

**RECOMMENDATIONS TO THE GOVERNMENT OF
MONTENEGRO
FOR
2018 ECONOMIC POLICY**

Podgorica, October 2017

CONTENTS

INTRODUCTION	3
1. RECOMMENDATIONS CONCERNING THE REAL SECTOR	4
1.1. Recommendations concerning competitiveness	4
1.2. Recommendations concerning the development in priority sectors	6
1.2.1. <i>Tourism</i>	6
1.2.2. <i>Agriculture and forestry</i>	7
1.2.3. <i>Energy</i>	9
1.2.4. <i>Manufacturing industry</i>	10
1.3. Recommendations concerning structural reforms	11
1.3.1. <i>Institutional environment</i>	11
1.3.2. <i>Labour market</i>	12
1.3.3. <i>Pensions system</i>	13
1.3.4. <i>Social benefits</i>	13
1.3.5. <i>Education and health system</i>	14
2. RECOMMENDATIONS CONCERNING FINANCIAL SYSTEM	16
3. RECOMMENDATIONS CONCERNING FISCAL POLICY	17
4. RECOMMENDATIONS CONCERNING STATISTICS	20

INTRODUCTION

Pursuant to its legal obligation, the Central Bank of Montenegro (CBCG) hereby proposes a set of recommendations for economic policy to the Government of Montenegro.

The 2018 Recommendations have been designed to support the mid-term objectives of Montenegro's economic development set in the "Montenegro Development Directions 2017-2019" and "Fiscal Strategy 2017-2020". The recommendations include the continuous development of Montenegro's legal and institutional structure, based on the following assumptions:

- Economic growth is dominantly conditioned by the development of the private sector, particularly micro, small and medium enterprises, with the special emphasis on the growth and recovery of all enterprises in the economy;
- Development and implementation of the legal framework in line with the EU legislation and increasing business environment competitiveness, taking into account Montenegro's specifics;
- Utilisation of the country's potential in priority areas;
- Environment protection;
- Reducing external macroeconomic imbalances, and achieving financial and fiscal stability, with particular emphasis on structural reforms;
- Increasing the life quality through the reduction of unemployment;
- Bringing informal sector into legal flows (reduction of informal economy).

The CBCG strongly supports the fiscal consolidation process aimed at state's balanced current spending, expanding the growth base through the investment cycle in private and public sectors, and expanding the tax base, and/or strengthening fiscal sustainability and stability. In such a fiscal consolidation environment, the achievement of economic policy objectives in 2018 will be realized through the following expected values of macroeconomic indicators:

- GDP growth of around 3¹%;
- Inflation rate per annum ranging from 2 to 3%;
- Increased employment with the accent on domestic labour force;
- Decreased unemployment;
- Industrial output growth;
- Reduced capital budget deficit.

¹ Based on last available projection

These recommendations aim at treating the vulnerabilities of Montenegro's economic system, and they are grouped into the following areas:

- Recommendations concerning the real sector;
- Recommendations concerning financial system;
- Recommendations concerning fiscal policy;
- Recommendations concerning statistics.

1. RECOMMENDATIONS CONCERNING THE REAL SECTOR

The real sector in the euroised economy is the “engine” of an economy's growth. Encouraging economic activity and improving existing productivity contributes to creating new value, reducing the existing debts burden, increasing system's liquidity and releasing growth potential. Through economic growth, the new value reduces all forms of risk, strengthens system stability and improves population standard.

Recommendations in this area relate to improving competitiveness, with particular emphasis on priority sectors and structural reforms.

1.1. Recommendations concerning competitiveness

A key component for the economic growth acceleration in the Montenegrin business environment is the improvement of competitiveness. To that end, it is necessary to undertake activities aimed at improving the competitiveness of individual tradesmen and products, as well as of the overall corporate system.

