



## Weekly Briefing

**Montenegro economy briefing:**  
**Montenegro's Budget for 2020 - a new budget with some old habits**  
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## **Montenegro's Budget for 2020 - a new budget with some old habits**

*Recently, the Minister of Finance in the Government of Montenegro presented at the press conference the Bill on the Budget for 2020. This is a record high state budget. However, it is not problematic that this is the largest budget so far, if its purpose is development oriented. Therefore, it is necessary to analyze the structure of proposed expenditures as well as revenues. Despite a number of positive developments, some old hurts appear to remain dominant, as seen through some expenditures.*

### **What does Montenegro's 2020 budget proposal reveal?**

It is stated that the main objective of the economic policy of the Government of Montenegro is to increase the standard of living of citizens, i.e. further approximation of GDP per capita to the EU average. According to this parameter, Montenegro is currently at 47 percent of the EU average. It is at the highest level in the region, but is still well below the EU average. Therefore, the new budget, according to government officials, is in line with the implementation of economic policy measures aimed at strengthening fiscal stability and increasing the competitiveness of the economy.

The fact is that the new budget is the largest so far and is planned at EUR 2.58 billion. Which justifies this kind of budget? High economic growth rates of 4.7 percent in 2017 and 5.1 percent in 2018 were recorded, with continued positive developments in 2019, which allowed for a 15 percent increase in employment compared to 2016 and wage growth reflected in strong budget revenue growth. Also, the government cites fiscal consolidation measures that have made it possible to reduce the budget deficit, to create stable sources of budget financing through the most successful Eurobond issue aimed at refinancing part of the public debt. However, this argument does not seem so strong, as public debt is not reduced in total amount, it is only slowed down, and slowing it down cannot be justification part of the new planned borrowing. The budget deficit is planned at the level of EUR 50 million, or almost 1% of GDP<sup>1</sup>.

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<sup>1</sup> GDP for 2020 is estimated at EUR 5.03 billion, while this year's estimate is EUR 4.80 billion. The MONSTAT Statistics Office will determine the final GDP for this year in the second half of next year.

The fact is also that the new budget will include changes to the regulation that directly relate to the standard of living of citizens, such as a 15% increase in the minimum wage, a reduction in the total tax burden of work through a two percentage point reduction in the mandatory health insurance contribution at the expense of the employer, and abolition of so-called "crisis tax", which means returning the proportional income tax rate to a 9 percent rate for all earnings categories.

However, what is worrying is that the argument for increasing the budget also includes, "more favourable borrowing" which enabled refinancing and repayment of previous debts under much better terms, creation of a more favourable credit structure of public debt and distribution of maturities, less the need for additional borrowing in the next period, etc. However, it must be clear that a country that made last budget surplus over a decade ago, cannot talk about favourable borrowing. A budget surplus must be considered instead. On the contrary, the reduction of the budget deficit from 5.8 percent of GDP in 2017 to below one percent of GDP in 2020 is presented as huge success. So, the question is, does the largest projected Budget so far represent a further strengthening of the stability of public finances, as it is presented in public?

However, the proposed structure of this budget of almost EUR 2.58 billion should also be considered. The good thing is that the budget foresees significant investments in certain sectors that are facing problems with quality of service or lack of staff, such as the health sector. This is planned through an increase in salaries for employees in the sector and continued investment in order to increase the quality of public health care delivery. In addition, it is planned to increase the allocation for earnings in the education sector<sup>2</sup>, as well as for infrastructure investments in this sector through the construction and equipping of educational institutions at all levels. A total of EUR 20 million more will be allocated for the increase of salaries of employees in the education and health systems compared to 2019. The proposal to increase salaries for the employees in the state administration and the judiciary was rejected, although they demanded a 10 percent increase. An increase is also foreseen for agricultural development and rural development - through increased allocations for farmers through the proposed increase of the Agro-budget and investment in rural development, as well as for creating conditions for the use of EU funds for agriculture.

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<sup>2</sup> Employees in education sector will register increase of salaries of 9 percent next year, and 3 percent increase in 2021 to the already increased 2020 earnings.

However, what is particularly positive is the increase in planned budget for Sport and Youth, Science and Culture. The increase in budget for the implementation of sports development activities and support for activities to improve the position of young people is approximately 20 percent compared to 2019. The increase in the science budget compared to 2019 is approximately EUR 920 thousand, or 17 percent. This increase is primarily aimed at the implementation of science and innovation programs and projects. In 2020, additional funds are planned for the capital project - the first Science and Technology Park in Montenegro. The main features of the budget for culture for the coming year are much larger funds planned for cinema (40 percent growth) and further support to the creative industries sector.

However, the budget has traditionally envisaged an increase for defense, public order and security - by improving the surveillance and protection of national borders, modernizing the Police and creating the conditions for meeting NATO standards in the allocation of funds to finance the defense system.

The position of government officials is that the budget proposal for the next year and in the medium term creates the preconditions for the realization of the valorisation of Montenegrin airports and the sustainability in the operations of the national air company. Still, it seems like an excuse to the public. In fact, the practice of assisting inefficient state-owned enterprises continues. This primarily refers to the national company Montenegro Airlines, which is planned to receive EUR 21 million for consolidation assistance.

Also, the practice of making current spending much more dominant than the capital budget continued. Although it is claimed that the development component of the budget creates the preconditions for continuing the strength of the state's investment cycle, the capital budget is projected at less than 10% of the total budget, and is planned at EUR 230 million. However, given that the government plans additional borrowing, loans of more than EUR 150 million may be effective for the implementation of capital projects in the coming period.

What is of particular concern, however, is that, in the midst of a financially disadvantaged situation, when public debt rises, there is an increase of the expenditures for members of Parliament. Namely, next year's budget proposal foresees EUR 9.58 million for the work of the Parliament of Montenegro, which is an increase of almost 6% compared to 2019. Of this amount, EUR 3.26 million will be allocated for gross salaries and contributions, which is more than EUR 150 thousand more than in the previous year (an increase of about 5%)

On the revenue side, significant growth of main revenues is projected. This is a confirmation that next year there will be no reduction in payroll taxes, which was demanded by certain opposition parties, but also by the Employers Union and the Chamber of Commerce. In total budget revenues, current revenues (taxes, contributions, fees, etc ...) amount to almost EUR 2 billion, which is about EUR 160 million more than in 2019. The one-off airport concession fee, according to the terms of the competition, will be at least EUR 100 million. Missing funds, counting old loans due next year, are projected at EUR 590 million. Of the missing budget, EUR 500 million were already secured in September 2019, through the issuance of bonds on the foreign market (due to the assessment of more favourable borrowing conditions).

The 2020 budget has its positive sides and is better structured than the previous budget, but it can be concluded that some unreasonable increases in planned expenditures (such as increases in salaries for members of Parliament and expenses for their transport) remain a signal of strong bureaucracy. Also, it is questionable decision related to significant expenditures for supporting national airline company, since there is no guarantees that this “investment” will bring some positive results in terms of increasing company’s financial sustainability. It remains to be seen whether the government has made the right decision.