

FISCAL DEVELOPMENTS

05

Public finances and the budget of Montenegro were marked by a significantly higher increase in revenues than expenditures on an annual basis, and thus the surpluses of the public sector and the budget were recorded.

The increase in revenues is primarily the result of an increase in revenues from other revenues, due to the termination of the hedging arrangement from 2021 and the transfer of funds collected from the implementation of the “Economic Citizenship” project. Also, a significant increase was recorded in value added tax, corporate income tax, contributions for pension and disability insurance and donations, which is conditioned by the growth of economic activity, the improvement of tax discipline, the achieved results of economic entities in the previous year, the implementation of the progressive rate of taxation profit, the increased basis for calculating contributions due to the increase in coefficients for the wages of employees in the public sector, the successful implementation of the Law on the Re-programming of Tax Claims and executed payment of funds by the EU based on direct budget support for energy efficiency.

On the expenditure side, the increase was determined by an increase in gross wages and contributions paid by the employer, as well as by higher allocations for rights in the area of social protection, as well as rights in the area of pension and disability insurance, due to the increase in the minimum pension, and the regular and extraordinary adjustment of pensions to the growth of the inflation rate.

5.1. Montenegro’s public finances³⁷

According to the estimate of the Ministry of Finance, for the first six months of 2023, *total public revenues*³⁸ amounted to 1,382.32 million euros, or 21.44% of the estimated GDP for 2023³⁹ (Annex D, table 12). Realised public revenues during the first six months are higher by 211.01 million euros or 18.01% than planned for this period, and compared to the same period of the previous year by 352.10 million euros, 34.18%. The largest annual increase was recorded in tax revenues (166.75 million euros or 23.36%), which was mostly contributed by VAT revenues (74.54 million euros or 18.59%).

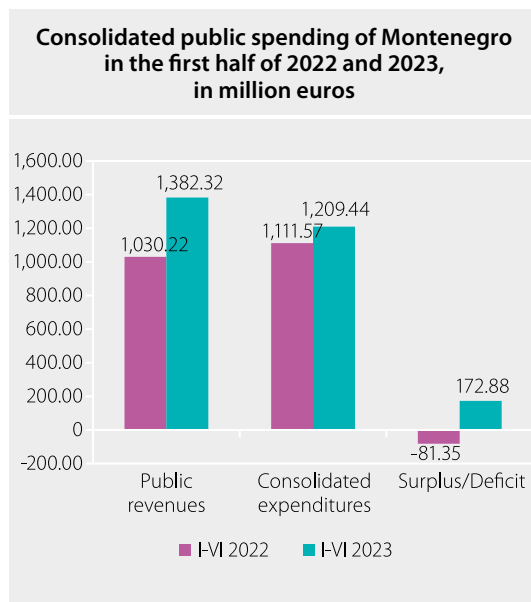
In the structure of public revenues, tax revenues had the prevailing share (63.70%), followed by contributions (17.46%), while the remaining amount (18.84%) refers to revenues from other revenues (8.65%), donations (4.83%), fees (4.74%) and duties (0.62%).

³⁷ The structure of Montenegro’s public finances comprises of the Budget of Montenegro with the state funds (Pension and Disability Fund, Health Insurance Fund, Compensation Fund, Employment Agency, and Labour Fund) and local self-government (Old Royal Capital Cetinje, Capital Podgorica, and 23 municipalities).

³⁸ Total public revenues include revenues from budget, state funds and local self-government.

³⁹ Source: Ministry of Finance, Estimated GDP for 2023 amounts to 6,447.1 million euros.

Graph 5.1



Source: Ministry of Finance

Public spending amounted to 1,209.44 million euros, or 18.76% of the estimated GDP. Compared to the same period of the previous year, public consumption was higher by 8.80%, or 97.87 million euros. The largest increase in expenditure (95.20 million euros) was recorded in transfers for social protection, mostly due to the increase in expenditure on pensions caused by the increase in the minimum pension (from September of the previous year), the regular adjustment of pensions in accordance with the change in the annual inflation rate and the change in the gross average earnings, as well as the extraordinary adjustment of pensions in June of the current year (increase of 2.95%).

The missing funds during the first six months of the current year amounted to 1.19 million euros. During the first half of 2023, the state borrowed in the amount of 1.40 million euros through domestic financing sources and 112 million euros

through foreign sources. Receipts from property sales amounted to 3.92 million euros, and receipts from loan repayments to 8.50 million euros, while income from transfers from the budget amounted to 5.94 million euros. Therefore, higher sources of financing due to the withdrawal of funds from foreign credit arrangements led to an increase in state deposits by 130.56 million euros.

