

FISCAL DEVELOPMENTS

05

Public finances in 2020 saw a significant decrease in the collection of public revenues compared to the previous year, which is a consequence of a decline in economic activity caused by the epidemic.

On the other hand, an increase was recorded in donations due to the provision of non-refundable financial assistance by the European Commission to the Government of Montenegro, in order to mitigate the negative effects of the epidemic on the economy.

Also, in order to help the economy and citizens, the government adopted three packages of containment measures with an estimated value of about 1.6 billion euros, which led to an increase in consolidated public spending.

Growth was most noticeable in reserves and transfers to institutions, individuals, NGOs and the public sector, while the epidemic has affected a significant decline in capital expenditures, which is largely the result of lower withdrawals for highway construction.

Based on the above mentioned, the public spending deficit, as well as the budget deficit, reached a significantly higher amount than in previous years (Table 5.1).

Table 5.1

Development of the public sector and budget surplus/deficit in the period 2016–2020					
Description/ Period	2016	2017	2018	2019	2020
Public sector deficit/surplus (million euros)	-112.1	-243.0	-213.3	-72.2	-463.7
% share in GDP	-2.8	-5.7	-4.6	-1.5	-11.1
Deficit/surplus of the Budget of Montenegro with State funds (million euros)	-122.3	-250.9	-197.0	-144.5	-425.3
% share in GDP	-3.1	-5.8	-4.2	-2.9	-10.1
Note:					
GDP of Montenegro in million euros (estimate for 2020)	3,954.2	4,299.1	4,663.1	4,950.7	4,193.2

Source: Ministry of Finance and Social Welfare (data for 2019 and 2020 are preliminary) and CBCG calculations

5.1. Montenegro's public finances³⁹

According to preliminary data of the Ministry of Finance and Social Welfare⁴⁰, *public revenues*⁴¹ in 2020 amounted to 1.87 billion euros, which represents 44.6% of the estimated GDP⁴² which is 3.6%

³⁹ The structure of Montenegro's public finances comprises of the Budget of Montenegro with the State funds (Pension and Disability Fund, Health Insurance Fund, Restitution Fund, Employment Agency, and Labour Fund) and local government budgets (Old Royal Capital Cetinje, Capital Podgorica and 22 municipalities).

⁴⁰ The data are preliminary, while the final data will be an integral part of the Law on Annual Budget Financial Statement (Final Account) for 2020.

⁴¹ Total public revenues include revenues from budget, State funds, and local governments.

⁴² Source: Monstat, estimated GDP for 2020 amounts to 4.19 billion euros.

lower than planned, while they decreased by 13.1% compared to 2019. The decrease in public revenues during 2020 was mostly due to a decrease in revenues from value added tax by 165.9 million euros (23.8%), local taxes and other revenues from the Equalization Fund by 57.4 million euros (57.7%) and other revenues by 46.2 million euros (49.3%) (Annex D, Table 12).

The structure of public revenues generated during 2020 is dominated by tax revenues (60.4%) and contribution revenues (28.4%), while all other revenues accounted for 11.2% of total revenues.

Preliminary data indicate that consolidated *public spending* in the reporting year amounted to 2.33 billion euros, i.e. 55.6% of GDP. Compared to the previous year, public spending increased by 4.9%, while it was 63.5 million euros or 2.8% higher compared to the plan.⁴³

*Current public spending*⁴⁴ amounted to 2.02 billion euros or 48.1% of GDP, recording an 11.4% increase y-o-y.

The largest increase in spending compared to the previous year was recorded in reserves (growth of 91.4 million euros) due to the increase in the current budget reserve, which financed the costs of helping the economy affected by the COVID-19 pandemic. Also, a significant increase (84 million euros) was recorded in transfers to institutions, individuals, non-governmental and public sectors, where most funds were allocated to the Health Insurance Fund for the containment measures.

Capital expenditures, unlike the current spending were significantly reduced during 2020 due to the effects of the pandemic. They amounted to 315 million euros or 7.5% of GDP and were 96.3 million euros or 23.4% lower than in the previous year. The comparison with the plan for the year, on the other hand, showed an increase in capital expenditures⁴⁵, while the largest decrease compared to the plan was recorded in reserves (18.7 million euros or 13.6%) due to the non-realization of the planned funds for the resolution of Montenegro Airlines and transfers for social protection (19.5 million euros or 3.4%) due to the reduction of expenditures in the category of rights in the area of pension and disability insurance and rights in the social protection area.

Economic classification reveals that the main expenditure items were gross earnings and contributions paid by employer (548.8 million euros) and expenditures for pensions (428.1 million euros).