The Government should:

- Keep a predictable, competitive and consistent tax environment motivating investors to continue investments and to reinvest profit;
- Analyse tax policy in the part of the contribution rates for compulsory social insurance, and consider the possibility of reducing these rates, to reduce the burden on the gross wages and salaries of employees in the corporate sector and increase the economy's competitiveness while simultaneously analysing the informal economy and the amount of minimum wages and salaries;
- Encourage business improvement through the implementation of the knowledge economy. Promote financing of projects that enable economic growth, provide higher employment and contribute to the environment

protection through the increase of (direct and indirect) lending capabilities of the Investment Development Fund, and the continuation of a positive banks' support trend;

- Encourage innovations in accordance with the guidelines defined by the *Europe 2020 Strategy*, as well as the increased participation of small and medium enterprises in *Horizon 2020*; Improve the infrastructure to support innovations and technological development;
- Continue establishing a consistent policy in concluding bilateral agreements on the avoidance of double taxation;
- Using active policy on the principles of consistency, transparency, non-selectivity and stricter sanctions, affect the reduction of the informal economy to increase the collection of taxes and limit the occurrence of unfair competition, which will positively affect the competitiveness of "healthy" tradesmen, and the Budget revenues;
- Create incentive measures for increasing export/improved structure and encourage import substitution (reduced country's dependence on import and increased domestic production will contribute to competitiveness increasing); Increase financial support for production intended for export and substitution of import through the creation of incentive measures and the introduction of new financial instruments for SMEs (new guarantees, export support instruments, venture capital funds and guarantee funds);
- Continue with the labour legislation reform aimed at improving the conditions for job creation; further strengthen the labour inspection's role and competence to reduce the "unregistered employment"
- Continue with the education of small and medium enterprises on the possibilities of using funds provided by the European pre-accession funds and encourage their participation in international research programs, as well as connecting small and medium enterprises of the same or similar activities in order to achieve a higher level of products finalization (cluster development), competitiveness promotion and joint appearance at the foreign market;
- Establish a system of education and mutual support of tradesmen regarding the implementation of international quality standards to increase exports and substitute imports; Increase the producers' awareness of the need to introduce quality standards and, based on this, to improve the domestic products' competitiveness;
- Increase the public administration's efficiency at all levels, reduce the number of procedures, accelerate the license obtaining process, encourage electronic communication, and provide adequate infrastructure;
- Encourage higher use of information technology, in particular in the area of public service provision, and their control;

- Encourage investments in renewable energy sources;
- Improve the protection of property rights and of intellectual property;

1.2. Recommendations concerning the development in priority sectors

Key growth drivers, identified in the medium-term economic policy, are tourism with accompanying activities, energy sector, agriculture, and manufacturing industry.

1.2.1. Tourism

With a view to strengthening this sector, the Government should:

- Encourage investments in the construction of new high-end hotel capacities and promote the arrival of large hotel chains with a developed network of hotels recognised on the world tourism market, with a special emphasis on the northern part of the country;
- Work on the construction, improvement and promotion of the tourism capacities and strive, in addition to existing and new high-end hotels, to extend the offer of all types of tourism to specially adapted ships (e.g. for MICE tourism) and to numerous cultural and other facilities and locations which have not been sufficiently utilised, and which infrastructure can meet the needs of special types of tourism;
- Encourage the opening and certification of “green” (eco) hotels which will operate in an environmentally sound manner, with a minimum threat to natural resources, which would be significantly energy cost-effective, as well as better positioning and visibility of these hotels at the international tourist market;
- With a view to improving and diversifying tourist offer, prolonging the season and increased non-accommodation consumption, work on the promotion and adequate use of potential in culture, religious, sports, health, and nautical tourism;
- Encourage the development of rural tourism and the local products offer that would generate positive effects both in tourism and in agriculture. Work more on promoting the linking of tourism and agriculture with a view to expanding the tourist offer with gastronomic offer of Montenegrin national cuisine;
- In addition to the ongoing implementation of projects for better road connectivity with the countries in the region and the EU countries, Montenegro remains to be a primarily airline destination, thus the State’s

