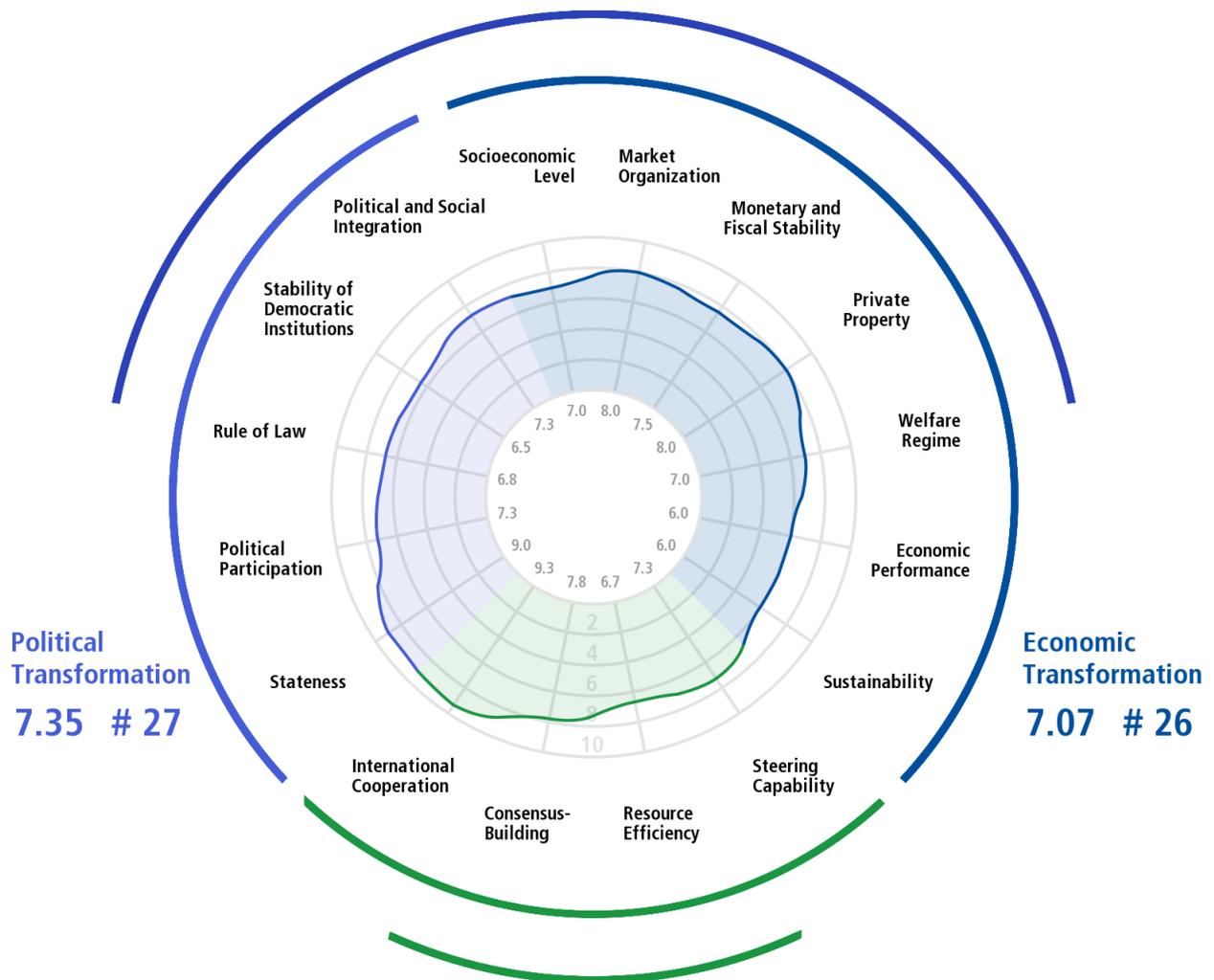


Montenegro

Status Index

7.21 # 21

on 1-10 scale out of 137



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6.63 # 15

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	0.6	HDI	0.816	GDP p.c., PPP \$	20495
Pop. growth ¹	% p.a.	0.0	HDI rank of 189	52	Gini Index	31.9
Life expectancy	years	76.7	UN Education Index	0.797	Poverty ³	% 0.8
Urban population	%	66.8	Gender inequality ²	0.119	Aid per capita \$	188.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Montenegro joined NATO on June 5, 2017, when the instrument for its accession was formally deposited with the U.S. Department of State. However, even after a year and a half of full NATO membership, the issue of its membership remains highly divisive.

The period under review was also marked by the opposition's boycott of parliament, which negatively affected political life, impeded parliamentary dialog and scrutiny and blocked processes that require cross-spectrum support, such as election of the Judicial Council. The opposition started to boycott parliament right after the October 2016 elections under "an atmosphere of coup d'état," in which people could not express their political will freely. The entire opposition boycotted parliament until October 2017, when some parties and members of parliament started returning to the sessions. In the second half of 2018, with the backing of the EU, an effort was made to restore political dialog by establishing the parliamentary Committee for Electoral Reform. The committee had not started work at full capacity by January 2019.

The Montenegrin population is very much divided when it comes to the country's future. Polls show that the percentage of those who say that Montenegro is heading in the wrong direction is rising. Public trust in all institutions has been declining, and almost one third of population has no trust in election management bodies.

A recent trial for an attempted terrorist act on election day in 2016 has attracted attention. The special state prosecutor initially indicted 14 people, including two Russian nationals reportedly linked to Russian intelligence, a former commander in the Serbian gendarmerie and two leading politicians from the Democratic Front. The trial began in September 2018 and has been broadcast live. This is the first time that cameras have been allowed into courtrooms in Montenegro.

Montenegro is making solid progress in its EU accession negotiations. Negotiations have been opened on 32 out of 35 chapters. However, the government has been less successful in closing chapters, as only three have been provisionally closed after six years of negotiations. Poor

implementation of adopted legislation remains a problem, and tangible results in the area of the rule of law and fighting corruption and organized crime are still lacking. The period under review was also marked by deterioration in the integrity and credibility of certain institutions, such as the State Election Commission, the Anti-Corruption Agency and the central bank.

Significant economic growth was recorded, as the GDP increased by 3.4% in 2017 and continued to grow in the first three quarters of 2018. The growth was largely driven by the robust construction sector, due to the start of the work on a major highway section, and by strong growth in tourism. However, the public debt reached 67.2% of GDP in September 2018. By the end of 2018, it is projected to be over 70% due to the continuation of construction of the Bar-Boljare highway.

History and Characteristics of Transformation

A tradition of independent statehood in the area that is now modern Montenegro dates back several centuries. In 1878, the Congress of Berlin recognized Montenegro as an independent state. Independence came to an end when Montenegro joined Serbia in 1918 following the controversial decision of the Podgorica Assembly, held under the auspices of the Allied forces while the sovereign and the government of Montenegro were in exile.

Soon afterwards, Montenegro became a part of the Kingdom of Serbs, Croats and Slovenes, later renamed Yugoslavia. From 1918 to 1941, and from 1946 to 1992, Montenegro was a constituent republic of Yugoslavia. Montenegro was the only Yugoslavian republic that remained in a joint state with Serbia in the early 1990s. This policy was advocated by the post-communist political elite that emerged victorious in the country's first post-communism elections and was also supported by a substantial part of Montenegrin citizens who felt closely associated with the idea of Yugoslavia and cultural links with Serbia. In 1992, the two countries established the Federal Republic of Yugoslavia (FRY) as a successor to the Socialist Federal Republic of Yugoslavia. While FRY's constitution envisaged parity between Montenegro and Serbia in federal institutions, the state was de facto dominated by the much larger Serbia, both economically and politically. Facilitated by wars and nationalist mobilization, Serbia's president, Slobodan Milosevic, was able to establish a semi-authoritarian system that included Montenegro and that kept him in power until 2000.

The Democratic Party of Socialists (DPS), Milosevic's partner in Montenegro, has governed the country since the fall of communism using similar rule. Milo Đukanović, the prime minister and a leader in the DPS, broke with Milosevic in 1997, increasingly distancing Montenegro from Serbia and implementing reforms aimed at establishing a market economy. After the fall of Milosevic, Montenegro and Serbia, a loosely integrated "state union," replaced FRY. While the Montenegrin government wanted independence, the opposition parties and most parties in Serbia preferred to preserve a common state. To accommodate Montenegrin interests, the constitutional charter of the state union envisaged the option of independence referendum, held three years after the creation of the state union. In the 2006 referendum, 55.5% of Montenegrin citizens voted for

independence and Montenegro joined the United Nations and other major international organizations. In June 2017, Montenegro became a member of NATO. As of January 2019, Montenegro was the most advanced EU candidate country, with 32 negotiation chapters opened and three others provisionally closed.

Behind the rather successful international recognition of Montenegrin political commitment to Euro-Atlantic integration, its society has been struggling with slow-paced changes in its political model, inefficient public institutions, a culture of legal impunity for people politically affiliated with the ruling parties, discriminatory practices in the labor market and public procurement, as well as challenges to legal security and the harmonization of judicial practices with best international standards.

As regards the social and political transformation of Montenegro, the dynamics of change are heavily influenced by the fact that a single party has effectively been in power since the fall of communism. Political control over the public and judicial sector, alongside clientelistic political and social networks, has created a culture of passivity among public institutions mandated with law enforcement. Institutional inactivity and futile political opposition opened huge space for the civil society and media sectors, which have been extremely vocal and active.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force covers the entire territory of the country. Police and military forces provide security in all areas of the country and there are no organizations such as militias or guerrillas.

Ongoing conflicts between Montenegrin criminal gangs culminated in 2017, through a series of murders and bomb blasts in several Montenegrin towns. These clashes seriously endangered innocent citizens, and there were several unintended casualties. Nighttime patrols, raids and security checks launched by the Montenegrin police did not resolve the problem. The head of the police resigned in March 2018 after two further attacks in Podgorica. By the end of 2018, the situation had somewhat improved, as the police and prosecution, in collaboration with neighboring countries, finally identified and arrested some of the perpetrators.

Montenegro is constitutionally defined as a civic state: the idea of statehood is built around shared citizenship rather than a dominant ethnic group. However, this principle is frequently compromised to satisfy ethno-national requests by powerful political actors.

