



Montenegro
Government of Montenegro

A stylized blue line graph is plotted on a blue grid background. The graph shows a series of peaks and valleys, with the line ending at a point where a blue pen is pointing. The pen has a blue and silver body and a blue eraser. The background is dark blue with a grid of lighter blue lines.

Economic Policy of Montenegro for 2009



MONTENEGRO
GOVERNMENT OF MONTENEGRO

ECONOMIC POLICY OF MONTENEGRO FOR 2009

Podgorica, March 2009

Ekonomic policy of Montenegro for 2009

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I - GENERAL FRAMEWORK OF POLICIES AND GOALS

1. Initial assumptions

The situation of a global economic and financial crisis, with interdependence between the basic financial flows and influence on the real sector, as well as multiple implications for the world economy will have a significant effect on the overall economic environment in 2009. Slowing down of the economic activity will definitely cause the reduction of development performances in the national economies, thus creating the need to monitor basic trends in the world financial market and carefully position current economic policy measures. In all that, current assessments say that the general consensus on the need to correct the created disorders in maintaining liquidity of the international banking system and measures taken globally, in that respect, will enable process management and reduction of risks of greater disturbances.

1.1. Threats and risks

In the situation of a general financial crisis, national economies must count on certain risks in 2009 that will influence weaker development performances. Montenegro, as a small and open system, will be subject to influence from the global scene. It is assumed that the flexibility of the system will enable easier adjustments to the expected extreme influence.

In such circumstances, the Economic Policy of Montenegro for 2009 assumes that the objective threats and risks will be as follows:

- Slowing down or delays in part of the announced investments;
- Reduction of credit potential and more difficult access to loans for the business sector, as well as the general population;
- Increased interest rates;
- Reduced activities in civil works, industry, transport and traffic;
- Reduced needs for travel, and on those grounds reduced tourism demand and reduced consumption in general;
- Reduced demand and development impulses on those grounds.

2. Concept of the Economic Policy of Montenegro for 2009

The Concept of the Economic policy for 2009, basically, represents a compromise between the need to preserve the effects of the established macroeconomic stability and inertia of the dynamic economic growth and the need to respond to the expected slow-down of economic activity by introducing necessary measures aimed at mitigating the expected

effects of the general financial crisis and to create the prerequisites to secure in the long run adequate protective mechanisms in that respect. The concept is based on the approach in which further strengthening of the market orientation of the economy and active support to entrepreneurial initiatives in the implementation of programs of initiation and expansion of new businesses and investment ideas represent the basis of the state response to the upcoming challenges, and the measures of state interventionism have the character of the necessary adjustment and protection in extraordinary circumstances and conditions.

2.1. Strategic framework

Strategic orientation of Montenegro is joining the EU and Euro-Atlantic integrations.

In relation to that, the activities are based on the commitments derived from the Interim Trade Agreement and related issues and obligations from the National Program of Integration of Montenegro into EU 2008-2012, after application for candidate status regarding EU membership. This involves maintenance of continuity in the effort to make the economic system compatible with the EU standards, while preserving the openness of the Montenegrin economy and strengthening its competitiveness on the grounds of use of natural, economic and human resource potentials. Exposing in that framework the authenticity and development specificities of Montenegro, the development priorities are as follows:

- Sustainable development, economic freedoms and dominant role of the private initiative;
- Rule of law, parliamentary democracy, protection of fundamental human values and rights; and
- Improved living standard.

2.2. Framework of initial assumptions

Basically, the Economic policy of Montenegro is consistent with the commitments from the following documents:

- Economic and fiscal program for Montenegro, 2008-2011;
- National Program of Integration of Montenegro into EU 2008-2012;
- Spatial plan of Montenegro until 2020;
- Strategy of development of an information society;
- Strategy of reform of the state administration in Montenegro 2002-2009;
- Education Reforms Agenda;
- Regional Development Strategy;
- National Strategy of Sustainable Development and sector development strategies.

In relation to that, in 2009, the Development Strategy of Montenegro 2010-2015 will be developed, together with the National Development Plan for its implementation, thus

enabling the definition of the macroeconomic framework, development goals and directions in the long run and summary of sector development policies in one document.

Economic policy is based on the following:

- Established macroeconomic stability, achieved level of economic development, performances and pace of economic growth, transformation of the economic system and progress within the phased process of EU accession;
- Structural changes in the economy, with predominant participation of the private sector and small and medium size enterprises;
- Results and opportunities regarding implementation of balanced regional development policy;
- Current influence of trends in the global financial market on the open system of the Montenegrin economy.

2.3. Economic policy goals

Looking into the effects of the circumstances that will determine general conditions in 2009, with a lower level of economic activity, reduced inflow of new investments and more difficult requirements for credit support, and relying upon the incentives for activation of entrepreneurial potential of SME's, the main goal of the economic policy is set to be as follows:

Preserving continuity of economic growth

The objectives of the economic policy are as follows:

- 1. Further improvement of competitiveness of the economic system, in order to protect the interests of the local and foreign investors;**
- 2. Initiation of implementation of prepared infrastructure and tourism projects in the energy sector;**
- 3. Incentives for entrepreneurship within small and medium size enterprises and protection of the employment level;**
- 4. Strengthening the competitiveness of the economy;**
- 5. Development of the northern region.**

The synergy between the goal and objectives of the economic policy should result in economic growth in 2009.

2.4. Fundaments of the development scenario

The complexity of requirements regarding anticipation of development opportunities in 2009 created the need to develop several scenarios in the process of economic policy development, depending on the extent of influence of the changes in global economy on the trends in Montenegro. Besides, the basis of the development concept for 2009 represents

the selection of the option that takes into consideration some limited effects of the global financial crisis on the possibilities for economic growth.

Revised development scenario projects real GDP growth at the rate of 5 percent as compared to last year.

Slow down of the economic growth is primarily caused by the reduced activity in the field of tourism, civil works, transport and traffic, as well as production in the Aluminum factory. At the same time, the inflow of foreign direct investments will be reduced to the level of EUR 460 mil, and with the reduced international transfers, this will affect the reduction in exports of goods and services and imports of goods and services, and in cumulative terms, the reduction of the share of current account deficit in GDP.

Lower level of borrowing activity will affect the reduction of aggregate demand, which will result in the reduced inflation pressure. The inflation, measured by the consumer price index, will remain at the level of approximately 4.5%.

Weakened economic activity will cause the slow down in the downward trend of the unemployment rate and upward trend of the employment.

3. Measures of the Government of Montenegro for mitigation of effects of the financial crisis and incentives for economic growth¹

As a measure of protection against influence of the developments in the global financial market, the Government of Montenegro has prepared a set of measures in the monetary and fiscal sphere, based on the recommendations of the European Commission, IMF and the World Bank.

Preventive measures – legal regulations

The Law on measures for protection of the banking sector: guarantees the deposits of the citizens and the economy with the banks in Montenegro up to the full amount; guarantees inter-bank crediting and bank borrowings from financial institutions; enables earlier credit repayment, and credit support to banks in Montenegro at their request from the funds of the state budget, as well as from the reserves and capital of the Central Bank, with the possibility of state participation in the process of additional capitalization of banks.

Fiscal policy measures

The Budget proposal for 2009 projects certain measures that will have a counter-cyclical effect on recession and reduction of negative consequences on those grounds, with the

¹ - Relative expression of effects of individual measures is calculated according to the new GDP estimate, with the estimated real growth of 5.0%.

development of alternative scenarios, depending on changes in the global and national economy. The budget calculation is based on real GDP growth of 7.0%, while the alternative scenario is developed for real GDP growth of 5.0% for 2009.

The World Bank recommendations are based on **strengthening investments in infrastructure** (experience from previous crises shows that developing countries must adjust to the new fiscal reality and carefully manage public finances in order to secure long-term investments in infrastructure and social development, while avoiding unnecessary limitations of public consumption in order to maintain high and quality economic growth in the long run) and **strengthening support to private sector development** (by providing SME's with easier access to loans).

The World Bank recommendation is also to **strengthen the consumption component** through individual, investment and public consumption, in order to secure additional liquidity to maintain the activities in the real sector, which will also affect the banking sector and the overall level of employment, and it will all together lead to economic growth and increase in living standard.

Budgetary policy will consist of the following:

1. Reduction of current, non-productive budgetary consumption, thus creating space to support citizens and economy and strengthen infrastructure investments, through the following:

Curbing current expenditures growth below the level of GDP growth, that is, reduction of share of current public expenditures in GDP.

Temporary freezing of 10% of expenditures for material and services in the first semester of 2009. Estimated savings on these grounds in the first six months of 2009 amount to EUR 6.5 mil.

2. Support to citizens and economy by providing additional liquidity, through the following:

- **Further reduction of burden on wages**, which will lead to increase in net salaries and strengthen the component of individual consumption. It is planned to reduce the personal income tax from 15% to 12%, as well as to reduce the contribution rates for compulsory social and health insurance. Total effects on these grounds at the level of the overall economy should amount to approximately EUR 53 mil, or 1.4% of GDP;

- **Early repayment of internal debt** on the basis of restitution and old foreign currency savings, thus strengthening the consumption component and securing additional liquidity in the amount of EUR 20 mil, that is 0.5% of GDP;

- **Abolishment of the highway charge**, as of January 2009, which represented part of the retail price of fuel. It is estimated that in this way the costs at the level of the economy will be reduced by approximately EUR 5 mil, or approximately 0.13% of GDP;

- **Abolishment of the charge for the use of construction land**. This measure will come into effect as of the beginning of 2009. The economy will be freed from the duties on those

grounds by approximately EUR 23 mil, that is, by approximately 0.62 of GDP.

- Reduction of electricity price for small and medium size industries, with parallel continuation of the program of subsidies for the most vulnerable population categories.

The reduced electricity price for small and medium size industry in the amount of 10.0%, that is, approximately EUR 8 million, through the reduction of tax claims of the state towards EPCG (power utility company of Montenegro), will provide additional liquidity of the small and medium size industries in Montenegro, amounting to approximately 0.2% of GDP.

3. Increase in productive-capital consumption, that is, strengthening infrastructure investments – Increase in expenditures in the capital budget, thus increasing investment expenditures and creating prerequisites for maintenance of economic growth, amounts to EUR 164.0%, that is 3.77% of GDP. The funds allocated for this purpose amount to EUR 225 mill. At the level of the public sector (including the municipalities) the capital investments in 2009 are estimated to be approximately 9.0% of GDO. It is necessary to add to this amount approximately 1.8% of GDP of values of contracted works in 2009, in order to improve road infrastructure, construct the Regional water supply system and invest in Railway infrastructure, which is financed through contractor loans, loans from the World Bank, European Investment Bank and EBRD.

4. Credit support to programs of small and medium size enterprises development

The conditions will be created for long-term borrowing of the banking sector with the international financial institutions, with the Government guarantees. The funds will be used for credit support of SME development programs.

Socio – economic measures

The Government of Montenegro implements the program called “**Job for you**”, aimed at providing assistance to the socially vulnerable population categories through active employment. Project implementation does not involve classical form of social support, but is rather based on easier access to sources of finance for physical and legal entities that want to start a business. In 2009, for the implementation of this project the funds have been allocated in the amount of EUR 18.15 million, that is, 0.49% of GDP.

All the above mentioned measures encourage the consumption component (individual, investment and public), in order to secure additional liquidity for the real and banking sectors, thus creating counter-cyclical effect on the elements of recession. Total amount of this incentive, through fiscal and socio-economic measures amounts to approximately 9.4% of estimated GDP, that is, approximately EUR 350 million.

II – OVERVIEW OF ECONOMIC INDICATORS FOR THE PERIOD 2007-2009

1. Macroeconomic indicators for 2007 and 2008²

Macroeconomic trends in Montenegro in 2007 and 2008 are characterized by the following:

- Dynamic economic growth, with the real growth rate of 10.7% in 2007 and 8.1% in 2008;
- Inflation is reduced from 7.7% in 2007 to approximately 7.0% in 2008. In all that, the price changes were under the predominant influence of global trends of increase in prices of agricultural products and energy sources, as well as adjustments in domestic prices in the energy and telecommunications sectors, increase in price of services and increased aggregate demand;
- Continuous reduction of unemployment rate, from 11.9% in 2007, to 10.9% in 2008;
- Dynamic changes in exports of goods and services and discrepancy in the changes in exports and imports;
- Deficit of the trade balance of goods and services represented 32.5% of GDP in 2007, and 35.9% in 2008. This deficit is under the predominant influence of the deficit in goods and significant share of consumption goods in the import of goods;
- Significant increase in foreign direct investments, with net inflow of EUR 524.9 million in 2007 (18.7% of GDP), and EUR 550.0 million in 2008 (16.5% of GDP);
- External debt of EUR 462.1 million in 2007, that is, 481.7 million in 2008 and reduction of its share in GDP from 16.5% to 14.4%.

