Government of
Montenegro

Ministry of
Finance

# MONTENEGRO ECONOMIC REFORM PROGRAMME

# 2025-2027

Podgorica, January 2025.

# Contents

# List of Abbreviations

| | | | |
|---|---|---|---|
| AFD | French Development Agency | NSFR | Net Stable Funding Ratio |
| GDP | Gross Domestic Product | NPL | Non-performing loans ratio |
| BIS | Bank for International Settlement | NCTS | New Computerised Transit System |
| BRRD 2 | Bank Resolution and Recovery Directive II | QIS | Quantitative Impact Study |
| CBCG | Central Bank of Montenegro | PIMA | Public Investment Management Assessment |
| CRD | Capital Requirements Directive | VAT | Value Added Tax |
| CET1 | Common Equity Tier 1 ratio | ERP | Economic Reform Programme |
| CGES | Montenegrin Electricity Transmission System JSC Podgorica (Crnogorski elektroprenosni sistem AD Podgorica) | PPEKS | Average weighted effective interest rate |
| EC | European Commission | PBG | World Bank Policy-Based Guarantee |
| ECB | European Central Bank | PIO | Pension and Disability Insurance |
| EUREP | Euro-system Repo Facility for Central Banks | ROA | Return on average assets |
| EBRD | European Bank for Reconstruction and Development | ROE | Return on average equity |
| IRRBB | Guidelines on Interest Rate Risk for Banking Book | FDI | Foreign Direct Investments |
| IRMS | Integrated Revenue Management System | SEPA | Single Euro Payments Area |
| LPIS | Information system for the Land Parcel Identification System | ULC | Unit Labour Cost |
| IMF | International Monetary Fund | WBIF | Wester Balkans Investment Framework |
| IIP | International Investment Position | | |
| MMM | Macro-econometric Model for Montenegro | ŽPCG | Railway Transport of Montenegro JSC Podgorica (Željeznički prevoz Crne Gore A.D. Podgorica) |

# 1. Overall Policy Framework and Objectives

The strategic goal of the economic policy of Montenegro is: "achieving smart, sustainable and inclusive economic growth which will contribute to a better quality of life of all citizens".

During the term of the 44th Government of Montenegro, the economic policy aims to enhance citizens' standard of living and create a predictable and stimulating investment and business environment in order to spur job creation and accelerate convergence of income and GDP per capita to the EU average.

Montenegro has made significant progress in the accession negotiations with the EU and remains committed to becoming the first next EU Member State in the immediate future. The Economic Reform Programme (ERP) is the principal document for the fulfilment of the economic criteria in the accession negotiations. On the one hand, it is an instrument for planning the country' economic policy and managing the reforms aimed at sustaining macroeconomic stability, strengthening international competitiveness, and enhancing the conditions for inclusive growth. On the other hand, it is a core element of the "fundamentals first" approach in Montenegro's accession negotiations with the EU, in particular in terms of meeting the Copenhagen economic criteria.

Macroeconomic and public finance stability is expected to be further sustained in the forthcoming period, accompanied by a faster-paced economic growth and investment cycle.

In line with the baseline macroeconomic scenario, the Montenegrin economy will grow at the average annual rate of 3.7 percent in the medium term, i.e. at the following rates for each specific year: 4.8 percent in 2025; 3.2 percent in 2026, and 3.1 percent in 2027. Due to the easing of price pressures at the European level, inflation is expected to gradually slow down, averaging at 2.9 percent in 2025-2027.

The core assumptions for the medium-term macroeconomic scenario include the following: strong household consumption; increases in the minimum and average wages and minimum and average pensions; tax policy reform and business environment reform; investment activity boost and further tourism growth, sector support measures, and relevant forecasts of economic activity and inflation in Europe.

As a result of successful labour market activation and private sector support measures, Montenegro has recorded the historically lowest unemployment rate. The programmes supporting entrepreneurship and investments, coupled with the tax system modernisation, have enabled significant growth of employment, pensions and wages, which have in turn raised citizens' standard of living.

In terms of fiscal policy, the main objectives for 2025–2027 concern the following:

- Achieving a surplus in current budget spending;
- Achieving the average budget deficit of 3.2 percent of GDP in 2025-2027;
- Average annual public debt level at around 62.7 percent in 2024-2027, with an annual average net public debt level of 60.2 percent;
- Ensuring that new borrowing is used exclusively to finance capital projects or to service and refinance existing debt;
- Significant increase in funds through Capital Budget investment and EU grant support, launching a strong investment cycle and contributing to faster economic growth;
- Reducing the informal economy to enable fair market competition, i.e. to suppress unfair competition;
- Tax and customs administration reforms.

At the same time, the period of 2025-2027 features the launch of a strong investment cycle underpinned by Capital Budget investments and European Union grants. The most important EU grants, namely the ones for the highway construction (Andrijevica-Mateševo section) and the railway infrastructure reconstruction, have already been secured. In parallel, the Growth Plan for the Western Balkans will make 383 million euro available to Montenegro in 2024-2027 for the implementation of structural reforms and investment in infrastructure. The remaining funds required for the ambitious infrastructure construction plan, which will enable a broadening of the economic potential, will be secured through loans.

The Public Finance Management (PFM) Strategy 2025-2027 focuses on reaching a current public spending surplus, which satisfies the “golden rule” of fiscal responsibility whereby the government finances all of the current liabilities from the current revenues. A current spending surplus is enabled despite the lower labour tax wedge – the measure implemented to support the economy’s competitiveness by means of designing a stimulating tax policy. The lower labour tax wedge reduces the employers’ fixed costs; on the other hand, the offset measures ensure an increase in total public revenues and do not bring into question the sustainability of public finances.

Through fiscal discipline, responsible debt management, and strategic investments in the key sectors, Montenegro remains committed to sustainable growth and stability. All fiscal policy measures – aimed at improving the business environment and the economy’s competitiveness on the one hand, and citizens’ standard of living on the other, as well as preserving macroeconomic and fiscal stability – are set out in the Fiscal Strategy of Montenegro 2024-2027, adopted by the Government of Montenegro. The adoption of the Fiscal Strategy ensures fiscal policy transparency and tax policy predictability, which gain particular importance considering that Montenegro had not adopted a Fiscal Strategy since 2021.

The ERP sections below describe the economic and fiscal policy measures for the forthcoming medium-term period and their contribution towards the achievement of smart, sustainable and inclusive economic growth, and their alignment with the Joint Conclusions of the Ministerial Dialogue from May 2024.

## 2. Implementation of the Policy Guidance

This section sets out Montenegro's response to the Joint Conclusions of the ministerial meeting held in May 2024 as part of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye. The table below presents an overview of the activities undertaken to respond to the EU Policy Guidance from the 2024 ministerial meeting.

**Table 2.1: EU Policy Guidance to Montenegro for the ERP 2025-2027 and the response to Policy Guidance**

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|---|
| ***Policy Guidance No. 1. Adopt an appropriately tight fiscal stance in 2024 to comply with the budget target and support further disinflation, and use revenue overperformance for deficit reduction and accumulation of government deposits. Adopt a medium-term fiscal strategy, including concrete consolidation measures supporting the achievement of a non-negative primary balance and the public debt ratio not exceeding 60% of GDP by 2026. Elect and appoint members of the fiscal council, and ensure and make publicly available a proper costing of new fiscal initiatives.*** |
| **In accordance with the Law on Budget and Fiscal Responsibility, the Government adopted the Proposal for the Fiscal Strategy of Montenegro 2024-2027 in September 2024. Based on Montenegro's economic policy, strategic directions and fiscal responsibility criteria, the Fiscal Strategy sets out the fiscal policy objectives, the measures and activities for the achievement of those objectives, and the macroeconomic and fiscal projections for 2024-2027.**<br><br>To enable continuous monitoring of the objectives and results planned under the Fiscal Strategy, the Government will each year submit, together with the Proposal Law on the Final Budget Account, a summary report on the implementation of the Fiscal Strategy for the given year.<br><br>The strategic framework for the preparation of the Fiscal Strategy consisted of the Prime Minister's Inaugural Platform, Medium-term Government Work Programme 2024–2027, Montenegro Accession Programme 2024–2027, Reform Agenda – Growth Plan for the Western Balkans 2024–2027, Montenegro ERP 2024-2026, PFM Reform Programme 2022– |

2026, and sectoral strategies and programmes specifying the strategic courses of action in specific policy areas.

In addition, the Proposal for the Fiscal Strategy of Montenegro 2024-2027 was shared for public consultations, broad discussions and consultations with all stakeholders in the country (businesses, organisations, associations, and individuals), in the aim of adding to the quality of the document, which falls among the most important ones approved by the Government.

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

In line with Article 27c of the Law on Budget and Fiscal Responsibility (Official Gazette of MNE, No 20/14, 56/14, 70/17, 4/18, 55/18, 66/19, 70/21, 145/21, 27/23 and 125/23), the Parliamentary Committee on Economy, Finance and Budget launched a Public Call for the appointment of three members of the Fiscal Council of Montenegro on 11 November 2024. The candidates' applications are currently being reviewed.

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

***Policy Guidance No. 2. Based on an analysis of the economic and fiscal impact of all tax expenditures to be shared with the Commission, prepare concrete budgetary recommendations to reduce tax expenditure (such as exemptions, deductions, credits, deferrals). Improve SOE oversight by producing and publishing the related fiscal risk assessments. Implement the public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space while avoiding exceptions regarding project selection.***

**The Ministry of Finance prepared the Tax Expenditures Report** using the estimates stemming from the relevant methodology, internal assessment and analysis, and the Tax Administration and Customs Administration data, with the technical and expert assistance of the IMF. The Tax Expenditures Report serves as the basis for the analysis of the economic and fiscal impacts of tax expenditures and for the budget recommendations on cutting the tax expenditures. Development of the overview of all tax expenditures (reliefs, incentives, zero rates, exemptions, etc.) under the current legislation involved a review of all laws and support to IMF experts in setting up a tax expenditures register and a distinction between tax expenditures and reference or standard systems, covering all the expenditures defined under the mentioned legislation. Given the foregoing, some categories of tax expenditures have been quantified, with a more specific itemised quantification of all other categories to follow in the forthcoming period, in line with the relevant legislation. **The analysis will also serve as the basis for the medium- and long-term decisions on the fiscal policy measures and on the impacts of introduced measures and reforms.** It should be noted that reporting on tax expenditures will remain a priority in the forthcoming period; capacities will be strengthened to enhance the quality of reporting and further training will be delivered. In line with the anticipated IMF technical assistance in 2025, the Ministry of Finance will continue with detailed assessments of tax expenditures by revenue category.

The abolition of some tax expenditures stipulated by the 2024 amendments to specific legislation will have a strong fiscal impact. This refers to the measures and amendments of legislation contained in the Fiscal Strategy of Montenegro for the period 2024-2027.

With the aim of implementing the measures from the Fiscal Strategy of Montenegro 2024-2027, the following set of tax regulations was adopted to abolish (reduce) tax expenditures:

- Law Amending the Law on VAT (Official Gazette of MNE 94/24), which abolished the tax expenditure, i.e. zero VAT rate on the supply of goods and services for the construction and furnishing of hospitality establishments with five or more stars, electricity generation facilities with installed capacity above 10 MW and food manufacturing facilities. The Law also repealed the provision exempting the import of products for low-value shipments (up to 75 euro) and reformed the reduced VAT rate, in line with the EU Directive EU 2006/112, by introducing second reduced VAT rate of 15 percent. As per these amendments, VAT is calculated and paid at the reduced rate of 15 percent on the supply of goods, services and import of goods, namely the following:

1) Books, monographs and serial publications;

2) Accommodation services in the hospitality establishments providing accommodation, as defined by the law governing tourism and hospitality;

3) Services of preparation and serving of food, drinks and beverages, other than alcoholic beverages, carbonated and non-carbonated beverages with added sugar and coffee, in hospitality establishments;

4) Copyright and services in the areas of education, literature and art;

5) Copyright in the area of science and art products, art collections and antiques referred to in Article 45 of the Law;

6) Services charged in the form of tickets for cinema and theatre performances, concerts, museums, fairs, amusement parks, exhibitions, zoos and similar cultural and sports events, except for those for which exemption from VAT is prescribed;

7) Services regarding the use of sports facilities for non-profit purposes;

8) Services provided in marines;

9) Solar panels;

10) Hairdressing services.

The provisions above will apply as of 1 January 2025.

- Law Amending the Law on Personal Income Tax (Official Gazette of MNE 88/24), which introduced amendments concerning*, inter alia*, taxation of income from games of chance at the rate of 15 percent;

- Law Amending the Law on Excise Duties (Official Gazette of MNE 94/24), which envisaged an expansion of the range of non-carbonated waters with added sugar or other sweeteners or aromatising agents, and the introduction of excise duty on still wines. The provisions will apply as of 1 January 2025.

The Ministry of Finance prepared a Briefing note on tax expenditures, which will inform further decisions on tax policy amendments. In keeping with the anticipated IMF technical assistance, further detailed assessments of tax expenditures by revenue category will follow, which will enhance the qualitative and quantitative framework for the analysis.

<u>State-owned Enterprises (SOE) governance reform</u>

<u>Activities implemented in 2024:</u>

- Analysis of the institutional and regulatory frameworks for the operation of public enterprises and companies in majority state ownership, adopted by the Government in July 2024;
- The updated Register of central-government level companies and public enterprises was posted on the MF website, containing data concluding with the latest available ones for 2023;
- In cooperation with the IMF experts, the fourth remote training mission was conducted in June 2024 on *Strengthening the oversight of SOEs*, to enhance the capacities of the staff of the Department for the fiscal risks of SOEs for analysis and reporting on the fiscal risks arising from the operation of the SOE sector. In the Autumn of 2024, the MF conducted annual meetings with 13 companies/public

enterprises, with a view to establish such meetings as an ongoing practice going forward;

- Individual analyses on the operations were prepared for 15 SOEs assessed as carrying high fiscal risk (categories 4 and 5);
- Analysis of key aggregate results of the SOE sector was developed, accompanied by a Fiscal Risks Statement, concluding with 2023. The document was adopted by the Government;
- In cooperation with the World Bank experts, the staff of the Department for fiscal risks attended online training on SOE Leadership Programme in the Autumn 2024;
- Two further World Bank missions took place in October and November 2024 to implement BEST Programme - Component 2 on Strengthening SOE sector governance;
- A working group tasked with the development of the Ownership Policy and a Law on SOE Governance has been set up;
- The setting up of two working groups to be tasked with the implementation of BEST Programme – the Coordination Team and the Operational Team – is in its final stage.

Further reform steps:

- Development of a Draft Law on SOE Governance;
- Adoption of a State Ownership Policy;
- Development of a strategic document on SOE governance with an Action Plan for further reform of the SOE sector.

Public Investment Management Assessment (PIMA)

Aiming to enhance the activities of planning and managing the capital projects implemented under the Capital Budget of Montenegro and working to implement the recommendations from the PIMA Report, the Ministry of Finance – by means of the new job classification regulation adopted in December 2023 – set up a Department for management of public investment and public procurement policies. That was prompted by reasons of capacity building and focusing on improvements to the policy of managing all public investments, both publicly funded capital projects and public-private partnerships.

In keeping with the set procedures of medium-term budget planning and adoption of the annual Budget Law, the MF plans the three-year expenditures from the general revenues for the financing of the Capital Budget, while the projects from EU loans and donations are executed as per the concluded loan arrangements and international agreements, in line with the disbursement timelines.

According to PIMA recommendations, following the strengthening of institutional capacities and training of MF staff, the forthcoming period will involve intensive work on precise medium-term planning for all sources of financing, including an upgrade of the software for the planning and execution of capital projects.

The activities implemented over the past nine months (Public Investment Council, Capital Project Register, Decision on Development of Capital Budget, Fiscal Strategy 2024-2027) put in place the preconditions for a more detailed analysis of implemented activities and selection of mature projects to be included in the Capital Budget. However, given the complexity of some projects, the MF is currently working to secure technical assistance from international partners for several key recommendations of the PIMA Report, such as:

1) Development of an assessment methodology for the development of projects and centralised guidelines for their implementation, aimed at better quality of project proposals;

2) Development of procedures for ex-post evaluation of major capital projects and for sharing the results with the relevant stakeholders;

3) Development of an infrastructure development master plan (the intersectoral team is already in place) and a methodology for planning, maintenance and budgeting of major infrastructure projects, including routine maintenance and large-scale rehabilitation or reconstruction (capital or investment maintenance).

***Policy Guidance No. 3. Continue to thoroughly assess price developments and possible second-round effects, and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability. Progress with the implementation of secondary legislation for the Law on Credit Institutions and the Law on Resolution of Credit Institutions and transpose the Bank Recovery and Resolution Directive II. Further enhance risk-based supervision in line with best international and European practices, including by improving data collection to enable a comprehensive assessment of financial sector risks***.

<u>Assessment of price developments</u>

Montenegro recorded positive developments in terms of containment of inflationary pressures in 2024. Annual inflation was 1.2 percent in October, which was the lowest inflation rate since March 2021. At the same time, the monthly inflation rate was 0 percent. A drop in food prices was recorded in September and October, supported by the Government's action of limiting the margins charged by major retailers. The annual inflation rate in the Euro area during that same period was 2 percent.

The Central Bank of Montenegro (CBCG) monitors and analyses the price developments in Montenegro on an ongoing basis, to ensure price stability. Inflation projections are done quarterly for a 12-month period, taking into account the internal and external factors impacting inflation. In addition, inflationary expectations are monitored and analysed based on the data obtained from the quarterly surveys among companies and banks. The estimated inflation rate for 2024 is 3.7 percent. Besides, a study was done to analyse the impact of national and international factors on the inflation in Montenegro from January 2006 to

December 2023; the study promotes an inflation model that identifies the interdependency between the internal and external inflation determinants.

The document *Recommendations for Conducting Economic Policy in the period 2022-2024,* prepared by the CBCG and submitted to the Government of Montenegro, remains relevant in 2024. The Document highlights that the suppressing inflation and ensuring fiscal sustainability should be the economic policy priorities.

To bridge the gap in the statistics on real estate prices, the CBCG conducts semi-annual surveys on the perception of those prices among the general population. The results serve to calculate the hedonic index. All the available data suggest that real estate prices are driven primarily by the FDIs in real estate. The FDI inflow in real estate accounted for around 6.4 percent of GDP per annum since 2021, compared to 3.5 percent between 2015 and 2020.

The latest preliminary estimate of the deviation of real estate prices from the baseline during the period 2006–2024 shows that prices in Q2 of 2024 were moderately overestimated, though less so than at the end of 2023. A slow drop towards the fair value was recorded in the prices of real estate. However, that drop was neither sharp nor instantaneous, as was the case in 2008-2009. Instead, it seems to be gradual, mitigating any risk of a price bubble in the real estate market. This is a positive development in the context of financial stability. In addition, the CBCG used the available macro-prudential instruments to safeguard financial stability from a risk spill-over from the real estate market to the banking sector. In March 2024, the CBCG adopted measures to raise the rate of counter-cyclical buffer from 0 percent to 0.5 percent, which will be effective as of April 2025.

<u>Progress in implementing the legislation</u>

With the aim to implement the EC Policy Guidance No. 3 with regard to: ***"Progress with the implementation of secondary legislation for the Law on Credit Institutions and the Law on Resolution of Credit Institutions and transpose the Bank Recovery and Resolution Directive II",*** the CBCG stepped up its activities focused on improving the laws on the supervision and resolution of credit institutions and developing the secondary legislation supporting the implementation of those laws.

For the purpose of full harmonisation with the BRRD2 requirements, the CBCG prepared proposed amendments to the Law on Resolution of Credit Institutions and the Law on Bankruptcy and Liquidation of Banks. The amendments were subsequently adopted by the Parliament of Montenegro on 19 November 2024, along with the proposed amendments to the Law on Credit Institutions, with a view to a final harmonisation with the CRD5/CRR2 requirements (the procedure for adoption is currently ongoing). These activities include strong efforts to harmonise also the secondary legislation stemming from the mentioned laws.

In the area of credit institution supervision, the Decision Amending the Decision on minimum standards for risk management in credit institutions was adopted in June 2024 (Official Gazette of MNE 62/24). It will apply as of 1 July 2025, ensuring harmonisation with the EU regulations concerning the IRRBB requirements.

Amendments to the Decision on liquidity risk management in credit institutions were also prepared, transposing the EU requirements for the NSFR. An impact study on credit institutions and the banking system (QIS) was conducted in September 2024 in relation to the implementation of the Decision. Amendments to the decisions regulating the remunerations in credit institutions, suitability of members of management bodies in credit institutions and large exposures were prepared, as well as further amendments to the decision on risk management. Amendments to the regulations on capital adequacy and reporting of credit institutions are currently being prepared. All the mentioned regulations, as well as the additional ones stemming from this Law, will be adopted once amendments to the Law have been adopted and have entered into force.

With regard to the implementation of the macro-prudential measures introduced to prevent the negative impacts of COVID-19 and the situation in Ukraine on the financial system, the CBCG adopted the Decision Repealing the Decision on the Temporary Measures to Mitigate the Negative Impacts of the COVID-19 epidemic and the situation in Ukraine on the financial system in April 2024 (Official Gazette of MNE 35/24), terminating in full the application of these measures in the banking sector.

In the aim of meeting the obligation under the EU accession process of aligning with Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, the final Proposal for the Law, together with the mandatory accompanying documents, was submitted for adoption in July 2024. The planned deadline for the adoption of the Law is Q4 of 2024.

Finally, within the project for enhancing the regulatory framework on the operations of financial service providers, based on the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending and Credit-guarantee Operations, in September 2024, the CBCG prepared and shared for further adoption procedure the final version of amendments to the mentioned Law. The deadline for adoption is again Q4 of 2024. The CBCG has proceeded with the development of the accompanying secondary legislation.

The CBCG has had ongoing communication with credit institutions and other entities subject to its supervision in the aim of providing support and assistance with the application of all existing laws and secondary legislation.

In the aim of implementing the EC Policy Guidance No. 3 with regard to **"Further enhance risk-based supervision in line with best international and European practices, including by improving data collection to enable a comprehensive assessment of financial sector risks"**, the CBCG launched data collection on the indebtedness of borrowers-natural persons in mid-

2024, covering each credit account approved in the given month. Up to that point, banks were required to calculate those data but were not required to share them with the CBCG. The data and the method of their sharing via the Credit Register will be further specified in the medium term, significantly expanding the scope of the available data needed to monitor the systemic risks.

# 3. Macroeconomic Framework

The global economy has shown resilience in recent years, in spite of the pandemic, geopolitical conflicts, and extreme weather events. According to the forecast of the International Monetary Fund (IMF), the global economy growth prospects will be stable, coupled with a slight deceleration from 3.3 percent in 2023 to 3.2 percent in 2024 and 2025[1].

The European economy recovery, building on the growth in the first half of 2024 and stronger consumption, continues to be the key corner stone of the forecast, even though the economic data indicate weaker growth outlook in the euro area. The most recent economic indicators suggest that the growth will continue over the short term, but having slightly downward revised rates relative to the summer projections. The Autumn Forecast of the European Commission projects real GDP growth in 2024 at 0.9 percent in the EU and 0.8 percent in the euro area, while for the largest European economy, Germany, the economic activity is expected to have a slight decline by 0.1 percent, predominantly due to the high uncertainty and the worsened trade outlook as global demand for industrial goods weakened. The inflation in the euro area is expected to slow down to 2.1 percent from 2.4 percent in 2024[2].

The Regular Economic Report of the World Bank for the Western Balkans countries[3] expects moderate acceleration of the economic growth in the Western Balkans during 2025, primarily guided by expanding consumption and investments, spurred by enhanced purchasing power. The economic expansion of the region in 2025 at 3.7 percent, which should be supported with the favourable domestic factors and gradual recovery of economic activity in the European Union over the medium term, represents a revised upward expectation of the World Bank relative to the spring projections.

[1] World Economic Outlook, October 2024: Policy Pivot, Rising Threats (imf.org)
[2] Autumn 2024 Economic Forecast: A gradual rebound in an adverse environment - European Commission (europa.eu)
[3] Western Balkans Regular Economic Report, Fall 2024 (worldbank.org)

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

| Real GDP growth rate, as % | World Bank | | IMF | | European Commission | |
|---|---|---|---|---|---|---|
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| **Montenegro** | 3.4 | 3.5 | 3.7 | 3.7 | 3.9 | 4.2 |
| **Serbia** | 3.8 | 4.2 | 3.9 | 4.1 | 3.9 | 4.2 |
| **Bosnia and Herzegovina** | 2.8 | 3.2 | 2.5 | 3.0 | 2.3 | 2.4 |
| **Kosovo** | 3.8 | 3.9 | 3.8 | 4.0 | n/p | n/p |
| **Albania** | 3.3 | 3.4 | 3.3 | 3.4 | 3.8 | 3.6 |
| **North Macedonia** | 1.8 | 2.5 | 2.2 | 3.6 | 2.0 | 2.6 |

*Source: World Bank - Regular Economic Report for the Western Balkans Countries, autumn 2024; IMF –Global Economic Outlook, October 2024; European Commission – Economic Forecast, autumn 2024*

According to forecasts of international organisations, the economic growth of Montenegro will continue next year, thus the World Bank expects in 2025 for Montenegro to generate growth of 3.5 percent, while IMF and the European Commission expect more dynamic growth of 3.7 and 4.2 percent, respectively.

## 3.1. Recent Economic Developments

### 3.1.1. Gross Domestic Product

Following the strong economic growth of Montenegro in 2023, being a result of a successful tourism season, influx of non-residents, and positive labour market developments, the favourable macroeconomic trends continue also during 2024.

The real economic growth of Montenegro in first half of 2024 was at 3.4 percent, whereby the key driver of the growth was private consumption, contributing at 6.5 percentage points. A detailed analysis shows that Q1 growth was 4.4 percent, placing Montenegro amongst three European countries with the highest economic growth rates. During the same period, the annual growth of EU (27) economies was 0.1 percent. In Q2, the Gross Domestic Product (GDP) of Montenegro grew by 2.7 percent, with gross fixed capital formation having the highest growth (11.7 percent) pointing to recovery of the investment activity.

Available short-term indicators signal the growth of the construction activity in the first nine months of 2024 and an increase in the value of completed construction works by 2.4 percent year-on-year, while the retail trade turnover increased by 10.0 percent. The services turnover index in Q3 of 2024 is higher by 9.7 percent year-on-year. The number of overnight stays by domestic and foreign visitors in collective accommodation recorded an annual increase of 1.6 percent in the first nine months of the 2024, while the number of transported passengers at Montenegrin airports increased by 16.5 percent. According to the preliminary data of the Central Bank of Montenegro the revenues from tourism in the first three quarters of the 2024 amounted to 1.31 billion euro and recorded a slight decrease of 3.6 percent, while relative to the comparative, pre-crisis period of 2019, they were higher by 29.0 percent. The industrial production shrunk by 6.0 percent, driven by decline in electricity generation of 20.5 percent caused by unfavourable hydrological conditions. The mining and quarrying, and the manufacturing sectors grew by 8.1 percent and 4.2 percent, respectively.

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

**Table 1.1.1: Divergence between the last year's ERP and the most recent estimates for 2024**

| Real growth in 2024, in % | ERP 2024-2026 | ERP 2025-2027 | Divergence (as p.p.) |
|---|---|---|---|
| **Real GDP growth** | 3.8 | 3.8 | 0.0 |
| **Household consumption** | 4.9 | 4.0 | -0.9 |
| **Government Consumption** | 2.5 | 3.0 | 0.5 |
| **Investments** | 2.8 | 4.6 | 1.8 |
| **Export of goods and services** | 6.8 | 2.5 | -4.3 |
| **Import of goods and services** | 6.4 | 3.2 | -3.2 |

*Source: Projections of the Ministry of Finance*

The comparison of projections points to certain divergences in trends of the Gross Domestic Products components, even though the overall economic growth rate remained unchanged. The private consumption and the public spending recorded smaller departures, while investments in 2024 exceed last year's estimates by recording a significant increase. The data reveal a mild drop in the tourism sector, while the import grew slower mirroring the paste of economic activity.

### 3.1.2. Inflation

Following a record-high inflation rate of 17.5 percent at the end of 2022, and high rates during 2023, the inflation in 2024 is showing exceptionally positive trends. In the first ten months of 2024, the average inflation was at 3.6 percent, while in September an inflation rate of only 1.0 percent was recorded, which represents the lowest inflation rate since March 2021. The prices of the category 'Housing, water, electricity, gas and other fuels' (impact 0.84 p.p., price growth 5.9 percent), as well as prices of clothing and footwear (impact 0.69 percentage points, price growth 9.0 percent) and food and non-alcoholic beverages (impact 0.51 percentage points, price growth 1.4 percent) made the biggest contribution to price increase in this period. The recorded annual inflation rate of 1.2 percent in October in Montenegro is lower than the October inflation of the European Union (2.3 percent) and the Euro area (2.0 percent).

In 2024, the prices of industrial products for export increased by 6.6 percent in Q3 of 2024 relative to Q3 of 2023, due to a rise in prices in the mining and quarrying sector and in the manufacturing sector. The import prices had a growth of 0.2 percent in Q3 2024, also spurred by growth in these two sectors.

### 3.1.3. Employment and Wages

The labour market exhibits positive developments, as a result of expansion of the economic activity, and reduced informal economy. The employment grew to 257,300 in the nine months of 2024, which is a rise of 5.4 percent year-on-year. According to the Labour Force Survey, the unemployment rate at the end of Q2 2024 was down to a historic low of 11.4 percent. The registered unemployment rate in September 2024 was 11.06 percent (decline by 2.08 percentage points relative to the same period of the previous year). In the nine months of 2024, the average net wage in Montenegro increased by 7.7 percent year-on year and was 850 euro. The average gross wage for the first nine months of 2024 was 1,060 euro, which represents an increase of 7.9 percent year-on-year. In consideration of the inflation and wages developments, a real growth of the average net wage of 4 percent was recorded in the first ten months, while only in October, observing the wages paid after the implementation of the tax policy reform and lower social contribution rates, the real wage increased by more than 16 percent on the annual level.

### 3.1.4. Lending Activity of Banks

In 2024, the banking sector in Montenegro maintained stability and high liquidity, preserved profitability and good capitalisation. All key balance sheet items recorded an increase on annual level, and so as follows: assets by 2.95 percent, credits by 15.32 percent, deposits by 2.55 percent, and capital by 9.79 percent. At the end of September 2024, monetary assets of the banking sector amounted 985.4 million euro, and made 14.12 percent of the total assets. The non-performing loans (NPL) ratio was 3.96 percent.

