European Bank
for Reconstruction and Development

Montenegro country diagnostic:

Private investment challenges and opportunities 2022

Country diagnostics are a European Bank for Reconstruction and Development (EBRD) tool for identifying the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection in formulating new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

Each diagnostic assesses national progress and challenges in developing a sustainable market economy. Private-sector development and entrepreneurship are at the heart of the Bank's mandate, but in all of the Bank's investee economies, the private sector faces a range of problems and obstacles. The country diagnostic highlights the key challenges facing private companies and shows where each economy stands relative to its peers on the Bank's six transition qualities – competitive, well governed, green, inclusive, resilient and integrated – highlighting the main deficiencies and gaps in each.

The diagnostics draw on a range of methodologies and best practices for assessing how big certain obstacles are. Extensive use is made of the Bank's in-house expertise and surveys, such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports from institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical to private-sector development.

The EBRD's Country Economics, Strategy and Policy (CESP) team lead the diagnostics, drawing substantially on the expertise of sectoral, governance and political experts in the Policy Strategy and Delivery (PSD) Department and consulting widely with experts across the Bank in preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

The views expressed in the diagnostic papers are those of the authors only and not of the EBRD or its shareholders.

For more information, go to https://www.ebrd.com/publications/country-diagnostics.

This report was prepared by Ana Kresic, Acting Lead Economist for the Western Balkans, and Olja Belic, Economic Analyst for the Western Balkans, with the support of Ivan Matanovic, Regional Economic Analyst and comments from Peter Sanfey, Deputy Director of Country Economics and Policy. The report is based on the draft prepared by Peter Tabak, Lead Regional Economist (on leave) for the Western Balkans, and Sanja Borkovic, former Associate Economist for the Western Balkans, in the Policy, Strategy and Delivery (PSD) department. The political economy part of the report was written by Oleg Levitin. The authors are grateful for contributions and comments provided by Anna Sali on informality and obstacles to doing business, Svenja Petersen on SME access to finance, Federica Foiadelli on tourism, diversification and competitiveness of the economy, Dragana Marjanovic on economic inclusion and skills issues, Pavle Djuric on SOE governance, Jelena Cirkovic on governance, Jinrui Liu, Susanne Wischnath and Dejan Zlatkovic on trade and transport integration, Yewon Choi, Damin Chung, Cem Gundogan and Mirjana Grkovska on green economy issues, Anna Vasylyeva, Chris Basinski, Russell Bishop and Margherita Calderone on just transition, Jaeyoung Wee, Nino Shanshiashvili and Srdjan Kokotovic on financial resilience, and Chris Basinski on energy resilience. Editor: Poilin Breathnach. The views expressed in this paper are those of the authors only and not necessarily those of the EBRD or its shareholders. The report is based on data available as of 31 January 2022 and the political economy section was updated in April 2022.

Contents

Executive summary

With a population of 600,000, Montenegro is the smallest country in the Western Balkans and the smallest economy in which the EBRD invests. Even so, it has the highest income per capita of its regional neighbours and has advanced most in terms of European Union (EU) approximation. Still, Montenegro's journey towards an advanced market economy – one that is competitive, well governed, green, inclusive, resilient and integrated – remains far from complete. While it outperforms other Western Balkans countries on all of these qualities, it lags EU Member States in central Europe and the Baltics, especially on the "green" and "integrated" qualities.

To unleash the private sector in Montenegro, the following structural issues need to be addressed:

1. **Reduce informality and enhance the business environment.** Six out of ten Montenegrin firms report competing against unregistered or informal companies, while every third firm identifies the practices of competitors in the informal sector as their biggest obstacle to doing business.[1] The informal economy in Montenegro accounts for up to one-third of gross domestic product (GDP) and is associated with numerous regulatory and structural issues.[2]
2. **Diversify the economy and develop a more sustainable tourism model.** Montenegro is one of the world's 20 most tourism-dependent economies.[3] Prior to the Covid-19 pandemic, the sector employed around one-third of the labour force and accounted for more than half of the country's exports, significantly more than in neighbouring tourism-reliant countries. However, the majority of visitors come in summer and from a small number of countries. This makes the economy much more vulnerable to external shocks such as Covid-19. Highly seasonal tourism also makes the country vulnerable to climate change, highlighting the need for adaptive measures.
3. **Strengthen economic inclusion and raise skills levels.** The current labour-market situation is challenging, particularly for vulnerable groups. Women in Montenegro are less active in the labour market than men and the gap has increased in the past few years. In addition, the youth unemployment rate is high, with one in three young people jobless. Skills mismatches are another persistent problem.
4. **Improve SOE governance.** Montenegro has a large and inefficient state-owned enterprise (SOE) sector. There is no government policy or law setting out the overall objectives of state ownership or the manner in which it is done, though steps have been taken to improve monitoring. What's more, the responsibilities of SOE boards of directors do not seem to be defined in line with best practices.
5. **Ensure that the rapid transition to a green economy is just.** While in a better position than most other Western Balkans countries, Montenegro is more energy- and carbon-intensive than the average EU country, mainly because of its fossil-fuel use and aluminium industry. Reductions in capacity or the closure of facilities could hinder regional employment and economic development.

This report consists of the following sections: 1) political economy; 2) economic background and outlook; 3) key issues in the economy; and 4) qualities of a sustainable market economy.

[1] See World Bank Group (2020).
[2] See Montenegrin Employers Federation (2014).
[3] See World Bank and WTTC data.

1. Political economy

Montenegro is the smallest Western Balkans country. Unlike some land-locked regional neighbours, Montenegro benefits from direct access to the sea. It also benefits from its location at the crossroads of several regional infrastructural corridors (existing and planned), which run through it from west to east and from south to north. It is the most advanced economy among its regional neighbours in terms of EU approximation and was the second Western Balkans nation to become a member of NATO. On the face of it, both of these factors are positive for investor confidence. Further progress on regional integration would make the tiny country part of a wider Western Balkans market of more than 20 million people.

Montenegro's transition was adversely affected by the disintegration of the former Yugoslavia, where it had been among the poorest republics. Though not as heavily damaged as some by the armed hostilities that accompanied the process, the conflict did take its toll. Montenegro was also affected in many ways by its relationship with its bigger neighbour, Serbia, remaining in formal union with it for longer than other former Yugoslav republics.

Montenegro became an independent state on 3 June 2006, following a referendum in which – on an 86 per cent voter turnout – 55.5 per cent voted for independence, 0.5 percentage points above the threshold set out in the referendum legislation. Independence was a culmination of long-standing aspirations. Montenegro boasted a tradition of statehood dating back centuries and was an internationally recognised country from 1878 until 1918, when it became part of the former Yugoslavia, in its various incarnations, for most of the 20th century. The pro-independence movement in recent Montenegrin history was closely associated with domestic preference for market reforms and a pro-Western foreign policy course, in contrast to the policies of the Milosevic regime, which ruled both Serbia and Montenegro until 2000.

Montenegro embarked on the path to a market economy relatively late, in the latter half of 1990s, when its leadership began to distance itself from Milosevic. The proclamation of independence initially sparked political momentum for a modernisation and reform programme. However, while the privatisation of some sectors, such as telecommunications, had been accomplished by 2002, for others, the process took longer and was uneven. Indeed, some assets remain to be restructured and sold, as many SOEs are loss-making and inefficient. Political commitment, ownership and transparency of process are critical to the successful completion of the privatisation programme, as is its integration into the broader reform and restructuring programme, including the social aspects.

Montenegro's key weaknesses are common to all Western Balkans countries: the tenuous rule of law, a difficult business environment, widespread corruption, excessive informality of the economy and the relatively low capacity of the public administration. On the latter, the situation is further complicated by the fact that the modern Montenegrin state is not only among the youngest in the region, but also, by far, the smallest.

Montenegro's continued EU approximation remains a key anchor for reforms. Since accession negotiations were formally launched in 2012, Montenegro has managed to open all negotiation chapters, including critical ones on the rule of law. The main challenge now is closing them; of the 33 chapters opened, only three are temporarily closed. The priority for overall progress of the accession negotiations remains Montenegro's fulfilment of the interim rule-of-law benchmarks set out under chapters 23 and 24.

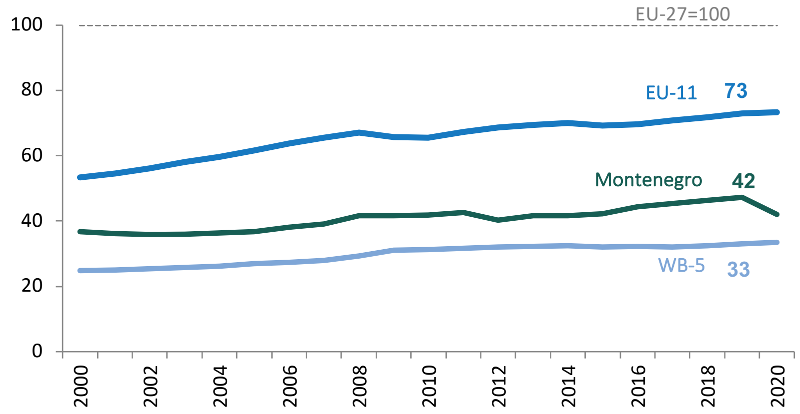
The country, small as it is, has both regional disparities and a complex ethnic composition. In the 2011 census, only 45 per cent of the population identified themselves as Montenegrins. Ethnic Serbs accounted for 28.73 per cent of the population, Bosniaks 8.65 per cent and Albanians 4.91 per cent.

The political environment remains challenging, amid differences of opinion (public and political) on geopolitical, national identity, inter-ethnic and religious issues. For more than 30 years, the country had been governed by the Democratic Party of Socialists (DPS), which won the plurality of the votes in all five post-independence general elections, including the last election of 30 August 2020. However, after the 2020 election, the DPS for the first time found itself unable to secure a parliamentary majority. The new government, supported by the three main former opposition alliances – comprising some 20 political parties, which between them won 41 of the 81 seats in the house – was endorsed by parliament on 5 December 2020. Persistent disagreements between these disparate political forces led to the fall of the government in a no-confidence vote on 4 February 2022.

2. Economic background and outlook

Figure 1. Living standards lag those of the EU

GDP per capita, based on US$, purchasing price parity (PPP)



Source: IMF (2021); authors' calculations

Montenegro is a small, open economy, strongly dependent on tourism. By the World Bank's classification, Montenegro belongs to the group of upper-middle-income economies.[4] Although it lags significantly the "new" EU member states (those from central and eastern Europe and the Baltic states that joined the EU from 2004 onwards), Montenegrin GDP per capita is still one-third higher than the Western Balkans average. Its economy lacks diversification, however, with travel and tourism accounting for around one-third of GDP.[5] In the five years from 2014 to 2019 alone, the number of tourist arrivals almost doubled.[6] Montenegro also offers mountains with ski resorts and beautiful canyons, but mountain tourism is less popular than beach holidays, so the tourist season tends to run from June to September. This concentrated economic growth model proved particularly vulnerable to the Covid-19 pandemic, underlining the significant potential benefits of future diversification.

Over the past 10 years, the economy has grown by less than 3 per cent annually, coupled with large external imbalances. GDP growth has been fuelled by domestic demand, mainly consumption, with the exception of 2015-18, when investment linked to the construction of the Bar-Boljare highway was the primary growth contributor. However, the high levels of investment also spurred a rise in imports, resulting in a negative net export contribution and a persistently high current-account deficit. In the 10 years prior to the pandemic, Montenegro's current-account deficit averaged 15 per cent of GDP; it then widened significantly in 2021. While sizeable, the deficit has been largely covered by foreign investment and secondary income (remittance inflows). Unilaterally euroised since 2002, Montenegro cannot use monetary policy to help reduce external imbalances.

The service sector accounts for most of Montenegro's GDP (almost 60 per cent) and employs around 73 per cent of all workers.[7] Within the sector, it is tourism-related services (trade, transport, food and accommodation) that add most value (almost one-quarter of GDP prior to the pandemic) and are the most significant export product (with receipts amounting to more than 20 per cent of GDP in 2019). This does not come as a surprise, as 29 per cent of all foreign direct investment (FDI) since 2006 has gone into real estate, rather than more productive purposes. Consequently, industry is less prominent, contributing around 10 per cent of GDP, with only 40 per cent of this related to manufacturing. In general, Montenegrin small and medium-sized enterprises (SMEs) are characterised by low productivity, at around one-quarter of average SME productivity in the EU.[8] Agriculture, in contrast, remains important, with the primary sector accounting for around 7 per cent of GDP and employing up to one-sixth of the total population.[9]

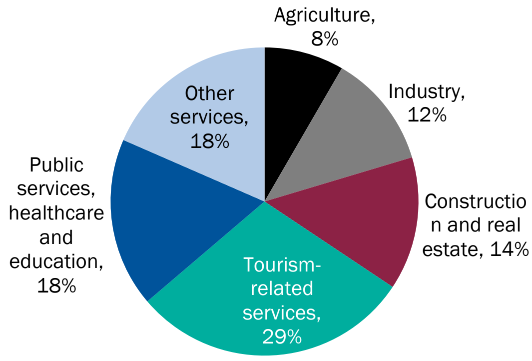
A sharp contraction in economic activity was followed by a robust recovery in 2021. Because of the pandemic and travel restrictions, foreign tourist arrivals declined by 85 per cent in 2020, leading to a sharp decline in GDP of 15.2 per cent. The contraction came primarily on the back of falling exports, 38 per

[4] See World Bank (n.d.a).
[5] See WTTC (2020).
[6] The number of tourist arrivals in collective accommodation.
[7] See World Bank (2020a). Share of GDP refers to 2020 and number of employees refers to 2019.
[8] See European Commission (2021c).
[9] See MONSTAT (2017).

cent of which were tourism related. Investment and consumption declined due to uncertainty and social restrictions. The recovery started in the second quarter of 2021 and sped up over the summer months thanks to a successful tourism season, as the government relaxed the majority of Covid-19-related restrictions and launched a campaign to attract tourists from neighbouring countries. Given the size of the shock in the first year of the pandemic, GDP has not yet surpassed its 2019 level, but is expected to do so in 2022.

Figure 2. A large share of Montenegro's economic output is generated by tourism-related services ...

