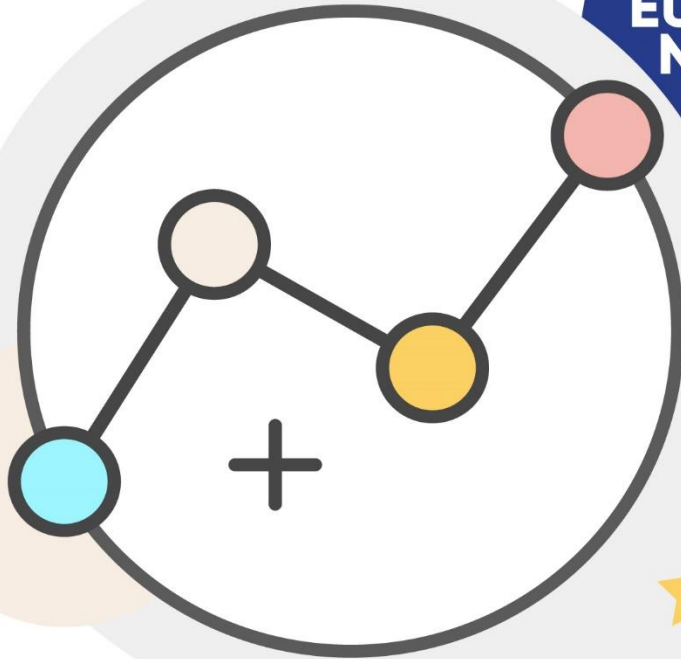
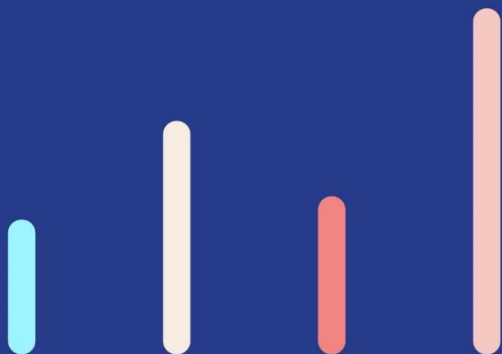




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MONTENEGRO ECONOMIC REFORM PROGRAMME 2022-2024

Podgorica, January 2022

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Montenegro has made substantial advancements in negotiations on the European Union membership and Montenegro remains committed to fulfilling the Copenhagen accession criteria and becoming an EU Member State in not-too-distant future.

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

The consultations process for the Economic Reform Programme preparation was strengthened and implemented in two phases. The consultations for preparation of the Economic Reform Programme 2022-2024 started on 13 September 2021 with stakeholders and there were invited to provide their proposals of reform measures to be integrated in the ERP. Representatives of international organisations, non-governmental organisations, representatives of local self-governments, representatives of trade union associations, and academia participated at that event and provided their proposals for improving the ERP text. The consultations continued in December, with the objective to discuss the first draft of the entire document. To that end, the public consultations were held in the period from 3 to 23 December 2021, while as part of the public consultations for the Draft Economic Reform Programme the round table was held on 17 December 2021. At the same time, a broad consultation process took place within the Government, and the draft ERP was subject of deliberation by the relevant Parliamentary Committee.

Following several years of substantial economic growth in the period after 2015, Montenegro has suffered the deepest recession in Europe in 2020. The COVID-19 outbreak and restrictions accompanying fight against the pandemic were a painful price for the real sector in the country heavily relying on tourism. Given that the tourism sector makes more than 20 percent of GDP, a dramatic decline in foreign tourist arrivals in 2020 has contributed to a prominent contraction of the gross domestic product by 15.3 percent. The fiscal stance of the country, which was facing a number of challenges in years preceding the crisis due to the debt-financed large highway project, has further exacerbated as a consequence of crises caused by the COVID-19 outbreak. Finally, the COVID-19 crisis has worsened a chronic disbalance of external position of Montenegro.

The Government has adopted a broad set of support measures, including wage subsidies for the most affected sectors, credit lines, cash transfers to the most vulnerable, and additional support for tourism and agriculture as an attempt to mitigate consequences of the crisis on



the real sector and population, but the volume of all these measures was limited by fiscal constraints.

The Montenegrin economy strongly recovered in 2021. Even though tourism was a primary reason for the COVID-19 pandemic-caused recession that affected it in 2020, it was also a driver for the revival of the economy in 2021. It is expected that the GDP of the country in 2021 will have a real growth of as high as 13.4 percent, more than expected several months ago, while the high average economic growth rate of more than 5 percent annually is also planned for the next three years. It is expected that the tourism sector will continue with fast recovery in the next medium-term period, while the recovery of public and private investments is also expected as the pandemic gradually fades-out. In the longer run, Montenegro has a sizeable potential for growth not only in tourism sector, but also in energy sector, agriculture, and ICT sector.

Against the challenges Montenegro is facing on its path to sustainable development and growth, while adhering to five key principles the Government is basing its work on (Rule of Law and Equal Opportunities, Sound Finances and Economic Development, Health and Healthy Living Environment, Education and Knowledge-based Society, and Digital Society), the strategic objective of Montenegro for the next period is to design and implement digitally-based, greener, stronger, and more resilient economic recovery and growth, by diversifying the economy. To that end, ERP 2022-2024 sets an ambitious, but also a realistic set of reforms and investments, in order to achieve smart, sustainable and inclusive economic growth which will contribute to improvement of quality of life of all its citizens. The Economic Reform Programme will help Montenegro to achieve high-level results, strongly linked with its long-term development objectives. Concurrently, the ERP reforms will be also based on the Sustainable Development Goals (SDG) and contribution of Montenegro to achieving those goals on the global level.

In order to invoke this development orientation, the Government has proposed an ambitious reform package called Europe Now. Main objectives of the reform package, directed at resolving some of the longstanding structural obstacles to the economic growth of Montenegro, are as follows: (i) increase of the standard of living of the population; (ii) raise in employment; (iii) reduction of the informal economy in the labour market; and (iv) improvement of the business and investment environment. A broad set of economic policy measures, some of them in the public finance segment, will be introduced in order to achieve these objectives. Some of the most important measures are: (i) increase of the net minimum wage from 250 euro to 450 euro a month; (ii) substitution of contributions for compulsory health insurance with other revenues of the State; (iii) exemption from the personal income tax for wages up to 700 euro; and (iv) introduction of the progressive personal income tax. The Programme Europe Now is designed carefully in order to be fully aligned with the Government's Fiscal Strategy for the next medium term.



Economic and fiscal policy measures, as well as structural reforms for the next medium term and their contribution to achieving smart, sustainable, and inclusive economic growth, along with alignment with the joint conclusions of the European Union and Montenegro following the Ministerial Dialogue of 2021, are described in the following chapters of the Economic Reform Programme.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

As part of the Economic and Financial Dialogue between the European Union and Montenegro, and other Western Balkans countries and Turkey from June 2021, six policy guidance for Montenegro were adopted, which are important for managing policy and designing reform measures in preparing the Economic Reform Programme 2022-2024.

The following table presents an overview of the activities and reform measures of the Government of Montenegro in 2021 as a response to the EU policy guidance from the Ministerial Dialogue held in June 2021. It also contains reform priorities contained in the ERP 2022-2024, largely as a response to the policy guidance made.

Table 2.1: EU Policy Guidance to Montenegro for the ERP 2022-2024 and proposal of reform measures in the ERP 2022-2024, as response to the policy guidance

Policy guidance 1: Provide well-targeted and temporary pandemic-related fiscal support to vulnerable households and businesses; provided that the economic recovery takes hold by the time of adoption of the 2022 budget, supplement the budget with a medium-term fiscal consolidation plan foreseeing a gradual reduction of the budget deficit and public debt ratio, starting in 2022. Prepare a new public administration optimisation plan with a view to contain the share of the public sector wage bill in GDP. Establish an IT system for electronic management and security printing of excise stamps in order to broaden the tax base by reinforcing the fight against informality and tax avoidance. Advance the implementation of a public investment management assessment (PIMA) programme, to improve the quality of public investments

1. During the COVID-19 virus pandemic, Montenegro has adopted **five packages of socio-economic measures** aimed at limiting negative consequences of the pandemic on vulnerable categories of population and the real sector. The most important measures were those of subsidising wages for employees in affected economic activities, aimed at preserving jobs; measures directed at maintaining liquidity of business entities; as well as measures of support to the most vulnerable categories of population. One of the important measures addressing assistance to the tourism sector, being the most important sector of the economy, was the one dealing with use of the reduced VAT rate for serving food and beverages, excluding excisable products, which provided additional incentives for recovery during the summer tourism season, which has been extended to 2022.

In January 2021, the fourth package of measures of support to the real sector and citizens in the amount of approximately 163.4 million euro was adopted, which contains several segments of



assistance, with the objective to provide further support in addressing negative consequences of the pandemic. Main objectives of the support measures from this package are:

- Support to vulnerable categories of population through payment of one-off assistance;
- Support for maintaining the employment level and new employment with continuation of subsidising wages of employees, deferring and restructuring taxes and social contributions on wages, reducing period for VAT refund, as well as by subsidising new employment;
- Improving liquidity of economic entities;
- Creating conditions for increasing number of tourists;
- Stability of the agricultural commodities market.

Likewise, the fifth package of measures of support to citizen and the real sector was adopted in April 2021, which provides special support for maintaining the liquidity of the real sector, but also for maintaining the employment level, with additional support to the real sector ahead of the tourism season. The most important segment of this support package is lending support to the real sector, to be implemented in several phases with aim of providing approximately 110 million euro of credit funds to the real sector. The Law on Budget for 2021 contains the above stated measures aimed at creating conditions for increasing budgetary revenues, as well as measures connected primarily with rationalisation of the current spending. Additional fiscal adjustment measures are included in the Fiscal Strategy 2021-2024 and the Law on Budget for 2022.

2. The Parliament of Montenegro has adopted the **Proposal of the Fiscal Strategy for the period 2021-2024**, which contains fiscal policy measures on the revenue side and on the expenditure side directed at further strengthening of the macroeconomic stability and reaching dynamic economic growth rates, along with the set of tax policy measures and measures concerning public expenditure management which will enable the reduction of the public finance deficit to the level of 0.6% of GDP in 2024, as well as the continuous decline of public debt to the level of 69.9% in 2024.

3. In the segment of the public administration optimisation, the Government of Montenegro was adopted the Public Administration Reform Strategy for the period 2022-2026, which sets measures aimed at creating an efficient public administration, whereby one of the measures deals with creating conditions for optimisation of number of employees.

At the end of 2020, number of employees at the central and local level was increased by 8 percent (42,193 at the central government level, and 13,235 at the local government level, making a total of 55,428 employees in the public administration) relative to initial value from 2017, even though the earlier strategic documents set the objective of reducing the number of employees at the central government level by 5 percent and by 10 percent at the local government level. Furthermore, a particular problem was the increase of fixed-term employment contracts and employment contracts for temporary or occasional work at the central government level, while these contracts continue to be a dominant instrument for hiring at the local government level.

In the new Strategy, the Government has addressed this issue in a conceptually different manner. The new Public Administration Reform Strategy 2022-2026, currently being finalised, defines the direction of future actions of the Government concerning the optimisation, which is now directly



connected and dependent on the public administration digitalisation process. Given that Montenegro still lacks an integrated information system for easy and reliable monitoring of employment developments in the public administration, functional sectoral analyses need to be prepared, whereby the work processes in institutions, number of employees and scope of work at all levels would be clearly mapped. One of the options deliberated was margining of certain functions. Depending on the conclusions coming from functional analyses to be prepared, the Government of Montenegro will adopt a programme of consensual termination of employment, or declaring technological redundancies coupled with severance payouts, on which occasion the fiscal effect of this reform will be assessed.

Additionally, appropriate mechanisms for measuring the work performance would be established, and accordingly the model for rewarding the most successful employees and advancement of knowledge and skills of all employees. Thus, the new vision for optimisation is that the optimisation should become a backbone of transparent administration meeting the needs of citizens and of the private sector in an adequate manner, while relieving them from the State and local fiscal encumbrances.

4. Electronic management and security printing of excise stamps:

Provisions of the Decree on Marking Tobacco Products and Alcoholic Beverages with Excise Stamps (Official Gazette of Montenegro, No 28/19, 28/21) stipulate the new content and appearance of excise stamps for marking tobacco products and alcoholic beverages, as well as the use of secure QR code and digital and other security functions. Pursuant to this Decree, the Revenue and Customs Administration has started with the implementation of the system for electronic management of excise stamps at the beginning of 2021, which enables automated communication with relevant customs authority and excise taxpayers.

The Decree enables electronic approval, ordering and issuing of the excise stamps, as well as electronic management of records on issued, used and unused excise stamps for tobacco products and alcoholic beverages, which provides for additional transparency in monitoring movement of products marked with Montenegrin excise stamps. Namely, the excise stamps for marking tobacco products and alcoholic beverages issued through this system contain also a secure QR code, as well as digital and other security elements, in addition to the new appearance.

New technology of printing excise stamps will improve efficiency of customs authorities in preventing illegal transactions in excise products.

1. **Public Investment Management Assessment (PIMA)** for Montenegro was carried out and the report was prepared in July 2021. This report provides an overview of recommendations for improvement of the public investment management, which represents a basis for carrying out reform activities and measures in this area.



At the request of the Ministry of Finance and Social Welfare, in the period from 16 June to 12 July 2021, the online IMF mission was carried out for public investment management assessment in Montenegro.

The online IMF mission as part of drafting the PIMA report covered more than 20 meetings with relevant institutions and participants in the public investments (Ministry of Finance and Social Welfare – Directorate for State Budget, Directorate for State Treasury, Directorate for Public Debt, Directorate for Public Procurement Policy, Directorate for Investment-Development Projects, Directorate for Local Self-government and Business Undertakings in Majority State Ownership; the Transport Administration; the Public Works Administration; the Ministry of Capital Investments; the Ministry of Health; the Ministry of Education, Science, Culture and Sports; Electric Power Company (*Elektroprivreda*); and other).

After the mission, the IMF submitted the preliminary report in August with recommendations and the action plan. Since that was a preliminary report, the Ministry of Finance and Social Welfare has submitted it to all participants for comments, suggestions, and proposals. After receiving the final report, the Ministry of Finance and Social Welfare will start with implementation of recommendations and activities from the Action Plan.

This Policy guidance No 1 of the Ministerial Dialogue corresponds to Chapter 4 – Fiscal Framework.

Policy guidance 2: Adopt amendments to the Law on Budget and Fiscal Responsibility with the aim of setting up an independent body in charge of fiscal oversight. Develop a comprehensive overview of all tax exemptions, including an analysis of their economic and social impact. Support the economy and business liquidity by reducing public sector arrears and deadlines for VAT return.

1. Setting up an independent body in charge of fiscal oversight:

As for the oversight of fiscal policy implementation, the Project for *Support to Setting up the Fiscal Council of Montenegro* is being implemented with the European Union financial support, with the aim of setting up an independent body for fiscal oversight. In the current phase of the project implementation, an options document is prepared which provides an overview of best international practice in this field, as well as options for setting up the Fiscal Council of Montenegro. In line with the selected option, experts hired under the Project prepared a proposal for amendments to the legal framework. The next step is adoption of relevant amendments and supplements to the Law on Budget and Fiscal Responsibility, which would formally create conditions for setting up this body. It is expected that the proposal for amendments and supplements to this Law will be sent to the Government during the 2022. year.

2. Tax exemptions:

The Ministry of Finance and Social Welfare, with the IMF technical support, has prepared an overview of tax exemptions, and in the next period will carry out activities to develop their quantification. The overview of tax exemptions/relieves is as follows:



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

Therefore, in the previous period of time, shortening the time limit for the value added tax refund from 60 to 30 days, contributed to the improvement of the liquidity of the economic entities, and consequently facilitated their business in terms of fulfilling obligations to their suppliers, employees, as well as meeting their tax liabilities. Also, in accordance with the recommendations, measures have been taken, in order to reduce the liabilities from the previous period, by the public sector. Accordingly, the mentioned measures, which were an integral part of the support measures to the citizens and the economy, in order to suppress the negative effects of the COVID-19 pandemic, have been implemented successfully, and have adequately facilitated doing business in the pandemic.

This Policy guidance No 2 of the Ministerial Dialogue corresponds to Chapter 4 – Fiscal Framework.

Policy guidance 3: Maintain a strong financial sector regulatory framework in line with international and EU best practices, ensure sound credit risk management, a transparent display of asset quality and adequate provisioning. Further reduce institutional and legal obstacles to swift and effective NPL resolution mainly outside the responsibility of the central bank, including by facilitating out-of-court settlement and modernising the insolvency regime. Complete the ongoing Asset Quality Review, transparently publish its general findings and timely take remedial action where needed.

- **Maintain a strong financial sector regulatory framework in line with international and EU best practices:**

In order to implement this policy guidance of the European Commission, the Central Bank will direct its activities from 1 January 2022 to apply the new regulatory framework and towards its further alignment with the EU regulations. During 2022, the Central Bank will also work on drafting the laws amending and supplementing the Law on Credit Institutions and the Law on Resolution of Credit Institutions. To that end, secondary regulations for implementation of these



laws will continue to be improved further during 2023, and activities will take place towards further alignment of the legislation with EU regulations. Activities concerning preparation and adoption of the Proposal of the Law on Supplementary Supervision of Financial Conglomerates will take place during 2022 as well, which will implement the Directive 2002/87/EC on supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

- **Ensure sound credit risk management, a transparent display of asset quality and adequate provisioning:**

The results of recently completed Asset Quality Review (AQR) process of the entire banking sector best speak to the implementation of this policy guidance of the European Commission. The Central Bank, in cooperation with independent external auditing firms, has carried out the Asset Quality Review of all 13 banks, using financial data available as of 31 December 2019. The Asset Quality Review was carried out in line with the methodology based on the ECB Manual - Asset Quality Review Phase 2 Manual – of June 2018, which was adjusted to local institutional and legal framework and specificities of the market.

Core objectives of the AQR exercise were as follows:

- Confirmation of stability of the banking system of Montenegro;
- Removing dilemmas concerning the quality of banks' assets by applying uniform and conservatively established methodology, including also (re)appraisal of security instruments/collateral in line with internationally recognised appraisal standards;
- Create basis for improving the regulatory and supervisory regulations, in particular in the domain of the International Financial Reporting Standards (IFRS) (such as the advancement of practice in application of IFRS 9)

The lead consultant of the Central Bank for support in managing the AQR project was the auditing and consulting firm EY Serbia, B&H and Montenegro, with support and cooperation of their colleagues from EY Germany, EY Croatia, and EY Czech Republic, while external auditors carried out independent asset quality review of banks following the AQR methodology. The AQR auditors were selected in accordance with the Guidelines for Selection of AQR Auditors and Appraisers, and with the consent of the Central Bank, and those included teams from the following auditing and auditing-consulting firms: PWC, KPMG, and TPA. A contract was signed with the auditing firm Ernst&Young for rendering of services for managing the AQR Project in Montenegro on 19 February 2020.

The AQR in Montenegro was implemented in the period from March 2020 to September 2021, the period marked by challenges caused by the COVID-19 pandemic and measures taken to suppress negative consequences on the population and real sector of Montenegro, as well as by merger of the CKB Bank and Podgorička Bank, which was withal the largest integration of banks in the Montenegrin market.



By its nature AQR is a prudential exercise, which was not performed in the past in the national banking system, and which, according to numerous criteria, has a feature of highly complex and comprehensive procedures, which is presented by the following data:

- Procedure has covered all 13 banks operating in the Montenegrin market;
- Selection of credit exposures, which were subject of the AQR analysis, has provided high coverage of the risk-weighted assets (as high as 84.43 percent) at the banking sector level;
- Three (3) independent auditing firms and 12 external appraisal firms (hired for implementation of the AQR in individual banks), numerous employees of the Central Bank and employees of banks that were subject to AQR, were hired in this period to carry out various AQR-related activities;
- More than 90 individual portfolios of receivables were subject of the analysis, with their book value amounting to 3,737 million euro on the reference date;
- Auditors individually examined credit files of more than 2,700 debtors;
- More than 2,800 residential and business immovable properties were (re)appraised or their existing appraised market value was analysed in line with the AQR criteria.

Results of the AQR exercise confirmed the stability, satisfactory asset quality and capital adequacy of the banking sector of Montenegro.

Overall effects of AQR in terms of impact on the amount of capital at the level of the entire banking market were 40.3 million euro, which resulted in reduction of the average solvency ratio by 1.6 percentage point. The average solvency ratio at the banking sector level after the AQR adjustment was 16.2 percent, which is well above the regulatory minimum of 10 percent. Confirmation for measures needed for preserving capital was determined only for one bank. It is estimated that there is no need for corrective measures since the bank reacted proactively and undertook activities to increase the level of own funds; therefore, as of the date of the AQR results application, the capital adequacy ratio of this bank will be within the limits set by the law. The bank has reacted proactively and already undertook activities to increase the level of own funds; therefore, as of the date of the AQR results application, the capital adequacy ratio of this bank will be within the limits set by the law.

- **NPL resolution:**

In order to have an empirical confirmation of the presence of the problem dealing with the resolution of non-performing loans outside the responsibility of the Central Bank, the Central Bank of Montenegro has carried out a survey amongst banks about the duration of disputes for collection of receivables. Simple averaged assessment by Montenegrin banks on duration of disputes for collection of receivables based on the case files in their records shows that duration of the average litigation for collection of credits in Montenegro is 29.5 months or approximately 2 years and 6 months.



Data show that the banks initiated a total of 7,712 cases for collection of receivables against natural and legal persons since beginning of 2014. Out of the total number, 51 percent or 3,927 court proceedings were closed, while 49 percent of court proceedings or 3,785 are active.

As of the value in euro of receivables claimed through court proceedings, out of 242.2 million euro claimed in the period 2014-2020, the banks are presently claiming 102.3 million euro, or 42.3 percent of the total amount of receivables.

After this, in May 2021 the Central Bank of Montenegro has coordinated establishment of the Working Group made of representatives of the Association of Banks of Montenegro, the Central Bank of Montenegro, the Ministry of Finance and Social Welfare, and the Ministry of Justice, Human and Minority rights to improve and align relevant regulations and practices concerning the process of collection of receivables.

The Working Group addressed the following two segments:

- The first initiative has treated an insufficiently consistent legal framework – the Labour Law, the Law on Proprietary and Ownership Relations in Montenegro, the Law on Enforcement and Securing of Claims, inconsistencies of the Law on Consumer Credits and the Law on Consumer Protection in Financial Services. The objective is to define clearly a content of the contract on banking arrangements, make a correct calculation of the effective interest rate, remove conflicts of various provisions on consumer protection and adopt legislation that would improve the enforced collection process. On one hand, the enforced collection process would be sufficiently efficient, while on the other hand would ensure sufficient protection of fundamental rights of parties to the proceedings in line with the *Acquis Communautaire* of advanced countries.

This Policy guidance No 3 of the Ministerial Dialogue corresponds to Chapter 3 – Macroeconomic Framework.

In line with that, the Association of Banks of Montenegro has made concrete proposals to the ministries for amendments of legislation addressing:

- Insufficient regulation and incorrect application of the proceedings governing the levying of enforcement against accounts of natural persons who are judgment debtors;
- Inconsistency of the Labour Law and the Law on Enforcement and Securing of Claims about governing limitations concerning the amount of garnishment of wages;
- Inconsistency of the Law on Consumer Protection in Financial Services and the Law on Consumer Credits;
- Irregularities in the operation of the Pledge Registry of Business Entities of Montenegro and inconsistency with the Instruction on Operation of the Pledge Registry.

The second initiative is a project for introducing a more rigorous training of economic and financial experts. The Netherlands initiative for the rule of law and the World Bank share a common interest of increasing efficiency of judicial systems for citizens and enterprises, reaching the higher level of respecting human rights, alignment with the EU standards, and advancement of the business



environment. In line with that, a Report analysing the role of court-appointed experts in judicial systems in the Western Balkans was prepared in 2019. That Report considered whether and how the work of court-appointed experts leads to inefficient court proceedings in judicial systems of four jurisdictions – Serbia, Montenegro, North Macedonia, and Bosnia and Herzegovina.

Conclusions of the Studies are:

Hiring court-appointed experts is typical for judicial systems of the Western Balkans. However, regulations governing this profession are often unclear and/or their application in practice is inconsistent. This affects adversely the efficiency of the judicial system, primarily in terms of the efficiency, quality, and access to justice.

The Report followed the Guidelines of the European Commission on Efficiency of Justice (CEPEJ) on the role of court-appointed experts in judicial proceedings of the Council of Europe's Member States and the Guide to Good Practice in Civil Judicial Expertise in the European Union (EGLE Guide). These recommendations could contribute to integration of the Western Balkans countries in the European Union.

The Central Bank of Montenegro and the Association of Banks of Montenegro requested the EU support for standardisation and creation of a credible curriculum and course program for economic and financial experts.

Policy guidance 4: In cooperation with local authorities and representatives of business community, conduct an analysis of businesses-related procedures at the local administration level to identify sources of possible inefficiencies and propose improvements of the institutional and regulatory environment, including for infrastructure developments. Establish technical-level mechanisms and administrative best practices allowing for a continuous structural dialogue between authorities and the business community. Focus on further simplifying business taxation, reducing number and diversity of para-fiscal charges and facilitating payment of tax commitments.

The establishment of the **Competitiveness Council of the Government of Montenegro** in 2018, which amongst others consist of representatives of the Union of Municipalities and associations of employers, has intensified efforts to advance the continuous structural dialogue between the authorities and the business community. The role of the Council, amongst others, is to identify sources of possible inefficiencies that are increasing complexity of the regulatory framework and adversely impacting the competitiveness of the economy. These will continue to be part of the Council's activities in 2022.

In order to reduce **para-fiscal charges on the central and local level**, the Register of charges is being developed in the previous years, which contains a list of charges at the central and local level the natural and legal persons are obliged to pay. This measure is from the previous ERP, and its objective is to centralise data on charges being collected in Montenegro on the State and local level, with the aim of streamlining the doing business procedures and increasing transparency. A web application



was created in both Montenegrin and English language (www.javninameti.me and soon www.javninameti.gov.me).

Numerous activities were implemented in the previous period to **improve the process of registering companies and reducing** costs of doing business. Based on the new Law on Business Undertakings, the single registration application was substantially updated, and so as follows: previous forms (16 of them) were consolidated into a single form, which enables parties to complete an application for each of the business entities being registered with the Central Registry of Business Entities (CRPS) in a clear manner. To that end, the development of a single electronic registration application is underway.

Furthermore, **numerous fees and charges were abolished or their amounts reduced** which apply in the process of registering business entities. Additionally, starting from 25 December 2020, electronic registration of single-member limited liability companies with residents as founders and minimum capital of one (1) euro and where the founder and the executive director are the same person is enabled via link <https://efirma.tax.gov.me>, whereby supporting documentation is signed electronically. Services of requesting certificates issued by the CRPS and for change of the data on the company were also established.

In order to increase efficiency of public investments and improve infrastructure for the business environment, in 2021, in cooperation with the Ministry of Finance and Social Welfare, the IMF has carried out the PIMA project, which is in part a response to the policy guidance No 1 and No 4 of the Ministerial Council.

In 2021, the **Implementation System for Innovation Policy and Smart Specialisation Strategy (S3)** was established in a form of **setting up the Innovation Fund of Montenegro and the Council for Innovation and Smart Specialisation**. As well as with defining of the programme directions for the innovation policy via the development of the Operational Programme for S3 Implementation 2021-2024, and through drafting of the Innovation Programme 2021-2024 to accompany implementation of the Operational Programme. Focus of the next reform efforts will be on strengthening the capacities of the Fund and of the Council, as well as on enhancing the legislative, strategic and institutional framework for innovation and research.

Moreover, activities to improve the access to financing for MSMEs by creating a **credit-guarantee fund** commenced.

This Policy guidance No 4 of the Ministerial Dialogue corresponds to Chapter 5 – Structural Reforms in 2022-2024. In addition to the above stated activities, detailed response to the policy guidance is provided through measures 9, 10, 11, 12, 13, 14, 15, and 16.

Policy guidance 5: Prioritise digitalisation of the public sector and development of transactional electronic government services to speed up and enhance the economic recovery. Finalise work on a new action plan to tackle informality and start implementing it, including targeted preventive measures and incentives to legalise informal businesses and employees. Ensure

**structural cooperation between central and local authorities in the development and implementation of measures aimed to reduce the informal economy.**

Pursuant to the Digital Transformation Strategy of Montenegro 2022-2026 and the future Public Administration Reform Strategy 2022-2026, activities to **enhance digitalisation of the e-government by developing a platform for complex e-services** commenced and will cover 2022 and further years.

The digitalisation process will continue in the sectors of education, healthcare and increasing efficiency in delivery of labour market related services. Thus the reform of the Montenegro Employment Office, with enhancement of the existing IT platform, will have as an outcome improved efficiency for delivery of inclusive services to all users, increased interoperability with other databases in the system of Montenegro, and more adequate data exchange aimed at better quality monitoring of unemployed persons. Likewise, activities to develop digital education and enhance digital skills will start in 2022, in order to respond to global changes and challenges. Furthermore, activities to establish a single electronic health records will continue, as a basis for implementation of digital transformation in the healthcare system of Montenegro.

With the objective of enhancing the business environment, as previously stated, activities to establish a registry of para-fiscal charges, electronic registration of single-member limited liability companies were conducted or are being conducted. Services for requesting certificates issued by the CRPS and for changes of data on enterprises were also established.

Improvements of ICT platforms and digitalisation have an increasingly important role in suppressing the informal economy. Hence, one of the key reforms aimed at reducing the informal economy is advancement in functioning of the tax administration. This will specifically mean modernisation of business processes in the Revenue and Customs Administration, and introduction of the new Integrated Revenue Management System (IRMS) as of 2023. The aim of the establishment of this highly automated system is to raise transparency in the payment of taxes, and consequently reduction of the informal economy. Furthermore, in order to reduce further the informal economy, activities of electronic recording of tourism turnover commenced, which include improvement of the system of recording stay of tourists in Montenegro by linking the Registry of Temporary Residence of Foreigners RB90 with the Central Tourism Registry coupled with development of a mobile telephony application for registering visitors.

This policy guidance No 5 of the Ministerial Dialogue corresponds to Chapter 5 – Structural Reforms in 2022-2024. In addition to the above stated activities, detailed response to the policy guidance is provided through measures 1, 5, 8, 9, 15, 16, and 17.

Policy guidance 6: Establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan. Based on the review of the social protection system, finalise the roadmap and start implementing social protection reforms. Prepare, in cooperation with the business sector, a roadmap with concrete measures for reforming the practical and dual VET education system to improve their impact on labour market outcomes.



1. Bearing in mind that the pandemic had a dramatic impact on the youth employment rate, it is necessary to create specialised support programmes for this target group. To that end, introduction of the **Youth Guarantee Programme**, based on the principles of the EU Council Recommendation 2020/C/372/01, will have a particular importance. Consequently, as is the case for the policy guidance No 6 of the Ministerial Dialogue from June 2021, the Ministry of Economic Development has created a working team for introduction of the Youth Guarantee Programme in Montenegro, composed of representatives of relevant institutions, business community, and the NGO sector. In 2022, the drafting and adoption of the Youth Guarantee Implementation Plan is envisaged. In addition to the above stated, in order to improve the labour market outcomes, activities to amend the Labour Law started with the aim of advancing the work-life balance of employed men and women, as well as for job reintegration after maternity or paternity leave/absence, and ensuring equal treatment of men and women when caring for dependent family members. In like manner, the measure addressing digitalisation of the Employment Office will continue, in order for the work processes to be accelerated and counsellors to be given more room for direct work with unemployed persons, with a focus on especially vulnerable categories of unemployed persons.
2. Moreover, as to improve the labour market outcomes through advancing the education system, the analysis of the labour market needs in 2022 will be finalised. It will enable selection of adult education programmes to be financed and determining for how many unemployed adults, with the objective to increase their employability and employment.
3. In the social protection sphere, activities from 2021 will continue tackling the establishment of a single body for disability assessment and single national criteria/methodology for assessing disability. This would include drafting of the new legal framework and development of the information system, which should be interconnected with the e-social card and e-health records.
4. UNICEF has finalised the analysis of the existing social protection system applying the internationally recognised methodology. In 2021, the simulation of policies will be completed, with the objective of improving the efficiency and effectiveness of the **social protection schemes for poverty reduction**. In line with the above stated, the drafting of the multi-year action plan for reform of the social and child protection system will commence, including adequate financing mechanisms.

This policy guidance No 6 of the Ministerial Dialogue from June 2021 corresponds to Chapter 5 – Structural Reforms in 2022-2024. Detailed response to the policy guidance is provided through measures 1, 2, 3, 4, 5, 6, 7, and 8.



3. MACROECONOMIC FRAMEWORK

After a year of an unprecedented crisis, the feature of 2021 was rebound of economic activity at the global level, in spite of the pandemic rebooting, which continues to pose a global challenge. As part of the Autumn Economic Forecast, the European Commission has estimated the global economy growth to 5.7 percent in 2021, while the projections for the period 2022-2023 are somewhat more moderate with the average growth of 4.0 percent¹. It is projected that the European economy and the euro area economy will reach the growth rate of 5.0 percent in 2021, which is 0.2 percentage points higher than expected in the summer forecast. Supply chain disruptions, as well rising prices of energy sources, are elevating the pressure on consumer prices. The economic output in the European Union is projected to expand at the rate of 4.3 percent in 2022, and to decelerate to 2.5 percent in 2023.

The International Monetary Fund has also updated its forecasts for the global outlook. In its October report, the IMF projected the global economic output to expand to 5.9 percent² in 2021, 0.1 percentage point lower than in the July forecast, while the global economy growth projection for 2022 stayed unchanged and is 4.9 percent.

The Western Balkans countries are accelerating recovery from the COVID-19 pandemic-caused recession, thus the average economic growth in 2021 could reach 5.9 percent³ according the World Bank projections. Rebound is due to combination of domestic reopening and strong recovery in advanced economies, which provided a boost to demand for the region's exports. The continued growth of the region's GDP is also expected in 2022, when will amount 4.1 percent, while the growth will be more moderate in 2023 (3.8 percent). On the other hand, the labour market is recovering slower if compared to the economic growth. Approximately 84,000 jobs were lost in the first half of 2021 in the Western Balkans, compared to 2020 average, even though the major recovery started in April 2021.

The following table presents most recent forecasts for economic growth in 2021 and 2022 of relevant international organisations for Montenegro and the Western Balkans countries:

¹ https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2021-economic-forecast_en

² <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

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

**Table 3: GDP Forecasts for Montenegro and the Western Balkans**

<i>Real GDP growth rate, as %</i>	World Bank		IMF		European Commission	
	2021	2022	2021	2022	2021	2022
Montenegro	10.8	5.6	7.0	5.6	10.7	6.4
Serbia	6.0	4.5	6.5	4.5	6.7	4.3
Albania	7.2	3.8	5.3	4.5	6.9	3.7
North Macedonia	4.6	3.7	4.0	4.2	4.0	3.9
Bosnia and Herzegovina	4.0	3.0	2.8	3.2	n/p	n/p
Kosovo	7.1	4.1	6.0	4.5	n/p	n/p

Source: World Bank - Regular Economic Report for the Western Balkans Countries, autumn 2021; IMF Global Economic Outlook, October 2021; European Commission – Economic Forecast, autumn 2021

According to forecasts of international organisations, Montenegro will be the fastest growing economy in the Western Balkans region in 2021 and 2022. For 2021, the World Bank estimated growth of 10.8 percent, the European Commission 10.7 percent, while the projection of the IMF in the October report is for Montenegro to generate growth of approximately 7.0 percent.

3.1. Recent Economic Developments

3.1.1. Gross Domestic Products

In spite of the negative effects of the coronavirus pandemic and contraction of the gross domestic product of 15.3 percent in 2020, the Montenegrin economy is recording a strong recovery in 2021, primarily due to successful tourism season, advancements in immunisation, and an open door policy, as well as because of the effects of improved tax discipline and use of electronic fiscalisation.

According to the preliminary MONSTAT data, a downturn of economic activity of 6.5 percent was recorded in Q1 2021, as a consequence of prolonged duration and adverse effects of the health crisis, as well as due to higher base for the same quarter of 2020, during which there was no COVID-19 pandemic. Following the weaker economic performance in Q1 2021, the second quarter recorded high double-digit growth rate of 19.0 percent, and fast rebound of economic flows in tourism and associated economic activities. According to the MONSTAT data, the real growth of the Montenegrin economy in Q3 2021 was a strong 25.8 percent, thus the overall economic growth for nine months of 2021 was 14.0 percent, which was in line with forecasts of the Ministry of Finance and Social Welfare. The highest contributions to the GDP growth rate for nine months come from exportation of goods and services (24.0 percentage points) and individual household consumption (3.1 percentage points).

Currently available short-term indicators point to further strong economic activity rebound in 2021. If observed by sectors, during eleven months of 2021, 707,152 tourists visited Montenegro in collective accommodation and generated 2,894,646 overnight stays. Arrivals and overnight stays increased by 170.9 percent and 213.5 percent respectively, relative to the



same period of 2020. The preliminary data of the Central Bank of Montenegro for nine months of 2021 indicate that revenues from tourism amounted to 700 million euro, which is also in line with the estimates of the Ministry of Finance and Social Welfare. Carriage of passengers for nine months of 2021 recorded an annual growth in road transport of 23.0 percent, while carriage of passengers in airports was higher by 145.5 percent. Retail trade in goods for 11 months of 2021 recorded an increase by 16.8 percent, relative to the comparative period of 2020, in constant prices. Furthermore, the industrial production recorded a year-on-year growth of 4.4 percent for 11 months of 2021, whereby increased electricity generation (9.5 percent) and manufacturing industries of 7.1 percent were drivers of its growth.

The difference of 2021 GDP growth rates projections by components presented in the last year's ERP and the updated projections contained in the new EPR 2022-2024 is presented in the following table.

Table 3.1.1: Divergence between the last year's ERP and the most recent estimates for 2021

Real growth in 2021, in %	ERP 2021-2023	ERP 2022-2024	Divergence (as p.p.)
Real GDP growth	10.5	13.4	2.9
Domestic demand	4.3	2.6	-1.7
Household consumption	4.2	4.4	0.2
Gross fixed capital formation	7.9	-0.8	-8.7
Government consumption	-0.5	1.0	1.5
Export of goods and services	58.3	64.7	6.4
Import of goods and services	17.1	11.4	-5.7

Source: Projections of the Ministry of Finance and Social Welfare

The comparison of projections from two documents points to a certain degree of divergence due to the unpredictable dynamic, duration and developments of the pandemic. Positive divergence in the category *Export of goods and services* is a result of successful tourism season and growth in export of goods. Additionally, coupled with the growth of the economy above expectations in 2021, the domestic demand had a strong intensity driven by the dynamic private consumption. The biggest negative difference is notable in the case of increase of *Gross fixed capital formation*, due delays in private and public investments, deferrals of investments decisions, and an increased investors' cautionary approach.

3.1.2. Inflation

The inflationary developments in 2021 are under impact of an increase in aggregate demand, bottlenecks in global supply chains, and basic commodities prices trends in the global market, primarily of the crude oil. Official MONSTAT data show an increase of year-on-year inflation for 11 months of 2021 of 2.2 percent, whereby the strongest positive contribution to developments of domestic consumer prices comes from prices of *food and non-alcoholic beverages* (1.1 percentage points) and *transportation* prices (0.7 percentage points). The annual inflation growth in November 2021 was 4.4 percent, propelled by increase of prices in the following categories: *Fuel and lubricants for motor vehicles* (growth of 30.8 percent), *Oils*



and fats (growth of 36.6 percent), and *Vegetables* (12.5 percent). Export prices for the first nine months of 2021 were higher by 13.0 percent on average year-on-year, due to the increase in prices of base metals, while import prices grew by 7.1 percent.

3.1.3. Employment and Wages

The COVID-19 pandemic continued to bring uncertainties in 2021 for employment, and affected the labour market indicators. Restrictions in terms of mobility were in force at the beginning of the year, dealing with inter-city movement and working hours of business premises. Mass immunisation of the population started from May and majority of measures dealing with mobility of population were abolished, which consequently led to strengthening of the economic activity and increasing of the number of employed at the labour market.

The Montenegro Statistics Administration – MONSTAT, has adopted a revised methodology for the Labour Force Survey, but is facing challenges in producing the survey. According to the available data, the unemployment rate was 17.1 percent for the nine months of 2021, while in the third quarter alone recorded a drop to 14.8 percent. A strong jump in employment of 8.1 percent was also recorded in Q3 of 2021, relative to the same quarter of 2020, according to the Labour Force Survey.

According to the data of the Montenegro Employment Office, number of unemployed at the end of 2021 was 57,386, while the registered unemployment rate was 24.7 percent, or 4.3 percentage points higher relative to the end of 2020. In accordance with the revised administrative data of MONSTAT, average number of employed in the period January-November 2021 was 186,934, which is 4.9 percent higher than in the same period of 2020. Employment grew the most in sectors of *Information and communication* (15.4 percent), *Agriculture* (15.2 percent), and *Real estate activities* (11.3 percent). The average wage for first 11 months of 2021 was 793 euro, or 531 euro net wage, which is an increase of 1.4 percent and 1.5 percent respectively, relative to the comparative period of 2020. The strongest net wage increase for 11 months of 2021 is recorded in the sectors of *Construction* (6.3 percent), *Human health and social work activities* (3.3 percent), and *Education* (2.2 percent).

3.1.4. Lending Activity of Banks

The banking sector of Montenegro made a strong contribution to the Montenegrin economy rebound, which was heavily affected by the COVID-19 pandemic in 2020. The banking system in Montenegro maintained stability, high liquidity, preserved profitability, and good capitalisation in 2021 as well. All key balance sheet items recorded an increase on annual level, and so as follows: assets by 14.65 percent, credits by 7.08 percent, and deposits by 24.26 percent; while the capital has recorded a decline of 0.93 percent. At the end of November 2021, monetary assets reached the historic maximum and amounted 1,121.7 million euro. The non-performing loan (NPL) ratio was 5.98 percent.



The loans extended to legal persons amount to 2,023.6 million euro, or 58.21 percent of total loans, while the loans to natural persons make 1,452.8 million euro or 41.79 percent of total loans. This percentage split was rather constant over the observed one-year period. During the same period, loans to natural persons recorded a growth of 2.40 percent, while the lending to legal persons recorded an increase of 10.71 percent. Loans to natural persons with 41.79 percent have a dominant share in the composition of total loans by key recipients; followed by loans to the real sector with 32.84 percent, loans to the Government of Montenegro with 6.18 percent, placements to banks with 13.96 percent, and other loans with 5.23 percent respective shares in total loans. Loans to the real sector (business undertakings, both in private and in state ownership) amount to 1,141.6 million euro and recorded a growth of 1.96 percent year-on-year. Loans in other currencies make 3.61 percent of total loans, while loans to non-residents make 17.77 percent of total loans. Long-term loans, which made 77.97 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make 89.14 percent of total deposits in the system. At the end of November 2021, the average weighted effective interest rate on total loans was 5.69 percent. This rate was 5.82 percent in the same period of 2020.

During 11 months of 2021, total of 617.7 million euro of new loans was approved to legal persons, and these loans recorded a growth of 13.59 percent relative to the same period of 2020, while 349.7 million euro was approved to natural persons, which is approximately 33.33 percent more relative to the same period of 2020. The average weighted effective interest rate on newly approved loans was 5.19 percent, and compared to November 2020 recorded an increase of 0.05 percentage points. Loans to legal persons were extended at the average weighted effective interest rate of 4.26 percent, which is lower by 0.21 percentage points relative to November 2020, while this rate to natural persons was 7.29 percent, which is higher by 0.50 percentage points relative to the same period of 2020.

At the end of November 2021, the deposits of natural persons amounted to 2,039.8 million euro or 48.79 percent in the composition of total deposits, while deposits of legal persons amounted to 2,141.1 million euro or 51.21 percent. A-vista deposits are dominant, and make 74.47 percent of total deposits. The banking system is lacking stable long-term deposit potential. The share of non-resident deposits was significant and was 27.42 percent, while the deposits in other currencies made 6 percent of the total deposits.

Downward trend is also present in case of deposit interest rates. Namely, in November 2021 the deposit average weighted effective interest rate was 0.34 percent and recorded a year-on-year drop of 0.05 percentage points.

The value of the ratio of loans and receivables over deposits was 83.15 percent, which means that there is 704.6 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 2021, the main characteristics of the financial sector are stability and moderate level of systemic risk. Temporary measures of the Central Bank, which enabled moratorium and restructuring of loans to the clients of banks, acted as stabilising factors both on the finances of the real sector and citizens, as well as on operation of banks.

Financial sector reached the value of assets of more than 5.5 billion euro at the end of September 2021, which made 119.5 percent relative to the GDP, due to the sizeable increase in assets of banks as well as due to still insufficient recovery of GDP to the pre-pandemic levels. The banking sector makes 93.1 percent of assets of the financial sector, followed by the insurance sector with 4.6 percent, and other financial institutions (micro-credit financial institutions, leasing companies and factoring companies) with 2.3 percent. During ten months of 2021, turnover at the *Montenegroberza* (Montenegro stock exchange) was 39.9 million euro, which is 11.2 million or 38.8 percent more than in the same period of 2020.

The Central Bank carries out continuous supervision of the banking sector; and the banking sector is liquid, solvent, and with non-performing loans at the acceptable level, with constant downward trend of interest rates. The liquidity of banks is at the high level. Liquid assets of banks were 1,481.7 million euro and made 27.92 percent of the total assets at the end of November 2021, which points to the fact that banks successfully absorbed significant pressure on liquidity from implementation of the moratorium measure. The banking sector stability is supported with adequate capitalisation, so that both the aggregate (18.53 percent) and individual solvency ratios for all banks in the system (ranging from 13.04 to 27.51 percent) as of 30 September 2021, are well above statutory minimum of 10 percent. These trends are reflected positively on the banking sector profitability. Positive financial result at the system level was 44.6 million euro, while it was 25.6 million euro in the same period of 2020.

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

The temporary measures of the Central Bank covered four types of moratoria, of which first two were general moratoria in nature, while the last two were targeted or carefully tailored and directed towards specific sectors of the economy and individual categories of the



population, for which it was established that were the most affected by the pandemic-caused crises. The measures also included those aimed at maintaining the banking sector stability, such as for example: prohibition from paying out dividends to shareholders of banks; permission to increase exposures to one person or a group of related parties beyond the statutory exposure limits; reducing the mandatory reserve requirement rates for banks; as well as measures providing incentives for extending and restructuring loans. Adopted measures made an important contribution to maintaining the banking system stability, which is recording rise in all important balance sheet items; while total deposits and liquid assets of banks reached the highest ever levels.

In compliance with the policy guidance of the European Commission, the Central Bank has continuously conducted activities from within its powers, in order to make a maximum contribution in their implementation and for preserving the financial system stability. In order to implement the policy guidance No 3 of the European Commission, in the segment *“Maintain a strong financial sector regulatory framework in line with international and EU best practices;”* the Central Bank will direct its activities from 1 January 2022 to apply the new regulatory framework and towards its further alignment with the EU regulations. During 2022, the Central Bank will also work on drafting the laws amending and supplementing the Law on Credit Institutions and the Law on Resolution of Credit Institutions. To that end, secondary regulations for implementation of these laws will continue to be further improved during 2023, and activities will take place towards further alignment of the legislation with EU regulations. Activities concerning preparation and adoption of the Proposal of the Law on Supplementary Supervision of Financial Conglomerates will take place during 2022 as well, which will implement the Directive 2002/87/EC on supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

With the aim of implementing the policy guidance No 3 of the European Commission, in the segment *“Further reduce institutional and legal obstacles to swift and effective NPL resolution mainly outside the responsibility of the central bank, including by facilitating out-of-court settlement and modernising the insolvency regime”*, the Central Bank has carried out a survey amongst banks about the duration of disputes for collection of receivables based on the case files in their records. The analysis showed that duration of the average litigation for collection of credit in Montenegro is 29.5 months or approximately 2 years and 6 months. Data show that in the period 2014-2020 the banks initiated a total of 7,712 proceedings for collection of receivables against natural and legal persons, with value of 242.2 million euro, of which 51 percent or 3,927 court proceedings were closed and approximately 140 million euro or 57.7 percent were collected. The banks are presently claiming 102.3 million euro, or 42.3 percent of the total amount of receivables. After that, in May 2021 the Central Bank has coordinated establishment of the Working Group made of representatives of the Association of Banks of Montenegro, the Central Bank of Montenegro, the Ministry of Finance and Social Welfare, and the Ministry of Justice, Human and Minority rights to improve and align relevant regulations and practices concerning the process of collection of receivables. The Working Group addressed two initiatives. The first initiative has treated an insufficiently consistent



legal framework – the Labour Law, the Law on Proprietary and Ownership Relations in Montenegro, the Law on Enforcement and Securing of Claims, and inconsistencies of the Law on Consumer Credits, and the Law on Consumer Protection in Financial Services. The objective is to define clearly a content of the contract on banking arrangements, make a correct calculation of the effective interest rate, remove conflict of various provisions of the Law on Consumer Protection, and adopt legislation that would improve efficiency of the enforced collection process and ensure sufficient protection of fundamental rights of parties to the proceedings in line with the *Acquis Communautaire* of development countries. The second initiative is a project for introducing a more rigorous training of economic and financial experts, in light of recommendations from the Report of the Netherlands initiative for the rule of law and the World Bank from 2019, which could contribute to integration of the Western Balkans countries in the European Union. The Report analysed the role of court-appointed experts in judicial systems in the Western Balkans (including Montenegro), and followed the Guidelines of the European Commission on Efficiency of Justice (CEPEJ) on the role of court-appointed experts in judicial proceedings of the Council of Europe's Member States and the Guide to Good Practice in Civil Judicial Expertise in the European Union (EGLE Guide). The Central Bank of Montenegro and the Association of Banks of Montenegro requested the EU support for standardisation and creation of a credible curriculum and course program for economic and financial experts.

As for the policy guidance No 3 of the European Commission, in the segment *“ensure sound credit risk management, a transparent display of asset quality and adequate provisioning ... Complete the ongoing Asset Quality Review, transparently publish its general findings and timely take remedial action where needed”*, the results of recently completed Asset Quality Review (AQR) process of the entire banking sector best speak to the implementation of this policy guidance. Namely, in line with recommendations of the 2016 FSAP mission, the Central Bank, in cooperation with independent external auditing firms, has carried out the Asset Quality Review in all 13 banks, operating at that time in the Montenegrin market, using financial data of banks available as of 31 December 2019. The AQR in Montenegro was implemented in the period from March 2020 to September 2021, the period marked by challenges caused by the COVID-19 pandemic and measures taken to suppress negative consequences on the population and real sector of Montenegro, as well as by merger of the CKB Bank and Podgorička Bank, which was withal the largest integration of banks in the Montenegrin market.

Results of the AQR exercise confirmed the stability, satisfactory asset quality and capital adequacy of the banking sector of Montenegro.

Overall effects of AQR in terms of impact on the amount of capital at the level of the entire banking market were 40.3 million euro, which resulted in reduction of the average solvency ratio by 1.6 percentage points. The average solvency ratio at the banking sector level after the AQR adjustment was 16.2 percent, which is well above the regulatory minimum of 10 percent.



Table 3.1.5: Selected Banking Sector Indicators before and after completed AQR

Banking sector indicator	Before AQR	After AQR	Effect
Solvency ratio	17.8%	16.2%	-1.6 p.p.
Capital of banks (in million euro)	456.3	416.0	(40.3)

Source: Central Bank of Montenegro - CBCG

Given that the net effect of determined corrections to the capital of covered banks resulted in negligible reduction of the solvency ratio, it could be stated that the satisfactory capital adequacy of domestic banking system is confirmed. Confirmation for measures for preserving capital was determined only for one bank. The bank has reacted proactively; therefore, as of the date of the AQR results application, the capital adequacy ratio of this bank is well within the limits set by the law. As of 30 September 2021, the own funds of banks were 529.2 million euro and were higher by 72.9 million euro relative to the reference date for the AQR implementation. This means that the increase of own funds has more than offset the correction made during the AQR (40.3 million euro).

The banks are obliged to apply the results obtained in the AQR exercise process on the balances as of 31 October 2021 (work-block 4 and work-block 8). Expected deadline for application of findings for the work-block 1 is 31 December 2021. After that, the banks are obliged by no later than 30 June 2022 to make validation of the models for impairment and provisioning and, if needed, to recalibrate existing models and to report to the Central Bank on results. On 23 September 2021, the Central Bank has notified each bank on individual results following the completed AQR and on the corrective measures that need to be taken. The report on the Asset Quality Review of the Montenegrin banking system is published on the website of the Central Bank⁴. The banks submitted reports with balances as of 31 October 2021, which include corrections that they were supposed to make in the balances as of the stated date. According to the provided reports, the capital adequacy ratio at the system level, after application of the AQR results, was 18.13 percent (31 October 2021), while it was 18.53 percent as of 30 September 2021. This shows that there was negligible reduction of the capital adequacy ratio by 0.40 percentage points.

3.1.6. External Sector

3.1.6.1. Current Account

According to the preliminary data, in the period January-September 2021, the **current account deficit** was 249.2 million euro and was lower by 71.1 percent relative to the same

⁴https://www.cbmg.me/slike_i_fajlovi/fajlovi/kontrola_banaka/agr/procjena_kvaliteta_aktive_banaka_cg_181021.pdf.



period of 2020. Narrowing of the current account deficit is a consequence of the increase in surplus on the account of services, the primary and secondary income accounts.

In the period January-September 2021, the **goods account deficit** was 1.4 billion euro, or 13.5 percent more than in the same period of 2020. Total export of goods was 371 million euro, which represents an increase of 32.5 percent relative to the period January-September 2020; whereby the strongest contribution comes from export of electricity, non-ferrous metals, and specialised machinery for specific industrial sectors. Total import of goods amounted to 1.8 billion euro and was 17.0 percent higher year-on-year, as a consequence of increased imports of oil and oil derivatives, medicines and pharmaceutical products, and electricity.

In the observed period, the **services account** ended up in a surplus of 796.8 million euro, which is 493.9 percent more than in the same period of 2020, and is a result of improved revenues from travel and tourism services, as well as from transportation services. Total revenues from services were 1.2 billion euro or 148 percent more compared to the same period of 2020, while the incurred expenditures amounted to 438.2 million euro (a rise of 20.4 percent). Estimated revenues from travel and tourism in the period January-September 2021 were 699.7 million euro, which was 473.5 percent higher than during the same period of 2020.

The **primary income** account registered a surplus of 84 million euro, which is 34.7 percent more than in the same period of 2020. Revenues resulting from the primary income were 258.7 million euro, which is 21.6 percent higher year-on-year. During the observed period, the overall expenditures on this account of 174.7 million euro were recorded, which is an increase of 16.2 percent.

The **secondary income** account recorded a surplus of 281.6 million euro, which is 52.1 percent more compared to the period January-September 2020. Total transfers inflow to Montenegro were higher by 38.3 percent year-on-year, and amounted to 341.2 million euro, of which majority is made of personal transfers from abroad in the amount of 252.3 million euro (increase of 42.5 percent). During the same period, total outflow on the account of transfers abroad was 59.6 million euro (decline of 3 percent).

3.1.6.2. Financial Account

In the period January–September 2021, the **portfolio investments** account recorded a net outflow of 396.5 million euro, while the net outflow on the other investments account was 294.4 million euro. The main drivers of developments on this account were lower borrowing of the State, as well as of banks and other sectors, on the account of credits taken, if compared to the same period of 2020. Net outflow recorded is a result of increased deposits of domestic banks abroad. According to the preliminary data, **the net inflow of foreign direct investments** was 352.3 million euro in the period January-September 2021, which is an increase of 2.0 percent year-on-year. Total foreign direct investments inflow was 599.9 million euro (an



increase of 18.4 percent), of which equity investments made 302.9 million euro (an increase of 84.3 percent), while the inflow in form of intercompany debt was 231.2 million euro or 25.9 percent less relative to the same period of 2020. As for the composition of equity investments, investments in companies and banks were 118.6 million euro (growth of 29.1 percent), while the investments in immovable property were 184.3 million euro (growth of 154.3 percent). Inflow resulting from withdrawing investments from abroad was 65.8 million euro. Total foreign direct investments outflow was 247.6 million euro in the period January-September 2021, which is 53.5 percent more year-on-year. The outflow from investments of residents abroad was 69.6 million euro; while the withdrawal of funds of non-residents invested in our country was 178 million euro.

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

No	Item	Jan-Sep 2020	Jan-Sep 2021	Change in % 2021/2020
1	Current account	-861,872	-249,198	-71.1
1.A	Balance of goods and services	-1,109,400	-614,771	-44.6
1.A.a	Goods	-1,243,559	-1,411,545	13.5
1.A.a.1	Export, f.o.b.	279,892	370,996	32.5
1.A.a.2	Import, f.o.b.	1,523,451	1,782,541	17.0
1.A.b	Services	134,160	796,773	493.9
1.A.b.1	Revenues	497,969	1,234,937	148.0
1.A.b.2	Expenditures	363,809	438,164	20.4
1.B	Primary income	62,365	84,014	34.7
1.B.1	Revenues	212,721	258,738	21.6
1.B.2	Expenditures	150,356	174,724	16.2
1.C	Secondary income	185,162	281,559	52.1
1.C.1	Revenues	246,654	341,204	38.3
1.C.2	Expenditures	61,492	59,645	-3.0
2	Capital account	9	-271	
2.A	Revenues	11	0	
2.B	Expenditures	2	271	
	Balance of current and capital account	-861,863	-249,469	-71.1
3	Financial account, net	-728,303	73,349	-110.1
3.A	Net acquisition of financial assets	-271,794	106,854	-139.3
3.B	Net increase/incurrence of liabilities	456,509	33,505	-92.7
3.1	Direct investments, net	-345,436	-352,229	2.0
3.1.1	Net acquisition of financial assets	-10,852	3,820	-135.2
3.1.2	Net increase/incurrence of liabilities	334,584	356,050	6.4
3.2	Portfolio investments, net	275,756	396,459	43.8
3.2.1	Net acquisition of financial assets	10,975	47,740	335.0
3.2.2	Net increase/incurrence of liabilities	-264,781	-348,718	31.7
3.3	Financial derivatives, net	0	3,930	
3.3.1	Net acquisition of financial assets	0	3,930	
3.3.2	Net increase/incurrence of liabilities	0	0	
3.4	Other investments, net	-357,427	290,904	
3.4.1	Net acquisition of financial assets	29,278	317,077	983.0
3.4.2	Net increase/incurrence of liabilities	386,706	26,174	-93.2
3.5	CBCG reserves (change)	-301,195	-265,714	-11.8
4	Net errors and omissions (3-2-1)	133,560	322,817	

Source: Central Bank of Montenegro - CBCG



3.1.6.3. International Investment Position

In 2019, the Central Bank of Montenegro has published for the first time the net international investment position (NIIP) of Montenegro, which is a difference between external financial assets (receivables-assets) and external financial liabilities and capital (liabilities).

According to the international investment position, Montenegro is a net debtor, because it has a negative position, which amounted 8.6 billion euro (increase of 3.8 percent), according to the preliminary data in 2020, or 206.2 percent of GDP. At the end of 2020, total external receivables of residents were 3.4 billion euro, and liabilities 12 billion euro.

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

	2019	2020	as % of GDP
1. International Investment Position, net	-8,314.4	-8,630.4	-206.2%
2. Assets	2975.3	3355.0	80.2%
2.1. Direct investments, net	100.4	77.5	1.9%
2.1.1. Equity capital and reinvestment of earnings	31.4	34.5	0.8%
2.1.2. Debt instruments	69.0	43.0	1.0%
2.2. Portfolio investments, net	336.4	368.5	8.8%
2.3. Financial derivatives	0.1	0.1	0.0%
2.4. Other instruments **	1,171.7	1,170.5	28.0%
2.5. CBCG reserves	1,366.7	1,738.5	41.5%
3. Liabilities	11,289.7	11,985.5	286.4%
3.1. Direct instruments	4,817.0	4,642.6	110.9%
3.1.1. Equity capital and reinvestment of earnings	2,876.5	2,560.9	61.2%
3.1.2. Debt instruments	1,940.5	2,081.7	49.7%
3.2. Portfolio instruments	1,601.5	2,029.8	48.5%
3.3. Financial derivatives	0.3	0.0	0.0%
3.4. Other instruments	4,871.0	5,312.9	126.9%

Source: Central Bank of Montenegro - CBCG

Compared to the end of 2019, the negative net international investment position at the end of 2020 increased by 316 million euro, mainly due to increase in financial liabilities (by 695.7 million euro), while it was offset to certain extent by contemporaneous increase in financial assets (by 379.8 million euro). Preliminary data indicate that there is an increase in negative net position across all investment instruments⁵, if compared to 2019, but the largest change is recorded under other investments, where the net position (assets less liabilities) was increased by 443.1 million euro (an increase of 12 percent), primarily due to increase in net credit liabilities (by 451.4 million euro).

Increase on the side of assets during 2020 was generated mainly from the increase in the Central Bank of Montenegro reserves and portfolio investments. Analysis of the assets composition by financial instrument, shows that the Central Bank of Montenegro reserves

⁵Foreign direct investments, portfolio investments, and other investments



have a dominant share (51.8 percent of total assets), as well as the currency and deposits – as part of the other investments categories, with a share of 28.6 percent. The analysis of categories of the total external financial liabilities of Montenegro shows that the highest share goes to other investments of 44.3 percent (5.3 billion euro) and foreign direct investments of 38.7 percent (4.6 billion euro), of which the major instruments are the equity investments with 55.2 percent (2.6 billion euro). During 2020, the *other investments* recorded a sizeable growth of 9.1 percent or by 442 million euro. Loans have a dominant place as the most important financial instrument on the side of liabilities with an annual increase of 463.8 million euro and stock of 4.5 billion euro (with share of 37.5 percent in total liabilities), as well as currency and deposits which amounted 774.7 million euro at the end of 2020 (with share of 6.5 percent). The share of liabilities on the account of *portfolio investments* amounted to 2 billion euro (share of 16.9 percent), of which the biggest portion goes to sovereign liabilities resulting from Eurobonds.

3.2. Medium-term Macroeconomic Scenario

The assessment of growth of the Montenegrin economy was made based on the achieved economic results in 2021 and available indicators, as well as the expectations by the end of the year. Projections of the macroeconomic indicators for the period 2022-2024 are based on assumptions of further economic recovery and growth of economic activity, in accordance with announced investments in priority sectors and a new investment cycle, expected effects from implementation of the Europe Now Programme, and carefully designed diversification of the Montenegrin economy. The planned sectoral policy measures, along with the European Union integration prospects, will provide strong spurt to reform activities concerning the economic sphere and provide incentives to inclusive and sustainable growth and development.

The most important macroeconomic parameters over the medium term were forecasted having in mind the commenced and planned structural reforms in the country, the European and regional economic environment, successful immunisation process in combating the COVID-19 virus, as well as favourable investment framework. **The policy guidance of the European Commission, agreed within the Joint economic dialogue with Montenegro, was taken into account.**

The next part of this Chapter presents the macroeconomic scenario for developments in the Montenegrin economy for the period 2021–2024 based on relevant assumptions, as well as possible risks that could cause departure from the projected level. Novelties in this year's Programme are the impact assessments of the priority structural reforms and major projects in the energy transition and transport infrastructure areas, which are prepared using the newly developed macro-econometric model of the Ministry of Finance and Social Welfare.



3.2.1. Baseline Macroeconomic Scenario 2021-2024 and Risks to its Materialisation

Recovery of the economic activity in 2021 was intensive and dynamic, especially starting from summer months, when the sizeable economic growth was generated. The tourism season has exceeded all expectations, thus according to the available data, the revenues from tourism for the entire 2021 will reach the set target of approximately 70 percent of the record-high 2019. According to estimates, some of the components of the gross domestic product, such as private consumption and export of goods, will exceed their pre-pandemic levels in nominal terms as early as in 2021.

New support packages of the Government in 2021 supported the liquidity of business entities and disposable income of households. Subsidising of wages in affected economic activities has continued, as well as providing one-off assistance to the unemployed, pensioners and socially vulnerable categories, and additional measures were introduced that should result in support to the tourism and agriculture sector, as well as in ensuring financial support for small and medium-sized enterprises. In 2021, the macroeconomic stability was preserved to a great degree with adequate measures of the Government in the domain of economic, financial and health policy. Impact of the COVID-19-caused crisis was alleviated, a tourism season that was largely successful took place, and as a result of that the sizable budget surplus was generated during the summer months of 2021. This has considerably mitigated fiscal risks in the current year, preserved financial stability, and supported improved outlook for faster economic growth. Based on the favourable developments and outcomes, **the estimated real growth for 2021 is 13.4 percent**. Against the faster-than-expected growth in 2021, dynamic economic trends are expected to accelerate and **average growth of the economy is forecasted to 5.3 percent in the period 2022-2024**, precisely by years **6.4 percent, 5.1 percent and 4.5 percent**, respectively.

The economic output (GDP) of Montenegro, according to the projections, will reach the level generated in the record-high 2019 as early as in 2022. Acceleration of the economic recovery of Montenegro over the medium term will be spurred with start of the new investment cycle. Numerous possibilities for private sector investments are being opened, previously started projects are continued, while the strong public investments dynamics and numerous regulatory measures created prerequisites for creating of high-quality jobs and standard of living improvement. Furthermore, planned major infrastructure projects will ensure better regional connectivity and preconditions for an accelerated economic growth.

Main drivers of the economic growth in the next medium-term period will be a strong tourism sector, energy, agricultural production, manufacturing industry, and innovative economic activities based on the accelerate digitalisation and the IT sector growth. The process of enhancing the innovation and research ecosystem will be supported with programme-based implementation of the Smart Specialisation Strategy of Montenegro 2019-2024, as well as by creating the Innovation Fund, with support of an already-established Scientific and Technological Part of Montenegro.



It is estimated that the implementation of the **economic programme Europe Now** will contribute to better standard of living of citizens, to reduction of the informal economy in the labour market, and to improve the business and investment environment. The set of proposed measures in the economic programme includes primarily the tax policy measures, increase of the minimum wage to 450 euro, introduction of the non-taxable part of wage, reduction of costs for employers by lowering the labour tax wedge and introduction more efficient model of higher marginal taxation rates. The expectations are that the measures will increase the personal consumption of households by increasing the disposable income, while the enterprises will direct most of the funds resulting from measures to increase of investments. In order to achieve the long-term fiscal sustainability, starting from 2022 the proposed programme also includes measures on the revenue side of the budget, ensuring additional sources of financing for planned policies and reforms, alongside substantial expansion of the tax base. The tax administration reform and introduction of the integrated revenue management system will increase transparency in paying taxes and prominently have impact on narrowing the informal economy, coupled with the already established electronic fiscalisation for transactions in goods and services.

