

Government of Montenegro

Ministry of Finance

Questionnaire

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

– ADDITIONAL QUESTIONS –

17 Economic and monetary policy

Minister:

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CHAPTERS OF THE ACQUIS – ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

17: Economic and monetary policy

I. MONETARY POLICY

A. Country alignment

1. (Ref to Q. 2): Please expand the answer with the information on social security funds and compensation funds.

The Work Program of the Government for 2010 stipulates an obligation of the Ministry of Health to prepare amendments to the Law on Compulsory Health Insurance until the end of 2nd quarter of 2010, in order to define mechanism for ensuring more stable financial sources for exercising the healthcare protection of insured persons. The Law will also entail a model of personal participation of insured persons in the expenses of the healthcare protection, precisely the development of the voluntary insurance, as well as to define new models for paying services to healthcare institutions.

The Development Fund, which had a status of an extra-budgetary fund until the end of 2008 and was the state fund in the period 2008-2009, from 2010 onwards will not be planned as part of the Budget of Montenegro but will be transformed into the Investment and Development Fund of Montenegro and will be a joint stock company owned by the state of Montenegro. Taking into account important changes in the Montenegrin economy (in the banking sector, capital markets, the economic development priorities and needs, overall economic environment, legislation) there was a need that arose to transform the Fund and adjust its objective to further economic development and economic policy of the Government of Montenegro. Furthermore, some important reasons for transformation come from the current position of the Development Fund being featured by the inconsistency of legislation (recommendations of the State Audit Institution, the necessity to make alignment with the Law on Business Organisations with respect to business organisation form, impossibility to apply relevant regulations concerning the financial reporting, inadequate organisational structure, and similar).

The Government of Montenegro established the Compensations Fund in 2004 in order to provide for funds for compensations. The Compensation Fund has a status of a legal entity with a registered office in Podgorica.

Sources of financing for the Compensation Fund are:

- Shares which were allocated, in accordance with the regulations on privatisation of economy, for compensation of former owners;
- Bonds of the Republic of Montenegro;
- Earmarked funds from the Budget of the Republic of Montenegro which are determined each year in accordance with law;
- Funds from loans and other funds allocated for this purpose by international organizations;
- 10% of the proceeds from the sale of state property;
- 10% of the sold shares of the state funds;
- 7% of the funds from companies or parts of companies that are being privatized
- 7% of the revenues from concession fees;
- Revenues generated on the basis of collection of revalued amount, paid by former owners;
- Other sources.

Until 2008, the Compensation Fund had a status of an extra-budgetary fund, and from 2008 onwards has a status of the state fund and financial sources of the Fund are planned as part of the

annual Budget of Montenegro. The legislation to follows represents the base for the functioning of the Fund:

- Organic Budget Law;
- Annual Law on the Budget of Montenegro;
- Law on Restitution of Taken Away Property Rights and Compensation.

Legislation that defines the functioning of the Compensation Fund is harmonised with the EU regulations and there are no plans for its amendments.

There are no plans for amendments in other systems under the Work Program of the Government for 2010.

Strategic Documents, Laws and Enabling Regulations

Upon a proposal of the Ministry of Labour and Social Welfare and the Employment Office, in April 2007 the Government adopted the National Employment Strategy for 2007-2010, which was updated as the *National Employment and Human Resources Development Strategy for the Period 2007-2011* along with the related *National Employment Action Plan for the period 2010-2011*, as part of the implementation of the project the *Reform of the Labour Market and Labour Force Development*.

The National Action Plan sets the measures to be carried out as part of the priorities and related objectives to be achieved which are defined as part of the Strategy. The majority of them are the active employment policy measures that are to be carried out by the Employment Office in various forms.

The general and earmarked revenues of the Budget of Montenegro are used to finance sources for implementation of defined active labour market policy measures.