Observed by economic classification, the largest expenditure item were social welfare transfers (392.18 million or 6.08 of GDP, mainly due to pension expenditures) and gross wages (345.95 million euros or 5.37% of GDP), while transfers to institutions, individuals, non-governmental and public sectors amounted to 182.38 million euros or 2.83%, and capital expenditures to 71.04 million euros or 1.10% of GDP.

The level of public revenues in the first half of 2023 is higher than the realised public spending, so the cash surplus of the public sector amounted to 172.88 million euros or 2.68% of estimated GDP, while in the same period of the previous year the *cash deficit* of the public sector amounted to 81.35 million euros or 1.37% of estimated GDP for 2022 (Graph 5.1).

5.2. Budget of Montenegro

According to preliminary data from the Ministry of Finance, the *total budget receipts with state funds*⁴⁰ in the first half of 2023 amounted to 1,357.38 million euros or 21.05% of the estimated GDP. In the structure of budget revenues, 91.09% related to original revenues, and 8.91% to borrowings and loans from foreign sources, receipts from property sales and receipts from loan repayments (Table 5.1).

Source revenues amounted to 1,236.41 million euros or 19.18% of the estimated GDP. Compared to the plan, these revenues were higher by 22.98%, and compared to the same period of the previous year by 35.22%.

In the current revenues structure, tax revenues accounted for the main share (64.72%), followed by contributions (19.52%), while the remaining 15.76% referred to other revenues (9.13%), donations (3.57%), fees (2.53%) and duties (0.53%).

Collection of tax revenues (taxes and contributions) was realised in the amount of 1,041.61 million euros, of which 643.15 million euros refer to indirect taxes, and 398.46 million euros to direct taxes. Within taxes, the largest share of source revenues was recorded by value added tax (38.47%), while in the category of contributions, contributions for pension and disability insurance had the largest share (17.85%).

Tax revenues amounted to 800.20 million euros, recording 13.71% increase relative to the plan and a year-on-year increase of 20.82%.

All taxes, except personal income tax⁴¹ and property turnover tax⁴², recorded growth on the annual basis. The biggest increase (74.54 million euros) was recorded in value added tax, which is the result of higher tax discipline, growth in economic activity, as well as growth in inflation.

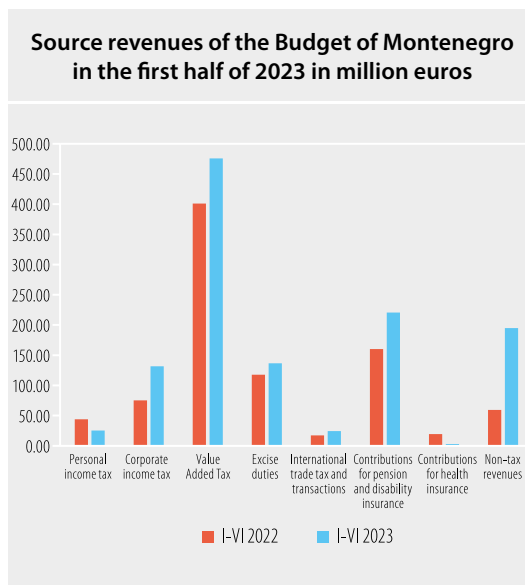
Revenues arising from contributions amounted to 241.41 million euros being 22.01% higher than the plan for six months of 2023, and 25.33% compared y-o-y.

⁴⁰ According to the Law Amending the Law on Budget and Fiscal Responsibility (adopted at the end of February of the current year), receipts include current revenues (direct and indirect taxes and non-tax revenues), borrowings and loans from domestic and foreign sources, receipts from property sales and receipts from loan repayments. In fact, receipts from loan repayment are excluded from source revenues and are now part of financing transactions.

⁴¹ The decrease in this category of income compared to the same period in 2022 is primarily the result of a significant increase in the percentage of personal income tax transfers to municipalities, in accordance with the Law on Amendments to the Law on Local Self-Government Financing, which entered into force last August

⁴² Pursuant to the Law Amending the Law on Property Turnover Tax, adopted at the end of February 2023, revenues from property turnover tax belong to the budget of the local self-government unit and the Equalization Fund, in the 80% to 20% ratio. There are no revenues in the budget on this basis from September 2022.

