

FISCAL DEVELOPMENTS

05

During the first nine months of 2024, *public finances and the state budget* of Montenegro were marked by more effective collection than the realization of public and budget expenditures, which contributed to the achievement of a cash surplus in public finances, i.e. a cash surplus in the budget.

Compared to the same period of the previous year, the increase in revenues is primarily the result of higher collection of value added tax and corporate income tax. However, due to the decrease in other revenues, based on the lower amount of one-time revenues compared to the comparative period, the increase in revenues was still lower than the increase in expenditures.

On the expenditure side, a year-on-year increase compared caused by a higher allocation of funds for rights in the area of pension and disability insurance, dominantly due to the increase in the minimum pension.

At the same time, compared to the plan for the first nine months of 2024, the recorded decrease in expenditures in the observed period is a consequence of the decrease in transfers to institutions, individuals, non-government and public sectors.

5.1. Public finances of Montenegro⁴³

According to the Ministry of Finance estimates, *public revenues*⁴⁴ amounted to 2,381.80 million euros in the first nine months of 2024, i.e. 32.11% of the estimated GDP for 2024⁴⁵ (Annex D, table 12). Realized public revenues during the first nine months were higher by 15.43 million euros or 0.65% compared to the planned for the observed period, and by 218.12 million euros or 10.08% compared to the same period of the previous year. The highest increase was recorded in tax revenues (255.21 million euros or 18.03%), to which revenues based on corporate income tax contributed the most (111.57 million euros or 14.12%).

⁴³ 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 self-government budgets (Old Royal Capital Cetinje, Capital Podgorica, and 23 municipalities).

⁴⁴ Total public revenues include revenues from budget, state funds and local self-government.

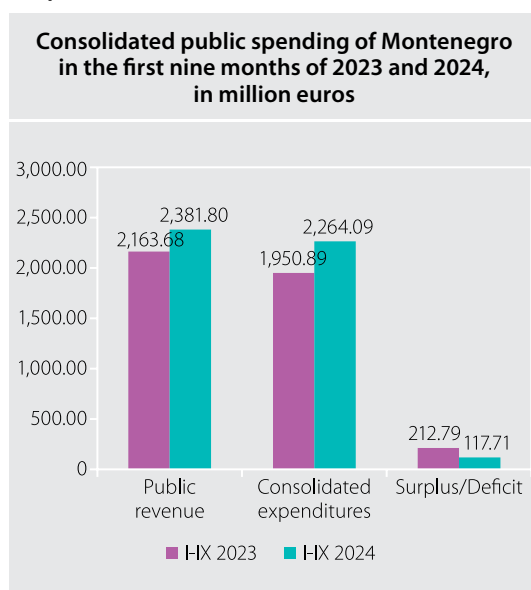
⁴⁵ Source: Ministry of Finance; estimated GDP for 2024 amounts to 7,416.70 million euros.

In the public revenues structure, tax revenues accounted for the main share of 70.13%, followed by contributions with 18.06%, while the remaining 11.81% referred to other revenues (4.13%), revenues from fees (4.11%), donations (2.88%), duties (0.68%), and loan repayment revenues (0.01%).

Public spending amounted to 2,264.09 million euros in the first nine months of 2024 or 30.53% of estimated GDP. Compared to the same period of 2023, public spending recorded increase of 313.20 million euros or 16.05%. The highest increase in expenditures (142.34 million euros) was recorded in social protection transfers, mostly due to the increase in expenditure on pensions caused by the increase in the minimum pension, the regular adjustment of pensions in accordance with the change in the annual inflation rate and the change in the gross average salary, as well as the increase in the number of pensioners⁴⁶.

The missing funds during the first nine months amounted to 297 million euros. The state borrowed an amount of 1.21 million euros through domestic sources of funding and 712.81 million euros through foreign funding. Receipts from property sales amounted to 7.10 million euros, and receipts from loan repayments to 14.30 million euros, while income from transfers from the budget amounted to 15.86 million euros. Therefore, larger sources of financing due to the withdrawal of funds from foreign credit arrangements led to an increase in state deposits by 454.28 million euros.

Graph 5.1



Source: Ministry of Finance

Observed by economic classification, the largest expenditure item were social protection transfers (741.50 million or 10% of GDP, mainly due to pension expenditures) and gross wages (560.33 million euros or 7.56% of GDP), while transfers to institutions, individuals, non-governmental and public sectors amounted to 359.56 million euros or 4.85%, and capital expenditures to 210.91 million euros or 2.84% of GDP.