Towards an inclusive economic recovery over the medium term, implementation of the measures is planned with a view of resolving structural challenges in the labour market, by introducing the Youth Guarantee Programme and programme for professional development and upskilling, as well as by amending legislation in this field. Measures of the Government of Montenegro, pertaining to securing 40 million euro for subsidised loans for micro, small, and medium-sized enterprises to be extended via commercial banks, with additional support of the Investment and Development Fund, will provide sources of financing for companies, needed for the recovery and accelerated economic growth. Improvement of the access to financing for micro, small, and medium-sized enterprises will also be enabled by establishing a Credit-Guarantee Fund, which is one the most important measures in this year's Programme. Greening the economy of Montenegro will continue in years to come through carefully designed structural reform measures in the area of sustainable tourism, energy transition and incentives for decarbonisation and environmentally acceptable standards. The digitalisation of processes in Montenegro will be one of the key priorities in the post-COVID recovery, which is evidenced by large number of reforms in the Programme tackling this sphere, and all will take place in line with the Digital Agenda for the Western Balkans.

Macroeconomic projections 2022-2024 have the following components on the consumption side:

- In the next three-year period, domestic demand will make the strongest positive contribution of 4.9 percentage points to the economic growth. Private consumption (impact 3.0 percentage points) will be the biggest driver on the demand side due to the strong rebound of revenues from tourism, high increase of foreign remittances, with a strong expansion of lending activity and growth of employment and wages. Personal



household consumption will be induced strongly by new tax policies and budgetary measures. Features of the public spending in the forthcoming period will be a higher value of capital projects, increased allocation for healthcare, and larger social transfers to citizens, which will be supported by planned reforms of the social and child protection system. The gross investments will be marked by a gradual recovery relative to the pre-crisis level, along with the start of the strong new investment cycle. The announced projects and completion of started projects in the private sector will drive the high increase of the gross investments of 5.7 percent in the period 2022-2024. Projects in the energy sector have a particular importance, as they will accelerate long-term green transformation of the Montenegrin economy. The strong public investments cycle and pronounced interest of foreign investors for investing in the forthcoming period will contribute to intensifying investment mini boom in years ahead. Continuation of construction of the highway towards Serbia will have strong effects on the economic growth and long-term development as it will improve competitiveness of the Montenegrin economy, and open new export opportunities through easier access to foreign markets and better regional connectivity. Launching the new investment cycle will also be supported with start of implementation the Economic and Investment Plan for the Western Balkans of the European Commission, which will mobilise substantial public and private resources.

- Foreign demand (net export), prompted by a strong tourism expansion, favourable export performance, but also partially limited by strong import dynamic, will make an additional contribution of 0.4 percentage points to the growth over the medium term. According to the forecasts, the tourism will fully recover in 2022 and in that year generate revenues in the level of those from the pre-crisis 2019. Favourable prices on the global markets for the most important Montenegrin export products and an expanded production base, will guide the forecasted increase in export of goods of 9.3 percent in the next three-year period. The imports will intensify (growth of 6.4 percent), shaped by stronger demand due to high value of investments and pronounced upturn of the private consumption. Along with the careful focus on diversification of the national economy sectors generating higher added value and with improving of the economic management, the need for imports of those commodities for which Montenegro has strong competitive advantages will be reduced, to offset imports with domestic production, especially in the agriculture sector.

Table 3.2.1: Montenegro: Macroeconomic Projections 2021-2024 – Baseline Scenario

Montenegro: Macroeconomic projections, 2021-2024 – Baseline scenario					
	2020	2021	2022	2023	2024
Nominal GDP u million euro	4185.6	4881.3	5306.4	5669.0	6008.5
Nominal growth	-15.5	16.6	8.7	6.8	6.0



Real growth	-15.3	13.4	6.4	5.1	4.5
Inflation (average)	-0.3	2.1	2.3	1.8	1.5
(as % of GDP)					
Core characteristics:					
Current account deficit	-26.1	-13.1	-10.5	-10.2	-10.0
Export	26.0	38.5	43.1	44.1	44.9
Import	61.0	61.1	62.7	63.3	64.0
Other	9.0	9.6	9.1	9.0	9.1
Household consumption	81.2	74.2	72.7	72.2	71.5
Gross investments	31.2	27.9	26.9	27.9	29.2
Gross fixed capital formation	27.9	25.1	24.2	25.4	26.8
Changes in inventories	3.3	2.9	2.6	2.5	2.3
Government consumption	22.6	20.5	20.0	19.2	18.5
GDP deflator	-0.2	2.8	2.2	1.7	1.4
(real growth rates in %)					
Real GDP growth	-15.3	13.4	6.4	5.1	4.5
Domestic demand	-6.2	2.6	3.1	4.6	4.4
Household consumption	-4.6	4.4	4.2	4.4	3.7
Government consumption	0.8	1.0	2.2	1.0	1.5
Gross investments	-13.4	-0.8	0.9	7.9	8.5
Gross fixed capital formation	-12.0	-0.9	1.0	8.7	9.3
Changes in inventories	-22.0	0.0	0.0	0.0	0.0
Export of goods and services	-47.6	64.7	19.0	7.2	6.4
Import of goods and services	-20.1	11.4	7.8	5.7	5.6
(share in real growth as % of GDP)					
Real GDP growth	-15.3	13.4	6.4	5.1	4.5
Domestic demand	-7.5	3.5	3.8	5.5	5.3
Household consumption	-3.3	3.6	3.1	3.2	2.6
Government consumption	0.1	0.2	0.5	0.2	0.3
Gross investments	-4.3	-0.3	0.2	2.1	2.4
Gross fixed capital formation	-3.3	-0.3	0.2	2.1	2.4
Changes in inventories	-1.0	0.0	0.0	0.0	0.0
Net export	-7.8	9.9	2.6	-0.5	-0.8
Export of goods and services	-20.9	16.8	7.3	3.1	2.8
Import of goods and services	13.1	-7.0	-4.7	-3.6	-3.6
Growth in percentage, unless otherwise indicated					
Macroeconomic indicators:					
Employment growth	-10.0	4.8	3.5	3.4	3.0
Growth of wages (gross)	1.3	1.2	4.0	3.0	3.0
Unemployment rate	17.9	16.7	15.8	14.6	13.6
Net FDI as % of GDP	11.2	8.4	9.4	10.6	10.0
Newly-approved loans	-26.4	19.9	11.3	8.9	7.8

Source: Projections of the Ministry of Finance and Social Welfare

Macroeconomic indicators:

- Current account deficit in the balance of payments will decline from the estimated 131 percent of GDP in 2021 to 10.0 percent of GDP in 2024, due to the expected dynamics for imports and exports of goods and services, with high increase of surplus on accounts of net factor payments and net transfers;
- Pronounced interest of foreign investors and relevant announcements will drive the net foreign direct investments to the projected level of approximately 10 percent of GDP;



- Newly approved loans to corporate and household sectors will continue to spur rise of the economic activity and will record a strong average growth of 9.3 percent;
- Employment will grow in the period 2022-2024 at the average annual rate of 3.3 percent, shadowing the strong growth of the economy and active labour market policy measures;
- Unemployment rate will return to the pre-crisis level during 2023, and that decline to 13.6 percent at the end of the projected horizon, with rising employment and larger participation of the domestic population;
- The wage growth will be accelerated with the new programme Europe Now, as well as by improved productivity of the domestic economy derived from the reform measure. According to the projection, nominal wages will record the annual growth of more than 3 percent in the period 2022-2024, whereby the real wages will grow as well by approximately 1.5 percent, in line with the expected inflation trends;
- Stable consumer prices are expected over the medium term, with average inflation below 2 percent; however, after the acceleration in 2022, easing of inflationary pressures and more moderate rise in prices is forecasted for the outer years.

GDP growth contains the following components on the production side:

- The growth in agriculture sector in the period 2022-2024 is projected at 8.0 percent, and is based on increased investments in agriculture, with substantial budgetary support to this sector. It is expected that the improvement of competitiveness of agricultural producers will lead to reduction of food imports through the substitution and/or growth of exports. Sizeable share of this sector in the composition of the economy will reflect domestic focus on greater use of the available arable agricultural land and better satisfaction of domestic needs from own resources;
- Electricity supply sector will grow at an average rate of 8.0 percent over the three-year period, in line with the planned energy transition and announced projects in the field of renewable energy sources;
- Manufacturing industry will grow at the annual rate of 5.8 percent in the period 2022-2024, as a result of the announced industrial policies and specific support to those policies; Special contribution to the growth of this industrial sub-sector is expected from the growth of food processing, wood industry, metals processing complex, and production of pharmaceuticals;
- Construction sector will grow in the medium term at an average annual rate of 9.0 percent and will be influenced by the projected dynamics of investments. Domestic construction sector companies acquired a certain level of knowledge and know-how over the past



several years, thus the higher productivity growth and higher added value of this sector in the overall economy could be expected in the future;

- This scenario foresees a substantial growth of accommodation and food services, which partly covers the tourism sector, as well as transport sector, at the rate of 21.7 percent and 8.3 percent respectively. Continuation of started investments and new investments in tourism will increase the supply of higher-category facilities. Increase and improvement of the supply in the segment of collective accommodation will particularly contribute to the faster growth of revenues from tourism.

The following table outlines the indicators by aggregated production sectors:

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

Sectors	Real growth rates, %				Share in GDP growth, %				Share in gross value			
	202	202	202	202	202	202	202	202	2021	202	202	202
Agriculture	-	8.0	8.0	8.0	-0.8	0.5	0.5	0.5	7.1	7.1	7.2	7.4
Industrial production	7.4	5.2	6.2	5.9	0.8	0.6	0.7	0.6	12.5	12.3	12.3	12.4
Construction	-8.0	7.0	10.	10.	-0.5	0.3	0.5	0.5	5.8	5.8	6.0	6.3
Services	23.8	7.9	5.4	4.4	13.	5.0	3.4	2.8	74.6	74.9	74.5	73.9
- of which accommodation and	120.	40.	15.	10.	2.4	1.5	0.8	0.6	4.5	5.9	6.4	6.7
GVA (Gross Value Added)	13.4	6.4	5.1	4.5	13.	6.4	5.1	4.5	100.	100.	100.	100.
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	13.4	6.4	5.1	4.5	13.	6.4	5.1	4.5	N/A	N/A	N/A	N/A

Source: Projections of the Ministry of Finance and Social Welfare

In the case certain risks to the macroeconomic scenario or fiscal stability materialise, in particular with respect to large uncertainties about the COVID-19 crisis, the economic growth could have weaker intensity. Principal risks to the envisaged macroeconomic scenario over the medium term are:

- Threats from new virus mutations, which could jeopardize regional outlooks and consequently have a spill over effect on the Montenegrin economy. Achieving the global immunisation targets in Montenegro during 2022, would pronouncedly reduce further adverse effects of the pandemic on economic developments;
- Limited fiscal space, remains a challenge for implementation of priority medium-term structural policies and reforms, in spite of good budgetary outturn in 2021;
- Possible expansion of informal economy in the labour market, due to increase in the minimum wage, as well as on the excise products market due to raise of the excise taxes, in case of insufficient inspections capacities, which were experiences of Montenegro from the past in implementation of similar policies;
- Upward inflation trend due to growing prices of primary commodities in the global commodities exchanges, in particular of the crude oil and food, with added constraints to global supply chains, would put a high pressure on domestic consumers, causing



weakened purchasing power and limiting effects of accelerated economic rebound. Introduction of changes of the tax legislation and lending expansion - expected as formal consequence of the net wage increase, could lead to an inflation rate that would be somewhat higher than initially projected;

- Delay in implementation of structural reforms, political instability, and social unrests, could represent additional challenges to macroeconomic stability and dynamic recover and growth over the medium term;
- Changed pace in implementation of public and private investments, which is not evidenced by the historical data, but in the post-COVID-19 environment could pose a real risk to materialisation of the baseline macroeconomic scenario;
- Unfavourable weather conditions, which might have impact on tourism, energy, and agriculture sectors.

3.2.2. Potential Growth

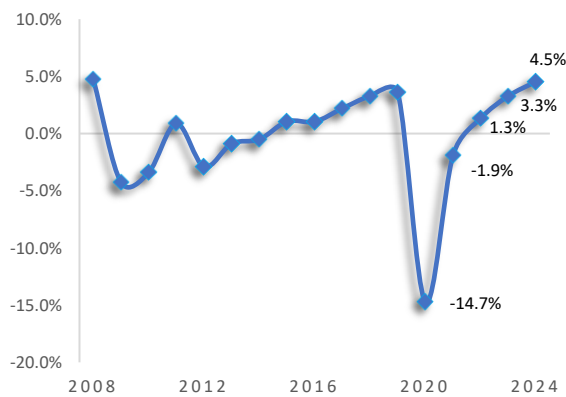
The new macroeconomic model developed for the needs of Montenegro contains an update for the potential growth of the economy, which is now showing faster narrowing of the negative gap between potential and actual GDP. Thus according to the latest projections of the Ministry of Finance and Social Welfare, a positive output gap will be recorded in 2022, while the convergence over the medium term above the potential output will be spurred with new planned budgetary and regulatory policies.

The calculation of the potential growth is based on Cobb-Douglas production function methodology and takes into account the estimated value of capital stock of the economy, available labour force, domestic demographic trends and constraints in respect of the level of participation in the labour market. The estimate also includes the most important component of the total factor productivity, which alongside available technologies and degree of innovations in the country, points to optimal ways of combining production outputs.

According to the estimate, the average potential growth of the Montenegrin economy for the period 2008-2021 is 2.2 percent, while in the period 2022-2024 it rises to 3.1 percent. Analysis of the share of production factors and total factor productivity related to them shows that in the period 2008-2021 the average real growth of the Montenegrin economy was 2.0 percent,

which is somewhat below the potential output, due to the significant slowdown and

Figure 3.2.2: Output gap 2008-2024



Source: Ministry of Finance and Social Welfare

contraction of the Montenegrin economy potential, caused by negative effects of the COVID-19 pandemic. For the stated period, the share of capital in the real growth rate was on the average 2.7 percent, the share of labour force was relatively low 0.4 percent, while total factor productivity had a negative share of 1.1 percent. This shows that the average potential for growth was determined primarily by the growth in physical capital, weak contribution of the labour force and negative share of total factor productivity.

The average real growth rate of strong 5.3 percent is projected for the period 2022-2024, driven by budgetary measures and structural reforms that will enable higher competitiveness and productivity of the domestic economy, incentives for reducing the informal economy and for higher activity in the labour market. High share of investments in the coming years will also enlarge the capital stock of the potential production. Increase of maximum capacities of the domestic economy will lead to faster convergence towards the development average of the European Union.

Thus, according to the projections, the share of production factors will substantially vary over the medium term, in favour of labour force contribution and higher productivity. The share of capital in the economic growth will be on average 1.8 percent, while the contribution of labour will be 2.1 percent, and the productivity will contribute 1.4 percent to growth of the economy.

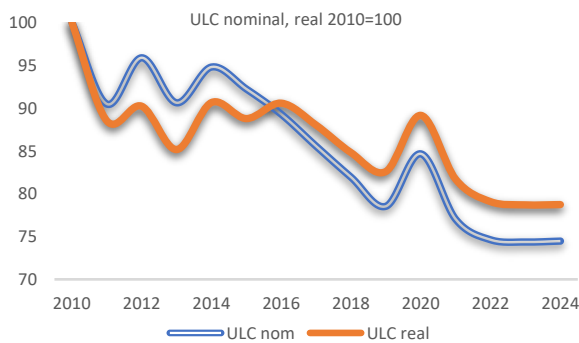
According to the current scenario of projected trends, a **negative output gap** of 1.9 percent will be recorded in 2021, while from 2022 onwards the preconditions will be created for prominent acceleration in the growth of the Montenegrin economy, which will be above the potential. Therefore, the output gap in the period 2022-2024 will be positive and will amount 3.1 percent, according to the forecasts. Strong growth dynamics and economic output well above the pre-crisis one, will enable Montenegrin economy developments to be above the potential during the next medium term, all based on increase in employment and investments, incentives for innovation activities and enhancing competitiveness of the domestic economy. Rising productivity will be driven by new regulatory policy measures, as well as by more efficient use of available national natural and human resources, and rationalisation of public services and administration.



3.2.3. External Sector and Its Medium-term Sustainability

Montenegro is an open economy with low-level diversification, with liberalised trade and capital flows, resulting in high import-dependency and vulnerability to external shocks, which was explicitly evident in 2020, with the outbreak of the global COVID-19 pandemic.

Figure 3.2.3: Unit Labour Costs (ULC), 2010-2024



Source: Ministry of Finance and Social Welfare

The external position of the country has substantially worsened in 2020, due to the high reliance on tourism. In 2021, narrowing of the current account deficit and strengthening of the next exports are expected because of rebound of tourism. According to the preliminary estimates, the current account deficit in 2021 will be 13.1 percent of GDP and will be lower by 13 percentage points relative to the deficit from 2020. The import component will continue to be driven by the importation of food, beverages, and fuel, thus the deficit on

the account of goods is projected to be 39.5 percent of GDP in 2021. The export component, strengthened by recovery of tourism and transport, will be generated further by more intensive exports of electricity, minerals and metals. The structural reform measures addressing the sectoral policies will provide additional incentive to the domestic food production and purport export potentials of the agriculture sectors. The surplus on the account of services will partially offset the foreign trade deficit on the account of goods. In 2021, the surplus on the account of services, according to the estimate, will have relative share of 16.9 percent of GDP, well above the 2020 level when the surplus was only 4.2 percent of GDP.

Net primary and secondary income will further reduce the current account deficit, primarily due to strong net transfers. Expected surplus on the secondary income account will sizeably increase the available gross national income of Montenegro. The current account deficit is financed by drawing-down reserves and with net foreign direct investments, which sets the scene for high vulnerability and proneness of the domestic economy to variable currency fluctuations and capital flows. Over the medium term, the projection is that a somewhat faster pace of import activities and stronger exports driver by tourism will push for the reduction of the current account deficit to the projected level of 10.0 percent of GDP in 2024. Net foreign direct investments inflow is projected at the level of around 10.0 percent of GDP for the period 2022-2024.

The competitiveness analysis done using the unit labour costs (ULC) shows that the labour cost competitiveness recorded a sizeable growth in the period 2010-2019, as a consequence of the growth dynamics of wages, employment, inflation, and GDP. The labour cost competitiveness in 2020 was significantly decreased due to growth of wages and costs for their payout, amid the large contraction of GDP midst the COVID-19 crisis. Reduction of the



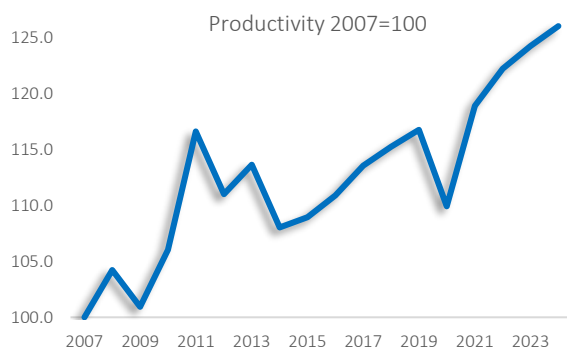
real wage bill, driven by drop in employment in 2020, was lower than the real output downturn, thus the competitiveness in that year worsened. In the period 2022-2024, labour costs competitiveness in the domestic economy is expected to increase, with incentives from the new Programme Europe Now. Growth of wages will accelerate in line with the new policy measures, whereby the higher growth will be for net wages account, while on the gross wages side there will be reshuffling with reduction of taxes and contributions encumbrance and net neutral effect for employers in terms of total costs of paid wages. This means that the aggregate wage bill in the economy will be driven mainly by improved productivity of the national economy and higher employment, along with strong growth of GDP, with underlying start of a strong investment cycle. Real wages in the period 2022-2024 will grow at an average annual rate of 1.5 percent, in line with the inflation expectations, while the projected real GDP growth will be 5.3 percent.

Analysis of productivity trends, stated as the ratio between the real GDP and number of employees at the level of the economy, indicates an upward trend in the productivity, at the average rate of 1.3 percent in the period 2008-2021. According to the projections for the period 2022-2024, the productivity will grow at the average annual rate of 2.0 percent, due to the fact that growth of GDP will be higher than the growth of employment. Acceleration of productivity growth will be of key importance over the medium term, which will toggle along the large increase of the minimum wage. The comparative Figure shows productivity trends as a ratio between real GDP and number of employees.

3.3. Alternative Scenario

This sub-section should provide an assessment of the main risks, related to both the external and the domestic environment, underlying the baseline macroeconomic scenario. It should take into account potential downside risks to domestic demand, such as large uncertainties about Covid-19 related health and economic developments, delays in the implementation of critical structural reforms, under-implementation of public investment, political uncertainties curbing confidence, or adverse developments in households' disposable income.

Figure 3.3: Productivity, 2007-2024



Source: Ministry of Finance and Social Welfare

that risks to the baseline scenario are identified, an alternative macroeconomic scenario is strongly encouraged, clearly specifying all the differences in assumptions and trends between scenarios.



3.3.1. Low-growth Macroeconomic Scenario 2022-2024 (Downside Scenario)

The tourism is one of the most vulnerable sectors of the economy when discussing the pandemic-caused crisis. As opposed to 2020 and 2021, openness of a given tourism destination will no longer represent a competitive advantage to other destinations from 2022 onwards. In order to attract tourists from prominent markets and for successful organisation of the mass summer tourism season, high rate of immunisation of population needs to be achieved, amongst other, as well as more stable epidemiological prerequisites compared to competitive destinations, and enable setting of green corridors, not only through healthcare means but also via diplomatic means. At the times of a pandemic, building a stable tourism product is very challenging, thus there is a real risk for the tourism sector to underperform even compared to 2021.

The inflation risk in the country is real and may cause a chain reaction to other macroeconomic parameters. Montenegro is an import-oriented economy, and in 2021 recorded a prominent spike in import prices. The annual rate of import prices growth in Q3 2021 was 10.5 percent, while the annual rate of import energy prices growth was 30.2 percent, which could justify the pessimism concerning the inflation in 2022. The Economic Programme of the Government of Montenegro includes increase of the overall wage levels, but according to the economic theory, this could also affect a rise in inflation. An additional argument for the possible rising inflation comes from changes in the excise and tax policy and introduction of progressive taxation. Moreover, programme of the Government envisages reduction of health insurance contributions, thus there is a pressure on financing of the healthcare system and increased risk of additional debt financing.

Slower pace of the investment cycle, relative to the planned, would also cause slower increase in investments for the entire economy and resulting in slower economic growth on that account.

Starting from the above-stated risks, the alternative scenario model envisages different trends for macroeconomic indicators, including rising inflation, decline in public spending, drops in expected income from tourism, stagnating employment, increase in unemployment, and downward trends for private consumption and investments relative to the baseline scenario. Such developments would lead to milder real GDP growth in 2022 of 3.7 percent, and 4.0 percent and 3.6 percent in 2023 and 2024 respectively.

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

Table 3.3.1: Montenegro: Macroeconomic Projections, Low-growth/Downside Scenario
Montenegro, Macroeconomic projections, low-growth/downside scenario

	2021	2022	2023	2024
Nominal GDP in million euro	4881.3	5154.8	5448.7	5697.8
Nominal growth	16.6	5.6	5.7	4.6



Real growth	13.4	3.7	4.0	3.6
Inflation (average)	2.1	4.0	2.0	1.8
Core characteristics	<i>(real growth rate in %)</i>			
Domestic demand	2.6	2.1	2.2	2.1
Household consumption	4.4	2.8	2.4	1.8
Gross consumption	1.0	1.5	0.5	0.5
Gross investment	-0.8	0.4	2.9	4.0
Gross fixed capital formation	-0.9	0.5	3.2	4.4
Changes in inventories	0.0	0.0	0.0	0.0
Export of goods and services	64.7	9.7	9.9	5.3
Import of goods and services	11.4	4.3	4.4	1.9
Macroeconomic indicators:	Growth in percentage, unless otherwise indicated			
Employment growth	4.8	3.0	2.7	1.8
Growth of wages (gross)	1.2	3.1	2.0	2.0
Unemployment rate	16.7	16.1	15.2	14.6
Net FDI as % of GDP	8.4	9.1	9.2	8.8

Source: Projections of the Ministry of Finance and Social Welfare

3.4. Impact Assessment

The Montenegrin Macro-econometric Model (MMM), which the Government received with support of the European Commission under the project “Support to the Assessment of Macroeconomic Impact of Structural Reforms” (IPA/2017/384-908) was used to analyse the impact assessment. The subject of the analysis was impact of priority structural reform measures in the period 2022-2024, as well as of some large key infrastructure projects in the period 2020-2024, on macroeconomic parameters in the next medium-term.

The quantitative assessment included the following structural reform measures:

- Measures 1, 4 and 6 – dealing with the labour force;
- Measures 5, and 7 to 21 – dealing with the government spending, or total factor productivity; and
- Measure 22– dealing with the private fixed capital formation.

Their detailed calculations by year are presented in Tables 10a and 10b.

Due to the limited effect of selected structural reform measures, the impact assessment model took as additional survey calculations for some key and major investments projects: Bar-Boljare Highway, Adriatic-Ionian Highway, Solar-power plant Briska Gora, Wind-power turbines Brajići and Gvozd, environmental rehabilitation of the Thermal-power Plant Pljevlja, Hydropower Plant Komarnica project, redirecting the River Zeta, energy efficiency in public and private buildings, and system for wastewater treatment in Podgorica. With these investments, infrastructure of Montenegro will be updated substantially and Montenegro will improve its competitiveness concerning transport, energy, and water management. The following table gives a presentation of fixed capital formation from public sources (unless otherwise indicated):

Table 3.4: Fixed capital formation from public sources (unless otherwise indicated), in thousand euro

	2020	2021	2022	2023	2024
Transport					
Highway Bar-Boljare – First section	48,000	50,000	50,000		
Highway Bar-Boljare – Second section				200,000	200,000



Adriatic-Ionian Highway			20,000	20,000	20,000
Energy					
Solar-power plant Briska Gora Ulcinj*	2300	15500	14500	14700	2300
Wind farm Brajići**	2,244	4,193	35,340	59,502	2,244
Wind farm Gvozd*			500	3000	
Environmental reconstruction of the Thermal-power Plant Pljevlja		13,300	15,250	4,250	4,250
Hydropower Plant Komarnica	23	1,060	2,100	14,500	24,500
Redirecting the River Zete		530	9,400	8,800	8,300
Energy efficiency – Public buildings – Third Phase	906	1,500	6,000	1,000	1,500
Energy efficiency – Second Phase	1,936	739	1,002	573	
Wastewaters					
Wastewater treatment system Podgorica	6,658	4,612	16,032	13,456	11,834
<i>Notes:</i>					
Government fixed capital formation - Total:	57,523	72,891	127,784	271,329	277,734
Private fixed capital formation – Total:	3,394	12,193	44,090	66,852	3,394

Source: Ministry of Finance and Social Welfare

It should be noted that some projects included in the simulation model have started as early as 2020. This is way 2019 was used as the base year (reference year before considered measures have started). Furthermore, it is worth noting that forecasts and assessments generated using the model for assessment of impact of the structural reforms and project implementation on macroeconomic developments (Module 2) do not generate accurate “forecasts”, but they do reflect the structure of and relations in the economy of Montenegro. The effects of implementation are presented in the following table:

Table 3.4.1: Effects of Implementation of Selected Structural Measures and Infrastructure Projects

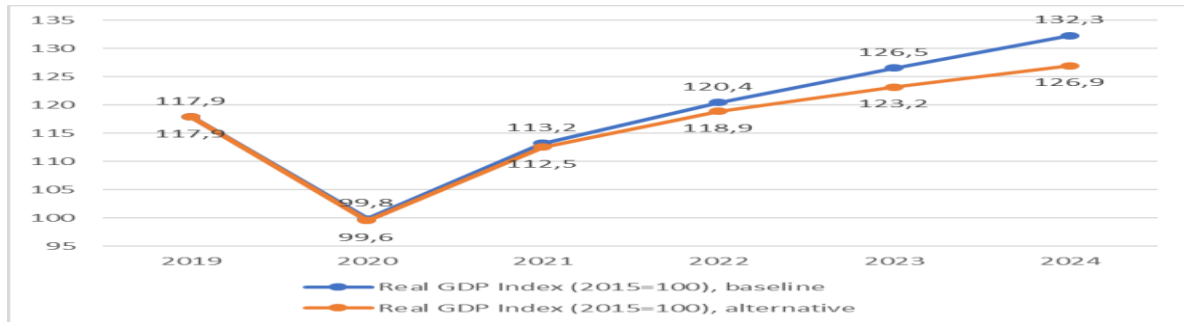
	2020	2021	2022	2023	2024
Real sector					
GDP (in 2010 prices), net effect in %	0.3	0.6	1.3	2.7	4.1
Private consumption (in 2010 prices), net effect in %	0.3	0.7	1.5	3.1	4.8
Private investments (in 2010 prices), net effect in %	1.4	2.5	8.8	16.7	21.2
Export of goods (in 2010 prices), net effect in %	0.0	0.0	0.0	0.0	0.0
Export of services (in 2010 prices), net effect in %	2.0	3.0	6.4	16.8	18.9
Import of goods (in 2010 prices), net effect in %	2.0	3.1	6.6	17.1	19.2
Import of services (in 2010 prices), net effect in %	0.5	1.1	2.3	4.8	7.4
Labour market					
Labour force, net effect in %	0.1	0.2	0.4	0.8	1.2
Employment, net effect in %	0.1	0.2	0.5	1.0	1.5
Unemployment, net effect in %	-0.1	-0.1	-0.3	-0.5	-0.8
Unemployment rate, net effect in p.p.	0.0	0.0	-0.1	-0.2	-0.3
Nominal wage, net effect in %	0.3	0.6	1.3	2.7	4.1

Source: Ministry of Finance and Social Welfare

Expected net effect from the projects mentioned above on the real GDP is 1.3 percent in 2022, 2.7 percent in 2023 and 4.1 percent in 2024. This could be interpreted that the GDP level at the end of 2024 would be lower by 4.1 percent than in the scenario without implementation of the structural reforms and projects mentioned above.

Graphical presentation of the real GDP growth relative to the base year (2019=100) is shown in the following figure:

Figure 3.4: Real GDP Growth Index



Base year for the GDP index (2015=100); Prices= 2010

Source: Ministry of Finance and Social Welfare

Effects of implementation of the considered structural measures, together with capital infrastructure projects, would have considerable net effect in the private investments growth (ranging between 8.8 percent in 2022 and 22.2 percent in 2024), as well as on increase of imports (between 6.6 percent and 19.2 percent) and export of goods (between 6.4 percent and 18.9 percent). Implementation of listed projects will also influence the labour market. The net effect on nominal wages is higher (between 1.3 percent and 4.1 percent), the employment is higher (between 0.5 percent and 1.5 percent), while the unemployment is lower (between 0.3 percent and 0.8 percent), relative to the scenario of absence of these projects. Results of these indicators have a particular importance, given that their multiplier effect would generate even stronger results of the Montenegrin economy rebound and for improvement of its competitiveness.

4. FISCAL FRAMEWORK

4.1 Policy Strategy and Medium-term Goals

Starting from the identified challenges ahead of Montenegro on the path of sustainable growth and development, the strategic goal of the economic policy of Montenegro is: *“achieving smart, sustainable and inclusive economic growth which will contribute to improvement of the quality of lives of all its citizens.”*

Fiscal policy, as the main economic policy instrument, will focus in the period 2022-2024 on creation of the conditions for macroeconomic stability and fiscal sustainability in order to ensure long-term sustainability of public finances and provide full support to the economic growth in the conditions of gradual post-pandemic economic recovery.

Fiscal sustainability is determined largely by tax policy and expenditure management policy. As regards the tax policy, the focus in the period 2022-2024 will be placed on a comprehensive



reform of the tax system so as to broaden the tax base which would create conditions for generating new revenues, primarily through:

- reduction of the labour tax wedge and subsidising new employment so as to create basis for opening new jobs and improving the standards of employees, particularly those with the lowest earnings;
- introduction of progressive taxation on personal income and corporate profit;
- high rate taxation on undeclared assets and confiscation of the assets acquired illegally;
- change to the excise tax policy by increasing the amount of excise taxes on the products which have negative impact on the population health and use of the revenues generated from that source to finance the health care system;
- implementation of the new legal solution for organising the games of chance;
- reduction of informal economy so as to ensure fair market competition and suppress unfair competition.

As regards public spending management, the policy strategy in the medium-term relies on the following:

- rationalisation of non-productive spending;
- increase of allocations for capital projects and development projects whose implementation generates new value and fosters economic growth;
- optimisation of the state administration by creating conditions for reduction of the number of employees and responsible management of the wage bill.

Therefore, the main goal of the fiscal policy in the observed period is stabilisation of the macro-economic environment and public finances and creation of conditions for the dynamic economic growth of 5 percent on average in the period 2022-2024.

Fiscal policy goals in the observed period are achieved through the following objectives:

1. generating surplus of the current budget spending in all the projected years;
2. generating primary surplus in 2024;
3. reducing the public finance deficit to the average of 1.2 percent of GDP in the period 2023-2024;
4. investment in capital projects in the amount of around 900 million euro in the period 2022-2024;
5. gradually reducing the public debt to 69.9 percent of GDP in 2024.

In order to support the economic growth, the measures will be implemented to ensure a continuous increase of budget revenues, on one hand, and of capital spending, on the other. Therefore, the structure of budgetary spending will be changed by introducing a higher share of the capital budget in total spending (and after finalisation of the project of construction of the priority section of the highway).

The recorded budget deficit and public debt at the end of 2020, the highest since Montenegro gained the independence, and conditions created by further impact of the COVID-19 pandemic, indicate a high vulnerability of the Montenegrin economy to the changes in



external environment, particularly having in mind low level of economic diversification and lack of monetary policy mechanisms, except for mandatory reserve requirements.

After the expansive fiscal policy implemented in 2020, due to the need to provide assistance to the citizens and businesses through implementation of the socioeconomic support measures to constrain negative effects of the COVID-19 virus pandemic, a restrictive fiscal policy needs to be implemented in the medium-term in respect of current budgetary spending in order to create the base for economic growth by creating new sources of budget revenues and investing in capital projects. In this manner, additional borrowing would take place solely for financing infrastructure projects, whereby the public debt measured as share of GDP will decline due to the faster GDP growth.

In order to identify obstacles to competitiveness and economic growth of Montenegro, the presented macro-fiscal framework in the period 2022-2024 sets out a number of structural reforms and development and economic policy measures in public and real sectors.

Response to the policy guidance of the economic and financial dialogue:

1. Provide well targeted and temporary pandemic-related fiscal support to vulnerable households and businesses; provided that the economic recovery takes hold by the time of adoption of the 2022 budget, supplement the budget with a medium-term fiscal consolidation foreseeing a gradual reduction of the budget deficit and of public debt ratio, starting in 2022. Prepare a new public administration optimisation plan with a view to contain the share of public sector wage bill in GDP. Establish an IT system for electronic management and security printing of excise stamps, in order to broaden the tax base by reinforcing the fight against informality and tax avoidance. Advance the implementation of the public investment management assessment (PIMA), to improve the quality of public investments.

During the COVID-19 virus pandemic, Montenegro adopted five packages of socioeconomic measures to limit negative effects of the pandemic on vulnerable categories of population and businesses. The most important measures included wage subsidies for the workers employed in vulnerable sectors, the aim of which was to preserve jobs; the other measures focused on maintaining liquidity of business entities and support to vulnerable categories of the population. An important measure was support to tourism sector, as the most important economic sector, and it included use of the reduced VAT rate on serving food and beverages, except for excisable goods, which additionally stimulated recovery during the summer tourism season, and which has been extended to 2022 as well. The Parliament of Montenegro adopted the Fiscal Strategy 2021-2024, which contains fiscal policy measures on both revenue and expenditure sides, the aim of which is to ensure macroeconomic stability and achieve dynamic rates of economic growth, along with a set of tax policy measures and policy on public expenditure



management, which will enable reduction of the public finance deficit to 0.6 percent of GDP in 2024 and continuous decline of public debt to 69.9 percent in 2024. As regards optimisation of public administration, the new Public Administration Reform Strategy 2022-2026 was prepared and sets out measures whose aim is to create a more efficient public administration; one of these measures concerns creation of the conditions for optimisation of the number of staff. To that end, and starting from the established number of employees in all sectors, the plan is to carry out functional reviews which will identify the areas in which the number of employees should be rationalised and the areas which require additional employment of staff. Depending on the conclusions reached in functional reviews, the Government of Montenegro will pass the programme on consensual termination of employment and declaring redundant employees who will be paid the severance package, at which point the fiscal impact of this reform will be established as well. All the activities related to optimisation and efficiency of public administration are an integral part of the Public Administration Reform Strategy 2022-2026 and of the action document for its implementation.

PIMA for Montenegro was carried out and the report was produced in July 2021. This report gives an overview of the recommendations for improving public investments management, which will constitute basis for implementation of the reform activities and measures in this area.

2. Adopt amendments to the Law on Budget and Fiscal Responsibility with the aim of setting up an independent body in charge of fiscal oversight. Develop a comprehensive overview of all tax exemptions, including an analysis of their economic and social impact. Support the economy and business liquidity by reducing the public sector arrears and deadlines for VAT return.

In order to strengthen the oversight of the fiscal policy implementation, particularly in respect of *ex ante* assessment, a project was implemented with the EU support with the aim of setting up the Fiscal Council of Montenegro as an independent body that would monitor and assess fiscal policy planning and implementation. In that regard, the Government of Montenegro will propose, based on recommendations, best international practice and country size, the appropriate legislation in the first half of 2022, in order to create formal prerequisites for establishment of the Fiscal Council of Montenegro.

With technical assistance from the IMF, the Ministry of Finance and Social Welfare prepared an overview of tax exemptions and in the next period will implement activities to quantify them.

The measures which aim to reduce the arrears and deadlines for VAT return were an integral part of the package of economic measures and were implemented in accordance with the recommendations.



4.2 Budget Execution in 2021

The main goal of the fiscal policy in 2021 was to ensure stability of public finances, accompanied by gradual economic recovery. Therefore, the 2021 Budget Law, adopted on 17 June, included consolidation measures so as to enable reduction of the budget deficit from 10.2 percent of GDP in 2020 and create conditions for public debt decline.

The measures on the revenue side, contained in the 2021 Budget Law, primarily focused on the increase of excise tax so as to suppress negative effects of excisable goods on population health and to suppress informal economy through implementation of electronic fiscalisation. In addition to that, introduction of the marking of mineral oils and derivatives thereof was also planned, as well as the taxation of undeclared revenues. Moreover, under the Government decision, representatives of the state in business undertakings in majority ownership of the state and in subsidiaries were required to vote on the distribution of net profit generated in the previous year and on the payment of proceeds into the budget, proportionately to the ownership stake of the state.

On the other side, all categories of discretionary spending were reduced in 2021 to the level which ensured regular performance of all public functions, while mandatory expenditures (gross wages, social transfers) were regularly adjusted in line with the legislation.

Interim financing was in effect prior to adoption of the 2021 Budget Law and, under that type of financing the spending units were allocated spending on the monthly level up to 1/12 of the expenditures generated in the previous year. However, even though the 2021 Budget Law was not adopted within the time-frames set out by the law, the borrowing in the international market at the end of 2020 ensured proceeds to finance the 2021 budget, which enabled regular payment of all liabilities by the state.

Strong recovery of economic activity driven by successful summer tourism season led to recovery in revenue collection and to the achievement of positive budget results for several months in a row. The recorded positive results largely compensated the effects of non-adoption of the laws which were planned in framework of the measures designed to broaden the tax base and generate new revenues. Due to the abovementioned, but also due to the fact that all the categories of discretionary spending were reduced, the public finance deficit for 2021 was considerably lower than what had been planned in the Budget Law, while primary surplus was also generated.

Public revenues in 2021 were estimated at 2,149.6 million euro or 44.0 percent of the estimated GDP (4,881.3 million euro), and compared to those collected in 2020 they are higher by 280.9 million euro or 15.0 percent, while compared to the planned revenues they are higher by 25.9 million euro or by 1.2 percent. The revenue growth recorded compared to both, 2020 and the planned revenues, primarily resulted from the considerable recovery of economic activity and thus from the recovery of public revenues collection.



The best indicator of the recovery of economic activity after the recorded 15.3 percent decline in 2020 are **revenues generated based on VAT collection** which are higher by 162.2 million euro or 30.6 percent compared to those collected in 2020, while compared to the planned revenues they are higher by 80.2 million euro or 13.1 percent. Such good result in the collection of this type of revenues mainly results from the successful summer tourism season and implementation of electronic fiscalisation of fiscal cash registers which led to improvement of the fiscal discipline of taxpayers.

Even though the proposed legal solutions which set out the increase of excise taxes on some excisable goods and introduction of the marking of mineral oils and derivatives thereof were not adopted, the **revenues generated from excise taxes** recorded growth compared to what had been planned by 7.7 million euro or 3.2 percent, and compared to the year before they also recorded growth by 43.3 million euro or 21.1 percent. The growth of this category was, besides the recovery of economic activity, largely influenced by the increased tax discipline and activities implemented to suppress informal economy in the tobacco products market.

The revenues generated based on the **corporate profit tax** also recorded a significant growth compared to the planned revenues by 14.7 million euro or 24.5 percent, which is an indicator of a high level of tax discipline, even when the operations were carried out in the conditions of pandemic. Compared to 2020, revenues generated from the corporate profit tax were lower by 3.7 million euro or 4.7 percent.

Besides the aforementioned, the **fees** category recorded growth compared to what had been planned by 10.6 million euro or 11.1 percent as a result of the collection based on the Economic Citizenship programme, and the growth by 30.7 million euro or 41.2 percent compared to 2020.

A significant growth compared to the year before was recorded in the **other revenues** category by 22.2 million euro or by 45.8 percent, as a result of the profit generated in 2020 by the business undertakings in majority state ownership. Compared to the plan, this category is lower by 8.1 million euro or by 10.3 percent, due the fact that the estimate of financial results of business undertakings is taken into account during the planning, while payments are made in line with the final financial statements.

On the other hand, the generated revenues from **taxes and contributions on wages** were lower than what had been planned, amounting to 55.5 million euro or 7.0 percent, primarily as a result of the planned, but not achieved effects of the Law amending the Law on Personal Income Tax because of non-adoption of the Proposal for the Law on Tax Administration which should have created preconditions for the collection of revenues from taxation of undeclared income; it has been in parliamentary procedure since mid-May. Compared to 2020, the revenues generated based on this category were higher by 37.7 million euro or by 5.4 percent.



Public spending in 2021 was estimated at 2,224.4 million euro or 45.6 percent of GDP and compared to what had been planned it is lower by 67.8 million euro or 3.0 percent, primarily as a result of the lower execution of the capital budget, while compared to the spending in 2020 it is lower by 108.9 million euro or 4.7 percent.

The current public spending in 2021 is reduced due to the high base set in 2020, through increased financing of the health care system due to fight against COVID-19 virus pandemic and financing of three packages of measures aimed at limiting negative effects of the pandemic on citizens and businesses. Additional fiscal adjustment was carried out as well, by reducing all the discretionary spending categories.

On the other hand, mandatory expenditures remained at a high level, influenced by further growth of the gross wage bill of public sector employees caused primarily by the wage increase in education and health care sectors by additional 3 percent compared to the wages in 2020, as well as by the increase of allocations for pension and disability protection due to the number of new beneficiaries and effects of the Law on Pension and Disability Protection adopted in 2020.

The capital budget was also executed at a lower level compared to what had been planned in 2021 by 58.8 million euro or by 21.8 percent. Lower outturn was mainly the result of reduced execution of the priority highway Bar-Boljare construction project, by 68.0 million euro, thus this amount was planned in the 2022 budget. On the other hand, execution of the capital budget for the remaining projects was at a high level, i.e. at around 110 percent compared to what had been planned.

According to the preliminary data, public finance deficit in 2021 was 86.7 million euro or 1.8 percent of GDP and is lower compared to what had been planned by 81.8 million euro or by 48.5 percent, and compared to the deficit generated in 2020 it is lower by 377.9 million euro or by 81.3 percent. Therefore, public finance deficit was considerably lower in 2021, primarily as a result of recovery of the public revenues collection on one hand, and reduction of the discretionary spending on the other.

The amount of 456.6 million euro or 9.4 percent of GDP was allocated in 2021 for debt repayment, and the total shortage of funds in 2021 amounted to 543.8 million euro or 11.1 percent of GDP, while the proceeds of deposits generated from issuance of the Government bonds in the international market in December 2020 were mainly used for financing.

4.3 Budget Plans for 2022

The main goal of fiscal policy in 2022 is full recovery of the collection of public revenues based on economic activity to the pre-crisis level and creation of conditions for generating new sources of revenues by implementing the envisaged measures.



On the other hand, public spending will record an increase under the influence of current spending, after the rationalisation performed in 2021, but also under the influence of increased mandatory expenditures resulting from adoption of new legal provisions in the social policy area and capital spending caused by the increased allocation of funds from the capital budget for financing infrastructural projects.

Public expenditures planned for 2022 amount to 2,177.3 million euro or 41.0% percent of the estimated GDP and compared to the preliminary ones for 2021 they are higher by 27.7 million euro or by 1.3 percent.

Revenue growth is provided by means of:

- projected economic activity growth;
- broadening of the tax base, resulting from the reduction of informal economy, elimination of business barriers and implementation of the measures focused on new employment;
- implementation of tax policy measures set out in the programme Europe Now!;
- improvement of public revenues collection by constraining informal economy and improving work efficiency of the Montenegro Revenue and Customs Administration and of inspection services.

The reform of wage taxation and minimum wage increase has the most important impact on the amount of public revenues. In fact, the economic programme Europe Now was adopted in order to create conditions for reduction of the labour tax wedge on one hand, and increase employees' net wages on the other, and it entails the following:

- increase of the minimum net wage to 450 euro;
- introduction of non-taxable part of the wage up to 700 euro of the gross base (personal income tax rate is 0 percent for the gross base up to 700 euro);
- introduction of the higher personal income tax rate of 15 percent for the gross base exceeding 1,000 euro;
- abolition of the obligation to pay contributions for compulsory health insurance (abolition of the contribution rate payable by both, employee and employer).

With the proposed reform, the labour tax wedge in Montenegro is reduced from the current 39 percent for all levels of income, to 20.4 percent for the level of the new minimum wage, and then is progressively increased, as the wage is higher, up to 31.1 percent for the net wage of 2,000 euro and higher, depending on the amount of the wage.

The proposed reform enables achievement of the following goals:

- ✓ improvement of the standard of living of all employees, particularly those with the lowest earnings, which decreases income inequality;
- ✓ labour tax wedge is reduced, which creates conditions for reducing informal economy in the labour market and fosters formal employment;
- ✓ labour costs for businesses are reduced thus enabling a part of the proceeds to be reallocated to increase investments or cover the other operating costs;
- ✓ due to the net wage increase, workers become more motivated to work and the employers have more efficient workers for the same or lower cost of gross wage.



Therefore, the programme is based on the readiness of the state to renounce a part of the revenues to the benefit of employees and employers, thus creating new jobs and broadening the tax base.

However, since budget revenues that are lost due to reduction of the labour tax wedge cannot be compensated in the short term, the major share of the lost revenues will be compensated from fiscal policy instruments such as progressive taxation of personal income and generated corporate profit, taxation of undeclared assets, reduction of informal economy and other fiscal policy measures.

Wage taxes and contributions planned in 2022 amount to 676.2 million euro or 12.7 percent of the projected GDP, which is less by 60.6 million euro or 8.2 percent compared to those collected in 2021. The projected reduction of this category of revenues results from the abolition of the obligation to pay health contributions charged to employee and employer, and also from introduction of the non-taxable part of the wage. However, on the other hand, the minimum wage increase leads to the increase of the base for calculation of the other categories of contributions for compulsory social insurance, while a part of the revenues is compensated from introduction of the progressive wages taxation. Moreover, wage taxes and contributions were projected in accordance with the expected rates of increase of employment and wages, and in accordance with the planned collection of these revenue categories under the new Law on Restructuring of Tax Receivables. In addition, taxation of undeclared revenues will have positive impact on the revenues collected from the personal income tax, while abolishing of limited annual maximum amount of the paid contributions for compulsory social insurance will also have a positive impact on the collection of contributions.

Corporate profit tax in 2022 is projected at 84.3 million euro or 1.6 percent of GDP, which is higher by 9.6 million euro or 12.8 percent compared to what was planned for 2021. The estimate of this revenue category was made based on the projected growth of nominal GDP for 2021 and expected effects of the new Law on Restructuring of Tax Receivables.

Value Added Tax in 2022 was projected at 733.8 million euro or 13.8 percent of GDP, which is higher by 41.9 million euro or by 6.1 percent compared to 2021, and is aligned with the projections of the increase in household spending and import under the macroeconomic scenario, and with projections of the planned effects of informal economy suppression through the implemented electronic fiscalisation project and effects of a more efficient control through continued improvement of the work done by inspection services. The projections also include the effects based on the new Law on Restructuring of Tax Debt Receivables.

The planned **excise taxes revenues** in 2022 amount to 271.0 million euro or 5.1 percent of GDP, which is higher by 22.3 million euro or by 9 percent compared to 2021, primarily due to the projected growth of economic activity.



A significant increase of revenues generated from **fees** was projected for 2022 and it amounts to 16.5 million euro or 15.6 percent, primarily as a result of implementation of the new legal framework for the games of chance area, which will comprehensively regulate the games of chance market and effects based on the Economic Citizenship programme. Moreover, one-off effect based on digital dividend will also have impact on the growth of the category mentioned above.

The **other revenues** category will record a decline compared to 2021 by 16.7 million euro or 23.6 percent due to the fact that a significant amount was generated in 2021 based on payments of profit to the state by the business undertakings in majority state ownership and their subsidiaries. In 2022, the effect based on payments of the profit to the state by the enterprises in majority state ownership is also planned, but in a considerably lower amount than it was the case in 2021.

In the medium-term, a set of tax reforms enables a multiplying effect on economic trends through creation of new jobs, increase of the household spending and reduction of informal economy, which will have impact on creating conditions for the increase of budget revenues and long-term sustainability of public finances.

On the other side, the **public spending** planned for 2022 amounts to 2,442.2 million euro or 46.0 percent of GDP and compared to what was preliminary generated in 2021 it is higher by 206.0 million euro or by 9.2 percent. Observed by structure, the planned current public spending amounts to 2,144.8 million euro or 40.4 percent of GDP and compared to 2021 it is higher by 130.9 million euro or 6.5 percent.

The increase of current public spending mainly results from:

- the planned increase of gross wage bill, due to the wage increase for health sector employees by 12.5 percent in 2022 and wage increase for employees of the budget spending units which have so far received earnings which were below the new minimum wage;
- social protection transfers, as a result of the planned annual effect of introduction of child allowance for all children up to 6 years of age, and planned effect of amendments to the Law on Social and Child Protection under which all children up to 18 years of age are entitled to the child allowance as from 1 October 2022;
- adoption of the Law on Compensation to the Former Beneficiaries of the Benefits for Mother of Three or More Children created legal preconditions to pay entitlements on this basis, as from 1 April 2022;
- adoption of amendments to the Law on Pension and Disability Insurance, at the end of 2021, by which the minimum pension was increased to 200 euro;
- repayment of liabilities from the previous period, in order to pay liabilities of the Health Insurance Fund from the previous period.



On the other side, compared to 2021, there is a decrease in expenditures for the payment of interest based on debt and in current budget reserves.

The planned capital budget amounts to 297.4 million euro or 5.6 percent and it is higher by 86.6 million euro or by 41.1 percent compared to 2021. Expenditures in capital budget increase, despite finalisation of the priority section of the highway, due to continuation of the investments in infrastructural projects which aim to stimulate economic growth.

Starting from the planned public revenues and public spending, the **public finance deficit** planned for 2022 amounts to 264.9 million euro or 5.0 percent of GDP, while the planned primary deficit amounts to 168.6 million euro or 3.2 percent of GDP. At the same time, the plan is to generate surplus in the current budget spending in the amount of 32.5 million euro or 0.6 percent of GDP.

Debt repayment in 2022 will amount to 311.1 million euro or 5.9 percent of GDP and the total shortfall in 2022 is projected at 576.8 million euro, while the deposit proceeds generated through the issuance of Government bonds in the international market in December 2020 will predominantly be used for financing. The remaining proceeds refer to the already agreed credit facilities intended for public investments financing.

4.4 Medium-term Budgetary Outlook

Under the established medium-term budget framework, the main goals of the public finance strategy are to reduce public finance deficit to 0.6 percent of GDP in 2024 and to reduce public debt to 69.9 percent of GDP in 2024, while generating primary surplus in 2024 and surplus in the current budget spending in all the projected years.

Fiscal framework (as % GDP)		Outturn		Baseline scenario			Low growth scenario		
		2020	Preliminary 2021	2022	2023	2024	2022	2023	2024
Fiscal indicators	Direct public revenues	44.6	44.0	41.0	40.9	40.4	41.2	41.1	40.3
	Public spending	55.7	45.8	46.0	42.7	41.0	47.4	44.5	43.3
	Deficit/Surplus	-11.1	-1.8	-5.0	-1.9	-0.6	-6.2	-3.4	-3.1
	Interest	2.7	2.4	1.8	1.6	1.4	1.9	1.7	1.5
	Primary deficit/surplus	-9.0	0.9	-3.2	-0.3	0.8	-4.3	-1.7	-1.5
	Public debt (% of GDP)	105.3	85.5	76.6	73.2	69.9	79.3	78.4	75.7

Overview of fiscal policy measures for the period 2022-2024:

- **Measure focused on public revenues developments:**
 - Reduction of the labour tax wedge and minimum wage increase will have impact on the reduction of public revenues in 2022 by 125.0 million euro;



- Reduction of the outstanding tax debt through implementation of the Law on Restructuring of Tax Receivables will have impact on the increase of public revenues by around 15.0 million euro per year;
 - Introduction of progressive taxation on corporate profit will lead to the increase in public revenues in 2023 by around 25.0 million euro;
 - Planned marking of mineral oils and derivatives thereof will increase public revenues by around 14.0 million euro per year;
 - Taxation of the difference between the declared income and registered property will generate a positive fiscal effect in the amount of 20.0 million euro in 2022, and 20.0 million euro in 2023;
 - Introduction of the tax on cash withdrawals from business accounts will lead to an increase in public revenues in 2022 by around 5.0 million euro;
 - Suppression of informal economy and more efficient controls resulting from continued improvement of the work done by inspection services will have positive impact on public revenues which reaches the amount of 10.0 million euro in 2022;
 - Implementation of the new legal framework for organising the games of chance will create conditions for the collection of additional revenues amounting to around 15.0 million euro per year;
 - Redefining the excise tax policy by increasing the excise tax on excisable goods is expected to lead to an increase in public revenues in 2023, while this effect is also expected in 2024 due to continuation of the alignment in accordance with the excise calendars.
- **Measures focused on public spending trends:**
 - Wage increase of the health sector employees by additional 12.5 percent in 2022;
 - Due to the introduction of child allowance for all the children up to 18 years of age, the additional allocations per year will amount to around 24 million euro;
 - Minimum pension increase will lead to an increase in social transfers by around 17 million euro per year;
 - Regular annual adjustment of pension and social benefits increases current budget spending;
 - Continuation of investment cycle after finalisation of construction of the priority highway section increases capital spending and fosters economic growth.

Therefore, besides the projected growth of economic activity, the revenues increase will also result from implementation of the proposed, previously mentioned, tax policy measures which will enable broadening of the tax base due to the shrinking of informal economy.



The revenues generated from the value added tax will grow on average by 8.0 percent per year, with stable share of around 14.0 percent of GDP, primarily as a result of the projected growth of economic activity and planned effects of suppression of the informal economy through the already implemented electronic fiscalisation project, but also through more efficient controls resulting from continuous improvement of the work done by inspection services.

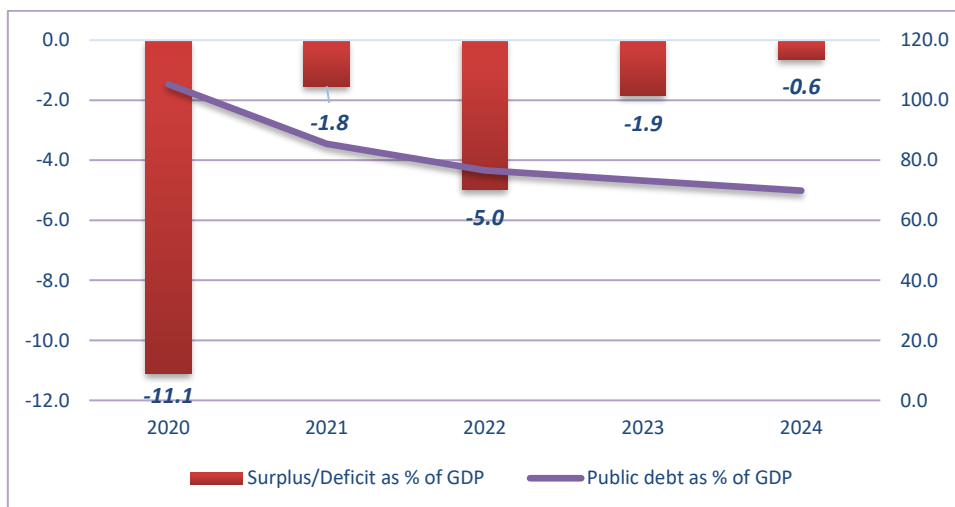
In the period 2023-2024, the revenues generated from excise taxes will increase at the rate of 9.9 percent on average per year, due to continuation of implementation of the redesigned excise tax policy and intensified inspection controls.

After the projected decline in 2022 resulting from abolition of the health insurance contributions and introduction of non-taxable part of the wage, the taxes and contributions on wages will increase in 2023-2024 at the rate of 3.8 percent per year.

Public spending records a growth in the observed period and ranges from 2,422.5 million euro or 42.7 percent of GDP in 2023 to 2,466.4 million euro or 41.0 percent in 2024, which is primarily the result of increasing allocations for the capital budget.

Public spending developments in 2023-2024 are characterised by the controlled increase of current spending through achievement of the primary goal – i.e. reduction of unproductive expenditures. On the other side, mandatory expenditures will record a growth due to the increase in social transfers.

In the observed period, significant amount of proceeds will be provided for the capital budget in order to foster economic growth by investing in infrastructural and other important development projects.





Based on the developments of revenues and expenditures, the public finance deficit in the amount of 104.9 mil. € or 1.9 percent of GDP is expected to be generated in 2023, while the public finance deficit is expected to decline in 2024 to 38.5 million euro or 0.6 percent of GDP.

In this period, the current spending surplus is expected to be generated, along with the primary surplus of public finances in 2024, which creates conditions for continuation of the public debt decline.



Annual GDP (in million euro)	4,881.3		5,306.4		5,669.0		6,008.5		5,154.8		5,448.7		5,697.8	
	preliminary				baseline scenario				low-growth scenario					
Estimate of public finances for 2021-2024	2021		2022		2023		2024		2022		2023		2024	
	mil. euro	% of GDP	mil. euro	%	mil. euro	% of GDP	mil. euro	%	mil. euro	%	mil. euro	% of GDP	mil. euro	%
Public revenues, of which:	2,149.6	44.0	2,177.3	41.0	2,317.7	40.9	2,428.0	40.4	2,121.7	41.2	2,239.4	41.1	2,295.3	40.3
Personal income tax	182.3	3.7	191.1	3.6	200.7	3.5	192.5	3.2	184.5	3.6	191.5	3.5	179.2	3.1
Value added tax	691.9	14.2	733.8	13.8	797.7	14.1	856.8	14.3	709.9	13.8	769.2	14.1	798.7	14.0
Excise taxes	248.7	5.1	271.0	5.1	309.0	5.5	327.1	5.4	266.9	5.2	299.6	5.5	310.7	5.5
Local taxes	89.3	1.8	91.5	1.7	92.8	1.6	94.2	1.6	88.5	1.7	90.8	1.7	90.9	1.6
Contributions	554.5	11.4	485.1	9.1	506.3	8.9	536.8	8.9	473.6	9.2	486.1	8.9	504.6	8.9
Public spending, of which:	2,236.2	45.8	2,442.2	46.0	2,422.5	42.7	2,466.4	41.1	2,440.7	47.4	2,422.0	44.5	2,468.9	43.3
Gross salaries	586.5	12.0	598.1	11.3	601.0	10.6	609.0	10.1	599.6	11.6	602.5	11.0	611.0	10.7
Interests	117.8	2.4	96.3	1.8	90.1	1.6	86.4	1.4	96.3	1.9	90.1	1.7	86.4	1.5
Transfers for social protection	568.3	11.6	652.6	12.1	703.0	12.4	712.0	11.9	652.6	12.7	703.0	12.9	712.0	12.5
Capital budget	210.8	4.3	297.4	5.6	275.3	4.9	315.7	5.3	298.4	5.8	277.3	5.1	320.7	5.6
Transfers to institutions, individuals, NGO and public sector	307.9	6.3	318.5	6.0	315.3	5.6	309.1	5.1	318.5	6.2	315.3	5.8	309.1	5.4
Surplus/deficit	-86.7	-1.8	-265.0	-5.0	-104.9	-1.8	-38.5	-0.6	-319.0	-6.2	-182.7	-3.4	-173.6	-3.0
Primary surplus/deficit	31.1	0.6	-168.6	-3.2	-14.8	-0.3	48.0	0.8	-222.7	-4.3	-92.6	-1.7	-87.1	-1.5
Debt repayment	456.6	9.3	311.1	5.9	273.1	4.8	372.9	6.2	311.1	6.0	273.1	5.0	374.9	6.5
Expenditures for purchase of securities	0.5	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.7	0.0
Financing, of which:	543.8	11.1	576.8	10.9	378.7	6.7	412.0	6.9	630.9	12.2	456.5	8.4	549.1	9.6
Borrowing abroad	109.8	2.25	174	3.3	210.7	3.7	299.4	5.0	174	3.4	280.9	5.2	299.4	5.2
Borrowing in the country	8.0	0.2	8	0.2	158	2.8	108	1.8	8	0.2	158	2.9	108	1.9
Use of deposits	405.6	8.3	372.8	7.0	-12.1	-0.2	-17.4	-0.3	426.9	8.3	-4.5	-0.1	119.7	2.1-



4.5 Structural Balance (Cyclical Component of the Deficit, One-off and Temporary Measures, Fiscal Stance)

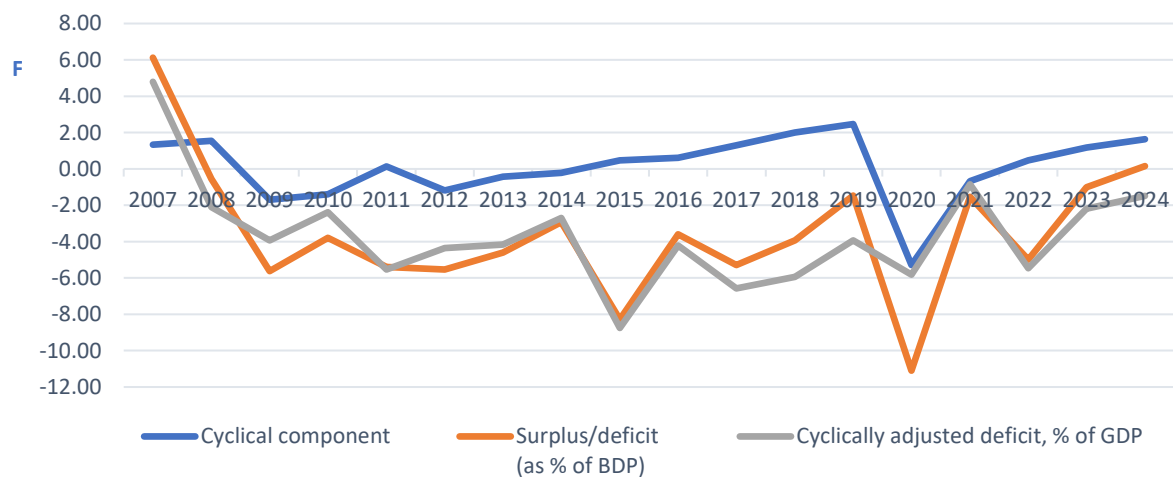
The cyclically adjusted balance shows actual disbalances in public spending and refers to the real surplus/deficit relative to GDP, which would prevail if the economy would grow at the level of potentials. It is calculated as the difference between surplus/deficit, as a share in GDP, and estimated cyclical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

The cyclical component is calculated based on 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 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 presented in chapter 3 – Macroeconomic Framework.

In the second step, the elasticity coefficients of certain categories of revenues were estimated: indirect taxes, personal income tax, corporate profit tax and social contributions. Each category mentioned above is first taken relative to the relevant base; for example, in the case of personal income tax the category of employees’ wages and contributions is used as the base from the estimated income-based GDP, and elasticity of this revenue component



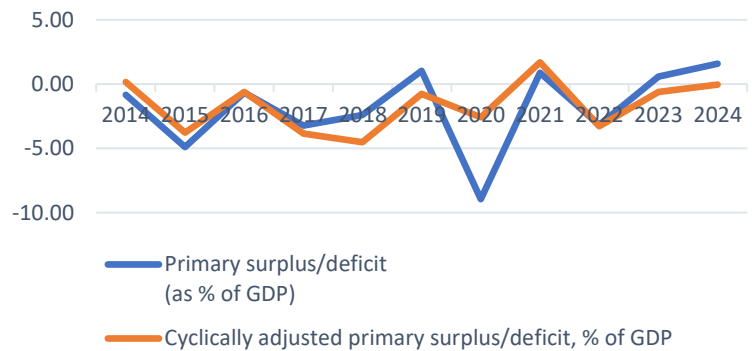


relative to the output gap is calculated by multiplying this with the weight (share of a certain revenue category in total revenues).

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

The parameter of sensitivity of surplus/deficit relative to the production gap is estimated at 0.36. Model results are limited due to specificity of the country and frequent changes to the fiscal policy measures, length of time series used in elasticity assessment and changes to the methodology, but they also reflect essential developments of structural and cyclical components of the public finance balance. Moreover, the cyclically adjusted primary balance was calculated as well (surplus/deficit without interests) and it was additionally reduced by a one-off collection of revenues and one-off expenditures.