2. Projected macroeconomic indicators for 2009

	2007.	2008. assessed	2009. estimate
GDP in current prices, in mill. €	2.807,9	3.338,0	3.715,0
Real GDP growth, %	10,7	8,1	5,0
Inflation, %	7,7	7,0	4,5
Increase in employment (persons), %	3,7	6,1	2,1
Unemployment rate, %	11,9	10,9	10,3
Trade balance of goods and services, current prices, mill. €	-912,6	-1.198,3	-1.151,6
Trade balance of goods and services, % of GDP	-32,5	-35,9	-31,0
Foreign debt, mil. EUR	462,1	481,7	710,0
Foreign debt, % BDP	16,5	14,4	19,1
Net foreign direct investments, current prices, mil. EUR	524,9	550	460
Net foreign direct investments, % of GDP	18,7	16,5	12,4

2 - Indicators for 2008 are estimated based on available data for nine, that is, ten months of 2008.

According to estimates, in 2009, gross domestic product will reach the level of EUR 3,715.0 million, and with the estimated increase in consumption prices of approximately 4.5%, it should enable real growth at the rate of approximately 5.0%, although it is expected that there will be a reduction in the inflow of net foreign direct investments (460 million EUR in 2009, estimate for 2008 is EUR 550 million), and that the effects based on reduced turnover in tourism, scope of construction works in 2009 will also be lower.

Macroeconomic stability is based on stable and relatively low inflation increase. Recessive trends in the global market will lead to stabilization of the inflation and effect of external inflation factors on the Montenegrin economy will be limited. Reduction of the inflation pressure will also be supported by the reduced offer of credits and reduced aggregate demand. There will also be a reduction in imports of goods and services, thus, it is estimated that the inflation will be 4.5%.

Slow-down in economic activity, especially in tourism and civil works, will affect slow down in the trend of employment increase from 6.1% in 2008 to 2.1%.

The expected level of the foreign trade deficit in 2009 will be determined by the reduced amount of imports and exports of goods and services. In accordance with that, it is estimated that the share of the foreign trade deficit in GDP will fall from 35.9% in 2008 to 31.0% in 2009.

In 2009, the foreign debt will reach the level of EUR 710.0 million, which is 19.1% of the estimated gross domestic product.

III - EUROPEAN INTEGRATION

The activities regarding implementation of the strategic commitment of Montenegro to EU membership, within the accession process in 2009, are determined by the obligations undertaken by signing of the Stabilization and Association Agreement and Interim Agreement on Trade and Trade-related Matters between European Community and Montenegro, as well as the tasks stipulated in the National Program of Integration into EU for the period 2008-2012, as well as the obligations that will come out of the upcoming stages of the accession process. The key activities will include the following:

- **Regular annual review of the National Program of Integration** – for the period 2008-2012, which will include harmonization with the legal attainments of the EU, adopted in the period July 2007 – July 2008, as well as the reviewed Annex to legislation. Besides, monitoring of implementation of NPI will continue.

- **Continuation of implementation and monitoring of the Interim Agreement on Trade and Trade-related Matters** - implementation of the Agreement will be followed through the meetings of the Interim Committee, which is chaired by Montenegro in 2009, and five sub-committees, as well as the meetings of the plenary and sector-level enhanced permanent dialogue meetings. According to the Proposed Agenda, submitted by the European Commission, all meetings will take place in the first half of 2009.

- **The activities regarding monitoring of harmonization of the national legislation with the legal attainments of the EU** will continue, including the implementation of the renewed Form for assessment of compatibility of regulations, with detailed compatibility list.

- **Preparations for organization and coordination of the process of answering the Questionnaire** of the European Commission will continue, so that SEI and public administration are ready to prepare and translate the answers and supporting documents within the specified deadline upon receipt of the Questionnaire.

- **The activities regarding establishment of the system of coordination of translations will continue**, including the development of the national version of the *Acquis Communautaire*. In that context it is projected to develop the Manual for translation of legal acts.

- The activities regarding implementation of the **Communication Strategy** for public information in the process of Montenegrin accession to the European Union will be intensified, as well as with regard to the Communication Strategy on Euro-Atlantic integration.

- The activities regarding implementation of the software projects to support the main SEI activities will also continue in the upcoming period.

- Implementation of the projects from IPA 2007 program has started in 2008, while the other projects that fall under this program will be subject to legal tender procedure during the year 2009.

- Within the program **IPA 2008 (Component I – support to transition and institution building)** Montenegro will receive the funds in the amount of EUR 28.1 million. Signing of the **Financial Agreement** is expected in the **first quarter of 2009**, when the tender procedures will be initiated with regard to implementation of these projects.

■ Within the program **IPA 2009**, it is expected that the **Financial Agreement** will be signed in **mid-2009** and that tender procedures will be initiated after that.

■ In January 2009, the activities will start regarding programming for **IPA 2010 program**, by having the Secretariat for European Integration send an invitation to submit project ideas that will be developed during 2009 into project fiches.

■ Within the **Multiuser IPA 2008 program**, activities will be undertaken in order to continue with the implementation of projects from the new instrument dedicated to preparation of project documentation for infrastructure projects, through technical support and through direct support to municipalities for investments in the field of environment, transport, energy and the social sector.

■ **Multi-year indicative planning documents** for IPA I component, as well as the multi-user IPA program **for the period 2009-2011** and the **National Program of Integration of Montenegro into EU** will represent the basis for the selection of projects within the Instrument for Pre-Accession Assistance.

■ In 2009, Montenegro will participate in the following **Community Programs**: Seventh Framework Program for research (FP7), Framework Program for competitiveness and innovation 2007-2013 (CIP), Culture 2007-2013, Erasmus Mundus, Tempus program and Youth in Action.

■ Based on the Action Plan, the activities will continue so that Montenegro starts manages the funds of the European Union on its own and goes to the **decentralized implementation system (DIS)** by the end of 2010. The activities will be aimed at creation of structures and preparation of procedures, as well as the development of detailed plans through the CARDS project aimed at supporting these structures.

■ Cross-border cooperation will be implemented through the programs with the neighboring countries, in the amount of over 4 million EUR. The programs that Montenegro participate in, which use the funds for the **Second IPA Component (cross-border cooperation)**, include 5 neighboring programs, out of which 4 involve neighboring countries that are potential candidates/ candidates, as follows: Croatia, Albania, Serbia and Bosnia nad Hercegovina. The fifth program is the Adriatic cross-border program that includes not only the potential candidates/ candidates, but also some of the EU member states. Montenegro also participates in two transnational programs with potential candidates / candidates and EU member states, and those are the Mediterranean Program (MED) and the SEES - South East European Space).

■ Joint cross-border structures (JTS and Antennas) and the Joint Monitoring Committee, as the highest body in charge of deciding on projects, will continue their work regarding each one of the four programs with the neighboring countries. Besides, a joint Committee for project evaluation will be established for 4 bilateral neighboring programs.

■ Financial agreements will be signed for the cross-border cooperation programs for IPA 2008, so the first invitations for projects will take place in early 2009.

■ The invitations will last 3 to 4 months, depending on the programs, followed by evaluation and selection of projects, then approval of grants for projects with the best result by the Delegation of the European Commission, and finally, monitoring and control, with the aim to use the allocated funds for the specified purpose.

■ It is planned to organize intensive training programs and seminars for the staff in the Operational structure, Joint technical secretariat and antennas, and for the final users.

■ Establishment of the new on-line Forum for cross-border and transnational cooperation programs and Internet presentation for each program separately are expected prior to the first call for the projects.

* * *

The ability to manage the process of economic growth in 2009, in the conditions of limited spectrum of economic policy instruments, will significantly depend on stable public finances and continuation of structural reforms, primarily in the labor market, financial sector and public service sector, such as energy and transport. Implementation of quality policies in these areas will significantly increase the competitiveness of the economic system, thus contributing to the attainment of the development priorities.

IV – PUBLIC FINANCES³

The **public expenditures** policy in 2009 focuses on the attainment of the basic goals of the economic program of the Government of Montenegro, and it is based on the assessment of the financial potential of Montenegro and the projected macroeconomic scenario for the situation of the financial crisis. It has been harmonized with the strategic documents that Montenegro has prepared within the process of EU accession – National Program of Integration of Montenegro into EU 2008-2012 and the Economic and Fiscal Program for Montenegro 2008-2011.

Planning **public expenditures** in 2009 are based on the economic policy goals for 2009, which project maintenance of macroeconomic stability, and somewhat slower economic growth, with the creation of prerequisites for increase in employment within small and medium size enterprises, development of new investment projects, restructuring of enterprises and privatization on those grounds, poverty reduction and real increase in the living standard. In all that, the objectives of the public expenditures are aimed at objectively possible increase in revenues of the Budget of Montenegro and the local self-government budgets, rationalization of expenditures for non-productive budgetary consumption, increased share of capital expenditures, as a response to challenges of the financial crisis, intensified reform in the field of judiciary, education and state administration, as well as the implementation of the National Program of Integration of Montenegro into EU and NATO.

Public revenues in 2009 are projected to amount to EUR 1,705.12 million, and the planned consolidated expenditures are EUR 1,698.79 million, meaning that in 2009 it is planned to have a surplus in public revenues compared to consolidated expenditures in the amount of EUR 6.33 million, or 0.17% of the projected GDP. Surplus public revenues, as well as borrowings and loans, donations, revenues from privatization and sale of property, will be directed to financing of repayment of principal to residents and non-residents, repayment of old foreign exchange savings, repayment of obligations based on restitution and obligations from the previous

3 - Base for the calculation of relative share in GDP is the estimated GDP for 2009 (3,715.0 million EUR), which was made on the basis of the final data regarding the achieved GDP in 2007 and by applying the development scenario with real GDP growth of 5.0%.

period. In the structure of public revenues, taxes amount to EUR 1,076.61 million or 29.00% of GDP, contributions EUR 373.20 million or 10.05% of GDP, while all other revenues amount to EUR 255.31 million or 6.87% of GDP. Current public expenditures are projected in the amount of EUR 1,358.10 million or 36.56% of GDP, which is a 4.96% reduction as compared to 2008. The biggest share in the total expenditures goes to expenditures for gross wages EUR 324.96 million, or 8.75% of GDP, social protection transfers of EUR 410.21 million or 11.05% of GDP, Capital Budget of EUR 340.69 million or 9.17% of GDP (Capital Budget of Montenegro EUR 225.10 million and capital budget of the local self-governments EUR 115.59 million).

The global economic crisis has already caused the slow-down in the growth of the biggest world economies, and it will influence the developments in Montenegro, as well. For that reason, in 2009, we will lead active **fiscal policy**, as a response to possible consequences of the global crisis. The 2009 Budgetary policy will implement a set of fiscal measures that will have a preventive effect on the possible slow-down of economic activity. Proposed measures will support the overcoming of problems that the exporters are already facing, the problems in the preparation and implementation of the next tourism season and problems that civil works is facing, which were the driving factors of the overall economic activity in the previous period. Reduction of taxes and contributions on wages and early repayment of the internal debt will result in maintenance of the satisfactory level of personal consumption, while the increase in the Capital Budget, together with the private sector investments, will maintain the satisfactory level of investment consumption. All the proposed measures will secure competitiveness of the Montenegrin economy and sustainability of the economic growth in the medium and long run.

In accordance with the specified goals, the following is estimated:

- Improvement of transparency and control of public resource spending;
- Functioning of the sustainable public finance system;
- Reduction of fiscal burden on the economy and citizens, by reducing tax rates and contribution rates;
- Capital budget increase;
- Full implementation of the Program budget;
- Initiation of implementation of the mid-term budgetary expenditures framework;
- Implementation of the public debt policy, in accordance with the Debt Management Strategy 2008-2010;
- Increased share of capital expenditures.

Starting point in the planning of the Budget of Montenegro for 2009 consists of the following:

- Results achieved in the previous years and in the first ten months of 2008;
- Estimated GDP growth;
- Estimated increase in consumer prices, and
- Estimated fiscal influence of the new regulations that will be applied as of 2009.