The loans extended to legal persons amount to 2,663.6 million euro, or 57.82 percent of total loans, while the loans to natural persons make 1,943.1 million euro or 42.18 percent of total loans. This percentage ratio is approximately constant during the observed one-year period. During the same period, loans extended to natural persons recorded a growth of 15.03 percent, while the lending to legal persons recorded an increase of 15.54 percent. Loans to natural persons with 42.18 percent have a dominant share in the composition of total loans by key recipients; followed by loans to the corporate sector with 31.26 percent, loans to the Government of Montenegro with 5.13 percent, placements to banks with 17.16 percent, and other loans with 4.27 percent respectively of the total loans. Loans to the corporate sector (business undertakings, both in private and in state ownership) amount to 1,440 million euro and recorded a growth of 13.11 percent year-on-year. Loans in other currencies make 3.31 percent of total loans, while loans to non-residents make 20.73 percent of total loans, which mainly refers to assets held on accounts of correspondent foreign banks. Long-term loans, which made 77.08 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make 91.94 percent of total deposits in the system. At the end of September 2024, the average weighted effective interest rate on the total loans was 6.59 percent and it was higher by 0.12 p.p. relative to the same month of the previous year.

During the nine months of 2024, total of 677.8 million euro of new loans was approved to legal persons, and these loans recorded a growth of 18.94 percent relative to the same period of the previous year, while 596.1 million euro was approved to natural persons, which is approximately 45.62 percent more relative to the same period of 2023. The average weighted effective interest rate on newly approved loans was 6.64 percent, and compared to September 2023 recorded a decline of 0.41 percentage points. The average weighted effective interest rate for loans to legal persons was 5.80 percent, which higher by 0.08 p.p. relative to September 2023, while the rate to natural persons of 7.55 percent was lower by 1.16 p.p. relative to the same period of the previous year.

At the end of September 2024, the total deposits amounted to 5,665.4 million euro. Over the one-year comparative period, the total deposits recorded a growth of 140.6 million euro or 2.55 percent. As for the composition of total deposits at the end of September 2024, the total deposits to natural persons amounted to 2,869.9 million euro or 50.66 percent in the total deposits, while deposits of legal persons amounted to 2,795.5 million euro or 49.34 percent. The deposits to natural persons at the one-year comparative level recorded an increase of 215.6 million euro or 8.12 percent, while the deposits to legal persons had a drop of 75 million euro or 2.16 percent. A-vista deposits are dominant, and make 84.76 percent of total deposits. The banking system still has a maturity mismatch of the deposit potential. The share of non-resident deposits was significant and was 22.39 percent, while the deposits in other currencies made 4.96 percent of the total deposits.

In September 2024, the average weighted effective interest rate on deposits was 0.25 percent, and recorded an increase of 0.01 p.p. if compared to same period of the previous year.

The value of the ratio of loans and receivables over deposits was 81.31 percent, which means that there is 1,058.7 million euro of deposit potential in the system, which exceeds receivables underlying the approved loans.

### 3.1.5. Financial Sector

At the end of Q3 2024, the main characteristics of the financial sector are stability and moderate level of systemic risk.

Cyclical risks are reflected primarily in the level of real estate prices. Growth was mainly financed through foreign investments, but also through housing loans. In the forthcoming period, the focus of the Central Bank of Montenegro will be the developments of housing and cash loans of natural persons. The countercyclical capital buffer rate of 0.5 percent, to be applied from 1 April 2025, is therefore still appropriate, and in the event of continued growth in real estate prices or excessive growth of lending to natural persons, the Central Bank of Montenegro will act by raising additionally the buffer rates, and if necessary, with other instruments.

Mainly due to structural macroeconomic imbalances, the structural systemic risk buffer of 1.5 percent, introduced in 2022, is still in effect. In addition to the countercyclical buffer and structural systemic risk buffer, the capital buffer for other systemically important credit institutions, as well as the capital conservation buffer, which will reach the final 2.5 percent on 1 January 2025, also applies.

Overall, at the end of September 2024, the requirement for all capital buffers ranged from 3.4 percent to 3.9 percent of the total risk exposure amount, in the form of the highest quality, common equity tier 1 capital (CET1).

Other segments of the financial system, generally having less importance relative to the banks, do not represent a threat to financial stability. Namely, the financial sector reached the value of assets of more than 7.51 billion euro at the end of September 2024, which made 103.2 percent relative to the GDP. The banking sector makes 92.9 percent of assets of the financial sector, followed by the insurance sector with 4.4 percent, while all other financial intermediaries make 2.7 percent of assets of the financial sector

During the nine months of 2024, turnover at the *Montenegroberza* (Montenegro stock exchange) was 8.3 million euro (0.11 percent of the forecasted annual GDP), which is 0.6 percent less year-on-year.

The Central Bank carries out continuous supervision of the banking sector; and under its supervision the banking sector is liquid, solvent, and with non-performing loans at the acceptable level. The liquidity of banks is at the high level. The liquid assets of banks were 1,533.1 million euro and made 21.97 percent of the total assets at the end of September 2024. In the structure of the liquid assets, the largest share is of cash and cash equivalents which make 44.47 percent of the total liquid assets; followed by assets held with foreign banks (demand deposits) which make up 43.93 percent of the total liquid assets, assets held with domestic banks (demand deposits) with share of 1.69 percent of the total liquid assets, while part of the mandatory reserve makes up 9.91 percent of the total liquid assets.

At the end of September 2024, the large portion of liquidity of banks was held in securities (1,300.6 million euro or 18.6 percent of the total assets), of which slightly more than half was placed abroad (698.3 million euro), whereby those were mainly placements in short-term securities having an investment-grade credit rating issued by the euro area Member States. Certainly, the composition of foreign securities is the subject of continuous attention of the Central Bank of Montenegro, including the possible drop in income that may result from this in an environment of declining yields on government debt. Securities represent a liquidity reserve of banks.

The banking sector stability is supported with adequate capitalisation, so that both the aggregate (19.80 percent) and individual solvency ratios for all banks in the system (ranging from 15.96 to 28.63 percent) as of 30 September 2024, are above the statutory minimum. These trends are reflected positively on the banking sector profitability. At the end of September 2024, the positive financial result at the system level was 136.3 million euro, while it was 112.4 million euro in the same period of the previous year. The return on average assets (ROA) at the end of September 2024 was 2.70 percent, while the return on average equity (ROE) was 21.70 percent. Bothe the return on average assets (ROA) and the return on average equity (ROE) recorded growth compared to the same period of the previous year.

In case of emergency liquidity support for banks in the event of unforeseen circumstances, the Governing Council of the European Central Bank (ECB) decided to extend the deadline to the Central Bank of Montenegro for the use of the EUREP (Eurosystem repo facility for central banks) line until 31 January 2025 under the same, initially agreed conditions. The ECB's EUREP instrument was established in June 2020 and enables the Central Bank of Montenegro, in case of a need, to obtain funds in the shortest possible time to support the systemic liquidity for up to 250 million euro. The deadline extension agreed with the ECB provides an additional precautionary measure, in case of possible liquidity needs, aimed at preserving the stability of the country's financial system and confirming the close cooperation and support of the ECB and national banks of countries outside of the euro system. The Central Bank of Montenegro secured 100 million euro from the Bank for International Settlements (BIS) under a standing line for the same purpose. The line is renewed annually, and the existing one is in effect until 1 June 2025.

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

### 3.1.6. External Sector

#### *3.1.6.1. Current Account*

In the period January-September 2024, the **current account deficit** was 776.86 million euro and was higher by 115.79 percent relative to the same period of 2023, as a result of a deficit on the account of goods, as well as of shrinking surplus on the accounts of services and primary income.

Total export of goods was 463.73 million euro, or 16.79 percent less if compared year-on-year, whereby the strongest contribution comes from the decline in export of electricity and non-ferrous metals. Total import of goods amounted to 2,957.93 million euro and was 6.10 percent higher year-on-year, resulting from increased imports of road vehicles, electricity, as well as of medicinal and pharmaceutical goods.

The **services account** ended up in a surplus of 1,416.12 million euro, which is 3.84 percent less year-on-year. Total revenues from services were 2,185.60 million euro or 4.33 percent less year-on-year, while the expenditures on this account were 769.48 million euro (drop of 5.23 percent). Estimated revenues from tourism were 1,311.67 million euro, which represents an annual decline of 3.64 percent.

The **primary income** account registered a deficit of 17.02 million euro. Revenues resulting from the primary income were 347.48 million euro (growth of 14.39 percent). The expenditures on this account were 364.50 million euro and were increased by 65.28 percent relative to the observed period, due to higher outflow on the account of dividends payout.

The **secondary income** account recorded a surplus of 318.24 million euro, which is 1.18 percent higher year-on year. Total transfers inflow to Montenegro was higher by 4.90 percent, and amounted to 422.10 million euro, of which majority is made of personal transfers from abroad of 309.05 million euro (an increase of 5.15 percent).

### *3.1.6.2. Financial Account*

The **portfolio investments** account recorded a net inflow of 406.60 million euro, while the net inflow on the other investments account was 197.10 million euro. During the observed period, the main developments on this account were lower borrowing liabilities of banks, the State and other sectors, if compared to the same period of 2023.

The net inflow of **foreign direct investments** was 372.57 million euro in the period **January-September 2024**, which is an increase 18.76 percent if compared to the same period of 2023. Total foreign direct investments inflow was 657.57 million euro, an increase of 5.46 percent year-on-year. The breakdown of inflows is made of equity investments of 420.28 million euro (increase of 3.87 percent), while the inflow in a form of intercompany debt was 216.39 million euro (growth of 14.25 percent). As for the composition of equity investments, the investments in companies and banks were 100.05 million euro (an increase of 44.02 percent), while the investments in immovable property were 320.23 million euro (drop of 4.46 percent). Inflow resulting from withdrawing investments from abroad was 21 million euro. If observing the composition of the total inflow of the foreign direct investments, the share of investments in immovable property was 48.69 percent, followed by the intercompany debt with 32.90 percent, and investments in companies and banks with 15.21 percent.

Total outflow of the foreign direct investments during the period January-September 2024 was 285.10 million euro, which is 8 percent less year-on-year. The outflow from investments of residents abroad was 70.99 million euro, while the withdrawal of funds of non-residents invested in our country was 214.11 million euro.

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

| No | Item | Jan-Sep 2023 | Jan-Sep 2024 | Change in % |
|---|---|---|---|---|
| **1** | **Current account** | **-360,010** | **-776,859** | **115.8** |
| 1.A | **Balance of goods and services** | **-757,769** | **-1,078,075** | **42.3** |
| **1.A.a** | **Goods** | **-2,230,485** | **-2,494,195** | **11.8** |
| 1.A.a.1 | Export, f.o.b. | **557,275** | **463,736** | -16.8 |
| 1.A.a.2 | Import, f.o.b. | **2,787,759** | **2,957,931** | 6.1 |
| **1.A.b** | **Services** | **1,472,716** | **1,416,120** | **-3.8** |
| 1.A.b.1 | Revenues | **2,284,634** | **2,185,600** | -4.3 |
| 1.A.b.2 | Expenditures | **811,918** | **769,480** | -5.2 |
| **1.B** | **Primary income** | **83,223** | **-17,023** | **-120.5** |
| 1.B.1 | Revenues | **303,759** | **347,481** | 14.4 |
| 1.B.2 | Expenditures | **220,536** | **364,504** | 65.3 |
| **1.C** | **Secondary income** | **314,536** | **318,239** | **1.2** |
| 1.C.1 | Revenues | **402,386** | **422,103** | 4.9 |

| No | Item | Jan-Sep 2023 | Jan-Sep 2024 | Change in % |
|---|---|---|---|---|
| 1.C.2 | Expenditures | **87,850** | **103,865** | 18.2 |
| **2** | **Capital Account** | **-29** | **-14** | **-52.5** |
| 2.A | Revenues | **0** | **0** | |
| 2.B | Expenditures | **29** | **14** | -52.5 |
| | **Balance of current and capital account** | **-360,038** | **-776,873** | **115.8** |
| **3** | **Financial account, net** | **-341,451** | **-772,742** | **126.3** |
| **3.A** | Net acquisition of financial assets | **-184,986** | **9,716** | |
| **3.B** | Net increase/incurrence of liabilities | **156,465** | **782,458** | **400.1** |
| **3.1** | **Direct investments, net** | **-313,723** | **-372,575** | **18.8** |
| **3.2** | **Portfolio investments, net** | **388,845** | **-406,601** | |
| **3.3** | **Financial derivatives, net** | **-66,235** | **-18,131** | **-72.6** |
| **3.4** | **Other investments, net** | **-63,288** | **-197,099** | **211.4** |
| **3.5** | **CBCG Reserve (change)** | **-287,049** | **221,663** | |
| **4** | **Net errors and omissions (3-2-1)** | **18,588** | **4,131** | **-77.8** |

*Source: CBCG*

### *3.1.6.3. International Investment Position*

At the end of 2023, the net international investment position of Montenegro amounted 7,184.95 million euro or 103.2 percent of GDP, and if compared to 2022 was decreased by 170.18 million euro. Total external receivables of residents were 5,351.77 million euro, and liabilities 12,536.71 million euro. Observing the net position by investment instrument (assets less liabilities), preliminary data indicate that if compared to the same period of the previous year there was a decline with the other investment by 464.74 million euro and with the portfolio investments by 635.01 million euro, while the net position of the foreign direct investments increased by 437.59 million euro.

At the end of Q2 2024, the net international investment position of Montenegro amounted - -7,840.48 million euro. The total external receivables of residents were 5,429.82 million euro, while the liabilities were 13,270.30 million euro.

If compared to the end of the previous year, at the end of Q2 2024, the negative net international investment position was increased by 655.53million euro, mainly due to increase in financial assets (by 733.59 million euro), which was offset to certain extent with increase of financial liabilities at the same time (by 78.05 million euro).

Observing the net position by investment instrument (assets less liabilities), preliminary data indicate that if compared to the same period of the previous year there was an increase of the portfolio investment by 647.05 million euro, while the foreign direct investments increased by 95.26 million euro, and other investment increased by 71.87 million euro.

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

| | 2022 | 2023 | Q2-2024 | *Change in % 2023/2022* | *Change in % Q2 2024/2023* |
|---|---|---|---|---|---|
| **1. International Investment Position, net** | **- 7,355.1** | **- 7,184.9** | **- 7,840.5** | **-2.31%** | **9.12%** |
| **2. Assets** | **4,898.5** | **5,351.8** | **5,429.8** | **9.25%** | **1.46%** |
| 2.1. Direct investments, net | 208.1 | 256.2 | 280.4 | 23.10% | 9.45% |
| 2.2. Portfolio investments, net | 761.5 | 1,403.1 | 1,434.7 | 84.26% | 2.25% |
| 2.3. Financial derivatives | 0.0 | 0.0 | 0.0 | 100.00% | -44.44% |
| 2.4. Other investments | 2,014.3 | 2,267.4 | 2,132.5 | 12.57% | -5.95% |
| 2.5. CBCG reserves | 1,914.6 | 1,425.0 | 1,582.2 | -25.57% | 11.04% |
| **3. Liabilities** | **12,253.7** | **12,536.7** | **13,270.3** | **2.31%** | **5.85%** |
| 3.1. Direct investments | 5,232.8 | 5,718.4 | 5,837.9 | 9.28% | 2.09% |
| 3.2. Portfolio investments | 1,777.5 | 1,784.2 | 2,462.8 | 0.37% | 38.04% |
| 3.3. Financial derivatives | 0.1 | 2.4 | 1.0 | 4447.17% | -58.63% |
| 3.4. Other investments | 5,243.3 | 5,031.7 | 4,968.6 | -4.04% | -1.25% |

*Source: CBCG*

### *3.1.6.4. External Debt*

At the end of 2023, the total external debt of Montenegro was 9,060.28 million euro, and compared to the end of December 2022, it was reduced by 338.23 million euro. The share of total external debt to GDP at the end of 2023 was 130.11 percent, which represents a decrease of 28.54 p.p. on an annual basis, coming more as a result of the relative growth of GDP (17.55 percent) in 2023, than the reduction of the total external debt (3.60 percent). As for the composition of the external debt of Montenegro at the end of 2023, 39.95 percent or 3,619.33 million euro was the public sector debt, while 60.05 percent or 5,440.95 million euro related to the private sector debt.

According to preliminary data, the total external debt of Montenegro at the end of the Q2 2024 amounted to 9,714.55 million euro. If compared to the end of December of the previous year, this debt was increased by 654.27 million euro, due to a higher increase in the debt recorded in the public sector compared to the private sector.

As for the composition of the external debt of Montenegro at the end of the Q2 2024, 43.18 percent was the public sector debt, while 56.82 percent related to the private sector debt. The external debt of the public sector was 4,194.31 million euro, which represents an increase of 574.98 million euro compared to the end of the previous year. This rise is the result of an increase in liabilities coming the foreign market issued bonds. The external debt of the private sector at the end of the Q2 2024 amounted to 5,520.24 million euro, or 79.29 million euro more than at the end of the previous year. As for the currency breakdown of the total external debt, at the end of the Q2 2024, the euro dominates with about 95 percent of the share, which makes the country's risk relatively low considering that the euro is the legal tender for payments in Montenegro.

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

| Sector | *2022* | *2023* | *Q2 2024* | *Change in % 2023/2022* | *Change in % Q2 2024/2023* |
|---|---|---|---|---|---|
| 1. General government | 3,557.6 | 3,517.3 | 4,091.3 | -1.13% | 16.32% |
| 2. Central Bank | 105.0 | 102.0 | 103.0 | -2.82% | 0.92% |
| 3. Deposit institutions, other than central banks | 1,546.3 | 1,434.8 | 1,530.8 | -7.21% | 6.69% |
| 4. Other sectors | 1,791.0 | 1,731.9 | 1,685.9 | -3.30% | -2.66% |
| 5. Direct investments: intercompany debt | 2,398.6 | 2,274.3 | 2,303.6 | -5.18% | 1.29% |
| **Total external debt** | **9,398.5** | **9,060.3** | **9,714.5** | **-3.60%** | **7.22%** |

*Source: CBCG*

## 3.2. Medium-term Macroeconomic Scenario

The Montenegrin economy recorded a significant degree of stability and resilience in the previous period, with high growth rates generated in the past two years. The macroeconomic projections for the period 2024-2027 forecast a strong development dynamics of private consumption, which will be one of the key generators of the economic growth, resulting from the increase in minimum and average wages and pensions, the implementation of a comprehensive tax and fiscal policy reform, and the improvement of the business environment. The macroeconomic outlook of Montenegro over the medium term entails the intensification of investment activity, especially in strategic sectors, as well as further growth of the tourism sector. The projections are based on a fundamental and comprehensive analysis of domestic economic trends and estimates of global inflationary pressures. The next part of this Chapter presents an overview of the medium-term macroeconomic forecasts, while identifying the macro-financial risks; as well as an alternative scenario, or so-called stress test scenario, which anticipates a set of possible risks and challenges materialising.

### 3.2.1. Baseline Macroeconomic Scenario 2024-2027

During the previous period, Montenegro showed resilience in coping with the global economic challenges, including inflationary pressures, distortions in supply chains, and the energy crisis, while succeeding in generating growth that exceeded the regional and the European average. Current economic trends, along with the gradual levelling of price growth and measures to increase the minimum and average wage, the increase in the minimum pension since the beginning of the year and changes in tax policy, will predispose the high growth of the economy in the forthcoming period.

During 2024, the sectors of construction, trade, and transport recorded growth, while industrial production declined, primarily under the influence of adverse hydrological conditions and consequently lower eclectic generation. Positive developments continued to be a feature of the labour market, continuing to record exceptionally favourable trends in the past years, with an increase in employment and rise in average net wages, coupled with the continuous decline in the unemployment rate. As for the tourism sector, an increase in number of overnight stays in collective accommodation was recorded, while the revenues from tourism for nine months of 2024 amounted 1.31 billion euro, being a mild decline relative to 2023, primarily due to lower influx of non-residents. Nevertheless, if compared to the pre-crisis 2019, the revenues from tourism recorded a strong growth of 29.0 percent. Features of the banking sector are gradual decrease of interest rates and strong increase of newly approved loans, paired with stability and high liquidity level. The growth of total deposits of 2.8 percent in ten months of 2024 further confirms the signals of confidence of citizens and companies in the banking sector. On the other hand, the external trade position continues to record similar trends of the trade balance deficit as it was the case in the previous period, due to decline in exports of goods in 2024, while imports increases, largely driven by domestic demand. Inflation recorded noticeable positive trends, mirroring the inflation in the European Union and being at levels that are the lowest since the pandemic. The annual inflation rate in the 2024 decelerated significantly and in October was 1.2 percent. The net foreign direct investments in nine months increased by 18.8 percent on an annual basis, while investments in companies and banks recorded a growth of 44.0 percent, which indicates the recovery of investment activity. **Based on the above stated macroeconomic development, the growth forecast of the Montenegrin economy in 2024 is at 3.8 percent.**

**According to the preliminary projections of the Ministry of Finance, over the medium term the Montenegrin economy will generate an average annual growth at 3.7 percent, by years 4.8 percent in 2025, 3.2 percent and 3.1 percent in 2026 and 2027, respectively.** Growth forecasts for the medium-term are based on the continued growth trend of domestic consumption, the intensification of the investment cycle through the easing of business barriers, as well as favourable developments in tourism. The characteristic of the period 2024-2027 is the start of an intensive investment cycle through investments both under the Capital Budget and through grants provided by the European Union, the most significant of which are for the construction of the second section of the Highway and the reconstruction of the railway infrastructure. At the same time, the Growth Plan for the Western Balkans will make available to Montenegro 383 million euro in the period 2024-2027 for carrying out structural reforms and investment in infrastructure. Investments are expected to grow based on an improved business environment, through the creation of a predictable tax framework, along with a reduction in the labour tax wedge with lower rates of pension and disability insurance contributions on wages. Give that the first three quarters of 2024 recorded a 19 percent increase in net foreign direct investments; it is expected that they will maintain a high level in the overall economic composition over the medium term.

High private spending is expected to continue in the forthcoming period, based on implementation of the fiscal policy measures, with increase of minimum wage to 600 euro (for those employed having the education qualification level up to the level V) and 800 euro (for those with the education qualification levels VI and higher), and rise of the average wage resulting from reduction of the contribution rate for pension and disability insurance from a total of 20.5 percent to 10 percent. The private consumption will also intensify spurring from employment growth, lending activity expansion, higher remittances from abroad, with continued increase in average pensions. In line with the tax policy reform, the personal household consumption will be particularly strong in 2025, when it is forecasted that will grow at rate of 7.2 percent. In the medium term, due to the high current budgetary spending and increase of public investments, the public spending is projected to grow at an average annual rate of 2.6 percent.

Taking into account the most recent data on the inflation rate, which, after record double-digit levels in the previous two years, is the lowest since 2021, an additional deceleration in inflation is expected in the next medium-term period. In the period 2025-2027, an average inflation rate of 2.9 percent is projected. The gradual easing of the inflation rate in the next three-year period will come from the calming down of external trends, whose future development continues to be uncertain. The implementation of the Government's programme to limit trade margins contributed to the stagnation and decline of domestic monthly inflation of 0.4 percent in September 2024, while is forecasted that the stabilisation of the macroeconomic environment in the forthcoming period will further contribute to easing inflationary pressures.

The labour market trends mirror the growth of the economy. The projected increase in number of employees in the period 2025-2027 is at an approximate average annual level of 2 percent. In line with the plans for the national policies in the forthcoming period directed towards reducing the unemployment and improving the labour market, an increase of wages at an approximate average rate of 6 percent is expected, indicating an increase in purchasing power of citizens. According to projections, at the end of the forecast horizon the average unemployment rate will be 9.2 percent, determined by an accelerated decrease in the number of unemployed than originally forecasted. In the past, the domestic labour market has been characterized by a pronounced shortage of labour force, especially during the summer tourism season, with an increase in the number of temporary work permits issued to foreigners.

Prospects for economic growth over the medium term are supported by the strategic priority of fulfilling the EU agenda in the accession process of Montenegro, with special focus on the European Union Growth Plan for the Western Balkans and available financial instruments that will support national development projects and reform measures. Furthermore, Montenegro becoming part of the Single Euro Payments Area (SEPA) represents a key step in harmonising the Montenegrin financial system with EU standards, strengthening integration, and improving the efficiency and security of cross-border payments. Montenegro remains firmly committed to the further implementation of the reforms foreseen in the Reform Agenda and to the creation of better conditions for citizens and the economy, with the aim of strengthening the stability and competitiveness of the domestic economy.

Macroeconomic projections for 2025-2027 have the following components on the consumption side:

- In the medium term, the strong domestic demand (impact 3.9 p.p.) coupled with private consumption and investments, as drivers of the economic activity, will dominantly drive the growth dynamics of the economy of Montenegro. Household personal consumption will be stimulated by growth in tourism and associated economic activities, by growth in employment and wages, lending activity, and transfers from abroad (remittances). Due to the implementation of the tax policy reform, the household personal consumption will be notably strong in 2025 with a growth of over 7 percent in real terms. On the other hand, the public spending is forecasted to grow at rate of 2.6 percent annually, due to high current spending and planned capital investments financed from public sources. The macroeconomic framework in the medium term foresees the continued recovery and the intensification of investment activity, with an average annual growth of about 5 percent, steaming from public investments in infrastructure, education, healthcare, and digitalisation, as well as based on significant investment plans of the private sector, primarily in the energy and tourism sectors. The EU Growth Plan, enabling access to financing for carrying out capital projects and implementing structural reforms, will propel the investments growth dynamics. Further easing of inflationary pressures, continued decline in key interest rates, and the improvement of the domestic regulatory environment could contribute to more favourable investment prospects;
- Net exports will have marginal negative effect on the economic growth in the coming years, in spite of the growth in tourism, due to simultaneous growth of imports for personal and investment consumption. In 2025, an unfavourable trade balance is expected due to the planned reconstruction of the Thermal Power Plant Pljevlja and the temporary suspension of operation of this plant, and due to the increased demand for electricity, which constitutes a significant segment of domestic exports. Over the medium term, the tourism sector is expected to yield a continued growth, with an annual average increase in revenues of approximately 6.0 percent, with further diversification of the structure of visitors. Building on the increase in consumption and investments, import is expected growth at 3.5 percent annually in the period 2025-2027. Likewise, it is forecasted that imports will absorb a significant portion of the increased consumption and investments, bearing in mind the low domestic production base, which could represent a challenge for economic growth over the medium term.

**Table 3.2.1: Montenegro: Macroeconomic Projections 2024-2027, Baseline Scenario**

**Montenegro: Macroeconomic Projections, 2024-2027 - Baseline Scenario**

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| **Nominal GDP, in million euro** | 6963.6 | 7416.7 | 7965.4 | 8372.8 | 8757.5 |
| **Nominal growth** | 17.5 | 6.5 | 7.4 | 5.1 | 4.6 |
| **Real growth** | **6.3** | **3.8** | **4.8** | **3.2** | **3.1** |
| **Inflation (average)** | 8.6 | 3.7 | 3.8 | 2.5 | 2.3 |

| | | | | | |
|---|---|---|---|---|---|
| **Current account deficit, % of GDP** | -11.4 | -12.6 | -13.5 | -12.3 | -10.3 |
| | (Real growth rates as %) | | | | |
| **Rea GDP growth** | **6.3** | **3.8** | **4.8** | **3.2** | **3.1** |
| **Domestic demand** | **5.0** | **4.0** | **5.9** | **2.4** | **1.6** |
| **Household consumption** | 6.5 | 4.0 | 7.2 | 2.1 | 1.1 |
| **Government consumption** | 3.1 | 3.0 | 2.7 | 2.5 | 2.5 |
| **Gross fixed capital formation** | 6.9 | 6.5 | 6.5 | 4.0 | 3.5 |
| **Export of goods and services** | 9.0 | 2.5 | 2.7 | 5.1 | 5.2 |
| **Import of goods and services** | 5.9 | 3.2 | 5.3 | 3.1 | 2.0 |
| | Growth in percentage, unless otherwise indicated | | | | |
| **Macroeconomic indicators:** | | | | | |
| **Employment growth** | 10.8 | 3.5 | 2.4 | 2.0 | 1.3 |
| **Growth of wages (gross)** | 11.8 | 5.0 | 9.0 | 4.0 | 4.0 |
| **Unemployment rate** | 13.1 | 11.7 | 10.6 | 9.9 | 9.2 |
| **Net FDI as % of GDP** | 6.2 | 7.4 | 6.9 | 6.6 | 6.3 |
| **Newly-approved loans** | -6.0 | 15.0 | 15.0 | 4.0 | 5.0 |

*Source: Projections of the Ministry of Finance*

Macroeconomic indicators:

- Current account deficit in the balance of payments will decline from the estimated 12.6 percent of GDP in 2024 to 10.3 percent of GDP in 2027, due to the expected dynamics for imports and exports of goods and services, with increase of surpluses on accounts of services, as well as on the accounts of primary and secondary income;
- The share of the net foreign direct investments (net FDI) is projected to approximately 6.8 percent of GDP over the medium term;
- Newly approved loans will continue to incentivise the expansion of economic activity with a much faster growth (close to 10.0 percent), due to easing of lending conditions and decline in interest rates, as well as due to an increase in disposable income of citizens and higher lending to the corporate sector following the tax policy reform;
- After a pronounced growth in previous years, the employment will record a moderate growth in the period 2025-2027, with an annual average rate of around 2 percent. The unemployment rate, according to the projections, will drop from 11.7 percent in 2024 to 9.2 percent in 2026. The wage growth over the medium term is estimated to approximately 6 percent annually, in line with the increase of minimum and average wage in the economy;
- According to the estimates, the inflation will be brought down from 3.7 percent in 2024, to the level of 2.3 percent at end of the projection period (2027), coupled with the forecasted dynamic of developments in the domestic economic cycle and calming down of inflationary pressures in Europe and globally.

Observing at the production side, the growth of the Montenegrin economy in the medium term will be dominated by the sectors of tourism (growth 6 percent annually), agriculture (growth 7 percent), and construction (growth 4 percent), in line with the projected dynamics of investments.