Figure 4.5.2: Developments of primary surplus/deficit

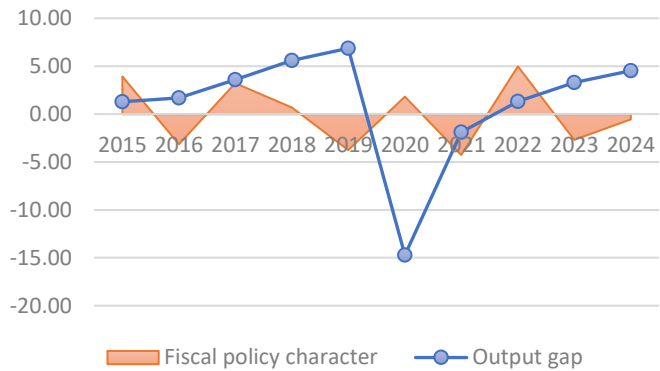


A sign for the category of annual change to the cyclically adjusted primary surplus/deficit denotes a fiscal stance and indicates character of the fiscal policy in a specific year. Positive values on the figure 4.5.3 represent expansionary fiscal policy, while negative values represent a restrictive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



Figure 4.5.3: Fiscal Policy Character

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



After the expansionary fiscal policy which was implemented in 2020, due to the need to help citizens and businesses by implementation of the socioeconomic support measures aimed at constraining negative effects of COVID-19 virus pandemic, the year 2021 was characterised by restrictive fiscal policy which primarily resulted from the reduction of unproductive expenditures. Therefore, even though two generous packages of measures were adopted in 2021 to mitigate consequences of the pandemic, the spending was reduced, while on the other hand, revenue collection improved due to the strong economic recovery. Figure 4.5.3 also shows a slightly negative output in 2021, which indicates a substantial recovery and thus the approximation of economy to its potential.

On the other hand, expansionary policy will be implemented in 2022 through the planned implementation of the programme Europe Now, as well as with greater volume of investments through the Capital Budget. In 2022, as the economic growth exceeding its potential, the public revenues are expected to fully recover and return to the pre-pandemic levels. In 2023 and 2024, the economy will continue to grow above the potential due to the new investment cycle, which will enable implementation of restrictive policy accompanied by the controlled growth of current spending. Positive output gap and restrictive policy indicate a counter-cyclical and stabilising character of the fiscal policy.



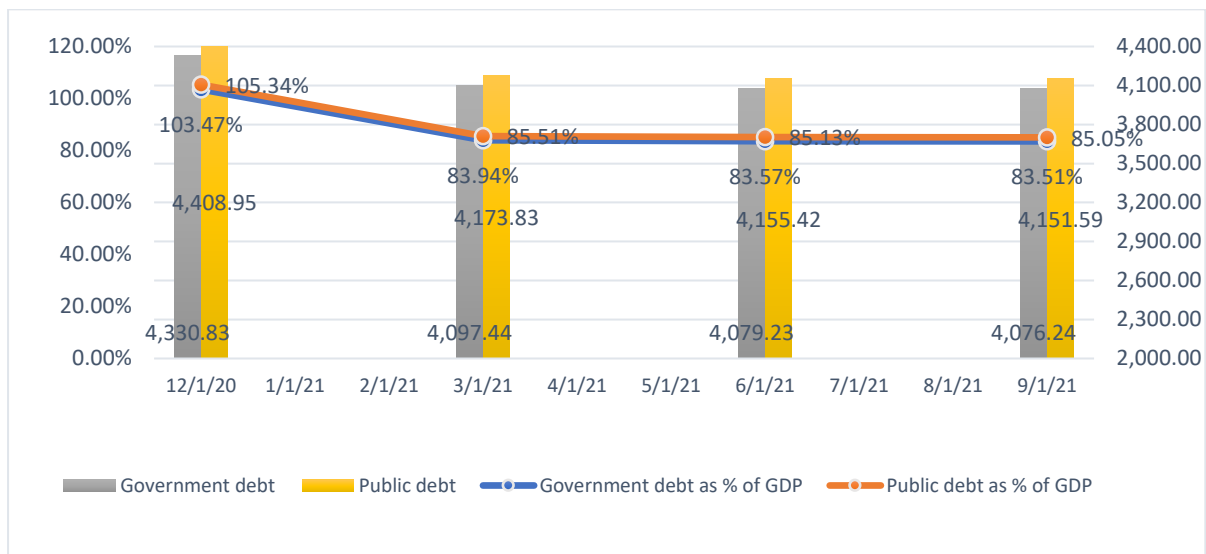
4.6 Debt Levels and Developments, Analysis of the Below the Line Operations and Stock-flow Adjustments

4.6.1 Government Debt and Public Debt in 2020

Total public debt of Montenegro on 31 December 2020 amounted to 4,408.95 million euro or 105.34 percent of GDP⁶ and includes government debt which amounted to 4,330.83 million euro or 103.47 percent of GDP, and local government debt which amounted to 78.12 million euro, i.e. 1.87 percent of GDP.

Deposits of the Ministry of Finance and Social Welfare, which also include 38,477 ounces of gold and local government deposits, totalled 909.68 million euro at the end of 2020, of which deposits of the Ministry of Finance and Social Welfare amounted to 872.43 million euro and local government deposits amounted to 37.25 million euro. On 31 December 2020, net public debt of Montenegro, including deposits of the Ministry of Finance and Social Welfare and local government, amounted to 3,499.27 million euro, or 83.60 percent of GDP.

Figure 4.6.1: Government debt and public debt of Montenegro in million euro



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

⁶According to the MONSTAT data, GDP value for 2020 is 4,185.6 million euro.



According to the 2021 Budget Law, the shortage of funds amounted to 611.9 million euro. Since the State of Montenegro issued Eurobonds in the amount of 750 million euro in December 2020, which were included in deposits at the end of 2020, there was no need for additional borrowing for budget financing. There were new borrowings only for the initiated infrastructural and development projects and arrangements. In that regard, proceeds were withdrawn from credit of the China EXIM Bank for the project of construction of the priority section Smokovac–Uvač-Mateševo. During the three quarters of 2021, the credit proceeds amounting to 33.45 million euro (38.98 million USD) were withdrawn from the credit of the China EXIM Bank. The plan was to withdraw additional 17.00 million euro from the credit mentioned above by the end of 2021 (i.e. 20 million USD), and to withdraw additional 65 million euro (i.e. 75 million USD) in 2022, which include the first half of the guaranteed deposit amounting to 17.2 million euro (i.e. 23.6 million USD). Under the Contract on Execution of the Construction Works on the Priority Section of the Highway, the second half of the guaranteed deposit amounting to around 17.2 million euro (around 23.6 million USD) should be paid upon expiry of the warranty period, i.e. two years after finalisation of the construction works.⁷ In addition, the second tranche of the credit concluded with the European Commission was withdrawn, in the amount of 30 million euro, while proceeds were also withdrawn from credit of the Council of Europe Development Bank (CEB) for the project of support to micro, small and medium-sized enterprises in Montenegro affected by COVID-19, in the amount of 30 million euro. Approximately 30.51 million euro were withdrawn in the three quarters of 2021 for implementation of the projects involving municipal utilities, energy efficiency, agricultural development, tax administration reform, improvement of road infrastructure, procurement of military equipment, etc.

⁷ The amounts in euro, which refer to the performed and planned withdrawals from the credit of the China EXIM Bank for the highway, are stated at the middle rate of EUR/USD as on 30 September 2021, published by the Central Bank of Montenegro.

**Table 4.6.1: Developments of external and domestic debt and of the local government debt in million euro, by quarters of 2021**

Year	External debt	Domestic Debt	Government debt	Local government debt	Public debt
31-Dec-2020	3,835.27	495.56	4,330.83	78.12	4,408.95
31-Mar-2021	3,642.68	454.76	4,097.44	76.39	4,173.83
30-Jun-2021	3,652.60	426.63	4,079.23	76.19	4,155.42
30-Sep2021	3,658.88	417.36	4,076.24	75.35	4,151.59

On 30 September 2021, the government debt of Montenegro amounted to 4,076.24 million euro, or 83.51 percent of GDP estimated for 2021.⁸ Compared to the end of 2020, the government debt was reduced by 254.59 million euro, primarily as a result of debt repayment based on Eurobonds issued in 2016 in the amount of 227.45 million euro.

Domestic debt was reduced by around 78.2 million euro, compared to the end of 2020, as a result of, amongst other things, repayment of credits to the commercial banks, in the amount of 28.64 million euro, and repayment of Treasury bills in the amount of 15 million euro.

Having in mind the aforementioned, according to the preliminary data of the Ministry of Finance and Social Welfare, the public debt amounted to 4,151.59 million euro or 85.05 percent of GDP estimated for 2021.

⁸ According to the current projections of the Ministry of Finance and Social Welfare, the GDP value for 2021 will amount to 4,881.3 million euro.



Figure 4.6.1.1: Developments of external debt, domestic debt and local government debt as % of GDP

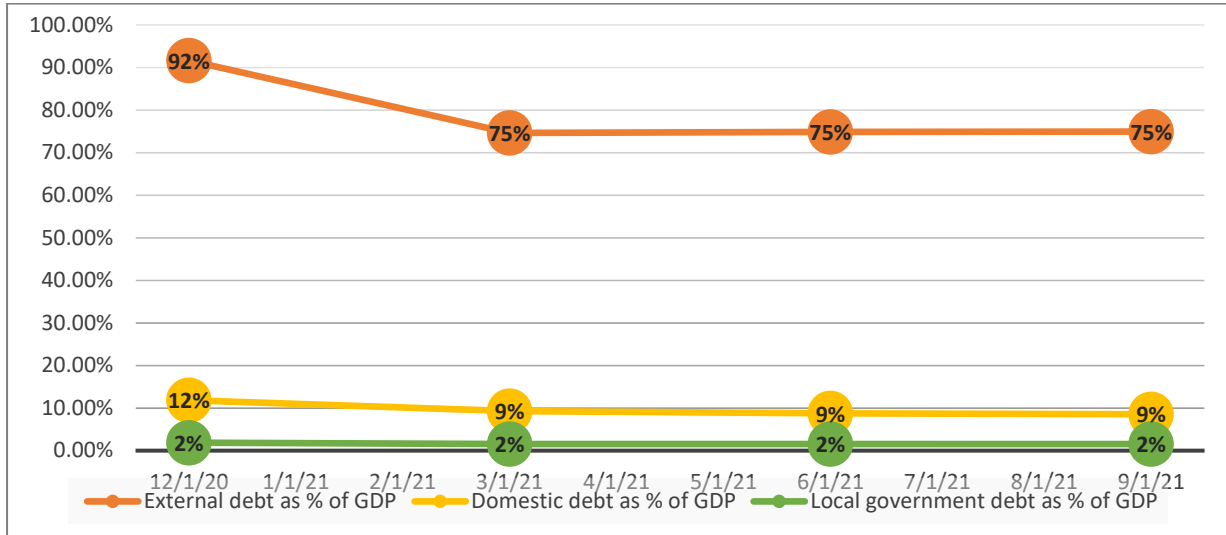
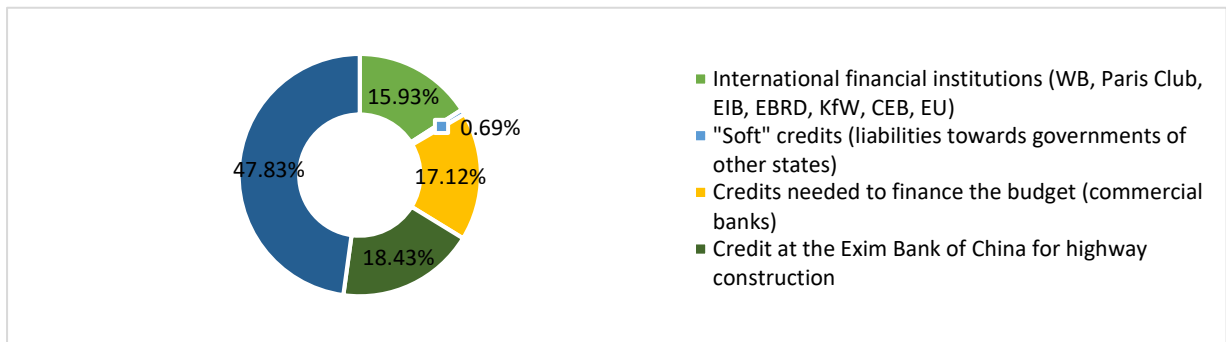


Table 1 and figure 2 present data on the debt as of 30 September 2021, according to the preliminary data of the Ministry of Finance and Social Welfare.

- Table 1 and figure 2 present data on the local government debt as of 30 September 2021, according to the projections of the Ministry of Finance and Social Welfare.

Figure 4.6.1.2: Structure of external debt to creditors on 30 September 2021



As regards the structure of debt to residents, the liabilities arising from credits at the commercial banks in the amount of 145.71 million euro account for the major share of debt, while the debt incurred based on Eurobonds in the amount of 1,750.00 million euro accounts for major share in the external debt structure.

Table 4.6.1.1: The highest debts as on 30 September 2021⁹

Debt to residents	Amount in million euro	Debt to non-residents	Amount in million euro
Credits at commercial banks	145.71	Eurobond	1,750.00
Domestic bonds	142.44	China EXIM bank	674.29 ¹⁰
Liabilities arising from compensation	80.22	Syndicated loans PBG 1 and PBG 2	500.00
Legal persons and business undertakings	36.81	International Bank for Reconstruction and Development (IBRD)	186.97
Old foreign currency savings	10.29	European Investment Banka (EIB)	104.58

Until 30 September 2021, the debt based on principal was repaid, to residents and non-residents, in the total amount of 400.23 million euro, and the debt from the previous period in the amount of 0.2 million euro was repaid as well. Repayment of interest, to residents and non-residents, totalled 78.78 million euro.

Table 4.6.1.2: Repayment of government debt until 30 September 2021

Budget item

Repayment of principal to the residents	70.34
Repayment of principal to the non-residents	329.89
Total repayment of principal	400.23
Total repayment of liabilities from the previous years*	0.20
Repayment of interest to the residents	8.76
Repayment of interest to the non-residents	70.02
Total repayment of interest	78.78
TOTAL	479.21

*Repayment based on court judgments is not included.

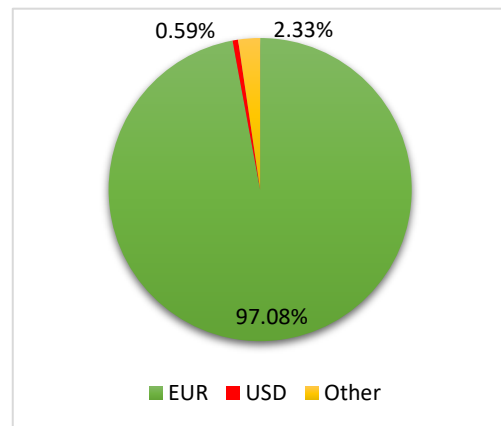
⁹ According to the foreign exchange rate as on 30 September 2021

¹⁰ Since the hedging transaction for credit facility with the China EXIM Bank was concluded for the 14-year period, with mandatory termination after 2 years, the stock of the hedged debt to the China EXIM Bank will be stated at the agreed exchange rate EUR/USD 1,18, while the non-hedged part will be stated at the median exchange rate of the Central Bank of Montenegro on the reporting day, from the moment when transaction is effected until expiry of the second year.

Currency and Interest Structure of the Government Debt

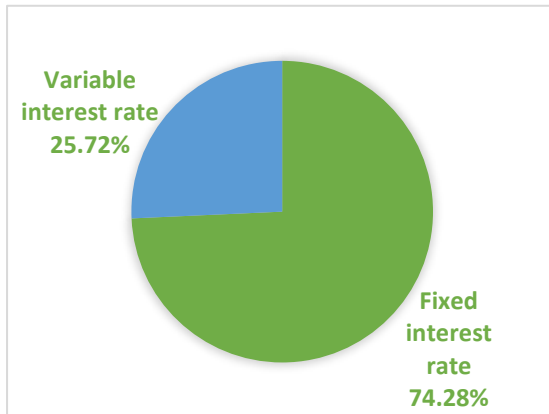
On the basis of the government debt stock at the end of Q3 2021, around 97.08 percent of the government debt was stated in the domestic currency, i.e. euro, which is why no negative effects of the currency risk which might significantly impact developments of the government debt are expected at the moment. It is worth noting that the state of Montenegro took actions to address the currency risk issue regarding credit of the China EXIM bank stated in dollars, i.e. in the amount of 944 million USD, which was concluded in 2014 to finance construction of priority section of Bar-Boljare highway. In fact, the Ministry of Finance and Social Welfare carried out a hedging transaction with four renowned international banks. In doing so, conversion of the existing debt to the China EXIM bank, stated in dollars, in the amount of around 818 million USD, was carried out and EUR/USD exchange rate of around 1.18 was agreed, while the average weighted fixed interest rate in euro was agreed at 0.88 percent. The performed transaction led to an improvement of the currency structure of the government debt compared to the end of Q1 2021. In fact, at the end of Q3 2021, the currency structure was characterised by the 97.08 percent share of the debt stated in euro, 0.59 percent share of the debt stated in USD, and 2.33 percent debt stated in other currencies in the total government debt, while at the end of Q1 2021 the share of the debt stated in euro was 80.53 percent, while the share of debt stated in USD was 17.08 percent.¹¹

Figure 4.6.1.3: Currency Structure of the Government Debt as of 30 September 2021



¹¹ Hedging transaction for the credit facility of the China EXIM Bank was concluded for the 14-year period, with mandatory termination after two years, and from the moment when transaction is effected to expiry of the second year the stock of the hedged debt to the China EXIM Bank will be stated at the agreed exchange rate EUR/USD of 1.18, while the non-hedged part will be stated at the median foreign exchange rate of the Central Bank of Montenegro on the reporting day.

Figure 4.6.1.4: Interest structure of the government debt as on 30 September 2021



As regards the risk of change to the interest rates, it is evident that borrowing with the fixed, interest rate prevails in the total government debt which is why the risk of the increase of liabilities on this basis is low. In any case, the trends of variable interest rates should be monitored, since EURIBOR has so far had a negative value, but it does not mean this is going to be the case in the future.

Besides the currency structure mentioned above, implementation of the hedging arrangement will have a significant impact on the

improvement of the average weighted interest rate at the end of 2021, since dollar interest rate on the credit facility with the China EXIM Bank was converted into the euro interest rate of 0.88 percent, owing to the hedging transaction. This parameter will also be improved due to the fact that Montenegro repaid in March 2021 the Eurobonds issued in 2016 in the total amount of 227 million euro, for which the annual interest rate was as high as 5.75 percent. Since calculation of the final average weighted interests requires annual data, at this moment it is not possible to demonstrate how much the average interest rate will exactly be in 2021, but it is certain that it will be significantly improved compared to the end of 2020, at which point it amounted to 2.7 percent.

Credit rating agencies Standard&Poors and Moody's confirmed in their 2020 reports that ratings for Montenegro were B+/B, and B1 respectively, with stable outlook for the country. However, the rating agency Standard and Poor's (S&P) published an extraordinary assessment of the credit rating globally in May 2020, at which point the credit rating outlook was changed for some 40 countries, amongst others for Montenegro, for which the outlook was changed from stable to negative, while the rating remained B+. In March 2021, the latest official report of the credit rating agency Standard & Poor's was published and the credit rating of Montenegro was downgraded in it from B+ to B, with stable outlook.

Debt Management in 2021

Since financial resources for 2021 were secured in December 2020, the Ministry of Finance and Social Welfare had more room in 2021 to focus on optimisation of the debt portfolio and



elimination of risks that affect sustainability of public debt in the long term. This primarily concerns resolution of the currency risk issue related to the credit facility stated in dollars with the China EXIM Bank in the amount of 944 million USD, which was concluded in 2014 for the purpose of financing priority section of the Bar-Boljare highway.

At the end of the Q1 2021, currency structure of the government debt was characterised by the 17.08 percent debt share in USD, 80.53 percent debt share in euro and 2.39 percent debt share in other currencies in total government debt. The amount stated in dollars mainly refers to the credit from the China EXIM Bank.

In April 2021, the Ministry renewed negotiations with the renowned commercial banks (which started back in 2019) in order to finalise the ISDA agreement, which is a legal base for effecting financial derivatives transactions, so called hedging. The ISDA agreements were concluded at the end of June/beginning of July 2021.

At the same time, in early July 2021 the Ministry began negotiations with the banks to define conditions for conclusion of the hedging arrangement; negotiations ended in early July 2021 and transactions was concluded with four banks. At that point, 818 million USD were hedged (this is the amount of the total credit proceeds withdrawn until July 2021) by means of a cross-currency swap, which entails exchange of euro and dollar cash flows between the banks and the ministry. The transaction was concluded for a 14-year period at the average euro fixed interest rate of 0.88 percent and average agreed foreign currency exchange rate EUR/USD of 1.18. It is worth noting that all bank charges for this transaction are included in the euro interest rate mentioned above, which represents the price of the exposure of banks towards Montenegro.

In this way, the goal of the Ministry to reduce currency risk until the beginning of repayment of the credit of the China EXIM Bank (by 21 July 2021) was achieved. It is estimated that this arrangement will lead to the annual savings of around 8 million euro, which was confirmed with the first semi-annual repayment in which approximately 4 million euro were saved. In fact, Montenegro paid 27.79 million euro to the banks based on principal and interest, while banks paid 37.34 million USD to the state from the hedging arrangement, which the Ministry forwarded to the China EXIM Bank in order to pay for the due liabilities. If the hedging had not been performed, the necessary 37.34 million USD would be purchased at the currency exchange rate EUR/USD and would amount to around 31.71 million euro.



Baseline Scenario of the Government Debt Developments in the period 2022-2024

Under the 2022 Budget Law, the shortage of funds for 2022 amounts to around 560 million euro.

Since the state issued Eurobonds in the international market in the amount of 750 million euro in December 2020, for the purpose of financing budget and debt repayment in 2021 and 2022, and given the strong economic recovery in 2021, the Ministry of Finance and Social Welfare generated a significant level of deposits at the end of 2021, which will be used to finance the shortage of funds in 2022. Out of the shortage of funds mentioned above, around 70 million euro are planned to be secured through the new borrowing, while the remaining part will be covered from deposits. In addition, withdrawal of credit proceeds for implementation of the initiated development projects will also increase the borrowing.

Projection of debt developments in the period 2022-2024 may be presented as follows:

Table 4.6.1.3: Developments of government debt and public debt in the period 2021-2024 in million euro - baseline scenario

Year	2021	2022	2023	2024
GDP	4,881.30	5,306.40	5,669.00	6,008.50
Domestic debt	425.00	385.10	498.61	470.61
External debt	3,670.00	3,602.78	3,575.18	3,649.31
Total government debt	4,095.00	3,987.88	4,073.79	4,119.92
Total government debt as % of GDP	83.89	75.15	71.86	68.57
Local government debt*	78.12	78.12	78.12	78.12
Total public debt**	4,173.12	4,066.00	4,151.91	4,198.04
Total public debt as % of GDP	85.49	76.62	73.24	69.87

*Local government debt amount is according to the projections of the Ministry of Finance and Social Welfare

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

Low Growth Scenario

If the economic growth slows down and revenues decrease, in accordance with the low growth scenario, the public debt will increase in the medium term. Revenues decline and stagnation of investment growth will create the need for additional borrowing so as to provide the shortage of funds needed for deficit financing.



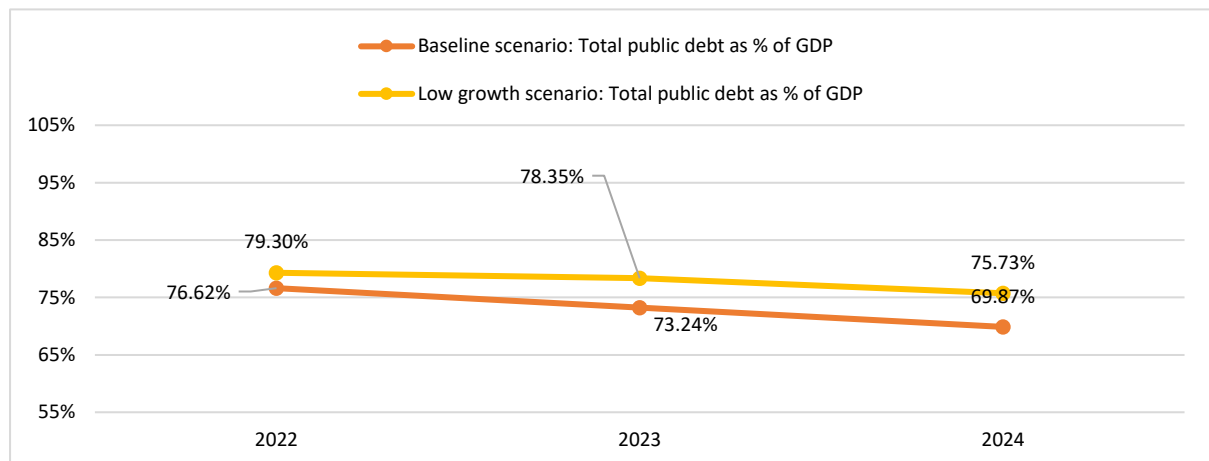
Table 4.6.1.4: Debt developments in the period 2021-2024 in million euro – low growth scenario

Year	2021	2022	2023	2024
GDP	4,881.30	5,154.80	5,448.70	5,697.80
Domestic debt	425.00	385.10	498.61	470.61
External debt	3,670.00	3,624.78	3,692.18	3,766.31
Total government debt	4,095.00	4,009.88	4,190.79	4,236.92
Total government debt as % of GDP	83.89	77.79	76.91	74.36
Local government debt*	78.12	78.12	78.12	78.12
Total public debt**	4,173.12	4,088.00	4,268.91	4,315.04
Total public debt as % of GDP	85.49	79.30	78.35	75.73

*Local government debt amount is according to the projections of the Ministry of Finance and Social Welfare

**The debt presented in the table does not include deposits of the Ministry of Finance and Social Welfare and local government deposits

Figure 4.6.1.5: Comparative public debt developments in the baseline scenario and low growth scenario as % of GDP 2022-2024



State guarantees

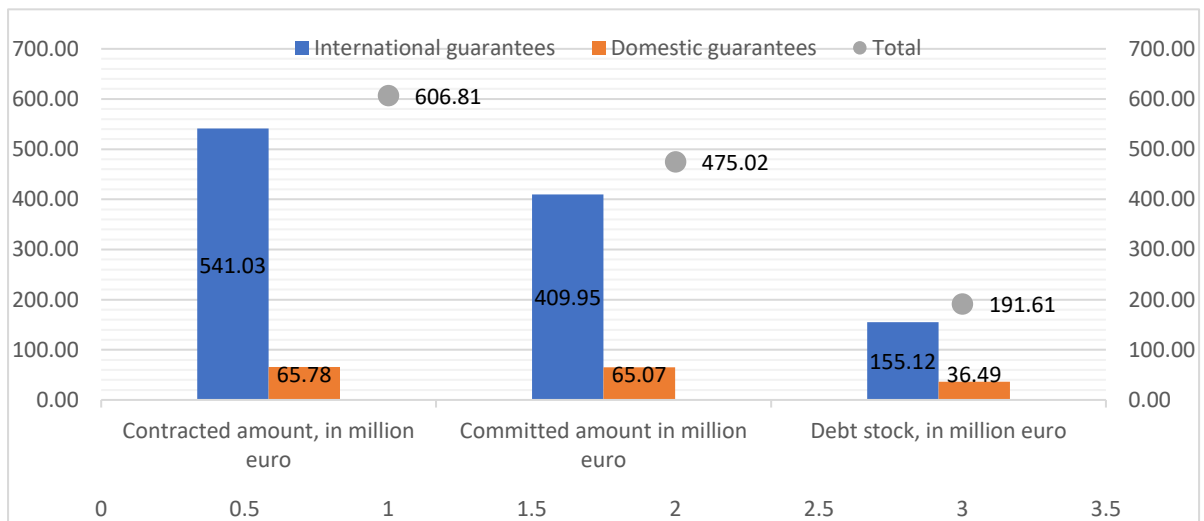
The contracted amount of issued state guarantees amounted to 606.81 million euro of 30 September 2021. Out of that amount, the committed funds amount to around 475.02 million euro. Preliminary debt stock of 30 September 2021, based on guarantees issued to domestic and foreign creditors, amounts to 191.61 million euro, which is 3.92 percent of GDP.



Committed amount of the guarantees issued by the Government of Montenegro to international creditors is around 541.03 million euro, while debt stock based on these guarantees amounts to 155.12 million euro or 3.18 percent of GDP.

Committed amount of the guarantees issued by the Government of Montenegro for the loans from domestic creditors was around 65.78 million euro at the end of 2021, while debt stock based on these guarantees amounted to 36.49 million euro or 0.75 percent of GDP. The major share of the existing domestic guarantees are guarantees issued to the local governments for implementation of the rehabilitation plans, and their debt stock on 30 September 2021 amounted to 20.44 million euro.

Figure 4.6.1.6: State guarantees stock on 30 September 2021



Montenegro did not issue any new state guarantees in 2021.

The guarantees issued in the past couple of years mainly concerned loans which were used to implement different infrastructural projects, including roads, railways, water supply and sewerage, electricity, support to the development of SMEs and like.

The new 2022 Budget Law defines entering into new state guarantees.



4.7 Sensitivity Analysis and Comparison with the Previous Programme

4.7.1 Sensitivity of the Public Finance Projections to Alternative Risk Scenarios

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

Table 4.7.1 Overview of fiscal risks in the medium-term

Positive	Negative
<ul style="list-style-type: none">– Refinancing of the existing credits improves credit structure of the debt and due date for the payment, while it also reduces the costs of financing which has positive impact on public debt developments;– Improvement of corporate operations of the enterprises in majority state ownership strengthens their financial autonomy and collection of revenues by the state based on ownership stake, which indirectly strengthens market competitiveness;– Implementation of the Public administration reform strategy 2022–2026 through the rationalisation of jobs leads to decrease of the total gross wage bill and consequently to additional optimisation of the public spending;– Potential collection of revenues by granting concession for the long-term use of the Airports of Montenegro JSC increases total public revenues in the medium-term;– Implementation of new legal framework for organising the games of chance will create conditions for the collection of additional revenues compared to those planned on this basis.	<ul style="list-style-type: none">– Delay in implementation of certain measures focused on public revenues growth increases the projected budget deficit;– Adoption of legal provisions whose implementation increases public spending without establishing the sources of financing may have negative impact on deficit and public debt;– Increased risk based on operations of public enterprises during the pandemic which might require additional allocation of budgetary funds;– Inability of the companies that are beneficiaries of state guarantees to regularly pay for their liabilities arising from loans for which state guarantees were issued in the previous period;– Implementation of ESA 2010 methodology may lead to expansion of the existing institutional coverage of budgetary accounting by including public enterprises which should, according to the ESA 2010 qualitative and quantitative criteria, be stated in the general government sector. Consequently, there is a possibility of the increase in deficit and debt of the sector mentioned above in the medium term, in accordance with ESA 2010 methodology. On the other hand, application of the methodology mentioned above, by following the same principle, may also have positive effects on fiscal indicators.



Alternative fiscal scenario is based on the low growth macroeconomic scenario whose main assumptions are based on a recovery of economic activity slower than that projected in the baseline scenario, and this is primarily the result of the lower revenues generated from tourism. The low growth macroeconomic scenario is thoroughly elaborated in chapter 3.

If these risks materialise, public revenues would not be generated in the amount planned under the baseline scenario which would result in higher public finance deficit in the medium term and thus to the greater needs to finance public spending.

Having in mind the aforementioned, in the event of materialisation of the low growth macroeconomic scenario the balance of public finance would be adjusted primarily through a higher deficit in the medium term. Consequently, the public debt would be higher compared to the baseline scenario which is presented in sub-chapter 4.6.

On the other hand, the baseline fiscal scenario does not consider potential collection of revenues on the basis of possible granting of the concession for long-term use of the Airports of Montenegro which would enable one-off public revenues which is substantially higher than those planned under the baseline scenario.

4.7.2 Comparison with the Previous Programme

Table 4.7.2 Comparison with the Previous Programme, in million euro

	ERP 2021-2023			
	2021	2022	2023	2024
<i>Public revenues</i>	2,123.67	2,167.62	2,270.44	
<i>Public spending</i>	2,255.91	2,167.54	2,192.33	
<i>Surplus/deficit of public finances</i>	-132.24	-8.92	78.11	
	ERP 2022-2024			
	2021	2022	2023	2024
<i>Public revenues</i>	2,149.57	2,177.26	2,317.65	2,427.95
<i>Public spending</i>	2,224.36	2,442.21	2,422.50	2,466.40
<i>Surplus/deficit of public finances</i>	-74.79	-264.95	-104.85	-38.45
	Difference			
	2021	2022	2023	2024



<i>Public revenues</i>	25.9	9.64	47.21
<i>Public spending</i>	-31.55	274.67	230.17
<i>Surplus/deficit of public finances</i>	57.45	-256.08	-182.96

As it can be seen from table 4.7.2, in all the projected years, the generated public revenues will be substantially lower than those projected by the previous programme due to the high decline recorded in the collection of revenues in 2021 and recovery of public revenues collection. In the medium term, the revenue growth will be driven by the projected growth of economic activity and implementation of the proposed set of tax reforms, which will enable broadening of the tax base.

Public spending in 2021 was lower than what had been projected by the previous programme due to lower execution of most of the expenditure categories compared to what had been planned. In other years of projection, the public spending will be higher than what was projected under the previous programme, primarily due to considerably higher investments through the capital budget for the purpose of implementing significant infrastructural and other development projects. In addition, mandatory expenditures (social benefits and benefits in the area of pension and disability insurance) which are adjusted with legal provisions, will record a growth in all the projected years.

4.8 Quality of Public Finance

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

Responsible approach to public finance management in 2021 created preconditions to propose the economic programme Europe Now whose primary goal is to reduce labour tax wedge and increase employees' wages. Contrary to the model of proportional taxation of income that has been applied so far, the proposed reform introduces a non-taxable part of the wage which enables increase of employees' net wages, where employees with the lowest earnings will have the highest growth, and progressive taxation of income which entails higher taxation rates for higher. Implementation of the proposed reform will improve the living standard of all employees, particularly those with the lowest earnings, which leads to narrowing the income inequality, while reduction of the labour tax wedge will create conditions for the shrinking of informal economy in the labour market.



Change to the tax policy in respect of wages will reduce public revenues in the short term, while in the medium term it will stimulate formal employment and, due to the broadened tax base, it will ensure revenue growth. In parallel with implementation of the measures presented in chapter 4.4., conditions will be created for the continuous increase of public revenues, which will enable stability of public finances.

The impact of this reform on the total gross wage bill at the central and local levels is slightly negative since the state, as the employer, faces additional cost incurred based on wage increase of employees whose earnings were below the new minimum wage prior to the reform, while on the other hand that cost is compensated from savings generated by the state, as the employer, due to reduction of the labour tax wedge.

In order to ensure full support to the planned reform processes and increase efficiency of the work done by Revenue and Customs Administration, which collects over 90 percent of public revenues, Montenegro is implementing a project together with the World Bank entitled The Revenue Administration Reform, which entails introduction of integrated revenue management system (IRMS) and online fiscalisation in real time. Establishment of the IRMS aims to increase transparency of the tax payment process and thus to reduce informal economy. In respect of the IRMS implementation, preparation of the document containing functional requirements for introduction of this system is underway. Once the document containing functional requirements is finalised and once the tender documentation is prepared, tender procedure for the procurement of the new IRMS will be launched. Since the data cleansing process and later migration to the new system is a continuous activity, the Data Cleansing Strategy/Action Plan was prepared, as well as the cleansing procedures, and the cleansing started as well. The activities from both projects are synchronised to avoid overlaps.

In addition to the IRMS implementation, the new system of fiscalisation for transactions in goods and services was designed to improve controls of transactions, further reduce tax administration and create more favourable conditions for efficient management of tax controls and involuntary collection procedures. Implementation of electronic fiscalisation began on 1 January 2021, with the transitional period for the beginning of implementation by 1 June 2021 for those entities liable for fiscalisation who were not able to adjust their accounting programmes and client software to adequate recording of transactions via fiscal service. The improved fiscal discipline resulting from e-fiscalisation implementation largely contributed to the good collection of the value added tax.



Implementation of the project Assistance to Customs Administration in the Area of Excise Tax ensured implementation of the new national software application for excise taxes in IT system of the Customs Administration (CIS) and interconnection and interoperability with the other customs software applications and future software applications as well. Introduction of the new information system for electronic data exchange enabled connecting of the software for the exchange of data on excise taxes in digital form, which strengthens the collection of excise taxes and enables more efficient suppression of informal economy. Implementation of provisions on the information system, in accordance with the Law on Excise Taxes, began on 1 January 2021.

Public spending in the period 2022-2024 is increasing in nominal terms, while measured by the share in GDP it is continuously declining from 46.0 percent in 2022 to 41.0 percent in 2024, influenced by the dynamic economic growth rates and GDP growth which is faster than the spending growth.

As regards the structure of public spending in the programme period, the share of current public spending in total spending remains at the high level of 90 percent. Mandatory expenditures for gross wages and social protection transfers that are used for financing entitlements in the areas of social protection, pension and disability insurance and health care, account for the highest share in total spending. Gross wage bill increases in the period covered by the programme as a result of wage increase for the health sector employees and wage increase for the employees who have so far received the wage lower than the minimum wage. On the other hand, implementation of the Public Administration Reform Strategy is expected to optimise jobs and reduce the wage bill of employees on that ground.

As regards social transfers and reform of that area, a more detailed explanation is given in chapter 4.10.

4.9 Fiscal Governance and Budgetary Frameworks

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

Independent fiscal institutions to monitoring fiscal performance and/or advise the Government on fiscal policy matters: As regards monitoring and evaluation of fiscal policy and achieved outcomes, particularly concerning the numerical fiscal rules, their assessment is



carried out by the State Audit Institution through the ex-post evaluation of the numerical fiscal rules and also by giving an opinion on the budget for the current year. In order to strengthen the oversight of fiscal policy implementation, particularly with regard to ex ante evaluation, a project was implemented with the EU support with a view to creating conditions for establishment of the Fiscal Council of Montenegro, as an independent body that would monitor and evaluate fiscal policy planning and implementation. For that purpose, the Government of Montenegro will propose appropriate legislation in first half of 2022, based on recommendations, best international practice and country size, in order to create formal prerequisites for establishment of the Fiscal Council of Montenegro.

Medium-term budget frameworks: The Medium-term budget framework is established by the Macroeconomic and fiscal policy guidance and reviewed during adoption of the budget for the next fiscal year. In order to improve the budget system as a whole, implementation of the following projects financed from the EU funds commenced in 2019:

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

In accordance with the activities carried out under the project *Enhancement of the Budgetary System, Medium-Term Budgetary Framework and Internal Financial Control*, intensive work was done on implementation of the program budget in 2021. In accordance with the above mentioned, the 2021 Budget included for the first time the division of the spending units' budget per programmes, sub-programmes, activities and indicators, which contributed to a greater transparency of planning and spending of public finances. These changes were



accompanied by development of the new IT system for budget planning, which was further improved during 2021.

Availability and quality of fiscal data and alignment with ESA standards: As regards availability and quality of fiscal data, the official data producer in this area is the Ministry of Finance and Social Welfare, which carries out their planning and projections, while also reporting on the performance of fiscal indicators on monthly, quarterly and annual levels, in accordance with the national framework. As regards harmonisation of the statistics on public finances with international standards, no progress was achieved in 2021 due to the lack of staff capacities and lack of systemic division of competences for data production in accordance with ESA2010 methodology, which was also stated in the report on Montenegro for the negotiating chapters 17 and 18.

As regards *numeric fiscal rules* on limiting general government deficit to below 3 percent, this will not happen in 2022 when the general government deficit is planned at 5.0 percent of GDP and after that, in 2023-2024, it is projected that this criterion will be fulfilled. The rule to constrain public debt up to 60 percent is not fulfilled in any of the years of the observed period, due to a high base established in the previous period and projected investments in infrastructural projects. Despite that, public debt continuously declines in all years to 69.9 percent of the projected GDP in 2024.

4.10 Sustainability of Public Finances

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

In addition to the reduced collection of revenues from social contributions and the possibility of deferral of the payment of taxes and contributions on wages during the pandemic, which is one of the Government measures to help the economy, additional pressure on public finances resulted from adoption of the Law amending the Law on Pension and Disability Insurance in July 2020, with retroactive implementation from the beginning of the year; the implementation of this Law required additional budget allocations.

In order to ensure adequacy of the pension benefits, the amendment to the aforementioned Law changed the way of adjusting pensions, so that instead of the previous formula of adjusting with 75 percent of inflation measured by the consumer price index and 25 percent



of wage growth, the concept of the rotating formula was introduced: 75 percent of a higher parameter and 25 percent of a lower parameter.

Moreover, under the Law amending the Law on Pension and Disability Insurance, at the end of 2021, the lowest pension was increased to 200 euro. In 2022, activities will be implemented to reform the pension system in cooperation with international partners, so as to create conditions for a comprehensive analysis of the state of play and propose measures for implementation of the pension system reform, in accordance with the best international practice.

As regards social protection, adoption of the Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children created legal preconditions for the payment of entitlements on this ground as from 1 April 2022. Moreover, amendments to the Law on Social and Child Protection introduce the right to child allowance for all children up to 18 years of age starting from 1 October 2022. Adoption of these legal provisions leads to an increase in state allocations for social protection.

Ensuring a functional, stable and sustainable health care system and timely and quality health care, particularly in the conditions created by coronavirus pandemic, is one of the highest priorities of the state. In accordance with the agreement signed with the trade unions, the wages in healthcare sector were additionally increased in 2021 by 3 percent and are planned to be increased by 12.5 percent in 2022, with additional increase resulting from implementation of the programme Europe Now. Moreover, abolition of the health insurance contributions charged to employers and employees is proposed in order to reduce the labour tax wedge, and in doing so the state takes over financing of the health care system, while maintaining the same coverage of health care.

Besides health care and pension systems, the local public finances strongly impact the long-term sustainability of public finances.

Given the share of the gross wage bill in total expenditures, its proper management is extremely important for the sustainability of public finances. Starting from the baseline fiscal scenario, the gross wage bill in the period 2022-2024 grows in nominal terms, while it declines in terms of percentage of GDP to 10.1 percent in 2024. The Public Administration Reform Strategy 2022-2026 will set out measures which aim to create a more efficient public administration, and one of the measures concerns creation of the conditions for optimisation



of the number of employees. To that end, starting from the determined number of employees in all sectors, the plan is to carry out functional reviews which should identify the areas where employee numbers need to be rationalised and areas which require more staff to be employed. Depending on the conclusions of the functional reviews, the Government of Montenegro will adopt the programme for consensual termination of employment and declaring of redundancy accompanied by the payment of severance, at which point the fiscal effect of this measure will be established.

All the activities related to optimisation and efficiency of public administration are part of the Public Administration Reform Strategy 2022-2026 and action plan for its implementation.

Activities will be implemented in parallel to improve the regulatory framework for public sector employees and other rights arising from employment relationship.



GDP (mil. €)	4881.3	5306.4	5669.0	6008.5
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Central Budget of Montenegro	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	1906.10	39.05	1934.76	36.46	2073.35	36.57	2178.33	36.25
Taxes	1183.87	24.25	1277.35	24.1	1423.79	25.1	1500.56	25.0
Personal income tax	126.86	2.60	140.29	2.6	147.86	2.6	136.86	2.3
Tax on Profits of Legal Person	74.71	1.53	84.28	1.6	118.76	2.1	126.84	2.1
Taxes on Property	2.08	0.04	1.68	0.0	1.62	0.0	1.67	0.0
Value Added Tax	691.95	14.18	733.84	13.8	797.67	14.1	856.76	14.3
Excises	248.72	5.10	271.00	5.1	309.04	5.5	327.19	5.4
Tax on International Trade and Transactions	28.30	0.58	29.67	0.6	31.68	0.6	33.59	0.6
Other State Taxes	11.26	0.23	16.59	0.3	17.15	0.3	17.66	0.3
Contributions	554.48	11.36	485.07	9.1	506.28	8.9	536.81	8.9
Contributions for Pension and Disability Insurance	343.74	7.04	428.82	8.1	461.86	8.1	489.99	8.2
Contributions for Health Insurance	180.57	3.70	19.48	0.4	5.00	0.1	5.00	0.1
Contributions for Insurance from Unemployment	16.36	0.34	20.65	0.4	22.07	0.4	23.42	0.4
Other contributions	13.81	0.28	16.11	0.3	17.35	0.3	18.41	0.3
Duties	12.56	0.26	13.38	0.3	13.96	0.2	14.48	0.2
Fees	51.10	1.05	66.70	1.3	51.33	0.9	47.72	0.8
Other revenues	57.70	1.18	40.65	0.8	31.49	0.6	32.26	0.5
Receipts from repayment of loans	8.94	0.18	9.75	0.2	9.75	0.2	9.75	0.2
Grants	37.46	0.77	41.87	0.8	36.75	0.6	36.75	0.6
Expenditures	1999.6	40.96	2202.8	41.5	2181.3	38.5	2225.2	37.0
Current budget expenditures	1843.8	37.77	1960.3	36.9	1961.0	34.6	1964.5	32.7
Current expenditures	866.6	17.8	890.0	16.8	893.1	15.8	893.3	14.9
Gross salaries and contributions charged to employer	535.3	11.0	545.9	10.3	548.2	9.7	556.3	9.3
Other personal income	11.2	0.2	13.2	0.2	13.3	0.2	13.6	0.2
Expenditures for supplies and services	88.1	1.8	87.6	1.7	96.1	1.7	96.6	1.6
Current maintenance	21.7	0.4	28.1	0.5	27.6	0.5	27.8	0.5
Interests	114.1	2.3	92.5	1.7	86.2	1.5	82.6	1.4
Rent	11.4	0.2	11.4	0.2	11.3	0.2	11.4	0.2
Subsidies	48.5	1.0	63.3	1.2	62.3	1.1	56.8	0.9
Other expenditures	36.3	0.7	48.0	0.9	48.1	0.8	48.3	0.8
Capital outflows of current budget	46.7	1.0	47.3	0.9	49.8	0.9	50.3	0.8
Social security transfers	567.43	11.6	651.7	12.3	702.1	12.4	711.1	11.8
Social security related rights	84.93	1.7	137.9	2.6	173.5	3.1	173.5	2.9
Funds for redundant labor	23.09	0.5	28.8	0.5	28.4	0.5	28.4	0.5
Pension and disability insurance rights	431.03	8.8	459.0	8.7	474.4	8.4	483.3	8.0
Other rights related to health care	17.08	0.3	14.2	0.3	14.0	0.2	14.0	0.2
Other rights related to health care insurance	11.30	0.2	11.8	0.2	11.8	0.2	11.8	0.2
Transfers to institutions, individuals, NGO and public sector	256.55	5.3	266.1	5.0	262.4	4.6	256.2	4.3
Capital budget of Montenegro	155.8	3.2	242.4	4.6	220.3	3.9	260.7	4.3
Loans and credits	1.3	0.0	1.5	0.0	1.5	0.0	1.5	0.0
Reserves	71.2	1.5	67.4	1.3	30.2	0.5	30.2	0.5
Repayment of Guarantees	7.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of Arrears	26.3	0.5	36.4	0.7	21.9	0.4	21.9	0.4
Net increase of liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit/ Surplus	-93.5	-1.9	-268.0	-5.1	-107.9	-1.9	-46.9	-0.8
Corrected surplus/deficit	-93.5	-1.9	-268.0	-5.1	-107.9	-1.9	-46.9	-0.8
Primary deficit	20.5	0.4	-175.5	-3.3	-21.7	-0.4	35.7	0.6
Repayment of debt	437.6	9.0	292.1	5.5	254.1	4.5	353.9	5.9
Repayment of principal to residents	85.3	1.7	39.9	0.8	36.5	0.6	128.0	2.1
Repayment of principal to nonresidents	352.3	7.2	252.2	4.8	217.6	3.8	225.9	3.8
Repayment of Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of securities	0.5	0.0	0.7	0.0	0.7	0.0	0.7	0.0
Financing needs	-531.6	-10.9	-560.8	-10.6	-362.7	-6.4	-401.4	-6.7
Financing	531.6	10.9	560.8	10.6	362.7	6.4	401.4	6.7
Borrowings and credits	105.7	2.2	170.0	3.2	356.7	6.3	395.4	6.6
Borrowings and credits from domestic sources	0.0	0.0	0.0	0.0	150.0	2.6	100.0	1.7
Borrowings and credits from foreign sources	105.7	2.2	170.0	3.2	206.7	3.6	295.4	4.9
Privatisation revenues	4.5	0.1	6.0	0.1	6.0	0.1	6.0	0.1
Usage of Deposits	421.4	8.6	384.8	7.3	0.0	0.0	0.0	0.0

Source: Ministry of Finance of Montenegro



GDP (mil. €)	4881.3		5306.4		5669.0		6008.5	
Local Government	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	243.47	4.99	242.50	4.57	244.30	4.31	249.62	4.40
Taxes	161.5	3.31	159.7	3.01	163.1	2.88	166.8	2.94
Personal Income Tax	55.44	1.14	50.81	0.96	52.85	0.93	55.63	0.98
Taxes on Property	16.79	0.34	17.42	0.33	17.51	0.31	17.02	0.30
Local Taxes	89.25	1.83	91.45	1.72	92.76	1.64	94.15	1.66
Excises	4.30	0.09	4.39	0.08	4.48	0.08	4.55	0.08
Fees	54.14	1.11	55.00	1.04	55.00	0.97	55.55	0.98
Other revenues	13.04	0.27	13.43	0.25	13.70	0.24	13.72	0.24
Receipts from repayment of loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	10.50	0.22	10.00	0.19	8.00	0.14	9.00	0.16
Expenditures	236.62	4.85	239.44	4.51	241.21	4.25	241.21	4.25
Current local government expenditure	181.6	3.72	184.4	3.48	186.2	3.28	186.2	3.28
Current expenditures	82.93	1.70	84.51	1.59	85.54	1.51	85.54	1.51
Gross salaries and contributions charged to employer	51.18	1.05	52.20	0.98	52.72	0.93	52.72	0.93
Other personal income	4.24	0.09	4.32	0.08	4.41	0.08	4.41	0.08
Expenditures for supplies and services	13.14	0.27	13.40	0.25	13.60	0.24	13.60	0.24
Current maintenance	4.23	0.09	4.29	0.08	4.36	0.08	4.36	0.08
Interests	3.74	0.08	3.79	0.07	3.85	0.07	3.85	0.07
Rent	0.63	0.01	0.64	0.01	0.65	0.01	0.65	0.01
Subsidies	1.31	0.03	1.33	0.03	1.35	0.02	1.35	0.02
Other expenditures	4.46	0.09	4.52	0.09	4.59	0.08	4.59	0.08
Social security transfers	0.88	0.02	0.89	0.02	0.91	0.02	0.91	0.02
Transfers to institutions, individuals, NGO and public sector	51.36	1.05	52.39	0.99	52.91	0.93	52.91	0.93
Capital expenditures	55.00	1.13	55.00	1.04	55.00	0.97	55.00	0.97
Loans and credits	3.00	0.06	3.09	0.06	3.18	0.06	3.18	0.06
Repayment of liabilities from previous years	40.00	0.82	40.00	0.75	40.00	0.71	40.00	0.71
Reserves	3.5	0.07	3.6	0.07	3.7	0.06	3.7	0.06
Surplus/deficit	6.85	0.14	3.06	0.06	3.09	0.05	8.41	0.15
Primary deficit	10.58	0.22	6.85	0.13	6.94	0.12	12.26	0.22
Repayment of debt	19.00	0.39	19.00	0.36	19.00	0.34	19.00	0.34
Repayment of principal to residents	14.0	0.29	14.0	0.26	14.0	0.25	14.0	0.25
Repayment of principal to nonresidents	5.0	0.10	5.0	0.09	5.0	0.09	5.0	0.09
Purchase of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing needs	-12.15	-0.25	-15.94	-0.30	-15.91	-0.28	-10.59	-0.19
Financing	12.15	0.25	15.94	0.30	15.91	0.28	10.59	0.19
Borrowings and credits	12.0	0.25	12.0	0.23	12.0	0.21	12.0	0.21
Borrowings and credits from domestic sources	8.0	0.16	8.0	0.15	8.0	0.14	8.0	0.14
Borrowings and credits from foreign sources	4.0	0.08	4.0	0.08	4.0	0.07	4.0	0.07
Privatisation revenues	7.00	0.14	7.00	0.13	7.00	0.12	7.00	0.12
Deposits of local government	-15.85	-0.32	-12.06	-0.23	-12.09	-0.21	-17.41	-0.31
Transfers from the Central Budget	9.0	0.18	9.0	0.17	9.0	0.16	9.0	0.16

Source: Ministry of Finance of Montenegro



GDP (mil. €)	4881.3		5306.4		5669.0		6008.5	
	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Public expenditure								
Current revenues	2149.57	44.04	2177.26	41.03	2317.65	40.88	2427.95	40.41
Taxes	1345.35	27.56	1437.03	27.08	1586.90	27.99	1667.37	27.75
Personal Income Tax	182.31	3.73	191.10	3.60	200.70	3.54	192.50	3.20
Tax on Profits of Legal Persons	74.71	1.53	84.28	1.59	118.76	2.09	126.84	2.11
Taxes on Property	18.87	0.39	19.10	0.36	19.13	0.34	18.69	0.31
Value Added Tax	691.95	14.18	733.84	13.83	797.67	14.07	856.76	14.26
Excises	248.72	5.10	271.00	5.11	309.04	5.45	327.19	5.45
Tax on International Trade and Transactions	28.30	0.58	29.67	0.56	31.68	0.56	33.59	0.56
Local taxes	89.25	1.83	91.45	1.72	92.76	1.64	94.15	1.57
Other State Taxes	11.26	0.23	16.59	0.31	17.15	0.30	17.66	0.29
Contributions	554.48	11.36	485.07	9.14	506.28	8.93	536.81	8.93
Contributions for Pension and Disability Insurance	343.74	7.04	428.82	8.08	461.86	8.15	489.99	8.15
Contributions for Health Insurance	180.57	3.70	19.48	0.37	5.00	0.09	5.00	0.08
Contributions for Insurance from Unemployment	16.36	0.34	20.65	0.39	22.07	0.39	23.42	0.39
Other contributions	13.81	0.28	16.11	0.30	17.35	0.31	18.41	0.31
Duties	16.87	0.35	17.77	0.33	18.44	0.33	19.03	0.32
Fees	105.24	2.16	121.70	2.29	106.33	1.88	103.27	1.72
Other revenues	70.74	1.45	54.08	1.02	45.19	0.80	45.97	0.77
Receipts from repayment of loans	8.94	0.18	9.75	0.18	9.75	0.17	9.75	0.16
Grants	47.96	0.98	51.87	0.98	44.75	0.79	45.75	0.76
Public expenditures	2236.24	45.81	2442.21	46.02	2422.50	42.73	2466.40	41.05
Current public expenditures	2025.42	41.49	2144.78	40.42	2147.17	37.88	2150.69	35.79
Current expenditures	996.21	20.41	1021.76	19.26	1028.45	18.14	1029.16	17.13
Gross salaries and contributions charged to employer	586.46	12.01	598.10	11.27	600.97	10.60	609.03	10.14
Other personal income	15.41	0.32	17.50	0.33	17.70	0.31	18.01	0.30
Expenditures for supplies and services	101.23	2.07	101.05	1.90	109.72	1.94	110.22	1.83
Current maintenance	25.94	0.53	32.41	0.61	31.93	0.56	32.14	0.53
Interests	117.79	2.41	96.34	1.82	90.08	1.59	86.41	1.44
Rent	12.04	0.25	12.00	0.23	11.95	0.21	12.01	0.20
Subsidies	49.84	1.02	64.61	1.22	63.66	1.12	58.19	0.97
Other expenditures	40.76	0.84	52.50	0.99	52.66	0.93	52.85	0.88
Capital expenditures of Current Budget and State Funds	46.72	0.96	47.26	0.89	49.79	0.88	50.29	0.84
Social security transfers	568.31	11.64	652.64	12.30	703.01	12.40	711.96	11.85
transfers to institutions, individuals, NGOs and public	307.91	6.31	318.45	6.00	315.34	5.56	309.15	5.15
Capital expenditures	210.83	4.32	297.43	5.61	275.33	4.86	315.71	5.25
Capital Budget of Montenegro	155.83	3.19	242.43	4.57	220.33	3.89	260.71	4.34
Capital Budget of Local Government	55.00	1.13	55.00	1.04	55.00	0.97	55.00	0.92
Loans and credits	4.32	0.09	4.56	0.09	4.66	0.08	4.66	0.08
Reserves	74.69	1.53	71.00	1.34	33.82	0.60	33.82	0.56
Repayment of guarantees	7.71	0.16	0.00	0.00	0.00	0.00	0.00	0.00
Net increase of liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayment of liabilities from previous years	66.27	1.36	76.35	1.44	61.89	1.09	61.94	1.03
Surplus/deficit	-86.68	-1.78	-264.95	-4.99	-104.85	-1.85	-38.45	-0.64
Primary deficit	31.12	0.64	-168.62	-3.18	-14.76	-0.26	47.96	0.80
Repayment of debt	456.60	9.35	311.12	5.86	273.09	4.82	372.86	6.21
Repayment of principal to residents	99.31	2.03	53.90	1.02	50.49	0.89	142.00	2.36
Repayment of principal to nonresidents	357.29	7.32	257.22	4.85	222.60	3.93	230.87	3.84
Repayment of Arrears	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase of securities	0.51	0.01	0.71	0.01	0.71	0.01	0.71	0.01
Financing needs	-543.78	-11.14	-576.79	-10.87	-378.65	-6.68	-412.02	-6.86
Financing	543.78	11.14	576.79	10.87	378.65	6.68	412.02	6.86
Borrowings and credits	117.75	2.41	182.00	3.43	368.74	6.50	407.43	6.78
Borrowings and credits from domestic sources	8.00	0.16	8.00	0.15	158.00	2.79	108.00	1.80
Borrowings and credits from foreign sources	109.75	2.25	174.00	3.28	210.74	3.72	299.43	4.98
Privatisation revenues or selling property	11.45	0.23	13.00	0.24	13.00	0.23	13.00	0.22
Transfers from the Central budget	9.00	0.18	9.00	0.17	9.00	0.16	9.00	0.15
Usage of Deposits	405.58	8.31	372.79	7.03	-12.09	-0.21	-17.41	-0.29

Source: Ministry of Finance of Montenegro



5. STRUCTURAL REFORMS IN 2022-2024

5.1. Key obstacles to competitiveness and inclusive growth and related Reform Measures

1) Analysis of main obstacles

Removing obstacles to competitiveness of the Montenegrin economy is an important prerequisite for sustainable and inclusive economic growth and is crucial for reaching the sustainable development goals (SDGs). According to the Sustainable Development Report 2021¹², the significant challenges remain for Montenegro and most of the Western Balkans countries in reaching almost all 17 Sustainable Development Goals by 2030. The corona virus-caused pandemic, which led to an unprecedented global crisis, has profoundly affected the Montenegrin economy, resulting in real GDP contraction by more than 15 percent in 2020. This has consequently exacerbated existing structural problems and caused new ones. According to the OECD, the pandemic has pointed to a need for reform priorities to be redirected and for them to “*focus on sustainability, inclusivity, and well-being of citizens*”. A stronger holistic approach in creating a structural reforms agenda containing substantial, realistically achievable measures has particular importance on the path to sustainable and inclusive growth, and increasing the standard of living of citizens.

Structural weaknesses of the Montenegrin economy and the pandemic have also affected the unemployment rate rise, which is currently around 23 percent. The pandemic has had a drastic impact on reducing the youth (between 15 and 24 years of age) employment rate, which has declined from 27.3 percent (2019) to 19.8 percent (2020). Furthermore, it showed that the labour market legislative framework is not sufficiently flexible and adaptable to new circumstances, thus further labour market enhancements are still needed. Negotiations with the social partners about entering into a new General Collective Bargaining Agreement are underway, while the further reforms in this field will take place through amendments to the Labour Law aimed at creating incentives for development of short-time work schemes or similar measures to be applied for preserving jobs. Furthermore, it will also include establishing a work-life balance for employed men and women. At the same time, the pandemic has highlighted the need to improve IT platform for registering unemployed persons, which is outdated and not supportive of interoperability with other databases in the system in Montenegro for an adequate data exchange aimed at improving quality of

¹²Sustainable Development Report 2021: The Decade of Action for the Sustainable Development Goals



monitoring unemployed persons. In addition to insufficiently flexible labour legislation, some of the reasons for increase in unemployment include education and skills mismatch with the labour market requirements, high labour force costs relative to labour productivity, high tax wedge on labour, presence of informal economy, social protection and healthcare systems, etc.

Numerous indicators point to the necessity to further enhance *the education system and to align it with the labour market needs*, such as PISA test results. These results for 2015 and 2018 show that a 15-year old student from Montenegro lags behind his peers from OECD countries in terms of general knowledge. The closure of schools during the pandemic and disruptions in the teaching cycle, represent a risk of the learning crisis deepening. According to UNICEF, *“the economic growth and human capital have an unbreakable bond, thus more efforts need to be invested in education”*. The World Bank’s analysis are similar and show that if measured by the Human Capital Index, children in Montenegro lag behind their peers in countries with the highest human capital. It further shows that *“the future labour productivity is at risk”* in Montenegro. Even though Montenegro has improved its ranking in the World Bank’s Human Capital Index (published in 2020), a child born in Montenegro today will be 63 percent as productive when he/she grows up, as she could be if he/she enjoyed complete education and full health. Therefore, the education system of Montenegro needs to ensure stronger skills for children and young people, which are relevant for current and future needs of the economy, precisely when they grow up for their employment in innovative and productive enterprises all across the World. More specifically, the obstacles for greater level of inclusivity of education and skills are: insufficient participation of children in pre-school education; insufficient quality of primary education to respond to the needs of international labour market; necessity to improve quality of vocational education and transitions from secondary to tertiary education, and other. Moreover, there is a necessity to align curricula, to strengthen the role of digital education as a feature of contemporary education, provide computer equipment to students, which all are the issues once resolved would contribute to eliminating obstacles to competitiveness of the economy over the long run.

The COVID-19 crisis showed weaknesses in the *healthcare system* as well, and the necessity to strengthen its resilience to future shocks. There are several obstacles on the path of reaching the above-stated objective, such as: insufficient investments in preparedness for health crisis response; unsustainability of the existing healthcare financing system; insufficient investments in the primary healthcare; large consumption of pharmaceuticals; outdated and inadequately connected information systems; and other.

Given that the Montenegrin economy is facing long-term vulnerabilities and necessity to strengthen resilience to shocks, there is need for further development of *social protection*



services which are socially and fiscally sustainable, in order for the citizens to be protected against consequences of shocks and against rise in poverty. Even though Montenegro has introduced in 2015 a comprehensive information system for social protection, so called Social Card, effectiveness of the social protection remains insufficient. In its analysis of structural challenges of the Montenegrin economy, the European Commission has recognised inadequate and insufficiently targeted social assistance, as well as unemployment benefit schemes. More equitable distribution of financial benefits, as well as fairer and easier exercising of disability-related rights, are some of the challenges. The above-mentioned must be accompanied with further development of this information system (e-social card) in order to implement new legislative arrangements in practice and timely calculate financial benefits and services, to monitor and analyse data and social indicators. In addition, overall efficiency and effectiveness of social protection schemes for poverty reduction need to be improved. Currently the system contributes to the poverty reduction by merely 7.4 percentage points (SILC 2018), while there is a large potential for further reduction of the poverty level by increasing the efficiency and improving currently allocated funds (close to 2 percent of GDP). Likewise, one of the obstacles in the social protection system is insufficient efficiency of appeal proceedings, which requires a reform.

Pursuant to the above stated, **the first out of three main structural challenges for improving competitiveness of the Montenegrin economy is increasing employment, particularly of women and young people, and tackling long-term unemployment.** This challenge was also recognised by the European Commission in its assessment of structural weaknesses of the Montenegrin economy.

The crisis has highlighted the need for accelerated diversification of the economy, in particular by strengthening the private sector productivity by reducing business barriers, large number of para-fiscal charges and tax wedge on labour, as well as relatively complicated tax administration. *The regulatory barriers* in Montenegro, as well as complex procedures, may create difficulties for entry of new companies into the market, as well as development of entrepreneurship and innovation. These further limit job creation in the private sector. According to the World Bank analysis¹³, the companies have stated that major difficulties are *“unpredictability of the business environment, complexity of the regulatory framework, inconsistencies in interpretation and implementation of legislation.”* In addition to the above stated, para-fiscal charges have an adverse effect on the business environment, in particular at the local level, as do different rates of surtax on the personal income tax on municipal level,

¹³Montenegro: Growth and Jobs Agenda



state aid, public procurements, limited access to financing, unfair competition, obtaining permits and licenses, corruption, and contract enforcement. Even though significant advancements were made in support to *Innovation* in previous years, certain challenges remain, such as: insufficient level of innovation in enterprises; insufficient cooperation of the private sector with the academia; limited access to financing and infrastructure for support to business (such as business incubators); advisory support matters; shortcomings of the legal framework governing intellectual property, and other. In its Report on Competitiveness in South East Europe 2021, OECD states “with increased funding for public sector research and by promoting scientific research as an attractive profession to develop human capital and counteract brain drain, innovation systems could be a key driver of economic growth in the region.” Data for Montenegro show an insufficient innovation capacity and percentage of investments in research and development in Montenegro (0.36 percent of GDP in 2019).

In addition to the above stated, since the beginning of negotiations for the European Union membership in 2021, Montenegro has harmonised large portion of the legislation with the European Union *Acquis*, but a limited progress is made in its implementation. Critical reforms aimed at strengthening of the institutional framework and rule of law, as well as the public administration reform, such as development of new platform for e-governance and electronic public procurements, were delayed. One of the obstacles in the public administration is that there is no full electronic exchange of data at the moment, since there is no full integration of the existing e-government portal, of the document management system, the electronic payment system, and system for electronic identification and authentication. The result of that is that the electronic services of high sophistication level do not exist. Delays in the public administration reform lead to delays of large projects and delivery of public services (in healthcare, road safety, environmental protection etc.). Delays in the public administration optimisation and in establishment of central registry of civil servants and employees, inefficiency in management of business undertakings with majority State ownership are also obstacles to improving in competitiveness of the State administration and of the economy as a whole. To that end, further advancement of the institutional framework and administrative capacities of the public administration are necessary, and digital transformation is one of the steps.

