

FISCAL DEVELOPMENTS⁴²

05

⁴² Data from the Health Insurance Fund of Montenegro was not available data at the time of writing this report.

Public finances of Montenegro in the period January - September 2025 were characterised by a pronounced expansion of the expenditure side of the budget, which grew at a significantly faster intensity than revenues compared to the same period of the previous year. As a result of such developments, the cash deficit of the consolidated public sector was realized at the level of 0.94% of GDP, while the budget deficit of the central level of government amounted to 1.09% of GDP. Although both deficits are lower than planned, they represent deteriorated fiscal position compared to the previous year when a surplus was recorded.

On the revenue side of the budget, primary revenues achieved moderate nominal growth compared to the same period of the previous year, but with a slight deviation from the plan. Tax revenues remained the dominant source of fiscal resources, with value added tax (VAT) making the most significant contribution. VAT revenues achieved double-digit annual growth, which indicates strong domestic demand, growth in final consumption and tourist activities, but also improvement in tax discipline, expansion of the tax base and reduction in the volume of the shadow economy. At the same time, the increased volume of VAT refunds partially amortized even stronger growth of this revenue. On the other hand, contribution revenues recorded a significant decrease compared to the previous year, especially contributions for pension and disability insurance, which decreased by more than one third on an annual basis. This decline is predominantly of a structural nature and is a direct consequence of the fiscal reform implemented through the reduction of the contribution rate for the Pension and Disability Fund for employees by 10.5%, in accordance with the measures defined by the Fiscal Strategy of Montenegro for the period 2024-2027. This consciously reduced the fiscal capacity of contributions, with the aim of relieving the work burden and encouraging formal employment, while part of the burden of financing the pension system was redirected to the budget.

Expenditure growth was, to the greatest extent, determined by increased social protection transfers, primarily allocations for funds in the area of pension and disability insurance, which constitute the largest individual item of current spending. This growth reflects the effects of indexation of pensions, the increase in the number of beneficiaries, as well as the budget's obligation to compensate for the shortfall in the Fund's revenue due to the contribution reform. Additional pressure on the expenditure side of the budget came from the higher realization of capital expenditures, which in the first three quarters of 2025 recorded strong annual growth. The increased capital spending is a reflection of the intensification of the construction of infrastructure projects and governments' investments, which burdens the fiscal balance in the short term, but potentially contributes to medium-term economic growth and the strengthening of production capacities.

Overall, the fiscal trends in the first nine months of 2025 indicate a transition from a surplus to a moderate deficit position, with pronounced structural changes on the revenue side of the budget and the growth of expenditures that have a high degree of inflexibility. Maintaining the stability of public finances in the coming period will be conditioned by the ability of the economy to generate a stronger growth of the tax base, by further improving the efficiency of tax collection, as well as by careful management of social transfers and pension allocations, in order to alleviate medium-term pressures on the budget balance.

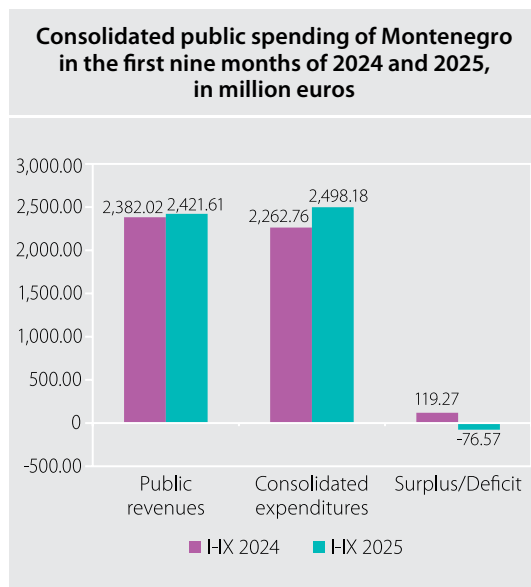
5.1. Public finances of Montenegro⁴³

According to the Ministry of Finance estimates, *public revenues*⁴⁴ amounted to 2.42 billion euros in the first nine months of 2025, or 29.81% of the estimated GDP for 2025⁴⁵ (Annex D, table 12). Realized public revenues were lower by 38.85 million euros or 1.58% compared to the planned for the reporting period, and by 39.58 million euros or 1.66% compared to the same period of the previous year. All revenue items recorded increase on the annual level, with the largest increase recorded in VAT (128.62 million euros or 14.27%).

