*EU programme for Competitiveness of Small and Medium-Sized Enterprises*
EBRD	*European bank for Reconstruction and Development*
EIB	*European Investment Bank*
EIF	*European Investment Fund*
EEN	*European Enterprise Network*
EFP	*Economic and Fiscal Programme*
EC	*European Commission*
EPCG	*Elektroprivreda Crne Gore (Montenegro Electrical Power Company)*
GPA	*Government Procurement Agreement under WTO*
IPA	*Instrument for Pre-Accession Assistance*
IPARD	*IPA Rural Development*
IRFCG	*Investiciono-razvojni fond Crne Gore (Investment and Development Fund of Montenegro)*
PE	*Public Services Enterprise*
PPP	*Public-private partnership*
KfW	*German Development Bank*
SME	*Small and medium-sized enterprises*
ERP	*Economic Reform Programme*
NATO	*North-Atlantic Treaty Organisation*
NQF	*National Qualifications Framework*
OECD	*Organisation for Economic Co-operation and Development*
PEP	*Pre-Accession Economic Programme*
ERP	*Economic Reform Programme*
MDD 2018-2021	*Montenegro Development Directions 2018-2021*
RCC	*Regional Cooperation Council*
RUP	*Rudnik uglja Pljevlja (Pljevlja Coal Mine)*
SEETO	*South East Europe Transport Observatory*
FDI	*Foreign direct investments*
PPS	*Purchasing power standard*
SEE 2020 Strategy	*South-East Europe 2020 Strategy*
WTO	*World Trade Organisation*

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

In line with the new approach of the European Union to the economic dialogue with candidate countries and potential candidate countries to the Union membership, Montenegro has prepared the Economic Reform Programme (hereinafter referred to as ERP) for the sixth year in a row. ERP is a document wherein the Government of Montenegro presents its economic policy for the next year and the medium term, and represents a basis for economic dialogue with the European Commission in the EU integration process. Bearing in mind the aforesaid, the focus of the document itself is on strengthening the real sector growth, while maintaining the fiscal discipline and implementing adequate reforms that are contributing to the country's overall competitiveness.

In accordance with the decision of the Government, adopted at the session held on 11 July 2019, created has been a working team for drafting the Montenegro Economic Reform Programme for the period 2020-2022. The main features of the process of drafting the Economic Reform Programme are transparency and inclusion of wider public representatives, as early as in the initial preparatory phase. At the very beginning of the process, a meeting was held with the representatives of the private sector, NGOs, local communities and other interested stakeholders. Interested stakeholders were invited to provide their comments and suggestions and by doing so make their contribution and provide to the members of the working group all inputs they believe are useful, in order to improve the text of the Programme. The representatives of the real sector, trade unions of Montenegro, the representatives of foreign investors in Montenegro, as well as the representatives of local self-governments have provided proposals which were carefully considered, with majority of them taken into account and translated into proposals of measures/reforms. In the period 3-23 December, the 2020 ERP was also a subject of public consultations, which created another opportunity for dialogue and cooperation in the entire process of drafting the Programme, all with the aim of further improving the text of the Draft Economic Reform Programme 2020-2022.

Montenegro economic policy and Euro-Atlantic integration process

The representatives of relevant international institutions have confirmed that Montenegro is a stability factor in the region, playing an active role in all regional initiatives. It is also recognised as an example of good-neighbourly cooperation and as a country that is continuously aligning its policies with the European Union policy.

Over the seven years of negotiations, Montenegro has opened 32 out of 33 chapters, out of which three were temporarily closed. Furthermore, it is important to note that the support from 22 EU member states is already present for opening the last chapter – on competition.

It is contributing to strengthening of regional cooperation through the Berlin Process, and does so by achieving national properties and being committed to the Connectivity Agenda and the Multi-Annual Action Plan for the Regional Economic Area of the six Western Balkans countries under the CEFTA legal framework. Moreover, Montenegro confirms that is a responsible NATO member and that continues to play an important role in spreading the Euro-Atlantic values culture in the Western Balkans.

The strategic development objective for Montenegro in the next medium-term period and economic policy directions for achieving the objective

Sustainable and inclusive economic growth, which will contribute to the development gap reduction of the country relative to the EU average and increase of the quality of life for all its citizens is the strategic development objective of Montenegro defined in the Economic Reform Programme. GDP per capita in current price terms for 2018 is estimated at around 7,500 euro. According to the preliminary EUROSTAT data for 2018, the Montenegro GDP per capita amounting to 48 percent of EU average is the highest among the countries in the region with the status of a candidate or potential candidate country for EU membership.

In line with the Economic Reform Programme, the Government of Montenegro will continue to implement fiscal policy measures and structural reforms from within its competence in the forthcoming period, aimed at contributing to the achievement of the public finances surplus from 2021 and the reduction of the public debt level, as important factors for further strengthening of macroeconomic stability and achieving sustainable economic growth.

As described in the 2020 Economic Reform Programme, the above-stated objective could be achieved through realisation of the economic policy measures aimed at strengthening the macroeconomic stability of the country, in particular the public finances consolidation and increasing the financial sector stability. At the same time, the economic policy measures aimed at addressing structural problems in the economy are of particular importance, precisely eliminating the key obstacles to improving the country's competitiveness and increasing the potential of real economy growth over the medium and long term. This is even more the case given the fact that Montenegro is a small and euroized economy where the fiscal policy is the key economic policy instrument.

Macroeconomic projections for the period 2020-2022

Montenegro's economic growth model over the medium-term period will be based on continued high investment activity level, private spending growth and increased export of goods and services resulting from higher diversification of the economy and growing tourism sector revenues. During the first two years of the medium term, the domestic demand will be a significant spur to the economic activity in the country, driven by strong real growth of private consumption of 2.9 percent, along with additional positive contribution to the GDP growth of 0.5 p.p. coming from gross investments. The main feature during the last two years of the projected period is a change in the growth composition diverging towards higher contribution of net exports to the real GDP growth. In the period 2019-2020, the net export will have a positive contribution to the GDP growth of 1.1 p.p. Cumulative nominal GDP growth in the period 2019-2022 will be 16.9 percent, while the cumulative real growth rate in the same period will be 13 percent. Following the estimated growth of 3.1 percent in 2019, the real growth rate trend varies in the coming year, ranging from 3.4 percent in 2020, 2.8 percent in 2021, to 3.32 percent in 2020, averaging at 3.1 percent over the four-year period.

The Table 1.1 presents macroeconomic projections for Montenegro for the period 2020-2022, under the baseline scenario and low-growth scenario.

Table 1.1: Summary of macroeconomic projections for Montenegro for the period 2020-2022

Macroeconomic projections 2019-2022		**Baseline scenario**					**Low-growth scenario**				
		2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Macroeconomic indicators	Nominal BDP u mill €	4663.1	4817.1	5027.3	5217.9	5449.4	4663.1	4817.1	4932.7	5056.7	5174.0
	Nominal growth	8.5	3.3	4.4	3.8	4.4	8.5	3.3	2.4	2.5	2.3
	Real growth	5.1	3.1	3.4	2.8	3.2	5.1	3.1	1.4	1.5	1.1
	Inflation (average)	2.6	0.5	1.0	1.0	1.5	2.6	0.5	1.0	1.0	1.5
	Employment growth	3.6	2.8	1.2	0.5	1.3	3.6	2.8	0.4	0.2	0.2

Source: Ministry of Finance

Fiscal framework in the period 2020-2022

The core objective of the Montenegro's economic policy is a dynamic and sustainable economic growth contributing to the increase in the quality of life for all citizens. In the previous period, the public finances policy will be aimed at strengthening the fiscal stability in order to preserve the long-term sustainability of public finances.

Implementation of fiscal consolidation measures will continue over the next medium-term period, aimed at:

- Continuing the fiscal consolidation of public finances in 2020, along with expected surplus in 2021 and 2022;
- Establishing a downward trend for the public debt, starting from 2020 and reaching 62.5 percent in 2020.

These objectives over the medium term are achieved through stable growth of public revenues, primarily guided by increased economic activities, and also with the tax base expansion through more intensive activities directed towards the reduction of grey economy, by reforming the tax administration as well as designed effects of the economic citizens programme implementation and revenues resulting from a concession fee from a long-term lease of the *Airports of Montenegro.*

Montenegro is implementing a budget system reform through the project "Improvement of the budgetary system, medium-term budgetary framework and internal financial control", which should result in the improvement of the budgetary system as a whole, through full implementation of the programme budgeting, medium-term planning and other elements of the budgetary system.

The Table 1.1 presents public finances projections for Montenegro for the period 2020-2022, under the baseline scenario and low-growth scenario.

Table 1.2: Summary of fiscal projections of Montenegro for the period 2020-2022

Fiscal framework (as % of GDP)		Outturn	Estimate	Baseline scenario			Low-growth scenario		
		2018	2019	2020	2021	2022	2020	2021	2022
Fiscal indicators	Direct public revenues	42.2	44.2	46.2	42.4	41.4	46.6	43.0	42.4
	Public spending	46.2	46.2	46.2	41.1	40.1	47.1	42.4	42.2
	Deficit/Surplus	-4.6	-2.0	0.0	1.3	1.3	-0.5	0.6	0.1
	Interest	2.1	2.3	2.1	2.0	1.7	2.2	2.0	1.8
	Primary deficit/surplus	-2.5	0.3	2.2	3.3	3.0	1.7	2.6	2.0
	Public debt (% of GDP)	69.2	78.7	72.3	65.1	62.5	74.2	68.4	68.3

Source: Ministry of Finance

Structural reforms in the period 2020-2022

Starting from the reform priorities defined in the key national development documents, the Law on Budget for 2020, the obstacles to competitiveness and economic growth of Montenegro over the medium term are identified in Chapter 5 of the Economic Reform Programme (ERP). In that context, an adequate set of reform measures makes a separate chapter of the Programme and is designed in such a manner to create space for overcoming state obstacles and also to act preventively for their occurrence over both medium- and long term, while addressing the policy guidance of the European Commission. The structural reforms agenda contains a set of 18 specific and adequately placed priority structural reforms in eight areas: energy and transport; agriculture, industry and services; business environment and reduction of the informal economy; research, development and innovation, and the digital economy; trade-related reforms; education and skills; employment and labour market; and social protection and inclusion.

The implementation of the reform measures from the Economic Reform Programme is also monitored by the Competitiveness Council, chaired by the Prime Minister, through regular reports.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Alignment of the EU policy guidance and priorities of the Government of Montenegro

The Economic Reform Programme is a document fully consistent with the annual Budget Law and Medium-Term Budgetary Framework, as well as with Montenegro's strategic development documents.

The full implementation of the priority reform measures from the Economic Reform Programme will contribute to removing obstacles to competitiveness and inclusive growth. The Competitiveness Council, established by the Government in 2017, monitors the implementation of the reform measures envisaged by the Economic Reform Programme through regular reports, on semi-annual basis.[1]

The European Commission and Council have provided six policy guidance for preparation of the 2020 ERP, at the Ministerial Dialogue held in May 2019.

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

Table 2.1: Policy guidance of the Ministerial meeting held in May 2019 and implementation thereof (already carried or envisaged for 2020)

Policy guidance to Montenegro	*Measures carried out as of end 2019 and measures envisaged in 2020*
1. Use windfall gains, such as proceeds from privatisation and airport concessions, to accelerate the reduction of the general government debt ratio. Broaden the tax base by introducing an electronic fiscal invoice system. Reduce the public sector wage bill as a share of GDP by fully implementing the public administration optimisation plan at the central and local self-government level, including a system of centralised payroll calculation.	All the revenues that the government generates will be used to settle all the liabilities defined in the annual budgets. Bearing in mind that all proceeds envisaged from the privatisation and concessions payments will be the revenues of the budget, on one hand, while on the other hand those proceeds will be also used to settle liabilities resulting from debt repayment. The revenues planned from these sources reduce the needs for securing funds from loan facilities, which is directly affecting public debt trend; likewise, all additionally generated revenues will represent funds that will also enable for a fiscal reserve to be created, that could be used in the following years for budget financing and consequently for debt reduction, which will lead to public debt ratio reduction. The Parliament of Montenegro adopted the Law on Fiscalisation for Transactions of Goods and Services on 31 July 2019, which will enter into force on 1 January 2021. Electronic fiscalisation is the fiscalisation for cash and cashless transactions of goods and services (B2C and B2B transactions). Montenegro is the first country in the region to introduce fiscalisation for cashless transactions. The Montenegro Tax Administration will have insight in every issued fiscal invoice that is paid in cash or by cashless means, in real time, via a permanent internet link connecting a taxpayer to the Tax Administration. In line with the policy guidance from the Ministerial Dialogue concerning the reduction of the gross wage bill as a share of GDP, since the commencement of the implementation of the fiscal consolidation measures the gross wage bill as a share of GDP has been reducing, given that in 2016 it was at the level of 11.83 percent, while it is expected to be at the level of 10.9 percent in 2019. With exception of 2020, when a mild increase of the wage bill is expected relative to 2019 due to nominal increase of allocation for education and health sectors, a downward trend is also evident under the medium-term fiscal framework, given that it will be 10.5 percent of GDP in 2022.

[1] Reports are available at the website of the Government

	Improvement of the software for centralised payroll calculation is carried out through a project financed from IPA funds that started in December 2018. In order to establish an integrated system for payroll calculation for employees in spending units financed from the Budget of Montenegro, the implementation of the project "Implementation of the centralised payroll calculation" started in January 2019, having as the objective to develop and implement software application enabling centralisation of and more efficient payroll calculation process, with embedded higher degree of controls and reporting, as well as more efficient wage expenditure management in the public sector. It is expected that the first test version of this system will become operational during 2020. ***This policy guidance corresponds to Chapter 4 – Fiscal framework, where it is elaborated in more details.***
2. Reinforce fiscal governance by introducing medium-term budgetary planning and programme budgeting. Advance the reduction of arrears at local level, including those of municipal companies. Prepare an options paper on the establishment of an independent body for fiscal oversight for further consultation with stakeholders, including the EU.	In order to improve the budgetary system as a whole, the implementation of two projects co-financed with EU funds started in 2019, which pertain to "Improvement of the budgetary system, medium-term budgetary framework and internal financial controls" and "Improvement of the IT system for budget planning", which should result in the improvement of the budgetary system as a whole, through full implementation of programme budgeting, medium-term planning and other elements of the budgetary system. Pursuant to the set schedule, the key elements of the program budgeting will be introduced gradually, in order to have indicators for measuring programs' performance introduced in the final phase. Pursuant to the Law on Budget and Fiscal Responsibility, three-year budgeting will be formally introduced in the budgetary system starting from 2020, where the first year will be mandatory and the following three years indicative. The new Law on Local Self-Government Financing, which governs sources of funds, has been applied since 15 January 2019, and the key changes pertain to the increase in revenues for local self-governments, which creates possibilities for local self-governments to balance their finances. Based on the data available to the Ministry of Finance, it is evident that the application of the new legislative provisions has yielded a positive financial effect so far, which is primarily reflected in the increased revenues from personal income tax. Starting from September 2019, the Ministry of Finance has been implementing a project through the Instrument for Pre-accession Assistance (IPA) for further consideration of options for establishment of an independent body for fiscal oversight and legal framework for its functioning. The project envisages implementation of the following activities: preparation of an options paper on the establishment of an independent fiscal council in Montenegro, which includes a comparative analysis of several independent fiscal institutions; giving recommendations on needed legislative changes and drafting relevant laws/enabling regulations in order to establish a fiscal council; technical assistance to establish and support operation of the fiscal council, including drafting of procedures/rulebooks for functioning of the council. This options paper was prepared at the beginning of December 2019; therefore, this policy guidance is fulfilled. ***This policy guidance corresponds to Chapter 4 – Fiscal framework, where it is elaborated in more details.***
3. Strengthen efforts to resolve the remaining stock of non-performing loans, including those held outside the banking system, and address obstacles hindering resolution outside the responsibility of the Central Bank. Conduct a comprehensive asset quality review of the financial sector in line with international best practices and publish the results. Closely monitor risks related to the consumer loan segment, deploying appropriate micro- and	The Central Bank (CBM) continues to undertake comprehensive activities on further NPL resolution, which was reduced to 4.62 percent (November 2019) and is at its lowest level ever. The Decision Amending and Supplementing the Decision on Minimum Standards for Credit Risk Management in Banks was adopted in July 2019, which provides for the alignment with the Regulation (EU) 680/2014 and the Guidelines EBA/GL/2018/06 on non-performing and forborne exposures. Amendments to the Decision provide for NPL data comparability with the data of EU Member States. The decision will be applied from 1 January 2020. CBM has started with drafting of an action plan, which includes segments pertaining to the structure for managing the asset quality review (AQR) process,

macroprudential policy tools if needed, and consider measures to bolster the resources at the disposal of Montenegro's deposit insurance fund.	timeline for AQR implementation, and proposed schedule for AQR coverage of banks. Bearing in mind the CBM capacities and availability of external contractors, CBM will undertake phased implementation of this process – in two intervals, taking into account the principle of systemic importance of banks, as well as size and specificity of risks to which they are exposed. Timing for implementation of AQR includes activities to start from September 2019 until the end of 2020, when the results on the asset review could be expected, followed by plans for possible adjustments of shortfall capital by banks. CBM has considered possible impact of intensive growth of cash loans on the financial system and possibility for adoption of appropriate macro-prudential measures with the objective to increase the financial system resilience and sustainability of retail financing. Their implementation would prevent possible risk of growing indebtedness and non-compliance with contractual obligations resulting from loans, primarily resulting from cash loans, which could occur in possible downward phase of the economic counter-cycle, i.e. in case of unemployment growth and/or decline in wages, bearing in mind the current state of affairs in the global economy and possibility for an easy crisis spill over on Montenegro, as well as the state of real sector in Montenegro, summarised through a relatively high and growing share of public debt to GDP. The CBM Council adopted the Decision on Macro-prudential Measures pertaining to Loans granted by Banks to Natural Persons on its session held on 14 October, which will be applied over a two-year period (1 January 2020 to 1 January 2022). In order to strengthen resources at the disposal to the Deposit Protection Fund, the loan facility with EBRD was extended. Likewise, the new Law on Deposit Protection, adopted in December 2019, stipulates the introduction of a differentiated deposit protection premium calculation method, to be applied from 1 January 2021. By applying this methodology, the banks will be paying a premium to the Deposit Protection Fund depending on the risk profile of each bank. Enabling regulations for implementation of this Law will be adopted in Q2 of 2020. ***This policy guidance corresponds to Chapter 3 – Macroeconomic framework, where it is elaborated in more details.***
4. Improve the regulatory environment by developing publicly available guidance on the practical implementation of each law that affects the business environment. Ensure consistent application of the provided guidance.	Pursuant to the policy guidance, the Ministry of Finance will develop guidance under the instruction governing the manner of preparing the Regulatory impact assessment (RIA) in the process of preparing laws and other regulations. RIA is being prepared in accordance with the OECD questionnaire covering eight questions of which one deals with monitoring and evaluation. The guidance for practical implementation of the Law will be developed as part of this segment. The guideline will be prepared with expert support in the first half of 2020.
5. Develop a comprehensive strategy providing reliable benchmarking tools allowing for the continuous assessment and reduction of the informal economy, including undeclared work. Ensure close cooperation between central and local authorities to reduce the informal economy. Adopt and implement the new legislative framework on public procurement, public-private partnerships and concessions.	The Government of Montenegro has established a system for coordination of the fight against informal/grey economy, through the Government's Committee on suppression of grey economy. These activities have contributed to better coordination between authorities that are participating in the prevention and suppression of grey economy, which has resulted in better collection of revenues and reduction of informal labour. The work of the Committee on suppression of grey economy is accompanied with the adoption of the Action Plan for Combat against Grey Economy. The things recognised as a weakness of the existing Action Plan include lack of adequate indicators for monitoring results of measures envisaged by the Action Plan. In that context, the priority reform measure was proposed (Number 8), which deals with the improvement and implementation of the measures to suppress grey economy. A good quality framework for combat against the grey economy will be enabled through the tax administration reform as well, aimed at improving the efficiency of the Tax Administration and reducing costs for taxpayers through implementation of the new Tax Administration IT system, establishment of modern and more efficient business processes, as well as creating regulatory and practical prerequisites for application of the law on fiscalisation. In that context, the priority reform measure was proposed (Number 9), which deals with the tax administration reform process.

	The Laws on public procurement, public-private partnerships and concessions were adopted in 2019, and thus this part of the policy guidance has been fulfilled. In order to ensure the fulfilment of the policy guidance which pertains to the implementation of this regulatory framework, two priority reform measures were proposed, which deal with the application of the new regulatory framework for public procurement and public-private partnerships policy (Measure 6), as well as the measure dealing with introduction of the electronic public procurement system (Measure 7). The measures include establishment of institutional and regulatory prerequisites by establishing relevant bodies for functioning of the public-private partnerships system. The electronic public procurement system will further reduce business barriers by streamlining and reducing the costs of administrative procedures, envisaged by the law. ***This policy guidance corresponds to Chapter 5 - Structural Reforms (measures 6, 7, 8, and 9), where it is elaborated in more details.***
6. Increase labour market participation, in particular for youth, women and the low skilled, by strengthening employment activation measures, including through better provision of upskilling and reskilling measures. Improve coordination between employment and social services. Establish a solid monitoring and evaluating mechanism on the implementation and results of practical learning at vocational and higher education.	The labour market indicators have recorded positive trends in recent years, thus the increase in the activity rate (58.9 percent) and employment rate (49.3 percent), as well as decline of the unemployment rate (16.3 percent) are evident. However, in spite of the positive developments at the Montenegro labour market, challenges are still present, such as: low labour market participation of vulnerable groups, in particular youth and women; presence of long-term unemployment; presence of informal employment; all resulting in the low activity rate which is still below the EU average. Furthermore, these challenges influence the relevance of education, skills and competences of human resources for successful labour market participation, precisely the relevance of the labour force supply relative the labour market needs. In order to advance the labour market functioning, the Labour Law was adopted, which should contribute to the larger labour market flexibility, in particular with respect to the provisions concerning the commencement and termination of employment, types and duration of employment contracts, disciplinary proceedings conduct, suppression of grey economy, and informal labour through a special role of authorities tasked with the implementation of the Law. The adoption of the Law on Intermediation and Rights during Unemployment, will provide further improvement of intermediation services and preparation for employment, as well as targeted implementation of active employment policy measures which should ensure the implementation of the said Law (Measures 16 and 17). In view of determining reliable outcomes of dual education, their application and results need to be monitored and evaluated. The analysis and application of the evaluation results should enable the improvement of the system and establishment of good quality and efficient practical education where students could acquire job-related skills and experience, on-the job learning, and acquire key competences, including entrepreneurial and digital competences, which all facilitates labour market entry for the youth and their career advancement and employment (Measure 15). ***This policy guidance corresponds to Chapter 5 – Structural Reforms (measures 15, 16, and 17), where it is elaborated in more details.***

3. MACROECONOMIC FRAMEWORK

Slowdown of the global economic activity is distinct, driven by various factors, primarily by the trade relations between two largest global economies, USA and China, which make 40 percent of the global GDP. Outlooks for the global economic growth and global trade growth are less favourable and more uncertain relative to the forecast from the European Commission Spring report; even though the labour market developments across the world are rather strong, and consumer confidence persists at a high level driving the private consumption, which is the primary accelerator for the economic growth. The record low costs of financing are opening space for the economic growth strengthening, through increased public investments where fiscal space is available.

Global economy growth rate was estimated by the European Commission[2] to be 2.9 percent in 2019, while its forecast for 2020 is 3 percent. Both rates have been revised downward from the Spring Report by 0.3 p.p. and 0.5 p.p. respectively. Effects of the USA and China's customs policies will reflect on the most important foreign trade partners of these two countries as well, the EU in the first place, where room for counter-cyclical intervention due to the deflationary pressures are limited. The Euro area real sector turbulences, such as the reduced external demand and consequently the production in automotive industry, have caused for the European Commission to revise down estimated economic growth rates for this group for 2019 to 1.1 percent, while the forecasted growth for 2020 is 1.2 percent.

In its latest report, IMF has reduced growth forecast for the global economy for 2019 to 3 percent, which is a downward revision of 0.3 p.p. relative to the April report and the weakest growth rate since the global financial crisis. Implications of the higher customs tariffs are reflected on the side of lower trade activity globally, which grew at the rate of 1 percent in the first half of 2019, which is the slowest pace since 2012. IMF has also estimated that the increase of customs tariffs between USA and China will have an impact of cumulative reduction of the global GDP level by 0.8 p.p. by the end of 2020.

According to IMF, acceleration of the global economic growth is expected in 2020 to 3.4 percent, which is 2.2 p.p. lower relative to the April forecast, primarily due to recovery of large emerging and developing market economies, such as Latin America and Middle East countries, as well as due to the growth dynamic of the European emerging and developing market countries.

Last year (2018) was the year of strongest economic growth in the last decade in the Western Balkans region, with an average growth rate of 3.9 percent[3]. According to the World Bank report, the economic activity of the region in the next three-year period will record an average growth rate of 3.5 percent, with somewhat moderate rate of 3.2 percent in 2019, due to the slowdown of the investment activity and lower net export contribution, while the growth in 2020 and 2021 will accelerate to 3.6 and 3.8 percent respectively, whereby the growth composition will differ country to country. Positive outlooks in the next period may be subject to increasing uncertainties in the European Economic Area, given that the European Union is the main trade partner of the Western Balkans and source of financial flows. Growing global trade tensions and the crude oil price instabilities could further intensify external risks.

The following table presents most recent growth forecasts of relevant financial institutions for Montenegro and the Western Balkans region:

2 http://ec.europa.eu/economy_finance/eu/forecasts/index_en.html
3 World Bank, Regular Economic Report for WB countries, Autumn 2019

Table 3: Forecast of the real GDP growth for Montenegro and the Western Balkans

Real GDP growth rate	World Bank		IMF		European Commission	
	2019	2020	2019	2020	2019	2020
Montenegro	3.0	3.1	3.0	2.5	3.1	3.0
Serbia	3.3	3.9	3.5	4.0	3.2	3.8
Albania	2.9	3.4	3.0	4.0	3.1	3.7
Bosnia and Herzegovina	3.1	3.4	2.8	2.6	-	-
North Macedonia	3.1	3.2	3.2	3.4	3.2	3.2
Kosovo	4.0	4.2	4.2	4.0	-	-

Sources: World Bank – January 2020; IMF – World Economic Outlook, October 2019; European Commission – Autumn 2019 Economic Forecasts

Average real growth of six countries of the Western Balkans region during previous five years was 3 percent, whereby the Montenegrin economy has recorded the highest growth among the observed countries, 3.6 percent, and the highest cumulative real growth of 19.2 percent for the same period, while the average of the region was 15.8 percent. Thus, it is necessary to have in mind that the forecasts in the case of the Montenegrin economy are starting from a relatively high base, in particular in 2017 and 2018.

Technical assumptions of the European Commission from its latest report are taken into account when developing forecasts of the key macroeconomic aggregates, which include the global economic growth, the Euro area growth, global trade growth, crude oil prices developments, as well as consumer prices in the Euro area.

3.1. Recent economic developments

3.1.1. Gross domestic product

Following the high growth of 4.7 percent in 2017, the Montenegrin economy has generated the real growth of 5.1 percent in 2018, which was above expectations and the projections of the Government of Montenegro and relevant international organisations.

The MONSTAT data show that the real growth of 3.8 percent was generated for the nine months (Q1 3.0 percent, Q2 3.2 percent, and Q3 4.7 percent). When observed by the activity, the strongest growth was recorded in the construction, retail, tourism, and transport sectors. Industrial production was the only sector that recorded a decline, primarily due to drop in the *Electricity, gas and steam supply* sector, a consequence of adverse hydro-meteorological conditions and lower generation of electricity in hydro-power plants.

GDP components on the spending side show that the largest positive contribution to growth for nine months was derived from export of goods and services (3.2 p.p.), household consumption (2.4 p.p.), while the import of goods and services has deducted 2.9 percentage points from the growth. Exports of goods and services were driven by strong growth rates in the export of services, primarily in tourism and transport sectors, as well as by the moderate growth in the export of goods. Private spending growth was a result of the high growth of employment, growth in lending to households, as well as increased revenues from tourism.

The available indicators for 2019 show that during 11 months 19.8 percent of tourists more visited Montenegro (only collective accommodation) which made 11.0 percent more overnight stays relative to the same period of the previous year. Increase in the tourism turnover is a result of continuous investment in the accommodation capacities and improvement of the infrastructure, as well as an increasing expansion of direct air-transport connections with the existing and new tourist-originating markets.

The construction sector indicators for nine months point to an increase in value of completed construction works by 18.7 percent. Industrial production recorded a decline of 8.0 percent in the period January-November 2019, as a result of downturn in manufacturing industry (9.4 percent), and electricity, water and gas supply (11.7 percent) sectors. Retail trade has followed the overall economic activity and for 11 months was 6.1 percent higher in current and 5.4 percent in constant prices. In the period January-September 2019, most modes of transports have record upward developments. Transport of goods by road and rail transport was higher 10.2 and 10.5 percent respectively, transport of goods in ports rose by 7.3 percent, while the passenger transport at airports was increased by 7.0 percent. Revenues from tourism were higher by 9.3 percent for the nine months of 2019 if compared to the same period of the previous year.

On 14 November 2019, the Government adopted the *Proposal of Projections of Macroeconomic Indicators for the period 2019-2022*, where the estimated real growth rate for 2019 is 3.1 percent, based on available economic growth indictors for first six months. Bearing in mind that after the Projections were adopted, the MONSTAT published data for the third quarter, it could be expected that the estimated economic growth rate for 2019 could be exceeded.

Schedule for the Projections preparation is aligned with the schedule for updating and publishing the European Commission (EC) projections. The existing model of the Ministry of Finance, as well as the new model the Ministry of Finance developed through the project *Support to the Assessment of Macroeconomic Impact of Structural Reforms,* under the European Union support to Montenegro from IPA 2014 Programme, were used to develop the macroeconomic indicators. The newly developed model has made significant improvements to the financial programming process through structured econometrics and behavioural equations used to observe trends in developing key economic indicators and estimating impact of specific public policies on the development of the economy.

The difference of 2019 growth rates by GDP components between last year's projections presented in the ERP 2019–2021 and the most recent updated projections contained in the new ERP 2020-2022 is presented in the following table.

Table 3.1.1: Divergence from last year's ERP relative to the most recent estimates for 2019

	ERP 2019-2021	ERP 2020-2022	Difference (in p.p.)
Real GDP growth	2.8	3.1	0.3
Domestic demand	1.6	3.0	1.4
Household consumption	1.4	3.3	1.9
Gross fixed capital formation	3.4	3.3	-0.1
Government consumption	-0.5	1.1	0.6
Export of goods and services	4.3	7.3	3.0
Import of goods and services	1.5	4.4	2.9

Projections of the Ministry of Finance – Government of Montenegro

The most significant difference is evident in the household consumption, due to the growth in employment, lending to households and higher revenues from tourism. Differences in growth rates for imports and exports of goods and services are primarily result of increase in export and import of other services (transport, other business services). It is important to mention that the official data on the growth rate of the economy for 2018 were published in the period between two Programmes.

3.1.2. Inflation

Despite rising employment, mild increase in wages and growing food prices, the inflation in 2019 was lower than planned. Decline in global market oil prices has contributed to that, along with redefining of the excise tax policy for tobacco products. Annual inflation rate ranged from 0.3 percent in January to 0.7 percent in May, followed by four consecutive months of negative rates. Annual rate (CPI) in November was 0.5 percent, while the average rate in the period January-November was 0.3 percent. The most important positive contribution to the annual inflation rate in November 2019 (0.5 percent) came from food and non-alcoholic beverages prices (0.99 p.p.), while the most important negative contribution came from clothing and footwear prices (-0.29 p.p.) and transportation prices (-0.16 p.p.), due to decline in the oil prices on the global market. Export prices for 11 months were lower by an average of 2.3 percent, due to the drop in base metals prices; while import prices grew at an average rate of 1.1 percent. Given the trends for factors driving the inflation until the end of the year, the estimate is that the average inflation for 2019 will be 0.5 percent.

3.1.3. Employment and wages

Exceptionally favourable labour market developments from 2018, spurred by dynamic economic activity, have continued in 2019.

According to the administrative data, the average number of employees for 11 months of 2019 was 203,998 and increased by 7.5 percent year-on-year, while the highest rise in employment of 17.5 percent was in the construction sector due to strong execution of works, followed by high employment growth in tourism (15.3 percent), transport (9.1 percent) and trade (7.0 percent) sectors. On the other hand, average number of unemployed for 11 months of 2019 was 36,609 and was lower by 16.4 percent relative to the same period of 2018.

The Labour Force Survey for nine months of 2019 also points to continued strong positive developments, with the average number of employed higher by 3.5 percent year-on-year. The average unemployment rate for nine months was 14.9 percent, while the labour market activity rate was higher by 1.9 p.p. compared to the same period of 2018, and reached the highest level ever of 57.7 percent. In line with the expectations of macroeconomic trends until the end of the year, the high employment base from the third quarter of 2018, and in line with the potentials of the domestic labour force, it is estimated that the employment growth in 2019 will reach 2.8 percent, while the average unemployment rate will fall to 14.6 percent, ½ percentage point lower than the rate in the previous year.

The average gross wage for the period January-November 2019 was 772 euro and was higher by 0.8 percent year-on-year, while the average wage excluding taxes and contributions (net) was 514 euro, recoding also an increase of 0.8 percent relative to the same period of 2018. Due to mild growth in some private sector economic activities, as well as due to the increase of the minimum wage for the entire country, it is estimated that nominal wages will grow at the rate of 1 percent in 2019.

Given the estimated dynamics of nominal wages and consumer prices growth until the end of the year, it is estimated that real wages will increase by around 0.5 percent in 2019 compared to the previous year.

3.1.4. Lending activity of banks

At the end of November 2019, the banking sector consisted of 13 banks. Most of the activities are concentrated with five banks (66 percent) which have granted 68 percent of total loans, and where 65 percent of all deposits are deposited. During the one-year comparative period, the concentration of these banks has recorded an increase across all parameters. Foreign sources are dominant origin of the capital of banks (75 percent), while the domestic capital accounts for 23 percent and state capital 2 percent. Eight banks with majority foreign capital, originating primarily from the large European Union banking groups, control 67.59 percent of the banking market.

Total capital and total credits of banks have recorded a rise of 16.29 and 3.50 percent respectively, year-on-year. Total assets and total deposits of banks were also increased by 6.61 and 2.86 percent respectively. If data pertaining to two banks under bankruptcy are excluded from the aggregate data, for better data comparability purposes, the key balance sheet items for all 13 banks are growing on aggregate level, and so as follows: assets 14.12 percent, credits 10.71 percent, deposits 10.35 percent, and capital 22.24 percent.

The credit risk is the most important risk in the system, since the lending activity is dominant in the banking market. Bank credits make 65.81 percent of total assets. Gross non-performing assets (C, D, E) represent 3.81 percent of the total assets, while the non-performing loans (NPL) ratio is 4.62 percent and is at the record low level. NPL coverage with value adjustment is 78.65 percent, while their coverage with regulatory reserves is 99.12 percent. The banks with high NPLs are subject to special supervisor's scrutiny. The restructured loans make 5.73 percent of the loan portfolio.

The loans to legal entities amount 1,736.7 million euro, which is 56.18 percent of total loans, while the loans to households make 1,354.7 million euro, or 43.82 percent of total loans. This ratio was rather constant over the one-year comparative period. During the same period, loans to natural persons have recorded a growth of 6.94 percent, while the lending to legal persons has recorded an increase of 0.97 percent. Loans to natural persons (43.82%) have the largest share in the composition of total loans by key recipients, followed by loans to the real sector (34.14%), placements to banks (10.68%), and loans to the Government of Montenegro (6.04%). Loans to the real sector (business organisations, both in private and in state ownership) amount to 1.1 billion euro and have recorded a growth of 2.36 percent year-on-year. Credits in other currencies make 3.92 percent of total credits, while credits to non-residents make 13.67 percent. Long-term credits, which made 79.61 percent of all credits in the system, are dominantly financed from stable short-term deposits, which make 84.01 percent of total deposits in the system. At the end of November 2019, the average weighted effective interest rate on total loans was 6.08 percent.

During eleven months of 2019, total of 483.1 million euro of new loans was approved to the real sector, and recoded a growth of 9.27 percent, while 455.1 million euro was approved to the retail sector, which is approximately 1.02 percent more relative to the same period of the previous year. The average weighted effective interest rate on newly approved loans was 4.74 percent, and compared to November 2018 recorded a decline of 1.72 p.p. Credits to the real sector were extended at the average weighted effective interest rate of 4.41 percent, which is lower by 1.22 p.p., while this rate to the retail sector was 7.79 percent, which is higher by 0.38 p.p. during the observed period.

At the end of November 2019, the deposits to natural persons amounted to 1,781.7 million euro or 50.18 percent in the composition of total deposits, while deposits to legal persons amounted to 1,769.2 million euro or 49.82 percent. Demand deposits are dominant, and make 71.85 percent of total deposits. The banking system is lacking of stable long-term deposit potential. The share of non-resident deposits was 21.51 percent, while the deposits in other currencies made 6.62 percent of the total deposits.

Downward trend is also present in case of deposit interest rates. Namely, in November 2019 the deposit average weighted effective interest rate was 0.42 percent and recorded a drop of 0.16 p.p. year-on-year.

The value of the ratio of loans and receivables over deposits was 87.06 percent, which means that there is 459.5 million euro of deposit potential in the system which exceeds receivables resulting from approved loans. All banks fulfil statutory minimum daily and ten-day liquidity coefficients.

3.1.5. Financial sector

Financial sector is stable, with dominant and increasing share of the banking sector, which made 92.5 percent of the total assets at the end of 2018. Main features of the insurance market, with 4.4 percent share in the financial sector assets, were continued growth and stability, given that all undertakings that operate in the Montenegrin market are solvent and liquid. As far as the capital market is concerned, regulatory framework, which was implemented, and practice at the capital market in Montenegro have received a high score from IOSCO[4], in terms of application of the best international practice and international standards, and represent a good basis for its further development. During eleven months of 2019, turnover at the Montenegroberza (*Montenegro stock exchange*) was 277.9 million euro, which is 132.1 million or 90.5 percent more than in the same period of the previous year. Highest share in the composition of generated turnover comes from turnover of the government bonds of 56.24 percent with 156.3 million euro in volume, followed by turnover in corporate shares with 41.83 percent and volume of 116.3 million euro, and turnover of corporate bonds with 1.91 percent with volume of 5.3 million euro. Negligent amount in the total turnover accounts for turnover in investment funds shares. During the same period, 144 million euro of Treasury Bills were realised, which is 69.6 million euro or 32.6 percent less than in the same period of the previous year.

The Central Bank has resolved the situation with two non-systemic banks in an efficient manner, without a spill over effect to the banking system, with full preservation of the financial stability and with minimum effects on the public finances. Supervision of the banking system is carried out continuously; the system is liquid, solvent and with non-performing loans at the record low level, with constant downward trend of interest rates. The liquidity of banks is satisfactory. Liquid assets of banks were 1,102.2 million euro and made 23.46 percent of the total assets at the end of November 2019, which points to sufficient space for further expansion of the lending activity. The banking sector stability is supported with adequate capitalisation, so that both the aggregate (17.71%) and individual solvency ratios for all banks in the system, ranging from 13.01 to 37.01 percent, are well above statutory minimum of 10 percent. The NPL ratio is 4.62 percent, which means that the credit risk is less and less of a systemic challenge and more an individual one. Positive financial result at the system level was 63.1 million euro, while it was 36.5 million euro in the same period of the previous year. The aggregate return on average assets (ROA) was 1.49 percent, while the return on average equity (ROE) of banks was 11.83 percent. These tendencies have contributed, among other things, to the sovereign rating being confirmed by Moody's and Standard & Poor's rating agencies.

Taking into account the European Commission policy guidance from May 2019, as well as those from the previous period, the Central Bank has continued to take comprehensive activities to continue with NPL resolution, which was reduce to 4.62 percent (November 2019) and is at the historically low level. The Decision Amending and Supplementing the Decision on Minimum Standards for Credit Risk Management in Banks was adopted in July 2019, which provides for alignment with the Regulation (EU) No 680/2014 and Guidelines EBA/GL/2018/06 on management of non-performing and restructured loans . Amendments to this Decision enable the NPL data comparability with those of the EU Member States. The Decision will be applied from 1 January 2020. The Decision on Minimum Standards for Credit Risk Management in Banks continues to have in force the provision mandating

[4] International Organization of Securities Commissions

banks to adopt comprehensive NPL resolution strategies for a three-year period, annual operational goals for NPL reduction, as well as quarterly reports on implementation of operational objectives. The legal framework governing voluntary financial restructuring of debts aimed at NPL reduction, which was in effect from May 2015, ceased to have effect in May 2019.

Understanding importance of an external and independent asset quality review for the banking system, in order to strengthen the financial stability and confidence in the financial system, the Central Bank of Montenegro (CBM) has started with preparation of an action plan, which covers segments pertaining to the structure for managing the asset quality review (AQR) process, timing for AQR implementation, and schedule for coverage of banks with AQR. Bearing in mind the CBM capacities, and availability of external providers, the CBM would implement this process in phases, precisely in two intervals, taking into consideration the principle of systemic importance of banks, as well as size and specificities of risks to which they are exposed. The banks will use an open tender process to select external auditors that will carry out the AQR implementation on the banks' side. The CBM will select a reputable provider as a consultant, which will monitor actively the AQR implementation process along with the CBM. The very AQR process, in line with the ECB AQR Manual from 2018, consists of nine workblocks. The preliminary action plan has defined that the AQR process will be implemented according to the following schedule: (i) drafting of the Terms of Reference (ToR) for the provider to assist the CBM and launching of the tender process – December 2019; (ii) portfolio selection (preliminary selection of portfolio by bank), portfolio approval, public procurement for AQR providers for banks, public procurement for real estate appraisers, creating AQR teams – by the end of April 2020; (iii) AQR implementation in line with the workblocks – May-November 2020; (iv) AQR assessment findings and development of plans for potential adjustment for shortfall capital by bank – December 2020.

The issue of intensified borrowing of citizens using cash unsecured credits with longer repayment periods is subject of continuous and comprehensive CBM analysis, both from macro and micro prudential aspects. Potential impact of expansionary increase of these credits on the financial system was considered, with possible adoption of adequate macro-prudential measures, given that the growth is accompanied with constant extension of loan maturity and higher interest rates, along with almost unchanged average wage amount, which has resulted in higher average indebtedness by single borrower. It is estimated that the application of these measures would prevent potential risk of growing indebtedness and failing to comply with contractual obligations under cash unsecured credits to natural persons, due to their uncontrolled expansion, which could happen during the declining phase of the business cycle. The CBM Council, on the session held on 14 October, has adopted the Decision on Macro-prudential Measures relating to Loans approved by Banks to Natural Persons, which will be applied during a two-year period (1 January 2020 to 1 January 2022). The Decision adopts macro-prudential measures pertaining to the cash loans approved by banks to natural persons and sets the obligation of calculating the indicators of the level of credit indebtedness for natural persons, in order to sustain financial system stability and sustainability of lending to natural persons. These measures are not limiting the growth of cash loans, but only the segment of these loans with maturity exceeding eight or six years, and which are not secured with good quality security instruments as stipulated by the Decision.

In order to strengthen resources available to the Deposit Protection Fund, the Financial Stability Council has supported the extension of the loan facility with EBRD (current facility for 30 million euro expired on 7 November 2019). Likewise, the new Law on Deposit Protection, adopted in December 2019, stipulated introduction of a differential [risk-adjusted] deposit protection premium method, to be applied from 1 January 2021. The application of this methodology will result in banks paying a premium to the Deposit Protection Fund depending on the risk level of each bank. The enabling regulations for implementation of this Law will be adopted in the second quarter of 2020.

In December 2019, the Law on Credit Institutions and the Law on Resolution of Credit Institutions, as well as the Law Amending and Supplementing the Law on Bankruptcy and Liquidation of Banks were adopted. Activities in 2020 will be directed on drafting the enabling regulations for implementation of the above stated regulatory framework, which is aligned with the EU *acquis*, which is planned to be adopted in Q3. The Central Bank will implement activities autonomously and through continuation of the twining project *Support to Regulation of Financial Services* (April 2018 – April 2020), where the Central Bank has already submitted an official request to the project partners for extension of the project. This extension would increase the project coverage in terms of organising additional missions for expert assistance to be provided in preparing some of the more demanding regulations for alignment with part of the EU legislation (e.g. with ICAAP and COREP), which was not initially covered by the project.

In order to strengthen the institutional and supervisory capacities, necessary changes to the CBM organisation were planned by the end of 2019, in order to have more adequate implementation and monitoring of the application of the new regulatory framework (establishing a separate organisational unit for off-site supervision of credit institutions, new unit for control of operating risk of credit institutions, as well as the new department that will deal with resolution of credit institutions and establishment of the resolution fund). Furthermore, in July 2019, the Decision on Establishing a Committee for Supervision of Banks was adopted, as the standing expert advisory body to the Governor of the Central Bank of Montenegro. The scope of work of the Committee is to consider all matters of importance for pursuit of the banks' supervisory functions of the CBM.

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

3.1.6. External sector

3.1.6.1. Current account

In the period January-September 2019, the ***current account deficit*** was 405.8 million euro and was lower by 3 percent year-on year.

The goods account deficit for was 1.6 billion euro, or 2.4 percent more, due to the increase in import of goods. Total export of goods was 336.2 million euro, which represents an increase of 6.5 percent. The strongest impact on the exports comes from increase in exports of other final products, road vehicles, cork and wood, medical and pharmaceutical products, as well as meat and processed meat products. Total import of goods amounted to 1.9 billion euro and was 3.1 percent higher relative to the same period of 2018, as a consequence of increase in imports of electricity, medical and pharmaceutical products, furniture and parts, as well as specialised machinery and non-metallic mineral products.

The export of goods in the value of 373.5 million euro grew by 2.2 percent relative to the same period of 2019. The export of goods rate, recording sizeably lower growth rate year-on-year (6.3%), was mainly driven by increased export of other final products, electricity, bauxite ore, cork and wood, meat and processed meat products, as well as medical and pharmaceutical products. The main export products are aluminium, electricity, bauxite ore, and cork and wood, which make more than 50 percent of the total exports. Finalisation of the more capital-intensive investment activities, mainly linked with the highway construction, has generated lower import growth rate (3.1%) relative to the same period of the previous year (12.5%). The import development dynamic has driven the slower increase of the foreign trade deficit of 3.3 percent, where its value was 1.6 billion euro. The import coverage by export rate remained at the previous year's level and was 15.4 percent.

The services account ended up at a surplus of 960 million euro, which is 7 percent more than in the same period of the previous year. Total revenues from services were 1,461 million euro or 9.8 percent more compared to 2018, while the expenditures amounted to 501.4 million euro (an increase of 15.6 percent). Estimated revenues from travel and tourism in the period January-September 2019 were one billion euro, which was 9.3 percent more than during the nine months of 2018.

The primary income account[5] registered a deficit of 13.8 million euro. Revenues resulting from the primary income were 232.9 million euro, which 5.1 percent more year-on-year. During the observed period an increase in overall expenditures of 25.2 percent was recorded, which amounted 246.7 million euro, due to higher outflow for employee compensation and for interest repayment.

The secondary income account[6] recorded a surplus of 209.5 million euro, which is 13.6 percent higher compared to the same period of 2018. Total transfers inflow to Montenegro were increased by 13.8 percent year-on-year and amounted to 271.1 million euro. During the same period, total outflow on the account of the secondary income was 61.7 million euro, which was 14.5 percent higher relative to the same period of 2018.

Table 3.1.6.1: Current account in the balance of payments, in million euro

	Jan-Sep 2018	Jan-Sep 2019	Change in %
1. Current account	-418.3	-405.8	-3.0
1.A Balance of goods and services	-627.4	-601.5	-4.1
1.A.a Goods	-1,524.7	-1,561.5	2.4
Export f.o.b.	315.7	336.2	6.5
Import f.o.b.	1,840.3	1,897.7	3.1
1.A.b Services	897.3	960.0	7.0
Revenues	1,331.0	1,461.4	9.8
Expenditures	433.7	501.4	15.6
1.B. Primary income	24.6	-13.8	
1.C. Secondary income	184.5	209.5	13.6
2. Capital account	0.0	-0.5	
Balance of current and capital account	-418.3	-406.3	-2.9
3. Financial account	-300.8	-497.1	65.2
3.1. Direct investments, net	-217.7	-266.7	22.5
3.2. Portfolio investments, net	-140.4	163.9	
3.3. Financial derivatives, net	0.0	0.0	
3.4. Other investments, net	-154.7	-240.1	
3.5. CBCG reserves (change)	212.1	-154.1	
4. Net errors and omissions	117.5	-90.8	

Based on the available indicators for the nine months and the expected developments until the end of the year, it is estimated that the current account deficit in 2019 will reach 17.0 percent of GDP, which is 0.1 p.p. higher that in 2018. The high increase in revenues on the services account and the increase in the secondary income surplus were not able to offset the high growth of import of goods and decline in the primary account surplus.