The following table outlines the indicators by aggregated production sectors:

| | Real growth rates, as % | | | | Share in GDP growth, % | | | | Share in GVA, as % | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sectors | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 | 2024 | 2025 | 2026 | 2027 |
| Agriculture | 7.0 | 7.0 | 7.0 | 7.0 | 0.4 | 0.4 | 0.4 | 0.4 | 7.2 | 7.3 | 7.6 | 7.8 |
| Industrial production | 4.2 | 6.0 | 6.2 | 5.2 | 0.4 | 0.5 | 0.6 | 0.5 | 11.3 | 11.4 | 11.7 | 11.8 |
| Construction | 3.0 | 5.0 | 3.0 | 4.0 | 0.1 | 0.2 | 0.1 | 0.1 | 4.4 | 4.4 | 4.3 | 4.4 |
| Services | 4.1 | 4.6 | 3.1 | 3.4 | 2.5 | 2.9 | 1.9 | 2.1 | 77.1 | 76.9 | 76.4 | 76.0 |
| *-of which accommodation and food services* | -2.0 | 6.0 | 6.0 | 7.0 | -0.2 | 0.5 | 0.5 | 0.6 | 10.2 | 10.3 | 10.5 | 10.8 |
| GVA (gross value added) | 3.8 | 4.8 | 3.2 | 3.1 | 3.8 | 4.8 | 3.2 | 3.1 | 100.0 | 100.0 | 100.0 | 100.0 |
| Taxes less subsidies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | N/A | N/A |
| GDP | 3.8 | 4.8 | 3.2 | 3.1 | 3.8 | 4.8 | 3.2 | 3.1 | N/A | N/A | N/A | N/A |

*Source: Projections of the Ministry of Finance*

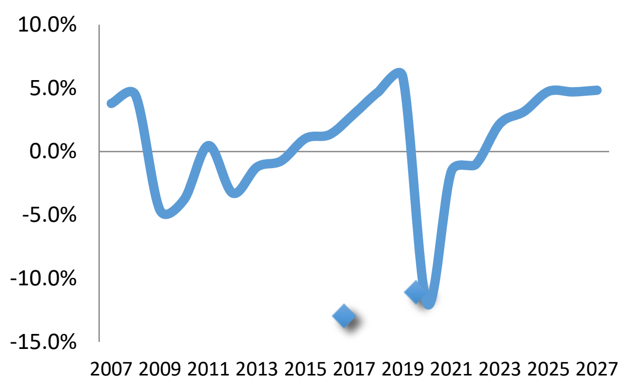
The planned outturn of macroeconomic and fiscal indicators over the medium term is based on the current plans and policies, assumptions of the economic cycle in the European Union, along with the foreseen reform measures that will materialise the baseline scenario of the forecasted trends.  However, due to the uncertain context of the domestic and external environment in which economic activity takes place, the projected indicators are subject to changes due to identified risks to macroeconomic and financial stability.

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

- Deceleration of the European economy and protracted inflationary pressures, retain vulnerabilities in the domestic economy strongly pronounced.  The effects of significant changes in economic developments in the EU are predominantly linked with possible lower growth of tourism in Montenegro, investments and consumption, and consequently resulting in a lower economic growth;
- Slower paste of executing investment plans and structural reforms in the economy, which could lead to deceleration of the economic growth and outturn of the budget revenues;
- Climate change may have an effect on the growth dynamics of the economy in the medium term, due to its impact on the sectors of tourism, agriculture, and energy.

### 3.2.2. Potential Growth

*Figure 3.2.2: Output gap 2007-2027*




During the last few years, the Montenegrin economy has recorded high rates of economic growth. The analysis of production factors in the macroeconomic model shows that the growth of the Montenegrin economy in the period 2007-2024 was around the potential, thus the average growth of the economy in this period was 2.6 percent. The main contributors to the growth were increase in capital assets of 2.4 percent, labour force as a factor of growth added 1.2 percent, while the total factor productivity, as a factor combining available technological capacities, took away 1.0 percent from the growth. For the period 2025-2027, the growth potential of the Montenegrin economy is estimated to increase to 3.1 percent, whereby the composition of production factors will change in favour of a higher contribution of labour force to the economic growth, due increase in activity and number of employees, as well as faster-than-expected decline in unemployment rate over the medium term.

Stemming from the tax and fiscal policy reform, and increase in disposable income resulting from rise of the minimum and average wage, the Montenegrin economy over the next three-year period will generate a growth above the potential, while accelerating the domestic demand through strong personal consumption and investments. In line with the model projections, the positive output gap between the potential and projected real GDP is expected in the medium-term period. In addition to the fiscal policy reforms, the convergence will be guided by announced structural reforms, creating regulatory prerequisites for maintaining a dynamic level of growth of the economy and increase in competitiveness and productivity

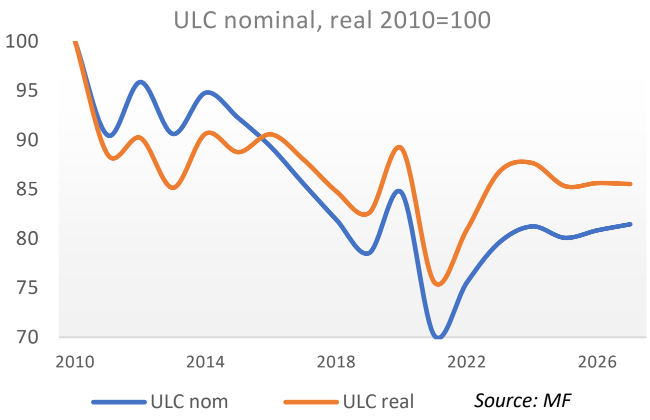
### 3.2.3. External sector and its medium-term sustainability

The insufficient diversification of the Montenegrin economy and large fluctuations in export levels, resulting from high concentration and share of the electricity sector and the metal processing industry, precisely the aluminium, cause a high foreign trade deficit. The negative foreign trade balance, being a difference of export and import of goods, is estimated to grow from 44 percent of GDP in 2024, to 45.9 percent of GDP in 2027. The main factor contributing to these trends is the planned reconstruction of the Thermal Power Plant Pljevlja, which will result in temporary suspension of operation of this plant, and high need to import electricity in 2025.

Even though these trends will be partially offset by increase in surplus on the accounts of services, primary income, and secondary income, at the end of the medium term a double-digit deficit in the current account of balance of payments of approximately 10.3 percent of GDP is expected, whereby the major portion of the deficit will be financed by the inflow of foreign direct investments.

**The competitiveness analysis** prepared using **the unit labour costs (ULC)** shows that the labour cost competitiveness recorded a sizeable growth in the period 2010-2019, which was a consequence of the growth dynamics of wages, employment, and GDP. The labour cost competitiveness in 2020 was decreased; while in 2021 was improved. The declining trend of the labour costs competitiveness is noticeable during past several years, due to the faster growth of wage bill in the economy than was increasing the economic activity. In the period 2025-2027, the labour costs competitiveness in the domestic economy is expected to improve, even though the nominal wages will record a somewhat higher growth, the real wage bill will lower than the increase of GDP, due to the projected inflation rates and growth of employment. The average cost of labour over the medium term will be lower due the tax policy reform and reduced pension and disability insurance contribution rate from 20.5 percent to 10 percent, whereby the employers will yield a gross saving for all wage levels above the new minimum wage threshold (600 euro, or 800 euro).

**Figure 3.2.3: Unit Labour Costs (ULC) 2010-2027**




Estimated **labour productivity**, stated as the ratio between the real GDP and number of employees at the level of the economy, grew by approximately 1 percent in the period 2008-2024. In the period 2025-2027, a growth of labour productivity is projected, at an average annual rate of 1.7 percent, due to the predicted faster growth of real GDP and newly created value in the economy than is the increase in the number of employees, bearing in mind the tax and fiscal policy reforms, based on which a strong increase in consumption and investments is forecasted in the medium term.

**Figure 3.2.4: Productivity, 2007-2027**

## 3.3. Alternative Scenario

Given the uncertainty of the macroeconomic outlook over the short term and that is subject to fluctuations, an additional scenario of macroeconomic trends needs to be created, which takes into account the possible materialisation of potential risks and challenges to the medium-term growth. The identified risks include both the domestic environment and external environment, which could cause lower economic growth, decline in consumption, and weaker investment activity than the one initially planned.

### 3.3.1. Low-growth Macroeconomic and Scenario 2024-2026 (stress-test scenario)

The key assumptions of the alternative scenario include a weaker dynamic of increase in private consumption and capital investments, coupled with a lower growth in the tourism sector due to poor air travel accessibility and unfavourable outlook for the European Union business cycle. In this scenario, a moderate drop in demand, combined with geopolitical uncertainties and high reference interest rates, would guide a slowdown in investments, result in lower employment than initially forecasted, while inflation would continue to be elevated in the next year. All these effects would consequently affect the planned economic growth.

Essentially, by combining the potential risks to macro-financial stability materialising, the economic growth over the medium term would yield and average of 2.8 percent, which is 0.9 percentage points lower if compared to the baseline forecast scenario. The more moderate growth in investments, somewhat weaker increase in revenues from tourism would have impact on the lower employment growth over the medium term by approximately 0.4 percentage points and consequently on lower household consumption. Unfavourable macroeconomic performance would reflect on weaker inflow of the budgetary revenues. The unemployment rate would increase by about 0.4 percentage points compared to the baseline scenario. Overall, the macroeconomic outlook would be positive, but would reflect the context of an altered international environment. The growth of the economy would remain dynamic in 2025, due to the comprehensive reforms of the Government, given that according to expectations, the increase in wages in the economy and a more favourable investment environment with lower labour costs, will drive the macroeconomic developments over the medium term.

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

### Table 3.3.1: Montenegro, Macroeconomic Projections, Low-growth/Stress-test Scenario

| Montenegro: Macroeconomic Projections, 2025-2027 – Low-growth/stress-test Scenario | | | |
|---|---|---|---|
| **Montenegro: low-growth/stress-test scenario** | **2025** | **2026** | **2027** |
| | | | |
| **Nominal GDP, in million euro** | 7836.8 | 8154.4 | 8466.7 |
| **Nominal growth** | 5.7 | 4.1 | 3.8 |
| **Real growth** | **3.2** | **2.4** | **2.7** |
| **Inflation (average)** | 3.4 | 2.2 | 2.0 |
| **Private consumption, real growth as %** | 5.3 | 1.5 | 1.2 |
| **Investments, real growth as %** | 5.0 | 3.0 | 3.0 |
| **Employment, growth as %** | 1.4 | 2.1 | 1.0 |
| **Unemployment rate, as %** | 11.0 | 10.2 | 9.6 |

*Source: Projections of the Ministry of Finance*

A slowed-up growth rate of the economy in the medium term would be reflected in the inflow of budget revenues and, consequently, a lower outturn. According to the Ministry of Finance forecasts, the fiscal effects on the revenue side would imply lower revenues of around 1.4 percent, relative to the baseline scenario; precisely it would be in the range of 36-47 million euro annually. This would correspond to a drop in revenues by approximately 0.5 percent of GDP, and it would be dominantly driven by a drop in revenues in 2025, primarily coming from the social contributions category, as well as lower revenue outturn from VAT and excise duties, being an indirect taxes category whose outturn is conditioned by dynamics of the consumption and investments in the economy. In the alternative scenario, a lower outturn of the category of donations, for the financing of priority reforms and projects, is also foreseen. If the outturn of this category would be at the level foreseen by the EU Growth Plan in the baseline scenario, the estimated drop in budget revenue would be lower and would amount to approximately 1 percent of GDP or about 30 million euro annually.

The budget revenue projections for the low-growth/stress-test scenario are presented in the following table:

### Table 3.3.2: Montenegro, Budget Revenue Projections, Low-growth/ Stress-test Scenario

| **GDP in million euro** | **7836.80** | | **8139.20** | | **8450.90** | |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Title** | **2025** | | **2026** | | **2027** | |
| | Million euro | % of GDP | Million euro | % of GDP | Million euro | % of GDP |
| ***Revenues*** | **2850.1** | **36.4%** | **2956.7** | **36.3%** | **3064.1** | **36.2%** |
| ***Taxes*** | **2170.6** | 27.7% | **2260.2** | 27.7% | **2342.4** | 27.7% |
| ***Contributions*** | **430.1** | 5.5% | **461.6** | 5.7% | **488.8** | 5.8% |

*Source: Projections of the Ministry of Finance*

# 4. Fiscal Framework

## 4.1. Policy Strategy and Medium-Term Objectives

Objective of the fiscal policy during the term of office of the 44th Government of Montenegro is: predictable and encouraging fiscal policy that will contribute to increasing attractiveness of Montenegro as an investment destination and more favourable business environment which generates new sources of economic growth, creates new jobs and accelerates convergence of income and GDP per capita towards the EU average.

All the planned fiscal policy measures in the medium term aim to improve business environment and competitiveness of the economy on the one hand, and to improve the standards of citizens on the other, while preserving macroeconomic and fiscal stability.

**In order to respond to the policy guidance from the economic and financial dialogue with the European Union of May 2024, and in accordance with the joint conclusions, in September 2024 the Government adopted the Proposal of Fiscal Strategy of Montenegro 2024-2027, in accordance with the systemic Law on Budget and Fiscal Responsibility which is a response to the policy guidance no. 1 from the ministerial dialogue which sets out that Montenegro should adopt a medium-term fiscal strategy.** In accordance with the economic policy of Montenegro, strategic commitments, and fiscal responsibility criteria, the Fiscal Strategy lays down fiscal policy goals, measures, and activities to achieve those goals, as well as macroeconomic and fiscal projections for the period 2024-2027.

Stable and sustainable public finances are the main prerequisite for the overall macroeconomic stability of any country, as well as responsible management of public finances. The preconditions for macro-fiscal stability are: reduction of public finance deficit in the short term, borrowing exclusively for the financing of capital projects, and generating surplus of the current budget spending, while ensuring continuous growth of the budget revenues and optimising current budget spending.

The Fiscal Strategy is the main development document for the period of the Government's term of office which sets out key measures of economic and fiscal policy and other reforms in business environment. Mere existence of the Fiscal Strategy ensures predictability of the Government's policies and vision both for the economy and investors, as well as for citizens. The main goal of the fiscal policy is to create preconditions for a comprehensive reform of the tax system in order to expand the tax base, while creating new sources of revenue, amend regulations further in accordance with EU legislation and improve competitiveness by reducing the labour tax wedge which will rank Montenegro among the countries with the lowest levies on employees' wages in Europe. In synergy with numerous other measures which seek to improve business environment, the goal is to create a predictable tax policy framework which will be the backbone of sustainable business operations and competitiveness of the Montenegrin economy in the years to come.

Moreover, **in response to policy guidance no. 2 from the Economic and Financial Dialogue with the EU, the Ministry of Finance prepared the Tax Expenditures Report**, to be adopted by the end of 2024 in accordance with the Government's Activity Programme. The Tax Expenditures Report will constitute a proper basis for analysis of the economic and fiscal impact of tax expenditures and for preparation of budget recommendations for the reduction of tax expenditures. **Such analysis will constitute basis for making decisions on fiscal policy measures in the medium and long term, and decisions on effects of the already introduced measures and reforms**. A specific legislation was amended in 2004 abolishing several tax expenditures which will produce a strong fiscal effect. These are measures and legislative amendments contained in the Fiscal Strategy of Montenegro 2024-2027. Moreover, by relying on the expected technical assistance from the IMF in 2025, the Ministry of Finance will continue to conduct more detailed estimates of tax expenditures per revenue categories, thus improving qualitative and quantitative framework of the analysis.

## 4.2. Budget Implementation in 2024

**Direct revenues** in 2024 are estimated at 2,784.3 million euro i.e. 37.5 percent of the estimated GDP (7,416.7 million euro), which is higher by 11.7 million euro, i.e. 0.4 percent than what was planned by the Budget revision. Such increase mainly resulted from higher collection of revenues generated from the value added tax as a result of growth of economic activity and household consumption.

Estimated budget revenues for 2024 are higher by 217.9 million euro, i.e. by 8.5 percent compared to 2023.

Compared to the previous year, and according to the estimate for 2024, the most significant growth has been recorded in the following revenue categories:

- **value added tax,** which is estimated at 1,204.4 million euro, which is higher by 145.1 million euro, i.e. by 13.7 percent than in 2023;
- **corporate profit tax** which is estimated at 205,7 million euro, which is higher by 54.4 million euro, i.e. by 35.9 percent than in 2023;
- **excise taxes** which are estimated at 365.8 million euro and are higher by 42.7 million euro i.e. by 13.2 percent than in 2023; and
- **personal income tax** which is estimated at 87.6 million euro and is higher by 21.2 million euro, i.e. by 31.9 percent than in 2023.

On the other hand, the Law amending the Law on the 2024 Budget sets out budget expenditures in the amount of 3,009.6 million euro, which accounts for 40.6 percent of the estimated GDP. The biggest deviation refers to allocations for the payment of entitlements for pension and disability insurance, mainly due to the increase of minimum pension, transfers to public health care institutions and growth of the allocations for gross wages (adoption of branch collective bargaining agreements which increased wages of employees in the public sector in 2024).

The most significant increase compared to 2023 was recorded with respect to allocations for mandatory spending and infrastructure projects in the following sectors: **public finances** 304 million euro, **social protection** 184 million euro, **transport** 43 million euro, **health care** 23 million euro, **public security and defence** 26.7 million euro, **agriculture, forestry and water management** 4 million euro, etc.

A total of **860 million euro** are planned under the **PUBLIC FINANCES** which is **304 million euro** i.e. 31 percent more than in 2023, and such increase mainly resulted from the increase in mandatory spending of the Government for servicing the public debt amounting to 676 million euro, which is 234 million euro more than in 2023.

A total of **989 million euro** is allocated for **SOCIAL PROTECTION**, which is **33 percent** of the total budget expenditures, and this was the largest sector in the government budget in 2024. **Entitlements for social protection** are planned to amount to **212 million euro**, which is an increase compared to 2023 of approximately **2.3 million** euro ensuring regular payments of the expenditures such as: child benefits, maternity leave, custodial care and assistance, nutrition of children in preschools and other social protection entitlements. Moreover, 737 euro were allocated for the **entitlements for pension and disability insurance in social protection sector**, which is an increase by 183 million euro due to the rise of the minimum pension to 450 euro, and also due to three regular adjustments in 2024.

A total of **442 million euro** are allocated for **HEALTH CARE** which is an increase of **23 million euro** compared to 2023 which predominantly results from accommodating needs of the health care fund and financing of public health institutions.

A total of **227.7** million euro are allocated for **PUBLIC SECURITY AND DEFENCE** which is **26.7 million euro** more compared to 2023 ensuring that allocation for the defence sector in the amount of 2 percent of GDP complies with NATO commitments.

A total of **73 million euro** are allocated for **AGRICULTURE, FORESTRY AND WATER MANAGEMENT** which is an increase of **4.2 million euro** compared to 2023, which means that more funds are expected to be allocated for incentive measures for the development of agricultural production and for regular payments of the increased old-age benefits. In addition, the current budget reserve contains additional funds for this sector amounting to **3 million** euro for the purpose of recording new agricultural areas into the registers (LPIS – Land Parcel Identification System).

A total of **237 million euro** is allocated for the **CAPITAL BUDGET** in 2024 as a development component, **which is an increase of 48 million euro compared to 2023**. A total of 115.7 million euro is allocated for implementation of the capital projects of the **Transport Administration**, while 121.3 million euro is allocated for the **Capital Projects Administration**.

<u>Given the estimated revenues and planned budget expenditures in 2024, the planned government budget deficit is at 3 percent of GDP. However, given the positive trends in budget execution during ten months of 2024 resulting in the surplus of budget spending which</u>

amounted to 1 percent of GDP; although it is expected that spending will intensify until the end of 2024 due to the expected dynamics of offsetting liabilities for the current year, the final budget balance is still expected to be significantly better than planned.

## 4.3. Budget Plans for 2025

Projections for budget revenues in the period 2025–2027 are based on the following:

- projection of macroeconomic indicators that influence the trend of budget revenues, according to the baseline macroeconomic scenario;
- existing legislation;
- tax policy measures in the medium term.

The key measures of tax and fiscal policy in the coming period include reduction of the labour tax wedge and implementation of the programmes which aim to improve competitiveness of the economy and attract credible investors through the ***Europe Now 2*** programme. Following the principles of macroeconomic stability and sustainability of public finances, the Government raised minimum wage in the economy as follows: minimum wage for those holding up to level 5 educational qualification amounts to 600 euro, while minimum wage of those holding level 6 or higher level of educational qualifications amounts to 800 euro. The Government also proposed, and the Parliament of Montenegro adopted, amendments to the law that reduce the labour tax wedge through lower contribution rates for pension and disability insurance, as follows: reduction from 15 percent to 10 percent contributions charged to employees and abolition of contributions payable for pension and disability insurance by employers (from 5.5 percent to 0 percent). This, along with two measures adopted as of October 2024, resulted in a strong increase in the minimum and average wages in the economy. The Government forecasts that proposed measures will reduce the gap in social inequality and limit emigration of labour force from the country. Increase in disposable income will increase personal consumption and accelerate economic growth, thus resulting in the growth of budget revenues generated from higher collection of the consumption taxes. Additionally, savings generated by employers with respect to all wage levels above the minimum wage will create preconditions for boosting investments in the economy, but also for compensation for the lost revenue as a result of reduction of informal economy and larger tax base created due to the growth in minimum wage.

**After implementation of this tax reform, Montenegro will become a country with one of the lowest labour tax wedges, since the tax wedge for the average wage will amount to 16.2 percent (out of 100 euro of labour cost an employee retains 83.8 euro, while the government charges 16.2 euro); while for the minimum wage of 600 euro the labour tax wedge amounts to 11.1 percent and in respect of the minimum wage of 800 euro it amounts to 13.5 percent.**

The Government budget is expected to be deprived of 180-200 million euro, due to reduction of the contributions for pension and disability insurance, whereby a part of the revenue generated on this basis is offset, as mentioned, through a higher gross base, while other countervailing measures will produce neutral fiscal effect on the budget already in 2025.

A key overview of the compensation for lost revenue is given in the table below:

**Table 4.3 Countervailing measures on the revenue side of the budget**

| | |
|---|---|
| Revenue growth above those planned in 2024 | 50.0 |
| Projected revenue growth resulting from economic activity in 2025 | 70.0 |
| Personal consumption growth resulting from the increase in minimum and average wages | 25.0 |
| Introduction of the third VAT rate | 60.0 |
| Fuel marking | 5.0 |
| Expansion of the range of excise goods | 8.0 |
| Expansion of the coverage of the personal income tax | 2.0 |
| Taxation of winnings generated from the games of chance | 5.0 |
| Implementation of the new law on the games of chance | 3.0 |
| Suppression of informal economy | 3.0 |
| Collection of tax debt by means of taxpayers' property | 1.0 |
| Collection of debt principal as a result of interest write-off | 5.0 |
| Vehicle transactions tax | 1.5 |
| **TOTAL** | **238.5** |

*Source: Ministry of Finance*

One of the key measures includes reform of the reduced VAT rate which increases from 7 percent to 15 percent on, amongst others, accommodation services in hotels and similar types of accommodation and on food and beverage services in hospitality establishments. Given that that these activities generate significant revenue, proper sustainability of tax policy amendments in this area has been ensured, without jeopardising long-term competitiveness of Montenegro as an attractive tourist destination. This measure will produce strong fiscal effects in 2025. In addition, zero VAT rate on certain goods and services is being abolished, while tax base is expanding due to legislative amendments.

It is important to emphasise that the Fiscal Strategy, in addition to the comprehensive reform of tax and fiscal policy, also sets out other numerous sectoral policy measures which improve investment and overall business environment in the country. The most significant structural reforms measures which the government plans to implement in the medium term concern labour market reforms (permanent seasonal worker, foreigners employment reform), reforms of tax administration and customs administration, establishment of an electronic company registration system, measures to suppress informal economy etc.

Based on all of the above, **budget revenues in the period 2025-2027** will range from 2,886.1 million euro, i.e. 36.2 percent of GDP in 2025 to 3,111.3 million euro, i.e. 35.5 percent of GDP in 2027. A total of 2,886.1 million euro i.e. 36.2 percent of the estimated GDP (7,965.4 million euro) are allocated for the direct budget revenues in 2025, which is higher by 101.8 million euro i.e. by 3.7 percent compared to the estimate for 2024.

Despite reduction of the labour tax wedge, i.e. reduction of the contribution rate for pension and disability insurance from 20.5 percent to 10 percent, budget revenues were increased due to an increased collection of the value added tax, excise duties, the personal income tax and corporate profit tax, fees for organising the games of chance and donations. Given the economic structure, the Government expects to increase collection of revenues from indirect taxes such as VAT and excise duties, as a result of consumption and investment demand in economy.

Projected revenue growth is achieved based on the following:

- increased personal consumption as a result of increased minimum and average wages;
- economic activity growth (according to the baseline macroeconomic scenario);
- higher base for calculating new contribution rates (increase in minimum and average wages) and expected reduction of informal economy on the labour market, along with the growing rates of employment and wages in the medium term;
- introduction of the third VAT rate of 15 percent;
- expansion of the tax coverage to include products such as non-carbonated drinks with added sugar, introduction of excise duty on still wines, fuel marking;
- taxation of winnings generated from the games of chance and implementation of the new legislation on organising the games of chance;
- collection of tax debt in accordance with the new legislation which sets out interest write-off if the principal debt has been paid;
- reduction of informal economy through implementation of the Programme for the Suppression of Informal Economy.

**Explanation of the main categories of public revenues respectively**

Total public revenues to be generated in 2025 are planned to reach 3,283.0 million euro i.e. 41.2 percent of GDP.

**Personal income tax** in 2025 is planned in the total amount of 198.4 million euro i.e. 2.5 percent of the projected GDP. The growth of this revenue category in the medium term is influenced by: projected growth of employment and wages; expected increase in tax collection due to the increase in minimum and average wages, through a broader base for calculating this tax; taxation of winnings from the games of chance, taxation of activities performed on internet and taxation on income generated by a natural person from another natural person, in accordance with the new legislation.

**Contributions** in 2025 are planned in the total amount of 449.1 million euro i.e. 5.6 percent of the projected GDP. This category of revenue is in the medium term determined by reduction of the contribution rate for pension and disability insurance charged to employees from 15 percent to 10 percent and reduction of the contribution rate charged to employers from 5.5 percent to 0 percent, i.e. in total from 20.5 percent to 10 percent. This measure will enable increase in the net wages of employees, while decreasing the gross cost of the wage bill for employers.

In addition to the impact of the mentioned reform, and through reduction of the revenues generated on this basis, the contributions grow due to the projected growth of employment and wages, expected reduction of informal employment and implementation of the Law on Restructuring Tax Receivables, in accordance with the repayment plan for this category of revenues.

**Corporate income tax** in 2025 is planned in the amount of 219.9 million euro i.e. 2.8 percent of GDP, which is the result of an extremely good collection of this category of budget revenues which already in April 2024 exceeded the Annual Plan due to the growth of economic activity in 2023.

***Value added tax*** in 2025 is projected in the amount of 1,372.6 million euro or 17.2 percent of GDP. Revenues generated from value added tax were planned based on the projections of increased household consumption and imports, in accordance with the macroeconomic scenario which includes a growth in wages and consumption resulting from tax policy reform. Moreover, the growth of this category of revenues is generated as a result of introduction of the third rate of VAT of 15 percent, whereby the greatest effect is produced as a result of introducing equal rate for hotel accommodation and for serving food and beverages in hospitality establishments and hotel restaurants.

**Revenues generated from excise taxes** in 2025 are planned in the amount of 403.5 million euro i.e. 5.1 percent of GDP. The growth of excise duty collection is planned primarily as a result of the projected increase of economic activity and household consumption, expansion of the range of excise products and continued suppression of illegal trade in tobacco and tobacco products.

In 2025, revenues generated from ***fees*** are planned in the amount of 157.2 million euro or 2.0 percent of GDP, predominantly as a result of the expected implementation of the new legislation on organising the games of chance.

***Other revenues*** in 2025 are planned in the amount of 72.0 million euro or 0.9 percent of GDP due to completion of implementation of the Economic Citizenship project.

Revenues generated from ***donations*** in the period 2025-2027 will range from 161.0 million euro i.e. 2.0 percent of GDP in 2025 to 151.4 million euro i.e. 1.7 percent of GDP in 2027, primarily as a result of the withdrawal of funds under the Growth Plan for the Western Balkans in accordance with the reforms and activities planned by the Reform Agenda of Montenegro 2024-2027.

**Public spending**[4] in 2025 is projected at the level of 3,561.7 million euro i.e. 44.7 percent of the estimated GDP and compared to 2024 it is higher by 160.5 million euro i.e. by 4.72 percent. The total growth of expenditures in 2025 primarily results from the growth of current budget spending, the largest part of which relates to mandatory expenditures whose amount is determined by the existing legislation.

Government budget expenditures are planned in the amount of **4.03** billion euro and are higher by **505.5 million euro** compared to the 2024 budget. Additional expenditures result from higher allocation for mandatory expenses.

As a matter of fact, the total government budget has been distributed based on the following structure:

| Structure of the 2025 Budget | EUR |
|---|---|
| Current budget | 1,505,713,226.92 |
| Budget of government funds | 1,304,949,635.05 |
| Capital budget | 280,000,013.00 |
| Financing transactions | 886,172,147.70 |
| Reserves | 50,000,000.00 |
| Total | 4,026,835,022.67 |

The most significant increase primarily results from additional allocations for: **public finances**, 347.7 million euro, **social protection** 51.48 million euro, **transport** 743.2 million euro, **health care** 32.1 million euro, **education, science and sports** 17.6 million euro, **spatial planning and environmental protection** 13.4 million euro, and **public security and defence** 6.1 million euro, etc.

Set of policies on the expenditure side of the budget are integrate in the medium-term budgetary framework, which are presented as part of the Macroeconomic and Fiscal Policy Guidelines for the period 2025-2027, and which will be implemented in the forthcoming period. Funds for new policies are planned in several sectors, such as: public security and defence, judiciary and protection of rights, economy and tourism, education, science and sports, healthcare system, social welfare, culture, strengthening bilateral and multilateral cooperation, and other. Total amount of funds planned for implementing new policies in these sectors is estimated at a level of approximately 150 million euro annually.

In addition to the above stated, the medium-term fiscal framework on the expenditure side takes also into account financing of measures envisaged under the Growth Plan for the Western Balkans in total amount of 383.5 million euro for the next three-year period.

[4] Estimated data on execution at the general government level for 2025

**Based on the projected revenues and expenditures of the general government (government budget and local governments' budget), public spending deficit is projected at 278.7 million euro in 2025 i.e. 3.5 percent of the estimated GDP.**

## 4.4. Medium-term Budgetary Outlook and Supporting Policies

Surplus of current budget spending is generated in all the projected years which means that the government finances all its current expenditures from the current revenues and that borrowing is done exclusively for implementation of the capital projects which underpin the projected economic growth.

| Fiscal framework (as a percentage of GDP) | | Outturn | Preliminary | Baseline scenario | | | Low growth scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 | 2027 | 2025 | 2026 | 2027 |
| Fiscal indicators | Direct public revenues | 43.0 | 42.8 | **41.2** | **40.7** | **40.3** | **41.4** | **41.2** | **41.1** |
| | Public spending | 42.3 | 45.9 | **44.7** | **43.8** | **43.3** | **45,4** | **45,1** | **44,9** |
| | Deficit/Surplus | 0.6 | -3.1 | **-3.5** | **-3.1** | **-3.0** | **-4,0** | **-3,9** | **-3,8** |
| | Interest | 1.9 | 2 | **2.0** | **2.3** | **2.5** | **2,1** | **2,4** | **2,6** |
| | Primary deficit/surplus | 2.5 | -1 | **-1.4** | **-0.8** | **-0.5** | **-1,9** | **-1,5** | **-1,2** |
| | Public debt (as a percentage of GDP) | 59.26 | 62.11 | **60.71** | **63.91** | **64.07** | **62.34** | **66.23** | **68.75** |

**Public revenues** in the period 2025-2027 continue a positive trend and range from 3,283.0 million euro i.e. 41.2 percent of GDP to 3,527.2 million euro i.e. 40 percent of GDP.

