

**Government of Montenegro**

**Ministry of Finance**

## **Questionnaire**

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

### **V Economic and structural developments and reforms**

**Minister: Igor Luksic**

**Podgorica, December 2009**



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## **ECONOMIC CRITERIA**

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### **5. How has domestic consensus on the fundamentals of economic policies been secured? To what extent are social partners involved in the decision-making process? Which are the consultative bodies involved in the co-ordination of economic policies?**

Defining the basic principles of economic policy and securing domestic consensus on these principles is essentially based on and realized through the process of adoption and acting upon strategic development documents. The Constitution of Montenegro (Official Gazette 001/07) stipulates that the Parliament of Montenegro (Article 82), upon the proposal by the Government of Montenegro (Article 100), adopts the Development Plan for Montenegro. As indicated in the answer to the question no. 48, Montenegro has treated the matters of national development planning through a number of strategic documents which serve as a framework to define and apply strategic approaches of national economy development. The Spatial Plan of Montenegro until 2020 (adopted by the Parliament of Montenegro on March 19, 2008) and the National Strategy of Sustainable Development, along with the Economic and Fiscal Program for Montenegro 2008-2011, updated every current year, serve as a basis in determining the principles and goals of the economic policy.

The process of creating and adopting the economic policy, falling under the authority of the Government of Montenegro, has taken place with the involvement of all relevant stakeholders of social and economic activity. The system of organized public discussions on the concept and the Draft Economic Policy has enabled the expression of opinions and efforts towards an appropriate treatment of interests of individual social partners, while providing specific objections and suggestions to that extent. In relation to that, there is a continuity of practice as to the involvement of the Economic Chamber of Montenegro, the Confederation of Trade Unions of Montenegro, the Union of Employers of Montenegro and Business Alliance, as well as a statutory obligation of the Central Bank (in line with the Law on Central Bank of Montenegro, the Official Gazette of Montenegro 04/05) in the process of creating the economic policy. Thereby, the Government of Montenegro tends to contribute as much as possible to balanced relations of various interests and enable optimal effect to the general economic growth.

The coordination of economic policies, falling under the authority of the Government of Montenegro, also presupposes the participation of certain advisory bodies in the process. The Social Council (established in line with the Law on Social Council, the Official Gazette of Montenegro 16/2007) as a tripartite body with representatives of the social partners (the Government of Montenegro, the authorized trade union organization, and the authorized employers' association), considers and takes positions on the matters of: impact of the economic policy and its implementation measures on social development and the stability of employment, wage and price policies; competition and productivity; privatization and other matters of structural adaptation; protection of working and living environment; education and professional training, health and social protection and security; demographic changes and other issues significant for realization and improvement of economic and social policies. The National Council for Sustainable Development (established in June, 2002), which is a partnership between the Government of Montenegro, business community, environmental protection organizations, and civil sector, provides suggestions in the process of drafting the development-related documents, including the economic policy, aimed at more complete reflection therein of the needs for development projections to be based on the development sustainability principles.

**6. How has a co-ordination between line ministries, the Ministry of Finance and/or the Central Bank for the formulation of economic policy (including the macroeconomic policy-mix) and its implementation been carried out?**

Article 11 of the Law on Central Bank stipulates that the Central Bank acts as the advisor to state bodies. Therefore, the Central Bank each year proposes to the Government a set of the economic policy measures for the next year, the measures being harmonized with those of the monetary policy. In addition, the Law provides for the Central Bank to do regular macroeconomic analyses of current situation and give proposals for the implementation of certain economic policy measures. This obligation is fulfilled through numerous publications by the Central Bank, and through specific recommendations put forward to the Government directly. Additionally, the Government occasionally addresses to the Central Bank for certain opinions and recommendations. Due to the effects of the global economic crisis, and aimed at coordination of the economic and monetary policy measures, the Financial Stability Committee has been established, consisting of: the President of CB Council, the Minister of Finance, and the Director of the Deposit Insurance Fund. At the same time, the Prime Minister has established an ad hoc body which has coordinated the implementation of the Government's anti-crisis programme.

The coordination of policies in Montenegro has been ensured through drafting strategic documents of the Government, the most important being the Economic and Fiscal Programme, which has been implemented within the dialogue of Montenegro with the European Commission.

The basis for making projections in the document is a macroeconomic model jointly developed by the Ministry of Finance and the Central Bank of Montenegro. Based on the model and the projections made, the plans are developed for policies in a period to come. At the same time, in the domain of structural reforms, plans are harmonized with the fiscal policy guidelines.

**7. How is the co-ordination of the main producers of statistical data (Statistical office, Central Bank, Ministry of Finance, etc.) carried out? What are the plans to enhance the reliability, regularity and mutual compliance of statistical data? (see also chapter 18 – Statistics)**

Within the economic and structural reforms, recognizing the importance of statistics and the need for coordination of statistical data, the Government of Montenegro started the implementation of the project titled the "Concept of new statistical system for the needs of macroeconomic research and macroeconomic policy in Montenegro", in November 2003. The activities on this project have been coordinated by the Statistical Office of Montenegro. The project has envisaged the creation of statistical infrastructure: accurate and clear delegation of responsibilities of the producers of primary statistics, networking of all producers to a unique statistical information system, and application of international standards. Aimed at achieving greater reliability and mutual compliance, three pillars of the reform i.e. the basic components of the statistical system of Montenegro have been defined:

1. Defining legal grounds. Objective: the adoption of a Law on Statistics of Montenegro;
2. Reaching methodological consistency. Objective: full application of the international methodology i.e. the system may not hold any data resulting from an internal methodology which is not in compliance with the international standards and classifications;
3. Reaching IT networking. Objective: creation of an information technology system which follows the statistical system concept, and the creation of a unique database for the needs of macroeconomic policy and other users.

The reform results achieved:

The legal framework for the system operation has been set by the Law on Statistics and Statistical System which was adopted in March, 2005. The Statistical Office of Montenegro carries out the largest quantity of statistical research but, due to the nature of certain surveys, there are other

institutions defined as holders or producers of statistics (the Central Bank of Montenegro, Ministry of Finance, Tax Administration, Securities Commission, Public Revenues Directorate, Commercial Court Central Register, and the body responsible for the development affairs - the Secretariat for Development), as well as other bodies identified by the Research Programme.

Methodological consistency is ensured by the Statistical Office which is, by the Law, responsible to coordinate methodological compliance: to define, update and maintain methodology being employed on the system's level; to monitor methodological compliance with other producers of statistics; to monitor the employment of methodology and instruct other producers of statistics on the methodology employment. The Statistical Office has also been defined as the institution responsible for meeting international obligations and coordinating the activities and the data submission to the Eurostat on behalf of all the producers in the system.

With the aim to achieve IT networking and create the database for the needs of macroeconomic policy, the producers of statistics, as defined by the Law or the Research Programme, signed the Agreement on Cooperation in 2006. Each producer has been responsible for the creation of a database from its own field of activity. The next step planned but not completely performed is the creation of an overall database (data from all the system's producers). Recognized as the most important users of the abovementioned database are the Statistical Office (it uses a large quantity of data by other producers as input and is responsible for the submission of data to international institutions) and creators of macroeconomic policy (ministries and other bodies). The Secretariat for Development was responsible for distribution of the base to the creators of macroeconomic policy. By the beginning of 2009, the Secretariat for Development did not formally exist in the organizational structure of the state administration. Now, the institution responsible for the creation of the unique database for all the users is the Statistical Office.

Aimed at promotion of statistical culture and knowledge and satisfying the needs of the statistics' users, the Government established, by the Law on Statistics, the Statistical System Council, the first in Montenegro, in 2006. The Council consists of 17 members or representatives of the statistics-producing institutions, administrative sources and statistics users. The role of the Council is advisory. The Council does not make decisions but recommendations to the bodies, primarily the Government of Montenegro, referring to the system as a whole. It does not deal with internal problems, internal methodology or development strategy for statistics producers. The role of the Council is to react by expert opinions towards the Government of Montenegro in each and any case where any unit of the system violates any of the principles on which the system is based, and to react by expert opinions in order to improve material, technical or human resource status of the existing units.

The competences of the Statistical Office have been stipulated by the Law on Statistics and Statistical System of Montenegro, and by the Annual Statistical Research Plan. Supervision over the legality and appropriateness of the Statistical Office's work is carried out by the Ministry of Finance in line with the Decree on Organization and Methods of Work of the State Administration of 2007. Upon the proposal by the Statistical Office in the capacity of the statistical system's coordinator, the Ministry of Finance submits to the Government for adoption the Multi-year Statistical Research Plan, Annual Statistical Research Plan, and the legal regulation referring to the official statistics. The control of the Annual Statistical Research Plan's implementation is performed by the Ministry of Finance based on quarterly and annual reports submitted by the Statistical Office. This way, the coordination of the statistical system is ensured through the Statistical Office, and the control of the research done as to the planned dynamics.

Future plans:

Reaching greater reliability, regularity, and mutual compliance of statistical data has been planned through further capacity building of the Monstat, but also through capacity building of the administrative sources of data. The Development Strategy of the Official Statistics 2009-2012 was adopted by the end of 2009, formulating the following strategic areas of development:

- (i) Methodology of the statistical data calculation in line with the EU standards;
- (ii) Acting in compliance with the European Statistics Code of Practice; (iii)

- (iii) Strengthening of cooperation among the statistical system institutions in line with the European standards;
- (iv) Strengthening of human resources and work organization.

Expert assistance for certain areas has been proposed through the 2007 IPA National Programme.

**8. Public finances: How has the system of public finances been developed including extra-budgetary funds? How have government revenue and expenditure developed over time in terms of categories as well as total as a share of GDP? What were the main sources for the expenditure growth?**

Public finance structure in Montenegro consists of the following:

- Budget of the Government of Montenegro
- Republic Pension and Disability Insurance Fund
- Republic Health Insurance Fund
- Employment Office of Montenegro
- Compensation Fund
- Development Fund of Montenegro
- Local self-government budgets (the City of Podgorica and 20 municipalities).

The organic Budget Law was adopted in 2001 and regulates the public finance management in a systematic and comprehensive manner. Spending of any amount of funds and their use in a manner different from the one envisaged by the adopted annual Budget Law for the subject year is prohibited, while the use of funds exceeding the level allowed is considered to be a criminal act. State budget planning is based on the projections of economic development, macroeconomic stability, economic policy, laws and other regulations. The Budget of Montenegro includes current and capital budgets, state fund budget, and financing transactions (repayment of debt). All payments are done, the use of the budget surplus and sources of finance for the budget deficit determined, etc., through the Consolidated Treasury Account which has been established and operating.

The consolidated public spending – the Budget of Montenegro, extra-budgetary funds and local self-government – has been monitored since 2003. The previous data have been unreliable for a number of reasons: absence of continuous monitoring of local self-government financing, the data having been approximated and underestimated to significant extent, the Deutschmark was introduced as the official currency in 2000, but has been effective as a currency parallel to dinar until mid-2001. The data on collection and execution of expenditures have been kept in both currencies, while the foreign exchange has been the fluctuating one, and the unofficial organic Budget Law and the Instructions on Treasury Operations were adopted in 2001. The State Treasury has begun with effective work in 2002, when the unique Consolidated Treasury Account was established. Prior to that, all the spending units had had their own accounts where general and purpose-set budget revenues had been “pouring” to, with the outgoing payments done from those accounts.

Amendments to the Law on Local Self-Government Financing have modified the structure of common revenue allocation between the State Budget and municipality budgets. The share of municipalities has increased in the allocation of the Income Tax from the ratio of 80:20, the bigger share to the central budget, to 79:21. More importantly, the structure of the Real Estate Transfer Tax allocation has been changed from 50:50 to 70:30, the bigger share to the municipality budgets. In addition, the Fee for the Construction Land Use has been annulled, additionally easing the tax burden on investors.

Amendments to the Law on Non-Resident Employment have made residents and non-residents equal when it comes to tax and contribution payments. Previously, the employers employing non-residents were obliged to pay the Employment Office a fee amounting EUR 2.5 a day per

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employee, with no payable employer's contributions, while the non-residents employed were not due to pay income tax, municipal surtax, and employee's contributions. In line with the modified regulation, starting from 2009, the employers ceased to be stimulated to hire non-residents for the sake of lower charges payable, which have had impact as to the decline of unemployment in Montenegro.

The Table hereunder provides the data on the public revenues and spending with deficit and surplus as a percentage of GDP, for the period of 2003-2008:

I T E M	2003	2004	2005	2006	2007	2008
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
<b>Current public revenues</b>	39.82	39.24	39.90	45.62	47.72	46.27
<b>Consolidated public spending</b>	42.08	41.22	41.86	42.68	41.37	45.77
<b>Surplus / deficit</b>	-2.26	-1.98	-1.96	2.94	6.35	0.48

Within the 2003-2005 period, with typically low growth rates, public revenues have ranged from 39.2 to 40% of GDP. In 2006 there was fast growth of the economy. Apart from intensive fiscal reforms directed towards tax rate fall, a significant rise in the public revenue collection on both central and local levels was typical of the 2006-2008 period. The most important rise was recorded in consumption-related taxes – Value Added Tax, Excises, and Tax on International Trade and Transactions.

I T E M	2003	2004	2005	2006	2007	2008
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
CURRENT PUBLIC REVENUES	39.82	39.24	39.90	45.62	47.72	45.40
Taxes	22.92	22.65	24.20	25.81	27.88	27.39
Contributions	11.59	11.69	11.09	11.87	10.93	10.20
Fees	0.71	0.86	0.94	1.36	1.20	1.03
Charges	2.16	1.38	1.91	2.70	4.37	4.54
Other revenues	2.05	2.28	1.47	3.17	2.53	2.02
Receipts from loan payments	0.40	0.38	0.30	0.70	0.81	0.22

As for the expenses, in the 2003-2008 period, the expense growth was 1.8 percentage points of GDP. In the expense structure for the subject period there were significant changes – primarily the rise of capital expenses from 2.68 % of GDP in 2003 to over 9% of GDP in 2008. In addition, there was a significant rise in wages and salaries through an increase in minimum labour price from EUR 50 to EUR 55 in 2007 and to EUR 75 for state officials and holders of judiciary and Constitutional Court positions. In addition, the Law Amending the Law on Salaries of Civil Servants and State Employees was adopted in 2008 on the basis of which the coefficients of job complexity were increased by 30%. Furthermore, the application of the Swiss Formula in both ordinary and extraordinary adjustments provided a significant rise of pensions.

Note: The structure of spending in 2008 in relation to previous years is incomparable because of the inclusion and planning of state funds' expenses as an integral part of the Budget of Montenegro. To that regard, the expenses of the Health Insurance Fund have been presented in detail by economic classification until 2007 inclusive, while, since 2008, the expenses of health institutions have been shown as Transfer. For the abovementioned, the comparison of 2008/2007 seems to indicate a significant fall in Current Expenses and rise in Transfers to Institutions, while actually there has only been a change in accountancy.

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I T E M	2003	2004	2005	2006	2007	2008
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
CONSOLIDATED PUBLIC SPENDING	42.08	41.22	41.86	42.68	41.37	43.88
Current expenses	21.00	21.86	20.51	20.73	20.13	17.42
Social transfers	14.05	13.86	13.21	12.10	10.64	10.51
Transfers to institutions, individuals, NGO, and public sector	1.91	1.52	1.63	3.02	2.89	6.39
Capital expenses	2.68	1.82	4.64	4.52	6.67	9.05
Loans and credits	1.12	0.53	0.58	0.77	0.34	1.84
Repayment of guarantees	0.76	0.64	0.34	0.05	0.00	0.00
Reserves	0.56	1.00	0.94	1.49	0.67	0.57

The part related to pension revenues and expenditure is given in the following text.

Pursuant to the Law on Pension and Disability Insurance (Official Gazette of the Republic of Montenegro 54/03,39/04,79/04,81/04 and 47/07 and the Official Gazette of Montenegro 79/08), the Pension and Disability Insurance Fund is the organization which executes public authorities in deciding on rights and duties stemming from the pension and disability insurance.

The Fund acts in the capacity of legal person with all the rights, obligations, and responsibilities provided for by this law and the Fund's Statute.

The Fund performs the following affairs:

- 1) ensures efficient, economic, and lawful exercise of rights stemming from the pension and disability insurance, and provides professional assistance in exercising the rights;
- 2) adopts annual budget of the Fund, including the costs of the Fund's technical service;
- 3) keeps record on insurants and beneficiaries, in compliance with this law and the Statute;
- 4) keeps record on wages and salaries i.e. insurance bases the contributions have been paid on, the amount of the contribution paid for each insurant, and on the paid-out pensions;
- 5) develops annual financial statements and takes care of their audit in compliance with law;
- 6) provides the state administration body competent in public revenue affairs (hereinafter: the Directorate) with monthly reports on the contributions paid;
- 7) ensures the implementation of international agreements on pension and disability insurance;
- 8) takes measures aimed at regular collection of the Fund's revenues;
- 9) organizes affairs related to implementation of pension and disability insurance and to that point provides the information technologies;
- 10) adopts general acts in compliance with this law and the Statute;
- 11) conducts other affairs related to the execution and exercise of rights stemming from the pension and disability insurance in compliance with this law and the Statute.

The abovementioned Law defines three basic sources of the Pension and Disability Insurance Fund's finance, as follows:

- 1) contributions;
- 2) budget of the Republic;
- 3) other sources, in compliance with law.

The Fund's expenditures are as follows:

- 1) pensions;
- 2) cash benefits for bodily impairment;
- 3) funeral costs;
- 4) costs stemming from health insurance contributions of the pension beneficiaries;
- 5) costs of disability evaluation;
- 6) costs of the payoff of pensions and other pension-related receipts;
- 7) costs of insurance implementation and of the Fund's management bodies.

**Article 176 of the abovementioned Law defines that the Budget of the state of Montenegro provides:**

- 1) funds for pension and disability insurance in case of increased liabilities resulting from acquiring and exercising rights from pension and disability insurance under specific conditions which have been provided for by earlier federal and republic regulations;
- 2) funds for increased liabilities due to attaining and exercising right to minimum pension, in the amount equal to the lowest pension from Article 29 of this Law, or the lowest pension acquired by regulations valid prior to entering into force of this Law, less the pension which would be granted to the beneficiary based on the attained earnings i.e. insurance base which the pension and disability insurance contributions have been paid to, and the attained length of service for which the pension insurance has been paid.
- 3) funds for the rights stemming from the pension and disability insurance for the persons from Article 14 para. 1 items 2 and 3, and Article 15 para. 1 of this Law;
- 4) funds for the rights from Articles 52 and 57 of this Law;
- 5) funds for the rights stemming from pension and disability insurance attained on the basis of the insurance-covered length of service from Article 64 of this Law;
- 6) funds for the rights stemming from pension and disability insurance attended on the basis of the insurance-covered length of service with extended duration from Article 74 of this Law;
- 7) funds for the increased liabilities related to the beneficiaries who pay contribution for pension and disability insurance by a rate lower than the statutory rate.

The Law envisages that the State of Montenegro guarantees the payoff of rights stemming from pension and disability insurance.

In the 2004-2008 period, the total revenues of the Pension and Disability Insurance Fund rose by 74%, or from EUR 165.84 mil. in 2004 to EUR 288.55 mil. in 2008. The main reason for total revenue growth was a significant rise in revenues coming from contributions to pension and disability insurance. To that matter, for the period considered, because of an extensive economic expansion, the rise in the number of payers, numerous tax facilities, the grey economy fall, despite a lower pension and disability insurance contribution rate, the revenues from contributions recorded the upwards trend so that in 2008 they amounted to EUR 214.63 mil., thus exceeding the 2004 amount by 85% and the 2007 amount by 23%.

In addition, there has been an upwards trend as to the share of revenues from pension and disability insurance contributions in the total Fund's revenues i.e. downwards trend when talking about transfers from the Budget of Montenegro as a share of the Fund's revenues. The share of contribution revenues in total revenues rose from 69.94% in 2004 to 74.38% in 2008 while the transfers from the Budget of Montenegro accounted for 22.74% of total revenues in 2004 and 23.70% in 2008.

The pension and disability insurance contribution rate was gradually falling within 2004-2008 period. In 2008, it was 21% while it has amounted to 20.50% since 1 January, 2009.

Expenditure for the same period rose by 71%, i.e. from EUR 168.48 mil. in 2004 to EUR 287.97 mil. in 2008. The growth of total expenditure for gross pensions (net pensions, benefits and allowances plus expenses stemming from health protection contributions) from EUR 161.29 mil. in 2004 to EUR

279.88 mil. in 2008, resulted mostly from the compulsory statutory adjustments of pension incomes (twice a year, on Jan 01 and July 01), and, to smaller extent, from the costs for additionally retired persons. In addition, the costs have been insignificantly increased by the inclusion of military persons into the Fund's payoff base, and extraordinary adjustments of pension expenditure.