The level of public revenues in the first three quarters of 2024 is higher than the realized public spending, so the *cash surplus* of the public sector amounted to 117.71 million euros or 1.59% of estimated GDP, while in the same period of the previous year the cash surplus of the public sector amounted to 212.79 million euros or 3.06% of estimated GDP for 2023 (graph 5.1).

⁴⁶ The increase in the number of pensioners was affected by the transition of beneficiaries of compensations for mothers of three or more children from compensations to pensions as their acquired right, as well as the retirement of a number of the employees in the Ministry of Internal Affairs, due to more favourable retirement conditions defined by the Law Amending the Law on Internal Affairs from 2023.

5.2. Budget of Montenegro

*Total revenues of the Budget and state funds*⁴⁷, as per preliminary data of the Ministry of Finance, amounted to 2,803.39 million euros or 37.80% of the estimated GDP during the reporting nine months of 2024. In the structure of budget revenues, current revenues accounted for 74.04%, while borrowings and loans from foreign sources and revenues from the sale of assets and loan repayment accounted for 25.96% (table 5.1).

Current revenues of the budget amounted to 2,075.60 million euros, or 27.99% of estimated GDP. In relation to the plan⁴⁸, these revenues are higher by 1.35%, and compared to the same period in 2023 by 9.03%.

In the current revenues structure, tax revenues accounted for the main share (72.17%), followed by contributions (20.73%), while the remaining 7.10% referred to other revenues (3.57%), fees (1.82%), donations (1.13%) and duties (0.58%).

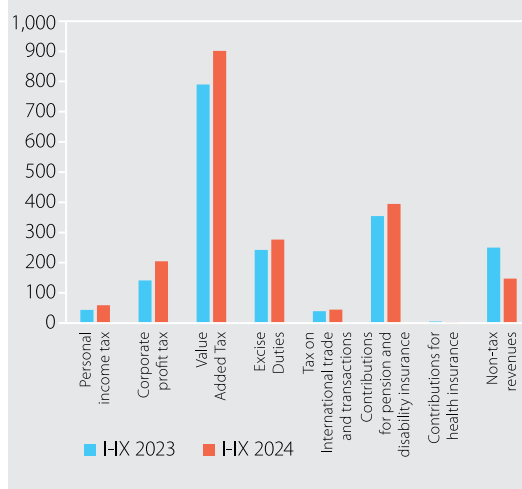
Collection of tax revenues (taxes and contributions) amounted to 1,928.21 million euros, of which indirect taxes accounted for 1,234.19 million euros and direct taxes⁴⁹ accounted for 694.02 million euros. Within taxes, the largest share in current revenues consists of value added tax (43.40%), while in the category of contributions, contributions for pension and disability insurance recorded the largest share (18.99%).

Tax based revenues amounted to 1,498.04 million euros, recording a minor increase relative to the plan and a 18.36% increase compared year-on-year.

Revenues from all taxes recorded an annual increase, with the largest increase (111.57 million euros) recorded in value added tax, which is the result of the dynamics of VAT refunds, which have been accelerated by the Tax Administration since the beginning of the year, considering the accumulated amounts of refund requests from the previous period. Also, a significant increase was recorded in corporate income tax (63.35 million euros), due to improved tax discipline and the results achieved by business entities in the previous year.

Graph 5.2

Current revenues of the Budget of Montenegro in the first nine months of 2023 and 2024, in million euros



Source: Ministry of Finance

⁴⁷ 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. Receipts from loan repayments are excluded from current revenues and are now part of financing transactions.

⁴⁸ According to the budget rebalancing, adopted in September of the current year.

⁴⁹ Direct taxes consist of personal income tax, corporate profit tax and contributions.

Revenues from contributions amounted to 430.17 million euros and were higher by 1.71% compared to the plan, and by 10.94% compared to the same period of the previous year, due to the increase in the base for calculating contributions affected by the increase in wage coefficients for the employees in the public sector.

