

# WHITE BOOK

The Investment Climate in Montenegro for

2024



### **IMPRESSUM**

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### INTRODUCTION



### Dear Reader,

ou are holding "The White Book -Investment Climate in Montenegro 2024" - a publication through which the Montenegrin Foreign Investors Council has, for many years, actively supported development of Montenegro's investment climate with detailed analysis and recommendations. This year, we are especially proud of the fact that the book is released in November for the first time, creating more opportunity for implementing changes in the upcoming year. We believe that this new timing will enable decision-makers to respond more promptly to the valuable suggestions from the business community.

At the MFIC, we are constantly committed to advancing Montenegro's economy, with our member companies investing resources, knowledge, and expertise to help the country become a competitive destination. investment The rise in the Ease of Doing Business Index in 2024, following two years of stagnation, gives us a reason for optimism. I am pleased to note that, after two years of decline, the MFIC Ease of Doing Business Index has seen a slight rise this year to a score of 6.5. Nonetheless, challenges remain, and the key to success lies in

continuing an open dialogue between the Government, foreign investors, and the broader business community.

Montenegro has set a clear objective: full membership in the European Union by 2028. This ambition, supported by steady progress and alignment with European standards, has received further encouragement through positive assessments in the latest European Commission report. Achieving this goal will require the Government to remain open to constructive input from the business community in areas of economic transition and EU standards alignment. I am confident that our shared dedication to European reforms can support the development of Montenegro into a competitive, stable, and prosperous EU member state.

On this path of reform and European integration, the White Book remains a guiding tool for all who seek to understand the challenges and opportunities in Montenegro's economy. This unique publication provides a holistic view of the business climate, illustrating the real needs and obstacles investors face, along with clear recommendations for future development and progress.

I extend my gratitude to our MFIC members for their dedication and contributions, as well as to the institutions that have supported our efforts. With all the potential Montenegro holds, I am confident that together we will achieve significant progress in the years to come.

Sincerely,

Tamás Kamarási

President of the Montenegrin Foreign Investors Council



# **SUMMARY**

he Montenegrin Council of Foreign Investors has been publishing the annual edition of the White Book: The Investment Climate in Montenegro for 2024 more than ten years. This publication, produced according to an established methodology, provides an overview of the perception of the investment climate through a standardized questionnaire on the ease of doing business in the country. The results show trends in the business climate, but also identify key challenges in legislation, procedures, infrastructure and other important aspects of the business environment.

The questionnaires, which are filled out by members of the Council, contain investors' assessments of their experiences and perception of the investment climate. This year, the report includes an additional indicator – an assessment of progress in the green transition. The methodological changes made do not affect the possibility of comparing the results with previous years and allow a more precise insight into the opinions of investors.

In 2024, the Ease of Doing Business Index showed a slight increase after two years of stagnation. Council members rated the ease of doing business with 6.5 points, which is 0.1 point more than last year. Although this growth gives encouraging signs, the data points to the need for further reforms to achieve more significant progress.

The results of the sectoral indices show mixed trends: while the manufacturing/energy and transport/logistics sectors recorded growth, the tourism and trade sectors experienced a decline. Telecommunications retained the best rating of 7.2, while production/energy and transport/logistics recorded the highest growth compared to last year.

In this year's edition of the White Paper, investors have identified 23 new recommendations in various areas. Out of a total of 37 recommendations from previous years, the competent institutions have submitted answers to all of them. For 11 recommendations, no activity was initiated, while for the remaining 26 certain steps or activities of state authorities were recorded. However, none of these recommendations have been fully resolved in the past period.

### 1.1. TALENTS AND HUMAN CAPITAL

Human capital is crucial for any economy. Without proper talent development, long-term business, and therefore economic growth, become impossible. In 2024, the human capital score dropped to 4.4, indicating serious challenges in finding and retaining askilled workforce. The respondents recognized the insufficient connection between the education system and the labor market, as well as the lack of investments in the education sector. It should be noted that the individual indicator for talents and human capital in 2024 was rated 5.5.

The following key problems stand out: the lack of qualified labor, the migration of talent to markets that offer better conditions, and the mismatch between required and available skills. These challenges require the urgent attention of decision-makers and better cooperation between educational institutions and the economic sector.

### 1.2. THE RULE OF RIGHTS AND EQUAL OPPORTUNITIES

The reform processes, started in 2012, continued during 2024, with a special emphasis on the rule of law. In June 2024, at the Intergovernmental Conference in Brussels, Montenegro received a positive report on the fulfillment of the interim benchmarks for the rule of law (IBAR), which opened the way for further progress in the EU accession negotiations.

Despite the reforms, the rule of law index score remained at the same level of 5, indicating stagnation in this segment. Investors had a particularly negative assessment of the length of court proceedings, the selective application of laws and the lack of transparency in the issuance of permits and licenses.

Additionally, the alignment of the rule of law with best international practices was rated 4.