*Revenues from* ***corporate income tax*** in the medium term were estimated based on the projected nominal GDP growth in the period 2025-2027, expected effects of collection of the debt restructured on this basis, from the previous period, in accordance with the Law on Restructuring Tax Receivables, as well as on the basis of other tax policy measures. In the period 2025-2027, this revenue category will record an average annual growth rate of around 5.9 percent.

Revenues from the **value added tax** are planned based on projections of the growth in household consumption and imports in accordance with macroeconomic scenario that sets out growth in wages and consumption due to tax policy reform. In addition, the growth of this revenue category is generated by introducing the third rate of VAT of 15 percent, whereby the greatest effect is produced due to introducing equal rate for hotel accommodation and for serving food and beverages in hospitality establishments and hotel restaurants.

In the period 2025-2027, as a result of the projected economic activity growth, the revenues generated on this basis will grow at the average annual rate of around 6.8 percent, which accounts for 17.0 percent of GDP. During the mentioned period, the revenues generated from value added tax grow as a result of implementation of the specific tax policy measures.

***Revenues generated from excise duties*** in 2025 are planned in the amount of 403.5 million euro i.e. 5.1 percent of GDP. The increase in excise duty collection is planned primarily as a result of the projected growth of economic activity and household consumption, expansion of the range of excise goods and continued suppression of illegal traffic in tobacco and tobacco products.

In the period 2025-2027, as a result of the projected growth of economic activity, the revenues generated from excise taxes due to expansion of the range of excise goods and continued suppression of illegal tobacco and tobacco products will grow at the average annual rate of around 6.3 percent accounting for around 5.0 percent of GDP. The revenue generated from excise duties in the medium term will record an increase in collection due to legislative amendments and broader tax base.

The revenue generated from ***donations*** in the period 2025-2027 will range from 109.2 million euro i.e. 1.4 percent of GDP in 2025 to 100 million euro i.e. 1.1 percent of GDP in 2027, predominantly as a result of the withdrawal of grants and donations for construction of the second section of the Bar-Boljare highway and withdrawal of funds under the Growth Plan for the Western Balkans, in accordance with reforms and activities planned in the Reform Agenda of Montenegro for the period 2024-2027.

Significant revenues will also be generated in the event of the adoption of the new legislation on legalisation of illegally built structures and implementation of the Law on Confiscation of the Proceeds of Crime, as well as in the event of finalisation of the tender procedure for granting a long-term concession for the use of the Airport of Montenegro. These revenues were not foreseen in the presented fiscal framework for the period 2024-2027 in order to ensure conservative revenue planning and financing of public spending.

Trends in public spending in the period 2025-2027 are characterised by a controlled increase in current consumption and stable growth of mandatory expenditures, the trend of which is determined by regular adjustment in accordance with the valid legislation.

The nominal growth of expenditures in the following three-year period is primarily determined by:

- a significant increase in allocations for financing capital expenditures of infrastructure projects;
- growth of social care transfers (based on the projected adjustment of pensions and basic financial entitlements for social and child care, and in accordance with the projected inflation growth and increase of average wages);
- transfers to institutions, individuals, NGOs and public sector, primarily in respect of financing the health care system;
- implementation of the new policies.

**Adjusting the pensions and social welfare benefits**

Process of adjusting the pensions and social welfare benefits in Montenegro is based on adjusting the amounts to economic conditions, such as the inflation, increase in cost of livening, or average wage, and this process is defined by relevant laws.

1. **Adjusting pensions**

   Pensions are adjusted in accordance with the Law on Pension and Disability Insurance using the following parameters:

   - Inflation: using the consumer price index published by the Statistics Administration (MONSTAT);
   - Average wage: increase or decline in the average wage of employees in Montenegro.

   The adjustment is done three times a year (on 1 January, 1 May, and 1 September) applying the so-called rotating formula, meaning that the pensions are adjusted with a percentage which represents a sum of 75 percent of the change in consumer prices and 25 percent of change in wages if the rate of change in the consumer price index is higher than the rate of the change in the wages index, or equal to that rate; or with a percentage which represents a sum of 25 percent of the change in consumer prices and 75 percent of change in wages if the rate of change in the consumer price index is lower than the rate of the change in the wages index.

   **If the result of the sum of percentages of growth or decline in consumer prices and growth or decline in wages would result in negative adjustment, the pension value is not adjusted.**

2. **Adjusting social welfare benefits**

   Social welfare benefits, including financial welfare support, child benefits and other types of assistance are adjusted according the Law on Social and Child Protection.

   The adjustment is done semi-annually (on 1 January and 1 July of the current year) to account for developments in the cost of living and average wage of employees on the territory of Montenegro using the statistical data for the previous semi-annual period with a percentage which represents a sum of the half of the rate of growth or decline in the cost of living and half of the rate of growth or decline in wages.

   **If the result of the sum of percentages of half of the rate of growth or decline in costs of living and half of the rate of growth or decline in wages would result in negative adjustment, the welfare benefits value is not adjusted.**

According to the expected revenues and expenditures of the general government, the public spending deficit is projected to range from 3.5 percent of GDP in 2025 to 3.1 percent of GDP in 2027.

The table below outlines basic categories of revenues and expenditures and fiscal indicators.

| Annual GDP (in million euro) | 7,416.7 | | 7,965.4 | | 8,372.8 | | 8,757.5 | | 7,836.8 | | 8,154.4 | | 8,466.7 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | preliminary | | baseline scenario | | | | | | low-growth scenario | | | | | |
| Estimate of public finances for 2023-2025 | 2024 | | 2025 | | 2026 | | 2027 | | 2025 | | 2026 | | 2027 | |
| | mil. euro | % of GDP | mil. euro | % of GDP | mil. euro | % of GDP | mil. EUR | % of GDP | mil. euro | % | mil. euro | % of GDP | mil. euro | % of GDP |
| Public revenues, of which: | 3,174.1 | 42.8 | 3,283.0 | 41.2 | 3,410.3 | 40.7 | 3,527.2 | 40.3 | 3,247.0 | 41.4 | 3,362.8 | 41.2 | 3,480.0 | 41.1 |
| Personal income tax | 175,1 | 2.4 | 198.4 | 2.5 | 204.4 | 2.4 | 212.7 | 2.4 | 196.8 | 2.5 | 203.4 | 2.5 | 213.7 | 2.5 |
| Value added tax | 1,204.4 | 16.2 | 1.372.6 | 17.2 | 1.421.8 | 17.0 | 1.464.5 | 16.7 | 1.365.3 | 17.4 | 1.417.8 | 17.4 | 1.458.5 | 17.2 |
| Excise duties | 365.8 | 4.9 | 403.5 | 5.1 | 421.3 | 5.0 | 438.9 | 5.0 | 401.5 | 5.1 | 419.3 | 5.1 | 435.4 | 5.1 |
| Local taxes | 22.3 | 0.3 | 22.6 | 0.3 | 23.3 | 0.3 | 24.4 | 0.3 | 22.6 | 0.3 | 23.3 | 0.3 | 24.4 | 0.3 |
| Contributions | 587.1 | 7.9 | 449.1 | 5.6 | 476.6 | 5.7 | 503.0 | 5.7 | 430.1 | 5.5 | 461.6 | 5.7 | 488.8 | 5.8 |
| Public spending, of which: | 3,401.2 | 45.9 | 3,561.7 | 44.7 | 3,680.2 | 44.0 | 3,799.9 | 43.4 | 3,561.7 | 45.4 | 3,680.2 | 45.1 | 3,799.9 | 44.9 |
| Gross wages | 773.8 | 10.4 | 796.0 | 10.0 | 807.7 | 9.6 | 814.6 | 9.3 | 796.0 | 10.0 | 807.7 | 9.6 | 814.6 | 9.3 |
| Interests | 151.9 | 2.0 | 162.8 | 2.0 | 192.1 | 2.3 | 219.6 | 2.5 | 162.8 | 2.0 | 192.1 | 2.3 | 219.6 | 2.5 |
| Transfer for social protection | 1011.2 | 13.6 | 1070.3 | 13.4 | 1121.7 | 13.4 | 1163.6 | 13.3 | 1070.3 | 13.4 | 1121.7 | 13.4 | 1163.6 | 13.3 |
| Capital expenditures | 398.2 | 5.4 | 445.7 | 5.6 | 466.7 | 5.6 | 499.0 | 5.7 | 445.7 | 5.6 | 466.7 | 5.6 | 499.0 | 5.7 |
| Transfers to institutions, individuals, NGO and public sector | 511.8 | 6.9 | 540.8 | 6.8 | 554.6 | 6.6 | 559.7 | 6.4 | 540.8 | 6.8 | 554.6 | 6.6 | 559.7 | 6.4 |
| Surplus/deficit | -227.1 | -3.1 | -278.7 | -3.5 | -269.9 | -3.2 | -272.7 | -3.1 | -314.7 | -4.0 | -317.4 | -3.9 | -319.9 | -3.8 |
| Primary surplus/deficit | -75.2 | -1.0 | -115.9 | -1.5 | -77.8 | -0.9 | -53.1 | -0.6 | -151.9 | -1.9 | -125.3 | -1.5 | -100.3 | -1.2 |
| Debt repayment | 518.5 | 7.0 | 836.5 | 10.5 | 368.6 | 4.4 | 986.4 | 11.3 | 836.5 | 10.7 | 368.6 | 4.5 | 986.4 | 11.7 |
| Expenditures for the purchase of securities | 2.3 | 0.0 | 34.2 | 0.4 | 17.7 | 0.2 | 17.7 | 0.2 | 34.2 | 0.4 | 17.7 | 0.2 | 17.7 | 0.2 |
| Financing, of which: | 753.8 | 10.2 | 1156.9 | 14.5 | 660.8 | 7.9 | 1281.4 | 14.6 | 1192.9 | 15.2 | 708.3 | 8.7 | 1328.6 | 15.7 |
| Loans and credits | 660.2 | 8.9 | 893.1 | 11.2 | 572.4 | 6.8 | 1080.7 | 12.3 | 929.1 | 11.9 | 619.9 | 7.6 | 1127.9 | 13.3 |
| Use of deposits | 52.1 | 0.7 | 228.0 | 2.9 | 50.8 | 0.6 | 163.5 | 1.9 | 228.0 | 2.9 | 50.8 | 0.6 | 163.5 | 1.9 |

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

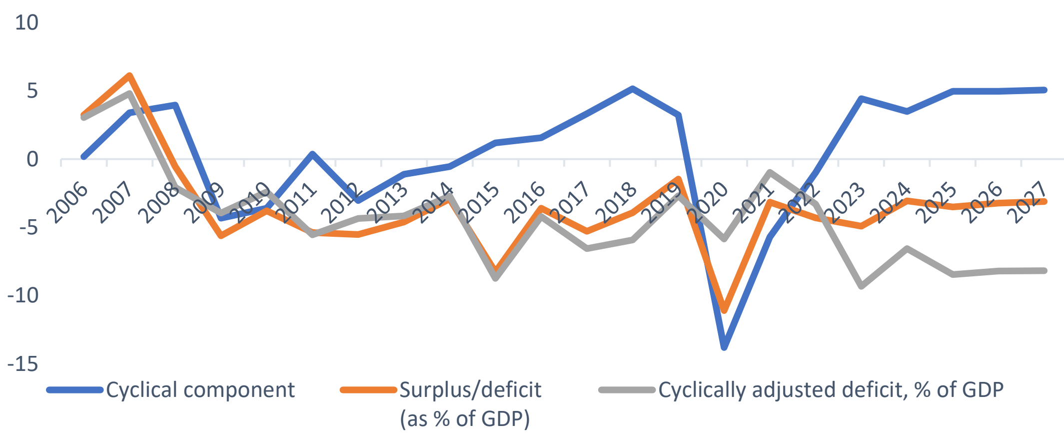
Cyclically adjusted balance shows real disbalances in public spending and refers to the real surplus/deficit relative to GDP which would prevail if the economy would grow at the level of its potential. It is calculated as the difference between surplus/deficit, as a share of GDP, and estimated cyclical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

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

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

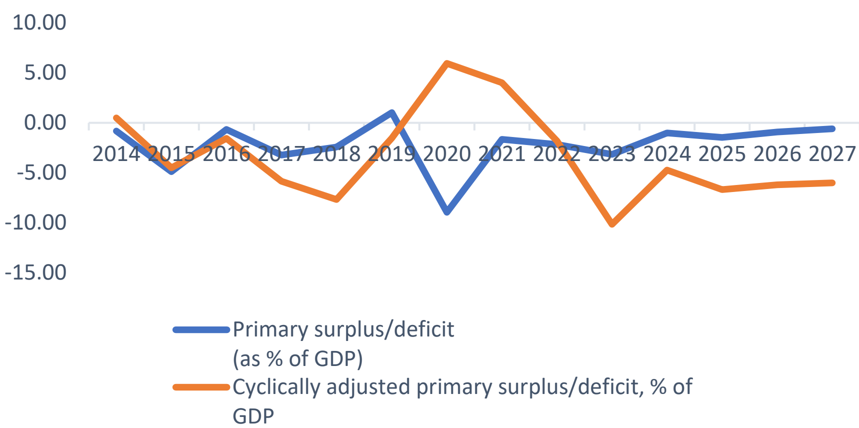
Values of the potential growth rate and potential GDP and output gap needed for the calculation are outlined in Chapter 3 – Macroeconomic Framework.

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




In the second step, the elasticity coefficients of the following categories of revenues were estimated: indirect taxes, personal income tax, corporate profit tax and social contributions. Each category mentioned above is firstly considered relative to the relevant base, while elasticity of this revenue component relative to the output gap is calculated by multiplying with the weight (share of a certain revenue category in total revenues). The parameter of revenue sensitivity and parameter of sensitivity of public finance balances are calculated by multiplying elasticity coefficient of the revenue categories mentioned above with the share of total revenues in GDP because the elasticity coefficient of expenditures equals approximately 0. The expenditure category for which elasticity was calculated refers to expenditures on the unemployed, but when one considers a very low share of such expenditures in total expenditures, it is calculated that the total sensitivity parameter of the expenditure side of the budget equals 0. As for the nature of fiscal policy with a positive output gap, we arrive at the stabilisation nature of the fiscal policy during 2024, which means that it will change to a pro-cyclical nature in 2025, and after that it will again have the nature of stabilisation policy due to restrictive policy and positive output gap.

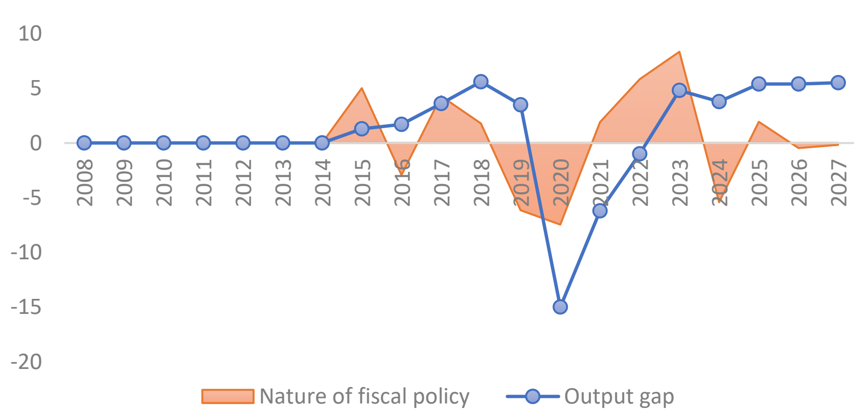
Figure 4.5.2 – Trends of primary surplus/deficit




The parameter of sensitivity of surplus/deficit relative to the production gap is estimated at 0.92. The model results are limited due to specificity of the country and frequent changes to the fiscal policy measures and length of time series used in elasticity assessment, but they also reflect essential developments of structural and cyclical components of the public finance balance. Moreover, a cyclically adjusted primary balance was calculated as well (surplus/deficit without interests), which was additionally reduced by a one-off collection of revenues and one-off expenditures.

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

Figure 4.5.3 Nature of fiscal policy



According to the current scenario of the projected trends, after a mild negative output gap in 2022, a **positive output gap** of 4.8 percent is expected in 2023, followed by a mind decline of 3.8 percent in 2024, while after that period it grows and maintains the positive level of 5.5 percent in 2027, given that in the medium term, preconditions are created for a significant acceleration of the growth of the Montenegrin economy.

As outlined in the figure, following the expansive policy after 2022 and 2023 due to the increased costs, 2024 is characterised by a restrictive policy with a positive output gap which indicates a stabilising (countercyclical) nature of the fiscal policy. After that, the year 2025 is characterised by an expansive policy with a positive output gap, and then, during 2026 and 2027, it will shift towards a slightly restrictive policy with a positive output gap which indicates stabilisation (countercyclical) nature of the fiscal policy.

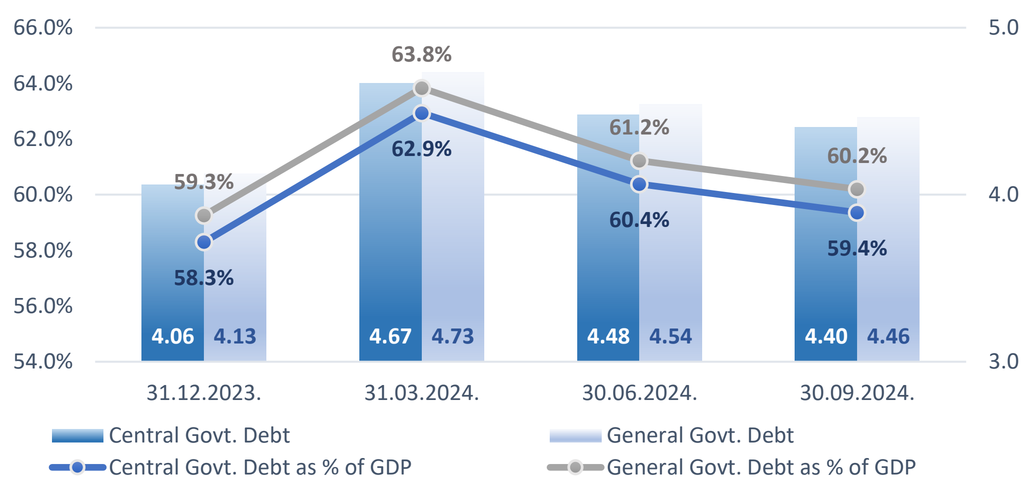
## 4.6. Debt Levels and Developments, Analysis of Below-the-line Operations and Stock-flow Adjustments

### Central and General Government Debt in 2024

Total General Government debt of Montenegro as on 31 December 2023 amounted to 4,126.82 million euro, i.e. 59.26 percent of GDP[5] and included Central Government debt which amounted to 4,059.91 million euro i.e. 58.30 percent of GDP and local governments' debt which amounted to 66.91 million euro i.e. 0.83 percent of GDP.

Net General Government debt of Montenegro as on 31 December 2023, including deposits of the Ministry of Finance, amounted to 3,974.41 million euro i.e. 57.07 percent of GDP.

**Figure 1: Gross Central and General Govt. Debt of Montenegro in billion euro and as % of GDP in 2024**

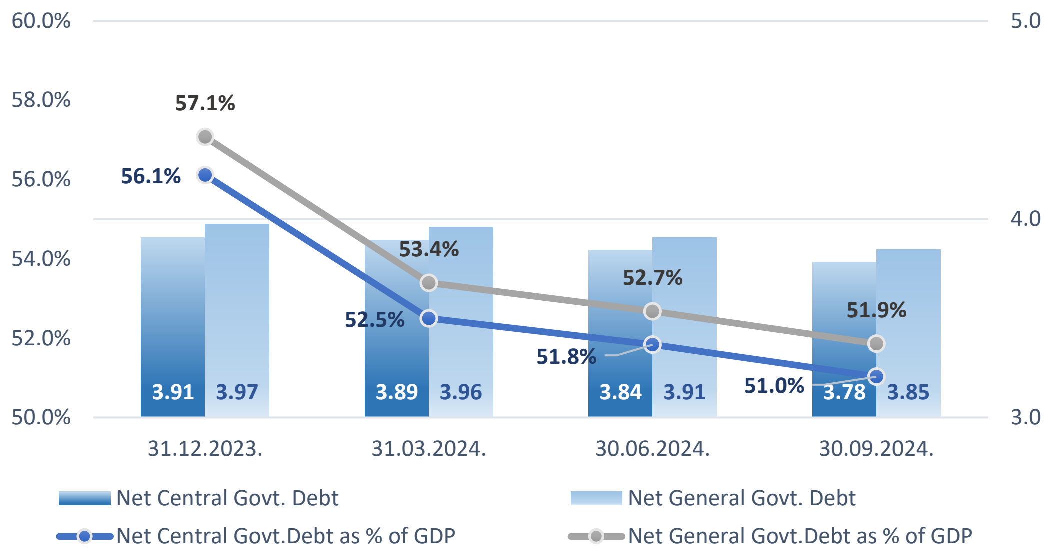



[5] According to the MONSTAT data, GDP for 2023 amounts to 6,964.00 million euro.

As of 30 September 2024, the General Government debt was increased by 337.8 million euro if compared to the end of 2023, which represents a net effect of the debt increase resulting from new borrowing and reduction due to regular debt repayment in 2024. However, given the amount of deposits at the end of Q3, the net General Government debt decreased by 128.0 million euro compared to the end of the year.

Since the government generated substantial revenue in 2024 and issued dollar bonds worth 750 million USD[6], the Ministry of Finance had during the year and still has at its disposal a significant amount of deposits which affect trend of the net debt. Figure 2 shows the trend of net Central and General Government debts in absolute terms and relative to GDP.

**Figure 2: Net Central and General Govt. Debt of Montenegro in billion euro and as a % of GDP in 2024**




The trends of Central and General Government debt in the first three quarters of 2024 were primarily affected by an increase of the foreign debt due to new borrowings, but also by the reduction of domestic debt resulting from regular repayment. Trends of foreign and domestic debts in 2024 in absolute terms are outlined in Table 1.

***Table 1: Trends of foreign and domestic debts in 2024 and of the local governments' debt, in million euro in 2024***

| Year | Foreign debt | Domestic debt | Central Govt. Debt | Local governments' debt | General Govt. Debt |
|---|---|---|---|---|---|
| **31 December 2023** | 3,517.29 | 542.62 | 4,059.91 | 66.91 | 4,126.82 |
| **31 March 2024** | 4,156.65 | 511.29 | 4,667.95 | 66.34 | 4,734.28 |

[6] 687.76 million euro

| | | | | | |
|---|---|---|---|---|---|
| **30 June 2024** | 4,091.32 | 386.70 | 4,478.03 | 62.42 | 4,540.45 |
| **30 September 2024** | 4,046.07 | 356.48 | 4,402.55 | 61.82 | 4,464.37 |

Debt trends during the mentioned period were primarily affected by borrowing on the international market through dollar bond. Namely, the Ministry of Finance issued an international bond, at the beginning of March 2024, with value of 750 million US dollars, with maturity of seven years and interest rate of 7.25 percent annually. After conversion into euro, in accordance with the executed hedging arrangement, the value of this debt amounts 687.8 million euro with an underlying euro interest rate of 5.88 percent.

Moreover, increase in debt in the first three quarters of 2024 was also caused by disbursements from the existing loan facilities for implementation of the infrastructure and development projects in the amount of 44.0 million euro.

In accordance with the aforementioned borrowings, foreign debt got increased by 528.8 million euro compared to the end of the previous year, which primarily resulted from issuance of the previously mentioned US dollar bond, whereas domestic debt decreased by 186.1 million euro. The reason for such a significant decrease in domestic debt is regular debt repayment and the fact that during the observed period there were no new borrowings from domestic sources. The trends of foreign and domestic debts resulted in an increase of the government debt by 342.7 million euro, while relative to GDP it was reduced by about 4 percentage points.

*Table 2: Trends of foreign and domestic debts in 2024 and local governments' debt in 2024 as a % of GDP*

| Year | Foreign debt | Domestic debt | Central Govt. Debt | Local governments' debt | General Govt. Debt |
|---|---|---|---|---|---|
| **31 December 2023** | 50.51% | 7.79% | 58.30% | 0.96% | 59.26% |
| **31 March 2024** | 56.04% | 6.89% | 62.94% | 0.89% | 63.83% |
| **30 June 2024** | 55.16% | 5.21% | 60.38% | 0.84% | 61.22% |
| **30 September 2024** | 54.55% | 4.81% | 59.36% | 0.83% | 60.19% |

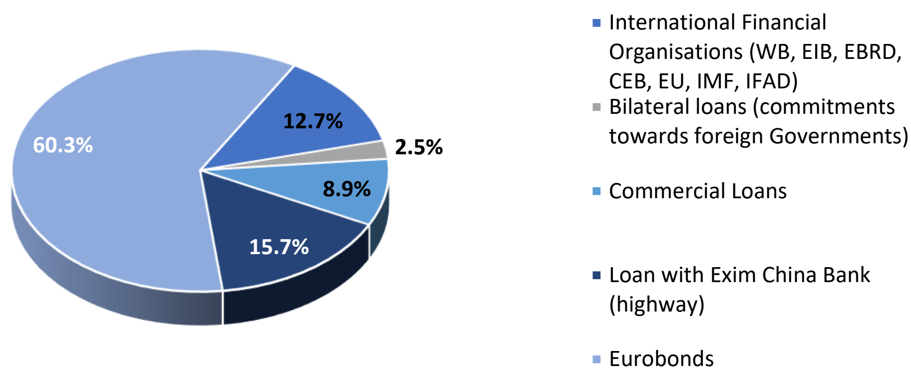
The structure of foreign debt, which equalled 4,046.1 million euro at the end of the third quarter, includes debt to international financial institutions[7] which amounted to around 12.7 percent, debt arising from bilateral (soft) loans[8] which amounted to around 18.1 percent, debt arising from

[7] World Bank (IBRD, IDA) EIB, EBRD, CEB, European Commission, IFAD

[8] Paris club, contracts with the KfW Bank, China EXIM Bank; governments of Poland, France, Spain, Canada, and Israel

commercial loans for budget financing which amounted to around 8.9 percent, while debt arising from Eurobonds amounted to around 60.2 percent of the total foreign debt.

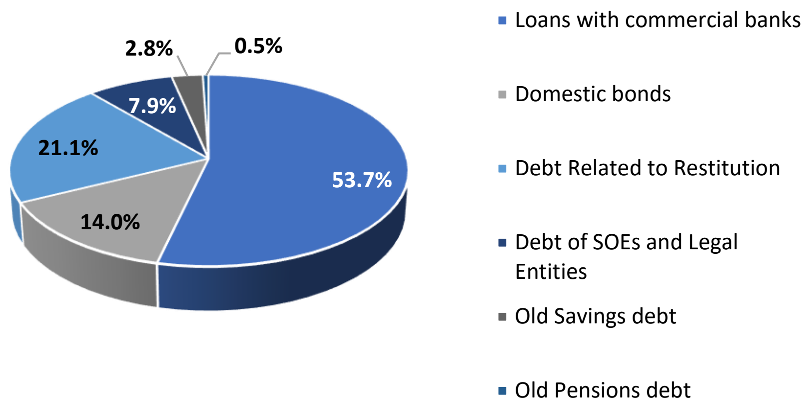
**Figure 3: Composition of foreign debt as of 30-Sep-2024**




The amount of foreign debt does not include liabilities arising from unresolved debt-creditor issues towards Libya and Kuwait, amounting to around 1 percent of GDP. The debt owed to the governments of these two countries was assigned to Montenegro on the basis of the distribution of unallocated debt (5.88 percent out of 38 percent for Serbia and Montenegro), and in accordance with the Agreement on Succession Issues of the Former Socialist Federal Republic of Yugoslavia done at Vienna on 29 June 2001, and it is to be repaid by reaching common positions on the Committee for the Distribution of Financial Assets and Liabilities of the Former SFRY.

Structure of the domestic debt, which amounted to 356.5 million euro at the end of the Q3 of this year, includes the debt arising from the loans taken out from domestic commercial banks which amounted to 53.7 percent, domestic bonds which accounted for 14.0 percent, while the share of the liabilities towards legal persons and business undertakings amounted to 7.9 percent. Other liabilities concerning domestic debt include liabilities arising from the past from old foreign currency savings, restitution, and arrears of pensions and they account for 24.5 percent of the total domestic debt.

**Figure 4: Structure of domestic debt as on 30 September 2024**




Local governments' debt showed a slight downward trend in 2024 and no significant deviations are expected.

The amount of the Central Government debt repayment in 2024 totalled 489.1 million euro, of which 395.0 million euro were used for repayment of the principal, while 94.1 million euro were used for repayment of the interest. In addition to the repayment of the Central Government debt, the Ministry of Finance also repaid in 2024 the debt amounting to 5.9 million euro which resulted from the issued government guarantees.

*Table 3: Repayment of Central Government debt and debt arising from government guarantees in the first three quarters of 2024*

| Category | 30 September 2024 |
|---|---|
| Repayment of principal to residents | 180.9 |
| Repayment of principal to non-residents | 214.1 |
| **Total repayment of principal** | **395.0** |
| Repayment of interest to residents | 14.16 |
| Repayment of interest to residents | 79.92 |
| **Total repayment of interest** | **94.1** |
| **Repayment of external government guarantees** | 5.9 |
| **TOTAL** | **495.0** |

The following loan agreements were concluded with creditors until and including 30 September 2024:

- Loan agreement with the European Investment Bank (EIB) for financing the **Montenegrin Railway Improvement Project** in the amount of 40 million euro. The total amount of the project, which will be implemented by the Railway Infrastructure of Montenegro, is estimated at 80 million euro, of which 35.5 million euro were allocated as a grant under the Western Balkans Investment Framework (WBIF), while 40 million euro were provided by Montenegro through a loan agreement concluded with the EIB.
- Loan agreement with the European Bank for Reconstruction and Development (EBRD) for financing of the **Project for the Reconstruction of Public Health Care Institutions of the Clinical Centre of Montenegro, Bijelo Polje General Hospital and Cetinje General Hospital**, in the amount of 12 million euro with the aim of improving energy efficiency of these facilities. Furthermore, 2 million euro of grant funds and 1 million euro of technical support were also secured for implementation of this project;
- Loan agreement with the World Bank, the French Development Agency, and the OPEC Fund for International Development for the **development policy-based loan (DPL)** for 180 million euro;
- Loan agreement within a facility for **procurement of two patrol vessels for the needs of the Army of Montenegro**, under a bilateral arrangement with the French Government, in the amount of around 120 million euro;
- Loan agreement with the World Bank for the **Project on the Energy Sector Decarbonisation** in the amount of 31 million euro.