[5] Primary income consists of: remuneration to employees, salaries of residents temporarily working abroad, salaries of seafarers, salaries of employees in embassies and consular representative offices, and income from international investments.
[6] Secondary income consists of: personal transfers – remittances from emigrants living and staying abroad, and social benefits and pensions.

3.1.6.2. Financial account

In the period January–September 2019, the ***portfolio investments*** account recorded a net outflow of 163.9 million euro, while the net inflow on the ***other investments*** account was 240.1 million euro. The main drivers of developments on this account were lower borrowing on the account of credits taken, along with a reduction in the deposits of banks abroad.

The net inflow of foreign direct investments was 266.7 million euro, which is an increase of 22.5 percent year-on-year. These trends are result of lower level outflows from withdrawal of equity investments and repayment of intercompany debt, compared to the same period of 2018. Total foreign direct investments inflow was 591.7 million euro, of which equity investments made 335.9 million euro (a decline of 7.9 percent), while the inflow in form of intercompany debt was 235 million euro or 15.3 percent more relative to the same period of 2018. Inflow resulting from withdrawing investments from abroad was 20.8 million euro. As for the composition of equity investments, investments in companies and banks were 206.2 million euro (decline by 10.9 percent), while the investments in immovable property were 129.7 million euro (decline by 2.9 percent). Total foreign direct investments outflow was 325 million euro, which is 12.3 percent less in comparison to the same period of 2018. The outflow from investments of residents abroad was 78.2 million euro; while the withdrawal of funds of non-residents invested in our country was 246.8 million euro.

3.1.6.3. International investment position

The Central Bank of Montenegro has started to publish for the first time in 2019 the **net international investment position (NIIP) of Montenegro,** which is the difference between external financial assets (receivables) and external financial liabilities and capital (liabilities). According to the international investment position, Montenegro is the net debtor since its position is negative, which in 2018 was 7.9 billion euro (increase of 8.4 percent) or 169.4 percent of GPD, according to the preliminary data. At the end of 2018, the total external receivables of residents were 2.6 billion euro, while the liabilities were 10.5 billion euro.

Compared to the end of 2017, the negative net international investment position at the end of 2018 increased by 609.9 million euro, mainly due to increase in financial liabilities (by 899.1 million euro), while it was offset to certain extent by contemporaneous increase in financial assets (by 289.2 million euro). Preliminary data indicate that there is an increase in negative net position across all investment instruments[7] if compared to 2017, but the largest change is recorded under other investments, where the nest position (assets less liabilities) was increased by 590.8 million euro (an increase of 20.9 percent), primarily due to increase in net liabilities under credits (by 479.8 million euro).

Increase on the side of assets during 2018 was generated mainly from the increase in the Central Bank of Montenegro reserves and other investments, precisely the position on loans. Analysis of the assets composition by financial instrument, shows that the currency and deposits have dominant share (40.4 percent of total assets), as well as the CBM reserves (39.8 percent).

The analysis of functional categories of the total external financial liabilities of Montenegro shows that the highest share goes to other investments – 44.1 percent (4.7 billion euro) and other direct investments – 43.9 percent (4.6 billion euro), of which the major instrument is the equity investments with 60.9 percent (2.8 billion euro).

During 2018, ***the other investments*** recorded a sizeable growth of 15.6 percent or by 628.3 million euro. Loans have a dominant place as the most important instrument on the side of liabilities with an increase of 537.7 million euro and stock of 3.9 billion euro (with share of 36.8 percent in total liabilities), as well as currency and deposits which were 737 million euro at the end of 2018 (with share

7 Foreign direct investments, portfolio investments, and other investments

of 7 percent). The ***portfolio investments*** on the liabilities side were 1.3 billion euro (with share of 11.9 percent), of which the biggest portion goes to sovereign liabilities resulting from Eurobonds.

The analysis of the NIIP[8] shows that the total wealth of Montenegro (estimated) is around 20.8 billion euro, of which foreigners own 38 percent or equal to 1.86 net national incomes of 2018. Value of the wealth of Montenegro is equal to 4.9 net national incomes of 2018, whereby the financial instruments make 46 percent, 62 percent goes to non-financial assets (immovable property, land and other), while the debt accounts for 8 percent of the total wealth (negative contribution). High share of foreign ownership may contribute to strong technology and knowledge transfer, which is constrained by the absorption capacity of national factors of production, primarily the level of skills and knowledge of the national labour force.

Table 3.1.6.3: International investment position of Montenegro, in million euro

	2017	2018	as % of GDP (2018)
1. International investment position, net	-7,288.9	-7,898.8	-169,4
2. Assets	2,347.8	2,636.9	56,5
2.1. Direct investments, net	63.5	98.9	2,1
2.1.1. Equity investments and reinvested earnings	22.8	47.9	1,0
2.1.2. Debt instruments	40.7	51.0	1,1
2.2. Portfolio investments, net	245.4	258.9	5,6
2.3. Financial derivatives	0.0	0.0	0,0
2.4. Other investments **	1,191.7	1,229.2	26,4
2.5. CBM reserves	847.2	1,050.0	22,5
3. Liabilities	9,636.7	10,535.8	225,9
3.1. Direct investments	4,493.0	4,626.5	99,2
3.1.1. Equity investments and reinvested earnings	2,690.1	2,815.9	60,4
3.1.2. Debt instruments	1,803.0	1,810.6	38,8
3.2. Portfolio investments	1,121.4	1,258.8	27,0
3.3. Financial derivatives	0.0	0.0	0,0
3.4. Other investments	4,022.3	4,650.6	99,7
GDP			4,663.1
Source: CBM			

3.2. Medium-term macroeconomic scenario

Based on the available indicators and current economic developments in Montenegro, as well as envisaged sector-level policy reforms, and considering the regional, European and global growth outlooks, while taking into account the need to preserve and improve fiscal stance of the country and improve its investment and overall business environment, the baseline macroeconomic aggregates and indicators were projected for the period 2019-2022.

According to the projections, the features of the macroeconomic developments in Montenegro in the period 2019-2022 will be continuation of the investment cycle, diversification of the national real sector coupled with manufacturing and export strengthening, moderate growth of private and government spending, and stabilisation of imports. The macroeconomic framework assumptions over

[8] Calculations and analysis is done by the Ministry of Finance, based on the Credit Suisse Wealth Report-https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html and Capital in the Twenty-First Century-Thomas Piketty

the medium term are based on the global economic activity trends, forecasted growth for major trade and economic partners of Montenegro, the Euro area, as well as the countries in the region.

The next part of this Chapter presents two macroeconomic scenarios for the period 2019–2022, whereby both scenarios take into account the economic policy measures required for implementation of the Fiscal Strategy for the period 2017–2020, as well as measures aimed at optimisation of the public administration. The alternative scenario develops macroeconomic projections in the event that the economic growth turns out to be lower than envisaged in the baseline scenario due to external and/or internal factors.

3.2.1. Baseline macroeconomic scenario 2019-2022 and related risks

The Montenegrin economy's growth model over the medium term will be based on the continued high-level investment activity, private consumption growth, and increase in exports of goods and services resulting from an improved diversification of the economy, and growing revenues in the tourism sector. In the first two years of the medium term, the domestic demand will be a major spur for the economic activity in the country, driven by strong real growth of the private consumption of 2.9 percent with additional positive contribution of gross investments of 0.5 p.p. to the GDP growth. The latter two years of the forecast period are characterised by change in the growth composition, favouring the higher contribution of net exports to the GDP growth. In the period 2019-2022, the net exports will have positive contribution of 1.1 p.p. to the GDP growth. **Cumulative nominal GDP growth rate in the period 2019-2022 will be 16.9 percent, while the cumulative real growth rate in the same period will be 13 percent. Following the estimated growth of 3.1 percent in 2019, the real growth trend in the following years varies, from 3.4 percent in 2020, 2.8 percent in 2021 to 3.2 percent in 2022, averaging at 3.1 percent over the four-year period.**

Investment developments assumptions for the next period are based on the increase of private investment, which will offset in part reduced investment from public sources, which have peaked in the previous year in the form of capital budget. Finalisation of the construction of the priority highway section in 2020, as an assumption for the scenario, and start with the use of this road, will generate sizeable multiplier effects on the economic growth in the forthcoming period and improve the business environment, as it will enable much faster and safer flow of goods and services, as well as better quality connectivity of the Northern region with the rest of the country. The Economic Citizenship Programme, adopted in 2019 and which envisages investments of foreign investors in line with the criteria set by the Government of Montenegro in exchange for Montenegrin citizenship, has also prompted growth of investments in the medium term and their improved diversification.

The Government's economic policy over the medium term continues to focus on development of priority economic sectors, defined by key documents: tourism, energy, agriculture, and manufacturing sectors. Achieving the objectives set under these documents will have an important contribution to implementation of the sectoral policy measures from Chapter 5 of this document. Improvement of legislation, through expected adoption of laws (laws on public private partnership, concessions, public procurements, and adopted amendments to the laws on administrative and local stamp duties) will enable improvement of the institutional framework and create additional space for new investments. The 2020 Budget provides for additional strengthening of the fiscal stability, with set of supports for the health and education systems, opening some fiscal space for increase of wages as well as prerequisites for investments in order to increase the service provision quality in these two important government sectors. Furthermore, this year's budget increases allocation for the Agro-budget and investments for rural development, in order to create conditions for utilisation of and more EU funds. Allocation for development of sport and support for youth is also increased, as well as those for implementation of projects in the field of science and innovation, defence, public order and security. In addition to the above stated, the development component of the budget (capital budget) creates prerequisites for the more robust economic growth and strengthening competitiveness of the economy, as well as strengthening resilience to external shocks.

The dynamics of GDP components on the expenditure side for the period 2019–2022 are as follows:

- After an estimated real growth of 3.0 percent in 2019, the domestic demand will grow at the rate of 3.3 percent in 2020, and will have the highest positive contribution to the GDP growth of 3.8 p.p. in these two years, to slowdown afterwards and have contribution of 0.8 p.p. in the latter two years of the medium term. The household consumption will be a dominant driver for these flows and will grow at the real rate of 2.9 percent in the first two years of the period, in order to decelerate to 1.9 percent in 2021 and 2022. Growth of household consumption is triggered by the moderate growth in employment and wages over the medium term, continued increase in revenues from tourism and associated sectors, as well as by the stable growth of remittances and personal transfers from abroad. Given that the gross investments in 2019 have a high share in GDP of 31.9 percent, they will not have a more sizeable rise; therefore, will be levelled at an average of 1.6 billion euro over the medium term. After the real growth of 6.3 percent in 2018, the government consumption/spending will grow at an average rate of 1.3 percent in the period 2019-2022, where the somewhat weaker rate reflects implementation of the public administration optimisation measures during the observed period. The public consumption/spending will record a real growth of 4.5 percent in 2020, due to the planned increase in wages for a segment of the public sector.
- The foreign demand (net exports) will be prompted by strong real growth exports in goods and services of 4.4 percent in the period 2019-2022 and will have a positive contribution of 1.1 p.p. to the GDP growth during the same period, as opposed to the negative contribution of 3.1 p.p. from 2018. The tourism will have a strong nominal growth rate of 6.6 percent (real rate 5.5 percent) over the medium term, thanks to investments in better quality of the overall tourism product, mainly coming from increased number of accommodation units, as well as increased revenues from the much longer tourist season extension. According to the projections, the revenues from tourism will reach 1.3 billion euro in 2022. The export of goods, which makes a bit under 22 percent of the total exports (goods and services), will grow at the nominal rate of 3.2 percent over the medium term and contribute further to the reduction of pronounced foreign trade imbalance. The latter two years of the forecasted period will receive the highest positive contribution of the net exports of 2.2 p.p. to the real GDP growth, due to decline in imports of goods and services in those two years at the real rate of 1.1 p.p. Trend for imports of goods and services will be in line with the investments and public spending dynamics, thus it will grow at the rate of 3.4 percent in 2019 and 2020, in order to be stagnant and decline afterwards.

Table 3.2.1: Montenegro: Macroeconomic projections, 2019-2022

Montenegro: Macroeconomic projections, 2019-2022					
	2018	**2019**	**2020**	**2021**	**2022**
Nominal GDP in million €	4663.1	4817.1	5027.3	5217.9	5449.4
Nominal growth	8.5	3.3	4.4	3.8	4.4
Real growth	**5.1**	**3.1**	**3.4**	**2.8**	**3.2**
Inflation (average)	2.6	0.5	1.0	1.0	1.5
Core characteristics:			(as % of GDP)		
Current account deficit	-17.0	-17.1	-16.3	-13.3	-10.4
Export	42.9	44.4	44.6	45.1	44.9
Imports	66.7	68.0	67.4	65.2	62.4
Other	6.9	6.5	6.5	6.8	7.0
Household consumption	73.4	73.7	72.9	72.2	71.3
Gross investments	31.9	31.9	31.7	30.2	29.2
Gross fixed capital formation	29.2	29.6	30.1	28.7	27.8
Changes in inventories	2.7	2.3	1.6	1.5	1.4
Government consumption	18.5	18.0	18.2	17.7	17.0
GDP deflator	3.2	0.2	0.9	1.0	1.2
			(real growth rates in %)		
Real GDP growth	**5.1**	**3.1**	**3.4**	**2.8**	**3.2**
Domestic demand	**7.1**	**3.0**	**3.3**	**0.5**	**0.9**
Household consumption	4.6	3.3	2.4	1.9	1.9
Government consumption	6.3	1.1	4.5	-0.5	0.0
Gross investments	12.0	0.8	2.3	-2.3	-0.9
Gross fixed capital formation	14.7	3.3	4.6	-2.5	-1.0
Changes in inventories	-10.1	-26.7	-28.0	0.0	0.0
Export of goods and services	6.9	7.3	3.8	4.1	2.4
Import of goods and services	9.2	4.4	2.4	-0.6	-1.6
			(share in real growth as % of GDP)		
Real GDP growth	**5.1**	**3.1**	**3.4**	**2.8**	**3.2**
Domestic demand	**8.5**	**3.6**	**4.0**	**0.6**	**1.1**
Household consumption	3.4	2.4	1.8	1.4	1.4
Government consumption	1.2	0.2	0.8	-0.1	0.0
Gross investments	3.6	0.3	0.7	-0.7	-0.3
Gross fixed capital formation	3.9	1.0	1.4	-0.7	-0.3
Changes in inventories	-0.3	-0.7	-0.6	0.0	0.0
Net exports	**-3.1**	**0.2**	**0.0**	**2.2**	**2.1**
Exports of goods and services	2.8	3.1	1.7	1.8	1.1
Imports of goods and services	-6.0	-2.9	-1.6	0.4	1.0
Macroeconomic indicators:			Growth in percent, unless otherwise indicated		
Employment growth	3.6	2.8	1.2	0.5	1.3
Growth of wages	0.1	1.0	1.6	0.5	0.5
Unemployment rate	15.2	14.6	14.3	14.1	13.7
Net FDI as % of GDP	6.9	7.9	9.9	9.6	9.2
Domestic loans (corporate and household)	8.5	2.6	3.5	3.0	3.5

Source: Projections of the Ministry of Finance – Government of Montenegro

The macroeconomic indicators:

- The current account deficit in the balance of payments will decline from estimated 17.1 percent of GDP in 2019 to 10.4 percent of GDP in 2022, due to planned dynamic for imports and exports of goods and services trend;

- Inflow of investments over the medium term will continue to grow, charged by high confidence of foreign investors, thus we expect that net foreign direct investments will make on average 9.6 percent of GDP in the period 2020-2022;
- Loans to the corporate and household sectors will continue to spur rise of the economic activity and will record an average growth of 3.4 percent;
- Employment will grow at somewhat more moderated rate of 1 percent in the period 2020-2022, shadowing the economic activity growth, and constrains and potential of the domestic labour force;
- The unemployment rate will fall from estimated 14.6 percent in 2019, to 13.7 percent in 2022, following the envisaged employment growth dynamics and planned policies aimed at increasing the population activity rates in the labour market;
- Following somewhat higher growth in 2020 of 1.6 percent due to the announced increase of wages for employees in the health and education sectors, the wages will grow at the average nominal rate of 0.5 percent in the latter two years of the medium term; the real wages will record a decline of 0.5 percent in the period 2020-2022 in line with the projected inflation trend, while they will record an increase of 0.5 percent in 2019, according to the estimates;
- A stable growth of consumer prices is expected in the observed period, with growth averaging at 1.3 percent. The projection is based on projections of stable oil and food prices at the global market, the Euro area inflation projections of the European Central Bank for 2019 and 2020, as well as targets for the afterwards period.

The GDP growth contains the following components on the production side:

- Projected real growth in the agriculture sector in the period 2020–2021 will be on average 3 percent. Such growth is projected based on increased investments in the agriculture and sizeable lending support to this sector in the period 2012–2022. The investments in the agriculture sector are expected to increase competitiveness of producers and influence the reduction in food imports through substitution and/or an increase in exports;
- The mining and quarrying sector will grow at an average of 4.5 percent annually over the medium term, as a result of the increased demand for materials required for the highway project (stone, various size classes of gravel, and substrate materials), as well as growth in the mining (exports of bauxite);
- The manufacturing industry will experience growth of 4.2 percent in the forthcoming period, with the assumption that the measures proposed in the document *Montenegro Industrial Policy Strategy by 2020* will yield results in terms of removing bottlenecks and revitalising the sector. A special contribution is expected from growth in the sub-sectors of food processing and meat processing, the wood industry, metals industry complex and the production of tobacco products;
- Construction sector will have an average growth of around 3.0 percent, driven by the projected investment dynamic;
- This scenario envisages growth of 5.8 percent in the accommodation and food services, which partially covers the tourism sector. The phased completion of the started investments in tourism will increase the supply of higher-category facilities, which is a prerequisite for strengthening the contribution of this sector to the GDP growth. Overnight stays in collective accommodation capacities account for 33 percent of the total accommodation supply, but their contribution has a many-times-higher effect than the contribution of the private accommodation to total revenues from tourism. Increasing supply in this segment will contribute to a faster growth in revenues.

The following table provides an overview of indicators by aggregated production sectors:

Table 1.2: Production sectors – real growth rates and share in gross value added (GVA)

	Real growth rates				Share in GDP growth, %				Share in gross value added,%			
Sectors	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**
Agriculture	3.0	3.0	3.0	3.0	0.2	0.2	0.2	0.2	8.2	8.2	8.2	8.2
Industrial production	-4.5	3.1	3.6	4.5	-0.5	0.3	0.3	0.4	11.6	11.5	11.6	11.7
Construction	12.0	5.0	0.0	4.0	0.7	0.3	0.0	0.2	7.6	7.7	7.5	7.5
Services	3.6	3.5	3.0	3.1	2.1	2.1	1.8	1.8	72.6	72.6	72.7	72.6
-of which accommodation and food services	5.5	5.5	6.0	6.0	0.4	0.4	0.5	0.5	9.2	9.3	9.6	9.9
GVA (gross value added)	3.1	2.6	2.6	2.6	2.5	2.9	2.3	2.7	100.0	100.0	100.0	100.0
Taxes less subsidies	3.1	2.6	2.6	2.6	0.6	0.5	0.5	0.5				
GDP	3.1	3.4	2.8	3.2	3.1	3.4	2.8	3.2				

Source: Projections of the Ministry of Finance

The risks for the macroeconomic scenario relate to those effects that could have a negative impact on the main growth drivers over the medium term and those relating to the fiscal and financial stability.

- Changes in the pace of investments and a possible unplanned cost increases for the highway section pose a risk for this scenario materialising, with unavoidable negative multiplier effects on the economic developments, as well as on the fiscal indicators, budget revenues, deficit, and debt. The multiplying effects of this risk materialising would impact a reduction in the aggregate demand and lower household consumption, but would also reduce imports;
- A lack of implementation of the fiscal consolidation measures and structural reforms would have a negative impact on the fiscal stability and consequently on the overall macroeconomic stability;
- Adverse weather conditions could have a significant effect on the sectors of tourism, agriculture, and electricity generation;
- The geopolitical risks from the immediate or wider environment are increasing the security challenges, which have an impact on the entire global economy through a reduction in investment, tourism turnover, or a reduction in the overall economic activity, with the spill-over effects of potentially lower growth rates for all economies. This year those risks are more pronounced and relate to the unstable USA–China relations resulting from the introduction of trade barriers, the introduction of sanctions against Iran, Brexit, as well as other risks.

3.2.2. Potential growth

The potential growth, by its nature, is not a category that can significantly change over a short period, but it was estimated and updated for this years as well. The Cobb-Douglass methodology was used (CD[9] production function, estimated value of total capital in the economy, as well as the population projections[10]), which follows common approach for the European Union, adopted by the working group for the output gap calculation, whereby it was simplified due to short data series for Montenegro. This calculation does not include the economic migration to the Western Europe countries, as there are no official indicators for this issue, which could have impact on the decline of the potential over the medium and long term, since the categories in question come from the younger population. Data estimates on population numbers, published by MONSTAT as part of the GDP statements, point to stagnant population number in recent years, while they show a slight increase with the median fertility used in the calculation.

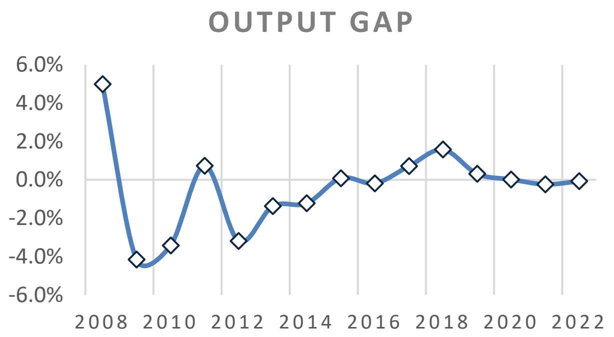
[9] Cobb-Douglass production function

[10] The calculation of capital for the first year was done in line with the methodology which takes the value of capital in the first year to be equal to the value of gross investments in that year divided by average growth rate of the item over the available period, plus the value of capital amortisation. Source: Hall and Jones –"Why do some countries produce some much more output per worker than others"

The average potential growth from 2008 to 2018 was 2.6 percent, while it grows to 3.5 percent in the period 2019–2022. Completed investment projects increase the value of capital, as one of the components of growth, whereby the ongoing investments are at a record high level. Demographic projections, and related available work age population, indicate to a stagnant numbers, which reduces the share of this component in the potential growth.

Analysis of the share of factors of production and related total factor productivity indicates that the

Figure 1 – Output gap



share of capital in the real growth rate, during the period 2008–2018, was at an average of 2.3 percent, the share of the labour force was at 0.6 percent, while the total factor productivity had a negative share of 1 percent. This indicates that the average potential for growth is caused primarily by the growth in physical capital, the weak contribution of the labour force and a negative contribution from the total factor productivity. For the period 2019–2022, the contribution of the factors of production will change to a certain degree, thus for the capital is at an average of 2.7 percent, the labour force share will increase to 0.9 percent, while the total factor productivity as a residual is negative and is 0.5 percent.

3.2.3. External sector and its medium-term sustainability

The high level of the current account deficit in the balance of payments, which was estimated at 17.1 percent of GDP in 2019, indicates that the foreign trade imbalance continues to be high. The highest negative contribution to the current account balance comes from the deficit in the goods account, which is estimated at 43.6 percent of GDP, but is partially offset by the surplus from the services account (20 percent of GDP) and the balance from the accounts of primary and secondary incomes of 6.5 percent of GDP. The current account deficit is partially covered by foreign direct investments and borrowing by the state on the international and domestic financial markets. The composition of the current account deficit and its financing pose a risk to the sustainability of the balance of payments position, since it relies on a high inflow of foreign investment.

During the next medium-term period we expect a decline in the current account deficit, given that the continuous growth in exports of goods and services, and stagnant and declining imports of goods and services are projected, thus at the end of the period it will be around 10.4 percent of GDP. In the period 2020–2022, the expected FDI inflow is at an average of 9.6 percent, and it will make a significant contribution to financing of the current account deficit.

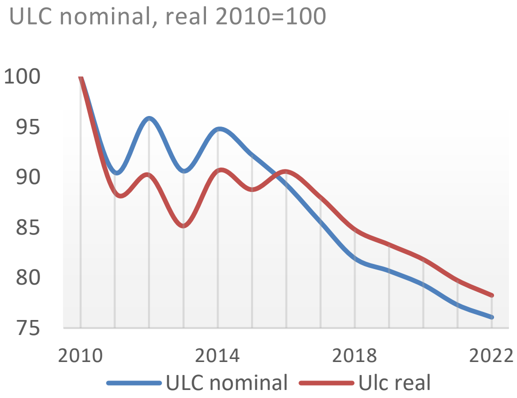
Analysis of the productivity developments, stated as a percentage of the gross domestic product

F*igure 2 – Productivity*

realised and the number of employed people (15+ years) at the level of the economy, indicates an upward trend in the productivity, with an average rate of 1.6 percent in the period 2010–2018; which corresponds to an average growth in the overall economic activity during that period. According to the GDP and employment projections for the period 2019–2022, it is expected that the productivity will increase, with an average annual growth of 1.6 percent. The following figure presents the development of productivity as a ratio of real GDP and the number of employed persons.

Analysis of competitiveness, which was developed based on the **unit labour cost** (ULC),[11] shows that price competitiveness had recorded a sizeable growth in the period 2010–2018, as a consequence of the growth dynamic of wages, employment, inflation, and GDP. The total growth of expenditures for wages was 7.6 percent, while the inflation grew by 16.3 percent, resulting in real wages declining by 7.5 percent, which is a measure of internal devaluation during that period. The employment increase was 13.6 percent. At the same time, the cumulative rate of the real GDP growth was 18 percent. Both real and nominal indicators show the decline of ULC, which corresponds to the growth in productivity and an increase in competitiveness. By the end of the forecast period, we have estimated that there will be a further increase in the competitiveness resulting from the wage, employment, inflation, and GDP dynamics.

Figure 3 – Unit labour cost



3.3. Alternative scenario

3.3.1. Low-growth macroeconomic scenario 2020-2022

The global slowdown of the economic activity, along with the reduced trade, has also strongly affected the European economy, with the expected deceleration of its growth or possible recession inevitably spilling over to the economic activity of the Western Balkans region. The effects of these risks intensifying need to be incorporated in the growth model envisaged under the alternative macroeconomic scenario. The low-growth scenario assumes a slower pace of investments materialising, which are the biggest accelerators of the economic growth, as well as slower growth of revenues from the tourism sector.

The cumulative nominal GDP growth in the low-growth scenario would be 7.4 percent in the period 2020-2022, while the cumulative real growth would be 4.2 percent. In this scenario, the gross investments, after levelling in 2020 and completion of highway, would decline in 2021 at the real rate of 6.4 percent, which is a drop of around 70 million euro, relative to the high base from previous years, and would maintain that level in 2022. The assumption for declining investments over the medium term is based on the finalisation of ongoing investments, but also on the insufficient interest of private investors, which would cause the average negative contribution of the gross investments of 1.1 p.p. to the GDP growth in the period 2020-2022.

Lower economic growth of countries in the region and broader European environment would have downside effect on the weaker growth in revenues from tourism, given that tourists from the region and Europe make dominant share in composition of overall overnight stays in the country. The scenario assumption includes an increase in revenues from tourism of 3.5 percent on average nominally over the next three-year period (real rate of 2.3 percent).

The average GDP growth rate under the low-growth scenario would reach 1.4 percent in the period 2020-2022, having more or less similar growth trend across years: 1.4 percent in 2020, 1.5 percent in 2021, and 1.1 percent in 2022. Net exports are driving the growth in all years of the medium-term period, and have the highest share of 1.9 p.p. in the GDP growth. Imports of goods and services would record a real decline over the next three-year period by an average of 1.8 percent, due to the projected decline in investments in the first two years of the period, and slower real growth in private

[11] ULC values were calculated using the OECD methodology and official data from the statistical system.

consumption of 0.4 percent. Exports of goods and services would grow at an average real rate of 1.7 percent and sustain significantly weaker growth trend for the revenues from tourism. In line with such developments, the current account deficit will drop to the projected 9.7 percent of GDP in 2022, from estimated 17.1 percent from 2019.

The government consumption will be stirred up by the rise of the gross wages in 2020, which will increase spending in that year; however, it will be affected at the same time by implementation of the measures concerning the optimisation of number of employees in the public administration. Average real growth of the government consumption is 1.3 percent in the period 2020-2022.

Slowing down of the economic activity will drive the weaker increase of employment of 0.3 percent on average in the next three-year period, while the wages will grow at the average rate of 0.5 percent in 2021 and 2022, following the increase in wages of 1.6 percent in 2020 due to increase of wages for part of the public sector. The unemployment rate will decline by around 0.1 p.p. on average across years, along with the projected employment and population activity rate growth, and will be 14.3 percent in 2022.

Due to consumer prices rising somewhat faster than the nominal wages projected at the average rate of 1.2 percent in the period 2020-2022, the real wages will decline at an average rate of 0.3 percent over the medium term. The inflation increase assumptions include slower economic activity in the country and assumptions concerning stable oil and food prices trend on the global markets, as well as the European Central Bank inflation projections for 2019 and 2020, and planned target values after that period.

Deceleration of growth in the global environment and decline in investments in the country will reflect on the increased caution from foreign investors, thus the foreign direct investments will be stagnant at the level of 6.1 percent of GDP, from their estimated share of 7.9 percent in 2019.

Table 3.3.1: Montenegro: Macroeconomic projections 2019-2022, low-growth scenario

Montenegro: Macroeconomic projections, 2019-2022					
	2018	**2019**	**2020**	**2021**	**2022**
Nominal GDP u million euro	4663.1	4817.1	4932.7	5056.7	5174.0
Nominal growth	8.5	3.3	2.4	2.5	2.3
Real growth	**5.1**	**3.1**	**1.4**	**1.5**	**1.1**
Inflation (average)	2.6	0.5	1.0	1.0	1.5
Key characteristics:	(as % of GDP)				
	(real growth rate in %)				
Real GDP growth	**5.1**	**3.1**	**1.4**	**1.5**	**1.1**
Domestic demand	**7.1**	**3.0**	**0.5**	**-1.1**	**-0.2**
Household consumption	4.6	3.3	0.3	0.8	0.0
Government consumption	6.3	1.1	4.5	-0.5	0.0
Gross investments	12.0	0.8	-3.4	-6.1	-0.9
Gross fixed capital formation	14.7	3.3	-1.5	-6.4	-1.0
Changes in inventories	-10.1	-26.7	-28.0	0.0	0.0
Exports of goods and services	6.9	7.3	1.4	2.8	0.8
Imports of goods and services	9.2	4.4	-1.3	-2.5	-1.6
Macroeconomic indicators:	Growth in percent, unless otherwise indicated				
Employment growth	3.6	2.8	0.4	0.2	0.2
Growth of waged	0.1	1.0	1.6	0.5	0.5
Unemployment rate	15.2	14.6	14.5	14.4	14.3
Net FDI as % GDP	6.9	7.9	6.1	5.9	6.2

Source: Projections of the Ministry of Finance

3.4. Assessment of impact on macroeconomic indicators of infrastructure projects financed from public sources

The new Montenegro Macroeconometric Model (MMM) is used to assess the impact, which the Government of Montenegro has received with the European Commission support through the IPA 2017 Project *Support to the Assessment of Macroeconomic Impact of Structural Reforms*.

The Analysis[12] represents a quantitative assessment of the impact on macroeconomic indicators for the following projects: construction of the priority Bar-Boljare highway section: Smokovac-Uvač-Mateševo; regular and capital maintenance, reconstruction, and construction of new state roads; construction, maintenance, reconstruction, and modernisation of the railroad infrastructure; municipal utilities infrastructure (overhaul and expansion of the water supply system, construction of waste-water treatment plants, and waste management); and construction and reconstruction of education sector facilities. These are the projects being implemented in the period from 2016, and which will be implemented until 2022. Forecasts and assessments obtained by applying the model for impact assessment of structural reforms and implementation of projects on the macroeconomic developments (Module II) do not generate accurate "forecasts" but rather reflect composition of and relations in the economy of Montenegro.

The following table presents investments of funds from public sources by individual projects subject of this analysis[13]:

Table 3.4: - Investments of funds from public sources - in million euro

		2015 Outturn	2016 Outturn	2017 Outturn	2018 Outturn	2019 Outturn	2020 Plan	2021 Plan	2022 Plan
1.	**Construction of the priority Bar-Boljare highway section Smokovac-Uvač-Mateševo**	-	171.2	176.3	199.0	182.6	150.1	-	21.5
2.	**Regular and capital maintenance, reconstruction, and construction of new state roads**	22.8	11.9	37.3	34.3	32.4	37.2	*35.0**	*35.0**
3.	**Construction, maintenance, reconstruction, and modernisation of the railroad infrastructure**	12.8	15.0	18.7	19.6	14.0	13.0	13.0	13.0
4.	**Municipal utilities infrastructure**	21.9	9.1	40.6	10.9	16.3	61.9	48.8	30.4
5.	**Construction and reconstruction of education sector facilities**	6.2	1.1	3.0	3.2	10.0	15.0	12.0	13.0
Total (1+2+3+4+5)		**63.7**	**208.3**	**275.9**	**267.0**	**255.3**	**277.2**	**108.8**	**112.9**

**- approximated amounts for the Model needs*

Net effects from implementation of stated infrastructure projects represent a difference in results presented in the scenarios with projects and without projects. The year 2015 was used as the baseline year (benchmark year before start of considered measures). The effects from implementation are presented in the following table:

[12] Impact assessment for the set of 18 identified priority structural reforms, which will have upward impact on the budget over the long run, cannot be done by applying the Module II, while their impact on employment, competitiveness, and consequently economic growth will be visible over the medium term, as explained in Chapter 6: Budgetary implications of structural reforms.
[13] Data take from strategic development documents and reports on their implementation.

Table 3.4.1 - Effects from implementation of infrastructure projects

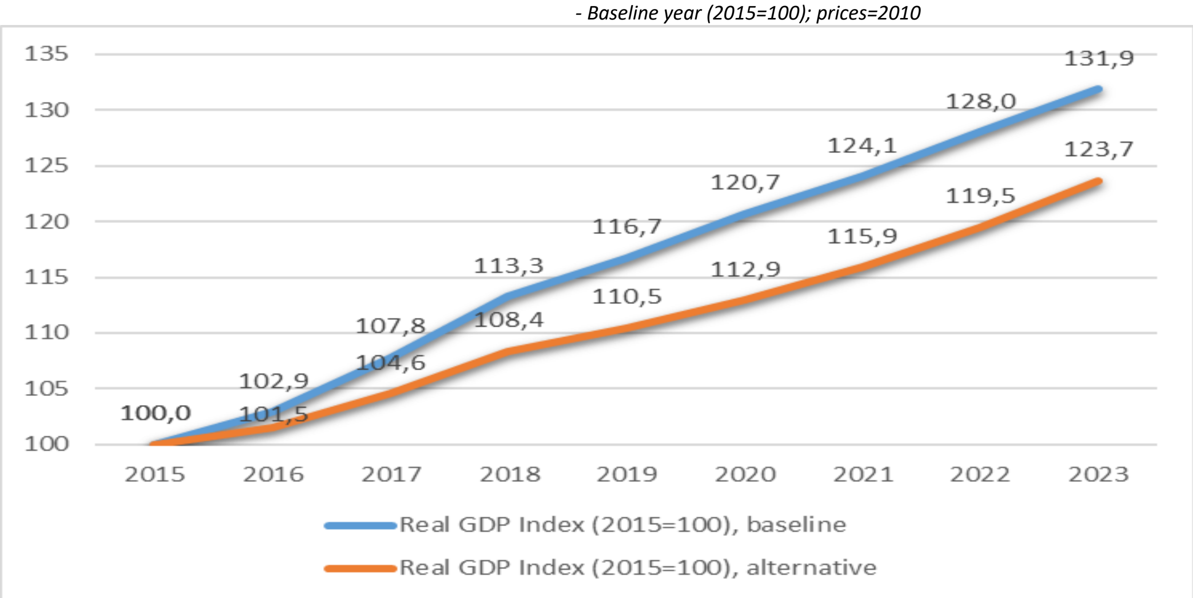
	2016	2017	2018	2019	2020	2021	2022
Real sector							
GDP (2010 prices), net effect in %	1.5%	2.9%	4.0%	4.8%	5.7%	5.6%	5.6%
Private consumption (2010 prices), net effect in %	1.8%	3.5%	4.8%	5.9%	6.9%	6.8%	6.7%
Private investments (2010 prices), net effect in %	6.1%	8.2%	8.7%	9.1%	10.2%	6.7%	6.7%
Export of goods (2010 prices), net effect in %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Export of services (2010 prices), net effect in %	11.3%	10.8%	10%	9%	10.6%	3.9%	3.9%
Import of goods (2010 prices), net effect in %	10.2%	9.7%	9%	8%	9.5%	3.6%	3.5%
Import of services (2010 prices), net effect in %	2.8%	5.3%	7.4%	8.9%	10.5%	10.4%	10.3%
Labour market							
Labour force, net effect in %	0.4%	0.7%	1.0%	1.2%	1.4%	1.4%	1.4%
Employment, net effect in %	0.5%	1.0%	1.4%	1.6%	1.9%	1.9%	1.9%
Unemployment, net effect in %	-0.2%	-0.5%	-0.7%	-0.9%	-1.0%	-1.0%	-1.1%
Unemployment rate, net effect in p.p.	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
Nominal wage, net effect in %	1.5%	2.9%	4.0%	4.8%	5.7%	5.6%	5.6%

Expected net effect from these projects on the real GDP is 5.7 percent in 2020, 5.6 percent in 2021, and 5.6 percent in 2022. This means that the GDP at the end of 2022 would be 5.6 percents lower than in the scenario without measures.

Graph presenting the real GDP growth relative to the baseline year (2015=100) is shown in the following figure:

Figure 4 – Real GDP growth index

- Baseline year (2015=100); prices=2010



It is expected that the real GDP growth for the period 2015-2022 will be 28.0 percent, in comparison to the scenario without listed projects, under which the growth would be 19.5 percent. Favourable effects of public investments create preconditions for additional both private and public investments.

A very important upward effect on the national economy comes from contribution of these projects to the decrease in the number of unemployed persons, or increase in employment. Expected effects on the labour market in the period 2020-2022 are:

- Number of employed persons would be higher by 1.9 percent in each individual year, in comparison to the scenario without infrastructure projects being implemented;
- Unemployment rate would be lower 0.4 percentage points in each individual year, in comparison to the scenario without infrastructure projects being implemented;

Implementation of the listed projects would have impact on increase of the foreign trade deficit, primarily due to the increase in import of goods, in particular machinery, equipment and materials for the highway construction. After construction of the priority highway section is finalised, reduction of the net impact on import of goods is expected from 9.5 percent in 2020 to 3.6 percent in 2021, and 3.5 percent in 2022. Favourable effects of public investments boost the competitiveness of the Montenegrin economy, resulting also in increase of the export potential for services. Expected net impact on export of services is 10.6 percent in 2020, and 3.9 percent in 2021 and 2022 each.

4. FISCAL FRAMEWORK

4.1 Policy strategy and medium-term objectives

The Montenegro economic policy overarching goal is a dynamic and sustainable economic growth that contributes to increased quality of living of all citizens. In the previous period, the public finance policy focus was on the fiscal stability strengthening in order for the public finance long-term sustainability to be ensured. The following is an evidence of the fact that the fiscal consolidation measures brought about reversal in the public finance trend i.e. fiscal position of Montenegro has improved:

- record-breaking economic growth rates of 4.7 percent in 2017 and 5.1 percent in 2018 were achieved, which facilitated an increase in employment and growth of wages;
- public finance deficit of 5.6 percent generated in 2017 decreased to 2.0 percent of GDP in 2019, whereas the current budgetary expenditure surplus was generated in all years of fiscal adjustment implementation.

Public revenues, since the beginning of fiscal adjustment implementation measures, have increased by almost 350 million euro or 20 percent, and the growth of all categories of tax and non-tax revenues have been recorded. The mixture of measures directed towards increased revenues and public expenditure optimisation, as in the first year of implementation, facilitated the budget deficit declined about 3.0 percent of GDP in 2017, in comparison to the no-fiscal consolidation scenario.

In view of creating conditions for an improved standard of living of all citizens, particularly low-income ones, the minimum wage increased by 15 percent as of July 2019. At the same time, in order not to slowdown employment growth or economy competitiveness, that is, to reduce the overall labour tax wedge, the health insurance contribution rate payable by employers was lowered by 2 p.p. In addition, on January 1st 2020, in accordance with the Law on Personal Income Tax, the "crisis tax" was abolished, i.e. a higher rate was reduced from 11 percent to 9 percent, which will additionally lower the labour tax wedge.

In the coming medium-term period, the implementation of fiscal consolidation measures will continue aiming at:

- Further public finance consolidation in 2020 with surplus anticipated in 2021 and 2022;
- Establishing a downward public debt trend from 2020 and achieving the level of 62.5 percent in 2022.

The mentioned goal is achievable in the medium term through stable public revenue growth, primarily guided by further growth of economic activity and also an expanded tax base that will result from intensified activities directed towards the reduction of grey economy, the Tax Administration reform and also projected effects of "Economic Citizenship" programme implementation and the revenues from the concession fee related to the long-term lease of the "Aerodromi Crne Gore" (Airports of Montenegro).

On the other hand, continuous generation of current expenditure surplus and also stable funding sources facilitated the creation of fiscal envelope for controlled growth of spending in 2020, primarily aimed at enhanced provision of public services through increased investments in the sectors of Health and Education, continued investment in capital projects and enabling the financial consolidation of the national airline company. After 2020, the public expenditure decreasing trend will reach the level of

40.1 percent of GDP in 2022 as a result of the completion of the priority section of the Highway i.e. disburdening of the Capital Budget.

It is important to note that in 2019, the achievement of the most favourable borrowing conditions for issue of Montenegrin bonds in the international capital market so far, (issued Eurobonds of 500 million euro, with ten-year maturity and interest rate of 2.55 percent) also created a fiscal reserve in the form of deposits that will be used in 2020 and serve for repayment of debt becoming due in March in 2020. In that way the funding is ensured in 2020, taking into account that the remaining amount of the required funds is secured through a loan facility concluded for the purpose of financing the completion of the priority section of the highway construction project. High primary surpluses projected in 2021 and 2022, along with stable economic growth rates, facilitate the public debt reduction as a GDP share and its approximation to the level set by the Maastricht criteria in 2022.

The improved fiscal position, along with the activities undertaken in the field of financial sector strengthening, a favourable ambiance has been created as regards the readiness of Montenegro to respond to the effects of potential economic slowdown on the global level. Although significant results have been achieved, in the coming period, consistent implementation of fiscal consolidation measures will continue, as well as the measures directed towards the increased competitiveness of economy in order to further foster long-term sustainability of public finances.

In that regard, according to the policy guidance from the Ministerial dialogue regarding the percentage share of gross wages in GDP, since the beginning of the implementation of fiscal consolidation measures, the share of gross wages in GDP has been decreasing, given that in 2016 it was at the level of 11.8 percent, and in 2019 it is expected to be at 10.9 percent. With the exception of 2020, when a slight growth of wages is expected in relation to 2019 due to a nominal increase of allocations in the sectors of education and health, the downward trend is also evident according to the medium-term fiscal framework, taking into account that in 2022 it will amount to 10.5 percent of GDP. With reference to upgrading the software for centralised payroll calculation, this policy guidance is implemented through the project financed from IPA funds that commenced in December 2018. It is anticipated that the first test version of this system will become operational in 2020.

For the Project introducing electronic monitoring of tax cash registers, during 2019 and 2020 formal assumptions will be created and activities implemented in order for this project to commence in 2021, first through a test version, and then through full coverage of all tax payers.

For the purpose of further strengthening of the budgetary system and fulfilling the conditions related to EU integration, Montenegro is implementing a reform of the budgetary system through the project "Enhancement of the Budgetary System, Medium-Term Budgetary Framework and Internal Financial Control", which is to result in an enhanced budgetary system as a whole, through full implementation of the programme budgeting, medium-term planning and other elements of budgeting system.

In view of strengthening the supervision over the fiscal policy implementation, with the EU support, a project is being implemented with an objective of considering the options of the most adequate model for establishing a body to carry out independent assessment of fiscal policy in Montenegro – the Fiscal Council, including proposals of the legal framework for its functioning. The project agreement was signed in September 2019 and the completion of the project is anticipated within 24 months. The project envisages the implementation of the following activities: preparation of an Options Document for establishing an independent fiscal council in Montenegro, including a comparative analysis of several independent fiscal institutions; issue of guidance on required legislative amendments and drafting relevant laws/enabling regulations in view of establishing a fiscal council; technical assistance for establishing and supporting the operations of the fiscal council, including drafting of procedures / rulebook for council's operations. The above mentioned Options Document was prepared at the beginning of December 2019, and thus the Ministerial Dialogue policy guidance No. 2 has been implemented.

4.2 Budget implementation in 2019

Fiscal policy 2019 was focused on the continued implementation of fiscal consolidation measures aimed at fiscal stability strengthening in order for the long-term sustainability of public finances to be ensured.

In order to primarily benefit from positive trends of interest rates in the international market, and thus ensure stable funding sources in 2020, Budget Revision was adopted in July 2019 to create legal assumptions for Eurobonds issuance.

In addition, the Budget Revision updated the plan of revenues and expenditures in accordance with the current trends, to the extent which enabled the preservation of the originally planned deficit, with concurrent creation of assumptions for further fostering of public finances and reducing fiscal risks in the future period.

Public revenues in 2019 are estimated in the amount of 2,129.5 million euro or 44.2 percent of estimated GDP (4,817.1 million euro) and in relation to those collected in 2018 they are higher by 160.0 million euro or 8.1 percent, whereas in comparison to the plan, they are higher by 63.7 million euro or 3.1 percent.

In relation to the previous year, the highest positive variance of the main revenue categories has been recorded with:

- Value added tax by 78.8 million euro or 12.8 percent, as a result of economic activity growth, strong tourism season, and also inspection services operations;
- Excise by 14.3 million euro or 6.5 percent, primarily due to redefined excise policy for tobacco excise, which affected recovery of the tobacco products market and ensured growth of the scale of sales by over 40 percent according to the latest available data for ten months. Other categories of excise goods also recorded growth due to the increased excise duties on ethyl-alcohol, excise on sweetened carbonated water and introduction of excise on coal, and also growth of economic activity as regards the impact on collection of excises on mineral oils and other derivatives;
- Contributions by 21.8 million euro or 4.2 percent, as a result of employment growth, and also due to the fostered fiscal discipline and effects of the Law on Rescheduling Tax Receivables. In addition, this revenue category recorded growth in spite of the reduction of 2 p.p. of the health insurance contributions payable by employers, as a measure adopted as part of minimum wage increase.

Fiscal adjustment measures implemented on the revenue side in 2019 are as follows:

- Mitigation of excise calendar by retaining excise on tobacco in 2019 at the same level as in 2018 (specific excise on cigarettes 30 euro per 1000 pieces, and ad valorem 32 percent of the retail price of cigarettes);
- Excise on sweetened carbonated water and other sweeteners or aromatisation agents increased to the amount of 25 euro per hectolitre;
- Excise on ethyl-alcohol increased in line with the calendar specified by the established Fiscal Strategy 2017-2020;
- Introduced coal excise in the amount of 0.15 euro/GJ;
- Reduction of tax arrears through the implementation of the Law on Rescheduling Tax Receivables;

- It has been pursued with the taxation of personal income (applicable to the portion of wage exceeding the national average) at the rate of 11 percent;
- Increase of minimum wage by 15 percent (to 222 euro), with concurrent lowering of health insurance contributions payable by employers by 2 p.p., which will result in a decrease in the revenues collected from health insurance contributions.

Public spending in 2019 is estimated in the amount of 2,224.1 million euro or 46.2 percent of GDP and in relation to the outturn in 2018, the spending is higher by 70.7 million euro or 3.3 percent, whereas in relation to the planned it is higher by 54.8 million euro or 2.5 percent. The mentioned public spending growth, in relation to the planned, is a result of a called upon state guarantee related to the wastewater treatment system in the municipality of Budva and higher allocations for the equipping needs of the Army of Montenegro, in line with the obligations under Euro-Atlantic integration and the Long-term Defence Development Plan 2019-2028, and defence allocations reaching 2 percent of GDP by 2024.

On the other side, Capital Budget outturn was on a lower level in comparison to the planned by 22.1 million euro, and it is related to the implementation of the highway construction project, in accordance with the time schedule of the executed works in 2019.
The fiscal adjustment measures implemented on the public expenditure side in 2019 are as follows:

- Minimum wage increase by 15 percent (to 222 euro), with concurrent lowering of the health insurance contributions payable by employers by 2 p.p., has resulted in the reduction of the overall gross wage bill in the second part of the year in this respect. On the other side this measure affects increased expenditures that are adjusted to the minimum or average wage;
- Through the centralised public procurement system, expenses have been reduced for standardised public procurement (administrative material, telecommunication costs, office supplies, maintenance services, etc.), which ensures efficient public procurement system for the needs of state authorities;
- The new Law on Local Self-Government Financing facilitates local public finance strengthening, which resulted in reduced outstanding liabilities from the previous period.