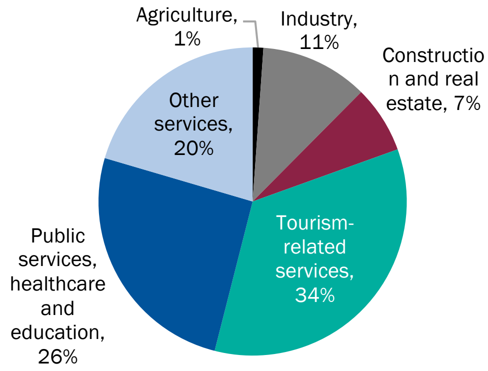
GVA by sector as a share of total, 2016-19



Source: MONSTAT, authors' calculations

Figure 3. ... which also employ the largest share of the workforce

Employment by sector as a share of total, 2016-19

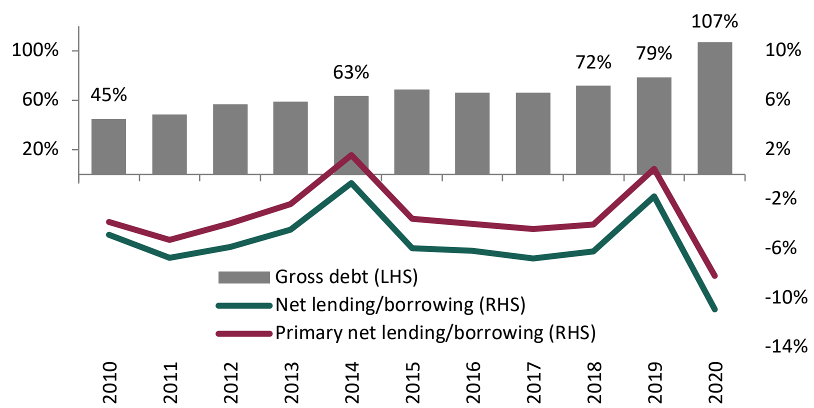


Source: MONSTAT, authors' calculations

Public debt soared, raising questions about fiscal sustainability. Government debt doubled between 2013 and 2019, from €2 billion to €4 billion (and from 59 per cent of GDP to 78.9 per cent of GDP). Despite the country's economic expansion during this period, the general government primary balance was negative in all but two years, averaging -2.3 per cent of GDP. The strong economic contraction during the pandemic led to lower government revenues and higher government spending to support the economy. To cover the financing gap, refinance debt and build a financial cushion, the authorities issued a €750 million Eurobond in December 2020, which drove public debt to 107 per cent of GDP as of year end. While the public debt-to-GDP ratio has declined by around 20 percentage points one year on, thanks to debt refinancing and a strong economic performance, it remains high, particularly given Montenegro's remaining infrastructural needs. Achieving public debt sustainability will require, among other things, the maintenance of a primary fiscal surplus in the medium term, sustained efforts to strengthen budgeting procedures and public investment management, including careful and timely cost-benefit analysis, improved public and tax administration, and a broadening of the tax base.

Figure 4. Fiscal space is tight

General government debt and deficits, % of GDP



Source: IMF (2021)

Box 1: The Bar-Boljare highway

The project aims to connect the Montenegrin coast with the Serbian border. The construction of the 170 km highway started in 2015, constructed by the China Road and Bridge Corporation and mostly financed by China ExIm Bank (85 per cent of the total cost). Currently, the first section (Smokovac-Matesevo) is under construction. It is 41 km long and, due to the difficult terrain, the most expensive section (around €1 billion, or 20 per cent of GDP).[10] According to the IMF, the construction of the remaining three sections may cost around €1.2 billion (close to 25 per cent of GDP).[11] The project has suffered significant delays and cost overruns. The first section of the highway, which was supposed to have been completed by the end of May 2019, is now planned for completion in 2022 and will cost significantly more than initially planned, partly because of US dollar appreciation, as the loan was dollar denominated. In July 2021, the government managed to convert the currency of the Chinese ExIm Bank loan for the Bar-Boljare highway from dollars to euro, eliminating future exchange-rate volatility risk and decreasing the interest rate.

[10] See IMF (2019a).
[11] See IMF (2022).

3. Key issues in the economy

3.1. Reducing informality and enhancing the business environment

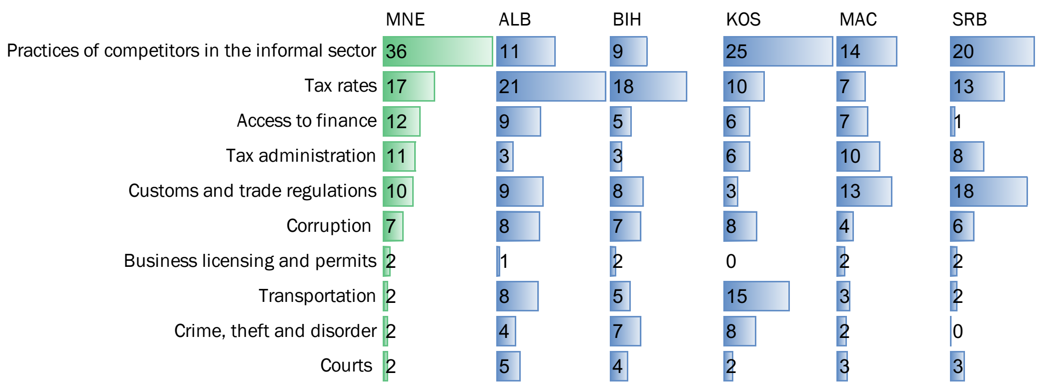
Montenegro has a large informal sector. According to the European Commission, the informal economy accounts for between 28 and 33 per cent of GDP.[12] A survey conducted in 2014 showed that almost one-third of employment in Montenegro was undeclared or partially declared (part of the salary was undeclared).[13] The large share of informality in the economy is to some extent down to the size of the agriculture sector. Agriculture is estimated to employ some 25 per cent of the workforce and traditionally exhibits the greatest share of informally employed and self-employed individuals. Following agriculture, the sectors characterised by the greatest portion of informality are the services (tourism), trade and transport sectors.[14] Further contributing to informal activity is the large undeclared flow of cash entering the country as remittances, particularly in the construction sector.[15]

A high degree of informality creates numerous regulatory and structural issues. These include corruption, weak tax compliance, a high regulatory burden, poor law enforcement capacity, difficult access to finance, labour-market weaknesses and perceived unfairness of the taxation system, coupled with low-quality public services.[16] Informality in Montenegro mainly concerns informal wages and labour, rather than unregistered firms. Its typically high tax wedge – the second highest in the Western Balkans, at around 39 per cent in 2021 – for those on the lowest incomes is perceived as one of key reasons. Consequently, a significant portion of the population suffered disproportionately during the pandemic, as it did not qualify for wage subsidies.[17]

Informality poses major challenges to business. In the 2019 Enterprise Survey,[18] one in four Montenegrin firms identified the practices of competitors in the informal sector as a major constraint on their operations. This was a deterioration from the previous survey round in 2013. Furthermore, every third firm identified the practices of competitors in the informal sector as their biggest obstacle to doing business. This is more than double the average of the other five Western Balkans economies.

Figure 5. Top 10 major constraints to doing business

Per cent of firms identifying it as such



Source: BEEPS VI

The government has been taking measures to combat informality. Over the years, the government has adopted various regulations to help formalise businesses. Most recently, the registry of fiscal and para-fiscal charges at state and local level were published to increase transparency, and the number of local taxes and fees was cut in March 2021.[19] Furthermore, the electronic monitoring of fiscal cash registers (e-fiscalisation) started on 1 January 2021, with full application from 1 June 2021. The electronic registration

[12] See European Commission (2019c).
[13] See UNDP (2016).
[14] See UNSDG (2020).
[15] See IMF (2019a).
[16] See European Commission (2019c).
[17] See European Commission (2021c).
[18] See World Bank Group (2020).
[19] These include an action plan to fight the informal economy in 2017, the establishment of a government Commission for the Suppression of the Grey Economy in 2018, a law on administrative fees, the elimination or reduction of 18 per cent of existing taxes and a new Labour Law in 2019 to eradicate undeclared work by increasing labour-market flexibility by reducing rigidities in longer-term contracts.

of new companies was enabled in July 2021 via the eFirma platform, reducing the time and costs required for registration.

The "Europe Now!" government programme is the latest ambitious attempt to combat the grey economy while increasing the living standards of the population and making tax policy fairer. The state budget for 2022, approved by parliament, features key components of the programme proposed by government. Personal and corporate taxation has been made progressive, health insurance fees have been abolished and the minimum wage was hiked by 80 per cent from 1 January 2022. According to the authorities, these measures will increase the average monthly net wage from around €500 to €700, help cut the share of undeclared wages and nearly halve the tax wedge on the minimum wage to 20 per cent.[20]

Tax rates also feature prominently as an obstacle to business. In the 2019 Enterprise Survey,[21] 17 percent of firms in the country cited tax rates as the second-biggest obstacle to doing business. This is, however, only half the percentage of the previous survey round, suggesting an improvement in recent years. In contrast, the share of firms identifying tax rates, the tax administration and/or business licensing and permits as major constraints on doing business doubled between the two survey rounds.

SMEs in Montenegro still face major credit constraints. In 2019, 16 per cent of SMEs cited access to finance as the largest problem their firm was facing, the highest share in the Western Balkans economies.[22] In the previous round of the Enterprise Survey, almost six out of 10 SMEs that cited the need for a loan were unable to secure one. That number declined to five out of 10 in the latest survey, but this is still high compared with peers in the region.[23] These slight improvements happened against a backdrop of a more stable banking sector, with increasingly sound solvency and liquidity indicators. High levels of non-performing loans (NPLs) after the financial crisis had dropped to around 5.1 per cent as of the end of 2019 and increased only slightly during the pandemic, amounting to 6.6 per cent of all loans as of end September 2021. According to the central bank's lending survey, in 2020 and 2021, there was a continued rise in demand for company loans, with households largely following suit.[24] This was attributed to a growing need for debt restructuring, liquidity and working capital.

The main reasons businesses said they failed to get a loan were high interest rates, overly complex application procedures and insufficient collateral. This was echoed in companies' response to whether they had benefitted from any public support to access financing. The 2021 ECB SAFE survey reveals that although 32 per cent of firms said grants or a subsidised bank loan would be relevant to their firm, only six per cent actually benefitted from one in the six months preceding the survey. Though this might suggest poor quality of demand (for example, insufficiently prepared projects) amid prudent regulation, it could also indicate a need for financial products other than bank loans. In this context, alternatives to bank financing could play an important role. Montenegro took an important step in 2017, when it adopted a new law on financial leasing, factoring, the purchase of claims, micro-credit and credit guarantee issues. There have been some moderate improvements since, but in 2021, the use of leasing and factoring in Montenegro stood at 5 per cent and 10 per cent, respectively, despite their recognition as relevant sources of finance (32 per cent and 12 per cent of respondents, respectively). A new guarantee scheme to support companies through a new credit guarantee fund is under discussion and expected to be launched in 2022.

3.2. Diversifying the economy and developing a more sustainable tourism model

Montenegro is one of the 20 countries most dependent on tourism globally. Inbound tourism expenditure comprised 22 per cent of GDP in 2018.[25] In 2019, tourism accounted for 54 per cent of total exports, significantly more than in neighbouring tourism-reliant countries Albania, Croatia and Greece (38 per cent, 35 per cent and 28 per cent, respectively).[26] The tourism industry employs a substantial portion of the population in Montenegro – 9.2 per cent of total direct employment prior to the pandemic in 2019 and, including indirect and induced contributions (through investment, spending, retail trade, etc.), close to one-third of all employed people.[27]

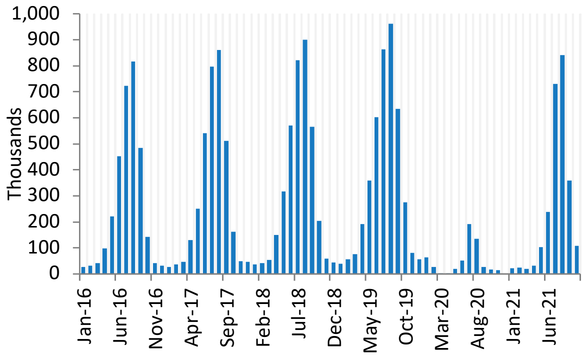
Tourism is characterised by high seasonality due to the prevailing "sun and beach" tourism model and by limited diversification of source markets. Montenegro attracts tourists mostly during the summer months, so it comes as no surprise that almost two-thirds of international tourist receipts in 2019 were generated

[20] See Ministry of Finance and Social Welfare (2021a).
[21] See World Bank Group (2020).
[22] See ECB (2021).
[23] On average, four out of 10 (mainly driven by credit-constrained firms in Montenegro and North Macedonia)
[24] See CBCG (2021a).
[25] See UNCTAD (2020).
[26] See UNWTO (n.d.a).
[27] Source: WTTC, 2021 Annual Research – Montenegro Key Highlights

in the third quarter.[28] The seasonality of tourism presents several challenges: it entails an inefficient use of resources, low returns on capital and difficulties in recruiting and retaining full-time employees. It can also cause congestion, overcrowding, the overuse of resources and pollution.[29] Montenegro's updated Nationally Determined Contribution (NDC) clearly underlines that adaptation measures must be taken to protect tourism, as the sector is already being affected by drought and further negative impacts are projected due to issues associated with groundwater availability and high daily temperatures, both of which are exacerbated by seasonality. The seasonality of Montenegro's tourism has also led to unbalanced regional development, as 90-95 per cent of accommodation capacity and tourist traffic are in coastal regions.[30] Lastly, the sector relies on a limited number of source markets, which have become more concentrated since the pandemic, as accessibility by car has remained an important draw in light of air and other travel restrictions. In 2019, tourists from the Western Balkans accounted for 20 per cent of all foreign tourists, rising to 44 per cent in the first 11 months of 2021. Some geographical diversification was observed in 2021, as the number of tourists from Ukraine had more than tripled in the first 11 months from full-year 2019, making the country the second-largest source of tourists in that period.