In the structure of public revenues, tax revenues dominate (78.17%). They are followed by contributions (12%), while the remaining amount (9.83%) refers to revenues from compensations (4.66%), donations (2.35%), other revenues (2.14%) and fees (0.68%).

Public spending in the period January - September 2025 reached the amount of 2.50 billion euros, which represents 30.75% of the estimated gross domestic product. Compared to the plan, expenditures were lower by 134.14 million euros or 5.10%, while compared to the same period of the previous year, they increased by 235.42 million euros, which represents a nominal growth of 10.40%. The most pronounced annual growth was recorded in social transfers, which increased by 85.41 million euros. This increase is predominantly the result of the growth of pension expenditures, conditioned by the regular adjustment of pensions to the trend of inflation and average gross earnings, as well as the continuous increase in the number of pension system users.

Graph 5.1



Source: Ministry of Finance

The missing funds during the first nine months amounted to 838.77 million euros. The state borrowed an amount of 8.85 million euros through domestic sources of funding and 940.22 million euros through foreign funding. Receipts from property sales amounted to 6.51 million euros, and receipts from loan repayments to 14.62 million euros, while income from transfers from the budget amounted to 19.58 million euros. Given that the amount of financing transactions is greater than the amount of missing funds, state deposits increased by 151.01 million euros.

Observed by economic classification, the largest expenditure item were social protection transfers (826.84 million or 10.18% of GDP, mainly due to pension expenditures) and gross wages (566.11 million euros or 6.97% of GDP), while transfers to institutions, individuals, non-governmental

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 2025 amounts to 8.12 billion euros.

and public sectors amounted to 406.21 million euros or 5%, and capital expenditures to 280.23 million euros or 3.45% of GDP.

The level of public revenues in the first three quarters of 2025 is lower than the realized public consumption, thus *the cash deficit* of the public sector amounted to 76.57 million euros or 0.94% of estimated GDP, while in the same period of the previous year the cash surplus of the public sector amounted to 119.27 million euros or 1.56% of estimated GDP for 2024 (graph 5.1).

5.2. Budget of Montenegro

Total revenues of the Budget and state funds, as per preliminary data of the Ministry of Finance, amounted to 3.06 billion euros or 37.68% of the estimated GDP during the reporting nine months of 2025. In the structure of budget revenues, current revenues accounted for 68.58%, while borrowings and loans from foreign sources and revenues from the sale of assets and loan repayment accounted for 31.42% (table 5.1).

*Source revenues*⁴⁶ of the Budget amounted to 2.10 billion euros, or 25.85% of the estimated GDP. In relation to the plan, these revenues were lower by 0.96%, and compared to the same period in 2024 they recorded minor increase of 1.16%.

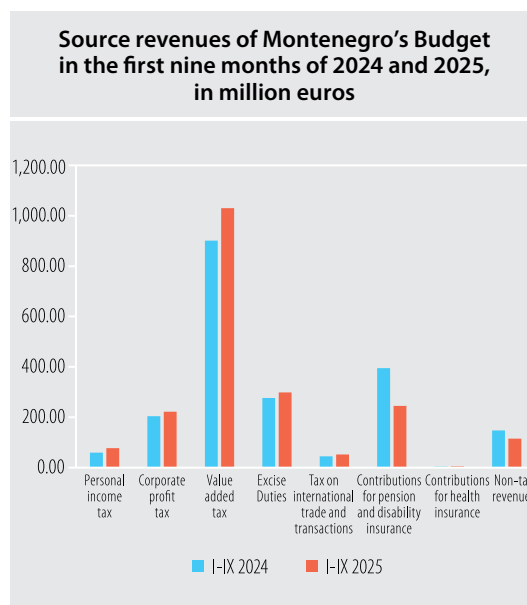
In the current revenues structure, tax revenues accounted for the main share (80.65%), followed by contributions (13.84%), while the remaining 5.51% referred to compensations (2.50%), other revenues (1.89%), fees (0.59%) and donations (0.53%).

Collection of tax revenues (taxes and contributions) amounted to 1.98 billion euros, of which indirect taxes accounted for 1.39 billion euros and direct taxes⁴⁷ accounted for 0.59 billion euros. Within taxes, the largest share in current revenues consists of value added tax (49.06%), while in the category of contributions, contributions for pension and disability insurance recorded the largest share (11.66%).

