



MINISTRY OF FINANCE OF MONTENEGRO



January - March 2015

BULLETIN XXXIV

Sadržaj



MINISTRY OF FINANCE OF MONTENEGRO

Bulletin XXXIV
january - march, 2015.



The official channel of the Ministry of Finance
<http://www.youtube.com/user/minfinansijacrnegore>



<https://www.facebook.com/pages/Ministarstvo-finansija>



<https://twitter.com/minifinme>



<http://minifin.wordpress.com>

ADMINISTRATION:

Tax administration:	www.poreskaupravagovme
Customs administrations:	www.upravarinagovme
Real Estate Directorate:	www.nekretnine.come
Public procurement directorate:	www.djn.govme
Property Administration	www.uzigovme

TABLE OF CONTENTS

INTRODUCTION	6-7
- PhD Radoje Žugić, the Minister	
Law on Amendments to the Law on Tax Administration	8-10
- Antoaneta Krivokapić, Independent Advisor I in the Directorate for Tax and Customs System	
The program of economic reforms - a new approach to economic dialogue between Montenegro and the European Union	11-12
- Iva Vuković, Master Degree, the Acting Director General for Directorate for Economic Policy and Development	
Amendments to the Law on Value Added Tax	13-15
- Jovica Petričević, Head of the Directorate for Tax System and Tax Policy in the Directorate General for Tax and Customs System	
Public expenditures in 2014 - preliminary data	16-22
Vesna Obradović, Independent Advisor I Ranko Stevović Independent Advisor I Miloš Popović Advisor to the Directorate for Economic Policy and Development, Snežana Mugoša, Head of the Directorate for Monitoring the Budgets of Local self-governments, regulatory agencies and public enterprises and other implicit budget obligations (Directorate-General for the Budget)	
The objectives of the financial perspective 2014 - 2020	23-26
- Vesna Lučić, the Directorate for Finance and Contracting of the EU assistance funds (CFCU)	
Training of internal auditors in the municipalities with regard to the challenges of internal audit	27-30
- Stoja Roćenović, Head of the Directorate for Harmonization of Internal Audit in the Directorate for Central Harmonization	
Activities of the Minister of Finance during the period from January 1 through March 31, 2015	31-35
- Marija Goranović, Department of Public Relations and Free Access to Information	
The Law on Tax on Coffee	36-37
- Ružica Bajčeta, Independent Advisor I in the Directorate for Tax and Customs System	
Danube transnational program in the new financial perspective	38-44
- Kana Tomašević, the first level controller for transnational programs	
Improving the legislative framework of the system of real estate taxation in Montenegro	45-48
- Gordana Radović, Independent Adviser I in the Directorate for Tax and Customs System	
The role of the National Fund in the process of developing and updating the IPA procedures	49
- Jasna Ilić Bošković, Independent Advisor III in the Directorate for State Treasury	
The importance of establishing and keeping the register of risks	50-52
- Jelena Janković, Independent Advisor in the Directorate for Central Harmonization	
Rules of Procedure of exemption from payment of tax and customs duties to perform construction work on the highway Bar- Boljare ("Official Gazette", No. 3/15 ...)	53-57
- Đorđije Žurić, Assistant Director in Tax Administration	



Trilateral Cross-Border Cooperation Program Croatia - Bosnia and Herzegovina - Montenegro in the new financial perspective (2014-2020)	58-60
- Žana Jovanović, Independent Advisor II, Ines Backović, Independent Advisor III in the Directorate for Finance and Contracting the EU Assistance Funds	
Implementation of public expenditures at the local level in 2014	61-65
- Snežana Mugoša, Master Degree, Head of the Directorate for Monitoring the Budgets of Local self-governments, regulatory agencies and public enterprises and other implicit budget obligations (Directorate for the Budget), - Pavle Kaluderović, Independent Advisor I in the Directorate for the State Treasury	
The priorities and measures planned for financing through IPA Component III	66-67
- Ivana Maksimovic, Independent Adviser I in the Directorate for State Treasury	
Info web activities of the Ministry of Finance in the period from January 1 through March 31, 2015	68-71
- Ivona Mihajlović, Department of Public Relations and Free Access to Information	
Issuance of the Statement of Assurance for IPA components III and IV	72-73
- Dunja Nelević, Head of the Directorate for National Fund in the Directorate for State Treasury	
Leasing Market in Montenegro - Report for 2014	74-83
- Slađana Pavlović, Independent Advisor II in the Directorate for Business Environment Improvement in the Directorate for Financial System and Business Environment Improvement	



Ministry of Finance of Montenegro

Bulletin of the Ministry of Finance
January - march 2015

NUMBER: XXXIV

PUBLISHED:
quarterly

PUBLISHER:
Ministry of Finance of Montenegro

FOR PUBLISHER:
Radoje Žugić Ph.D

EDITOR-IN-CHIEF:
Marija Radenović

EDITORIAL BOARD:

dr Radoje Žugić
mr Bojana Bošković
mr Ana Krsmanović
mr Nikola Vukićević
Iva Vuković
Marina Perović
Ana Cerović
Miodrag Radonjić
Damir Rašketić
Novo Radović

DESIGN:
Adil Tuzović

CONTACT:

TEL: +382 20 224 581

FAX: +382 20 224 450

E-MAIL: mf@mif.gov.me

WEB: www.mf.gov.me

ADDRESS:
Stanka Dragojevića br 2, Podgorica



Radoje Žugić, PhD

INTRODUCTION:

The issue of the turnaround of the public debt trend in the focus of fiscal policy

The economic theory recognizes the interdependence of the deficit, level of public debt and the perspective of the economic growth. Using the public debt to finance the current deficit leads to a slow down of the economic growth and, as a consequence hereof, generates further negative effects for the total population. On the other side, the public debt affects the allocation and distribution of resources, and has therefore a limited role in rational, economic decision making.

Having in mind the aforesaid, the issue of the public debt is in focus of the fiscal policy, but also in the focus of the total economic policy of Montenegro, and an early reversal of the trend is the primary task to which the Government is absolutely dedicated.

The period of the faster growth of the debt begins in 2008, at the first hit of the financial crisis. The growth of the public debt is primarily a consequence of the relatively high budget deficit in the years of the economic crisis, which was mainly financed by borrowings. The deficit is, further, a result of the constant growth of the mandatory expen-

ditures (expenditures for salaries and pensions) and the reduction of the budget revenues in the crisis years, from 2009 until 2012. All of the aforesaid influenced the need for borrowings and, consequently, the growth of the debt.

Thanks to a slight recovery of the economy and dominantly, introducing measures of fiscal consolidation, since 2013 the collection of revenues was significantly improved, which contributed to the decrease of the gap between revenues and expenditures and to the reduction of the current deficit by over 30%. Two positive trends, one expressed through highly increased growth of public revenues, and the other by decreased deficit level, caused a bit slower dynamics in the growth of the public debt. However, the achieved debt level represents a fiscal risk which indicates to the individual caution in the implementation of the fiscal policy.

Per end of 2014 the public debt of Montenegro, having in mind the level of the state deposits, amounted to 1.893,4 million euros or 55,8% of the estimated GDP. The net public debt per end of previous year, which includes also



the debt of the local governments and the state deposits, amounted to 2.022,2 million euros or 59,6 % of the GDP.

Although the achieved level of debt does not impose a formal obligation to prepare a rehabilitation plan, pursuant to Law on budget and fiscal responsibility, a moral obligation of the Government exists, without delay, to define adequate measures for the rehabilitation of the public debt. In fact, having in mind the realization of the bigger infrastructure projects, it is certain that in 2015 and the upcoming years, the debt level will exceed the limit criteria prescribed by the Law on budget and fiscal responsibility, which indicates to the need of proactive approach. In addition, the need to define and implement the rehabilitation measures derives from the undisputed fact that the level of the public debt has a strong negative effect on the current and future growth and the development of the economy.

Having in mind the aforesaid, it is necessary to define activities of the plan for reduction of current consumption. Fiscal measures aiming to strengthen the fiscal discipline and improve the collection of revenues will not provide the expected results unless they are not followed by rationalization measures, which would understand the opti-

mization of the number of employees in the public sector, reduction of work expenditure and a better concentration of human resources, financial-material resources as well as technical resources.

The struggle with the deficit and indebtedness is meaningless unless we don't stimulate the economic growth, development and level of employment. The growth rate of 2% or 3% is not sufficient and does not have a significant effect on the improvement of the quality of life of the citizens. Therefore, along with the mentioned fiscal measures, it is necessary in parallel to create a stimulating environment for the development of entrepreneurship and attracting investments, aiming to create assumptions for a more dynamic economic growth, and a growth rate which will be higher than the growth of the debt. In this way, the sustainability of the public debt is established and strengthened and a base for the turnaround of its trend is set. Only in such a business environment it is possible to create a sustainable policy on long-term, and not to expose the country to the risk of indebtedness crisis.

Radoje Žugić, PhD
Minister of Finance, Government of Montenegro

Law on amendments to the Law on Tax Administration



Montenegro has started with a comprehensive tax reform in mid-2001, in order to adapt the tax system to European Union standards, as well as international standards in this area.

In this regard, the Law on Tax Administration ("Official Gazette of the Republic of Montenegro", Nos. 65/01 and 80/04 and "Official Gazette", Nos. 73 /10, 20/11 and 28/12) has been adopted, which, as a basic principle in determining and collecting taxes and other levies, introduced the principle of self-taxation, while pre-cut principle was established as authorization and obligation of the tax authority in situations when tax determination is not conducted or is incomplete or incorrectly executed based on the principle of self-assessment, or if prescribed so by tax law. In addition to self-assessment, the most significant results of the current reform processes are: the introduction of a tax identification number (TIN) for all legal and natural persons taxpayers, uniting registration and maintaining a single Central Registry of taxpayers and payers of compulsory social insurance and others.

Since the establishment of the regulation, which separately

defined the procedure of determination, control and collection of taxes, it was continuously improved to comply with the practices and needs of the EU, with the simultaneous application of European standards and practices in neighboring countries. Therefore, the Parliament of Montenegro, at its meeting of 17 February 2015, adopted the Law on Amendments to the Law on Tax Administration ("Official Gazette of Montenegro", No. 8/15), which further improved tax policy and tax system through the creation of conditions for efficient administration, improved cooperation and increased discipline among tax authorities and taxpayers, as well as increase of tax compliance of taxpayers.

These changes, for the first time, clearly defined the principles of tax procedure as principles for the conduct of the tax authority and taxpayers in tax proceedings, namely: the principle of legality, the principle of efficiency, the principle of economy, the principle of time constraints of tax legislation and the principle of enabling disclosure of the facts. In this way, greater security and protection of the rights of the parties in the tax procedure has been provided. These principles generate all other rights and obligations arising from further



Antoaneta Krivokapić



legislation and determine the actions of parties in the procedure.

To define a taxpayer or a person responsible for the payment of tax liabilities, a new institute of "secondary tax liability" has been introduced, which allows the tax authority to collect accrued tax liability, in addition to the taxpayer, from another person who is responsible for its payment. In terms of the proposed solution, the secondary payer of tax liability is:

- a legal representative who has failed to fulfill its obligation to pay taxes for the taxpayer;
- a person who has contributed or helped avoiding payment of taxes by another person;
- a person responsible for the calculation and payment of withholding tax;
- a natural person who is a responsible person in the legal entity, which calculates and pays withholding tax;
- a person who received the funds, assets or rights from the taxpayer's assets at a price that is lower than the market price.

These changes set out conditions under which tax authority shall issue a decision on rejection of the application for registration, or deny the request of the taxpayer for the allocation of the tax identification number (TIN), as follows:

- legal entities whose founder - legal person, entrepreneur or natural person has matured or unpaid tax liabilities, incurred in relation to its operations;
- legal entities whose founder is a natural person who is the founder of another legal entity that has unpaid tax obligations in relation to its operations;
- a legal person created by status change of separation with the establishment of one or more companies in accordance with the law regulating forms of business organization and their registration, if the legal entity that is the subject of separation has outstanding tax liabilities;
- an entrepreneur having matured and unpaid tax liabilities incurred in connection with its activities.

In order to improve tax collection, these amendments improved the mechanisms for enforcing the tax collection in case of failure by the taxpayer to pay tax liability. If the payer of

income, earnings or the pension of the taxpayer, in the process of enforcement of overdue and unpaid tax liabilities of the taxpayer, does not act upon the decision of the tax authority, i.e. does not withhold and/or does not pay taxes and other withholding levies at the appropriate payment account, the tax authority will perform the enforced collection from the funds of the payer. The tax authority has the right to prohibit debtors pay their obligations to a taxpayer who owes taxes; to carry out seizure of claims of the tax debtor; or to order its debtor pay the due amount on behalf of taxes owed by its creditor and block the account if he fails to comply with the Decision on enforced collection. New instrument for tax collection is the authorization for tax authority to make fiduciary transfer of property title of tax debtor and to impose misdemeanor sanctions.

These changes discuss in detail measures of the inspection supervision, especially measure of seizing goods and prohibition of work for up to 90 days. During the inspection, the tax inspector will confiscate goods in cases where: there is a suspicion that the goods, raw materials, semi-finished and finished products are used or purchased without tax collection or otherwise contrary to law; when the goods are put into circulation by a person who is not registered or authorized to carry out activities; when goods are produced for distribution, or when there is turnover of goods and the goods were not properly recorded in the books and other required records; when goods transport is carried without proper documentation (delivery note, bill of lading, invoice, etc.); when the goods are sold outside the registered business premises or other place designated for sale by the competent authority. In these cases, the tax inspector shall seize the transport or other means by which the goods are transported or placed on the market if the value of the goods is greater than one-third of the value of the means or when the value of the goods does not exceed one third of the value of the transport means, if it is equipped with additional special space to hide or secretly transport goods. During the inspection, the tax inspector may, with confirmation, temporarily seize books of accounts, records, documents or other documentation, until the completion of the inspection procedure.

The tax inspector is also authorized to, during an inspection, pronounce a ban on the activity of taxpayer for up to 90 days, if it determines that: the activity is performed so that the goods and services are not accompanied by valid documents (delivery note, invoices, customer statements etc.); he does not pay daily profit, in accordance with the regulations; avoids assessment and payment of taxes by employing persons without a concluded contract or other act on employment adop-

ted in accordance with the regulations on labor relations, and if these persons are not, in accordance with the regulations, recorded with the competent authority for mandatory social insurance; turnover from the sale of goods or provision of services is not registered through the cash register or in any other prescribed manner.

In order to improve the organization of work of the tax authorities, these amendments define the obligation of the tax authority, when detecting crimes and their perpetrators, to take investigative actions ordered by the prosecutor, and the possibility that these investigative actions are taken without a warrant to control. It also establishes a system of internal inspection of the work and conduct of tax officers and employees in relation to work, in order to prevent corruption among officials in performing their official duties.

In order to combat the underground economy and create conditions for better fiscal discipline, this law shall improve penal policy through: the introduction of instruments to prevent corruption (the obligation to submit reports on the assets for tax inspectors and authorized officers conducting the investigation procedure), detection of criminal offenses in the area of taxes and their perpetrators and through the stricter sanctioning of perpetrators of tax violations. The law also increased the amount of fines for committed tax violations (ranging from 1,000 to 15,000 euros for the legal entity, from 500 to 6,000 euros for entrepreneurs, and from 100 to 1,000 euros for a natural person and responsible person in the legal entity, as well as from 500 up to 6,000 euros for the tax payer or intermediary), which will ensure a more efficient fight against the gray economy. It also prescribes the penalty for non-resident taxpayer which has no permanent establishment in Montenegro, and gains income or property in Montenegro, if it fails to appoint a tax attorney and inform the competent tax authority about it.

The synergy of all the proposed measures, including stricter punitive measures through regulation of large fines, creates a realistic basis for narrowing the zone of gray economy and unfair competition.

Antoaneta Krivokapic
Independent Advisor I
Directorate for Tax and Customs System



mr Iva Vuković



The program of economic reforms - a new approach to economic dialogue between Montenegro and the European Union

The dialogue between the European Union and the candidate countries regarding economic policy is of this year based on a new approach to economic management, which has become crucial in the process of enlargement. It formally established the obligation of making national economic reform programs, which should define clear guidelines and reforms that each country should implement in order to establish long-term growth and strengthen the competitiveness of national economies. In order to help the enlargement countries master the economic principles and meet the economic criteria for accession, and at the same time maintain support of the European Union for enlargement, the European Commission has prepared guidelines and concepts for the development of this program.

Economic governance is especially important when it comes to the Western Balkans, because not one of them still meets the criteria of a functioning market economy, nor may sustain competitive pressures within the EU. It is characteristic for all countries that they are affected by high unemployment, especially among young people, the growing levels of public deficit and debt. In this respect, it is vital that these countries intensify reforms in order to return to sustainable development, improve

competitiveness, increase employment and economic convergence with the EU.

In this regard, the Government of Montenegro, at its session held on 29 January 2015, adopted the Program of Economic Reforms for Montenegro 2015-2017 (PER), which on 31 January was sent to the European Commission in Brussels.

The preparation of such a document provides easier creation of consistent economic policies, in order to, as soon as possible, achieve its primary goal - increase employment and living standards of all inhabitants of Montenegro. To this end, Montenegro, like other countries in the region, faces a number of challenges. The key challenges relate to spurring economic growth and creating preconditions for better utilization of significant natural, economic and human potential. Accordingly, in the medium term, the concept of economic policy based on the application of measures for fiscal stability and sustainability and faster implementation of structural reforms, with the achievement of identified priority sectoral policies and infrastructure projects, is directly contributing to increasing the competitiveness of the Montenegrin economy and faster economic growth.

Economic reform program consists of two parts. In the first part (an improved version of PEP), the macroeconomic framework, public finances and structural reforms have been analyzed with a time frame for their implementation and budgetary implications thereof. In the second part, the sectoral structural reforms and measures that contribute to the competitiveness and growth have been presented. The same are based on macroeconomic and fiscal framework given in the first part of the document and are consistent with the macroeconomic structural reforms.

In the macroeconomic projections, as in previous years, two scenarios have been prepared, a base and low growth scenario. Projections of macroeconomic indicators for the period 2015-2017, provide for the real economic growth of 3.5% in 2015, 3.8% in 2016 and 4.0% in 2017, as a result, primarily, of an increase in investments and a substantial multiplier effect on the overall economic activity. The average projected growth rate of GDP for the period 2015-2017 is 3.8%, which is above the current rate of potential GDP growth (2.5%).

Alternative scenario provides for the moderate growth in economic activity of 2.1% in 2015, followed by a similar increase in the base scenario, but with a lower base, as follows: 3.1% in 2016 and 3.3% in 2017. The average projected growth rate of GDP for the period 2015-2017 amounted to 2.9%, which is approximately the current rate of potential GDP growth.

In the same period, fiscal policy will be directed at reducing current spending and increasing investment in infrastructure, so that the public debt would be financed from economic growth, with the establishment of its declining trend. The fact is that investments in infrastructure could, in the medium term, have adverse impact on fiscal indicators such as the deficit and public debt, but in the long run, through higher rates of economic growth, they would also influence the increase in public revenues, thus creating the conditions for stabilization of public finances, including the share of public debt in GDP. It is necessary to interpret in this context Montenegro's decision to implement strategically important highway project, which will, together with other large investments that are already in existence and financed by private capital, not only increase economic growth, but also change the course of the overall development of the country.

Based on the corresponding macroeconomic scenarios for the period 2015-2017, two fiscal scenarios have been prepared.

According to the base fiscal scenario in the medium term, the public spending will be relatively high, taking into consideration that the capital budget of the central government will finance the construction of the highway Smokovac - Matesevo. However, except for expenditures on the highway, residual consumption records stagnation or only a slight increase in nominal spending, which is in line with the principles of rationalization

at all levels of government. Capital budget shall, during this period, amount to an average of 9% of GDP, but excluding expenditure on the highway, will remain at almost the same level as in 2014. The deficit of public finances will be relatively high due to investments in fixed assets of the country. Excluding these expenses, public finances would, from this year, move into the positive zone of operations and achieve the surpluses.

Fiscal scenario of low growth, based on macroeconomic scenario of low growth, envisages a deficit in public finances of around 6.4% of GDP, as a result of, among other things, the reduction of the nominal GDP.

The relatively small difference between the base scenario and low growth scenario is the result of a cautious approach to planning revenues in the base scenario, taking into account the size of the economy and extreme susceptibility to various external and internal factors.

Fiscal policy measures are important, but not sufficient, so that structural reform has become a priority of economic policy in the medium term. In accordance with the identified obstacles, structural reforms have been defined in the areas of production and business environment, financial stability, labor market and in the area of public finances. In addition, the economy is facing a number of obstacles stemming both from the relatively narrow economic structure of Montenegro, as well as from the existing characteristics of the human resources and physical infrastructure. In line with this, the Government has recognized areas within which it is possible to implement measures that will have a direct impact on the growth of competitiveness: transport policy, growth and development of small and medium-sized enterprises, education and structural unemployment, business environment, strengthening the country's external position, regulation of space development and protection, development of rural infrastructure and development of electronic services.

The choice of economic policy measures presented in the Program of Economic Reforms is in the function of the realization of the priorities of the Government of Montenegro, while complying with the recommendations of the European Commission.

Delegation of the European Commission visited Montenegro in early March, with the aim of familiarizing itself with the Program of Economic Reforms for Montenegro 2015-2017 (PER). Although Montenegro had a short deadline to prepare the Program, it received praise, both for the formal and for the essential characteristics of the document. At the beginning of May the ministerial meeting will be held in Brussels, at which to present the Program evaluation and receive recommendations for economic policy for 2016.

**Iva Vuković, Master Degree,
the Acting Director General for Directorate
for Economic Policy and Development**



Jovica Petričević

Amendments to the Law on Value Added Tax

The Law on Value Added Tax ("Official Gazette of the Republic of Montenegro", Nos. 65/01, 38/02, 72/02, 21/03, 76/05 and "Official Gazette of Montenegro", Nos. 16/07, 29/13 and 8/15), adopted at the end of 2001, is applicable as of 1 April 2003. Value added tax is to be paid in all phases of the trade cycle, instead of the previous retail tax which, for the most part, was paid in the final consumption. The taxpayer is a natural or legal person whose taxable turnover per annum is in excess of 18,000 euros. Tax is paid at the rate of 19% (by 1 July 2013, this rate was 17%), while for export transactions applies a zero rate, and for a number of public services and products of importance to the standard of living (bread, flour, milk and milk products, infant food, grease, oil, meat, sugar, medicines, books, daily and periodical press, etc.) a reduced rate of 7%.

The main reason to amend the Law on VAT in the previo-

us period was conditioned by the need to harmonize a number of existing solutions with the EU acquis, in particular with the Council Directive 2006/112 EC, 2007/74 EC and 2006/79 EC. Namely, when preparing the negotiating positions of Montenegro for the intergovernmental conference on the accession of Montenegro to the European Union for Chapter 16 - Taxation, Montenegro accepted the *acquis communautaire* relating to VAT. In part deviating from the *acquis*, Montenegro committed to make additional harmonization until EU accession, except for exemptions and transitional periods required in the negotiating position.

The latest amendments to the Law on VAT (addressed to the Parliament of Montenegro on 29 December 2014, and adopted in mid-February 2015 ("Official Gazette of Montenegro", No. 9/15)) included further harmonization of certain legal solutions with EU directives and introduced normative innovations, in order to create preconditions to improve the investment environment, and attract investors in industries increasing the competitiveness of the Montenegrin economy, creating employment opportunities for a large number of local people, which has a positive impact on the balance of payments of the country and thus contributes to the reduction in its deficit.

Harmonization of a number of existing laws with the EU *acquis*

Compared to the previous legal provision, pursuant to Article 24 of Council Directive 2006/112 EC on the common system of value added tax, telecommunication services have been defined in more detail. The telecommunication services are considered services related to the transmission, emission or reception of signals, words, images and sounds or other information by wire, radio, optical or other electromagnetic systems, transfer of rights on the basis of which capacities are used for such transmission, as well as services that enable access to data network of other states.

Further alignment with Article 135 of Council Directive 2006/112 EC of 28 November 2006 on the common system of value added tax has been carried out, stating that Member States grant tax exemption for transactions, including contracting, concerning deposit and current accounts, payments, transfers, debts, cheques and other negotiable instruments, but excluding debt collection or redemption of debts, as banking and financial services, which will no longer be exempt from paying VAT.

Online gaming shall be exempted from value added tax, which is in line with Article 135 of Council Directive 2006/112

EC, which stipulates that member states shall exempt from taxation betting, lotteries and other types of gambling, subject to the conditions and limitations prescribed by Member States.

Legal and technical improvement of existing legal provisions

The following has been performed:

- Improved the provisions, which in practice proved to be inefficient, so the new legal provision provided that the tax debtor is the recipient of services under Article 17 of the Law on VAT, although not VAT registered, while until now service provider was liable to pay VAT.

- Further clarification of the existing provision, which eliminates the doubts about the determination of the tax base for calculation of VAT, or price reductions and discounts that are granted on the bill cannot be less than the purchase value or the cost of products.