### Debt Management in 2024

After exiting the hedging arrangement related to the dollar debt to the China EXIM Bank in 2023, when approximately 64.0 million US dollars were generated based on the positive mark-to-market, the Ministry of Finance concluded hedging arrangement again in January 2024 for this debt. By doing so, the entire amount owed to the China EXIM Bank amounting to 754.1 million US dollars was converted into euro, at the exchange rate EUR/USD 1.087, while dollar interest rate of 2 percent was replaced by euro interest rate of 0.98 percent.

In addition, following the best international practice of active public debt management, a hedging transaction, i.e. a cross-currency swap transaction, was carried out by which the debt arising from the dollar bond issuance in March 2024 was converted from US dollars to euro, at the EUR/USD exchange rate of 1.0905. At the same time, dollar interest rate of 7.25 percent was replaced by euro hedging interest rate of 5.88 percent.

In addition to the fact that these transactions contributed to reduction of the currency risk, they also significantly improved currency structure of the Central Government debt, therefore the share of euro in the Central Government debt at end of the Q3 2024 amounted to 99.0 percent, which is 17.7 percentage points more compared to the end of 2023.

**Figure 5: Currency breakdown of the Central Government debt (31-Dec-2023)**

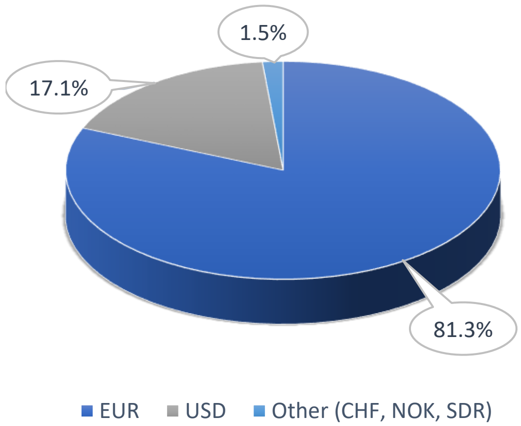
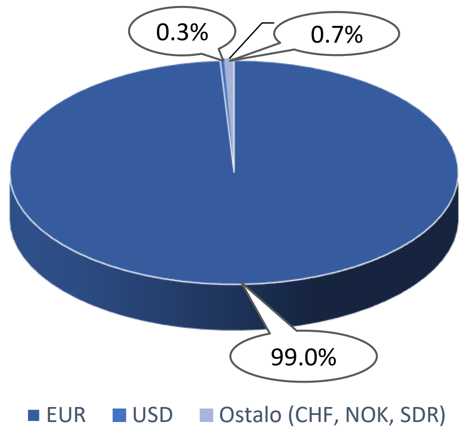



**Figure 6: Currency breakdown of the Central Government debt (30-Sep-2024)**




Debt with a fixed interest rate has a predominant share in the interest rate structure, accounting for around 84.5 percent of the total Central Government debt.

**Figure 7: Interest rate structure of the CentrL Govt. debt (31 December 2023)**

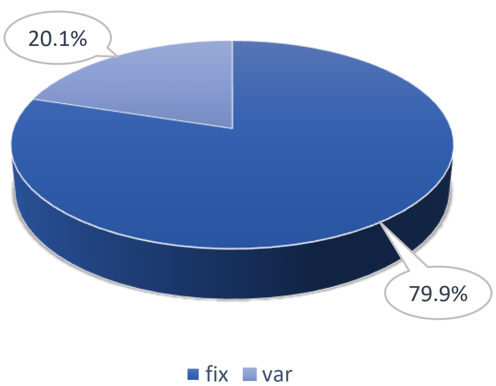
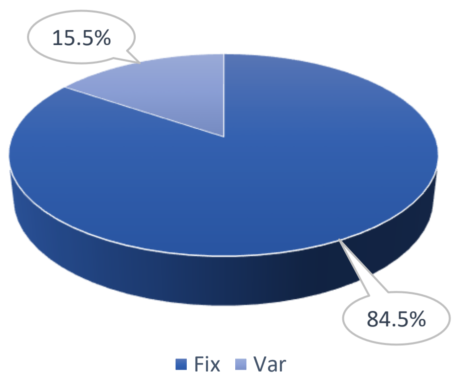



**Figure 8: Interest rate structure of the Central Govt. Debt (30 September 2024)**




In December 2024, the Government of Montenegro adopted the Medium-term Debt Management Strategy of Montenegro for the period 2025-2027, where in the guidelines for debt management over the next three-year period are defined. The Strategy is aimed at identifying and overcoming key risks in debt management, which are primarily dealing with the refinancing risk, and the management of the currency and interest rate risk.

**Projections of the trends of Central and General Government debt in the period 2024-2027**

Projections of the trends of Central and General Government debt for the following four-year period are based on the projections of the trends of fiscal parameters set out in the Fiscal Strategy of Montenegro 2024-2027. The level of borrowing in the coming period will primarily be affected by the amounts of the shortfall funds specified in the 2024-2027 fiscal framework which show that the government will in the coming period borrow only for the needs of debt repayment and financing of the capital budget.

*Table 4: Structure of the shortfall funds in the period 2024-2027, in million euro*

| | | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| 1 | Debt repayment | 504.5 | 820.9 | 353.1 | 971.7 |
| 2 | Capital expenditures | 245.3 | 319.9 | 291.6 | 296.7 |
| **3** | **Shortfall (1+2)** | **743.8** | **1,140.8** | **644.7** | **1,268.4** |

Liabilities arising from foreign and domestic bonds, repayment of the loan taken out from Exim China Bank for construction of the first section of the Bar-Boljare highway, PBG arrangements with the World Bank from 2018 and 2020 and loan taken out from Deutsche Bank in 2023 account for the largest share of debts to be repaid in the coming years. The largest one-off repayments, which predominantly affect the amount to be repaid, include Eurobond due in 2025 in the amount of 500 million euro, domestic bonds due in 2026 in the amount of 50 euro million and Eurobond due in 2027 in the amount of 750 million euro.

Shortfall of funds for 2025 is estimated to amount 1,140.8 million euro.  To secure the shortfall funds for 2025, the Ministry of Finance has concluded a DPL facility of 180 million euro, of which 80.0 million euro is provided by the World Bank, while the rest of funds are provided by the French Development Agency (AFD) and the OPEC Development Fund, 50.0 million euro each.

The Ministry of Finance is also negotiating with the World Bank on the possibility that, instead of the second planned tranche of DPL in the amount of up to 80 million euro for 2025, it could potentially receive a policy-based guarantee (PBG) from the World Bank, which would constitute basis for taking out loans from commercial banks in the amount of up to 250.0 million euro in 2025. It is expected that this loan will be significantly more favourable than standard commercial loans, both from the aspect of financing costs and from the aspect of maturity, while compared to the standard DPL arrangement a much higher amount of funds would be secured.

Moreover, the government intends to focus on development of the domestic market of government bonds in which, besides institutional investors, citizens will also find their place through bonds for the individuals (retail bonds). That will enable diversification of the sources of financing and reduce dependence on external sources of financing.  The Ministry of Finance is considering a possibility to issue retail bods of 50 million euro, with maturity from two to three years. The State will enable citizens to invest excess funds under favourable terms and to generate higher yield from funds presently kept as deposits with banks.

The Ministry of Finance intends to secure the remaining shortfall funds for financing in 2025 by issuing bonds on foreign and domestic markets.

Around 353 million euro will have to be provided for debt repayment in 2026, and this amount will be mostly used for regular repayment of the loan to the China EXIM Bank taken out in 2014, payment of the domestic bond from 2019, in the amount of 50 million euro, regular repayment of loans to the World Bank (PBG 1 and PBG 2) taken out in 2018 and 2020 and repayment of the loan to Deutsche Bank taken out in 2023.

However, around 972 million euro will have to be provided in 2027 for repayment of the debt from the previous period, the largest share of which relates to payment of the bond from 2020, in the amount of 750 million euro, regular repayment of the loan to the China EXIM Bank taken out in 2014 and loan to the World Bank (PBG 2) taken out in 2020. Therefore, a larger amount of deposits is projected to be provided in 2026 in order to reduce the borrowing needs in 2027 and create fiscal reserve for the following year.

It is very important to emphasise that debt trends will be largely affected by financing of the infrastructure and development projects. In this regard, loans are planned to be taken out for the development and infrastructure projects in the sectors of education, health care, defence, road and railway infrastructure, utilities infrastructure, energy, digital infrastructure, environmental protection etc. Around 383 million euro of support were allocated to Montenegro through the EU Reform and Growth Facility for the region, of which 275 million euro refer to loans for the development and infrastructure projects, while 110 million euro will be allocated through grants. The projects must be implemented by the end of 2028.

**Table 5: Baseline scenario – Projections of trends of Central and General Government debt in the period 2024-2027, in million euro and as a percentage of GDP**

| | 2024. | 2025. | 2026. | 2027. |
|---|---:|---:|---:|---:|
| GDP[9] | 7,416.70 | 7,965.40 | 8,372.80 | 8,757.50 |
| Central Govt. debt | 4,491.51 | 4,729.35 | 5,285.04 | 5,595.05 |
| **Central Govt. debt as % of GDP** | 60.56 | 59.37 | 63.12 | **63.89** |
| Local governments' debt | 65.00 | 65.00 | 65.00 | 65.00 |
| General Govt. debt | 4,556.51 | 4,794.35 | 5,350.04 | **5,660.05** |
| **General Govt. debt as % of GDP** | **61.44** | **60.19** | **63.90** | **64.63** |
| Deposits[10] | 385.04 | 144.24 | 249.54 | 131.14 |
| Net Central Govt. debt | 4,106.47 | 4,585.11 | 5,035.50 | 5,463.91 |
| **Net Central Govt. debt as % of GDP** | **55.37** | **57.56** | **60.14** | **62.39** |

[9] GDP estimated for the period 2024-2027, as projected by the Ministry of Finance.
[10] Including 38,477 ounces of gold

| | | | | |
|---|---|---|---|---|
| Net General Govt. debt | 4,171.47 | 4,650.11 | 5,100.50 | 5,528.91 |
| **Net General Govt. Debt as % of GDP** | **56.24** | **58.38** | **60.92** | **63.13** |

Therefore, Central Government debt is expected to increase in absolute terms in 2025 compared to the end of 2024 by around 238 million euro, while relative to the GDP, the Central Government debt will decrease by 1.19 percentage points. In 2026, Central Government debt is expected to increase in absolute terms compared to the end of 2025 by around 555 million euro, while relative to GDP it is expected to increase by 3.75 percentage points. During 2027, the Central Government debt is expected to increase in absolute terms if compared to the end of 2026 by approximately 310 million euro, while its increase relative to GDP is expected to amount 0.77 percentage points.

Debt management policy is based on the commitment to improve quality of the debt portfolio with any future borrowings, placing emphasis on reducing the borrowing costs and optimising the repayment profile. The goal is to reduce annual burden on the budget caused by debt repayment.

**Low Growth Scenario**

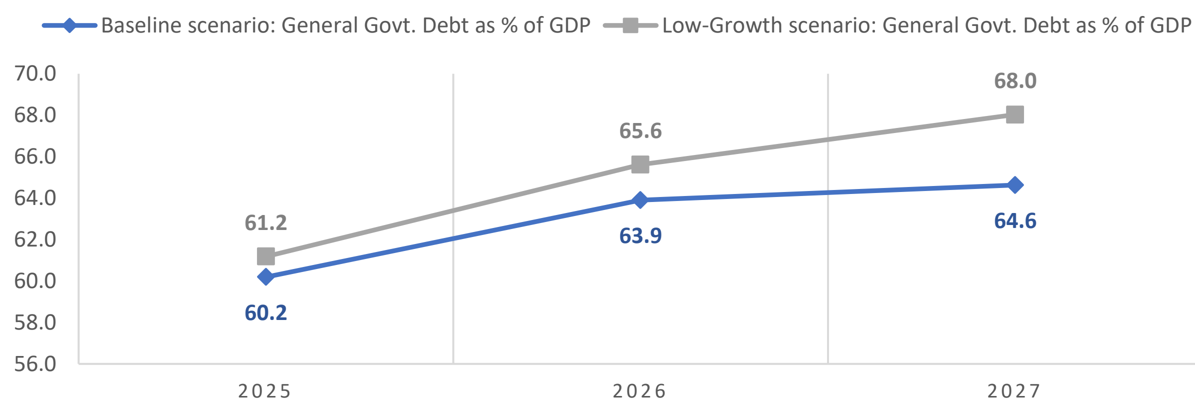
If the economic growth slows down and the amount of revenue is reduced, the lower-growth scenario predicts that changes will be made in projections of the Central and General government debt in the medium term, relative to GDP, while in nominal terms there will be mild growth as early as 2027, due to the need for additional borrowing that will be necessary to meet budgetary needs.

**Table 6: Low-growth scenario – Projections of trends of Central and General government debt in the period 2024-2027, in million euro and as a percentage of GDP**

| | **2024** | **2025** | **2026** | **2027** |
|---|---|---|---|---|
| GDP[11] | 7,416.70 | 7,836.8 | 8,154.4 | 8,466.7 |
| Central Govt. debt | 4,491.51 | 4,729.35 | 5,285.04 | 5,695.05 |
| **Central Govt. debt as % of GDP** | **60.56** | **60.35** | **64.81** | **67.26** |
| Local governments' debt | 65.00 | 65.00 | 65.00 | 65.00 |
| General Govt. debt | 4.556.51 | 4,794.35 | 5,350.04 | 5,760.05 |
| **General Govt. debt as % of GDP** | **61.44** | **61.18** | **65.61** | **68.03** |
| Deposits[12] | 385.04 | 108.24 | 166.04 | 100.44 |
| Net Central Govt. debt | 4,106.47 | 4,621.11 | 5,119.00 | 5,594.61 |
| **Net Central Govt. debt as % of GDP** | **55.37** | **58.97** | **62.78** | **66.08** |
| Net General Govt. debt | 4,171.47 | 4,686.11 | 5,184.00 | 5,659.61 |
| **Net General Govt. debt as % of GDP** | **56.24** | **59.80** | **63.57** | **66.85** |

[11] Estimated GDP under the low-growth scenario for the period 2024-2027, as projected by of the Ministry of Finance
[12] Including 38,477 ounces of gold

**Figure 9: Comparative overview of General Government debt trends in baseline scenario and low-growth scenario, in million euro and as % of GDP, in the period 2025-2027**



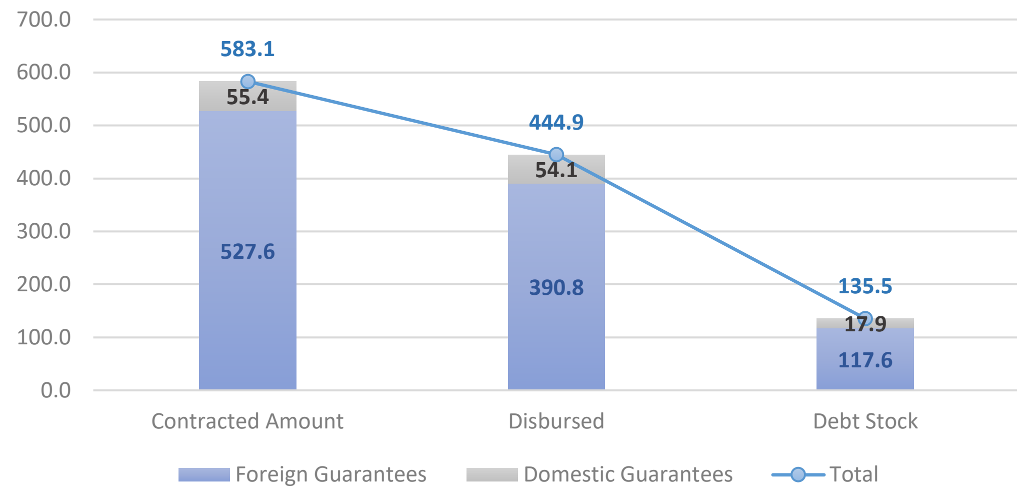

### Trends of government guarantees until 30 September 2024

The contracted amount of issued government guarantees at the end of Q3 2024 amounts to approximately 583.1 million euro. Debt stock at the end of September 2024, arising from guarantees issued to domestic and foreign creditors, amounts to 135.5 million euro which accounts for 1.8 percent of GDP.

The issued guarantees are mostly related to the loans for various infrastructure projects for roads, railways, water supply and sewerage, electricity, support for the development of small and medium-sized enterprises or restructuring.

Debt stock arising from government guarantees issued to foreign creditors amounts to 117.6 million euro i.e. 1.6 percent of GDP, while debt stock arising from guarantees issued to domestic creditors amounts to 17.9 million euro i.e. 0.2 percent of GDP.

Figure 10: Stock of government guarantees as on 30 September 2024




The government issued three guarantees in 2024 as follows:

- Agreement on guarantee for the loan facility concluded between the Railway Transport of Montenegro A.D. Podgorica (ŽPCG) and European Bank for Reconstruction and Development (EBRD), for **the project of financing the purchase of new trains that would be used in local passenger transportation**. The contracted value of the loan is 30 million euro.
- Agreement on guarantee for the loan facility concluded between Montecargo JSC Podgorica and Montenegrin Commercial Bank JSC Podgorica, for **financing project for investment repairs of the rolling stock (locomotives and wagons).** It is a loan worth 3.00 million euro, for which the government guarantee was issued for 80 percent of the loan amount.
- Agreement on guarantee for the loan facility concluded between the Montenegrin Electric Transmission System JSC Podgorica (CGES) and EBRD, for financing **construction of the transformer substation 400/110 kV TS Brezna,** in the amount of up to 30 million euro.

### Credit Rating of Montenegro

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

The Standard and Poor's (S&P) credit rating agency positively evaluated the credit rating of Montenegro twice in 2024, i.e. in March 2024, when it improved outlook of the B credit rating from stable to positive, and in August 2024, when it increased credit rating of Montenegro from B to B+ with stable outlook. Increase in the credit rating of Montenegro is a sort of a confirmation of success of the economic policy of the Government of Montenegro and a strong indicator of stability and progress achieved by Montenegro.

In addition to S&P, the credit rating agency Moody's increased the credit rating of Montenegro in September 2024 for the first time since 2013 from B1 to Ba3, with a stable outlook, thereby confirming that Montenegro improves its economic parameters, has macroeconomic stability, and sends positive signals and security to the existing and potential investors.

## 4.7. Sensitivity Analysis and Comparison with the Previous Programme

### 4.7.1. Sensitivity of the Public Finance projections to alternative scenarios and risks

The planned fulfilment of macroeconomic and fiscal indicators in the medium term is based on current plans and policies, assumptions of the economic cycle in the EU, along with the foreseen reform measures which will enable implementation of the baseline scenario of the forecasted trends. However, due to the extremely uncertain context of the domestic and external environment in which economic activity is performed, the projected macro-fiscal indicators are subject to changes due to the potential materialisation of identified risks to macroeconomic and financial stability.

The key risks that could affect growth prospects and macroeconomic stability in the coming period are outlined below:

**Table 4.7.1: Overview of fiscal risks in the medium term**

| RISK | POSITIVE | NEGATIVE |
|---|---|---|
| Political | • Obtaining the Interim Benchmark Assessment Report for the negotiation chapters 23 and 24 (IBAR) creates prerequisites for accelerating the process of Montenegro's accession to the European Union, as well as for receiving EU financial assistance for Montenegro and use of EU structural funds, which will strengthen the country's economy and accelerate implementation of structural reforms, while also boosting investors' confidence; | • Geopolitical risks at the global level can negatively affect the entire world economy, and consequently, the Montenegrin economy; |
| Economic | • Implementation of the Growth Plan for the Western Balkans generates additional revenues for financing reforms and ensures implementation of key reforms in the priority areas;<br>• Reform of the Tax Administration and the Customs Administration enables improvement of the business environment and more efficient revenue collection, thus increasing public revenues; | • Delayed implementation of certain measures aimed at increasing public revenues may affect the increase of the projected budget cash deficit and public debt in the medium term;<br>• With the slowdown of the European economy and persistent inflationary pressures at the global level, vulnerabilities of the domestic economy remain strong. Effects of significant changes in the economic trends of the EU are dominantly related to the |

| RISK | POSITIVE | NEGATIVE |
|---|---|---|
| | • Intensification of activities to reduce informal economy, through an increased inspection control and more efficient institutional coordination, will have positive impact on public revenues;<br>• Reforms in the budgeting process and strengthening budget inspection increase fiscal discipline and transparency of public finances, which has a positive impact on the main fiscal indicators;<br>• Potential collection of revenues from the long-term use of the Airports of Montenegro JSC can increase total public revenues in the medium and long term.<br>• Abolishment of certain tax expenditures for the appropriate groups of taxes will create conditions for a potentially higher collection of budget revenues;<br>• Continuation of highway construction will have a positive impact on better connectivity between the northern, central and southern regions, greater tourist attractiveness and economic activity;<br>• Legalisation of illegally constructed buildings will create conditions for generating public revenues and increase the degree of fiscal and budgetary discipline; | potentially lower growth of tourism in Montenegro, investments and consumption, and consequently to the lower economic growth;<br>• Climate change could affect dynamics of economic growth in the medium term due to the impact on the following sectors: tourism, agriculture, and energy;<br>• Limited fiscal space, weaker dynamics of implementation of the planned investments and delays in implementation of the structural reforms can negatively affect economic growth in the medium term. |

### 4.7.2. Comparison with the Previous Programme

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

| | ERP 2024-2026 | | | |
|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** |
| Public revenues | 3,119.18 | 3,235.18 | 3,359.3 | - |
| Public spending | 3,481.22 | 3,507.04 | 3,584.57 | - |
| Surplus/deficit of public finances | -362.04 | -271.86 | -225.27 | - |
| | **ERP 2025-2027** | | | |
| | **2024** | **2025** | **2026** | **2027** |
| Public revenues | 3,174.1 | 3.283,0 | 3,410.3 | 3,527.2 |
| Public spending | 3,401.2 | 3.560,8 | 3,669.6 | 3,793.2 |
| Surplus/deficit of public finances | -227.1 | -277.8 | -259.3 | -266.0 |
| | **Difference** | | | |

| | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| Public revenues | 54.92 | 47.82 | 51.00 | - |
| Public spending | -80.02 | 53.76 | 85.03 | - |
| Surplus/deficit of public finances | -134.94 | 5.94 | 34.03 | - |

*Source: Ministry of Finance*

The outturn of public revenues generated in all years of the forecast will be higher than what was projected in the previous Programme. This revenue growth will be generated primarily as a result of the implementation of the *Europe Now 2 Programme*, due to pronounced economic growth rates, the increase in spending, a stronger combat against the shadow economy, as well as the envisaged set of measures on the revenue side.

Within such context, in the medium term the public revenues will be in the range from 3,283.0 million euro or 41.2 percent of GDP (7,965.4 million euro) in 2025 to 3,527.2 million euro or 40.3 percent of GDP (8,757.5 million euro) in 2027.

Almost all revenue categories will record growth over the medium term, except for the category of social contributions, which will be lower due to implementation of the *Europe Now 2 Programme*, under which the wages and pensions are envisaged to grow in the medium term starting as early as in 2024.

Budget revenues on the account of VAT will record a growth of around 7 percent in the medium term with a stable share in GDP at around 17 percent, primarily as a result of the levelling the VAT rate, but also as a result of expanding consumption due to higher disposable income of citizens.

Revenue from the personal income tax will generate a growth rate of some 7 percent mostly as an effect of the implementation of the *Europe Now 2 Programme*, under which the employee wages are increased and base for the personal income tax is expanded.

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

In the medium term, the excise taxes will grow at a rate of approximately 6 percent, foremost as a result of the expansion of the scope of excisable goods, but also of increase in consumption.

On the other hand, the public spending in 2025 and 2026 is estimated to be higher than what had been projected by the previous Programme, predominantly due to trends in mandatory spending, precisely the transfers for social protection, and due to gross wages.

Taking into account the projected revenues and expenditures, a slightly higher public spending deficit is expected in 2025, relative to the previous Programme, in nominal terms. However, in terms of the share of GDP and considering that is expected for GDP to grow faster than the deficit, the projected deficit in 2025 is lower by 0.2 percentage points of GDP relative to the last-year's Programme. In 2026, the deficit is projected to a higher level as opposed to the last-year's Programme, both in terms of its nominal growth as well as in terms of the growth as share of GDP (difference is 0.3 percent of GDP).

## 4.8. Quality of Public Finances

Financial situation is stable and favourable, with evident trend in rising budgetary revenue collection, following the projected growth rates in the macroeconomic environment.

In planning all measures to be implemented over the medium term in Montenegro, and in calculating the effects, the enhanced macroeconomic model, as well as the new micro-simulation model, was used to calculate effects of changes in tax policies concerning the personal income tax and contributions for pension and disability insurance. Along with the above stated, the budgetary revenue plan, in particular in segment dealing with effects stemming from implementation of the *Europe Now 2 Programme*, is designed using very conservative assumptions, which generally is the approach of the Ministry of Finance. On the other hand, all measures to be implemented over the medium term are aimed at balancing the tax environment and mainly deal with levelling the rates and eliminating the former situation that led to discrimination to a certain extent. This refers, amongst others, to a same VAT rate for the hotel industry sector and hospitality sector. Furthermore, part of the measures related to the increase of wages and pensions are directed towards enhancing the quality of life of citizens and increasing their standard.

In addition to all of the above, the Fiscal Strategy and the *Europe Now 2 Programme* contain only a part of reforms being implemented at the national level, and set as priority in this period. Aside from these measures, plan is also to amend certain regulations, starting from the Law on Games of Chance, which have a positive effect on the fiscal balance, as will be the case from other planned measures were effects are not included in the medium-term projections. Having a significant number of planned capital projects, the implementation of reforms from the Reform Agenda and the disbursement of these funds, a positive outcome and results are forecasted, starting as early as 2025. Thus, we have also a large number of other tax measures and measures aimed at improving the business environment, which will also affect the offsetting of forgone revenues, taken to ensure full stability in terms of the public revenues outturn.

## 4.9. Fiscal Governance and Budgetary Frameworks

The Law on Budget and Fiscal Responsibility contains the formal framework governing the planning and implementation of fiscal policy in Montenegro, and sets the numerical fiscal rules. Namely, the Chapter on Fiscal Policy and Responsibility defines the criteria to be complied with when planning and executing the fiscal policy and the national budget. Going forward, consideration will be given to the need for revising the defined fiscal rules, with the aim of strengthening and improving the system for responsible fiscal management of public finances, through the possible introduction of additional rules or reinforcement of the current processes of annual and medium-term planning.

***Independent fiscal institutions***: With regard to monitoring and evaluating the fiscal policy and achieved results, in particular with regard to compliance with the numerical fiscal rules, the State Audit Institution assesses the rules by conducting the ex-post evaluation of the numerical fiscal rules and by providing an opinion on the current year's budget. Amendments to the Law on Budget and Fiscal Responsibility were introduced in 2023, with EU support, to strengthen the monitoring of fiscal policy implementation, in particular the ex-ante evaluation, by creating prerequisites for the establishment of the Fiscal Council. Namely, the Fiscal Council is being established in order to enhance independent and objective monitoring of public finance management, as well as to meet Montenegro's obligations under the Negotiating Chapter 17 – *Economic and monetary policy*, which covers the expanded framework for the EU *acquis* on economic and in particular fiscal management. This framework consists of a set of legislation – the Six-Pack, the Fiscal Compact, and the Two-Pack – each containing provisions on national fiscal councils. Amendments to the Law will define the Fiscal Council as a separate independent institution that will assess the application of the fiscal responsibility criteria (fiscal rules), assess macroeconomic and fiscal projections, annual Budget Laws and amendments thereof, and provide assessments and opinions on other regulations and their impact on the fiscal stability and application of fiscal rules. Pursuant to the aforementioned legislation, in the period up to now, the Parliament has published a call on three occasions for candidates for the election of 3 members of the Fiscal Council, of which two calls were unsuccessful, while the third procedure is in the phase of consideration and selection of candidates. The Fiscal Council is expected to be established in 2025.

***Medium-term budgetary frameworks:*** The medium-term budgetary framework is determined by the Fiscal Strategy, which is adopted by the Parliament upon a proposal of the Government as the umbrella document for the Government's Fiscal Policy during the term of office of the Government. Based on the Fiscal Strategy, the Government adopts the annual Macroeconomic and Fiscal Policy Guidelines, setting the medium-term policies and the macroeconomic and fiscal projections for the three-year period. In September 2024, the Government adopted a text of the Fiscal Strategy proposal and sent it to the Parliament of Montenegro for consideration and adoption. Likewise, after the Proposal of the Fiscal Strategy was adopted, the Government adopted also the Macroeconomic and Fiscal Policy Guidelines in September 2024.

***Availability and quality of fiscal data and alignment with ESA standards***: With regard to the government finance statistics, the Ministry of Finance carries out the planning, making of projections and reporting on the outturn of fiscal indicators on a monthly, quarterly, and annual basis, in line with the national framework. In terms of harmonisation of the government finance statistics (GFS) with the international standards and within the context of an increasing importance of GFS data, in addition to the established organisational structure within the Statistics Administration (MONSTAT), a key element to be empathised is a new three-year EUROSTAT Project *SP 1.1 Government finance and Excessive deficit statistics.* This Project is planned to be completed in 2027, where aside from the Ministry of Finance, the Central Bank of Montenegro and Statistics Administration (MONSTAT), as producers of official statistics, will take active participation. Given the required intensification of efforts in this projects, a Working Group was established, which will continuously work to align data with the ESA 2010 Methodology in the field of the government finance statistics, detecting gaps, and defining additional sources of relevant data. The first expert mission under the project, held from 4 to 7 November 2024, was aimed at collecting and defining data sources for the compiling the GFS and EDP statistics. In June 2024, the Ministry of Finance submitted to the Statistics Administration (MONSTAT) a set of data that were the result of the IPA 2017 project, which MONSTAT sent to EUROSTAT. Furthermore, in accordance with the expert's recommendation, the Ministry of Finance will initiate the establishment of an adequate organisational structure for the ESA2010 methodology, at the system level. At the session held on 28 November 2024, the Government of Montenegro approved the Proposal of amendments to the Law on Official Statistics and the Official Statistics System, which will result in the transfer of responsibility for the government finance statistics and the application of the ESA2010 methodology from the Ministry of Finance to the Statistics Administration (MONSTAT), in line with the recommendations of experts from the February 2020 mission held as part of the project *Improving human resource capacities of MONSTAT*. The Law represents the legal basis for concluding a Cooperation Agreement between the Statistics Administration, the Central Bank of Montenegro, and the Ministry of Finance, which will clearly and precisely define the responsibilities of all institutions and all technical details in future data collection, both at the project and at the system level. Bearing in mind the need to establish an adequate organisational structure and division of responsibilities for efficient data collection in the area of ESA2010 methodology, the drafting of a new Trilateral Agreement will consequently create conditions for closing the final benchmarks for Negotiation chapter 18 - Statistics.

As for ***the application of the numerical fiscal rules*** on keeping the general government deficit below 3 percent, a gradual decline in spending deficit and convergence to the set level is projected for 2026. With regard to the criterion stipulating the public debt below 60 percent, a stable public debt level is expected over the next medium-term, with average share of 62.7 percent of GDP.