Bearing in mind the above listed obstacles, ***Strengthening the regulatory environment represents the second key challenge for further implementation of reforms aimed at competitiveness of Montenegro.***

The third key challenge for improving the competitiveness is *Formalising the informal economy*, which is one of the biggest barriers for consistent economic growth coupled with employment. The most frequent manifestations of the informal economy in Montenegro are



informal employment both with business undertakings and entrepreneurs, and with unregistered businesses. The sizeable informal sector is spurred by shortcomings of the institutional and regulatory environment, weaknesses at the labour market, as well as by relatively high costs of doing business. Implementation of measures so far to convert informal sector into formal flows, as well as additional challenges caused by the COVID-19 pandemic, have shown that a multi-sector approach is needed for the policy on suppressing the informal economy, with a focus on conditions for creating formal jobs while ensuring business environment prone to development of sustainable enterprises. The informal economy is present in almost all segments of doing business, primarily in form of not recording transactions in goods and services, sale of excisable goods in public space, by avoiding entering into employment contracts, and paying wages in the labour market without paying taxes and social contributions, irregularities when hiring seasonal workers whether those are residents or non-residents, by pursuing an economic activity without a license and without prior tax registration; and other. According to the World Bank data, only 20 percent of the working age population in Montenegro is employed formally in the private sector. Out of the remaining working age population 45 percent is inactive, 10 percent works in the informal sector, “while around 9 percent¹⁴ is unemployed.” Therefore, the informal economy represents a major challenge to increasing the competitiveness, which requires a response in form of targeted reform measures with strong outcome both over the medium and long term. Given that the European Commission has identified in its 2020 analysis these *three key challenges of the Montenegrin economy*, based on them it has also provided six policy guidance to Montenegro during the 2021 Ministerial Dialogue, which are important for preparation of the 2022 Economic Reform Programme. Out of the six policy guidance, the last three refer to the need to carry out effective and well-coordinated structural reforms, as a response to the above mentioned three key challenges, in order to contribute to mitigation of the pandemic impact, improved competitiveness, and resilient recovery.

2) Reform measures as response to three key challenges

Starting from the three key structural challenges of the Montenegrin economy: (i) increasing employment, particularly of women and young people, and tackling long-term unemployment; (ii) Strengthening the regulatory environment; and (iii) Formalising the informal economy, the following text presents the reform measures covering several reform

¹⁴ This data does not represent the unemployment rate, but the rate of unemployed population in total work age population.



areas: (i) *Business environment and reduction of the informal economy*; (ii) *Research and innovation*; (iii) *Employment and labour markets*; (iv) *Education and skills*; *Social protection and inclusion*; (v) *Healthcare*; (vi) *Digital transformation*; and (vii) *Public finances reform*; as a response to these challenges.

Challenge 1: Increasing employment, particularly of women and young people, and tackling long-term unemployment

Diagnosis of the state of affairs in the employment and labour markets, education, healthcare and social protection areas

In response to the challenge of *Increasing employment, especially of women and youth, and the long-term unemployment*, the ERP 2022-2024 proposes four reform measures are proposed in the area of *Employment and labour markets*, one reform measure in the area of *Education and skills*, two reform measures in the area of *Social protection and inclusion*, and one reform measure in the area of *Healthcare system*.

Measures in the area of *Employment and labour markets* are presented in the text to follow.

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

1. Description of measure. Impact of the pandemic caused by COVID-19 and its trajectory which is till unpredictable, continues to leave negative consequences on the real sector and the labour market, featured by a high unemployment, especially of women and youth. In response to this challenge, the measure is aimed at reform of the Montenegro Employment Office to achieve an efficient public employment service, and represents a continuation of the measure and activities from the previous year, where the outcome would be improved efficiency in delivery of inclusive services to all beneficiaries. Services and measures being provided are not sufficiently supported through the existing IT platform of the Employment Office, which is outdated and does not support interoperability with other databases in the system of Montenegro and an adequate data exchange for improved quality in monitoring the unemployed persons. The measure is part of comprehensive efforts of the Government to create an efficient and service-oriented public administration with its main feature being an increased confidence of citizens in its work.

During 2021, processes were identified and internal and external procedures of the Employment Office were reviewed. Three new online modules were prepared: for registering



unemployed persons; for reporting open jobs; and for submitting request for persons with disabilities. Trainings were organised for designing measures, as well as for their monitoring and evaluation and two new measures for activation of women are designed. Activities for drafting a technical report with the Action plan for introducing an IT database were delayed because of delays in approval of funds. The Action Plan for interoperability of databases was prepared to reduce administrative burden of counsellors, but also to reduce volume of undeclared labour through more efficient monitoring of unemployed persons using data of the Labour Inspectorate and the Revenue and Customs Administration.

Activities to implement this measure follow the planned schedule for strengthening capacities aimed at fulfilling the closing benchmarks for Negotiation Chapter 2 and Negotiation Chapter 19. This Measure also represents a part of the response to the policy guidance No 5 of the Ministerial Dialogue, and contributes to reaching the objectives of the Green Agenda and Digital Agenda for the Western Balkans, which is a sustainable, climate-neutral and resource-efficient economy, as well as better management of public services intended for citizens. At the same time, this is also a strategic direction of the Government of Montenegro for digitalisation of public administration, whereby improvement in the functioning of the Employment Office was also identified in the National Employment Strategy 2021-2025. Implementation of the measure will contribute to achieving the Sustainable Development Goals: SDG 1 – No poverty, and SDG 8 – Decent work and economic growth. Furthermore, it is linked with the financial support from IPA funds, specifically the Annual Action Plan for the 2020 Programme for Employment and Social Policies sector.

- a) **Activities planned in 2022:** Drafting the Action Plan for establishing an IT database of the Employment Office; Implementation of the Action Plan for interoperability of databases; Improving capacities of the Montenegro Employment Office for use of online tools through pre-accession assistance and support of the International Labour Organisation; Responsible: Montenegro Employment Office;
- b) **Activities planned in 2023:** Establishing the IT platform of the Employment Office; Responsible: Montenegro Employment Office;
- c) **Activities planned in 2024:** Monitoring efficiency of the IT platform of the Employment Office; Responsible: Montenegro Employment Office.

Institution responsible to implement the measure: Ministry of Economic Development

**2. Results indicators.**

Indicator	Baseline (2021)	Intermediate target (2022)	Target (year)
Action Plan for establishing the IT database of the Employment Office prepared	There is no Action Plan	2022 – Draft Action Plan prepared	2022 – Action Plan finalised that will contribute to an improved IT database of the Employment Office and yield benefits for users.
New IT platform of the Employment Office established, which enables more efficient work to counsellors with users.	The existing IT platform of the Employment Office is outdated	2022 – Report on the requirements and directions for improvement of the IT platform of the Montenegro Employment Office is prepared.	2023 – new IT platform of the Montenegro Employment Office is established and efficiency of work and quality of service of counsellors to users improved.

3. Expected impact on competitiveness. Improving the efficiency in delivery of services to unemployed persons should enable enhanced inclusion and employability of unemployed persons and their faster transition into the labour market. At the same time, further dynamics and labour market fluctuations should enable for a faster and more efficient cooperation with employers aimed at meeting the workforce needs and improved competitiveness.

4. Estimated cost of the activities and the source of financing. Total costs for implementation of this measure for the period 2021-2023 amount 3,025,570 euro. Funds for this measure are provided through direct grant funds option, whereby the part of the funds is received from the European Integration Facility Instrument (EIF), and part from the budget of the International Labour Organisation (ILO). Likewise, this measure also includes activities from the project *World of Work in Montenegro: Paving the Road to Recovery* implemented by ILO, with total financial support from the Good Governance Fund of the United Kingdom Government. In addition to the above stated, the funds were provided from IPA funds, with 15 percent co-financing from the Budget of Montenegro. Total planned funds for this measure will be used for procurement of new software for the Employment Office, consulting services, as well as training for the Employment Office employees.

- 2022 – funds in the amount of 719,999 euro will be provided from IPA funds and additional amount 127,059.00 euro as co-financing from the Budget of Montenegro. Additionally,



the funds in the amount of 80,533 euro¹⁵ will be provided from the Good Governance Fund, while 125,356 euro is provided from the European Integration Facility (EIF);

- 2023 - funds in the amount of 1,080,000 euro will be provided from IPA funds, while the amount of 190,589 euro will be provided from the Budget of Montenegro. Therefore, a total of 1,270,589 euro during 2023;
- 2024 - there are no additional costs.

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

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

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Limited capacities of institutions for implementation of the new work approach.	Medium	Timely planning of activities and training of staff.
Possible limitations of the data exchange in accordance with the Law on Personal Data Protection (Official Gazette of Montenegro, No 79/08, 70/09, 44/12, and 22/17)	High	Timely consultations with the Agency for Personal Data Protection in order to remove any possible obstacles for implementation of the measure in accordance with the Law,
Connecting databases with other institutions is made difficult due to IT incompatibility of systems.	High	IT alignment of different databases.
Measures are not implemented in accordance with the Plan.	Medium	Extending deadline for implementing the measure.

¹⁵Amount provided from GGF is 94,363.00 USD, which according to the exchange rate as of 23-Sep-2021 amounts 80,533.00 euro



Reform Measure 2: Introducing new work schemes and work-life balance

1. Description of measure. Coronavirus-caused pandemic has pointed to the fact that the legislative framework of the labour market is not sufficiently flexible and adjustable to the new circumstances, as well as that there is still a need to regulate labour market relations aimed at increasing employment, especially of women and youth. Therefore, implementation of the measure *Introducing new work schemes and work-life balance* is a result of the need for further labour market regulation, due to insufficiently developed legal framework, given that the existing legislation cannot provide a full response to the new developments and extraordinary circumstances. Therefore, the future reforms for introducing new work schemes will be implemented in this segment through amendments to the Labour Law. Further enhancements of the labour market will be regulated by establishing a work-life balance of employed men and women, as well as workplace reintegration after maternity or parental leave, and enable equitable position of men and women in caring for dependent family members. These measures are at the same time alignment with the European Union Directive on work-life balance for parents and carers, as well as with the Framework Agreement on telework from 2002, all aimed at ensuring dignified jobs, as well as at enhancing the social dialogue. Withal, the measure represents a part of the response to the policy guidance No 5 of the Ministerial Dialogue. Through the process of entering into the new General Collective Bargaining Agreement, in accordance with the Labour Law, we will try to improve provisions concerning teleworking and homeworking. The more precise definition of the teleworking and homeworking via use of information technologies in work, will also further govern obligations of employers to provide for the employee procurement, maintenance and servicing of the equipment in a form of operating assets. The Law will stipulated working hours of the employees engaged in these types of jobs, in such manner as to provided for the right to be disconnected, precisely the respect of the working hours schedule. The measure will have further reflection on the occupational safety and health, under which the employee will be entitled to the inspection oversight.

- a) Activities planned in 2022:** Activities concerning amendments and supplements to the Labour Law; the Government of Montenegro, Union of Employers of Montenegro, Union of Free Trade Associations of Montenegro, and Federation of Trade Unions of Montenegro;
- b) Activities planned in 2023:** Adoption of the Labour Law; Government of Montenegro;



c) Activities planned in 2024: Monitoring implementation of regulations in the area of labour legislation; Ministry of Economic Development, Administration for Inspection Affairs through the Labour Inspection.

Institution responsible to implement the measure: Ministry of Economic Development.

2. Results indicators.

Indicator	Baseline (2020)	Intermediate target (2023)	Target (2024)
Number of fathers using the right to parental leave	445	500	550
Number of persons that entered into an employment contract for work performed outside the employer’s premises	13	20	40
Number of performed inspection oversights by the Administration for Inspection Affairs relative to the employment contract for teleworking and homeworking.	0	10	20

3. Expected impact on competitiveness. Introduction of short-term work schemes will enable more flexibility in the labour market functioning, by performing various types of remote work and working from home, and consequently contributing to preserving jobs as well as to survival of business entities in the labour market due to extraordinary circumstance and unforeseen events. Establishing a work-life balance of employees will enable easier entry into the labour market after absence/leave from work, which in turn will create a more favourable environment both for employers and employees.

4. Estimated cost of the activities and the source of financing. Implementation of this measure in the next three years will not require additional costs that would be financed from the Budget of Montenegro. Implementation of the measure will take place solely with existing human and other resources.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. Creating a more favourable conditions for employers and employees, all with the objective of suppressing problems caused by extraordinary circumstances with special focus on the pandemic, will create prerequisites for preserving existing and opening new jobs, as well as for continuation of operations of business entities in the labour market. The objective of all this is to create more flexible working conditions which will in turn enable that regular work-related activities can be performed outside of the employer’s premises. Establishing equality of men and women in terms of their



possibilities in the labour market and how they are treated at the workplace, establishing a work-life balance for employees.

6. Expected impact on the environment and climate change. It is not possible to assess impact of this measure on the environment.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigation action
<p>Lack of consensus among social partners and not adopting amendments and supplements to the Labour Law.</p> <p>Planned amendments and supplements to the Labour Law will have impact on increased costs of employers, because they will have to provide equipment for performing teleworking and homeworking jobs, which potentially represents a risk for these provisions not being accepted by employers. On the other hand, taking into account requests from the trade union associations in terms compliance with the working hours schedule, there is potential risks that these provisions will not be accepted by the employers.</p>	Medium	Continuation of activities on drafting the Law

Reform Measure 3: Introducing the Youth Guarantee Programme in Montenegro

1. Description of measure. The young people, being a particularly sensitive group of unemployed persons, are especially exposed to negative consequences of the COVID-19 pandemic on the labour market. The youth employment rate for age 15 to 24 went down from 27.3 percent (2019) to 19.8 percent (2020). The rate of youth not in employment, education or training (NEET) in the age group 15-24 was 21.1 percent, while in the age group 15-29 it was 26.6 percent in 2020, which is almost double the European Union average (13.7 percent). Sizeable share of young people also works in the informal economy or is engaged in non-standard forms of employment without access to social protection. Considering that the pandemic is not yet officially under control, and that the opening of new jobs is still at a small scale, the young people that need to find first employment are under further threat. Therefore, the systemic support to young people is needed in order to ensure their further education or professional development, provide for possibilities to engage in internship or appropriate employment, which should by itself contribute to achieving SDGs 1, 4, and 8. In order to prevent a loss of (generation of) human resources on one hand and social exclusion on the other hand, the Government has decided to introduce a Youth Guarantee Programme based on the principles of the European Union Council Recommendation (2020/C 372/01). To contribute to commencement of these activities, the Ministry of Economic Development has prepared a set of support measures under the Youth Employment Programme.



At the same time, a Working team was established to introduce the Youth Guarantee Programme in Montenegro, constituted by representatives of relevant institutions, business community, and NGO sector. In addition, creation of a high level inter-sectoral working group is underway. This measure is also in line with the policy guidance No 6 of the Ministerial Dialogue, wherein Montenegro is invited to *Establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan*. Introduction of the Youth Guarantee Programme is also identified in the National Employment Strategy 2021-2025, as one of the instruments to reduce high youth unemployment and the objective of the measures is to provide support to further education or professional development, provide for possibilities for internship or appropriate employment.

- a) Activities planned in 2022:** Drafting and adoption of the Plan for implementation of the Youth Guarantee; Implementation of the Youth Employment Plan; Responsible: Ministry of Economic Development;
- b) Activities planned in 2023:** Continued capacity building activities of public institutions and stakeholders, including monitoring and evaluation; Start of the pilot phase for the Programme implementation; Responsible: Ministry of Economic Development;
- c) Activities planned in 2024:** Finalising the pilot phase; Beginning of Programme implementation on the territory of Montenegro; Responsible: Ministry of Economic Development.

Institution responsible to implement the measure: Ministry of Economic Development

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2024)
Plan for implementation of the Youth Guarantee Programme adopted	/	Plan prepared and adopted.	/
Implementation of the Youth Guarantee Programme.	/	Start of the pilot phase of the Programme in selected municipalities.	Contribution of the Programme to increase in youth employment as a result of its implementation on the entire territory of Montenegro.



Increase of the employment rate of youth age 15 to 29	30.7% ¹⁶	27.2%	33.0%
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3. Expected impact on competitiveness. Participation of young people in the Youth Guarantee Programme will have positive effect on increasing the workforce activity, but also the labour force competitiveness which will acquire knowledge and skills required and demanded at the labour market through education, professional development, internship or through work, which will ultimately lead to narrowing structural disbalances on the labour market. At the same time, once implemented the Programme will enable opening of new jobs, which is particularly important for the recovery from economic consequences of the COVID-19 pandemic.

4. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. The measure will have direct impact on increase in employment, through employment of young persons on the open labour market with financial support to be provided from the Programme. At the same time, the employment will have a tangent effect on the social inclusion and poverty reduction as well. The Implementation Plan will define number of young people that will be covered by the employment component. All activities under this measure will support the gender equality dimension.

5. Estimated cost of the activities and the source of financing. The Ministry of Economic Development has planned financing of the Youth Guarantee Programme under the IPA III for the period 2023-2024, as one of the possibilities from the Economic and Investment Plan for the Western Balkans from October 2020. The draft document for the IPA III Strategic Response has planned the funds for this programme in the total amount of 15 million euro for the forthcoming period. During 2022, the International Labour Organisation will provide consulting services along with the technical assistance for drafting of the Plan for implementation of the Youth Guarantee Programme in the amount of 145,000.00 euro. During 2022, the Youth Employment Programme will be implemented, which will be financed from the Budget of Montenegro, whereby the planned amount for this use is 1.8 million euro.

¹⁶ This is the last available data on annual level from the Labour Force Survey for 2020. However, as for the target values one needs to take into account that there was additional worsening of labour market indicators during the COVID-19 pandemic, including those for this target group, which is shown in the available data for 2021 from the Labour Force Survey for first two quarters when the recorded youth employment rate was 25 percent.



Furthermore, the Programme of professional upskilling of persons with completed tertiary education will be implemented for which the planned amount is 7.5 million euro.

In line with the activities, in the course of implementation of the Youth Employment Programme during 2022 activities will be defined for young people, which will be financed from the Budget of Montenegro in the period upon completion of the Programme.

- 2022 – funds in the amount of 9,300,000.00 euro will be provided from the Budget of Montenegro and 145,000.00 euro from the budget of the International Labour Organisation;
- 2023 - funds in the amount of 5,000,000.00 euro are planned from IPA funds;
- 2024 - funds in the amount of 10,000,000.00 euro are planned from IPA funds.

6. Expected impact on the environment and climate change. The measure will have an indirect impact through education, professional development, internship, or through work, since one of the four directions of actions to be used will provide opportunities to young people to acquire knowledge about the meaning and importance of the green transition, or to have the possibility to be employed in one of the green economy jobs (sectors of energy, sustainable manufacturing, recycling, and similar).

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Delays in approving funding from pre-accession funds – IPA	High	Intensive negotiations with the European Commission
Lack of capacities to implement the Programme	Medium	Training of human resources and intensifying inter-institutional cooperation aimed at IT connectivity

Reform Measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market

1. Description of measure. Given that unemployment of the adult population (active population age group 15-74)¹⁷ in Montenegro is 17.9 percent and that the country is facing challenged of long-term unemployment, there is a need to improve knowledge and competences of unemployed adults which are needed at the labour market. That will have

¹⁷Labour Force Survey, Montenegro Statistics Administration - MONSTAT, 2020 data



impact on the narrowing of structural unemployment, or increasing employment, which were recognised by the European Commission as key challenges of the Montenegrin economy.

An analysis of the labour market needs will be implemented under this measure, which should point to shortcomings of regional distribution of the education offer, as well as of the knowledge and skills needed for the labour market. Thus will finance the process of issuing supplements to licenses or new licenses for lacking programmes, with a special emphasis on the ICT-related programmes (acquiring key digital competences) and foreign language education, as well as on implementation of certain training programmes for education of adults. The Employment Office resources dealing with upskilling and training of unemployed will be targeted on them in a form of programmes for adults implemented with the licensed organisers of adult education.

Likewise, the Employment Office and the Ministry of Education, Science, Culture and Sports will sign separate memoranda on cooperation with employers (which are recognised in the prepared analysis) requiring specific labour force that will be created after completion of the training. The analysis should cover both present and future needs for vocations in the labour market within the context of digital and green transition.

This measure is aligned with the Adult Education Strategy 2015-2025, the Action Plan for Adult Education 2019-2022, and other strategic documents of the Government of Montenegro. It is also aligned with the sustainable development goals by 2030. The Measure is a partial response to the policy guidance No 6 of the Ministerial Dialogue from June 2021.

- a) Activities planned in 2022:** During 2022, the labour market needs analysis will be carried out in order to designate which adult education programme will be financed and for how many unemployed adults. The analysis will also point to certain programmes lacking in terms of regional representation in the offer of adult education organisers. After the analysis is prepared, the Ministry of Education, Science, Culture and Sports will propose and issue new licenses to existing or new adult education organisers, the objective being to issue supplements to or new licenses for lacking programmes, in particular for ICT programmes and foreign language training. After the analysis is completed and procedure for licensing organisers for lacking programmes finalised, a training plan for unemployed persons will be prepared for 2023 and 2024.
- b) Activities planned in 2023:** During 2023, trainings for unemployed adults will be organised in line with the prepared training plan, who will attend programmes that will lead to vocations, skills, and competences needed at the labour market. The Employment Office and the Ministry of Education, Science, Culture and Sports will sign memoranda on cooperation with selected employers which are lacking specific workforce. During this



year at least 500 unemployed adults will attend trainings with adult education organisers, in accordance with the prepared plan;

- c) **Activities planned in 2024:** During 2024, trainings for unemployed adults will be organised in line with the prepared training plan, who will attend programmes that will lead to vocations, skills, and competences needed at the labour market. The Employment Office and the Ministry of Education, Science, Culture and Sports will sign memoranda on cooperation with selected employers which are lacking specific workforce. During this year at least 1,500 unemployed adults will attend trainings with adult education organisers, in accordance with the prepared plan.

Institution responsible to implement the measure: Ministry of Education, Science, Culture and Sports

2. Results indicators.

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024 target)
Number of new education programmes available for adults	15	15	15
Number of adults attending trainings	0	500	1,500
Number of employers with signed memoranda on cooperation	0	25	50

3. Expected impact on competitiveness. Given that this measure is in the area of Employment and labour market, these training processes will increase competitiveness of those who are attending them, which will consequently increase their labour productivity and employability.

4. Estimated cost of the activities and the source of financing: Additional funds refer to covering consulting services for preparation of the labour market needs analysis and organising trainings for unemployed persons.

- 2022 – Ministry of Education, Science, Culture and Sports 25,000.00 euro for consulting services for preparation of the labour market needs analysis and new licensing processes for lacking education programmes, as well as for wages of the working group for managing this measure;
- 2023 – Montenegro Employment Office - 250,000.00 euro; Ministry of Education, Science, Culture and Sports - 5,000 euro. This budget refers to consulting services for preparation of the labour market needs analysis and organising trainings for unemployed persons, as well as for wages of the working group for managing this measure;
- 2024 - Montenegro Employment Office - 750,000.00 euro and Ministry of Education, Science, Culture and Sports - 5,000.00 euro. This budget refers to consulting services for



preparation of the labour market needs analysis and organising trainings for unemployed persons, as well as for wages of the working group for managing this measure.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care: Realisation of this measure will reduce poverty in Montenegro, precisely the number of unemployed adults will be reduced by at least 4 percent. Aside from poverty reduction and increase in employment of adults, social and personal satisfaction of both attendees and the involved employers and education institutions will be achieved, and the system of equitable distribution of budgetary funds to those in need will be established. Trainings will be attended by long-term unemployed persons registered with the Employment Office; employers which need the acquired skills in order to improve their operation will be included. Moreover, the Employment Office, in cooperation with the Ministry of Education, Science, Culture and Sports, in the process of selection of education institutions for implementation of trainings, will select the best education institutions licensed for programmes listed in the prepared analysis. It should be noted that equality of gender representation in training will be taken into account. The measure will contribute to achievement of SDG-1 – World without poverty; SDG 4 – Quality education; and SDG 8 – Decent work and economic growth; SDG 5 – Gender equality; and SDG 17 – Partnership for the goals.

6. Expected impact on the environment and climate change: Poverty reduction in the country is indirectly supported through culture of living in the segment of environment protection and preserving the health of citizens. There is a possibility that there will be a demand for skills and knowledge in this area at the labour market, thus this measure will provide training of adults and acquiring of knowledge needed by employers working the area of environment protection. This could also lead to improvement of the business environment in the segment of work of organisations engaged in the environment protection.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Including at least 75 employers.	50 percent	Promotion of the measure to employers, including associations of employers, signed Memoranda on cooperation.

The measure in the area **Education and skills** is provided in the text to follow.

Reform Measure 5: Digitalisation of the education and development of digital skills

1. Description of measure. A feature of the Montenegrin economy for number of years is mismatch of skills and knowledge the students are getting in the education system against



those demanded by the labour market; facing this, as well as with the challenge of needed advancement of the workforce skills, due to the changes in the labour market demand, including an increased use of new technologies. The pandemic has emphasised the need to further strength digital skills of pupils and students, as well as to a necessity of procurement of required IT equipment for education institutions in Montenegro. Therefore, the series of reform measures in the education system needs to reduce and/or eliminate barriers to improved competitiveness of pupils and students in the future labour market. The education system in Montenegro shows important shortcomings in terms of the digitalisation level of the regular teaching process and its content, use of IT equipment, development of key digital competences both with students and teaching staff, use of communication platforms, and creating and updating needed databases, as well as good coverage with fast internet network of all schools. One of the flows that surfaced in the period of extraordinary circumstances, such as the pandemic, is the inability of all students to afford IT equipment and internet, and this measure will attempt to address this by equipping all school libraries with needed laptop computers and internet, and developing contracts on lease of equipment.

Majority of the funds are provided from an EIB loan, with intention to apply for grant funds from numerous European Union funds and grant schemes, in addition to the funds from the central government budget. We are also going to programme funds under the IPA III programme for the part of costs for the further digitalisation process.

Policy makers in the high education and managements of universities are adopting education policies in accordance with the global changes, such as: accelerated development of digital teaching, learning and grading; unstoppable development of new technology; pandemic; mass migrations; and global changes on the labour market. To that end, the development of digital education and improvement of digital skills are the measures of key importance to respond to global changes and challenges. There was no survey in Montenegro on the level of digital skills for the entire population.

The Recommendation of the European Parliament and of the Council (2006/962/EC) recognises the digital competence as one of eight key competences for lifelong learning. The European Union Digital Education Action Plan 2021-2027 offers a long-term strategic vision for high-quality inclusive and accessible digital education. The Action Plan has two priority areas: Fostering the development of a high-performing digital education ecosystem and Enhancing digital skills and competences for the digital transformation. The European Union Digital Education Action Plan is aligned with the European Skills Agenda and Action Plan for European Social Policy.

In light of the above stated, the measure *Digitalisation of the education and development of digital skills* is aligned with the strategic national goals set in the following documents: Cyber



Security Strategy; Information Society Development Strategy 2020; Montenegro Development Directions 2018-2021; Smart Specialisation Strategy 2019-2024. All activities envisaged under this measure are fully aligned with activities envisaged under the Digitalisation Strategy of the Education System 2022-2027, which is in the process of being adopted. Implementation of this measure should contribute to increased knowledge and skills of pupils and students and their improved employability.

a) Activities planned in 2022: Preparation and adoption of the Rulebook on the Manner of Keeping Data in the Education Information System, Ministry of Education, Science, Culture and Sports; Adoption of the Procedure for Creating and Safekeeping Backup Copies, Ministry of Education, Science, Culture and Sports; Adoption of the Rulebook on the Manner of Appointing School and Regional ICT Coordinators; Improving the state of the Data Centre building; Creating a training programme for ICT coordinators and carry out training, Ministry of Education, Science, Culture and Sports; Analyse curricula in the area of digital skills with recommendations for improvement, Ministry of Education, Science, Culture and Sports; Amend the General Education Law in the segment of organisation of educational and upbringing process (digital teaching, digital textbooks); Preparation of procedures for development of digital education content, their installation and management of platforms for self-learning (autodidacticism), Ministry of Education, Science, Culture and Sports; Development of quality standards for digital editions of textbooks and instruction materials, Institute for Textbooks and Teaching Material; Establish a digital system/platform for self-learning, Ministry of Education, Science, Culture and Sports; Drafting of the Rulebook on governing copyrights for digital education content, Ministry of Education, Science, Culture and Sports, Institute for Textbooks and Teaching Material; Establish a model for online collaboration for the Ministry of Education, Science, Culture and Sports, Institute for Teaching, Centre for Vocational Education, Montenegro Examination Centre, and Institute for Textbooks and Teaching Material;

b) Activities planned in 2023: Procurement and installation of new equipment in the Data Centre, Ministry of Education, Science, Culture and Sports; Procurement of equipment and establishment of the Data Recovery Site, Ministry of Education, Science, Culture and Sports; Establish a remote backup, Ministry of Education, Science, Culture and Sports; Improving modules *School, Reports, IT System Administration*, Ministry of Education, Science, Culture and Sports; Implementation of the module for record-keeping on maintenance of buildings of educational and upbringing institutions, Ministry of Education, Science, Culture and Sports;



Advising directors, deputy directors, form teachers, teachers and associates on record-keeping and using modules in the Education information system, Ministry of Education, Science, Culture and Sports; Identification of children not in schooling in Montenegro and identification of children with illegal stay in Montenegro, Ministry of Education, Science, Culture and Sports; Carry out trainings for ICT coordinators, Ministry of Education, Science, Culture and Sports; Establish the Council for Education System Digitalisation, Ministry of Education, Science, Culture and Sports; Develop a Framework for development of digital competences of teachers; Develop a curriculum for ICT course for primary schools, Institute for Teaching, National Education Council; Improve existing curricula for ICT courses for secondary schools, Institute for Teaching, Centre for Vocational Education, National Education Council; Develop procedures for renting computer equipment to students, Ministry of Education, Science, Culture and Sports; Equipping education and upbringing institutions with computer equipment, Ministry of Education, Science, Culture and Sports; Installing local computer networks in education and upbringing institutions, Ministry of Education, Science, Culture and Sports; Procurement of the license operating system and application software, Ministry of Education, Science, Culture and Sports; Develop digital education content as supplement to the printed textbooks and develop digital education content independent of printed textbooks, and develop digital education content for children with special educational needs, Institute for Textbooks and Teaching Material; Create material for self-learning on the digital platform for children, parents, and educational and teaching staff, Ministry of Education, Science, Culture and Sports; Training of employees in education and upbringing institutions in line with the ECDL start model and for application of the Digital School concept, Ministry of Education, Science, Culture and Sports, Education Service Institute, Centre for Vocational Education; Training of teachers for use of key digital competences, for acquiring digital professional competences, for work with talented students in the ICT field, and use of ICT in work with children with special educational needs, Ministry of Education, Science, Culture and Sports, Institute for Teaching, Centre for Vocational Education; Cyber security training of employees in upbringing and educational institutions, Ministry of Education, Science, Culture and Sports, Institute for Teaching, Centre for Vocational Education, Ministry of Public Administration, Digital Society and Media, National Computer Incident Response Team (CIRT).



c)Activities planned in 2024:Carry out training for digital skills and cyber security training, Ministry of Education, Science, Culture and Sports; Test knowledge in line with the European Digital Skills Certificate (EDSC), Ministry of Education, Science, Culture and Sports.

Institution responsible to implement the measure: Ministry of Education, Science, Culture and Sports.

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Improved legislation	0	5	10
Improved hardware infrastructure	Data Centre equipment is 11 years old; Disaster Recovery Site is not established; Remote backup not established.	Replacement of equipment; Establish the Disaster Recovery Site for the Data Centre; Activities to establish a remote backup.	Stable Data Centre established; Stable Disaster Recovery Site established; Remote backup established .
Improved software components	Number of new and implemented modules in the application – 0 (zero) Number of improved and implemented modules in the application – 6	Number of new and implemented modules in the application – 2 Number of improved and implemented modules in the application - 8	Number of new and implemented modules in the application – 3 Number of improved and implemented modules in the application - 10
Establish interoperability and development of electronic services	Create new and improve existing electronic services – 13 electronic services Processes digitalisation – 6 digitalised processes	Create new and improve existing electronic services – 14 electronic services Processes digitalisation – 7 digitalised processes	Create new and improve existing electronic services – 15 electronic services Processes digitalisation – 8 digitalised processes



	Number of endpoints 13	Number of endpoints 14	Number of endpoints 15
Improved ICT staff structure	30 trainings	35 trainings	40 trainings
Improved computer infrastructure	Computer to student ratio 1:15 Percentage of buildings with local computer network 65%	Computer to student ratio 1:14 Percentage of buildings with local computer network 70%	Computer to student ratio 1:13 Percentage of buildings with local computer network 75%
Development of the digital educational content	Number of textbooks supplemented with digital contents: 0 (zero); Number of digital contents for gifted children and children with special educational needs: 1; Number of digital contents covering special topics: 0	Number of textbooks supplemented with digital contents: 3; Number of digital contents for gifted children and children with special educational needs: 3; Number of digital contents covering special topics: 2.	Number of textbooks supplemented with digital contents: 5; Number of digital contents for gifted children and children with special educational needs: 5; Number of digital contents covering special topics: 4.
Established platform for self-learning	Platform not established; Number of created materials for children, parents, and employees: 0 (zero) Number of platform users: 0 (zero)	Platform established; Number of created materials for children, parents and employees: 25; Number of platform users: 10,000.	Platform established; Number of created materials for children, parents and employees: 50; Number of platform users: 20,000.
Improved online collaboration in all	Percent of employees in educational and upbringing	Percent of employees in educational and upbringing	Percent of employees in educational and upbringing



<p>institutions engaged in education</p>	<p>institutions using online collaboration tools: 55%;</p> <p>Percent of students using online collaboration tools: 60%;</p> <p>Percent of employees in institutions engaged in education using online collaboration tools: 5%.</p>	<p>institutions using online collaboration tools: 65%;</p> <p>Percent of students using online collaboration tools: 70%;</p> <p>Percent of employees in institutions engaged in education using online collaboration tools: 10%.</p>	<p>institutions using online collaboration tools: 75%;</p> <p>Percent of students using online collaboration tools: 80%;</p> <p>Percent of employees in institutions engaged in education using online collaboration tools: 20%.</p>
<p>Improved level of digital skills of employee in educational and upbringing institutions</p>	<p>Percent of employees of educational and upbringing institutions trained in line with the ECDL Start Programme – 20%</p> <p>Percent of trained employees of educational and upbringing institutions for applying the Digital School concept 40%</p> <p>Percent of teachers trained to apply key digital competences in teaching process 0%</p>	<p>Percent of employees of educational and upbringing institutions trained in line with the ECDL Start Programme 25%</p> <p>Percent of trained employees of educational and upbringing institutions for applying the Digital School concept 50%</p> <p>Percent of teachers trained to apply key digital competences in teaching process 10%</p>	<p>Percent of employees of educational and upbringing institutions trained in line with the ECDL Start Programme 30%</p> <p>Percent of trained employees of educational and upbringing institutions for applying the Digital School concept 60%</p> <p>Percent of teachers trained to apply key digital competences in teaching process 15%</p>
<p>Improved level of digital skills and competences of students</p>	<p>Number of students taking part in ICT clubs: 1,200.</p>	<p>Number of students taking part in ICT clubs: 1,300.</p>	<p>Number of students taking part in ICT clubs: 1,400.</p>



<p>Improved secure use of technologies</p>	<p>Number of trained employees for cyber security: 0 (zero);</p> <p>Number of students taking party cyber security-related activities: 300.</p>	<p>Number of trained employees for cyber security: 1,000;</p> <p>Number of students taking party cyber security-related activities: 450.</p>	<p>Number of trained employees for cyber security: 2,000;</p> <p>Number of students taking party cyber security-related activities: 600.</p>
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3. Expected impact on competitiveness. Given that this Measure cover the Training and education area, it may have impact on competitiveness, however not during its implementation but rather upon end of the period, precisely after 2024. Competitiveness may be seen in all areas of work which will be improved through this Measure and equal access for all.

4. Estimated cost of the activities and the source of financing. Costs are linked to the number of organised trainings and testing, which are to be defined at the later stage (once the Education Digitalisation Strategy 2022-2027 is adopted). Indicative budget for these activities is 2.5 million euro from the Budget and 4.5 million euro from the European Investment Bank. (EIB).

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. Reform Measure will improve knowledge in one of three key competences, being digital knowledge. Employability will be enhanced by improving digital competences. Gender equality and involvement of all age and education strata will be considered when trainings are organised.

6. Expected impact on the environment and climate change. Improved education, in particular the digital ecosystem, enhanced employability by developing key competences is improving the culture of living in the segments of the environment protection and preserving health of citizens. Improving the digital skills will also lead to an enhanced business environment in the segment of work of organisations dealing with the environment protection.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Insufficient budgetary funds.	50%	Promoting importance of this measure and funds provided from EIB.

Measures in the area **Social protection and inclusion** are presented in the text to follow.

**Reform Measure 6: Reform of the national system for disability assessment**

1. Description of measure. In response to the challenge of increasing employment and reducing poverty, social assistance and schemes for unemployment benefits in Montenegro need to be better targeted, fairer distribution of financial benefits, as well as improved measures for fairer and easier exercising of results on the account of disability. Furthermore, continued improved of the information system of social protection as well. In response to this challenge, the reform of the national system for assessing disability will be carried out, aimed to establish a single body for assessing disability and uniform national criteria/methodology for disability assessment. Since the measure continues from the previous year, we would like to note that there are no delays relative to the plan for implementation of the measure as stated in 2021 ERP and that it is being implemented according to the planned schedule. This is a complex reform endeavour which covers five sectors (social protection, employment, pension, disability and veteran's protection, and education), and without its implementation the social welfare system reform cannot be completed. Use of various rights for about 50,000 citizens and their families depends on the disability assessment system. These persons will be able to access in a more equitable and easier way their rights after the establishment of the new system, while at the same time this is also a way for tackling possible abuses of social welfare and other benefits and services. The reform should put out of commission approximately 30 existing committees and should establish a single body (a Bureau) which would make assessments in line with the new, uniform, national-level methodology for all sectors. The committees are now working under six laws and 27 enabling regulations with larger number of staff and external associates. Montenegro's adoption and ratification of the UN Convention on the Rights of Persons with Disabilities (2009) adopted also a new definition of disability. According to the Convention, persons with disabilities include those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others (United Nations, 2006). In order for it to be applied, the national system for assessing disabilities needs to be fully reformed, which is currently contrary to the Convention in medical terms in most of its aspects. The overall Project and its outcomes: legal framework, development of institutional/ organisational and human resources capacities, infrastructure and the IT system itself which enables actual implementation of the project in practice – essentially constitute a structure and are constituent part of the manner of functioning of the social protection sector. In the same way the area of activity covered by the Project represents an integrated structure of the system and once the old system of disability assessment is abolished there is no going back.

a) Activities planned in 2022:



- Upon adoption of the new legislative framework, the plan is to abolish all existing committees and establish a Single body for disability assessment (Bureau) which will render findings and opinions based on the new methodology, in other words assess disability for all sectors in the State;
- Trial implementation of the new system, review as a result of findings of the trial implementation;

Institutions tasked to implement this measure: Ministry of Finance and Social Welfare/UNDP

b) Activities planned in 2023:

- Professional and IT training for human resources capacity building,
- Development of the IT system, which if possible will be connected with e-social card and e-health card (optionally with MEIS-Montenegro Education IT System, IT systems of the Pension and Disability Insurance Fund and of the Montenegro Employment Office). This system will also generate national electronic register of persons with disabilities,
- Support for the initial operations of the Bureau for Disability Assessment;

Institutions tasked to implement this measure: Ministry of Finance and Social Welfare/ UNDP.

c) Activities planned in 2024:

- Monitoring and evaluation of the Project; monitoring of impacts.

Institution responsible to implement this measure: Ministry of Finance and Social Welfare

2. Results indicators.

Indicator	Baseline (2022)	Intermediate target (2022)	Target (2023)
1. Establish new legal framework by the end of Q1 2022. 2. Development of the information system for disability assessment, which will generate	Adoption of the Law on Single Body for Disability Assessment (Bureau) in Q2 2022, which would enter into force in Q3 2023.	Adoption of the new uniform methodology/criteria for disability assessment (Decree) in Q2 2022 in cooperation with the Montenegro Public Health Institute.	Abolish existing committees and establish a single body for disability assessment (Bureau)



<p>an e-Register of persons with disabilities. 3. Reformed system of assessing disabilities operational in Q3 2023.</p>	/	<p>Adoption of enabling regulations; Adoption of constitutional documents of the Bureau; Information system developed and tested by the end of 2022; Trial application of new system for disability assessment in Q4 2022. Possible reviews resulting from trial application findings.</p>	<p>Legal framework completed.</p>
	/	<p>Premises for the Bureau provided and equipped; Capacity building programme for the Bureau implemented, including equipping and refurbishing premises, professional and IT training for work of employees.</p>	<p>Employment of professional, management, and administrative staff; IT system became operational, including coverage of second-instance procedures; The Bureau is equipped in terms of institutional, human and IT resources to carry out disability assessment tasks for all sectors.</p>
	<p>NGOs representing persons with disabilities will be actively involved in implementation of all activities, while the portfolio of grants will task them to promote the new system as well, during the entire life of the project.</p>		

3. Expected impact on competitiveness. Participation of young people in the Youth Guarantee Programme will have positive effect on increasing the workforce activity, but also the labour force competitiveness which will acquire knowledge and skills required and demanded at the labour market through education, professional development, internship or through work, which will ultimately lead to narrowing structural disbalances on the labour market. At the same time, the Programme will enable opening of new jobs once implemented, which is particularly important for the recovery from economic consequences of the COVID-19 pandemic.



4. Estimated cost of the activities and the source of financing. Funds for implementation of the Project in the amount of one million euro for three years (closing with October 2023) are provided from the Delegation of the European Union to Montenegro through direct agreement with UNDP, which is tasked with operational implementation in cooperation with line ministries, institutions in the system, and NGOs. As listed in Tables 10a and 10b, for the first year (Project year: October 2020 - October 2021) funds of 241,334 euro are allocated; for the second year 341,752 euro; and for the third year 443,914 euro. Thus the Project finances, amongst other things: drafting of the new legal framework (Law, Decree, methodology, secondary legislation, instruments of constitution); development of the new information system (software, hardware); reconstruction of premises of the Bureau; consulting services; equipping of the Bureau; human resources training; NGO grants; analysis; promotional activities; and other.

Based on comparative experiences, it is expected that administrative costs of the new system will not be higher than the existing costs, thus, there will be no impact on increase of the budgetary allocation.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care: Citizens will be able to exercise their disability-related social rights (rights resulting from social protection – 7 types of rights to financial benefits and social services, employment (professional rehabilitation), rights resulting from pension and disability insurance and veterans' protection) in an easier and fairer manner. The new, uniform system of disability assessment enables a fairer distribution of categorical social benefits and other rights in all sectors, for more than 50,000 citizens and their families excusing rights on the account of disability. This structural measure is neutral to gender equality dimension. The measure contributes to meeting SDG 10 – Reduced inequalities.

6. Expected impact on the environment and climate change. This measure will not have impact on the environment.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Commitment of senior members of the Government to implement the systemic reform which also requires a multi coordination, as well as human resources who should carry out the reform in a rather short period.	Medium	Project management committee is established with representatives of line ministries, NGO sector participants, UNDP and the Delegation of the European Union, chaired by representative from the office of the Deputy Prime Minister of the Government. The Committee support and monitors implementation.



Ensuring good quality human resources for the Assessment Bureau. A resistance from employees in certain sectors could be expected for implementation of the reform.	High	Experiences from the region show that we can expect problems with hiring specialist medical doctors for certain areas of assessment.
Use of the new methodology may result in increase in the number of beneficiaries of the rights. According to the current medical model, which is outdated, certain individuals with disabilities (mental, psychosocial) were not recognised and thus were not exercising rights.	Low	Even though the comparative experiences show that there was no increase in budgetary allocation after the system is reforms, a budget impact assessment will be prepared, as well as of effects coming from reducing the costs of the procedure. Findings of the impact assessment will be taken into account in budget planning process.

Reform Measure 7: Defining financial preconditions for reforms proposed by the Road Map

1. Description of measure: In close cooperation with the Ministry of Finance and Social Welfare, UNICEF has finalised the analysis of the existing system of social protection using an internationally recognised methodology. It is planned to complete the policy simulations, aimed at enhancing efficiency and effectiveness of social protection schemes for poverty reduction, by the end of 2021. That will give to the Ministry a foundation for acceleration of the essentially needed reform of the social protection system. The system currently contributes to the poverty reduction by only 5 percentage points (SILC 2019), while there is a large potential for further reduction of the poverty headcount by increasing efficiency and enhancing currently allocated funds (close to 2 percent of GDP), which would utilise an enormous development potential. Short-term and long-term recovery depends on the capacity of the system to respond to increased needs for support to households and families, by protecting their capacity to achieve their full potential and contribute to the Montenegrin economy. Based on the above stated, a multi-year action plan for reform of the social and child protection system needs to be proposed, including appropriate financing mechanisms. Poverty rate before social transfer was 29.5 percent, and after social transfers 24.5 percent. The Measure is also proposed to have better and more efficient record-keeping of the appeal process. The records need to be improved, as well as reporting on actions taken by second-instance bodies in terms of actions taken upon appeals of citizens, or adoption of appeals and cancelling of the first-instance procedure or procedure based on merits or confirming the first-instance decisions for allocating financial benefits. To that end, the existing e-system needs to be improved in such manner as to generate additional set of data as a mechanism



of record-keeping in line with the obligations under the law governing the administrative procedure. This all is required to be able to generate annual reports on carrying out administrative procedures which would include additional data. The measure contributes to implementation of the Social and Child Protection Development Strategy and in part provides response to the policy guidance of the Ministerial Dialogue addressing amongst others youth employment and social protection reform. It also contributes to achieving the Sustainable Development Goals SDG 1 – World without poverty and SDG 10 – Reduced inequalities. It is also connected with IPA III, as well as with IPA projects currently being implemented.

a) Activities planned in 2022:

- Carry out analysis of costs, financial sustainability, and prepare financial plan for reform of the social and child protection system;
- Improve coordination of the Ministry of Finance and Social Welfare, Social Welfare Centres and providers of services by developing procedures for coordination function of the Ministry of Finance and Social Welfare (clearly defined procedures for oversight, coordination, monitoring, and evaluation) and by improving social welfare centres capacities to be able to provide case management services and referral of beneficiaries;
- Specify and upgrade functionality of the subsystem for the Business Intelligence (BI) of the Social Welfare Information System – ISSS (e-Social Card) in order to improve system of record-keeping of second-instance procedures in the social protection area;

Institution responsible to implement this measure: Ministry of Finance and Social Welfare.

b) Activities planned in 2023:

- Define methodologies, criteria and processes which will be used in decision making process about introduction, continuation or cancellation of social and child protection programmes, bearing in mind primarily realistic needs in the field, inputs from beneficiaries, simulation, financial sustainability, and analysis of effects of the social and child protection rights - Ministry of Finance and Social Welfare;
- Continue with improvement of coordination and cooperation of the Ministry of Finance and Social Welfare, Social Welfare Centres and providers of services through implementation of oversight and coordination function of the Ministry of Finance and Social Welfare and enhance further capacities of the system to provide case management services and referrals of beneficiaries - Ministry of Finance and Social Welfare, Social Welfare Centres;
- Further improvement of the Social Welfare Information System – ISSS; development of comprehensive monitoring framework with process and performance indicators to be



used to monitor annually level of implementation - Ministry of Finance and Social Welfare.

c) Activities planned in 2024:

- Apply methodology for introduction, removal or continuation of use of social and child protection rights for the purpose of sustainability of those solutions - Ministry of Finance and Social Welfare;
- Carry out periodical evaluation of financial benefits and services in the area of social and child protection within the process of policies reform; develop an Analysis of statistical data connected with the results of carrying out the procedure - Ministry of Finance and Social Welfare.

Institution responsible to implement this measure: Ministry of Finance and Social Welfare.

2. Results indicators.

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Analysis of costs and financial sustainability, accompanied with the financial plan for implementing the reform of the social and child protection system is completed	2022 It does not exist	2022 Drafting underway	2023 Analysis of costs and financial sustainability completed; and financial plan for implementing the reform of the social and child protection system is adopted
Statutory obligation and methodology for deciding on introduction, continuation or cancellation of the social and child protection programmes is introduced,	2022 There is no set obligation or methodology for deciding on introduction, continuation or cancellation of the social and child protection rights,	2023 Methodology for deciding on introduction, continuation or cancellation of the social and child protection rights is introduced.	2024 Continuous implementation of the methodology for deciding on introduction, continuation or cancellation of the social and child protection rights.



<p>Procedure for coordination and oversight by the Ministry of Finance and Social Welfare with Social Welfare Centres and service providers is introduced.</p>	<p>2022</p> <p>Procedures for coordination and oversight in the social and child protection system are not clearly defined;</p> <p>There is no obligation for periodic evaluation of social and child protection programmes.</p>	<p>2023</p> <p>Procedures are developed and adopted;</p> <p>Obligation for periodic evaluation of social and child protection programmes is introduced;</p> <p>New classification of jobs and human resources plan for social welfare centres adopted, in accordance with needs of beneficiaries is adopted;</p> <p>Training of employees in social welfare centres have started and continuing during 2023 and 2024.</p>	<p>2024</p> <p>Procedures are being implemented;</p> <p>Continuous implementation of periodic evaluation of social and child protection programmes and services as part of the policy reform process;</p> <p>New classification of jobs and human resources plan for Social Welfare Centres are being implemented;</p> <p>Increased capacities of employees in the Social Welfare Centres, they are more capable and accessible to apply an adequate and effective approach to case management and referrals.</p>
<p>Social Welfare Centres have increased capacities for case management and referral services.</p>	<p>2022</p> <p>Insufficient number of case managers has impact on quality of case management and referral to services.</p> <p>Currently the system employs 86 case managers. The UNICEF's analysis from 2017 suggested an increase of 80 percent of cases (50 professional staff) in order for the case management to be in line with the standard of 50 cases per case manager.</p>	<p>2022</p> <p>Quality of case management and referral to services is improved through increase in number of case managers, reducing their caseload and implementation of trainings.</p> <p>Seven (7) new employed case managers (7.7 percent more case managers relative to 2021), which could adequately cover 350 cases, which will also reduce caseload from the existing case managers.</p>	<p>2023</p> <p>Quality of case management and referral to services is further improved through increase in number of case managers, reducing their caseload and implementation of trainings.</p> <p>Fourteen (14) new employed case managers relative to 2021 (15.5 percent more case managers relative to 2021), which could adequately cover 700 cases, which will also</p>



			reduce caseload from the existing case managers.
Reporting on efficiency of final outcomes in the second-instance administrative procedure	Improved record-keeping of Social Welfare Centres; all appeals, complaints and requests should be recorded by Social Welfare Centres with all necessary details in order to improve receipt of information (feedback) from beneficiaries.	Plan and monitoring framework is included in the Strategy for Development of Social and Child Protection System.	Analysis on statistical data about results of first-instance and second-instance administrative procedures results in the area of social and child protection is prepared; Final report is produced.

3. Expected impact on competitiveness. Impact on competitiveness will be achieved by strengthening the welfare state in combination with efficient and predictable spending – along with higher guarantees of social and child protection of employees and unemployed, better value for money and lower unanticipated spending for the population that could jeopardize their functioning in the labour market. The application of the methodology on the introduction or abolition of social protection programmes will have a direct impact on the financing of primarily those programmes that have a positive impact on the population, preventing spending where they do not bring the necessary benefits.. The impact on competitiveness will be reflected in terms of improving the processing in the second instance procedure, which will consequentially open the opportunities for the advancement of the entire system and the exercise of citizens' rights from social and child protection.

4. Estimated cost of the activities and the source of financing: As for the segment concerning Improving the system of record-keeping in the second-instance procedures in the social protection area, the Project financing is as follows: Social Welfare Information System – ISSS (e-Social Card) is financed by the Government of Montenegro (90%) and UNDP (10%). Estimated amount of national financing is 10,000 euro (2022). There are no costs in 2023 and 2024 given that the monitoring and evaluation will be carried out as part of the regular tasks of the Directorate for Information and Statistical-Analytical Affairs of the Ministry of Finance and Social Welfare. As for the segment dealing with other components, estimated costs are presented in a separate annex, i.e. table; however, part of the costs is covered by the Ministry of Finance and Social Welfare and UNICEF, and part will be requested from IPA funds. Therefore the financing structure is as follows:

- **2022**– 143,000 euro, central government budget, Ministry of Finance and Social Welfare; Goods and services-IPA funds and other grants; 110,000 euro; Total 253,000.00 euro;
- **2023** – 123,000 euro, central government budget, Ministry of Finance and Social Welfare; Goods and services- IPA funds and UNICEF- 210,000 euro; Total 333,000.00 euro;



- **2024** – 123,000 euro, central government budget, Ministry of Finance and Social Welfare;
Total 123,000.00 euro.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. Improved adequacy of the social protection system. This measure will enable a more transparent reporting on effects and outcomes of the second-instance procedures, as well as generally a more efficient monitoring and oversight over the management of the social protection system, while simultaneously enabling an enhanced access to social and child protection related rights. Objective of the proposed reform is to strengthen cooperation of participants in the social and child protection system and thus making the system more efficient and effective. The focus is on coordination and coherence of various contributors in the system, as well as on strengthening the professional oversight, monitoring and evaluation function. Over the medium and long term, reinforcing this element in the system will contribute to a sustained and continuous poverty reduction and reducing vulnerability of population by strengthening the preventive functions of the system and enabling for the population to exit the social and child protection framework, precisely not to have a need for its support. The measure is gender neutral.

6. Expected impact on the environment. The measure does not have impact on the environment.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Commitment of the Government to carry out systemic reform which also requires a multi-sector coordination as well as human resources which should be responsible for implementing a complex reform in relatively short timeframe.	Medium	Consultations with relevant bodies in order to ensure political will for implementation of the reforms.
Lack of financial resources for implementation of the reform.	Medium	More efficient use of domestic and international financing through improved coordination of donors.
Limited institutional capacities (staff, equipment, financial) for executing or monitoring tasks connected with the design, implementation and monitoring of policies and programmes.	Due to the COVID-19 virus pandemic there is a probability of risk materialising. Probability – small.	Reallocation of financial resources, redistribution of tasks, contractual obligations.

Measures in the area **Healthcare System** are presented in the text to follow.



Reform Measure 8: Improving access to and quality in delivery of healthcare services and the digitalisation of the healthcare system

1. Description of measure. The healthcare institutions network in Montenegro is organised in such a manner as to provide to citizens health protection in line with the needs and capabilities of the healthcare system, all in line with the principles of solidarity, accessibility and equality in exercising health protection. The health protection is provided in three levels: primary, secondary, and tertiary level. In accordance with legislation, the State has established healthcare institutions: 18 community healthcare centres, 7 general hospitals, 3 specialised hospitals, the Clinical Center of Montenegro, the Public Health Institute, the Emergency Medical Care Service, the Blood Transfusion Service, and the Pharmacies of Montenegro – Montefarm. These institutions are providing health care by levels (primary, secondary, and tertiary) depending on the activity for which they are established. The Montenegro Health Insurance Fund is responsible for carrying out the healthcare policy in the segment of health insurance, while the State has established the Institute for Medicines and Medical Devices (CinMed) for carrying the pharmaceutical policy. Out of 7,963 persons employed in healthcare institutions (Tables 3.1 to 3.26) in 2018, 6,266 (78.69 percent) are healthcare practitioners and allied healthcare practitioners, while 1,697 (21.31 percent) are non-healthcare practitioners. The universal health coverage is one of the most powerful principles of public health which could reduce difference in terms of health state among various population groups. Special attention needs to be paid for the most vulnerable groups and adherence to the principle of equal treatment in health system. The coronavirus pandemic-caused crisis has shown that the features of the healthcare system in Montenegro are insufficient investments in preparedness to respond to the health crisis; unsustainability of the existing system for financing the health system; insufficient investments in primary health care; large consumption of medicines; and outdated and insufficiently connected information systems; etc. In order to preserve and improve health, the monitoring system needs to be improved, which includes collection, analysis and reporting on data on health and health care of the population, which enables evidence-based decision making with ultimate objective being to create and guide the healthcare policy. Montenegro is striving, with limited economic and human resources, to project the healthcare systems in order to be efficient and functioning to protect health of the population. Therefore, the quality of the health care is imposed ultimately as imperative position in the healthcare system reform. To that end, the ERP 2022-2024 contains a measure aimed at improving accessibility and quality in delivery healthcare services and digitalisation which enables development of various forms treatment at distance, which arose from the need to have a timely access to professional health care. As in all other spheres of life, key advancements in the telemedicine have also come with



Internet, which has dramatically accelerate communication and opened new channels for it to take place. The telemedicine nowadays covers counselling via email and software applications, virtual review of documentation, holding medical consultation councils and virtual exams of patients. One of the key activities in implementing measures for improving access and quality of healthcare services delivery is to establish a uniform electronic health card, as basis for implementation of digital transformation process in the healthcare system in Montenegro. The core objective of the e-Health Card project is to develop a single information system that should enable central storage, processing and exchange of data on conditions and treatments of all citizens of Montenegro. The e-Health Card represents one of the key services in the healthcare system and is at the same time a central module of a comprehensive healthcare information system.

The e-Health Card or electronic health records (EHR) systems are in principle designed for storage of data on health state of patients over time. These systems eliminate the need for a previous patient's medical records to be requested and assist in securing accuracy and readability of data on previous treatments, which was often not a case so far with medical data in paper form. This could reduce a data replication risk since there is only one file (single central place for data storage) which could be supplemented with data, meaning that a single file is updated with all data on treatment of a patient regardless where they are created. The strategic documents of Montenegro in the healthcare area (Integrated Healthcare Information System and e-Health Development Strategy), as one of the priorities aimed at secure and efficient data exchange, improving quality and timeliness of healthcare service, envisage introduction of telemedicine services in order to cover certain healthcare segments (cardiology, radiology, emergency medical care, pathology, and other). Thus, the telemedicine in Montenegro was only in 2020 recognised as one of the methods of delivery of healthcare services through amendments and supplements of the Law on Health Care (Official Gazette of Montenegro, No 82/2020). In this manner, a legal framework for telemedicine to be further regulated through legislation, recognised in organisational manner in the system, and standardised through processes is created. Even though present long since at the global level, it could be said that the COVID-19 disease pandemic itself has served as a catalyst for its legislative regulation and frequent use in Montenegro. Furthermore, telemedicine services would be particularly important in certain parts of Montenegro, where fast and efficient delivery of healthcare services is limited due to shortage of staff, lack of equipment, landscape configuration, and other.

a) Activities planned in 2022:

Implementation of the Electronic Health Records-Comprehensive analysis of the current state and of needed prerequisites – Ministry of Health, Health Insurance Fund, public



healthcare institutions; Establishing a legislative framework, introducing detailed conditions, organisation and manner of establishing the Electronic Health Records – Ministry of Health, Health Insurance Fund;

Development of the telemedicine system-Comprehensive analysis of the current state and of needed of prerequisites, coupled with recommendations for further improvement and development of telemedicine within healthcare institutions in Montenegro - Ministry of Health, Clinical Center of Montenegro – CCCG; Adoption of programme documents and defining through legislation telemedicine services and mobile healthcare (m-Health) in the segment of delivery of healthcare services (e.g. tele-diagnostic, tele-monitoring of patients, emergency medical assistance, e-learning, etc.) - Ministry of Health, Health Insurance Fund.

b) Activities planned in 2023:

Implementation of the Electronic Health Records-Develop and implement central information system – single Electronic Health Records system; Implementation of the hardware and software infrastructure, Capacity building (including continuous training, business intelligence, analyses);

Development of the telemedicine system-Develop protocols and procedures for optimal use of telemedicine - Ministry of Health, Clinical Centre of Montenegro - CCCG, hospitals; Preparation and development of the terms of reference for implementation of the central information system for data exchange and control of business processes in the telemedicine segment - Ministry of Health, Clinical Centre of Montenegro – CCCG; Preparation and issuing tender for procurement of specialised radiological software tools - Ministry of Health, Clinical Centre of Montenegro - CCCG, hospitals; Preparation and issuing tender for procurement of needed hardware - Ministry of Health, Clinical Centre of Montenegro - CCCG, hospitals; Preparation and issuing tender for procurement of refurbishment and reconstruction of healthcare institution buildings where the hardware equipment will be accommodated - Ministry of Health, Clinical Centre of Montenegro - CCCG, hospitals; Training of medical staff - Clinical Centre of Montenegro - CCCG, hospitals.

c) Activities planned in 2024:

Implementation of the Electronic Health Records-Comprehensive analysis of established Electronic Health Records system with a proposal for corrections and improvements - Ministry of Health, Health Insurance Fund, public healthcare institutions; Capacity building (including continuous training, business intelligence, analyses) - Ministry of Health, Health Insurance



Fund, public healthcare institutions; Implementation of proposed solutions from the Analysis of the established system for corrections and improvements - Ministry of Health, Health Insurance Fund;

Development of the telemedicine system-Implementation and establishment of the system - Ministry of Health, Clinical Centre of Montenegro - CCCG, hospitals; Preparation of a pilot project at the primary healthcare level - Ministry of Health, Health Insurance Fund, selected primary healthcare centres; Preparation and issuing tender for procurement of hardware and software for one selected primary healthcare centre - Ministry of Health, selected primary healthcare centres; Signing a contract with reference medical centres in the region aimed at exchange of digital medical data - Ministry of Health; Connecting the Integrated Healthcare Information System (IZIS) with the information system of the reference medical centre in order to exchange digital medical data - Ministry of Health, Clinical Centre of Montenegro - CCCG, Health Insurance Fund.

Institution responsible to implement this measure: Ministry of Health.

2. Results indicators.

Activity: Implementation of the Electronic Health Records			
Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Comprehensive analysis of the current state and necessary pre-requisites	Analysis prepared		
Legislative framework	Rulebook on the Electronic Health Records adopted		
Single Electronic Health Records system		Electronic Health Records System established	
Educations and trainings		Education/training completed by 50 employees of public healthcare institutions	
Comprehensive analysis of established Electronic Health Records system with a proposal for corrections and improvements			Analysis prepared
Implementation of proposed solutions from the Analysis			Corrections and improvements made in line with the Analysis



Educations and trainings			Education/training completed by 100 employees of public healthcare institutions
Activity: Development of the telemedicine system			
Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Legislative framework	Enabling legislation adopted (protocols/procedures)		
Terms of reference/documentation		Project documentation prepared	
Preparation and issuing tender for procurement of specialised software and hardware and refurbishment of required premises		Tender closed and decision on contractor for works/ services adopted	
Implementation of the central telemedicine centre		Central system implemented	
Educations and trainings		Education/training completed by 20 employees of the Clinical Centre of Montenegro - CCCG	
Preparation of the pilot project for selected healthcare institution in the segment of primary healthcare institutions			Terms of reference/ documentation prepared
Preparation and issuing tender for procurement of hardware and software for one selected primary healthcare centre			Tender closed and decision on contractor for works/ services adopted
A contract signed with a reference medical centre in the region			Minimum 3 contracts signed

3. Expected impact on competitiveness. Implementation of the measure for development and use of telemedicine services has impact on improving accessibility, timeliness and quality of health care, which improves the quality of life and creates conditions for growth and development of the society, and by doing so impacting the competitiveness of the economy. The use of innovative information and communication technologies in delivering healthcare



services, is supporting transfer of knowledge, innovation and technologies, development of private sector and opening of space for a possible public-private partnership. Development of good quality, reliable and comprehensive system may have an important contribution for the 'economic part' of the healthcare system as well – the health tourism. This system would enable reliable and fast exchange of medical data, which creates an added security and confidence of patients and beneficiaries of the 'health tourists'.

4. Estimated cost of the activities and the source of financing. Total planned amount of funds for implementation of listed activities for development of the Telemedicine System is envisaged in the budget.

- 2022 – 20,000 euro from the Budget,
- 2023 – 1,000,000 euro from the Budget,
- 2024 – 100,000 euro from the Budget, while there is no need for additional funds for implementation of the Electronic Health Records.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. A healthy nation is a prerequisite for development of every country. Timely and good quality healthcare affects labour force productivity and quality of life. Providing impetus for private sector development and opening possibilities for public-private partnership will create assumptions for new jobs, improving standard of living and consequently reducing poverty. Moreover, the telemedicine services are enabling provision of healthcare outside of premises and time constraints, and often outside social and cultural barriers.

6. Expected impact on the environment and climate change. When digital services are use 'information travel' and not people, which **impacts** the reduction of the need to use transportation services and thus reducing exhaust gas emissions and expansion of the harmful effects on the climate change.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Disinterest of medical staff/patients for use of digital tools	Low	Promotion of importance and benefits from using these services; Training of medical staff for use of services.
Lack of motivation of medical staff/ patients for use of digital tools	High	Establish a system of promoting and motivating medical staff Promotions, campaigns, etc.
	High	



Uninformed users / patients		Connecting the health system with the competent institutions to increase the level of digital literacy
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Challenge 2: Strengthening the regulatory environment

In response to the challenge of *Strengthening the regulatory environment*, reform measures are proposed in the areas of **Business environment and reduction of informal economy**, and **Research, development and innovation, Digital transformation, and Public financial management**.

Reform Measure 9: Establishing a full electronic registration of enterprises

1. Description of measure. Electronic registration of enterprises means that the entire process of establishing an enterprise (from reserving name until such time an enterprise is able to perform legal transactions) is carried out electronically.

There were numerous activities implemented in improving the enterprise registration process aimed at improving the regulatory environment in the previous period. In that sense, a single electronic application for registration is being prepared. Furthermore, starting from 25 December 2020 an electronic registration of single-member limited liability company for founders who are residents with minimum capital of 1 euro and where the founder and executive director are the same person was enabled via link <https://efirma.tax.gov.me> with obligation to submit electronically all required documentation.

The objective is to provide faster, cheaper, and more transparent services to economic operators. Introduction of electronic registration for establishing a business undertaking is an important step in the process of digitalisation of the procedure for opening companies, which is now made much easier and streamlined, all in function of improving the regulatory environment as one of the biggest challenges to improve the competitiveness. Additional improvements of this service are also planned, which will enable registration of all business undertakings and online payment of administrative and other fees. The measure represents a response to the policy guidance No 4, as well as No 5 in the segment dealing with the digitalisation of the public sector and development of transactional electronic government services as a priority, in order to speed up and enhance the economic recovery. Likewise, the Strategy for Development of Micro, Small and Medium-sized Enterprises for the period 2018-2022, recognises introduction of full electronic registration of enterprises as one of the strategic activities. The expectations are that the implementation of this measure will



contribute to reaching of the objectives recognised in the Digital Agenda for the Western Balkans.

Full electronic registration of enterprises is possible only after data exchange is established amongst all authorities participating in this process, precisely by enabling for their registries to exchange data using the Single information system for electronic data exchange. The core function of the Single information system for electronic data exchange, as centralised interoperability system, is to provide for institutions a uniform communication platform for data exchange which represents infrastructure support for good quality and timely delivery of services, and by doing so the support for electronic registration of business entities. Inventory of all authorities, precisely of the registers from which the data represents input data in the Central Registry of Business Entities (CRBE) and which the CRBE should obtain from exchange under the Single information system for electronic data exchange, are as follows: the Revenue and Customs Administration; the Central Bank of Montenegro; the Ministry of Justice, Human and Minority Rights; the Ministry of Public Administration, Digital Society, and Media; MONSTAT; Central Clearing Depository Company; the Ministry of Health; the Ministry of Education, Science, Culture, and Sports; the Ministry of Economic Development; the Insurance Supervision Agency; and the Capital Market Commission; as well as public enforcement officers and public notaries.