The **new Labour Law** is in application since 23 August 2008. The core objectives intended to be achieved through application of this Law, in terms of more flexible relations between employees and employers are: application of relevant European Union regulations; making more precise provisions of laws ensuring consistent application of ratified ILO conventions and recommendations; improvement of the social dialogue by increasing focus on the quality of collective bargaining; information and notification of employees on all relevant issues having importance for their financial and social standing; establishing balance in securing rights and interest of employees and employers; simplification of procedures for determining responsibilities of employees in breaching the work discipline; rights of employees to defence in the event of cancellation of the employment contract; and other.

The Parliament adopted the **Law on Professional Rehabilitation and Employment of Disabled Persons** (*Official Gazette of Montenegro* No 49/08).

Proposals of enabling regulations concerning the Law on Professional Rehabilitation and Employment of Disabled Persons **are prepared and will be adopted until the end of March of this year:**

- Rulebook on the Criteria and Requirements for Assessing the Remaining Work Capacity and Possibility of Employment;
- Rulebook on the Manner and Requirements for Exercising Rights to Professional Rehabilitation;
- Rulebook on Detailed Requirements, Criteria and Standards for Implementing Professional Rehabilitation Measures and Activities;
- Rulebook on Requirements that an Institution should Meet for Professional Rehabilitation, Work Centre and Protection Plant;
- Rulebook on Detailed Requirements and the Manner of Exercising Rights to a Wage Subsidy for Disabled Persons.

The Law on Employment and Work of Foreigners (*Official Gazette of Montenegro* No 22/08), in application since 1 January 2009, does not differentiate between foreigners-citizens of EU countries and citizens of third countries. The Law uses the term foreigner which entails any person other than Montenegrin citizen, regardless whether such person is a citizen of another country of person without citizenship.

The above stated Law stipulates that a foreigner may be employed or work in Montenegro provided that has: working permit, permanent residence approval or temporary residence approval, concluded employment contract or civil contract and that the obligor of reporting the work has registered the foreigner in accordance with this Law. Legal employment or work connotes that all four requirements are cumulatively met.

All enabling regulations were prepared and adopted which are necessary for the application of the Law on Employment and Work of Foreigners (*Official Gazette of Montenegro* No 22/08):

- Decree on the Criteria and Procedure for Determining Number of Working Permits for Foreigners (*Official Gazette of Montenegro* No 69/08);
- Decision on Determining Number of Working Permits for Foreigners for 2009 (*Official Gazette of Montenegro* No 70/08);
- Rulebook on the Manner of Issuing Working Permits for Foreigners (*Official Gazette of Montenegro* No 81/08);
- Rulebook on Procedure for Application for Commencement and Termination of the Work of Foreigner (*Official Gazette of Montenegro* No 81/08).

The Parliament of Montenegro adopted the **Law on Employment and Exercising Rights Pertaining to Unemployment Insurance** (*Official Gazette of Montenegro* No 19/10).

Provisions of the Law are aligned with employment policy principles of the Treaty on European Union, the Treaty of Amsterdam, decision of the Council of the European Union on employment policy guidelines, the Luxemburg Employment Strategy.

Furthermore, the Law is also harmonised with obligations and standards contained in the ILO Conventions: Convention No 102 on Social Security Minimum Standards, Convention No 88 on Employment Service Organisation, Convention No 122 on Employment Policy, Convention No 144 on Tripartite Consultations, Convention No 168 on Employment Promotion and Protection against Unemployment, and Convention No 181 on Private Employment Agencies.

The Law also introduces the National Employment Action Plan as a core instrument of the employment planning policy, in order to regulate in a more adequate manner the content and role of active employment policy measures.

This document sets objective and priorities of active employment policy, programs and measures of the active employment policy on annual level to be undertaken in a given year and financial envelope for realisation of the active employment policy measures.

In order to establish a more adequate relationship between the Employment Office and employment agencies, as parties responsible for employment-related activities, it was necessary for the new proposal to regulate their relations in a more flexible manner, to define the status thereof in a clearer manner, the manner of their establishment and employment activities carried out by the agencies.

