



Government of
Montenegro

MONTENEGRO ECONOMIC REFORM PROGRAMME 2024-2026.



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List of Abbreviations

LFS	Labour Force Survey	MEM	Ministry of Energy and Mining
AQR	Asset Quality Review	MESI	Ministry of Education, Science and Innovation
GDP	Gross Domestic Product	MAFWM	Ministry of Agriculture, Forestry, and Water Management
CBCG	Central Bank of Montenegro	MTMA	Ministry of Transport and Maritime Affairs
CEFTA	Central European Free Trade Agreement	IMF	International Monetary Fund
SOE	State-owned Enterprise	MONSTAT	Montenegro Statistics Administration
EC	European Commission	MF	Ministry of Finance
EU	European Union	MEEP	Montenegro Energy Efficiency Project
IPA	Instrument for Pre-accession Assistance	NSFR	Net Stable Funding Ratio
IDF	Investment and Development Fund of Montenegro	NECP	National Energy and Climate Plans
IRMS	Integrated Revenue Management System	OECD	Organisation for Economic Co-operation and Development
LSGU	Local self-government unit	PIMA	Public Investment Management Assessment
MREL	Minimum Requirements for own funds and Eligible Liabilities	PKCG	Chamber of Economy of Montenegro
MLSW	Ministry of Labour and Social Welfare	PEEPB	Promotion of Energy Efficiency in Public Buildings
MH	Ministry of Health	FDI	Foreign Direct Investments
MPU	Ministry of Public Administration	SRB	Single Resolution Board
MED	Ministry of Economic Development	UNEP	United Nation Environment Programme
MTESDDN	Ministry of Tourism, Ecology, Sustainable Development and Development of the North	RCA	Revenue and Customs Administration
MSPUSP	Ministry of Spatial Planning, Urbanism, and State Property	ZZZCG	Employment Agency of Montenegro



1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Programme (ERP) is the most important document in fulfilling economic criteria in the European Union membership negotiations of Montenegro. Broad consultations were carried out during its preparation. One consultation meeting with stakeholders was organized at the beginning of the process, while the second was a round table as part of the public consultations about the draft Programme held in December 2023. The Draft ERP was also considered at the meeting of the relevant Parliamentary Committee.

For a small and open economy of Montenegro to fulfil the Copenhagen Criteria for EU membership and to withstand external shocks, it needs to establish full stability of institutions and the rule of law, develop new growth sectors, and maximize the diversification degree. The strong economic performance in recent years accelerated the convergence of the Montenegrin GDP per capita towards the one of the European Union. The estimated growth rate of the economy in 2023 is 5.8 percent, where the economic policy measures from 2022 have prominently contributed to this output, affecting the increase in disposable income. The sizable inflow of non-residents also contributed to the growth.

The chief strategic objective of the economic policy of Montenegro is to: *“achieve, smart, sustainable, and inclusive economic growth which will contribute to improving the standard of living of all its citizens”*. The economic policy measures over the medium term will be aimed at (i) diversifying the economic activity and expanding the competitiveness of the economy, (ii) strengthening the resilience of the Montenegrin economy to external shocks, (iii) ensuring macroeconomic and fiscal stability, (iv) improving the business environment, and (v) launching a strong investment cycle.

The medium-term economic growth prospects are underpinned by the priorities in implementing the European Union Agenda in Montenegro’s accession process. To that end, the new European Union initiative– **the New Growth Plan for the Western Balkan**, plays a special importance in accelerating the enlargement process and economic growth.

The projected average growth rate of the Montenegrin economy in the period 2024-2026 is somewhat lower compared to 2023 and is forecasted to be approximately 3.2 percent. It will be based on continued high private and public spending, somewhat more moderate investment rise, increased employment, and the rise of the minimum pension in 2024. The projected growth encompasses the impact of the six structural reforms presented in Chapter 5 of this Programme. The expected average annual net effect of these reforms and projects on the real GDP is 0.9 percent in the period 2024-2026.

In concert with the set of structural reforms, the Economic Reform Programme also contains fiscal policy measures aimed at reducing the fiscal deficit to below 3 percent of GDP in 2026. At the same time, the central budget primary surplus is forecasted for 2026, as well as a downward public debt trend.



2. IMPLEMENTATION OF THE POLICY GUIDANCE

This Chapter presents response of Montenegro to joint conclusions of the Ministerial Dialogue from May 2023 as part of the Economic and Financial Dialogue between the European Union and the Western Balkans countries and Turkey. The following table presents an overview of the activities and structural reforms as a response to the mentioned EU policy guidance from the Ministerial Dialogue held in May 2023.

Table 2.1: EU Policy Guidance to Montenegro for the ERP 2024-2026 and response to policy guidance

<p><i>Policy guidance 1:</i> <i>Adopt an appropriately tight fiscal stance in 2023 to help disinflation, while providing targeted support to vulnerable households and firms, if needed. Adopt a new medium-term fiscal strategy with the 2024 budget, including concrete consolidation measures supporting the achievement of a non-negative primary balance from 2025, and a reduction of the public debt ratio over the medium-term. Ensure proper costing of new fiscal initiatives before considering them for adoption.</i></p>
<p>The 2024 Budget envisages the fiscal consolidation measures that will result in generating a surplus for the current budget spending in the period 2024-2026 and to achievement of the central budget primary surplus in 2026. During Q1 of 2024, the Government of Montenegro will prepare and propose the adoption of the Fiscal Strategy. Article 17 of the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, No. 070/2021) stipulates the preparation of the Fiscal Strategy for the term of office of the Government and for it to be submitted to the Parliament for adoption. The Fiscal Strategy will contain additional fiscal adjustment policies by proposing reform solutions for the areas of: social, healthcare, and pension systems, as well as the tax policies.</p>
<p><i>Policy guidance 2:</i> <i>Implement the public investment management assessment (PIMA) recommendations, prioritising key public infrastructure works within the available fiscal space while avoiding exceptions regarding project selection. Adopt the planned amendments to the Law on Budget and Fiscal Responsibility and take concrete steps towards setting up a fiscal council. Based on an analysis of the economic and fiscal impact of all tax expenditures to be shared with the Commission, prepare concrete budgetary recommendations to reduce tax expenditure (such as exemptions, deductions, credits, deferrals).</i></p>
<p>In cooperation with the International Monetary Fund (IMF), the Ministry of Finance defined key priorities aimed at improving the state of affairs in the field of capital budget planning. Technical assistance is agreed in communication with the IMF for implementing recommendations and activities in line with the Action Plan and measures to be carried out to strengthen public investment management over the medium term.</p> <p>The Parliament of Montenegro adopted the Law Amending and Supplementing the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, No. 27/2023), which defined the establishment of the Fiscal Council, the scope of its work, procedure, and conditions for</p>



appointing the Fiscal Council members, method of decision making, data access, the statute, financing, and conducting administrative affairs as part of the Council.

In line with the above stated, the Parliamentary Committee on Economy, Finance and Budget, launched a public call for the appointment of three members of the Montenegro Fiscal Council in April 2023. Given that the public call was unsuccessful, efforts should be made in the coming period to appoint members and functionally equip the Fiscal Council, which will also contribute to meeting obligations set under the European Union *Acquis*, specifically Article 6 of the Council Directive 2011/85/EU of 8 November 2011 where is stipulated a need to have in place the effective and timely monitoring of compliance with the fiscal rules. It is expected that during 2024 the Fiscal Council will be established and that will commence with work.

Policy guidance 3: Continue to carefully assess and analyse price developments, stand ready to use the limited tools available under the chosen monetary framework to ensure price stability. Strengthen further the reporting and risk management frameworks across the banking system to ensure an accurate reporting of asset quality and continue to reduce data gaps in particular as regards the real estate sector. Continue to improve and implement legislations to further align with the EU framework on regulation and supervision, including on deposit insurance, and accelerate efforts to provide viable and timely solutions for swift and effective NPL resolution

To implement Policy Guidance 3, in the segment: ***Continue to carefully assess and analyse price developments, and stand ready to use the limited tools available under the chosen monetary framework to ensure price stability***, the Central Bank continuously analyses price developments in Montenegro in order to maintain the price stability. A quarterly survey on price expectations is conducted among all banks, and a stratified sample of enterprises and the results were used to prepare the Quarterly Report on Price Stability (including demand and supply components in price development, as well as the inflation projections). In addition, in Q3 2022, due to the strong price growth in Montenegro, special analyses were carried out to analyse the contribution of supply and demand in price inflation. It is concluded that the main source of price increases is related to import prices of fuel and food, while the new fiscal programme has a smaller contribution. Given that the core conclusion is that the causes of inflation are primarily on the side of the supply of goods that are provided mainly by imports, the Central Bank has prepared and submitted to the Government of Montenegro the document Recommendations for Economic Policy for the period 2022-2024. This document points out that the priority of economic policy should be measures aimed at suppressing inflation and ensuring fiscal sustainability. The chief recommendations were to prepare a comprehensive package of anti-inflationary measures aimed at protecting the standard of living of households, especially vulnerable social categories, as well as the competitiveness and sustainability of the real sector and entrepreneurs. The anti-inflationary measures, according to the recommendations of the Central Bank, should be temporary, until the distortions in the market are eliminated, and should be carefully tailored to avoid the possible expansion of the informal economy.

To implement the Policy Guidance 3, in the segment: ***“Strengthen further the reporting and risk management frameworks across the banking system to ensure an accurate reporting of***



asset quality” the AQR¹ process is completed in 2021 and all banks have applied effects resulting from individual work-blocks on financial information with balance as of 31 October 2021. All findings from the Asset Quality Review are implemented. Following the implementation, the capital adequacy of all banks is above the level stipulated by the law. Testing of all banks in the system was conducted, and the basis for stress testing was data as of 31 December 2021, which included the AQR results. The results of stress testing indicate the satisfactory resilience of the banking system of Montenegro to unfavourable developments in the macroeconomic environment. During 2022 and 2023, on-site examinations determined the correctness of the capital adequacy calculation of banks in by rules of the regulation prescribed under Basel III. In general, banks are well capitalised and resilient to external shocks.

In order to implement the Policy guidance 3, in the segment: ***and continue to reduce data gaps in particular as regards the real estate sector***, the Central Bank conducts an annual Survey on the subjective assessment of real estate prices of their owners. Based on the results of the Survey and the econometric model, the hedonic index is calculated. Furthermore, a macro-prudential indicator, which monitors the departure of real estate prices from its fundamentals, is created to monitor the financial system risk. To improve the statistical coverage of real estate prices, based on market developments, the Financial Stability Council adopted a conclusion on the establishment of the Register of Immovable Property Traded in Montenegro. It was decided that the Register would be under the jurisdiction of the Real Estate Administration (Cadastre) and that it would include all real estate traded on the territory of Montenegro.

To implement the Policy guidance 3, in the segment: ***Continue to improve and implement legislations to further align with the EU framework on regulation and supervision, including on deposit insurance***, the Central Bank continued with activities aimed at improving the enabling regulations adopted for implementation of the Law on Credit Institutions², as well as with activities on drafting amendments to and supplements of that Law, which will include all further changes to currently applicable EU regulations. As part of the previously initiated harmonisation with the CRR provisions, which set the NSFR³ requirement, the activities for the drafting proposals for amendments to the Decision on Liquidity Risk Management in Credit Institutions and the implementation of a quantitative impact study (QIS)⁴ in order to determine the effects of the introduction of this requirement into the Montenegrin regulatory framework are coming to an end. Thus, it is expected that all activities for full compliance with the NSFR requirement will be completed by the end of the current year. Furthermore, with the aim of further improving the reporting system of credit institutions, amendments to the Decision on Reports Submitted to the Central Bank of Montenegro are being prepared.

Likewise, activities continued drafting amendments to and supplementing of the Law on Credit Institutions, which will include all further changes to currently applicable EU

¹ AQR –Asset Quality Review

² Official Gazette of Montenegro, No 72/2019 and 8/2021

³ NSFR –Net Stable Funding Ratio

⁴ QIS –Quantitative Impact Study



regulations, after their adoption a re-review of the compliance of the entire domestic framework, will be carried out.

The Central Bank continued also to monitor the implementation of macro-prudential measures introduced in order to prevent the negative impact of COVID-19 and the situation in Ukraine on the financial system. Given that the measure prohibiting the payout of dividends, which was adopted at the beginning of July of the current year, ceased to be valid on 31 October 2023, the Central Bank, as a precaution, on 2 November 2023, issued a warning to credit institutions, warning them that before making decisions on paying out the dividends resulting from retained profit from own funds and/or profit generated in 2022, they should submit to the Central Bank information on the intended payout of dividends with evidence that after the payout of the dividend they will meet the prescribed regulatory requirements, requirements established under the supervisory process, and established internal limits, in order to obtain an opinion from the Central Bank.

To fulfil the obligations of Montenegro's accession to the European Union, which refers to the alignment with the Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, after the TAIEX mission held at the end of April 2023, the final proposal of the law and the necessary compliance tables were prepared, and the work started on the remaining documentation for the further adoption procedure.

Finally, as part of the project to improve the regulatory framework that governs the operation of financial service providers, based on the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-lending, and Credit-Guarantee Activities⁵, the first working drafts of the proposal for amendments to the aforementioned Law and supporting enabling regulations were prepared.

The Central Bank continuously communicates with credit institutions and other subjects of supervision to provide support and necessary assistance to these institutions in the application of all existing laws and enabling regulations.

Following the Law on Resolution of Credit Institutions, the application of which began on 1 January 2022, the Central Bank prepared resolution plans for credit institutions and determined the minimum requirement for own funds and eligible liabilities (MREL), which is sufficient for a possible write-off or conversion of the amount of the own funds and eligible liabilities, at least in the amount of the sum of the amount of loss coverage and the amount of recapitalisation. In order to provide funds for the application of resolution instruments and resolution powers established by this Law, the Resolution Fund was established and is managed by the Central Bank. The funds of the Fund are kept in a special account held with the Central Bank. The level of the funds of the Fund must reach the level of at least 1 percent of the amount of guaranteed deposits of all credit institutions licensed by the Central Bank by 31 July 2031 at the latest. All credit institutions have made the annual payment of regular contributions for 2023, within the deadline prescribed by the Law.

At the same time, the Central Bank continued to work on aligning the Law on Resolution of Credit Institutions with Directive 2019/879/EU amending Directive 2014/59/EU as regards the

⁵ Official Gazette of Montenegro, No 073/2017 and 044/2020



loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (BRRD II), with the aim to improve operational execution of the resolution of credit institutions, strengthening the competence of the resolution authorities and overcoming legal uncertainties.

In October 2020, the Central Bank and the Single Resolution Board (SRB⁶) concluded an Agreement on cooperation concerning the exchange of information and cooperation concerning resolution planning and implementation of such planning in terms of cross-border entities.

To implement the Policy Guidance No. 3, in the segment: ***and accelerate efforts to provide viable and timely solutions for swift and effective NPL resolution***, we restate that Article 17, paragraph 7 of the Decision on Minimum Standards for Risk Management in Credit Institutions defines that credit institutions must apply the Guidelines for the management of non-performing and restructured exposures, which constitute an integral part of this Decision. The Guidelines define that a credit institution where the share of gross non-performing loans in total gross loans is greater than or equal to 5 percent applies chapters II and III of these Guidelines to exposures to persons whose share of non-performing loans in total loans exceeds the established threshold⁷. Furthermore, the Guidelines prescribe that the credit institution should establish a strategy for non-performing loans to define a time-limited reduction of non-performing loans within a realistic but sufficiently ambitious period (objectives for reducing non-performing loans)⁸. These strategies are subject to continuous control by the Central Bank of Montenegro during on-site examinations.

Policy guidance 4: Improve the institutional and regulatory environment and enhance energy resilience and transition to implement the Green Agenda. Further digitalise and simplify administrative procedures for micro, small and medium enterprises and prioritise cybersecurity, data protection and business continuity for e-government services. Prepare a roadmap for reforming state-owned enterprises (SOEs), prepare a framework for the monitoring and management of SOEs and develop objective criteria for the selection of their management bodies.

Response to the Policy Guidance No 4 was given through the structural reform in chapter 5 of the ERP: *Increasing energy resilience in applying the Green Agenda*, which contains 2 measures: Reform measure 3: *Incentivising innovations for the Green Agenda and transitioning to circular economy* and Reform measure 4: *Strengthening decarbonisation mechanisms*.

In the previous period, work began on drafting the new Law on Protection against the Negative Effects of Climate Change and Protection of the Ozone Layer. Activities are underway to prepare the conditions for the drafting of the new Law on Energy, as well as the new Law on the Cross-Border Exchange of Electricity and Natural Gas, with the associated enabling regulations that will be fully aligned with the relevant directives and regulations of

⁶ SRB – Systemic Risk Board

⁷ Part I – Subject, area of application and definitions, item 2

⁸ Part II, 2.1. Development of Strategy for Non-performing Loans, item 9



the European Union in the field of energy. Work is also underway on the Ecological Reconstruction Project of the Thermal Power Plant Pljevlja. In the field of energy efficiency, 16 regulations have been adopted that govern in more detail the requirements of eco-design and energy efficiency labelling of energy products. Moreover, the legal framework has been improved, especially in the area of the introduction of the National Energy and Climate Plan (NECP). The most important projects implemented in this area are the Promotion of Energy Efficiency in Public Buildings (PEEPB) and the Montenegro Energy Efficiency Project (MEEP). In 2023, the implementation of the Circular Economy Strategy until 2030 continued, as well as activities to reduce pollution.

The answer to the Policy Guidance regarding the need for further digitalisation was provided through Structural Reform No 4: *Digitalisation aimed at sustainability of the economy*, which is further elaborated through two reform measures: Reform measure 5: *Improving digitalisation and cyber security while strengthening the broadband infrastructure* and Reform measure 6: *Digitalisation of the healthcare system in Montenegro*. Structural reform No. 4 includes activities to strengthen cyber security, data protection, and continuity of e-government services, as well as electronic registration of companies.

The response to the Policy Guidance in the segment of further reform of state-owned enterprises was given through Structural Reform No 2: *Reforming state-owned enterprises*, which was further developed through reform measure 2: *Establishing an adequate governance model and an efficient oversight system for state-owned enterprises*. Its objective is to increase the economic and fiscal potential of majority state-owned enterprises and to reduce the fiscal risks of their operations.

In the previous period, during 2023, an interdepartmental working group was formed to analyse the regulatory framework for the operations of state-owned enterprises. It is expected to receive technical assistance financed from the EU Reform Facility for the preparation of the Analysis of the regulatory framework for the operations of the majority of state-owned enterprises. The capacities of the competent directorate in the Ministry of Finance were improved within the framework of the IMF's third expert mission, which lasted from 18 September to 11 October 2023. Ten meetings were held with the IMF and key state-owned enterprises (energy, railways, maritime shipping, and transport sectors) to obtain more complete information about the situation in these sectors/ enterprises. Until October 2023, economic and financial analyses were prepared for 16 state-owned enterprises, with the use of the IMF tool for the fiscal risks assessment (SOE Health Check Tool). In order to create a comprehensive view of the situation in the field of state-owned enterprises, a brief analysis of the situation was made on the example of all 49 enterprises, with a clear risks classification.

Policy guidance 5: *Based on the results of the informal economy survey, establish an action plan to reduce informality. Ensure cooperation between central and local authorities to implement the plan, including prevention and incentives to legalise informal businesses and employees. Develop an analysis of the inspection services and of the relevant legal framework to optimise the inspector's work, minimising discretionary decisions and inconsistencies in the inspection powers*



Response to Policy Guidance No. 5 in the ERP 2024-2026 is provided under Structural Reform No 1: *Improving business environment and formalising the informal economy*, which is further elaborated under Reform measure 1: *Strengthening the mechanisms for the formalisation of the informal economy*. Furthermore, the Government and some international organisations conducted the analysis of inspection services in the previous period, and provided recommendations for their optimisation, which served as the basis for the development of the Programme for Suppressing the Informal Economy.

The Programme for Suppressing the Informal Economy for the period 2024-2026, with the Action Plan, is adopted in December 2023. The Action Plan contains activities concerning cooperation between central and local authorities, as well as prevention and repression activities tackling the formalisation of informal businesses and employees. Likewise, it also includes the planned activity of an analysis of the functionality of the inspection services.

Policy guidance 6: *Prepare activities for the implementation of the Youth Guarantee pilot planned for 2025, analyse its performance, and in parallel identify and implement necessary structural, operational and organisational changes to ensure that the Employment Agency of Montenegro is prepared for the service delivery of the fully-fledged Youth Guarantee as well as its other functions. Continue efforts to reform the provision of active labour market policy measures with an emphasis on their labour market relevance, including work-based learning, and establish a continuous monitoring mechanism that will enable evidence-based active labour market policy design. Based on the Roadmap of reforms on social assistance and social and child protection services in Montenegro, establish a clear timeline and financial planning for the reform of the social and child protection system and start implementing the reforms.*

Response to the Policy Guidance No. 6 is provided in the ERP 2024-2026 in the area of Human capital and social policies, under Structural Reform No. 5: *Improving the framework for better youth employability and higher-quality education*, elaborated in further details under the priority reform measures 7: *Introducing the Youth Guarantee Programme in Montenegro* and 8 *Developing an integrated approach to increasing the quality and inclusivity of education*. As well as through Structural Reform No. 6: *Increasing the effectiveness of the social and improvement of the child protection system*, which is elaborated through the Reform measure 9: *Reforming the social and child protection system based on the Road Map*.

In 2021, Montenegro took concrete steps for the gradual introduction and implementation of the Youth Guarantee, following the principles of the policy. The first Implementation Plan of the Youth Guarantee in Montenegro covers the period 2023-2026 and indicates what structural reforms and initiatives should be undertaken to improve the education system and the functioning of the Employment Agency of Montenegro. The reason for this is the Youth Guarantee to be implemented in the planned period, along with the piloting of the service provision system from the Youth Guarantee, which is planned for 2025 and 2026. In parallel with this process, structural, operational and organisational changes are being implemented for the Employment Agency of Montenegro to be ready to provide services within the Youth Guarantee framework and to improve the provision of active labour market policy measures. To that end, the reorganisation of the Agency started and, accordingly, in January 2023, a new Rulebook on the Internal Organisation and Classification of Jobs of the Employment Agency



of Montenegro, related to the tasks provided for by the Law, was adopted. The twinning project carried out through the IPA 2020 fiche the *Strengthened capacities of the Employment Agency of Montenegro* covers three main areas of support to the Employment Agency and its future roles. In the initial period of the implementation of the twinning project, a set of guidelines and methodological documents were prepared.

Within the technical support project, which is being implemented within the IPA 2020 Fiche *Improved evidence-based policy-making, implementation practices and coordination in the ESP sector and strengthened capacities to participate in ESF*, the strengthening of the administrative capacities of relevant institutions responsible for the future management and implementation of ESF+ and the Youth Guarantee Programme has started.

The procurement contract *Upgrading of IT infrastructure and new information system for the Employment Agency of Montenegro* will provide new hardware for all employees of the Agency, while the second component will be the development of an improved software application that will support the requirements for the implementation of EURES, the Youth Guarantee and similar.

When it comes to reforms of the social and child protection system, the Ministry of Labour and Social Welfare created a working group for preparing the Strategy for the Development of the Social and Child Protection System, while the support of UNICEF and UNDP is provided for preparing this strategic document. The adoption of a new Law on Social and Child Protection is planned, which will improve the quality system of providing services and specify the method of financing services at the state and local level to ensure the sustainability of services in the system. The implementation of the project *Reform of the National Disability Determination System* is underway.

3. MACROECONOMIC FRAMEWORK

Uncertainties and challenges during 2022 caused by the aggression of the Russian Federation on Ukraine, as well as the rising cost of living caused by strong inflationary pressures and growing prices of food and energy continued in 2023. According to the forecasts of the International Monetary Fund (IMF), global growth will decelerate from 3.5 percent in 2022 to 3.0 percent and 2.9 percent in 2023 and 2024 respectively⁹. According to the IMF, the forecast for the forthcoming period is well below the historic average (2000-19) of 3.8 percent, while the global economy growth prospects over the next medium-term period are weakest in the past several decades, coupled with numerous pronounced risks to global macro-financial stability.

After the strong post-pandemic recovery in 2021 and 2022, the European economy is slowing down significantly in 2023. In the autumn forecasts, the European Commission revised the GDP growth in the European Union for 2023 downward if compared to the summer forecast, while the current growth forecast is only 0.6 percent for 2023, while it is expected for the largest European economy, Germany, to record an economic downturn of 0.3 percent in 2023. Following the historically record-high inflation in 2022 in the Euro area since the euro was introduced, the inflation slowed down in 2023, but it remains well above the European Central

⁹ [World Economic Outlook, October 2023: Navigating Global Divergences \(imf.org\)](https://www.imf.org/en/Publications/WEO/Issues/2023/10/01/navigating-global-divergences)

Bank target, which expects the inflation to return to the set target path only in the second half of 2025¹⁰. It is expected that economic growth will accelerate in 2024 in the European Union, resulting in a recovery of spending, an increase in real wages, rising investments, and external demand. In 2024, the forecasted GDP growth in the European Union will be at 1.3 percent, while the Euro area will record a somewhat lower GDP growth of 1.2 percent¹¹.

The Regular Economic Report of the World Bank for the Western Balkans countries¹², expects a moderate acceleration of the economic growth in the Western Balkans of 3.0 percent in 2023, after deceleration in 2023. The growth should be supported by the EU recovery, being the main trade partner of the Western Balkans, and reduced inflation, which will strengthen disposable income and sustain spending.

Table 3: GDP growth Forecasts for Montenegro and the Western Balkans countries

Real GDP growth rate, as %	World Bank		IMF		European Commission	
	2023	2024	2023	2024	2023	2024
Montenegro	4.8	3.2	4.5	3.7	4.9	2.7
Serbia	2.0	3.0	2.0	3.0	2.2	3.1
Bosnia and Herzegovina	2.2	2.8	2.0	3.0	1.5	2.0
Kosovo	3.2	3.9	3.8	4.0	n/p	n/p
Albania	3.6	3.2	3.6	3.3	3.5	3.1
North Macedonia	1.8	2.5	2.5	3.2	2.0	2.7

Sources: World Bank - Regular Economic Report for the Western Balkans Countries, autumn 2023; IMF – Global Economic Outlook, October 2023; European Commission – Economic Forecast, autumn 2023.

In 2023, Montenegro grew faster than the regional average, while according to estimates of international organisation, the growth of the Montenegrin economy will slow down in 2024, the forecast of the European Commission is 2.7 percent, while the IMF and the World Bank expect 3.7 and 3.2 percent respectively.

3.1. Recent Economic Developments

3.1.1. Gross Domestic Product

In 2022, the Montenegrin economy showed a high degree of resilience, along with the strong economic growth of 6.4 percent, where the fast recovery of tourism, dynamic private spending, and high inflow of foreign direct investments contributed. On the other hand, record-high inflation limited to a great extent the purchasing power and led to stagnation of investment activity.

The economic growth in the first half of 2023 intensified compared to the previous year and was 6.6 percent in real terms, with the largest contribution coming from export of goods and services (impact of 8.4 percentage points) and personal consumption of households (4.9 p.p.). The recovery of investment activity is particularly important, whereby the fixed capital formation added 0.9 percentage points to the economic growth for the first six months.

The high inflow of non-residents to Montenegro contributed to favourable economic trends, as well as to the strong effect of private consumption, tourism, the real estate sector, banking parameters, and employment.

¹⁰ [ECB staff macroeconomic projections for the euro area, September 2023 \(europa.eu\)](https://www.ecb.europa.eu/press/pr/20230901/projections/index.en.html)

¹¹ [Autumn 2023 Economic Forecast: A modest recovery ahead after a challenging year \(europa.eu\)](https://ec.europa.eu/economy_finance/autumn-2023-economic-forecast-a-modest-recovery-ahead-after-a-challenging-year_en)

¹² <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report-2023>



The economic growth in 2023 is prominently driven by increase in revenues from tourism, which according to the preliminary data of the Central Bank of Montenegro for nine months of 2023 indicate that these revenues amounted to EUR 1.36 billion, which is an increase of 48.6 percent relative to the same period of the previous year, but they are also higher by 33.9 percent relative to the pre-crisis period (2019). According to the preliminary MONSTAT data, in the period January-July 2023, in total accommodation (collective and individual) 1,454,210 tourists visited Montenegro, with 9,244,842 overnight stays, which is higher by 27.9 and 50.6 percent, respectively, year-on-year. For the first nine months of 2023, electricity export was higher by 36.9 percent, while retail trade grew at a rate of 20 percent. In the same period, the carriage of passengers in airports recorded an increase of 34.4 percent compared to 2022. Favourable weather conditions resulted in increased electricity generation of 33.1 percent for nine months of 2023. The mining and quarrying sector grew at the rate of 2.4 percent, while the manufacturing industry recorded a decline of 9.7 percent. The construction activity in three quarters of 2023 recorded a reduced value of executed construction works by 9.6 percent year-on-year.

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

Table 3.1.1: Divergence between the last year's ERP and the most recent estimates for 2023

Real growth in 2023, in %	ERP 2023-2025	ERP 2024-2026	Divergence (as p.p.)
Real GDP growth	4.4	5.8	1.4
Household consumption	2.4	8.2	5.8
Government consumption	2.5	3.0	0.5
Investments	4.6	1.4	-3.2
Export of goods and services	9.0	12.7	3.7
Import of goods and services	5.1	10.6	5.5

Source: Projections of the Ministry of Finance

The comparison of projections points to a divergence of the private consumption trends and consequently of the economic growth. Tourism has recovered stronger than expected, while imports intensified following the growth in consumption and economic activity. In 2023, the investments recorded weaker growth compared to the forecast from the previous year.

3.1.2. Inflation

The inflation rate, although it is slowing down after record-high growth in 2022, is still at a high level due to external factors, strong domestic demand and a large influx of non-residents, thus it averaged 9.5 percent in the first ten months of 2023. The prices of food and non-alcoholic beverages (impact 4.5 percentage points, price growth 12.5 percent) and the category 'Housing, water, electricity, gas and other fuels' (impact 1.5 p.p., price growth 10.9 percent) made the biggest contribution to price increase in this period. A partial change in the composition of factors contributing to inflation, compared to the previous year, indicates that the so-called base inflation (inflation when the volatile growth of food and energy prices is excluded) may remain elevated, and entrenched even for a longer period. Even though deflation of the monthly consumer price index was recorded in October 2023 (-0.3 percent),



the annual inflation is 6.1 percent in this month, which is significantly above the price increase in the Euro area (annual inflation 2.9 percent in October).

In 2023, the prices of industrial products for export declined, recording a drop of 12.8 percent in Q3, due to a drop in prices in the metals processing sector, driven by development in the international commodity exchange prices. On the other hand, the growth of import prices slowed down to 2.8 percent in the third quarter of 2023, year-on-year.

3.1.3. Employment and Wages

The labour market continued with rather favourable developments, because of expansion of the economic activity, influx of non-residents and reduced informal economy, thus the employment grew to 243,700 in the nine months of 2023, which is a rise of 9.4 percent year-on-year. According to the Labour Force Survey, the unemployment rate at the end of Q2 2023 was down to a historic low of 12.9 percent. According to the records of the Employment Agency of Montenegro, the number of registered unemployed persons at the end of October 2023 was 39,128 or 11.6 percent less compared to the end of October 2022. The challenge of long-term unemployment continues to be a present structural problem of the labour market, whereby almost half of unemployed persons recorded with the Employment Agency are seeking employment for more than three years.

In the nine months of 2023, the average gross wage in Montenegro was 979 euro, which represents an increase of 11.4 percent year-on-year, while the average net wage (excluding taxes and contributions) was 787 euro, having an annual growth of 11.2 percent. Notwithstanding the strong inflation over the past two years, the tax policy changes and increase of the average wage in 2022, followed by an increase of wages of the public sector employees in 2023, the real wage recorded an increase of 18.4 percent in 2022 and 1.2 percent in the nine months of 2023.

3.1.4. Lending Activity of Banks

In 2023, the banking sector in Montenegro maintained stability, high liquidity, profitability, and good capitalisation. All key balance sheet items recorded an increase on an annual level, and so as follows: assets by 10.42 percent, credits by 12.01 percent, deposits by 10.65 percent, and capital by 27.28 percent. At the end of October 2023, monetary assets amounted to EUR 1,286.2 million, and made 18.95 percent of the total assets. The non-performing loans (NPL¹³) ratio was 4.82 percent.

The loans extended to legal persons amount to EUR 2,366.1 million, or 58.14 percent of total loans, while the loans to natural persons make EUR 1,703.7 million or 41.86 percent of total loans. During the same period, loans to natural persons recorded a growth of 8.75 percent, while the lending to legal persons recorded an increase of 14.48 percent. Loans to natural persons with 41.86 percent have a dominant share in the composition of total loans by key recipients; followed by loans to the corporate sector with 31.47 percent, loans to the Government of Montenegro with 4.79 percent, placements to banks with 16.85 percent, and other loans with 5.03 percent respectively of the total loans. Loans to the corporate sector

¹³ NPL – Non-performing loans



(business undertakings, both in private and in state ownership) amounted to EUR 1,280.6 million and recorded a growth of 1.76 percent year-on-year. Loans in other currencies make 3.46 percent of total loans, while loans to non-residents make 21.06 percent of total loans, which mainly refers to assets held on accounts of correspondent foreign banks. Long-term loans, which made up 76.57 percent of all loans in the system, are financed dominantly from stable short-term deposits, which make up 90.16 percent of total deposits in the system. At the end of October 2023, the average weighted effective interest rate on the total loans was 6.49 percent. This rate was 5.68 percent in the same period of the previous year.

During the nine months of 2023, a total of EUR 617 million of new loans were approved to legal persons, and these loans recorded a growth of 14.44 percent relative to the same period of the previous year, while EUR465.2 million was approved to natural persons, which is approximately 4.01 percent more relative to the same period of 2022. The average weighted effective interest rate on newly approved loans was 7.34 percent, and compared to October 2022 recorded an increase of 1.75 percentage points. The lending activity indicator shows that the transfer of the ECB monetary policy impact on the demand and supply of loans in the Montenegrin banking system is evident.

At the end of October 2023, the total deposits amounted to EUR 5,536.2 million. Over the one year, the total deposits recorded a growth of EUR 532.9 million or 10.65 percent. As for the composition of total deposits at the end of October 2023, the total deposits to natural persons amounted to EUR 2,679 million or 48.39 percent in the total deposits, while deposits of legal persons amounted to 2,857.1 million euro or 51.61 percent. The deposits to natural persons at the annual level recorded an increase of EUR 319.5 million or 13.54 percent, while the deposits to legal persons had a growth of EUR 213.4 million or 8.07 percent. A-vista deposits are dominant, and make 81.45 percent of total deposits. The banking system still has a maturity mismatch of the deposit potential. The share of non-resident deposits was significant and was 24.22 percent, while the deposits in other currencies made 4.78 percent of the total deposits. In October 2023, the average weighted effective interest rate on deposits was 0.25 percent, and remained at the same level compared to October 2022.

The value of the ratio of loans and receivables over deposits was 73.51 percent, which means that there is EUR 1,466.4 million of deposit potential in the system, which exceeds receivables underlying the approved loans.

3.1.5. Financial Sector

At the end of Q3 2023, the main characteristics of the financial sector are stability and a moderate level of systemic risk. To preserve financial stability, the Central Bank continued to actively monitor and analyse developments in the financial system and economy during 2023 as well, in order to support the recovery and further growth and development of the Montenegrin economy through adequate macroprudential and monetary policy measures in an environment of ever-present uncertainty. The measures have significantly contributed to maintaining the stability of the banking system, which records growth in all key balance sheet items, while the total deposits and liquid assets of banks are at their historical maximum. Considering the significant effects, and the fact that the deadlines for applying most of the measures have lapsed, the Central Bank does not plan to extend the application of the remaining measures.



The financial sector reached the value of assets of more than EUR 6.8 billion at the end of September 2023, which made 105.1 percent relative to the GDP. The banking sector makes up 93.9 percent of assets of the financial sector, followed by the insurance sector with 4.2 percent, and other financial institutions (micro-credit financial institutions, leasing companies, factoring companies, and companies of purchase of receivables) with 1.9 percent. During the nine months of 2023, turnover at the *Montenegroberza* (Montenegro stock exchange) was 8.3 million euro (0.13 percent of the forecasted annual GDP), which is 41.7 million euro or 83.4 percent less year-on-year.

The Central Bank carries out continuous supervision of the banking sector; and the banking sector is liquid, solvent, and with non-performing loans at the acceptable level. The liquid assets of banks were EUR 1,731.2 million and made 25.51 percent of the total assets at the end of October 2023. In the structure of the liquid assets, the largest share is of cash and cash equivalents (57.59 percent), followed by assets held with foreign banks (demand deposits) which make up 33.55 percent of the total liquid assets, assets held with domestic banks (demand deposits) with share of 0.49 percent, while part of the mandatory reserve makes up 8.37 percent of the total liquid assets. At the system level, securities amount to EUR 1,353 million, making up 19.95 percent of total assets. Securities represent a liquidity reserve. The banking sector stability is supported with adequate capitalisation, so that both the aggregate (20.71 percent) and individual solvency ratios for all banks in the system (ranging from 11.92 to 29.45 percent) as of 30 September 2023, are above the statutory minimum. These trends are reflected positively in the banking sector's profitability. At the end of October 2023, the positive financial result at the system level was EUR 127 million, while it was EUR 72.7 million in the same period of the previous year. The return on average assets (ROA) at the end of September 2023 was 2.30 percent, while the return on average equity (ROE) was 21.02 percent. Furthermore, as a precautionary measure, the Central Bank secured EUR 350 million on time from the European Central Bank and the Bank for International Settlements in case of emergency liquidity support for banks in case of unforeseen circumstances.

In compliance with the policy guidance of the European Commission, the Central Bank has continuously conducted activities within its powers, to make a maximum contribution to their implementation and to preserve the financial system stability. More details on response to the policy guidance of the Ministerial Dialogue held in Brussels in May 2023 are provided under Chapter 2.

3.1.6. External Sector

3.1.6.1. Current Account

In the period January-September 2023, the **current account deficit** was EUR 345.0 million and was lower by 28.4 percent relative to the same period of 2022, as result of a strong surplus on the account of services. Total export of goods was EUR 533.6 million, or 6.2 percent less if compared year-on-year; whereby the strongest contribution comes from the decline of export of non-ferrous metals and metalliferous ores and metal scrap. Total import of goods amounted to EUR 2,761.0 million and was 7.7 percent higher year-on-year, resulting from increased imports of road vehicles and industrial machinery for general use. The **services account** ended up in a surplus of EUR 1,483.1 million, which is 38.5 percent more year-on-year, and is a result of improved revenues from travel and transportation services. Total revenues from services were EUR 2,293.1 million or 31.4 percent more year-on-year. Estimated revenues from tourism were 1,361.2 million euro, which represents an annual growth of 48.6 percent. The **primary income** account registered a surplus of 84.9 million euro,



which is 14.2 percent less year-on-year. Revenues resulting from the primary income were EUR 306.4 million (growth of 8.8 percent), while the expenditures on this account were EUR 221.5 million (increase of 21.3 percent). The **secondary income** account recorded a surplus of EUR 314.5 million. Total transfers inflow to Montenegro was lower by 2.3 percent, and amounted to EUR 402.4 million, of which the majority is made of personal transfers from abroad (EUR 293.9 million, a decline of 10.1 percent); while during the same period, total outflow on the account of transfers abroad was EUR 87.9 million (increase of 24.6 percent).

3.1.6.2. Financial Account

The **portfolio investments** account recorded a net outflow of EUR 388.9 million, while the net outflow on the other investments account was 455.0 million. The main drivers of developments on this account were lower borrowing of banks, whereby the State increased its borrowing, if compared to the same period of 2022. **The net inflow of foreign direct investments** was EUR 320.4 million in the period January-September 2023, which is a decrease of 47.1 percent if compared to the same period of 2022. Total foreign direct investments inflow was EUR 631.4 million (a decline of 26.1 percent), of which equity investments made EUR 403.9 million (a decline of 13.4 percent), while the inflow in form of intercompany debt was EUR 197.9 million and recorded a drop of 38.5 percent. As for the composition of equity investments, the investments in companies and banks were EUR 68.7 million (a decline of 52.4 percent), while the investments in immovable property were EUR 335.2 million (growth of 4.0 percent). Inflow resulting from withdrawing investments from abroad was EUR 29.6 million. If observing the composition of the total inflow of the foreign direct investments, the share of investments in immovable property was 53.1 percent, followed by the intercompany debt with 31.3 percent, and investments in companies and banks with 10.9 percent. Total outflow of the foreign direct investments during the observed period was EUR 311.0 million, which is 25.0 percent more if compared to the same period of 2022. The outflow from investments of residents abroad was EUR 64.7 million; while the withdrawal of funds of non-residents invested in our country was EUR 246.3million.

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

No	Item	Jan-Sep 2022	Jan-Sep 2023	Change in %
1	Current account	-482,076	-344,954	-28.4
1.A.a	Goods	-1,993,592	-2,227,493	11.7
1.A.a.1	Export, f.o.b.	568,993	533,551	-6.2
1.A.a.2	Import, f.o.b.	2,562,584	2,761,043	7.7
1.A.b	Services	1,070,995	1,483,058	38.5
1.A.b.1	Revenues	1,744,959	2,293,069	31.4
1.A.b.2	Expenditures	673,964	810,011	20.2
1.B	Primary income	99,018	84,945	-14.2
1.B.1	Revenues	281,551	306,418	8.8
1.B.2	Expenditures	182,532	221,473	21.3
1.C	Secondary income	341,502	314,536	-7.9
1.C.1	Revenues	412,033	402,386	-2.3
1.C.2	Expenditures	70,531	87,850	24.6
2	Capital account	-2	-29	1725.8
2.A	Revenues	0	0	
2.B	Expenditures	2	29	1725.8
	Balance of current and capital account	-482,078	-344,982	-28.4
3	Financial account, net	-5,366	170,397	
3.A	Net acquisition of financial assets	486,126	349,156	-28.2
3.B	Net increase/incurrence of liabilities	491,492	178,759	-63.6
3.1	Direct investments, net	-606,014	-320,366	-47.1



3.2	Portfolio investments, net	103,322	388,915	276.4
3.3	Financial derivatives, net	-13,863	-66,235	377.8
3.4	Other investments, net	343,468	455,045	32.5
3.5	CBCG Reserve (change)	167,722	-286,962	
4	Net errors and omissions (3-2-1)	476,712	515,379	8.1

Source: Central Bank of Montenegro

3.1.6.3. International Investment Position

At the end of 2022, the net international investment position of Montenegro amounted to EUR 7,702.9 million or 130.0 percent of GDP, and compared to 2021 was lower by EUR 493.4 million. The total external receivables of residents were EUR 4,484.9 million, and liabilities EUR 12,187.8 million. If compared to 2021 and observing the net position by investment instrument (assets less liabilities), there was a decline with the other investment by EUR 471.0 million euro and with the portfolio investments by EUR 175.1 million, while the net position of the foreign direct investments increased by EUR 318.4 million. The preliminary data at the end of Q2 2023 indicate that the net international investment position of Montenegro amounted EUR 7,477.6 million. The total external receivables of residents were EUR 4,835.7 million, while the liabilities were EUR 12,313.4 million. Compared to the end of 2022, the negative international investment position was reduced by EUR 225.3 million, mainly due to increase in financial assets (by EUR 350.8 million).

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

	2021	2022	Q2 2023	Change in % 2022/2021	Change in % Q2 2023/2022
1. International Investment Position	-8,196.4	-7,702.9	-7,477.6	-6.0%	-2.9%
2. Assets	3,861.7	4,484.9	4,835.7	16.1%	7.8%
2.1. Direct investments, net	125.4	198.2	210.2	58.0%	6.0%
2.2. Portfolio investments, net	586.3	761.5	1,146.5	29.9%	50.6%
2.3. Financial derivatives	0.0	0.0	0.3	200.0%	1377.8%
2.4. Other investments	1,401.1	1,610.6	1,862.6	15.0%	15.7%
2.5. CBCG reserves	1,748.9	1,914.6	1,616.2	9.5%	-15.6%
3. Liabilities	12,058.0	12,187.8	12,313.4	1.1%	1.0%
3.1. Direct investments	4,732.3	5,123.5	5,263.4	8.3%	2.7%
3.2. Portfolio investments	1,777.4	1,777.5	1,784.8	0.0%	0.4%
3.3. Financial derivatives	0.0	0.1	0.3	10.4%	496.2%
3.4. Other investments	5,548.3	5,286.8	5,264.8	-4.7%	-0.4%

Source: Central Bank of Montenegro

3.2. Medium-term Macroeconomic Scenario

The growth of the economy during 2023 was stronger than expected, thus resulting from strong growth during H1, favourable short-term indicators in Q3, and the partial recovery of investment activity, the economic growth rate was revised, with an upward estimate for 2023. Over the medium term, the private consumption is expected to continue to be one of the main drivers of the economic growth, along with the start of a new investment cycle, implementation of structural reforms in the economy, and intensified European integration while joining the European Union initiative – New Growth Plan for the Western Balkans.

Strong household consumption, increasing the minimum pensions starting from 2024, start of the new investment cycle, continue favourable trends in tourism, coupled with sectoral support measures and relevant external forecasts of economic activity and inflation in Europe, form the core assumptions of the macroeconomic scenario. The next part of this Chapter



presents an overview of the medium-term macroeconomic forecast, while defining the macro-financial risks; as well as an alternative scenario in case of numerous risks and challenges materialising. The chapter contains also an assessment of impact of structural reforms and reform measure envisaged under this year's Economic Reform Programme, along with the complementary projects in the energy sector, in order to be able to quantify effects of part of the green transition on the growth of the economy and employment.

3.2.1. Baseline Macroeconomic Scenario 2023-2026 and Risks to its Materialisation

During 2022 and 2023, the economy grew faster than expected, in spite of the global economic and geopolitical uncertainties. The tax policy changes and increase in the minimum and average wage starting from 2022, further growth of the public sector wages in 2023, the rise of the disposable income through transfers, employment, and lending, as well as a high influx of non-residents in the past two years, drove the economic trends in Montenegro.

