



MINISTRY OF FINANCE OF MONTENEGRO

Annual report 2015





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dr Radoje Žugić

Introduction:

Euro-atlantic Integration and The Economic Prosperity as Strategic and Complementary Objectives

The year behind was marked by the invitation to join the NATO, confirming that Montenegro is a legal and democratic state sharing the same values as the most advance countries in the world. Such decision of NATO member states shows the recognition of Montenegro's determination, commitment, and political maturity, and is the "award" for meeting obligations in areas of key importance for membership in the NATO.

In addition to the political importance, the invitation to joining the NATO is also the confirmation that Montenegro is a safe and sound destination for investments. NATO means far more than defence and military issues. Membership in this alliance is a quality and good basis for improving the economy, primarily, since it brings plentiful economic benefits like access to wider market, lower national safety costs, increased revenues from tourism, and the like. The practice confirmed that a country's progress to membership in the NATO is the best indicator to reputable global business circles and investors also contributing to business environment improving and boosting investors' confidence. This creates conditions for foreign investors to invest capital and support the development of local economic entities, significantly contributing to total economic development. The effect of these benefits cannot be precisely quantified, however observing and analysing the experience of countries that acceded the NATO during the latest years draws clear conclusion that all these countries increased the

GDP rate during the period of joining the NATO and that their economic indicators boosted during the same period.

In addition to intensive Euro-Atlantic integration activities, the preceding year was characterised by the implementation of economic policy measures aimed at improving residents' living conditions. This strategic objective of Montenegro's economic policy is established though securing fiscal sustainability, boosting the economy's competitiveness and creating conditions for more dynamic economic growth and development. These principles are also applied in budget policy for the upcoming middle-term period. In that sense, the Budget for 2016 was designed to enable the implementation of further fiscal consolidation by increasing fiscal revenues, creating incentivising economic environment, and the continuation of combating shadow economy. From the expenditure side, it foresees maintaining current spending at the optimal level, with a view to decreasing budget deficit and establishing the budget balance. We are approaching this target continuously by decreasing the deficit, from the level of 3.3% of GDP planned in 2012 to 0.71% of GDP projected for 2016 (excluding the expenditures for the implementation of the highway project). The public debt issue remains the focus of fiscal policy, taking into account the needs of financing capital projects creating new value and providing economic growth and development in the long run.

From the growth and competitiveness perspective, we

In addition to the political importance, the invitation to joining the NATO is also the confirmation that Montenegro is a safe and sound destination for investments. NATO means far more than defence and military issues. Membership in this alliance is a quality and good basis for improving the economy, primarily, since it brings plentiful economic benefits like access to wider market, lower national safety costs, increased revenues from tourism, and the like.



selected several areas of large natural resources present in Montenegro which incentivising may record good economic results. The forecasts for the upcoming period, based on 2015 results and the expected effects of the initiated investment cycle, show that Montenegro will enter the more dynamic growth phase, and that the real GDP growth rate will amount to 4.1% in 2016, as well as that economic growth will average to 3.8% in the period 2015-2018. In order to achieve projections, the four development sectors were formally determined, these being: tourism, energy, agriculture and rural development, and manufacturing industry.

Za dostizanje sveobuhvatne stabilnosti (fiskalne, finansijske i makroekonomske) neophodna su dva preduslova: politički, koji podrazumijeva političku stabilnost i sigurnost u regionu i ekonomski, koji znači visoke stope rasta i stvaranje nove vrijednosti. Na bazi ovih postulata kreirana je politika Vlade koja odražava potrebe i interese Crne Gore, u političkom, ali i razvojnom smislu. Njena adekvatna implementacija dopriniće ostvarenju zacrtanih ekonomskih ciljeva i poboljšanju životnog standarda, dok će napredak u procesima evroatlanskih integracija ojačati poziciju Crne Gore na međunarodnoj sceni i

ubrzati reforme u pravcu dostizanja evropskih standarda.

Two pre-conditions are necessary to achieve complete stability (fiscal, financial, and macroeconomic), these being: political, indicating political stability and safety in the region, and economic, meaning high growth rates and creating new value. These postulates were used for creating the Government's policy reflecting Montenegro's needs and interests in both political and development sense. Its adequate implementation will contribute to accomplishing set economic objectives and improving living standards, while progress in Euro-Atlantic integration will boost Montenegro's international position and speed reforms in order to reach European standards.

The strategic determination of our country's future is clear. Montenegro is on the path it desires and where it wants to be – towards the full integration into the EU and NATO. This is the path guaranteeing long-term safety and the economic and social prosperity.

*Radoje Žugić, PhD
Minister of Finance*



Marija Radenović

Experience of Montenegro in the first year of decentralised managing of IPA funds from the management body's aspect

The previous year was characterised by intensive activities on contracting funds available to Montenegro from IPA funds.

As a part of Operational structure for IPA IV component, the Directorate for financing and contracting of EU assistance funds was directly involved in activities on implementing the Operational programme “Human resources development 2012-2013”. The main purpose of the Programme is promoting human resources sustainable development modernisation and the development of education system for training and research in Montenegro in line with the EU policy and standards, with the special focus on youth employment, in order to prepare Montenegro for implementing and managing the EU's Cohesion Policy.

In addition to the Directorate for financing and contracting of EU assistance funds (CFCU), as the implementing

body responsible for performing bidding procedures, contracting, and paying, the Operational Structure for IPA IV component comprises of the following institutions:

Ministry of Labour and Social Welfare (MLSW), as a body responsible for operational programme (BROP) and for drafting and implementing the Operational Programme as a whole (this body coordinates and supervises the work of other bodies of the Operational structure) and

Ministry of Education (ME), Ministry of Science (MS) and the Ministry of Labour and Social Welfare (MLSW), as bodies responsible for priority/measure and for drafting and implementing the part of Operational Programme belonging to competence of their sectors.

The transfer of authorities the European Commission for managing funds to Montenegro by (on 28 July 2014) preceded the implementation of activities on fulfilling the



“Human Resources Development 2012-2013” Operational programme, as well as the signing of Financial Agreement between Montenegro and the European Commission (on 5 December 2014), thereby fulfilling all conditions for implementing activities for spending funds allocated for this programme.

The total value of the Operational Programme amounts to 6.56 million euros (of which EU (IPA) funds contribute 5.58 million euros, while national co-financing amounts to 0.98 million euros) implemented through 4 service contracts, 3 grant schemes, 1 equipment supply contract, 1 framework agreement and 1 direct grant.

During 2015, there were intensive works on preparing tender documents for abovementioned contracts and grants, and on publishing tenders for projects following EU procedures.

In performing these activities, roles and responsibilities were split under Operational structure. Thus, the employees responsible for these tasks in beneficiary institutions (employees in bodies responsible for priority/measure) are responsible for providing necessary information regarding terms of reference/technical specifications, and for providing support to implementation body during the public procurement process. On the other hand, the employees of the CFCU, as the implementing body, are responsible for providing the legality and regularity of contracting proceeding. In both cases these are complex tasks which performing requires knowledge in proceedings and rules regulating financing and contracting of EU projects and programmes. Therefore, adequate training of employees, and their practical experience are of extreme importance for successful utilisation of EU funds.

Moreover, since Montenegro was accredited to independently manage EU assistance funds following the decentralised managing model with ex ante control, it was very important to maintain quality cooperation with the Delegation of European Union to Montenegro. To wit, each step in each individual tender procedure has to be previously approved by the Delegation of the European Union. Therefore, the previous year was characterised by intensive cooperation of representatives of the CFCU, as the implementing body, individual ministries, as beneficiaries, and Delegation of the European Union, as the institution performing ex ante control.

With strong efforts, we managed to sign two of four foreseen service contracts by end-2015, while the remaining two are in the final phase of contracting, and their signing is foreseen in early 2016. Furthermore, for there grant schemes for science and employment of persons with difficulties for employment the invitations were sent for submitting terms of reference and with ongoing collection and/or assessment of their applications. Technical specifications are finalising for contracts for supplying secondary vocational schools, to be followed by tender announcing. The framework agreement was also signed and, together with the direct grant, it is in the implementation phase. Both contracts are directed on providing support to Operational structure in implementing activities in fulfilling the Operational programme.

It is important to note that the implementation of tender procedures for these contracts is planned in 2015 and 2016, while spending of all funds from Operational programme “Human Resources Development 2012-2013” following n+3 rule, should complete by 31 December 2017. The expiry of the deadline doe spending these funds activates “automatic stopping of funds,” the non-utilised portion of allocated funds returns to the EU budget.

The success of Montenegro in the implementation of IPA IV component and, in general, utilisation of funds from IPA funds remains to be seen the upcoming years. In ay case, it will be challenging to timely meet very strict criteria and conditions due to the fact that domestic administration is characterised by limited staffing capacities and insufficient practical experience in pubic procurement procedures following EU rules, which are confirmed to be administratively far demanding than the national ones.

On the other hand, it is undisputable that key success factors in using EU funds are reflected through:

- full commitment of all stakeholders,
- efficient administration, with sufficient number of employees capable to perform such complex tasks,
- proper approach in preparing Terms of reference and implementation of projects,
- players at the beneficiary level trained to be competitive to projects, and
- constructive cooperation with the European Commission.

If these factors continue to be respected in the upcoming period, we may expect successful implementation of foreseen activities.

*Marija Radenović
General Director
of Directorate for financing and contracting of
EU assistance funds*



mr Snežana Mugoša

Fiscal Consolidation Measures of Local Public Finances in 2015

Local governments and their operations are very important segment of total fiscal system. Therefore, public finance condition and trends in local governments significantly affect fiscal sustainability, financial stability, and quality and perspective of economic development.

Bearing in mind unfavourable indicators of situation in local government, primarily high indebtedness and unsettled obligations, which conditioned numerous problems in their functioning and execution of obligations determined by law in 2015, significant measures were taken on the consolidation of public finance at the local level.

• Amendments to the Law on Tax on Immovable Property

The Law Amending the Law on Tax on Immovable Property was passed in early February 2015, and it significantly improved specific solutions regulating the system of determining and collection of taxes on immovable property as the primary income of local governments.

Amendments to the Law were directed on increasing revenues from taxes on immovable property primarily by increasing lower limit for taxation, and providing rights to local government units to stipulate higher and/or lower tax on property rate on some categories of immovable property, pursuant to its policy (improving tourism, agriculture, construction, and the like). Moreover, the Law sti-

pulates penalties for breaching the Law.

The application of the Law is postponed until 1 January 2016, i.e. creating pre-conditions for its full application by passing secondary legislation.

• Contracts on Rescheduling of Taxation Debt

On its meeting held on 19 February 2015, the Government of Montenegro adopted the Information on rescheduling debts of municipalities and approved the rescheduling of taxation debt for taxes and contributions with the balance as at 31 December 2014 totalling to 89.07 million euros. Of this amount, some 74.45 million euros were rescheduled to the period of 20 years starting from 1 July 2015 for municipalities that are beneficiaries of Equalisation Fund assets, while 14.62 million euros referring to Bar and Budva municipalities, with fiscal capacity higher than average, were rescheduled to the five-year period.

Accordingly, the Ministry of Finance signed contracts on rescheduling taxation debt with 14 municipalities (Bar, Berane, Bijelo Polje, Budva, Danilovgrad, Kolašin, Mojkovac, Nikšić, Plav, Pljevlja, Rožaje, Ulcinj, Cetinje and Šavnik).

In addition, the Ministry of Finance signed the contracts on rescheduling of taxation debt with municipalities of Andrijevica and Žabljak. To with, these municipalities approached the Ministry of Finance asking for



rescheduling of taxation debt for taxes and contributions of employees in public enterprises established by them, and which debt they assumed. On its meeting held on 13 November 2015, the Government of Montenegro adopted the Information on rescheduling debts of Andrijevica and Žabljak municipalities, and approved the rescheduling of rescheduling of taxation debt for taxes and contributions of employees with the balance totalling to 1.18 million euros in 2014 to the period of 20 years starting from 1 January 2016.

When determining the rescheduling plan, the Ministry of Finance took into consideration the proposals of the Association of Municipalities and Local Government units, and determined lower amounts of instalments in the first years of debt repayment in order not to aggravate current liquidity of local government units, and normal functioning of municipal bodies and public services, particularly bearing in mind the Contractual obligation of municipalities to regularly service their current obligations i.e. to pay salaries in gross amount.

In addition to the taxation debt rescheduling, the contract foresees the obligation of municipalities that sign contract on rescheduling to determine the dynamics of resolving redundancy in local administration bodies, public services, institutions, companies, and public enterprises founded by municipalities, pursuant to the Plan of internal reorganising of public sector. The Contract also obliges municipalities to provide positive opinion of the Ministry of Finance prior to each new employment.

• Issuing of state guarantees for loans taken by local government units

The Law amending the Law on Budget for 2015 lays down that Governemtn of Montenegro issues guarantees

to municipalities that would enable settling of their liabilities and unsettled debts, refinancing of existing loans and rationalisation of administration, to:

- Kolašin Municipality, amounting to 7.00 milion eu-ros;
- Other municipalities using the Equalisation Fund assets, amounting to 100.00 million euros.

By end December 2015, the Government issued state guarantees for loans of municipalities totalling to 42.89 million euros.

The state guarantees were used for loans of nine municipalities, these being: Berane, Bijelo Polje, Cetinje, Danilovgrad, Kolašin, Mojkovac, Rožaje, Ulcinj, and Šavnik. All these municipalities, except Mojkovac, took loans to implement the Rehabilitation Plan for overcoming financial difficulties.

These measures should have long-term effects and contribute to stabilisation of the complete fiscal system in the upcoming period.

Snežana Mugoša, MSc,

Head of Directorate for monitoring budgets of local government, regulatory agencies and public companies and other implicit liabilities under the Directorate for Budget

FROM IDEA TO ITS IMPLEMENTATION

- Development of entrepreneurship with the support of Investment-Development Fund of Montenegro



Jasna Janjić

Improving living standard, the strategic objective of Montenegro's economic policy will be implemented through more dynamic growth and development, which is possible only through performing structural reforms and the implementation of priority sector policies and infrastructural projects. The development of entrepreneurship, i.e. establishing and functioning of small and medium enterprises (SMEs) has special influence in that framework, since this is the sector representing the basis for employment and is key for creating and maintaining national wealth.

Montenegro has recognized the importance of entrepreneurship, dynamic development combinations of ideas, knowledge, capita, and risks, for creating productive and competitive economy and benefits arising from it. In that sense, in odrer to overcome problems of financial flows availability, the Investment and Development Fund (IDF) was established, continuously working on developing products and/or support instruments to entrepreneurship, i.e. SMEs, in the

following areas:

- development of entrepreneurship (beginners in business, youth and women in business);
- development of priority sectors (tourism, agriculture, wood processing, production, and services);
- reduction of illiquidity problem (loans for permanent working assets, for assets buying, short-term loans and re-financing loans);
- support to infrastructural projects (environment protection, energy efficiency, etc.).

Financial support of the IDF to micro, small, and medium enterprises, with stimulating interest, significantly lower than commercial ones, has been increasing year by year during the period 2010-2015. During this period, granted long-term loans amounted to 181.5 million euros (9.1 million euros in 2010, and 64.4 million euros in 2015). Thereby, in order to support development priorities of the Government, specific conditions were provided for the implementation of projects in less developed areas and sectors in which Montenegro may value comparative advantages.

Table: Granted IDF loans, by industries and regions

Year	Credit support (million euros)	Industry (%)					Allocation by regions (%)		
		Tourism	Agriculture and food industry	Production	Service industry	Other	Central region	Northern region	Southern region
2010	9.1	17.9	25.6	33.8	22.7	0.0	49.0	38.0	13.0
2011	14.2	14.0	30.0	31.0	25.0	0.0	49.5	40.0	10.5
2012	14.5	11.8	55.8	9.0	23.4	0.0	53.8	32.4	13.8
2013	37.8	27.5	22.6	24.2	25.8	0.0	36.4	32.6	31.0
2014	41.5	23.5	29.1	16.4	21.4	9.6	41.2	31.6	27.2
2015	64.4	43.7	16.7	19.3	18.8	1.46	45.0	15.4	39.6

Source: IDF

The presented data draw the conclusion that, except the amount of credit support, its structure also changed, i.e. the allocation by activities. The demand, i.e. the interest of clients for the implementation of projects by industries was un-

ven. Thus, the highest interest in 2010 was for projects in production industry, while projects from tourism and catering were the most interesting in 2015, which affected the structure of projects financed by the IDF.

Regarding the allocation by regions, it may be said that sustainable projects from less developed municipalities were the priority. To implement projects of municipalities in the north during the observed period, the IDF granted 27 percent of total long-term loans. If loans for projects in Nikšić, Cetinje and Ulcinj, considered as less developed municipalities, are added, it may be concluded that the IDF granted more than a third of total lending to underdeveloped municipalities. Thus, the IDF contributed significantly to creating conditions for more even regional development.

Simultaneously, the activities of the IDF significantly facilitate access to credit funds to specific target groups through programmes by supporting women in business, youth in business and start-up companies, with the most favourable conditions in the region, thus fostering growth and development of companies.

As the result of the abovementioned activities of the IDF, a significant number of jobs were created while, through the “rehabilitation of companies,” the conditions were created for prolonging working engagement of a number of employees. This is supported with the fact that 3,629 jobs were opened in 2014 and 2015, and the working engagement continued for 9,354 persons.

In the upcoming period, the IDF will intensify activities on fostering entrepreneurship, i.e. it will be working on new projects, with providing favourable credit funds and expanding its group of products. Thereby, compared to 2015, interest rates on funds will be lower. Entrepreneurs will benefit from easier access availability of financial funds, bearing in mind that the IDF placed 100 million euros of credit funds for 2016. Thereby, we should point out new “products”, such as:

- financing online operation and e-business;
- support to innovative enterprises, paying special attention to ICT sector, so that the companies from this industry will have an opportunity to develop their capacities under favourable conditions;
- providing credit lines for granting non-interest bearing loans to unemployed persons which are in the registry of the Employment Agency of Montenegro who have University Degree;
- providing special credit line for short-term loans with repayment deadline of 24 months.

In addition, the new support instruments will be developed to result in better connections of companies and sector, support to clusters, support to projects for production and processing with high degree of product finalisation. Special attention will be paid to successful companies, i.e. the companies on the “while list” of taxpayers, i.e. companies regularly settling their obligations to the state.

Montenegro needs successful companies, existing and new ones, to generate economic growth, increase employment, and total progress of the state. Reaching satisfactory level of the competitiveness of SMEs, products and services, innovation boosting, raising SMEs technological capacities and coming up to EU economies’ competitiveness level are priorities as well as challenge to creators of development and economic policy.

Jasna Janjić, Head of Sector for structural policies
in the Directorate for Economic Policy and Development





Jovica Petričević



Rulebook Amending the Rulebook on the procedure of Exempting Investors and Delivery of Specific Products and Services from paying Value Added Tax (OGM, 68/15)

Provisions of Article 25 paragraph 1 point 12 and Article 28 paragraph 1 point 12 of the **Value Added Tax Law** foresees the possibility of exempting from paying VAT for delivery of goods or services when it is envisaged by international treaties and/or contract of donation that tax expenses shall not be paid from the received funds.

