**Economic growth**

Montenegrin economy, according to the World Banka assessment, was the fastest growing economy in the region, and it is expected that its growth would be somewhat higher than 4%.

Ever since it restored its independence, a significant progress in Montenegrin economy was achieved, although accompanied by some cyclical movements. The average growth of GDP in the period 2006-2016 was 3.2%. At the same time, GDP per capita in 2016 was 6,060 € and it is higher by 76% compared to 2006. The total net influx of FDI, observed in the same period, was 5,754.4 million euro or around 19% of GDP. The budget revenues in 2016 amounted to 1,486.5 € and compared to 2006, they were bigger by 73%. Average net wage was increased from 282 € in 2006 to 499 € in 2016, and the average pension from 138 € to 284 €. Average real growth of wages in this period was 33%.

Table below shows some indicators for Montenegro for the period 2013- 2017.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | 2016 | Q1 2017 | Q2 2017 |
| Real rate of GDP growth (in %) | 3.5 | 1.8 | 3.4 | 2.9 | 3.2 | 5.1 |
| Inflation rate (in %) | 2.2 | -0.7 | 1.5 | -0.2 | Jan-Oct  2.4 | Jan-Oct  2.4 |
| GDP per capita (in €) | 5,412 | 5,561 | 5,826 | 6,060 | - | - |
| Average net wage (in €) | 479 | 477 | 480 | 499 | 511 | 511 |
| Average pension (in €) | 275 | 275 | 270.41 | 284.32 | Jan  286.14 | Oct  280.05 |
|  |  |  |  |  |  |  |

Number of pensioners: 123,164 Lowest pension – 121 €, highest 1,107 €.

Ratio employee/pensioner: 1:1.65.

GDP growth in 2017 was mainly possible thanks to:

* Measures of fiscal consolidation
* Construction of road Bar – Boljare
* Growth in construction (Jan-Jun, value of construction works is bigger by 45.35% compared to the same period in 2016)
* High growth in excavation of ore and stone (growth of 124.7%)
* Growth of net influx of FDI (Jan-Sept, net influx was 409.8 million €). WB Doing Business placed Montenegro on 42nd place this year among 190 ranked countries; improvement by nine places compared to the last year.
* Increased performance efficiency of the competent authorities in charge of fight against grey economy (Jan-Sept, collected tax 1.3 million €, which is 4.2% more that in the same period last year)
* Improved taxation discipline among the debtors (collected 19.9 million € by November, and additional 23 million are expected to be collected by the end of year)
* Increased number of tourists (825,000, growth of 16.8%)
* Growth in transport of passengers at the airports (Jan-Sept, +17%)
* Increased transport of goods by railways
* Bigger reloading of goods in ports
* Increased export of goods (Jan-Sept, +17.8, while the import was bigger by 8.2%)
* Slightly improved ration import-export (Jan-Sept, 16.2%)

However, adequate solutions have not yet been found for a more significant reduction of unemployment and increase in competition for the Montenegrin products, which would result in bigger export and decrease in foreign trade deficit.

**Labor market and social development**

Labor market in Montenegro suggests that of 269.7 thousand of active working individuals (according to the Survey on labor force) there are 222.7 thousand (82.6%) employees. Unemployment rate is 17.4% according to the same source.

According to administrative records, number of employees in 2016 was 177,908; unemployed around 48.000; beneficiaries of social benefits 30,000, while the unofficial figure says that there are 40,000 employed in informal economy. Unemployment rate (according to the Employment Bureau) is 22.9%, of which there are 27,889 women or 56.93%. Around 50% employees receive a wage of around 250 euro or less, while around 8,000 pensioners receive around 120 euro. Average income without tax and contribution is around 500 euro.

Data from the Employment Bureau for the period January – August 2017 showed that the number of registered employees is bigger by 3.6% or 6,314 new jobs, while the surveys suggested the increase of 3.5%. Current unemployment rate is 22.9%. As announced, the Government is trying to find a way to reduce the unemployment rate below 20%, and it will therefore in the forthcoming period initiate some projects trying to achieve this goal.

With the Amendments to the Law on social and child protection, which came into force on 17 January 2017, of 22,000 mother who were receiving benefits for 18 months for giving birth to three or more children, this right is exercised by only 1,902 women, and no longer than five years.

Montenegro has 30,000 beneficiaries of social benefits. The amount of social benefits cannot cover even the minimum of living costs. Percentage of contributions or social protection from GDP (including the education and healthcare protection) is around 9.5%.