During 2023, the traditionally strongest sectors of tourism, trade, and transport recorded high growth rates, while industrial production recovered, primarily under the influence of strong expansion of eclectic generation. Revenues from tourism are at the record-high level for nine months of 2023 and amount EUR 1.36 billion, resulting from an increase in foreign visitors and general price levels. The banking sector is stable and highly liquid, even though the stricter monetary policy both at the European and global levels affected rise in interest rates in Montenegro and the decline in newly approved loans. The external trade position has worsened due to a decline in exports in 2023, while imports are recording a high increase driven by domestic demand. The labour market continued to record exceptionally favourable trends due to the economic activity expansion, influx of non-residents, and reduced informal economy; while the inflation in 2023 remained at a high level, even though it decelerated after a record-high rise in the previous year. In the absence of prominent reforms, the reform measures envisaged under last year's Programme have not had a more sizable impact on the economic growth generated in the current year. **In line with the macro-economic developments outturn, the economic growth rate was adjusted upwards for 2023 and is now estimated that the real growth will be 5.8 percent.**

High private and public spending is expected to continue in the forthcoming period, based on sectoral trends, employment growth, and the announced increase in the minimum pension, starting from 1 January 2024. Given that the increase will affect the categories of the population with low earnings and income, it is estimated that private consumption will be the main transmission mechanism of the adoption of this measure, which will add about 0.7-0.8 percentage points to the GDP growth rate itself in 2023 (net effect).

According to preliminary macroeconomic forecasts, the economic growth in the next three-year period will be at an average annual rate of 3.2 percent. The growth will be stemmed primarily by the domestic demand, with strong private consumption of households and the commencement of the new investment cycle, which will be supported by easing of business barriers and regulatory reforms, as well as youth employment policies. The planned public spending increase will push upwards additionally the economic growth in 2024, and the later years. The service-oriented economy and strong reliance on tourism will be a feature of the development model even over the medium-term, whereby the positive effect on the growth coming from net export will be neutralised by increased imports for personal and investment spending, all coming from a narrowly diversified domestic production base.



After the increase in the general level of prices in the economy, which in the period 2022-2023 cumulatively resulted in over 23 percent, if compared to 2021, inflationary pressures are expected to weaken over the medium term, but still to remain elevated. What is worrisome is the significant divergence of inflation in Montenegro compared to inflation in the Euro area, whereby the European Central Bank (ECB) predicted in its autumn forecasts that inflation in the countries that officially use the euro will return within the ECB target of around 2 percent¹⁴ only in the second half of 2025. According to the forecasts of the Ministry of Finance, it is estimated that inflation in Montenegro will be at the level of around 5 percent in 2024, while in the period 2025-26, it will drop to an average of 3 percent. The rise in prices will be determined dominantly by external factors, a slight calming down of energy and food prices on international commodity markets, as well as domestic policies that stimulate aggregate demand. If geopolitical and global economic uncertainties worsen, inflation may be significantly higher, which is the risk presented in the subchapter of the Alternative Scenario.

During 2023, the labour market recovered significantly compared to the pre-crisis period, thus the key indicators of the number of employees and the unemployment rate are significantly more favourable compared to the pre-crisis level. After the estimated, almost double-digit growth in employment in 2023, in the period 2024-2026, an average increase in the number of employees is predicted to be an annual average of approximately 2 percent, following the stabilisation of economic growth, conducted reforms in the field of human capital, and the potential of the domestic workforce. The structural deficit in the labour market will continue to cause a high number of issued permits for temporary residence and work of foreigners.

Prospects for economic growth over the medium term are supported by high priorities towards fulfilling the EU agenda in the accession process of Montenegro. To that end, one of the most important segments in the field of economy is represented by a new initiative of the European Union called – **The New Growth Plan for the Western Balkans**¹⁵. The initiative is dedicated to strengthening the economic integration of the countries of the region with the EU common market, speeding up key reforms, and increasing available financial assistance within the framework of the **Reform and Growth Facility**¹⁶, based on the fulfilment of the planned reform measures. The incentive of additional withdrawal of significant funds based on this facility may contribute to the growth of the economy in the medium term and a faster convergence towards the development average of the European Union member states.

During 2022, the labour market recovered significantly compared to the pre-crisis period, thus in 2023 it is expected that the key indicators of the number of employees and the unemployment rate to be more favourable compared to the level before the pandemic. The recovery in the labour market and the increase in social inclusion will be stimulated by priority reform measures aimed at the employability of youth and women, with the introduction of the Youth Guarantee Programme in Montenegro, with additional reform measure to increase the quality of education, which will have a weak impact on the labour market outcomes over the medium term, while it may support the productivity growth over the long term. In the period 2024-2026, average annual employment growth of approximately 2 percent is predicted, with continued wage growth, due to the implementation of reform measures

¹⁴ [ECB staff macroeconomic projections for the euro area, September 2023 \(europa.eu\)](https://ecb.europa.eu/press/pr/20230901)

¹⁵ [Commission presents a new Growth Plan for the Western Balkans including €6 billion in grants and loans to accelerate economic convergence with the EU \(europa.eu\)](https://ec.europa.eu/economy_finance/press/pr/20230901)

¹⁶ [2023 Regulation proposal Reform and Growth Facility Western Balkans \(europa.eu\)](https://ec.europa.eu/economy_finance/press/pr/20230901)



aimed at narrowing the informal economy and reducing the structural unemployment, a mild increase in productivity in the private sector (estimated by a potential growth), rise in inflation, and adjustments of public sector wages. It is expected that even over the medium term, despite of the prolonged inflationary pressures, the real average wage in the country will grow by approximately 0.7 percent, in line with the macroeconomic forecasts.

In the medium term, an improvement of the regulatory framework is expected, through the implementation of the Program for Suppressing the Informal Economy and the introduction of an integrated revenue management system, which will directly respond to the Policy Guidance No. 5 of the European Commission, from ministerial dialogue from May 2023. The measure could have great potential in improving the business environment, if personnel strengthening and strong operational action in the informal zone on the market of goods and services and on the labour market would accompany it.

Responsible public financial management is of key importance for macroeconomic stability, which is also recognised in the baseline scenario as one of the main challenges over the medium term. To reduce fiscal risks, reform measures are planned to improve the management of majority state-owned enterprises, with the establishment of a greater control and oversight function, to increase the general level of competitiveness in these enterprises and achieve better operating results.

Following the identified risks, a significant improvement of cyber security is also planned from 2024, while the quality of public services will be improved through the anticipated digitalisation processes in the public administration, health, and education sectors.

The recovery of investments and commencement of a new investment cycle is expected in the forthcoming period, which, according to expectations, will support growth over the medium term. According to the latest announcements, investments in energy resilience will remain strong in the next few years as well, especially in the field of renewable energy sources, such as projects for the construction of new solar and wind power plants. Planned policy measures will further spur decarbonisation and increase energy efficiency, to attain the sustainable growth and alignment with relevant EU policies. It is expected that, projects in tourism and infrastructure¹⁷, in addition to energy projects, will also make a strong contribution to economic growth in the coming period. The assumptions, as well as risks for investment growth over the medium term, relate to strengthening the predictability of the business environment and transparency of tax policy, stabilisation of political circumstances, and provision of prospects for the long-term sustainability of public finances.

Even though all relevant international institutions emphasize that the growth of the economy in 2023 is strong, the growth domain is expected to decelerate in the next medium-term, due to a mix of external and domestic factors, which will have an impact on the disposable income, private spending, recovery of investments, and the tourism sector.

¹⁷ High-value complexes in tourism, and construction of hotel facilities in the Northern region based on the programme of investments of special importance for economic interests; while the biggest investments in the infrastructure segment are coming from projects planned under the capital budget for 2023, of which the most important is a continuation of construction of the second section of the Bar-Boljare Highway (section Matešev-Andrijevića), reconstruction of the existing road infrastructure, projects in healthcare and education areas.



Macroeconomic projections for 2024-2026 have the following components on the consumption side:

- In the medium term, strong domestic demand, coupled with private spending and investments as drivers of economic activity, will dominantly drive the growth trend of the economy of Montenegro. Household personal consumption will be stimulated by growth in tourism, associated economic activities, growth in employment and wages, transfers from abroad (remittances), along with the recovery of lending activity, and will be strongly stimulated by budget measures for 2024. Features of the public spending in the forthcoming period will be a higher current spending and the planned increase in capital expenditures investments from public sources. It is expected that the gross fixed capital formation will record a gradual recovery and an annual average growth of about 3 percent in the next three-year period, following the expected stabilisation of political circumstances, the implementation of the European Commission's New Growth Plan for the Western Balkans and increased investments by foreign investors. Additional inflationary pressures and further growth of key interest rates over the medium term could threaten the planned growth of investments, while on the other hand, the improvement of the domestic regulatory environment could contribute to more favourable investment prospects;
- Net exports will have marginal effects on the economic growth in the coming years, despite of the strong tourism sectors and increase in export activities, due to simultaneous growth of imports of personal and investment consumption. Already in 2023, tourism exceeded by far income generated in the pre-crisis period, while high growth of this sector of about 8 percent annually is expected in the period 2024-2026, with further diversification of the structure of foreign guests and emitting markets. Although the inflow of foreign direct investments is expected to slow down, they will continue to support the economic growth, with a projected share in the GDP structure of around 7.4 percent in the following years.

Table 3.2.1: Montenegro: Macroeconomic Projections 2023-2026 – Baseline Scenario

Montenegro: Macroeconomic Projections, 2023-2026 - Baseline Scenario					
	2022	2023	2024	2025	2026
Nominal GDP in million euro	5924.0	6624.3	7034.0	7424.5	7782.6
Nominal growth	19.6	11.8	6.2	5.6	4.8
Real growth	6.4	5.8	3.8	3.0	2.9
Real growth	13.0	9.0	5.0	3.4	2.5
GDP deflator	12.4	5.7	2.3	2.5	1.8
Current account deficit, % of GDP	-12.9	-12.7	-13.1	-12.0	-10.9
	(real growth rates as %)				
Real GDP growth	6.4	5.8	3.8	3.0	2.9
Domestic demand	8.3	5.8	4.0	2.2	2.4
Household consumption	9.7	8.2	4.9	2.3	2.8



Government consumption	1.5	3.0	2.5	2.5	2.0
Gross investments	9.7	1.4	2.8	1.8	1.8
Gross fixed capital formation	0.1	2.0	3.9	2.5	2.5
Changes in inventories	56.3	0.0	0.0	0.0	0.0
Export of goods and service	22.7	12.7	6.8	5.8	6.0
Import of goods and service	21.3	10.6	6.4	3.8	4.4
	Growth in percentage, unless otherwise indicated				
Macroeconomic indicators:					
Employment growth	18.1	9.5	2.2	1.8	1.7
Growth of wages (gross)	11.3	11.5	5.0	4.0	4.0
Unemployment rate	14.7	13.2	12.6	12.0	11.6
Net FDI as % of GDP	13.2	7.5	7.8	7.4	7.1
Newly-approved loans	31.5	-6.0	2.0	2.0	4.0

Source: Projections of the Ministry of Finance

Macroeconomic indicators:

- Current account deficit in the balance of payments will decline from the estimated 12.7 percent of GDP in 2023 to 10.9 percent of GDP in 2026, due to the expected dynamics for imports and exports of goods and services, with an increase of surpluses on accounts of services, primary and secondary income;
- Due to the decline of the foreign direct investments in 2023, it is expected for their share in GDP to be reduced to approximately 7.4 percent over the medium term (net FDI);
- Newly approved loans will record a much slower growth of close to percent, due to stricter lending conditions and a rise in interest rates;
- Employment will grow in the period 2024-2026 at the average rate of 2 percent, shadowing the slowing down of the growth of the economy and in line with the domestic labour market limits.
- The unemployment rate, according to the projections, will drop from 13.2 percent in 2023 to 11.6 percent in 2026.
- The wage growth over the medium term is estimated to be approximately 4 percent, in line with the inflationary pressures and adjustments in the public sector.
- According to the estimates, inflation will remain a somewhat elevated level of 5 percent in 2024, with gradual stabilisation over the medium term to 3 percent.

Looking at the production side, the estimated growth model of the Montenegrin economy in the medium term will be dominated by the sectors of tourism (growth of 8 percent on average), agriculture (growth of 7 percent), and electricity generation (growth of 6 percent), in line with projects from renewable energy sources. Over the medium term, the construction industry is expected to recover and grow at an average rate of 3.3 percent annually, due to the projected dynamics of investments.

The following table outlines the indicators by aggregated production sectors:

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

Sectors	Real growth rates, as %				Share in GDP growth, %				Share in GVA, as %			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Agriculture	16.0	7.0	7.0	7.0	1.0	0.5	0.5	0.5	8.3	8.5	8.7	9.0
Industrial production	-0.4	4.3	3.9	3.5	0.0	0.4	0.4	0.3	10.9	10.9	10.9	10.9
Construction	-15.0	3.0	3.0	4.0	-0.6	0.1	0.1	0.1	3.8	3.7	3.7	3.7
Services	8.7	4.3	3.2	3.0	5.4	2.8	2.1	2.0	77.0	76.9	76.6	76.3
<i>-of which accommodation and food services</i>	32.0	10.0	7.0	7.0	2.6	1.0	0.8	0.8	12.3	13.0	13.4	13.8
GVA (gross value added)	5.8	3.8	3.0	2.9	5.8	3.8	3.0	2.9	100.0	100.0	100.0	100.0
Taxes less subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A	N/A
GDP	5.8	3.8	3.0	2.9	5.8	3.8	3.0	2.9	N/A	N/A	N/A	N/A

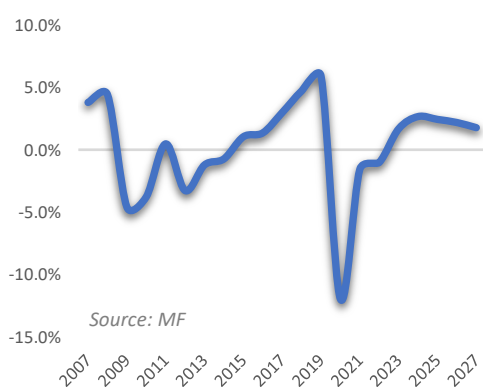
Source: Projections of the Ministry of Finance

However, the prospects for growth and macroeconomic stability in the forthcoming period remain extremely uncertain and subject to numerous risks materialising. Given that the past two years were marked by strong geopolitical uncertainties, the next period could bring additional instabilities, especially in the Europe region, which would affect the growth of the Montenegrin economy. Price developments on the global economic environment also remain very unpredictable in the short term, and represent the biggest challenge to the planned macro-economic scenario. Internal political conditions and limited fiscal space for additional response to market instabilities represent risks to domestic macro-financial stability and public finances. Delay in implementation of structural reforms, a slower pace of planned investments, and climate change, could also represent additional challenges to dynamic growth over the medium term.

3.2.2. Potential Growth

During the last few years, the Montenegrin economy has recorded high rates of economic growth, except in 2020, due to the pandemic crisis. The analysis of production factors in the

Figure 3.2.2: Output gap 2007-2027



macroeconomic model shows that the growth of the Montenegrin economy in the period 2008-2023 was around the potential, thus the average growth of the economy in this period was 2.5 percent. The main contributors to the growth were an increase in capital assets of 2.5 percent, labour force as a factor of growth added 1.2 percent, while the total factor productivity, as a factor combining available technological capacities, took away 1.2 percent from the growth. For the period 2024-2026, the growth potential of the Montenegrin economy is estimated to increase to 3.1 percent, whereby the composition of production factors will change in favour of a positive contribution of productivity to economic growth.

Given the projected trend of economic activity over the medium term and designated growth rates, further growth in employment and consumption is expected, coupled with a gradual

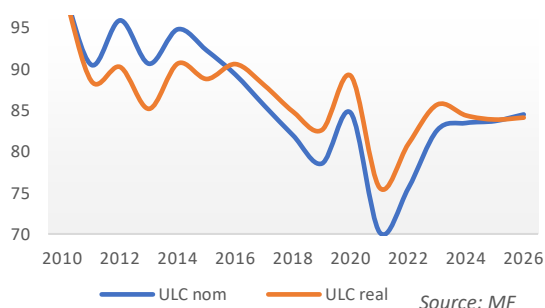
recovery of investments and the start of a new investment cycle. In line with the model projections, the developments of the economy around its potential are predicted, with the gap between potential and projected real GDP (output gap) decreasing in the coming medium-term period. Convergence will be guided by announced budgetary measures and structural reforms, creating regulatory prerequisites for maintaining a dynamic level of economic growth and increase in competitiveness and productivity.

3.2.3. External Sector and Its Medium-term Sustainability

Poor diversification of the Montenegrin economy, openness for foreign trade flows, and high import dependence, represent a long-term structural challenge for Montenegro. The estimated export of goods in 2023 makes only 10.8 percent of GDP, while when it comes to the balance of payments position the external sector deficit is estimated at 12.7 percent of GDP. The foreign trade deficit is estimated at 47.2 percent of GDP and will be partially offset by the surplus on the accounts of services (25.5 percent of GDP), primary income (1.7 percent), and secondary income (7.4 percent of GDP). After the record-high export of goods in 2022, export activity is in decline during 2023, due to lower exports of the metal industry, as well as a drop in export prices, caused by developments in the prices of metals on international commodity markets, primarily aluminium. Following the stabilisation of consumption trends, but also with the recovery of investment activity, moderate growth in the import of goods is expected in the medium term. According to projected trends, a gradual decline in the current account deficit is expected, from 12.7 percent to still high 10.9 percent of GDP in 2026. It is expected that the deficit will continue to be largely financed by the inflow of foreign direct investments, for which is forecasted a slowdown over the medium term and an average share of approximately 7.4 percent in the GDP composition.

The competitiveness analysis done using the unit labour costs (ULC) shows that the labour cost competitiveness recorded a sizeable growth in the period 2010-2019, as a consequence of the growth dynamics of wages, employment, and GDP. The labour cost competitiveness

Figure 3.2.3: Unit Labour Cost (ULC) 2010-2026



in 2020 decreased significantly amid the pandemic crisis; while in 2021, alongside the strong recovery of the economy, the recovery of competitiveness followed due to the much stronger growth of GDP than the growth of wages. The declining trend of the labour cost competitiveness is noticeable during 2022 and 2023, due to the faster growth of wage bill in the economy than the increase in economic activity. In the period 2024-2026, labour costs competitiveness in the domestic economy is

expected to increase mildly, even though the nominal wages will record a somewhat higher growth, the real wage bill will be lower than the increase of GDP, due to the projected inflation rates and growth of employment. Thus the real GDP growth, averaging to 3.2 percent, will be above the growth of real wages and employment, for which the forecast for an increase over the medium term is approximately 0.7 percent and 1.9 percent, respectively.

Figure 3.2.4: Productivity, 2007-2025



Estimated labour productivity, stated as the ratio between the real GDP and the number of employees at the level of the economy, grew by approximately 1 percent in the period 2008-2023, whereby it recorded a sizeable decline in the past two years, due to the large increase in employment, which grew at a faster rate than the economic activity rate and newly generated GDP. In the next medium-term period, a slight acceleration of productivity

growth is expected, at an average annual rate of 1.3 percent in the period 2024-2026, due to the predicted faster growth of real GDP and newly created value than the number of employees, bearing in mind the limitations and structural challenges on the domestic labour market.

3.3. Alternative Scenario

Given the pronounced uncertainty of the macroeconomic outlook over the short term and that is subject to fluctuations, an additional scenario of macroeconomic trends needs to be created, which takes into account the possible materialisation of potential risks and challenges to the medium-term growth. They include both the external and domestic environment, while predominantly addressing the uncertain geopolitical situation, further inflationary pressures, as well as domestic factors of public finance stability and limited fiscal space.

3.3.1. Low-growth Macroeconomic Scenario 2024-2026 (Downside Scenario)

The key assumptions of the alternative scenario include a further deterioration of the unfavourable outlook at the global level, a slowdown in the growth of the European Union Member States economies, a decline in the foreign direct investments level, deterioration of trade balances, high levels of reference interest rates, the high inflation rate in the country, absence of implementation of infrastructural projects, and internal instability.

Essentially, by combining the potential risks to macro-financial stability materialising, the economic growth would be halved over the medium term, if compared to the baseline forecast scenario. The investment stagnation, and weaker revenues from tourism would have an impact on the lower employment growth over the medium term and consequently on lower household consumption. Unfavourable macroeconomic performance would reflect on a weaker inflow of budgetary revenues, and resulted in a higher need for borrowing.

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

Table 3.3.1: Montenegro, Macroeconomic Projections, Low-growth/Downside Scenario

Montenegro: low-growth/downside scenario	2023	2024	2025	2026
Nominal GDP, in million euro	6624.3	6896.1	7217.4	7489.4
Real GDP growth, as %	5.8	1.4	1.8	1.7
Inflation, growth of the average as %	9.0	7.0	4.5	3.2
Household consumption, real growth as %	8.2	1.4	0.7	1.5
Investments, real growth as %	1.4	0.0	0.0	0.0



Employment, growth as %	9.5	1.1	1.4	1.4
Unemployment rate, as %	13.2	12.9	12.3	11.9
Net FDI, % of GDP	7.5	5.1	4.8	4.7

Source: Projections of the Ministry of Finance

3.4. Impact Assessment

To observe the importance of structural reform measures planned in this year's Programme and announced projects in the energy sector, an assessment of the impact on the real sector and the labour market was carried out. The analysis takes into account all the mentioned structural reform measures, the quantitative effect of which is estimated at 0.3 percent of GDP over the medium term, which will be reflected mostly through the improvement of the framework for decarbonisation, greater employability, and the improvement of the quality of public services through digitalisation.

In addition to the reform measures, the effects of public capital formation through the construction of facilities for renewable energy sources and ecological modernisation of the existing infrastructure were also taken into account during the impact assessment. The announced projects include the construction of small hydropower plants, the construction of solar power plants, the construction of wind power plants, the reconstruction of small hydropower plants, as well as the finalising of the connection of Montenegro and Italy with a submarine cable. It is estimated that these projects will significantly contribute to the accelerated green transition of Montenegro in the field of electricity generation, since as early as 2024, according to the plan from the Energy Balance, the share of renewable energy sources in the total electricity generation will increase to over 63 percent, starting from 55 percent in 2022¹⁸.

Year 2022 was used as the base year (reference year before the considered measures started). The assessments include the reform measures from the last year's Programme and energy sector projects in the area of renewable energy sources. It is worth noting that forecasts and assessments generated using the model for assessment of the impact of the structural reforms and projects implementation on macroeconomic developments do not generate accurate "forecasts", but they do reflect the structure of and relations in the economy of Montenegro, thus partially take into account exceptionally complex multiplier effects from investments increase on the private consumption and GDP. The Assessment also does not include particularly important major infrastructure projects in the road infrastructure area and tourism-related projects. The effects of implementation are presented in the following table:

Table 3.4: Effects of Implementation of Selected Structural Measures and Energy Projects

	2022	2023	2024	2025
Real sector				
GDP, net effect in %	0.3	0.4	0.8	1.6
Private consumption, net effect in %	0.2	0.3	0.5	0.9
Investments, net effect in %	2.5	3.2	3.2	3.1
Labour market				
Employment, net effect in %	0.1	0.2	0.3	0.6
Unemployment, net effect in %	-0.1	-0.1	-0.2	-0.4
Unemployment rate, net effect in %	0.0	0.0	-0.1	-0.1

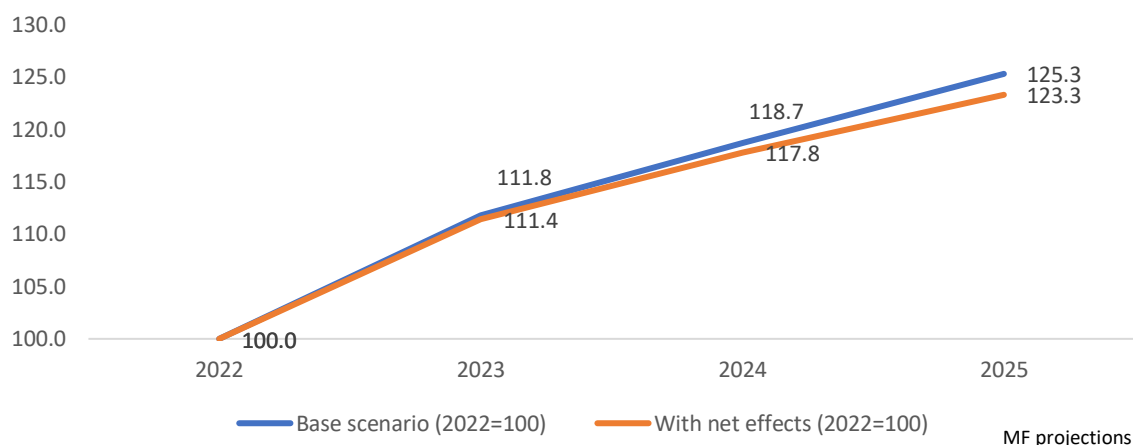
Source: Estimates of the Ministry of Finance

¹⁸ [Proposal of the Decision on the Montenegro Energy Balance for 2024 \(www.gov.me\)](http://www.gov.me)

Expected net effect from the reforms and projects mentioned above on the real GDP is 0.4 percent in 2023, 0.8 percent in 2024, and 1.6 percent in 2025. This could be interpreted that the GDP level at the end of 2025 would be lower by 1.6 percent than in the scenario without the implementation of the above-stated structural reforms and projects.

Graphical presentation of the impact assessment is shown in the following figure

Figure 3.4 Real GDP Growth Index



Effects of implementation of the considered structural measures, together with the energy sector projects, would have a considerable positive net effect in the private investments growth (more than 3 percent over the medium term), while the effect on the labour market indicators would be somewhat more moderate, whereby the unemployment would be lower on average by 0.3 to 0.6 percent annually, relative to the scenario of absence of these projects.

4. FISCAL FRAMEWORK

4.1. Policy Strategy and Medium-Term Objectives

The tax policy and the public spending management policy are largely determining the stability and long-term sustainability of the public finances.

Following the fact that the outturn of the public spending deficit in 2023 was below the plan, predominantly due to a large amount of the one-off revenues, as well as lower outturn of the public spending relative to the planned level, the deficit in 2024 will be increased given that the growth of the public spending will be faster than the growth of revenues. The public spending increase is caused by a further rise in mandatory expenditures, as well as higher allocations for financing capital projects. A significant amount of one-off revenues in 2023 and pressure on public spending, resulting from previously adopted laws, mandated additional fiscal adjustment measures to ensure the current budgetary spending surplus to be achieved in the period 2024-2026. Features of the fiscal framework of the Economic Reform Programme 2024-2026 are the implementation of fiscal consolidation measures based on the reduced discretionary expenditures and the creation of conditions for generating new revenues through better collection of revenues and expansion of the tax base.

Primary objectives in the area of public spending in the period 2024-2026 are dealing with:



- Generating a surplus of the current budgetary spending (financing all current liabilities of the State from the current revenues);
- Reducing the budgetary deficit to below 3 percent of GDP in 2026, which is in line with the fiscal responsibility rules;
- Reaching the public debt ratio to around 62 percent in 2024, while attaining a downward trend in the period 2025-2026;
- Ensuring conditions that the new borrowing is taken solely for financing capital projects or repayment and refinancing of the existing government debt;
- Issuing government guarantees only for projects of general public interest contributing to long-term development.

The 2024 Budget envisaged fiscal consolidation measures resulting in surplus of the current budgetary spending in the period 2024-2026 and a surplus of the primary budgetary balance in 2026, which is a direct response to the Policy Guidance 1 of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye.

Given the sizable obligations coming from the debt repayment in the next medium-term period, the following actions have been implemented in the 2024 Budget in order to achieve above stated objectives:

- Rationalising all expenditures not serving to create new value (fiscal adjustment in the segment of budgetary expenditures of approximately EUR 35 million);
- The Capital Budget will finance only projects having such a degree of readiness to enable acceleration of the investment cycle;
- Providing additional funds for financing municipalities in the Northern Region, to arrive at a more balanced regional development by changing the share of assigned revenues from the personal income tax;
- Ensuring increase of minimum pensions, by increasing revenues of the budget and reducing “irrational spending”, to improve the standard of living of pensioners;
- All new measures increasing the current spending are fiscally neutral, i.e. they are financed from current revenues and not from borrowing.

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

As for the tax policy area, the chief objective is to create conditions for a comprehensive reform of the tax system aimed at expanding the tax base, which would establish an environment for generating new revenue sources, primarily by:



- Lowering the tax wedge on labour and implementing a programme for improving the competitiveness of the economy and attracting credible investors;
- Taxing undeclared assets with a high rate and recovering illegally acquired assets;
- Changing the excise tax policy by increasing the excise tax level for goods having an adverse impact on the health of the population and using revenues generated on this ground for financing public healthcare services;
- Implementing a new legal provision for the area of organising the games of chance;
- Reducing the informal economy to enable fair market competition, precisely to suppress unfair competition;
- Reforming the tax and customs administrations;
- Better strategy for reducing the tax debt.

Starting from the macroeconomic and fiscal policy strategy, the following is forecasted for the period 2024-2026:

- Continuing positive economic trends, whereby the real economic growth rate will exceed 3 percent in the period 2024-2026;
- Limiting inflationary pressures by lowering the inflation rate from projected 5 percent in 2024 to an average of 3 percent in the period 2025-2026;
- Commencing a new investment cycle, which will support the economic growth prospects, through the implementation of significant investments, particularly in the tourism, energy, road and municipal utilities infrastructure, and telecommunications and IT sectors, along with continued construction of the Bar-Boljare Highway;
- Improving the standard of all employees, pensioners, and socially vulnerable citizens;
- Implementing the fiscal consolidation measures by reducing the discretionary expenditures and creating better conditions for generating new revenues through better collection of revenues and the tax base expansion;
- Reducing the budgetary deficit and public debt over the medium term.

Despite the positive macroeconomic and fiscal trends presented in the 2024 Budget, in H1 2024 the Government of Montenegro will prepare the Fiscal Strategy, which will contain additional fiscal adjustment policies by proposing key reform activities in the areas: social, healthcare, and pension system, as well as the tax policies. **By preparing a credible Fiscal Strategy the response is provided to the Policy Guidance 1 of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye.**

4.2. Budget Implementation in 2023

During 2023, a strong growth of budgetary revenues was recorded. The primary generators of the growth in revenues were: expansion of household consumption, inflation, consumption by a significant number of foreign citizens with temporary residence in Montenegro, effects of the tourism season, reduction of informality in the labour market, and suppression of illegal trade in the market of tobacco and tobacco products, and collection of on-off revenues.

A sizeable share of the increase in budgetary revenues comes from one-off inflows, which are not linked with the new fiscal policy measures or some more significant structural reforms which are improving the structure of the economy and creating a new value.

According to the preliminary data, the share of one-off revenues in total revenues in 2023 amounted approximately to EUR 180.0 million, of which the most important are:



- Collected proceeds from the hedging facility concluded in 2021, for hedging against the exchange rate risk for a loan concluded in US dollars for the needs of the construction of the Bar-Boljare Highway – amount of EUR 60 million;
- Accumulated revenues from the previous period from the implementation of the Economic Citizenship programme, for which the planned amount for 2023 is EUR 70.8 million;
- Collection of dividends from profits generated by majority state-owned enterprises – amount of EUR 11.6 million;
- Realised proceeds from EU donations of EUR 27 million.

During the observed period, almost all revenue categories have recorded an increase.

The outturn of the **public revenues** in 2023, according to the preliminary data, amounted to EUR 2,895.2 million or 44.9 percent of the estimated GDP (EUR 6,447.1 million) and if compared to revenues collected in 2022, they are higher by EUR 573.0 million or 24.7 percent. Increased outturn of these revenues, aside from one-off inflows, is a result of successful tourism season, improved tax discipline, suppressing the illegal trade in the market of tobacco and tobacco products, as well as the increased personal consumption and imports.

In line with the estimates, the most important increase in 2023 is for collection of **VAT revenues**, which amounted to EUR 1,059.3 million, and are higher by EUR 151.2 million or 16.7 percent if compared to those collected in 2022. The strong rise in revenues from this source is a result of multiple factors, of which the most significant are: the results of the summer tourism season, improved tax discipline, as well as a sizeable increase in imports and household consumption, which alongside the projected inflation were primary drivers for increase in this category of revenues.

Taxes and contributions on wages were collected for EUR 710.7 million, which is higher by EUR 111.2 million or 18.6 percent if compared to 2022. The strong increase in this category of revenues is primarily result of a reduced informal economy in the labour market (predominantly from the measure reducing the overall tax wedge on wages as part of the reform package *Europe Now 1*) and an increased base for calculating contributions due to rise in multiplier coefficients for wages of the public sector employees. Furthermore, the effects of the implementation of the Law on Restructuring Tax Receivables have also impacted the increase in this category of revenues.

Revenues from the **excise taxes** amounted to EUR 323.1 million, or 5 percent of GDP, which is higher by EUR 77.3 million or 31.4 percent relative to 2022. The most significant contribution to the increase of the excise tax revenues is recorded in the case of excise taxes on mineral oils and derivatives thereof, as well as on tobacco and tobacco products. Activities to suppress the informal economy on the tobacco market, as well as the acceleration of the excise tax calendar for this type of product in the second half of the year, have contributed to the increase in revenues from excise taxes on tobacco and tobacco products. The growth of revenues for the category of excise duty on mineral oils and derivatives thereof was dominantly influenced by the end of the implementation of the Decision on Reducing the Amount of Excise Duty for the Trade in Unleaded gasoline and Gas oils on 28 February 2023, due to the stabilisation of oil prices on the international market. It was previously planned that the Decision to reduce the excise duty on this basis could be implemented for six months in 2023.



In addition, on 1 July 2023, an Article of the Law on Excise Taxes also entered into force, which introduced excise duties on products manufactured from sugar, cocoa, and ice cream.

The outturn of the revenues from the **corporate profit tax** amounted to EUR 151.3 million and record or 67.8 percent. The significant growth of this revenue category is primarily the result of the implementation of the progressive corporate profit taxation rate, as well as the growth of economic activity and the achieved results of business entities in the previous year, coupled with the improved tax discipline.

Revenues from **taxes on international trade and transactions** amounted to EUR 52.2 million and are higher than those in 2022 by EUR 12.0 million or 29.7 percent, mostly because of increased imports and rising prices.

The outturn of **other revenues** was EUR 194.6 million, which is EUR 142.0 million more than in 2022. The growth of this category of revenues is chiefly the result of the termination of the hedging arrangement from 2021, of EUR 60 million, and the transfer of accumulated funds from previous years from the implementation of the Economic Citizenship programme, in the amount of EUR 70.8 million.

In 2023, the **donations** are planned to amount to EUR 130.8 million, which is EUR 43.4 million or 49.7 percent more relative to the previous year. The growth of this category of revenues is largely the result of the payment of funds by the EU, for the direct budgetary support for energy efficiency.

On the other hand, **public spending**, according to the preliminary data, was executed in the amount of EUR 2,975.22 million and is higher by EUR 404.0 million or 15.7 percent compared to 2022. The increase is dominantly related to the growth of the total gross wages bill, resulting from the increase in wages of the public sector employees, as well as capital expenditures. In addition to the above, the increase was defined by mandatory allocations in the field of **social welfare** in line with the applicable laws (Funds for the payment of rights in the field of social protection and Rights in the field of pension and disability insurance), then by the **Sectors of Education, Science and Sports** by implementing increased transfers for personal earnings of trainees, **Public Security and Defence** for the needs of strengthening the capacity and equipment of the police services and the allocation for the needs of the Military of 2 percent of GDP (pursuant to the obligations within the NATO alliance), increases in the Compensation Fund in order to accelerate the dynamics of repayment of the state's obligations based on compensation, as well as in other line items.

In addition to the above stated the revision of the Law on Budget for 2023 was adopted in November 2023, which expanded total expenditures of the Budget by EUR **129.84 million**.

Namely, the additional expenditures were allocated for the following purposes:

- Carrying out activities for overcoming the energy crises – EUR 22.36 million;
- Shortfall for the social protection – EUR 21 million;
- Shortfall for the pension and disability insurance rights – EUR 25 million;
- Shortfall for settling liabilities for procurement of pharmaceuticals – EUR 12.6 million;
- Shortfall for payout of subsidies to employers employing persons with disabilities – EUR 11.5 million;
- Shortfall for wages – EUR 7.4 million.



Based on the preliminary data on execution of spending for 2023¹⁹, in the overall spending structure, **the current budget** is planned to amount EUR 2,608.9 million or 40.5 percent of GDP and is higher by EUR 353.2 million or approximately 13.5 percent relative to 2022. The largest departures compared to 2022 relate predominantly to the following expenditures categories of the public spending:

1. Increased wages by EUR **112.99**, due to regular adjustment of wages, as well as increase of wages in various areas of the public sector resulting from increase of multiplier coefficients in line with the signed revised collective bargaining agreements for specific sectors;
2. Transfers on the account of social protection rights by approximately EUR **75 million**, resulting from child allowances, family [welfare] financial support, maternity leaves, custodial care and assistance, food for children in preschool institutions, maintenance of wards in collective accommodations, as well as other rights in the social protection area in line with the applicable laws - Law on Social and Child Protection, Law on Compensation to the Former Beneficiaries of the Benefits for Mothers of Three and More Children, and Decision of the Constitutional Court;
3. Pension and Disability Insurance **by EUR 84 million**, due to increase in pension resulting from regular and extraordinary adjustments and changes in number of beneficiaries;
4. Interests by EUR **32.5 million**, for regular debt servicing;
5. Ministry of Defence in order to reach the allocation level of 2 percent of GDP for the defence sector;
6. Compensation Fund by EUR **7.5 million** in order to accelerate the pace of repayment of the State's obligations on the account of compensation.

In line with the planned levels of budget revenues and expenditures in 2023, a preliminary public spending deficit is projected to amount EUR 80 million, or 1.2 percent of the estimated GDP, while the primary balance surplus is planned at the level of EUR 47 million or 0.7 percent of GDP.

4.3. Budget Plans for 2024

Core objectives of the fiscal policy and implementation of reforms in 2024 are the stable macroeconomic environment, the creation of conditions for the long-term sustainability of public finances, a competitive and predictable tax policy, as well as a financial system that supports innovation and development.

Positive macroeconomic outlook, driven by the domestic demand expansion, resulted in a continuous growth of budgetary revenues in the medium term, but the fiscal framework for the period 2024-2026 remains under the strong influence of the increase of budgetary expenditures caused primarily by the growth of mandatory budgetary spending. In

¹⁹ Preliminary data on execution of the general government level for 2023 are based on the preliminary execution of the central government budget and forecasted expenditures of the local self-governments adjusted with the local self-governments plans, given that the preliminary execution of the local government budgets could be compiled only in the forthcoming period during Q1, when the reports from local self-governments are expected.



accordance with the above stated, it is necessary to implement a series of reforms, along with an extensive fiscal consolidation.

To that end, in the coming period the emphasis will be on the implementation of key structural reforms in the area of social welfare, the healthcare system reform, decisive combat against the informal economy, as well as the implementation of fiscal consolidation and the public administration optimisation. The estimated cost of six prioritised structural reforms and related reform measures amounts to 20.67 million euro, which accounts for 0.7 percent of the total planned budgetary expenditures in 2024. In 2025 and 2026, the costs of structural reforms are planned at the level of 0.83 percent and 0.52 percent, respectively, of total budgetary expenditures.

In the area of tax policy, the main goal in the period 2024-2026 deals with creating conditions for a comprehensive reform of the tax system, aimed at expanding the tax base, which would create requisites for the generating new sources of revenues, primarily by:

- Lowering the tax wedge on labour and implementing a programme for improving the competitiveness of the economy and attracting credible investors;
- Taxing undeclared assets with a high rate and recovering illegally acquired assets;
- Changing the excise tax policy by increasing the excise tax level for goods having adverse impact on the health of population and using revenues generated on this ground for financing the public healthcare services;
- Implementing a new legal provision for the area of organising the games of chance;
- Reducing the informal economy in order to enable fair market competition, precisely to suppress unfair competition;
- Reforming the tax and customs administrations;
- Better strategy for reducing the tax debt.

Increase of public revenues is based on:

- Growth of macroeconomic indicators that impact the budgetary revenues developments, in line with the baseline macroeconomic scenario;
- Existing legislation;
- Tax policy measures over the medium term.

Total public revenues in 2024 are forecasted to amount EUR 3,119.2 million or 44.3 percent of GDP and if compared to the preliminary data for 2023 they are higher by EUR 224.0 million or 7.7 percent.

Taxes and contributions on wages in 2024 are planned to amount EUR 768.9 million in total or 10.9 percent of the projected GDP, which is higher by EUR 58.2 million or 8.2 percent if compared to those collected in 2023. During the next medium-term period, taxes and contributions on wages will grow based on the projected growth rates of employment and wages from the macroeconomic scenario, as well as the expected collection of this category of revenues from implementation of the Law on Restructuring Tax Receivables.

Revenues from the **corporate profit tax** in 2024 are planned to amount EUR 164.7 million, or 2.3 percent of GDP, which if compared to the outturn of 2023 represents an increase by 13.4 million euro or 8.8 percent. The estimate of this revenue category in the medium term was made on the basis of the projected growth of nominal GDP in the period 2024-2026, as well



as the expected effects of the collection of liabilities on the account of this type of revenue from the previous period, in accordance with the Law on Restructuring Tax Receivables.

The Value Added Tax in 2024 is planned to amount EUR 1,199.6 million or 17.1 percent of GDP, which more by EUR 140.4 million or 13.3 percent if compared to the outturn for 2023, while being in line with the projected growth for the household spending and imports in line with the macroeconomic scenario and measures to narrow down the informal economy.

Revenues from the **excise taxes** in 2024 are planned to amount EUR 365.8 million, or 5.2 percent of GDP, which is higher by EUR 42.7 million or 13.2 percent relative to those collected in 2023, chiefly as a result of projected growth of economic activity and household spending. Moreover, increase in legal trade in tobacco and tobacco products is expected in 2024 and over the medium term, as well as changes to the excise tax calendar for tobacco and tobacco products in line with the Law on Excise Taxes.

Additional revenues are also planned from excise duties on products manufactured from sugar, cocoa, and on ice-cream, as well as the effects from introducing excise duties on non-carbonated water with added sugar.

As for the revenues from excise duty on mineral oils and derivatives thereof, an increase in collection is planned, bearing in mind that during two months of 2023, the Decision on Reducing the Amount of Excise Duty for the Trade in Unleaded gasoline and Gas oils was in force, which will not be the case during the next period, due to the continuous decline in oil prices on the international market.

In 2024, a reduction of **other revenues** is planned by EUR 67.1 million or 34.5 percent less than what was the outturn in 2023. This decrease refers to the effects of the implementation of the Economic Citizenship programme, which was finalised as of 2022 and from which the remaining revenues were mainly collected in 2023, whereby the level of outturn in 2024 will be significantly lower as the processing of the already filed applications is being finalised.

Under the **revenues from capital**, the expected revenues from the payment of dividends by majority state-owned enterprise are planned to amount of EUR 50 million.

Revenues from **Fees/charges** are planned in the amount of EUR 149.5 million or 2.1 percent of GDP, which is higher by EUR 28.0 million or 23 percent than what was the outturn in 2023. The increase in the projected collection on this account was made due to the expected effects of the implementation of the new Law on Games of Chance.

To affect a more balanced regional development, through the amendment of the Law on Local Self-Government Financing, the percentage of transfers of revenues from the personal income tax to the municipalities of the Central and Southern regions will be reduced, while these funds will be directed to the municipalities of the Northern region.

Public spending in 2024 is projected at the level of EUR 3,481.22 million or 49.5 percent of the estimated GDP, and is higher by EUR 506 million or 17 percent compared to the preliminary execution for 2023. In the structure of expenditures, the current budgetary spending makes EUR 3,014.7 million or 42.9 percent of GDP, while the capital spending is EUR 466.56 million or 6.6 percent of GDP. The total growth of expenditures in 2024 is primarily the result of the growth of the current budgetary spending, the largest part of which relates to mandatory expenditures, the amount of which is determined by existing legislation.

The rise of the current public spending is determined to the greatest extent by:



- planned growth of the Gross wage bill, by EUR 55.2 million or 8 percent compared to the preliminary execution in 2023, because of the application of collective bargaining agreements which entered into force during 2023 and will be applied to the entire 2024 and in the next period, as well as of the increase in the number of employees in the public administration during 2023;
- planned interest growth of EUR 141.6 million or 2 percent of GDP, which is EUR 15 million or 12 percent more than the preliminary data for 2023, bearing in mind the large debt repayment needs;
- planned growth of the transfer fund for social protection of EUR 186.94 million or 22.6 percent more compared to 2023, because of the increase in the minimum pension and the regular adjustment of pensions to the current macroeconomic indicators.

Capital budget funds are planned in the amount of EUR 466.6 million or 6.6 percent of GDP, which represents an increase of approximately EUR 100 million or 27.4 percent compared to 2023. Over the medium-term, the capital budget funds are planned for commencing the construction of the second section of the Bar-Boljare Highway.

Based on the projected revenues and expenditures of the general government level (central government budget and local government budget), it is projected that in 2024 a deficit of EUR 362.04 million, or 5.1 percent of the estimated GDP.

In all years of the projection (2024-2026), a surplus of current public spending is achieved, which fulfils the fiscal responsibility rule when planning and managing public finances.

Having a surplus of the current public spending means that the state borrows solely for financing capital projects that create conditions for long-term growth and development and the repayment of debt incurred in previous years.

4.4. Medium-term Budgetary Outlook

According to the established medium-term budgetary framework, the public finance deficit is projected at 3.7 percent of GDP in 2025 and 2.9 percent of GDP in 2026. Reducing the public finance deficit will have an impact on setting the public debt on a downward trajectory to the level of 61 percent of GDP in 2026.

Fiscal framework (as % of GDP)		Outturn	Preliminary	Baseline scenario			Low growth scenario		
		2022	2023	2024	2025	2026	2024	2025	2026
Fiscal indicators	Current public revenues	40.06	44.91	44.34	43.57	43.16	42.05	41.56	41.42
	Public spending	44.36	46.15	49.49	47.24	46.06	50.48	48.59	47.86
	Deficit/Surplus	-4.29	-1.24	-5.15	-3.66	-2.89	-8.43	-7.03	-6.44
	Interest	1.62	1.96	2.01	2.22	2.52	2.05	2.28	2.62
	Primary deficit/surplus	-2.18	0.72	-3.13	-1.44	-0.37	-6.38	-4.75	-3.82
	Public debt (% of GDP)	70.77	62.24	61.62	61.27	60.96	68.10	72.22	76.39

Public revenues in the period 2025-2026 continue a positive trend and range from EUR 3,235.2 million or 43.6 percent of GDP in 2025, to EUR 3,359.3 million or 43.2 percent of GDP in 2026.

Projected economic growth rates and tax policy measures affecting public revenue trends will have a dominant effect on revenue trends in the period 2025-2026, and so as follows:



- Reducing the outstanding tax debt through the implementation of the Law on Restructuring the Tax Receivables;
- Accelerating the excise tax calendar;
- Legislation about organising the games of chance;
- Reducing of informal economy to enable fair market competition and suppress unfair competition;
- More efficient controls by continuing improvement of work of inspection services.

As a result of the projected economic activity growth, **the corporate profit tax** will record an average growth rate of approximately 2.2 percent in the period 2025-2026.