In 2020, a lower level of public revenues from consolidated public spending was realized, so the public sector deficit amounted to 463.7 million euros or 11.1% of GDP and it was 391.5 million euros higher than that recorded in 2019.

During 2020, debt repayment amounted to 678.8 million euros or 16.2% of GDP, which, adding the expenditures for purchase of securities and estimated deficit, indicated a need for borrowing in the amount of 1.14 billion euros or 27.3% of GDP. Of this number, 176.1 million euros related to domestic borrowing, while 1.19 billion euros represented foreign borrowing. The remaining amount related to privatization revenues (20.3 million euros) and transfers (6.9 million euros). As a result of these transactions, deposits increased by 253.5 million euros in 2020.

⁴³ The plan refers to the budget revision adopted in June 2020.

⁴⁴ Public spending minus total capital expenditures.

⁴⁵ The increase in capital expenditures is the result of a larger withdrawal of funds planned for the projects implemented by the Transport Directorate and the Public Works Directorate on the basis of concluded credit arrangements with the EBRD and the EIB.

Table 5.2

Consolidated public spending of Montenegro in the period 2016–2020, in million euros										
DESCRIPTION	2016	GDP	2017	GDP	2018	GDP	2019	GDP	2020	GDP
	million euros	%	million euros	%	million euros	%	million euros	%	million euros	%
Public revenues	1,684.3	42.6	1,785.4	41.5	1,969.5	42.2	2,151.5	43.5	1,869.5	44.6
Consolidated expenditures	1,826.5	46.2	2,012.5	46.8	2,152.4	46.2	2,223.8	44.9	2,333.2	55.6
Current public consumption	1,720.6	43.5	1,714.5	39.9	1,855.7	39.8	1,812.5	36.6	2,018.2	48.1
Capital expenditures	105.9	2.7	298.0	6.9	296.7	6.4	411.3	8.3	315.0	7.5
Surplus/Deficit	-112.1	-2.8	-243.0	-5.7	-213.3	-4.6	-72.2	-1.5	-463.7	-11.1
Note:										
GDP of Montenegro in million euros (estimate for 2020)	3,954.2		4,299.1		4,663.1		4,950.7		4,193.2	

Source: Ministry of Finance and Social Welfare (data for 2019 and 2020 are preliminary)

Box 5.1 – Government's containment measures

During 2020, the Government of Montenegro adopted three sets of containment measures.

The first set adopted in March 2020 aimed at maintaining the liquidity of the economy and supporting the most vulnerable categories of the population. It included six measures (a total of 280.6 million euros) and covered a three-month period.

The measures referred to: deferred repayment of loans of economic entities to the IRF (836 moratoriums were approved on the value of the total debt of 160.7 million euros); deferral of payment of taxes and contributions on wages and salaries, as well as obligations under the Law on Reprogramming, for up to 90 days (the total amount of deferred liabilities on this basis is 45 million euros); creation of a new IRF credit line to improve the liquidity of entrepreneurs, micro-, small-, medium-sized, and large enterprises (73.4 million euros); one-off financial assistance to pensioners with the lowest pension and welfare beneficiaries in the amount of 50 euros (1.1 million euros); moratorium on the payment of leases for state real estates for a period of 90 days, starting from 1 April 2020, and reliefs in settling electricity bills (subsidies amounted to 277.5 thousand euros).⁴⁶

The second set of measures adopted in April 2020 was created to preserve jobs and create conditions for faster economic recovery. This set consisted of thirteen measures, four of which related to support to the economy and employees, while nine measures were included in the Special Program of Support to Agriculture and Fisheries. The planned period for the implementation of measures was two months, i.e. it was valid until the end of June, and the fiscal effect of the implemented measures in that period amounted to 39.2 million euros. However, due to the continuation of the pandemic, the deadline for the implementation of measures was extended for sectors assessed to have been vulnerable, while most of the Special Program of Support to Agriculture and Fisheries was implemented in the second half of 2020.

Measures to support the economy and employees covered six types of subsidies in the amount of 50%-100% of gross earnings of employees (33.2 million euros), reliefs in order to improve liquidity of the economy by shortening the VAT refund period and extension of the deadline for exposure limits to the customs guarantee for deferred payment of customs debt; reduction of earnings for job groups A and B (employees with the highest salaries in the public administration) during the second set of measures (budget savings of 1.1 million euros); a one-off financial assistance of 50 euros for the unemployed registered with the

⁴⁶ Government of Montenegro, „Third package of socio-economic measures“, July 2020, p. 17 and 18.