Labor market is still characterized by: high rates of inactive labor force, low employment rates, long-term unemployment, structural misbalance between supply and demand and high unemployment rates, particularly youth, women and other unemployable categories of unemployed population, a large number of those employed in grey economy, regional differences in unemployment, low share of citizens in programs of lifelong learning, insufficient linkage between activation measures and social assistance, low level of engagement of persons with disability and vulnerable categories in labor market. A special challenge for labor market was a legal solution in the area of social policy (from 2015), which allowed a certain category of women to leave the labor market, creation of fictitious unemployment on one hand and the work in grey economy on the other hand. (However economic policy measures for 2017 alleviated this problem.)

**Efficiency of national institutions and instruments of financial control**

Basic vulnerability of Montenegrin economy can be seen in the amount of central state debt, which on 30 September 2017 amounted to 2,490.31 million € or 59.26% of GDP. Foreign debt is 2,058.96 million €, internal debt is 431.35 million €, a deposits 94.12 million €. Net pubic debt at the end of 2016, considering the deposits (47.36 million €) was 2,498.69 million € or 66.23% of GDP. **According to the projections, public debt in 2018 will go up to 74%, and in 2019 it will slowly decline.**

Institutions engaged in control of spending of budgetary funds and sanctioning of those responsible for abuse of budgetary funds are State Audit Institution and State Prosecutor’s Office. The practice has show that the cooperation of these two institutions does not produce desired results in case of abuse of budgetary funds and fight against corruption.

If the State Audit Institution determines during the audit that there is a suspicion on crime, it has to file a criminal report. Criminal Code of Montenegro, in the chapter on offenses against official duty (Articles 416-426) does not acknowledge this offense (“negligent spending of budgetary funds”), which reduces the space for sanctioning abuses and irregularities determined during the audit. There is no accountability on the part of administrative authorities for failure to provide information, even if it is treated by State Audit Institution as an offense.

The experience from the countries in the region, as well as EU MS provides a broad range of mechanisms and activities that can improve the cooperation between the State Audit Institution and Prosecutor’s Offices starting from special agreements and frameworks for cooperation, setting up of special teams, to the regular bringing cases for determining misdemeanor or criminal liability.

**National plan/action for combating corruption**

Based on the assessment of the EU representatives to Montenegro, Montenegro has achieved a certain level of preparation for combating corruption, once it started negotiating on Chapter 23, but it is necessary to do much more to get results in the area of investigation, conviction, and incrimination of high corruption cases.

Action plan for Chapter 23 covers 4 areas: judiciary, combating corruption, fundamental freedoms and cooperation with NGOs. To be more successful in reforms in this area, Montenegro, in addition to full alignment of its legislation, must have measurable specific results in the area of its implementation.

Report (by NGO) on the implementation of Action plan for negotiations on Chapter 23 suggests that by the end of 2016, majority of things were done in the area of judiciary, in which two third of the planned was implemented. The least reforms were done in the areas of combating corruption and cooperation with NGOs – only around one quarter, or on third of provided measures. A half of planned reforms were completed in the area of human rights.

Study of the Center for Democracy and Human Rights (CEDEM) carried out in June 2017 suggests that the corruption is a big problem, according to 64% of citizens. A large number of citizens believe that a large number of officials/clerks takes money or gifts. 69% of citizens stated that this conclusion stems from their personal experience.

One of the reasons for reporting personal experiences of corruption is to shed light on big cases in this area. Those who would not report corruption stated that they did not do so because it is not easy to prove 26.4% of them. Every fourth citizen would not report corruption because they do not believe there would be any investigation into it; and every fifth citizen, according to the study, is afraid of reporting corruption.

32.3% of citizens believe that the corruption would remain at almost the same level once Montenegro joins EU. 23.7% of them think that it would gradually reduce; 14% think that the corruption would grown with joining EU; and even 30% of them stated that they do not know the answer to this question.