Public finance deficit in 2019 is estimated to 94.6 million euro or 2.0 percent of GDP and in relation to the planned it is lower by 8.8 million euro, whereas in relation to the deficit generated in 2018 it is lower by 89.3 million euro or almost 50 percent, which indicates a further decreasing trend of deficit that is also one of the basic goals set by the Fiscal Strategy. Primary surplus of public finances is estimated to 14.5 million euro or 0.3 percent of GDP, and current public expenditure surplus in the amount of over 200.0 million euro or about 5.0 percent of GDP, which points out that the current public expenditure is financed solely from current public revenues.

4.3 Budget plans for 2020

The continuation of intensified economic activity growth and the results of fiscal consolidation completed in the previous period facilitate the achievement of balanced public finances in 2020, which along with the generated primary surplus of 2.2 percent of GDP ensures public debt decrement. In addition, the trend of current spending surplus is continued, and it is projected at the level of about 6.0 percent of GDP.

Public revenues for 2020 are planned in the amount of 2,324.9 million euro or 46.2 percent of estimated GDP (5,027.3 million euro) and in relation to the estimate for 2019 they are higher by 195.4 million euro or 9.2 percent.

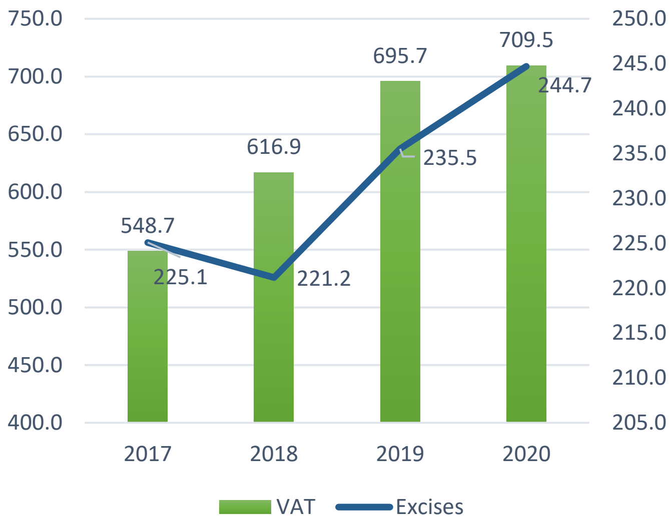
According to the projected rates of macroeconomic indicators, a stable growth of overall revenues is anticipated, which together with continued implementation of fiscal consolidation measures will contribute to the creation of the conditions for regular servicing of all public functions. In addition, the projected revenue growth in 2020 is a consequence of the collection of revenues related to subjecting the ”Airports of Montenegro” for long-term use under concession, the implementation of "Economic Citizenship” project and the revenues from tax debt and the debt owed to the state by the company Montenegro Airlines AD.

The rationale of the trends of the main categories of current public revenues:

Personal income tax – Although according to the Law on Personal Income Tax the “crisis tax” measure is planned to cease as of January 1st 2020, i.e. personal income tax rate to be reinstated to ad valorem rate of 9 percent for all categories of wages, it is anticipated that this revenue category will increase by 3.9 percent in relation to the estimate for 2019 due to the projected employment growth, collection of tax arrears in accordance with the Law on Rescheduling Tax Receivables, minimum wage growth by 15 percent, as well as the collection of debt from Montenegro Airlines AD.

Corporate profit tax – is projected in line with the economic activity growth, the collection of tax arrears in this respect and the reduction of tax wedge pursuant to the mentioned. Profit tax in 2020 will increase by 0.7 percent in relation to the estimate for 2019.

Figure 4.2.1 – VAT and excise revenue development, in euro mill.



Value added tax – according to the trend of household consumption, employment and wages and tax debt rescheduling, VAT collection in 2020 will be higher by 2.0 percent in relation to the estimate for 2019.

Excise – Excise trend in 2020 is determined by increased tobacco excise and coal excise, whereas the excise on sweetened carbonated water or other sweeteners or aromatisation agents and excise on ethyl-alcohol remain at the level from 2019, pursuant to the Proposal Law Amending the Excise Law. In accordance with the mentioned, excise will be higher by 3.9 percent in relation to the estimate for 2019.

Contributions – in line with the growth of employment and wage growth, the collection of tax debt from Montenegro Airlines AD, as well as anticipated effects of stringent tax discipline, contributions in 2020 are projected to be higher by 4.3 percent in relation to the estimate for 2019 in spite of the lowered overall labour tax wedge through reduced health insurance contribution rates payable by employers by 2 p.p. and expanding of tax debt rescheduling to other revenue categories.

Fees – revenues from fees in 2020 are anticipated to be higher by 97.6 million euro. in comparison to the estimate for 2019. In the structure of overall revenues this category records the highest growth in 2020. taking into account the advance payment related to subjecting the Airports of Montenegro to long-term use as well as the anticipated effects of Economic Citizenship Programme implementation based on the expected number of applicants. In addition, the growth of this category is a result of the planned effects of adoption of the new Law on Games of Chance that will regulate the market of games of chance in a comprehensive way, define new forms of games of chance, facilitate full and qualitative oversight of organisers on the Internet, which will bring about a qualitative environment for market development and increased revenues in this respect.

Public spending is projected at the level of 2,324.2 million euro or 46.2 percent of GDP and in relation to the estimate for 2019., it is higher by 100.0 million euro or 4.5 percent. In the structure of overall public spending, the Current Public Expenditure is planned at the level of 2,022.2 million euro or 40.2 percent, whereas the Capital Budget is planned at the level of 302.0 million euro or 6.0 percent of GDP.

The record- breaking economic growth rates and enhanced fiscal position created the conditions for increased Current Public Expenditure, as to ensure: improved standard of the employed in the sectors of Education and Health Care through an increase of wages by 9 percent in 2020., increased allocations for the health system needs through continued investments aimed at improving the quality of public health care services, and the creation of the conditions for financial sustainability of the national airline company Montenegro Airlines AD.

According to the Central Budget for 2020, investment in other sectors is continued too, i.e.: education, agriculture and rural development, sports and activities aimed at improving the position of the youth, science, as well as defence, public order and security.

On the other hand, 302.0 million euro will be invested through the Capital Budget, of which 145.7 million euro is committed for the priority section Bar-Boljare highway construction project, while the remaining amount of funds is related to the projects implemented by the Public Works Administration and Transport Administration, and local self-governments as well.

On the other side, the so called “unproductive expenditures” such as: business trips, entertainment cost, fuel and procurement of take-home vehicles are additionally rationalised with budget users except for the institutions where the performance of the core function is related to these categories of expenditures, which is primarily related to: the work of inspection services, field work and the like.

In view of providing the conditions for continued implementation of the Public Administration Reform Strategy, the conditions have been created for further public administration optimisation through establishment of an institute of mutual agreement termination of employment which facilitates the reduction of the wage bill in the public sector in the medium to long term through usage of this institute and the exercise of the right to severance pay by employees leaving the public administration.

In line with the planned levels of revenues and expenditures, **the fiscal balance of public finances** will be achieved in 2020.

For the needs of Debt Repayment in 2020, the amount of 602.6 million euro or 12.0 percent of GDP will be committed, and accordingly, the total shortfall in 2020 will amount to 602.9 million euro, whereby the deposits in the amount of 466.9 million euro provided in 2019 will be used for funding, while the remaining funds will be secured by borrowing in domestic or international market.

4.4. Medium-term budgetary outlook

In line with the established medium-term budgetary framework, the main objective of the public finance strategy in the period 2021-2022 is to generate public finance surplus, which provides for high levels of primary surplus and current expenditure surplus, which facilitates further reduction of public debt to the level of 62.5 percent of GDP in 2022.

Fiscal framework (as % of GDP)		Outturn	Estimate	Baseline scenario			Low-growth scenario		
		2018	2019	2020	2021	2022	2020	2021	2022
Fiscal indicators	Current public revenues	42.2	44.2	46.2	42.4	41.4	46.6	43.0	42.4
	Public spending	46.2	46.2	46.2	41.1	40.1	47.1	42.4	42.2
	Deficit/Surplus	-4.6	-2.0	0.0	1.3	1.3	-0.5	0.6	0.1
	Interest	2.1	2.3	2.1	2.0	1.7	2.2	2.0	1.8
	Primary Deficit/Surplus	-2.5	0.3	2.2	3.3	3.0	1.7	2.6	2.0
	Public debt (% of GDP)	69.2	78.7	72.3	65.1	62.5	74.2	68.4	68.3

Overview of the fiscal policy measures for 2021-2022:

Measures aimed at public revenue developments:

- Continuation of adjustment of the tobacco excise policy in accordance with the established excise calendar, i.e. annual increase of specific excise by 3.5 euro per 1000 pieces and fall of ad valorem excise by 1.5 percent annually. The established excise calendar envisages a slight growth of revenues by about 1.0 million euro per annum. As regards other categories of excise products, the rates are retained at the level from 2020;
- Tax Administration Reform and the implementation of electronic monitoring of fiscal cash registers, which is expected to acquire revenues within the range from 13.0 million euro to 17.0 million on annual basis;
- Reduction of tax arrears through the implementation of the Law on Rescheduling Tax Receivables on annual level of about 10.0 million euro taking into account that this programme will be completed in the middle of 2022;
- The implementation of a new legislative framework in the area of games of chance organising, the conditions will be created to collect additional revenues in this respect on annual level;
- "Economic Citizenship" project will provide increased inflow of direct investments, generate new revenues and provide additional funds for investing in under-developed regions in view of improving the regional development.

Measures aimed at public spending developments:

- Further growth of wages in Education and Health Care by additional 3.0 percent in 2021;
- Regular adjustment of expenditure categories that are to be adjusted to macroeconomic indicators;
- Adequate monitoring of court proceedings costs and new legal solutions in this area facilitate preventive acting before the costs are actually incurred particularly as regards employment-related dispute resolution, which affects the reduction of costs;
- Implementation of projects focused on the enhancement of the budgetary system as a whole ensures better control, efficient spending of public funds and improved transparency of public spending through performance-based budgeting implementation;
- Continued strengthening of public finances on local level through decreased arrears and creation of the conditions for stable financing;
- Intensified activities on monitoring and control of risks related to business operations of public enterprises.

Taking into account the high base on revenue side established in 2020, as a result of the planned advance payment related to the concession for airports, and also the "Economic Citizenship" programme in 2021, the total public revenues will be lower by 110.2 million euro or 4.7 percent, while in 2022. they will record growth of 42.7 million euro or 1.9 percent.

According to the projected rates of macroeconomic indicators, with the exception of one-off revenues, a stable growth of overall revenues is anticipated, primarily as a result of the projected economic activity growth.

In addition to the positive developments in macro environment, it is expected that the reforms implemented in medium term will facilitate the tax base to expand, which together with improved tax discipline and fight against grey economy will contribute to increased overall public revenues.

Starting from the mentioned, the main revenue categories the growth of which is conditioned by the trends of macroeconomic indicators and the set measures, will develop as follows:

- **Value added tax** – revenue in this respect will grow at the rate of 3.3 percent annually on average, with the stable share in the GDP of about 14 percent;
- Revenues from **excise** will increase at the rate of 2.5 percent annually on average, as a result of further harmonisation with EU directives;
- Revenues from **contributions** in 2021. will record fall due to high base in 2020., and thereafter in 2022. they will record growth in line with the projected trends of macroeconomic indicators.

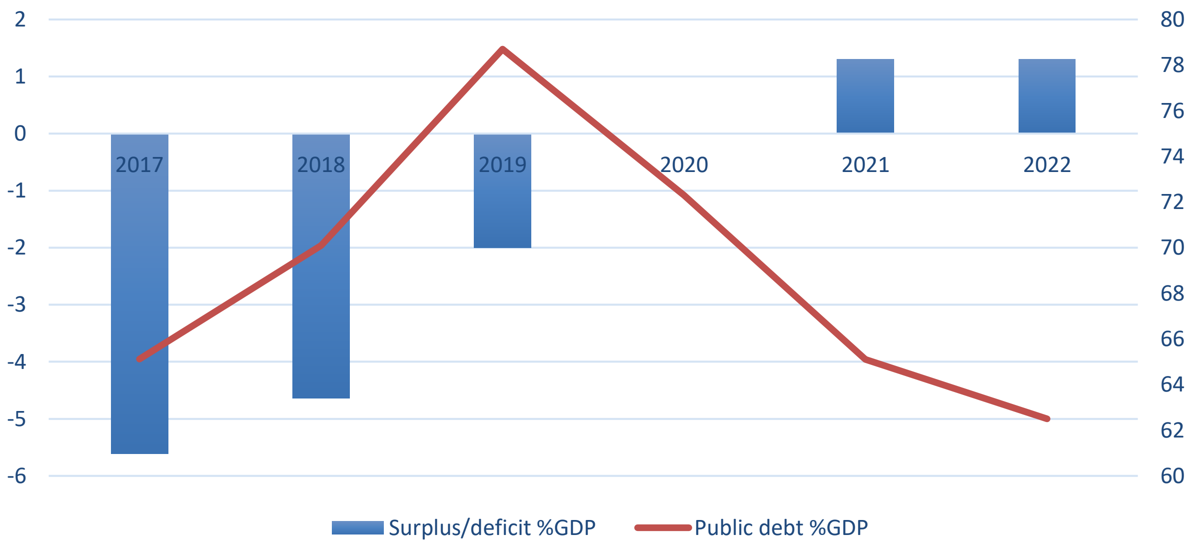
It is estimated that the **overall public spending** in 2021. will be lower by 179.8 million euro or 7.7 percent as a result of disburdened capital expenditure due to the completion of the first section of Highway construction. Following this, in 2022 public spending will grow by less than 2.0 percent solely as a result of adjustment of specific expenditure categories to legal provisions.

As regards the main public spending categories:

- Gross wages and pensions will nominally slightly grow at the rate of 2.1 percent, due to regular adjustment and also the growth of wages in the sectors of Health Care and Education, whereas as a share in GDP they will gradually decrease to the level of 19.1 percent of GDP in 2022;
- Capital budget, as previously mentioned, will go down after the completion of the construction of the priority section of the Highway, and thereafter it will go up in respect of investments in other capital projects.

In line with the trends of revenues and expenditures, **public finance surplus** of 1.3 percent of GDP per annum is projected in 2021. and 2022.

Figure 4.4.1 – *Development of fiscal parameters*



Annual GDP (in million euro)	4,817.1		5,027.3		5,217.9		5,449.4		4,932.7		5,056.7		5,174.0	
	estimate		baseline scenario						low-growth scenario					
Estimate of public finances for 2019-2022	2019		2020		2021		2022		2020		2021		2022	
	€ mill	% GDP	€ mill	%	€ mill	% GDP	€ mill	%	€ mill	%	€ mill	% GDP	€ mill	%
Public revenues, *of which:*	2,129.5	44.2	2,324.9	46.2	2,214.7	42.4	2,257.5	41.4	2,300.6	46.6	2,176.4	43.0	2,192.3	42.4
Income tax	175.3	3.6	182.1	3.6	187.1	3.6	190.0	3.5	181.2	3.7	185.7	3.7	187.1	3.6
Value added tax	695.7	14.4	709.5	14.1	730.5	14.0	756.7	13.9	694.5	14.1	707.6	14.0	719.6	13.9
Excise	235.5	4.9	244.7	4.9	250.5	4.8	257.2	4.7	242.3	4.9	246.6	4.9	250.5	4.8
Local taxes	96.0	2.0	97.9	1.9	98.9	1.9	99.9	1.8	97.9	2.0	98.9	2.0	99.9	1.9
Contributions	546.3	11.3	569.6	11.3	549.1	10.5	557.3	10.2	565.2	11.5	543.1	10.7	545.1	10.5
Public spending, *of which:*	2,224.1	46.2	2,324.2	46.2	2,144.3	41.1	2,185.0	40.1	2,324.2	47.1	2,144.3	42.4	2,185.0	42.2
Gross earnings	523.5	10.9	554.9	11.0	569.9	10.9	574.7	10.5	554.9	11.2	569.9	11.3	574.7	11.1
Interest	109.1	2.3	107.7	2.1	102.0	2.0	93.6	1.7	107.7	2.2	102.0	2.0	93.6	1.8
Social care transfers	554.8	11.5	578.1	11.5	593.5	11.4	604.9	11.1	578.1	11.7	593.5	11.7	604.9	11.7
Capital budget	325.4	6.8	302.0	6.0	165.1	3.2	187.2	3.4	302.0	6.1	165.1	3.3	187.2	3.6
Transfers to institutions, individuals, NGO and public sector	272.7	5.7	334.1	6.6	330.6	6.3	334.0	6.1	334.1	6.8	330.6	6.5	334.0	6.5
Surplus/deficit	-94.6	-2.0	0.7	0.0	70.4	1.3	72.4	1.3	-23.5	-0.5	32.0	0.6	7.3	0.1
Primary surplus/deficit	14.5	0.3	108.5	2.2	172.3	3.3	166.1	3.0	84.2	1.7	134.0	2.6	100.9	2.0
Debt repayment	571.3	11.9	602.6	12.0	456.1	8.7	305.1	5.6	602.6	12.2	456.1	9.0	305.1	5.9
Expenses for purchase of securities	57.3	1.2	1.0	0.0	0.1	0.0	0.1	0.0	1.0	0.0	0.1	0.0	0.1	0.0
Financing, *of which:*	-723.3	-15.0	-602.9	-12.0	-385.8	-7.4	-232.8	-4.3	-627.1	-12.7	-424.2	-8.4	-298.0	-5.8
Borrowings abroad	641.5	13.3	104.0	2.1	326.4	6.3	179.5	3.3	128.3	2.6	326.4	6.5	179.5	3.5
Borrowings in the country	383.4	8.0	10.0	0.2	58.0	1.1	58.0	1.1	10.0	0.2	58.0	1.1	58.0	1.1
Use of deposits	-322.9	-6.7	466.9	9.3	-20.6	-0.4	-26.6	-0.5	466.9	9.5	17.8	0.4	38.5	0.7

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

Cyclically-adjusted balance (structural balance) represents actual public expenditure imbalances, and it is related to actual surplus/deficit to GDP ratio, which would prevail if economy grew at the level of its potential. It is calculated as the difference between surplus/deficit as a GDP share and estimated cyclical component.

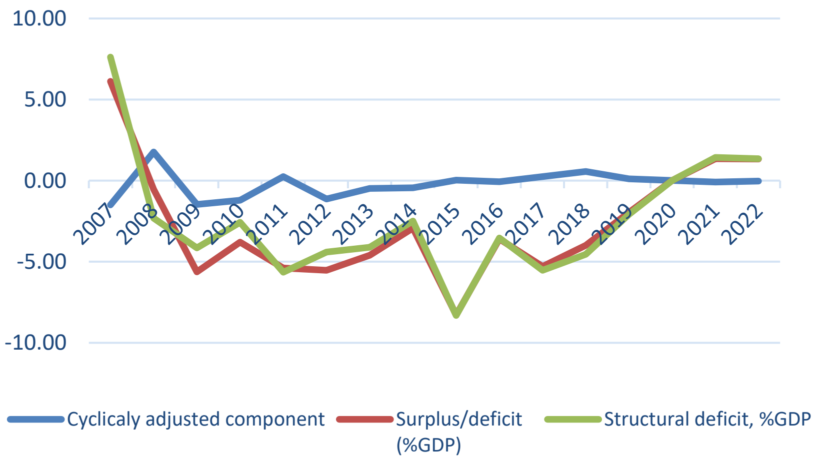
Cyclical component calculation is adjusted to the international methodology, and it is carried out in two steps, as follows:

1. *Assessment of output gap as an economic cycle indicator;*
2. *Estimation of elasticity of public revenues and public expenditures in relation to the gap.*

The values of potential growth rate and potential GDP and output gap required for calculation are presented in Chapter 2 – Macroeconomic Framework.

In the second step, the coefficients of elasticity are estimated for the following individual revenue categories: indirect taxes, income tax, profit tax and contributions. Each of the mentioned categories is firstly taken in relation to the relevant base, like e.g. in the case of income tax where taken as the base is the category of wage and contributions of employees from the estimated GDP calculation income approach, then after multiplication by weight (the share of an individual revenue category in overall revenues) obtained is elasticity of this revenue component in relation to output gap.

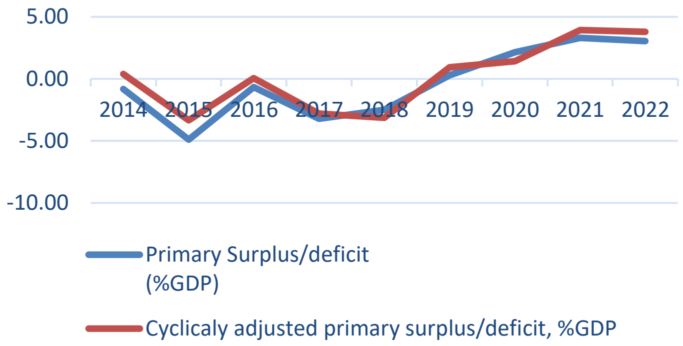
Grafik 4.5.1 – Developments of surplus/deficit, cyclical component and structural deficit



With multiplying the coefficient of elasticity of the mentioned revenue categories by the share of overall revenues in GDP, the revenue sensitivity parameter will be obtained, and at the same time the parameter of sensitivity of the public finance balance, because the coefficient of elasticity of expenditures equals approximately to 0. The category of expenditures that has been subject to elasticity calculation is the expenditures for the unemployed, but when very low share of the mentioned expenditures in the total expenditures is taken into account, the obtained total sensitivity parameter of the expenditures side of the budget equals to 0.

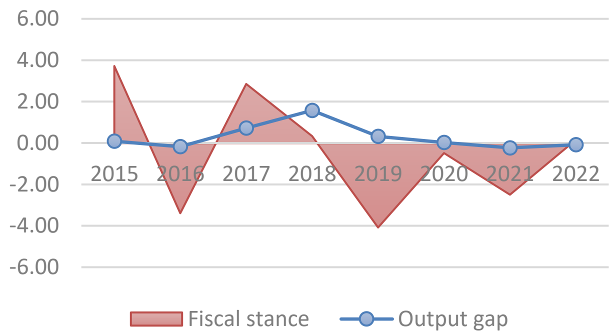
Sensitivity parameter of the surplus/deficit in relation to output gap is estimated to amount to 0.35. The results of the model are limited due to the country's specifics and frequent changes of the fiscal policy measures, the length of time series used in elasticity assessment, changes of methodology, but they reflect the core trends of the structural and cyclical component of the balance of public finances.

Figure 4.5.2 – Developments of primary surplus/deficit and cyclically-adjusted primary surplus/deficit



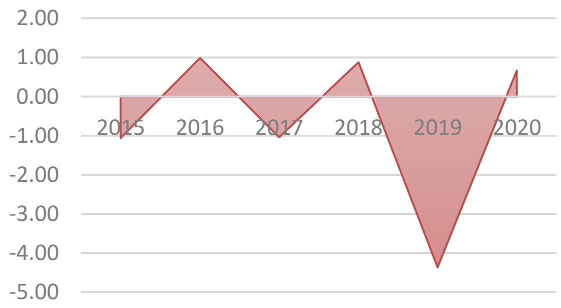
Also, cyclically-adjusted primary balance (surplus/deficit excluding interest) has been calculated, which is additionally reduced by one-off collection of revenues and one-off expenditures. One-off revenues in the coming medium-term period are related to the revenues from rescheduling of tax receivables, advance payment related to long-term lease of Airports of Montenegro, revenues from implementation of the Economic Citizenship Programme, collection of tax debt and the debt owed to the state by Montenegro Airlines AD as well as anticipated revenues from dividend of public enterprises. On the other side, one-off expenditures are related to subsidies, redundancy funds, expenditures in respect of guarantees called upon, as well as expenditures committed to financial consolidation of the airline company Montenegro Airlines AD.

Figure 4.5.3 – Fiscal stance in mid-term period



The sign of the category of annual change of cyclically-adjusted primary surplus/deficit indicates fiscal stance and speaks of the fiscal policy nature in a specific year. Positive values in Figure 4.5.3 represent an expanding fiscal policy, while negative values represent a restrictive fiscal policy.

Figure 4.5.4 – Fiscal stance, excluding costs



Positive output gap in the period 2017 – 2020, resulting primarily from intensified works on the priority section of the Bar-Boljare High-Way, and also strong investment activity in private sector, facilitates successful implementation of fiscal consolidation measures. However, it can be seen in Figure 4.5.3 that the year of 2017 is characterised by strong expanding policy in spite of the introduced fiscal consolidation measures, which is primarily a result of the costs of the High-Way construction. The exclusion of the High-Way construction costs notably affects the implementation of restrictive policy in 2017, when such costs had their peak value, which also determined the character of the policy in the subsequent period (Figure 4.5.4). It should be also mentioned that in all years of implementation of fiscal consolidation measures, according to the scenario excluding the Highway costs, the cyclically-adjusted primary budgetary balance is positive. With the completion of the priority section, after an investment mini boom in 2020, economy will return to the level of its potential, and after that in 2021 and 2022 output gap will be slightly negative. In 2021, capital budget will disburden, and together with controlled increase of current expenditures will lead to a fall of the overall expenditures and generation of projected public finance surplus, which will in the coming period facilitate the achievement of high levels of primary surplus, and with stable economic growth rates they will affect lowering of public debt level as GDP percentage below 60 percent in 2023.

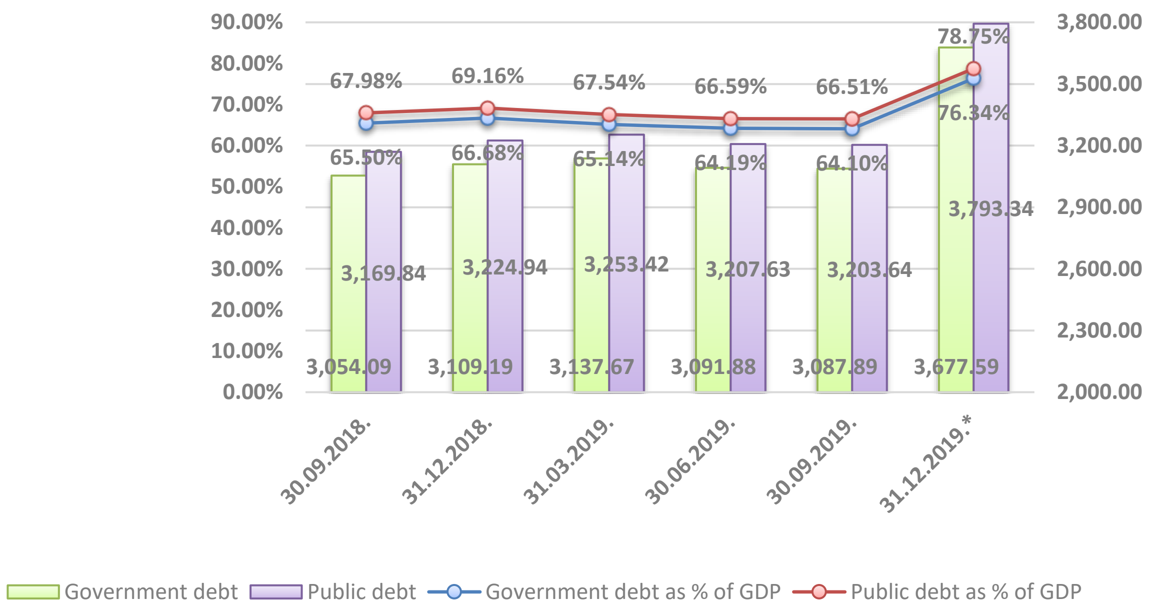
4.6 Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

4.6.1 Government and public debt in 2019

The public debt of Montenegro as of December 31st 2018 amounted to 3,224.94 million euro or 69.16 percent of GDP[14], and consisted of the government debt that amounted to 3,109.19 million euro or 66.68 percent of GDP, and local self-government debt in the amount of 115.75 million euro or 2.50 percent of GDP.

Deposits of the Ministry of Finance including 38,477 ounces of gold, and deposits of the local self-government at the end 2018 amounted to 311.63 million euro in total, of which the deposits of the Ministry of Finance amounted to 276.83 million euro, while the deposits of the local self-government amounted to 34.80 million euro. Net public debt of Montenegro as of December 31st 2018, including the deposits of the Ministry of Finance and local self-government, amounted to 2,913.31 million euro or 62.48 percent of GDP.

Figure 1 Government and public debt of Montenegro in euro mill.[15]



**- Debt stock as of 31 December 2019 is according to the latest projections of the Ministry of Finance.*
- Amount of debt of local self-government is according to the projections of the Ministry of Finance because the state does not produce quarterly reports on public debt.
- Debt shown in the Figure does not include the deposits of the Ministry of Finance or deposits of the local self-government.

According to the Budget Law 2019, it is envisaged that in 2019 the Government is allowed to borrow an amount up to 557 million euro, as follows: for the financing needs of the budget, debt repayment and creating reserve in the amount of about 190.00 million euro; for the needs of the construction of

[14] According to the data from MONSTAT, the value of GDP for 2018 amounts to 4,663.00 million euro
[15] The data is in accordance with EDP methodology. The presented balance excludes the railway debt and the debt for pension arrears, in line with EDP methodology.

the Bar-Boljare Highway in an amount up to 180 million euro. In addition, the Law allows the possibility for the Government to additionally take borrowings for the needs of debt refinancing through issue of bonds in the international market in the value up to 500.00 million euro, which was done in the fourth quarter of 2019.

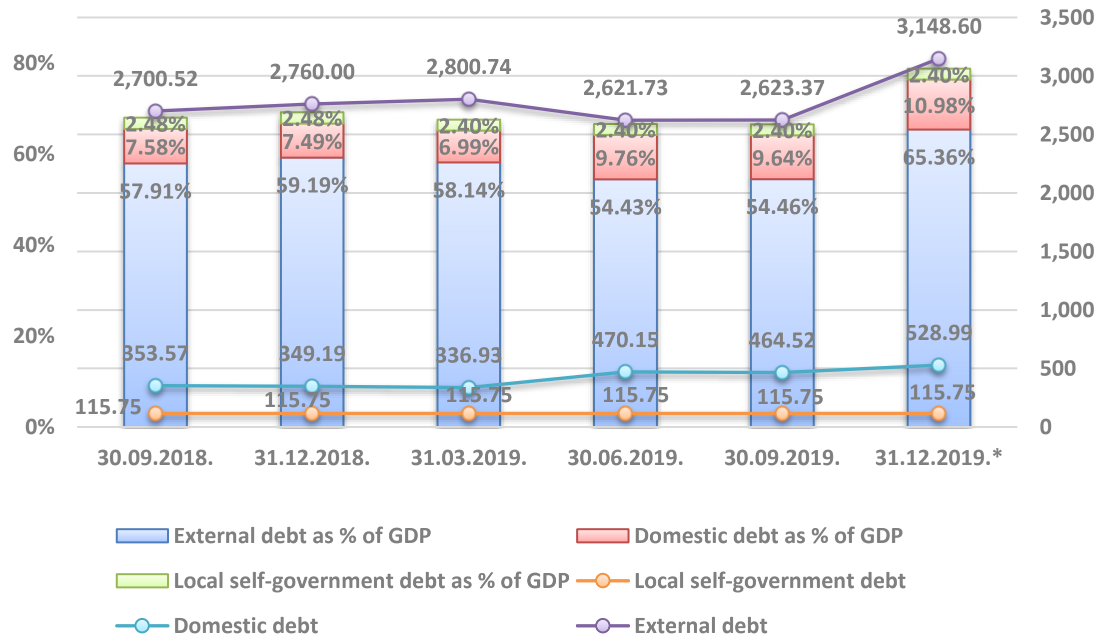
Government debt of Montenegro as of September 30th 2019. amounted to 3,087.89 million euro or 64.10 percent of GDP estimate for 2019.

According to the preliminary data, public debt at the end of the third quarter 2019 decreased by about 21.30 million euro in relation to the end of 2018. During the first three quarters of 2019, external debt went down by 136.63 million euro in relation to the end of 2018, primarily due to the repayment of the bonds issued in 2014 in the amount of 169.1 million euro. Internal debt went up by about 115.33 million euro in relation to the end of 2018, mostly due to the issue of government bonds in the domestic financial market in April and May 2019 in the amount of about 142.44 million euro.

Striving to take proactive activities and provide the most favourable funding sources possible for 2020, and benefit from favourable market conditions, at the end of September 2019 Montenegro issued Eurobonds in the amount of EUR500 million, with 10-year maturity and interest rate of 2.55 percent per annum, which are the most favourable Eurobond borrowing conditions available so far.

Taking the above into consideration, in 2019, the public debt is anticipated to increase by 568.40 million euro, in relation to the end of 2018, and therefore at the end of 2019 public debt will amount to 3,793.34 million euro or 78.75 percent of estimated GDP[16], according to the latest projections of the Ministry of Finance.

Figure 2 Debt developments in million euro and in % of GDP[17]

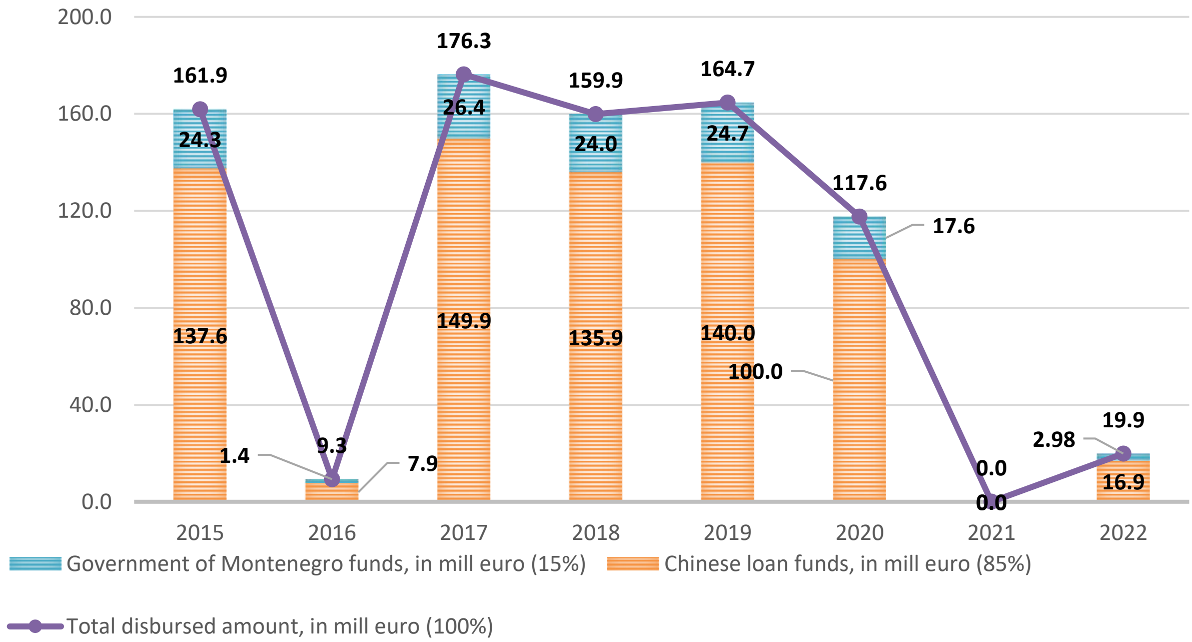


**- Debt stock as of 31 December 2019 is according to the latest projections of the Ministry of Finance.*
- Amount of debt of local self-government is according to the projections of the Ministry of Finance because the state does not produce quarterly reports on public debt.
- Debt shown in the Figure does not include the deposits of the Ministry of Finance.

[16] According to the projections of the Ministry of Finance, the value of GDP for 2019 will amount to 4,817.10 million euro.
[17] The data is in accordance with EDP methodology. The presented balance excludes the railway debt and the debt for pension arrears, in line with EDP methodology.

In addition to the described financial activities, the increase of external debt in the first three quarters 2018 was also largely impacted by the disbursement of credit funds for the needs of execution of infrastructure projects, primarily the construction of the priority section Smokovac – Uvač - Mateševo, in the amount of 110.9 million euro[18] (121.26 million USD), and by the end of 2019 additional commitment of funds in the amount of about 30.0 million euro (33.00 million USD) is expected. In 2020, additional 100 million euro will be disbursed. In accordance with the Loan Agreement, the remaining amount of about 17 million euro, which represents a guarantee deposit, will be disbursed in 2022, after the expiry of the warranty period for performed construction works.

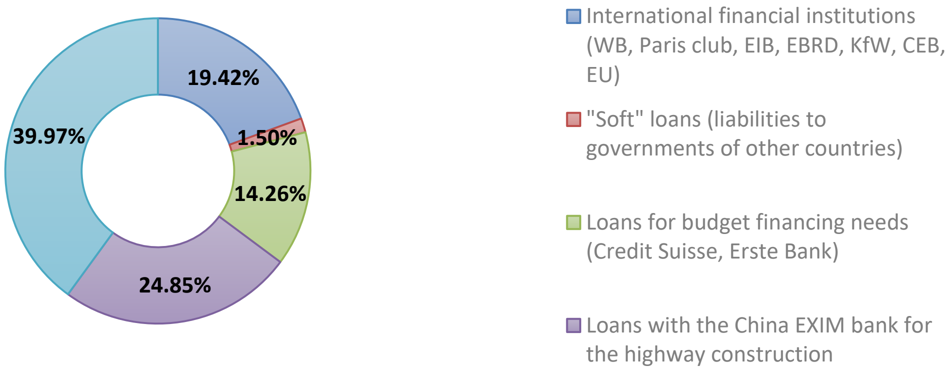
Figure 3 Funds for the High-Way Construction Project – priority section Smokovac-Mateševo, in euro mill.[19]



In addition to the loan disbursements made for the execution of the Bar-Boljare Highway construction project, in the first three quarters of 2019, funds were committed to the implementation of other development projects in the total amount of about 32.74 million euro, such as the World Bank projects for the improvement of agriculture, energy efficiency and education and tax administration; then the European Bank for Reconstruction and Development (EBRD) projects for the construction and reconstruction of road infrastructure and waste water treatment plants; the German Development Bank (KfW) projects for the needs of water supply system construction, discharge and treatment of waste waters, and energy efficiency; the Council of Europe Development Bank (CEB) Project of Social Housing 1000+, the project of cluster development in agriculture, the project of procurement of helicopters for the needs of the Army of Montenegro and the like.

[18] According to the exchange rate as of 30 September 2019
[19] According to the contracted fixed exchange rate EUR/USD 1.3718

Figure 4 Structure of external debt towards creditors as of 30 September 2019



As regards the structure of debt towards residents, the highest amount of debt is related to the liabilities in respect of issued domestic bonds in the amount of 222.85 million euro, while in the structure of external debt distinctive is the debt in respect of Eurobonds in the amount of 1,048.54 million euro.

Table 2 Highest debt as of 30 September 2019[20]

Debt to residents	Amount in million euro	Debt to non-residents	Amount in million euro
Loans with commercial banks	72.72	Eurobond	1,048.54
Liabilities in respect of restitution	85.47	China EXIM Bank	652.00
Treasury bills	72.00	Syndicated loan PBG	250.00
Domestic bonds	222.85	International Bank for Reconstruction and Development (IBRD)	186.88
Old FX savings	11.02	European Investment Bank (EIB)	110.59

Until September 30th, debt was repaid in respect of the principal, to residents and non-residents, in the total amount of 329.86 million euro and the debt from previous period was repaid in the amount of 3.01 million euro. Repayment in respect of interest, to residents and non-residents, amounted to the total of 82.97 million euro. In respect of issued guarantees, the repayment in the first three quarters of 2019 amounted to 9.43 million euro.

Table 2: Government debt servicing until 30 September 2019

Budget position	2019
Repayment of principal to residents*	24.92
Repayment of principal to non-residents	304.94
Total principal repayment	329.86
Total repayment of bonds from previous years **	3.01
Repayment of interest to residents	2.46
Repayment of interest to non-residents	80.51
Total interest repayment	82.97
Repayment of foreign guarantees	9.43
TOTAL	425.27

**Position 4611 does not include the amount for refinancing of Treasury bills, equalling to 144.00 million euro*
***Repayment in respect of court decisions is not included*

[20] According to the exchange rate as of 30 September 2019.

Currency and interest structure of government debt

As regards the current government debt stock, around 77 percent of the amount of debt is expressed in domestic currency, i.e. euro, so at this point currency risk effects are not expected that could have material impact on the developments of government debt. Taking into account future disbursements of loan funds for the needs of the High-Way construction, from the China EXIM Bank loan, the funds expressed in dollars are expected to have higher share in the debt stock. Due to the risk that may be attached to the trend of debt, until the beginning of repayment of liabilities in respect of the loan from the China EXIM Bank, a hedging arrangement will be applied, in order to ensure protection against the currency risk.

As regards the risk of change of interest rates, it is evident that in the overall government debt, the debt with fixed interest rate prevails, therefore the risk of increased liabilities in this respect is low, and it will not be a significant burden for the budget in case of potential changes in the borrowing conditions in the market.

Figure 5 Debt currency structure 30 September 2019

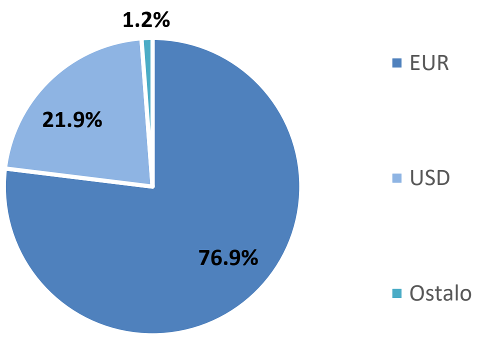
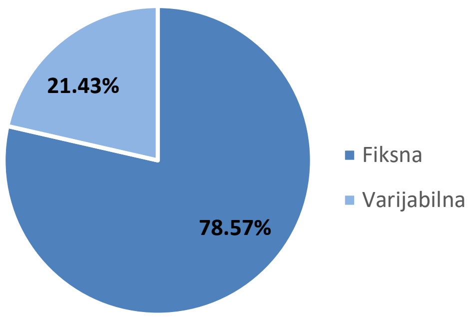


Figure 6 Debt interest structure 30 September 2019



It is important to note that the credit rating agency Moody's, in the new Report published in October 2019, affirmed B1 rating for Montenegro, retaining the "positive" outlook. Also, in September 2019, the credit rating agency Standard & Poor's affirmed the rating outlook of Montenegro, which is indicated as stable, with preservation of B+/B rating. This fact is a clear signal of trust of investors in economic progress of Montenegro, as well as the support to the public finance stabilisation measures implemented by the Government of Montenegro and the Ministry of Finance.

Debt management strategy

At the end of March 2018, the Government adopted the Medium-Term Debt Management Strategy for the period from 2018 to 2020. In line with the generally accepted objectives of government debt management, the key goal of the Strategy is to minimise the financing costs of general government within reasonable risks, with a special view on the refinancing risk of the current debt portfolio. Therefore, the key focus of the Strategy is on the refinancing risk lowering in medium term. For the purpose of minimising the debt refinancing risk in 2018 liability management operation (LMO) was carried out, through issue of Eurobonds in the international market, which was used for partial refinancing of Eurobonds that made a part of foreign debt portfolio at that time. In addition, a loan facility worth 250 million euro backed by the World Bank guarantee (PBG) was concluded. It was the most favourable borrowing of that kind that Montenegro entered into by that time. The mentioned transactions facilitated Montenegro to decrease annual debt repayment burden in the coming years and also to decrease the refinancing risk, and secure deposits used for debt repayment in 2019.

The described operations contributed to the improved quality of debt in the way that average debt maturity was extended. Consequently, average debt maturity of 4.6 years as it was at the end of 2017 extended to 5.2 years as it was at the end of 2018. Government debt structure at the end of 2018 has a real weighted average interest rate of 3 percent, which means that the borrowing costs decreased by 0.1 percent relative to the end of 2017.

As regards the implementation of the guidance from the Debt Management Strategy, in 2019 Montenegro made a step further and in the first half of the current year it issued domestic bonds in the total amount of approximately 143 million euro. Of the mentioned amount, 50 million is related to 7-year bond with annual interest rate of 3.5 percent, while the remaining approximately 93 million euro is related to the 5-year bond with annual interest rate of 3 percent. In that way, the implementation of another guidance from the Strategy related to the development of the domestic securities (bonds) market commenced, which affects diversification of funding sources that thus will also contribute to better borrowing conditions and a better negotiation position of Montenegro.

The Strategy is planned to be updated in the coming period, and it needs to include a new debt analysis and formulation of debt management strategies in another three-year period 2020-2022.

4.6.2 Baseline scenario of government debt trend in the period 2020 – 2022

According to the Budget Law 2020., the shortfall will amount to approximately 590 million euro.

New debt will not be required to finance this amount. The funds will be provided from deposits worth 490 million euro, created by Eurobond issue in 2019., while the remaining EUR100 million will be provided by disbursement of the funds from the loan facility with China EXIM Bank, for the needs of the implementation of the Highway priority section construction project.

It should be noted that the Budget Law 2020 envisages a borrowing possibility up to 250 million euro, if there is an opportunity to secure funds under favourable conditions for budget 2021 financing.

Namely, Montenegro is in the process of negotiating with the World Bank about the second Policy-based Guarantee (PBG). In 2018, the representatives of the World Bank and Montenegro commenced negotiations on the conclusion of this facility, as well as the fulfilment of the assumptions for its implementation contained in the matrix of public policy outcomes. The mentioned facility should be approved by the World Bank at the beginning of 2020, and the implementation of the facility is anticipated in 2020. The funds of the mentioned loan are planned to be used for creation of a reserve for debt repayment needs in 2021.

As regards the shortfall, Montenegro is awaited by more favourable opportunities in 2021, taking into account that in that year significant reduction of the shortfall is anticipated in comparison to 2020, which will amount to about 378.4 million euro. The shortfall in 2022. will amount to about 231.5 million euro.

The greatest impact on the developments of debt in 2020. will come from the planned loan facility backed by the World Bank PBG guarantee, in an amount up to 250 million euro, as well as the existing loan disbursements for implementation of the High-Way construction project (facility with China EXIM Bank) in the amount of about 100 million euro.

In addition to the aforementioned, the debt trend will also be impacted by the implementation timing of concluded loan facilities for the needs of development and infrastructure projects, for which the commitment of loan funds of about 30 million euro annually is envisaged.

Table 3 Developments of government and public debt in the period 2019-2022 - baseline scenario[21]

	2019	2020	2021	2022
GDP	4,817.1	5,027.3	5,217.9	5,449.4
Domestic debt	528.97	409.26	410.06	534.33
Foreign debt	3,148.57	3,108.69	2,869.79	2,756.67
Total government debt	3,677.54	3,517.95	3,279.85	3,291.00
% of GDP government debt	76.34	69.98	62.86	60.39
Local self-government debt*	115.75	115.75	115.75	115.75
Total public debt**	3,793.29	3,633.70	3,395.60	3,406.75
% of GDP public debt	78.75	72.28	65.08	62.52

** The amount of local self-government debt is according to the projections of the Ministry of Finance, for the reason that the state does not produce quarterly reports on public debt.*
*** The debt presented in the Table excludes deposits of the Ministry of Finance and local self-government deposits.*

As it can be seen in the Table, at the end of 2019 the government debt is expected to amount to 76.34 percent of GDP, whereas the public debt will be at the level of 78.75 percent of GDP estimated for 2019.
In 2020, the debt is expected to go down, due to the repayment of debt in respect of bonds issued in 2015. The amount of debt in respect of this issue was reduced in 2018 through refinancing by about 178.90 million euro and currently it amounts to about 321.10 million euro. However, given that the anticipated dynamism of work performance was realised in the scope less than the planned, the works on the High-Way Bar-Boljare have been extended, so it is certain that the borrowings related to the High-Way will continue to impact the debt developments in 2020. Consequently, it is estimated that the government debt at the end of 2020 will amount to 69.98 percent of GDP, whereas the public debt will amount to about 72.28 percent of GDP.

Decreasing government and public debt will characterise 2021 too, which is caused by refinancing of debt related to the bonds maturing in that year. Namely, there will be repayment of debt related to the bonds issued in 2016, in the amount of 227.4 million euro. In accordance with the mentioned, the value of government debt for 2021 amounts to about 62.86 percent of GDP, whereas the public debt is expected to amount to 65.08 percent of GDP.

As regards 2022, the falling trend of the government debt level is expected, so it is estimated to reach the amount of 60.39 percent of GDP at the end of 2022, whereas the public debt will amount to about 62.52 percent of GDP estimated for 2022.