Employment Agency who are not entitled to cash benefits, and for pensioners who receive proportional pensions, the amount of which does not exceed the amount of the lowest pension (890 thousand euros was paid). Also, the existing subsidies for electricity bills were doubled for those customers who are already recognized as the poorest, as an additional EPCG assistance to the most socially vulnerable households.

A Special Program of Support to Agriculture and Fisheries worth more than 17 million euros consisted of the following: providing funds for the purchase and storage of surplus of agricultural products and assistance in their placement or transfer to public institutions (estimated at 3 million euros); support for the purchase of domestic products; favourable loans from the IRF (maximum loan amount was 20 thousand euros, with an interest rate of 1.5%, the repayment period of up to two years, and a grace period of up to one year) for the purchase of working capital to registered agricultural producers, manufacturers and fishermen (estimated at 10 million euros); interest rate subsidies for the new IRF credit line (150 thousand euros); payment of contributions to insured persons on the basis of agriculture for a period of six months (100 thousand euros); one-off support for 3,200 beneficiaries of old-age benefits in the amount of 64 euros (225 thousand euros allocated); one-off assistance for 184 fishermen with a valid license (200 thousand euros), and advance payment of 80 percent of premiums in livestock and per hectare of arable land, based on data from the previous year (payments to producers in the amount of 3.5 million euros).

The third package of measures adopted in July 2020 was of a resolution-development character, so in addition to mitigating the negative economic consequences caused by the epidemic, the goal of this set was to strengthen the foundations for economic growth and development. The estimated value of the package is 1.22 billion euros and it covers the period 2020 - 2024. It incorporates short-term and long-term measures to recover the economy through its diversification and increase in domestic production. The planned financial resources for economic support in the form of short-term measures amount to 127.3 million euros, while those related to long-term measures are planned in the amount of 1,093.7 million euros. Of the total value of this package, financial resources planned for 2020 account for 23%, while 77% are designated for the period 2021-2024.

Short-term measures within the third set of measures relate to subsidizing interest rates for reprogrammed and new loans, favourable credit lines, tax reliefs, subsidizing employees' wages and salaries, improving competitiveness of the economy, defining the structure and dynamics of investments by sectors, supporting vulnerable groups and creating additional fiscal space.⁴⁷ These measures are aimed at providing assistance to the tourism sector for the provision of financial assistance in the amount of 83.4 million euros, and to the agriculture and fisheries sector for incentives for the realization of investments in the amount of 89.4 million euros.

Long-term measures refer to the development concept with a new view on valorisation of domestic resources for the purpose of sustainable development. This concept primarily refers to the IT sector, i.e. the digitalisation of business. In addition to this sector, tourism, agriculture and fisheries are included, as well as manufacturing industry, energy and mining (planned financial resources in the amount of 783.4 million euros), and transport (special credit arrangements are planned for the development of port infrastructure in 2021).

5.2. Budget of Montenegro

In 2020, *total revenues of the Budget and State Funds*,⁴⁸ as per preliminary data of the Ministry of Finance and Social Welfare, amounted to 3 billion euros or 71.6% of GDP (Table 5.3).

⁴⁷ Government of Montenegro, „Third package of socio-economic measures“, July 2020, p. 31.

⁴⁸ Budget revenues include source revenues (direct and indirect taxes and non-tax revenues), borrowings and loans from domestic and foreign sources, and revenues from the sale of assets.

Source revenues amounted to 1.64 billion euros or 39.1% of GDP. These revenues were 3.9% and 13% lower than planned and year-on-year, respectively.

In the structure of source revenues, tax revenues accounted for the main share (58.9%), followed by contributions (32.4%), donations (3.5%), other revenues (2.2%), fees (1.7%), duties (0.7%), and receipts from loan repayment and funds transferred from the previous year with (0.6%).

Tax revenues amounted to 966.1 million euros, which is 8.5% below the plan and 17.6% lower than in 2019. Observed individually, value added tax recorded the largest decrease compared to the plan, as well as compared to the previous year, which was caused by the decline in economic activity due to the pandemic.

Revenues arising from contributions amounted to 531 million euros recording a 7.8% increase in relation to the plan for 2020, while they fell by 2.8% y-o-y.