- Further clarification of Article 37, paragraph 1 of the present Law, which will eliminate doubts regarding the necessary conditions for the deduction of input VAT. Specifically, the taxpayer, based on the proposed provision, may deduct VAT in the calculation of tax liability, which he is obliged to pay or has paid in the procurement of products from another taxpayer, while importing goods, even as a recipient, if products or services are used or are intended to be used for the purpose of making a profit in the performance of taxable activity, whereby independence, permanence and the intention of making a profit must exist simultaneously.

- Shortening of the period in which the tax authority shall issue a decision on registration of VAT from 15 to 7 days of the receipt of the application, in order to remove one of the barriers to business at the start of the activity for which VAT is paid.

Special innovations

Also, the new legal provisions, i.e. introduction of zero VAT rate on delivery of products and services that are used for investments in high tourism (hotels with five or more stars), investment in the construction of an energy facility for electricity generation of installed capacity exceeding 10 MW and plants for food processing classified in the sector C group 10 of the Classification of Activities ("Official Gazette of Montenegro", No. 18/11), whose investment value exceeds EUR 500,000, cre-

ated preconditions for improving the investment environment, and for attracting investors in industries which will increase the competitiveness of the Montenegrin economy and create employment opportunities for a large number of local people, which has a positive impact on the balance of payments of the country and contributes to the reduction of its deficit.

The existing provision, according to which the investor pays VAT on all purchases that are used for construction of investment facilities, implies that such tax is treated as a tax credit and is returned to the investor after filing a tax return, while VAT credit is returned within 60 days after the deadline for filing a tax return. This solution for high-value investments represents a particular barrier to business and requires a commitment of funds, which are returned to the investor in a period of two to three months.

In this way, more favorable conditions for investments are created, so as to eliminate business barriers and create conditions for the improvement of liquidity of investors. Thus, the investor is not relieved of a liability to pay tax, but the model by which the investor pays taxes, which the state is obliged to return, gets changed. Investment period lasts, as a rule, for a longer time and in that period output VAT cannot be expected on the basis of investments, so in this period a tax credit shall incur in the amount of taxes paid on total purchases. Bearing in mind the fact that the VAT paid on purchases during the investment is returned to investors, the proposed solution is to have a neutral impact on budget revenues.

The new legislation does not favor any potential investor, or treats differently domestic or foreign investors, all are equal in economic terms, by which it "de facto" does not violate rules on state aid.

These transactions will be monitored in a special way, and will be regulated by bylaw prescribing the procedure for issuing bills, record keeping and reporting to tax authorities in order to provide protection from possible abuse.

A zero rate of VAT is also introduced on supply of goods or services to be provided in accordance with the Loan agreement, concluded between Montenegro and the International Financial Organization, and other government or third party in which Montenegro appears as guarantor, in part financed by the funds received, if such agreement envisages that the received funds will not be used to pay tax expenses.

This solution is adopted with the purpose of introducing incentives to finance development and infrastructure projects by state and local governments. It is a known practice of international financial institutions to grant loans to states and

local governments, provided that the approved loans shall not be used to pay taxes. In such a situation, the State and local governments are obliged to pay VAT from the budget, which in itself, at the same time, is the budget revenue. The proposed solution relieves budget of the obligation to pre-commit funds for the payment of VAT on purchases, which within 1-2 months again becomes budget revenue. Bearing in mind the fact that payment of VAT on purchases creates budget revenues, the solution proposed in this case has a neutral impact on budget revenues.

In particular, the words of the provision, which reads: "third party, where Montenegro appears as a guarantor," are defined. The above provision includes cases where Montenegro appears as a guarantor for resident persons, for example, if the contract was concluded between EBRD and local government unit, where Montenegro appears as a guarantor, such a relationship fulfills the conditions for the application of the proposed provisions.

Jovica Petricevic
The Chief Directorate of the Tax and Customs System
the Directorate for Tax and Customs System



Vesna Obradović



Ranko Stevović



Miloš Popović



Snežana Mugoša

Public consumption in 2014 - preliminary data*

Montenegro's economy in 2014, according to estimations, recorded a moderate growth compared to the plan. The main reason for the lower economic activity is stated to be the deferral of the realization of investment projects and the insufficient international environment, which, together with bad weather conditions, caused a modest growth in the tourism sector. After an almost record base of electricity production in 2013, the decrease in the industry production in 2014 was expected. The major part of the year was marked with deflationary developments with a low credit activity. The consequences of these developments in the macroeconomic environment resulted in the expected growth rate of 2%. Such an macroeconomic environment was reflected also in the public finance.

MONTENEGRIN PUBLIC FINANCE

The structure of the Montenegrin public finance is represented by the Budget of Montenegro and the state funds

(pension and disability insurance fund, health insurance fund, compensation fund, employment fund and Work fund) and the budgets of the local governments (Royal Capital Cetinje, Administrative Capital Podgorica and 21 municipalities). The central budget of Montenegro represented 87% of the public finance in 2014, whereby the remaining 13% refer to local governments.

The priority of the fiscal policy in 2014 was the consolidation of the public finance together with strengthening the tax discipline and continuity in implementation of cost saving measures at the budget consumption side. Although the growth of the budget income is visible with 5,9% in comparison to the plan, it must be noted that the result would be even better if there was no deflationary price movement and deferral of the announced investments, which led to lower economic growth compared to the plan.

Preliminary consolidated public revenues in 2014 amounted to 1.560,5 million euros or 46,0% GDP (3.393,2 million

* - Data used in this analysis are preliminary data whereby the final data will be provided as part of the Law on final budget accounts for



euros). Compared to 2013, as well as compared to the plan, the revenues are higher for cca. 118 million euros or 8,2%. The increased revenues compared to 2013 resulted mainly from: VAT with 68,4 million euro growth, contributions with 45,8 million euros, personal income tax for individuals 12,7 million euros as well as local taxes which were higher for 4,5 million euros. The revenue growth was achieved, partly, due to increased tax rates (crisis tax on personal income, increased base for value added tax) but also as a result of continued fight against grey economy, especially in the labor market, decreasing tax obligations for not collected taxes and contributions on personal income together with a moderate growth of economic activity.

Preliminary consolidation of public consumption in 2014 amounted to 1.606,6 million euros or 47,3% of GDP, and increased for 18,7 million euros or 1,2% compared to 2013, whereby the planned amount was exceeded by 141,8 million euros or 9,7%. The growth of the consumption is a consequence of: (1) increased state share in the ownership of the

company Elektroprivreda Crne Gore,¹ (b) methodological re-qualification of the item repayment of obligations from previous period² and (c) unplanned repayment of guarantees in the amount of close to 20 million euros. The major part of the expenditure structure is referred to gross salaries and contributions paid by employer (12,5% of GDP) and transfer for social protection (14,5% of GDP). Capital expenditure of the public sector amounted to 3,7% of the GDP, whereby the interest rates amounted to 2,3% of the GDP and recorded a growth of 10% compared to 2013.

Preliminary deficit of public finance at the end of 2014 amounted to 46,1 million euros or 1,4% of GDP, and it is lower for 114,3 million euros compared to the deficit reached per end of 2013. In 2014a primary surplus of 1,0% of GDP was reached.

¹ - Technically this operation had the character of increasing non-financial assets of the state through increase of shares of the stock company, and as such, according to accounting standards, was booked as capital transfer of the state (on this basis the item Capital expenditure in the current budget has increased). On the other side, the tax debt towards the state was paid in the same amount for which the company share was increased, which is one of the reasons for increased collection of revenues in 2014.

² - The repayment of obligations from previous period is included in expenditure, and here-with in the deficit calculation for 2014.

GDP (in mil. €)	3393,2						3327,0					
	preliminary						with final data of the local governments					
Public consumption	2014 - achieved		2014 - plan		Deviation		2013 - achieved		Deviation			
	mil. €	% GDP	mil. €	% GDP	mil. €	%	mil. €	% GDP	mil. €	%		
Primary revenues	1560,51	46,0	1442,16	42,5	118,35	8,2	1441,89	43,3	118,61	8,2		
Taxes	950,10	28,0	888,21	26,2	61,89	7,0	863,52	26,0	86,59	10,0		
Personal income tax for individuals	136,82	4,0	121,15	3,6	15,68	12,9	124,15	3,7	12,67	10,2		
Corporate income tax	450,2	1,3	44,40	1,3	0,62	1,4	40,64	1,2	4,38	10,8		
Real Estate transfer tax	14,87	0,4	15,79	0,5	-0,92	-5,8	14,13	0,4	0,74	5,3		
Value Added Tax	497,59	14,7	455,95	13,4	41,64	9,1	429,20	12,9	68,39	15,9		
Excises	156,47	4,6	171,11	5,0	-14,65	-8,6	161,45	4,9	-4,98	-3,1		
International trade and transaction taxes	22,27	0,7	23,74	0,7	-1,47	-6,2	22,27	0,7	0,00	0,0		
Local taxes	71,09	2,1	51,00	1,5	20,09	39,4	66,60	2,0	4,49	6,7		
Other republic revenues	5,97	0,2	5,08	0,1	0,89	17,5	5,09	0,2	0,88	17,3		
Contributions	444,30	13,1	397,82	11,7	46,48	11,7	398,49	12,0	45,81	11,5		
Duties	20,75	0,6	28,28	0,8	-7,53	-26,6	33,30	1,0	-12,54	-37,7		
Fees	71,47	2,1	55,05	1,6	16,42	29,8	68,24	2,1	3,23	4,7		
Other revenues	43,33	1,3	45,75	1,3	-2,41	-5,3	50,01	1,5	-6,67	-13,3		
Receipts from the repayment of loans and transferred funds from previous periods	21,45	0,6	17,05	0,5	4,40	25,8	18,63	0,6	2,82	15,2		
Donation	9,09	0,3	10,00	0,3	-0,91	-9,1	9,72	0,3	-0,63	-6,4		
Public consumption	1606,65	47,3	1464,81	43,2	141,83	9,7	1587,94	47,7	18,70	1,2		
Current budget consumption	1482,15	43,7	1339,54	39,5	142,61	10,6	1463,56	44,0	18,60	1,3		
Current expenditures	755,75	22,3	695,38	20,5	60,37	8,7	668,86	20,1	86,89	13,0		
Gross salaries and contributions paid by employer	424,13	12,5	422,38	12,4	1,75	0,4	407,05	12,2	17,09	4,2		
Other personal income	14,13	0,4	13,96	0,4	0,17	1,2	14,51	0,4	-0,37	-2,6		
Expenditure for material	34,80	1,0	45,81	1,4	-11,01	-24,0	33,32	1,0	1,48	4,4		
Expenditure for services	60,09	1,8	42,66	1,3	17,42	40,8	56,45	1,7	3,64	6,4		
Expenditure for current maintenance	25,23	0,7	25,64	0,8	-0,41	-1,6	24,27	0,7	0,96	3,9		
Interest	78,37	2,3	78,91	2,3	-0,55	-0,7	71,27	2,1	7,10	10,0		
Rent	8,50	0,3	8,58	0,3	-0,08	-0,9	8,36	0,3	0,14	1,7		
Subventions	18,84	0,6	19,63	0,6	-0,79	-4,0	18,18	0,5	0,66	3,6		
Other expenditures	27,31	0,8	27,45	0,8	-0,14	-0,5	23,24	0,7	4,07	17,5		
Capital expenditure of the current budget	64,35	1,9	10,35	0,3	54,01	52,9	12,21	0,4	52,14	427,0		
Transfer for social protection	492,40	14,5	495,31	14,6	-2,91	-0,6	483,40	14,5	9,00	1,9		
Transfer to institutions, individuals, non-government and public sector	130,49	3,8	131,80	3,9	-1,31	-1,0	121,54	3,7	8,95	7,4		
Capital expenditures	124,49	3,7	125,27	3,7	-0,78	-0,6	124,39	3,7	0,11	0,1		
Borrowings and loans	3,76	0,1	4,35	0,1	-0,59	-13,5	4,13	0,1	-0,37	-8,9		
Reserves	16,00	0,5	12,71	0,4	3,29	25,9	15,94	0,5	0,05	0,3		
Repayment of guarantees	18,48	0,5	0,00	0,0	18,48		109,13	3,3	-90,65	-83,1		
Repayment of obligations from previous period	65,27	1,9	0,00	0,0	65,27		60,54	1,8	4,73	7,8		
Net increase of obligations	0,00	0,0	0,00	0,0	0,00		14,44	0,4	-14,44	-100,0		
Surplus/ Deficit	-46,14	-1,4	-22,65	-0,7	-23,49	103,7	-160,49	-4,8	114,35	-71,2		
Primary deficit	32,23	0,9	56,26	1,7	-24,03	-42,7	-89,22	-2,7	121,45	-136,1		
Repayment of debts	265,18	7,8	220,43	6,5	44,75	20,3	239,03	7,2	26,15	10,9		
Debt repayment to residents	111,88	3,3	34,51	1,0	77,37	224,2	118,02	3,5	-6,14	-5,2		
Debt repayment to non-residents	112,74	3,3	112,58	3,3	0,16	0,1	68,32	2,1	44,42	65,0		
Repayment of obligations from previous period	40,56	1,2	73,34	2,2	-32,78	-44,7	52,69	1,6	-12,13	-23,0		
Financing needs	-311,32	-9,2	-243,08	-7,2	-68,24	28,1	-399,52	-12,0	88,20	-22,1		
Financing	311,32	9,2	243,08	7,2	68,24	28,1	399,52	12,0	-88,20	-22,1		
Borrowings and loans from domestic sources	109,57	3,2	6,00	0,2	103,57	1726,2	151,29	4,5	-41,72	-27,6		
Borrowings and loans from international sources	210,33	6,2	227,98	6,7	-17,65	-7,7	191,43	5,8	18,90	9,9		
Revenues from privatization	11,77	0,3	7,00	0,2	4,77	68,2	26,78	0,8	-15,01	-56,0		
Deposit increase/decrease	-20,35	-0,6	2,10	0,1	-22,46	-106,71	30,01	0,9	-50,36	-167,8		

Source: Ministry of Finance Montenegro

MONTENEGROS BUDGET

State Budget Revenues³ for 2014 amounted to 1.665,9 million euros, whereof primary revenues amounted to 1.351,8 million euros and revenues collected from other sources amounted to 314,1 million euros, primarily from borrowings on the international markets. The primary budget revenues increased compared to the achieved amounts in 2013 for 108,4 million euros or 8,7%, and 75,8 million euros or 5,9% compared to the plan. Major contribution to the increased revenues was achieved by collection of taxes and contributions, which represent the biggest share in the revenues structure.

The most significant growth compared to the previous year was achieved for VAT income in the amount of 68,4 million euros, what is a result of (a) increased tax rate,⁴ (b) reduced grey economy, (c) collection of matured tax receivables and (d) growth of economic activity. Also the revenues related to contributions have increased for 45,8 million euros compared to 2013 and 46,5 million euros compared to the plan, and they represent a result of implemented measures to curb grey economy on the labor market as well as the collection of receivables heretofore, towards legal entities. A growth was recorded also in the collection of personal income taxes for individuals in the amount of 8,8 million euros compared to 2013. A significant, positive deviation was achieved in the collection of corporate income taxes in the amount of 4,4 million euros compared to the previous year, which is mostly related to the Government encouraging measure to guarantee a discount for a one-time payment of taxes and payment of taxes in the legally prescribed timeframe.

On the other side, a decrease was recorded in the revenues for excise in the amount of 5 million euros compared to previous year and 15 million euros compared to the plan. The reason for the deviation is the deferred parliamentary debate and the related late adoption of the Law on excise goods, which shortened the timeframe of application of the higher rate, and herewith influenced the lower level of collected revenues in this regard. An additional reason for the deviation is the grey economy on the market of the excise goods, which led to increased control measures of this market segment, especially the tobacco products. Also, the collection of duties recorded a decrease of 12,2 million euros compared to 2013, as a result of abolition of duties for SIM cards, cable TV and electricity counters.

The previously introduced measures for temporary suspension of pension indexation were applied at the expenditure side of the Budget, as well as restrictive measures in the part of expenditures for works of the Committee and other working groups of the Government, and expenditure in public companies and other legal entities in major ownership of the Government, as well as in the local Governments.

Total Budget Expenditure of Montenegro for 2014 amounted to 1.454,4 million euros or 42,9% of the estimated GDP for 2014 (3.393,2 million euros), whereby the financed current budgetary consumption amounted to 1.379,3 million euros and the capital investments amounted to 75,1 million euros. Compared to the previous year, the expenditure increased for 9,6 million euros, which is, despite the high starting point from 2013 (due to paid guarantees), a result of the one-time events which marked the year 2014, and which are described in more detail in the analysis of public finance revenues.

The indexation of pensions was planned for the Law on Budget 2014, but finally it was decided to continue the crisis measure to freeze the growth of the pensions, which led to 12,9 million euros lower consumption compared to the plan.

The Deficit of the Central Budget per end of 2014 amounted to 102,6 million euros or 3,0%, and it is lower for 113,2 million euros compared to the deficit reached per end of 2013. This result contains about 60 million euros or 1,7% of the GDP of one-time and unexpected expenditures, like the repayment of the outstanding obligations towards the state (aprox. 32 million euros), guarantee repayment (15,3 million euros) and court enforcement (15,5 million euros). This clearly indicates to the fact that total balance of the central budget is not possible, if rationalization measures are missing at the expenditure side as well as responsible consumption of the taxpayers money. Without these costs, the deficit of the central budget for 2014 would amount only to 39,8 million euros or 1,2% of GDP.

In 2014, 209,7 million euros of debt towards creditors was repaid.⁵ For the financing needs of the missing funds in the central budget, the state received inflows of 104,4 million euros due to borrowings on the local market, mainly through emission of bonds and 205,7 million euros by borrowings on the international market.

³ - Budget Revenues include primary income (direct and indirect taxes), borrowings, donations and income from privatization and selling assets.

⁴ - The application of the increased tax rate for value added tax in the amount of 19% started as of July 1st 2013.

⁵ - The mentioned deficit calculation for 2014 is not completely methodologically aligned with the deficit for 2013, as it does not contain the item net increase of obligations, for which, such expressed deficit will be corrected during the preparation of the Law on final budget accounts for 2014. In case of net decrease of obligations, the deficit would be corrected downwards.

GDP (in mil. €)	3393,2				3327,0					
	Preliminary data								podaci po završnom	
Budget of Montenegro	2014 - achieved		Plan 2014		Deviation		2013 - achieved		Deviation	
	mil. €	% GDP	mil. €	% GDP	mil. €	%	mil. €	% GDP	mil. €	%
Primary revenues	1351,85	39,8	1276,06	37,6	75,80	5,9	1243,44	37,4	108,42	8,7
Taxes	833,20	24,6	797,83	23,5	35,37	4,4	755,70	22,7	77,51	10,3
Personal income tax for individuals	104,41	3,1	96,01	2,8	8,39	8,7	95,62	2,9	8,79	9,2
Corporate income tax	45,02	1,3	44,40	1,3	0,62	1,4	40,64	1,2	4,38	10,8
Real Estate transfer tax	1,48	0,0	1,54	0,0	-0,07	-4,2	1,44	0,0	0,04	2,7
Value Added Tax	497,59	14,7	455,95	13,4	41,64	9,1	429,20	12,9	68,39	15,9
Excise	156,47	4,6	171,11	5,0	-14,65	-8,6	161,45	4,9	-4,98	-3,1
Tax on international trade and transactions	22,27	0,7	23,74	0,7	-1,47	-6,2	22,27	0,7	0,00	0,0
Other republic revenues	5,97	0,2	5,08	0,1	0,89	17,5	5,09	0,2	0,88	17,3
Contributions	444,30	13,1	397,82	11,7	46,48	11,7	398,49	12,0	45,81	11,5
Duties	15,01	0,4	20,92	0,6	-5,92	-28,3	27,18	0,8	-12,17	-44,8
Fees	16,96	0,5	13,02	0,4	3,93	30,2	13,23	0,4	3,72	28,1
Other revenues	29,53	0,9	31,41	0,9	-1,88	-6,0	33,68	1,0	-4,15	-12,3
Receipts from the repayment of loans and transferred funds from previous periods	7,38	0,2	7,05	0,2	0,34	4,8	8,54	0,3	-1,16	-13,6
Donations	5,47	0,2	8,00	0,2	-2,53	-31,6	6,61	0,2	-1,14	-17,3
Budget expenditures	1454,42	42,9	1327,57	39,1	126,86	9,6	1444,79	43,4	9,63	0,7
Current expenditures	1379,27	40,6	1237,30	36,5	141,98	11,5	1367,57	41,1	11,70	0,9
Current budget expenditures	691,53	20,4	632,12	18,6	59,41	9,4	605,64	18,2	85,88	14,2
Gross salaries and contributions paid by employer	387,34	11,4	386,34	11,4	1,00	0,3	371,00	11,2	16,34	4,4
Other personal income	11,83	0,3	11,48	0,3	0,35	3,0	12,02	0,4	-0,20	-1,6
Expenditure for material	28,59	0,8	30,80	0,9	-2,22	-7,2	27,27	0,8	1,32	4,8
Expenditure for services	51,91	1,5	42,66	1,3	9,24	21,7	47,50	1,4	4,40	9,3
Expenditure for current maintenance	21,28	0,6	21,65	0,6	-0,38	-1,8	20,42	0,6	0,86	4,2
Interest	74,98	2,2	75,57	2,2	-0,58	-0,8	67,92	2,0	7,06	10,4
Rent	8,05	0,2	8,15	0,2	-0,10	-1,2	7,93	0,2	0,12	1,5
Subventions	18,43	0,5	18,87	0,6	-0,45	-2,4	17,43	0,5	1,00	5,7
Other expenditure	24,78	0,7	26,24	0,8	-1,46	-5,6	21,94	0,5	2,84	12,9
Capital expenditure in the current budget	64,35	1,9	10,35	0,3	54,01	521,9	12,21	0,7	52,14	427,0
Transfer for social protection	492,15	14,5	494,72	14,6	-2,58	-0,5	482,97	14,5	9,18	1,9
Transfer to institutions, individuals, non-government and public sector	99,05	2,9	99,46	2,9	-0,41	-0,4	94,31	2,8	4,74	5,0
Capital budget	75,15	2,2	90,27	2,7	-15,12	-16,7	77,22	2,3	-2,07	-2,7
Borrowings and loans	2,48	0,1	2,14	0,1	0,34	16,1	2,75	0,1	-0,27	-9,7
Reserves	13,53	0,4	8,85	0,3	4,68	52,8	14,13	0,4	-0,59	-4,2
Guarantee repayment	15,26	0,4	0,00	0,0	15,26	...	107,23	3,2	-91,97	-85,8
Repayment of obligations from previous years	65,27	1,9	0,00	0,0	65,27	...	60,54	1,8	4,73	7,8
Net increase of obligations	0,00	0,0	0,00	0,0	0,00	...	14,44	0,4	-14,44	-100,0
Surplus/ Deficit	-102,57	-3,0	-51,51	-1,5	-51,06	99,1	-215,79	-6,5	113,22	-52,5
Primary balance	-27,59	-0,8	24,06	0,7	-51,65	-214,7	-147,87	-4,4	120,28	-81,3
Repayment of debt	209,75	6,2	171,43	5,1	38,32	22,4	174,03	5,2	35,73	20,5
Debt repayment to residents	99,76	2,9	30,01	0,9	69,75	232,4	107,62	3,2	-7,86	-7,3
Debt repayment to non-residents	109,99	3,2	108,08	3,2	1,91	1,8	66,40	2,0	43,59	65,6
Repayment of obligations from previous period		0,0	33,34	1,0						
Financing needs	-312,32	-9,2	-222,94	-6,6	-89,39	40,1	-389,82	-11,7	77,49	-19,9
Financing	312,32	9,2	222,94	6,6	89,39	40,1	389,82	11,7	-77,49	-19,9
Borrowings and loans from domestic sources	104,41	3,1	0,00	0,0	104,41	...	145,35	4,4	-40,94	-28,2
Borrowings and loans from international sources	205,75	6,1	227,98	6,7	-22,23	-9,8	188,52	5,7	17,23	9,1
Revenues from selling assets	3,92	0,1	5,00	0,1	-1,08	-21,6	11,95	0,4	-8,03	-67,2
Increase / decrease of deposit	-1,75	-0,1	-10,04	-0,3	8,28	-82,5	44,00	1,3	-45,76	-104,0

Source: Ministry of Finance of Montenegro

LOCAL GOVERNMENTS

Pursuant to Article 74 Law on financing local governments, the municipalities provide the Ministry of finance, on a quarterly basis, within 30 days after end of the previous quarter, with the reports about the planned and achieved revenues, plan and achieved expenditure and budgetary indebtedness.

Revenues of the local governments per end of 2014 amounted to 209,9 million euros or 6,3% of GDP, and they are higher for 43,8 million euros compared to the plan and 11 million euros compared to the previous year. Within the revenues, there is a positive deviation compared to 2013 in the collection of taxes in the amount of 9,1 million euros and, within this category, personal income tax on individuals with 3,9 million euros and local taxes with 4,5 million euros.

Expenditures of the local governments per end of 2014 amounted to 156,2 million euros or 4,8% of GDP, which is for 7,9 million euros higher compared to 2013. The most significant growth was achieved in the part of the capital budget, which is for 2,2 million euros higher compared to 2013. Local governments, in 2014, recorded expenditures in the amount of 3,2 million euros in regard to activated guarantees.