The new proposal Law gives a priority to active employment policy measures and by the reduction of duration of monetary compensation entitlement provides incentives to unemployed persons to seek employment.

Changes in the unemployment structures and a larger share of hard-to-employ persons have called for special solutions that provide incentives for their increased employment.

The objective of the proposed Law is to enable an increased employment by creating efficient legislative framework for carrying out employment activities, within the existing economic

development of Montenegro and relation between the supply and demand on the labour market, which will enable annual planning of active employment policy, adjusting the active employment policy measures, as well as monitoring the effects of the active employment policy as indicator for its forward planning.

The Law also governs the unemployment insurance, types of insurance and rights pertaining to unemployment insurance.

The unemployment insurance includes participation of employee and employer, by way of payment of contributions for providing funds for exercising rights pertaining to unemployment.

Based on the unemployment insurance, an unemployed person is provided with rights to monetary entitlement as well as pension and disability and health insurance, in accordance with requirements stipulated by the Law, for a period of duration of the monetary entitlement in accordance with a special law.

The monetary entitlement is a right that a person insured under compulsory insurance is entitled to, who before the termination of employment had at least 12 months of uninterrupted or 18 last months with interruption of months contributing to insurance, provided that the employment was terminated for reasons other than his/her request, consent or fault, and that person registered with the Employment Office and submitted the request within 30 days following the termination of employment.

Having as a starting base the European standards, the duration of monetary entitlement is defined depending on the years contributing to insurance and ranges from 3 months to 24 months.

The **Law on the Labour Fund** was adopted at the end of 2009, which governs the establishment, scope of work, proceedings, financing, bodies, supervision and other matters having importance for the operation of the Labour Fund of Montenegro, being a guarantee institution for exercising rights to payment of unpaid claims of employees having their employment terminated due to the initiated bankruptcy proceedings of the employer.

The Fund ensures the payment of unpaid employment-based claims of employees with the employer whereat the bankruptcy proceedings were initiated, if claims could have not been settled entirely or partly from the bankruptcy estate, in accordance with a special law; carries out the procedure for exercising the rights of employees referred to in Article 98 of the Labour Law concerning the unsettled claims; perform administrative-technical activities for the Fund; performs other tasks in accordance with this Law and the Statute of the Fund.

Resources for operation of the Fund are provided from the Budget of Montenegro, budgets of municipalities, contributions of 0.20% charged to employers calculated by the unemployment insurance obligor using the base referring to such contribution in accordance with the Law on Compulsory Social Insurance, sources of the EU funds, donations, gifts, revenues from interests and other sources in accordance with law.

The **National Professional Orientation and Counselling Strategy**, along with the relevant Action Plan, will be developed as part of the project the **Reform of the Labour Market and Development of Labour Market**, financed by the European Union and that will be implemented during this and next year.

The Law on Volunteering and the Law on Trade Union Representations are being prepared, and their adoption is expected in the first half of this year.

B. Implementation capacity**Monetary and exchange rate policy****2. (Ref to Q. 31): Please reply to the question: What will the past debt accumulation mean in terms of medium and long-term growth of amortisation?**

The State debt of Montenegro, at the end of 2009, was 1,140.2 million euro or 38% of the estimated GDP for 2009. If compared to the end of 2008, the State debt increased by 27.4% or 245.5 million euro in absolute amount. Compared to the end of 2007, the State debt evidenced a growth of 403 million euro or 54.7%.

Until 31 December 2009, the Government of Montenegro issued foreign guarantees in the amount of around 303.7 million euro, out of which 142 were disbursed until the said date, or 4.7% of GDP (domestic guarantees were issued in the amount of around 12.5 million euro, out of which 8 million euro was disbursed). If the disbursed guarantees are to be taken into consideration the total state debt is around 43% of GDP. This can undoubtedly reveal that the existing level of indebtedness of Montenegro is below the Maastricht criteria and significantly below the indebtedness of large number of EU countries.