Tax based revenues amounted to 1.69 billion euros, recording an increase of 2.29% relative to the plan and a 13.05% increase compared year-on-year.

Revenues from all taxes recorded growth on an annual basis, with the largest increase (128.62 million euros) recorded in value added tax, primarily as a result of increased consumption, that is, an increase in the disposable income of citizens.

Graph 5.2



Source: Ministry of Finance

⁴⁶ In accordance with the Law Amending the Law on Budget and Fiscal Responsibility (adopted at the end of February 2023), receipts from loan repayments are excluded from source revenues and are now kept as part of financing transactions.

⁴⁷ Direct taxes consist of: personal income tax, corporate profit tax and contributions.

Revenues from contributions amounted to 290.65 million euros and were 7.08% lower compared to the plan, and by 32.43% compared to the same period of the previous year, due to the decrease in contributions for pension and disability insurance. The drop in this type of income is a consequence of the implementation of measures from the Fiscal Strategy of Montenegro for the period 2024-2027, which abolished the tax burden of 5.5% on employers, and at the same time reduced the tax burden on employees - from 15% to 10%.

Table 5.1

Total revenues of the Budget of Montenegro and state funds in the period January – September 2025							
Type of receipts	Realised I-IX 2024	Plan I-IX 2025	Realised I-IX 2025	Share in total revenues	Share in GDP	Realised in relation to the Plan	Realised in relation to I-IX 2024
	In million euros	In million euros	In million euros	%	%	Index	Index
Taxes	1,498.04	1,655.60	1,693.53	55.31	20.84	102.29	113.05
Personal income tax	59.51	74.35	77.93	2.55	0.96	104.82	130.95
Corporate profit tax	204.34	208.72	222.55	7.27	2.74	106.63	108.91
Property turnover tax	0.00	0.00	0.00	0.00	0.00		
Value added tax	901.56	1,011.28	1,030.18	33.65	12.68	101.87	114.27
Excise Duties	276.91	302.65	298.65	9.75	3.68	98.68	107.85
Tax on international trade and transactions	44.69	46.87	52.31	1.71	0.64	111.61	117.05
Other state taxes	11.03	11.73	11.91	0.39	0.15	101.53	107.98
Contributions	430.17	312.81	290.65	9.49	3.58	92.92	67.57
Contributions for pension and disability insurance	394.49	278.23	244.89	8.00	3.01	88.02	62.08
Contributions for health insurance	3.67	4.40	5.18	0.17	0.06	117.73	141.14
Contributions for unemployment insurance	18.54	16.96	23.74	0.78	0.29	139.98	128.05
Other contributions	13.47	13.22	16.84	0.55	0.21	127.38	125.02
Duties	12.02	13.43	12.35	0.40	0.15	91.96	102.75
Fees	37.81	54.90	52.40	1.71	0.64	95.45	138.59
Other revenues	74.37	33.66	39.76	1.30	0.49	118.12	53.46
Donations and transfers	23.41	49.72	11.16	0.36	0.14	22.45	47.67
SOURCE REVENUES	2,075.82	2,120.12	2,099.85	68.58	25.85	99.04	101.16
Receipts from property sale	1.57	4.50	1.41	0.05	0.02	31.33	89.81
Receipts from loan repayment	14.42	5.63	14.41	0.47	0.18	255.95	99.93
Borrowings and loans from foreign sources	717.09	770.01	939.94	30.70	11.57	122.07	131.08
Borrowings and loans from domestic sources	0.00	115.00	6.13	0.20	0.08	5.33	
TOTAL RECEIPTS OF THE BUDGET OF MONTENEGRO AND STATE FUNDS	2,808.90	3,015.26	3,061.74	100.00	37.68	101.54	109.00
NOTE:							
GDP in million euros (for 2025; estimation)					8,124.70		

Source: Ministry of Finance

During the first nine months of 2025, *total budget expenditures* amounted to 2.94 million euros or 36.16% of the estimated GDP. Compared to the planned ones, they were 5.41% lower, while they recorded an annual growth of 22.79% (table 5.2).

*Consolidated budget expenditures*⁴⁸ amounted to 2.19 million euros, and made up 26.93% of the estimated GDP. Realized consolidated expenditures were 118.45 million euros or 5.14% lower than planned, while on the annual level they recorded an increase of 200.46 million euros or 10.09%.