Since the 2006 independence referendum, the legitimacy of the nation-state has occasionally been questioned by political actors. The 2017 NATO accession reaffirmed existing societal divisions. Those who supported Montenegrin independent statehood and nationhood also shared a strong political identification with the West. Those who opposed it remain closely connected to Serbia and Russia. Identity-related issues, such as the official language and national symbols continue to play a divisive role in society.

Question
Score

Monopoly on the
use of force
10



State identity
8



The state is largely secular, and religious dogmas have limited influence on politics and decision-making. However, some religious leaders are powerful political actors and continuously seek to exert political influence.

The three major religious groups in the country are Orthodox Christians (72%) who are divided between two churches that contest each other's legitimacy – the Serbian Orthodox Church (SOC) and the Montenegrin Orthodox Church (MOC); Muslims (19%) and Catholics (3%). The remaining 5% of the population belong to other minor religious communities, are atheists/agnostics or did not declare their religious affiliation. A total of 21 religious groups is recognized in the country. Registration with state authorities is not compulsory. With the exception of the SOC, which opted out, all other groups have been registered.

Adoption of a new law on the freedom of religion has been postponed several times since 2012. After a failure to organize public hearings about the draft law in 2015, the government withdrew it. The main challenge to the law's adoption is opposition from the powerful SOC to the government's plans to repossess its property that was state-owned before 1920. The Ministry of Human Rights announced in January 2019 that a high level of consensus about the draft law has been achieved with all the religious communities except the SOC, and that the ministry will continue to seek consensus.

All necessary administrative structures, providing all basic public services, exist and operate throughout entire territory of Montenegro: 100% of the population has access to a water source and 96% of the population has access to improved sanitation facilities.

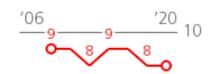
2 | Political Participation

Elections are held regularly and generally assessed positively by international observers. Still, there are serious concerns regarding the fairness of the electoral process, primarily related to misuse of public funds and the impartiality of public institutions in electoral processes.

Presidential elections were held in April 2018. Milo Đukanović, the candidate of the ruling DPS, won in the first round. The runner-up, Mladen Bojanić, was supported by most opposition parties. The first-ever female candidate to run for president – Draganja Vuksanović from the opposition Social Democratic Parties (SDP) – came in third. In May 2018, local elections were held in Podgorica and 11 other municipalities. The ruling DPS won in 10 out of 11 municipalities.

No interference of religious dogmas

8



1

Basic administration

10



1

Free and fair elections

6



1

Over 2,000 representatives from domestic and international organizations monitored the presidential elections. OSCE/ODIHR EOM stated that “fundamental freedoms were respected in the April 15 presidential election, although the candidate nominated by the governing party held an institutional advantage.” The elections were held in an atmosphere of political polarization and serious concerns regarding the misuse of personal voters’ data in the process of collecting signatures for presidential candidates. Examples of shortcomings of the electoral register include changed addresses of registered voters, inclusion of deceased voters and an alleged inclusion of an unknown number of individuals whose residency status has not been verified. Throughout the entire process, the composition and decision-making of the State Election Commission (SEC) were non-transparent and influenced by partisan interests.

Also, the Agency for the Prevention of Corruption broadly oversaw campaign finance without conducting investigations. However, there have been serious concerns regarding the financing of political parties in recent elections. In early 2019, allegations emerged about illegal financing of DPS’s election campaigns.

In all elections, the opposition parties accuse the ruling party of vote-buying. Still, the number of investigations and proceedings for criminal offenses in the domain of electoral rights remains small.

As many as 30.7% of citizens have no trust in electoral institutions, according to a poll by the Center for Monitoring and Research. This shows a major decline in public trust in elections and indicates that parliament’s and government’s activities aimed at increasing trust have failed to yield the desired outcomes.

In November 2018, parliament decided to form a Committee for Electoral Reform with the task of optimizing the overall environment of future elections, but the committee has not yet started working at full capacity.

Democratically elected political representatives have the effective power to govern. No individuals or groups hold any de facto veto power. During this period, international actors, as well as churches, business and landowners tried to influence political decisions. Generally, all their activity has stayed within the limits of the usual behavior of interest groups. The degree of success of their influence on decision-making always depends on finding common interests with governing structures.

Russia has sought to influence policy-making in Montenegro through diplomatic and other channels. Several Russian nationals were accused of orchestrating a coup plot against Montenegro’s government in October 2016. Media reports and statements of the public prosecutor investigating the case indicated that Russia’s military intelligence service was involved in an attempt to assassinate the prime minister, occupy parliament and install a new government in order to prevent Montenegro’s accession to NATO.

Effective power to govern



1

Freedom of assembly and freedom of association are guaranteed by the constitution. The freedom of association is further protected and regulated by the law on NGOs, the law on political parties, etc. The law on NGOs was adopted in 2017. It defines two forms of NGOs: associations and foundations. Foreign NGOs can also operate in Montenegro.

In July 2016, parliament adopted a new law on public gatherings to clarify, among others, the state's obligations and liabilities with regard to preserving public order and safety during public gatherings. However, the Ministry of Interior announced amendments to the law, which would ban the organization of public gatherings in front of parliament. This announcement was followed by strong criticism by civil society, which judged it contrary to the constitution and international standards.

Authorities have the prerogative to temporarily restrict the freedom of assembly in order to prevent disorder or the execution of a criminal offense, or a threat to the health, morality or security of people and property. A number of public gatherings during this period were organized with the aim to draw attention to workers' rights and minority rights, for example. Yet political protests, mainly organized by opposition political parties gathered around Democratic Front attracted the most support.

The Constitutional Court decided that banning the gathering of the LBGTI community in Nikšić in 2015 violated the right to peaceful assembly. The Supreme Court of Montenegro returned the case to the Constitutional Court for a re-trial. Civic activists pointed out that this case shows that the legal protection of the right to peaceful assembly in Montenegro is ineffective and contrary to European standards. The sixth Montenegro Pride Parade was held in November 2018 in Podgorica. No incidents were reported at the event.

Censorship is prohibited, freedom of expression guaranteed and defamation decriminalized by law. The media is generally free to criticize the authorities. However, attacks against journalists and media property are frequent and these crimes often remain unsolved. Therefore, journalists do not feel fully protected in their right to exercise freedom of expression.

The legislation on media is also outdated, but the adoption of new legislation is expected in 2019. Most media outlets have tax and other debts. In the past years, the state has helped media through debt write-offs.

Montenegro has 56 radio stations, 19 TV channels, five daily newspapers, one weekly news magazine, one news agency and 35 registered online portals. The high number of media outlets competes for a small market. The average salary in the media is lower than the average national salary. The overall size of the advertising market has been estimated at €12 to €13 million, of which €2 to €3 million is advertising by public and local authorities and state-owned companies. The latter sum mostly benefits media outlets that refrain from criticizing the authorities.

Association /
assembly rights

8



1

Freedom of
expression

6



1

The key characteristic of the Montenegrin media community is strong political polarization. This has been reflected in the media's inefficacy at creating an all-inclusive, self-regulating body. There are, currently, the Self-Regulatory Local Press Council and the Media Council for Self-Regulation, which will be probably closed due to lack of funds. Some media organizations also established a media ombudsman to implement more efficiently the Code of Journalists. However, there are doubts about the independence of an ombudsman appointed this way.

The media generally work hand-in-hand with particular political parties, which is especially evident during election campaigns. This tendency often prevails over professional standards and matters of public interest. Also, certain media outlets are closely tied to influential political actors, which causes significant differences in media reporting about the same events.

In the first half of 2018, NGO members of the Public Broadcaster (RTCG) Council were removed after a decision by the Agency for Prevention of Corruption that they were in conflict of interest. The new council dismissed the RTCG's management formed by a 2016 political consensus, with the aim of increasing public trust in elections. This was widely perceived as undue political influence over a national broadcaster, which was followed by civil society protests and strong reactions from the international community. There are fundamental criticisms that the new RTCG's management favors the governing parties.

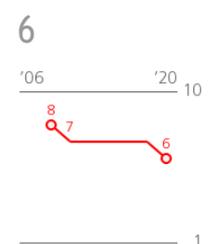
In 2017 and 2018, civil society organizations registered seven cases of attacks on journalists and media property. In 2018, Vijesti journalist, Olivera Lakić, was shot at the very same location where she was beaten up in 2012. State authorities have not yet solved this or other cases of violence against journalists and attacks on media-owned properties. After threats and violence against journalists occurred, the Commission for Monitoring Activities in Cases of Threats and Violence against Journalists was founded, but its effects are limited.

3 | Rule of Law

Montenegro is a parliamentary republic. Legislative power is exercised by parliament, executive power by the government and judicial power by the courts. The president of Montenegro, who represents the country, is directly elected for a five-year term and can be impeached if in violation of the country's constitution. The Constitutional Court protects legality and constitutionality. The army and the security services are subject to democratic and civil control.

Parliament oversees the executive branch in the form of votes of confidence, questioning ministers, a prime minister's hour, interpellation, as well as consultative and control hearings in parliamentary committees. The government is responsible for foreign policy and law enforcement and proposes most draft laws to the parliament.

Separation of powers



For most of the last two years, opposition members of parliament either permanently or occasionally boycotted plenary and committee sessions. Many laws were adopted without proper parliamentary discussion. Parliament's capacity for executive oversight and control has weakened.

Laws that regulate the relationship between parliament and the government are vague. At the same time, the Law on the President was passed in 2018, regulating the authority, budget and position of this institution. Many analysts agree that this happened as a consequence of the election of Milo Đukanović as president, in an attempt to reaffirm his authority.

Judicial reform in Montenegro started 18 years ago, but despite numerous strategies, regulations, trainings and other activities, it still has not produced mechanisms to create a fully efficient and independent judiciary.

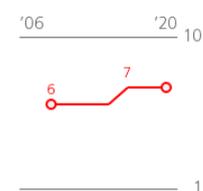
Constitutional amendments introduced in 2013 to increase the independence of the judiciary have faced implementation obstacles in 2018. Not enough effort was made by all parties to overcome political problems and preserve mechanisms that guarantee the independence of the Judicial Council and the Prosecutorial Council, so transitional solutions were adopted.