### 1.3. TAX SYSTEM

The tax system in Montenegro recorded slight progress in 2024, with a rating of 5.8, which represents an increase of 0.2 points compared to the previous year. However, administrative problems and lack of transparency of changes in tax rates still represent a serious obstacle for business. The respondents particularly pointed to the inefficient implementation of legal solutions and the problematic work of tax inspectors, which further complicates business operations.

Within the Council's strategies, this area has been rated 4.7.

# 1.4. ECONOMIC AND INFRASTRUCTURE DEVELOPMENT

Economic and infrastructural development remain the key factors influencing the long-term progress of Montenegro. In 2024, a growth of 0.9 points was recorded in the assessment of development compliance with international standards, which is an encouraging sign. Investors emphasize the importance of continuing reforms in the field of road and air connectivity, as well as greater involvement of the business community in making strategic decisions about economic development.

### 1.5. TRANSITION TO A GREEN ECONOMY

The green transition is recognized as one of the strategic priorities in all policies of Montenegro. However, the implementation of measures for the development of the green economy is still not sufficiently visible, and it is necessary to work additionally on strengthening the capacities of all actors involved in this process. Recognizing the importance of this topic, this year's edition of the White Book introduces a new index - the green transition index.

The index includes several key factors: the regulatory framework for the implementation

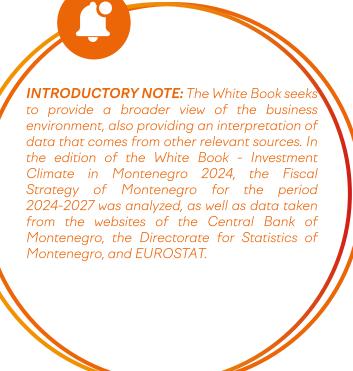
of the green transition, the existence of subsidies for companies dealing with the green transition, the implementation of international standards and practices, and the level of knowledge in this area. In 2024, the value of the index of compliance with international standards is 4.2.

The research also pointed out the main obstacles that slow down the green transition. Among them are the lack of facilities for the implementation of the green transition, the low level of knowledge of competent authorities and business entities about this process, as well as an inadequate regulatory framework and slower implementation of international standards and practices. Despite the challenges, the positive growth trend of the green transition index is encouraging, but also shows that Montenegro has a long way to go towards sustainable development in accordance with European and world standards.





# MONTENEGRO IN NUMBERS



espite various challenges, the Montenegrin economy, being small and significantly dependent foreign investments, recorded statistically positive results in the last few years. From 2022, when significant reforms related to salary increases initiated. the business environment in Montenegro faced frequent changes in regulations. During the implementation of these changes, a wider and timely dialogue with the business community is often missing. This practice creates uncertainty in the business environment, which, frequent political with changes, makes it difficult to attract new investments, as well as the functioning of both domestic and foreign companies already operating in Montenegro.

Although the GDP growth rate shows positive trends, along with the reduction of the number of unemployed and the stabilization of public finances, since the period after the COVID-19 pandemic, during which record negative indicators were recorded, it is noticeable that the current growth of the economy does not follow its development. The period from 2022 to 2024 is characterized by a reduction in unemployment and stabilization of public finances, but the key growth factor is consumption – increased by rising wages and inflation. The GDP rate is also influenced by foreign citizens who, due to the consequences of the war in Ukraine and migration from other countries (especially Turkey), reside in Montenegro. According to certain data, there are more than 100,000 foreign citizens who have temporarily found a home in Montenegro. However, it is important to note that increased consumption and the arrival of foreign citizens did not trigger significant investments, nor the creation of new jobs in the real sector. In contrast, the trend of employment in the public administration, which is currently the most sought-after employer in the country, continued to strengthen.

In the analysis of the structure of the GDP, the growth of the final consumption of households and the state can be observed, while gross investments in fixed assets are decreasing. This data confirms that the growth of the economy is dominantly dependent on consumption and not on production or investments. Also, it is alarming that the deficit in the foreign trade exchange of Montenegro reaches historically the highest proportions, while the coverage of imports by exports is at a record low level. Thus, in August 2024, the coverage of imports by exports amounted to 14.2% - this is a decrease compared to the same period of the previous year, when the coverage was 18.9%. These indicators point to the structural problems of the Montenegrin economy, which, despite growth, faces serious challenges, especially in the production sector.

Data from the Central Bank of Montenegro show a constant increase in the number of blocked economic entities, while the debts of the economy doubled in 2024 compared to 2019. Montenegro, as potentially the first next member of the European Union, must implement urgent structural industrial reforms, especially in the agricultural and manufacturing sectors, in order to reduce the trade deficit, improve competitiveness and economic potential.