Montenegrins believe that the corruption is mostly present in healthcare (23% of citizens), police (12.7%), and state administration (8.9%), and the least in sport (0.3%), culture (0.7%), and media (2.4%), according to the study of the agency Defacto from 2016. The causes for corruption, as observed by the citizens, are lack of civic awareness and responsibility about the detrimental effects of corruption (21%), low wages of employees in state/municipal services (18.3%), nepotism as a form of corruption (15.8%). Only 11.7% believe that the corruption partly grew if compared with the last year, whereas 4.7% believe that the corruption significantly grew. The vast majority of interviewees (73.5%) believe that also those giving bribe are criminally responsible, just as those who receive bribe. The vast majority of interviewees (76.8%) have never been conditioned by any civil servant to give a gift or money in course of exercising of their rights in the state or municipal services. The vast majority of interviewees (75.3%) claim that they have never offered any gift or money in exchange for the right they are entitled to; and every sixth interviewee admitted that they have frequently or occasionally offered bribe. Most of the citizens would report corruption to the Agency for fighting corruption (27.4%), then to Police (21.1%), media (13.9%), Prosecutor’s Office (11.6%), NGO (10.9%), and judiciary (8%), according to the study. The main reason why Montenegrins would not report corruption is lack of trust in the follow-up actions by the competent authorities (24.3%). Almost every fourth interviewee is not sure whether the case of corruption could be proven (23.1%). Every fifth citizen does not believe the report would remain anonymous (20.2%), according to the study. Corruption in state administration is at same level (46.8%), it partly grew (10.5%), significantly grew (4.1%) compared to the last year, while 23.2% claims that the corruption in state administration is significantly or partly reduced compared to the last year.

In the study Corruption Perception Index (CPI), carried out by the [***global organization Transparency International***](http://www.transparency.org/news/feature/corruption_perceptions_index_2016#table) Montenegro was in:

2013 – ranked on 67th place among 177 countries

2014 – ranked on 76th place among 175 countries

2015 – ranked on 61st place among 168 countries

2016 – ranked on 64th place among 176 countries

**The role of IFIs, American Chamber of Commerce, and other actors, Austerity measures and effects on economy**

The leading foreign business associations in Montenegro are: American Chamber of Commerce and Council of Foreign Investors.

IMF and World Bank are also present with their annual visits and reports in which they project movements in the economy as well as recommendations for achievement of certain goals and objectives. IMF recommendations were used for the design of Fiscal strategy for 2017-2020, and they were the basis for the design of the credible plan of fiscal consolidation and improvement of fiscal policy. IMF also provides a technical assistance for the continuation of the implementation of midterm strategy of debt management. World Bank has more of a institutional rather than financial power and shows less bureaucratic determination during their visits as someone who wishes to help, compared to other similar organizations, including IMF.

The key roles of the Council of Foreign Investors and American Chamber of Commerce were to establish stimulating and attractive business environment in the country.

The American Chamber of Commerce assessed that the key preconditions for the improvement of business environment are intensive cooperation and timely consultation between decision makers and business community in Montenegro.

A huge relevance lies on the predictable and transparent business environment, given that only such an environment is a guarantee that the current investors will be kept in the country, but also that the new ones will be attracted. Valid tax rates, identified by foreign companies – members of the American Chamber of Commerce, are the most attractive elements of business in Montenegro.

American Chamber of Commerce has a strong influence on the Montenegrin Government and their demands are mainly acknowledged through various laws, particularly Labor law. American Chamber of Commerce does not have major companies in Montenegro, but rather its members are subsidiaries of the multinational companies.

The Government is committed to the austerity measures in order to reduce the public debt, and also in course of the first year cut in half the deficit in budget, once it in December 2016, along with the budget, it adopted that Plan for recovery. Then, in July 2017, the Government adopted the Fiscal strategy for 2017-2020 with the following measures: increase of the general VAT rate from 19% to 21% as of 1 January 2018; excise duties on tobacco, alcohol, beverages and sweet carbonated water were increased; stopping the employment in pubic sector (in a way that the natural departure of three employees will be replaced by only one new employee); high wages of state officials were reduced significantly by 6%, and the measure without any competition for this year – benefit for mother with three or more children was terminated.

The renowned credit agency Moodys increased the credit rating of Montenegro from the B1 negative to B1 stable, and thus sent a clear message to financial markets that the Montenegrin economy is in its upward direction. World Economic Forum placed us on the 77th place of the list of competitiveness, compared to the 82nd place Montenegro had last year.

**At the Board for economy, finances and budget (held on 12 December 2017) trade union representatives proposed the increase of minimum wages, which was already initiated a half year ago. But, the Government refused this proposal, suggesting that the budget would be filled up or revenues collected through the abovementioned measures (VAT from 19% to 21% as of 1 January 2018 and other levies). The Government also announced the increase of prices for electricity by around 3%, which will negatively reflect on already low living standard.**

High rates of economic growth of 5,1% in Q2 this year is an impressive growth, but it remains the fact that the statistics and data are one thing and real life something else, which means that the citizens still do not feel the effects of this economic progress. IMF is satisfied with such a development, but the citizens of Montenegro are not.

Podgorica, 5 December 2017