The Budget for 2010 provides for the repayment of debt to residents and non-residents, including arrears, to be 159.9 million euro. Having in mind the existing repayment plan, presently the assumption is that Montenegro will succeed in regular debt servicing even despite significant slowdown of the economic activity in the following period.

In reference to the question on whether will the past debt accumulation impact the growth of amortisation in future, in the period when Montenegro was part of the Federal Republic of Yugoslavia or later of the state union of Serbia and Montenegro, financial agreements were signed by the representatives of the Federal Government. Following the independence of Montenegro, the Agreement on Settling Membership in International Financial Institutions and Distribution of Financial Assets and Liabilities between the Republic of Serbia and the Republic of Montenegro was signed on 10 July 2006, which has executed distribution of rights and obligations between these two parties.

Concurrently, in the period of the existence of the joint state, at the event of entering into financial arrangements with international financial institutions, it was determined which credit arrangements pertain to the Republic of Serbia and which to Montenegro. Congruently, the Ministry of Finance had at its disposal, at all times, the information on credit-based liabilities, terms of crediting and obligations arising therefrom.

Furthermore, in accordance with undertaken obligations, the Ministry of Finance has aligned the amortisation plan and took into account the existing plan of repayment of obligations when planning future borrowings.

Having in mind the above stated, the accumulated obligations from the previous period has led to an increase in repayment since 2009, while the annual level repayment of obligations after 2009 will not fluctuate more significantly. The only exception is 2014, where there is an increase in repayment of credit obligations to Credit Suisse in the amount of around 30 millions USD. In the text to follow you may find the table with the debt repayment forecast until 2020. Thus, the accumulation of past obligations after 2009 will not result in a significant growth of amortisation.

Table 1: Foreign debt repayment forecast for the period 2010-2020¹ (principal)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Amount in million euro	43.3	52.2	57.6	62.3	81.71	52.17	50.83	49.44	52.5	44.43	39.41

Table 2: Debt repayment in the period from 2006 to 2009

Year	Amount
2006	14.3
2007	84.2 ²
2008	16.8
2009	26.9

Table 3: List of loans signed in the period from 2006 to 2009

Year of signing	Creditor	Project	Signed Amount	Maturity
2006	Government of Austria	Procurement of medicinal equipment	4.1 million EUR	2012 - 2019
	Hungarian Exim bank	Construction of school infrastructure	15.0 million EUR	2010 - 2021
	KfW	Water supply – 2 nd phase	10.0 million EUR	2008 - 2020
	Government of Poland	Modernisation of the Railways system	12.3 million EUR	2009 - 2025
	Societe Generale	Education Information System	2.6 million EUR	2007 - 2012
2007	IDA	MSTDp – Regional Water supply system	6.6 million XDR	2017 - 2027
	IDA	APL3 – Energy Community of South East Europe	6.6 million XDR	2017 - 2027
	KfW	Water supply -3 rd phase	28.0 million EUR	2011 - 2022
2008	Austria	Procurement of equipment for the oncology clinic – Healthcare Fund	6.0 million EUR	2012 - 2019

¹ Since repayments of loans in various currencies are included some variations in stated amounts could occur due to changes in exchange rate. The conversion is made in line with the exchange rates of the Central Bank of Montenegro effective on 18 March 2010. The conversion of SDRs is done as follows: SDR is converted into USD at the exchange rate 1 SDR =1.53435 USD, and then USD is converted into EUR using the above referenced exchange rates.

² An early repayment of the debt to IBRD in the amount of 59.2 million euro took place in 2007.