Detailed procedure for achieving the abovementioned tax exemption was regulated by the **Guideline on the manner of performing the proceeding for exercising right on VAT exemption in cases envisaged by international treaties or contract**.

According to the Guideline, the right on tax exemption was exercised by importer and/or buyer of the product and/service (international organisation or resident) based on taxation certificate issued by line Ministry for the area in which the project is implemented. The VAT taxpayer that receives the certificate does not calculate VAT when delivering the product and/or services to the tax exemption beneficiary.

This Guideline did not closely regulate the proceeding and the design of the taxation certificate for VAT exemption for grants – EU assistance. The practice has shown the problem in the implementation of existing legal solutions for the possibility of exempting VAT for delivery of goods or services when it is envisaged by international treaties and/or contract of donation (particularly for grants – EU assistance) that tax expenses shall not be paid from the received fund. Thus, the current procedure was complicated for subcontractors of grant beneficiaries, as well as for grant beneficiaries themselves, thus the new legal solutions were made in order to simplify procedures.

Bearing in mind the aforesaid, the Rulebook on the procedure of exempting investors and delivery of specific products and services from paying value added tax was amended to fully regulate the issue regulated by the Guideline on the manner of performing the proceeding for exercising right on VAT exemption in cases envisaged by international treaties or contract, which was put out of force as at the date of entry into force of this Rulebook (11

December 2015).

The new legislative solution introduced the following novelties:

- the importer, product deliverer, service provider and/or grant beneficiary (international organisation or legal/natural person and/or other entity performing economic activity), when exercising the right on VAT exemption, if foreseen by international contract financed from EU funds and/or funds allocated for projects implemented in decentralised, indirect or split managing, submits the statement that reference products and services fulfil conditions for VAT exemption.

- The administration bodies issuing the certificate for VAT exemption responsible for the area in which the EU assistance project is implemented have been defined (Ministry of Finance – Directorate for Financing and Contracting EU assistance funds, Ministry of Sustainable Development and Tourism – Directorate for Public Works, and the Ministry of Foreign Affairs and European Integration).

- VAT is exempted to the full amount of contract, including the EU funds and the co-financing funds.

- The request for VAT exemption is submitted to relevant authority obliged to deliver the VAT exemption certificate to the service provider, grant beneficiary (VAT taxpayer), and or taxation body for recording within five days as of the date of receiving the request.

- In addition to importer, product deliverer, service provider, and/or grant beneficiary, the authority responsible for issuing certificates keeps separate records on product delivery and/or providing services, and/or the implementation of donations to which VAT exemption refers.

- That a constituent part of certificate is the reference to the provision of the Law Ratifying the Framework

Agreement between the Government of Montenegro and the Commission of European Communities on the Rules for Co-Operation Concerning EC-Financial Assistance to Montenegro in the Framework of the Implementation of the Assistance Under the Instrument for Pre-Accession Assistance (IPA), and/or the provision of the Law Ratifying the Framework Agreement between the Government of Montenegro and the European Commission on the Rules for the Implementation of the Assistance of the EU to Montenegro Under the Instrument for Pre-Accession Assistance (IPA II) pursuant to which products and services are exempted from paying VAT.

- Detailed proceeding for exercising rights on VAT exemption for grants that are not EU assistance is regulated in the same manner as described in the Guideline, with the novelty that the relevant authority is obliged to deliver certificate for VAT exemption to service provider, grant beneficiary (VAT taxpayer) and/or tax administration for recording, within five days as of the date of receiving the request, compared to the previous legal solution when the certificate was delivered only to tax authority as at the date of its issuing.

Jovica Petričević
Head of Sector for Taxation System and Taxation Policy in the Directorate for Taxation and Customs System



Tatjana Bošković

The maximum annual basis for paying contributions for 2015 determined

The Law on Contributions for Compulsory Social Insurance established the institute of maximum annual contribution base for pension and disability insurance, as well as the right of refunding the contributions for compulsory social insurance. The right of refund may be exercised if contributions had been paid in the amount exceeding the maximum annual base.

According to Article 14 of the Law, in case when the insured person generates revenues from different bases (employment, membership in board of directors, and other), the contribution for compulsory pension and disability insurance shall be calculated and paid for each basis, to the amount of maximum annual contribution base.

The amount of the maximum annual contribution base is, at the end of the calendar year, adjusted with the trend of average gross salary in Montenegro in the previ-

ous calendar year, according to the data provided by the authority in charge of statistics affairs (MONSTAT). The Ministry of Finance is in charge of adopting the secondary legislation on adjusting the maximum annual contribution base.

Pursuant to the *Rulebook on determining the amount of maximum annual basis for paying contributions in 2015* (OGM No. 69/15), the maximum annual contribution base in 2015 amounts to 50,350.00 euros. This basis is the same as one year ago since there were no significant differences in the amount of average gross salary in Montenegro in 2014 compared to 2013.

The insured persons, both natural persons and their employees, as payers of income are entitled to the refund of contributions for social insurance overpaid in 2015.

The *Rulebook on determining the amount of maxi-*



mum annual basis for paying contributions in 2015 (OGM No 42/12) lays down detailed procedure and the manner of refunding overpaid contributions.

The insured person (natural person) shall be refunded overpaid contributions at the end of calendar year, upon the request for refunding overpaid contributions. The request is submitted to taxation authority at the form “ZPDO” containing the information on insured person, the basis for paying contributions (e.g. employment, performing individual activity, membership in board of directors) while other employers, i.e. the payers of income submit the request for refunding of overpaid contributions on form “ZPDI”.

The return of the overpaid contributions shall be performed after the expiry of the calendar year for the previous year, based on data on paid contributions which the insured person submitted to relevant taxation authority. Therefore, the right on refunding the overpaid revenues may be exercised only if the payer of income regularly submitted “IOPPD” reports to the relevant taxation authority.

The taxation authority passes the decision on submitted request for returning overpaid contributions for compulsory social insurance.

Refunding of overpaid contributions is performed within 30 days of the day of making decision on refund of overpaid contributions.

Tatjana Bošković,
11Independent Advisor I
in the Directorate for Taxation and Customs



Gordana Radović

Co-financing of Local Infrastructural Projects from Conditional Grants in 2015

Provisions of the Law on Financing Local Administration lay down that, for financing investment projects of special interest for their or other municipalities, municipalities have the right on using conditional grants from the State Budget. Moreover, the Law stipulates that conditional grants may be used for co-financing projects largely financed from foreign grants. Pursuant to the Law, the Government proposes conditional grants as approved by the Ministry of Finance, and these funds are planned in Annual Budget of Montenegro.

Using the above mentioned legal possibilities, and with a view to withdrawing more funds from IPA funds, since 2011 the Government of Montenegro has been allocating funds for conditional grants for co-financing investment

projects with the highest portion financed by the EU, as a significant part of financial support to local administration. During this period, three EU financed grant schemes allocated for municipal development projects in Montenegro were implemented. The Technical Support to Local Administration Reform project was implemented simultaneously with the Grant schemes, and it included providing professional assistance to local administration units, grant beneficiaries, and in the preparation and the implementation of projects according to EU rules.

In addition to the first two calls for submitting terms of reference directed to less developed municipalities, and under which some 14 projects were financed, the last invitation was allocation to intra-municipal cooperation.

Since 2013, the Delegation of the EU has been implementing the intra-municipal development grant programme to all municipalities in Montenegro for joint projects. The Grant scheme disposes with 1.87 million euros from IPA 2011 funds, with the additional national co-financing provided by the Government, local administrations and their project partners amounting to 0.44 million.

These funds are used for financing 5 projects from intra-municipal cooperation, and their value ranges between 200 thousand and 1 million euros. These projects are *Establishment of Regional Business Centre and Incubator for North-East Montenegro*, *Establishing Regional Park Sinjajevina in the North*; *Improving Energy Efficiency through Intra-municipal management network*; *Introducing composting and selective waste collection in the municipalities of Kotor, Budva, Tivat and Herceg Novi*, and *Rehabilitation and Resocialisation of Drug-Addicts in Montenegro*. The implementation of these projects aims at achieving more objectives, such as: improving infrastructure, balanced regional and local development, increased competitiveness of local administrations, and particularly improving intra-municipal cooperation and, finally, improving living standard at the local level.

The Government allocated 440,289.44 euros for financing these projects as follows: 200 thousand euros from conditional grants for 2013, and 198 thousand euros from conditional grants for 2014, with the remaining 42,289.44 euros for these purposes from conditional grants for 2015.

The Law on Budget of Montenegro for 2015 planned conditional grants to municipalities amounting to 198 thousand euros. Pursuant to the Decision on Allocation of Conditional Grants to Municipalities for 2015, the Government of Montenegro partially allocated these funds for the remaining part of co-financing these projects in the area of intra-municipal co-operation, in the amount of 42,289.44 euros, and it individually for each project:

- *Berane Municipality*, for covering some costs of the project *Establishment of Regional Business Centre and Incubator for North-East Montenegro*, amounting to **4,951.24 euros**;

- *Mojkovac Municipality*, for covering some costs of the project *Establishing Regional Park Sinjajevina in the North*, amounting to **5,336.29 euros**;

- *Bar Municipality*, for covering some costs of the project *Improving Energy Efficiency through Intra-municipal management network*, amounting to **12,231.84 euros**;

- *Public Utility Company Kotor (Kotor Municipality)*, for covering some costs of the project *Introducing composting and selective waste collection in the municipalities of Kotor, Budva, Tivat and Herceg Novi*, amounting to **8,121.16 euros**;

- *Public institution for the accommodation, Rehabilitation and Resocialisation of Psycho-active substances Podgorica (Capital Podgorica)* for covering some costs of the project *Rehabilitation and Resocialisation of Drug-Addicts in Montenegro*, amounting to **11,648.91 euros**;

Pursuant to the above mentioned decision of the Government, the remaining funds amounting to 155,710.56 euros were allocated for covering some costs of the implementation of projects interesting for other municipalities which largest part is financed from IPA funds, these being:

- *Kolašin Municipality*, for covering some costs of the project *Improving Tourist Infrastructure in Kolašin*, amounting to **46,477.00 euros**;

- *Berane Municipality*, for covering some costs of the project *Improving Water Supply and Construction of waste water treatment system in Berane Municipality*, amounting to **50 thousand euros**; and

- *Danilovgrad Municipality*, for covering some costs of the project *Reconstruction of floor in the Centre for Culture*, amounting to **59.233,56 euros**;

Since the utilisation of available EU funds in the best possible manner is the joint interest of national and local authorities, this type of cooperation has been assessed as highly successful mechanism for accessing EU funds.

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Directorate for Taxation and Customs System



mr Snežana Mugoša

Public Spending Realisation at Local Level

January - September 2015

Pursuant to Article 74 of the Law on Local Government Financing municipalities are obliged to present quarterly reports on planned and recorded revenues and expenditures and on budget borrowings within 30 days after the end of a quarter. Pursuant to the submitted reports, the Ministry prepares the report on public spending at local level for the specific period.

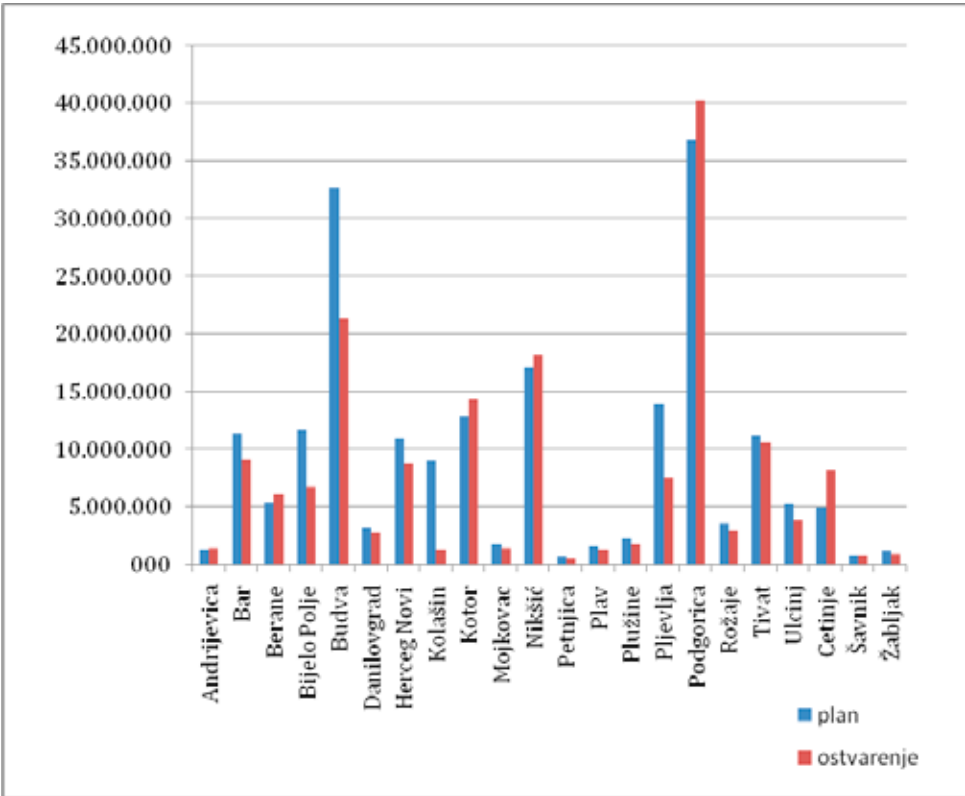
RECORDED LOCAL GOVERNMENT REVENUES JANUARY – SEPTEMBER 2015

In the period January – September 2015, recorded local government revenues amounted to 169.75 million euros, recording 85.43% of the plan for the same period.

The table below gives the overview of planned and recorded revenues of local government budget in the first nine months of 2015:

Municipality	Local government revenues of in the period January -September 2015 (in million euros €)		
	Plan	Recorded	% of recording
Andrijevica	1.32	1.33	100.79
Bar	11.31	9.03	79.85
Berane	5.30	6.12	115.46

Bijelo Polje	11.62	6.76	58.16
Budva	32.62	21.27	65.21
Danilovgrad	3.11	2.76	88.61
Herceg Novi	10.91	8.74	80.08
Kolašin	8.98	1.32	14.73
Kotor	12.79	14.33	112.05
Mojkovac	1.74	1.43	82.10
Nikšić	17.05	18.14	106.40
Petnjica	0.66	0.48	72.28
Plav	1.57	1.33	84.54
Plužine	2.24	1.76	78.69
Pljevlja	13.90	7.47	53.72
Podgorica	36.77	40.27	109.51
Rožaje	3.60	2.93	81.53
Tivat	11.11	10.57	95.20
Ulcinj	5.21	3.86	74.10
Cetinje	4.98	8.19	164.54
Šavnik	0.78	0.75	96.33
Žabljak	1.15	0.91	79.04
TOTAL	198.71	169.75	85.43

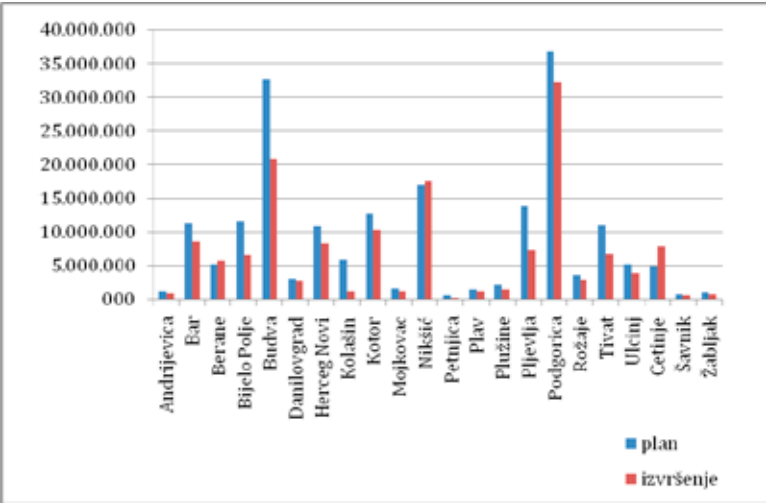


RECORDED LOCAL GOVERNMENT EXPENDITURES JANUARY – SEPTEMBER 2015

Local government expenditures in the period January - September 2015 amounted to 150.20 million euros, or 76.81% of planned expenditures for the same period.

The table below gives the overview of planned and recorded expenditures of local government budget in the first nine months of 2015:

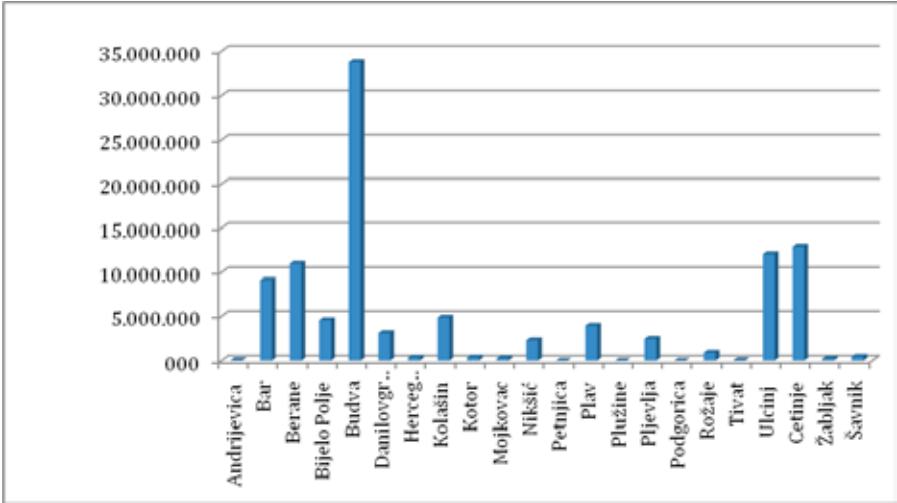
Municipality	Local government expenditures of in the period January -September 2015 (in million euros €)		
	Plan	Recorded	% of recording
Andrijevica	1.20	0.98	81.58
Bar	11.31	8.62	76.26
Berane	5.30	5.84	110.16
Bijelo Polje	11.62	6.61	56.87
Budva	32.63	20.92	64.10
Danilovgrad	3.09	2.75	88.89
Herceg Novi	10.91	8.32	76.21
Kolašin	5.99	1.29	21.47
Kotor	12.79	10.42	81.48
Mojkovac	1.71	1.27	74.58
Nikšić	1705	1762	103.34
Petnjica	0.66	0.31	46.44
Plav	1.57	1.31	83.17
Plužine	2.24	1.48	66.40
Pljevlja	13.90	7.37	53.04
Podgorica	36.77	32.29	87.81
Rožaje	3.60	2.90	80.70
Tivat	11.11	6.73	60.60
Ulcinj	5.21	3.85	73.88
Cetinje	4.98	783	157.22
Šavnik	0.78	0.66	84.98
Žabljak	1.15	0.84	72.86
TOTAL	195.56	150.20	76.81



UNSETTLED LOCAL GOVERNMENT LIABILITIES AS AT 30 September 2015

According to data submitted by municipalities to Ministry of Finance, the total amount of unsettled local government liabilities as at 30 September 2015 amounted to 102.84 million euros.