Surplus of the local governments is estimated on a level of 56,4 million euros or 1,6% of GDP, whereby 40 million euros of obligations from previous period was repaid. Transfers from the central budget, during the analyzed year, amounted to 2,7 million euros.



	preliminary						Final result			
	2014 - estimation		2014 - plan		Deviation		2013 - achieved		Deviation	
	mil. €	% GDP	mil. €	% GDP	mil. €	%	mil. €	% GDP	mil. €	%
Local governments										
Primary revenues	209,95	6,2	166,10	4,9	43,84	26,4	198,95	6,0	10,99	5,5
Taxes	116,90	3,4	90,38	2,7	26,52	29,3	107,82	3,2	9,08	8,4
Personal income tax on individuals	32,42	1,0	25,13	0,7	7,28	29,0	28,53	0,9	3,88	13,6
Real Estate transfer tax	13,40	0,4	14,25	0,4	-0,86	-6,0	12,69	0,4	0,70	5,6
Local taxes	71,09	2,1	51,00	1,5	20,09	39,4	66,60	2,0	4,49	6,7
Duties	5,75	0,2	7,36	0,2	-1,61	-21,9	6,12	0,2	-0,37	-6,1
Fees	54,51	1,6	42,02	1,2	12,49	29,7	55,00	1,7	-0,49	-0,9
Other revenues	15,10	0,4	14,33	0,4	0,77	5,3	16,33	0,5	-1,23	-7,5
Receipts from loan repayment	14,07	0,4	10,00	0,3	4,07	40,7	10,58	0,3	3,49	32,9
Donation	3,62	0,1	2,00	0,1	1,62	81,0	3,10	0,1	0,52	16,7
Expenditure	156,23	4,6	137,25	4,0	18,98	13,8	148,36	4,5	7,87	5,3
Current budget expenditure	106,89	3,2	102,25	3,0	4,64	4,5	101,19	3,0	5,70	5,6
Current budget expenditure, whereof:	64,22	1,9	63,27	1,9	0,96	1,5	63,22	1,9	1,00	1,6
Gross salaries	36,79	1,1	36,04	1,1	0,75	2,1	36,04	1,1	0,75	2,1
Other personal income	2,31	0,1	2,48	0,1	-0,18	-7,1	2,48	0,1	-0,18	-7,2
Expenditure for material	6,21	0,2	15,00	0,4	-8,79	-58,6	6,05	0,2	0,16	2,6
Expenditure for services	8,18	0,2		0,0	8,18		8,95	0,3	-0,77	-8,6
Interest	3,39	0,1	3,35	0,1	0,04	1,1	3,35	0,1	0,04	1,1
Subvention	0,42	0,0	0,76	0,0	-0,34	-45,0	0,76	0,0	-0,34	-45,0
Other expenditure	2,53	0,1	1,21	0,0	1,32	108,4	1,30	0,0	1,23	94,4
Transfers for social protection	0,25	0,0	0,58	0,0	-0,33	-57,0	0,44	0,0	-0,18	-42,4
Transfer to institutions, individuals, non-government and public sector	35,45	1,0	32,34	1,0	3,11	9,6	32,44	1,0	3,01	9,3
Capital budget	49,34	1,5	35,00	1,0	14,34	41,0	47,17	1,4	2,17	4,6
Borrowings and loans	1,28	0,0	2,21	0,1	-0,93	-42,1	1,38	0,0	-0,10	-7,3
Reserves	2,46	0,1	3,85	0,1	-1,39	-36,1	1,82	0,1	0,65	35,7
Guarantee repayment	3,22	0,1	0,00	0,0	3,22		1,90	0,1	1,32	69,6
Surplus/ deficit	56,43	1,7	28,86	0,9	27,57	95,6	55,30	1,7	1,13	2,0
Primary balance	59,82	1,8	32,20	0,9	27,61	85,7	58,65	1,8	1,17	2,0
Repayment of debt	55,43	1,6	49,00	1,4	6,43	13,1	65,01	2,0	-9,58	-14,7
Debt repayment to residents	12,12	0,4	4,50	0,1	7,62	169,4	10,40	0,3	1,73	16,6
Debt repayment to non-residents	2,74	0,1	4,50	0,1	-1,76	-39,0	1,92	0,1	0,83	43,3
Repayment of obligations from previous years	40,56	1,2	40,00	1,2	0,56	1,4	52,69	1,6	-12,13	-23,0
Financing needs	1,00	0,0	-20,14	-0,6	21,14	-105,0	-9,70	-0,3	10,70	-110,3
Financing	-1,00	0,0	20,14	0,6	-21,14	-105,0	9,70	0,3	-10,70	-110,3
Borrowings and loans from domestic sources	5,16	0,2	6,00	0,2	-0,84	-13,9	5,94	0,2	-0,78	-13,1
Borrowings and loans from international sources	4,58	0,1		0,0	4,58		2,91	0,1	1,67	57,2
Revenues from selling assets	7,85	0,2	2,00	0,1	5,85	292,7	14,83	0,4	-6,98	-47,1
Increase/ decrease of deposit	-18,60	-0,5	12,14	0,4	-30,74	-253,2	-13,99	-0,4	-4,61	33,0
Transfers from central budget	2,71	0,1	0,00	0,0	2,71		4,71	0,1	-1,99	-42,4

Source: Ministry of Finance of Montenegro

Vesna Obradović
 Independent advisor, Directorate for Economic Policy and Development
Ranko Stevović
 Independent advisor, Directorate for Economic Policy and Development
Miloš Popović
 Advisor, Directorate for Economic Policy and Development
Snežana Mugoša
 Head of Directorate for Budgets



Vesna Lučić

The goals of the financial perspective 2014 - 2020



Montenegro began its close cooperation with the European Union by obtaining financial assistance in the period from 1998 until 2006 in the amount of 277.2 million euros, through the EU's assistance for reconstruction, development and stabilization of the Balkan countries (Community Assistance for Reconstruction, Development and Stability in the Balkans - CARDS). In 2007, this program was replaced by the Instrument for Pre-Accession Assistance (IPA), which enables Montenegro access to all five IPA components¹. The implementation of the IPA regulations for the period 2007 - 2013 (through which Montenegro has received 235 million euros) is still in progress, although IPA II Regulation came into force on March 16th 2014, which is applied retroactively from January 1st 2014, and through which the funds will be allocated in the amount of 270.5 million euros.

¹ - Component I - Transition assistance and institution building
 Component II - Cross-border cooperation
 Component III - Regional development
 Component IV - Human resources development
 Component V - Rural development

Allocation of IPA funds for Montenegro for the period 2014 - 2020 (in millions of euros)

	2014	2015	2016	2017	2018-2020	Total/mil €
Democracy and rule of law	18.8	15.8	12.8	13.3	38.5	99.2
Democracy and management	29.1				17.8	46.9
Rule of law and fundamental rights	31.6				20.7	52.3
Competitiveness and Economic Growth	20.7	19.8	24.7	26.3	85.0	171.3
Environment and Climate Action	18.8				18.7	37.5
Transport	20.2				11.8	32.1
Competitiveness and Innovation	12.3				8.9	21.2
Education Employment and Social Policy	15.3				12.8	28.1
Agriculture and Rural Development	24.7				27.7	52.4
Total	39.5	35.6	37.5	39.6	118.5	270.5

The program period 2014-2020 of the Instrument for Pre-Accession Assistance (IPA II) contains many changes and sets certain priorities Montenegro's way towards accession in European Union (EU). The most significant change compared to the previous regulation (2007-2013) is the lack of components i.e. priorities are set which the state of Montenegro should fulfill in order to support the implementation of various reforms, in order to achieve the expected strengthening of the capacity of the beneficiary state.

Support areas that will be covered by the financial perspective 2014 - 2020 are the following:

- Reforms during the preparation for EU membership and the associated institutional and capacity building;
- Socio-economic and regional development;
- Employment, social policy, education, gender equality and human resources development;
- Agricultural and Rural Development;
- Regional and territorial cooperation;

Taking into account both - the needs of the state and the needs of the European Union, i.e. the overall process of accession, the Indicative Strategic Document has been adopted by Government of Montenegro, which was prepared in cooperation with the Ministry of Foreign Affairs and European Integration (as well as the relevant ministries) and the Delegation of the European Union to Montenegro. This document clearly refers to areas where it is necessary to align with the European acquis, in order to provide that Montenegro, as soon as possible, achieves the needed capacities to meet the necessary conditions for the membership, whereby all will be accomplished through the funding from the Instrument for Pre-Accession Assistance for the period 2014-2020 (IPA II).

The legislative framework, which represents the base of the new regulations, consists of set of documents which are crucial for its implementation. In the first place Regulation No. 231/2014, adopted by the European Parliament and the Council, which defines the rules and procedures to be applied in the implementation of the instrument for pre-accession assistance for the period 2014 - 2020, also, the document which defines the rules for the implementation of this Regulation - Implementation Regulation (IR) No. 447/2014, the document which defines the financial cooperation between the user and the European Commission under this regulation - the Framework Agreement, while the cooperation between the beneficiary country and the European Commission (within one year or more) is defined by the Financial Agreement.

The indicative strategic document, on one side, emphasizes the discrepancy that exists between the developed South and the impoverished North, while, on the other side, high unemployment rate is also highly ranked on the list of priorities, as well as gender inequality and women's participation in public life.

Further, in this document it is highlighted that the focus of Montenegro is set on fulfilling the Copenhagen criteria². When it comes to political criteria, changes must be made to strengthen the rule of law, fight against corruption and organized crime, as well as respect human rights and protect minorities, and especially of vulnerable minorities (such as migrants and asylum seekers). The focus of the economic criteria is the implementation of reforms in order to strengthen the competitiveness of the market, but also to remediate the consequences of the global economic and financial crisis. The harmonization of the legal framework with the EU acquis will be implemented, firstly, by strengthening administrative capacities through the process of public administrative reforms (Public administration reform-PAR), through better organization of the public sector on professional level.

The pre-accession financial assistance for the period 2014 - 2020 will rely on two pillars: democracy and the rule of law (reforms that should be implemented in law, as well as in the area of basic human rights) and competitiveness and economic growth (reforms in the economy, competitiveness and human resources development). Most of the reforms will be financed through the public procurement of technical assistance, twinning, service contracts, works, procurements of goods and grants.

Under the IPA financial perspective, progress should be achieved within the next eight priority sectors:

Within the areas of democracy and governance a major role has the public administration reform, which could be achieved through the professionalisation of civil servants, in order to increase their efficiency. The role of IPA II is to provide appropriate assistance in the preparation and implementation of the reform of financial management in various public sectors, both - in the preparation of the budget and in public procurement, accounting, reporting, financial control, customs, taxes, etc. Very important segment of this reform is to strengthen the interoperability of IT systems and its harmonization with European Union rules.

The rule of law and fundamental rights covers a wide area in which Montenegro will have great challenges. Specifically, these areas refer to the reform and improvement of judiciary, fighting corruption, as well as protection of human rights (which are the basis of Chapter 23 of accession negotiations with the European Union), as well as in the areas of police cooperation, fighting organized crime, migrations, asylum, visa policy, but also in terms of borders and the Schengen regime (Chapter 24). Financial assistance under the IPA II regulation will be reflected in the implementation of the Action Plan for the negotiation Chapter 23 and 24 as well as the Schengen Action Plan, which is yet to be adopted. In this area, IPA II will contribute by financing experts who will assist in strengthening the independence, accountability and professionalization of the judiciary, establishing of a unique system for recruiting judges and prosecutors, as well as an objective system of promotion based on merits and strengthening the role of the Judicial Council and the Prosecutors Council.

In addition, assistance will be focused on strengthening the coherence of the judiciary, reducing delays in the work of courts, strengthening their capacities, on one side, and fighting corruption (strengthening the role of the Agency for Prevention of Corruption), preventing conflicts of interest, as well as the establishment of a legal framework when it comes to financing parties and election campaigns, on the other side.

When it comes to fundamental rights, IPA II will provide support to Montenegro in the adoption of an adequate legal framework, in compliance with the European Charter of Fundamental Rights, to improve anti-discriminatory policies through the adoption of Law on Ombudsman, as well as in response to the large influx of immigrants, through their care and social integration.

Montenegro is at an early stage of harmonization of acquis in the field of environmental protection and climate action. Water supply and wastewater management is certainly the sector with the biggest challenges. The main results targeted by the IPA II are the development of administrative capacities, harmonizing the legal framework in the field of waste water, preparation of management plans of the river basin, creation of conditions for efficient and effective water management systems, but also the promotion of energy efficiency and use of renewable energy sources.

The area that requires additional investments due to limits that are a consequence of natural topography of Montenegro, certainly is the area of transport, especially when it comes to rail and road infrastructure, with the aim to improve cross-border

2 - The Copenhagen criteria are criteria which the candidate country has to fulfill in order to become a member state. Among them: political criteria (institution stability, which guarantee democracy, rule of law, human rights and protection of minorities), economic criteria (functional markets and capacities to cope with the competition and market forces), as well as administrative and institutional capacities for efficient implementation of acquis and the capability to take over the obligations of membership.

3 - Chapter 23 - Judiciary and fundamental rights

4 - Chapter 24 - Justice, freedom and security

transport and enable Montenegro a better economic integration. IPA II aims to support the implementation of the so-called Single European Sky and the compliance and implementation of the acquis in the maritime and in the area of inland waterway transport. The main priority is the construction of the corridor Bar-Belgrade and the development of the potentials for road-sea transport.

Strengthening the competitiveness and innovation will be achieved through the creation of a favorable business environment and legal framework for the development and strengthening entrepreneurship, through alignment with the acquis in the field of finance, as well as through strengthening of administrative capacities for its implementation, especially when it comes to supervision of market capacity, consumer protection and intellectual property rights. This does not understand only the free movement of goods, services and capital, but the emphasis is also on mutual admissibility of professional qualifications and the application of the legal framework in relation to competition and state aid.

The first problem in education, employment and social policy is to improve conditions, but also increase employment opportunities for inactive individuals in the labor market. There are many problems in the Montenegrin education system and an important factor in this area is to improve the educational skills and teaching methods. Montenegro should continue to implement system reforms in the field of social welfare, child care, but also reforms in the health system.

In the financial perspective 2014 – 2020 IPA assistance will be focused on the reform of the labor market in order to provide a more flexible and dynamic system of employment. The efficiency of the integration of longer unemployed people, unemployed young people and groups with disabilities, but also to the development of entrepreneurship, especially in underdeveloped areas of Montenegro will be emphasized.

What is, of course, considered as one of the most important starting points when it comes to economic development of Montenegro is agriculture and rural development. Reform in this area refer to Chapter 11, 12 i 135 of the negotiation chapters. The main goal of IPA II is to harmonize Montenegrin agricultural policy with the CAP (Common Agricultural Policy-CAP). The support for the harmonization with the EU acquis, assumes the establishment of structures which are necessary to implement of the CAP, as well as the harmonization and implementation of the acquis in the area of food safety, veterinary and phytosanitary policies, including institutional capacities in this area, represents the base of the IPA II financial perspective on the agriculture and rural development topic.

Regional priorities are set in multinational strategic document for IPA II and refer to four priorities: the horizontal support to sectoral policies and reforms, support to regional investments and territorial cooperation. In this regard, Montenegro continues to participate in various regional initiatives and organizations, with the aim to strengthen the regional cooperation. Montenegro is an active participant in five cross-border programs (with Albania, Bosnia and Herzegovina, Croatia, Serbia and Kosovo from 2011), two transnational programs (Mediterranean Program and South East Europe Program) and the IPA Adriatic Program, while in the period of IPA II financial perspective it is expected to participate in the programs of the CBC (Cross-border cooperation, CBC) with member states and IPA II users. Each program will focus on the priorities jointly selected by the participating countries in the cross-border program.

The objectives set out in the Indicative Strategic Document represent the base of the financial perspective 2014 - 2020 and rely on the implementation of fundamental reforms. These goals are an important segment of Montenegro's progress towards membership in the European Union, and a key role in achieving these goals are primarily, the political will, the existence of human resources and technical capacities of the administration, developed sectoral coordination, as well as providing the necessary co-financing.

Vesna Lucic
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)



Stoja Roćenović

Training internal auditors in the municipalities in the light of internal audit challenges

According to the IIA definition:

"The internal audit activity is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The internal audit activities in the public sector are performed by internal auditors, organized into separate internal audit organizational units.

Internal auditors, in performing internal audits, provide the organization's management:

- the assurance and
- consulting services.

Assurance services	Consulting services
<p>All business systems, processes, functions and activities of an organization are subject to the audit by an internal auditor, who evaluates the adequacy and effectiveness of internal controls regarding identified risks.</p> <p>Based on the documented control assessment the internal auditor provides assurance that:</p> <ul style="list-style-type: none"> risk management process is effective, a system of internal control is adequate and effective and the process of corporate governance is effective, on the basis of establishing and preserving values, setting goals, monitoring activities 	<p>Consulting and related services provided by internal auditors to the manager of an organization, in order to create added value through the improvement of risk management, control and governance processes (making recommendations, quick tips, support during the introduction of new systems and processes, providing training, etc.).</p> <p>Provided by internal auditors with specific skills in important areas. The nature and scope of consulting services must be defined by the Internal Audit Charter.</p>

In performing the audit of business systems and processes, internal auditors are expected to contribute to achieving added value in an organization, so that both management and employees may also contribute to achieving this goal.

For internal auditors to be able to respond to these challenges, they must possess relevant competencies, knowledge, skills and other abilities necessary to perform internal audit, acquired through theoretical and practical training and certification.

To develop and strengthen the internal audit capacities in municipalities, the Central Harmonization Unit at the Ministry of Finance, with the help of experts under the project "Strengthening the management of EU funds and general administrative capacity," in addition to the training of certified internal auditors in the public sector (CIPFA international certificates and national certificates), began with theoretical and practical training of internal auditors in municipalities, ministries and other authorities at the central level in 2014 and continued to do so in 2015.

In September 2014, the first workshop "Introduction to the pilot audit in municipalities" has been organized in Podgorica, intended for internal auditors from municipalities and the newly appointed internal auditors in ministries and other authorities. The aim of the workshop was to prepare internal auditors to conduct audits by the methodology prescribed in the Manual of Internal Audit of the Ministry of Finance.

In November and December 2014 pilot audits have been conducted in the capital Podgorica and Niksic municipality, while in February and March 2015 pilot audits have been organized in the municipalities of Bijelo Polje and Pljevlja. The pilot audit included internal auditors from other municipalities, who, together with the auditors of the pilot municipalities, composed the audit team for training. The audit team conducted the audit of a certain process, with the expert help of an expert on the project, coordinated by a CHU representative.

Review of conducted pilot audits in municipalities

Pilot audits in the capital Podgorica			
Audit	Municipality	Number of auditors	Audit Period
The audit of the process of payment of invoices	<ul style="list-style-type: none"> • Capital City • Cetinje • Danilovgrad 	2 2 1	17 November -10 December
Pilot audits in the municipality of Niksic			
Audit	Municipality	Number of auditors	Audit Period
The audit process of collection of revenue from annual fees for the use of commercial facilities that have access to the municipal road	<ul style="list-style-type: none"> • Niksic • Herceg Novi 	3 2	18 November -11 December
Pilot audits in Bijelo Polje			
Audit	Municipality	Number of auditors	Audit Period
Revision of the budget planning process	<ul style="list-style-type: none"> • Bijelo Polje • Rozaje 	3 4	10 February - 20 March 2015
Pilot audits in the municipality of Pljevlja			
Audit	Municipality	Number of auditors	Audit Period
The audit process of calculation and collection of taxes on real estate of legal entities	<ul style="list-style-type: none"> • Pljevlja • Berane 	3 6	10 February - 20 March 2015

The audits were carried out using the methodology of "system audit" through the following phases: planning the audit, recording the system, evaluation of the system, testing, formulating findings and conclusions and recommendations of the audit, the drafting of the report and action plan to implement the recommendations.

Pilot audit represents, on the one hand, a very effective way to practically train internal auditors, and on the other hand, contributes to increased understanding and trust among managers and employees in the work of the internal audit, thereby enhancing the value of an internal audit.

Therefore, the main purpose of pilot audits in municipalities is to train internal auditors and build trust among management and employees, which represents a significant step in the development of internal audit in municipalities. At the same time it provides managers a clear understanding of the consulting role of internal audit, which, through the assessment of the effectiveness of risk management, control and governance processes, can help municipalities achieve the set objectives.

In addition to practical training, theoretical training was also organized for newly appointed internal auditors, on the topic "System Audit", which was conducted from 3 - 5 February 2015 in Podgorica. The lecturers, besides the project experts and representatives of the Central Harmonization Unit, included internal auditors, who, during a three-day workshop, through their active participation and presentation of practical examples from the audits conducted, enabled participants gain some practical knowledge and a better understanding of the methodology of internal audit based on the system audit.

The goal of the three-day workshop was:

- to familiarize participants with the basic concepts and principles relevant to the operation of an internal audit,
- to familiarize participants with the key skills and techniques to be applied in carrying out the internal audit,
- for the participants to gain some practical experience in conducting audits according to the methodology based on an audit of the system and
- for the participants, during the three-day workshop on the basis of the foregoing, to gain more confidence in performing future audits.

The CHU, in accordance with the requirements of the Internal Audit Chief, in the municipalities of Berane and Rozaje planned to perform special pilot audits with internal auditors in these municipalities, during April and May 2015. The special trainings are planned as the largest number of internal auditors were deployed in 2014 and have not undergone practical training for the conduct of internal audits. Pilot audits will be conducted according to the methodology "system audit", with the help of the project expert and the CHU's coordination.

Previously mentioned trainings included all deployed internal auditors in the municipalities. However, although the Regulation on the establishment of internal audit in the public sector ("Official Gazette of Montenegro", No. 50/12) obliges 15 municipalities to establish special internal audit unit, most coastal municipalities have not yet established them. CHU planned to organize special pilot audits in September and October 2015, with the aim of providing practical training to internal auditors in the coastal municipalities, but if the said municipalities fail to establish the Internal Audit Office in the mentioned period and deploy a number of internal auditors, the planned training will not be implemented.

Overview of municipalities that are required and have not yet established Internal Audit Office or deployed internal auditors

Municipality that established Internal Audit Office, and failed not deploy internal auditors	Municipality that has not established Internal Audit Office or deployed internal auditors
Bar	Plav
Budva	Ulcinj
Kotor	
Tivat	

In order to develop and strengthen the capacity of internal audit in internal audit departments of ministries and other authorities at the central level, the following events have been planned:

- to organize a pilot audit for all internal auditors at the central level, who have not been covered by practical training in previous cycles in the period from 11 May - 5 June 2015,
- to conduct a pilot audit for internal auditors in ministries beneficiaries of EU funds in the second half of 2015, in order to organize practical training,
- to organize training of internal auditors at central and local level for the development of strategic and annual internal audit plans.

In March 2015, the third cycle of training and certification of 40 internal auditors in the public sector at central and local level has begun, according to the CIPFA Program (Chartered Institute of Public Finance and Accountancy), which will last for one year. This program also includes the newly appointed auditors, who have not yet acquired the certificate of certified internal auditor.

CONCLUSION

The role and importance of internal audit in municipalities and other public sector entities, is represented by the following activities:

- | |
|------------------------------------------------------------------------------------------------------|
| • Internal auditors are there to check your business systems, processes, functions and activities |
| • Internal auditors are there to check your controls of business processes and systems |
| • Internal auditors are there to check your risks |
| • Internal auditors are there to check your risk management process |
| • Internal auditors are there to help you establish a risk management process, |
| • Internal auditors are there to help you through the previous activities, to achieve defined goals. |

The importance of a competent internal auditor for the management and governing bodies stems from the above. In times of constant changes, the internal audit is essential for adequate and effective control, effective risk management process and efficient operations.

Stoja Rocenovic
Chief Directorate for Harmonization in the Internal Audit
Directorate for Central Harmonization



Marija Goranović

Activities of the Minister of finance - January 1st - March 31th 2015



21/01/2015 – World Bank commended the results of the fiscal consolidation, Goldstein: „the results of your work confirm that you are the most successful in the region“

Radoje Žugić, PhD, the Minister of Finance and his associates held a meeting with the World Bank delegation, led by Ellen Goldstein, director of World Bank for South East Europe. The visit of the World Bank delegation referred to the introduction of the new Head of Office for Bosnia and Herzegovina and

Montenegro, Mrs. Tatiane Proskuryakove. After congratulations to Mrs. Proskuryakove, Minister Žugić introduced the representatives of the World Bank to the basic macroeconomic and fiscal indicators and the plans in relation to further implementation of the fiscal policy, with the main objective to create preconditions for a more dynamic economic growth and increasing the competitiveness in the Montenegrin economy. Director Goldstein expressed her satisfaction in the cooperation with Montenegro and commended the activities of the Ministry of Finance from the previous period. “The results of your work confirm that you are the most successful in the region when it comes to fiscal consolidation. You have done excellent work in the part of rationalization of expenses and collection of revenue” said Goldstein and expressed the willingness of the institution she represents, to continue to provide project support in our country. Minister Žugić pointed to the basic plans of the Ministry of Finance for the future period, with detected areas, to which improvement, World Bank could significantly contribute. This is, above all, related to continue to provide budgetary support to the health sector and expert support of World Bank ex-

perts in the preparation of the analysis of financial situation of the local governments, aiming to find solutions that will contribute to the establishment of sustainable and stable finance at the municipality level. A discussion topic at the meeting was also the support of the World Bank in regard to providing funds for projects aiming to improve financial and debt management as well as for the improvement of the administrative, personnel and information capacities of the Montenegrin Tax Administration.