interest is to develop links with as many potential markets for tourism development as possible. The strategic goal of countries whose economy heavily relies on tourism is the existence of a national airline. To that end, it is necessary to develop an adequate Sustainability Study of a National Airline in Montenegro, which would include all direct and indirect benefits of the company, and the material and non-material impact of the company on tourism and the overall economy. The analysis would refer to the number of employees, improvement of existing contracts, creation of profitable air connections, servicing the existing debt, etc. The Strategy would be used to identify potential Company's Restructuring Plan;

- Continue the activities on contracting arrangements with foreign airlines, with a focus on low-cost airlines, to improve connectivity with significant primary markets and to increase Montenegro's availability as a tourist destination;
- In cooperation with local self-governments, continue to improve the road and accompanying infrastructure (water supply, electricity, wastewater, solid waste, parking) and the so-called tourist infrastructure (maintenance and creation of new beaches, ski lifts, cable cars);
- Work on creating qualified and professional staff for the promotion and provision of tourism services, which will, both in quality and in quantity, satisfy all the specific requirements of this sector;
- Improve spatial planning of tourist destinations, taking into account the protection and preservation of tourist locations.

1.2.2. Agriculture and forestry

Agriculture should be developed not only as a strategic economic branch, but also as a support measure to regional development aimed at reducing economic and social imbalances. Thus, to strengthen this sector, the Government should:

- Continue to carry out activities on the implementation of the regional and sustainable development concept, increasing the agricultural production volume with a particular focus on organic production, products with origin designation, geographic indication, and advertising and branding of local products, with a view to improving their quality and competitiveness;
- With a view to safe food production, continue activities related to the strengthening of capacities of the veterinary and phytosanitary inspection, and the certification of agricultural producers who place their products to the market; Through the use of pre-accession funds, continue activities on reaching the EU standards on food safety, on the implementation of

phytosanitary, veterinary, and other standards, so that local products would qualify to be competitive in the EU market;

- Promote keeping youth in rural areas, subsidise the start up of agricultural production and encourage their education to acquire the necessary expertise and competence for carrying out agricultural production and processing of products;
- In production of high quality traditional Montenegrin products, continue activities on improving the production capacities, and consequently, better placement of these products on the domestic and foreign markets;
- Subsidise agro, beekeeping, wood processing and other agricultural cooperatives, with a special emphasis on the association of small and local agricultural producers and agricultural holdings aimed at increasing production volumes and better product competitiveness in the market;
- Encourage and promote capacity building for the processing of agricultural products, linking agricultural producers with domestic retail chains and hotels, in order to ensure, through guaranteed purchase (of all surplus fruit, vegetables and other agricultural products), better distribution and reduced seasonal fluctuations in this sector;
- Subsidise the production of early fruits and vegetables, viticulture, berry fruits, perennial medicinal and aromatic herbs, as well as other cultures;
- Organise greenhouse production in Montenegro;
- Promote olive growing, especially the production of high quality olive oil; Work on the plant nurseries development, standardisation, protection of geographical origin and increase in the number of trees of local varieties of olives and of olive oil producers, bearing in mind great development potential of this branch;
- Continue activities aimed at sustainable economic development of traditional Montenegrin summer pastures, bearing in mind their importance for the livestock production development;
- Encourage investments in the livestock production area through the creation of regional livestock development centres in order to raise livestock production competitiveness and quality and create recognisable and market-sustainable domestic products;
- Encourage the work of professional associations to increase and modernise the production of certain products (honey, olives, citrus fruits, etc.);
- Encourage the development of fishery and consider the possibility of revitalising fish processing facilities;
- Promote timber producers' linking with wood processors to improve the export of higher level of processing products, and better and more efficient

utilisation of forest potential, while respecting the concept of sustainable development;

- Continue to strengthen the personnel and technical capacities of the Forest Administration to have a more effective protection of forests from illegal and irrational exploitation, plant diseases, pests and fires;
- In order to protect the environment, develop as many regional centres as possible that would be specialised for the cultivation and care of planting material to be used for regular afforestation of bare lands, as well as for the cultivation of poor and degraded land; Use all available funds for these purposes;
- Continuously monitor the work of forest concessionaires in Montenegro, their technological capabilities and capacities, and check whether they operate in a sustainable way and in accordance with the obligations from the concluded concession agreement.