Current budget expenditures amounted to 837.19 million euros and they were 8.14% lower in relation to the plan, which was mainly affected by the reduction in expenditures for material and services by 19.67 million euros or 19.34%. At the same time, current budget expenditures were higher by 5.93% y-o-y, with the largest increase (17.43 million euros or 18.52%) recorded in interest, due to the maturing of liabilities based on issued bonds and concluded credit arrangements, and partly as a result of the increase in the cost of financing sources during the previous two years.

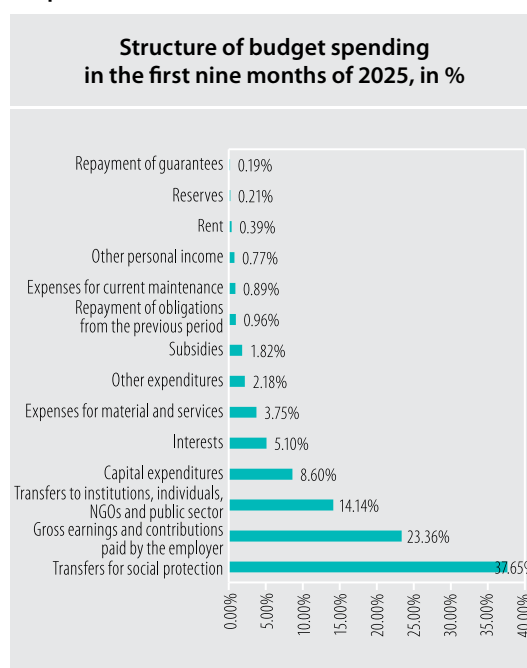
The budget spending structure i.e. consolidated expenditures (graph 5.3) shows that the highest share referred to transfers for social protection (37.65%), followed by gross earnings (23.36%), while transfers to institutions, individuals, NGOs and public sector accounted for 14.14%, capital expenditures (8.60%) and interests (5.10%). Other purposes accounted for 11.15% of the budget expenditures.

Debt repayment (to residents and non-residents, based on securities and loans), based on the principal, amounted to 741.78 million euros, which represents an increase of 346.74 million euros compared to the same period of the previous year. The growth of indebtedness in previous years is the main reason for the increased repayments in the observed period, for the financing of which the state borrowed through the issue of bonds on the international market⁴⁹.

During the first nine months of 2025, borrowings and loans from foreign sources amounted to 939.94 million euros, while borrowings and loans from domestic sources amounted to 6.13 million euros. As a result of the mentioned indebtedness, a significant increase in borrowings and loans from foreign sources was recorded, which are higher by 222.85 million euros compared to the same period of the previous year (table 5.1).

In the observed period, the budget of Montenegro recorded a cash *deficit*⁵⁰ of 88.31 million euros or 1.09% of GDP, while in the same period of the previous year a budget surplus was recorded in the amount of 88.12 million euros or 1.15% of GDP.

Graph 5.3



Source: Ministry of Finance and CBCG calculations

⁴⁸ In accordance with the Law Amending the Law on Budget and Fiscal Responsibility (adopted at the end of February 2023), expenditures from granted loans and borrowings are excluded from consolidated expenditures and are now kept as part of financing transactions.

⁴⁹ Ministry of Finance issued government bonds in the amount of 850 million euros, with a maturity of seven years and an interest rate of 4.875% per year.