Figure 6. Tourism is highly seasonal …

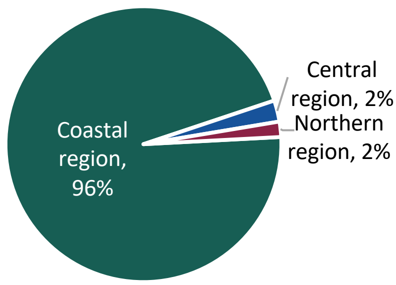
Number of overnight stays of foreign visitors in collective accommodation



Source: MONSTAT

Figure 7. … and concentrated along the coast

Number of overnight stays of foreign visitors per region, share of total, 2017-19 average



Source: MONSTAT, authors' calculations

The key role and features of tourism in Montenegro render the economy particularly vulnerable to external shocks such as Covid-19 … The pandemic led to the adoption of strict containment and prevention measures, including the temporary closure of borders and the halt of tourism. The economy was hit hard and faced the largest contraction in output since its independence.[31] According to the United Nations Conference on Trade and Development (UNCTAD), the strong interlinkages between tourism and other economic sectors, especially in tourism-dependent economies, mean that "GDP effects are much greater than the loss of tourist expenditure because of the indirect effects through the supply chain".[32]

… necessitating the diversification of the economy or at least the broadening of the tourist offering beyond summer coastal tourism. Tourism experiences complementing the currently prevailing "sun and beach" model might include nature-oriented, rural, culinary, health and sports-related tourism, among other things. Alternative tourism offerings could attract interest to central and northern parts of the country, which are rich in cultural and nature-based heritage sites, and enhance the country's attractiveness during the typically off-peak seasons, mitigating the environmental and social risks caused by the high concentration of tourists in a short period in one part of the country. The Montenegro Tourism Development Strategy to 2020 explicitly refers to the need to diversify beyond coastal tourism, easing pressure on the summer months, addressing regional disparities and focusing on upscale, high-quality and higher-value-added tourism in order to achieve a sustainable form of tourism.[33]

The diversification may entail closer linkages between tourism and other sectors, notably agriculture and health. Agriculture is another important sector in the Montenegrin economy, but the degree of informality

[28] See UNWTO (n.d.b).
[29] See Bigovic (2011).
[30] See Government of Montenegro (2019).
[31] See IMF (2020).
[32] See UNCTAD (2020).
[33] See Montenegro Ministry of Tourism and Environment (2008).

in agricultural employment is high.[34] Agriculture is characterised by semi-subsistence farming and traditional production, most of which is not part of the agrifood chain. Also, small farm sizes (less than 6 hectares, on average, but mostly between 0.1 and 0.5 hectares)[35] make it difficult to achieve economies of scale. Stronger links between agriculture and tourism are considered an important diversification strategy – linking tourism with the food sector could promote sustainable agrifood value chains.[36] There are two potential pathways to achieving this goal. One is the development of rural tourism, especially in the northern region, which accounts for the majority of the country's territory, arable land and livestock holdings. The second is by developing gastro-tourism, by enhancing the backward linkages between the hospitality, restaurant and catering sector in the coastal region and local farmers. In addition, the existing synergies between the healthcare sector and tourism have growth potential thanks to Montenegro's favourable climate, the good quality of its health services, qualified staff and competitive prices.[37] This growing segment of the market will entail collaboration with scientific and educational institutions and the capacity to innovate continuously in order to offer highly specialised and sophisticated treatments. "Sustainable and health tourism" is also acknowledged as one of four priorities in the Smart Specialisation Strategy of Montenegro 2019-2024.[38]

Still, an important precondition to diversifying the country's tourism offering is improving access to tourist destinations and developing more appropriate infrastructure and human resources. Effectively diversifying tourism away from the "sun and beach" model can only be achieved with some parallel investments in transport infrastructure (such as airport capacity and the road network) and municipal utility infrastructure (water supply systems, sewerage, waste management). Also, there is a lack of skilled workers in the tourism sector, necessitating the provision of adequate education and training in hospitality, catering, languages, health standards and similar services. Furthermore, due to labour shortages, a significant share of those employed in the hospitality sector are seasonal foreign workers. In 2019, 20 per cent of work permits issued were for the seasonal employment of foreign workers. [39] According to the authorities, as taxes and social-security contributions are not paid during their stay, this puts pressure on state finances.[40]

Climate change resilience is an important aspect of sustainable tourism development. Montenegro is vulnerable to climate change due to its geography, topography and socioeconomic characteristics. Climate change impacts have already manifested themselves and are expected to result in greater impacts on sectors such as tourism, agriculture and urban infrastructure, including water infrastructure and transport. Because of its importance in terms of value creation, climate resilience in Montenegro's tourism sector is of critical importance and is prioritised in the updated NDC.

Montenegro's information and communications technology (ICT) sector also has potential to create jobs and could help increase the sustainability of the tourism sector.[41] The sector has developed dynamically in recent years, accounting for 4.1 per cent of GDP in 2020.[42] Eighty-four per cent of companies in Montenegro have a website, a shade below the EU average (94 per cent),[43] and the country ranks relatively high in the ICT Development Index 2019 (52nd out of 176 economies).[44] The government considers the sector a priority, but acknowledges its challenges (such as the adaptation of educational outcomes to market needs, the outflow of ICT experts, the lack of founding capital for start-ups, the fragmented competence of the state administration and reactive rather than strategic management in companies with regard to ICT).[45] Combining ICT with tourism could bring benefits to both sectors. The government adopted the Programme for Attracting Digital Nomads in Montenegro to 2025, with an Action Plan for 2022 which intends to attract so-called "digital nomads", or people who work remotely and do not have a fixed location, to Montenegro. The plan also announced a digital nomad visa programme.

Montenegro is particularly vulnerable to climate change due to its geography, topography and socio-economic characteristics. Climate change impacts are already manifest and expected to result in greater impacts for key sectors, such as water availability and agricultural production.

[34] According to World Bank (2018b), only about 5 per cent of agricultural employment in 2010 appeared to be formal.
[35] See MONSTAT (2017).
[36] For more, see FAO (2018).
[37] See Montenegro Ministry of Science (2019).
[38] Ibid.
[39] See ILO and EBRD (2020).
[40] See Ministry of Economic Development (2021).
[41] See World Bank (2018b).
[42] See MONSTAT (2021a).
[43] See Eurostat (n.d.).
[44] See ITU (2017).
[45] See Montenegro Ministry of Science (2019).

Box 2: Trade integration of Montenegro: a long way to go

Although more open than the average Western Balkans economy, Montenegro has a very different external trade structure. Some other Western Balkans economies have a robust industrial and agricultural base, with relatively strong goods exports, ranging from 33 per cent of GDP in Bosnia and Herzegovina to 58 per cent in North Macedonia in 2020.[46] Montenegro, however, exports predominantly services. Service exports accounted for 34 per cent of GDP prior to the pandemic (up from 20 per cent in 2006), by far the highest level in central and south-eastern Europe, exceeding that of Croatia, a country with a similarly strong reliance on tourism revenues. Goods exports accounted for only 9 per cent of GDP in 2019 (down from 20 per cent in 2006). In 2020, these shares amounted to 16 per cent of GDP for services and 10 per cent for goods, according to the country's balance of payments.

Montenegro is traditionally a net importer of goods and exporter of services. A large trade deficit in goods (close to 45 per cent of GDP in 2019) was partially offset by a trade surplus in services (23 per cent of GDP) prior to the pandemic, but the overall trade and current account deficits remained significant (at 21 and 15 per cent of GDP, respectively). In 2020, the current-account deficit increased drastically as the borders closed and service exports plummeted, before recovering in 2021. Exports of services in 2020 and the first three quarters of 2021 stood at 40 per cent and 84 per cent of 2019 levels, respectively. Goods exports remained far more stable throughout the pandemic, even surpassing pre-pandemic levels in 2021.

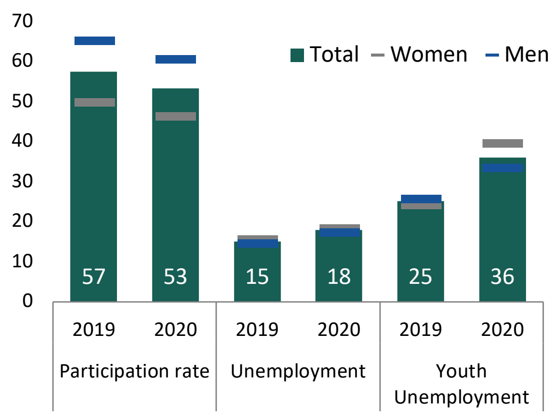
Montenegro's goods and services exports are concentrated in the Western Balkans countries. The country exports mostly mineral products and base metals and around 45 per cent of goods exports go to Central European Free Trade Agreement (CEFTA) countries, primarily Serbia, followed by Kosovo and Bosnia and Herzegovina. Exports to the EU account for less than 40 per cent of all exports.

There are opportunities to increase both goods and services exports. A 2019 analysis of comparative advantage shows that Montenegro exports more wood products, alcoholic drinks, iron and steel products, ships and boats, transmission shafts and meat products than its global share of exports would suggest.[47] Diversifying and increasing the sophistication of its tourism offering, as well as building on some existing strengths (for example, in IT services) could also bring results.[48]

3.3. Strengthening economic inclusion and raising skill levels

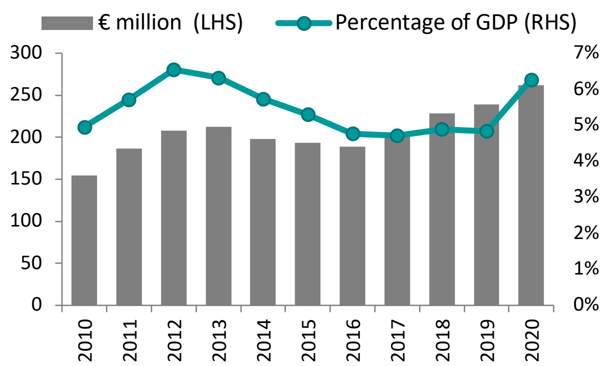
Figure 8. Labour-market indicators

Per cent



Source: MONSTAT, authors' calculations

Figure 9. Remittances sent to Montenegro from abroad have increased in the past decade



Source: MONSTAT, authors' calculations

The labour market suffers from structural issues, exacerbated by the pandemic. A high level of informal employment has resulted in a low formal participation rate (53.3 per cent in 2020, down from 57.4 per cent in 2019). The unemployment rate is persistently high (17.9 per cent in 2020, up from 15.1 per cent in 2019), with the long-term unemployed accounting for 75 per cent of unemployment (79 per cent in 2019). Geographically, the activity rate is lower and unemployment higher in the northern region (37.8 per cent

[46] Data from the Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia.
[47] See IEDC Bled School of Management – CEEMAN (2019)
[48] IEDC Bled School of Management – CEEMAN (2019) reveals that Montenegro has firms that are regional leaders ("hidden champions") in port solutions for superyachts and mega yachts, as well as in domain registration.

compared with a nationwide rate of 17.9 per cent in 2020). Employment is concentrated in sectors with lower productivity and lower wage growth. Gender and youth gaps are pronounced and persistent.[49]

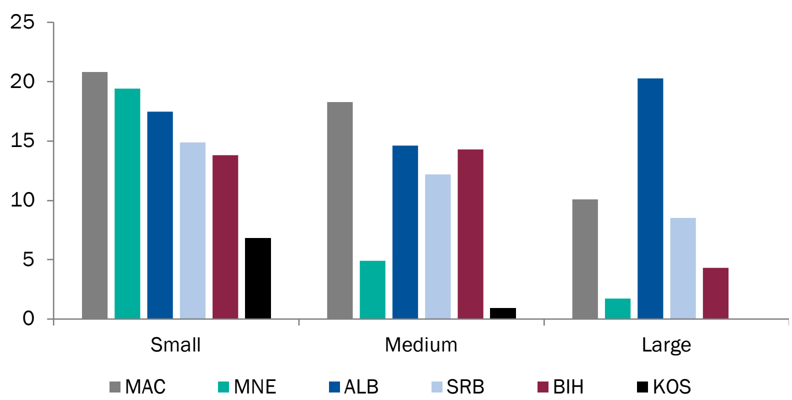
The challenging labour-market situation has caused external and internal migration flows. According to the European Training Foundation (ETF), some indicators point to growing emigration. The global Montenegrin migrant stock ratio to its population size stood at 24.6 per cent in 2019, a slight increase on 2010 (24.1 per cent). The total number of first-time work permits issued by EU countries has almost quadrupled since 2010. As a result, the size of remittances sent from abroad has been increasing. Some of the most common reasons why Montenegrin emigrants go abroad are the lack of quality jobs in the local market, wage gaps, skills mismatches and high youth unemployment. On the other side, pull factors include better living standards in destination countries, better employment options and an existing diaspora. Internal migration primarily involves the population moving from the northern region to the central and southern parts of the country (and from rural to urban areas), which offer more job opportunities, causing the depopulation of municipalities in the north.[50]

- *High inactivity of the female population and gender gaps*

The gender gap in activity rates has increased in recent years. Between 2012 and 2019, the activity rate (for those aged 15 and over) rose 7 percentage points to 58 per cent.[51] While in many Western Balkan countries, this was driven by a higher female labour-market participation rate, this was not the case in Montenegro, where the gender gap widened somewhat to 15 percentage points in 2019, narrowing only slightly to 14 percentage points in 2020. The participation of women in the labour market in Montenegro is around 8 percentage points lower than the EU average. Similarly, the gender gap in employment rose from 11 to 14 percentage points between 2012 and 2019. Limited childcare options and negative social norms in relation to women's employment contribute to these gaps.[52] The decline in economic activity during the Covid-19 pandemic has led to a reduction in the employment rate to 50 per cent from 56 per cent in 2019 and to a further decline in the female employment rate to less than 45 per cent in 2020 from 50 per cent in 2019.

Figure 10. There are fewer medium and large companies with female owners than in most other countries in the neighbouring region

Percentage of total



Source: BEEPS VI

There is also a gender wage gap. Although slightly more employed women than men have tertiary education, men earn on average about 6 per cent more than women. The differences between men and women in labour-market activity amount to potential economic losses in gross income per capita of about 13.5 percent for Montenegro, according to World Bank estimates.[53] Despite measures to secure greater equality between women and men in employment and social policies, women still face various forms of discrimination, especially when it comes to permanent employment contracts and access to paid maternity leave. Women's employment initiatives and projects have gained in importance and visibility, but the results have yet to come. Women continue to face barriers to joining the workforce and, while the wage gap

[49] See MONSTAT (2021a).
[50] See ETF (2021).
[51] World Bank (2020a) (national estimate).
[52] For more detail, see, for example, World Bank (2018b).
[53] See World Bank (2018b).

is higher in the private sector, women in the public sector also earn less than men, despite being more educated and having better jobs, on average.[54]

Entrepreneurship also shows gender gaps. The latest data show that only 15 per cent of firms have a woman as manager, while only 15 per cent of firms have a woman as majority owner.[55] However, this aggregate figure is very similar to that of the whole region. A significant difference between Montenegro and the rest of the region shows up in the disaggregated data: Montenegrin women are far more likely to be owners of small companies than of medium-sized and large ones. Less than two per cent of large firms and less than five per cent of medium-sized ones are owned by women (compared with 9 and 12 per cent in the broader region, respectively). In October 2021, the government adopted a Strategy for the Development of Women's Entrepreneurship for 2021-24, along with an Action Plan for 2021-22, to promote women entrepreneurs.

Access to finance for women is constrained by poor access to property. Women own only one in four registered properties.[56] This makes it harder for them to obtain bank loans as they have less collateral.

- *High youth unemployment*

Young people are more likely to be unemployed than other adults. In 2019, the youth unemployment rate stood at 25.2 per cent (vs 15.1 per cent for older adults). The Covid-19 pandemic worsened the situation for young people, limiting the range of jobs on the market, especially seasonal work and jobs in the service sectors. The youth unemployment rate rose to 36 per cent in 2020.

The situation of young people in the labour market had been improving prior to the pandemic, with increasing labour-market participation rates, rising employment and declining unemployment rates.[57] However, young men have benefitted more than young women, also bettering those with higher educational attainment.[58] Moreover, 17 per cent of young people in 2019 were not in employment, education or training (NEET), with young men more likely than young women to be disengaged.[59] A much smaller decrease in the NEET rate than in the youth unemployment rate between 2012 and 2019[60] signals the low activation level of youth as a pervasive problem. The unfavourable labour-market situation brought about by the pandemic was reflected in a near 4 percentage point increase in the NEET rate to 21.1 per cent in 2020.