Revenues from the **value-added tax** will have an average growth rate of approximately 4.4 percent in the period 2025-2026, maintaining a stable share of GDP of around 16.9 percent, primarily due to the project economic activity growth, more efficient collection building on the tax administration reform, and broader coverage of inspection audits resulting in narrowing of the informal economy.

During the observed period, the revenues from the **excise taxes** will have an average growth of approximately 3 percent, with a stable share in GDP of around 6.2 percent. This increase will be provided by legislation, acceleration of the excise taxes calendar, and consequently with narrowing of the informal economy in the market.

Trends in public spending in the period 2024-2025 are characterised by the controlled growth of current spending which will be defined through continuous reduction of non-productive spending, along with stable growth of mandatory expenditures, which are determined by regular adjustments in line with the applicable legislation.

During the observed period, significant funds will be provided for the Capital Budget all to stimulate economic growth through investments in infrastructure and other significant development projects.

The current public spending surplus will be generated in 2024, 2025, and 2026.

The primary balance surplus of the Central government budget spending will be achieved in 2026.

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

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

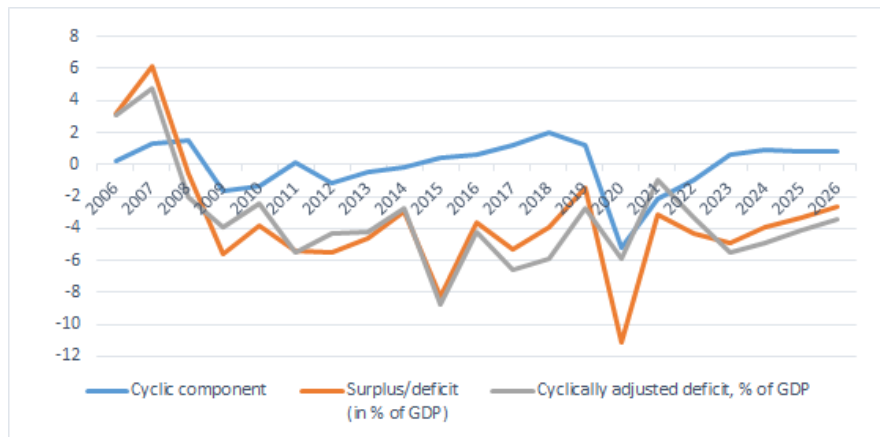
Cyclical component is calculated by following the method used by the European Commission and is implemented in the following two steps:

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

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

In the second step, the elasticity coefficients of certain categories of revenues were estimated: indirect taxes, personal income tax, corporate profit tax, and social contributions. Each category mentioned above is first considered relative to the relevant base, and the elasticity of this revenue component relative to the

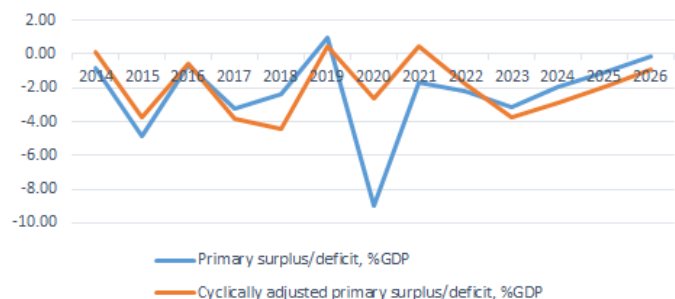
Figure 4.5.1 – Trends of surplus/deficit, cyclical component, and cyclically adjusted deficit



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

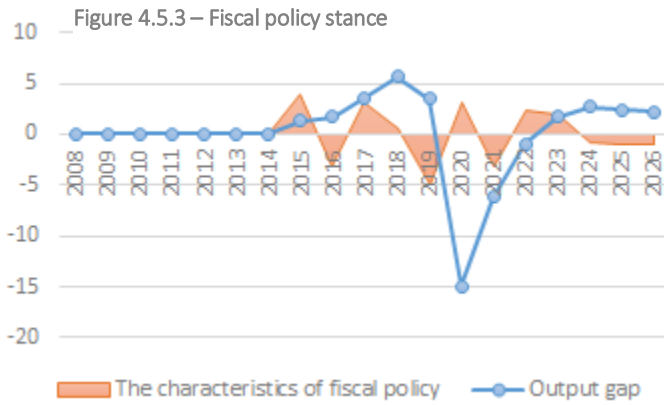
The parameter of sensitivity of surplus/deficit relative to the production gap is estimated at 0.35. The model results are limited due to the specificity of the country and frequent changes to the fiscal policy measures, and length of time series used in elasticity assessment, but they also reflect essential developments of structural and cyclical components of the public finance balance. Moreover, a cyclically adjusted primary balance was calculated as well (surplus/deficit without interests), which was additionally reduced by a one-off collection of revenues and one-off expenditures.

Figure 4.5.2 – Trends of primary surplus /deficit



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

According to the current scenario of the projected trends, after a mild negative output gap in 2022, a positive **output gap** of 1.7 percent is expected in 2023, followed by growth of up to 2.7 percent in 2024 and afterward a mild decline to 2.2 percent in 2026; given that in the medium term, preconditions are created for a significant acceleration of the growth of the Montenegrin economy.



As can be seen in the Figure, after expansive policy in 2022 and 2023, which was a result of the increased costs, in 2024 the policy will be restrictive with positive output gap, which points to stabilising (countercyclical) nature of the fiscal policy, which also continues over the medium term.



Annual GDP (in million euro)	6447.1		7034.0		7424.5		7782.6		6896.1		7217,4		7489,4	
	Preliminary		Baseline scenario						Low-growth scenario					
Estimate of public finances for 2024-2026	2023		2024		2025		2026		2024		2025		2026	
	mil. euro	% of GDP	mil. euro	%	mil. euro	% of GDP	mil. euro	%	mil. euro	%	mil. euro	% of GDP	mil. euro	%
Public revenues, of which:	2895.2	44.9	3119.2	44.3	3235.2	43.6	3359.3	43.2	2899.78	42.0	2999.59	41.6	3102.08	41.4
Personal income tax	134.9	2.1	163.5	2.3	169.5	2.3	177.4	2.3	151.16	2.2	157.60	2.2	164.81	2.2
Value added tax	1059.3	16.4	1199.6	17.1	1255.4	16.9	1310.3	16.8	1125.89	16.3	1165.30	16.1	1206.08	16.1
Excise taxes	323.1	5.0	365.8	5.2	400.2	5.4	412.1	5.3	343.19	5.0	356.76	4.9	368.21	4.9
Local taxes	16.6	0.3	21.9	0.3	22.6	0.3	23.3	0.3	21.93	0.3	22.59	0.3	23.27	0.3
Contributions	575.7	8.9	605.4	8.6	637.4	8.6	670.2	8.6	584.08	8.5	600.76	8.3	617.61	8.2
Public spending, of which :	2975.2	46.1	3481.2	49.5	3507.0	47.2	3584.6	46.1	3481.22	50.5	3507.04	48.6	3584.57	47.9
Gross wages	712.7	11.1	767.9	10.9	769.1	10.4	770.1	9.9	767.89	11.1	769.15	10.7	770.05	10.3
Interests	126.6	2.0	141.6	2.0	164.9	2.2	196.3	2.5	141.57	2.1	164.89	2.3	196.32	2.6
Transfers for social protection	826.3	12.8	1013.2	14.4	1063.8	14.3	1108.0	14.2	1013.23	14.7	1063.77	14.7	1108.03	14.8
Transfers to institutions, individuals, NGO and public sector	468.7	7.3	528.3	7.5	550.7	7.4	551.9	7.1	528.28	7.7	550.75	7.6	551.89	7.4
Capital budget	366.3	5.7	466.6	6.6	419.9	5.7	441.6	5.7	466.56	6.8	419.94	5.8	441.64	5.9
Surplus /deficit	-80.0	-1.2	-362.0	-5.1	-271.9	-3.7	-225.3	-2.9	-581.44	-8.4	-507.45	-7.0	-482.49	-6.4
Surplus /deficit	46.7	0.7	-220.5	-3.1	-107.0	-1.4	-28.9	-0.4	-439.87	-6.4	-342.56	-4.7	-286.17	-3.8
Debt repayment	313.4	4.9	532.7	7.6	819.5	11.0	290.3	3.7	532.74	7.7	819.55	11.4	290.27	3.9
Expenditures for purchase of securities	0.9	0.0	2.3	0.0	2.3	0.0	1.6	0.0	2.28	0.0	2.28	0.0	1.58	0.0
Financing, of which:	405.8	6.3	902.6	12.8	1098.2	14.8	521.6	6.7	1122.00	16.3	1333.77	18.5	778.84	10.4
Borrowing abroad	306.0	4.7	657.6	9.3	925.8	12.5	353.9	4.5	876.99	12.7	1161.40	16.1	611.14	8.2
Borrowing in the country	58.4	0.9	202.5	2.9	128.8	1.7	123.1	1.6	202.50	2.9	128.83	1.8	123.11	1.6
Use of deposits	2895.2	44.9	3119.2	44.3	3235.2	43.6	3359.3	43.2	2899.78	42.0	2999.59	41.6	3102.08	41.4

4.6. Debt level and Developments, Analysis of Below-the-line Operations and Stock-Flow Adjustments

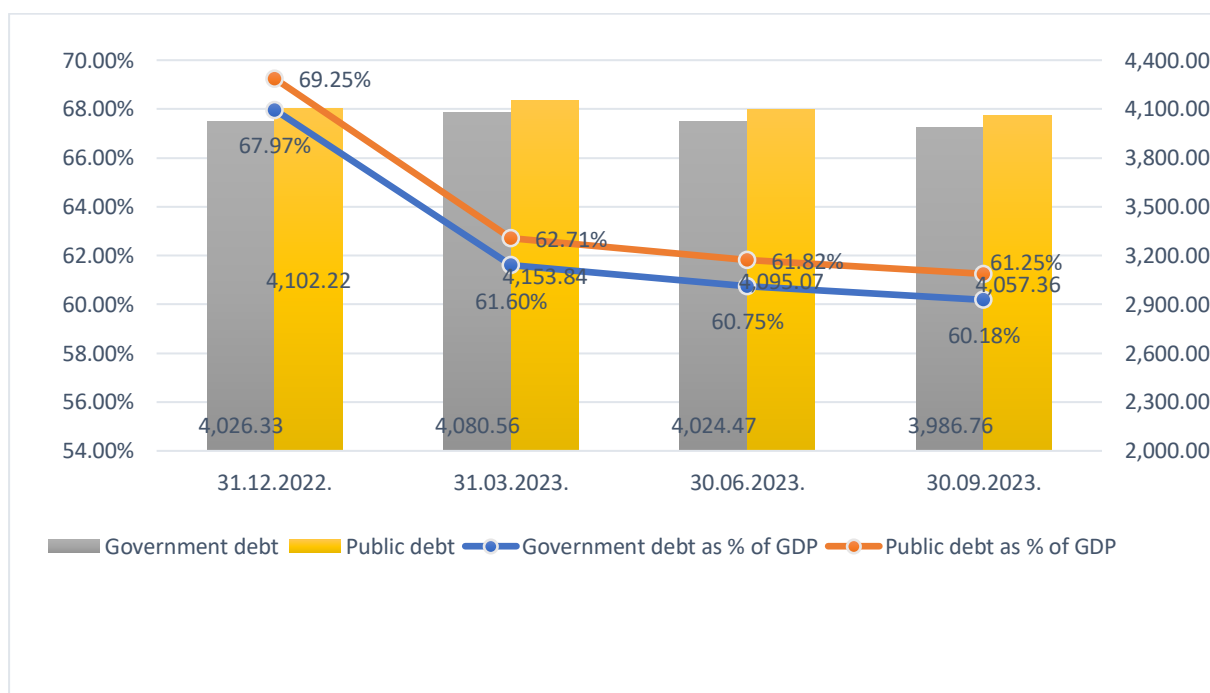
Government Debt and Public Debt in 2023

The total public debt of Montenegro on 31 December 2022 amounted EUR 4,102.21 million or 69.25 percent of GDP²⁰ and it includes government debt, which amounted EUR 4,026.32 million or 67.96 percent of GDP, and local government debt which was EUR 75.89 million or 1.28 percent of GDP.

The net public debt of Montenegro on 31 December 2022, including deposits of the Ministry of Finance, amounted to EUR 3,990.46 million or 67.36 percent of GDP.

At the end of 2022, deposits of the Ministry of Finance, which also include 38,477 ounces of gold, and local self-government deposits, totalled EUR 166.20 million, of which deposits of the Ministry of Finance accounted for EUR 111.8 million, while deposits of the local self-governments accounted for EUR 54.40 million.

Figure 1: Government debt and public debt of Montenegro in million euro



The debt presented in the Figure does not include deposits of the Ministry of Finance and local self-government deposits

The Law on Budget for 2023 planned budget financing for a total amount of EUR 705 million, of which EUR 600 million was planned to be covered from borrowings. The proposal Law amending the Law on Budget for 2023 adjusted the shortfall to amount to EUR 560 million, while the amount for possible borrowing remained unchanged.

In Q1 2023, the Ministry of Finance borrowed EUR 100 million from a foreign market. On 28 February 2023, a financial arrangement for EUR 100 million was concluded between the State of Montenegro, precisely the Ministry of Finance, and Deutsche bank AG. The contract is

²⁰ According to MONSTAT data, the GDP value for 2022 amounts to EUR 5,924.02 million.



concluded for three years, with a grace period of 12 months. The interest rate for the loan consists of 6-month EURIBOR plus the margin of 5.9 percent. The first interest instalment is paid six months after the loan withdrawal, while the principal repayment will commence 12 months after the loan proceeds withdrawal and will be paid in five equal instalments for the principal.

The plan is for the remaining amount of the shortfall to be obtained from loans or other forms of borrowing, from the domestic or foreign market, depending on the developments of conditions on the market. The activities of securing the shortfall are underway.

Table 1: Quarterly trends of external and domestic debts, as well as local self-government debt in million euro during 2023

Year	External debt	Domestic debt	Government debt	Local self-government debt	Public debt
31-Dec-2022	3,557.56	468.77	4,026.33	75.89	4,102.22
31-Mar-2023	3,619.56	461.00	4,080.56	73.28	4,153.84
30-Jun-2023	3,613.40	411.07	4,024.47	70.60	4,095.07
30-Sep-2023	3,593.62	393.14	3,986.76	70.60	4,057.36

As of 30 September 2023, the government debt of Montenegro amounted preliminary EUR 3,986.76 million or 61.18 percent of the estimated GDP for 2023²¹. Compared to the end of 2022, the government debt has decreased by EUR 39.57 million. The reduction represents the net effect between the new borrowing with Deutsche Bank, of EUR 100 million, as well as the withdrawal of loan proceeds from existing facilities, on the one hand, and the regular debt repayment under concluded loan arrangements with foreign and domestic creditors, on the other hand. Taking into account the above the public debt as of 30 September 2023, according to preliminary data of the Ministry of Finance, amounted to EUR 4,057.36 million or 61.25 percent of the estimated GDP.

Table 2: Trends of external, domestic and local self-government debts as the percentage of GDP

Year	External debt as % of GDP	Domestic debt as % of GDP	Local self-government debt as % of GDP
31-Dec-2022	60.05%	7.91%	1.28%
31-Mar-2023	54.64%	6.96%	1.11%
30-Jun-2023	54.55%	6.21%	1.07%
30-Sep-2023	54.25%	5.93%	1.07%

-Table 1 and 2 outline data on the debt as of 30 September 2023, according to the preliminary data of the Ministry of Finance, as well as data on the local self-government debt as of 30 September 2023, according to the Ministry of Finance projections.

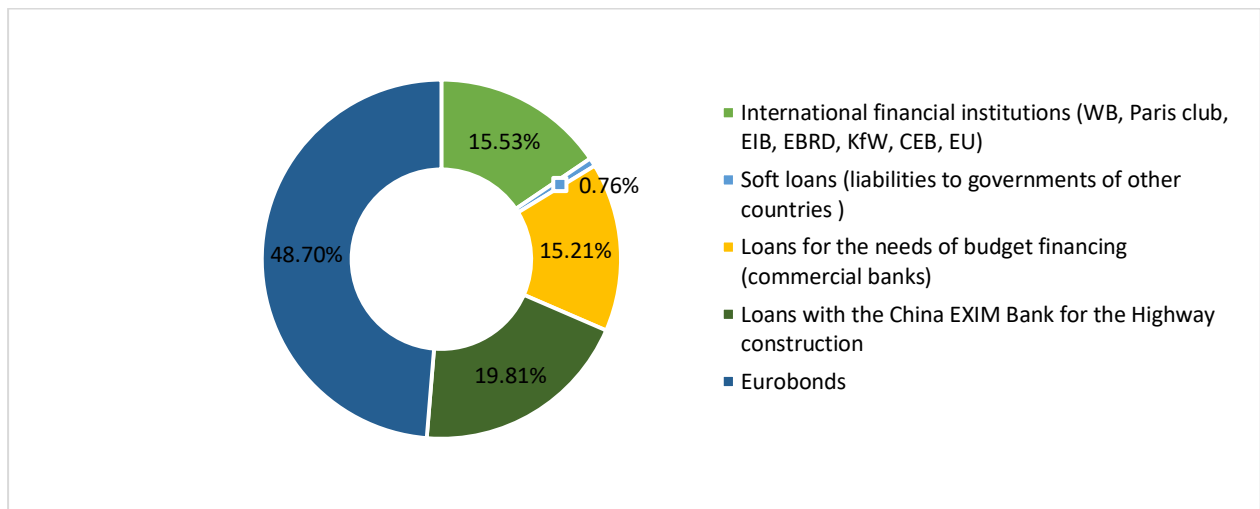
As for the structure of debt to residents, the largest amount of the debt refers to liabilities arising from loans with commercial banks in the amount of EUR 133.25 million, while in the external debt structure, the debt arising from Eurobonds in the amount of EUR 1,750.00 million is prevailing.

²¹ According to the Ministry of Finance projections, GDP value for 2023 is 6,624.34 million euro.

Table 3: The highest debts as of 30-Sep-2023²²

Debts to residents	Amount in million euro	Debts to non-residents	Amount in million euro
Loans with commercial banks	133.25	Eurobond	1,750.00
Domestic bonds	142.44	China EXIM Bank	711.79
Liabilities on the account of compensation	73.61	Syndicated loans PBG 1 and PBG 2	380.78
Legal persons and business undertakings	31.86	International Bank for Reconstruction and Development (IBRD)	176.99
Old foreign currency savings	10.09	Deutsche Bank	100.00

Figure 2: Structure of external debt by creditors as of 30-Sep-2023



In the structure of external debt, the largest share of 48.7 percent goes to Eurobonds, while in second place is the loan with the China EXIM Bank with a total share of 19.81 percent. Relative to the government debt, liabilities coming from Eurobonds make up 48.70 percent, while the share of debt on the account of the loan with the China EXIM Bank is 17.85 percent in the government debt.

Until 30 September 2023, the debt arising from the principal to residents and non-residents in the total amount of EUR 214.35 million, the debt on the account of the old foreign currency savings amounting to EUR 0.08 million was repaid, and guarantees in the amount of EUR 2.81 million were repaid. Repayment of interest to residents and non-residents amounted to EUR 79.81 million.

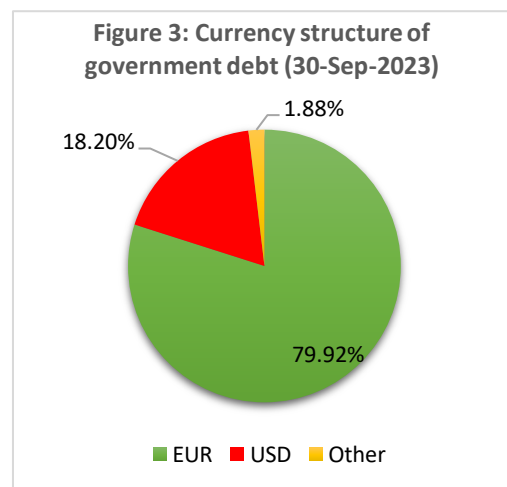
²² According to the foreign exchange rate as of 30-Sep-2023.

Table 4: Government debt servicing until 30-Sep-2023

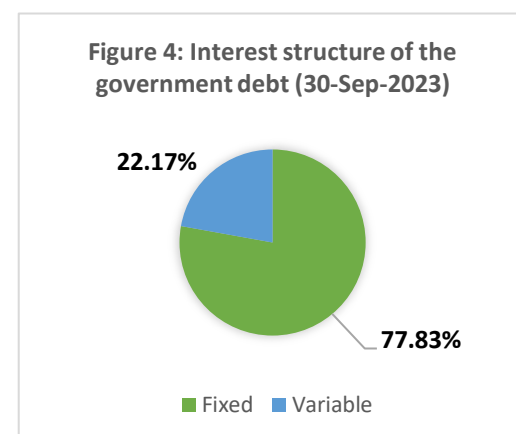
Budget line item	Amount in million euro
Repayment of principal to residents	61.99
Repayment of principal to non- residents	152.36
Total repayment of principal	214.35
Repayment of interest to residents	10.91
Repayment of interest to non- residents	68.50
Total repayment of interest	79.41
Repayment of guarantees	2.81
Old foreign currency savings	0.08
TOTAL	296.65

Currency and Interest Structure of the Government Debt

As for the government debt stock at the end of Q3 2023, 79.92 percent of the debt was stated in domestic currency, i.e. euro. While exit from the hedging transaction, the reports on the government debt recorded an increase of the valued of debt to the China EXIM Bank in euro, taking into account that the existing debt in US dollars is not stated at the exchange rate of 1.18, but at rather at the applicable (market) rate. This increase affected also the currency structure of the debt, thus the share of the euro debt in the total debt, which at the end of Q1 was 95.58 percent, was sizeably reduced in Q2 to 79.68 percent, to reach 79.92 percent as of 30 September 2023. Nevertheless, at this moment the currency risk effects are not expected to have significant implications on the government debt developments.



As for the risk of interest rate change, borrowings with a fixed interest rate prevail in the total government debt. However, it is expected, given the significant changes in the global financial markets characterised by an increase in interest rates, both fixed and variable, that these developments will affect the trend of the debt portfolio of Montenegro. The borrowings with variable interest rates, mainly linked to EURIBOR, make up 22.17 percent of the government debt. Therefore, the costs of borrowing are expected to increase in the coming period.



Credit rating agency Standard & Poor’s confirmed, in its 2023 reports, ratings for Montenegro B/B, with a stable outlook for the country. Credit rating agency Moody's also confirmed stable prospects for Montenegro, while maintaining a B1 rating and expressing positive outlooks, due to high GDP per capita, optimistic prospects for joining the EU, and strong investment trends with a focus on foreign direct investments.



Debt Management during 2023

In 2018, the Government of Montenegro adopted the Medium-Term Debt Management Strategy, which covered the period 2018-2020. Core guidelines for long-term debt management were set at that occasion, which were derived from the debt structure at that time. The core guidelines pertained to:

- Smoothing the debt repayment profile by year and extension of the commercial debt tenure;
- Managing the foreign exchange risk and interest rate risk;
- Gradually developing the domestic market of government securities; as well as
- Minimising the borrowing costs.

The mentioned guidelines were used to define the debt management directions, not only during the period of validity of the Medium-Term Debt Management Strategy 2018-2020 but also in the later period, creating the basis that was used in the debt management process. Important features of the previous three years, such as the COVID 19 pandemic, changeable political conditions in Montenegro, and general global disruptions in the financial market, caused that a new document for the debt management strategy was not adopted. However, the debt management itself was directed in line with the above-mentioned guidelines, keeping in mind that the core characteristics of the debt portfolio are very similar to those that were in effect in 2018 and 2019, for example, thus it seems that each of the guidelines is more applicable now than ever.

Namely, if we take into account the fact that, in 2025, 2027, and 2029, liabilities resulting from Eurobonds in the total amount of EUR 1,750.00 million will mature (EUR 500 million due in 2025, EUR 750 million due in 2027, and EUR 500 million due in 2029), the first guideline related to the smoothing of the debt repayment profile, in order to reduce the pressure in individual years, will require active management of the liabilities in question, through the liability management operation (LMO) instrument, similar to the one implemented in 2018. Namely, in 2018, with the issue of Eurobonds of EUR 500 million, at an interest rate of 3.375 percent with a maturity of 7 years, the bonds due in 2019, 2020, and 2021 were partially refinanced in the total amount of about EUR 362 million, thus individual repayments on the account of these Eurobonds were reduced, which made easier the debt repayment in the coming years²³. Furthermore, in 2018 and 2020, loan facilities supported by the Policy-Based Guarantee (PBG) of the World Bank were concluded for 12 years, thereby affecting both the debt repayment smoothing and the extension of the average debt maturity.

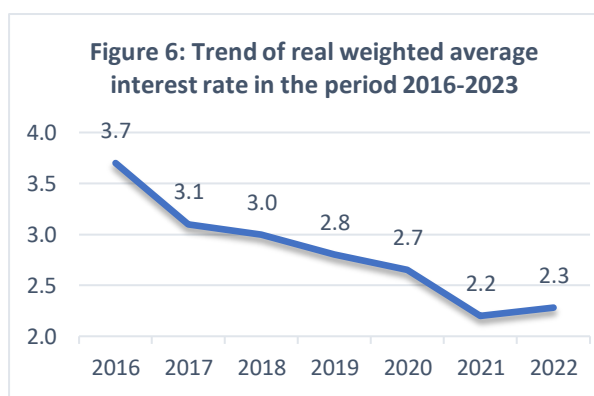
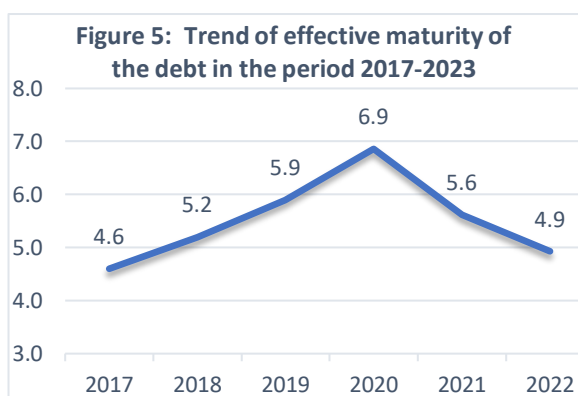
Moreover, relying on the Strategy and the necessity to manage the exchange rate risk and the interest rate risk, in line with the second guideline of Strategic Debt Management, in 2021 a hedging arrangement was executed using a cross currency swap for a loan facility with the China EXIM Bank. At that time, USD 818 million was hedged using a cross currency swap, which means the exchange of euro and US dollar cash flows between partner banks and the Ministry of Finance. The transaction was concluded for 14 years at an average euro interest rate of 0.88 percent and an average contracted exchange rate of USD/EUR 1.18. It is important

²³ Details are provided in the Economic Reform Programme 2019-2021.

to emphasise that all banking fees for this transaction were included in the mentioned euro interest rate, which represented the cost of banks' exposure to Montenegro.

In addition to protecting against the exchange rate risk, which was its chief objective, the aforementioned hedging arrangement contributed to the replacement of the 2 percent interest rate on the US dollar debt with the euro interest rate of 0.88 percent, which had the effect of reducing the average weighted interest rate for 2021 (Figure 1) and resulted in savings of EUR 23.72 million when securing US dollars for the debt repayment. Aside from that, the hedging transaction also affected the debt currency structure, which may be seen in the explanation for Figure 3 in the text above.

These operations contributed to the debt quality improvement in such a way that the average debt maturity was extended and the average weighted interest rate improved, which can be seen in Figures 5 and 6.



Due to the reduced need for borrowing during the period 2020-2022, when there was a regular debt repayment, which shortened the debt maturity by one year each time, as well as due to an increase in interest rates resulting from distortions in the financial market, which led to an increase in interest rates (primarily the EURIBOR, which practically had a negative value until the end of 2022), there was a shortening of the average debt maturity, while a more significant increase in the average weighted interest rate is expected.

Accordingly, the general guidelines for long-term debt management, mentioned at the beginning of this section, will come to the fore again to find solutions that will enable efficient debt management and improvement of debt quality parameters.

Baseline Scenario of Government Debt Developments in the period 2024-2026

In 2024, the shortfall will amount to about EUR 765 million, which are planned to be covered partly from the deposits realised in 2023 and partly from credit-based borrowings on the foreign and domestic markets.

In 2024, the debt is expected to increase in absolute amount compared to 2023, as well as compared to GDP, since the estimated GDP for 2024 is higher by approximately EUR 409.66 million compared to GDP for 2023. The government debt is expected to account for 60.61 percent of GDP at the end of 2024, while the public debt is expected to account for around 61.62 percent of GDP. Debt trends projection in the period 2024-2026 may be presented in the following manner:

Table 5: Government debt and public debt trends for the period 2024-2026 – Baseline scenario

	2023	2024	2025	2026
GDP	6,624.34	7,034.00	7,424.50	7,782.56
Domestic debt	545.68	332.92	334.04	240.79
Foreign dug	3,506.56	3,930.69	4,144.68	4,432.90
Total government debt	4,052.24	4,263.61	4,478.72	4,673.69
Government debt as % of GDP	61.17	60.61	60.32	60.05
Local self-government debt	70.60	70.60	70.60	70.60
Total public debt	4,122.84	4,334.21	4,549.32	4,744.29
Public debt as % of GDP	62.24	61.62	61.27	60.96

*Amount of the local self-government debt according to the projections of the Ministry of Finance

**Debt outlined in the Table does not include deposits of the Ministry of Finance and deposits of the local self-government.

Low growth scenario

If resulting from changes in the macroeconomic parameters, following the low-growth scenario projections, projected revenues of the Government budget are adjusted, precisely the revenues outturn is lower relative to the baseline scenario, in such case there will be an expansion of deficit which will reflect in the higher public debt level in the projection period 2024-2026. Consequently, the borrowing of the State will be higher by approximately EUR 300 million annually, to secure the shortfall funds needed for the deficit financing.

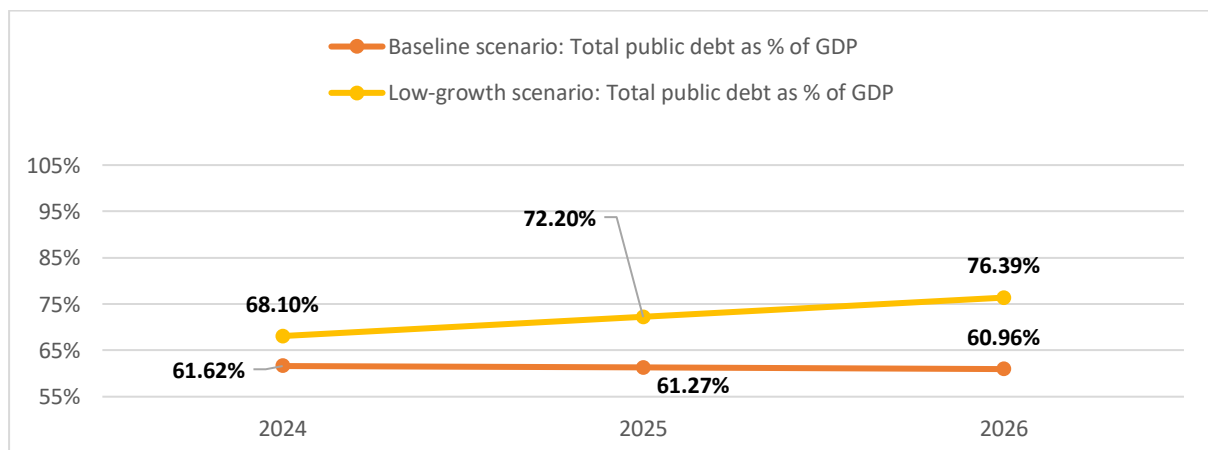
Table 6: Debt trends for the period 2024-2026 – Low-growth scenario

Year	2023	2024	2025	2026
GDP	6,624.34	6,896.10	7,217.40	7,489.40
Domestic debt	545.68	332.92	334.04	240.79
External debt	3,506.56	4,292.69	4,807.45	5,409.51
Total government debt	4,052.24	4,625.61	5,141.49	5,650.30
Total Government debt as % of GDP	61.17	67.08	71.24	75.44
Local self-government debt *	70,60	70,60	70,60	70,60
Total public debt **	4,122,84	4,696,21	5,212,09	5,720,90
Total Public debt as % of GDP	62,24	68,10	72,22	76,39

*Amount of the local self-government debt according to the projections of the Ministry of Finance

**Debt outlined in the Table does not include deposits of the Ministry of Finance and deposits of the local self-government.

Figure 5: Comparative public debt developments in the baseline scenario and low growth scenario, in million euro and as % of GDP, 2024-2026



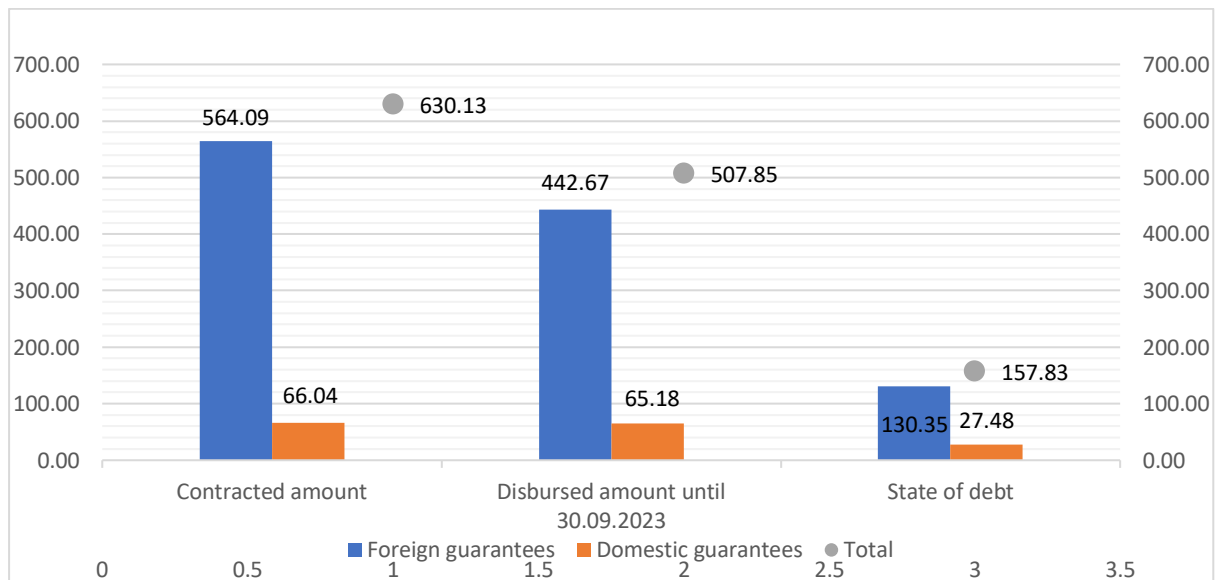
State Guarantees

The contracted amount of issued state guarantees was EUR 630.13 million as of 30 September 2023. Out of this amount, committed funds were around EUR 507.85 million. Preliminary debt stock on 30 September 2023, on the account of guarantees issued to domestic and foreign creditors, amounted to EUR 157.83 million, which is 2.38 percent of GDP.

According to the preliminary data, the committed amount of the guarantees issued by the Government of Montenegro for the loans issued by foreign creditors is around EUR 443.67 million, while debt stock based on these guarantees amounts to EUR 130.35 million or 1.97 percent of GDP.

The committed amount of guarantees the Government of Montenegro issued for the loans of domestic creditors, according to the preliminary data, was around EUR 65.19 million as of 30 September 2023, while debt stock on the account of these guarantees amounted to EUR 27.48 million or 0.41 percent of GDP. The major share of the existing domestic guarantees are guarantees issued to the local self-governments for implementation of the rehabilitation plans and their debt stock as of 30 September 2023 amounted to EUR 13.83 million.

Figure 6: State guarantee stock as of 30-Sep-2023



At the end of December 2022, the State of Montenegro concluded a Guarantee Agreement with the European Bank for Reconstruction and Development (EBRD) for the Loan Agreement between the EBRD and the Railway Infrastructure of Montenegro JSC Podgorica, signed on 28 December 2022, in the amount of EUR 11 million, and for the implementation of the Project for the procurement of machinery for railway maintenance (construction and electro-technical) and new equipment for the auxiliary train.

Furthermore, during 2023, the state issued two more guarantees. On August 1, 2023, the European Bank for Reconstruction and Development (EBRD) and Montenegro concluded the Guarantee Agreement for the Amendment to the Loan agreement between the EBRD and the Montenegrin Electricity Transmission System (CGES) JSC, signed on the same day, in the amount of EUR 9,000,000.00, and for the financing of the Project for the construction of a variable shunt reactor in the Lastva Substation.

The second state guarantee refers to the loan facility between EUROFIMA (Specialised financial institution for financing the purchase and repair of the rolling stock) and the Railway Transport of Montenegro, for the financing of the Project for urgent general overhaul of rolling stock used for railway passenger transport, of EUR 2 million. The Guarantee Agreement was signed on September 18, 2023.

The guarantees issued in the past few years mainly relate to loans that have been used to implement various infrastructural projects, including roads, railways, water supply and sewerage systems, electricity, support to the development of small and medium-sized enterprises, or restructuring.

The Proposal of the 2024 Budget Law defines entering into new state guarantees.

4.7. Sensitivity Analysis and Comparison with the Previous Programme

4.7.1. Sensitivity of the Public Finances Projections to Alternative Scenarios and Risks

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

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

Risk	Positive	Negative
Political	<ul style="list-style-type: none"> Progress in accession to the European Union will increase investor confidence, while improving the business environment and access to EU funds; 	<ul style="list-style-type: none"> Geopolitical risks at the global level can negatively affect the entire global economy, and consequently, the Montenegrin economy as well; Adoption of legal provisions whose implementation represents sizable fiscal burden may have negative impact on the public finances sustainability; Internal political circumstances and perception of the public finances stability can further affect investor confidence and economic growth over the medium term;
Economic	<ul style="list-style-type: none"> With implementation of the Growth Plan for the Western Balkans, additional revenues for financing reforms are provided; Reform of the tax and customs administration impacts the improvement of the business environment, more efficient collection, and therefore the increase of public revenues; Strengthened inspection oversight and implementation of the system of electronic monitoring fiscal cash registers reduces the informal economy coverage, thus enabling positive impact on public revenues; Reforms in the budgeting process and in the area of public finance management increase fiscal discipline and transparency of the public finances, which positively reflects on the main fiscal indicators; Implementation of the new legal framework for organising the games of chance creates 	<ul style="list-style-type: none"> Adverse macroeconomic trends that could have negative effect on the macroeconomic stability; Limited fiscal space, weaker dynamics of implementation of the planned investments, as well as delay in implementation of structural reforms can negatively affect economic recovery and growth in the medium term; Further intensification of the external inflationary pressures which are strongly reflected on domestic prices; Implementation of ESA2010 methodology can expand the existing institutional scope of the budget accounting in the General Government sector. Accordingly, deficit and debt of the mentioned sector may increase over the medium term. On the other hand, implementation of this methodology, by



<p>conditions for the collection of additional revenues compared to those planned on this basis.</p> <ul style="list-style-type: none"> • Potential collection of revenues by granting concession for the long-term use of the Airports of Montenegro JSC may increase the overall public revenues in the medium- and long term; • Continuation of construction of the highway and releasing it to commercial use will have positive impact on better connectivity of the Northern region with the Central and Southern region, on higher attractiveness for tourism, and economic activity. 	<p>following the same principle, can have positive impact on fiscal indicators.</p> <ul style="list-style-type: none"> • Delay in implementation of certain measures focused on increasing the public revenues may have impact on loss of the state revenues and increase of the projected budget cash deficit
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An alternative fiscal scenario is based on the low growth macroeconomic scenario whose main assumptions are based on deterioration of the adverse outlooks at the global level, slowing down of the growth of the European Union economies, decline in the foreign direct investments level, worsening trade balances, high reference interest rates, high inflation rates in the country, absence of implementation of infrastructure projects, and internal instabilities. The low- growth macroeconomic scenario is elaborated in Chapter 3.

If these risks materialise, public revenues would not be generated in the amount planned under the baseline scenario which would result in a higher public finance deficit level in the medium term and thus the greater need to finance public spending. Having in mind the aforementioned, in the event of the low growth macroeconomic scenario materialising the balance of public finance would be adjusted primarily through a higher deficit over the medium term. Consequently, the public debt level would be higher which is presented in Chapter 4.6.

On the other hand, the baseline fiscal scenario does not consider the potential collection of revenues on the based on the possible granting of the concession for long-term use of the Airports of Montenegro and the effects of the announced reforms that will be subject to the Fiscal Strategy and which were not implemented in the baseline scenario, which would enable a higher level of public revenues than those planned under the baseline scenario.

4.7.2 Comparison with the Previous Programme

able 4.7.2: Comparison with the previous programme, in million euro

ERP 2022-2025				
	2023	2024	2025	2026
Public revenues	2,425.95	2,486.43	2,603.68	
Public spending	2,790.87	2,892.81	3,031.48	
Surplus/deficit of public finances	-364.92	-406.38	-427.8	
ERP 2023 - 2026				
	2023	2024	2025	2026
Public revenues	2,895.23	3,119.18	3,235.18	3,359.30
Public spending	2,975.22	3,481.22	3,507.04	3,584.57
Surplus/deficit of public finances	-79.99	-362.04	-271.86	-225.27
Difference				



	2023	2024	2025	2026
Public revenues	469,28	632.75	631.5	
Public spending	184.35	588.41	475.56	
Surplus/deficit of public finances	284.93	44.34	155.94	

As can be seen from the table 4.7.2, the public revenues generated in all the projected years will be higher than what was projected in the previous programme. Such revenue growth will be generated primarily due to the implementation of reforms part of this Programme, which will accelerate the economic growth rates.

On the other hand, the public spending in 2023 is higher than what had been projected by the previous programme, due to additional expenditure needs resulting from the adopted legislation, trends in mandatory spending, and other costs, as elaborated in chapters 4.1, 4.2, 4.3, and 4.4

Taking into account the projected revenues and expenditures, both in 2023 and over the medium term, a better result is projected, precisely the lower public spending deficit in all observed years.

4.8. Quality of Public Finances

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

According to the medium-term framework presented in this Chapter, in the period 2024-2026, the stabilisation of economic trends is achieved through the projected increase in public revenues, the optimisation of discretionary expenditures, which, along with the projected increase in investments, and the lowering the inflation, contributes to the long-term sustainability of public finances. To that end, achieving a surplus of current budget spending in all years of the projection opens up the space for borrowing, to be done solely for financing the infrastructure projects that generate new economic value and for repayment of old debts.

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

As for the tax policy area, the chief objective is to create conditions for a comprehensive reform of the tax system aimed at expanding the tax base, which would establish an environment for generating new revenue sources, primarily by:

- Lowering the tax wedge on labour and implementing a programme for improving the competitiveness of the economy and attracting credible investors;
- Taxing undeclared assets at a high rate and recovering illegally acquired assets;



- Changing the excise tax policy by increasing the excise tax level for goods having an adverse impact on the health of the population and using revenues generated on this ground for financing the public healthcare services;
- Implementing a new legal provision for the area of organising the games of chance;
- Reducing the informal economy to enable fair market competition, precisely to suppress unfair competition;
- Reforming the tax and customs administrations;
- Better strategy for reducing the tax debt.

A better business environment, an increase in the number of enterprises and formal employment, and thus of the revenues of the State, will also be ensured through the implementation of the Programme for Suppressing the Informal Economy with the accompanying Action Plan for its implementation covering period 2024-2026, which contains a set of incentive and repressive activities aimed at reducing the informal economy as a share of GDP. To that end, the measure such as *Strengthening the mechanisms for the formalisation of the informal economy* aiming to contribute to improving the business environment, and reducing the share of informal economy in GDP, and the measure *Establishing an Adequate Governance Model and an Efficient Oversight System for State-owned Enterprises*, aiming to contribute to the establishment of a functional system of monitoring and planning, reporting and oversight of work of majority state-owned enterprises in line with the best practices of OECD countries, are affecting this area in particular.

Aside from those mentioned one the most important measures is the one on reforming the state-owned enterprises, which is elaborated in detail in Chapter 5 – Structural Reform. This measure aims to reduce fiscal risks from the operations of the state-owned enterprises and to increase their fiscal potential.

To ensure full support to the planned reform processes and increase the efficiency of the work done by the Revenue Administration, which collects more than 90 percent of public revenues, Montenegro is implementing the *Revenue Administration Reform* project together with the World Bank, which entails introduction of an integrated revenue management system (IRMS), as well as the system for real-time online fiscalisation; thus improving tax discipline which largely contributed to the good collection of revenues from the value added tax.

Likewise, implementation of the project *Assistance to the Customs Administration in respect of Excise Duties* enabled use of the new national software application for excise duties in IT system of the Customs Administration (CIS), as well as interconnectivity and interoperability with other customs software applications and future software applications. Introduction of the new information system for electronic data exchange enabled connection of software for the exchange of excise data in digital form, which contributes to strengthening the excise duty collection and ensures more efficient activities to suppress the informal economy.

One of the priorities in the forthcoming period will also be a more efficient regulation and oversight in the field of organising the games of chance. Bearing in mind that the format and dynamics of organising the games of chance are changing, as well as the necessity of expanding the tax base through the further application of electronic fiscalisation, the Ministry of Finance started activities that should be intensified in the coming period, dealing with the development of a new oversight system. The purpose of introducing a new on-line oversight system is to provide an analytical basis for more efficient decision-making, storage, and



processing of real-time data that are important for determining the current public revenues, as well as data on the collection of these revenues.

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

4.9. Fiscal governance and budgetary frameworks

The Law on Budget and Fiscal Responsibility contains the formal framework governing the planning and implementation of fiscal policy in the country and setting the numerical fiscal rules. Namely, the Chapter on Fiscal Policy and Responsibility defines the criteria to be complied with when planning and executing the fiscal policy and the national budget. In that regard, Article 19 stipulates fiscal policy planning and execution under the following criteria: 1) achievement of primary budget cash surplus; 2) current expenditures and transfers lower than the current revenues and donations; 3) responsible borrowing policy, with a specific focus on professional rules, aimed at ensuring fiscal sustainability. In addition, Article 20 of the same Law stipulates that the general government budget cash deficit should not exceed 3 percent of GDP at market prices and that the public debt should not exceed 60 percent of GDP at market prices. Going forward, consideration will be given to the need for revising the set fiscal rules, to strengthen and improve the system for responsible fiscal management of public finances, through the possible introduction of additional rules or reinforcement of the current processes of annual and medium-term planning.

