



MINISTRY OF FINANCE OF MONTENEGRO

ANNUAL REPORT 2012

Ministry of Finance of Montenegro Annual report 2012

Look at



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

Administration:

Tax administration:	www.poreskauprava.gov.me
Customs administrations:	www.upravarina.gov.me
Directorate for anti-corruption initiative:	www.antikorupcija.me
Administration for Prevention of Money Laundering and Terrorist Financing	www.aspn.gov.me
Real Estate Directorate:	www.nekretnine.co.me
Public procurement directorate:	www.djn.gov.me
Property Administration	www.uzi.gov.me

CONTENTS

INTRODUCTION: 2013. - THE YEAR OF STRONG FISCAL ADJUSTMENT	4-5
- Minister of Finance in the Government of Montenegro, Radoje Žugić, PhD	
MEDIA ON OUR WORK	6-8
FIRST NATIONAL DEVELOPMENT PLAN OF MONTENEGRO THE BASIS FOR THE PROGRAMMING OF PUBLIC INVESTMENTS AND DEVELOPMENT MEASURES	9-14
- Ms. Tijana Stanković, MSc, Deputy Minister, (Sector for Economic Policy and Development)	
TAKING OVER THE COMMITMENTS AND RESPONSIBILITIES BY THE MONTENEGRIN ADMINISTRATION IN THE IMPLEMENTATION OF THE EUROPEAN UNION FUNDED PROJECTS	15-17
- Ms. Nataša Kovačević, MSc, Deputy Minister, (CFCU)	
CERTIFICATION OF INTERNAL AUDITORS IN THE PUBLIC SECTOR OF MONTENEGRO	18-19
Ms. Nina Blečić, Authorized Officer I (Sector for Central Harmonization of the Public Internal Financial Control Management and Internal Audit)	
OVERVIEW OF MOST IMPORTANT EVENTS	20-36
- Ms. Ivona Mihajlović, Assistant to Spokesperson	
EUROPEAN INTEGRATION IN 2012	37-38
Ms. Branka Rogošić, MSc, Independent Advisor II, (European Integration Department)	
OVERVIEW OF THE TAX POLICY IN 2012	39-40
Sector for Tax and Customs System	
OVERVIEW OF THE MOST IMPORTANT INTERNATIONAL REPORTS IN 2011	41-44
- Ms. Marija Radenović, Spokesperson	
LOCAL GOVERNMENT PUBLIC CONSUMPTION IN 2012	45-49
- Ms. Radović Gordana, Independent advisor I, (Sector for Tax and Customs System) - Ms. Snezana Mugosa, MSc, Independent Advisor I, (Budget Department)	
PUBLIC INTERNAL FINANCIAL CONTROL OF MONTENEGRO IN 2012	50-53
- Ms. Ana Krsmanović, MSc, Deputy Minister (Sector for Central Harmonization of the Public Internal Financial Control Management and Internal Audit)	
INTRODUCTION OF THE REGULATORY IMPACT ASSESSMENT (RIA) INTO THE MONTENEGRIN REGULATORY SYSTEM	54-56
- Ms. Slađana Pavlović, MSc, Independent Advisor III, (Sector for Financial System and Business Environment Improvement)	

BUDGET ACTIVITIES IN 2012	57-60
- Mr. Bojan Paunović, Independent Advisor II, (Budget Department)	
STATE ASSISTANCE IN 2012	61-62
- Ms. Šefika Kurtagić, Independent Advisor I, (Department for the Control of State Assistance)	
- Mr. Marjan Junčaj, MSc, Independent Advisor III, (Department for the Control of State Assistance)	
- Ms. Nikolina Radojičić, Advisor, (Department for the Control of State Assistance)	
LAW ON AMENDMENTS TO THE LAW ON CUSTODY OF TEMPORARILY OR PERMANENTLY SEIZED PROPERTY.....	63-64
- Ms. Milanka Otović, Head of the State Property Department	
PUBLIC FINANCE ANALYSIS IN 2012.....	65-70
- Ms. Iva Radovanović, Independent Advisor II, (Sector for Economic Policy and Development)	
- Mr. Stanko Jeknić, PhD., Independent Advisor I, (Sector for Economic Policy and Development)	
- Ms. Snežana Mugoša, MSc., Independent Advisor I, (Budget Department)	
REPORT ON THE STATE DEBT OF MONTENEGRO AS OF 31 DECEMBER 2012	71-75
- Ms. Mersija Purišić, Independent Advisor I, (Treasury Operations Department)	
- Ms. Ivana Maksimović, Independent Advisor II, (Treasury Operations Department)	
THE PRIORITIES OF THE MINISTRY OF FINANCE IN 2013.....	76-77



Ministry of Finance of Montenegro

Annual Report
of the Ministry of Finance

NUMBER: V

PUBLISHED:
Annually

PUBLISHER:
Ministry of Finance of Montenegro

FOR PUBLISHER:
Radoje Žugić Ph.D

EDITOR-IN-CHIEF:
Marija Radenović

EDITORIAL BOARD:

Radoje Žugić Ph.D
Bojana Bošković MSc
Ana Krsmanović MSc
Nikola Vukičević MSc
Marina Perović
Ana Ivanović
Tijana Stanković MSc
Nataša Kovačević MSc
Boris Bušković MSc
Damir Rašketić

DESIGN:
Adil Tuzović

TECHNICAL ASSISTANT:
Ivona Mihajlović

CONTACT:

**PR OFFICE OF THE
MINISTRY OF FINANCE**

TEL: +382 20 224 581

FAX: +382 20 224 450

E-MAIL: mf@mif.gov.me

WEB: www.mf.gov.me

ADDRESS:

Stanka Dragojevića br 2, Podgorica

INTRODUCTION

2013.

THE YEAR OF STRONG FISCAL ADJUSTMENT



Radoje ŽUGIĆ, PhD

Starting from the conditions prevailing last year, the current macroeconomic and fiscal framework and the uncertainty surrounding us, as well as taking into consideration internal vulnerabilities of the monetary and especially, from the aspect of our jurisdiction, fiscal policy, we have determined for the year of 2013 the key directions for our activities in the area of strong fiscal adjustment, through:

- Adoption of the budget with austerity measures at all positions, except with respect to capacity building for integration processes;
- Defining of additional measures in the area of fiscal adjustment from December last year;
- Public debt restructuring; and
- Placing a special emphasis on anti-gray economy measures, with the goal to decrease expenses and generate higher revenues.

In 2013, the policy of the Ministry of Finance is characterized by an urgent and pressing need to stop a downward trend of fiscal parameters, primarily of the budget deficit and the public debt generated thereby.

A precondition to achieve the set goals is further implementation of fiscal consolidation, which can give the full and proper effect only if balanced, i.e. if parallel measures are taken on both expenditure and revenue side of the budget.

As far as expenditure side is concerned, this year we have succeeded for the first time to reduce the public spending below 40% of GDP. At the same time, despite the need to rationalize the public spending, the importance has been given to development components, meaning capital expenditures have not been reduced. By doing so, we are strengthening the foundations for the economic growth of Montenegro in mid-term, stimulating at the same time the economic activity during the year, which will partially offset the negative effect of reduced spending. Infrastructure, which will be built, as a precondition for the development, will incite investments and economic growth.

Concurrently to the adoption of the budget, we have implemented a set of unpopular but urgent measures regarding "pension freezing", increase in personal income tax applicable to income above average wage, rationalization of costs associated with income, etc. Effects of this package of measures are estimated to approximately 30 million euro, which will have a significant impact on reducing the budget deficit in the current year.



At the same time, through the establishment and operations of the inter-ministerial working group, we have decisively started a fight against gray economy, with the goal to expand the tax base and improve tax collection. A strong campaign initiated by the mere formation of the Government, together with some measures already taken, is already giving the effects. Data on budget inflows during January and February are encouraging. Based on the preliminary data, the budget revenues during the first two months are above the plan and the budget outturn. During this period, a growth of 11.1% was realized compared to the revenues during the same period last year.

By implementation of the aforementioned measures and activities, we will provide for the public finances stability, which will gradually reduce the need for borrowing, thus reducing the public debt level in the years to come. We will simultaneously work on the public debt restructuring, whereas the economic policy will be focused on stimulating the economic growth, which is the key instrument in fighting the crisis and the only way to recover our economy. Therefore, we have to be committed to defining and implementing the measures that should encourage the creation of new value and provide for stronger growth of GDP.

This year's projection is a GDP growth of 2.5%, starting from the assumption that the negative effect caused by weather conditions at the beginning of the last year had an impact on reducing the economic growth in the amount of 1.3%. Under average weather conditions, the economy will grow by 1.3%, which together with its real growth of 1.2%, gives a rate of 2.5%. We also expect that we will reduce by half the level of budget deficit, compared to 2012, through the implementation of all of the aforementioned measures, i.e. we expect to realize a projected level of deficit of 2.73% of GDP, or 95 million euro.

To that end and aiming at achieving the set goals, the Government and the social partners have reached the consensus on the need to have fiscal adjustment. The public finances sustainability, the competitiveness of the economy and ultimately the standards of living of the citizens will depend on the commitment and consistency in the implementation of the measures throughout the year that will entail many challenges.

Minister of Finance in the Government of Montenegro
Radoje Žugić, PhD



Media on Our Work

“

1. Are you satisfied with the cooperation with the Ministry of Finance in 2012, and which segments in your opinion should be improved?

2. In your opinion, which economic event has marked 2012?

”



Esad Krcić,
RADIO "SLOBODNA EVROPA"

1. PR Unit of the Ministry of Finance is distinguishing from other state institutions by the quality of its work, which primarily relates to the maximum cooperation, i.e. goodwill in providing timely information/statements, even when the deadline is too short, and there have been cases when a relevant interlocutor had to leave a meeting with representatives of international financial institution for the purpose of issuing the statement. In my opinion the Spokesperson of the Ministry of Finance is the most responsible person for transforming one of the most closed ministries into the most open one to the media.

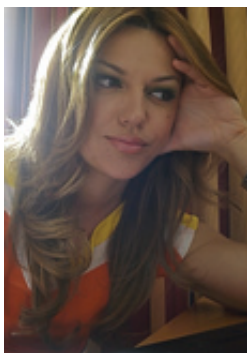
2. Economic event in 2012 was in fact the one from the previous decade: maintenance of the Aluminium Plant, and infinite benevolence of the Government to the Russian investor and a glaring lack of political courage of both the position and the opposition to disclose the truth that the maintenance of KAP is an illusion, and to adopt appropriate decisions accordingly.



Marija Mirjačić,
DAILY "VIJESTI"

1. Ministry of Finance, during the entire term of the former minister Milorad Katnić, and even in the last year, was, to the full extent, open to cooperation with the media. I would especially emphasize the high degree of transparency and willingness to, in the shortest possible deadline, provides the answers to all questions, regardless of its contents. I expect that this practice will continue in the future.

2. Economic problem that, in the past few years, is becoming more acute and which cannot be addressed is the situation with the Aluminium Plant for which, only in last year, the taxpayers had to cover by about EUR 24 million. None of the conclusions of the Parliament has been implemented in practice, and the debts are further accumulating. New solutions proposed (will most probably lead also to a budget correction in this year) should be implemented at earliest, because any delay means additional cost. Furthermore, it is necessary to fulfill the requirement of the public to examine the political and criminal responsibility of individuals in decision making process related to the KAP.



Mila Vuković,
TELEVISION OF MONTENEGRO

1. I argue that the Ministry of Finance is one of the most open and the most transparent government authority. They are the only Ministry not familiar with the answer "no comment" and I hope that this will continue in the future as well. By knowing so, we are heading another successful year of cooperation!

2. As far as the event that marked the Montenegrin economy in 2012 is concerned, in my opinion the news that the Toscelik purchased the Steel Mill Niksic has marked the last year, as well as the news when Montenegro has officially become the member of the World Trade Organization.



Jelena Veljović,
DAILY "DAN"

1. We are generally satisfied with the cooperation with the Ministry of Finance, because we obtain most of the answers in required deadline. Remark refers to the fact that the answers are sometimes imprecise, included one sentence or too general, in comparison to the burning issue for which we are interested in.

2. Economic events that have marked 2012 are the bankruptcy and sale of the Steel Mill and the introduction of bankruptcy in Vektra Montenegro.



Novak Uskoković,
DAILY "DNEVNE NOVINE"

1. I am satisfied with the cooperation with the Ministry of Finance. During 2012, the editorial of economic issues in the daily newspapers had a large number of questions that were addressed, thus your Ministry certainly falls into one of the group of the most prompt ones in the past and in this Government also. However, I hope that this cooperation will be even better in future. Due to the economic crisis, we should also expect in future even more interest in policies, plans and information from the Ministry of Finance, being in charge for the financial trends of the state.

2. Economic event of the year is, of course, the introduction of a fee for the SIM card, electricity meters and the cable connection. These measures, rather unpopular and although temporary, in my opinion, had also some specific alternatives. Concerning the scarce revenues at the time of the crisis, the selection of this method of collecting revenues is understandable. In my opinion this measure has prevailed its unpopular effects and potential alternative options. Furthermore, the positive decision was to reduce salaries of ministers, directors, deputies and other officials, but I think that they should be the subject of its efficiency verification, but that's another story.



Predrag Zečević,
PORTAL ANALITIKA

1. Cooperation with the officials of the Ministry of Finance is extremely fair and professional. PR Unit of the Ministry of Finance could serve as an example to other government departments.

2. Economic event of the year is the sale of bankrupt Steel Mill Nikić and the entry of the Turkish Toscelic on the market. If they achieve the plan of producing 400,000 tons of iron, the Steel Mill could return the former glory of the late eighties, when it was produced approximately the same quantity. The negative economic event of the year was the introduction of taxes on the SIM cards, electricity meters and the cable television. In this way, the economic crisis has shifted to the burden of the poor category of society. There were much better mechanism for filling the state treasury, such as the increase in property tax and the introduction of the tax on wealth.



FIRST NATIONAL DEVELOPMENT PLAN OF MONTENEGRO

The Basis for the Programming of Public Investments and Development Measures



Tijana Stanković MSc

Montenegro, as a candidate country for the EU membership, is obliged to determine the socio - economic development vision, with individual investments and development measures necessary its implementation. In this regard, the Government of Montenegro is obliged to adopt the National Development Plan of Montenegro 2013 -2016 (NRP), which will align the objectives of sectoral and national strategies in various areas of development.

The National Development Plan has been prepared based on the EU 2020 Strategy. Identification of policy and subordinated policy areas, within the development directions of "smart growth", "sustainable growth" and "inclusive growth", in addition to proposed measures and outlining of specific projects has determined authentic development interests of Montenegro.

WHY THE NATIONAL DEVELOPMENT PLAN?

To strengthen the consistency of structural and institutional reforms with the development related measures and public investments.

During the first six years of restored independence, Montenegro has been recognized as a politically and economically stable country. Montenegro has proved its commitment and responsibility towards joining the European Union by obtaining the candidacy for the membership and the negotiating date. The prospect of membership of Montenegro in NATO is a step forward in achieving the political stability and economic development.

Years after independence, in economic terms, were full of challenges for Montenegro. A strong economic growth from 2006 - 2008, was accompanied by the growth in Foreign Direct Investments (above 20% of GDP at average) and credit boom (annual growth rate of above 100%). The global economic crisis has hit Montenegro in 2009, and the economic growth contraction of - 5.7% has undermined the foundations of macroeconomic stability, and stressed the importance of fiscal responsibility in the economic policy design and achieving sustainable economic growth and development. Small and open economic system, such as Montenegro, is susceptible to external influences, being at the same time flexible in the application of the anti - crisis measures. These measures, either non-recurring or structural ones, have contributed to the "treatment" of the system during the crisis, without compromising its medium and long - term sustainability.

The fiscal policy remains the only instrument of economic policy and the driving force of development for the eurozoned Mon-

tenegrin economy. The rebound in the public finance from the deficit of 5.8% in 2009 is still ongoing, being slow down by the negative impact of the crisis in the Eurozone, structural imbalances and by the consequences of extreme weather conditions (floods, snow, and drought). Despite the fact that public consumption has been reduced from 50% to 40% of GDP, resulting in a slight decline in the deficit, the public debt is overburdening the growth. Tourism has been considered the leading recovery generator of Montenegrin economy during the crisis and in the long run, creating a demand that is far beyond the domestic production, causing a high trade deficit. In spite the constant surplus in services, the current account balance has a share of 20% in GDP. Foreign direct investments remain at a relatively high level (above 10% of GDP), while the decline in lending activity and the resulting illiquidity is a major constraint to the Montenegrin economic growth.

In order to increase employment and the competitiveness of the national economy it is necessary to resort to structural reforms, to respect the principles of fiscal responsibility and improve the business environment. Only in this manner, preconditions for increased growth potential and quality of life of each citizen may be created.

Ambitious structural reforms are fully in line with the efforts pursued towards the European integration, particularly to the development towards the EU Strategy 2020. In order to meet the Copenhagen economic criteria, Montenegro, has to establish a functioning market economy that is able to withstand the pressure of competition in the EU market, increase the productivity of domestic resources and to strengthen its competitiveness aimed at establishing a sustainable external position.

To improve the consistency between the sectoral and thematic programming documents in reference to the public investments.

This objective requires intensified efforts to accelerate the transition and to strengthen the functioning of institutions and to increase state, development oriented, investments in the country and to achieve consistency of sectoral policies through the programme documents. As it is the case with the majority of the countries in transition, and in Montenegro, the medium - term programmes and structural reforms have been developed on the fragmented basis, with a small number of qualified experts from relevant ministries and the Central Bank.

Montenegro has tenths of relevant sectoral strategic documents. With the exception of the fact that some of them were developed in the time of economic expansion and a different economic perspective than the one we have in a time of crisis, the quality of these documents topic and sector wise is undeniable. However, most of these strategies have not been integrated into the overall development framework of the country, which is crucial for the effectiveness of the policy. There are cases where some strategic documents have neither been aligned with the institutional capacity of the country, nor with its financial capabilities.

In the past decade, there have been several attempts to conceptualize and formulate the development priorities, with the implementation of measures for its attainment. First, we had the "Economic Reform Agenda 2002 - 2007", resulting in significant progress in the implementation of structural reforms in the tax system, pension and education reforms. "National Integration Plan" is also one of the comprehensive strategic plans that, among other things, included the economic - development objectives to be achieved towards the EU integration. The strategic documents such as the "Sustainable Development Strategy" and the "Regional Development Strategy", also provide for a broader picture of the development of Montenegro. One of the programme documents of a fiscal nature is the Economic and Fiscal Programme, i.e. Pre - accession Economic Programme, representing a medium - term framework of macroeconomic and structural policies and their fiscal implications. In the last five years, this was the most important economic document on which the Montenegrin government based its medium - term objectives and the fiscal framework. However, the above mentioned strategic documents failed in providing a coherent and well - rounded "umbrella" for the economic development of Montenegro being in compliance with the EU Development Strategy in the long run.

To initiate investments programming consistent with the EU Multi - annual Financial Framework.

Montenegro, by acquiring the candidate status for the EU membership, has assumed the obligation of developing the National Development Plan. The objective of this document is, as a top priority, the routing of funds through so - called Instrument for Pre-Accession Assistance (IPA) for multi - annual financial

framework 2013 - 2020. As a candidate country, Montenegro will be entitled to all five components, and the European Commission, within the required five - year programme on the basis of which it will make available the pre - accession funds. This assumes the management and financial control as the minimum standards for the implementation. To that end, the Project titled "Development Strategy of Montenegro and the National Development Plan" has commenced.

What is the objective of the National Development Plan?

The National Development Plan of Montenegro 2013 - 2016, at the strategic development vision of Montenegro, presents a framework for the implementation of the appropriate mix of required investments and development measures. The use of a combination of instruments varies from area to area. Some instruments are in a more efficient manner resolving system problems (fiscal reform, pension reform, etc.), while others, such as the public investments, play an important role in the development of other areas (infrastructure, education system, etc.).

National development plan has formulated the strategic priorities and development directions, as well as policy areas and individual measures and public investments that contribute to the economic and social development. Therefore, the NPR is crucial for the medium - term planning of all development measures and investments of the country that will be, partially financed from public funds, domestic and foreign ones. In this framework, the programming of the EU assistance funds that Montenegro receives from IPA funds is of crucial importance. In this way, the NDP includes all development and investment related measures and projects to be implemented in the country in the period 2013 - 2016, not including investments financed by the public sector that are not development oriented ones.

The objective of the NDP is to facilitate the consolidation of the medium - term investment and development plan, which will trigger the implementation of development priorities, aimed at encouraging economic growth in the country. Particular emphasis has been placed on compliance with the requirements and standards of the EU policies, as well as the further integration of the IPA funds which will be available to Montenegro. In this way, the NDP creates a framework for the socio - economic conditions and orientation in the negotiations on the adoption of the EU regulations.

In operational terms, the NDP's objectives are as follows:

- Detailed assessment of the current economic, social and environmental situation in Montenegro, in the context of the EU Development Strategy and the specifics of Montenegro;
- Formulation of strategic and operational development objectives;
- Identification of key policies aimed at achieving strategic objectives;
- Creation of a consistent matrix of measures and investments within the financial capabilities aligned with the macroeconomic and fiscal scenarios.

The reasons why the plan includes a four - year period (2013 to 2016) rests in the fact that, in the current conditions of economic and financial crisis, it is difficult to give macroeconomic projections for one year, and especially for a longer period of time and, at the same time, limited capacities of the state administration affects the dynamics of the implementation plan. However, NDP is a "live" document. This means that it will be updated periodically to identify the implementation of proposed measures and investments and to carry out the adjustments to the EU documents.

What are the results NDP?

Strategic development objective. The NDP was prepared in the period in which the patterns of the economic growth have changed. After three years of the strong economic growth, the global economic and financial crisis in 2009 has also hit Montenegro, which resulted in the reduction of investment, bank lending and external trade. Economic policy should be adapted to the new conditions, at the time when weak growth drivers, public finance deficit and the structural imbalance in the labor market are more pronounced. Solutions and decisions of today will reflect to, first of all, on the attainment of the strategic objective of the Economic Policy of Montenegro, which is:

- Increase in the quality of life of individual in Montenegro in the long run.

The priority sectors of development. In order to achieve the strategic goal of economic policy of Montenegro, the National Development Plan identifies three priority sectors of development:

- Tourism
- Energy
- Agriculture and Rural Development.

By looking at the finance structure of required investments/development measures identified in the NDP through three development directions (smart, sustainable and inclusive growth), the amounts allocated in the three priority sectors of development do not reflect their importance. Specifically, investment and development measures, identified by the NDP through 18 policy areas, represent the support to the public sector aimed at encouraging the growth and development of tourism, energy and agriculture. Public investments/development measures implementation is contributing to the NPR's economic performances of Montenegro could be reflected through:

- Rebound in the economic growth above the potential one, i.e. real GDP growth of 3-4%;
- Public finance deficit reduction and the achievement of the balanced budget by 2016.
- Reduction in the share of informal economy.

From the macroeconomic perspective, the selection of the "real" investments and development measures is a decisive factor for the growth induction. These are the ones that increase the productivity of the economy through the multiplier effect, not only in one particular sector but at the level of the overall economy.

The priority sectors of development supported by the public investments and measures proposed in the NDP, produce synergy effects on the entire Montenegrin economic system and allow the creation of new jobs. By applying the appropriate mix of investments and measures in the priority sectors of development enables more efficient use of public resources.

Three courses of 18 policy areas and NDP. The NDP starts from the following:

- The "green economy" concept¹;
- Three development priorities: tourism, energy, agriculture and rural development and
- Relevant sectoral strategies
- Macroeconomic and Fiscal Framework 2013 - 2016.

In this framework, NDP identifies 18 policy areas for investment², as well as the public sector reform. Within these policy areas, 69 specific and required investments and development measures have been identified³, which are associated with the directions of a "smart", "sustainable" and 'inclusive' growth, in line with the EU Strategy 202. Smart growth implies innovations, digitization and mobility of young people, sustainable growth implies improved efficiency of using the resources and industrial policy, while the inclusive growth is used with the objective if in order to increase employment and reduce poverty. All EU member states, as well as the candidate countries, have this structure in mind when developing strategic documents, prior to the allocation of structural funds or IPA funds.

The NDP's development directions and policy areas are as follows:

SMART GROWTH

- Business environment;
- SMEs;
- Competitiveness;
- Science;
- Higher Education;
- Information Technology;
- Tourism;

SUSTAINABLE GROWTH

- Agriculture, Rural Development and Fishery;
- Forestry;
- Energy;
- Environment;
- Transportation;
- Housing and Construction;
- Inclusive growth;

INCLUSIVE GROWTH

- Labor market;
- Education;
- Sports;
- Social protection;
- Health.

1 - Green economy concept was presented on the platform on the United Nations Global Forum on Sustainable Development in June 2012;

2 - These policy areas were adopted by the Government of Montenegro on 18th February 2012;

3 - The list encompassing all measures and budgets has been enclosed to the Annex 10 of the NDP;

The following table (Table 1) illustrates the allocation of funds, based on individual development directions, i.e. policy areas.

Table 1: Financial sources for funding required investments/development measures in the period 2013 – 2016 (in million EUR).

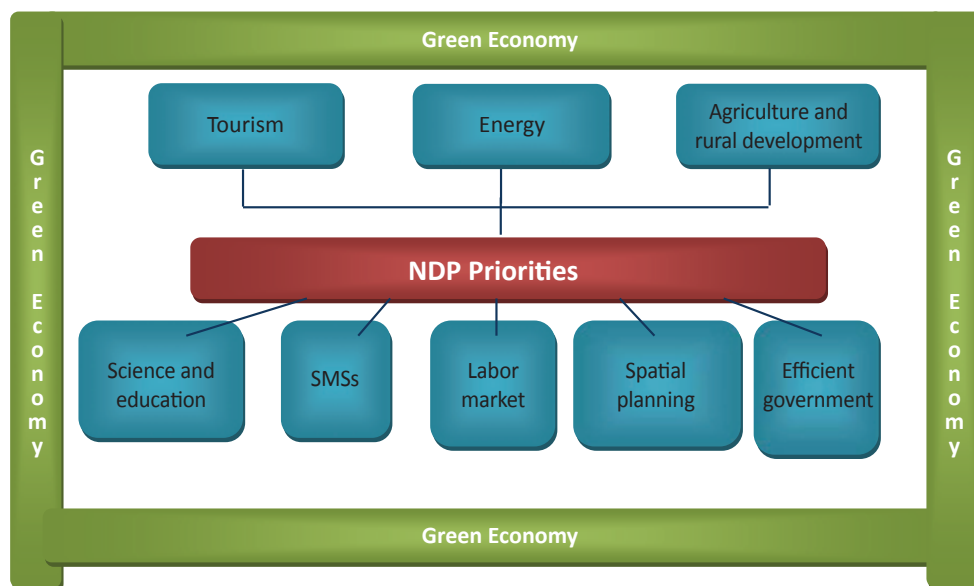
Economic growth areas	TOTAL in million EUR	Share in grand total (%)	National budget share (in million EUR)	Donations (million EUR)	Loans (million EUR)	EU (million EUR)
Smart growth	127.71	9.9	14.17	2.61	108.70	2.23
Business environment	0.12	0.0	0.12			
SMEs	102.72	8.0	1.31	1.41	100.00	
Competitiveness	0.75	0.1	0.25		0.50	
Science	14.80	1.1	9.10		5.70	
Higher education	4.00	0.3	0.30	1.2	2.5	
ICT	1.79	0.1	1.79			
Tourism	1.30	0.1	1.30			
Sustainable growth	1154.43	89.5	344.85	29.55	750.70	29.33
Agriculture, rural development and fishery	90.50	7.0	79.00	11.5		
Forestry	0.42	0.0	0.28	0.14		
Energy	22.91	1.8	20.70	2.21		
Environment	359.67	27.9	34.87	12.7	312.1	
Transportation	547.60	42.5	109.00		438.60	
Housing and construction	104.00	8.1	101.00	3.00		
Inclusive growth	7.79	0.6	3.32	1.12	0.00	3.35
Labor market	0.00	0.0	0.00			
Education and sports	0.00	0.0	0.00			
Social protection	1.73	0.1	0.61	1.12		
Health	2.71	0.2	2.71			
Total with the EU	1289.93	100.0	362.34	33.28	859.40	34.91
Share %	100		28.1	2.6	66.6	2.7

The Table 1 clearly illustrates that almost 90% of the required investments/development measures were identified in the sustainable development area. Of these, only two were identified in the infrastructure related sectors - transportation and the environment, accounting for over two thirds of the required investments amount/development measures of the country for the period 2013 to 2016. In the area of the smart development - a total of 10% of all "necessary investments/development measures" have been identified - financially significant "required investment/development measures" have been identified in only two sectors, namely small and medium sized enterprises and science. Identified required "investments/development measures in the area of inclusive development account for less than 0.5% of the total amount of required investments/development measures.