### III Balance sheet indicators of the Pension and Disability Insurance Fund for 2000-2008

The data derived from the analysis of indicators from the Fund's balance sheet for 2000-2008 are presented in the following table.

Indicator		Year								
		2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Contributions / Net pensions	0.90	0.69	0.82	0.86	0.85	0.82	0.89	0.90	0.90
2	Share of contributions in total revenues	63.11%	52.16%	59.78%	63.63%	69.94%	63.86%	67.73%	69.46%	74.38%
3	Contributions / Expenditure	0.64	0.55	0.61	0.66	0.69	0.65	0.71	0.74	0.75
4	Budget transfers / Expenditure	0.32	0.42	0.31	0.24	0.22	0.24	0.28	0.26	0.24
5	Other receipts* / Expenditure	0.05	0.09	0.10	0.14	0.07	0.13	0.06	0.06	0.02
6	Total expenditure in GDP	9.89%	10.27%	11.20%	10.69%	10.09%	9.96%	9.15%	8.39%	9.52%
7	Total expenditure – contributions for pensioner health care in BDP	8.35%	9.56%	9.60%	9.19%	9.10%	8.86%	8.05%	7.51%	8.56%
8	Share of net pension expenditure in total expenditure	70.42%	80.16%	74.70%	75.97%	80.90%	79.33%	79.61%	81.88%	82.79%
9	Share of gross pension expenditure in total expenditure	90.69%	93.04%	94.39%	95.47%	95.73%	94.79%	95.91%	96.98%	97.19%
10	Operating costs / Total costs	9.30%	6.95%	5.61%	4.52%	4.27%	4.24%	3.58%	2.73%	2.63%
11	Gross wages and salaries, employer's contributions, and other personal income / Total expenditure	1.11%	1.18%	1.33%	1.51%	1.41%	1.19%	1.07%	0.98%	0.96%

\* The rest of the receipts include: Additional revenues from republic fees, special fees, special taxes; Revenues from payment operations fees; funds from loans; Equity-based revenues, and Other receipts.

Coverage of expenditures for net pensions by contribution revenues in 2008 was on the same level as in 2007, i.e. EUR 1.00 of net pensions was covered by EUR 0,90 of contributions.

The share of contributions in total revenues rose comparing to 2007 (69.46%), amounting to 74.38%.

In 2008, EUR 1.00 of total costs was covered by EUR 0.75 of contribution revenues while the rest of the revenues was provided through transfers, other receipts, and privatisation funds, and the degree of coverage rose when compared to 2007 (0.74).

In 2008, EUR 1.00 of total costs was covered by EUR 0.24 of transfers from the budget, and the degree of coverage was lower comparing to 2007 (0.26).

In 2008, EUR 1.00 of total costs was covered by EUR 0.02 of other receipts, and the degree of coverage was lower comparing to 2007 (0.06).

The share of the net pension expenditures in total expenditures of the Fund was 82.79% in 2008, which was an increase comparing to the previous year (81.88%).

The share of the gross pension expenditures in total expenditures of the Fund was 97.19% in 2008, which was an increase comparing to the previous year (96.98%).

The share of operating costs in total costs in 2008 was 2.63%, which was a decrease comparing to 2.73% in 2007.

The share of gross wages and salaries, employer's contributions, and other personal incomes in the total costs for 2008 (0.96%) shows a decrease comparing to 2007 (0.98%).

Revenues and expenditure for 2000-2008									
year		2000	2001	2003	2004	2005	2006	2007	2008
2	Total revenues	121.96	141.25	166.35	165.84	185.31	205.65	250.33	288.54
1	Total expenditure	121.91	132.96	161.43	168.48	180.86	196.59	235.48	287.96
3	Tot. receipts – Tot. expenditure	0.05	8.29	4.92	-2.64	4.45	9.06	14.85	0.58

## 9. Fiscal decentralisation:

**a) What is the relationship between central government and local self-government? What is the current situation as regards revenues, expenditures and debt of municipalities? (Please see also question under Political criteria.)**

Local self-governments are financed from: their own sources (local taxes, fees and charges), revenues awarded from the republic budget (10% of income tax of natural persons, 50% of real estate transfer tax, and 30% of concession fees), Equalization Fund, loans and credits, and revenues from privatization and sale of property.

Financial equalization, i.e. adjustment of financing of municipalities is done through the Equalization Fund. The Equalization Fund's resources are provided from revenues by income tax of natural persons amounting to 10% of such revenues. The funds are allocated to a separate account of the Equalization Fund. The funds of the Equalization Fund are used as equalization and incentive donations in the ratio of 90% / 10%. The right of using the Equalization Fund's funds as equalization donations is vested in each municipality where the revenues from income tax of natural persons, value added tax, and tax on profit of legal persons (corporate tax) per capita is lower than the average per capita revenues of all municipalities from the same sources. The right of using incentive donations is vested in a municipality which makes an increase of revenues from its own sources in a current fiscal year compared to the previous one.

Amendments to the Law on Local Self-Government Financing have changed the structure of allocation of common revenues between the State Budget and the municipality budgets. The share of municipalities has increased in the allocation of Income Tax from 80:20 in favour of the central budget to 79:21. More importantly, the structure of allocation of the real estate transfer tax has changed from 50:50 to 70:30 in favour of the municipality budgets. In addition, the Fee for Construction Land Use has been abolished to additionally ease the burden on investors.

With regard to the municipality expenditure planning, they have to follow the provisions of the organic Budget Law. The municipalities are completely autonomous in budget planning, but obliged to provide the Ministry of Finance, for insight, with the Decision on the Fiscal Year Budget, the Decision on the Municipal Budget Final Account, and quarterly reports on the municipal budget's receipts and expenses.

A municipality may borrow in compliance with the Law on Budget, with prior approval by the Ministry of Finance. The Ministry of Finance has issued the Instructions defining criteria for borrowing by municipalities. The total principal and interest repayment related to a municipal debt

in a current fiscal year may not exceed 10% of total genuine revenues of the municipality in the previous fiscal year. Even where a municipality meets this condition, the Ministry of Finance, in line with the provisions of the Law on Budget, is entitled to reject the request of the municipality for borrowing, taking into account the macroeconomic situation in the country.

Direct transfers from the Budget to municipalities make a very small percentage in total revenues of municipalities (less than 1%), and are referring to co-financing of projects aimed at municipal infrastructure development, for those municipalities which have adopted a multi-year investment plan and provided at least 50% of funds for the proposed capital project from their own sources.

**b) What is the status of the reform on fiscal decentralisation? Please provide a short summary concerning the main features of this reform. Which fiscal competencies and powers are transferred from the central to local self-government? Is there an adequate flow of revenue for municipalities in order to finance their competencies? Is there a mechanism of redistribution of resources among the municipalities? Is the central budget expected to finance municipalities? If so, according to which criteria?**

The local self-government reform, as a significant part of administration reform in Montenegro, has begun by the end of 2003 by adopting systemic laws which regulate operations and funding of local self-government, the laws being: the Law on Local Self-Government (Official Gazette of the Republic of Montenegro 42/03,..., 13/06) and the Law on Local Self-Government Financing (Official Gazette of the Republic of Montenegro 42/03, and the Official Gazette of Montenegro 5/08). These laws are the basis for carrying out decentralisation in Montenegro. The local self-government reforms are aimed at ensuring democratic, decentralised and professional system of local self-government, which will follow the practice of good local governance for citizens and with citizens, and which will enable economic and cultural development of local self-government.

The provisions of the Law on Local Self-Government define areas where it is possible to carry out decentralisation, as a devolvement of affairs from central to local government, the areas being: education, primary health care, social and child welfare, employment, and other areas in line with law. In addition, by the provisions of this law, certain affairs from the competences of a state administration authority may be devolved to municipalities, aimed at ensuring more efficient and economic performance of such affairs.

The process of affairs' decentralisation has taken place together with the fiscal decentralisation process which has taken place in stages. The decentralisation assumes the setting of mechanisms for municipality financing which will be transparent and based on realistic criteria and standards. The Law on Local Self-Government Financing has started the process of independent financing of ***genuine competences*** of the local self-government units from their own sources (local taxes, fees and charges, revenues from property sales, donations, etc.), common taxes and charges levied by the State, from the Equalization Fund, and grants from the State Budget.

It is necessary to provide funds for carrying out the devolved and delegated affairs. In compliance with the provisions of the abovementioned Law on Local Self-Government Financing, the funds for carrying out the devolved and delegated affairs from the competences of certain ministries and other administration authorities are provided to local self-government from the State Budget, in line with a regulation on devolvement or delegation of such affairs.

**10. Budgetary policy: Please describe the features of the planning, programming and execution process of the government budget. Please indicate main policy objectives, developments and achievements as regards budgetary policy.**

**The Budget Law (Official Gazette of the Republic Montenegro, 40/01, 44/01, 28/04, 71/05, Official Gazette of Montenegro 12/07, 73/08, 53/09)**

**provides for the planning, execution and programming of the Budget as follows:**

### **III. BUDGET PREPARATION AND PLANNING**

#### **Article 19**

The planning of the State Budget shall be based on the projections of economic development, macroeconomic stability, economic policy, laws and other regulations.

#### **Article 20**

In February of the current year, the Ministry of Finance shall, based on Guidelines for development of capital budget to be adopted by the Government, issue technical instructions for preparation of capital budget of spending units and local self-government units which propose capital projects for the following fiscal year.

Spending units that are proposing capital projects shall be obliged to submit their requests for budget allocations for capital projects to the Ministry of Finance by 31 March of the current year for the following fiscal year.

The Government shall determine strategic priorities of economic policy for the following fiscal year no later than 31 March of the current year, at the proposal of the state administration body responsible for proposing economic policy for the following fiscal year.

The Ministry of Finance shall prepare and, in April, submit a report on the realisation of macroeconomic and fiscal policy for the current year and propose targets and directives of fiscal policy, on the basis of which it plans the main categories of receipts and expenditures with the estimate for the following three fiscal years.

Based on the decision of the Government on the targets and directives of fiscal policy, the Ministry of Finance shall, in May of the current year, issue technical instructions for preparation of budgets of spending units and budget of local self-government for the following fiscal year.

The technical instructions referred to in paragraph 5 of this Article shall include: important economic parameters, instructions, guidelines and deadlines for preparation of the budget, approximate amounts of expenditures for each spending unit and recommendations for the approximate amounts of expenditures of local self-governments, based on which the spending unit and local self-government unit shall independently plan their expenditures, as well as capital budget projection for the following year, with the assessment of expenditures of current and capital budget for the following three years, based on the guidelines and objectives of fiscal policy established by the Government.

#### **Article 21**

Spending units shall, as a part of their procedure for planning the budget, submit requests to the Ministry of Finance for allocation of budgetary funds, by the end of July of the current for the following fiscal year.

The request referred to in paragraph 1 of this Article shall include:

1. Current-programme budget;
2. Transactions of financing;
3. Capital budget;
4. Outflows estimates according to economic, functional, programme and project classification, determined by the Ministry of Finance in accordance with international standards;
5. Funding sources;

6.Explanation of expenditures estimates;

The Ministry of Finance shall prescribe detailed content and the form of the request referred to in paragraph 1 of this Article.

**Article 22**

The Ministry of Finance shall, on the basis of the estimates of receipts and submitted budget requests for the allocation of budget funds, in the draft Law on the State Budget, propose expenditures for spending units, and if there is a deficit, it shall determine sources of funds for its financing.

In the event of disagreement during discussions on draft Law on the State Budget between the Minister of Finance and the persons responsible for spending units, the Ministry of Finance shall prepare the proposal of the final solution for the Government.

**Article 23**

The Ministry of Finance shall prepare the draft Law on the State Budget and shall submit it to the Government in October.

The competent municipality body shall prepare the draft decision on municipality budget and submit it to the Ministry of Finance for insight by 15 November.

The competent authority of an independent regulatory body shall establish a proposal of financial plan with the work plan for the next year and nominate a representative of an independent regulatory body that will participate in the parliamentary procedure.

The competent authority of an independent regulatory body shall submit a proposal of financial plan and the act on the determination of representative to the Ministry of Finance by 30 September of current year.

**Article 24**

The Government shall establish the Proposal of the Law on Budget and submit it to the Parliament in November.

A competent authority of a municipality shall establish the proposal of the Decision on municipal budget and submit it to the municipal assembly by the end of November.

Management Board of the state fund shall adopt the draft budget of the fund for the next fiscal year and submit it to the Ministry of Finance by the end of August.

**BASICS OF BUDGETARY POLICY IN MID-TERM FRAMEWORK**

In the mid-term framework of 2010-2012, the following budgetary policies are to be implemented:

- Implementation of the mid-term budgetary framework

A prerequisite for establishing and implementation of a mid-term budgetary framework is a reform of the budget preparation and planning process and introduction of financial limits (ceilings) for budget's beneficiaries for a multi-year period. The Budget's multi-year appropriations will be based on the strategic documents of the Government and certain line ministries, in accordance with the fiscal framework for the aggregate public spending. Thereby, the "top-down" method in the process of preparation and planning of the Budget has been introduced (contrary to the previously used "bottom-up" method). The implementation means setting a mid-term limits in their cumulative amount, by economic classification, and by the Budget beneficiaries, while a detailed overview of expenditure will be given in the annual budget laws. The key advantage of the mid-term budgetary framework's introduction is in a more stable and sustainable fiscal policy, larger capacity for the regulation of future budgetary effects/results, and improved capability of the Government to allocate the resources within the programmes and organization units, in line with its policy and priorities.

- Continued implementation of the Capital Budget of Montenegro

Carrying on the implementation of the Capital Budget of the Republic of Montenegro on the level of 6.63% of GDP on annual basis within the 2010-2012 period. The creation of the data base for all the Budget-related projects has been planned. This would enable an appropriate fiscal risk analysis, and improve the decision-making process related to setting of priorities. The adoption of the new law on concessions and public-private partnership will be a significant regulatory framework for managing a part of investments.

The Budget rebalance has envisaged a significant decrease in the Capital Budget share due to a significant cut in revenues.

- Full implementation of the programme budget

In the implementation of the programme budget in Montenegro there is a model of Budget Programme which makes the principal activity (the programme) or group of activities (sub-programmes), which are implemented through spending units. Two levels of the programme budget implementation have been introduced; they are presented through the programme and sub-programmes. The programme budget's reform introduces logic of programme classification for the entire budget, as well as the creation of IT system for monitoring and execution of the budget by programme structure. A gradual transition from linear to programme budget has been going on since 2005. The full programme budget implementation, including indicators and full application of the "top-down" method to the process of budget preparation and planning has been planned for mid-term. The Government of Montenegro has adopted the Decision on the Manner of the Budget Preparation and Programme Budget Contents which determines the manner of preparation and the contents of the programme budget prepared by the spending units for the purpose of annual budget law planning and the manner of submission of Reports on the Programme Budget Realization. Programme budget of spending units in the Budget Law of Montenegro for 2009 will include:

a) in the normative part

- name of the spending unit.
- name of the programme, and
- unique identification number (organization code)

b) in the explanation

- name of the spending unit,
- mission statement,
- name of the programme
- unique identification number (organization code)
- programme description,
- sources of finance.

**11. Budget management: How has the relation and interaction between government levels evolved? How far is fiscal management integrated (e.g. state play of the Single Treasury Account)?**

The organic Budget Law was adopted in 2001, regulating the public finance management in much more quality and transparent way. According to provisions of this Law, the annual budget laws have been prepared to the present. In the same year, the Instructions on Treasury Operations have been issued, establishing the State Treasury and the unique consolidated account of the Treasury. The Law on Local Self-Government has come to life in 2004, defining a fiscal autonomy of local self-government units. Thanks to donor funds (the EU and US), the project of establishing a treasury for each municipality has been completed in 2005. Since 2008, extra-budgetary funds

have become state funds and their receipts and expenses have been planned within the Budget of Montenegro.

Each of the abovementioned laws has been amended a number of times, in line with recommendations of international institutions and local needs. The act of adopting the Law on Amendments to the Budget Law, containing the part on the debt and cash management inclusive of guarantees and loans, annulled the Law on Borrowing and Public Sector Debt Management. Main provisions of the new law on borrowing, and debt and cash management stipulate that the Government shall decide on taking loans and issuing guarantees in line with annual budget laws, while the decisions on loans and guarantees shall have the form of a framework decision which shall include all the loans taken during the year, where individual approval for each and any borrowing is not necessary. The State may take loans up to the maximum level of annual borrowing, aimed at financing the State Budget expenditures in line with the annual budget law, at repurchasing state debt, at liquidity maintenance, risk protection by entering into swap contracts and derivative contracts, funding of other needs in line with the Law.

The Amendments to the Budget Law have also modified the budget calendar resulting in timetables for budget preparation having been changed, more strict control of the local self-government budget preparation imposed, and the article of the Law referring to the methodology of cash deficit/surplus calculation amended in accordance with the GFS M2001 methodology of the International Monetary Fund. Amendments to the Law on Internal Financial Control (Audit) have been adopted, providing for the establishment of separate internal audit units in line ministries.

The State Treasury consolidated account includes the entries on all the financial transactions planned by annual budget laws for each spending unit within the Budget of Montenegro, except for three governmental Funds, their inclusion to the account being planned for the next year.

**12. Extra-budgetary Funds: Please list and provide information on extra-budgetary funds. What is the relationship between the budget and the extra-budgetary funds? Which steps are being taken to integrate the extra-budgetary funds in the government budget? Please describe major activities to improve the management of extra-budgetary funds and, in particular, the Health Insurance Fund.**

Until 2007 inclusive, there were five operational extra-budgetary Funds in Montenegro:

- Pension and Disability Insurance Fund of the Republic
- Health Insurance Fund of the Republic
- Employment Office of Montenegro
- Compensation Fund
- Development Fund of Montenegro

By the amendments to the organic Budget Law of 2007, the previously extra-budgetary funds gained status of governmental funds and have been treated as spending units within the Budget of Montenegro, with the Budget Law of Montenegro for 2009 as the starting point. Thus, the budget transparency and the control of the budgetary funds' spending have been improved, as well as the liquidity. However, the reform and integration of the funds into the budget system has not been fully in place yet. The Compensation Fund and the Employment Office have been fully integrated into the State Treasury system, while the other three funds have been functioning autonomously, although their receipts and expenses have been planned as the integral part of the Budget of Montenegro. The full integration of all the funds into the State Treasury system has been expected in the next year.

**13. Tax policy: Which are the authorities of the different government levels to generate revenues? How has the tax regime changed (amendments of tax rates, introduction of new taxes and contributions etc)? (For detailed questions on the tax system see chapter 16 – Taxation)**

The **Law on Income Tax of Natural Persons** (Official Gazette of the Republic of Montenegro 65/01) which has been applied since 1 July 2002 has introduced a synthetic taxation of natural persons' income from five sources, namely: personal income, autonomous activity, property and property rights, capital, and capital gains. A taxpayer is a resident natural person who acquires a taxable income in Montenegro and out of Montenegro (the world income principle applied), and a non-resident natural person who acquires income in the territory of Montenegro. The Law has introduced the taxation of income by progressive tax scale and tax rates of 17%, 21% and 25%, and a non-taxable amount of income up to EUR 600 annually.

Two amendments to the Law on Income Tax of Natural Persons have been adopted in the past period.

The first amendment to the Law was made by mid-2004 and applied since 1 July, 2004. The Law on Amendments to the Law on Income Tax of Natural Persons (Official Gazette of the Republic of Montenegro 37/04) has resulted in the fall in tax rates by 10%, the rates thus being 15%, 19% and 23%. This Law has provided for facilities in engaging new employees, and legal and technical improvements to solutions related to taxation of property and property rights, and to occasional autonomous activities.

The second amendment to the Law was made by the end of 2006 and applied since 1 January, 2007. The Law on Amendments to the Law on Income Tax of Natural Persons (Official Gazette of the Republic of Montenegro 78/06) has introduced a common (proportional) tax rate of 9%, instead of the previous progressive rates (15%, 19% and 23%). The Law has envisaged a transitional period for the application of the abovementioned rate, thus the rate for 2007 and 2008 amounted to 15%, while the rate for 2009 was 12%. Non-taxable annual income amount (personal deduction) has increased from EUR 785 to EUR 840. Starting from 2007, the revenues from capital gains (acquired on the basis of real estate and securities' sale) have been exempted from taxation.

Apart from the abovementioned, the standard expenditure amount has been increased (from 35% to 40% of the acquired income) in taxation of incomes from occasional autonomous activities and prepaid taxation of property and property rights incomes, the tax rate at the same time being reduced (from 20% to 15%), so that the tax burden on incomes acquired by virtue of the abovementioned amounts to 9%.