Graph 5.2



Source: Ministry of Finance

Table 5.1

Revenues of the Budget of Montenegro and state funds in H1 2023							
Type of revenue	Realised I-VI 2022	Plan I-VI 2023	Recorded January-June 2023	Share in total revenues	Share in GDP	Recorded in relation to the plan	Recorded in relation to I-VI 2022
	In million euros	In million euros	in million euros	%	%	Index	Index
Taxes	662.30	703.70	800.20	58.95	12.41	113.71	120.82
Personal income tax	44.03	26.25	25.45	1.87	0.39	96.95	57.80
Corporate income tax	75.19	101.45	131.60	9.70	2.04	129.73	175.02
Property turnover tax	1.25	0.00	0.00	0.00	0.00		0.00
Value Added Tax	401.05	435.31	475.59	35.04	7.38	109.25	118.59
Excise duties	117.74	117.74	136.71	10.07	2.12	116.11	116.11
International trade tax and transactions	17.35	17.35	24.48	1.80	0.38	141.08	141.13
Other state taxes	5.69	5.60	6.37	0.47	0.10	113.76	111.98
Contributions	192.63	197.86	241.41	17.78	3.74	122.01	125.33
Contributions for pension and disability insurance	160.25	182.56	220.75	16.26	3.42	120.92	137.76
Contributions for health insurance	19.55	0.60	3.06	0.23	0.05	510.22	15.67
Contributions for unemployment insurance	7.34	8.59	-10.06	0.74	0.16	117.05	136.93
Other contributions	5.49	6.10	7.54	0.56	0.12	123.56	137.44
Duties	5.87	5.48	6.54	0.48	0.10	119.35	111.46
Fees	27.66	23.80	31.25	2.30	0.48	131.34	112.97
Other revenues	12.82	48.33	112.82	8.31	1.75	233.44	880.09
Receipts from loan repayment and funds transferred from the previous year	0.00	3.73	0.00	0.00	0.00	0.00	
Donations and transfers	13.11	22.46	44.18	3.25	0.69	196.68	337.02
CURRENT REVENUES	914.39	1,005.35	1,236.41	91.09	19.18	122.98	135.22
Revenues from sale of property	2.20	3.00	1.88	0.14	0.03	62.77	2.55
Receipts from loan repayment	8.15	0.00	8.37	0.62	0.13		
Borrowings and loans from foreign sources	73.78	0.00	110.73	8.16	1.72		11.09
Borrowings and loans from domestic sources	0.00	100.00	0.00	0.00	0.00	0.00	
TOTAL BUDGET RECEIPTS OF MONTENEGRO AND STATE FUNDS	998.51	1,108.35	1,357.38	100.00	21.05	122.47	135.94
NOTE:							
GDP in million euros (for 2023; estimation)					6,447.1		

Source: Ministry of Finance

*Total budget expenditures*⁴³ in the first half of 2023 amounted to 1,235.82 million euros or 19.17% of the estimated GDP. Compared to the planned, they were lower by 8.19%, and compared to the first half of the previous year, they recorded a growth of 7.82% (table 5.2).

Consolidated budget expenditures in the observed period amounted to 1,068.59 million euros, which is 16.57% of the estimated GDP. Realised consolidated expenditures were lower than planned by

⁴³ Pursuant to the Law Amending the Law on Budget and Fiscal Responsibility (adopted at the end of February of the current year), total budget expenditures consist of: consolidated expenditures, repayment of securities and loans to residents and non-residents, expenditures for the purchase of securities and expenditures based on borrowings and loans.

115.17 million euros or 9.73%, and on the annual level they recorded an increase of 93.33 million euros or 9.57%.

Current budget expenditures amounted to 473.76 million euros and were lower by 4.88% than planned, and higher by 18.64% at the annual level, with the largest increase (49.59 million euros or 18.71%) recorded in gross wages and contributions paid by the employer, due to the increase in wages of employees in the public sector - in education, police, state administration, firefighters and non-medical personnel in healthcare.