- Additional Questions -

	IBRD	LAMP – Cadastre	11.0 million EUR	2013 - 2018
	IBRD	Energy efficiency	6.5 million EUR	2012 - 2016
	EIB	Roads	4.0 million EUR	2014 - 2019
	EIB	Wastewaters	5.0 million EUR	2012 - 2030
2009	ICO, Spain	Construction of the landfill in Podgorica	5.0 million EUR	2015 - 2025
	Steiermarkische Bank, Austria	Procurement of fire-fighting vehicles for the Ministry of Interior	22.0 million EUR	2011 - 2021
	IBRD	MIDAS - Agriculture	11.0 million EUR	2014 - 2020
	IBRD	Healthcare	5.1 million EUR	2015 - 2019
	Credit Suisse	Financing of the budget expenditure	90.0 million EUR	2010 - 2014
	Erste Bank	Financing of the budget expenditure	30.0 million EUR	2010 - 2014
	EIB	Solid waste	27.0 million EUR	2014 - 2029
	EIB	Roads and bridges A3	30.0 million EUR	2014 - 2029
Disbursed loans taken for the Railways in 2009	Creditor	Project	Disbursed amount	Maturity
	EBRD	Rehabilitation of the railroads infrastructure	11.0 million EUR	2012 - 2025
	EUROFIMA	Railways rolling stock 2667	1.5 million CHF	2011
	EUROFIMA	Railways rolling stock 2534	3.0 million CHF	2012
	EUROFIMA	Railways rolling stock 2654	4.5 million CHF	2013
	EUROFIMA	Railways rolling stock 2598	5.0 million CHF	2014
	EUROFIMA	Railways rolling stock 2631	3.5 million CHF	2015
	EUROFIMA	Railways rolling stock 2678	2.5 million CHF	2016
	EUROFIMA	Railways rolling stock 2677	4.5 million CHF	2017
	EUROFIMA	Railways rolling stock 2713	10.0 million CHF	2018
	EIB	Railways rolling stock - Tr. 1	7.0 million EUR	2015 - 2029

17 Economic and monetary policy

- Additional Questions -

	Czech Republic's EXIM BANKA	Construction of the Podgorica - Nikšić railroad 21024	0.75 million EUR	2010
	Czech Republic's EXIM BANKA	Construction of the Podgorica - Nikšić railroad 21025	25.5 million EUR	2007 - 2016
	Czech Republic's EXIM BANKA	Construction of the Podgorica - Nikšić railroad 21026	15.2 million EUR	2008 - 2018
	Czech Republic's EXIM BANKA	Construction of the Podgorica - Nikšić railroad 21027	9.3 million EUR	2010 - 2018

II. ECONOMIC POLICY

A. Country alignment

3. (Ref to Q. 32): How is the policy coordination, in particular in the fiscal and monetary policy areas, governed by your legislation and effectively implemented?

Strategic documents that contribute to the coordination mechanism in the fiscal and monetary policy areas as part of the integral economic policy are the following:

- Economic Policy of the Government of Montenegro for the subsequent fiscal year – prepared by the Ministry of Finance and adopted by the Government of Montenegro in March of the current year for the following fiscal year;
- Documents prepared by the Government of Montenegro as part of undertaken obligations in the Montenegro's integration process in the EU – Economic and Fiscal Program for Montenegro and National Program for Integration into the EU.

Having in mind that Montenegro is fully euroised economy with euro as the only legal tender; the monetary policy has rather limited instruments for its action. Under such circumstances the fiscal policy instrument represents the core instrument of the economic policy. The role of the Central Bank of Montenegro is largely reduced down to ensuring sustainability of the financial system and control role over the financial market participants.

Under the circumstances of changed global financial and economic environment, preserving the stability and further development of the financial sector becomes one of the economic policy priorities, being implemented through strengthening of the institutional framework for the financial system. The efficient application and permanent control of alignment of the existing legislation with the applicable international practice, and in particular with the regulatory standards of the European Union, have created the prerequisites for the development of integrated financial system having strong connections among specific market segments. Adoption of the new set of legislations will additionally improve the regulation of the banking sector, harmonisation with international standards and will ensure a higher degree of safety of depositors and higher confidence in the banking system, as well as will create prerequisites for forecasting of future crisis effects.