Five NDP's priorities. Policy areas and measures/investments required for the achievement of the NDP's objectives are projecting the Montenegrin economy and society within the EU long - term development, taking into account the natural resources of Montenegro, as well as its comparative advantage underlying the three priority sectors of development (tourism, energy agriculture). The allocation of the required funds for investments/development measures (Table 1) reflects the need to invest in certain areas, the development of which is necessary to achieve the above mentioned objectives. Out of 18 policy areas, in line with long - term needs of the Montenegrin economy and society, the NDP identifies the following five top priority areas:

- Science and education;
- Small and medium - sized enterprises;
- Labor market;
- Spatial planning;
- Efficient government.

Grafik 1: Prioritetni sektori razvoja i prioriteti NPR-a



WHAT ARE THE NDP LIMITATIONS?⁴

Based on macroeconomic and fiscal forecasts and projections of the public debt of Montenegro for the period 2013 - 2016 5, and taking into account the four - year projection of donations including IPA funds, prepared was the projections of public funds of Montenegro with which the country will dispose of in the period from 2013 to 2016, for funding identified "required investments/development measures presented in the NDP.

The total amount of public funds of Montenegro amounts to EUR 1. 289, 9 million (Table 1) of investments/development measures proposed in the NDP in the period 2013 to 2016, are estimated at EUR 598.9 million (Table 2).

Table 2: Available public funds for financing required investments/development measures identified in the NDP for the period 2013 to 2016 (in million EUR) .

Available public funds for financing the NDP	In mill EUR 2013-2016.	Share in %
State Budget	316.8	52.9
Loans	130.0	21.7
IPA	120.0	20.0
Donations	32.1	5.4
Total:	598.9	100.0

The financial gap between the required investments in the NDP and public funds available for the entire period from 2013 to 2016 is estimated at EUR 691 million, which at the average annual level amounts to of around EUR 173 million or 4.5% of the average projected GDP. This means that the required investments/development measures identified by the National Development Plan are at a level that is more than twice above the anticipated volume of available public funds of Montenegro in the next four - year period. In other words, the financial gap really shows the extent to which the desire for investments/development measures will have to be reduced in order to adapt them to the realistic financial possibilities.

4 - More details in Chapter 9;

5 - Source: Projection of the Ministry of Finance of Montenegro;

The financial gap between the NDP and available resources clearly indicates the necessity to formulate criteria and benchmarks that will be used in order to reduce required investments/development measures identified by the NPR to a level that is consistent with the extent of available funds for its financing. In this regard, the NDP proposes a solution of resource allocation within the available financial opportunities of Montenegro in the period 2013 - 2016, and based on the structure that is reflecting the specificity of the current public investments structure of Montenegro on the one hand, and the need of adjusting the relevant international flows.

Table 3: Proposed allocation of investments/development measures between the three NDP areas.

Economic growth area	%
Smart growth	30
Sustainable growth	65
Inclusive growth	5
Total:	100

The proposed structure of the available resources implies the absence of the "financial gap" for the projects financing/development needs in the areas of smart growth and inclusive growth. This means that the funding should be provided for all activities that have been identified as required investments/development measures in the two directions of the NDP development. Therefore, the funding should not be an obstacle to financing projects/development measures in the areas of smart growth, especially in sectors such as the higher education, science, ICT, tourism and competitiveness, and inclusive growth, especially in the sectors of education and health. Unlike the smart and inclusive growth area, the lack of financial resources would be a major limiting factor for the realization of required investments/development measures in the area of sustainable growth of the NPR. Although the proposed allocation for this area amounts to 65% of all available public funds, this is still significantly lower than what has been identified by NDR. While the National Development Plan identifies the maximum of EUR 1, 154 million of required investments/development measures in the area of sustainable development (the majority of which was in the sectors of transportation and environment), the proposed allocation envisaged for these purposes amounts to EUR 389 million, which is by EUR 765, 1 million lower for financing than it was identified as required. Given such situation, Montenegro will have to define the criteria based on which it will identify priorities between different sectors (transportation, environment, housing and agriculture), and between the projects in each of these sectors.

Ms. Tijana Stanković, MSc,
Deputy Minister,
Sector for Economic Policy and Development

Taking over the Commitments and Responsibilities by the Montenegrin administration in the Implementation of the European Union funded Projects



Nataša Kovačević MSc

One of the most important, but also very concrete steps on the path of Montenegro to the European Union (EU) is to establish a decentralized management system of IPA funds. In fact, for all the candidate countries for the EU membership, which are already independently managing the IPA funds, assuming this responsibility was an important moment in the process of the European integration, since it implies a significant improvement in the quality of public administration, as well as more intensive cooperation with the European Commission (EC). For this system, it was necessary to establish an institutional framework that can guarantee a transparent and reliable spending of the IPA funds or structures that could provide for the programming, implementation, procurement, payment and audit of corresponding projects.

In this regard, when it comes to Montenegro, the process of establishing a decentralized system has resulted in great progress, because the management structures of the state administration have successfully passed the first four phases of the Roadmap for the decentralized management of the IPA funds¹ and they are currently in the final stage, when the decision of the European Commission on the conferral of powers for the independent management of the IPA projects (Figure 1) is expected.

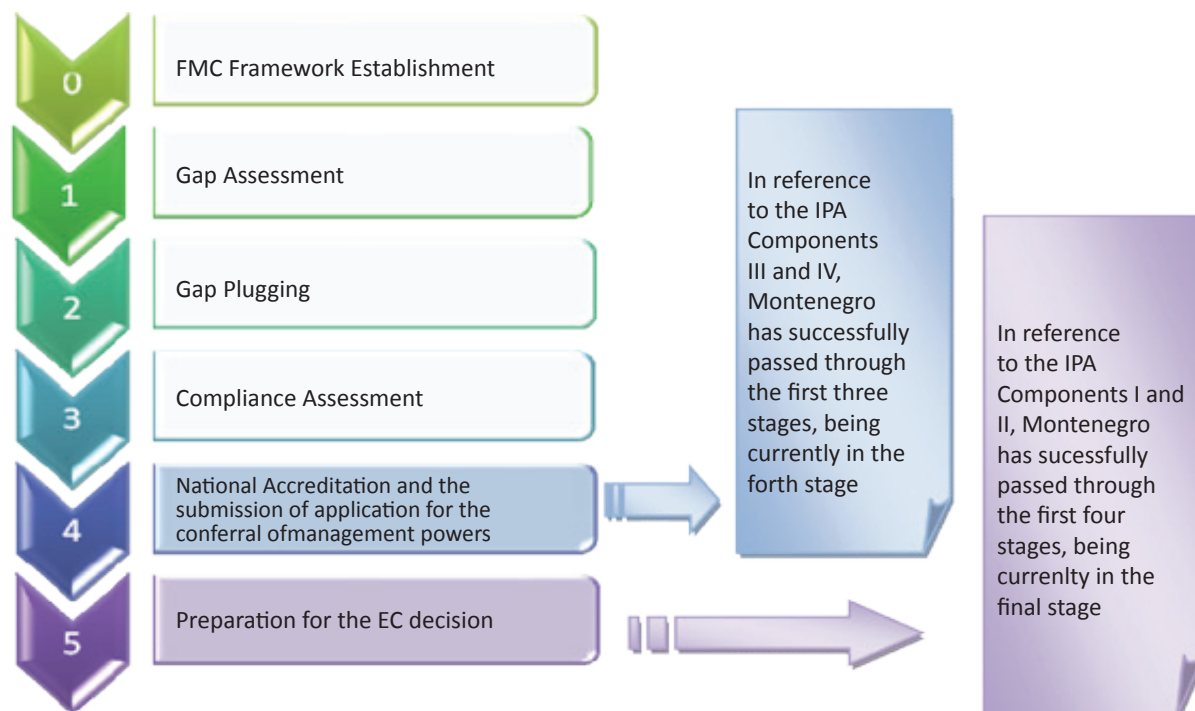


Figure 1: Stages that Montenegro must go through up to the establishment of decentralized management of the IPA funds.

¹ - The document that clearly defines the activities that need to be undertaken, as well as the time frame in which the commitments must be fulfilled, in order for the country to transfer to the decentralized management of the EU funds, includes six stages through which the Montenegrin administration has to go through, such as the following: structures establishment, status of play assessment, preparation for decentralized management, compliance assessment, national accreditation and the EC Decision on conferral of management powers for IPA funds.

For the purpose of verifying the readiness of Montenegrin institutions for an independent management of IPA funds, the Ministry of Finance has hired an independent audit company KPMG, tasked with the carrying out of the audit of the established system of management and control, in the case of the IPA Components I and II b. 2 The audit commenced on 27th February 2012, and it was completed by the submission of the Report on 22nd June 2012. The audit also included an analysis of the documentation relating to the established management and control system, as well as the knowledge testing of all employees involved in the implementation of projects within the framework of these components. The general conclusion of the Report is that the Montenegrin institutions progressed and that the existing status of play is meeting the requirements of the European Commission. After receiving a positive opinion to the Report by the aforementioned auditing firm, the National Authorizing Officer (NAO) 3 after acknowledging that the operational structures have demonstrated a willingness to be accredited, as well as that all EC requirements have been fulfilled adopted the Decision on the allocation of national accreditation to the structures established for an independent project management for the IPA Components I and II b. Subsequently, documentation, or the accreditation package was the focus of huge workload, being necessary for the submission of applications for decentralized management.

On 31st July 2012, the Ministry of Finance, or the National Authorizing Officer (NAO) has submitted the aforementioned documentation to the EC Directorate – General for Enlargement, thus creating the conditions for the arrival of the European Commission's auditors and the assessment of the established financial management system and controls of the EU pre – accession funds. The submitted documentation, among other things, includes: agreements, which clearly define the duties and responsibilities of established bodies; institutional and legal framework for the management and control systems, which apply to the projects financed through the EU funds, description of the process of implementation of public procurement and award of contracts; procedures for the employment policy pursuant to the Workload Analysis, representing the basis for further employment, in order to meet the requirements in terms of quality and quantity of employees. Furthermore, the aforementioned package consists of a number of rulebooks and manuals in reference to the following: implementation of contracts, management of human resources, reporting about the irregularities, risks management; financial management, accounting, administrative matters; payment system for the EU funds, regarding all institutions involved in the implementation of projects in a decentralized manner.

The EC auditors have already commenced the checking of the defined system by reviewing all necessary documents and information and its compliance with the rules. After considering the documentation in Brussels, the auditors have organized the first so called on – spot check, where in direct contact with Montenegrin representatives they discussed the most important issues related to the accreditation. Specifically, the first check was conducted in the period from 10 to 14 December 2012 and it will be continued in the first quarter of 2013. It is important to note that the Montenegrin institutions, prior to the check, must have fulfilled the additional requirement imposed by the EC auditors, i.e. to answer the questionnaire prior to the adoption of the official Decision on the conferral of management powers, in relation to specific issues within the established institutional framework and operating procedures, which will be used in the decentralized management.

After the EC auditors conclude that a defined system is acceptable, it will mean that **Montenegro has the financial management and control system developed on the basis of the strictest international standards and, accordingly, may take assume an independent management of the EU financial portfolio, amounting to approximately EUR 30 million annually.** At the same time, this is also an opportunity for Montenegro to show that it is ready manage even much higher amounts of funds, i.e. structural funds.

In addition to the IPA Components I and II, it may be concluded that the path through the stages of the aforementioned Road Map, in reference to the activities related to the preparation of bodies involved in the management of the IPA Components III and IV⁴, has been successfully "passed." Specifically, the institutional framework for these two components has been established. It consists of a number of bodies that are common to all IPA components, while in the case of an operating structure it was necessary to take into account the components characteristics, i.e. that they represent the real preparation for the Structural Funds, which will be available when Montenegro becomes the full-fledged EU member. Consequently, when defining the structures, it was necessary to take into account that they are defined in a manner that will provide capacity building and efficient transition to managing the Structural Funds.

Furthermore, strategic and programming documents have been developed and adopted, i.e. Strategic Compliance Framework and the Operational Programme for the IPA Components III and IV. All the aforementioned has resulted in that Montenegro is currently in the third phase, which should determine whether all prerequisites are met for a formal appli-

2 - IPA I – Support for transition and institution - building; IPA II- Cross Border Cooperation;

3 - Deputy Minister for Treasury Operations;

4 - IPA III – Regional development; IPA IV – Human Resources Development.



cation, and whether the structures have reached the level required to meet the EU requirements. The check or verification was performed by an independent auditing firm and the audit findings were positive, which means the Montenegrin administration is eligible to submit an application for the conferral of the management powers for the IPA Components III and IV, in the first quarter of 2013.

In the end, it can be concluded that the Montenegrin administration is increasingly closer to the answer when it will assume the responsibility to independently manage the IPA funds. By assuming this responsibility, Montenegro will show to EC that it is able to efficiently manage IPA funds, especially having in mind that it will be entitled to use a new pre - accession support for the period from 2014 to 2020, so - called IPA II. Moreover, it will improve the image of the country in the European Union and thus will affect the development of the administrative capacity to progress in the EU integration process, which will particularly affect the demanding negotiation Chapter 22 - **"Regional policy and coordination of structural instruments"**, as well as the negotiation Chapter 32 - **"Financial Control"**. For this reason, the imperative of the Government and the overall state policy should be the use of the pre - accession funds in the best possible manner, i.e. the establishment of an adequate system for the management of these funds, which actually represents the mission of the decentralized management of the EU funds.

Ms. Nataša Kovačević, MSc,
Deputy Minister,
CFCU

Certification of Internal Auditors in the Public Sector of Montenegro



Nina Blečić

In 2012, the Ministry of Finance was committed to the capacity strengthening of internal auditors through its training and certification. The Central Harmonization Unit of the Ministry of Finance in the previous period has invested considerable efforts in organizing and holding the trainings to appointed internal auditors.

International Internal Audit standards emphasize that the internal auditors must possess the knowledge, skills and other skills that are necessary for the fulfillment of individual responsibilities. Only adequately trained and competent internal auditors can fulfill the tasks that lie ahead of the internal auditing function and that contribute to the achievement of its objectives, especially in the conditions of the current crisis.

In order to respond to the challenges and delegated tasks it is necessary that internal auditors continuously strengthen their capacities, because only through the professional training they can perform their job responsibly, professionally and in accordance with the ethical principles.

Therefore, pursuant to the necessity of continuous education of internal auditors, the Ministry of Finance in 2012 has organized two types of certification - national and international.

In accordance with the Law on Public Internal Financial Control System, one of the major responsibilities of the Central Harmonization Unit of the Ministry of Finance is the preparation, organization and implementation of the training curriculum for taking examination for certified internal auditor.

All employees of the Central Harmonization Unit were involved in the certification process and they have succe-

ssfully answered the challenge of organizing and implementing both aspects of certification.

NATIONAL CERTIFICATION

National certification was organized in accordance with the Rulebook on the manner of taking the examination for authorized internal auditor in the public sector, being adopted by the Ministry of Finance in December 2011, prescribing in details the training curriculum and the manner of taking the examination for certified internal auditor in the public sector.

The training for taking the examination encompasses the theoretical and practical training, being implemented by the Ministry of Finance.

The request for attending the theoretical and practical training is submitted by a candidate who has a university degree and at least two years of experience in auditing, financial control or accounting - financial matters.

The Ministry of Finance has organized and held the theoretical training in cooperation with the consultants within the IPA 2009 Project, through the five - day workshop on "Internal Audit Basic Training," being at the same time the mentors for the practical training which involved the conduct of the two audits with the user of the budget employing the candidate.

The national certification exam was held on 30th October (written examination) and 31st October (oral examination) 2012. Out of 8 applicants who have met the requirements set forth by the Rulebook, 5 candidates have acquired a certificate of the internal auditor in the public sector.

Minister of Finance organized a gala award of diplomas to the first 5 authorized internal auditors in the public sector: Stoja Roćenović, Nataša Simonović, Valentina Perović, Vaso Vasović and Nina Blečić.

On 27th December organized was a repeated examination and all 4 applicants have passed the written part of the examination, while 2 candidates have passed the oral part of the examination: Vlatko Vukčević and Maja Bašić, thus the public sector of Montenegro has 7 authorized internal auditors.

INTERNATIONAL CERTIFICATION

In addition to national certification, the Ministry of Finance of Montenegro, in cooperation with the CEF (Center of Excellence in Finance) from Ljubljana, and based on the support of the CEI (Central European Initiative), the German Government and the Government of the Republic of Slovenia, is organizing the training and certification of 40 internal Auditors, which is based on international standards and best practice.

The training curriculum and certification of internal auditors in the public sector is carried out in accordance with the programme of CIPFA (Chartered institutes of Public Finance and Accountancy), being one of the leading professional accountancy institutions in the United Kingdom and the only specialized institution for the public sector. The programme is specifically designed for appointed internal auditors in the public sector.

The training curriculum and certification of internal auditors in the public sector lasts for a year (September 2012 - September 2013) and consists of four modules, out of which one is national and three international modules. The programme is organized in lectures and tutoring, allowing for the candidates to consult and to exchange views with selected tutors - trainers.

In order to attend the training the candidates had to meet the following requirements:

- That are employed in the public sector of Montenegro;
- To have a university diploma;
- To have at least one year of experience in auditing, financial control or accounting - financial matters, development of the financial reports, etc.

During May and June 2012, 9 trainers were selected on the basis of the verification, which was carried out through the interviews and written examinations. Selected tutors - trainers are the professors, experts in specific areas within the module, as well as the employees of the Central Harmonization Unit of the Ministry of Finance with experience in the internal auditing area. All tutors - trainers are from Montenegro, which is the sole case in the region, where the

practice is, apart from the national, home, to also engage the trainers from other countries.

In early October, organized was an introductory conference (kick - off) to mark the official start of the Training curriculum and certification of internal auditors, at which the Finance Minister, representatives of the Embassy of the Republic of Germany and the Republic of Slovenia, as well as representatives from CIPFA's and CEF have addressed to the participants. The objective of the Conference was the presentation of the content of the training curriculum to the candidates, introduction with the selected tutors - trainers and organizers of the programme.

Up to present, the "National module" and the international module "Internal audit basics" have been organized. The turnover of the candidates on "National module" was 100%, which indicates their desire to vocational training and to acquire international certificates. The examination for the module "Internal audit basics" was held on 21st December 2012, and its results have not been obtained by CIPFA's. Courses for the international module "Management and Control" are currently being organized.

LOCALIZATION OF TRAINING CURRICULUM AND CERTIFICATION OF INTERNAL AUDITORS IN THE PUBLIC SECTOR

It is worth mentioning that in the end of 2012, activities were initiated for the purpose of CIPFA's training curriculum localization. The working group is composed of the members of CEF, Human Resources Management Authority, as well as the international modules trainers, to analyze in the most efficient manner the content and the significance of the training curriculum. In future, the working group is expected to develop a complete SWOT analysis of localization, as well as the strategic plan for the localization.

Training curriculum localization will create conditions for the certificates of the Ministry of Finance to have the same value as the CIPFA international certificates.

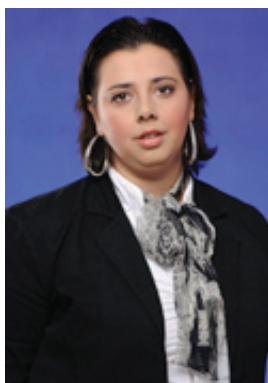
Both certification programs (national and international) contribute to the internal audit capacity strengthening and the implementation of one of the leading principles, which is the continuous improvement of competences, efficiency and quality of work of internal auditors.

Internal auditors will, through continuous education, become better and more effective in their work, realize their full potential and, ultimately, feel the pleasure of success through obtained results.

Ms. Nina Blečić,
Authorized Officer I,
Sector for Central Harmonization of the Public Internal
Financial Control Management and Internal Audit



Overview of Most Important Events



Ivona Mihajlović

10 January 2012 – Treaty on data exchange on foreign exchange currency deposits

The Treaty on exchange of information on the basis of foreign currency deposits, in light of implementing the Memorandum of Cooperation signed between the Government of Montenegro and the Republic of Serbia on exchange of data based on foreign exchange deposits with Dafimend Bank AD Belgrade in liquidation, signed in July 2011. Memorandum is defining the type of the technical cooperation in reference to the settlement of liabilities arising from unpaid term foreign currency deposits of citizens residing in Montenegro. The Treaty has provided for the grounds for taking over the database. It is envisaged that the disbursement of funds will commence at the end of the first quarter of 2012, of which the public will be informed.

12 January 2012 – Address of Tijana Stanković, Deputy Finance Minister, following the Cabinet's adoption of the Proposal Pre - accession Economic Program of Montenegro 2011 – 2014



"... The Pre-accession Economic Program is one of the most important documents that candidate countries for the membership into the European Union are preparing, within the multilateral fiscal development. PEP represents an important instrument for promoting cooperation between the European Commission and candidate countries, especially in the macroeconomic and fiscal area. The main benefits that we will obtain on the basis of PEP as the country, is envisaged in creation of a consistent economic policy The period 2012 – 2014 envisages two scenarios, i.e. the basic macroeconomic scenario and the lower growth scenario... As far as the public finance is concerned, it intro-

duces new analytical dimension envisaging the structural balance assessment, public finance vulnerability analysis in the long run. Structural reforms chapter has been extended to include the agriculture, regional development and environmental protection sectors ..."



17 January 2012 – Authorial text of Veljko Milonjić, International Affairs Advisor to the Finance Minister, published in "Dnevne novine"

... Whether and to what extent the EU will be ready to become more effective and what are the thresholds of political will? This is a question that is unlikely to be responded with "yes" or "no." It is certain that Montenegro is monetary connected to the EU and devoted to the European integration, becoming a formal button of the European enlargement policy and countries that see their future in a joint European structures. The country that reestablished its independence and assumed the responsibility for its future just a little more than five years, a dynamic international scene, both politically and economically, has brought the necessity of maturing rapidly ... In spite of the poor prognosis and rigid recommendations of the global international financial institutions, Montenegro, not doubting the good intentions of those recommendations, however, decided to follow its feeling and to implement a cautious and conservative, but equally determined and ambitious financial policy. It not worth mentioning that the absence of possibility of using monetary measures has left only the room for the fiscal maneuver. Just recently, those that forecasted the Baltic scenario to Montenegro, have acknowledged that the Montenegrin financial policy proved successful, and they have even pointed out that Montenegro represent a "successful story in not – so – promising environment." Of course, the statement is not implying that all problems are solved, but it is important for the following reasons. Montenegro has shown that it can manage its own policy, recognizes the reality and pursues its interests, and similarly, it assumed the responsibility for the financial and economic policy for which it opted for. This is showing the maturity requiring greater time than the five year post – referendum one ... "

23 January 2012 – State Aid Area Seminar

Seminar titled "Application of the rules of state aid for compensating delegated public sector obligations to local governments (PSO) - Lessons Learnt from Case Studies",

was organized by the Ministry of Finance of Montenegro and the Project AIM (Access to Internal Market), co-financed by the European Union, and implemented by GIZ.



The objective of the Seminar was to develop in detail the implementation of state aid rules to compensate for delegated public sector obligations (PSO).

27 January 2012 – Conditions for disbursement of WB loan funds fulfilled

Montenegro has met all requirements for disbursement of DPL loan arrangement, concluded with the World Bank in September 2011. World Bank loan funds, amounting to \$ 80 million, were approved under very favorable conditions and represent the support to budget development. The interest rate is tied to six-month EURIBOR increased by Euro denominated interest margin of 0,80% – currently amounting at 2.7%. Repayment period is 20 years, including the grace period of 5 years. The fulfillment of the conditions was preceded by intense negotiations between the representatives of the Ministry of Finance, Central Bank and the World Bank, and the main condition for its approval was to achieve a satisfactory level of macroeconomic stability and stabilization in the area of financial and banking system. Proposed reforms of the World Bank, simultaneously representing the integral part of the Strategy of Montenegro to join the EU, were related to the following: maintaining market confidence, strengthening the banking sector liquidity framework, evaluation and resolution of vulnerabilities in the banking sector, strengthening the regulatory framework, restructuring of banks with difficulties. The fulfillment of the aforementioned requirements has resulted in the adoption of the decision on operability of DPL credit borrowing. Obtaining the loan at very favorable conditions will further improve the basic features of the state debt of Montenegro, in reference to the reduction in weighted interest rates and extended average repayment period.

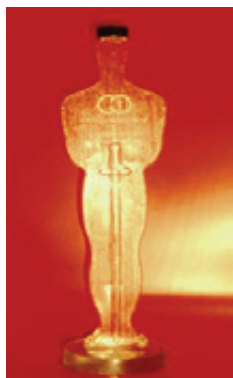
7 February 2012 – Signed 2012 Bilateral Cooperation Program

The representatives of the Ministry of Finance of Montenegro and the Ministry of Finance of the Netherlands, have signed the Bilateral cooperation program for 2012, being based on a renewed memorandum of cooperation that representatives of the two ministries signed in December 2010. The program refers to technical assistance and cooperation of the two ministries in 2012, encompassing the organization of study visits, seminars, advisory missions and in – house training

of the employees of the Ministry of Finance, as well as the continuous exchange of information and recommendations. The Bilateral program defines the following areas of cooperation: central harmonization of the public internal financial management and control and internal audit, communication and negotiations skills, taxation, public expenditure management, as well as taking part to the courses organized by the Center of Excellence in Finance (CEF) in Ljubljana. The Memorandum of the two ministries represents the integral part of the support to its partner, the Netherlands Constituency.

16 February 2012 – Address of Tijana Stanković, Deputy Finance Minister at the Press Conference on the occasion of adopting the information on National Development Plan of Montenegro 2013 – 2016

"... The duration of the Twinning Project - National Development Strategy and National Development Plan is 18 months. In producing the National Development Plan, the total of 46 people divided into five teams are engaged, as well as the Project Coordinating Body and the team of the most prominent experts in charge of developing different document chapters, Germany, Austria and Slovenia ... One of the task of the team producing the National Development Plan was the analysis of all current strategies and policies which was successfully completed ... NDP represents the macroeconomic and fiscal framework for the period 2013 - 2016. Pursuant to NDP impact to the overall macroeconomic performances, it will be decided whether they will represent a part of the development plan of Montenegro in the mid run. Thus, the wish list concept has been abandoned, the NDP will encompass only concrete objectives and priorities to be achieved on the basis of concrete projects and affordable projects ... The National Development Plan represents an excellent opportunity for the Government and overall society to define priorities and development opportunities in the medium term on the path to the EU membership, through concrete projects which will have a clear financial structure, clear objectives in the context of development priorities, ultimately indicating the manner in which the objectives are contributing to both the economic and development of society ..."



24 February 2012 – Finance Ministry receives award for youth affirmation

At the ceremony of the first Montenegrin Oscar Montenegro, the Ministry of Finance won the award for youth affirmation. This award gives us a great pleasure, especially because it recognizes our commitment to affirm and, in the process of defining and implementing our policies, to involve the greatest number of young people who, based on their knowledge and energy, can provide for their full contribution to the overall development of society.



28 February 2012 – Two – day Training in Public Procurement Area

CFCU within the project "Strengthening the management and control system of the EU financial support to Montenegro", organized a two day training in public procurement area. The training was designed for officers dealing with the implementation of projects in the Project Implementation Units of the line ministries, as well as for the CFCU representatives. Participants, through theory and practical examples, had the opportunity to become familiar with the preparation of tender documents, tenders evaluation and contracting..



1. March 2012 – 2011 Annual Report

2 March 2012 – Address of Bojana Bošković, Deputy Finance Minister at the press conference organized by the representatives of Ministry of Finance and Central Bank of Montenegro

"... The Council for Regulatory Reform and Business Environment Improvement has established the working group composed of the representatives from the Ministry of Finance, Central Bank of Montenegro and the Commercial

Court, with the objective of analyzing the possibility of introducing automatic bankruptcy in Montenegrin legislation, as well as to analyze which legislation should be amended to enable the publication of the lists of blocked companies, which would contribute to increasing transparency in business and overcoming the long - term blockade problem ...



The amendments would be reflected in adding the additional article in the Law that would allow the Central Bank to publish the names of companies every 1st day in a month, duration and amount of blocked funds exceeding EUR 10,000 for firms that are in continuous blockade of 30 days ... Having in mind the fact that the analysis has not been completed, it is impossible to say whether it is possible to introduce the automatic bankruptcy institute. In Montenegro, there is the Law on solvency, providing for the winding - up opportunity as well as the definition of debt concentration which is much clearer than in states that already have introduced Laws on automatic bankruptcy ... "



7 March 2012 – Conference on Public Internal Financial Control System in the EU member states

The delegation of the Ministry of Finance, participated in the Conference on public internal financial control, which was organized in the period 27 - 28 February 2011, in Brussels. Participants of the Conference, within open discussions, discussed the role of managerial accountability and internal audit in public finance management, as well as further improvement of the public sector, with the objective of ensuring value for taxpayers' money. Reviews and analyzes of the most important features of the public internal financial control of 27 countries for the past 12 months were presented at the Conference. In the conclusions from the Conference were presented the further steps in the development of the public internal financial control system.