Independent fiscal institutions: Concerning monitoring and evaluation of fiscal policy and achieved results, in particular with regard to the fulfilment of the numerical fiscal rules, the State Audit Institution assesses the rules by conducting their ex-post evaluation of the numerical fiscal rules and by sharing its opinion on the current year's budget. Amendments to the Law on Budget and Fiscal Responsibility were introduced in 2023, with EU support, to strengthen the monitoring of fiscal policy implementation, in particular the ex-ante evaluation. The amendments facilitate the establishment of the Fiscal Council, which serves to enhance independent and objective monitoring of public finance management and to meet Montenegro's obligations under the Negotiating Chapter 17 – Economic and monetary policy, which covers the expanded framework for the EU *acquis* on economic and in particular fiscal management. That framework consists of a set of regulations – the Six-Pack, the Fiscal Compact, and the Two-Pack – each containing provisions on national fiscal councils. Amendments to the Law will define the Fiscal Council as a separate independent institution that will assess the application of the fiscal responsibility criteria (fiscal rules), macroeconomic and fiscal projections, annual Budget Laws and their amendments, and provide assessments and opinions on other regulations and their impact on the fiscal stability and application of fiscal rules. Parliamentary elections were held in 2023, resulting in the new composition of the national Parliament. The Parliamentary Committee on Economy, Budget, and Finance,



which has an active role in the procedure for the selection of Fiscal Council members, was established in December 2023. The Fiscal Council is expected to be established and commence its work in 2024.

Medium-term budgetary frameworks: The medium-term budgetary framework is determined by the Fiscal Strategy, which is adopted by the Parliament upon Government proposal as the umbrella document for the Government's fiscal policy during its term in office. Based on the Fiscal Strategy, the Government adopts the annual Macroeconomic and Fiscal Policy Guidelines, setting the medium-term policies and the macroeconomic and fiscal projections for the three-year term. Adoption of the Fiscal Strategy and the Macroeconomic and Fiscal Policy Guidelines for the coming three-year period is planned to take place in the first half of 2024.

Availability and quality of fiscal data and alignment with ESA standards: With regard to the availability and quality of fiscal data, in the field of government finance statistics the Ministry of Finance carries out the planning, making of projections and reporting on the implementation of fiscal indicators on a monthly, quarterly and annual basis, in line with the national framework. In terms of harmonisation of government finance statistics with the international standards and ESA methodology, there exists an evident lack, primarily of staff but also of a systemic division of responsibilities in the area of data generation in line with ESA 2010 methodology. This will be addressed in the forthcoming period under the Negotiating Chapters 17 and 18 and through regulatory changes that will ensure harmonisation with the best practices by transferring responsibilities and specifying the roles in producing the official government finance statistics. In this regard, in December 2023 the Government adopted the 2024-2028 Strategy for Development of Official Statistics, which envisages many activities towards meeting the final benchmarks under Negotiating Chapter 18 on Statistics. Furthermore, this document envisages the adoption of amendments to the Law on Official Statistics and Official Statistical System in the first half of 2024, to set out and specify the responsibilities of the Statistical Office concerning the production of government finance statistics in line with ESA methodology.

Concerning **the application of the numerical fiscal rule** on keeping the general government deficit below 3 percent, achievement of that criterion is projected for 2026. Concerning the criterion stipulating public debt below 60 percent, a gradual drop of public debt is expected over the medium-term, to 62 percent in 2026.

4.10. Sustainability of public finances

Montenegro's long-term fiscal sustainability is largely determined by the social welfare systems and financing of the health care and pension systems.

A responsible approach to managing public finance in the forthcoming period, in the face of largely persisting negative external impacts on the economic trends in the country that resulted in high inflation, prompted the assumptions and the need for increasing the minimum pension to keep up with the economic trends and preserve the standard of living of the pensioners as the most vulnerable category of citizens during this period.

However, despite the positive projections of the medium-term macroeconomic and fiscal trends, given the high increase in mandatory expenditures in the social welfare and health systems, and the gross wage bill, to enable long-term public finance sustainability, **the**



Government will define and implement further fiscal consolidation measures that will focus on optimisation of spending and more efficient revenue generation and collection.

In this regard, **when it comes to consolidation of public spending**, given the scope of rights stemming from various legal provisions, long-term fiscal sustainability in Montenegro is primarily determined by the social welfare systems i.e. the financing of the health, social benefit and pension systems, to which special attention will be devoted in the forthcoming period.

In addition to the above, the public sector wage system needs to be upgraded, both in terms of public sector staff number optimisation and in terms of amending the existing systemic law on public sector wages to value and encourage effective and efficient performance. Activities on drafting the new law are planned to commence in 2024.

Reforming these systems, which account for more than two-thirds of total public spending, together with limiting and reducing the discretionary spending by all budget spending units, would significantly improve the efficiency of public spending over the medium- and long-term, generate savings and expand the fiscal envelope for increased public investments, creating prospects for dynamic economic growth. These reforms and the timeline for their implementation will be addressed in the Fiscal Strategy, planned to be adopted in the first half of 2024.

Furthermore, activities on **implementation of structural reforms** within the 2022-2026 Public Finance Management (PFM) Reform Programme will be intensified in the forthcoming period. The Programme identifies the key reform plans of Montenegro in this area for the coming period, aimed at enhancing accountability and ensuring good financial management. The Programme also ensures better coordination and inter-institutional cooperation in the aim of planning, implementing and monitoring the policies concerning macro-fiscal stability and allocation and use of public resources. The Programme should also ensure greater transparency in the public finance management system.

The PFM reform is required to ensure fiscal sustainability and good public finance management; it is expected to render significant results and progress in the functioning of the budgetary system, management accountability, budget execution, and internal and external audit. The need for conducting the PFM reform arises also from the weaknesses identified in several analyses and public finance situation assessments conducted in the previous period and the obligation of meeting the requirements under the final benchmarks for the negotiating chapters concerning PFM (5 – Public procurement; 8 – Competition policy; 16 – Taxes; 17 – Economic and monetary policy; 22 – Regional policy and coordination of structural instruments; 32 – Financial control, and 33 – Financial and budgetary provisions).



5. STRUCTURAL REFORMS IN 2024-2026

5.1 Competitiveness

a. Analysis of main obstacles

Montenegro is facing increased economic uncertainty caused by global shocks and high inflation. In addition to those, there are several structural challenges adversely affecting competitiveness of the economy and its sustainability, the most important being **adverse regulatory environment, informality in doing business, and weaknesses in the oversight and governance of state-owned enterprises.**

According to the survey of the Chamber of Economy of Montenegro, *Business Environment in Montenegro (PKCG, 2023)*, the business environment in 2023 is moderately unfavourable, with an average score of 2.41, on a 5-point scale. Business owners assessed fiscal and parafiscal charges as high, primarily the VAT rate in the group of fiscal charges, and fees for enforcement officers, and local fees in the group of parafiscal charges. As stated by the IPSOS's *Survey of households and enterprises aimed at determining the scale and structure of the grey economy in Montenegro (2022)*, one of the key causes influencing the informal economy in the labour market are high taxes and social insurance contributions, as well as numerous and high para-fiscal charges (such as permits, fees, and other charges). In other words, uncertainty of the business environment, precisely frequent changes of legislation, are hindering new investments, registration of businesses, and operation of micro and small enterprises. When you add to that complexity and slowness of the administration and insufficient transparency in decision-making, all the above has adverse effects on the overall business environment, and consequently affect the informal economy.

The informal economy is *de facto* a direct consequence of the economic and fiscal policy, coupled with the complexity of the regulatory environment and administrative procedures. The economic factors in certain sectors indicate that certain sectors of the economy are more susceptible to the occurrence of the informal economy, than the other. In Montenegro, this is particularly the case with tourism, trade, transport, construction, agriculture, forestry, and wood processing. The informality is manifested through non-recording transactions of trade in goods and services; limited trade facilitations; selling excisable goods in public spaces; avoiding entering into employment contracts and paying out wages without paying taxes and social insurance contributions; irregularities when hiring seasonal workers whether those are residents or non-residents; pursuing an economic activity without a license, and prior tax registration; and other. Additional causes for the informal economy are a lack of administrative capacities, inadequate coordination, and functioning of inspection authorities.

The unfavourable regulatory framework is also directly related to the legacy of the unfinished transition, as an obstacle to the development of the private sector and the economy as a whole. This primarily refers to **weaknesses in corporate governance in business undertakings in majority state ownership** (hereinafter referred to as state-owned enterprises) as a structural challenge. The International Monetary Fund in the report for Montenegro from February 2022, states that "*The overall SOE oversight framework is weak*" and that "*strengthening the oversight of SOEs could yield significant fiscal and economic benefits*". Inefficient and/or poor governance in state-owned enterprises poses significant economic and fiscal costs for the state. They are reflected through the calling on guarantees for the credits taken by individual state-owned enterprises, the allocation of significant funds



from the budget to individual business undertakings, and borrowings taken from the budget. They are also reflected through the lost revenues of the State, caused by poor management and operations of some of these enterprises. The State, as the majority owner, does not have a clear oversight model over the operations of the state-owned enterprises. For years, this oversight was fragmented between several competent institutions, without a common and standardised method for planning and reporting on the operations of the state-owned enterprises. The above-stated refers to nonfinancial state-owned enterprises, and when it comes to the Investment and Development Fund as a financial enterprise, the key challenges are its limitations in the performance of export insurance operations, to encourage exports and internationalisation of domestic business entities.

b) Structural reforms and reform measures that tackle identified obstacles

Starting from the challenge to increase the competitiveness, policy guidance of the Ministerial Dialogue from May 2023, as well as the obligations from the negotiation chapters for the European Union membership, two structural reforms are proposed as a response to obstacles to increase the competitiveness, and so as follows: “*Improving the business environment and formalisation of the informal economy*” and “*Reforming state-owned enterprises*”.

Structural Reform No. 1: Improving the Business Environment and Formalisation of the Informal Economy

The proposed structural reform is connected to the sub-areas: *Business environment and reduction of the informal economy*, and *Economic integration reforms*. Its objective is to contribute to a better business environment and increase the number of enterprises, formal employment, and revenues of the State. The structural reform is elaborated further through the reform measure on implementation of the Programme for Suppressing the Informal Economy and an action plan for its implementation covering period 2024-2026, which will contain a set of incentive and repressive activities aimed at reducing the informal economy as share of GDP. This measure consolidates two measures from the 2023-2025 ERP, which are extended over a medium-term, and so as follows: Reform measure 13 - *Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7*; and Reform measure 14 - *Strengthening the mechanisms for Suppressing the Informal Economy*.

Reform Measure 1: Strengthening the Mechanisms for the Formalisation of the Informal Economy

1. Description of reform measure: The objective of the Reform measure is to contribute to improving the business environment and reducing the informal economy as a share of GDP. The Measure includes the implementation of the Programme for Suppressing the Informal Economy with the supporting Action Plan for the period 2024-2026, which should be adopted by the end of 2023. In doing so, a response is provided to the policy guidance No. 5 of the Ministerial Dialogue from May 2023.²⁴ The Measure represents a continuation and consolidation of the Reform measures 13 and 14 from the ERP 2023-2025, which covered the improvement of the business environment and suppression of the informal economy by introducing a new integrated IT system for revenue management (IRMS), as well as by

²⁴ Programme for Suppressing the Informal Economy in Montenegro, accompanied by the Action Plan for the period 2024-2026 will be sent to the European Commission, following its adoption by the Government of Montenegro.



streamlining trade in goods and services. The Measure is in line with the Public Finance Management Programme 2022-2026, as well as the Sustainable Development Goals 8 – Decent work and economic growth and 9 – Industry, Innovation and Infrastructure. Likewise, it includes activities of cross-border trade in goods by implementing the WTO Agreement on Trade Facilitation and the CEFTA Additional Protocols 5 and 6 as well as finalisation of negotiations for the AP 7.

a. Activities planned in 2024:

- Strengthening the inter-sectoral cooperation at the local and central government level and improving administrative capacities aimed at full implementation of the Action Plan – Ministry of Finance (MF),
- Strengthening the institutional framework for suppressing the informal economy by establishing a Commission for Suppressing the Informal Economy – MF,
- Conducting incentive and repressive activities from the Action Plan for suppressing the informal economy in the goods and services market and in the labour market, planned from 2024 – Ministry of Economic Development (MED), MF, Ministry of Agriculture, Forestry and Water Management (MAFWM), Ministry of Spatial Planning, Urbanism, and State Property (MSPUSP), Ministry of Labour and Social Welfare (MLSW),
- Continued activities on introducing the IRMS – MF,
- Continued streamlining and modernisation of the customs procedures while expanding the automated processing and electronic data exchange, connected with the application of the CEFTA Additional Protocol 5; activities to implement CEFTA Additional Protocols 6 on trade in services; as well as finalisation of negotiations, ratification, and entry into force of the Additional Protocol 7 – MF, MED;

b. Activities planned in 2025:

- Strengthening the institutional framework and administrative capacities by increasing number of employees and additional training at the central and local government level for reducing the informal economy – MF, local self-government units (LSGUs),
- Continued activities from the Action Plan for 2024 to support the transition to a formal economy, through incentive and repressive measures in tourism, construction, trade, agriculture, and forestry sectors – MED, MF, MAFWM, MSPUSP, MLSW,
- Continued activities on introducing the IRMS and improving coordination among inspection authorities and other authorities at the central and local government level by improving the IT system for better linking of databases of inspection services with the competent local and central government authorities – MF, Ministry of Public Administration (MPU),
- Continued activities on modernisation of the customs procedures while expanding the automated processing and electronic data exchange, as part of the implementation of the CEFTA Additional Protocol 5, as well as streamlining the trade in services – MF, MED;

c. Activities planned in 2026:

- Conducting new survey on the scope and structure of the informal economy among households and businesses, in order to determine progress compared to 2022 – MF.

2. Results Indicators:



Indicator	Baseline (2022)	Intermediate target (2025)	Target (2026)
Number of registered business entities	45,675	47,930	48,686
The share of informal economy in GDP (%)	20.6	17.5	17.2
Direct public revenues as percentage of GDP	40.3	42.9	43

3. Expected impact on competitiveness. Implementation of the planned activities from the Action Plan will contribute to a more favourable business environment, an increase in number of enterprises, and formal employment. Likewise, increases in public revenues and reduced share of the informal economy from 20.6 percent of GDP to 17.2 percent of GDP are expected.

4. Estimated cost of the activities and the source of financing. Additional funds for implementation will be allocated mainly from the Budget of Montenegro, as well as under projects/programmes of international donors. Additional funds for implementation of the Action Plan in 2022 for strengthening the institutional framework by establishing a Commission for Suppressing the Informal Economy for the period 2024-2026 will be approximately EUR 192,000. Additional funds to conduct a survey in 2026 on the size of the informal economy as a share of GDP will be approximately EUR 100,000. The total cost for the IRMS hardware is approximately EUR 1,100,000.00, while the total cost for the software solution for the IRMS implementation is approximately EUR 7,650,000.00. Additional funds for the modernisation of the customs procedure in combating the informal economy will amount EUR 1,161,000 in the period 2024-2026.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. Reducing the scope of the informal economy creates conditions for increasing employment, while the medium-term will also lead to narrowing the difference in the employment rate of men and women, to poverty and social inequality alleviation. Likewise, it will result in better functioning of the labour market as a result of better quality oversight and coordinated action of several inspection authorities, while the public will be better informed and inspectors' work in the field will be more visible.

6. Expected impact on the environment and climate change. Implementation of the Action Plan will have multiple positive environmental impacts through the digitalisation of business processes, incentive measures to create green jobs in the field of agriculture, forestry, and tourism, and increased number of inspection controls in various segments (tourism, forestry, labour, social protection, and like).

7. Potential risks:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Insufficient coordination of work on implementation of the planned activities, which may lead to postponing deadlines for implementation	High	Raising awareness about the need to act in concert at all levels of the government, as well as timely taking actions to revise the Action Plan
Untimely changes to laws	Low	Adequate and concrete analysis of changes to laws will contribute to reducing the procedures for adopting the laws



Threat of cyber attack on the IT infrastructure, jeopardising the data and systems protection	Low	Investments in corporate security and early threat detection; investment in the cyber security measures
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Structural Reform No. 2: Reforming State-Owned Enterprises

The proposed Structural reform falls within the reform sub-area of *State-owned enterprises*. Its objective is to define a clear strategic approach in oversight of the work of state-owned enterprises while defining an optimal oversight model and mechanisms aimed at improving the business performance of business undertakings with majority state ownership (hereinafter referred to as the state-owned enterprises). The Structural reform will include defining of the strategic framework and directions for oversight of work of non-financial state-owned enterprises, as well as defining the optimal model for transformation of the Investment and Development Fund of Montenegro, being the financial sector state-owned enterprise.

Reform Measure 2: Establishing an Adequate Governance Model and an Efficient Oversight System for State-owned Enterprises

1. Description of reform measure. The Reform measure aims to increase economic and fiscal potential of the state-owned enterprises and to reduce fiscal risks from their operations. This will be done by defining strategic priorities and establishing a functional governance system, in particular by setting new criteria for the selection of members of their governing bodies. More specifically, the measure aims to improve corporate governance in these enterprises and to establish functions of evaluation and monitoring of the financial and fiscal risks coming from their operations. The measure responds to policy guidance No. 4 of the Joint conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye. The measure continues from the ERP for the previous years. In accordance with the planned activities, in the first half of 2023 the Ministry of Finance created an inter-departmental working group tasked to prepare an Analysis of the regulatory framework for the operation of state-owned enterprises, and to that end series of trainings are organised with the International Monetary Fund (IMF), the Faculty of Economics and other. More details on the activities in 2023 are provided in Chapter 2, as well as in the report contained in the Table of the Annex.

a. Activities planned in 2024:

- Analysis of the regulatory framework for the operation of state-owned enterprises – Ministry of Finance (MF),
- Comparative analysis of the regulatory framework for oversight of the state-owned enterprises operation in the European Union Member States - MF,
- Analysis for setting criteria for the selection of members of management bodies of the state-owned enterprises and preparing a proposal of the enabling regulation – MF,
- Establishing a public registry of the state-owned enterprises – MF,
- Proposal of the format of the Fiscal Risks Statements of the state-owned enterprises prepared – MF,
- Methodology for Assessment and Monitoring of Fiscal Risks of the state-owned enterprises prepared – MF,
- Strengthening administrative capacities of the competent directorate in the Ministry of Finance through additional training and employment – MF;

**b. Activities planned in 2025:**

- Adopting the Strategy on State Ownership and Governance of State-owned Enterprises of Montenegro, with supporting Action Plan/Road Map for further reforms for the period 2025-2027 – MF,
- New legal provisions that would govern the operation of the state-owned enterprises adopted – MF,
- Methodology for Assessment and Monitoring of Fiscal Risks of the state-owned enterprises adopted – MF,
- Complete and up-to-date database on financial operation of the state-owned enterprises adopted – MF,
- Continued strengthening of administrative capacities of the competent directorate in the Ministry of Finance through additional training – MF;

c. Activities planned in 2026:

- Implementation of new criteria for the appointment of members of management bodies or the boards of directors of the undertakings– MF,
- Adequate model for the governance of the state-owned enterprises and efficient oversight mechanism for conducting oversight of the operation of these undertakings established – MF,
- Regular annual analysis of financial operations and fiscal risk assessment of the state-owned enterprises and reporting regularly thereof to the Government, including a proposal of measures to reduce identified risks – MF.

2. Results Indicators:

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Number of state-owned enterprises facing high fiscal risk ²⁵	18	15	12
Net [operating] results of state-owned enterprises as percentage share of GDP	0.3	0.4	0.5

3. Expected impact on competitiveness. Strengthening the practice of good corporate governance is expected to increase the competitiveness of state-owned enterprises and fair competition in the market. The introduction of strategic priorities and better management will result in more efficient operation of the state-owned enterprises, which will increase competition in the market and productivity. Focusing on better risk management and strategic priorities contributes to their long-term sustainability.

4. Estimated cost of the activities and the source of financing. The indicative amount of the estimated additional funds for the implementation of the measure is approximately EUR 1.5 million for the period 2024-2026. Out of this amount, one million euro will be provided from the IPA funds, while the balance will be provided from the central government budget.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. Improved oversight and improved corporate governance of state-owned enterprises will ensure their more profitable operations, more efficient use of

²⁵ Fiscal risk assessment of business undertakings in majority state ownership is analysed by using the IMF tool SOE Health Check Tool within the portfolio that includes 47 business entities in which the Government is the majority owner and founder for 2021.

resources, and greater transparency of the recruitment policy. Moreover, the implementation of this measure will contribute to the corporate social responsibility of these enterprises and their providing more efficient services to the citizens. With better corporate governance, the state-owned enterprises will be aiming towards markets having greater growth potentials, which may result in an increased volume of operations, and thus higher employment.

6. Expected impact on the environment and climate change. Efficient corporate governance in the state-owned enterprises will mean a more responsible management of funds; as well as investments in mitigation and adaptation to the effects of climate change, and decarbonisation, which should have an effect in particular in the energy and transport sector enterprises. For example, the corporate governance reform in the EPCG will also contribute to faster decarbonisation in Montenegro through the transition to clean technologies in electricity generation, which will have a positive impact on the environment and climate change.

7. Potential risks:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Lack of parliamentary support	Low	Raising awareness on the importance of changes to laws to improve the oversight of work of the state-owned enterprises and full implementation of objective criteria for the selection of members of boards of directors.
Lack of staff and training	High	Only four employees currently work at the Directorate for monitoring fiscal risks of the business undertakings in majority state ownership. Remuneration system, regular training and additional employees may significantly improve the quality of work of the Directorate;
Lack of transparency of state-owned enterprises in incomplete and untimely providing required information and data due to the imprecise existing regulatory framework	High	The risk will be reduced and ultimately eliminated by establishing an appropriate regulatory framework.

5.2 Sustainability and Resilience

a. Analysis of main obstacles

The overall level of depreciation of the energy infrastructure in Montenegro is high and requires accelerated refurbishment and technological modernisation along with improvements in efficiency and increasing the use of renewable energy sources. As for the energy consumption, one of the chief challenges is insufficient level of the energy efficiency and high energy intensity in the industry, which is a consequence of outdated technology and equipment used in the production process with high GHG emissions levels, in particular of the CO₂ and low productivity rate in the industry. This includes the thermo-power plant in Pljevlja,



which is currently producing around half of the electricity in Montenegro. Montenegro is facing a challenge of carbon intensity and has limited support mechanisms for the decarbonisation of the economy. An additional challenge for Montenegro is insufficient resilience to frequent weather-related disasters and temperature oscillation, which could have negative consequences to the energy supply, agriculture, tourism, and increase pressures on the budget. Adaptation to new challenges and changed circumstance requires implementation of radical systemic reforms, with focus on two key acceleration mechanisms, being green and circular transition.

The digitalisation process is also important for implementing the Green Agenda, as well as for strengthening the efficiency and resilience of the public administration through digitalisation. During the past three years, Montenegro faced two serious crises, which clearly pointed to problems in the sector and tracked future directions of actions. The first crisis caused by the COVID-19 virus pandemic, demonstrated the importance of digital services for citizens and the economy, as well as to the need for an accelerated digital transformation of the State. The second dealt with a sophisticated cyber-attack on the Government's IT infrastructure and information and communication network at the end of August 2022, revealing the vulnerability of the State resulting from inadequate cyber protection mechanisms. The consequence was impeded access to key information systems in the country over a period of time, as well as a distortion in unhindered functioning of the public administration and services for citizens and the economy. Likewise, a large number of problems come from incomplete digitalisation of services for citizens and the economy, which causes serious difficulties, including low efficiency and limited availability of services, leading to long waiting queues and dissatisfied users. Problems are also present with the institutional organisations of individual sectors. To that end, the current level of knowledge on the cyber security importance and importance of overall digitalisation in the education sector is very low. The education system in Montenegro shows significant shortcomings in terms of: level of digitalisation of the regular education process and content; use of the IT equipment; development of key digital competences with pupils and teaching staff; use of collaboration platforms and creating and updating needed databases. The same is the case when it comes to coverage of all schools with fast internet network. Incomplete digitalisation represents a challenge in the healthcare sector as well. Systems for reporting, planning, and monitoring of parameters in the healthcare sector are static and mainly manually entered. The information system is unadjusted to the healthcare statistics, without advanced reporting systems, without business intelligence and data warehouse. Waiting lists of patients are very long, and there are still many medical needs which are not being met. All these shortcomings were pronounced particularly during the COVID-19 pandemic period.

b. Structural reforms and reform measures that tackle identified obstacles

Starting from the identified obstacles and challenges in response to the obstacles to an enhanced resilience of the economy, as well as the policy guidance of the Ministerial Dialogue from May 2023, and the obligations from the negotiation chapters for the EU membership, two structural reforms are proposed as a response to the identified obstacles, Those are as follows: *Structural reform No. 3 - "Increasing energy resilience by applying the Green Agenda"* and *Structural reform No. 4 - "Digitalisation aimed at sustainability of the economy"*.

Structural Reform No. 3: Increasing Energy Resilience by Applying the Green Agenda



The Structural reform deals with the sub-areas *Green Transition*, *Digital Transformation*, and *Energy market reform*, and is closely correlated with the structural reforms in the area *Competitiveness*, principally in the segment of innovation, which are very often horizontal by its nature. The aim of implementing the structural reform is to strengthen the energy resilience through alignment with the energy and climate goals until 2030.

The Structural reform will be implemented through reform measure 3 and 4. They are building up on the reform measures from the 2023-2025 ERP No 15 - *Sustainable green tourism*, No 16 - *Investments aimed at the development of agriculture and rural areas*, and No 17 - *Financial assistance to the households with the aim of implementing the energy efficiency measures*, which have become activities that are implemented continuously and thus became systemic measures. The measures in the 2024-2026 ERP also build on the measure 18 from the 2023 ERP - *Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products*. More details are provided in the report contained in the Annex.

Reform Measure 3: Incentivising Innovation for the Green Agenda and Transitioning to Circular Economy

1. Description of reform measure. The objective of the reform measure is to contribute to strengthening energy resilience, through support programmes for innovation for the Green Agenda and transition to the circular economy. This is continuation of reform measures 15, 16, 17, and 18 of the ERP 2023-2025. The measure serves to reach the objectives of the Montenegro Strategy of Transition to Circular Economy until 2030, the Montenegro Energy Policy until 2030, the Montenegro Energy Development Strategy until 2030, the Industrial Policy 2019-2030, and the Montenegro Smart Specialisation Strategy (S3) 2019-2024 with the Operational Programme for Implementation S2 2021-2024. It also serves for the implementation of the Energy Community Decarbonisation Roadmap, the European Green Deal, achieving the United Nations Sustainable Development Goals, and goals of the Green Agenda for the Western Balkans, as it increases access to modern technologies, provides for sustainable and efficient use of energy and improves energy resilience. This measure contributes to reaching the sustainable development goals No 7 – Affordable and clean energy, No 9 – Industry, innovation, and infrastructure, and No 13 – Climate Action. The measure contributes to removing obstacles to the growth linked with inexhaustible and inefficient use of natural resources, pollution of the environment and unidirectional linear model of doing business. Waste management and recycling, being key pillars of the circular economy concept, continue to dominate the linear approach in collection and disposal rather than the integrated sustainable system of waste management based on the circularity. Establishing circular models in the process of doing business results in lower use of natural resources and creates conditions for efficient use of resources. The measure represents a response to the policy guidance No. 4 of the Ministerial dialogue from May 2023.

More specifically, the measure includes activities dealing with the implementation of the Programme for incentivising innovation serving the energy efficiency in the industry, which was created as part of the inter-departmental cooperation and in response to the requests collected during the consultation process with the real sector, as well as the recommendations of the Innovation Working Group for the S3 priority area *Energy and sustainable environment*. Technological development and innovation are recognised as a horizontal area, precisely as one of the significant prerequisites for transition to the circular economy of the Montenegrin economy. Following the goals of the EU Green Deal and the EU Green Agenda for the Western Balkans, the planning of reform activities concerning the analysis of policy measures that



encourage innovation and smart specialisation in Montenegro, as well as the defining of new key initiatives that will provide a more targeted response to the goals established in these agendas, have begun, in cooperation with the European Union through the IPA III EU Reform Facility (EURIF) mechanism. In the meantime, concrete activities started dealing with the establishment and implementation of pilot financial support mechanisms for the introduction of innovative solutions and new technologies. Furthermore, an inter-sectoral mobility scheme for young researchers in the context of the green economy is planned through support from the EU IPA III 2024, which aims to influence the strengthening of skills and knowledge transfer through the mobility mechanism between the science and business sectors.

a. Activities planned in 2024:

- Programme for incentivising innovation serving the energy efficiency in the industry implemented – Competent ministries: Ministry of Energy and Mining (MEM), Ministry of Economic Development (MED), Ministry of Education, Science and Innovation (MESI),
- Analysing policy measures that provide incentives for science, innovation, and smart specialisation in Montenegro, and preparatory activities for defining new key initiatives in the area of science and innovation for the Green Agenda – MESI,
- Concept and package of support for incentivising the real sector transition to the circular model of doing business through green transition designed (preparatory activities) – MED, MEM,
- Law on Waste Management that will include stricter rules in this area adopted; development and application of stricter rules on plastic [waste] management – Ministry of Tourism, Ecology, Sustainable Development and Development of the North (MTESDDN);

b. Activities planned in 2025:

- Continuing with the implementation of the Programme for incentivising the introduction of innovative solutions and new technologies aimed at improving energy efficiency in the manufacturing industry – MEM, MED, MESI,
- Preparing and adopting new key initiatives for science and innovation for the Green Agenda – MESI,
- Preparing and adopting key programme activities for further strengthening of the real sector and adaptation to the new circular model of doing business – MED,
- Conducting a campaign for raising awareness of all stakeholders and education training on the value chain of single-use plastic and its harmful negative impact on the environment – General Secretariat of the Government;

c. Activities planned in 2026:

- Development of inter-sectoral mobility schemes for the green transition - Competent ministries: MED; MESI, Ministry of Finance (MF) under IPA III AF 2024,
- Implementing the Programme support for improving energy efficiency in industry and key initiatives for science and innovation for the Green Agenda.

2. Results Indicators:

Indicator	Baseline (2023)	Intermediate target (2025)	Target (2026)
Number of companies in the manufacturing industry that introduced innovative solutions and	0	10	13



new technologies aimed at improving the energy efficiency			
Number of key initiatives for science and innovation responding the Green Agenda requirements	1	2	3

3. Expected impact on competitiveness. By implementing the programme and procuring manufacturing equipment, and introducing digital solutions, business entities in the manufacturing industry are enabled to improve manufacturing processes, make savings in energy consumption and additionally strengthen the capacities of experts for energy management in the company. It is also expected that the market of materials, technologies and products that contribute to the increase of energy efficiency and the use of renewable energy sources will develop, which will affect the reduction of manufacturing costs of companies in the manufacturing industry and increase their competitiveness.

4. Estimated cost of the activities and the source of financing. Funds for implementation of the reform measure will amount to EUR 2.7 million of which EUR 1.2 million from the central government budget, and EUR 1.5 million from IPA III package of direct budgetary support of the European Commission to Montenegro for overcoming the energy crisis. Additional funds will amount to EUR 2 million each in 2025 and 2026 and will be provided from the central government budget. More details are provided in Tables 10a and 10b of the Annex.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. Lager involvement of MSMSEs staff is expected in the area of energy efficiency and use of renewable/clean energy sources, by increasing newly employed qualified staff for energy management and optimisation of the energy consumption at the side of beneficiaries of approved projects. Initiatives directed towards energy efficiency and circular economy may spur growth in the fields of renewable energy sources, recycling, energy efficiency, which may result in new jobs. Likewise, because of the improved competitiveness of companies in the manufacturing industry sector, the measure will have a positive impact on rising employment through the creation of new green jobs, and on poverty reduction. Owing to the use of new and cleaner technologies, the measure will have a positive long-term effect on preserving health.

6. Expected impact on the environment and climate change. Planned activities will have positive implications on increasing the energy efficiency and use of renewable energy sources, as well as on reducing the greenhouse gas emissions and negative impact on climate change, and the environment. The innovative solutions and technologies will lead to improvements in energy efficiency and increased use of renewable energy sources by companies operating in the manufacturing industry sector, which will contribute to the further development of the green economy, resulting from the synergy of the smart specialisation policies and industrial and energy policy. This type of incentive contributes to resolving challenges and priorities in the manufacturing industry sector, while affecting reduced energy consumption, energy intensity, carbon dioxide emissions, production costs, as well as to better use of resources.

7. Potential risks:

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Lower interest of companies in the manufacturing industry to apply the financial mechanisms for introducing innovative	Low	Continuous activities of informing the companies in the manufacturing industry about



solutions and new technologies aimed at improving the energy efficiency and increasing the use of renewable energy sources.		direct positive effects on their operation, along with consultations during the process of preparing new cycles of support
Insufficiently established inter-institutional cooperation among stakeholders within the identified key initiatives for the Green Agenda	Low	Established efficient management of the process under the Council for Innovation and Smart Specialisation, as well as continuity of cooperation under the inter-institutional S3 group and other bodies, involved in the analysis and identification of key initiatives from the beginning.

Reform Measure 4: Strengthening Decarbonisation Mechanisms

1. Description of reform measure. Objective of the reform measure is development of a strategic and legislative framework for implementation of the European Green Deal, in line with the Energy Community Decarbonisation Roadmap. The measure is a response to the part of the policy guidance No 4 of the Ministerial Dialogue from May 2023, where Montenegro needs to “*enhance energy resilience and transition to implement the Green Agenda*”. This is a new measure, which contributes to reaching the sustainable development goals No 7 – Affordable and clean energy, No 9 – Industry, innovation and infrastructure, and No 13 – Climate Action.

Carrying out the obligations assumed under the Treaty establishing the Energy Community and achieving the set goals are of key importance for the successful implementation of reforms in the energy sector in Montenegro. Montenegro, as the Energy Community member, should continue to implement the remaining obligations from the Third Energy Package and the Clean Energy Package in the electricity and gas sectors, and to create a functional energy market ready for integration into the European single market.

The key activity that should be implemented in the forthcoming period is the development of a comprehensive National Energy and Climate Plan (NECP), which will define key policies and measures for achieving new goals until 2030. Expanding the scope of the Treaty establishing the Energy Community to climate and environmental issues is an important step towards the transition aimed at Member States to reduce greenhouse gas emissions, become energy efficient and dominantly use renewable energy sources. To that end, it is important to continue with activities to increase and diversify the share of energy from renewable sources in total energy consumption, as well as with the creation and implementation of economically sustainable support programmes and incentives for the generation of energy from renewable sources for own use. On the other hand, the further development of the system for collecting emission credits in the short term and the corresponding medium and long-term system for trading emissions are also important for the decarbonisation of the energy sector. It is expected that the emissions trading system will also affect the gradual abandonment of

energy generation from coal. Moreover, it is important to achieve energy efficiency objectives, the most important of which deals with refurbishing the existing building stock, which must be conducted systematically but at an accelerated pace.

Timely updates of relevant legal frameworks by transposing new provisions arising from the European Green Deal and other legislation and other legal acts, in accordance with the Energy Community Decarbonisation Roadmap.

a. Activities planned in 2024:

- National Energy and Climate Plan adopted, and defining policies and measures to reach the objectives in the areas of decarbonisation, energy efficiency, and renewable energy sources until 2030 – Ministry of Energy and Mining (MEM),
- Law on Use of Energy from Renewable Sources and the Law on Energy prepared and adopted - MEM
- Study on Improving the Energy Efficiency in Buildings in Montenegro, aimed at considering the options for improving the investment environment dealing with enhanced energy features of the overall stock of buildings in Montenegro - MEM;

b. Activities planned in 2025:

- Analysing the potential for construction of new renewable energy sources (solar, wind), with particular regard to the impact on biodiversity and the environment, on land use (agricultural, forestry), and the need to develop the new transmission and distribution grid capacities,
- Technical support to the energy sector stakeholders, aimed at strengthening their capacities to create and implement clean energy policies and programmes,
- Financial mechanism for supporting the improvement of energy efficiency in buildings in Montenegro, in cooperation with the ECO Fund established;

c. Activities planned in 2026:

- Study on the Development of the Distribution System in Montenegro, taking into account aspects of integrating renewable energy sources and e-mobility,
- Continuing with the implementation of support for improving the energy efficiency in buildings in Montenegro, in cooperation with the ECO Fund,
- Low-carbon Development Strategy until 2050 adopted - Ministry of Tourism, Ecology, Sustainable Development and Development of the North (MTESDDN),
- Carbon fees system in Montenegro established – MTESDDN

2. Results Indicators:

Indicator	Baseline (2023)	Intermediate target (2025)	Target (2026)
Share of energy generated from renewable energy sources in total final energy consumption in Montenegro	-	44%	46%
Savings made in the energy consumption in buildings	-	6.2 GWh	8.4 GWh

3. Expected impact on competitiveness. The implementation of the planned activities will contribute to the development of the energy market in Montenegro. The development of the market for materials, technologies and products that contribute to increasing energy efficiency and the use of renewable energy sources is also expected. Implementation of the planned activities will contribute to the improvement of the investment environment in the fields of renewable energy sources and energy efficiency in Montenegro. Increased energy



efficiency and use of renewable energy sources may reduce the costs of operations of enterprises, in particular when a transition is made to own generation of energy from renewable sources. The reduced dependence on fossil fuels, in particular abandoning energy generation from coal, may reduce exposure of companies to risks linked with energy price volatilities and regulatory pressures. The enterprises acting in line with the sustainability principles and having an active contribution to the green transition, may build a positive image that improves the consumers' and partners' perception, thus reinforcing their competitive position.

4. Estimated cost of the activities and the source of financing. Funds for implementation of the measure for the period 2024-2026 will amount EUR 11.7 million. Out of that amount, EUR 6.7 million in 2024, EUR 3.5 million in 2025, and EUR 2.5 million in 2026 is planned. Out of the total amount, EUR 8 million will be provided from the IPA funds in the period 2024-2026. A detailed description of the financing is provided in the tables of the Annex.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. The measure affects development of the market of new and cleaner technologies, thus it will have positive impact on job creation, as well as on preservation of the health over the long term. The support and incentive programmes for energy generation from renewable sources for own use may spur the demand for green technologies and services and opening of new jobs. Increasing the share of energy from renewable sources may require new projects, infrastructures, and technologies, which assumes new employment. The energy efficiency measures may have a direct impact on reducing the social burden of citizens and energy poverty.

6. Expected impact on the environment and climate change. Over the medium term, the planned activities will have a positive impact on increasing the energy efficiency and use of the renewable energy sources, reducing the greenhouse gases emissions and negative impact on the environment. The focus on the energy sector decarbonisation, increasing the share of renewable energy sources, and developing a system for collection of emission credits and emission trading may significantly reduce greenhouse gas emissions.

7. Potential risks.

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Untimely changes to laws	Low	Adequate and concrete analysis of changes to laws will contribute to reducing the procedures for adopting the laws
Insufficient coordination of the implementation of the planned activities, which may lead to postponing deadlines for implementation	High	Ensuring for required prerequisites for implementing the activities and timely involvement of relevant stakeholders

Structural Reform No. 4: Digitalisation Aimed at Sustainability of the Economy

The objective of the structural reform is to enhance the role in managing the digitalisation process, further develop digital services, strengthen cyber resilience, as well as to improve



the infrastructure supporting the development of this area. Per se, the reform will contribute to enhancing the resilience and sustainability of the economy and to higher competitiveness. The reform represents a consolidated and coordinated approach to the overall digitalisation policy following the cyber attack on the government infrastructure in 2022. The structural reform deals with the sub-area *Digital transformation*, and is also connected with the sub-areas *Research, development, and innovation*; *Education and skills*; and *Healthcare*.

Reform Measure 5: Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure

1. Description of reform measure. The objective of the reform measure is digitalisation of the public administration, strengthening of the cyber security and broadband infrastructure through a multidisciplinary approach.

Responding to numerous challenges, as well as to align the strategic approach of the country with the Digital Agenda for Europe and the Digital Agenda for the Western Balkans, Montenegro adopted: the Digital Transformation Strategy 2022-2026, Montenegro Cyber Security Strategy 2022-2026, Digitalisation Strategy of the Education System 2022-2027, and Strategy for Development of 5G Mobile Communication Network in Montenegro 2023-2027; Montenegro also joined the EU Digital Europe Programme at the end of June 2023 and on 16 October 2023 signed with France and Slovenia the Treaty on establishing the Regional Western Balkans Cyber Capacity Centre (WB3C), with headquarters in Montenegro as part of the Montenegro Scientific and Technological Park. To continuously expanding key initiatives through the implementation process of the Montenegro Smart Specialisation Strategy, and bearing in mind the importance of digitalisation as a horizontal priority that cuts across all other sectors, the Government of Montenegro, at its session held on 16 November 2023, confirmed the State's intention to support administratively and financially the participation of Montenegrin institutions in the strategic call under the Digital Europe Programme, which deals with European hubs for digital innovation. If the Montenegrin applicant succeeds in obtaining funds of EUR 2 million under this EU call, as well as the national transparent selection procedure, Montenegro will get a hub that will support large-scale digital transformation, both of the economy, with a special focus on the SME sector, and of the State sector. The measure is a response to policy guidance No. 4 from the Ministerial Dialogue from May 2023. Given that it represents the banding together of several measures from the 2023 ERP (measures 9, 10 and 11, and partly refers to reform measures 4, 7, and 8) and their continuity, more details about their implementation in 2023 are stated in Table 11 of the Annex.

Key directions of action under the measure include activities for further strengthening of capacities for adequate cyber defence of the space in Montenegro in terms of strengthening human resources, technological and organisational capacities and enhancing the institutional framework, which also affects the establishment and full functionality of the Cyber Security Agency. Furthermore, the introduction of new-generation networks using broadband access accelerates the digitalisation of the economy and public administration, opens up opportunities for the implementation of new digital services, and the digitalisation of manufacturing, in an equal manner across the entire territory of Montenegro. The measure will also include the establishment of an efficient and sustainable integrated system of



simplified electronic procedures for citizens and the economy and the introduction of full electronic registration of enterprises. It also includes digitalisation in education sector.

To raise awareness about cyber security, the education of civil servants and management-expert staff in the state administration is important, as well as the education of children, employees and parents as part of the educational system. To influence the increase in the quality of education, especially in the area of STEM skills, digital content should be created for children, teachers and parents, and digital textbooks need to be prepared.

a. Activities planned in 2024:

- Strengthening the role and capacity of the Coordination Body for Managing the Digital Transformation process, by establishing working bodies to deal with various matters from within specific areas – Ministry of Public Administration (MPA),
- Online platform of the Digital Academy established – MPA,
- Preparing the feasibility study for the construction of the Government Data Center and Disaster Recovery Center – MPA,
- Accommodation capacities, equipment, and security tools provided, as well as human resources, organisational and technical prerequisites for the primary and redundant site for the Government CIRT operation;
- Primary and redundant accommodation capacities, equipment and security tools provided, and capacities strengthened for the establishment of the Government Security Operations Center (G-SOC);
- Cyber Security Agency established and functioning;
- Digital services for citizens and the economy improved – MPA, Ministry of Education, Science and Innovation (MESI),
- *National Broadband Development Plan* adopted - Ministry of Economic Development (MED),
- The new Law on Registration of Business and Other Entities, and amendments and supplements to the Law on Business Undertakings adopted – MED,
- Instructions for registration of enterprises for employees of the Central Registry of Business Entities (CRPS) and for beneficiaries, and establishing registration for other types of business undertakings– MED, MPA,
- Digital textbooks for the first cycle of primary school – MESI, MPA,
- General training programme on cyber security for employees in the education system accredited - MESI, MPA,
- Specialised training programme on cyber security for various target groups (ICT coordinators, pedagogical and physiological services, etc) accredited - MESI, MPA,
- Digital contents on the topic of cyber security for children, as well as content for children with special educational needs - MESI, MPA;

b. Activities planned in 2025:

- Improving the online platform of the Digital Academy – MPA,
- Linking with systems in banks to enable the opening of a transaction account without filing paper documentation – MED, Central Bank of Montenegro (CBCG),
- The electronic data exchange process between institutions, with operational POS terminals in the CRPS and payment of all fees at a single point streamlined – MED,



- Digital textbooks for the second cycle of primary school – MESI,
- Digital content on the topic of information and media literacy for children, as well as content for talented children - MESI,
- Education on cyber security for children, teachers, and parents – MESI;

c. Activities planned in 2026:

- Government Data Center and Disaster Recovery Center constructed and established – MPA,
- Enhanced capacities of the CRPS to support electronic registration of enterprises through training of employees – MED,
- Digital textbooks for the third cycle of primary school – MPA,
- Education on cyber security for children, teachers, and parents – MESI;

2. Results Indicators:

Indicator	Baseline (2023)	Intermediate target (2024-2025)	Target (2026)
Number of people trained at the Digital Academy	120	200	100
Number of classrooms in education institutions using digital textbooks	0	2,162	3,702
% increase in the number of electronic registrations of businesses year-on-year	0	15	20 undertakings
Total number of broadband access connections, irrespective of technology used for access	202,012	206,052 – 210,092	214,132

3. Expected impact on competitiveness. The implementation of this reform measure stimulates productivity advancements, increases confidence in digital services and infrastructure, and improves the efficiency of the public sector in rendering services to the economy and citizens. At the same time, the introduction of new-generation networks reduces the obstacle to competition, accelerates the digitalisation of the economy and public administration, and opens opportunities for the implementation of new digital services and digitalisation of manufacturing. The development of digital skills improves competitive advantage in the labour market, and attracts experts in the areas of technology and information systems. In doing so, companies become more productive and profitable, while this will especially incentivise their competitiveness on the entire territory of Montenegro. The creation of digital textbooks and greater use of technology in teaching processes has an impact on enhancing the digital skills of pupils and teachers, which has an impact on all segments of the development of society. The development of the broadband access infrastructure enables linking of the rural areas, incentivises e-commerce, and opens for new business opportunities.