Table 5.1

Total revenues of the Budget of Montenegro and state funds in the period January - September 2024							
Type of revenue	Realised I - IX 2023	Plan I - IX 2024	Realised I - IX 2024	Share in total revenues	Share in GDP	Realised in relation to the plan	Realised in relation to I - IX 2023
	in million euros	in million euros	in million euros	%	%	index	index
Taxes	1,265.69	1,487.06	1,498.04	53.44	20.20	100.74	118.36
Personal income tax	43.32	58.54	59.51	2.12	0.80	101.66	137.37
Corporate profit tax	140.99	201.98	204.34	7.29	2.76	101.17	144.93
Property turnover tax	0.00	0.00	0.00	0.00	0.00		
Value Added Tax	789.99	897.67	901.56	32.16	12.16	100.43	114.12
Excise Duties	242.22	273.51	276.91	9.88	3.73	101.24	114.32
Tax on international trade and transactions	39.03	44.36	44.69	1.59	0.60	100.74	114.50
Other state taxes	10.14	11.00	11.03	0.39	0.15	100.27	108.78
Contributions	387.75	422.94	430.17	15.34	5.80	101.71	110.94
Contributions for pension and disability insurance	354.61	388.13	394.49	14.07	5.32	101.64	111.25
Contributions for health insurance	5.01	3.00	3.67	0.13	0.05	122.33	73.25
Contributions for unemployment insurance	16.22	18.43	18.54	0.66	0.25	100.60	114.30
Other contributions	11.91	13.38	13.47	0.48	0.18	100.67	113.10
Duties	11.53	11.71	12.02	0.43	0.16	102.65	104.25
Fees	42.44	37.22	37.81	1.35	0.51	101.59	89.09
Other revenues	143.11	66.70	74.14	2.64	1.00	111.15	51.81
Donations and transfers	53.23	22.39	23.42	0.84	0.32	104.60	44.00
CURRENT REVENUES	1,903.75	2,048.02	2,075.60	74.04	27.99	101.35	109.03
Receipts from property sale	2.42	4.50	1.57	0.06	0.02	34.89	64.88
Receipts from loan repayment	10.11	5.63	14.16	0.51	0.19	251.51	140.06
Borrowings and loans from foreign sources	121.16	867.00	712.06	25.40	9.60	82.13	587.70
Borrowings and loans from domestic sources	0.00	0.00	0.00	0.00	0.00		
TOTAL RECEIPTS OF THE BUDGET OF MONTENEGRO AND STATE FUNDS	2,037.44	2,925.15	2,803.39	100.00	37.80	95.84	137.59
NOTE							
2024 GDP estimate in million euros					7,416.70		

Source: Ministry of Finance

During the first nine months of 2024, *total budget expenditures*⁵⁰ amounted to 2,393.10 million euros or 32.27% of the estimated GDP. Compared to the planned ones, they were 3.41% lower, and compared to the first nine months of the previous year, they recorded a growth of 22.66% (table 5.2).

⁵⁰ 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.

*Consolidated budget expenditures*⁵¹ amounted to 1,989.03 million euros, and made up 26.82% of the estimated GDP. Realized consolidated expenditures were 90.55 million euros or 4.35% lower than planned, while on the annual level they recorded an increase of 261.95 million euros or 15.17%.

Current budget expenditures amounted to 790.67 million euros and they were 6.70% lower in relation to the plan, which was mainly affected by the reduction in expenditures by 17.81 million euros or 21.19%. Current budget expenditures were lower by 13.54% than planned, and higher by 7.72% at the annual level, with the largest increase (30.48 million euros or 6.44%) recorded in gross wages and contributions paid by the employer, due to the increase in wages of employees in the public sector during 2023.

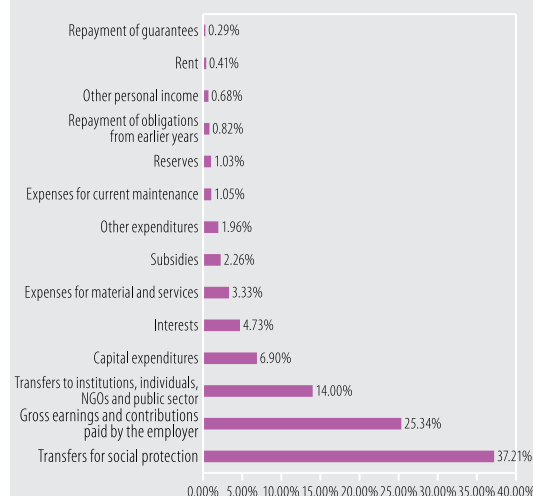
The budget spending structure (graph 5.3) shows that the highest share referred to transfers for social protection (37.21%), followed by gross earnings (25.34%), while transfers to institutions, individuals, NGOs and public sector accounted for 14% and capital expenditures made up 6.90%. Other purposes accounted for 16.55% of the budget expenditures.