9 March 2012 – Study Visit to Ireland aimed at RIA improvement of Montenegro

The delegation of Montenegro, composed of civil servants in charge of carrying out the Regulatory Impact Assessment (RIA) activities, paid a study visit to Dublin. The main objective of the visit was to inform the Montenegrin officials about the experience of Ireland, in reference to the establishment and implementation of the RIA procedures, which is of particular importance if we have in mind that, as of this year, RIA procedures need to be implemented prior to proposing legislation to the Government for adoption. The meetings were an opportunity to study the best examples of RIA procedures that are carried out in Ireland, as well as for obtaining the recommendations of the Irish peers with regard to the concrete problems in the process of RIA implementation, as well as the best advices for overcoming issues in a most efficient manner. The visit was used as an opportunity to launch the signing of the Memorandum on Cooperation between the Ministry of Finance of Montenegro and the Ministry of Employment, Enterprises and Innovations of Ireland. Visits, which was organized in cooperation with the East West Management Institute and the financial support of USAID, was organized in the period 4 - 11 March.



26 March 2012 – Signed Treaties on Avoidance of Double Taxation and Investment promotion and protection between Montenegro and UAE.

Delegation of the Government of Montenegro led by Biljana Šćekić, Deputy Finance Minister of Finance, paid an official visit to United Arab Emirates for the purpose of signing the two Treaties. The Treaty on avoidance of double taxation between Montenegro and the United Arab Emirates with respect of taxes on income and assets, signed by Biljana Šćekić, on behalf of the Government of Montene-

gro, and the Investment Promotion and Protection Treaty, signed by Goran Šćepanović, on behalf of the Government of Montenegro. The ratification of these Treaties will create preconditions for more intense economic cooperation between the two countries, companies, ultimately aimed at attracting investments. The next step is the formation and organization of the Joint Economic Committee, which should provide for the support in networking and cooperation between the companies of the two countries, or to organize the business forum that will link investors.



29 March 2012 – Address of Bojana Bošković, MSc, Deputy Finance Minister, following the Cabinet's adoption of the Proposal Law on Financial Security

"... The Law on Financial Security is setting forth the special rules for the security instruments, which may represent financial instruments, cash and credit claims ... The Law is fully harmonized with two Directives of the European Council and European Parliament, establishing the legal framework for cross-border use of the financial security, simplifying the great number of formal requirements that are traditionally imposed in these arrangements. Objectives to be achieved by the new legal solutions are the simplification of the procedure of concluding and proving the existence of financial contract on financial security. Collateral (security) may be in the form of securities or other assets pledged and deposited by the debtor, to secure a loan, with the creditor, until the loan repayment. On one side, collateral serves to secure a claim of pledgee in case of default, and on the other side it encourages pledgor to repay the loan according to the agreement on financial collateral. The use of credit claims as a collateral. Furthermore, the Law sets forth simplified procedures for the implementation of financial security to secure and protect the pledgor in case of any damage caused by the reorganization of the pledgee of security and ensures legal certainty in determining the applicable law to be applied to certain categories of financial security."

5 April 2012 – Press Release on negotiating results with the Credit Suisse Bank

The Government of Montenegro has adopted the Information on the results of negotiations with the Credit Suisse Bank in reference to the conclusion of the loan arrangement in the amount of EUR 150 million and has

authorized the Minister of Finance to sign all the documents necessary for the realization of credit arrangement. In order to fulfill the obligations defined by 2012 Budget Law, envisaging the borrowing in the amount of EUR 230 million, the Ministry of Finance has, since the last quarter of last year, undertaken activities aimed at finding the best borrowing options, i.e. the best lender. We were faced with extremely difficult and unfavorable borrowing conditions on the international financial markets. On the basis of received offers and conducted negotiations, the Ministry of Finance has opted for the Credit Suisse Bank as a creditor that has offered the best conditions for the loan arrangement. It was agreed to define the loan arrangement with Credit Suisse as the Eurobonds issue to the aforementioned institution. The loan arrangement with Credit Suisse Bank concluded in the amount of EUR 150 million, out of which EUR 52 million relates to the current debt refinancing. This means that, on this basis, the state debt of Montenegro will increase by EUR 98 million, or by about 3 percent points and will amount to 48, 1% of GDP .. The loan arrangement interest rate will amount to 12 - month Euribor plus a markup of 6, 5 % (interest rate is about 7.9%), while the fee for processing the loan will amount to 1, 95%.

6 April 2012 – Press Release on the occasion of the proposal for introducing taxes on mobile phones, cable TV and electricity meters

From the escalation of the economic crisis, the Ministry of Finance has been dedicated to defining measures with the objective of overcoming its negative effects. In the light of the above, the previous three years were marked by an intensive fiscal consolidation, which, among other things, resulted in the public consumption reduction by 10 percent points, or by about EUR 300 million. At the same time we succeeded in, during the crisis peak, to maintain the tax rates of basic taxed (VAT, corporate profit tax and the income tax) and, in this part, we have managed to preserve the standard of the general population. The Ministry of Finance is focused on further expenditures reduction, as well as on the definition and implementation of measures aimed at correcting the revenue side, primarily through a policy of reducing the gray economy and targeted taxes correction, or those taxes that will neither jeopardize the standard of the citizens nor the business conditions. To that end, legal solutions envisaging the introduction of additional fees are under development that will include the following fees: use of SIM cards, use of cable television and electricity meters. The implementation of the proposed measures will result in the increase in budget revenues by about EUR 15 million.

17 April 2012 – Certified internal auditors of Montenegro

Deputy Finance Minister for the Central harmonization of the financial management and control and internal audit

in the public sector, Ms. Ana Krsmanović, paid a visit to the CEF (Center of Excellence), headquartered in Ljubljana. The main objective of the visit was to prepare the project of training and certification of internal auditors in Montenegro, which will be implemented in September of the current year, with the financial support from the German and Slovenian governments, and the CEI (Central European Initiative).



The German government has already granted the total of EUR 100,000 for the project. Specifically, in cooperation with the CEF, which has successfully implemented a training curriculum for internal auditors in the public sector in Slovenia, in Montenegro will be organized the training curriculums and certification of 40 internal auditors.

4 May 2012 – Government adopts Macro Fiscal Policy Statements for the period 2012 – 2015

The Government has adopted the Macro Fiscal Policy Statements for the period 2012 – 2015, the document providing for the macroeconomic and fiscal indicators prospectus of the Ministry of Finance for a four – year period. The initial approach used in the economic growth projections of Montenegro was conservative, which means that the negative effects of the crisis in the Euro zone will reach its peak in 2012, especially in the first half of the year. According to IMF's projections, the world's economic growth will slow down from 3, 8% in 2011 to 3, and 3% in 2012. According to the World Bank's estimates, the economic growth in 2012, for the six countries in the Western Balkans, including Montenegro, will plunge at double compared to 2011. The negative trends in the global economy in the second half of 2011, primarily in the EU and the Euro zone, inevitably reflected to the prospectus of the projections for 2012 and the medium – term ones. With the negative effects of the crisis, in Montenegro the low credit activity of banks and the decline in the foreign direct investments have deteriorated the illiquidity problem, and the decline in the economic activity was triggered by the bad weather conditions in January and February. Thus according to the projections GDP growth in 2012 will be weak (0.5%), mild recovery in 2013 (1.5%) and slightly stronger growth in 2014 of 3.5% and in 2015 of 4%. The average growth rate for the period 2012 – 2015 amounts at 2.4%, which is below the potential rate of growth of GDP (3.2%). In 2012 is envisaged the price increase of 3, 5%, as a result of the increase in food and energy prices,

while for the period 2013 – 2015 is envisaged a slightly lower projected inflation rate of 2, 5% ...



10 May 2012 – Announced stricter penalty policy generates results – budget revenues increase trend in April

At the third meeting of the Coordinating team for monitoring the implementation of measures to combat the gray economy, which was chaired by the Deputy Finance Minister, Biljana Šćekić, was concluded that the intensification of measures to combat the gray economy, including stricter penalties, had generated a significant impact on improving fiscal discipline and, thus, resulted in the increase in budget revenues of Montenegro. Revenues collection in April of the current year, compared with April of the last year, is higher by about 10 percent. VAT based revenues are up by 13%, and income taxes are up by 25.5% in April 2012, compared to April of 2011. Considering the fact that the summer tourist season will commence soon, the emphasis has been placed on the need for continuing cooperation and coordination between the competent authorities in order to implement the planned measures for combating the gray economy in tourism, issuing of the fiscal receipt and the employment of foreigners.



11 May 2012 – Press Conference of the Council for Regulatory Reforms and Business Environment Improvement

"... Electronic submission of applications for the registration of companies will be operational from Tuesday within the Tax Administration. Based on this option, we went a step further than the last year's reform, when the one – stop – shop system for registration of companies became operational. In the first stage, we were focused on the reconciliation of data between the Central Registry of the

Commercial Court and the Central Bank, and subsequently, we have adopted the amendments to the Law on payment System Operations that will enable the publication of lists of blocked companies. The third stage should provide for certain frameworks for the models to overcome the insolvency problem, since the analysis has shown that 60 percent of debt relates to the banks, 20 percent to the state, and the rest to the debtor – creditor relationships among the businessmen. Analysis showed that the introduction of the automatic bankruptcy institute would not be an adequate option for the regulatory system. Automatic bankruptcy was introduced in Serbia, but the debt is less concentrated and fragmented in this country ..."

17 May 2012 – Government adopts Spring Analysis of Macroeconomic Outlook and Structural Reforms – 2012 (2011 and first quarter of 2012)

"... The results achieved in April are inspiring hope that the negative trends in the first quarter of this year will not continue. The second and third quarter are renewing the economic activity, encouraged by the tourism, illustrated also by the good prognosis for the summer season and a slight recovery in the credit activity in the first three months compared to December, in which it was accounted for the growth in credit activity of 0,9 which is a small but a significant step in alteration of the downward trend ... The negative trends in this year were caused by a negative spillover effect from the Euro zone, as well as the social problems in the Aluminum Plant (KAP), which contributed to the decline in production in this factory, and therefore the decline in exports. There are also bad weather conditions at the beginning of the year, the activation of guarantees for the KAP's debt to the Deutsche Bank and, which is especially important, further reinforced illiquidity caused by the fall in the foreign direct investments and loans ..."

24 May 2012 – Operational Plan for combating gray economy

At the proposal of the Ministry of Finance, the Government adopted the Operational Plan for combating the gray economy, in order to ensure a better information exchange and coordination of activities of competent authorities, as well as to intensify all forms of inspections in order to solve the systemic problem of the gray economy. The Operational Plan aims at intensifying actions to combat the gray economy in areas that are recognized as the highest risk, such as follows: sale of excise products, records of retail turnover, labor market and unregistered legal entities and physical persons. The plan defines the specific activities, persons responsible for its implementation, as well as deadlines. We recall that the recent adoption of the Information on measures to combat the gray economy in 2012, resulted in improved coordination and exchange of information between competent authorities, based on the increased inspection supervision and penalties. The application of stricter penalty policy, which in addition to fines

envisages the closure of facilities and the prohibition of performing the activity, has significantly contributed to improved fiscal discipline, and the increase in revenues. The implementation of measures to combat the gray economy, outlined by the Operational Plan, will contribute to reducing the scope for irregular operations, as well as creating conditions for achieving higher budget revenues.



29 May 2012 – Inspection services closed 25 facilities; stricter penalties contribute to improved tax discipline

The Coordinating Team for monitoring the implementation of measures to combat the gray economy held its fourth meeting in the Ministry of Finance, chaired by the Deputy Minister of Finance, Biljana Šćekić. The Coordinating Team analyzed the measures that were taken so far and their effects, and concrete results achieved in the fight against gray economy. It was concluded that about 2,500 inspection supervision were carried out, during which the confiscated goods amounts to EUR 140,000. The Tax Administration, in May, imposed the measure of "facility closure" on 7 facilities and the Tourism inspections, during April and May, imposed this measure on 18 facilities. During the Statehood holiday in May, the number of misdemeanor charges that were brought has doubled the number of charges that were brought in previous year in the area of unregistered labor. In the same period, the customs control was strengthened and the implementation of a video signal at the border crossings is pending. It was jointly concluded that it is necessary to intensify internal control and audit measures..



31 May 2012 – Training "Procedures for the Conclusion of Twinning Agreements"

CFCU has organized the two - day training on "Procedures for the conclusion of the twinning agreement" within the project "Strengthening the management and control

systems for EU financial assistance to Montenegro ". The training was designed for officers engaged in the implementation of projects in the Project Implementation Unit of relevant ministries, as well as for the representatives of CFCU. The objective of the training, followed by the practical exercises, is to inform the participants about the procedures relating to the twinning contracts, pursuant to the Twinning manual.

1 June 2012 – Revenues in April above plan and realization in previous year

Budget revenues in April amounted at EUR 98, 7 million being above 10, 1% compared to the same month of last year and up by 3, 8% against revenues planned by the Budget Correction. Recorded increase in revenues in April represents a good indicator that the situation in the economy is stabilizing, against the first quarter being features by the lower generation of revenues due to the bad weather conditions. The increase in revenues, also, is a result of measures focused on comparing gray economy, as well as the application of altered excise duties on coffee and gas beverages and increase in excise rates on tobacco and alcohol beverages. The most significant deviation from the plan was realized with the corporate profit tax, thus these revenues are up by 25% compared to the same month of the last year. Revenues generated on the basis of VAT are up by 13, 3% compared to April of last year. Significant increase in collection is accounted with the taxes having the highest share in total revenues, i.e. taxes on wages and contributions, being up by 7,7% compared to April of the last year.

20 June 2012 – Training on "Practical Guide to Contract Procedures for EU External Actions" – PRAGUE

CFCU, within the project "Strengthening the management and control system of the EU financial support to Montenegro", organized a three – day training on the works contracts. The objective of the training was to inform the participants about the procedures of execution of works contracts, according to FIDIC rules, as well as the rules of the Practical Guide to Contract Procedures for External Actions of the European Union – PRAGUE. Participants, through the theory and practical examples, have the opportunity to become familiar with the preparation of tender documents, tender evaluation and contracting.

27 June 2012 – Address of the Deputy Finance Minister Biljana Šćekić following the meeting of the Coordinating Team for monitoring of measures to combat gray economy

"... All activities envisaged by the Operational plan are implemented within planned timelines, with the exception of GPRS system installation. With regard to GPRS system, we are pending the donation of software for the implementation of GPRS system by the partner Tax administration in the region ... The focus in the first stage was focused on the tourist season, whereas the focus in the

second stage will be placed on the inspections in the field, through enhanced inspection and rigorous measures. As of 2012, we are accounting for the increased generation of revenues of 10% compared to same period of 2011, and the trend of the growth in revenues, especially those forms that are subjected to the control being identified during May. I would like to inform you by using concrete examples, in the period January – June 2012, compared to the same period of the last year, VAT based revenues are only in Budva, higher by EUR 1 million. Penalties range between EUR 1, 500 – 20, 000. Competent inspections are bringing misdemeanor charges, after which the competent Misdemeanor Council is determining penalties for offenses based on evidence submitted ..."

29 June 2012 – World Bank approves guarantees to Montenegro

The World Bank Board of Directors has unanimously adopted a decision on granting the guarantee to Montenegro to enter the loan arrangement in the amount of EUR 100 million, out of which EUR 60 million will be secured by the guarantees of the World Bank. As planned, the loan will be repaid in a period of 7 years, out of which a part of the loan, amounting to EUR 40 million will be serviced in a specified period, in equal or approximately equal installments, while the guaranteed portion of the loan will be repaid at the end of the repayment period. The issuing of guarantees were preceded by the financial analysis of the status of play in Montenegro, being carried out by the representatives of the World Bank, the results of which have shown that the public finance, in spite of certain difficulties, are stable and provide security, and that the measures undertaken by the Government of Montenegro represent a good basis for their further improvement. Therefore, this support will enable the provision of funds for the financing of activities aimed at the further establishment of a favorable financial and economic situation, ultimately providing smoother servicing of liabilities towards the international entities.



5 July 2012 – Address of Biljana Šćekić, Deputy Minister, following the Cabinet's Session

"... The Government has today adopted the Fiscal policy for oil and gas, and this is one of the most important documents defining the best practice for the taxation of the national resource. The objective of the document is to define the taxa-

tion policy for the generation of oil and gas and this policy is establishing a system that includes a stable and abundant revenue for the state, up to 70% of the profits of these companies. Simultaneously, a transparent tax policy has been intensified in the long run, which is especially important for this industry, defining the framework for the use of funds that can increase the revenues collected on this basis. This system is, therefore, providing the total revenues coverage collected by the state up to 70%, enabling a wide range of the fiscal system instruments aimed at providing flexibility, fiscal potential and security in revenues collection, thus it envisages a combination of the fee that will be linked to the generation, and the extra taxes that will be linked to the profit ..."

10 July 2012 – ReSPA students visit the Ministry of Finance

Fifteen students of the Summer School titled "Young Managers in the State administration," organized by the ReSPA (Regional School of Public Administration), visited the Ministry of Finance. ReSPA students were hosted by the representatives of the budget department who introduced them to the operation of the Ministry of Finance and public financial management. Budget department representative, Milena Milovic, gave a lecture on "Budgetary policy in Montenegro", focusing on the public finance reform and the budget processes of Montenegro. ReSPA students have expressed gratitude for the visit and their expectation that this successful cooperation will continue.

12 July 2012 – Payment of outstanding claims of employees proclaimed redundant

The Government has adopted a Decision on the Montenegrin bonds issue for the payment of outstanding claims of employees proclaimed redundant. The main objective of this Decision is the acceleration of payment of outstanding claims arising from the work of employees the employment of which, up to the entry into force of the Labor Law, i.e. up to 23 August 2008, has been terminated due to bankruptcy issues, as well as the employees whose work ceased due to technological, economic and restructure change based on enforceable Decisions of the Labor Fund. This model will allow us to service all liabilities of the Fund, or all decisions adopted to present, a total of 3,115.



12 July 2012 – First negotiations round for the purpose of entering the Treaty on Double Taxation Avoidance between Montenegro and the State of Qatar

Montenegrin delegation led by Biljana Šćekić, Deputy Minister of Finance, has completed the first round of negotiations on the Treaty on Double Taxation Avoidance with the State of Qatar. During negotiations, agreement was reached on the majority of matters governed by this Treaty, whereas both delegations expressed their willingness to align open issues at earliest enabling the signing and ratification of the Treaty by the end of the year. The Treaty on Double Taxation Avoidance is a prerequisite for the intensification of economic relations and cooperation between the two countries, as well as incitement of investments since it creates a legal basis for the elimination of double taxation of employees' salaries, income from self - employment, interest, dividends, royalties, capital income, etc.



19 July 2012 – Consultations with the NGO's representatives

In accordance with the public call issued on 3 July 2012 to the Non - governmental organizations (NGO's), consultations with the NGO's representatives were held on 18 July, in the premises of the Ministry of Finance, in reference to the development of decrees referring to the NGO's financing from the budget funds. Representatives of the Ministry of Finance, led by the Deputy Minister Boris Bušković, and the representatives of the Ministry of Interior (MOI) have expressed opinions concerning the development of the aforementioned regulations and they have informed the attendees about undertaken and planned activities for the purpose of better development of subordinate legislation which will directly regulate the most important issues related to the distribution of funds to NGOs. Consultations, despite the great interest and announced presence of a significantly higher number, were attended by 17 representatives of NGO's. Civil Society representatives have presented their views in reference to the improvement of funds allocation to NGO's. In the light of the above, proposals, comments and suggestions regarding the text of the aforementioned decrees were addressed. To that end, it was jointly noted that the development of these documents is of great importance for further progress in the allocation of resources, and thus for the prosperity of the NGO sector in Montenegro.

31 July 2012 – Documents for obtaining accreditation for the IPA Components I and IIb submitted to Brussels

Having in mind the fact that the introduction of the Decentralized Management of the EU funds is one of the most im-

portant segments of Montenegro's accession process to the European Union, the Ministry of Finance, in cooperation with all institutions involved in this process, worked intensively on the development of a legal framework, as well as on the development of the necessary documentation and procedures in accordance with the requirements of the European Commission. In this regard, all required structures have been established that will, after obtaining the green light from the European Commission, independently conduct activities related to the programming and implementation of the EU pre - accession funds. After receiving a positive Report by the KPMG and the awarding of national accreditation to the structures established for the independent programming and implementation of the IPA Component I (Transition Support and Institutional Strengthening) and IIb (Cross - Border Cooperation), the Ministry of Finance has forwarded the documentation to the Directorate -General for Enlargement, establishing the conditions for the arrival of the auditors of the European Commission and evaluation of the established financial control system and management of the pre - accession funds in the case of the IPA Component I. Following the review and control of documentation, the European Commission will inform the Ministry of Finance on the time frame of the arrival of auditors of the Directorate General for Enlargement, who will on - site audit and evaluate the established of the institutional and legal framework, i. e. bring the decision on the conferral of management powers from the European Commission to the Montenegrin institutions involved in the programming and implementation of the EU funds.

1 August 2012 – Decree on exercising of rights to exemption from the payment of taxes to tariff meter

Provisions of Article 7 of the Law on taxes for access to certain services of general interest and the use of tobacco products and electro - acoustic and acoustic devices, prescribes that the owners of primary residential facilities and the users of social protection rights will be entitled to the exemptions from the payment of fees for tariff meter. With the objective of prescribing the manner of exercising this right and defining documentation upon which it is exercised, the Ministry of Finance has developed a draft Decree on the manner of exercising the right to exemption from paying taxes on the tariff meter. The aforementioned Decree was adopted by the Government of Montenegro, at its session held on 26 July of this year. Pursuant to the solution prescribed by the Decree, a primary residential facility shall mean a building, or an apartment in which the owner has residence in a place of the building or the apartment. The Decree stipulates that the primary owners of apartments are entitled to exemption from paying taxes on the tariff meter by submitting ownership statement for the primary building. This has provided a simpler implementation of adopted legislation, providing for the owners of primary facilities a faster and cheaper exercise of the statutory rights. The aforementioned statement, along with a copy of the electricity bill and the copy of the ID card, is submitted to the electricity distribution system operator on the "IPO"

form, representing the integral part of the Decree which contains the information about the owner of the primary facility, residence, subscription number and the tariff meter number. In addition to the primary owners of residential buildings, the Decree defined the exemption from paying taxes on the tariff meter for users of social protection rights. Bearing in mind that the right to the exemption from taxes can be exercised on the basis of the documents submission, the fee will be calculated for all users, after which it will be, for those who submit the necessary documents, made a correction or refund of the exceeding fee based on the deduction of the bill in the next billing period. Specifically, for July, EPCG will charge a fee to all users, and for the next billing period it will apply for the exemption, or the refund of exceeding taxes, on the basis of the evidence supplied for exemption.

3 August 2012 – Macroeconomic Trends Analysis

The recent analysis of the macroeconomic trends in Montenegro, region and Europe suggests that the number of countries accounting for the recession in the first half of 2012 is increasing. The companies across Europe are reducing the number of employees as a result of poor prospects in the future. Poor trends are featured especially in the Eurozone economies, where the economic downturn has been particularly pronounced in the production, being lower in the service - related sector. As far as the Montenegro is concerned, the tourism sector is accounting for positive trends - the number of tourist in June was 155,039 being up by 12.7% compared to the same month of the last year, while the number of overnight stays amounted to 965,377 being up by 7.6 % in comparison to June 2011. Growth in the number of tourist and overnight stays in the tourism sector has impacted growth in the retail trade, which in June 2012 amounted at 3.3%, whereas in the period January - June 2012, compared to the same period in 2011, the growth was 12% ... When it comes to public finance, revenues of the budget of Montenegro in June amounted at EUR 95,8 million, compared to June 2011, amounting to 96,5%. In the period January - June 2012, revenues amounted to EUR 473,9 million, which, in relation to the plan for the same period, were achieved at the level of 97,1%. Preliminary data for July, are indicating to the recovery in the budgetary revenues, whereas the revenues for the first seven months are slightly (0.4%) below the plan. Revenues from the Value Added Tax, which make up the largest percentage of the budget, increased in June, compared to June of the last year, being up by 4.9%, which demonstrates the positive impact of the tourism and related sectors of the economic activity in Montenegro, as well as the improvements of the trend when it comes to the non - observed economy, and its introduction into the legal economic flows. The achievement of this result was to the greatest extent contributed by the activities of the Coordinating Team for monitoring measures to combat the gray economy and intensified inspections during June, which will, in future, be continued. Also in June, compared to June last year, recorded was a significant increase in the excise duties revenues, being

up by 32.9% as a result of the revised excise policy in the first half of the year. In June, budgetary expenditures were down by 7.7% in comparison to the plan, or down by 8.3 million. Public debt at the end of June amounted to EUR 1.629.6 million, or 47.9% of GDP. This level is still moderate, significantly less than the average in the European Union (81% of GDP) being within the limits of the Maastricht criteria ... Uncertainty in the global financial markets and unfavorable developments in the Eurozone have caused uncertainty and lower investment interest of foreign investors in all markets, as well as in Montenegro. It is expected that by the end of the year, foreign direct investment will be at a level of about 10% of GDP, making us, compared to majority of the countries in the region and in the Europe, where the FDI being at the level of about 5% of GDP, in the group of countries with a high share of the foreign direct investment. The labor market is recording positive trends, which is particularly important if we consider the fact that the unemployment rate in the euro area reached 11%, representing the highest level since 1999, the year in which the Euro was introduced. The unemployment rate in Montenegro in June stood at 12.7% and being down by 2.3% compared to June 2011. The number of unemployed persons in June 2012 in Montenegro amounted to 29,441 and it was down by 2.4% compared to the previous month. Average gross earning in June amounted to EUR 722, being up by 2% compared to June 2011. Average net earnings amounted to EUR 484 euros in June 2012, being up by 1.9% compared to June 2011. Based on this indicator, Montenegro is at the forefront when it comes to the region (Macedonia's average net earning amounts to EUR 343, EUR 357 in Serbia and EUR 423 in Bosnia and Herzegovina).

8 August 2012 – Successful Cooperation with EXIM Bank of China

Deputy Finance Minister, Boris Bušković with his associates, held a meeting with the representative of the Chinese EXIM Bank, Mr. Bai Huafeng.



The meeting was used as the opportunity to consider possibilities for further strengthening of the relationship and the cooperation enhancement between the People's Republic of China and Montenegro. In the light of the above, initiated was the signing of the Memorandum of Understanding between the two parties, which, as envisaged, encompasses projects to be funded by the Chinese EXIM Bank, the implementation of which will contribute to further economic and social development of Montenegro. Deputy Minister Bušković welcomed the willin-

ness of the EXIM Bank to support the financing of priority projects in Montenegro, while it was jointly concluded that, in the past, we had an extremely successful cooperation, and that we should focus on its further improvement in the future.

27 August 2012 – Second T – Bills auction in 2012

The maturity date of the second T – Bills auction expires on 28th August 2012, being issued on 28th February 2012, within 182 days to maturity, in the amount of EUR 39,528,500. Pursuant to the aforementioned the Ministry of Finance, through the Central Bank of Montenegro, being the fiscal agent of the Government, has implemented the second T – Bills auction in 2012, at the amount, with the T – Bills maturity data of 182 days. The auction was quite successfully implemented being attended by a large number of the national commercial banks. The total demand for the purchase of T – Bills amounted to EUR 41,978,500, being up by 2.45 million that the amount offered for sale by the Ministry of Finance. The Ministry of Finance has opted for accepting the offer and purchase T – Bills in the amount of EUR 39,528,500 out from the total EUR 41.978,500. The issue of the T – Bills and its registration to customers with the CDA will be conducted on Tuesday, 28th August. The weighted average interest rate for the accepted offer amounts to 4.73%.



30 August 2012 – Address of the Deputy Finance Minister Boris Bušković following the Cabinet's Session

"The current Law on payment of foreign currency exchange deposits deposited with the Dabiment Bank AD Belgrade and Banka Privatne Privrede DD Podgorica, placed via the company Jugoskandik, defined the deadline for the application submission from 4 April 2008 to 4 April 2009. During this period, a total number of application in the amount of five thousand and six hundred was received and after harmonizing the data with teh National Bank of Serbia, we have initiated the payment procedure in July of the current year. Meanwhile, a significant number of citizens requested an extension to the deadline, or the definition of a new deadline, thus, pursuant to the Law, we have defined a new deadline for the submission of applications, i.e. 31 January 2013, which practically means that all citizens that have failed to apply within the statutory deadline, will be able to immediately submit their application following the adoption of the Law by the Parliament of Montenegro, or to exercise their rights under this claim...Furthermore, at this session, the Government adopted a Memorandum of Cooperation between the Chinese Exim Bank

and the Government of Montenegro. The MoU also defines future directions of cooperation with the Chinese Exim Bank, i.e. areas of priority that we will have with this bank in the future. These are divided into four areas, the first relates to the development of road infrastructure, second refers to the various topics of city resources in Montenegro, third relates to the development of the hydropower potential in Montenegro, and the fourth one relates to the procurement of two cables for the needs of Bar's navigation. In principle, all these projects are in the mature stage, and we expect that after the signing of this Memorandum, all these projects will be intensified and that we will succeed to implement several projects with the Chinese partners in the short term, primarily I expect that the project for the procurement of two new cable will be implemented as soonest, and that we will, in the forthcoming period, have a clear picture on the implementation of other projects that are defined by this Memorandum..."



