BETTER POLICIES FOR BETTER LIVES

BUDGETING IN MONTENEGRO OECD REVIEW

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OECD Review of Budgetary Governance

- Assessed against 10 principles of the OECD's Spending Better Framework

- Report finds:

  Montenegro's public financial management system is supported by a well-articulated legal and institutional framework, but significant implementation challenges remain. While the country has made progress in aligning its budgeting practices with OECD and EU standards, further reforms are necessary to enhance fiscal discipline, budget transparency, and policy alignment

- A lot done; a lot more to do

- A good basis for implementing reforms and building capacities

Set Clear Fiscal Objectives

Budgeting within fiscal targets

- Fiscal rule requires corrective action if budget deficit exceeds 3.0% but deficit regularly exceeded and no corrective measures
- Govt to assert commitment to fiscal rule in pre-Budget Statement

Objective Economic Assumptions

More credible medium-term forecasts

- Some monitoring of fiscal risks and MoF producing sensitivity analysis on potential impact of macroeconomic assumptions on forecasts
- Improve macroeconomic forecasts
- Introduce a fiscal risk management statement that comprehensively addresses risks, including guarantees

Multi-Year Expenditure Baselines

Medium-Term Budget Framework

- The MTBF is indicative at best and varies significantly
- Line ministries to use standard methodology that includes
  - No policy change estimates
  - Macroeconomic changes, including inflation, GDP growth
  - Demographic changes
  - Full year costs of existing policies

Top-Down Expenditure Ceilings

Spending Discipline

- Top-down ceilings at ministerial level but not respected
- Public bodies to respect ceilings
- Tighten criteria for the use of the current and reserve funds

Regular Spending Reviews

Scope for expenditure savings

- Work beginning on spending reviews with OECD support
- Implementation
  - Political commitment
  - Standard methodology
  - Define key roles for MoF and line ministries

Informed Spending Decisions

Programme and performance budgeting

- Some alignment between policy objectives and the MTBF but not enough use of performance information.
- Improvements in public investment management although a multi-year approach required.
- Programme and performance budgeting for alignment with policy goals and better-quality reporting.
- Investment within a multi-year budget framework that permits carryovers.
- Strengthen fiscal impact assessment to avoid cost over runs.

Consider All Forms Of Expenditure

Better monitoring of contingent liabilities

- Some potential liabilities are not closely monitored
- More robust monitoring of sovereign loan guarantees and report on them annually
- Implement SAI recommendation to improve credibility of expenditure arrears by consolidating data on outstanding liabilities at year-end
- Adopt the ESA2010 definition of general government debt as the measure of public debt

Line Ministries as Partners

Line Ministries as Partners

- Good relations between MoF and line ministries finance function but capacity weaknesses, including internal control and monitoring SOEs
- Build capacity in line ministries, specifically in finance function
- Strengthen internal audit capacities and make use of internal audit findings
- Enhance the monitoring of SoEs by establishing financial planning and performance monitoring frameworks

Budget Transparency

Empowering public understanding

- The documentation submitted to Parliament is generally good
- Content to be strengthened by sensitivity analysis and tax expenditures
- Develop a dedicated budget transparency portal, consolidating key documents to enhance accessibility
- Identify effective ways to increase public understanding of the budget, including through public engagement
- Include the Equalisation Fund in budget documentation to improve oversight of the fund's operations

Effective Budget Oversight

Quality, integrity and independent audit

- Weak parliamentary scrutiny – short timeframe; limited resources
- More time to parliament for scrutiny and debate
- Expand capacity of PBO
- Operationalise Fiscal Council, with resources
- Parliament to support SAI recommendations (follow up)

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Thank You

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