## 4.10. Sustainability of Public Finances

Good public finance management is one of the core prerequisites for the overall macroeconomic and fiscal stability, considering that Montenegro does not have available monetary policy instruments as it lack the currency issuing function. Given the above stated, a transparent tax policy, a predictable and stimulating business environment, and rational costs management are the main objectives when it comes to the quality of public finances.

Pursuant to the medium-term framework, the stabilisation of economic trends is achieved through the projected increase in public revenues, the optimisation of discretionary expenditures, which, along with the projected increase in investments and lowering the inflation, contributes to the long-term sustainability of public finances. To that end, achieving a surplus of current budget spending in all years of the projection opens up the space for borrowing, to be done solely for financing the infrastructural projects that generate new economic value and for repayment of old debts.

Dynamic economic growth rates are contributing to the growth of public revenues, which in an environment of significant growth in mandatory spending is not enough to balance the public finances. In connection with the aforementioned, the new Fiscal Strategy of the Government formulates new tax policy measures and measures of public spending management policy, as well as new structural measures that should contribute to the additional acceleration of economic growth and enhanced resilience of the Montenegrin economy.

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

Main features of the fiscal policy over the medium term will be:

- Continuing with lowering of the labour tax wedge;
- Aligning the excise tax policy with the EU directives in order to tax goods having adverse impact on the health of population;
- Reducing the shadow economy in order to enable fair market competition, precisely to suppress unfair competition;
- Reforming the tax and customs administrations;
- Introducing a middle VAT rate for levelling the VAT rates in the tourism economic activities;
- Better tax debt management.

Pursuant to the fiscal framework, the direct budget revenues in the period 2025-2027 have a positive trend. The stability of revenues, in spite of the significant reduction of the labour tax wedge, is ensured through the implementation of new tax policy measures and the policies for improving the business environment.

On the other hand, the expenditures of the central government budget will have an upward trajectory in the period in question. The nominal increase in expenditures in the next three-year period is primarily caused by:

- Significant allocations for financing capital expenditures used to finance infrastructure projects;
- Increase in the social protection transfers (as a result of forecasted pension adjustments and adjustments for social welfare and child protection benefits, aligning them with the increase in average wages and inflation);
- Transfers to institutions, individuals, non-governmental and public sector, in the first place for financing the health care system;
- Implementation of new policies (described in the chapter – Expenditure-side measures in the period 2024-2027).

When it comes to the public spending management strategy, the policy of that strategy is based on: reform of the pension and healthcare system – aimed at providing the most adequate possible social protection of citizens; reform of the social protection system aimed at directing social welfare funds to those in need; reform of the state-owned enterprises; optimisation of the public administration by carrying out functional analysis that should identify areas where rationalisations in number of employees need to take place and those areas where additional human resource strengthening is required in the context of the EU agenda and delivery of good quality public services; reform of the public sector wages system; as well as keeping the high level of allocations for financing capital projects and other infrastructure projects instituting requisites for long-term growth and development.

The strategy in area of public spending management policy in the period 2025–2027 will be based on rationalisation of the current spending, influenced by the increase in mandatory expenditures, the development of which is adjusted with statutory obligations (core social welfare and child protection benefits, and benefits in the field of pension and disability insurance). During the observed period, the focus will be on redistribution within spending in order to finance primarily expenditures that have a positive effect on economic growth and development.

A better business environment, an increase in the number of enterprises, and formal employment, and thus increase of the revenues of the State, will also be ensured through the implementation of the Programme for Suppressing the Informal Economy with the accompanying Action Plan for its implementation covering period 2024-2026. The Programme for Suppressing the Informal Economy recognises key sectors (tourism, trade, transport, construction, and agriculture) where informal economy represents a barrier for the growth of the economy for years back. The Programme contains existing and new measure to suppress informal economy and provides a set of control and incentive measures, while on one hand to exercise a more efficient control and to prevent informal economy, on the other had to ease doing business for the economy. The fundamental principles this Programme and its operational objectives are based on include the principle of equal treatment for all participants in economic activity, by promoting the advantages of formal doing business and reducing the informal economy and its negative consequences. More specifically, the operational objectives highlight the reduction of the informal economy in doing business of registered enterprise and entrepreneurs, but also the registration of unregistered economic activities, or their conversion into legal flows.

Aside from those mentioned one, the most important measures is the one on reforming the state-owned enterprises. This reform aims to reduce fiscal risks from operations of the state-owned enterprises and to increase their fiscal potential. The establishment of an adequate governance model and an efficient system of oversight of the state-owned enterprises sector is a reform measure aimed at defining a clear ownership policy of the State and a strategic approach to management in these undertakings, while defining an optimal model and oversight mechanisms in order to improve the business performance of state-owned enterprises and reduce their fiscal risks of their operation. In the past period, the Ministry of Finance conducted several activities aimed at the implementation of the measure. Implementation of the Project related to the reform of the state-owned enterprises sector, financed by the European Commission, began in January 2024. The subject project is being implemented with the support of the World Bank, which provides technical assistance within its new Program for Building an Effective, Sustainable, and Transformational Public Sector (BEST-Public Sector). So far, the first result of this assistance has been provided - Rapid assessment of state-owned enterprises in Montenegro in the energy and tourism sector, which covers key aspects of financial, fiscal and corporate governance of selected companies. Other activities that will be supported under the BEST programme in the next 12-24 months include: support for the development of a strategy for reform of state-owned enterprises; support for a comprehensive analysis of the legal-regulatory framework in which state-owned enterprises operate; assistance based on international experience for defining the central ownership function and development of the ownership policy; support for the strategic communication plan for the reform of state-owned enterprises, etc. As a result of the implementation of the reform measure, Montenegro will have a clearly defined strategic framework for the management of business undertakings under majority state ownership, with an action plan for further reforms in this area, as well as a clearly defined ownership policy of the State in these undertakings.

In order to ensure full support to the planned reform processes and increase efficiency of the work done by the Tax Administration, Montenegro is implementing the *Revenue Administration Reform Project* with the World Bank support, which entails introduction of an integrated revenue management system (IRMS), as well as the system for real time online fiscalisation; thus improving tax discipline which largely contributed to the good collection of revenues from the value added tax. The project supports the long-term vision of Montenegro in the creating modernised business processes and tax administration based on risk analysis, which contributes to a higher degree of voluntary compliance with tax regulations and efficient tax collection.

Likewise, implementation of the New Computerised Transit System (NCTS) is one of the models for improving the customs administration. The New Computerised Transit System (NCTS) is a paperless transit system based on electronic submission of transit customs declarations and electronic data exchange between customs authorities that are signatories to the Convention on Common Transit. NCTS enables the implementation of the common transit procedure of goods by submitting one transit declaration and one security instrument at the customs authority of departure, which is valid in the signatory countries of the Convention on Common Transit, or during the entire transit of goods. The application of NCTS implies electronic monitoring of the transit procedure, which enables a faster flow of goods and a shorter time required for performing customs procedures, thus saving time and costs for businesses. In addition to above stated, the customs administration reform envisages also establishing a Track and Trace system in order to reduce illegal trade in tobacco products.

One of the priorities in the forthcoming period will also be a more efficient regulation and oversight in the field of organising the games of chance. The main objective of the Law is to regulate the games of chance industry in a systemically sustainable manner. It refers to the precise definition of the conditions under which the organising of each type of game may commence, taking into account the general conditions of organising and the conditions for each type of game individually. Defining the conditions also applies to the withdrawal of the concession/approval from the organisers of games of chance. At the same time, the role of the Administration for Games of Chance as a competent authority, as well as the competence of the inspection, will be more precisely defined. In order to reduce the negative impact that betting brings with it, for the first time the provisions related to the advertising of organising the games of chance will be defined; while the problem of the distance of facilities from education institutions; the distribution of revenues from games of chance, and the like will be determined more precisely. One of the most important objectives is the further reduction of organising games of chance that are carried out in the "grey zone". This will be achieved through the legal obligation to report all games being organised, which has not been the case so far. The adoption of the aforementioned amendments will create conditions for increasing public revenues collected from this source.

# 5. Consistency of the Reform Agenda with the Macro-fiscal Framework

## 5.1. Introduction

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

Of the total amount of support, 178.5 million euro is to be allocated in the form of budget support, with the remaining 205 million euro to be allocated for the financing of infrastructure projects and implemented through the Western Balkan Investment Framework (WBIF). In line with the EC announcements, 7 percent of the total amount is to be allocated at the commencement of implementation of the Growth Plan, while the rest will be allocated in six semi-annual tranches, depending on the degree of implementation of the planned reforms.

The funds that will be available to Montenegro are conditioned by the successful implementation of the reform measures set out in the Reform Agenda – hence the document's importance for the economic and political development of Montenegro and for accelerated European integration.

Given the announced positive impact of the Growth Plan on the pace of the economy's convergence with the EU average, the Government strategically defined the priority policy areas and acted proactively during the development of the Reform Agenda. In line with the set deadlines and EC templates, the Proposal of the core reform measures and steps for the Reform Agenda was agreed with the EC at the technical level in mid-June and subsequently considered and adopted by the Government on 20 June 2024. Once the full-fledged document was prepared and additional consultations held with the EC in August and September 2024, the final version of the Reform Agenda was agreed and adopted by the Government on 26 September 2024.

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

## 5.2. Objectives of the Reform Agenda

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

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

All of the measures proposed in the Reform Agenda are aligned with the following objectives:

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

All proposed measures in this Reform Agenda are aligned with the structural reforms that are part of the latest ERP as well as the common Policy Guidance agreed upon within the Economic and Financial Dialogue from May 2023, the Revised Enlargement Methodology, the latest enlargement package, the Economic and Investment Plan for the Western Balkans, as well as other relevant documents.

Reforms in the area of **business environment and private sector development** will focus on improving the business environment (including the reforms related to SOE governance), facilitating companies’ access to finance, and implementing several measures aimed at enhancing the regulatory environment and strengthening business competitiveness. Private sector development requires an appropriate financial framework that seeks to ensure favourable access to finance for SMEs by facilitating access to the available models of financing and generating new models, designed to meet the needs of SMEs. Further improvements of the regulatory business environment and reduction of administrative burden on companies remain important objectives of government policy.

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

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

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

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

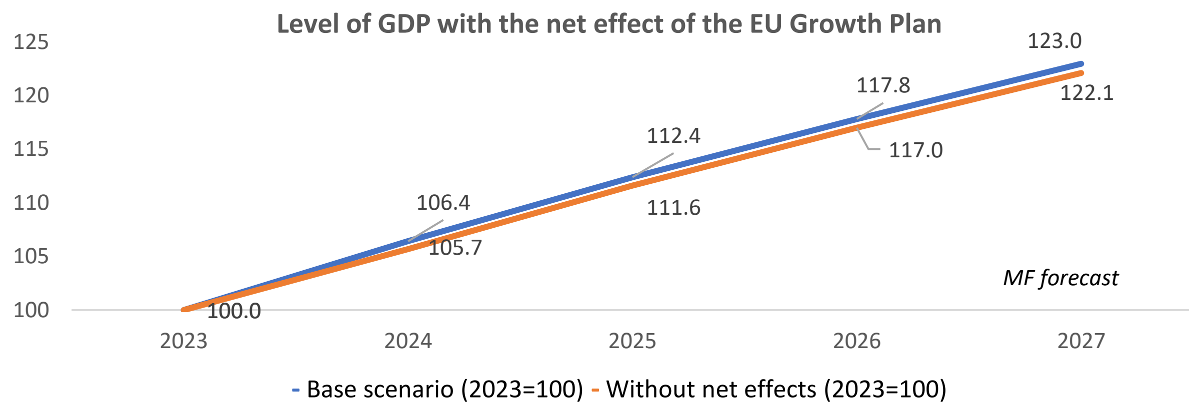
## 5.3. Estimated Impact of the EU Growth Plan on the Macroeconomic and Fiscal Developments

The new EU Growth Plan for the Western Balkans is an instrument aiming to accelerate the economic convergence of the countries of the region with the EU average and, in that context, expedite the reform efforts and bring these countries closer to the single European market.

To obtain a fine-tuned vision of the medium-term impact of the Plan on the economic growth of Montenegro, a simulation was conducted of the medium-term impact of implementation of the investments set out in the EU Growth Plan on macroeconomic trends. The impact assessment used the Montenegro Macro-econometric Model (MMM), provided through EU support under an IPA 2017 project. The Growth Plan impact assessment covered the public investments amounting to approximately 200 million euro; neither the timeline of disbursement nor the total amount of sector support per relevant area were known at the time of the assessment.

The estimated expected net effect of the projects envisaged under the EU Growth Plan on the real GDP was around 0.7 percent on average in the medium term, which means that the level of GDP at the end of 2027 would be lower by 0.7 percent compared to the scenario without implementation of any public investments covered by the Growth Plan. Further medium-term impacts of these projects include an increase in public consumption (of close to 0.5 percent), export (in particular the services sector, at around 1.6 percent), but also an increase in import due to low manufacturing base (around 1.5 percent). Impacts on the labour market were also assessed: the net effect of public investment from the Growth Plan would support an increase in employment of around 0.3 percent in 2027. Since the Growth Plan is envisaged to provide a strong financial boost to the implementation of reforms, the expected estimated effects in the years to come could be even higher if they spurred further capital investments from other sources of finance.

The graph below shows the GDP trend against the baseline year (2023=100), with and without the impact of the investment funded from the Growth Plan.




The impacts and assessments obtained by applying the model generate partially correct and accurate forecasts; they reflect the structure and relations in the Montenegrin economy, but do not fully take into account the particularly complex multiplier effects of the increase in investments on GDP growth and employment. This is particularly the case in relation to public investments, whose positive impact spills over into private investments; investments in education and digitalisation are also expected to generate long-term impacts, such as enhanced competitiveness and productivity of the economy.

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

## Table 5.3: The EU Growth Plan fiscal impact assessment

| Budget revenues (million euro) | 2025 | 2026 | 2027 |
|---|---|---|---|
| Corporate Profit Tax | 219.9 | 232.1 | 243.9 |
| **Reform Agenda impact** | **2.00** | **7.00** | **7.00** |
| Personal Income Tax | 108.32 | 112.50 | 119.95 |
| **Reform Agenda impact** | **1.00** | **3.00** | **3.00** |
| Contributions | 449.05 | 476.61 | 503.01 |
| **Reform Agenda impact** | **3.00** | **5.00** | **5.00** |
| Tax on International Trade and Transactions | 63.99 | 65.51 | 68.14 |
| **Reform Agenda impact** | **2.00** | **2.00** | **2.00** |
| Value Added Tax | 1372.59 | 1421.82 | 1464.48 |
| **Reform Agenda impact** | **5.00** | **16.00** | **16.00** |

*Source: Ministry of Finance estimate*

Given the nature of the reforms and the significant number of planned infrastructure projects, consideration is given to the budget revenue categories that will increase in line with the increase in employment and wages, the launch of a new investment cycle and the resulting expected major economic growth. In line with the foregoing and the expected increase in import driven by the implementation of infrastructure projects, import VAT and tax on international trade and transactions are expected to increase. Overall, the expected fiscal impact of the Growth Plan on budget revenues is around 80 million euro over a three-year period, i.e. around 0.9 percent of revenues, peaking during the years of expected intensified infrastructure projects and relevant disbursements, as per the macroeconomic scenario. The impact includes also the expected trends in wages, employment and increased economic activity, as per the basic macroeconomic framework.

# 6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of preparation of the ERP 2025-2027 started in September 2024, when the Government adopted the briefing note on the preparation. The Ministry of Finance coordinates the ERP at the national level and in terms of each chapter. In addition to the Ministry of Finance, the Central Bank of Montenegro had a significant role in the preparation of Chapter 3.

The process of prepartion of the ERP, according to the guidelines of the European Commission, must be joint between the Government and other interested parties. In that regrad, public consultations took place between 9 and 28 December 2024. Draft Programme was made available to the representatives of the media and the general public via the Government website: https://www.gov.me/clanak/javna-rasprava-o-nacrtu-programa-ekonomskih-reformi-crne-gore-2025-2027-rasprava-ce-trajati-do-28-decembra-2024-godine.

The Roundtable Discussion held as part of the public consultations on the Draft Economic Reform Programme took place on 16 December 2024 and was attended by representatives of the EU Delegation to Montenegro, Union of Free Trade Unions of Montenegro, Montenegro Chamber of Economy, UNICEF, Secretariat of the Competitiveness Council, Statistical office of Montenegro, Old Royal Capital Cetinje, Municipality of Petnjica, and other interested members of the public.

The written inputs provided by the stakeholders with a view to improve the draft ERP are presented in Annex 2 below. Upon receiving all the proposals and suggestions during the consultative process and using them to improve the text of the ERP 2025-2027, the document was finalised and forwarded to the Government of Montenegro for consideration and approval.

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

| GDP (in mln €) | Central Government | 7279.7 | | 7416.7 | | 7965.4 | | 8372.8 | | 8757.5 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Econpmic classification CODE | Economic classification | 2024 Plan | | Preliminary 2024 | | 2025 | | 2026 | | 2027 | |
| | | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP |
| | ***Current revenues*** | **2772.6** | **38.1** | **2784.3** | **37.5** | **2886.1** | **36.2** | **3004.2** | **35.9** | **3111.3** | **35.5** |
| **711** | **Taxes** | **1930.3** | **26.5** | **1937.4** | **26.1** | **2183.6** | **27.4** | **2269.2** | **27.1** | **2351.9** | **26.9** |
| 7111 | Personal income tax | 86.6 | 1.2 | 87.6 | 1.2 | 108.3 | 1.4 | 112.5 | 1.3 | 119.9 | 1.4 |
| 7112 | Tax on Profits of Legal Person | 205.7 | 2.8 | 205.7 | 2.8 | 219.9 | 2.8 | 232.1 | 2.8 | 243.9 | 2.8 |
| 7113 | Taxes on Property | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7114 | Value Added Tax | 1199.6 | 16.5 | 1204.4 | 16.2 | 1372.6 | 17.2 | 1421.8 | 17.0 | 1464.5 | 16.7 |
| 7115 | Excises | 365.8 | 5.0 | 365.8 | 4.9 | 403.5 | 5.1 | 421.3 | 5.0 | 438.9 | 5.0 |
| 7116 | Tax on International Trade and Transactions | 58.3 | 0.8 | 59.1 | 0.8 | 64.0 | 0.8 | 65.5 | 0.8 | 68.1 | 0.8 |
| 7118 | Other State Taxes | 14.3 | 0.2 | 14.8 | 0.2 | 15.3 | 0.2 | 16.0 | 0.2 | 16.5 | 0.2 |
| **712** | **Contributions** | **585.4** | **8.0** | **587.1** | 7.9 | **449.1** | 5.6 | **476.6** | 5.7 | **503.0** | 5.7 |
| 7121 | Contributions for Pension and Disability Insurance | 539.8 | 7.4 | 539.8 | 7.3 | 397.3 | 5.0 | 426.4 | 5.1 | 448.8 | 5.1 |
| 7122 | Contributions for Health Insurance | 3.0 | 0.0 | 4.2 | 0.1 | 6.0 | 0.1 | 2.0 | 0.0 | 2.0 | 0.0 |
| 7123 | Contributions for Insurance from Unemployment | 24.0 | 0.3 | 24.5 | 0.3 | 26.0 | 0.3 | 27.4 | 0.3 | 30.4 | 0.3 |
| 7124 | Other contributions | 18.6 | 0.3 | 18.6 | 0.3 | 19.7 | 0.2 | 20.8 | 0.2 | 21.9 | 0.2 |
| **713** | **Duties** | **15.9** | **0.2** | **15.9** | 0.2 | **17.8** | 0.2 | **18.7** | 0.2 | **19.6** | 0.2 |
| 7131 | Administrative duties | 9.9 | 0.1 | 9.9 | 0.1 | 10.8 | 0.1 | 11.4 | 0.1 | 11.9 | 0.1 |
| 7132 | Court duties | 1.0 | 0.0 | 1.0 | 0.0 | 1.5 | 0.0 | 1.6 | 0.0 | 1.6 | 0.0 |
| 7133 | Residential duty | 2.6 | 0.0 | 2.6 | 0.0 | 2.5 | 0.0 | 2.7 | 0.0 | 2.8 | 0.0 |
| 7136 | Other duties | 2.4 | 0.0 | 2.4 | 0.0 | 2.9 | 0.0 | 3.1 | 0.0 | 3.2 | 0.0 |
| **714** | **Fees** | **62.8** | **0.9** | **63.4** | 0.9 | **74.2** | 0.9 | **77.2** | 0.9 | **78.7** | 0.9 |
| 7141 | Fees for use of goods of common interest | 1.3 | 0.0 | 2.0 | 0.0 | 2.2 | 0.0 | 2.3 | 0.0 | 2.4 | 0.0 |
| 7142 | Fees for use of natural resources | 4.7 | 0.1 | 4.6 | 0.1 | 4.9 | 0.1 | 5.1 | 0.1 | 5.4 | 0.1 |
| 7143 | Ecological fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7144 | Fee for organizing games of chance | 34.3 | 0.5 | 34.3 | 0.5 | 40.0 | 0.5 | 41.5 | 0.5 | 42.5 | 0.5 |
| 7148 | Road fees | 3.5 | 0.0 | 3.6 | 0.0 | 3.6 | 0.0 | 3.8 | 0.0 | 4.0 | 0.0 |
| 7149 | Other fees | 19.0 | 0.3 | 18.9 | 0.3 | 23.5 | 0.3 | 24.4 | 0.3 | 24.4 | 0.3 |
| **715** | **Other revenues** | **122.0** | **1.7** | **124.2** | 1.7 | **52.3** | 0.7 | **52.4** | 0.6 | **58.1** | 0.7 |
| 7151 | Revenues from capital | 68.0 | 0.9 | 68.0 | 0.9 | 24.5 | 0.3 | 24.5 | 0.3 | 30.0 | 0.3 |
| 7152 | Fines and seized property gains | 15.0 | 0.2 | 17.5 | 0.2 | 18.0 | 0.2 | 18.5 | 0.2 | 18.5 | 0.2 |
| 7153 | Revenues from own activities of government bod | 2.5 | 0.0 | 2.2 | 0.0 | 2.3 | 0.0 | 2.7 | 0.0 | 2.7 | 0.0 |
| 7155 | Other revenues | 36.4 | 0.5 | 36.4 | 0.5 | 7.4 | 0.1 | 6.7 | 0.1 | 6.9 | 0.1 |
| **74** | **Grants** | **56.3** | **0.8** | **56.3** | **0.8** | **109.2** | 1.4 | **110.2** | 1.3 | **100.0** | 1.1 |
| | ***Expenditures*** | **3009.6** | **41.3** | **3009.6** | **40.6** | **3164.2** | **39.7** | **3273.6** | **39.1** | **3385.8** | **38.7** |
| **41** | **Current expenditures** | **1214.4** | **16.7** | **1214.4** | **16.4** | **1255.1** | **15.8** | **1286.8** | **15.4** | **1323.2** | **15.1** |
| 411 | Gross salaries and contributions charged to emplo | 698.8 | 9.6 | 698.8 | 9.4 | 718.0 | 9.0 | 728.1 | 8.7 | 733.4 | 8.4 |
| 412 | Other personal income | 19.8 | 0.3 | 19.8 | 0.3 | 24.3 | 0.3 | 24.3 | 0.3 | 24.9 | 0.3 |
| 413 | Expenditures for goods | 52.1 | 0.7 | 52.1 | 0.7 | 50.0 | 0.6 | 48.7 | 0.6 | 49.2 | 0.6 |
| 414 | Expenditures for services | 76.8 | 1.1 | 76.8 | 1.0 | 100.2 | 1.3 | 94.7 | 1.1 | 94.4 | 1.1 |
| 415 | Current maintenace | 39.1 | 0.5 | 39.1 | 0.5 | 42.9 | 0.5 | 38.7 | 0.5 | 40.1 | 0.5 |
| 416 | Interests | 148.7 | 2.0 | 148.7 | 2.0 | 159.5 | 2.0 | 188.7 | 2.3 | 216.2 | 2.5 |
| 417 | Rent | 13.6 | 0.2 | 13.6 | 0.2 | 13.3 | 0.2 | 13.1 | 0.2 | 13.4 | 0.2 |
| 418 | Subsidies | 81.1 | 1.1 | 81.1 | 1.1 | 69.0 | 0.9 | 71.9 | 0.9 | 73.3 | 0.8 |
| 419 | Other expenditures | 84.4 | 1.2 | 84.4 | 1.1 | 77.8 | 1.0 | 78.5 | 0.9 | 78.4 | 0.9 |
| **42** | **Social security transfers** | **1009.0** | **13.9** | **1009.0** | **13.6** | **1068.0** | **13.4** | **1119.4** | **13.4** | **1161.3** | **13.3** |
| 421 | Social security related rights | 212.1 | 2.9 | 212.1 | 2.9 | 221.5 | 2.8 | 226.8 | 2.7 | 229.1 | 2.6 |
| 422 | Funds for redundant labor | 23.1 | 0.3 | 23.1 | 0.3 | 27.0 | 0.3 | 28.0 | 0.3 | 29.0 | 0.3 |
| 423 | Pension and disability insurance rights | 737.2 | 10.1 | 737.2 | 9.9 | 777.2 | 9.8 | 817.2 | 9.8 | 855.3 | 9.8 |
| 424 | Other rights related to health care | 21.1 | 0.3 | 21.1 | 0.3 | 25.6 | 0.3 | 30.1 | 0.4 | 30.1 | 0.3 |
| 425 | Other rights related to health care insurance | 15.6 | 0.2 | 15.6 | 0.2 | 16.7 | 0.2 | 17.3 | 0.2 | 17.8 | 0.2 |
| **43** | **Transfers to institutions, individuals, NGO and public sector** | **417.6** | **5.7** | **417.6** | **5.6** | **446.4** | **5.6** | **459.3** | **5.5** | **463.4** | **5.3** |
| **44** | **Capital outlows of current budget** | **275.6** | **3.8** | **275.6** | **3.7** | **322.9** | **4.1** | **341.7** | **4.1** | **371.5** | **4.2** |
| **462** | **Repayment of Garantees** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **463** | **Repayment of Arrears** | **22.2** | **0.3** | **22.2** | **0.3** | **23.6** | **0.3** | **21.4** | **0.3** | **21.4** | **0.2** |
| **47** | **Reserves** | **70.9** | **1.0** | **70.9** | **1.0** | **48.3** | **0.6** | **45.0** | **0.5** | **45.0** | **0.5** |
| | ***Deficit/ Surplus*** | **-237.0** | **-3.3** | **-225.3** | **-3.0** | **-278.1** | **-3.5** | **-269.3** | **-3.2** | **-274.5** | **-3.1** |
| | ***Primary deficit*** | **-88.3** | **-1.2** | **-76.6** | **-1.0** | **-118.6** | **-1.5** | **-80.6** | **-1.0** | **-58.3** | **-0.7** |
| | ***Current budget Deficit/ Surplus*** | **38.7** | **0.5** | **50.3** | **0.7** | **44.7** | **0.6** | **72.4** | **0.9** | **97.0** | **1.1** |
| | ***Repayment of debt*** | **504.5** | **6.9** | **504.5** | **6.8** | **820.9** | **10.3** | **353.1** | **4.2** | **971.7** | **11.1** |
| 4611 | Repayment of principal to residents | 215.0 | 3.0 | 215.0 | 2.9 | 56.8 | 0.7 | 125.4 | 1.5 | 49.0 | 0.6 |
| 4612 | Repayment of principal to nonresidents | 289.5 | 4.0 | 289.5 | 3.9 | 764.1 | 9.6 | 227.7 | 2.7 | 922.7 | 10.5 |
| ***4418*** | ***Purchase of securities*** | **2.3** | **0.0** | **2.3** | **0.0** | **34.2** | **0.4** | **17.7** | **0.2** | **17.7** | **0.2** |
| ***45*** | ***Loans and credits*** | **4.9** | **0.1** | **4.9** | **0.1** | **7.5** | **0.1** | **4.5** | **0.1** | **4.5** | **0.1** |
| | ***Financing needs*** | **-748.7** | **-10.3** | **-737.0** | **-9.9** | **-1140.8** | **-14.3** | **-644.7** | **-7.7** | **-1268.4** | **-14.5** |
| | ***Financing*** | **743.8** | **10.2** | **743.8** | **10.0** | **1140.8** | **14.3** | **644.7** | **7.7** | **1268.4** | **14.5** |
| **751** | **Borrowings and credits** | **648.0** | **8.9** | **648.0** | **8.7** | **885.0** | **11.1** | **563.9** | **6.7** | **1072.7** | **12.2** |
| 7511 | Borrowings and credits from domestic sources | 50.0 | 0.7 | 50.0 | 0.7 | 200.0 | 2.5 | 100.0 | 1.2 | 100.0 | 1.1 |
| 7512 | Borrowings and credits from foreign sources | 598.0 | 8.2 | 598.0 | 8.1 | 685.0 | 8.6 | 463.9 | 5.5 | 972.7 | 11.1 |
| **72** | **Privatisation revenues** | **6.0** | **0.1** | **6.0** | **0.1** | **6.0** | **0.1** | **6.0** | **0.1** | **6.0** | **0.1** |
| **73** | **Receipts from repayment of loans** | **9.7** | **0.1** | **9.7** | **0.1** | **9.7** | **0.1** | **9.7** | **0.1** | **9.7** | **0.1** |
| | **Increase/decrease in deposits** | **80.0** | **1.1** | **80.0** | **1.1** | **240.0** | **3.0** | **65.0** | **0.8** | **180.0** | **2.1** |