7 September 2012 – Effectiveness of the Treaty between Montenegro and the Republic of Serbia on regulation of the membership in international financial organizations and division of financial rights and obligations

Based on the exchange of ratification instruments, the Treaty between Montenegro and Serbia on the regulation of membership in international financial organizations and the division of financial rights and obligations has entered into force. Since the Treaty was signed in Belgrade, and pursuant to the practices, the exchange of ratification instruments was made in Podgorica in the Ministry of Finance. The protocol on the exchange of documents was signed by Damir Rašketić, State Secretary of the Ministry of Finance on behalf of Montenegro and Zoran Lutovac, Serbian Ambassador to Montenegro on behalf of the Republic of Serbia. After the exchange ceremony, the interlocutors addressed the bilateral relations between Montenegro and Serbia, and experiences in the finance and tax collection area.

10 September 2012 – Introductory Address of Ms. Kana Tomašević, CFCU's representative in the Seminar "Public Procurement Rules for Contract of Works and Contracts for the Procurement of Goods"

"... On behalf of the Ministry of Finance, it is my honor to welcome you to the third cycle of workshop training in public procurement, which are organized by the CFCU in cooperation with the Human Resources Management Authority and

the German consulting houses GIZ and the IEP. Montenegro is currently in the phase of the process of obtaining accreditation for decentralized management of the IPA funds. In light of these facts, this project is considered important for the preparation of Montenegrin institutions and their representatives for the management of the EU funds.



The project is aimed at representatives of project implementation units in line ministries, representatives of Montenegrin municipalities that have received grants from the European Union for the implementation of small infrastructure – related projects, as well as other institutions involved in the process of decentralized management. Today, the greatest attention is focused on works contracts and contracts for the procurement of goods, while the subsequent workshops will focus on the Grant Agreement, projects financed by the EU funds, and finally the first level of control in cross – border cooperation projects ... "

13 September 2012 – E – Register of Licenses

The Government has adopted the Decree on the register of licenses for the conduct of the economic activities, determining the content and manner of keeping the register of licenses to conduct business activities. Register of licenses shall be maintained in the electronic form on the website, on the web portal containing the registry of licenses for the conduct business activities – www.licence.me, for the maintenance of which is responsibility of the Chamber of Commerce of Montenegro, with the support of the Ministry of Finance. Business licensing reform process in Montenegro was launched in May last year, the main objective of the Decree on the register of licenses for the economic activities is to increase transparency and reduce regulatory risk for businesses. This will be done in a manner to cover the business licensing, including the application form, fees and documents that must be submitted when applying for a license being made available in the on – line form. Application Form will be possible to "download" in a format that is suitable for filling the data in the computer and print the completed form and, where possible, there will be a link to an active on – line application process with the institution issuing the license. The establishment of the E – Register will allow applicants to, with significant savings in time and money, obtain all the necessary information and forms relating to business licenses and other requirements that are

needed. This approach will enable easier, cheaper and shorter procedures, with the aim of providing an environment for the efficient conduct of business and to establish better cooperation between the state authorities and the citizens, ultimately resulting in greater trust in the state authorities.

14 September 2012 – Successful sale of the government's bonds – Severance payment at the end of the next week

On the Stock Exchange of Montenegro, the first auction of the government bonds was successfully implemented, being issued for the purpose of servicing outstanding claims of employees proclaimed redundant, who have a final Decision of the Fund. At the auction, demand doubled the supply, thus the total of 3115 government bonds were sold maturing on 25 July 2017, worth around EUR 6 million. The great interest of local brokers for government bonds is the proof of their confidence in the public finance and in the country as a partner. Commitment of the Government of Montenegro to opt for bonds issue, with the nominal value of EUR 1,926 on the national market is proof of efforts pursued in strengthening the Montenegrin securities market. The funds are intended for employees who lost their jobs due to bankruptcy or that were proclaimed redundant due to the technological, economic and restructuring changes.

18 September 2012 – Basic Macroeconomic Trends Analysis

The recent analysis of macroeconomic trends is indicating to more negative trends in Europe, of which the predominant are the economic downturn and increase in inflation and unemployment. Due to these circumstances, many countries in the Eurozone are facing recessionary pressures reaching the maximum ceilings of the budget deficits. When it comes to public finance of Montenegro, in July 2012 the budget surplus was recorded in the amount of EUR 22,5 million. Budget revenues in July amounted at EUR 130, 8 million, being up by 15,3% compared to July of 2011. Revenues generated in July are up by 10, 8% compared to the planned ones. In the period January – July 2012, generated revenues amounted to EUR 604, 8 million, which, compared to the same period last year, represents the realization at the level of 98, 8%. The budgetary expenditures in July amounted at EUR 108, 3 million, being down to almost 12% compared to the same month of the last year, being at the level of the planned ones. Gross public debt at the end of July amounted to EUR 1,718.8 million or 50.5% of estimated GDP. Net public debt at the end of July amounted at EUR 1,558 million, or 45.8% of estimated GDP. Tourism increased beyond expectations. Tourists that have visited Montenegro during the first seven months amounted at 4,6% being higher compared to the same period of the last year. Furthermore, in the same period, the number of overnight stays was up by 6, 1% than in the comparative period of the last year. The unemployment rate in Montenegro in July stood at 12.4% (as of July 2011 it amounted at 12.6%), while the number of employed persons in July 2012 increased by 1, 5% compared to the same month of the last year. Average gross earnings in July amounted to EUR 716,

whereas its average in the period January – July 2012 was up by 0.7% compared to the same period of the last year. The total foreign trade in the period January – July 2012 amounted to EUR 1, 254.6 million being up by 1% compared to the same period of the last year. Preliminary results for the first six months of 2012 are indicating that the net inflow of foreign capital amounted to EUR 144, 9 million, which is by 21% lower than in the same period of 2011. The uncertainty in the global financial markets and unfavorable developments in the Eurozone have caused uncertainty and lower investment interest of foreign investors in all markets, as it was the case in Montenegro.

21 September 2012 – Second negotiations round for the purpose of entering the Treaty on Double Taxation Avoidance between Montenegro and the Republic of Austria

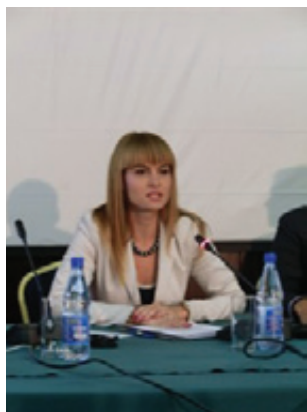
In the period from 17 to 19 September 2012, held was the second round of negotiations between the delegations of Montenegro and the Republic of Austria, in reference to the conclusion of the Treaty on the Double Taxation Avoidance with respect to taxes on income and capital. During negotiations, agreement was reached on the issues that remained open after the first round of negotiations, resulting in the agreement on the draft Treaty, to which the governments shall give a positive opinion, being followed by the signing of the Treaty. Both delegations expressed the expectation that the signing of the Treaty will soon take place, which will enable the elimination of double taxation of income of residents of both States to the Treaty, removal of tax barriers to foreign investment, application of the principle of equal tax treatment of individuals and legal entities of the States to the Treaty, promotion of scientific, cultural and sports cooperation and political relations between the States.



21 September 2012 – Montenegro's PEP Development

The Ministry of Finance held a seminar in the International School of Public Administration (ReSPA) devoted to the Pre – accession Economic Programme of Montenegro, for the period 2012 – 2015. The development of this document represents the obligation of Montenegro as a candidate for accession to the European Union, within the framework of multilateral fiscal surveillance. The Ministry of Finance has prepared the first PEP in the previous year, which represents a continuity in the development of a similar type, because since 2006 we take part in the drafting of the Economic Fiscal Programme, as the medium – term strategic document in the dialogue on economic policy between Montenegro

and the EU. The Pre-accession Economic Programme defines economic policies and structural reforms to be completed for the successful accession to the European Union in the three - year period. The main benefit that can be achieved by the PEP development is to facilitate the creation of a consistent economic policy, having in mind the fact that the PEP is updated each year and provides an explanation of possible deviations from the parameters set in the previous year. PEP has been structured in the following manner: macroeconomic framework, public finances and structural reforms.



24 September 2012 – Address of the Deputy Finance Minister Bojana Bošković, at the press conference "Strengthening transparency and accountability – open Government Partnership functioning in Montenegro "

"... The Open Government Partnership represents a joint initiative of the U.S. President and the President of Brazil, the objective of which is to assist governments to be more transparent, more efficient and more accountable. Montenegro has also accepted the declaration of Open Government Partnership resulting in achieving cooperation with the U.S. Embassy, which is the contact point on behalf of the Secretariat of the Open Government Partnership initiatives. After that, in cooperation with the U.S. Embassy we have selected nongovernmental organizations that were interested in participating in this project, and these are the NGO's from Montenegro CDT, MANS, Institute Alternative and the Centre for Development of NGOs. We held a series of meetings prior to developing the Action Plan, and indeed, on behalf of the Government, we can say that we are proud of the course of cooperation. The Open Government Action Plan has been designed to contain five key areas, one of which will be the priority of a country that should be fulfilled in the coming year. In cooperation with NGO's we have agreed that the two priority areas are to improve service delivery and public integrity. The measures encompassed by the Action Plan are focused on the improvement of the five areas, being as follows: improvement of public services related to the business environment, contact with citizens, the development of e-petitions, conducting public discussions, increasing public integrity, which includes measures relating to corruption, access to information, campaign for financing the reform of the media freedom and citizens, as well as the efficient

management of public resources, including budget, natural resources, and international assistance "

23 October 2012 – Address of the Deputy Finance Minister Bojana Bošković on the occasion of the Doing Business Report

"Doing Business, or the Report on Ease of Doing Business, is published by the World Bank, ranking the world's economies in terms of ease of doing business. This year's report includes 185 countries, unlike last year's report when it covered 183 countries, ranking the countries in terms of ease of doing business. The Eastern Europe and Central Asia Region, to which Montenegro belongs to, has been ranked at the top in terms of reforms, as well as the one that made greatest improvement in reference to the ease of doing business. This year, 185 implemented the total of 201 reforms – first top 10 countries did not change compared to the previous report, and the order remains the same. Singapore is achieving the best results in terms of the ease of doing business. It is important to note the greatest reforms were made in the indicator starting a business, i.e. durations of the procedures for business registration decreased from the world average of 50 days to 30 days, as well as the business registration costs ... "

30 October 2012 – Seminar titled "Preparatory activities for the establishment of the DIS for the IPA funds management in Montenegro"

The CFCEU organized a seminar on "Preparatory activities for the establishment of decentralized management of IPA funds in Montenegro." The training plan covers the most important topics of the Manual of Procedures: horizontal issues, procedures, contracting and financial management. The objective of the seminar is more thorough information of the operational structures on the process and stages of decentralized management, importance of human resource management, reporting on irregularities and risk management in reference to the pre - accession funds in question.



1 November 2012 – Second negotiations round for the purpose of entering the Treaty on Double Taxation Avoidance between Montenegro and the State of Qatar

Second negotiations round for the purpose of entering the Treaty on Double Taxation Avoidance between the delegations of Montenegro and Qatar took place in Podgorica in the period 31 – 1 October. Negotiations resulted in the full compliance of the

Treaty, whereas Minutes of negotiations were also signed and agreed. Both delegations expressed their willingness in signing the Treaty, and its ratification, which would eliminate double taxation of income of residents of both Contracting States, and ensure the removal of tax barriers to foreign investments, application of the principle of equal tax treatment of physical persons and legal entities of the Contracting States, promotion of scientific, cultural and sports cooperation and political relations between the Contracting States. Signing of the Treaty for the avoidance of double taxation is a prerequisite for the intensification of economic relations and cooperation between the two countries, as well as inciting new investment because it creates a legal basis for the elimination of double taxation of salaries, income from self-employment, interest, dividends, royalties, capital income.

6 November 2012 – October revenues above plan and realization from the previous year

October budget revenues amounted at EUR 98, 3 million, being up by 8, 3% compared to the same month of the last year and up by 1% compared to the plan. The largest increase in collection was accounted with the contributions being up by 25% than in October 2011, as well as the taxes on income (income on this basis was up by 18% compared to the same month of the last year). VAT based revenues is up by 10% compared to the same month of the last year. The most significant negative deviations during October were achieved with the fee based revenues, being contributed by abolishment of ecological fees, and the customs duties revenues based on the implementation of the CEFTA and the WTO agreements. The increase of revenue in October was also triggered by the increase in cumulative amount, or revenues for the period from 1 January to 31 October 2012, which are at the level of the last year for the same comparative period. This means that, compared to the last year, the significant decline in revenues, recorded in the first quarter of the year, was offset being the result of the slower economic activity intensity due to the bad weather conditions.

14 November 2012 – Seminar "Public Procurement rules and procedures within the IPA Adriatic Cross – border Cooperation Programme"

The CFCU organized a seminar on "Public procurement rules and procedures within the IPA Adriatic cross – border cooperation programme". The objective of the seminar was more detailed introduction of the end – users of the projects under the IPA Adriatic CBC, with the rules and procedures of public procurement, the knowledge of which is required in the implementation of project activities.

15 November 2012 – Seminar titled "EU Public Procurement Rules"

The Ministry of Finance organized a seminar on the EU public procurement rules. In this regard, the training plan covers the most important topics of the Manual of Procedures: horizontal issues, contracting and financial management procedures.



The objective of the seminar was to introduce the operational structures to the Practical Guide to contract procedures for the external actions of the European Union (PRAG), as well as to the implementation of the procurement process for different types of contracts.



20 November 2012 – Subcommittee for Economic and Financial Issues and Statistics

The meeting of the Subcommittee for economic and financial issues and statistics was held in Brussels. The Subcommittee for economic and financial issues and statistics is one of the joint subcommittees established by the European Commission and Montenegro with the objective of regular monitoring and analysis of the implementation of the Stabilization and Association Agreement. Representatives of the Montenegrin institutions have presented to their colleagues from the European Commission an updated and detailed information on the progress made, with a focus on the key activities that have been conducted since the previous meeting. In the economic area discussed were the macroeconomic developments, development and reform of the financial sector, liberalization of the capital trends and the payments system. In the part of the meeting devoted to public finance, the Subcommittee addressed the budget policy and public debt management. The meeting was also focused on strengthening the competitiveness of the economy, as well as on the issues of public internal financial control, external audit and statistics. One of the joint conclusions of the meeting was that, in a difficult economic context, progress was made in preserving the macroeconomic stability, being achieved based on the implementation of the economic policy focused on stabilizing the economy and public finances through fiscal consolidation and structural reforms implementation. Furthermore, the banking sector is recovering, which is reflected in the

growth of deposits. Progress has been made in the area of market entrance facilitation, bankruptcy procedures and the enforcement proceedings.



29 November 2012 – Achievement of projected economic growth of 0,5% in 2012

The Government adopted the autumn analysis of macroeconomic trends and structural reforms – 2012. The analysis encompassed the assessment of macroeconomic and fiscal indicators for 2012, public finance plan for 2013, and the macroeconomic indicators projection for the period 2013 – 2015. At the same time has been given a review of the economic policy implementation in the first three quarters of 2012. The analysis is indicating that 2012 was one of the hardest year in the economic sense, for Montenegro and for the region and the Eurozone, which has officially recorded the recession in the first half of the year, while its continued downward trend, according to the assessment of the European Commission, is expected to the end the year ... Recessionary pressures in the region and in Europe, with extremely bad weather conditions during the first quarter, in which the human factor has no influence, have influenced all kinds of activities slowing down the financial flows, leading to the economic decline of 2.4% in the first quarter. However, preparations for the summer season and the positive developments in agriculture area have led to a recovery of the economy from 0.3% in the second quarter. As the third quarter, with its share of 32% in the creation of the total GDP, is featured by the growth in the services sector and in the electricity generation, as well as a good revenue collection, the analysis confirmed that it is realistic to expect the realization of the Ministry of Finance estimates of the growth of 0.5% in 2012... Slower economic growth, rigid mandatory budget expenditures and increasing tax debt, have influenced the assessment of fiscal flows to the end of the year. Thus, the preliminary estimate of the budget deficit is at the level of 4.1% of GDP and public debt at a level of 52.06% in 2012. In the analysis is concluded that the continuation of the implementation of existing and preparatory activities for the implementation of new structural reforms has marked 2012. The need for fiscal consolidation and increased competitiveness of the economy have given the priority to the introduction of fiscal rules aimed at fiscal consolidation, amendments to the General collective agreement aimed at increasing flexibility in the labor market and facilitating conditions for obtaining construction permits, in accordance with the recommendations of the international "rating" reports ...

3 December 2012 – Seminar "First Level Control in the Cross – border programmes"

The CFCU, in cooperation with the Human Resources Management Authority and the German consulting companies, GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and IEP (Institut für Politik Europäische), organized a three – day seminar titled "First level of control in the Cross – border programmes, represents a continuation of the cycle of trainings in the area of the procurement and management of the EU projects. The main objective of the seminar relates to introduction of participants with the concept of the First level of control, budget items that are reported, as well as with acceptable and unacceptable expenditures in the cross – border cooperation programmes.



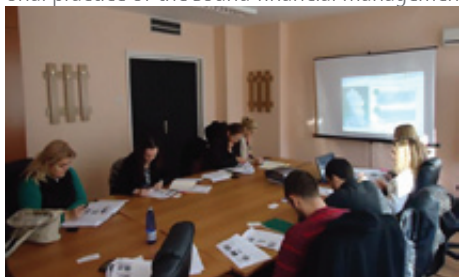
5 December 2012 – Certificated to attendees of the training cycles titles "Decentralized management of the IPA funds"

In the premises of the Human Resources Management Authority organized was the award of certificates to the attendees of cycle trainings on the topic "Decentralized management of the IPA funds" within the "European integration of Southeast Europe", in which the emphasis was placed on the cross – border cooperation and exchange of experiences between the countries. Cycle training programmes of the aforementioned programme are a part of the Stabilization and Association Agreement. This year's training programme consisted of six three – day workshop, which dealt with the current topic – Decentralized management system of the EU funds, dealing with the characteristics and procedures that apply in the public procurement area, for all types of contracts (services, framework contracts, and procurement of goods, works, and donations). Cycle training is concluded with the topics related to the financial aspect of the management of EU funds (financial management and first level control for the cross – border cooperation programmes). Professional capacity building programme has enabled the representatives of our institutions to establish contact and exchange experiences with colleagues from the Croatian Central Agency for financing and contracting, which has successfully implemented projects financed from the EU funds in a decentralized manner...

7 December 2012 – Seminar titled "Financial Management of the IPA funds"

The CFCU has organized a seminar on "Financial management of the IPA funds. The seminar was aimed at better introduction

of employees in operating structures with the basic principles of financial management of the IPA funds, bearing in mind that the use of funds must be presented accurately, consistently, in an efficient and effective manner, following the best international practice of the sound financial management.



In this regard, participants had the opportunity to become familiar with the budget planning procedures of both the funds earmarked for the national co-financing, as well as the part of funds financed by the European Commission, and the reporting and payment system.

14 December 2012 – Proposal of the Budget Law for 2013

The Proposal of the Budget Law for 2013 recognized negative consequences of the crisis and unsatisfactory trends in both the region and the Europe and, as such, defines the basic principle of the fiscal policy for the next year – continued public finance consolidation. Further consolidation implies a reduction in the state and public consumption and increase in tax revenues through the implementation of measures aimed at combating the gray economy, reduction of the tax claims and broadening the tax base. The budget for 2013 is based on a projection of the real economic growth of 2.5%. Projected growth rate is based on the assumption that the natural (climatic) conditions will remain within the regular limits, thus securing the economic growth of 1.3% based on the estimates of the negative effects of the extreme weather conditions in 2012, with the real growth of the economy of 1, 2%. The proposed Budget Law for 2013, is projecting the budget revenues in the amount of EUR 1, 161.80 million or 33.26% of GDP. Based on the budget plan, the revenues increased by EUR 11.74 million, taking into account the estimated real rate of the economic growth of 2.5% in 2013, and the measures to be taken on the revenue side of the budget, resulting in a more efficient tax collection and reduction of the gray economy. For the next year, budgetary expenditures are planned in the amount of EUR 1, 257.1 million or 35.99% of GDP, which is lower than the amount planned for 2012, amounting at 37.91% of GDP. This trend of decreasing the share of consumption in GDP reflects conscientious and responsible fiscal policies, representing the real manner of stabilizing our public finance in the medium and long term. For the next year it is planned to reduce the deficit in relation to the amount defined this year's budget correction (based on which the deficit was planned at the level of 3.31% of GDP), as well as in relation to the achievement of the deficit estimates for 2012 (4.14% of GDP).

Projected deficit for 2013 amounts at EUR 95, 29 million, or 2.73% of GDP, being below the level defined by the criteria of the Maastricht Treaty. Proposed Budget Law for 2013, envisages the issue of guarantees worth EUR 66, 2 million, and they are, in order to support the boost in the economic activity, and are primarily committed to the development projects (maritime industry, energy...). The illiquidity problem and unavailability of loans to the economy is directly reflected in the revenue collection, hence in 2013, it is envisaged that the borrowing will be in the amount of covering the liabilities for the repayment of the loan principal, deficit financing and the creation of fiscal reserves, while the sources of funding will depend on the assessment of conditions in the capital markets. Despite the need to rationalize public spending, the development component, i.e. the capital budget wasn't subject to changes, being planned at the level of EUR 65, 6 million, or 1.86% of GDP, which corresponds to a defined level of capital budget correction in 2012...

27 December 2012 – Government adopts Information on Pre – accession Economic Programme of Montenegro 2012 – 2015

The Government adopted the Information on the Pre – accession Economic Programme (PEP) of Montenegro 2012 – 2015. This is a document that each state, a candidate for joining the European Union, is obliged to develop within a multilateral fiscal surveillance. Montenegro is since 2006 involved in the development of the Economic and Fiscal Programme, being a medium – term strategic document in the dialogue on the economic policy between Montenegro and the EU, and as the candidate country it is obliged to submit to the European Commission the Pre – accession economic programme (PEP). The Pre – accession economic programme defines economic policies and structural reforms to be completed for the successful accession to the European Union in the next three – year period. This document represents the basis for the creation of a consistent economic policy, with the objective of increasing the competitiveness of the Montenegrin economy, offsetting the negative effects of the new wave of the crisis, and the establishment of a stable foundation for the long – term sustainable growth. As this is a document that represents an instrument to improve cooperation between the European Commission and the candidate countries, the Ministry of Finance has made significant effort in improving the institutional, analytical and statistical capacity in the area of macroeconomic programming and the fiscal analysis in general.

Ms. Ivona Mihajlović,
Assistant to Spokesperson

European Integration in 2012



Branka Rogošić MSc

INTRODUCTION

Getting the green light to start negotiations with the European Union in June 2012, represents a confirmation of efforts of Montenegro on the road to the European integration, but also a great test for the application of the EU standards. The initiation of the negotiation process is significantly increasing the responsibility of the state administration to contribute to the fulfillment of obligations imposed on the path to Europe, based on improved coordination, skills and knowledge.

In the light of the above, activities of the Ministry of Finance in the area of European integration and international cooperation have been intensified and have continued during 2012, within the framework of regular meetings of subcommittees and the Committee for the Stabilization and Association, implementation of projects from the IPA funds, as well as the continuous activities aimed at fulfilling the EC to transfer responsibility for the management of EU funds. Furthermore, cooperation with the Ministry of Finance of the Netherlands has continued through the bilateral cooperation programme for 2012, in the form of holding seminars for the representatives of the Ministry of Finance of Montenegro. Regular reporting on monitoring the implementation of obligations under the Stabilization and Association Agreement and the development of the attachments to the EC Montenegro Progress Report for 2012, were also the activities of the Department for the European Integration during the previous year.

REGULAR ANNUAL MEETINGS WITH THE EC

The second meeting of the Stabilization and Association Committee between Montenegro and the European Union was held in July 2012, at which were presented updated information pertaining to freedom, justice and security, trade, industry, customs and taxes, agriculture and fishery, internal market and competition, innovations, information society and social policy, transport, environment, energy and regio-

nal development. At the meeting was noted that Montenegro has made measurable results in all areas, both in the approximation of national legislation with the *acquis communautaire*, as well as in the implementation of the SAA and the application of European standards.

In 2012, continued was a formal communication with the EC in the form of the Subcommittee for Economic and Financial Affairs and Statistics. At a joint meeting of the Subcommittee was noted that, in a difficult economic context, the progress has been achieved in preserving the macroeconomic stability, based on the economic policy which was focused on stabilizing the economy and public finances through the fiscal consolidation and structural reforms implementation. The EC has encouraged Montenegro to continue with its efforts related to fiscal consolidation, which is of special importance for both the public and the tax debt. It was also noted that the banking sector is recovering, which is reflected in the growth of deposits. Progress has been made in relation to relief and entering the market, bankruptcy and enforcement proceedings.

PROJECT IMPLEMENTATION UNIT

In 2012, IPA projects funded by the European Union were successfully implemented and new projects commenced.

- Successfully completion of the 2009 Project "Strengthening the State Audit Institution in Montenegro", which lasted for 24 months, aimed at effective verification of the EU management and control system and public funds in Montenegro. The project value was EUR 1,200,000 of which the IPA funds amounted at EUR 800,000, while EUR 400,000 was donated by the German Federal Ministry for Economic Cooperation and Development;

- Project Implementation Unit attended the sessions of the Monitoring Committees for ongoing projects, such as the "Development Strategy of Montenegro and the National De-

velopment Plan" and the "Strengthening the management and control systems for European Union financial assistance in Montenegro". The projects are implemented within the planned schedule;

- In March 2012, commenced the IPA 2010 project "Upgrading IT capacity of the Tax Administration" that aims to support the Government of Montenegro in the fiscal planning and maximum tax collection in order to create a stable budget revenues in Montenegro. The project is worth EUR 667,000, of which EUR 167,000 represent the national co-financing;

- In August 2012, commenced the twinning project of the Administration for the prevention of money laundering and terrorist financing", aimed at strengthening the legal and regulatory framework to combat money laundering and the enforcement system. The project is worth EUR 250,000 and will last for 6 months;

- Project Implementation Unit, in cooperation with the CFCU and the Directorate of Public Procurement, developed the Terms of Reference for the project "Development of capacity and detailed design of the e-procurement", which is funded through the framework agreement. The project is worth EUR 200,000, and the period implementation period is June 2012 - June 2013;

- In 2012, finalized was the Project Fiche for IPA 2012/2013 programme, which was reflected in the sectoral approach to programming, thus within the sector Public administration reform approved was the Project Fiche "Strengthening the EU funds management and administrative procedures". The beneficiaries of this project are the Human Resources Management Authority and the Ministry of Finance, and the total value of the project is EUR 1.4 million, of which 100,000 euros represents a national co-financing.

- Project Implementation Unit of the Ministry of Finance has worked on the development of relevant documents that were part of the accreditation package for the compliance assessment stage for the IPA Components I and II. These documents included filled - in annexes to the Manual of Procedures, which indicate the readiness of the operating structure in assuming the obligations in a decentralized management system. After submitting the accreditation package, the independent auditing firm KPMG has carried out the audit, and our PIU has assisted the auditors in conducting interviews for the purpose of verifying the knowledge and understanding of responsibility that we will have to fulfill in the future.

IPA MONITORING COMMITTEES

Two IPA Monitoring Committees were held in June and December 2012, being organized on semi - annual or annual basis for the purpose of monitoring the implementation of the IPA project, assessment of achieved results in the imple-

mentation of this programme and for the purpose of monitoring the activities related to the preparation for the use of the IPA Components III, IV and V and the introduction of the decentralized implementation system for the management of EU funds. Projects of importance to the Ministry of Finance, which were assessed successful are the "Assistance to Montenegro in approximation to the EU standards of statistics" and "Accessing the internal market". Representatives of the European Commission presented the status of the IPA components in Montenegro, as well as the achievements and weaknesses that were identified during the management of IPA projects.

BILATERAL COOPERATION PROGRAMME BETWEEN THE MINISTRY OF FINANCE OF THE NETHERLANDS AND THE MINISTRY OF FINANCE OF MONTENEGRO

The representatives of the Ministry of Finance of Montenegro and the Ministry of Finance of the Netherlands signed a bilateral cooperation programme for 2012, relying on a renewed Memorandum of Understanding signed by the representatives of the two ministries in December 2010.

The programme referred to technical assistance and cooperation of the two ministries in 2012, encompassing the organization of the study visits, seminars, advisory missions and workplace training for the employees of the Ministry of Finance of Montenegro, as well as the continuous exchange of information and recommendations. The bilateral programme defines the following areas of cooperation: central harmonization of the financial management and control and internal audit in the public sector, communication and negotiation skills, taxation, public expenditure management, as well as the attendance to the courses organized by the "Center of Excellence in Finance (CEF)" in Ljubljana .

EC 2012 MONTENEGRO PROGRESS REPORT

In October 2012, Montenegro received 2012 Progress Report, which concluded that Montenegro has progressed in meeting the seven key priorities listed in the Opinion and that it has achieved tangible progress. Significant progress has been made in the area of the free movement of capital, statistics, public procurement, taxation, customs union and financial control.

By the end of 2012, structures for 10 negotiating chapters were established in which 27 representatives of the Ministry of Finance are taking part.