Obstacles to youth employment are diverse. A high reservation wage level is often cited as a cause of low youth employment rates, but this may be truer in coastal areas than in the northern part of the country, where vacancies are scarcer and youth unemployment is higher. According to a study,[61] three out of four youths think that the biggest obstacle to finding a job is that there are not enough jobs available. The rest cited a lack of work experience, under-qualification, low wages, poor working conditions or being too young.

- *Skills mismatches*

Skills mismatches are also hindering youth employment (and, consequently, workforce productivity and economic development). Problems in making the transition from school, unemployment or inactivity into employment can be partly explained by the level of education and relevance of skills.[62] Although Montenegro's share of tertiary educational attainment is lower than the EU average, the labour market still cannot adequately absorb all higher education graduates. There is an oversupply of business and humanities graduates and a shortage of medical, technology and mathematics graduates, resulting in occupational mismatches in relation to labour-market opportunities.[63]

Current vocational education and training (VET) provision in Montenegro is mostly state-led and school-based.[64] Government reform priorities in the areas of education, employment and social policies include reforming curricula with the support of sector councils; improving school-to-work transitions through work-based learning; promoting vocational professions; supporting apprenticeships; and providing effective

---

[54] See European Commission (2019b).
[55] See World Bank Group (2020).
[56] See World Bank (2018b).
[57] In 2019, the youth (15–24 years of age) labour-force participation rate was 36.5 per cent, the youth employment rate was 27.3 per cent and the youth unemployment rate was 25.2 per cent.
[58] Employment gains for young people are partly due to higher employment levels and partly due to demographic factors (the population in this age group has declined by 8 per cent since 2010), according to ILO and EBRD (2020).
[59] See ILO and EBRD (2020).
[60] See World Bank and wiiw (2019).
[61] See Djuric (2016).
[62] See ETF (2019).
[63] See European Commission (2021c).
[64] See ETF (2020a).

employment services and active labour-market programmes (ALMPs). In 2018 and 2019, the government emphasised practical learning opportunities throughout the education system and in ALMPs, which was expected to continue in 2020. Revised VET legislation includes an apprenticeship system.[65] The biggest change is the introduction of dual VET education, which involves parallel learning and work with an employer for VET students, while the student gets paid.[66] In 2021, a pilot model began to develop a dual education model in four faculties of the University of Montenegro.

Skills mismatch affects innovative firms, in particular, which find it difficult to hire professionals and skilled workers. Young workers often lack soft skills (such as languages, leadership, initiative and critical thinking), but also advanced hard skills (such as technical knowledge).[67]

3.4. Improving SOE governance

Montenegro's public sector is large, inefficient and challenging. The public sector as a whole is a large employer, particularly in light of the comparatively lower economic output it creates. According to the European Commission,[68] strong political will is needed to effectively depoliticise public service, optimise the state administration and introduce managerial accountability. Montenegro is moderately prepared on the reform of its public administration and has made a limited amount of progress in the past year.

Montenegro has a large state-owned enterprise (SOE) sector that is plagued by poor efficiency. Although the government has not published a list of SOEs, a study shows that their assets equalled around 100 per cent of GDP in 2016, the highest percentage of the central, eastern and south-eastern European countries.[69] At the same time, many companies were loss making (the sector-wide return on assets (ROA) averaged 0.5 per cent in 2014-16), with the cost of employees comprising around 40 per cent of total revenues between 2014 and 2016. Although, the sector seemed to be liquid, the claim collection period was the highest among the countries observed, extending to more than 225 days, on average, indicating inefficiencies in managing liquidity.[70]

SOEs in Montenegro are regulated by the general Companies Law, which was updated substantially in 2020. Newly formed SOEs can be established in the form of limited liability companies or joint stock companies. In addition, a small number of SOEs still operate as public enterprises, despite the fact that the Law on Public Enterprises has ceased to have legal effect and some of the adjacent legislation regulating certain aspects of those entities' operations still applies to those entities.

There are no detailed rules on the exercise of the state's ownership function. There is no government policy (for example, a state ownership policy) or law in Montenegro defining the overall objectives of state ownership or the manner in which it is implemented. Similarly, the IMF[71] notes that there is no centralised oversight of SOEs, while the OECD[72] observes that the ownership function of most SOEs is exercised by three state funds (the Unemployment Fund, the State Pension Fund and the Investment Development Fund). Certain aspects of the ownership function appear to be centralised in the Ministry of Finance, which also acts as an owner of some SOEs, and there seems to be a unit within it that monitors the performance of SOEs.[73] However, there is very little information on how the ownership function is exercised in practice. In 2021, the Ministry of Capital Investments established a unit to improve the corporate governance of companies in which it acts as owner. Improvements in transparency can be seen as a result of these efforts, with the ministry publishing quarterly aggregate performance reports for the companies in its portfolio in 2021. It has also published select SOE governance documents on its webpage. In August 2021, the government established a consulting company, Montenegro Works, to oversee and analyse the financial performance of SOEs and ensure the proper implementation of the reforms necessary to increase their efficiency. The company will provide strategic guidelines to the government on establishing appropriate policies for managing SOEs.

All SOEs except for small and medium-sized limited liability companies are required to establish a board, with a one-tier system being the norm.[74] The Companies Law, adopted in mid-2020, allows SOEs to choose between a one- and a two-tier system. There does not seem to be a well-regulated process for identifying suitable candidates for board membership and neither SOEs nor the authorities seem to rely on

---

[65] Ibid.
[66] See ETF (2019).
[67] See World Bank (2018b).
[68] See European Commission (2021c).
[69] See EBRD (2020a).
[70] Ibid.
[71] See IMF (2019b).
[72] See OECD (2018).
[73] See Ministry of Finance and Social Welfare (2021b).
[74] Consists of a single board of directors.

nomination policies or pools of board-ready candidates to ensure the most appropriate board composition. According to the IMF,[75] independence and competencies are not required of board members. The Companies Law has introduced a requirement for independent members in joint stock companies, but it is still unclear how this will be achieved given the lack of nomination process.

The responsibilities of boards do not seem to be defined in line with best practices and boards seem to lack some key functions (such as approving business plans and budgets, setting and monitoring performance objectives, and overseeing internal controls and risks). Boards' responsibilities do not seem to include oversight of environmental, social and governance (ESG)/climate-related risks and opportunities. They are not required to establish subcommittees to assist them in specific matters. The Law on Auditing requires the establishment of audit committees for public interest entities, but this is not necessarily a board committee, as it can be appointed by the general shareholders' meeting and does not have to include board members.

The basic features of the control framework seem to be adequately regulated. SOEs are required to have internal audit units and to undergo external audits of their financial statements. They are also subject to state-level audits. According to the IMF,[76] the SOE financial oversight framework in Montenegro is among the better ones in central and south-eastern Europe. Also, there is an obligation to adopt codes of conduct for SOE employees, while the provisions of the Anti-Corruption Law provide general protection for whistle-blowers.

SOEs' non-financial disclosures are not very elaborate. Only a small minority of the companies analysed for this diagnostic discloses their articles of association, minutes of the general shareholders' meeting, board members' qualifications, audit committee composition and board and audit committee activities on their websites or in their annual reports. The situation improved slightly in 2021, when articles of association were published for all SOEs under the remit of the Ministry of Capital Investments. The OECD also notes that SOEs in Montenegro (but other companies as well) "do not necessarily respect their reporting requirements, preferring instead to incur penalties imposed by tax and other authorities".[77]

3.5. Ensuring the rapid transition to a green economy is just

Montenegro is more energy and carbon intensive than the average EU country … Compared with the EBRD region and Western Balkans averages, Montenegro is less energy and carbon intensive on certain indicators. However, it performs poorly compared with the EU.[78] Although Montenegro's energy intensity declined by 31 per cent[79] between 2005 and 2019, it remained around 20 per cent, above the EU average.[80] Similarly, Montenegro's carbon intensity was around 40 per cent higher than the EU average in 2018.[81] This was largely driven by fossil-fuel use and aluminium smelting.

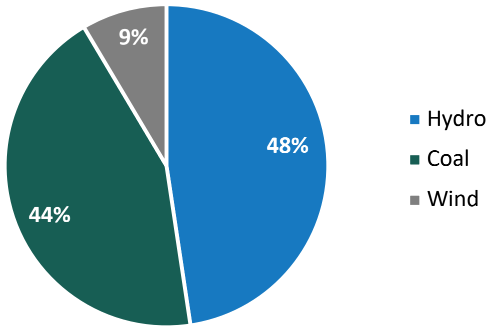
… mainly due to its coal and aluminium industry. Two companies stand out. The state-owned coal-fired thermal power plant (TPP) Pljevlja produces around 50 per cent of Montenegro's electricity, with its inputs coming largely from the Pljevlja coal mine. The rest of the country's electricity is produced by two hydropower plants and, recently, smaller wind farms. Electricity is also imported according to need. The privately owned Kombinat Aluminijuma Podgorica (KAP),[82] the smallest aluminium smelter in Europe, consumes around 5 per cent of the country's electricity, or about 40 per cent of the energy used by the country's industrial sector.[83] In 2015, its aluminium smelting process accounted for 8.3 per cent of the country's greenhouse gas emissions (or 75 per cent of those of the entire industrial sector).[84] Specific mitigation measures for the aluminium industry have been mentioned in the country's updated NDC. Technological improvements in the aluminium production facility will have substantial co-benefits, such as the reduction of air pollutants and lower emissions.

---

[75] See IMF (2019b).
[76] See IMF (2019b).
[77] See OECD (2018).
[78] In total energy supply (TES)/GDP purchasing power parity (PPP) terms, Montenegro's energy intensity was 0.092 in 2018, lower than all Western Balkans economies except for North Macedonia and Albania. This compared with 0.119 on average, in the EBRD regions and 0.078 in the EU. In terms of carbon intensity, Montenegro recorded 0.219 CO_2/GDP PPP in 2018 (higher only than Albania among the Western Balkans economies), compared with 0.277 in the EBRD regions and 0.153 in the EU, on average. See IEA (n.d.a).
[79] To 4.5 MJ/$2011 PPP GDP in 2015.
[80] See IEA (n.d.a).
[81] See IEA (2019).
[82] KAP entered bankruptcy proceedings in 2013 and was sold by the government in 2014.
[83] See International Energy Charter (2018); IEA (2017).
[84] See MSDT and UNDP (2019).

Figure 11. Vast majority of electricity is generated by a coal-fired thermal power plant and two hydro plants

Percentage of total, 2019



Source: IEA

Carbon-intensive assets are increasingly facing transition risks. The EU accession process requires Montenegro to harmonise its policies with the EU *acquis communautaire*.[85] This, together with the country's economic challenges and its inability to raise capital has led to the cancellation of investment plans at a second coal-fired power plant – Pljevlja II – and the cancelation of expanded production at the Berane coal mine. In spring 2021, the Energy Community launched an infringement procedure against the country for the continued operation of TPP Pljevlja, as the plant exceeded the operating hours allowed under the opt-out mechanism. While an environmental overhaul is planned to extend the TPP's lifetime and decrease emissions, as of January 2022, works had not yet been launched. Meanwhile, Montenegrin officials said that the plant could be shut down by 2030 as part of a broader coal phase-out.[86] To comply with the Large Combustion Plants and Industrial Emissions Directives, the owners of the KAP aluminium smelter also announced an investment worth €26 million in overhauling and upgrading the facility.[87] The transition could be further accelerated by the EU accession process and the changing economics of renewables.

Although the green economy transition is likely to result in significant net benefits, these will not be evenly distributed. In Montenegro, coal-related activities employed around 1,400 people in 2019, equivalent to 0.7 per cent of total employment.[88] Due to the company's economic challenges and subsequent privatisation, the KAP workforce decreased from 1,200 in 2013 to 500 in 2019.[89] The concentration of coal-related jobs in Pljevlja municipality makes it particularly vulnerable to transition risks. Some 15 per cent of the municipality's labour force is employed in coal-related activities.[90] The reduction of capacity or closure of the TPP and mines would not only create issues for the country's energy supply, but also for regional employment and development. The challenges emerging during this transition process[91] are expected to be twofold: while experience suggests that 25 to 35 per cent of workers will be declared redundant, there will be demand for 15 to 20 per cent of workers possessing new skills. It is estimated that only 10 per cent of those in redundant jobs will be able to retain employment through training programmes, while the remainder will not be considered re-employable in the local labour market.[92] The majority of workers in the Pljevlja coal mines are male and over 46 years of age, and 70 per cent lack any qualification.[93] In addition, the northern region of the country (where Pljevlja is located) has the highest unemployment rate in the Western Balkans, at 35 per cent.[94] Hence, active labour-market policies will be needed to assist workers in finding quality new jobs. To date, the coal industry, KAP and the

---

[85] See International Energy Charter (2018).
[86] See Spasić (2021); Balkan Green Energy News (2021).
[87] See Industry Europe (2019).
[88] See MONSTAT (2020a).
[89] See International Energy Charter (2018); Djukanovic (2019).
[90] The Pljevlja mine employed 861 people (Euracoal, n.d.) out of the 5,762 people employed in the municipality overall (MONSTAT, 2019b) in 2018.
[91] The coal mine has already seen a 38 per cent reduction in employment from 2010 to 2017 (CEE Bankwatch Network, 2018).
[92] See Government of Montenegro (2014).
[93] For more detail, see banker.me (2019).
[94] See World Bank and wiiw (2019).

government have not undertaken any planning to ensure that the benefits of the green economy transition are shared, to protect vulnerable regions and prevent people from falling behind. Early planning could help to ensure a smoother, just transition to a low-carbon economy in Pljevlja.[95] In June 2021, Montenegro joined the Powering Past Coal Alliance (PPCA) to promote the phase-out of coal and the transition to clean energy. The country has announced it will end power generation from coal by 2035. Implementing plans for this goal remain to be developed.

Improving energy efficiency could bring great benefits, particularly to the residential sector. Montenegro's residential sector accounted for 42 per cent of electricity consumption in 2019, whereas the EU27 average was 29 per cent the same year. At the same time, the penetration rates of energy-efficient equipment, appliances and materials are generally very low in Montenegro. Consequently, the technical opportunities for improving energy efficiency in existing buildings are tremendous, with potential energy savings estimated at between 30 and 50 per cent of total energy consumption.