4.6.3 Low-growth scenario

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

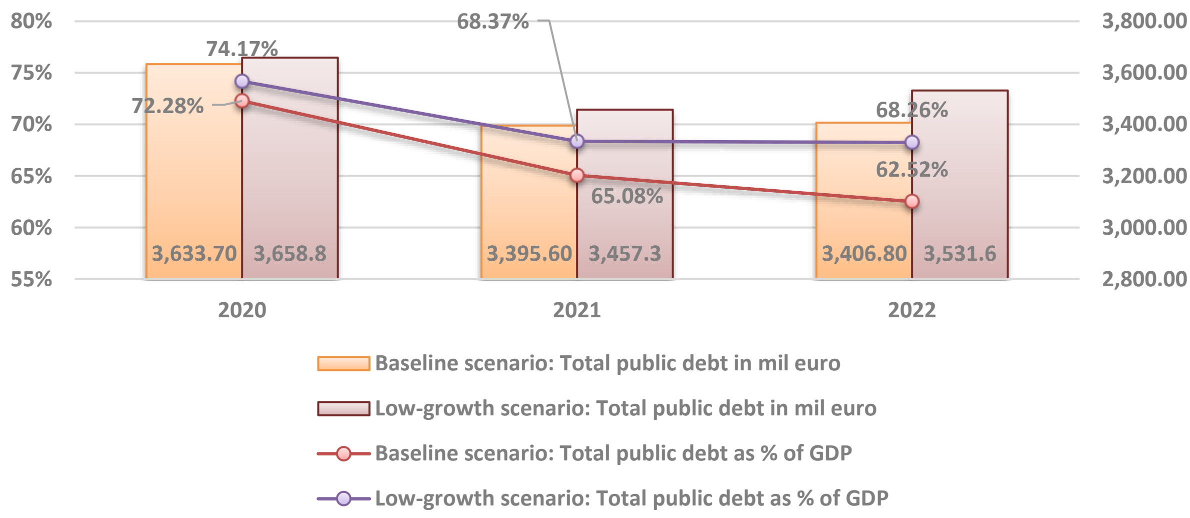
[21] The presented overview excludes the railway debt and outstanding debt for pensions, in line with EDP methodology.

Table 4 Debt developments for the period 2019-2022 – low-growth scenario[22]

year	2019	2020	2021	2022
GDP	4.817,1	4.932,7	5.056,7	5.174,0
Domestic debt	528.97	434.36	471.76	596.03
Foreign debt	3,148.57	3,108.69	2,869.79	2,819.77
Total government debt	3,677.54	3,543.05	3,341.55	3,415.80
% of GDP government debt	76.34	71.83	66.08	66.02
Local self-government debt*	115.75	115.75	115.75	115.75
Total public debt**	3,793.29	3,658.80	3,457.30	3,531.55
% of GDP public debt	78.75	74.17	68.37	68.26

** The amount of local self-government debt is according to the projections of the Ministry of Finance, for the reason that the state does not produce quarterly reports on public debt.*
*** The debt presented in the Table excludes deposits of the Ministry of Finance and local self-government deposits.*

Figure 7 Comparative overview of public debt developments in baseline scenario and low-growth scenario, in million euro and % of GDP

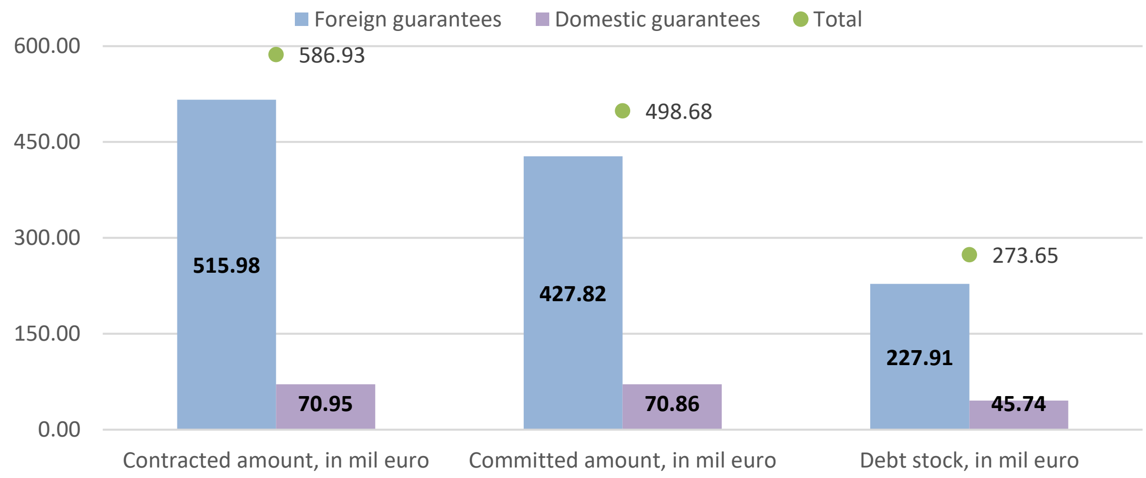


4.6.4 State guarantees stock

The contracted amount of issued state guarantees at the end of the third quarter 2019 amounted to about 586.93 million euro. Of this amount, the committed funds are equal to about 498.68 million euro. Debt stock at the end of the third quarter of 2019 related to the guarantees issued to domestic and foreign creditors amounted to 273.65 million euro, which makes 5.70 percent of GDP.

[22] The data is in accordance with EDP methodology. The presented overview excludes the railway debt, in line with EDP methodology.

Figure 8 State guarantees stock as of 30 September 2019



In 2019, three state guarantees were called upon and paid in the total amount of EUR38.65 million. Of the mentioned amount, 9.4 million euro of state guarantees was paid to the European Investment Bank (EIB) for the needs of loan facilities between EIB and Invest Bank Montenegro (in the amount of EUR2.2 million) and EIB and Atlas Bank (in the amount of EUR7.2 million). The amount of EUR 29.25 million was paid to the German-Austrian Consortium WTE/EWN group for the needs of a loan facility for the waste water treatment project in Budva Municipality.

The risk of new guarantees being called upon is not expected in the coming period.

In 2019, Montenegro issued five state guarantees:

- For the needs of a commercial loan facility between the union of banks consisting of Prva Banka Crne Gore and Erste Bank and the PE "Regionalni vodovod crnogorsko primorje" (Regional Water supply System of Montenegrin Coast) in the amount of 10 million euro;
- For the loan facility between Željeznička Infrastruktura Crne Gore (Montenegro Railway Infrastructure) and European Investment Bank (EIB), for the projects related to reconstruction and enhancement of railway infrastructure in the amount of 13.00 million euro;
- For the loan facility between Elektroprivreda Crne Gore (Electric Power Plant of Montenegro) and KfW Bank in the amount of 33 million euro, for the needs of the Hydro-Power Plant (HPP) Perućica Reconstruction and Modernisation Project, phase 2;
- For the loan facility between the PE "Regional Water supply System of Montenegrin Coast" and European Bank for Reconstruction and Development (EBRD) for the needs of the water supply system expansion project in the amount of 12 million euro;
- For the loan facility with a commercial bank for the needs of implementation of a capital project of the housing cooperative of teachers "Solidarno" in an amount up to 1.2 million euro.

The guarantees issued in several previous years are mostly related to the loans that served for implementation of various infrastructure projects, roads, railways, water supply system and sewerage, electricity, support provided to the development of small and medium sized enterprises or restructuring.

The committed amount of guarantees issued by the Government of Montenegro for the loans with international creditors amounts to about 427.82 million euro, whereas the debt stock in this respect amounts to 227.91 million euro or 4.74 percent of GDP.

The committed amount of guarantees issued by the Government for the loans with domestic creditors is about 70.86 million euro as of the end of the third quarter 2019, whereas the debt stock for them is 45.74 million euro or 0.95 percent of GDP. The largest portion of existing domestic guarantees is made of guarantees issued for local self-government for the purpose of rehabilitation plans implementation, and its stock as of the third quarter 2019 amounts to 27.71 million euro.

The Budget Law 2020 envisages issue of the following guarantees:

- For a loan facility between the Montenegro Railway Infrastructure and the European Bank for Reconstruction and Development (EBRD), for the needs of procurement of machinery for construction and electric-engineering maintenance of railways and new equipment for a work train, in an amount up to 11 million euro;
- For a loan facility for the needs of the Željeznički Prevoz Crne Gore (Montenegro Railway Transport), i.e. for the procurement needs of new trains to be used in the local transport of passengers, in an amount up to EUR14 million, for which a creditor will be identified subsequently;
- The Government will issue an acknowledgement letter for the state guarantee in the amount of 12 million euro, for the needs of the second instalment of the loan facility between the PE Regional Watersupply System of Montenegrin Coast and the European Bank for Reconstruction and Development, the total value of which is 24 million euro. The mentioned loan facility will provide the funds for the implementation of three projects: the 3.2km pipeline construction project on the territory of Tivat Municipality, the construction of another pipeline in the length of 14 km on the section Budva-Tivat and the project of water supply and sewer infrastructure construction in the settlement of Dobre Vode;
- For a loan facility of Budva Municipality in an amount up to 27.25 million euro, for which a creditor will be identified during the year.

4.7 Sensitivity analysis and comparison with previous programme

4.7.1 Sensitivity of public finance projections to alternative risk scenarios

The main risks, whether political or economic, to the realization of fiscal projections may have a negative impact on public finances. An overview of the risks associated with the realization of the given fiscal projections is given in the following Table:

Table 4.7.1 Overview of fiscal risks in the medium term

	Positive	Negative
Political	Progress in the EU accession process entails increasing investor confidence, improved business environment and access to EU funds;	Political instability on the global level and in the South East Europe may have a negative impact on the economy of Montenegro, especially in the tourism sector;
Economic	Implementation of fiscal consolidation measures has a positive impact on the stability and sustainability of public finances in medium term; Implementation of the Debt Management Strategy 2018-2020. will improve the credit position of Montenegro and reduce the costs of public debt financing;	Changing the dynamism in the performance of works under investment projects may have an adverse impact on the medium-term macroeconomic and fiscal projections; The failure to achieve the effect of fiscal consolidation measures in the planned scope may bring about increase in the projected deficit and public debt amount;

The implementation of the public administration reform will optimise the current public expenditure; Reforms in the budgeting process will increase fiscal discipline and public finance transparency which will positively reflect on the key fiscal indicators; The multiplication effects of the Highway construction project and other expected investments, as well as the Economic Citizenship Project will positively reflect on revenue developments; Intensified activities on reducing grey economy and the tax administration reform will expand the tax base, hence facilitate increased budget revenues.	In the case of increased cost of the Highway construction, the overall public expenses will increase, which will negatively reflect on the budget balance developments; Increase in the costs of health system financing in relation to the planned and accumulation of arrears may negatively reflect on the projected public spending; The implementation of the ESA 2010 methodology may expand the existing institutional coverage of budget accounting to public companies which, according to ESA 2010 qualitative or quantitative criteria, should be presented in the General Government sector. Consequently, there is a potential for an increase in the deficit and debt of the mentioned sector in the medium term. On the other side, the implementation of the mentioned methodology, according to the same principle, may also result in positive effects on fiscal indicators.

The alternative fiscal scenario is based on the macroeconomic low-growth scenario, the assumptions of which are based on the following:

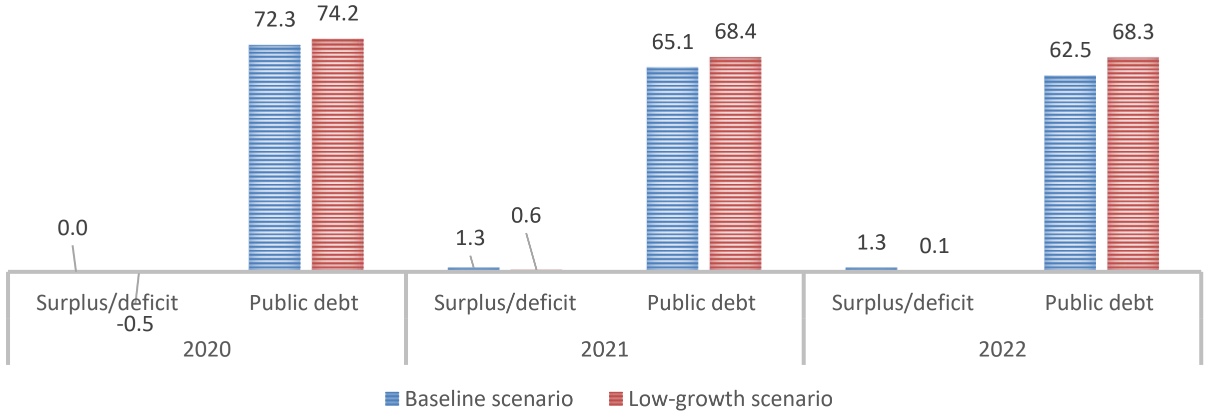
- fall of investments in medium term resulting from the completion of initiated investments, and also insufficient interest of private investors in investing, which would condition average negative contribution of gross investments to GDP growth of 1.1 p.p. in the period 2020-2022.;
- lower economic growth of the countries from the region and broader European surrounding would have a negative reflection on weaker growth of revenues from tourism, given that the tourists from the region and Europe make a dominant part of the structure of total nights in the country. The scenario assumption includes growth of revenues from tourism of 3.5 percent on average in nominal terms in the coming three-year period;

Macroeconomic low-growth scenario is detailed in Chapter 3. In the case of materialization of these risks, budget revenues would not be realized in the scope planned by the baseline scenario, expenditures would remain at the same level, resulting in a higher level of public finance deficit in the medium term and, therefore, greater needs public expenditure financing.

Fiscal elasticity ratios show that, in the fiscal scenario, the revenue side is subject to macroeconomic impacts, while macroeconomic trends have little impact on the expenditure side of the budget, especially under Montenegrin conditions where budget spending is of predominantly mandatory nature.

Taking into account the aforementioned, in case of macroeconomic low-growth scenario, public revenues would continue to grow annually at the rate of 1.1 percent on average, primarily due to the revenues of one-off nature, but it would be significantly lower in relation to the growth under baseline scenario according to which public revenues in the period 2020-2022. annually grow by about 2.1 percent on average. At the same time, budgetary balance would be adjusted, so under the low-growth scenario in all projection years it would be on a level lower than in relation to the baseline scenario and would amount to -0.5 percent of GDP in 2020, 0.6 percent of GDP in 2021. and 0.1 percent of GDP in 2022. Also, the public debt would be on a higher level if compared to the baseline scenario, as presented in subchapter 4.6.

Figure 4.7.1: Comparison of baseline and low-growth scenarios



4.7.2 Comparison with the previous programme

The difference in comparison to the previous Programme is primarily identified in the following:

- Baseline scenario of public revenues includes revenues from long-term lease of Airports of MNE, revenues from Economic Citizenship Programme and revenues from tax debt and debt owed to the state by Montenegro Airlines AD;
- As of July 2019, minimum wage increased by 15 percent and at the same time labour tax wedge has been lowered through reduced contributions for compulsory health insurance payable by employers by 2 p.p.;
- Change in the dynamism of performance of works, i.e. dynamism of payments in respect of works performed on the priority section of the Highway;
- Current expenditure growth, dominantly through additional allocations in the sectors of health care and education.

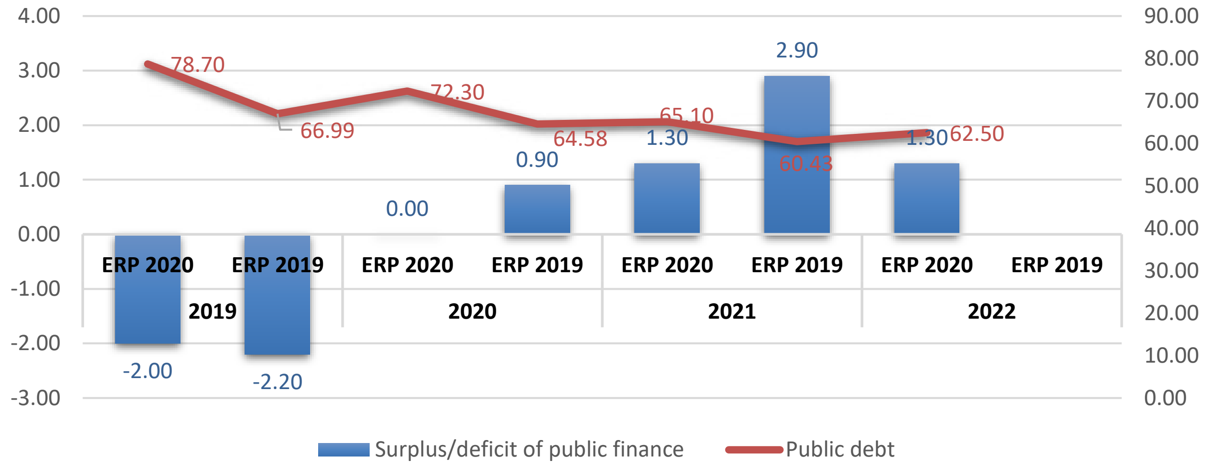
Table 4.7.2 Comparison to the previous programme, in million euro

		ERP 2019-2021		
	2019	2020	2021	2022
Public revenues	2059.85	2111.61	2144.06	
Public expenditure	2162.86	2066.05	1995.26	
Public finance surplus/deficit	-103.01	45.6	148.8	
		ERP 2020-2022		
	2019	2020	2021	2022
Public revenues	2129.54	2324.91	2214.74	2257.47
Public expenditure	2224.14	2324.17	2144.35	2185.04
Public finance surplus/deficit	-94.60	0.74	70.39	72.43
		DIFFERENCE		
	2019	2020	2021	2022
Public revenues	69.69	213.3	70.68	
Public expenditure	61.28	258.12	149.09	
Public finance surplus/deficit	8.41	-44.86	-78.41	

As it can be seen in Table 4.7.2 public revenues, in all projection years, are generated in the amounts higher than the ones projected in the previous programme, which is a consequence of the strong growth of economic activity and employment, and also previously mentioned inclusion of one-off revenues. Also, the projection of expenditures in comparison to the previous Programme is higher in all projection years due to:

- changed dynamism of disbursements of funds for financing of the priority section of the Highway in relation to the assumptions from the previous Programme;
- the current expenditure growth resulting from: the planned wage increase in the particularly important sectors – Education and Health Care (planned wage increase of 9 percent in 2020. and additional 3 percent in 2021.), allocations for funding of the provision of public health care services and the creation of the conditions for financial sustainability of the national airline company Montenegro Airlines;

Figure 4.7.2: Comparison to the previous programme, as % of GDP



As a result of the aforementioned trend of public revenues and expenditures in relation to the previous programme there will be deficit reduction in 2019, and slight surplus will be generated in 2020 on a level lower than the planned in the previous programme. Furthermore, due to the borrowing by issue of Eurobonds in 2019 that will serve for the needs of covering the shortfall in 2020 the public debt will go up, with projected decreasing trend to the level of 62.5 percent in 2022.

4.8 Fiscal governance and budget framework

Fiscal policy is planned and implemented in accordance with the provisions of the Law on Budget and Fiscal Responsibility, whereas the strategic framework of the reforms planned in this area is sublimed within the Public Finance Management Reform Programme 2016-2020.

Numerical fiscal rules: During the programme period, the key fiscal aggregates will be partially adjusted to numerical fiscal rules. The Law on Budget and Fiscal Responsibility envisages that the fiscal policy is to be planned and implemented in accordance with the following criteria: 1) budgetary cash deficit of general government will not exceed 3 percent of GDP by market prices; 2) public debt will not exceed 60 percent of GDP by market prices.

With regard to the above, according to the medium-term fiscal framework, it can be concluded that the criterion on general government deficit being under 3 percent will be achieved in all years of the programme, given that balanced public finances are projected in 2020. and generation of surplus in the period 2021-2022 on the level of 1.3 percent of GDP per annum. On the other side, public debt will range from 72.3 percent of GDP in 2020 to the level of 62.5 percent of GDP in 2022 which implies that public debt will be outside the frameworks set by the law, but will have an evident falling trend and the fulfilment of this indicator is evident in the coming period.

Independent fiscal institutions for monitoring of fiscal outcomes and/or advising the Government regarding fiscal policy issues: As regards monitoring and evaluation of fiscal policy and achieved outcomes, particularly concerning numerical fiscal rules, their evaluation is carried out by the State Audit Institution by ex post evaluation of numerical fiscal rules and also by giving an opinion on the Budget for the current year. In addition, the Central Bank of Montenegro prepares Recommendations to the Government of Montenegro concerning economic policy for the following year. In order to strengthen fiscal policy oversight, particularly with regard to ex ante evaluation, with the EU support, a project is being implemented in view of considering options for the most adequate model to establish a body that would carry out independent evaluation of fiscal policy in Montenegro, including proposals for a legal framework of its functioning. The project agreement was signed in September 2019. and the completion of the project is expected in the period of 24 months.

Medium-term budgetary frameworks: Medium-term budgetary framework is established by the Macroeconomic and fiscal policy guidance and reviewed on the occasion of the budget adoption for the following fiscal year. For the purpose of creating assumptions for medium-term budgetary framework fostering, greater transparency and oversight, the Budget Law 2020., for the first time contains in its mandatory part a breakdown of projected expenditures by organisational classification where the first year is obligatory and the subsequent two are indicative. In order to improve the budget system as a whole, in 2019, the implementation of the projects financed from EU funds commenced, and they are as follows:

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

Concurrently with the above, activities are undertaken towards the enhancement of the strategic planning system, coordination and monitoring of Government policy and its goals in the medium term. In view of creating assumptions for enhancement of investment project planning and managing, by introducing criteria for proposing and evaluating the proposed projects, establishing a form for proposing capital projects, establishing a list of priory projects and reporting on their implementation, the *Decision on Capital Budget Development and Establishment and Evaluation of the Criteria for Selection of Capital Projects* has been adopted. The Capital Budget for 2020. was planned in line with the new concept.

Availability and quality of fiscal data and adjustment to ESA standards: As regards availability and quality of fiscal data, the official producer of data in this area is the Ministry of Finance, which carries out its planning and projecting and also reports on the fulfilment of fiscal indicators on monthly, quarterly and annual level. With regard to the harmonisation of the government finance statistics with international standards, the Ministry of Finance reinforced personnel capacities for assignments related to ESA 2010 methodology implementation. In 2020, intensified activities are expected in this area through revision of the ESA Methodology Implementation Strategy and establishment of a roadmap for completion of activities to be specified in the strategy. Concurrently, activities will be undertaken on further strengthening and professional development of personnel in view of commencing with reporting in accordance with the mentioned methodologies.

For the purpose of creating formal assumptions for introducing accrual accounting and alignment with international accounting standards for public sector, as well as financial reporting standards, the Law on Public Sector Accounting has been adopted. The implementation of this Law will provide for an integrated normative framework that will define the basic principles for accounting given that the accounting principles are currently regulated by a range of laws and enabling regulations.

As an instrument of public finance management assessment, the project "Public Expenditure and Financial Accountability - PEFA" was implemented by the World Bank in 2019, in cooperation with the EU Delegation and the Ministry of Finance. PEFA is an assessment of public finance system in accordance with standardised methodology and thus it provides the Government with a detailed snapshot of the situation of public finances, performance of the reforms completed so far and highlights the priority areas for further reforms.

4.9 Sustainability of public finances

The creation of the conditions for further strengthening of public finance sustainability is the main goal of Montenegro in the area of fiscal policy. With regard to this, for the previous three years fiscal consolidation measures have been implemented in order to stabilise public finances and ensure overall macroeconomic stability.

In connection with the aforementioned, activities directed towards the increased public revenues resulted in significant growth of revenues in the previous period and also stable outlooks of future growth when revenue side of budget is in question. To that regard, in the coming medium-term period the focus will be placed on creating the conditions for tax base to be expanded through:

- The enhancement of tax administration implemented with credit support by the World Bank, which is aimed at improving the effectiveness of operational functions of the Tax Administration as to enable efficient collection of taxes and contributions from all sources of economic activities;
- Introduction of e-fiscalisation system, which will facilitate improved efficiency of the work of Tax Administration and better collection of revenues, which is detailed in Chapter 5 through the priority reform measure 9 “Suppression of Informal Economy by Reforming Tax Administration”.
- Combat against grey economy through stringent oversight and work of inspection services;
- Activities directed towards additional reduction of tax debt.

Long-term fiscal sustainability of Montenegro, to the largest extent is determined by: the health care system, pension system and social protection system, public sector wage bill management and local public finance stance.

For the purpose of creating a more efficient public administration i.e. more efficient support to the provision of public services, and at the same time achieving optimisation of the costs of gross wages on the central and local levels, the activities defined in the Public Administration Optimisation Plan 2018-2020. are being implemented. With regard to this, employment is discontinued with state administration authorities and public institutions, except for sectors of special public interest where previous Government consent needs to be provided. This measure was in force during whole 2019., and its validity is extended until the end of 2020. Simultaneously with the aforementioned, the number of work positions established by acts on internal organisation and systematisation of state authorities, in the areas where practicable, has been reduced by 10-30 percent. Also, in order for the number of public administration employees to be rationalised, formal assumptions have been created for mutual agreement termination of employment for employees no longer needed i.e. whose position is abolished in accordance with the amended internal acts on organisation and systematisation. With regard to this, there was a survey organised and public invitation published for public administration employees interested in using the institute of mutual agreement termination of employment and severance pay, and in the coming period the operationalization of these activities is expected through the reduction of the number of employees in specific sectors where it is considered justified.

As regards local public finances, the main focus is on the creation of the conditions for sustainable local self-government financing and also reducing the liabilities accumulated in the previous period. Therefore, the implementation of the Law on Local Self-government Financing that regulates sources of funding, manner of financial equalisation and financing of affairs on local level, improved the financial sustainability of local self-government units through:

- the increase of the percentage of personal income tax revenues given to the North Region municipalities from 12 percent to 50 percent, with the exception of municipalities having under 3,000 inhabitants that are given 70 percent, for the Central Region municipalities the given percentage increased from 12 percent to 14 percent and for the Coastal Region municipalities with development level under 100 percent of average municipality development index value from 12 percent to 20 percent;
- the change of the criterion for establishing the right for using the funds from the Equalisation Fund and distribution of such funds, in the sense that a municipality with development level under 100 percent of average development index value in Montenegro established by a special regulation, is entitled to use the funds from the Fund in a year for which the funds of the Fund are distributed.

The current pension system has a significant impact on the sustainability of public finances, taking into account the permanent deficit of the Pension and Disability Insurance Fund that requires subsidies from the budget so the regular servicing of pension and disability insurance benefits would be insured. Taking into account the aforementioned, and in accordance with the policy guidance of the European Commission, the amendments to the Law on Pension and Disability Insurance have been initiated, which are proposed for the purpose of strengthening stability and sustainability of the pension system, greater equity and adequacy of pension benefits and preventing early abandoning of labour market and early retirement. In the baseline fiscal scenario, pension benefits are planned in accordance with the current legislative framework that implies regular annual adjustment of these benefits.

In view of reducing the liabilities that arise from final and binding court disputes, which burdened the Budget in the previous period, activities will be undertaken in the following period so these costs would be monitored in a more appropriate way, i.e. preventive actions could be taken before these costs would be incurred particularly in case of settling disputes from the area of employment. To that end, the adoption of a new Law on Alternative Dispute Resolution will facilitate a faster and more efficient way of resolving disputes given that it envisages an obligation for the parties to a specific type of dispute to address a mediator to try to resolve the dispute by mediation before initiating proceedings before the court. Together with the adopted new Labour Law, this measure is expected to enable the reduction of court proceedings costs that are payable by the state.

5. STRUCTURAL REFORMS IN THE PERIOD 2020-2022

5.1 Identification of Key Obstacles to Competitiveness and Inclusive Growth

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

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

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

In line with the identified challenges, 6 policy guidance were given in the Ministerial Dialogue held in May 2019 regarding preparation of the ERP 2020, three of which addressed structural reforms and read as follows:

- Montenegro is invited to improve the regulatory environment by developing publically available guidance on the practical implementation of each law that affects the businesses environment. Ensure consistent application of the provided guidance.
- Montenegro is invited to develop a comprehensive strategy providing reliable benchmarking tools allowing for the continuous assessment and reduction of the informal economy, including undeclared work. Ensure close cooperation between central and local authorities to reduce the informal economy. Adopt and implement the new legislative framework on public procurement, public-private partnerships and concessions.
- Montenegro is invited to increase labour market participation, in particular for youth, women and the low skilled, by strengthening employment activation measures, including through better provision of upskilling and reskilling measures. Improve coordination between employment and social services. Establish a solid monitoring and evaluating mechanism on the implementation and results of practical learning at vocational and higher education.

The challenges mentioned above are also recognised in relevant strategic documents and Montenegro is committed to overcoming them. Moreover, full implementation of the priority reform measures set out in ERP will ensure a desired degree of efficiency in elimination of the barriers to competitiveness and inclusive growth. Implementation of reform measures is monitored by the Council for Competitiveness set up by the Government in 2017 through regular reporting.

5.2 Summary of Reform Measures

The chapter summarises priority reform measures that are defined on the basis of identified challenges and as a response to the problems related to competitiveness and growth, through eight areas, in line with the EC' s policy guidance. The table shows, in an integrated manner, the significance of the proposed measures in line with their estimated impact on economic competitiveness/growth, employment and fiscal sustainability. The aforementioned represents a link between certain measures and policy guidance for Montenegro at the May 2019 Ministerial Meeting and identifies institution competent for implementation of the measure, as well as the risk to implementation of the measure.

Table 4.1: Overview of Montenegro' s priority reform measures in the Economic Reform Programme 2020-2022 and their reference to the policy guidance to Montenegro given at the May 2019 Ministerial Meeting

#	Priority reform measure	Impact score (weighting)*	Impact on competitiveness	Impact on employment	Impact on fiscal sustainability	Reference to the policy guidance given at the May 2019 Ministerial meeting (number)	Implementing ministry
Energy and transport market reform							
1.	Enhancement of ownership and managerial structure at electric power companies with state-dominant ownership	12	Medium	Direct	Neutral	/	Ministry of Economy
2.	Enhancement of intercity scheduled passenger transport in road traffic	9	Medium	Indirect	Neutral	/	Ministry of Transport and Maritime Affairs
Sectoral development							
3.	Support to technological modernisation of the manufacturing industry	5	Medium	Indirect	Negative	/	Ministry of Economy
4.	Support to investments in food production sector with the aim of boosting competitiveness	11	Large	Direct	Neutral	/	Ministry of Agriculture and Rural Development
5.	Diversification of tourism product	11	Medium	Direct	Positive	/	Ministry of Sustainable Development and Tourism
Business environment and reduction of the informal economy							
6	Implementation of new regulatory framework for public procurement and public-private partnership policy	13	Medium	Indirect	Positive	5	Ministry of Finance
7.	Introduction of electronic public procurement system	13	Medium	Indirect	Positive	5	Ministry of Finance
8.	Enhancement and implementation of measures for suppression of informal economy	5	Medium	Indirect	Neutral	5	Ministry of Finance
9.	Suppression of informal economy by reforming tax administration	12	Large	Indirect	Positive	5	Ministry of Finance
10	Enhancement of support to micro, small	9	Medium	Direct	Positive	/	Ministry of Economy

	and medium-sized enterprises sector						
Research, development and innovation (RDI) and digital economy							
11	Enhancement of legislative-regulatory framework and further development of infrastructure for broadband internet connection	8	Medium	Indirect	Neutral	/	Ministry of Economy
12	Enhancement of legislative and institutional framework for innovation	11	Large	Direct	Neutral		Ministry of Science
13	Enhancement of system for support to innovation and human resource strengthening	15	Large	Direct	Positive		Ministry of Science
Trade-related reforms							
14	Implementation of measures for trade facilitation in accordance with the WTO Agreement on Trade Facilitation and CEFTA Additional Protocol 5	9	Medium	Direct	Positive	/	Ministry of Economy/Ministry of Finance
Education and skills							
15	Establishment of a system of continuous monitoring of the quality of apprenticeship with employers	6	Medium	Indirect	Neutral	6	Ministry of Education
Employment and labour market							
16	Increased participation in labour market, particularly of sensitive groups of unemployed persons	10	High	Direct	Negative	6	Ministry of Labour and Social Welfare
17	Adoption of the National Employment Strategy 2021-2024	6	Medium	Indirect	Neutral	6	Ministry of Labour and Social Welfare
Social inclusion, poverty reduction and equal opportunities							
18	Development of the day-care service for the old-aged	3	Low	Indirect	Neutral	6	Ministry of Labour and Social Welfare

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

5.3 Analysis by Area and Structural Reform Measures

5.3.1 Energy and Transport Market Reform

Description/analysis of main issues and obstacles to development of the area: Natural gas market has not yet been established in Montenegro since Montenegro does not have access to the natural gas, nor does it have a developed gas infrastructure. Main obstacles to reform and development of the electricity market include unsuitable ownership and managerial structure of electric power entities. In fact, wholesale electricity market in Montenegro operates on the basis of off-exchange transactions, while the ultimate goal is its full integration into the EU single market. The obstacle to achieving the aforementioned goal is the fact that the Montenegrin Power Exchange (BELEN), being a newly established company, does not have any experience in power exchange management and connecting with the neighbouring electricity markets in the way this is done in the EU Member States. In addition, incumbent electricity producer – Electric Power Company of Montenegro JSC Nikšić (EPCG), operates conventional production facilities, of which the last one was put into operation almost 40 years ago. Lack of experience in the development and management of facilities generating electric power from renewable sources by using new technologies may have adverse impact on making new investments, efficiency of functioning of the company, success of its operations and competitiveness. As a result of exit of former strategic partner from EPCG' s ownership structure, there emerged the need to analyse ownership and managerial structure and select optimal model.

Moreover, incomplete legislative and regulatory framework in this area is the reason for insufficient level of integration into regional electricity market. Complexity of elimination of the aforementioned obstacle is reflected in a huge number of implementers of activities which require an agreement to be reached at the regional level. In that context, the Economic Reform Program for Montenegro 2019-2021 set out priority reform measure entitled "Enhancing legislative-regulatory and institutional framework for integration into regional electricity market '' for a period of three years. In 2019, the draft law transposing Regulation (EU) 347/2013 on guidelines on trans-European energy infrastructure was prepared and public debate was conducted. At the moment, legislation that will transpose Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency is being prepared. Precondition for implementation of the other activities planned within this measure is reaching an agreement at the regional level, which is at the same time a key risk to their implementation.

Additional incentive to improvement of condition of the transport system should be achieved through the upcoming implementation of the new Transport Development Strategy of Montenegro 2019-2035 adopted by the Government in June 2019 and implementation of the Treaty Establishing South-East European Transport Community signed in Trieste in 2017.

Priority reform measure No 1: Enhancement of ownership and managerial structure of electric power companies with state-dominant ownership

Description of measure: This reform measure includes activities aimed at improving ownership and managerial structure of electric power companies with state-dominant ownership, while its goal is to lead to a more rapid reform and more intensive development of electric power sector, as well as to boost competitiveness of companies and ensure a more rapid integration of Montenegrin market into the regional electricity market. The measure is in line with Energy Policy of Montenegro until 2030, Energy Development Strategy of Montenegro by 2030 and Action Plan for its implementation in the period 2016-2020. This measure is also in line with energy policy of the Energy Community and European Union since it contributes to development of the competitive electricity market in Montenegro and to its integration at the regional level. Implementation of the measure is particularly important for EPCG since state ownership of EPCG increased from 57 percent to 85.4 percent after termination of strategic partnership agreement with the Italian company A2A.

The measure was envisaged in ERP 2019-2021 for a period of three years. Analysis of ownership and managerial structure of BELEN was conducted in 2019 and Norwegian company Nord Pool was selected in competitive procedure as a strategic partner, while negotiations with that company on concluding the agreement are ongoing. Moreover, Terms of Reference are currently being prepared for preparation of the analysis of ownership and managerial structure of EPCG. Repetition of the measure means that its implementation continues.

Period for the implementation of measure:

a. **Activities planned in 2020:** Finalisation of analysis of ownership and managerial structure of electric power companies with state-dominant ownership and selection of optimal ownership and managerial models (responsibility of: Ministry of Economy, EPCG, BELEN); start of implementation of the selected models in the companies concerned (responsibility of: Ministry of Economy, EPCG, BELEN).

b. **Activities planned in 2021:** Continuation of implementation of optimal ownership and managerial model for the companies concerned (responsibility of: Ministry of Economy, EPCG, BELEN).

Institution responsible for implementation of the measure: Ministry of Economy

Results indicators: Performance indicators for the aforementioned measure include number of electric power companies for which optimal models of ownership and managerial structure are selected and number of companies that started to apply the selected models.

Results indicator	Baseline (year) 2018	Intermediate target – (year) 2020	Target (year) 2021
Number of companies for which optimal models of ownership and managerial structure are selected	0	2	2
Number of companies that started to apply selected models	0	1	2

Expected impact on competitiveness: This measure creates conditions for increasing interest among narrowly specialised companies in strategic partnership with electric power companies concerned. This measure is expected to contribute to the increase in investments into Montenegrin electric power sector and to knowledge improvement, which will further have significant impact on portfolio diversification and improvement of competitiveness of these companies.

Estimated cost of the activities and the source of financing: Total value of additional costs for implementation of the measure is estimated at 300,000 euro, which will be provided through the grant.

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Positive impact on employment in electric power sector and other sectors is expected in the medium-term and long-term as a result of portfolio diversification of companies and more intensive investment activities. The measure is gender-neutral.

Expected impact on the environment: This measure will improve competitiveness of electric power companies, primarily of producers, by placing focus on the production of “clean“ electric energy. This will contribute to the achievement of the sustainable development goals set out in Paris Agreement.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay in selection of optimal model of ownership and managerial structure of electric power company	Low	Involving additional members of the teams which implement the measure
Failure to reach agreement with the selected strategic partner	Low	Searching a new strategic partner

Priority reform measure No 2: Enhancement of inter-city scheduled passenger transport in road traffic

Description of measure: The Law on Transport in Road Traffic (Official Gazette of MNE 71/2017) sets out requirements and manner of operating public scheduled passenger transport in inter-city road traffic. The law prescribes that inter-city scheduled transport means passenger transport between two or more local government units in the territory of Montenegro. It is worth highlighting that according to the current legal provisions it is the operator who proposes itinerary in intercity scheduled passenger transport, while all new itineraries in intercity scheduled passenger transport must undergo administrative procedure referred to as “consolidation of itineraries”. The procedure for consolidation of itineraries includes a number of actions which serve to establish the period of time (buffer time) prior to or after registered departure in old itinerary, during which new departure and new itinerary may not be registered, based on defined periods of protection, which is a form of limiting competition. It should also be noted that current legal provisions set out that inter-city scheduled passenger transport is operated by the operator based on registered and certified itinerary and that these are registered and certified for a period of one year, with their application starting on 01 June of the current year and ending on 31 May of the following year.

Intercity scheduled transport in road traffic in the territory of Montenegro will be improved through reform of the national legislation in road traffic, i.e. by amending requirements and manner of operating this transport, as well as by amending rules based on which the operator will be granted authorisation to operate intercity scheduled transport. The Ministry of Transport and Maritime Affairs is to propose new itineraries and new models for contracting intercity routes for a longer period of time. Contracts on maintenance of intercity scheduled transport will be concluded for a period between 5 and 7 years. This contract will stipulate rights and duties, on one hand, of the Ministry of Transport and Maritime Affairs as the contracting authority and operators, carriers, on the other, who are specialised in passenger transport, by creating sustainable scheduled intercity passenger transport and providing high quality services of passenger transport across the entire territory of Montenegro, while the Ministry of Transport and Maritime Affairs will cooperate with the Chamber of Commerce of Montenegro (Traffic Association) regarding consolidation of itineraries.

The first step in reforming intercity transport is development of the Study on enhancement of the intercity scheduled passenger transport in road traffic. Deadline for preparation of the Study is 12 months, while grant amounting to 150,000.00 euro has been provided by the European Bank for Reconstruction and Development (EBRD).

Period for the implementation of measure:

a. **Activities planned in 2020:** Preparation of the Study on improvement of the intercity regular passenger transport in road traffic and administrative capacity building of the Ministry of Transport and Maritime Affairs – Road Traffic Directorate (professional training).
b. **Activities planned in 2021:** Reform of the national legislation which includes amendments to the laws and secondary legislation regulating public transport of passengers in road traffic and continuation of administrative capacity building of the Ministry of Transport and Maritime Affairs – Road Traffic Directorate (professional training).

c. **Activities planned in 2022:** Implementation of the new legislation in public intercity passenger transport and continuation of administrative capacity building of the Ministry of Transport and Maritime Affairs – Road Traffic Directorate (professional training).

Institution responsible for implementation of the measure: Ministry of Transport

Results indicators

Results and performance indicator	Baseline (2020)	2021	2022
Number of staff trained	3	4	5

Expected impact on competitiveness: The aim of enhancing intercity scheduled passenger transport is to increase number of passengers in public road transport through strengthening competitiveness of public transport which will be achieved by investing in quality, safety and availability of transport. Since operators will compete and apply for the award of routes in intercity road traffic, on the basis of equal conditions and criteria, the market conditions for operations will improve and competitiveness of operations will increase. Contracts on maintenance of itineraries in intercity public transport are envisaged to be valid between 5 and 7 years, which will serve as a good guarantee to the operators addressing financial institutions when procuring new, environmentally friendly vehicles. Once a higher quality service of intercity transport is provided, the demand for this type of service (transport) is also expected to increase. The existing rules in scheduled intercity transport pose certain administrative barriers under which old itineraries are protected i.e. operators using these itineraries protect their routes and are therefore not sufficiently motivated to improve their service. Moreover, establishment of quality, safe and available transport will create conditions for reducing unfair competition and informal zone.

Estimated cost of the implementation of structural measure and envisaged sources of financing: Implementation of the measure does not incur additional costs, instead the funds for operation are allocated through annual budget laws of Montenegro for the Ministry of Transport and Maritime Affairs (Road Traffic Directorate) as a spending unit of the government budget which, in addition to the funds for regular salaries of employees, also includes funds for professional training, while additional professional training will be organised through TAIEX programme and will not incur any additional costs. Grant in the amount of 150,000.00 euro for preparation of the Study on improvement of intercity scheduled passenger transport in road traffic has been provided by the European Bank for Reconstruction and Development (EBRD).

Expected impact on social outcomes: The aim of improving intercity scheduled passenger transport is to create quality, safe transport available to all the categories of passengers in the territory of Montenegro, by establishing optimal number of routes in line with market demand, which should contribute to a more equitable connectivity in the region.

Expected impact on the environment: The aim of improving intercity scheduled passenger transport is also to reduce emissions of carbon dioxide from exhaust gases of buses by employing and optimally using environmentally advanced vehicles. Once relevant contracts on maintenance of intercity scheduled transport are concluded between the Ministry of Transport and Maritime Affairs and operators, certain standards for the vehicles to be used will have to be met.

Potential risks:

Risk	Probability (low or high)	Planned mitigating action
The risk involves lack of Montenegrin operators' interest in all the proposed itineraries in intercity transport	Medium	Study on improvement of intercity scheduled passenger transport in road traffic will propose models for contracting the routes in order to reduce this risk

5.3.2 Sectoral Development

Analysis of main obstacles: Key development sectors in Montenegro are industry, agriculture and services, primarily those in tourism. In that regard, reform measures within sectors are specified in ERP 2020 for the areas of industry, agriculture, tourism and financial services, while diagnostics of the condition in these areas is outlined below.

Industry: Priorities set in industrial policy such as boosting competitiveness, rise in innovation, better cooperation between industry, research and development, tendencies towards greater added value and expansion of the range of products, while using modern technologies and implementing numerous measures and activities, resulted in a mildly positive shift of value indicators of the industry.
The share of industry in the structure of the overall GDP in 2018 equalled 10.3 percent and, compared to the year before, it is higher by almost 10 percent. Gross value added at the level of industrial sector in 2018 increased by 19.9 percent compared to 2017. A total of 11.4% of total working age population was employed in industrial sector in 2018, while productivity of industry increased amounting to 21,590 euro in 2018. In the observed year, the share of industry in exports accounted for 90.6 percent, with share of manufacturing industry accounting for 65.1 percent. Out of the total investments in fixed assets in 2018 (1.01 million euro), 11.9 percent were invested in industrial sector which is a 9.4 percent increase compared to the year before. As for manufacturing industry, investments in fixed assets have recorded a 33.7 percent growth compared to 2017. Positive trends have also been recorded in total domestic spending on research and development which amounted to 0.35 percent of GDP in 2017, of which expenditures incurred by business and entrepreneurial sector for research and development amounted to 19 percent.

Manufacturing industry, as the main industrial sector, accounts for 52.7 percent of industrial production, with 4 percent share in GDP structure and 38.9 percent of industrial contribution to GVA in 2018. Trends of industrial production in manufacturing industry sector are predominantly determined by the production of basis metals (aluminium and steel), food and beverages production, timber industry and furniture production. Almost throughout entire year 2019, production at the level of manufacturing industry recorded a mild decline of production indices, and thus of exports, which is mainly the result of a decline in metal industry caused by destabilisation of prices of basis metals and reduced demand for these products. Smaller scope of production resulted from the shift of tendency towards opening new capacities and future diversification of production.

Obstacles to stronger industrial growth, such as domination of products with low level of processing and low productivity, lack of own capital for investing, high export dependency of expensive energy sources, relatively weak link between science and industry and low level of technological development prevent achievement of better production and financial effects. Adoption of Industrial Policy 2019-2023 with accompanying Action Plan and coordinated approach to the implementation of programme measures and activities should contribute to the decrease in main obstacles and revitalisation of industry, as well as to the improvement in performance of the Montenegrin industry in medium-term.

Agriculture: Agriculture is one of strategic development sectors in Montenegro. Its share in GDP in 2018 accounted for 6.7 percent. Gross value of production in agriculture, forestry and fisheries sectors in 2018 accounted for 515.2 million euro and is higher by 6.7 percent compared to 2017. The main goal of agricultural policy of Montenegro is to boost competitiveness of agricultural production and improve living conditions in rural areas. The main obstacles to strengthening competitiveness of food production sector in Montenegro are low productivity per a unit of area, unfavourable age structure in rural areas, underdeveloped rural infrastructure and lack of a proper form of association of agricultural producers in the majority of sectors of agricultural production.

Significant funds have recently been made available to the Montenegrin producers from the World Bank funded project MIDAS and pre-accession funds for rural development, as well as from state budget, with the aim of strengthening food production sector. In 2018, around 16.7 million euro were invested in agriculture sector, of which assistance from IPA funds amounted to 2.6 million euro (total amount of investments is 4 million euro), whereas 14.1 million euro were allocated through agriculture budget measures and these included direct support measures (subsidies) and measures which aimed to support investments in rural areas, such as support to cultivating new plantations, increase in livestock, procurement of equipment and machines.

As a result of investments in food manufacturing facilities and achievement of EU food safety standards, the food manufacturing facilities have improved and the number of those complying with the EU requirements has increased significantly (2014 – 3 facilities, now 61 facilities). At the moment, Montenegro has 14 facilities that have been granted approval to export to the EU.

Tourism: Tourism turnover indicators were satisfactory in 2019 showing positive trend since the beginning of the year. However, given the potentials for further development of tourism on one hand, which constitute basis for achieving strategic goal of Montenegro becoming a high-end year-round tourist destination, the following are the main obstacles to a more rapid tourism development: insufficient number of accommodation capacities (primarily hotels) of higher and high categories, unbalanced development of tourism by regions and still high level of seasonality of tourism industry.

In fact, analyses reveal that 90-95 percent of accommodation capacities and tourism turnover (number of tourists, overnight stays and revenues) are located and operated in the coastal region and that 65-70 percent of tourist traffic materialises during the three summer months of the year (June, July and August).

Consequences of such condition and developments in tourism sector are the following:

- Northern region of Montenegro is insufficiently developed from tourism perspective, with population constantly migrating to the other parts of the country,
- In the periods before and after the peak (summer) tourism season, tourism industry does not operate at the satisfactory level, ultimately leading to seasonal employment, which does not contribute to the increase in total number of the employed.

In order to minimise barriers to a more rapid tourism development, the reform measure entitled “Diversification of Tourism Product” was proposed and this measure represents a continuation of activities initiated in the previous period. Implementation of the measure contributes to the implementation of EC’ s policy guidance No 6 as it creates prerequisites for increase in the share in the labour market, particularly of a huge number of young people, women and low-skilled staff (who constitute major share in the structure of all those employed in tourism as a labour-intensive economic sector, while women account for around 50 percent of the total number of employees), and measures for activation of employees will be strengthened as well.

Implementation of activities within the proposed measure increases level of competitiveness of Montenegro as a tourist destination not only in the region but also beyond since it creates the product which is inherently specific/unique (offers of the coast and northern region are integrated) and which provides tourists with quite a diverse experience in a relatively short period.

Priority reform measure No 3: Support to technological modernisation of the manufacturing industry

Description of measure: The Programme Line for modernisation of the manufacturing industry is implemented in accordance with the Action Plan for implementation of the Industrial Policy 2019-2023, in the period 2019-2020, through the Programme for the Improvement of Competitiveness of Economy, while focus is placed on stimulating modernisation of capacities and improvement of technology through investments in equipment. The subject Programme Line, as an important implementing mechanism for modernisation of manufacturing capacities and primary component of the measure, is implemented continuously by procuring equipment under credit facility concluded with the IDF of Montenegro, with up to 20 percent of eligible costs co-financed by grant of the Ministry of Economy. Effects of the measure in the period 2016-2018 show that there has been a strong interest and positive reaction of businesses which resulted in procurement of machines and accompanying equipment worth of around 1.35 million euro, while grant provided by the Ministry of Economy amounted to around 0.02 million euro.

Moreover, in accordance with strategic and operating goals set out by the Industrial Policy, preparation of programme activities focused on energy efficiency in manufacturing industry was initiated as a continuation of the activities implemented in the area of technological modernisation, with the aim of ensuring energy efficient use of resources and reduction in energy consumption. The second component of this measure is aiming to the improvement of operations through introduction of energy management and optimisation of energy consumption, which is set out by the Action Plan for Industrial Policy 2019-2020, as well as in the Action Plan for the Smart Specialisation Strategy 2019-2020.