Debt repayment (to residents and non-residents, based on securities and loans), based on principal, amounted to 395.04 million euros and compared to the same period of the previous year, recorded an increase of 180.63 million euros, due to the paid sixth instalment of the loan to the Chinese Exim Bank for the priority section of the “Bar-Boljare” highway, repayment of part of the debt based on the credit arrangement with Deutsche Bank⁵², as well as repayment of part of the debt based on issued treasury bills and domestic bonds.

In the first nine months of 2024, there were no borrowings and loans from domestic sources, while borrowings and loans from foreign sources amounted to 712.06 million euros. In fact, due to borrowing through the issuance of Eurobonds, a significant increase of 590.90 million euros in borrowings and loans from foreign sources was recorded compared to the same period of the previous year (table 5.1).

Graph 5.3

**Structure of budget spending
in the first nine months of 2024, in %**



Source: Ministry of Finance and CBCG calculations

In the observed period, the budget of Montenegro recorded a cash *surplus*⁵³ of 86.57 million euros or 1.17% of GDP, which is 90.09 million euros lower than the budget cash surplus recorded in the same period last year.

⁵¹ Consolidated expenditures consist of current budget expenditures, transfers for social protection, transfers to institutions, individuals, non-government and public sectors, capital expenditures, reserves, repayment of guarantees and repayment of obligations from previous years.

⁵² The Ministry of Finance of Montenegro, through a loan arrangement with Deutsche Bank, has provided 100 million euros to finance budget obligations in 2023.

⁵³ Methodology for surplus/deficit calculation, OGM, 53/09. Cash *surplus/deficit* represents the difference between current revenues and consolidated expenditures.

Table 5.2

Expenditures of the Budget of Montenegro and State funds in the first nine months of 2024							
DESCRIPTION	Realised I - IX 2023	Plan I - IX 2024	Realised I - IX 2024	Share in total expenditures	Share in GDP	Realised in relation to the plan	Realised in relation to I - IX 2023
	in million euros	in million euros	in million euros	%	%	index	index
Current budget expenditure	733.98	847.42	790.67	33.04	10.66	93.30	107.72
Gross earnings and contributions paid by the employer	473.50	510.13	503.98	21.06	6.80	98.79	106.44
Other personal income	12.27	15.16	13.53	0.57	0.18	89.25	110.27
Expenses for material and services	71.60	84.04	66.23	2.77	0.89	78.81	92.50
Expenses for current maintenance	16.35	25.08	20.81	0.87	0.28	82.97	127.28
Interests	79.44	94.60	94.11	3.93	1.27	99.48	118.47
Rent	7.23	10.30	8.06	0.34	0.11	78.25	111.48
Subsidies	40.01	52.52	44.89	1.88	0.61	85.47	112.20
Other expenditures	33.58	55.59	39.06	1.63	0.53	70.26	116.32
Transfers for social protection	598.78	746.92	740.06	30.92	9.98	99.08	123.59
Transfers to institutions, individuals, NGOs and public sector	255.08	307.22	278.52	11.64	3.76	90.66	109.19
Capital expenditures	113.76	140.88	137.15	5.73	1.85	97.35	120.56
Reserves	12.16	30.90	20.47	0.86	0.28	66.25	168.34
Repayment of guarantees	2.81	0.00	5.85	0.24	0.08		208.19
Repayment of obligations from earlier years	10.51	6.24	16.31	0.68	0.22	261.38	155.19
CONSOLIDATED EXPENDITURES	1,727.08	2,079.58	1,989.03	83.12	26.82	95.65	115.17
Repayment of securities and loans to residents	62.03	180.90	180.90	7.56	2.44	100.00	291.63
Repayment of securities and loans to non-residents	152.38	210.00	214.14	8.95	2.89	101.97	140.53
Expenditures for the purchase of securities	0.72	3.51	3.27	0.14	0.04	93.16	454.17
Borrowings and loans	8.78	3.52	5.76	0.24	0.08	163.64	65.60
TOTAL EXPENDITURES	1,950.99	2,477.51	2,393.10	100.00	32.27	96.59	122.66
NOTE: Montenegro's GDP in million euros, estimation					7,416.70		

Source: Ministry of Finance

5.3. Local Self-Government

According to preliminary Ministry of Finance data, local self-governments revenues amounted to 306.20 million euros or 4.13% of GDP in the first nine months of 2024, which is 3.82% more than planned, and 46.27 million euros or 17.80% more than the revenue generated in the same period last year. All revenues' categories, except for receipts from loan repayment, recorded a positive deviation compared to the same period of the previous year, with the largest increase recorded in the collection of taxes (an increase of 22.86 million euros).