The Judicial Council is an independent public body that is supposed to ensure the independence and autonomy of the courts and judges in Montenegro. It is comprised of the president and nine members, including the president of the Supreme Court, four judges, four prominent Montenegrin lawyers and the minister of justice. The term of office of the Judicial Council members expired in July 2018. Due to the boycott of parliament and the political crisis, the parliamentary majority needed to elect new members did not exist. In order to prevent a blockade of the Judicial Council, the government-initiated amendments to the Law on the Judicial Council, which stipulate that members of that body, chosen from among reputable lawyers, continue to perform the council's duties until a new council is elected. Although this represents a step backward in terms of judiciary independence, the Venice Commission supported the extension of the mandate as a means of preserving the functioning of the state's democratic institutions. The opposition did not vote for these changes, deeming that they were in contravention to the Constitution of Montenegro.

The mandate of the previous Prosecutorial Council expired in January 2018. The Prosecutors' Conference chose members from its poll at the end of 2017, although it was difficult to elect members from among reputable lawyers. In two attempts, parliament failed to select members to the Prosecutorial Council, which resulted in amendments to the Law on the State Prosecutor's Office. Members of the Prosecutorial Council from among reputable lawyers were finally elected in April 2018. The non-governmental sector considers this choice a step backward and that

Independent
judiciary

7



1

legal mechanisms must be further improved. By choosing candidates who are former prosecutors, the Prosecutorial Council loses independence and impartiality.

The European Commission Montenegro Report for 2018 points out that firmer political commitment is needed to ensure the full independence of Montenegro's justice system.

The appointment of judges and prosecutors in accordance with new legislation began in the judiciary at the end of 2016 and in the prosecutors' office in early 2017. Decisions regarding appointments and promotion are published on the Judicial Council's website. However, most evaluation data are not available, so the transparency of the new system is questionable. In the opinion of the NGO sector, individual assessments of judges and prosecutors and their resulting advancements are insufficiently understandable and incomplete. It therefore cannot be established with certainty whether the best candidates have been promoted. The European Commission notes positive developments in the selection of judges and prosecutors, but nevertheless recognizes challenges to human resource planning and the transparency of the selection process.

Several officials were prosecuted for abuse of office and corruption in the previous review period.

The biggest case in the past two years occurred when the former mayor of Podgorica was charged with abuse of power for selling public land to a private entrepreneur. The director of Railway Directorate was sentenced for abusing his position when he paid for a party political event using the state company's fund. The minister of European affairs resigned after the Anti-Corruption Agency (ACA) found that he was in conflict of interest.

The former president of the State Union of Serbia and Montenegro, Svetozar Marović, who was sentenced in the most important high-level corruption case in Montenegro, has still not started serving his three-year ten-month prison sentence as he is supposedly undergoing medical treatment in Serbia.

Most cases that the Special Prosecutor's Office (SPO) deals with are related to the abuse of power. By the end of October 2018, the SPO had opened investigations against 17 persons for high corruption. In 2017, the SPO accused 14 persons of high corruption. The SPO is criticized by the opposition for not having initiated several specific cases, in which the general public suspects that corruption occurred.

Montenegro still has not made illicit enrichment a criminal offense, though repeatedly urged to do so by the EU. According to data from the Non-paper on the State of Play regarding Chapters 23 and 24, in the first half of 2018, the ACA initiated 15 inquiries into inexplicable wealth, with no irregularities found. In 2017, 24 inquiries were

Prosecution of
office abuse

6

'06 '20 10



1

initiated. Some of the general public, opposition and NGOs perceive the ACA as a partisan institution that determines the results of its investigations.

The public is usually dissatisfied with the application of plea bargain agreements due to the ensuing policy of soft sanctions. In its last progress report, the EU emphasized that this mechanism needs to be balanced against public expectations that corruption-related crimes should be duly punished, especially when it comes to politically exposed persons.

Montenegrin human rights institutions continued institutional strengthening and aligning with EU legislation. The Law on the Prohibition of Discrimination was improved and further harmonized with EU legislation through amendments made in 2017. Progress toward the criminalization of racist and hate speech was made with 2017 amendments to the Criminal Code. The International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families is yet to be ratified. A European Commission against Racism and Intolerance report underlined that the country's Criminal Code is still not entirely in line with its recommendations on combating racism and racial discrimination.

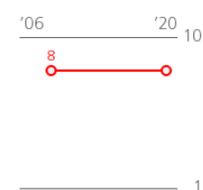
The European Commission has called attention to the underfunding of the Ministry for Human and Minority Rights and the Ombudsman's Office, which does not allow them to carry out their tasks efficiently. Yet, the visibility and productivity of the Ombudsman has improved – in 2017, it dealt with 889 cases (862 resolved). However, its efficiency needs further improvements. Of these cases, only 75 were initiated on the Ombudsman's own initiative. As previously, complaints about the work of the courts mostly related to violations of the right to have a trial within a reasonable time period.

Citizens can seek protection in the courts against human right violations, including appealing to the Constitutional Court in the last resort. In 2017, the Constitutional Court resolved 949 such appeals with 1261 applications pending at the end of the review period. Furthermore, individuals can appeal violations to the European Convention on Human Rights (ECHR) in the European Court of Human Rights. Many of these proceedings in 2017 related to the unreasonable length of court proceedings. Financial compensation is paid from the state budget but the authorities directly responsible for unreasonably lengthy proceedings do not suffer any consequences. For this reason, the government is considering introducing direct financial responsibility, such that compensation is paid directly by the state authority responsible for a proven violation of the Convention Law.

Cases of police brutality are not effectively investigated and prosecuted. The commander of the Special Antiterrorist Unit (SAJ) was imprisoned for concealing the names of SAJ members responsible for violence against citizens and overstepping their authority while dispersing violent opposition protests in 2015. The short six months prison sentence was criticized by the opposition and CSOs. In response to a

Civil rights

8



complaint by Miodrag Martinovic, the Constitutional Court found that he was a victim of a violation of the Constitution of Montenegro and ECHR because of torture inflicted by the police and castigated the State Prosecutor's Office for not effectively investigating allegations of abuse.

Implementation of legislation remains weak and institutional capacity for human rights needs to be increased. Citizens believe that discrimination affects a significant part of society, especially those in vulnerable categories: persons with disabilities, the poor, the elderly, women, Roma and LGBTI people (CEDEM opinion poll). Discrimination based on political orientation was perceived to be highest.

Slow progress has been made in protecting the rights of people with disabilities. In its 2017 report, the U.N. Committee on Rights of Persons with Disabilities recommended Montenegro to adopt a human rights-based approach to disability in all its laws, policies and measures. Electoral law remains discriminatory as it restricts the right to vote to persons with intellectual or mental disabilities. Persons with disabilities also face serious physical and informational barriers in the voting process. The U.N. Committee expressed concern about this situation and recommended that Montenegro amend its electoral legislation in order to enable voting rights for all persons with disabilities.

LGBTI people remain one of the key targets of hate speech in Montenegro, including from high-level representatives of the Serbian Orthodox Church. A number of physical assaults have been reported to the police. Records of prosecution of hate crimes remain inadequate. In December 2018, the government adopted the draft Law on Civic Partnership, which is yet to be passed by parliament.

The EU's Progress Report for 2018 once again highlights that the Roma minority remains the most vulnerable and most discriminated-against community. Roma are underrepresented in politics, with difficulty accessing the labor market and health care services, while Roma children are still exposed to child labor and forced child marriages.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but sometimes are inefficient due to friction between institutions. Conflict between institutions often comes as a result of profound politicization of institutions and becomes more visible during the times of political crises.

Montenegro does not have either a law on parliament or on government. The constitution establishes the basis for the separation of powers. Parliamentary operations, including oversight activities, are regulated by the procedural rules of parliament. The existing regulations leave enough ambiguity to block or manipulate the rules.

The boycott of parliament by the entire Montenegrin opposition began after the 2016 parliamentary elections. All the opposition parties, comprising 39 out of 81 members of parliament, embarked on a boycott of parliament. They made their participation conditional upon a full investigation of allegations of “a coup d’état,” since they believe that this event on election day significantly influenced the results of the parliamentary elections. The Democratic Front (DF) returned to parliament in October 2017. The SDP and Demos and some independents did so in May 2018, while 11 members of parliament from Democratic Montenegro, URA and SNP continue to boycott parliament.

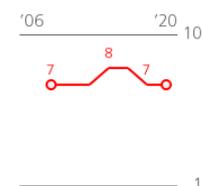
Throughout this period of boycott, the Montenegrin parliament continued to work almost without interruption, as it still possessed a sufficient majority and quorum to pass laws. However, parliamentary dialog and scrutiny were weakened during the reporting period. Without the opposition present, a number of laws were not properly debated in committees or in plenary and adopted hastily. The EU has repeatedly called all political parties to ensure a return to parliamentary political debate.

Legitimacy of elections continues to be seriously questioned by the opposition, based on allegations that the governing DPS abuses public resources to gain votes. The opposition considers parliament illegitimate for the same reason and has boycotted it either completely or selectively since the 2016 elections. This affects the legitimacy of all democratic institutions and processes. General trust in institutions is affected by political finance scandals.

A new public scandal related to campaign finance emerged in January 2019. Duško Knežević, a businessman investigated by the Supreme State Prosecutor for financial crimes, publicly confessed that he funded the DPS with significant sums of money. At the time of writing this report, it was only known that the Special Prosecution had opened an investigation, and that the former Mayor of Podgorica Slavoljub Stijepović and 21 other people have been interrogated with the status of citizens.

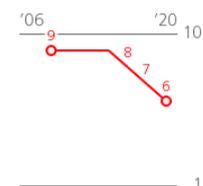
Performance of democratic institutions

7



Commitment to democratic institutions

6



5 | Political and Social Integration

The party system is relatively stable, and political parties remain fairly socially rooted. There are more than 50 registered political parties in Montenegro. New parties frequently emerge after splits in existing parties.

The party system shows low to moderate fragmentation, strong polarization and moderate voter volatility. Volatility is high among opposition voters, who switch allegiances among opposition parties, but low among government supporters.