4. Estimated cost of the activities and the source of financing. The additional costs for implementation of the measure for the period 2024-2026 will amount to EUR 16,650,000 and will be financed predominantly from the central government budget. Costs for the activities in the area of cyber security and digital academy in 2024 will amount to EUR 4,430,000, of which EUR 4,180,000 will be from the central government budget. Expenditures for these activities in 2025 and 2026 will amount to EUR 5,350,000 each year. The following activities



will be financed from the overall allocated funds for 2024-2026: establishing the Digital Academy platform and expenditures for procurement of equipment, hiring of lecturers, consulting services and other –EUR 350,000.00; preparation of the Feasibility Study for construction of the Government Data Centre and Disaster Recovery – EUR 150,000.00; EUR 1,400,000.00 is planned for strengthening the capacity of the Government CIRT and establishing the Government Operational Security Center (G-SOC), where this amount refers to equipping premises for work at the primary and redundant site, procurement of primary and redundant site software tools for incidents management, forensics and business intelligence; and support to innovative companies in the field of cyber security in the amount of EUR 100,000.00. For the purposes of establishing the Cyber Security Agency, a total of EUR 2,080,000.00 is planned to be allocated from the central government budget. The amount of EUR 100,000.00 annually will be allocated for activities to strengthen the role and capacity of the Coordination Body. Other activities foreseen by the reform measure will be financed from donations and/or loans. This particularly applies to activities related to the development and implementation of the new e-Government portal of EUR 300,000.00; construction and establishment of the Government Data Center and Disaster Recovery Center, the estimated value of which is EUR 10,000,000.00; and a sustainable training programme for cyber experts and a training programme for non-IT (security awareness) experts, including promotional activities of EUR 250,000.00 annually. For preparation of the document National Broadband Development Plan EUR 30,000 needs to be allocated for hiring a consultant/expert. An amount of EUR 1,250,000.00 is required for the creation of digital content and digital textbooks for primary schools, while EUR 240,000.00 is planned for the period 2024-2026 for the education of children, teachers, and parents.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. The development of digitalisation and the strengthening of cyber resilience contribute to the development, and a better system of providing social and healthcare services. Implementation of this measure will result in opportunities for creating new jobs in the information technology, software development, cyber security, and similar sectors. It will ease the doing of business and provide new opportunities for entrepreneurs, thus it may improve productivity and efficiency. It leads to an increase in employment, higher income, economic growth, and consequently to improved standard of living. This measure will also have an impact on improved gender equality, given that the electronic registration of enterprises, the registration application contains a field for gender for the first time, which is a significant step forward as opposed to the past when it comes to statistics and statistical data.

6. Expected impact on the environment and climate change. Implementation of this measure in the public services digitalisation may contribute to reduced use of paper and physical travel, whereby the forest ecosystem is protected and emissions of harmful gasses in transport and paper manufacturing are reduced.

7. Potential risks.

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
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Slowed administrative processes dealing with the adoption of new legislation in this area	Low	Emphasizing the importance of cyber security at the highest management level
Insufficient number of educations/training in the field of cyber security	Low	Eliminating this risk will depend on available funds, which need to be secured from donations, given that renown lecturers/mentors in this field are highly ranked and require significant funds per individual education
Resistance of business owners to register enterprises electronically	Low	Strong promotion of benefits of the electronic registration of enterprises, along with appropriate education of users

Reform Measure 6: Digitalisation of the Healthcare System in Montenegro

1. Description of reform measure. The objective of the reform measure is to improve and upgrade the existing and introduce new healthcare services that could be exercised by using information and communication technologies. The measure continues from the 2023 ERP and provides a response in part to the policy guidance No. 4 of the Ministerial Dialogue from May 2023. Digitalisation of the healthcare system through strengthening digital health connotes the continuation of activities on improvement and upgrade of the existing and introduction of new healthcare services by using information and communication technology. Those are first of all introduction of the centralised system for the e-Health Card or Electronic health records (EHR), national platform for telemedicine and m-Health, the system of advanced reporting using a data-warehouse and business intelligence, as well as improvement of existing and introduction of new information systems within the Integrated Healthcare Information System. The proposal of the Law on Healthcare Protection, which was submitted to the Parliamentary procedure on 20 October 2023, will introduce digital health. The proposal of the Law on the Healthcare System Digitalisation will enable the use of mobile devices (mobile phones, or applications, sensors, devices for patient monitoring, and other mobile wireless devices) for collection of general and clinical data about a patient, transfer of such data to healthcare professionals and patients, and remote monitoring of medical parameters of a patient. It will also enable provision of remote healthcare services in cases when the healthcare professional and patient or two healthcare professionals are not at the same location. Furthermore, the provision of healthcare services via telemedicine is a new element, as well as establishment of communication infrastructure for secure exchange of healthcare information. The measure is aligned with the Integrated Healthcare Information System and eHealth Development Strategy 2018-2023, while the Work Programme of the Government for 2024 plans for a new National Digital Health Strategy 2024-2029 to be developed, which will succeed the current one. The EU regulations covering this area are eHealth Action Plan 2012-2020 – Innovative Health Care for the 21st Century, the EU Health Policy, EU Public Health – eHealth: Digital Health and Care, Europe’s Digital Decade, State of Health in the EU 24, and Green Paper on Mobile Health (mHealth). As for the SDGs, sustainability will be achieved while providing for better health and wellbeing for all citizens of Montenegro.

**a. Activities planned in 2024:**

- National Digital Health Strategy 2024-2029 adopted – Ministry of Health (MH),
- New Law on Healthcare Protection adopted – MH,
- Track & Trace information system for monitoring flow of pharmaceuticals and medical devices in Montenegro established – MH;

b. Activities planned in 2025:

- Establishing the centralised system for the e-Health Card or Electronic health records (EHR) – MH,
- Establishing the centralised platform for telemedicine and m-Health – MH,
- Establishing the system of advanced reporting using a data-warehouse and business intelligence, as well as improvement of existing and introduction of new information systems within the Integrated Healthcare Information System – MH;

c. Activities planned in 2026:

- Centralised system for the e-Health Card or Electronic health records (EHR) established,
- Centralised platform for telemedicine and m-Health established,
- System of advanced reporting using a data-warehouse and business intelligence, as well as improvement of existing and introduction of new information systems within the Integrated Healthcare Information System established;

2. Results Indicators.

Indicator	Baseline (2023)	Intermediate target (2025)	Target (2026)
Number of established centralised systems for the Electronic Health Records	0	0	1
Number of established centralised platforms for telemedicine and m-Health	0	0	1
Number of established systems of advanced reporting using a data-warehouse and business intelligence	0	0	1

3. Expected impact on competitiveness. Introducing new and upgrading existing services in the field of digital health will provide for higher competitiveness and transition towards the green economy, while more efficient management and more rational use of available resources will result in less spending and higher utilisation of available resources. The existing information systems cover business processes at all healthcare levels. Modern technologies, software applications, and services may incite patients to lead a more active and healthier life, but also to observe their trends and habits and to correct them. From the point of view of the business sector, it will enable emergence in the market of specialised firms and institutions that will render services in the digital health field. Introducing ICT and applying telemedicine services improves efficiency and quality in rendering healthcare services, reducing the waiting time and enabling faster access to patients, which improves the competitiveness of healthcare institutions.

4. Estimated cost of the activities and the source of financing. Additional funds allocated in the budget for financing of the measure are EUR 3.5 million over the period 2024-2026. Under the capital budget EUR 1.15 million is allocated for the tele-radiology project.



5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. The reform measure will enable better health and wellbeing of all citizens of Montenegro, all in line with SDG 3. It will enable better access to healthcare services, reduce waiting lists, and increase patient satisfaction. The measure will have an additional impact on gender equality through improved access to healthcare services for women, especially of the Roma and Egyptian population, women in rural areas, and women with disabilities. Access to services will be easier with the use of the telemedicine service, health data will be more available and easier to read with mHealth and eHealth services, while the Electronic health records will be patient-oriented. Implementation of ICT in the healthcare sector will expand possibilities for experts, such as IT staff, analysts, cyber security experts, and the like.

6. Expected impact on the environment and climate change. The measure may have an impact on the environment and climate change as it will lead to a reduction in patients' mobility for them to exercise their rights to health care. The measure will contribute to a reduction in travel taking place, the emission of greenhouse gases by using vehicles, while the State will provide required radiological equipment in all general hospitals. Implementation of Electronic health records, digital reports, and other ICT tools will contribute to reduced use of paper in healthcare institutions.

7. Potential risks.

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Outstanding system-level issues, such as management of the health information system, defining standards and access rights, as well as data exchange between the system and software applications, and between physicians and patients	High	Dialogue and agreement of all stakeholders in the healthcare system to find the most adequate solution for all issues, and vision and support of the Ministry of Health to resolve issues
Resistance of employees to accept new technologies and new knowledge	Low	Support of the Ministry of Health in implementation
Political instability for implementation of a long-term project	Low	Support of the Ministry of Health in the implementation

5.3 Human capital and social policies

a. Analysis of main obstacles

Although labour market indicators recovered, they still suggest insufficient resolution of structural challenges, in particular concerning the activity and employment of some target groups, such as youth and women. In addition, the challenge of long-term unemployment remains, along with the regional disparities about employment and unemployment. Positive developments in the labour market were prompted by the economic recovery from the



COVID-19 crisis in 2022 and continued in 2023. Thus, in the second quarter of 2023,²⁶ the activity rate (20-64) was 76.2 percent; the employment rate was 66.1 percent, while the unemployment rate dropped to 13.2 percent. Even so, the gender gap in employment persists at 9.0 p.p. (70.6%:61.6%), whereas the respective unemployment rates for men and women remain close (13%:13.2%), possibly due to lower activity of the female workforce (81.4%:71.0%). At 74.3 percent, the share of the long-term unemployed in total unemployment remains high in the second quarter of 2023. Positive developments are evident with youth aged 15-24, with an employment rate of 41.8 percent and unemployment dropping to 17.0 percent during the period in question. Positive developments are evident also with youth aged 15-29; however, the share of youth not in employment, education or training (NEET) is high at 23.2 percent. The skills mismatch remains a key obstacle to higher employment. The quality of higher education did not improve during the period following the pandemic, and students leave secondary vocational schools with a limited skill set. In the latest PISA test from 2022, Montenegro ranked 54th in mathematics, 56th in reading, and 62nd in science out of a total of 81 countries. This is the worst result since 2012. PISA results show that Montenegrin 15-year-olds in their education significantly lags behind their peers from the OECD countries. Measured by the Human Capital Index from 2020, published by the World Bank, a child born in Montenegro today is likely to reach, in adulthood, 63 percent of the productivity that he/she could have reached if provided with complete education and full healthcare.

The above paragraph outlines some of the causes behind the high poverty risk, in particular among youth. In 2021, the poverty risk rate was the highest for those younger than 18 (30.5% in 2021), followed by the 18-24 age group (24.7%), and the unemployed (as high as 40.2%). The social policy measures for poverty reduction are not well-targeted, lack a clear regional dimension and are insufficiently linked with the active labour market policies. Social benefits and child allowance are paid out to the poor, but also those who are not poor. This gains particular prominence in the light of the increase in the budgetary funds for social and child protection over the years: the distribution failed to properly target the poorest groups of the population, as all social groups are beneficiaries of the social and child protection funds. Therefore, the system currently only partially contributes to poverty risk reduction.

b. Structural reforms and reform measures that tackle identified obstacles

Drawing on the identified obstacles and challenges when responding to the obstacles to enhanced human capital and social policies, as well as on the recommendations from the Ministerial Dialogue held in May 2023 and the obligations under the EU accession negotiation chapters, the following two structural reforms are proposed:

- Structural reform No 5: “Improving the framework for better youth employability and higher quality of education”, related to the sub-areas “Education and skills” and “Employment and labour market”;
- Structural reform No 6: “Increasing the effectiveness of and improving the social and child protection system”, related to the sub-area “Social protection and inclusion”.

²⁶ Labour Force Survey Q2/2023



Structural Reform No. 5: Improving the Framework for Better youth Employability and higher Quality of Education

The structural reform aims to increase employment by facilitating youth access to the labour market while increasing the quality of education. The reform also responds to the challenges in the field of vocational education related to adapting the educational offer to the needs of the labour market, primarily bearing in mind digital transformation and green transition. This will be implemented by ensuring the quality of practical education to make it easier and faster for secondary school graduates to join the labour market, promote enrolment in the programmes offering the qualifications in demand in the labour market, and upgrade the competencies of the staff providing and delivering teaching in vocational schools, including work-based learning. At the same time, support is provided to: further upgrades of the education information system; development of the qualifications that are in demand in the labour market and that include digital technologies and “green” qualifications for green jobs; strengthening the competencies of the staff delivering theoretical and practical instruction so they can respond to the requirements of modern-day teaching, providers and instructors of practical education, and strengthening of the career guidance and counselling services, primarily in primary schools.

The structural reform is further elaborated through the following two reform measures:

- Reform measure: *“Introducing the Youth Guarantee Programme in Montenegro”*, rolled over from the previous year and merged with measure No 1: *“Strengthening the operational capacities of the Employment Agency for carrying out services and measures via digitalisation”* and, in part, with measure No 4: *“Digitalisation of education and development of digital skills”*, from the 2023-2025 ERP;
- Reform measure: *“Developing an integrated approach to improving the quality and inclusivity of education”*, rolled over from the 2023 ERP.

Reform Measure 7: Introducing the Youth Guarantee Programme in Montenegro

1. Description of reform measure. The reform measure aims to create the conditions for better positioning of youth in the labour market by facilitating the school-to-work transition, further developing education and training, and preventing youth from getting into the NEET category. The measure implies amendments to the legislative framework to implement the Youth Guarantee Programme. The measure also supports further activities towards enhanced administrative, operational, and organisational capacities of the Employment Agency, to improve the delivery of services and measures to the beneficiaries, with a special focus on the activities to pilot the Youth Guarantee Programme. Furthermore, the measure responds to the challenges in the field of vocational education related to adapting the educational offer to the needs of the labour market. This is particularly relevant in the era of digital transformation and green transition, high-quality practical education that allows secondary school graduates easier and faster access to the labour market needs to be provided. Enrolment in the programmes granting the qualifications that are in demand in the labour market should also be promoted, while enhancing the competencies of the staff providing and delivering teaching in vocational schools, including work-based learning. Support is provided also to further upgrades to the education information system, development of the qualifications that are in demand in the labour market and that include digital technologies and “green” qualifications for green jobs, strengthening the competencies of the staff delivering theoretical and practical instruction so they can respond to the requirements of



modern-day teaching, providers and instructors of practical education, and strengthening the career guidance and counselling services, primarily in primary schools.

The measure is in line with Policy Guidance No. 6 from the Joint Ministerial Dialogue meeting held in May 2023. It is intended to directly contribute to the achievement of SDGs 1, 4, and 8, and its implementation should also lead towards the objectives of the Digital and Green Agendas. The introduction of the Youth Guarantee Programme was identified in the 2021-2025 National Employment Strategy as one of the instruments for reducing the high youth unemployment rate. The proposed measure captures measures 1, 2, and 4 from the 2023 ERP, aiming to additionally strengthen the activities addressing the labour market challenges, the special focus being given to youth and NEETs through the introduction of the Youth Guarantee. The aforementioned measures 1 and 2 from the 2023 ERP referred to getting the Employment Agency ready to implement the activities foreseen under the Youth Guarantee Programme; the current implementation of these measures includes the provision and putting into operation new IT equipment. The preparatory activities to ensure the conditions for implementing the new active employment measures will also support the implementation of the Youth Guarantee activities. In this context, the Working Group, supported by the EC and ILO, prepared the Draft Youth Guarantee Implementation Plan (2023-2026), which it forwarded to the EC for feedback. The measure helps meet the recommendations from Chapters 2 and 19.

a. Activities planned in 2024:

- a) Amendments to the legislative framework to implement the Youth Guarantee Programme; MLSW, MESI
 - Implementation of the pilot phase of the Youth Guarantee, development of institutional and human capacities, and improvement of the education system digital infrastructure in selected municipalities; MLSW, MESI
 - Carry out the stage of informing the youth via media and outreach campaigns; *MLSW*
- b) Improving the quality of vocational education by means of:
 - Survey on the labour market demand for the skills and qualifications in the fields of digital technologies and green jobs (in the sectors of engineering, agriculture, chemical technologies, graphic arts industry, etc.) conducted – MESI,
 - External evaluation of practical education and organising training for the teachers of practical education and instructors of practical education in at least five schools conducted – MESI,
 - Teams for career guidance and counselling in primary and secondary schools in at least five municipalities in Montenegro created and training for career teams completed - MESI.

b. Activities planned in 2025:

- a) Monitoring and evaluation through the operational IT structure of the Employment Agency, with a special focus on the three municipalities selected to pilot the Youth Guarantee conducted – MLSW,
- b) Implementation of the pilot phase of the Youth Guarantee, development of institutional and human capacities and improvement of the education system digital infrastructure in selected municipalities,
- c) Continuation of the media and outreach campaigns, in line with the Youth



Guarantee Implementation Plan; MLSW

d) Improving the quality of vocational education by:

- Conducting a survey on the labour market demand for the skills and qualifications in the field of digital technologies and green jobs (in the sectors of: mechanical engineering, health, construction industry etc.);
- New and/or updated programmes for youth and adults prepared, to adequately respond to the labour market needs in the fields of digital technologies and green jobs (in the sectors of engineering, agriculture, chemical technologies, graphic arts industry etc.);
- Training for the teachers, providers and instructors of practical education organised;
- Career guidance and counselling teams in primary and secondary schools in ten municipalities in the country established - MESI;

c. **Activities planned in 2026:**

a) Report on the implementation of the Youth Guarantee Implementation Plan adopted and a new Plan prepared; MLSW

b) Improving the quality of vocational education by means of:

- Career guidance and counselling teams in primary and secondary schools in all the municipalities in Montenegro established;
- Tracking the careers of secondary school graduates, enhancing the competencies of teachers, and further developing the quality assurance system for IVET and CVET on the basis of the EQAVET framework, with a focus on the external evaluation of vocational education and training providers; preparing for the recognition of prior learning (RPL); MESI

2. Results Indicators.

Indicator	Baseline 2022	Intermediate target 2024	Target 2026
Number of unemployed youth who joined the pilot stage of the Youth Guarantee	0	0	150
% of students who attended dual education and found employment within six months upon completing their education	30	40	50
Youth employment rate (%)	27.4	29.6	31

3. Expected impact on competitiveness. Elimination of systemic obstacles to better youth performance in the labour market and continuous implementation of the activities enhancing their skills and knowledge will enable better labour market participation, acquisition of work experience, and development of the entrepreneurial spirit, which may prevent the growing youth migration trends and lead to higher utilisation of human capital. The measure will result in a workforce that is better adjusted to the needs of modern economies, increasing the overall competitiveness of the country.

4. Estimated cost of the activities and the source of financing. The additional funds planned to implement the reform measure in 2024 will amount to EUR 1,524,176. Out of that amount, EUR 1,295,550 refers to IPA funds, while EUR 228,626 will be financed from the central government budget. The additional funds for 2025 and 2026 will be specified in those respective fiscal years.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. With youth finding employment in the open labour market and supported employment, the measure will have a direct impact on increasing employment. Developing specific skills and competencies in demand in the labour market, the youth in Montenegro is assisted to be more competitive and have easier integration in the labour force, to become entrepreneurs, which supports higher employment and poverty reduction.

6. Expected impact on the environment and climate change. The measure impacts environmental protection insofar as it establishes process digitalisation, which reduces the cost of natural resources and prompts their more efficient use. These are also the pillars at the core of the Green Agenda for the Western Balkans.

7. Potential risks.

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
The measure not being implemented according to plan due to staff changes in the institutions relevant for the preparation and adoption of the legislative package	High	Extension of the deadline for implementation
Connecting the Employment Agency database with other databases hampered by IT incompatibility of the systems	High	Full implementation of the Action Plan for database interoperability
Insufficient interest among primary school students in enrolling the programmes offering the qualifications in demand in the labour market	High	Implementation of career guidance and counselling activities in primary schools and promotion of vocational education
Insufficient interest among employers in taking part in dual education	High	Providing incentives for employers through a dual education fund or otherwise

Reform Measure 8: Developing an Integrated Approach to Increasing the Quality and Inclusivity of Education

1. Description of reform measure. The measure aims to develop the strategic framework for an integrated approach to improving the quality and inclusivity of education, for better learning outcomes and the acquisition of lasting and applicable knowledge. The measure should help respond to the challenge of long-term unemployment, in particular among youth, caused by the skills mismatch; it should include, *inter alia*, enhancing the quality of education and a quicker education sector response to the labour market requirements. The measure is in line with the European Commission Policy Guidance No. 6 from the Joint Ministerial Dialogue. In that sense, the development of a comprehensive and evidence-based medium-term Education Sector Strategy (2025-2030) with a Roadmap for an integrated approach to increasing the quality and inclusivity of education should contribute to better learning outcomes, which will be reflected in better PISA testing results and higher Human Capital Index.



The measure will also support Montenegro in implementing the EU accession criteria contained in the following three Negotiating Chapters: Chapter 19 – Social Policy and Employment; Chapter 23 – Judiciary and Fundamental Rights, and Chapter 26 – Education and Culture. Specifically, the measure will contribute to all the key issues outlined in the 2023 Montenegro Progress Report section in Chapter 26. The measure is linked to the process of implementing the following strategic documents: National Sustainable Development Strategy of Montenegro until 2030; Early and Pre-School Education Strategy (2021-2026); Inclusive Education Strategy (2019-2025); Strategy for Social Inclusion of Roma and Egyptians in Montenegro (2021-2025); Education Digitalisation Strategy (2022–2027), and the EU Digital Education Action Plan (2021–2027). It is also linked to the IPA III Programming Framework, which emphasises enhanced access to and quality of education – including training systems, in particular those intended for teachers and school management, and governance and strategic policy-making. It is linked with the EU Economic and Investment Plan for the Western Balkans (2020), which emphasises digital transformation.

a. Activities planned in 2024:

- Enhancing the capacities of the representatives of MESI and other relevant institutions for evidence-based planning, budgeting, monitoring, and evaluation of education sector plans; MESI
- Education Sector Strategy (2025-2030) and the Action Plan for its implementation adopted;
- Campaign for reinforcing the positive attitudes among citizens and behavioural changes with the aim of achieving quality and inclusive education for all children conducted; MESI
- Comprehensive analysis/assessment of the system of professional development of teachers; developing a comprehensive database on human resources (pre-school, primary and secondary school teachers, other school-based professionals), and drafting the analysis; MESI

b. Activities planned in 2025:

- Further work to enhance the capacities of the representatives of MESI, and other relevant institutions for evidence-based planning, budgeting, monitoring and evaluation of education sector plans;
- Implementation of the Education Sector Strategy, by improving the quality and inclusiveness of the teaching process, support, and services available to children with disabilities during preschool and primary education, with a special focus on the initial cycle of primary school (grades I-IV),
- Implementation of the Education Sector Strategy by improving the quality of early education of Roma children and the quality of educational support in primary education, with a special focus on the initial cycle of primary school (grades I-IV); MESI
- Analysis with recommendations for improving the system of professional development of teachers; MESI

c. Activities planned in 2026:

- Further implementation of the Education Sector Strategy by improving the quality and inclusiveness of the teaching process, support, and services available to children with disabilities in preschool and primary education, with a special focus on the initial cycle of primary school (grades I-IV),



- Further implementation of the Education Sector Strategy by improving the quality of early education of Roma children and the quality of educational support in primary education, with a special focus on the initial cycle of primary school (grades I-IV); MESI

2. Results Indicators.

Indicator	Baseline (2022)	Intermediate target (2024)	Target (2025)
Pre-school enrolment rate (total for the 3-6 age group)	75.99%	78%	80%
Average performance in PISA test (reading, math, sciences)	55.6/53.8/51.8%	-	Increase average score at the PISA test (reading, math, natural sciences) by 15 points
Percentage of Roma and Egyptian children attending early childhood education programmes	~18	~25	~32
Percentage of Roma and Egyptian community members with successful completion of primary school	~58	~62	~65

3. Expected impact on competitiveness. Implementation of education system reforms from preschool education will contribute to enhancing the skills and competencies for the 21st century of all the participants in the process. It will enable easier and faster integration of youth in the labour market, better workforce supply and turnover, and better competitiveness of the companies operating in Montenegro. Improving the teaching methods, curricula, and infrastructure results in enhanced education quality, which contributes to shaping a higher-qualified workforce, and thus improved competitiveness of the labour market.

4. Estimated cost of the activities and the source of financing. Implementation of this reform measure will be financed from IPA funds with EUR 1 million, with EUR 200,000 provided as co-financing from the budget of Montenegro. UNICEF will also contribute to the financing.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. The acquisition of up-to-date knowledge in a quality and inclusive way which will improve the level of understanding the acquired learning results, coupled with the mastering of the necessary ICT knowledge and skills, will make students better prepared for the labour market and put them on a fast-track to employment and better-paid jobs. Promoting inclusion and accessibility of education contributes to a reduction in social inequalities, raising employment, and reducing poverty, while providing individuals with economic resources and opportunities for advancement.

6. Expected impact on the environment and climate change. The development of digital skills in education directly contributes to the implementation of the Green Agenda for the Western Balkans, which relies on the skills needed to monitor the implementation of sustainable development policies, and the European Green Deal. In addition, high-quality and inclusive education contribute to the perception and recognition of the importance of green policies and behavioural changes to the environment. Integration of topics addressing



sustainability, ecology, and environmental protection into the education system may contribute to raising awareness of students on the importance of the nature preservation.

7. Potential risks.

Risk	Probability of risk materialising	Planned risk mitigating action
Stakeholder roles and responsibilities are clearly defined.	Low	Full involvement of all participants in the process, with all stakeholders having clearly defined roles that they all agree with, defined and well-tracked communications in the process, ongoing risk review, escalation.
Lack of adequate commitment and determination to achieve goals among partners .	Low	Relevant national stakeholders are committed to developing a strategic approach through adoption and implementation of plans and models. To keep that commitment and determination, mechanisms for close coordination and communication will be established for smooth and regular interaction, and all strategic documents of the Action will be designed jointly with the relevant government stakeholders .

Structural Reform No. 6: Increasing the Effectiveness of and Improving the Social and Child Protection System

The structural reform aims to develop socially and fiscally sustainable social protection services and establish a well-coordinated and better-targeted social protection system that provides adequate support to the most vulnerable categories of the population while supporting the labour market policies. The process of developing the Strategy for Social and Child Protection is underway; the Strategy would integrate all the existing social protection strategies and include a prioritisation and costing of reforms. That is expected to lead to overall better coordination of the social protection system reform.

The structural reform is further elaborated through the reform measure: *“Reforming the social and child protection system based on the Road Map”*, rolled over from the 2023-2025 ERP.

Reform Measure 9: Reforming the Social and Child Protection System based on the Road Map

1. Description of reform measure. The primary aim of this measure is poverty reduction and support towards the meeting of the essential needs of all those who require such support. The measure is rolled over from the previous year due to its strategic importance for the process of reforming the social and child protection system; however, it has a narrower scope than in the 2023-2025 ERP. It contributes to the implementation of the recommendations derived from the Negotiating Chapter 19: *Social Policy and Employment*. It also responds to the Policy Guidance No. 6 from the Ministerial Dialogue. Progress as planned was achieved concerning the strengthening of the capacities of the Centres for Social Work, with the recruitment of case managers. The core of this reform measure is an analysis of the costs and financial sustainability, and the development of the financial plan for the social and child protection system reform, which will provide guidelines for sustainable long-term budget



planning and integration of reform measures in the programme-based national budget. In practical terms, the analysis will be based on the assessment of the costs of all available services and cash benefits on social and child protection, which will enable the operationalisation of the new Strategy of Social and Child Protection, which is planned for adoption in late 2024. Given the complexity and importance of the measure and the accompanying analyses, support of the EU and other international partners has particular importance. One modality of support is the EU expert instrument on employment, labour, and social protection (SOCIEUX+). One expert mission has taken place, with two additional missions to be implemented in November and December. Social protection reform is recognised also in the Economic and Investment Plan for the Western Balkans, as well as the European Pillar of Social Rights. Implementation of this measure will further contribute to the achievement of SDG1 – No poverty and SDG 10 – Reduced inequalities. The measure is linked to IPA III and the priority activities outlined in the IPA III Strategic Response, such as the Introduction of Child Guarantee, implementation of Youth Guarantee, and Support to the process of de-institutionalisation, in response to the key recommendations from the EU Report (details provided in Annex II). However, due to the political standstill in the decision-making processes on the reforms and frequent changes in the management of the Ministry of Labour and Social Welfare and the Government, the implementation of the measure did not go to plan, as its reform and inter-ministerial nature called for timely strategic decisions to be made by the decision-makers.

a. Activities planned in 2024:

- Methodology for the pricing of community support services developed - MLSW;
- Strategy for the Development of the Social and Child Protection System and Strategy for De-institutionalisation adopted,
- Further enhancing the coordination and cooperation between the MLSW, Centres for Social Work, and service providers, and further developing the capacities for case management and beneficiary referral through new employment and training - MLSW;

b. Activities planned in 2025:

- Defining the minimum package of social and child protection services, MLSW;
- Package of social and child protection services (e.g. minimum service package for people with disabilities or the elderly or young children) to enable easy referral and access to all key services and to best respond to the needs of the beneficiaries designed - MLSW;

c. Activities planned in 2026:

- New specialised services for the victims of gender-based violence, in line with the Istanbul Convention, established - MLSW.

2. Results Indicators.

Indicator	Baseline 2022	Intermediate target 2025	Target 2026
Number of developed services and licensed providers of social and child protection	-	3	5
Poverty risk rate (%)	20.3	19.2	18.6

3. Expected impact on competitiveness. Improved targeting and coverage of cash benefits and social services reduce poverty (not only in terms of income but multidimensional) and



inequalities while constituting a long-term investment in human capital and the productivity of the population. Competitiveness is further achieved by supporting families' access to social services that enable them to better access the labour market and contribute to the economy. Increasing social stability by providing support to those in need the most will contribute to a more stable society, by reducing the socio-economic tensions.

4. Estimated cost of the activities and the source of financing. The estimated additional costs of implementing the measure are shown in tables 10a and 10b below. The costs will equal EUR 150,000 in 2024 and will be financed from the national budget. The amount in 2025 will be EUR 5,151,200 and part will be financed from the national budget, while the rest will be financed from IPA funds. The additional cost of financing the implementation of the measure in 2026 will equal to EUR 151,200 and will be covered by the budget.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare. The proposed measure is intended to strengthen stakeholder cooperation in the social and child protection system, making it more efficient and effective. The measure also aims to strengthen the function of case management and referral to services and to improve the quality of services through supervision, monitoring, and evaluation. Ultimately, strengthening of this element of the system will contribute, in the medium-to-long term, to sustainable and steady reduction of poverty and vulnerability of the population. The analysis of the social and child protection system may identify the specific needs of women and girls and result in the support measures adjustments to achieve gender equality.

6. Expected impact on the environment and climate change: The measure will not have any impact on the environment.

7. Potential risks.

Risk	Probability of risk materialising (low or high)	Planned risk mitigating action
Lack of funds for reform implementation	Low	More efficient use of national and international funding through better donor coordination
Delayed adoption of the strategies due to changes in the management structures	Low	Awareness-raising concerning the importance of the process and strengthening of the capacities



5.4 Summary of reform measures

Structural reform No. 1: Improving the business Environment and Formalising the Informal Economy

The objective of the structural reform is to contribute to a better business environment, increasing the number of companies, formal employment, and public revenues.

Reform measure 1: Strengthening the Mechanisms for the Formalisation of the Informal Economy

Structural reform No. 2: Reforming State-owned Enterprises

The objective of the structural reform is to define a clear strategic approach to oversight of the state-owned enterprises.

Reform measure 2: Establishing an Adequate Governance Model and an Efficient Oversight System for State-owned Enterprises

Structural reform No. 3: Increasing Energy Resilience by Applying the Green Agenda

The objective of the structural reform is strengthening energy resilience through alignment with the energy and climate targets by 2030.

Reform measure 3: Incentivising Innovation for the Green Agenda and Transitioning to Circular Economy

Reform measure 4: Strengthening Decarbonisation Mechanisms

Structural reform No. 4. Digitalisation aimed at sustainability of the economy

The objective of the structural reform is to strengthen the digitalisation process management, develop further digital services, strengthen cyber resilience, as well as enhance infrastructure support the development of this area.

Reform measure 5: Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure

Reform measure 6: Digitalisation of the Healthcare System in Montenegro

Structural reform No. 5: Improving the Framework for Better Youth Employability and Higher Quality of Education

The objective of the structural reform is to facilitate youth access to the labour market, along with improving education and professional development.

Reform measure 7: Introducing the Youth Guarantee Programme in Montenegro

Reform measure 8: Developing an Integrated Approach to Increasing the Quality and Inclusivity of Education

Structural reform No. 6: Increasing the effectiveness of and improving the social and child protection system

The objective of the structural reform is to develop socially and fiscally sustainable social protection services.

Reform measure 9: Reforming the Social and Child Protection System based on the Road Map

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Total amount of additional costs for financing 6 structural reforms and 9 reform measures, under these structural reforms, covered by Chapter 5 of the Economic Reform Programme 2024-2026 is presented in this Chapter. Taking into account the priority reform measures in the ERP, in line with the European Commission’s Guidance Note for ERP preparation, are not infrastructure but mainly administrative and legislative measures and measures implemented through financial instruments, thus the additional financing for their implementation is lower than it is the case for measures addressing the areas of improving the infrastructure. Within such context, the additional funds for financing the reform measures contained in the 2024-2026 ERP will amount to approximately EUR 61.49 million, of which EUR 19.89 million will be executed in 2024, EUR 25.5 million in 2025, and EUR 16.2 million in 2025. An indicative estimate of the impact of priority reform measures on economic growth over the medium term is presented in Chapter 3 of the ERP, and shows that a quantitative effect of reform measures presented in Chapter 5 is 0.3 percent of GDP in the medium- term.

As presented in Table 6.1, approximately 68 percent of the total additional costs of financing the priority reform measures in the period 2024-2026 goes to *goods and services*, of which the majority is for the reform measure *Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure*, as well as for the reform measure *Strengthening the Mechanisms for the Formalisation of the Informal Economy*. The second large category for the additional costs, which makes up around 28.92 percent of the total amount of additional costs for implementation of the reform measures, is *subsidies and transfers*.

Table 6.1: Summary table of costing of structural reform measures (in euro)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	1,549,176.00	10,411,250.00	7,900,000.00	5,000.00	19,865,426.00
2025	15,000.00	20,233,283.00	5,200,000.00	5,000.00	25,453,283.00
2026	15,000.00	11,852,200.00	4,300,000.00	5,000.00	16,172,200.00

Source: Calculations of the Ministry of Finance based on the Table 10a of the Annex

In addition to the above stated, sources of financing the priority reform measures are an important element in analysing additional costs of structural reforms. In the period 2024-2026, the most pronounced source of financing the reform measures will be the *IPA funds*, which will amount to EUR 21.4 million or 32.5 percent of the total sources of financing over the three years (see Table 6.2). The second largest source of financing the priority reform measures will be the *Central budget*. For a sizeable share of financing, the source needs to be determined.

Table 6.2: Summary table of sources of financing of structural reform measures (in euro)

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	9,050,826.00	0.00	0.00	9,124,600.00	590,000.00	1,100,000.00	0.00	19,865,426.00
2025	4,128,783.00	0.00	0.00	10,034,500.00	390,000.00	5,650,000.00	5,250,000.00	25,453,283.00
2026	4,332,200.00	0.00	0.00	2,250,000.00	140,000.00	2,000,000.00	7,450,000.00	16,172,200.00

Source: Calculations of the Ministry of Finance based on the Table 10b of the Annex



The Central Budget funds for 2024-2026 are planned within the Budget of Montenegro. The financial structure for 2025 and 2026 will be adjusted in line with the annual budgets.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of preparation of the ERP 2024-2026 started in November 2023, when the Government adopted the briefing note on the preparation. To ensure the highest possible quality of the preparation of individual chapters, meetings with the representatives of the Ministries responsible for labour and social welfare, economic development, tourism, public administration, ecology, spatial planning and urbanism, education, science and innovation, health, finance, energy, and transport took place in November 2023. This year's work on the chapter on structural reforms featured strong horizontal and vertical coordination of all key stakeholders. The Ministry of Finance coordinates the ERP at the national level and in terms of each chapter. In addition to the Ministry of Finance, the Central Bank of Montenegro had a significant role in the preparation of Chapter 3. Several ministries responsible for various structural reforms, and reform measures took part in the preparation of Chapter 5.

During the process of ERP preparation, the process of consultations was organised in two stages. The first stage included consultations with a wide range of stakeholders, i.e. the general public. The meeting held to that end on 08 November 2023 was attended by representatives of UNICEF, World Bank, Embassy of the Federal Republic of Germany, UNDP, Union of Free Trade Unions of Montenegro, local government units, Chamber of Economy, Employers' Federation, etc.

The second stage of consultations followed in December and aimed to discuss the first draft of the complete document. In that regard, public consultations took place between 12 and 29 December 2023. Draft Programme was made available to the representatives of the media and the general public via the Government website: <https://www.gov.me/clanak/javna-rasprava-o-nacrtu-programa-ekonomskih-reformi-cg-2024-2026-rasprava-ce-trajati-do-31-decembra-2023-godine>.

The Roundtable Discussion held as part of the public consultations on the Draft Economic Reform Programme took place on 14 December 2023 and was attended by representatives of the Confederation of Trade Unions of Montenegro, Union of Free Trade Unions of Montenegro, EU Delegation to Montenegro, Chamber of Economy, Employers' Federation, local government units, line Ministries of the Government of Montenegro, etc. Some suggestions concerning the competitiveness of the business environment were shared during the discussion.

The written inputs provided by the stakeholders with a view to improve the draft ERP are presented in Annex 3 below. Draft ERP was also discussed by the Parliamentary Committee on Economy, Finance, and Budget. Upon receiving all the proposals and suggestions during the consultative process and using them to improve the text of the ERP 2024-2026, the document was finalised and forwarded to the Government of Montenegro for consideration and approval.



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

GDP (in mill €)	6174,6		7034,0		7424,5		7782,6	
Central Budget of Montenegro	2023 preliminary		2024		2025		2026	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current revenues	2557,95	41,4	2717,25	38,6	2819,29	38,0	2928,82	37,6
Taxes	1666,02	27,0	1883,47	26,8	1983,78	26,7	2062,36	26,5
Personal income tax	66,41	1,1	80,77	1,1	82,66	1,1	86,21	1,1
Corporate profit tax	151,28	2,5	164,65	2,3	168,23	2,3	171,86	2,2
Immovable property tax	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Value added tax	1059,27	17,2	1199,63	17,1	1255,44	16,9	1310,27	16,8
Excise taxes	323,12	5,2	365,80	5,2	400,18	5,4	412,10	5,3
Tax on international trade and transactions	52,19	0,8	58,30	0,8	62,26	0,8	66,24	0,9
Other State taxes	13,74	0,2	14,32	0,2	15,01	0,2	15,68	0,2
Contributions	575,73	9,3	605,40	8,6	637,36	8,6	670,22	8,6
Contribution for pension and disability insurance	526,51	8,5	559,78	8,0	585,24	7,9	619,00	8,0
Contribution for health insurance	7,03	0,1	3,00	0,0	7,00	0,1	2,00	0,0
Contribution for insurance against unemployment	24,22	0,4	24,00	0,3	25,41	0,3	28,37	0,4
Other contributions	17,97	0,3	18,62	0,3	19,71	0,3	20,85	0,3
Duties	15,96	0,3	15,85	0,2	16,72	0,2	17,53	0,2
Fees	55,72	0,9	62,82	0,9	66,47	0,9	68,02	0,9
Other revenues	179,52	2,9	108,41	1,5	69,76	0,9	60,49	0,8
Donations/grants	65,01	1,1	41,30	0,6	45,20	0,6	50,20	0,6
Expenditures	2557,74	41,4	2952,87	42,0	3034,76	40,9	3109,70	40,0
Current budget expenditures	2330,78	37,7	2626,62	37,3	2710,29	36,5	2785,24	35,8
Current expenditures	1061,98	17,2	1134,59	16,1	1141,84	15,4	1173,01	15,1
Gross wages and contributions charged to employer	643,14	10,4	678,02	9,6	678,38	9,1	678,38	8,7
Other personal earnings	18,28	0,3	19,63	0,3	18,41	0,2	18,41	0,2
Expenditures for supplies and services	110,04	1,8	106,60	1,5	102,78	1,4	102,71	1,3
Current maintenance	30,17	0,5	39,66	0,6	38,90	0,5	38,90	0,5
Interests	123,85	2,0	138,39	2,0	161,62	2,2	192,95	2,5
Rent	11,71	0,2	13,86	0,2	13,24	0,2	13,18	0,2
Subsidies	74,38	1,2	67,15	1,0	68,79	0,9	68,79	0,9
Other expenditures	50,40	0,8	71,28	1,0	59,72	0,8	59,70	0,8
Capital outflows of the current budget	63,07	1,0	65,95	0,9	70,57	1,0	70,15	0,9
Social security transfers	825,14	13,4	1011,02	14,4	1061,50	14,3	1105,68	14,2
Social security related rights	209,89	3,4	212,06	3,0	222,54	3,0	226,73	2,9
Funds for redundant labour	24,25	0,4	25,11	0,4	25,11	0,3	25,11	0,3
Pension and disability insurance rights	553,84	9,0	737,19	10,5	777,19	10,5	817,19	10,5
Other health care related rights	20,56	0,3	21,06	0,3	21,06	0,3	21,06	0,3
Other health care insurance related rights	16,60	0,3	15,60	0,2	15,60	0,2	15,60	0,2
Transfers to institutions, individual, non-governmental and public sector	380,59	6,2	415,06	5,9	436,39	5,9	436,39	5,6
Capital budget	189,02	3,1	240,01	3,4	250,03	3,4	270,03	3,5
Borrowings and credits	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Reserves	18,27	0,3	60,88	0,9	50,00	0,7	30,00	0,4
Repayment of guarantees	2,81	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	16,87	0,3	25,36	0,4	24,43	0,3	24,43	0,3
Net change in liabilities	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Surplus/ Deficit	0,21	0,0	-235,61	-3,3	-215,47	-2,9	-180,88	-2,3
Corrected surplus/deficit	0,21	0,0	-235,61	-3,3	-215,47	-2,9	-180,88	-2,3
Primary surplus/deficit	124,06	2,0	-97,22	-1,4	-53,85	-0,7	12,07	0,2
Debt repayment	301,21	4,9	518,72	7,4	804,98	10,8	275,12	3,5
Debt repayment to residents	74,54	1,2	212,82	3,0	48,94	0,7	93,31	1,2
Debt repayment to non-residents	226,67	3,7	305,90	4,3	756,04	10,2	181,81	2,3
Expenditures for purchase of securities	0,86	0,0	2,28	0,0	2,28	0,0	1,58	0,0
Borrowings and credits	9,99	0,2	4,50	0,1	4,50	0,1	4,50	0,1
Financing needs	-311,85	-5,1	-761,11	-10,8	-1027,23	-13,8	-462,08	-5,9
Financing	311,85	5,1	761,11	10,8	1027,23	13,8	462,08	5,9
Borrowings and credits	295,51	4,8	645,36	9,2	911,48	12,3	346,33	4,5
Borrowings and credits from domestic sources	159,00	2,6	100,00	1,4	100,00	1,3	100,00	1,3
Borrowings and credits from foreign sources	136,51	2,2	545,36	7,8	811,48	10,9	246,33	3,2
Privatisation proceeds	2,72	0,0	6,00	0,1	6,00	0,1	6,00	0,1
Proceeds from repayment of loans	13,24	0,2	9,75	0,1	9,75	0,1	9,75	0,1
Deposit increase/reduction	0,38	0,0	100,00	1,4	100,00	1,3	100,00	1,3



GDP (in mill €)	6174,6		7034,0		7424,5		7782,6	
Local Government	2023		2024		2025		2026	
	mil.€	% GDP	mil.€	% GDP	mil.€	% GDP	mil.€	% GDP
Current revenues	337,27	5,23	401,93	5,71	415,89	5,60	430,48	5,80
Taxes	185,59	2,88	222,27	3,16	232,95	3,14	244,14	3,29
Personal income tax	68,54	1,06	82,73	1,18	86,86	1,17	91,21	1,23
Immovable property tax	81,05	1,31	92,68	1,32	97,31	1,31	102,17	1,31
Tax on immovable property transactions	19,39	0,30	24,94	0,35	26,19	0,35	27,50	0,37
Local taxes	16,61	0,26	21,93	0,31	22,59	0,30	23,27	0,31
Duties	4,97	0,08	6,00	0,09	6,12	0,08	6,24	0,08
Fees	65,79	1,02	86,63	1,23	89,23	1,20	91,91	1,24
Other revenues	15,11	0,23	19,14	0,27	19,71	0,27	20,30	0,27
Receipts from repayment of loans	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Donations/grants	65,81	1,02	67,89	0,97	67,89	0,91	67,89	0,91
Total expenditures	417,48	6,48	528,35	7,51	472,28	6,36	474,87	6,40
Current budget expenditures	220,09	3,41	275,39	3,92	278,60	3,75	281,86	3,80
Current expenditures	127,55	1,98	155,94	2,22	157,83	2,13	159,76	2,15
Gross wages and contributions charged to employer	69,51	1,08	89,87	1,28	90,77	1,22	91,68	1,23
Other personal earnings	5,61	0,09	6,40	0,09	6,46	0,09	6,53	0,09
Expenditures for supplies and services	24,63	0,38	27,86	0,40	28,42	0,38	28,99	0,39
Current maintenance	7,97	0,12	8,41	0,12	8,66	0,12	8,92	0,12
Interests	2,80	0,04	3,17	0,05	3,27	0,04	3,37	0,05
Rent	0,98	0,02	0,72	0,01	0,75	0,01	0,77	0,01
Subsidies	6,31	0,10	7,74	0,11	7,97	0,11	8,21	0,11
Other expenditures	9,74	0,15	11,76	0,17	11,53	0,16	11,30	0,15
Social security transfers	1,15	0,02	2,21	0,03	2,27	0,03	2,34	0,03
Transfers to institutions, individual, non-governmental and public sector	88,13	1,37	113,22	1,61	114,36	1,54	115,50	1,56
Capital expenditures	177,31	2,75	226,54	3,22	169,91	2,29	171,61	2,31
Pozajmice i krediti	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Repayment of liabilities from the previous period	20,08	0,31	26,41	0,38	23,77	0,32	21,39	0,29
Reserves	3,3	0,05	4,0	0,06	4,1	0,06	4,3	0,06
Repayment of guarantees	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Net change in liabilities	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00
Surplus/ Deficit	-80,20	-1,24	-126,42	-1,80	-56,39	-0,76	-44,39	-0,60
Corrected surplus/deficit	-80,20	-1,24	-126,42	-1,80	-56,39	-0,76	-44,39	-0,60
Primary surplus/deficit	-77,40	-1,20	-123,25	-1,75	-53,12	-0,72	-41,02	-0,55
Debt repayment	12,19	0,19	14,02	0,20	14,57	0,20	15,15	0,20
Debt repayment to residents	9,5	0,15	11,5	0,16	10,8	0,15	11,3	0,15
Debt repayment to non-residents	2,7	0,04	2,5	0,04	3,7	0,05	3,9	0,05
Expenditures for purchase of securities	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Borrowings and credits	1,56	0,00	1,04	0,00	0,00	0,00	0,00	0,00
Financing needs	-93,95	-1,46	-141,48	-2,01	-70,95	-0,96	-59,54	-0,80
Financing	93,95	1,46	141,48	2,01	70,95	0,96	59,54	0,80
Borrowings and credits	10,5	0,16	12,2	0,17	14,3	0,19	7,6	0,10
Proceeds from sale of assets	15,43	0,24	16,51	0,23	17,68	0,24	18,39	0,25
Proceeds from repayment of loans	0,05	0,00	0,29	0,00	0,06	0,00	0,00	0,00
Deposit increase/reduction	57,98	0,90	102,50	1,46	28,83	0,39	23,11	0,31
Transfers from the Budget of Montenegro	10,0	0,15	10,0	0,14	10,1	0,14	10,5	0,14



