

Montenegro 2016



Total: 61.04

Quick facts

Population:	0.622 million
Unemployment rate:	17.6 %
GDP:	3.738 billion EMU
GDP growth rate:	3.2 %
GDP per capita:	6 010 EMU

Political Freedom

Free and Fair Elections : 7.14

Observed period passed without any elections in Montenegro where citizens usually had a right to cast their vote freely. However it didn't lack turbulent political events. Internal disagreements on the way of doing politics among several political parties have led to their splitting and formation of four new parties. Similar pattern occurred in relations between coalition partners, Democratic Party of Socialists of Montenegro (DPS) led by Prime Minister Milo Djukanovi and Social Democratic Party of Montenegro (SDP). In September 2015, opposition Democratic Front started protests against the government, accusing them of violations and unfair elections. Djukanovi called for a no-confidence vote in December in order to bring stability to the government and in January members of the parliament pleaded support for him and his governing coalition. Accusations of electoral fraud were even louder and political pressure higher, making Djukanovi propose the creation of a new caretaker government, which would involve opposition members in it. Proposal aimed to create government which would ensure free and fair elections by the end of the year and it was adopted in May 2016.

Absence of Unconstitutional Veto Players : 5.83

Milo Djukanovi, Prime Minister of Montenegro, the leader of the DPS party and a person which is more than 20 years in power in Montenegro, together with his ruling coalition holds complete control over country's decision making processes. Many players in the country try to exert some influence, such as church, which is constantly expressing opinion on some political issues, or

businessmen with their interests, but none of them have veto power. It all depends on the authorities. Though, concentration of power in the hands of few, coupled with a weak system of checks and balances, pose a threat to democracy in Montenegro. In terms of national security, Montenegro fulfilled all conditions to join NATO, which is expected to happen during 2017.

Freedom of Press : 5.9

Freedom of the press in Montenegro is exerted to certain extent. Media environment is both pluralistic and diverse, but politically polarized, requiring information from various sources in order to complete the picture. Public broadcast media outlets tend to favor government. With weak control mechanisms over state advertising, political influence on the content of the private outlets is big as well. Political and economic pressure on one hand and on the other harassment and destruction of journalists' property, made them practice self-censorship in order to keep their jobs or avoid physical attacks. Violence towards journalists escalated during opposition protests in October 2015, as a few of them were arrested and the property of media outlets vandalized. Prosecution of perpetrators against journalists remained inefficient. Montenegro is ranked on a low 106th place, on the Reporters without Borders 2016 World Press Freedom Index.

Rule of Law

Independence of the Judiciary : 4.09

In 2015, the European Commission has noticed yet another year of progress on judiciary reforms. But a lot has yet to be done to improve its independence, not to mention efficiency. Legal proceedings are still lengthy, in spite of some progress. Prison conditions require improvement. On the other hand, in mid-2016, the laws on court experts, on notaries, on the internship in courts or prosecutors' offices and on bar exams were carried, as a continuation of the 2015's package on the territorial and functional organization of the court system. At least in one very high level case, Montenegrin courts proved they might prosecute without hesitation – the corruption scandal and subsequent investigation and arrests in the coastal town Budva soon involved not just members of his family or clan but former Mayor and former President of Serbia and Montenegro Svetozar Marovi himself. Although some (still unclear) political, inner-DPS-party vendetta might be in the background, this arrest might become a strong anti-corruption deterrent.

Corruption : 4.4

Within the CEFTA area, Montenegro is the country with least corruption. Situation has improved during 2015/2016. It is ranked, together with Italy, Lesotho, Senegal and South Africa, as 61st on the list of 168 countries of the Transparency International's Corruption Perception Index 2015. Its score rose from 42 to 44. Areas most affected by corruption are public procurement, political party financing, public sector employment and health care. There is still a lot of high level corruption, involving high ranking politicians and/or organized crime groups. Mayors of two cities, Bar and Budva, as well as the former President of Serbia and Montenegro, were arrested on corruption charges. Some of their accomplices have already been sentenced. Trading in influence is also common. The new independent body, as suggested by the EU - the Agency for Prevention of Corruption - was established by the Parliament. It started work in January 2016. It will manage

asset declarations by public officials, monitor conflicts of interest, protect whistle blowers and perform numerous other activities, including implementation of the laws on lobbying, monitoring it, issuing licenses for - and maintaining a register of - lobbyists.

Protection of Human Rights : 6.71

Divergent trends regarding human rights in Montenegro could be noted once again in 2015/2016. Some freedoms are still highly valued, such as academic, or religious (aside of the row between two Orthodox churches), or of ethnic minorities (although more has to be done for Romany), or of movement. The first verdict regarding the abduction and murder of a newspaper editor in 2004 became effective in late 2015, but the background is still unexplained. Some NGOs received compensation for mistreatment by the government. At the same time other NGOs or investigation journalists are further on intimidated. As Amnesty International claimed, police did use excessive force while suppressing the violent anti-government demonstrations in October 2015. On the other hand, open parade of other, also anti-government organizations, themselves visibly organized and outfit as paramilitary, is ignored by authorities. Both US State Department and Freedom House noticed an improvement in fighting human trafficking in as far as more is done to support the victims, especially children. Women are still vastly under-represented in parliament and politics in general, and have to struggle their way hard into equal employment opportunities. After a number of bans or other disruptions in several towns, LGBT rally was peacefully held in the capital Podgorica in December 2015. Realistically, further steps in this area could include re-regulation of gender identity (e.g. of trans-gender persons) and individual rights to adopt children by LBGs.