The obligation of paying contributions for compulsory social insurance has been established by the **Law on Contributions for Compulsory Social Insurance** (Official Gazette of the Republic of Montenegro 13/07, 79/08), the solutions having been applied since 1 January, 2008. Prior to the adoption of the abovementioned Law, the obligation of contribution payments has been regulated by separate laws for each kind of compulsory social insurance (the Law on Pension and Disability Insurance (Official Gazette of the Republic of Montenegro 54/03, 39/04, 79/04), the Law on Health Insurance (Official Gazette of the Republic of Montenegro 39/04), and the Law on Contributions for Social Insurance (Official Gazette of the Republic of Montenegro 32/93, 3/94, 17/94, 42/94, 1/95, 13/96, 45/98, 65/01, 54/03, 39/04, 29/05 and Official Gazette of Montenegro 13/07).

The aggregate rate of contributions for 2008 amounted to 34.0% and 32.0% for 2009. The aggregate rate of contributions for compulsory social insurance for the employed and self-employed (entrepreneurs) should amount to 30.0% from 2010 (20.0% for pension and disability insurance, 9.0% for health insurance, and 1% for unemployment insurance). After a detailed analysis of the budget effects in the context of global economic crisis, it is possible that the reduction planned for 2010 will be reconsidered.

**14. Public debt stock: How have the budget deficits been financed since 2000 (main instruments etc.)? Please provide detailed information on the present stock of public debt (foreign/domestic creditors, currency, instruments, etc.), guarantees and arrears.**

Since 2000, the state deficit has been covered by donations, from privatisation-generated revenues, borrowings and loans, and treasury bills.

On 30 September 2009, the state debt of Montenegro amounted to EUR 1 071.2 million i.e. 33.0% of the gross domestic product (GDP). The internal debt amounted to EUR 426.0 million i.e. 13.1% of GDP, while the external debt amounted to EUR 645.2 million i.e. 16.9% of GDP. The guarantees of Montenegro amounted to about EUR 83.5 million i.e. 2.6% of GDP, accounting for 7.8% of the state debt.

In the first three quarters of 2009, the external debt has increased by EUR 163.5 million comparing to the end of 2008. The status of foreign debt has increased because of the takeover of the debt of *Željezničke infrastrukture Crne Gore A.D.* (the Railway Infrastructure Company of Montenegro, JSC) owed to the Czech Export Bank (CEB) amounting to EUR 48.1 million, owed to the European Investment Bank (EIB) amounting to EUR 7.0 million (the funds not yet withdrawn), to the European Bank for Reconstruction and Development (EBRD) amounting to EUR 11.0 million (EUR 7.8 million have been drawn to the present), and the takeover of the debt of *Željeznički prevoz Crne Gore A.D.* (Railway Transport of Montenegro, JSC), which the company owed to EUROFIMA, amounting to CHF 34.5 million. In addition, the foreign debt has been increased by withdrawing funds of the loan from the Erste Bank amounting to EUR 30.0 million; of the loan from the Credit Suisse Bank amounting to about EUR 60.3 million; of the loan from IBRD for the *Katastar* (Cadastre) and *Poljoprivreda* (Agriculture) projects amounting to about EUR 0.8 million; of the Hungarian loan amounting to EUR 0.4 million; the EBRD loan for road rehabilitation project amounting to EUR 0.8 million; the IDA loan amounting to about EUR 0.7 million; loan funds for the project of *Procurement of Special Firefighting and Rescue Vehicles* from the Steiermarkische Bank und Sparkassen AG, the Austrian bank, amounting to EUR 5.5 million; and the EIB loan for the road rehabilitation project amounting to EUR 4.0 million. The debt has been reduced by regular principal payments amounting to EUR 17.2 million.

The external debt amount do not include the liabilities on the basis of unresolved debt-related issues towards Libya, Kuwait, Czech Republic and Slovakia, and the UBS bank in respect of bonds issued within the London Club. Montenegro succeeded a debt owed to the four governments here above on the basis of non-allocated debt distribution (5.88% out of 38% to Serbia and Montenegro). Pursuant to the Vienna Agreement on Succession Issues of 29 June 2001, this matter is to be resolved by harmonised positions within the Committee for Distribution of Financial Assets and Liabilities of ex-SFRY. As for the API bonds, the negotiations with the UBS bank are expected to be held by the end of 2009 aimed at finding options for bilateral resolution to the issue. The aggregate amount of the liabilities by virtue of unresolved debt-related issues will probably amount to about 1% of GDP, and it has been included in the projections of debt-related developments for the period of 2009-2012.

The data herein on the foreign debt status implicitly includes the amounts of engaged (withdrawn) loan funds by individual loans.

The most important creditors are the international financial institutions: the World Bank, European Bank for Reconstruction and Development, European Investment Bank, KfW, Paris Club creditors. A part of liabilities goes to the governments of states, and a smaller part to commercial banks.

The internal debt during the first three quarters of 2009 has been increased by EUR 13.0 million when compared to the end of 2008. The internal debt growth during 2009 has resulted from continued implementation of the Transport Directorate's projects aimed at resolving traffic bottlenecks; from the takeover of debts of Railway Transport Company of Montenegro and Railway Infrastructure Company of Montenegro, owed to commercial banks, in the amount of about EUR 3.0 million; from the takeover of debt of the *Radio-Televizija Crne Gore* (Radio Television of Montenegro) amounting to EUR 4.1 million; from the issuance of Treasury Bills worth EUR 41.6 million; and increased indebtedness of municipalities. On the other hand, the internal debt has been reduced by regular payments of debt instalments with regard to the 'old' foreign exchange

savings amounting to EUR 7.7 million, of the debt instalments with regard to compensations amounting to EUR 2.2 million, and the repayment of loans to commercial banks and non-financial institutions.

The internal debt is expected to grow in the coming period due to an increase in liabilities by virtue of restitution.

Aggregate liabilities by virtue of restitution amount to EUR 101.9 million, which is by EUR 14.9 million less than at the end of 2008. The reduction of the debt amount by virtue of restitution has resulted from the payment of liabilities in cash and repayment of bonds FO01 and FO02 on the exchange by the State. With a view to reducing the internal debt, the Government of Montenegro initiated in January the repayment of restitution bonds, by virtue of compensation to former owners, prior to their maturity, and has to the present repurchased about EUR 15.0 million of bonds, having paid about EUR 4.8 million therefor.

The Government issued the Decision on the payment of citizens' foreign exchange savings bonds for 2016 and 1017, and has up to now repurchased EUR 1.1 million worth bonds, out of which EUR 0.4 million in 2009.

The debt of municipalities amounts to about EUR 61.7 million, according to the data provided by municipalities. The Ministry of Finance has issued the Instructions on the contents of requests for borrowing of municipalities and fulfilment of financial requirements for their borrowing, which has established a detailed procedure of borrowing by local self-governments.

The state debt of Montenegro with public enterprises amounts to EUR 1 195.3 million i.e. 36.9% of GDP. The amount of liabilities payable by enterprises majority-owned by the state has been calculated based on the Government's guarantees, the Central Bank's data, and the data provided by the enterprises.

Within the first 6 months of 2009, about EUR 11.0 million has been paid by virtue of interest to non-residents, EUR 17.2 million by virtue of principal to non-residents, about EUR 6.2 million by virtue of interest to residents, and EUR 46.0 million by virtue of principal to residents.

**15. Price regime: How has the price regime been liberalised over time and in what sectors are prices still administered or regulated? Please indicate the broad categories of prices which are administered/regulated and the share of administered/regulated prices in total. What is the strategy for completing price liberalisation, in particular in the energy sector?**

Prior to the annulment of the Law on Social Control of Prices in Montenegro, the Government had competences in regulating prices in many areas of economy. Such price policy was regulated by the Law on Social Control (Official Gazette of the Republic of Montenegro 45/90), the Law have regulated prices in: construction industry, road transport, insurance, high education, broadcasting, health protection, banking, oil derivatives, electricity, etc. Apart from such control, the Law provided for the state to also regulate prices of agricultural products aimed at encouraging the agriculture development; this law had also permitted the intervention of the Government of Montenegro in case of significant price disturbance.

By the adoption of the Law on Annuling the Law on Social Control of Prices (Official Gazette of the Republic of Montenegro 27/06), the price policy in Montenegro has been liberalised, except in certain areas where there are natural monopolies, such as in the areas related to social and health protection:

#### **Health**

The Law on Medicines (Official Gazette of the Republic of Montenegro 80/04, and the Official Gazette of Montenegro 18/08) regulates the competences of the Government of Montenegro in creation of the prices of medicines, while the Decree on Criteria for Setting the Maximum Price of Medicines (Official Gazette of Montenegro 50/07) – Appendix 7, defines the manner of maximum price calculation.

The Decree has been planned to be amended by the end of 2009, transferring the competences in prices of medicines by criteria provided for in the Decree to the Agency for Medicines (Official Gazette of Montenegro 50/07).

## Energy

Energy Regulatory Agency establishes tariffs and prices in the electric energy sector for:

- the electricity generation,
- the electricity transfer,
- the electricity distribution,
- the electricity supply.

These competences have been vested in the Agency in compliance with Articles 12 and 18 of the Energy Law (Official Gazette of the Republic of Montenegro 39/03).

The opening of the electricity market, on 1 January 2009, created conditions for turning the electricity generation and electricity supply activities to the market operation mode. This has been envisaged by the new Draft law on energy. The new law is expected to be adopted by the end of 2009, and thus we can expect the electricity generation price and electricity supply service price for qualified buyers to continue on being established freely even after the beginning of 2010.

The service prices for the network activities, as a natural monopoly, will still be established by the Agency.

Based on the Instructions on Establishing the Methodology of Calculation of the Purchase Price of the Electricity from Small Hydroelectric Plants (Official Gazette of the Republic of Montenegro 46/07), the Agency has been competent in making decisions on the prices of the electricity generated in small hydroelectric plants.

The Agency has also established the price of coal used in the electricity generation until 8 July 2008, when such competences were annulled by the Energy Law. In line with Article 35 of the Law herein, the Regulator has provided the Government with a report containing the estimate that the price of coal for the electricity generation should continue to be regulated. The Government has not yet reached a decision on the manner of this price's creation, while the *Rudnik uglja AD Pljevlja* (Coal Mine JSC, Pljevlja) and the *Elektroprivreda Crne Gore AD Nikšić* (Electric Power Company of Montenegro JSC, Niksic) still make coal purchase contracts by the last price established by the Agency which has been valid until 8 July, 2008.

Oil derivatives retail price has been defined by the Decree on the Manner of Creation of Maximum Retail Prices of Oil Derivatives (Official Gazette of the Republic of Montenegro 52/02, 55/02, 23/03, 32/05, 35/05, and the Official Gazette of Montenegro 73/08). These prices have been based on the costs and harmonized according to price developments in the world market, to exchange rates, custom tariffs, excises and tax, and costs of turnover, handling, and storage and warehouse.

## Mining

- Pursuant to the Concession Law, Mining Law (Official Gazette of Montenegro 65/08), to the Rulebook on Criteria and Manner of Calculation of Minimum Amount of Concession Fee for Geological Exploration and Mineral Raw Material Exploitation (Official Gazette of the Republic of Montenegro 42/05), and to the Concession Contract, the payment of a concession fee has been provided for, the fee being paid for the concession granted for realization of appropriate public interest.

The minimum concession fee has been established on the basis of:

- type, category, quantity, quality, and market price of the resource subject to the concession contract;
- type of activity which is subject to the concession contract, and market terms and conditions for its performance;
- duration of concession;
- timescale of the return on the investment;
- expected gain;
- other criteria in line with law and the subject of concession.

In the area of mining and geological explorations, the concession fee is the minimal fee for acquiring rights to geological explorations and mineral raw material exploitation in a certain exploration area, for a certain quantity of reserves, and a certain period of time.

### **Education**

With regard to the price regime in the education sector, the price policy is still being administered by the central level, i.e. it has not been liberalised.

Child nutrition costs in public preschool institutions are set by the management body of each institution, with the consent of the Ministry of Education and Science.

The child nutrition costs are set based on the number of family household members, amount of income by household member and the number of children of the family enrolled with the preschool institution.

Setting of child nutrition costs has been more closely regulated by the regulation of the Ministry of Education and Science (Articles 35 and 36 of the Law on Preschool Education, the Official Gazette of the Republic of Montenegro 64/02, 49/07).

The price of accommodation and nutrition in a public institution of pupil's dormitories, and pupil and student's dormitories is set by the Ministry of Education and Science, in compliance with Article 131 paragraph 3 of the General Law on Education (Official Gazette of the Republic of Montenegro 64/02, 31/05, 49/07).

The amount of the fee for taking class exams by persons who do not have the status of public grammar school students is set by the Ministry, in compliance with Article 36 paragraphs 5 and 6 of the Law on Grammar School (Official Gazette of the Republic of Montenegro 64/ 02, 49/07).

The amount of the fee paid by students and persons who do not have the status of the public vocational secondary school students for taking class exams is set by the Ministry of Education and Science, in compliance with Article 78 paragraph 7 of the Law on Vocational Education (Official Gazette of the Republic of Montenegro 64/02, 49/07).

Amount of costs paid by a teacher taking a specialist exam after the completion of graduated internship is set by the Ministry of Education and Science, in compliance with Article 107 paragraph 2 of the General Law on Education (Official Gazette of the Republic of Montenegro 64/02, 31/05, 49/07, 4/08, 21/09).

Prices in the education sector in the private educational institutions, i.e. fees – tuition fees paid by children and pupils/students are set by the founder of a private institution, in compliance with Article 142 of the General Law on Education (Official Gazette of the Republic of Montenegro 64/02, 31/05, 49/07).

In addition, the adult education organisers set by themselves the tuition fee amount for adult education attendants, except for primary and lower vocational education of adults, in compliance with Article 10 of the Law on Adult Education (Official Gazette of the Republic of Montenegro 64/02, 49/07).

### **Insurance**

Terms and conditions of insurance and premium tariffs, and their amendments, are set by the insurance companies in compliance with basics for premium calculation and premium structure (premium system) for compulsory insurance in traffic, which is set by the National Bureau - Association on the basis of, among other data and information, minimum amount (price) of technical premium for compulsory insurances.

Insurance companies may not set the price of compulsory insurances under the minimum price established and suggested by the National Bureau, and approved by the Insurance Supervision Agency as a regulatory body in the insurance market.

Insurance Supervision Agency also gives consent to terms and conditions of insurance and to premium tariffs for compulsory insurance in traffic; without such consent the abovementioned terms and conditions, and premium tariffs may not be applied.

## **Postal services**

Pursuant to the Law on Postal Services (Official Gazette of the Republic of Montenegro 46/05), the price of the universal postal service is determined by the universal postal operator by criteria set by the Ministry. To that matter, the Ministry has issued the Rulebook on Criteria for Setting the Prices of Provision of the Universal Postal Service (Official Gazette of the Republic of Montenegro 79/06).

Prices of reserved postal service are set by the Ministry in compliance with the provision of Article 23 paragraph 2 of the Law on Postal Services, upon a proposal by the universal postal operator. The Ministry has set the prices of the reserved postal services, in line with the abovementioned, by the Rulebook on Setting the Prices of the Reserved Postal Services, promulgated in the Official Gazette of Montenegro 02/07 of 29 January, 2007.

Prices of commercial postal services are set by the postal service provider and must be uniform for all customers for services of the same kind in the entire territory of service provision.

Pursuant to the Law on Postal Services (Article 22), the prices of postal services (postage) must be uniform for services of the same kind in the entire territory of the state.

The universal postal service prices must be affordable to postal service customers.

Postal operators are obliged to provide the regulatory authority with postal service prices.

## **Telecommunication service prices**

The area of telecommunication services and pricing methodology in this area is regulated by the Law on electronic Communications (Official Gazette of Montenegro 50/08, 53/09 and 90/09). The Agency for Electronic Communications and Postal Services is responsible for the implementation of legal provisions.

In accordance with the provisions of the Law, if the Agency for Telecommunications, following the market analyses, determines that the relevant market service intended to end users is not competitive enough, it shall order the operator to take measures relating to regulation of retail service prices (Article 43 and 50), and to that regard prescribe one of the following methods of service pricing:

1. method of limiting retail prices (price cap);
2. method of individual tariff regulation;
3. method of cost orientation of prices;
4. harmonization of prices with prices in comparable markets.

The Agency, pursuant to the Law on Electronic Communications as to the regulation of interconnection prices and operator's access (wholesale) may:

- provide for price-setting methodology with regard to access and interconnection;
- apply the methods of cost accounting independent from those applied by the operator;
- use the comparisons with prices in non-comparable markets, or markets with developed competition.

By the Operative Plan for Execution of the Agency Work Programme for 2009, the Agency has envisaged the adoption of the Rulebook on Cost Accounting and Keeping Separate Accounting Records by the end of the current year.

This rulebook will prescribe the obligations of cost orientation of the abovementioned services on the operator with a significant market power in the relevant market.

In approving the text of the Reference Interconnection Offer of the *Crnogorski Telekom* (Montenegrin Telecom), and in the absence of the prescribed cost model, the Agency has applied the so-called benchmarking methodology of price setting.

## **Price listing of *Radio-difuzni centar d.o.o.* (Broadcasting Centre, Ltd.)**

By means of the Rulebook on General Terms and Conditions of the Lease of Infrastructure – Facilities, Energy Plants, Equipment, Land on Broadcasting Sites, and Technical Service Provision, the Management Board of the Broadcasting Centre Podgorica has decided on

establishing a unit of account from the Price list of the Broadcasting Centre (Official Gazette of the Republic of Montenegro 37/04).

Amendments to the Rulebook on General Terms and Conditions of the Lease of Infrastructure - Facilities, Energy Plants, Equipment, Land on Broadcasting Sites, and Technical Service Provision (Official Gazette of Montenegro 2/08) regulate the uniform terms and conditions under which the facilities, energy plants, equipment, land on broadcasting sites of the Broadcasting Centre (hereinafter: RDC) are to be leased, and technical services provided.

### **Transport**

The maximum amount of port service fees which act as revenues (of concessionaires – operators) is set by the competent administration authority in compliance with Article 12 paragraph 2 of the Law on Ports (Official Gazette of Montenegro 57/08):

1. for the ports of national importance - Port Administration.
2. for ports of local importance - *JP Morsko dobro* (Public Enterprise for Coastal Zone Management)

### **Utilities**

The Law on Utility Activities (Official Gazette of the Republic of Montenegro 12/95), in Article 10, provides for a local self-government unit to provide material, technical, and other general terms and conditions for performance of utility activities and their promotion, while Article 12 paragraph 1 item 5 of the law herein gives the competent body of the local self-management unit the authority to provide for elements for establishing utility services, and the manner of collection of fees for the use thereof.

Based on these elements, the management bodies in public services being vested with the affairs of certain utility service performance propose a price list of services for their specific utility activity. Pursuant to Article 14 paragraph 2 item 3 of the Law on Utility Activities, the price list proposal must be approved by the founder (the local self-government unit), which ensures public interest within the public service in performance of utility activities delegated thereto.

## **16. Labour Market (see also chapter 19 – Social Policy and Employment):**

Answers given in the following text.

### **a) Unemployment: How has unemployment developed over time and sectors? What are the main causes of unemployment?**

The situation and trends in the labour market in Montenegro in the past 20 years have been crucially affected by transition changes which significantly reflected in the economic structure. In addition, in the period prior to 2000, for a series of events in the region (the break-up of the joint state, war in the region, sanctions) the transition changes have not taken place by the envisaged and wished dynamics. This has resulted in the market loss, in lagging behind with regard to technical and technological development, in financial exhaustion and significant reduction in business activity of a large number of enterprises or work termination thereof, and, as a consequence of such circumstances, in unfavourable developments in the labour market.

The change in the economy structure, the increase of service sector share along with the reduction of industry share in the GDP, has resulted in the loss of a relatively large number of jobs in labour-intensive economic activities, which was more the case in undeveloped northern part of Montenegro, with the additional impact on the labour market structural changes by migrations from undeveloped to more developed areas.

The circumstances hereabove resulted in a sharp rise in the registered unemployment, which exceeded 85 000 in 2000, with typical features of the structural unemployment generated by the

transitional recession. This has been confirmed by the data on the number and structure of the unemployed with years of service. Thus, by the beginning of the transition period, the total number of the unemployed in the Employment Office records included 4.25% persons with more than 10 years of service, and 1.7% with more than 20 years of service, while by the end of 2008 there was 48.3% of those with over 10 years of service, and 36.6% of those with over 20 years of service as a share of the total number of the unemployed (the table hereunder).