GDP (in mill €)	6447,1		7034,0		7424,5		7782,6	
Public expenditure	2023 preliminary		2024		2025		2026	
	mil.€	% GDP	mil.€	% GDP	mil.€	% GDP	mil.€	% GDP
Current revenues	2895,23	44,9	3119,18	44,3	3235,18	43,6	3359,30	43,2
Taxes	1851,61	28,7	2105,74	29,9	2216,72	29,9	2306,51	29,6
Personal income tax	134,95	2,1	163,50	2,3	169,53	2,3	177,42	2,3
Corporate profit tax	151,28	2,3	164,65	2,3	168,23	2,3	171,86	2,2
Immovable property tax	81,05	1,3	92,68	1,3	97,31	1,3	102,17	1,3
Tax on immovable property transactions	19,39	0,3	24,94	0,4	26,19	0,4	27,50	0,4
Value added tax	1059,27	16,4	1199,63	17,1	1255,44	16,9	1310,27	16,8
Excise taxes	323,12	5,0	365,80	5,2	400,18	5,4	412,10	5,3
Tax on international trade and transactions	52,19	0,8	58,30	0,8	62,26	0,8	66,24	0,9
Local taxes	16,61	0,3	21,93	0,3	22,59	0,3	23,27	0,3
Other State revenues	13,74	0,2	14,32	0,2	15,01	0,2	15,68	0,2
Contributions	575,73	8,9	605,40	8,6	637,36	8,6	670,22	8,6
Contribution for pension and disability insurance	526,51	8,2	559,78	8,0	585,24	7,9	619,00	8,0
Contribution for health insurance	7,03	0,1	3,00	0,0	7,00	0,1	2,00	0,0
Contribution for insurance against unemployment	24,22	0,4	24,00	0,3	25,41	0,3	28,37	0,4
Other contributions	17,97	0,3	18,62	0,3	19,71	0,3	20,85	0,3
Duties	20,93	0,3	21,85	0,3	22,84	0,3	23,77	0,3
Fees	121,51	1,9	149,45	2,1	155,70	2,1	159,93	2,1
Other revenues	194,64	3,0	127,55	1,8	89,47	1,2	80,79	1,0
Donations/grants	130,82	2,0	109,19	1,6	113,09	1,5	118,09	1,5
Public expenditure	2975,22	46,1	3481,22	49,5	3507,04	47,2	3584,57	46,1
Current public expenditure	2569,13	39,8	2962,89	42,1	3038,89	40,9	3097,10	39,8
Current expenditures	1189,53	18,5	1290,53	18,3	1299,67	17,5	1332,77	17,1
Gross wages and contributions charged to employer	712,65	11,1	767,89	10,9	769,15	10,4	770,05	9,9
Other personal earnings	23,90	0,4	26,03	0,4	24,87	0,3	24,93	0,3
Expenditures for supplies and services	134,66	2,1	134,46	1,9	131,20	1,8	131,70	1,7
Current maintenance	38,15	0,6	48,06	0,7	47,56	0,6	47,82	0,6
Interests	126,65	2,0	141,57	2,0	164,89	2,2	196,32	2,5
Rent	12,69	0,2	14,58	0,2	13,99	0,2	13,95	0,2
Subsidies	80,69	1,3	74,89	1,1	76,76	1,0	77,00	1,0
Ostali izdaci	60,14	0,9	83,04	1,2	71,25	1,0	70,99	0,9
Capital outflows of the current budget	63,07	1,0	65,95	0,9	70,57	1,0	70,15	0,9
Social security transfers	826,29	12,8	1013,23	14,4	1063,77	14,3	1108,03	14,2
Transfers to institutions, individual, non-governmental and public sector	468,71	7,3	528,28	7,5	550,75	7,4	551,89	7,1
Capital budget	366,33	5,7	466,56	6,6	419,94	5,7	441,64	5,7
Capital budget of Montenegro	189,02	2,9	240,01	3,4	250,03	3,4	270,03	3,5
Capital budget of local governments	177,31	2,8	226,54	3,2	169,91	2,3	171,61	2,2
Reserves	21,53	0,3	64,90	0,9	54,14	0,7	34,26	0,4
Repayment of guarantees	2,81	0,0	0,01	0,0	0,01	0,0	0,01	0,0
Net change in liabilities	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Repayment of liabilities from the previous period	36,95	0,6	51,76	0,7	48,20	0,6	45,82	0,6
Surplus/ Deficit	-79,99	-1,2	-362,04	-5,1	-271,86	-3,7	-225,27	-2,9
Corrected surplus/deficit	-79,99	-1,2	-362,04	-5,1	-271,86	-3,7	-225,27	-2,9
Primary deficit	46,66	0,7	-220,47	-3,1	-106,96	-1,4	-28,95	-0,4
Debt repayment	313,40	4,9	532,74	7,6	819,55	11,0	290,27	3,7
Repayment of principal to residents	84,00	1,3	224,34	3,2	59,78	0,8	104,59	1,3
Repayment of principal to non-residents	229,40	3,6	308,40	4,4	759,76	10,2	185,68	2,4
Repayment of arrears	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Expenditures for purchase of securities	0,86	0,00	2,28	0,00	2,28	0,00	1,58	0,00
Borrowings and credits	11,54	0,00	5,54	0,00	4,50	0,00	4,50	0,00
Financing needs	-405,79	-6,3	-902,60	-12,8	-1098,18	-14,8	-521,62	-6,7
Financing	405,79	6,3	902,60	12,8	1098,18	14,8	521,62	6,7
Borrowings and credits	306,05	4,7	657,59	9,3	925,81	12,5	353,92	4,5
Proceeds from privatisation and sale of assets	18,14	0,3	22,51	0,3	23,68	0,3	24,39	0,3
Proceeds from repayment of loans	13,30	0,2	10,04	0,1	9,81	0,1	9,75	0,1
Transfers from the Budget of Montenegro	9,95	0,2	9,95	0,1	10,06	0,1	10,46	0,1
Deposit increase/reduction	58,36	0,9	202,50	2,9	128,83	1,7	123,11	1,6



Table 1a: Macroeconomic prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2022	2022	2023	2024	2025	2026
		Level (bn €)	Rate of change				
1. Real GDP at market prices	B1*g	5,273	11,4	18,9	9,7	5,4	5,5
2. GDP at market prices	B1*g	5,924	19,6	11,8	6,2	5,6	4,8
Components of real GDP							
3. Private consumption expenditure	P3	4	12,2	20,6	10,8	5,4	5,2
4. Government consumption expenditure	P3	1	4,3	9,9	11,5	5,0	6,5
5. Gross fixed capital formation	P51	1	7,3	18,4	3,9	4,5	4,5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0	6,7	8,3	7,6	7,2	6,8
7. Exports of goods and services	P6	3	31,6	32,2	12,3	9,6	9,2
8. Imports of goods and services	P7	4	28,8	30,3	10,5	7,6	7,4
Contribution to real GDP growth							
9. Final domestic demand		6,1	11,6	21,2	11,1	5,9	6,0
10. Change in inventories and net acquisition of valuables	P52+P53	0,4	4,3	3,2	0,0	0,0	0,0
11. External balance of goods/services	B11	-1	-4,5	-5,6	-1,4	-0,6	-0,5

Table 1b: Price developments

	ESA Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. GDP deflator		7,3	-5,9	-3,1990	0,2	-0,7
2. Private consumption deflator		9,0	-5,2	-2,6	-0,6	-0,7
3. HICP ²⁷		:	:	:	:	:
4. National CPI change ²⁸		10,4	-3,5	-3,7	-1,5	-0,9
5. Public consumption deflator		3,9	1,9	-5,8	1,9	-2,3
6. Investment deflator		8,3	-13,9	2,0	0,0	0,0
7. Export price deflator (goods & services)		9,3	-10,3	-1,5	-0,6	-0,8
8. Import price deflator (goods & services)		11,0	-11,8	-0,2	-0,8	-0,9

Table 1c: Labour markets developments

	ESA	Year	Year	Year	Year	Year	Year
	Code	2022	2022	2023	2024	2025	2026
		Level	Rate of change				
1. Population (thousands)			617,2	:	:	:	:
2. Population (growth rate in %)			-0,3	:	:	:	:
3. Working-age population (persons) ¹²			452	463	473	483	487
4. Participation rate			65,2	68,5	68,0	67,3	67,6
5. Employment, persons 13			251	275	281	286	291

²⁷ HICP data: Monstat does not publish HICP data.

²⁸ 2015=100



6. Employment, hours worked ¹⁴			:	:	:	:	:
7. Employment (growth rate in %)			18,2	9,5	2,2	1,8	1,7
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ¹⁵			14,7	13,2	12,6	12,0	11,6
11. Labour productivity, persons ¹⁶		21,0	-5,7	8,6	7,4	3,5	3,7
12. Labour productivity, hours worked ¹⁷			:	:	:	:	:
13. Compensation of employees	D1	2,4	24,4	6,9	8,3	6,1	5,9

Table 1d: Sectoral balances

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	:	:	:	:	:
of which:		:	:	:	:	:
- Balance of goods and services		-22,8	-21,8	-22,4	-21,5	-20,7
- Balance of primary incomes & transfers		22,8	21,8	22,4	21,5	20,7
- Capital account		:	:	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	3,719.6	1,207.5	5,147.0	3,661.7	2,894.2
3. Net lending/borrowing of general government		-3,719.6	-1,207.5	-5,147.0	-3,661.7	-2,894.2
4. Statistical discrepancy		:	:	:	:	:

Table 1e: GDP, investment and gross value added

	ESA Kod	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
GDP²⁹ and investment						
GDP level at current market prices (in domestic currency)	B1g	5,9	6,6	7,0	7,4	7,8
Investment ratio (% of GDP)		21,5	19,6	19,6	19,4	19,3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-1,3	33,7	10,7	9,0	9,0
2. Industry (excluding construction)		1,4	7,5	2,7	4,5	4,1
3. Construction		-18,1	-1,3	9,1	4,5	5,5
4. Services		13,5	21,2	9,6	6,9	5,8

Table 1f: External sector developments³⁰

Euro mill. Unless otherwise indicated		Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. Current account balance (% of GDP)	% of GDP	-12,9	-12,7	-13,1	-12,0	:
2. Export of goods	bn. EUR	0,8	0,7	0,8	0,8	0,9
3. Import of goods	bn. EUR	3,4	3,8	4,3	4,6	4,9
4. Trade balance	bn. EUR	-2,7	-3,1	-3,5	-3,8	-4,0
5. Export of services	bn. EUR	2,3	2,9	3,2	3,6	3,9
6. Import of services	bn. EUR	1,0	1,2	1,3	1,4	1,5
7. Service balance	bn. EUR	1,3	1,7	1,9	2,2	2,4
8. Net interest payments from abroad	bn. EUR	-0,1	-0,1	-0,1	-0,1	-0,1
9. Other net factor income from abroad	bn. EUR	0,2	0,2	0,2	0,3	0,3
10. Current transfers	bn. EUR	0,5	0,5	0,5	0,6	0,6
11. Of which from EU	bn. EUR	:	:	:	:	:
12. Current account balance	bn. EUR	-0,8	-0,8	-0,9	-0,9	:

²⁹ GDP production side projections: Ministry of Finance preliminary estimates.

³⁰ External sector projections: Ministry of Finance estimates.



13. Capital and financial account	bn. EUR	-0,2	:	:	:	:
14. Foreign direct investment	bn. EUR	-0,8	0,5	0,6	0,6	0,6
15. Foreign reserves	bn. EUR	0,2	:	:	:	:
16. Foreign debt	bn. EUR	9,4	:	:	:	:
17. Of which: public	bn. EUR	3,7	:	:	:	:
18. Of which: foreign currency denominated	bn. EUR	:	:	:	:	:
19. Of which: repayments due	bn. EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1,0	1,0	1,0	1,0	1,0
21. Exchange rate vis-à-vis EUR (annual average)	%, year-on-year	0,0	0,0	0,0	0,0	0,0
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	Year	Year	Year	Year	Year
		2019	2020	2021	2022	2023
1. Current Account Balance	% of BDP	-14,3	-26,1	-9,2	-12,9	-12,7
2. Net International Investment Position	% of BDP	-166,3	-205,9	-165,4	-130,4	:
3. Export market shares	%, g/g	:	:	:	:	:
4. Real Effective Exchange Rate	%, g/g	:	:	:	:	:
5. Nominal Unit Labour Costs	%, g/g	0,1	12,5	-23,1	29,8	1,5
6. Private sector credit flow	% BDP	:	:	:	:	:
7. Private sector debt	% BDP	103,6	129,2	115,2	96,5	:
8. General Government Debt	% BDP	:	:	83995.2	69344.8	62237.7

Table 2a: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year	Year
		2022	2022	2023	2024	2025	2026
		Level (bn NCU)	% GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-220.3500	-3,719.6	-1,207.5	-5,147.0	-3,661.7	-2,894.2
2. Central government	S1311	-220.2700	-3,718.3	3.2	-3,349.6	-2,902.1	-2,324.2
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-0.0900	-1.5	-1,210.7	-1,797.3	-759.5	-570.4
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	2,322.2700	39200.9	43,705.9	44,344.3	43,574.4	43,164.5
7. Total expenditure	TE	2,542.6200	42,920.5	44,913.5	49,491.3	47,236.0	46,058.7
8. Net borrowing/lending	EDP.B9	-220.3500	-3,719.6	-1,207.5	-5,147.0	-3,661.7	-2,894.2
9. Interest expenditure	EDP.D41 incl. FISIM	94.1200	1,588.8	1,911.9	2,012.7	2,220.9	2,522.6
10. Primary balance		-126.2300	-2130.8	704.4	-3134.3	-1440.8	-371.6
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		:	:	:	:	:	:
12a. Taxes on production and imports	D2	:	:	:	:	:	:
12b. Current taxes on income and wealth	D5	:	:	:	:	:	:
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	462.8000	7812.3	8691.1	8606.8	8588.2	8611.8
14. Property income	D4	:	:	:	:	:	:



15. Other (15 = 16-(12+13+14))22		1,859.4700	31388.7	35014.8	35737.6	34986.2	34552.7
16 = 6. Total revenue	TR	2,322.2700	39200.9	43705.9	44344.3	43574.4	43164.5
p.m.: Tax burden		462.8000	7,812.3	8,691.1	8,606.8	8,588.2	8,611.8
Selected components of expenditures							
17. Collective consumption	P32	:	:	:	:	:	:
18. Total social transfers	D62 + D63	667.7500	11271.9	12473.5	14404.8	14327.8	14237.4
18a. Social transfer in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	667.7500	11271.9	12473.5	14404.8	14327.8	14237.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	94.1200	1588.8	1911.9	2012.7	2220.9	2522.6
20. Subsidies	D3	72.9300	1231.1	1218.1	1064.7	1033.9	989.4
21. Gross fixed capital formation	P51	:	:	:	:	:	:
22. Other (21 = 22-(16+17+18+19+20))		1,707.8200	28828.7	29309.9	32009.3	29653.4	28309.3
23. Total expenditures	TE [1]	2,542.6200	42920.5	44913.5	49491.3	47236.0	46058.7
p.m. compensation of employees	D1	:	:	:	:	:	:

Table 2b: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
Level (bn NCU)						
Net lending (B9) by sub-sectors						
1. General government	S13	-220.35	-79.99	-362.04	-271.86	-225.24
2. Central government	S1311	-220.27	0.21	-235.61	-215.47	-180.88
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-0.09	-80.20	-126.42	-56.39	-44.39
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	2322.27	2895.23	3119.18	3235.18	3359.30
7. Total expenditure	TE	2542.62	2975.22	3481.22	3507.04	3584.54
8. Net borrowing/lending	EDP.B9	-220.35	-79.99	-362.04	-271.86	-225.24
9. Interest expenditure	EDP.D41 incl. FISIM	94.12	126.65	141.57	164.89	196.32
10. Primary balance		-126.23	46.66	-220.47	-106.97	-28.92
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		:	:	:	:	:
12a. Taxes on production and imports	D2	:	:	:	:	:
12b. Current taxes on income and wealth	D5	:	:	:	:	:
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	462.80	575.73	605.40	637.63	670.22
14. Property income	D4	:	:	:	:	:
15. Other (15 = 16-(12+13+14))		1859.47	2319.50	2513.78	2597.55	2689.08
16 = 6. Total revenue	TR	2322.27	2895.23	3119.18	3235.18	3359.30
p.m.: Tax burden (D2+D5+D61+D91-D995)		462.80	575.73	605.40	637.63	670.22
Selected components of expenditures						
17. Collective consumption	P32	:	:	:	:	:
18. Total social transfers	D62 + D63	667.75	826.29	1013.23	1063.77	1108.03
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	667.75	826.29	1013.23	1063.77	1108.03



19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	94.12	126.65	141.57	164.89	196.32
20. Subsidies	D3	72.93	80.69	74.89	76.76	77.00
21. Gross fixed capital formation	P51	:	:	:	:	:
22. Other (21 = 22-(16+17+18+19+20))		1707.82	1941.59	2251.53	2201.62	2203.19
23. Total expenditures	TE	2542.62	2975.22	3481.22	3507.04	3584.54
p.m. compensation of employees	D1	:	:	:	:	:

Table 3: General government expenditure by function

% GDP	COFOG Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. General public services	1	9,818.0	11,379.7	13,304.0	11,841.3	11,474.6
2. Defence	2	1,002.9	1,076.3	1,219.1	1,143.2	1,090.6
3. Public order and safety	3	2,668.8	2,950.8	3,025.3	2,879.7	2,747.2
4. Economic affairs	4	5,339.1	4,632.6	5,507.3	5,395.5	5,397.6
5. Environmental protection	5	288.7	346.1	196.9	218.3	208.3
6. Housing and community amenities	6	0.0	0.0	99.8	95.2	90.8
7. Health	7	7,167.9	6,333.3	6,224.2	6,154.1	5,871.0
8. Recreation, culture and religion	8	811.9	870.4	805.9	697.8	665.7
9. Education	9	3,894.1	4,294.8	4,251.2	4,052.3	3,865.8
10. Social protection	10	11,941.2	13,034.1	14,860.0	14,761.1	14,649.8
11. Total expenditure (item 7 = 23 in Table 2)	TE	42,920.5	44,913.5	49,491.3	47,236.0	46,058.7

Table 4: General government debt developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. Gross debt		69344.8	62237.7	61618.0	61274.4	60960.6
2. Change in gross debt ratio		-14650.4	-7107.1	-619.7	-343.6	-313.8
Contributions to change in gross debt						
3. Primary balance		2130.8	-704.4	3134.3	1440.8	371.6
4. Interest expenditure	EDP D.41	1588.8	1911.9	2012.7	2220.9	2522.6
5. Real growth effect		-8034.3	-11697.5	-5681.5	-3127.6	-3232.6
6. Inflation effect		-5119.1	3673.5	1875.1	-107.5	391.8
7. Stock-flow adjustment		-5216.6	-290.6	-1960.3	-770.1	-367.3
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		4.3	3.2	3.2	3.2	3.1
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		2.3	3.1	3.4	3.8	4.3
Other relevant variables						
8. Liquid financial assets		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Table 5: Cyclical developments

% GDP	ESA Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. Real GDP growth (%)	B1g	11.4	18.9	9.7	5.4	5.5



2. Net lending of generalgovernment	EDP.B.9	-3,719.6	-1,207.5	-5,147.0	-	-2,894.2
3. Interest expenditure	EDP.D.41	1,588.8	1,911.9	2,012.7	2,220.9	2,522.6
4. One-off and other temporarymeasures ⁴¹		:	:	:	:	:
5. Potential GDP growth (%)		5.8	3.0	2.8	3.2	3.2
Contributions:						
- labour		11.8	6.2	1.4	1.2	1.1
- capital		1.3	1.2	1.2	1.2	1.2
- total factor productivity		-6.7	-1.6	1.1	0.6	0.6
6. Output gap		-1,0	1,7	2,7	2,4	2,2
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance(8-3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year	Year	Year	Year	Year
	2022	2023	2024	2025	2026
1. GDP growth (% g/g)					
Previous programme	7,7	4,4	4,0	3,5	:
Latest update	11,4	18,9	9,7	5,4	5,5
Difference (percentage points)	3,7	14,5	5,7	1,9	:
2. General government net lending (% GDP)					
Previous programme	:	:	:	:	:
Latest update	-3719.6	-1207.5	-5147.0	-3661.7	-2894.2
Difference	:	:	:	:	:
3. General government gross debt (% GDP)					
Previous programme	70.8	62.2	61.6	61.3	60.96
Latest update	69344.8	62237.7	61618.0	61274.4	60960.6
Difference	69274.1	62175.5	61556.4	61213.1	60899.6

Table 7: Long-term sustainability of public finances

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



trade-related revenue,	/	/	n/a	n/a	n/a	n/a	n/a
royalties, concessions etc.	/	/	n/a	n/a	n/a	n/a	n/a
from pensions contributions (orsocial contributions, if appropriate)	/	/	n/a	n/a	n/a	n/a	n/a
Pension reserve fund assets	/	/	n/a	n/a	n/a	n/a	n/a
of which: consolidated public pension fund assets (assets otherthan government liabilities)	/	/	n/a	n/a	n/a	n/a	n/a
Assumptions							
Labour productivity growth ³¹	4,2	5,1	-5,9	1,5	1,5	1,5	1,5
Real GDP growth ³²	6,8	2,7	-15,3	3,5	3,5	3,5	3,5
Participation rate males (aged 20-64)	69,1	67,1	74,6	:	:	:	:
Participation rates females (aged 20- 64)	53	51,7	59,9	:	:	:	:
Total participation rates (20-64)	61	59,3	67,2	:	:	:	:
Unemployment rate	19,4	19,6	17,9	:	:	:	:
Population aged 65+ over total population ³³	12,9	12,9	15,6	19,8	21,5	23,8	25,6

Table 7a: Contingent liabilities

Measures		Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID- 19			2023 n/a ³⁴	2023
	Subtotal			
Others			157,83 ³⁵	11 ³⁶
	Subtotal			
Total			157,83	11

³¹ Productivity growth projections: long-term Ministry of Finance estimates.

³² GDP growth projections: long-term Ministry of Finance estimates.

³³Population 65+ projections: Monstat publication from 2014, medium fertility rate variant: <http://monstat.org/cg/page.php?id=210&pageid=210>

³⁴ No covid 19 related guarantees issued in 2023.

³⁵ As explained in narrative part of ERP the debt based on guarantees as of 30/09/2023 amounts 157.83 million €.

³⁶ The amount of newly issued guarantees in 2023 is 11 million euros.



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

	Dimension	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
Short-term interest rate	Annual average	0.3	3.4	3.7	3.1	:
Long-term interest rate	Annual average	1.1	2.5	2.8	2.8	:
USD/EUR exchange	Annual average	1.0519	1.0767	1.0577	1.0577	:
Nominal effective exchange rate	Annual average	-4.6	7.1	1.3	0	:
Exchange rate vis-à-vis the EUR	Annual average	1.00	1.00	1.00	1.00	1.00
Global GDP growth, excluding EU	Annual average	3.3	3.5	3.2	3.5	:
EU GDP growth	Annual average	3.4	0.6	1.3	1.7	:
Growth of relevant foreign markets	Annual average	2.5	1.7	1.5	1.9	:
World import volumes, excluding EU	Annual average	4.3	1.2	3.4	3.7	:
Oil prices (Brent, USD/barrel)	Annual average	100.7	84.1	84.5	79.6	:

Table 9a: Social scoreboard indicators

	Data source	2019	2020	2021	2022	2023
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	Information system of Ministry of Education, Science and Innovation	2181	1446	1402	2171	1539 ³⁷
2. Share of early leavers from education and training, age 18-24	MONSTAT	5.0	3.6	6.7	5.2	28.mart 2024.
3. Share of population with basic overall digital skills or above, age 16-74	MONSTAT	52.2%	N/A	47,2%	N/A	52,0%
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	e	21.3	26.6	26.5	23.2	March 28 th 2024
5. Gender gap in employment rate, age 20-64	e	13.3	12.9	11.1	12.9	March 28 th 2024
6. Income quintile share ratio - S80/S20	e	6,7	6,0	5,8	5,6	N/A
Working conditions						
7. Employment rate, age 20-64	e	60.8	55.2	54.2	N/A	March 28 th 2024

³⁷ The data for 2023 are not yet final, because the organizers of adult education are still entering data into the system for 2023.



8. Unemployment rate, age 15-74	e	15.1	17.9	16.6	14.7	March 28 th 2024
9. Long-term unemployment rate, age 15-74	e	11.9	13.4	11.0	10.2	March 28 th 2024
10. Gross disposable income of households in real terms, per capita	EU-SILC (Monstat)	4.241	4.449	4.338	N/A	N/A
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EU-SILC	36,5	37,6	38,9	34,1	N/A
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EU-SILC	43,5	45,0	45,5	40,4	N/A
13. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	42,9	41,4	42,4	40,8	N/A
14. Disability employment gap, age 20-64	e	N/A	N/A	N/A	N/A	N/A
15. Housing cost overburden rate	EU-SILC	11,7	9,4	8,0	5,8	N/A
16. Children aged less than 3 years in formal childcare	MONSTAT	10117	10966	9998	11068	12179
17. Self-reported unmet needs for medical care	MONSTAT	3,1	2,1	1,6	2,6	N/A

Table 9b: Other selected indicators

	Data source	2019	2020	2021	2022	2023
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	ESSPROS MONSTAT	16,7	16,5	22,7	19,2 (p)	N/A
2. Public healthcare expenditure in % of GDP	Ministry of Health	5,14	7,21	N/A	5,18	N/A ³⁸
3. Household out-of-pocket payments as a % of total health expenditure		n/a	n/a	n/a	n/a	n/a
4. Percentage of population not covered by health insurance	Ministry of Health	<5%	<5%	<5%	<5%	<5%
5. Ratio of doctors per 1000 inhabitants	Institute for public healthcare	2,75	2,77	2,81	2,78	N/A ³⁹

³⁸ Monstat still does not have published data for GDP in relation to which the % allocation for healthcare would be calculated.

³⁹ Health institutions are obliged to provide data on employees for an indefinite period of time on 31.12.2023. are submitted to the Institute by January 31, 2024, and after that a summary report is made. The annual reports on the state of personnel in PHI for 2023 will be available



6. Ratio of nurses per 1000 inhabitants	Institute for public healthcare	4,90	5,02	5,33	4,89	N/A
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	Environment Protection Agency	316.614,29€	490.803,96€	779.714,51€	453.794,79€	623.316,78€
8. Greenhouse gas emissions per capita	Expressed in Tons	1,794	1,761	1,656	1,571	N/A
9. Generation of waste excluding major mineral wastes	<p>2018 – Report on implementation of the State Plan on Waste Management for 2018;</p> <p>2019 – State Plan on Waste Management in Montenegro for the period 2015-2020;</p> <p>2020 – Report on implementation of the State Plan on Waste Management for 2020;</p> <p>2021 – Report on implementation of the State Plan on Waste Management for 2021;</p> <p>2022 – Report on implementation of the State Plan on Waste Management for 2022</p>	248.015 t	255.150 t	269.071 t	280.452 t	292.077 t
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	Data provided to the Agency for Electronic Communications and Postal Services by the operator via the system for collecting and processing data on the electronic communications market	<p>Fix: 90,33%</p> <p>Mob: 81,53%</p>	<p>Fix: 93,19%</p> <p>Mob: 87,02%</p>	<p>Fix: 95,92%</p> <p>Mob: 90,63%</p>	<p>Fix: 100,04%</p> <p>Mob: 102,51%</p>	<p>Fix: 103,70% (K3 2023)</p> <p>Mob: 119,56% (K3 2023)</p>
	<p><u>Note:</u></p> <p>Regarding fixed broadband, the percentage of households that have a fixed broadband connection is greater than 100%, due to the fact that all Internet connections were taken into account, and in the coastal and certain municipalities in the central part of Montenegro, the</p>					

at the end of February 2024.



	number of connections is significantly higher compared to the number households. (For example, in Budva we have more than 2 and a half connections per household) As for the mobile access, this data pertains to the number of users who accessed internet via mobile phone during December each year and is counted as ratio to the population number. It is not calculated as percentage of households.					
11. Share of total population using internet [NB: population 16-74]	MONSTAT	79,6%	81,4%	86,3%	88,2%	92,3%
Energy						
12. Energy imports dependency (%)	EUROSTAT	31,1	32,9	27,4	31,1	N/A
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	Energy intensity of GDP in chain linked volumes (2010) Unit: [KGOE_TEUR] Kilograms of oil equivalent (KGOE) per thousand euro, EUROSTAT	277,3	275,9	299,5	283,2	N/A
14. Share of renewable energy sources (RES) in final energy consumption (%)	EUROSTAT	38,8	37,7	43,8	39,9	39,9
Transport						
15. Railway Network Density (meters of line per km ² of land area)	MONSTAT	18	18	18	18	18
16. Motorization rate (Passenger cars per 1000 inhabitants)	MONSTAT	332	350	338	358	369
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	MONSTAT	8,2	7,9	9,1	8,0	7,5
18. Share of employment (Agriculture, Forestry and Fishing)	MONSTAT	7.1	7.5	6.4	N/A	N/A
19. Utilised agricultural area (% of total land area)	MONSTAT	18.6	18.7	18.5	N/A	N/A
Industry (except construction)⁴⁰						
20. Share of gross value added	MONSTAT	12,5	11,9	13,5	12,5	11,3
21. Contribution to employment (% of total employment)	MONSTAT	0.9	11.3	11.2	10.6	N/A ⁴¹
Services⁴²						

⁴⁰ Data refer to the industries covered by sectors B, C, D, and E.

⁴¹ Data for 2023 are not yet available.

⁴² This data represents the participation of sectors B, C, D and E in the total number of employees.



22. Share of gross value added	Monstat	79.3	80.2	77.3	79.6	n/a
23. Contribution to employment (% of total employment)	Monstat	81.3	81.2	81.5	81.1	n/a
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	World Economic Forum ⁴³	71.	73.	N/A	N/A	N/A
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Ministry of Finance ⁴⁴	No data ⁴⁵	No data	No data	No data	20.6%
Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	Ministry of Education, Science and Innovation	0,36%	There is no data, the statistical research on scientific research activity for 2020 has not been done due to difficult working conditions due to the COVID-19 pandemic.	There is no data, the statistical research on scientific research activity for 2021 has not been done due to difficult working conditions due to the COVID-19 pandemic.	There is no data - MSTD has started the collection process, with the aim of publishing statistical data on research and development for 2022. The publication of the data is planned until the end of June 2023.	There is no data

⁴³ The World Economic Forum published its last report in 2020. After that, there are no reports, and therefore no data on the global competitiveness index.

⁴⁴ According to the research conducted among companies and households, the informal economy in the formal sector in Montenegro in 2022 amounts to 20.6% of GDP, which represents a decrease of 3.9 p.p. compared to 2014.

⁴⁵ The last survey was conducted by UNDP in 2014, according to which the percentage of the informal economy in Montenegro was 24.5%, and this data was used until 2022, when a new survey was conducted.



27. R&D expenditure – EUR per inhabitant	Ministry of Education, Science and Innovation	29,01 EUR ⁴⁶	There is no data on expenditures (gross expenditures for IR) for 2020.	There is no data on expenditures (gross expenditures for IR) for 2021.	There is no data	There is no data
Trade						
28. Export of goods and services (as % of GDP)	Central Bank of Montenegro	42.9	43.9	26.0	42.8	51.5
29. Import of goods and services (as % of GDP)	Central Bank of Montenegro	66.7	65.0	61.0	62.2	74.4
30. Trade balance (as % of GDP)	Central Bank of Montenegro	-23.9	-21.1	-35.0	-19.4	-22.8

Table 10a: Costing of structural reform measure

Reform measure 1: Strengthening the mechanisms for the formalisation of the informal economy					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	1.931.050,00	0,00	0,00	1.931.050,00
2025	0,00	6.112.083,00	0,00	0,00	6.112.083,00
2026	0,00	2.531.000,00	0,00	0,00	2.531.000,00
Reform measure 2: Establishing an adequate governance model and an efficient oversight system for state-owned enterprises					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	25.000,00	410.000,00	0,00	5.000,00	440.000,00
2025	15.000,00	310.000,00	0,00	5.000,00	330.000,00
2026	15.000,00	160.000,00	0,00	5.000,00	180.000,00
Reform measure 3: Incentivising innovation for the Green Agenda and transitioning to circular economy					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	0,00	2.700.000,00 ⁴⁷	0,00	2.700.000,00
2025	0,00	0,00	2.000.000,00	0,00	2.000.000,00
2026	0,00	0,00	2.000.000,00	0,00	2.000.000,00

⁴⁶ Expenditures (gross expenditures for IR) in 2019 amounted to 17,984,722 €. The number of inhabitants according to the last census from 2011 is 620,029.

⁴⁷ For the Program for Encouraging Innovations in the Function of Energy Efficiency in Industry, the possibility of realizing an additional €1,500,000.00 within the Instrument for Pre-Accession Assistance - IPA III, the Package of Direct Budgetary Support of the European Commission (EC) to Montenegro for overcoming the energy crisis is foreseen.



Reform measure 4: Strengthening decarbonisation mechanisms					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	500.000,00	5.200.000,00	0,00	5.700.000,00
2025	0,00	300.000,00	3.200.000,00	0,00	3.500.000,00
2026	0,00	200.000,00	2.300.000,00	0,00	2.500.000,00
Reform measure 5: Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	4.790.000,00	0,00	0,00	4.790.000,00
2025	0,00	5.930.000,00	0,00	0,00	5.930.000,00
2026	0,00	5.930.000,00	0,00	0,00	5.930.000,00
Reform measure 6: Digitalisation of the Healthcare System in Montenegro					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	1.400.000,00	0,00	0,00	1.400.000,00
2025	0,00	1.100.000,00	0,00	0,00	1.100.000,00
2026	0,00	2.000.000,00	0,00	0,00	2.000.000,00
Reform measure 7: Introducing the Youth Guarantee Programme in Montenegro⁴⁸					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	1.524.176,00	780.000,00	0,00	0,00	2.304.176,00
2025	0,00	780.000,00	0,00	0,00	780.000,00
2026	0,00	680.000,00	0,00	0,00	680.000,00
Reform measure 8: Developing an Integrated Approach to Increasing the Quality and Inclusivity of Education					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	450.000,00	0,00	0,00	450.000,00
2025	0,00	550.000,00	0,00	0,00	550.000,00
2026	0,00	200.000,00	0,00	0,00	200.000,00
Reform measure 9: Reforming the Social and Child Protection System Based on the Road Map					
Year	Salaries	Good and services	Subsidies and transfer	Capital expenditure	Total
2024	0,00	150.200,00	0,00	0,00	150.200,00
2025	0,00	5.151.200,00	0,00	0,00	5.151.200,00
2026	0,00	151.200,00	0,00	0,00	151.200,00

⁴⁸ Funds for the implementation of the measure for 2024 and 2025 have been provided from IPA III in the amount of EUR 200,000.00 for a media and field campaign to promote the "Guarantee for Youth" program, and part of the funds are part of the continuation of the project Strengthening the operational capacities of the Institute for employment for the implementation of services and measures through digitization from the previous year.



Table 10b: Financing of structural reform measure

Reform measure 1: Strengthening the mechanisms for the formalisation of the informal economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	362.000,00	0,00	0,00	429.050,00	40.000,00	1.100.000,00	0,00	1.931.050,00
2025	387.583,00	0,00	0,00	34.500,00	40.000,00	5.650.000,00	0,00	6.112.083,00
2026	491.000,00	0,00	0,00	0,00	40.000,00	2.000.000,00	0,00	2.531.000,00
Reform measure 2: Establishing an adequate governance model and an efficient oversight system for state-owned enterprises								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	40.000,00	0,00	0,00	400.000,00	0,00	0,00	0,00	440.000,00
2025	30.000,00	0,00	0,00	300.000,00	0,00	0,00	0,00	330.000,00
2026	30.000,00	0,00	0,00	150.000,00	0,00	0,00	0,00	180.000,00
Reform measure 3: Incentivising innovation for the Green Agenda and transitioning to circular economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	1.200.000,00	0,00	0,00	1.500.000,00	0,00	0,00	0,00	2.700.000,00
2025	2.000.000,00	0,00	0,00	0,00	0,00	0,00	0,00	2.000.000,00
2026	2.000.000,00	0,00	0,00	0,00	0,00	0,00	0,00	2.000.000,00
Reform measure 4: Strengthening decarbonisation mechanisms								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	200.000,00	0,00	0,00	5.000.000,00	500.000,00	0,00	0,00	5.700.000,00
2025	200.000,00	0,00	0,00	3.000.000,00	300.000,00	0,00	0,00	3.500.000,00
2026	300.000,00	0,00	0,00	0,00	0,00	0,00	2.200.000,00	2.500.000,00
Reform measure 5: Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	4.790.000,00	0,00	0,00	0,00	0,00	0,00	0,00	4.790.000,00
2025	680.000,00	0,00	0,00	0,00	0,00	0,00	5.250.000,00	5.930.000,00
2026	680.000,00	0,00	0,00	0,00	0,00	0,00	5.250.000,00	5.930.000,00
Reform measure 6: Digitalisation of the Healthcare System in Montenegro								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	1.400.000,00	0,00	0,00	0,00	0,00	0,00	0,00	1.400.000,00
2025	0,00	0,00	0,00	1.100.000,00	0,00	0,00	0,00	1.100.000,00
2026	0,00	0,00	0,00	2.000.000,00	0,00	0,00	0,00	2.000.000,00
Reform measure 7: Introducing the Youth Guarantee Programme in Montenegro								



Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	908.626,00	0,00	0,00	1.395.550,00	0,00	0,00	0,00	2.304.176,00
2025	680.000,00	0,00	0,00	100.000,00	0,00	0,00	0,00	780.000,00
2026	680.000,00	0,00	0,00	0,00	0,00	0,00	0,00	680.000,00
Reform measure 8: Developing an Integrated Approach to Increasing the Quality and Inclusivity of Education								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0,00	0,00	0,00	400.000,00	50.000,00	0,00	0,00	450.000,00
2025	0,00	0,00	0,00	500.000,00	50.000,00	0,00	0,00	550.000,00
2026	0,00	0,00	0,00	100.000,00	100.000,00	0,00	0,00	200.000,00
Reform measure 9: Reforming the Social and Child Protection System Based on the Road Map								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	150.200,00	0,00	0,00	0,00	0,00	0,00	0,00	150.200,00
2025	151.200,00	0,00	0,00	5.000.000,00	0,00	0,00	0,00	5.151.200,00
2026	151.200,00	0,00	0,00	0,00	0,00	0,00	0,00	151.200,00

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2023-2025

Reform measure 1: Strengthening operational capacities of the Employment Agency for carrying out services and measures via digitalisation		Stage of reform implementation (1-5)
Activities planned for 2023	Carrying out the procedure for launching a tender for procurement of hardware and selection of possible contractor for implementation of the procurement contract for the project “Development of the new Information system for the Montenegro Employment Agency”; Starting implementation of activities envisaged under the Twinning project for improving capacities of the Montenegro Employment Agency system	4



Description of implementation and explanation if partial or no implementation	<p>Public call was made for the procurement contract for the project “Development the new Information system for the Montenegro Employment Agency” with a value of 2,117,647.06 euro, which lasted 60 days until 18 April 2023. The evaluation committee was appointed, which selected the best offer with an acceptable, pre-defined price, based on the prepared technical specification.</p> <p>The Project started on 11 September 2023. Given that the Project is divided into two components, under the first component, dealing with the development of the new software, the functional analysis of the existing system was prepared, and is expected that all relevant departments of the Employment Agency provide comments to assess if their work processes are comprehensively covered. While the second component, dealing with installing the hardware, is planned to start at the beginning of the next year.</p> <ul style="list-style-type: none"> – Activities continued to improve the capacities of the Montenegro Employment Agency for the use of online tools; thus after the testing phase for the online module (for unemployed persons, for employers, and for persons with disabilities) they became officially operational from 13 June 2023 and available on the Employment Agency website (Link: https://www.zzscg.me/obavjestenje-zzscg/). – The twinning project commenced and an analysis of existing active labour employment measures is underway, as well as the proposal for redefining them, and which should enable targeting of all categories of unemployed, with a special focus on youth. A methodology for monitoring active employment measures was prepared and distributed to relevant departments of the Employment Agency for them to provide comments to the methodology. Furthermore, experts are working to assess job posts for the act on systematisation compared to the existing ones and to provide proposal for enhancing job positions of [employment] counsellors who should be hired to implement the Youth Guarantee Programme. The project implementation period is 18 months, precisely until the end of September 2024.
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Reporting on the Results indicators for the Reform measure 1

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
New IT platform of the Montenegro Employment Agency established, which enables more efficient work of [employment] counsellors with beneficiaries	Present IT solution does not enable interoperability of databases among institutions	Hardware procured	Hardware procured
Share of unemployed persons who filed the online registration for employment relative to the total number of registered unemployed persons in the records of the Montenegro Employment Agency	0	10% of the total number of registered persons	10% of the total number of registered persons
Percent of employees/users trained to use the new information system	0	30% employees/users of the total number of employees in the Montenegro Employment Agency	n/a

Reform measure 2: Introducing the Youth Guarantee Programme in Montenegro	Stage of reform implementation (1-5)
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Activities planned for 2023	Implement legal provisions to create assumptions for unhindered implementation of the Youth Guarantee Programme; Carrying out activities envisaged under the Twinning project for improving capacities of the Montenegro Employment Agency in the segment of improving the system for the introduction of the Youth Guarantee Programme.	3
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> – Activities to introduce the Youth Guarantee Programme are underway; – The Working Team for introduction and implementation of the Programme, with continuous ILO support, held a working meeting in February 2023, in order to improve further the text of the draft Plan for Implementation of the Youth Guarantee in line with the second comments of the European Commission (comments from November 2022). – Furthermore, in the period 17-18 May 2023, as organised by ILO, a Regional workshop took place in Tiran with the topic the <i>Carrying out the monitoring and reporting on the Youth Guarantee Programme</i>, attended by representatives of the Working Team from Montenegro. In the period 2- October 2023, with the support of the EU/ILO Technical Assistance Facility, an expert meeting was held in Budapest, supporting five economies of the Western Balkans that will commence with the implementation of the Youth Guarantee, in order to assess readiness to move to the third phase – the Pilot Phase. During the monitoring and evaluation phase, a workshop was held in Vienna on 5 and 6 December 2023. – The European Commission submitted comments to the second draft of the Implementation Plan of the Youth Guarantee Programme in Montenegro on 8 November 2023. – Activities are currently underway to working on the composition of the Working group at the expert level and inter-sectoral Working group at the high level, resulting from personnel and organisational changes that took place after the new Government was formed. After these working groups are established, further enhancement of the text in line with the submitted EC comments will take place and its adoption will follow. – As part of the Twinning project for improving the capacities of the Montenegro Employment Agency, experts are working to assess job posts for the act on systematisation compared to the existing ones and will provide proposals for enhancing job positions of counsellors who should be hired to implement the Youth Guarantee Programme. 	

Reporting on the Results indicators for the Reform measure 2

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Employment rate of youth age 15-29	30.0% ⁴⁹	33.0%	41.2% LFS Q1-2023 50.5% LFS Q2-2023
Percent of completed activities from the Youth Guarantee Programme	0	50%	n/a

Reform measure 3: Developing integrated approach to improving education quality and inclusivity		Stage of reform implementation (1-5)
Activities planned for 2023	<ul style="list-style-type: none"> • Improve capacities of representatives of the Ministry of Education and other relevant institutions for evidence-based planning, budgeting, monitoring, and evaluation of plans in the education sector; 	0

⁴⁹ The data in question is from the Labour Force Survey (LFS) for 2021, which was the last available annual data at the time the ERP was planned



	<ul style="list-style-type: none"> Develop the Education Sector Strategy (2024-2030) and an Action plan for its implementation (which will include changes to curricula); 	0
	<ul style="list-style-type: none"> Establish a working group for the curricula reform; 	0
	<ul style="list-style-type: none"> Develop and implement an advocacy plan that will mobilise broad support for development and implementation of the Strategy and the Action plan; 	0
Description of implementation and explanation if partial or no implementation	<p>Implementation has not started given that funds allocated for this purpose by the European Union Delegation to Montenegro are not yet operational since the contract was not signed. It is expected that the contract signing will take place by the end of 2023.</p> <p>Drafting of the TOR, precisely the requirements for hiring expert consultants that would work with the relevant teams on the Education Strategy was done in cooperation with UNICEF, but it is still at the technical preparation level.</p>	

Reporting on the Results indicators for the Reform measure 3

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Enrolment rate in pre-school education institutions (total for age 3 to 6 years)	75.99%	80%	83.19% ⁵⁰
Average score reached in the PISA test (rank for reading, mathematics, science)	55.6/53.8/51.8%	53/55/55%	-
Percentage of expenditure for education (as % of GDP)	3.9%	10.01%	10.83%

Reform measure 4: Digitalisation of the education and development of digital skills		Stage of reform implementation (1-5)
Activities planned for 2023	<ul style="list-style-type: none"> Prepare and adopt the Rulebook on the Manner of Keeping Data in the Education Information System; 	0
	<ul style="list-style-type: none"> Prepare and adopt the Rulebook on the Manner of Appointing School and Regional ICT Coordinators; 	0
	<ul style="list-style-type: none"> Create training programmes for ICT Coordinators and carry out trainings; 	0
	<ul style="list-style-type: none"> Amend the General Education Law in the segment of organisation of educational and pedagogical process (digital teaching, digital textbooks); 	1
	<ul style="list-style-type: none"> Draft the Rulebook on governing copyrights for digital education content; 	0
	<ul style="list-style-type: none"> Establish a model for online collaboration for the Ministry of Education, Institute for Teaching, Centre for Vocational Education, Examination Centre, and Institute for Textbooks and Teaching Material; 	3
	<ul style="list-style-type: none"> Procure and implement new equipment in the Data Centre; 	4
	<ul style="list-style-type: none"> Procure equipment and establish the Data Recovery Site; 	3
	<ul style="list-style-type: none"> Create a module in the Education Information System for identification of children not in schooling in Montenegro and identification of children with illegal stay in Montenegro; 	4
	<ul style="list-style-type: none"> Procure and equip educational and pedagogical institutions with computer equipment; 	4

⁵⁰ Monstat data from February 11, 2023: "Compared to the last school year, the number of children enrolled is 7.2 percent more" (24,663 children).