Full or partial set of data contained in the Central Registry of Business Entities (CRBE), after being registered with the CRBE, are sent to the following institutions, which recording business entities in their registers and/or issuing permits/licenses:

- Revenue and Customs Administration;
- Local governments' secretariats;
- Inspection authorities;
- Ministry of Ecology, Spatial Planning and Urban Development;
- Ministry of Interior Affairs;
- Registry of public notaries, registry of bankruptcy administrators, and registry of public enforcement officers.

Out of the listed registers, presently the interoperability is established between: **the** Central Registry of Business Entities (CRBE), the Central Registry of Insurance Obligors, the Central Registry of Citizens, and Registry of Penal Records. The following registries are yet to be connected: *the Capital Markets Commission, local governments' secretariats, inspection authorities, the Revenue and Customs Administration, the Central Bank of Montenegro, the Registry of Public Notaries; the Registry of Public Enforcement Officers; the Central Clearing and Depository Company*, which will be governed by the new Law on Electronic Government.



Documents submitted electronically by the founder of the company or his representative, should be accessible to officers of the Central Registry of Business Entities (CRBE) and to citizens. All documents can be printed from the application if there is a need to do so. The present system in use, which is a subject of the contract with a company that archives the documents, should remain for documents that were collected in the previous period, while all new ones will automatically become part of the CRBE database.

Bearing in mind the above stated, the establishment of interoperability and data exchange between all institutions participating in the company registration process, via the Single information system for electronic data exchange, will enable complete single application. This means that the founder/representative will initiate in a single step the registration procedure and in the process is obliged to submit only such documents and data that cannot be otherwise obtained *ex officio*. For business owner that means that will have only two core steps: electronic submission of documentation and data, and visit to the commercial bank for identification purpose in the bank account opening process. Filing of the application includes submission of documentation signed by a digital signature and entering required data, as well electronic payment of stamp duties using the National system for Collection of Stamp Duties (NS-NAT).¹⁸

By connecting the above listed registries, a more transparent environment will be created, along with increased options for reducing the informal economy by faster and easier access to data.

Activities planned in 2022: Amendments and supplements to relevant laws and enabling regulations in order to commence with implementation of full electronic registration of enterprises; Enable payment of fees for registration of enterprises and electronic publication in the Official Gazette (via e-commerce services on the e-Firm portal and/or by using applications of commercial banks); Development of instructions for registration of enterprises for CRPS employees (for electronic filing of applications and filing of application in person) and for beneficiaries (founders/representatives).

Activities planned in 2023: Connection with systems in banks with the objective to enable opening of a current account without filing paper documentation.¹⁹ Enabling registration of

¹⁸ Business owners will use the same system they are using to access the electronic registration of enterprises to access NS-NAT as well.

¹⁹ It is important that during the registration of business entities no bank account needs to be opened, but to reach an agreement between the banks and the Revenue and Customs Administration for the initial/founding capital to be paid to the so called transitional account in banks and after that for the banks to send confirmation directly to the CRBE that the initial/founding capital is paid in. In such case the opening of bank account will follow after the establishment, if amendments to the Law on Prevention of Money Laundering and Terrorism Financing allows, the bank account could be opened even without visit to the bank i.e. electronically. After that and following the between the Revenue and Customs Administration and the Central Bank of Montenegro, the Revenue and Customs Administration should receive the current account number details from the Central Bank of Montenegro, and there is no need to enter it in the Single Employee



business entities electronically and establishing a process of in-person (physical) registration of enterprises in the event the founder and/or executive director is a foreigner; Simplification of the in-person (physical) registration of enterprises (for those that do not wish to use electronic registration) with electronic data exchange among institutions and fully operational POS terminals in the CRBE; and Enabling payment of all fees in one place; Promotional activities.

Activities planned in 2024: Increase the number of trained employees of the Central Registry of Business Entities using adequate workshops and trainings to equip them for operational use of application software designed to enable acceptance and processing of electronic registration applications, as well as for preparing and sending electronically and handling digital assets; Promotional activities.

Institutions responsible for implementation of this measure: Ministry of Economic Development, the Revenues and Customs Administration, and the Ministry of Public Administration, Digital Society and Media. The report on operations is to be submitted quarterly to the Competitiveness Council, while the Secretariat of the Competitiveness Council supports implementation of all activities and coordinates work of the Working Group.

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023-2024)
Increase number of trained employees of CRPS	2	4	4
Electronic registration of business entities	Electronic registration for single-member LLCs	Created preconditions for electronic linkage and registration of multi-member LLC	Full electronic registration of all business entities
Number of electronic registrations in one year	-	Higher by 10 percent for registrations of single-member LLCs	Higher by 20 percent for registrations of all types of business undertakings
Ranking in international reports targeting business environment (WEF and Fraser Institute)	73 (WEF)	71 (WEF)	69 (WEF)
	42 (Fraser Institute)	40 (Fraser Institute)	38 (Fraser Institute)

3. Expected impact on competitiveness. Bearing in mind that the final objective of enabling full electronic registration of all business entities is to make the process more efficient, and by doing so for employees to be freed of manual, repetitive activities, room for new sources

Registration which is submitted to the Revenue and Customs Administration at the event the enterprise is established.



of revenue by introducing new services covering the needs of the State, real sector, associations, etc is being opened. Over the medium term all this will contribute to an improved competitiveness of the country by shortening procedures, cutting costs and time needed to register an enterprise. The benefits to be achieved over the short run are in a form of reduced time, shortened procedures and lower costs for electronic registration of business entities, ultimately resulting in a better ranking of Montenegro in the relevant international reports as well.

4. Estimated cost of the activities and the source of financing: Implementation of this measure does not envisage additional allocations from the budget. Regular costs of upgrading of the system are envisaged as part of annual allocation for the CRPS (98,000 euro).

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

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

7. Potential risks:

Risk	Probability (low or high)	Planned mitigating action
After the process of electronic registration of business entities becomes operational, there is still going to be a certain number of business owners who will not use this system but will rather establish enterprises by visiting CRPS counter. If the founder himself does not use the online application, an employee of CRPS needs to make the registration.	Probability is low given that this is a more efficient registration of enterprises.	Strong promotion of benefits of the electronic registration of enterprises.
Untimely changes to legislation	Amendments to legislation are already being prepared and we believe that this will not pose a considerable risk to implementation.	Adequate and specific analysis of changes to legislation will contribute to shortening of the procedure for adoption of legislation.

Reform Measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund

1. Description of measure. In order to provide ease of access to financing for enterprises and to improve the business environment, the Government of Montenegro has opted to establish a long-term and sustainable Credit-Guarantee Fund for support to MSMEs in access to credit



funds, ensuring larger degree of security of banks when lending to these enterprises, which are particularly affected by the COVID-19 pandemic. The main task of the Credit-Guarantee Fund is to unlock excess liquidity held with commercial credit institutions, in order to ensure financial resources for enterprises without access to financing and those in difficult situation. Therefore the activity of the Credit-Guarantee Fund should provide incentives for private credit institutions that are also holding sizeable idle funds. The guarantees of the Fund will help commercial credit institutions to utilise their liquidity for those purposes and extend more credits in order to assist these enterprises to grow and create jobs. After the decision on establishing the Credit-Guarantee Fund, the Government has secured a technical support to this process from EBRD. Decision on establishing the Credit-Guarantee Fund in Montenegro has followed a successful implementation of the initial phase of the project (Phase 1), wherein the sustainability of the Fund is confirmed. The Phase 2 of the Project is in the process of being agreed. This report describes a recommended design, structure and operation of the proposed Credit-Guarantee Fund for Montenegro, including its legal structure, draft Law on the Montenegro Credit-Guarantee Fund, corporate governance, employees, capitalisation, relationship with local financial institutions, and five-year financial forecasts. The Credit-Guarantee Fund is envisaged as a long-term financial instrument, which will be formally established with adoption of the above mentioned Law. Its operation will complement the work of the Montenegro Investment and Development Fund, which is directly financing enterprises, while the Credit-Guarantee Fund will mobilise funds of banks for lending support to the real sector. Likewise, its work will also be complementary to the work of the Innovation Fund, which will start from the next year with investments into the programme lines for support to the development of innovation, which will cover various segments of the innovation development cycle. Given the fact that the Innovation Fund in its initial phase will not support investments, some innovative companies will certainly seek credit support for further development of their investments, and this will be recognised as need through the Credit-Guarantee Fund. This priority reform measure could be linked to the contribution in achieving the SDG 8 in the segment of incentives to entrepreneurship and creating new jobs. The Measure indirectly represent an answer to the policy guidance No 4.

Activities planned in 2022: Adoption of the Law on the Credit-Guarantee Fund; Finalisation of a business plan projections using the assumptions for operation of the Credit-Guarantee Fund (premises, wages, remunerations, consultations with business and financial sector); Consultations, trainings, involvement and registration of financial institutions in the Credit-Guarantee Fund; Adoption of rules and procedures that will govern operation of the Credit-Guarantee Fund; Allocation of funds in the amount of 10.4 million euro; Training for management and employees; Promotion.



Activities planned in 2023: Finalising the activities for creating sustainable capital for operation (EBRD and Ministry of Finance and Social Welfare); Promotion of activities of the Credit-Guarantee Fund, and of included financial institutions; Strengthening role of women entrepreneurship by facilitating access to finance for women entrepreneurs; Establishing financial instruments and credit lines for specific groups of population aimed at reducing and eliminating unequal access to financing²⁰; Brochures on financing conditions, workshops, communication with the real sector, and other promotional activities.

Activities planned in 2024: Continuation of promotional activities to increase accessibility; Consultations with business and financial system; Reports and analysis of operation.

Institutions responsible for implementation of this measure: Ministry of Economic Development (in cooperation with relevant institutions).

2. Results indicators.

Indicator	Baseline 2022	Intermediate target 2023	Target (2024)
Number of guaranteed loans	100	500	1,000
Number of new jobs	50	150	300
Increased participation in terms of number of enterprises owned by women in total number of enterprises in Montenegro ²¹	21.81% (2020)	23% (2022)	25%

3. Expected impact on competitiveness. Implementation of this measure will have impact on improved access to finance for MSMEs, and consequently on enhancing the competitiveness of Montenegrin enterprises (especially of small and medium-sized). Likewise, the expectations are that the strengthening the MSMEs position from this point of view will also contribute to better ranking of Montenegro in international reports.

4. Estimated cost of the activities and the source of financing. Proposed Law on Budget for 2022 planned the funds in the amount of 10.4 million euro, of which 400,000 euro is intended for coverage of operating costs, while 10 million euro represents initial/founding capital of the Fund.

²⁰ The biggest support from the Credit-Guarantee Fund is expected in the segment of financing clients without sufficient security instruments, those having limited records and/or credit history, start-up enterprises, women-owned enterprises, and projects in agriculture, tourism, IT and other innovation.

²¹This indicator is in line with the Women Entrepreneurship Strategy 2021-2024 and other support programmes for women entrepreneurs.



5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. The Credit-Guarantee Fund will be sustainable and credible institution. Fees for guarantees will be fair and will realistically reflect costs. Financial institutions expect the largest support from the Credit-Guarantee Fund for financing of clients without sufficient financial resources, with insufficient collateral, that have limited record-keeping and/or credit history, that are newly established enterprises, that are enterprises owned by women, and that have projects in agriculture, tourism, ICT, and other innovations. This will have particular effect on strengthening the role of women in business, while the realisation of all of the above stated activities will narrow the gap in access to finances for women entrepreneurs and owners of enterprises. First five years after it has started with operation, it is expected that the Credit-Guarantee Fund will support the Montenegrin national economy with 220 million euro (approximately 6,000 loans) to entrepreneurs, micro and small enterprises. In other words, the forecast is that some 6,000 loans will be approved over the five-year period in total amount of 220 million euro. The assumption here is that each new investment of 20,000 euro will mean opening of one new job. In such case, a positive outcome for all segments of the society is expected.

6. Expected impact on the environment and climate change. Depending on the number and type of beneficiaries of the Credit-Guarantee Fund a positive impact on the environment is expected. Bearing in mind that the Credit-Guarantee Fund will support projects in area of agriculture, tourism, ICT, and other innovations, the expectations are that a positive impact on the environment is expected from support to a certain number of green projects. This very fact may link implementation of this measure with the Green Agenda for the Western Balkans in the segment of financial resources that will possibly support projects concerning the sustainable production and efficient use of resources, sustainable system of food manufacturing, development of rural areas, and like.

7. Potential risks.

Risk	Probability (low or high)	Planned mitigating action
Insufficient interest and lack of confidence by possible users.	Low	To be overcome by adequate promotion and specific activities to raise awareness of the public, real sector and all stakeholders about the benefits the Credit-Guarantee Fund will provide

Reform Measure 11: Strengthening competitive position of MSMEs by establishing a single access point

1. Description of measure. The Ministry of Economic Development implemented specific activities to strengthen its institutional capacities and thus create an even more favourable



environment for small and medium-sized enterprises, while strengthening regulatory framework for business environment. One of the steps in implementation of the activities mentioned above is establishment of the web portal, i.e. single access point which will contain all the relevant information for small and medium-sized enterprises. This activity plan of the Ministry of Economic Development is aligned with the commitment of the Government of Montenegro to introduce e-government, including e-services for private sector, which will also contribute to the reduction of informal economy in the private sector. This will contribute to enhancement of the business environment, strengthening of institutional capacities, while it will also serve as an incentive for digitalisation. The project mentioned above is implemented with support from EBRD which promotes economic development in the countries where it operates by launching different initiatives, including investments. The measure is a response to the policy guidance no. 5 which concerns digitalisation of the public sector and development of transaction services of electronic government as priorities, as well as to the policy guidance no. 4 which concerns improvement of the business environment with a view to enhancing economic recovery. Implementation of the measure will contribute to achievement of the goals recognised in the Digital Agenda for the Western Balkans.

Activities planned in 2022: Design and development of SAP portal for small and medium-sized enterprises, which includes the following activities: coordination with all the stakeholders so that they understand which information is available to and relevant for small and medium-sized enterprises. This also includes close cooperation of the consultant with representatives of the Ministry of Economic Development in designing and developing the portal and in deciding on the tools and additional services that may be offered: content that can be downloaded, questions and answers section, calculators, possibility of submitting online application for using the assistance programme, monitoring application status, reporting on disbursement of the approved funds etc; Coordination with other state institutions and stakeholders which provide support to the SMEs so as to ensure their participation in the exchange of relevant data on the portal; Promotion of the portal, informing public on its performances, as well as on the benefits of using it etc.

Activities planned in 2023: Activities regarding supply of contents to the portal in line with the needs of SMEs, by giving the possibility of expanding access to assistance programmes for SMEs in Montenegro, while also increasing the amount and use of such assistance. Activities to make website available in the Montenegrin and English languages, while data files containing the information relevant for enterprises, such as official decisions and regulations of the Government, will be available at least in the Montenegrin language. Improvement of performances of the portal based on feedback from all the stakeholders so as to ensure that the portal is updated; Elimination of all dysfunctionalities of the portal within 6 months from



the launch of the portal; Promotion of the portal, informing public on its performances, as well as on the benefits of using it etc.

Activities planned in 2024: Hosting of the portal in the first year of its operation will be responsibility of the consultant, and at the beginning of the second year of its operation, the functioning of the hosting will be taken over by the Ministry of Economic Development; Regular maintenance of the portal, while ensuring its full functionality; Training the staff of the Ministry of Economic Development (or of a relevant body of the Government of Montenegro which will implement hosting activities for the portal) to ensure maintenance and regular update of the portal once the assistance is over.

Institution responsible to implement the measure: Ministry of Economic Development, in cooperation with relevant institutions.

2. Results indicators.

Indicator	Baseline (2022)	Intermediate target (2022 second half of the year)	Target (2023-2024)
Portal created	Software developed	Testing phases completed Lack of functionalities eliminated, functioning improved	Portal fully functional and updated
Number of portal visits	0	5,000	15,000
Number of SMEs applying for assistance programmes	300	450	550

3. Expected impact on competitiveness. Implementation of all the activities mentioned above will lead to creation of the portal which will ensure broader access to the assistance programmes for SMEs in Montenegro, while also increasing the amount and use of such assistance. The portal content will be user-oriented and aligned with the needs of SMEs. All the data which will be available may be split into two groups: all forms of assistance (direct and indirect) and informative (which means that all the information needed for starting up and managing businesses will be available at one place – procedures, time and costs relevant for operations). Facilitated access to the information on all forms of assistance will contribute to strengthening of the competitiveness of products and services. Therefore, and given the informative nature of the portal, this will constitute a solid ground for strengthening of competitiveness at the local level and good preparation for international markets.

4. Estimated cost of the activities and the source of financing. Direct EBRD grant *Improvement of entrepreneurship through the advanced advisory assistance and information services IPA 2016* is the project implemented by the Ministry of Economic Development and



European Bank for Reconstruction and Development, in framework of the Annual Action Programme of the Instrument for Pre-accession Assistance IPA 2016. Total project value is 1,747,000.00 euro; the project has been implemented since December 2020 and will last until the end of 2023. In the framework of this project, the call was launched for submission of applications for hiring a consultant company to develop an integrated IT platform which will represent a single access point at the Ministry of Economic Development for the business information for SMEs. After conducting the evaluation procedure, which is defined by the EBRD rulebook, EBRD selected company *Fleka* from Montenegro to implement these activities. A sum of 150,000 euro was allocated for the activities under this project.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. Creation of the portal will facilitate access to funding, it will lead to a better and higher-quality informing of the potential SMEs which, in the medium- and long-term, might serve as a motivation for creating new jobs and potential employment growth. In this way, SMEs and entrepreneurs will learn more about the benefits of all programme lines and about the assistance they can receive. A higher-quality, transparent and easily available information will lead to employment growth in the medium and long term. Gender component needs to be emphasised as well, which means that the link to the gender entrepreneurship platform will be made available in SAP. In addition, all the information for women entrepreneurs and youth will be part of this portal.

6. Expected impact on the environment. Measure is environmentally neutral.

7. Potential risks.

Risk	Probability (low or high)	Planned mitigating action
Lack of information among potential users, lack of recognition of the benefits of using the portal	Low	This risk will be overcome through adequate promotion, communication with stakeholders and presentation of the specific benefits of using it.

Reform Measure 12: Strengthening the national innovation and research ecosystem

1. Description of measure. In 2021 Montenegro remained committed to the strategic direction in the area of innovation and research policy which is founded on the Smart Specialisation Strategy (S3) (2019-2024). In the previous period, the pandemic substantially affected further course of implementation of this strategy which led to reallocation of a part of planned investments or made them impossible. The first implementation period demonstrated problems with coordination of the entire process, which limited the scope of linking sectoral policies and coordination of investment instruments, clearly indicating the need to redefine implementation framework for innovation and S3. The 2020 amendments to the legal framework for innovation, through the adoption of two laws which concern



reform of the innovation system and introduction of incentives for research and innovation, created a number of opportunities, but they also posed challenges which Montenegro has faced in the previous period. The preconditions for full implementation of both laws were created in 2021. Full focus is still on the innovation infrastructure segment, and the upcoming activities of preparation of the national Road Map for research infrastructure will contribute considerably to the strengthening of national research and innovation ecosystem of Montenegro. Low investments in research and development, insufficiently strong link between science and economy and human resource capacity building in research and innovation in terms of increasing the number of researchers, entrepreneurs, innovators and strengthening their knowledge and skills remain the main challenges faced by the sector. In that regard, this reform measure will enable continuity of the reform efforts invested in research, development and innovation, and it also constitutes a follow-up to the reform measures set out in ERP 2021-2023. The measure relies on the national strategic framework for smart specialisation and science and research and follows EU recommendations in this area. It particularly relies on assessment of the European Commission stated in the letter on conditional approval of S3, while in the thematic part of S3 priorities it relies on the European Green Deal and Digital Agenda. Last year was marked by establishment of the implementation system for innovation policy and S3, while strong focus was placed on setting up the Innovation Fund of Montenegro and Council for Innovation and Smart Specialisation. The second important segment was establishment of the programme directions of the innovation policy by developing the Operating Programme for implementation of S3 2021-2024 with the Action Plan for 2021-2022²², with assistance from the EU - Joint Research Centre (JRC) of the European Commission (EC) and United Nations Development Programme (UNDP), and by developing the Innovation Programme 2021-2024²³ which will be implemented in parallel with the Operating Programme. The Innovation Fund of Montenegro was established under the Government Decision in June 2021 and registered in September 2021. Implementation of the assistance programme is expected to begin in 2022 and the focus of all the upcoming activities will be placed on strengthening its institutional and human resource capacities, with assistance from the EU IPA funds and expert assistance from UNDP. Implementation of the assistance mechanisms, which will strengthen the system of implementation of innovative programmes and projects, will begin through a separate programme framework, to be established by the Fund, and through initial assistance provided from the national budget, whose overview is presented in the Innovation Programme 2021-2024. Capacity building of

²² Adopted in the session of the Government of Montenegro on 30 December 2021.

²³ Adopted in the session of the Government of Montenegro on 23 September 2021.



the Council for Innovation and Smart Specialisation and of its Secretariat, planned under this reform measure, is particularly important for creating an efficient system for implementation of the innovation policy and S3. Preconditions are in place owing to creation of the implementation framework in 2021, however full operationalisation of this body still needs to be ensured through EU IPA assistance, expert assistance from UNDP, strong inter-departmental cooperation and re-dimensioning of the Process of entrepreneurial discovery which should contribute to a complete and quality involvement of all target groups. A very important role in this framework is played by the Science and Technology Park of Montenegro which continued in 2021 to implement several national and international programmes that involve training and capacity building of innovative community. Execution of the contract on construction of the STP of Montenegro began on 25 May 2020, but problems were identified in 2021 in respect of the extended deadlines needed for continuation of the construction; efforts to resolve the problem have been intensified, however, this still causes delays in project completion.

- **Activities planned in 2022:** Capacity building of the Innovation Fund of Montenegro (Ministry of Economic Development); Establishing assistance programme of the Innovation Fund and implementation of the pilot programme lines along with assistance to innovation from IPA funds (Ministry of Economic Development, Innovation Fund of Montenegro, Ministry of Finance and Social Welfare - CFCU); Capacity building of the Council for Innovation and Smart Specialisation (Ministry of Economic Development); Adoption of the Strategy of Scientific-Research Activity (2022-2026) (Ministry of Education, Science, Culture and Sports); Implementation of secondary legislation in the field of science and research activity; (Ministry of Education, Science, Culture and Sports); Implementation of legal provisions in the fields of the innovation activity and incentives (Ministry of Economic Development).
- **Activities planned in 2023:** Implementation of the programme lines of assistance of the Innovation Fund and their strengthening (Ministry of Economic Development, Innovation Fund of Montenegro); Full operationalisation of the Council for Innovation and Smart Specialisation and of the framework for implementation of innovation policy and S3; (Ministry of Economic Development); and Programme assistance to the research activities (Ministry of Education, Science, Culture and Sports);
- **Activities planned in 2024:** Implementation of the programme lines of assistance of the Innovation Fund (Innovation Fund of Montenegro, Ministry of Economic



Development); Preparatory activities for S4 strategy (Ministry of Economic Development, Council for Innovation and Smart Specialisation).

Institution responsible to implement the measure: Ministry of Economic Development.

2. Results indicators.

Indicator	Baseline	Intermediate target (2022)	Target (2024)
Strengthened capacities of the Innovation Fund of Montenegro	Innovation Fund of Montenegro set up (2021)	Team of the Innovation Fund of Montenegro formed; Programme lines of the Innovation Fund created; Implementation of the programme lines of the Fund began;	Innovation Fund is fully operational and receives assistance from different sources of financing
Strengthened capacities of the Council for Innovation and Smart Specialisation	Council for Innovation and Smart Specialisation set up	Innovation working groups of the Council set up; S3 organisational unit set up; At least two sessions of the Council held;	Fully operational Council which plays a crucial coordinating role in S3 process
Number of researches FTE	469 (2019)	475	480
Private sector expenditures on research and development	12 percent (2019)	17 percent	25 percent

3. Expected impact on competitiveness: Implementation of the new legal framework for innovation, including incentives for research and innovation, and implementation of the new secondary legislation and strategic framework for science and research will create the environment favourable for business sector’s investments in research, development and innovation, including strengthening of human resources in this area and linking science and economy, which will produce more visible effects on the competitiveness of enterprises in the market. The indicator relevant for this is Global Competitiveness Index - Component 12: Innovation Capacities (source: World Economic Forum - WEF): 2016: 94/138; 2018: 71/141; 2019: 69/141 (2020 data are not available). Another important indicator is Global Innovation Index (World Organization for Intellectual Property - WIPO) – 2016: 51/128; 2018: 52/124;



2019: 45/129; 49/131. One more indicator is the percentage of investment in research and development (0.5 percent of GDP in 2018, 0.36 percent of GDP in 2019), while business sector also invested in research and development (17 percent in 2016, 19 percent in 2017, 38 percent in 2018, whereas a 12 percent decline was recorded in 2019). The indicator Sales of new-to-market and new-to-enterprise innovations as a percentage of turnover will become available as baseline data in 2022, in the framework of the innovation statistics pilot survey.

4. Estimated cost of the activities and source of financing: **Total funds** allocated for implementation of this reform measure in **2022** amount to **2,084,000.00 euro**, of which **1,024,000.00 euro** have been allocated in the **national budget**, as follows: 1,000,000.00 euro for operating costs and programme lines of the Innovation Fund of Montenegro and 24,000.00 euro for the work done by the innovation working groups of the Council for Innovation and Smart Specialisation; and **1,010,000.00 euro** from IPA 2020 funds, as follows: 290,000.00 euro for technical assistance and 720,000.00 euro for the grant scheme for assistance to innovation in MSMEs; while **50,000.00 euro** were planned from the other grants that are implemented with UNDP assistance. **Total funds for 2023** amount to **2,000,000.00 euro** from the national budget, as follows: 1,000,000.00 for operating costs and programme lines of the Innovation Fund of Montenegro and 1,000,000.00 euro for programme assistance to the research. It is still necessary to establish additional financial resources that may be obtained this year through IPA funds and other grants (donor funds have already been agreed and are disbursed with UNDP assistance). **Total funds for 2024** are projected in the amount of **680,000.00 euro**, of which **500,000.00 euro** are from national budget for the needs of the Innovation Fund of Montenegro, while **180,000.00 euro** are the final tranche of payment for the innovation grants to MSMEs.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care: Establishment of the Innovation Fund and Council for Innovation and Smart Specialisation generates new jobs in the innovation sector, and these jobs are crucial for implementation of the innovation policy. Targeted activities regarding legislative amendments and strengthening of human resources in this area will particularly stimulate creation of new jobs by the entities engaged in innovation activities, including innovative start-ups and licensed scientific and research institutions. Programme assistance to this sector enables creation of new jobs during the period of assistance, and the intention is to create conditions and stimulate sustainability of these jobs after the programme and projects are finished. The measure is gender neutral.

6. Expected impact on the environment and climate change: The measure does not have a direct environmental impact. However, since legislative amendments set out implementation of the innovation and science and research programmes and projects which may have a



significant impact on green transition, the positive effect is expected in terms of impact on sustainability.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Insufficient capacities of the Innovation Fund and Council for Innovation and Smart Specialisation	Low	Assistance has been provided for the strengthening of institutional capacity and human resources from several sources: IPA, JRC, UNDP. In fact, evaluation of the IPA 2020 technical assistance to implementation of the Smart Specialisation Strategy is at the final stage and is fully focused on capacity building of the Council and of the Fund. DG JRC approved expert assistance whose goal is to analyse national capacities and prepare report with recommendations for efficient implementation. Assistance to capacity building of the Council and of the Fund has also been provided through the second phase of the project “Enhancement of Systemic Assistance to the Innovation and Development of MSMEs – Norway for You” which is implemented by UNDP.
Insufficient administrative capacities for monitoring implementation of the new legal provisions	High	Inter-departmental cooperation between relevant institutions (MED, MFSS and Tax Administration) was established, work on the implementation of legal provisions was enabled through the information system (www.inovacije.me) for submission of the applications for incentives, and functionalities are being expanded at the moment, by which the majority of processes is digitalised and facilitated from administrative perspective.
Insufficient funds for implementation of the legislative and strategic framework for science and research activity	Low	Active search and finding of funds from international sources (IPA III, international science and research programmes, bilateral and multilateral cooperation in the field of science and research activities, access to research infrastructure etc.).

Reform Measure 13: Improving digitalisation of the e-government by developing platform for complex e-services

1. Description of measure. The 2021 Activity Programme of the Government of Montenegro recognises digital transformation as one of the strategic priorities which is a driver of innovation, modernisation, competitiveness and overall socio-economic development. Once adopted, the Digital Transformation Strategy of Montenegro 2022-2026 will result in recognition of the goals, activities and indicators in the field of raising awareness of digital society and digital economy through digital transformation, while adoption of the Public Administration Reform Strategy 2022-2026 will lead to recognition of the activities and goals which will contribute to the complete digitalisation of services, with the aim of increasing quality of the electronic services provision and recognition of the activities related to transparency and data openness. Establishment of the main digital services will improve the



standard of living of citizens and businesses, on one hand, and optimise business processes in public administration, on the other. The strategic documents mentioned above are correlated with the defined reform measure and contribute to its implementation. The ministry is primarily responsible for creating public policy which regulates public administration system in Montenegro and conducts digital transformation, and as one of the key drivers in digitalisation of processes it should provide expert and technical assistance to the other institutions during the digitalisation process, with the aim of providing electronic services to citizens and businesses. At the beginning of 2021, activities commenced on the e-services and digital infrastructure project as the COVID-19 response measure funded by the European Commission and implemented by UNDP, in close cooperation with the Ministry of Public Administration, Digital Society and Media, the aim of which is to speed up digital transformation of public administration in Montenegro, while developing new and upgrading the existing platforms and complex software systems, as well as the complex electronic services which primarily meet the needs of citizens and businesses. The ultimate goal of the reform measure is to set up an efficient and sustainable integrated system of simplified electronic procedures for citizens and businesses, which will primarily be done through implementation of at least 10 electronic services for citizens and businesses. The project envisages establishment of the integrated e-government portal e-Citizen, along with implementation of at least 10 priority services as follows: application for the issuance of ID cards and passports, filing applications for issuance (renewal) of drivers' licences, e-application for vehicles registration, e-student, e-application for the employment in civil service, generic e-service for filing applications to take professional exams (taking professional exam in order to be able to work in state authorities with university/secondary school degrees, taking professional exam in order to be able to work in the area of sports, taking professional exam in order to be able to work as notaries public etc.). Electronic service in spatial planning, e-registration of NGO, e-business, electronic registration and deregistration of employees, e-contributions, compensation for child birth – connected to e-registration of new-borns, e-enrolment in pupil and student dormitories, application for registration and entry of farms and premiums. Development and implementation of the new e-government portal e-Citizen, accompanied by integration with the other systems of electronic administration such as electronic identification system, electronic payments system and system for electronic data exchange between state administration authorities create conditions for implementation of the complex e-services which will be available at one centralised place. It is necessary to provide fully digitalised services which ensure that the entire communication between end-users and public administration takes place electronically.



a) Activities planned in 2022:

Assessment of the needs of citizens and businesses in respect of e-government (MPADSM, UNDP)

The plan is to carry out a survey of the satisfaction of citizens and business community with electronic services and digitalisation and of their needs in this area for the period 2021-2022. The survey is carried out in phases: first in October – November 2021; second in April -May 2022; third in October-November 2022. After three rounds of survey, we will ensure data comparability in order to obtain useful inputs for the creation of public policies in the field of digitalisation in the upcoming period.

Development and implementation of the new portal e-Citizen alongside implementation of the new interoperable e-services for citizens and businesses (MPADSM, UNDP)

Development and implementation of the new e-government portal e-Citizen, accompanied by integration with the other systems of electronic administration such as electronic identification system, electronic payments system and system for electronic data exchange between state administration authorities create conditions for implementation of the complex e-services which will be available at one centralised place. Also, this activity includes implementation of the new digitalised services which ensure that the entire communication between end-users and public administration takes place electronically.

b) Activities planned in 2023:

Development and implementation of new interoperable e-services for citizens and businesses (MPADSM, UNDP)

This activity entails continuation of implementation of the new digitalised services recognised under the project “E-Services and Digital Infrastructure as the COVID-19 Response Measure”.

Capacity building of the network of ICT practitioners (MPADSM, UNDP)

Set up the network of ICT practitioners who are directly linked to development/implementation/upgrade and maintenance of the main platform of state administration and who contribute to the development of interoperable (digitalised) e-services for citizens and businesses.

c) Activities planned in 2024:

Development and implementation of new interoperable e-services for citizens and businesses (MPADSM)

Owing to the activities implemented previously and once the new e-government portal, which will be integrated with the other shared systems, is established the conditions will be created for digital ecosystem which will enable simpler development of the future digitalised services that fall within the competence of responsible institutions. Implementation of the new



interoperable (digitalised) e-services for citizens and businesses will continue through the activity mentioned above, and with the software solutions provided.

Institution responsible to implement the measure: Ministry of Public Administration, Digital Society and Media.

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2022-2023)	Target (2024)
Number of conducted surveys with the results showed	1	2	/
Number of new interoperable (digitalised) e-services for citizens and businesses ²⁴	/	7-10	10-15
New electronic government portal e-Citizen established	/	New electronic government portal created	/
Network of ICT practitioners is established Operating team Number of workshops delivered to practitioners	/	Network established - operating team + number of workshops delivered 3	/

3. Expected impact on competitiveness. Implementation of this reform measure will stimulate competitiveness growth and improve efficiency of the public sector through optimisation of the public administration processes. In the upcoming period, once the reform measure is implemented, the position of Montenegro in international surveys in the fields of electronic government, online services and digitalisation in general is expected to improve.

4. Estimated cost of the activities and the source of financing. Activities planned for 2022 and 2023 through this structural reform are funded by the European Commission, from IPA II funds, within sector budget support to the public administration reform, through

²⁴ Priority e-services which will be implemented under UNDP project are: application for the issuance of ID cards and passports, filing applications for issuance (renewal) of drivers’ licences, e-application for vehicles registration, e-student, e-application for the employment in civil service, generic e-service for filing applications to take professional exams (taking professional exam in order to be able to work in state authorities with university/secondary school degrees, taking professional exam in order to be able to work in the area of sports, taking professional exam in order to be able to work as notaries public etc.). Electronic service in spatial planning, e-registration of NGO, e-business, electronic registration and deregistration of employees, e-contributions, compensation for child birth – connected to e-registration of new-borns, e-enrolment in pupil and student dormitories, application for registration and entry of farms and premiums.



implementation of the project “E-Services and Digital Infrastructure as the COVID-19 Response Measure”, implemented by UNDP in cooperation with the Ministry of Public Administration, Digital Society and Media. The amount of 695,000 euro²⁵ includes implementation of the following activities: assessment of the needs of citizens and businesses for e-government for 2020 (70,000 euro), development and implementation of the new portal e-Citizen with implementation of the new interoperable e-services for citizens and businesses for 2022 and 2023 (580,000 euro) and capacity building of ICT practitioners network for 2023 (45,000 euro); this is funded through the sector budget support i.e. IPA funds. The activities implemented previously, after establishing the new e-government portal which will be integrated with the other shared systems, conditions will be created for digital ecosystem which will enable simpler development of the future digitalised services that fall within competence of the responsible institutions. Implementation of the reform measure in 2024 requires additional costs which would be financed from the budget of Montenegro, primarily through implementation of the activity “Development and Implementation of New Interoperable e-Services for Citizens and Businesses” and these would amount to around 50,000 euro. Total estimated costs would reach 745,000 euro, of which 50,000 euro from the budget of Montenegro and 695,000 euro from IPA funds (through sector budget support).

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality and access to health care. Digital transformation and implementation of the new interoperable services and transaction services will contribute to development and economic growth of the country. The measure is gender neutral.

6. Expected impact on the environment and climate change. The reform measure will have positive environmental impact due to further digitalisation of the priority e-services for citizens and businesses, which reduces the need for traditional paperwork in the procedures.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
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²⁵Activities planned for 2022 and 2023 will be implemented under the project “e-Services and Digital Infrastructure as the COVID 19 Response Measure” and the funds are stated in full amount. In presentation of the funding amounts, we relied on the self-assessment according to which 68 percent of the allocated funds will be spent on implementation of activities in 2022, and 32 percent in 2023.



Inert institutions – there is a possibility of delay in implementation of the reform measure, particularly in respect of implementation of the new interoperable services.	Medium risk	Implementation of the new interoperable services depends solely on the state administration authority that has been recognised as competent for e-services. The effect of possible risk will be mitigated through a stronger influence exerted through the Council for Electronic Government.
Development of interoperable e-services depends on technical preparedness of the shared platforms which directly provide e-services of the highest level of sophistication i.e. level 4 or 5 (electronic identity, electronic payment, electronic data exchange between state administration authorities etc.)	Low risk	In framework of the project “E-Services and Digital Infrastructure as the COVID-19 Response Measure”, in the period mentioned above, the plan is to develop and improve the shared platforms mentioned above in order to create all conditions for performance of the most complex services.
Legal restrictions in digitalisation of the selected digital services, that are recognised as services that should be implemented through the reform measure mentioned above, can slow down digitalisation of the selected priority services.	Medium risk	Implementation of the new interoperable services also depends on normative restrictions, if any, and these should be identified during implementation, which will require amendment to the normative acts that are related to the specific e-service.

Reform Measure 14: Improving legislative and regulatory framework for further development of broadband internet connection infrastructure

1. Description of measure. The measure is a follow-up to the reform measures set out in ERP 2021-2023, it will enable continuity of reforms in digital transformation and refers to strengthening of availability of the broadband communication networks and services. Strategically speaking, the reform measure is aligned with EU recommendations in this area and relies on implementation of the project *Development of the Infrastructure for the Broadband Internet Connection in Montenegro*, which was placed on the Single List of priority infrastructural projects of the Government of Montenegro, in the digital infrastructure sector. Since the Study on development of the broadband internet connection was produced in 2021, and since the study proposes the best type of infrastructure to be built in the areas where market participants have demonstrated commercial interest to invest and also proposes the most acceptable cost model, the focus in the upcoming period will be placed on the reform components and development of the new legal and strategic framework for electronic communications. The National Plan of development of the broadband next generation networks, planned to be produced in 2022, will specify the way of implementing the optimal model for strengthening economic and social development of Montenegro through deployment of the fixed broadband infrastructure. This will enable development of proper infrastructure for a fast and secure internet access for all households, business undertakings, education institutions and health care institutions in Montenegro with the aim of supporting



digital transformation of the society and economy. In this context, the Government of Montenegro adopted the Proposal for the Law on the Use of Physical Infrastructure in Deployment of the High-speed Electronic Communications Network which plays a very important role in stimulating, accelerating, facilitating and reducing costs of deployment of the high-speed electronic communications networks in all parts of the state. Application of this law will lead to cost reduction and simplification of the procedures for deployment of the high-speed electronic communication networks and to the reduction of digital gap in rural areas, more equitable regional development, greater accessibility of electronic government services and digitalisation of the entire public sector, while transferring effects of digital transformation to all parts of economy and society. The Study on strategy of introduction of 5G mobile communication networks of Montenegro was produced (in 2021) taking into account the state of play at the national level and specificities of the local market, and it will be a starting point for adoption of the national 5G strategy, after which the action plan for implementation of the strategy will be established and that action plan will set out goals, identify necessary activities and implementers and specify deadlines for their implementation. Owing to this concept, 5G will enable super fast mobile broadband network without the need for fixed networks and will facilitate development of smart factories, communication between vehicles, automated operation of vehicles, holographic technologies, telemedicine, global IoT sensor networks. Therefore, development of 5G networks may be a main catalyst for generating innovation which may have positive impact on economic growth. On the basis of the aforementioned, the reform measure primarily concerns harmonisation of the national legislation on electronic communications with the new EU²⁶ directive and establishment of the strategic framework that will contribute to the digital transformation process.

- a) **Activities planned in 2022:** Adoption of the strategy of development of 5G networks in Montenegro; Action plan for implementation of the strategy of development of 5G networks in Montenegro; National plan for development of the broadband; and Adoption of the new Law on Electronic Communications.
- b) **Activities planned in 2022:** Implementation of the new Law on Electronic Communications; and Adoption of secondary legislation based on the Law on Electronic Communications;
- c) **Activities planned in 2024:** Implementation of the legislation on electronic communications; and preparatory activities aimed at further development of electronic

²⁶ EU Directive 2018/1972 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L1972>)



communications.

Institution responsible to implement the measure: Ministry of Economic Development.

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Establishment of the National Plan for development of the high-speed broadband networks	Study on development of the broadband internet connection produced	National Plan for development of the high-speed broadband networks adopted	National Plan for development of the high-speed broadband networks implemented
Transposition and efficient implementation of the EU Directive on European Electronic Communication Code 2018/1972	Two TAIEX workshops held – implementation and transposition of the new directive 2018/1972	Law on Electronic Communications adopted	Law on Electronic Communications implemented
Establishment of the National Office/Directorate for the broadband internet access	Study on the office for broadband connection produced	National office/directorate competent for broadband connection established	Capacities of the national office/directorate competent for broadband connection strengthened
Producing strategy/plan for introduction of 5G in Montenegro	Study on the strategy for introduction of 5G mobile communication networks in Montenegro produced	Strategy/plan for introduction of 5G in Montenegro produced	Strategy/plan for introduction of 5G in Montenegro implemented

3. Expected impact of the reform measure on competitiveness. Establishment of efficient framework for implementation of the policy on development of electronic communications infrastructure is key parameter for the new ways of operations aligned with the development of new technologies. Such framework will lead to a better coordination of assistance instruments and will stimulate further investments, which will have positive impact on the growth of investments in networks development, while focusing instruments on the specific development areas will foster productivity which will have positive impact on GDP growth and economic competitiveness. Implementation of the new legal framework for electronic communications and of the new framework of laws, secondary legislation and strategies will enable creation of the environment for investments by the business sector and strengthening of human resources in this area, while it will also create new opportunities for stimulating innovation, thus achieving more visible effects on the market competitiveness and strengthening activities in priority sectors, which will ultimately reflect on competitiveness.

4. Estimated cost of implementation of the reform measure and envisaged sources of financing. Tables in the annexes show additional costs of the measure compared to 2021. The funds for 2022 include budgetary funds for operating costs and development of legal and



strategic documents of the MED in the amount of 60,000 euro.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. Implementation of the strategy for introduction of 5G in Montenegro enables development of the broadband networks, which leads to development of the new electronic services and creation of opportunities for stimulating innovative solutions which will have impact on employment growth in this sector, and they are crucial in implementation of the policy on development of electronic communications.

6. Expected impact on the environment. It is currently assessed that this measure does not have impact on the environment. Preparation of the National Plan and Strategy for 5G will include analysis of risks associated with the works on installation of cables and tower, including official permit, land use, occupational health and safety, areas, any disruptions caused to the public and procedures for randomisation.

7. Potential risks.

Risk	Likelihood of the risk	Risk mitigating action
Lack of interest of the private sector to invest in development of the broadband networks	Low	Development of the new services which use 5G networks fosters private sector to invest in development and participate in the competitive market
Insufficient administrative capacities for monitoring implementation of the new legal and strategic solutions	Low	Establishment of inter-departmental cooperation, provision of expert assistance
Insufficient funding for implementation of the legal and strategic framework for electronic communications	Low	Active search and finding of funds from international sources (bilateral and multilateral cooperation in the area of electronic communications etc.)

Reform Measure 15: Improving management of business undertakings in majority state ownership

1. Description of measure. As a response to improving regulatory environment, this reform measure concerns establishment of a separate legal entity that will monitor and analyse financial condition in the business undertakings in majority state ownership and provide technical assistance in implementation of the reforms so as to ensure their more efficient management. Financial oversight and support to the implementation of reforms, for the purpose of more efficient management of business undertakings in majority state ownership, will ensure more profitable operation of these business undertakings and more efficient utilisation of resources which will increase budget revenues through the expected increase of the revenues generated from dividends, but also indirectly through the increase of other budgetary revenues as a result of better performance. On the expenditure side of the budget,



the risks of emergence of the new liabilities resulting from poor management and operations of these undertakings will be considerably mitigated. The proposed reform measure partly responds to the policy guidance no. 1 of the Ministerial Dialogue, regarding improvement of implementation of the programme of assessment of public investment management, aiming to improve the quality of public investments. Since the existing regulatory environment is not business-oriented and disrupts dynamic development of state enterprises, the endeavour to improve management of business undertakings in majority state ownership will contribute to the improvement of the institutional and regulatory environment in Montenegro, which is one of the key challenges recognised by the European Commission in the assessment of the Montenegrin economy. The aim of establishment of Montenegro Works Ltd. is to increase long-term value of the state property by introducing the best modern international practices and standards of corporate governance and accountability in management, as well as by setting strategic priorities and goals in order to improve operating and financial performances of business undertakings in majority ownership of the state of Montenegro. Even though expectation of adequate and stable revenues remains an important priority, an equally important parameter will be transformation and long-term increase of the value of these business undertakings along with best practice, cautious planning and appropriate monitoring of their operations. Since Montenegro Works Ltd. was registered in November 2021, activities are currently implemented to sign crucial agreements on accounting and IT. In addition, the plan is to launch competition for the positions of financial analyst and auditor, as well as the competition for selection of graphic design for the company's logo. It is also important to mention that a set of strategic guidelines of the company is also planned to be created and established.

a) Activities planned in 2022-2023: Given the importance of supervisory and control function of the Government over the enterprises it owns and which it has founded, in this period it is necessary to legally regulate operations of these business undertakings so as to introduce mechanisms by which the state could manage them more efficiently. Therefore, the goal in 2022 will be adoption of the new law, which will be prepared on the basis of the model used by the other international holding companies. Moreover, financial analysis of all the business undertakings in majority ownership by the state is planned to be finalised in the period mentioned above, after which it will be established which enterprises are of the highest strategic importance. The plan is also to develop a set of corporate management guidelines through seminars and training courses on leadership in business undertakings in majority state ownership, and to monitor routinely their implementation. In addition, standardisation of financial reporting is also planned



for this period, by increasing reporting frequency from one year to three months, as well as standardisation of development of the business plan, along with monitoring of the projected and achieved performance on the monthly level. Strategic Development Department will be set up at the company and it will employ experts from each sector (energy, infrastructure, tourism, transport, industry etc.) who will develop core performance indicators for each business undertaking and frequently monitor the projected and achieved performance on the monthly level.

b) Activities planned in 2024: Ensuring continuous performance of the activities mentioned above from the previous period.

Institution responsible for implementation of measure: Ministry of Finance and Social Welfare

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2022-2023)	Target (2024)
Improvement of the financial performance of enterprises through establishment of "Montenegro Works" LLC.	Establishment of the limited liability company and registration of the company at the Central Register of Business Undertakings of Montenegro (CRPS); Signing key agreements on accounting and IT; Launching competition for the positions of financial analyst and auditor, and also for selection of the graphic design of the company's logo.	Work organisation "Montenegro Works Ltd." established and ensures a more efficient and more transparent management of public enterprises in majority state ownership The goal in 2022 is to adopt the new law. Standardisation of financial reporting and increased reporting frequency from one year to three months; Standardisation of preparation of the business plan, while monitoring the projected and achieved performance on the monthly level; Strategic Development Department will be set up at the company and will employ experts from each sector (energy, infrastructure, tourism, transport, industry etc.) who will develop core performance indicators for each business undertaking, while frequently monitoring the projected	Ensure continuous performance of the activities mentioned above from the previous period. Increase of liquidity and solvency, reduction of fiscal risk to operations, improved corporate governance of the business undertakings in majority state ownership.



		and achieved performance on the monthly level.	
Preparation of analysis and guidelines for business undertakings in majority state ownership	Creating and determining development of a set of strategic guidelines for the company.	Preparation of financial analyses of all the business undertakings - The plan is to develop a set of corporate management guidelines through seminars and training courses on leadership in business undertakings in majority state ownership, and to monitor routinely their implementation.	Ensure continuous performance of the activities mentioned above from the previous period.

3. Expected impact on competitiveness. Competitiveness of the business undertakings in majority state ownership is expected to improve through enhancement of transparency and through fostering and applying good corporate governance practice, while ensuring continuity of governance, based on certain performance indicators. In this way, the established supervisory and control function will motivate the management of business undertakings to manage them more efficiently.

4. Estimated cost of the activities and the source of financing. The estimated cost of implementation of this reform measure, which refers to securing of the founding capital of the company, amounts to 490,000.00 euro. These funds were allocated in the budget of Montenegro. We emphasise that this is a one-off allocation of funds.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. The planned solutions will lead to the improvement of operations, primarily through the transformation of business processes, but also through the rationalisation of costs and more efficient utilisation of the existing resources in business undertakings in majority state ownership. Ultimately, the state will also benefit from the increased revenues generated from dividends, but also indirectly from the increase of the other budget revenues because of better operating. Therefore, improvement of operations of the business undertakings in majority state ownership will contribute to development and economic growth of the country, which will reduce development gap in the country, compared to the EU average, and increase quality of life of all its citizens. The measure is gender neutral.

6. Expected impact on the environment. Implementation of the reform measure will improve, amongst other things, the environment and forestry sector due to improvement of operations of business undertakings competent for this specific area.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigation action
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Insufficiently professional staff who will be employed in the services of "Montenegro Works" LLC.	High	In the framework of international cooperation with the organisations such as International Monetary Fund and World Bank and with their experts, we will use the assistance in different projects in this area. We emphasise that the offers of this type have already been submitted to "Montenegro Works Ltd."
Lack of parliamentary support	High	In order to ensure that "Montenegro Works" has necessary authorisations which will contribute to the introduction of all the planned reforms, in 2022 it is necessary to adopt a large number of laws and pieces of secondary legislation which will regulate this area.

Challenge 3: Formalisation of economy

The measures which specifically respond to the reduction of informal economy are part of the area *Business Environment and Reduction of Informal Economy*. The titles of measures are: "Suppressing informal economy through tax administration reform", "Reducing Labour Tax Wedge through the abolishment of health contributions and introduction of non-taxable income" and "Electronic Records of Traffic in Tourism".

Reform Measure 16: Suppressing informal economy through the tax administration reform

1. Description of measure. The reform measure has been transferred from the previous year and aims to respond to the challenge of suppression of informal economy. Since 2018, the Revenue Administration of Montenegro has implemented the Revenue Administration Reform Project (RARP) which focuses on improving efficiency of the Administration and reducing costs for taxpayers. This project is based on long-term vision of an entire tax administration relying on modernised business processes based on systemic risk analysis, which will ultimately contribute to a more efficient collection of public revenues. In that regard, one of the basic instruments of the new system will be Integrated Revenue Management System (IRMS). Establishment of this highly automated system aims to increase transparency of the tax payment process, thus reducing informal economy. The overall project is planned to be implemented by 2023. Besides implementation of the IRMS, the new fiscalisation system in trade in goods and services is designed to improve the control of transactions, further reduce tax administration and create favourable conditions for efficient management of tax controls and involuntary collection procedures. According to the



Feasibility Study for Project Implementation²⁷, the tax revenues are expected to be increased in the first year of introduction of electronic fiscalisation by 13-17 million euro of which 5-7 million euro are expected to be generated from VAT, 6 to 7 million euro from personal income tax and contributions and 2-3 million euro from corporate profit tax. Under the Law on Fiscalisation of the Transactions in Goods and Services (Official Gazette of Montenegro, No 46/19, 73/19 and 08/21), the deadline for the beginning of implementation of the new system is 1 January 2021 for all persons liable of fiscalisation who are ready for its application, while for the others this deadline starts to run from 1 June 2021. In order to implement the Law, the rulebooks for its application were adopted and published in the Official Gazette of Montenegro (54/2020 of 8 June 2020).²⁸ Application of the online electronic fiscalisation system began on 01 January 2021, in accordance with the Law. Registration data: 23.676 persons liable of fiscalisation; 29.732 business units; 33.332 electronic point of sale devices; 50.397 operators of electronic point of sale devices; 243 manufacturers of client software for electronic fiscalisation; 336 maintainers of client software for electronic fiscalisation; 297 versions of client software for electronic fiscalisation; in total, 96.145.415 invoices registered.²⁹As for implementation of IRMS, the document with functional requirements for introduction of the new integrated IRMS is currently being prepared. Once the document with functional requirements is completed and once the other tender documentation is prepared, the tender procedure for procurement of the new IRMS will be launched. Since the process of data cleansing and later migration into the new system is a continuous activity, the Data Cleansing Strategy/Action Plan and cleansing procedures have been prepared, and the cleansing process has started as well. Activities from both projects are synchronised so as to avoid overlapping. Activities also focus on creating additional conditions for preventive action and suppressing the existing forms of informal economy, which is linked directly to the policy guidance no 2. As for administrative capacity building, activities will be implemented to define the optimal model for administrative capacity building, with strong focus on retaining highly qualified staff who have special knowledge and skills, which is in line with recommendations of the European Commission for the negotiating chapter 16 - Taxation. Due to the new

²⁷ MONTENEGRO Electronic fiscal invoice – Feasibility Study for Project Implementation, 2018

²⁸ Rulebook on the contents of the registration of label of the fiscal service operator, manner of generating identification code of the person liable of fiscalisation and manner of submitting data and generating label on business premises of the person liable of fiscalisation (Official Gazette of Montenegro 54/2020 of 8 June 2020). Rulebook on contents and manner of authentication of the book of invoices, manner of submitting the invoice without the unique identification code of the invoice and manner of verifying the invoice for which the fiscalisation procedure has been carried out (Official Gazette of Montenegro 54/2020 of 8 June 2020). Rulebook on the form and structure of messages and security mechanisms for the exchange of messages of the fiscal invoice and manner of submitting invoices issued in the event of interruption of the permanent internet connection (Official Gazette of Montenegro 54/2020 of 08 June 2020).

²⁹Data of the Revenues and Customs Administration as on 17 September 2021.



organisational structure (merging of Tax Administration and Customs Administration into one authority – Revenues and Customs Administration), consultant assistance was sought from IMF experts for a comprehensive reform of the Revenues and Customs Administration, ranging from organisational part to functional links between business processes. The project is financed by EU funds, through the multi-beneficiary IPA. It is worth noting that capacities for the detection and engagement in the suppression of informal economy will not automatically lead to the reduction of informal economy; instead, in the forthcoming period it is necessary to continue to take measures and implement activities aimed at reducing it. As for administrative capacity of the Revenue and Customs Administration, the new jobs systematisation and Human Resources Strategy will be adopted. They will specify the number and structure of staff which will correspond to the business processes described in the FRD document of RARP. In the forthcoming period, activities related to the introduction and implementation of IRMS will continue as well. For that purpose, the tender was launched for procurement of the data storage/business intelligence system – BI/DWH. Its implementation will enable full utilisation of the EFI system. In addition, the use of data in this system will create preconditions for carrying out complete analyses of the risk in cash and non-cash transactions.

- a) **Activities planned in 2022:** Continuation of activities involving introduction of IRMS, and procurement of the remaining part of software and hardware.³⁰
- b) **Activities planned in 2023:** Procurement of the remaining part of software for IRMS. Control of data migrated into the new system, final quality controls to check whether participants are ready to make transition to the new system, releasing the system into production.
- c) **Activities planned in 2024:** /

Institution responsible to implement the measure: Ministry of Finance and Social Welfare.

2. Results indicators.

Indicator	Baseline 2021	Intermediate target 2022/2023	Target 2024
Electronic fiscalisation system functions in full capacity for all taxpayers.	All the three phases of establishing the system completed.	Full implementation of the e-fiscalisation system and its further improvement.	Full implementation of the e-fiscalisation system.

³⁰ This includes continuation of activities in respect of data cleansing and migration, activities regarding quality assurance when introducing a new system, and further implementation of the Data Analytics Platform (system for data storage /business intelligence - BI/DWH)".



Equipment for IRMS is fully functional.	Tender launched and procedure for equipment procurement completed.	Procurement of additional equipment.	Equipment is fully functional.
Functional databases established in IRMS.	Continuation of the data cleansing process.	Continuation of the data cleansing process, along with data migration.	Data migrated and integrated into IRMS.

3. Expected impact on competitiveness. Implementation of the Revenue Administration Reform Project will lead to establishment of an integrated information system based on modern business processes, which will constitute basis for the systemic risk analysis performed by the Revenue Administration, as one of the key mechanisms of control of the taxpayers, particularly those operating in informal sector. In this way, competition from informal sector which directly causes harm to the sustainability of the taxpayers operating in legal operations will be minimised. This will also boost competitiveness of the business operators that operate legally and will increase efficiency of the Tax Administration, while boosting competitiveness of the entire economy. Introduction of the electronic fiscalisation system and effecting cash and non-cash transactions has impact on the reduction of informal economy, leading to a larger coverage of taxpayers and indirectly stimulates the increase of economic competitiveness. Legalisation of transactions enables equal treatment of all market participants. Cleaning of the existing database of the Revenue and Customs Administration and linking the Central Register of Business Undertakings with the Central Registry of Insurance Obligors (CROO) base will create conditions for shortening the time needed for initiation of the activities needed for the registration of enterprises. In addition, creation of the accurate database of the Revenue and Customs Administration and possibility of exchanging it with the other institutions which provide incentives and reliefs to the business sector will contribute to boosting competitiveness.

4. Estimated cost of the activities and the source of financing. The project is financed from the World Bank loan worth 18.8 million euro (with 4.8 million euro of additional financing to meet the needs of electronic fiscalisation). The planned project duration is from 2018 to 2023. The funds amounting to 840,000 euro were spent for both projects in 2020, mainly for procurement of the equipment for introduction of e-fiscalisation and for services related to the introduction of IRMS. The funds planned for 2021 mainly refer to the procurement of the remaining equipment for e-fiscalisation and procurement of a part of IRMS equipment, including the system for data warehousing/business intelligence (BI/DWH). In 2022, the plan is to procure the remaining part of the software and hardware for IRMS, as well as for BI/DWH, in the amount of 4,980,000 euro. Procurement of the software for IRMS is planned to be finalised in 2023.



2021 from the project loan: 4,300,000 euro

2022 from the project loan: 10,500,000 euro

2023 from the project loan: 2,676,800 euro

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. By reducing the size of informal sector in the long-run, conditions will be created for the system to be based on a healthy competition which will boost competitiveness of the Montenegrin economy, while increasing the standard of living and alleviating poverty.

6. Expected impact on the environment. The measure will have positive environmental impact due to further digitalisation of the procedures related to the implementation of tax regulations.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Transition to the new system will incur certain costs among taxpayers who have fiscal cash registers which cannot be adapted to the new system, which is why this group of taxpayers might show resistance to implementation.	Low	Through successful implementation of the regulations and raising awareness through public and promotional campaigns. The use of the “soft” system of introduction which enables those taxpayers who are ready to start implementation on 01 January 2021, while others will be given the possibility of adapting until 01 June 2021.
Comprehensive coverage of taxpayers	Medium	Informative campaigns, controls, precise database which contains data on registration
Delay in implementation of the IRMS project.	Medium	This risk will be eliminated by successful project management, through the defined managing structures of the project and compliance with the set deadlines.
Lack of administrative capacities for comprehensive reform due to outflow of the existing staff of the Revenue and Customs Administration.	Medium	New jobs systematisation and Human Resource Strategy of the Revenue and Customs Administration will specify the number and structure of staff which will correspond to the business processes described in the FRD document of RARP project.
Parallel activities – Implementation of the system for electronic fiscalisation and system for BI/DWH.	Medium	Carry out analysis of the impact on regular project activities and strengthen implementation capacities.

Reform Measure 17: Improving the business environment by reducing the labour tax wedge

1. Description of measure. Adoption of the comprehensive tax reform contained in the Europe Now! programme ensures a more favourable business environment, primarily through reduction of employers’ costs on employees’ wages and expected reduction of informal economy in the labour market. The reform is based on readiness of the state to



renounce a part of revenues to the benefit of employees and employers, thus establishing environment for the creation of new jobs and expansion of the tax base.

Employers reduce tax wedge by:

- introducing non-taxable part of the wage (income tax is 0 percent on the gross base up to 700 euro);
- abolishing health care insurance payable by employers (shift to financing of the health care system from the general budget revenues);
- proportionate reduction of the local income tax.

In addition to the benefit for employers, the employees also benefit from the net wage increase which is generated based on the reduction of taxes and contributions payable by employees. With this reform, the labour tax wedge is reduced for all levels of wages from 39 percent, which has been the case so far, to 20.4 percent for the level of minimum wage, after which amount the tax wedge is increasing with introduction of progressive model of taxation of wages above 1,000 euro gross base

By doing so, three goals are achieved:

- labour tax wedge is reduced, which creates conditions for reducing informal economy in the labour market and stimulates formal employment;
- labour costs of businesses are reduced which enables them to reallocate a part of the proceeds in order to increase investments and cover other operating costs;
- due to the net wage increase, employees are more motivated to work and employers have more efficient employees for the same or lower amount of the gross wage.

Reform of the healthcare system remains one of the major priorities in order to enable an efficient system and increase quality of the health care services to the benefit of all citizens. The personal income tax rate will increase for the wages exceeding 1,000 euro gross from 9 percent to 15 percent, in order to compensate for a part of revenues lost from health contributions and from introduction of non-taxable income.

a) Activities planned in 2022: Implementation monitored by the coordination body responsible for monitoring implementation of the Europe Now! programme and increased inspection control for the purpose of reducing informal economy in the labour market and reducing unfair competition which results from that basis. Adoption of laws and secondary legislation which will enable full application of the Europe Now! programme;



b) **Activities planned in 2022:** Continuous inspection control and analysis of the impact of reduced labour tax wedge on employers, as well as on the average wage increase in the country, economic growth and employment growth.

c) **Activities planned in 2024:** -

Institution responsible to implement the measure: Ministry of Finance and Social Welfare.

2. Results indicator.

Indicator	Baseline 2021	Intermediate target 2022/2023	Target 2024
Number of the formally employed	233,000	240,000	247,000

3. Expected impact on competitiveness. This reform measure will reduce the labour tax wedge. That will contribute to reduction of the costs of businesses, boosting of their competitiveness and reduction of informal economy. Decrease of the labour tax wedge will reduce the scope of informal economy regarding payment of wages to employees (payment of a part of wage in cash), since employers will no longer have interest in resorting to the cash payments thus running the risk being imposed severe sanctions by inspection authorities, while on the other hand the employees will benefit from formal employment, including a higher base for future pensions and higher base for access to the bank loans.

4. Expected cost of the activities and the source of financing. In 2022, the reform will lead to the reduction of budget revenues by around 13.7 million euro, while that effect will become positive in the medium-term due to expansion of the tax base.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. The measure will contribute to the increase of employees’ net wages, which increases the available income of households. On the other hand, employers generate savings based on the reduction of labour costs, which creates opportunities for investing or creating new jobs. This will further contribute to poverty alleviation.

6. Expected effect of reform measure on the environment. The reform measure will have positive environmental impact since reduction of the labour costs will create additional room for investments in green economy by the enterprises.

7. Potential risks in implementing the reform measure.

Risk	Probability of risk materialising	Planned mitigating action
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Financing health care system in the short term	Low	Expansion of the tax base, securing new sources of financing the healthcare system, (increase of the excise tax on products which have negative impact on population health and use of these revenues to finance health care).
Expansion of informal economy because of the minimum wage increase to 450 euro net, in parallel with abolishing labour tax wedge	Medium	Increased inspection control

Reform Measure 18: Information system and mobile application for monitoring the tourism parameters

1. Description of measure. In Montenegro there are no official data on the share of informal economy in tourism sector and in economy as a whole; instead, according to the surveys, its share is estimated to be 25-30 percent of GDP of Montenegro. Besides quantification of informal economy relative to the economy as a whole, it is also very important to monitor its scope and dynamics at the level of individual sectors, particularly in tourism as the strategic sector of the Montenegrin economy. It is estimated that the major share of informal economy is present in individual accommodation (private accommodation). In order to overcome shortcomings related to the coverage of tourist traffic and monitor it at any time, and also for the purpose of data consolidation and faster access to them, the Ministry of Economic Development decided to design, through the public procurement, the information system and the accompanying mobile application which will consolidate tourism parameters, through the reform of every institution and organisation which participate in creating them. The process system will demonstrate, through the application, different types of reports and will automatically consolidate data in real time. Implementation of the measure ensures correlation with policy guidance 4 and policy guidance 5 of the Ministerial Dialogue and with key challenge 2 – Reduction of Informal Economy set out in the Assessment of the Montenegrin economy performed by the EC. Moreover, preconditions are created for successful implementation of the e-government project, particularly from the perspective of fiscalisation, and for improvement of the national regulatory environment and interconnected work of the institutions – a higher quality public finance management. Reduction of unfair competition will create conditions for better operations which means a larger number of employees (correlation with the National Strategy of Employment and Human Resource Management). Since women account for the majority of the employed in tourism sector, this measure also contributes to economic empowering of women (correlation with the Women’s Entrepreneurship Development Strategy and activities in the



field of achieving gender equality), and all of this ultimately contributes to poverty alleviation (correlation with the UN Sustainable Development Goals 1, 3, 5, 8 and 10).

- a) **Activities planned in 2022:** - Implementation of the new information system with the accompanying mobile application.
- b) **Activities planned in 2023** – Maintenance of the new information system and mobile application and their upgrade (implementation of the new solutions in line with modern technological achievements).

Institution responsible to implement the measure: Ministry of Economic Development

2. Results indicator.

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2024)
Sojourn fee collected.	9.6 million euro	130 percent	180 percent
Reduction of informal economy in tourism sector	x	X-5 percent	X-30 percent

3. Expected impact on competitiveness. The measure will enable monitoring of the parameters in tourism in an efficient and reliable manner, with the goal of ensuring accurate, relevant and reliable data in real time. All relevant institutions and organisations will be connected via application, which will represent an integrated information system, and their data will contribute to a quality and accurate calculation of tourist traffic, enable daily insight into the situation and constitute a single database of accommodation facilities and providers of accommodation services, number and structure of guests, destinations from where tourists arrive, registration and deregistration of tourists for the purpose of better collection of the sojourn fee, while different forms of reports will be generated as well, with the aim of generating more revenues in tourism sector, owing to the better strategic planning. The application will enable all the interested state authorities: Ministry of Economic Development, National Tourism Organisation of Montenegro, Statistical Office – MONSTAT, Ministry of Interior, Administration for Inspection affairs, Tax Administration, Customs Administration, Central Bank etc. to use data from the system to exercise their authorisations prescribed by law, without additional administrative requirements or barriers, in a very simple manner, which will have numerous administrative and financial benefits for these state institutions. Informal economy is the “source” of unfair competition and decreased competitiveness of the enterprises which operate legally. The expected impact of the measure is to minimise unfair competition which creates preconditions for increasing the level of competitiveness of all the enterprises which operate legally.

Indicator for monitoring effects of the measure are:



- Number of enterprises in tourism sector which legalised their operations.