Unsettled local government liabilities as at 30 September 2015 (in million euros)	
Andrijevica	0.06
Bar	9.13
Berane	10.97
Bijelo Polje	4.56
Budva	33.75
Danilovgrad	3.18
Herceg Novi	0.34
Kolašin	4.85
Kotor	0.35
Mojkovac	0.27
Nikšić	2.35
Petnjica	0.00
Plav	3.92
Plužine	0.00
Pljevlja	2.52
Podgorica	0.00
Rožaje	0.92
Tivat	0.05
Ulcinj	12.05
Cetinje	12.90
Žabljak	0.21
Šavnik	0.45
TOTAL	102.84



Snežana Mugoša, MSc,
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Analysis of public finance in Q3 2015

PUBLIC FINANCE OF MONTENEGRO

Budget of Montenegro with state funds and budgets of local self-governments (the Royal Capital Cetinje, Capital city of Podgorica and 21 municipalities) comprise the structure of public finances. 87% of public finances relates to the Central Budget of Montenegro in 2015, while the remaining 13% relates to the local self-government.

In 2015, it is continued the implementation of measures to consolidate public finances while strengthening tax discipline and continuous implementation of austerity measures on the budget spending. It is in the focus of fiscal policy to ensure the sustainability of public finances, with the support of capital and development projects, which strengthens the development component of fiscal policy. In accordance with the solutions given in the document “Analysis of certain aspects of tax policy - perspectives for reform”, certain changes in taxation policy were made. The aim of the changes is taxation of the spending and disburdening of income of physical and legal entities.

Public revenues in the past nine months (III quarter) in 2015 amounted to 1113,9 million EUR or 30.4% of estimated GDP (3,660.7 million EUR). In relation to the plan, the revenues were slightly lower, by 0.4 million EUR. Compared to the same period of 2014, the revenues increased by 27.8 million EUR or 2.6%. This increase in revenues mostly occurred due to: the contributions with 20.7 million EUR of growth, compensations of 8.5 million EUR, receipts from repayment of loans and funds transferred from previous year of 6.8 million EUR, 6.1 million euros of excises, and local taxes that were higher by 5.4 million EUR. Revenue growth was achieved as a result of a continuous combating against the grey economy particularly in the labor market and the market of excise products.

Public spending in the first nine months of the current year amounted to 1305.4 million EUR or 35.7% of GDP and it was increased by 198.7 million EUR or 18.0% when compared to the same period in 2014, whereas the planned amount was exceeded by 23.2 million EUR or 1.8%. As for the structure of expenditures, the most part referred to gross earnings and contributions payable by employers (8.5% of GDP) and transfers for social welfare (10.0% of GDP). The capital expenditures of the public sector amounted to 6.0% of GDP, while the interest rates were 2.1% of GDP and were increased by 7.0% when compared to 2014.

A the end of the III quarter of 2015, **the deficit of public finances** amounted to 191.5 million EUR or 5.2% of GDP, and it was increased by 170.9 million EUR when compared to a deficit of the same period last year.

BDP (in mil. €)	3660,7						3457,9			
Public spending	I - IX 2015 - achievement		I-X 2015 - plan		Derogation		I-X 2014 - achievement		Derogation	
	mil. €	% BDP	mil. €	% BDP	mil. €	%	mil. €	% BDP	mil. €	%
Income	113,89	30,4	114,27	30,4	-0,39	0,0	1086,10	31,4	27,79	2,6
Taxes	681,73	18,6	708,15	19,3	-26,41	-3,7	684,28	19,8	-2,54	-0,4
Personal income tax	84,39	2,3	98,20	2,7	-13,81	-14,1	93,57	2,7	-9,17	-9,8
Corporate income tax	39,60	1,1	42,60	1,2	-3,00	-7,0	41,28	1,2	-1,67	-4,1
Property taxes	9,74	0,3	11,93	0,3	-2,19	-18,4	10,93	0,3	-1,19	-10,9
Value added tax	349,29	9,5	358,24	9,8	-8,95	-2,5	351,98	10,2	-2,68	-0,8
Excises	123,89	3,4	125,59	3,4	-1,69	-1,3	117,79	3,4	6,10	5,2
Tax on international trade and transactions	16,99	0,5	17,35	0,5	-0,36	-2,1	16,88	0,5	0,11	0,7
Local taxes	52,82	1,4	49,96	1,4	2,86	5,7	47,43	1,4	5,39	11,4
Other republic revenues	5,01	0,1	4,28	0,1	0,73	17,1	4,42	0,1	0,59	13,2
Contributions	305,51	8,3	277,65	7,6	27,86	10,0	284,77	8,2	20,73	7,3
Duties	13,98	0,4	17,97	0,5	-3,99	-22,2	16,31	0,5	-2,33	-14,3
Fees	56,03	1,5	50,86	1,4	5,17	10,2	47,50	1,4	8,53	18,0
Other income	27,52	0,8	36,08	1,0	-8,56	-23,7	31,26	0,9	-3,74	-12,0
Receipts from loans repayment and funds	23,51	0,6	17,61	0,5	5,89	33,4	16,74	0,5	6,76	40,4
Donations	5,62	0,2	5,97	0,2	-0,35	-5,9	5,25	0,2	0,37	7,0
Public spending	1305,35	35,7	1282,20	35,0	23,15	1,8	1106,64	32,0	198,71	18,0
Current budget spending	1086,07	29,7	1038,68	28,4	47,39	4,6	1034,35	29,9	51,72	5,0
Current expenditures	524,91	14,3	521,73	14,3	3,18	0,6	507,17	14,7	17,75	3,5
Gross salaries and contributions paid by employer	311,29	8,5	311,72	8,5	-0,43	-0,1	311,01	9,0	0,29	0,1
Other personal income	10,91	0,3	10,45	0,3	0,46	4,4	8,72	0,3	2,19	25,1
Material expenses	19,89	0,5	26,76	0,7	-6,87	-25,7	21,19	0,6	-1,30	-6,1
Services expenses	41,50	1,1	37,03	1,0	4,47	12,1	37,05	1,1	4,44	12,0
Expenses of current maintenance	17,60	0,5	18,80	0,5	-1,20	-6,4	16,40	0,5	1,19	7,3
Interests	75,51	2,1	59,92	1,6	15,59	26,0	70,60	2,0	4,91	7,0
Rent	6,77	0,2	6,60	0,2	0,17	2,6	6,26	0,2	0,51	8,1
Subventions	11,28	0,3	16,38	0,4	-5,10	-31,1	12,35	0,4	-1,07	-8,7
Other expenditures	20,41	0,6	23,69	0,6	-3,28	-13,8	17,49	0,5	2,92	16,7
Capital expenditures in the current budget	9,76	0,3	10,39	0,3	-0,63	-6,1	6,10	0,2	3,65	59,9
Transfers for social welfare	364,56	10,0	379,10	10,4	-14,54	-3,8	368,11	10,6	-3,55	-1,0
Rights from the field of the social welfare	45,26	1,2	45,86	1,3	-0,60	-1,3	46,19	1,3	-0,92	-2,0
Funds for the redundancies	13,05	0,4	14,58	0,4	-1,53	-10,5	17,05	0,5	-4,01	-23,5
Rights from the field of the pension and disability insurance	289,53	7,9	301,84	8,2	-12,31	-4,1	288,39	8,3	1,14	0,4
Other rights from the field of the social welfare	10,86	0,3	11,25	0,3	-0,39	-3,5	10,82	0,3	0,04	0,4
Other rights from the field of the social insurance	5,86	0,2	5,57	0,2	0,30	5,3	5,66	0,2	0,20	3,6
Transfers to institutions, individuals, non-governmental and public sector	116,13	3,2	122,30	3,3	-6,17	-5,0	91,76	2,7	24,36	26,6
Transfers to institutions, individuals, non-governmental and public sector	105,22	2,9	110,60	3,0	-5,38	-4,9	82,15	2,4	23,06	28,1
Other transfers	10,91	0,3	11,70	0,3	-0,79		9,61	0,3	1,30	13,5
Capital expenditures	219,28	6,0	243,52	6,7	-24,24	-10,0	72,29	2,1	146,99	203,3
Borrowings and loans	2,51	0,1	3,37	0,1	-0,86	-25,6	2,54	0,1	-0,03	-1,3
Reserves	15,33	0,4	12,04	0,3	3,29	27,3	10,55	0,3	4,78	45,3
Repayment of guarantees	0,00	0,0	0,00	0,0	0,00		15,26	0,4	-15,26	-100,0
Repayment of liabilities from prior periods	62,63	1,7	0,00	0,0	62,63		38,96	1,1	23,67	60,8
Net increase in liabilities	0,00	0,0	0,14	0,0	-0,14		0,00	0,0	0,00	#DIV/0!

Surplus/Deficit	-191,46	-5,2	-167,93	-4,6	-23,53	14,0	-20,54	-0,6	-170,92	832,3
Primary deficit	-115,95	-3,2	-108,00	-3,0	-7,95	7,4	50,06	1,4	-166,01	-331,6
Debt repayment	414,03	11,3	338,84	9,3	75,19	22,2	204,63	5,9	209,40	102,3
Debt repayment to the residents	91,12	2,5	38,41	1,0	52,71	137,3	93,45	2,7	-2,32	-2,5
Debt repayment to non-residents	289,46	7,9	242,08	6,6	47,38	19,6	81,27	2,4	208,19	256,2
Repayment of liabilities from prior periods	33,45	0,9	58,36	1,6	-24,91	-42,7	29,91	0,9	3,54	11,8
Missing funds	-605,49	-16,5	-506,77	-13,8	-98,72	19,5	-225,17	-6,5	-380,32	168,9
Financing	605,49	16,5	506,77	13,8	98,72	19,5	225,17	6,5	380,32	168,9
Borrowings and loans from domestic sources	49,30	1,3	3,75	0,1	45,55	1.214,6	100,26	2,9	-50,96	-50,8
Borrowings and loans from foreign sources	505,20	13,8	477,81	13,1	27,38	5,7	202,43	5,9	302,77	149,6
Income from privatization	7,73	0,2	6,50	0,2	1,23	18,9	5,48	0,2	2,25	41,1
Increase/Decrease in deposits	43,27	1,2	18,71	0,5	24,56	131,3	-82,99	-2,4	126,26	-152,1
Source: The Ministry of Finance of Montenegro										

THE BUDGET OF MONTENEGRO

In the reporting period of 2015, the **Receipts of the State Budget** amounted to EUR 963.6 million EUR or 26.3% of GDP. The budget revenues, in cumulative terms, are higher than those achieved in 2014 by 23.7 million EUR or 2.5% and 8.1 million EUR or 0.8% when compared to the planned ones. Collected taxes and contributions in the current year participated by 94% in the budget revenue structure.

In comparison to the same period last year, we have the most significant growth in the revenues from contributions, which increased by 20.7 million EUR, and in the collection of excise taxes of 6.1 million EUR. The recorded growth is a result of taken measures to combat the grey economy in the labor market and excise products. On the other hand, the decrease has been recorded in the collection of personal income taxes of 6.1 million EUR due to the reduction of rate of crisis income tax from 15% to 13% and duties collection of 1.6 million EUR.

In the same period in 2015, **total budget expenditures** amounted to 1209.0 million EUR or 33.0% of estimated GDP for 2015 (3,660.7 million EUR). Compared to the same period last year, the expenses increased by 199.5 million EUR, or 19.8% of GDP, due to an increase in the capital budget for 154.0 million EUR (financing the construction of priority section of the highway), transfers to institutions, individuals, non-governmental and public sector for 24.0 million EUR (technical adaptation of certain expenditures to the budget classification), repayment of liabilities from the prior period for 23.7 million EUR (refinanced liabilities to creditors) and interest for 4.6 million EUR.

At the end of the third quarter of 2015, the **central budget deficit** amounted to 245.4 million EUR or 6.7%, and it was higher for 175.8 million EUR from the deficit recorded in 2014. The repayment of debt amounted to 361.1 million EUR.

BDP (in mil. €)	3660,7						3457,9			
The Budget of Montenegro	I - IX 2015 - achievement		HX 2015 - plan		Derogation		HX 2014 - achievement		Derogation	
	mil. €	% BDP	mil. €	% BDP	mil. €	%	mil. €	% BDP	mil. €	%
Income	963,60	26,3	955,56	26,1	8,05	0,8	939,90	27,2	23,71	2,5
Taxes	600,37	16,4	623,38	17,0	-23,01	-3,7	604,16	17,5	-3,79	-0,6
Personal income tax	64,6	1,8	74,2	2,0	-9,60	-12,9	70,7	2,0	-6,13	-8,7
Corporate income tax	39,6	1,1	42,6	1,2	-3,00	-7,0	41,3	1,2	-1,67	-4,1
Property taxes	1,0	0,0	1,1	0,0	-0,14	-12,7	1,1	0,0	-0,10	-9,4
Value added tax	349,3	9,5	358,2	9,8	-8,95	-2,5	352,0	10,2	-2,68	-0,8
Excises	123,9	3,4	125,6	3,4	-1,69	-1,3	117,8	3,4	6,10	5,2
Tax on international trade and transactions	17,0	0,5	17,4	0,5	-0,36	-2,1	16,9	0,5	0,11	0,7
Other republic revenues	5,0	0,1	4,3	0,1	0,73	17,1	4,4	0,1	0,59	13,2

Contributions	305,51	8,3	277,65	7,6	27,86	10,0	284,77	8,2	20,73	7,3
Contributions for pension and disability insurance	184,2	5,0	164,8	4,5	19,36	11,7	173,6	5,0	10,51	6,1
Contributions for health insurance	105,0	2,9	96,1	2,6	8,89	9,3	96,6	2,8	8,46	8,8
Contributions for un-employment insurance	8,5	0,2	8,4	0,2	0,12	1,5	7,8	0,2	0,72	9,2
Other contributions	7,9	0,2	8,4	0,2	-0,51	-6,2	6,8	0,2	1,05	15,4
Duties	9,8	0,3	12,8	0,3	-2,97	-23,2	11,7	0,3	-1,95	-16,6
Fees	20,6	0,6	9,6	0,3	11,01	114,2	11,6	0,3	9,01	77,4
Other income	19,1	0,5	25,8	0,7	-6,64	-25,8	21,5	0,6	-2,37	-11,0
Receipts from repayment of loans and funds from previous periods	4,8	0,1	2,6	0,1	2,21	84,6	2,9	0,1	1,92	66,2
Donations	3,3	0,1	3,7	0,1	-0,41	-11,0	3,2	0,1	0,16	5,0
Budget expenditures	1208,98	33,0	1173,73	32,1	35,26	3,0	1009,47	29,2	199,51	19,8
Current expenditures	1013,16	27,7	960,20	26,2	52,95	5,5	967,67	28,0	45,49	4,7
Current budget expenditures	477,23	13,0	473,87	12,9	3,36	0,7	465,69	13,5	11,53	2,5
Gross salaries and contributions paid by employer	283,4	7,7	284,5	7,8	-1,11	-0,4	286,6	8,3	-3,23	-1,1
Other personal income	9,4	0,3	8,7	0,2	0,71	8,2	7,2	0,2	2,18	30,1
Material expenses	15,7	0,4	22,1	0,6	-6,39	-29,0	17,2	0,5	-1,56	-9,0
Services expenses	35,3	1,0	31,1	0,9	4,14	13,3	32,1	0,9	3,22	10,0
Expenses of current maintenance	14,5	0,4	15,6	0,4	-1,07	-6,9	14,1	0,4	0,42	3,0
Interests	72,8	2,0	56,8	1,6	15,97	28,1	68,2	2,0	4,63	6,8
Rent	6,4	0,2	6,2	0,2	0,19	3,1	6,0	0,2	0,43	7,2
Subventions	10,9	0,3	15,9	0,4	-5,01	-31,4	12,1	0,3	-1,15	-9,5
Other expenditures	19,0	0,5	22,4	0,6	-3,44	-15,4	16,1	0,3	2,93	18,2
Capital expenditures in the current budget	9,8	0,3	10,4	0,3	-0,63	-6,1	6,1	0,5	3,65	59,9
Transfers for social welfare	364,43	10,0	378,63	10,3	-14,21	-3,8	367,96	10,6	-3,54	-1,0
Rights from the field of the social welfare	45,1	1,2	45,4	1,2	-0,27	-0,6	46,0	1,3	-0,92	-2,0
Funds for the redundancies	13,0	0,4	14,6	0,4	-1,53	-10,5	17,1	0,5	-4,01	-23,5
Rights from the field of pension and disability insurance	289,5	7,9	301,8	8,2	-12,31	-4,1	288,4	8,3	1,14	0,4
Other rights from the field of the health welfare	10,9	0,3	11,3	0,3	-0,39	-3,5	10,8	0,3	0,04	0,4
Other rights from the field of the health insurance	5,9	0,2	5,6	0,2	0,30	5,3	5,7	0,2	0,20	3,6
Transfers to institutions, individuals, non-governmental and public sector	93,1	2,5	96,2	2,6	-3,10	-3,2	69,1	2,0	24,00	34,7
Capital budget	195,8	5,3	213,5	5,8	-17,70	-8,3	41,8	1,2	154,02	368,4
Borrowings and loans	1,5	0,0	1,7	0,0	-0,17	-10,2	1,8	0,1	-0,26	-14,6
Reserves	14,2	0,4	9,8	0,3	4,45	45,4	8,9	0,3	5,34	59,9
Repayment of guarantees	0,0	0,0	0,0	0,0	0,00	0,00	15,3	0,4	-15,26	-100,0
Repayment of liabilities from prior years	62,6	1,7	0,0	0,0	62,63	0,00	39,0	1,1	23,67	60,8
Net increase in liabilities	0,0	0,0	0,0	0,0	0,00	0,00	0,0	0,0	0,00	0,00
Surplus / deficit	-245,4	-6,7	-218,17	-6,0	-27,21	12,5	-69,58	-2,0	-175,80	-60,9
Primary balance	-172,6	-4,7	-161,35	-4,4	-11,24	7,0	-1,41	0,0	-171,17	694,5
Debt repayment	361,05	9,9	298,72	8,2	62,33	20,9	162,91	4,7	198,14	-61,7
Repayment of securities and loan residen.	73,3	2,0	35,0	1,0	38,29	109,3	83,6	2,4	-10,29	-54,2
Repayment of securities and loan non-residen.	287,7	7,9	238,3	6,5	49,40	20,7	79,3	2,3	208,42	-37,7
Repayment of liabilities from prior years	0,0	0,0	25,4	0,7	-25,4	0,0	0,0	0,00	0,00
Missing funds	-606,43	-16,6	-516,89	-14,1	-89,54	17,3	-232,49	-6,7	-373,94	-61,5
Financing	606,43	16,6	516,89	14,1	89,54	17,3	232,49	6,7	373,94	-61,5
Borrowings and loans from domestic sources	35,4	1,0	0,0	0,0	35,40	0,00	98,4	2,8	-63,02	-64,0
Borrowings and loans from foreign sources	503,0	13,7	475,6	13,0	27,48	5,8	200,9	5,8	302,14	-86,3
Receipts from property sale	6,5	0,2	0,0	0,0	6,46	0,00	3,3	0,1	3,20	97,8
Increase / decrease in deposits	61,5	1,7	41,3	1,1	20,20	48,9	-70,1	-2,0	131,62	-128,8

Source: The Ministry of Finance of Montenegro

LOCAL SELF-GOVERNMENT

Pursuant to Article 74 of the Law on Local Self-Government Financing, the municipalities shall be under the obligation to deliver to the Ministry of Finance on a quarterly basis their reports on planned and generated revenues, planned and executed expenditures and budget indebtedness within 30 days from the end of a quarter. In connection with problems in functioning of local self-governments, this year the Government adopted the Information on Municipal Debt Restructuring and approved the restructuring of tax debt on account of taxes and contributions on salaries of employees as at December 31, 2014. in the total amount of 89.1 million EUR. Out of this amount, 74.4 million EUR was restructured for 20 years starting from July 1, 2015, for municipalities that are beneficiaries of the Equalization Fund, while 14.6 million EUR referred to the municipalities of Bar and Budva with restructuring to 5 years.