### Registered unemployment in Montenegro<sup>1</sup>

Age structure, duration of unemployment, structure of the unemployed by length of service, unemployment rate in the 1990-2008 period (year-end situation)

.	Year	Total no. of the unemployed	Age structure of the unemployed		Duration of unemployment		By length of service				Unemployment rate	
			Up to 25	Over 50	Up to 1 year	Over 5 years	With years of service	Length of service of over				No years of service
								10 years	20 years	30 years		
Ord. no.	1	2	3	4	5	6	7	8	9	10	11	12
1	1990	53 744	26 648	804	22 124	10 248	18 207	2 254	913	400	35 537	22.65
2	1995	56 614	17 979	1 752	16 748	15 212	21 560	4 936	1 714	298	35 054	23.86
3	2000	73 685	35 531	2 222	20 440	19 418	29 217	9 768	3 061	316	34 468	27.88
4	2001	74 838	33 888	2 593	20 495	19 832	40 775	10 442	3 465	462	34 063	28.32
5	2002	74 258	31 500	2 877	12 898	31 094	40 498	11 014	3 953	544	33 760	28.10
6	2003	70 565	25 507	3 720	21 190	26 176	40 319	12 149	4 883	723	30 246	26.70
7	2004	59 383	15 799	5 890	17 646	19 193	38 012	13 607	6 737	1 316	21 371	22.47
8	2005	49 314	12 315	6 140	14 150	13 621	34 476	13 537	7 488	1 521	14 838	18.66
9	2006	39 409	8 733	7 280	14 084	8 865	29 126	13 938	9 162	2 152	10 283	14.91
10	2007	32 041	5 880	8 104	11 740	5 915	24 659	13 698	10 015	2 686	7 382	12.12
11	2008	28 538	4 802	8 684	12 454	4 796	21 966	13 775	10 436	2 662	6 572	10.80

Source: Employment Office

In the last 5 to 6 years there has been a stabilisation of the macroeconomic environment. This, along with the development and implementation of a number of important measures and activities from the framework of active employment policy, after years of stagnation, has contributed to a larger economic growth, development and encouragement of entrepreneurship, investment growth, which has all resulted in more favourable labour market developments (the Table hereunder).

<sup>1</sup> Certain smaller discrepancies in the data on the number and structure of the unemployed presented by the Employment Office in certain chapters have been a result of updating the relevant databases in real time.

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### Unemployment developments (total and by sex) in the 1988 – 2008 period ( year-end situation)

Ord. no.	Year	Total of the unemployed		Unemployed male			Unemployed female		
		No. of unemployed	Chain index	No. of unemployed	Chain index	%	No. of unemployed	Chain index	%
1	2	3	4	5	6	7	8	9	10
1	1988	44 991	108.9	19 589	110.4	43.5	25 402	107.8	56.5
2	1989	48 108	106.9	20 761	105.9	43.2	27 347	107.6	56.8
3	1990	53 744	111.7	23 178	111.6	43.2	30 566	111.7	56.8
4	1995	56 614	105.3	23 021	99.3	40.6	33 593	109.9	59.4
5	2000	73 685	130.1	29 162	126.6	39.58	44 523	132.5	60.42
6	2001	74 838	101.5	29 423	100.8	39.32	45 415	102.0	60.68
7	2002	74 258	99.2	29 148	99.0	39.25	45 110	99.3	60.75
8	2003	70 565	95.0	30 460	104.5	43.17	40 105	88.9	56.83
9	2004	59 383	84.1	28 241	92.7	47.56	31 142	77.6	52.44
10	2005	49 314	83.0	25 780	91.3	52.28	23 534	75.5	47.72
11	2006	39 409	79.9	21 421	83.1	54.36	17 988	76.4	45.64
12	2007	32 041	81.3	17 774	82.9	55.47	14 267	79.3	44.53
13	2008	28 538	89.0	15 720	88.4	55.08	12 818	89.8	44.92
	Index 2008/1988	63.4	-	80.3	-	-	50.5	-	-
	Index 2008/2000	38.7	-	53.9	-	-	28.8	-	-

Source: Employment Office

**Basic features** of the situation and present trends in the registered unemployment in Montenegro in the past couple of years could be summarised as follows:

- Out of the total number of the unemployed on 31 December, 2008 (28 538 persons) there were **15 774 persons i.e. 55.27% with the unemployment duration exceeding one year**, meaning that, compared to 2004 and 18 774 unemployed persons i.e. 70.28% therein, the **long-term unemployment has been reduced** (the table hereunder).
- Number of persons younger than 25 in the unemployment record by the end of 2008 amounted to 4 802 or 16.8%, while their share in the total number of the unemployed on 31 December, 2004 was 15 779 or 26.6%, meaning that the youth unemployment has dropped.

A series of reasons have more or less influenced the fall in the youth unemployment, primarily the following ones:

- Increase in demand for vocations of III or IV level of education attainment in the areas of trade, hospitality, and tourism (the share being about 50% of the total demand), even more so because those activities employ mostly youth.
- larger increase in the fixed duration employment as compared to the open-ended employment. The fixed duration employment is also more often accepted by the youth.

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- There were 8 684 persons or 30.4% of the unemployed older than 50 as compared to 5 890 or 9.92% on 31. December, 2004, meaning that the share of this category in the total number of employees has increased.
- First-time job seekers (with no years of service registered) 6 572 or 23.03% of the unemployed (21 377 persons or 35.99% in 2004).
- In 2008, there were 41 707 entrants to the labour market, according to the Employment Office records. The number of entrants was 42 611 in 2004; 37 578 in 2005; 43 860 in 2006; and 42 483 entrants in 2007.
- As far as the qualifications structure of the unemployed is concerned, in the period from 2000 to 2008 there was a fall in the share of unqualified and half-qualified persons from 37.6% to 26.0%, a rise in the unemployed with III, IV, and V level of educational attainment from 55.6% to 61.3%, and a rise in the share of the unemployed with VI, VII, and VIII level of educational attainment from 6.8% to 11.8%. In all of the categories herein, the nominal number of the unemployed from 2000 to 2008 has been reduced (the table hereunder).

### Qualifications structure of the unemployed (year-end situation)

Ord. no.	Year	Level of educational attainment													
		I		II		III		IV		V		VI		VII	
		Σ	%	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%	Σ	%
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	2000	22 315	30.28	5 394	7.32	19 271	26.15	21 415	29.06	262	0.36	2 343	3.18	2 685	3.64
2	2001	22 631	30.24	5 377	7.18	19 978	26.69	21 887	29.25	277	0.37	2 225	2.97	2 421	3.23
3	2002	22 889	30.82	5 170	6.96	19 885	26.78	21 608	29.10	259	0.35	2 193	2.95	2 254	3.04
4	2003	19 771	28.02	4 584	6.50	19 904	28.21	21 124	29.94	300	0.43	2 312	3.28	2 570	3.64
5	2004	14 607	24.60	3 723	6.27	17 789	29.96	18 460	31.09	315	0.53	2 111	3.55	2 378	4.00
6	2005	10 427	21.14	2 839	5.76	15 414	31.26	15 895	32.23	370	0.75	2 028	4.11	2 341	4.75
7	2006	7 995	20.29	2 137	5.42	12 481	31.67	12 675	32.16	427	1.08	1 610	4.09	2 084	5.29
8	2007	6 455	20.15	1 668	5.21	9 802	30.59	9 780	30.52	541	1.69	1 465	4.57	2 330	7.27
9	2008	6 126	21.47	1 531	5.36	8 324	29.17	8 681	30.42	495	1.73	1 186	4.16	2 195	7.69

Source: Employment Office

- According to feedbacks from the employers, 40 575 persons from the Employment Office records were employed in 2008, which is 2.6 times more comparing to the number for 2004.
- There has been a high demand for labour in Montenegro for several years now. Thus, employers have announced 64 885 vacancies in 2008, which is by 34 097 i.e.110.74% more compared to the number of vacancies announced in 2004 (30 788) (more details hereof are given under the question 16c of this chapter).

In addition, the unemployment in Montenegro is also characterised by:

- Insufficient engagement of the unemployed in active job-seeking, and their being insufficiently informed on the options and manners of job-seeking.

There is still a belief that the state is the one that should provide employment, and that the role of unemployed persons is passive.

- Lack of knowledge and work experience demanded in the labour market.

Despite a formal diploma, a relatively large number of the unemployed has got no appropriate practical knowledge from school, nor have they ever worked and thus gained some hands-on work experience. In addition, technological progress makes the knowledge acquired through regular education get out of date faster; they are not used any more, or get forgotten due to a longer duration of unemployment.

There are a relatively large number of vocations in the unemployed records which are not demanded in the labour market, or the records lack the vocations demanded by employers.

There is insufficient readiness of the unemployed to accept jobs which do not fall under their vocational level or educational attainment obtained through regular education.

There is insufficient spatial mobility of labour, despite relatively small spatial distances.

The records on the unemployed still include a large number of persons who do not seek for a job but keep on staying therein for the purpose of exercising other rights stemming from the unemployment status, primarily health insurance. A large number of such persons work unregistered.

There is an increasing number of persons falling under the group of lower employability:

- Persons with no education or vocational skills for specific jobs,
- Female workforce in undeveloped municipalities,
- Persons of lower employability (bodily impairments, addictions, neurosis, ex convicts...)
- Disabled persons
- Elderly workers who lost their jobs (due to redundancy),
- Long-term unemployed persons of all categories,
- Unemployed persons in less developed areas.

There is a great interest among the unemployed for starting their own businesses i.e. for entrepreneurship, but most of them still have insufficient knowledge of running a business.

**b) Employment: How is the division of employment between the public, the privatised and the private sector? What have been the main sectors of job creation? How do you assess the relationship between economic growth and employment?**

Employment by sectors and structure of enterprises by ownership and type of activity - November 2007

Sector	Total number of employees *	Type of ownership (numerically)				Type of ownership (%)		
		Total	Private	State and majority state	Local self-government or majority local self-government	Private	State and majority state	Local self-government or majority local self-government
Agriculture and forestry	2 586	111	106	5	0	95.50	4.50	0.00
Fisheries	112	26	26	0	0	100.00	0.00	0.00
Mining and extraction and processing of stone	3 753	38	35	3	0	92.11	7.89	0.00
Production	25 697	1 184	1 171	13	0	98.90	1.10	0.00
Supply of electricity, water **, gas, local utility enterprises	5 594	40	11	1	28	27.50	2.50	70.00

## V Economic and structural developments and reforms

Sector	Total number of employees *	Type of ownership (numerically)				Type of ownership (%)		
		Total	Private	State and majority state	Local self-government or majority local self-government	Private	State and majority state	Local self-government or majority local self-government
Construction	6 647	1 073	1 068	5	0	99.53	0.47	0.00
Wholesale, retail and repair	30 750	5 846	5 841	5	0	99.91	0.09	0.00
Hotels and restaurants	11 307	962	958	4	0	99.58	0.42	0.00
Transport, storage and communication	11 358	925	920	5	0	99.46	0.54	0.00
Financial services	3 143	92	91	1	0	98.91	1.09	0.00
Real estate, renting and other business activities	5 354	2 553	2 553	0	0	100.00	0.00	0.00
Public administration and social security	17 575	8	7	1	0	87.50	12.50	0.00
Education	12 687	100	30	70	0	30.00	70.00	0.00
Health and social work	12 004	227	226	1	0	99.56	0.44	0.00
Other community, social and personal activities	7 841	474	384	90	0	81.01	18.99	0.00
<b>TOTAL</b>	<b>156 408</b>	<b>13 659</b>	<b>13 427</b>	<b>204</b>	<b>28</b>	<b>98.30</b>	<b>1.49</b>	<b>0.20</b>

\* Employment includes all public sector / public institutions financed from the state budget and local government

\*\* 28 local companies for water supply and utility services

SOURCE: Synthetic table of the Draft Protocol on the Accession of Montenegro to the WTO, the Working Group for the accession to the WTO, November 2008, (processing data from databases of the Central Bank of Montenegro and the Monstat)

### Number of SMEs and SME employment in the total number of enterprises and employment at the level of Montenegro (Monstat, 2007)

God.	Preduzetnici		Mikro preduzeća		Mala preduzeća		Srednja preduzeća		UKUPNO MSP		UKUPNO CG	
	1	2	3	4	5	6	7	8	9	10	11	12
2007	1 723	3 756	9 845	25 847	1 306	25 749	395	39 172	13 269	94 524	13 659	156 408

Exact data on the distribution of employment between the public, privatised and private sector are not available. However, comparison based on available data, which are given in the two tables above, one can conclude that the total number of employees, for example, in 2007 (156,408), the private sector employed about 62% of registered employment. Moreover, in the number of companies, 98.3% are private companies. These data suggest that there is dynamic growth in the number of newly established enterprises in the private sector in Montenegro, as well as employment growth in these sectors of activity. However, a significant number of registered

employment is still present in the public sector (state administration, health, education and local government).

In other words, the distribution of employment is in favor of the private sector, which also includes privatized enterprises with majority of private capital. Strengthening of private sector is a growing trend in the employment structure, especially considering the Privatization plan and projections of attracting FDI in the coming period, on large infrastructural projects and hotel capacities in the completely new locations.

**c) Describe the government policy concerning the labour market. What are the main steps taken/to be taken to improve the unemployment situation and/or the mismatch between labour supply and demand?**

The importance of the resolution to the Montenegrin unemployment problem has in the past couple of years resulted in significant programme, institutional, and financial approach to this problem and its solutions.

A significant impulse thereto was the Agenda of Economic Reforms 2002-2007 which gave a significant priority to resolving the unemployment problems. The basic orientation to that extent referred to incentives to all kinds of entrepreneurship and new job creation therefrom, and the legalisation of the existing employed i.e. persons engaged in work.

The continuation thereof has been the National Strategy of Employment and Human Resource Development for 2007-2011, adopted by the Government of Montenegro by mid-2008, and the related National Action Plan for Employment 2008-2009 which has provided for measures and activities to be implemented within the priorities and goals set by the Strategy, necessary to meet in relation thereto. The greatest part thereof has been in the measures of the active employment policy which have been implemented through various forms by means of the Employment Office.

Further Government's activities aimed at keeping the employment and reduction of unemployment within the top priorities of the economic policy has resulted in the adoption of the **Programme of State Support and Aid "Incentives to Employment in Montenegro – with Focus on the Northern Region and Vulnerable Population Categories"** (the programme named "A job for you" (*Posao za vas*)) which, along with the consistent package of Government's counter-cycle measures, makes a part of package measures which the Government has taken with the aim to neutralise possible effects of the global financial crisis, which could be faced more sharply by less developed municipalities (more details given within questions 95 and 97 of the Chapter 19 – **Social Policy and Employment**).

Structural changes in the economy have resulted in a **disharmony of supply and demand** in that market. Thus, the more intensive development of one activity compared to some others has resulted in the increased demand for certain kinds of vocations, while the supply for other vocations has come to a stall or has been reduced.

The abovementioned disharmonies have imposed the need for more intensive development of programmes aimed at promotion of labour supply quality, primarily the programmes of preparation – training for employment (vocational training, additional training, retraining, specialisation), within the active employment policy. The implementation of such programmes has contributed to harmonisation of relations between supply and demand in the labour market (more details given within question 2c of this Chapter).

**17. Privatisation: (see also chapter 20 – Enterprise and industrial policy):**

**a) What have been the main methods of privatisation? How many enterprises have been privatised/liquidated/sent into bankruptcy procedures? Please provide information on the size, employment and activity of these enterprises. What are the plans for the future? Have any enterprises been re-nationalised after their initial privatisation? Is the government considering potential cases for re-nationalisation in the near future given the impact of the global economic crisis? What is the current status and portfolio of the agency in charge of privatisation? What are the prospects for further divestment and termination of activities of the same agency?**

a) The Law on Privatisation of Economy (Official Gazette of the Republic of Montenegro 23/96, 6/99, 59/00, 42/04) provided for the following privatisation methods: sale of shares, sale of business assets of an enterprise, issue of shares to the enterprise's employees, swap of shares for privatisation vouchers (Massive Voucher Privatisation - MVP), subscription of new shares through capital increase, debt-for-equity swap, joint venture. The principal method of privatisation has been the sale of shares (through tender, auction, or stock exchange), while about 27.1% of total capital has been privatised through the method of equity-for-privatisation voucher swap (MVP) which has been successfully implemented. About 85% of the overall capital in the joint-stock companies has been privatised to the present.

Previously, through the ownership and management transformation programme, about 15.8% of free shares have been distributed to employees and past employees. This means that the employees, past employees, and all citizens who turned 18 have been granted the aggregate of about 44% of the transformed capital.

The share of the private capital in the joint-stock companies' ownership structure – out of total number of registered joint-stock companies, 73% has a 100% private capital in their ownership structure, there is almost 17% of the companies with over 50% of private ownership, while the rest of the enterprises have less than 50% of private capital.

The Government has based its privatisation strategy on creating conditions for the restructuring efficiency in order to create environment for successful privatisation of each enterprise. The enterprise restructuring programme enables putting economy in motion, resolving redundancies, creating conditions for promotion of all relevant aspects of enterprise operations, defining the optimal organisation, which results in much more attractive companies and faster privatisation.

The Government considers no potential cases of re-nationalisation in the near future. The agency competent in technical and consultative affairs for the needs of the authority competent in privatisation affairs execution (the Privatisation Council) is in the process of dissolution.

**b) How did the authorities use privatisation revenue? How will the future funds resulting from privatisation be used?**

The competent authority (the Government) has used the revenue from the state-owned capital sales in compliance with the Law on Privatisation of Economy, for financing infrastructural and other programmes of interest for the State and restructuring programmes. These funds have been stated into a separate account in the Budget of the state of Montenegro. The other competent authorities executing the privatisation of capital, in line with the Law on Privatisation of Economy: the Development Fund of Montenegro, the Pension and Disability Fund of Montenegro, and the Employment Office of Montenegro (the funds) have used the revenues from the sale of their own capital according to their own business policy. The Pension and Disability Insurance Fund has transformed a dominant part of the cash revenues from the sale of shares into term deposits at commercial banks in Montenegro, with a view to maintain a long-term financial stability of the Fund

and regular payments of pensions, while the rest has been used for the payment of current liabilities for the rights stemming from the pension and disability insurance.

The Development Fund has used the privatisation revenues for financing investment projects of small and medium-sized enterprises. 424 loans have been granted in the 2003-2008 period, the loan structure by activities being: 25% agriculture and food production, 13% tourism and hospitality, 21% other service activities, and 41% other production-related activities.

Pursuant to Article 45 of the Law on Ownership and Management Transformation, the Employment Office of Montenegro has spent the revenues from the sale of shares on the creation of new jobs. This means that the funds have been directed towards financing the active employment policy programme, namely: the implementation of the employment preparation programmes, co-financing of the public works programmes, co-financing of seasonal employment (in tourism, construction, hospitality, agriculture, etc.), co-financing of the compensations of interns, financing of self-employment, co-financing of education and training; co-financing of the adaptation of space and technical equipment for the employment of the disabled, and other measures in compliance with the acts of the Office.

The competent authorities will continue to use the future revenues from the sale of their capital in the same manner as in the past period.

**c) Has the corporate governance improved as a consequence of privatisation?**

The corporate governance has mostly been improved after the privatisation and has been characterised by better business results including the economic and operational indicators, along with the introduction of new methods of management and carrying out of measures aimed at resolving the status of the surplus employees and covering other outstanding payments.

**18. Public sector: Which share and sectors of the economy are still controlled and/or owned by the state and to what extent? Please outline the government plans as regards the still state-owned enterprises (see also question 17).**

The Government still has majority ownership of the energy sector, the Railways, the Port of Bar, airports. These economic entities will also be privatised, and the Government will keep the ownership of the railway, road, and port infrastructure.

Decision on privatization plan for 2008 ([Annex 12](#)), Decision on privatization plan for 2009 ([Annex 13](#))

**19. Protected sectors (utilities, transport, housing...): Which sectors are subject to specific protection (market entry, price setting...). Please describe recent developments in this respect, such as specific measures of liberalisation or deregulation. Which sectors will remain under special protection? Are there provisions of preferred treatment in particular as regards former socially owned enterprises? (see also chapter 8 – Competition policy)**

Enterprises dealing with utilities, water supply services, transport, housing, outdoor greenery, etc., have been planned for restructuring and privatisation. This should be preceded by regulating the role of the state and by adopting plans for restructuring the utilities. There are no provisions on any preferential treatment of formerly state-owned enterprises. There are only temporary subsidies (up to five years for electricity) by the state, as a part of privatisation contract (for example for *KAP* (Aluminium Plant of Podgorica) and *Zeljezara* (Ironworks)).

**20. Enterprise restructuring: How many state-owned, or formerly state-owned, enterprises have been restructured so far? How many enterprises are currently being restructured or envisaged to be restructured? Please identify the remaining sectors and state-owned enterprises in particular need of restructuring. (see also chapter 20 – Enterprise and industrial policy) Please provide information about annual aggregate profits/loss of state-owned enterprises from 2000 to 2008. To the extent relevant, please describe briefly the privatisation strategy for the main state-owned enterprises.**

The process of changing the ownership of enterprises has begun by the adoption of the Law on Ownership and Management Transformation (Official Gazette of the Republic of Montenegro 2/92, 27/94) which provides for terms and conditions and the procedure of transformation. All the enterprises in Montenegro, except for the utilities, water supply, housing, outdoor greenery, etc., have been restructured. The ownership structure has been determined in relation to the former public ownership. Out of the overall capital which has been transformed in the economy (EUR 4 423 984 048; Source: the Development Fund and the Agency for Restructuring of Economy and Foreign Investments), the Development Fund has been transferred 21%, the Pension and Disability Insurance Fund 11%, the Employment Office of Montenegro about 3.79%, the State about 40%, employees 15.80%, banks' share has been 1.01%, and other shareholders 6.53%.