4. Estimated cost of the activities and the source of financing. Costs of implementation of the reform measure are 400,000 euro in 2022 and 10,000 in 2023. The costs mentioned above refer to implementation of the new information system with the accompanying mobile application for monitoring parameters in tourism.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality, gender equality, and access to health care. Since implementation of the measure will contribute to the legalisation of operations in tourism sector, the tourism product is expected, in the conditions of fair and competitive business environment, to develop and improve since tourism product, due to its complexity, causes expansion of activity in the sectors complementary to it; the measure will have impact on the employment (correlation with the National Strategy of Employment and Human Resource Development); since women account for the majority of the employed in tourism sector, this measure also contributes to economic empowering of women (correlation with the Women's Entrepreneurship Development Strategy and activities in the field of achieving gender equality), and all of this ultimately contributes to poverty alleviation (correlation with the UN Sustainable Development Goals 1, 3, 5, 8 and 10).

6. Expected impact on the environment and climate change. Since activities under this measure are implemented electronically, they directly contribute to the reduction of the scope of using paper documentation which has positive environmental impact and positive impact in respect of climate change. On the other hand, by improving tourism activity, this measure indirectly has evident environmental impact / impact on climate change, but since the activities are implemented in compliance with principles and standards of sustainability (from economic, ecological, cultural and social perspectives), preconditions are created for the activities under this measure to be implemented with minimum negative environmental impact / impact on climate change.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Not performing activities as planned due to conducting tender procedures	Medium	Detailed elaboration of the Terms of Reference along with provision of the logistics (round tables, training courses, panels...) during the preparation of tender documentation.
Coordination/efficiency of implementation of the project activities	Low	Raising awareness about the need for joint action, while improving operations by means of innovation and digitalisation.



Available human resources	Low	Development of the new standards of education, competences, skills, improvement of vocational/dual education, life-long learning.
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5.2 Analysis of obstacles in other areas (not covered in Section 5.1) and related structural reform measures

1) Analysis of main obstacles.

One of the challenges for future development of the Montenegrin economy, which is not directly covered in sub-chapter 5.1 is the need **to strengthen institutional framework and state administration**. Therefore, the measure *"Improving digitalisation of public administration by developing platforms and complex e-services"* in the area of *Digital Transformation* gives one of the answers to the challenge of strengthening institutional framework and administrative capacities in the country. Another major challenge which is not directly included in sub-chapter 5.1 refers to the **environment and climate change**. In fact, Montenegro as an ecological state which negotiates on EU membership should fulfil a number of obligations and carry out investments needed for closing chapter 27. Ahead of Montenegro is a road towards green transition, i.e. towards low-carbon development by 2030, and by 2050 according to the Green Agenda for Western Balkans. By adoption of the Nationally Determined Contribution on 03 June 2021, Montenegro set the new target for reduction of the greenhouse gas emissions by 35 percent until 2030, relative to 1990, and reduction by 2117 kilotons by 2030. Having in mind the global and European scenarios for achieving low-carbon development, it is necessary to work on designing and implementation of the new reforms which underpin climate ambitions. The reason for this is the fact that greenhouse gas emissions are one of the major challenges faced by Montenegro. Montenegro has still not made a transition from landfills to circular economy, which is one of the problems in the waste management system. The Law on Waste Management which is, taking into account national circumstances, harmonised with the EU law to the greatest extent, has not been adopted yet. The Report on Implementation of the 2017 National Waste Management Plan in Montenegro states that around 10 percent of the total quantity of municipal waste is either reused or recycled. In order to reduce greenhouse gas emissions from waste and reduce waste generation, the biotic and new synthetic substances need to be replaced by the recycled waste, while steps should be taken to use waste as a resource. As for introduction of e-mobility, the infrastructure is partially developed and does not make a whole because there are no sufficient additional public places for charging electric vehicles. Integration of the use of renewable sources of energy for the purposes of e-mobility would contribute to



decarbonisation at the lowest cost. Tourism sector is also a significant consumer of natural materials and producer of carbon footprint, either directly or indirectly through the services of accommodation, transport, food and beverages. In that context, it is worth noting that the application of concepts such as green public procurement and social responsibility should be improved; however, these concepts are still present at the level of strategic direction, but are not present in practice. The challenges of sustainable exploitation of natural resources should be overcome by producing high quality agricultural and food products, as well as by producing energy from renewable sources, and these challenges should be addressed by continuing reform measures from previous years, but also through new reform measures. In order to eliminate the abovementioned challenge concerning **better protection of environment and climate change**, the 2022 ERP proposes the measure “*Sustainable Green Tourism*”, measure: “*Financial support to households aimed at applying energy efficiency measures*” and measure: “*Reducing release into circulation of lightweight carrier bags and single-use plastic products*” in the field “*Green Transition*”. And the measure “*Support to investments in the food manufacturing sector aimed at strengthening the competitiveness*” in the field of “*Agriculture, Industry and Services*”.

2) Reform Measures

Challenge 1: Obstacles to Better Environment Protection and Climate Change

In order to address the challenge related to the improvement of environment and climate changes, a part of the response is contained in the following four reform measures: (i) *Sustainable Green Tourism*, (ii) *Financial support to households aimed at applying energy efficiency measures*, (iii) *Reducing release into circulation of lightweight plastic bags and single use plastic products, in Green Transition* in the field of Green Transition and (iv) *Support to investments in food manufacturing sector aimed at strengthening the competitiveness* in the field Agriculture, Industry and Services.

Reform Measure 19: Sustainable green tourism

1. Description of measure. The measure Sustainable green tourism is proposed in order to increase the level of competitiveness of products and it contains two sub-measures: (i) Development of green accommodation capacities and (ii) Diversification of tourism product. The measure refers to a more efficient and higher quality establishment of the sustainable component (green transition) of tourism development (improvement of the offer/services). It is implemented in compliance with the principles of sustainability (correlation with the National Strategy of Sustainable Development by 2030, 2030 Agenda for Sustainable Development of the UN – Sustainable Development Goals, Green Deal), while it also creates conditions for an equitable tourism offer from regional perspective (correlation with the



Regional Development Strategy of Montenegro 2014-2020); it also enables creation of new jobs (correlation with - increase in the number of women and youth employed - family businesses) and reduction of migration from the northern to the southern region, while raising the standard of living of the population (correlation with the National Strategy of Employment and Human Resource Development 2016-2020, UN Sustainable Development Goals, policy guidance from the European Commission - key challenge no. 1 set out in the assessment of the Montenegrin economy). Implementation of tourism projects contributes to implementation of the development documents of the Government: Montenegro Development Directions 2018-2021 (tourism and culture tourism), Smart Specialisation Strategy of Montenegro 2019-2024 (sustainable and health tourism). The measure has been transferred from earlier years because, firstly, it is progressively implemented and, secondly, the activities in tourism sector were at the historically lowest level in 2020 due to COVID pandemic. This is so because in the period from outbreak of COVID-19 pandemic, i.e. from March 2020, activities in tourism sector either partly or fully stopped. In 2021, conditions for business operations remain volatile depending on the epidemiological measures in force, which is why the activities pertaining to the measure could not have been implemented as planned. Having in mind the aforementioned, on one side, and basic function of the measure, on the other, which is to enhance development of the nature-based tourism product, it was deemed necessary to transfer the measure. This is justified because the measure is still complementary with the main priorities of the government.

a) Activities planned in 2022:

Sub-measures - activities:

1. **Development of green accommodation capacities** – Stimulating decarbonisation and introduction of the new environmentally-friendly technologies in hospitality facilities through favourable earmarked credit facilities – support to green investments: for the construction of new and reconstruction, adaptation and furnishing of the existing hotels and other accommodation facilities, while encouraging the following: introduction of new environmentally friendly technologies and standards (emission standards which entail: increase of energy efficiency, use of renewable energy sources, district heating, restriction on the use of fossil fuels, expansion of green areas, more efficient utilisation of resources etc; implementation of the ambient standards – conservation of natural, landscape and cultural values of the area).
2. **Diversification of tourism product** – Development of the diversified tourism product, placing focus on the northern region: incentives and implementation of the project activities set out in action plans of the programmes for the development of:



- rural tourism (development and improvement of the offer – innovative projects in rural tourism, thematic/educational paths for linking with panoramic/hiking/cycling/mountain routes, with less familiar tourism attractions etc.),
- cultural tourism (tourism valorisation of cultural-historic heritage), and
- health tourism (development of innovative models of health tourism).

b) Activities planned in 2023:

1. Development of green accommodation capacities,
2. Diversification of tourism product – incentives and implementation of action plans of the programmes for development of nautical and sports tourism.

c) Activity planned in 2024

1. Development of green accommodation capacities,
2. Diversification of tourism product – incentives and implementation of action plans of the programmes for development of MICE and adventure tourism.

Institution responsible to implement the measure: Ministry of Economic Development.

2. Results indicators.

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2024)
Number of hospitality facilities which introduce green practice	15	20	30
Number of overnight stays in the northern region of Montenegro	315,815	+ 1-3 percent	+ 3-5 percent

3. Expected impact on competitiveness. Tourism turnover in the previous period, including 2019, from quantitative and qualitative perspectives, has recorded a constant upward trend which is confirmed in the report of the World Travel and Tourism Council – WTTC, according to which in Montenegro in 2019:

- total (direct and indirect) share of tourism in GDP amounted to 30.9 percent (the largest share since 2003 when the WTTC started preparing reports on Montenegro).
- total share of tourism in employment was 31.9 percent, while the share of foreign tourists' spending in total exports accounted for 52.6 percent.

Implementation of the measure will contribute to re-establishment of the positive trends in tourism, which is why the growth of the parameters mentioned above which monitor effects of tourism on the Montenegrin economy are expected to grow in the upcoming period.



4. Estimated cost of the activities and the source of financing. Additional costs of financing this reform measure amount to 490,000 euro in 2021, 540,000 euro in 2022 and 590,000 euro in 2023. The source of financing is central budget, while co-financing will be enabled through favourable special-purpose credit facilities and EU funds.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. Since tourism is a labour-intensive economic activity, and from that perspective implementation of project activities in the framework of the measure is expected to contribute to the increase of the number of the employed (correlation with the National Strategy of Employment and Human Resource Management), and since women account for majority of the employed in tourism sector it will also contribute to the economic empowerment of women (correlation with the Women’s Entrepreneurship Development Strategy and activities aimed at achieving gender equality), which ultimately leads to poverty alleviation. Another positive effect of implementation of the measure is reduction of migration from the northern to the southern region of the country and increase of the number of young people staying in rural areas (correlation with UN Sustainable Goals 1, 2, 8, 10 and 11).

6. Expected impact on the environment and climate change. Implementation of the activities pertaining to the measure with minimum impact on the environment/climate change. On the other hand, tourism valorisation of the natural potential and of cultural-historic heritage contributes to their revitalisation, more efficient protection and better conservation, which essentially has positive impact on their further potential from the perspective of their tourism function. Implementation of the measure will contribute to: increase of the number of hospitality facilities which apply ecological standards and properly manage resources, as well as to the intensification of tourists’ activities based on outdoor tourism products relative to other activities. In this way, the measure ultimately contributes to the transition to circular economy and reduction of air, water and soil pollution (correlation with the recommendations 2 and 3 of the Green Agenda for the Western Balkans).

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Impact of COVID-19 on economic operations	Medium	Improvement of the healthy and safe environment in tourism – introduction, development and application of the new health and sanitary-hygienic standards/requirements/measures in the performance of tourism services.



Not performing activities as planned due to conducting tender procedures	Medium	Detailed elaboration of the Terms of Reference along with provision of the logistics (round tables, training courses, panels...) in the preparation of tender documentation.
Coordination/efficiency of implementation of the project activities	Low	Raising awareness about the need for joint action, while improving operations through innovation and digitalisation.
Available human resources	Low	Development of the new standards of education, competences, skills, improvement of vocational/dual education, life-long learning.

Reform measure 20: Financial support to households aimed at applying energy efficiency measures

1. Description of measure. This reform measure entails provision of interest-free loans to the interested households for the purchase and installation of: highly efficient heating and cooling systems, facade thermal insulations of the residential buildings and energy efficient facade joinery. The reform measure will be implemented under the title Programme “Energy Efficient Home” (Programme). The measure is aligned with the Energy Policy of Montenegro by 2030, Energy Development Strategy by 2030 and Smart Specialisation Strategy of Montenegro 2019-2024. This measure will contribute to implementation of the European Green Deal and to achievement of the UN Sustainable Development Goals since it enables a broader access of citizens to the sustainable and modern energy, ensures sustainable form of energy generation and consumption and efficient utilisation of natural resources, while it also reduces energy poverty by creating conditions for the improvement of energy efficiency, energy savings and broader use of renewable energy, and for the improvement of socio-economic status of citizens. The measure will also contribute to the achievement of the goals set in the areas of energy efficiency and renewable energy and fulfilment of the obligations of Montenegro in the EU accession process.

a) **Activities planned in 2022:** Carrying out public competition procedures for the selection of banks – borrowers of loans to the households for the purpose of application of energy efficiency measures and generation of electricity for own needs, by the ministry competent for energy affairs; carrying out public competition procedures for the selection of companies – suppliers and installers of the systems, equipment and materials for application of energy efficiency measures, by the ministry competent for energy affairs; supply and installation of the system whose purchase and installation are enabled under the Programme (heating systems using modern forms of biomass (pallets, briquettes), heating and cooling systems with highly-efficient heat pumps), as well as supply and installation of the façade thermal insulation and energy efficient façade joinery on households, by selected companies; payment of proceeds in the amount of extended loans into the accounts of selected companies, by the selected banks; payments of loan interests to the banks – partners in the Programme, by the ministry competent for energy affairs; repayment of



interest-free loans in monthly instalments, by loan beneficiaries – household members participating in the Programme.

- b) **Activities planned in 2023:** Implementation of the same activities as in 2022, within the new cycle of the programme Energy Efficient Home.
- c) **Activities planned in 2024:** Implementation of the same activities as in 2022 and 2023, within the new cycle of the programme Energy Efficient Home.

Institution competent for implementation of measure: Ministry of Capital Investments.

2. Results indicators.

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Total generated energy savings under the programme Energy Efficient Home	0	5.5 GWh in one year	16.5 GWh
Number of households supported under the programme Energy Efficient Home	0	560	1680

3. Expected impact on competitiveness. Expected impact of this measure is saving in energy consumption of households and improvement of the housing conditions. The aforementioned will result in positive impact on the overall energy balance of Montenegro and on the increase of the possibility of exporting electricity. The measure is also expected to make a significant contribution to the development of the markets of material and products which contribute to the increase of energy efficiency.

4. Estimated cost of the activities and the source of financing. The total planned annual assistance for 2022, 2023 and 2024 respectively is 0.3 million euro from the budget of Montenegro, which will be allocated for the payment of interest for the household loans, with the aim of implementing energy efficiency measures. On the basis of the funds allocated for the payment of interests, the banks, partners in the Programme, are expected to approve 1.8 million euro per year for the loans to the households which are Programme beneficiaries. The total level of investments expected in the observed three-year period is 5.4 million euro. In the upcoming period, it is necessary to consider the possibility of securing funds or a part of funds for implementation of the measure from the other sources of financing (EU, IFI, donors etc.).

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. The measure is expected to have positive impact on the employment in companies which supply and install systems, equipment and material for implementation of energy efficiency measures. Multiple impact is also expected on poverty alleviation, through reduction of the costs of energy consumed in households and through greater employment opportunities. Moreover, the measure should contribute to the improvement of housing conditions and preservation of the population health. From the employment perspective, the measure will particularly have positive



impact in short- and medium-term, while in terms of poverty alleviation and health preservation it will have positive impact in the long-term. The measure is gender neutral.

6. Expected impact on the environment and climate change. Planned activities will have positive impact on increasing energy efficiency and use of renewable sources of energy, reduction of greenhouse gas emissions and reduction of negative impact related to climate change and environment. The measure will contribute to the more efficient energy transition, achievement of the goals set in the European Green Deal and fulfilment of international commitments of Montenegro.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Low interest of banks to extend household loans under the Programme, due to unfavourable economic situation caused by COVID pandemic	Low	Explore the possibility of securing funds for assistance to implementation of the Programme from the other sources.
Difficult implementation of energy efficiency measures in households due to Covid 19 pandemic.	Low	Adjusting procedures for implementation of the Programme in line with epidemiological measures for all Programme participants

Reform Measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products

1. Description of measure. Systemic resolution of waste management and treatment has been identified as one of the major challenges for closing chapter 27 – Environment and Climate Change in the EU accession of Montenegro. In that regard, the Law on Waste Management is currently prepared and, in accordance with Montenegro’s Programme for Accession to the European Union 2021-2023, the plan is to transpose EU *Acquis Communautaire* in this field, including EU Directive 2019/904 on the reduction of the impact of certain plastic products on the environment and EU Directive 2018/852 amending Directive 94/62/EC on packaging and packaging waste. In that regard, the aim of this measure is to reduce the use of the single-use plastic products and to encourage transition to circular economy and inclusion of innovative and sustainable business models, products and materials. Gradual reduction of the production and use of lightweight plastic carrier bags and single-use plastic products in the next three-year period will create good preconditions for Montenegro to join the EU countries which implement the directives mentioned above. In fact, adoption of the waste management law creates preconditions for defining the way of implementation of the closing benchmarks in this area of chapter 27. The measure is harmonised with the National Strategy for Sustainable Development by 2030, Green Deal and Green Agenda for Western Balkans. This is a direct contribution to the achievement of the 2030 Sustainable Development Agenda of the UN (SDGs 12, but indirectly also 11 and 14).



There is a correlation with IPA III 2023-2024 financing, i.e. the strategic framework which has been prepared corresponds to the Action Plan for the fulfilment of closing benchmarks, in which waste management and treatment were recognised as a burning issue. In order to implement these measures, all the stakeholders in the value chain of single-use plastic need to act, starting from manufacturers, designers, trademarks and traders, recycling entities and ultimately consumers. Moreover, cooperation between the NGO sector, scientific community, local enterprises, local government and public sector is indispensable to make a change and progress in implementation.

a) Activities planned in 2022: Adoption of the Law on Waste Management (under the Montenegro's Programme for Accession to the European Union that is envisaged for Q3 2022); Introduction of the concept of reducing the use of lightweight plastic carrier bags and single-use plastic products in public administration; Ministry of Ecology, Spatial Planning and Urban Development; Conducting public information and awareness raising campaign intended for all the stakeholders in the value chain of the single-use plastic regarding its harmful negative environmental impact; Ministry of Ecology, Spatial Planning and Urban Development; Designing and introduction of the methodology for the calculation of consumption of the lightweight plastic carrier bags per person: Ministry of Ecology, Spatial Planning and Urbanism; Amendments to the law on excise taxes so as to reduce the use of lightweight plastic carrier bags and single-use plastic products and their implementation in 2022 by introducing excise tax on these products (Interim measure until entry into force of the Law on Waste Management in 2023 which will set out proposals to address this issue). Ministry of Finance and Social Welfare

b) Activities planned in 2023: Implementation of public information and awareness raising campaign intended for all the stakeholders in the value chain of the single-use plastic regarding its harmful negative impact on the environment: Ministry of Ecology, Spatial Planning and Urbanism; Assessment of capacities, training and possible expansion of capacities of the responsible inspection services: Ministry of Ecology, Spatial Planning and Urbanism; Consistent implementation of penal policy on-site, along with application of legal provisions, accompanied by inspection control: Ministry of Ecology, Spatial Planning and Urbanism; Implementation of measures for the introduction of the concept of reducing the use of lightweight plastic bags and single-use plastic products in public administration: Ministry of Ecology, Spatial Planning and Urbanism;

b) Activities planned in 2024: Implementation of public information and awareness raising campaign intended for all the stakeholders in the value chain of the single-use plastic regarding its harmful negative impact on the environment: Ministry of Ecology, Spatial Planning and Urbanism; Consistent implementation of penal policy on-site, along with



application of legal provisions, accompanied by inspection control: Ministry of Ecology, Spatial Planning and Urbanism; Implementation of measures for the introduction of the concept of reducing the use of lightweight plastic bags and single-use plastic products in public administration: Ministry of Ecology, Spatial Planning and Urbanism;
Institution responsible to implementation of measure: Ministry of Ecology, Spatial Planning and Urban Development

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2024)	Target (2030)
Reduction of production and consumption of the lightweight carrier plastic bags	Estimated 600-700 pieces per person	300 pieces per person	40 pieces per person
Increase of the recycling rate	10 percent	20 percent	50 percent
Reduction of the average annual rate of growth of the generated waste	Expected 2 percent increase per year in local government units whose number of inhabitants is estimated to grow	Reduction of the increase to 1.8 percent per year in local government units whose number of inhabitants is estimated to grow	Reduction of the increase to 1.5 percent per year in local government units whose number of inhabitants is estimated to grow

3. Expected impact on competitiveness. The way in which plastic is currently produced, used and discarded does not meet criteria of circular economy. Having in mind impact of plastic on the environment, the goal is to protect the environment, while laying foundations for the new economy in which design and production are fully compliant with provisions on reuse, recycling and development of sustainable materials. Since Montenegro is a candidate country for EU membership, and since the EU set the goal in its legislation and strategic framework in the field of waste to significantly reduce the use and production of the single-use plastic product by 2030, it is necessary to start adaptation and achieving of the targets within the shortest time possible. Introduction of excise taxes through amendments to the law on excise taxes will lead to the increase of the charges on these products i.e. prices of these products will be higher and directly payable by final consumers. In this way, the measure should contribute to the reduction of using these products, which directly affects not only the market of these products, but also the demand for them. This will also stimulate green transition. In order to ensure that the harmful negative impact on the environment is reduced, and at the same time keep the existing jobs and make them green, the green transition needs to be



carried out in a way that the existing capacities of the manufacturers of the single-use plastic products in Montenegro make a transition to the production of alternative products made from sustainable, alternative or recycled materials, while additional staff training should ensure retention of workplaces and creation of new green jobs.

4. Estimated cost of the activities and the source of financing. Implementation of this measure requires allocation in 2021 in the amount of: 10,000 euro for completion of drafting the law on waste management, 10,000 euro for introduction of the concept of reduction of the use of lightweight plastic carrier bags and single-use plastic products in public administration; 10,000 euro for designing and introduction of the methodology for calculation of consumption of the lightweight plastic carrier bags per person, and expenditure of 100,000 for launching the information-awareness raising media campaign. In 2023, a total of 80,000 euro needs to be allocated, of which 10,000 euro for the assessment of capacity of inspection control and 70,000 euro for the continuation of media campaign. In 2024, a total of 70,000 euro needs to be allocated for the continuation of the campaign. The source of financing is central budget.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. The goal of the measure is to protect the environment, but also to lay foundations for the new economy which includes plastic in a way that the design and production take into account reuse, repair and recycling of the materials, while incentives should be provided for production and use of more sustainable materials. In this way, there are possibilities of creating new green jobs at which it is possible to take account of gender balance. Moreover, the planned campaigns which aim at ensuring greater informing, education and public awareness raising about negative impacts of plastic on population health and healthy environment contribute to the social dimension of sustainable development as a fundamental human right. In this way, the public will be informed of possible penal provisions and charges in advance, and it will be able to act timely and avoid unnecessary costs.

6. Expected impact on the environment and climate change. It is particularly worth noting that plastic waste accounts for 80 to 85 percent of marine waste, i.e. huge quantities of waste plastic end up in seas and oceans and that is why this type of waste poses a serious threat to marine ecosystems, biodiversity, food chain and human health, but also has direct impact on the development of tourism, fisheries and maritime transport. Numerous studies and data from the field suggest that reduction of waste at its source is one of the most important measures which eases the pressure of waste on the environment. The EU invited Montenegro to present information on waste prevention measures which should be taken, including establishment of the waste prevention programme. In the course of drafting the Law on



Waste Management, the new EU plans will also be taken into consideration and these entail that by 2030 all the plastic packaging in the EU market should be suitable for recycling, so as to reduce consumption of the single-use plastic, while the use of microplastics should be limited as well. Numerous analyses have revealed that microplastics have impact on the environment and human health. Reduction of the production and use of these products will contribute to the preservation of human health and healthy environment.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Not adopting the law within the set deadline	Medium	Until adoption of the Law, undertake promotion activities, i.e. carry out awareness raising campaign about the new trends introduced by the Law.
Not performing activities according to the defined schedule and plan	Medium	Detailed elaboration of the plan and deadlines for the performance of activities.
Not completing tender procedures in accordance with the set deadlines	Medium	Detailed elaboration of the Terms of Reference along with provision of the logistics (round tables, training courses, panels...) in preparation of tender documentation
Lack of interest in participation in tender procedures (repeating the procedures and the like)	Low	Higher level of informing the public about commencement of the procedure.
Coordination/efficiency of the work on implementation of project activities	Low	Raising awareness about the need for joint action, while improving operations.
Available human resources	Low	Development of the new standards of education, competences, skills, improvement of vocational/dual education, life-long learning.
Impact of potential measures related to COVID pandemic	Low	Introduction, development and application of the new health and sanitary-hygienic standards/requirements/measures in operations.
Insufficiently high excise taxes/prices of lightweight plastic bags and single use plastic products	Medium	Additional increase of excise taxes, solutions in the future Law on Waste Management
Inconsistent application of penal policy of the future Law on Waste Management	Medium	Assessment of capacities for inspection control, capacity building, alternative solutions
Loss of the market for light-weight plastic bags and single use plastic products	High	Incentives to produce alternative products, through training and education, awareness raising, possible financial assistance as investment in future development, green jobs and green transition



Low awareness among end users and manufacturers	High	Informative-educational campaign to raise awareness of the public and of all actors in the supply chain of single-use plastic and on its negative environmental impact
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Reform Measure 22: Supporting investments in the food manufacturing sector aimed at strengthening the competitiveness

1. Description of measure. The goal of this reform measure is to create stable income for farmers and to sustainably use natural resources, with strong focus on the production of high-quality agricultural and food products by using innovative and traditional production methods. This measure is repeated from last year since implementation of the most of investments takes a long time, particularly if one considers the period from filing the application for assistance, administrative and field checks and approval of final payment. The reform measure is aligned with the commitments undertaken by signing the Green Agenda for Western Balkans, chapter “Sustainable Agriculture and Food Production”. The reform measure has been transferred from last year since it is linked to implementation of the IPARD II programme. Previously launched open calls under IPARD II programme are still underway, however at a somewhat slower pace since COVID pandemic led to market disruption and enormous increase of the prices of the construction material, machines, equipment and services. However, the market disruption which has had the biggest impact on food production is increase in the input price (feedstuff, seeds, seedlings, fertilisers and pesticides), which also compromised farmers’ income. In the first half of 2021, the first open call was launched regarding diversification of economic activities in farms. In the first open call, 102 applications for assistance were filed, of which 76 were beneficiaries from the northern region, 22 were beneficiaries from the central region and 2 were beneficiaries from the coastal region. The total value of the requested investments for 97 applications is 11,559,764.45 euro (inclusive of VAT), i.e. 9,553,524.33 euro (exclusive of VAT), while potential amount of the assistance is 6,209,790.81 euro. For 5 applications, we do not have information on the requested amounts, because they were not specified in the application for the award of assistance and in the submitted documentation.

The measure consists of three parts:

- **I – Support to investments in the primary agriculture sector with the aim of reaching the EU standard;** This component supports development of the primary agricultural production by planting new nurseries of multiannual agricultural crops, procurement of special machines (including tractors), construction and reconstruction of the primary production facilities and facilities used for the storage of primary products, investments into renewable sources of data, introduction of new technologies and innovation, creating new market opportunities and improving standards of animal welfare and plant health. Implementation of this measure started in 2020, as planned, and the approved projects are currently implemented.
- **II – Support to investments in the sector of manufacturing agricultural and fish products with the aim of reaching the EU standard;** This component supports procurement of the manufacturing



equipment, introduction of new technologies and innovation and creating new market opportunities, construction and reconstruction of the facilities for manufacturing agricultural and fish products so as to improve food safety standards, through gradual harmonisation with the EU quality standards, as well as investments which aim to reduce negative environmental impact. Implementation of this sub-measure started in 2018, as planned, and the approved projects are currently implemented.

• **III – Diversification of economic activities on farms;** This component focuses on the development of rural tourism and manufacturing of agricultural products on farms by aiding construction and reconstruction of necessary facilities and procurement of equipment, machines and other amenities. Implementation of this sub-measure commenced in 2021, at the moment applications for support are being submitted, after which administrative and on-site control will take place.

a) Activities planned in 2022: In 2022, open calls are planned to be published for all the three components of the reform measure.

b) Activities planned in 2023: In 2023, open calls are planned to be published for those components which may be financed depending on the costs incurred in the previous period.

c) Activities planned in 2024: In 2024, open calls are planned to be published for all the three components of the reform measure. (Up until that moment, IPARD III programme is planned to be accredited, along with the possibility of using funds for the next programming period).

Institution responsible to implement the measure: Ministry of Agriculture, Forestry and Water Management, Payment Directorate.

2. Results indicators.

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Value of realised investments	10,000,000	19,000,000	12,000,000
Entities in food sector that have reached the EU standard	15	15	15
Number of farms that have diversified their activity	0	80	120

3. Expected impact on competitiveness. The aim of the measure is to improve primary agricultural production by expanding the volume of production, while incurring lower costs of production in primary and manufacturing sectors. Better supplying of the manufacturing sector with domestic raw materials and enabling manufacturing on farms will contribute to the increase of added value in production/manufacturing, reduction of export dependence and greater competitiveness of domestic products. Production of traditional products on farms gives the possibility of developing short supply chains, which will result in better control of food safety, reduction of informal market and additional revenue for producers. Achievement of higher standards in the production, particularly food standards, opens the door to the potential export of agricultural products. The aim of the greater use



of new technologies is to bring producers closer to the market and to the great extent only to the consumer, through direct contact via platforms for the sale of agricultural produce.

4. Estimated cost of the activities and the source of financing. The total planned amount of investment in 2022 is 10.46 million euro, of which 7.84 million are from IPA funds and 2.61 million are national contribution. The total planned amount of investment in 2023 is 14.76 million euro, of which 11.6 million are from IPA funds, 9 million euro are from private sources and 3.7 million are national contribution. The total planned amount of investment in 2024 is 1.06 million euro, of which 0.8 million are from IPA funds, 6 million euro are from private sources and 0.26 million are national contribution. Implementation of this measure includes the share from private sector, which accounts for 50 percent of the total investment.

In 2022:

- for the first component (measure 1) 3.35 million euro are planned to be spent
- for the second component (measure 3) 5.91 million euro are planned to be spent
- for the third component (measure 7) 2.20 million euro are planned to be spent

In 2023:

- for the first component (measure 1) 5 million euro are planned to be spent
- for the second component (measure 3) 7.26 million euro are planned to be spent
- for the third component (measure 7) 3.8 million euro are planned to be spent

As for 2024, the budget will be adjusted depending on the remaining funds per components.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care. Targeting support towards rural areas and young entrepreneurs stops depopulation of that region, while new jobs are created in tourism, manufacturing and sale of products on the farms. Social outcome of the measure is reflected in the incentives to women and young people, through projects evaluation and awarding of a higher number of points to the projects they are implementing. In this way, their role is promoted and they are motivated to start businesses in the food production sector, thus creating new jobs. In order to ensure equitable development, the additional support has been allocated for the investments in the areas located 600 m above sea level, which places additional focus on the development of the northern region of the country and of the underdeveloped areas. The aim of this measure is to meet the following SDGs: 2 – Zero hunger world, through production of sufficient quantities of safe, quality and easily accessible food; 9 – Industry, innovation and infrastructure, through innovation in production and improvement of rural infrastructure with the aim of bringing rural areas closer to the market; 15- Life on land, through sustainable use of natural resources. COVID 19 pandemic partly had a positive impact on the marketing of agricultural products. In fact, due to the impossibility of having direct contact with the buyers, a number of farmers strengthened their marketing activities by using new technologies (social media, various online platforms) thus making their products available to tourists and domestic consumers and shortening the value chain.



6. Expected impact on the environment and climate change. Support under this reform measure may be provided only to those beneficiaries whose investment, at the moment of payment, meets the EU's environmental standards, while the entire farm or enterprise must meet national environmental standards. Measures promote environment protection by assigning additional 10 points to the applications which refer to or include investments in waste management (manure, waste water, waste generated during production), i.e. a part of investment in waste management qualifies for additional 10 percent of grant support. The intention of the support is to contribute to the development of sustainable practices in soil management, through organic farming and other agricultural and ecological practices. IPARD II programme sets out limitations for the purchase of tractors; namely, it is allowed to purchase only the tractors with Stage V engines (criterion related to exhaust gasses), which is in line with the views expressed in the Green Agenda regarding reduction of gas emissions. This reform measure also supports investments related to the climate change mitigation.

7. Potential risks.

Risk	Probability of risk materialising	Planned mitigating action
Problem with pre-financing	High	<p>Formation of a special credit facility by the Investment and Development Fund which is compatible with IPARD II programme and at the same time is favourable for support beneficiaries (lower interest rates, acceptable collateral).</p> <p>Work on setting up the guarantee fund.</p> <p>Activities regarding creation of a positive environment with commercial banks for the purpose of financing the agriculture sector at the most favourable terms.</p>
Fluctuations of prices	High	<p>Due to COVID pandemic, there have been significant oscillations of prices of the construction material, services, equipment and machines, which altogether creates unfavourable environment for investing despite the approved/contracted applications for assistance. Increase of the price of inputs needed for the unhindered agricultural production has significantly compromised farmers' income, which further makes the possibility of investing difficult.</p>
Administrative barriers	Medium	<p>In order to implement these measures, the Government of Montenegro adopted the informative overview and passed conclusion under which at all levels of administration the advantage will be given to the documentation which is necessary for obtaining</p>



		support under IPARD II programme. This practice will continue in the upcoming period.
Uncertainty of the repayment of loan funds	Medium	<p>Decrease of the purchasing power of the population may lead to lower volume of sale of agricultural products in the market, which may result in delay in the repayment of credit funds.</p> <p>Increase of the price of inputs will undoubtedly increase the price of final products which may, due to relatively small scale of production, bring domestic products in unfavourable position among the buyers of average purchasing power.</p>

5.3 Summary of Reform Measures

This section includes a table containing and overview with the 22 reform measures addressing the three key challenges to improving competitiveness of the economy contained the section 5.1, and one additional challenge contained in the section 5.2.

A) Reforms addressing the three key challenges:

Challenge 1: Increasing employment, particularly of women and young people, and tackling long-term unemployment

Area: Employment and labour markets

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

The measure is a continuation from previous year, with the objective of improving efficiency in delivery of inclusive services to all beneficiaries. The measure should maintain a larger interoperability with other databases in the system of Montenegro and adequate data exchange aimed at better quality of monitoring the unemployed persons. The measure represents a response to the policy guidance No 5 of the Ministerial Dialogue.

**Reform Measure 2: Introducing new work schemes and work-life balance**

The measure is proposed due to the need for further labour market regulation aimed at establishing a work-life balance of employed men and women, as well as to enable reintegration to work after maternal or parental leave, and to enable equal treatment of men and women when caring for dependent family members. The measure also represents a partial response to the policy guidance No 5 of the Ministerial Dialogue.

Reform Measure 3: Introducing the Youth Guarantee Programme in Montenegro

The objective of the measure is to provide support to young people for their further education and professional development, to enable options for internship or adequate employment. The measure is in line with policy guidance No 6 of the Ministerial Dialogue.

Reform Measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market

The measure refers to the needed labour market analysis for the needs of education of adults in increasing employability. The measure represents a partial response to the policy guidance No 6 of the Ministerial Dialogue from June 2021.

Area: Education and skills

Reform Measure 5: Digitalisation of the education and development of digital skills

The measure includes establishment of prerequisites for digitalisation of education and advancement and development of digital skills.

Area: Social protection and inclusion

Reform Measure 6: Reform of the national system for disability assessment

The objective is to establish a single body for disability assessment and setting of national criteria/methodology for disability assessment. The measure is continuation from the previous



period. The measure represents a partial response to the policy guidance No 6 of the Ministerial Dialogue.

Reform Measure 7: Defining financial preconditions for reforms proposed by the Road Map

The objective of the measure is to improve efficiency and effectiveness of social protection schemes for poverty reduction. The measure represents a partial response to the policy guidance No 6 of the Ministerial Dialogue.

Area: Healthcare

Reform Measure 8: Improving access to and quality in delivery of healthcare services and the Digitalisation of the healthcare system

The objective is to establish an electronic health card and develop a telemedicine system. It is updated relative to the last year's [measure].

Challenge 2: Strengthening the regulatory environment

Area: Business environment and reduction of the informal economy

Reform Measure 9: Establishing a full electronic registration of enterprises

Electronic registration of enterprises means that the overall process of establishing enterprises is performed electronically. The objective is faster, cheaper, and more transparent service to business owners. The measure represents a partial response to the policy guidance No 4 and No 5 of the Ministerial Dialogue.

Reform Measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund

The objective of the measure is to increase number MSMEs that have access to credit support.

Reform Measure 11: Strengthening competitive position of MSMEs by establishing a single access point



The measure aims to strengthen institutional capacities for the support to MSMEs.

Area: Research, development and innovation

Reform Measure 12: Strengthening the national innovation and research ecosystem

The measure is a continuation of the reform measure set out in ERP 2021-2023 and it will enable continuity of the reform efforts in the fields of research, development and innovation.

Area: Digital transformation

Reform Measure 13: Improving digitalisation of the e-government by developing platform for complex e-services

The measure aims to speed up digital transformation of public administration in Montenegro as a measure of response to COVID-19, by enabling efficient provision of digital services which meet the needs of citizens and enterprises. The measure represents a partial response to the policy guidance No 5 of the Ministerial Dialogue.

Reform Measure 14: Improving legislative and regulatory framework for further advancement of the broadband internet connection infrastructure

The measure is an upgrade to the reform measures set out in ERP 2021-2023 and it will enable continuity of the reform efforts in the fields of digital transformation development, and refers to strengthening of the broadband communication networks and services.

Area: Public financial management

Reform Measure 15: Improving management of business undertakings in majority state ownership

The measure aims to increase efficiency of management of business undertakings in majority state ownership by establishing the enterprise *Montenegro Works*. The measure represents a partial response to the policy guidance No 1 and No 5 of the Ministerial Dialogue.

Challenge 3: Formalising the informal economy

**Area: Business environment and reduction of the informal economy****Reform Measure 16: Suppressing informal economy through the tax administration reform**

The measure is a continuation from previous year and it aims to introduce fully modernised business processes in the Revenues and Customs Administration, based on systemic risk analysis, which will ultimately contribute to more efficient collection of public revenues. The measure represents a partial response to the policy guidance No 4 of the Ministerial Dialogue.

Reform Measure 17: Improving the business environment by reducing the labour tax wedge

The measure aims to reduce informal economy and increase employment by abolishing compulsory health insurance contributions and introduce non-taxable income for gross wages up to 700 euro.

Reform Measure 18: Information system and mobile application for monitoring the tourism parameters

The measure aims to reduce unfair competition and informal economy and to strengthen tourism competitiveness by linking the Register for Foreigners' Temporary Residences to the Central Tourism Register, along with development of the mobile application for guest registration. In this way, accurate and updated data on generated tourism turnover will be provided.

B) Reforms addressing other challenges:

Challenge 1: Obstacles to better environment protection and protection against climate change**Area: Green transition****Reform Measure 19: Sustainable green tourism**

The measure is proposed with the aim of ensuring valorisation of natural resources /existing and future protected areas for tourism purposes. It includes stimulus for decarbonisation and introduction of new, environmentally friendly technologies in hospitality facilities through favourable earmarked credit facilities – support to green investments.

Reform Measure 20: Financial support to households aimed at applying energy efficiency measures



The measure continues and includes provision of interest-free loans to the interested households for the purpose of implementation of energy efficiency measures.

Reform Measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products

This measure aims to reduce impact of the single-use plastic products and to encourage transition to circular economy.

Area: Agriculture, industry and services

Reform Measure 22: Supporting investments in the food manufacturing sector aimed at strengthening the competitiveness

The measure is a continuation from previous year and aims to ensure stable income of agricultural producers and production of high quality agricultural and food products by using innovative and traditional methods of production.

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Total amount of additional costs for financing 22 structural reform measures covered by Chapter 5 of the ERP 2022-2024 for the entire medium-term period of three years is 126.76 million euro, of which 44.45 million euro in 2022, 49.59 million euro in 2023, and 32.70 million euro in 2024. In line with the Guidance Note for ERP preparation, selected priority reform measures have a strong focus on the priority measures that will be implemented through legislative and administrative reforms, as well as through financial instruments in form of grants and credit guarantee schemes. The Montenegrin Macroeconomic Model (MMM), developed by the Government of Montenegro with the European Union support through the project *Support to the Assessment of Macroeconomic Impact on Structural Reforms* (IPA/2017/384-908) and its used to estimate effect of structural reforms, was used for estimate of impacts of these priority reform measures. The Model analysed impact of priority structural reform measures in the period 2022-2024, specifically measures 1, 4, 5, 6, 7, 21, and 22 from the ERP 2022-2024 (for details see Chapter 3).

In the forthcoming period, the country will continue with large capital investments in infrastructure, with significant implications to a higher economic growth, and consequently



positive secondary fiscal effects, which is discussed in chapter of fiscal framework of this document. Montenegrin Macroeconomic Model (MMM) includes impact of key infrastructure projects in the period 2022-2024 on macroeconomic parameters in the next medium term period.

As presented in Table 1, approximately two thirds of total additional costs are Subsidies and Transfers, of which the most of the comes from two measures, one is Improving access to financing for SMEs (Priority measure No 10), and the second one is Support to investments in the food manufacturing sector aimed at strengthening the international competitiveness (Priority measure No 22). The second large category for additional costs, which makes close to one quarter of the total amount, is Goods and Services, and reflects the fact that for implementation of large number of priority measures is linked with additional costs for consultants, procurement of equipment and services.

What is interesting to note is that the overall amount of additional costs in 2024, being the last year of the period for ERP 2022-2024, is much lower than in first two years of the period. This is partly a consequence of the fact that some of the priority measures are to be completed as early as 2022 or in 2023, and partly due to the fact that the financing composition is fully allocated only for the first year of the three-year period.

Table 6.1: Summary table for costing of structural reform measures (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	467,697.00	17,066,621.00	22,925,063.60	4,000,000.00	44,459,381.60
2023	510,656.00	19,160,581.00	28,326,724.31	1,600,000.00	49,597,961.31
2024	374,836.00	14,033,954.00	18,296,444.79	0.00	32,705,234.79

Source: Calculations of the Ministry of Finance and Social Welfare based on the Table 10a from the Annex 1

As for the sources of financing priority reform measures contained in the ERP 2022-2024, the *Central budget* is dominantly largest source in the period 2022-2024. As shown in Table 2, it is expected for the *Central Budget* to cover more than half of the total amount, while share of *IPA funds* and *Project loans* shows the nature of priority measures, which are mainly focused on administrative and institutional reforms and financial instruments. On the other hand, relatively low share of *Project loans* reflects the fact that they are mainly used for financing infrastructure projects which are not covered by the 22 priority measures. Whereby, the planned share of *Local budget*, *Other national public finance sources*, and funds from *Other grants* is negligible in the total additional financing of priority measures in the period 2022-2024.

**Table 6.2: Summary table for Sources of financing of structural reform measures (in EUR)**

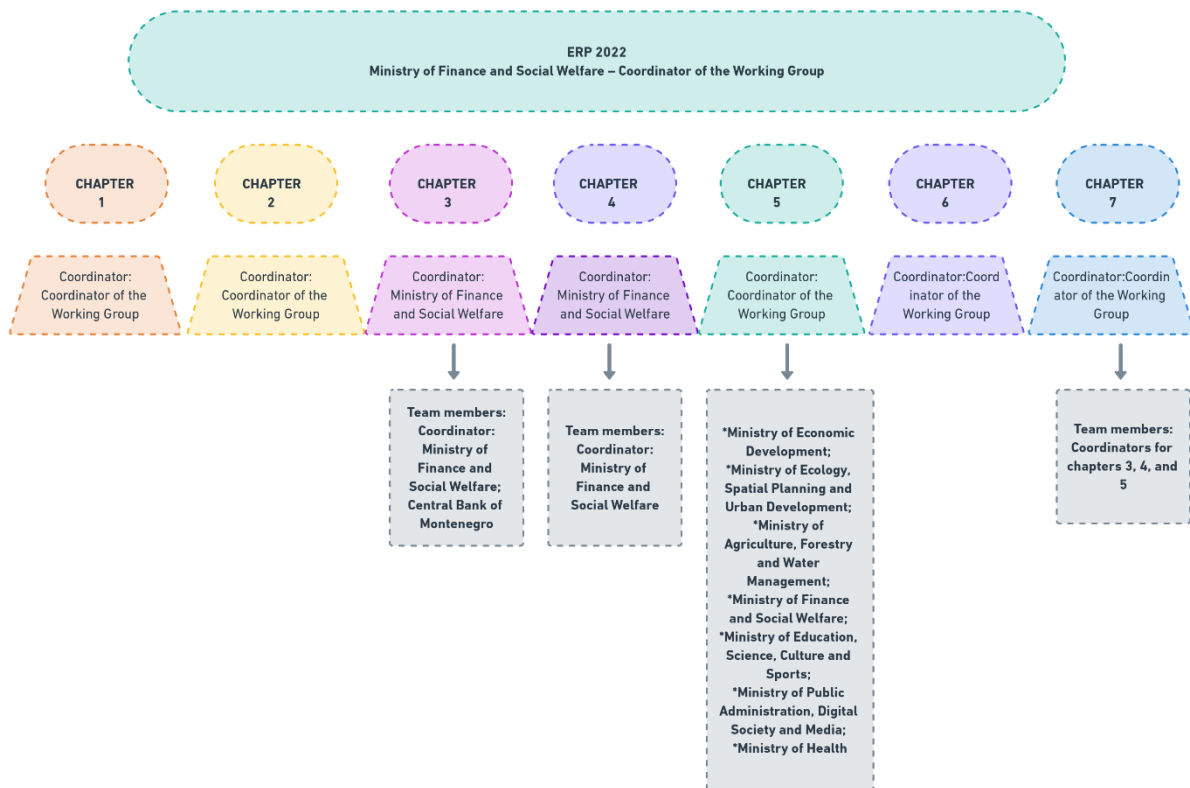
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	24,926,411.50	0.00	30,000.00	10,419,381.10	520,889.00	8,700,000.00	0.00	44,596,681.60
2023	19,844,914.77	0.00	350,000.00	17,843,046.54	60,000.00	11,500,000.00	0.00	49,597,961.31
2024	18,089,687.19	0.00	0.00	11,438,747.60	0.00	3,176,800.00	0.00	32,705,234.79

Source: Calculations of the Ministry of Finance and Social Welfare based on the Table 10b from the Annex 1

The *Central Budget funds* for 2022 are planned under the Budget of Montenegro, while *IPA funds and Project loans* are planned in accordance with scheduled implementation of projects and measures. In the following 2 years, the financing structure will be adjusted in line with available budgetary funds allocated for those purposes.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of preparation of the Economic Reform Programme for Montenegro has started with the initial meeting with members of the Working Group in July 2021. Likewise, the Government of Montenegro has adopted the Brief on Preparation of the Montenegro Economic Reform Programme 2022-2024 in July 2021. The feature of this year's work concerning the chapter on structural reforms is intensive horizontal and vertical coordination of all key actors. That included continuous communication and joint work with all members of the Working Group, and representatives of line ministries. The State Secretaries of the Ministry of Finance and Social Welfare and Ministry of Economic Development have participated actively in the entire process and thus have ensured support from the decision-makers level for the entire process. During September 17 meetings were held with the aim to prepare the chapters with highest possible quality. The following figure presents the national coordination of ERP, coordination of chapters, and institutes having their representatives participated in prepared for ERP 2022:



The consultations process, for the ERP preparation process, was strengthened and implemented in two phases.

The consultations for preparation of the Economic Reform Programme 2022-2024 have started on 13 September 2021 with stakeholders and invitation to them to provide their proposals of reform measures to be integrated in the ERP. Representatives of international organisations, non-governmental organisations, representatives of local self-governments, representative of trade union associations, and academia have participated at that event and gave their proposals for improving the ERP text.

The consultations continued in December, with the objective to discuss the first draft of the entire document. To that end, the public consultations were started in the period from 3 to 23 December 2021. The draft Programme was made available to the representatives of the media and of the entire public on the website of the Government and the website of the e-government:



- <https://www.gov.me/cyr/clanak/javna-rasprava-o-nacrtu-programa-ekonomskih-reformi-cg-2022-2024-rasprava-ce-trajati-do-23-decembra-2021-godine>;
- <http://eusluge.euprava.me/eParticipacija/Item/?Id=665>.

As part of the public consultations for the Draft Economic Reform Programme, the round table was held on 17 December 2021. The round table was attended by representative of the Confederation of Trade Unions of Montenegro, the Union of Free Trade Unions, the European Union Delegation to Montenegro, the USA Embassy, GIZ, as well as by municipalities of Tuzi, Berane, Bijelo Polje, Nikšić, Herceg Novi, and Kotor, and line ministries of the Government of Montenegro. Certain proposal were made during the discussion concerning the fiscal policy, financial system, labour market area, and economic strengthening of the Northern region of Montenegro. Furthermore, the structure of the document was commended, as well as proposed reform measures.

Written proposals for improving the text of the Draft Economic Reform Programme were submitted by UNICEF, the Union of Municipalities of Montenegro, the Union of Free Trade Unions of Montenegro, the Association of Youth with Disabilities, and the Chamber of Economy of Montenegro, which are provided annex to this document.

Moreover, the document was subject of deliberation at the Parliamentary Committee for Economy, Finance and Budget.

After all proposals and suggestions were received during the consultation process, and based on that the text of the Economic Reform Programme 2022 was improved, the document is finalised and submitted to the procedure of consideration and adoption at the session of the Government of Montenegro.



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

GDP (mil. €)	4881.3		5306.4		5669.0		6008.5	
Central Budget of Montenegro								
	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	1906.10	39.05	1934.76	36.46	2073.35	36.57	2178.33	36.25
Taxes	1183.87	24.25	1277.35	24.1	1423.79	25.1	1500.56	25.0
Personal income tax	126.86	2.60	140.29	2.6	147.86	2.6	136.86	2.3
Tax on Profits of Legal Person	74.71	1.53	84.28	1.6	118.76	2.1	126.84	2.1
Taxes on Property	2.08	0.04	1.68	0.0	1.62	0.0	1.67	0.0
Value Added Tax	691.95	14.18	733.84	13.8	797.67	14.1	856.76	14.3
Excises	248.72	5.10	271.00	5.1	309.04	5.5	327.19	5.4
Tax on International Trade and Transactions	28.30	0.58	29.67	0.6	31.68	0.6	33.59	0.6
Other State Taxes	11.26	0.23	16.59	0.3	17.15	0.3	17.66	0.3
Contributions	554.48	11.36	485.07	9.1	506.28	8.9	536.81	8.9
Contributions for Pension and Disability Insurance	343.74	7.04	428.82	8.1	461.86	8.1	489.99	8.2
Contributions for Health Insurance	180.57	3.70	19.48	0.4	5.00	0.1	5.00	0.1
Contributions for Insurance from Unemployment	16.36	0.34	20.65	0.4	22.07	0.4	23.42	0.4
Other contributions	13.81	0.28	16.11	0.3	17.35	0.3	18.41	0.3
Duties	12.56	0.26	13.38	0.3	13.96	0.2	14.48	0.2
Fees	51.10	1.05	66.70	1.3	51.33	0.9	47.72	0.8
Other revenues	57.70	1.18	40.65	0.8	31.49	0.6	32.26	0.5
Receipts from repayment of loans	8.94	0.18	9.75	0.2	9.75	0.2	9.75	0.2
Grants	37.46	0.77	41.87	0.8	36.75	0.6	36.75	0.6
Expenditures	1999.6	40.96	2202.8	41.5	2181.3	38.5	2225.2	37.0
Current budget expenditures	1843.8	37.77	1960.3	36.9	1961.0	34.6	1964.5	32.7
Current expenditures	866.6	17.8	890.0	16.8	893.1	15.8	893.3	14.9
Gross salaries and contributions charged to employer	535.3	11.0	545.9	10.3	548.2	9.7	556.3	9.3
Other personal income	11.2	0.2	13.2	0.2	13.3	0.2	13.6	0.2
Expenditures for supplies and services	88.1	1.8	87.6	1.7	96.1	1.7	96.6	1.6
Current maintenance	21.7	0.4	28.1	0.5	27.6	0.5	27.8	0.5
Interests	114.1	2.3	92.5	1.7	86.2	1.5	82.6	1.4
Rent	11.4	0.2	11.4	0.2	11.3	0.2	11.4	0.2
Subsidies	48.5	1.0	63.3	1.2	62.3	1.1	56.8	0.9
Other expenditures	36.3	0.7	48.0	0.9	48.1	0.8	48.3	0.8
Capital outflows of current budget	46.7	1.0	47.3	0.9	49.8	0.9	50.3	0.8
Social security transfers	567.43	11.6	651.7	12.3	702.1	12.4	711.1	11.8
Social security related rights	84.93	1.7	137.9	2.6	173.5	3.1	173.5	2.9
Funds for redundant labor	23.09	0.5	28.8	0.5	28.4	0.5	28.4	0.5
Pension and disability insurance rights	431.03	8.8	459.0	8.7	474.4	8.4	483.3	8.0
Other rights related to health care	17.08	0.3	14.2	0.3	14.0	0.2	14.0	0.2
Other rights related to health care insurance	11.30	0.2	11.8	0.2	11.8	0.2	11.8	0.2
Transfers to institutions, individuals, NGO and public sector	256.55	5.3	266.1	5.0	262.4	4.6	256.2	4.3
Capital budget of Montenegro	155.8	3.2	242.4	4.6	220.3	3.9	260.7	4.3
Loans and credits	1.3	0.0	1.5	0.0	1.5	0.0	1.5	0.0
Reserves	71.2	1.5	67.4	1.3	30.2	0.5	30.2	0.5
Repayment of Garantées	7.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of Arrears	26.3	0.5	36.4	0.7	21.9	0.4	21.9	0.4
Net increase of liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deficit / Surplus	-93.5	-1.9	-268.0	-5.1	-107.9	-1.9	-46.9	-0.8
Corrected surplus/deficit	-93.5	-1.9	-268.0	-5.1	-107.9	-1.9	-46.9	-0.8
Primary deficit	20.5	0.4	-175.5	-3.3	-21.7	-0.4	35.7	0.6
Repayment of debt	437.6	9.0	292.1	5.5	254.1	4.5	353.9	5.9
Repayment of principal to residents	85.3	1.7	39.9	0.8	36.5	0.6	128.0	2.1
Repayment of principal to nonresidents	352.3	7.2	252.2	4.8	217.6	3.8	225.9	3.8
Repayment of Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of securities	0.5	0.0	0.7	0.0	0.7	0.0	0.7	0.0
Financing needs	-531.6	-10.9	-560.8	-10.6	-362.7	-6.4	-401.4	-6.7
Financing	531.6	10.9	560.8	10.6	362.7	6.4	401.4	6.7
Borrowings and credits	105.7	2.2	170.0	3.2	356.7	6.3	395.4	6.6
Borrowings and credits from domestic sources	0.0	0.0	0.0	0.0	150.0	2.6	100.0	1.7
Borrowings and credits from foreign sources	105.7	2.2	170.0	3.2	206.7	3.6	295.4	4.9
Privatisation revenues	4.5	0.1	6.0	0.1	6.0	0.1	6.0	0.1
Usage of Deposits	421.4	8.6	384.8	7.3	0.0	0.0	0.0	0.0

Source: Ministry of Finance of Montenegro



GDP (mil. €)	4881.3		5306.4		5669.0		6008.5	
Local Government	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	243.47	4.99	242.50	4.57	244.30	4.31	249.62	4.40
Taxes	161.5	3.31	159.7	3.01	163.1	2.88	166.8	2.94
Personal Income Tax	55.44	1.14	50.81	0.96	52.85	0.93	55.63	0.98
Taxes on Property	16.79	0.34	17.42	0.33	17.51	0.31	17.02	0.30
Local Taxes	89.25	1.83	91.45	1.72	92.76	1.64	94.15	1.66
Excises	4.30	0.09	4.39	0.08	4.48	0.08	4.55	0.08
Fees	54.14	1.11	55.00	1.04	55.00	0.97	55.55	0.98
Other revenues	13.04	0.27	13.43	0.25	13.70	0.24	13.72	0.24
Receipts from repayment of loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	10.50	0.22	10.00	0.19	8.00	0.14	9.00	0.16
Expenditures	236.62	4.85	239.44	4.51	241.21	4.25	241.21	4.25
Current local government expenditure	181.6	3.72	184.4	3.48	186.2	3.28	186.2	3.28
Current expenditures	82.93	1.70	84.51	1.59	85.54	1.51	85.54	1.51
Gross salaries and contributions charged to employer	51.18	1.05	52.20	0.98	52.72	0.93	52.72	0.93
Other personal income	4.24	0.09	4.32	0.08	4.41	0.08	4.41	0.08
Expenditures for supplies and services	13.14	0.27	13.40	0.25	13.60	0.24	13.60	0.24
Current maintenance	4.23	0.09	4.29	0.08	4.36	0.08	4.36	0.08
Interests	3.74	0.08	3.79	0.07	3.85	0.07	3.85	0.07
Rent	0.63	0.01	0.64	0.01	0.65	0.01	0.65	0.01
Subsidies	1.31	0.03	1.33	0.03	1.35	0.02	1.35	0.02
Other expenditures	4.46	0.09	4.52	0.09	4.59	0.08	4.59	0.08
Social security transfers	0.88	0.02	0.89	0.02	0.91	0.02	0.91	0.02
Transfers to institutions, individuals, NGO and public sector	51.36	1.05	52.39	0.99	52.91	0.93	52.91	0.93
Capital expenditures	55.00	1.13	55.00	1.04	55.00	0.97	55.00	0.97
Loans and credits	3.00	0.06	3.09	0.06	3.18	0.06	3.18	0.06
Repayment of liabilities from previous years	40.00	0.82	40.00	0.75	40.00	0.71	40.00	0.71
Reserves	3.5	0.07	3.6	0.07	3.7	0.06	3.7	0.06
Surplus/deficit	6.85	0.14	3.06	0.06	3.09	0.05	8.41	0.15
Primary deficit	10.58	0.22	6.85	0.13	6.94	0.12	12.26	0.22
Repayment of debt	19.00	0.39	19.00	0.36	19.00	0.34	19.00	0.34
Repayment of principal to residents	14.0	0.29	14.0	0.26	14.0	0.25	14.0	0.25
Repayment of principal to nonresidents	5.0	0.10	5.0	0.09	5.0	0.09	5.0	0.09
Purchase of securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing needs	-12.15	-0.25	-15.94	-0.30	-15.91	-0.28	-10.59	-0.19
Financing	12.15	0.25	15.94	0.30	15.91	0.28	10.59	0.19
Borrowings and credits	12.0	0.25	12.0	0.23	12.0	0.21	12.0	0.21
Borrowings and credits from domestic sources	8.0	0.16	8.0	0.15	8.0	0.14	8.0	0.14
Borrowings and credits from foreign sources	4.0	0.08	4.0	0.08	4.0	0.07	4.0	0.07
Privatisation revenues	7.00	0.14	7.00	0.13	7.00	0.12	7.00	0.12
Deposits of local government	-15.85	-0.32	-12.06	-0.23	-12.09	-0.21	-17.41	-0.31
Transfers from the Central Budget	9.0	0.18	9.0	0.17	9.0	0.16	9.0	0.16

Source: Ministry of Finance of Montenegro



GDP (mil. €)	4881.3		5306.4		5669.0		6008.5	
Public expenditure	2021		2022		2023		2024	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	2149.57	44.04	2177.26	41.03	2317.65	40.88	2427.95	40.41
Taxes	1345.35	27.56	1437.03	27.08	1586.90	27.99	1667.37	27.75
Personal Income Tax	182.31	3.73	191.10	3.60	200.70	3.54	192.50	3.20
Tax on Profits of Legal Persons	74.71	1.53	84.28	1.59	118.76	2.09	126.84	2.11
Taxes on Property	18.87	0.39	19.10	0.36	19.13	0.34	18.69	0.31
Value Added Tax	691.95	14.18	733.84	13.83	797.67	14.07	856.76	14.26
Excises	248.72	5.10	271.00	5.11	309.04	5.45	327.19	5.45
Tax on International Trade and Transactions	28.30	0.58	29.67	0.56	31.68	0.56	33.59	0.56
Local taxes	89.25	1.83	91.45	1.72	92.76	1.64	94.15	1.57
Other State Taxes	11.26	0.23	16.59	0.31	17.15	0.30	17.66	0.29
Contributions	554.48	11.36	485.07	9.14	506.28	8.93	536.81	8.93
Contributions for Pension and Disability Insurance	343.74	7.04	428.82	8.08	461.86	8.15	489.99	8.15
Contributions for Health Insurance	180.57	3.70	19.48	0.37	5.00	0.09	5.00	0.08
Contributions for Insurance from Unemployment	16.36	0.34	20.65	0.39	22.07	0.39	23.42	0.39
Other contributions	13.81	0.28	16.11	0.30	17.35	0.31	18.41	0.31
Duties	16.87	0.35	17.77	0.33	18.44	0.33	19.03	0.32
Fees	105.24	2.16	121.70	2.29	106.33	1.88	103.27	1.72
Other revenues	70.74	1.45	54.08	1.02	45.19	0.80	45.97	0.77
Receipts from repayment of loans	8.94	0.18	9.75	0.18	9.75	0.17	9.75	0.16
Grants	47.96	0.98	51.87	0.98	44.75	0.79	45.75	0.76
Public expenditures	2236.24	45.81	2442.21	46.02	2422.50	42.73	2466.40	41.05
Current public expenditures	2025.42	41.49	2144.78	40.42	2147.17	37.88	2150.69	35.79
Current expenditures	996.21	20.41	1021.76	19.26	1028.45	18.14	1029.16	17.13
Gross salaries and contributions charged to employer	586.46	12.01	598.10	11.27	600.97	10.60	609.03	10.14
Other personal income	15.41	0.32	17.50	0.33	17.70	0.31	18.01	0.30
Expenditures for supplies and services	101.23	2.07	101.05	1.90	109.72	1.94	110.22	1.83
Current maintenance	25.94	0.53	32.41	0.61	31.93	0.56	32.14	0.53
Interests	117.79	2.41	96.34	1.82	90.08	1.59	86.41	1.44
Rent	12.04	0.25	12.00	0.23	11.95	0.21	12.01	0.20
Subsidies	49.84	1.02	64.61	1.22	63.66	1.12	58.19	0.97
Other expenditures	40.76	0.84	52.50	0.99	52.66	0.93	52.85	0.88
Capital expenditures of Current Budget and State Funds	46.72	0.96	47.26	0.89	49.79	0.88	50.29	0.84
Social security transfers	568.31	11.64	652.64	12.30	703.01	12.40	711.96	11.85
transfers to institutions, individuals, NGOs and public	307.91	6.31	318.45	6.00	315.34	5.56	309.15	5.15
Capital expenditures	210.83	4.32	297.43	5.61	275.33	4.86	315.71	5.25
Capital Budget of Montenegro	155.83	3.19	242.43	4.57	220.33	3.89	260.71	4.34
Capital Budget of Local Government	55.00	1.13	55.00	1.04	55.00	0.97	55.00	0.92
Loans and credits	4.32	0.09	4.56	0.09	4.66	0.08	4.66	0.08
Reserves	74.69	1.53	71.00	1.34	33.82	0.60	33.82	0.56
Repayment of guarantees	7.71	0.16	0.00	0.00	0.00	0.00	0.00	0.00
Net increase of liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayment of liabilities from previous years	66.27	1.36	76.35	1.44	61.89	1.09	61.94	1.03
Surplus/deficit	-86.68	-1.78	-264.95	-4.99	-104.85	-1.85	-38.45	-0.64
Primary deficit	31.12	0.64	-168.62	-3.18	-14.76	-0.26	47.96	0.80
Repayment of debt	456.60	9.35	311.12	5.86	273.09	4.82	372.86	6.21
Repayment of principal to residents	99.31	2.03	53.90	1.02	50.49	0.89	142.00	2.36
Repayment of principal to nonresidents	357.29	7.32	257.22	4.85	222.60	3.93	230.87	3.84
Repayment of Arrears	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase of securities	0.51	0.01	0.71	0.01	0.71	0.01	0.71	0.01
Financing needs	-543.78	-11.14	-576.79	-10.87	-378.65	-6.68	-412.02	-6.86
Financing	543.78	11.14	576.79	10.87	378.65	6.68	412.02	6.86
Borrowings and credits	117.75	2.41	182.00	3.43	368.74	6.50	407.43	6.78
Borrowings and credits from domestic sources	8.00	0.16	8.00	0.15	158.00	2.79	108.00	1.80
Borrowings and credits from foreign sources	109.75	2.25	174.00	3.28	210.74	3.72	299.43	4.98
Privatisation revenues or selling property	11.45	0.23	13.00	0.24	13.00	0.23	13.00	0.22
Transfers from the Central budget	9.00	0.18	9.00	0.17	9.00	0.16	9.00	0.15
Usage of Deposits	405.58	8.31	372.79	7.03	-12.09	-0.21	-17.41	-0.29

Source: Ministry of Finance of Montenegro



Table 1a: Macroeconomic prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2020	2020	2021	2022	2023	2024
		Level (bn €)	Rate of change				
1. Real GDP at market prices	B1*g	4.193	-15.3	13.4	6.4	5.1	4.5
2. GDP at market prices	B1*g	4.186	-15.5	16.6	8.7	6.8	6.0
Components of real GDP							
3. Private consumption expenditure	P3	3.369	-4.6	4.4	4.2	4.4	3.7
4. Government consumption expenditure	P3	0.888	0.8	1.0	2.2	1.0	1.5
5. Gross fixed capital formation	P51	1.190	-12.0	-0.9	1.0	8.7	9.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.181	4.3	2.9	2.7	2.5	2.3
7. Exports of goods and services	P6	1.137	-47.6	64.7	19.0	7.2	6.4
8. Imports of goods and services	P7	2.572	-20.1	11.4	7.8	5.7	5.6
Contribution to real GDP growth							
9. Final domestic demand		5.4	-6.4	3.5	3.8	5.5	5.3
10. Change in inventories and net acquisition of valuables	P52+P53	0.2	-1.0	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-1.4	-7.8	9.9	2.6	-0.5	-0.8

Table 1b: Price developments

	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. GDP deflator		-0.2	2.8	2.1975	1.7	1.4
2. Private consumption deflator		0.9	2.0	2.3	1.5	1.3
3. HICP		-1.3	:	:	:	:
4. National CPI change		-0.7	2.4	0.2	-0.5	-0.3
5. Public consumption deflator		6.5	5.0	3.7	1.5	0.5
6. Investment deflator		-2.0	6.0	4.0	3.0	2.5
7. Export price deflator (goods & services)		-4.3	4.7	2.4	1.8	1.5



8. Import price deflator (goods & services)		-0.7	4.8	3.6	2.0	1.5
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Table 1c: Labour markets developments

	ESA	Year	Year	Year	Year	Year	Year
	Code	2020	2020	2021	2022	2023	2024
		Nivo	Nivo/ /stopa promjene				
1. Population (thousands)			621.3	:	:	:	:
2. Population (growth rate in %)			-0.1	-100.0	:	:	:
3. Working-age population (persons) ¹²			412	:	:	:	:
4. Participation rate			64.8	:	:	:	:
5. Employment, persons ¹³			219	230	238	246	254
6. Employment, hours worked ¹⁴			:	:	:	:	:
7. Employment (growth rate in %)			-10.0	4.8	3.5	3.4	3.0
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ¹⁵			17.9	:	:	:	:
11. Labour productivity, persons ¹⁶		19.1	-5.8	8.2	2.8	1.7	1.4
12. Labour productivity, hours worked ¹⁷			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectoral balances

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-26.1	-13.1	-10.5	-10.2	-10.0
of which:						
- Balance of goods and services		-35.0	-22.7	-19.6	-19.2	-19.1
- Balance of primary incomes & transfers		9.0	9.6	9.1	9.0	9.1
- Capital account		0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-14.9	-11.5	-5.5	-8.4	-9.4
3. Net lending/borrowing of general government		-11.1	-1.5	-5.0	-1.8	-0.6
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0



Table 1e: GDP, investment and gross value added

	ESA Kod	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	4.2	4.9	5.3	5.7	6.0
Investment ratio (% of GDP)		27.9	25.1	24.2	25.4	26.8
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		1.1	-10.0	8.0	8.0	8.0
2. Industry (excluding construction)		-4.5	7.4	5.2	6.2	5.9
3. Construction		-18.0	-8.0	7.0	10.0	10.0
4. Services		-17.3	23.8	7.9	5.4	4.4

Table 1f: External sector developments

Euro mill. Unless otherwise indicated		Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Current account balance (% of GDP)	% of GDP	-26.1	-13.1	-10.5	-10.2	-10.0
2. Export of goods	bn. EUR	0.4	0.5	0.5	0.6	0.6
3. Import of goods	bn. EUR	2.1	2.4	2.7	2.9	3.1
4. Trade balance	bn. EUR	-1.6	-1.9	-2.2	-2.3	-2.5
5. Export of services	bn. EUR	0.7	1.4	1.8	1.9	2.1
6. Import of services	bn. EUR	0.5	0.6	0.7	0.7	0.7
7. Service balance	bn. EUR	0.2	0.8	1.1	1.2	1.4
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	0.2	0.2
9a. Remittances	bn. EUR	0.6	0.6	0.6	0.6	0.7
10. Current transfers	bn. EUR	0.3	0.4	0.4	0.4	0.4
11. Of which from EU	bn. EUR	:	:	:	:	:
12. Current account balance	bn. EUR	-1.1	-0.6	-0.6	-0.6	-0.6
13. Capital and financial account	bn. EUR	-1.0	:	:	:	:
14. Net Foreign direct investment	bn. EUR	0.5	0.4	0.5	0.6	0.6
14.a Of which: Net-FDI (Equity)	bn. EUR	0.2	:	:	:	:
14b. Of which: Portfolio investment	bn. EUR	-0.4	:	:	:	:
14c. Of which: Net-Portfolio investment (Equity)	bn. EUR	0.0	:	:	:	:
14d. Foreign direct investment, inward	bn. EUR	0.7	:	:	:	:
14e. Foreign direct investment, outward	bn. EUR	0.2	:	:	:	:
15. Foreign reserves	bn. EUR	0.4	:	:	:	:
16. Total External debt	bn. EUR	9.4	:	:	:	:
16a. Of which: foreign currency denominated external debt	bn. EUR	:	:	:	:	:
16b. Of which: public external debt	bn. EUR	:	:	:	:	:



16c. Of which: interest payments	bn. EUR	:	:	:	:	:
16d. Of which: repayments due	bn. EUR	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (annual average) ³¹	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
17a. 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
18. Net foreign saving	% of GDP	:	:	:	:	:
19. Domestic private saving	% of GDP	:	:	:	:	:
20. Domestic private investment	% of GDP	:	:	:	:	:
21. Domestic public saving	% of GDP	:	:	:	:	:
22. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	Year	Year	Year	Year	Year
		2017	2018	2019	2020	2021
1. Current Account Balance	% of BDP	:	:	-14.3	-26.1	-13.1
2. Net International Investment Position	% of BDP	:	:	-167.9	-206.2	:
3. Export market shares	%, g/g	:	:	:	:	:
4. Real Effective Exchange Rate	%, g/g	:	:	:	:	:
5. Nominal Unit Labour Costs	%, g/g	-4.2	-4.2	-4.1	7.8	-9.0
6. Private sector credit flow	% BDP	:	:	:	:	:
7. Private sector debt	% BDP	:	:	:	:	:
8. General Government Debt	% BDP	:	:	:	:	:

Table 2a: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2020	2020	2021	2022	2023	2024
		Level (bn NCU)	% GDP				

³¹ The methodology for data collection (17, 18, 19, 20, 21, 22 - area of financial accounts) is in progress and the Central Bank of Montenegro does not currently have them.