Table 5.3

Revenues of the Budget of Montenegro and State funds in 2020, in million euros							
Type of revenue	Plan for 2020	Recorded in 2020	Share in revenues	Share in GDP	Recorded in relation to the Plan	Recorded in 2019	Recorded in relation to 2019
	in million euros	in million euros	%	%	Index	in million euros	Index
Taxes	1,055.5	966.1	32.2	23.0	91.5	1,172.7	82.4
Personal income tax	112.7	118.3	3.9	2.8	105.0	125.0	94.6
Corporate income tax	67.6	78.4	2.6	1.9	116.0	72.8	107.7
Immovable property turnover tax	1.9	1.6	0.1	0.0	84.2	2.1	76.2
Value added tax	615.8	529.8	17.7	12.6	86.0	695.7	76.2
Excise Duties	221.4	205.4	6.8	4.9	92.8	235.5	87.2
International trade and transactions tax	26.8	22.6	0.8	0.5	84.3	28.5	79.3
Other republic taxes	9.3	10.0	0.3	0.2	107.5	13.1	76.3
Contributions	492.5	531.0	17.7	12.7	107.8	546.3	97.2
Contributions for pension and disability insurance	304.9	330.8	11.1	7.9	108.5	329.2	100.5
Contributions for health insurance	160.4	171.6	5.7	4.1	107.0	187.8	91.4
Contributions for unemployment insurance	14.5	15.4	0.5	0.4	106.2	15.1	102.0
Other contributions	12.7	13.2	0.4	0.3	103.9	14.2	93.0
Duties	12.2	10.7	0.4	0.3	87.7	15.7	68.2
Fees	24.8	27.8	0.9	0.7	112.1	28.2	98.6
Other revenues	52.9	36.7	1.2	0.9	69.4	75.8	48.4
Revenues from loan repayment and funds transferred from previous years	17.1	9.3	0.3	0.2	54.4	8.3	112.0
Donations and transfers	50.0	57.7	1.9	1.4	115.4	38.2	151.0
SOURCE REVENUES	1,705.0	1,639.3	54.6	39.1	96.1	1,885.2	87.0
Revenues from sale of property	6.0	8.6	0.3	0.2	143.3	4.3	200.0
Borrowings and loans from foreign sources	331.5	1,185.7	39.5	28.3	357.7	651.6	182.0
Borrowings and loans from domestic sources	0.0	167.5	5.6	4.0		363.4	46.1
TOTAL REVENUES OF THE BUDGET OF MONTENEGRO AND STATE FUNDS	2,042.5	3,001.1	100.0	71.6	146.9	2,904.5	103.3
Note:							
Estimation of GDP for 2020, in million euros				4,193.2			

Source: Ministry of Finance and Social Welfare

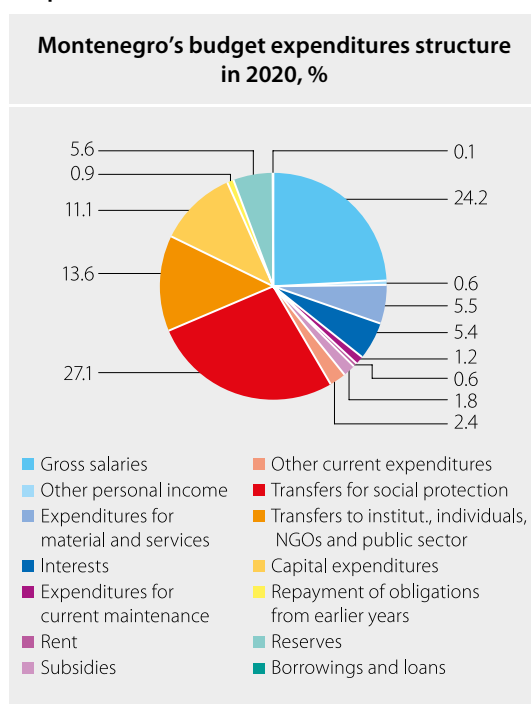
In 2020, *total budget expenditures*⁴⁹ added up to 2.73 billion euros or 65.1% of GDP, recording the year-on-year increase of 5.3% and being 5.8% higher than planned.

Consolidated budget expenditures amounted to 2.07 billion euros and they made up 49.2% of GDP. Expenditures were higher in comparison with the previous year by 1.8% and in relation to the plan by 1.2% (Table 5.4).

Current expenditures (consolidated expenditures less capital expenditures) made up 1.83 billion euros or 43.8% of GDP. The largest deviation from the plan, due to growth, was recorded in expenditures for services.

Capital expenditures⁵⁰ of Montenegro amounted to 229.9 million euros or 5.5% of GDP, which is 18% more than planned and 33.3% less than in the previous year, which is explained by the slower dynamics of works on the priority section of the highway.

Graph 5.1



Source: Ministry of Finance and Social Welfare and CBCG calculations

Repayment of government debt amounted to 665.9 million euros⁵¹ and it increased compared to the previous year by 158.6 million euros, mostly due to an increase in the repayment of securities and loans to non-residents.