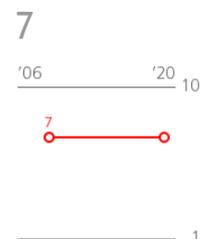
In the second half of 2018, with backing from the EU, an effort was made to restore political dialog through the establishment of the parliamentary Committee for Electoral Reform. The committee was formed in November 2018, from members of all parties that do not boycott parliament. However, DF left the committee in December 2018 in protest against the arrest of their member of parliament, Nebojša Medojević. In January 2019, the future fate of the Electoral Reform Committee was uncertain.

According to a 2017 Inform survey, 9.6% of respondents were members of political parties. The degree of clientelism is high: one in five respondents (22.5%) reported receiving an offer of money or favors in exchange for a vote. Party-related employment is seen as a widespread phenomenon, and 13% of respondents had turned to a party official for help in finding a job. Of respondents, 11.7% said they were asked by their boss to vote for a certain party on election day, while 7.5% said that they were asked to participate in party activities.

There is a large number of interest groups that reflect competing social interests.

The most active interest groups are civil society organizations (CSOs) which commonly articulate citizens' interests. According to the Ministry of Public Administration, there are 4,421 non-governmental associations in Montenegro, 170 foundations and 11 foreign organizations. The majority of organizations are active in the fields of culture, protecting human and minority rights, the arts, institutional and non-institutional education, agriculture and rural development, social welfare and health care. Large CSOs operate at the national level and are engaged in advocacy and research in the areas of rule of law, good governance and human rights. Commonly, their projects are based on European Commission's Country Reports and recommendations. They receive international financial assistance. A large number of CSOs are small organizations with low capacities, operating at the local level. Such CSOs rely heavily on public funding and implement short-term projects. There is also certain amount of polarization within the CSO sector. Self-regulation in the sector is still insignificant. Cooperation between CSOs and state institutions is criticized as more formal than substantive.

Party system



Interest groups



Two trade unions operate at the state level: the Confederation of Trade Unions of Montenegro (CTUM) and the Union of Free Trade Unions of Montenegro (UFTUM). They are nationally recognized social partners and members of the tripartite Social Council, together with the Union of Employers of Montenegro and the government. The role of the national tripartite Social Council needs to be strengthened. According to 2017 data, CTUM had 46,878 members and UFTUM 20,000 members. In 2018, after weeks of negotiations and the threat of general strike, the government and trade unions achieved a compromise regarding a new law on pension and disability insurance.

Although citizens have very little opportunity to directly influence the adoption of or a change in legislation, there are several institutions that, due to vast public trust, have the legitimacy to advocate for special interests. The church remains an influential opinion maker, but constantly undermines certain core democratic values, such as respect for human rights, equality, liberty, anti-fascism, etc.

While approval of the idea of democracy and democratic system is very high, polls reveal discontent with the democratic performance of the country.

A public opinion poll conducted by the Centre for Democracy and Human Rights (CEDEM) in December 2018 showed that 42.5% of citizens believe that Montenegro chose the wrong direction, while 32.5% of them think that country is “on the right track.” CEDEM’s historical data, as well as that of other relevant polls, show growing dissatisfaction with the countries’ trajectory.

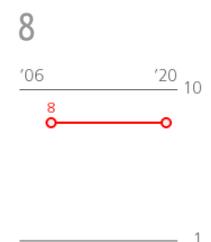
Public trust in all institutions is trending negatively. People have most trust in the education system (55%) and the Serbian Orthodox Church (50.5%). Approval of the president is 40.5%, the government 37.5% and parliament 33.3%. According to the CEMI’s research, as many as 30.7% of citizens have no trust in election institutions.

According to a poll by Civic Alliance from 2017, the majority of citizens consider it good (42.8%) or even very good (38.6%) to have a democratic political system. However, if they were asked to choose, citizens of Montenegro value prosperous economy (52%) over a democratic system of government (39%), conforming to the 2017 IRI poll.

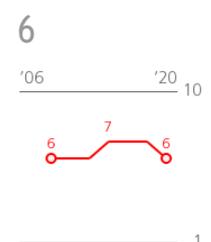
Despite the high number of active CSOs, the level of public trust in them is not higher than in other institutions (41.2% in December 2018, according to CEDEM). Also, political parties are traditionally at the bottom of the list of institutions citizens tend to trust (25.5% in December 2018, CEDEM).

According to Civic Alliance’s 2017 research on civic participation, 2.5% of citizens reported they are members of an NGO, 1.7% are members of an informal association and 2.6% belong to some humanitarian organization. As far as forms of political participation are concerned, the largest number comprises citizens who have participated in the signing of petitions (16.1%). In addition, 51% citizens of

Approval of
democracy



Social capital



Montenegro say that they could sign a petition, while 32.6% say that they would never do it. Very few have (1.6%) or would (18%) take part in occupying buildings or factories.

In Montenegro, interpersonal trust is relatively limited. Ethnicity and religion are conflated, which creates distance between specific ethnic and religious groups. The 2017 International Religious Freedom Report points to a strong correlation between ethnicity and religion. Although religious tolerance is solid, some tensions do emerge among groups in the course of establishing closer relationships.

Public opinion polls show that affirmative measures toward vulnerable groups enjoy great support. There is substantive support for affirmative action toward persons with disabilities, displaced persons and refugees, Roma and other minorities, as shown by the Balkan Barometer 2018.

Volunteering is still underdeveloped in Montenegro. According to the World Giving Index 2018, only 9% of Montenegrin citizens claimed that they have volunteered their time to an organization. A law on volunteering additionally complicates volunteering by requiring contracts and thus creating unnecessary bureaucratic procedures.

II. Economic Transformation

6 | Level of Socioeconomic Development

Montenegro ranked 50 out of 189 countries in the 2017 UNDP Human Development Report. It ranks third among the countries of former Yugoslavia, behind Slovenia and Croatia. The Gender Inequality Index has improved and Montenegro ranks 32rd in the world.

Montenegro's Gini Index score is moderate compared to neighboring countries and saw a drop to 36.7% in 2017. Levels of poverty are very low: only 0.8% of Montenegrins lived on less than \$3.20 a day in 2014 (World Bank). Nonetheless, poverty is structurally embedded. Poverty rates have persisted over the past few decades due to high unemployment and low-income levels. The rural population, the unemployed and children (especially in families with many children) are at a higher risk of poverty than other groups. In addition, the Roma, Ashkali and Egyptian (RAE) population, as well as displaced people, social welfare beneficiaries, pensioners, the long-term unemployed and persons with disabilities have been identified as vulnerable and at risk for social exclusion.

Question
Score

Socioeconomic
barriers

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	4052.9	4374.1	4844.6	5452.2
GDP growth	%	3.4	2.9	4.7	4.9
Inflation (CPI)	%	1.5	-0.3	2.4	2.6
Unemployment	%	17.5	17.7	16.1	15.5
Foreign direct investment	% of GDP	17.3	5.2	11.6	8.9
Export growth	%	5.7	5.9	1.8	9.5
Import growth	%	4.4	15.3	8.4	9.3
Current account balance	\$ M	-442.7	-707.4	-760.7	-942.9
Public debt	% of GDP	69.0	66.6	66.3	72.6
External debt	\$ M	6219.1	6253.3	7509.5	7859.5
Total debt service	\$ M	1279.1	1268.9	1215.6	1720.5
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	19.2	19.6	18.4	18.7
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	5.7	-	-
R&D expenditure	% of GDP	0.4	0.3	-	-
Military expenditure	% of GDP	1.4	1.4	1.4	1.5

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but rules are not equally applied to all market actors. Hence, there is still a strong political impact on the market.

The informal sector is significant. According to the EC, Montenegro is moderately prepared in developing a functioning market economy. Montenegro exhibits the characteristics of an open economy with free market competition and limited government intervention, which influenced the opening of new companies. It considers its competition legislation to be generally in line with the EU acquis.

The size of the informal economy was estimated to be about 30% of GDP and represents one of the major obstacles in doing business. Reducing the informal economy is one of the imperatives of the Montenegrin government, due to its serious effects on overall social and economic development.

The most frequent manifestations of informal economy in Montenegro are informal employment (undeclared work both in formal and informal economic entities) and informal business (when the entire economic activity of the entity is carried out against the law and is completely unregistered). The main reasons for the informal economy in Montenegro are the weak rule of law, an inadequate regulatory framework, inefficient and ineffective implementation of policies and only mediocre conditions for starting a business. According to the World Bank's 2019 Doing Business report, it takes eight procedures, 12 days and costs of 1.3% of the average income per capita to establish a business, placing Montenegro just above average, ranked 90 out of 190 countries in the Starting a Business sub-index.

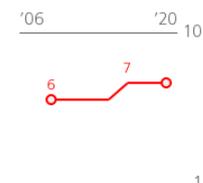
Competition laws to prevent monopolistic structures and conduct exist, but are enforced inconsistently. According to EC 2017 Report, Montenegro has moderately improved in this area. Also, Montenegro has a good level of preparation as regards alignment with the rules on antitrust and mergers.

The implementation of these rules suffers from some weaknesses. A law on protection of competition, which secured European principles in the area of competition, was passed in 2012. In February 2018, Montenegro adopted a law that serves as the legal basis to transfer the State Aid Authority into the Agency for Protection of Competition (APC).

The APC was established in 2013 as a functionally independent entity. The agency may act upon a complaint or a notification (e.g., for mergers) or act of its own initiative. The main downside is that fines cannot be imposed by the agency, but only by a juridical decision. The agency may approve mergers, with or without conditions or prohibit them.

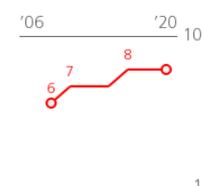
Market
organization

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Competition policy

8



Its enforcement capacity was increased, but this and its level of expertise remain insufficient. The number of decisions regarding cartels and abuses of dominant position have decreased over the years with six in 2014, three in 2015, four in 2016 and none in 2017. The APC started an in-depth investigation of a merger only once, in 2015, which resulted in its conditional approval. In its Commission Staff Working Document of the Montenegro Report 2018, the European Commission concluded that the low level of the APC's capacity is the greatest obstacle to improving competition law enforcement in Montenegro.

The Montenegrin economy is service-based and relies heavily on trade and foreign investment. The government has undertaken several measures in the past decade to liberalize Montenegro's trade regime. According to the 2018 Index of Economic Freedom, Montenegro's trade freedom index is very high (84.9%) and its average applied tariff rate is 2.6%. According to the World Bank data, Montenegro's most favored nation tariff rate in 2017 was 3.8%.