Montenegro has been advancing its regulatory framework to support the green economy transition. Having signed the Paris Agreement on 22 April 2016, Montenegro incrementally increased its mitigation pledge by submitting an updated NDC as of June 2021, with an economy-wide mitigation target of at least a 35 per cent reduction in total national GHG emissions. Montenegro further enhanced its NDC by introducing adaptation-related measures and priorities. Montenegro is the only country in the Western Balkans region so far that has introduced a cap-and-trade scheme for major CO_2 emitters (in February 2020), setting a minimum price of €24 per tonne of CO_2. The legal basis for the development and adoption of the National Energy and Climate Plan (NECP) was included in the Law on Energy in July 2020. The country joined the Past Coal Coalition, which commits to accelerating the transition from coal to clean energy, announcing that it will phase out coal by 2035. The country is also a signatory to the 2020 Sofia Declaration, which foresees the alignment of the Western Balkans with the future European Climate Law.

---

[95] See EBRD (2020b).

Bibliography

Balkan Green Energy News (2021), "Montenegro on the fence about TPP Pljevlja overhaul", 20 September (available at: https://balkangreenenergynews.com/montenegro-on-the-fence-about-tpp-pljevlja-overhaul/?nowprocket=1),

Bankar.me (2019), "30 per cent of the employees in state owned companies are over 56 years of age", 27 September (available at: https://www.bankar.me/2019/09/27/u-drzavnim-firmama-30-zaposlenih-ima-preko-56-godina/).

M. Bigovic (2011), "Quantifying seasonality in tourism: a case study of Montenegro", *Academica Turistica – Tourism and Innovation Journal*, 4(2): 15-32 (available at: https://www.researchgate.net/publication/278848793_Quantifying_seasonality_in_tourism_a_case_study_of_Montenegro).

CBCG (2019), *Financial Stability Report 2018*, Podgorica, Central Bank of Montenegro (available at: https://www.cbcg.me/en/publications/regular-publications/financial-stability-report/financial-stability-report-2018).

CBCG (2021a), *Report on Bank Lending Survey Results: First Quarter 2021*, Podgorica (available at: https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_publikacije/izv_rez_ankete/rep_on_bank_lending_survey_results_q1_2021.pdf).

CBCG (2021b), *Annual Report 2020*, Podgorica (available at: https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_publikacije/god_izv_o_radu/cbcg_annual_report_2020.pdf).

CEE Bankwatch Network (n.d.), "The energy sector in Montenegro", Prague (available at: https://bankwatch.org/beyond-coal/the-energy-sector-in-montenegro).

CEE Bankwatch Network (2018), *The Great Coal Jobs Fraud: How Unrealistic Employment Claims Are Deceiving Coal Mining Communities in Southeast Europe and Delaying a Just Transition to Sustainable Energy*, Prague (available at: https://bankwatch.org/wp-content/uploads/2018/06/Jobs-study-june-2018-update-ENG-CEE-Bankwatch.pdf).

CGES (n.d.), "Trans-Balkan Corridor Section Montenegro", Podgorica (available at: https://www.cges.me/en/projects/trans-balkan-corridor, last access 11 August 2020).

G. Djukanovic (2019), "Research and Investment Hail Changing Tides for Montenegro's KAP. Aluminium Insider", 6 May (available at: https://aluminiuminsider.com/research-and-investment-hail-changing-tides-for-montenegros-kap/).

D. Djuric (2016), *Labour Market Transitions of Young Women and Men in Montenegro*, Geneva, International Labour Office, Geneva, Switzerland (available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_477695.pdf).

EBRD (2017), *Corporate Governance in Transition Economies: Montenegro Country Report*, London (available at: https://www.ebrd.com/documents/legal-reform/montenegro.pdf).

EBRD (2019), *Introducing the EBRD Knowledge Economy Index*, London (available at: https://www.ebrd.com/documents/policy/download-the-ebrds-knowledge-economy-index.pdf).

EBRD (2020a), *Economic Performance of State-Owned Enterprises in Emerging Economies: A Cross-Country Study*, London (available at: https://www.ebrd.com/what-we-do/economic-research-and-data/cse-economists/economic-performance-soes-in-emerging-economies.html).

EBRD (2020b), "Just Transition Initiative", London (available at: https://www.ebrd.com/what-we-do/just-transition-initiative (last accessed 12 August 2020).

EBRD (2021), "Foreign Investment in the EBRD Regions – Country Fact Sheet", London.

ECB (2021), "Survey on the access to finance of enterprises (SAFE): Survey results 2021 – April/September 2021", Frankfurt, Germany (available at: https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html).

EEA (2021), "Montenegro - Municipal waste factsheet 2021", Copenhagen (available at: https://www.eea.europa.eu/themes/waste/waste-management/municipal-waste-management-country/montenegro-municipal-waste-factsheet-2021/view).

European Commission (2014), *Annex to the Commission Implementing Decision amending Commission Decision C(2014)5771 of 18.8.2014 adopting the Indicative Strategy Paper for Montenegro for the period 2014-2020*, Brussels (available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180817-revised-indicative-strategy-paper-2014-2020-for-montenegro.pdf).

European Commission (2019a), "2019 SBA Fact Sheet — Montenegro", European Commission

European Commission (2019b), *Montenegro 2019 Report*, Brussels (available at: https://op.europa.eu/en/publication-detail/-/publication/01c4ff26-8221-11e9-9f05-01aa75ed71a1/language-en/format-PDF).

European Commission (2019c), *Economic Reform Programme of Montenegro (2019-2021) – Commission Assessment*, Brussels (available at: https://www.gov.me/en/documents/008d13bb-ec19-451d-9084-d05011b6b3d8).

European Commission (2020), *Economic Reform Programme of Montenegro (2020-2022) – Commission Assessment*, Brussels (available at: https://ec.europa.eu/transparency/documents-register/api/files/SWD(2020)66_0/de00000000001820?rendition=false).

European Commission (2021a), *Economic Reform Programme of Montenegro (2021-2023) – Commission Assessment*, Brussels (available at: https://ec.europa.eu/neighbourhood-enlargement/document/download/45a4a04b-de9f-490d-949c-e3aa28bc2758_en).

European Commission (2021b), *European Economic Forecast, Spring 2021: Montenegro*, Brussels (available at: https://ec.europa.eu/economy_finance/forecasts/2021/spring/ecfin_forecast_spring_2021_me_en.pdf).

European Commission (2021c), "2021 SME Country Fact Sheet: Montenegro", Brussels (available at: https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-09/montenegro_-_sme_fact_sheet_2021.pdf#:~:text=However%2C%20SME%20productivity%20in%20Montenegro,Data%20for%202018).

Energy Community (n.d.), "Montenegro", Brussels (available at: https://www.energy-community.org/implementation/Montenegro.html).

Energy Community Secretariat (2019), Annual Implementation Report, Brussels (available at: https://www.energy-community.org/dam/jcr:a915b89b-bf31-4d8b-9e63-4c47dfcd1479/EnC_IR2019.pdf).

Energy Community Secretariat (2021), *Annual Implementation Report*, Brussels (available at: https://www.energy-community.org/dam/jcr:77a9cb08-a6bd-4479-9c05-0cbb8b10b015/IR2021_Montenegro.pdf).

ETF (2019), *Skills Mismatch Measurement in Montenegro*, Turin, Italy (available at: https://www.etf.europa.eu/sites/default/files/2019-07/Skills%20mismatch%20measurement_Montenegro.pdf).

ETF (2020a), *Developments in Vocational Education policy in Montenegro: Progress towards the medium-term deliverables of the Riga Conclusions in the period 2015–19*, Turin, Italy (available at: https://www.etf.europa.eu/en/publications-and-resources/publications/developments-vocational-education-policy-montenegro).

ETF (2020b), *Country Strategy Paper 2020 Update: Montenegro*, Turin, Italy (available at: https://www.etf.europa.eu/sites/default/files/document/Country%20Strategy%20Paper%202017-20%20Actions%202020_Montenegro%20.pdf).

ETF (2021), *How migration, human capital and the labour market interact in Montenegro*, Turin, Italy (available at: https://www.etf.europa.eu/sites/default/files/2021-07/migration_montenegro.pdf).

Euracoal (n.d.), "Other EU and Energy Community", Brussels (available at: https://euracoal.eu/info/country-profiles/other-eu-energy-community/).

Eurostat (n.d.), "Enlargement countries – information and communication technology statistics: Highlights", Luxembourg (available at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_information_and_communication_technology_statistics#Access_to_the_internet, last accessed 20 January 2022).

Eurostat (2021), "Enlargement countries – education statistics", Luxembourg (available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_education_statistics#Tertiary_education).

FAO (2018), "Montenegro's culinary riches enticing tourists", 27 April 2018, Rome (available at: https://www.fao.org/support-to-investment/news/detail/en/c/1126955/).

Government of Montenegro (2014), *Strategy for the Energy Development of Montenegro to 2030 (White Paper)*, Podgorica (available at: http://cedis.me/wp-content/uploads/2017/06/strategija_razvoja_energetike_cg_do_2030._godine_0_0.pdf).

Government of Montenegro (2019), *Montenegro Economic Reform Programme 2019-2021*, Podgorica.

Government of Montenegro (2020), *Montenegro Economic Reform Programme 2020-2022*, Podgorica.

Government of Montenegro (2021), *Updated NDC for Montenegro*, Podgorica (available at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Montenegro%20First/Updated%20NDC%20for%20Montenegro.pdf).

ICAP (2020), "Montenegro – ETS Detailed Information", Berlin (available at https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems[]=113).

IEA (n.d.a), "IEA Atlas of Energy", Paris (available at: http://energyatlas.iea.org/#!/topic/DEFAULT).

IEA (n.d.b), "Montenegro", Paris (available at: https://www.iea.org/countries/montenegro).

IEA (2017), "Data and Statistics", Paris (available at: https://www.iea.org/data-and-statistics?country=WORLD&fuel=CO2%20emissions&indicator=CO2%20emissions%20by%20energy%20source, last accessed 10 August 2020).

IEA (2019), "Data and Statistics", Paris (available at: https://www.iea.org/data-and-statistics/data-browser?country=MONTENEGRO&fuel=Energy%20supply&indicator=TESbyGDPPPP), last accessed 29 April 2022.

IEDC Bled School of Management and CEEMAN (2019), *Updated survey of 'hidden champions' in central, eastern, and south-eastern Europe*, Bled, Slovenia.

ILO and EBRD (2020), *COVID-19 and the World of Work: Rapid Assessment of the Employment Impacts and Policy Responses – Montenegro*, Geneva, Switzerland (available at https://www.ebrd.com/documents/strategy-and-policy-coordination/ebrdilo-covid19-and-the-world-of-work-in-montenegro.pdf).

IMF (n.d.), "Financial Soundness Indicators", Washington, DC (available at: https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA).

IMF (2019a), *Montenegro – 2019 Article IV Consultation — Press Release, Staff Report, and Statement by the Executive Director for Montenegro,* Washington, DC (available at: https://www.imf.org/en/Publications/CR/Issues/2019/09/09/Montenegro-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48667).

IMF (2019b), *Reassessing the Role of State-Owned Enterprises in Central, Eastern, and Southeastern Europe*, Washington, DC (available at: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/06/17/Reassessing-the-Role-of-State-Owned-Enterprises-in-Central-Eastern-and-Southeastern-Europe-46859).

IMF (2020), *Montenegro – Request for Purchase under the Rapid Financing Instrument – Press Release; Staff Report; and Statement by the Executive Director for Montenegro*, Washington, DC (available at: https://www.imf.org/~/media/Files/Publications/CR/2020/English/1MNEEA2020002.ashx).

Industry Europe (2019), "Uniprom invests €26m for upgrades to KAP aluminium smelter", 26 March (available at: https://industryeurope.com/uniprom-invests-26m-for-upgrades-to-kap-aluminium-smelter/).

International Energy Charter (2018), *In-Depth Review of the Energy Efficiency Policy of Montenegro*, Brussels (available at: https://www.energycharter.org/fileadmin/DocumentsMedia/IDEER/IDEER-MontenegroEN_2018.pdf).

ITU (2017), "ICT Development Index 2017", Geneva, Switzerland (available at: https://www.itu.int/net4/ITU-D/idi/2017/index.html).

IMF (2021), *World Economic Outlook October 2021 – Recovery during a pandemic: Health concerns, supply disruptions, and price pressures*, Washington, DC (available at: https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021).

IMF (2022), *Montenegro: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Montenegro*, Washington, DC (available at: https://www.imf.org/en/Publications/CR/Issues/2022/02/23/Montenegro-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-513459).

Ministry for Capital Investments (2021), "Montenegro admitted to Powering Past Coal Alliance (PPCA)", 1 July 2021 (available at: https://www.gov.me/en/article/montenegro-admitted-to-powering-past-coal-alliance-ppca).

Ministry of Economic Development (2013), *Energy Efficiency Action Plan of Montenegro for the period 2013-2015*, Podgorica.

Ministry of Economic Development (2021), *Draft Economic Recovery Platform 2022-2026, Part I: Diagnosis of the state of the Montenegrin economy*, Podgorica.

Ministry of Finance and Social Welfare (2021a), *Europe Now! Reform programme for a more inclusive and sustainable economic growth model of Montenegro*, Podgorica (available at: https://www.gov.me/en/documents/11444814-2c56-4310-95e8-392e645ec82f).

Ministry of Finance and Social Welfare (2021b), *Pravilnik o unutrašnjoj organizaciji i sistematizaciji Ministarstva finansija i socijalnog staranja*, Podgorica (available at: https://www.gov.me/en/documents/6ecde749-f99e-49b1-b970-2735c151e4e7).

MONSTAT (2017), "Farm structure survey 2016", 29 December, Podgorica.

MONSTAT (2019a), "Gross domestic product of Montenegro in 2018", 27 September, Podgorica.

MONSTAT (2019b), *Statistical Yearbook 2019*, Podgorica.

MONSTAT (2020a), "Employees by Activity Sector NACE-Rev 2 (2010-2019)", Podgorica.

MONSTAT (2020b), "Arrivals and overnight stays in individual accommodation – 2019", 3 June, Podgorica.

MONSTAT (2020c), *Labour Force Survey 2019*, Podgorica.

MONSTAT (2021a), *Statistical yearbook 2021*, Podgorica.

MONSTAT (2021b), *Labour Force Survey 2020*, Podgorica.

Montenegrin Employers Federation (2014), *Informal Economy in Montenegro*, Podgorica.

Montenegro Ministry of Science (2019), *Smart Specialisation Strategy of Montenegro 2019-2024*, Podgorica (available at: https://www.gov.me/en/documents/ea1d661e-922a-4d42-af8d-ae55bc53988e).

Montenegro Ministry of Tourism and Environment (2008), *Montenegro Tourism Development Strategy to 2020,* Podgorica (available at: https://www.gov.me/dokumenta/9b158c2a-90d8-46bf-92e6-9374d4b7a24b).

MSDT and UNDP (2019), *Montenegro – Second Biennial Update Report on Climate Change 2019*, Podgorica (available at: https://unfccc.int/sites/default/files/resource/SECOND%20BIENNIAL%20UPDATE%20REPORT%20ON%20CLIMATE%20CHANGE_Montenegro.pdf).