Consolidated revenues of the Budget (without privatization proceeds, donations, borrowings and loans) are planned in the amount of EUR 1,465.99 million, and the consolidated expenditures in the amount of EUR 1,461.04 million, meaning that in 2009 it is planned to have a surplus in the Budget of Montenegro and the State Funds in the amount of EUR 4.94 million or 0.13% of GDP⁴.

Consolidated balance of the Budget of Montenegro and State Funds for 2009
- in mil.€

DESCRIPTION	Plan for 2009	
	In mil.€	Share of GDP
Current revenues	1,465,99	39,46
Taxes	972,12	26,17
• Personal Income Tax	120,82	3,25
• Corporate Profit Tax	74,15	2,00
• Property Tax	14,34	0,39
• VAT	525,80	14,15
• Excise	139,36	3,75
• Tax on Foreign Trade	87,04	2,34
• Other Taxes	10,61	0,29
Contributions	373,20	10,04
• Contributions for pension and disability insurance	240,22	6,47
• Contributions for health insurance	121,57	3,27
• Contributions for insurance against unemployment	11,41	0,31
Fees	25,24	0,68
Charges	35,03	0,94
Other revenues	44,36	1,19
Receipts from repayment of loans	16,06	0,43
Expenditures	1,461,04	39,33
Current expenditures	512,41	13,79
• Gross salaries	286,08	7,70
• Other personal income	24,33	0,65
• Expenditures for supplies and services	133,09	3,58
• Current maintenance	6,50	0,17
• Interest	23,97	0,64
• Lease	10,86	0,29
• Subsidies	21,47	0,58
• Other expenditures	6,10	0,16
Transfers for social care	410,21	11,04
Transfers to institutions, individuals, NGO and public sector	211,86	5,70
Capital expenditures of the current budget and State Funds in Montenegro	49,90	1,34
Capital budget of Montenegro	225,21	6,06
Borrowings and loans	29,57	0,80
Reserves	21,89	0,59
Surplus	4,94	0,13

4 - Development scenario with a slower economic activity and projected GDP growth of 5.0%, and the Capital Budget that would have to be financed from a new loan to a significant extent, would cause the deficit in the Budget. The commitment is to keep the budgetary deficit up to the level of approximately 2.45% share in GDP.

Planned increase in budgetary revenues is based on the positive trends in the VAT collection, as well as collection of taxes on international trade and transactions, excise tax and personal income tax. The biggest revenues are planned to come from taxes – EUR 972.12 million, which is 15.4% higher than the projection for 2008. In the revenue structure there is a dominant share of revenues from VAT, which are planned in the amount of EUR 525.80 million, which is 14.5% higher than the projected amount for 2008.

In order to further lift the burden off the employers and to encourage private sector development,¹ the initiated fiscal reforms regarding the reduction of the personal income tax rate from 15% in 2008 to 12% in 2009 will continue, as well as the reduction of the health insurance contribution rate from 12% in 2008 to 10.5% in 2009, as well as the reduction of the pension insurance contribution rate from 21% in 2008 to 20.5% in 2009. Reduction of the mentioned rates of obligations on gross salaries will affect the increase in net salaries, thus affecting the improvement of the living standard of the employees, and it will also result in additional lifting of burden off the economy. At the same time, as a type of measure of citizen support, charges and fees for highways will be abolished, as well as the charges for the use of construction land, while the electricity price for SME's will be 10% lower.

In the budget structure, 77.6% of funds related to social protection transfers (410.21 million EUR), expenditures for gross wages (286.08 million EUR), transfers to institutions, individuals, NGOs and the public sector (211.86 million EUR) and the Capital budget (225.21 million EUR). The 2009 Budget projects reduction in current budgetary expenditures, especially with regard to expenditures for material and services, while the increase in the Capital budget to EUR 225.21 million or 6.06% of GDP, out of which 50% represents direct investments in infrastructure, will represent the development trigger.

The policy of **public debt** management will continue, with the aim to reduce its share in GDP. It is estimated that the total state debt in 2009 will amount to EUR 1,100.0 million, or 29.6% of GDP, out of which the internal debt amounts to EUR 389.3 million or 10.5% of GDP, while the foreign debt amounts to EUR 710.7 million or 19.1% of the estimated GDP. The projection of trends in the internal debt is based on the assumption that the repayment of obligations absed on restitution will be 0.5% of GDP per year, repayment of obligations based on arrears in payment of pension benefits will be EUR 34.0 million per year, repayment of obligations on the basis of the old foreign exchange savings will be 14.0 million EUR per year, while the amount of the local self-governments debt will remain at the present level. In the projections of the changes in foreign debt, the new borrowings have been included, which are to be used for financing of projects in the field of waste water, regional water supply system, road and railway infrastructure and the energy sector.

V – STRUCTURAL REFORMS

1. INDUSTRY SECTOR

1.1. Restructuring and Privatisation

Enterprise **restructuring** activities will create conditions for acceleration of their market transformation and preparation for privatisation process. To that end, the projects within TAM/BAS program will be carried out, directed to the strengthening of competitive capabilities of enterprises and use of consulting services in the process of restructuring and development of enterprises.

The **privatisation** process will continue, in accordance with the Privatisation Plan for 2009, by means of carrying out already published tenders, as well as through preparation of new tenders and initiating privatisation procedures for a number of companies.

The privatisation process will be also carried out through sale of shares and assets in public auction, sale of shares on the stock market, while the privatisation of companies from the special purpose industries and the forestry sector will be performed through methods to be established by competent ministries based on the proposal of owner. Legislative solutions in the field of property relations will be improved in order to accelerate privatisation process, as well as treatment of land in privatised companies.

The privatisation process will be initiated for the following companies: HTP Budvanska rivijera, HTP Ulcinjska rivijera JSC Ulcinj, Ferrous Metallurgy Institute JSC Nikšić, Barska plovidba JSC Bar, Montenegrobonus LLC Cetinje.

The procedure for selection of investors for the valorisation of tourism sites of Ada Bojana, Velika plaža, Buljarica and Jaz will continue through implementation of the public international tender, as well as procedure for valorisation or sale of former military property. Initiative for amendments to the regulation on privatisation of economy will be initiated in order to set the model for restructuring of companies in the area of communal services.

1.2. Development of Entrepreneurship and Small and Medium-Size Enterprises

Support to the activity and development of small and medium-size enterprises represents a base of the development concept and alleviation of financial crisis effects in 2009. To that extent, in accordance with the "Strategy for Development of Small and Medium-Size

Enterprises for Period 2007-2010", an active policy of support to the development of this sector will continue through following activities, in particular:

- The creation of stable and incentive environment for development of entrepreneurship and small and medium-size enterprises through:

- Carrying out of the Program "Removing Barriers to Entrepreneurship Development in Montenegro", and thus related reduction and acceleration of system procedures for obtaining operations licenses for business start-up at all and in particular at municipal levels. Based on that the time-frames for actions by the public administration authorities with regards to requests of parties will be shortened and costs consequently burdening economic entities reduced (introduction and full implementation of RIA in the legal system of Montenegro). Present solutions will be revisited and outdated and non-functioning regulations eliminated.

- The Institutional support for the development of small and medium-size enterprises:

- Capacity of existing regional/local business centres will be continuously improved and new regional/local business centres as well as business incubators will be established;

- Support to development of clusters and cooperatives will continue.

- The Strengthening of competitiveness of the economy and incentives for export orientations:

- Realization of the "Strategy for Encouraging Export" and of the document "Competitiveness and Export Incentives – Strategic and Operational Plan" will continue, which envisage among other things opening of ITC (Information Trade Centre);

- Activities being part of the final phase of multilateral negotiations and harmonisation of trade regimes with WTO Agreements will be carried out;

- Completion of the negotiation process for Montenegro to join the WTO;

- Implementation of CEFTA 2006 Agreement will continue;

- Support through grant schemes for refund of expenses will continue. The grant schemes relate to the support to enterprises for presentation on trade fairs, development of the market research studies, as well as to marketing/promotion of activities of enterprises;

- A possibility to develop a Plan on entrance of exporters on target markets will be considered, with a special emphasis on the region and EU markets whereat there is already a presence.

- Financing of small and medium-size enterprises through:

- Credit line for support to existing and new enterprises;

- Continuation of the credit line "Energy Efficiency for Small and Medium-size Enterprises";

- Considering possibilities for the establishment of the Credit Guarantee Funds as an alternative instrument for support to small and medium-size enterprises in accessing bank crediting, which reduces the need for securing collaterals.

- The Improvement of business knowledge through:

- Carrying out of the education programs – trainings in the area of management business skills, marketing, internationalisation and export (organising seminars, workshops, trainings with the objective to support start-up and improve existing small and medium-size enterprises);

- Execution of the Action Plan for the Entrepreneurial Learning Strategy;
- Introduction of voucher system for training courses for small and medium-size enterprises;
- Creation of the registry of consultants for small and medium-size enterprises.
 - The promotion of entrepreneurship and small and medium-size enterprises through:
- Improvement of marketing activities;
- Improvement of public relations;
- Promotion of start-up enterprises;
- Increase of the cooperation level with international institutions;
- Promotion of women in business.

The realisation of the Project "The Job for You" will continue, which provides incentives for self-employment and entrepreneurship, entrepreneurship crediting, and in particular support to the entrepreneurship in the agriculture sector which is aimed as a priority for the support to the Northern region for development. The Ministry of Agriculture, Forestry and Water Resource Management, the Employment Bureau, the Directorate for Development of Small and Medium-size Enterprises and the Development Fund will carry out the Project. A possibility to direct loans of the Development Fund into export programs and a possibility to establish export clusters aimed to improve the export offer will be considered within such framework.

1.3. Network Industries

1.3.1. Energy Sector

The reform of the Energy sector is carried out in accordance with the Energy Policy of Montenegro, which defines objectives and directions for the energy sector development in accordance with the sustainable development principles in order to enable safe and reliable energy supply, while creating open energy market and inclusion in the regional and World market. The Energy Development Strategy of Montenegro until 2025 defines optimum guidelines for the energy progress in Montenegro having as a base available resources and forecasted needs, in order to valorise available potentials and consequently maximise effects and create prerequisites for an undisturbed development of all segments of the economy and society.

In accordance with the Action Plan for the Implementation of the Energy Development Strategy covering period 2008-2012, which aligns defined priority programs and projects with the objectives of the Energy Policy of the European Union, activities to increase investments in the energy sector and expedite reform of the overall energy sector and especially of the Electrical Energy Company of Montenegro (EPCG) will be carried out:

- Activities to create conditions for stronger incentive for energy efficiency in Montenegro, in particular with regard to shaping and improving of the overall environment, which also includes further development of the State impact mechanisms for this area will

continue. Within such framework, in accordance with the Project "Energy Efficiency Year" following specific programs will be carried out:

- Establishment of the principal legislative and regulatory framework for energy efficiency (EE);
- Institutional-organisational strengthening in the EE sector;
- Public educational-information campaign for citizens;
- EE improvement in public buildings;
- Establishment of EE infrastructure for citizens;
- Removing barriers and development of mechanisms for financing EE-related projects;
- International conference on EE;
- Demonstration and training centre for EE;
- Training and education in the EE field;
- Incentives for EE for small scale business;
- Improvement of international cooperation in the EE area;
- Energy efficiency in production and supply;
- EE improvement for large industrial consumers;
- Renewable energy sources;
- Promotion of passive construction and low-energy buildings;
- EE promotion in local self-government;
- EE promotion in tourism sector.

■ Activities to create conditions and provide funds for investment in the energy sector will continue, both for the construction of new energy infrastructure and for the rehabilitation and modernisation of existing one. To that effect:

- Recapitalisation of EPCG will be carried out;
- Activities for execution of projects for the construction of hydro power plants on the Morača River in a form of concession will continue;
- Activities to create conditions for the construction of the second block of the TPP "Pljevlja" based on the private-public partnership will continue.

■ Concession for exploitation of mineral resource of brown-lignite coal from the deposit "Maoče" near Pljevlja will be awarded. The coal from this deposit may be primarily used by the Thermo-power plant which meets the most up-to-date ecological standards;

■ Additional explorations of the brown coal deposit in Berane will be completed and production activated in the pit "Petnjik". The documentation will be prepared and activities undertaken for the construction of the TPP "Berane";

■ Activities on implementation of the Strategy for development of small hydropower plants in Montenegro will continue.