Ms. BRANKA ROGOŠIĆ, MSc,
Independent Advisor II,
European Integration Department

OVERVIEW OF THE TAX POLICY IN 2012



In 2012, the Ministry of Finance has intensified activities aimed at improving the tax system of Montenegro, taking into account the fundamental principles of the tax policy and its further harmonization with the European Union legislation and practice.

When creating the tax policy, the basic commitment is the application of competitive tax rates with a higher tax base and the lower number of the tax exemptions and reliefs for the purpose of encouraging new investments.

Starting from the economic situation, the tax policy measures were focused on mitigating the consequences of the financial crisis and overcoming the illiquidity problem, including the application of the institute of reprogramming the tax and non-tax, payment of income tax in installments, as well as the deferred payment of customs debt.

One of the priorities of the tax policy in the previous year related to the intensification of activities in the area of combating the gray economy, primarily by strengthening the institutional and human capacities of inspection su-

pervision entities. Special attention was devoted to the sale of excise products and recording of retail turnover, as well as the improvement of legislative solutions in these areas, being considered as the riskiest ones in terms of the gray economy. In order to intensify and better coordination of activities aimed at combating gray and finding a systemic solution to this problem, the Government of Montenegro and the competent bodies, have determined the measures to combat the gray economy in 2012 and have established a Coordinating Team for monitoring the implementation of measures. In this manner was established a more efficient exchange of information and coordination of activities aimed at combating gray economy between the authorities, thus all forms of inspection were intensified. Positive effects on budget revenues and fiscal discipline have reaffirmed the substantiated systematic approach in solving the problem of the gray economy, being the top priority of the Government aimed at increasing budget revenues and creating better conditions for business.

Bearing in mind the aforementioned commitments, the Ministry of Finance has prepared a set of fiscal measures aimed at increasing public revenues, whereas the priorities

were determined in a manner to avoid the increase in basic taxes. Specifically, in order to provide additional revenues and to preserve the stability of the State Budget, during 2012, the following regulations were adopted:

- **Law on Amendments to the Law on Personal Income Tax** ("Official Gazette of Montenegro", No. 14/12), which introduced tax incentives for conducting production activities in underdeveloped municipalities, in accordance with the Stabilization and Association Agreement. The Law has been improved the current solutions in legal and technical terms, in reference to specifying the base for taxation of non-resident physical persons, definition of free lance activities paying the income taxes on income on self-employment, more detailed income taxation procedures from capital income, as well as defining of persons who are obliged to submit the annual tax return on personal income.

- **Law on Amendments to the Law on Corporate Profit Tax** ("Official Gazette of Montenegro", No. 14/12), harmonizing the tax incentives related to underdeveloped municipalities with the EU state assistance rules. Newly established legal entity in economically underdeveloped municipalities, conducting a production activity, is exempted from the payment of the corporate profit tax for a period of eight years.

- **Law on Amendments to the Law on Compulsory Social Insurance Contributions** ("Official Gazette of Montenegro", No. 14/12), improving the solution in terms of detailed regulation of the basis for the payment of contributions for compulsory social insurance for employed persons and persons generating income from self-employment. Moreover, changes were made relating to the definition of the amount of the highest annual contribution base for the compulsory social insurance (pension and disability insurance, health insurance and insurance from unemployment). The Law stipulates that the taxpayers paying lump sum tax on the same basis, representing a taxable income, shall also pay the contributions for the compulsory social insurance.

- **Law on fees for access to certain services of general interest and for the use of tobacco products and electro-acoustic devices** ("Official Gazette of Montenegro", No. 28/12), stipulating the obligation of calculating and paying fees, particularly to the following: mobile telephony card, tariff meter for measuring the electricity consumption, cable connector, as well as the use of tobacco products and electro-acoustic devices in hospitality facilities. Prescribed fees represent the revenues of the Budget of Montenegro, whereas the tax authority is in charge of controlling the calculation and the payment. The aforementioned Law is temporary and its application is envisaged to last up to 1st January 2014. In order to adequately apply the aforementioned legal solution, the following subordinate legislation enabling its implementation has been adopted:

Decree on the manner of exercising the right to exemption from paying of taxes on the tariff meter ("Official Gazette of Montenegro", No. 44/12) and the Rulebook on the form and content of the form for the calculation of fees for access to certain services of general interest and the use of tobacco products and electro-acoustic devices ("Official Gazette of Montenegro", No. 35/12).

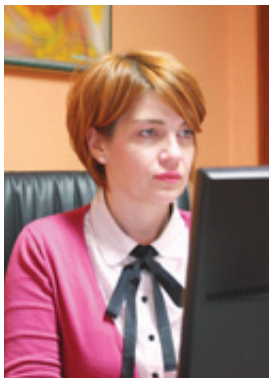
- **Law on Amendments to the Excise Law** ("Official Gazette of Montenegro", No. 28/12), providing for the improvement of the tax system, gray economy reduction and generation of increased revenues. Aforementioned legislative solution has made the revision to the oil and gas excise policy used for heating, by establishing the refund of paid excise duty in order to introduce more efficient control and to reduce the room for misuse that was identified in practice. More detailed requirements and method of refunding the part of paid excise for the aforementioned types of mineral oil, are prescribed by the Rulebook on application of the Excise Law ("Official Gazette of Montenegro", No. 28/12).

- **Law on Tax Administration** ("Official Gazette of Montenegro", No. 28/12), creating the conditions for a more efficient manner of paying the tax liability, i.e. enabling the payment of the tax debt principal, and thereby reduction of the tax debt on which the interest will be calculated. Furthermore, the aforementioned legal solution stipulates that the tax secret shall not be considered information and data on the list of tax debtors, being published by the Tax Administration on a quarterly basis. The provisions of the aforementioned Law provide for the authority to the Government of Montenegro to determine by its regulation the requirements and criteria for publication of the tax debtors list, on what basis of which was adopted the Decree on requirement and criteria of publication of the list of tax debtors ("Official Gazette of Montenegro", No. 56/12), the application of which is envisaged for 1st July 2013.

- **Law on Ratification of the Treaty between Montenegro and the United Arab Emirates for the avoidance of double taxation with respect to taxes on income and capital** ("Official Gazette of Montenegro - International Treaties", No. 09/12), being applied from 1st January 2013. The Treaty shall provide for: elimination of double taxation on income of residents; ensuring the fiscal and legal security; ensuring positive effects of tax incentives for stimulating investment; general application of the principle of equal tax treatment of physical persons and legal entities, promotion of cooperation between the tax authorities.



Overview of the Most Important International Reports in 2011



Marija Radenović



31 January 2012 – Montenegro advances 10 places on economic freedom index

Montenegro advanced 10 places according to Fraser Institute annual report for 2011, with 7.27/10 points it can be found on 37th place out of 141 states. The greatest progress has been recognized in the areas of government consumption, judicial independence, as well as in areas of access to sound money and labor market regulations.

Stagnation in applicability of contract and the decline in the indicator 'the size of trade sector relative to expected' committed Montenegro to take further action in order to improve these areas. The Institute also accepted efforts that Montenegro made in part of reaching the rule of law principle and reforms of public sector, but the current rate still points that further progress in these fields is possible and necessary. Taking this report into account, higher level of economic freedom in the region is only with Albania, ranked as 30th and Bulgaria, at 18th place. Thus, behind Montenegro, on this list Romania can be found on 48th place and former Yugoslav countries: Macedonia at 64th, Slovenia on 74th, 89th Croatia, Serbia at 91st place and Bosnia and Herzegovina listed as 100th.



8 March 2013 – Preliminary conclusions of the IMF Mission

"Three years after the global crisis, economic output has almost recovered and financial sector conditions are stabilizing. In other ways, though, the crisis and its repercussions are still acute, most visibly in the sizeable and continuing build up of public debt and a tightening liquidity squeeze in the economy. The immediate priority is a substantial reduction in the fiscal financing requirement, while invigorating structural reform, most importantly in labor markets, but also including continued progress in financial regulation and supervision. The authorities have adopted relevant targets; the focus now must be on the identification of the required policy measures and their expeditious implementation. Since the financial crisis and its aftermath, valuable progress was made. With GDP growth estimated at some 2% percent in 2011, real output has almost reached its pre-crisis level in 2008. In addition, deposits are continuing to grow, the current account deficit was cut, inflation has receded to the level seen in trading partners, further progress was made on structural reform, and foreign direct investment remained above one tenth of GDP... The task is twofold: boosting growth by resuming—and seeing through—ambitious structural reform and continued stabilization of the financial sector; and regaining sustainable public finances by aligning the budget with post-boom reality... While the economy's small size and high openness impart a large degree of uncertainty on forecasts and projections, medium-term prospects are imperiled by large fiscal and external imbalances, even if the international context turns more auspicious. The good news is that ambitious structural reform can unleash Montenegro's large potential, e.g., in the energy and tourism sectors, thereby achieving the essential rebalancing without sacrificing growth... The business environment needs nurturing and improvement. Montenegro has recorded steady progress in various business environment surveys. Still, the complaints about regulatory shortfalls or legal proceedings by foreign investors in the metals and energy sector could imply adverse repercussions for Montenegro's reputation as an investment destination... Despite stabilization, the banking system still has some way to go. While deposits have begun to return, the system is burdened by high non-performing loans and lagging in provisioning. Continued vigilance is necessary to foster stability and create a sustainable foundation for a more broad-based resumption of lending. Direct efforts

to force more lending are unlikely to work and would probably require resources from the already stretched budget. Much rather, reviving credit growth in a sustainable fashion will require the budget to live within its means... The steep upward trajectory of public debt must be reversed. At its core, the rise in debt reflects persistent fiscal deficits, notwithstanding the strong efforts at expenditure control by the central budget... The more sizeable adjustment should come from expenditure cuts. The revenue share remains at a comparatively elevated level, while expenditure stands at the high end of emerging Europe...."



23 May 2012 – Montenegro goes up by 4 places

The World Economic Forum has published a new Report on the global trade freedom in 2012. The Report presents a world in which the trade is recovering in relation to the decline that was recorded during 2009. In fact, the trade is no longer dominant only in developed countries, but it is concentrated in and around the developing countries... Of the countries in the region, the best position in this year's report takes Slovenia, being ranked 33rd out of 132 analyzed economies, progressing by two places in the ranking. Montenegro has also improved its position, which from 43rd advanced to 39th position, whereby its score is 4.46. The biggest shift in the ranking of countries in the region made Albania, which moved up 10 places in this year's report being ranked 49th. Albania is followed by Montenegro and Bulgaria, which have improved their position by 4 places. Montenegro is in this year's Index ranked 39th out from 132 analyzed countries, which represents an improvement of four places compared to 2010 index, while the score was reduced by 0.01 amounting to 4.46 (this year's score does not include a component of non – customs measures). Best position Montenegro has made on the basis of indicators of use of mobile phones (3rd place), followed by the indicator on the basis of the business costs of terrorism (6th place) and the frequency of air traffic (13th place).



31 May 2012 – Agency Moody's Affirms Montenegro's Credit Rating

Credit Rating Agency Moody's has today affirmed the

outlook on Montenegro's ratings - Ba3 with stable outlook, which in addition to the last year's outlook improvement from negative to stable, represents a great news and confirmation of Government's efforts in maintaining the fiscal stability and overall economic environment... Pursuant to Moody's indicators, Montenegro achieved better results compared to other countries with the same rating outlook, being as follows: GDP per capita (this indicator is by 2,5 times higher in Montenegro compared to the average of the countries with the same rating), FDI share in GDP (this indicator is far higher), interest payments/revenues, etc. Indicators based on which Montenegro has achieved weaker results compared to the countries with the same rating relate to the size of country, economic diversification and subsequently the high level of the current account deficit... The outlook affirmation by this recognized international Credit Agencies represents an additional incentive for the Ministry of Finance to continue the implementation of policies directed to further stabilization of public finance and creating conditions for positive trends.



13 June 2012 - Standard and Poor's drops Montenegro's Credit Rating

Credit rating agency Standard and Poor's downgraded the credit rating of Montenegro from 'BB' to 'BB-'. At the same time, Montenegro's outlook has improved and moved from negative to stable... The rating action reflects the view of the Agency that the government is facing increasing challenges to its efforts to stabilize public debt levels given the weakening economic environment, pressures arising from contingent liabilities, and diminishing external bank financing. The Agency explained that the rating cut is a consequence of Montenegro's limited administrative capacities and a lack of economic flexibility. On the other hand, changes in the outlook from negative to positive is encouraging, particularly given the fact that many member states of the European Union such as Finland, Luxembourg, the Netherlands, Austria, France, Belgium, Estonia, Italy, Slovenia, Portugal, were rated as the countries with a negative outlook. Stable outlook, according to Standard and Poor's, represents a balance in reference to risks in terms of its impact to possible further deterioration in the external environment to the readiness of the Government of Montenegro to continue with the reforms aimed at overcoming the economic weaknesses... Thanks to a stable outlook, the Agency may increase the credit rating if the government implements initiated reforms in the labor market and

business environment area, which could contribute to improving the economic competitiveness and diversification of the economy, as well as increase in the capacity in key sectors, while the external and fiscal imbalances would be reduced.



18 September 2012 - Montenegro rated as the freest country in the region

The Fraser Institute published 2012 Report, which includes the assessment of the economic freedom of the countries around the world. The Annual Report of the Economic Freedom of the World, includes 42 different data for measuring the economic freedom in 144 countries around the world. According to the Report for 2012, the average score for economic freedom has increased from 5.3 (total of 10 points) in 1980, to 6.88 in 2007, but it dropped to 6.79 in 2009, and slightly increased to 6.83 in 2010 (last year for which figures are available)... According to the report of the Economic Freedom of the World for 2012, Montenegro has improved its ranking by nine places and with the score of 7.54 it is ranked 28th on the list, which includes 144 countries, indicating the greater freedom and the competitiveness. Processed data relate to 2010. The global average is 6.83. Montenegro was ranked 37th in the previous report, with a score of 7.27. In relation to the Index from 2009, Montenegro had better scored in four out of five areas: size of government, legal regulations and respect of property rights, "healthy" money supply in circulation and freedom of international trade. In the area of control of the economy, labor market and the banking sector, a slight deterioration in rating has been recorded (from 8.01 to 7.9). In this way, Montenegro is ranked as the freest country in the region. Montenegro is followed by Romania at 36th, Albania at 42nd, Bulgaria at 45th, Macedonia at 73rd, Croatia at 84th, Slovenia at 92nd, Bosnia and Herzegovina at 93rd and Serbia at 102nd place.



23 October 2012 - Montenegro goes up by 5 places in World Bank Doing Business Report

Montenegro moves up by 5 places to 51st overall in the Doing Business 2013 world ranking list including 185 countries, the World Bank announces in its annu-

al report on Monday. For the period July 2011 – June 2012, 108 economies, out of the total 185 economies assessed, implemented 201 reforms mostly related to starting a business, paying taxes, and trading across borders. Ease of doing business is based on indicators that measure and benchmark regulations affecting 10 areas. In the area of starting a business, Montenegro is ranked 58th, issuing construction permits 176th, and property registration 117th. Montenegro takes the 32nd position in protecting investors, 42nd in trading across borders and 135th position in the area of enforcing contracts. In the remaining four categories, Montenegro improved its ranking compared to 2011: in the fields of paying taxation (+27), closing a business (+8), getting credits (+4) and getting electricity (+2), the Doing Business report 2013 reads. Montenegro owes its progress of 27 places in the field of paying taxes to pursuing reforms referring to the unification of registration and collection of taxes and contributions, as well as to appreciable reduction in the numbers of payments and duration of paying taxes procedures. The progress of 8 places in closing a business resulted from a considerable reduction in closing businesses duration from 2 to 1.4 years. According to the Report, Montenegro recorded reforms in two areas: "getting credits" and "issuing construction permits". In the area of "getting credits," Montenegro by establishing the Credit registry has provided that the information from this Registry, in addition to loan – guarantee institutions, may be also used by the persons subjected to the credit indebtedness data, as well as persons who are warrantors/guarantors for loans. Reforms in the area of getting credits have led to an improvement in the position of this indicator, whereas our country in the global ranking is ranked 4th. In the area of "issuing construction permits" were identified reforms in reference to the reduction of costs for obtaining a construction permit (EUR 10,605), and the abolishment of the fee for the construction and use permit, based on the adjustment of expenses for the development of the study for the fire protection, as well as the reduction in administrative fees for obtaining environmental approval. It has been recognized that the procedure of obtaining the approval for connection to the electrical power grid was abolished, which was issued by the EPCG. In the region, only Macedonia (23) and Slovenia (35) rank higher than Montenegro, while Albania (85), Croatia (84), Serbia (86), Bosnia and Herzegovina (126) and Kosovo (98) rank lower, the report concludes. Montenegro's progress depicted in the Doing Business reports, which has been continually achieved over the past four years (Montenegro was ranked 90th in 2009), confirms the Montenegrin Government's commitment to pursuing reform policies which are the prerequisite for strengthening competitiveness and credibility of the country's economy.

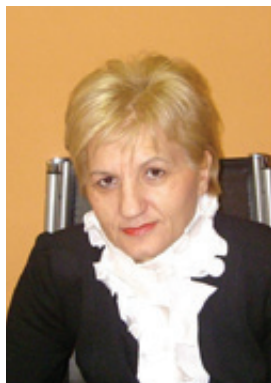


29 December 2012 – Standard and Poor's Affirms Montenegro's Credit Rating

Standard & Poor's (S&P) rating agency has published a new report on Montenegro in which they confirmed the country's previous BB- credit rating with a stable outlook. S&P's experts note that any further deterioration of fiscal parameters, primarily growth of budgetary deficit and public debt, may lead to a lower credit rating, whereas continuation of economic reform, such as labor market and business environment reform aimed at country's improved competitiveness and greater diversity, may lead to a better rating in the coming period, Finance Ministry says. Bearing in mind the trend of lowering rates in a great number of countries, the confirmation of the previous rating should be viewed as a success and a nod to Government's aims to maintain fiscal and overall economic stability in the country, Finance Ministry notes. They further add that the confirmation of a stable outlook encourages the expectation that the near future will not see any notable changes of the economic environment. The Ministry concludes that S&P's assessment projects stable economic developments in Montenegro in the coming period.

Ms. Marija Radenović,
Spokesperson

Local Government Public Consumption in 2012



Gordana Radović



Snežana Mugoša MSc

I GENERATED REVENUES

The total amount of generated revenues of the municipalities budget (21) in the period January – December 2012 amount at EUR 213,7 million (average monthly amount was EUR 17,81 million), representing the total of 96,01% planned revenues for the aforementioned period (EUR 222,59 million).

The following Table illustrates the overview of planned and realized revenues of the municipality's budget for the period January – December 2012:

In € million

Municipality	Municipal revenues for the period January – December 2012		
	Plan	Realization	% of Realization
Andrijevica	2.31	2.17	93.94
Bar	17.20	16.36	95.12
Berane	8.25	7.14	86.55
Bijelo Polje	10.66	10.03	94.09
Budva	39.27	39.35	100.20
Danilovgrad	4.39	3.84	87.47
Žabljak	1.08	1.02	94.44
Kolašin	2.55	2.68	105.10
Kotor	12.60	13.38	106.19
Mojkovac	3.16	2.57	81.33
Nikšić	17.06	15.36	90.04
Plav	3.59	3.42	95.26
Plužine	4.84	4.57	94.42
Pljevlja	12.95	8.77	67.72
Podgorica	43.15	43.61	101.07
Rožaje	4.36	4.31	98.85
Tivat	11.21	10.76	95.99
Ulcinj	4.40	4.43	100.68
Herceg Novi	10.64	10.98	103.20
Cetinje	7.40	7.56	102.16
Šavnik	1.52	1.39	91.45
TOTAL:	222.59	213.70	96.01

Out from the total generated revenues, the share of the current revenues amounts to EUR 156,07 million (taxes, fees, duties, other revenues – revenues from capital, pecuniary fines, revenues generated based on performing local government activities), whereas the receipts from the sale of assets amount at EUR 10,47 million, receipts from the repayment of loans and funds transferred from previous years in the amount of EUR 10,67 million and donations and transfers in the amount of EUR 7,82 million.

The following Table illustrates the overview of realized revenues of the municipality's budget for the period January – December 2012, on the basis of the following revenue sources (in thousands of EUR).

No.	Municipality	Current Revenues	Receipts from the real estate turnover	Receipts from the repayment of loans and funds transferred from previous years	Donations and transfers	Borrowings and loans	Total	%
1	2	3	4	5	6	7	8	9
1.	Andrijevica	358.50		891.48	918.34		2,168.32	1.01
2.	Bar	14,130.56	1,594.07	39.37		593.78	16,357.78	7.65
3.	Berane	1,934.46	212.78	87.14	3,902.79	1,001.90	7,139.07	3.34
4.	Bijelo Polje	3,407.22	81.70	1,328.03	4,791.65	417.00	10,025.60	4.69
5.	Budva	37,251.02	2,080.79	15.96			39,347.77	18.41
6.	Danilovgrad	1,826.32		493.33	1,524.20		3,843.85	1.80
7.	Žabljak	694.25		13.64	317.25		1,025.14	0.48
8.	Kolašin	1,636.78	32.13		704.15	305.00	2,678.06	1.25
9.	Kotor	12,773.19	243.04	101.12	262.00		13,379.35	6.26
10.	Mojkovac	1,073.78	5.78	7.03	1,187.60	300.00	2,574.19	1.20
11.	Nikšić	9,663.92	99.69	7.16	3,996.34	1,595.48	15,362.59	7.19
12.	Plav	1,027.84		57.41	1,088.44	1,250.00	3,423.69	1.60
13.	Plužine	2,417.98		1,513.06	21.00	620.00	4,572.04	2.14
14.	Pljevlja	5,599.34		915.24	2,235.22	22.89	8,772.69	4.11
15.	Podgorica	37,115.57	6,030.74	287.59	173.26		43,607.16	20.41
16.	Rožaje	1,615.08	20.24	2.16	2,367.92		4,305.40	2.01
17.	Tivat	7,205.96	49.57	3,507.45			10,762.98	5.04
18.	Ulcinj	2,913.26		76.33	1,080.90	360.14	4,430.63	2.07
19.	Herceg Novi	10,744.23	21.41	205.75	10.72		10,982.11	5.14
20.	Cetinje	2,573.98	1.25	575.22	3,359.46	1,050.00	7,559.91	3.54
21.	Šavnik	105.30	0.12	549.27	730.93		1,385.62	0.65
TOTAL:		156,068.54	10,473.31	10,673.74	28,672.17	7,816.19	213,703.95	100.00
%		73.03	4.90	4.99	13.42	3.66	100.00	

1. Current Revenues of Municipal Budgets

Generated current revenues of municipal budgets for the period January – December 2012, amount at EUR 156,07 million (average monthly was EUR 13,01 million), representing the increase in the amount of 0,18% against planned current revenues for the aforementioned period (EUR 155,79 million).

The revenues structure encompasses the following: taxes (personal income tax, real estate tax, real estate turnover tax and surtax to the personal income tax) with the share of 48,54%, fees (local administrative fees, local communal fees and other fees) with the share of 3,52%, charges/duties (use of goods in general interest, natural resources use charge, eco – charge, land charges, duties for the use of municipal roads, annual fee for the registration of passengers cars, tractors and units, and other charges) with the share of 39,11%, and other revenues (pecuniary fines and interests, revenues generated by municipal authorities and units based on its own activities, and other revenues) with the share of 8,83%.

2. Other Municipal Revenues

Generated revenues from the real estate turnover for the period January – December 2012, amount to EUR 10,47 million, mostly referring to the sale of the non – financial assets.

In 2012, generated revenues from the repayment of loans and funds transferred from previous years, amounted at EUR 10,67 million, mostly referring to the transferred funds from previous years.

Based on donations and transfers, in this reporting period, Municipalities generated the total of EUR 28,67 million, out of which the share of donations (current and capital) amounts at EUR 2,88 million, and the share of the transfers amounts at EUR 25,79 (Equalization Fund and conditional donations

For the period January – December 2012, based on borrowings and loans, Municipalities generated revenues in the total amount of EUR 7,82 million.

II – EXPENDITURES EXECUTION

Total expenditures of the local self government for the period January – December 2012, have been planned in the amount of EUR 236,19 million, while total execution of municipal budgets in the aforementioned period amounted to EUR 204,50 million, which is 86,58% compared to the plan for 2012.

Municipality	Local Government Expenditures in 2012. godini		
	Plan	Execution	% of Execution
Andrijevica	2.31	1.66	71.92
Bar	17.20	16.29	94.71
Berane	8.25	7.13	86.44
Bijelo Polje	10.67	9.43	88.42
Budva	39.27	39.32	100.12
Danilovgrad	4.39	3.68	83.78
Herceg Novi	10.65	10.90	102.44
Kolašin	2.55	2.59	101.64
Kotor	12.60	12.62	100.18
Mojkovac	3.16	2.50	79.13
Nikšić	30.64	15.22	49.69
Plav	3.60	3.37	93.68
Plužine	4.84	3.88	80.31
Pljevlja	12.95	8.71	67.26
Podgorica	43.15	41.24	95.56
Rožaje	4.36	4.24	97.32
Tivat	11.21	7.88	70.29
Ulcinj	4.40	4.37	99.21
Cetinje	7.40	7.52	101.60
Šavnik	1.52	0.91	60.23
Žabljak	1.08	1.02	94.57
TOTAL:	236.19	204.50	86.58

Consolidated expenditures of municipalities for the period January – December 2012, amounted to EUR 149,55 million or 4,5% of GDP estimated for 2012.

The following Table illustrates the consolidated and total expenditures overview (in EUR million) for the period January – December 2012, by municipality and types of expenditures:

Municipality	Consolidated expenditures			Consolidated expenditures	% of GDP	Debt repayment	Total expenditures
	Current expenditures	Capital expenditures	Other expenditures				
Andrijevica	0.89	0.67	0.03	1.58	0.05	0.09	1.66
Bar	6.25	5.44	0.18	11.87	0.36	4.42	16.29
Berane	2.91	1.37	0.32	4.59	0.14	2.54	7.13
Bijelo Polje	4.68	2.32	0.17	7.17	0.22	2.27	9.43
Budva	7.35	9.32	0.22	16.89	0.51	22.43	39.32
Danilovgrad	2.61	0.89	0.00	3.50	0.11	0.17	3.68
Herceg Novi	6.41	1.08	0.72	8.21	0.25	2.69	10.90
Kolašin	0.97	0.33	0.00	1.30	0.04	1.29	2.59
Kotor	8.58	0.29	0.10	8.97	0.27	3.66	12.62
Mojkovac	1.55	0.70	0.04	2.28	0.07	0.22	2.50
Nikšić	5.55	2.60	1.16	9.31	0.28	5.91	15.22
Plav	1.50	0.16	0.09	1.75	0.05	1.62	3.37
Plužine	1.28	2.09	0.37	3.74	0.11	0.15	3.88
Pljevlja	5.31	2.54	0.15	7.99	0.24	0.72	8.71
Podgorica	25.54	13.56	0.52	39.62	1.19	1.62	41.24
Rožaje	2.71	1.17	0.09	3.97	0.12	0.27	4.24
Tivat	4.29	2.79	0.16	7.24	0.22	0.64	7.88
Ulcinj	2.51	0.24	0.01	2.76	0.08	1.61	4.37
Cetinje	4.36	0.36	0.26	4.98	0.15	2.54	7.52
Šavnik	0.57	0.22	0.07	0.85	0.03	0.06	0.91
Žabljak	0.77	0.21	0.00	0.98	0.03	0.04	1.02
TOTAL:	96.58	48.32	4.65	149.55	4.50	54.95	204.50

III BUDGET INDEBTEDNESS

As of 30th December 2012, the total debt of the local government amounted to EUR 115,36 million, or 3,47% of GDP estimated for 2012.

The following Table illustrates the loan debt balance per local government units as of 30th December 2012.

Local Government Unit	Loan Debt Balance as of 30th December 2012
Andrijevica	186,603.00
Bar	7,426,362.00
Berane	5,186,917.04
Bijelo Polje	8,444,651.31
Budva	7,406,384.28
Danilovgrad	670,000.00
Kolašin	4,116,587.36
Kotor	4,965,859.10
Mojkovac	429,003.14
Nikšić	16,146,630.74
Plav	1,370,201.13
Plužine	854,275.79
Pljevlja	8,843,242.50

Podgorica	30,938,826.02
Rožaje	808,813.20
Tivat	5,068,305.63
Ulcinj	2,406,860.29
Cetinje	5,046,156.00
Šavnik	279,452.55
Žabljak	250,000.00
Herceg Novi	4,515,652.80
TOTAL:	115,360,783.88

IV - OUTSTANDING LIABILITIES

Pursuant to the data submitted by the municipalities to the Ministry of Finance, As of 30th December 2012, the total amount of outstanding liabilities of the local government amounted to EUR 75, 39 million. We are emphasizing that the Municipality of Budva failed to submit the report on outstanding liabilities within statutory deadline.

The structure of outstanding liabilities, the largest part relates to the outstanding liabilities for current expenditures – EUR 43, 39 million. Liabilities for capital expenditures amounted to EUR 12, 83 million, while the liabilities based on borrowings and loans amounted to EUR 13,77 million.