Preliminary local self-government expenditures amounted to 275.06 million euros or 3.71% of GDP. Compared to the plan, they recorded a decrease of 28.26 million euros or 9.32%, while compared to the same period last year they were higher by 51.26 million euros or 22.90%. The largest increase in expenditures compared to the same period of the previous year was recorded in capital expenditures

(22.44 million euros or 43.73%) and transfers to institutions, individuals, non-government and public sectors (19.87 million euros or 32.48%).

Local self-governments recorded a surplus of 31.14 million euros, while liabilities from the previous period were repaid in the amount of 25.01 million euros (table 5.3).

Table 5.3

Preliminary current revenues and consolidated expenditures of local self-governments in Montenegro in the first nine month of 2024, in million euros						
Type of revenue	Realised I - IX 2023	Plan I - IX 2024	Realised I - IX 2024		Realised in relation to the plan for I - IX 2024	Realised in relation to I - IX 2023
	million euros	million euros	million euros	% of GDP	Index	Index
CURRENT REVENUES	259.93	318.35	306.20	4.13	96.18	117.80
Taxes	149.57	178.10	172.43	2.32	96.82	115.28
Duties	3.50	4.42	4.14	0.06	93.67	118.29
Fees	56.91	62.50	60.09	0.81	96.14	105.59
Other revenues	11.75	25.75	24.23	0.33	94.10	206.21
Receipts from loan repayment	0.19	0.15	0.14	0.00	93.33	73.68
Donations	38.01	47.43	45.17	0.61	95.24	118.84
CONSOLIDATED EXPENDITURES	223.80	303.32	275.06	3.71	90.68	122.90
Current expenditures	81.66	104.11	91.01	1.23	87.42	111.45
Gross earnings and contributions paid by the employer	50.59	64.81	56.35	0.76	86.95	111.39
Other personal income	2.98	3.85	3.32	0.04	86.23	111.41
Expenses for material and services	13.13	16.29	14.51	0.20	89.01	110.43
Current maintenance	4.48	4.50	4.02	0.05	89.33	89.73
Interests	1.60	2.11	1.87	0.03	88.63	116.88
Rent	0.50	0.53	0.46	0.01	86.79	92.00
Subsidies	1.80	3.67	3.22	0.04	87.74	178.89
Other expenditures	6.58	8.35	7.26	0.10	86.95	110.33
Transfers for social protection	0.38	1.67	1.45	0.02	86.83	381.58
Transfers to institutions, individuals, NGOs and public sector	61.17	85.09	81.04	1.09	95.24	132.48
Capital expenditures	51.32	81.14	73.76	0.99	90.90	143.73
Borrowings and loans	0.75	0.49	0.41	0.01	83.67	54.67
Reserves	1.97	2.81	2.38	0.03	84.70	120.81
Repayment of guarantees	0.00	0.00	0.00	0.00		
Repayment of liabilities from the previous years	26.55	28.01	25.01	0.34	89.29	94.20
Surplus/Deficit	36.13	15.03	31.14	0.42	207.19	86.19
Primary deficit	37.73	17.14	33.01	0.45	192.59	87.49
Transfers from the Budget of Montenegro	14.79	16.86	15.86	0.21	94.07	107.23
Debt repayment	9.25	12.34	10.62	0.14	86.06	114.81
Expenditures for the purchase of securities	0.00	0.00	0.00	0.00		
Borrowings and loans	0.75	0.00	0.00	0.00		0.00
Borrowings and loans from domestic sources	1.89	1.51	1.21	0.02	80.13	64.02
Borrowings and loans from foreign sources	1.18	0.95	0.75	0.01	78.95	63.56
Revenues from privatisation and sale of property	4.61	7.83	5.53	0.07	70.63	119.96
Receipts from loan repayment	0.19	0.20	0.14	0.00	70.00	73.68
Increase/decrease in deposits	-48.78	-30.02	-44.00	-0.59	146.57	90.20
NOTE: Montenegrin GDP in million euros, estimation				7,416.70		