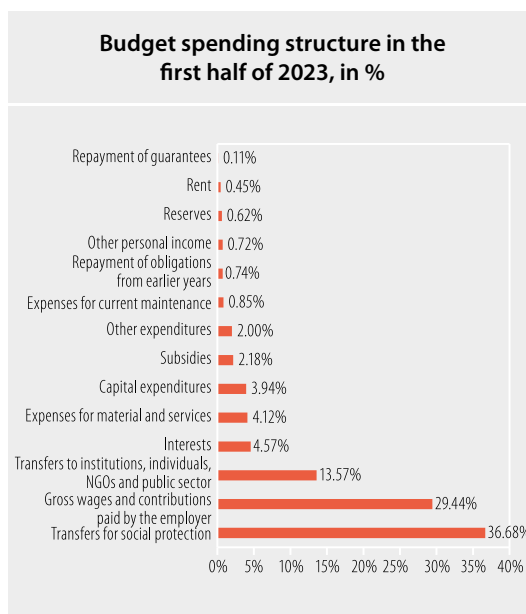
If we look at the structure of budget spending (Graph 5.3), transfers for social protection (36.68%) and gross wages (29.44%) took the largest share, while transfers to institutions, individuals, the non-governmental and public sector participated with 13.57%. Other purposes accounted for 20.31% of budget expenditures, of which interest 4.57%, expenditures for materials and services 4.12%, capital expenditures 3.94%, subsidies 2.18%, other expenditures 2.00%, expenses for current maintenance 0.85%, repayment of obligations from the previous period 0.74%, other personal income 0.72%, reserves 0.62%, rent 0.45% and repayment of guarantees 0.11%.

Debt repayment amounted to 159.64 million euros and compared to the same period last year it decreased by 2.85 million euros, due to higher reduction in matured liabilities in this period, where repayment of liabilities to non-residents decreased by 37.26 million euros, and the repayment of liabilities to residents increased by 34.41 million euros.

In the first half of 2023, there were no borrowings and loans from domestic sources, while borrowings and loans from foreign sources amounted to 110.73 million euros.

In the observed period, the budget of Montenegro recorded a cash *surplus*⁴⁴ of 167.82 million euros or 2.60% of GDP, while in the same period last year, the cash budget deficit amounted to 60.87 million euros.

Graph 5.3



Source: Ministry of Finance and CBCG calculations

⁴⁴ Surplus/deficit calculation methodology OGM 53/09. The cash deficit represents the difference between source revenues and consolidated expenditures.

Table 5.2

Budget expenditure of Montenegro and state funds in the first half of 2023							
DESCRIPTION	Realised in the period I-VI 2022	Plan I-VI 2023	Realised in the period I-VI 2023	Share in total expenditures	Share in GDP	Realised in relation to the plan	Realised in relation to the period I-VI 2022
	In million euros	In million euros	%	%	%	Index	Index
Current budget expenditure	399.34	498.07	473.76	38.34	7.35	95.12	118.64
Gross wages and salaries and contributions paid by the employer	265.00	303.76	314.59	25.46	4.88	103.57	118.71
Other personal income	7.03	8.96	7.74	0.63	0.12	86.36	110.10
Expenses for material and services	36.98	54.66	44.02	3.56	0.68	80.53	119.04
Expenses for current maintenance	8.63	15.17	9.08	0.73	0.14	59.82	105.21
Interests	39.08	48.16	48.87	-3.95	0.76	101.46	125.05
Rent	4.30	5.57	4.84	0.39	0.08	86.94	112.56
Subsidies	20.87	31.59	23.26	1.88	0.36	73.65	111.45
Other expenditures	17.45	30.20	21.36	1.73	0.33	70.73	122.41
Transfers for social protection	296.83	388.00	391.94	31.71	6.08	101.02	132.04
Transfers to individuals, NGOs and public sector	142.62	147.94	145.06	11.74	2.25	98.05	101.71
Capital expenditures	103.39	114.88	42.13	3.41	0.65	36.67	40.75
Borrowings and loans	0.00	2.99	0.00	0.00	0.00	0.00	
Reserves	5.42	18.74	6.61	0.53	0.10	35.25	121.96
Repayment of guarantees	0.50	0.00	1.17	0.09	0.02	121.76	234.00
Repayment of obligations from earlier years	27.16	13.14	7.92	0.64	0.12	60.29	29.16
CONSOLIDATED EXPENDITURES	975.26	1,183.76	1,068.59	86.47	16.57	90.27	109.57
Repayment of securities and loans to residents	21.98	57.58	56.39	4.56	0.87	97.94	256.55
Repayment of securities and loans to non-residents	140.51	104.05	103.25	8.35	1.60	99.23	73.48
Expenditures for the purchase of securities	0.00	0.72	0.61	0.05	0.01	85.53	
Borrowings and loans	8.47	0.00	6.98	0.57	0.11		82.41
TOTAL EXPENDITURE	1,146.22	1,346.11	1,235.82	100.00	19.17	91.81	107.82
NOTE:							
Montenegro's GDP in million euros, estimation					6,447.1		