All custom tariffs on imports have been reduced significantly in Montenegro in the past decade. Montenegro has also eliminated tariffs on exports and quotas on either imports or exports. Montenegro has signed agreements and established institutional frameworks for free trade with its main trading partners. These include the EU countries; the countries of the Western Balkan region through the Central European Free Trade Agreement; European Free Trade Agreement (EFTA) countries (Norway, Liechtenstein, Switzerland); Russia and Turkey and Ukraine. Since Montenegro has aligned with EU sanctions against Russia and has been counter-sanctioned by Russia, many aspects of their agreement are suspended at present.

Montenegro is also a part of Preferential Trade Agreement with the European Union that provides duty-free entry for over 95% of Montenegrin goods. In 2012, Montenegro became a full member of the World Trade Organization (WTO). Membership in the WTO entails the obligation to continue the liberalization of national trade regime, providing a transparent and predictable environment for both domestic and foreign companies.

The Montenegrin authorities' most important task is to strengthen the administrative capacity of the directorate in the Ministry of Economy responsible for trade with the EU, Central European Free Trade Agreement and to work within the WTO's framework.

Liberalization of
foreign trade

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The banking system and capital market are differentiated and oriented in principle to international standards. However, there is a de facto lack of supervision, which contributes to increased vulnerability to sudden stops and capital flow reversals.

The main institution in charge of supervision and oversight of the financial service sector is the Central Bank of Montenegro (CBM). All regulations are in accordance with the Basel Accords and EU norms. The CBM has currently licensed 14 commercial banks and seven micro financing institutions. It maintains a bank control department that reports on financial indicators of each bank, such as balance sheets and income statements, and ensures banks maintain a required share of capital equity in relation to assets. Mergers and acquisitions can be expected, considering the high number of financial institutions for a small country.

In 2017, the aggregated capital adequacy ratio was 16.4%, well above the regulatory minimum of 10%. Banks' profitability remains low albeit improving, with a return on assets (ROA) and return on equity (ROE) at 0.9% and 6.9%, respectively. At the beginning of 2019, the CBM revoked the license of Invest Bank Montenegro AD Podgorica (IMB) and started bankruptcy proceedings against it. The CBM also requested the recapitalization of Atlas Bank AD Podgorica in order for it to be allowed to continue operation. This followed an audit that showed that the capital of the two banks did not comply with minimum risk requirements. A significant portion of the public believes that this problem is caused by inadequate and untimely intervention by the CBM. For the first time, a Deposit Protection Fund has been activated that insures deposits up to €50,000 and disburses guaranteed funds in case of bankruptcy. There is a real danger, however, that IMB customers who had balances in excess of €50,000 will not benefit from this fund.

The former central bank vice-governor has been arrested on charges of corruption, based on allegations that he created favorable settlements for certain banks in the system. This seriously jeopardized the credibility of the banking system.

According to EC 2018 report, the banking system as a whole improved its solvency and liquidity. The CBM also continued to develop monetary instruments, improve policy review of reserve requirements in cooperation with the World Bank, the government and the Bank Association. The banking system saw positive trends at the end of the third quarter of 2018, according to a CBM report. There has been growth in total bank assets, liquid assets, profits, an increase in the solvency ratio and an improvement in asset quality, as well as a fall in interest rates. Improvements in the quality of bank loans continued in 2018. According to the Minister of Finance, cooperation between Montenegro and the World Bank is not threatened by the problems with IBM and Atlas Bank, but may become more challenging.

Banking system

7



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8 | Monetary and fiscal stability

Inflation and foreign exchange policies are in line with other economic policy goals and are institutionalized in the country's formally independent central bank. Montenegro uses the euro as legal currency – a decision taken under exceptional circumstances, and distinct from membership of the eurozone. This dollarization significantly reduces exchange rate and inflation risks, helping to achieve macroeconomic stability and reduce transaction costs. However, due to the dollarized economy, the ability of the central bank to conduct monetary policy is limited, and its only remaining monetary policy tools are the required reserve rate and open market operations.

The average annual inflation measured in the first three quarters of 2018 amounted to 2.9%, down from 2.4% in 2017. Average inflation from 2001 to 2018 was moderate at 4.7%, but has fluctuated (between 26.5% in December 2001 and -1.4% in April 2014). Recent increases in inflation mostly resulted from the rise in world market oil prices and increases in food prices. Montenegro is strongly influenced by international trends because of its open economy. Still, increases in VAT and regulated electricity prices generated domestic inflationary pressures in 2018.

The CBM contributes to price stability, publishing reports on price stability and delivering them to policymakers. Amendments to the Law on the Central Bank and the Law on Current and Capital Operations with Foreign Countries, adopted in October 2017, created the legal preconditions for fully functional, institutional, personal and financial independence of the CBM.

The government's budgetary policies generally promote fiscal stability, but lack institutional safeguards and are prone to ad hoc permissive policy changes.

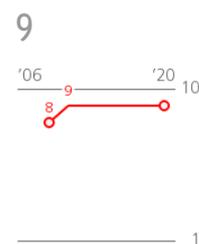
In 2017 to 2018, fiscal policy focused on the elimination of risks and imbalances due to increased current budgetary expenditures, and also the need to finance the highway construction project. To alleviate fiscal risks, two packages of fiscal consolidation measures were adopted. The Budget Deficit and Public Debt Recovery Plan 2017 to 2021 and the Fiscal Strategy 2017 to 2020 ensure a combined fiscal adjustment worth 6% of GDP.

In 2018, public revenue was 42.9% of estimated GDP. This is 10.6% higher than in 2017. Public expenditure in 2018 was 45.8% of GDP and the public deficit amounted to 2.9% of GDP.

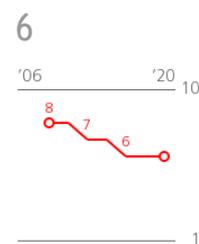
Fiscal developments indicate a less favorable environment than in the previous review period, due to a sharp rise in public debt. Montenegro's fiscal framework is developing in the direction of reducing the current account deficit by trying to increase revenues and reduce current spending.

Fiscal policy was mostly restrictive in 2017 and 2018 and focused on reducing gray economy levels, increasing taxpayers' discipline and reducing tax debt.

Monetary stability



Fiscal stability



9 | Private Property

Property rights and regulations on acquisitions, benefits, use and sales are well-defined, but occasionally there are problems with implementation and enforcement under the rule of law. In recent years, a number of measures have been introduced to improve the protection of property rights. However, the institutional and legislative framework is developing slowly and suffers from a number of shortcomings.

Additional efforts are needed in order to address pending cases in line with the national legislation and with the European Convention on Human Rights. This process of restitution is proceeding very slowly and remains challenge affecting property rights. Procedures remain cumbersome and decision-making is slow.

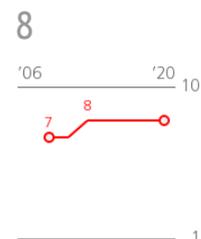
In 2017, parliament adopted a new law on spatial planning and construction, but arbitrary interference in property rights during its application has not been prevented. Regulations on trademarks were amended to ensure better alignment with the EU's acquis but room for improvement remains. According to an EC report, Montenegro is well prepared in the area of intellectual property regulations though enforcement remains a serious challenge.

Private companies are viewed institutionally as important engines of economic production. Since the beginning of the privatization process, there have been several cases in which the privatization of state companies did not proceed according to market principles (e.g., the Aluminum Plant). Privatization has been an important source of budget revenue. Along with privatization, Montenegro introduced reforms aiming to improve the overall business environment. This simplified the procedures for starting a business and created strong incentives for entrepreneurship.

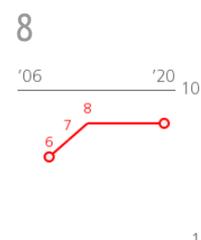
State ownership exists in transport and utilities, but only a small percentage of companies in the agriculture, publishing and tourism sectors are owned by the state. State participation in the economy increased following the withdrawal of a major private shareholder (41.7% stake) from the electric power company EPCG. However, the metal industry was privatized. The financial problems of state-owned Montenegro Airlines necessitate a comprehensive restructuring. In April 2017, the government stopped the sale of the Port of Bar and the Montecargo rail company, following disagreements over the prices and a lack of clarity with regard to the bidders' plans.

The Ministry of Transport has prepared a proposal for a concession document that plans the airports' valorization. Most political parties have already opted against the concession. According to them, airports have good results and should remain governed by the state.

Property rights



Private enterprise



10 | Welfare Regime

A significant portion of Montenegro's population remains at risk for poverty. Social safety nets still do not cover all risks for all strata of the population, even though the safety nets are developed well enough.

Health care, pension funds, workers' insurance, disability insurance, child support, unemployment insurance are all part of social protection in Montenegro. Social transfers comprise 23% of the 2019 state budget.

The Statistical Office of Montenegro (MONSTAT) has stated that 4.4% of the population live on under \$5.50 a day. According to MONSTAT's data, the at-risk-of-poverty rate in Montenegro in 2017 was 23.6%. In that same year, 37.9% of the population in the northern region were exposed to the risk of poverty, as was every third inhabitant in rural areas. The country's unemployment rate remains high, with 17.4% of the population unemployed at the end of 2018, according to the Employment Agency.

In 2017, the Constitutional Court decided that adopted changes to the Law on Social and Child Welfare, ensuring a lifelong subsidy to mothers of three or more children, are unconstitutional. Only mothers of three or more children who worked as entrepreneurs or in agriculture have the right to this subsidy, decided the court. Several thousand women who had already acquired the right to an ordinary pension had replaced it in 2016 with this more advantageous subsidy. In July 2018, following upon the decision of the Constitutional Court, parliament voted on a legislative amendment which allowed for around 600 citizens to keep receiving the subsidy.

Women and ethnic and religious minorities have near-equal access to education, public office and employment, but Montenegro still has work to do to create equal opportunity.

Legislation and strategies related to gender equality have improved, but inequality still persists. Awareness of women's rights and status is low. Institutions ensuring equality and penalties for discrimination are weak. The problems are aggravated by existing stereotypes about women's roles in society and family, domestic violence, discrimination related to employment and low female representation in decision-making and management. Of special concern is the status of Roma women, who are often victims of discrimination both based on gender and ethnicity.