■ Activities related to the research of wind power at the potential sites will continue and relevant regulations will be prepared for constructions of wind turbines and the use of electrical energy thereto;

■ Implementation of obligations arising from the Agreement on Establishment of the Energy Community of South East Europe will continue, aimed at the market development, enabling competition and increase of business efficiency. In this respect, the process of EPCG

restructuring will continue in accordance with the defined model;

- Projects part of the Clean Development Mechanism (CDM) of the Kyoto Protocol will be implemented;

- Activities connected with the development of energy infrastructure, construction and rehabilitation of regionally important energy interconnections with neighbouring countries will continue;

- Activities related to improvement of legislative-regulatory framework in the energy sector and harmonisation with the European Union legislation will continue. As part of that framework the new Energy Law will be adopted, which will also define gas-related and renewable energy sources matters. The topic of energy efficiency will be defined by a separate Law on Energy Efficiency;

- Conditions for the realisation of the Program for development of energy database in Montenegro will be created, in order to enable monitoring of implementation, as well as the analysis, forecast and planning of policies and measures in the energy area, with a particular emphasis on energy efficiency;

- Carrying out of an appropriate program for subsidising consumers will continue, aimed to provide for social security and to minimise impacts of increase of tariffs for electrical energy on the standards of citizens and business activities of economic entities.

1.3.2. Transport and Telecommunications

Activities in the area of maritime affairs and transport will be directed at: development of the transportation infrastructure in accordance with the economic development needs, while providing for the environmental protection; increase of competition and improvements of the quality of provided services; eliminating monopolies; increase of traffic safety and security, as well as reduction of number of traffic accidents; intensification of the restructuring and privatisation process of traffic-related entities; good quality connection of the Montenegrin transportation system to the Trans-European Transport Network (TEN-T); and more efficient use of comparative advantages of all forms of transport.

In the **road infrastructure and road traffic** area a principal efforts will be focused on the increased quality of use, management, maintenance, reconstruction and construction of road network, which will result in further increase of transport efficiency. The issue of road traffic will be regulated congruent to requirements arising from international standards, while concurrently eliminating gray economy. Prerequisites for enabling physical, legal, fiscal, and technical conditions for the connection of the national transport system with the European transport network will be provided. Economic entities operating in road traffic sector will do business while respecting market rules and fair competition, along with the prohibition of discrimination of foreign carriers. Bilateral agreements to regulate transport will be signed until signing of the Transport Community Treaty between the EU and the Western Balkan countries, which will regulate international transport of passengers and cargo on multilateral basis.

In accordance with the Program of Public Works, which will be implemented through the Capital Budget of the **Directorate of Public Works**, 105 projects will be carried out having a total value of 112.6 million euro. The amount of 11.9 million euro is intended for construction of local infrastructure, assistance to local governments to resolve infrastructural problems and reconstruction of infrastructure in the local community Bukovica in Pljevlja. The amount of 400 thousand euro is allocated for the reconstruction of main traffic routes in Cetinje.

The **Directorate for Traffic** will realise activities envisaged under the Programme of State Roads, and those are dealing with: regular maintenance of the State roads, investment maintenance of the State roads including reconstruction and asphalt pavement of the roadways, resolving bottlenecks, construction and reconstruction of third lanes on arterial roads, construction of the road Risan-Grahovo-Žabljak, as well as construction of the highway which represents the project of the highest State-level priority over the coming period. The planned investments for the investment maintenance of the State roads, including reconstruction and asphalt pavement of the roadways amounts to 12 million euro.

Regular maintenance of the State roads will be carried out in accordance with the five-year contract signed with the enterprise "Crnogoraput" JSC from Podgorica (allocated amount for 2009 for these purposes is 10 million euro).

Particular attention during the winter maintenance of roads will be placed on roads which are classified in the first-level priority and represent access roads to winter tourism centres.

Activities on resolving bottlenecks and beltways around almost all towns will continue, as well as the construction of the bridge in the Port Milena in Ulcinj. Construction of the road Risan-Grahovo-Žabljak will also continue.

Preparatory activities for the realisation of the construction of the Bar-Boljare highway will be finalised with the selection of the contractor for works at the beginning of 2009, which will be followed by its construction. Circumstances connected with the realisation of the project Adriatic-Ionian Highway, which is of the strategic importance in terms of the transport connectivity of Montenegro with the countries in the region and Trans-European Corridors, will be considered.

For the investment maintenance of the **railways** infrastructure (rehabilitation of the railroad infrastructure) 1.3 million euro is allocated, and for the current maintenance 8.4 million euro.

In accordance with the Strategy of Restructuring of the *Railways of Montenegro*, the railways infrastructure will remain in the state ownership, while the railways transport, which will be privatised, will deal with the transport of cargo and passengers as well as the maintenance of the rolling stock.

A strategic partner will be selected for the joint investment or purchase of the control package of shares of the joint stock company the *Railways Transport*. This will create conditions for organising more efficient rail transport and modernisation of the rolling stock by applying new technologies as well.

In order to implement programmes of needed reconstruction and improvement of the efficiency of the railways system, the European Bank for Reconstruction and Development has provided 15 million euro. These funds will be used to improve the safety of the railroad Bar – border with Serbia. Funds of the first tranche of the European Investment Bank loan (7 million euro) will be realised, which are provided for urgent rehabilitation of railways infrastructure.

Possibilities and prerequisites for the construction of the railroad Nikšić-Čapljina will be considered, which has regional importance as it connects Montenegro, Bosnia and Herzegovina, Albania, and Macedonia, while having an important connection to the Port of Bar.

The project of overhaul and electrification of the railroad Nikšić-Podgorica will be completed.

In the **air traffic** sector, principal activities will be directed towards a full integration of civil aviation entities (Administration for Civil Aviation and Flight Control) into international organisations and associations, while transposing directives resulting from the Multilateral Agreement on the Establishment of a European Common Aviation Area (ECAA Agreement) into the national legislation.

Activities on the establishment of the Agency for Civil Aviation will be carried out under the Law on Air Traffic.

The **Airports of Montenegro** will direct their business policy, in somewhat difficult conditions, towards maintaining positive trends in operation and realisation of the Airport Development Master Plan of Montenegro until 2023. Following investments will be carried out: reconstruction of the old passenger terminal at the Podgorica airport, construction of the parking platform at the Tivat airport, installation of the vertical signalisation for the aircraft reception and dispatch, as well as installation of the systems for the Tivat airport to be used for night flights and under conditions of reduced visibility. Furthermore, following activities will be undertaken: revision of the Master Plan, training of staff, procurement of equipment, alignment of prices with market trends, encouraging non-aviation services, protection of the eco system and other activities which will increase the image of our airports and tourism destinations. Possibilities for reduction of airport services prices will be considered aimed at strengthening competitiveness.

The **Montenegroairlines** will work to introduce new airline destinations, which will create air connection between Montenegro and Europe at the higher quality level. The company will also work to introduce the *Low cost* programme.

Following the reconstruction and recapitalisation of the company *Montenegroairlines*, the privatisation process will be implemented in accordance with the Strategy.

In order to reactivate **maritime industry**, prerequisites will be created for the purchase of a ship to perform a container service between the Port of Bar and some transshipment centre. Long-term contracts with interested entities for trans-shipment of cargo from the broader area gravitating towards the Port will continue to be entered. This will be enabled through the logistics means, not only through the procurement of ships, but also through creation and functioning of the unique transport chain – which would include various forms of transport. A possibility of engaging private capital for procurement of new ships will be considered.

In the maritime transport the focus will be on the: increase of level of safety and security of navigable waterways in the territorial waters, strengthening of the capacity of the Maritime Safety Administration, as well as sea rescue and search service. Through an organizational, management and functional transformation followed by the privatisation of the Port of Bar prerequisites will be created to increase the attractiveness and its optimum positioning in the transport market. That will facilitate engagement of the private capital and its investment in operations and other development projects of the Port.

Activities to implement strategic commitments directed to create conditions for the Port of Bar to have regional importance will continue. Work technology in transshipment of containers and general cargo will be improved. With objective of protecting environment, a plant for intake of wastewaters from ships will be installed. International projects will be implemented (two IPA programme projects and one project part of FP7 programme). Modalities on how to activate 7.8ha of the port basin will be researched, which is intended for the development of production and trade activities. As part of the activities connected with the positioning of the Port in the transport market it will be taken into account that the transshipment prices in the Port should be as competitive as possible.

Barska plovidba JSC Bar will transport 90,000 passengers and more than 25,000 vehicles in 2009. Regular overhaul of the fleet will be conducted and conditions created for the renewal of the fleet. Implementation of the Project “Marco Polo II” will begin, having as task to open new intermodal routes and corridors which will connect the Adriatic Basin with the Black Sea through Balkan by activating intermodal transport systems (shipping lines and railways). Finalisation of the privatisation process will create conditions for further modernisation of the fleet.

Coherent application of the Law on Ports and creation of favourable environment for the yacht registration, navigation and chartering will provide incentives for the development of the **nautical tourism**.

Development of the **telecommunication sector** will be carried out in line with the process of liberalisation and harmonisation of the European telecommunication sector. That

will enable the development of the competition, simplification of administrative procedures, expansion of the internal market and consumer protection. Conditions will be created for introduction of new operators and license award for the provision of broadband services which will provide incentives for further development of the competition. In accordance with the Law on Electronic Communications, single regulatory framework will be established for all electronic communication services and networks, regardless of the type of signal transmitted, also including networks for the transmission and distribution of radio and television signal.

Development of **postal services** will be aligned with the European standards. The new types of services will be offered in particular those for which the postal network has comparative advantages and which are recognised as a prospect of its further development. Development of the *Post* will be carried out in the environment of deregulation and liberalisation of the postal market. The restructuring of the *Posts of Montenegro* will intensify its development and adjust its business activities to the current demands existing in this area, and the activities to conduct a privatisation procedure will be undertaken.

1.4. Spatial Development

The adoption of the Law on Spatial Development and Construction of Structures (*Official Gazette of Montenegro*, number 51/08) and of the Spatial Plan of Montenegro until 2020 (*Official Gazette of Montenegro*, number 24/08) has created legal and planning prerequisites for its implementation at both state and local level. The following is planned to be implanted under the Spatial Plan of Montenegro:

- Adoption of the spatial development programme;
- Analysis of compliance of existing special purpose spatial plans and spatial-urban development plans of the local self-government with the Spatial Plan;
- Accelerated development of spatial-urban development plans of local self-governments;
- Development of plans for the State infrastructural systems (transport, energy and other);
- Development and establishment of the unique information system about the space – GIS and other;

The adoption of the Programme has set forth the schedule for the spatial development, sources of financing, deadlines for the development, operational measures for implementation of the planning document, measures for communal equipping of buildable land, as well as other measures for the implementation of the spatial development policy.

The spatial development programme contains assessment of needs for the development of new, or amendments of existing planning documents and measures having importance for the adoption of such documents.

Finalisation or adoption of significant number of planning documents is planned for 2009, the developments of which were contracted in 2007 and 2008 and currently in progress, as well as development and adoption of new planning documents and the implementation thereof. This approach is based on the need for the concept of economic and thus of spatial development to be changed gradually and aligned with new, modern methods of spatial development, adjusted to the development needs and interests of the State. This primarily refers to the planning documents being developed for the large-scale infrastructure, energy facilities, special purpose areas (coastal commons, national parks, ...), and so in line with the Spatial Plan of Montenegro which defined the State objectives and measures for territorial development congruent to the overall economic, social, ecologic, and cultural-historic development of Montenegro.

The State planning documents the development of which is ongoing are:

- For the Special Purpose Spatial Plan for the Coastal Commons – 17 location studies;
- For the Special Purpose Spatial Plan for the Skadar Lake – two location studies;
- Special Purpose Spatial Plan for Mts. Bjelasica and Komovi;
- Detailed Spatial Plan for the Multipurpose Reservoir on the Morača River.

The State planning documents for which decisions about development should be adopted in 2009 are:

- Special Purpose Spatial Plan for the Skadar Lake region;
- Special Purpose Spatial Plan for the Durmitor Region;
- Special Purpose Spatial Plan for the National Park Lovćen;
- In order to create planning assumptions for the construction of the ropeway up to Lovćen amendments to the Special Purpose Spatial Plan for the National Park Lovćen will be made or new appropriate planning document will be adopted;
- Amendments to the Special Purpose Spatial Plan for the Coastal Commons;
- Detailed Spatial Plan for the Adriatic-Ionian Highway;
- Detailed Spatial Plan for the Adriatic Arterial road for fast motor traffic;
- Detailed Spatial Plan for the valorisation of the Plav Basin and Pešter Plateau (part belonging to Montenegro);
- Location studies for the sites part of the Special Purpose Spatial Plan for the Coastal Commons;
- Detailed Spatial Plan for mini hydro-power plants (8 watercourses are priority and others will be defined based on the schedule to be determined in 2009 as well);
- Detailed Spatial Plan for wind turbines;
- Spatial Urban Development Plan of Ulcinj (in accordance with the agreement with the municipality of Ulcinj based on Article 48 of the Law on Spatial Development and Construction of Structures);
- Plans within the competence of local self-governments pursuant to Article 48 of the Law on Spatial Development and Construction of Structures, dependent on availability of funds and priorities.