Source: Ministry of Finance

5.4. State funds

According to data from the *Pension and Disability Insurance Fund of Montenegro*, during the first nine months of 2024, total revenues amounted to 544.30 million euros, which is 31.40% more than in the first nine months of the previous year. Current revenues of the Fund accounted for 74.20% of the total receipts and increased by 11.33%. Contributions for pensions (the main source of funding for the Fund) accounted for 73.82% of total revenues and they rose 11.11% due to the growth in employment and the base for the calculation of contributions. At the same time, transfers from the budget, which accounted for 25.80% of total revenues, increased 172.85% amounting to 140.42 million euros.

Total expenditures of the Fund amounted to 544.30 million euros, which is at the planned level, while at the annual level they recorded an increase of 31.40%. Expenditures for pensions, accounting for 99.43% of total expenditures, represented the most significant expenditure item, while 0.57% was administrative expenses. Pension expenditures were 33.72% higher than in the same period last year, due to an increase in pensions based on the increase in the minimum pension, regular adjustment of pensions, as well as an increase in the number of pensioners⁵⁴.

Based on the realized revenues and expenditures in the first nine months of 2024, this Fund ran a balanced budget.

According to the *Health Insurance Fund of Montenegro* data, total revenues amounted to 291.99 million euros, which is 8.99% lower relative to the plan and 14.07% more than in the corresponding period of 2023.

Total expenditures of the Health Insurance Fund amounted to 291.99 million euros; therefore, the Fund ran a balanced budget during three quarters of 2023. The main share in total expenditures referred to transfers to institutions, individuals, non-government and public sectors (143.68 million euros) and current expenditures transfers in the amount of 119.62 million euros. Some 27.67 million euros were spent on social protection transfers and 1.02 million euros on capital expenditures and debt repayment.

Fund's outstanding liabilities as at 30 September 2024 amounted to 24.35 million euros, the largest part of which related to transfers to institutions, individuals and loans (19.05 million euros), while liabilities for social protection transfers liabilities amounted to 5.26 million euros, and the remaining part of outstanding liabilities (0.04 million euros) referred to liabilities for current expenditures.

According to *Employment Agency of Montenegro* data, total revenues amounted to 44.44 million euros in during the first nine months of 2024, or 19.02% more than in Q3 2023.

Expenditures of the Agency amounted to 44.44 million euros, and they were 11.74% lower than planned and 19.02% higher than in the same period of the last year. In total expenditures, 62.38% referred to current expenditures, while 33.77% referred to social protection transfers, 3.78% were transfers to individuals, institutions, non-government and public sectors and 0.07% referred to other liabilities and capital expenditures.

⁵⁴ The increase in the number of pensioners was affected by the transition of beneficiaries of compensations for mothers of three or more children from compensations to pensions as their acquired right, as well as the retirement of a number of the employees in the Ministry of Internal Affairs, due to more favourable retirement conditions defined by the Law Amending the Law on Internal Affairs from 2023.

The Agency's outstanding liabilities at the end of September amounted to 2.57 million euros, primarily due to liabilities for transfers to institutions, individuals, non-government and public sector.

Based on the realized revenues and expenditures in the first nine months of 2024, the Agency ran a balanced budget.

The *Labour Fund*, being a typical budget beneficiary financed from general and earmarked revenues, recorded revenues in the amount of 408,342.41 euros and the equal amount of total expenditures, which is 19% less than planned and 74.74% more than in the comparative period in 2023.

Expenditures referring to current expenditures represented the most important expenditure item (166,860.92 euros).

Fund's outstanding liabilities as at 30 September 2024, they amounted to 30,121.23 euros, primarily due to liabilities based on social protection transfers.

Based on the realized revenues and expenditures in the first nine months of 2024, this Fund ran a balanced budget.

The *Compensation Fund* recorded total revenues in the amount of 7.57 million euros, which is 17.76% less than planned for the reporting period and 25.45% less year-on-year.

Tax revenues amounted to 7.57 million euros, recording a 17.79% decrease relative to the plan and a year-on-year decrease of 25.42%.

At the end of September 2024, outstanding liabilities of the Fund amounted to 2,403.47 euros, same as the recorded surplus.