Period for the implementation of measure:

a. **Activities planned in 2020:** Continuous implementation of the Programme Line for modernisation - Ministry of Economy/IDF of Montenegro; Implementation of pilot projects of financial assistance to implementation of energy efficiency measures in manufacturing industry.
b. **Activities planned in 2021:** Continuation of programme activities aimed at implementing the line for modernisation of the manufacturing industry, as well as preparation and implementation of the programme for energy efficiency in industrial sector.
c. **Activities planned in 2022:** Further implementation of programme activities aimed at implementing the line for modernisation of manufacturing industry and energy efficiency in industrial sector.

Institution responsible for implementation of the measure: Ministry of Economy

Results indicator: Performance indicators in terms of results achieved for the first component of the aforementioned measure include number of the approved applications filed on the basis of the open call and value of the procured equipment for modernisation, while indicator for the second component includes finalisation of implementation of the pilot project of support to energy efficiency and development of the Programme for implementation of energy efficiency measures in industrial sector on the basis of that pilot project.

As for performance indicator, success is quantified by increased investment in equipment in the manufacturing industry, as well as by increase in GVA of the manufacturing industry and reduction of energy consumption in industrial sector.

Indicator	Baseline (year) 2016	Intermediary target – (year) 2020	Target (year) 2022
Number of supported applications on the basis of both programme activities	1 enterprise	10	12
Value of the procured equipment	47,500 euro	1,000,000	1,300,000
Programme for implementation of energy efficiency measures in industrial sector	-	Implementation of the pilot project	Implementation of the programme
Scope of investments in manufacturing industry	31.8 million euro	10% growth compared to the baseline year	20% growth compared to the baseline year

Expected impact on competitiveness: This measure will stimulate investments in technological development which will have impact on productivity, profitability and competitiveness of companies in both, domestic and international markets. Industrial sector will be additionally improved by establishment of the grant scheme for introduction of innovative solutions and new technologies aimed towards improving energy efficiency and expanding the use of renewable energy by enterprises. In the medium-term, possibilities will be created to increase the share of industry in GDP and exports, as well as to generate revenue while complying with the principle of sustainable development.

Estimated cost of the activities and the source of financing: Given the trend of a growing interest of economy in implementation of the modernisation measure (in 2019, 11 applications were approved, machines and accompanying equipment worth of 1,213,786 euro were purchased, of which 155,736 euro were grant funds), the activities focused on modernisation in industrial sector, supported by the pilot energy efficiency project[23] , require budgetary allocation of 200,000 euro in 2020, while 300,000 euro will be needed for implementation in 2021 and 2022, respectively. Moreover, implementation of activities under the first component is planned to be financed by the IDF of Montenegro through the credit facility worth of 1.2 million euro in 2020 and 1.25 million euro in 2021 and 2022.

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Increased technological capacities will generate jobs for highly skilled staff. Provision of support to professional training, aimed at acquiring new knowledge and skills, will enhance human capacities in companies and increase employability of young people.

Expected impact on the environment: As for impact on the environment, in addition to strengthening finalisation through the support to small, but modernised manufacturing facilities, the activities to be implemented under the programme of energy efficiency measures will be an additional incentive to ensure resource efficient and cleaner production, in line with the environment protection concept and minimisation of potential negative impacts of the introduction of modern technologies.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Willingness and awareness of companies for modernisation, while complying the principles of resource efficient and cleaner production [24]	/	Promotional activities through organisation of thematic events and provision of technical support to potential applicants

Priority reform measure No 4: Support to investments in food production sector with the aim of boosting competitiveness

Description of measure: The measure consists of two components: I - Support to investments in the food production sector in order to achieve the EU standards and II – Diversification of economic activities. The first component supports new plantations of crops, increase of livestock, the purchase of specialised machinery, construction and reconstruction of primary production facilities, procurement of manufacturing equipment, introduction of new technologies and innovation and creation of new market opportunities, construction and reconstruction of facilities for manufacturing agricultural and fishery products in order to improve standards of food safety, animal health and welfare and plant health, through gradual harmonisation with EU food quality and safety standards.

[23] The activity will be implemented within the Programme for the Improvement of Economic Competitiveness, while additional component of the measure – pilot project will be introduced focusing on energy efficiency in industrial sector, and will be implemented within IPA 2014 project – Enhancement of Business Environment and Competitiveness of the Private Sector.

[24] The risk refers to implementation of the second component.

Component II - Diversification of economic activities on farms focuses on development of rural tourism and manufacturing of agricultural produce on farms by providing support to construction and reconstruction of facilities and by purchasing equipment, machinery and other items. This measure is implemented in line with the Strategy of Agriculture and Rural Development 2015-2020 , Agriculture and Rural Development Programme 2016-2020 (IPARD II) and Smart Specialisation Strategy of Montenegro 2019-2024.

Period for the implementation of measure: This reform measure is divided into three activities: Component I - "Investments in physical capital of farms", "Investments in physical capital related to manufacturing of agricultural and fishery products" and Component II - "Diversification of economic activities on farms" whose implementation will continue until 2023 which is in line with the programming period of IPARD II.

Institution responsible for implementation of the measure: Ministry of Agriculture.

Results Indicators table:

Component I - Supporting investments in food production sector in order to meet the EU standards

Indicator	**Baseline year (2018)**	**Intermediate target (2020)**	**Target year (2023)**
Value of investments that were made	0	6,700,000 euro (exclusive of VAT)	48,000.000 (exclusive of VAT)
Newly built facilities in the field of manufacturing	0	5	25 projects
Entities operating with food which reached EU standards	0	10	60 projects

Component II - Diversification of economic activities

Indicator	Baseline year (2019)	Intermediate target (2020)	Target year (2023)
Number of executed/paid applications	0	25	100
Value of investments that have been made	0	700,000 euro (exclusive of VAT)	3,000,000 euro (exclusive of VAT)

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

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

Expected impact on the environment: IPARD II programme envisages that support may be provided only to those beneficiaries whose investments meet, at the latest at the moment of the payment, the EU' s environmental protection standards, while the entire household or enterprise must meet national environmental protection standards. Measures promote environmental protection by assigning additional 10 points to the applications which are related to or which include investments in waste management (manure, wastewater, production waste), i.e. a part of investment which concerns waste management receives additional 10% of grant funds. The intention behind this is to contribute to the development of sustainable practices in soil management through organic agriculture and other agricultural and ecological practices.

Potential risk

Risk	Level of expected risk	Planned mitigating actions
Problem with pre-financing	Medium	Establishing a special IDF line of credit which is compatible with IPARD II programme, while it is also favourable for beneficiaries of assistance (lower interest rates, acceptable collateral). Possibility of establishing a guarantee fund. Talks with commercial banks in order to ensure financing of agricultural sector under the most favourable terms possible.
Administrative barriers	Medium	In order to implement these measures the Government of Montenegro adopted the informative brief and passed conclusion under which advantage is given at all levels to the documentation which is necessary to obtain assistance under IPARD II programme. This practice will continue in the coming period.

Estimated cost of the measure/activity and budgetary impact: Total planned assistance in 2020 amounts to 25 million euro, of which 11.3 million are from IPA funds, 10 million euro are from private sources and 3.7 million euro are national contribution. Total planned assistance in 2021 is 25 million euro, of which 11.3 million are from IPA funds, 10 million euro are from private sources and 3.7 million euro are national contribution. Total planned assistance in 2022 is 25 million euro, of which 11.3 million are from IPA funds, 10 million euro are from private sources and 3.7 million euro are national contribution. Implementation of this measure does not incur any additional costs.

Priority reform measure No 5: Diversification of tourism product

Description of measure: Diversification of tourism product is a measure undertaken in pursuit of the strategic goal of tourism development which is formulated as follows: Montenegro is recognised on the international tourist map as a high-quality tourist destination with a year-round tourist offer. The measure is implemented through activities related to the development of nature-based, cultural, rural, health, nautical, sports and other types of tourism, i.e. by developing products for selected target groups of visitors, creating unique products and promoting authentic tourist attractions, with constant upgrading of service quality.

Activities within this measure focus on improving the existing and developing new forms of tourism product (based on nature with putting to best use all the existing potentials in tourism) in northern region of Montenegro, while they also put emphasis on its integration with the offer of the coast into a single whole. Since tourism has multiplied effects on other sectors of the economy, the measure will contribute to the development of the offer and economic activities which are either directly or indirectly linked to tourism (agriculture, trade, transport…). In this manner, the measure will also contribute to the increase in income of domicile population due to the possibility of engaging in tourism activity as a supplementary activity (rural households will market their products in an easier and safer manner). Moreover, development of new products leads to opening of new jobs which increases employment of young people (tourism is labour intensive sector with dominant female population) and reduce migrations from the north to the south of the country.

Activities within the measure are implemented in a multiannual period since they consist of sub-projects:

- **Mountaineering and cycling** – development of new mountaineering trails and cycling lanes with accompanying infrastructure, with the vision to develop hospitality offer next to them (so far, among others, the bed&bike offer of households situated next to trails is most widely represented). Activities involving development of the new trail for Durmitor area are planned to be implemented in 2020;
- **Panoramic roads of Montenegro** – consist of four routes in total, of which the route "Circuit around Korita" is completely finished (several hospitality facilities have been opened alongside this route, households built several rest stops); 90% of activities have been finished for the route "Durmitor Ring", while activities for the routes "Crown of Montenegro" and "Sea and Heights" are still at the initial stage);
- **Programme of Incentives** – consists of several sub-programmes; in the period 2019/2020 these included: organising association of landlords of private accommodation; organising events; support to MICE tourism development; promotion in international events abroad and support to the entities that promote traditional Montenegrin cuisine and products in Montenegro and abroad, joint advertising in Israeli market; conducting joint campaign with tour operators and support to the events in the north of Montenegro; in this framework, 31 projects were co-financed, while their implementation starts in 2019 and ends in 2020;
- **All Miracles of Montenegro** – represents a mechanism for reviving interest in Montenegrin sites that are not promoted in tourism and are unknown. i.e. for capitalising on abundant resources of Montenegro. The project will be implemented through open calls with the aim of promoting all less known and unknown stories, anecdotes, historic events and facts from Montenegro, i.e. from all the cities, villages, places for which there is a written trail as evidence, while focus will be placed on the following sites: Prokletije, Komovi, Bjelasica, Mrtvice canyon, valleys of Lim and Bojana, Piva and Pivsko lake, Veruša, Njeguši, Šasko lake, Ali Pašini springs, Turjak and other sites related to nature and natural resources, as well as to culture, religion, cultural and historic heritage etc. The project will be implemented in two forms: real and digital ones, which are closely related and together make an interactive whole, and in this way the new form of marketing sale and advertising will be promoted along with promoting digital culture of Montenegro.

The following will be done within real form of the project: arranging the site, setting up signs – information boards (in several languages) with the QR code – link to the website "All Miracles of Montenegro" which will feature more information on the site, but also on tourism and other amenities in the vicinity. Digital form of the project includes development of the: website and social network, VR/AR/MR application (virtual reality, interactive reality, mixed realities and virtual reality), mapped projections (projected on buildings and edifices), hologram projections (projected on buildings and edifices in 5D, 8D) and hologram advertisements.

Therefore, once all the projects within the measure are finalised the tourism offer, primarily of the northern region of Montenegro, will be more extensive since it will include more specific tourism products which will constitute basis for designing tourism itineraries of several days' duration. Longer stay of tourists means they need accommodation which also leads to increase in the number of overnight stays and revenues (as main indicators of the trends in tourism traffic). In this way, activities within the measure contribute to the achievement of the strategic goal of providing offer to the tourists all year round.

Implementation of project activities is planned in the medium-term given that tourism is low-accumulation, labour-intensive economic sector whose development requires longer period to start.

Implementers of all the activities within the measure are primarily small and medium-sized enterprises (which constitute the majority of enterprises in tourism sector of Montenegro), while their business operations are stimulated by implementation of the aforementioned project activities – MSDT in cooperation with NTO either finances development of infrastructure as the basis for implementation of the projects or co-finances their implementation.

Fostering creativity and innovation of small and medium-sized enterprises, as the main features of the projects implemented within the measure, will be part of project activities to be undertaken within the priority "Sustainable and Health Tourism" which is defined, amongst others, in the Smart Specialisation Strategy (S3). The project focuses on the use of innovation for modernisation of health tourism through special private investments into creating new products and services.

Activities within the measure are implemented in compliance with sustainability principle (correlation to the National Strategy of Sustainable Development), while their implementation creates preconditions for balanced tourism offer from regional perspective (correlation to the Regional Development Strategy). One of the results of improving offer in the northern region is increase in the number of newly created jobs, increase in tourism traffic (number of tourists, overnight stays and revenue generated from tourism), decreased migration from the north to the south and raising the standard of living of the population (correlation to the Millennium Development Goals).

Period for the implementation of measure:

a. **Activities planned in 2020:** – Mountaineering and cycling – Mountaineering trail for Durmitor area, Panoramic roads of Montenegro ("Crown of Montenegro" and "Sea and Heights"), Programme of Incentives in Tourism Sector (launching open calls and conclusion of contracts based on approved projects). "All Miracles of Montenegro" (selection of sites which will be developed and in which signage will be put up, while launching open calls for selection of the most advantageous bidders).
b. **Activities planned in 2021:** – Mountaineering and cycling - (Mountaineering trail for Durmitor area, Panoramic roads of Montenegro ("Crown of Montenegro" and "Sea and Heights"), Programme of Incentives in Tourism Sector (launching open calls and conclusion of contracts based on approved projects). "All Miracles of Montenegro" (selection of sites which will be developed and in which signage will be put up, while launching open calls for selection of the most advantageous bidders).
c. **Activities planned in 2022:** – Mountaineering and cycling - Mountaineering trail for Durmitor area, Panoramic roads of Montenegro ("Crown of Montenegro" and "Sea and Heights"), Programme of Incentives in Tourism Sector (launching open calls and conclusion of contracts based on approved projects). "All Miracles of Montenegro" (selection of sites which will be developed and in which signage will be put up, while launching open calls for selection of the most advantageous bidders).

Institution responsible for implementation of the measure: Ministry of Sustainable Development and Tourism

Results indicator:

Results indicator	2020	2021	2022
Number of projects	3	4	4

Performance indicator	2020	2021	2022
Number of tourists	annual growth rate: 5%	annual growth rate: 7%	annual growth rate: 9%
Number of overnight stays	annual growth rate: 4%	annual growth rate: 6%	annual growth rate: 8%

Expected impact on competitiveness: Tourism is one of priority sectors of Montenegro' s economy having in mind potentials for its further development, indirect impact on other activities, its export component and the fact that 90% of tourists arrive from abroad. Implementation of the measure will result in achievement of the goal of extending duration of the peak tourism season which will stimulate greater utilisation of accommodation capacities, while it will continuously create new jobs. The measure will also contribute to raising awareness about sustainable development of the environment (since the measure predominantly focuses on the development of tourism product based on nature), primarily through putting nature potentials and cultural and historic heritage to the best use in tourism sector.

Permanent improvement of tourism product is expected to further increase export component of tourism services, with multiple effects on other economic sectors: transport, agriculture, trade, handicrafts... It is expected that growing trend of the number of tourists, overnight stays and revenues generated from tourist spending will increase and that in the next ten-year period the total share of tourism in GDP (either directly or indirectly) will grow at the annual rate of 3-5% (as stated in report produced by the World Travel and Tourism Council).

Implementation of the measure will raise level of competitiveness of Montenegro as a tourist destination not only in the region, but also beyond since it creates product which is inherently specific/unique (offers of the coast and northern regions are integrated), while tourists are provided with quite a diverse experience in a relatively short period.

Estimated cost of the activities and the source of financing: The amount of 520,000.00 euro (70,000 euro for goods and services – for activities within "Mountaineering and Cycling", "Panoramic Routes" and "All Wonders of Montenegro" and 450,000 euro for co-financing projects in the framework of activities under "Programme of Incentives in Tourism Sector") are allocated in the 2020 budget. A part of funds needed for project activities under the Programme of Incentives is provided by tourism sector as the final service provider.

The measure will be financed as mentioned above also in 2021 and 2022.

Expected outcome on social outcomes, such as employment, poverty reduction, equality and gender: Since tourism is labour-intensive activity, implementation of project activities within this measure will contribute to the increase in the total number of employees, and since women account for majority of the employed in tourism sector this will also contribute to the economic empowerment of women (correlation to the Strategy of Development of Women' s Entrepreneurship and activities aimed at achieving gender equality).

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

Expected impact on the environment: Activities within the measure are implemented in compliance with the principle and standards of sustainability (from economic, environmental, cultural and social aspects) in order to ensure optimal use of environmental resources which are crucial element of tourism development. In this manner, prerequisites are created to implement activities within the measure with the minimum negative impact on the environment.

On the other hand, putting natural potential and cultural and historic heritage to best use in tourism contributes to their revitalisation and more efficient conservation, which essentially has a positive impact on their further potential from the perspective of their tourism function.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Failure to implement activities as planned results from conducting tender procedures	High	Provision of funds through more intensive involvement of private sector in similar project activities.

5.3.3 Business Environment and Reduction of the Informal Economy

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

The Government of Montenegro set up the system of coordination of the fight against informal economy through the work of the Government' s Commission for Suppression of Informal Economy. These activities contributed to better coordination between authorities participating in prevention and suppression of informal economy which resulted in better collection of revenues and reduction of informal economy. The Commission for Suppression of Informal Economy also monitors annual adoption of the Action Plan for the fight against informal economy. Lack of proper indicators for monitoring results of the measures set out in the Action Plan has been recognised as a weakness of the existing Action Plan.

In addition, it is necessary to improve quality of administrative framework for the fight against informal economy by capacity building of institutions that are main implementers of the process. In this context, the system of functioning of tax administration has been recognised as the challenge that requires additional reforms.

As for improving business environment, the challenges have been recognised in respect of administrative and regulatory barriers, establishment of digital processes, reduction of parafiscal charges at national and local levels, establishment of regulatory framework for public procurement, public-private partnership and concessions and financial assistance to small and medium-sized enterprises.

The Law on Administrative Fees and Law on Local Utility Fees were adopted in March 2019 in order to reduce parafiscal charges. The new Law on Administrative Fees was adopted for the purpose of abolishing, consolidating and reducing administrative fees which have direct impact on citizens and economy. For that purpose, 72 fees were reduced (11% of the total number), 49 fees (7%) were abolished and none of the fees was increased. Under the new Law on Local Utility Fees, nine grounds for establishing fees were abolished, while three were kept and limits of their amounts were set. The laws mentioned above lay down the obligation for local self governments to harmonise their secondary legislation which means that decisions on municipal utility fees and decisions on municipal administrative fees are to be harmonised with the laws by 31 July, subject to obtaining consent of the Government.

Municipal decisions are adopted in comprehensive cooperation with the Government, local self governments and private sector. In fact, in the procedure for giving consent to decisions the Ministry of Finance is obligated to consult representatives of all business associations in Montenegro and several ministries as well (Ministry of Economy, Ministry of Sustainable Development and Tourism, Ministry of Transport and Maritime Affairs, Ministry of Agriculture and Rural Development). During the procedure for adoption of decisions, local governments prepare regulatory impact analysis which enable full consideration of economic effects of the adopted decisions.

In order to improve business environment, create prerequisites for boosting competitiveness and consequently for better positioning on international lists of competitiveness indicators, in June 2019 the Government of Montenegro adopted the Action Plan for the Enhancement of the Business Environment (in selected areas). The Action Plan addresses five areas: starting a business, dealing with construction permits, getting electricity, paying taxes and registering property. Identified, areas rely on the World Bank's Doing Business Report which recognises them as vulnerable for Montenegro, since

Montenegro is ranked somewhat worse compared to other countries covered by the report. The Action Plan sets out specific regulatory and operational activities in order to achieve desired results. Deadlines were identified, as well responsible persons at the operational level. Predominant activities set out by the Action Plan refer to establishment of digital processes, first of all electronic registration of companies and establishment of e-cadastre. Success indicators for implementation of the measures set out by the Action Plan will include improvement of the ranking of Montenegro in Doing Business Report.

In addition to establishing electronic registration of companies, the Action Plan also sets out improvement of procedures for standard registration of companies in terms of simplifying forms, reducing costs and improving access to the Central Registry of Business Entities. As for e-Cadastre, electronic access to the data contained in cadastral records will be enabled which will reduce the time needed to register immovable property.

Implementation of this Action Plan requires adoption of four laws: Law on Business Organisations, Law on Spatial Planning and Construction of Structures, Energy Law and Law on State Surveying and Cadastre.

As for access to financing, prospective entrepreneurs, start-ups and existing MSMEs that have business ideas and meet criteria, but do not have sufficient or adequate collateral for loans, are still facing difficulties which indicates the need to develop new financial instruments to facilitate access to finance. In this regard, the plan is to set up a guarantee fund as the new financial assistance instrument for improving entrepreneurship, stimulating investment activities and opening new businesses and jobs. Guarantee schemes will provide *support to entrepreneurs for starting a business and incentives to the operations of SMEs through better conditions, reduction of risk and increase in the volume of credit support.*

Moreover, SME sector continues to face weak export activities due to demanding technical regulations, whereby businesses should become aware that these are becoming mandatory in the domestic market as well. Insufficient clustering, lack of knowledge of export procedures, application of intellectual property law, poorly developed marketing function and insufficient knowledge of modern trends in the use of information technology are still evident. This means that further support needs to be developed for implementation of international standards of quality, digitalisation and business internationalisation, while also strengthening informative/advisory, promotional and educational support to enterprises.

In line with the undertaken commitments, the Law on Public Procurement was adopted in December 2019 with the aim of achieving full harmonisation with the 2014 EU directives, as well as with the best practice of the EU Member States. In essence, the text of the Law introduces new concept of public procurement focused on creating conditions for increase in efficiency, strengthening of transparency and overall improvement of the policy.

Strong focus in implementation of the new regulatory provisions will be placed on monitoring and reporting based on oversight of public procurement procedures at the semi-annual level which will enable precise identification of the degree of development of the system, surveillance, keeping electronic public procurement system, organisation of training, certification of public procurement officers etc.

The Law on Public Private Partnerships constitutes basis for further investment activities, infrastructural investments and improvement of the environment for investments in the areas important for performance of the tasks of public interest. The Law on Public-Private Partnerships sets out establishment of the Investment Agency of Montenegro as the central body for investments. The law introduces new model of public contracts which will combine authority of public institutions with the knowledge and skills of private sector with the aim of improving quality of public works, construction and reconstruction of public infrastructure and ultimately increasing quality of public services.

In line with the policy guidance number 5, a comprehensive strategy is to be adopted and such strategy needs to provide reliable tools for measuring benchmark values which enable continuous assessment and reduction of informal economy, including undeclared labour. Under the policy guidance, two measures are proposed and these refer to the improvement and implementation of actions for the suppression of informal economy by reforming tax administration. Moreover, two measures are proposed in respect of application of the new regulatory framework of public procurement policy and public-private partnership and introduction of the electronic public procurement system, as a response to the policy guidance No 5, which concerns adoption and implementation of the legislative framework for public procurement, public-private partnership and concessions.

Priority reform measure No 6: Implementation of new regulatory framework for public procurement and public-private partnership policy

Description of measure: The Law on Public-private Partnership is basis for further investment activities, infrastructural investments in the areas important for the performance of tasks of public interest. The Law on Public-private Partnership sets out establishment of the Investment Agency of Montenegro and Section for Public-private Partnerships within the Directorate for Public Procurement Policy - Ministry of Finance. The aforementioned constitutes basis for implementation of the new regulatory framework which governs this form of cooperation between private and public sectors for the first time in Montenegro, based on the experience and standards of EU countries. The law introduces a new model of public contracts that will combine authority of public institutions with knowledge and skills of the private sector, with the aim of improving quality of public works, construction and reconstruction of public infrastructure and ultimately increasing quality of public services.

The new Law on Public-private Partnership is harmonised with EU legislation (4 directives and 2 regulations in this area), while it also incorporated suggestions received in the harmonisation process from the European Commission. Therefore, this new regulatory framework for public procurement constitutes basis for improving negotiating position within Chapter 5 - Public Procurement and is one of its closing benchmarks. Essential parts of this legislative framework include achievement of greater efficiency in conducting procurement procedures, strengthening of transparency, monitoring and supervision in public procurement system. Additional benefits of this legislative framework are simplification of public procurement procedures and reduction of costs of participation which will result in greater participation of SMEs in public procurement procedures which contributes to the greater market competition and to the increase in average number of bids with positive effect in the form of more efficient and more rational public spending.

Period for the implementation of measure:

a. **Activities planned in 2020:** Implementation of the new legislative framework for public procurement and public-private partnership; Secondary legislation in the areas of public procurement and public-private partnership; Establishment of institutional framework for public procurement and public-private partnership (Investment Agency of Montenegro and section at the Directorate for Public Procurement Policy within the Ministry of Finance); (assistance from EBRD); Preparation of a new strategic document that will systematically identify further steps for the improvement of public procurement policy with focus on public-private partnership; Continuous training for both contracting authorities and bidders in order to build capacity for implementation of the new legislative framework for public procurement and public-private partnership; Expert assistance in implementation of new legislation; Promotion of new legislation.

b. **Activities planned in 2021:** Continuous training for both contracting authorities and bidders in order to build capacity for implementation of the new legislative framework for public procurement and public-private partnership; Strengthening institutional framework in the area of public procurement and public-private partnership; Expert assistance in implementation of the new legislation; Promotion of the new legislation.
c. **Activities planned in 2022:** Continuous training for both contracting authorities and bidders and expert assistance in implementation of the legislation.

Institution responsible for implementation of the measure: Ministry of Finance

Results indicator:

Result and impact indicator	2020	2021	2022
Number of delivered training courses on public procurement	20	20	20
Number of public procurement officers trained	200	400	400
Number of delivered training courses on public-private partnership	5	5	5
Number of staff that received training on public-private partnership	24	24	24
Institutional framework	Investment Agency; Preparation of the act on organisation and classification of positions at the Agency;		
Strategic document	Preparation of the Strategy of Development of Public Procurement System with focus on public-private partnership		
Preparation of secondary legislation	Preparation of secondary legislation for the areas of public procurement and public-private partnership – number of pieces of legislation (50)		

Result of the measure is quantified through the number of training courses in order to ensure quality implementation of the legislation which leads to creating productive staff, narrows down room for misuse and strengthens transparency.

Expected impact on competitiveness: Implementation of the measure will contribute to establishment of the clear framework of Government policy with the aim of promoting public-private partnership and applying principles and requirements in the fields of public procurement and public-private partnership in line with best practice and provisions of EU directives.

Estimated cost of the activities and the source of financing: Funds for implementation of the measure were provided through IPA project "Improving and strengthening the institutional system and legislative framework in the field of public procurement and state aid". SIGMA assistance is expected in setting up the Agency, to cover costs of strengthening training system for public-private partnerships are expected to be financed through SIGMA assistance, while assistance from EBRD is expected for the Guidelines and similar.

Expected outcome on social outcomes, such as employment, poverty reduction, equality and gender: The measure has indirect impact on employment as it contributes to development of a new type of investment, innovation, establishment and expansion of the public works and public services sectors and thus also on opportunities for creating new jobs. The measure is gender-neutral.

Expected impact on the environment: It is not possible to assess impact on the environment at this moment.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay in adoption of secondary legislation	Low	Expert assistance provided through IPA 2014

Priority reform measure No 7: Introduction of electronic public procurement system

Description of measure: In order to set up efficient, transparent and competitive public procurement system in Montenegro, it is necessary to introduce state-of-the-art e-procurement system. For that purpose, necessary infrastructure will be developed, training for system users and administrators will be delivered and awareness-raising activities on e-procurement will be implemented. In December 2018, contract was signed with project implementer and during 2019 initial phase that lasted 6 months was completed and the phase of system development began. Implementation of the electronic public procurement system starts in 2020 with a pilot project. Full execution and implementation will take place in 2021.

Period for the implementation of measure:

a. **Activities planned in 2020:** In Q1 2020, it is expected that the system will be established and the pilot phase of the project will commence; Training of staff at the Ministry of Finance who will be working on the system, 6 contracting authorities and bidders who will test the system and training of trainers; In 2020, work will be done to eliminate potential deficiencies of the system; Preparation of the training plan and materials needed for training of end-users of the system (contracting authorities and bidders); Expert assistance to the implementation of the new system; Promotion of the system.
b. **Activities planned in 2021:** Fully functional electronic public procurement system is introduced; In accordance with the Training Plan, training is delivered in order to constantly train system users; Expert assistance to implementation of the new system; Promotion of the system.
c. **Activities planned in 2022:** Continuous training of both, contracting entities and bidders.

Institution responsible for implementation of the measure: Ministry of Finance

Results indicator:

Results and impact indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of delivered training courses on how to use the system	35 (2020)	20 (2021)	20 (2022)
Number of public procurement officers trained to use the system	350 (2020)	350 (2021)	350 (2022)
Number of bidders trained to use the system	350 (2020)	350 (2021)	350 (2022)
Public procurement procedures conducted exclusively in electronic form	0,1% (2020)	50% (2021)	100% (2022)

Expected impact on competitiveness: Implementation of the measure will contribute to establishment of efficient, transparent and competitive public procurement system in Montenegro in accordance with best practice and provisions of the EU directives.

Estimated cost of the activities and the source of financing: Implementation of the measure requires funds in the amount of 1,400,000.00 euro provided through IPA 2014, while contribution from the budget of Montenegro amounts to 140,000.00 euro.

Expected outcome on social outcomes, such as employment, poverty reduction, equality and gender: Introduction of electronic public procurement system will increase accessibility and transparency - automation and centralisation of the information on planned public contracts facilitates access to bidding, boosts competition and increases number of competitive bidders which will have positive impact on additional employment. The measure is gender-neutral.

Expected impact on the environment: It is not possible to assess impact on the environment at this moment.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Staff are trained	Low	System users will be familiarised with advantages and manner of use through continuous training and promotion.

Priority reform measure No 8: Enhancement and implementation of measures for suppression of informal economy

Description of measure: In order to contribute to the suppression of informal economy and shift informal sector into legal flows, it is necessary to innovate measures in the existing Action Plan. The measures for suppression of informal economy falling under the competence of relevant state authorities are implemented in coordinated actions taken by competent administrations, while cooperation with other institutions and local government bodies has improved as well in respect of use of their data. Considerable attention has been devoted to strengthening fiscal discipline and elimination of unfair competition, as well as to raising awareness about importance of legal operations. The aforementioned was implemented through preventive, restrictive, but also stimulating measures. In line with activities set out in the current Action Plan, it is necessary to make amendments from the perspective of sectoral policies and business environment, including undeclared labour.

The Action Plan will provide a set of control measures in order, on one hand, to more efficiently control and prevent informal economy and to facilitate economic operations, on the other. The Action Plan will seek to reach the following goals: more efficient supervision of the flows of informal economy, improvement of the work done by Tax Administration for the purpose of ensuring more efficient tax collection, incentives for loyal competition, legal entrepreneurship and employment, removal of administrative burden and raising public awareness of citizens and business community about importance of suppressing informal economy.

Period for the implementation of measure:

a. **Activities planned in 2020:** Analysis of the situation in informal economy in order to establish nature of the measures set out in the Action Plan, continuation of which is desirable in the future; Establishing presence of stimulating, preventive and restrictive measures; Creation of a relevant (adequate) database of indicators for monitoring implementation of the aforementioned activities.

b. **Activities planned in 2021:** Administrative capacity building focused on delivery of training and appropriate professional advancement which will be aligned with needs of technological development in the market of relevant institutions, with the aim of implementing measures set out by the Action Plan.
c. **Activities planned in 2022:** Improvement of joint activities of the Customs Administration, Tax Administration, Police Directorate and Administration for Inspection Affairs, by applying agreements on mutual cooperation in the control of regularity of operations of business organisations. Synchronisation of the controls of goods and documentation in order to achieve better efficiency and eliminate irregularities.

Institution responsible for implementation of the measure: Ministry of Finance

Results indicator:
2020: Increased number of registered accommodation facilities, and increase in guest registration and collection of tourist fee by 15%.
Increased number of registered workers during the season, increased number of workers in formal businesses, i.e. reduction of the share of undeclared labour as the percentage of labour force market by 3%.
Declared value of customs goods and collection increased by 4%.
2021: Increased number of inspection controls by 10%
2022: Reduction of cash transactions by 10%, while stimulating non-cash payments.

Results indicator

Results and impact indicators	Baseline (year)	Intermediary target (year)	Target (year)
Increased number of registered accommodation facilities, and increase in guest registration and collection of tourist fee by 15%. Increased number of registered workers during the season and increased number of workers in formal businesses, i.e. reduction in the share of undeclared work in total labour market by 3%. Declared value of customs goods and collection increased by 4%	2020		2020
Increased number of inspection controls by 10%	2021		2021
Reduction of cash transactions by 10%	2022		2022

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

Estimated cost of the activities and budgetary impact: The measure will have positive impact on the budget in the medium term, by increasing revenues through effective controls that will increase collection.

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

Expected impact on the environment: There is no impact on the environment.

Potential risks: Lack of public confidence.

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

Priority reform measure No 9: Suppression of informal economy by reforming tax administration

Description of measure: Montenegro Tax Administration implements the Tax Administration reform project aimed at improving efficiency of the Tax Administration and reducing costs to taxpayers. The project started in 2018 and is based on Montenegro's long-term vision that the entire tax administration should rest on modernised business processes based on systemic risk assessment, which will ultimately contribute to a more efficient collection of public revenues from all sources of economic activity. This will, along with establishment of a highly-automated system, have impact on increasing transparency of the process of paying taxes and consequently on reduction of discretionary powers which create opportunities for informal zone. Direct beneficiaries of the project are the Government of Montenegro and its public finance institutions, while final beneficiaries are Montenegrin taxpayers and citizens. For the purpose of implementation of the project, a working structure was established that includes five working groups, Project Implementation Committee within the Tax Administration, Steering Committee and Project Advisory Board. The project focuses on creation of additional conditions for preventive actions and suppression of the existing forms of informal economy, which is directly linked to the policy guidance No 5.

An important activity of this Project aims at further strengthening of analytical functions within the Tax Administration, and for that purpose in cooperation with an external consultant and Ministry of Finance a methodology was designed for assessment of the tax gap for VAT, personal income tax and contributions for mandatory social insurance and the 2017 data (results) were prepared on the basis of it. In addition, two surveys were conducted: Taxpayer Satisfaction Survey and Staff Satisfaction Survey at the Montenegro Tax Administration and these will be conducted continuously at the annual level in order to monitor results.

Important activity of the Government of Montenegro in 2018 included creation of necessary prerequisites for establishment of the new system for issuing electronic fiscal invoices for transactions in goods and services. The system is designed to improve control of transactions, further reduce administration of taxes and create more favourable conditions for efficient management of tax audits and enforced collection procedures. Full implementation of the system is expected to ultimately minimise informal economy, boost competitiveness of companies operating legally and encourage healthy competition in the market. In that context, and as a direct response to suppression of informal economy, the Government of Montenegro adopted proposal of the Law on Fiscalisation for Transactions in Products and Services at its session held on 31 July 2019.

Period for the implementation of measure:

a. **Activities planned in 2020:** Adoption of secondary legislation for implementation of the Law on Fiscalisation for Transactions in Products and Services. Procurement of the system for introduction of electronic fiscal invoices. Training for Tax Administration staff. Preparation of functional requirements for introduction of the new Integrated Revenue Management System (IRMS), and launching procedure and selection of the supplier of the new system (software). Cleansing data that will be migrated to the new system. Procurement of a part of hardware necessary for the start of operation of IRMS.
b. **Activities planned in 2021:** Software procurement and phased implementation of the issuance of electronic fiscal invoices. Continuation of activities involving introduction of IRMS, activities involving data cleansing and activities concerning quality assurance in the process of introducing

the new system. Procurement of a part of necessary hardware for the new IRMS. Setting up tax police.

c. **Activities planned in 2022:** Continuation of activities involving introduction and finalisation of IRMS, activities involving data cleansing and migration, activities concerning quality assurance in the process of introducing the new system. Procurement of the remaining necessary hardware for the new system. Further strengthening of the work done by tax police.

Institution responsible for implementation of the measure: Ministry of Finance

Results indicators:

Results and impact indicator	2020	2021	2022
1. Rulebooks for implementation of the Law prepared. 2. Testing of the system for issuing electronic fiscal invoices successfully completed 3. Number of workshops and other forms of training on issuing electronic fiscal invoices.	1. Rulebooks adopted 2. Test phase completed 3. A large number of presentations held at all levels for interested public	1. Implementation Gradual adjustment to the system for issuing electronic fiscal invoices.	Implementation Further improvements to the system Full use of the system for issuing electronic fiscal invoices
1. Number of tax policemen employed	10	2	X
1.Functional requirements for IRMS prepared 2.New integrated Revenue Management System (IRMS) established 3.Hardware for IRMS procured 4. Data cleansed and migrated to IRMS	1. Completion of activities concerning preparation of the functional requirements document 2.Procedure for selecting supplier (of software) completed /start of implementation 3.Procurement of a part of hardware/start 4.Data cleansing process	1.-- 2.Implementation of IRMS 3. Procurement of a part of hardware 4. Data cleansing process	1.-- 2. Implementation of IRMS /finalisation 3. Procurement of a part of hardware 4. Data cleansing and migration process

Impact on competitiveness: Implementation of the Tax Administration reform project will lead to establishment of an integrated information system based on modern business processes which will serve as the basis for systemic risk analysis at the TA as one of the key mechanisms for inspection of taxpayers, particularly those operating in informal sector. In this way, competition from informal sector which directly compromises sustainability of taxpayers operating legally will be minimised. The aforementioned will boost competitiveness of businesses operating legally, while increasing efficiency of the Tax Administration which will have impact on boosting competitiveness of the economy as a whole.

Estimated cost of the implementation of structural measure and envisaged sources of financing: The project is financed from the World Bank loan worth of 14 million euro. A part of funds was disbursed in 2018, while a part will be disbursed in 2023, the year in which the project is finalised. The envisaged duration of the project is from 2018 to 2023. Loan agreement was signed on 19 January 2018 and the project became effective on 13 March 2018. Funds for the establishment of issuance of electronic fiscal invoices are estimated at 4.8 million euro and these were provided through World Bank loan.

a. **2020** from the project loan proceeds 3,150,000 euro
b. **2021** from the project loan proceeds 7,090,000 euro; 48,000 euro from the budget
c. **2022** from the project loan proceeds 4,070,000 euro; euro from the budget

Expected impact on social outcome, such as employment, poverty reduction, equality: Reduction of informal sector within a short period of time may have impact on increased unemployment of those who operated in informal zone; however, in the long-run conditions are created for the system based on healthy competition which will contribute to the increased standard of living and reduction of poverty.

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

Potential risks

Risk	Probability	Planned mitigating action
Transition to the new system will incur certain costs for taxpayers that have fiscal cash registers which they will not be able to adjust to the new system, which may cause some resistance among this group of taxpayers.	low	By successfully implementing regulations and raising awareness through adequate public and promotional campaigns
There is a significant number of fiscal cash registers in the market that cannot support the new system. Some of them can be upgraded in terms of hardware, but this incurs a cost (130-150 euro). Most taxpayers who have such cash registers will have to replace them with a new device. Although some of these cash registers are older (some of them have been used for more than 10 years since introduction of the existing system), some are more recent.	low	By possible subsidising of small taxpayers, i.e. SMEs
Delay with project implementation of IRMS project.	medium	Successful project management through adherence to the set deadlines will eliminate this risk. Greater degree of involvement of the organisation in line with the project structure.

Priority reform measure No 10: Enhancement of support to micro, small and medium-sized enterprises

Description of measure: The need to constantly stimulate and strengthen SME sector is one of the key pillars of rapid economic development for which conditions and incentives need to be created in order to improve their competitive capability, which improves competitiveness of the economy as a whole. Implementation of the programme of support to MSME entails implementation of priority activities set out in the Strategy for the Development of Micro, Small and Medium-sized Enterprises 2018-2022, Montenegro Development Directions 2018-2021 and policy recommendations given in the EU Small Business Act – SBA. Therefore, availability and improvement of financial assistance to the SME sector is one of priority measures for the development of entrepreneurship and competitiveness. In order to resolve problem with access to finance, particularly by entrepreneurs and MSMEs that have development ideas, but lack of instruments to secure the loan, it is necessary to develop a model of financial support which will reduce the risk and expand the scope of lending support. For that purpose, the plan is to introduce a new financial instrument in the form of credit guarantees which creates conditions for facilitated access to favourable funding for riskier categories of entrepreneurs and enterprises with development ideas, without the need for collateral or with lower collateral requirements. IDF of Montenegro, as a financial intermediary, signed a guarantee contract within COSME programme with the European Investment Fund with a total volume of guaranteed portfolio of 75 million euro, for a three-year period, in order to reduce constraints in accessing funds (within total financial support, IDF issued in total 516 loans in 2019, the amount of which equalled 241.4 million euro). Additional incentive for improving access to finance and competitiveness includes subsidies allocated to SMEs within a single programme – Programme for the Improvement of Economic Competitiveness which consists of 10 programme lines and includes all programmes intended for development of entrepreneurship and business sectors. The programme focuses on strengthening internal capacities of enterprises, while also focusing on strengthening their position in local and international markets since Montenegrin enterprises still lack recognised standards of quality, they have insufficient knowledge of the requirements of operations in export markets, online sale is at an extremely low level, clustering is insufficient. At the same time, more intensive support will be provided to SMEs for the purpose of their internationalisation and expansion into new markets by organising national stands at the fairs, organising business meetings, organising training on export operations etc. This will have direct impact on increase in internal capacities of SMEs, increase in competitiveness and exports.

Reform measure entails: 1) implementation of credit guarantees within COSME programme (LGF financial instrument) through approval of guarantees in the amount of 50% for the MSMEs which either lack or do not have sufficient collateral to access loans for the development of operations;
2) implementation of the Programme for the Improvement of Economic Competitiveness, in the form of grants with the aim of stimulating investments, strengthening innovation, clustering, adopting international standards and strengthening support in setting up enterprises, and all this serves to improve competitiveness and sustainability. A special novelty under the Programme in the coming period will be support for activities of internationalisation and expansion into new markets, as well as support to digital transformation of businesses. 3) strengthening non-financial support for the promotion of exports through preparation of the Export Development Programme, organisation of fairs, business meetings and training for SMEs.

Period for the implementation of measure:

a. **Activities planned in 2020:** Implementation of credit guarantees for entrepreneurs and MSMEs within COSME guarantee fund – the institution competent for implementation of activities is Investment and Development Fund of Montenegro; Implementation of the Programme for the Improvement of Economic Competitiveness 2020 for the award of grants for introduction of international standards, stimulating innovation, clustering, exports, digitalisation, investments and support to business start-ups; Implementation of non-financial support measures for export promotion: promotion of economy abroad, organising business meetings, provision of advisory and training support.
b. **Activities planned in 2021:** Continuation of implementation of credit guarantees for entrepreneurs and MSMEs within COSME guarantee fund and other credit arrangements; the institution competent for implementation of activities is Investment and Development Fund of Montenegro; Continuation of implementation of the activities set out in the Programme for the Improvement of Economic Competitiveness; continuation of implementation of non-financial support measure for the purpose of exports promotion.
c. **Activities planned in 2022:** Continuation of implementation of activities set out in COSME and grants, as well as creating new instruments and programmes for financial and non-financial support to SMEs.

Institution responsible for implementation of the measure: Ministry of Economy

Results indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2022)
Number of SMEs[25]	33.812 (2018)	3% growth	5% growth
Number of employees in SMEs	138,839[26] (2018)	3% growth	5% growth
Number of projects approved to SMEs	150 (2019)	165	175
Number of supported SMEs for export activities	50	60	70

[25] MONSTAT data.

[26] Tax Administration data.

Value of granted subsidies	1,505,724.72€ (2019)	1,780,000.00[27]	2,000,000.00
Number of approved guarantees	0	180	290
Value of approved loans covered by COSME guarantees	0	9,000,000	14,000,000

Impact on competitiveness: Reform measure will have impact on further strengthening of competitiveness in international and domestic markets, as well as on increase of the share in GVA, exports, stimulating innovation and creativity, strengthening recognisability of Montenegrin products and services, while it will also enable creation of new jobs, which contributes to economic and regional development of Montenegro.

Estimated cost of the implementation of structural measure and envisaged sources of financing: Planned budgetary funds for financing the measure in 2020 amount to 1,910,407.00 euro, of which 1,780,000 euro are planned for implementation of the Programme for the Improvement of Economic Competitiveness, while the amount planed for contribution for participation in COSME programme is 80,407 euro respectively by years. Funds for implementation of internationalisation activities in 2020 amount to 50,000 euro. The planned funds for allocation of subsidies for improving competitiveness in 2021 and 2022 amount to 1,800,000 euro and 2,000,000 euro respectively and will be allocated from the national budget. Funds planned for implementation of credit guarantees within COSME guarantee fund in 2020 amount to 9,000,000.00 euro, for 2021 amount to 11,000,000 euro and 14,000,000 euro for 2022 and these will be funds of the IDF of Montenegro (national public source of financing). Funds planned for the provision of non-financial support to export activities in 2021 and 2022 amount to 50,000 per year.

Expected impact on social outcomes such as employment, poverty reduction, equality: Availability of numerous sources of funding for businesses and start-ups will have direct impact on growth and development of the existing SMEs, establishment of new businesses and creation of new jobs. Support programmes are also intended for women and young people in business.

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

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of information and interest for support programmes among businesses	low	Organisation of promotional events to inform entrepreneurs and businesses about support programmes and eligibility criteria

5.3.4 Research, Development and Innovation (RDI) and Digital Economy

Analysis of main obstacles: In June 2019, Montenegro became the first non-EU country to adopt the Smart Specialisation Strategy (S3) (2019-2024). This reaffirmed the country's strong aspiration to build and strengthen a sustainable research and innovation system, which will entail the efforts to stimulate the synergy of science and economy in clearly identified priority development sectors, thereby encouraging economic growth and development of the country. In this way, S3 has become a key link connecting several sectoral policies, which will underpin all further national investments.

In order to develop digital economy and make services of e-Government accessible, all citizens and businesses need to be provided with a quality communication infrastructure and new generation broadband connection in the entire territory of the country. Information and communication technologies were recognised in S3 as horizontal priority which needs to provide technological assistance to the priority sectors.

[27] Budget for the programme line for modernisation of the manufacturing industry was not incorporated since it is already covered under 4.3.2. Agriculture, Industry and Services.

Current level of development of infrastructure and broadband internet connection is satisfactory compared to the countries of the region. Dynamic investment activity over the past three years has significantly contributed to greater availability of the new generation access networks. However, it is certain that operators do not have commercial interest in investing in the new generation networks in rural areas which is why proper measures should be taken to reduce costs of construction, encourage coordinated cooperation, use the existing physical infrastructure and prepare analysis and activity plan for introduction of financial incentives for the development of networks in rural areas as well.

One of the main obstacles in this area is related to the system of governance and interinstitutional integration in the field of innovation, which, due to the lack of coordination, often leads to a situation where parts of innovation development process are left out and where the available support is under-utilised. In early August 2019, the Council for Innovation and Smart Specialisation was established, as the first step in establishing coordination of innovation policies. Also, one of the problems is the lack of stimulating measures and fiscal incentives for innovation, which would significantly reduce the need for direct allocations from the state budget through grants and other types of financial support.

The latest official R&D statistics for 2017 still indicate a lower level of investment in R&D, amounting to 0.37% of GDP, with an even smaller share of private sector investment, which continues to be one of the key obstacles in this area. However, state investment in science and innovation, which is continuously rising since 2018, reaching as high as 120% in 2020 compared to 2017, has been used to launch a number of financial instruments that, inter alia, require beneficiaries' own investment, which will in the long run result in an increase in investment, especially by the business sector.

The national policies are fully focused on human resources in research and innovation. Official data from 2017 indicate that the total number of researchers was 1,528, or 695 FTE researchers, which is one of the obstacles to development in this area, as human resources are key to implementation of research and innovation activities.

The focus is on strengthening the researchers' profession, stimulating innovators, and increasing the number of FTE researchers. Institutional support for research and innovation, which has not yet been fully implemented, has especially advanced in 2019. The Agreement on the Establishment of the Science and Technology Park of Montenegro (STP MNE) between the Government of Montenegro and the University of Montenegro was accepted by the Government of Montenegro at its session held on 17 January 2019. The founders adopted the Statute of STP MNE, the Board of Directors was established and the acting CEO of STP MNE was appointed. By registration in the Central Register of Business Entities of Montenegro on 20 September 2019, STP MNE started its operation in a temporary office space with accompanying logistics in the premises of the Rectorate of the University of Montenegro. Technical documentation for STP has been completed and a tender for public works on the adaptation of the building where it will be located was published on 26 December 2019.Tehnopolis continues to perform its mission with 29 tenants at the moment, and will soon accommodate three equipped laboratories, which will complete this endeavour in terms of infrastructure. Namely, under IPA II Financial Perspective 2014-2020, Sector "Competitiveness and Innovation", Action document IPA 2014 technical specification of the equipment for three laboratories was finalised, while in September 2019, a tender for the procurement of equipment for two laboratories and Data Centre (worth MEUR 1) was announced, and bid evaluation process is underway. In parallel, there is active work on providing for the so-called soft measures (training, mentoring, intellectual property, etc.), which are mostly provided and planned under IPA funds, as well as through smaller national instruments. These infrastructures will significantly facilitate the development of start-ups, as well as the integration of science and the economy, and will be directly involved in the implementation of certain measures and instruments of support to the academic and business community defined by the S3 Strategy and its Action Plan.