No.	Type of outstanding liability	Outstanding liabilities balance as of 30th December 2012
I	Liabilities for current expenditures	43,393,808.52
	Liabilities for gross earnings and contributions charged to employer	28,278,175.95
	Liabilities for other personal income	683,860.40
	Liabilities for other current expenditures	14,431,772.17
II	Liabilities based on social protection transfers	23,527.05
III	Liabilities for transfers to institutions, individuals and NGO's	4,931,390.65
IV	Liabilities for capital expenditures	12,831,746.47
V	Liabilities for borrowings and loans	13,771,358.52
a)	Principal	9,365,598.32
b)	Interest	1,102,831.90
VI	Liabilities from reserves	437,743.59
TOTAL OUTSTANDING LIABILITIES (I+II III+IV+V+VI)		75,389,574.80

Ms. Radović Gordana,
Independent advisor I,
Sector for Tax and Customs System,

Ms. Snezana Mugosa, MSc,
Independent Advisor I,
Budget Departmentž

Public Internal Financial Control of Montenegro in 2012



Ana Krsmanović MSc

Public internal financial control, as the concept, is commonly perceived as the establishment of control mechanisms, which will ensure legitimate and efficient use of national budget funds. However, internal financial control, as a concept promoted by the EU, implies not only the control and establishment of control mechanisms, but the financial management strengthening and improvement and the fulfillment of objective entailed in the fact that the public sector is not placing the emphasis on consumption, but on resources management and achievement of the best results with limited resources. The establishment of internal financial control is the mental transition from the concept of "consumption" to the concept of "governance" of the taxpayers' funds in a manner providing the best services that can be obtained based on taxpayers money.

The internal financial control and to need of spending scarce taxpayer funds in an efficient, cost - effective and the most effective manner is becoming more important at the time when the states are confronted with the fiscal challenges, as is the case with most countries in the world today. Montenegro, in recent years, has invested considerable efforts in improving the financial management, and control over the budget consumption, as well as on introducing austerity measures due to the reduced fiscal capacity of the economy. The efforts and achievements pursued at the national level are illustrated by the data on constant, gradual improvement in all areas of the public services, starting with those which are the most visible to ordinary people, such as the education and health, and then the efficiency of the state administration. Of course, the quality of the aforementioned services should be further improved, which has been pronounced in all strategic documents of the Government. Moreover, public spending cuts by about 10 percentage points of GDP since 2009, at the same time entailed the retention of the social contributions and wages level funded from the budget represents an additional indicator of improved financial management in the previous period.

However, administration's efforts aimed at the improvement of financial management and control of funds are less visible, and it will be discussed in this paper.

PUBLIC INTERNAL FINANCIAL CONTROL FRAMEWORK

Pursuant to the EU best practice and recommendations, internal financial control is grounded on the three pillars - financial management and control, internal audit and the Central Harmonization Unit of the Ministry of Finance.



During the past five years, legal framework has been defined entailing certain alignment and improvement during the last two years. Thus, in May 2012, the Montenegrin Parliament adopted the Amendments to the Law on Public Internal Financial Control, setting forth the establishment of the system for improving the management quality, as well as the internal audit.

In June 2012, the Government of Montenegro adopted the Strategy of further development of the public internal financial control system for the period 2013 – 2017, and the Action Plan for the implementation of the Strategy for the period 2013 - 2014 (June 2012). The Strategy, based on the current status of play of the internal financial control system, has identified the following objectives:

- Improvement of the quality of public sector services through the financial management and control, primarily the strengthening of managerial responsibility;
- Trained and operating internal audit unit, and
- Strengthening the capacity of the Central Harmonization Unit, in order to provide coordination and efficient support to the public sector institutions in the implementation of the financial management and control and internal audit.

FINANCIAL MANAGEMENT AND CONTROL (FMC)

Improvement of the internal financial control and financial management strengthening was the top priority of the Ministry of Finance in 2012. In 2012, the institutions that make up over 90% of the Budget of Montenegro have continued/initiated activities aimed at the financial management improvement, either through formalizing activities in the form of action plans, or through the business analysis and the establishment of clear rules and procedures in the business processes. A total of 25 institutions, the spending of which accounts for over 70% of the total budget expenditures, have formalized their business processes in the form of the internal books of procedures.

Table 1. FMC Comparison

	2011	2012
FMC Managers	63	79
Action Plans	20	24
Book of Procedures	0	25
Organized Seminars	12	22
% of the Budget	75%	95%

In addition to the activities of institutions, the Ministry of Finance, through daily cooperation with institutions, has provided guidelines and assistance, and has organized and carried out the following training:

- Eight seminars for the PIFC establishment and development of Montenegro, which was attended by persons involved in the implementation of this system;
- Training for the FMC managers, using the Croatian example of the practical implementation of financial management and control;
- Three working sessions titled "Annual Report on the FMC implementation" for the FMC manager. The objective of the working sessions was to provide guidelines, as well as the assistance in understanding the structure of the annual report, which all public sector institutions are obliged to submit to the Central Harmonization Unit;
- Three rounds of five - day training sessions for the implementation and the establishment of the financial management and control system attended by 120 managers responsible for and involved in the financial management and control with the public sector entities at both the central and the local level.

INTERNAL AUDIT

In the area of the public financial control improvement which also entails the internal audit, activities related to the further engagement of auditors, internal audit units establishment, as well as the training of internal auditors.

The coverage of the budgetary spending by the internal audit, with approximately 75% of the budget spending in 2012, increased to over 90 % of total budget spending, whereas the number of assigned internal auditor increased by 50 %.

Table 2. Internal Audit

	2011			2012		
	Central Level	Local Level	Total	Central Level	Local Level	Total
Internal audit unit organizational establishment	24	3	27	26	13	39
Number of units in which the internal auditors have been assigned	19	3	22	23	7	30
Assigned internal auditors	27	4	31	31	16	47
Signed Internal Audit Charter	17	0	17	21	5	26
Operational internal audit units (carrying out individual audits)	7	0	7	17	3	20
Agreement on the assignment of internal audit work	14	0	14	25	0	25
Certified internal auditors	0	0	0	7	0	7

Activities of the Ministry of Finance referring to the internal audit were focused on providing the training and support for newly appointed auditors in the public sector. In the light of the above, the following activities were carried out:

- The CHU employees, with the assistance of consultants engaged through the Project, organized and carried out the practical training for 25 internal auditors for the implementation of internal audit in five pilot ministries. The objective of the training was to provide practical knowledge and skills to internal auditors in applying the established internal audit methodology based on system audit and the audit report production;
- Organized was the workshop with internal auditors, on which presented was the experiences and the feedback in certain stage of performing the pilot audit;
- Organized was the workshop on the role of the Audit Authority in the system audit of the EU funds implementation programme - the Croatian experience;
- Organized were the trainings titled "Internal Audit as a part of the Public Internal Financial Control System " in Podgorica and Bar, within the Specific training programme for managers of organizational units of the users of the budget at both the central and the local level, being organized by the Ministry of Finance and Human Resources Management Authority;
- Organized was the workshop on strategic planning of internal audit;
- Organized and conducted was the practical training to internal auditors for the preparation of the internal audit strategic plan in five pilot ministries, to which auditors from other public sector entities took part;
- CHU, in cooperation with the representatives of CEF (Center of Excellence in Finance) from Ljubljana and the CEI (Central European Initiative), has commenced the implementation of the training curriculum and certification of 40 internal auditors in the public sector of Montenegro;
- CHU has published a public call for the trainers and candidates for the implementation of the training curriculum and certification of internal auditors in the public sector of Montenegro, and together with the representatives of the CEF, based on interviews and tests has selected the trainers. Employees of the CHU have been also selected as the trainers. Up to present, 2 out of the total 4 modules within the certification programme have been organized;
- Organized and conducted was the examinations for acquiring the title of certified internal auditor in the public sector in accordance with the Rulebook on the training curriculum and the manner of taking the examination for certified internal auditors in the public sector for the 8 candidates (October 2012). After conducting the examination, seven candidates have acquired the title of the internal auditor in the public sector.

FUTURE ACTIVITIES

Regardless of the progress made in the previous years in the public sector of Montenegro, activities of the Ministry of Finance and other institutions in the public sector, in the internal financial control area, will be further focused on:

- Managerial accountability strengthening;
- Further human resources capacity building in the internal audit units, in terms of the number of auditors and their professional abilities.

In the end, as a note, if the administration were function perfectly, it wouldn't require the internal or external control. However, in every country in the world, there is a need to control the work of administration in the public sector because of its imperfections, which partly is the result of the design of administration, and partly from the fact that the administration is composed of people who are not perfect. Therefore, the challenges facing the public sector of Montenegro are immanent to all administrations, and that is, primarily referring to the improvement of the quality of services and control over the spending/management of funds, in order to achieve the best possible results.

Ms. Ana Krsmanović, MSc,
Deputy Minister,
Sector for Central Harmonization of the
Public Internal Financial Control Management and Internal Audit

Introduction of the Regulatory Impact Assessment (RIA) into the Montenegrin Regulatory System



Sladana Pavlović MSc

Pursuant to the Action Plan for Regulatory Reforms and the Business Environment Improvement, adopted in 2009, the focus of the reforms of the Montenegrin regulatory system consisted of:

- Regulatory reform "Guillotine" of regulations;
- Reform of Doing Business; and
- Regulatory Impact Assessment (RIA).

The primary purpose of the reform was to abolish legal provisions that are restricting business and creating obstacles to business organizations. The control of the efficient legal framework establishment may be conducted prior and after the adoption of certain regulation.

The Regulatory Impact Assessment (RIA) represents a tool used for carrying out the control prior to adopting regulation, i.e. ex - ante assessment of the impact of new regulation or its amendments to the system as a whole.

ASSUMPTIONS FOR INTRODUCTION

The RIA was formally introduced in Montenegrin regulatory system upon the entry into force of the new Rules of Procedure of the Government of Montenegro in early 2012, introducing the obligation of the authors of regulation, to conduct the Regulatory impact assessment analysis in the development stage of laws and other regulations. In this way, the decision - makers in Montenegro will have a more complete idea of the effects of new regulations and they will be in a position to make a decision based on greatest number of information and arguments.

Prior to the formal entry into force, it was necessary to create administrative and institutional preconditions for the RIA introduction.

For the purpose of strengthening the institutional capacity of relevant ministries, the Ministry of Finance in cooperation with IFC, has in the first place conducted four trainings, providing the training for around 60 civil servants. Since the further development of the reforms was supported by the USAID, the Ministry of Finance in cooperation with the USAID, since September 2011, has carried out 6 additional trainings, providing the training for around 120 civil servants.

In addition to the trainings, the RIA Rulebook, as well as detailed instruction on the content, manner of filling out and submitting the reporting forms was adopted for the purpose of clarifying in details the process of carrying out the analysis and reports production. Furthermore, pilot RIA was conducted on the draft Law on business licensing reforms, for the purpose of identifying best options for the implementation of licensing reforms in Montenegro.

WHY WAS RIA INTRODUCED?

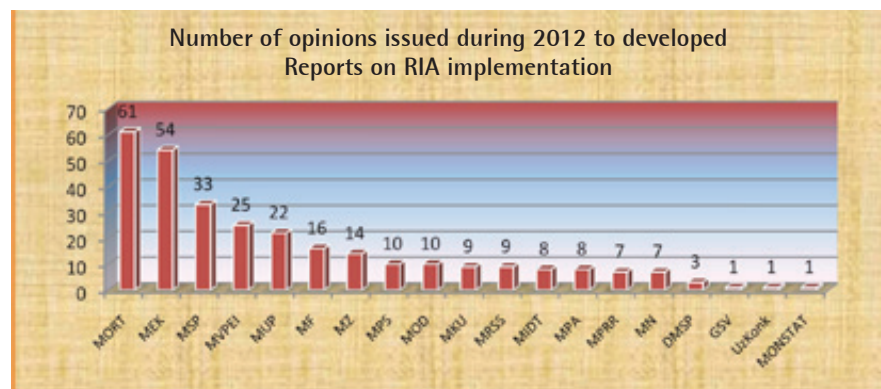
RIA is a multi - step process aimed at addressing the question in analytical and systemic manner, of whether the regulatory intervention is necessary and, if so, which of the possible regulatory options represents the best solution to the problem. Therefore, the procedure of analysis implementation is designed to determine which effects will be created by a new regulation or by the amendments to the current regulations to the citizens, business community and the state.

The main benefits of introducing and implementing RIA are reflected in better understanding of the consequences, costs, advantages, both by the policy makers and regulations, as well as, on the other hand, by the "user" of regulation. In this manner, direct, indirect and unintended impacts of regulations are being timely observed, since the analysis, as a rule, is to the greatest extent conducted by the working group in charge of developing the proposal of regulation (composed of the representatives of relevant institutions, NGO's, and other stakeholders). RIA development is in this way reducing the costs of its implementation to a minimum. Concerning the fact that the stakeholders may present their opinion and additional facts through consultations with the regulators during the public discussion, the RIA contributes also to the transparency of the state authorities. On the other hand, it improves the coordination of regulatory activities, and ultimately strengthens regulators accountability.

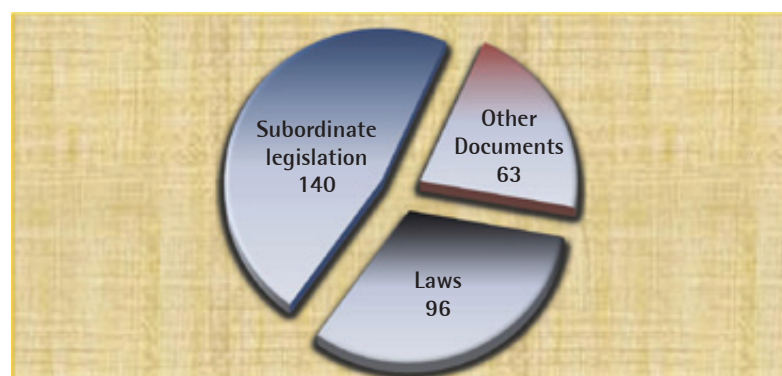
ACTIVITIES FOLLOWING THE RIA INTRODUCTION

Obligation of producing Report on conducted regulatory impact assessment applies to all authors of primary and secondary legislation. The Sector for business environment improvement of the Ministry of Finance is carrying out the quality assessment of prepared Report.

Since the formal adoption of RIA in January of the current year to date, the total of 299 opinions on the proposals of regulations and accompanying forms of the Report on conducted regulatory impact assessment analysis have been issued, in terms of business barriers (opinions relating to conducted RIA, impact of regulation to the business environment and the budget of Montenegro).



Pursuant to the Rules of Procedure of the Government of Montenegro, the opinion of the Ministry of Finance is required both in reference to the proposals of laws, and to the proposals of subordinate legislation and other documents. The share of opinions in certain categories of regulations during 2012 is illustrated in the Graph below:





PILOT RIA

Since the information technology is becoming the language of everyday life, one of the instruments for strengthening the transparency and accountability of the Government and its institutions is the provision of electronically available information. Therefore one of the products of the pilot Regulatory Impact Assessment Analysis was the establishment of the e - licensing register in Montenegro. The conduct of the pilot Regulatory Impact Assessment analysis of the business licensing reform in Montenegro started in April 2011. The overall reform was also supported by the American people through the United States Agency for International Development (USAID), and the East - West Management Institute.

Specifically, the initial idea of the pilot RIA was the adoption of a new Law on business licensing. However, after a thorough regulatory impact assessment analysis, it was determined that it was neither necessary to adopt the Law, nor to establish a special Licensing center in Montenegro, but to create a regulatory framework and a detailed e - licensing register.

The portal licenca.me is the output obtained, providing for all information on the business licensing (including application forms, fees, documents required to be delivered, contact persons in relevant institutions). In this way, procedures are significantly simplified through the reduction of the time and cost. Earlier experience has shown that, the acquiring of relevant information required several hours, and in some cases a few working days (including the costs of travel to Podgorica).

In the future, the Chamber of Commerce will be in charge of updating and maintaining the register, in cooperation with the Sector for the financial system and the business environment improvement, representing the channel for consolidation of opinions, ideas and solutions offered by the businessmen with the state apparatus.

INSTEAD OF CONCLUSION

The introduction of new procedures, rules and obligations is equally difficult for both the private and the state sector. The RIA introduction is being confirmed by it. However, if the civil servants, who are also the citizens of Montenegro, are going to benefit from this new obligation, i.e. presentation of a larger number of facts and arguments, for the purpose of making better decisions, it is necessary to act in terms of extending these possibilities and opportunities, or capturing all the links between the governmental and NGO sector. It is therefore essential that RIA does not become a formality, but rather a reflection and representation of all dependencies and impacts (either positive, or negative) between individuals, groups, economy, state, or the governmental and non - governmental sectors. Pursuant to the above, the benefits of certain regulations to entire society will be also in future the subject of verification.

Ms. Slađana Pavlović, MSc
Independent Advisor III,
Sector for Financial System and Business Environment Improvement



Budget Activities in 2012



Bojan Paunović

Budget Implementation in 2012

The need for significant fiscal adjustments has emerged based on the significant increase in the fiscal deficit and public debt in a majority of developed and developing countries and the increasing concern for the sustainability of public finances, which culminated by the European debt crisis in 2009 - 2012.

Having in mind the slow recovery of the world economy from the consequences of the economic crisis and significant exposure of Montenegro to external risks, the policy of prudent management of public finance and further fiscal consolidation has continued in 2012, through the implementation of a set of austerity measures, more strict control of the budget consumption and public administration rationalization.

Continued Controlled Policy of Budget Consumption

The Ministry of Finance has continued with the activities aimed at the establishment of a more efficient system of control over the budget consumption. In accordance with the Law on Public Procurement, in order to establish the control of contractual obligations, the Ministry of Finance has considered and approved the public procurement plans of the users of budget. This approach has enabled a better understanding and a more efficient planning of mandatory expenditures, improved control and timely execution of the budget commitments. Furthermore, the budgetary spending, as well as the contracting of new liabilities, has been aligned with the determined monthly spending plans of the users of the budget, contributing to the more efficient management of the budget funds

simultaneously mitigating the effects of the seasonal revenues collection.

In accordance with the established practice, implemented was the policy of strict control of payroll calculation of all consumer units that are financed from the budget. Specifically, in addition to a centralized system of payroll calculation in the Ministry of Finance, within which the payroll calculation for approximately 8, 100 employees in the civil service is conducted, the control over the payroll calculation of the spending units that perform these tasks independently has been enabled. Through the submission of standardized reports on the payroll calculation prescribed by the Ministry of Finance, the control of technical correctness of the payroll calculation was carried out, as well as the meeting of requirements for benefits based on overtime, holiday, night work, benefit work and other forms of supplements prescribed by regulations. Furthermore, in accordance with the Decision of the Government on the amount of severance pay of civil servants and state employees, continued was the policy of state administration rationalization during 2012, whereas around 400 civil servants and state employees have terminated the employment.

Economic conditions downturn and the Budget Correction in 2012

Due to the economic conditions downturn, which caused the reduction in budgetary revenues and increase in costs, as well as the need for technical harmonization with the application of the new Decree on the organization and method of work of the state administration, in the second quarter was developed and in May was passed the Law on Amendments to the Budget Law for 2012. Negative trends in world economy in the last quarter of 2011, as well as the negative indicators for the first three months of 2012, have reflected to the projections of the Montenegrin economy for 2012, and in accordance with revised revenues projections, developed was the new plan of financing budgetary consumption. As a result of the poor revenues collection, budget consumption was down by EUR 16 million, primarily reducing the discretionary consumption of the users of the budget.

However, despite the reduction in the consumption plan, the Law on Amendments to the Budget Law for 2012 had to provide additional funds for financing extraordinary expenses. Specifically, due to the extreme weather conditions in the first quarter of 2012, wildfires during the summer season, as well as due to calling of early parliamentary elections that were planned in 2013, additional funds have been provided from the budget reserve for the purpose of financing material damage, additional expenses for fuel in fighting wildfires, as well as the expenditures for political parties for the purpose of financing the pre - election campaigns.

Regulations Adoption and Austerity Measures Implementation

With the objective of fulfilling the obligations set out in the Government's Work Programme for 2012, as well for the purpose of implementing further austerity measures, in addition to the Budget Correction, a number of regulations were adopted.

Specifically, in March, adopted was the Law on salaries of civil servants and state employees. The adoption of this Law was envisaged by the Work Programme of the Government of Montenegro for 2011, as well as by the Action Plan for monitoring the implementation of recommendations of the European Commission's Opinion in the area of the state administration reform, and the enactment of this Law was conditioned by the adoption of the new Law on Civil Servants and State Employees and the Law on the Amendments to the Law on State Administration, defining new titles.

Furthermore, in order to reduce the expenditures for business trips, in May 2012, adopted was the Decree on the reimbursement of expenditures to the civil servants and state employees, reducing the per diem amount by 20 %.

In June, adopted was the Decision on the criteria for determining the amount of compensation for the members of the working group or other forms of work. This Decision is precisely enumerating advisory bodies and working groups of the Government of Montenegro, whose members are entitled to a monthly compensation. Furthermore, the exercise of the right to compensation for work in the working bodies has been determined, depending on the available funds, being confirmed based on the certificate issued by the Ministry of Finance, the right to compensation for a certain time, determining the fees for the work in the negotiating team for the accession to the European Union, reduction in fees for the development of primary and secondary legislation, amendments to the laws and the implementation of the public procurement procedures and fees for the work in the working groups established based on specific laws. Moreover, the Government of Montenegro in June has passed a conclusion determining the councils, commissions and other forms of working teams established by the Government, whose members are entitled to a monthly fee.

In July, adopted was the Decision on amendments to the Decision on determining the value of the coefficient for the calculation of the fixed part of salary of the state and public functionaries who perform their functions in the Government of Montenegro, as well as the Decision on amendments to the Decision on determining the value of the coefficient for the calculation of the fixed part of salary of judiciary and constitutional authorities, determining

the lower value of the of the coefficient for the calculation of the fixed part of the salary, i.e. EUR 120, the coefficient is determined in the amount of EUR 110.

Determining the Fiscal Accountability Principle

The financial crisis has exposed the unwillingness of many countries in Europe when it comes to fiscal preparedness to the new challenges, despite the existence of the Pact for Stability and Growth (PSG), which defines the framework of fiscal discipline. In order to reinforce the PSG, the European Union has adopted 6 new regulations, the so - called "6 - pack", which are more strictly regulating the issue of keeping the fiscal policies and the macroeconomic imbalances.

In order to timely and adequately respond to the challenges and risks in the international financial markets, as well as with the objective of pursuing responsible management of fiscal policy and public finance management, the Ministry of Finance has taken actions to identify and define the fiscal accountability principles, in order to incorporate them into the existing public finance system. The introduction of the fiscal accountability principle means also the fulfillment of the requirements envisaged by the European Union *acquis communautaire*, i.e. "6 - pack".

ADOPTION OF THE BUDGET LAW FOR 2013

Planning and adoption of the Budget Law for 2013

Bearing in mind changed macroeconomic trends, amended were the Macroeconomic and fiscal policy statements adopted in April 2012. Within the Statements, the fiscal policy for the next medium - term period, is defining new objectives ensuring the establishment of a sustainable public finance system. The main fiscal targets for the period 2013 - 2015, are reflected in the growth in budget revenues through the reduction in gray economy, and the intensification of outstanding tax claims collection, budget expenditures and budget deficit reduction and the budget balancing in the medium - term, maintaining the capital budget at a stable level, abolishment of the issue of guarantees except for the development projects, as well as the creation of the fiscal reserves.

Amended Macroeconomic and fiscal policy statements are incorporated in the Budget Circular for 2013, being distributed to all users of the budget in May 2012. The Budget Circular consisted of the macroeconomic and budgetary policy for 2013, forms for planning the medium - term priorities of the ministries, financial and non - financial data and explanation with accompanying instructions, as well as the spending limits set forth for the President of Montenegro, Parliament, judiciary, General Secretariat of the Government and ministries,

special bodies of the state administration and state funds. Furthermore, within the Circular, all users of the budget received a new structure of the Chart of Accounts with customized tables for the budget planning for 2013.

Specifically, for the purpose of a more detailed and transparent review of expenditures and more accurate budget planning, the structure of the Chart of Accounts has been amended providing for more detailed information for specific groups of expenditures that have not been sufficiently elaborated in analytical terms. In addition to other amendments, the item - expenditures for goods and services has been elaborated in details and analytically processed, being divided into the expenditures for material and expenditures for services with the special segregation of expenditures with contracted services, being divided into the following: consultancy services, lawyer's services, notary and legal services, contracts of work, court costs, software maintenance services, professional development services, contribution for membership in organizations, insurance, utility services and other services.

For the preparation of the budget of the executive power, the line ministries were responsible for the coordination development and integration of the budget requests of users by setting the financial limits within its departments, as well as for submitting the budget requests to the Ministry of Finance

In accordance with the Organic Budget Law and determined budget calendar, the users of the budget have submitted the budget requests by July 2012 to the Ministry of Finance and these budget requests were the subject of negotiations between the Ministry of Finance and the line ministries during September and October. The Ministry of Finance has submitted to the Government of Montenegro the Draft Budget Law for 2013 for consideration in October.

Budget Law for 2013, was adopted at the third session of the second regular session of the Parliament of Montenegro, on 28th December 2012.

Basic features of the Budget for 2013

Pursuant to the Budget Law for 2013, the budget consumption is planned in the amount of EUR 1, 257.1 million, or at a level of by about 36% of GDP and, in accordance with the Budget Law, it has been divided into the current budget, state funds budget, capital budget and financing transactions.

In relation to the consumption plan for 2012, the budget consumption in 2013 is down by about EUR 3 million. However, despite the slight reduction in consumption, a significant consolidation of certain expenditures has been achieved which has been setoff by a significant increase in mandatory expenditures in the amount of by about EUR 50 million.

Specifically, due to the increase in expenditures for servicing the debt, interest expenditures are up by of about EUR 15, 5 million. Expenditure on the basis of the pension and disability insurance rights intended for financing elderly, disability and family pensions, benefits, supplements, pensions from abroad and contributions for the healthcare of pensioners, are up by of about EUR 23 million, as well as the expenditures related to the social protection rights being up by of about EUR 1, 6 million. Expenditure provided for funding the implementation of the programme of professional development of persons with university degree, represents an additional expense in the amount of EUR 10 million, being planned within the budget of the Ministry of Education.

On the other hand, further consolidation of the budget consumption is reflected through the expenditures reduction on several grounds. Specifically, the expenditures for gross earnings are down by of about EUR 5, 7 million, and the aforementioned decrease, in addition to the state administration rationalization and more efficient control of wages and benefits by the Ministry of Finance, primarily relates to the entry into force of the new provisions of the Law on Civil Servants and State Employees, pursuant to which the salaries of employees in state funds and the Agency for peaceful settlement of labor disputes are equalized with the wages of civil servants and state employees. Expenditures for subsidies have been reduced for approximately EUR 6, 5 million due to the completion of the framework agreement on settlement of the long - term protocol on electricity supply to the KAP in the period from 1st January 2009 to 31st December 2012. Moreover, funds for employees proclaimed redundant are down by EUR 3, 5 million, within which the highest expenditure relates to the benefits for unemployed persons with the Employment Agency, being reduced by about EUR 2 million, due to changes in the manner of calculating compensation for unemployed persons.

Reduction in public consumption is also reflected in the further reduction of discretionary spending in the item - expenditures for materials and services and expenditures for services, current maintenance, capital expenditure in the current budget, etc. The total discretionary spending, in relation to 2012, has been reduced by about EUR 30 million, or by about 38%.

As far as the capital budget is concerned, it has been planned in the amount of EUR 65, 6 million. Majority of the projects, or about 70% of the total funds planned by the capital budget for 2013, are intended for the continuation of projects that have initiated in the previous period, while the remaining funds relate to the commencement of implementation of new projects. Furthermore, envisaged are the projects that will be financed through the loan from the European Investment Bank (EIB), World Bank, European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB).

With the planned revenues generation in the amount of EUR 1, 161.80 million, or 33 % of GDP, the budget deficit for 2013 is planned at the level of EUR 95, 3 million euros, or 2.7 % of GDP, and its financing will be made through the borrowing. The Budget Law for 2013, envisages the borrowing up to a maximum amount of EUR 250 million and, in addition to the deficit financing, funds will be used for servicing the debt service and creation of fiscal reserves.

Envisaged measures of additional fiscal adjustments in 2013

Bearing in mind the fact that the leading fiscal objectives in the period 2013 - 2015 are primarily reflected in further fiscal adjustment and increase in tax claims collection, the Ministry of Finance has prepared the Information on additional measures of fiscal adjustment, being adopted by the Government in December 2012, and hence the Government adopted the Conclusion on additional fiscal adjustment measures.

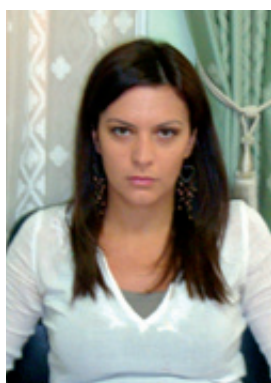
In the light of the above, in 2013, envisaged is the realization of additional adjustment measures that are not reflected in the adopted Law on Budget for 2013, and that will have an effect on the tax revenue increase and further decrease in consumption.