The transitional (interim) owners are the State, Development Fund, Pension and Disability Fund, and Employment Office, which are obliged to sell their shares in compliance with the Law on Privatisation of Economy, and employees and citizens. Something over 85% of the capital has been privatised.

Subjects to current restructuring are the Railways of Montenegro and the Port of Bar, with a view to their preparation for privatisation (the State will remain the owner of the infrastructure). In addition, the sector of utility services run by local self-governments is among the largest remaining sectors to be restructured and conditions therein to be created for the launch of the privatisation process.

The privatisation strategy has defined the privatisation goals to be reached through the selection of a strategic partner.

Improvement in the efficiency of business operations, company development, investments, resolution of social matters through new management restructuring in accordance with market principles. Prices for shares are just one of the criteria (not the most important) in evaluating the best bidder (the points are awarded to development and investment programme, business plans, reputation of the company, experience in the international market, etc.).

Privatisation of the remaining large state-owned enterprises has been carried out in a way that some of them have been subject to restructuring prior to privatisation (*Elektprivreda* (Electric Power Company of Montenegro), *Željeznica* (Railways), *Luka Bar* (Port of Bar), *Aerodromi Crne Gore* (Airports of Montenegro) and some have been privatised in their entirety (the State will remain the owner of the infrastructure). Laws have previously been adopted for some enterprises as a necessary prerequisite for their restructuring and privatisation (the Law on Railways, the Law on Ports).

The privatisation strategy for large state-owned enterprises in principle provides for the sale of a majority block of shares by international public tenders (the Port of Bar, the Railways), and the method of sale of minority block of shares and capital increase.

**21. Please describe the basic features of market entry in the corporate sector (business register, licensing procedures, number of separate administrative procedures, average amount of time for incorporation) and of market exit (bankruptcy procedures)? (see also chapter 20 – Enterprise and industrial policy)**

Entering the market commonly means entering seven administrative procedures, which last up to 60 working days, by the cost of up to EUR 1 500. Out of the seven procedures mentioned, six of them last for six days in total, by the cost of up to EUR 80. The most complicated (the longest and

the most expensive) is the procedure of licensing for activity performance.

In the following text, there is an overview of procedures, timescales, costs, and competent institutions in case of the majority of enterprises.

### **1. Registration with the Central Register of the Commercial Court**

Timescale: 1 day  
Cost: EUR 10 for registration + EUR 10-15 for promulgation in the Official Gazette  
Competence: Central Register of the Commercial Court

### **2. Making seals and stamps**

Timescale: 1 day  
Cost: EUR 30-40  
Competence: Private enterprises registered for making seals and stamps

### **3. Statistical registration**

Timescale: 1 day  
Cost: EUR 5  
Competence: Statistical Office of Montenegro

### **4. Opening a giro account**

Timescale: 1 day  
Cost: none  
Competence: commercial banks

### **5. Obtaining business licence**

Timescale: 30-60 days  
Cost: EUR 50 -1500, depending on the activity  
Competence: municipal or state authorities, depending on the activity

### **6. General tax registration and social contribution payment registration**

Timescale: 1 day  
Cost: none  
Competence: Tax Administration

### **7. VAT registration for VAT payer enterprises**

Timescale: 1 day  
Cost: none  
Competence: Tax Administration

By the Law Amending the Law on Business Organisations which entered into force on 1 January 2009, a shortened procedure of enterprise liquidation has been established. In compliance with this procedure, an enterprise may cease to exist in a single day at the cost of EUR 10, by signing a statement that it will bear unlimited and joint liabilities payable by the liquidated enterprise for the next three years, the liabilities being recorded during the inspection.

**22. State aid: How have subsidies and public guarantees developed over time? According to what economic criteria is state aid granted? Is there a medium-term target on scaling public guarantees down? (see also chapter 8 – Competition policy)**

Montenegro has issued guarantees of the loans to public and state-owned enterprises since there was a need for renewal of existing infrastructure and general economic development of the country. Guarantees have been issued of the loans granted by IFI, which were favourable for Montenegro, with lesser interest rates, longer repayment period, and grace period. Also, the guarantees have been issued of commodity loans granted by the governments of countries where loan conditions have been favourable. Given the above, the Government of Montenegro has taken care to accept credit indebtedness and issue guarantees in those projects which contribute to the overall economic development of Montenegro.

In the following period, the state guarantees will be issued only for infrastructure projects which are estimated to be of special interest for the development of Montenegro, and for which it is not possible to find good sources of funding in the financial market without the issue of state guarantees.

During 2009, due to the world economic crisis, the activity of the state has been intensified as to the issue of guarantees. In order to improve the economic situation, the Government of Montenegro has issued guarantees of loans granted to commercial banks in Montenegro which used to support projects of small and medium size enterprises. In addition, the Government of Montenegro has also planned the issues of guarantees for business organisations the work of which is of a systemic importance for Montenegro.

Issue of guarantees i.e. the dynamics thereof will depend on the future economic situation in Montenegro and the world, and on the further need for investments in capital infrastructure projects. In the past period, the Government of Montenegro has initiated, in negotiations with IFIs and commercial banks, a possibility of making credit arrangements without any state guarantee. Accordingly, certain financial institutions (EBRD, IFC) have entered into credit arrangements with companies in Montenegro without guarantees by the Government of Montenegro.

The Government of Montenegro intends to develop to the highest extent the form of cooperation though public-private partnerships as a direct cooperation between IFI and end-users, in order to reduce the issuance of guarantees by the state. We hope to reduce the requirements for issuing guarantees by improving the economic situation in Montenegro, since the situation resulted in a slowdown in such forms of cooperation.

In terms of subsidies, general trend has been to reduce expenditure thereon, except in cases when all the parameters indicate that such a subsidy is economically justified.

**23. Please indicate what you consider to be the main priorities in the areas of macroeconomic policy, and structural/microeconomic reform?**

The basic macroeconomic priorities in the following years will be to follow the Maastricht fiscal criteria:

- Public debt of less than 60% of GDP,
- Maximum deficit of 3% of GDP

We note that the objectives set in the mid-term framework of public spending are more strict and ambitious, and relate to the establishment of well-balanced budget until 2010 and the reduction of the aggregate public debt.

Given that Montenegro has been the *eurised* economy, special emphasis has been on the fiscal policy measures. The basic objectives of the mid-term fiscal policy, which start from the positive expectations for the following fiscal years, are:

- Improvement of transparency and control of the public resource spending – the full integration of state funds, the continued implementation of capital and programme budgets, the beginning of the implementation of mid-term budget spending framework, amendments to the legal regulations concerning the internal financial control.
- Reduction of the fiscal burden on the economy and households – continued tax reforms aimed at reducing the income tax rate and compulsory social contributions rates, the abolition of road fees and construction land use fees, subsidies to households and SMEs for the electricity used.
- Continued suppression of grey economy – reinforced efforts of the Tax Administration and the abovementioned tax facilities as incentives towards legalisation of businesses.
- Operability of the sustainable public finance system – relative cuts in current spending, along with increasing the capital budget, well-balanced current budget and the reduction in public debt. Recognising the reality of possible negative developments in the economic activity in the following years (the scenario of significantly lower rates of economic growth) and the resulting effects on the public finance (revenue cuts), the last of the stated objectives (operability of the sustainable public finance system) will assume acting upon the Maastricht fiscal criteria, through:
  - significant cuts in current spending,
  - postponing and slowdowns in the realisation of capital projects in order to reduce the capital spending to a significant extent,
  - borrowing in order to cover the fiscal deficit.

In the period of 2010-2012 there will be the continued implementation of the following fiscal and budgetary reform:

- Limitations to current public spending. The final goal is to reduce the role of the state in the economic life of the country, which will enable greater competitiveness of the private sector with higher employment and real wage growth.
- Use of the EU pre-accession funds – IPA funds in the period of 2010-2013, where Montenegro as a potential candidate country will be eligible to funds within the two initial components – the Transition Assistance and Institution Building and Regional and Cross-Border Cooperation.
- Implementation of the mid-term budget framework – Prerequisite for the design and application of the mid-term budget framework is the reform of the process of budget preparation and planning and financial limits (ceilings) introduction for budgetary beneficiaries in a multi-year period. Budgetary appropriations for the multi-year period will be based on the strategic documents of the Government and certain line ministries in line with the fiscal framework for aggregate public spending. Thus, the top-down method is introduced in the process of budget preparation and planning (contrary to the previously applied bottom-up method). The implementation envisages setting limits in the mid-term period in cumulative amount, by economic classification, and by budget beneficiaries, while the detailed breakdown of costs will be defined by the annual budget laws. The key advantage of introducing the mid-term budget framework is reflected in the stable and sustainable fiscal policy, greater capacity of regulation as to the future budgetary effects/results, and improved Government's capacity to execute resource allocation within the programme and organisational units, in line with its policy and priorities.
- With cuts in the level of current public and budget spending, the funds for continued implementation of the Capital Budget of Montenegro will be provided in the mid-term. – The continued implementation of the Capital Budget of Montenegro on the level of at least 3% of GDP per year in the period of 2010-2012. There are plans for creation of database for all budget-related projects. This would enable an appropriate fiscal risks analysis and improve the decision-making process related to shortlisting the priorities. The adoption of the new law on concessions and private-public partnership will be an important regulatory framework for management over a part of investments.
- Full implementation of the programme budget – the programme budget implementation in Montenegro has been based on the Budgetary Programme model which represents the main activity (programme) or group of activities (sub-programmes) being realised through spending units. Two levels of programme budget application have been introduced and

stated through programme and sub-programmes. The reform of programme budget introduces logical programme qualifications for the overall budget, and prepares the IT system for monitoring and execution of the budget by the programme structure. The gradual transfer from linear to programme budget has been implemented since 2005. The full programme budget implementation, which includes indicators and full application of the “top-down” method in the budget preparation and planning process, has been anticipated for the mid-term.

Basic structural reforms to be implemented in the mid-term are as follows:

- Continuation of the privatisation process
- Removal of business barriers
- Improvement of transport infrastructure
- Amendments to legal regulations in labour market
- Use of the EU pre-accession funds

The budget spending policy in the following period have to count on reduced budget inflows and a number of additional factors:

- Budget deficit must stay within the limits of Maastricht criteria – 3%
- Gradual bringing the budget into balance until 2012 has been planned
- Reduced capacity to borrow
- The EU accession process requires for significant funds to be allocated thereon, although Montenegro counts on using the pre-accession funds (IPA)
- Launch of the Bar-Boljare motorway construction requires the allocation of significant funds as part of the commitments
- Servicing foreign and domestic debt
- Social programme for protection of the most vulnerable population due to the effects of the global economic crisis;

Taking all abovementioned into account, it is necessary to continuously analyse the mid-term fiscal sustainability. Defining the mid-term objective of the budgetary policy will help to harmonise the competitive needs for budgetary funds. During this time, the economic and fiscal policy will focus on mitigation of the economic crisis effects on both real economy sector and the population sector. In addition, the objective of Montenegro as a potential candidate country for accessing the EU is the institution and administrative capacity building, harmonisation of its regulations to those of the European Union, development of civil society, and promotion of regional and cross-border cooperation.

According to the latest projections of the Ministry of Finance the real growth of the Montenegrin economy in 2009 shall come to -4%, because the negative macroeconomic and fiscal trends from the first half of the year can not be amortized by expected positive trends in the second half of the year. In fact, despite the positive effects of the summer tourist season, the expected recovery of the banking sector, as well as the recapitalization and partial privatization of EPCG, decline in industrial production has continued, a significant decrease in imports (down trade with foreign countries by almost 40% is a significant indicator of decline in economic activity), stagnation in the sector of trade and high illiquidity of the real sector. Further, but less severe, reduction in economic activity is still anticipated for the second half of the year, due to the fact that there has been a certain slowing of growth of the economy in the fourth quarter of 2008, and that during this year, manufacturing has already experienced a significant decline, and the financial and trade sectors stagnation and decline in activity. On the other hand, the further growth of agriculture, public spending and growth in the transport sector is uncertain. For 2010 is not expected a significant recovery of the economy because we believe that there is no economic basis which would lead to faster sustainable growth of economy, and consequently of budget revenues, so prediction for 2010 is a slight recovery of real GDP of up to 1%.

**24. How has the sectoral economic structure changed over time (in terms of value added to GDP and employment)? What sectors have been most dynamic in growth and/or job creation?**

The process of transition and transformation of the economy has resulted in changes in the sectoral structure of the economy. The evident has been the increase in the share of the service activities' sector at the expense of production sectors (agriculture, hunting, forestry, mining and quarrying, manufacturing industry with sub-sector of the production of basic metals and standard metal products, generation and supply of electricity, gas, and water).

The data available on the structure of gross added value (the share in the aggregate GDP) indicate that the share of wholesale and retail trade has been increased from 11.3% in 2001 to 12.0% in 2007, hotels and restaurants from 2.2% to 3.3%, financial intermediation services from 2.3% to 3.8%, activities related to real estate, renting and business activities from 11.8% to 12.8%.

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Gross added value 2001-2007

Activity	2001		2002		2003		2004		2005		2006		2007	
	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)	Value in EUR 000	Share in the aggregate GDP (%)
1. Agriculture, hunting and forestry	139 897	10.8	148 372	10.9	149 245	9.9	154 178	9.2	158 468	8.8	177 021	8.2	193 051	6.9
2. Fisheries	120	0.0	230	0.0	484	0.0	476	0.0	483	0.0	1 165	0.1	918	0.0
3. Mining and quarrying	24 658	1.9	29 935	2.2	28 556	1.9	25 921	1.6	26 049	1.4	28 603	1.3	31 511	1.1
4. Manufacturing	149 708	11.7	141 497	10.4	132 265	8.7	145 771	8.8	148 686	8.2	164 695	7.7	193 056	6.9
6. Electricity, gas and water generation and supply	69 147	5.3	72 884	5.4	87 565	5.8	95 357	5.7	85 821	4.7	88 496	4.1	83 769	3.0
7. Construction	45 482	3.5	42 457	3.6	43 514	2.9	49 758	3.0	54 192	3.0	76 039	3.5	95 700	3.4
8. Wholesale and retail trade	146 827	11.3	160 085	11.8	165 175	10.9	170 237	10.2	190 124	10.5	237 872	11.1	337 018	12.0
9. Hotels and restaurants	28 570	2.2	31 887	2.3	35 422	2.3	49 424	3.0	53 785	3.0	64 078	3.0	91 454	3.3
10. Transport, storage and communication	156 444	12.1	145 769	10.7	146 735	9.7	163 031	9.8	171 327	9.4	208 270	9.7	282 629	10.1
11. Financial intermediation services	29 828	2.3	32 538	2.4	34 400	2.3	38 998	2.3	43 854	2.4	64 977	3.0	106 675	3.8
12. Real estate, renting and business activities	153 408	11.8	162 940	12.0	183 857	12.2	207 834	12.4	210 961	11.6	245 146	11.4	360 098	12.8
13. State administration and defence, compulsory social insurance	91 268	7.0	102 819	7.6	116 708	7.7	130 858	7.8	166 421	9.2	174 277	8.1	247 263	8.8
14. Education	51 238	4.0	55 965	4.1	61 558	4.1	71 569	4.3	76 938	4.2	87 545	4.1	102 300	3.6
15. Health and social work	50 221	3.9	50 759	3.7	62 924	4.2	70 715	4.2	82 155	4.5	84 615	3.9	86 845	3.1

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16. Other communal, social and personal service activities	36 901	2.8	36 442	2.7	43 842	2.9	48 705	2.9	52 602	2.9	54 136	2.6	59 609	2.1
17. Private households with employed persons	5	0.0	-	0.0	7	0.0	10	0.0	-	0.0	-	0.0	-	0.0
18. Financial intermediation services indirectly measured FISIM	-1 885	-0.1	-2 700	-0.2	-2 119	-0.1	-1 353	-0.1	-1 842	-0.1	-4 118	-0.2	-10 231	-0.4
<b>Gross added value (basic prices)</b>	<b>1 171 837</b>	<b>90.5</b>	<b>1 218 879</b>	<b>89.6</b>	<b>1 290 138</b>	<b>85.4</b>	<b>1 421 489</b>	<b>85.1</b>	<b>1 520 024</b>	<b>83.7</b>	<b>1 752 817</b>	<b>81.6</b>	<b>2 261 665</b>	<b>80.5</b>
Tax on products less subsidies on products	123 273	9.5	141 474	10.4	219 290	14.6	248 294	14.9	294 970	16.3	396 181	18.4	546 283	19.5
<b>Gross Domestic Product (market prices)</b>	<b>1 295 110</b>	<b>100.0</b>	<b>1 360 353</b>	<b>100.0</b>	<b>1 510 128</b>	<b>100.0</b>	<b>1 669 783</b>	<b>100.0</b>	<b>1 814 994</b>	<b>100.0</b>	<b>2 148 998</b>	<b>100.0</b>	<b>2 807 948</b>	<b>100.0</b>

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The indicators from the table hereunder, Nominal growth of the gross added value by activities, indicate dynamic developments in the areas with increased share in the sector structure.

### Nominal growth of the gross added value by activities

- previous year = 100

CA/Nace Rev 1.		2001	2002	2003	2004	2005	2006	2007
A	Agriculture, hunting and forestry	116.3	106.1	100.6	103.3	102.8	111.7	109.1
B	Fisheries	94.8	191.4	210.4	98.3	101.5	241.2	78.8
C	Mining and quarrying	88.3	121.4	95.4	90.8	100.5	109.8	110.2
D	Manufacturing	151.4	94.5	93.5	110.2	102.0	110.8	117.2
E	Electricity, gas and water supply	118.6	105.4	120.1	108.9	90.0	103.1	94.7
F	Construction	109.8	108.7	88.0	114.3	108.9	140.3	125.9
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	107.8	109.0	103.2	103.1	111.7	125.1	141.7
H	Hotels and restaurants	107.4	111.6	111.1	139.5	108.8	119.1	142.7
I	Transport, storage and communication	155.3	93.2	100.7	111.1	105.1	121.6	135.7
J	Financial intermediation services	87.8	109.1	105.7	113.4	112.5	148.2	164.2
K	Real estate, renting and business activities	123.8	106.2	112.8	113.0	101.5	116.2	146.9
L	Public administration and defence; compulsory social security	105.3	112.7	113.5	112.1	127.2	104.7	141.9
M	Education	109.7	109.2	110.0	116.3	107.5	113.8	116.9
N	Health and social work	124.9	101.1	124.0	112.4	116.2	103.0	102.6
O	Other community, social and personal service activities	138.3	98.8	120.3	111.1	108.0	102.9	110.1
P	Private households with employed persons	100.0	-	-	142.9	-	-	-
	FISIM	121.2	143.3	78.5	63.9	136.1	63.8	136.1
	Gross value added (basic prices)	121.2	104.0	105.8	110.2	106.9	115.3	129.0
	Taxes on products less subsidies on products	124.9	114.8	155.5	112.9	118.8	134.3	137.9
	GROSS DOMESTIC PRODUCT (market prices)	121.5	105.0	111.0	110.6	108.7	118.4	130.7

Source: MONSTAT

Changes in the sectoral structure of the economy and dynamics of growth by sectors have been expressed by rates of gross added value in correlation with changes in the number of the employed by sectors. The indicators from the table hereunder, Number of the employed by sectors, indicate that the number of the employed has increased in the sectors of construction, wholesale and retail trade, hotels and restaurants, financial intermediation services, real estate, renting and business activities.

## V Economic and structural developments and reforms

### Number of the employed by sectors

Nace Rev 1.		2000	2001	2002	2003	2004	2005	2006	2007	2008
A	Agriculture, hunting and forestry	2 870	2 877	2 857	2 909	2 926	2 786	2 607	2 586	2 651
B	Fisheries	62	63	62	63	64	98	115	112	129
C	Mining and quarrying	4 492	4 503	4 471	4 553	4 578	4 079	4 159	3 753	3 721
D	Manufacturing	25 779	25 843	25 658	26 130	26 286	25 971	26 065	25 697	24 335
E	Electricity, gas and water supply	5 388	5 401	5 362	5 461	5 491	5 496	5 627	5 594	6 042
F	Construction	6 746	6 762	6 714	6 838	6 879	7 563	6 853	6 647	8 831
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	23 648	23 707	23 536	23 970	24 101	23 789	29 602	30 750	31 854
H	Hotels and restaurants	9 381	9 405	9 337	9 509	9 562	11 110	10 928	11 307	14 641
I	Transport, storage and communication	13 878	13 912	13 813	14 067	14 145	13 745	12 133	11 358	12 798
J	Financial intermediation services	3 264	3 272	3 248	3 308	3 316	3 014	3 114	3 143	3 476
K	Real estate, renting and business activities	4 608	4 620	4 568	4 671	4 699	5 067	5 905	5 354	5 631
L	Public administration and defence; compulsory social security	9 160	9 183	9 117	9 285	9 337	9 524	10 345	17 575 <sup>2</sup>	18 643
M	Education	12 850	12 882	12 789	13 025	13 098	12 974	12 846	12 687	12 892
N	Health and social work	11 385	11 414	11 332	11 540	11 605	11 200	12 012	12 004	12 356
O	Other community, social and personal activities	7253	7268	7230	7350	7392	7924	8489	7841	8221
	Total	140 762	141 112	140 100	142 679	143 479	144 340	150 800	156 408	166 221

Source: MONSTAT

The facts provided herein enable a more complete elaboration of the changes in the economy structure by sectors and in dynamics of sectoral changes.