Source: Ministry of Finance

5.3. Local Self-Government

According to preliminary data from the Ministry of Finance, the source revenues of local self-government in the period January - June 2023 amounted to 145.90 million euros or 2.26% of GDP, which is 12.09% lower than planned, and 25.94% or 30.05 million euros more compared to the revenues recorded in the same period in 2022. All categories of revenues, except for other revenues and donations, recorded a positive deviation compared y-o-y.

The preliminary expenditures of local self-government during the first half of 2023 amounted to 140.87 million euros or 2.19% of GDP. Compared to the plan, they recorded a decrease of 31.09% or 63.55 million euros, while compared to the same period of the previous year they were higher by 3.35% or 4.56 million euros. The largest increase in expenditures compared to the comparable period of the previous year was recorded in gross wages and contributions paid by the employer (28.58% or 6.97

million euros) and transfers to institutions, individuals, non-governmental and public sectors (19.84% or 6.18 million euros).

Local self-governments recorded a surplus of 5.03 million euros, while liabilities from the previous period were repaid in the amount of 22.15 million euros. (Table 5.3).

Table 5.3

Preliminary current revenues and consolidated expenditures of local self-governments in Montenegro in the first half of 2023, in million euros						
Type of revenue	Realised in the period I-VI 2022	Plan January-June 2023	Realised in the period I-VI 2023		Realised in relation to the plan for I - VI 2023	Realised in relation to the period I-VI 2022
	million euros	million euros	million euros	% of GDP	Index	Index
CURRENT REVENUES	115.85	165.96	145.90	2.26	87.91	125.94
Taxes	51.45	92.64	80.29	1.25	86.67	156.05
Duties	1.85	2.47	2.10	0.03	85.02	113.51
Fees	25.07	32.45	34.20	0.53	105.39	136.42
Other revenues	6.83	7.12	6.68	0.10	93.82	97.80
Receipts from loan repayment	0.00	0.16	0.00	0.00	0.00	
Donations	30.65	31.12	22.63	0.35	72.72	73.83
CONSOLIDATED EXPENDITURES	136.31	204.42	140.87	2.19	68.91	103.35
Current expenses	41.36	62.74	50.94	0.79	81.19	123.16
Gross wages and salaries and contributions paid by the employer	24.39	34.51	31.36	0.49	90.87	128.58
Other personal income	1.55	2.79	1.90	0.03	68.10	122.58
Expenses for material and services	7.48	12.37	8.29	0.13	67.02	110.83
Current maintenance	2.56	3.91	2.76	0.04	70.59	107.81
Interests	1.00	1.44	1.20	0.02	83.33	120.00
Rent	0.27	0.49	0.26	0.00	53.06	96.30
Subsidies	0.93	2.45	0.96	0.01	39.18	103.23
Other expenditures	3.18	4.78	4.21	0.07	88.08	132.39
Social protection transfers	0.15	0.37	0.24	0.00	64.86	160.00
Transfers to institutions, individuals, NGOs and public sector	31.15	43.75	37.33	0.58	85.33	119.84
Capital expenditures	43.74	84.33	28.91	0.45	34.28	66.10
Borrowings and loans	0.00	0.78	0.00	0.00	0.00	
Reserves	1.38	1.63	1.30	0.02	79.75	94.20
Repayment of guarantees	0.00	0.00	0.00	0.00		
Repayment of liabilities from the previous years	18.53	10.82	22.15	0.34	204.71	119.54
SURPLUS/DEFICIT	-20.46	-38.46	5.03	0.08	-13.08	-24.58
Primary deficit	-19.46	-37.02	6.23	0.10	-16.83	-32.01
Transfers from the Budget of Montenegro	3.14	4.90	5.94	0.09	121.22	189.17
Debt repayment	5.10	6.17	6.79	0.11	110.05	133.14
Expenditures for the purchase of securities	0.00	0.00	0.00	0.00		
Borrowings and loans	1.27	0.00	0.04	0.00		3.15
Borrowings and loans from domestic sources	2.74	1.53	1.40	0.02	91.50	51.09
Borrowings and loans from foreign sources	1.55	3.77	1.27	0.02	33.69	81.94
Revenues from privatisation and sale of property	15.10	7.84	2.03	0.03	25.89	13.44
Receipts from loan repayment	2.66	0.00	0.13	0.00		4.89
Increase/decrease in deposits	1.64	26.59	-8.97	-0.14	-33.73	-546.95
NOTE: Montenegro's GDP in million euros, estimation				6,447.1		