30/01/2015 – Continuation of the coordination with municipalities on debt topics

The Minister of Finance and the Minister of Interior of the Government of Montenegro, Mr. Radoje Žugić, PhD and Mr. Raško Konjević, held a meeting with the presidents of the local governments and the Union of municipalities, in order to define the next steps in order to recover the debts of the local governments which mainly refer to a high indebtedness level and outstanding obligations towards the state, banks and suppliers. The focus of discussion were also issues in regard to reprogram possibilities of the debt of local governments, and in this respect it was concluded that the Ministry of Finance in cooperation with the Union of municipalities, will define a period for which a reprogram contract can be concluded, as well as the dynamics of the reprogrammed and current obligations. Also, in the part referring to municipalities with limited possibilities of valorization of available resources in a short period, which mainly refers to assets, it was proposed to provide them with support in regard to prolongation of timeframe to settle the obligations. In this context, for the purpose of stimulation of the development of the most vulnerable municipalities, the Government entered into negotiations with commercial banks in order to enable these local government accesses to better financing conditions and thus ensure their normal operations. Radoje Žugić, PhD, Minister of Finance, once again underlined that, in accordance with the conclusions of the Government, the

accumulation of new debts, neither irrational and irresponsible spending of budgetary funds, will not be tolerated. Minister Raško Konjević pointed to the determined reorganization measures of the public sector in the part referring to increasing work efficiency and rationalization of business expenses, with special focus on the optimization of number of employees in the local governments and introducing a higher level of fairness in the payment system. Having in mind the joint interest to resolve the named problems, it was agreed to intensify the communication on these topics in future.



09/02/2015 – further incentives in the energy field

Mr. Radoje Žugić, PhD, Minister of Finance, met the Executive Director of the company TERNA Montenegro, Mr. Claudiom Marchioriem. The discussion at the meeting referred to the realization of actual projects of the company TERNA at the territory of Montenegro, with special focus on the most important development project in the energy field – construction of underwater cable between Italy and Montenegro. Minister Žugić pointed out that the realization of this project will have multiple positive effects on the local economy.

Mr. Marchiori introduced the Minister to the current activities which refer to the design and construction of the cable and pointed out that the realization is conducted according to the planned dynamics. Mr. Marchiori expressed his satisfaction in regard to the announced changes of legislation planned for the fourth quarter of the current year, related to VAT taxation of transmission of electricity towards the Headquarter of the recipient of the services, connected to the harmonization of the national legislative to the EU standards. Reminding on the great importance of the successful realization of the initiated investments it was agreed that the communication on these topics should be intensified in future.



26/02/2015 - the realization of the project Plavi horizonti is certain

Mr. Radoje Žugić, PhD, Minister of Finance and his associates met with the Executive Director of the company Qatari Diar, Mr. Gregom Bankhurstom. The meeting was an opportunity to reaffirm the intentions of Qatari Diara to start the construction activities for the luxury tourism complex in Montenegro, in shortest period, at the location Plavi horizonti. Having in mind that the property and legal issues largely have been resolved, and that the barriers to start the project have been removed, the Minister Žugić noted that the remaining open questions can not and will not jeopardize the certainty of success of the investment. Mr. Bankhurst especially thanked the team of the Ministry of Finance for recognizing the importance of this capital project, as well as for the timeliness and efforts, which enabled smooth continuation of cooperation in this segment. Director Bankhurst explained to the Minister that the preparation works are already ongoing as well as that in the future period a higher dynamics of the planned activities is expected. It was jointly stated that this is one of the biggest investment projects, which will rank Montenegro as one of the most attractive world destinations, and whose realization will have multiple benefits for the Montenegrin economy, mainly referring to the growth of competitiveness, decreased unemployment and generating economic growth.



17/03/2015 – Continuation of cooperation with World Bank in the field of Tax Administration reform

Mr. Radoje Žugić, PhD, Minister of Finance met the World Bank delegation led by Senior Public Sector Specialist Mrs. Shipa Pradhan. The discussion topic was the continuation in the field of strengthening capacities of the Tax Administration, mainly in the field referring to strengthening personnel capacities, improving work conditions and development of a more efficient informatics base. Stressing out the importance of this project, which in long term should contribute to a more efficient collection of tax obligations, Minister Žugić expressed his expectations that the Ministry of Finance, together with the World Bank, in the upcoming period, will create a support model which will be flexible, efficient and comprehensive. Mrs. Pradhan expressed the openness of the financial institution which she represents, for the prolongation of support in realization of joint set goals referring to successful implementation of projects of public interest.



20/03/2015 – Presentation of Radoje Žugić, PhD, Minister of Finance, at the round table, on the topic “local governments citizen-friendly”

„...local governments and their operations represent an important segment of the overall financial system, therefore, the condition, but also the trends of the public finance in the local governments, significantly impacts also on the overall fiscal sustainability, the financial and macroeconomic stability, and above all, on the economy of our country, growth dynamics and level of development. In Montenegro there are seven municipalities which operate under the same conditions compared to others and which are financially completely stable (Tivat, Plužine, Podgorica, Andrijevica, Kotor, Rožaje and Mojkovac), whereby the other municipalities are drowning in debt, what is assign for unrealistic planning and non-objective consumption. Having in mind the aforesaid, the Government approaches this issue very sensitive and

frequently. In the latest activities between the Government of Montenegro, the representatives of the municipalities and the Union of the municipalities, a reprogram model was defined for the municipalities with indebtedness as well as a timeframe for debt repayment, defined upon proposal of the municipalities in order to ensure sustainability. At the same time the Government adopted a decision that the municipalities are obliged to prepare their own recovery plan, and beside debts, deal also with the redundancy. The latest measure in the recovery of the municipalities will be the Law on salaries in public sector, which will contain elements of fairness and objectivity, and which will define the salaries in the future period in relation to the development of the fiscal and macroeconomic parameters. The Ministry of Finance together with the British Embassy and UNPD, initiated a project “local government citizen-friendly”, where three municipalities in Montenegro were selected – Budva, Danilovgrad and Žabljak – where the citizens, the academia, the non-government sector and all other interested parties, can act, suggest and propose measures, when identifying problems in exercising their rights. Our goal is to reduce business barriers in local governments and hereby to help the citizens and the economy. And finally, to mention also another measure which is intensively prepared these days. We will propose, that having in mind the indebtedness of the local governments, not only towards the state but also towards suppliers and commercial banks, and having in mind that the loans are repaid by applying high interest rates (from 9 to 14%), the municipalities, beneficiaries of equalization, may transfer their right to the Investment-development fund, which would provide guarantees to the banks on one side, or eventually provide new funding sources with significantly lower interest rates and other, better conditions in regard to repayment duration. I am of the opinion, that also in this regard, we will make a step forward to a more relaxed situation of the previously activated debts. I would like to emphasize that we will be fully partners with all the municipalities which express their willingness, efforts and wish to resolve the problems, but we will also be using the “imperative” form towards the municipalities which do not care about the warnings, having in mind that nobody has the right to endanger the financial stability of our country..“

23/03/2015 – Support to Montenegro on its way to Euro zone

Radoje Žugić, PhD, Minister of Finance had a meeting with the delegation of the European Central Bank, led by Mr. Benoa Kuri, Member of the Executive Boards of ECB. Pointing to the importance of approaching the values of the European

Union, Minister Žugić introduced the representatives of the European Central Bank to the basic macroeconomic and fiscal indicators and the plans in relation to the further implementation of the fiscal policy.



While noting the progress that Montenegro has already achieved in regard to positive developments, Minister Žugić emphasized the importance of implementing structural reforms, especially in the area of increased productivity as well as providing incentives for the development of priority areas. In the segment related to the integration of Montenegro in the euro zone, Minister Žugić emphasized the importance of closer cooperation with the European Central Bank, and pointed out that the membership of Montenegro in the euro zone would enable using not only fiscal but also monetary measures, which would finally contribute to a more efficient solution of the economic vulnerability. Recognizing the continued commitment of Montenegro towards the euro zone, Mr. Benoa Kuri commended to the efforts of the Government aiming to establish financial stability, and expressed the support of the institution he represents, in the further negotiation process.



25/03/2015 – Strengthening the dialogue with the Union of Employers

Radoje Žugić, PhD, Minister of Finance, met with Mrs. Svetlana Vuksanović, President of the Union of Employers in

Montenegro, and Mrs. Suzana Radulović, secretary general of UPCG. The meeting discussion related to models of improving the cooperation of these two institutions, primarily in the area of revised penal policy and measures which would contribute to a higher efficiency level of the overall market and which would enable unique approach when resolving all kinds of irregularities. In this context, in principle, the possibility of overcoming the problems which occur in the process of bankruptcy was discussed, with the possibility to collect the matured obligations with the assets of the debtor, in order to make the bankruptcy process more efficient and sustainable. Without neglecting those who regularly meet their obligations and operate in accordance with the law, herefore also a possibility was initiated to set up additional incentives or exemptions. It was agreed that in future the cooperation shall be concretely defined in several segments and the works on problem resolving should be intensified as well as in the prevention of potential obstacles for the sustainable development of the economy.



27/03/2015 – Continuation of cooperation with the World Bank in several segments

Radoje Žugić, PhD, Minister of Finance, held a meeting with the delegation of the World Bank, led by Mrs. Tatiana Proskuryakova, Head of Office for Bosnia and Herzegovina and Montenegro. Looking back on the successful previous cooperation, Minister Žugić introduced the representatives of the World Bank delegation with the work dynamics of the relevant Montenegrin Authorities in regard to initiated projects, which mainly refer to the improvement of the quality of work in the Tax Administration, strengthening the personnel capacities and improvement of the IT solutions for several departments, and he provided guidance in regard to areas of Montenegro which are in most need of the support for the mentioned institutions. Referring to the reform of the Tax Administration, the members of the delegation noted

that visible movements were achieved, and that the personnel capacities are continuously strengthened, but also that further investments are needed in the current resources, through education, know-how transfer and study visits, which will also be the focus of the support of the World Bank in the upcoming period. In terms of future type of cooperation, Minister Žugić, once more introduced the debt problem of the municipalities, and noted the needs of expert help of the World Bank experts in the process of preparation of the analysis on financial condition and sustainability of the local governments, whose successful realization could for sure contribute to the establishment of a normal financial situation at the level of municipalities. Recognizing the fact that Montenegro has a strong development potential, the representatives of the delegation expressed their willingness to provide support to the Government of Montenegro, through clearly defined plan of development components, in those economic segments which will be recognized as priority.



27/03/2015 – Visit of Prince Nikola II Petrović – Njegoš

Radoje Žugić, PhD, Minister of Finance met the prince Nikola II Petrović and conveyed greetings of the institution he represents, especially highlighted the importance of preserving the values and tradition, which is the foundation of the dynasty Petrović. Prince Nikola expressed being grateful for the warm welcome and noted that the support of the Ministry of Finance so far, in all cooperation aspects, was very significant and productive. The discussion at the meeting referred also to further activities on the realization of obligations from the Law on status of descendants of the dynasty Petrović-Njegoš, and it was concluded that the need exists to intensify the activities in the future period.

Marija Goranovic
Department for Public Relations
and free access to information



Ružica Bajčeta

Law on Coffee Tax

The fundamental commitment of the Montenegrin tax system is to create a stable tax system with simple and clear legal rules and procedures, competitive tax rates, the smallest possible number of tax exemptions and deductions, automated processes, efficient and professional administration and greater discipline of taxpayers. Also, competitive and consistent tax policy aims at maintaining and improving the status of Montenegro as an attractive investment destination, which is a prerequisite to maintain existing and encourage the creation of new jobs, thereby expanding the tax base for new revenues.

Taxation of coffee is not new to our tax system. The provisions of the Law on Excise stipulated that the excise tax on coffee is paid at the rate of 20% on the value of the product determined by the customs regulations, plus the amount of customs duties and other import duties. In order to comply with EU regulations in the field of taxation, in late September 2013, the law was amended, and the same specified that the provisions of the law relating to the taxation of coffee, shall be applicable until 31 December 2014.

In order to stabilize the public finances, as well as ensure the continuity of income from coffee taxation, a special law on coffee tax was adopted ("Official Gazette of Montenegro", No. 8/15). The said law, following basic elements of the Stabilization and Association Agreement, as well as comparative practices in this field, defined the basic elements of taxation of coffee in the production, as well as imports.

A payer of coffee tax, pursuant to the said Law, is a natural or a legal person or an entrepreneur producing coffee in the tax warehouse (coffee manufacturer) as well as a person importing coffee on the territory of Montenegro. Also, the law stipulates the obligation of filing the application for registration into the Register of persons liable for payment of coffee tax, to the competent customs authority not later than ten days before the commencement of production, or import of coffee.

The obligation to calculate the tax liability under the said law, occurs at import, at the time of shipment of coffee from a tax warehouse (except shipping to the other manufacturers for further production, with the recipient's statement that coffee shall be used in the further production of coffee, shipment for export). Tax liability arises at the moment of determining the lack or loss of coffee (expense) in the tax warehouse, except expenditures for which the manufacturer demonstrates that can be attributed to unforeseen circumstances or force majeure, or that the expenditure is inextricably linked to the characteristics of the product generated during the production or storage of coffee.

In accordance with the provisions of that law it has been prescribed that the tax on coffee is paid on the following types of coffee: roasted and unroasted coffee, coffee husks and skins, extracts, essences and concentrates of coffee substitutes containing coffee, preparations based on extracts, essences and concentrates of coffee or coffee-based, as well



as drinks and soft drinks containing coffee, extracts, essences and concentrates of coffee. The law also prescribes the amount of tax for those types of coffee, which is paid per kilogram of net weight of coffee.

Tax period for calculation of tax on coffee is a calendar month, in which the taxpayer calculates the tax that is reported in the monthly report and submitted to the competent customs authority up to 15th day of the month for the previous month. Also, the tax calculated on the coffee becomes payable on the 15th day of each month for the previous month. When importing coffee, the tax is paid within the time limits prescribed by the customs regulations.

The law stipulates that the coffee production is considered processing, roasting, packaging, and other related activities that, for the purposes of the production of coffee, are made in a tax warehouse. The manufacturer of coffee under the said law, is obliged to submit to the competent customs authority the application for registration of tax warehouses.

Also, the coffee manufacturer is obliged to maintain and present in books the information necessary for proper and timely calculation and payment of taxes (data on acquisition and delivery of coffee, quantity produced, imported and sold coffee, the state of stocks, value, etc.), on the basis of which it develops a monthly report and submits it to the competent customs authority.

The control of calculation and payment of tax on coffee is done by the competent customs authority, in accordance with the cited law and the law governing the customs procedure. In this way, prerequisites are created for improving the system of taxation of products, which will ensure the effective control of the trade in coffee, which will greatly contribute to increasing revenues and at the same time combat the gray economy with the sale of this product, as well as create conditions for better fiscal discipline.

Pursuant to statutory authority, in order to prescribe the form and content of the return, the manner of registering of persons liable for payment of taxes on coffee into the register, the procedure for determining the amount and type of collateral to pay taxes on coffee, the form and content of the statement of the recipient on the reuse of coffee, the type and amount of expenditure to which taxes on coffee are not paid, the form and contents of the tax return on coffee, applications for the registration of persons liable for payment of taxes on coffee, as well as the form and content of monthly report for calculating the tax on coffee, the ministry adopted the Ordinance on the form and content of returns, statements and reports to be submitted in the process of the taxation of coffee and the type and amount of collateral ("Official Gazette of Montenegro", No. 13/15).

Ruzica Bajceta
Independent Advisor I
Directorate for Tax and Customs System



Kana Tomašević

Danube Transnational Program in the new financial perspective

INTRODUCTION: THE MISSION OF THE DANUBE TRANSNATIONAL PROGRAM

Danube Transnational Program, as a financial instrument, tends to promote the territorial, economic and social integration processes, and to contribute to cohesion, stability and competitiveness of the Danube Region through the development of transnational partnerships in areas of strategic importance. To achieve a higher degree of territorial integration of very heterogeneous Danube region, the Danube program will deal with the common challenges and needs in specific areas where it is expected that transnational cooperation will contribute to good results, through the development and practical implementation of policy framework, instruments and concrete pilot investments. The needs are linked to the question of how to improve the institutional framework for cooperation and quality of the policies, as well as the question of how to get good solutions through specific investments and pilot activities.

PROGRAM AREA

The Danube area includes a fifth of the EU territory, or about 100 million people, so the Danube program will include 14 countries (nine EU member states and 5 countries that are not part of the European family), namely: Austria, Bulgaria, Bosnia and Herzegovina, Montenegro, Croatia, Hungary, Moldova, Germany (Baden-Württemberg and Bavaria), Romania, Czech Republic, Slovakia, Slovenia, Serbia and Ukraine (part of the territory, namely the four provinces). The Danube program area covers 69 NUTS-2 regions, and the geography of the program fully coincides with the geography of the EU Strategy for the Danube Region. The matching of the territory and objectives provides great opportunities for cooperation.

The geographic area that includes the Danube transnational program can be seen at the map:

Danube Region



INTERREG B cooperation area 2014-2020

Source: European Commission,
as proposed on 18th December 2012
Geometrical basis: GFK MACON

THE STRUCTURE OF THE PROGRAM

In order to implement the Danube Transnational Program, it is necessary to establish an institutional framework or structure that will monitor the implementation of the same. These are the following structures, which are usually located in an EU member state, in charge of the program (in this case, Hungary), as follows:

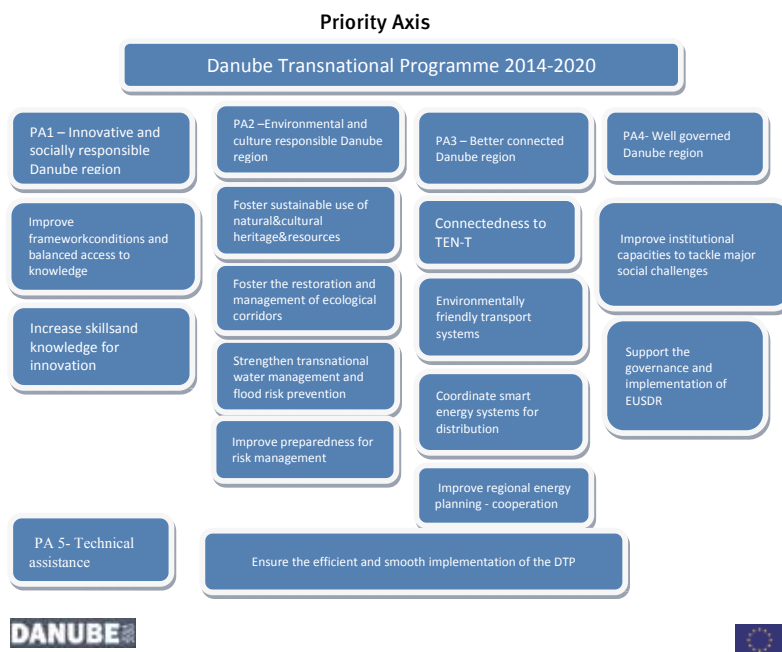
- Managing Authority (responsible for the implementation of the program - the National Office for Economic Planning)
- Joint Technical Secretariat (provides support to the Managing Authority in relation to the implementation of the program - the National Office for Economic Planning)

- Certification authority (responsible for reimbursement of funds used properly - Hungarian State Treasury) and
- Audit Authority (responsible for verifying the correct functioning of the management and control system within the program, and the legality and regularity of expenditure declared - Directorate General for Audit of European Funds).

Above these bodies, a Joint Committee to monitor the implementation of the program shall be formed, which consists of representatives of all participating countries of the program, while at national level, the controllers and so called "contact points" shall be appointed.

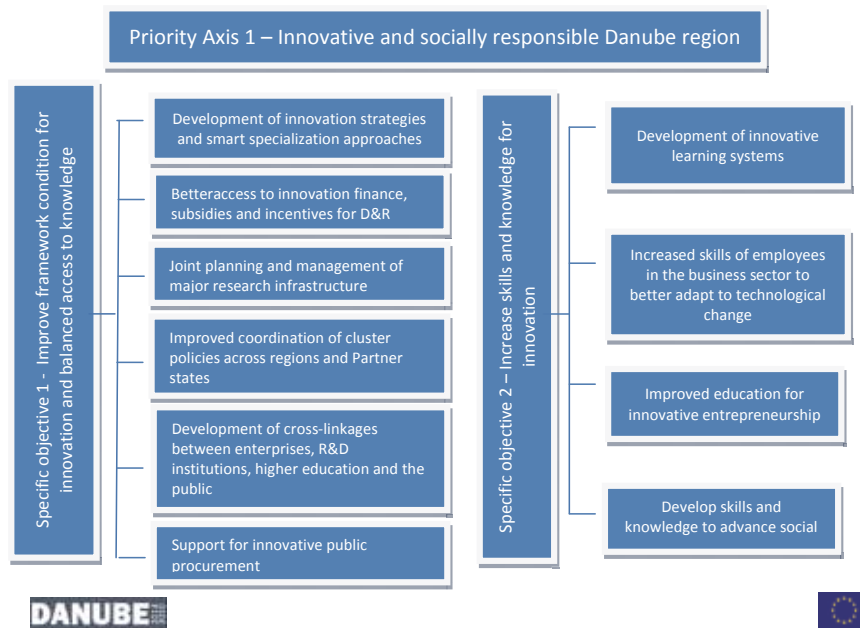
PRIORITIES AND SPECIFIC OBJECTIVES

The priorities of the Danube Transnational Programs are based on specific characteristics and needs of program areas, which are identified and agreed upon through a broad process of programming and consultation among stakeholders of the program and the wider community. Moreover, the programming has taken into account lessons learned from the previous period, the given financial framework and the existence of adequate implementation and administrative structures. The cooperation program is structured into five priority axes (including priority axis for Technical Cooperation), which will develop a coordinated policy and action in the areas, and contribute to strengthening the obligations under the Europe 2020 Strategy, in three dimensions: smart, sustainable and inclusive growth. Priorities and specific objectives of the Danube program are given in the following table:



1) Innovative and socially responsible Danube region:

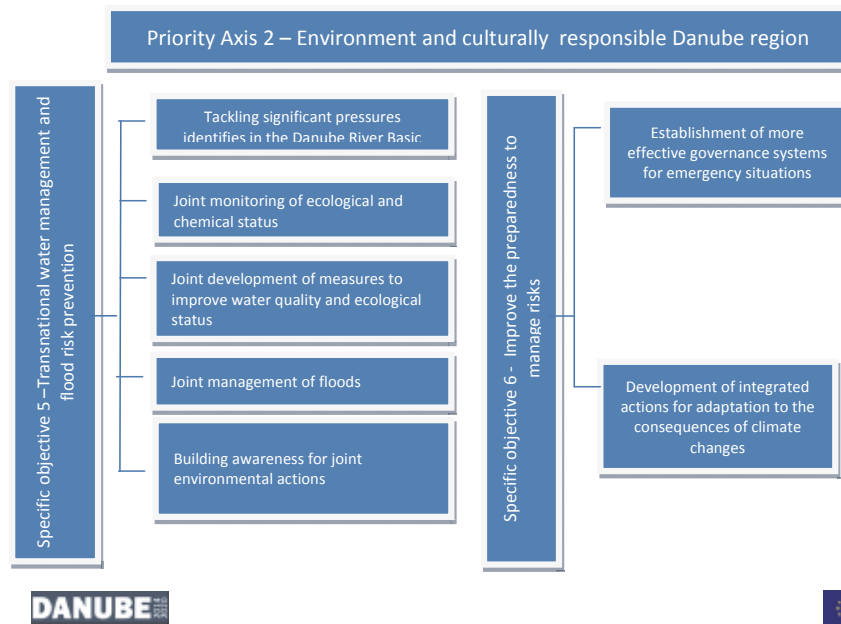
This priority area includes two specific objectives, namely: improving the framework conditions and a balanced approach to knowledge, and increase of skills and knowledge for innovation. The activities that will be implemented through this priority are: the implementation of common strategies and action plans to strengthen human resources and knowledge development, skill and competence development for innovative entrepreneurship in technological and non-technological sectors, creating new and improving existing transnational educational networks, as well as those relating to the provision of training and setting up of joint strategies for the management of demographic changes, migration and brain drain. The figure below details this priority area:



2) The environment and culture of the Danube region:

The priority area includes valuation of natural and cultural heritage, the establishment of ecological corridors and their management, water management at the transnational level and prevention of flood risk, and improvement of preparedness for risk management. Activities within the priority include: the development of new and support to the existing cultural routes that are relevant for the Danube region, ensuring sustainable cultural heritage and natural resources through the development of common clustering, networking museums and visitor centers, the development of "green" tourism products, support to risk management plans for cultural and natural heritage which is exposed to climate change, the development of specialized strategic structures in the development of tourism in the Danube area, support to regional approaches to strengthen regional ties and protection of natural resources and the revitalization of cultural assets, joint development of measures to improve water quality and ecological status, development of planning and pilot measures, in order to harmonize flood protection and rehabilitation of river systems. Priority area of environment and culture of the Danube region is given below:

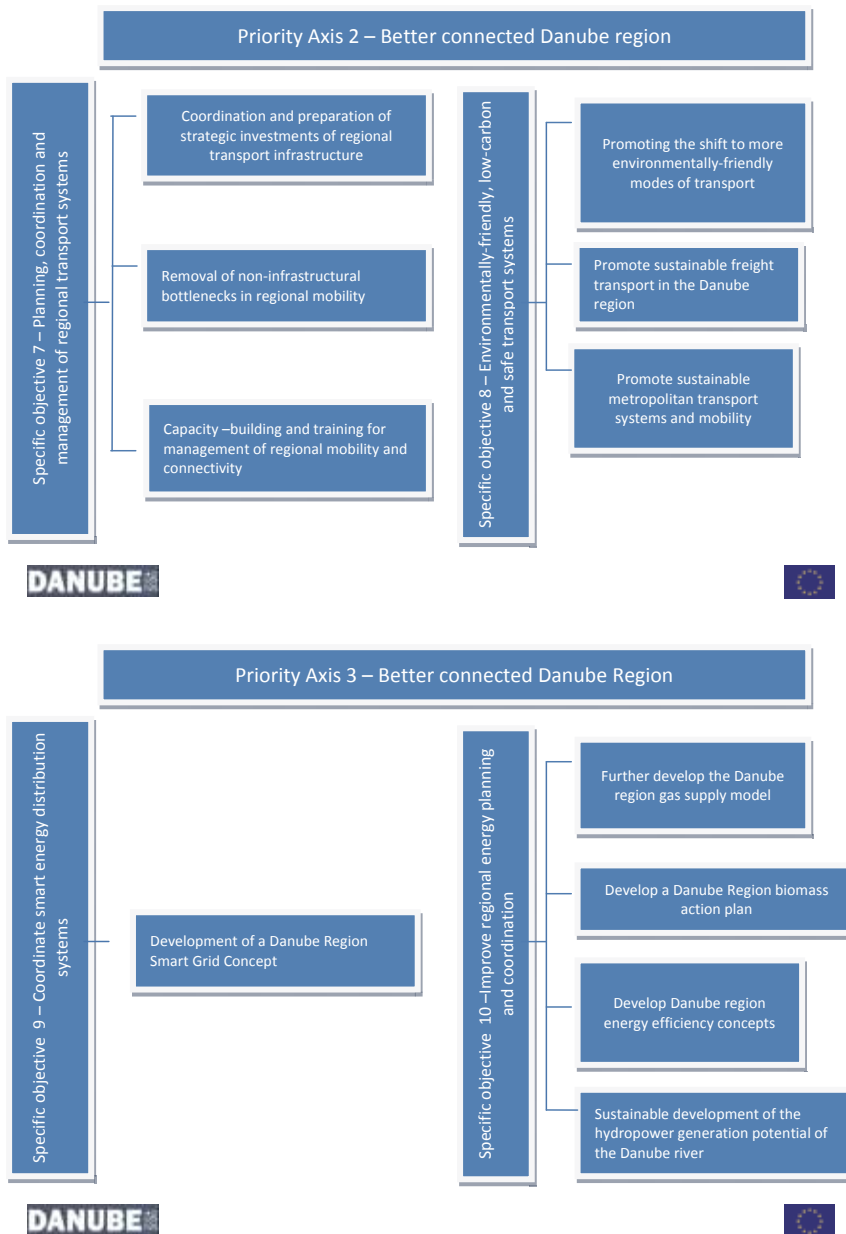




3) Better connected Danube region:

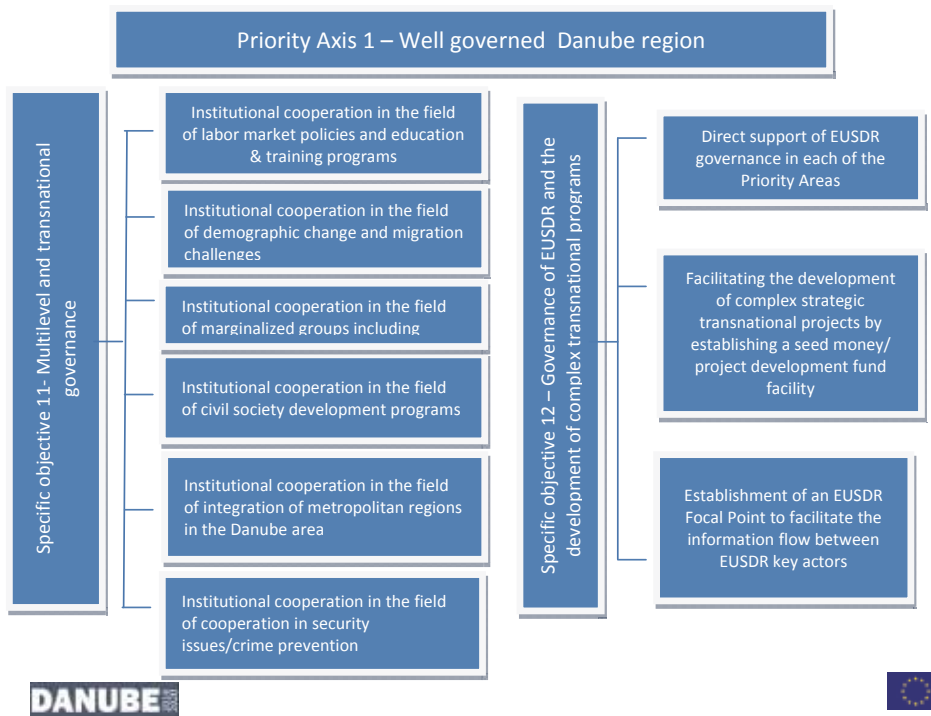
Specific objectives of this priority are better connections to the transport network, environmentally friendly transport systems, coordination of "smart" power distribution systems and coordination in improving the regional energy planning. Activities may be the following: the development of coordination strategy for the Danube Region at the transnational level in order to improve regional connectivity, integration of the public transport system, organization of public service by supporting the transport system in the functional areas, the exchange and transfer of know-how and good practices for the better organization of public transport, support to the development of effective multimodal terminals at ports, harmonization of technical, safety, organizational and other aspects of the different transport models and networks and support to the development of various energy networks concerning gas emissions and renewable energy sources. Below is an overview of the priority:





4) Better management in the Danube region:

This priority area includes the management at transnational and other levels, and management of the EU strategy for the Danube region. The activities that will be implemented are aimed at increasing the capacity of the region to develop complex transnational projects that contribute to the development of the strategy, but also the establishment of the so-called “Focal Point”, which will be responsible for providing information on the Strategy, as well as for the implementation of promotional activities. The figure below provides an overview of the priority area:



5) Technical Assistance:

Last, but not the least priority is the technical assistance, which is intended for the effective implementation of the program.

CONCLUSION

It remains to be seen how the implementation of the Danube Transnational Program will be going on, whereby success will depend on the realization of the targeted selection of the most relevant activities and further increase in the efficiency of administrative procedures and reduction of administrative burden for recipients of funds.

Kana Tomasevic,
first level controller for transnational programs,
Directorate of Finance and Contracting of EU funds



Gordana Radović

The improvement of Regulatory Framework of the Property Tax Administration system in Montenegro

Regulatory framework

Property taxation in Montenegro is regulated by the Property Tax Law ("Off. Gazette of the Republic of Montenegro", No. 65/01 and "Official Gazette of Montenegro", No. 75/10) and the regulations issued under this law.

The said law, which is applicable from 1 January 2003, revises the previous property tax system and regulates the basic elements of property taxation (the tax base, the taxpayer, the range of tax rates, deductions and exemptions, etc.). More detailed criteria and methodology for determining the market value of property are governed by the Regulation on detailed criteria and the methodology for determining the property market value ("Off. Gazette of Montenegro", No. 36/11).

The determination in the system of property taxation has been focused on securing the constitutionally defined autonomy of local governments and, in this context, authorizes local governments to determine the market value of property through their regulations and the tax rate on real estate, within legal constraints, and to identify, control and carry out the collection of property taxes and maintain a register of taxable property in the territory of their local community.

According to the established aim to provide a greater degree of fiscal decentralization and sustainability of local government finance systems, revenues from property taxes, as a whole, belong to the budgets of local governments and the same, according to local government units, make up a quarter of their current budgetary revenues, as shown in the table below.

Municipality	Revenues in 2014 (in €)	Revenues from property taxes (in €)	Share of property tax in gross current revenues of municipalities in 2014 (in %)
Andrijevica	355,871	50,541	14.20
Bar	12,120,407	4,355,616	35.94
Berane	1,697,125	195,483	11.52
Bijelo Polje	3,149,608	462,796	14.69
Budva	30,173,865	10,093,118	33.45
Danilovgrad	1,837,225	264,798	14.41
Herceg Novi	13,333,335	3,410,466	25.58
Kolašin	1,260,194	380,176	30.17
Kotor	12,352,235	3,048,737	24.68
Mojkovac	1,096,514	105,680	9.64
Nikšić	12,483,966	3,383,634	27.10
Plav	945,348	166,875	17.65
Plužine	2,152,657	1,361,863	63.26
Pljevlja	6,948,009	3,127,590	45.01
Podgorica	43,965,987	5,944,950	13.52
Rožaje	1,865,636	57,559	3.09
Tivat	10,418,092	2,548,212	24.46
Ulcinj	3,662,593	1,250,725	34.15
Cetinje	2,241,062	312,891	13.96
Žabljak	961,565	263,283	27.38
Šavnik	127,688	38,281	29.98
Total	163,148,982	40,823,272	25.02

Source: Local self-government

In 2011, property taxation system was promoted, primarily in terms of providing additional revenue to local governments, in a manner which expanded the tax base and increased the range of tax rates (from 0.10% to 1.00%), while units of local governments are allowed to prescribe a higher property tax rate than those established, for certain categories of property, namely: agricultural land that is not cultivated, secondary residential facility (apartment), building that was built contrary to the law, a catering facility located in the zone of priority tourist sites and building land which has not been used for the purpose stipulated by the planning document.

The property taxation system as of 1 January 2016

Given the financial problems and budget insolvency faced by local governments, as well as the need to improve fiscal policy in the context of entrepreneurship development, it was necessary to improve the existing solutions in this area.

To this end, in mid-February 2015, the Law on Amendments to the Property Tax Law ("Official Gazette of Montenegro", No. 9/15) has been adopted, whose application has been postponed until 1 January 2016, to create preconditions for its full implementation through the adoption of by-laws.

The changes are aimed at increasing revenue from property taxes, primarily in a way that the lower limit for taxation has been increased, the taxation base expanded, and on the other hand, penalties for violation of this law have been proposed for the first time.

The new legal solutions further elaborated the concept of property tax payer as the owner of property, especially in case when the owner of the land is the state, while the real owners of the land are entered only as users of the same. Bearing in mind that, according to earlier solutions, due to the recognition of the state as the owner of property which is otherwise exempt from the payment of this tax, the actual tax payers or users of real estate could not have been taxed, new solutions specify that the property tax payer is the user of property owned by the state, which, in the real estate cadastre is registered as the holder of rights of use, permanent use of immovable property or the right to use immovable property on the basis of a long-term lease. In this way, the tax base has been expanded, and therefore the possibility of increasing the volume of revenues of local governments from property taxes.

An important novelty is the creation of conditions for the formation of a comprehensive database, by introducing the obligation of notaries, courts and other state bodies to deliver to local governments on whose territory the property is located, the documents (contracts, decisions, etc.) on the grounds of which the property is acquired, or ownership transferred, as well as setting the deadline for the submission of the above documents, which will aim to in a timely, effective, and comprehensive way tax the property.

Under the new legal solution, a minimum tax on property increased from 0.10% to 0.25% of the property market value, which will result in the realization of large scale revenues from property tax, as one of the sources of stable funding of local governments.

Also, local governments are given the possibility to prescribe a higher property tax rate than those established, for certain categories of property, namely: agricultural land that is not cultivated, secondary residential facility (apartment), a facility that has been built contrary to the law, catering facility located in the zone of priority tourist sites and building land which has not been put to the purpose stipulated by the planning document.

Bearing in mind that there is a large number of property owners in Montenegro who have two or more housing units (secondary facilities), in order to provide additional revenue from this tax, and the use for housing of a large number of housing units that are not permanent or habitual residence

of the taxpayer, local governments are given the possibility to tax these categories of immovable property at a rate that increased by 150% compared to the rate that is determined by each unit of local government, which has so far increased by 100%.

In order to develop agricultural activities, primarily stimulate valorization of large agricultural complexes and put agricultural land in full operation, in terms of its exploitation for agricultural production, for the agricultural land that is not cultivated, and whose area exceeds 150,000 m², the law prescribed the statutory tax rate in the amount of 3% to 5% of the market value of real estate.

Next, in order to prevent the illegal construction of buildings, local governments are given the opportunity to, for certain categories of property, determine a higher or lower tax rate compared to the general tax rate - for the buildings that resolve the housing issue up to 50% and for those that do not solve the housing issue up to 100%.

Also, in order to eliminate business barriers and stimulate elite tourism, local governments are given the possibility to increase tax rate compared to the general tax rate for a hotel located in the zone of priority tourist sites, with 3^{***} and under 3^{***}, by 2% to 5.5% of the market value of the property, depending on the category of the hotel, and for the hotel that is in operation for 12 months in a year, the tax rate can be reduced compared to the general tax rate, as follows: for the restaurant category 4^{****} up to 30% and over 4^{****} up to 70%.

In order to stimulate valorization of land, the amended law provided that, for the land which has not been put to purpose in accordance with the plan, the tax rate may increase up to 150% in relation to the estimated tax rate, except for the building land intended for construction of industrial facilities and facilities intended for resale, for which, after the expiry of five years from the date of adoption of the planning document, a tax rate in the amount of 3% to 5% of the market value of real estate may be established.

The new law reduced exemptions for facilities that have been declared cultural monuments and buildings owned by religious organizations, in a way that it limited the possibility of their misuse. This is because it was often the case in practice that these buildings were used for residential purposes or other profitable activities.

In addition, special attention was paid to the taxation of buildings and special parts of buildings owned by investors, disclosed in business books as "construction in progress" or "inventories of finished products" that are intended for

resale, and which, due to the imprecision of the norms, were differently approached in their taxation by local governments. Therefore, new solutions specify that the property tax is not paid on structures and special parts of the structures owned by investors, which are stated in business books as "construction in progress" or "inventories of finished products", which are intended for further sale, for a period of three years from the year in which the building permit was issued. In this way, it provides for uniform taxation of property at the level of all municipalities, as well as the legal security of investors in terms of taxation of "construction in progress" or "inventories of finished products."

For an effective assessment and collection of taxes, the new legal provisions amended deadline for assessment and payment of tax liabilities. Specifically, it is envisaged that the property tax for the current year shall be determined by the decision of the competent organs of local government by 30 April of the current year, payable in two equal installments: the first by 30 June and the second by 31 October of the year for the tax for which it is determined. As a reminder, to the application of the new provisions, the tax liability is determined by 31 May, and is payable in two equal installments: the first by 30 June and the second by 30 November of the year for which the tax is determined.

To simplify the process and to unburden the tax authority and taxpayers, as well as to eliminate errors in determining the tax liability, the improvements of the regulation have been made in a way which further stipulates that taxpayers who keep accounts should by 31 March of the current calendar year, submit a tax return to determine the property tax for the year. Also, in order to eliminate ambiguities that have occurred in practice in certain municipalities in situations where the property is located in the territory of two or more municipalities, the taxpayer is obliged, in this case, to file a tax return to the relevant local authority in whose territories the property is located.

In order to ensure accuracy of data on immovable property necessary for the determination of tax liability, the deadline for the submission of these data to local governments by the government body responsible for the property has been changed to 31 January of the year for which the tax is determined. According to valid legislation, the deadline for data submission is by the end of November of the year preceding the year for which the tax is determined.

An important novelty is the prescription of sanctions for non-compliance and non-enforcement of legally established obligations, which will certainly contribute to greater tax discipline and combat the gray economy. In this regard, the fi-

nes for underreporting and non-payment of tax liability have been foreseen (for notaries, responsible person in a court or state authority, legal entities, entrepreneurs and individuals), as well as for the untimely reporting and failure to pay tax liabilities (ranging from 250 to 20,000 euros).

Conclusion

In view of the commitment that has caused the revision of the legal framework, which governs the property taxation system in Montenegro, it is expected that its application from 1 January 2016, will improve public finances at the local level. This assessment is based on the assumption that, through the powers given to local governments, the number of taxpayers will increase, the tax base expand and tax discipline in this area improve, through the timely settlement of tax liabilities.

Gordana Radovic,
Independent Advisor I
Directorate for Tax and Customs System

The role of the National Fund in the process of developing and updating the IPA procedures



Jasna Ilić Bošković

The introduction of decentralized system of management of EU assistance funds is of great importance for Montenegro, as the European Commission recognized the willingness of national institutions i.e. granted them accreditation for the IPA Component III - Regional Development and IPA Component IV - Human Resources Development.

After obtaining the accreditation, Montenegro was obligated to commence with the implementation of the provisions foreseen in the Framework Agreement, the Regulation on decentralized management system, an Implementation and Operational Agreements and the manual of procedures.

During the introduction of decentralized management, the National Fund, in accordance with its role in the system, actively worked on the preparation of a Manual of Procedures.

The preparation of this manual included several versions, of which, after obtaining accreditation from the European Commission, the version 4 was adopted and approved. Following the approval and adoption of the Manual of Procedures, the responsible authorities in each of the bodies enabled the beginning of its implementation.

When the NAO approves the Manual of Procedures, it becomes the basis for the implementation of all activities that will be implemented by bodies involved in the financial management and control of IPA funds. In order to create a coordination mechanism and effective communication and information sharing between the IPA bodies, all bodies have appointed coordinators in charge of all matters pertaining to the Manual of Procedures. The National Fund has a coordinating and key role in the process of changes approval, the approval of new versions of the manual, and the obligation of communication with the European Commission on all relevant developments in this field.

The Manual of Procedures can be updated in the event of certain changes in the system, of lesser or greater importance e.g. change in the name of an institution, changes in internal procedures, modifications of the national legal framework, changes in structures, changes arising in connection with the European Commission requirements, internal or external audits, etc. All proposals and requests for changes shall be submitted by coordinators

in the bodies to the coordinator of the National Fund, for further consideration and approval.

Manuals contain provisions, guidelines, interpretations, rules and definitions classified by chapters. The manual describes the manner of the implementation of the activities and performance of tasks in terms of satisfaction and achievement of demands delegated by the European Commission.

Before approving the Manual of Procedures, the NAO may request that the internal audit unit, which is part of the Ministry of Finance, carries out the assessment and compliance with the criteria and best practices.

The manual includes a description of the procedures and processes relating to all stages of the project cycle, starting from the programming, identification, appraisal, implementation, financing, and evaluation of projects / programs.

The Manual of Procedures is composed of two parts. The first part of the Manual of Procedures contains chapters relating to horizontal functions that are applicable to all bodies involved in the system. The second part of the Manual of Procedures contains specific chapters relating to the achievement of individual goals of bodies involved in decentralized management. This means that this part of the manual differs depending on the role of the body in the management of IPA funds.

The aim of this concept of the Manual of Procedures is to provide procedures that are relevant and acceptable for all bodies involved in the process, so that all bodies can in the most effective and efficient way make the effort and ensure that the national authorizing officer oversees operation of the system as a whole.

Montenegro is currently in the stage of preparing the package for submission of requests for entrusting the budget enforcement and when it receives accreditation for IPA II perspective i.e. accreditation for indirect management of EU assistance funds by the European Commission, the adoption and approval of manuals of procedures will begin for the bodies included in the IPA II perspective.

Jasna Ilic Boskovic
Independent advisor III



Jelena Janković

The importance of establishing and managing the risk register

Each activity in an organization entails certain risks, which could jeopardize the attainment of the objectives of the organization or organizational unit. The risks affect the work atmosphere, the operating results of companies, employees and managers. Given the diversity of activities, organizations are facing a large number of risks in the course of business, so there is no comprehensive list of all risks that may affect the achievement of business results. However, we can identify the following risk categories:

- all of which constitutes a threat to achieving its goals, programs and delivery of services;
- all that can undermine the reputation of an organization and public confidence in its work;
- insufficient protection against misconduct, abuse, malpractice, damages, non-compliance;
- unreliable reporting;
- failure to respond to or manage changed circumstances in a manner that will prevent or minimize the negative effects resulting from changes in the provision of public services.

According to the Law on internal financial control in the public sector ("Official Gazette of Montenegro" Nos.73/08, 20/11, 30/12, and 34/14), the risk is the possibility of occurrence of events that may adversely affect the achievement of the set goals of an organization. Risk is also considered missed opportunities in achieving the goals, an event that may affect the achievement of the objectives of an entity and the likelihood of adverse events.

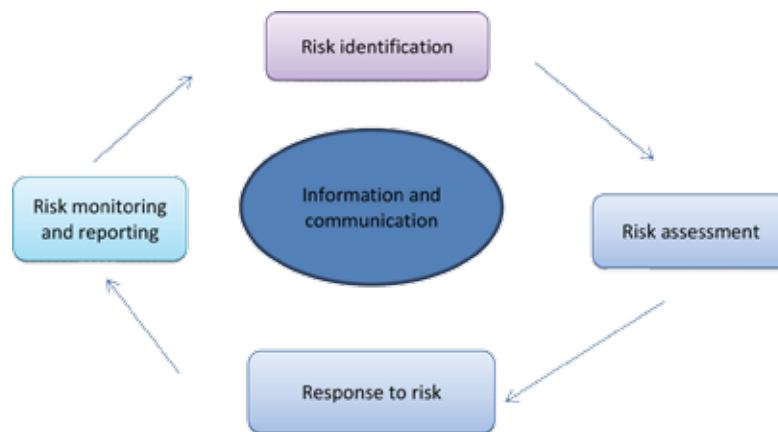
In order to reduce unwanted and negative impact, it is necessary to build an effective system of risk management. The main reasons for risk management in public finance are: the creation of better conditions in order to anticipate the possibility of adverse events that could prevent achievement of the objectives of organizations, organization of internal controls and the need to focus limited resources to key processes. Otherwise, failure to establish an effective risk management process can lead to spending additional funds for the elimination of consequences caused due to the risk.

As defined by law, risk management is the process of identification, assessment, monitoring and control of possible circumstances that may adversely affect the attainment of set objectives of an organization, as well as taking the necessary measures to reduce the risk and obtain reasonable assurance that objectives will be achieved.

Risk management is carried out to reduce the burden of uncertainty that could present a threat to the business performance of the public sector entities, and as one such tool, it helps management to anticipate the changed circumstances and respond to them in a timely manner. Each public sector entity must establish and develop a risk management process, and unlike other business processes, the risk management process may be unique for all subjects regardless of industry and size.

It is important to understand the significance of the overall risk management process, as well as systematic approach: to identify potential events that may threaten the achievement of the objectives of an organization, analyze and evaluate each identified event taking into account the probability of occurrence and impact on the achievement of objectives, preparation of measures which may affect the admissibility of risk and monitoring the success of implemented measures, as well as improving and introducing new ones.

Figure 1: Risk management activities



Risk identification is to identify potential events that may threaten the achievement of the objectives of an organization. It is therefore important to set clear objectives and define clear and unambiguous targets for effective risk management. On the basis of stated objectives, managers consider events that may jeopardize their achievement and take action to manage risks.

After identifying the risk, it is necessary to carry out risk analysis and assessment. Risk analysis and assessment are carried out in order to rank the risks, set priorities and provide information for decision making about those risks which should be focused on. The risk is analyzed and assessed taking into account: the likelihood of different events and the impact of risk events on the objectives. E.g. it is unlikely that a lot of damage will happen to the office building, but it would have a major impact on business continuity. In contrast, it is very likely that there will be the occasional drop of a computer system, but it usually does not have a large impact on business.

The third activity of risk management is responding to risk, which addresses all possible measures which may affect the admissibility of risk. The purpose of the response to the risk is to turn the uncertainty in favor of an organization. Any activity undertaken by the organization in terms of response to risk, represents "internal control".

As for reducing the risk, in most cases, managers respond to risks by taking measures and making decisions to reduce the likelihood of risk occurrence. The purpose of mitigation is the continued performance of activities in which the risk occurs, along with taking control (measure) to decrease risk to an acceptable level.

Types of control activities are:

- Directive - to promote activities and events necessary to achieve the objectives (legislation, plans)
- Preventive - to prevent the occurrence of inefficiencies, failures, errors or weaknesses. Not guaranteeing, but reducing the possibility of occurrence of errors (separation of duties)

- Detective - acting upon occurrence of events and serving to identify errors, omissions or irregularities, allowing to undertake additional activities (on-the-spot checks after the payments, verification of inventories and compliance with bank statements)
- Corrective - to correct errors that were determined (defining contractual conditions which enable the refund of amounts paid).

Examples of control activities include: separation of duties for approval, execution; double signature system; rules for access to resources and information; ex - ante and ex post financial control; procedures for the complete, accurate and timely recording of all transactions; procedures for human resources management, etc.

In order to establish an adequate system of risk management, the head of an organization should primarily appoint a person who will coordinate the establishment and implementation of risk management at the level of the entity, and the obligation to establish risk register at the level of the entire organization and risk register at the level of organizational units.