Net lending (B9) by sub-sectors							
1. General government	S13	-0.4646	-11.1	-1.8	-5.0	-1.8	-0.6
2. Central government	S1311	-0.4260	-10.2	-1.9	-5.1	-1.9	-0.8
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-0.0385	-0.9	0.1	0.1	0.1	0.1
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1.8687	44.6	44.0	41.0	40.9	40.4
7. Total expenditure	TE	2.3333	55.7	45.8	46.0	42.7	41.0
8. Net borrowing/lending	EDP.B9	-0.4646	-11.1	-1.8	-5.0	-1.8	-0.6
9. Interest expenditure	EDP.D41 incl. FISIM	0.1137	2.7	2.4	1.8	1.6	1.4
10. Primary balance		-0.3510	-8.4	0.6	-3.2	-0.3	0.8
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1.0043	24.0	25.1	24.7	25.7	25.6
12a. Taxes on production and imports	D2	0.7578	18.1	19.9	19.5	20.1	20.3
12b. Current taxes on income and wealth	D5	0.2464	5.9	5.3	5.2	5.6	5.3
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	0.5130	12.3	11.4	9.1	8.9	8.9
14. Property income	D4	0.0155	0.4	0.4	0.4	0.3	0.3
15. Other (15 = 16-(12+13+14))22		0.3359	8.0	7.2	6.8	5.9	5.6
16 = 6. Total revenue	TR	1.8687	44.6	44.0	41.0	40.9	40.4
p.m.: Tax burden		1.5173	36.2	36.5	33.8	34.6	34.5
Selected components of expenditures							
16. Collective consumption	P32	:	:	:	:	:	:
17. Total social transfers	D62 + D63	0.5592	13.4	11.6	12.3	12.4	11.8
17a. Social transfer in kind	P31 = D63	:	:	:	:	:	:
17b. Social transfers other than in kind	D62	0.5592	13.4	11.6	12.3	12.4	11.8
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.1137	2.7	2.4	1.8	1.6	1.4
19. Subsidies	D3	0.0382	0.9	1.0	1.2	1.1	1.0
20. Gross fixed capital formation	P51	0.2633	6.3	4.3	5.6	4.9	5.3
21. Other (21 = 22-(16+17+18+19+20))		1.3590	32.5	26.4	25.1	22.8	21.5
22. Total expenditures	TE [1]	2.3333	55.7	45.8	46.0	42.7	41.0
p.m. compensation of employees	D1	:	:	:	:	:	:



Table 2b: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
Level (bn NCU)						
Net lending (B9) by sub-sectors						
1. General government	S13	-0.46	-0.09	-0.26	-0.10	-0.04
2. Central government	S1311	-0.43	-0.09	-0.27	-0.11	-0.05
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-0.04	0.01	0.00	0.00	0.01
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	1.87	2.15	2.18	2.32	2.43
7. Total expenditure	TE	2.33	2.24	2.44	2.42	2.47
8. Net borrowing/lending	EDP.B9	-0.46	-0.09	-0.26	-0.10	-0.04
9. Interest expenditure	EDP.D41 incl. FISIM	0.11	0.12	0.10	0.09	0.09
10. Primary balance		-0.35	0.03	-0.17	-0.01	0.05
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1.00	1.23	1.31	1.46	1.54
12a. Taxes on production and imports	D2	0.76	0.97	1.03	1.14	1.22
12b. Current taxes on income and wealth	D5	0.25	0.26	0.28	0.32	0.32
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	0.51	0.55	0.49	0.51	0.54
14. Property income	D4	0.02	0.02	0.02	0.02	0.02
15. Other (15 = 16-(12+13+14))		0.34	0.35	0.36	0.33	0.34
16 = 6. Total revenue	TR	1.87	2.15	2.18	2.32	2.43
p.m.: Tax burden (D2+D5+D61+D91-D995)		1.52	1.78	1.79	1.96	2.07
Selected components of expenditures						
16. Collective consumption	P32	:	:	:	:	:
17. Total social transfers	D62 + D63	0.56	0.57	0.65	0.70	0.71
17a. Social transfers in kind	P31 = D63	:	:	:	:	:
17b. Social transfers other than in kind	D62	0.56	0.57	0.65	0.70	0.71
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.11	0.12	0.10	0.09	0.09
19. Subsidies	D3	0.04	0.05	0.06	0.06	0.06



20. Gross fixed capital formation	P51	0.26	0.21	0.30	0.28	0.32
21. Other (21 = 22-(16+17+18+19+20))		1.36	1.29	1.33	1.29	1.29
22. Total expenditures	TE	2.33	2.24	2.44	2.42	2.47
p.m. compensation of employees	D1	:	:	:	:	:

Table 2c: Discretionary fiscal measures adopted/announced according to the Programme

Measures	ESA Code (Expenditure/ Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)				
			2020	2021	2022	2023	2024
Wage subsidies	expenditures		0.064	-0.0362			
Support for vulnerable category of population	expenditures		0.002	0.0039			
Program of interventions on the market of agricultural products, fisheries and aquaculture	expenditures		0.0005	0.0007			
Application of the lowered VAT rate of 7% to the preparation and serving of food, drinks and beverages, except for excise goods and coffee, in hospitality activities	revenues		-0.005	-0.005			
Subtotal			0.0615	-0.0366			
Reducing the tax burden on labor and increasing the minimum wage					-0.125	0	0
Increasing the minimum pension					0.0042	0.0128	0
Introduction of child allowance for all children up to 18 years of age					0.006	0.018	0
Compensation of former beneficiaries of benefits for mothers with three or more children					0.0189	0.0061	0
Subtotal			0	0	-0.0959	0.0369	0
Total			0.0615	-0,0366	-0,0959	0.0369	0



Table 3: General government expenditure by function

% GDP	COFOG Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. General public services	1	9.3	6.8	6.4	5.5	5.7
2. Defence	2	1.2	1.0	0.9	1.1	1.0
3. Public order and safety	3	4.1	3.3	3.2	2.8	2.7
4. Economic affairs	4	7.2	5.5	5.8	5.3	5.5
5. Environmental protection	5	0.2	0.4	0.4	0.4	0.3
6. Housing and community amenities	6	0.1	0.0	0.0	0.0	0.0
7. Health	7	7.2	6.8	6.6	5.8	5.5
8. Recreation, culture and religion	8	1.2	0.8	1.1	0.9	1.0
9. Education	9	4.8	4.3	4.3	3.9	3.7
10. Social protection	10	13.9	12.1	12.8	12.9	12.3
11. Total expenditure (item 7 = 23 in Table 2)	TE	55.7	45.8	46.0	42.7	41.0

Table 4: General government debt developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Gross debt		105338.5	85492.2	76625.0	73238.7	69868.7
2. Change in gross debt ratio		28798.1	-19846.3	-8867.3	-3386.3	-3370.0
Contributions to change in gross debt						
3. Primary balance		8.4	-0.9	3.2	0.3	-0.8
4. Interest expenditure	EDP D.41	2.7	2.4	1.8	1.6	1.4
5. Real growth effect		13857.8	-12108.3	-5010.3	-3638.0	-3127.2
6. Inflation effect		159.0	-2562.2	-1728.2	-1202.7	-966.8
7. Stock-flow adjustment		14770.3	-5177.3	-2133.8	1452.6	723.4
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		0.0	0.0	0.0	0.0	0.0
Other relevant variables						
8. Liquid financial assets		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:



Table 5: Cyclical developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Real GDP growth (%)	B1g	-15.3	13.4	6.4	5.1	4.5
2. Net lending of general government	EDP.B.9	:	:	:	:	:
3. Interest expenditure	EDP.D.41	:	:	:	:	:
4. One-off and other temporary measures ⁴¹		:	:	:	:	:
5. Potential GDP growth (%)		2.9	-1.4	3.0	3.1	3.3
Contributions:						
- labour		-6.5	3.1	2.3	2.2	2.0
- capital		2.1	1.8	1.7	1.8	1.9
- total factor productivity		-10.8	8.5	2.4	1.1	0.6
6. Output gap		-14.7	-1.9	1.3	3.3	4.5
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance(8-3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year	Year	Year	Year	Year
	2020	2021	2022	2023	2024
1. GDP growth (% g/g)					
Previous programme	-15.2	10.5	6.5	5.8	:
Latest update	-15.3	13.4	6.4	5.1	4.5
Difference (percentage points)	-0.1	2.9	-0.1	-0.7	:
2. General government net lending (% GDP)					
Previous programme	:	:	:	:	:
Latest update	:	:	:	:	:
Difference	:	:	:	:	:
3. General government gross debt (% GDP)					
Previous programme	:	:	:	:	:
Latest update	:	:	:	:	:
Difference	:	:	:	:	:



Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
<i>of which: age-related expenditures</i>			n/a	n/a	n/a	n/a	n/a
- Pension expenditure	/	/	n/a	n/a	n/a	n/a	n/a
- Social security pension	/	/	n/a	n/a	n/a	n/a	n/a
- Old-age and early pensions	/	/	n/a	n/a	n/a	n/a	n/a
- Other pensions (disability, survivors)	/	/	n/a	n/a	n/a	n/a	n/a
- Occupational pensions (if in general government)	/	/	n/a	n/a	n/a	n/a	n/a
- Health care	/	/	n/a	n/a	n/a	n/a	n/a
- Long-term care (<i>this was earlier included in the health care</i>)	/	/	n/a	n/a	n/a	n/a	n/a
Education expenditure	/	/	n/a	n/a	n/a	n/a	n/a
Other age-related expenditures							
Interest expenditure	/	/	n/a	n/a	n/a	n/a	n/a
Total revenues							
<i>of which:</i>							
property income	/	/	n/a	n/a	n/a	n/a	n/a
trade-related revenue, royalties, concessions etc.	/	/	n/a	n/a	n/a	n/a	n/a
from pensions contributions (or social contributions, if appropriate)	/	/	n/a	n/a	n/a	n/a	n/a
Pension reserve fund assets	/	/	n/a	n/a	n/a	n/a	n/a
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	/	/	n/a	n/a	n/a	n/a	n/a
Assumptions							
Labour productivity growth	/	/	n/a	n/a	n/a	n/a	n/a
Real GDP growth	/	/	n/a	n/a	n/a	n/a	n/a
Participation rate males (aged 20-64)	/	/	n/a	n/a	n/a	n/a	n/a
Participation rates females (aged 20- 64)	/	/	n/a	n/a	n/a	n/a	n/a
Total participation rates (20-64)	/	/	n/a	n/a	n/a	n/a	n/a
Unemployment rate	/	/	n/a	n/a	n/a	n/a	n/a
Population aged 65+ over total population	/	/	n/a	n/a	n/a	n/a	n/a

**Table 7a: Contingent liabilities**

Measures		Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID- 19			n/a ³²	
	Subtotal			
Others			0.19161	n/a ³³
	Subtotal			
Total			0.19161 ³⁴	

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

	Dimension	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
Short-term interest rate	Annual average	-0.4	-0.5	-0.5	-0.3	:
Long-term interest rate	Annual average	-0.5	-0.3	-0.1	0.1	:
USD/EUR exchange	Annual average	1.14	1.19	1.16	1.16	:
Nominal effective exchange rate	Annual average	3.94	1.3	-1.3	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	-2.9	5.8	4.5	3.7	:
EU GDP growth	Annual average	-6.1	5	4.3	2.5	:
Growth of relevant foreign markets	Annual average	-6.4	5	4.3	2.4	:
World import volumes, excluding EU	Annual average	-8.9	9.3	6.1	4.5	:
Oil prices (Brent, USD/barrel)	Annual average	43.4	71.6	78.9	72.3	:

³² No covid 19 related guarantees issued in 2021.³³ If this category envisages new guarantees issued in 2021 then there were no new state guarantees issued in this year.³⁴ As explained in narrative part of ERP the debt based on guarantees as of 30/09/2021 amounts 191.61 million € or 0.19161 billion €.



Table 9a: Social scoreboard indicators

	Data source	2017	2018	2019	2020	2021
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	Information system of Ministry of Education, Science, Culture and Sports	106 participants, respectively 77% of the total number of participants	1866 participants, respectively 71% of the total number of participants	2139 participants, respectively 72% of the total number of participants	1434 participants, respectively 71% of the total number of participants	1301 participants, respectively 71% of the total number of participants
2. Share of early leavers from education and training, age 18-24		n/a	n/a	n/a	n/a	n/a
3. Share of population with basic overall digital skills or above, age 16-74	MONSTAT	46,9	n/a	49,6	n/a	n/a
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	e	21,4	21,0	21,3	26,6	n/a
5. Gender gap in employment rate, age 20-64	e	13,8	13,8	13,3	12,9	n/a
6. Income quintile share ratio - S80/S20	e	7,57	7,37	6,72	n/a	n/a
Working conditions						
7. Employment rate, age 20-64	e	58,2	59,8	60,8	55,2	
8. Unemployment rate, age 15-74	e	16,1	15,2	15,2	17,9	
9. Long-term unemployment rate, age 15-74	e	12,5	11,4	12,0	13,4	
10. Gross disposable income of households in real terms, per capita	EU-SILC (Monstat)	4.130 ³⁵	4.234	4.241	4.449	
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EU-SILC	33,7	31,4	30,5	30,9p ³⁶	

³⁵ In EUR (€).

³⁶ Data for 2020 from the EU-SILC Income and Living Survey are preliminary, while data for 2021 are not available.



12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EU-SILC	40,3	39,4	38,4	38,6p	
13. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	31,4	31,2	29,5	27,8p	
14. Disability employment gap, age 20-64	e	25,8	21,2	18,7	n/a	n/a
15. Housing cost overburden rate	EU-SILC	15,1	14,7	11,7	9,4p	
16. Children aged less than 3 years in formal childcare	MONSTAT	0	1	1	2	
17. Self-reported unmet needs for medical care		n/a	n/a	n/a	n/a	n/a

Table 9b: Other selected indicators

	Data source	2017	2018	2019	2020	2021
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP		n/a	n/a	n/a	n/a	n/a
2. Public healthcare expenditure in % of GDP	Ministry of Health	4,70	5,18	5,14	7,21	n/a
3. Household out-of-pocket payments as a % of total health expenditure		n/a	n/a	n/a	n/a	n/a
4. Percentage of population not covered by health insurance ³⁷	Ministry of Health	<5%	<5%	<5%	<5%	<5%
5. Ratio of doctors per 1000 inhabitants	Institute for public healthcare	2,67	2,78	2,75	2,77	n/a
6. Ratio of nurses per 1000 inhabitants	Institute for public healthcare	4,77	4,89	4,90	5,02	n/a
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	Environment Protection Agency	305.004,25€	281.598,45€	316.614,29€	490.803,96€	779.714,51€
8. Greenhouse gas emissions per capita	Inventory of pollutants in cooperation with the Austrian Agency;	2,7 t Co2/st	2 t Co2 eq/st			

³⁷ Item 4 - Number of insured persons by the Fund is higher relative to the statistical data on population of Montenegro. The reason for this is persons insured by the Fund include also foreigners with temporary residence who are employed in Montenegro or other foreigners entitled under the law to be insured as family members.



	Third National Report of Montenegro on Climate Change (Third National Communication)					
9. Generation of waste excluding major mineral wastes	<p>- 2017 – Report on implementation of the State Plan on Waste Management for 2017;</p> <p>- 2018 – State Plan on Waste Management in Montenegro for the period 2015-2020;</p> <p>- 2019 – State Plan on Waste Management in Montenegro for the period 2015-2020;</p> <p>- 2020 – Report on implementation of the State Plan on Waste Management for 2020.</p>	260.449 t	264.779 t	269.195 t	278.282 t	
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	<p>Data provided to the Agency for Electronic Communications and Postal Services by the operator via the system for collecting and processing data the on electronic communications market</p> <p><u>Note:</u></p> <p>As for the mobile access, this data pertains to the number of users who accessed internet via mobile phone during December each year and is counted as ratio to the population number. It is not calculated as percentage of households. Data for 2021 refer for November 2021, since the end of 2021 data are not yet available.</p>	Fix: 68,51%	Fix: 75,77%	Fix: 90,33%	Fix: 93,19%	Fix: 95,63%
		Mob: 67,47%	Mob: 74,52%	Mob: 81,53%	Mob: 87,02%	Mob: 90,48%
11. Share of total population using internet [NB: population 16-74]	Use of information and communication technologies	71,3%	71,5%	73,5%	77,6%	82,2%



	in Montenegro http://monstat.org/uploads/files/ICT/2021/Uпотреba%20IKT%20u%20domacinstvima%202021.pdf					
Energy						
12. Energy imports dependency (%)	MONSTAT	54,26	44,00	43,23	41,20	n/a
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro		n/a	n/a	n/a	n/a	n/a
14. Share of renewable energy sources (RES) in final energy consumption (%)	Ministry of Capital Investments	32,3	38,69	39,75	43,76	n/a
Transport						
15. Railway Network Density (meters of line per km ² of land area)		n/a	n/a	n/a	n/a	n/a
16. Motorization rate (Passenger cars per 1000 inhabitants)	MONSTAT	310	332	350	338	n/a
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	MONSTAT	8,4	8,2	7,9	9,1	n/a
18. Share of employment (Agriculture, Forestry and Fishing)	MONSTAT	7,9	8,0	7,1	7,5	n/a
19. Utilised agricultural area (% of total land area)	MONSTAT	18.56%	18.59 %	18.64 %	18.68 %	n/a
Industry (except construction)³⁸						
20. Share of gross value added	Monstat	11,3%	12,5%	11,9%	13,5%	n/a
21. Contribution to employment (% of total employment)	Monstat	11,5%	11,4%	10,9%	11,3%	n/a
22. Share of gross value added	Monstat	73,5	72,3	72,3	70,0	n/a
23. Contribution to employment (% of total employment)	Monstat	81,4	81,3	81,2	81,5	n/a
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	World Economic Forum	77.	71.	73.	n/a	n/a
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Ministry of Finance and Social Welfare ³⁹					

³⁸ Data refer to the industries covered by sectors B, C, D, and E.

³⁹ Given the lack of precise data on the size of the informal economy in Montenegro and its share in GDP, the Ministry of Finance and Social Welfare has launched a survey of households and businesses to determine the scope and structure of the informal economy. Information



Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	Ministry of Education, Science, Culture and Sports	0,35%	0,50%	0,36%	n/a	n/a
27. R&D expenditure – EUR per inhabitant	Ministry of Education, Science, Culture and Sports	15.003.132	23.490.044	17.984.722	n/a	n/a
Trade						
28. Export of goods and services (as % of GDP)	Central Bank of Montenegro	41,1	42,9	43,8	26	n/a
29. Import of goods and services (as % of GDP)	Central Bank of Montenegro	64,5	66,7	65	61	n/a
30. Trade balance (as % of GDP)	Central Bank of Montenegro	-23,5	-23,9	-21,2	-35	n/a

Table 10a

Reform Measure 1: Strengthening operational capacities of the Employment Office for carrying out services and measures via digitalisation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	1,052,947.00	0.00	0.00	1,052,947.00
2023	0.00	1,270,589.00	0.00	0.00	1,270,589.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 2: Introducing new work schemes and work-life balance					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 3: Introducing the Youth Guarantee Programme in Montenegro					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	9,445,000.00	0.00	0.00	9,445,000.00
2023	0.00	5,000,000.00	0.00	0.00	5,000,000.00
2024	0.00	10,000,000.00	0.00	0.00	10,000,000.00
Reform Measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market					

related to the results of the conducted research will be available in the second half of 2022.



Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	25,000.00	0.00	0.00	25,000.00
2023	0.00	5,000.00	250,000.00	0.00	255,000.00
2024	0.00	5,000.00	750,000.00	0.00	755,000.00
Reform Measure 5: Digitalisation of the education and development of digital skills					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	30,000.00	10,000.00	4,000,000.00	4,040,000.00
2023	0.00	350,000.00	550,000.00	1,600,000.00	2,500,000.00
2024	0.00	500,000.00	0.00	0.00	500,000.00
Reform Measure 6: Reform of the national system for disability assessment					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	214,334.00	0.00	0.00	214,334.00
2023	0.00	341,752.00	0.00	0.00	341,752.00
2024	0.00	443,914.00	0.00	0.00	443,914.00
Reform Measure 7: Defining financial preconditions for reforms proposed by the Road Map					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	63,000.00	190,000.00	0.00	0	253,000.00
2023	123,000.00	210,000.00	0.00	0	333,000.00
2024	123,000.00	0.00	0	0	123,000.00
Reform Measure 8: Improving access to and quality in delivery of healthcare services and the Digitalisation of the healthcare system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	20,000.00	0.00	0.00	20,000.00
2023	0.00	1,000,000.00	0.00	0.00	1,000,000.00
2024	0.00	100,000.00	0.00	0.00	100,000.00
Reform Measure 9: Establishing a full electronic registration of enterprises					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund					



Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	204,697.00	69,340.00	10,000,000.00	0.00	10,274,037.00
2023	227,656.00	83,240.00	10,000,000.00	0.00	10,310,896.00
2024	251,836.00	83,240.00	15,000,000.00	0.00	15,335,076.00
Reform Measure 11: Strengthening competitive position of MSMEs by establishing a single access point					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	120,000.00	0.00	0.00	120,000.00
2023	0.00	15,000.00	0.00	0.00	15,000.00
2024	0.00	15,000.00	0.00	0.00	15,000.00
Reform Measure 12: Strengthening the national innovation and research ecosystem					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	340,000.00	1,720,000.00	0.00	2,060,000.00
2023	0.00	0.00	2,000,000.00	0.00	2,000,000.00
2024	0.00	0.00	680,000.00	0.00	680,000.00
Reform Measure 13: Improving digitalisation of the e-government by developing platform for complex e-services					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	510,000.00	0.00	0.00	510,000.00
2023	0.00	185,000.00	0.00	0.00	185,000.00
2024	0.00	50,000.00	0.00	0.00	50,000.00
Reform Measure 14: Improving legislative and regulatory framework for further advancement of the broadband internet connection infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	70,000.00	0.00	0.00	70,000.00
2023	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 15: Improving management of business undertakings in majority state ownership					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	200,000.00	60,000.00	35,000.00	0.00	295,000.00
2023	160,000.00	20,000.00	15,000.00	0.00	195,000.00
2024	0.00	0.00	0.00	0.00	0.00



Reform Measure 16: Suppressing informal economy through the tax administration reform					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	4,300,000.00	0.00	0.00	4,300,000.00
2023	0.00	10,500,000.00	0.00	0.00	10,500,000.00
2024	0.00	2,676,800.00	0.00	0.00	2,676,800.00
Reform Measure 17: Improving the business environment by reducing the labour tax wedge					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 18: Information system and mobile application for monitoring the tourism parameters					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	400,000.00	0.00	0.00	400,000.00
2023	0.00	10,000.00	0.00	0.00	10,000.00
2024	0.00	0.00	0.00	0.00	0.00
Reform Measure 19: Sustainable green tourism					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	90,000.00	400,000.00	0.00	490,000.00
2023	0.00	90,000.00	450,000.00	0.00	540,000.00
2024	0.00	90,000.00	500,000.00	0.00	590,000.00
Reform Measure 20: Financial support to households aimed at applying energy efficiency measures					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	0.00	300,000.00	0.00	300,000.00
2023	0.00	0.00	300,000.00	0.00	300,000.00
2024	0.00	0.00	300,000.00	0.00	300,000.00
Reform Measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	130,000.00	0.00	0.00	130,000.00
2023	0.00	80,000.00	0.00	0.00	80,000.00
2024	0.00	70,000.00	0.00	0.00	70,000.00



Reform Measure 22: Supporting investments in the food manufacturing sector aimed at strengthening the competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0.00	0.00	10,460,063.60	0.00	10,460,063.60
2023	0.00	0.00	14,761,724.31	0.00	14,761,724.31
2024	0.00	0.00	1,066,444.79	0.00	1,066,444.79

Tabela 10b

Reform Measure 1: Strengthening operational capacities of the Employment Office for carrying out services and measures via digitalisation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	127,059.00	0.00	0.00	719,999.00	205,889.00	0.00	0.00	1,052,947.00
2023	190,589.00	0.00	0.00	1,080,000.00	0.00	0.00	0.00	
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 2: Introducing new work schemes and work-life balance								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 3: Introducing the Youth Guarantee Programme in Montenegro								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	9,300,000.00	0.00	0.00	0.00	145,000.00	0.00	0.00	9,445,000.00
2023	0.00	0.00	0.00	5,000,000.00	0.00	0.00	0.00	5,000,000.00
2024	0.00	0.00	0.00	10,000,000.00	0.00	0.00	0.00	10,000,000.00
Reform Measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	25,000.00	0.00	0.00	0.00	0.00	0.00	0.00	25,000.00
2023	255,000.00	0.00	0.00	0.00	0.00	0.00	0.00	255,000.00
2024	755,000.00	0.00	0.00	0.00	0.00	0.00	0.00	755,000.00
Reform Measure 5: Digitalisation of the education and development of digital skills								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	30,000.00	0.00	10,000.00	4,000,000.00	0.00	4,040,000.00
2023	1,600,000.00	0.00	350,000.00	0.00	0.00	550,000.00	0.00	2,500,000.00
2024	500,000.00	0.00	0.00	0.00	0.00	0.00	0.00	500,000.00
Reform Measure 6: Reform of the national system for disability assessment								



Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	214,334.00	0.00	0.00	0.00	214,334.00
2023	0.00	0.00	0.00	341,752.00	0.00	0.00	0.00	341,752.00
2024	0.00	0.00	0.00	443,914.00	0.00	0.00	0.00	443,914.00
Reform Measure 7: Defining financial preconditions for reforms proposed by the Road Map								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	143,000.00	0.00	0.00	0.00	110,000.00	0.00	0.00	253,000.00
2023	123,000.00	0.00	0.00	150,000.00	60,000.00	0.00	0.00	333,000.00
2024	123,000.00	0.00	0.00	0.00	0.00	0.00	0.00	123,000.00
Reform Measure 8: Improving access to and quality in delivery of healthcare services and the Digitalisation of the healthcare system								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	20,000.00	0.00	0.00	0.00	0.00	0.00	0.00	20,000.00
2023	1,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	1,000,000.00
2024	100,000.00	0.00	0.00	0.00	0.00	0.00	0.00	100,000.00
Reform Measure 9: Establishing a full electronic registration of enterprises								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 10: Improving access to financing for MSMEs by creating a Credit-Guarantee Fund⁴⁰								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	10,274,037.00	0.00	0.00	0.00	0.00	0.00	0.00	10,274,037.00
2023	10,310,896.00	0.00	0.00	0.00	0.00	0.00	0.00	10,310,896.00
2024	15,335,076.00	0.00	0.00	0.00	0.00	0.00	0.00	15,335,076.00
Reform Measure 11: Strengthening competitive position of MSMEs by establishing a single access point								

⁴⁰ Costing projections were made in accordance with the document for Framework and Roadmap for the Establishment of the Montenegro Credit Guarantee Fund (CGF) prepared by the consulting team working on the establishment of (CGF) with the technical support of the EBRD). It is planned that in the first year of operation, CGF will make a profit and in that sense contribute to the financing of operating costs. In the absence of the option to enter certain levels of CGF self-financing in the table itself, and in the absence of precise projections at this time, the following is an explanation of CGF financing. In accordance with the Law on Credit Guarantee Fund, it will generate income on its deposits and investments of CGF and realize fees through the collection of loan guarantees. CGF will use these revenues and fees to cover its operating costs and expenses related to the payment of loan guarantee obligations. All surplus revenues and fees collected in excess of operating expenses and any loan losses will be retained in the CGF for the purposes of its operation and will not be distributed outside the CGF. Sources of funding, according to the Law, for MCGF include: 1) donations and capital donations; 2) fees for guarantees paid by registered financial institutions for loan guarantees; 3) income from interest and investments from the deposited and invested Capital Fund and other assets of the CGF; 4) additional capital contributions, including additional donated capital that may have been received, and 5) loans.



Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	120,000.00	0.00	0.00	0.00	120,000.00
2023	0.00	0.00	0.00	15,000.00	0.00	0.00	0.00	15,000.00
2024	0.00	0.00	0.00	15,000.00	0.00	0.00	0.00	15,000.00
Reform Measure 12: Strengthening the national innovation and research ecosystem								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	1,000,000.00	0.00	0.00	1,010,000.00	50,000.00	0.00	0.00	2,060,000.00
2023	2,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	2,000,000.00
2024	500,000.00	0.00	0.00	180,000.00	0.00	0.00	0.00	680,000.00
Reform Measure 13: Improving digitalisation of the e-government by developing platform for complex e-services								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	510,000.00	0.00	0.00	0.00	510,000.00
2023	0.00	0.00	0.00	185,000.00	0.00	0.00	0.00	185,000.00
2024	50,000.00	0.00	0.00	0.00	0.00	0.00	0.00	50,000.00
Reform Measure 14: Improving legislative and regulatory framework for further advancement of the broadband internet connection infrastructure								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	70,000.00	0.00	0.00	0.00	0.00	0.00	0.00	70,000.00
2023	0.00	0.00	0.00	0.00	0.00	0.00	TBD* ⁴¹	0.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	TBD*	0.00
Reform Measure 15: Improving management of business undertakings in majority state ownership								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	295,000.00	0.00	0.00	0.00	0.00	0.00	0.00	295,000.00
2023	195,000.00	0.00	0.00	0.00	0.00	0.00	0.00	195,000.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 16: Suppressing informal economy through the tax administration reform								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00	0.00	0.00	0.00	0.00	4,300,000.00	0.00	4,300,000.00
2023	0.00	0.00	0.00	0.00	0.00	10,500,000.00	0.00	10,500,000.00
2024	0.00	0.00	0.00	0.00	0.00	2,676,800.00	0.00	2,676,800.00
Reform Measure 17: Improving the business environment by reducing the labour tax wedge								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	137,300.00	0.00	0.00	0.00	0.00	0.00	0.00	137,300.00

⁴¹ TBD* predstavlja iznos koji treba da se utvrdi, a odnosi se na eventualno odobravanje projekta sa kojim Crna Gora planira da se prijavi na 27. poziv za tehničku podršku pripreme projektne dokumentacije, u okviru Zapadno-balkanskog okvira.



2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 18: Information system and mobile application for monitoring the tourism parameters								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	400,000.00	0.00	0.00	0.00	0.00	0.00	0.00	400,000.00
2023	10,000.00	0.00	0.00	0.00	0.00	0.00	0.00	10,000.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reform Measure 19: Sustainable green tourism								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	90,000.00	0.00	0.00	0.00	0.00	400,000.00	0.00	490,000.00
2023	90,000.00	0.00	0.00	0.00	0.00	450,000.00	0.00	540,000.00
2024	90,000.00	0.00	0.00	0.00	0.00	500,000.00	0.00	590,000.00
Reform Measure 20: Financial support to households aimed at applying energy efficiency measures								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	300,000.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00
2023	300,000.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00
2024	300,000.00	0.00	0.00	0.00	0.00	0.00	0.00	300,000.00
Reform Measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	130,000.00	0.00	0.00	0.00	0.00	0.00	0.00	130,000.00
2023	80,000.00	0.00	0.00	0.00	0.00	0.00	0.00	80,000.00
2024	70,000.00	0.00	0.00	0.00	0.00	0.00	0.00	70,000.00
Reform Measure 22: Supporting investments in the food manufacturing sector aimed at strengthening the competitiveness								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	2,615,015.50	0.00	0.00	7,845,048.10	0.00	0.00	0.00	10,460,063.60
2023	3,690,429.77	0.00	0.00	11,071,294.54	0.00	0.00	0.00	14,761,724.31
2024	266,611.19	0.00	0.00	799,833.60	0.00	0.00	0.00	1,066,444.79

**Table 11: Reporting on the implementation of the structural reform measures of the ERP 2021-2023**

Priority reform measure 1: Financial support to the households enabling them to adopt energy efficiency measures and generate electricity for their own needs		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Carrying out the public competition procedure for selection of banks – providers of credits for households for implementing energy efficiency measures; 2. Carrying out a public competition procedure for selection of companies – suppliers and installers of systems, equipment and material for implementing energy efficiency measures; 3. Supply and installation of the system and equipment for improving energy efficiency procured and installed under the Programme. 	5
		5
		4
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. The call for selection of banks was implemented in the period from 26 June to 20 August 2021. As part of the call, three banks were selected for participation in the Programme and contracts on cooperation were signed with them; 2. The call for selection of companies was implemented in the period from 30 July to 27 August 2021. As part of the call, eight companies were selected for implementation of the energy efficiency measures for households under the Programme and contracts on cooperation were signed with them; 3. The Programme has officially started on 5 October 2021. Under the public call for citizens, which was open from 5 to 29 October 2021, 211 applications were submitted for participation in the programme. The Commission of the Ministry of Capital Investments approved 201 applications. The planned completion date for works on implementation of the energy efficiency measures for households with approved applications is 13 December 2021. 	

Priority reform measure 2: Supporting investments in the food manufacturing sector with the aim of boosting competitiveness		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Support to investments in the food-manufacturing sector in order to achieve the EU standards; 2. Diversification of economic activities. 	4
		3



<p>Description of implementation and explanation if partial or no implementation</p>	<p>During 2021, the public calls for investments in physical capital of agricultural holdings were launched: the public call for investments in physical capital connected with processing and marketing of agricultural and fisheries products; and for the first time the public call for Diversification of economic activities.</p> <p>Information campaigns for all mentioned public calls were carried out, while complying with measures to prevent COVID-19 virus pandemic. The deadline for submission of applications for supports was extended by 30 days due to the pandemic, in order to provide sufficient time to possible beneficiaries to prepare required documentation given these new circumstances (Public call for investments in physical capital of agricultural holdings, and Public call for investments in physical capital connected with processing and marketing of agricultural and fisheries products).</p> <p>The implementation of current and previously launched public calls under IPARD II Programme continues, with added option for advance payment and payment in instalments for those beneficiaries who meet the requirements.</p>
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Priority reform measure 3: Stimulating investments in manufacturing sector with the aim of boosting competitiveness		Stage of reform implementation (1-5)
<p>Activities planned for 2021</p>	<p>The activity includes two complementary Programme Lines, with focus on supporting modernisation of capacities and improving technologies, under the Programme for the Improvement of Competitiveness of Economy. The main focus of this measure – programme line for support of manufacturing processes, which started with implementation in the second half of 2020, is aimed at supporting investments in equipment, through participation in co-financing for procurement of manufacturing equipment and equipment directly used in the manufacturing processes (starting, improving, expanding existing capacities or expanding production to new products and manufacturing processes, as well as for increasing the production volume). The activity also envisages a complementary programme line - Programme Line with focus on modernisation of manufacturing industry, which is implemented continuously since 2016, aimed at strengthening competitiveness of economic entities, through adoption of new technologies in order to enable modernisation of manufacturing processes.</p>	<p>4</p>



Description of implementation and explanation if partial or no implementation	<p>The Programme for the Improvement of Competitiveness of Economy for 2021 was adopted on the session of the Government on 30 July 2021 and the Reform Measure in 2021 is being implemented through the Programme Line for modernisation of manufacturing processes. This also includes co-financing of equipment being procured under loan facilities of commercial banks and the Montenegro Investment and Development Fund (MIDF) for micro, small, and medium-sized enterprises, under arrangement of coverage of part of the costs of loan facilities for procurement of manufacturing equipment directly connected with the manufacturing process, whereby the overall budget allocated for implementation is 1.5 million euro. The procedure under the Programme Line for modernisation of manufacturing processes includes submission of applications and supporting documentation on implementation and procurement of equipment under the loan facility with MIDF and commercial banks, on-site monitoring, and other procedures of verifying compliance with the requirements of the Programme and the Public Call. Amount of grant support that would be approved per beneficiary ranges from 7,000 to 70,000 euro for covering part of the costs of equipment procured from loans.</p> <p>As for the Public Call for participation in the process of granting funds under the Programme Line for modernisation of manufacturing processes in 2021, a total of 33 applications were submitted, out of which 4 were rejected. A total of 29 applications are in the process of being considered, with total amount of requested subsidies of 1,042,608.43 euro.</p> <p>The process of considering the applications is underway, as well as on-site monitoring of business premises of applicants, to be followed by final consideration and approval of applications and award of grant funds.</p>
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Priority reform measure 4: Sustainable tourism in the new reality		Stage of reform implementation
		(1-5)
Activities planned for 2021	1 "Green" types of accommodation facilities – implementation of ecological standards in hospitality facilities (certification);	3
	2. Programme of Support Measures in Tourism: <ul style="list-style-type: none"> a) Programme of Support Measures in Tourism for 2021 – financial support for events/festivals organisers during 2021, and b) Programme of Support Measures in Rural Tourism for 2021/2022; 	4



	3. Hiking and Biking – development and maintenance of trails and supporting infrastructure;	3
	4. Development of Panoramic Roads – development of mobile phone applications for the panoramic route;	0
	5. All Miracles of Montenegro – tourism capitalisation of three sites: Waterfall Crnjak (Šavnik), Ahmet and Pava Gravesite (Bijelo Polje), and Čehotina Meanders (Pljevlja) – development of sites, installing supporting infrastructure, and maintenance thereof.	2
Description of implementation and explanation if partial or no implementation	<p>1. Implementation of standardised environmental requirements for certificates Green Key and Eco Label (one each new certificates in 2021, a total of 2 Green Key certificates were awarded, while 3 are in the process of certification, whereby 15 hotels have the Eco Label designation);</p> <p>2.</p> <p>a) Under the Programme of Support Measures for co-financing events/festivals organisers, implemented through a public call, a total of 59 events/festivals were supported with total amount of 80,000.00 euro – the activities are completed,</p> <p>b) Under the Programme of Support Measures in Rural Tourism for 2021/2022, being implemented through a public call, the following activities were supported: organisation of 4 ethno fairs, 9 projects of development of innovative tourism products in rural areas; and 25 rural households for improving quality of services and offer – the activity continues through mid 2022;</p> <p>3. Activities pertain to maintenance of safety equipment and replacement of destroyed signs; Delays in implementation were caused by lack of financial resources (the Law on Budget of Montenegro was adopted in July 2021);</p> <p>4. Implementation has not started due to lack of financial resources (the Law on Budget of Montenegro was adopted in July 2021);</p> <p>5. Meetings were held with representatives of local tourism organisations, local self-governments, neighbourhood communities, non-governmental sectors, as well local residents, in order to obtain required consents for capitalisation on tourism sites, as well as priced bill of quantities for execution of works concerning their development:</p> <ul style="list-style-type: none">– Continuously during 2021,– Delays were caused by lack of financial resources (the Law on Budget of Montenegro was adopted in July 2021).	



Priority reform measure 5: Boosting competitiveness of MSMEs and access to the new markets		Stage of reform implementation (1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Programme for Improving Competitiveness of the real sector for 2021; 2. Realisation of the export development programme (the project of Promoting the Internationalisation of Montenegrin Economy with a Focus on SMEs financed by EU); 3. Realisation of the Project for Improvement of Entrepreneurship through Advisory Support and Information Services. 	<p>5</p> <p>5</p> <p>5</p>
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. The Programme for Improving Competitiveness of the real sector for 2021 aimed at incentives for development of existing processes, products, and services, in order to strengthen competitiveness and export potential of micro, small, and medium-sized enterprise by improving productivity and profitability while maintaining existing and opening new jobs. The amount of 3,000,000 euro was allocated for implementation of the Programme in 2021. The Programme envisages implementation of seven programme lines, of which five programme lines are for financial support and two programme lines for non-financial support, the implementation of which will enable strengthening of the export potential and improving competitiveness of goods and services. As part of the launched Public Call for participation in the Programme, which was opened in the period from 1 August to 1 October 2021, 367 applications were received. Out of 367 applications received, 253 projects were contracted for financial and non-financial support. 2. During 2021, the following were prepared: training modules, brochure the Guide for Export, and analysis of market potentials. In the period to come, specifically during 2022, trainings will be held and Montenegrin enterprises will be presented at the fair in Athens. 3. Direct EBRD grant of for Improvement of Entrepreneurship through Advisory Support and Information Services (IPA 2016) is a project implemented by the Ministry of Economic Development and the European Bank for Reconstruction and Development under the Annual Action Programme of the Instrument for Pre-accession Assistance (IPA) for 2016. The total value of the Project is 1,747,000.00 euro, whereby the project is being implemented since 2020 and will last until the end of 2023. The Project has two components. While one deals with the direct advisory support to micro, small, and medium-sized enterprises, the second component of the project envisages strengthening of capacities of the Ministry in order for it to advance development of micro, small, and medium-sized enterprises, as well as for establishment of a single contact point for enterprises within the Ministry by 	



	<p>developing an IT platform. Aim of the single contact point for business information is to enable entrepreneurs and other business entities a centralised database and single address which they can contact for information, advice and assistance.</p> <p>Until this moment, 10 projects were started and 8 were successfully completed. Furthermore, one more project is in the process of being considered and approved, while couple more are being prepared.</p> <p>Under the second component of the project <i>Strengthening Capacities of the Ministry of Economic Development</i>, the European Bank for Reconstruction and Development has published two calls for tenders on 26 January 2021 for implementation of activities envisaged by the terms of reference:</p> <ol style="list-style-type: none">1. Call for submission of applications for hiring consulting firms for implementation of envisaged activities, including expert support for strengthening capacities of the Ministry of Economic Development aimed at development of small and medium-sized enterprises in Montenegro. After the evaluation procedure was carried out, as defined by the rules of procedures of the European Bank for Reconstruction and Development, EBRD has selected a company Fidelity Consulting from Montenegro for carrying out these activities. The activities are being implemented in accordance with the planned schedule from 31 May 2021, based on the adopted annual plan of activities and include: regular organising of meetings of the Working group for development of micro, small, and medium-sized enterprises (3 meetings held as of November 2021), study visits of member of the Montenegro Innovation Fund from the Ministry of Economic Development to the Fund for Innovation Activities of the Republic of Serbia was completed, activities to amend legislation have commenced (Law on Business Undertakings and secondary regulations governing business zones) have started; activities to prepare the Programme for Improving Competitiveness for 2022 have started; analysis of current administrative capacities of the Ministry of Economic Development for development of micro, small, and medium-sized enterprises was carried out.2. The Call for submission of applications for hiring a consulting firm for development of an integrated IT platform, which will represent a single access point for business information for development of small and medium-sized enterprises within the Ministry of Economic Development. After the evaluation procedure was carried out, as defined by the rules of procedures of the European Bank for Reconstruction and Development, EBRD has selected a company Fleka from Montenegro for carrying out these activities. The activities are being carried out in accordance with the planned schedule from 31 May 2021, and the following activities were carried out as of November 2021: detailed analysis and mapping of current business processes and requirements that should be included in the platform was carried out; a proposal for the structure and design of the platform, accepted by the Ministry of Economic Development and EBRD, was prepared; project and technical documentation was prepared; a working group with representatives of the Ministry of Economic Development and Fleka team was established, which will carry out operational activities for development of the platform; software development of the platform has started.
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Priority reform measure 6: Improving and implementing the measures for suppression of informal economy		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Carrying out survey among households and enterprises, aimed at establishing a relevant (adequate) database of indicators for monitoring implementation of activities to suppress the informal economy; 2. Defining a new Action Plan/Programme that will be adopted by the Government in second half of 2021, which will define activities of all institutions involved in suppressing the informal economy 	3
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Activities are partly implemented, i.e. a contract was concluded with the most favourable bidder for carrying out survey among households and enterprises, aimed at determining the extent and structure of the informal economy in Montenegro. Duration of the survey is two months. Information concerning the results of the completed survey should be available in Q2 2022; 2. The Action Plan that will define the activities of all involved institutions aimed at suppressing the informal economy is in its preparatory phase and its preparation will start after the survey is completed. 	1

Priority reform measure 7: Suppressing the informal economy by reforming the Tax Administration		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Start with the production phase of the electronic fiscalisation system; 2. Continue with activities on introduction of IRMS and procurement of part of the needed software and hardware. 	4
		2



Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Use of the system of the online fiscalisation in real time started on 1 January 2021 in accordance with the Law. In order to implement the Law, rulebooks for its implementation were adopted and published in the Official Gazette of Montenegro (No 54/2020 of 8 June 2020); 2. As for the implementation of IRMS, functional requirements documents are currently being prepared for introduction of the new integrated IT revenue management system (IRMS). After completing the functional requirements documents and preparing other tender documents, the tender procedure will be launched for procurement of the new IRMS system. Bearing in mind that the very process of data cleansing and later on migration into a new system represents a continuous activity, a Strategy for Data Cleansing/Action Plan was prepared, as well as procedures for data cleansing, while the very process of data cleansing has started. The activities of both projects are aligned, in order avoid overlapping. Furthermore, the activities are aimed at creating additional conditions for preventive actions and suppressing the informal economy phenomena, which is directly linked with the Policy guidance No 2.
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Priority reform measure 8: Establishing the Register of Charges		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Inventory of all charges (excises, custom duties, pecuniary penalties, fees, taxes and surtaxes, stamp duties, sojourn fees, nautical sojourn fees, visitor fess, municipal utility fees, port fees, special fees, court fees, tourist fees, tourist contribution fees, hospitality industry fees); 2. Adoption of the secondary legislation to define charges, as well the creation and the manner of operation of the Register; 3. Final consultations with representatives of ministries, local authorities, public-service enterprises and real sector in order to check data entered in the Register, as well as to consolidate recommendations from use of the portal so far (e.g. deleting charges and regulations not in use in practice); 4. Linking the register with the database of current legislation, precisely with the Official Gazette of Montenegro, in order to have regular update of charges. 	<p>5</p> <p>5</p> <p>4</p>



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Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> <li data-bbox="411 456 1394 996">1. Register of charges contains a list of charges on the State and local level, which the natural and legal persons are obliged to pay. The primary objective of creating a new register is centralisation of data on charges being imposed in Montenegro, on the State and local level, with the aim of streamlining the process of doing business and increasing transparency. The charges are described, amongst other things, by attributes defining: type, amount of the charge, manner of payment, area or sector in which it applies, and regulations representing a base for adoption and setting the amount of the charge. The Register enables the public sector to have insight into encumbrances with charges by sectors of the economy, analysing necessity of existing charges and based on such inputs make decisions in which instances the charges could be reduced, deferred, or abolished. This database should assist decision-makers in developing new legislation and defining new charges. On the other hand, for the real sector this Register enables transparent insight into the list of charges and their amounts for the area of their business operations, as well as a possibility to calculate in advance and plan costs pertaining to the their obligations to the public sector. The Register is a dynamic database changing in line with the changes of legislation setting the charges on the State and local level. The date of the last change could be observed through the attribute <i>date of the last data change</i>. Currently there are 1,800 charges in the Register, there are 27,366 classified charges, while there are 772 regulations defining the grounds or the amount of the charge; <li data-bbox="411 1014 1394 1758">2. In order to ensure resolving of numerous matters having importance for this database, such as the establishment, content, keeping of, maintenance, and other matters important for its functioning, the need arose for the Law on the Register of Charges to be developed. Namely, this Law would establish for the first time the Register of Charges in Montenegro. To that end, this Law is proposed in the Work Programme of the Government of Montenegro for 2021. The primary objective of the Law is to enable efficient and continuous functioning of the Register of Charges. The draft Law was finalised before the deadline, and its adoption was envisaged for Q4, according to the Work Programme of the Government. The draft Law is a result of work of multi-sector Working group coordinated by the Secretariat of the Competiveness Council. All relevant stakeholders participated in the Working Group for drafting of the Proposal of the Law on the Register of Charges, and so as follows: representatives of the private sector (Chamber of Economy, Union of Employers, American Chamber of Commerce, Montenegro Business Alliance), academic community (Law Faculty, Podgorica), public sector (Ministry of Economic Development, Ministry of Finance and Social Welfare, Ministry of Public Administration, Digital Society and Media, Revenue and Customs Administration, Union of Municipalities of Montenegro, and Association of Lawyers of Montenegro), and the Secretariat of the Competiveness Council, as coordinator of the Working Group. Several meetings of members of the working group, members of the select panel of the Working Group composed by lawyers, as well as consultations with interested parties not formal members of the Working Group, but their contribution was significant and recognised in the text of the Law, have preceded finalisation of the draft Law on the Register of Charges. The Ministry of Economic Development, pursuant to Articles 14 and 15 of the Decree on Selection of Representatives of Non-governmental Organisations in Working Bodies of the State Administration Authorities and Carrying out Public Consultations in Preparing Laws and Strategies (Official Gazette of Montenegro, No 41/18), has presented the draft Law on the 	



Register of Charges to public consultations. The public consultations lasted 20 days, in the period from 2 to 22 July 2021. After the Law was formally submitted for opinion, the Secretariat for Legislation provided notifications and suggestions about the following: bearing in mind that the objective of adoption of this Law is to collect and record data on fiscal and para-fiscal charges and public disclosure of such data, it is not purposeful to adopt a law in order to govern these matters, but these matters could be governed by provisions of the law governing the revenue side of the budget. In line with that, and after several internal consultations and meetings held, it was decided that the matters of importance for the Register of Charges, such as the establishment, content, keeping of, maintenance of the Register and other matters important for its functioning are to be regulated and governed by the Proposal of the Law Amending and Supplementing the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, No 20/14, 56/14, 70/17, 4/18, 55/18, and 70/21). To that end, a new chapter and three new articles after Article 70 will be added in the Law on Budget and Fiscal Responsibility. The proposal for the amendments is needed to establish records of fiscal and para-fiscal charges. The Ministry of Finance and Social Welfare is the proponent of amendments and supplements to the Law on Budget and Fiscal Responsibility, upon the initiative of the Ministry of Economic Development in accordance with the above mentioned suggestions of representatives of the Secretariat for Legislation.

3. The Working Group, coordinated by the Secretariat of the Competiveness Council, held several meetings in order to improve the Register of Charges. All relevant stakeholders participated in the Working Group, and so as follows: representatives of the private sector (Chamber of Economy, Union of Employers, American Chamber of Commerce, Montenegro Business Alliance), academic community (Law Faculty, Podgorica), public sector (Ministry of Economic Development, Ministry of Finance and Social Welfare, Ministry of Public Administration, Digital Society and Media, Revenue and Customs Administration, Union of Municipalities of Montenegro, and Association of Lawyers of Montenegro), and the Secretariat of the Competiveness Council, as coordinator of the Working Group. In addition to the above stated, the activities to improve the record keeping of charges have continued. The database of charges was improved by adding data that initially could have not been found in the legislation, and representatives of Montenegrin municipalities have also been consulted. Furthermore, the template for reporting was created to be used by the Ministry of Economic Development once a year, based on the database of the Register of Charges, which will provide recommendations for improvement in this area;
4. As part of the activities planned in 2021, linking the Register with the database of current legislation of the Official Gazette of Montenegro was planned, in order to have regular update of charges. As far as this activity is concerned, several meetings were held with representatives of the Official Gazette. To that end, it was concluded that the linking needs to be postponed because this institution is planning to change the entire IT system. Moreover, it was planned for this activity to be part of the Register update in future, especially because the linking is required for it to be as efficient as possible. Part of the process will certainly be automated in the next period, and discussions with an IT firm are underway.



Priority reform measure 9: Implementation of the electronic public procurement system (EPPS)		Stage of reform implementation (1-5)
Activities planned for 2021	1. Use of the electronic public procurement system (January 2021);	5
	2. Aligning secondary legislation to make it compatible with the electronic public procurement system;	
	3. Delivery of training for all users of the system;	5
	4. Strengthening administrative capacities of the Ministry of Finance, as administrator of the electronic system;	
	5. Improving and upgrading instructions for use of the electronic public procurement system;	5
	6. Raising awareness on importance of the public procurement and electronic system by strengthening cooperation with the NGO sector;	
	7. Monitoring procurement procedures with most frequent errors and issue recommendations for their correction;	2
	8. Establishing cross-institutional cooperation with the Revenue Administration and the Ministry of Justice, in order to connect the system and expert data exchange (GSB);	
	9. Expanding the EPPS with a module for public-private partnerships.	5
	5	
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		2
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none">1. The use of the electronic public procurement system (EPPS) started on 1 January 2021;2. Secondary legislation was aligned with the EPPS and published on the website of the Ministry of Finance and Social Welfare. The Rulebook on the Manner of Work and Use of the Electronic System was also adopted;3. Training for the electronic public procurement system (EPPS) is organised monthly both for the contracting authorities as well as for bidders;4. Strengthening administrative capacities of the Directorate for the Public Procurement Policy is done in a systemic manner and in line with available budgetary funds;5. Notifications and instructions for use of the EPPS were published on the website of the Ministry, and so as follows:<ul style="list-style-type: none">• Instruction on compiling the public procurement plan,• Instruction for simplified procurements,• Clarification for entering conditions and requirements,• Instruction for evaluation of bids,• Registration form – business entities,• Instruction for bidders,• Registration form – contracting authorities;6. The Directorate for the Public Procurement Policy has carried out a three-month long media campaign on informing the public about the new electronic system;7. Monitoring of public procurement is carried out on daily basis through communication with contracting authorities and bidders via help desk, where recommendations and errors most commonly made by system users during its use are noted and those are automatically corrected;8. In the period to come the EPPS will be connected with required electronic services supplied by other state authorities, in particular those of the Ministry of Finance and the Revenue Administration;9. Expansion of the EPPS is expected in the forthcoming period, with a module for public-private partnerships.	



Priority reform measure 10: Improvement of the legislative-regulatory framework and further development of the infrastructure for broadband Internet connection		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Beginning of the activities of preparation of the new Law on Electronic Communication (in line with EU Directive 2018/1972 on the European Electronic Communications Code); 2. Completion of the project activities regarding development of the broadband internet connection in Montenegro 	2 5 4
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Open call was launched for the expert needed for preparation of the Draft Law on Electronic Communications; 2. Cost benefit analysis and market model were finalised, and Activity Report on the National Plan for Broadband Internet Connection was adopted; 3. Proposal for the Law on the Use of Physical Infrastructure for the Deployment of High-speed Electronic Communication Networks has been submitted to the Parliament of Montenegro for voting. 	