The realisation of planning documents will depend on provision of financing for their development, as the budget resources allocated for this purpose are not sufficient.

1.5. Protection and Improvement of the Environment

Principal activities in the area of protection and improvement of the environment will be directed to: implementation of the Law on Environment, Law on Nature Protection, adoption and implementation of the Law on National Parks, implementation of the Law on Amendment to the Law on Air Quality; free access to information on the application of the legal provision about the environmental impact assessment, strategic environmental impact assessment and integrated prevention and control of the pollution; establishment of new institutions (creation of the Eco Fund, Council for Clean Development Mechanism); strengthening of capacities of newly established institutions (Project Implementation Unit, Agency for Environmental Protection), strategic integration processes (implementation of the National Environmental Protection Policy, National Sustainable Development Strategy, National Strategy of Integrated Coastal Zone Management of Montenegro, National Strategy of Air Quality Management, implementation of strategic planning documents; implementation of international conventions and protocols signed and adopted by Montenegro). Creation of new legal and institutional framework for this sector will create conditions for alignment of the socio-economic, social, technological and ecological development as part of the sustainable development concept.

In conformity with that:

Improvement of the strategic framework in the environmental protection area

- Realisation of the Action Plan for the National Sustainable Development Strategy for the period 2006-2009 will continue and detailed report on implementation will be prepared and the Action Plan for the following two years of the first implementation period (2006-2011) will be developed;

- For the purpose of establishing clear competences and coordination in implementation of the Integrated Coastal Zone Management Strategy, the Feasibility Study for the realisation of the Integrated Coastal Area Management Program (CAMP) Montenegro will be applied and activities will start with regard to signing of contract for the realisation of the CAMP Montenegro Programme;

- The National Programme of Fight against Land Desertification with the Action Plan will be adopted.

Improvement of the institutional framework in the environmental protection area

- The Agency for Environmental Protection will start with operation, which will develop activities for a comprehensive environmental protection;

- The Feasibility Study for the establishment of the Eco Fund will be considered;

- The Programme of monitoring of the environment for 2009 will be adopted, in accordance with the standards of the European Environment Agency (EEA);

Improvement of monitoring of the status of environment

- Appropriate activities will be undertaken, in accordance with the obligations set forth under the law and existing ownership rights, to reduce degraded and endangered

environment from the existing industry (Aluminium Plant Pdogorica, Steel Mill Nikšić, Thermo-power Plant Pljevlja);

- Measures and specific activities to eliminate causes having negative impact on the environment will be applied based on the monitoring of the parameters of the status of air, land, sea, radiological pressure on population, biodiversity status and bio-monitoring programme of the Skadar Lake in 2008;

Realisation of projects for improvement of the status of the environment

- The second phase of the implementation of the Project for Rehabilitation and Reclamation of the Lead and Zinc tailings dumpsite in Mojkovca will continue;

- Implementation of the Project "Integrated Eco System Management of the Skadar Lake" in cooperation with Albania will be directed at the strengthening of capacities for better understanding and joint management of the Skadar Lake and improvement of its sustainable use. Montenegro will use planned funds in the amount of 2.55 million euro for the construction of the wastewater treatment plant in Vranjina;

- Third phase of the Project "Establishment of the EMERALD network in Montenegro" for the agreement on borders of the protected sites (Bern Convention) will be completed. Mapping of borders of national parks and proposed EMERALD areas which are compatible with NATURA 2000 in accordance with the criteria will be completed;

- Mapping of national parks and proposed EMERALD areas, as part of the carrying out of the project "Geographic Information System (GIS) for the environment in Montenegro" will create a cartographic base for planning of the nature protection;

- Mts. Bjelasica and Komovi Region will be enhanced through the Fund for Sustainable Local Development within the Project of Austrian-Montenegrin partnership for the regions of five municipalities of the North;

- In accordance with the Agreement on Mutual Cooperation for protection of Montenegrin forests under the sponsorship of OSCE and the Government of Spain, the Public Services Enterprise for national parks will intensify implementation of measures in order to secure and improve sustainable management of forests and forest land in the area of national parks;

International cooperation and implementation of multilateral agreements on the environment

- As part of the regional action plan for measures on adaption to climate changes and establishment of the Open Group for Coordination of participation of Balkan countries, under the auspices of the UN Framework Convention on Climate Change and Kyoto Protocol, Montenegro will enable promotion of the national policy within the regional and global framework, which will enable access to funds primarily for realisation of the clean development projects;

- Implementation of the Vienna Convention for the Protection of the Ozone Layer, the National Programme for the elimination of ozone layer depleting substances and the Plan for Final Elimination of Chlorofluorocarbons (CFC substances);

- Adoption of the plan for implementation of the Stockholm Convention on Persistent Organic Pollutants will meet the requirements for the ratification process of this convention to begin;

- Program and project related activities as part of implementation of the following conventions will continue: Convention on Biological Diversity, Convention Concerning the Protection of the World Cultural and Natural Heritage, Convention on Wetlands (Ramsar Convention), Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean, Basel Convention;

- Activities on accessing conventions and multilateral agreements in the environmental protection area will continue, especially of those having importance in the context of the European integration and obligations arising from the UN membership;

- Begin with the implementation of the proposal of the Law on ratification of the: the Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention), the Landscape Convention, the Convention on Environmental Impact Assessment in a Transboundary Context – Espoo; the Agreement on the Conservation of Cetaceans Whales and Dolphins in the Black Sea, Mediterranean Sea and contiguous Atlantic area;

- Activities arising from membership in regional and sub-regional and other international organisations having importance for the environmental protection area will continue;

- In accordance with the Law on Air Quality, the Decree on Ozone Layer Depleting Substances will apply as part of the realisation of the Project “Implementation of the Air Quality Monitoring System in Montenegro” which is a part of the bilateral cooperation with Italy;

- In terms of the bilateral cooperation with Italy the Contract on Consulting Services to deal with the inclusion of Montenegro in the European Information Network and to monitor activities covered by the Contract will be implemented, as well as alignment of our legislation in related areas with the EU legislation;

- Implementation of the Project which is part of the Stability Pact will continue – the Regional Environmental Network for Accession – RENA.

1.6. Regional Development

The focus of the regional development policy will be at the creation of conditions for balanced regional development and establishment of permanent policy for reduction of regional differences in terms of the development level, while applying sustainable development principles. To that end, the institutional framework for additional support to the regional development policy will be promoted and aligned with the European regional policy and possibilities will be created for using resources from the EU funds. Realisation of the regional development projects, having as objective to provide incentives for economic activities, valorisation of natural and human potential, and thus alleviating negative effects of global trends will begin at the same time.

To that effect:

- Law on Regional Development of Montenegro will be adopted, which will set basic policies of regional development with measures to support faster development of less developed regions and methodology for establishing development level of regions and municipalities and monitoring of changes to that respect;

- Classification of territorial units for statistical use will be established in accordance with EU standards NUTS and capacity of the Statistical Office – MONSTAT developed for collection and processing of regional statistics data;

- Institutional solution and manner of coordination of the regional development policy will be established, which will create conditions for adequate policy setting, systems and measures to support regional development, their monitoring and analysis of effects to the overall macro-economic development;

- Council for regional development that will monitor the implementation of the regional development policy and present initiatives for the improvement thereof will be established;

- Strengthening of administrative capacities of local self-government units will be supported as well as their coordination with the national level institutions aimed at better utilisation of possibilities of pre-accession and structural funds of the EU;

- Regional business incubators function and the Centres for Professional Orientation and Counselling will be strengthened;

- In accordance with the Spatial Plan of Montenegro until 2020, adoption of spatial plans at the local level will be accelerated, which will enable more economically efficient approach in using space and valorisation of natural resources;

- Law on Agricultural Land will be adopted that will determine treatment of the land as a fundamental natural resource;

- Efficiency of certain incentive measures for the development of agriculture will be re-examined and therein the support will be strengthened to rural development and investments in agriculture and investments in agriculture;

- Possibility for valorisation of tourism potentials in Northern Region will be particularly elaborated as part of the review of the Tourism Development Strategy until 2020;

- The special purpose spatial plan for the Mts. Bjelasica and Komovi will be adopted, which will enable valorisation of natural resources and create prerequisites for sustainable development of this region;

- Study on Demographic Trends in Montenegro will be developed, which will enable shaping of the long-term demographic policy;

- Possibilities for establishment of entrepreneurial zones on territories of less developed municipalities will be considered;

- Construction of functional system of capital infrastructure will be provided. To that effect, the construction of the highway Bar-Boljare will start and works on the construction of the arterial road Risan-Grahovo-Žabljak will continue;

- Construction of water-supply projects, electricity supply projects, solid waste and wastewaters treatment projects will be carried out as a part of the strategic master plans;

- Network of educational and healthcare institutions will be adjusted to the need to provide higher quality living conditions and development in rural regions;

- Implementation of the Project "Job for You" will continue as a support to sector-related projects and programmes and thus impact on the increase of the new employment;

- Support to projects from less development regions will be provided as part of the IPA programme;

■ Possibilities to modify and improve the existing and introduce new instruments will be revisited as part of the fiscal policy, in order to provide for faster development of less developed municipalities.

1.7. Development of the Information Society

In accordance with the obligations arising from eSEE Agenda Plus, which was adopted by the governments of the countries in the region for period 2007-2012, the countries took obligation to undertake specific actions towards the society of knowledge and digitalisation following activities will continue aimed to achieve objectives of the information society with regards to:

- Improvement of the conditions in the ICT area;
- Development of partnership between private and public sector and facilitation of participation for all key stakeholders, including also non-governmental organisations;
- Directing funds for ICT use to national priorities and assistance in setting up schedules for additional investments;
- Strengthening of the market impact, promotion of changes in the society, enabling local initiative, ensuring joining learning and enabling spreading of successful solutions;
- Pointing out to special needs and strengths of important parts of the ICT industry for import and competitiveness of the economy;
- Redirection of the national system of innovations in order to meet essential and long-term technological requirements of the ICT (as a general purpose technology);
- Pointing out to omissions in coordination, research of network effects and provision of additional investments for the use of ICT as infrastructure which builds capacity and provides needed services;
- In the area of institutional and legislative framework, the activities will continue on establishment of relevant institutional framework which would organise, provide incentives and support development in the information society area, as well as on harmonisation of legislation with the EU directives.

With a view of further development of telecommunication infrastructure, increased internet penetration rated and reduction in digital gap, the following will be accomplished:

- the implementation of wireless internet will be continued;
- Activities to increase the penetration of the broadband services will be continued;
- Activities to establish the regional high capacity broadband backbone will be carried out, which will be connected with EU;
- Priorities for the expanded local traffic using EU direction and experience will be defined;
- National framework of interoperability will be adopted and it will be complied with European framework of interoperability for administration.

Further strengthening of information staffing capability will be performed through the

following:

- Based on the obligation for an obligatory curricula for ICT to be present at all educational levels, particularly in elementary schools;
- Creation of favourable environment for IT experts, by encouraging business incubators, technical park and centres for starting up a business through partnership with universities and private sector;
- Development of open, national database of scientific and research professionals and institutions;
- Support and financing of local academic network and professional organisations, in order to implement regional and local ICT research;
- Measurement and monitoring of intellectual capital in the IT industry;
- Implementation of the uniform standard for a minimum of ICT knowledge;
- Measurement and monitoring of the intellectual capacity in the IT industry.

■ In order to enhance efficiency and transparency of the performance of the public administration, the following is required:

- develop services of electronic government and increase the share of citizens and companies in its use;
- introduce favourable and development-oriented tax program systems for the IT sector;
- undertake measures to overcome obstacles for development of e-business;
- adoption of Action Plan for e-government for period 2008-2012;
- adoption of Action Plan for e-accessibility for period 2008-2012;
- continue with activities on establishment of the Central Registry of Population;
- continue with activities on the establishment of Geographic Information System at the State and local level;
- continue with activities for the Judicial Information System;
- Develop Business Registry of Montenegro;
- Implement the system of electronic public procurements;
- Continue with activities on the realisation of the projects of primary healthcare and information system for the healthcare institutions;
- Establish national computer centres for emergency response and start with the exchange of information;
- Develop interactive content in official languages;
- Enable that all decisions requiring public debate, as well as their drafts are available for the on-line discussion;
- Achieve significant increase of the share of citizens and companies using electronic government services.