Reform measure 4: Digitalisation of the education and development of digital skills	Stage of reform implementation (1-5)
<p>Description of implementation and explanation if partial or no implementation</p>	<p>The following activities were not carried out:</p> <ol style="list-style-type: none"> 1. Prepare and adopt the Rulebook on the Manner of Keeping Data in the Education Information System; 2. Prepare and adopt the Rulebook on the Manner of Appointing School and Regional ICT Coordinators; 3. Create training programmes for ICT Coordinators and carry out training; 4. Amend the General Education Law in the segment of organisation of educational and pedagogical process (digital teaching, digital textbooks); 5. Draft the Rulebook on governing copyrights for digital education content. <p>All activities that were not carried out depended to the largest extent on the amendments of the General Education Law, which could not have been amended recently.</p> <p>Implementation of the following is underway:</p> <ol style="list-style-type: none"> 1. Establish a model for online collaboration for the Ministry of Education, Institute for Teaching, Centre for Vocational Education, Examination Centre, and Institute for Textbooks and Teaching Material; 2. The public procurement procedure for new equipment in the Data Centre was completed and implementation is at its final stage; 3. The public procurement procedure for equipment and establishment of the Data Recovery Site was completed and implementation is at its final stage; 4. Module in the Education Information System for identification of children not in schooling in Montenegro and identification of children with an illegal stay in Montenegro was created; technical data exchange was completed and data analysis is underway; 5. The public procurement procedure for equipping educational and pedagogical institutions with computer equipment was completed; import of equipment is underway and distribution is planned for January 2024; 6. Data exchange with the Ministry of Interior Affairs is established, aimed at developing a software application to establish which children are not in school/education; data was taken over and data analysis is underway; 7. In cooperation with Montenegrin Telecom, preparatory activities for securing equipment to bring the Internet to 45 satellite primary schools. <p>In addition to the above-stated, and aside from the planned activities, continuous work is taking place to improve the Digital School concept, and to develop self-learning online courses for pupils, teachers and parents. The system of electronic enrolment to private universities and the Faculty for the Montenegrin Language was improved, as well as enrolment for the study programmes of the University of Montenegro was improved in the segment of the digital signing of contracts between the students and the tertiary education institutions. Two new electronic services were developed also, one for applying for scholarships and one for applying for student loans. Funds for training for 750 teachers under the ECDL standards (basic digital literacy) were secured and the training is underway. Funds were secured and training started for 1,000 employees in the educational and pedagogical institutions to apply the Digital School concept. LAN networks were established in 21 facilities of the preschool institutions, 56 facilities of secondary schools, 3 resource centres, and 5 primary musical schools.</p> <p>A series of analyses were completed to define new activities and measures for improvement:</p> <ul style="list-style-type: none"> • Analysis of existing curricula for primary and secondary schools in the segment of the extent of use of the information and communication technologies; • Analysis of relevant national and international recommendations to improve the digital competencies of teachers; • Analysis of the application software needs.

Reporting on the Results indicators for the Reform measure 4

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
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Computer to student ratio (number of school pupils per one computer)	1:15	1:14	1:15 Public procurement procedure was completed; import of equipment is underway and distribution is planned during January 2024, after which the ratio will be 1:14.
Percentage of buildings with local computer network (%)	65%	70%	82% LAN networks installed in 56 facilities of secondary schools, 21 facilities of pre-school institutions, 3 resource centres, and 5 musical schools
Number of users of the established platform for self-learning	547	1,000	24,567
Percent of trained employees in educational and pedagogical institutions for applying the Digital School concept	40	50	46

The measure affects poverty reduction. More precisely, the activity related to the identification of children who are not in school directly affects ensuring that every child has the right to education and that such right is exercised; who upon qualifying to through the education system, gets the opportunity to be competitive on the labour market (which reduces the informal economy, poverty, crime, etc.).

The development of electronic services has a direct impact on environmental protection, because the number of documents that have to be filed to exercise a certain right is significantly reduced, which has an impact on reducing paper and toner use. With the current digitalisation of the processes implemented in the education system, savings are made for more than 500,000 documents annually, which do not need to be issued but rather the data is downloaded electronically.

Reform measure 5: Reform of the social and child protection system based on the Road Map		Stage of reform implementation (1-5)
Activities planned for 2023	<ul style="list-style-type: none"> Prepare draft Strategy for Development of the Social and Child Protection System 2023-2027, with the Action Plan for 2023, and adopt these documents by the Government by the end of the current year; Develop a Methodology for calculating prices of the social and child protection services; 	Partially implemented (2)
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> Draft Strategy for Development of the Social and Child Protection System 2023-2027, with the Action Plan for 2023 was prepared. The draft is submitted mid May of the current year to the Ministry for opinion, further action and finalisation before being considered and adopted. The adoption is planned to take place by the end of the year. Challenges in implementation are caused by political changes at the national level. The reform will continue in 2024, with the planned implementation of this strategic document. The Methodology for calculating prices of the social and child protection services is also being prepared. Two missions of expert participating in drafting the Methodology for calculating prices of the social and child protection services took place, while the third one was planned. The Methodology to be used for calculating prices of the social and child protection services should be completed in H1 2024. 	

Reporting on the Results indicators for the Reform measure 5

Indicator	Baseline (2023)	Target planned for 2023	Target value achieved in 2023
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Analysis of costs and financial sustainability, with a financial plan for carrying out the Reform of the social and child protection system prepared.	0	Costs analysis prepared and Social and Child Protection Strategy in preparation	UNICEF Office in Montenegro has provided a consulting support to the Ministry of Labour and Social Welfare to prepare the draft Strategy for Development of the Social and Child Protection System 2023-2027, with the Action Plan for 2023. The draft is submitted mid May of the current year to the Ministry for opinion, further action and finalisation before being considered and adopted. The adoption is planned to take place by the end of the year. Assistance to develop Analysis of costs of the social and child protection services is approved through the SOCIEUX programme.
Improve Social Welfare Centres capacities to be able to provide case management and referrals to services	0	Quality of quality of case management and referrals to services improved with increased number of case managers, reduction of their workload, and trainings conducted;	Increased number of case managers for 57 in H1 2023

Over the medium to long term, the measure will contribute to a sustainable and continuous poverty reduction through the proposed reallocation of social and child protection funds towards those who need these funds the most, and thus affect the reduction of the risk of poverty, especially of children.

Reform measure 6: Digitalisation of the healthcare system in Montenegro		Stage of reform implementation (1-5)
Activities planned for 2023	<ul style="list-style-type: none"> Amend legislation governing digitalisation in health care; Law on Healthcare Protection, Law on Data Catalogues, and enabling legislation; Replacement of computer infrastructure; Develop new Digital Health Strategy; Track & Trace system implemented for monitoring the flow of pharmaceuticals from production to the patient; Project of teleradiology implemented in the Clinical Center of Montenegro (KCCG) and healthcare institutions; Analysis of the system and preparation of terms of reference for the telemedicine IS, e-Health Card or electronic health records (EHR), m-Health platform; Education of medical staff on the advantages of using modern ICT solutions and the benefits they provide; 	3



	The Ministry of Health would coordinate activities and implement them with the support of the overall healthcare system and UNDP.	
Description of implementation and explanation if partial or no implementation	<p>Activities to amend legislation took place during 2023, and so as follows:</p> <ul style="list-style-type: none"> amendments to the Law on Healthcare Protection, while the proposal of the Law contains provisions governing the Digital Health, telemedicine, m-Health, integrated healthcare information systems, and e-health. The Law is adopted at the 62nd session of the Government⁵¹. Law on Data Catalogues in the healthcare area was not changed. <p>Given that the current Strategy of Development of Integrated Information System and e-health covers 2023, we have worked on an evaluation of and preparation the final report of this Strategy, which is a prerequisite that we will meet in order to start preparing a new National Digital Health Strategy, for which was planned to be adopted in Q2 2024.</p> <p>As for the Track & Trace System for monitoring pharmaceuticals and medical devices, through UNDP we have hired a consultant to assist in preparing the TOR for the Track & Trace System. We expect that a public call will be launched and a bidder for introducing the system selected at the beginning of 2024.</p> <p>When it comes to the Analysis of the system and preparation of terms of reference for the telemedicine IS, and m-Health, the terms of reference were prepared and we expect further implementation at the beginning of next year.</p> <p>Concerning the e-health Card or electronic health records (EHR), the technical software specification is ready, while the contents of the EHR need to be governed legislation.</p> <p>Activities for the education of medical staff are planned to be conducted using the Continuing Medical Education programme.</p>	

Reporting on the Results indicators for the Reform measure 6

Indicator	Baseline (2023)	Target planned for 2023	Target value achieved in 2023
Reduced share of patients referred outside their place of residence for radiology	40% of all examinations done for citizens gravitating outside place of residence	-	-
Number of interactive m-Health service in use in Montenegro through development and implementation of the m-Health platform	1 (e-Health platform)	-	1
Number of Track & Trace systems for tracking pharmaceuticals from production to the patient introduced	0	-	0

Reform measure 7: Establishing a full electronic registration of enterprises	Stage of reform implementation (1-5)
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⁵¹ [Government adopted a Proposal of the Law on Healthcare Protection \(www.gov.me\)](http://www.gov.me).



Activities planned for 2023	<ul style="list-style-type: none"> • Adoption of the new Law on Registration of Economic and Other Entities and amendments and supplements to the Law on Business Undertakings to commence with the implementation of full electronic registration of enterprises; • Enable payment of fees for registration of enterprises and for electronic publication in the Official Gazette (via e-commerce services on the eFirma portal (https://efirma.tax.gov.me/) and/or by using applications of commercial banks); • Develop instructions for registration of enterprises for CRPS employees (for electronic filing of application and filing of application in person) and for beneficiaries (founders/representatives); • Establish an option for the registration of business entities electronically and simplify the process of in-person (physical) registration of enterprises for other types of business undertakings. 	<p>3</p>
Description of implementation and explanation if partial or no implementation	<p>Working group prepared the draft Law Amending and Supplementing the Law on Business Undertakings, which was subject of the public consultations in the period from 9 May to 15 June. After suggestions from the public consultations were considered and analysed, and text of the amendments and supplements to the Law on Business Undertakings was adjusted, the process of obtaining opinion from the Secretariat for Legislation and preparing the agreed text with the Secretariat started; the agreed text of the subject Law will be done submitted to the European Commission for opinion. The Law on Business Undertakings is envisaged to enter into force in Q1/Q2 2024.</p> <p>The Working group prepared a text of the Law on Registration of Economic and Other Entities, which was subject of the public consultations in the period from 11 May to 15 June.</p> <p>The Central Registry of Business Entities (CRPS), in addition to the direct filing of documents for the registration of business undertakings (paper version), has the option for filing an electronic application for the registration of business entities as well as for filing a request for issuing documents from the Registry via the eFirma portal.</p> <p>Currently, the following services can be done using the eFirma portal:</p> <ul style="list-style-type: none"> – applying to register the establishment of a new business entity (single-member limited liability company for residents), – applying for registration of changes to an already registered business entity (change of activity code, address, contact information), – applying for the issuance of statements and certificates from the CRPS. <p>The CRPS processes the procedure of applying electronically, after which the applicant receives requested documentation by mail or electronically.</p> <p>The CRPS is continuously working to expand the electronic services of the Registry and overcome 'obstacles' such as the mandatory submission of notarised writs, certification of documents, the Apostille or legalisation of foreign legal acts envisaged by the Law on Business Undertakings, which in these cases must be electronically signed, and enable the possibility of controlling or checking the validity of that signature by the CRPS.</p> <p>Accordingly, the adoption of the amendments to the Law on Business Undertakings and the Law on Registration of Economic and Other Entities will not enable or start electronic registration, but will create prerequisites for full-scope electronic registration. In order for the procedure of establishing electronic registration of enterprises to be fully covered, it is necessary to create technical conditions and connect the registers, precisely to establish data exchange between state authorities, which is currently an "obstacle" for the further establishment of the CRPS eServices.</p> <p>In addition to the actions that were completed through the drafting of the Law on Registration, the implementation of the FRD programme began in June 2023. Through the implementation of this programme, among other things, it is planned to enable all registrations electronically. The deadline for full implementation is 365 days. The establishment of a working group is underway,</p>	



	which will analyse the human resources capacities necessary for the proper functioning of the CRPS after the FRD programme is completed and implemented.
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Reporting on the Results indicators for the Reform measure 7

Indicator	Baseline (2021)	Target planned for 2023	Target value achieved in 2023
Increase number of trained employees of the CRPS	2	4	1
Electronic registration business entities	Electronic registration	Prerequisites created for electronic connections and registration	Not completed
Ranking in international reports targeting business environment (WEF and Fraser Institute)	73 (WEF) 42 (Fraser)	71 (WEF) 40 (Fraser)	⁵²

Reform measure 8: Strengthening the national innovation and research ecosystem		Stage of reform implementation (1-5)
Activities planned for 2023	<ol style="list-style-type: none"> Consolidation of the new framework for implementation of innovation and smart specialisation (Ministry of Science and Technological Development, Montenegro Innovation Fund, Montenegro Scientific and Technological Park, Innovation and Entrepreneurial Centre Tehnopolis – Nikšić); Improvement of the legal framework for incentive measures in the area of research and innovation (Ministry of Science and Technological Development and Ministry of Finance); Adoption of the revised programme framework for innovation programmes and the Action Plan for implementation of the Smart Specialisation Strategy 2023-2024 (Ministry of Science and Technological Development and line ministries); Setting the new strategic framework for scientific research activities – the adoption of the Strategy of Scientific-Research Activity (2023-2027) and of the Road Map for research infrastructure (2023-2027) (Ministry of Science and Technological Development); Setting the new legal framework for scientific research activities (Ministry of Science and Technological Development); and Implementation of the new programme framework for scientific-research activities (scientific research projects, scholarships for doctoral research) (Ministry of Science and Technological Development); <p><i>Note: The Decree on Organisation and Method of Work of the State Administration (Official Gazette of Montenegro, No 098/2023) transferred tasks of the Ministry of Science and Technological Development to the Ministry of Education, Science and Innovation.</i></p>	

⁵² Data could have not been provided, as it will be reflected only in reports in 2023 for the previous period.



<p>Description of implementation and explanation if partial or no implementation</p>	<p>1. Consolidation of the new framework for implementation of innovation and smart specialisation (Ministry of Science and Technological Development, Montenegro Innovation Fund, Montenegro Scientific and Technological Park, Innovation and Entrepreneurial Centre Tehnopolis – Nikšić):</p> <ul style="list-style-type: none">– Continuity in the functioning of the Framework for Implementation of Innovation and Smart Specialisation (S3) in Montenegro was ensured;– Three sessions of the Council for Innovation and Smart Specialisation were held: first on 03-Mar-2023 when the Council's Work Plan for 2023 and the Report on the Implementation of the Action Plan for the Implementation of the Operational Programme for the Implementation of S3 2021-2024, for the period 2021-2022, were adopted; second on 31-May-2023 at which the semi-annual reports of the Innovation Working Groups for four priority areas were adopted, as well as the Information on the Action Plan for the implementation of the Operational Programme for the implementation of S3 for 2023-2024; and the third one on 22-Sep-2023 when the new composition of the Council's innovation working groups was adopted and the Communication Strategy for S3 was considered. The Government of Montenegro in its session held on 01-Dec-2023 adopted the Decision on the establishment of the Council for Innovation and Smart Specialisation (Decision No. 08-082/23-5359/2 of 01-Dec-2023), because of the changes in the organisation of the Government of Montenegro and the formation of new ministries. The next session of the Council is scheduled for 27-Dec-2023.– The inter-institutional S3 group held four meetings (12-Jan-2023, 04-Apr-2023, 19-May-2023 and 15-Nov-2023), where presented: a report on the implementation of the Action Plan for the management of the Operational Programme for 2021-2022 and Programme lines for innovation support of the Montenegro Innovation Fund, and consultations were also held on the preparation of the S3 Action Plan for 2023-2024, as well as the S3 Communication Strategy and the first results of the external evaluation of S3 for the period 2019-2022. As part of the TASIS3 project, training was held for representatives of the Inter-Institutional Group on 08-Nov-2023 on the importance of inter-institutional cooperation for smart specialisation.– Innovation working groups conducted consultations, worked on defining proposals for the preparation of the new S3 Action Plan for the period 2023-2024, and gave recommendations in defining the priorities of the Scientific Research Activity Strategy 2023-2027. The new composition of the innovation working groups was adopted at the session of the Council for Innovation and Smart Specialisation on 22-Sep-2023, and these working groups have been functioning properly since 01-Oct- 2023.– At the session held on 26-May2023, the Government of Montenegro adopted the Report on the work of the Science and Technology Park of Montenegro (NTPCG) LLC 2022 and the Activity Plan for 2023. In 2022, the NTPCG operated at a profit. In the report, the Government noted the unsatisfactory status of the works on the reconstruction and adaptation of the NTPCG building, which is partly caused by poorly prepared project documentation, and partly by the contractor's lack of commitment to this capital infrastructure project, thus it was noted the need to intensify the activities of everyone involved, so that the works could be finalised as soon as possible. In 2023, the NTPCG will hire new employees, it will work actively on the methodology and preparation of invitations for the reception of the first tenants, as well as on the creation of preconditions for the establishment of the Office for Technology Transfer, about which the Founders of NTPCG (University of Montenegro and the line Ministry of Science and Technology Development on behalf of the Government of Montenegro) agreed at the meeting held on 13 April 13 2023 to be established as an organisational unit of NTPCG.– At the session held on 1 June 2023, the Government of Montenegro adopted the Report on Operations of the Innovation and Entrepreneurship Center "Tehnopolis" Nikšić (Tehnopolis) LLC and Work Program for 2023. In 2022, the undertaking operated at profit. One of the most significant activities in 2023 will be the expansion of the infrastructural capacities of Tehnopolis. Namely, on 20-Apr-2023, the Capital Projects Administration launched a public procurement for the reconstruction of part of the existing building for the construction of the House of the Digital Revolution in Nikšić. In 2023, Tehnopolis continued with project and programme activities, with the focus currently on finalising the pre-accelerator programme.– At the session held on 26 April 2023, the Government of Montenegro adopted the Report on the work of the Montenegro Innovation Fund for 2022 and the Activity Plan
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for 2023, which was adopted by the Council for Innovation and Smart Specialisation at the session held on 14 December 2022. The Fund continued with capacity building through two donor projects: the IPA 2020 TASIS3 project and the second phase of the Norway for you project, implemented by the UNDP Office in Podgorica.

- In 2023, the Fund launched the following calls:
 - Programme for Proof of Innovation Concept of 400,000.00 euro;
 - Pre-accelerator programme of 100,000.00 euro;
 - Education programmes in the smart specialisation areas of 80,000.00 euro;
 - Programme for incentivising innovation in the culture of 50,000.00 euro;
 - Programme of vouchers of patent protection and development of inventions of 20,000.00 euro;
 - Programme for strengthening innovation of newly-established or existing MSMSEs of 1,000,000.00 euro;
 - Programme of support for the early development phase of start-ups of 350,000.00 euro; and
 - Public call for participation in the Programme for incentivising innovation serving the energy efficiency in industry of 1,000,000.00 euro.

2. Improvement of the legal framework for incentive measures in the area of research and innovation (Ministry of Science and Technological Development and Ministry of Finance)

- The Ministry of Science and Technological Development and the Ministry of Finance established the working group for the preparation of amendments to the Law on incentive measures for the development of research and innovation on 23 November 2022, which began work in December 2022 and completed work on the text of the Law in July 2023. What remains is the final harmonisation of the text between the two line ministries, which was initiated in July 2023 by the Ministry of Science and Technological Development.
- In light of the announced changes in the tax policy, on which the expediency of incentive measures for the development of research and innovation will dominantly depend, since tax incentives for this sector are in question, the only rational choice is that parallel to the changes in the tax laws, to work on the adaptation and improvement of the Law on incentive measures for the development of research and innovation, and until these prerequisites are created, it will not be possible to implement the incentive system for the research and innovation sector.

3. Adoption of the revised programme framework for innovation programmes and the Action Plan for implementation of the Smart Specialisation Strategy 2023-2024 (Ministry of Science and Technological Development and line ministries)

- The Government of Montenegro adopted the Programme for Innovation 2023-2027 in the session held on 6 July 2023. The objective and purpose of the Programme are to present in one place or make visible for the innovation community, all relevant programme lines of innovation support planned in the programme period by the ministry responsible for innovation and the Montenegro Innovation Fund. Given that international cooperation in innovation is within the scope of work of the Ministry, programme lines intended to support the participation of Montenegrin users in the EU and international research, development and innovation projects remain under the responsibility of the Ministry as well, while the Montenegro Innovation took over all lines of support for the development of innovations in at different phases of their development.
- On the session held on 3 August 2023, the Government of Montenegro adopted the Action Plan for the Implementation of the Operational Programme for the Implementation of Smart Specialisation Strategy (2021-2024) for 2023-2024

4. Setting the new strategic framework for scientific research activities - adoption of the Strategy of Scientific-Research Activity (2023-2027) and of the Road Map for research infrastructure (2023-2027) (Ministry of Science and Technological Development)

Strategy of Scientific-Research Activity 2023-2027

- Updated composition of the Working Group for drafting the Scientific Research Activity Strategy (2023-2027) with the Action Plan was established on 27 March 2023, and since then the preparation of the new text of this Strategy commenced. In accordance with



the established plans, there is another round of consultations with the scientific and research community about the priorities in this activity and directions for the development of science in the next five-year period. In accordance with the standards for drafting strategic documents, during the drafting of this document numerous challenges were opened that affected the dynamics for finalising the text of the Strategy:

- Montenegro has not had official statistical data for this activity since 2018, when the data for research and development statistics were last validated by EUROSTAT and resolving this issue is underway, whereby without appropriate data it is impossible to finalise the Analysis of the situation;
 - The overview of the research infrastructure and the future model of support for its development, which represents one of the niches of activity in the scientific research activity system, is yet to be prepared, so it is impossible to complete a set of support measures, and the Ministry expects expert help in this segment from the IPA III EURIF facility, which is in the contracting phase; and
 - In the meantime, amendments to the Law on Scientific Research Activity have been initiated, which actually establish a full reform of the scientific research activity system, especially in the segment on the funding model for this activity, which will certainly have reflections on the defining the measures in Strategy of Scientific-Research Activity.
- Given that the remaining activities to finalise the text of the Strategy will be extended until the end of the year, it is certain that the adoption of any strategic document and action plan at the end of the calendar year is not in accordance with the recommendations of the Methodology for developing policies, drafting and monitoring the implementation of strategic documents.
 - The Ministry expects expert support from the IPA III EURIF facility, which is in the contracting phase, and which refers to the Roadmap for research infrastructure (2023–2027), thus the pace of adopting the document will be defined in accordance with the experts' recommendations.

4. Setting the new legal framework for scientific-research activities (Ministry of Science and Technological Development)

- The Ministry is in the process of drafting a new Law on Scientific Research Activity. The working group for drafting the Proposal for the Law on Scientific Research Activity was established on 20 June 2023, and is composed of representatives of the Ministry, the academic sector (all four universities), the Montenegrin Academy of Sciences and Arts, the Ministry of Finance, the Chamber of Economy of Montenegro, the Agency for the Protection of Competition and the NGO sector. Members of the Working Group submitted proposals for improving the text of the Law, which will be worked on intensively from Q1 2024.
- Adoption of the Law is planned for Q4 2024.

5. Implementation of the new programme framework for scientific-research activities (scientific-research projects, scholarships for doctoral research) (Ministry of Science and Technological Development)

In 2023, the Ministry of Science and Technological Development provided support to the scientific research community via the following instruments:

- Call for co-financing national scientific research projects, with allocated funds of 2.3 million euro. The Call aims to strengthen the capacity of research teams in Montenegro, in order to spur scientific excellence, thereby contributing to the development of a knowledge-based society and competitiveness at the international level. The selection of projects is based on an international evaluation process, and the contracting of 22 projects is underway.
- Call for co-financing scientific research activities in 2023, with allocated funds of 500,000.00 euro, under 11 various instruments: improving the infrastructure for scientific research work (procurement of equipment, tools and consumables); incentivising participation in the EU research and innovation programme - Horizon Europe, as well as in the IAEA technical cooperation programme; ICGEB and EMBL/EMBO activities; short-term scientific mobility, co-financing of the costs of completed doctoral studies; participating in scientific events; publication in open access journals,



	<p>editing/publishing of scientific journals, organising scientific events; and promoting science and research. It is important to note that the budget of the annual call for the co-financing of scientific research activities in 2023 is two and a half times higher compared to the previous year, as well as that the call includes several new items, which have already received an excellent response from the scientific and research community.</p> <ul style="list-style-type: none"> – Call for co-financing the costs of completed doctoral training in order to strengthen human resources in the scientific research, economic and public sector of Montenegro, of 50,000.00 euro. The main objective of this call is to provide support to young doctoral graduates in science who have decided to continue their scientific research work in Montenegro after completing their doctoral studies. – Preparation of a support instrument related to young researchers/doctoral students is underway.
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Reporting on the Results indicators for the Reform measure 8

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Increase in investment of the private sector in innovation programmes and projects co-financed by the state	300,000.00	30%	⁵³
Number of registered entities for innovation activity	80	100	173 ⁵⁴

Reform measure 9: Improving digitalisation of the public administration by developing and improving digital skills		Stage of reform implementation (1-5)
Activities planned for 2023	<p>Activities that were planned for 2023 under this Reform measure 9 are:</p> <ul style="list-style-type: none"> • Defining the Training plan for curricula/modules for various target groups for 2023; • Establish infrastructure for realisation of the Digital Academy - for the needs of implementation of the project; • Establish the online platform for the Digital Academy, which also includes the implementation phase of the project; • Designing, creating, and conducting webinars/training in cooperation with lecturers, which covers engaging lecturers from the national and international academic, IT, and business communities; • Promotion of the Digital Academy. 	5
Description of implementation and explanation if partial or no implementation	<p>The Digital Academy officially commenced work on 22 December 2022, with announced 3 pilot education modules. At the beginning of 2023, two additional educations took place: Human Centric Design and Cyber Security – security culture and data protection, attended by 20 participants.</p> <p>Furthermore, training is continuously taking place on Cyber Security both with the national and international lecturers, thus two trainings took place in June: Security awareness and tools to meet the challenges, for the basic level; and Cyber Security for System Administrators, for the advanced level.</p>	

⁵³ The Innovation Fund did not yet finalised contracting of all projects, thus this data could be obtained at the end of 2023/beginning of 2024

⁵⁴ Register is open until the end of the year.



	<p>A cooperation agreement was signed on 8 March 2023 between the Ministry of Public Administration and MTEL, which specified cooperation aimed at organising programmes, training and education as part of the Digital Academy in the premises of the M:tel Digital Factory. This has provided infrastructure for the project implementation.</p> <p>The Plan of the Training Programme for 2023 was prepared, planning the education for the H2 2023, under which education for 3 new areas will be provided, as well as the elaboration of existing education for basic and advanced levels. Some of the topics that will be included in the Plan of the Training Programme for 2023 include:</p> <ul style="list-style-type: none"> • ChatGPT - application, challenges and ethical issues (basic level), • The future of digitalisation - application of artificial intelligence and machine learning (basic level), • Conflict management in public administration (basic level), • Transformational leadership and change management (basic and advanced level) • Human Centric design (basic and advanced level). <p>During the implementation of education within the Digital Academy, we used different digital tools, depending on the topic and area covered: some were live in the premises of the Digital Factory, certain in an online format, and the most interesting topics in a hybrid format. During 2023, we completed 6 education programmes covering various areas, where 120 participants of the Academy attended them either in person or online. Likewise, for some education such as ChatGPT and Application of artificial intelligence, we provided live streaming through the YouTube channel of the Ministry of Public Administration, where we had more than 500 views on 6 December 2023.</p> <p>The technical specification for the future online eLearning platform of the Digital Academy has been prepared and its implementation is planned for the Work Plan of the Government of Montenegro for 2024 as part of the Public Procurement Plan for 2024.</p> <p>Throughout the year, all activities were accompanied by a large number of promotional activities aimed at encouraging citizens to apply for available educations, and two promotional video spots were delivered with a clear visual identity of the Digital Academy.</p>
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Reporting on the Results indicators for the Reform measure 9

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Number of attendees of the Digital Academy	24	100	120
Number of Training programmes/modules delivered at the Digital Academy	1	5	5
Number of licensed programme at the Digital Academy	0	3	0

Reform measure 10: Strengthening cyber resilience		Stage of reform implementation (1-5)
Activities planned for 2023	<p>The activities planned for 2023 under Reform Measure No. 10 were:</p> <ul style="list-style-type: none"> • Adoption of the new Law on Information Security; • Adoption of the new 2024-2025 Action Plan for implementation of the activities from the 2022-2026 Cyber Security Strategy; • Establish and make operational a new organisational unit within the Ministry of Public Administration – Department for Information Security – Government CIRT; • Preparatory activities for the establishment of the Cyber Security Agency; 	4



	<ul style="list-style-type: none"> • Sustainable training programme for cyber experts and a training programme for state administration employees and management-expert staff; • Preparatory activities for the establishment of the new Data Centre to strengthen critical IT infrastructure and cyberspace; • Promotional activities aimed at raising awareness of the importance of cyber security. 	
<p>Description of implementation and explanation if partial or no implementation</p>	<p>The new Law on Information Security has been shared with the European Commission for feedback.</p> <p>The Report on implementation of activities from the 2022 Action Plan accompanying the 2022-2026 Cyber Security Strategy is being developed; once it is adopted at a Government meeting, activities will be launched to draft a new 2024-2025 Action Plan, as envisaged in the Government Work Programme for Q4 2023.</p> <p>The December 2022 Rulebook on amendments to the Rulebook on internal organisation and job classification of the Ministry of Public Administration set up and made operational the new organisational unit of "Government CIRT" within the Ministry of Public Administration – Department for Information Security. At the Government meeting held on 26 May 2023, the Ministry of Public Administration adopted the Briefing Note on developing a Feasibility Study on the construction of the Government Data Centre; the Briefing Note served as the basis for adopting the conclusions forwarded to the identified implementing agencies. The study is expected to be developed during Q1 2024.</p> <p>Training events on the following topics were held during the first half of the year:</p> <ul style="list-style-type: none"> - Reinforcing the National Cybersecurity Framework through National EU Legislation (21 February 2023) - Cyber security risk management (22-23 February 2023) - Cyber crisis and communication workshop (24-25 January 2023) - Computer Incident Response Team training course (06-10 March 2023) - Discussion-driven strategic cyber security table top exercises (TTEX) (24 March 2023) - Capture the flag competition session (20 March 2023) - Election security threat hunting (21-23 March 2023) - Comptia Security + - Certified Information System Security Professional (CISSP) (27-31 March 2023) - Secure Coding for Developer by hackers (8-9 March 2023) - Hacking Fundamentals (10-13 May 2023) - Joint regional technical cybersecurity exercise for the CSIRT+ Team (6-9 June 2023) - Election Cybersecurity Workshop (13 June 2023) - Cybersecurity for system administrators (14 June 2023) <p>To raise awareness about the importance of cyber security, continuous staff training was coupled with an in-house campaign <i>Be Cyber Aware (Budite sajber svjesni)</i>, which included presentations on cyber hygiene, three educational video clips and several brochures. Government CIRT portal was launched in August 2023 as a web application, designed and implemented as an intuitive hub for publication of all forms of activities having to do with cyber security, and for citizens to report any cyber incidents. Information is easily accessible, and the content ranges from basic education to current expert policies behind the best global practices.</p>	

Reporting on the Results indicators for the Reform measure 10

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Reformed institutional framework for cyber security	/	/	/



Number of training events for cyber experts implemented	/	3	14 ⁵⁵
Number of training events for public administration personnel and management-expert staff	/	1	14

Reform measure 11: Improving infrastructure for broadband internet access and introducing next-generation networks		Stage of reform implementation (1-5)
Activities planned for 2023	1. Adoption of the Strategy for the Introduction of 5G Mobile Communication Networks in Montenegro with the accompanying Action Plan	5
	2. Adoption of the new Law on Electronic Communications	2
	3. Adoption of the National Plan for the Development of Broadband Internet Access	1
	4. Fulfilment of the obligations arising from the AP to the Strategy for Introduction of 5G Mobile Communication Networks in Montenegro	3
Description of implementation and explanation if partial or no implementation	1. At the meeting held on 03 August 2023, the Government of Montenegro adopted the 2023-2027 Strategy for Development of 5G Mobile Communication Networks in Montenegro with the 2023 – 2024 Action Plan	
	2. Drafting of the Law on Electronic Communications is in the final stage; however, due to the lengthy procedures for interdepartmental alignment and obtaining EC feedback, it cannot be completed in Q4, as envisaged in the Government Work Programme for 2023, and will be postponed for Q3 2024.	
	3. Preparation of the documents for the public call is underway; however, given the expected ITU support to the drafting, the public call for an expert is currently on standby.	
	4. Implementation of some activities has begun. Some segments are experiencing delays against the set timeline due to the delayed adoption of the Strategy (caused by the alignment procedure, change in management, etc.) and the slow response of the implementing institutions.	

Reporting on the Results indicators for the Reform measure 11

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Percentage of the coverage of households by landline 100Mbps broadband	76.7%	79%	79.2%
Installation of 5G base stations (BS)	0 BS	3 BS	28BS

Reform measure 12: Improving management of business undertakings in majority state ownership		Stage of reform implementation (1-5)
Activities planned for 2023	Establishment of an interdepartmental working group, in Q1, tasked with conducting an analysis of the regulatory framework for operations of state-owned enterprises (SOEs) and proposing amendments to the existing legal provisions.	5

⁵⁵ Training events were not delivered to separate groups of cyber experts, state administration employees and management-expert staff; instead, there were 14 training events that covered cyber experts, state administration employees and private sector personnel combined (critical infrastructure).



	Development of a comparative analysis of the best practices in the EU Member States concerning the legal framework on the oversight of SOEs' operations.	2
	Once the analyses have been conducted, a Road Map for further reform in this area will be prepared.	2
	In parallel, there will be further strengthening of the capacities of the relevant Department at the Ministry of Finance for assessing the fiscal risks of SOE operations and preparing relevant analyses and reports.	4
	Criteria for the appointment of members of the SOE's management bodies will be developed in accordance with the international standards and set out in a Government by-law.	2
Description of implementation and explanation if partial or no implementation	<p>In line with the planned activities, the Ministry of Finance, i.e. its Directorate for Central Harmonisation and Development of Internal Controls launched and finalised, in the first half of 2023, the process for setting up an Interdepartmental Working Group tasked with developing the Analysis of the Regulatory Framework for SOEs' Operations, Comparative Analysis of the Regulatory Framework About the Oversight of SOEs in the EU, defining the strategic framework for managing the SOEs in Montenegro, and preparing an analysis for setting the criteria for appointing members of SOEs' governance bodies.</p> <p>The signing of the EU Reform Facility Service Agreement enabled additional expert assistance towards the Regulatory Framework Analysis and Comparative Analysis of the Best EU Practices regarding the regulatory framework on oversight of SOEs; these will be followed by the Road Map for further reform in this area and the setting of the criteria for appointing members into the governance bodies of SOEs, which will be aligned with the international standards and set out in a Government by-law.</p> <p>The rest of the activities implemented in 2023 under this measure refer to the strengthening of administrative capacities for measuring the fiscal risks of the SOEs. Specifically, two new staff members were hired in 2023, resulting in the Department for Fiscal Risk Assessment of SOEs currently having 4 employees.</p> <p>Furthermore, the third mission of the International Monetary Fund (IMF) took place in September-October 2023; it aimed to strengthen the capacities of the Department for Fiscal Risks of SOEs by providing technical assistance to the staff to enhance their expertise and transfer the specific skills for identification and assessment of fiscal risks as well as monitoring and reporting on such risks. The IMF <i>SOE Health Check Tool</i> was used to prepare a significant number of economic and financial analyses of SOEs. In addition to the analyses of the SOEs, the Department for Fiscal Risks of SOEs will use the expertise and experience received from the IMF to prepare regular reports on the fiscal risks generated by SOEs' operations; going forward, these reports will constitute a part of the documents accompanying the Budget Law.</p> <p>The staff of the Department for Fiscal Risks of SOEs attended several additional training events on improved operation of SOEs, corporate governance, accounting, financial reporting and audit, organised in cooperation with the Faculty of Economics from Podgorica and the Institute of Certified Accountants of Montenegro. Further capacity development is planned to take place through training to be organised together with relevant national and international partners.</p>	

Reporting on the Results indicators for the Reform measure 12

Indicator	Baseline (2021)	Target planned for 2023	Target value achieved in 2023
Number of SOEs with high fiscal risk	17	15	N/A ⁵⁶

⁵⁶Data is not available, given that Article 11 of the Law on Accounting (Official Gazette of Montenegro 145/21, 152/22) stipulates that legal persons are required to submit financial reports and management reports in writing and in electronic format to the administrative authority responsible for tax assessment and collection at the latest by 31 March of the current year for the previous year.



% share of SOE net result in GDP	-0.1	0,1	N/A
Number of the Boards of Directors appointed on the basis of the new selection criteria	0	10	N/A

Reform measure 13: Facilitation of trade in goods and services through implementation of CEFTA Additional Protocols 5, 6 and 7		Stage of reform implementation (1-5)
Activities planned for 2023	<ul style="list-style-type: none"> AP5 – Development and implementation of IT applications for NCTS at the national level; establishment of a functional system at the Administration for Food Safety, Veterinary, and Phytosanitary Affairs, as the basis for inclusion in SEED+; 	3
	<ul style="list-style-type: none"> AP6 – Full implementation of AP6 (ratification of AP6 by CEFTA parties: Moldova and Kosovo); adoption of Regional Disciplines on Domestic Regulations following WTO rule; establishment of the Single Contact Point (SCP) for further liberalisation of trade in services; 	3
	<ul style="list-style-type: none"> AP7 – Finalisation of negotiations, ratification and entry into force. 	2
Description of implementation and explanation if partial or no implementation	<p>Major steps have been taken towards implementing the CEFTA Agreement: the implementation schedule is a medium-term one. Reform activities will continue in 2024. Implementation is on track.</p> <p>AP5 - Development and implementation of IT applications for NCTS at the national level; establishment of a functional system at the Administration for Food Safety, Veterinary and Phytosanitary Affairs, as the basis for inclusion in SEED+;</p> <p>The IT application for NCTS at the national level has been developed; due to technical issues and the availability of the contractor’s experts, its rollout has been pushed back to February 2024. Namely, implementation of the migrated CIS, which started on 7 November 2023, is a prerequisite for the national rollout of NCTS, and activities to connect CIS with NCTS are ongoing.</p> <p>The Decision on the establishment of an electronic system to facilitate a joint risk-management system for trade in goods has been finalised and approved at a technical level; at the joint meeting during the CEFTA week in December 2023, all CEFTA parties stressed the importance of getting the Decision adopted in the shortest possible time.</p> <p>To implement Additional Protocol 5 and electronic data exchange through the SEED system with the non-neighbour CEFTA parties, the Revenue and Customs Administration shared an initiative for establishing electronic data exchange with North Macedonia in November 2022. To that end, a Technical Protocol was drafted and agreed upon by the Revenue and Customs Administration of Montenegro and the Customs Administration of North Macedonia; the signing of the Protocol is pending. Besides North Macedonia, consideration will be given to signing a Memorandum of Understanding and establishing electronic data exchange with Moldova, as the only remaining CEFTA party with which data exchange is not available.</p> <p>Final preparations are underway for the operational use of the SEED+ system, which will enable mutual recognition and exchange of phytosanitary and veterinary certificates among the relevant institutions in the CEFTA parties (in case of Montenegro, that is the Administration for Food Safety, Phytosanitary, and Veterinary Affairs) and of the licenses issued by the Agency for Medicines and Medical Devices.</p> <p>SEED+ includes development of the CEFTA TRACES NT digital platform that allows information and document exchange, including electronic issuance of certificates and input documents to be printed from SEED+ software and then authorised/signed by the authorised inspector.</p> <p>The strategic objective is the introduction of e-certificates, which will lead to paperless trading.</p>	



Exchange of information on non-compliant shipments will also be provided, to facilitate the management of the risks related to non-compliant or shipments rejected at the border crossings.

The project provided training, preparation of technical and user documents, overall data and platform security, support and maintenance.

Use of the CEFTA TRACES NT contributes to shorter waiting times at the border crossings, along with timely, quality and efficient inspection procedures.

In addition, the project ensures data exchange with the IPPC ePhito Hub – the electronic system for information exchange and certification within the IPPC, which would enable electronic certification beyond the territory covered by the CEFTA Agreement.

In the field of risk analysis, notifications via text messages are enabled.

In the field of joint risk analysis within CEFTA, actions are planned to profile the goods using common risk profiles, all through the existing SEED application.

The SEED+ project ends in December 2023. A new (three-year) project is planned for the period 2024-2026, to be implemented by the CEFTA Secretariat and Italian Customs and funded by the EU. The project will primarily ensure continued maintenance of the SEED system in the entire region.

AP6 - Full implementation of AP6 (ratification of AP6 for the CEFTA parties: Moldova and Kosovo); adoption of the Regional Disciplines on Domestic Regulations in line with WTO rules; establishment of the Single Contact Point (SCP) for further liberalisation of trade in services.

Moldova and Kosovo have *not yet completed* the ratification process. Preparatory activities are underway for the **CEFTA Additional Protocol 6 (AP 6)** revision, with the aim of further liberalisation of the trade in services (market access and national treatment) for the CEFTA parties (in line with Article 20 of the AP 6, and item 3.1.1. of the CRM AP 2021-2024).

The most recent **Technical expert meeting on the disciplines of services regulation** was held online on 9 November 2022. It discussed the drafting of the CEFTA *Draft Joint Committee Decision on Disciplines on Services Domestic Regulation*. CEFTA parties shared their comments to the draft Decision received. The process is ongoing.

The **Law on Services** (Official Gazette of MNE 71/17) has been adopted with the aim of full implementation of the Services Directive 2006/123/EC. Its Article 8 stipulates the establishment of the Single Contact Point in Montenegro. The SCP is to be established by the Ministry of Economy and operate in line with the law governing electronic government. The 2022-2024 Action Plan for setting up the SCP for services in Montenegro was adopted in March 2022 for the sake of further operationalisation of the actions and procedures required to set up the SCP. Under the Action Plan, the Government of Montenegro adopted the Decree on the method of collaboration and information exchange between the competent authorities for access to or delivery of services in July 2023.

The initial version of the SCP portal is intended to be launched in December 2023. Implementation of this activity is expected to go to plan.



	<p>Work is ongoing within Project IPA/2022/433-729 to amend the Law on Services with the aim of further operationalisation of the provisions concerning the SCP and IMI systems (IMI-exchange of information between competent authorities using the internal market information system). The planned timeline for amending the Law on Services is Q1 2025.</p> <p>AP7 – Finalisation of negotiations, ratification, and entry into force.</p> <p>The negotiation process on the drafting of the CEFTA Additional Protocol 7 continued in 2023. Four rounds of negotiations took place. The text of the Protocol has been agreed to a considerable degree, with a successful outcome of the negotiations expected after the next round, which is planned for January or February 2024.</p>
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Reporting on the Results indicators for the Reform measure 13

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Increased trade in services in the CEFTA region, CEFTA database	8%	10 %	10%
Improved functionality of the Single Contact Point (SCP) as a result of implementation of the software for its establishment	/	Functional SCP	Functional SCP

Reform measure 14: Strengthening the mechanisms for the formalisation of informal economy ⁵⁷		Stage of reform implementation (1-5)
Activities planned for 2023	<p>Activities planned for 2023 under Component 1:</p> <ul style="list-style-type: none"> - Establishment of an interdepartmental Working Group to develop a new Action Plan to suppress the informal economy which will include the existing and new measures, with clearly defined activities of competent institutions; - Adoption of the Action Plan to suppress informal economy; - Establishment of a body for implementation and monitoring of the activities undertaken to suppress informal economy; - Introduction and analysis of the effects of application of the principle of inspector rotation (allowing the inspectors otherwise not responsible for supervision of a specific area to help reduce informal economy by conducting supervision from a different region - central, southern or northern). <p>Component 2:</p> <ul style="list-style-type: none"> - Continuation of the cleansing of data and their transfer to the data analytics platform (DWH/BI); - Start the activities to implement an integrated IT revenue management system; - Establishment of the data analytics platform DWH-BI. 	3-4

⁵⁷ The measure consists of two components: the first one refers to the formalisation of informal economy through adoption and implementation of the Action Plan, and the second one refers to the introduction of the new Integrated Revenue Management System (IRMS).



Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> - Activity to set up the interdepartmental Working Group to develop a new Action Plan to suppress informal economy which will include the existing and new measures, with clearly defined activities of competent institutions has been fully implemented – (5); - Adoption of the Action Plan to suppress the informal economy (implementation is in its final stage), i.e. the Government adopted the Proposed Programme for the suppression of the informal economy in Montenegro with the Action Plan for 2024 – 2026 in December 2023. The body for implementation and monitoring of the activities undertaken to suppress the informal economy is expected to be established in 2024, in line with the adopted Programme. - Introduction and impact analysis of the inspector rotation scheme (allowing the inspectors otherwise not responsible for the supervision of a specific area to help reduce the informal economy by conducting supervision from a different region – central, southern or northern) will constitute a part of implementation of the Programme for the suppression of informal economy by 2026; - The "The Revenue Administration Reform" project (financed by the World Bank loan), which includes the introduction of an IRMS (Integrated Information System), has been extended until 2025, after the reconstruction of the project in cooperation with the World Bank. - After the end of the tender procedure, the vendor for the implementation of IRMS, the OWL consortium, was selected. After the contract on the implementation of the project was concluded, a series of meetings were held with the representatives of the vendor, the main external consultant, the project unit and the temporary management for IRMS in order to complete Phase 0, i.e. basic documents (Project plan, charter) whose adoption is expected quickly. - DWH-data: Phase 0 and Phase 1 are completed.
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Reporting on the Results indicators for the Reform measure 14

Indicator	Baseline (2023)	Target planned for 2023	Target value achieved in 2023
Reduction of the share of informal economy in GDP	20.6%	15.7-18.2	-

Reform measure 15: Sustainable green tourism		Stage of reform implementation (1-5)
Activities planned for 2023	Activities towards: <ul style="list-style-type: none"> – Introducing environmentally sound technologies in the operations of hospitality establishments and service delivery, and – Diversification of the tourism product. 	4
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> – Ongoing work of the committees awarding eco-labels to hospitality establishments; – Implemented Programme of Incentives in Tourism for 2023; – Adopted the 2023-2025 Rural Tourism Development Programme for Montenegro; – Ongoing implementation of the activities set out in the action plans for developing cultural, health, and event tourism. 	

Reporting on the Results indicators for the Reform measure 15

Indicator	Baseline (2019)	Target planned for 2023	Target value achieved in 2023
Number of hospitality establishments /services which apply green practices	10	14	15
Increase in the number of overnight stays in the northern region of Montenegro	315,815	3-5%	-



Total share of tourism in GDP	31%	20%	..58
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* The most recent official MONSTAT data on the overnight stays in collective accommodation (hotels and similar establishments) for the period January-October 2023. In line with MONSTAT’s methodology, annual data will be published in Q1 2024.