The risk register is an internal document containing key information about the risks of the entity and represents a particular form of assistance to management in risk management and in monitoring the proposed measures. The head of an organizational unit prepares risk register for his organizational unit and delivers it to a person in charge of the establishment and implementation of the risk management process, which checks completeness and prepares it for the delivery to the head of the entity.

At least once a year or more often if necessary, the risk register should be checked by heads of organizational units, the person responsible for the FMC and the person responsible for the establishment and implementation of the risk management process, in order to carry out checks whether the planned measures to mitigate the risks were taken and whether they provide the expected results.

The Risk Register

The aim of an organization/ organizational units _____

No	Description	Overview of existing controls	Risk assessment			Response to risk	Responsible person	Deadline for implementation
			Influence	Probability	Total			

It is vital to periodically inspect and update the risk register, taking into account the constant changes in the environment, changes in the objectives, and identify the emergence of new risks, while some may disappear or become less significant.

After the establishment of the risk register it is necessary to provide the process of monitoring, the controlling of risk register and reporting, in order to: determine whether certain risks still exist, whether new risks have appeared, whether the probability and impact of risk have changed, in order to ensure the reporting of material changes, and to ensure the effectiveness of controls.

Within the project "Strengthening the capacity of EU funds management and general administrative procedures", the CHU has begun the process of establishing coordination of risk management. Activities have commenced on the establishment of risk register in the capital, municipalities of Niksic, Pljevlja, Bijelo Polje, Berane, Mojkovac and Herceg Novi, through initiation of decision making process for the establishment of risk registers, appointment of a person in charge of coordinating the establishment and the maintenance of risk register and the organization of practical trainings.

Jelena Jankovic
Independent Advisor in the Directorate for Central Harmonization



Đorđije Žurić

The rules of procedure for the exemption from Payment of Tax and Customs Duties for the construction of Bar-Boljare highway

(“Official gazette of Montenegro”, no. 3/15...)

In order to realize the project of the construction of the highway, the Parliament of Montenegro, on 8 December 2014, adopted the Law on the highway Bar - Boljare.

The Law, among other things, arranged a special procedure of tax and customs obligations of contractors and other legal entities and individuals engaged by the project contractor. Provisions of the said law establish for the "exemptions" or privileges in the calculation and payment of certain public revenues (taxes and contributions), as well as customs duties on imports of materials, equipment and facilities intended for the construction of the highway.

Thus:

- 1) Article 16 stipulates that the value added tax is paid at the rate of 0 per cent on goods and services intended for the construction of the highway, if implemented by the contractor, or if the realization takes place on behalf of the contractor, for the construction of the highway.
- 2) Article 17 established that the tax on personal income in Montenegro shall not be paid by persons employed by contractors, who are not citizens of Montenegro or do not have permanent residence in Montenegro, and who realize income through work on the highway.

3) Article 18 established that a foreign national employed by the contractor, who is engaged in the construction of the highway, is exempted from payment of contributions for compulsory social insurance.

4) Article 19 found that for a legal entity established in Montenegro, whose founder and owner is the contractor, the tax calculated on profits earned from the construction of the highway for a period of six years from the start of construction shall be reduced by the amount of 100 percent.

5) Article 21 shall exempt from customs duty:

- construction material intended for highway construction;
- supplies intended for the construction of the facilities of the highway and highway construction;
- plants intended for use in highway facilities and highway construction.

6) Article 22 prohibits the disposal of the imported goods, equipment and facilities without prior notification of the customs authorities and payments of customs duties and value added tax.

On the basis of Art. 20 and 22 of the Law on the highway, and to regulate the procedure for exercising rights to exemption from value added tax, taxes on personal income, contributions for compulsory social insurance, tax on corporate profit and duties of the contractor who is hired for the construction of the highway, the Ministry of Finance adopted:

"The Rules of Procedure for the exemption from payment of tax and customs duties for the construction of Bar-Boljare highway"

VAT:

Except for turnover, at which, according to the Law on VAT, a tax is paid at the rate of 0 percent (Article 25 of the Law), the same law stipulates that products and services for the construction of the highway shall be taxed at the same rate, if implemented by the contractor, or the realization of which is at the contractor's account.

VAT on all other products and services rendered by the contractor, which are not related to the construction of the highway, shall be calculated and paid as provided for by the Law on VAT.

Determination of rate of 0 percent on products and services used for the construction of the highway, does not mean the exemption from VAT within the meaning of the Law on VAT.

Namely, the Law on VAT provides that the VAT shall be paid at all stages of trade, until products or services are "owned" by the end user, which VAT cannot be transferred to someone else.

In determining the rate of 0% to and from the contractor, the value added tax shall not be accounted for and paid at two stages of trade:

- from suppliers to the contractor; and
- from contractor to investor.

At the VAT returns, turnover is to be reported in the "taxable supplies at the rate of 0".

This provision did not violate the basic principle of the Law on VAT, in terms of the obligation to pay taxes, because end-user (user of the highway service) pays VAT, with the service provider (investor) having no tax credit, but the entire amount of tax shall be charged and paid on the value of that service.

The Rules stipulate that, for the purpose of recording purchases of goods and services for which VAT is paid at the rate of 0 percent, the contractor shall use control stamps, which, at the request of the contractor, shall be issued by the tax authority (Appendix 1). The form and content of control stamps is regulated by Articles 3 and 4 of the Rules.

Printing of stamps shall be performed by a legal entity authorized by the Ministry of Finance at the rag paper, measuring 100x50, with mandatory content of holographic protection.

The stamp contains: - serial number;

- name and TIN of the supplier;

- account number/ customs declaration;

- value of goods and services for which the VAT or duties are payable by rate of 0 percent.

For imports, in the "name of the supplier", the word import shall be entered, and in the column "TIN" number 0000001 always.

Annex 1

Example of a set of control stamps exploited in domestic sales:

Control stamp - Highway		Control stamp - Highway	
Serial Number 001		Serial number 001	
Name of supplier*	DOO "AP" Podgorica	Name of supplier*	DOO "AP" Podgorica
TIN**	00123478	TIN**	00123478
Number of account/ customs declaration	13/15	Number of account/ customs declaration	13/15
The value of goods and services for which	100.000.-	The value of goods and services for which	100.000.-
VAT and/or customs duties are paid at a rate of 0%.		VAT and/or customs duties are paid at a rate of 0%.	

* In the case of import enter the word "Import" without the name of foreign supplier

** In the case of import enter the code 0000001

The example of a set of control stamps utilized for imports:

Control stamp - Highway	Import	Control stamp - highway	Import
Serial number 002	00000001	Serial number 002	00000001
Name of supplier*		Name of supplier	
TIN**		TIN**	
Number of account/ customs declaration	CI 671/15	Number of account/customs declaration	CI 671/15
The value of goods and services for which	100.000.-	The value of goods and services for which	100.000.-
VAT and/or customs duties are paid at a rate of 0%.		VAT and/or customs duties are paid at a rate of 0%.	

The stamps are printed in the "set" of two copies, with the same serial number. When purchasing products and services, the contractor surrenders the supplier two copies of control stamps with the same serial number (set), and thus "guarantees" that the type, quantity, quality and value of received products and services correspond to the invoice and that the same will be used for highway construction.

The stamps are glued to the back of the invoice/bill, and the supplier of products and services retains a copy of the invoice for himself, and the other is delivered to the customer or contractor.

For imports of goods, the contractor delivers the customs authority two copies of control stamps (set) with the same serial number, one of which the customs authority fills and sticks to the back of the customs declaration, issued by the contractor, and another is filled and stick to the back of the customs declaration, which is retained by the customs authority.

The contractor, in accordance with Article 6 of the Rules, is obliged to keep records (book) of utilized control stamps, by vendor, import, serial number of control stamps and value of procurement (Annex 2).

The contractor is obliged to furnish these records to the tax authority by the 15th day of each month for the previous month. Tax authority shall keep a separate record of the number of issued, used, damaged, unused and destroyed control stamps.

For the investor to have access to procurement of goods and services carried out for the construction of the highway, the contractor is obliged to deliver to the tax authority copies of all invoices and customs declarations (with the control stamps) by the 15th day of each month for the previous month, which, no later than the 17th day of the month, shall be delivered to the investor.

Annex 2

MONTENEGRO
 The Ministry of Finance
 Tax Administration
 Regional unit _Branch office PODGORICA__

RECORD OF CONTROL STAMPS USED FOR A MONTH OF

March 2015

1.	Taxable period:	03	month	year	2015	2.	03016480	Tax identification number TIN
3.	Name DOO „CRBC“							
	0108980210021							
	Authorized person	TIN			Phone			
	First and last name	Marko Marković						
	Address							

Or.No.	Name of supplier/Import*	TIN /Import**	The value of procure-ment	Serial number of control stamp
1.	DOO „AP“ Podgorica	00123478	100.000.-	001
2.	Uvoz	00000001	100.000.-	002
3.	Uvoz	00000001	500.000.-	003
4.	DOO „BPS“ Nikšić	00223344	80.000.-	004
Total			780.000.-	

* In case of import enter the word "Import" without the name of the foreign supplier

** In case of import enter the code 00000001

I declare under the penalty of perjury that the above information is correct

Filing Date 12/04/2015

Seal

Signature of authorized person

Income tax:

Persons who are not citizens of Montenegro or do not have permanent residence in Montenegro, and generate income from the construction of the highway (personal income) are not liable to pay personal income tax or contributions for compulsory social insurance.

Given that personal income is only one of the sources of taxable income, it means that the contractor is a taxpayer based on other sources, such as:

- property and property rights;
- capital;
- capital gain, etc., all in accordance with the provisions of the Law on Personal Income.

In order to exercise benefits under Articles 17 and 18 of the cited law, the investor, pursuant to Article 7 of the Rules, shall, for all employees engaged in the construction of the highway, who are not citizens of Montenegro, submit to the tax authority:

- Certified copy of the travel document;
- Labor agreement (original or certified copy of the original), establishing a labor relation with an employer headquartered in Montenegro, or the Montenegro placement agreement (original or copy of the original);
- Authorization, or a decision on granting temporary stay in Montenegro (original or certified copy of the original).

Exemption from the calculation and payment of taxes and contributions for compulsory social insurance, does not entail an exemption from keeping and submitting records on the calculated earnings for entities listed (form IOPPD).

The contractor, pursuant to Article 7 of the Rules, shall be obliged, on the prescribed form (IOPPD), to enter data on paid earnings without calculating the tax on personal income and contributions for compulsory social insurance. Instead of the prescribed rate, the form shall contain the rate 0%, as set out in Articles 17 and 18 of the Law on the Highway.

Income tax:

The tax calculated on profits earned from the construction of the highway shall be reduced for legal entity registered in Montenegro, whose founder and owner is the contractor, for a period of six years from the start of the construction, by the amount of 100%.

All other possible liabilities (withholding tax), shall be calculated and paid in the manner prescribed by the Law on Corporate Income Tax.

By these, the contractor has not been released of bookkeeping, or the preparation and submission of financial statements for each financial year in the manner specified by Articles 3, 4 and 6 of the Law on Accounting and Auditing and Article 40 of the Law on Corporate Income Tax.

In case of business activities not related to the construction of the highway, the contractor, pursuant to Article 8 of the Rules, is required to maintain separate accounting records for such activities, for special presentation of the results of the business.

Custom duties:

To reduce the construction costs, and consequently to reduce the commitments of investors, the building materials, equipment and machinery imported for the project implementation shall all be exempted from customs duties.

The relief applies to goods, equipment and plants that are imported to Montenegro by the contractor engaged in the construction of the highway.

Djordjije Zuric
Assistant Director of Tax Administration



Žana Jovanović



Ines Backović

Trilateral CBC program Croatia - Bosnia and Herzegovina - Montenegro in the new financial perspective (2014-2020)

The new seven-year financial period in the European Union (EU), brought the Pre-Accession assistance to countries aspiring to become full members, in the form of IPA II (Instrument for Pre-accession Assistance 2014-2020).

IPA II provides financial support to a country in strengthening democracy and public administration, rule of law and fundamental rights, improvement of the environment, transport, competitiveness and innovation, and in strengthening education, employment and social policy, as well as the improvement of agriculture and rural development and regional and territorial cooperation.

In the new financial perspective 2014-2020, Montenegro will participate, i.e. implement projects in the three types of cross-border programs:

- Bilateral CBC programs, with the countries that are in the process of accession to the European Union (EU);
- Trilateral CBC programs, with an EU member state and a state that aspires to become one;
- Transnational programs of cross-border cooperation with EU member states and the countries that aspire to become so.

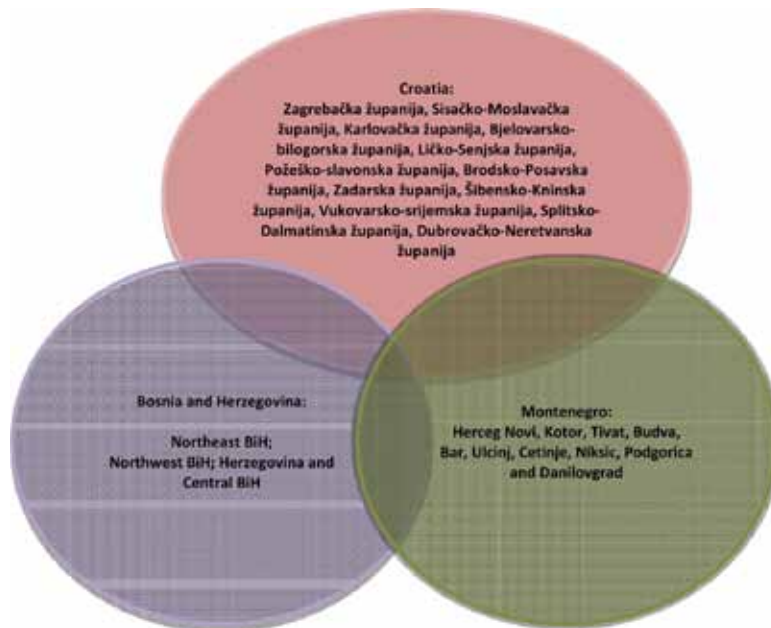
Montenegro will, in the period 2014-2020, participate in the trilateral CBC programs as follows:

- Italy - Albania - Montenegro;
- Croatia - Bosnia and Herzegovina - Montenegro.

Trilateral CBC program Croatia - Bosnia and Herzegovina – Montenegro

Trilateral CBC program Croatia - Bosnia and Herzegovina - Montenegro, covers cross-border areas between the Republic of Croatia and Bosnia and Herzegovina, Republic of Croatia and Montenegro, and Montenegro and Bosnia and Herzegovina. The program covers NUTS III or equivalent regions, and in Croatia it includes 12 counties, 110 municipalities in Bosnia and Herzegovina, and 10 (local governments) municipalities in Montenegro.

Figure 1: The territorial units of residents.



The total budget of the trilateral program is 67,241,549.00 euros. It should be noted that 10 per cent of the total budget of the program represents technical assistance for its implementation, which amounts to 6,724,154.90 euros for the seven-year period, in all three states participants in the program.

In order to prepare for a trilateral program, the working body composed of representatives at the national and regional level has been established in July 2013, with the aim to develop the Operational Program and define the territorial units, the system of implementation, as well as the objectives and priorities of the program. In this regard, consultation workshops have been repeatedly organized, online questionnaires published and public online consultations conducted, which resulted in the Operational Program for the trilateral program Croatia - Bosnia and Herzegovina - Montenegro, which included situational analysis, SWOT analysis, logistical framework, program strategy and its implementation provisions.

During the preparation of the OP, it was necessary to take into account the impact of the program on the environment, with particular emphasis on the following five basic elements:

1. The fundamental state of the environment (Environmental baseline);
2. Compliance of the program with other strategies (Consistency with relevant environmental protection objectives);
3. The assessment of the likely significant impacts of the program (Assessment of significant impacts);
4. Measures to mitigate potential negative impacts (Mitigation and enhancement measures);
5. Additional follow-up/monitoring (Environmental Monitoring System).

Programming documents defined 4 thematic priorities which will be financed.

Figure 2: Thematic priorities

1	Improving the quality of services in public health and social care sector
2	Protecting the environment and nature, improving risk prevention and promoting sustainable energy and energy efficiency
3	Contributing to the development of tourism and preserving cultural and natural heritage
4	Enhancing competitiveness and developing business environment in the program area

Priority 1 (Improving the quality of services in public health and social care sector) – has as a specific aim to improve services in the field of public health and social care in the border area. Financial allocation for the Priority 1 is 15% of the total EU contribution for the program, which is about 8.5 million euros.

Priority 2 (Protecting the environment and nature, improving risk prevention and promoting sustainable energy and energy efficiency) - program documents defined two specific goals:

- Promotion and protection of the environment, nature protection and system management to prevent risks;
- Promoting the use of renewable energy and energy efficiency.

Financial allocation for Priority 2 is 25 percent of the total EU contribution for the program, which is about 14.2 million euros.

Priority 3 (Contributing to the development of tourism and preserving cultural and natural heritage) - focused on two specific objectives, namely:

- Strengthening and diversification of the tourism through cross-border access - through the specific objective, a strategic project "Creating conditions for sustainable development in the hinterland and demographic reconstruction through the impetus for the development of rural tourism and related infrastructure" has been predicted also;
- Enable better management and sustainable use of cultural and natural heritage.

Financial allocation for Priority 3 is 30 percent of the total EU contribution for the program, which is about 17.1 million euros.

Priority 4 (Enhancing competitiveness and developing business environment in the program area) – has as a specific objective to strengthen the institutional infrastructure and services, in order to increase the competitiveness and develop business environment in the program area. Financial allocation for Priority 4 is 20 per cent of the total EU contribution for the program, which is about 11.4 million euros.

Bearing in mind the rules of the European Union for the implementation of cross-border cooperation programs, a Managing Authority will be established, which will be located in Croatia, and will be responsible for coordination, while all states in the program will have established a structure for the implementation of projects under the program. Bearing in mind the process of programming by states participants in the program and approval by the European Commission (EC), which precede the beginning of the implementation of the program, it can be expected that the "implementation" of the program will be officially launched this year, in terms of the publication of calls for proposals which will be funded through the said trilateral cross-border cooperation program.

The start of the implementation of the CBC program represents a step forward in the further development of good neighborly relations and cooperation with the neighboring countries.

**Zana Jovanovic, Independent Advisor II,
Ines Backovic, Independent Advisor III
Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)**



Pavle Kaluđerović



mr Snežana Mugoša

Realization of public spending at the Local level in 2014

Pursuant to the provisions of Article 74 of the Law on Local Government Finance, municipalities are obliged to submit quarterly reports to the Ministry of Finance on planned and generated revenues and planned expenditures and budget indebtedness, no later than 30 days from the end of the quarter. Based on the submitted reports, the Ministry of Finance is preparing a report on public spending at the local level for a certain period.

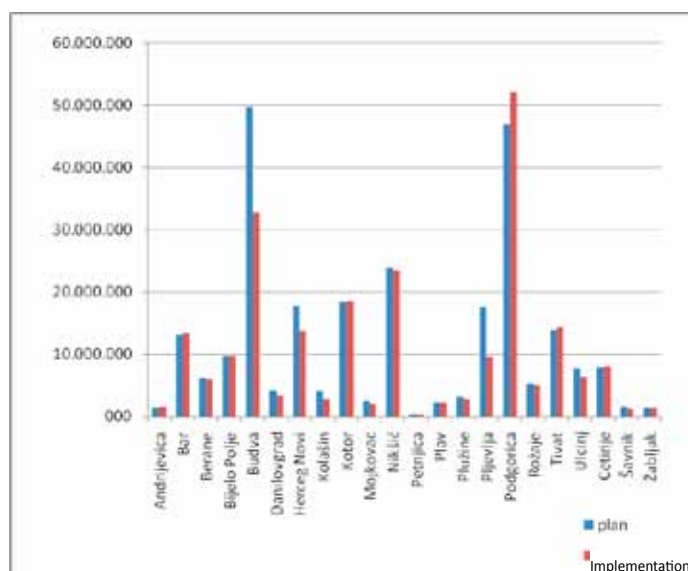


ACTUAL RECEIPTS OF LOCAL GOVERNMENT IN 2014

The following table provides an overview of planned and actual revenues of the budgets of municipalities for 2014:

Municipality	Receipts of local governments in 2014		
	Plan	Realization	% realization
Andrijevica	1.50	1.53	101.99
Bar	13.13	13.46	102.49
Berane	6.18	6.01	97.27
Bijelo Polje	9.79	9.67	98.82
Budva	49.73	32.72	65.79
Danilovgrad	4.22	3.37	79.68
Herceg Novi	17.71	13.71	77.42
Kolašin	4.08	2.78	68.17
Kotor	18.40	18.50	100.55
Mojkovac	2.44	2.03	83.32
Nikšić	23.99	23.44	97.71
Petnjica	0.27	0.23	85.73
Plav	2.20	2.17	98.78
Plužine	3.22	2.77	86.02
Pljevlja	17.70	9.62	54.34
Podgorica	46.93	52.07	110.96
Rožaje	5.22	5.06	96.89
Tivat	13.81	14.29	103.50
Ulcinj	7.74	6.38	82.46
Cetinje	7.90	8.02	101.49
Šavnik	1.61	1.24	76.59
Žabljak	1.45	1.43	99.04
TOTAL	259.20	230.49	88.92

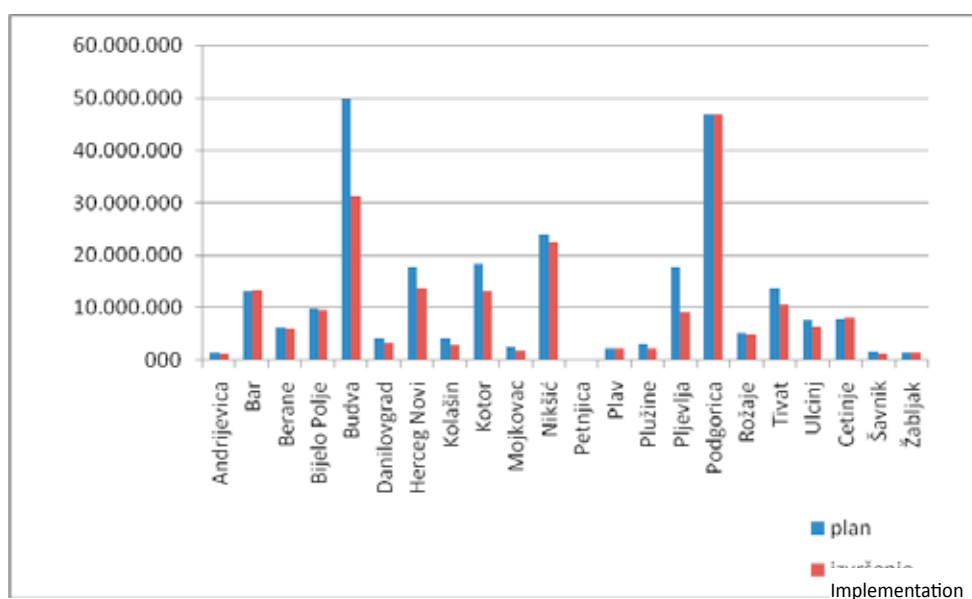
Total receipts of local governments for 2014 are planned in the amount of EUR 259.20 million, while the total implementation totaled EUR 230.49 million or 88.92% compared to the plan for that period.



THE IMPLEMENTATION OF LOCAL GOVERNMENT EXPENDITURE IN 2014

Total local government expenditures for 2014 are planned in the amount of EUR 259.20 million, while total implementation of municipal budgets for the period amounted to EUR 211.80 million, accounting for 81.71% of the implementation of the plan for the same period.

Municipality	Expenditures of the local governments in 2014		
	Plan	Realization	% realization
Andrijevica	1.50	118	78.63
Bar	13.13	13.37	101.82
Berane	6.18	5.99	97.02
Bijelo Polje	9.79	9.61	98.17
Budva	49.73	31.40	63.13
Danilovgrad	4.22	3.25	76.96
Herceg Novi	17.71	13.65	77.10
Kolašin	4.08	2.76	67.58
Kotor	18.40	13.05	70.93
Mojkovac	2.44	1.90	78.03
Nikšić	23.99	22.62	94.28
Petnjica	0.27	0.13	49.27
Plav	2.20	2.17	98.37
Plužine	3.22	2.15	66.80
Pljevlja	17.70	9.23	52.13
Podgorica	46.93	46.86	99.86
Rožaje	5.22	4.97	95.29
Tivat	13.81	10.57	76.56
Ulcinj	7.74	6.33	81.83
Cetinje	7.90	8.06	102.08
Šavnik	1.61	1.15	71.27
Žabljak	1.45	1.40	97.03
TOTAL	259.20	211.80	81.71



OUTSTANDING OBLIGATIONS OF LOCAL GOVERNMENT AS AT 31 DECEMBER 2014

According to data provided by municipalities, submitted to the Ministry of Finance, the total outstanding liabilities of the local self-governments as at 31 December 2014 amounted to EUR 119.19 million.