### **GROSS DOMESTIC PRODUCT - GROWTH / FALL RATE**



Source: MONSTAT

Observing the growth of GDP in Montenegro, the data shows the progress of the economy since 2020. Strong growth was recorded during 2021, primarily thanks to the recovery of tourism, and this trend continues in 2022, due to the consequences of the war in Ukraine. The growth in the prices of products and services, as well as the significant increase in the export of electricity at significantly higher prices, improved the foreign trade deficit, which determines the GDP growth rate. However, in 2024, on a quarterly basis, we face a decline in real growth rates. This is particularly noticeable in the second quarter, when growth was 2.7%, which indicates a reduction in excessive consumption.

The structure of the GDP indicates that growth in previous years was predominantly driven by private household consumption and government consumption, thanks primarily to the increase in wages and pensions, as well as the growth of stocks in the GDP structure. On the other hand, there were no significant investments in new economic activities, which clearly indicates the need to strengthen the investment attractiveness of Montenegro and start new businesses.

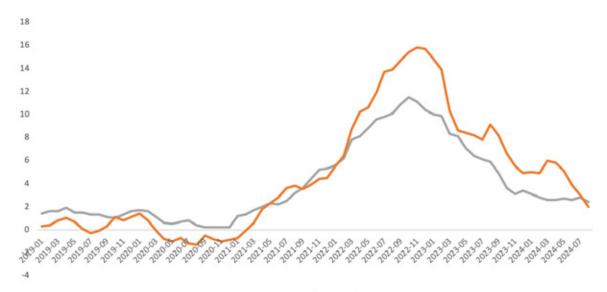
### **ANNUAL INFLATION RATE 2022-2024**



Source: MONSTAT

From the beginning of 2022, inflation is one of the main challenges for citizens and the economy of Montenegro. As shown in the graphic, inflation rates in Montenegro during 2022 and 2023 were above the EU average, which increased the costs of all economic entities. This indicates the presence of not only "imported inflation", but also the influence of internal factors, such as an increase in wages.

### INFLATION RATE IN MONTENEGRO AND EU



**Source: EUROSTAT** 

In 2024, there was a slight decline in the inflation rate, partly due to the high base from previous years compared to other countries, which expectedly resulted in lower rates. However, unlike many other countries, Montenegro did not introduce support packages to fight inflation, which from 2022 further contributed to price growth. Also, the presence of a large number of foreigners influenced the rise of prices, but at the same time increased the state's income, which was reflected in the improvement of public finances. Nevertheless, it is necessary that decision-makers are ready to offer appropriate measures that will come in response to a possible stabilization of market conditions.

Table: Structure of the total inflow of FDI in Montenegro, in 000 euros

	2019	in 2022	in 2021	in 2022	in 2023	Jan-Aug 2023.	Jan-Aug 2024.
Investments in companies and banks	2.423.287	1.238.410	2.150.699	2.194.029	952.633	640.203	716.016
Intercompany debt	3.219.078	3.928.546	3.234.319	4.015.408	2.649.205	1.709.085	1.979.542
Real estate	1.779.962	1.163.702	2.782.815	4.482.575	4.633.103	2.968.125	2.849.206
Other	362.854	329.669	1.112.967	824.646	388.484	293.721	207.192
Total inflow	7.785.182	6.660.327	9.280.800	11.516.659	8.623.425	5.611.133	5.751.956
Total outflow	4.739.401	1.954.978	3.464.361	3.690.464	4.287.339	2.824.631	2.449.877
Net FDI	3.045.781	4.705.349	5.816.439	7.826.196	4.336.086	2.786.502	3.302.079

Source: Central Bank of Montenegro

One of the key indicators of the growth and development of the Montenegrin economy is the inflow of foreign direct investments (FDI). Analysis of the structure of FDI inflows in Montenegro shows a decreasing trend in the last period, along with changes in the investment structure itself. Namely, there is a decline in investments in companies and banks<sup>1</sup>, while the increase occurs in the real estate sector. This signal is reflected in the weakening of the investment attractiveness of Montenegro, which was also affected by the political instability in the country.

Additional difficulties for private entrepreneurs are also the continuation of the practice of excessive employment in the public sector. The fact that work in the state administration is perceived as more attractive than work in the real sector represents a challenge for the sustainability of public finances, especially in a small economy such as that of Montenegro. In this regard, the entire business community emphasizes that a prerequisite for long-term and stable economic growth is, among other things, the implementation of essential reform of the labor market, while stimulating the strengthening of the real economy sector. Without specific activities in this segment, Montenegro may face serious challenges in preserving the stability of the economic system.

In 2024 Montenegro implemented a comprehensive reform that includes an increase in wages and a reduction in wage contributions, especially pension insurance (PIO) contributions. With this reform, the minimum salary was increased from 450 to 600 euros for jobs with a secondary vocational education (SSS), and to 800 euros for those with a higher vocational education (VSS). The aforementioned will influence Montenegro to become one of the countries with the lowest tax burden on work in the region - the tax

<sup>&</sup>lt;sup>1</sup>The name "companies and banks" is taken according to the classification of FDI according to structure (Source CBCG).

wedge for the average salary will amount to 16.2%, while for the minimum salary of 600 euros it will be 11.1%, and for 800 euros 13.5%.