Specifically, in 2013, envisaged is the implementation of the set of measures relating to the suppression of the gray economy and the strengthening of institutional and human capacities of the state administration responsible for the revenues control and collection. Furthermore, in accordance with the conclusion of the Government, the Ministry of Finance will analyze the existing model of income taxation of physical persons, in terms of providing an insights into the progressive taxation model, and creating the preconditions for introduction of the crisis tax for the fiscal year 2013. The expected net effect of applying these new solutions related to the introduction of the crisis tax would have a positive result on the revenues collection from personal income taxes.

Furthermore, in December 2012, enacted was the Law on amendments to the Law on pension and disability insurance. Pursuant to the amendments to the Law, the adjustment of pensions will not be made in 2013, i.e. pension's amount will be kept on the same level. The implementation of this solution will generate effects on the budget spending in a part relating to the planned expenditures for pension and disability insurance rights, which is reflected in the achievement of cost saving on this basis.

Mr. Bojan Paunović,
Independent Advisor II,
Budget Department

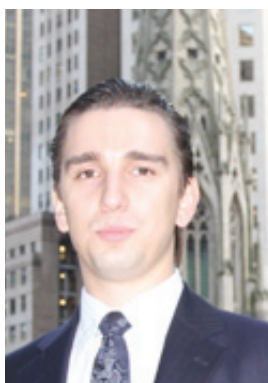
State Assistance in 2012



Šefika Kurtagić



Nikolina Radojčić



Marjan Junčaj MSc

The current state assistance system is the result of the fulfillment of all assumed commitments set forth in the Stabilization and Association Agreement (Article 73 and Protocol 5). In the past period Montenegro has achieved significant progress in this area.

With the objective of improving both already established legal framework for the control of state assistance, and for the purpose of improved application of the rules governing this area, the Ministry of Finance in the previous period, has developed and amended certain subordinate legislation in this area. Specifically, for the purpose of improving the annual reporting, and at the request of the delegates of the Parliament of Montenegro requiring the inclusion of the impact analysis of granted assistance in the Annual Report, which is in line with practice in the member states of the European Union, the amendments were made to the Decree on the manner and procedure of submitting the state assistance application and the Rulebook on the content of the Annual Report on granted state assistance.

The Decree, specifically the state assistance application form, has been altered with the new columns obliging the donors to, at the moment of granting the state assistance (scheme or individual assistance), determined the baseline, i.e. status of play prior to the state intervention, as well as to determine the indicators – benchmarks for monitoring the effects of granted assistance. The Rulebook was amended by the Form which donors are obliged to fill in when sending data on granted state assistance, indicating expected and actual results, i.e. the effects of granted state assistance.

Following the consultations with the European Commission and upon obtaining a positive assessment, the Ministry of Finance and the Ministry of Economy have submitted to the Government of Montenegro the proposal of the Decision on the map of state assistance for adoption, representing ad-

ditional obligation set forth in the SAA. The Government of Montenegro, in March 2012, adopted the Decision, related to the assistance for boosting the economic development of areas in which the standard of living is abnormally low or subjected to a high unemployment rate. In accordance with this Decision, the entire territory of Montenegro is considered underdeveloped region, i.e. region with GDP per capita, measured in purchasing power standards, being below 75% of the average of the European Union. On this basis, Montenegro is able to grant regional state assistance up to a maximum intensity of 50% for large or 60% for medium – sized and 70% for small business companies.

In June 2012, produced was 2011 Annual Report on granted state assistance, endorsed by the Parliament of Montenegro at its session held on 26th July 2012, and in October 2012, the Report was sent to the European Commission for review. This is the fifth consecutive Report, and unlike the previous reports, it encompasses the impact analysis of the state assistance granted. Although this analysis is more descriptive than the analytical one, because at that time there wasn't a legal framework to prescribe the standards for conducting the analysis, it represents a significant step forward in the annual reporting and monitoring of the state assistance policy in general, since it has a good basis for the decision – making process related to the implementation and enforcement of individual state assistance or state assistance schemes. The state assistance of Montenegro in 2011 amounted to EUR 66,441,062.09 euros, which represents by about 2, 03% of the total GDP. Horizontal state assistance in 2011, amounted to EUR 20, 94 million, or 31.52% of the total assistance granted. Sectoral state assistance in 2011, amounted to EUR 42, 56 million or 64, 06% of the total assistance granted. Regional assistance in 2011 amounted at EUR 2, 94 million, or 4, 42% of the total allocated assistance. Furthermore, it is important to emphasize that in the reporting period, the Commission for the control of state as-

assistance has considered 11 cases, bringing 10 decisions and one conclusion. The Commission has also initiated an ex-officio case that is still pending.

SCREENING

Bilateral screening meeting for the state assistance area was held in Brussels, on 3 - 4 December 2012, being a part of the negotiating Chapter VIII, representing one of the most complex issues, which implies full harmonization with the EU *acquis communautaire*.

For the purpose of closing this Chapter, it is necessary to attain the same level of commitment and compliance in all member states and to have fully built administrative capacity in this area. So far, Montenegro has taken important steps on the path to national legislation harmonization with the EU *acquis communautaire*, but there is still a room for upgrading and improving the legislative framework up to reaching a complete compliance.

At a meeting in Brussels, the Montenegrin delegation presented the activities carried out by the fulfillment of the obligations under the very signing of the Stabilization and Association Agreement, which relate to the establishment of a system of state aid control.

At a meeting in Brussels, the Montenegrin delegation presented all activities it has carried out aimed at fulfilling the obligations assumed based on entering the Stabilization and Association Agreement, which relate to the establishment the state assistance control system.

Representatives of the European Commission assessed that all essential rules related to the state assistance have been transposed into the legislation of Montenegro. Commended was the practice of the Commission for the control of state assistance, which implies that, the analysis and decision making on the allocation of state assistance is relying on the relevant EU legislation governing this area (guidelines, information, etc.). The general problem that is encountered while harmonizing the national legislation with the EU law, is so-called transposition of soft laws, and in this context, the need for additional improvements has been recognized. The European Commission has shown great interest in terms of specific areas subjected to the state assistance allocation, such as the environmental protection, science, transportation, employment of persons with disabilities, and, of course, assistance for rescuing and restructuring companies in difficulties. Montenegrin representatives have presented the specific approved programmes confirming the existence of the awareness on the importance of these categories.

Members of the Montenegrin delegation pointed out that, having in mind the importance of familiarity of local governments and their understanding of the concept of state

assistance, held a significant number of seminars and trainings, with the objective of raising the awareness on the state assistance policy, and that this process will be intensified through the IPA 2011 EU funded project, the implementation of which will commence in March 2013.

At the request of the European Commission to present an analysis and assessment when deciding on the most common cases of granting the state assistance, restructuring and rescue, special emphasis was placed on the analysis of so-called countervailing measures. Countervailing measures are defined as measures that do not address the problems of a company, but profitable part of the business. The opinion of the European Commission is that these measures should be aimed at reducing business activity, and that a clear distinction should be made between the restructuring and countervailing measures.

During the meetings in Brussels, special attention was placed on the criteria that need to be considered when deciding on the state assistance allocation, relating to the statute of limitation of the state assistance, as well as the methodology of determining the amount of certain state assistance. In the light of the above, the European Commission had no objections to the table that includes all the necessary elements that are taken into account when calculating the net assistance amount. At the same time, the positive response was given to the request of the Montenegrin side in reference to organizing seminars and trainings, during which the model used by the European Union would be presented, and which would contribute to the development of the amendments to the our current model, in order to achieve full harmonization with European practice.

At the screening in the state assistance area, very important issues was addressed and it related to the harmonization of the tax measures with the rules on granting the state assistance. In this context, it has been recommended to carry out the mandatory consultation of authorities in charge of the state assistance when creating tax incentives, free and business zones, as well as other forms of relief.

The overall assessment of the European Commission representatives was that Montenegro made a remarkable progress in the state assistance area, especially given the fact that this policy has been recently introduced in Montenegro. The Commission has emphasized its willingness to cooperate and provide support to Montenegro in further implementation and compliance in this area.

Ms. Šefika Kurtagić, Independent Advisor I,
Mr. Marjan Junčaj, MSc, Independent Advisor III,
Ms. Nikolina Radojčić, Advisor,

Department for the Control of State Assistance

Law on Amendments to the Law on Custody of Temporarily or Permanently Seized Property



Milanka Otović

The Proposal of the Law on Amendments to the Law on Custody of temporarily or permanently seized property was prepared by the Ministry of Finance in cooperation with other relevant institutions.

The constitutional basis for the adoption of the Law on Amendments to the Law on Custody of temporarily or permanently seized property is contained in the provision of Article 16 of the Constitution of Montenegro, which stipulates that the Law, in accordance with the Constitution, shall regulate issues of interest for Montenegro.

The Amendments to the Law on Custody of temporarily or permanently seized property from 2008 were the result of the need that emerged during its implementation, requiring more detailed regulation of individual issues. This especially applies to the management of temporarily seized assets of business organizations, renting and

granting the use of seized property without compensation.

Major changes introduced by the amendments to the aforementioned Law relate to improved definition of assets, and assets are considered to be movable and immovable property of business organizations and other forms of economic activity performance, ownership interest and securities, in accordance with the Law. Furthermore, a new chapter governing the management of temporarily seized property of ownership interest and securities in the companies has been introduced, prescribing that the Government shall appoint the members of the management body in the business organization, at the proposal of the competent authority. Moreover, the amendments have introduced the obligation of the management body to produce a report on the existing situation, i.e. status of play. Furthermore, it was specified which data should be covered by the report.

Moreover, for the purpose of providing more efficient management of temporarily seized property, introduced was the obligation of the management body to urgently undertake all necessary measures and actions, as well as the obligation of submitting monthly reports to the head of the competent authority on its operation. Furthermore, it prescribed the possibility to the competent authority to appoint a person who will represent the interests of the minority right – holder, providing for the possibility to the competent authority to lease temporarily seized property through a public auction, setting forth the conditions under which a temporarily seized property may be granted to use without compensation, as well as the conditions under which it may be leased through direct negotiation.

One of the changes brought by the Amendments to the Law on Custody of temporarily or permanently seized property is reflected in the fact that it has been stipulated that the temporarily seized immovable property may be sold with the prior approval of the court if the costs of storing, managing and maintaining such property significantly exceed the value of such property, and if there is a threat that such property shall become deteriorated. Moreover, introduced was the option of entrusting the management of temporarily seized property to the organization or institution. The manner of entrusting these tasks is to be determined by the Government.

This Law envisages that, in the case of temporary seizure of securities, the competent authority shall record the notice of prohibition of disposal and disposal of

the securities in the Central Depository Agency. In the light of the above, the Law provides for the possibility of the competent authority to hire authorized participants on the securities market in order to monitor the market value trend of seized securities, regulating in details international cooperation in the management of seized property and the manner of covering expenditures, prescribing the deadline of 60 days for bringing subordinate legislation necessary for the implementation of this Law.

Amendments to the Law prescribe that, in the absence of sufficient funds on the account used to keep the funds generated based on leasing the seized property, management and maintenance costs of seized property will be compensated from the account on which the proceeds generated based on the sales of movable property are kept.

The proposed Law became effective following its publication in the "Official Gazette of Montenegro", because it was necessary to enable at earliest the management of seized property, for the purpose of avoiding the expenditures and deterioration of assets.

The adoption of the new Law is expected to generate a positive impact on the state – whereas the state will be able to, through the competent authority, manage the temporarily seized property in the best possible manner and to preserve property at minimum costs, as well as to enable continuous operations of businesses or organizations, the owners of which are suspected within the criminal procedure and whose property has been temporarily seized.

Ms. Milanka Otović,
Head of the State Property Department

Public Finance Analysis in 2012



Iva Radovanović



Stanko Jeknić PhD



Snežana Mugoša MSc

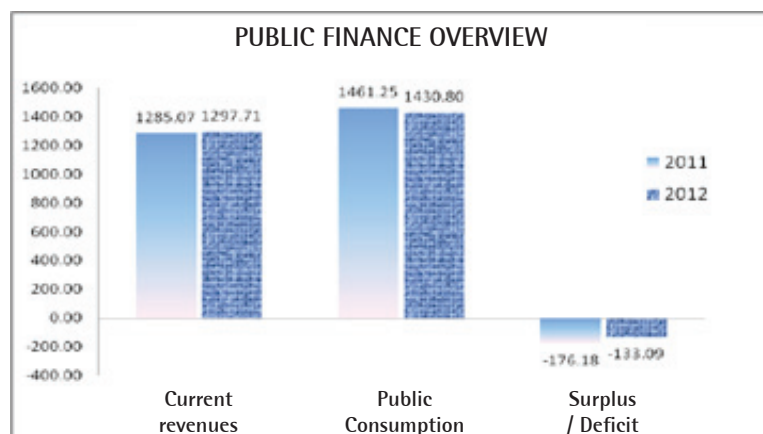
MONTENEGRIN PUBLIC FINANCE

The Montenegrin public finance structure is composed of the Budget of Montenegro with state – owned funds (Pension and Disability Insurance Fund, Health Insurance Fund, Compensation Fund and Employment Fund) and local government budgets (Royal Capital Cetinje, Administrative Capital Podgorica and 19 municipalities). The Budget of Montenegro makes about 90% of public finance, whereas the remaining 10% represents the local government budget.

Public finance in 2012 is featured by further fiscal adjustments and implementation of budget consumption rationalization measures, as well as the fiscal policy priorities in the European Union. In 2012, the economic activity was down due to the spillover of the international economic crisis, as well as the extraordinary weather conditions in Montenegro earlier this year, which affected the trends in the public finance area.

Estimated public revenues in 2012¹, amount at EUR 1,297.71 million or 39,04% of forecasted GDP (EUR 3.324 million)². In comparison to the previous year, they are up by 1%, representing the nominal growth by EUR 12,64 million. This growth was to the greatest extent contributed by the nominal increase in corporate profit tax revenues of EUR 27,9 million, contributions of EUR 8,7 million and excise duties of EUR 8,4 million.

The decline in revenues, compared to the previous year, was accounted with the international trade taxes and transactions being down by 36,1%, VAT being down by 9,6% and real estate turnover taxes being down 7,9%.



1 - 2012 Public finance data are preliminary up to the adoption of the Year – end Account of the Budget of Montenegro for 2012.

2 - Following the publication of the official data for Gross Domestic Product (GDP) in 2011 by the MONSTAT, nominal GDP amount for 2012 has been corrected, pursuant to earlier forecasted nominal growth rate at 4%.

Estimated public consumption in 2012 amounts at EUR 1.430,80 million, representing 43,04% of GDP, being down by EUR 30,45 million or 2,1% against 2011. Savings were generated on items covering the other personal income, subsidies, transfers to institutions, individuals and NGO's, public sector and capital budget. Mandatory expenditures are up, whereas the item social protection transfers is up by EUR 26,57 million, while the gross earning remained at approximately the same level reached in 2011. In comparison to the last year, expenditures for interests and repayment of debt principal are up, mostly as the result of the repayment of principal to residents.

The public sector deficit in 2012 amounted at EUR 133,09 million, being down by EUR 43,09 million against the deficit realized in last year. Local government has accounted for a surplus in the amount of EUR 30,7 million.

GDP (in mil. €)	3234.0		3324.0		3324.0			
Public Consumption	2011		2012 Correction		Estimate 2012		Deviations from the plan	
	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP	mil. €	% GDP
Current Revenues	1285.07	39.74	1282.23	38.58	1297.71	39.04	15.48	0.47
Taxes	794.52	24.57	803.91	24.19	785.99	23.65	-17.92	-0.54
Personal income tax	113.23	3.50	111.24	3.35	109.68	3.30	-1.56	-0.05
Corporate profit tax	36.10	1.12	46.87	1.41	64.02	1.93	17.14	0.52
Real estate turnover tax	15.66	0.48	12.47	0.38	14.41	0.43	1.94	0.06
VAT	392.24	12.13	381.22	11.47	354.71	10.67	-26.51	-0.80
Excises	143.38	4.43	163.06	4.91	151.77	4.57	-11.29	-0.34
International trade and transactions taxes	45.33	1.40	47.34	1.42	28.97	0.87	-18.38	-0.55
Local taxes	44.45	1.37	37.55	1.13	58.15	1.75	20.60	0.62
Other taxes	4.15	0.13	4.15	0.12	4.28	0.13	0.13	0.00
Contributions	353.58	10.93	351.99	10.59	362.25	10.90	10.26	0.31
Pension and disability insurance contributions	213.45	6.60	211.81	6.37	216.50	6.51	4.69	0.14
Health insurance contributions	120.89	3.74	120.21	3.62	125.74	3.78	5.53	0.17
Contributions from unemployment	10.76	0.33	11.07	0.33	9.99	0.30	-1.08	-0.03
Other contributions	8.47	0.26	8.91	0.27	10.02	0.30	1.11	0.03
Duties	21.98	0.68	33.02	0.99	23.34	0.70	-9.68	-0.29
Fees	72.57	2.24	51.39	1.55	73.75	2.22	22.35	0.67
Other revenues	37.41	1.16	37.75	1.14	47.89	1.44	10.14	0.31
Receipts from the repayment of loans transferred funds from previous year	5.01	0.15	4.17	0.13	4.49	0.14	0.32	0.01
PUBLIC CONSUMPTION	1461.25	45.18	1385.36	41.68	1430.80	43.04	45.44	1.37
CURRENT PUBLIC CONSUMPTION	1325.66	40.99	1271.72	38.26	1310.36	39.42	38.65	1.16
Current expenditures	680.54	21.04	702.69	21.14	715.45	21.52	12.76	0.38
Gross wages and contributions charged to employer	403.94	12.49	410.27	12.34	407.75	12.27	-2.52	-0.08
Net earnings	246.91	7.63	248.81	7.49	248.68	7.48	-0.13	0.00
Wage taxes	30.62	0.95	31.81	0.96	30.92	0.93	-0.89	-0.03
Contributions charged to employee	79.77	2.47	82.25	2.47	81.03	2.44	-1.22	-0.04
Contributions charged to employer	42.31	1.31	42.78	1.29	42.71	1.29	-0.07	0.00
Municipal surcharges	4.33	0.13	4.62	0.14	4.40	0.13	-0.21	-0.01
Other personal income	20.18	0.62	15.74	0.47	13.00	0.39	-2.74	-0.08
Expenditures for material and services	119.84	3.71	153.90	4.63	167.22	5.03	13.33	0.40
Current maintenance	28.16	0.87	27.16	0.82	27.58	0.83	0.43	0.01
Interest	47.60	1.47	58.41	1.76	58.85	1.77	0.45	0.01
Rent	7.71	0.24	8.04	0.24	7.54	0.23	-0.50	-0.02
Subsidies	46.35	1.43	21.42	0.64	26.61	0.80	5.19	0.16
Other expenditures	6.75	0.21	7.76	0.23	6.89	0.21	-0.87	-0.03
Transfers to public institutions, individuals and NGO's	455.52	14.09	478.55	14.40	482.09	14.50	3.54	0.11
Social protection rights	60.09	1.86	60.15	1.81	65.64	1.97	5.49	0.17
Severance pay	17.32	0.54	18.92	0.57	16.13	0.49	-2.79	-0.08
Pension and disability insurance rights	356.88	11.04	378.08	11.37	378.97	11.40	0.89	0.03
Other health protection rights	12.98	0.40	14.13	0.43	13.50	0.41	-0.63	-0.02
Other health insurance rights	8.25	0.26	7.28	0.22	7.86	0.24	0.58	0.02
Transfers to institutions, NGO's and individuals	112.82	3.49	52.73	1.59	63.61	1.91	10.88	0.33

Capital expenditures	135.60	4.19	113.65	3.42	120.44	3.62	6.79	0.20
Capital Budget of MNE	84.13	2.60	76.65	2.31	72.12	2.17	-4.53	-0.14
Local government capital budget	51.47	1.59	37.00	1.11	48.32	1.45	11.32	0.34
Borrowings and loans	4.23	0.13	3.47	0.10	2.96	0.09	-0.51	-0.02
Reserves	14.09	0.44	10.85	0.33	21.54	0.65	10.69	0.32
Repayment of guarantees	34.11	1.05	23.43	0.70	24.72	0.74	1.29	0.04
Net increase in liabilities	24.34	0.75	0.00	0.00	0.00	0.00	0.00	0.00
SURPLUS/DEFICIT	-176.18	-5.45	-103.13	-3.10	-133.09	-4.00	-29.96	-0.90
PRIMARY DEFICIT	-128.57	-3.98	-44.72	-1.35	-74.24	-2.23	-29.51	-0.89
DEBT REPAYMENT	182.47	5.64	181.12	5.45	223.65	6.73	42.53	1.28
Repayment of principal to residents	39.56	1.22	52.85	1.59	83.43	2.51	30.58	0.92
Repayment of principal to non - residents	60.32	1.87	57.46	1.73	59.87	1.80	2.42	0.07
Repayment of liabilities from previous period	82.59	2.55	70.81	2.13	80.35	2.42	9.53	0.29
FINANCING NEEDS	-358.65	-11.09	-284.25	-8.55	-356.74	-10.73	-72.49	-2.18
FINANCING	358.65	11.09	284.25	8.55	356.74	10.73	72.49	2.18
Borrowings and loans from domestic sources	66.35	2.05	22.44	0.68	70.42	2.12	47.98	1.44
Borrowings and loans from abroad	189.72	5.87	291.80	8.78	258.13	7.77	-33.67	-1.01
Donations	8.26	0.26	2.00	0.06	7.90	0.24	5.90	0.18
Revenues from privatization	14.98	0.46	18.00	0.54	13.37	0.40	-4.63	-0.14
Use of the state deposits	79.34	2.45	-50.00	-1.50	6.93	0.21	56.92	1.71

Source: Ministry of Finance of Montenegro

BUDGET OF MONTENEGRO

In the first half of 2012, due to the decline in revenues, as well as based on activation of guarantees for the loans of KAP in the amount of EUR 23, 5 million, additional budget pressure was created, thus in the end of May 2012, the budget correction was made triggering the adoption of a set of fiscal measures aimed at budget consolidation. On this occasion, the growth rate forecast was decreased, as well as the budget revenues plan which was adapted to the newly created conditions.

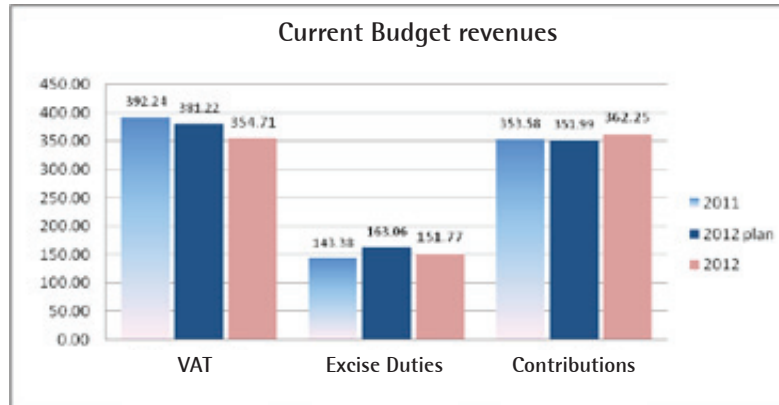
These fiscal measures, affecting both the revenues and the expenditures side of the budget, did not compromise the living standard of citizens, as well as the business development conditions. Non - productive costs have been reduced, whereas the development component of the budget has not been significantly reduced. On the revenue side, a set of measures aimed at revenues increase has been adopted: fees for SIM cards, smoking zone, electricity meters and cable television, and as a part of a planned adaptation to the European standards, excise duties on alcohol, tobacco and fuel oil have been increased, and introduced were the excise duties on coffee and carbonated drinks.

Receipts (revenues) of the Budget of Montenegro³ in 2012, amounted at EUR 1.447,4 million, out of which the share of the current revenues amounts at EUR 1.118,8 million, while the remaining amount of EUR 328,6 has been generated on the basis of other financing sources (borrowing, privatization and donations). The current revenues were realized at 97,3% compared to the plan, or 99,1% compared to the last year's ones. The highest share in the revenues structure was recorded with the taxes and contributions.

Tax based revenues amount at EUR 687,4 million and are down by 2,4% compared to 2011. In nominal terms, the highest revenues decline compared to the last year, was recorded with the VAT being down by 37,5 million or nearly 10%, amounting in total EUR 354,7 million. Negative deviation was also recorded with the international trade tax amounting to EUR 16,4 million, or 36,1%, as the result of international market liberalization and continuous decline in customs rates. In 2012, corporate profit tax is up by 77,3% compared to the previous year. Revenues from other fees are up by EUR 4,7 million, as the result of the interim measures being introduced in 2012. Simultaneously, revenues from administrative fees and other duties are down by EUR 2,8 million, being reduced for the purpose of the business environment improvement.

Contribution based revenues amount at EUR 362,3 million being up by 2,9 % compared to the plan for 2012, also being up by 2,5% compared to the same period of last year.

3 - Budgetary revenues include the current revenues (direct and indirect taxes and non - tax revenues), borrowings, donations and revenues from privatization and sale of assets.

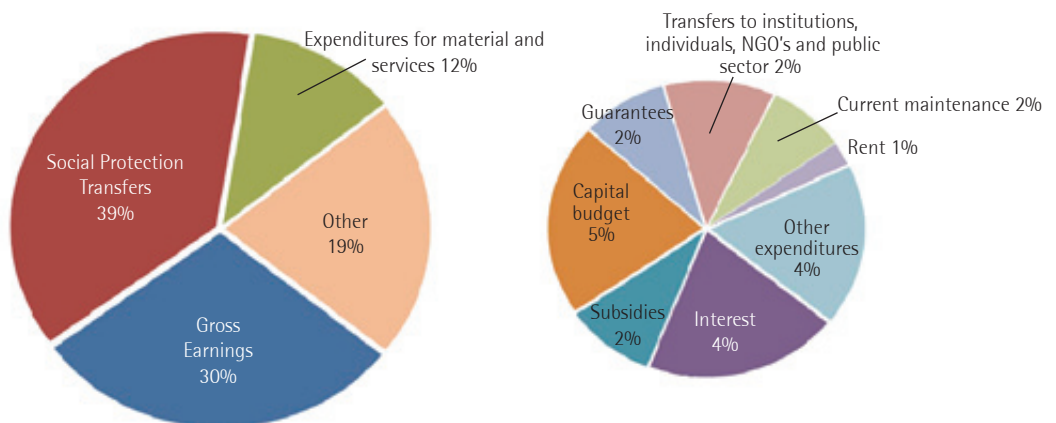


The total expenditures of the Budget of Montenegro in 2012 amounted at EUR 1.282,62 million or 38,59% of GDP, being down by 2,74% compared to the previous year, and up by 1,78% compared to the plan. Current budget consumption amounts at EUR 1,223,88 million, and capital investments amounts at EUR 58,74 million. State debt repayment has the upward trend amounting at EUR 168,7 million.

Deviations from the plan were accounted with the subsidies (up by EUR 5,15 million) and capital budget (down by EUR 6,75 million).

Compared to the same period of last year, expenditures for interest are up by EUR 10,9 million, as well as the social protection transfers being up by EUR 26,87 million (mostly due to the increase in pension and disability insurance rights by EUR 22,1 million).

State Budget Expenditures Structure



The nominal increase in expenditures against the previous year, was realized with the item – expenditures for material and services of 46,38%, as the result of amended budget classification, whereas prior to the amendments, the spending units have accounted for their expenditures within the item – transfers to the public institutions, and now these expenditures are accounted within the item expenditures for material and services. Significant decline was realized within the item – transfers to public institutions (EUR 55,22 million), simultaneously generating the net decline in expenditures by EUR 8,84 million.

The budget expenditure structure in 2012 is still unfavorable, as it has been indicated in the Graph, Around 30% of the budget expenditures in 2012 relates to the gross wages, and 39% to the social protection, whereas the expenditures for materials and services account for 12% and interest account for 4% of the budget consumption. The development part of the budget, i.e. the capital budget, represents 5% of the current budget consumption. At the same time, the share of mandatory expenditures is down compared to the previous year, amounting to 76,6% of the total budget expenditures. Estimated budget deficit amounts at EUR 163,79 million or 4,9% of GDP, being down by EUR 25,9 million compared to the previous year. In 2012, the methodology of calculating the deficit has changed, thus repaid guarantees that had been previously recorded under the item – debt repayment – are now included in the current budget consumption, thus have triggered the increase in the deficit. Debt repayment amounts to EUR 168,7 million, being up by EUR 35,9 million compared to the previous year, mostly as the result of the debt repayment to residents.

Financing needs amounted to EUR 332,49 million, being to the greatest extent, financed from the borrowings and loans from abroad in the amount of EUR 258,13 million, and borrowings and loans from domestic sources, and to the lesser extent, from donations, privatization revenues and the use of deposits.