■ Full protection of information system of public administration bodies of Montenegro will be introduced and the Law on Information Safety and corresponding subordinate legislation will be adopted;

■ Activities will continue in line with adopted convergence policies of electronic media in accordance with the adopted National strategy of managing radio frequency spectrum;

- Activities on the National programs for digitalisation of libraries will continue and the programs for digitalisation of cultural heritage will be initiated;
- Environment favourable for reduction of operational and appurtenant costs of software companies services will be created;
- National regional centre - the Office for strategic development of IT services will be established;
- General and 2010 indicators for Information Society Development will be harmonized;
- Activities with regard to the stipulated benchmarking will be more active;
- National priorities for national reach content will be defined;
- Environment favourable for reduction of operational and appurtenant costs of software companies services will be created;
- Environment for all companies to use ICT in everyday work and as tool to participate in the global economy will be created;
- Activities to remove barriers for direct foreign and national investments will be undertaken, in order to provide incentives for the IT sector development.

1.8. Statistics

The statistical system reform is to be carried out in accordance with the solutions from the Law on Statistics and Statistical System of Montenegro which is aimed to facilitate the compatibility with international standards in this area and ensure required quality of statistical statements. With the aim of improving specific institutional and organizational solutions, conditioned by the need for adapting the statistical system to the requirements for observing the occurrences in a system of market-oriented economy, forecasting and monitoring of macro-economic policy within such framework, then regional dimension of development in accordance with the policy of regional development of EU, the need for amendments to the Law will be viewed.

Basic activities will be directed to:

- The continuity of measures for incapacitating the Statistical Office – Monstat for undertaking relevant statistical surveys through organizational improvement and personnel, technical and software furnishing;
- Development of the system of producing, processing and disseminating data to international institutions in accordance with the defined standards;
- Strengthening capacities of the Statistical Office – Monstat to monitor regional dimensions of development in accordance with NUTS norms;
- Enforcement of obligations from the Program of Statistical Surveys 2009-2014 and carrying out of the Program of Statistical Surveys for 2009;
- Creating a database from the area of agriculture based on census in this area in accordance with international statistical practice;

- Improvement of the quality of statistics of foreign trade and processing of segments of transit and re-export within such framework;
- Producing innovated methodology for monitoring consumer basket which should realistically reflect subsistence needs of a family;
- Creating conditions for annual data on realized gross domestic product to be presented in the current year for the previous;
- Cooperation in international projects of support to transformation and improvement of statistical system.

2. FINANCIAL SECTOR

Basic task in preserving stability and further development of financial sector will be strengthening of the institutional framework, through improvement of the current and adoption of new legal regulations, in accordance with relevant international practice and regulatory standards of EU. Under conditions of current global financial crisis, special attention will be paid to strengthening of the basic function of the financial market, which is related to the funding of the real sector of economy, as well as creating of an integrated financial system, with strong link among specific segments. Stabilization and increase of liquidity of financial market, with legislative and regulatory reform, will contribute to reduction of risk of investing in real sector. Thereby, new demand sources in financial market will be activated, which will contribute to the development of financial market and its liquidity and introduction of new financial instruments traded in developed markets.

For the purpose of improving the monitoring of trends in the financial system of Montenegro and ensuring measures and instruments for supporting this system it is necessary to form the National Supervisory Committee for Financial Stability (Central Bank of Montenegro, Ministry of Finance, Securities Commission, Insurance Supervision Agency), which will enable the synchronization of activities of the supervisor and accomplish better efficiency.

2.1. Banking Sector

For the purpose of protecting banking sector against consequences of financial crisis and preserving its security and stability, measures will be implemented in accordance with the Law on Banking Sector Safeguards. The following will be facilitated with regard to that:

- guaranteeing deposits of citizens and economy, placed with banks registered in Montenegro in their full amounts;
- guaranteeing inter-banking lending and borrowings of banks from financial institutions;
- possibility of early repayment of loans;
- lending support will be ensured to banks at their request from funds of the state budget, as well as funds from reserves and capital of the Central Bank;

- possibility of participation of the state in the procedure of additional capitalization of banks.

The implementation of new secondary legislation, particularly Decision on Capital Adequacy of Banks, which regulates banking operations in accordance with the new **Law on Banks**, will ensure additional preconditions for stable and efficient functioning of banking sector, through strengthening of capital, i.e. solvency of banks. In that respect, a new Law on Central Bank of Montenegro, harmonized with international standards, will be adopted.

Within the framework of deposit protection system, the possibility of amending the regulations related to increase of the amount of guaranteed deposit will be considered, as to maintain the competitiveness of the banking system after 2009.

Banking sector modernization will continue through further development of electronic banking. To that end, the Law on Institutions of Electronic Money will be adopted, harmonized with the Directive for Electronic Money Institutions.

Under the conditions of limited supply of bank loans it is necessary to consider the possibility of use of credit funds of international financial institutions, intended for funding small and medium size enterprises, agriculture, export and the like.

The options of commercial banks to offer additional concessions to debtors in repaying the current credits (extending of repayment dates and the like) will be viewed in cooperation with the Central Bank.

2.2. Non-banking Sector

For the purpose of developing the **insurance** function, the activities will continue on institutional strengthening of the system in accordance with the solutions from legislation frameworks of countries with developed market economy. The conditions will be created for development of competition and expansion of supply of new forms of insurance in the sector of economy and citizens.

In the area of **capital market**, activities will be undertaken to complete and harmonize institutional framework with international standards, as well as improvement of efficiency and adjustment to the conditions of global economic crisis. The basic trends in the capital market will substantially be determined by movements in the world capital market, the general level of economic activity and possibilities for new investments in capital infrastructure development.

Within that framework, activities will be undertaken with regard to the following:

- acceleration of the process of harmonization of regulations related to capital market with EU directives and regulations. In that sense, the solutions of the current legal framework

that represent restrictions to further development of the market will be examined,;

- viewing of the need for amending the Law on Securities, in terms of strengthening the solutions for sanctioning illegal actions in the market;
- creation of conditions for engaging the Securities Commission in international network of regulators;
- strengthening of administrative capacities of the Securities Commission, primarily with the view of performance of intensified supervisory activities;
- development of secondary market of short-term T-bills and corporate bonds, as well as new initial public offerings (IPO);
- expansion of the supply of new services with regard to doing business in the capital market (custody operations and other);
- development of the practice of quarterly publishing of data and financial reports on operations of companies;
- viewing the potential for transformation of the current investment funds into open investment funds;
- comprehensive education (specialist training for analysts and providers of financial services, for future members of pension funds, state administration employees, corporate governance);
- improvement of IT connectivity among capital market participants.

3. LABOUR MARKET

3.1. Employment and Labor Market

In the area of labor market and human resources, the policy will be based on the National Employment and Human Resources Development Strategy for the period 2007 – 2011 and the National Employment Action Plan for the period 2008 – 2009, which are based on integrated EU guidelines from 2005.

The priorities in the area of labor market and employment will be: increase of employment and decrease of unemployment, with incentive-giving measures for employers to open a larger number of work places; increase of productivity and work quality, with measures focused on improvement of work force quality and sustaining/sustainability of work places, with shaping of educational system in accordance with the needs in the labor market and strengthening of social cohesion with measures for improvement/promotion of employment of women, prevention of social exclusion, prevention of poverty in the North of Montenegro.

Through the adoption of the new Employment Law, National Framework of Qualifications and National Classification of Vocations, the process of normative-institutional reforms will continue in the area of labor market.

Measures and activities in the labor market will be directed to reduction of structural non-compliance in the labor market, removal of regional differences and potential effect of global economic crisis, through:

- implementation of programs in the area of preparation for employment (training, additional qualification, retraining, specialization), i.e. improvement of the quality of work force supply taking into account the necessity for reducing regional disharmony in the labor force market;

- programs that will facilitate opening of new work places, through provision of financial support to self-employment and small entrepreneurship, which will affect the reduction of unemployment. Within such framework, the project "Job for You" will continue, and thereby the contribution will be made to regional dimension of development;

- implementation of programs of public works where specific categories of unemployed persons will be engaged;

- implementation of programs for employment of trainees and encouraging employers to recruit trainees for a specified period of time, according to specific training periods;

- encouraging employment of specific categories of unemployed persons (disabled persons, persons registered as unemployed for the period exceeding five years, unemployed persons with over 50 years of age, techno-economic redundancy, agricultural producers, persons engaged in public works and persons engaged to perform seasonal jobs).

In accordance with corresponding programs for strengthening of administrative capacities, professional additional training of senior and lower grade civil servants will be organized with the view to improve quality and efficiency of work in the administration, with expansion of methodological and IT knowledge.

Processes of education of management structures in enterprises will continue, as well as financial support in the form of compensations for work of management teams in enterprises of special interest for strengthening of the economic activity.

Efficient and timely legal protection will be ensured against any form of breaches of rights to gender equality in the labor market and prevention, detection and elimination of any form of discrimination in employment, keeping of job and promotion, as well as access to rights and benefits in respect of employment.

The system of providing data and information related to labor market will improve in accordance with international standards, and surveys will be conducted to view the condition and trends in the labor market.

3.2. Social Policy

The creation of conditions for efficient care and real standard of living growth, reduction of poverty, and provision of care for citizens in need of social support, i.e. social exclusion will be the basic goal of social and children's care in 2009. Competent state institutions, local

communities, private sector, non-governmental organizations and civil society organizations will achieve the set goals through implementation of suitable care programs.

The Strategy of Social Care Development for the Aged Persons 2008-2012, Strategy of Integration of Disabled Persons in Montenegro for the period from 2008 to 2016 will be implemented in accordance with corresponding actions plans for 2009.

The implementation will continue of the measures from the Strategy for Suppression of Poverty and Social Exclusion, which links material and social-psychological aspects of standard of living. In accordance with that, measures will be undertaken in the area of education, health, social care and employment, which have been recognized as priorities for reduction of poverty and social exclusion. New living standard measurement study will be conducted (LSMS), as supplement to the Questionnaire of household consumption in accordance with norms of the European Union, with the view of obtaining quality and comparative data on poverty.

In accordance with objective potentials, the care for refugees and internally resettled persons will improve.

The Law on Protection for Disabled Persons from Discrimination will be adopted.

Activities will continue for opening day care centers for children impaired in development and potentials for their establishing in all municipalities will be considered.

Public Institution Center for Children and Youth "Ljubović"-Podgorica and Special Institute for Children and Youth "Komanski most" will be reconstructed and adapted, which is to create better conditions for stay of children and the youth in these institutions. The construction of the facility Home for Aged Persons in Bijelo Polje Municipality will be completed, which will create conditions for accommodation and care of the aged persons in the North of Montenegro. The complex for acceptance, processing and health care of asylum seekers - Center for Asylum Seekers will be released into function in Spuž.

IT system in the Ministry of Health, Labor and Social Care will be upgraded, which will facilitate adequate collection and processing of data on socially threatened groups, clearer directing of social aid and improvement of the quality of state services.

Regular payment of benefits prescribed by the Law on Social and Children's Care will be provided.

Transfers for social care will increase. In 2009, according to the Budget of Montenegro the amount of EUR48.76 mil is allocated for this purpose and EUR1.92 mil for redundancy. The Labor Fund will be established, to which the redundancy-related funds will be redirected, which are intended for settling the outstanding obligations in respect of the Program for Enterprise Restructuring, such as enterprises under the privatization procedure or already privatized.

Activities will improve for implementation of the Action Plan for the Decade of Roma, National Action Plan for Children and other.

3.3. Policy of Earnings and Pensions

Earnings in private sector will increase in accordance with inflation growth rate. The reduction of the contribution rate for health insurance from 12% in 2008 to 10.5% in 2009, the contribution rate for mandatory pension and disability insurance from 21.6% in 2008 to

21.0% and personal income tax rate from 15% in 2008 to 12% in 2009 will create conditions for increase of earnings without taxes and contributions.

Regular payment of benefits from pension and disability insurance will be insured.