In response to the obstacles identified in this area, three specific reform measures have been envisaged: enhancing legislative-regulatory framework and further development of infrastructure for broadband internet connection, improving the legislative and institutional framework for innovation and improving the system of support to innovation and strengthening human resources.

Priority reform measure No 11: Enhancement of legislative-regulatory framework and further development of infrastructure for broadband internet connection

Description of measure: In accordance with European Union policy guidance, the Economic Reform Programme 2019-2021 sets out the following measure: „Enhancement of legislative-regulatory framework in order to reduce costs of deployment of high-speed electronic communication networks“.

In 2019, harmonisation of the Proposal of the Law on the Use of Physical Infrastructure for Deployment of High-Speed Electronic Communication Networks (which is based on the EU Directive 2014/61) with the Law on Spatial Planning and Construction of Structures began.

Adoption of this law will lead to a significant reduction of the cost of construction works on network deployment through application of instruments and legislation governing construction of integrated infrastructure, while such coordinated construction would at the same time include building and deployment of the multi-purpose infrastructure which also includes next generation electronic communication networks.

Moreover, mapping of electronic communication infrastructure was conducted in 2019 and this process is expected to be completed in the first half of 2020. Based on this mapping, a precise and detailed picture of the current development of networks will be created, areas without broadband connection availability will be identified and conditions for testing market's potential to eliminate the existing infrastructure gap will be created, i.e. the zones of potentially failed operation of the market will be identified.

In order to increase availability of broadband connection, in 2020 the Ministry of Economy will prepare the Plan for development of broadband internet connection in Montenegro with funds provided from the Western Balkans Investment Framework and technical assistance from the European Commission. The Plan sets out identification of the type of infrastructure to be built in areas in which market participants have no commercial interest in investing and preparation of the feasibility study and cost-benefit analysis in certain zones. The Plan will recommend optimal models for incentives and public-private partnership for its construction.

This measure is continuation of the measure set out in the Economic Reform Programme 2018-2020, in line with the planned time schedule.

a. **Activities planned in 2020:** Beginning of preparation of the national Plan for development of broadband internet connection in Montenegro and coverage of population by the next generation access networks.
b. **Activities planned in 2021:** Completion of development of the national Plan for development of broadband internet connection in Montenegro and coverage of population by the next generation access networks.
c. **Activities planned in 2022:** Implementation of the national Plan for development of broadband internet connection in Montenegro and coverage of population by the next generation access networks.

Institution responsible for implementation of the measure: Ministry of Economy

Results indicator:

Activity	Results indicator	Baseline (year)	Intermediate target - (year)	Target (year)
Drafting of the Plan for development of the broadband internet connection in Montenegro	Percentage of households in the Next Generation Networks (NGN):	2019 70%	2020-2021 85%	2022 90%
Measure	Results indicator	Baseline (year)	Intermediate target - (year)	Target (year)
Enhancement of legislative-regulatory framework and further development of broadband connection infrastructure	Increase in balanced regional development, use of internet and new technologies, digital skills and services of e-Government	2019	2020-2021	2022

Expected impact on competitiveness: Development of broadband infrastructure, combined with other measures set out in the Strategy for Development of Information Society such as development of digital skills and e-Government, will stimulate productivity growth and increase in employment, while it will also improve public sector efficiency.

Estimated cost of the activities and the source of financing: The activity of preparation of the Plan for development of the broadband internet connection in Montenegro requires funding which has been provided through grant by the WBIF in the amount of 0.55 million euro. The activity of implementation of the Plan for development of the broadband internet connection will require funding. The amount of funding, model and justification of investing in further development of infrastructure for broadband internet connection are not known at the moment and these will be established in the Plan.

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Digital services and digital connectivity contribute to development and economic growth of the country. Development of broadband connection and services has significant impact on the development of other economic sectors, as well as on the society as a whole. At the same time, construction of infrastructure in rural areas, predominantly in the north of Montenegro, will stimulate a more balanced regional development and contribute to increasing attractiveness of these areas for possible investors.

Expected impact on the environment: It is currently assessed that this measure does not have any impact on the environment. Nevertheless, environmental impact assessment will be carried out during preparation of the Plan, analysing risks associated with installation of cables and tower, including official permit, land use, occupational health and safety, areas, as well as any disturbances to the public and procedures for finding coincidence.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
There are no risks in implementation of the Law on Use of Physical Infrastructure for the Deployment of High-speed Electronic Communication Networks and in the phase of preparation of the national plan.	Low	Attempt to provide, at least partially, the funding for these projects from the Western Balkans Investment Framework
Small market, lack of interest by private sector and/or lack of fiscal room for project co-financing	Medium	

Priority reform measure No 12: Improving the legislative and institutional framework for innovation

Description of measure: As part of the support provided through EC Policy Support Facility (PSF)[28] instrument, Montenegro has received a number of useful recommendations for improving the innovation ecosystem in terms of creating a stimulating environment for innovation development, which partly relate to the need for new legal and institutional solutions to be adopted. With expert support, an Analysis of the state-of-play and recommendations for the introduction of incentives for innovation activities in Montenegro was prepared, providing clear guidelines for amendments to certain legal acts.

The main amendments are focused on two directions:

- Establishment of a national implementing body for S3 and innovation, as a separate institution tasked with implementation of innovation policy; and
- Introduction of specific incentives aimed at creating the environment for business sector investment in research, development and innovation. The incentives to be discussed within the framework of legislative amendments are related to: tax and personal income tax exemptions for new employees in registered innovative organisations; corporate tax exemptions for innovative start-ups and income generated from innovative projects in already existing companies; tax credit for investments in the assets of registered scientific research institutions and innovative organisations, as well as for own R&D costs; accelerated depreciation of fixed assets – equipment, infrastructure, software, and licenses used in scientific research and innovation activities; exemption from the tax on capital gains generated through innovation activities.

Period for the implementation of the measure:

a. **Activities planned in 2020:** Amendments to the legislative framework and introduction of incentives for innovation (New Law on Innovation Activity (Q3), Rulebook on Amendments to the Rulebook on Detailed Requirements for Registration of a Legal Entity in the Register of Innovative Organisations (Q4), Law on incentive measures for development of research and innovation (Q3). Establishment of a national implementing body for S3 and innovation (Q4)
b. **Activities planned in** Expert support in the implementation of new legal solutions**.** Building of institution – national implementing body for S3 and innovation and creation and implementation of innovation support programmes

[28] “Specific Support to Montenegro - Towards Entrepreneurial Innovation Ecosystems in Montenegro” project

c. **Activities planned in 2022** Expert support in the implementation of new legal solutions and promotion. Strengthening institution – national implementing body for S3 and innovation, creation and implementation of innovation support programmes.

Institution responsible for implementation of the measure: Ministry of Science

Results indicator:

Result and performance indicators	Baseline (2017)	Transitional goal – (2020)	Goal (2022)
Total R&D spending by the business sector (international statistical performance indicator), as % of GDP	0.06%	0.15%	0.25%
Sales of innovations that are new to the company and new to the market (international statistical performance indicator), as % of turnover	The baseline will be known in 2020, with the first results of Monstat statistics – pilot	A 10% increase in relation to the previous year	A 15% increase in relation to the previous year
Funds earmarked for innovative projects in enterprises, from the state budget (result indicator)	EUR 61,000	EUR 1M	EUR 2M

Expected impact on competitiveness: Specific planned incentives through amendments to the legislative framework will enable the creation of a favourable environment for business sector investment in research, development and innovation, which will result in a significantly larger number of actors, i.e. higher intensity of input factors for research, development and innovation activities, which is an initial precondition for obtaining larger outputs from the activity and more visible effects on the competitiveness of companies in the market, and thus on the competitiveness of the overall economy. The establishment of a national innovation structure will enable the networking of different innovation support instruments, which will also have a positive effect on the revenue side.

Estimated cost of the activities and the source of financing: For 2020, funds have been provided from the central budget for financing the measure in the amount of EUR 3,000.00 for needs of amendments to the laws and accompanying rulebooks. Also, the hiring of two persons is planned in 2020, as expert support to the work of the Council for Innovation and Smart Specialisation, which amounts to EUR 25,000.00, as well as technical assistance services in the amount of EUR 35,000.00, which will be provided through cooperation with UNDP (preparation of Memorandum and ToR is underway, November 2019).

For the time being, it is certain that the amount of EUR 35,000.00 will be allocated from the central budget in 2021 for the needs of hiring staff in the national implementing body for S3 and innovation, while the remaining EUR 60,000.00 through cooperation with UNDP will be earmarked for hiring of two persons in the Council for Innovation and S3 and for technical assistance. EUR 40,000.00 for the purpose of hiring experts was applied for through a new World Bank loan, which is currently under negotiation. The same funding scheme applies to 2022 as well.

However, when it comes to funding for 2021 and 2022, it will be much larger, as these funds are yet to be programmed, given that a national implementing body for S3 and innovation is to be established in late 2020, as well as that legislative amendments will follow that are not fully known and defined at this time, so it will only be realistic to plan a budget for these purposes after that.

Expected outcome on social outcomes, such as employment, poverty reduction, equality and gender: Stimulating measures in the field of innovation are particularly encouraging new staff hiring in registered innovative organisations, including innovative start-ups.

Expected impact on the environment: The measure is neutral in terms of the impact on the environment.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay in adopting amendments to legal acts	Low	In 2019, an analysis was prepared, with expert support, which provides clear guidelines; a working group for preparing amendments to legal acts was formed. The Council for Innovation and Smart Specialisation, chaired by the Prime Minister, will be regularly briefed and will give instructions for the development of the legislative and institutional framework
Providing funding for operation of the national implementing body for S3 and innovation	Low	The structure is proposed by the Council for Innovation and Smart Specialisation; it will be defined by the Law on Innovations; it is established in the S3 policy document. The interest for providing support was already expressed by some donor and financial institutions.

Priority reform measure No 13: Improving the system of support to innovation and strengthening human resource

Description of measure: Financial support for innovation and strengthening human resources is crucial for the implementation of activities in this area, starting from basic research, through applied research, to prototype development and final testing, as well as for creating a critical mass of full-time research researchers dedicated to developing innovation. New support instruments have been launched in 2018 and include grants for innovative projects, grants for centres of excellence, and scholarships for doctoral research, while others such as start-up grants, support for innovative project ideas, and support for postdoctoral students will only begin to be implemented as of 2020. Funding is based on S3 priorities.

Grant support is focused on the development of technological innovation, integration of stakeholders in the innovation system, especially scientific research institutions and the economy, as well as on stimulating private sector investment in innovation, support to innovative start-ups, and a new approach to supporting the establishment of centres of excellence. Improving the system of support to strengthening human resources relates, first and foremost, to employment through innovative project ideas, as well as to attractive scholarships for doctoral and postdoctoral research.

a. **Activities planned in 2020:** Grants for support to innovation (grants for innovative projects, grants for centres of excellence and grants for innovative start-ups). Support to human resources in research and innovation (grants for innovative project ideas and attractive scholarships for doctoral and postdoctoral research)
b. **Activities planned in 2021:** Grants for support to innovation (grants for innovative projects, grants for centres of excellence and grants for innovative start-ups)**.** Support to human resources in research and innovation (grants for innovative project ideas and attractive scholarships for doctoral and postdoctoral research)
c. **Activities planned in 2022:** Grants for support to innovation (grants for innovative projects, grants for centres of excellence and grants for innovative start-ups)**.** Support to human resources in research and innovation (grants for innovative project ideas and attractive scholarships for doctoral and postdoctoral research)

Institution competent for implementation of the measure: Ministry of Science

Results indicators:

Results and performance indicators	Baseline (2019)	Intermediate goals – (2020)	Target (2022)
The number of grants awarded	47	74	90
The number of new employees in the R&D sector	27	80	100
The number of science-business partnerships	15	20	30

Expected impact on competitiveness: Almost all R&D financial instruments envisage mandatory own investment by grant beneficiaries, especially by the private sector, which will have a positive impact on the revenue side, as well as on new hiring, especially in the business sector, which will further strengthen their competitiveness. Targeted support for innovation and research in the national narrowly defined development sectors identified by the S3 Strategy will boost productivity, which will have a positive impact on GDP growth and the competitiveness of the economy. New hiring and fostering science-business partnerships covered by financial support will enable the growth of innovative organisations, making companies engage in R&D activities and strengthening technology transfer capacities, which will have a positive impact on the investment side.

Estimated cost of the activity and the sources of financing: . As for 2020, funding from the central budget has been provided in the amount of EUR 2,250,000.00, while the estimated funding for 2021 amounts to EUR 1,700,000.00, and the estimated funding for 2022 amounts to EUR 1,900,000.00. In addition, non-budgetary funding has also been provided, as follows: in 2020 EUR 450,000.00 from IPA II, in 2021 EUR 450,000.00 from IPA II and in 2022 EUR 100,000.00 from IPA II.

NOTE: Given that the Action Plan for S3 covers the period of 2019-2020, the current amounts for 2021 and 2022 are estimates.

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: All instruments imply an incentive for new hiring, i.e. full-time employment is financed for the period of funding, especially for young people. The focus is on the employment of persons registered as unemployed with the Employment Agency. This type of support is particularly evident in innovation grants where hiring is 100% funded. As for innovative start-up grants, self-employment initiatives are stimulated.

Expected impact on the environment: The measure is neutral in terms of the impact on the environment.

Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient interest of beneficiaries	Low	Strengthened promotional activities for instruments (info-days, public consultation, direct meetings, media, etc.)
Insufficient funds provided	Low	Coordination for S3 and innovations established at the highest level; Action Plan for S3 Implementation (2019-2020) adopted; National Partnership for Start-ups established

5.3.5 Trade-related Reforms

Description/analysis of main issues and obstacles to development of the area: Montenegro's strong economic growth in 2018, driven by considerable investments and revenues generated from tourism, led to increased imports of goods. Increase in domestic consumption (of imported goods) and increase in import of capital goods for the purpose of implementing major infrastructural projects in the field of transport, tourism and energy led to increase in the import of goods which resulted in increased imbalances in foreign trade in goods. Increase in trade deficit on goods has partly been mitigated with positive result in services account due to strong growth of services export generated by the increased tourism revenues. According to the CBM's data, volume of trade in services was higher by 14.5% compared to 2017 and amounted to 2.2 billion euro.

According to MONSTAT preliminary data, Montenegro' s total foreign trade in goods in the period January-August 2019 amounted to 1,989.9 million euro which is a 2.1% growth compared to the year before. Export of goods amounted to 263.4 million euro, while import amounted to 1,726.5 million euro. Compared to the same period of the previous year, export remained at the same level, while import increased by 2.5%. Coverage of imports by exports amounted to 15.3% which is a decrease compared to the same period of the previous year, when it stood at 15.6%.

The largest foreign trade partners in exports were: Serbia (63.2 million euro), Hungary (31.5 million euro) and Bosnia and Herzegovina (20.6 million euro). The largest foreign trade partners in imports were: Serbia (338.6 million euro), Germany (157.4 million euro) and China (145.9 million euro). Foreign trade in goods was the largest with CEFTA signatories and European Union.

Text of Additional Protocol 6 on Trade in Services to the Central European Free Trade Agreement (CEFTA) was finalised in the meeting held on 18 March 2019 in Tirana. Following this, the Government of Montenegro adopted at its session of 18 April 2019 the Report on the completed negotiations on the conclusion of Additional Protocol 6 on Trade in Services to the Agreement on Amendment and Accession to the Central European Free Trade Agreement, thus completing internal procedures for its acceptance at the CEFTA Joint Committee meeting in the coming period.

In addition, CEFTA structures agreed it was necessary to improve mechanism for resolving trade disputes, especially in the area of defining disputes and bilateral consultations which rarely produce results. The planned changes will introduce clear procedures and deadlines that will improve efficiency of this mechanism which should lead to additional elimination of non-tariff barriers in regional trade. In September 2018, the Government of Montenegro established the Basis for Conducting Negotiations and Conclusion of Additional Protocol 7 and appointed the negotiating team.

As for trade facilitation, World Bank's Doing Business Report specifies that time and costs of trade in goods across Montenegrin border are considerably higher compared to the EU average and countries of CEFTA region. According to the 2019 World Bank's Doing Business Report, out of 190 economies Montenegro ranked 47th in terms of ease of doing business, however according to the same research – 2020 Doing Business Report Montenegro improved its ranking by 6 positions and ranks 41st.

The Trade Facilitation Strategy 2018-2020 with detailed plan for its implementation was adopted for the purpose of simplification, harmonisation and reduction of the time and costs of conducting procedures in cross-border trade. In this way, all the obligations laid down in WTO Trade Facilitation Agreement, CEFTA Additional Protocol 5, including obligations arising from the process of accession of Montenegro to the European Union, in respect of trade facilitation, were consolidated.

Implementation of trade facilitation measures set out by the Strategy will eliminate administrative inefficiencies and bottlenecks in cross-border trade that are expected to have indirect positive impact on export growth and direct impact on improving competitiveness of the economy. Besides Trade Facilitation Strategy, the trade facilitation measures are closely linked and will have impact on the implementation of measures set out in the Integrated Border Management Strategy and Business Strategy of Customs Administration.

Priority reform measure No 14: Implementation of Measures for Trade Facilitation under WTO Trade Facilitation Agreement and CEFTA Additional Protocol 5

Description of measure: The Multi-annual Action Plan on a Regional Economic Area in the Western Balkans (MAP) recognizes importance of trade facilitation. In order to reduce time needed for customs clearance of goods in line with the Trade Facilitation Strategy, five areas (operating goals) were identified as those which need to be actively addressed, as follows: improving transparency and access to information; harmonisation and rationalisation of formalities, documentation and fees; implementation of procedures for simplified and accelerated customs clearance of goods; improving co-operation and increasing effectiveness of border controls; expansion of automatic processing and electronic data exchange. Within each operational objective, individual measures and related activities are defined and these need to be implemented in pursuit of achieving the objectives. Coordination, monitoring and reporting on measures and activities is responsibility of the National Trade Facilitation Committee.

This measure was covered by ERP 2019-2021 and is continuation of activities commenced in 2019. Time schedule for implementation of activities for 2019 has been completely complied with. The aforementioned activities referred to setting up contact points; implementing Authorised Economic Operators programme; and procurement of IT equipment necessary for establishing NCTS and joining SEED +.

It is expected that the biggest challenge in implementation of the trade facilitation concept will be implementation of measures in the area of investment activities, as follows: implementation of e-filing of documents; establishment of a National Computerised Transit System (NCTS); development of IT system for the Administration for Food Safety, Veterinary and Phytosanitary Affairs and inclusion in SEED+; systematic electronic data exchange; and initiation of the “one-stop shop” project for conducting cross-border trade procedures.

Period for the implementation of measure:

a. Activities planned in 2020: Development and implementation of IT applications for NCTS. Establishment of a functional system in the Administration for Food Safety, Veterinary and Phytosanitary Affairs as a basis for inclusion in SEED +;
b. Activities planned in 2021: Development and implementation of IT applications for NCTS. Linking and establishing electronic data exchange between national border authorities within SEED+;
c. Activities planned in 2022: Implementation of NCTS; Linking and establishing electronic data exchange between national border authorities within SEED+;

Institution competent for implementation of the measure: Ministry of Finance / Ministry of Economy

Results Indicators

Results/performance indicator	Baseline (2019)	Intermediate target – (2020-2021)	Target (2022)	Results/performance indicator
Percentage of customs declarations processed in NCTS.	0%	0% - 100%	100%	Percentage of customs declarations processed in NCTS.
Reducing time needed for customs clearance of goods	Results of the 2019 Study on time for good clearance.	10% reduction	10% reduction	Reducing the time needed for customs clearance of goods

Expected impact on competitiveness: Implementation of measures will reduce time and cost of the customs clearance of goods and, consequently, increase competitiveness of Montenegrin enterprises (especially SMEs) in international markets. This is also expected to have impact on improving

Montenegro's position on the Doing Business list - cross-border trade indicator, as well as on the ranking in other international indicators for cross-border trade.

Estimated cost of the measure/activity and budgetary impact: Funds for implementation will be allocated in the budget of Montenegro – mainly as part of regular activities of state bodies; as well as through various projects and programmes supported by international donors, EU support through the Instrument of Pre-accession Assistance and other international sources. Implementation of the measure entails implementation of the project of establishing new computerised customs system, the budget of which amounts to 3,300,000 euro provided from IPA 2014 including contribution at the national level. Project implementation began in 2019. This measure also includes activities involving the project for inclusion into SEED+, the budget of which at the regional CEFTA level for 6 CEFTA parties amounts to 5,000,000 euro. In this regard, funds in the amount of 792,500 euro are allocated for 2020, of which 59,250 euro will be financed from the Central Budget, while the remaining part, in the amount of 733,250 euro will be financed from other international sources of financing. As for measures that fall within the scope of investment activities, for which sources of financing are not planned at the moment, such as establishment of one-stops shop, consultations have been initiated with international community to identify optimal model of implementation and financing.

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender: Activities will have positive impact on additional employment, and indirectly on poverty reduction and gender equality.

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

Potential risks:

Risk	Probability (low or high)	Planned mitigating action
Delaying implementation of the SEED + project at the level of CEFTA region	Low	Active participation in CEFTA structures in order to encourage activities to start implementation of the SEED + project;
Availability of technical-expert assistance for additional training and administrative capacity building for implementation of measures;	Low	Explore different models of providing technical support, including participation in and/or organisation of donor conferences, etc. Deliver training for staff who currently lack necessary knowledge and skills; Identify options and reassign staff;
Private sector flexibility to adapt to measures;	Low	Ensure that measures that are implemented provide clear and concrete facilitation for private sector and that private sector is informed of the planned measures in a timely manner.

5.3.6. Education and Skills

Description/analysis of main issues and obstacles to development of the area: In the previous period, the interest of students in enrolling three-year education programmes that lead directly to the labour market and facilitate faster employability was not on the required level. In the school year of 2016/2017, the percentage of students educated by these education programmes was 8.7% in relation to the total number of vocational education students. Education programmes that facilitate faster employability are not popular with students. Some jobs are seen by elementary school students as hard, e.g. construction- or agriculture-related jobs. Seasonal nature of some jobs, e.g. in hospitality, also affects low interest of students in enrolling these educational programmes in some municipalities. Insufficient regional mobility of labour force is present. Significant percentage of four-year education students continued their education with high education institutions, and this percentage is estimated to exceed 70 percent of students. EUROSTAT data shows that in Montenegro there is a decreasing trend of unemployment among young people aged between 18 and 24 (35.9 percent - 2016; 31.7 percent - 2017; 29.4 percent –2018). In spite of the reduced number of the unemployed and the fall of unemployment of youth, a share of youth in the unemployment structure is still present. There is also structural mismatch between the supply and demand in the labour market. The percentage of persons with high school education in the unemployment register is about 45 percent.

Also, employers believe that there is a mismatch between the skills and knowledge that students acquire by education system and the skills and knowledge demanded by labour market. Facing this and the challenge of the need for improving labour force skills resulting from the changes in the market labour demands, including increasing application of new technologies, disproportion between the supply and demand of skills that hinders economic development and opening of new jobs, in school year 2017/2018 a new concept of practical education at employers (dual education) commenced with the aim to facilitate students to acquire required skills in a real working environment and thus become able to find employment easily after the completion of education, and employers to gain qualified labour force.

Priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of practical education at employers

Description of measure: Work-based learning, in real working environment is one of the mechanisms which best facilitates the transition of the youth to the world of labour. In accordance with the provisions of the Law on Vocational Education, the funds for reimbursement to students acquiring practical education at employers (dual education) for the first and second grade are provided from the Budget, while the reimbursement for the third grade are employers' obligation. First grade students spend one day, second grade students two days and third grade students three days at practical education at employers. These provisions are in support of the concessions granted to employers and they encourage employers to take an active part in practical education of students. Business community was involved in preparing regulations and supported this arrangement.

For the purpose of promoting vocational education, in cooperation with employers ~~there was~~ a campaign was organised to promote vocational education, deficient qualifications and dual education as a form of work-based learning in a real working environment, which facilitates the transition of the youth to the labour market. In the school year of 2017/2018, dual education covered 276 students, in 2018/2019 around 570 students, in the current school year around 800 students. A coordination body, established on partnership basis, monitors the implementation of dual education. In Q3 2019, with the support by the European Training Foundation (ETF) and International Labour Organisation (ILO) a survey was carried out regarding the quality of organisation and implementation of practical education and identification of the most significant barriers to the implementation of practical education. The respondents to the on-line questionnaire were: 25 directors and organisers of practical education, 58 practical education teachers, 19 employers, 20 in-company trainers and 92 students. The sample is not fully representative for conclusions to be made for specific target groups. Taking into account the experience and results of the organised survey, it is necessary to plan and carry out a survey on the quality of apprenticeships with employers.

Thus, in view of establishing reliable results of apprenticeships, it is necessary to monitor and evaluate their application and outcomes. Analysis and application of evaluation results should enable the improvement of the system and establishment of qualitative and efficient practical education which will provide students with acquiring job-related skills and experience, work-based learning and acquiring key competencies, including entrepreneurial and digital competency, and make the entry of the youth to the labour market easier as well as their career development and employment.

The measure *Establishment of a system of continued monitoring of the quality of apprenticeships* is building upon the measure *Implementation of apprenticeships with employers*, which was fully completed in the previous year and is a response to the policy guidance 6 of the European Commission related to the need of establishing a mechanism for monitoring and evaluating the application and results of apprenticeships.

Period for the implementation of measure:

a. **Activities planned in 2020:** Preparation of instruments and implementation of apprenticeships evaluation - period from school year 2017/2018 to school year 2019/2020 with employers, students, schools, parents and associations of employers; Development of the methodology for continuous monitoring and evaluation of the quality of implementation of practical education in line with the European framework for quality and effective apprenticeships; Preparation of instruments for monitoring student destinations following the completion of their education; Implementation of the professional orientation programme in elementary schools; Implementation of training of employers in-company trainers.
b. **Activities planned in 2021:** Conduct of the survey on student destinations following the completion of their education (school year 2019/2020). Completion of the professional orientation programme in elementary schools; Continued training of practical education teachers, organisers of practical education at schools and employers' in-company trainers; Conduct of survey on practical education results in school year 2020/2021 in accordance with the established Methodology and preparation of reports on practical education results with employers in accordance with the Cedefop analytical framework including interpretation of results and guidance.
c. **Activities planned in 2022:** Conduct of the survey on student destinations following the completion of their education (school year 2020/2021). Completion of the professional orientation programme in elementary schools; Continued training of practical education teachers, organisers of practical education at schools and employers in-company trainers; Conduct of survey on practical education results with employers in school year 2021/2022 and preparation of reports on practical education results in accordance with the Cedefop analytical framework including interpretation of results and guidance.

Institution responsible for the implementation of measure: Ministry of Education

Results indicators

Results and performance indicator	**Baseline target 2020**	**Intermediate target 2021**	**Target 2022**
RI: - Trained employers in-company trainers Trained practical education organisers and practical education teachers	50 (20%)	100 (35%)	200 (75%)
- Organised professional orientation activities for elementary school students	0	150 (75%)	200 (100%)
- Completed survey on the practical education results for the period from 2017/2018 to the school year 2019/2020 and for the school year 2021/2022	Minimum 150 students	Minimum 300 students	Minimum 450 students
- Completed survey on student destinations for school years 2019/2020 and 2020/2021.	0		

		Responses obtained from 50% of the sample	Responses obtained from 60% of the sample
PI: Percentage of students employed after completing dual education	45%	55%	65%

Impact on competitiveness Dual education and work-based learning make an acknowledged approach to competitive labour force development. A prerequisite for practical education to be relevant for labour market is following of procedures for quality assurance in implementation of practical education. The quality of practical education has a direct impact on competitiveness.

Estimated cost of the implementation of structural measure and envisaged sources of financing

- 2020 – EUR6,000.00 from the Budget
- 2021 – EUR25,000.00 from the Budget, EUR4,000.00 IPA funds
- 2022 – EUR29,000.00 from the Budget

Expected impact on social outcomes, such as employment, poverty reduction, equality [and gender] Implementation of practical education at employers, with observance of the quality system at the level of the system and schools, will facilitate easier transit of the youth being educated in vocational schools to the labour market, and lower unemployment risk for students completing vocational education. The programmes are accessible to all students, irrespective of gender.

Expected impact on the environment It is not possible to assess impact on the environment at this point.

Potential risks

Risk	**Probability (low or high)**	**Planned mitigating action**
Insufficient interest of students in enrolling three-year programmes	low	Strengthening of professional orientation activities in elementary schools Promotional activities on making dual education popular
Insufficient interest of employers in getting engaged in dual education	high	Promotion of dual education by Chamber of Economy and Montenegrin Employers Federation Government's undertaking of obligations to pay compensations for the two first grades for the purpose of reducing employers' dues

5.3.7. Employment and labour market

Analysis of main obstacles Labour market indicators recorded positive developments in recent years, so the activity and employment growth rates are evident, as well as the fall of unemployment rate. However, in spite of positive developments, there are certain challenges present in the labour market of Montenegro, such as: low level of inclusion of vulnerable groups in the labour market, particularly youth and women, presence of long-term unemployment and informal employment, the result of which is continued low level of activity rate in relation to the EU average. At the same time, insufficient matching between the supply and demand in the labour market is still a challenge, which leads to the fact that the labour market absorbs a large number of foreign labour force in spite of relatively high unemployment rate. In view of improving the labour market stance, intensive activities are undertaken on drafting legal provisions that are to enhance the functioning of the labour market, particularly through the adoption of a new Labour Law, aimed at contributing to greater flexibility in the labour market, particularly through the provisions related to employment commencement and termination, types and duration of labour contracts, disciplinary proceedings, suppression of grey economy and informal labour through special role of authorities responsible for implementation of the Labour Law. The adoption of the new Law on Mediation in Job Placement and Rights Arising from Unemployment will additionally contribute to the improvement of the services for mediation in job placement and preparation for employment, as well as targeted implementation of the active employment policy measures that needs to be ensured by the application of the mentioned law.

Report on Implementation of the EC Policy Guidance of May 2019: For 11 months 2019, 2,037 unemployed persons from the register of Employment Agency of Montenegro were included in these programmes. In the overall number of participants to the programmes of active employment policy females take part with 55.4 %, youth 37.7%, while the share of the long-term unemployed amounts to 35.7%. The share of persons from the North Region is 53.7%.

The measures and activities of professional rehabilitation and employment of disabled persons in the same period of the current year included 1,704 disabled persons. Of that number, 383 disabled persons take part in the grant awarding projects through grant schemes.

Under the Sector Operating Programme for Employment, Education and Social Policies 2015-2017, the implementation of Self-Employment Grants Programme began and on 14 October 2019, the Employment Agency of Montenegro announced the first public invitation for award of grants in the amount from 3,000 to 7,500 euro for implementation of the self-employment programme for unemployed persons recorded in the unemployment register.

Also, in September of the current year commenced the project “Further Development of the Local Employment Initiatives in Montenegro” under which local employment partnerships will be established and employment strategies together with action plans will be developed in all local self-governments.

At the same time, the implementation of 8 projects commenced for the activities of training and employment for deficit occupations and strengthening of employability of Roma and Egyptian population. The approved projects will contribute to increased employment opportunities for unemployed persons being at risk of exclusion from labour market, social marginalisation and poverty.

Cooperation between the Employment Agency of Montenegro and the centres for social work continued through first nine months of 2019, when 58 working age beneficiaries receiving family financial support were employed, 129 included in a programme of active employment policy, and nine in the professional rehabilitation measures that include counselling, encouragement and motivation of persons to actively seek job, and assessment of other work skills. Employment Agency of Montenegro commenced the process of reorganisation in terms of strengthening administrative capacities, particularly in those local units where the workload per an adviser to unemployed persons exceeds the average. Thus, for the purpose of better performance and quality of employment-related tasks, envisaged by the new Law on Mediation in Job Placement and Rights Arising from Unemployment, the Rulebook on internal organisation and systematisation prescribes two new regional units to be created in the municipalities in the north of the country and therefore it is necessary to foster administrative capacities particularly in new organisational units.

Priority reform measure No 16: Increased participation in labour market, particularly of sensitive groups of unemployed persons

Description of measure: Implementation of the new Law on Mediation in Job Placement and Rights Arising from Unemployment should facilitate the provision of timely and better labour market services to unemployed persons and employers, and better identification of target groups. In that context, profiling is particularly important service which will enable identification of unemployed persons exposed to labour market risks and provide adequate development of individual employment plans. It will also enable targeted inclusion of unemployed persons in the measures of active employment policy and other activities directed towards the increase of their employability and employment. Active employment policy measures will be implemented through education and training programmes for adults, employment incentives, direct opening of new jobs and incentives to entrepreneurship, whereas the target groups will be specified in the Employment Action Plan. For the purpose of increasing participation in labour market, the focus of implementation of services and measures of active employment policy will be on youth, women and low-skilled unemployed persons. Increased inclusion of unemployed persons in the mentioned services and measures, and their activation is at the same time a contribution to the reduction of informal labour.

Period for the implementation of measure:

a. **Activities planned in 2020** Implementation of active employment policy measures in accordance with the Employment Action Plan 2020, with a special focus on education and skilling programmes for adults, employment incentives, direct opening of jobs and incentives to entrepreneurship.
b. **Activities planned in 2021** Implementation of active employment policy measures in accordance with the Employment Action Plan 2021, with a special focus on youth, women and long-term unemployed persons.
c. **Activities planned in 2022** Implementation of active employment policy measures in accordance with the Employment Action Plan 2022, with a special focus on youth, women and long-term unemployed persons.

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

Results indicators

Results and performance indicator	2018	2020	2022
Number of persons included in active employment policy measures (youth, women, long-term unemployed persons)29	3,745	3,000	3,200
Number of persons with disability employed through subsidised employment30	660	1,200	1,500

Impact on competitiveness: Timely provision of services to unemployed persons in accordance with their potentials and interests and their targeted inclusion in active employment policy measures particularly through programmes for acquiring new knowledge and skills or first working experience and work engagement, as well as development of entrepreneurial knowledge should all contribute to an improved position of unemployed persons in the labour market in view of their better employability. Improvement of labour force supply, through targeted implementation of active employment policy measures should facilitate additional creation of human capital that is able at any time to respond to the needs of economy, i.e. labour market requirements, which contributes to the growth of economic activities and reduction of informal labour.

Estimated cost of the implementation of structural measure and envisaged sources of financing

[29] Source: Report of the Employment Agency of Montenegro
30 Source: Report of the Employment Agency of Montenegro

-2020[31] –3.2 million euro will be provided from the Budget for active employment policy measures. Additional 8.1 million euro for measures of professional rehabilitation and employment of disabled persons;

- 2021 –3.2 million euro will be provided from the Budget for active employment policy measures. Additional 8.1 million euro for measures of professional rehabilitation and employment of disabled persons;

- 2022 – 3.2 million euro will be provided from the Budget for active employment policy measures. Additional 8.1 million euro for measures of professional rehabilitation and employment of disabled persons;

Expected impact on social outcomes, such as employment, poverty reduction, equality and gender Equal inclusion of unemployed men and women in labour market through programmes and measures of active employment policy creates the conditions for their increased employability or employment, and thus for reduction of poverty. As regards the programmes and measures for youth, they should contribute to acquiring of knowledge and skills needed in the labour market, acquiring of work experience and they are very important for their faster transition from school to job and avoidance of entering the zone of inequality and poverty.

Expected impact on the environment It is not possible to assess the impact on the environment at this point.

Potential risks

Risk	Probability	Planned mitigating action
Absence of interest and awareness of unemployed persons as regards inclusion in the active employment policy measures	high	Additional work with unemployed persons through informative motivation workshops and round tables
Insufficient interest of employers in inclusion in implementation of active employment policy measures	high	Additional improvement of the cooperation with employers, through direct communication, by media and on-line media, theme-specific meetings, round tables.

Priority reform measure No 17: Adoption of the National Employment Strategy 2021-2014

Description of measure. Legal provisions from the area of labour market envisage that active employment policy, strategic priorities and employment policy goals for four years minimum are established by the National Employment Strategy, which is adopted by the Government of Montenegro. Taking into account that the time span covered by the current National Strategy for Employment and Human Resources Development expires in 2020, it is necessary to adopt a new strategic framework for the following four-year period. The new strategy is to include the performance assessment of measures and activities implemented in view of achieving the goals set in the current Strategy 2016-2020, future policy guidance by EC concerning employment policy, with a special view on the newly established European pillar of social rights and sustainable development objectives.

Period for the implementation of measure:

a. **Activities planned in 2020** Preparation and adoption of new National Employment Strategy 2021-2024, with Employment Action Plan 2021;

[31] The funds are planned in accordance with the Draft Budget for Employment Agency of Montenegro 2020 and are subject to further adjustment.

b. **Activities planned in 2021** Implementation of the Employment Action Plan 2021 with a special focus on full implementation of new regulations in labour market (Labour Law and Law on Employment Intermediation)
c. **Activities planned in 2022** Regular monitoring of the National Employment Strategy

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

Results indicators

Results and performance indicator	2020	2021	2022
Adopted National Strategy for Employment and Human Resources Development 2021-2024	Preparation and adoption	Implementation	Monitoring

Impact on competitiveness Employment and labour market policy has a significant impact on competitiveness. The adoption and implementation of a new strategic framework for employment policy realisation in line with the new EC guidance in the area of employment policy, with a special view on the pillar of social rights and goals of sustainable development, should have a positive impact on competitiveness in the long run.

Estimated cost of the implementation of structural measure and envisaged sources of financing

-2020 – For adoption of the National Employment Strategy 2021-2024, the funds are not needed to be provided from the budget.
- 2021 – At this point it is not possible to establish the estimate of financial resources
- 2022 – At this point it is not possible to establish the estimate of financial resources

Expected impact on social outcomes, such as employment, poverty reduction, equality [and gender] The adoption and implementation of a new strategic employment policy framework will also include components that directly impact the achievement of social goals, through measures and activities that will be carried out in the labour market in view of creating the conditions for intensified activity and increased employment of unemployed persons and social inclusion and equality.

Expected impact on the environment No impact on the environment.

Potential risks

Risk	**Probability**	**Planned mitigating action**
Deadline for adoption of the National Employment Strategy 2021-2024 is not met	low	Timely commencement of activities (and engagement of a foreign expert) on drafting of this document

5.3.8 Social inclusion, reduction of poverty and equal opportunities

Analysis of main obstacles: The development of services in the area of social and child protection will eliminate obstacles in the hindered access to services particularly for children, disabled persons and elderly persons. Intensive activities are undertaken on the development of day care services for children impaired in development and day care facilities for elderly. Provided is the service of supported housing for the elderly, the project "Family Associate" is implemented, as well as the shelter for adults and elderly, reception points for victims of violence, national SOS line for children and other services. Priority in the development of services is given to the north region of Montenegro in accordance with the National Sustainable Development Strategy 2020-2030 and the Regional Development Strategy 2014-2020. A series of enabling regulations have been adopted that envisage detailed conditions for provision and use of services, as well as the norms and minimum standards of services.

For the purpose of enhancing the area of services, in 2018, the Ministry of Labour and Social Welfare issued 19 licenses for performance of social and child protection activity, and 19 in 2019, which is 38 licences for service providers in total.

In the area of financial support benefits, the data shows that the number of families that are beneficiaries of financial support was 8,625 in August 2019, and for this purpose the amount of 836,443.70 euro is allocated, which is significantly lower in comparison to 14,737 families and 1,338,798.01 euro allocated in July 2013, when the Law on Social and Child Protection entered into force, which is less by 41.47% families.

In the first half of 2019, the cooperation between the Employment Office and Centre for Social Work resulted in the inclusion of 70 persons in the programmes of active employment policy, 9 [in the] measures of professional rehabilitation, whereas, by mediation of the Employment Office 44 beneficiaries of financial support were employed. In 2019, the second phase of the Regional Project "Promoting Inclusive Labour Market Solutions in Western Balkans" that is implemented by UNDP and International Labour Organisation, is planned.

Under the Regional Housing Programme in 2019 completed was a sub-project MNE4 – construction of 94 housing units in Berane for the total number of 390 persons. Reconstruction commenced of the existing Military facilities – Military complex Trebjesa for the needs of building a home for elderly and adult disabled persons in Nikšić Municipality. Resolving the issue of relocated and internally relocation persons is a part of pre-accession negotiations between Montenegro and European Union, under Chapter 23 – "Judiciary and Fundamental Rights".

The Montenegro government programme related to subsidising of monthly electricity bills for the most vulnerable category of population continued in 2019, too. In the first 6 months of 2019, the total of 3,645,895 euro was paid from the government budget for social and child protection benefits.

Priority reform plans: In the coming period, as a response to address the problem in the area of services, the priority will be given to the development of the day care service for the elderly.

Priority reform measure 18: Development of day care service for the old aged

Description of measure: The reform measure envisages enhancement of the protection of the elderly in the form of increased number of day care facilities for this category of persons. Under the project "Developing Facilities for Provision of Social Services in Montenegro" implemented by the Ministry of Labour and Social Welfare with technical support by UNDP, implemented is the service of Day Care for the Elderly. The reform measure is in accordance with the Strategy for the Development of the Social Protection System of the Elderly 2018-2022, the National Sustainable Development Strategy (NSOR) until 2030 and the Regional Development Strategy 2014-2020.

For day care service to elderly the Rulebook on detailed conditions for provision, use, norms and minimum standards of support services for life in community (Official Gazette of Montenegro, No 30/15 and 15/18) stipulates standards for provision of day care service, which are related to appropriate space, material conditions, provision of meals and personal hygiene maintenance and cleaning of the facility, procedures for ensuring safe environment, development of potentials and strengthening of the beneficiaries. There is a standard prescribed for the number of employees, which says that there is one professional per 30 beneficiaries and two associates per 10 beneficiaries. This means that for the provision of the service, the minimum number of employees is 3 – one professional and two associates.

Measure implementation activities by years: The mentioned measure is implemented in continuity and so far 12 day care facilities have been organised. According to the ERP 2019-2021, in 2019 the expansion of the scope of the service provision is planned, by opening of three day care facilities for the elderly. Of the planned three day care facilities in 2019, so far 2 have been completed: in the Home for Elderly "Grabovac" in Risan and in Municipality Petnjica. Activities are in progress on opening of another day care facility in Pljevlja Municipality.

a. **Activities planned in 2020:** Opening of at least one more day care facility for the elderly is planned, depending on the interest of local self-governments and funds available from the Budget of Montenegro.
b. **Activities planned in 2021:** Opening of at least one more day care facility for the elderly is planned, depending on the interest of local self-governments and funds available from the Budget of Montenegro.
c. **Activities planned in 2022:** Opening of at least one more day care facility for the elderly is planned, depending on the interest of local self-governments and funds available from the Budget of Montenegro.

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

Results indicators:

Results and performance indicator	**Baseline target**	**Intermediate target –**	**Target**
Opening of day care facilities for the elderly and protection of the elderly by providing the service of day care for the elderly	2020	2021	2022
	-construction or refurnishing depending on the participation of local self-governments -reconstruction works on the existing facility or construction of a new facility for the needs of day care for the elderly	-construction or refurnishing depending on the participation of local self-governments -reconstruction works on the existing facility or construction of a new facility for the needs of day care for the elderly	-construction or refurnishing depending on the participation of local self-governments -reconstruction works on the existing facility or construction of a new facility for the needs of day care for the elderly

Results and performance indicator	**Baseline target**	**Intermediate target –**	**Target**
By 2019, 12 day care facilities were opened for the elderly, and their services are used by 150 beneficiaries. In 2020, 2021 and 2022 at least three day-care facilities are planned to be opened, which will increase the total number of beneficiaries by 38 and will amount to 188 beneficiaries.	2020	2021	2022

Expected impact on competitiveness: The implementation of the measure will have a positive impact on the labour market in terms of increased number of employees to provide the day care service, and employees will be mostly females. In line with the standards, it is envisaged that three employees will be engaged per day care facility. It is a measure that will be implemented in the long run and will affect further employment.

Estimated cost of the activities and the source of financing: By and including 2018, the total of 254,189.02 euro was allocated from the budget for opening (refurnishing and equipment) and operation of ten day care facilities. Local self-government takes part by assigning the land or buildings to be refurnished for the needs of a day care. For three day-care facilities planned in 2019 the funds have been indicatively provided in the budget of Montenegro, but the total amount will be subsequently determined and depends on the participation of local self-governments.

In 2019, two day care facilities were opened so far, i.e. in the Home for the elderly “Grabovac“ in Risan with an investment of 65,000.00 euro and in Petnjica Municipality, where the day care facility is located on the area of 62.00m^2 within a multi-purpose building with an area of 333m^2 and with and investment for day care facility of 47,200 euro. It is planned that in each of 2020, 2021 and 2022 at least one day-care facility for the elderly will be opened; however, the priority for service development is given to the north region of Montenegro in line with the Sustainable Development Strategy 2020-2030 and Regional Development Strategy 2014-2020.

Expected impact on social outcomes: The implementation of the measure will have a positive impact on the following: the protection of the old aged, the reduction of poverty and socialisation, the increased employment of persons that will look after them and in specific cases opportunity will be given to family members to take care of their old aged persons and during their time there have an employment engagement in the day care facility. The standards related to the contents of the service provided to the elderly are established and detailed in the description of the measure. On average 10-20 elderly persons can stay in a day care facility. The day care service has a positive impact on the standard of older persons, given that during the period they use the day care they do not need to incur and pay the costs for services they necessitate. At least 3 persons are envisaged to be employed for the day care service.

Expected impact on the environment: The measure has no impact on the environment.

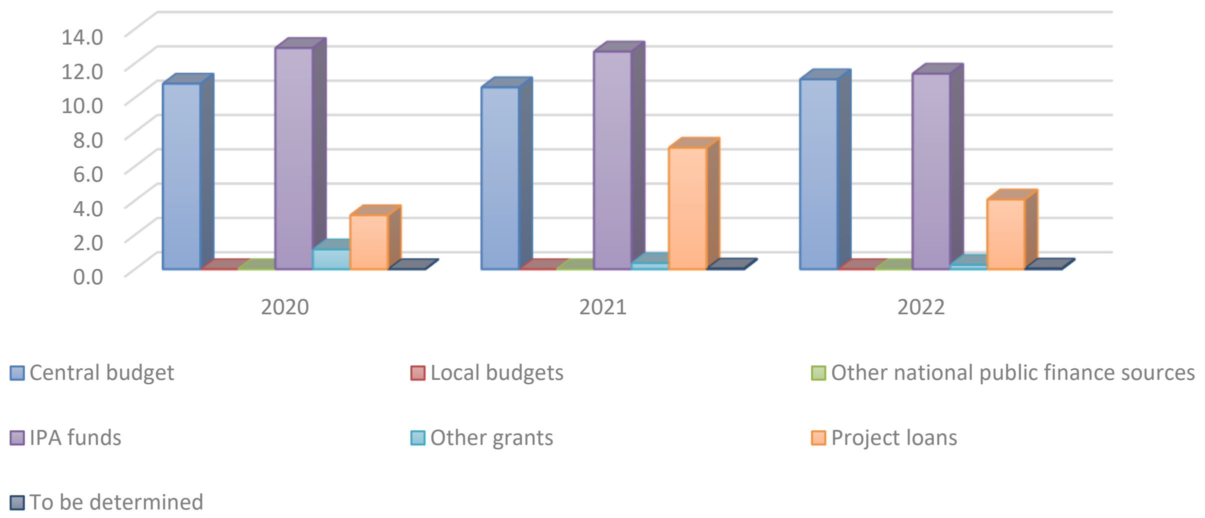
Potential risks:

Risk	Probability (low or high)	Planned mitigating action
Reduced interest of local self-governments	Low	Producing assessments of the needs for opening day care facilities

6. BUDGET IMPLICATIONS OF STRUCTURAL REFORMS

In line with the EC guidance, Chapter six of the Economic Reform Programme 2020-2022 presents total additional costs of structural reform measures. Considering the additional costs of each of 18 priority structural reforms, the text below details the funding sources for each of them.