OECD (2018), "State-owned enterprises in South East Europe", in *Competitiveness in South East Europe: A Policy Outlook 2018*, OECD Publishing, Paris (available at: https://www.oecd-ilibrary.org/development/competitiveness-in-south-east-europe/state-owned-enterprises-in-south-east-europe_9789264298576-11-en).

OECD (2019), "SME Policy Index: Western Balkans and Turkey", Paris (available at: https://www.etf.europa.eu/sites/default/files/2020-01/montenegro_sba_profile_0.pdf).

PEFA (2019), *Public expenditure and financial accountability (PEFA) – Performance Assessment Report*, available at: https://www.pefa.org/node/211).

SEE CAO (n.d.), "Our work", Podgorica (available at: http://www.seecao.com/our-work, last accessed 11 August 2020).

Serbia Energy (2020), "Montenegro: Government adopted the information on the activities of TPP Pljevlja", 24 June (available at: https://serbia-energy.eu/montenegro-government-adopted-the-information-on-the-activities-of-tpp-pljevlja/).

V. Spasić (2021), "Coal power plant Pljevlja likely to be shut down by 2030 – Montenegrin prime minister", *Balkan Green Energy News*, 12 August (available at: https://balkangreenenergynews.com/coal-power-plant-pljevlja-likely-to-be-shut-down-by-2030-montenegrin-prime-minister/?nowprocket=1).

Terna (2019), "Terna: New Italy-Montenegro Interconnection Infrastructure Under Way", 15 November (available at: https://www.terna.it/en/media/press-releases/detail/new-Italy-Montenegro-interconnection-infrastructure-under-way).

Transparency International (2021), "Corruption Perceptions Index", Berlin (available at: https://www.transparency.org/en/cpi/2021).

UN CEDAW (2016), *Consideration of reports submitted by States parties under article 18 of the Convention, Second periodic report of States parties due in 2015: Montenegro*, New York (available at: https://www.refworld.org/docid/582d74454.html).

UNCTAD (2020), *Covid-19 and Tourism: Assessing the Economic Consequences*, Geneva, Switzerland (available at: https://unctad.org/webflyer/covid-19-and-tourism-assessing-economic-consequences).

UNDP (2016), *Informal Work: From Challenges to Solutions, National Human Development Report*, Podgorica.

UNDP (2020), Assessment of the Impact of Covid-19 on the Business Sector and the Growth Prospects of the Montenegrin Economy, Podgorica (available at: https://montenegro.un.org/en/download/15428/54399).

UPCG and V. Kostic (2014), *Izvještaj: Neformalna ekonomija u Crnoj Gori – Stvaranje ambijenta za održivi razvoj preduzeća u Crnoj Gori*, Podgorica.

UNSDG (2020), *The UN Socio-economic response plan to COVID-19 in Montenegro*, New York (available at https://reliefweb.int/report/montenegro/un-socio-economic-response-plan-covid-19-montenegro).

UNWTO (n.d.a), "A compilation of data on inbound tourism by country, including data on international tourist arrivals, international tourism receipts and international tourism exports", Madrid (available at: https://www.unwto.org/country-profile-inbound-tourism).

UNWTO (n.d.b), "A compilation of data on tourism seasonality across destinations, powered by Telefonica", Madrid (available at: https://www.unwto.org/seasonality).

World Bank (n.d.), "World Bank Country and Lending Groups", Washington, DC (available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519, last accessed 28 January 2022).

World Bank (n.d.b), "Worldwide Governance Indicators", Washington, DC (available at: http://info.worldbank.org/governance/wgi/).

World Bank (2017), "Global Findex Database 2017", Washington, DC (available at: https://globalfindex.worldbank.org/).

World Bank (2018a), "Logistics Performance Index database", Washington, DC (available at https://lpi.worldbank.org/).

World Bank (2018b), *Montenegro Growth and Jobs, Report I*, Washington, DC (available at: https://documents1.worldbank.org/curated/en/787451545030793133/pdf/Montenegro-Growth-and-Jobs.pdf).

World Bank (2020a), "World Development Indicators", Washington, DC (available at http://datatopics.worldbank.org/world-development-indicators/).

World Bank (2020c), *Doing Business 2020*, Washington, DC (available at: https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf).

World Bank (2020d), "New business density (new registrations per 1,000 people ages 15-64) – Montenegro", Washington, DC (available at: https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS?locations=ME).

World Bank (2021), "Women, Business and the Law 2021", Washington, DC (available at https://openknowledge.worldbank.org/handle/10986/35094, last accessed 20 October 2021).

World Bank Group (2020), "Enterprise Surveys", Washington, DC (available at www.enterprisesurveys.org).

World Bank and wiiw (2019), *Western Balkans Labor Market Trends 2019*, Washington, DC (available at: https://wiiw.ac.at/western-balkans-labor-market-trends-2020-dlp-5300.pdf#:~:text=%E2%80%A2%20Despite%20a%20slowdown%20in%20economic%20growth%20in,an%20increase%20of%205.2%20percent%20in%20North%20Macedonia).

WEF (2019), *Global Competitiveness Report 2019*, Geneva, Switzerland (available at: https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth).

WTTC (n.d.), "World Travel and Tourism Council Database", London (available at: https://wttc.org/).

WTTC (2020), "Montenegro 2020 Annual Research: Key Highlights", London (available at: https://wttc.org/Research/Economic-Impact).

Annex 1: Qualities of a sustainable market economy

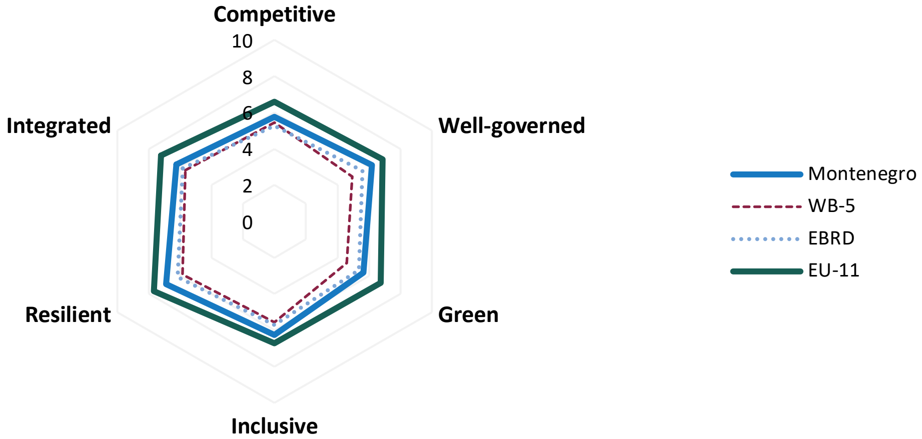
In the EBRD's 2021 Assessment of Transition Qualities (ATQ), Montenegro ranks 13th out of the 38 economies in which the EBRD invests.[96] In the EBRD's recently adopted new methodology for measuring transition, ATQs are composite indices on six desirable qualities of a sustainable market economy *(*competitive, well governed, green, inclusive, resilient and integrated*),* obtained by combining information on a large number of indicators and assessments.[97]

Montenegro outperforms the other Western Balkans country averages on all qualities, but lags the new EU member states. The country exceeds the other Western Balkans country average primarily on the well-governed quality (by 1.3 index points), followed by the resilient and inclusive qualities (1 to 0.7 index points difference), while the lag is smallest on the integrated and competitive qualities (0.6 and 0.3 index points difference, respectively). It also outperforms the average of the EBRD regions on all qualities, with the biggest gap on the resilient quality (0.7 index points). In contrast, the economy still has to catch up with the new EU member states (EU-11) on all qualities, primarily in terms of the green and integrated qualities (where is lags by 1.0 to 1.1 index points). When it comes to inclusivity, the gap to the EU-11 appears relatively small (0.5 index point).

The following sections provide brief snapshots of each quality.

Figure 12. ATQs in 2021

(1 – 10 best)



Source: EBRD calculations

[96] The score is calculated as a simple average of scores for the six transition qualities.
[97] For more detail, please see *EBRD Transition Report 2017-18: Sustaining Growth*, pages 105-116.

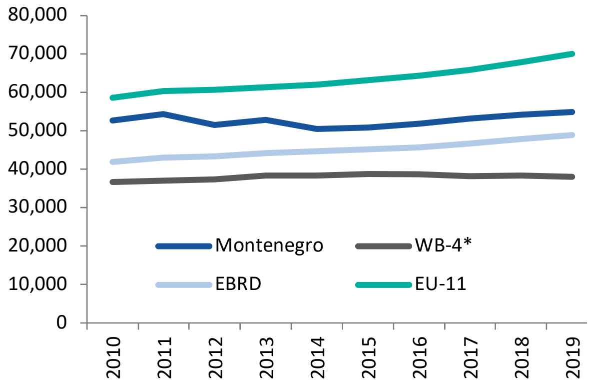
Competitive (ATQ = 5.8)

Montenegro's competitiveness is held back by its widespread informality, its large SOE sector, which limits economic opportunities in the private sector, and its low economic diversification, as value creation and its export basket are concentrated in tourism and other business sectors facing climate challenges. Improving the quality of trade and transport-related infrastructure, eliminating skills mismatches and enhancing the basis for stronger innovation activity would bolster the competitiveness of companies on local and international markets.

- Montenegro scored 0.4 (on a scale of -2.5 to 2.5) on regulatory quality[98]
- New business density in Montenegro peaked at 11.3 registrations per 1,000 individuals in 2018 – the highest in the Western Balkans region[99]
- 14th in the Knowledge Economy Index out of the 38 economies in which the EBRD operates[100]

Figure 13. Labour productivity

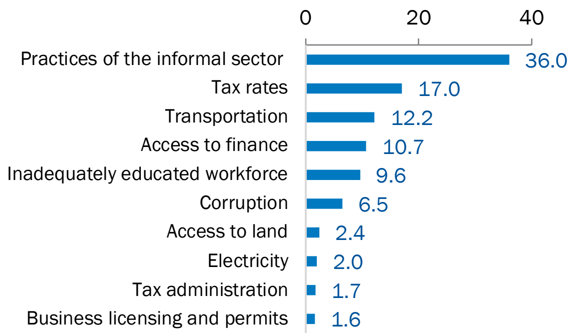
GDP in constant 2011, US$ PPP per capita



Source: ILO, authors' calculations

*Data for Kosovo are not available.

Figure 14. Biggest obstacles to doing business



Source: BEEPS VI

- The economy's labour productivity is the highest of the Western Balkans economies, but significantly lags that of the EU-10.
- Informality is widespread, suggesting the need for improvements in the regulatory framework and business climate that would be conducive to greater competitiveness.
- Its large SOE sector, one of the biggest in central, eastern and south-eastern Europe by some estimates, limits the economic opportunities of the private sector and brings down the productivity of the entire economy.
- Economic creation is concentrated in services, in particular, the highly seasonal hospitality sector. Tourism accounted for almost a quarter of GDP and more than 50 per cent of total exports in 2019, with this share falling to around 13 per cent in 2020 due to the Covid-19 pandemic. The manufacturing base is very small. Limited economic and export diversification renders the country particularly vulnerable to shocks.
- Montenegrin SMEs are characterised by low productivity – around a quarter of the average SME productivity of the EU – although business density is higher in Montenegro than in both the EU-11 and all EU member countries. While SME access to finance Montenegro is in the median for the region, according to the SME Policy Index,[101] there is still room for improvement. A credit guarantee facility, currently being established, should help ease access to finance.
- Exports of business services (communications, financial, insurance and similar) are not prominent. Business services as a share of total service exports is low compared with peer countries (14.3 per

[98] See World Bank (n.d.b).
[99] See World Bank (2020d).
[100] See EBRD (2019).
[101] See OECD (2019).

cent vs 38 per cent on average for the other Western Balkans countries) and one of the lowest in the EBRD regions.

- Despite the comparatively small size of its goods export basket, Montenegro's integration into global value chains[102] seems to be slightly higher than the average of the other five Western Balkans countries, though it lags the EU-11 somewhat. Montenegro's main export products are metals and raw minerals, followed by wood and chemical products (packaged medication, in particular), with Serbia, Slovenia and other Western Balkans and EU countries the main beneficiaries. Nevertheless, its exports are not very diversified and low-value-added products (such as metals) dominate. This also explains the gap to EU-11 comparators when it comes to economic complexity.[103]
- In 2019, the average applied tariff rate on imported goods was 1 per cent.[104] This is slightly lower than the average for the other five Western Balkans economies (the "Western Balkans-5") and the EU-11 average (1.8 per cent). The country is a member of CEFTA and its Stabilization and Association Agreement (SAA) with the EU has been in force since May 2010. In line with the SAA, it has abolished customs, duties and quantitative restrictions in its trade with the EU. Most trade in goods is with the EU and CEFTA countries.
- The quality of trade and transport-related infrastructure, per the EBRD's Logistics Performance Index for 2021, is similar to other Western Balkans countries and scores lower than EU-11 comparators. This is one of the poorer aspects of Montenegro's competitive quality, but seems to be a region-wide challenge.
- On the quality of skills of the current and future workforce, Montenegro achieves a better score than the Western Balkans-5 average and equals that of the EU-11 comparator countries. There is a structural mismatch between labour demand and supply, as the country's educational outcomes and workforce skills frequently don't match the needs of the private sector.
- Montenegro is considered to be intermediate stage when it comes to the knowledge economy. The EBRD knowledge economy index[105] shows the country's performance to be second best in the Western Balkans region and in the upper half of the economies in which the EBRD invests (14th out of 38). According to the index, the country scores poorest on its innovation system.[106]

[102] Measured by an index showing the share of a country's exports that are part of a multi-stage trade process.
[103] The EBRD's Economic Complexity Index measures a country's productive capabilities by capturing the diversity of products exported and their ubiquity (the ability of other countries to export the same product competitively).
[104] Weighted average
[105] For more detail, see EBRD (2019).
[106] The three dimensions of this pillar are (i) inputs into the innovation system (for example, research and development (R&D) spending), (ii) innovation system outputs (such as patents) and (iii) linkages within the innovation system (such as scientific collaboration, venture capital and value chains).

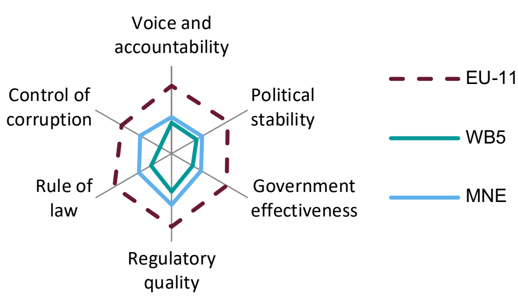
Well governed (ATQ = 6.2)

Because of Montenegro's small size and political particularities, ensuring a clear distinction between business, politics and policy-making can be difficult. While steps have been taken over the years to make the public sector well governed, there is still room for improvement, especially in the fight against corruption and organised crime and in efforts to establish the rule of law, voice and accountability and corporate governance standards, including in the SOE sector. The large public administration needs to be reformed and depoliticised to ensure it serves the public and enterprise as efficiently as possible.