The changes also covered the tourism and catering sector - increasing the value added tax (VAT) for accommodation to 15%. The value added tax of 15% also includes: the sale of books and publications, tickets for various cultural and sports events, the use of solar panels and the provision of services in marinas.

This reform introduces and increases certain excise taxes on still wines in the amount of 25 euros per hl (except for small wine producers who, under the conditions prescribed by law, would pay a lower excise tax). The scope of excise products has also been extended to non-alcoholic beverages with added sugar or other means for sweetening and flavoring. The introduction of excise taxes on electricity with a delayed application period from the date of Montenegro's entry into the EU is also foreseen.

The planned measures are presented through the Fiscal Strategy of the Strategy of Montenegro for the period 2024-2027. The Government's views on the Fiscal Strategy, which refer to the projections for the next four years, are summarized below.

In 2023 Montenegro achieved strong economic growth of 6.0%, which is the highest rate in the Western Balkans region and one of the highest in Europe. Also, the significant resilience that the Montenegrin economy has shown, despite geopolitical and economic challenges, is extremely positive. Recorded growth was supported by private consumption and budget revenues. Fiscal reforms, such as salary increases, social transfers and pensions, as well as the introduction of the electronic fiscalization system, further contributed to the achieved success. The influx of foreign citizens who start businesses, get employed and invest in Montenegro has also increased.

In the first quarter of 2024 Montenegrin GDP grew by 4.4%, which ranks Montenegro among the countries with the fastest growth in Europe, while in the same period the economy of the European Union stagnated, with growth of only 0.1%. The biggest contribution to GDP growth came from gross investments in fixed assets (8.2%) and private consumption (5.7%), while exports of goods and services recorded a 21.0% drop. The tourism sector, which is key to the Montenegrin economy, recorded a 14.7% drop in overnight stays in the first four months of 2024. Industrial production, on the other hand, increased by 3.1%, with significant growth in the processing industry (20.5%) and the mining and quarrying sector (18.2%), while electricity production fell by 13.9 %.

The fiscal strategy predicts that the Montenegrin economy will grow at an average rate of 3.7% per year in the medium term. The expected growth in 2024 is 3.8%, and in 2025 4.8%, while in 2026 and 2027 it is predicted to slow down to 3.1% and 3.2%. Inflation is expected to gradually decline to an average of 3% in the period 2025–2027, due to the reduction of price pressures in Europe.

Table: Macroeconomic indicators, assessment according to the Fiscal Strategy

Macroeconomic framework		Assessment	Basic scenario		
		in 2024	in 2025	2026	in 2027
Macroeconomic indicators	GDP nominal (in million €)	7279,7	7825,7	8226,4	8604,4
	GDP, nominal growth	6.3	7.5	5.1	4.6
	GDP, real growth	3.8	4.8	3.1	3.2
	Inflation (average)	4.8	4.0	2.8	2.5
	Employment growth (%)	3.1	2.8	1.7	1.7
	Earnings growth (gross)	5.0	9.0	4.0	4.0

Table: Fiscal framework, assessment according to the Fiscal Strategy

Fiscal framework (in % of GDP)		Assessment	Basic scenario		
		in 2024	in 2025	2026	in 2027
	Original income	37.9	36.3	36.1	35.8
	Budget expenditures	41.0	39.7	39.2	38.9
	Deficit/Surplus	-3.1	-3.4	-3.1	-3.1
Fiscal indicators	Interest	2.1	2.1	2.4	2.6
r iscar mulcators	Primary deficit/surplus	-1.0	-1.3	-0.7	-0.6
	Current consumption deficit/surplu	0.7	0.3	8.0	1.0
	Gross public debt (% GDP)	63.3	61.8	65.0	65.2
	Net public debt (% GDP)	58.5	59.9	61.8	63.8

The strategy sets the main fiscal goals for the strategy implementation period 2024-2027:

- » Achieving a surplus of current budget spending (financing of all current obligations of the state from current revenues);
- » Realization of the budget deficit at an average level of 3.2% of GDP in the period 2024-2027, year;
- The level of public debt at an average annual level of about 64% in the period 2024-2027, with net public debt at an average annual level of 61% in the period 2024-2027, year;
- Ensuring the condition that new borrowing is exclusively for the financing of capital projects, that is, the repayment and refinancing of existing state debts;

In the area of tax policy, the main goal is to create the conditions for a comprehensive reform of the tax system in order to improve the business environment, strengthen the competitiveness of the economy and improve the conditions for attracting investments.