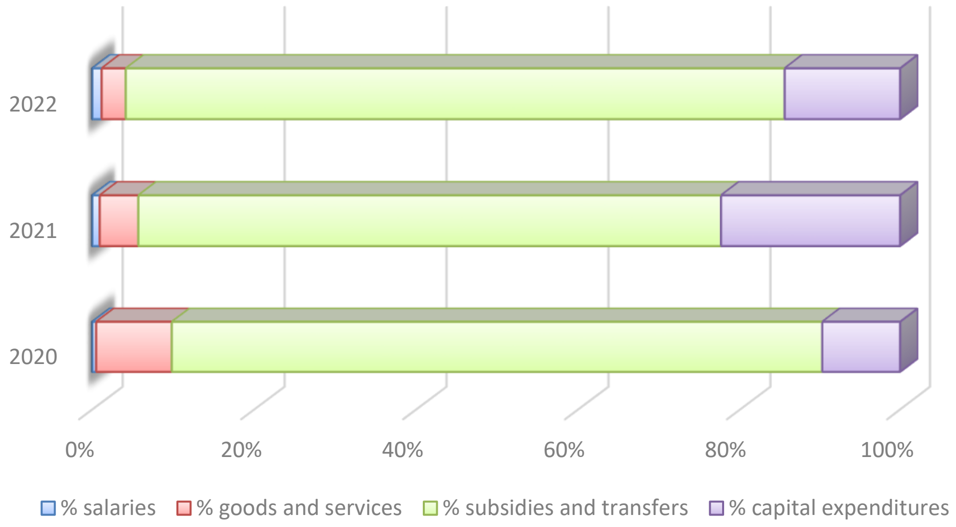
Figure 6.1 Estimated total additional costs of implementation of priority reform measures for ERP 2020-2022 (in million euro)



As shown in the Figure, the largest sources of financing for priority structural reforms are IPA funds, budgetary funds and project loans.

From the aspect of the mentioned methodology for calculation of additional costs in relation to the year when there was no reform, the highest amount is related to measure No 4 from the area of agriculture, 15 million euro annually, for a three-year period, all in view of harmonising with the EU food quality and safety standards, as well as strengthening of the competition of the country. Also, additional costs of the mentioned measure will be supported by provided donor support. From the aspect of allocation of funds, reform measure No 9 is also significant, which is related to suppression of informal economy by tax administration reform. The mentioned project is worth around 16 million euro and it is funded from a World Bank loan.

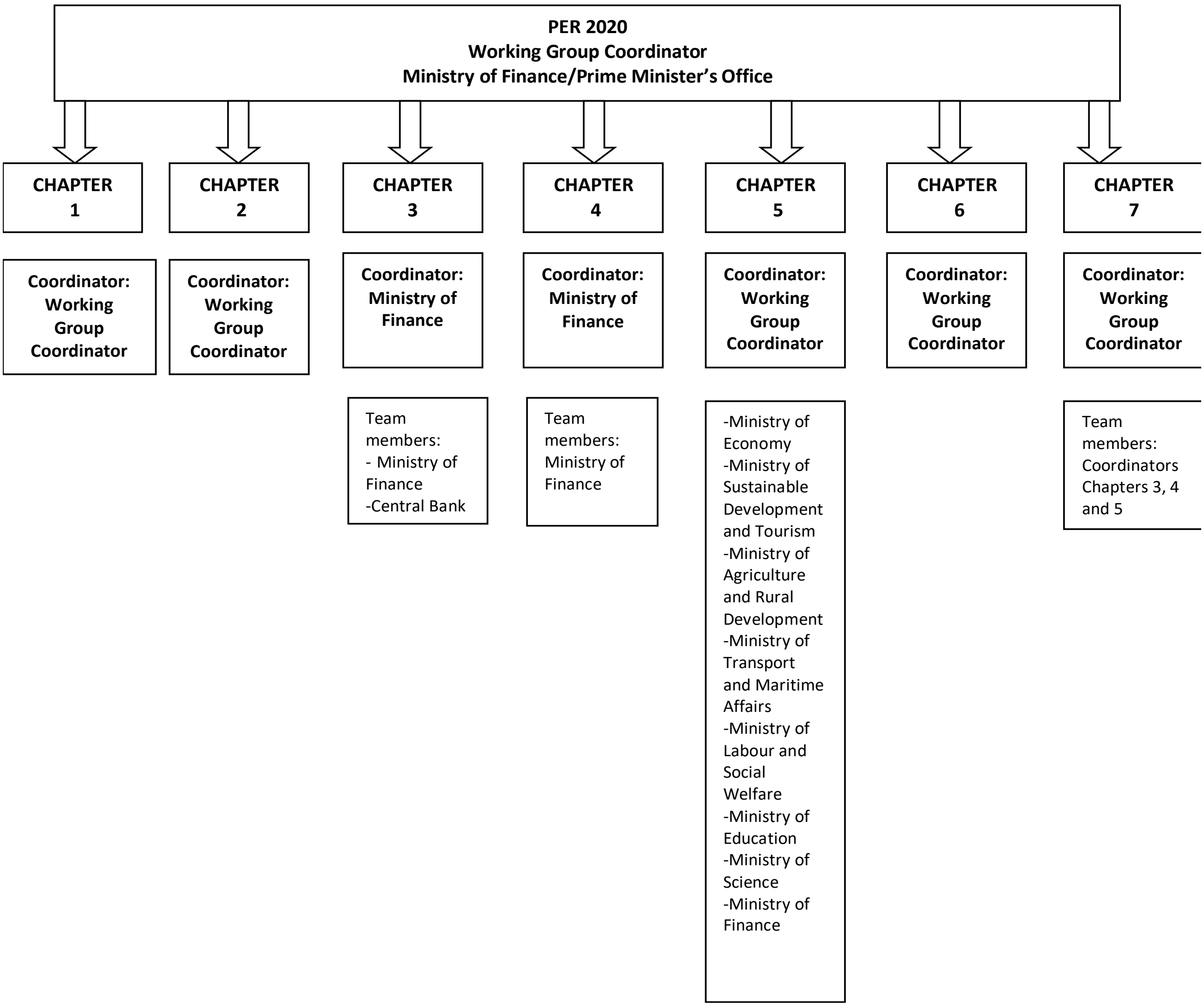
Figure 6.2. Breakdown of estimated additional costs of implementation of priority reform measures 2020-2022



The presented Figure 6.2 shows a breakdown of estimated additional costs of implementation of priority reform measures. It can be concluded that reform measures that make a part of the Economic Reform Programme 2020-2022 are of administrative and legislative nature. Generally speaking, the set of 18 priority structural reforms will have a positive reflection on the budget in the long run, while its impact on employment, competitiveness, and therefore economic growth will be visible in medium term.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Government's adoption of the Decision on establishing the team for preparation of the Economic Reform Programme (ERP) for the period 2020-2022. In doing so, the Government established the Working Team for preparation of the 2020 ERP. The diagram below shows the National Coordination for the ERP, coordination of the chapters and the institutions that were represented in the preparation of the 2020 ERP:



The Montenegro Economic Reform Programme 2020–2022 has been developed in joint consultation with the relevant ministries responsible for implementation of specific reform measures, the international community, whose activities complement the subject programme, and also with important stakeholders in the society which were informed about the fact that the Economic Reform Programme drafting process had started and which were invited to submit their proposals for reforms which could, in their opinion, be part of the 2020–2022 ERP or which, by taking part in the working groups for drafting specific laws, have indirectly contributed to drafting of the 2020 ERP.

A novelty that characterises the preparation process of the Economic Reform Programme is involvement of the representatives of broader public already in the initial phase of drafting. Therefore, on 6 September a meeting was held with the representatives of private sector, NGO, local community and other stakeholders. In order to improve the text of the Montenegro Economic Reform Programme for 2020–2022, and in line with the European Commission's Guidance Notes, the Draft ERP was subjected to a consultation process with stakeholders in the period from 3 December 2019 to 23 December 2019. During the observed period, the draft programme was available to media representatives and the wider public at the following link on the government website:

http://www.gov.me/vijesti/217381/Objavljen-Nacrt-programa-ekonomskih-reformi-CG-2019-2021.html

A roundtable discussion was also organised as part of the consultation process about the Draft Programme on 20 December 2019, in order to improve the text of the Programme. On this occasion the representatives of employers, non-governmental organisations, representatives of professional associations, representatives of trade unions, representatives of the University of Montenegro, as well as the broader public, were invited to take part in the roundtable discussion and provide their proposals for improving the text of the 2020 ERP. The proposals for the improvement of the draft ERP text in written form are attached to this document.

Furthermore, the document was the subject of deliberation by the Parliamentary Committee on the Economy, Finance and the Budget.

After all the proposals and suggestions were received during the consultation process, resulting in improvements to the text of the 2020 ERP, the document was finalised and submitted for procedural consideration and adoption at a session of the Government of Montenegro.

Annex 1: Projections of fiscal indicators for the period 2019-2022

GDP (in mill euro)	4817.1		5027.3		5217.9		5449.4	
Local self-government	2019		2020		2021		2022	
	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP
Direct revenues	245.26	5.09	270.55	5.38	263.97	5.25	267.41	5.32
Taxes	165.1	3.43	170.0	3.38	173.5	3.45	175.9	3.50
Personal income tax	50.32	1.04	52.93	1.05	55.23	1.10	56.33	1.12
Tax on immovable property transactions	18.76	0.39	19.14	0.38	19.33	0.38	19.71	0.39
Local taxes	96.00	1.99	97.92	1.95	98.90	1.97	99.89	1.99
Duties	5.90	0.12	6.02	0.12	6.14	0.12	6.27	0.12
Fees	54.21	1.13	58.00	1.15	60.00	1.19	60.00	1.19
Other revenues	16.06	0.33	16.55	0.33	16.88	0.34	17.21	0.34
Receipts from repayment of loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Donations	4.00	0.08	20.00	0.40	7.50	0.15	8.00	0.16
Expenditures	196.69	4.08	219.85	4.37	213.39	4.24	215.77	4.29
Current spending of local self-governments	143.7	2.98	147.8	2.94	152.4	3.03	154.8	3.08
Current expenditures	85.39	1.77	87.45	1.74	90.56	1.80	91.94	1.83
Gross wages and contributions charged to employer	50.63	1.05	52.15	1.04	53.72	1.07	54.52	1.08
Other personal earnings	3.61	0.08	3.69	0.07	3.76	0.07	3.83	0.08
Expenditures for goods and services	15.98	0.33	16.14	0.32	16.46	0.33	16.71	0.33
Current maintenance	5.35	0.11	5.45	0.11	5.56	0.11	5.65	0.11
Interest	3.40	0.07	3.47	0.07	4.65	0.09	4.72	0.09
Rent	0.64	0.01	0.65	0.01	0.63	0.01	0.64	0.01
Subsidies	1.53	0.03	1.57	0.03	1.31	0.03	1.33	0.03
Other expenditures	4.25	0.09	4.34	0.09	4.46	0.09	4.52	0.09
Social protection transfers	0.42	0.01	0.43	0.01	0.88	0.02	0.89	0.02
Transfers to institutions, individuals non-governmental and the public sector	53.00	1.10	55.00	1.09	55.83	1.11	56.66	1.13
Capital budget	53.00	1.10	72.00	1.43	61.00	1.21	61.00	1.21
Borrowings and credits	1.59	0.03	1.62	0.03	1.67	0.03	1.72	0.03
Repayment of outstanding liabilities from the previous period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	3.29	0.07	3.4	0.07	3.5	0.07	3.6	0.07
Repayment of guarantees	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Net increase of liabilities	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
Surplus/deficit	48.58	1.01	50.70	1.01	50.59	1.01	51.65	1.03
Adjusted surplus/deficit	48.58	1.01	50.70	1.01	50.59	1.01	51.65	1.03
Primary deficit	51.97	1.08	54.17	1.08	55.24	1.10	56.37	1.12
Debt repayment	64.00	1.33	63.00	1.25	58.00	1.15	53.00	1.05
Repayment of principal to residents	15.0	0.31	14.0	0.28	14.0	0.28	14.0	0.28
Repayment of principal to non-residents	4.0	0.08	4.0	0.08	4.0	0.08	4.0	0.08
Repayment of liabilities from the previous period	45.0	0.93	45.0	0.90	40.0	0.80	35.0	0.70
Expenditures for acquisition of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shortfall	-15.42	-0.32	-12.30	-0.24	-7.41	-0.15	-1.35	-0.03
Financing	15.42	0.32	12.30	0.24	7.41	0.15	1.35	0.03
Borrowings and credits from domestic sources	20.0	0.42	10.0	0.20	8.0	0.16	8.0	0.16
Borrowings and credits from foreign sources	4.0	0.08	4.0	0.08	4.0	0.08	4.0	0.08
Proceeds from privatisation and sale of property	10.00	0.21	7.00	0.14	7.00	0.14	7.00	0.14
Use of local self-government deposits	-25.58	-0.53	-17.70	-0.35	-20.59	-0.41	-26.65	-0.53
Transfers from the Budget of Montenegro	7.0	0.15	9.0	0.18	9.0	0.18	9.0	0.18

GDP (in millions euro)	4817.1		5027.3		5217.9		5449.4	
Budget of Montenegro	2019		2020		2021		2022	
	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP
Direct revenues	1884.27	39.1	2054.36	40.9	1950.77	37.4	1990.06	36.5
Taxes	1172.75	24.3	1199.13	23.9	1233.73	23.6	1270.68	23.3
Personal income tax	125.00	2.6	129.20	2.6	131.84	2.5	133.65	2.5
Corporate profit tax	72.82	1.5	73.35	1.5	77.59	1.5	78.97	1.4
Tax on immovable property transactions	2.04	0.0	1.89	0.0	1.93	0.0	1.97	0.0
Value added tax	695.73	14.4	709.45	14.1	730.51	14.0	756.70	13.9
Excise taxes	235.52	4.9	244.70	4.9	250.55	4.8	257.16	4.7
Tax on international trade and transactions	28.53	0.6	27.77	0.6	28.29	0.5	28.92	0.5
Other government revenues	13.12	0.3	12.77	0.3	13.02	0.2	13.30	0.2
Contributions	546.27	11.3	569.57	11.3	549.13	10.5	557.25	10.2
Duties	15.50	0.3	15.14	0.3	15.52	0.3	15.95	0.3
Fees	28.24	0.6	122.06	2.4	53.37	1.0	45.95	0.8
Other revenues	75.57	1.6	86.14	1.7	55.17	1.1	56.39	1.0
Receipts from repayment of loans	8.11	0.2	17.67	0.4	8.84	0.2	8.84	0.2
Donations	37.84	0.8	44.64	0.9	35.00	0.7	35.00	0.6
Expenditures	2027.45	42.1	2104.32	41.9	1930.96	37.0	1969.27	36.1
Current budgetary spending	1755.08	36.4	1874.36	37.3	1826.88	35.0	1843.09	33.8
Current expenditures	894.37	18.6	911.07	18.1	923.70	17.7	925.52	17.0
Gross wages and contributions charged to employer	472.85	9.8	502.77	10.0	516.18	9.9	520.16	9.5
Other personal earnings	15.18	0.3	16.81	0.3	16.70	0.3	17.09	0.3
Expenditures for goods and services	101.66	2.1	107.99	2.1	109.48	2.1	110.91	2.0
Current maintenance	22.51	0.5	26.27	0.5	25.22	0.5	25.62	0.5
Interest	105.67	2.2	104.25	2.1	97.30	1.9	88.90	1.6
Rent	11.02	0.2	10.83	0.2	10.94	0.2	10.93	0.2
Subsidies	34.54	0.7	42.74	0.9	49.60	1.0	51.22	0.9
Other expenditures	38.81	0.8	48.34	1.0	46.61	0.9	45.84	0.8
Capital expenditures in the current budget	92.12	1.9	51.07	1.0	51.66	1.0	54.83	1.0
Social protection transfers	554.41	11.5	577.66	11.5	592.60	11.4	604.02	11.1
Social protection-related rights	79.88	1.7	82.38	1.6	83.50	1.6	83.96	1.5
Funds for technological redundancies	20.42	0.4	22.48	0.4	23.24	0.4	23.25	0.4
Pension- and disability insurance-related rights	420.89	8.7	442.18	8.8	454.54	8.7	465.18	8.5
Other health protection-related rights	21.70	0.5	20.00	0.4	20.00	0.4	21.00	0.4
Other health insurance-related rights	11.52	0.2	10.63	0.2	11.33	0.2	10.63	0.2
Transfers to institutions, individuals non-governmental and the public sector	219.70	4.6	279.10	5.6	274.75	5.3	277.38	5.1
Capital Budget	272.37	5.7	229.96	4.6	104.09	2.0	126.19	2.3
Borrowings and credits	3.18	0.1	1.68	0.0	2.30	0.0	2.30	0.0
Reserves	24.30	0.5	88.50	1.8	18.00	0.3	18.00	0.3
Repayment of guarantees	38.68	0.8	0.00	0.0	0.00	0.0	0.00	0.0
Repayment of liabilities from the previous period	20.43	0.4	16.35	0.3	15.52	0.3	15.86	0.3
Net increase of liabilities	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Surplus/ Deficit	-143.17	-2.97	-49.96	-0.99	19.81	0.4	20.79	0.4
Adjusted surplus/deficit	-143.17	-2.97	-49.96	-1.0	19.81	0.4	20.79	0.4
Primary surplus/deficit	-37.51	-0.8	54.29	1.1	117.11	2.2	109.69	2.0
Debt repayment	507.34	10.5	539.59	10.7	398.11	7.6	252.15	4.6
Debt repayment to residents	178.42	3.7	119.71	2.4	49.20	0.9	25.73	0.5
Debt repayment to non-residents	328.93	6.8	419.88	8.4	348.91	6.7	226.42	4.2
Repayment of liabilities from the previous period	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Expenditures for acquisition of securities	57.33	1.2	1.01	0.0	0.10	0.0	0.10	0.0
Shortfall	-707.84	-14.7	-590.56	-11.7	-378.40	-7.3	-231.46	-4.2
Financing	707.84	14.7	590.56	11.7	378.40	7.3	231.46	4.2
Borrowings and credits	1000.89	20.8	100.00	2.0	372.40	7.1	225.46	4.1
Borrowings and credits from domestic sources	363.44	7.5	0.00	0.0	50.00	1.0	50.00	0.9
Borrowings and credits from foreign sources	637.45	13.2	100.00	2.0	322.40	6.2	175.46	3.2
Proceeds from sale of property	4.28	0.1	6.00	0.1	6.00	0.1	6.00	0.1
Increase/decrease of deposits	-297.32	-6.2	484.56	9.6	0.00	0.0	0.00	0.0

GDP (in millions euro)	4817.1		5027.3		5217.9		5449.4	
Public spending	2019		2020		2021		2022	
	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP	Millions €	% of GDP
Direct revenues	2129.54	44.2	2324.91	46.2	2214.74	42.4	2257.47	41.4
Taxes	1337.83	27.8	1369.11	27.2	1407.19	27.0	1446.61	26.5
Personal income tax	175.32	3.6	182.13	3.6	187.07	3.6	189.98	3.5
Corporate profit tax	72.82	1.5	73.35	1.5	77.59	1.5	78.97	1.4
Tax on immovable property transactions	20.80	0.4	21.03	0.4	21.26	0.4	21.69	0.4
Value added tax	695.73	14.4	709.45	14.1	730.51	14.0	756.70	13.9
Excise taxes	235.52	4.9	244.70	4.9	250.55	4.8	257.16	4.7
Tax on international trade and transactions	28.53	0.6	27.77	0.6	28.29	0.5	28.92	0.5
Local taxes	96.00	2.0	97.92	1.9	98.90	1.9	99.89	1.8
Other government taxes	13.12	0.3	12.77	0.3	13.02	0.2	13.30	0.2
Contributions	546.27	11.3	569.57	11.3	549.13	10.5	557.25	10.2
Duties	21.41	0.4	21.16	0.4	21.66	0.4	22.22	0.4
Fees	82.45	1.7	180.06	3.6	113.37	2.2	105.95	1.9
Other revenues	91.63	1.9	102.69	2.0	72.05	1.4	73.60	1.4
Receipts from repayment of loans	8.11	0.2	17.67	0.4	8.84	0.2	8.84	0.2
Donations	41.84	0.9	64.64	1.3	42.50	0.8	43.00	0.8
Public spending	2224.14	46.2	2324.17	46.2	2144.35	41.1	2185.04	40.1
Current public spending	1898.77	39.4	2022.21	40.2	1979.26	37.9	1997.85	36.7
Current expenditures	979.77	20.3	998.52	19.9	1014.26	19.4	1017.46	18.7
Gross wages and contributions charged to employer	523.49	10.9	554.92	11.0	569.89	10.9	574.68	10.5
Other personal earnings	18.80	0.4	20.50	0.4	20.46	0.4	20.92	0.4
Expenditures for goods and services	117.64	2.4	124.13	2.5	125.94	2.4	127.63	2.3
Current maintenance	27.86	0.6	31.73	0.6	30.79	0.6	31.27	0.6
Interest	109.06	2.3	107.72	2.1	101.96	2.0	93.63	1.7
Rent	11.66	0.2	11.48	0.2	11.57	0.2	11.58	0.2
Subsidies	36.07	0.7	44.31	0.9	50.91	1.0	52.56	1.0
Other expenditures	43.06	0.9	52.67	1.0	51.07	1.0	50.37	0.9
Capital expenditures in the current budget	92.12	1.9	51.07	1.0	51.66	1.0	54.83	1.0
Social protection transfers	554.83	11.5	578.09	11.5	593.48	11.4	604.91	11.1
Social protection-related rights	80.30	1.7	82.81	1.6	84.38	1.6	84.85	1.6
Funds for technological redundancies	20.42	0.4	22.48	0.4	23.24	0.4	23.25	0.4
Pension- and disability insurance-related rights	420.89	8.7	442.18	8.8	454.54	8.7	465.18	8.5
Other health protection-related rights	21.70	0.5	20.00	0.4	20.00	0.4	21.00	0.4
Other health insurance-related rights	11.52	0.2	10.63	0.2	11.33	0.2	10.63	0.2
Transfers to institutions, individuals non-governmental and the public sector	272.70	5.7	334.10	6.6	330.57	6.3	334.05	6.1
Capital budget	325.37	6.8	301.96	6.0	165.09	3.2	187.19	3.4
Capital budget of Montenegro	272.37	5.7	229.96	4.6	104.09	2.0	126.19	2.3
Capital budget of local self-governments	53.00	1.1	72.00	1.4	61.00	1.2	61.00	1.1
Borrowings and credits	4.76	0.1	3.30	0.1	3.97	0.1	4.02	0.1
Reserves	27.59	0.6	91.86	1.8	21.46	0.4	21.56	0.4
Repayment of guarantees	38.68	0.8	0.00	0.0	0.00	0.0	0.00	0.0
Net increase of liabilities	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Repayment of liabilities from the previous period	20.43	0.4	16.35	0.3	15.52	0.3	15.86	0.3
Surplus/deficit	-94.60	-2.0	0.74	0.0	70.39	1.3	72.43	1.3
Adjusted surplus/deficit	-94.60	-2.0	0.74	0.0	70.39	1.3	72.43	1.3
Primary deficit	14.47	0.3	108.46	2.2	172.35	3.3	166.06	3.0
Debt repayment	571.34	11.9	602.59	12.0	456.11	8.7	305.15	5.6
Repayment of principal to residents	193.42	4.0	133.71	2.7	63.20	1.2	39.73	0.7
Repayment of principal to non-residents	332.93	6.9	423.88	8.4	352.91	6.8	230.42	4.2
Repayment of liabilities from the previous period	45.00	0.9	45.00	0.9	40.00	0.8	35.00	0.6
Expenditures for acquisition of securities	57.33	1.19	1.01	0.00	0.10	0.00	0.10	0.00
Shortfall	-723.27	-15.0	-602.86	-12.0	-385.82	-7.4	-232.81	-4.3
Financing	723.27	15.0	602.86	12.0	385.82	7.4	232.81	4.3
Borrowings and credits from domestic sources	383.44	8.0	10.00	0.2	58.00	1.1	58.00	1.1
Borrowings and credits from foreign sources	641.45	13.3	104.00	2.1	326.40	6.3	179.46	3.3
Proceeds from privatisation and sale of property	14.28	0.3	13.00	0.3	13.00	0.2	13.00	0.2
Transfers from the Budget of Montenegro	7.00	0.1	9.00	0.2	9.00	0.2	9.00	0.2
Use of government deposits	-322.90	-6.7	466.86	9.3	-20.59	-0.4	-26.65	-0.5

Annex 2

Table 1a: Macroeconomic prospects

Percentage unless otherwise indicated	ESA code	2018	2018	2019	2020	2021	2022
		level (billion EUR)	Rate of change				
1. Real GDP at market prices	B1*g	4.517	5.1	3.1	3.4	2.8	3.2
2. GDP at current prices	B1*g	4.663	8.5	3.3	4.4	3.8	4.4
Components of real GDP							
3. Household consumption	P3	3.363	4.6	3.3	2.4	1.9	1.9
4. Government consumption	P3	0.842	6.3	1.1	4.5	-0.5	0.0
5. Gross fixed capital formation	P51	1.327	14.7	3.3	4.6	-2.5	-1.0
6. Changes in inventories and net acquisition of valuables	P52+P53	0.128	-10.1	-26.7	-28.0	0.0	0.0
7. Exports of goods and services	P6	1.887	6.9	7.3	3.8	4.1	2.4
8. Imports of goods and services	P7	3.029	9.2	4.4	2.4	-0.6	-1.6
Contribution to real GDP growth							
9. Domestic demand		5.5	8.5	3.6	4.0	0.6	1.1
10. Changes in inventories and net acquisition of valuables	P52+P53	0.1	-0.3	-0.7	-0.6	0.0	0.0
11. Net exports	B11	-1.1	-3.1	0.2	0.0	2.2	2.1

Table 1b: Price developments

Percentage of change, annual averages	ESA code	2018	2019	2020	2021	2022
1. GDP deflator		3.2	0.2	0.9	1.0	1.2
2. Household consumption deflator		1.8	0.4	0.8	0.8	1.2
3. HICP-change		0.1	:	:	:	:
4. National CPI - change		0.2	-2.0	0.5	0.0	0.5
5. Government consumption deflator		2.5	-0.5	1.0	1.1	0.4
6. Investment deflator		2.8	1.1	1.5	1.5	2.0
7. Export price deflator (goods and services)		6.0	-0.3	1.0	1.0	1.5
8. Import price deflator (goods and services)		2.7	0.8	1.1	1.1	1.5

Table 1c: Labour market developments

	2018	2019	2020	2021	2022
	Level/Rate of change				
1. Population (thousands)	622.2	:	:	:	:
2. Population (growth rate in %)			:	:	:
3. Working age population (persons)	422.4	425.6	425.7	424.4	424.7
4. Participation rate	64.7	65.6	66.1	66.5	67.0
5. Employment, persons	231.2	237.6	240.5	241.7	244.8
6. Employment, hours worked	:	:	:	:	:
7. Employment (growth rate in %)	3.2	2.8	1.2	0.5	1.3
8. Public sector employment (persons)	:	:	:	:	:
9. Public sector employment (growth rate in %))	:	:	:	:	:
10. Unemployment rate	15.5	14.9	14.6	14.3	14.0
11. Labour productivity	1.8	0.2	2.2	2.3	1.8
12. Labour productivity, hours worked	:	:	:	:	:
13. Compensation of employees	:	:	:	:	:

Table 1d: Sectoral balances

Percentage of GDP	ESA code	2018	2019	2020	2021	2022
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-17.0	-17.1	-16.3	-13.3	-10.4
Of which:						
- Balance of goods and services		-23.9	-23.6	-22.8	-20.1	-17.5
- Balance of primary and secondary incomes		6.9	6.5	6.5	6.8	7.0
- Capital account		0.0	:	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of the public sector						
4. Statistical discrepancy						

Table 1e: GDP, investments and gross value added

	ESA code	2018	2019	2020	2021	2022
GDP and investments						
GDP level at current market prices (in domestic currency)	B1g	4.7	4.8	5.0	5.2	5.4
Investments ratio (% BDP)		29.2	29.6	30.1	28.7	27.8
Growth of gross value added, percentage changes at constant prices						
1. Agriculture		3.3	2.9	3.0	3.0	3.0
2. Industry (excluding construction		17.2	-4.5	3.1	3.6	4.5
3. Construction		10.9	11.9	5.0	0.0	4.0
4. Services		4.1	3.5	3.5	3.0	3.1

Table 1f: External sector developments

Euro billion, unless otherwise indicated						
		2018	2019	2020	2021	2022
1. Current account balance (% of GDP)	% of GDP	-17.0	-17.1	-16.3	-13.3	-10.4
2. Export of goods	billion NC or EUR	0.4	0.4	0.5	0.5	0.5
3. Import of goods	billion NC or EUR	2.5	2.5	2.6	2.6	2.7
4. Trade balance	billion NC or EUR	-2.0	-2.1	-2.2	-2.2	-2.2
5. Export of services	billion NC or EUR	1.6	1.7	1.8	1.9	2.0
6. Import of services	billion NC or EUR	0.6	0.7	0.7	0.8	0.7
7. Service balance	billion NC or EUR	0.9	1.0	1.0	1.1	1.2
8. Net interest payment	billion NC or EUR	-0.1	-0.1	-0.1	-0.1	-0.1
9. Other net transfers from abroad	billion NC or EUR	0.2	0.1	0.2	0.2	0.2
10. Current transfers	billion NC or EUR	0.3	0.3	0.3	0.3	0.3
11. *of which* from EU	billion NC or EUR	:	:	:	:	:
12. Current account balance	billion NC or EUR	-0.8	-0.8	-0.8	-0.7	-0.6
13. Capital and financial account	billion NC or EUR	-0.7	:	:	:	:
14. Foreign direct investments	billion NC or EUR	-0.3	-0.4	-0.5	-0.5	-0.5
15. Foreign reserves	billion NC or EUR	0.2	:	:	:	:
16. Total foreign debt	billion NC or EUR	:	:	:	:	:
17. *of which*: public	billion NC or EUR	:	:	:	:	:
18. *of which*: foreign currency denominated foreign debt	billion NC or EUR	:	:	:	:	:
19. *of which*: refinancing due	billion NC or EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NC or EUR	1.0	1.0	1.0	1.0	1.0
Exchange rate vis-à-vis EUR (end-year) % change	% y-o-y	0.0	0.0	0.0	0.0	0.0
21. Exchange rate vis-à-vis EUR (average)	NC or EUR	1.0	1.0	1.0	1.0	1.0
Exchange rate vis-à-vis EUR (average) % change	% y-o-y	0.0	0.0	0.0	0.0	0.0
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators

		2015		2016	2017	2018	2019
1. Current account balance	% of GDP	-11.0		-16.2	-16.1	-17.0	-17.1
2. Net international investment position	% of GDP	:		-177.0	-169.5	-169.4	:
3. Total export market share	% of GDP	:		:	:	:	:
4. Real effective exchange rate [1]	% of GDP	:		:	:	:	:
5. Nominal unit labour	% of GDP	-2.7		-3.2	-4.2	-4.2	-1.5
6. Private [sector] credit	% of GDP	:		:	:	:	:
7. Private [sector] debt	% of GDP	:		:	:	:	:
8. Public sector debt	% of GDP	:		:	:	:	:

Table 2a: General government budgetary prospects

	ESA code	2018	2018	2019	2020	2021	2022
Net lending (B9) by sectors							
1. General government	S13	-0.18	-3.9	-1.9	0.0	1.3	1.3
2. Central government	S1311	-0.17	-3.6	-3.0	-1.0	0.4	0.4
3. State government	S1312	0.00	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-0.00	-0.3	1.0	1.0	1.0	0.9
5. Social security funds	S1314	0.00	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenues	TR	1.97	42.4	44.2	46.2	42.4	41.4
7. Total expenditures[32]	TE	2.15	46.2	46.2	46.2	41.1	40.1
8. Net borrowing/lending	EDP.B9	-0.18	-3.9	-2.0	0.0	1.3	1.3
9. Interest expenditure	EDP.D41 incl. FISIM	0.10	2.1	2.3	2.1	2.0	1.7
10. Primary balance[33]		-0.08	-2.5	0.3	2.2	3.3	3.0
11. one-off and other temporary measures[34]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1.11	24.1	25.5	25.0	24.7	24.4
12a. Taxes on production and imports	D2	0.86	18.5	19.9	19.5	19.4	19.1
12b. Current taxes on income and wealth	D5	0.23	5.0	5.2	5.1	5.0	4.9
12c. Capital taxes	D91	0.02	0.4	0.4	0.4	0.4	0.4
13. Social contributions	D61	0.52	11.3	11.4	11.3	10.5	10.2
14. Property income	D4	0.09	1.8	1.9	2.0	1.9	1.4
15. Other (15 = 16-(12+13+14)) [4]		0.25	5.2	5.4	7.9	5.2	5.4
16 = 6. Total revenue	TR	1.97	42.2	44.2	46.2	42.4	41.4
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1.63	35.2	37.0	36.2	35.3	34.7
Selected components of expenditures							
16. Collective consumption	P32	:	:	:	:	:	:
17. Total social transfers	D62 + D63	0.54	11.8	11.5	11.5	11.4	11.0
17a. Social transfers in kind	P31 = D63	0.00	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	0.54	11.8	11.5	11.5	11.4	11.0
18 = 9. Interest expenditure (including FISIM)	EDP.D41 + FISIM	0.10	2.1	2.3	2.1	2.0	1.7
19. Subsidies	D3	0.03	0.6	0.6	0.9	1.0	0.9
20. Gross fixed capital formation	P51	0.32	6.8	6.8	6.0	3.2	3.5
21. Other (21 = 22-(16+17+18+19+20) [6]		1.16	24.9	25.0	25.7	23.5	23.1
22. Total expenditures	TE [1]	2.15	46.2	46.2	46.2	41.1	40.1
p.m. Compensation for public sector employees	D1	:	:	:	:	:	:

[32]Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.
[33]The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).
[34]A plus sign means deficit-reducing one-off measures

Table 2b: General government budgetary prospects

	ESA code	2018	2019	2020	2021	2022
		billion NCU				
Net lending (B9) by sectors						
1. General government	S13	-0.18	-0.09	0.00	0.07	0.07
2. Central government	S1311	-0.17	-0.14	-0.05	0.02	0.02
3. State government	S1312	0.00	0.00	0.00	0.00	0.00
4. Local government	S1313	0.00	0.05	0.05	0.05	0.05
5. Social security funds	S1314	0.00	0.00	0.00	0.00	0.00
General government (S13)						
6. Total revenues	TR	1.97	2.13	2.32	2.21	2.26
7. Total expenditures[35]	TE	2.15	2.22	2.32	2.14	2.19
8. Net borrowing/lending	EDP.B9	-0.18	-0.09	0.00	0.07	0.07
9. Interest expenditure	EDP.D41 incl. FISIM	0.10	0.11	0.11	0.10	0.09
10. Primary balance[36]		-0.08	0.02	0.11	0.17	0.16
11. One-off and other temporary measures[37]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1.11	1.23	1.25	1.29	1.33
12a. Taxes on production and imports	D2	0.86	0.96	0.98	1.01	1.04
12b. Current taxes on income and wealth	D5	0.23	0.25	0.25	0.26	0.27
12c. Capital taxes	D91	0.02	0.02	0.02	0.02	0.02
13. Social contributions	D61	0.52	0.55	0.57	0.55	0.56
14. Property income	D4	0.09	0.09	0.10	0.10	0.10
15. Other (15 = 16-(12+13+14)) [4]		0.25	0.26	0.40	0.27	0.27
16 = 6. Total revenue	TR	1.97	2.13	2.32	2.21	2.26
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1.63	1.78	1.82	1.84	1.89
Selected components of expenditures						
16. Collective consumption	P32	:	:	:	:	:
17. Total social transfers	D62 + D63	0.54	0.60	0.58	0.59	0.60
17a. Social transfers in kind	P31 = D63	0.00	0.00	0.00	0.00	0.00
17b. Social transfers other than in kind	D62	0.54	0.60	0.58	0.59	0.60
18 = 9. Interest expenditure (including FISIM)	EDP.D41 + FISIM	0.10	0.11	0.11	0.10	0.09
19. Subsidies	D3	0.03	0.03	0.04	0.05	0.05
20. Gross fixed capital formation	P51	0.32	0.33	0.30	0.17	0.19
21. Other (21 = 22-(16+17+18+19+20) [6]		1.16	1.15	1.29	1.23	1.26
22. Total expenditures	TE [1]	2.15	2.22	2.32	2.14	2.19
p.m. Compensation for public sector employees	D1	:	:	:	:	:

[35]Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.
[36]The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).
[37]A plus sign means deficit-reducing one-off measures

Table 3: General government expenditure by function

Percentage of GDP	COFOG	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. General public services	1	10.7	10.6	11.7	9.6	9.2
2. Defence	2	1.5	1.7	1.0	1.0	1.1
3. Public order and safety	3	3.6	3.5	3.4	3.3	3.1
4. Economic affairs	4	7.9	8.1	7.4	4.8	5.0
5. Environmental protection	5	0.2	0.2	0.1	0.1	0.1
6. Housing and community amenities	6	0.1	0.1	0.1	0.1	0.1
7. Health	7	5.3	5.4	5.8	5.7	5.7
8. Recreation, culture and religion	8	1.0	1.0	1.1	1.1	1.1
9. Education	9	4.1	3.9	4.0	3.8	3.7
10. Social protection	10	11.8	11.6	11.7	11.5	11.2
11. Total expenditures (item 7 = 23 in Table 2)	TE	46.1	46.1	46.1	41.0	40.2

Table 4: General government debt developments

Percentage of GDP	ESA	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Gross debt [38]		69.2	78.8	72.3	65.1	62.5
2. Changes in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance [39]						
4. Interest expenditure [40]						
5. Stock-flow adjustment						
Of which:						
- Difference between cash and accrual method[41]						
- Net accumulation of financial assets[42]						
Of which:						
- privatisation proceeds						
- Valuation effects and other[43]						
p.m. implicit interest rate on debt [44]						
Other relevant variables						
6. liquid financial assets[45]						
7. Net financial debt (7 = 1 - 6)						

[38] As defined in Regulation 3605/93 (not an ESA concept)
[39] Cf. item 10 in Table 2.
[40] Cf. item 9 in Table 2.
[41] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.
[42] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.
[43] Changes due to exchange rage movement, and operation in secondary market could be distinguished when relevant.
[44] Proxied by interest expenditure divided by the debt level of the previous year
[45] AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5: Cyclical developments

Percentage of GDP	ESA code					
		2018	2019	2020	2021	2022
1. Real GDP growth (%, y-o-y)	B1g	5.1	3.1	3.4	2.8	3.2
2. Net lending for public sector [general government]	EDP.B.9	-3.9	-1.9	0.0	1.3	1.3
3. Interest expenditures	EDP.D.41	2.1	2.3	2.2	1.9	1.7
4. One-off and other temporary measures		0.1	-0.8	0.7	-0.5	-0.7
5. Potential GDP growth (%, y-o-y)		4.2	4.3	3.7	3.0	3.0
Contributions						
- labour		3.5	1.8	0.8	0.3	0.9
- capital		2.3	3.2	3.0	2.5	2.2
- total factor productivity		-0.7	-1.9	-0.4	0.0	0.2
6. Output gap		1.6	0.3	-0.7	-0.9	-0.3
7. Cyclical budgetary component		0.6	0.1	0.0	-0.1	0.0
8. Cyclically-adjusted balance (2-7)		-4.4	-2.0	0.0	1.4	1.3
9. Cyclically-adjusted primary balance		-2.3	0.3	2.2	3.3	3.0
10. Structural balance (8-4)		-4.5	-1.2	-0.7	2.0	2.0

Table 6: Divergence from previous programme

	2018	2019	2020	2021	2022
1. GDP growth (%, y-o-y)					
Previous programme	4.1	2.8	2.3	2.4	:
Latest update	5.1	3.1	3.4	2.8	3.2
Difference (percentage points)	1.0	0.3	1.1	0.4	:
2. Public sector deficit (% of GDP)					
Previous programme	-2.7	-2.2	0.9	2.9	:
Previous programme	-3.9	-1.9	0.0	1.3	1.3
Difference (percentage points)	-1.2	0.3	-0.9	-1.6	:
3. Public sector gross debt (% of GDP)					
Previous programme	70.0	66.99	64.58	60.43	:
Previous programme	69.25	78.75	72.28	65.08	:
Difference (percentage points)	-0.75	11.76	7.72	4.65	:

Table 7: Long-term sustainability of public finances

Percentage of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditures							
Of which: age-related expenditures							
- pension expenditures							
- social security pensions							
- old-age and early pensions							
- other pensions (disability, survivor)							
- occupational pensions (if in general government)							
- health care							
- long-term care (*this was earlier included in the health care*)							
Education expenditure							
Other age-related expenditure							
Interest expenditure							
Total revenues							
Of which: property income							
Of which: from pension contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
Of which: consolidated pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth rate							
Real GDP growth rate							
Participation rate males (aged 20-64)							
Participation rate females (aged 20-64)							
Total participation rates (aged 20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7a: Contingent liabilities

Percentage of GDP	Year 2019	Year 2020
State guarantees	5.7	
Of which: linked to the financial sector		

Table 8: Basic assumptions on the external environment

	Dimension	2018	2019	2020	2021	2022
Short+-term interest rate [1]	Annual average	-0.3	-0.4	-0.5	-0.5	:
Long-term interest rate	Annual average	0.4	-0.3	-0.4	-0.3	:
USD/EUR exchange rate	Annual average	1.18	1.12	1.11	1.11	:
Nominal effective exchange rate	Annual average	2.4	-1.1	-0.1	0	:
Exchange rate vis-à-vis EUR	Annual average	1.00	1.00	1.00	1.00	1.00
Global GDP growth, excluding EU	Annual average	3.8	3.2	3.3	3.4	:
EU GDP growth	Annual average	2	1.4	1.4	1.4	:
Growth of relevant foreign markets	Annual average	2.4	1.7	1.6	1.6	:
World import volumes, excluding EU	Annual average	4.1	0.4	2.1	2.5	:
Oil prices (Brent, USD/barrel)	Annual average	71.5	63.3	57.4	56.1	:

Table 9: Selected employment and social indicators[46]

	Data	Year	Year	Year	Year	Year
1. Labour market participation rate (%)	e	52.7	53.7	54.5	54.7	**56.0**
- male	e	59.5	60.1	61.8	62.2	**64.3**
- female	e	46.2	47.6	47.6	47.5	**48.1**
2. Employment rate (%) total (15+ years old)	e	43.2	44.3	44.9	45.9	**47.5**
- male	e	48.9	49.4	50.5	52.6	**54.5**
- female	e	37.8	39.4	39.4	39.4	**40.8**
3. Unemployment rate (%) total (15+ years old)	e	18.0	17.5	17.7	16.1	**15.2**
- male	e	17.8	17.7	18.2	15.4	**15.2**
- female	e	18.2	17.3	17.1	16.9	**15.1**
4. Long-term unemployment rate (%) total	e	14.0	13.6	13.4	12.4	**11.4**
- male	e	13.8	13.6	13.8	12.2	**11.3**
- female	e	14.1	13.3	12.8	12.8	**11.5**
5. Youth unemployment (%) rate (15-24 years old)	e	35.8	37.6	35.9	31.7	**29.4**
- male	e	(36.0)	(39.9)	36.9	30.7	**33.3**
- female	e	35.4	34.5	(34.6)	33.1	**23.6**
6. Young people (15-24 year old) not in		17.7	19.1	18.4	16.7	**16.2**
7. Early school leavers (18-24 years old), in %		5.1	5.7	5.5	5.4	**4.6**
8. Participation rate in early childhood education	e	5.1	5.7	5.5		
9. GINI coefficient	e	36.5	36.5	36.5	36.7	**34.8 p**
10. Inequality of income distribution S80/S20		7.3	7.5	7.4	7.6	**7.4 p**
11. Social protection expenditures, in % of GDP		26.2	n/a	n/a	n/a	
12. Health expenditures, in % of GDP	e	4.3	n/a	n/a	n/a	
13. At risk-of-poverty before social transfers, % [of						
- social transfers not included in the income	e	31.1	29.4	28.9	31.4	**31.2 p**
- pensions and social transfers not included in the	e	46.5	45.1	44.3*	46.7*	**45.0 p**
14. Poverty risk rate, %	e	24.1	24.4	24.0	23.6	**23.8 p**
15. Relative poverty risk gap, %	e	32.8	36.6	35.6	34.0	**35.3 p**
Labour market participation rate		-	-	-	69.3	**70.5**
- male		-	-	-	77.0	**78.6**
female		-	-	-	61.7	**62.5**
Employment rate (%) of total		-	-	-	58.2	**59.8**
- male		-	-	-	65.2	**66.7**
female		**-**	**-**	**-**	**51.4**	**52.9**

p Preliminary data.

*corrected data.

[46] Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator indicating how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. It is recommended that year X = 2015. In case that no data are available for the year 2015, the data available for previous years (2014, 2013) shall be introduced in the respective columns. For all indicators the values shall be inserted in the table, not the year-on-year change of the values as in some other tables.

[47] For indicator marked "e", EUROSTAT should be available for all candidate countries.

p Preliminary data

Table 10a: Estimate of additional costs of structural reform measures

Priority reform measure No 1: Enhancement of ownership and managerial structure at electric power companies with state-dominant ownership					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	300,000.00	0	0	300,000.00
2021	0	0	0	0	0
2022	0	0	0	0	0
Priority reform measure No 2: Enhancement of intercity scheduled passenger transport in road traffic					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	150,000.00	0	0	150,000.00
2021	0	0	0	0	0
2022	0	0	0	0	0
Priority reform measure No 3: Support to technological modernisation of the manufacturing industry					
Year	Salaries	Goods and services	Subsidies and transfers[48]	Capital expenditure	Total
2020	0	0	215,000.00	0	215,000.00
2021	0	0	300,000.00	0	300,000.00
2022	0	0	300,000.00	0	300,000.00
Priority reform measure No 4: Support to investments in food production sector with the aim of boosting competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	15,000,000.00	0	15,000,000.00
2021	0	0	15,000,000.00	0	15,000,000.00
2022	0	0	15,000,000.00	0	15,000,000.00
Priority reform measure No 5: Diversification of tourism product					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	70,000.00	450,000.00	0	520,000.00
2021	0	100,000.00	500,000.00	0	600,000.00
2022	0	130,000.00	550,000.00	0	680,000.00
Priority reform measure No 6: Implementation of new regulatory framework for public procurement and public-private partnerships policies					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	67,200,00	200,000.00	0	0	267,200.00

[48] Implementation of activities under the first component included lending from IDF, under the loan facility in the amount of 1 million euro in 2020, and 1.2 million euro in 2021 and 2022.

2021	115,200.00	0	0	0	115,200.00
2022	115,200.00	0	0	0	115,200.00
Priority reform measure No 7: Introduction of electronic public procurement system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	32,400.00	15,000.00	400,000.00	0	474,000.00
2021	10,800.00	10,000.00	400,000.00	0	420,800.00
2022	10,800.00	10,000.00	0	0	20,800.00
Priority reform measure No 8: Enhancement and implementation of measures for suppression of informal economy					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0
Priority reform measure No 9: Suppression of informal economy by reforming tax administration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	450,000.00	0	2,700,000.00	3,150,000.00
2021	48,000.00	240,000.00	0	6,850,000.00	7,138,000.00
2022	72,000,00	220,000.00	0	3,850,000.00	4,142,000.00
Priority reform measure No 10: Enhancement of support to micro, small and medium-sized enterprises sector					
Year	Salaries	Goods and services	Subsidies and transfers[49]	Capital expenditure	Total
2020	0	130,407.00	1,780,000.00	0	1,910,407.00
2021	0	130,407.00	1,800,000.00	0	1,930,407.00
2022	0	130,407.00	2,000,000.00	0	2,130,407.00
Priority reform measure No 11: Enhancement of legislative-regulatory framework and further development of infrastructure for broadband internet connection					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	450,000.00	0	0	450,000.00
2021	0	100,000.00	0	0	100,000.00
2022	0	0	0	0	0
Priority reform measure No 12: Improving the legislative and institutional framework for innovation					
Year[50]	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	25,000.00	38,000.00			63,000.00
2021	100,000.00	35,000.00	Estimate needs to be done in line with legislative changes yet to take place		135,000.00

[49] Planned financing amount in the form of approved IDF loans under COSME guarantee fund for 2020 amounts to 9,000,000 euro, 11,000,000 for 2021 and 14,000,000 euro for 2022, from the national public sources of financing.
[50] The baseline year is 2019

2022	100,000.00	35,000.00	Estimate needs to be done in line with legislative changes yet to take place		135,000.00
Priority reform measure No 13: Improving the system of support to innovation and strengthening human resource					
Year[51]	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	2,700,000.00	0	2,700,000.00
2021	0	0	2,150,000.00	0	2,150,000.00
2022	0	0	2,000,000.00	0	2,000,000.00
Priority reform measure No 14: Implementation of measures for trade facilitation in accordance with the WTO Agreement on Trade Facilitation and CEFTA Additional Protocol 5					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	792,500.00	0	0	792,500.00
2021	0	792,500.00	0	0	792,500.00
2022	0	200,000.00	0	0	200,000.00
Priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of apprenticeships with employers					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	6,000.00	0		6,000.00
2021	0	29,000.00	0		29,000.00
2022	0	29,000.00	0		29,000.00
Priority reform measure No 16: Increased participation in labour market, particularly of vulnerable groups of unemployed persons					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	2,000,000.00	0	2,000,000.00
2021	0	0	2,000,000.00	0	2,000,000.00
2022	0	0	2,000,000.00	0	2,000,000.00
Priority reform measure No 17: Adoption of the National Employment Strategy 2021-2014					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0
Priority reform measure No 18: Development of day care service for the old aged					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	7,700.00	15,540.00	0	33,000.00	56,240.00
2021	9,500.00	31,080.00	0	33,000.00	73,580.00
2022	11,300.00	46,620.00	0	33,000.00	90,920.00

[51] The baseline year is 2017.