The involvement of women in politics remained low, even after an increase in the number of women members of parliament in 2016. While 23% of all members of parliament are women, men hold most of the leadership positions. There are still no women among political party leaders, while electoral lists satisfy only the minimum legal requirements for providing gender equality. Women account for 43.8% of the

Social safety nets

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Equal opportunity

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total number of employed, and 41.1% of the total unemployed work force (MONSTAT data, December 2018). The gender wage gap is 13.9%, according to the Plan of Activities for Achievement of Gender Equality 2017 to 2021.

Violence against women and children and sex-selective abortions remain serious concerns (EU Progress Report). The EU has repeatedly called on Montenegro to boost policies aimed at gender equality, the rights of children and Roma by securing sufficient budgets for policy implementation, as well as enhancing relevant institutions and inter-institutional coordination.

Roma remain the most vulnerable and discriminated against group. They have less chance to find employment or receive education health care than the rest of Montenegro's population, and still live in segregated neighborhoods. Access to services remains limited, as members of this group do not always have the required documents. The Roma population also lack political representation – there are no Roma representatives in parliament or local assemblies and no Roma political party. Calls to extend to Roma the conditions Croats enjoy in electoral legislation, as they comprise almost the same share of the population, continue to be rejected by the majority of political parties. An action plan for the social inclusion of Roma and Egyptians was adopted in March 2018.

The government adopted draft law on Civic Partnership in December 2018, which represents step forward in regulating LGBTIQ rights.

11 | Economic Performance

Economic growth was significant at 3.4% in 2017, which continued in the first three quarters of 2018 (4.9% on average). According to World Bank's Higher but Fragile Growth report, projected GDP growth for 2017 was 4.3% and for 2018 was 3.8%.

This was largely driven by a strong growth in construction (as work started on a major highway) and by a strong growth in tourism: 10.3% more tourists visited Montenegro and contributed 6.3% more overnight stays in 2017 compared to the previous year.

High long-term unemployment, high youth unemployment and the disproportion between supply and demand of labor are still the biggest labor market problems. Planned investment projects could bring some relief on labor market, but only if the demand is not met by foreign laborers.

Average inflation in Montenegro measured by consumer prices index (CPI) in the period of January to December 2018 was 2.6%. Inflation offsets nominal increases in real wages.

In 2017, FDI inflow was €484.3 million and €303.6 million in January – November 2018, led by investors from UAE, Italy and Azerbaijan. The bulk of investments have

Output strength

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gone into real estate, domestic companies and banks. FDI is expected to increase following the launch of the Economic Citizenship Program in 2018 that offers up to 2,000 applicants the possibility of acquiring Montenegrin citizenship in exchange for investment in the country.

At the beginning of 2019, the Economic and Reform Program 2019 to 2021 was a key national strategy for medium-term macroeconomic and fiscal programming that also outlined structural reforms for reducing or eliminating barriers to economic growth and strengthening the country's overall competitiveness.

12 | Sustainability

Montenegro is defined as an ecological state in the constitution, but environmental concerns are occasionally subordinated to growth efforts.

In December 2018, Montenegro opened Chapter 27 – Environment and Climate Changes negotiations with the EU. In July 2016, the National Strategy for Sustainable Development by 2030 was adopted, which is a key document to follow for the protection of the environment and to fight climate change.

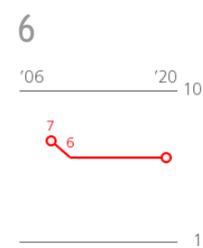
The implementation of the strategy and the 2016 to 2020 Action Plan remains limited. The EU has urged Montenegro to accelerate the implementation, especially when it comes to the waste and water sectors. In November 2017, parliament ratified the Paris environment accord.

Ulcinj Saline remains unprotected area even after numerous calls from the EU to protect the site. Poor air quality in many municipalities, especially in Pljevlja, where the biggest polluter, the thermal power plant, remains a big problem, even though plans are being made to rehabilitate the area around the plant. Construction of a heating plant in Pljevlja is still in the planning stages. The Ministry of Sustainable Development and Tourism has rejected the application to issue a building permit for the plant, as the municipality of Pljevlja submitted incomplete documentation. Waste management plants and water treatment plants are currently under construction. Waste management is one of the country's biggest problems when it comes to environment protection. Administrative capacities are limited in this area.

Montenegro has established a solid education system in which primary school is obligatory, and rates of enrollment in primary and secondary remain high, but the rate of pre-school participation is low.

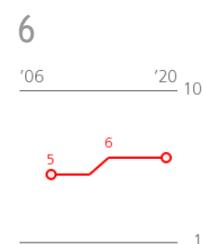
The annual education budget continues to grow. As of writing, it was 4.3% of GDP, with another increase recently announced by the government. The Law on Higher Education was amended in June 2017. Tuition-free enrollment for the first and second

Environmental policy



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Education policy / R&D



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cycles has been established and 25% practical training for all study programs introduced. Education remains highly vulnerable to corruption.

According to the data from January 2018, Montenegro's investment in research and development was about 0.4% of GDP, which is about eight times less than the EU target.

Investments from private funds in research and development were, according to the Ministry of Education, increased in 2018. In 2018, €1.5 million in grants were distributed to researchers through two calls for proposals.

Montenegro's education index, according to the latest U.N. HDI data, is 0.790. The literacy rate is 98.4%. Enrollment rates are 96% for primary, 91% for secondary and 57% for tertiary education, with 89.4% of citizens having at least some secondary education.

Montenegro is part of the Horizon 2020 program. Researchers may now receive funds from the EU for their work. However, the EU stated that participation in this program is limited, with only 13 projects funded in the country. Additional calls for research grants have been announced by the Ministry of Science.

Governance

I. Level of Difficulty

Key structural problems in Montenegro continue to be high public employment, including in state-owned enterprises, and large government spending, especially on salaries and pensions. Moving away from this model requires the creation of a favorable environment for private sector development, as well as reduction of public sector employment, restructuring of state-owned enterprises and rationalization of public spending.

Economic growth, employment and better quality of life are declared at every public event as the key commitments of the current Montenegrin government. The draft Economic Reform Program for 2019 to 2021 outlines the policy measures focused on the implementation of structural reforms, aimed at removing key obstacles to improving the country's competitiveness and increasing economic growth in the medium and long term. These measures include gradual reduction of public spending on salaries and pensions as a share of GDP through the implementation of a public reform optimization plan and pension system reforms.

Poor roads constitute one of Montenegro's most severe infrastructural deficiencies. According to the World Economic Forum Global Competitiveness Report 2018, Montenegro is ranked 126 out of 140 countries on the road connectivity index. The EU's agenda known as the Berlin Process defines regional connectivity and institutional compliance in this area as a priority for the government of Montenegro.

Construction of the Bar-Boljare highway is one of the government of Montenegro's long-standing promises. The government's main motivation for this large project is the need to improve connectivity, particularly to Europe through Serbia, boost tourism and trade, improve road safety and contribute to regional development. The 160-kilometer Bar-Boljare highway would provide a link to Belgrade, Serbia and the Pan-European Corridor X. While recognizing the economic benefits of the project in the long run, the IMF concluded that Montenegro's debt without the highway would have been sustainable, and the government would not have had to undertake the significant fiscal adjustment in which it has been obligated to engage. The IMF also suggested that Montenegro can likely not afford to complete the remaining sections of the highway in the foreseeable future. The Center for Global Development's 2018 study identified 10 to 15 countries that could suffer from debt distress due to future Belt and Road Initiative-related financing, with eight countries of particular concern. One of these eight countries is Montenegro – due to the highway project.

Structural
constraints

5

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Civil society traditions in Montenegro are fairly new, having started to develop in the late 1990s. However, in this short period, civil society organizations have become an important and irreplaceable actor in all societal processes.

According to the Ministry of Public Administration database, there are over 4,000 registered non-governmental organizations, which is a very high number for the size of the population. Civil society initiatives are very present in public life and the media in Montenegro. Initiatives, proposals and comments by CSOs are the focus of media reporting on a daily basis. In comparison with other countries in the region, civil society in Montenegro has better access to and greater influence on policy-making.

CSOs' participation in policy and decision-making occurs through different mechanisms. The level of participation and influence varies, and in some processes, it is higher than in others. CSO participation in the last electoral reform and oversight over the electoral process is a positive example.

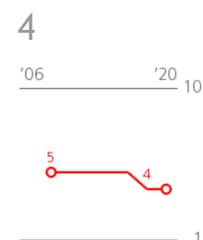
However, the sustainability of CSOs is fairly weak, as they remain highly dependent on international donor funding. The EU remains a crucial source of funding for most Montenegrin CSOs, encouraging partnerships and inclusion of small local CSOs. CSOs also receive significant public funds for their activities, but continuing to improve the procedures and transparency of public funding is necessary.

Montenegro represents a functional multicultural society, although it is still divided around unresolved ethnic/national and religious identity issues. In June 2017, the country became a member of the NATO Alliance, which significantly reduced inherent conflict potential.

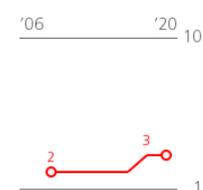
The country has its share of ethno-nationalists and religious extremists. Existing social divisions are largely used for propaganda, as a tool for extremist ideologies, aiming to generate and promote a worldview that different ethnicities and religions cannot peacefully live together in the region. However, radical actors have limited success in mobilizing along existing cleavages.

In 2018, the government showed greater commitment to implementing a national Countering Violent Extremism Strategy. Using the EU Radicalisation Awareness Network (RAN) as a model, the Ministry of Interior, the Center for Democratic Transition (CDT) and the OSCE launched the National Platform for Suppressing Radicalization and Violent Extremism That Lead to Terrorism called Together Against Extremism. The platform is intended create and support an environment that spreads understanding and promotes the principles of the civil state, tolerance and co-existence, not conducive to radicalization, violent extremism and terrorism.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

The government sets strategic priorities, but shows deficits in organizing and implementing its policy measures accordingly.

After becoming a NATO member in June 2017, membership in the EU remains the key strategic priority of the country. There is a consensus among political parties and relatively high public support for EU integration.