Therefore, the main measures refer to:

- » Reducing the tax burden on labor and implementing programs to improve the competitiveness of the economy and attract credible investors;
- » Reducing the "gray economy" in order to enable fair market competition, that is, to suppress unfair competition;
- » Tax and customs administration reform;
- » A better strategy for reducing tax debt;
- » Harmonization of excise policy with EU directives in order to tax products that negatively affect the health of the population;
- » Introduction of the third rate of value added tax (in order to standardize the VAT rate in the tourism industry);
- » A significant increase in funds through investment through the Capital Budget and support through grants provided by the EU, which starts an intensive investment cycle and contributes to accelerating economic growth;
- » Issuance of state guarantees only for projects of general public interest that contribute to long-term development.

As presented in the document, Fiscal Strategy of Montenegro for the period 2024-2027. represents an important step towards sustainable management of public finances and reforms that are necessary for future economic growth. However, while

the proposed measures provide a solid basis for the improvement of fiscal stability, certain issues remain insufficiently elaborated, and the very process of drafting the Strategy leaves significant room for improvement.

Primarily, the Government of Montenegro determined and adopted the drafts of all necessary legal solutions before publishing the report from the public hearing. This reduced the opportunity for relevant actors, especially the business community, to fully contribute. Greater involvement of different interest groups could improve the legitimacy and effectiveness of the proposed measures.

One of the key elements that could further strengthen the Strategy refers to a more detailed analysis of potential risks related to the proposed reforms. Namely, the proposed series of smaller taxes should cover the PIO Fund's deficit, which in the first year of implementation will amount to 383 million euros, due to the reduction in contributions. However, although the Strategy identified a possible risk, the mechanisms for solving the possible failure of those measures were not precisely explained, which may cause uncertainty among businessmen.

Geopolitical events inevitably affect the global economy, and thus Montenegro. Although Montenegro has largely managed to maintain economic momentum, the long-term impact of these developments on public finances and spending remains an important factor. The strategy could be further strengthened by considering scenarios in which consumption falls, especially if one takes into account the potential departure of foreigners who have temporarily settled in Montenegro. Also, the impact that long-term costs may have if they remain, especially in the context of infrastructure, has not been sufficiently explored.

In this regard, it is important to note that Montenegro remains dependent on the model of financing through indirect taxes, especially VAT, which depends on consumption. Although comprehensive, the Strategy did not provide clear answers to the question of how the decline in spending could affect fiscal stability. Additional attention had to be devoted to considering the changes that may occur in the tourism sector, which

is one of the main drivers of GDP growth. Considering possible movements in global tourism trends, there is room for defining alternative scenarios that would strengthen the resilience of the economy.

Also, the proposed measures include an increase in excise taxes and VAT, which can increase prices and business costs, especially for small and medium-sized enterprises that make up a significant part of the Montenegrin economy, especially in underdeveloped parts of the country. In this context, the Strategy could additionally focus on assessing the impact on the operations of smaller companies and on their ability to adapt to the new fiscal measures.

The slowdown of the global economy and inflationary pressures further increase the challenges facing Montenegro. Although the Fiscal Strategy is aimed at sustainability, the possibilities of structural changes in the global economy, which could change the dynamics of business in tourism and other sectors, have not been fully addressed. If the expected growth in tourism fails, it could slow down economic growth and increase the fiscal deficit, which would require additional adjustment of measures.

Furthermore, although infrastructural investments are positively evaluated as a key factor in long-term growth, it is important to point out that infrastructural development be accompanied by strategic investments in technology and diversification of the economy. Increased investments from the European Union are certainly a positive signal, but it is necessary for Montenegro to develop a more resilient and competitive economy, reducing dependence on external factors and additional borrowing.

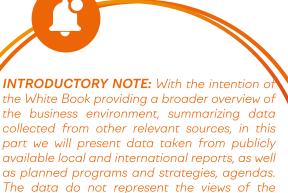
In conclusion, the Fiscal Strategy lays a solid foundation for future reforms, but it could be improved by more fully defining possible risks and measures to overcome them, as well as through a more significant focus on structural challenges and sustainability of reforms in the long term.

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# MONTENEGRO FROM THE POINT OF VIEW OF KEY INTERNATIONAL ORGANIZATIONS



Council or member companies ie they were not

the subject of research in the form in which we

transmit them. On this occasion, we would like to

thank the organizations from which the data

# EUROPEAN NEGOTIATIONS FROM THE POINT OF VIEW OF THE EUROPEAN COMMISSION

ontenegro's accession negotiations with the European Union began in June 2012. To date, 33 negotiation chapters have been opened, three of which have been temporarily closed. At the intergovernmental conference on June 22, 2021, Montenegro accepted the revised enlargement methodology, which emphasizes key reforms, stronger political governance, and greater dynamics and predictability of Meanwhile, process. implementation of the Stabilization

and Association Agreement (SAA) continued. Overall progress in the negotiations depends on achievements in the area of the rule of law. Progress in meeting the interim benchmarks from Chapters 23 and 24, which relate to the rule of law, is crucial for the further course of the negotiation process.