The preparation of the set of laws concerning the financial system is in progress, where the Government of Montenegro is a formal proposing party, but where the Central Bank of Montenegro has an active role in preparation thereof. The laws are currently in form of a draft and their adoption by the Parliament of Montenegro is expected in the first half of 2010. The laws in question are:

- Law on Amendments to the Law on Banks;
- Law on the Central Bank of Montenegro;
- Law on the Council for Financial Stability;
- Law on Amendments to the Law on Bankruptcy and Liquidation of Banks;
- Law on Deposit Protection.

In line with the proposed new Law on the Central Bank of Montenegro and the Law on the Council for Financial Stability, the Council for Financial Stability should be established in order to synchronise activities of various supervisors (including also the Government and the Central Bank of Montenegro) and attain to an increased coordination and efficiency of the system.

The applicable legislation defines the cooperation of the Government and the Central Bank concerning the public debt management. Namely the provisions of Article 41 of the Law on Budget (*Official Gazette of the Republic of Montenegro* No 40/01, 44/01, 28/04, and 71/05; and *Official*

Gazette of Montenegro No 12/07, 73/08, and 53/09) stipulate that the Debt Management Strategy defines the framework program for borrowing of Montenegro for a three-year period, guidelines for assessing risk when engaged in borrowing; debt, cash, guarantees and borrowings management guidelines; and other matters having importance for the debt management. The Government adopts the Debt Management Strategy with the opinion of the Central Bank.

The cooperation with the Central Bank and the Government is also defined in terms of adoption of safeguard measures in instances where the capital movements seriously endanger or threaten to endanger the monetary policy or financial standing of Montenegro. To that effect the provisions of Article 11 of the Law on Foreign Current and Capital Transactions (*Official Gazette of the Republic of Montenegro* No 45/05 and *Official Gazette of Montenegro* No 62/08) stipulate that if capital movements seriously endanger or threaten to endanger the monetary policy or financial standing of Montenegro, the Central Bank may introduce safeguard measures, with the consent of the Government.

In respect of this question we would like to point that the draft Law on the Central Bank of Montenegro, the preparation of which is in its final stage, contains the provisions stipulating the several ways on exercising the cooperation of the Central Bank and other state authorities, in particular:

- That the Central Bank may, for attaining a certain objective, without prejudice to its independence and autonomy, cooperate with the Government and other state authorities and organisations, and undertake measures to improve such cooperation within its competences;
- That the Government is obliged to submit to the Central Bank, upon its request, information and data necessary for reaching objectives and exercising functions of the Central Bank;
- That the Central Bank is obliged to submit to the Government upon its request, information and data concerning the reaching of the objectives and exercising functions of the Central Bank, except for the information and data concerning the entities subject to its control and/or for which there is an obligation for keeping the secret in accordance with law;
- That the Central Bank carries out a macro-economic analysis, including monetary, fiscal, financial and balance of payments analysis, and gives recommendations to the Government in the economic policy area;
- That the Central Bank is entitled to prepare drafts of laws connected to reaching of the objectives and exercising functions of the Central Bank, as well as that the Government is obliged to consult the Central Bank on proposal of laws concerning the financial system and having impact on reaching of the objectives and exercising functions of the Central Bank, before submitting them to the Parliament, whereon the Central Bank may issue an opinion.

The Committee for Financial Stability is also effectively established, having as task to coordinate actions in combating the crisis. The members of the Committee were the Governor of the CBM, the Minister of Finance and the President of the Deposit Protection Fund. Moreover, pursuant to the Law on the Central Bank of Montenegro, the Central Bank each year prepares recommendations to the Government for the economic policy. Using the form of various working papers submitted to the Government, the CBM elaborates up-to-date economic policy problems. The coordination is also carried out in form of *ad hoc* meetings at the level the Governor – Minister of Finance, as well as in form of intermittent joint meetings of the Government, the CBM and Banks Association.