Source: Ministry of Finance

5.4. State funds

According to the data of the *Pension and Disability Insurance Fund of Montenegro*, total receipts in the amount of 271.76 million euros were realised in the first half of 2023, which is 22.16% more than in the first half of the previous year. The Fund's original income accounted for 83.93% of total receipts and increased by 37.60% compared to the same period of the previous year. Pension contributions (the main source of financing of the Fund) accounted for 83.64% of total receipts and recorded a growth of 37.68% on an annual basis, due to the increase in economic activity, growth in employment and growth in the disposable income of citizens. At the same time, transfers from the budget, which accounted for 16.07% of total receipts, decreased by 22.99% compared to the same period of the previous year and amounted to 43.68 million euros.

The total expenditures of the Fund amounted to 271.76 million euros, which is at the level of the plan, while at the annual level they recorded an increase of 22.16%. The most significant expenditures item is pension expenditures, which amounted to 96.89% of total expenditures, while 3.11% of expenditures related to administrative expenditures and debt repayment. Expenditures based on pensions were higher by 21.44% compared to the same period of the previous year, due to the increase in pensions.

Based on realised revenues and expenditures in the first half of 2023, this Fund had a balanced budget.

According to the *Health Care Fund of Montenegro*, for six months of 2023, total revenues amounted to 152.56 million euros or 12.41% less than in the corresponding period of 2022.

The total expenditures of the Health Insurance Fund amounted to 152.56 million euros, thus, the Fund had a balanced budget in the first half of the current year. Expenditures based on current expenditures (71.26 million euros) and transfers to institutions, individuals, non-government and state sectors (63.54 million euros) had the largest share in the total expenditures. Some 15.36 million euros were spent on transfers for social protection, 1.40 million euros on capital expenditures and 1 million euros on debt repayment.

The Fund's outstanding liabilities as of 30 June 2023, amounted to 19.11 million euros, the largest part of which related to liabilities for transfers to institutions, individuals and loans (14.44 million euros), while liabilities based on transfers to social protection amounted to 4.61 million euros, and the remaining part of outstanding liabilities (0.06 million euros) related to obligations for current expenditures.

According to *Employment Agency of Montenegro* data, total revenues amounted to 25.13 million euros in Q2 2023, or 18.45% more than in Q2 2022.

The Employment Agency's expenditures amounted to 25.13 million euros and were lower than the plan by 1.92%, and higher by 18.45% compared to the same period of the previous year. In total expenditures, current expenditures accounted for 56.25%, while 41.50% was set aside for transfers for social welfare, and 2.13% for transfers to individuals, institutions, non-governmental and public sectors, and capital expenditures and other debts 0.12%.

The Agency's outstanding liabilities amounted to 23,680.78 euros at the end of June, primarily due to obligations for transfers to institutions, individuals, non-government and state sector.

Based on realised revenues and expenditures in the first half of 2023, the Agency had a balanced budget.

In Q2 2023, the *Labour Fund*, being a typical budget beneficiary financed from general and earmarked revenues, recorded revenues in the amount of 176,914.81 euros and the equal amount of total expenditures, which is 66.39% below the plan and 66.58% less than in the corresponding period of the previous year.

Expenditures referring to current expenditures represented the most important expenditure item (100,740.11 euros).

Outstanding liabilities of the Fund amounted to 46,597.68 euros as at 30 June 2023, primarily as a result of liabilities arising from transfers for social protection.

Based on realised revenues and expenditures in the first half of 2023, the Labour Fund had a balanced budget.

Compensation Fund recorded total receipts in the amount of 120,043.80, which is 62.95% lower than the plan, and 154.11% higher than the same period of 2022.

Total expenditures of the Fund amounted to 115,702.47 million euros and they were 152.77% higher in relation to the same period of 2022.

At the end of June 2023, outstanding liabilities of the Fund amounted to 4,341.33 euros, same as recorded surplus.