The structure of budget expenditures for 2020 remains unfavourable, as shown in Graph 5.1. The largest share belongs to social protection transfers (27.1%) and gross earnings (24.2%). Other purposes accounted for 48.7% of budget expenditures, of which 13.6% belongs to transfers to institutions, individuals, NGOs and public sector, capital expenditures (11.1%), reserves (5.6%), expenditures for materials and services (5.5%), and interest (5.4%).

Montenegro's budget *deficit*⁵² for 2020 was estimated to 425.3 million euros or 10.1% of GDP, being 282 million euros higher than cash deficit, and 280.8 million euros above the adjusted 2019 deficit.⁵³ Primary budget deficit⁵⁴ amounted to 314.3 million euros or 7.5% of GDP.

⁴⁹ Total budget expenditures comprise consolidated expenditures, payment of securities and loans to residents and non-residents and expenditures for the purchase of securities.

⁵⁰ Capital expenditures represent capital expenditures in the current budget and the capital budget.

⁵¹ Debt principal to residents and non-residents, without debt repayment from the previous period.

⁵² Methodology for surplus/deficit calculation, OGM, 53/09 Deficit represents the difference between the source revenues and the consolidated expenditures. The deficit data for 2020 refers to the cash deficit (does not include net liabilities), while adjusted deficit will be published when the Law on the Final Statement of Accounts of the State Budget for 2020 is adopted.

⁵³ Adjusted deficit specified in the Law on Annual Budget Financial Statement (Final Account) for 2019.

⁵⁴ Deficit less the amount of paid interests

Table 5.4

Budget expenditures of Montenegro and State funds in 2020 in million euros							
DESCRIPTION	Plan for 2020	Recorded in 2020	Share in expenditure	Share in GDP	Recorded in relation to the Plan	Recorded in 2019	Recorded in relation to 2019
	in million euros	in million euros	%	%	Index	in million euros	Index
Current budget expenditures	840.1	857.9	31.4	20.5	102.1	822.8	104.3
Gross salaries and contributions paid by the employer	498.5	499.1	18.3	11.9	100.1	472.8	105.6
Other personal income	14.9	12.9	0.5	0.3	86.6	15.2	84.9
Expenditures for material and services	97.6	114.2	4.2	2.7	117.0	110.9	103.0
Expenditure for current maintenance	26.0	24.4	0.9	0.6	93.8	22.5	108.4
Interests	103.3	111.0	4.1	2.6	107.5	105.8	104.9
Rent	11.1	11.4	0.4	0.3	102.7	11.0	103.6
Subsidies	39.1	36.3	1.3	0.9	92.8	34.6	104.9
Other expenditure	49.6	48.6	1.8	1.2	98.0	50.0	97.2
Transfers for social welfare	577.7	558.7	20.5	13.3	96.7	554.3	100.8
Transfers to institutions, individuals, NGOs and public sector	276.7	281.3	10.3	6.7	101.7	219.7	128.0
Capital expenditures	194.9	229.9	8.4	5.5	118.0	344.9	66.7
Borrowings and loans	1.6	1.6	0.1	0.0	100.0	3.2	50.0
Reserves	133.6	116.4	4.3	2.8	87.1	24.3	479.0
Repayment of guarantees	0.0	0.0	0.0	0.0		38.7	
Repayment of obligations from earlier years	16.3	18.8	0.7	0.4	115.3	20.6	91.3
Liabilities net increase	0.0	0.0	0.0	0.0		0.0	
CONSOLIDATED EXPENDITURES	2,040.9	2,064.6	75.6	49.2	101.2	2,028.5	101.8
Repayment of securities and loans to residents	119.7	244.2	8.9	5.8	204.0	178.4	136.9
Repayment of securities and loans to non-residents	419.9	421.7	15.4	10.1	100.4	328.9	128.2
Expenditures of the purchase of securities	2.0	0.9	0.0	0.0	45.0	57.3	1.6
TOTAL EXPENDITURE	2,582.5	2,731.4	100.0	65.1	105.8	2,593.1	105.3
Note:							
GDP of Montenegro in million euros, estimate		4,193.2					

Source: Ministry of Finance and Social Welfare

Lacking funds in the budget amounted to 1.09 billion euros or 26.1% of GDP. Funds were provided through borrowings and loans from foreign sources in the amount of 1.19 billion euros, borrowings and loans from domestic sources in the amount of 167.5 million euros, and to a lesser extent through revenues from the sale of property which led to an increase in deposits of 269.7 million euros.

Box 5.2 – Impact of Government Containment Measures on the State Budget

The implementation of the Government's containment measures on the economy and citizens has significantly affected the state budget.