- 64th out of 180 countries in the Corruption Perceptions Index 2021 (Transparency International, 2021)[107]
- 59th out of 141 countries on judicial independence (WEF, 2019)[108]
- 32nd out of 141 countries on the burden of government regulation (WEF, 2019)[109]
- 94th out of 141 countries on strength of auditing and accounting standards (WEF, 2019)[110]

Figure 15. Public governance

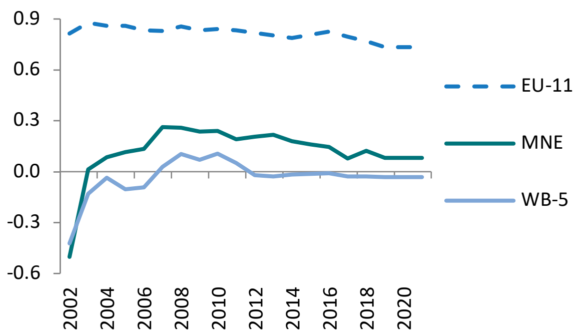
Index, from -2.5 (weak) to 2.5 (strong)



Source: World Bank Worldwide Governance Indicators 2020

Figure 16. Voice and accountability

Index, from -2.5 (weak) to 2.5 (strong)



Source: World Bank Worldwide Governance Indicators 2020

- Montenegro scores better than the Western Balkans-5 average on all six World Bank World Governance Indicators.[111] The country performs best in the area of regulatory quality and worst when it comes to control of corruption (0.4 and 0.0, respectively, on a scale of -2.5 to 2.5). It performs significantly worse than the EU-11 where voice and accountability are concerned (perceptions of the extent to which citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and free media.
- According to the European Commission,[112] the country is moderately prepared to apply the EU *acquis* and European standards in the area of rule of law and human rights. Despite progress, challenges remain with regard to the judicial system (with regard to efficiency and accountability) and the absence of systematic investigations into all corruption cases. Improvements in the rule of law will also affect the progress of EU membership negotiations.
- Montenegro has undertaken some degree of preparation in the fight against corruption.[113] A big challenge is to ensure the independence of the Anti-Corruption Agency, as well as its proactivity. In the

[107] See Transparency International (2021).
[108] See WEF (2019).
[109] Ibid.
[110] Ibid.
[111] The indicators are: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption.
[112] See European Commission (2021c).
[113] See European Commission (2019a).

2021 Corruption Perceptions Index,[114] the country ranked 64th out of 180 countries, scoring 46 points out of 100. For the past five years, the score has been almost unchanged.

- Montenegro's public administration is large and relatively inefficient. According to the European Commission, "strong political will is needed to effectively address depoliticisation of the public service, optimisation of the state administration and effective implementation of managerial accountability".[115]
- Public procurement and concessions are undergoing a transformation. In December 2019, new laws on public procurement, PPPs and concessions were adopted with a view to improving procedures, but the effects will depend on the quality of secondary legislation and implementation. To contribute to the greater transparency of public procurement processes, the Ministry of Finance and Social Welfare implemented a new electronic public procurement system in January 2021.
- According to the European Commission,[116] Montenegro is moderately prepared in terms of the fight against organised crime. Despite the legal framework being largely in place, "further results are needed to produce a convincing track record on the more complex types of organised crimes, where local vested interests are at stake, including in money laundering, trafficking in human beings and tobacco smuggling, as well as in the confiscation of proceeds of crime."[117]
- By the EBRD's assessment,[118] Montenegro's corporate governance framework is of medium strength, with three areas (transparency and disclosure, internal control and rights of shareholders) considered "fair" and the other two (stakeholders and institutions, and structure and functioning of the board) deemed "weak".[119] While the independence of directors is considered to be "very weak", the disclosure of financial information is deemed "strong".
- SOE governance needs to be significantly improved. The authorities have been taking steps to improve transparency and oversight.

[114] See Transparency International (2021).
[115] See European Commission (2021c).
[116] See European Commission (2019b).
[117] See European Commission (2019b), page 32.
[118] See EBRD (2017).
[119] The ratings are ranked as follows: very weak, weak, fair, moderately strong, strong and very strong.

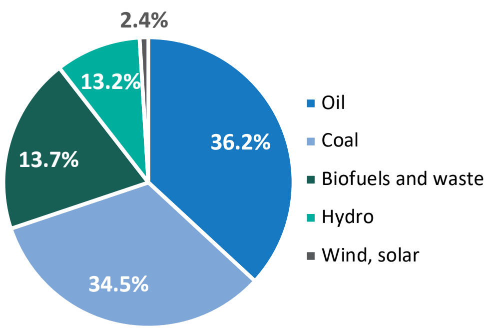
Green (ATQ = 5.7)

Montenegro's green economy transition needs to be focused on investing in sustainable energy and waste management infrastructure to ensure a low carbon footprint and energy efficiency, to make its key economic sectors and infrastructures climate resilient, and to align its environmental standards with the relevant EU *acquis*.

- Energy intensity (kgoe per €1,000 of GDP) is 2.4 times higher than the EU average[120]
- The residential sector accounted for 44 per cent of electricity consumption in 2020, while the EU27 average was 29 per cent[121]
- Power-grid losses were 12.9 per cent in 2020, down from 15.6 per cent in 2016[122]

Figure 17. Total primary energy supply by source

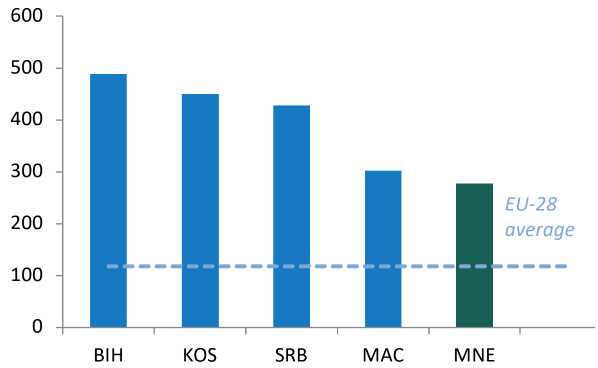
2019



Source: IEA (n.d.b).

Figure 18. Energy intensity

2018



Source: IEA (n.d.b).

- Montenegro's electricity is generated by three main plants: two hydropower plants in Perucica and Piva (307 MW and 342 MW, respectively) and a lignite power plant at Pljevlja (225 MW).[123] Electricity production, import and export fluctuate with energy demand and the seasonal hydrological situation. Coal is prevalent and important – an issue to be managed for a just transition away from carbon-intensive sectors. The competitiveness of coal-related activities is expected to decrease markedly as Montenegro implements CO_2 emissions prices under the EU Emissions Trading System (ETS). The country is a member of the Powering Past Coal Coalition and is aiming to phase out coal by 2035.[124]
- The development of renewable energy production is one of the key priorities of Montenegro's Energy Development Policy, Energy Development Strategy to 2030 and updated NDC. The NDC features plans for two new wind-power plants, two new solar plants and a new hydropower plant in addition to reconstruction and prosumers.
- Although Montenegro's overall total energy consumption remains low by EU standards, its energy intensity remains significantly higher than that of the EU. In 2019, the transport sector accounted for the largest share of final energy consumption (32.9 per cent), followed by the residential sector (30.4 per cent), industry (17.1 per cent) and commerce and public services (13.5 per cent).
- There is significant energy-saving potential, particularly in buildings, as the penetration of energy-efficient equipment, appliances and materials is generally very low. The majority of buildings in Montenegro were constructed before 1990, so have relatively low energy performance. The total energy consumption of the residential sector has increased over the past decade due to the rise in energy demand of households and increased tourism activity.[125] While Montenegro has transposed

[120] Data from Eurostat database.
[121] Ibid.
[122] See Energy Community (n.d.).
[123] See CEE Bankwatch Network (n.d.).
[124] See Ministry for Capital Investments (2021).
[125] See International Energy Charter (2018).

the energy efficiency *acquis* to a relatively high degree, secondary legislation needs to be updated, adopted and effectively implemented.

- Montenegro is vulnerable to climate change impacts, especially flooding, which can affect the transportation sector, infrastructure and supply chains.[126] Studies indicate that Balkan countries are particularly sensitive to climate and precipitation change, with weather-related events becoming more frequent and intense. In 2015, Montenegro adopted a National Strategy for Combating Climate Change to 2030, as well as an accompanying action plan.
- The development of an integrated waste management system is still in the early stages.[127] Montenegro relies heavily on landfill, lagging on reuse, recycling and a separate collection system and infrastructure. Despite few changes in population numbers, the amount of waste per capita has increased by 8 per cent over the past five years to 545 kg, higher than the EU average. The share of Montenegro's population covered by public waste collection services has increased slightly over the past five years, from 82 per cent in 2015 to 86 per cent in 2019, although there are regional differences within the country.[128]
- Alignment with EU water legislation is nascent. River basin management plans need to be developed in line with EU environmental standards and particularly take into account plans to substantially expand hydropower capacity.
- Montenegro signed the Paris Agreement in 2015 (and ratified it in 2017) and has adopted a 35 per cent greenhouse gas emissions reduction target by 2030 (compared with 1990 levels) in its latest NDC.[129] Montenegro also signed the Global Methane Pledge in November 2021, as methane emissions account for almost 21 per cent of its total GHG emissions (excluding land-use change and forestry).

[126] See MSDT and UNDP (2019).
[127] See European Commission (2014).
[128] See EEA (2021).
[129] See Government of Montenegro (2021).

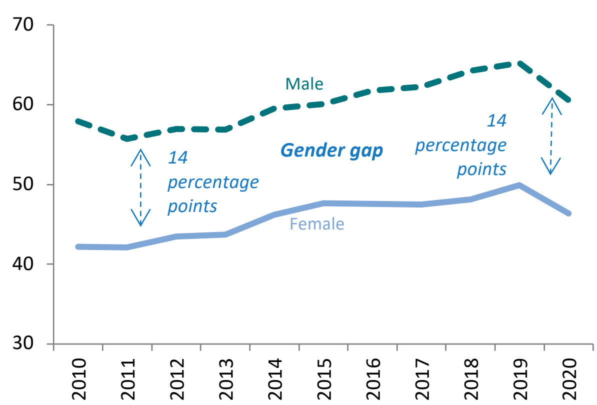
Inclusive (ATQ = 6.3)

High informal employment, a lofty jobless rate with the vast majority long-term unemployed, and a rising number of emigrants point to a challenging labour-market situation. Gender gaps are observable in activity rates, employment and entrepreneurship. Particularly high unemployment and NEET rates for youth flag issues in the transition from education to the job market. There are significant regional differences in job opportunities and access to services.

- 75 per cent of all unemployed people in 2020 were long-term unemployed (down from 80 per cent in 2019)[130]
- 54 per cent of women 15 and over are economically inactive (compared with 39 per cent of men) and 38 per cent of women are employed (compared with 50 per cent of men)[131]
- 36 per cent of young people aged 15 to 24 are unemployed[132]

Figure 19. Labour-force participation rate by gender

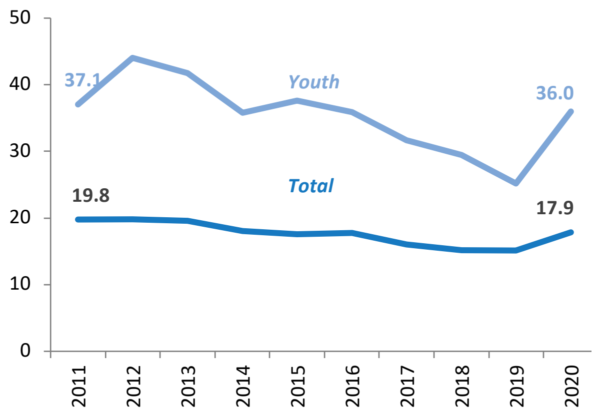
Percentage of total labour force, 15 and over



Source: World Bank (2020a) (national estimate)

Figure 20. Unemployment rate

Percentage of total labour force, 15 and over



Source: World Bank (2020a) (national estimate)

- The quality of employment remains a challenge in Montenegro. Close to one-third of work is undeclared. Informal employment affects mostly men, young people, the less educated and elderly workers. Furthermore, more than a quarter of all workers are employed on temporary contracts, nearly double the level recorded in 2011, while 11 per cent are in precarious employment, four times the EU average. The trend has been rising steadily since 2011.[133]
- Labour-market participation for people over 15 had increased 6 percentage points in the decade to 2019 before falling in 2020 due to the Covid-19 pandemic. At 53 per cent in 2020,[134] the rate was slightly higher than in the rest of the Western Balkans region, but somewhat below the EU-11 average. Also, there is a distinct gap between male and female participation. While 61 per cent of the male population was economically active in 2020, the same was true for just 46 per cent of women. In other words, more than half of women were economically inactive. Entrepreneurship also shows gender gaps when it comes to female management and ownership. In contrast, around 24 per cent of employers were women in 2019, similar to the regional average.[135]

[130] See MONSTAT (2020c) and MONSTAT (2021b).
[131] See World Bank World Development Indicators.
[132] Ibid.
[133] See ILO and EBRD (2020).
[134] See World Bank (2020a), national estimate.
[135] Data from ILOSTAT.