1.2.3. Energy

Strengthening of the energy sector is necessary to foster further economic development and growth, primarily by fostering investments and infrastructure connectivity, thus the Government should:

- Stemming from insufficiently utilised resources in this area (hydro, thermal, alternative sources, and the like), support the construction of new energy capacities in cooperation with reputable strategic partners; Increase the utilisation of all energy potentials of Montenegro that fulfil the sustainable development principles and have no negative impacts on the environment;
- Encourage the introduction of biofuels; Create regulations for the gradual introduction of an obligation for oil and oil derivatives traders to increase the share of biofuels in the total derivatives consumption; Continue the implementation of Trans-Balkan electricity corridor;
- Continue to modernise and revitalise the existing and construct new infrastructure for energy transmission and distribution to minimize losses, improve distribution during tourist season and encourage sustainable development;
- Continue with modernisation and development of the distribution network in the locations where small hydro power plants and wind power plants are envisaged;
- Continue to implement the project of improving the energy efficiency in public institutions and households, through the implementation of measures aimed at reducing the energy losses and through the use of

energy-efficient appliances; Continue the programmes of subsidising loans for the use of renewable energy sources in industry, services, transport, and households;

- Promote new technologies and standards in the construction of residential buildings, as well as in heating and/or cooling systems, with substitution of direct transformation of electrical energy into heat and using new environmentally friendly technologies;
- Consider the model of connecting the newly established electricity market with the markets in the surrounding countries;
- Terminate activities on the preparation of the draft Law on Oil Fund. Also, consider the possibility to redefine contributions for the planned “oil fund”, so as to gradually adapt the budget to the new revenue – without any major imbalances and with a view to achieving greater fiscal discipline. This fund should not be used for current expenditure but for investments, to provide benefits for future generations. In establishing such a fund, it is extremely important that the process is completely transparent. Also, it is necessary to take the best practices of countries that have established the so-called “sovereign wealth funds”, whether based on revenues from oil and gas or other stock exchange goods;
- Continue with the international cooperation on the implementation of the Adriatic-Ionic gas pipeline project.

1.2.4. Manufacturing industry

Manufacturing industry is an important potential for the long-term development of Montenegro’s economy, and a more dynamic growth of this sector is expected in the future.

Thus, to strengthen this sector, the Government should:

- Take activities towards strengthening the competition and productivity of micro, small and medium enterprises in manufacturing industry by encouraging the introduction of innovation and knowledge transfer, as well as by establishing links with scientific and research institutions;
- Encourage the association of small and local producers, and the development of horizontal and vertical clusters, to achieve easier access to the domestic and foreign market through combined participation and thus, better product placement;
- Provide support for the strengthening of human resources, in terms of knowledge and skills development in the manufacturing industry area;

- Foster the linking of the manufacturing industry with the construction sector, to reduce high import dependence in the construction sector through a greater production of machines, equipment, metal elements, structures and other metal products necessary for the smooth functioning of this sector;
- Consider the possibilities of repairing the old and encouraging the construction of new plants for processing raw leather and wool materials, and olives and fruits;
- By linking agriculture and manufacturing industry, encourage the production of food products, especially the autochthonous ones;
- Work on the increasing of production and exports of semi-finished and finished products;
- Encourage investments in the activities of final processing in forest sector, timber industry and other forest-dependent activities.