In accordance with the Law on Compensation for beneficiaries of rights from pension and disability insurance, which regulates conditions, manner, procedure and dynamics of compensation of beneficiaries of rights from pension and disability insurance, two installments of compensation will be paid in the amount of one sixth of debt, in April and October 2009. In accordance with the Law on Pension and Disability Insurance, two regular adjustments of pensions will be made in January and July 2009.

For the purpose of efficient collection of contributions for pension and disability insurance, intensive activities will continue in bodies responsible for control and collection of public revenues. The reduction of obligations in respect of personal income will contribute to reduction of grey economy and ensure efficient collection of taxes and contributions and better financial effects.

Pension reform, initiated through the reform of the pay as you go system (pillar I) will continue through establishing and operating of voluntary pension funds, in accordance with the Law on Voluntary Pension Funds (pillar III). Establishing of voluntary pension funds will enable citizens, irrespective of years of service, employment or age to generate additional source of income and ensure safe future through payment of contributions.

Prior to adoption of the Law on Mandatory Pension Insurance based on individual capitalized savings, activities will continue on updating actuarial model which will represent solid basis for making the decision on implementation of the second pillar of the pension system, and adequate analyses will be done and legal experiences from countries that introduced such systems will be considered, taking into account the need for adjustment to the conditions and specifics of the pension system in Montenegro.

Payment of financial support to war veterans and personal and family disability-related allowances will be made on regular basis, as well as semi-annual adjustment of these benefits with trends of costs of living and average earnings.

4. INVESTMENTS

In the circumstances of economic and financial crisis, the economic growth and development in the year 2009 shall to the significant extent be determined by the opportunities for new investments. In these terms, it is certain that the investment activity shall be slowed down and affected by the increasing caution of the potential investors. However, given the attractiveness of the unused economic potential, ever more investment stimulating environment and skilled labour force, it is counted with the foreign direct investments inflow in the amount of around EUR460 mil, which may become a hampering factor against negative influences of global financial disruptions. To this end, the Capital Budget of Montenegro for the year 2009 allocates resources in the amount of EUR225.0 mil for the projects of capital infrastructure, which amount is by EUR140.0 mil higher than the amount allocated in 2008, representing 3.77% of GDP. On the level of public sector (including municipalities) capital

investments in the year 2009 are estimated to make up to 9.0% of GDP. Around 1.8% of GDP should be added to that amount, relating to the value of works contracted for 2009 for the purpose of improvement of the road infrastructure, construction of Regional Water Supply System and investments into infrastructure of Steel Works financed through contractors' loans, loans of the World Bank, European Investment Bank and EBRD. Capital budget shall, depending on the effects of the financial crisis, be financed from the credit arrangements with international financial institutions.

For the purpose of providing incentives for the new foreign direct investment inflows, the further development of the investment stimulating environment shall be continued, through removal of the administrative barriers for investments, particularly on the local level, as well as through securing complete and efficient protection of property rights. Further development and simplification of tax system should also take place, with a view of better positioning of Montenegro and increase of the degree of its competitiveness. In that regard:

- In accordance with the Strategy for Stimulation of the Foreign Direct Investments, it is expected that the conditions for rearrangement of the structure of the foreign direct investments shall be created, decrease of the level of participation of sale of the real estate in respect to investments into enterprises and banks, with simultaneous increase of the level of sectoral diversification of the foreign direct investments and increase of the scope of the greenfield investments, by use of various investment models based on principles of public-private partnership, joint ventures, concession arrangements etc.;

- The conditions for adequate implementation of the laws and regulations in the field of property relations, spatial planning documents and investment policy shall be created, in order to obviate the implementation gap in the application of the key laws in these areas;

- It is planned to implement the policies of providing incentives to the foreign direct investments and promotion of Montenegro as an attractive investment destination, that is, destination safe and profitable for placement of the capital;

- The privatization plans shall be implemented, as well as ensuring the fulfilment of commitments from previous agreements regarding additional investments;

- The connections with Diaspora shall be strengthened with an aim to facilitate the placement of the domestic products on foreign markets on one side, and to provide the incentives for investment of funds and know-how in Montenegro on the other.

- The significance of the free zones shall be promoted as well as establishment of companies herein.

Investments shall be in the first place streamlined towards the field of energy sector, water supply, road infrastructure (motorway), waste treatment, construction of tourism complexes (such as »Great Beach«, »Luštica« etc.).

VI – REAL SECTOR

1. Processing Industries and Mining

In **processing industry**, the process of restructuring of enterprises shall be intensified, with an aim of creation of conditions for completion of privatization in this field. Simultaneously, in the enterprises without prospects for future, the bankruptcy procedures shall be accelerated

The areas where business zones may be developed shall be defined in cooperation with local governments.

Global financial and economic crisis, and in connection therewith, the decrease of aggregate demand shall reflect on the business operation of the business entities in processing industries. The Government of Montenegro shall continuously follow the effects and consider the modalities for mitigating the possible consequences.

In the area of **geology and mining**:

- the activities related to providing conditions for valorization of mineral raw materials shall be continued, by awarding concessions and signing concession agreements, publishing tenders and implementation of further procedures, as well as drafting of the concession studies;
- the secondary legislation needed for implementation of the Law on Mining and Law on Geological Explorations shall be adopted;
- the Law on Oil and Gas Exploring and respective secondary legislation shall be adopted.

2. Tourism

During the year 2009 the activities related to upgrading of the tourism offer aimed at achieving of the goal of Montenegro becoming high quality tourism destination, relying its development on the principles of sustainable development. The emphasis shall be placed on the development of the coastal area and the need to harmonize it with strategic development documents and criteria of economic profitability, social acceptability and environmental compliance. Development plans shall be directed towards upgrading of the quality of the existing capacities and construction of lacking high quality tourism complexes within the limits of acceptable maximum density in the area they are located.

The main objective of tourism development, according to the Tourism Development Strategy in Montenegro until 2020, shall be the reduction of the summer season bathing mass tourism for guests with low revenues, based on cheap accommodation, in favor of widely diversified offer throughout entire season with emphasis on quality – mainly high category hotels and resorts. The restructuring of the offer shall start on the Adriatic beaches as the main attraction through gradual integration of the highland hinterland, which is viewed as the most promising potential with features distinguishing it from other mediterranean destinations. The Development plan of the area of Bjelasica and Komovi shall be drafted, as a prerequisite for controlled development of this region, as well as the Master Plan of the sustainable tourism development in the Municipality of Kolašin. The Spatial Plan of special purpose for the area of Durmitor shall be produced, whereby the conditions for more complete valorization of tourism potentials of Northern region shall be created.

Basic activities in tourism area shall be directed towards:

- measures for mitigating of the effects of the global economic crisis on Montenegrin tourism development;
- keeping of the substantial emitive tourism markets;
- preservation of the tourism base as a precondition and foundation for further tourism development;
- positioning of Montenegro as a unique and safe high quality tourism destination;
- balanced development of tourism based on the principles of sustainable development;
- improvement of the quality of tourism offer and its standardization;
- development of diversified offer, with particular emphasis on nature oriented tourism offer;
- creating of favorable conditions for investments in the tourism;
- providing of infrastructural preconditions for realization of the development plans;
- education of personnel engaged in tourism sector in accordance with the Strategy of Human Resources Development in Tourism Sector;
- prolongation of tourism season;
- stimulation of MICE market;
- defining of the set of incentive measures for hotels operating throughout the entire year;
- cooperation between state and local authorities and cooperation with private sector and non-government organizations.

It is estimated that in the year 2009:

- the revenues from tourism shall amount to EUR13 mil, or higher by 5.0% in respect to the year 2008, which means that the positive tendency of growth of the revenues from tourism shall be maintained;
- bearing in mind the expected impact of the financial crisis affecting wide region, it is expected that physical indicators of the sale in tourism shall be at the level of the preceding year.

The Ministry of Tourism and Protection of Environment shall, in cooperation with other relevant institutions, coordinate the activities on creation of favorable conditions for tourism development. These activities, in the first place relate to realization of the infrastructural projects (water supply and waste water treatment, supply of electricity, upgrading of traffic infrastructure and general conditions in traffic, construction of better infrastructure and more efficient functioning of border crossings). Problems and time limits for resolving of them are defined by Action Plan for Preparation of the Summer Tourism Season for Year 2009.

The campaign "Let it be clean" implemented in form of public work, in cooperation with the Employment Agency, coastal municipalities and municipality of Cetinje shall be continued.

With an aim of prevention of the grey economy problem in tourism economy, in cooperation with Tax Administration and municipalities, the campaign "Register the accommodation" shall also be continued.

In cooperation with National Tourism Organization of Montenegro, the activities pertaining to branding of Montenegro and positioning Montenegrin tourism offer on the market through global media networks – campaign "Experience Wild Beauty" (EURO NEWS, CNN, Travel Channel) - shall be further continued. The campaign on surrounding markets shall be intensified in accordance with the Promotion Plan for year 2009 the promotion through web portals shall also be intensified.

3. Agriculture, Forestry and Water Resources Management

Measures of **agrarian policy** shall develop in the direction of more intensive realization of the programs, activities and projects defined by the Agriculture Development Strategy and National Food Production Program and Rural Areas Development for the period 2009-2013, as well as realization of the obligations resulting from EU accession process.

Substantial increase of Agrobudget for the year 2009 shall represent the concrete result of the National Food Production Program and Rural Areas Development through provision of various incentives to the development of agriculture and rural areas, with primary emphasis on the adjustment of the agrarian policy to the requirements of the Joint Agricultural Policy of EU, and support to overcoming of the inherent problems in this field.

Incentive measures contained in the Agrobudget shall be realized through several programs, predominantly targeting the raising of the competitiveness in the agriculture and processing industry sectors in rural areas by increase of revenues of the agricultural producers and opening up of the opportunities for rural population to engage in other activities.

For the purpose of overcoming of certain specific agrarian problems, in particular: natural resources being predominantly pastures (natural meadows and mountain pastures);

manifested problems with realization (sale) and reduced opportunities of the individual farmers to find the way to the market, in particular to foreign markets, for their products; permanent and quite intensive tendencies of depopulation of rural areas - additional measures shall be undertaken. Within the limits of the allocated funds and programs of Agrobudget, more substantial incentive to production and exports of lamb's meat shall be provided, as potentially one of the most significant agricultural products which may be competitive in the region, on the EU and other markets, through adequate technological equipping of slaughterhouses, support to formation of Cattle Breeders Cluster, as an inter-sectoral organization which shall reconcile the interests of large number of farmers, processing industries and exporters, as well as the potential introduction of payment of premiums per head for sheep and goats to all farms without limitation related the minimum number of heads of cattle.

The harmonization of the legislation with the EU Acquis shall be continued. Particularly positive effects are expected after the adoption of the Law on Agriculture and Rural Development, Law on Agricultural Land, Law on Cooperatives as well as the Law on Cattle Breeding, which shall define the relation of the state towards the most important natural resources and the modality of their sustainable valorisation.

Besides the regular budget funding, the realization of the projects of reform of agrarian policy shall be continued through support of the World Bank and GEFA, as well as the use of IPA support for programs of rural development, fishery development and food safety.

The support shall be streamlined for implementation of the Fisheries Development Strategy, with an aim of valorisation of enormous potential of sweet waters and sea fishery, as well as for the National Strategic Plan of Development of Fishery Sector for years 2009-2013.

In the area of **forestry**, the implementation of the range of projects of international support promoting efficient and sustainable forestry policies shall be continued.

The Law on Forests shall be amended and supplemented for the purpose of setting up of the framework for enabling of the implementation of the National Policy for Forests and Forested Land Management.

It is planned to adopt the Program of Employment of Funds for **Water Resources Management** for the year 2009, which shall substantially improve water supply in the rural areas, as well as the Program of Employment of Funds for Water Management, Water Protection and Protection against Waters in the year 2009.

The realization of the new projects of awarding BOT contracts for bottling of water shall be supported, while also investigating the opportunities for providing support to joint promotion of exports of potable water.

4. Construction and Housing and Communal Sector

Decelerated economic activity and expected lower level of investments shall reflect on the volume of activities of the construction works sector. In such conditions, taking into consideration the multiplication effect on other activities and sectors, it is expected to encounter problems of lower employment level, decreased use of capacities and similar.

It is expected that the implementation of the Law on Spatial Development and Construction of Structures shall ensure stability of conditions and simplification of procedures related to construction of structures, as well as provide incentives for entrepreneurial initiative, attract new investment and enable higher quality of valorisation of space.

The Strategy of Construction Industry in Montenegro by 2020 shall be drafted to define basic directions and solutions for overcoming the problems in this area.