On the revenues side, there is an increase in taxes and contributions on wages and salaries (44.2 million euros or 7.3%) in relation to the budget revision adopted in June as a result of the implementation of the

measure from the second and third Government sets of measures, which implies subsidizing wages and salaries of employees in the amount of 50-100% of the minimum gross earnings in Montenegro⁵⁵.

The deferral of the payment of taxes and contributions on salaries, as well as liabilities, according to the Law on Reprogramming for up to 90 days, as a measure within the Government's first package, affected the reduction of these revenues compared to 2019. The deferral of payment of the lease on state real estates for a period of 90 days starting from 1 April 2020 contributed to the reduction of revenues from the real estate transfer tax. The extension of the deadline for exposure to the customs guarantee for deferred payment of customs debt, provided in the second package, led to a decline in the collection of revenues from international trade and transaction tax.

The decline in economic activity, and especially the decline in turnover in tourism, was mostly reflected in the value added tax which was also, to a lesser extent, affected by the reduction of the VAT rate from 21 percent to 7 percent for catering activities, which was a form of tax relief under the third package of measures.

On the expenditure side, the implementation of Government measures is most noticeable in the category of reserves and transfers to institutions, individuals, non-governmental and public sectors. Reserves recorded the largest increase compared to the previous year, because the current budget reserves financed the costs of helping the economy, primarily tourism and agriculture sectors.

In order to recover from the consequences of the epidemic, the largest transfer within the category „transfers to institutions, individuals, non-governmental and public sector“ was allocated to the Health Insurance Fund.

The category „social protection transfers“ recorded an increase compared to the previous year due to the measures incorporated in all three packages, which refers to one-off financial assistance to pensioners with the lowest pensions and beneficiaries of material assistance, as well as unemployed persons registered at the Employment Agency who do not exercise the right to monetary compensation.

Also, there is a noticeable increase in subsidies as a result of measures from the first and second sets of measures, i.e. relief in settling electricity bills and doubling electricity bills' subsidies for the most socially vulnerable households.

5.3. Local Self-Government

Preliminary Ministry of Finance and Social Welfare data reveal that the *local self-government source revenues* amounted to 230.2 million euros or 5.5% of GDP in the reporting year, being 13.6% lower than in 2019 (Table 5.5).

The structure of recorded revenues shows the main share came from taxes (70.5%) and fees (20.3%), whereas other revenues accounted for 9.2%. The largest nominal decrease in revenues compared

⁵⁵ Subsidies for closed activities (whose work was prohibited by orders of the Ministry of Health and Social Welfare) and for assistance to the employees in closed activities (catering, services, transport and tourism sector) imply payment in the amount of 100 percent of the minimum gross salary (365 euros), while subsidies for new employment amounted to 70 percent of the minimum gross salary. Also, the second package of measures envisages subsidies for salaries of employees on paid leave and employees in quarantine or isolation in the amount of 70%, while in the third package subsidies were reduced to 50% of the minimum gross salary. Subsidies for vulnerable activities (entrepreneurs, micro, small and medium enterprises up to 250 employees) amounted to 50% of the gross amount of the minimum salary for each registered employee (employee who was registered in February of the current year).

to 2019 was recorded in fees, 18.5 million euros, which also decreased compared to the plan in the amount of 5.2 million euros or 10%.

Preliminary local self-government expenditures amounted to 268.6 million euros or 6.4% of GDP. Compared to 2019, they recorded a growth of 37.5% or 73.2 million euros, and compared to the plan they were 17.4% or 39.8 million euros higher.

