



**Ministry of Finance  
of Montenegro**

# **Fiscal Rules and Fiscal Council in Montenegro**

December 2023

# Fiscal Responsibility in Montenegro

- ▶ Strong decline in economy in the period of 2006 to 2014 resulted in sharp increase of the budget deficit and almost doubling of public debt, requiring measures that will define the fiscal responsibility and make a framework for fiscal discipline.
- ▶ In 2014 the Parliament of Montenegro passed the Law on Budget and Fiscal Responsibility, defining the main fiscal rules and the way of its monitoring.
- ▶ The fiscal rules have been defined to limit political discretion in the fiscal policy and define framework for fiscal stability.

# Fiscal Responsibility in Montenegro

## ▶ Defined fiscal rules

- ❖ The general government debt must be less than 60% to the GDP
- ❖ Guarantees granted by the state must be less than 15% to the GDP;
- ❖ The primary and current balances of general government must both be positive;
- ❖ The overall cash deficit of general government cannot exceed 3% to the GDP though spending on natural disasters and other shocks and EU projects is excepted;
- ❖ The deficit of each local government cannot be more than 10% of its revenue, unless the Ministry of Finance approves additional capital spending;
- ❖ The planned growth rate of the central government's spending (excluding interest, the spending of donor funds, the cost of natural disasters, etc.) is limited to the forecast growth rate of GDP: nominal current spending can grow no faster than real GDP, while nominal capital spending and the budget reserve may grow at the rate of nominal GDP.

# Fiscal Responsibility in Montenegro

- ▶ The assessment of application of the fiscal responsibility criteria was entrusted to the State Audit Institution;
- ▶ State Audit Institution was obliged to prepare the assessment of the fiscal rules application each year and submits it to the Parliament within its regular annual report of the final budget account;
- ▶ This assessment is used by the Ministry of Finance for the fiscal remedy plan;
- ▶ The main characteristic of such fiscal responsibly arrangement is exclusively ex-post character of the assessment;
- ▶ The State Audit Institution prepared the guidelines on assessment of the application of the criteria of the fiscal responsibility which were focused on:
  - ▶ Assessment of the fiscal compliance
  - ▶ Defining and assessment of the fiscal indicators (static and dynamic indicators)
  - ▶ Data usage

# Compliance with fiscal rules

Fiscal rule	2017	2018	2019	2020	2021	2022
General government debt should not exceed 60% of GDP	✗	✗	✗	✗	✗	✗
Guarantees less than 15% to the GDP	✓	✓	✓	✓	✓	✓
General government primary fiscal balance should be positive	✗	✗	✗	✗	✓	✗
General government fiscal deficit should not exceed 3% of GDP	✗	✗	✓	✗	✓	✗
Central government current expenditures should not exceed current revenues	✓	✓	✓	✗	✓	✓
The deficit of each local government cannot be more than 10% of its revenue	✗	✗	✗	✗	✗	✗
The growth rate of the spending limit for the current budget and the budget of state funds must be lower than the planned rate of real GDP growth	✓	✗	✓	✗	✓	✗
The growth rate of the spending limit for the capital budget cannot be higher than the nominal GDP growth rate.	✗	✓	✓	✓	✓	✗
The growth rate of the spending limit for the budget reserve cannot be higher than the nominal GDP growth rate.	✓	✗	✓	✗	✓	✓

# New Fiscal Responsibility Framework

- ▶ In the policy dialog between Montenegro and European Union, fiscal stability and establishment of the independent body like fiscal council were between the most emphasised priorities;
- ▶ In March 2023 Montenegro adopted Amendments to the Law on Budget of Law and Fiscal Responsibility recognising the Fiscal Council as the independent advisory body which will perform assessment of the credibility of the fiscal policy in Montenegro and compliance with the fiscal responsibility criteria;
- ▶ The Fiscal Council will have three members nominated by the Parliament and secretariat;
- ▶ Secretariat will be headed by the Secretary of the Council, which will perform the professional and administrative work of the council.
- ▶ The scope of work will comprise ex-ante and ex-post assessment.
- ▶ Fiscal Council shall give an opinion on the impact of the proposals of laws, regulations, amendments to the laws, fiscal strategy, fiscal policy guidelines, remedy measures etc. on the stability of public finances and the application of the fiscal responsibility criteria;
- ▶ Fiscal Council shall give an opinions on the annual law on the final budget account and an opinion on the application of the fiscal responsibility criteria;
- ▶ Fiscal Council shall analyse macroeconomic and fiscal trends, fiscal risks and impacts of the pension and healthcare system, planned and granted concessions, planned and concluded contracts on public-private partnership, operation of municipalities and business undertakings wherein the State or a municipality has a majority ownership participating interest on the sustainability of public finances and application of the fiscal responsibility.

# New Fiscal Responsibility Framework

- ▶ The Parliament shall adopt a Fiscal Strategy for the period of term of the Government.
- ▶ Along with the Fiscal Strategy the Government will submit to the Parliament opinion of the Fiscal Council.
- ▶ Based on the Fiscal Strategy, the Government will prepare the Fiscal Policy Guidelines which will be the subject of the opinion of the Fiscal Council before their adoption.
- ▶ Planning and execution of the Fiscal Policy will be based on the following criteria:

Criteria for planning and execution of the fiscal policy	Criteria for planning and execution of the budget
<ul style="list-style-type: none"><li>• Primary cash budget surplus should be achieved;</li><li>• Level of current expenditures and transfers should be lower than current revenues and donations;</li><li>• borrowing policy should be responsible and prudential in line with professional rules, aimed at ensuring fiscal sustainability;</li></ul>	<ul style="list-style-type: none"><li>• the budget cash deficit of the General Government should not exceed the level of 3% of GDP at market prices;</li><li>• the public debt should not exceed 60% of GDP at market prices.</li><li>• (Guarantees granted by the state must be less than 15 % to the GDP)</li></ul>

# Fiscal Policy and Responsibility

- ▶ The Fiscal Council is in the process of establishment and is expected to be operational in one year.
- ▶ The Technical Assistance is envisaged to support fiscal council in its capacity building and setting up the methodology.
- ▶ The goal is to get the independent advisory body which will contribute to setting up accountable policy decisions which will lead to fiscal and macroeconomic stability.



**THANK YOU!**

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