- Montenegro scores lower than Serbia, Kosovo and Albania on the Women, Business and the Law 2021 index, which analyses laws and regulations affecting woman's economic inclusion.[136] There appear to be legal differences between men and women in the areas of pay and pensions.
- Despite a decline over the past decade, the unemployment rate remains high, especially for young people. In 2020, 18 per cent of the labour force and one in three youths were unemployed. Long-term unemployment accounts for three-quarters of all unemployment.
- Job opportunities are particularly scarce in regions that do not benefit from summer tourism, in particular, the northern region. Unemployment is disproportionately higher (37.8 per cent in 2020) and labour-force participation is lower (48.4 per cent).
- In 2020, around 21 per cent of young people (15-24) in the country were not in employment, education or training (NEET). While this figure is in line with the regional average, it is significantly higher than in the 11 new EU member states (13 per cent on average). The unfavourable labour-market situation brought about by the Covid-19 pandemic and the ensuing mobility restrictions resulted in a 4 percentage-point rise in the NEET rate from 2019 to 2020.
- In contrast, Montenegro has a very low rate of early leavers from education and training among people aged 18-24 years.[137] At 3.6 per cent in 2020, the rate was less than half that in the Western Balkans region or EU. In addition, the country boasts very high levels of youth educational attainment. In 2020, the share of the Montenegrin population aged 20-24 with at least an upper secondary level of education stood at 96.1 per cent, the highest rate in the region and almost 12 percentage points above the EU average. The proportion of tertiary educated people lags that of the EU.
- Seven out of 10 people in Montenegro had a bank account in 2017, which is more than in the rest of the Western Balkans region (6 out of 10). At the same time, a somewhat smaller percentage of adults had savings in a financial institution (10 per cent, compared with 12 per cent in the rest of the Western Balkans).[138]
- There are significant regional differences in access to services. In poorer areas, fewer than 10 per cent of 3-6 year olds are in preschool, compared with almost 90 per cent in wealthier areas. In addition, a lack of public transportation in rural areas presents a barrier to women accessing basic services, including healthcare and childcare facilities. Rural women are frequently excluded from public life and are especially vulnerable to violence.[139]

---

136 See World Bank (2021).
137 See Eurostat (2021).
138 See World Bank (2017).
139 See UN CEDAW (2016).

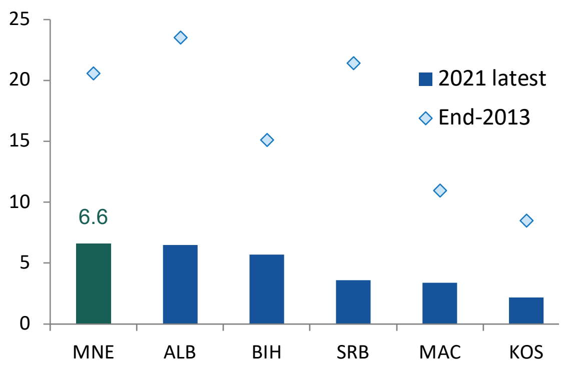
Resilient (ATQ = 5.5)

Montenegro's financial system is dominated by largely foreign-owned banks, which have handled the impact of Covid-19 better than expected to date, supported by central bank measures. The penetration of credit to the private sector is broadly in line with that of its near neighbours, while the sector is generally well managed, capitalised and liquid, though certain trends require close monitoring. Capital markets are underdeveloped. With no gas market, Montenegro's energy resilience relies on a single lignite power plant and two hydropower plants. Electricity imports depend on hydrological conditions, which are highly vulnerable to the impact of climate change.

- Banking-sector capital adequacy (solvency) ratio is 18.5 per cent (September 2021)[140]
- 5.9 per cent of loans are non-performing (September 2021)[141]
- 22.9 per cent of deposits are non-resident deposits (December 2020)[142]

Figure 21. NPLs

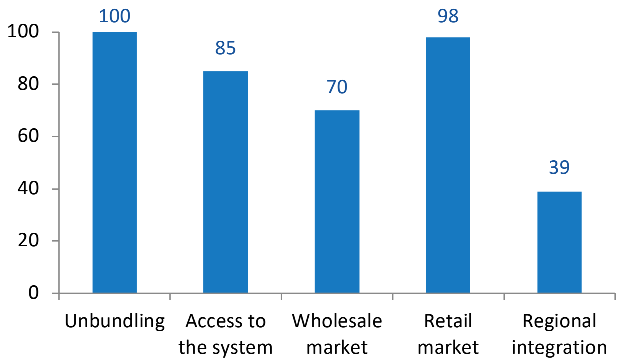
Percentage of total



Source: IMF (n.d.); national authorities

Figure 22. Electricity sector reform implementation

Per cent



Source: Energy Community Secretariat (2021)

Financial resilience

- Montenegro's financial system comprises banks, insurance companies, microcredit financial institutions, investment funds, leasing companies and pension funds. As is common in the economies where the EBRD invests, banks dominate the system, accounting for 92 per cent of financial-sector assets.[143]
- At end 2020, the banking sector comprised 12 majority foreign-owned banks. The sector is moderately concentrated, with the top five banks holding 74 per cent of sector assets as of the end of 2020.[144] Liquidity remains adequate at present, but the central bank does not have the ability to print money, as the country has unilaterally adopted the euro. The sector remains well capitalised, with a capital adequacy (solvency) ratio at end 2020 and, in September 2021, well above the regulatory minimum (18.5 per cent compared with 10 per cent). However, profitability has taken a considerable hit from the Covid-19 pandemic, with the return on assets (ROA) and earnings (ROE) halving in 2020 (0.5 per cent and 3.6 per cent, respectively), before bouncing back (to 1.3 per cent and 10.5 per cent, respectively) in the third quarter 2021.[145]
- Deposits remain the main funding source, at 74 per cent of all financing as of end 2020. Despite the impact of the Covid-19 crisis and two banks going bankrupt in 2019, the deposit base remained stable, at around €3.4 billion at end-2020. However, non-resident deposits account for a significant and increasing share of total deposits (more than 23 per cent), which may prove a source of risk should there be a reversal in flows.

[140] See IMF Financial Soundness Indicators.
[141] Ibid.
[142] See CBCG (2021b).
[143] See CBCG (2019).
[144] See CBCG (2021b).
[145] See IMF (n.d.).

- Domestic credit to the private sector was stagnant in absolute terms in 2020, but increased as a share of GDP to 60 per cent from 49 per cent in 2019 thanks to a significant decline in GDP.[146] This suggests moderate penetration and is broadly in line with the regional average. The loan-to-deposit ratio has increased by 4 percentage points since end 2019 and, in December 2020, stood at around 94 per cent due to a decrease in deposits. Foreign-currency-denominated loans are a negligible share of total loans (0.2 per cent).
- Non-performing loans (NPLs) had declined significantly, from more than 20 per cent in 2013 to 5.1 per cent at end 2019. However, the trend then reversed and NPLs increased to 5.9 per cent as of end 2020. The overall improvement was helped by the shift of legacy NPLs to asset management companies owned by foreign parent banks, while the impact of the pandemic was less pronounced than expected.
- Exposure to the public sector has grown over the past decade, making banks sensitive to the state and perception of sovereign finances. Montenegrin banks provide the government with loans and invest in government securities. Despite the mild decline during the year, at end 2020, total exposure to the government was at 15 per cent of banking-sector assets (up from 2 per cent in 2010).
- Capital markets are underdeveloped. The stock exchange (the Montenegroberza) is not an important source of funding for companies, partly due to its low level of activity. In 2020, the total turnover of equities on the "free market" amounted to €10.3 million (excluding block trades and bonds) and the turnover on the "official market" stood at €2.9 million. The stock of government securities is small and consists primarily of T-bills. These are largely held by domestic banks. Corporate bonds are almost non-existent.

Energy resilience

Electricity

- Montenegro's power system is based primarily on generation from two hydropower plants (Perucica and Piva) and a lignite power plant (Pljevlja). When hydrological conditions are unfavourable, the country has to depend on electricity imports, which can be very costly, as recently observed with the hike in energy prices. Hydro-based generation is highly vulnerable to the impact of climate change, and an expected reduction in gross revenues from these sources is highlighted in the country's updated NDC.
- Although previously a crucial part of the country's power system, the future of the Pljevlja plant is unclear. The running hours are currently limited by the Large Combustion Plant Directive (LCPD) to 20,000 hours between January 2018 and December 2023.[147] During this period, the plant should be upgraded[148] to comply with all EU environmental requirements. At the same time, the government introduced a carbon price[149] in 2020,[150] covering part of the plant's output, and held an auction for 250 MW of solar PV capacity. It was won by a consortium including EPCG, Montenegro's state power utility. Increasing low-cost renewable generation, as well as improved interconnection and market trading arrangements, are likely to erode the economics of the Pljevlja plant over the next decade.
- Montenegro remains a regional leader when it comes to electricity market reform, having largely transposed the EU's Third Energy Package into national legislation, fully unbundled transmission and distribution operators, and liberalised electricity prices for most retail consumers. The most important next step for the country is to establishment a power exchange to complete the day-ahead energy market[151] and then focus on market coupling with its interconnected neighbours.[152]

Gas

- There is no gas market in Montenegro.

---

[146] Calculated based on the CBCG data.
[147] See Energy Community Secretariat (2019), page 123. As of 2019, the plant had run for 13,809 hours, leaving it 6,191 still to run. See Serbia Energy (2020).
[148] An EPC (engineering, procurement and construction) contract is already in place.
[149] A carbon price is a cost applied to carbon pollution to encourage polluters to lower emissions of greenhouse gases into the atmosphere.
[150] See ICAP (2020).
[151] The day-ahead energy market is a financial market in which market participants can sell or buy energy for the next 24 hours. It allows buyers and sellers to hedge against price volatility.
[152] See Energy Community Secretariat (2019).

Integrated (ATQ = 6.3)

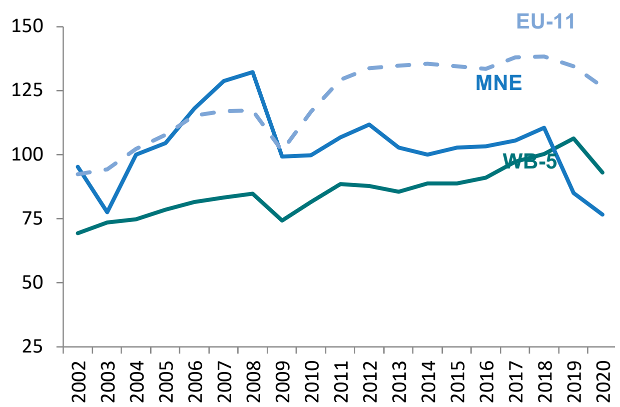
As a tourism-dependent economy, Montenegro's trade balance is traditionally reliant on service exports, which were heavily impacted by the Covid-19 pandemic in 2020. The country attracts, on average, around 10 per cent of GDP in FDI annually, outperforming its regional and EBRD comparators. However these investments are highly concentrated in a few tourism-related sectors, creating low-skilled jobs. Improvements to the public investment framework are needed to address infrastructure gaps while ensuring public debt sustainability.

- Trade as a share of GDP* is at 105 per cent compared with 94 per cent in the other Western Balkans countries and 135 per cent in the EU-11[153]
- Average annual net FDI inflows* to Montenegro are 10.2 per cent of GDP (2015-20)[154]
- FDI stock per capita is 8 per cent lower than the EU-11 average[155]
- 106th out of 141 countries on the quality of transport infrastructure[156]
- 77th out of 160 countries on the logistics performance (international) index[157]

* Five-year average

Figure 23. Trade openness

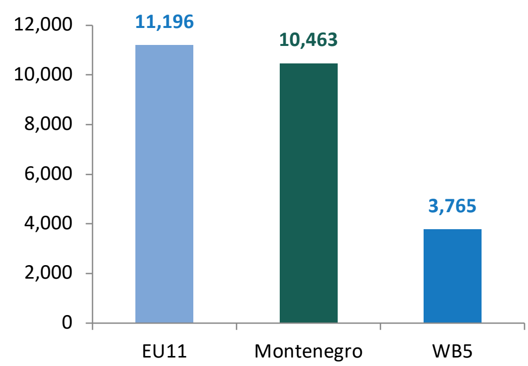
Percentage of GDP



Source: World Bank (2020a)

Figure 24. FDI stock per capita in 2020

US$



Source: UNCTADStat and authors' calculations

- The trade openness[158] of Montenegro has increased over the past five years, but is still below 2008 levels. The overall figure is skewed by the large share of tourism revenues, which make up the overwhelming share of the export basket. Trade as a share of GDP in Montenegro remains above the Western Balkans-5 average, though it lags the EU-11 countries. As a non-EU state, the country has only signed five regional trade agreements, considerably fewer than the average EBRD or EU-11 country (20 and 46, respectively). On the positive side, there are only 65 non-tariff measures in use in Montenegro, compared with Western Balkans-5 and EBRD averages of 157 and 993, respectively.
- At around 10 per cent of GDP annually,[159] Montenegro receives twice the average FDI of the economies in which the EBRD invests and more than any other Western Balkans country. At around US$ 10,400 at end 2020, FDI per capita in Montenegro was almost three times that in the rest of the Western Balkans. Over the past decade, almost 30 per cent of FDI has gone into real estate, alongside significant investment in the banking sector.[160] Over the past 20 years, Greenfield FDI inflows have generated most jobs in low-skilled services, such as accommodation, real estate, hotels and

[153] See World Bank (2020b).
[154] Calculation based on data from the Central Bank of Montenegro.
[155] See UNCTAD (2020).
[156] See WEF (2019).
[157] See World Bank (2018a).
[158] Trade openness is measured as a sum of imports and exports of goods and services over GDP.
[159] Five-year average.
[160] Calculation based on data from the Central Bank of Montenegro.

tourism.[161] The country is part of only 29 bilateral investment agreements (compared with Western Balkans-5 and EU-11 averages of 45 and 102, respectively).

- Over the past five years, non-FDI inflows have also been significantly higher in Montenegro than in comparator countries (around 0.05 per cent of GDP annually compared with a Western Balkans-5 and EBRD average of around 0.01 per cent of GDP).
- Montenegro's power system is connected to the power systems of Albania, Bosnia and Herzegovina, and Italy through 400 kilovolt transmission lines.[162] The 445 km power link to Italy,[163] launched in November 2019, allows the two states to exchange 600 MW of electricity in both directions, but the amount should double once a second cable is laid (expected in the next few years).[164] In recent years, there have been discussions on connecting the power systems of Montenegro and Serbia as part of the Trans-Balkan corridor, although there is still no clear plan as to when this might happen.[165]
- Electric power transmission and distribution losses in Montenegro are relatively high; somewhat higher than in the other Western Balkans countries and more than double the EU-11 average. At the same time, the quality of electricity supply is lower and it takes longer to obtain electricity in Montenegro than in comparator countries.
- As far as domestic transport is concerned, Montenegro ranks low on road connectivity and non-road transport infrastructure. The country's logistics competence, the quality of logistics services and the ability to track and trace consignments are similar as in the rest of the Western Balkans, but below the EU-11 average.
- On cross-border integration, Montenegro performs somewhat worse than the average Western Balkans-5 or EU-11 country.[166] According to the World Bank Logistics Performance Index, the country's customs and border efficiency and the ease of arranging international shipments are similar to the Western Balkans-5, but below the EU-11 average.
- Public debt is elevated in the aftermath of the Covid-19 pandemic, limiting its fiscal space in the coming years. Its public investment framework and management needs to be improved to ensure key infrastructure gaps are being addressed while safeguarding public debt sustainability. Montenegro performs somewhat poorer than other Western Balkans or EU-11 countries in terms of information and communications technology measures, with 81 per cent of the population using the internet in 2020. In contrast, its international internet bandwidth per internet user is several times higher than the Western Balkans-5 and EU-11 average.

[161] See EBRD (2021).
[162] The capacity to transmit power is allocated through the Coordinated Auction Office (SEE CAO), based in Podgorica. See SEE CAO (n.d.).
[163] The Montenegro-Italy interconnector project is the second big investment (after the Bar-Boljare highway) that has boosted GDP growth in recent years. The cost of this largely undersea cable has been estimated at €1.15 billion.
[164] See Terna (2019
[165] See CGES (n.d.).
[166] Measured as the time and cost associated with the logistical process of exporting and importing goods.

European Bank for Reconstruction
and Development
One Exchange Square
London EC2A 2JN
United Kingdom
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
www.ebrd.com

This document was approved in July 2022.

Photography: Getty Images.

This document can be found at
www.ebrd.com

European Bank
for Reconstruction and Development