The government's key priorities are laid out in the exposé of the prime minister, while the government's annual work program consists of a list of regulations and documents whose adoption is planned. Neither of these documents indicates precise outcomes for future government work.

In 2018, the government took concrete steps toward improving its policy planning system by adopting its first medium-term work program. The program includes all significant segments of the work of the government and its departments, and development priorities over three years. Although it is a compact document, its sections vary in the clarity of derived visions and expected outcomes of planned activities. The adoption of this document was planned by the Public Administration Reform Strategy 2016 to 2020 (PAR Strategy). Accordingly, three selected pilot ministers will adopt an annual work program for 2019 based on measurable achievements in line with the new methodology. This enhanced planning system should come to life in 2020, when adoption is planned for the government and all ministries.

Evidence-based policy-making is still only partially ensured. The authorities still do not have enough capacity for quality implementation of the regulatory impact assessment (RIA). The RIA is usually performed only formally, selectively and in the final phase of drafting a law. Assessing the financial impact of certain regulations has proved to be the most challenging. The Ministry of Finance stated in its analysis that, in a large number of cases, ministries submit only a rough estimate of costs. Additionally, by-laws, which can substantially determine legal provisions, are often not available along with draft laws.

The EU remains the main driving force in the country, and thus the most influential actor outside the government. There is no official information about the impact of business and other stakeholders on government policies, as lobbying is not recognized as a practice in Montenegro, even though it is done almost on daily basis.

Question
Score

Prioritization

8

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The government has limited success when it comes to implementing policies, mainly due to a lack of political will and capacity to enforce laws. Montenegro is deep in the EU negotiation process. While some progress has been made, it remains limited in key chapters that have an impact on the entire process. Montenegro needs to carry out further reforms, especially in the area of the rule of law, where the application of adopted laws is expected to produce concrete and measurable results. As of January 2019, five chapters have been provisionally closed, 29 are being negotiated and one has not yet been opened.

Montenegro has continued to align its laws with the EU acquis. However, in the course of 2017, some changes in laws were adopted that have caused a backslide. The most prevalent example includes amendments to Law on Public Procurement that reduced compliance with the acquis. Those amendments create additional space for corruption in public procurements.

The PAR Strategy recognizes the problem of the lack of obligation to plan implementation of laws. Material submitted to the government does not have to contain a plan for implementation of laws. However, no action is planned to tackle this issue.

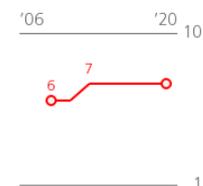
The government demonstrates a general ability of policy learning, but its flexibility is limited. Learning processes somewhat affect the routines and the knowledge foundation on which policies are based.

The development of a high-quality monitoring and evaluation system of public policies is in the initial stages. The abovementioned governmental medium-term work program represents a suitable basis for developing better-quality planning of the government's and ministries' annual work. The new system is expected to provide more effective monitoring and evaluation of policies than currently exist. Many of the country's program and strategic documents are composed in a way that does not allow for adequate measurement of performance, thus preventing the making of decisions based on learning from past experience. The authorities are most often focused on reporting outputs, rather than on the outcome of their work.

The government receives support for policy processes through international cooperation and the engagement of European experts in various sectors. The civil sector appears as a partner most often through participation in working groups and public debates. However, a significant part of that sector is dissatisfied with the quality of cooperation with the state administration, stating that it is only a formality.

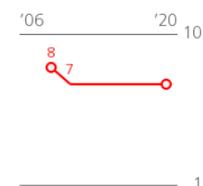
Implementation

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Policy learning

7



15 | Resource Efficiency

The government makes efficient use of only some of the available human, financial and organizational resources.

High public debt remains a question of concern as it increased from 61.1% of GDP in 2017 to more than 67% in 2018, largely because of the Bar-Boljare highway project. According to the Ministry of Finance, the debt will decrease in the coming years, as there are no expected costs for the construction of the highway in 2020. In 2017, the government introduced stricter measures aimed at fiscal consolidation and public debt reduction, including an increase in VAT.

The State Audit Institution has a legal obligation to perform audits of the final accounts of the state budget, but not of local budgets. The lack of this control of spending is particularly challenging, since the financial management of Montenegrin municipalities is characterized by a high level of public spending and indebtedness.

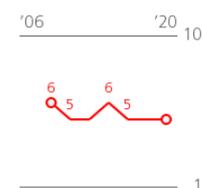
Human resource management is a main issue of public administration reform. Partisan employment in public administration is still a key problem, especially at the managerial level. A new Law on Public Servants was adopted in 2017, and one of its goals is to provide merit-based employment. The PAR Strategy envisages downsizing central personnel by 5% and local personnel by 10% by 2020, including a ban on creating new public sector positions until July 2019. However, these specific measures and activities may not guarantee the achievement of the goal of optimizing the workforce.

Public sector salary expenditures at both central and local levels are very high. Almost half a billion euros (20% of the state budget) is spent on salaries and contributions for employees at the central level. According to Public Administration Optimization Plan 2018 to 2020 (PAOP), expenditures for employees at the local level amount to about 57% of revenues.

The public administration in Montenegro is characterized by frequent reorganizations. There is no law on government. The Decree on Organization and Manner of Work of the State Administration has been amended many times, and a new decree was adopted at the end of 2018. It envisages reorganization of the categories of administrative bodies. The Ministry of European Affairs was previously abolished, following the minister's resignation, which suggests a non-strategic approach to organizing government administration.

Efficient use of assets

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The government's system of coordinating conflicting objectives into coherent policies has improved in the last two years.

The PAR Strategy has set the improvement of policy development and coordination as a goal of its reform. However, the activities aimed at establishing a comprehensive and rational planning system were not implemented according to the planned dynamics. So a new Action Plan with a revised timeline was adopted for the 2018 to 2020 period.

Following the abolition of the Ministry of European Affairs in 2018, the tasks related to the development of the policy coordination, monitoring the implementation of government policies and strategic planning were transferred to the Secretariat General of the Government (SGG).

The coordination of the European integration process has become a competence of the Office for European Integration in the Office of the Prime Minister. The main aims of the negotiations with the EU are contained in the Program of Accession of Montenegro to the EU.

A new plan was designed to overcome the challenging quality and coordination of strategic documents, by adopting the Decree on the Method and Procedure of Development, Alignment and Monitoring of the Implementation of Strategic Documents. The decree should provide greater quality of and coherence among strategic documents. Montenegro's strategic framework is based on a large number of documents that include 120 strategies and 83 action plans, according to the data from the Ministry of European Affairs from February 2018. The key challenges to drafting and implementing the strategic documents are related to the mutual incoherence of strategies, insufficiently clear correlation between strategic priorities and planned activities, imprecisely defined performance indicators, inadequate financial estimates and sources of financing.

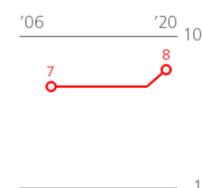
The government is only partly willing and able to contain corruption.

In the course of the EU negotiation process, Montenegro carried out important activities aimed at creating legislative and institutional preconditions for more effectively fighting corruption. This included establishing the Anti-corruption Agency (ACA) and Special Prosecutor's Office (SPO).

The ACA focuses on public officials' conflicts of interest, protecting whistleblowers, the integrity of public administration, lobbying and the financing of political subjects and election campaigns. Although the quality of the ACA's work varies depending on the topic, the achieved results are still far from what is desired. The ACA has not become a credible institution that is the cornerstone of the fight against corruption and in which citizens have trust. The ACA has failed to deal with political influences,

Policy coordination

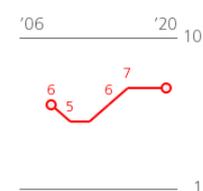
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Anti-corruption policy

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which resulted in a formalistic interpretation of the law, its unequal application and non-transparency in its operations.

The quality of the ACA's work in the area of conflict of interest prevention is questionable. The ACA waited for NGOs to take the initiative before determining that the Minister of European Affairs was in conflict of interest, although it was able to examine this case in time on its own initiative. The ACA's best-known cases related to conflict of interest concern the elimination of representatives from the NGO sector from the ACA Council, the Council of Radio Television of Montenegro and the Council of the Agency for Electronic Media, which was particularly criticized by the public.

The ACA carries out mostly technical checks of the assets of public officials. There is no practice of providing the ACA with access to bank account details for the purpose of asset control among the highest-level decision-makers in the state.

Although some technical aspects of controlling the financing of political parties and campaigns improved after the recent elections, there was no improvement in the quality of control in the terms of results and effects. As in 2016, the ACA accepted data provided by political subjects as accurate, which resulted in very questionable conclusions regarding the financing of presidential campaigns. Examples of tolerance of violations of the law or delays in the realization of legal obligations were noted.

The SPO is responsible for prosecuting organized crime, high-level corruption, money laundering, terrorism, war crimes and the violation of electoral rights. Public expectations regarding the SPO's work ran high throughout the previous review period. The SPO's initial prosecutorial results led to a political decision to extend its scope to include the violation of electoral rights, which placed the SPO under great pressure. Thus, the SPO now has to deal with an extremely large number of cases, which significantly shifted its focus from pursuing only with the most important cases. The SPO has been processing the case of attempted terrorism on parliament election day in 2016 for two years now. The SPO's most important high-level corruption case, that of the Budva group, has not yet concluded because the court verdict has not yet been carried out against the former president of the State Union of Serbia and Montenegro and his son. The SPO is criticized by the opposition for not initiating certain cases in which the general public suspects corruption.

Amendments to the Law on Free Access to Information (FAI) were adopted in 2017, in order to regulate the reuse of information in accordance with EU standards. However, in these amendments, new restrictions to access to information were introduced as well. The new provisions restrict access to information that may be classified as business or tax secrets. This opens the law up to the risk of abuse, due to the potential for unjustified proclamations of documents as containing secrets.

Public procurements are still vulnerable to corruption. The control and monitoring system remains ineffective. Amendments to the Law on Public Procurements represent backsliding, as pointed out by a significant part of the public and the European Commission (EC). In its latest report, the EC highlighted the problems of an ad hoc working group preparing the amended law, its adoption without public debate, the exemptions to public procurement at low monetary values and in the areas of defense and security.

16 | Consensus-Building

All major political actors agree on establishing democracy as a strategic, long-term goal of transformation. European and Euro-Atlantic integrations are set as key priorities in strategic documents. However, NATO integration remains a highly divisive issue even after the country joined the alliance.