At the end of III quarter of 2015, **the revenues of local self-government** amounted to 151.6 million EUR or 4.1% of GDP, thus having been decreased by 7.1 million EUR in comparison to the plan, while those are higher for 4.9 million EUR in comparison to the prior year. As for the revenues, a positive bias in comparison to 2014 was recorded in collection of local taxes for 5.4 million, and receipts from repayment of loans and funds transferred from the prior year for 4.3 million EUR.

At the end of III quarter of 2015, **the local government spending** amounted to 97.2 million EUR or 2.7% of GDP, which is 1.2 million EUR lower than was the case in 2014, due to a decrease in the capital budget for 7.0 million EUR.

The surplus of local government amounted to 54.4 million EUR or 1.5% of GDP, while it was repaid 33.5 million EUR of the liabilities from the prior period. In the analysed period the transfers from the central budget amounted to 0.8 million EUR.

BDP (in mil. €)	3660,7						3457,9			
Local Self-Government	I - IX 2015 - achievement		I-IX 2015 - plan		Derogation		I-IX 2014 - achievement		Derogation	
	mil. €	% BDP	mil. €	% BDP	mil. €	%	mil. €	% BDP	mil. €	%
Revenues	151,58	4,1	158,72	4,3	-714	-4,5	146,70	4,2	4,88	3,3
Taxes	81,36	2,2	84,76	2,3	-3,40	-4,0	80,11	2,3	1,25	1,6
Personal income tax	19,79	0,5	24,00	0,7	-4,21	-17,5	22,84	0,7	-3,05	-13,3
Property taxes	8,75	0,2	10,80	0,3	-2,05	-19,0	9,84	0,3	-1,09	-11,1
Local taxes	52,82	1,4	49,96	1,4	2,86	5,7	47,43	1,4	5,39	11,4
Duties	4,18	0,1	5,20	0,1	-1,02	-19,7	4,56	0,1	-0,38	-8,4
Administrative duties	1,01	0,0	1,43	0,0	-0,42	-29,2	1,11	0,0	-0,09	-8,5
Local utility taxes	2,83	0,1	3,65	0,1	-0,81	-22,3	3,15	0,1	-0,32	-10,1
Other duties	0,33	0,0	0,12	0,0	0,21	168,1	0,30	0,0	0,03	9,8
Fees	35,39	1,0	41,22	1,1	-5,84	-14,2	35,87	1,0	-0,48	-1,3
Fees for use of goods of general interest	1,14	0,0	1,25	0,0	-0,11	-8,5	1,14	0,0	0,00	0,4
Fees for use of natural resources	5,76	0,2	6,88	0,2	-1,12	-16,3	5,90	0,2	-0,14	-2,4
The fee for communal equipping of construction land	23,27	0,6	28,08	0,8	-4,82	-17,2	24,40	0,7	-1,14	-4,7
Fees for construction and maintenance of local roads and other public facilities of municipal significance	2,49	0,1	1,81	0,0	0,68		1,18	0,0	1,31	110,2
Other fees	2,73	0,1	3,20	0,1	-0,47	-14,8	3,24	0,1	-0,51	-15,8
Other income	9,66	0,3	10,28	0,3	-0,62	-6,0	9,73	0,3	-0,07	-0,7
Income from equity	1,61	0,0	1,91	0,1	-0,31	-16,0	1,68	0,0	-0,07	-4,2
Fines and confiscated property benefits	0,46	0,0	0,57	0,0	-0,11	-19,9	0,91	0,0	-0,45	-49,4
Revenues generated by authorities through their activities	2,47	0,1	3,30	0,1	-0,83	-25,2	2,17	0,1	0,30	13,7
Other income	5,13	0,1	4,50	0,1	0,63	14,1	4,98	0,1	0,16	3,1
Receipts from loans repayment and funds transferred from prior year	18,68	0,5	15,00	0,4	3,68		14,34	0,4	4,34	30,3
Donations	2,31	0,1	2,25	0,1	0,06	2,5	2,09	0,1	0,21	10,1
Expenditures	97,21	2,7	109,83	3,0	-12,62	-11,5	98,44	2,8	-1,23	-1,2

Current budget spending	73,76	2,0	79,83	2,2	-6,07	-7,6	67,95	2,0	5,80	8,5
Current budget expenditures	47,69	1,3	47,86	1,3	-0,17	-0,4	41,48	1,2	6,21	15,0
Gross salaries and contributions paid by employer	27,88	0,8	27,20	0,7	0,68	2,5	24,37	0,7	3,51	14,4
Other personal income	1,49	0,0	1,73	0,0	-0,25	-14,2	1,48	0,0	0,01	0,7
Material expenses	4,22	0,1	4,70	0,1	-0,48	-10,3	3,96	0,1	0,26	6,5
Services expenses	6,21	0,2	5,88	0,2	0,33		4,99	0,1	1,22	24,5
Expenses of current maintenance	3,06	0,1	3,19	0,1	-0,13	-4,0	2,28	0,1	0,78	34,0
Interests	2,71	0,1	3,10	0,1	-0,39	-12,4	2,43	0,1	0,28	11,5
Rent	0,33	0,0	0,35	0,0	-0,02	-5,5	0,25	0,0	0,08	30,0
Subventions	0,35	0,0	0,44	0,0	-0,09	-20,7	0,27	0,0	0,08	30,2
Other expenditures	1,43	0,0	1,27	0,0	0,16	12,9	1,44	0,0	-0,01	-0,4
Transfers for social welfare	0,13	0,0	0,46	0,0	-0,33	-71,4	0,14	0,0	-0,01	-6,2
Rights from the field of the social welfare	0,13	0,0	0,46	0,0	-0,33	-71,4	0,14	0,0	-0,01	-6,2
Transfers to institutions, individuals, non-governmental and public sector	23,86	0,7	27,58	0,8	-3,72	-13,5	23,92	0,7	-0,06	-0,3
Transfers to institutions, individuals, non-governmental and public sector	12,95	0,4	15,88	0,4	-2,93	-18,5	14,31	0,4	-1,36	-9,5
Other transfers	10,91	0,3	11,70	0,3	-0,79	-6,7	9,61	0,3	1,30	13,5
Capital Budget	23,45	0,6	30,00	0,8	-6,55	-21,8	30,48	0,9	-7,03	-23,1
Borrowings and loans	0,99	0,0	1,68	0,0	-0,69	-41,1	0,77	0,0	0,22	29,3
Reserves	1,09	0,0	2,25	0,1	-1,16	-51,5	1,65	0,0	-0,56	-33,9
Repayment of guarantees	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0	0,00	0,0
Net increase in liabilities	0,00	0,0	0,14	0,0	-0,14		0,00	0,0	0,00	0,0
Surplus / deficit	54,37	1,5	50,39	1,4	3,98	7,9	49,54	1,4	4,83	9,8
Primary balance	57,08	1,6	53,48	1,5	3,60	6,7	51,97	1,5	5,11	9,8
Debt repayment	52,98	1,4	40,13	1,1	12,86	32,0	41,72	1,2	11,26	27,0
Repayment of securities and loan residen.	17,80	0,5	3,38	0,1	14,42	427,4	9,84	0,3	7,96	80,9
Repayment of securities and loan non-residen.	1,73	0,0	3,75	0,1	-2,02	-53,8	1,97	0,1	-0,24	-12,0
Repayment of liabilities from previous years	33,45	0,9	33,00	0,9	0,45	1,4	29,91	0,9	3,54	11,8
Missing funds	1,38	0,0	10,26	0,3	-8,88	-86,5	7,82	0,2	-6,43	-82,3
Financing	-1,38	0,0	-10,26	-0,3	8,88	-86,5	-7,82	-0,2	6,43	-82,3
Borrowings and loans from domestic sources	13,90	0,4	3,75	0,1	10,15	270,7	1,84	0,1	12,06	653,6
Borrowings and loans from foreign sources	2,15	0,1	2,25	0,1	-0,10	-4,4	1,52	0,0	0,63	41,2
Receipts from property sale	1,26	0,0	6,50	0,2	-5,24	-80,6	2,21	0,1	-0,95	-42,8
Increase / decrease in deposits	-18,70	-0,5	-22,76	-0,6	4,06	-17,8	-13,40	-0,4	-5,31	39,6
Transfers from the Central Budget	0,85	0,0	1,50	0,0	-0,65	-43,3	1,27	0,0	-0,43	-33,4

Source: The Ministry of Finance of Montenegro

Directorate for Economic Policy and Development,
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Dunja Nelević

Overview of activities regarding the use of IPA funds

With a view to using the EU pre-accession funds (IPA), it may be said that significant progress was made in 2015 by starting independent implementation of activities referring to the implementation of objectives and priorities referring to IPA components III (Regional Development) and IV (Human resources Development).

Specifically, after performing preparatory activities, removing deficiencies disclosed in audit reports, creating legal basis and creating capacities ready to meet the criteria defined by the European commission, the state gained positive assessment, i.e. the accreditation for independent use of funds available through these two components. The signing of the Financial Agreement in December 2014 created the precondition for starting the implementation of projects in the area of environment, employment, and social policy. By signing the Agreement, Montenegro took the obligations primarily referring to co-financing of projects, and returning funds in the case of non-earmarked use, irregularities and non-fulfilment of contracted obligations.

Independent use, i.e. the management decentralisation, means transferring responsibilities for programming an implementation from the European Commission to national institutions. This is the long-term process requiring continuous cooperation with the European Commission, numerous audits, defining procedures and control mechanisms, all aimed at efficient use of IPA funds.

Year 2015 marked the start of the activities on implementing tender procedures meaning drafting of tender documents, evaluation of bids and concluding contracts. All necessary controls were performed, pursuant to procedures and hierarchical relation between IPA bodies.

Since the Delegation of the European Union to Montenegro in Podgorica is responsible for controlling activities after each phase and, if needed, returning it to IPA bodies for correction, and bearing in mind the beginning of implementation and activities that national institutions were not performing so far, it was necessary to define cooperation mechanisms with the Delegation of the European Union in order to reduce the number of necessary

corrections and possible rejected cases thus contributing to timely fulfilment of all tasks. Regular meetings were held intensively discussing the improvement of tender documents. This resulted in concluded 6 contracts, 3 for component III and 3 for component IV, with advance payments paid to contractors.

As regards the activities on establishing independent managing sectors for IPA perspective II (the abovementioned components refer to IPA perspective I, while the term decentralisation in IPA perspective II has been changed to term indirect managing), the requests were submitted for commending budget execution (process of accrediting IPA to perspective I) that contained all documents requested by the European Commission. Furthermore, the European Commission's auditors performed necessary audits to ensure into existence of capacities, procedures, and conditions for using IPA II funds. All these activities resulted with the projected target, i.e. the signing of the Financial Agreement for the National Action Plan 2014, and programmes of cross-border cooperation with Albania and Kosovo. The implementation of the actions from these programmes will start next year with started public procurement procedures and first payments.

Moreover, the request was submitted for assessing the capacity in using funds for improving agriculture. The audit for this programme is announced for January 2016.

The structure to be performing the activities for using IPA funds comprises of organisational units of line ministries, the so-called IPA bodies equipped with civil

servants who worked intensively in 2015 on improving procedures referring to programming and implementation, and on improving documents referring to human resources management policy. Many coordination meetings were held between IPA bodies, aimed at exchanging experiences and defining corrective activities to act preventively on potential risks.

This indicates that the year included system audits, improving procedures, drafting of all necessary documents, secondary legislation and Manual on procedures, which contributed to creating positive environment in terms of using IPA funds and strengthening Montenegro's credibility as a European Commission's partner.

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Jasna Ilić Bošković

Montenegro under the Instrument for Pre-Accession Assistance - IPA Perspective II

Instrument for Pre-Accession Assistance (IPA) is a form of support integrating all instruments (CARDS, SAPARD, ISPA, PHARE). IPA is the instrument for pre-accession assistance of the European Union (EU) to potential candidate countries and candidate countries for EU membership as well as the comprehensive support to the European integration process, both in the area of financial support, and in the field of technical and expert support to reforms. It represents non-refundable support on allocated funds from the state budget of Montenegro intended for reforms, meaning that the received and successfully spent money does not have to be refunded.

IPA in Montenegro is conducted through two perspectives:

- 1. IPA and perspective I, which covers the period 2007-2013;
- 2. IPA perspective II, which covers the period 2014-2020.

IPA Perspective II

The European Parliament and the Council adopted the Regulation on the establishment of the IPA perspective II (IPA II) in March 2014. This instrument constitutes a legal basis for providing financial assistance to Montenegro in the process of adopting and implementing political, institutional, legislative, administrative, social and economic reforms which are necessary in order to respect the EU values and gradually with the rules, standards, policies and practices in the EU with one objective - membership in the EU.

IPA II is implemented in two ways: directly and indirectly.

Direct managing of the EU pre-accession funds means that the entire process, from contracting to payout of funds to beneficiaries is under the jurisdiction of the Eu-

ropean Commission, i.e. the Delegation of the European Commission to Montenegro in Podgorica.

Indirect managing of the EU pre-accession funds involves self-management of funds by Montenegrin authorities, confirming that the Montenegrin authorities have the capacity and defined legal framework for using IPA funds.

The main legal document that defines the responsibilities and obligations of the Montenegrin authorities is the Framework Agreement, which was ratified by the Parliament.

Operational activities are financed and implemented in accordance with the legal, administrative and technical framework provided in this Agreement, and it is closely regulated by Sector Agreements and/or Financial Agreements.

The persons and authorities in charge of managing IPA II sources that are:

- 1. National Authorising Officer (NAO), responsible for the effective functioning of the management and control systems under the IPA, as well as for financial management of the IPA programmes. The Deputy Minister of Finance is appointed the NAO.
- 2. National IPA Coordinator (NIPAC), responsible for the entire process of strategic planning coordination, programming, overseeing the implementation, evaluation and reporting in relation to the IPA programs, providing close partnership between the European Commission and Montenegro, and close connection between the general process of EU integration and the use of the Pre-accession Assistance under IPA.
- 3. Senior Programme Service (SPO), manages the Project Implementation Unit under the ministry that uses IPA support.
- 4. Management structure/ National Fund Directorate (NFD), defined under the Ministry of Finance. The Directorate of National Fund comprises of National Fund (NF), responsible for the management of bills and financial operations, and support offices to NAO (NAOSO), responsible for overseeing the efficient internal control system.
- 5. Operating Structures, established depending on the IPA programme.
- 6. Head of Operating Structure (HOS) manages the operating structure.

IPA II is aimed at implementing reforms within the defined policy areas/sectors. The sectors are closely linked to the enlargement strategy, for example democracy and

governance, rule of law, and growth and competitiveness. The sector approach emphasizes the structural reforms that will help aligning with EU standards.

Candidate countries implement IPA II through five policy areas/sectors:

- 1. reforms under the preparation for membership in the Union and thus related building of institutional and human resource capacities;
- 2. socio-economic and regional development;
- 3. employment, social policy, education, promotion of gender equality and human resources development;
- 4. agriculture and rural development;
- 5. regional and territorial cooperation.

By acquiring candidate status for EU membership, Montenegro acquired the right to use the funds for the five policy areas/sectors, following the adoption of appropriate strategic documents and establishing indirect management system.

However, this was followed by additional preconditions for the use of these funds (the adoption of appropriate strategic and programming documents) and the fulfilment of the conditions for granting the Request for entrusting budget execution for indirect management system through the IPA II.

On behalf of the state of Montenegro, NAO submitted the request to the Commission to be entrusted with budget execution tasks. Within the framework of the above-mentioned policy areas/sectors, NAO sent requests for entrusting budget execution for the following three programs in March and August 2015:

- 1. annual and/or multi-annual action programs (CAP) (programs refer to the sectors 1, 2, and 3);
- 2. cross-border cooperation programs (CBC) (section 5);
- 3. rural development programs (RDP) (section 4).

Operating Structure for annual and/or multi-annual action programmes (CAP) comprises of:

- 1. (NIPAC office), responsible for coordination of the preparation and changes in programme documents, their submitting to the National IPA Coordinator, oversight and evaluation of programmes. The office is established under the Ministry of Foreign Affairs and European Integration.
- 2. Project Implementation Units (PIU), responsible for the preparation of the programming document i.e. the preparation of terms of reference, application and moni-

toring the success in the implementation of projects. They provide support to NIPAC office in programming and monitoring the level of sectors/activities and the Implementing Agency in technical implementation at the contract level. These units are established under the Ministry of Sustainable Development and Tourism, the Ministry of Transport and Maritime Affairs, the Ministry of Finance, and the Ministry of Economy.

3. One or several implementing agencies (IA), responsible for the implementation of the contracts (public bidding, contracting, and paying), and the legality and regularity of incurred costs. The Directorate of Finance and Contracting of EU assistance (CFCU), established in the Ministry of Finance and the Directorate for Public Works, under the Ministry of Sustainable Development and Tourism, are defined as the implementing agencies.

Operating structure for cross-border cooperation (CBC) programmes include:

1. Head of Operating Structure (HOS), which main function is coordination and providing proper functioning of the overall structure. The body in charge of coordinating EU assistance programmes is established under the Ministry of Foreign Affairs and European Integration.
2. The cross-border cooperation body (CBC Body) with the tasked of programming and the implementation at the program level. The body is established under the Ministry of Foreign Affairs and European Integration.
3. Implementing Agency (IA), the CFCU is defined as the implementing agency and acts as a contracting authority.

If the contracting authority is located in another country beneficiary of the cross-border cooperation programme, the operational structure consists only of the cross-border cooperation body, managed by the operating structure manager.

Operating Structure for the Rural Development Programme (RDP) includes:

1. Management Authority (MA), is responsible for defining priorities and measures, i.e. the preparation, monitoring and evaluation of rural development programmes. The body is established under the Ministry of Agriculture and Rural Development.
2. Implementing Agency (IA), competent for implementing the measures and for the legality and regularity of incurred costs. The Directorate for rural development payment programme payments (IPARD), established under the Ministry of Agriculture and Rural Development, is the implementing agency.

Before sending the request for entrusting budget execution to the Commission, the NAO is obliged to ensure that the Management Structure and the appropriate Operating Structure meet the given conditions and the conditions of the Framework Agreement.

Requirements for entrusting budget execution were sent to the relevant Directorates General of the European Commission for Enlargement and Neighbourhood Policy (DG NEAR) for CAP and CBC programs and the Rural Policy (DG AGRI) for the RD programmes in March and August 2015, respectively.