Economic Freedom

Security of Property Rights : 5.3

Private property in Montenegro is mostly secure. However, there are many problems within the legal system caused by performance of judiciary. As in many transition countries, legal framework is mostly well established but its implementation is often under question. There is a strong connection between the political elite and the judiciary, undermining judiciary independence. Corruptive practices among the judiciary pose another significant difficulty to judiciary processes, making the overall integrity of the legal system uncertain. Judicial processes are slow, and many cases are backlogged. Lack of capacity or knowledge among judges involved in specialized cases is also evident. Enforcing contracts is a very long lasting process, incurring high costs, while court decisions are not always clearly and consistently reasoned or enforced. Automation of court processes remains as a weak point of the system. The process of property restitution is slow, due to administrative constraints and lack of political will, and processes are long lasting. Bulks of appeals are there against the government of Montenegro in front of the European Court of Human Rights, regarding long legal procedures which diminish the right to a trial within a reasonable time frame. Registering private property is also a slow process, due to inefficient dealings of the Real Estate Agency.

Size of Government: Expenditures, Taxes, and Enterprises : 6.57

Government size in Montenegro is substantial, rather in line with some more developed European countries than with its transition peers, with government total expenditures standing at 48,5% of GDP in 2015. However, these figures are expected to soar in line with large infrastructure projects, most notably the Bar - Boljare highway, whose first section Podgorica - Kolašin is under construction. This infrastructure project alone will account for the majority of the public deficit, itself reaching 7.5% of GDP in 2015, since project costs are estimated at 25% of GDP. However, increases in public wage bill and social spending will raise public consumption as well. Public debt is expected to get to a very elevated level of 75% this year, leading to further fiscal imbalances. Although a large scale privatization was conducted, there are still many state-owned companies in the country, not just public utilities, but also in sectors considered as strategic, such as energy, transport, tourism or even agriculture. Further privatization plan is under way, but it is lagging behind the proposed time frame. The tax system consists of flat corporate tax set at 9%, while VAT levels are 0% (only for medicine), 7% and 19%. Personal income tax used to be also flat, with 9% tax rate. But then came the introduction of a temporary "solidarity" progressive rate, which was recently decreased from 13% to 11%, for the income of over 720 euro of monthly gross wage. However, high social contributions, reaching approximately one third of the gross wage, lead to high overall labour tax wedge, thus encouraging shadow employment.

Regulation of Credit, Labour, and Business : 6.62

Business regulation in Montenegro is mostly liberal. However, inconsistent implementation followed by partiality of government officials pose obstacles to a better business environment. Starting a business is relatively easy and without cost or paid in minimum capital. However, obtaining a construction permit or getting electricity is much more complicated, with long procedures and very high costs, due to inefficiencies within municipalities and the public-owned electric company EPCG. Tax procedures are overly complicated, mostly due to VAT compliance rules, although with a relatively low number of annual payments. Although electronic system of payments for labour taxes was introduced, it is still expected to provide its full benefits. Corruption among government officials is also present. Poor state of infrastructure as well as policy instability are cited as the most important obstacles to a better business environment. Rigidities within the labour code further exacerbate this situation: maximum length of fixed term contracts is set to just 24 months and severance pay is increasing with years in tenure, favouring more seasoned workers. However, working hours are mostly flexible. Centralized collective bargaining, although prevalent in some industries, is mostly restricted to public sector.

Freedom to Trade Internationally : 8.48

Free trade is mostly upheld in Montenegro. For such a small economy, international cooperation and specialization is very important for development and growth. Montenegro has been a member of the World Trade Organization (WTO) since 2012, leading to a more favourable trade arrangements. It is a member of CEFTA since 2007, which facilitates trade arrangements with its Balkan neighbours, while trade relations with the EU are outlined by the Stabilization and Accession Agreement that came to force in 2010. Tariffs are low, with the mean applied rate of 4.3%. The most important trade partners are the EU countries and countries of the region - most notably Serbia, Bosnia and Croatia. Montenegro, although it is neither an EU member state nor a Eurozone member, unilaterally adopted the euro, which enhances international trade by eliminating exchange rate risks and other currency exchange costs. However, bureaucracy procedures and compliance with border documents are very expensive, serving as non-tariff trade barriers. Bad transportation infrastructure - including roads, ports and especially railroads - hinders free trade, increasing costs of both imports and exports. Recently, the procedures for hiring foreign

workers have been simplified, but direct quotas for foreign workers were introduced by the new Law on Employment of Nonresidents (15000 ordinary worker permits and 3000 for capital projects) which strongly affected the tourism industry that was relying on foreign workers.