Table 10b: Financing of structural reform measures

Priority reform measure No 1: Enhancement of ownership and managerial structure at electric power companies with state-dominant ownership								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	300,000.00	0	0	300,000.00
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
Priority reform measure No 2: Enhancement of intercity scheduled passenger transport in road traffic								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	150,000.00	0	0	150,000.00
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
Priority reform measure No 3: Support to technological modernisation of the manufacturing industry								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	200,000.00	0	0	15,000.00	0	0	0	215,000.00
2021	300,000.00	0	0	0	0	0	0	300,000.00
2022	300,000.00	0	0	0	0	0	0	300,000.00
Priority reform measure No 4: Support to investments in food production sector with the aim of boosting competitiveness								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	3,700,000.00	0	0	11,300,000.00	0	0	0	15,000,000.00
2021	3,700,000.00	0	0	11,300,000.00	0	0	0	15,000,000.00
2022	3,700,000.00	0	0	11,300,000.00	0	0	0	15,000,000.00
Priority reform measure No 5: Diversification of tourism product								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	520.000,00	0	0	0	0	0	0	520.000,00
2021	600.000,00	0	0	0	0	0	0	600.000,00
2022	680.000,00	0	0	0	0	0	0	680.000,00
Priority reform measure No 6: Implementation of new regulatory framework for public procurement and public-private partnerships policies								

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	239,000.00	0	0	280,000.00	0	0	0	519,600.00
2021	260,000.00	0	0	0	0	0	0	260,000.00
2022	0	0	0	0	0	0	0	0

Priority reform measure No 7: Introduction of electronic public procurement system

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	47,400.00	0	0	400,000.00	0	0	0	447,400.00
2021	20,800.00	0	0	400,000.00	0	0	0	420,800.00
2022	20,800.00	0	0	0	0	0	0	20,800.00

Priority reform measure No 8: Enhancement and implementation of measures for suppression of informal economy

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Priority reform measure No 9: Suppression of informal economy by reforming tax administration

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	0	4,800,000.00	0	4,800,000.00
2021	48,000.00	0	0	0	0	1,150,000.00	0	1,198,000.00
2022	72,000.00	0	0	0	0	10,000,000.00	0	10,072,000.00

Priority reform measure No 10: Enhancement of support to micro, small and medium-sized enterprises sector

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	1,910,407.00	0	0	0	0	0	0	1,910,407.00
2021	1,930,407.00	0	0	0	0	0	0	1,930,407.00
2022	2,130,407.00	0	0	0	0	0	0	2,130,407.00

Priority reform measure No 11: Enhancement of legislative-regulatory framework and further development of infrastructure for broadband internet connection

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	450,000.00	0	0	450,000.00
2021	0	0	0	0	100,000.00	0	0	100,000.00
2022	0	0	0	0	0	0	0	0

Priority reform measure No 12: Improving the legislative and institutional framework for innovation

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	3,000.00	0	0	0	60,000.00	0	0	63,000.00
2021	35,000.00	0	0	0	60,000.00	0	40,000.00[52]	135,000.00
2022	35,000.00	0	0	0	60,000.00	0	40,000.00[53]	135,000.00

Priority reform measure No 13: Improving the system of support to innovation and strengthening human resource

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	2,250,000.00	0	0	450,000.00	0	0	0	2,700,000.00
2021	1,700,000.00	0	0	450,000.00	0	0	0	2,150,000.00
2022	1,900,000.00	0	0	100,000.00	0	0	0	2,000,000.00

Priority reform measure No br. 14: Implementation of measures for trade facilitation in accordance with the WTO Agreement on Trade Facilitation and CEFTA Additional Protocol 5

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	59,250.00	0	0	533,250.00	200,000.00	0	0	792,500.00
2021	59,250000	0	0	533,250.00	200,000.00	0	0	792,500.00
2022	0	0	0	0	200,000.00	0	0	200,000.00

Priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of apprenticeships with employers

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	6,000.00	0	0	0	0	0	0	6,000.00
2021	25,000.00	0	0	4,000.00	0	0	0	29,000.00
2022	29,000.00	0	0	0	0	0	0	29,000.00

Priority reform measure No 16: Increased participation in labour market, particularly of sensitive groups of unemployed persons

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	2,000,000.00	0	0	0	0	0	0	2,000,000.00
2021	2,000,000.00	0	0	0	0	0	0	2,000,000.00
2022	2,000,000.00	0	0	0	0	0	0	2,000,000.00

Priority reform measure No 17: Adoption of the National Employment Strategy 2021-2014

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Priority reform measure No 18: Development of day care service for the old aged

[52] Activity proposed for a new World Bank loan. Negotiations are underway.
[53] Activity proposed for a new World Bank loan. Negotiations are underway.

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	56,240.00	0	0	0	0	0	0	56,240.00
2021	73,580.00	0	0	0	0	0	0	73,580.00
2022	90,920.00	0	0	0	0	0	0	90,920.00

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2019-2021[54]

Priority reform measure No 1: Improving the ownership, managerial and organisational structure in electrical power companies with state-dominant ownership		Stage of reform implementation (1-5)
Activities planned for 2019	1. Analysis of the ownership, managerial and organisational structure of electrical power companies with state-dominant ownership and the selection of optimal ownership and managerial-organisational models; beginning of implementation of the selected models in priority companies	**3**
Description of implementation and explanation if partial or no implementation	Analysis of the ownership and managerial structure of the *Berze električne energije DOO Podgorica – BELEN* (Electricity exchange company LLC) was conducted, and Norwegian company Nord Pool was selected in competitive procedure as a strategic partner, while negotiations with that company on concluding the agreement are ongoing. Moreover, Terms of Reference are currently being prepared for preparation of the analysis of ownership and managerial structure of EPCG. The reform will continue in 2020.	

Priority reform measure No 2: Improving the legislative-regulatory and institutional framework for integration into the regional electricity market		Stage of reform implementation (1-5)
Activities planned for 2019	1. Transposition into Montenegrin legislation and implementation of Regulation (EU) 347/2013 on the guidelines for the Trans-European Energy Infrastructure	**3**
	2. Transposition into Montenegrin legislation and implementation of Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency	**1**
	3. Creation of a model of national connectivity with the neighbouring electricity markets	**2**
	4. Establishment of an efficient electricity balancing market at the regional level;	**2**
Description of implementation and explanation if partial or no implementation	1. The draft law transposing Regulation (EU) 347/2013 on guidelines on trans-European energy infrastructure was prepared and public debate was conducted in Q1 of 2019. Corrections to the law in line with the suggestions from the Secretariat for legislation are currently underway. The reform will continue in 2020.	
	2. The legislation that will transpose Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency is being prepared. The reform will continue in 2020.	
	3. In order to create the model for interconnection national market with electricity markets of Albania, Italy, and Serbian, the AIMS working group was established. Members of the AIMS working group are representatives of transmission system operators and electricity exchanges from these countries, while the regulatory agencies have an observer role. Relevant analysis is being conducted now. The reform will continue in 2020.	
	4. In order to created conditions for establishing a regional electricity balancing market, CGES is cooperating with transmission system operators from Serbia (EMS) and Bosnia and Herzegovina (NOSBIH) to exchange tertiary balancing energy. CGES became the observer in IGCC - European Imbalance Netting Cooperation, and applied for membership of MARI - European Tertiary balancing energy cooperation. Activities to establish regional Imbalance Netting Cooperation within the block Montenegro,	

[54] Stages of reform implementation: 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation.
The Commission will not accept any tables reporting on the implementation of entity-level measures

	Serbia and North Macedonia (SMM block) are underway. During July 2019, test operation of the optimisation module was carried out, and removal of shortcomings is underway. The reform will continue in 2020.

Priority reform measure No 3: Creating efficient and independent rail transport regulatory and safety authorities		Stage of reform implementation (1-5)
Activities planned for 2019	1. Planned activities are partially implemented. The application of the new Law on State Administration enabled the Railways Administration (formerly Railways Directorate) to be established as an autonomous body, as opposed to the previous period when it was part of the Ministry of Transport and Maritime Affairs. Implementation of the new Law on the Railways will be defined to fall within its competence, in line with the EU regulations and will receive higher degree of independence in its work.	**1**
Description of implementation and explanation if partial or no implementation	1. The Railways Directorate has formally changed its title to the Railways Administration and according to the Law on State Administration has received a higher level of independence in its work, precisely to act independently with respect to the infrastructure manager and carriers. The draft of the new Law on the Railways was prepared and public consultations about the draft will take place in Q4 of 2019. Since the Railways Administration is successfully carrying out its activities for more than five years, the identified challenged in slow procedure for receiving or waiting for the European Commission (Brussels) opinion about the draft Law. The reform will continue in 2020, when the new Law on the Railways should be adopted and its implementation of the new Law on the Railways should start, when all provisions about the work of the regulator the Railways Administration will be tested.	

Priority reform measure No 4: Supporting investments in the development and modernisation of the industrial sector		Stage of reform implementation (1-5)
Activities planned for 2019	Component 1: Fostering new investments in manufacturing and in the services sector, expansion or diversification of the existing manufacturing capacities, focusing on creating new jobs - Programme line for Direct Investments Incentives (Programme for Improving the Competitiveness for the Real Sector for 2019)	**5**
	Component 2: Fostering investments in technological modernisation through the procurement of new or used manufacturing equipment, and new parts/specialised tools necessary for putting unused machines into operation – Programme line for Modernisation of the Manufacturing Industry (Programme for Improving the Competitiveness for the Real Sector for 2019)	**5**
Description of implementation and explanation if partial or no implementation	**Component 1:** Pursuant to the Decree on Direct Investments Incentives, for all concluded Contracts on Use of Funds from 2015 implementation of all six initiated investment projects was finalised and investment cycle completed, with full employment achieved as envisaged under the investment projects (in Q2 of 2019 payments of the last 3rd subsidy instalment was made for two enterprises in the total amount of 120,000 euro). Seven applications were submitted to the Public Call for the Programme line for Direct Investments Incentives, published on 4 April 2019 and closed on 30 September [2019]. The procedure for opening, checking administrative validity and analysis of compliance	

	with the development plans of Montenegro is underway. One application was rejected as incomplete and invalid; while for one application, the analysis of compliance with development plans is underway, and its evaluation will take place at the beginning of 2020. In line with the Decision of the Government of Montenegro on award of funds, total amount of approved funds for these five investments projects is 2,908,500.61 euro, and in line with the defined programme procedure, after the contracts were signed with beneficiaries, the first instalment for subject projects of 969,499.66 euro was paid. The value of tangible and intangible investments for five evaluated investment projects (coming from meat processing, wood processing, tourism, metals and services sectors) will total 18,129,742.33 euro, whereby 364 new jobs will be opened or existing employed persons will continue to work. **Component 2:** In order to strengthen the competitiveness of economic undertakings, to improve business operation, productivity and profitability, by adopting new technologies, the public call for interested undertakings for the Programme line for Modernisation of the Manufacturing Industry was launched in the period 4 April – 10 December 2019. Twelve applications were received from companies operating paper and wood industry, manufacturing of equipment, furniture and building fixtures. The Ministry of Economy Commission has approved 11 applications, after documentation was fully submitted and the entire procedure finalised, under which 155,736 euro of grants were approved by the Ministry of Economy[55] and machinery and supporting equipment was procured in the value of 1,213,786.69 euro.

Priority reform measure No 5: Supporting investments in the food production sector in order to reach EU standards		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. Investment in physical capital of agricultural holdings	**4**
	2. Investment in physical capital in relation to processing of agricultural and fish products	**4**
Description of implementation and explanation if partial or no implementation	These reform measures are being carried out under the Public calls principles. Public Calls for 2 activities were published at the beginning of 2019, contracts on support were signed, and the received requests for payments are being processed with first beneficiaries were paid already. Second public call was launched under the measure Investment in physical capital in relation to processing of agricultural and fish products, which is open until 20 December 2019, and applications for support are being received, to follow with administrative and field checks.	

Priority reform measure No 6: Diversification of tourism product		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. Programme for incentive measures in tourism for 2019/2020.	**4**
	2. Hiking and biking	**4**
	3. All wonders of Montenegro	**0**
	4. Panoramic routes	**4**
Description of implementation and explanation if partial or no implementation	Implementation of the measure All wonders of Montenegro was postponed for 2020.	

[55] Out of allocated 155,736 euro for grants, 116,636 euro was paid. Assistance is approved for two companies of 39,100 euro, and if started investments are fully implemented or the equipment is ordered and installed at the beginning for 2020, the funds will be allocated in the 2020 Programme.

<table>
<tr><th colspan="2">Priority reform measure No 7: Enhancing the framework for prudential supervision of banks</th><th>Stage of reform implementation (1-5)</th></tr>
<tr><td>Activities planned for 2019</td><td>In order to enhance the framework for prudential oversight and resolution of banks which fosters financial stability, a radical reform of the regulatory framework governing banking operations will be conducted in the process of harmonisation of legislation with the new EU law in the area of financial services, in accordance with the timeframe set out in the 2019-2020 Programme of Accession of Montenegro to the EU. For that purpose, a set including three laws will be adopted: the Law on Credit Institutions, the Law on the Resolution of Credit Institutions and the Law Amending and Supplementing the Law on Bankruptcy and Liquidation of Banks, and after that the Law on Supplementary Supervision of Financial Conglomerates will be adopted as well. This is in line with policy guidance No. 3 of the Joint Conclusions from the meeting of EU ministers and Western Balkan countries held in May 2018.</td><td>5</td></tr>
<tr><td>Description of implementation and explanation if partial or no implementation</td><td colspan="2">The measure is fully implemented.
The Parliament of Montenegro adopted the Proposal of the Law on Credit Institutions, the Law on the Resolution of Credit Institutions and the Law Amending and Supplementing the Law on Bankruptcy and Liquidation of Banks on 2 December 2019. The Law on Supplementary Supervision of Financial Conglomerates is planned for adoption in Q4 of 2020.</td></tr>
</table>

<table>
<tr><th colspan="2">Priority reform measure No 8: Implementing the new regulatory framework of the policy on public–private partnerships Law and amending the Law on Concessions</th><th>Stage of reform implementation (1-5)</th></tr>
<tr><td rowspan="4">Activities planned for 2019</td><td>1. Adoption and commencement of implementation of the Law on Public–Private Partnerships, the new Law on Public Procurement and amendments to the Law on Concessions.</td><td>4</td></tr>
<tr><td>2. Providing expert assistance in adopting secondary legislation based on the Law on Public–Private Partnerships.</td><td>2</td></tr>
<tr><td>3. Preparation of the strategic document for public–private partnerships with the activities set out in it for the next medium-term period should be finalised with its adoption by the end of 2019 and would complement the Strategy for Development of the Public Procurement System by the end of 2020.</td><td>5</td></tr>
<tr><td>4. Training and informing the line institutions, local self-governments and the private sector about the new regulatory framework</td><td>2</td></tr>
<tr><td>Description of implementation and explanation if partial or no implementation</td><td colspan="2">1. The Law on Public–Private Partnerships, the Law on Public Procurement and amendments to the Law on Concessions were submitted to the parliamentary procedure, and deliberation of members of the Parliament for all three laws is expected until the end of 2019.
2. Expert assistance in adopting secondary legislation will be provided in 2020.
3. On 4 July 2019, the Government of Montenegro has considered the Action Plan – Reform Agenda for Public Procurement and Public–Private Partnerships policies for the period July 2019 –December 2020
4. Training plan was prepared; implementation is expected following the adoption of three laws.</td></tr>
</table>

Priority reform measure No 9: Adoption and implementation of the Law on Administrative Fees		Stage of reform implementation (1-5)
Activities planned for 2019	The Law on Administrative Fees was adopted in March 2019. In accordance with the provision of Article 9, precisely the obligation of local self-government units to align their regulations – decision on administrative fees, with this Law by 31 July 2019, the Government of Montenegro has issued consent for six decisions.	**5**
Description of implementation and explanation if partial or no implementation		

Priority reform measure No 10: Adoption of the Law on Electronic fiscalisation in transactions in goods and services and implementation of the electronic fiscalisation system		Stage of reform implementation (1-5)
Activities planned for 2019	1. Adoption of the proposal for the Law on Issuing Electronic fiscalisation in transactions in goods and services and its adoption in parliamentary procedure	**5**
Description of implementation and explanation if partial or no implementation	1. On the session held on 6 June 2019, the Government of Montenegro adopted the Proposal of the Law on Issuing Electronic fiscalisation in transactions in goods and services; The Proposal of the Law was submitted to the parliamentary procedure on 17 June 2019 and considered at the 10th sitting of the first regular session in 2019. It was adopted on 31 July 2019. Fully implemented	

Priority reform measure No 11: Enhancement of support to micro, small and medium-sized enterprises sector		Stage of reform implementation (1-5)
Activities planned for 2019	Reform measure pertains to implementation of programme lines for financial support and non-financial support to MSMSEs. 1. Implementation of the ***financial*** support: a) Programme Line for Improving Innovation; b) Programme Line for introduction of International Business Standards; c) Programme Line for Cluster Development; d) Preparation of Pilot grant scheme for innovative MSMEs and clusters (IPA 2014); e) Implementation of LGF COSME credit guarantees; f) Promotional activities and training courses on how to use instruments for investing in equity capital of ENIF fund.	**5**
	2. Implementation of the ***non-financial*** support: a) Programme Line for Support to Entrepreneurship; b) Programme Line for the provision of Mentoring Services; c) Provision of advisory services of EEN Montenegro	**5**
Description of implementation and explanation if partial or no implementation	1. The Ministry of Economy has prepared the Programme for the Improvement of Real Sector Competitiveness in 2019, which consolidated programmes intended for development of entrepreneurship and SME sector. The following text provide the 2019 implementation, by programme lines: a) Programme Line for Improving Innovation; The Public call for implementation of the Programme for the Improvement of Real Sector Competitiveness in 2019 was issued on 4 April and closed on 30 September 2019.	

	As of 2 December 2019, payment of subsidies for 22 projects in total value of 6,559 euro (amount of subsidy by company is up to 3,500 euro without VAT) under the Programme Line for Improving Innovation. b) Programme Line for introduction of International Business Standards The Public call for implementation of the Programme for the Improvement of Real Sector Competitiveness in 2019 was issued on 4 April and closed on 30 September 2019. The Programme Line for introduction of International Business Standards was further improved through support for additional standards dealing with the IT sector, energy efficiency and tourism sector. As of 2 December 2019, payment of subsidies for 71 projects in total value of 268,520.55 euro (amount of subsidy by company is up to 5,000 euro without VAT) under the Programme Line for introduction of International Business Standards. c) Programme Line for Cluster Development The Public call for implementation of the Programme for the Improvement of Real Sector Competitiveness in 2019 was issued on 4 April and closed on 30 September 2019. In 2019, as of 12 December 2019, payment of subsidies for 7 clusters in total value of 56,501.93 euro (amount of subsidy by cluster is up to1 5,000 euro without VAT) under the Programme Line for Cluster Development. d) Preparation of Pilot grant scheme for innovative MSMEs and clusters (IPA 2014) Activities to prepare the public call for the pilot grant scheme for innovative MSMEs and clusters are underway. The pilot grant scheme is envisaged to operate based on innovation vouchers, while the activities that could be financed from it include advisory and expert services for improvement of operation of SMEs and clusters. The plan is to launch the public call by the end of 2019. e) Implementation of LGF COSME credit guarantees In March 2019, the Investment and development Fund has signed a guarantee facility with the European Investment Fund, under the COSME programme for the segment the Loan Guarantee Facilities for risk categories, in the value of 75 million euro. Implementation of the guarantee schemes started in November 2019 in form of two specialised credit lines: EU COSME programme of support to increments – for loans intended for fixed assets investments, and EU COSEM programme for financing operating assets – for loans intended for purchase of goods, raw material, semi-finished products and finished products. f) Promotional activities and training courses on how to use instruments for investing in equity capital of ENIF fund Under implementation of the new financial instruments, investments in equity capital for start up and innovative SMEs (WB EDIF programme – ENIF - Enterprise Innovative Fund where IDF is one of the investors), financing for 2 start-up enterprises from Montenegro were approved. Total value of investments in the venture capital was 430,000 euro. 2. Implementation of the ***non-financial*** support: a) Programme Line for Support to Entrepreneurship; During 2019, the Ministry of Economy launched 2 public calls for participation in the Programme line for entrepreneurship development. First public call was launched in the period from 2 April to 31 May 2019. Under this first public call, 12 applications were submitted, of which 2 applications have not fulfilled basic criteria and requirements that were defined by the Public Call. Other 10 candidates have attended the entrepreneurial education cycles earning in that way right for their business idea to be further considered. Nine business plans were sent to the IDF for final decision

	during June 2019. Second public call was launched in the period from 1 to 30 September 2019, where 10 applications were received that meet requirements. All 10 candidates have attended the entrepreneurial education cycles and 10 business plans were prepared that were submitted to the IDF for final decision. b) Programme Line for the provision of Mentoring Services; As part of implementation of the 2nd phase for the project *Establishing and Promoting Mentoring Services in Small and Medium-sized Enterprises in the Western Balkans Countries* 12 new mentors were trained during 2019 in order to upgrade existing knowledge for providing services to SMEs. Mentors took training in the following modules: mentoring for existing and start-up enterprises, marketing, production management, business communication, human resources development, financial management, and writing business plans. Public Call was launched in May 2019 for selection of mentoring services and 18 enterprises have applied, and 10 fulfilled requirements and criteria set in the Public Call. Plan is for mentoring services for 10 beneficiaries to be finalised by the end of 2019 c) Provision of advisory services of EEN Montenegro During 2019, EEN Montenegro has organised 20 business missions and events. Furthermore, 10 promotional events were organised with more than 400 participants. Upon request of enterprises 270 information were provided. In May EEN Montenegro hosted a business even IV EUSAIR Forum with more than 100 representative of SMEs and various organisation of the Adriatic-Ionian region, as well many EC representatives. Seven contracts were signed on cooperation between Montenegrin SMEs and foreign partners thanks to these business events.

Priority reform measure No 12: Improving the legislative-regulatory framework with the aim of reducing the costs of deploying high-speed electronic communication networks		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. Adoption of the Proposal of the Law by the Government of Montenegro	**5**
	2. Completion of the mapping process	**4**
	3. Testing the market potential, drafting the national plan for broadband roll-out in Montenegro and coverage of the population with new-generation access networks	**2**
Description of implementation and explanation if partial or no implementation	1. At the session of the Government of Montenegro held on 19 December 2019, the Law on Access to and Installing High-Speed Electronic Communication Networks was considered and adopted, which fulfils the set deadline of end 2019 2. Implementation of the activity is envisaged for beginning of 2020. 3. Grant for the drafting of the national Plan for Development of the Broadband Internet Access in Montenegro was secures, and implementation of the activities is planned for the period 2020-2021.	

Priority reform measure No 13: Strengthening the national innovative ecosystem		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. Programme of Innovation Grants	**4**
	2. Programme of Centres of Excellence	**4**
	3. Call for Applications for Grants for Scientific Research Projects	**4**
	4. Scheme for Doctoral Fellowships	**4**

	5. Measure 2.4. "Support to employment of doctoral degree holders in academic institutions and / or business sector" (IPA II, Sector "Education, Employment and Social Policy"). Scheme for Doctoral Fellowships	**4**
	6. Implementation of expert assistance with a view to preparation of specification for procurement of equipment for two laboratories of IPC Tehnopolis and Data Centre	**4**
	7. Establishment and design preparation for STP in Podgorica	**4**
	8. EUIF "Preparation for efficient functioning of STP in Podgorica"	**4**
	9. Activities on the establishment of a Technology Transfer Office at the University of Montenegro (UoM)	**3**
	10. Activities on the start of the Preparatory Phase for the South East European International Institute for Sustainable Technologies (SEEIIST)	**4**
	11. Programme of incentives for promoting innovative start-ups (2019-2021)	**4**
Description of implementation and explanation if partial or no implementation	**1. Programme of Innovation Grants** Through the implementation of a call for applications under the Programme of Awarding Grants for Innovation Projects (2018-2020), following a two-stage international evaluation, ten grants for innovative projects were accepted for co-financing. The total value of approved innovative projects is EUR 1,172,529, while the amount of co-financing by the Ministry of Science (grants) amounts to EUR 730,834. The adoption of the Smart Specialisation Strategy (2019-2024) was followed by the adoption of the Collaborative Innovation Programme (2019-2024) (the last year's programme has been renamed), which relies on the priorities identified in the Strategy and is one of its implementing instruments. The Collaborative Programme provides for implementation of at least two calls for applications for grants for innovative projects, the first of which was announced on 5 July 2019, with a total funding of EUR 700,000. The deadline for submission of project proposals was 20 September 2019 and 34 applications were received. After a two-stage international evaluation, eight grants for innovative projects were accepted for co-financing. The total value of approved innovative projects is EUR 909,488.92, while the amount of co-financing by the Ministry of Science (grants) amounts to EUR 614,432.02. In the reporting period, the Ministry of Science spent EUR 363,869.56 on the basis of payment of funds for the second and third tranche of the ten already approved innovative projects, as well as for the first tranche of eight new projects. **2. Programme of Centres of Excellence** A call for applications for establishing centres of excellence was announced on 28 September 2018, with 29 March 2019 as the deadline for submission of project applications. Following a two-stage international evaluation, the Ministry of Science has commenced negotiations with the two best-ranked projects and agreed to co-finance two centres of excellence in the fields of food safety and biomedicine. In the reporting period, the first tranche for centres of excellence in the amount of EUR 250,000 was paid. **3. Call for Applications for Grants for Scientific Research Projects** A call for applications for grants for scientific research projects was announced in 2018. By the expiry of the deadline for applications, 72 project proposals were submitted. In late February 2019, the Ministry of Science completed the evaluation process, accepting 15 research projects for co-financing. An individual grant of the Ministry amounts up to EUR 100,000, or up to EUR 130,000 if the project also provides for the employment of young researchers, doctoral and / or postdoctoral students. The implementation of these projects commenced on 1 April 2019, with the total value of the projects amounting to EUR	

	1,541,768, of which co-financing by the Ministry of Science (grants) amounts to EUR 1,218,7861.20. In the reporting period, the Ministry of Science paid EUR 677,446.22 for the purposes of these projects. **4. Scheme for Doctoral Fellowships** The implementation is currently underway of the first year of 19 doctoral research fellowships approved under the Public Call for Applications for Doctoral Research Fellowships at the Universities in Montenegro in 2018/2019. This is the first in a series of public calls for applications, aiming to form, in a three-year period, a critical mass of about 50 young researchers who will engage in full-time research. The total amount of funds earmarked for this purpose for three years amounts to EUR 746,700. The Ministry of Science published the second Public Call for Applications for Doctoral Research Fellowships at the Universities in Montenegro in 2019/2020 on 24 April 2019. By the expiry of the application deadline (25 June 2019), 33 applications were submitted, and after evaluation, 17 scholarships for doctoral research were accepted for funding, in the total amount of EUR 743,302. In the reporting period, EUR 200,000 was paid for these purposes. **5. Measure 2.4. “Support to employment of doctoral degree holders in academic institutions and / or business sector” (IPA II, Sector “Education, Employment and Social Policy”)** In March 2019, the Call for Applications was published for Grant Scheme for Innovative Project Ideas under IPA II Sectoral Operational Programme for Employment, Education and Social Policies (SOPEES) 2015-2017. The total amount of grant funding is EUR 1 million, and 47 applications were received under the public call for project concept notes by expiry of the application deadline (18 March 2019), of which 23 were selected for the full applications evaluation phase. The negotiation phase is underway, and contract signing for the selected project ideas is expected in January / February 2020. Within the same Sectoral Operational Programme, the amount of EUR 117,647.06 was approved for technical assistance in the preparation and implementation of the above projects. **6. Implementation of expert assistance with a view to preparation of specification for procurement of equipment for two laboratories of IPC Tehnopolis and Data Centre** Specification of equipment for IPC “Tehnopolis”, training of staff of IPC “Tehnopolis” and expert support for the finalisation of the Smart Specialisation Strategy (S3) were approved under the Technical Assistance Agreement signed with the French expertise company “Expertise France” in November 2018 – the implementation of this agreement is underway. Activities related to S3 and equipment specification for two laboratories of IPC Tehnopolis and Data Centre have been finalised. In September 2019, a tender for the procurement of equipment for two laboratories and Data Centre (worth MEUR 1) was announced, and bid evaluation process is underway. The total value of the equipment is MEUR 1. **7. Establishment and design preparation for STP in Podgorica** The Agreement on the Establishment of the Science and Technology Park of Montenegro (STP MNE) between the Government of Montenegro and the University of Montenegro was accepted by the Government of Montenegro at its session held on 17 January 2019, and by the Governing Board of the University of Montenegro at its session held on 26 December 2018. Based on Article 30 of the Agreement, the acting CEO of STP MNE was appointed. The Statute of STP MNE were adopted by the founders: Government of Montenegro at its session held on 25 July 2019, and the University of Montenegro at the session of Steering Board of the University held on 19 July 2019.

	At its session held on 6 June 2019, the Government of Montenegro appointed three members of the Board of Directors of STP MNE. On the other hand, in accordance with its share in STP MNE, the University of Montenegro has appointed two members in the same body. By registration in the Central Register of Business Entities of Montenegro on 20 September 2019, STP CG started its operation in a temporary office space with accompanying logistics in the premises of the Rectorate of the University of Montenegro. The technical project documentation has been finalised, and a tender for public works on the adaptation of the facility where STP MNE will be located was published on 26 December 2019. The total amount of funds spent for these purposes is EUR 139,400, including: EUR 121,000 for preparation of technical documentation for the adaptation of the STP building – financed from a World Bank loan under the HERIC project, EUR 14,500 for review – from the budget, and EUR 3,900 for the preparation of the visual identity and the STP web portal – from a World Bank loan. In the meantime, work will be done in parallel to strengthen the STP management structure, develop future programmes and services to be offered to the community, as well as to provide for international networking and find strategic partners. **8. EUIF "Preparation for efficient functioning of STP in Podgorica"** Based on the Financing Agreement for the Annual Action Programme for Montenegro for 2017 (signed on 17 December 2018), as the implementing/contracting authority, the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) of the Ministry of Finance has, in cooperation with the project implementation unit at the Ministry of Science (PIU), prepared a package of tender documentation for the contract on services "Support to the process of establishing the first Science and Technology Park in Montenegro". The Delegation of the European Union to Montenegro (EUD) formally approved the tender dossier on 2 July 2019 (Ref. Ares (2019) 4181384). The tender was published in November 2019, with final deadline of 6 December. Evaluation is underway. The start of the service agreement is expected in March 2020. **9. Activities on the establishment of a Technology Transfer Office at the University of Montenegro (UoM)** The Technology Transfer Office is planned by the adopted Act on Classification of Jobs of the "Centre of Excellence in Research and Innovation" Institute. The adoption of the Intellectual Property Strategy of the University of Montenegro is delayed because the expert is late in delivering the draft document, which is why it was postponed to 2020, when the activities for establishing the Office will be defined in more detail. **10. Activities on the start of the Preparatory Phase for the South East European International Institute for Sustainable Technologies (SEEIIST)** The Preparatory phase of the SEEIIST project (Design Study Phase) involves the preparation of a Technical Design Study, a Business Plan, as well as the establishment of site conditions. The Memorandum of Cooperation Framework for the SEEIIST, which establishes the joint activities of the countries participating in the implementation of the Preparatory Phase, was signed by six prime ministers of countries of the Region during the Berlin Process Summit held on 5 July 2019 in Poznan, Poland. A Project Group has been set up, whose members are experts from Western Europe and the Region. The group coordinator is a renowned German scientist, Dr. Horst Wenninger. Three working groups were also established: one for accelerator design, one for R&D aspects (biomedical research), and one for legal aspects, business plan and site conditions. The European Commission's Directorate-General for Research and Innovation (DG RTD) recognised the importance of the project and provided the first financial support of MEUR 1 (contracted funds), which enabled the start of the preparatory phase.

	Following the SEEIIST Forum, held in Trieste in January 2018, which formalised the first phase of the project, a SEEIIST Kick-off Event was held on 18 September, familiarising the public with the progress of the project that has already entered the second phase – the Design Study phase, which, in addition to the aforementioned Study, includes the Business Plan and the constitution of the Institute. The implementation of this phase requires an additional MEUR 3 for which a project application has been submitted through the competitive EU Framework Programme H2020. It is a project under the acronym HITRI (Heavy Ion Therapy Research Infrastructure). Activities are expected to commence on the implementation of legal preconditions for the establishment of the Institute. In the reporting period, EUR 100,000 was spent on this activity from the budget. **11. Programme of incentives for promoting innovative start-ups (2019-2021)** The Government of Montenegro has adopted the Programme of support for promoting innovative start-ups (2019-2021) on 27 December 2018. Under the Programme, several activities have been implemented: • A call for applications for strategic partner for pre-acceleration programme was announced on 26 July 2019. The deadline for submission of applications was 15 September 2019. Two pre-acceleration co-financing programmes were accepted in the amount of EUR 130,000. • Three new items are being implemented under the call for applications for co-financing scientific research and innovation activities (fostering innovation culture, summer and winter schools in S3 areas and visiting lecturers in S3 areas) to support the implementation of the programme. So far, funds spent for these purposes have amounted to EUR 62,345. • A Study was done on required legislative amendments, funded by the World Bank loan under the HERIC project, in the amount of EUR 20,300, while the Interministerial working group on legislative amendments was formed. • The Council for Innovation and Smart Specialisation was formed and its composition was determined (August 2019).

Priority reform measure No 14: Implementing trade facilitation measures in line with the WTO Trade Facilitation Agreement and CEFTA Additional Protocol No. 5		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. Appointing focal points;	**5**
	2. Implementation of the programme of authorised business operators;	**4**
	3. Procurement of the IT equipment necessary for establishing the NCTS and inclusion in SEED+	**5**

Description of implementation and explanation if partial or no implementation	1. Information focal points of line ministries in charge of cross-border trade (Ministry of Economy, Ministry of Finance, Ministry of Agriculture and Rural Development, Customs Administration, and the Administration for Food Safety, Veterinary and Phytosanitary Affairs) were provided to the World Trade Organisation under the Notification on Transparency, adopted by the WTO Trade Facilitation Committee on 25 June 2019. **Fully implemente**d 2. Proposal of the Decree Amending and Supplementing the Decree on Conditions for Approving the Authorised Business Operator Status in the Customs Territory of Montenegro was adopted on the session of the Government of Montenegro held on 18 July 2019. The Decree is fully aligned with the relevant European Union regulations in this field. Four business undertakings (of which one performs representation tasks before the customs authority) are part of the pilot project for getting this status. **Mainly implemented** 3. Contract for procurement of the IT equipment necessary for establishing the NCTS is fully implemented within the envisaged deadline. Activities from the contract for support and contract for implementation are being implemented in line with the set schedule. During the first seven months of the NCTS project (end November 2018 to 30 June 2019), the gap analysis of csutsoms regulations relative to the EU directives and Convention on a common transit procedure was developed, and system for managing guarantees, System for managing risks and the transit system. **Fully implemente**d

Priority reform measure No 15: Development of qualifications and education curricula in accordance with the labour market needs		**Stage of reform implementation (1-5)**
Activities planned for 2019	1 Development of occupational standards, qualifications and education curricula and training teachers on how to implement the curricula	**5**
Description of implementation and explanation if partial or no implementation	1. Development of qualifications includes development of occupational standards and qualifications standards. Standards are the basis for the curricula, which are modular and valued in credits. The occupational standards are being prepared in cooperation with employers and in such manner enable connection of the education system and the labour market. Total of 65 qualifications standards were adopted in 2019, of which 50 qualifications for occupation standards, 15 standards for qualifications of levels and 15 curricula. For the school year 2019/2020, 12 new curricula, of which 8 curricula for the four- year duration and 4 for the three-year duration were prepared and adopted by the National Education Council. Furthermore, three curricula were adjusted to the needs of students with special educational needs. Total of 240 members of working groups were trained to develop qualifications and curricula and 275 teachers for implementation of the curricula.	

Priority reform measure No 16: Implementation of apprenticeship with employers		**Stage of reform implementation (1-5)**
Activities planned for 2019	1. A minimum of 500 students will be educated in the dual education form with employers in the 2018/2019 school year	**5**
Description of implementation and explanation if partial or no implementation	1. Basis for a successful education is good quality practical education being carried out in real working environment in cooperation with employers. On-the-job learning in the real working environment enables students to develop system of permanent and applicable knowledge and skills and competence for participation at the labour market.	

	During the 2018/2019 school year, the dual education was attended by 579 students with 189 employers in 26 vocational and mixed curricula schools, in 18 municipalities and under 15 curricula.

Priority reform measure No 17: Support for self-employment and strengthening of local employment initiatives		Stage of reform implementation (1-5)
Activities planned for 2019	1. Implementation of a self-employment programme, through 400 grants to unemployed people registered with the Employment Office through three annual calls. The fist public call for award of self-employment grants for around 1.1 million euro was published on 14 October 2019. By the closing date (27 November 2019), 135 applications were received. The first phase of evaluation is underway.	**3**
Description of implementation and explanation if partial or no implementation	3. The project "Further development of local employment initiatives" which relate strengthening of local employment initiatives with the aim of improving the capacity of local players through support in the identification occupations in deficit, development of local strategies, and employment plans, as well as development of active labour market policy measures fitted to the local level. 4. The programme officially started on 2 September 2019 and the following activities were implemented by mid December 2019: – Meetings held with representatives of local self-governments in Montenegro; – Trainings held for drafting local partnership in all three regions of Montenegro; – Analysis of partnership performed for employments under the previous project which covers 4 pilot municipalities; – Proposal of the methodology drafted for implementation of the labour market analysis at the local labour market; – Training held for labour market analysis in all regions;	**3**

Priority reform measure No 18: Development of day care service for the old aged		Stage of reform implementation (1-5)
Activities planned for 2019	1. This measure is implemented continuously and so far, 12 day-care centres were organised. The EPR 2019-2021 has planned for 2019 for scope of service provision to be expanded with the opening of three more day-care facilities for the elderly.	**4**
	2.	
	3.	
Description of implementation and explanation if partial or no implementation	Two day-care centres were opened so far in 2019, the Elderly Care Center Grabovac in Risan and one in the Petnjica Municipality. Activities on opening one more day-care centre for the elderly in the Pljevlja Municipality are underway.	

Priority reform measure No 19: Incentive for including children in sports activities		Stage of reform implementation (1-5)
Activities planned for 2019	Since membership fees for children are a burden for parents' budget, in particular where more children from a single family are engaged in sports activities, the aim of this project is to provide incentives for	**0**

	children to take part in sports activities so that the State would co-finance part of the membership fee in the sports clubs. In this context, during 2019 sports that will be subject of co-financing were selected based on representativeness, number of participants, tradition, as well as core sports, which are key for proper child development. The level of the co-financing for the membership fees will depend on the number of children that have applied, as well as on the funds allocated in the Budget for development of sports for children.	
Description of implementation and explanation if partial or no implementation	1 The only reason this project has not started in 2019, is that the information from sports associations on number of children practicing sport is not yet provided; however, this project should start in Q1 of the following year.	

Annex 3: External contributions to the drafting of the 2020-2022 Economic Reform Programme

COMMENTS TO THE DRAFT PROGRAMME

1. Contribution of stakeholders to the consultation process and the round table.

The representatives of broader public were engaged at the initial phase of drafting the Programme. Therefore, on 6 September a meeting was held with the representatives of private sector, NGO, local community and other stakeholders. In order to improve the text of the Programme all the representatives were invited to give their contribution and provide their comments and suggestions by 20 September. In addition, the Montenegro Draft Economic Reform Programme 2020-2022 was subjected to public consultation from 3 December 2019 to 23 December 2019, and during this process a Round Table was organised on 20 December. The Round Table was attended by the representatives of economic associations, the Union of Free Trade Unions of Montenegro, the representatives of Bijelo Polje Municipality and the Capital Podgorica, the representatives of the embassies of the United States and Great Britain, the representatives of the European Union Delegation to Montenegro, the World Bank, the Statistics Administration, the Central Bank, and many other stakeholders. During the entire consultation process, suggestions and comments were provided by 8 representatives of broader public and stakeholders.[56] A large number of the mentioned suggestions was considered and incorporated in the text of the document.

1.1 Responses to the comments received in written form following the consultation meeting held on 6 September.

Representatives of the Montenegrin Foreign Investors' Council. Financial sector area: asset quality monitoring. The Central Bank should carefully monitor the fast growing cash credits with long maturity as to restrict potentially adverse systemic effects.
Response of the drafter: The suggestion is accepted. A detailed rationale is provided in Chapter 2, point 4 and Chapter 3, point 3.1.5.

Representatives of the Montenegrin Foreign Investors' Council. Business environment and reduction of informal economy – Specification of comprehensive measures focused on the basic causes of the existence of informal economy.
Response of the drafter: The suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 8: Enhancing and implementing measures for suppression of informal economy and priority reform measure No 9: Suppression of informal economy by reforming tax administration.

Representatives of Mojkovac Municipality: They pointed out the need for improvement of revenues, as well as the significance of work of financial and market inspection, inspection audit of returns of employees in view of increasing revenues.
Response of the drafter: The adoption of the Law on Local Self-Government Financing created the conditions for increasing local self-government revenues and thus the conditions were also created for local self-governments to balance their finances. More details can be found in Chapter 2 point 2 and Chapter 4, point 4.9.

Representatives of the Chamber of Commerce: Adoption and implementation of the Labour Law.
Response of the drafter: The suggestion is accepted. A new Labour Law was adopted in December 2019.

[56] According to the methodology guidance for Economic Reform Programme development, a restricted number of pages for each chapter is determined, and given the large number of received comments, the responses to them are given in a short form.

Representatives of the Chamber of Commerce: Reduction of labour costs.
Response of the drafter: The suggestion is accepted. The labour costs are reduced through decreased contributions for compulsory health insurance payable by employers in the amount of 2p.p.

Representatives of the Chamber of Commerce: Development of qualifications and education programmes in line with the labour market needs and implementation of practical learning with employers.
Response of the drafter: Suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of apprenticeships with employers.

Representatives of the Chamber of Commerce: Connecting of tourism and agriculture by incorporating traditional domestic products in the modern tourism offer, in view of increasing the level of quality and competitiveness of tourism offer of Montenegro and achieving all-year tourism season by creating a joint tourism product.
Response of the drafter: The suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 5: Diversification of tourism product.

Representatives of the Chamber of Commerce: Implementing measures for trade facilitation in accordance with the WTO Agreement on Trade Facilitation and CEFTA Additional Protocol 5.
Response of the drafter: More details can be found in Chapter 5, priority reform measure No 14: Implementing measures for trade facilitation in accordance with the WTO Agreement on Trade Facilitation and CEFTA Additional Protocol 5.

Representatives of the Union of Employers: Enhancement of regulatory framework. In spite of the evident changes and positive steps made in recent years, business practice of economic entities and the data obtained from the research carried out by the Union of Employers show that the regulatory framework in Montenegro is still such that it does not encourage the growth of enterprises (assessed by more than 90% respondents – business entities). With regard to that, the following problems are identified: inconsistent and/or selective application of regulations, inefficient and expensive administration, overlapping of competencies of institutions (division of powers and bad coordination among different state authorities, then state authorities and local self-government authorities – which leads to superfluous, complicated and expensive procedures), costs related to payment of salaries which are still high.
Response of the drafter: This recommendation is of systemic nature and is covered by several strategic documents of the Government of Montenegro. The ERP covers it under Chapter 2 point 4 and Chapter 5, the measures relating to business environment and employment and labour market.

Representatives of the Union of Employers: Reduction of informal economy (translation to formal streams)**.**
Response of the drafter: The suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 8: Enhancing and implementing measures for suppression of informal economy and priority reform measure No 9: Suppression of informal economy by reforming tax administration.

Representatives of the Union of Employers: Easier access to finances.
Response of the drafter: The suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 10: Enhancing support to micro, small and medium-sized enterprises sector.

Representatives of the Union of Employers: Adjustment of education system to the needs of economy.
Response of the drafter: Suggestion is accepted. More details can be found in Chapter 5, priority reform measure No 15: Establishment of a system of continuous monitoring of the quality of apprenticeships with employers.

Representatives of the Union of Employers: Strengthening of the role and influence of the Social Council of Montenegro.
Response of the drafter: The suggestion is accepted through the adoption of a new Law on Social Council in 2018 which significantly enhanced this area.

Representatives of the Union of Employers: Incorporate the priorities of the national “Montenegro Decent Work Programme (DWCP) 2019-2021” in the new ERP and include the goals of the UN Sustainable Development Agenda 2030 (SDG) in the new ERP – with a special focus on SDG 8.
Response of the drafter: In March 2019, Montenegro concluded the Decent Work Programme 2019-2021. Three priorities in the Programme 2019-2021 with a total of eight outcomes are: strengthening of the mechanism of social dialogue and collective negotiation, creating favourable employment conditions and sustainable entrepreneurship and bringing informal economy into the formal framework. Most priorities from the Programme have been acknowledged in the measures of Chapter 5 relating to the business environment, reduction of informal economy, skills and education, and employment and labour market.

Representatives of the Union of Free Trade Unions of Montenegro: The proposal is that the new Economic Reform Programme should include the following measures: increase of minimum wage from 222 to 250 euro; the new Programme should incorporate an initiative regarding the resolving of the housing issue by offering specific solutions for overcoming the existing problems, which are related to using the Montenegrin Solidarity Housing Construction Fund as a platform for building social apartments that would be offered to citizens for rent at affordable prices, and the rental funds would be used for maintenance of the existing and construction of new housing units that would be under the ownership of the state; introduction of the persons involved in informal labour into legal employment; due to a number of increased prices and tax rates, and taking into account that the coefficient calculation value (minimum labour price) in the period 2007-2019 increased by only 5 euro net, i.e. from 55 euro as was in 2007 to the current 60.3 euro net, the increase of wages must be the first of systemic measures that need to be undertaken in view of preventing outflow of labour force from Montenegro; reinstate VAT rate to the original level; discontinue generation of new tax debt; increase profit tax for everybody or only for profit exceeding a specific amount; for legal entities and entrepreneurs introduce tax on financial transactions exceeding a specific limit; abolish tax and other concessions to privileged companies, primarily due to the fact that many of them leave space for manipulation to the detriment of the budget; increase the amount of initial capital; implement pension reform; ensure rational spending of budgetary funds by increased level of responsibility; be more efficient in detecting and confiscating illegally acquired property; abolish or limit to 6 months the privilege of public officers to be entitled for a year, or two if that is what is left to their retirement, to salary compensations from the budget.
Response of the drafter: The proposed suggestions are related to a wide spectrum of competencies, from economic policy to rule of law. As such, they can’t be all recognised in the Economic Reform Programme. We would like to point out that the detailed responses to each individual proposal are given in the Economic Reform Programme 2019-2021. Additionally, we would like to point out that in relation to the previous year, suggestions were accepted with regard to increase of minimum wage, reduction of burden on labour, adoption of labour law, and combat against informal economy.

Representatives of Bijelo Polje Municipality: Proposed is the reduction of taxes and contributions on salaries in the north of Montenegro because of their lagging in the development behind the rest of the country and the problem of high unemployment; for all hospitality facilities in the north providing services of a specific quality level, VAT rate should be lowered to 7 percent given that the strategic commitment of the north is the development of summer and winter tourism; analyse impact of tax rates, whether they have a stimulating impact on agricultural production and see if it is possible to further lower VAT on inputs used as raw materials for agricultural production.

Response of the drafter: Proposals will be considered on the occasion of adopting the legislative framework from the area of tax system and particularly analysed from the aspect of impact on budget, fiscal consolidation and business environment.

UNICEF representatives: Contribution to drafting, material received by email after the Round Table.
Inputs of the UNICEF representative office in Montenegro were provided with regard to the draft of the Montenegro Economic Reform Programme 2020 – 2022, as a contribution to the work on a document of great importance. The mentioned was related to the area of **social inclusion, poverty reduction and equal opportunities, and education and skills.**
Response of the drafter: For many years now, the Ministry of Education and Ministry of Labour and Social Welfare have been developing good cooperation with UNICEF in view of improving children's rights in Montenegro. For the previous four years, the coverage of children by preschool education increased from 58.66 percent to 72.62 percent. It is expected that good cooperation with UNICEF will continue in the future with the aim of ensuring better conditions for all children.

1.2 Contribution by the Parliament of Montenegro

In addition to the meeting held at the beginning of the drafting process of the Programme, the round table as part of public consultation and the comments received from interested representatives of the municipalities Mojkovac and Bijelo Polje, the Union of Free Trade Union of Montenegro, the Montenegrin Foreign Investors' Council, the Chamber of Commerce, the Union of Employers and UNICEF, the Draft Economic Reform Programme 2020 was a subject of deliberation **by the Parliamentary Committee on Economy, Finance and Budget on 24 December 2019.**

The Parliamentary Committee on Economy, Finance and Budget accepted the Draft ERT 2020 as an important document for economic policy of the Government.