The Request also contains the Certificate issued by the NAO, NIPAC and Head of Audit body, declaring that they are ready to perform the functions and responsibilities they are assigned according to Framework Agreement.

Before entrusting budget implementation tasks under the IPA II support, the Commission examines Request(s) and analyzes established structures and bodies and, according to the article of the Financial Regulation, provides evidence that the conditions set forth in the Framework Agreement are completed.

For all three requests for entrusting budget execution, NAO received Reports with positive opinion and gave certain guidelines and instructions for improving the system.

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Danko Dragović

Overview of legislation in the area of Customs Union adopted in 2015

In 2015, the Government adopted seven regulations in the area of customs union proposed by the Directorate for Customs System.

In principle, the Law on Customs Service ensured conditions for consistent application of customs regulations and determined authorities and accountability of Customs Administration.

To wit, it is known that the role of customs significantly changed in the last decade from fiscal to primary, referring to collection of customs duties, to current primarily referring to protection of customs area and population. The main customs' task is to protect citizens and their interests simultaneously facilitating legitimate trade, i.e. the application of measures ensuring balance between customs controls and trade facilities. The importance of customs and its role in improving economic prosperity through trade facility is present more and more, therefore economic entities exercising international trade justifiably expect efficient and economic customs proceedings from customs authorities.

These legal solutions will have positive effects on modernising of operations, strengthening administrative capacities and customs service integrity, and combating corruption, and will not incur additional costs to citizens and businesses. Since these are same for the modernization of customs service and for strengthening the administrative, technical and safety capacities, it is assessed that these solutions will have positive effect on the collection of customs duties, and to increase in total budget revenues.

The recent amendments to the Customs Law harmonised it with Council Regulation (EC) No 1186/2009 setting up a Community system of reliefs from customs duty and Council Directive 2007/74/EC on the exemption from value added tax and excise duty of goods imported by persons travelling from third countries. This expanded the list of customs exemptions (household items imported by citizens returning from abroad, or other persons on the occasion of the marriage; instruments and apparatus for medical research, diagnosis and treatment, fuel and lubricants contained in the tanks of road vehicles; coffins with dead persons etc.).

These exemptions are regulated in the Decree on conditions and proceeding for exercising right on customs duty exemption, which came into force in March 2015 containing the existing so-called “national exemption” not standard in the EU (e.g. equipment for the prevention of and extinguishing of fires; equipment imported by public authorities for their needs; donations to cultural institutions; goods imported to Montenegro as investment by foreign investors; cars used by persons with disabilities for personal use) which will stop to be applicable as of the accession date.

In addition to types of goods exempted from paying customs duty when imported to Montenegro, the Decree also lays down the proceeding for exercising of the right, which is not the issue of the *acquis communautaire*, but each member states determine the manner of exercising the right in its national legislation.

One of customs system’s main tasks is to assess risks in goods turnover. The customs services of EU Member States are determined to base controls over economic entities following risk management, taking into account measures economic entities took by themselves to prevent risk in operations.

Bearing in mind the abovementioned, and with a view to creating conditions for a more secure supply chain, and reducing customs services formalities referring to trade, the Government adopted the Decree on the conditions for granting the status of authorized economic entity in the customs territory of Montenegro introducing the institute of authorized economic entity into the national system.

Authorized economic entity may be defined as a reliable economic entity in terms of matters relating to customs and therefore entitled to enjoy the benefits primarily reflected in customs simplifications or facilities in terms of control, protection, and security.

Economic entities can obtain the status of authorized economic entity for customs simplifications, security clearance, or a combination of these benefits. In addition to these benefits, the authorization holder becomes subject to the smaller number of physical checks and documentation controls in relation to the other economic entities.

Every year, the Ministry of Finance proposes the Decree on customs tariffs to be in force in the next calendar year. The main changes in the Customs Tariff for 2016 refer to the reduction of tariffs and the nomenclature exchange.

The reduction of tariffs results from further liberalization agreed in the Protocol on Accession to the World Trade Organization. According to the Protocol, the liberalisation is done on 1 January every year and, in addition to reducing the basic tariff, is reflected on the rates agreed under the free trade agreement.

Compared to solutions from previous years, one of the changes in the Customs Tariff for 2016, refers to the Annex, i.e. the list of the least developed countries (LDCs) which are assigned the customs facilities. According to the Decision of the Ninth Ministerial Conference held in Bali in December 2013, developed countries, including Montenegro according to the WTO rules, are required to provide free market access for 97% of the products (by tariff lines) originating from the least developed countries. This refers to facilitating market access in line with the non-reciprocal preferential trade arrangements, in order to provide conditions for increasing the share of the least developed countries in international trade.

In addition, and bearing in mind the obligations arising from the process of Montenegro's accession to the European Union, it was necessary to align the Regulation for the implementation of the Customs Law with the provisions of Commission Regulation no. 2454/93.

Harmonization of preferential rules on the origin, and their uniform application, will additionally contribute to international trade facilitating and accelerating. These amendments include Annexes 3, 4 and 5 of the Regulation, which also provides additional harmonization regarding the processing and treatment of specific commodity, necessary for acquiring the non-preferential origin. The harmonisation was performed also in the provisions on the obligation to submit secure concise declaration before the importing, or exporting of goods from the customs territory of Montenegro using electronic data exchange system.

The regulation also introduces Decision on the managing tariff quotas according to the chronological order of dates of accepting customs declarations for free circulation releasing. With the exception of the chronology of dates of accepting customs declarations, tariff quotas distribution may be performed pursuant to separate regulation (the so-called system of licenses commonly used for importing agricultural products), upon the importer’s request for allocating a certain quantity of goods within individual tariff quota for the year to which the relevant Regulation on customs tariffs refers.

Upon the proposal of Customs Authority, the Ministry of Finance regulates special rights and obligations of



participants in the process of applying the tariff quotas system managed according to the chronology of dates of accepting customs declarations. Finally, the Regulation amends the provisions concerning the storage of retail goods, by allowing the sale of goods not only to diplomatic and consular staff, but also to passengers in passenger transport to another state.

The Regulation on postponing the customs debt was prepared late this year, and its application refers to the following year.

The Regulation was first adopted in end-March 2009, in order to mitigate the aftermath of the economic crisis and liquidity problems, and its use is necessary in the coming period, especially bearing in mind that the proposed solution will not have adverse impact on the state budget revenues, except on its dynamics. It prescribes deferral of paying customs debt within 30 days of acceptance of the declaration if the importer provides a bank guarantee. The third person is obliged to provide a bank guarantee if it assumed to pay the customs debt instead of the debtor.

These regulations, proposed by the Directorate of Customs System, and approved by the Government, have

been prepared in cooperation with colleagues from the Customs Administration. The Customs Administration, together with the Ministry of Finance, is responsible for the implementation of the aforementioned regulations.

Danko Dragović
Independent Advisor I
in the Directorate for Taxation and Customs System



Snežana Vujanović

National Committee for Trade Facilitation

1. Introduction

Trade Facilitation Agreement on is the first multilateral treaty after the Uruguay Round of Multilateral Trade Negotiations, which was passed during the Ninth Ministerial Conference of the World Trade Organization, held in December 2013 in Bali. Bearing in mind the standstill in the Doha round of multilateral negotiations, its importance is even larger because it shows the willingness of Member States to addressing issues within the WTO and further issues multilaterally.

It is expected that the application of the Agreement on the international level **will reduce trading costs** by 10 to 15 percent, which will record benefits between 400 and 1000 billion dollars, which should ultimately encourage the growth of global economy and create new jobs.

Increased transparency, better management and modernization and simplification of border procedures and controls are targets expected to be achieved by implementing this agreement. Business in predefined environment (at international and national levels), the publication and availability of information on the Internet, modernization of border procedures and controls are just some of the benefits for businesses, which will influence the reduction of their costs in addition to reducing

the time necessary for the implementation of procedures.

2. Establishing of National Committee for Trade Facilitation

Pursuant to Article 23.2 of the *Trade Facilitation Agreement*, each WTO member is obliged to “... **establish and/or maintain a national committee on trade facilitation or designate an existing mechanism to facilitate both domestic coordination and implementation of the provisions of this Agreement.**”

Given this fact, and the Conclusion of the Government of Montenegro, the Decision of the Minister of Finance in May 2015, established the National Committee for Trade Facilitation (the Committee). The Committee was established as a coordinating body that will monitor the implementation of the Agreement on Trade Facilitation at the national level. After consultations with international experts in this area, the solution was changed regarding the coordination and composition. The new solution envisages that the Committee has two co-chairmen, one from the Ministry of Finance and the other from the Ministry of Economy, and that the members of the Committee are the Director of the Customs Administration, Directors-General of the Ministry for Information Society and Telecommunications, the Ministry of Transport and Maritime Affairs,



the Ministry of Foreign Affairs and European Integration, Vice-President of the Chamber of Commerce of Montenegro, the Chief Phytosanitary and Veterinary Inspectors, Assistant Director of the Agency for Environmental Protection, and representatives of the Ministry of Justice, Ministry of Economy, Police Administration, Veterinary Administration and the Agency for Medicines and Medical Devices. The Secretary of the Committee is the representative of the Ministry of Finance.

The decision on establishing the formation of the Committee defines the tasks of the Committee:

1. *Monitoring the implementation of the Trade Facilitating Agreement at the national level;*
2. *Organization and coordination of activities between the public administration authorities and other national competent institutions in charge of the implementation of the Trade-Facilitating Agreement and the private sector;*
3. *Making recommendations to create, modify and implement legislation and strategic documents arising from obligations under the Trade-facilitating Agreement, in compliance with the best international practice of the WTO;*
4. *Improving and strengthening cooperation between private and public sector in the implementation of the Trade-Facilitating Agreement;*
5. *Providing the publicity and transparency in the process of implementing the Agreement on Trade-facilitating.*

The tasks of the Committee refer to providing coordination and cooperation between line ministries, the exec-

utive bodies, and the private sector with a view to effective implementation of the Agreement. The Committee will also make recommendations, provide technical support, introduce the public with the standards and practice, and work on improving and strengthening partnership and trust between the public and the private sector in the part referring to the implementation of the Agreement.

The **administrative team** will be responsible for technical and administrative and professional issues of the importance for the efficient functioning of the Committee. In addition, it will be dealing with the preparation of information, reports, plans and other necessary materials to assist the Committee in the decision-making process, and will be in charge and of preparing amendments to the Rules of Procedure. This team consists of five members (Ministry of Finance, Ministry of Economy, Customs Administration, Administration for Inspection, and the Montenegrin Chamber of Commerce), and is coordinated by the Secretary of the Committee.

3. Activities of the National Committee for Trade Facilitation

Since the establishing of the Committee, *three workshops were organised on the following topics: “From recommendation to obligations,” “The role and functioning of the National Committee for Trade Facilitation,” and “Revision of the provisions of category B and C of the Agreement.”* The first two workshops referred to consultation

and learning the best practice in the world for establishing such body while the third workshop was dedicated to reviewing and considering the provisions of category B and C, which, in addition to the transitional period (B and C), requires technical assistance for their implementation (C). These workshops were organized in cooperation with the Permanent Mission of Montenegro to the WTO, with the expert assistance of the World Trade Organization (WTO), the International Finance Corporation - World Bank Group (IFC), the International Trade Centre (ITC) and UNCTAD.

Moreover, the Committee held two sessions since September this year in which, inter alia, it adopted the **Rules of procedure of the National Committee for Trade Facilitation and the Decision on establishing the Administrative Team.**

The Committee also had its successful presentation at the Regional Workshop on *"National Committees for Trade Facilitation in CEFTA countries,"* held on 3-4 November, organized by USAID, and at the IFC2015 in Belgrade. The purpose of the workshop was to present examples of best practices in the world for establishing and functioning of such bodies, as well as to examine the state of play of the CEFTA countries relative to the obligation of establishing the Committee. **The progress of Montenegro was commended at this workshop, being the only country in the region that had not only established the Committee but established the complete structure for its functioning.** The presentation of the Montenegrin delegation was also formally different, since the private and public sectors had joint representation, thereby showing good cooperation in Montenegro and that the issue of preparing the entire system for the implementation of the Agreement is seen as a joint project.

4. Future activities

As already mentioned, in addition to the transition period, the acquisition of capacity to implement the provisions of category C, will require technical support. The abovementioned technical support includes consulting/expertise assistance for carrying out the training for developing specific knowledge and skills, preparation of legislation and annual plans, and the introduction to international standards and best practice in certain areas. Moreover, a large part of the support, both technical and financial, will be necessary for upgrading and linking information systems of the border authorities.

Member states are also expected to develop the so-called **"one-stop shop"** - a system that would allow the

electronic submission of all requested documents referring to import, export or transit in one spot, after which they would be presented to all relevant authorities. Decisions on requests would also be processed in the same way and delivered to applicants. In addition to harmonizing legal procedures, developing such a system requires providing substantial financial and technical support.

Bearing in mind the abovementioned and the coordination role of the Committee in the process of implementing the Trade Facilitation Agreement, the Committee's future activities will be committed to defining priority obligations from categories B and C of the Agreement and, accordingly, to preparing the detailed action plan, identifying and establishing contacts with international donors through diplomatic missions with the aim of finding technical support for the implementation of projects referring to trade facilitation, continued improving and strengthening of the cooperation between private and public sector through various forms of cooperation and consultation, and finally continuing the work on promoting and informing the public and business community about the activities of the Committee and the importance of the Agreement.

5. Conclusion

The establishment of a national mechanism for coordinating and monitoring the implementation of the Agreement is one of the most important measures in the area of trade facilitation. Its aim was to ensure consulting and involving all stakeholders from the public and private sectors in the preparation and implementation of reforms referring to trade facilitation. Bearing in mind the activities that have been undertaken in the past, it can be concluded that the obligations referring to establishing of such mechanism are successfully implemented. In the upcoming period, the Committee will be committed to the challenges in the implementation of reforms envisaged by the Agreement with the same zeal.

Snežana Vujanović

*Secretary of National Committee for Trade Facilities
in the Directorate for Taxation and Customs System*



Ivona Mihajlović

Info web activities of Ministry of Finance in 2015



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

"... Autumn analysis of macroeconomic developments and structural reforms provides for an analysis of the implementation of economic policy in 2014, as well as medium-term macroeconomic and fiscal projections for the period up to

2018. The previous year was characterized by moderate growth in economic activity, which resulted in a growth rate of 2 percent. The observed growth is the result of a number of important factors, principally the delay in investment projects for 2015, as well as adverse weather conditions recorded in July, which affected most sectors of tourism and agriculture, while negative electricity generation had an impact on lower growth rates of 1.2% per annum. In 2014, growth was achieved in the sector of tourism, trade, real estate and construction, with the evident good tax collection. According to preliminary data of the Ministry of Finance, the collection of budget revenues in 2014 was higher by 8.7% compared to the previous year. Also, according to preliminary data, the current account deficit amounted to about 1.1% of the estimated GDP, but given the expenditures for the repayment of liabilities from the previous period, in the amount of EUR 65 million, the budget deficit reached the amount of 2.9% of the estimated GDP. The macroeconomic growth scenario has been prepared for mid-term period, which envisages a more dynamic rate of economic activity in the future, particularly in view of the implementation of the announced investment projects. The budget for 2015 prescribed budget deficit of 0.85% of GDP, excluding the costs of financing of prefer-

ence route of the highway. In the future, the focus of fiscal policy will be a reduction in public debt levels, thus creating the conditions for construction of priority sections of the highway, and the strengthening of competitiveness and the implementation of structural reforms in all fields, in order to ensure dynamic economic growth and development. “



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

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



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

The CDT Infocentre held a press conference to mark the opening of the “Government for citizens and businesses” project, which is administered by the Ministry of Finance, the Office of the United Nations Development Programme (UNDP), with the support of Active Citizenship Fund, CDT and SEECOM. The project involves the launch of a broad dialogue with the aim of identifying, eliminating over-regulation and unnecessarily complicated and long procedures of public administration at

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

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

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



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

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



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



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

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

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

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

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

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

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

3 April 2015 - "Be responsible" campaign continues in 2015

After highly successful implement of two phases of the “Be responsible” campaign during which citizens reported over 5 thousand irregularities in the area of shadow economy and which resulted in issuing pecuniary fines at the amount of over 1,100,000 euros, the Government decided to continue the campaign by the end of 2015. This will enable further collection of funds to finance projects of wider social importance, proposed and supported by citizens themselves. We are reminding that, since the campaign started, some 550,000 euros were redirected to 11 projects of general social importance to finance activi-

ties on the project “Inclusion of residents into combating shadow economy”.



The amount of imposed pecuniary fines based on citizens' reporting will finance investments at the list of previous 11 proposed projects which have not qualified for financial support on the basis of the amount of imposed fines in 2014 according to the new formula amounting to 30% of the amount of imposed fines, and according to ranking list established on the basis of population's support. To provide project's sustainability beyond 2015, 5% of the amount of pecuniary fines imposed by citizen's reporting will be directed to finance activities on the project "Inclusion of residents into combating shadow economy".



9 April 2015 - Third round of internal auditors' training opened; Montenegro is the best in the region

The third round of the programme of training and certification of internal auditors in Public sector (TIAPS III), organised by Ministry of Finance in cooperation with Centre for Excellence in Finance (CEF) and Chartered Institute of Public Finance and Accountancy (CIPFA) and financially supported by the Government of Germany, was opened in Podgorica. Emphasizing the importance of internal audit as a precondition and key instrument of accountable and

professional management of public funds, Mrs. Krsmanović pointed out that, owing to the programme, we have 44 certified auditors whose success has been recognised internationally, which has given better quality to audit reports. Moreover, Director Krsmanović reminded that over 96% of budget spending is currently covered with internal audit, strongly indicating that public administration seriously understood the need and importance of quality training of internal auditors. Commending the Government of Montenegro's efforts to also comply with these EU standards, H.E. Ambassador Steinacker indicated that, as it has been the case so far, the Embassy's assistance would not fail, and assured that the new generation of attendees will give stronger contribution to the work of public administration institutions. Mrs. Dobovšek particularly emphasised the success of Montenegrin auditors who, owing to achieved results, have become the best and the most professional in the region, as well as pointing out that internal audit's quality needs continuous improving, since it is the most efficient instrument in combating corruption and inefficient managing of public funds. Continuous improving of internal audit competences and skills in public finance management is the backbone to high quality service providing in public finance management, said Mr. Gary Gilbert, emphasising that improving professional capacities is a must in the upcoming period.



11 May 2015 – Ministry of Finance publishes Bulletin XXXIV

15 May 2015 - Standard and Poor's confirms last year's rating for Montenegro

Reputable rating agency Standard and Poor's published new Report On Montenegro, whereby confirming the ear-

lier outlook of Montenegro's economic growth potential, and assessed it as B + / B. Moreover, Montenegro's stable outlook has been confirmed, which indicates that further rating trend is based on stable positions. Experts of the Standard and Poor's forecasted that Montenegro's economy will grow 3.4% in average until 2018, owing to increase in investment activity dominantly in tourism, energy and transport infrastructure. In addition to positive implications to be generated by the construction of the Bar-Boljare highway, recognised a an economic growth generator, experts warned to the public debt and deficit growing trends which may pose significant risks to stability an sustainability of public finance in the upcoming period, particularly bearing in mind the absence of possibility to issue currency and Montenegro's monetary passiveness. The Report commends fiscal consolidation measures performed continuously by the Government of Montenegro.