1.3. Recommendations concerning structural reforms

The establishing of a sound and attractive business environment is key for investment activity intensification. While continuous reforms in labour market, social and pension insurance, education and health care are being performed, further improvements are needed. It is necessary to complete the legislation process, i.e. to harmonise it with the *acquis communautaire* in accordance with Montenegro's Programme of Accession to the European Union.

1.3.1. Institutional environment

The Government should:

- Intensify the Council for Regulatory Reform and Improving the Business Environment's work and consider the possibility of innovating its composition to improve its efficiency;
- Perform a detailed analysis of the long-term illiquidity in the economy causes, and propose a program to overcome the identified causes with solution to resolving the problem of illiquidity;
- Work on more efficient implementation of anti-monopoly policy in all segments where competition is limited;
- Enhance the coordination and coherence of different inspection services in order to speed up the response and address problems present in the economy (informal economy, corruption, overlapping inspection services' jurisdiction, and the like);

- Define the institutions' competence for the so-called "informal economy";
- Revise the penalty policy application by introducing progressive penalising of multiple offenders and those in the "informal" zone;
- Work on administrative procedures improving (shortening deadlines for acting, collecting documentation *ex officio*, and determining the real amount of fees according to administration costs);
- Improve land policy (the mechanism of restitution, expropriation, and temporary use of state land);
- Intensify activities on creating conditions for all municipalities to meet the criteria and reform measures envisaged by the Regional Network for Certification of Municipalities with a favourable environment in South Eastern Europe, with the view to their including in the certification process;
- Promote work in the business zones of strategic interest, primarily in the municipalities in the northern part of the country, in compliance with the Decree on Business Zones;
- Consider the possibility of providing financial support to intellectual property rights' holders with regard to the creative aspect of their work;
- Sanction all investors who breach their contractual obligations from the privatization process;
- Increase efficiency in the implementation of RIA methodology in passing new legislation;
- Intensify the process of adopting the Law on Public-Private Partnership;
- Perform necessary activities to start the process of preparing proposals for amending the provisions of the Law on Ownership Rights to fulfil the undertaken obligations under the Stabilization and Association Agreement between the European Union and Montenegro (Article 63, point 3), by which Montenegro officially committed itself to harmonise its legislation with the *acquis communautaire*. To that end, it is *inter alia* necessary to harmonize the provisions of Article 415 of the Law with Articles 63 and 64 (1) of the Treaty on the Functioning of the European Union. This should be done by supplementing the Law so that the provisions of Article 415 do not refer to the citizens of EU Member States who have national treatment in acquiring immovable property on Montenegro's territory.

1.3.2. Labour market

The Government should:

- Improve cooperation between educational and labour market institutions with a view to reducing incoherence of offer and demand at the labour market;
- Improve cooperation of labour market institutions and social welfare centres in informing social welfare beneficiaries about active employment policy programmes and measures in order to activate working-age population on the labour market;
- Develop and implement training, retraining and additional education programmes for the unemployed;
- Foster labour force mobility and develop active employment policy programmes and measures that will give advantage to the employment in the northern part of the country;
- Promote lifelong learning programmes;
- Supervise and analyse the effects of tertiary education students' work according to the Vocational Training Programme for persons with acquired tertiary education;
- Improve the control function at the labour market, i.e. the Labour Inspection function;
- Prepare and implement active employment policy programmes for long-term unemployed persons, women and youth, with special emphasis on redefining the Vocational Training Programme for persons with acquired tertiary education;
- Initiate and conduct programmes for employing hard-to-employ persons.

1.3.3. Pensions system

The Government should:

- Continue the pension reform with a view to providing the sustainability of the Pension and Disability Fund.
- Implement measures limiting early exit from the labour market and retirement;
- Implement measures that contribute to pensioners' standards improving (adjusting of pensions, participation in co-financing of housing construction for pensioners' needs, and other social measures).

