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An assessment of specific patterns of the Montenegrin EFPs

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What we check:

1. **<u>Date</u>** of transmission

2. **<u>Compliance</u>** of content, form *(clear and concise)* and data

3. **<u>Usefulness</u>** for economic policy

4. **<u>Plausibility</u>** of macroeconomic outlook

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What we check:

5. **Link** between macroeconomic scenario and EFP objectives
6. Identification of **risks**: Macro, Fiscal, Structural Reforms
7. Long-term **sustainability** of public finances
8. Adequacy of the **structural reform agenda**, **impact** on the budget and **timeframe**

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Comments:

1. **Date** of transmission
   - Montenegro complied systematically in all 4 programmes
   - However, delays may be expected in case of: elections or major “recent” budget rebalancing

2. **Compliance** of content, form and data
   - Content coverage and form varies widely according to secctions;
     => Need for one final editor / quality supervisor
   - Data coverage remains weak
     => Avoid empty tables as well as data discrepancies

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3. **Usefulness** for economic policy

- *-- adoption by the government,*
  -- accompanies annual budget,
  -- reference to national strategies…

4. **Plausibility** of macroeconomic outlook

- Montenegrin estimates are rather prudent
  (as confirmed by later release of official data)
  => Check Divergence from previous EFP submissions!

- *The introduction of **alternative scenarios** enhances credibility and indicates committment*

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5. **Link** macroeconomic scenario and EFP objectives

- Fiscal policy anchors were very well defined:

  "Establishing of a sustainable public finance system through defining of fiscal "anchors" and rules. The main fiscal anchors in the period until 2012 that are included in the "base scenario" are: reduction of the current expenditures and state debt below 35%; balanced budget in 2012; restraining of the growth of the wage and subsidy fund through concurrent reduction of the share of mandatory costs; constant capital budget at the level of around 3.5% GDP and possibility of capital project financing through public private partnership models; structural revenues should cover the current spending and at least 50% of the capital budget, while after the stabilization of the economic situation the budget balance should have surplus at the level of about 2% GDP. In this way, the current public spending would move to the level of about 30% GDP after 2012, while the debt would move below this level. " (EFP 2010, pp. 40-41)

- However, they were not implemented in the past, nor reflected in MTF (e.g. primary surplus).

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6. Identification of **risks**: Macro, Fiscal, Structural Reforms
   - One of the best parts of the programme
   - Very good table in 2010 submission
     => Just need a budget estimate!

Risks	Risk taking or not taking place in 2009	Assessment of risk taking or not taking place in 2010	
		“Base Scenario”	“Crisis Scenario”
Stagnation or further drop in turnover in the real estate market	**Yes** Drop in real estate prices in 2009 was 20.4%	**No** Real estate prices are stagnating or having a mild growth of up to 5% annually	**Yes** Real estate prices are dropping up to 5% annually
Further deepening of the crisis in countries – trade partners of Montenegro	**Yes** Based on preliminary data, the most important import and export markets are having negative economic growth results accompanied with the sizeable drop in aggregate demand and private consumption	**No** Stagnation and mild recovery of the economic growth in EU and CEFTA countries in accordance with the IMF forecast (Regional Economic Outlook, October 2009) and EBRD forecast (World Economic Outlook, October 2009).	**Yes** Further decline of the economic activity in EU and CEFTA member countries
Further decline in industrial production	**Yes** Problems in operation of the largest producer in the processing industry – KAP, caused a drop in processing industry of 36.6%, while in the mining and quarrying sector the drop was 64.5%. Reason for such decline is mainly a consequence of the reduced production in the sub-sector of other mining and quarrying by 79.4%, whereby the ore mining reduction of 91.1% was the one with the highest contribution in terms of the production decline. Insignificant drop in electric power generation, gas and water of 1.9% is due to the reconstruction of production capacities.	**No** A recovery of aluminium prices in the global markets takes place, a problem with KAP is resolved and production is growing.	**Yes** No growth of aluminium and steel prices, and national companies being large exporters have a slow regain of markets lost in 2009. Late resolution of the excess employees’ problem in KAP, production starts only in the second half of 2010.

(EFP 2010 pp. 24-26)

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7. Long-term **sustainability** of public finances

- => **Complete some fields**!
- at least gross estimations for the major items
- (e.g. number of retired people in t, t+1 and t+2 x average pension)
- fine tunning in next exercises
- Until now, projections are based in GDP growth simply extrapolated to fiscal items

Table 7: Long-term sustainability of public finances
Percentages of GDP
Total expenditure
of which:
- Age-related expenditures
- Pension expenditure
- Social security pension
- Old-age and early pensions
- Other pensions (disability, survivors)
- Occupational pensions (if in general government)
- Health care
- Long-term care (this was earlier included in the health care)
Education expenditure
Other age-related expenditures
Interest expenditure

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8. Adequacy of the **structural reform agenda**, **impact** on the budget + **timeframe**

- The structural framework is quite extensive
  => it should focus on ongoing and future reforms

  => Not too detailed (e.g. transport infrastructure)

  => Insert systematically the « *Slovenian table* » after describing each measure.

Effect of measures on the budget				
EUR millions	t-1	t	t+1	t+2
Net effect on budget				
1. Effect on budget revenue				
2. Effect on budget expenditure				

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***TIP**: listing the structural reforms tables will serve to fill Table 8. « Matrix of Policy Commitments" !*

Matrix of Policy Commitments				
Description of policy	Year 2009	Year 2010	Year 2011	Year 2012
1. Policy measure				
A. Implementation profile*				
B. Net direct budgetary impact (if any)				
B.1 Direct impact on budgetary revenue				
B.2 Direct impact on budgetary expenditure				
2. Policy measure				
A. Implementation profile*				
B. (…)				
(…)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				
* indicate start and, if needed, end with an "X" mark				

Thank you very much for your attention

and good work !