3 June 2015 – Information on recorded fiscal revenues

During this year, the Ministry of Finance continued the measures on stabilisation of fiscal revenues, so the data on recorded collection point to the established significant level of fiscal revenues sustainability. As the Ministry of Finance data shows, revenues of the Budget of Montenegro amounted to 258.3 million in the period January-march 2015, being 6.0 million euros or 2.4% higher than planned. Compared to the same period of 2014 (when they amounted to 253.6 million euros), they grew by 4.7 million or 1.8%. Similar trend continued in April this year, when the recorded budget revenues amounted to 111.5 million euros, or 0.6 million euros, or 0.6% more than planned, as well as 2.4 million or 2.2% more than in April 2014. In the upcoming period, the Ministry of Finance will continue to implement similar measures in cooperation with relevant authorities, as well as continue in pursuing an accountable fiscal policy, primarily reflected through expanding taxation base, thus enabling higher degree in collection of public revenues. Data that the plan was accomplished in the period prior to tourist season is encourages, and good results may be expected during the tourist season being the period when the largest revenues are being recorded.

4 June 2015 Statement Miodrag Radonjić, Director of the Directorate for State Treasury in the Ministry of Finance, after the session of the Government of Montenegro when discussing the proposal of the Law on the Final Account of the Budget of Montenegro for 2014



"On its today's session, the Government of Montenegro adopted the proposal of the Law on the Final Account of the Budget of Montenegro for 2014, whereby the last year's budget was executed with 1,457 million of consolidated fiscal expenditures. The dominant share in the structure of these expenditures includes current expenditures and social transfers, while the share of capital budget was 134 million. The revenues side recorded 1,354 million revenues, primarily from taxes and contributions, which clearly indicates that the deficit amounting to 103 million euros was recorded. Such deficit was almost a half of the one recorder one year earlier, which is definitely a positive trend indicating that our policy and the policy pursued by the Government are good, although we may not be satisfied with the deficit amount, which indicates that we spent more than we collected. However, the good side of this generally negative indicator is that capital budget amounted to 134 million euros, which means that this segment, where spending was higher than collection, was invested in permanent goods and goods that generally generate higher value. The deficit of 103 million, which equals to 3% of the GDP, is on the threshold level, and warns us to sustain from unnecessary consumption and to bring deficit to balance, i.e. lead our budget to balance to spend the same as we collect."

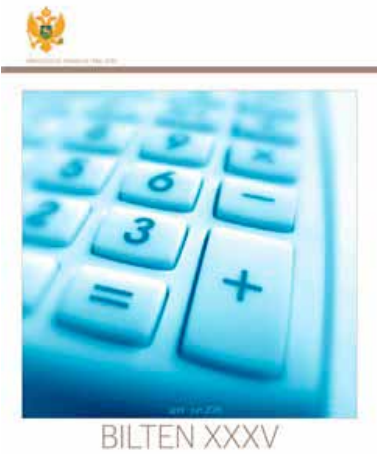
9 June 2015 - Info session on publishing the Call for proposals for the grant scheme "Transfer of knowledge between sectors of Higher Education, Research and Industry", financed from Instrument for Pre-Accession (IPA) – I conducted

The Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) of the Ministry of Finance of Montenegro organized the first Info session on publishing the Call for proposals for the grant scheme "Transfer of knowledge between sectors of Higher Education, Research and Industry". During the Info session, attended by

representatives of the Ministry, municipalities, companies and NGOs, the Guidelines for grant applicants and the Application package were presented, with the instruction on filling in the Application Form and accompanying documents.

22 June 2015 – AFCOS seminar held

Representatives of the Department for suppressing irregularities and frauds (AFCOS office) under the Ministry of Finance, and members of AFCOS network, attended the AFCOS seminar held in Belgrade on 17-19 June 2015. During the seminar, organised annually by the European Anti-Fraud Office (OLAF), participants had an opportunity to introduce with the organisational structure and the manner of functioning of AFCOS of EU Member States and candidate countries. The two-day seminar included group discussions for exchange of experience, which provided good opportunity to improve cooperation between countries with regards to protection of common financial interests of the EU, being the primary objective of this event. Some discussed topics included cooperation between OLAF and relevant authorities, effects of applicable legislative initiative to the protection of the financial interests of the EU, current challenges regarding the report in irregularities, and particularly the Strategy for combating frauds with a view to protecting financial interests of the EU, adopted by Montenegro this April, which was highly commended.



17 July 2015 – The Ministry of Finance published Bulletin XXXV



23 July 2015 - Statement by the Director General of the Directorate of Budget in the Ministry of Finance Nikola Vukicevic, after the Cabinet meeting for the adoption of Communication on public finances at the local level

"... This Communication deals primarily with local governments beneficiaries of the Equalization Fund, and the municipalities facing problems with overdue obligations and current liquidity. Through the adopted mechanism, the government wishes to provide opportunity and further support primarily the municipalities in a difficult financial situation, and provide long-term financial sustainability through a remediation plan. In cooperation with the Union of Municipalities it made a cross-section of the financial status of municipalities, showing that about 65 million euro of debt could be reprogrammed. What is new compared to the previous Communication is the additional information that the Government requested the Ministry of Finance, when preparing a draft budget law 2016 to foresee the issuing of government guarantees for financial consolidation of local governments in a way that collaterals from municipalities to the central government would become the funds of the Equalization Fund (to the extent that each beneficiary has), and the total guarantees would amount to 70 million euros. By 2016, this way local governments would refinance existing obligations towards financial institutions, primarily local, given that these are loans burdened with very high interest rates from 8 to 12-13%. At the session we have not considered loans that are taken in international institutions as they are long-term and development-oriented loans, taken under very favorable financial conditions. In addition to the refinancing of liabilities to financial institutions, it provides for the settlement of liabilities to suppliers and the implementation of social programs. By 2016, in addition to the issue of guarantees, the government will guarantee to banks by means of Equalization Fund and, if the latter is exhausted,

but in our opinion, we will not get into that danger, the government is ready to take advantage of what is available under the Budget Law as a last mechanism, the funds of the current budget reserve. On the other hand, local governments are required to conclude an agreement with the Ministry of Finance, which will later be confirmed by the Government, which will specify obligations that local governments must fulfill in order to ensure financial sustainability, and the same will be a prerequisite for guarantees to be issued by the government or the Ministry of Finance. Parallel to this process, the Ministry of Finance continues to negotiate with the World Bank, which has expressed its readiness to provide technical support to the recovery of local governments, and we have positive signals that the World Bank will consider the possibility to enter into specific financial arrangements to heal local governments, but that it is still early to say. "



16 September 2015 - Statement by the Director General of the Directorate for Budget Nikola Vukicevic, at a press conference on the occasion of the presentation of the project "Monitoring the local budget in Montenegro - www.mojgrad.me."

"... Mojgrad.me portal is a project of budget data visualization in Montenegro, which was created within the Monitoring Local Budgets project, as a result of cooperation between the NGO Alternativa Institute, the United Nations Development Programme and the Ministry of Finance. Recognizing the importance of improving transparency and accountability in the management of municipal finances, the Ministry of Finance has responded positively to this request and endorsed the upgrading of the portal that serves as a platform for monitoring local budgets in Montenegro. In some ways this activity coincided with the activities conducted by the Ministry of Finance, together with all the local governments, in the process of restructuring their debts, to bring the local level finances in a viable position in the long run, both for the local governments and the general public finance system. Regarding the portal, it

should be noted that the process of integrating all available data in one place and presenting them in an easy and visually appealing way, could make it possible to present local budgets to the citizens of local governments, but also all those who are interested in public finances at local level. Upgrading the portal primarily involves supplementing the portal with information from the period from 2012 to 2015, followed by visualization of data relating to specific budget lines, which are of particular interest to citizens, as well as visualization of the strategic plan of the Capital. Local governments and their businesses are an important segment of the overall fiscal system, i.e. the entire public finance system, and hence the condition and trends of public finances in local governments significantly affect fiscal sustainability, financial stability, as well as the quality and prospects of economic development on the level of local governments, as well as on the state level as a whole. Financial stability and sustainability of local governments are one of the priorities and key tasks of the Ministry of Finance, which is why it recognized the importance of supporting such projects. What makes this project particularly interesting is its interactivity, and the use of new technologies, in order to allow greater access to information, thus affecting the encouragement of public service efficiency. It therefore entails the possibility for citizens and financial markets to favorably assess the financial position of the government, and we hope in the future the financial position of a local government, which will in a future period appear as players in international financial markets. Recognizing the importance of a proactive approach in this field, the Ministry of Finance will continue to invest in projects of social importance, which will ultimately contribute to the strengthening of trust in the work of state administration. "

24 September 2015 - Statement by the Director General for Central Harmonization in the Ministry of Finance mr Ana Krsmanovic, after the Cabinet meeting on the occasion of the adoption of the Draft projection of macroeconomic and fiscal indicators for the period 2015 - 2018, and establishing the Draft Law on Amendments to the Law on Excise Tax

"Through the document "Projections of macroeconomic and fiscal indicators for the period 2015-2018," projections of spring growth of gross domestic product have been updated, as well as other macroeconomic indicators relevant to the macroeconomic policy in the medium term. These projections will serve as a basis for preparing the budget for 2016, as well as economic reform program for 2015-2018, which the Government of Montenegro each

year submits to the European Commission. Montenegro, as an open economy, is susceptible to influences from the immediate and extended environment, that is, international markets that affect the growth of economic activity.



The growth of economic activity in the medium term, based on high inflow of investments and high investment activity, both domestic and foreign direct investments, along with the continued implementation of structural reforms, should contribute to increased competitiveness of the Montenegrin economy and sustainable growth of the economy. The projections take into account developments on the world market, which inevitably have an impact on the economy in Montenegro. The IMF in July 2015 published updated projections with growth of the world economy declining by 0.1 percentage points compared to the previous projection, so that the growth of the world economy in 2015 will be 3.3 percent. Reduced projected growth rate in 2015 at the global level contributed to the lower growth rates in North America, a slight increase in the European Union and further lower than expected economic growth in China this year. The real growth rate in Montenegro in the first quarter according to data of MONSTAT was 3.2 percent, while estimates of the Ministry of Finance show growth of 3.6 percent in the second quarter. The positive impact on growth had all sectors, especially construction and tourism, and on the basis of the information available so far, about the tourist season and the movement of other macro data, the Ministry of Finance estimates that the GDP growth for this year would be 4.3 percent. For the period 2015-2018, the projected average GDP growth is 3.8 percent, which means 4.1 in 2016, 4 percent in 2017 and 3 percent in 2018. In the same period, we expect a slight increase in prices, primarily due to significant investment activities, which are expected in the next year and which will boost economic activity. As far as the fiscal position this year is concerned, budget revenues in the first eight months amounted to 839.8 million euro, which is 23.2 percent of the estimated GDP. Planned revenues in the reporting period amounted to 834 million, so the plan was exceeded by 5.8 million or 0.7 percent. Compared to the same period last year revenues increased by 17.8 million or 2.2 percent. Budget expenditures in the

eight-month period this year amounted to EUR 934.8 million or 25.5 percent of GDP, and in comparison to the same period last year were higher by 5.3 percent or 47.4 million, which was caused by an increase in interest expense due to the early repayment of debt, increased capital budget spending by 20.7 million euro and the repayment of liabilities from the previous period. In the first eight months a cash deficit of 95.1 million was recorded or 2.6 percent of the estimated GDP. Regarding trends by the end of 2015, it is expected that budget revenues will amount to around EUR 1.34 billion and will increase by 12.6 million compared to what was planned by the Budget Law, while budget expenditures will remain at the planned level of 1.56 billion euros. The budget deficit for 2015, according to current estimates, will amount to 223.2 million euros or 6.2 of the estimated GDP, which is less than planned by 12.6 million euros."

As at October 1, 2015, the Campaign Be responsible: Introduced a new way of voting for projects of common interest under the third phase of the campaign "Be responsible. It depends on you. Grey Economy 0% "

The project team of the campaign "Be responsible. It depends on you. Grey Economy 0%" informed the public that from October 1 it was released a system of voting for the projects of general public importance. All citizens are allowed to vote via the link <http://glasaj.budiodgovoran.me>, which can be accessed through the web portal Be responsible. When voting in this manner, it is not necessary to report an irregularity in the grey economy. In accordance with the established rules, with the mandatory registration, the citizens can vote through the portal once for one of the eleven projects from a list of suggestions. The new method of voting was introduced appreciating the suggestions obtained in communication with citizens, but also through a detailed analysis of public opinion, with the purpose of simplifying the procedures, achieving greater transparency in the entire process of voting, as well as preventing possible abuses and malpractice. We recall that the irregularities in the grey economy can still be registered via web, Android and iOS apps "Be responsible", by calling call centers of the Tax Administration (19707) and the Directorate for Inspection Affairs (080 555 555), and that the received applications can be searched and the status of actions taken on those monitored by using the ordinal number of the application. The project team has been continuously working on the expansion and strengthening of the functionalities of the Be responsible portal, and thus the recent amendments provided for the citizens the opportunity to make a complaint if the application submitted was

not answered within the statutory period, as well as the suggestions for improving the work of the project team and the departments responsible for dealing with complaints. Campaign "Be responsible. It depends on you. Grey Economy 0%" is realized within the project "Involvement of citizens in combating grey economy" which is being implemented in a collaboration of the Government of Montenegro, Faculty of Electrical Engineering in Podgorica and the Office of the United Nations Development Programme (UNDP).

October 12, 2015 - the Ministry of Finance with the financial support of UNDP started the implementation of the Project of training of accountants in the public sector in Montenegro

The Ministry of Finance, together with the Centre for Excellence in Finance (CEF) from Ljubljana, started implementation of the project of training of accountants in the public sector of Montenegro (Public Accountants Certification Training - PACT). Funding for an internationally recognized certification program was donated by UNDP. The Training Program of accountants is part of the efforts of the Government of Montenegro to strengthen the professional qualifications of accountants in the public sector. High quality financial reporting is essential to effective management in the public sector, and it is based on a highly developed function of accounting. PACT provides training to accountants in accordance with international accounting standards for the public sector, thus raising the accounting profession in the public sector to an internationally recognized level. Textbooks for the PACT training are made by the Chartered Institute of Public Finance and Accountancy (CIPFA) from Great Britain, which will reward the successful trainees with an internationally recognized certificate and diplomas. The financing of the preparatory phase of the project, which involves the selection and training of trainers, translation of training and analysis materials and accounting functions in national legislation, is secured by the end of 2015. Implementation phase of the project began in 2016 and it aims at training of 40 accountants in the public sector of Montenegro.

October 28, 2015 - the World Bank published the Doing Business Report 2016

The World Bank has announced the thirteenth Doing Business report for the period June 2014 - June 2015, covering 189 economies. In a new report, Montenegro was on the 46th position on the list of 189 ranked countries. Considering the fact that in this year's report, there has been

a change in the methodology in 7 out of 10 indicators, in the areas of "issuing building permits", "getting electricity", "registering property", "cross-border trade", "protection of minority investors", "solving the problem of insolvency" and "execution of the contract" on the occasion of the global ranking of countries in DB2016, there occurred a significant shift. In this regard, last year's global ranking, where Montenegro was ranked 36th, has been revised so that, under the new methodology for the period June 2013 - June 2014, our country was given 47th position. Therefore, compared to the prior year, Montenegro achieved a progress in the global ranking for 1 position, occupying the 46th position in this year's report. The change in methodology aims to expand the scope of a set of indicators that primarily measure the efficiency of transactions or services, to cover aspects of the quality of the service, as well as expanding the scope of a set of indicators, which already measure some aspects of quality of regulations, to include recent good practice in the covered areas. Montenegro's progress recognized in the most recent report was made, first of all, thanks to reforms made in the areas of "issuing construction permits" and "paying taxes". In the area of "issuing building permits", Montenegro has made progress for 11 places. Taking position 91 in the global ranking, primarily due to the activities undertaken in part to shorten the duration of the procedure (from 158 to 154 days) and reduce of costs. In the area of "paying taxes", Montenegro has made progress for 33 places, taking position 64 in the global ranking. Montenegro has maintained last year's position in the indicators "enforcing contracts" and "cross-border". For the indicator "starting business", Montenegro has moved down for 4 positions, and with the indicator "obtaining electricity," our country has moved up for 1 position. As for the "real estate registration", Montenegro has moved down for 2 positions, thus taking position 79 in the global ranking, while in the area of "getting loans", it recorded a slight moving down from 6th to 7th position in the global ranking, although progress has been made in the index of possession of credit information. In the area of "protection of minority investors", Montenegro has decreased by 3 positions, thus taking 36th position, while, at the indicator of "problem solving insolvency", moving down has occurred from 33rd to 36th position, although the position in the sub-indicators remained unchanged when compared to the previous year. Out of the countries in the region, this year, in comparison to Montenegro, higher position was taken by Macedonia (12), Slovenia (29) and Croatia (40), while the lower positions were taken by Serbia (59), Kosovo (66), Bosnia and Herzegovina (79) and Albania (97).



October 27, 2015 - the Ministry of Finance published Bulletin XXXVI



November 4, 2015 - the beginning of the campaign "No Barriers. Let the work does not stand still!"

The campaign "No Barriers. Let the work does not stand still!", intended for entrepreneurs who are faced with challenges in the business performance, shall ensure easy reporting on those obstacles. Through the presented platform, the entrepreneurs shall indicate to the state administration and local self-governments the regulations and administrative practices that should be changed or abolished. Now, the entrepreneurs have the opportunity to point through the website www.bezbarijera.me to the challenges they face in their daily operations when starting and developing businesses, as well as to propose solutions to eliminate these barriers. The aim of this project is to launch a broad public dialogue that will reach an improvement in business environment, with a focus on the elimination of barriers that exist at the local level, while, as explained by the Director General of the Directorate for Financial System and Business Environment Improving of the Ministry of Finance, Bojana Bošković, the ultimate goal is that, on these grounds, the government and the local self-government focus on removing the barriers reported by the entrepreneurs. The "No Barriers. Let the work does not stand still!" was modeled

after the Red Tape Challenge implemented in Great Britain, which, so far, brought to Great Britain a saving in the the economy for ten billions of pounds. Montenegrin Employers Federation is one of the partners in the implementation of this campaign that will benefit the entrepreneurs in the presentation of their own experience and more concrete determination in the part of challenges faced in everyday business performance. The "No Barriers. Let the work does not stand still!" is a part of the project "Administration serving the needs of citizens and businesses", implemented by UNDP in Montenegro in cooperation with the Ministry of Finance, with the support of the British Embassy in Podgorica and other partners. The project was designed in cooperation with the Association of Communicators of the public sector of South Eastern European Countries (SEECOM - South Eastern European Government Communication Conference), modeled on the British "Red Tape Challenge".