Table 5.5

Preliminary source revenues and consolidated expenditures of local self-governments in 2020						
Type of revenue	Recorded in 2020		Plan for 2020	Recorded in relation to the plan for 2020	Recorded in 2019	Recorded in relation to 2019
	million euros	% of GDP	million euros	index	million euros	index
SOURCE REVENUES	230.2	5.5	233.6	98.5	266.3	86.4
Taxes	162.2	3.9	155.0	104.6	172.3	94.1
Duties	2.7	0.1	4.2	64.3	5.5	49.1
Fees	46.7	1.1	51.9	90.0	65.2	71.6
Other revenues	10.9	0.3	12.5	87.2	17.9	60.9
Receipts from loan repayment and funds transferred from the previous year	0.2	0.0	0.0		0.6	33.3
Donations	7.5	0.2	10.0	75.0	4.8	156.3
EXPENDITURES	268.6	6.4	228.8	117.4	195.4	137.5
Current expenditure	86.3	2.1	81.0	106.5	91.8	94.0
Gross salaries and contributions paid by the employer	49.7	1.2	49.1	101.2	51.7	96.1
Other personal income	4.3	0.1	2.6	165.4	4.3	100.0
Expenditures for material and services	14.6	0.3	13.0	112.3	17.4	83.9
Current maintenance	6.3	0.2	4.2	150.0	6.0	105.0
Interests	2.6	0.1	3.7	70.3	3.8	68.4
Rent	0.6	0.0	0.5	120.0	0.7	85.7
Subsidies	1.8	0.0	3.0	60.0	1.8	100.0
Other expenditure	6.4	0.2	4.9	130.6	6.1	104.9
Transfers for social welfare	0.5	0.0	1.0	50.0	0.5	100.0
Transfers to individuals, NGOs and public sector	53.3	1.3	49.8	107.0	30.9	172.5
Capital expenditures	85.1	2.0	50.0	170.2	66.4	128.2
Borrowings and loans	2.9	0.1	3.0	96.7	2.6	111.5
Reserves	2.5	0.1	4.0	62.5	3.2	78.1
Repayment of guarantees	0.0	0.0	0.0		0.0	
Repayment of liabilities from the previous years	38.0	0.9	40.0	95.0	0.0	
Surplus/Deficit	-38.4	-0.9	4.8	-800.0	70.9	-54.2
Primary deficit	-35.8	-0.9	8.5	-421.2	74.7	-47.9
Transfers from the Budget of Montenegro	6.9	0.2	9.0	76.7	9.7	71.1
Debt repayment	12.9	0.3	18.0	71.7	66.4	19.4
Borrowings and loans from domestic sources	8.5	0.2	10.0	85.0	11.8	72.0
Borrowings and loans from foreign sources	7.9	0.2	4.0	197.5	6.2	127.4
Revenues from privatisation and sale of property	11.7	0.3	7.0	167.1	13.0	90.0
Increase/decrease in deposits	16.2	0.4	-16.9	-95.9	-45.3	-35.8

Source: Ministry of Finance and Social Welfare

With the share of 32.1%, capital expenditures made up the most significant expenditure item in the local self-government spending, followed by capital expenditures with 31.7%. Transfers accounted for 20%, repayment of liabilities from the previous period made up 14.2%, while the remaining 2% of expenditures related to reserves, borrowings and loans.

In 2020, local self-government recorded deficit in the amount of 38.4 million euros or 0.9% of GDP. Debt repayments amounted to 12.9 million euros or 0.3% of GDP, while transfers from the central budget in 2020 amounted to 6.9 million euros.

5.4. State Funds

According to the 2020 preliminary data of the *Pension and Disability Insurance Fund of Montenegro*, the Fund recorded total revenues of 434.1 million euros or 1.8% more than in 2019. The Fund's source revenues amounted to 76.4% of the total revenues, recording the annual increase of 0.4%. The Fund's source revenues (primary sources of financing of the Fund) amounted to 76.2% of total revenues, recording the annual increase of 0.5%. Transfers from the budget amounted to 102.6 million euros or 23.6% of total revenues, which is an increase of 6.4% year-on-year.

Total expenditures of the Fund amounted to 434.1 million euros or 1.8% more than in 2019, which is slightly below the plan. Expenditures for pensions, accounting for 98.6% of total expenditures, represented the most significant expenditures item, while 1.4% referred to administrative expenses and repayment of loans. Pension-based expenditures increased by 1.7% in relation to 2019.

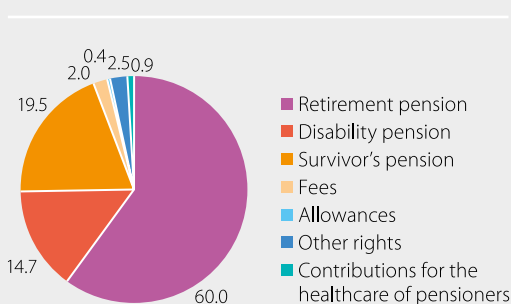
Based on recorded revenues and expenditures, this Fund had a balanced budget.

Box 5.3 – Working age population and pensioners

In 2020, expenditure for gross pensions amounted to 428.1 million euros. In this amount, retirement pension accounted for the main share of 60%, followed by survivor's pension with the share of 19.5%, disability pension with 14.7%, other rights with 2.5%, fees 2%, contributions for the health care of pensioners 0.9%⁵⁶ and allowances 0.4%, which (Graph 1).