1.3.4. Social benefits

The Government should:

- Continue developing the social welfare services to eliminate existing obstacles in the protection of children, adults, the elderly and persons with disabilities, as well as other vulnerable categories;
- Continue to implement and improve the “Integrated Social Welfare Information System (IISSE)” project in order to plan measures and programmes for encouraging persons to participate in the labour market actively, so that the social welfare would be provided only to beneficiaries who really need it;
- Pay due attention to planning measures and programmes that would enable easier access to the labour market for persons with disabilities and RAE (Roma, Ashkali, and Egyptians) population;

1.3.5. Education and health system

In the area of education, the Government should:

- Restore the social significance of education and stop the negative selection of teaching staff (from teachers to full professors), not only through wages and salaries, but also through all other activities;
- Foster constant education of the teaching staff, and conduct quality assessment of the work in order to successfully carry out the teaching process;
- Implement activities on providing the space to reduce overcrowding and improve conditions in pre-school institutions;
- Support knowledge development projects for children from an early age;
- Introduce financial education in elementary schools;
- Create/improve secondary, vocational and higher education programmes according to labour market needs;
- Pursue an enrolment policy that would contribute to reducing the structural imbalance in the labour market supply and demand;
- Encourage the learning of practical skills, professional knowledge, including the promotion of a system of dual education and professional diplomas;
- Encourage applied and development research through cooperation with foreign partners and partners from the business sector;
- Encourage the mobility of teaching-scientific staff and students in cooperation with foreign educational institutions;
- Encourage participation in international scientific researches.

In the area of health protection, the Government should:

- Continue the health care system reform aiming at raising the health care quality and level and providing the Health Insurance Fund's sustainability;
- Enhance the development of preventive medicine by raising awareness on the importance of preventive check-ups and organising actions on early diagnosing of severe diseases;
- Review the content of the List of Medicines and the introduction of the so-called generic parallels wherever medical reasons allow, in order to reduce irrational, insufficiently controlled, and economically unviable consumption;
- Consider the possibility of adopting a Decree on the Criteria for Determining the Primary and Supplementary List of Medicines, including the possibility of special financing of certain types of expensive medicines used in special cases (also from the budget);
- Perform the pharmaceutical-economic analysis of each medicine financed from the budget;
- Reduce non-medical staff through the outsourcing of non-medical services (food service, laundry, hygiene, etc.) through private-public partnership;
- With a view to rationalising and controlling consumption at all levels, expedite the activities on creating protocols and clinical guidelines for the purpose of uniformity and quality improvement in service delivery and costs;
- Consider the possibilities of securing additional financing at the expense of a part of concession revenues, excise duties, and participation;
- Plan investments in medical equipment rationally according to the territorial distribution of the population, the existing infrastructure, demographic trends, and growing needs;
- Improve governance and system of distributing responsibilities at all decision-making levels with the permanent education of staff;
- Improve the material position of health employees, and particularly consider the possibility to motivate the scarce and overburdened medical staff with a special financial stimulus;
- Consider the possibility of creating and establishing a special fund for the treatment of children abroad.

2. RECOMMENDATIONS CONCERNING FINANCIAL SYSTEM²

General objective of the recommendations concerning this area is the preservation of the financial system stability. With a view to achieving undisturbed and stable functioning of the financial system, as well as efficient intermediation in the area of financial services, the Government should:

- Take necessary activities to initiate the procedure for drafting a proposal to amend the provisions of the Constitution of Montenegro with a view to meeting the obligations assumed from the Stabilisation and Association Agreement. To that end, Article 143 of the Constitution of Montenegro should be harmonised, *inter alia*, with Articles 127 (1) and 282 (2) of the Treaty on the Functioning of the European Union and Article 2 of the Statute of the ESCB and of the ECB;
- With a view to more efficient meeting of the benchmarks in the negotiating process and in the banking area and financial conglomerates, insurance and occupational pension schemes, financial market infrastructure, securities market and investment services, harmonise the national legislation with the *acquis communautaire* in accordance with the deadlines specified in the Programme of Accession of Montenegro to EU.
- Standardise postponed application of certain legal institutes and solutions from the EU legislation, which implementation into the national legal and regulatory system currently is not expedient;
- Continue with strengthening and developing of the administrative capacities in the area of harmonising and implementing *acquis communautaire* for the financial services considering the growing responsibility of regulatory and supervisory institutions arising from its implementation in order to strengthen the quality and independence of these institutions;
- Continue the process of overall structural reforms aimed at creating competitive, stable and foreseen business and investment environment to encourage banks' lending activity under more favourable terms, thus facilitating the access to sources of financing of the competitive, innovative and export-oriented companies;
- Take activities to remove the barriers hindering the access to financial assets of companies and entrepreneurs both on the demand and supply sides; Promote out-of-court disputes resolution and increase effectiveness and efficiency of judicial procedure, foreclosure of collateral aimed at higher level of protection of rights and property of creditors, which would

² The recommendations did not include competences of the CBCG defined in the Policy of the CBCG and implementing Guidelines.

lead to lending under more favourable conditions; Ensure consistent implementation of the Accounting Law and Auditing Law to increase awareness on the importance of accurate and fair financial reporting for accessing the financial resources;

- Encourage financial institutions and investors to allocate capital in companies that operate on the principles of sustainability, i.e. companies that accommodate their business objectives to the long-term goals of sustainable development which will promote the concept of sustainable development;
- Encourage exchange market to promote the concept of responsible investing and corporate sustainability by increasing transparency with regard to environmental performances of listed companies which encourages responsible and long-term approach to investing;
- Encourage transparency in the capital market, particularly in the area of the corporate financial reporting, as well as the observance of core principles of corporate governance and improvement of the protection of minority shareholder rights;
- Stemming from the importance of financial education for financial market and entire society, and the need to improve the level and quality of financial literacy, the national strategy for financial education should be drafted that will be based on the OECD/INFE principles and international best practices since uniform model does not exist. A coordinated approach to financial education should be ensured by the Government, public or regulatory body or national advisory managerial body.

3. RECOMMENDATIONS CONCERNING FISCAL POLICY

The recommendations in the fiscal policy area fully support long-term objectives of Fiscal Strategy of Montenegro for period 2017–2020, which primarily refer to the strengthening of fiscal stability and accomplishing Budget surplus, as well as establishing a declining trend in public debt starting from 2019 with strengthening of the Montenegrin economy's economic activity and competitiveness.

A set of measures in the area of fiscal policy is aimed at bringing fiscal indicators to a sustainable level. The optimisation of employees in the public administration, increase in fiscal discipline and drafting of the detailed Debt Management Strategy (liability management) for medium-term are the main measures to be implemented in the following year with the aim to reaching more efficient consolidation of the State Budget. In addition, the expenditure structure

should monitor the revenues dynamics by reducing discretionary spending and providing support to development priorities.

With a view to continuing consolidation process of the Budget and reaching stable fiscal indicators, the Government should:

- Apply measures from Fiscal Strategy consistently;
- With a view to planning fiscal incentives directed to the improvement of the quality of life through new employment, consider the possibility of introducing incentives in the area of the reduced income tax rate and/or crisis tax. This measure would encourage new employment and narrow the area of informal economy, thus obtaining positive effects on real sector.
- Carry out the public administration reform, which will primarily cover the optimisation of the number of employees (in particular in the local self-government units) in order to create a compact, efficient, effective and transparent public administration in accordance with the Public Administration Strategy of Montenegro for 2016–2020. In order to continue further with the implementation of the activities from the Strategy, a detailed action plan should be prepared for the following period and implement it without any delay. Moreover, the plan of public administration optimisation should be accommodated in the part regarding the reduction of number of employees for the controlling activities to maintain the resources for the suppression of informal economy;
- Determine employee salaries in public sector based on the principle of fiscal sustainability. When the budget runs current spending deficit (without borrowings) over a certain limit, it is proposed to reduce funds allocated for employees. Only the surplus in the current spending allows maintaining profits at the same level and/or increasing to the level of balance in the current budget;
- Streamline capital budget in the part that does not affect the development projects;
- Implement centralisation of public procurements by stages;
- Reduce non-productive spending in the budget, particularly emphasising the following positions:
 - communication services' expenses by limiting IT expenses, telephone expenses and other service expenses per spending units;
 - consultant services' expenses – with their prior analysis and the assessment of their necessity;
 - expenses for attorney's fees by using internal resources, assistance from other spending units or Protector of Property and Legal Interests of Montenegro;

- Stationery expenses by instructing spending units to optimise the consumption of stationery, spare parts, small inventory, fuel expenses and electricity expenses.
- With regard to more efficient budget spending, the strengthening of the internal financial control in the public sector should be intensified in the following period and harmonise legal regulation with the EU regulations;
- Take all available measures to increase the regularity in meeting and efficiency in the collection of all public revenues, particularly aimed at paying social contributions as the largest item in tax debt;
- Continue the intensified fight against informal economy, using the principle of non-selectivity, zero tolerance rate and full transparency. With this regard, resources should be strengthened as well as responsibility of the inspection services;
- Intensify activities regarding the implementation of the Law on Rescheduling of Tax Claims and other available measures for widening the tax base;
- Improve the control of implementation of concessionary obligations and establish transparent registry and price list in this area;
- Work on developing a model for enabling sailors to pay taxes and contributions; Consider the possibility of creating working group consisting of sailors, the Ministry of Finance and the Ministry of Transport and Maritime Affairs to reach a solution that would be in the interest of the State and sailors;
- Plan fiscal deficit exclusively in the function of removing bottlenecks in the economy, i.e. which is aimed at investing in development projects, as the main precondition for the economic growth;
- Establish Fiscal Council, which would involve the participation of the representatives from the Ministry of Finance, the CBCG, the State Audit Institution and independent experts;
- Pass a comprehensive strategy for public debt management that would be harmonised with the Rehabilitation Plan for Fiscal Deficit and Public Debt. With a view to improving the quality and optimising funds and finding the best solution in the market, the level of knowledge of employees in the respective job positions should be improved and/or find expert assistance in this area.

4. RECOMMENDATIONS CONCERNING STATISTICS

With a view to achieving full harmonisation of the official statistics with the EU acquis, the Government should:

- Continue to strengthen inter-institutional cooperation of all official statistics producers in the system, without prejudice to the accomplishment of the objectives, responsibilities and independence of the producers; With respect to the existing inter-institutional agreements/memoranda of understanding between the producers of official statistics, continue activities on the implementation of the Memorandum of Understanding in the area of national accounts statistics of the general government sector and related statistics between MONSTAT, the CBCG and the Ministry of Finance. In doing so, the priority should be to:
 - Consider the Agreement in the part referring to the competences of reporting according to the Excessive Deficit Procedure (EDP) and accommodate it to EU requirements and national practice;
 - upon establishing registers for 2015, continue the activities on establishing registers of institutional units by sectors in line with ESA 2010 methodology for 2013, 2014, and 2016, which is vital because it represents a basis for compiling and further promoting other statistics, and
 - Continue aligning the public finance system with ESA 2010 methodology.
- Strengthen the existing personnel capacities of official statistics producers through the improvement of knowledge and skills, and strengthen work motivation (primarily through the use of all forms of support and technical assistance programmes); Strengthen human resource capacities by increasing the number of employees in the system of official statistics (primarily MONSTAT), together with additional financial capacities and premises, in order to ensure the sustainability of the official statistics.