November 13, 2015 - Confirmation of the rating of outlook of economic growth 'B+/B' for Montenegro; The outlook stable

Credit rating agency Standard and Poor's published a new report for Montenegro, which confirmed the earlier credit rating 'B+/B'. Also, our country was confirmed stable outlook, indicating that further movement of the rating is based on stable positions. Noting the success of implementation of fiscal consolidation measures, the analysts of the Standard and Poor's estimates that, in the period from 2015 to 2018, the Montenegrin economy will grow by an average percent of 3.1, due to growth in investment activities, predominantly in the tourism and energy sectors. In this regard, the assessment of real GDP growth for 2015 is 3.3% and 3.8% for 2016. Although it is the expectation of experts that the deficit in the current year will exceed 6% of GDP, it will also have a decreasing trend in the period until 2018, when it will amount for less than 4% of GDP, as a result of the Government's tax reform program and efforts in combating the grey economy. Although the construction of the priority section of the highway Bar-Boljare, which began in this year, will strongly support the economic growth in the coming five-year period, it is the opinion of the representatives of the foregoing agency that it could cause an increase in the level of public debt and, therefore, pose a potential risk to public finances.

November 17, 2015 - Held the Meeting of the Subcommittee on Economic and Financial Matters and Statistics

In Podgorica, it was held a meeting of the Subcommittee on Economic and Financial Issues and Statistics, where

the representatives of Montenegrin institutions presented to the European Commission the progress made in the period November 2014 - November 2015 in the following areas: macroeconomic stability; public finance; development and reform of the financial system; strengthening the competitiveness of the economy and statistics.



On behalf of the Government of Montenegro, the meeting was co-chaired by Director General in the Ministry of Finance, Ms. Bojana Bošković, and, on behalf of the European Commission, Deputy Head of Unit in the European Commission's Directorate-General for Economic and Financial Affairs Mr. Uve Stam and Deputy Head of Unit in the European Commission's Directorate-General for the neighborhood policy and enlargement negotiations, Mr. Tomas Huglightner. The meeting was attended by representatives of the Ministry of Finance, Central Bank, Ministry of Labour and Social Welfare, Monstat and Deputy Prime Minister for Economic Policy and Financial System. Sub-Committee on Economics, Finance and Statistics is one of the joint sub-committees established under the Stabilisation and Association Agreement, which is being held in order to have a regular monitoring and analysis of implementation of the Agreement. Representatives of Montenegrin institutions presented to their colleagues from the European Commission the updated and detailed information on the results achieved, with emphasis on key activities carried out in the period since the previous meeting. The EC representatives stressed the importance of continuing the dialogue in the field of economic governance, which is the one of three key issues in the enlargement process. The EC also underlined that it encouraged the return of growth of the Montenegrin economy, but it stressed that it should closely monitor the risks related to macroeconomic imbalances. They welcomed the steps implemented by the government with the aim of fiscal consolidation. The EC emphasized the importance of structural reforms and further improvement of the business environment. In this context, there was welcomed the progress made in numerous initiatives, and, in particular, it was stressed the importance of reforms related to enforcing contracts and resolving insolvency. The EC also welcomed the progress in the field of statistics with

respect to the further harmonization with the EU acquis.

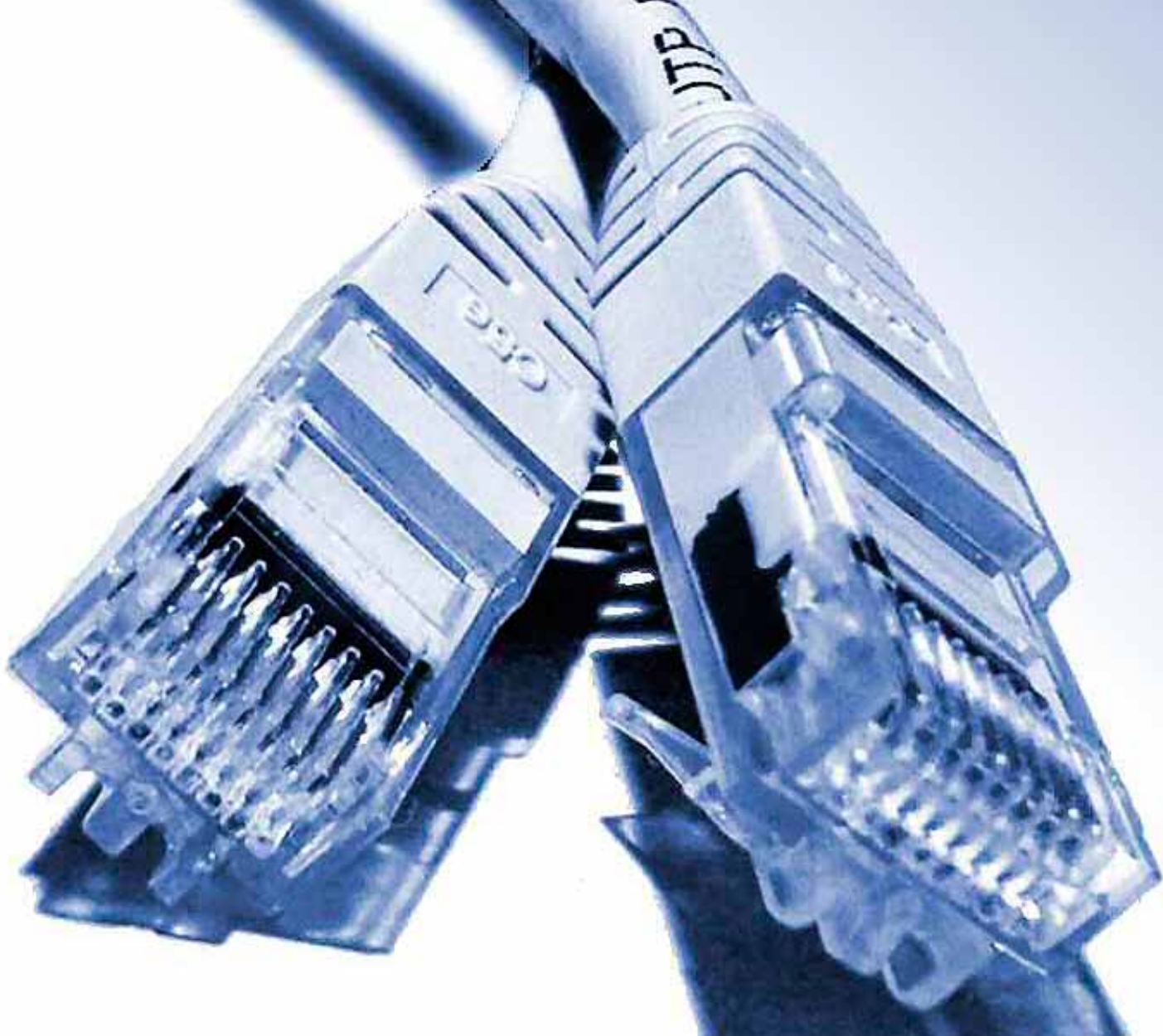


November 20, 2015 - Seminar was held on the theme "Prevention and fight against fraud, misappropriation and irregularities management in order to protect the financial interests of the EU"

In the cooperation of the Administration for Human Resources and the Ministry of Finance, it was held a seminar on "Prevention and the fight against fraud, misappropriation and irregularities administration in order to protect the financial interests of the EU". The trainers were the representatives of the Ministry of Finance, Anja Pavličić, Independent advisor in the AFCOS office and Velibor Damjanovic, Independent advisor at the Directorate of the National Fund. The general objectives of the seminar were introducing to the officials the adopted Strategy for the fight against fraud and irregularities management in order to protect the financial interests of the EU, upgrading the knowledge of the officials on the channels of communication between the authorities working on tasks related to the IPA, the reporting and communication within the AFCOS network, introducing to the officials the contents of chapter of irregularities governed by the officials responsible for this area, as well as improving awareness in the field of distinguishing the concepts that differentiate irregularity, technical or administrative error, including practical examples from the region. The participants of the seminar have gained practical knowledge in the field of irregularities that will help them in future to more easily and more efficiently manage the event of a specific suspicion of an irregularity. The seminar was important in terms of building constructive and collegial relations within the network of officials working on the same tasks in different institutions.

December 7, 2015 - Held the Workshop on the theme "Audit of the provisions of Categories B and C of the Agreement on Trade Facilitation"

The National Committee for trade benefits, under the mediation of the Mission of Montenegro to the World Trade



Organization (which has provided expert support of IFC), in cooperation with the Office of the International Finance Corporation (IFC) - the World Bank Group, organized a workshop on the theme "Audit of the provisions of categories B and C of the Agreement on Trade Facilitation". Together with the representatives of relevant ministries and executive bodies, the workshop was attended by representatives of the Montenegrin Chamber of Commerce and the private sector. In opening remarks, it was pointed out that the process of establishing a national committee for trade facilitation, as one of the most important provisions of the Agreement on trade facilitation, was successfully completed, and now it moves to the next phase of implementation of international obligations set forth by this Agreement, which shall, upon the entry into force at the level of the World Trade Organization, be binding for Montenegro. The next stage is the audit of the provisions

of categories B and C, for which, in addition to the transitional period (B, C), it will be needed the technical support and upgrade of the capacities (C). Benefits from the implementation of this agreement will relate to the simplification of procedures at the border, increase in transparency and creation of equal conditions for all signatory countries. Today's workshop was dedicated to the audit of the provisions of categories B and C of the Agreement, which included an analysis of the current position of Montenegrin legislation and capacities we have on disposal in comparison with what is provided for by the Agreement. Also, there were identified the barriers and defined the needs to overcome those. In accordance with the above stated, it was made a harmonization of deadlines for implementation of commitments. The next step in order to fulfill the obligations under the Agreement will refer to the preparation of a detailed action plan.



December 8, 2015- The first-ranked projects of general public importance were awarded the grant contracts on donation in the third phase of the campaign "Be responsible. It depends on you. Grey Economy 0%"

At a press conference held at the Eco building of UN in Podgorica, the holders of projects who, during the third phase of the campaign "Be responsible. It depends on you. Grey Economy 0%", got the highest number of votes of citizens were awarded by Bojana Bošković, the Director General of the Directorate for financial system and business environment improving of the Ministry of Finance, the grant contracts with a total value of 143,052.10 EUR. Projects that will, by the decision of citizens be financed by money collected during the campaign, "Be responsible" are:

- Procurement of apparatus for mechanical ventilation (respirator) for babies – the Institution responsible for the implementation - the Clinical Centre of Montenegro, Center for Neonatology of the Institute of Diseases (387 votes, donations of the values of 48,688.90 EUR),
- Construction and equipping of a part of Special Hospital for Psychiatry "Dobrota" Kotor – the Institution responsible for implementation - HI Special Hospital for Psychiatry "Dobrota", Kotor (273 votes, donations of the value of 50,000.00 EUR),
- Equipping of Daycare centers for children and youth with disabilities in Bijelo Polje, Mojkovac and Ulcinj - Institutions responsible for implementation: PI Daycare center for children with disabilities "Tisa", Bijelo Polje, PI Daycare Center for Children and Youth with disorders and disabilities, Mojkovac and PI Daily Center for Children and Youth with disabilities "Sirena", Ulcinj and the Ministry of Labour and Social Welfare (247 votes, donations of the value of 44,363.20 EUR).

The ceremony of delivery of the grant contracts was preceded by summarizing the results of previous campaigns. On this occasion, Bojana Boskovic, Director General for the financial system and the business environment improving in the Ministry of Finance, emphasized that the realization of the campaign

clearly demonstrated the power of collaboration of citizens, academia, international partners and national institutions in order to create new social values. "The project has created a scenario where everyone wins, giving citizens the opportunity to express their concerns, while the public sector in real time receives information about various irregularities, it was created a culture of transparency and two-way communication," said Fiona Mekluni, the Resident Coordinator of the UN System and permanent representative of UNDP in Montenegro. The Dean of the Faculty of Electrical Engineering of the University of Montenegro, prof. dr Zoran Veljovic, stressed the importance of the platform, referring to the numerous awards so far received by the project "The Faculty of Electrical Engineering showed the direction in which to move the scientific research activity, and this is precisely the social well-being. "The aim of the campaign was to allow citizens to, in a simple and fast way, draw attention to irregularities such as failure to issue fiscal receipts, moonlighting, violations of consumer rights and irregularities in the bathing area, and help the relevant institutions to successfully deal with the grey economy. Part of the funds collected in this way was redirected to projects of social importance, which were proposed and voted for by the citizens themselves. From the beginning of the campaign till nowadays, there were imposed penalties in the value exceeding 1,600,000 EUR, out of which more than 700.0000 EUR was redirected to the realization of 14 projects of social importance.

Noticed irregularities can be still reported by the citizens with the mobile application Be responsible, through the website www.budiodgovoran.me and call centers of the Tax Administration (19707) or of the Inspection Directorate (080 555 555). Campaign "Be responsible. It depends on you. Gray Economy 0%" will last until December 31, 2015, with the possibility of continuation, which will be decided by the Government of Montenegro. It is implemented within the project "Involvement of citizens in the fight against the grey economy" implemented by the Ministry of Finance, Faculty of Electrical Engineering of the University of Montenegro and the Office of the United Nations Development Programme (UNDP) in Podgorica.

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Continuous professional education of Authorised internal auditors in the Public Sector

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

The legal framework for internal audit in the public sector in Montenegro comprises of the Law on Internal Financial Controls in the Public Sector and the secondary legislation adopted according to the Law.

Within the meaning of the abovementioned Law, the public sector includes beneficiaries of the Budget of Montenegro, budgets of municipalities, state funds, independent regulatory bodies, joint stock companies and other legal entities in which the state or municipalities have a

controlling share.

The framework for the internal audit operations comprises of the Code of Ethics of Internal Auditors and the International Standards for the Professional Practice of Internal Auditing (IIA) and the Internal Audit Guideline of the Ministry of Finance.

Authorized internal auditor in the public sector is a person who has acquired a authorized internal auditor certificate in the public sector, pursuant to the Law on the internal financial control system in the public sector.

The internal audit is performed by internal auditors who, in addition to the certificate, have to possess the knowledge, skills and other capabilities required from an internal auditor to efficiently perform audit with the view to adding value to audited entity. knowledge, skills and other capabilities is a common term for the professional

expertise required to internal auditors for the efficient performing of internal audit.

Knowledge is a set of information needed to conduct internal audit, such as knowledge of the specific audit techniques, risks, controls and the like.

Skills indicate the ability to perform internal audit tasks, such as interviewing, communication with employees, writing audit reports and the like.

Expertise (skills) is the ability to apply knowledge in auditing.

Therefore, knowledge and skills include the ability to apply internal audit standards, procedures, and techniques that are necessary to perform the audit, knowledge and understanding of accounting principles and techniques, to understand management principles in order to recognize and evaluate the materiality and significance of deviations from normal business practices, to detect the existence of the problem or to detect potential problems, to determine whether it is necessary to introduce additional procedures, as well as high level skills in identifying risk and design and evaluate the adequacy and effectiveness of internal controls.

Understanding is the ability to apply broad knowledge, recognise significant deviations and to make researches required in the performing audits in order to come to a reasonable solution, in accordance with the priorities of the entity's management.

Internal auditors have also to possess the subjective skills such as objectivity, independence and impartiality, enthusiasm, and constructive approach to tasks, teamwork ability, ability to distinguish between important and non-important, positive attitude towards co-workers, cooperation, interviewing, sampling, and retrieval of data skills, clarity and persuasiveness in verbal and written communication, skills of making high-quality reports, and the like.

The importance of knowledge, skills, and other abilities are not only the requirements of the International Standards for the Professional Practice of Internal Auditing, but also of the Code of Ethics of Internal Auditors (IIA). According to the fourth principle of the Code of Ethics "expertise" - internal auditors apply the necessary knowledge, skills, and experience necessary to perform their internal audit tasks in quality manner. The rule originating from this principle requires from internal auditors to provide only assurance and advisory services for which

they possess the necessary knowledge, skills, and experience, and **to continuously improve their expertise**.

Internal audit has to be performed professionally and with due professional care. Proper functioning of internal audit requires professional skills, knowledge, experience, motivation and continuous professional development of certified internal auditors. Professional competence of each internal auditor and each internal audit unit as an independent organizational unit in the entity is essential for the proper functioning of the unit in assisting the entity in achieving the set objectives by applying the principle of "value for money".

Good results of the internal audit depend on the working results of each audit team member, i.e. of any auditor in the internal audit unit. Therefore, all internal auditors in the internal audit unit have to possess the knowledge, skills, and other competencies required for effective performing of internal audit activities.

Accordingly, internal auditors have the **professional obligation** to:

- carry out audits in accordance with the International Standards for the Professional Practice of Internal Audit and regulations of Montenegro,
- apply knowledge, skills, and the experience necessary to perform the audit, and
- perform continuous professional development and prove the expertise and quality of assurance and advisory services referring to the assessment of risk management efficiency, control and management process.

The head of internal audit unit is responsible for determining the appropriate criteria in terms of internal auditors' education, experience, knowledge, and skills for staffing in the internal audit unit, taking into account the audit scope and level of responsibility. The strategic and annual internal audit plan has to include continuous professional training through planning the number of days and the training budget. The head of the internal audit unit is expected to conduct an annual analysis of the knowledge, skills, and other competencies of internal auditors and to identify areas where additional training is needed that can be included in the of continuous professional development programme.

The head of internal audit unit should develop procedures for continuous professional development of and training plan of internal auditors, provide the permanent certificate of professional competence, training, and avail-

ability of all necessary resources, taking into account their motivation, commitment and quality of work.

Types of continuous professional development are:

- performing internal audits,
- mentoring in internal audit,
- acquiring certificates of international institutions and professional associations in the field of the area of internal audit, financial management and accounting,
- Participation in seminars, conferences, workshops organized by national and international institutions in the areas of internal audit, financial management, accounting, and other relevant areas,
- publishing papers and articles in professional magazines and bulletins,
- development of internal audit's working methodology, and
- participation in the study visits referring to internal audit.

Continuous professional development is the way used by internal auditors to maintain, improve, and expand their knowledge, skills, and other capabilities they need in professional conducting of internal audit.

Internal auditors have to improve their knowledge, skills, and other capabilities through continuous professional development in accordance with the International Standards for the Professional Practice of Internal Auditing, in order to maintain expertise in the area of corporate governance, risk management process, and controls.

Standard 1230 – Continuing Professional Development (International Standards for the Professional Practice of Internal Auditing - IIA)

"Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development."

The obligation of continuous professional training for authorized internal auditor in the public sector stems from Article 38 of the Law on Internal Financial Control System.

Continuous professional development of internal auditors in the public sector is carried out on the basis of the training program of the Ministry of Finance in cooperation with the Human Resources Administration. The training program includes topics from specific areas, which will be implemented during the calendar year in cooperation with the Human Resources. The program is updated annually, and topics will change on the basis on the reports of the Central Harmonisation Unit of the Ministry of Finance on the performed procedure for analysing the quality of financial management and control and internal audit.

Therefore, internal auditors are required to confirm their competence, not only by acquiring the certificate of authorized internal auditor in the public sector, but also through continuous professional development in order to maintain expertise in corporate governance, risk management process and controls.

Internal auditors with certificate of certified internal auditor in the public sector (national/ recognized international certificate) are responsible for their further development in order to maintain the conditions for independent conducting of internal audit and improve the quality of internal audit.