### 2024 EUROPEAN COMMISSION REPORT ON MONTENEGRO

This year's European Commission report on Montenegro has a notably positive tone, highlighting progress in numerous chapters.

### **Economic Criteria**

were taken.

The report emphasizes that the Government has increased the minimum pension by 52%, reaching 450 euros as of 2024. Additionally, in September 2024, the Government adopted the program "Europe Now 2" and a Medium-Term Fiscal Strategy. Key reforms include raising the minimum wage from 450 to 700 euros while reducing pension contribution rates. These measures represent a significant risk to the sustainability of public finances, despite some compensatory measures and an accelerated investment program. Economic recovery has led to employment growth and a decrease in unemployment, although structural challenges in the labor market remain.

### **Business Environment**

Efforts to improve the business climate have continued. In March 2024, the Competitiveness Council adopted an action plan aimed at eliminating 11 key obstacles by 2026. The dynamic development of domestic and foreign companies is hindered by the informal economy, inefficient administration, a complex regulatory framework, and high parafiscal charges, as well as limited availability of electronic services (insufficient digitalization). Additional obstacles include non-transparency in decision-making, selective law enforcement, and limited access to finance for small and medium enterprises (SMEs).

### Informal Economy

The informal economy remains a key challenge. Weaknesses in institutional and regulatory capacity, labor market conditions, limited law enforcement capacity, corruption, and tax evasion contribute to unregistered work, which particularly affects registered SMEs and micro-enterprises. At the end of 2023, the Government adopted a program and action plan to address the informal economy, but a mechanism for monitoring and reviewing its implementation is lacking.

### Price Control and State Aid Transparency

Government has taken Although the measures limit price increases, to transparency and efficiency in state aid remain weak. In March 2024, in cooperation with leading retail chains, the Government launched a program to limit the prices of basic food products. The initiative was later expanded to include a broader range of products to support local producers. The Competition Protection Agency issued two rulings on unauthorized state aid, which must be returned. While Montenegro has made progress in ensuring greater transparency in state aid decisions, further awareness of state aid rules and strengthening the capacity of the Competition Protection Agency are necessary.

### Market Economy Development

Montenegro has made certain progress and is moderately prepared to develop a functional market economy. Strong economic growth and one-off revenues supported a small budget surplus in 2023, but fiscal vulnerability remains high due to public financing needs, higher interest rates, and continued spending pressures for social benefits. The labor market situation has improved, though structural problems persist. Certain progress has also been made in improving the business environment and reforming state-owned enterprises.

### **Taxation**

Montenegro is moderately prepared in the area of taxation, with progress mainly achieved by aligning excise, VAT, and corporate income tax legislation with EU rules. The separation of the Tax Administration from the former Revenue and Customs Administration brought organizational changes and slowed the development of the administrative capacity and IT infrastructure needed for integration with EU tax systems. Last year's Commission recommendations have been partially implemented and largely remain valid.

### Economic and Monetary Policy

Montenegro is moderately prepared in this area, with some progress achieved. Implementation of the action plan for alignment with EU legal requirements is advancing. The banking sector is stable, with adequate levels of liquidity and profitability, and most temporary measures to preserve the liquidity and solvency of domestic banks expired during 2023. In November 2023, the Central Bank of Montenegro (CBCG) strengthened supervision, requiring credit institutions to check compliance before dividend payments.

### **EU Economic Integration**

Montenegro has achieved limited progress and is moderately prepared to handle EU competition and market pressures. The education system faces numerous challenges, as shown by international study results. Efforts to advance green and digital transitions have continued, but there are significant infrastructure gaps. Further diversification of Montenegro's narrow production base is needed, with key obstacles including low added value of domestic products, small market size, and low export participation. In this context, Montenegro continue implementing services for SMEs, develop e-governance, advance dual vocational education and training in collaboration with business associations, and improve the regulatory framework for the green transition and energy resilience by adopting the National Energy and Climate Plan.

### Public Procurement

Montenegro's preparedness in public procurement is between moderate and good. During 2023, progress was made in improving the electronic procurement system. Recommendations from the previous year were partially implemented

and largely remain in force. In the coming year, transparency of public procurements under interstate agreements should be increased, and the number of procurement procedures without contract publication should be reduced.

### Entrepreneurship and Industrial Policy

Montenegro has achieved a good level of preparedness, especially in implementing entrepreneurial and industrial policies and completing preparations for alignment with EU policies. Last year's Commission recommendations were largely implemented. In the next period, Montenegro should continue implementing new industrial policies in cooperation with relevant stakeholders, aligning with the EU Late Payment Directive, and addressing business barriers identified by the Competitiveness Council.