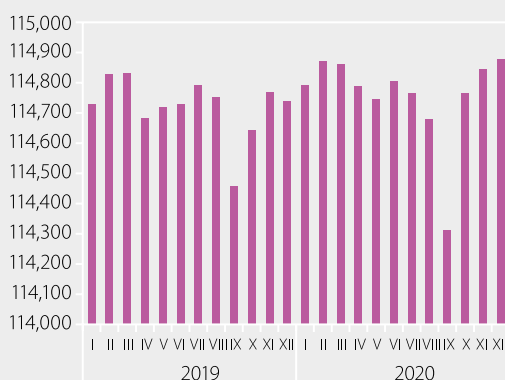
Comparing 2019 and 2020, there is a minor increase in the number of pensioners. In December 2019, the number of pensioners was 114,739 and in December 2020 it reached 114,880, recording an increase of 0.1% (Graph 2).

Graph 1
Gross pensions expenditure structure in Montenegro, 2020, in %

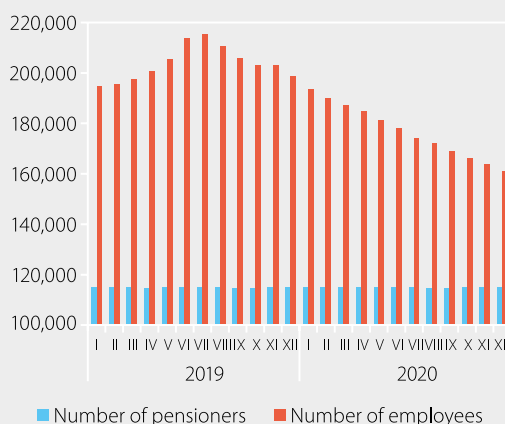


Source: Pension and Disability Insurance Fund

⁵⁶ Since January 2020, the Pension and Disability Insurance Fund has been paying a contribution for the health care of pensioners on a monthly basis, whose rate is 1% to the net pension.

Graph 2**Number of pensioners in Montenegro in 2019 and 2020**

Source: Pension and Disability Insurance Fund

Graph 3**Employees to pensioners ratio in Montenegro in 2019 and 2020**

Source: Pension and Disability Insurance Fund and Monstat

The number of employees in December 2020 decreased by 18.9% year-on-year, which is a consequence of the impact of the COVID-19 pandemic on the Montenegrin economy.

As a result, the ratio of the number of employees to the number of pensioners became even more unfavourable, reaching 1.40 at the end of 2020.

According to the *Health Insurance Fund of Montenegro* data, in 2020, total revenues amounted to 301.8 million euros or 0.4% less relative to the plan, and 18.7% more than in 2019.

Total expenditures of the Health Insurance Fund amounted to 301.8 million euros, and the largest share referred to the expenditures of transfers to institutions, individuals, non-government and public sector (136.5 million euros), and current expenditures (129.7 million euros). Some 30 million euros was spent on transfers for social protection, and 5.6 million euros on capital expenditures and debt repayment.

Outstanding liabilities of the Fund amounted to 18.5 million euros as at end-December 2020, with the highest share belonging to transfers to institutions, individuals and loans (13.7 million euros) and transfers for social protection (4.8 million euros).

Based on recorded revenues and expenditures, this Fund had a balanced budget.

The *Employment Agency of Montenegro* data show that this Agency recorded total revenues in the amount of 39.4 million euros in the reporting year, which is 21.9% more than in 2019.

Expenditures of the Agency amounted to 39.4 million euros, and they were 21.9% higher compared to the comparative year and 1.3% below the plan. In total expenditures, 10.2% referred to current expen-

ditures, 45% referred to social protection transfers, 42.7% were transfers to individuals, institutions and public sector, and 2.1% referred to capital expenditure, borrowings and loans granted.

As at 31 December 2020, outstanding liabilities of the Employment Agency amounted to 618.6 thousand euros.

Based on recorded revenues and expenditures in 2020, this Fund had a balanced budget.

The *Labour Fund*, as a typical budget beneficiary financed from general and earmarked revenues, recorded revenues in the amount of 691.4 thousand euros and the equal amount of total expenditures. However, they were 39.5% lower than planned and 42.1% lower than in 2019.

Total expenditures amounted to 691.4 thousand euros and the most significant item therein was expenditure for social protection transfers (265.1 thousand euros).

Outstanding liabilities of the Fund amounted to 12.5 thousand euros as at 30 December 2020.

Based on recorded revenues and expenditures in 2020, this Fund had a balanced budget.

In 2020, the *Indemnification Fund* recorded total revenues in the amount of 2.8 million euros, as did total expenditures. This was 3.5% lower in relation to the plan and it represents 21.3% increase y-o-y.