| GDP (in mln €) | Local Government | 7279.7 | | 7767.1 | | 8153.6 | | 8529.3 | |
|---|---|---|---|---|---|---|---|---|---|
| Econpmic classification CODE | Economic classification | 2024 Plan | | 2025 | | 2026 | | 2027 | |
| | | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP |
| | ***Current revenues*** | **389.8** | **5.4** | **396.9** | **5.1** | **406.0** | **5.0** | **415.9** | **4.9** |
| **711** | **Taxes** | **229.2** | **3.1** | **236.2** | **3.0** | **242.9** | **3.0** | **250.3** | **2.9** |
| 7111 | Personal income tax | 87.5 | 1.2 | 90.1 | 1.2 | 91.9 | 1.1 | 92.8 | 1.1 |
| 71131 | Real estate tax | 94.5 | 1.3 | 98.3 | 1.3 | 100.3 | 1.2 | 105.3 | 1.2 |
| 71132 | Real estate transfer tax | 24.9 | 0.3 | 25.2 | 0.3 | 27.5 | 0.3 | 27.8 | 0.3 |
| | Local taxes and other revenues from the equalization fund | 22.3 | 0.3 | 22.6 | 0.3 | 23.3 | 0.3 | 24.4 | 0.3 |
| **713** | **Duties** | **6.0** | **0.1** | **6.1** | **0.1** | **6.2** | **0.1** | **6.2** | **0.1** |
| **714** | **Fees** | **80.6** | **1.1** | **83.0** | **1.1** | **84.7** | **1.0** | **87.3** | **1.0** |
| **715** | **Other revenues** | **18.1** | **0.2** | **19.7** | **0.3** | **20.3** | **0.2** | **20.7** | **0.2** |
| **74** | **Grants** | **55.8** | **0.8** | **51.8** | **0.7** | **51.9** | **0.6** | **51.4** | **0.6** |
| | ***Expenditures*** | **391.6** | **5.4** | **397.5** | **5.1** | **406.7** | **5.0** | **414.1** | **4.9** |
| **41** | **Current expenditures** | **135.1** | **1.9** | **139.9** | **1.8** | **144.7** | **1.8** | **147.6** | **1.7** |
| 411 | Gross salaries and contributions charged to employer | 75.0 | 1.0 | 78.0 | 1.0 | 79.6 | 1.0 | 81.1 | 1.0 |
| 412 | Other personal income | 6.4 | 0.1 | 6.5 | 0.1 | 6.5 | 0.1 | 6.7 | 0.1 |
| 413 | Expenditures for goods | | | | | | | | |
| 414 | Expenditures for services | 22.8 | 0.3 | 23.3 | 0.3 | 25.6 | 0.3 | 26.1 | 0.3 |
| 415 | Current maintenace | 7.5 | 0.1 | 8.7 | 0.1 | 8.9 | 0.1 | 9.1 | 0.1 |
| 416 | Interests | 3.2 | 0.0 | 3.3 | 0.0 | 3.4 | 0.0 | 3.4 | 0.0 |
| 417 | Rent | 0.7 | 0.0 | 0.7 | 0.0 | 0.8 | 0.0 | 0.8 | 0.0 |
| 418 | Subsidies | 7.7 | 0.1 | 8.0 | 0.1 | 8.2 | 0.1 | 8.4 | 0.1 |
| 419 | Other expenditures | 11.8 | 0.2 | 11.5 | 0.1 | 11.8 | 0.1 | 12.0 | 0.1 |
| **42** | **Social security transfers** | **2.2** | **0.0** | **2.3** | **0.0** | **2.3** | **0.0** | **2.4** | **0.0** |
| **43** | **Transfers to institutions, individuals, NGO and public sector** | **94.2** | **1.3** | **94.4** | **1.2** | **95.3** | **1.2** | **96.3** | **1.1** |
| **44** | **Capital outlows of current budget** | **122.5** | **1.7** | **122.8** | **1.6** | **125.0** | **1.5** | **127.5** | **1.5** |
| **45** | **Loans and credits** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **462** | **Repayment of Garantees** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **463** | **Repayment of Arrears** | **34.5** | **0.5** | **35.0** | **0.5** | **35.0** | **0.4** | **36.0** | **0.0** |
| **47** | **Reserves** | **3.0** | **0.0** | **3.1** | **0.0** | **4.3** | **0.1** | **4.3** | **0.1** |
| | ***Deficit/ Surplus*** | **-1.8** | **0.0** | **-0.6** | **0.0** | **-0.6** | **0.0** | **1.8** | **0.0** |
| | ***Deficit/ Surplus*** | **-1.8** | **0.0** | **-0.6** | **0.0** | **-0.6** | **0.0** | **1.8** | **0.0** |
| | ***Primary deficit*** | **1.4** | **0.0** | **2.7** | **0.0** | **2.8** | **0.0** | **5.2** | **0.1** |
| | ***Current budget Deficit/ Surplus*** | **120.8** | **1.7** | **122.2** | **1.6** | **124.4** | **1.5** | **129.3** | **1.5** |
| | ***Repayment of debt*** | **14.0** | **0.2** | **15.6** | **0.2** | **15.5** | **0.2** | **14.7** | **0.2** |
| 4611 | Repayment of principal to residents | 11.5 | 0.2 | 11.8 | 0.2 | 11.0 | 0.1 | 10.0 | 0.1 |
| 4612 | Repayment of principal to nonresidents | 2.5 | 0.0 | 3.7 | 0.0 | 4.5 | 0.1 | 4.7 | 0.1 |
| **4418** | ***Purchase of securities*** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **43** | ***Transfers to institutions, individuals, NGO and public sector*** | **1.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| | ***Financing needs*** | **-16.8** | **-0.2** | **-16.2** | **-0.2** | **-16.1** | **-0.2** | **-12.9** | **-0.2** |
| | ***Financing*** | **16.8** | **0.2** | **16.2** | **0.2** | **16.1** | **0.2** | **12.9** | **0.2** |
| **751** | **Borrowings and credits** | **12.2** | **0.2** | **8.1** | **0.1** | **8.5** | **0.1** | **8.0** | **0.1** |
| **72** | **Privatisation revenues** | **15.5** | **0.2** | **10.0** | **0.1** | **11.4** | **0.1** | **11.0** | **0.1** |
| **73** | **Receipts from repayment of loans** | **0.3** | **0.0** | **0.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| | **Transfers from the budget of Montenegro** | **10.0** | **0.1** | **10.1** | **0.1** | **10.5** | **0.1** | **10.5** | **0.1** |
| | **Increase/decrease in deposits** | **-21.2** | **-0.3** | **-12.0** | **-0.2** | **-14.2** | **-0.2** | **-16.5** | **-0.2** |

| GDP (in mln € | General Government | 7279.7 | | 7416.7 | | 7965.4 | | 8372.8 | | 8757.5 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Econpmic classification CODE | Economic classification | 2024 Plan | | Preliminary 2024 | | 2025 | | 2026 | | 2027 | |
| | | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP | mil.€ | % BDP |
| | ***Current revenues*** | **3162.5** | **42.6** | **3174.1** | **42.8** | **3283.0** | **41.2** | **3410.3** | **40.7** | **3527.2** | **40.3** |
| **711** | **Taxes** | **2159.5** | **29.1** | **2166.6** | **29.2** | **2419.8** | **30.4** | **2512.1** | **30.0** | **2602.2** | **29.7** |
| 7111 | Personal income tax | 174.1 | 2.3 | 175.1 | 2.4 | 198.4 | 2.5 | 204.4 | 2.4 | 212.7 | 2.4 |
| 7112 | Tax on Profits of Legal Person | 205.7 | 2.8 | 205.7 | 2.8 | 219.9 | 2.8 | 232.1 | 2.8 | 243.9 | 2.8 |
| 71131 | Real estate tax | 94.5 | 1.3 | 94.5 | 1.3 | 98.3 | 1.2 | 100.3 | 1.2 | 105.3 | 1.2 |
| 71132 | Real estate transfer tax | 24.9 | 0.3 | 24.9 | 0.3 | 25.2 | 0.3 | 27.5 | 0.3 | 27.8 | 0.3 |
| 7114 | Value Added Tax | 1199.6 | 16.2 | 1204.4 | 16.2 | 1372.6 | 17.2 | 1421.8 | 17.0 | 1464.5 | 16.7 |
| 7115 | Excises | 365.8 | 4.9 | 365.8 | 4.9 | 403.5 | 5.1 | 421.3 | 5.0 | 438.9 | 5.0 |
| 7116 | Tax on International Trade and Transactions | 58.3 | 0.8 | 59.1 | 0.8 | 64.0 | 0.8 | 65.5 | 0.8 | 68.1 | 0.8 |
| | Local taxes and other revenues from the equalization fund | 22.3 | 0.3 | 22.3 | 0.3 | 22.6 | 0.3 | 23.3 | 0.3 | 24.4 | 0.3 |
| 7118 | Other State Taxes | 14.3 | 0.2 | 14.8 | 0.2 | 15.3 | 0.2 | 16.0 | 0.2 | 16.5 | 0.2 |
| **712** | **Contributions** | **585.4** | **7.9** | **587.1** | **7.9** | **449.1** | **5.6** | **476.6** | **5.7** | **503.0** | **5.7** |
| 7121 | Contributions for Pension and Disability Insurance | 539.8 | 7.3 | 539.8 | 7.3 | 397.3 | 5.0 | 426.4 | 5.1 | 448.8 | 5.1 |
| 7122 | Contributions for Health Insurance | 3.0 | 0.0 | 4.2 | 0.1 | 6.0 | 0.1 | 2.0 | 0.0 | 2.0 | 0.0 |
| 7123 | Contributions for Insurance from Unemployment | 24.0 | 0.3 | 24.5 | 0.3 | 26.0 | 0.3 | 27.4 | 0.3 | 30.4 | 0.3 |
| 7124 | Other contributions | 18.6 | 0.3 | 18.6 | 0.3 | 19.7 | 0.2 | 20.8 | 0.2 | 21.9 | 0.2 |
| **713** | **Duties** | **21.8** | **0.3** | **21.8** | **0.3** | **23.9** | **0.3** | **24.9** | **0.3** | **25.8** | **0.3** |
| **714** | **Fees** | **143.5** | **1.9** | **144.1** | **1.9** | **157.2** | **2.0** | **161.9** | **1.9** | **165.9** | **1.9** |
| **715** | **Other revenues** | **140.1** | **1.9** | **142.3** | **1.9** | **72.0** | **0.9** | **72.7** | **0.9** | **78.8** | **0.9** |
| **74** | **Grants** | **112.1** | **1.5** | **112.1** | **1.5** | **161.0** | **2.0** | **162.1** | **1.9** | **151.4** | **1.7** |
| | ***Expenditures*** | **3401.2** | **45.9** | **3401.2** | **45.9** | **3561.7** | **44.7** | **3680.2** | **44.0** | **3799.9** | **43.4** |
| **41** | **Current expenditures** | **1349.5** | **18.2** | **1349.5** | **18.2** | **1395.0** | **17.5** | **1431.5** | **17.1** | **1470.8** | **16.8** |
| 411 | Gross salaries and contributions charged to employer | 773.8 | 10.4 | 773.8 | 10.4 | 796.0 | 10.0 | 807.7 | 9.6 | 814.6 | 9.3 |
| 412 | Other personal income | 26.2 | 0.4 | 26.2 | 0.4 | 30.8 | 0.4 | 30.9 | 0.4 | 31.5 | 0.4 |
| 413 | Expenditures for goods | 52.1 | 0.7 | 52.1 | 0.7 | 50.0 | 0.6 | 48.7 | 0.6 | 49.2 | 0.6 |
| 414 | Expenditures for services | 99.6 | 1.3 | 99.6 | 1.3 | 123.5 | 1.6 | 120.3 | 1.4 | 120.5 | 1.4 |
| 415 | Current maintenace | 46.6 | 0.6 | 46.6 | 0.6 | 51.6 | 0.6 | 47.6 | 0.6 | 49.2 | 0.6 |
| 416 | Interests | 151.9 | 2.0 | 151.9 | 2.0 | 162.8 | 2.0 | 192.1 | 2.3 | 219.6 | 2.5 |
| 417 | Rent | 14.3 | 0.2 | 14.3 | 0.2 | 14.0 | 0.2 | 13.8 | 0.2 | 14.1 | 0.2 |
| 418 | Subsidies | 88.9 | 1.2 | 88.9 | 1.2 | 76.9 | 1.0 | 80.2 | 1.0 | 81.7 | 0.9 |
| 419 | Other expenditures | 96.1 | 1.3 | 96.1 | 1.3 | 89.4 | 1.1 | 90.3 | 1.1 | 90.4 | 1.0 |
| **42** | **Social security transfers** | **1011.2** | **13.6** | **1011.2** | **13.6** | **1070.3** | **13.4** | **1121.7** | **13.4** | **1163.6** | **13.3** |
| **43** | **Transfers to institutions, individuals, NGO and public sector** | **511.8** | **6.9** | **511.8** | **6.9** | **540.8** | **6.8** | **554.6** | **6.6** | **559.7** | **6.4** |
| **44** | **Capital outlows of current budget** | **398.2** | **5.4** | **398.2** | **5.4** | **445.7** | **5.6** | **466.7** | **5.6** | **499.0** | **5.7** |
| **45** | **Loans and credits** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **462** | **Repayment of Garantees** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **463** | **Repayment of Arrears** | **56.7** | **0.8** | **56.7** | **0.8** | **58.6** | **0.7** | **56.4** | **0.7** | **57.4** | **0.7** |
| **47** | **Reserves** | **73.9** | **1.0** | **73.9** | **1.0** | **51.4** | **0.6** | **49.3** | **0.6** | **49.3** | **0.6** |
| | ***Deficit/ Surplus*** | **-238.7** | **-3.2** | **-227.1** | **-3.1** | **-278.7** | **-3.5** | **-269.9** | **-3.2** | **-272.7** | **-3.1** |
| | ***Primary deficit*** | **-86.9** | **-1.2** | **-75.2** | **-1.0** | **-115.9** | **-1.5** | **-77.8** | **-0.9** | **-53.1** | **-0.6** |
| | ***Current budget Deficit/ Surplus*** | **159.4** | **2.1** | **171.1** | **2.3** | **166.9** | **2.1** | **196.8** | **2.4** | **226.3** | **2.6** |
| | ***Repayment of debt*** | **518.5** | **7.0** | **518.5** | **7.0** | **836.5** | **10.5** | **368.6** | **4.4** | **986.4** | **11.3** |
| 4611 | Repayment of principal to residents | 226.5 | 3.1 | 226.5 | 3.1 | 68.6 | 0.9 | 136.4 | 1.6 | 59.0 | 0.7 |
| 4612 | Repayment of principal to nonresidents | 292.0 | 3.9 | 292.0 | 3.9 | 767.9 | 9.6 | 232.2 | 2.8 | 927.4 | 10.6 |
| **4418** | ***Purchase of securities*** | **2.3** | **0.0** | **2.3** | **0.0** | **34.2** | **0.4** | **17.7** | **0.2** | **17.7** | **0.2** |
| **45** | ***Loans and credits*** | **6.0** | **0.1** | **6.0** | **0.1** | **7.5** | **0.1** | **4.5** | **0.1** | **4.5** | **0.1** |
| | ***Financing needs*** | **-765.5** | **-10.3** | **-753.8** | **-10.2** | **-1156.9** | **-14.5** | **-660.8** | **-7.9** | **-1281.4** | **-14.6** |
| | ***Financing*** | **765.5** | **10.3** | **753.8** | **10.2** | **1156.9** | **14.5** | **660.8** | **7.9** | **1281.4** | **14.6** |
| **751** | **Borrowings and credits** | **660.2** | **8.9** | **660.2** | **8.9** | **893.1** | **11.2** | **572.4** | **6.8** | **1080.7** | **12.3** |
| **72** | **Privatisation revenues** | **21.5** | **0.3** | **21.5** | **0.3** | **16.0** | **0.2** | **17.4** | **0.2** | **17.0** | **0.2** |
| **73** | **Receipts from repayment of loans** | **10.0** | **0.1** | **10.0** | **0.1** | **9.8** | **0.1** | **9.7** | **0.1** | **9.7** | **0.1** |
| | **Transfers from the budget of Montenegro** | **10.0** | **0.1** | **10.0** | **0.1** | **10.1** | **0.1** | **10.5** | **0.1** | **10.5** | **0.1** |
| | **Increase/decrease in deposits** | **63.8** | **0.9** | **52.1** | **0.7** | **228.0** | **2.9** | **50.8** | **0.6** | **163.5** | **1.9** |

## 1a: Macroeconomic prospects

| | ESA Code | Year 2023 | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|---|
| | | **Level (bn €)** | **Rate of change** | | | | |
| 1. Real GDP at market prices | B1*g | 6.299 | 6.3 | 3.8 | 4.8 | 3.2 | 3.1 |
| 2. GDP at market prices | B1*g | 6.964 | 17.5 | 6.5 | 7.4 | 5.1 | 4.6 |
| **Components of real GDP** | | | | | | | |
| 3. Private consumption expenditure | P3 | 5 | 6.5 | 4.0 | 7.2 | 2.1 | 1.1 |
| 4. Government consumption expenditure | P3 | 1 | 3.1 | 3.0 | 2.7 | 2.5 | 2.5 |
| 5. Gross fixed capital formation | P51 | 1 | 6.9 | 6.5 | 6.5 | 4.0 | 3.5 |
| 6. Changes in inventories and net acquisition of valuables (% of GDP) | P52+P53 | 0 | 7.6 | 7.7 | 7.1 | 6.8 | 6.4 |
| 7. Exports of goods and services | P6 | 3 | 9.0 | 2.5 | 2.7 | 5.1 | 5.2 |
| 8. Imports of goods and services | P7 | 5 | 5.9 | 3.2 | 5.2 | 3.1 | 2.0 |
| **Contribution to real GDP growth** | | | | | | | |
| 9. Final domestic demand | | 7.2 | 6.8 | 4.7 | 7.0 | 2.8 | 2.0 |
| 10. Change in inventories and net acquisition of valuables | P52+P53 | 0.5 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| 11. External balance of goods/services | B11 | -1 | 0.2 | -1.0 | -2.2 | 0.3 | 1.2 |

## Table 1b: Price developments

| | ESA Code | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| 1. GDP deflator | | 10.5 | 2.7 | 2.4926 | 1.9 | 1.4 |
| 2. Private consumption deflator | | 8.2 | 3.2 | 3.3 | 2.4 | 2.2 |
| 3. HICP[13] | | 10.5 | 2.7 | 2.5 | 1.9 | 1.4 |
| 4. National CPI change[14] | | 8.2 | 3.2 | 3.3 | 2.4 | 2.2 |
| 5. Public consumption deflator | | 14.3 | 3.9 | 1.3 | 1.5 | -0.5 |
| 6. Investment deflator | | 0.3 | -0.5 | 0.0 | 1.0 | 1.0 |
| 7. Export price deflator (goods & services) | | 4.6 | 2.3 | 2.4 | 2.0 | 2.0 |
| 8. Import price deflator (goods & services) | | 2.4 | 2.1 | 2.0 | 2.0 | 2.0 |

[13] HICP data: MONSTAT does not publish HICP data.
[14] 2015=100

## Table 1c: Labour markets developments

| | ESA Code | Year 2023 | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|---|
| | | Level | Rate of change | | | | |
| 1. Population (thousands) | | | 623.5 | : | : | : | : |
| 2. Population (growth rate in %) | | | : | -100.0 | : | : | : |
| 3. Working-age population (persons) | | | 424 | 440 | 441 | 452 | 453 |
| 4. Participation rate | | | 75.5 | 73.0 | 75.5 | 76.7 | 77.2 |
| 5. Employment, persons | | | 278 | 284 | 297 | 312 | 317 |
| 6. Employment, hours worked | | | : | : | : | : | : |
| 7. Employment (growth rate in %) | | | 10.8 | 2.0 | 4.6 | 4.9 | 1.9 |
| 8. Public sector employment (persons) | | | 53.8 | : | : | : | : |
| 9. Public sector employment (growth in %) | | | 8.5 | : | : | : | : |
| 10. Unemployment rate | | | 13.1 | 11.7 | 10.7 | 10.0 | 9.2 |
| 11. Labour productivity, persons | | 22.6 | -4.0 | 1.7 | 0.2 | -1.6 | 1.2 |
| 12. Labour productivity, hours worked | | | : | : | : | : | : |
| 13. Compensation of employees | D1 | 2.8 | 3.7 | 8.3 | 14.0 | 11.6 | 6.7 |

## Table 1d: Sectoral balances

| % of GDP | ESA Code | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| 1. Net lending/borrowing vis-à-vis the rest of the world | B.9 | : | : | : | : | : |
| of which: | | | | | | |
| - Balance of goods and services | | -18.6 | -18.7 | -19.7 | -18.8 | -17.2 |
| - Balance of primary incomes & transfers | | 18.6 | 18.7 | 19.7 | 18.8 | 17.2 |
| - Capital account | | : | : | : | : | : |
| 2. Net lending/borrowing of the private sector | B.9/ EDP B.9 | -0.6 | 3.2 | 3.5 | 3.2 | 3.1 |
| 3. Net lending/borrowing of general government | | 0.6 | -3.2 | -3.5 | -3.2 | -3.1 |
| 4. Statistical discrepancy | | : | : | : | : | : |

## Table 1e: GDP, investment and gross value added

| | ESA Code | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| **GDP[15] and investment** | | | | | | |
| GDP level at current market prices (in domestic currency) | B1g | 7.0 | 7.4 | 8.0 | 8.4 | 8.8 |
| Investment ratio (% of GDP) | | 19.6 | 19.5 | 19.4 | 19.4 | 19.3 |
| **Growth of Gross Value Added, percentage changes at constant prices** | | | | | | |

[15] GDP production side projections: Ministry of Finance preliminary estimates.

| | | | | | | |
|---|---|---|---|---|---|---|
| 1. Agriculture | | 6.4 | : | : | : | : |
| 2. Industry (excluding construction) | | -30.2 | : | : | : | : |
| 3. Construction | | 166.1 | : | : | : | : |
| 4. Services | | 0.6 | : | : | : | : |

## Table 1f: External sector developments[16]

| Euro mill. Unless otherwise indicated | | Year | Year | Year | Year | Year |
|---|---|---|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. Current account balance (% of GDP) | % of GDP | -11.4 | -12.1 | -13.9 | -13.5 | -12.5 |
| 2. Export of goods | bn. EUR | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| 3. Import of goods | bn. EUR | 3.7 | 3.9 | 4.2 | 4.5 | 4.6 |
| 4. Trade balance | bn. EUR | -3.0 | -3.3 | -3.6 | -3.9 | -4.0 |
| 5. Export of services | bn. EUR | 2.8 | 3.0 | 3.3 | 3.5 | 3.8 |
| 6. Import of services | bn. EUR | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 |
| 7. Service balance | bn. EUR | 1.7 | 1.9 | 2.1 | 2.3 | 2.5 |
| 8. Net interest payments from abroad | bn. EUR | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| 9. Other net factor income from abroad | bn. EUR | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| 10. Current transfers | bn. EUR | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| 11. Of which from EU | bn. EUR | : | : | : | : | : |
| 12. Current account balance | bn. EUR | -0.8 | -0.9 | -1.1 | -1.1 | -1.1 |
| 13. Capital and financial account | bn. EUR | -0.8 | : | : | : | : |
| 14. Foreign direct investment | bn. EUR | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 |
| 15. Foreign reserves | bn. EUR | -0.5 | : | : | : | : |
| 16. Foreign debt | bn. EUR | 9.1 | : | : | : | : |
| 17. Of which: public | bn. EUR | 3.5 | : | : | : | : |
| 18. Of which: foreign currency denominated | bn. EUR | : | : | : | : | : |
| 19. Of which: repayments due | bn. EUR | : | : | : | : | : |
| 20. Exchange rate vis-à-vis EUR (annual average) | NCU/EUR | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| p.m. exchange rate vis-à-vis EUR (annual average) | %, year-on-year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 21. Exchange rate vis-à-vis EUR (end-year) | NCU/EUR | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| p.m. exchange rate vis-à-vis EUR (end-year) | %, year-on-year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 22. Net foreign saving | % of GDP | : | : | : | : | : |
| 23. Domestic private saving | % of GDP | : | : | : | : | : |
| 24. Domestic private investment | % of GDP | : | : | : | : | : |
| 25. Domestic public saving | % of GDP | : | : | : | : | : |
| 26. Domestic public investment | % of GDP | : | : | : | : | : |

## Table 1g: Sustainability indicators

| | Dimension | Year | Year | Year | Year | Year |
|---|---|---|---|---|---|---|
| | | 2020 | 2021 | 2022 | 2023 | 2024 |
| 1. Current Account Balance | % of BDP | -26.1 | -9.2 | -22823.0 | -18632.3 | -18681.1 |
| 2. Net International Investment Position | % of BDP | -194.4 | -157.6 | -124.2 | -106.1 | : |
| 3. Export market shares | %, yoy | : | : | : | : | : |

[16] External sector projections: Ministry of Finance estimates.

| | | | | | | |
|---|---|---|---|---|---|---|
| 4. Real Effective Exchange Rate | %, yoy | : | : | : | : | : |
| 5. Nominal Unit Labour Costs | %, yoy | : | : | : | : | : |
| 6. Private sector credit flow | % of GDP | : | : | : | : | : |
| 7. Private sector debt | % of GDP | : | : | : | : | : |
| 8. General Government Debt | % of GDP | : | : | 1688.0 | 1723.2 | 1752.8 |

## Table 2a: General government budgetary prospects

| | ESA Code | Year 2023 | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|---|
| | | Level (bn NCU) | % GDP | | | | |
| **Net lending (B9) by sub-sectors** | | | | | | | |
| 1. General government | S13 | 0.04 | 0.6 | -3.2 | -3.5 | -3.2 | -3.1 |
| 2. Central government | S1311 | 0.01 | 0.2 | -3.2 | -3.5 | -3.2 | -3.1 |
| 3. State government | S1312 | : | : | : | : | : | : |
| 4. Local government | S1313 | 0.03 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Social security funds | S1314 | : | : | : | : | : | : |
| **General government (S13)** | | | | | | | |
| 6. Total revenue | TR | 2.94 | 42.2 | 42.8 | 41.2 | 40.7 | 40.3 |
| 7. Total expenditure | TE | 2.90 | 41.6 | 46.0 | 44.7 | 44.0 | 43.4 |
| 8. Net borrowing/lending | EDP.B9 | 0.04 | 0.6 | -3.2 | -3.5 | -3.2 | -3.1 |
| 9. Interest expenditure | EDP.D41 incl. FISIM | 0.13 | 1.8 | 2.0 | 2.0 | 2.3 | 2.5 |
| 10. Primary balance | | 0.17 | 2.4 | -1.1 | -1.5 | -0.9 | -0.6 |
| 11. One-off and other temporary measures | | : | : | : | : | : | : |
| **Components of revenues** | | | | | | | |
| 12. Total taxes (12 = 12a+12b+12c) | | 1.74 | 24.9 | 27.1 | 28.4 | 28.0 | 27.7 |
| 12a. Taxes on production and imports | D2 | 1.43 | 20.6 | 22.0 | 23.1 | 22.8 | 22.5 |
| 12b. Current taxes on income and wealth | D5 | 0.30 | 4.3 | 5.1 | 5.3 | 5.2 | 5.2 |
| 12c. Capital taxes | D91 | : | : | : | : | : | : |
| 13. Social contributions | D61 | 0.58 | 8.3 | 7.9 | 5.6 | 5.7 | 5.7 |
| 14. Property income | D4 | 0.08 | 1.2 | 1.2 | 0.6 | 0.5 | 0.6 |
| 15. Other (15 = 16-(12+13+14))22 | | 0.54 | 7.8 | 6.6 | 6.7 | 6.5 | 6.2 |
| 16 = 6. Total revenue | TR | 2.94 | 42.2 | 42.8 | 41.2 | 40.7 | 40.3 |
| p.m.: Tax burden | | 2.31 | 33.2 | 35.0 | 34.0 | 33.7 | 33.5 |
| **Selected components of expenditures** | | | | | | | |
| 17. Collective consumption | P32 | : | : | : | : | : | : |
| 18. Total social transfers | D62 + D63 | 0.83 | 11.9 | 13.6 | 13.4 | 13.4 | 13.3 |
| 18a. Social transfer in kind | P31 = D63 | : | : | : | : | : | : |
| 18b. Social transfers other than in kind | D62 | 0.83 | 11.9 | 13.6 | 13.4 | 13.4 | 13.3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 19 = 9. Interest expenditure (incl. FISIM) | EDP.D41 + FISIM | 0.13 | 1.8 | 2.0 | 2.0 | 2.3 | 2.5 |
| 20. Subsidies | D3 | 0.08 | 1.1 | 1.2 | 1.0 | 1.0 | 0.9 |
| 21. Gross fixed capital formation | P51 | 0.34 | 4.8 | 5.4 | 5.6 | 5.6 | 1.1 |
| 22. Other (21 = 22-(16+17+18+19+20) | | 1.53 | 22.0 | 23.7 | 22.7 | 21.7 | 25.5 |
| 23. Total expenditures | TE [1] | 2.90 | 41.6 | 46.0 | 44.7 | 44.0 | 43.4 |
| p.m. compensation of employees | D1 | : | : | : | : | : | : |

## Table 2b: General government budgetary prospects

| | ESA Code | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| | | Level (bn NCU) | | | | |
| **Net lending (B9) by sub-sectors** | | | | | | |
| 1. General government | S13 | 0.04 | -0.24 | -0.28 | -0.27 | -0.27 |
| 2. Central government | S1311 | 0.01 | -0.24 | -0.28 | -0.27 | -0.27 |
| 3. State government | S1312 | : | : | : | : | : |
| 4. Local government | S1313 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 |
| 5. Social security funds | S1314 | : | : | : | : | : |
| **General government (S13)** | | | | | | |
| 6. Total revenue | TR | 2.94 | 3.17 | 3.28 | 3.41 | 3.53 |
| 7. Total expenditure | TE | 2.90 | 3.41 | 3.56 | 3.68 | 3.80 |
| 8. Net borrowing/lending | EDP.B9 | 0.04 | -0.24 | -0.28 | -0.27 | -0.27 |
| 9. Interest expenditure | EDP.D41 incl. FISIM | 0.13 | 0.15 | 0.16 | 0.19 | 0.22 |
| 10. Primary balance | | 0.17 | -0.08 | -0.12 | -0.08 | -0.05 |
| 11. One-off and other temporary measures | | : | : | : | : | : |
| **Components of revenues** | | | | | | |
| 12. Total taxes (12 = 12a+12b+12c) | | 1.74 | 2.01 | 2.26 | 2.35 | 2.43 |
| 12a. Taxes on production and imports | D2 | 1.43 | 1.63 | 1.84 | 1.91 | 1.97 |
| 12b. Current taxes on income and wealth | D5 | 0.30 | 0.38 | 0.42 | 0.44 | 0.46 |
| 12c. Capital taxes | D91 | : | : | : | : | : |
| 13. Social contributions | D61 | 0.58 | 0.59 | 0.45 | 0.48 | 0.50 |
| 14. Property income | D4 | 0.08 | 0.09 | 0.04 | 0.04 | 0.05 |
| 15. Other (15 = 16-(12+13+14)) | | 0.54 | 0.49 | 0.53 | 0.54 | 0.55 |
| 16 = 6. Total revenue | TR | 2.94 | 3.17 | 3.28 | 3.41 | 3.53 |
| p.m.: Tax burden (D2+D5+D61+D91-D995) | | 2.31 | 2.60 | 2.71 | 2.82 | 2.93 |
| **Selected components of expenditures** | | | | | | |
| 17. Collective consumption | P32 | : | : | : | : | : |
| 18. Total social transfers | D62 + D63 | 0.83 | 1.01 | 1.07 | 1.12 | 1.16 |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : |

| | | | | | | |
|---|---|---|---|---|---|---|
| 18b. Social transfers other than in kind | D62 | 0.83 | 1.01 | 1.07 | 1.12 | 1.16 |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP.D41 + FISIM | 0.13 | 0.15 | 0.16 | 0.19 | 0.22 |
| 20. Subsidies | D3 | 0.08 | 0.09 | 0.08 | 0.08 | 0.08 |
| 21. Gross fixed capital formation | P51 | 0.34 | 0.40 | 0.45 | 0.47 | 0.10 |
| 22. Other (21 = 22-(16+17+18+19+20) | | 1.53 | 1.76 | 1.81 | 1.82 | 2.24 |
| 23. Total expenditures | TE | 2.90 | 3.41 | 3.56 | 3.68 | 3.80 |
| p.m. compensation of employees | D1 | : | : | : | : | : |