### IBAR - INTERIM BENCHMARK ASSESSMENT REPORT

The political commitment of the Montenegrin authorities to European integration consistently highlighted as a key state priority. However, in the previous period, progress in reforms related to EU accession was slowed due to deep political polarization and instability. During 2024, the reform processes started in 2012 continued, and in June of the same year, at the Intergovernmental Conference in Brussels, Montenegro received a positive report on the fulfillment of the temporary criteria for the rule of law (IBAR). Along with the final benchmarks for Chapters 23 and 24, Montenegro received the support of all the countries of the European Union, with the message that the final stage of negotiations requires maintaining focus and the same commitment to reforms as before.

By obtaining the IBAR, a new part of the negotiations began, which, according to the new methodology, will enable the closing of chapters in which the necessary reforms have already been implemented. This is a clear indication that Montenegro has made significant steps in key areas and that it can continue to align with EU laws and standards in order to prepare for membership.

The achieved progress paves the way for the closure of other chapters where the benchmarks are met. Chapters 23 and 24, which relate to the rule of law, close last, after the final benchmarks have been met. After receiving the IBAR as a cross-section of the state of fulfillment of the temporary benchmarks in these chapters, the European Commission will define the final benchmarks that Montenegro must meet. When all these criteria are met and the conditions for closing the other chapters are created, Montenegro will be able to conclude the negotiation process.

### GROWTH PLAN FOR THE WESTERN BALKANS

On November 8, 2023, the European Commission adopted a new Growth Plan for the Western Balkans, with the aim of bringing these countries closer to the European Union. The plan provides certain benefits of EU membership to the countries of the Western Balkans before their formal accession, thus encouraging economic growth and strengthening socio-economic connectivity. In this way, it is emphasized that economic cooperation is a key factor in this process.

It is expected that the Growth Plan can double the size of the economies of the Western Balkans in the next ten years. The plan also encourages countries to accelerate reforms by demonstrating the concrete benefits that membership will bring to citizens. These changes should accelerate the enlargement process and the economic progress of the region.

Aspartoftheplan, anewfinancial instrument worth 6 billion euros is foreseen - the Instrument for Reform and Growth for the Western Balkans, which will last from 2024 to 2027. Each Western Balkan country will be required to prepare a reform agenda based on existing recommendations, including an annual enlargement package and Economic Reform Programs (ERPs). The European Commission will review, evaluate and approve this agenda.

Payments under this instrument will be made twice a year, based on the requests of the countries of the Western Balkans and after the Commission confirms that all conditions for payment have been met, such as macroeconomic stability, good management of public finances, transparency and budget supervision.

If the conditions are not met, the Commission may suspend or refuse the payment. Countries will have one to two years to meet the conditions, and if they do not, the amount will be redistributed to other countries in the region.

### STRUCTURE OF THE WESTERN BALKANS GROWTH PLAN

The new Plan for the growth of the Western Balkans includes the following basic topics:

1. Improvement of economic integration with the single market of the European Union, provided that the Western Balkans comply with the rules of the single market and at the same time open relevant sectors and areas to all its neighbors, in accordance with the Common Regional Market.

In this section, there are a series of priority activities:

Free movement of goods;

Free movement of services and workers;

Access junique area EURO Payments (SEPA);

Improvement of road infrastructure;

Integration and decarbonization energy market;

A unique digital market;

Involvement in industrial supply chains.

- 2. Strengthening the economic integration of the countries of the Western Balkans, through a common regional marketwhich isin accordance with EU rules and standards. Expectations are that this could potentially improve their economies by 10%.
- 3. Accelerating the implementation of key reforms, achieving sustainable economic growth through attracting for eign investments and strengthening regional cooperation;



4. Increasing financial support through the reformand development financial instrument for the period 2024 - 2027. According to the proposal, its estimated value is 6 billion, of which 2 billion will be placed in the form of grants, and 4 billion through loans.

### REFORM AGENDA OF MONTENEGRO 2024-2027

The Reform Agenda of Montenegro 2024-2027 within the framework of the EU Instrument for Reforms and Growth from the Growth Plan for the Western Balkans is a key document aimed at accelerating the economic convergence of Montenegro towards the European Union average, and implementing reforms necessary for faster integration into the EU. The plan envisages a combination of grants and soft loans with a total value of 6 billion euros for the period 2024-2027. Of that amount, 383.5 million euros have been earmarked for Montenegro, including 110 million euros in grants and 273.5 million euros in soft loans.

Considering the strategic goal of Montenegro to achieve "smart, sustainable and inclusive economic growth that will improve the quality of life of all citizens", reform measures in the medium term will be aimed at:

- diversification of economic activity and increasing the competitiveness of the economy,
- » strengthening the economy's resistance to external shocks,
- ensuring macroeconomic and fiscal stability,
- » improving the business environment and starting a strong investment cycle.

Montenegro's economic perspectives are supported by priorities aimed at fulfilling the EU agenda in the accession process. The initiative of the European Union, the Growth Plan for the Western Balkans, plays a key role in accelerating this process, enabling faster economic convergence of candidate countries according to EU standards.