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Management as the art of performing tasks using employees

Management is key activity during which managers plan, organise, manage and control limited human, financial, and time resources to fulfil planned objectives with optimal efficiency and effectiveness.

For many countries in Western Europe, management concept is simple and presents reasonable manner of contemplating. During the last 25 years, public sector in Europe underwent dramatic changes, particularly former Communist countries now EU Member States or candidate countries. One of the most important changes was transition from centralised financial control to decentralised, where traditional administrative management in public sector (which meant answering to how much is spent and is it within limits of planned (available) funds) changes to proactive management. Thus, managers now have to answer for what purpose and how funds were performed, and/or what results were achieved with this manner of managing funds.

To provide progress and comparison among EU Member States and candidate countries, European Commission

established the PIFC concept, with management responsibility as primary element, being key for implementing and developing solid system of public internal financial controls (PIFC). However, this cannot be applied rapidly, since this requires establishing several factors and resolving several technical and legal issues.

What is management responsibility?

Law on Internal Financial Controls System defines that entity's manager is responsible for establishing and implementing entity's objectives, by managing funds in proper, economic, efficient and effective manner, as well as that entity's manager may delegate authorities for certain tasks and assignments within entity competences to lower management levels or other entity staff in the form of decision.

Although entity's manager is responsible for managing funds in proper, economic, efficient and effective manner, this does not mean that he has to pass all decision and sign the most of documents related to the entity.



Making of all decisions and signing all documents does not mean that entity's manager controls everything, but vice versa:

- the manager does not have sufficient time to pay attention to key issues like strategic issues and issues regarding specific policies, or to provide guidance and leadership inside the subject;
- it may result in large number of not-adopted decisions in line with the input provided by key officials for these issues;
- even when civil servants are included in internal decision-making process, they are not authorised to make final decision, and they do not appear as responsible persons when signing decisions;
- the use of human resource potential, often qualified and highly educated staff is in sufficiently used;
- manager is overburdened with details.

The role of manager is to create entity's vision and mission, and thereby they are responsible for passing strategic decisions. To ensure best utilisation of fall resources (human, time, and financial), it is necessary to delegate

authorities and responsibility.

To split the burden of obligations, manager has to enable all senior managers to be responsible for their part of control by giving them authority and financial budget for implementing activities, and in return, they have to achieve results, limit activities in line with allocated budget and fulfil agreed objectives.

Management responsibility means maintain control and includes not only entity manager's responsibility, but also responsibility of middle management for accomplishing objectives and results under their responsibility.

Management responsibility – what does it mean to be manager?

Middle managers are responsible for implementing activities and accomplishing objectives timely, in line with allocated budget and with laws and regulations referring to its area of competence. At the same time, they are accountable for the success or failure in accomplishing objectives to entity's manager, who will monitor the accomplishment of objectives formally, through regular reporting, and informally, during meetings and exchange of information. If the objective is not achieved, it is followed by assuming responsibility or sanctioning and tak-

ing measures for mitigating adverse results.

To achieve this, it is necessary that entity’s manager is assured that managers accountable to him have clear objectives, performance standards, budgets and other resources, as well as clearly defined discretion areas that would enable them to implement these objectives.

The manager has to be assured into knowledge and competence of managers accountable to him.

For example, if manager’s objective is to achieve result of specific standard, its obligation when planning budget is to connect financial resources to the result, and afterwards require information on costs in the same format.

Financial management and control cannot be accomplished without existing management responsibility. Without existing management responsibility, financial control may be limited only to traditional budget control to provide that spending is done pursuant to the law.

Such limited controls may be exercised using the Treasury system and they do not demand inclusion of management. The traditional control system’s result is that funds are considered only in terms of compliance, without paying attention to value for money, and there is no idea on management accountability for decisions on consumption.

The purpose of implementing financial management and control system is to focus attention on target set relative to public funds spending, and its efficiency and effectiveness. Without this change, public spending will remain too high compared to the achievements, and it will have different effects on taxation level, private sector competitiveness, and citizens’ satisfaction with public services’ operations.

The manager closest to decision is the person the best positioned to make judgement on value for money. Therefore, manager’s role is highly important and, consequently, management accountability is highly important due to the manner of utilising public funds. The accountability arises from the practical need for delegating specific tasks to other persons to distribute execution of plentiful and complex tasks. In return, persons to whom these duties are assigned have to assume responsibility for their activities.

However, to achieve effective management responsibility, manager has to possess appropriate information in the form best suiting its needs. They need operationally useful information and reports for decision-making. Usefulness of information requires them to have quality, be timely, and that the expense of creating information is

lower than the benefit gained by using the information. The key factor is to translate general statements on vision and mission into results that may be identified by providing more quality services.

Presentation of these examples of weakness points that introducing management accountability and control is strongly connected to improving general management quality. Therefore, the reform process is long-lasting, but its benefits are significant in the sense of improved public sector performance and the public’s satisfaction with services provided by public administration.

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Leasing market in Montenegro - Report for period 1 July - 30 September 2015 –

Market Participants

As in the previous period, in the third quarter of 2015, in the leasing market in Montenegro there were six providers of leasing services - four leasing companies as legal entities: S-Leasing, Porsche Leasing, NLB Leasing and Hypo Alpe Adria Leasing, as well as two banks: Hypo Alpe Adria Bank and Prva banka Crne Gore osnovana 1901. godine. Prva banka Crne Gore osnovana 1901. godine, NLB Leasing and Hypo Alpe Adria Leasing were not active in the leasing market in terms of approving new investments during the third quarter of 2015.

In the past quarter, there were no changes in regulation related to the leasing market in Montenegro.

Investment structure

As of September 30, 2015, for 3 months 164 new contracts were concluded in the leasing market with a total net value of 2,173,558.72 EUR. Compared to the same period of 2014 (July 1 – September 30), the number of newly concluded contracts was reduced by 7%, while the total value of the contracts was lower by 22%. The average value of contracts concluded in the third quarter amounted to 13.253 EUR.

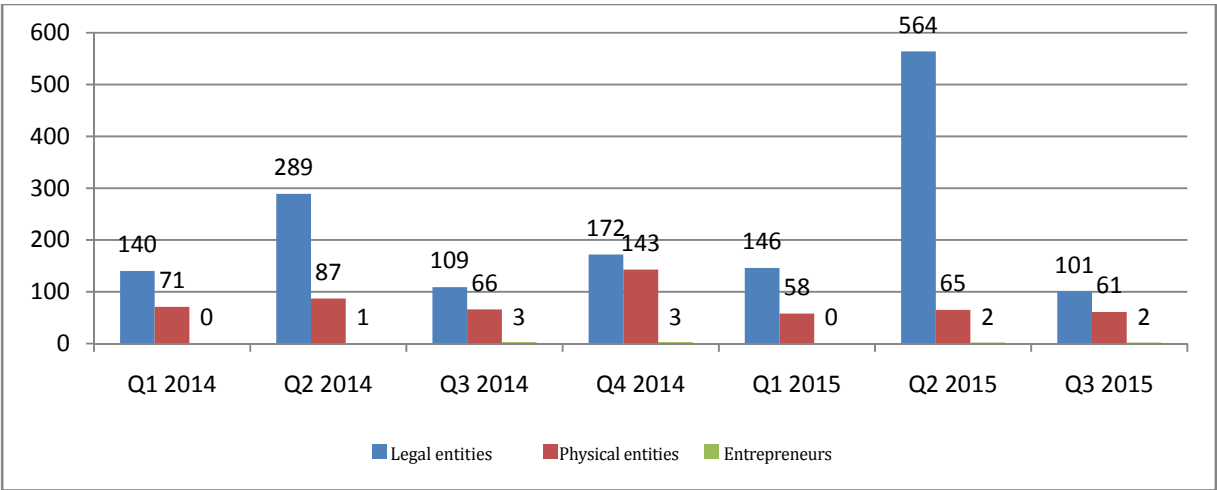
Table: Overview of the number and value of newly concluded contracts

Newly concluded contracts		2014	Average value of the contracts	2015	Average value of the contracts
Q1	Number	211	14,077	204	14,663
	Value	2,970,225		2,991,306	
Q2	Number	377	14,371	631	10,927
	Value	5,417,984		6,894,900	
Q3	Number	178	15,659	164	13,253
	Value	2,787,213		2,173,559	
Q4	Number	318	12,168		
	Value	3,869,270			

Leasing recipients

In terms of the structure of the lessee, newly concluded contracts with legal entities comprised 61.6% of total contracts, while the contracts with individuals comprised 37.2%. Only 2 contracts were concluded with entrepreneurs, which makes 1.2% of the total structure. In relation to the previous quarter of the current year, it was evident a decrease in the conclusion of contracts with legal entities. The decrease in the number of contracts concluded in III quarter is a result of a features of Montenegrin economy, which is reflected in a significant share of the tourist activity in total economic activity.

Chart: Newly concluded contracts by leasing recipients



Out of the total number of active contracts, 56.7% relates to the contracts concluded with legal entities, while 42.9% of the contracts were concluded with physical entities. As at September 30, 2015, the total value of active contracts amounted to 108,133,801.86 EUR.

Table: Active contracts by leasing recipients

Leasing recipients		Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Legal entities	Number of the contract	2,813	2,951	2,816	2,570	2,092	2,476	2,747
	%	48.7%	51.3%	51.4%	50.4%	51.8%	56.5%	56.7%
Physical entities	Number of the contract	2,944	2,777	2,638	2,506	1,928	1,889	2,078
	%	51.0%	48.3%	48.2%	49.2%	47.7%	43.1%	42.9%
Entrepreneurs	Number of the contract	21	23	22	20	19	18	20
	%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%
Total		5,778	5,751	5,476	5,096	4,039	4,383	4,845

The value and number of concluded contracts by leasing type

Financial leasing operations had significant participation in the total number and value of concluded contracts, since those make 83% of the total number of newly concluded contracts, while their value accounted for 3/4 of the total value of newly concluded contracts.

Compared to the same period last year, there is an evident growth of contracts concluded in connection with the operational leasing by about 65%, while their value increased by about 44%.

Table: By leasing type of newly concluded investments

Newly concluded contracts		Q3 2014		Q3 2015		Growth rate	
		Number	Value	Number	Value	Number	Value
Operative leasing	Number	17	370,434	28	530,862	64.7%	43.4%
	% participation	9.6%	13.3%	17.1%	24%		
Financial leasing	Number	161	2,416,779	136	1,642,697	-15.5%	-32.0%
	% participation	90.4%	86.7%	82.9%	76%		
Total:		178	2,787,213	164	2,173,559		

The subject of the leasing

When it comes to the subject of the lease, it is evident that the passenger cars constantly have the greatest participation of 93.3% in the total amount of leasing investments. Compared to the previous quarter, there are significantly less contracts awarded in connection with passenger cars by about 75%, while, compared to the same period in 2014, there is a growth of 2%. In the total value of new contracts, the contracts entered into in connection with passenger cars made 95.4%. During the third quarter, the average value per contract for passenger car amounted to 13.550 EUR.

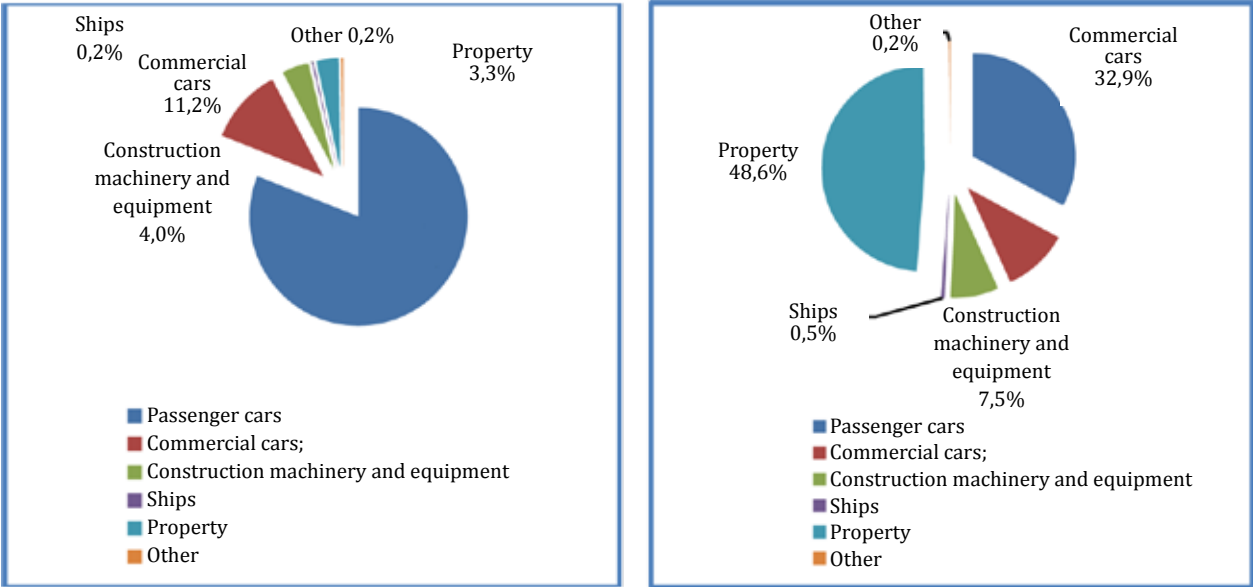
During III quarter, in addition to contracts for passenger cars, the leasing companies were concluding contracts for commercial vehicles (4.6% of all concluded contracts). The average contract value of the contracts for commercial vehicles amounted to 9,126.3 EUR.

Table: Structure of new loans concluded by lease subjects

Newly concluded		Q3 2014		Q2 2015		Q3 2015	
The leasing subject		Number	Value	Number	Value	Number	Value
Passenger cars	Number	150	2,149,658.3	598	6,378,427.3	153	2,073,169.6
	% participation	84.3%	771%	94.8%	92.5%	93.3%	95.4%
Commercial cars	Number	24	300,671.9	33	516,472.7	11	100,389.2
	% participation	13.5%	10.8%	5.2%	7.5%	6.7%	4.6%
Construction machinery and machinery	Number	3	262,359.8				
	% participation	1.7%	9.4%				
Ships	Number	1	74,523.3				
	% participation	0.6%	2.7%				
Real estate	Number						
	% participation						
Other	Number						
	% participation						
Total		178		204	2,991,306.4	164	2,173,558.7

Analyzing the active contracts as at September 30, 2015, it is evident that the category of passenger cars has the highest participation of 81.1% in terms of number of contracts, while in terms of value, the highest participation in the category of real estate with 48.6%.

Chart: Participation in the total number of active contracts and participation in the total value of active contracts



Sectoral structure

In terms of sectoral structure of placements concluded in III quarter of 2015, there dominated the contracts in the sector of other services (30%), trade (21%) and other sectors (16%). On the other hand, by value, the greatest participation comprised the contracts of the other services (24%), trade (20%) and transport (17%).

In terms of active contracts, the dominant number constituted the agreements within the trade sector (36%), other services (20%) and transport (11%).

Table: Sectoral structure of newly concluded and active contracts

Period	NEWLY CONCLUDED				ACTIVE			
Sector	Number	%	Value	%	Number	%	Value	%
Agriculture, forestry and fishing	0	0%	0	0%	32	1%	577,140	1%
Construction	4	4%	76,946	5%	292	9%	28,584,169	34%
Trade	21	21%	291,212	20%	1122	36%	15,138,906	18%
Accommodation and food provision services	1	1%	15,940	1%	82	3%	9,084,826	11%
Other Services	30	30%	338,671	24%	633	20%	13,107,014	16%
Traffic	11	11%	248,159	17%	351	11%	4,013,016	5%
Financial activities	1	1%	66,463	5%	20	1%	755,082	1%
Industry	4	4%	61,201	4%	306	10%	9,869,151	12%
Health, education and social protection	2	2%	18,248	1%	21	1%	291,455	0%
State Administration	11	11%	180,440	13%	191	6%	2,048,038	2%
Other Departments	16	16%	129,230	9%	95	3%	1,086,168	1%
Total	101		1,426,510		3145		84,554,967	



Balance Sheet

The total assets of four leasing companies as at 30 September 2015 amounted to 54,620,152 EUR, and it is decreased by about 5.5% when compared to June 30, 2015. In the structure of total assets, fixed assets accounted for just over half of assets (51%), while the rest (49%) were current assets.

STRUCTURE OF ASSETS AS AT September 30, 2015	
A. Unpaid subscribed capital	0%
B. Fixed assets	51%
Goodwill	0%
Intangible assets	0%
Property, plant, equipment and biological assets	40%
Long term financial investments	60%
Long-term receivables	78%
Long term financial investments	22%
C. Deferred tax assets	0%
D. Non-current assets held for sale and assets related to the discontinued operations	0%
E. Current assets	49%
Inventories	24%
Short-term receivables, investments and cash	76%
Trade receivables	24%
Short-term financial investments	63%
Cash and cash equivalents	11%
Value added tax and accrued expenses	2%

As of September 30, 2015, in the structure of liabilities of four leasing companies, the largest participation referred to long-term provisions and long-term liabilities (84.3%), and short-term provisions and short-term liabilities (11.1%), equity (4.2%) and deferred tax liabilities (0.3%).

STRUCTURE OF LIABILITIES AS OF JUNE 30, 2015	
A. Equity	4.2%
B. Long-term provisions and long-term liabilities	84.3%
Long-term provisions	0.1%
Long-term liabilities	99.9%
Long-term loans	99.5%
Other long-term liabilities	0.5%
C. Deferred tax liabilities	0.3%
D. Short-term provisions and short-term liabilities	11.1%
Short-term liabilities	92.3%
Short-term provisions	0.1%
Accrued liabilities	7.6%

Income Statement

At the end of the third quarter of 2015, based on the income statement of 4 leasing companies, it is evident a negative operating result, since 3 of the 4 houses incurred operating expenses higher than the operating income.

On the other hand, the financial result for 4 parties in the leasing market was positive and amounted to 152.044 EUR, where 2 of 4 leasing companies achieved a positive financial result. Result from other activities was negative and amounted to -407.187 EUR, since the two leasing companies incurred higher expenses than revenues, while one leasing company did not record other income and expenses.

In summary, the total net result is negative (2 of 4 leasing companies have generated a negative result) and it amounted -181,356,506 EUR.

	TOTAL Q3 2015
I Operating income	6,819,503
II Operating expenses	187,920,866
A. OPERATING RESULT	(181,101,364)
I Financial income	1,447,779
II Financial expenses	1,295,735
B. FINANCIAL RESULT	152,044
I Other income	7,549,339
II Other expenses	7,956,526
C. RESULT FROM OTHER ACTIVITIES	(407,187)
D. Result from continuing operations before taxes	(181,356,506)
E. The net result from suspended operations	-
F. Result before taxation	(181,356,506)
G. Other results items / associated with equity /	-
H. Tax expenses for the period	-
NET RESULT	(181,356,506)

* * *

During the third quarter of 2015, the leasing market was characterized by a decrease in the number of concluded contracts in comparison to the previous quarter, and the value thereof. Comparative data with the previous quarter of the current year point to a consistent trend of developments in economic activity in Montenegro during the second quarter, and above all the orientation of economic potential in the tourism industry. Therefore, the end of the tourist season had resulted in a reduction in the affairs of the conclusion of new investments of leasing companies.

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