### 25. How has the size of firms developed? Please describe the main impediments to growth and job creation for local companies. )? (see also chapter 20 – Enterprise and industrial policy)

The main obstacles to growth and job creation in local companies have been the following:

- operational permits – business licences

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<sup>2</sup> Army and Police included

- urban plans, i.e. lack of urban plans, and
- communal fees.

**a) Business licences**

It can be concluded from the practice of local government authorities that the procedure of issuing operational permit to a business has been carried out by municipal commissions established by the top-ranking person of the subject authority (in certain cases the mayor/president of municipality) although this has no legal grounds. The provisions of the Law on General Administrative Procedure provide for a person in the official capacity who carries out the procedure to assess which facts should be determined and to order presentation of evidence. Where a direct observation is necessary for determining a fact or circumstance, the person in the official capacity who runs the procedure is to execute on-the-spot inspection (Article 188), and where the expertise exceeding the knowledge of the professional is needed, expert evidence is to be obtained (Article 177).

In municipalities, the applicants are required to submit evidence, which has no ground in regulations or impact as to the resolution to the administrative matter. The submission of evidence is also required in relation to facts kept within the records of the authority in question or another authority, contrary to Article 127 paragraph 3, and Article 128 paragraph 2 of the Law on Administrative Procedure, and Article 53 of the Law on State Administration, and item 2 of the Rules of Practice of State Authorities with Relation to Citizens, which provide for such evidence to be obtained by the very authority by virtue of office.

This way the procedure has been complicated and licensing costs and timescales significantly increased.

**b) Urban plans**

Insufficiently developed urban plans have been recognised by investors to be a major business barrier in Montenegro. Most of the municipalities have no detail urban plans despite the fact that there has been a legal obligation of their development.

The Law on Spatial Development and Construction of Facilities (Official Gazette of Montenegro 51/08) has introduced a new generation of planning documents. For each urban plot, the planning documents of new generation need to contain accurate data on the place and manner of connection to the following networks: electricity, water supply, sewage (waste water and storm water), telecommunication, broadcasting, and transport. Thus, any additional requirements by public enterprises as to urban and technical requirements and obtaining approvals thereof will be avoided since a level of meeting project requirements will be controlled by a review commission, which will share with the project designer any liability of possible omissions in the control process.

This means that, in obtaining construction permission for a facility planned within the new generation of planning documentation, the investor will from the very beginning be waived of applying for and being granted the project documentation requirements and approvals in four areas:

- electricity,
- water supply and sewage,
- transport, and
- telecommunication and broadcasting.

Statutory deadline for the adoption of new urban plans expires in September, 2009.

**c) Communal fees**

Communal fee system has been regulated by the Law on Communal Fees and Charges (Official Gazette of the Republic of Montenegro 27/06). The Law provides for the types of rights, items and services on which the local self-government may levy local communal fees. There are daily objections of businessmen that the amount level of municipal communal fees impose too much of a burden on their financial resources.

**26. Describe how the level (in % of GDP), structure (type and quality of investment, economic sector) and source (public/private) of gross fixed capital formation has developed in the last years. Please indicate the share related to infrastructure investment including changes in roads, rail and telephony lines. Please also make a particular reference to R&D expenditure. Please provide a synthetic assessment on the quality of major infrastructures (transport, telecommunication, energy), indicating areas where investment needs are more important.**

### Gross fixed capital formation

Typical of the gross fixed capital formation since 2000, when it amounted to EUR 179 821 thousand, has been an exquisite growth trend. It recorded a rise in the period of 2001-2007 by an average annual rate of 21.0% thus amounting to EUR 683 573 thousand. At the same time, a rise in the level of gross investments has been accompanied by a rise in their share within gross domestic product, as illustrated in the table hereunder:

#### Gross fixed capital formation

	2000.	2001.	2002.	2003.	2004.	2005.	2006.	2007.
- in EUR 000	179 821	226 683	198 916	200 830	286 072	326 329	469 811	683 573
- share in GDP (%)	16.9	17.5	14.6	13.3	17.1	18.0	21.9	24.3

Gross fixed capital formation in 2006 amounted to EUR 469 811 thousand, the share of the investments of legal persons being EUR 406 233 thousand, and of natural persons EUR 63 578 thousand. In 2007, the gross fixed capital formation amounted to EUR 683 573 thousand, the share of the investments of legal persons being EUR 583 270 thousand, and of natural persons EUR 100 303 thousand. The investments of natural persons include investments in citizens' housing construction, individual agriculture, as well as entrepreneurs and freelancing careers.

## V Economic and structural developments and reforms

### Gross fixed capital formation by investor's activity<sup>3</sup>

	Investor's activity	2006		2007		Index 2007/2006
		- in EUR 000	Structure in %	- in EUR 000	Structure in %	
	Total	469 811	100	683 573	100	145.50
1.	Agriculture, hunting and forestry	8 389	1.79	9 965	1.46	118.79
2.	Fisheries	2	0.00	5	0.00	250.00
3.	Mining and quarrying	11 065	2.36	15 958	2.33	144.22
4.	Manufacturing	28 003	5.96	54 003	7.90	192.85
5.	Electricity, gas and water	21 688	4.62	28 318	4.14	130.57
6.	Construction	11 453	2.44	22 903	3.35	199.97
7.	Wholesale and retail trade	37 648	8.01	117 263	17.15	311.47
8.	Hotels and restaurants	131 832	28.06	129 731	18.98	98.41
9.	Transport, storage and communication	96 750	20.59	138 137	20.21	142.78
10.	Financial intermediation services	21 546	4.59	23 659	3.46	109.81
11.	Real estate	19 671	4.19	22 151	3.24	112.61
12.	State administration and social security	59 690	12.71	98 742	14.45	165.42
13.	Education	12 448	2.65	6 281	0.92	50.46
14.	Health and social work	4 687	1.00	7 927	1.16	169.13
15.	Other communal, social and personal services	4 938	1.05	8 531	1.25	172.76

There was an increase in gross fixed capital formation in 2007 by 45.5% when compared to 2006. The greatest part of total investments in both 2006 and 2007 related to the activities of hotel and restaurants (28.6% and 18.98% respectively) and transport, storage and communication (20.59% and 20.21% respectively).

<sup>1</sup> Data have been derived based on the structure of the gross fixed capital formation by technical structure and investor's activity (Statistical Yearbook of Montenegro 2007 and Statistical Yearbook of Montenegro 2008).

V Economic and structural developments and reforms

Gross fixed capital formation – finance source structure\*

		2006.					2007.				
		Total	Own resources	Joint resources	Finan-cial loans	State authorities and local self-governments' resources	Total	Own resources	Joint resources	Finan-cial loans	State authorities and local self-governments' resources
	Total	100.0	38.5	3.0	47.5	11.0	100.0	51.3	4.3	33.9	10.5
1.	Agriculture, hunting and forestry	100.0	99.9	-	0.1	-	100.0	93.6	-	1.1	5.3
2.	Fisheries	100.0	-	-	-	-	100.0	100.0	-	-	-
3.	Mining and quarrying	100.0	50.3	-	49.7	-	100.0	30.3	-	69.7	-
4.	Manufacturing	100.0	71.7	8.4	19.9	-	100.0	72.0	1.0	26.6	0.4
5.	Electricity, gas and water	100.0	60.7	1.9	36.3	1.1	100.0	84.4	-	10.8	4.8
6.	Construction	100.0	74.1	1.3	24.6	-	100.0	72.6	0.1	27.3	-
7.	Wholesale and retail trade	100.0	66.8	0.7	32.5	-	100.0	49.3	3.4	47.3	-
8.	Hotels and restaurants	100.0	4.2	-	95.8	-	100.0	16.2	14.5	69.3	-
9.	Transport, storage and communication	100.0	43.0	-	56.9	0.1	100.0	65.3	-	33.2	1.5
10.	Financial intermediation services	100.0	98.5	-	0.2	1.3	100.0	99.2	-	0.8	-
11.	Real estate	100.0	23.0	50.2	26.6	0.2	100.0	58.7	13.9	27.2	0.2
12.	State administration and social security	100.0	20.8	0.2	1.4	77.6	100.0	36.3	1.8	0.6	61.3
13.	Education	100.0	85.6	0.8	0.6	13.0	100.0	64.4	5.8	1.4	28.4
14.	Health and social work	100.0	77.3	9.9	0.3	12.5	100.0	73.4	2.9	4.5	19.2
15.	Other communal, social and personal services	100.0	56.3	2.5	6.6	34.6	100.0	60.8	7.2	19.5	12.5

\* / Data have been derived based on the fixed capital formation by sources of finance and investor's activity (Statistical Yearbook of Montenegro 2007 and (Statistical Yearbook of Montenegro 2008).

V Economic and structural developments and reforms

In 2006, the share of own resources in the finance source structure of investments amounted to 38.5%, while the share of financial loans was 47.5%. In 2007, there was an increase in the share of own resources (51.3%) and the reduction in the share of financial loans (33.9%). In the hotel and restaurants activity, the major part of investment resources was provided by means of financial loans (95.8% in 2006 and 69.3% in 2007). In the transport, storage and communication activity, the share of own resources in 2006 amounted to 43.0% and of financial loans to 56.9%, while in 2007 there was an increase in the share of own resources (65.3%) and reduction in the share of loans (33.2%).

**Gross fixed capital formation – technical structure\***

	Investor's activity	2006					2007				
		- in EUR 000	Structure				- in EUR 000	Structure			
			Total	Construct-ion works	Equipment with installation	Other		Total	Construct-ion works	Equipment with installation	Other
	Total	46 9811	100.0	65.4	29.8	4.8	683 573	100.0	54.1	36.1	9.8
1.	Agriculture, hunting and forestry	8 389	100.0	30.1	49.1	20.8	9 965	100.0	33.9	32.3	33.8
2.	Fisheries	2	100.0	-	100.0	-	5	100.0	-	100.0	-
3.	Mining and quarrying	11 065	100.0	24.4	66.9	9.0	15 958	100.0	38.5	60.4	1.1
4.	Manufacturing	28 003	100.0	17.5	81.9	0.6	54 003	100.0	36.9	60.3	2.8
5.	Electricity, gas and water	21 688	100.0	44.5	54.7	0.8	28 318	100.0	19.7	79.8	0.5
6.	Construction	11 453	100.0	2.3	95.7	2.0	22 903	100.0	18.4	67.5	14.1
7.	Wholesale and retail trade	37 648	100.0	54.0	27.2	18.8	117 263	100.0	54.3	32.1	13.6
8.	Hotels and restaurants	131 832	100.0	90.0	8.0	2.0	129 731	100.0	83.8	10.0	6.2
9.	Transport, storage and communication	96 750	100.0	59.5	34.7	5.8	138 137	100.0	34.6	47.5	17.8
10.	Financial intermediation services	21 546	100.0	42.8	46.2	11.0	23 659	100.0	23.4	57.6	19.0
11.	Real estate	19 671	100.0	87.7	12.2	0.1	22 151	100.0	75.8	16.6	7.6
12.	State administration and social security	59 690	100.0	84.8	13.1	2.1	98 742	100.0	82.9	14.1	3.0

V Economic and structural developments and reforms

13.	Education	12 448	100.0	86.3	13.1	0.6	6 281	100.0	26.4	67.2	6.4
14.	Health and social work	4 687	100.0	34.4	65.6	-	7 927	100.0	27.2	72.5	0.3
15.	Other communal, social and personal services	4 938	100.0	27.9	70.0	2.1	8 531	100.0	27.4	68.6	4.0

\*/ Data have been derived based on the structure of the fixed capital formation by technical structure and investor's activity (Statistical Yearbook of Montenegro 2007 and Statistical Yearbook of Montenegro 2008).

In 2006, the construction works accounted for 65.4% and the equipment with installation for 29.8% of the investments, while in 2007 they accounted for 54.1% and 36.1% respectively. In the transport, storage and communication activity in 2006, the construction works accounted for 59.5% and the equipment with installation for 34.7% of the investments. In 2007, there was an increased share of the equipment with installation in the total investments (47.5%) and a reduced share of construction works (34.6%).

**Infrastructure investments**

Transport, storage and communication – realised fixed capital formation\*

	Investor's activity	2006		2007		Index 2007/2006
		- in EUR 000	Structure in %	- in EUR 000	Structure in %	
	Total	96 750	100.0	138 137	100.0	142.8
1.	Land and pipeline transport	42 570	44.0	58 985	42.7	138.5
2.	Water transport	581	0.6	2 486	1.8	427.9
3.	Air transport	677	0.7	4 559	3.3	673.4
4.	Auxiliary activities and travel agencies	25 348	26.2	13 813	10.0	54.5
5.	Postal services and telecommunication	27 574	28.5	58 294	42.2	211.4

\* Data have been derived based on the structure of the realised fixed capital formation by technical structure and investor's activity (Statistical Yearbook of Montenegro 2007 and Statistical Yearbook of Montenegro 2008).

In the structure of the investments realised in the transport, storage and communication activity, the major contribution was that of the investments in land and pipeline transport, as well as postal services and telecommunication. The largest growth of investments in 2007, comparing to 2006, was recorded in water and air transport.

It is obvious that there have been insufficient investment in the road network maintenance in the past 15 years (except for the last couple of years) due to the lack of financial resources, that amount ranging from EUR 2.5 million in 2003 to EUR 10 million in 2008.

For the projects realised under the Critical Point Elimination Programme and Bottlenecks Elimination Programme for the Transport Network of Montenegro 2002-2008, the investments have been as follows:

in 2002.....	EUR 7 663 674.58
in 2003.....	EUR 7 320 480.11
in 2004.....	EUR 3 162 298.84
in 2005 .....	EUR 9 402 475.16
in 2006 .....	EUR 10 435 506.36
in 2007.....	EUR 56 556 586.32
in 2008 .....	EUR 63 741 916.55

The problem of bottlenecks has been envisaged to be resolved by the construction of third lanes on the Coast and bypasses around all towns, and by constructing a bridge across the Milena Port in Ulcinj.

The European Bank for Reconstruction and Development has approved EUR 15 million for the urgent sanation of the railway infrastructure. The first and second tranche of this loan worth EUR 11 million is currently underway, covering the execution of works on rehabilitation of three landslide sites, four tunnels and six slopes. The EBRD funds totalling EUR 3 million have also been used for resolving the matter of redundancies in railway companies. The third tranche of this loan amounting to EUR 4 million will be used for the rehabilitation of the 182 Ostrovica tunnel. The European Investment Bank has granted EUR 34 million and preparations are underway for the first tranche of this loan worth EUR 7 million, which has been intended for the main repair – overhaul of

the railway on the section of Bijelo Polje - Kruševo – Mijatovo Kolo, 16.5 km of open railway in length, with the overhaul of station gauges in the junctions of Kruševo and Mijatovo Kolo.

Overhaul and electrification of the Nikšić-Podgorica railway have been done on the basis of the contract with the Czech Export Bank on financing the works and insurance costs amounting to EUR 52.6 million. The completion of all works on this railway will take another approx. EUR 12 million, which have not been anticipated by the original project. The additional funds would be intended for the development of level crossings, tunnels and station facilities, landslide sites, etc. The Government has given approval for launching the negotiation process with potential creditors on additional borrowing by the Railway Infrastructure Company at commercial banks for the amount hereabove. The negotiations with the EBRD have been launched on the financing of additional works on this railway. The full completion of works, including the additional works planned, is expected to be extended until November 2010, due to the existing problems in performance.

Within the implementation of the project applied for through the EU IPA 2007 pre-accession funds, we will have EUR 1.2 million available for the first component (Technical Assistance to the Transport Sector) by September this year, while EUR 1 million has been envisaged for the second component (Railway Infrastructure Project Design).

Within the IPA 2009 and IPA 2010 funds committed to Montenegro, amounting to EUR 10 million, the candidate projects are also projects related to the rehabilitation of two sections of the Vrbnica - Bar railway, namely: Trebaljevo – Kolašin and Mijatovo Kolo – Mojkovac, the project design for both sections being in process by the selected company IPSA Sarajevo.

The Railway Transport Company of Montenegro has lately overhauled and modernised 10 carriages put into operation in July and August 2009. The works have been worth EUR 3.5 million.

In addition, the Railway Transport Company of Montenegro, JSC, as a member of the EUROFIMA organisation, has been planned to apply, in the next EUROFIMA company meeting, for the EUR 15 million worth loan aimed at procurement of five new electric motor sets.

### **Investments into research and development**

The data on investments into research and development have been included as the element of the item other of the technical structure of gross fixed capital formation. It is evident that the possibilities for general economic growth and development by individual sectors rely on the process of strengthening investments into research of natural and other potential, and development projects which envisage the application of more advanced technologies, promotion of technological processes and other solutions. To that extent, the possibilities for development and improvement of business operations have been defined within feasibility studies and development strategies.

By mid-March 2009, the Government of Montenegro has established the Tender Commission and thereby officially launched the activities related to preparation of tender documentation for privatisation of certain parts of the railway system. The plan has it that the tender for privatisation of freight transport i.e. of the Montecargo company should be announced by the end of this year, while the company dealing with transport of passengers and maintenance of railway vehicle assets will start its privatisation process after financial stabilisation and setting of the level of benefits payable by the state for carrying out the transport of passengers, as the transport of public interest. In relation to the above, the Feasibility study on the procurement of the necessary number of electric motor sets for railway local transport has been completed in August 2009. The study has envisaged the procurement of 10 new electric motor sets in the next four years and their integration into the system of transport of passengers in local transport.

Montenegro and Bosnia and Herzegovina signed the Memorandum on Joint Activities on the Project and Study Design, for linking Montenegro and Bosnia and Herzegovina by the Nikšić - Čapljina railway. The activities have been launched on the implementation of activities envisaged by the Memorandum herein, the Feasibility Study development for the construction of the railway herein being in progress by the selected consultancy company, the development financed by the European Commission through the CARDS programme. The study is expected to be completed by

the beginning of 2011 while the construction could begin in 2012 and would last for four to five years.

Memorandum of Understanding among the Ministry of Transport, Maritime Affairs and Telecommunication of Montenegro, Ministry for Economic Development of the Republic of Italy, and Ministry for Infrastructure of the Republic of Serbia, of 16 July, 2009, has envisaged the development of the Study on Technical and Economic Feasibility of the Belgrade – Bar Railway Reconstruction. This study is aimed at defining works, necessary funds and activities which would be needed with a view to improving security and quality of transport on the Bar – Belgrade railway. The funds to finance the study have been provided by the Ministry for Economic Development of the Republic of Italy, EUR 1 000 000, and the Governments of Montenegro and of the Republic of Serbia, totalling EUR 400 000.

### **General estimate of the basic infrastructure quality and planned investments**

The network of transport infrastructure, in all types of transport, basically ensures good transport connectivity on the Montenegrin territory.

However, the specific terrain features of Montenegro and limited possibilities of investments in the capital transport infrastructure facilities in the past years have resulted in the current situation that the facilities, especially of road and railway infrastructure, impose, to some extent, limits to more dynamic overall economic development.

Based on the abovementioned, the Government of Montenegro makes efforts, within the capital budget, loan arrangements with international financial institutions and through various forms of private-public partnership, to rehabilitate the existing road infrastructure and begin or plan the construction of modern roads.

The **road network** in Montenegro consists of highway and regional roads 1 860 km in length and local roads 4 270.10 km in length (2 516.23 km of asphalt surfacing, i.e. 58.94%, and the rest, 1 753.87 km in length i.e. 41.06%, is of the macadam or earth surfacing). Due to specific terrain configuration, the road network includes 312 bridges and 136 tunnels. The density of the state highway and regional roads is 13 km/100 km<sup>2</sup> and total, inclusive of local roads, 44.39 km/100 km<sup>2</sup>.

Any further development of road infrastructure would require the construction of motorways, since there is no high-standard road network of that kind in Montenegro.

The Bar-Boljare motorway construction project is the most important infrastructural project in Montenegro. The Bar-Boljare motorway will connect the Coast with the North of the country through to the border with Serbia and the connection to the Central Europe. Further development of the Port of Bar and Montenegrin railways creates the environment which will contribute to the motorway to become a part of a modern intermodal corridor and a factor of integration of the North of Montenegro with the central and Southern regions.