Priority reform measure 11: Improvement of programme framework for implementation of the Smart Specialisation Strategy of Montenegro		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Operational Programme for S3 implementation with sub-programmes for all four strategic priorities was defined and includes linking to the adequate policy instruments (grant schemes and potential new schemes in accordance with the state aid rules) – Ministry of Economic Development, Inter-departmental operational group for S3 implementation, Council for Innovation and Smart Specialisation; 2. Structural projects and multiannual financial plan defined – all the ministries relevant for S3, with coordination of the Council for Innovation and Smart Specialisation; 	4 4



	<p>3. Implementation of the usual assistance mechanisms (opening competition in 2021):</p> <ul style="list-style-type: none"> ○ Competition for start-up projects (MED) ○ Competition for EUREKA projects (MED) ○ Competition for S3 projects in enterprises EU-IPA (CFCU-MED) ○ Competition for pre-accelerator programme for start-ups (MED) ○ Competition for fostering innovation in enterprises (MED) ○ Competition for human resources development in science (CFCU-MESCS) ○ Competition for innovative projects in creative industries (MESCS) 	<p>4</p> <p>4</p> <p>2</p> <p>5</p> <p>0</p> <p>2</p> <p>0</p>
<p>Description of implementation and explanation if partial or no implementation</p>	<p>1. Operational Programme for S3 implementation with sub-programmes for all four strategic priorities was defined and includes linking to the adequate policy instruments (grant schemes and potential new schemes in accordance with the state aid rules) – Ministry of Economic Development, Inter-departmental operational group for S3 implementation, Council for Innovation and Smart Specialisation;</p> <ul style="list-style-type: none"> - Steps taken during implementation: 24 May 2021. Open call for NGO representatives and open call for researchers and businesses to participate in preparation of the Operational Programme were launched; <p>Working group for preparation of the Operational Programme was set up in July 2021;</p> <p>UNDP consultants were hired to prepare situation analysis and assist in designing the Operational Programme;</p>	



	<p>Draft Operational Programme for implementation of the Smart Specialisation Strategy 2021-2024 with Action Plan 2021-2022 became available for public consultation on 01 December 2021; and</p> <p>Operational Programme planned to be adopted in the last session of the Government in December 2021;</p> <ul style="list-style-type: none">- Time-frame of implementation: Activity Programme of the Government of Montenegro sets out that the document is planned to be adopted by the end of Q4 2021.- Challenges and delays in implementation: No delays are expected in implementation; Key challenge: Gather the largest possible number of target groups from all four sectors, define key priorities and map all the relevant instruments. <p>2. Structural projects and multiannual financing plan defined – all the ministries relevant for S3, with coordination of the Council for Innovation and Smart Specialisation;</p> <ul style="list-style-type: none">- Steps taken in implementation: Work on the Operational Programme for S3 implementation, which should contain indicative list and overview of projects, is ongoing.- Time-frame of implementation: by the end of 2021- Challenges and delays in implementation: No delays are expected in implementation; Key challenge: Gather the largest possible number of target groups from all four sectors, define key priorities and financing instruments and make financial estimate for the next implementation period <p>3. Implementation of the usual assistance mechanisms (launching competition in 2021):</p> <ul style="list-style-type: none">o Competition for start-up projects (MED) <p>Steps taken during implementation:</p> <p>The Government of Montenegro created a programme basis for financing innovative programmes and projects through adoption of the Innovation Programme 2021-2024 (September 2021);</p> <p>Competition for the award of grants for early phase of the development of start-ups was launched on 13 October 2021, with the deadline for submitting applications by 11 November 2021;</p> <p>MED conducted evaluation of applications and the List of positively evaluated projects is being compiled at the moment.</p>
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	<p>Time-frame of implementation: Projects are planned to be contracted by the end of Q4 2021;</p> <p>Challenges and delays in implementation: No delays are expected in implementation; Key challenge: Conducting evaluation of competitions and contracting of funds.</p> <ul style="list-style-type: none">○ Competition for EUREKA projects (MED) <p>Steps taken in implementation: The Innovation Programme 2021-2024 consolidated all the instruments of assistance to the innovation, while it also includes the EUREKA instrument for the assistance to projects;</p> <p>The competition for co-financing innovation in 2021 was launched on 19 October 2021, with the deadline for submitting applications by 16 November 2021.</p> <p>Time-frame of implementation: MED supported implementation of nine ongoing EUREKA projects.</p> <p>Challenges and delays in implementation: No delays are expected in implementation; Key challenge: Programme promotion and fostering participation of potential beneficiaries in the programme.</p> <ul style="list-style-type: none">○ Competition for S3 projects in enterprises EU-IPA (CFCU-MED) <p>Steps taken in implementation: Grant scheme is ready, opinion of the Agency for the Protection of Competition is expected.</p> <p>Time-frame of implementation: Grant scheme is planned to be launched in the first half of 2022.</p> <p>Challenges and delays in implementation: Implementation depends on dynamics of the procedures which precede the process of publishing the grant scheme.</p> <ul style="list-style-type: none">○ Competition for pre-accelerator programme for start-ups (MED) <p>Steps taken in implementation: The competition was launched in November 2020, negotiations with three positively evaluated pre-acceleration programmes were finalised in the first six months of 2021 (programmes were contracted in the period July-August 2021)</p> <p>Time frame of implementation: Implementation of the pre-acceleration programmes approved in the framework of this competition began in September 2021.</p> <p>Challenges and delays in implementation: Conclusion of contracts depended on the dynamics of budget adoption.</p>
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	<ul style="list-style-type: none"> ○ Competition for fostering innovation in enterprises (MED) – Not implemented in 2021. <p>The programme line was established in the Innovation Programme 2021-2024 in the form of the Information on future programme lines of the Innovation Fund. Since innovation in enterprises is supported through the competition for S3 projects in enterprises, the Innovation Fund will focus in 2022 on the programme line for collaborative grants for innovative projects.</p> <ul style="list-style-type: none"> ○ Competition for human resources development in science (CFCU-MESCS) <p>Steps taken in implementation: Grant scheme “Scientific Potential Oriented to Innovation” was launched on 16 June 2021.</p> <p>Time-frame of implementation: Deadline for the submission of project applications is 20 August 2021.</p> <p>Challenges and delays in implementation: Implementation of the grant scheme goes as planned. Evaluation of full applications is expected to start on 15 December 2021.</p> <ul style="list-style-type: none"> ○ Competition for innovative projects in creative industries (MESCS) <p>Steps taken in implementation: Competition for co-financing projects in the areas of promotion and development of creative industries sector will not be launched in 2021.</p> <p>Time-frame of implementation: According to the 2022 Draft Budget Law, the competition is planned to be launched.</p> <p>Challenges and delays in implementation: Delays in launching the competition result from the delay in adoption of the 2021 Budget Law and from complex dynamics of launching the competition and conducting evaluation, for which there was no time in 2021. year.</p>
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Priority reform measure 12: Improvement of legislative and institutional framework for the development of research and innovation and digital transformation of sectors		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Beginning of the IPA 2020 technical assistance projects for strengthening the framework for S3 implementation; 2. Completion of the preparation of five pieces of secondary legislation on the basis of two new laws adopted in 2020: Law on 	2



	<p>Innovation Activity and Law on Incentives for the Development of Science and Research (Official Gazette of Montenegro 82/20);</p> <ol style="list-style-type: none"> 3. Contracting the development of the integrated information system for digitalisation of public administration in the science and research sector and beginning of execution of contracts; 4. Harmonisation of secondary legislation in the area of financial assistance to the science-research and innovation with state aid rules – preparation of the single rulebook for state aid in the area of science and innovation; 5. Execution of works on the Science and Technology Park of Montenegro; 6. Establishment of the Innovation Fund of Montenegro; 7. Establishment of ICT clusters and their operationalisation. 	<p>5</p> <p>4</p> <p>0</p> <p>3</p> <p>5</p> <p>5</p>
<p>Description of implementation and explanation if partial or no implementation</p>	<ul style="list-style-type: none"> •Beginning of the IPA 2020 technical support projects for strengthening the framework for S3 implementation <p>Steps taken in implementation: ToR was approved by the EUD, final stage of evaluation is ongoing.</p> <p>Time-frame of implementation: Beginning of execution of the contract as from Q1 2022.</p> <p>Challenges and delays in implementation: Procedures regarding the ToR are implemented as planned.</p> <ul style="list-style-type: none"> •Completion of the preparation of five pieces of secondary legislation on the basis of the two new laws adopted in 2020: Law on Innovation Activity and Law on Incentives for the Development of Science and Research (Official Gazette of Montenegro 82/20); <p>Steps taken in implementation: Working group for preparation of the secondary legislation was set up.</p> <p>All pieces of secondary legislation were adopted in September.</p> <p>Time-frame of implementation: Since 04 October 2021, it has been possible to implement incentives and carry out procedure for registration with the innovation registry, and all</p>	



<p>the preconditions have been created for financing innovative programmes and projects and carrying out their advanced evaluation.</p> <p>Challenges and delays in implementation: In respect of the secondary legislation for the Law on Innovation Activity, the key challenge was identifying requirements for the implementation of innovative programmes and for their evaluation which should include all the earlier experiences and recommendations; in respect of the Law on Incentives for the Development of Science and Research, the challenges were bigger, in terms of the scope of incentives, their effects, requirements for granting the status of the beneficiary of incentives and clear evaluation and monitoring of these</p> <ul style="list-style-type: none">•Contracting the development of the integrated information system for digitalisation of public administration in the science and research sector and beginning of execution of contracts <p>Steps taken in implementation: Funds in the budget for these purposes were planned and approved and an application for the international project was submitted.</p> <p>Time-frame of implementation: The portal www.inovacije.gov.me was created, it will be additionally upgraded, and operating information system for the Innovation Fund is currently developed.</p> <p>Challenges and delays in implementation: Designing the system and ensuring additional funding.</p> <ul style="list-style-type: none">•Harmonisation of secondary legislation in the area of financial support to the science-research and innovation with state aid rules – preparation of the single rulebook for state aid in the area of science and innovation <p>Not implemented since it was not necessary.</p> <p>Opinion from the Agency for Protection of Competition is required for the financial assistance instruments in this sector and, in this way, they are harmonised with the state aid rules on science and research.</p> <p>MED organised training on state aid in research, innovation and development on 13-14 December 2021 for the potential and current beneficiaries of innovative programmes and projects.</p> <ul style="list-style-type: none">•Execution of works on the Science and Technology Park of Montenegro <p>Steps taken in implementation: Execution of the contract on the execution of construction works on the Science and Research Park of Montenegro began on 25 May 2020. Works are ongoing.</p> <p>Time-frame of implementation: n/a</p>
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	<p>Challenges and delays in implementation: Deviations from the initial design documentation were identified during the execution of works, and this is currently being resolved. The new board of directors was appointed, and one of its main tasks is to resolve the newly created situation in cooperation with the Public Works Directorate. Since recently, it has been possible to continue reconstruction and adaptation of the buildings fully and without any obstacles.</p> <ul style="list-style-type: none"> • Establishment of the Innovation Fund of Montenegro <p>Steps taken in implementation: The Memorandum of Association of the Innovation Fund of Montenegro was adopted in the session of the Government of Montenegro held on 10 June 2021, while its Articles of Incorporation were adopted in the session held on 24 June 2021. The government appointed members of the board of directors of the limited liability company "Innovation Fund of Montenegro" in the session held on 09 September 2021, and also appointed executive director on 04 November 2021, which enabled full operationalisation of the fund. The fund was registered with the Central Registry of Business Organisations on 14 September 2021.</p> <p>Time-frame of implementation: By the end of 2021</p> <p>Challenges and delays in implementation: Activities are implemented in accordance with the established procedures and time schedule.</p> <ul style="list-style-type: none"> • Establishment of ICT clusters and their operationalisation <p>Steps taken in implementation: The application submitted for international evaluation was reviewed and assessed positively.</p> <p>The contract between MED and ICT clusters was signed on 08 December 2021, and implementation of the clusters' programmes official began on that date.</p> <p>Time-frame of implementation: Q4 2021.</p> <p>Challenges and delays in implementation: The key challenge was to carry out final harmonisation of the activity plan and budget with the state aid rules on clusters.</p>
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Priority reform measure 13: Implementation of measures to facilitate trade in goods and services in accordance with WTO obligations and CEFTA Additional Protocols 5 and 6		Stage of reform implementation
		(1-5)
Activities planned for 2021	1. AP5 – Development and implementation of IT applications for NCTS at the national level. Establishment of a functioning system at the Administration for Food Safety, Veterinary and Phytosanitary Affairs, as the basis for the involvement into SEED+	3



	2. AP6 – Adoption of the Regional Disciplines on Domestic Regulation in accordance with the WTO rules	2
Description of implementation and explanation if partial or no implementation	<p>1. Activities in the reporting period were implemented according to the joint plan and programme of CEFTA members and the majority of them referred to: risk analysis and common list of fruits and vegetables for which phytosanitary certificates will be mandatory;</p> <p>CEFTA members exchanged the lists of registered operators, list of regulated harmful organisms with their statuses, monitoring plans and special oversight over harmful organisms which are implemented, as well as the lists of registered laboratories;</p> <p>Contact points were reselected for the SPS database, as well as for the information system</p> <p>CEFTA TRACES NT.</p> <p>In order to facilitate trade between member states and shorten the time of necessary checks of goods at border crossing points, preparatory activities were performed regarding the use of the TRACES NT CEFTA system which should be prepared together with the SEED+ system; joint consultations were conducted, but it was concluded that consultations should be conducted individually with all the member states because of the specificities of the information systems of individual member states;</p> <p>After the individual consultative meetings are conducted, CEFTA will consider and assess the possibility of connecting information systems.</p> <p>The Administration for Food Safety, Veterinary and Phytosanitary Affairs actively participated in CEFTA structures with the aim of fostering activities regarding the beginning of implementation of SEED+ project, along with the presiding role in 2021.</p> <p>The funds for establishment of the functioning system at the Administration for Food Safety, Veterinary and Phytosanitary Affairs were requested and approved: from the EU through IPA 2018 - for phytosanitary information system. However, due to the situation with COVID, the funds were redirected for other needs and the money (200,000 euro) was again envisaged in IPA 2020 programme, while writing of the ToR will begin in January 2021;</p> <p>- Veterinary information system is developed under the MIDAS II project, which began on 02 November 2020 and lasts until 02 November 2022, and the value of which is 1,050 million euro. All the activities are implemented as planned.</p> <p>2. Activities planned in 2021 regarding AP6 – are within the competence of the Ministry of Economic Development, and at the moment the situation is as follows:</p> <p>“The Proposal for the Law on Ratification of the Additional Protocol 6 on Trade in Services to the Agreement on Amendment of and Accession to the Central European Free Trade</p>	



	<p>Agreement was adopted in the session of the Government of Montenegro held on 01 June 2021, and it is currently in the parliamentary procedure“.</p> <p>The text of the Additional Protocol 6 was adopted in the Parliament of Montenegro and it is expected soon to be published in the Official Gazette of Montenegro – International Treaties Section (by the end of 2021 at the latest).</p>
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Priority reform measure 14: Establishment of the system for continuous monitoring of the quality of apprenticeship at the employer's		Stage of reform implementation
		(1-5)
Activities planned for 2021	<p>1. Designing methodology for continuous monitoring and evaluation of the quality of dual education in accordance with the European Framework for Quality and Effective Apprenticeships, 2018/C 153/01</p> <p>2. Implementation of the professional orientation programmes for career teams in elementary and secondary schools</p> <p>3. Training of practical education teachers, practical education organisers and practical education instructors</p> <p>4. Carrying out the research into the results of dual education in the school year 2020/2021</p> <p>5. Preparation of report on the results of dual education in accordance with the CEDEFOP' analytical framework, along with interpretation of the results and recommendations.</p>	<p>5</p> <p>3</p> <p>5</p> <p>5</p>
Description of implementation and explanation if partial or no implementation	<p>Training was organised for the representatives of 23 vocational schools, training is planned for the representatives of minimum 25 schools</p>	
		5



Priority reform measure 15: Reform of study programmes for bachelor and master studies with strong focus on apprenticeship		Stage of reform implementation (1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. In order to carry out reforms of certain study programmes, meet the needs of the labour market and overcome challenges caused by the COVID-19 pandemic, it is necessary to first carry out analysis of the study programmes and of the performance of the first generation taught on the basis of the new study model (3+2+3), while results of the Study for Monitoring Earlier Generations (3+1+1+3) should be used as well. 2. After these analyses, it is necessary to embark on drafting standards and guidelines on accreditation of the study programmes, with strong focus on practical education, i.e. on assessment of the fulfilment of the minimum quota i.e. number of practical education lessons. The reformed and new study programmes will be accredited in accordance with the new guidelines and standards. 3. Besides practical education, particular attention in the coming period should be devoted to the improvement of the teaching and learning methods which concern digitalisation of higher education i.e. the use of platforms and other models for online teaching, which will not improve the continuity and quality of teaching process. 4. Employers will play a special role in implementation of these activities since, besides participation in the delivery of practical education, they also need to recognise new qualifications in job systematisations. 	<p>0</p> <p>3</p> <p>4</p> <p>0</p>
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Implementation of the activity of analysing study programmes and performance of the first generation taught on the basis of the new study model (3+2+3) has not begun as it was impossible to carry out survey among the first generation of graduate students taught by using the new study model (3+2+3) because of the measures to prevent the spread of COVID-19 pandemic. In the 2021 budget, funds were not allocated for preparation of the study on employers' perception of high education which would place particular focus on the performance of the generation taught on the basis of the reformed study model. 	



	<p>2. The activity of development of standards and guidelines on accreditation of the study programmes, with particular focus on practical education, was partly implemented. The Agency for Control and Quality Assurance of Higher Education adopted six standards with criteria for external evaluation of bachelor and master's studies and three additional standards for the evaluation of doctoral studies in English and distance learning studies. The adopted criteria are harmonised with the group of European standards and guidelines for quality assurance in the European Higher Education Area (ESG). Additional standards for the faculties providing teachers' education were prepared as well during accreditation of the study programmes, along with the additional standard on academic integrity during reaccreditation of institution.</p> <p>3. Higher education institutions are continuously upgrading the teaching and learning methods related to the digitalisation of higher education, while also improving online teaching platforms.</p> <p>4. Implementation of the activity involving employers in public and private sectors that concerns amendment to jobs systematisations which will recognise new qualifications has not begun yet.</p>
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Priority reform measure 16: Improvement of labour legislation by introducing new work schemes		Stage of reform implementation
		(1-5)
Activities planned for 2021	<p>1. Working group for the preparation of the new General Collective Agreement was set up.</p> <p>2. Negotiations on concluding the General Collective Agreement are ongoing.</p> <p>3. Working group for the preparation of amendments to the Labour Law was set up.</p>	<p>5</p> <p>3</p> <p>2</p>
Description of implementation and explanation if partial or no implementation	<p>3. Consensus regarding conclusion of the collective agreement has not been reached yet.</p> <p>4. Since this measure may not be implemented through the General Collective Agreement its implementation will continue next year by regulating new labour schemes under provisions of the Labour Law.</p>	



Priority reform measure 17: Operational capacity building at the Employment Office for the performance of services and measures through digitalisation		Stage of reform implementation
		(1-5)
Activities planned for 2021	1. Revision of internal and external procedures at the Employment Office of Montenegro	3
	2. Designing new active employment policy measure for the vulnerable category of the unemployed	4
	3. Training courses on evaluation of the active employment policy measures delivered	5
	4. Preparation of the technical report which contains solution for establishment of the new IT base	3
	5. Digitalisation of certain operating processes at the Employment Office	3
Description of implementation and explanation if partial or no implementation	<p>1. New Rulebook on internal organisation and job systematisation at the Employment Office was adopted, on the basis of which revision of the internal and external procedures at the Office is prepared.</p> <p>2. New pilot programmes were created for active employment policies focusing on women, as a particularly vulnerable category of the unemployed.</p> <p>4. Working group for preparation of the Action Plan for interoperability of databases was set up. The working group is currently finalising harmonisation of the activities, after which the document will be submitted to the adoption procedure.</p> <p>5. Three online modules have been prepared: for registration of the unemployed, for registration of vacancies and for submission of applications by the persons with disabilities. The modules are currently tested.</p>	

Priority reform measure 18: Building and functioning of senior citizens' homes		Stage of reform implementation
		(1-5)
Activities planned for 2021	<p><u>1. Public Institution (PI) Home for Accommodation of Persons with Disabilities and the Elderly "Podgorica"</u></p> <p>The following is planned for 2021:</p> <ul style="list-style-type: none"> - Opening the Home - Licensing the institution - Admission of beneficiaries 	



	<ul style="list-style-type: none">- Increase in the number of staff- Furnishing the room- Education of staff at the Home and improvement of the quality of services provided to the beneficiaries,- Ensuring attendance of various training courses, seminars and workshops for the staff in order to improve their knowledge and quality of services they provide to the beneficiaries <p><u>2. Public Institution Home for Accommodation of Persons with Disabilities and the Elderly "Nikšić"</u></p> <p>The following is planned for 2021:</p> <ul style="list-style-type: none">- Opening the Home- Licensing the institution- Admission of beneficiaries- Increase in the number of staff- Introduction and implementation of the information system for social care- Introduction of ISO standard 9001:2015 and HACCP system- Furnishing the room for occupational therapy with necessary materials and devices- Furnishing the medical service with necessary medical devices and aids,- Development of the yard in front of the Home,- Education of the staff employed at the Home and improvement of the quality of the provision of services to the beneficiaries,- Ensuring attendance of various training courses, seminars and workshops for the staff in order to improve their knowledge and the quality of services provided to the beneficiaries,- Establishment of regional cooperation in the areas of social and child care, improvement of the quality standards and connecting with the similar institutions across the region,- Ensuring donations from various institutions and individuals in the country and abroad in order to improve functioning of the Home,- Improvement of cultural and entertaining activities that would help to ensure that the time which the beneficiaries spend there is of the highest possible quality,- Establishment of regional cooperation with health care institutions and Clinical Centre of Montenegro, in order to hire specialist doctors who would provide consulting services to the Home	
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Description of implementation and explanation if partial or no implementation	<p>1. Implementation has not begun.</p> <p>Even though construction works on the building were finished and the building is partly furnished, the occupancy permit has still not been obtained from the competent secretariat i.e. technical handover of the building, needed for obtaining the licence and starting admission of the beneficiaries, has not been completed yet.</p> <p>During 2021:</p> <ul style="list-style-type: none">- certain equipment was procured (for the outpatient clinic, physiotherapy, sheets, small inventory for the kitchen, hygienic materials and diapers, tools, material for the occupational therapy, hygiene, pellet etc);- Strategy for Development of the PI Senior Citizens' Home "Podgorica" 2020-2024 was adopted;- all the procedures needed for introduction of ISO and HACCP standards were created, as well as those needed for obtaining the licence for the provision of accommodation service;- internal guidelines, rules, procedures and rulebooks defining rights, rules, obligations and work process at the institution were developed, and the Book of Procedures has been adopted;- training courses were delivered, i.e. the staff at the already existing homes participated in induction;- staff of all the services attended various training courses to acquire knowledge and skills needed for the work with the elderly;- website of the home was created and regular media promotion was carried out;- there was regular communication with the stakeholders, particularly with the future beneficiaries;- small donations were provided for furnishing the home;- cooperation was established with other homes, Clinical Centre and health care centre, as well as with the other relevant institutions and organisations;- training programme for the accommodation of the elderly in families was accredited. <p>2. The home was not opened because of delay in completion of the construction works on it. Delay in works completion resulted from the delay in procurement of a part of the material and equipment due to the epidemiological situation in the country and the region caused by COVID-19, and also due to the reduced number of construction workers and impossibility for the suppliers to deliver thermal technical equipment, elevators etc. The activity will continue in 2022.</p> <ul style="list-style-type: none">- Since works on construction of the home have not been finalised, the application for licensing the institution has not been submitted. The entire documentation needed for licensing the institution has been prepared, except for the documentation which needs to be supplied by the works contractor. Once the works are finalised we will submit the application for licence. The activity will continue in 2022.- There were neither accommodation of beneficiaries nor recruitment of new staff since the Home was not opened. The activity will continue in 2022.- ISO standard 9001:2015 and HACCP system were introduced into the business system of the PI Senior Citizens' Home "Nikšić".
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	<ul style="list-style-type: none"> - The inside premises were not furnished with necessary equipment due to the delay in works. The activity will continue in 2022. - The yard in front of the Home was developed. The activity will continue in 2022. - Staff were educated. The staff spent time in other similar social and child care institutions where they learnt about the way of functioning and organisation of work. The activity will continue in 2022. - Cooperation with other social and child care institutions was established.
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Priority reform measure 19: Reform of the national disability determination system		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ul style="list-style-type: none"> - Analysis and amendments to the existing legal framework and adoption of the new Law on the Single Body and Uniform Methodology for Expertise of Disability (for all the departments), and repealing the existing provisions i.e. rulebooks. - Revision of the Single List of Impairments – by which all the existing lists will be repealed. Designing the new Uniform methodology / criteria based on the remaining functionalities, and the Institute of Public Health will be involved as well. The new system provides expertise on the remaining abilities/functionality of the person for the performance of daily activities (maintenance of hygiene, food preparation, groceries shopping, care for health etc.), and for work engagement (related to the Professional Rehabilitation Fund). 	
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> - Analysis and amendments to the existing legal framework - The working group for adoption of the Law on the Single Body and Uniform Methodology for Expertise of Disability was set up. - First draft of the Law on the Single Body and Uniform Methodology for Expertise of Disability was prepared; - Reform will continue in 2022. - Revision of the Single List of Impairments - Five working groups and two sub-groups for revision of the Single List of Impairments were set up; - Draft Single List of Impairments was prepared; - Reform will continue in 2022. 	



Priority reform measure 20: Use of telemedicine services in Montenegro through establishment of the information system for telemedicine and development of mHealth		Stage of reform implementation
		(1-5)
Activities planned for 2021	<ol style="list-style-type: none">1. Comprehensive analysis of the current state and necessary prerequisites, together with the recommendations for further improvement and development of telemedicine in the health care institutions in Montenegro;2. Establishment of the normative framework which more closely regulates requirements, organisation and manner of performance of health services by using telemedicine;3. Adoption of programme documents and normative regulation of the telemedicine services and mobile health care (mHealth) in the provision of the health care services (e.g. telediagnosis, telemonitoring of patients, emergency care, e-learning etc.)	0
Description of implementation and explanation if partial or no implementation	Due to the epidemiological situation, the focus of digitalisation was placed on the development and improvement of the e-health service; accordingly, improvement of the access to and quality of the provision of health care services and digitalisation of the health care system will be ensured through the activities to be implemented through ERP 2022-2024.	



ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT POLICY DOCUMENTS

Reform measures ERP 2022-2024	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy guidance 2021	Enlargement package 2021	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
Reform measure 1: Strengthening operational capacities of the Employment Office for carrying out services and measures via digitalisation	The Measure should contribute to one of the key challenges being addressed, which is that the durability of adverse labour market outcomes undermines potential growth and improvement of the standard of living.	The Measure is direct response to part of the Policy guidance No 5	-	Implementation of the Measure will contribute to achieving the Millennium Development Goals, and so as follows: SDG 1- No poverty, SDG 8 – Decent work and economic growth	Digitalisation of work will contribute to achieving the Green Agenda guidelines	The Measure is direct response to the Digital Agenda priorities.	The Measure is implemented with the financial support from IPA funds, and so as follows: the Annual Action Plan for 2020 programmes for the employment and social policy sector, where the Activity 2 is called <i>Strengthen the capacities of the relevant</i>



							<i>institutions and other stakeholders for implementation of the approach for the entire sector and undertaking obligations arising from the EU accession process in the EESP sector in accordance with Chapter 2, Chapter 19, and Chapter 22; the project Strengthening Operational Capacities of the Montenegro Employment Office for implementation of active employment policy measures</i>
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							<i>through digitalisation, being financed from EUIF and implemented by ILO.</i>
Reform measure 2: Introducing new work schemes and work-life balance	Amendments to the Labour Law will introduce new work schemes through flexible employment contracts for work away from employer's premises (teleworking contract and homeworking contract). Work-life balance of employees will be	This measure has impact on reducing unemployment by concluding employment contracts for work away from employer's premises in events when the nature of business and extraordinary circumstances allow for that. In this manner, it will be attempted to preserve as many	/	This Measure has a direct impact on SDG 1 - No poverty and SDG 8 - Decent work and economic growth. Increasing the labour market flexibility through introduction of new work schemes will	/	Defining this Measure has a direct impact on the goals of the European Digital Agenda and the Digital Agenda for the Western Balkans in terms of increase in use of digital technologies for homeworking,	/



	improved by establishing a balance between men and women in terms of use of the right to parental leave.	jobs as possible and consequently provide for decent work conditions.		result at the same time in reduction of the poverty rate since the number of unemployed will be reduced, and consequently provide for decent work conditions for all. Introduction of the new work schemes will contribute to the formalisation of the informal economy, in other words it will enable employees flexible access to decent jobs.		as well as for teleworking. This will further result in increase in jobs, as well as in preserving the existing ones, and by doing so will have impact on improvement of digital literacy in the labour market.	
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				Moreover, the measure has impact on work-life balance of employed men and women, resulting in the equitable treatment principle.			
Reform measure 3: Introducing the Youth Guarantee Programme in Montenegro	The Measure should contribute to one of the key challenges being addressed, which is low business activity and high unemployment rate, in particular among women, youth, and	The Measure is direct response to part of the Policy guidance No 6	The Flagship Initiative 10 of the Economic and Investment Plan for Western Balkans (EIP), states that the governments should implement Youth Guarantees in line with the EU	Implementation of the Measure will contribute to achieving the Millennium Development Goals and so as follows: SDG 1- No poverty,	The Measure will have indirect impact on fulfilling objectives of the Green Agenda through education of participants in the measure, their training,	The Measure will have indirect impact on meeting the objective of the Digital Agenda through education of participants in the measure, their training,	It is planned for the Measure to be implemented with financial support from IPA funds, and so as the IPA III for the period 2023-2024. The negotiation process with the European Commission is



	individuals with low qualifications.		Youth Guarantee, therefore the defined measure is directly aligned with EIP implementation.	SDG 4 – Quality Education; SDG 8 - Decent work and economic growth.	internship, or employment.	internship, or employment	underway for the above stated.
Reform measure 4: Increasing employability of adults by improving their skills and competences needed at the labour market	The Measure should contribute to increase of the employability or to reduction of structural unemployment of adult population by improving knowledge, skills, and competences of adults, which are aligned with the labour market needs.	The Measures is aligned with the Policy Guidance 6 – Education and skills and 7 – Employment and labour market.	This measure is aligned with the Conclusion from the 2021 Enlargement Package, which deals with the fact that the Montenegrin labour market is not ready to sustain economic shocks since it is solely dependent on tourism. Bearing that in	Implementation of the Measure will contribute to achieving the Millennium Development Goals, and so as follows: SDG 1 - No poverty, SDG 4 – Quality Education, SDG 8 - Decent	Key competences to be acquired and their contribution to meeting the Green Agenda guidelines will be taken into account in the process of selection of training programmes for adults.	The Measure is direct response to the Digital Agenda priorities.	Initial programming phase for IPA III is underway. Defining of projects will take place after the strategic framework is confirmed.



			mind, the education systems and curricula need to be aligned with the labour market needs.	work and economic growth.			
Reform measure 5: Digitalisation of the education and development of digital skills	The Measure is addressing insufficiently development of key digital competences and has as the objective to develop a comprehensive support for digital transformation of education, through expert support,	The Measures is aligned with the Policy Guidance 6: Education and skills.	This measure is aligned with the Conclusion that the Montenegrin labour market is not ready to sustain economic shocks since it is solely dependent on tourism. Bearing that in mind, digitalisation of the education and development	Implementation of the Measure will contribute to achieving the Millennium Development Goals: SDG 1 - No poverty; SDG 4 - Quality Education; SDG 10 - Reduce	Digitalisation of the education contributes to meeting the Green Agenda guidelines.	The Measure is direct response to the Digital Agenda priorities.	Programming for IPA III is underway. Defining of projects will take place after the strategic framework is confirmed.



	equipment and development of good quality education digital platforms and applications.		of digital skills will enable all students equal access to education in the times of the crisis, such as COVID, while the development of digital skills will better prepare youth for the labour market.	inequality			
Reform measure 6: Reform of the national system for disability assessment	The Measure is addressing the issue of the social welfare reform (social protection, pension and disability protection, employment,	It is connected with chapter 12 referring to the public policies modernising the social protection systems in order to: ensure effective, efficient, transparent and	One of the key recommendations is strengthening social protection and social inclusion.	SDG 10 - Reduce inequality The Measure provides for fairer and equal access to social protection rights, in	<i>n/a</i>	One of the activities included in the Measure is also a development of the Information system for disability	Note: Programming for IPA III is underway. Continuation of this Measure, precisely continuation of the social protection



	education, veterans and disability protection).	adequate protection in all phases of human life; strengthen social inclusion; promote equal opportunities; and resolve inequalities and poverty, in particular given the impact of the COVID-19 crisis and its medium-term implications. This includes adequate support for activation and income for (re)integration in the labour market and the society, sustainability and adequacy of the pension system, and access to good		accordance with the UN Convention on the Rights of Persons with Disabilities.		assessment, which will be connected with other information system through an interoperability feature.	system reform aimed at reviewing categorical welfare benefits and introducing inclusive benefit could be provided through IPA III. General objective of IPA III as well through Window 4, is strengthening of the economic and social development. The proposed interventions will support directly efforts of the Government of Montenegro to
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		quality services such as early childhood education and care, housing, basic services and long-term care. The very Measure is a response to the policy guidance.					develop comprehensive national and local strategies for social and child protection for the period 2023-2030, which is aligned with the European Pillar on Social Rights and the UN Agenda 2030. This will assist the advancement of the de-institutionalisation process and process of transformation of residential institutions. Likewise, the proposed interventions will
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							<p>support procurement of hardware and software for institutions in the system of social and child protection, which will enable better technological and systemic connectivity with employment offices. We would like to note that this would improve the <i>“overall efficiency of the social protection system”</i>.</p> <p>Aside from that,</p>
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								the proposed interventions will support directly the efforts of the Government of Montenegro to continue and advance the process of the de-institutionalisation and enable implementation of the Regulation (EU) No 1301/2013. This is envisaged to be achieved through support of grant schemes that will enable development and implementation of all types of home, family, residential,
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							and other services in the community.
Reform measure 7: Reform of the social and child protection system based on the Road Map	The Measure is addressing the issue of the social welfare reform (social protection, pension and disability protection, employment, education, veterans and disability protection).	It is connected with chapter 12 referring to the public policies modernising the social protection systems in order to: ensure effective, efficient, transparent and adequate protection in all phases of human life; strengthen social inclusion; promote equal opportunities; and resolve inequalities and poverty, in particular given the impact of the COVID-19 crisis	One of the key recommendations is strengthening social protection and social inclusion.	Implementation of this Measure will contribute further to achieving the Millennium Development Goals SDG 1 – No poverty and SDG 10 - Reduce inequality SDG Agenda: Social inclusion is	Energy poverty is a social dimension of the energy transition which must be addressed for households that cannot afford basic energy services in order to have basic standard of living and inclusion. Effective programmes should be designed that	One of the activities included in the Measure is also improvement of the Information system, which also another manner in which the Measure addresses the objectives of the Digital Agenda for the Western Balkans.	Improvement of the system of record keeping of the second-instance social protection procedure will be financed from the project: <i>Social Welfare Information System</i> – ISSS (e-Social Card), financed by the Government of Montenegro (90%) and UNDP (10%).



		and its medium-term implications. This includes adequate support for activation and income for (re)integration in the labour market and the society, sustainability and adequacy of the pension system, and access to good quality services such as early childhood education and care, housing, basic services and long-term care. The very Measure is a response to the policy guidance.		a key instrument to eradicate poverty and to provide to people access to opportunities for independent and decent life, in such manner as to contribute to achieving the Sustainable development goal No 1. National systems of social protection can also contribute to achieving other Sustainable development goals, including food safety,	would address issues of affordability, reduce energy bills, and help the environment. Partners should also assist in implementation of the programmes which would address energy poverty in the region.		2. The theme of the Measure could be also linked with the IPA project currently being implemented: the Project of Strengthening Social and Child Protection System in Montenegro, financed by the EU, having as the objective to ensure application of social rights and improvement of the quality of life of present and future beneficiaries of the social and child protection system. The purpose of the
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				good health, decent work, gender equality, reduced inequalities, and cohesive communities.			Project is to: 1) Improve administrative and professional capacities of the social and child protection system at the national level in the sphere of policy making and ensuring quality; and 2) Provide support to local self-governments, social welfare centres, and local service
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							<p>providers to improve existing and develop innovative mechanisms at the local level in order to meet the needs of citizen.</p> <p>The initial Terms of Reference was expanded at the initiative of the Ministry of Finance and Social Welfare with additional activities which are using the data-based decision-</p>
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								making approach: 1) Implementation of completed evaluation of the current Social and Child Protection Development Strategy in Montenegro for the period 2018-2022; 2) Implementation of additional trainings about the programme aimed at reducing poverty; and 3) Drafting of the document
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							<p><i>Direction of Change in the Immediate Future in the Social and Child Protection Programmes in Montenegro.</i></p> <p>The focus of the document <i>Direction of Change in the Immediate Future in the Social and Child Protection Programmes in Montenegro</i>, being prepared as part of the project for the need of the</p>
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							<p>Ministry of Finance and Social Welfare, will be social monetary benefits aimed at poor and social protection services. The <i>Direction of Change in the Immediate Future in the Social and Child Protection Programmes</i>, in addition to aspects concerning adequacy and coverage, will include also expenditures and sustainability of certain benefits.</p>
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								The project is financed by EU, while the contracting authority for implementation of the Project is the Directorate for Financing and Contracting the EU Assistance Funds, Ministry of Finance and Social Welfare. The beneficiary institution is the Ministry of Finance and Social Welfare – Directorate for Programming and Implementation of the EU Funds, as the Project Implementation Unit of the former
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							<p>Ministry of Labour and Social Welfare.</p> <p>Target groups for the project are: Ministry of Finance and Social Welfare, Social and Child Protection Office, Inspectorate for Social and Child Protection, local self-governments, social welfare centres, and local service providers. The Project Budget is 388,937.05 euro. The Project duration is 26 months (from September 2019</p>
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							<p>to November 2021). The Project is implemented by Archidata s.r.l. (consulting firm from Milan, Italy).</p> <p>3. Note: The Measure refers to the Road Map (coordinated by the Ministry of Finance and Social Welfare and UNICEF), where the focus is, both throughout the entire document as well as through 03 reforms, on</p>
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							<p>strengthening the social protection and social inclusion.</p> <ul style="list-style-type: none">• Road Map for Reform of the Social and Child Protection System in Montenegro; Primary donor is UNICEF participating with 187,017.57 euro. The national contribution (Government of Montenegro) is 29,466.66
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							<p>euro; with total value of 218,484.23 euro;</p> <ul style="list-style-type: none">• Montenegro is in the process of accession to the European Union and one of the core objectives of its development agenda is that no one is left behind. Previous assessments pointed to the need to reconsider coverage and use of the social
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							protection measures in order to accelerate poverty reduction. At the request of the former Ministry of Labour and Social Welfare, UNICEF representative office in Montenegro has carried out a study of determining the scope of tasks back in 2018, hiring after that in 2019 the Economic
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							Policy Research Institute (EPRI). EPRI carried out the analysis of the social protection system in Montenegro using internationally recognised Core Diagnostic Instrument (CODI) for analysis of the social protection system, which was developed under the ISPA (Inter-agency
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							Social Protection Assessments) umbrella; <ul style="list-style-type: none">• Based on the discussions from workshops and contribution from relevant stakeholders, the draft document of the Road Map was confirmed at the meeting of the Steering Committee on 28 May 2021.
Reform measure 8: Improving	This Reform measure provides	This Measure is aimed at ensuring universal healthcare	Chapter 28:	Implementation of the Measure will contribute to		Implementation of the Measure will	/



<p>access to and quality in delivery of healthcare services and the digitalisation of the healthcare system</p>	<p>a partial response to this challenge.</p> <p>Additional funds allocated, measures to improve the administration, and coordination of the healthcare system, as well as delivery of services of the electronic-health care, have improved the ability of the healthcare system to manage the COVID-19 crisis. At the same time, the measures reviewing the structural</p>	<p>coverage and improvement of availability and accessibility of health care in terms of geographical distance from healthcare institutions, including rural areas, waiting time for consultations and treatment.</p> <p>Furthermore, this Measure is aimed at improving efficiency of digital services, bridging existing gaps in the digital infrastructure, and ensuring ease of</p>	<p>Integrated healthcare information system of Montenegro (IHIS) covers state-owned healthcare institutions, pharmacies, and private dentistry offices.</p> <p>It is used at the level of primary and secondary care, but only partially at the tertiary level.</p>	<p>achieving the Millennium Development Goals.</p>		<p>contribute to achieving the objectives recognised in the Digital Agenda for the Western Balkans.</p>	
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	<p>weaknesses of the system and consequential reform measures raising the resistance of the system and capacities for improving access and quality of delivery of healthcare services are yet to be adopted.</p> <p>The use of telemedicine services in Montenegro, with establishment of the information system for</p>	<p>access to public digital services.</p>					
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	<p>telemedicine and development of the healthcare is relevant in the context of the COVID-19 pandemic, but it lacks a holistic approach in analysis of the healthcare system weaknesses, including accessibility and affordability. Furthermore, its feasibility is questionable in terms of lack of preconditions for its implementation in rural areas.</p>						
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Reform measure 9: Establishing a full electronic registration of enterprises	In the segment of challenges concerning digital transition	The Measure represents a response to the Policy guidance No 5 in the segment dealing with digitalisation of the public sector and development of transaction services of the electric administration as a priority, in order to accelerate and improve economic recovery.		At this moment, it is not recognised under the Measure.	At this moment, it is not recognised under the Measure.	It is expected that implementation of this Measure will contribute to achieving the objectives recognised in the Digital Agenda for the Western Balkans.	At this moment, it is not recognised under the Measure.
Reform measure 10: Improving access to financing for	Access to finance is recognised as one of the key obstacles.			Priority reform measure may be connected with contribution to achieving the	Implementation of this Measure may be connected with the Green	At this moment, it is not recognised under the	At this moment, it is not recognised under the Measure.



MSMEs by creating a Credit-Guarantee Fund				SDG 8 in the segment of incentives for entrepreneurship and opening new jobs.	Agenda for the Western Balkans in the segment of funds that potentially would support projects connected with sustainable manufacturing and efficient use of resources, sustainable system of food manufacturing, development of rural areas, and like.	Measure.	
Reform measure 11:	In respect of the challenges	The measure is response to the			At this moment, it is	Implementation of the	They are not recognised by the



Strengthening competitive position of MSMSEs by establishing a single access point	concerning digital transition	policy guidance no. 5, in respect of the part concerning digitalisation			not recognised by the measure.	measure is expected to contribute to the achievement of goals set out in the Digital Agenda for the Western Balkans.	measure at the moment.
Reform measure 12: Strengthening the national innovation and research ecosystem	<ul style="list-style-type: none"> Measures were too ambitions. Details on innovation, specialisation and research, which should be in focus, are not sufficiently precise. Indicators 	In the ERP Guidance Notes of June 2021, structural reforms refer to the area of research, development and innovation, and in this part it is necessary to describe public policies which have direct impact on the ability of economy/enterprise	Chapter 25: Science and Research, which also includes innovation, was temporarily closed in 2012 and reforms in that regard concern strengthening of legislative, strategic and institutional	Relevant SDGs 2020-2030 should be mentioned here and a brief description of how the measure contributes to their achievement should also be provided.	One of the crucial areas in the strategic documents which constitute basis for further development of the proposed reform measure is Energy and Sustainable	The Digital Agenda for the Western Balkans sets out development of research and innovation, while strategic documents, which constitute basis for further development	IPA 2020: Technical assistance to support implementation of the Smart Specialisation Strategy and grant scheme Connected Innovative Montenegro is



	<p>should be better defined.</p> <p>High implementation risks call into question the time-frame and feasibility of this reform.</p>	<p>s to absorb technology and introduce innovation (e.g. public investments and incentives for private investments in research and development, SMART specialisation and mutual links between research institutions and enterprises, innovation-specific support to SMEs, etc.).</p> <p>Remark: The measure does not refer directly to the conclusions of the economic and</p>	<p>framework, and the measure is harmonised in that respect.</p>		<p>Environment.</p> <p>In that regard, all the institutional and programme actions established by the reform measure also refer to this area which addresses the green response.</p>	<p>of the reform, measure contain a section on information and communication technologies and recognise the representative programme Digital Transformation</p>	<p>being prepared.</p> <p>IPA III: Action no. 2 “Strengthening innovative ecosystems in accordance with S3 strategy – connecting science, technology and innovation” has the following goals:</p> <ul style="list-style-type: none"> • Efficient implementation of the Smart Specialisation Strategy 2019-2024 through institutional
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		financial dialogue between the EU and Western Balkans and Turkey, Luxembourg, 18 June 2021.					development and effective governance • Efficient implementation of the Smart Specialisation Strategy 2019 – 2024 through the improvement of assistance schemes for research and business sectors • Improvement of the innovation structure in Montenegro as the backbone of alive innovative ecosystem
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							<ul style="list-style-type: none">• Learning about policies and preparation for the next cycle of smart specialisation (2025-2030)• Strong involvement of Montenegro in Horizon Europe• Develop centres for the transfer of economic and technological knowledge and for analytics of the business market (business intelligence) in cooperation with business sector
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							<ul style="list-style-type: none">• Raise awareness about innovation and strengthening of skills and capabilities to support innovation• Acceleration of commercialisation of the innovative products• Improvement of functionality of the structures/facilities which incubate innovative start-ups and SMEs• Expansion of the mechanisms for the financing from equity and improvement of
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							<p>the access of SMEs to such mechanisms</p> <ul style="list-style-type: none">• Promotion of the development and adoption of the innovative green products, processes and market services. <p>Action no. 3 "Capacity building in the areas of competition and innovation will ensure that there is technical assistance action which will support the Operating</p>
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								Structure (OS) for management and implementation of the Sectoral operating programmes and potential beneficiaries in preparation of project proposals and strategic documents. This action will support implementation of the National Plan for the Adoption of <i>Acquis Communautaire</i> and action plans, mainly through: technical assistance to support harmonisation of
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							national legislation and strategies with EU <i>Acquis Communautaire</i> for the chapters included in the competitiveness and innovation sector. This action will provide technical assistance and twinning for harmonisation of the regulatory framework with EU <i>Acquis</i> for the chapters 1, 3, 6, 7, 8, 20, 25, 28.
Reform measure 13: Suppressing	The proposed measure is the way to contribute	The reform measure focuses on the improvement of	The reform measure does not directly	The proposed reform measure may be linked to	The reform measure does not directly	Reform measure directly refers	Reform measure is not supported under IPA III



<p>informal economy through the tax administration reform</p>	<p>to the Montenegrin regulatory environment by developing transaction electronic state services which will contribute to its strengthening, and it is also recognised as the key structural challenge.</p>	<p>efficiency of digital services and provision of easy access to digital public services for citizens and businesses, and these are some of the guidelines set out in the 2021 ERP.</p> <p>The measure also partly provides response to the guidance note no. 5 from the ministerial dialogue.</p>	<p>address any of the policy guidance's of the 2020 Enlargement Package, but it still contributes to development of the information society of Montenegro.</p>	<p>the goal 8 "Dignified Work and Economic Growth" and goal 9 "Industry, Innovation and Infrastructure". Implementation of the new transaction services of a higher level of sophistication indirectly contributes to the economic development, while development of IT platforms has impact on ensuring key infrastructural resources for e-</p>	<p>impact the goals defined in the Green Agenda for the Western Balkans, but it still may have positive environmental impact due to further digitalisation of priority e-services for citizens and businesses, which reduce the need for traditional paper procedures.</p>	<p>to the goal "Strengthening the Digital Economy and Society" which is recognised in the Green Agenda for the Western Balkans. Its implementation contributes to the development of e-government and e-services for the areas that are recognised in the defined goal. The focus of the Digital Agenda for the</p>	<p>projects. More precisely, the proposed reform measure is supported under IPA II (IPA 2020) within the Sectoral budgetary support to the public administration reform.</p>
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				services intended for citizens and businesses.		Western Balkans 2020 is placed on online public services, while one of the key points of the European Digital Transformation by 2030 is “Digitalisation of Public Services”.	
Reform measure 14: Improving legislative and regulatory framework for further development of infrastructure for broadband	This technical measure is repeated third time in a row. Data show that no significant progress was made in 2020. COVID-19 pandemic	Analyse the main public policies which directly aim at digital transformation of one or more economic sectors in accordance with priorities of the European	Chapter 10: Information Society and Media was opened on 31 March 2014. Montenegro has two closing benchmarks defined for this		Digital technologies are crucial for the achievement of sustainability goals of the green plan in many different	The Digital Agenda for Western Balkans includes the plan for easier cutting of the roaming costs, support to introduction of	Action: Promotion of digital economy in Montenegro envisages the following assistance: Introduction of broadband connection in



<p>internet connection</p>	<p>postponed the National Plan for development of the broadband Internet connection and coverage of population by the next-generation access networks and it also postponed the planned harmonisation of the regulations on cutting costs of the broadband internet. However, the 2021 measure proposes a broadened scope and includes preparatory</p>	<p>Commission (e.g. digitalisation processes in public administration, education and health care systems, industry and services). Reform measures in this area may, amongst other things, focus on improvement of the efficiency of digital services, overcoming the existing gaps in digital infrastructure, enabling easy access to digital public services for citizens and businesses or expansion of the</p>	<p>chapter:</p> <p>1. Montenegro harmonises legislation with EU <i>Acquis Communautaire</i> in order to ensure independence of the regulatory body for electronic communications (EKIP) and with the <i>Acquis Communautaire</i> in the area of audio-visual media services.</p> <p>2. Montenegro</p>		<p>sectors.</p>	<p>the broadband connection in the region, development of e-government, e-procurement, e-health and digital skills.</p> <p>Development of the single EU digital market contributes to the development of enterprises, stimulation of growth, increase of productivity, innovation development, transformation</p>	<p>rural areas</p> <p>Use of IT infrastructure for high-quality internet access, mainly in rural areas, while avoiding market failure. This network will adhere to the principles of neutrality (available to different IT operators). Investments will be made in accordance with the future National Plan for development of the new-</p>
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	<p>phase for the new Law on Electronic Communications (which will be harmonised with Directive (EU) 2018/1972) in the 2021 activity plan. Even though the proposed measure is justified, the indicators should be redesigned (e.g. newly connected households in isolated areas or outside of cities, indicators on skills development and e-government services etc.). After the progress</p>	<p>broadband access. Measures should ultimately focus on development of the connected, competitive, knowledge-based, inclusive, sustainable and advanced economy with increasingly dynamic private sector and digitally more resourceful society.</p>	<p>demonstrates that it has sufficient administrative capacities for implementation of the <i>Acquis Communautaire</i> in the areas of electronic communication and audio-visual policy, including independence of the regulator.</p>			<p>of public services, and improvement of the quality of citizens' life. The Western Balkans needs to be involved in EU efforts in respect of acceptance of technological changes in order to be able to use digital tools and ensure successful and sustainable future for its citizens.</p>	<p>generation broadband internet network, which sets out defining of the type of infrastructure that will be built in the areas in which market participants demonstrate commercial interest to invest, and also in accordance with the feasibility study, and cost-benefit analysis in some zones.</p>
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	made in “classical” broadband development, including mapping of infrastructure (precondition for installation of 5G network), the measure could be expanded so as to reflect the planned introduction of 5G network. The impact on competitiveness, society, labour and environment should be better elaborated.						
Reform measure 15:	Since operations of business	The measure partly responds to the	Even though the 2021	Implementation of the measure	n/a	n/a	n/a



Improving management of business undertakings in majority state ownership	undertakings in majority state ownership have so far demonstrated numerous differences and problems in the segments that are important for the state, and which primarily refer to the financial condition of enterprises, management method, performance of supervision and control of them, we believe that the planned solutions will lead to the	Policy guidance No 1 and No 5 of the ministerial dialogue.	Enlargement Package does not directly include recommendations related to this measure, it states that the Western Balkans region faces difficulties which prevent the countries situated in this region to achieve full economic potential. Inadequate management of state enterprises, insufficiently used potential which these enterprises have and insufficient financial control	will contribute to achievement of the following millennium development goals: SDG8 - Promote inclusive and sustainable economic growth, full and productive employment and decent work for all; SDG9 - Build resilient infrastructure, promote sustainable industrialisation			
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	<p>improvement of operations, predominantly through the transformation of business processes, but also through cost optimisation and more efficient use of the existing resources.</p> <p>Moreover, since the existing regulatory environment is not business-oriented and it halts a more dynamic development of state enterprises, the efforts should</p>		<p>are only some of the problems which impact the economy of the country and which may be mitigated by this measure.</p>	<p>and foster innovation;</p>			
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	be made to improve the management of business undertakings in majority state ownership, as well as to improve institutional and regulatory framework in Montenegro which is one of the critical challenges that the European Commission recognised in the new Assessment of the Montenegrin economy.						
Reform measure 16:	According to the EC report,	In accordance with ERP Guidance Notes	Even though the 2021	This reform measure is	/	This measure is in accordance	



<p>Suppressing informal economy through tax administration reform</p>	<p>informal economy is a significant structural challenge.</p> <p>This reform measure partly responds to this challenge. A part of the measure which refers to establishment of the Integrated Revenue Management System (IRMS) aims to increase transparency of the tax payment process, thus reducing informal economy. The</p>	<p>of July 2021, this measure concerns area 4 of structural reforms – Business environment and reduction of informal economy.</p>	<p>Enlargement Package does not directly include recommendations related to this measure, it states that the Western Balkans region faces difficulties which prevent the countries situated in this region to achieve full economic potential. One of these difficulties is the problem with informal economy and this reform measure seeks to reduce it.</p>	<p>aligned with goal 9 (SDG 2020-2030) – Industry, Innovation and Infrastructure.</p> <p>In addition to suppressing informal economy and ensuring greater transparency in tax collection, the aim of the Integrated Revenue Management System (IRMS) and of online fiscalisation in real time is to digitalise the</p>		<p>with the Digital Agenda for the Western Balkans.</p> <p>One of the basic goals of this agenda is digitalisation of industry in the Western Balkans in order to ensure that all sectors benefit from digital innovation.</p>	<p>/</p>
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	<p>use of the online fiscalisation in real time, which began on 1 January 2021, already produced tangible results, since the VAT collection has been increasing. Compared to the plan, these revenues are higher by 14.7 million euro or 4.5 percent, which indicates recovery of economic activity, but also the greater tax discipline and achievement of positive effects of the electronic fiscalisation of</p>			<p>Montenegrin tax system.</p>			
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	fiscal cash registers. ⁴²						
Reform measure 17: Reducing labour tax wedge by abolishing health contributions and introducing non-taxable income							
Reform measure 18: Electronic registration of turnover in tourism	Increase of employment, particularly among women and young people, and suppression	Increase of employment Green transition	Improvement of regional cooperation – by developing a joint diversified tourism product	Goals 1, 3, 5, 8, 10 and 11– (new jobs, employment of women, reduction of	Development of the nature-based tourism offer	Implementation of the projects based on technological achievements	Remark: This needs to be considered!

⁴² <https://www.gov.me/clanak/dobra-naplata-prihoda-manji-rashodi>



	of long-term unemployment			migration)	Development of rural tourism	(mobile applications, audio guides etc.)	
Reform measure 19: Sustainable green tourism	Increase of employment, particularly among women and young people and suppression of long-term unemployment	Green transition	Improvement of regional cooperation – by developing a joint diversified tourism product	Goals: 1, 2, 8, 10 and 11 – (new products, new jobs)	Goals: 2 and 3 (application of eco-standards and proper use of resources, increase of outdoor tourism products)	Implementation of the projects based on technological achievements (mobile applications, audio guides etc.)	<i>Green agenda and sustainable connecting (Remark: consider afterwards)</i>
Reform measure 20: Financial support to households aimed at applying energy efficiency measures	Delay in implementation of the state budget may cause delay in implementation of the planned activities, which may have adverse effect on the	The measure has been transferred from the previous ERP with certain improvements, acknowledging the ERP guidance notes of July 2021.	Implementation of the measure ensures direct support to the promotion of highly efficient technologies and solutions in accordance with requirements of	Implementation of the measure contributes to the achievement of SDGs in respect of availability of clean energy sources and reduction of	Implementation of the measure addresses goals set in the Green Agenda for the Western Balkans through the		



	availability period of the interest-free loans for citizens.		the innovated EU framework in energy efficiency sector.	negative environmental impact through improvement of energy efficiency of buildings and greater use of renewable sources of energy.	promotion of efficient technologies which use renewable sources of energy and contribute to the reduction of air pollution and reduction of greenhouse gas emissions.		
Reform measure 21: Reducing release into circulation of lightweight carrier plastic bags and single-use plastic products	Strengthening of regulatory environment Formalisation of economy	Formalisation of economy Increase of employment (women and young people) Green transition		The measure directly contributes to implementation of SDG 12, through reduction of waste quantity, redesign of products and their reuse, and	That this measure directly addresses the goals set out in the Green Deal, and Green Agenda for the Western Balkans which concern	n/a	n/a



				through recycling materials. The measure has indirect impact on the goals 11 and 14 in terms of reducing the waste which pollutes cities, seas and oceans.	circular economy.		
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<p>Reform measure 22: Support to investments in the food manufacturing sector aimed at strengthening the competitiveness</p>	<p>The measure is not directly linked to the presented challenges.</p>	<p>The measure is designed in a way that it responds to recommendations related to the increase of competitiveness in the primary production and manufacturing sector, and to the increase of economic diversification, through the Component III.</p>		<p>The measure seeks to achieve the following SDGs: 2 – Zero hunger world, by producing sufficient quantities of safe, nutritious and easily accessible food;</p> <p>9 – Industry, innovation and infrastructure, through innovation in production and improvement of rural infrastructure with the aim of bringing rural</p>	<p>The reform measure is harmonised with the obligations assumed by signing the Green Agenda for the Western Balkans, chapter “Sustainable Agriculture and Food Production”.</p>	<p>This measure may provide support to innovative solution in production and manufacturing which, to a lesser degree, responds to the goals set out in the Digital Agenda for the Western Balkans. The administration also works on gradual introduction of digital solutions for administration.</p>	<p>The reform measure relies on IPARD II programme and on the future IPARD III programme which is planned for the next programming period and which coincides with the next EU Common Agricultural Policy.</p>
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				markets closer to the market;			
				15- Life on land, through sustainable use of natural resources.			

**ANNEX 3: EXTERNAL CONTRIBUTION TO ERP 2022-2024**

Area which the comment refers to	Comment which was received (including the date when it was received, format and main content)	Stakeholder who sent the comment/contribution (including institution, contact person and other contact details)	Comment status (accepted/not accepted)	Comment (reasoning behind acceptance/refusal)
General comments	<p><i>Comment received on 24 December 2021</i></p> <p><i>Main content:</i> “Having analysed the draft ERP 2022-2024, the Chamber of Economy of Montenegro believes that this document, which starts from the EU guidelines and establishes key structural challenges, defines well the policies and reform measures for improving economic competitiveness and fostering job creation by identifying priorities and activities which underpin economic recovery after COVID-19,</p>	<p>Stakeholder: Chamber of Economy of Montenegro</p> <p>Contact person: Miljan Sestovic</p> <p>Contact details: Novaka Miloševa 29/II, Podgorica 81000, Montenegro</p> <p>T+382 20 230 544 M+382 67 690 359 E msestovic@pkcg.org W www.privrednakomora.me</p>	The comment was accepted.	<p>Reasoning behind the Government's response:</p> <p>The working group for preparation of this law was set up in October last year and that, in addition to the representatives of the Government of Montenegro, the members of the working group are also representatives of the representative employers' federation</p>



	<p>with particular focus on economic diversification.</p> <p>ERP brings new quality to the economic growth potential in the period 2022-2024 and envisages implementation of the measures aimed at improving institutional and regulatory environment, which will lead to an enabling business environment.</p> <p>We believe that the Chamber of Economy, as the association representing interests of all business undertakings in Montenegro, should be involved in the process of preparation of all the strategic documents, which will contribute to their quality and facilitate progress in implementation of policies and reforms, particularly in the part</p>			<p>of Montenegro and representatives of the representative employees' organisations in Montenegro. The Labour Law is drawn up in negotiations among social partners who are, under the Law on Social Councils, representatives of the Government of Montenegro, representatives of the representative employers' federation of Montenegro and representatives of the representative employees' organisations in Montenegro. The</p>
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	concerning future reforms for introduction of the new labour schemes through amendments to the Labour Law".			negotiation process between social partners is confidential and based on ILO views and conventions such as the Right to Organise and Collective Bargaining Convention no. 98, Freedom of Association and Protection of the Right to Organise Convention no. 87 and Tripartite Consultation Convention no 144. However, we recognise importance and role of the
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				Chamber of Economy of Montenegro in the labour market and we would appreciate it if they could submit comments and suggestions to us so that the working group considers them in preparation of future amendments to the Labour Law.”
	<p>Comment received on 20 September 2021</p> <p>Main content:</p> <p>- The proposed minimum wage increase from 250 euro to 315 euro (60% of the average wage in the country), which aims to reduce poverty risk for the most</p>	<p>Stakeholder: Confederation of Free Trade Unions of Montenegro</p> <p>Contact person: Marko Subotić</p> <p>Contact details: Avda Međedovića Street 108, Stari Aerodrom, 81000 Podgorica; phone/fax +38220232315; email: usscg@usscg.me</p>	<p>The comment was accepted.</p>	<p>Through the “Europe Now” programme, 70% of the suggestions were accepted which is also confirmed by representatives of the Confederation of Free Trade Unions of Montenegro at the round table held on 17 December 2021.</p>



	<p>vulnerable part of the population and improve economic position of the employed in Montenegro (compared to the countries in the region, the minimum wage in Montenegro was the lowest prior to the latest increase, even though the average wage in our country is higher than in Serbia, Bosnia and Herzegovina and Macedonia). In addition, minimum wage increase would lead to an increased revenue for the Budget and social funds.</p> <p>- The proposed improvement and creation of the new policies resulting in a large number of citizens and workers in Montenegro being able to resolve their housing status, through the measures and benefits created by the state for that purpose, which</p>			
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	<p>otherwise they would not be able to do in the market conditions. We propose that the programme includes the initiative which the Confederation of Free Trade Unions of Montenegro has been proposing for years, and it concerns resolution of this issue by offering specific ways to overcome the existing problems, whereby the Montenegrin Fund for Solidarity Housing Construction would be used as a platform for the construction of social housing which would be offered to citizens for rent at affordable prices, and the proceeds earned from the rent would be used for maintenance of the existing and construction of the new housing units that would be owned by the state.</p>			
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	<p>-The proposal was put forward to legalise the employment of persons employed informally.</p> <p>-Increase the accounting value of wages coefficient which was in the period from 2007 to 2021 increased by merely 5 euro net, i.e. from 55 euro in 2007 to 60.3 euro at the moment. In the meantime, the prices of goods, services, oil and oil derivatives have increased many times, and there have also been some other negative trends which have not been accompanied by wage increase, thus causing additional decline in the already low standard of workers and citizens.</p> <p>- The proposal was put forward to introduce non-taxable part of the</p>			
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	<p>wage up to the amount of 70 percent of the minimum wage.</p> <ul style="list-style-type: none">- Return VAT rate to the level of 2012 when it was 17 percent.- Reduce contributions payable by employers and employees.- Halt occurrence of the new tax debt. In that regard, we expect that all preconditions will be created for the tax administration to carry out efficient and regular collection of taxes and contributions and to sanction any lack of compliance with the legal deadlines. <p>The Confederation of Free Trade Unions of Montenegro submitted an initiative for amending the Rulebook on the form, content, manner of filling in and submitting the single form of report on the</p>			
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	<p>calculated and paid personal income tax and mandatory social security contributions. Proposal for amending Article 5 of the rulebook mentioned above reads as follows: "IOPPD form shall be submitted to the competent tax authority by the end of the month for the previous accounting period (month)." One should first have in mind that, under the valid legislation, employers submit the IOPDD form on the day of paying wage to the employees, which is often misused and leads to a large tax debt to the benefit of employers and to the detriment of employees and the state.</p> <p>-Increase profit tax for all or only for the profit exceeding certain amount (our profit tax is 9%, at the moment it is the lowest in Europe,</p>			
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	<p>and there is sufficient room to increase it).</p> <ul style="list-style-type: none">- Completely abolish the fee for incentives for renewable energy sources, and reduce the VAT rate for electricity bills to 7 percent. Grid losses are quite big, and citizens are still paying for it, despite the net profit generated by the Electric Power Company (EPCG) which amounted to 16.2 million euro in 2020.- Reduce import of foodstuff, ensure and guarantee steady purchase from local farmers and cattle breeders, thus stimulating development of all economic sectors, while chance should also be given to the domestic, healthy production.			
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	<ul style="list-style-type: none">-Reduce excise taxes on fuel and oil derivatives (or limit the price to 1.10 euro per litre during the crisis, to ensure compensation from the part of excise tax which the state collects from that source). -Introduce tax for legal persons and entrepreneurs on financial transactions exceeding a certain limit. - Abolish tax and other reliefs for companies under preferential treatment, because many of these leave room for manipulations to the detriment of the budget. -Increase the amount of founding contribution when setting up limited liability company or the liability when liquidating it (when setting up a company, it should be emphasised that in the event of			
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	<p>liquidation they are obligated to use a part of their property as a collateral for the payment of the claims due). We have witnessed many limited liability companies shutting down, and the payment of claims due to the employees has been transferred to the state, i.t. to the Labour Fund. On the other hand, following the shutting down, the irresponsible entrepreneurs set up a new limited liability companies and that continues indefinitely.</p> <p>-It has been insisted that the pension system should be further reformed so as to improve the manner of calculating pensions and enhance unfavourable position of pensioners.</p> <p>-Ensure rational spending of budget reserves, by increasing the</p>			
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	<p>degree of responsibility of all budget beneficiaries, through proper sanctioning of every irresponsible and illegal managing of budgetary funds.</p> <p>-Abolish the privilege of public officials to receive wage compensation from the budget if there are one or two years left before retirement.</p>			
	<p>-Comment received in September 2021</p> <p>" We believe that the part concerning public finance in ERP should include implementation of the following measure <i>"abolish prior consent which needs to be obtained from competent state authorities for local regulations"</i>.</p>	<p>Stakeholder: Union of Municipalities of Montenegro</p> <p>Contact person: Žana Đukić</p>	<p>Not accepted.</p>	<p>The proposed suggestion is not of structural nature and therefore it may not be a part of ERP; instead, it should be considered in the context of relations between the government and local governments.</p>



	<p>“... municipalities pass their decisions in accordance with the law, not a single municipal decision may be passed contrary to the norms prescribed by law’.</p> <p>In this case, it is absolutely unclear for what the competent state authorities need to give consent if the decision has already been passed in accordance with the law.</p> <p>We also emphasise that this way also slows down the process of adoption of local regulations because significant time is wasted on reaching out to state authorities and mutual communication between them when it comes to consent to municipal decisions.</p>			
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	And the European Commission, in its report, also pointed to the lengthy processes of adoption of secondary legislation for implementation of laws..."			
Macro fiscal framework	/	/	/	/
Structural reforms				
Reform area: "Social Care and Inclusion" Reform measure 7: <i>Reform of the Social and Child Protection</i>	Comment: Proposed reform measure " "Reform of social and child protection system based on UNICEF support to assessment of the social protection system and road map" - The proposed measure is associated with invitation by the European Commission to Montenegro to finalise the road map and start implementation of the social care reforms. Social care	Stakeholder: UNICEF office in Montenegro	Comment/proposed measure was mainly accepted.	Reasoning beyond the Government' s response: " The proposal put forward by UNICEF was mainly accepted through the reform measure no. 7 in ERP 2022-2024: "Reform measure 7: <i>Reform of the Social and Child Protection System</i>



<p><i>System based on the Road Map</i></p>	<p>reforms are also recognised in the Economic and Investment Plan for the Western Balkans.</p> <ul style="list-style-type: none">- In close cooperation with the Ministry of Finance and Social Welfare, UNICEF completed assessment of the exiting social care system on the basis of an internationally accepted methodology. Simulations of linked policies, which aim to improve efficiency and effectiveness of the social care schemes, were carried out in 2021. This provided proof to the ministry that the acceleration of the reform of the social care system was very much needed.- The proposed activities for implementation of the measure refer to the years 2022 and 2023.			<p><i>based on the Road Map”</i></p>
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	<p>Comment:</p> <p>“Remark/proposal/suggestion 1: The other measures/activities should be added to the recommendation 6 in chapter 2 Implementation of Policy Guidelines (page 13 of draft ERP), as follows: 1. Adoption of the deinstitutionalisation strategy and adoption of the new Law on Social and Child Protection.</p> <p>Reasoning behind the remark/proposal/suggestion 1: Reform of the social protection system is impossible without proper deinstitutionalisation strategy, as a strategic document, which was in any case recommended to Montenegro in Final Considerations of the UN</p>	<p>Stakeholder: Association of Youth with Disabilities</p> <p>Contact person: Marina Vujačić</p> <p>Contact details: King Nikolas Street 76, 81000 Podgorica, Montenegro * phone/fax: 020/265-650 umhcg@t-com.me; http://umhcg.com/</p>	<p>Comment/proposal was not accepted.</p>	<p>Reasoning beyond the Government’s response:</p> <p>In its regular activities, the ministry initiated preparation of the deinstitutionalisation strategy, in addition to the other two strategies. On the other hand, the Activity Programme of the government sets out that amendments to the Law on Social and Child Protection are planned to be adopted in Q4 2022. We emphasise that the Law on Social and Child Protection is</p>



	<p>Committee on the Rights of Persons with Disabilities of August 2017. The goal of deinstitutionalisation should take two directions, first: prevention of institutionalisation and support to involvement in the community, and second: leaving the institutions, with the prior adequate preparation and transition period during which it is necessary to develop community-based services which will include both, individual needs and requirements and necessary diversity, accompanied by psychosocial empowering and socialisation. Moreover, the current practice has demonstrated the importance of adopting the new Law on Social and Child Protection, given the estimated level and scope of necessary amendments regarding the right to</p>			<p>applied continuously until the conditions are in place for its improvement and, for that purpose, it is being amended.</p> <p>Including this matter in ERP was considered. However, we do not have a complete programme and financial framework, (neither strategic nor legal), which is a precondition, and in order to be recognised as a measure in ERP it has to be a structural reform, which is why</p>
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	<p>financial benefits and community-based services, as well as amendments to be made to the secondary legislation for this law, while it is necessary to ensure a more adequate planning of financing and sustainability of the system which, to the highest possible extent, encourages and enables life in the community, opposite to dominant investing in institutions. We also emphasise that significant support to these reform measures may be planned through the pre-accession assistance and funds that are available to Montenegro at the moment and in the period of implementation of ERP. We believe that without these two documents mentioned above the defined activities within the measure 7 <i>Reform of the Social and Child</i></p>			<p>it has not been included in it.</p>
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	<i>Protection System on the basis of the Road Map</i> are incomplete.			
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<p>Reform area: Area “Employment and Labour Market”</p>	<p>Comment: Remark/proposal/suggestion 2: The existing activities specified in chapter 5 Structural Reforms 1: Increasing employment, particularly of the youth and women need to be defined and supplemented with grant schemes for employment of persons with disabilities, as a regular annual measure, open during the whole year, and not just once a year</p> <p>Reasoning behind the remark/proposal/ suggestion 2: In fact, the calls for projects for employment of persons with disabilities which are launched by the Employment Office should be launched once a year and stay open during the whole year, and not just for one year. The principle of making decisions on the projects to be supported may be either</p>	<p>Stakeholder: Association of Youth with Disabilities</p> <p>Contact person: Marina Vujačić</p> <p>Contact details: King Nikola Street 76, 81000 Podgorica, Montenegro; phone/fax: 020/265-650 umhcg@t-com.me ; http://umhcg.com/</p>	<p>Reasoning beyond the Government’s response:</p> <p>Response: “In accordance with the Rulebook on the procedure and methodology for financing grant schemes, the Employment Office of Montenegro is obligated to prepare and launch open call for the award of funds for the financing of grant schemes at least once a year.</p> <p>On the basis of monitoring implementation of projects, it is possible</p>
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	<p>quarterly or semi-annual, but it is important to provide greater planning opportunities to employers and more adequate measures and project proposals which meet real needs of the labour market. This principle of launching calls which are open during the whole year with periodic decision-making is also applied in the projects that are co-funded from the European funds.”</p>		<p>to conclude that the grant schemes achieved the planned goal. Their effects are multiple and visible in promotion of employment of the youth with disabilities, elimination of employers’ prejudices regarding the capabilities of youth with disabilities and benefits gained in accordance with the Law on Professional Rehabilitation and Employment of Persons with Disabilities.</p> <p>However, the Proposal for the Law</p>
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				<p>on Professional Rehabilitation and Employment of Persons with Disabilities sets out new measures which will require additional funds for their implementation. One important measure is financing and co-financing special organisations for employment of persons with disabilities. The number of workers with disabilities, who have not been able to join the open labour market, will substantially increase through establishment and</p>
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				<p>development of the networks of sheltered workshops and work centres.</p> <p>Since grant schemes for the award of funds for employing persons with disabilities have already been defined in the legal act and since they have been implemented continuously for many years regardless of the period of validity of the public call for the award of funds for these purposes, and having in mind certain changes aimed at improving these schemes, this proposal cannot be</p>
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				part of ERP, since it is a regular activity, i.e. business as usual, and in accordance with the guidelines on preparing ERP it is not a reform measure.“
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Reform area: “Education and skills“	Comment: Proposed reform measure “Development and Implementation of the Reform Plan in Education Sector” - The proposed measure refers to development of the comprehensive and multiannual plan of reforms of education which includes preschool, elementary and second education. It concerns quality improvement and entails reform actions at all levels of education. This will enable children and young people to acquire skills they need for further academic success and employment. Sustainable economic and social growth and digital transformation may be ensured only by establishing the system of quality and	Stakeholder: UNICEF office in Montenegro	Comment/proposal was accepted.	A part of reform activities related to digital transformation has already been recognised in the reform measure 5, while activities of improving the core competences in order to achieve better employability have been recognised in the reform measure 4. Development and implementation of the reform plan in education sector is a n important activity, but it cannot be, as a whole, included as a separate reform
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	<p>inclusive education based on the smart use of digital technology. Development of the clear reform vision defined in the comprehensive plan for education sector would be the first and indispensable step towards reaching this goal.</p> <ul style="list-style-type: none">- UNICEF and MESCS are currently finalising the analysis of education sector which should provide an in-depth insight into the functioning of the system, key gaps and reforms and should also provide an evidence for preparation of the comprehensive plan for education sector.			<p>measure because it is a regular activity of the MESCS.</p>
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