For the purpose of creating the conditions for improved and higher quality involvement of domestic construction operational resources in realization of the projects of capital construction, it is planned to review the opportunities of systemic support to the construction industry development, as well as the conditions for improving the technical, organizational and other capacity building of the construction operational resources, particularly for structural engineering.

Particular attention shall be dedicated to formation of human resources basis in the scarce craftsmen professions in the construction works sector, as well as to considering the opportunities for introduction of the educational curricula for specialists in the area of zoning and urban development into the regular education system.

The activities related to prevention of illegal construction shall be continuously enforced, through implementation of controls by the inspection for environment protection, construction works inspection and urban development inspection, and the problem of structures built without construction permit or permit for use in the circumstances where respective urban plans are lacking, shall be resolved in accordance with the recommendations of the Vienna declaration and using the experience of other countries (legalization of the structures where there is a possibility to integrate them into new urban plans).

In the **communal sector** the completion of the contracted and commenced construction works on structures, which are implemented on the basis of the "Action Plan of the Housing Policy in Montenegro", shall be slowed down. In accordance with the Law on Spatial Development and Construction of Structures, it shall be worked on the new spatial plans for the units of local self governance, as a precondition for improved solutions in the housing sector. The principle of sustainable development shall be implemented in the housing policy in accordance with the Vienna declaration.

For the purpose of resolving of the housing needs of the public servants and employees, employees in the education sector, functionaries etc., the Government of Montenegro shall, with the support from the European Bank for Reconstruction and Development, continue to implement the projects "250 of housing credits" and "Solidarity Apartments" through direct participation and through subsidizing of the interests on loans.

The construction of buildings intended for housing for the needs of the Ministry of Defence shall be continued.

For the purpose of upgrading of the system of maintenance of the housing fund, the possible amendments and supplements of the Law on Strata Ownership shall be considered.

With an aim of harmonizing with the European standards, the Law on Housing and the Law on Housing Cooperatives shall be adopted.

The activities related to construction of **communal infrastructure** shall be intensified.

The works on construction of the first phase of the regional water supply system for Montenegrin Coast shall be completed. The opportunities for high quality water supply of Žabljak, as an important destination in the Montenegrin tourism offer, shall be considered. The activities related to resolving of the water supply of Rijeka Crnojevića shall be continued.

The realization of the activities foreseen by the Plan of Reform for the Water Supply Sector and Management of the Waste Waters of Montenegro shall be continued.

The Law on Organization of the Activities related to Water Supply and Waste Water Management shall be adopted.

By Adoption of the Law on Amendments and Supplements of the Law on Waste Management, which provides for delay of application of certain provisions of the Law on Waste Management until 1 January 2010, it shall be provided for that the preconditions for its full implementation are ensured through construction of the adequate infrastructure. The projects of construction of six regional sanitary landfill sites shall be completed in 2009, while working on technical and personnel capacity building of public communal enterprises.

The activities related to construction of recycling facility in Podgorica with the capacity of 90.000 tons of non-selected waste annually and line for treatment of end-of-life vehicles shall be continued. The Waste Management Plan for Montenegro for the period 2008-2012 (national plan) shall be adopted, while drafting of the local waste management plans shall be continued.

In accordance with the National Strategy for Medicinal Waste Management, the Proposal of Urgent Measures shall be adopted, intended for upgrading of the current conditions and reducing risks in management of this type of waste.

The implementation of the project of selective waste collection shall be continued in all municipalities of Montenegro.

The activities envisaged by project entitled "Sewage System for the Waste Waters in Montenegrin Coast" (phase III), in the frames of cooperation with the KfW Bank, shall be continued. These activities include producing of project design documentation and construction of communal infrastructure facilities in municipalities of Montenegrin Coast.

The project "Water-supply and Sewage System in Montenegro" shall be implemented within the framework of cooperation with European Investment Bank, whereby EUR57 mil has been allocated for realization of the priority projects in the area of waste water management. First tranche of this credit shall be utilized in the Municipality of Nikšić for the construction of the waste water treatment plants. In the year 2009, it is planned to work on project documentation (main projects) for waste water treatment plants in Bijelo Polje and Pljevlja, for which the feasibility studies and environmental impact assessments of are already completed. The drafting of the feasibility studies for waste water treatment plants for Ulcinj, Cetinje and Plav shall be continued, as well as the preparation of the environmental impact assessments for those plants. In 2009 it shall be worked on the main project designs for mentioned plants as well as on the project design documentation (feasibility study, environment impact assessment and main project) for plant in Berane.

The work on the drafting of project documentation for new waste water treatment plant in Podgorica, near Aluminium Plant shall be continued. The project is nominated for support of the IPF fund and European Investment Bank shall participate in financing of the plant construction.

On the basis of the strategic planning documents in the area of the water supply, waste management and waste waters, Government of Montenegro established the list of priority projects for realization in 2009 and later on. The funds allocated by the Capital Budget for 2009 are: for construction of Regional Water Supply System (EUR22.54mil), for sanitary landfills (EUR4.2 mil), for drafting of the main projects and commencement of works on plants for waste water treatment in Plav, Cetinje, Pljevlja and Ulcinj (EUR3.3 mil) and for waste water treatment – Montenegrin Coast (EUR1.7 mil).

The unit for implementation of the projects related to communal sector "Project Consulting" Podgorica, shall provide logistic support to the units of local self governance in creating preconditions for utilizing of the credits and donations of international organizations and financial institutions.

5. Trade

Basic objectives of development in the field of trade relate to creation of conditions for development of competitiveness in the market, upgrading of the quality of the offer of goods, promotion and modernization of the trade as a prerequisite for foreign capital investments, further prevention of grey economy, competition development, improvement of the consumer protection, promotion of the intellectual property rights, upgrading of the quality infrastructure and similar.

Activities shall be directed to:

- implementation of the Law on Internal Trade, legislation related to the quality infrastructure, intellectual property, as well as accompanying secondary legislation;
- reduction of business barriers in the trade sector as a requirement for improvement of the conditions for inflow of foreign capital;
- promotion of cooperation with the association of entrepreneurs in various sectors of trade;
- modernization and strengthening of the supervision of market, which presupposes education of the personnel and technical upgrading of inspection offices, as well as creation of the national contact unit for RAPEX system;
- implementation of the National Program for Consumer Protection as well as strengthening of the role of non-governmental sector in this field;
- carrying out of the Strategy of competition policy, implementation of the Law on Protection of Competition, and activities of the Competition Protection Agency;
- Following of the impact of global financial and economic crisis on trade sector.

VII - SOCIAL ACTIVITIES

Development of social activities shall be realigned in accordance with the actual circumstances. The conditions for providing higher quality services and implementation of the reform in the system of social activities shall be created by construction, rehabilitation and refurbishing of certain facilities.

In the upbringing and educational area:

- implementation of the Law on National Professional Qualifications shall start by drafting of the secondary legislation;
- the Law on Amendments and Supplements of the Law on Higher Education and Law on Amendments and Supplements of the Law on Education of Children with Special Needs;
 - new upbringing and educational institutions shall be established;
 - gifted pupils and students shall be encouraged by granting scholarships and credits;
 - implementation of the project "Roma Education Initiative" shall be continued with an aim of inclusion of the largest possible number of Roma children in regular education;
- international cooperation shall be developed with an aim of inclusion in the European High Education, Scientific and Research Activities Zone; in the unique European Research Area;
 - Agreements on international cooperation in the area of education, science and technology and especially in high education and scientific research area shall be prepared;
 - activities on construction of new facilities, reconstruction and extension of existing and investment maintenance of the entire infrastructure of the educational infrastructure shall be continued;
 - realization of the project "Strengthening of the Energy Efficiency in Public Sector" shall start, while the part of the funds shall be directed towards schools;
 - from the funds of the debt of Russian Federation the cabinets for lecturing shall be equipped for physics, chemistry and biology in the elementary and high schools; musical instruments for music schools and vehicles for transportation of pupils;
 - introduction of IT system shall be continued in the upbringing and educational institution.

In the area of culture:

- The National Program of Development of Culture shall be drafted as a strategic document, which shall define long-term goals and priorities of the development of culture and measures for its dynamic and balanced implementation on the entire territory of Montenegro.

■ The support to the development of cultural and artistic creative work shall be continued, through financing of the programs of national cultural institutions (Montenegrin National Theatre, Royal Theatre "Zetski dom", Musical centre of Montenegro and "Matica crnogorska"), realization of the Program of development of culture on the north of Montenegro, setting up of cultural events and festivals of particular interest and co-financing of the programs and projects of municipal cultural institutions, professional associations and other non-governmental organizations, as well as the projects of the individual artists and authors;

■ The activities on further legislative regulation of specific areas and activities in culture, through drafting of the new laws and secondary legislation acts related to cultural heritage.

■ The activities pertaining to protection and valorisation of cultural heritage and rehabilitation and refurbishing of the cultural sites shall be intensified, and, to that end, the preliminary technical assessments for rehabilitation of certain immovable cultural goods shall be produced; the rehabilitation of the Central National Library in Cetinje shall be completed; the works on rehabilitation of the Mausoleum on Lovćen shall commence; the cultural centres in municipalities in northern Montenegro shall be rehabilitated and refurbished; the initiated archaeological researches and works on recognizing of the terrain and producing of the Archaeological Map of Montenegro shall be continued; conservation and restoration of the number of movable cultural goods shall be completed and it shall be ensured that they are presented and accessible to general public.

In the area of media:

■ The realization of the right of the citizen to be informed through the content of the programs broadcasted by the Radio of Montenegro and Television of Montenegro, which are related to development of science, education and culture, informing of the persons with damaged hearing and sight, as well as information in Albanian language and languages of other minority peoples and minority national communities.

■ The activities related to privatization of the newspapers, publishing and graphical joint stock company "Pobjeda" shall be continued as well as the activities related to further transformation of RTCG into the public radio-broadcasting service.

■ The support to the promotion of media pluralism shall be provided through co-financing of certain thematic programs of public interest.

The activities related to creation and establishment of **health care system**, as an independent sustainable and modernized system, which is optimal with respect to providing health care services shall be continued.

In connection to that:

■ the standards and norms shall be defined for secondary and tertiary level of health protection as well as health care institutions network;

■ for the purpose of regulating of the monitoring method of the changes in functioning and management of health care system, monitoring of the general health condition,

comparison of the data with other health care systems and setting up the basis for development of IT system, the Law on Databases in the Area of Health Care shall be adopted;

- the Law on Health Care Inspection shall be adopted, which shall define organization and method of work of health care inspection;

- the introduction of IT system in all health institutions on all levels of health protection shall be continued;

- the amendments of the Law on Health Care shall be made, for the purpose of completion of the reform of dental care;

- the Law on Amendments and Supplements of the Law on Health Care shall be adopted;

- the activities related to combating HIV/AIDS shall be intensified through implementation of the activities defined by the Strategy and through implementation of the projects of Global Fund;

- the reconstruction and adaptation of the Public Health Institute shall be continued;

- the Law on Assisted Reproduction Technologies shall be adopted;

- the Law on Taking and Transplantation of Parts of Human Body for the Purpose of Medical Treatment, Law on Protection of Genetic Data, as well as the Law on Taking of the Biological Material shall be adopted;

- the Strategy of Combating the Non-Infectious Diseases shall be adopted;

- the Strategy of the Industrial Medicine and Sports Medicine, Law on Protection of the Rights of Patients as well as the Law on Medical Nurses shall be adopted.

In the field of **sports** activities will be undertaken with regard to the following:

- promotion of sport education of children and youth – sport in schools and universities, whereby it is expected to raise the level of awareness of the importance of sports; increase the number of children and youth engaged in sports, create preconditions for higher quality selection in sports, and especially work in prevention against socio-pathological manifestations amongst young people (alcohol and substances addiction, doping, delinquency, criminal etc.)

- creating optimal conditions for preparations and performances of promising and top level sportsmen with a view of achieving the best possible results in international competitions, which are in the function of promotion of the state;

- establishing of the model of transparent financing of the sports related programs

- providing incentives to the expert, advisory, development and research work in sports as well as establishing of the sports related IT system;

- supporting of activities of the national sports associations and Montenegrin Olympic Committee;

- cooperation with international sports organizations and institutions;

- awarding and extending grants to promising and top level sportsmen with a view to preventing of the outflow of young sportsmen from Montenegro;

- adoption of the new Law on Sports and drafting of the National Program of Sport in Montenegro.