The basis for financing the motorway has been a public-private partnership, the contractor having been selected in an international tender and the EUR 2 770 billion worth concession contract concluded therewith. The preparatory works on the first section will start in October 2009 so that the motorway construction could be launched in the spring of 2010.

The Detail Spatial Plan, general projects and Feasibility Study have been adopted for two motorways in Montenegro, the Bar-Boljare and Adriatic-Ionic motorways.

The second motorway of strategic interest for Montenegro, the construction of which has been planned, is the Adriatic-Ionic motorway (Jadransko-jonski put – JJA). The route of the JJA from Trieste to Calamata is 1 500 km in length, passes through seven states of the Adriatic-Ionic Initiative – Italy, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania, and Greece, the countries being interested in the implementation of the project. The planned length of the JJA route passing through Montenegro amounts to 95 km.

The JJA general project has been completed, the development of the Detail Spatial Plan has been in process, and tenders for a preliminary design development for the Adriatic-Ionic motorway will

very soon be invited. The estimated value of the project amount to about EUR 5 million, and the funds which need to be provided for 2010 amount to EUR 1 million.

Apart from crossing a larger number of the existing and planned roads, the planned motorway network will also be mutually connected, ensuring good internal connectivity both within Montenegro and to the region and EU countries.

The TEM (Trans-European North-South Motorways) standards will be applied in the design and construction of the motorways.

Building upon the accepted objectives and commitments from the Spatial Plan and the Transport Development Strategy, the priorities have been set in relation to state roads for the next ten-year period though the use of multi-criteria analysis, having in mind the amount of the funds available in the Budget, possibilities of attracting private capital, and financial sustainability of the project, all of which resulted in identifying the priority road routes to be constructed, reconstructed, widened, or improved in the next planning period:

Name of the section	Length /km/
Highway of Risan – Vilusi – Nikšić – Šavnik – Tunel Ivica – Žabljak	56.50
Highway of Vilusi – Petrovići -Vračenovići	20.00
Highway of Mijakovići – Vrulja - Pavino polje- Slijepač Most	54.00
Bypass around Nikšić, the entire section through to Šipačno	6.00
Highway of Šćepan Polje-Plužine-reconstruction, slope rehabilitation, construction of protective galleries, insulation of tunnels, and reconstruction of road surface	25.00
Construction of the Podgorica-Božaj highway	21.00
Reconstruction of the Pljevlja-Gradac highway	25.00
Construction of the highway of Šula–border with Bosnia and Herzegovina l=6 km	6.00
Reconstruction of the Mojkovac-Đurđevića Tara road	46.00
Construction of the regional Boan-Gornja Bukovica road	13.00

With a view to connecting costal and inland tourist areas and integrate the northern, central and southern regions of Montenegro, the construction of the modern Risan-Nikšić-Žabljak highway has been launched. It is a multi-phase construction and will be completed in the first half of 2010, while the model of financing the projects is a long-term financing by contractors.

The Ministry of Transport, Maritime Affairs and Telecommunications has prepared the Programme of reconstruction of crossroads on the state roads of Montenegro, aimed at the promotion of road infrastructure, further continuous resolution to the problem of bottlenecks on the highway and regional road network due to the increased vehicle frequency on the Montenegrin roads, at the increase in flow rate, level of safety and security of transport running.

The Programme hereabove has provided for the reconstruction of ten most important crossroads, its dynamics, and the framework of the needed funds which will be provided by the Budget. The preliminary calculation value of the preparation of project documentation amounts to cca EUR 560 000, of construction works cca EUR 4 420 000, totalling cca. EUR 4 980 000.

The **railway network** consists of three railways (Bar-Vrbnica, Podgorica-Nikšić, and Podgorica-Tuzi) totalling 248.6 km of open railway and 79 station gauges, and they are of great importance for interconnection of the regions and the connectivity of Montenegro to neighbouring countries.

The quality of railway infrastructure is satisfactory if taken into account that it (the Vrbnica-Bar railway) is one of the most demanding railways in terms of maintenance and exploitation in Europe,

the 40% of its total length being the structural facilities (107 bridges, 106 tunnels, 371 culverts), numerous curves of 300m in range with the maximum allowed inclinations of 25%.

Since the entire Vrbnica-Kolašin stretch will be subject to planned investments into railway infrastructure (under condition of successful implementation of the planned IPA projects), the priority would be the overhaul of the railway on the route from Kolašin to Podgorica, with the complete rehabilitation of bridges, tunnels and slopes, and repairs of electric traction facilities.

Infrastructural facilities in **air transport** (terminal buildings and other logistics facilities) have been adjusted to a significant extent to the needs of larger volume of turnover and quality of services, which will, along with the fleet expansion, enable the air transport to have more influence as to the possibilities of transport connectivity of Montenegro.

There are two airports in Montenegro which have been made fit for the running of passenger transport (Podgorica and Tivat) and three small airports (in Nikšić, Berane and Žabljak) which are not used for public transport in air transport.

A very dynamic progress in the application of latest technical and technological achievements in the field of **telecommunications** secures good connections within the Montenegrin space and communication with the rest of the world, which increasingly makes the telecommunications a development input.

Full digitalisation has been carried out in the area of telecommunications. The greatest part of the main infrastructure is owned by the Crnogorski telekom (Montenegrin Telecom)( T-Com & T-Mobile).

A significant need for investments is present in the field of broadband access, by means of landline and mobile access, while the preparation of the Strategy of Broadband Service Development with the action plan has been planned for the first quarter of 2010. The document should contain a description of activities within the infrastructural part in the territory of Montenegro for all the electronic communications operators.

In addition to this part of telecommunications, the Law on Digital Switchover of Broadcasting Systems, which has been in a tentative version as a pre-draft law, provides for new investments for the entire territory of Montenegro.

Great opportunities for the development of **sea transport** have mostly been linked to the activity of the Port of Bar and its connectivity with the railway system as a significant factor of the regional economic communication. The restructure and privatisation activities of certain organisational operations in the Port should contribute to more extensive use of its capacities and realistic development opportunities. The orientation towards strengthening of nautical tourism has resulted in activities aimed at extending and modernising the existing marinas and the construction of new ones to offer services for large yachts and vessels to high-yield clients. The opportunities for renewal of maritime fleet have been positioned within both limited possibilities for capital investments and world market developments.

**Electric power system** of Montenegro has on its disposal the capacities for electricity generation totalling 868 MW of the installed capacity, 76% of which are related to hydroelectric plants (HEP Perućica, HEP Piva, and seven small hydroelectric plants) and the remaining 24% to the Termoelektrana Pljevlja (Thermoelectric Plant Pljevlja). The aggregate projected annual generation on the electric plants' threshold is about 3 000 GWh, insufficient for satisfying the overall electricity demand (there is a lack of about 1/3 of the quantity needed). The electric plants' reconstruction and modernisation activities are underway, which will create conditions for optimisation of the existing generating system and increase in its capacity, and consequently in the aggregate annual electricity generation. At the same time, the activities are underway with a view to create conditions for the construction of new electric power generation facilities (HEP Morača, HEP Komarnica, small hydroelectric plants, wind electric plants).

Transmission network consists of 254 km of the 400 KV powerlines and 657 km of the 110 KV powerlines, while the distribution network consists of 1 150 km of the 35 KV lines, 4 230 km of the 10 KV lines, and 14 000 km of the 0.4 KV lines. The status of the distributive electric power

network is not satisfactory, especially in the North of Montenegro, thus there is a problem as to secured and quality supply for all the consumers.

There is a number of ongoing projects as to the renewal and extension of the transmission and distributive electric power network. Especially important are the activities on the construction and renewal of regionally important interconnections with neighbouring countries (the construction of the 400 KV Podgorica-Tirana powerline, creating conditions for the implementation of the project of instalation of the deep-sea high-voltage one-way cable between electric power systems of Montenegro and Italy).

The production of coal has been going on in the Rudnik uglja Pljevlja (the Coal Mine of Pljevlja) in two open pits (Potrlica and Šumani I). The average annual production amounts to about 1.5 million tons, 90% of which is used for the electricity generation in the TEP Pljevlja, and the rest for general consumption. There are ongoing activities aimed at creating conditions for the beginning of coal exploitation in the Maočki basen (the Maočki basin). It has been estimated, on the basis of the existing coal reserves in this basin, that it is possible to construct a thermoelectric plant of about 450 MW in capacity.

The turnover of oil derivatives in Montenegro falls under the activity of the following enterprises: Jugopetrol AD – Kotor (Jugopetrol, JSC – Kotor), Montenegro-Bonus – Cetinje, and Ina Crna Gora.

The total number of gas/petrol stations amounts to 79, Jugopetrol AD – Kotor is the owner of the storage capacity of 120 000 m<sup>3</sup> in Bar, Lipci and Bijelo Polje, two aircraft service shops in Podgorica and Tivat with the storage capacity of 8 000 m<sup>3</sup> and three yacht services (in Kotor, Budva and Herceg Novi) with total tanks' capacity of 190 m<sup>3</sup>. Storage capacities used by the Montenegro-Bonus amount to 52 500 m<sup>3</sup> (in Bar, Lipci and Bijelo Polje).

## **27. Describe the initiatives taken to enhance the business environment and the results achieved so far. What are the main obstacles for doing business? (see also chapter 16 - SMEs)**

Since 2002, the business environment in Montenegro has been significantly enhanced. A set of over one hundred new laws has been adopted, the laws being harmonised to a large extent with the EU standards, setting a good framework for establishing a new economic system in Montenegro. In addition, significant institutional reforms have been carried out in the key sectors such as: fiscal system, financial sectors, payment operations, privatisation, restructuring of enterprises, etc.

However, entrepreneurs still face an aggravated procedures in the business environment.

Therefore, the Government of Montenegro adopted the Programme of eliminating business barriers to the development of entrepreneurship in 2007. The Programme has treated the most important obstacles to business development including: registration of enterprises, licences, insolvency, ownership rights, urban planning and construction of facilities, tax policies, foreign trade, credit policy, labour market, disloyal competition, and grey economy.

In setting priorities, the Operative plan for the elimination of business barriers has been developed and adopted by the Government of Montenegro in 2008. The plan set specific activities, holders and timescales of carrying out the priority activities.

The priority activities have envisaged the barriers to be removed in the following areas: the registration of enterprises, licences, urban planning, construction of facilities, labour market, ownership rights, and registration of a title to real estate.

The results achieved are as follows:

### **1. REGISTRATION OF ENTERPRISES**

- Upon the proposal by the Commercial Court, the Ministry of Justice has adopted amendments to the Instructions on the work of the Central Register (Official Gazette of Montenegro 043/07), thus having created legal prerequisites for the on-line registration of

enterprises. However, for the on-line registration to be fully possible it is necessary to create conditions for the full implementation of the Law on Electronic Signature through establishing a certifying body authorised in verifying certificates.

- The application of the Law on Unified Registration and the System of Reporting on the Calculation and Collection of Taxes and Contributions (Official Gazette of Montenegro 29/05) and of the model for unified collection of taxes and contributions, the full application being expected from 1 September, 2010, is aimed at simplification of registration procedure and collection of taxes and contributions, reduction in the administration costs, and promotion of tax system transparency. With a view to the application of the model herein, the Ministry of Finance has issued two rulebooks, namely: the Rulebook on the form and content of the unified application for registration of tax payers, contribution payers and insurants in the Central Register (Official Gazette of Montenegro 45/08) and the Rulebook on the form, content and manner of filling in and submitting the unified form on the calculated income tax of natural persons and contributions for compulsory social insurance (Official Gazette 45/08).

### 2. LICENCES

- The Law on Internal Trade (Official Gazette of Montenegro 49/08) and Law on Crafts have been adopted, simplifying the procedure of starting business in the sectors of trade and crafts to a significant extent. To that regard, the enterprises launching the trade or crafts activities in shops are not obliged to ask a municipal administration authority for business licence. A trader and craftsperson are obliged to submit an application to the competent inspection authority and municipal administration authority competent in the economic affairs for the purpose of records, at least eight days prior to launching the operations. Thus, the former practice of requiring a business licence for carrying out an activity, issued by a local self-government authority, has been abolished. The business premises for performing the activity must conform to the minimum technical conditions, but the municipal inspection is no longer entitled to check on their meeting such conditions, this now falling within the authorities of a competent inspection during their regular controls.
- The decision has also been made for the licensing procedure in other fields to be simplified, and the following activities will focus on the sector of tourism.

### 3. URBAN PLANNING AND CONSTRUCTION OF STRUCTURES

- The Law on Spatial Development and Construction of Structures has codified this field of activity since it repealed the Law on Spatial Planning and Development, Law on Construction Land, Law on the Construction of Structures, and Law on Urban Planning and Construction Inspection. Such approach has significantly eased the orientation and understanding of regulations to the private sector.
- With a view to removing business barriers, the most important novelties comparing to the valid regulations from the field refer to the simplification and shortening of the administrative procedure with regard to review of technical documentation and obtaining construction and use permits. Now, the investor himself appoints the reviewer of technical documentation, obtains the construction permit within fifteen days from the day of application through a single administrative procedure, and is issued the use permit within seven days from the day when he/she receives the report that the object meets the conditions for use, again through a single administrative procedure.
- Both rights and duties and liabilities of the local self-government units have been extended given that they are now competent in issuing licences for structures of up to 3 000 m<sup>2</sup> instead of the previous 1 000 m<sup>2</sup>.
- With a view to greater transparency, the law provides for the obligation that all the data on urban plans and plots, and on the issued construction and use permits be available on the website of the competent authority within seven days from the date of the official registration.
- This Law has repealed the fee for the use of construction land (since January 2009), which will ease the burden on the economy for about EUR 23 million in liabilities by virtue hereof (the amount being the municipal revenues by virtue hereof in 2008) or about 0.75% of GDP.

#### 4. LABOUR MARKET

- The new Labour Law which entered into force in August 2008 has simplified the procedures of employment and dismissal of labour force. The fixed-term employment contract is entered into for a time specified in advance and, contrary to the former legal solution, it does not specify situations which allow for the employment contract to be concluded for a fixed term. The option of concluding a fixed-term contract is entirely left at the discretion of employee and employer, thus providing flexibility with a view to greater mobility of labour and breaking the employee's monopoly of a job.
- The institute of public announcement as a compulsory procedure for entering into employment has not been provided for by this Law, contrary to the previous law. In case there is a need for new employment by means of public announcement, the given solution offers employers a possibility to do so autonomously or through the Employment Office or another institution dealing with intermediation in employment.
- The option of modification of the terms and conditions of the contract has been stipulated, which may be made by an Annex to the Employment Contract (Article 40 though 43 of the Proposal). The offer for modification of the contracted terms and conditions of employment shall to be submitted in written and must contain the reasons for the offer, the timescale for the reply to the offer to conclude the Annex to the Contract, and possible legal consequences of the rejection thereof. Where the party subject to the offer fails to reply within the specified timescale, the party shall be considered to have rejected the offer for concluding the Annex to the Contract. Where the party subject to the offer accepts the offer to conclude the Annex, the Annex shall become an integral part of the employment contract (Article 40 and 41 of the Proposal).
- The obligation of payment of social contributions to the severance pays of employees. Such measure is intended to help the restructuring of companies and ensure potentially larger severance pays.

#### 5. TAXES

- Fiscal liabilities stemming from and payable on compensations of employees have been significantly reduced.

Contribution rates in 2009 will amount to:

Type of contribution	Contribution payer		Total
	Insurant	Employer	
Pension and disability insurance	12 %	8.5 %	20.5 %
Health insurance	5 %	5.5 %	10.5 %
Unemployment insurance	0.5 %	0.5 %	1.0 %
Total:	17.5 %	14.5 %	32 %

Contribution rates in 2010 will amount to:

Type of contribution	Contribution payer		Total
	Insurant	Employer	
Pension and disability insurance	12 %	8 %	20 %
Health insurance	4 %	5 %	9 %
Unemployment insurance	0.5 %	0.5 %	1.0 %
Total:	16.50 %	13.50 %	30 %

- The Law on Amendments to the Law on Contributions for Compulsory Social Insurance has repealed the liability of paying contributions to pension and disability insurance on incomes from occasional autonomous activities (engagement agreements, author's fees, etc.), where the receiver of such income has been insured by virtue of other kind.

## 28. Trade:

### a) Please provide information on main trading partners (for both merchandise imports and exports) and overall structure of trade by sector.

Data on main trading partners of Montenegro have been given in the table herein:

Overview of the Montenegrin export by countries, in EUR thousand

Country	Index				% of aggregate export					
	2007	2008	I-VI 2008	I-VI 2009	2008-2007	I-VI 2009 I-VI 2008	2007	2008	I-VI 2008	I-VI 2009
TOTAL	487 119	433 158	225 639	128 841	89	57.1	100.0	100.0	100.0	100.0
European Union	319 594	265 311	142 990	74 451	83	52.1	65.6	61.3	63.4	57.8
CEFTA	159 962	158 778	78 053	51 728	99	66.3	32.8	36.7	34.6	40.2
Other countries	7 564	9 069	4 595	2 662	120	57.9	1.6	2.1	2.0	2.1
European Union	319 594	265 311	142 990	74 451	83	52.1	65.6	61.3	63.4	57.8
Austria	1 280	1 538	236	623	120	263.6	0.3	0.4	0.1	0.5
Belgium	537	138	119	42	26	35.2	0.1	0.0	0.1	0.0
Bulgaria	434	122	86	39	28	45.8	0.1	0.0	0.0	0.0
Cyprus	751	140	119	230	19	193.1	0.2	0.0	0.1	0.2
Czech Republic	2 836	4 425	3 270	996	156	30.5	0.6	1.0	1.5	0.8
Denmark	5	11	10	0	205	0.0	0.0	0.0	0.0	0.0
Estonia	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Finland	0	1 801	650	101		15.5	0.0	0.4	0.3	0.1
France	190	286	105	322	150	308.1	0.0	0.1	0.1	0.3
Germany	9 188	16 218	3 763	3 468	177	92.2	1.9	3.7	1.7	2.7
Greece	60 457	53 225	45 079	30 882	88	68.5	12.4	12.3	20.0	24.0
Hungary	63 338	9 248	3 462	7 060	15	203.9	13.0	2.1	1.5	5.5
Ireland	355	0	0		0	0.0	0.1	0.0	0.0	0.0
Italia	145 286	130 563	56 883	17 125	90	30.1	29.8	30.1	25.2	13.3
Lithuania	69	22	22	2	32	8.4	0.0	0.0	0.0	0.0

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Latvia	7	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Luxembourg	3	6	0	6	215	0.0	0.0	0.0	0.0	0.0
Malta	1	0	0	77	0	0.0	0.0	0.0	0.0	0.1
Netherlands	2 815	3 890	2 250	1 760	138	78.2	0.6	0.9	1.0	1.4
Poland	1	129	67	112		168.1	0.0	0.0	0.0	0.1
Portugal	3	0	0	0	6	0.0	0.0	0.0	0.0	0.0
Romania	119	995	345	412	836	119.2	0.0	0.2	0.2	0.3
Slovakia	256	389	223	246	152	110.4	0.1	0.1	0.1	0.2
Slovenia	28 556	37 355	24 131	9 801	131	40.6	5.9	8.6	10.7	7.6
Spain	204	86	48	91	42	187.6	0.0	0.0	0.0	0.1
Sweden	117	771	405	217	658	53.7	0.0	0.2	0.2	0.2
United Kingdom	2 784	3 952	1 718	838	142	48.8	0.6	0.9	0.8	0.7
CEFTA	159 962	158 778	78 053	51 728	99	66.3	32.8	36.7	34.6	40.2
Albania	11 578	5 907	3 251	2 694	51	82.9	2.4	1.4	1.4	2.1
Bosnia and Herzegovina	26 022	22 089	10 931	8 401	85	76.9	5.3	5.1	4.8	6.5
FYR Macedonia	794	902	384	618	114	160.9	0.2	0.2	0.2	0.5
Croatia	10 987	6 620	3 763	1 877	60	49.9	2.3	1.5	1.7	1.5
Moldavia	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Serbia	106 726	107 811	52 478	32 072	101	61.1	21.9	24.9	23.3	24.9
UMNIK Kosovo	3 855	15 450	7 247	6 066	401	83.7	0.8	3.6	3.2	4.7
Other countries	7 564	9 069	4 595	2 662	120	57.9	1.6	2.1	2.0	2.1
Switzerland	814	1 774	1 557	118	218	7.6	0.2	0.4	0.7	0.1
Turkey	1 065	305	115	29	29	24.9	0.2	0.1	0.1	0.0
USA	1 769	889	132	163	50	123.5	0.4	0.2	0.1	0.1
China	62	152	106	0	246	0.0	0.0	0.0	0.1	0.0
Russian Federation	585	1 041	348	648	178	186.4	0.1	0.2	0.2	0.5
Other countries	3 278	4 907	2 338	1 705	150	72.9	0.7	1.1	1.0	1.3

Source: MONSTAT

The table hereabove shows that Montenegro has quite a developed cooperation with all the countries, while the major export-related trade partners are Italy, Serbia, Greece, Slovenia, Bosnia and Herzegovina, Hungary, Croatia...