Municipality	Outstanding obligations as at 31 December 2014 (in mil. €)
Andrijevica	0,02
Bar	10,69
Berane	9,77
Bijelo Polje	10,92
Budva	33,14
Danilovgrad	2,81
Herceg Novi	1,65
Kolašin	4,35
Kotor	0,47
Mojkovac	0,47
Nikšić	15,26
Plav	2,83
Plužine	0,02
Pljevlja	6,75
Podgorica	0,00
Rožaje	0,00
Tivat	0,03
Ulcinj	9,18
Cetinje	10,19
Žabljak	0,20
Šavnik	0,43
Total	119,19

LOAN DEBT AS AT 31 DECEMBER 2014

The loan debt of local governments as at 31 December 2014 amounted to EUR166.94 million, or 4.92% of the estimated GDP for 2014.

The following table gives an overview of the amount of loans by local governments on 31 December 2014 in millions of euros:

Municipality	Total	Domestic debt	Foreign debt
Andrijevica	0.05	0.05	
Bar	4.12	0.09	4.03
Berane	3.53	2.77	0.76
Bijelo Polje	7.61	6.86	0.76
Budva	65.93	7.50	58.43
Cetinje	3.97	3.97	
Danilovgrad	1.42	0.74	0.68
Herceg Novi	8.61	0.77	7.84
Kolašin	3.78	3.36	0.42

Kotor	3.93	0.41	3.52
Mojkovac	0.29	0.29	
Nikšić	18.47	5.88	12.59
Petnjica			
Plav	0.89	0.89	
Plužine	0.48	0.48	
Pljevlja	7.31	5.81	1.50
Podgorica	26.13	0.59	25.53
Rožaje	1.60	0.54	1.06
Šavnik	0.24	0.24	
Tivat	4.16		4.16
Ulcinj	4.25	3.55	0.69
Žabljak	0.19	0.19	
TOTAL	166.94	44.98	121.97

Snežana Mugosa,
 Master Degree,
 Head of the Directorate for Monitoring the Budgets of Local self-governments, regulatory agencies and public enterprises and other implicit budget obligations (Directorate for the Budget),

Pavle Kaluđerovic,
 Independent Advisor I in the Directorate for the State Treasury



Ivana Maksimović

The priorities and measures planned for financing through IPA Component III

Regional Development Component (IPA Component III) aims to strengthen economic and social development, and to provide an alignment with the EU priorities in the field of transport and environmental protection.

One of the prerequisites for the use of these funds is the adoption of the Operational Program, a multi-year planning document, which shows the overall purpose of expenditure of the IPA funds through certain priorities.

Each beneficiary country of the IPA funds has economic and social specificities, which affects the definition of priority areas for funding through IPA Component III.

The work on the Regional Development Operational Program 2012-2013 began in March 2010, following a series of consultations at national and local level. The Government of Montenegro at its session held on 29 March 2012, adopted

the document, which provides for support in the realization of projects in the field of environmental protection and transport. Following this, the document has been submitted to the Commission for further proceedings in April 2012 and was adopted on 7 December 2012. The total value of the Operational Program amounts to € 26,159,624 and is divided into 85% IPA funds, 15% national co-financing, so that IPA funds amount to € 22,235,679, and the national co-financing € 3,923,945. The main objective of the Operational Program is to improve living standard and environmental conditions in Montenegro, in accordance with national policies and strategies, as well as EU policies and standards.

The priorities and measures defined by the Operational Program Regional Development (2012-2013)

Priority Axis I: Improving environmental management system (a total of € 15,983,583)

Within this priority axis the following projects will be implemented:

1. Improvement of water supply systems and construction of the systems for treatment of waste water and sewage network in Berane; and

2. Restoration of unsanitary landfills Cafe in Bar and Vrtijelka in Cetinje.

Estimated value of the project in Berane is 11.7 million euros, of which, in accordance with the financial analysis done in accordance with EC rules, IPA funds will amount to 7.45 million euros, national co-financing 1.3 million, with around 3 million euros loan from the European Investment Bank. The realization of the project in Bar, in accordance with existing project documentation, will require 3.6 million euros (3.0 million euros from the IPA funds, EUR 0.5 million from the national budget), while the realization of the project in Cetinje will take about 1.0 million euros (0.8 million euros from the IPA funds, and about 0.2 million national co-financing).

Priority Axis II: Improving the transport system, supporting environmentally friendly form of transport with particular emphasis on the improvement of the railway infrastructure in order to provide quality services (a total of € 8,868,114).

Within this priority axis the following projects will be implemented:

1. Rehabilitation of 12 major slopes on the main railway line Bar-Vrbnica (Kos-Trebesica-Lutovo-Bratonožici) and

2. Removing the existing and installation of new electric traction of substation Trebesica also on the railway Bar-Vrbnica.

Estimated value of the project rehabilitation of 12 slopes is 5.7 million euros (4.84 million from IPA funds and 0.86 million national co-financing), while, according to existing project documentation the project EVP Trebesica will require 3.6 million euros (3.0 million euros from the IPA funds, 0.6 million national co-financing).

Priority Axis III: Technical assistance to support the implementation of OPRR (total € 1,307,982) which is intended for the operating structure to support the management of the operational program and prepare for the future management of the Structural Funds.

The main role in the implementation of the program has an operational structure consisting of:

- The Ministry of Sustainable Development and Tourism, as the body responsible for the Operational Program (BROP)

and the body responsible for priority/measure (BRPM) in the field of environmental protection;

- The Ministry of Transport, as the body responsible for priority/measure (BRPM) in the field of transport;
- Public Works Directorate, Implementing Authority

After the adoption of the Operational Program and the signing of the Financing Agreement, which officially launched decentralized management of IPA component III, the core competencies of the structures are the monitoring of program implementation, the preparation of sectoral annual and final implementation reports, organizing tender procedures, ensuring that the National Fund and the National Authorizing Officer receive all necessary information, carrying out checks to determine that the expenditure has actually been incurred in accordance with applicable rules, the products are supplied and services are rendered in accordance with the appropriate procedures and the reporting of irregularities.

It is important to note that all activities related to the implementation of the Operational Program need to be completed by December 31, 2017, which, according to the provisions of the IPA regulation, is the deadline for the disbursement of funds from this financial allocation.

Ivana Maksimovic
Independent Adviser I
in the Directorate for State Treasury



Ivona Mihajlović

Info web of the Ministry of finance for the Period 1 January to 31 March 2015



01/29/2015 Statement by the Director General for Economic Policy and Development at the Ministry of Finance, Iva Vukovic, following a cabinet meeting, on the occasion of the adoption of the Autumn analysis of macroeconomic developments and structural reforms - 2014

"... Autumn analysis of macroeconomic developments and structural reforms provides for an analysis of the implemen-

tation of economic policy in 2014, as well as medium-term macroeconomic and fiscal projections for the period up to 2018. The previous year was characterized by moderate growth in economic activity, which resulted in a growth rate of 2 percent. The observed growth is the result of a number of important factors, principally the delay in investment projects for 2015, as well as adverse weather conditions recorded in July, which affected most sectors of tourism and agriculture, while negative electricity generation had an impact on lower growth rates of 1.2% per annum. In 2014, growth was achieved in the sector of tourism, trade, real estate and construction, with the evident good tax collection. According to preliminary data of the Ministry of Finance, the collection of budget revenues in 2014 was higher by 8.7% compared to the previous year. Also, according to preliminary data, the current account deficit amounted to about 1.1% of the estimated GDP, but given the expenditures for the repayment of liabilities from the previous period, in the amount of EUR 65 million, the budget deficit reached the amount of 2.9% of the estimated GDP. The macroeconomic growth scenario has been prepared for mid-term period, which envisages a

more dynamic rate of economic activity in the future, particularly in view of the implementation of the announced investment projects. The budget for 2015 prescribed budget deficit of 0.85% of GDP, excluding the costs of financing of preference route of the highway. In the future, the focus of fiscal policy will be a reduction in public debt levels, thus creating the conditions for construction of priority sections of the highway, and the strengthening of competitiveness and the implementation of structural reforms in all fields, in order to ensure dynamic economic growth and development. "



03/02/2015 - Workshop "Training internal auditors in municipalities" begun

The Ministry of Finance, in cooperation with the project "Strengthening the capacity of the EU funds management and general administrative procedures", organized a three-day workshop "Training internal auditors in municipalities." The aim of the training was to familiarize internal auditors with the role and internal audit working methodology, as well as the activities to be carried out during the audit. Lecturers at the training, in addition to employees of the CHU, were internal auditors at central and local level, whose experience will help the newly appointed internal auditors in carrying out practical audits.



05/02/2015 - The beginning of the project "Government for citizens and businesses"

The CDT Infocentre held a press conference to mark the opening of the "Government for citizens and businesses" project, which is administered by the Ministry of Finance, the Office of the United Nations Development Programme (UNDP), with

the support of Active Citizenship Fund, CDT and SEECOM. The project involves the launch of a broad dialogue with the aim of identifying, eliminating over-regulation and unnecessarily complicated and long procedures of public administration at the local level, which hamper access to public services for citizens and cause unnecessary costs to enterprises. The main tool for the launch of this project is an online platform made by the CDT, with the financial support of fAKT, which allows the pilot municipalities, i.e. citizens and entrepreneurs from Budva, Zabljak and Danilovgrad to report the above problems via the portal prijavibarijeru.me, and thereby contribute to removing barriers. On behalf of the Ministry of Finance, Director General of the Directorate for Financial System and Business Environment Improvement at the Ministry of Finance, MSc. Bojana Boskovic, expressed satisfaction with the project and explained that local communities were selected for participation in this project, because regulations that they bring affect citizens and economy more than most regulations at the state level. Head of the Department for Democratic Governance, Sector of Economy and Environment at UNDP, Sanja Bojanic, reminded that this is a project that puts citizens in the focus and creates opportunities for constructive cooperation of all sectors of society, while the Director of the Fund for Active Citizenship (fAKT) Anica-Maja Boljevic appealed to the citizens to be active and contribute to solving the problems. In order to efficiently monitor the implemented activities, CDT will, on the basis of reports received, prepare a report for the Government Council for improvement of business environment, regulatory and structural reform, after which it will more clearly define concrete proposals to the institutions to overcome the barriers.

05/02/2015 - European Commission: Construction of the highway may be a major driver of economic growth

Montenegro in the previous year recorded a slight recovery of the economy, while progress was particularly observed in the last quarter of the year, according to a European Commission Winter Report. In the first 11 months 2014, the budget deficit has improved by 0.7% of GDP compared with 3.7% in the previous year, a reduction of the fiscal gap was driven by growth on the revenue side. Also, a positive impulse for further development in 2015 will be the intensification of works on two major projects, Tourist Resort Lustica and Porto Novi, and the beginning of the construction of the first section of the highway Bar - Boljare, which according to the observations by the European Commission may become the main driver of growth in the coming years. It is estimated that the entry of three new banks at the market in the current year will have an impact on improving the credit supply of companies.



19/02/2015 - Statement by the Director General of the Directorate of Budget at the Ministry of Finance, Nikola Vukicevic, following a cabinet meeting, on the occasion of the adoption of an Information on debt rescheduling for municipalities

"The Information provided is the product of the activities that the Ministry of Finance, together with the Government, carried out in order to recover the financial status of municipalities. One course of action is the reprogramming of liabilities based on public revenues for 14 local governments, or 12 local governments, for which the debt on the basis of taxes and contributions was rescheduled for a period of 20 years, while for two municipalities, Budva and Bar, where there is a greater fiscal potential than with other municipalities, the debt is rescheduled for 5 years. The 12 municipalities are beneficiaries of the Equalization Fund, which indicates that the fiscal capacity of municipalities is above average at the state level. The total amount of rescheduled debt is 89 million euros, of which 75 million was rescheduled for a period of 20 years, while the rest is rescheduled for 5 years. Along with the aforementioned activities, the Ministry of Finance in cooperation with local authorities and representatives of the World Bank, is working to find opportunities for the reprogramming of loan commitments of local governments, to find a solution to replace the existing loan portfolio of local governments by one more favorable. We work also with domestic banks, as we try to find the most favorable conditions for existing loans, which in the period 2009, 2010, 2011 were taken under fairly unfavorable conditions. The third line of action of the Ministry of Finance and the Government is the beginning, together with the Union of Municipalities and representatives of local governments, of the drafting of the new Law on financing of local self-governments, where through a profound and comprehensive analysis we would determine whether the current model of local government financing is sustainable, whether the problem was only in the implementation, or the existing model must be redefined, and we expect that by the second quarter we will have some initial results in this area ... "



02/24/2015 - Annual Report of the Ministry of Finance for 2014



26/02/2015 - Statement by the Director General for Economic Policy and Development at the Ministry of Finance Iva Vukovic, following a cabinet meeting, on the occasion of the adoption of the Proposal of economic policy measures that support the achievement of objectives and indicators prescribed by the economic reforms program in Montenegro 2015-2017

"... The goal of our economic policy is to create preconditions for dynamic economic growth and development of Montenegro, with the assumption of creation of an environment ready for job growth, which ultimately contributes to the growth of all other indicators of the economy, and rises the living standards for our citizens. To this end, the Ministry of Finance, which is predominantly responsible for the conduct of fiscal policy in Montenegro, has prepared a set of measures in several directions. Primarily, the goal of fiscal policy is to create conditions to ensure the sustainability of public finances, while the measures for the coming period up to 2017 relate to the creation of preconditions for strengthening tax collection through tax reform, in order to ensure the growth of tax revenues, but also the implementation of measures to combat the gray economy and measures aimed at reducing the level of tax debt of business entities. Also, on the expenditure side, the primary goal is to

conduct a restrictive expenditure policy, with the creation of preconditions for the realization of investment projects, which again contributes to economic growth. In addition to measures ensuring fiscal stability, fiscal policy objective goes further to create the necessary conditions for strengthening the competitiveness of our economy, so that in the future we could see a more dynamic growth of the same. Therefore, these are measures relating to the granting of fiscal incentives on the tax side, primarily in the field of investments in strategic sectors of our economy (tourism, energy, agriculture and transport), which are rated and estimated to contribute to stronger growth in the domestic economy. Also, although in the reports of the World Bank, Montenegro experienced a constant and continuous progress in terms of improving the business environment, our plan is the continued implementation of the existing measures in order to strengthen economic growth and the development in the future. The implementation of all these measures will contribute to creating conditions for the realization of investment projects that are planned in the future, and due to the fact that it will contribute to average economy growth of 3.8 percent, the impact will be strong on improving fiscal parameters, and therefore the achievement of the lower level of deficit, or the establishment of the declining trend in the level of public debt in the future."

09/03/2015 - Conference on economic transition in the Western Balkans

Director General for budget Nikola Vukicevic, in his capacity of the Deputy Governor of Montenegro in the World Bank, attended the conference "Western Balkans: 15 years of economic transition", which was held in Vienna, organized by the International Monetary Fund and the Central Bank of Austria. The conference was attended by a large number of finance ministers and central bank governors from the countries of the Western Balkans, the directors of the IMF and the World Bank for Europe, senior representatives of the EBRD, the Governor of the Central Bank of Austria, as well as the renowned economist Jeffrey Sachs, who in the 90s participated in the creation of economic programs in transition countries. The work took place in three sessions, which discussed the key problems that the Western Balkans met in economic transition in the last 15 years, and included the question of growth, convergence and reduction of poverty, macroeconomic and structural policies, as well as issues of development and stability of the financial sector. At the end of the conference a panel on the topic "Policy challenges and possible solutions" has been organized, aimed at finding answers about the future directions of development of the countries of the Western Balkans.

13/03/2015 - The most successful Eurobond issue so far

Montenegro has successfully completed the appearance on the market of Eurobonds, which resulted in an emission of 500 million euros. It is the fourth and most suitable transaction so far, which has attracted the attention of more than 180 international investors from over 20 countries, most of which were from the United Kingdom (27%), Germany (14%), and the USA (10%). High demand in the amount of about 1.39 billion euros, or nearly three times greater than the supply, showed great confidence of investors in the economic and fiscal policy pursued by the government of Montenegro. Also, the high demand has enabled the Ministry of Finance during trading in these securities, to significantly improve sales conditions and significantly lower interest rate compared to the previous Eurobond issue. In leading a responsible fiscal policy, the government has for three years been able to reduce the prices of bonds by more than double, i.e. from 7.85% to 3.875%, for a period of 5 years, which will contribute to the reduction of interest costs in the state budget and allow the savings to be used for the budget deficit. Borrowing in the amount of 500 million euros is provided for by the Law on Budget of Montenegro for 2015, for the purpose of rescheduling of due obligations and to cover the budget deficit. The stated amount is not intended for the increase in the funds available for spending in the current year, but only for the planned budget obligations to be duly settled. Realized savings on interest costs will be part of the rehabilitation plan, which the Ministry of Finance is obliged to prepare if public debt exceeds 60% of GDP, in addition to other measures that will be proposed to the Government in the future. Other measures will include the continuation of fiscal consolidation on the expenditure side, with the increased collection of taxes and other government revenues, in order to ensure long-term sustainability of public finances levels.

**Department for Public Relations
and Free Access to Information
Ivona Mihajlovic**



Dunja Nelević

Issuing a warranty statement for IPA III and IV

The national servant for verification is required to issue an annual warranty statement, which represents the guarantee that the financial management system and control of IPA funds operates in accordance with the criteria defined by the European Commission. By this statement, the national servant for verification guarantees the effective functioning of the management and control of IPA funds. The document is submitted to the competent General Directorates, in form prescribed by the European Commission, no later than February 28th of the current year.

If the confirmations in regard to effective functioning of the management and control cannot be provided, the national servant for verification is obliged to inform the Commission about the reasons and potential consequences, as well as measures taken to improve the system and protect the interests of the European Union.

In order to provide the guarantees, before issuing the warranty statement, certain controls and checks have to be performed, which are to be carried out by the National Fund in order to provide assurance to the national servant for verification that the legal and institutional framework is functional and efficient.

Considering the fact that, in December 2014, Financing Agreements for IPA components III and IV have been signed, from that moment onwards the IPA bodies are obliged to implement its provisions, as well as the provisions stipulated by the

Framework Agreement and manuals. One of the obligations is the issuance of a Warranty Statement for the program of Regional Development (IPA Component III) and the program Human Resources Development (IPA Component IV).

The National Fund has a coordinating role in the process, as well as the role of providing the warranties to the national servant for verification. In this regard, a series of activities have been performed aiming to control the system that can be divided into following phases:

- Filling out the questionnaire on self-assessment by all the bodies involved in IPA III and IV;
- The issuance of the Warranty Statement by the Head of the Body for priority and measure and the Head of Implementing Body;
- The issuance of the Warranty Statement from the Head of the operating structure;
- Administrative checks by servant of the National Fund;
- Checks on site of the Body by servant of the National Fund (the Bodies that are recognized as risky based on the estimations) and
- The issuance of the Warranty Statement by the national servant for verification.

In order to clearly define the obligations and the timeframe of the implementation of the activities of all the Bodies which constitute the Operating structure, the National Fund has



submitted the Guidelines for the implementation of the process for issuing a Warranty Statement.

The Guidelines include a self-assessment questionnaire, whose questions refer to the existence of the necessary number of employees, implementation and knowledge of the procedures as well as communications (both- internal and communication with other Bodies involved in the implementation of IPA components III and IV).

After filling out the questionnaire and conducted self-assessments, Head of Implementing body and Head of the Body responsible for priority and measure have signed the Warranty Statement. The Head of the Bodies submitted the completed questionnaires for self-assessment, together with a signed Warranty and supporting documents, to the Head of the Operating Structure.

Based on the submitted Statement, insight in supporting documents, the Head of the Operating Structure has signed a Warranty Statement, and therefore has given the guarantee that the Operating structure operates in accordance with the defined rules and criteria.

All documentation (completed questionnaire, signed Warranty Statement and supporting documentation), together with his own Warranty Statement, Head of Operating Structure has forwarded to the National Fund / the national servant for verification. Thereby, the activities of the Bodies constituting the

Operating Structure have been finalized.

National Fund, on the other side, was obliged to assure the functionality of the Operating structure, respecting of the defined procedures, an adequate number of employees, respecting the principle of segregation of duties, familiarity with the rules and, based on these findings, as well as the information which were available during 2014, to prepare a Warranty Statement for the national servant for verification, together with the supporting documents as evidence of all of the aforesaid.

In this regard, check on site has been performed in the Bodies, recognized as the most critical, based on the risk analysis, as well as the administrative control of the documentation.

The result of all activities is the positive assessment of the national servant for verification on the functioning of the system in the case of IPA components III and IV and the submission of a Warranty Statement to the competent General Directorates of the European Commission.

Dunja Nelevic
Dunja Nelevic, Head of the Directorate for National Fund
in the Directorate for State Treasury



MA Slađana Pavlović

LEASING MARKET IN MONTENEGRO - Briefing 2014 -

Introduction

The declining trend in leasing market activity in Montenegro, in terms of decrease in placements and the value of contracted leasing operations, continued in 2014.

As regards the regulatory framework in 2014, the Ordinance on the content and manner of keeping records of financial leasing companies (Official Gazette of Montenegro, no. 50/14 of 11/28/2014) has been adopted, in accordance with the obligation arising from the Law on Consumer Loans (Official Gazette of Montenegro, No. 35/13). Pursuant to the said Law, the Ministry of Finance is required to keep records of the creditor financial leasing companies and their financial intermediaries. To this end, the list of financial leasing companies is published on the website: <http://www.mif.gov.me/biblioteka/registers>.

The leasing market kept prudence in granting new loans, in the light of liquidity problems faced by economic entities in the market, so leasing providers supported only clients with proven creditworthiness, resulting in a reduction in the number of new loans.

Market Participants

Leasing services in Montenegro in the previous year have been provided by four leasing companies having legal entity status, and by two banks: S-Leasing, Porsche Leasing, NLB Leasing and Hypo Alpe Adria Bank. Also, Hypo Alpe Adria Leasing, as a company registered to perform leasing activities did not approve any new loans during the previous year, but only collected claims based on previous contracts, same as Prva banka Crne Gore osnovana 1901. godine.¹

Services of financial and operational leasing have been provided by the Hypo Alpe Adria Bank, S- leasing, NLB Leasing and Porsche Leasing. All leasing companies are either directly or indirectly foreign-owned, except for Prva banka Crne Gore, which is predominantly locally owned.

Table 1: State of leasing activity in the period 31/12/2012 – 31/12/2014

Date	Number of leasing providers	Total assets ¹ (mil. €)	Number of employees	Number of concluded contracts	The value of concluded contracts (mil €)
31/12/2012	4	143.9	47	1,338	19.8
31/12/2013	4	116.9	48	1,218	17.8
31/12/2014	4	88.2	47	1,084	15.0

Investment structure

During 2014, the leasing market saw a conclusion of a total of 1,084 new contracts worth 15,044,692.5 euros, with an average value of a contract of 13,878.87 euros.

On the other hand, on 31 December 2014, the total number of active contracts was 5,096, the value of 116,327,355.03 euros, with an average value per active contract amounting to 22,827.19 euros.

Lessees

In the period from 2011 to the end of 2014 there is an evident decline in the number of newly concluded contracts. On 31 December 2014, compared to 31 December 2011, the number reduced by 34.3%, while a decrease of 11% has been recorded compared to the last two years (2013-2014).

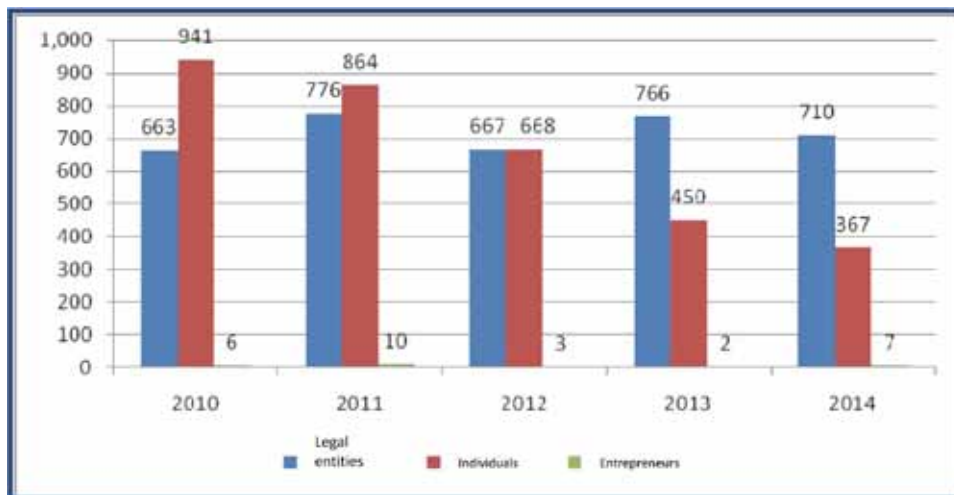
The value of signed contracts at the end of 2014 of 15 million euros represents a decrease of about 16% compared to the same period previous year.

In the structure of lessees, the largest share have legal entities (65.5%), which significantly altered the structure in relation to 2010 and 2011, when most of the contracts were concluded with individuals. In terms of the value of those contracts, about 71.9% of the total value of new contracts in 2014 are contracts concluded with legal entities.

Thus, it is evident that the policy of leasing companies focused on risk diversification and on ensuring the optimum client structure, which is a continuation of operations from earlier years.