## Table 3: General government expenditure by function

| % GDP | COFOG Code | Year | Year | Year | Year | Year |
|---|---|---|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. General public services | 1 | 9.5 | 10.9 | 10.3 | 10.2 | 10.1 |
| 2. Defence | 2 | 1.0 | 1.2 | 1.1 | 1.1 | 1.2 |
| 3. Public order and safety | 3 | 2.8 | 2.9 | 2.8 | 2.6 | 2.5 |
| 4. Economic affairs | 4 | 4.4 | 5.1 | 5.1 | 5.0 | 4.9 |
| 5. Environmental protection | 5 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 |
| 6. Housing and community amenities | 6 | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 |
| 7. Health | 7 | 6.0 | 6.0 | 6.0 | 5.8 | 5.6 |
| 8. Recreation, culture and religion | 8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| 9. Education | 9 | 4.1 | 4.3 | 4.2 | 4.0 | 3.9 |
| 10. Social protection | 10 | 12.4 | 14.3 | 13.8 | 13.7 | 13.6 |
| 11. Total expenditure (item 7 = 23 in Table 2) | TE | 41.6 | 46.0 | 44.7 | 44.0 | 43.4 |

## Table 4: General government debt developments

| % GDP | ESA Code | Year | Year | Year | Year | Year |
|---|---|---|---|---|---|---|
| | | 2023 | 2024 | 2025 | 2026 | 2027 |
| 1. Gross debt | | 1723.2 | 1752.8 | 1820.4 | 1552.7 | 1769.9 |
| 2. Change in gross debt ratio | | 35.2 | 29.6 | 67.6 | -267.7 | 217.3 |
| **Contributions to change in gross debt** | | | | | | |
| 3. Primary balance | | -2.4 | 1.1 | 1.5 | 0.9 | 0.6 |
| 4. Interest expenditure | EDP D.41 | 1.8 | 2.0 | 2.0 | 2.3 | 2.5 |
| 5. Real growth effect | | -91.0 | -60.7 | -78.1 | -54.7 | -46.4 |
| 6. Inflation effect | | -151.4 | -43.0 | -40.7 | -32.8 | -21.1 |
| 7. Stock-flow adjustment | | 278.2 | 130.0 | 182.9 | -183.4 | 281.7 |
| *of which:* | | | | | | |
| - Differences between cash and accruals | | : | : | : | : | : |
| - Net accumulation of financial assets | | : | : | : | : | : |
| of which: | | | | | | |
| - Privatisation proceeds | | : | : | : | : | : |
| - Valuation effects and other | | : | : | : | : | : |
| p.m. implicit interest rate on debt | | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| **Other relevant variables** | | | | | | |
| 8. Liquid financial assets | | : | : | : | : | : |

| | | | | | | |
|---|---|---|---|---|---|---|
| 9. Net financial debt (9 = 1 - 8) | | : | : | : | : | : |

## Table 5: Cyclical developments

| % GDP | ESA Code | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| 1. Real GDP growth (%) | B1g | 6.3 | 3.8 | 4.8 | 3.2 | 3.1 |
| 2. Net lending of generalgovernment | EDP.B.9 | 0.6 | -3.2 | -3.5 | -3.2 | -3.1 |
| 3. Interest expenditure | EDP.D.41 | 1.8 | 2.0 | 2.0 | 2.3 | 2.5 |
| 4. One-off and other temporarymeasures[41] | | 2.6 | 0.2 | 0.2 | 0.3 | 0.3 |
| 5. Potential GDP growth (%) | | 3.0 | 2.8 | 3.2 | 3.2 | 3.0 |
| Contributions: | | | | | | |
| - labour | | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| - capital | | 7.0 | 1.3 | 3.0 | 3.2 | 1.2 |
| - total factor productivity | | -2.1 | 1.0 | 0.3 | -1.5 | 0.4 |
| 6. Output gap | | 2.2 | 3.2 | 4.7 | 4.7 | 4.8 |
| 7. Cyclical budgetary component | | 4.4 | 3.5 | 5.0 | 5.0 | 5.1 |
| 8. Cyclically-adjusted balance (2-7) | | -3.8 | -6.7 | -8.5 | -8.2 | -8.2 |
| 9. Cyclically-adjusted primary balance(8-3) | | -2.0 | -4.6 | -6.4 | -5.9 | -5.7 |
| 10. Structural balance (8-4) | | -6.4 | -6.9 | -8.7 | -8.5 | -8.5 |

## Table 6: Divergence from previous programme

| | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|
| **1. GDP growth (%, yoy)** | | | | | |
| Previous programme | 5.8 | 3.8 | 3.0 | 2.9 | : |
| Latest update | 6.3 | 3.8 | 4.8 | 3.2 | 3.1 |
| Difference (percentage points) | 0.5 | 0.0 | 1.8 | 0.3 | : |
| **2. General government net lending (% GDP)** | | | | | |
| Previous programme | : | : | : | : | : |
| Latest update | 0.6 | -3.2 | -3.5 | -3.2 | -3.1 |
| Difference | : | : | : | : | : |
| **3. General government gross debt (% GDP)** | | | | | |
| Previous programme | 62.2 | 61.6 | 61.3 | 61.0 | : |
| Latest update | 1723.2 | 1752.8 | 1820.4 | 1552.7 | 1769.9 |
| Difference | 1661.0 | 1691.2 | 1759.1 | 1491.7 | : |

## Table 7: Long-term sustainability of public finances

| % of GDP | 2007 | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|---|---|---|---|---|---|---|---|
| **Total expenditure** | | | | | | | |
| *of which*: age-related expenditures | : | : | : | n/a | n/a | n/a | n/a |
| - Pension expenditure | : | : | : | n/a | n/a | n/a | n/a |
| - Social security pension | : | : | : | n/a | n/a | n/a | n/a |
| - Old-age and early pensions | : | : | : | n/a | n/a | n/a | n/a |
| - Other pensions (disability, survivors) | : | : | : | n/a | n/a | n/a | n/a |
| - Occupational pensions (if in generalgovernment) | : | : | : | n/a | n/a | n/a | n/a |
| - Health care | : | : | : | n/a | n/a | n/a | n/a |
| - Long-term care *(this was earlierincluded in the health care)* | : | : | : | n/a | n/a | n/a | n/a |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Education expenditure | : | : | : | n/a | n/a | n/a | n/a |
| Other age-related expenditures | : | : | : | | | | |
| Interest expenditure | : | : | : | n/a | n/a | n/a | n/a |
| Total revenues *of which*: | : | : | : | | | | |
| property income | : | : | : | n/a | n/a | n/a | n/a |
| trade-related revenue, | : | : | : | n/a | n/a | n/a | n/a |
| royalties, concessions etc. | : | : | : | n/a | n/a | n/a | n/a |
| from pensions contributions (orsocial contributions, if appropriate) | : | : | : | n/a | n/a | n/a | n/a |
| Pension reserve fund assets | : | : | : | n/a | n/a | n/a | n/a |
| *of which*: consolidated public pension fund assets (assets otherthan government liabilities) | : | : | : | n/a | n/a | n/a | n/a |
| **Assumptions** | | | | | | | |
| Labour productivity growth[17] | 4.2 | 5.1 | -5.9 | | | | |
| Real GDP growth[18] | 6.8 | 2.7 | -15.3 | | | | |
| Participation rate males (aged 20-64) | 69.1 | 67.1 | 74.6 | : | : | : | : |
| Participation rates females (aged 20- 64) | 53 | 51.7 | 59.9 | : | : | : | : |
| Total participation rates (20-64) | 61 | 59.3 | 67.2 | : | : | : | : |
| Unemployment rate | 19.4 | 19.8 | 17.8 | : | : | : | : |
| Population aged 65+ over total population[19] | 12.9 | 12.9 | 15.6 | | | | |

## Table 7a: Contingent liabilities

| **Measures** | | **Date of adoption** | **Maximum amount of contingent liabilities** (% of GDP) | **Estimated take-up** (% of GDP) |
|---|---|---|---|---|
| In response to COVID- 19 | | | **2024[20]** | 2024 |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | Subtotal | | | |
| Others | | | [21] | |
| | | | [22] | |
| | | | | |
| | | | | |
| | | | | |
| | Subtotal | | | |
| | **Total** | | | |

[17] Productivity growth projections: long-term Ministry of Finance estimates.
[18] GDP growth projections: long-term Ministry of Finance estimates.
[19]Population 65+ projections: MONSTAT publication from 2014, medium fertility rate variant: http://monstat.org/cg/page.php?id=210&pageid=210
[20] No Covid 19 Related Guarantees are issued in during 2024.
[21] Contracted amount of the issued State Guarantees as of 30 September 2024 was 583.1 million euro.
[22] The debt stock related to the State Guarantees as of as of 30 September 2024 was 135.5 million euro.

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

| | Dimension | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 |
|---|---|---|---|---|---|---|
| Short-term interest rate | Annual average | 3.4 | 3.5 | 2.1 | 2 | : |
| Long-term interest rate | Annual average | 2.4 | 2.3 | 2.3 | 2.4 | : |
| USD/EUR exchange | Annual average | 1.08 | 1.09 | 1.08 | 1.08 | : |
| Nominal effective exchange rate | Annual average | 7.02 | 3.22 | 0.17 | 0 | : |
| Exchange rate vis-à-vis the EUR | Annual average | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Global GDP growth, excluding EU | Annual average | 3.7 | 3.5 | 3.6 | 3.6 | : |
| EU GDP growth | Annual average | 0.4 | 0.9 | 1.5 | 1.8 | : |
| Growth of relevant foreign markets | Annual average | 4.4 | 4.3 | 4.4 | 4.3 | : |
| World import volumes, excluding EU | Annual average | 1.3 | 3.2 | 3.3 | 3.3 | : |
| Oil prices (Brent, USD/barrel) | Annual average | 82.5 | 80.7 | 73.1 | 71.5 | : |

# ANNEX 2: EXTERNAL CONTRIBUTION TO THE ERP 2025-2027

| Remark Area Section | Comment received (include date received, format of the comment, main content) | Contributing Stakeholder (include institution, contact person and contact details) | Status of comment (accepted/rejected) | Comment (justification for acceptance/rejection) |
|---|---|---|---|---|
| General | **Comments received on 25 December 2024**<br><br>**Comments are outlined below:**<br><br>Page 3 – *"As a result of successful labour market activation and private sector support measures, Montenegro has recorded the historically lowest unemployment rate."* This is inaccurate. According to the Employment Office of Montenegro, the lowest unemployment rate was recorded on 30 September 2008, which is why this needs to be corrected.<br>Page 5 – policy guidance no. 1 is not implemented: "*Adopt an appropriately tight fiscal stance in 2024 to comply with the budget target and support further disinflation, and use revenue overperformance for deficit reduction and accumulation of government deposits*." The Fiscal | **Stakeholder: Miloš Vuković**<br>**Contact person: -**<br>**Contact details**: milos.vukovic@me.com | The first comment on labour market is accepted.<br><br>The comment on bonds issuance is accepted. | The Government adopted Proposal for the Fiscal Strategy 2024-2027 which clearly specifies strategic directions of economic and fiscal policy of the government in the medium term and specific tax and fiscal policy measures of the government that will affect sustainable growth and development, as stated in the Economic Reforms Programme 2025-2027. The fiscal strategy sets out tax policy reform, new sources of revenues and measures to increase budget revenues through legislative amendments and expansion of the tax base.<br>Comment no. 4: The increase in newly approved loans has been strong in |

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| | Strategy sets out exactly the opposite of what is stated in the policy guidance, which is why this needs to be clearly specified.<br>Page 6 – EU policy guidance no. 3 is not implemented *“Implement the public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space while avoiding exceptions regarding project selection.”*<br>In fact, *Velje brdo* project is an example of non-compliance with the recommendations on PIMA because it was included without performing any analysis whatsoever, which is evidenced by the fact that the coordinating body has yet to submit economic analysis of the project, while the existing spatial plan does not envisage construction at the mentioned location.<br>Page 17 – *During the nine months of 2024, total of 677.8 million euro of new loans was approved to legal persons, and these loans* | | | 2024 thus contributing to the accelerated household consumption. The increase in borrowing resulted from the increased revenue generated in the economy, but also from more favourable borrowing conditions in 2024.<br><br>The estimated revenues generated from tourism constitute an integral part of the prerequisites for implementation of the baseline scenario of macroeconomic trends in the medium term. The alternative scenario, described in chapter 1.3, outlines risks which, amongst other things, include lower revenues generated from tourism, as well as consequent lower real growth of the economy and collection of budget revenues.<br><br>Article 12 paragraph 3 of the Decision on drafting the capital budget reads as follows: "Except from paragraph 1 of this Article, |

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| | *recorded a growth of 18.94 percent relative to the same period of the previous year, while 596.1 million euro was approved to natural persons, which is approximately 45.62 percent more relative to the same period of 2023."* The abovementioned is the best indicator that consumption growth is financed by the loans, mostly by natural persons.<br><br>Page 25 – *"Over the medium term, the tourism sector is expected to yield a continued growth, with an annual average increase in revenues of approximately 6.0 percent, with further diversification of the structure of visitors."*. According to the data, we experienced a decline in the revenue generated from tourism in 2024 and not the growth, which means that the projection is inadequate, and therefore all the projections can be considered | | | in accordance with the priorities of the spending units, the government may also include projects of exceptional importance for the state in the capital budget proposal in accordance with Articles 2 and 3 of this decision."<br>For that purpose, the government passed the Conclusion number: 10-332/24-6329/2 at the session held on 08 November by which it adopted the Information on *Velje brdo* project, nominated by the Ministry of Ecology, Spatial Planning and Urbanism, based on which this project became an integral part of the Draft 2025 Budget Law of Montenegro.<br><br>According to the final data of the Administration for Statistics - MONSTAT, the category *inventory changes* recorded a real decline of -8.4 percent in 2023.<br>Values of the *inventory changes* category in the structure of GDP in the |

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| | incorrect. All the tables containing projections need to be corrected. Page 26, table 3.2.1. This table indicates that the recorded change of inventory amounted to 8.3 percent in 2023. According to the MONSTAT data, an increase of almost 10 percent was recorded in inventory changes. This demonstrates that the entire table is incorrect, therefore it needs to be corrected. Given the increase in inventories in 2024 and since the table specifies there was no increase in inventory, it is clear that the tables are incorrect. Page 32 "*A total of 442 million euro are allocated for HEALTH CARE which is an increase of 23 million euro compared to 2023 which predominantly results from accommodating needs of the health care fund and financing of public health institutions*." According to the statements made by director of the Health Insurance Fund, revision of the budget spending on health care in Q4 2025 has been planned, which is not specified in the document and which will increase budget deficit. Page 50 – "*Ministry of Finance is considering a possibility to issue* | | | short term can be considerably volatile; therefore, for the sake of objectivity, the assessment of this category is carried out in accordance with assessments of international organisations.<br><br>Full alignment with ESA standards for public finance statistics will be carried out in accordance with the EU integration agenda in the process of fulfilling benchmarks for the negotiation chapters 17 and 18. |

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| | *retail bonds in 2024, in the amount of up to 50 million euro with maturity from two to three years".* It is impossible to issue retail bonds in 2024, therefore this needs to be deleted.<br>Page 58 - The document does not mention a certain increase in public debt due to the implementation of ESA. It is necessary to make preliminary assessments of the impact of ESA on the increase of public debt.<br>Page 57 - The document does not mention a violation of the Law on Budget and Fiscal Responsibility resulting from a higher growth of current budget relative to the growth of GDP in 2025, deficit exceeding 3 percent of GDP and ratio of public debt to GDP exceeding 60 percent. The document needs to be further elaborated and it should also clearly state that the Law on Budget and Fiscal Responsibility has been violated. | | | |
| General | **Comments received on 26 December 2024**<br>**The comments are outlined below:** | **Stakeholder: Markišić Omer**<br>**Contact person: -**<br>**Contact details**: invent@t-com.me | Comments are not accepted. | The Economic Reform Programme 2025-2027 takes into account specific context of uncertain global, European and internal |

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| | Conditions of internal and external environments accompanied by numerous unknowns make it difficult to formulate the reform program, especially from the aspect of its materialisation.<br>Effort should be made to set sustainable strategic goals for a two-year period, which will constitute a solid base for continuation of the initiated reforms of Montenegro on its European path.<br>Formulation of the strategic goals should help competent state authorities and enterprises in majority state ownership which serve public interest in further performance of the tasks, while implementers, time-limits and means for implementation need to be determined with the aim of harmonising spending with the available resources and creating conditions for a more efficient disbursement of the available EU funds.<br>Proposed activities for the strategy<br>1. measures to achieve a more equitable regional development,<br>2. specific conditions for a more efficient disbursement of the EU | | | developments and economic trends.<br>Specific assumptions regarding basic macroeconomic trends and fiscal indicators in the next three-year period constitute an integral part of this document, based on relevant policies, reforms and projects. The document specifies starting points and key goals of the government's economic policy. Specific measures of reforms and public policies, in accordance with the methodology, constitute integral part of other relevant documents of the government, i.e. of the line ministries. |

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| | funds, in terms of staff and finances,<br>3. structural changes in tourism sector – including mass and high-end tourism, as well as health tourism, religious tourism etc.<br>4. specific measures to connect agriculture and tourism,<br>5. measures to preserve space, water courses and construction of seismically and energetically sustainable buildings,<br>6. protection of the Adriatic coast and restructuring the policies on marine resources - even if competences are transferred to the municipalities i.e. local governments, it is necessary to lay down the obligation to obtain consent of the competent republican authorities and of the parliament,<br>7. reform of forest management, without experimenting as it has been done in the last ten years,<br>8. implement the *polluter pays* principle,<br>9. sanction those responsible for the consequences of environmental issues and crimes,<br>10. sanction illegal landfills – a criminal offense – *ecocide* – and impose stricter penalties on legal and natural persons, | | | |

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| | 11. how to stop emigration - migration from the north - specific measures – set up the fund for underdeveloped areas, instead of an equalisation fund, as it was the case in the period 1980-1990 – tax exemptions, interest-free loans for farmers and entrepreneurs, activation of state property, especially military property etc.<br>12. critical analysis of the territorial organisation of Montenegro, number of municipalities – comply with the principle of self-sustainability of local governments, make the criteria for the establishment of new municipalities stricter,<br>13. restrictions on non-productive investments, except for maintenance and financing from the capital budget/rationality in using space – this has not been recorded in many municipalities/,<br>14. measures to stop unfavourable demographic trends, especially in the north,<br>15. coastal protection measures, and its development and expansion with artificial beaches. | | | |
| General | **Comments received on 27 December 2024** | **Stakeholder: Union of Free Trade Unions of Montenegro** | Comments are partly accepted. | The Economic Reform Programme 2025-2027 |

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| | **Comments are outlined below:**<br><br>**ECONOMIC POLICY**<br>– the process of privatisation of the remaining social property and valorisation of natural resources must be transparent, while systems such as *Dr Simo Milošević Institute*, Electric Power Company, Mines, Railways, Port of Bar, Plantations, Airport, utility services etc. should stay in majority state ownership since they are of special value and importance for the population;<br>– engage in a determined and uncompromising fight to suppress informal economy by designing measures for the implementation of effective legalisation on employment relationship of a worryingly large number of people who work "in the black market" by conducting inspection control of online trade and enabling inspectors to enter private facilities where unregistered economic activities are performed which would | **Contact person: Marko Subotić, economic policy adviser**<br>**Contact details**: usscg@usscg.me | | takes into account the specific context of uncertain global, European and internal developments and economic trends.<br>Specific assumptions of basic macroeconomic trends and fiscal indicators in the next three-year period, based on relevant policies, reforms and projects, constitute integral part of this document. The document sets out starting points and key goals of the government's economic policy. In accordance with the methodology, the specific measures of reform and public policies constitute integral part of other relevant documents of the government, i.e. of the line ministries.<br><br>The assumptions set out in the Economic Reform Programme 2025-2027 are based on a stronger fight against informal economy and increase in budget revenues generated on that basis, through |

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| | result in expansion of the tax base, while perpetrators engaged in informal economy would be properly sanctioned;<br>– transform precarious employment agreements of workers (fixed-term agreements, agreements on temporary and periodical jobs, agreements with agencies, work agreements...) into stable employment agreements (i.e. open ended agreements), particularly in the public sector, so as to create dignified working and living conditions for workers;<br>– increase the amount of capital contribution when establishing limited liability companies or increase liability of founders by means of their personal property in the event of bankruptcy or liquidation of the company;<br>– encourage agriculture development and guarantee purchase from local farmers and cattle-breeders, thus promoting development of these economic sectors, giving a chance to the | | | legislative amendments and reinforced supervision capacities.<br>Strategic goal of the government's economic policy in the medium term is to diversify economic structure so as to strengthen sustainability and resistance to external shocks.<br>As for tax policy, the key objectives set by the Programme concern legislative amendments in order to create new sources of revenue, reform tax and customs administration and create a stable and predictable tax framework that will lead to sustainable investments and creation of new jobs. Specific measures concerning legislative amendments in the coming period are set out in the Proposal for the Fiscal Strategy of Montenegro 2024-2027 adopted by the government.<br><br>Article 46 of the Law on Income Tax lays down the |

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| | domestic and healthy production, which would result in reducing the import of foodstuffs;<br>– stop further devastation of the land that is designated as agricultural land in the spatial plan and that is increasingly used for the construction of commercial and residential buildings;<br>– set up a special green fund which would be used to extend grants until ultimate achievement of the strategic goals in agriculture for implementing the policies on inhabiting rural areas, particularly for incentives for the young married couples who plan to stay in the countryside;<br>– simplify application procedure for the farmers applying for public calls for the use of IPA funds;<br>– ensure rational spending of budget funds by introducing accountability mechanisms for all beneficiaries of these funds through transparent and proper sanctioning of any irresponsible and illegal | | | obligation to pay income tax, in a way that the income tax is calculated, suspended and paid by the employer, i.e. payer of the income every time the income is paid out.<br>Article 21 of the Law on Mandatory Social Insurance Contributions sets out that contributions for mandatory social insurance are calculated and paid by the employer, i.e. payer of income until the 15th day of the current month for the previous month.<br>Penalty provisions are set out for employers, i.e. payers who fail to comply with the cited provisions of both laws.<br>In our opinion, this matter is clearly regulated by the valid laws and we believe that legislation in this regard does not need to be amended.<br><br>According to the amendments to the Law on Corporate Profit Tax (Official Gazette of |

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| | conduct in managing those funds;<br>– abolish the privilege of public officials to receive salary compensations from the budget for one year, or for two years if that much time is left until their retirement;<br>– depoliticise the management staff of public enterprises and set a limit on salaries and severance payments of the managerial staff of those enterprises;<br>– pass the law on inspecting the origin of property in order to create conditions for a more effective detection and confiscation of the proceeds of crime which could be used for the benefit of social funds and the budget;<br>– amend the Law on Business Undertakings so that a foreign company branch is recognised as a separate legal entity in which it is possible to carry out inspection control;<br>– urgently set up the Institute for Occupational Medicine and revise the Rulebook on | | | Montenegro 146/21), whose provisions have been applied since 01 January 2022, proportional taxation (9 percent tax rate regardless of the amount of taxable profit) was shifted to progressive taxation of profits generated by legal persons depending on the amount of taxable profit by applying the rates of 9 percent, 12 percent and 15 percent.<br>Given that the average corporate profit tax rate in the European Union is higher than the highest prescribed progressive corporate profit tax rate (it is about 21.3 percent), this enables Montenegro to remain competitive as an investment destination. On the other hand, the global initiative launched by the OECD (Organization for Economic Cooperation and Development) and the club of the most developed countries of the world on global minimum tax sets the level of the profit tax rate at 15 percent in order |

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| | the recognition occupational diseases;<br>– improve the work done by inspections, with a special focus on labour inspection and tax inspection. Start drafting amendments to the Law on Labour Inspection and Law on Inspection Control;<br>– create environment for opening new jobs and introduce incentives for hiring new workers;<br>– review previous privatisation processes, with a special focus on the most strategically important enterprises/land that were privatised;<br>– legislate the work of web platform workers and freelancers;<br>– ensure timely informing and, if necessary, involvement of social partners in the planning of how to disburse financial assistance and support from the European funds.<br><br>TAX POLICY<br>– stop accumulation of a new tax debt by implementing | | | to increase tax base of the member states.<br>Given the above, we believe that the existing tax rates on corporate profit are lower and competitive compared to the EU member states and neighbouring countries, they make Montenegro attractive to foreign investors and continuously lead to an increase in the number of registered companies and increase in employment.<br>Earnings generated from winter bonus is a part of a personal earning meaning tha in accordance with the Law on Personal Income Tax, is cumulated with other personal earnings for which the tax allowance of 700.00 euro is applied. Moreover, under the Labour Law the income generated from winter bonus is exempt from paying contributions up to the amount of minimum wage.<br>Bearing in mind all of the above, the Ministry of |

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| | zero tolerance policy in the cases of failure to pay taxes and contributions for mandatory social insurance;<br>– increase corporate profit tax rate, which is still one of the lowest in Europe;<br>– revise the Law on Income Tax in order to recognise certain benefits from employment relationship, such as winter bonus, as a non-taxable income;<br>– introduce tax on financial transactions exceeding a certain threshold;<br>– abolish tax and other incentives for companies enjoying preferential treatment, especially since many of them leave room for manipulations to the detriment of the budget;<br>– tax investors for the newly built commercial and residential premises if they are not valorised within 6 months from the date of completion of the construction;<br>– abolish amount of the highest annual base for the payment of contributions for mandatory social insurance | | | Finance will in the coming period consider introduction of a non-taxable part of the winter bonus, while this measure would entail taxation of the winter bonus which exceeds the non-taxable threshold set at the rate of 15 percent.<br><br>Under the Law on Income Tax and Law on Corporate Profit Tax, the income tax and corporate profit tax for the taxpayers who start businesses in economically underdeveloped municipalities is reduced by 100 percent in the first eight years, while tax exemption for the eight-year period cannot exceed 200,000 euro. The described exemption from paying income tax applies to all business operations until 31 December 2024, except for the taxpayers operating in the primary production of agricultural products, transport, shipyards, fisheries, steel, trade and catering (except |

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| | (prescribed by Article 14 paragraph 2 of the Law on Contributions for Mandatory Social Insurance) so that contributions are not refunded to the persons who earn income which exceeds that base.<br><br>**SOCIAL POLICY**<br>– reform social policy by introducing social card system for all households so as to properly meet the needs of people who are really socially disadvantaged, through a fair and expedient distribution of resources;<br>– amend the Law on the Labour Fund so that the proceeds from contributions to that fund are used to pay contributions for mandatory pension and disability insurance to the employees who meet the retirement condition and for whom these contributions were not paid by employers due to the government' s omission, so that they obtain the right to pension, i.e. right to a full amount of pension; | | | primary hospitality facilities).<br>At the proposal of the Ministry of Finance, in early September 2024 the Parliament of Montenegro adopted the Law amending the Law on Income Tax and Law amending the Law on Corporate Profit Tax (Official Gazette of Montenegro 88/24) whose application will begin on 01 January 2025, and which, amongst other things, set out that the described exemption from paying income tax and corporate profit tax in underdeveloped municipalities applies to the tax payers operating in the sectors of primary production of agricultural products and fisheries.<br><br>Moreover, the latest amendments to the Law on the Corporate Profit Tax introduced tax exemptions for legal entities which reinvest funds from the profits generated in agricultural projects, i.e. |

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| | – reform housing policy by constructing the state-owned apartments so that the employees and citizens of Montenegro, who are unable to resolve their housing issues due to market conditions, could do so by renting at affordable prices;<br>– continue to provide support and incentives to the housing cooperatives and housing funds which were set up to meet the needs of employees in certain sectors (such as education, health care, Ministry of Interior, universities, student and pupils' dormitories etc.);<br>– introduce obligation of employers to pay a certain percentage of their revenues into the funds which address housing needs of the employees of those employers;<br>– legislate the right of pensioners with proportionate pensions to be entitled to the adjustment to the lowest pension;<br>– amend the Law on Mandatory Health Insurance so that the minimum wage is | | | entities that invest funds in other agricultural entities in such a way that their calculated profit tax is reduced by the amount reinvested or invested funds. The total amount of these tax exemptions over a three-year period may not exceed 300,000 euro.<br>The described privileges set out in the Law on Corporate Profit Tax and Law on Personal Income Tax do not apply to individual companies, but rather to the sectors in which these companies operate, and the described privileges are at disposal to all companies under the same conditions. For this reason, and particularly seeking to ensure a balanced regional development, the Ministry of Finance is not in favour of the repeal of the cited legislative provisions.<br><br>In cooperation with the Union of Municipalities, the Ministry of Finance will consider in 2025 amending |

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| | set as the lowest base for calculating the compensation for temporary work disability. | | | the Law on Real Estate Tax which will include, amongst other things, taxation of investors.<br><br>Contributions for mandatory social insurance for the persons earning income which exceeds the maximum annual base for the payment of contributions for mandatory social insurance are calculated and paid on the total amount of gross income, which is why the overpaid contribution is refunded. On the other hand, the Law on Pension and Disability Insurance prescribes the highest amount of old-age pension. The Ministry of Finance will consider amending the Law on the Contributions for Mandatory Social Insurance in the part that was not proposed at the public consultation.<br><br>The Government of Montenegro adopted the Proposal for the Law amending the Law on |

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| | | | | Pension and Disability Insurance which proposes introduction of the measure that would enable payment of the difference up to the lowest pension for the beneficiaries of proportional pensions whose aggregate amount of proportional pension and pension earned under international agreement does not exceed the amount of the lowest pension. These amendments aim to improve social care for the beneficiaries who, despite exercising their right to a pension under international agreements, are not able to secure minimum income for a dignified life.<br><br>After conducting additional consultations and necessary analyses, the competent departments will consider the possibility of amending the Law and assigning new competences to the Labor Fund, after which the |

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| | | | | working group tasked with amending this law would be formed.<br><br>Amendments to the Law on Corporate Profit Tax (Official Gazette of Montenegro 125/23) introduced the possibility for a legal person to extend a loan or borrowing of up to 5,000 euro per year, without taxation, to the natural persons who do not have the status of an associated party, while 15 percent tax rate is applied on the amount exceeding 5,000 euro.<br>Therefore, we believe that, in this way, employees have already been given the opportunity by the legal person to use credits or loans or borrowings for addressing the housing issues, while introduction of this obligation would directly affect business decisions of legal entities, which would negatively impact business environment. |

# ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2025-2027