⁵⁰ Methodology for Montenegro's *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 2025							
DESCRIPTION	Realised I-IX 2024	Plan I-IX 2025	Realised I-IX 2025	Share in total expenditures	Share in GDP	Realised in relation to the plan	Realised in relation to I-IX 2024
	In million euros	In million euros	In million euros	%	%	Index	Index
Current budget expenditures	790.32	911.34	837.19	28.49	10.30	91.86	105.93
Gross earnings and contributions paid by the employer	503.98	524.17	511.05	17.39	6.29	97.50	101.40
Other personal income	13.53	18.94	16.89	0.57	0.21	89.18	124.83
Expenses for material and services	66.06	101.73	82.06	2.79	1.01	80.66	124.22
Expenses for current maintenance	20.79	26.72	19.54	0.67	0.24	73.13	93.99
Interests	94.11	114.54	111.54	3.80	1.37	97.38	118.52
Rent	7.94	10.07	8.6	0.29	0.11	85.40	108.31
Subsidies	44.89	50.52	39.83	1.36	0.49	78.84	88.73
Other expenditures	39.02	64.65	47.68	1.62	0.59	73.75	122.19
Transfers for social protection	739.98	817.97	823.84	28.04	10.14	100.72	111.33
Transfers to institutions, individuals, NGOs and public sector	277.63	350.51	309.32	10.53	3.81	88.25	111.41
Capital expenditures	137.14	197.48	188.16	6.40	2.32	95.28	137.20
Reserves	20.47	6.3	4.67	0.16	0.06	74.13	22.81
Repayment of guarantees	5.85	4.1	4.06	0.14	0.05	99.02	69.40
Repayment of obligations from earlier years	16.31	18.91	20.92	0.71	0.26	110.63	128.26
CONSOLIDATED EXPENDITURES	1,987.7	2,306.61	2,188.16	74.48	26.93	94.86	110.09
Repayment of securities and loans to residents	180.9	36.44	36.42	1.24	0.45	99.95	20.13
Repayment of securities and loans to non-residents	214.14	733.71	705.36	24.01	8.68	96.14	329.39
Expenditures for the purchase of securities	3.27	23.92	1.49	0.05	0.02	6.23	45.57
Borrowings and loans	6.77	5.63	6.68	0.23	0.08	118.65	98.67
TOTAL EXPENDITURES	2,392.78	3,106.31	2,938.11	100	36.16	94.59	122.79
NOTE:							
Montenegrin GDP in million euros, estimation					8,124.70		

Source: Ministry of Finance

5.3. Local Self-Government

According to preliminary Ministry of Finance data, local self-governments revenues amounted to 321.76 million euros or 3.96% of GDP in the first three quarters of 2025, which is 18.57 million euros or 5.46% less than planned, and 15.56 million euros or 5.08% more than the revenue generated in the same period last year. A positive deviation in relation to the comparative period of the previous year was recorded by all revenue categories except other revenues. The decrease in this category is primarily a consequence of the lower comparative basis - the period January - September 2024 - during which higher one-off revenues were realized based on the collection of overdue liabilities of the Municipality of Bar for compensation for communal equipment of construction land, with the associated interest, while in the current period lower amounts of collected fines and confiscated property benefits were recorded.

Preliminary local self-government expenditures amounted to 310.02 million euros or 3.82% of GDP. Compared to the plan, they recorded a decrease of 15.69 million euros or 4.82%, while compared to the same period last year they were higher by 34.96 million euros or 12.71%. The largest increase in

expenditures compared to the same period of the previous year was recorded in capital expenditures (18.30 million euros or 24.81%) and transfers to institutions, individuals, non-government and public sectors (15.85 million euros or 19.56%).

Local self-governments recorded a surplus of 11.74 million euros, while liabilities from the previous period were repaid in the amount of 19.79 million euros (table 5.3).

Table 5.3

Preliminary current revenues and consolidated expenditures of local self-governments in Montenegro in the first quarter of 2025, in million euros						
Type of receipts	Realised I-IX 2024	Plan I-IX 2025	Realized I-IX 2025		Realised in relation to the plan for I - IX 2025	Realised in relation to I-IX 2024
	mill. euros	mill. euros	mill. euros	% of GDP	Index	Index
CURRENT REVENUES	306.20	340.33	321.76	3.96	94.54	105.08
Taxes	172.43	210.13	199.40	2.45	94.89	115.64
Duties	4.14	4.39	4.17	0.05	94.99	100.72
Fees	60.09	63.88	60.50	0.74	94.71	100.68
Other revenues	24.23	13.49	11.99	0.15	88.88	49.48
Receipts from loan repayment	0.14	0.00	0.00	0.00		0.00
Donations	45.17	48.44	45.70	0.56	94.34	101.17
CONSOLIDATED EXPENDITURES	275.06	325.71	310.02	3.82	95.18	112.71
Current expenditures	91.01	99.60	95.88	1.18	96.27	105.35
Gross earnings and contributions paid by the employer	56.35	56.71	55.06	0.68	97.09	97.71
Other personal income	3.32	3.99	3.88	0.05	97.24	116.87
Expenses for material and services	14.51	15.33	14.78	0.18	96.41	101.86
Current maintenance	4.02	6.00	5.77	0.07	96.17	143.53
Interests	1.87	1.61	1.57	0.02	97.52	83.96
Rent	0.46	0.51	0.47	0.01	92.16	102.17
Subsidies	3.22	4.02	3.86	0.05	96.02	119.88
Other expenditures	7.26	11.43	10.49	0.13	91.78	144.49
Transfers for social protection	1.45	3.15	3.00	0.04	95.24	206.90
Transfers to institutions, individuals, NGOs and public sector	81.04	101.73	96.89	1.19	95.24	119.56
Capital expenditures	73.76	97.58	92.06	1.13	94.34	124.81
Borrowings and loans	0.41	0.00	0.00	0.00		0.00
Reserves	2.38	2.57	2.40	0.03	93.39	100.84
Repayment of guarantees	0.00	0.00	0.00	0.00		
Repayment of liabilities from the previous period	25.01	21.08	19.79	0.24	93.88	79.13
Surplus/Deficit	31.14	14.62	11.74	0.14	80.30	37.70
Primary deficit	33.01	16.23	13.31	0.16	82.01	40.32
Transfers from the Budget of Montenegro	15.86	20.36	19.58	0.24	96.17	123.46
Debt repayment	10.62	12.40	12.16	0.15	98.06	114.50
Expenditures for the purchase of securities	0.00	0.00	0.00	0.00		
Borrowings and loans	0.00	0.00	0.10	0.00		
Borrowings and loans from domestic sources	1.21	3.13	2.72	0.03	86.90	224.79
Borrowings and loans from foreign sources	0.75	0.31	0.28	0.00	90.32	37.33
Revenues from privatisation and sale of property	5.53	6.89	5.11	0.06	74.17	92.41
Receipts from loan repayment	0.14	0.26	0.21	0.00	80.77	150.00
Increase/decrease in deposits	-44.00	-33.17	-27.38	-0.34	82.54	62.23
NOTE:						
Montenegrin GDP in million euros, estimation				8,124.70		