¹ - Prva banka Crne Gore osnovana 1901. godine in period 2010/2013 was not active in the leasing market in terms of approving new loans, except for collection of claims based on earlier concluded contracts

Graph 1: Number of contracts by lessees



Value and number of leasing transactions by type of lease

As was the case in previous years, the financial leasing operations had a significant share in the total number and value of concluded contracts in 2014. Financial leasing contracts accounted for slightly more than 90% of the total number of newly concluded contracts.

The average cost per financial leasing contract amounted to 13,937.93 euros, while the average cost of newly concluded operational leasing contracts amounted to 13,310.29 euros.

Table 2: Number and value of concluded contracts by lease type 2010-2014

	NUMBER					2014/2013
	2010	2011	2012	2013	2014	
Operating lease	39	69	41	121	102	-15.7%
Financial lease	1,571	1,581	1,297	1,097	982	-10.5%
Total	1,610	1,650	1,338	1,218	1,084	-11.0%
	VALUE					2014/2013
	2010	2011	2012	2013	2014	
Operating lease	3,605,214.5	1,265,293.9	550,336.4	1,645,080.3	1,357,649.6	-17.5%
Financial lease	23,916,840.9	30,079,253.1	19,244,306.6	16,240,587.1	13,687,042.9	-15.7%
Total	27,522,055.4	31,344,547.0	19,794,643.0	17,885,667.4	15,044,692.5	-15.9%

Of the total number of concluded contracts about 91%, or EUR13.7 million, related to the financial and the remaining to the operating lease. It is important to note that these values of newly concluded contracts are expressed as the net value of loans, which represents the total value of the contract less the value of the participation by the client.

Leasing subject

Looking at the structure of the total number of concluded contracts based on the lease, passenger cars have the biggest share of 87.7% in the total amount of leasing investments, as in previous years.

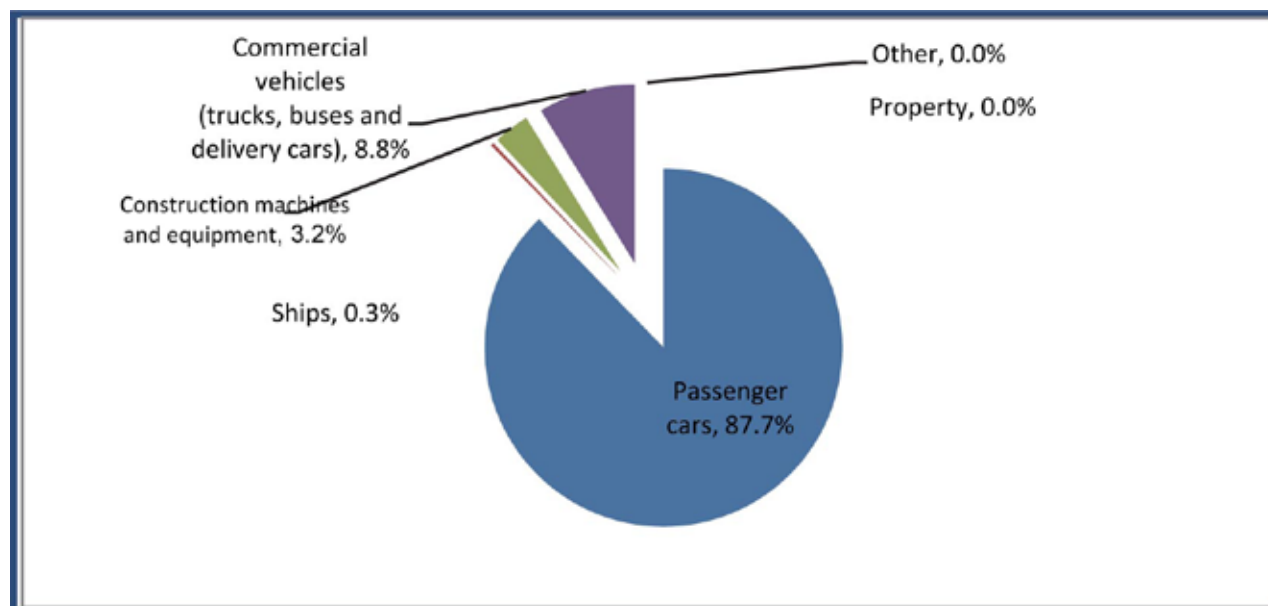
Table 3: Comparative overview of the number of concluded contracts based on the lease

Leasing subject	Number of contracts				
	2013 (1)	%	2014 (2)	%	Growth rate (2)/(1)
Passenger cars	1,048	86,04	951	87,7%	-9,3%
Commercial vehicles (trucks, buses, and delivery cars)	129	10,59	95	8,8%	-26,4%
Construction machines and equipment	34	2,79	35	3,2%	2,9%
Ships	3	0,25	3	0,3%	0,0%
Property	-	-	-	-	-
Other	4	0,33	-	-	-100,0%
Total	1,218		1,084		-11,0%

The share of commercial vehicles in the total number of concluded contracts amounts to approximately 9%, and compared to the nominal value, the number of signed contracts was reduced by approximately 27%, whereas the number of contracts concluded in connection with construction machinery and equipment increased slightly (an increase of about 3%) so in 2014 these contracts accounted for about 3.2% of total number of newly concluded contracts.

Neither in 2013 nor in 2014, the property was the subject of leasing contracts. In addition, during 2014, there was no conclusion of leasing contracts in the category "Others".

Chart 2: Structure of concluded contracts by type of lease



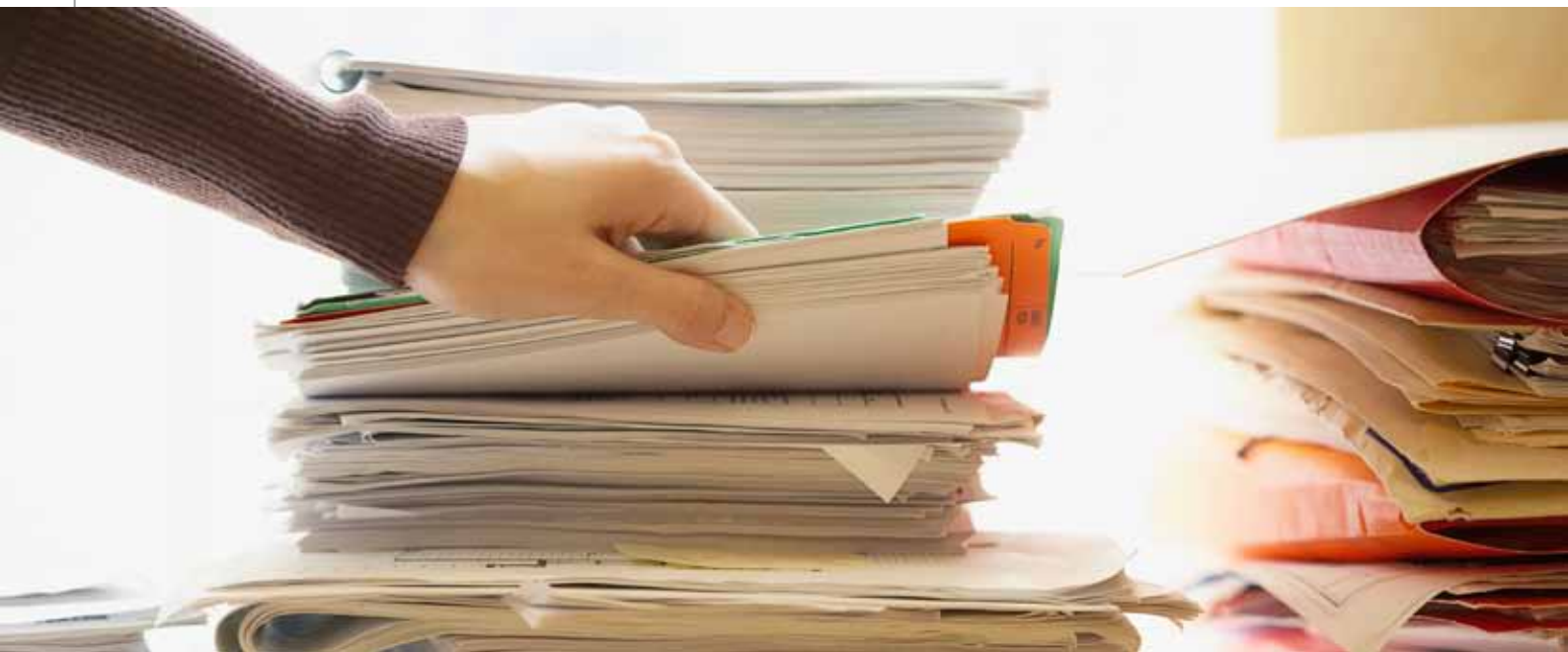
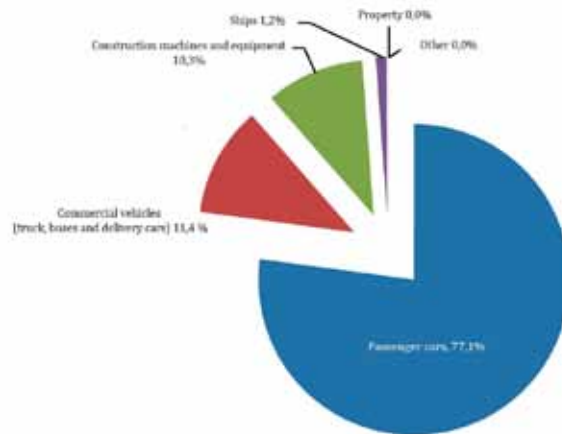
If we observe the structure of values of concluded contracts per lease subject, structural participation is similar as in previous example, again in favor of passenger cars. The value of leasing contracts in the area of passenger cars, in the total value of newly concluded contracts makes up about 77%, while commercial vehicles make up about 11%, and the share of construction machines amounts to approximately 10%.

Table 4: Comparative overview of the value of concluded contracts by type of lease

Lease subject	Contract value				
	2013 (1)	%	2014 (2)	%	Growth rate (2)/(1)
Passengers cars	12,252,191.10	68.50	11,601,796.80	77.1%	-5.3%
Commercial vehicles (trucks, buses, and delivery cars)	2,177,215.15	12.17	1,722,515.06	11.4%	-20.9%
Construction machines and equipment	3,038,637.14	16.99	1,544,784.93	10.3%	-49.2%
Ships	198,970.00	1.11	175,595.70	1.2%	-11.7%
Property	-	-	-	-	-
Other	218,651.00	1.22	-	-	-100.0%
Total	17,885,664.39		15,044,692.49		-15.9%

Although the number of concluded contracts for construction machines and equipment increased by about 3%, the total value of these contracts reduced by approximately 50%. At the same time, the average interest rate for the same category increased from 7.3 to 8.7%.

Chart 3: The structure of the value of concluded contracts by type of leasing



Sectoral structure

As regards the sectoral structure of placements of newly concluded contracts in 2014, it was dominated by contracts under other services, trade and transport.

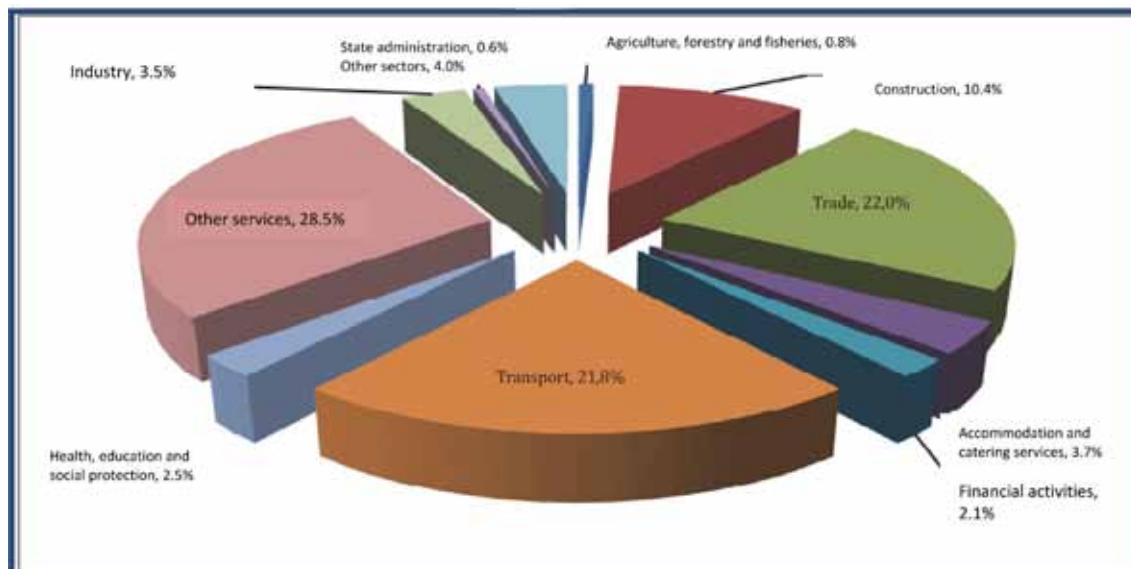
Compared with the previous year, there is a reduction of contracts concluded in the sector of accommodation and catering services, as well as agriculture, forestry and fisheries.

Table 5: Sectoral structure of newly concluded contracts

Sector	The number of newly concluded contracts				
	31/12/2013 (1)	%	31/12/2014 (2)	%	Growth/drop rate (2)/(1)
Agriculture, forestry and fisheries	8	2.42	7	1.0	-12.5%
Construction	35	10.57	40	5.6	14.3%
Trade	126	38.07	167	23.5	32.5%
Accommodation and catering services	28	8.46	17	2.4	-39.3%
Other services	61	18.43	278	39.2	355.7%
Transport	16	4.83	113	15.9	606.3%
Financial activities	4	1.21	5	0.7	25.0%
Industry	13	3.93	23	3.2	76.9%
Health, education and social welfare	2	0.60	6	0.8	200.0%
State administration	1	0.30	8	1.1	700.0%
Other sectors	37	11.18	46	6.5	24.3%
Total	331		710		114.5%

In terms of value of newly concluded contracts based on the sectoral structure, the largest share in total placements have other services (28.5%), trade (22%), transport (21.8%), construction (10.4%).

Chart 4 shows the overall structure of the sector, in terms of the value of newly concluded contracts in 2014:



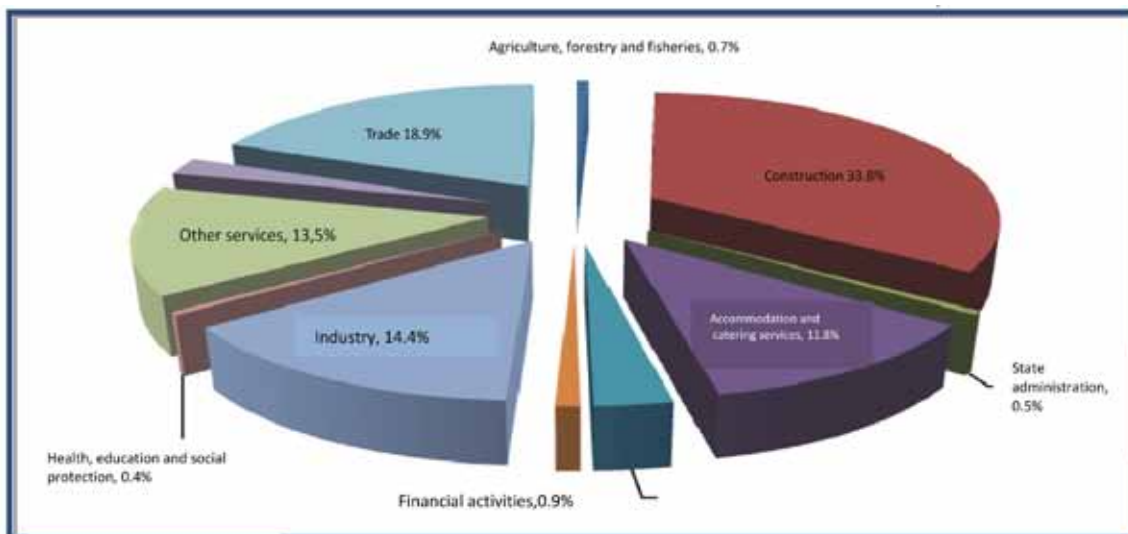
The breakdown of active loans as at December 31, 2014, shows a domination of contracts within the trade sector (30%), other services (18%), and industry (16%).

Table 6: Sectoral structure of active placements

Sector	Active placements				
	31/12/2013 (1)	%	31/12/2014. (2)	%	Growth/drop rate (2)/(1)
Agriculture, forestry and fisheries	38	2.42	44	1.7%	15.8%
Construction	376	10.57	318	12.4%	-15.4%
Trade	972	38.07	771	30.0%	-20.7%
Accommodation and catering services	160	8.46	98	3.8%	-38.8%
Other services	498	18.43	463	18.0%	-7.0%
Transport	233	4.83	212	8.2%	-9.0%
Financial activities	25	1.21	33	1.3%	32.0%
Industry	244	3.93	409	15.9%	67.6%
Health, education and social welfare	40	0.60	21	0.8%	-47.5%
State administration	36	0.30	46	1.8%	27.8%
Other sectors	321	11.18	155	6.0%	-51.7%
Total	2,943		2,570		-12.7%

Chart 5 shows the overall structure of the sector in terms of the value of active contracts as at December 31, 2014, with the biggest share of the construction sector, trade, industry, services, food and accommodation and other services.

Chart 5: Structure of active contracts as at December 31, 2014



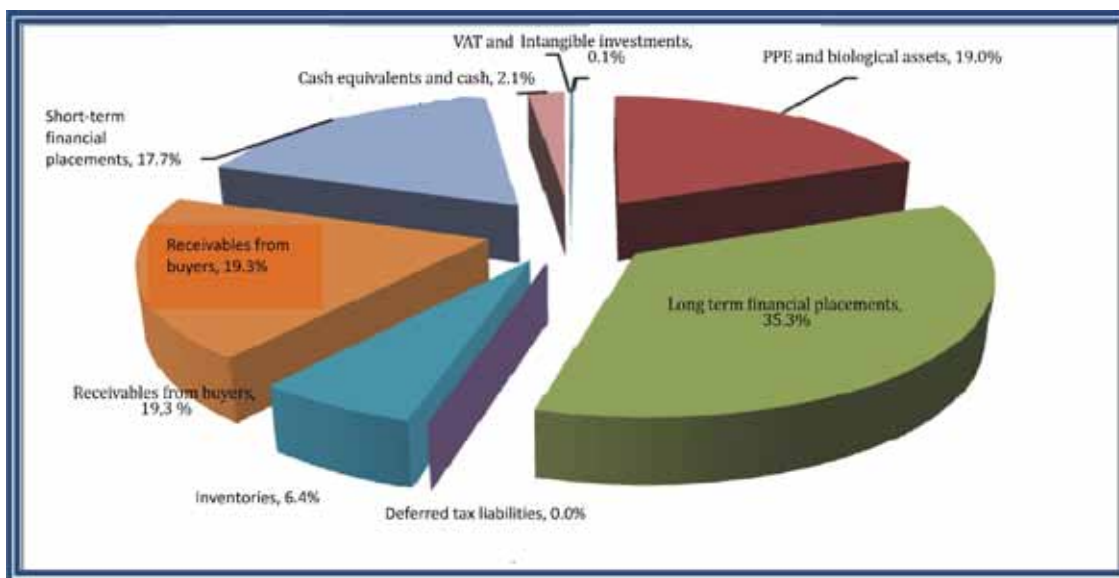
Balance Sheet

Total assets of four leasing companies as at December 31, 2014 amounted to 88,210,466 euros, 24.6% down compared to 31 December 2013. However, comparative data of assets from the leasing market are not relevant, given that a significant portion of the balance sheet sum of aggregate balance of the market is recorded within the financial statements of leasing service provider with the largest market share, Hypo Alpe Adria Bank, which in front of the Hypo Alpe Adria Group concludes new lease placements.

In total assets structure, a larger share related to fixed assets (54.4%), whereas current assets accounted for around 45.6%. It is evident that the long-term investments with EUR 31,159,602.34 (65%) are the most important item of fixed assets, followed by property, plant and equipment with 16,725,109.09 euros (% 35).

Within current assets, short-term receivables, investments and cash dominate with around 86%, while the rest are inventories.

Chart 6: Structure of total assets of leasing companies as at December 31, 2014



In the structure of liabilities of four leasing companies as at 31 December 2013, the largest share made short-term provisions and short-term liabilities, 63,292,311.79 euros, while long-term provisions and long-term liabilities amounted to 54,145,849.72 euros. Compared to the data as of 30 September 2014, equity declined by 35.7%, long-term provisions and long-term liabilities by 13.8%, and short-term provisions and short-term liabilities by 0.6%.

Income statement

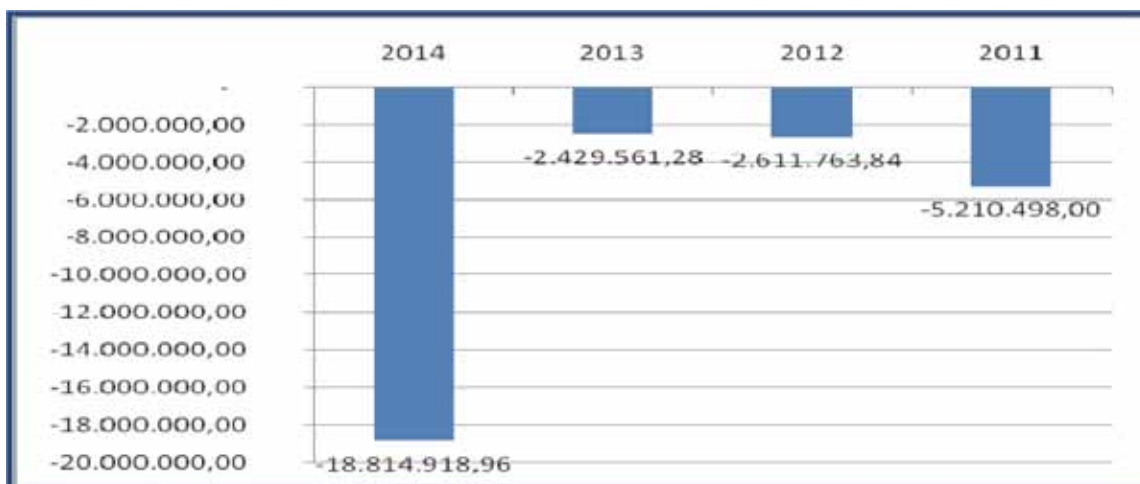
On 31 December 2014, four leasing companies have achieved operating income of 10,946,609.20 euros, of which sales revenue accounted for 88.6%, and the rest is other operating income. On the other hand, in the same period, operating expenses amounted to 26,787,570.16 euros, of which 70.8% were other operating expenses, and 21% are booked under the item "cost of goods sold." Therefore, the operating result was negative, and at level of 4 leasing companies a loss of 15,840,960.96 euros has been disclosed. However, two leasing companies have operated successfully and at the end of fourth quarter 2014, had positive operating results.

In the same period, summed, four leasing market participants have reported negative financial result in the amount of 639,353.21 euros, as well as a negative result from other activities (-2,271,413.82).

Leasing companies as at 31 December 2014, reported -18,814,918.96 euros net results or loss in the market. Within the total loss in the market, over 90% (17,104,733.00) is a participation of one leasing company. Positive net result at the end of the observation period 2014, was reported by two of the four leasing companies. By comparison, on the same day in 2013, the leasing market has shown overall net result - loss of 2,429,561.28 euros.

At the same time, it is necessary to point out that, in the overall result of the income statement, which presents the revenues and expenditures of the leasing companies, there is a missing piece of data that is calculated through the balance of a bank dealing with the leasing business, bearing in mind that Hypo Alpe Adria Bank provides leasing service within its portfolio.

Chart 7: Summary net result of the participants in the leasing market



Balance sum of banks, and lessors

Leasing companies in Montenegro as at 31 December 2014 achieved a balance sum in amount of EUR 88.2 million, which represents 2.81% of the balance sum in the banking sector.*

Chart 8: The ratio of balance sum of banks and leasing companies (mil. €)



* - Data on total assets relate to four leasing companies

Chart 8 shows that the balance sum of leasing companies, in relation to the balance sum of banks in 2013 recorded a decrease as a result of reduction of the balance sum of leasing companies. Such comparison is not relevant to the overall leasing market, as some assets in the leasing activities of Hypo Alpe Adria Bank are not covered by the aggregate balance of the leasing companies.

If the balance sum of leasing companies is put in proportion with the gross domestic product, the relevant ratio was 3.5% in 2013, while the ratio in 2014 was 2.6%.

* * *

The same business policy of leasing companies from 2012 and 2013, continued in 2014 and was, to a large extent, based on contracts with clients of high level creditworthiness, which resulted in the reduction of market risk exposure. From the aspect of leasing companies, the market during 2014 recorded the same trend as in previous two years, as the number of clients that are servicing obligations to a lesser extent increased, as well as the number of insolvent clients. At the same time, the restrictive credit approval policies retained, as the number of customers who meet the creditworthiness conditions for funding decreased.

Growth in the number of credible clients, as well as the efficient collection of receivables, are the priorities of leasing companies in the future, while the recovery in economic activity in Montenegro will be a direct cause for the growth of leasing operations.

Sladana Pavlovic,
Independent Advisor II in the Directorate for Business Environment Improvement
in the Directorate for Financial System and Business Environment Improvement