- The measure enhances competitiveness by contributing to the promotion of Montenegro as a green destination, i.e. implementation of relevant measures in business operations or compliance with eco-standards contributing to environmental protection.

- Given the increasing awareness among tourists and demand for eco (green) hospitality establishments, such establishments are seeing higher turnovers, which supports higher employment and poverty reduction (new jobs) and gender equality, as women prevail in the workforce in the tourism sector.

Reform measure 16: Investments aimed at the development of agriculture and rural areas		Stage of reform implementation (1-5)
Activities planned for 2023	One public call is planned in 2023 under each of the following IPARD II measures: Measure 1: Investments in physical assets of agricultural holdings and Measure 3: Investments in physical assets concerning processing and marketing of agricultural and fishery products. Further implementation of the already launched IPARD II public calls. Work on accreditation for IPARD III implementation (roll over procedure).	3
Description of implementation and explanation if partial or no implementation	<p>This reform measure has turned systemic, as its full implementation and continuity have been ensured.</p> <p>Implementation of the previously launched IPARD II public calls is ongoing.</p> <p>The Third Public Call under Measure 1: Investments in physical assets of agricultural holdings was launched on 10 November 2021, and was open for applications from 10 November until 27 December 2021. 112 applications were received under this Call for the total value of investment of EUR 11,851,724.63 (incl. VAT), or EUR 9,839,017.55 (excl. VAT). The potential amount of support is EUR 6,356,132.36.</p> <p>66 projects were contracted, for the total investment amount of EUR 7,003,913.91 (incl. VAT), i.e. 5,788,395.96 euro (excl. VAT), with a potential amount of support of EUR 3,824,748.27.</p> <p>The Fourth Public Call under Measure 3: Investments in physical assets concerning processing and marketing of agricultural and fishery products was launched on 15 February 2022, and was open for applications from 15 February until 31 March 2022.</p> <p>33 applications were received under this Call. Two applications did not include data, so the information below refers to the 31 remaining ones. The total value of investments was 23,683,293.32 euro (incl. VAT), i.e. EUR 19,572,969.69 (excl. VAT), and the potential amount of support EUR 9,786,484.85 .</p> <p>20 projects were contracted, for the total investment amount of EUR 15,511,930.54 (incl. VAT), i.e. EUR 12,819,849.31 (excl. VAT), with the potential amount of support of EUR 6,461,045.76.</p> <p>The Fourth Public Call under Measure 1: Investments in physical assets of agricultural holdings was launched on 14 March 2022, and open for applications from 14 March until 28 April 2022. There were 92 applications for support. Total value of proposed investments was EUR 26,593,809.64 (incl. VAT), i.e. EUR 23,707,559.89 (excl. VAT), and the potential amount of support EUR 15,669,795.98.</p> <p>49 projects were contracted, for the total investment amount of EUR 6,672,668.73 (incl. VAT), EUR 5,437,602.30 (excl. VAT) and potential support of EUR 3,653,988.41.</p>	

⁵⁸ The indicator is monitored annually and will be published in Q1 2024.



	<p>The First Public Call under Measure 7: Diversification of holdings and development of business operations, sub-measure 7.1 Support to investment for development of rural tourism was launched on 23 June 2021. Applications were due from 23 June to 31 August 2021, but that deadline was extended to 30 September 2021. 102 applications for support were received. Total investments proposed by 97 applications amounted to EUR 11,559,740.25 (incl. VAT), i.e. EUR 9,553,504.34 (excl. VAT), and potential support amounted to EUR 6,209,777.82. Five applications did not include information on the amounts requested, as they were not stated in the Request for Support.</p> <p>25 projects were contracted, for the total amount of investments of EUR 3,994,758.62 (incl. VAT), i.e. EUR 3,301,453.39 (excl. VAT), with the potential support amount of EUR 2,148,465.83 .</p> <p>The Fifth Public Call under Measure 3: Investments in physical assets concerning processing and marketing of agricultural and fishery products was launched on 06 February 2023. Applications were due from 06 February to 06 March 2023. 39 applications for support were received under this Call. One application did not include data, so the information below refers to 38 applications. Total value of proposed investments was EUR 16,267,007.23 (incl. VAT), i.e. EUR 13,443,807.63 (excl. VAT), with the potential support amount of EUR 6,721,903.82 .</p> <p>29 projects were contracted, for the total amount of investment of EUR 11,818,222.65 (incl. VAT), i.e. 9,767,116.14 (excl. VAT), with the potential support amount of EUR 5,041,131.14 .</p> <p>The Fifth Public Call under Measure 1 Investments in physical assets of agricultural holdings was launched on 15 May 2023. Applications were due from 15 May to 15 June 2023. 414 applications were received, for the total amount of proposed investment of EUR 29,669,271.05 (incl. VAT), i.e. EUR 24,577,146.13 (excl. VAT), with the potential support amount of EUR 16,782,676.91 .</p> <p>The contracting and onsite controls are ongoing.</p>
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Reporting on the Results indicators for the Reform measure 16

Indicator	Baseline (2022)	Target planned for 2023	Target value achieved in 2023
Value of realised investments under IPARD ⁵⁹ (in euro)	10,000,000	15,000,000	In 2023, by 15 Dec 2023, 87 projects were disbursed, with total investments excl. VAT amounting to EUR 12,762,057.11, and the support amounting to EUR 7,793,486.76 .
Number of implemented infrastructural projects under IPARD	0	0	0
Number of holdings actively involved in Agro-environmental-climate measures under IPARD	0	0	0

⁵⁹ IPARD implementation started in 2018.



Reform measure 17: Financial assistance to the households with the aim of implementing energy efficiency measures		Stage of reform implementation (1-5)
Activities planned for 2023	<p>The following activities were planned within the measure Financial assistance to households with the aim of implementing energy efficiency measures in 2023:</p> <p>The Ministry responsible for energy will conduct a public tender to select the banks that will grant loans to households to apply energy efficiency measures in the new fiscal year. The Ministry responsible for energy will conduct a public tender to select the companies vendors to install systems, equipment and materials for the implementation of energy efficiency measures. The selected companies will deliver and install the systems whose purchase and installation were eligible under the Programme (heating systems using modern forms of biomass - pellets, briquettes; heating and cooling systems with highly efficient heat pumps). The companies will deliver and install façade thermal insulation and energy efficient façade joinery on residential buildings. The selected banks will transfer the funds for the approved loans to the accounts of the selected companies. The Ministry responsible for energy will pay the interest on the loans to the banks-partners in the Programme. Loan beneficiaries-households included in the Programme will repay the interest-free loans in monthly instalments.</p>	5
Description of implementation and explanation if partial or no implementation	<p>The following activities were implemented in 2023:</p> <p>On 11 April 2023, the Ministry of Capital Investments launched the Public Invitation to all the commercial banks in Montenegro to deliver expressions of interest by 27 April 2023. On 13 April 2023, a Public Invitation was launched to companies in Montenegro to submit offers in line with the requirements of the tender document, to select qualified subcontractors. The deadline was 12 May 2023. Selection of partner banks and qualified subcontractors was successfully completed. With the Ministry signing the Memoranda on Cooperation with the commercial banks and the qualified subcontractors, all the preconditions have been put in place to launch the new stage of the <i>Energy Efficient Home</i> Programme.</p> <p>Implementation of the programme intended for households started on 5 July 2023, with the launch of the public call to citizens to submit applications, in line with the project mechanism.</p> <p>354 citizens submitted applications under the mentioned Public Call. According to preliminary data, partner banks approved 249 interest-free loans. Energy efficiency measures were implemented in households as per the set schedule. The procedure whereby the Ministry of Energy and Mining will be transferring funds to the banks to subsidise the loans and cover the front-end fee for the disbursed loans, in line with the project procedures, is about to be finalised. The measure will not make an integral part of the new Economic Reform Programme, as it will be implemented on an ongoing basis and will therefore no longer constitute a reform measure.</p>	

Reporting on the Results indicators for the Reform measure 17

Indicator	Baseline (2021)	Target planned for 2023	Target value achieved in 2023
Total savings generated by the <i>Energy Efficient Home</i> Programme	1.2 GWh in one year	1.4 GWh in one year	2.2 GWh
Number of households supported under the <i>Energy Efficient Home</i> Programme	136	150	249

Reform measure 18: Reducing release into circulation and use of lightweight carrier plastic bags and single-use plastic products	Stage of reform implementation (1-5)



<p>Activities planned for 2023</p>	<p>Adoption and consistent application of the Law on Waste Management (adoption envisaged for Q2 2023, along with drafting of secondary legislation): Ministry of Ecology, Spatial Planning, and Urbanism;</p> <p>Introducing the concept of reduced use of lightweight plastic carrier bags and single-use plastic products in the public administration: Ministry of Ecology, Spatial Planning and Urbanism and Office for Sustainable Development, General Secretariat of the Government;</p> <p>Implementation of a campaign to inform the public, and raise awareness among all stakeholders in the single-use plastic value concerning its negative impact on the environment: Ministry of Ecology, Spatial Planning and Urbanism and Office for Sustainable Development, General Secretariat of the Government;</p> <p>Drafting of a piece of secondary legislation that will define the methodology for determining the quantities of waste for which the Ministry of Ecology, Spatial Planning and Urbanism has set targets;</p> <p>Adoption of a piece of secondary legislation that regulates to detail the introduction of extended producer responsibility: Ministry of Ecology, Spatial Planning and Urbanism;</p> <p>Encourage circular transition using assistance programmes for the business sector: Ministry of Economic Development and Tourism.</p>	<p>2</p>
<p>Description of implementation and explanation if partial or no implementation</p>	<p>The activities concerning the development of the Law and awareness-raising activities among all stakeholders in the single-use plastic value chain were implemented in 2023, enabling the reform measure to achieve its objective to a large degree.</p> <p>On 3 October 2023, the Government of Montenegro approved the Proposal for the Law on Waste Management; for organisational reasons (new organisation of the Government), the Proposal was withdrawn from the Parliamentary pipeline to undergo repeated approval procedures.</p> <p>Drafting of secondary legislation will commence following the adoption of the Law.</p> <p>The Ministry signed agreements with NGOs in December 2023 with the aim of implementing the project activities enhancing ecological awareness in the field of waste management. 21 agreements were signed, for the total amount of 150, 000 euro. The agreements will be implemented in 2024.</p> <p>Partnerships with NGOs, in the aim of enhancing ecological awareness, were implemented also in 2022, when NGOs applied with 75 projects; 21 of those projects were funded and implemented in 2023. The public calls referred to achieving the recycling targets on the way to the EU, relieving the burden on the landfills – reducing the quantities of landfilled organic waste and irregular waste dumping.</p>	

Reporting on the Results indicators for the Reform measure 18

Indicator	Baseline (2021)	Target planned for 2023	Target value achieved in 2023
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Reduction of the production and consumption of lightweight carrier bags, number of bags per capita ⁶⁰	600-700	300	/
Increasing the recycling rate	14.354%	20%	19.68% ⁶¹

Reform measure 19: Improving border crossings – opening of the joint railway border station Bijelo Polje		Stage of reform implementation (1-5)
Activities planned for 2023	Further execution of reconstruction works on the Bijelo Polje railway station	5
Description of implementation and explanation if partial or no implementation	The measure has been implemented. The works on the reconstruction of the railway station continued in 2023; going forward, the station will serve as a joint inter-state railway border crossing between Montenegro and the Republic of Serbia. The project was intended to be completed by 31 May 2023; however, a challenge related to the fencing of the station caused a delay. That challenge is currently being addressed. The building itself is complete, in terms of construction.	

Reporting on the Results Indicators for the Reform Measure 19

Indicator	Baseline (2023)	Target planned for 2023.	Target value achieved in H1 2023.	Target value (2025)
Type of train operation improved	Conventional train operations	Conventional train operation	n/a	Joint train operation
Shorter time spent at the border crossing, in %	0.00 %	0.00%	n/a	30%

⁶⁰ There legal basis for obtaining this information is still lacking; we therefore do not have the data on the executed amount.

⁶¹ The Report on implementation of the National Waste Management Plan for 2022: Total quantity of separately collected recyclable waste, paper, cardboard, plastic and metal from municipal waste is 4,479 tonnes; that of bulk waste 17,352 tonnes, and that of green waste 16,512 tonnes. The quantities of recyclable waste collected by the municipal utility enterprises and licensed collectors suggest that the quantity separately collected was 70,479 tonnes, or 19.68% of the total quantity of collected municipal waste and recyclable waste collected by licensed collectors. The Ministry does not possess the information as to whether the entire quantities of bulk and green waste presented in the table were properly treated.



ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT POLICY DOCUMENTS

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
Reform measure 1: Strengthening the Mechanisms for the Formalisation of the Informal Economy	<p>The Measure is response to the recognised key structural challenge which refers to formalising the informal economy.</p> <p>With reducing the level of informal sector, conditions are created to increase employment by converting informal flows in the formal flows of operations, as well as better information of the public and larger visibility of work of inspectors in the field.</p> <p>A part of the measure, which refers to establishment of the Integrated Revenue Management System (IRMS), aims to increase transparency of the tax payment process, thus reducing informal economy.</p>	<p>The Measure is response to the Policy guidance No 5 of the Ministerial Dialogue from May 2023.</p>	<p>Even though the Enlargement Package 2022 does not include directly recommendations related to this measure, it states that the Western Balkans region continuously faces difficulties, which prevent the countries situated in this region to achieve full economic potential. One of these difficulties is the problem with informal economy and this reform measure seeks to reduce it.</p>	<p>This Reform measure is in line with the Goal 9 (SDG 2020-2030) – Industry, Innovation and Infrastructure</p> <p>In addition to suppressing informal economy and ensuring greater transparency in tax collection, the aim of introduction of the Integrated Revenue Management System (IRMS) is also to digitalise the Montenegrin tax system.</p>	n/a	<p>This Measure is aligned with the Digital Agenda for the Western Balkans.</p> <p>One of the core objectives of this Agenda is digitalisation of industry in the Western Balkans in order to ensure that all sectors benefit from digital innovation.</p>	n/a
Reform measure 2: Establishing an Adequate	<p>The Measure is response to the recognised key</p>	<p>The Measure is response to the Policy guidance No 4 of the</p>	<p>Even though the Enlargement Package 2022 does</p>	<p>The Measure contributes to</p>	N/A	N/A	<p>As for the IPA – Reform Facility, there are no information at this time</p>



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
<p>Governance Model and an Efficient Oversight System for State-owned Enterprises</p>	<p>structural challenge which refers to Strengthening the regulatory environment and reform of majority state-owned enterprises. Given that operations of business undertakings in majority state ownership have demonstrated numerous differences and problems in the segments that are important for the State, and which primarily deal with the financial condition of enterprises, management method, performance of oversight and control over them, we believe that the planned solutions will lead to improvements in operations, predominantly through the transformation of business processes, but also through cost optimisation and more efficient use of the existing resources.</p> <p>Moreover, since the existing regulatory environment is not business-oriented and it halts a more dynamic development of state-owned enterprises, the efforts should be made to improve the management of</p>	<p>Ministerial Dialogue from May 2023, which provides a policy guidance to Prepare a roadmap for reforming state-owned enterprises (SOEs), prepare a framework for the monitoring and management of SOEs and develop objective criteria for the selection of their management bodies.</p>	<p>not include directly recommendations related to this Measure, it states that the Western Balkans region faces difficulties, which prevent the countries situated in this region to achieve full economic potential. Inadequate management of state-owned enterprises, and insufficiently utilised potential which these enterprises have, with insufficient financial control are only some of the problems which impact the economy of the country and which may be mitigated by this measure.</p>	<p>achieving SDG-9 and SDG-13.</p>			<p>when the support to the reform of management of majority state-owned enterprises at the central and local level will be available from this instrument.</p>



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	state-owned enterprise will contribute to improving institutional and regulatory framework in Montenegro, which is one of the critical challenges that the European Commission recognised in the Assessment of the Montenegrin economy.						
Reform measure 3: Incentivising Innovation for the Green Agenda and Transitioning to Circular Economy	The Measure is response to the recognized key challenge related to the necessary reforms relevant to the green transition and climate change	The Measure is response to the Policy guidance No 4 of the Ministerial Dialogue from May 2023 that Montenegro should enhance energy resilience and transition to implement the Green Agenda.	Link to negotiation chapters: Chapter 15- Energy, Chapter 20 - Enterprise and industrial policy, Chapter 25 - Science and research	SDG no. 7- available and renewable energy, SDG no. 9- industry, innovation and infrastructure and SDG 13 – climate action.	The measure is a function of the implementation of the Roadmap for decarbonization of the Energy Community, the "European Green Agreement" and the Green Agenda for the Western Balkans.	N/A	IPA III - Package of direct budgetary support
Reform measure 4: Strengthening Decarbonisation Mechanisms	The measure will contribute to the increase and diversification of the share of energy from renewable sources in total energy consumption, as well as the creation and implementation of economically sustainable programs of support and	The Measure is response to part of the Policy guidance No 4 of the Ministerial Dialogue from May 2023 that Montenegro should <i>enhance energy resilience and transition to</i>	The Enlargement Package 2023 does not contain recommendations related to this measure, however, the EC Report on the Progress of Montenegro for 2023 contains recommendations	SDG 7: Affordable and clean energy SDG 9: Industry, innovation and infrastructure SDG 13 – Climate action	The reform measure contributes to the achievement of the defined goals of the Green Agenda for the Western Balkans	/	IPA III - Package of direct budgetary support of the EC to Montenegro for overcoming the energy crisis



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	incentives for the production of energy from renewable sources for own needs	<i>implement the Green Agenda.</i>	that directly relate to this measure. This measure will contribute to the development of the energy sector by implementing the green transition and decarbonization in accordance with global and EU goals for reducing the negative impact of climate change.		The measure is a function of the implementation of the Roadmap for decarbonization of the Energy Community, the "European Green Agreement" and the Green Agenda for the Western Balkans.		
Reform measure 5: Improving Digitalisation and Cyber Security while Strengthening Broadband Infrastructure	The measure will contribute to the increase of digital services for citizens and the economy, as well as the accelerated digital transformation of the state. Also, strengthening the cyber security of the state administration after a cyber attack.	The Measure is response to the Policy guidance No 4 of the Ministerial Dialogue from May 2023. The synergy of digitization and cyber security was suggested, which the reform measure responds to.	N/A	SDG 8 - decent work and economic growth; SDG no. 9- industry, innovation and infrastructure and SDG 13 – climate action.	The measure contributes to the implementation of the "European Green Agreement" and the Green Agenda for the Western Balkans	Digital Agenda for Europe and Digital Agenda for the Western Balkans	N/A
Reform measure 6: Digitalisation of the Healthcare System in Montenegro	The aim of the measure is to overcome the challenge of the lower quality of health services through the continuation of activities on the improvement and upgrading of existing and	The Measure continues from the ERP 2023 and is response to part of the Policy guidance No 4 of the Ministerial Dialogue from May 2023.	N/A	The reform measure will enable better health and well-being of all citizens of Montenegro and contribute to the	The measure contributes to the implementation of the "European Green Agreement" and the Green	Digital Agenda for Europe and Digital Agenda for the Western Balkans	Through its strategic response for the IPA III programming period 2021-2027, the Ministry of Health proposed digitalisation of the healthcare system as one of the projects for



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
	the introduction of new health services using ICT.			achievement of SDG-3.	Agenda for the Western Balkans		financing in the amount of 3.5 million euro, which would enable continuity and significantly contribute to implementation of all planned activities.
Reform measure 7: Introducing the Youth Guarantee Programme in Montenegro	The Measure is response to the recognised key structural challenge which refers to Increasing employment, especially of women and youth, as well as resolving the long-term unemployment.	The Measure is in line with the Policy guidance 6 of the Joint Meeting of the Ministerial Dialogue from May 2023.	The Flagship Initiative 10 of the Economic and Investment Plan for Western Balkans (EIP), states that the governments should implement Youth Guarantees in line with the EU Youth Guarantee, therefore this Measure is directly aligned with EIP implementation.	Implementation of the Measure will contribute to achieving the Millennium Development Goals, and so as follows: SDG 1-No poverty, SDG 4- Quality education, SDG 8- Decent work and economic growth.	The Measure will have indirect impact on fulfilling objectives of the Digital Agenda through education of participants in the Measure, their training, internship, or employment.	The Measure will have indirect impact on fulfilling objectives of the Digital Agenda through education of participants in the measure, their training, internship, or employment.	It is planned for the Measure to be implemented with financial support from IPA funds, and so as the IPA III – Strategic response
Reform measure 8: Developing an Integrated Approach to Increasing the Quality and Inclusivity of Education	The Measure is response to the recognised key structural challenge which refers to Increasing employment, especially of women and youth, as well as resolving the long-term unemployment.	The Measure is in line with the Policy guidance No 6 of the Joint Meeting of the Ministerial Dialogue.	Proposed measure will also support Montenegro to implement criteria for the European Union accession, contained in three EU negotiations chapters: Chapter 19 – Social policy and employment, Chapter 23 –	n/a	Digital technologies are key drivers for achieving the sustainability goals of the Green Deal in many different sectors. In accordance with the EU framework policy, this	The EU Economic and Investment Plan for the Western Balkans (2020) emphasises that the EU will continue to support the development of evidence-based policies and reforms to address the main challenges and priorities of the education system tackling the governance, funding, quality, equality, and relevance, with	The implementation of the reform measure will be financed from IPA funds. The measure is linked to the IPA III programmatic framework, which emphasises strengthening access to and quality of education, including training systems,



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			<p>Judiciary and fundamental rights, and Chapter 26 – Education and Culture.</p> <p>Specifically, the proposed measure will contribute to all key issues from the EU 2021 report in the segment dealing with the Chapter 26:</p> <p>“In the next year, Montenegro should especially: intensify reform efforts aimed at improving inclusive education and access to good quality education in general; adopt and start implementing a new strategy on early and pre-school education 2021-2025, in order to improve enrolment in preschool institutions and inclusiveness for all children; A comprehensive analysis of the</p>		<p>measure will contribute to the improvement of the training system in order to equip teachers with the necessary skills for digitalisation and technological changes.</p>	<p>a focus on adapting educational systems to digital transformation and knowledge-based economies. Moreover, the urgent need to invest in the digital future was highlighted, stating that “the region also needs to develop and implement its digital education strategies with support for training of teachers, as well as initiatives for online learning and online content”.</p> <p>The EU Digital Education Action Plan (2021–2027) presents a vision for improving digital literacy, skills, and capacities at all education and training levels and for all levels of digital skills (from basic to advance). The Action Plan will support the goals of the Skills Agenda in order to ensure that 70 percent of youth 16-74 years old have at least basic digital skills by 2025. It defines measures for high quality and inclusive digital education and training that will require a combination of actions and policies in order to be efficient.</p>	<p>especially for teachers and school managers, management and strategic policy-making, as well as with the EU Economic and Investment Plan for the Western Balkans (2020), which emphasises digital transformation.</p>



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
			education system was carried out, the outcome of which may serve as a solid basis for a broad discussion - with all relevant stakeholders - about the development of a qualitative, budgeted, multi-annual education strategy for sustainable reforms.”			The education system digitalisation and the digital skills development were also recognised as a priority measures in the Economic Reform Programme 2022-2024.	
Reform measure 9: Reforming the Social and Child Protection System Based on the Road Map	The Measure is response to the issue of social welfare reform (social protection, pension and disability protection, education, veteran and disability protection)	The Measure is response to the Policy guidance No 6 of the Ministerial Dialogue, which amongst others deals with the youth employment and the social protection reform. Based on the Road Map for Reform of the Social and Child Protection System in Montenegro, set clear timeframe and financial planning for its implementation and continue with	One of the key recommendations for strengthening the social protection and social inclusion, Chapter 19: Social protection and employment: Montenegro should in particular continue the evidence-based reform of the social protection system based on the Roadmap of Social Protection Reform,	SDG 1 & 10 Objective of the reform is to improve social inclusion of vulnerable groups in line with their needs and international and EU standards. One of the specific objectives is transition from institutional accommodation of beneficiaries to care outside of institutions.	Energy poverty is a social dimension of the energy transition that must be addressed for households that cannot afford basic energy services in order to achieve a basic standard of living and inclusion. Effective programs should be designed to address affordability	The measure entails an information system, amongst others, which is a way that the measure is addressing goals of the Digital Agenda for the Western Balkans.	1. Improving the system of recording in the second-instance proceedings for social protection will be financed under the project: Social Welfare Information System - ISSS (e-Social card), financed by the Government of Montenegro (90%) and UNDP (10%); 2. Topic of the measure can also be connected with the IPA project that is currently being implemented.



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
		<p>carrying out the reforms;</p> <p>It is linked with chapter 12, which refers to public policies modernising the social protection system in order to ensure effective, efficient, transparent, and adequate protection in all phases of human development; strengthening the social inclusion; promoting equal opportunities and resolving inequalities and poverty. This includes and adequate support for labour market activation and income for (re)integration in the labour market and in the society; sustainability and adequacy of the pension systems; and access to quality services, such as education and early childhood care; housing, basic</p>	<p>bearing in mind employment and social inclusion, with focus on combating poverty</p>	<p>Implementation of this measure will further contribute to achieving the Sustainable Development Goals SDG 1 – No poverty and SDG 10 – Reduced inequalities.</p> <p>SDG Agenda</p> <p>Social protection is a key instrument to abolish poverty and to provide people with access to opportunities for an independent and dignified life, in such a way as to contribute to the realisation of the sustainable development goal 1. National social protection systems can also contribute to the achievement of other sustainable development goals, including food security, good health, decent work, gender equality, reduced</p>	<p>issues, reduce energy bills, and help the environment. Partners should also be assisted in the implementation of programmes that would address energy poverty in the region.</p>		<ul style="list-style-type: none"> The project Strengthening the capacity of the social and child protection system in Montenegro, financed by the EU, aims to ensure the application of social rights and improve the quality of life of current and future beneficiaries of the social and child protection system. The purpose of the project is to: 1) improve the administrative and professional capacities of the social and child protection system at the national level in the area of policy making and quality assurance, and 2) provide support to local self-governments, social welfare centres, and local service providers in improving existing



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
		services; and long-term care.		inequalities, and cohesive communities.			<p>and creating innovative mechanisms at the local level to meet the needs of citizens.</p> <ul style="list-style-type: none"> The initial terms of reference was expanded at the initiative of the Ministry of Labour and Social Welfare to include for several additional activities that use the data-based decision-making approach: 1) conducting a final evaluation of the implementation of the current Montenegro Social and Child Protection Development Strategy 2018-2022; 2) implementation of additional trainings about programmes aimed at reducing poverty; and 3) drafting the document: Directions of



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>changes in the immediate future in social and child protection programmes in Montenegro.</p> <ul style="list-style-type: none">• The focus of the document Directions of changes in the immediate future in social and child protection programmes in Montenegro, which is being prepared as part of the project for the Ministry of Labour and Social Welfare, will be social-welfare monetary benefits directed at the poor and social protection services. , In addition to the aspects of adequacy and scope, the Direction of changes in social and child protection programmes will also cover



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>expenditures and the sustainability of individual benefits.</p> <ul style="list-style-type: none">• The project is financed by the EU, and the contracting authority for the implementation of the project is the Directorate for Financing and Contracting EU Funds, Ministry of Labour and Social Welfare. The beneficiary institution is the Ministry of Labour and Social Welfare - Directorate for Programming and Implementation of EU Funds, as the Project Implementation Unit (PIU) of the former Ministry of Labour and Social Welfare.• The target groups of the project are: Ministry of Labour and Social Welfare, Institute for Social



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>and Child Protection, Inspectorate for Social and Child Protection, local self-governments, social welfare centres and local service providers. The Project budget is 388,937.50 euro. Duration of the project is 26 months (from September 2019 to November 2021). The project is implemented by Archidata s.r.l. (consulting firm from Milan, Italy).</p> <p>3. Note: The measure deals with the Road Map (coordinated by the Ministry of Labour and Social Welfare and UNICEF), where the emphasis is placed on strengthening social protection and social inclusion both throughout the document and through 15 reforms.</p>



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<ul style="list-style-type: none">• Roadmap for the reform of the social and child protection system in Montenegro: The main donor is UNICEF, which participates with 187,017.57 euro. The national contribution (Government of Montenegro) is 29,466.66 euro, with a total of 216,484.23 euro;• Montenegro is in the process of joining the European Union and one of the core objectives of its development agenda is that no one is left behind. Previous assessments pointed to the need to reconsider the coverage and use of social protection measures aimed



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>at accelerating the poverty reduction. At the request of the Ministry of Labour and Social Welfare, the UNICEF representative office in Montenegro conducted a study to determine the scope of the terms of reference in 2018, and then engaged the Economic Policy Research Institute (EPRI) in 2019. EPRI conducted an analysis of the social protection system in Montenegro using the internationally recognised Core Diagnostic Instrument (CODI) for the analysis of the social protection</p>



Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy guidance 2023	Enlargement package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for the Western Balkans	European Digital Agenda/ Digital Agenda for the Western Balkans	IPA III projects supporting this reform
							<p>system, which was developed within the framework of ISPA (Interagency Social protection Assessment);</p> <ul style="list-style-type: none">• Based on the discussions from the workshops and the contribution of relevant stakeholders, the draft Roadmap document was confirmed at the meeting of the Steering Committee on 28 May 2021.



ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2024-2026

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/ rejected)	Comment (justification for acceptance/rejection)
General	<p>- Comments received on 13 December 2023</p> <p>Essential point</p> <p>Comment 1: "We welcome the partial adoption of last year's comments shared by the Women's Rights Centre. Still, following a careful analysis of this year's document, we note that most of our last year's comments also stand about Draft ERP 2024-26. Namely, this year's Draft does not sufficiently include gender - disaggregated data or consult the existing gender analyses and available research that contain recommendations for improvement".</p> <p>Comment 2: With regard to Challenge No 1: <i>Increasing</i></p>	<p>Stakeholder: Women's Rights Centre (<i>Centar za ženska prava</i>)</p> <p>Contact person: Maja Raičević</p> <p>Contact details: Bokeška 20, Podgorica 81000, Montenegro</p> <p>T +382 20 664 193</p> <p>Emaja.raicevic@t-com.me W www.womensrightscenter.org</p>	<p>Comment 1/The suggestion was mainly accepted.</p> <p>Comment 2/The suggestion was partially accepted.</p>	<p>Justification for Comment 1: We agree that gender disaggregated data is not fully presented, in terms of the general labour market indicators. To that end, the analysis of obstacles in the final version of the ERP has been expanded to include gender- disaggregated data to the maximum extent possible.</p> <p>Justification for Comment 2: The analysis of obstacles has been supplemented by</p>



	<p><i>employment, in particular of women and youth, and resolving long-term unemployment, in addition to gender-disaggregated employment data, other readily available gender-disaggregated data on the labour market should be used, as it is required for the development of the situation analysis that had to precede the planning of reform measures and impact indicators. In addition to employment data, gender- disaggregated data on the unemployment rate, business sectors, gender pay gap, the correlation between employment and professional qualifications of women and men, gender-disaggregated data on poverty etc. should have been presented. The document treats women and youth as homogenous categories, with no intersectionality when considering the additional challenges faced by the vulnerable groups that influence the achievement of the ERP objectives.</i></p> <p>Although the new ERP mentions the problem of unpaid work, similarly to the previous ERP, it fails to envisage</p>			<p>gender disaggregated data for the labour market. As for the reforms related to unpaid domestic work, the methodology for drafting the ERP and the structural reforms 4, 5 and 6 – concerning digitalisation, labour market and social policy improvements – will contribute to the response to this challenge. Since the ERP may include up to 6 structural reforms, the document does not include additional reforms; however, that does not mean that they are not being implemented as part of the overall Government economic policy.</p>
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	<p>measures to help women with the burden of care, a key reason behind gender inequality and women's inactivity in the labour market. Since women's unpaid work mainly refers to household chores, caring for children and other dependent family members, such as the elderly, in addition to the measures addressing employment, reference should be made to the measures that would serve the same objective (of increasing employment/reducing inactivity) and would be implemented in the sectors of education, health, digitalisation and social services.</p> <p>Such measures could, for example, include subsidised daycare for the children of the women attending training and employment programmes; plans for increasing the number of services in child care and care for the elderly, such as daycare, and kindergartens, or nursing homes; digitalisation of specific services; provision of a sufficient number of geographically dispersed social services intended for vulnerable categories, such as</p>			
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	<p>persons with disabilities or victims of violence, and other measures that would facilitate the access of these sensitive categories to the labour market, education, healthcare etc. Transport and transport infrastructure planning is also important in addressing this challenge, as regional data shows that only 30% of women possess driving licenses (this figure is much lower in rural and underdeveloped areas). Women are therefore compelled to use public transport, often to meet essential day-to-day needs (shopping, visiting a doctor), not to mention accessing the workplace or the support services in child care or care for the elderly, etc."</p> <p>Comment 3: "Each reform measure, under <i>Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare</i>, uses the general wording that the measure will have an impact on these outcomes, without a more specific description or an objective impact</p>		<p>Comment 3/The suggestion was partially accepted.</p>	<p>Justification for Comment 3: As the ERP document follows the prescribed procedure for preparation, a more detailed impact analysis is to be expected in relation to individual projects, legal arrangements or strategic</p>
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	<p>assessment of each reform measure on these categories. It is necessary, based on the available data, research and analyses, to assess the expected qualitative and/or quantitative impact of the given measure on the mentioned social outcomes, over the short, medium and/or long term."</p> <p>Comment 4: "It is commendable that the ERP includes justifications as to why some reform measures will not be implemented in the forthcoming period, but it remains unclear why the former Reform Measure 2: Introducing new work schemes and work-life balance, Reform Measure 4: Increasing adult employability by upgrading their skills and competences needed in the labour market, and Reform Measure 6: Reforming the national disability assessment system, will not be implemented as part of the ERP 2023-2025. Implementation of these measures in the forthcoming period would have a positive impact on the achievement of social outcomes, increase of employment, poverty</p>		<p>Comment 4/ The suggestion was partially accepted.</p>	<p>documents. Certainly, reform measures are elaborated in more detail, as suggested in this comment, in the sections discussing the impact on competitiveness, social outcomes and the environment.</p> <p>Justification for Comment 4: The measures envisaged under the previous ERP, the implementation of which is either underway or largely completed, are not to be reiterated. Also, the frequent changes of government over the past two years impacted some changes in the priorities, so some measures, though ongoing, were not highlighted in the ERP. This</p>
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	<p>reduction and better gender equality. We therefore do not consider the explanation - that these measures were not continued because their implementation has not started yet, that infrastructure-related conditions have not been secured to implement them or that implementation is expected through alternative legal arrangements – to be valid.”</p> <p>Comment 5: "Although the impact assessment of the <i>Reform measure 2: Introducing the Youth Guarantee in Montenegro</i> recognises the impact on gender equality, a more concrete explanation of the measures that will lead to that is lacking. For the sake of better understanding the obstacles and challenges related to women and youth employment, it is worth consulting the findings from the Woman’s Rights Centre’s Report “Gender-based Discrimination and Labour in Montenegro”, which suggests that gender discrimination in</p>		<p>Comment accepted</p> <p>5/Partially</p>	<p>was also prompted by the limited number of measures to be included in the ERP.</p> <p>Justification for Comment 5: The analysis of obstacles in the field of Human Capital and Social Policies in relation to gender-based discrimination has been partly supplemented by this suggestion. With regard to the measure of introducing the Youth Guarantee, it is being prepared in cooperation with the EC and</p>
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	<p>employment on the basis of family and maternity planning is still quite present (41% of female respondents vs. 21% of male ones). Even if taking into account the gender imbalance of the sample, the differential between the numbers of women and men who experienced gender-based discrimination in the field of work is statistically relevant, indicating that women of reproductive age are more likely to suffer such discrimination than men.¹ This data should be part of the situation analysis and activities planned for the forthcoming period under this and other Reform Measures."</p> <p>Comment 6: "<i>Reform Measure 3: Developing an integrated approach to improving the quality and inclusivity of education</i> is linked with the process of implementing the National Gender Equality Strategy 2021-2025, which was left out from the list of strategies linked with Reform Measure 3. We wish to remind that most of the activities</p>		<p>Comment 6 was partially accepted.</p>	<p>ILO, and the Draft Youth Guarantee Implementation Programme envisages gradual implementation of measures and activities so that, after the pilot stage, they are fully implemented in the aim of increased employment of youth, in particular women.</p> <p>Justification for Comment 6: The Comment refers to the measure included in the previous ERP, although it is included also in the ERP 2024-2026. Some of the data from the mentioned strategic documents were used and incorporated in the analysis of</p>
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	<p>envisaged under the <i>Operational objective 2: Improve policies in the field of education, culture and media to reduce stereotype and prejudice against women and persons of diverse sexual and gender identities</i> from the National Gender Equality Strategy 2021-2025² did not get implemented. We suggest that this be taken into account when planning the activities for the forthcoming period linked to the Reform Measure 3."</p> <p>Comment 7: "It is once again noted that implementation of the Reform <i>Measure 5: Reform of the social and child protection system based on the Roadmap</i> lacks any gender impact. We hereby reiterate the comment provided earlier: We believe that this statement is not based on reliable figures from the records of Centres for Social Work or the official statistics on income and living conditions (EU-SILC), which showed the highest poverty risk for the household composed of one adult member and at least one dependent child (47.4%) and for children</p>		<p>Comment 7 was accepted.</p>	<p>the main obstacles in this field.</p> <p>Justification for Comment 7: An amendment has been made in relation to the description of the measure's gender impact and achievement of social</p>
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	<p>younger than 18 (30.5%). Set against the official annual data on the percentage of divorce cases where custody over children was awarded to the mother (75.1%), father (10.7%) or shared 11.9%), it becomes clear that the reform measures in the social and child protection system cannot be gender neutral, but should give a solution towards overcoming the poverty of women and children, in particular those from vulnerable groups, who are disproportionately impacted by poverty risk.</p> <p>We recommend relying, when planning the measures, on the collection of data on all types of services of the Centres for Social Work, broken down by gender of the right-holder. In addition, there is a gap in the data on the way social welfare is distributed within family and whether all family members benefit equally. This is important if we bear in mind the prevailing gender roles and power relations in Montenegrin families, including the</p>			<p>outcomes; additional text has been added to the measure.</p>
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	<p>tradition whereby men decide on the way the family budget will be spent.</p> <p>Comment 8: Assessment of the impact of the <i>Reform Measure 6: Digitalisation of the health system in Montenegro</i> on gender equality is lacking. It is important to consult the statistics on the health of men and women in Montenegro to set respective impact indicators. It is also important to consider how the measure contributes to health services accessibility for the elderly, Roma and Egyptian women, rural women and women with disabilities.</p> <p>Comment 9: We believe that the <i>Reform Measure 8: Strengthening the national innovation and research ecosystem</i> cannot be gender neutral. On the contrary, the obligation of ensuring gender parity should be clearly stated, in particular in</p>			
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	<p>relation to awarding scholarships for scientific, research and doctoral work, mindful of the MONSTAT data indicating the traditionally higher share of women in tertiary education³.</p> <p>Comment 10: We propose amending sub-section 5.3. <i>Summary of reform measures</i> to include an assessment of impact on gender equality. Supplementing the Summary is important – it represents a synthesis of the document and can present simplified, concise, but precise information for all stakeholders involved in the process of adoption of and reporting on the document, who may not be required to/interested in reading thoroughly the entire Programme.</p>		<p>Comment 8 was accepted.</p> <p>Comment 9 was not accepted.</p>	<p>Justification for Comment 8: With regard to the expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare, one sentence has been added on the measure's impact on gender equality through greater accessibility of healthcare services for women, in particular Roma and Egyptian women, rural women and women with disabilities.</p> <p>Justification for Comment 9: The comment referred to the</p>
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			<p>Comment 10 was partly accepted.</p>	<p>measure included in the previous ERP that was implemented for several years and turned systemic, so that it does not constitute a part of the ERP 2024-2026.</p> <p>Justification for Comment 10: This concerns sub-section 5.4 in the ERP 2024-2026.</p> <p>Since, according to the ERP Guidance, sub-section 5.4 may only be one page long, it does not allow for elaboration of the gender equality aspect or any other aspects of the measures (employment, environmental impact, etc.). The sub-section has been amended to make use of gender sensitive language wherever possible.</p>
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	<p>Comment received in November 2023.</p> <p>Essential point:</p> <p>Proposal to add a reform measure titled "Tax relax - innovative digital tax system". The proposal aims to introduce a novel tax system.</p> <p>The proposed measure suggests the following: "A review of research to date shows that Value Added Tax (VAT) has a negative impact, in particular on collection, costs and selective observation of taxpayers. In that context, there is an idea to introduce an innovative Tax Relax system that would automatically charge all transactions of goods and services. Research results suggest that the new tax system Tax Relax could bring higher revenues to the Government, enable elimination of other forms of taxation and have multiplier effect on the overall economy. The proposal is underpinned by the concrete</p>	<p>Stakeholder: NGO Knowledge Network (Mreža znanja)</p> <p>Contact person: -</p> <p>Contact details: Podgorica, Beogradska 7</p>	<p>Comment /suggestion was not accepted.</p>	<p>The proposal is rejected, as there are no official Government analyses or assumptions for a VAT system overhaul. In the EU accession process, Montenegro is aligning its national legislation with the EU acquis in terms of the VAT Law, aligning with a series of Directives, primarily Directive 2006/112 on the common system of value added tax.</p> <p>Dismantling of the VAT system in Montenegro would bring significant negative impacts, given that this tax form generates major revenues for the budget. The VAT system is implemented in more than 170 countries worldwide, including almost all of the OECD members.</p>



	<p>research result obtained from the public data of relevant institutions that clearly shows that introduction of this system in Montenegro in 2019 would have enabled tax collection increase of more than 50 million euro, specifically 52,335,937.00, by 2022. In just one year, for instance 2021, Montenegro would have increased VAT collection by more than 30 million euro, specifically 37,419,872.00 euro." Therefore, the following activities are proposed for 2024:</p> <ul style="list-style-type: none">-Developing and testing the prototype of the new tax system;-Designing the system with special emphasis on the IT system;-Legal preparations for amending the legislation.			<p>In this regard, Montenegro is currently not considering dismantling of the VAT system or introduction of a new tax system such as "tax relax."</p>
	<p>Comments received on 20 December 2023</p> <p>The comments were the following:</p>	<p>Stakeholder: Miloš Vuković Contact person: - Contact details: milos.vukovic@me.com</p>		



	<p>Comment 1: "The ERP is 95 pages long; this is not in line with the Guidance: "The ERP shall be written in font size 12 and shall not exceed 70 pages in length, with 40 pages for the macroeconomic framework and the fiscal framework together". The ERP has to be 70 pages long.</p> <p>Comment 2: "The table on page 41 is not accurate (there is a computational error, as the sum total of revenues for 2025 is off by 735 million euro; the same error re-appears in the figures for the rest of the years). It needs to be corrected."</p>		<p>Comment 1 was partially accepted.</p> <p>Comment 2 was not accepted.</p>	<p>Justification for Comment 1: In the introductory section, the EC Guidance on ERP suggests that chapters 3, 4 and 5, which concern the macroeconomic and fiscal frameworks and structural reforms, should in total be 70 pages long. However, the ERP has seven chapters. Already on page 7 of the Guidance, the Table of Contents indicates that an ERP should have at least 77 pages. Thus, the ERP 2024-2026 will have at least 77 pages plus the annexes, which is in line with the EC Guidance.</p> <p>Justification for Comment 2: Clearly this table has been misinterpreted. The table in question shows total public revenues and expenditures under two scenarios, and the featured main categories, without presenting to detail all of the categories. Thus, there is no computational error; rather, the table does not show all the items</p>
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	<p>Comment 3: Sub-sections 4.9. and 4.10., defined in the ERP Guidance, are not included and should be added.</p>		<p>Comment 3 was accepted.</p>	<p>included in the total revenues and expenditures. The same format of the table was included in previous ERPs, without any objections from the EC. A detailed overview of all public finance items is provided in the tables in the annexes and is consistent with the overview included in the table in question.</p> <p>Justification for Comment 3: The Draft ERP shared for the public consultations did not include sub-sections 4.9 and 4.10, as all data necessary to finalise them ahead of the public consultations had not been collected due to the tight deadlines and delays in document development. The Ministry of Finance is well-aware that sub-sections 4.9 and 4.0 are part of the EC ERP Guidance; the sub-sections in question will be included in the final document to be adopted by the Government.</p>
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	<p>Comment 4: "The ERP Guidance clearly says that sub-section 4.10. should include a description of the Pension and Disability Insurance Fund reform: <i>The underlying policies should be appropriately described and projections should be based on a "current policy scenario". In case of planned but not yet implemented reforms, an alternative "reform scenario" table should also be provided and reforms, such as in the area of pension and health care, should be outlined.</i> The planned reform of the Pension Fund should be described and the required table prepared."</p> <p>Comment 5: The tables referred to in the Guidance are missing (including table 7 on long-term sustainability of public finance; tables 9a, 9b and other tables specified in the Guidance, not included in the ERP). All the tables envisaged in the Guidance should make an integral part of the ERP.</p>		<p>Comment 4 was partially accepted.</p> <p>Comment 5 was partially accepted.</p>	<p>Justification for Comment 4: The response is the same as for the comment above, as sub-section 4.10 will be included in the final version of the ERP 2024-2026 once all the necessary data has been collected. Also, the pension and disability insurance reform itself should be elaborated to more detail in the Fiscal Strategy.</p> <p>Justification for Comment 5: The tables in the annex are completed and finalised following the adoption of the Budget Law in the Parliament. This has been the practice each year. This time round, it will once again make an integral part of the final ERP.</p>
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	<p>Comment 6: Sub-section 4.4. <i>Medium-term budget outlook</i>, does not include a narrative description of the revenues from pension and disability insurance contributions (all other revenues are described). A description of the revenues from the pension and disability insurance contributions needs to be provided.</p> <p>Comment 7: In relation to sub-section 4.4. the Guidance clearly states: <i>This is expected to be underpinned by quantitative and qualitative information on the most significant policy measures (equal or above 0.1% of GDP) on the revenue and expenditure sides that will support the outlined fiscal strategy or could impact the achievement of the fiscal targets, such as in the area of taxation (including estimates for tax expenditures), public sector wages and employment, social benefit system, subsidy reforms etc. One-off and other temporary measures should be clearly distinguished from permanent ones.</i> Sub-section 4.4. in the ERP must be elaborated to detail."</p>		<p>Comment 6 was accepted.</p> <p>Comment 7 was accepted.</p>	<p>Justification for Comment 6: This will be taken into account when finalising the ERP 2024-2026.</p> <p>Justification for Comment 7: Same as for Comment 6.</p>
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