Source: Ministry of Finance

5.4. State funds

According to the *Pension and Disability Fund of Montenegro* data, total revenues amounted to 595.95 million euros or 9.49% more than in the corresponding period of 2024. Current revenues of the Fund accounted for 42.17% of the total receipts and they decreased by 37.77%. Pension contributions (the main source of financing of the Pension and Disability Insurance Fund) accounted for 41.83% of total receipts and they recorded a decrease of 37.95%, due to the reduction of the tax burden (from 20.5% to 10%). At the same time, transfers from the budget, which accounted for 57.83% of total revenues, increased 145.42% amounting to 344.61 million euros.

Total expenditures of the Fund amounted to 595.95 million euros, which is at the planned level, while at the annual level they recorded an increase of 9.49%. Expenditures for pensions, accounting for 99.51% of total expenditures, represented the most significant expenditure item, while 0.49% was administrative expenses. Pension expenditures were 9.57% higher than in the same period last year, due to regular adjustment of pensions, as well as an increase in the number of pensioners.

Based on the realized revenues and expenditures in the first nine months of 2025, this Fund ran a balanced budget.

According to *Employment Agency of Montenegro (EAM)* data, total revenues amounted to 46.32 million euros in during the first nine months of 2025, or 4.24% more than in the same period of 2024.

Expenditures of the EAM amounted to 46.32 million euros, and they were 2.53% higher than planned and 4.24% higher than in the same period of the last year. In total expenditures, 61.87% referred to current expenditures, while 34.99% referred to social protection transfers, 2.98% were transfers to individuals, institutions, non-government and public sectors and 0.16% referred to other liabilities and capital expenditures.

Outstanding liabilities of the EAM at the end of September amounted to 8.92 million euros, primarily due to liabilities for current expenditures.

Based on the realized revenues and expenditures in the first nine months of 2025, the EAM ran a balanced budget.

The *Labour Fund*, being a typical budget beneficiary financed from general and earmarked revenues, recorded revenues in the amount of 850,409.43 euros and the equal amount of total expenditures, which is 6.13% less than planned and 108.26% more than in the comparative period in 2024.

Expenditure referring to social protection transfers represented the most important expenditure item (698,685.51 euros).

Fund's outstanding liabilities as at 30 September 2025 amounted to 601,978.31 euros, primarily due to liabilities based on social protection transfers.

Based on the realized revenues and expenditures in the first nine months of 2025, this Fund ran a balanced budget.

The *Compensation Fund* recorded total revenues in the amount of 8.38 million euros, which is 10.96% less than planned and 10.71% more compared to the same period of the previous year.

Total Fund's expenditures amounted to 8.38 million euros, recording a 10.96% decrease relative to the plan and a year-on-year increase of 10.75%.

At the end of September 2025, the Compensation Fund had no outstanding obligations.