Budget of Montenegro	2011		Correction		2012 Execution		Deviation from the plan	
	mil. €	% GDP	mil. €	% GDP	mil. €	% BDP	mil. €	% BDP
Current revenues	1129.14	34.91	1150.06	34.60	1118.82	33.66	-31.23	-0.94
Taxes, of which:	704.07	21.77	725.61	21.83	687.44	20.68	-38.17	-1.15
Personal income tax	81.64	2.52	81.50	2.45	82.26	2.47	0.77	0.02
Corporate profit tax	36.10	1.12	46.87	1.41	64.02	1.93	17.14	0.52
VAT	392.24	12.13	381.22	11.47	354.71	10.67	-26.51	-0.80
Excises	143.38	4.43	163.06	4.91	151.77	4.57	-11.29	-0.34
International trade and transactions taxes	45.33	1.40	47.34	1.42	28.97	0.87	-18.38	-0.55
Contributions, of which:	353.58	10.93	351.99	10.59	362.25	10.90	10.26	0.31
Pension and disability insurance contributions	213.45	6.60	211.81	6.37	216.50	6.51	4.69	0.14
Health insurance contributions	120.89	3.74	120.21	3.62	125.74	3.78	5.53	0.17
Contributions from unemployment	10.76	0.33	11.07	0.33	9.99	0.30	-1.08	-0.03
Duties	16.01	0.50	27.09	0.81	17.84	0.54	-9.25	-0.28
Fees	25.70	0.79	15.45	0.46	12.71	0.38	-2.74	-0.08
Other revenues	24.78	0.77	25.74	0.77	34.09	1.03	8.35	0.25
Receipts from the repayment of loans	5.01	0.15	4.17	0.13	4.49	0.14	0.32	0.01
EXPENDITURES	1318.82	40.78	1260.18	37.91	1282.62	38.59	22.43	0.67
CURRENT BUDGETARY CONSUMPTION	1234.69	38.18	1194.70	35.94	1223.88	36.82	29.18	0.88
Current expenditures	632.03	19.54	654.29	19.68	666.16	20.04	11.87	0.36
Gross wages and contributions charged to employer	371.26	11.48	377.61	11.36	374.66	11.27	-2.95	-0.09
Other personal income	12.83	0.40	10.44	0.31	10.06	0.30	-0.38	-0.01
Expenditures for material and services	104.01	3.22	142.15	4.28	150.39	4.52	8.24	0.25
Current maintenance	23.54	0.73	23.18	0.70	22.55	0.68	-0.63	-0.02
Interest	45.09	1.39	54.91	1.65	55.99	1.68	1.09	0.03
Rent	7.38	0.23	7.72	0.23	7.22	0.22	-0.50	-0.02
Subsidies	45.40	1.40	20.70	0.62	25.85	0.78	5.15	0.16
Other expenditures	5.52	0.17	6.41	0.19	6.05	0.18	-0.36	-0.01
Social protection transfers, of which:	454.76	14.06	477.84	14.38	481.64	14.49	3.80	0.11
Social protection rights	59.33	1.83	59.44	1.79	65.19	1.96	5.75	0.17
Severance pay	17.32	0.54	18.92	0.57	16.13	0.49	-2.79	-0.08
Pension and disability insurance rights	356.88	11.04	378.08	11.37	378.97	11.40	0.89	0.03
Transfers to institutions, individuals, NGO's and public sector	87.91	2.72	28.91	0.87	31.51	0.95	2.61	0.08
CAPITAL BUDGET	84.13	2.61	76.65	2.31	72.12	2.17	-4.53	-0.14
Borrowings and loans	2.09	0.06	1.70	0.05	1.78	0.05	0.08	0.00
Reserves	11.79	0.36	8.54	0.26	18.08	0.54	9.54	0.29
Repayment of guarantees	33.92	1.05	23.43	0.70	24.72	0.74	1.29	0.04
Net increase in liabilities	29.19	0.90	0.00	0.00	0.00	0.00	0.00	0.00
SURPLUS/DEFICIT	-189.67	-5.86	-110.13	-3.31	-163.79	-4.93	-53.67	-1.61
PRIMARY DEFICIT	-144.58	-4.47	-55.22	-1.66	-107.80	-3.24	-52.58	-1.58
DEBT REPAYMENT	132.77	4.11	148.12	4.46	168.70	5.08	20.58	0.62
Debt repayment to residents	31.95	0.99	48.85	1.47	77.94	2.34	29.09	0.88
Debt repayment to nonresidents	59.51	1.84	54.46	1.64	54.87	1.65	0.42	0.01
Repayment of liabilities from previous years	41.31	1.28	44.81	1.35	35.88	1.08	-8.93	-0.27
FINANCING NEEDS	-322.44	-9.97	-258.24	-7.77	-332.49	-10.00	-74.25	-2.23
FINANCING	322.44	9.97	258.24	7.77	332.49	10.00	74.25	2.23
Borrowings and loans from domestic sources	47.00	1.45	16.44	0.49	62.60	1.88	46.16	1.39
Borrowings and loans from abroad	187.65	5.80	291.80	8.78	258.13	7.77	-33.67	-1.01
Donations	4.01	0.12	0.00	0.00	5.02	0.15	5.02	0.15
Revenues from privatization	3.35	0.10	10.00	0.30	2.83	0.09	-7.17	-0.22
Increase/Decrease in deposits	80.42	2.49	-60.00	-1.81	3.91	0.12	63.91	1.92

Source: Ministry of Finance of Montenegro

LOCAL GOVERNMENT

Pursuant to the preliminary data submitted by the local government units, local government expenditures in 2012, amount at EUR 149,03 million or 4,48 % of GDP, which is up by EUR 23 million higher compared to the plan for the same period. The consumption was financed from the taxes in the amount of EUR 98,55 million, fees in the amount of EUR 5,5 million, duties in the amount of EUR 61, 04 million and other current revenues in the amount of EUR 13,8 million. The most significant increase in revenues compared to the plan, was accounted with the land charges and local taxes. The total amount of the current revenues of the local government in 2012 was generated in the amount of EUR 178,89 million. The cash surplus of the local government was generated in the amount of EUR 30,7 million. Debt repayment amounted at EUR 54,95 million or 1,65% of GDP, primarily due to the high collection of liabilities from previous period. Financing needs in the amount of EUR 24,25 million were covered from borrowings and loans in the amount of EUR 7,82 million, revenues from the sale of assets in the amount of EUR 10,53 million, donations in the amount of EUR 2,88 million and use of deposits in the amount of EUR 3,02.

Local Government	2011		2012 Correction		2012 Execution		Deviation from the plan	
	mil. €	% BDP	mil. €	% BDP	mil. €	% BDP	mil. €	%
Current revenues	155.93	4.82	132.18	3.98	178.89	5.38	46.71	35.3
Taxes	90.45	2.80	78.30	2.36	98.55	2.96	20.25	25.9
Personal income tax	31.59	0.98	29.75	0.89	27.42	0.82	-2.33	-7.8
Real estate turnover tax	14.42	0.45	11.00	0.33	12.97	0.39	1.97	17.9
Local taxes	44.45	1.37	37.55	1.13	50.96	1.53	13.41	35.7
Fees	5.97	0.18	5.93	0.18	5.50	0.17	-0.43	-7.3
Duties	46.87	1.45	35.94	1.08	61.04	1.84	25.10	69.8
Other revenues	12.63	0.39	12.01	0.36	13.80	0.42	1.79	14.9
EXPENDITURES	143.50	4.44	126.03	3.79	149.03	4.48	23.00	18.3
CURRENT LOCAL GOVERNMENT EXPENDITURES	92.03	2.85	89.03	2.68	100.72	3.03	11.68	13.1
Current expenditures	65.52	2.03	59.56	1.79	62.67	1.89	3.11	5.2
Gross wages and contributions charged to employer	32.69	1.01	32.66	0.98	33.10	1.00	0.44	1.3
Other personal income	7.35	0.23	5.30	0.16	2.94	0.09	-2.36	-44.6
Expenditures for material and services	15.84	0.49	11.75	0.35	16.84	0.51	5.09	43.3
Current maintenance	4.62	0.14	3.97	0.12	5.03	0.15	1.06	26.6
Interest	2.51	0.08	3.50	0.11	2.86	0.09	-0.64	-18.3
Rent	0.33	0.01	0.31	0.01	0.32	0.01	0.00	0.7
Subsidies	0.95	0.03	0.72	0.02	0.75	0.02	0.04	5.5
Other expenditures	1.23	0.04	1.35	0.04	0.84	0.03	-0.51	-37.7
Social protection transfers	0.76	0.02	0.71	0.02	0.45	0.01	-0.26	-36.3
Transfers to public institutions, individuals and NGO's	25.97	0.80	24.67	0.74	32.94	0.99	8.27	33.5
Local government capital budget	51.47	1.59	37.00	1.11	48.32	1.45	11.32	30.6
Borrowings and loans	2.14	0.07	1.77	0.05	1.19	0.04	-0.59	-33.0
Reserves	2.30	0.07	2.31	0.07	3.46	0.10	1.15	49.6
SURPLUS/DEFICIT	13.50	0.42	7.00	0.21	30.70	0.92	23.71	338.9
PRIMARY DEFICIT	16.01	0.49	10.50	0.32	33.56	1.01	23.07	219.8
DEBT REPAYMENT	49.70	1.54	33.00	0.99	54.95	1.65	21.95	66.5
Repayment of principal to residents	7.61	0.24	4.00	0.12	5.49	0.17	1.49	37.2
Repayment of principal to non - residents	0.81	0.02	3.00	0.09	5.00	0.15	2.00	66.7
Repayment of liabilities from previous period	41.29	1.28	26.00	0.78	44.46	1.34	18.46	71.0
FINANCING NEEDS	-36.21	-1.12	-26.00	-0.78	-24.25	-0.73	1.76	-6.8
FINANCING	36.21	1.12	26.00	0.78	24.25	0.73	-1.76	-6.8
Borrowings and loans from domestic sources	19.35	0.60	6.00	0.18	7.82	0.24	1.82	30.3
Revenues from privatization and sale of assets	11.63	0.36	8.00	0.24	10.53	0.32	2.53	31.6
Donations	4.24	0.13	2.00	0.06	2.88	0.09	0.88	44.1
Use of the local government deposits	-1.09	-0.03	10.00	0.30	3.02	0.09	-6.99	-69.8
TRANSFERS FROM THE BUDGET OF MNE	1.07	0.03	0.85	0.03	0.85	0.03	0.00	-0.4

Source: Ministry of Finance of Montenegro

Ms. Iva Radovanović, Independent Advisor II,
Mr. Stanko Jeknić, PhD., Independent Advisor I,
Sector for Economic Policy and Development,

Ms. Snežana Mugoša, MSc., Independent Advisor I,
Budget Department

Report on the State Debt of Montenegro as of 31 December 2012



Mersija Purišić



Ivana Maksimović

As of 31 December 2012, the State debt of Montenegro amounts to EUR 1. 699,5 million or 51, 12% of the Gross Domestic Product (GDP). The internal debt amounts to EUR 404, 5 million or 12, 17% of GDP, while the external debt amounts to EUR 1, 295 million or 38, 95% of GDP.

EXTERNAL DEBT TREND DURING 2012

During 2012, the external debt increased by EUR 231, 3 million in comparison to the end of 2011.

The stock of external debt, to the greatest extent, increased based on entering a new Loan Arrangement with the World Bank – First financial sector development policy loan (IBRD – DPL I) in the amount of EUR 59,1 million, entering two new Loan Arrangements with the Credit Suisse, amounting at EUR 250, 0 million aimed at budget deficit financing, based on which refinanced was the Loan Arrangement entered in 2009 was refinanced.

In addition, during 2012, funds in the total amount of EUR 31, 2 million were engaged for the purpose of financing the following projects: World Bank Project "Health" in the amount of about EUR 1, 7 million, Project "LAMP" in the amount of EUR 1, 9 million, Project "Energy Efficiency" in the amount of EUR 2, 6 million, Project "MIDAS" in the amount of EUR 1, 7 million, Project "MESTAP" in the amount of EUR 4, 3 million and the Project "HOT – SPOT" in the amount of EUR 0, 6 million, Project "Higher Education and Research for Innovation and Competitiveness (HERIC) in the amount of EUR 2, 0 million, IDA loan in the amount of about EUR 2, 1 million, KfW loan for the Project "Water Supply and Waste Waters Treatment" (Phases III and IV) in the amount of about EUR 5, 0 million, EBRD loan for the Project "Pre – privatization of the Container Terminal" in the amount of EUR 0, 2 million and the EIB loan for the Project Water Supply and Waste Water Treatment in the Municipality of Nikšić (Phase B) in the amount of EUR 2, 0 million and the Project Water Supply and Waste Water Treatment (Phase C) in the amount of EUR 5, 0 million.

Furthermore, the stock of external debt was up due to the increase in the value of Swiss Franc to Euro, triggering the increase in the Euro value of loans issued in U.S. Dollar and Swiss Franc.

The stock of external debt decreased based on the timely repayments of principal in the amount of about EUR 54, 9 million.

In 2012, new loan arrangements were entered in the total amount of EUR 101, 65 million, such as the following: First financial sector development policy loan (DPL I) in the total amount of EUR 59, 1 million, two new Loan Arrangements with the Credit Suisse in the total amount of EUR 250, 00 million, the loan of the International Bank for Reconstruction and Development for the Project "Higher Education and Research for Innovation and Competitiveness" (HERIC) in the amount of EUR 20, 00 million, European Investment Bank Loan for the Project "Flood prevention and rehabilitation" in the amount of EUR 20, 00 million. In addition, at the end of 2012, signed was also the Loan with the Erste Bank AG Austria, which will become effective in 2013, aimed at deficit financing in the total amount of EUR 30, 00 million.

The stock of the external does not include the obligations in respect of unresolved debt - related issues to Libya, Kuwait, Czech Republic and Slovakia. Montenegro inherited this debt towards the governments of these four countries based on the division of non - allocated debt (5.88% out of 38% for Serbia and Montenegro), and in accordance with the Agreement on Succession Issues from Vienna 29th June 2001, it has been resolved through positions agreed within the Committee for Division of Financial Assets and Liabilities of the former FRY.

Agreement between the Council of Ministers of the Republic of Albania and the Government of Montenegro on the debt settlement of the Republic Albania to Montenegro, signed on the basis of the Succession Agreement, has entered into force based on the exchange of diplomatic notes, hence the Albanian party has made the payment of the first installment in the total amount of around US\$ 0,3, whereas the payment of the second installment, being at the same time the last one, will be paid off in January 2013.

As to API bonds, one of the remaining debt issue was resolved. Pursuant to agreed payment schedule, outstanding liability towards the USB Bank will be settled in two tranches, whereas the first tranche was paid off, while the second one will be settled in the first quarter of 2012.

The data on the external debt encompasses the amounts of engaged (disbursed) loan funds per individual loan.

Table 1: Data on the stock of external debt and amount of non - disbursed loan funds (in EUR million).

Foreign Debt		
Creditor	Stock of Debt	Non - disbursed funds
International Bank for Reconstruction and Development (IBRD)	237,6	26,9
International Financial Organization (IFC)	2,5	
Member states of Paris Club of Creditors	104,9	
International Development Association (IDA)	65,2	1,1
European Investment Bank (EIB)	79,9	58,5
European Bank for Reconstruction and Development (EBRD)	21,7	9,5
European Council Development Bank	9,1	0
European Community	5,5	
Credit Bank for Reconstruction - Germany (KfW)	12,6	53,5
Austrian loan	9,8	
Hungarian loan	11,8	
Polish loan	9,7	
Societe Generale - Education IT	0,005	
French loan	8,5	
EUROFIMA - debt of Railway	24,8	
Czech EXIM - debt of Railway	24,1	
Steiermarkische Bank und Sparkassen AG	18,7	
Erste Bank	11,3	30,0
Credit Suisse Bank	250,0	
Spanish loan for landfill construction	4,9	
Exim Bank Hungary	2,4	
EUROBONDS	380,0	
TOTAL:	1.295,0	179,5

Pursuant to the aforementioned data, debt with the international financial institutions (World Bank and its affiliates - IBRD, IFC, IDA, Paris Club, EIB, EBRD, CEB, European Community and KfW) amounts to by about 15, 8% of GDP, the debt per bilateral (soft) loans (agreements with the Governments of Austria, Hungary, Poland, France, Spain, Eurofima, Czech Exim Bank, Hungarian Exim Bank, Societe Generale for IT and the Steiermarkische Bank und Sparkassen AG) amounts to by about 3, 4% of GDP, while the debt based on the loan arrangements for the budget needs (Eurobond, Credit Suisse, Erste Bank) amounts to by about 18, 8% of GDP.

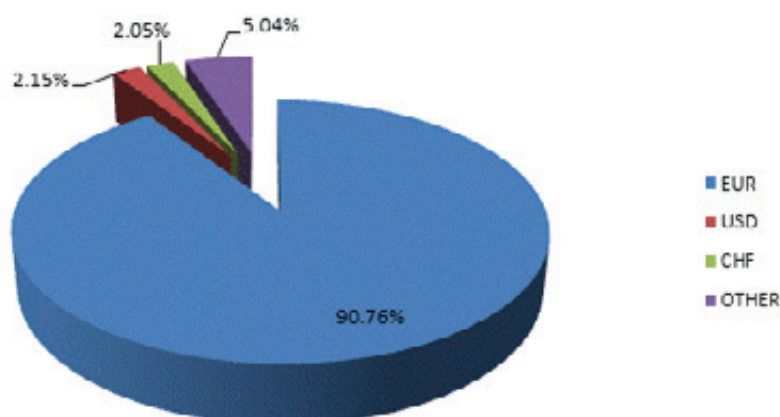
Foreign guarantees of Montenegro amount to about EUR 350, 7 million, or 10, 7% of GDP, or 23, 6% of the state debt.

Table 2: Issued Foreign Guarantees (in EUR million).

Creditor	Loan	Borrower	Year	Amount	Disbursed as of 31 December 2012	Stock of State Debt as of 31 December 2012
EIB	European Roads Project	Monteput	2004	24,0	24,0	22,8
EIB	Electro - Energy System Reconstruction	EPCG	2002	11,0	8,0	6,5
EIB	Airports Modernization	PC Airports MNE	2004	12,0	11,0	9,6
EIB	Small and Medium - sized Enterprises through the Commercial Banks	Commercial Banks	2009	90,0	90,0	80,0
EIB	Railways Infrastructure Modernization	Railways Infrastructure of MNE	2010	7,0	0,00	0,00
EBRD	Airports Modernization	PC Airports MNE	2003	11,0	10,2	5,1
EBRD	Construction of the Regional Water supply System - south extension, phase I	PC Regional Water Supply Company	2007	8,0	8,0	6,7
EBRD	Construction of the Regional Water supply System - south extension, phase II	PC Regional Water Supply Company	2008	7,0	7,0	6,1
EBRD	Construction of the Regional Water supply System - south extension, phase II Annex	PC Regional Water Supply Company	2010	3,0	3,0	2,6
EBRD	Reconstruction of the Railways infrastructure Project - phase III	PC Railways of MNE	2009	4,0	3,1	3,1
EBRD	Reconstruction of the Railways infrastructure Project - phase III Annex	Railways Infrastructure AD Podgorica	2012	10,0	0,1	0,1
EBRD	Urgent Railways Reconstruction Infrastructure Project II	Railways Infrastructure AD Podgorica	2009	15.000.000	10,9	10,9
EBRD	Project of purchasing electromotor units and equipment	Railway Transport AD	2010	13.6	3,1	3,1
EBRD	Credit line for deposits protection	Deposit Protection Fund	2010	30.000.000	0,00	0,00
KfW	Perucica	EPCG	2003	3.6	3,4	1,1
KfW	Piva	EPCG	2007	16,0	3,6	3,6
KfW	Substation Ribarevina	EPCG	2007	5,4	4,0	4,0
KfW	Filter replacement in the TPP Pljevlja and extension to the substation Podgorica-Ribarevina	EPCG	2008	15,0	12,9	12,9
KfW	Opportunity Bank	Erste Bank	2009	15,0	15,0	9,6
KfW	NLB	NLB	2009	16,0	16,0	11,6
OTP	KAP	KAP	2009	49,7	49,7	42,2
Exim China 1	Purchase and repair of ships	Montenegrin Navigation	2010	35,9	35,9	35,9
WTE Wassertechnik	Waste Water Management Project	Municipality of Budva	2010	29,3	0,0	0,0
Abu Dhabi Development Fund2	Water supply Project	Regional Water Supply Company	2010	9,0	5,0	5,0
VTB	Support to the Aluminum Plant Podgorica	Aluminum Plant Podgorica	2010	60,0	60,0	60,0
Czech Export Bank	Finalization of the Railway route PG - NK	Railways of MNE	2011	5,0	5,0	5,0
AS OF 31 DECEMBER 2012					388, 9	347, 5

As of 31 September 2012, the deposits of the Ministry of Finance amount to EUR 66, 4 million, including also 38. 477 ounces of gold, thus the net state debt amounts to by about 49, 13% of GDP.

Graph 1 – Internal Debt Currency Structure



INTERNAL DEBT TREND DURING 2012

During 2012, the internal debt decreased by about EUR 19, 00 million compared to the end of 2011. The decrease in the internal debt was the result of the payment of loans with the commercial banks in the amount of by about EUR 55, 7 million (these repayments, to the greatest extent, refer to the short term loans used for the current liquidity, repayment of , as well as commercial loans), repayment of by about EUR 5, 6 million of T – Bills and by about EUR 16, 5 million of loans with non – financial institutions based on projects implementation of the Directorate of Transport, timely repayment of installment in respect of restitution in the amount of by about EUR 1, 8 million, as well as the timely repayment of installment for FX deposits in the amount of by about EUR 15, 4 million.

Table 3. Data on the stock of internal debt

Internal Debt	31 Dec 2012.
Creditor	Debt Stock
FX savings	80,3
Local government debt	79,4
Liabilities in respect of restitution	83,3
Loans with the commercial banks	48,3
Loans with non – financial institutions	32,4
Past due pensions	1,8
T – Bills	73,0
Development Fund bonds	6,0
TOTAL:	404,5

On the other hand, the internal debt increased during 2012 based on T- Bills in the amount of by about EUR 8, 4 million and based on the FX currency savings deposited with the Dafiment Bank AD Belgrade and Banka Privatne Privrede DD Podgorica via the company Jugoskandik DD Belgrade in the amount of EUR 6, 7 million, as well as on the basis of the Decision on issue of bonds of Montenegro for the repayment of outstanding claims of employees proclaimed redundant.

The total liability in respect of restitution amounts to by about EUR 83, 3 million, which is by EUR 6, 00 up in comparison to the end 2011. the increase in debt in respect of restitution was the result of passing new decisions on restitution of taken away property rights.

Furthermore, we are emphasizing that the stock of debt does not include the outstanding liabilities of the users of the budget as of 31 December 2012, which will be indicated in the Year – end Account of the Budget for 2012.

Pursuant to the latest municipal data, the consolidated debt of municipalities' amounts to by about EUR 115, 3 million indicated in the Table through:

- The stock of foreign debt comprises the debt of municipalities based on the Agreements signed by the Government of Montenegro with the foreign creditors, and sub - loan agreements with municipalities, in the amount of by about EUR 35, 9 million (amount of disbursed, outstanding funds);
- The stock of internal debt, as the debt of the local government units to credit institutions, in the amount by about EUR 79, 4 million (pursuant to the local government date for the end of 2012).

Table 4. Issued state guarantees

No.	Creditor	Borrower	Date	Amount (EUR)	Debt Stock as of 31 Dec 2012. (EUR)
1	NLB Montenegro Bank	Bauxite Mines AS Nikšić	9 June 2009.	5.000.000,00	5.000.000,00
2	Podgorička banka	Pobjeda AD Podgorica	10 July 2009.	2.970.000,00	1.728.963,35
3	Hipotekarna Bank AD	Montenegro Airlines	31 Dec 2009.	2.700.000,00	2.700.000,00
4	NLB Montenegro Bank	Montenegro Airlines	25 Feb 2010.	1.800.000,00	1.800.000,00
5	Erste Bank AD Podgorica	Pobjeda AD Podgorica	1 July 2010.	3.500.000,00	3.500.000,00
6	Hipotekarna Bank AD	MI - RAI GROUP DOO NIKŠIĆ	27 July 2010.	800.000,00	777.975,71
7	NLB Montenegro Bank	Melgonia -Primorka	22 Dec 2010.	4.000.000,00	4.000.000,00
8	Hipotekarna Bank AD	Montenegro Airlines	6 May 2011.	2.000.000,00	2.000.000,00
9	Erste Bank AD Podgorica	Electrodes Factory "Piva" Plužine	27 July 2011.	1.500.000,00	1.500.000,00
10	Hipotekarna Bank AD	MI - RAI GROUP DOO NIKŠIĆ	13 Sept 2011.	700.000,00	700.000,00
11	Erste Bank AD Podgorica	Railway Transport of Montenegro	13 Dec 2011.	3.500.000,00	3.500.000,00
12	NLB Montenegro Bank	Montenegro Airlines	13 Dec 2011.	2.400.000,00	1.130.000,00
13	Investment Development Fund AD	Montenegrin Navigation AD Kotor	30 Dec 2011.	1.500.000,00	852.192,32
14	Crnogorska komercijalna banka AD Podgorica	Adriatic Shipyard AD a.d. Bijela	19 Jan 2012.	1.050.000,00	1.050.000,00
15	Hypo Alpe Adria Banka	Lenka AD Bijelo Polje	30 Dec 2011.	525.000,00	525.000,00
	TOTAL:			33.945.000,00	30.764.131,38

State guarantees of Montenegro amount to by about EUR 30, 7 million or 0, 9 % of GDP, i.e. 1, 8 % of the state debt.

In June 2011, the Ministry of Finance adopted the Instruction on the content of the request for borrowings of municipalities and the subsequent fulfillment of financial requirements, which is determining in details the borrowing procedure of the local government.

Debt Management Department

Ms. Mersija Purišić, Independent Advisor I
Treasury Operations Department,
Ms. Ivana Maksimović, Independent Advisor II
Treasury Operations Department

1 - Loan of Exim China Bank for the Project "Purchase and Overhaul of Ships" was signed in the amount of U.S. Dollars 47, 396. 000. The contracted amount, amount of engaged funds, as well as the debt balance on the basis of issued guarantee was converted at the effective currency exchange rate of CBMNE of 31 December 2012;

2 - Loan of Abu Dhabi Development Fund for the Project "Water supply" was signed in the amount of AED 43, 600. 000, and the determined fixed exchanged rate amounted at 1USD = 3,673 AED. The contracted amount, amount of engaged funds, as well as the debt balance on the basis of issued guarantee was converted at the effective currency exchange rate of CBMNE of 31 December 2012;

The priorities of the Ministry of Finance in 2013

1.

• Fiscal and Financial Stability Preservation

The policy of the Ministry of Finance in 2013, is guided by an urgent and undeferrable need of halting the fiscal indicators downward trend, primarily the budget deficit which is subsequently generating the public debt level. The precondition for achieving this objective is the continuation of the fiscal consolidation of both the revenue and expenditure side of the budget.

2.

• Public debt restructuring

Public Debt Analysis will be developed on the basis of the current status of play – level, dynamic, prices and maturity deadline, market research and other objective inputs, with the proposal for the public debt restructuring options. The analysis will be used as an assessment of the current debt stock, trend forecast, as well as the measures that need to be undertaken for the purpose of debt restructuring, aimed at decreasing it in the next period, along with the projections for the public debt halt and decrease. Aforementioned measures are required for the purpose of maintaining the debt level within the Maastricht criteria and providing sustainable and stable public debt and finance.

3.

• Decrease in gray economy

Commission for combating the gray economy will undertake activities aimed at minimizing illegal operations through which the budget revenues are "lost", negatively affecting both the economy and the taxpayers. In the light of the above, the activities of the Ministry of Finance, Tax Administration, Customs Administration, Parliament and all institutions, the representatives of which are the members of the Commission, will be focused on the fight against "informal labor", unregistered activities, excise products turnover control, retail turnover recording, i.e. issuing of fiscal receipts and all types of irregular business.

The priorities of the Ministry of Finance in 2013

4.

• Tax Debt Resolution

Overall analyses of the government tax claim will be conducted, for the purpose of obtaining the realistic data on the total tax debt stock and structure, as well as the assessment of its collection dynamic. "Black" and "White" list of companies will be published, i.e. lists of the largest tax debtors, or companies regularly servicing their liabilities to the state, with the objective of improving the tax discipline and expressing appreciation to the taxpayers regularly servicing their liabilities.

5.

• Adoption of the National Development Plan (NDP)

Montenegro, as the EU candidate country, was obliged to develop the NDP determining the vision of the socio – economic development, with individual required investments and development measures for its implementation, simultaneously aligning the objectives set forth in the sectoral and national strategies devised in different areas of development. The objective of the NDP is to enable consolidation of the medium – term investment and development plan, triggering the implementation of the development priorities, for the purpose of boosting the economic growth of the country. At the same time, the NDP adoption aims at strengthening the consistency of sectoral policies, assuring its compliance with the EU development directions.

6.

• Provision of Preconditions for generating new value

Economic Policy will be focused on the implementation of measures aimed recovering economy, growth and development, new employment, as well as the provision of a fair distribution of the burden imposed by the crisis and continuous improvement of the quality of living of our citizens. In the light of the above, the implementation of important structural and the business environment improvement reforms will be continued, increase in investments, ultimately boosting the economic growth, as well as the ratings improvement, i.e. progress of Montenegro in the international reports.