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### Overview of Montenegrin import by countries, in EUR thousand

Country	2007	2008	I-VI 2008	I-VI 2009	Indices				% of total import	
					2008 2007	I-VI 2009 I-VI 2008	2007	2008	I-VI 2008	I-VI 2009
TOTAL	2 072 481	2 527 151	1.245.445	766.834	122	61.6	100.0	100.0	100.0	100.0
European Union	856 694	1 039 792	507.581	293.101	121	57.7	41.3	41.1	40.8	38.2
CEFTA	992 607	1 227 203	612 598	408 707	124	66.7	47.9	48.6	49.2	53.3
Other countries	223 180	260 156	125 263	65 026	117	51.9	10.8	10.3	10.1	8.5
European Union	856 694	1 039 792	507 581	293 101	121	57.7	41.3	41.1	40.8	38.2
Austria	75 715	105 053	47 364	33 829	139	71.4	3.7	4.2	3.8	4.4
Belgium	6 707	8 940	4 951	2 022	133	40.8	0.3	0.4	0.4	0.3
Bulgaria	10 238	11 915	5 499	3 171	116	57.7	0.5	0.5	0.4	0.4
Cyprus	3 051	2 000	1 193	554	66	46.4	0.2	0.1	0.1	0.1
Czech Republic	30 131	29 800	12 572	7 326	99	58.3	1.5	1.2	1.0	1.0
Denmark	1 552	2 184	1 299	893	141	68.7	0.1	0.1	0.1	0.1
Estonia	36	14	14	7	38	50.4	0.0	0.0	0.0	0.0
Finland	2 740	1 867	1 354	500	68	37.0	0.1	0.1	0.1	0.1
France	13 531	25 175	16 194	4 984	186	30.8	0.7	1.0	1.3	0.7
Germany	95 987	136 849	63 450	30 951	143	48.8	4.6	5.4	5.1	4.0
Greece	122 829	185 455	88 609	44 221	151	49.9	5.9	7.3	7.1	5.8
Hungary	48 578	54 710	29 434	14 906	113	50.6	2.3	2.2	2.4	1.9
Ireland	66 162	808	26 663	4 526	122		0.0	0.0	0.0	0.6
Italia	163 687	193 195	102 126	51 873	118	50.8	7.9	7.6	8.2	6.8
Lithuania	7	346	40	72		180.6	0.0	0.0	0.0	0.0
Latvia	93	271	94	88	293	92.7	0.0	0.0	0.0	0.0
Luxembourg	742	746	328	490	101	149.5	0.0	0.0	0.0	0.1
Malta	263	742	144	1	282		0.0	0.0	0.0	0.0
Netherlands	22 477	28 951	12 348	13 938	129	112.9	1.1	1.2	1.0	1.8
Poland	19 290	11 835	5 875	4 212	61	71.7	0.9	0.5	0.5	0.6
Portugal	320	61	39	12	19	30.0	0.0	0.0	0.0	0.0
Romania	15 311	21 191	6 895	7 406	138	107.4	0.7	0.8	0.6	1.0
Slovakia	5 392	5 860	3 383	1 643	109	48.6	0.3	0.2	0.3	0.2
Slovenia	149 019	161 297	82 858	55 746	108	67.3	7.2	6.4	6.7	7.3

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Spain	17 270	19 472	8 516	6 695	113	78.6	0.8	0.8	0.7	0.9
Sweden	40 381	25 411	9 690	897	63	9.3	2.0	1.0	0.8	0.1
United Kingdom	10 685	5 644	3 043	2 137	53	70.2	0.5	0.2	0.2	0.3
CEFTA	992 607	1 227 203	612 598	408 707	124	6.672	47.9	48.6	49.5	53.3
Albania	12 894	20 324	10 471	11 359	158	108.5	0.6	0.8	0.8	1.5
Bosnia and Herzegovina	117 166	164 810	88 755	47 903	141	54.0	5.7	6.5	7.1	6.3
FYR Macedonia	22.342	29 878	14 588	9 983	134	68.4	1.1	1.2	1.2	1.3
Croatia	133 610	169 665	83 705	59 631	127	71.2	6.5	6.7	6.7	7.8
Moldavia	6	26	1	21	424		0.0	0.0	0.0	0.0
Serbia	705 041	839 179	413 495	279 003	119	67.5	34.0	33.2	33.2	36.4
UMNIK Kosovo	1 547	3 321	1 583	807	215	51.0	0.1	0.1	0.1	0.1
Other countries	223 180	260 156	125 263	65 026	117	51.9	10.8	10.3	10.1	8.5
Switzerland	110 801	120 519	68 055	30 717	109	45.1	5.4	4.8	5.5	4.0
Turkey	17 793	28 905	11 528	8 678	162	75.3	0.9	1.1	0.9	1.1
USA	19 552	31 964	10 008	1 943	163	19.41	0.9	1.3	0.8	0.3
China	25 850	36 765	18 169	9 880	142	54.4	1.3	1.5	1.5	1.3
Russian federation	9 836	3 042	1 806	964	31	53.4	0.5	0.1	0.1	0.1
Other countries	39 348	38 960	15 698	12 844	99	81.8	1.9	1.5	1.3	1.7

Source: MONSTAT

Montenegro imports the most from the markets of Serbia, Slovenia, Italy, Croatia, Greece, Switzerland, Austria.

The foreign trade exchange broken down by years, 2007, 2008 and I-VI 2009, (by agriculture and industry sectors) was as follows:

### Overview of Montenegrin export by sectors<sup>4</sup>, in EUR thousand

		2007		2008		I-VI 2009	
		'000 EUR	%	'000 EUR	%	'000 EUR	%
Total	Total	487 119	100.0	433 158	100.0	128 841	100.0
	European Union	319 594	65.6	265 311	61.3	74 451	57.8
	% EU				61.3		57.8
Industrial products	Total	472 889	97.1	424 751	98.1	125 175	97.2
	European Union	314 250	64.5	262 619	60.6	73 958	57.4
	% EU		66.5		61.8		59.1

<sup>4</sup> According to NACE classification (Classification of Economic Activities in the European Community)

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Agriculture products	Total	5 872	1.2	8 151	1.9	1 574	1.2
	European Union	1 066	0.2	2 636	0.6	268	0.2
	%EU		18.2		32.3		17.0
Other	Total	8 358	1.7	256	0.1	2 092	1.6
	European Union	4 278	0.9	56	0.0	225	0.2
	% EU		51.2		21.9		10.8

Source: MONSTAT

### Overview of Montenegrin import by sectors, in EUR thousand

		2007		2008		I-VI 2009	
		'000 EUR	%	'000 EUR	%	'000 EUR	%
Total	Total	2 072 480	100.0	2 527 151	100.0	766 834	100.0
	European Union	856 694	41.3	1 039 792	41.1	293 101	38.2
	% EU		41.3		41.1		38.2
Industrial products	Total	1 915 327	92.4	2 466 032	97.6	688 170	89.7
	European Union	809 634	39.1	1 018 354	40.3	250 116	32.6
	% EU		42.3		41.3		36.3
Agriculture products	Total	38 562	1.9	60 677	2.4	28 362	3.7
	European Union	19 774	1.0	21 376	0.8	9 911	1.3
	%EU		51.3		35.2		34.9
Other	Total	118 591	5.7	442	0.0	50 302	6.6
	European Union	27 286	1.3	62	0.0	33 074	4.3
	% EU		23.0		14.0		65.8

Source: MONSTAT

**b) How has the trade integration with the EU developed over time? What are the main EU trading partners and products? How concentrated are the main export products to (parts of) EU markets? How has the export structure changed? Are there indications of a shift from resource- or labour-intensive to capital- or technology-intensive products?**

The European Union has traditionally been the most important foreign trade partner of Montenegro. The contribution of the EU in the aggregate Montenegrin exports accounts for 58% - 65.5% thereof, while its contribution in the Montenegrin imports ranges from 38% to 41%. The above data may result in the conclusion that Montenegro very much depends on the European Union, especially in exports, while, given the percentages, Montenegro also depends on the imported goods from the territory of the EU member states.

The most important trade partners among the EU member states are Italy, Germany, Greece, Austria, Slovenia, Hungary...

The main export products to the EU member states' markets are as follows:

- Non-ferrous metals, the contribution of which in the aggregate exports to the EU states was: 2007-78.8%; 2008-66.7%; according to preliminary data for January - June 2009-73.76%;
- Iron and steel (2007-6.1%; 2008-12.25%; according to preliminary data for January - June 2009-6%);
- Mineral ores and metal wastes (2007-3.8%; 2008-4.4%; according to preliminary data for January - June 2009-1.5%);
- Petroleum and refined petroleum products (2007-1.57%; 2008-3.47%; according to preliminary data for January - June 2009-2.83%);
- Cork and wood, furniture and parts, products of cork and wood (2007-1.14%; 2008-1.02%; according to preliminary data for January - June 2009 -1.05%);
- Textile apparels, footwear, yarn, fabrics and textile (2007-0.18%; 2008-0.26%; according to preliminary data for January - June 2009-0.63%);
- Vegetables and fruits (2007-0.95%; 2008-1.32%; according to preliminary data for January - June 2009-0.35%);
- Beverages (2007-0.56%; 2008-0.82%; according to preliminary data for January - June 2009-1.03%)...

In the structure of imports from the EU to Montenegro, the most important products are: road vehicles, which share in the aggregate imports from the EU states amounts to 15.1%, petroleum and refined petroleum products (14.8%), electrical machinery, apparatus and appliances (5.18%), specialised machinery for certain branches of industry (4.4%), non-metal products (4.3%), wearing apparels, footwear, fabrics and textile products (4.18%), general industrial machinery (4.11%), meat and meat products (4.14%), electricity (1.74%)...

As already stated, the structure of exports mainly consists of products the contribution of which accounts for 80% of the total Montenegrin exports to the EU member states' markets, namely:

- non-ferrous metals, mostly exported to the markets of Greece, Hungary, Italy, and Slovenia,
- iron and steel, mostly exported to the Czech Republic, Hungary, Italy, Netherlands, Romania, Slovenia, Germany, and
- mineral ores and waste, mostly exported to the markets of Hungary, Italy, and Slovenia.

The structure of imports has not been significantly changed during 2007, 2008, and the first half of 2009.

The structure analysis of the Montenegrin exports to the EU member states shows that the most of the exports refer to Italy, Greece, Hungary, Slovenia...

Traditionally, the most important export partner of Montenegro has been Italy, where there is evident concentration of exports as follows: non-ferrous metals, iron and steel, mineral ores, metal waste, cork and wood, raw fertilisers, vegetable and fruits, tobacco and tobacco products.

Greece has been the export market mostly for non-ferrous metals which account for 99% of the aggregate exports to that country.

The Hungary has been the market mostly for non-ferrous metals, iron and steel, mineral ores and metal wastes, road vehicles...

The most important products having been exported to Slovenia are non-ferrous metals, petroleum and refined petroleum products, mineral ores and metal wastes, electrical machinery, apparatus, and appliances...

**Detailed data on the structure of imports and exports by the EU member states have been given in [Annex 11](#).**

There are no indicators on shifting from the resource-intensive or labour-intensive products to capital- or technology-intensive products. However, the indicators on the contribution of labour-intensive products in the aggregate export to the EU states show their contribution as follows: 2007-2.11%, 2008-21%, and the first half of 2009-3%. When talking about capital-intensive

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products, their share in the export to the EU states has been significantly higher, as follows: 2007-85.85%, 2008-80.6%, and for the period of January-June 2009-81%.

**Table: Export of capital- and labour- intensive products to the EU states**

<b>Capital-intensive products:</b>	<b>2007</b>	<b>2008</b>	<b>I-VI 2009</b>
SITC 1 Beverages and tobacco	-	-	-
SITC 35 Electricity	-	-	-
SITC 53 Products for dyeing and tanning	39 121	522	-
SITC 55 Ethereal oils, perfume and toilet products	2 330 864	3 999 706	842 409
SITC 62 Products of raw rubber	53 220 6	7 203 0	28 057 0
SITC 67 Iron and steel	19 371 030	62 491 619	4 483 095
SITC 68 Non-ferrous metals	252 045 279	177 117 300	54 915 198
SITC 78 Road vehicles	544 899	230 048	137 363
<b>TOTAL</b>	<b>274 384 414</b>	<b>243 846 399</b>	<b>60 406 122</b>
<b>Labour-intensive products:</b>			
SITC 26 Textile fibres and waste	160	15 869	13 916
SITC 61 Leather, leather products, furs	-	-	-
SITC 63 Products of cork and wood	61 870	187 692	10 158
SITC 64 Paper, paperboard, and products of pulp	48 416	84 027	1
SITC 65 Yarn, fabrics, textile products	3 786	46 357	-
SITC 66 Non-metallic mineral products	230 888	231 531	21 075
SITC 69 Fabricated metal products, other	4 606 465	3 741 397	865 044
SITC 81 Prefabricated buildings, sanitary facilities	48 062	43 997	26 392
SITC 82 Furniture and parts	362 196	62 811	41 904
SITC 83 Travel accessories	52 826	10 869	2 471
SITC 84 Wearing apparels	405 037	442 210	317 689
SITC 85 Footwear	161 914	199 032	154 055
SITC 89 Various fabricated products, not mentioned	764 975	497 440	863 027
<b>TOTAL</b>	<b>6 746 592</b>	<b>5 563 232</b>	<b>2 315 732</b>

### **c) How do you explain the relatively low growth in merchandise exports in the past years?**

There are few basic reasons for the decline in exports of goods in the last two years. The reasons should primarily be looked for in a low competitiveness of domestic economy, undiversified exports, as well as in developments in the aluminium price in the world markets. Observed by products, the decline in the aluminium and aluminium-product exports has contributed substantially to the fall in overall exports. In addition, the very structure of the exports of goods has been

unfavourable given that three fourths of the Montenegrin exports are products with low level of processing, dominated by raw materials and semi-finished products.

On the other hand, this is the economy which bases the majority of its future development on the services sector and energy sector development; therefore it would be unreasonable to invest in a large number of industrial branches. Paying attention to the last few years, the revenues from services have been rising at extremely high rate, ranging from 27% to 61%. In 2008, the revenues from services were by 45% higher than the revenues from exports of goods or even fourfold the revenue from the export of aluminium. Additionally, the development of the tourism sector creates opportunities for the consumption of domestic products, primarily food products, within the sector.

**d) Which shares of exports and imports are denominated in other currencies? (Please, provide a breakdown by major currencies).**

**Inflow of funds from the exports of goods, 2002-2008, in EUR thousand**

Currency	2002	2003	2004	2005	2006	2007	2008
Australia Dollar	77	10					
Canada Dollar	1	4				13	
Deutsch Mark	12 834						
Italy Lyre	6						
Japan Yen			1	2			213
Sweden Kronor							2
Switzerland Franks	383	459	86	1	7	3	2
British Pound Sterling	21	197	19	12	4	29	22
US dollar	63 454	75 606	85 641	89 625	268 444	280 854	104 992
Euro	185 376	180 255	227 730	275 129	289 690	283 532	494 515
Total	262 152	256 531	313 477	364 769	558 145	564 431	599 746

**Outflow of funds through imports of goods, 2002 – 2008, in EUR thousand**

Currency	2002	2003	2004	2005	2006	2007	2008
Australia Dollar						33	22
Canada Dollar	19	9	18		27	51	45
Danish Krone	14	98	6	8	8	16	10
Deutsch Mark	6 852						
Italy Lyre	134						
Japan Yen	240	1 931	43	1 206	879	502	696
Norwegian Krone	79	773	9	157	293	21	8
Sweden Kronor	85	147	204	331	415	620	605

## V Economic and structural developments and reforms

Switzerland Franks	896	188	90	133	150	411	573
British Pound Sterling	695	506	1 429	1 121	1 886	1 901	3 504
US dollar	114 207	88 222	118 360	162 673	275 020	287 838	371 683
Euro	466 478	534 344	649 756	800 317	1 174 827	1 824 188	2 130 909
Total	589 699	626 218	769 915	965 946	1 453 505	2 115 581	2 508 055

### **29. What are in your view the particular challenges/priorities for economic policy faced by Montenegro, including in the context of the global economic and financial crisis, and how do you intend to tackle them?**

Having in mind that the Montenegrin economy is a small and open system, it is obvious that it could not resist global turbulences. Since the problems arising from the global economic crisis started to reflect more seriously in October 2008, the Government of Montenegro reacted by deciding on preventive measures aimed at the banking system protection given the importance thereof to functioning of the entire economic system of any country.

To that regard, and aimed at preventing the escalation of the crisis, at maintaining stability, liquidity and solvency of the Montenegrin banking system, the Ministry of Finance had, in cooperation with the Central Bank of Montenegro, prepared a consistent set of measures which were adopted by the Parliament of Montenegro in the form of the Law on Measures for Protection of the Banking System, of October 2008. This set of measures has been based on: guaranteeing to the full amount of citizen and company deposits at banks registered in Montenegro; guaranteeing inter-bank loans and borrowing of the banks from financial institutions; providing possibility of early loan settlement, and providing credit support to the banks in Montenegro on their demand, from the State Budget funds and from the reserve funds and capital of the Central Bank; and opportunity to take part in the procedure of capital increase of banks.

Negative effects of the global crisis have been present in all segments of economy but there are sectors which are more vulnerable as to such negative effects. Specifically, real sector is particularly faced with problems - construction and manufacturing sectors, mostly due to the fall in demand and consequently in market prices, as well as the reduced opportunities of providing sources of finance.

It is certain that Montenegrin economy being small and open, and highly dependent on developments at regional and European market, is exposed to the risks. Risks exist in the real as well as public and financial sector. Real sector is vulnerable because of deepening disorder in the movement of exports and imports, real estate prices, falling inflows of foreign direct investment, income from tourism, all of which can lead to illiquidity problems of the economy and increase unemployment. Consequently, fiscal sector, through the reduction of budget revenues, may be exposed to problem of financing the deficit.

The Government of Montenegro has, during the 2009 through the Budget of Montenegro for 2009 and its amendments, adopted a package of economic policy measures that aimed at preserving macroeconomic stability, increase productivity and preserving a favourable economic environment through the following instruments:

- reduction of the current, unproductive budget expenditures,
- restraining the growth of current expenditures below the level of GDP growth,
- increase of budget expenditures to finance capital projects by 52% compared to previous year,
- support the citizens and economy by providing additional liquidity through reduction in electricity prices for small and medium businesses, the elimination of compensation for the use of highways and urban construction land, the possibility of deferred payment of

- customs debt, while continuing the programme of subsidising the most vulnerable categories of population,
- continuation of tax reforms,
  - providing state guarantees to commercial banks for credit lines that are financed by international financial institutions KfW and EIB for the purposes of funding projects of small and medium sized businesses

At the same time, the Government has, on the basis of early debt repayment of budget users, injected to commercial banks about 42 million of liquid assets into the banking system. In addition, the Government has by issuing state bills indirectly provided additional liquid assets to the banking system.

In addition to these measures the Government is continuously making efforts to restructure the industrial system, such as *KAP and Željezara* (KAP and Ironworks), in order to minimize the negative effects of any major problems in their operations to the whole economic system and creating additional pressures on social expenditures in the case of the emergence of technological surplus labour.

It should be mentioned that the corrective measures provided by the Law Amending the Law on Budget related to the reduction of expenditures, respectively, as already stated, the reduction of current - non-productive expenditures, and that the only correction to the revenue side refers to the increase in excise tax, which implies harmonization with EU legislation, while no other tax has been increased.

The Government of Montenegro implemented a project entitled "Work for You", which aims to promote and encourage the active recruitment and support the availability of funds for quality projects. Realization of this project does not involve the classic form of social support, where support to vulnerable categories of population is provided through unilateral transfers, but is based on enabling and ensuring easier access to sources of funding for natural and legal persons who wish to engage in business. There were 18.15 million of euros, or 0.5% of GDP committed to funding of this project in 2009.

In spite of to the adverse circumstances caused by the influence of the global financial crisis, which, to some extent helped to slow the reform process initiated and intensive economic growth that characterized the Montenegrin economy in the past few years, the Government of Montenegro will continue to be dedicated to fulfilment of set goals and challenges that relating to:

- Maintaining macroeconomic stability and in particular the stability of public finances in accordance with the Maastricht criteria
- Continued reform of tax system
- Continued structural reforms, with special emphasis on improvement of business environment, the implementation of major infrastructure projects, especially projects of private - public partnerships
- The process of joining the European Union
- Building a competitive economic system, which is based on economic freedom and rule of law

A certain positive impulses can be perceived in the economic system at this point, which are reflected in improving the course of the summer tourist season and the implementation of the recapitalization of Electric Power Company of Montenegro, which will positively reflect on the movement in the overall system, and is expected that, by the end of year, will not come to significant worsening of gross domestic product trends.

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