While all major political actors agree on establishing a market economy as a strategic, long-term goal, there are divisions over whether to embed sociopolitical safeguards or implement a neoliberal approach. Controversies and protests intensified in past years when a set of neoliberal economic policies was introduced to deal with the effects of the financial crisis.

While there are some powerful anti-democratic interests, reformers are able to successfully limit their influence.

Influential actors in Montenegrin society predominantly consist of state institutions and political parties. Also, media and non-governmental organizations (NGOs) play a very important role in society. There are few labor unions that are irreplaceable in social dialog and necessary for consensus about labor and related laws. The international community plays a major role in important events and decisions, primarily through the Delegation of the European Union to Montenegro, as well as representatives from some embassies.

Other influential actors include different economic lobbies (energy, tourism, construction, imports), often linked with public officials and distinguished entrepreneurs, but also with transition businessman (tycoons), who are often associated by the media with criminal groups. There are also clearly visible lobbies (construction, finances) that sometimes act from anti-reformist positions.

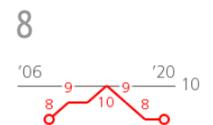
Probably the most significant “non-democratic” actors are representatives from religious communities, above all the Serbian Orthodox Church in Montenegro. The church often publicly promotes attitudes on the verge of hate speech, opposing certain government policies like NATO integration or the promotion of LGBTI rights, and has significant political ambitions and influence in Montenegro.

Consensus on goals



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Anti-democratic actors



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Ethnic/national identity divisions are still important in the political and cultural sphere, which is evident in many cultural policies introduced by the government, as well as in discourse employed during election campaigns. One of the key areas of national consensus is EU integration as a strategic goal (63% support Montenegrin integration into the EU, according to CEDEM, December 2018). At the same time, the 2017 NATO integration revealed once again how severely the society is polarized, bringing many ethnic, religious and political differences to the surface. In the reporting period, no government initiative aimed at depolarization and establishing broader consensus was recorded.

On some issues, the political leadership takes into account and accommodates civil society actors, while on others, it tends to ignore them. According to the Ministry of Public Administration, as of 2018, there were 4,421 registered associations, 170 foundations and 11 foreign organizations. The majority of organizations are active in the field of culture, the protection of human or minority rights, the arts, institutional and non-institutional education, agriculture and rural development, social welfare and health care.

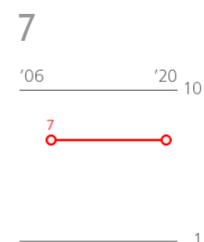
The Law on State Administration prescribes that state administration bodies cooperate with NGOs in public consultations and working groups in preparing laws and strategies. However, the law stipulates that holding of public hearings is not mandatory when dealing with defense and security issues, the annual budget, urgent or unpredictable issues, and in situations where the new legislation will not introduce significant changes. This decision has been criticized by the NGO sector as a step back limiting opportunities for public influence on decision-making.

The non-governmental sector is involved in agenda setting, policy formulation and performance monitoring. Other civil society actors – experts from academic and business sectors – are often included in policy formulation. However, a number of CSOs believe the government engages in this cooperation only to satisfy Brussels. In 2017 and 2018, several renowned NGO representatives were removed from the councils of the Public Broadcaster RTCG, the Agency for Electronic Media and the Anti-Corruption Agency (ACA), respectively, following ACA decisions that they were conflict of interest. Civil society deemed this a purge of government critics.

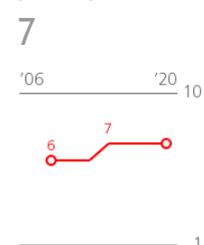
It is not only the government that is hesitant to cooperate with NGOs. In recent years, members of the opposition have become louder in labeling NGOs foreign agents, mercenaries and “Sorosoids.”

The EU is the major funding source only for the most professional CSOs. Foreign donor support has been in constant decline. The system of public financing was changed with an amendment to the Law on NGOs in 2017. The law now prescribes a decentralized system of fund allocation, such that the government identifies priority

Cleavage /
conflict
management



Civil society
participation



areas of funding on the basis of ministry proposals, and then line ministries allocate and distribute funds.

In 2018, a new Council for Cooperation with NGOs was established, with a new composition and competencies, replacing the previous one that was boycotted by NGO members. The council's competence is reduced to monitoring the implementation of the Strategy and Action Plan, providing opinions on draft regulations and documents related to the work and development of NGOs and giving an opinion on their application

For the seven war crimes that were prosecuted in the Montenegrin courts (Štrpci, Dubrovnik, Bukovica, deportations, Kaluđerski Laz, Morinj and Klopuh), three final convictions were issued. Five people were convicted, while all the others were acquitted.

Command responsibility for war crimes is still not challenged; no high-ranking official is accused. Proceedings are conducted mainly against low ranking officers. Judgments have failed to fully embrace all responsible, whether they are in the political or command staff. Proceedings are selective, primarily include direct perpetrators, which makes the whole concept of reconciliation in Montenegro pointless in large part. CSO activists believe that the same ruling elite is present as in the time of war crimes, thus they continuously intend to reduce the significance of these offenses in public.

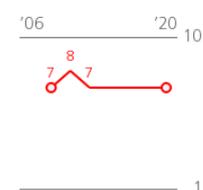
17 | International Cooperation

The political leadership makes well-focused use of international assistance (EU institutions, IMF, OSCE, the World Bank, the United Nations and NATO) to implement its long-term strategy of development, utilizing international know-how and external advice toward its domestic policy agenda. International support has helped the government to articulate its aims of political and economic development, as well to make progress in implementing development steps. While the government has successfully utilized international assistance to create a roadmap of political and economic development, it lacks specifics to mitigate a number of issues, which sometimes negatively affects support.

The EU provides the most significant support to Montenegro. Indicative is the amount of the EU's pre-accession assistance for the period 2014 to 2020 at €270.5 million. This is being allocated in line with the strategic objectives for Instrument for Pre-Accession Assistance (IPA) 2014 to 2020 in Montenegro, including sustained pre-accession assistance in the two most strategic sectors: Democracy and the Rule of Law and Competitiveness and Growth.

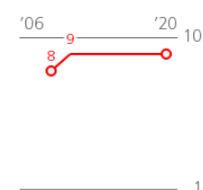
Reconciliation

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Effective use of support

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For example, during the reporting period, EU provided €15 million for the implementation of the Public Administration Reform Strategy, one of Montenegro's most significant reform processes in Montenegro.

In 2018, with EU support, the Department for Suppressing Irregularities and Frauds was established in the Ministry of Finance, with the task of protecting the EU's financial interests in Montenegro and improving the regulatory framework.

Montenegro became a NATO member state in 2017, which is significant boost to the country's international credibility.

EU integration is Montenegro's most important strategic goal, and the country is the most advanced among EU aspirants with 32 negotiation chapters opened and 3 provisionally closed. In June 2017, Montenegro provisionally closed Chapter 30 – External relations. Given the high level of Montenegro's state of preparedness and its fulfillment of obligations regarding this chapter, the EU noted that, at this stage, the chapter does not require further negotiations.

A majority of international actors consider the Montenegrin government a credible and reliable partner, but some and international actors express doubts regarding its reliability with regards to internal democratic reforms and processes.

The political leadership actively promotes regional and international integration. Regional cooperation is an important foreign policy priority. The government cooperates with all neighboring countries and complies with the rules set by regional and international organizations. Moreover, the political leadership sees good neighborly relations as a strategic goal.

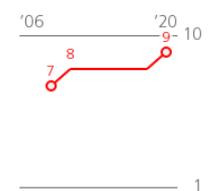
Montenegro is the only country in the Western Balkans that maintains good relations with all its neighbors.

Montenegro has made significant progress in the area of border demarcation. An agreement on demarcation with Bosnia and Herzegovina came into force in April 2016. An agreement on demarcation with Kosovo came into force in June 2018, three years after ratification. While there is no border dispute between Serbia and Montenegro, demarcation is not yet formalized, due to Serbia-Kosovo relations. Montenegro and Albania also have strong bilateral relations and dynamic cooperation.

The border with Croatia is under interim regime since 2002. Both countries agreed to seek a diplomatic solution or to adhere to the decision of an international court if the agreement is not reached bilaterally. Montenegro and Croatia have strong cooperation and both governments express full commitment to solve this issue through dialog.

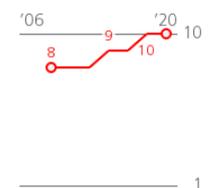
Credibility

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Regional cooperation

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Strategic Outlook

The political crisis that started in 2013 was not resolved following the 2016 elections. The opposition continued full and partial boycotts of parliament. The EU repeatedly invited political actors to re-engage in dialog and vigorously supported efforts to establish a parliamentary Committee for Electoral Reform. However, the committee was not fully functional by January 2019. It is essential to resolve problems with the legal framework for holding elections and substantially reform electoral institutions so that Montenegro can finally hold an election the results of which are recognized by all main participants. Nevertheless, without the full commitment of both the governing and opposition parties, this is hardly plausible before next parliamentary elections due no later than October 2020.

Montenegro is expected to continue its progress in EU accession negotiations and remain the leading country in EU integration among the Western Balkans. Montenegro has opened 32 out of 35 negotiation chapters and the government should create conditions for opening the remaining chapters and, more importantly, provisionally close more chapters (only three were closed during the first six years of negotiations). Improving the rule of law continues to be one of the key challenges of EU integration process, especially in the fight against corruption and organized crime.

In the coming years, Montenegro is expected to struggle to keep its macroeconomic stability, manage pending debts, work on consolidating public finance and create favorable conditions for foreign investments. According to the baseline scenario for Montenegro contained in Economic Reform Program 2019 to 2021, the average annual rate of real economic growth in 2019 to 2020 is projected to be about 2.5%. According to a low-growth scenario, it will be just 1.7%.

Improved living standards, especially among vulnerable social groups such as retirees and a large number of employees financed from the state budget, cannot be expected in the short term. In the upcoming period, Montenegro is expected to implement painful pension reforms and the Public Administration Reform Strategy, which should decrease public spending. With more careful management of state resources, faster economic growth can be achieved, which is the real basis for increasing the standard of living in the long term.