The growth plan for the Western Balkans, proposed by the European Commission, provides funds to support the reform processes necessary to accelerate regional integration and gradual inclusion in the EU single market. The implementation of the measures provided for in this instrument will contribute to faster socioeconomic convergence with the EU, and harmonization with European values, laws, rules and standards, with the ultimate goal of Montenegro's accession to the European Union.

In the field of business environment and private sector development, the Montenegrin economy is facing numerous structural challenges. The reform measures are aimed at increasing the competitiveness and sustainability of the economy, which is related to the improvement of the regulatory framework, the suppression of the informal economy, the improvement of the availability of financing for micro, small and medium-sized enterprises (MSMEs), and the strengthening of the supervision and management of state-owned enterprises (PUVD).

The development of the energy sector is of particular importance for the socio-economic progress of Montenegro. The current dependence on fossil fuels, especially coal in the production of electricity and oil in the transport sector, is a challenge for the energy transition. Achieving the goals by 2030, adopted at the level of the Energy Community as early as 2022, requires carefully planned reforms and adequate financial support.

### **GOALS OF THE REFORM AGENDA**

In light of the current challenges in the field of economic development and the need to speed up key reforms in the process of accession to the European Union, the general goal of the Reform Agenda of Montenegro is to use the incentives of the European Union through the Instrument for Reform and Growth for the Western Balkans. This instrument enables the implementation of key reforms in strategic areas, with the aim of accelerating economic growth and harmonizing with European Union standards.

In order to achieve this ambitious goal, the Government of Montenegro has defined reform measures in four key policy areas: business environment and private sector development, digital and energy/green transition, human capital development and fundamental rights/rule of law. In addition, priority was given to the reforms necessary to speed up the EU accession process, with a special emphasis on the rule of law, the fight against corruption and organized crime. These cross-sectoral reforms are of key importance for the successful implementation of the Reform Agenda.

The reform agenda includes the main challenges of the Montenegrin economy through the following goals:

- » Accelerating the transition to a sustainable and inclusive economy that can respond to the competitive pressures of the EU single market and ensure a stable investment environment.
- » Encouraging regional economic

integration, with progress towards the establishment of a common regional market.

- » Strengthening integration with the EU single market through better connectivity of the region through trans-European networks.
- » Accelerating the green transition in accordance with the Green Agenda for the Western Balkans from 2020, especially in the energy sector.
- » Accelerating digital transformation as a driver of sustainable development and inclusive growth.
- » Encouraging innovation, especially for small and medium-sized enterprises, with support for the green and digital transition.
- » Improving the quality of education, training, retraining and employment policies.
- » Further strengthening the foundations of the enlargement process, including the rule of law, democracy and respect for human rights and freedoms, with particular emphasis on the independence of the judiciary, security and the fight against corruption, organized crime, terrorist financing, money laundering and tax fraud.
- » Strengthening the efficiency of public administration, while encouraging transparency and good management at all levels, especially in the management of public finances, public procurement and state aid.

All these measures are aimed at supporting the efforts of Montenegro in the process of joining the European Union and creating a modern, competitive and sustainable economic system.

# OECD - Competitiveness and Private Sector Development Report 2024

Since 2021, Montenegro has achieved modest progress, with positive changes in 8 out of the 15 observed policy dimensions.

The most significant improvements have been in tourism, trade, science, technology, and innovation policy, where Montenegro exceeds the average of the six Western Balkan economies (WB6) in eight dimensions. As a regional leader, Montenegro scores highest in tourism policy and ranks among the top in science, technology, and innovation policies. However, in areas such as tax, energy, and agricultural policies, Montenegro lags behind four neighboring Western Balkan countries, highlighting the need for substantial improvements to align with the European Union (EU).

The report notes that Montenegro has strengthened tourism policy management by empowering local communities and The promoting sustainable practices. establishment of the National Tourism Council marks a step toward more inclusive decision-making, addressing key tourism challenges, and promoting sustainable development. The institutional framework for science, technology, and innovation policies has also been reinforced. The Innovation Fund has launched various financial support programs to stimulate innovation and startup projects across sectors. In transport, ongoing initiatives have improved internal and regional connectivity, making Montenegro the country with the densest road infrastructure in the region, averaging 72.6 km per 100 km<sup>2</sup>. Since 2021, the Government has approved a national program for rehabilitating and maintaining the railway network and implementing intelligent transport systems for road traffic.

New employment policies and programs have enhanced labor market inclusivity. Although the female employment rate in Montenegro (48.7%) remains lower than in the EU (67.7%), the country has the smallest gender gap among the Western Balkan economies in 2022. This progress toward gender equality is supported by the National Strategy for Gender Equality 2021–2025 and a pilot program aimed at increasing women's employment. Additionally, aligning Labor Law with the EU's Work-Life Balance Directive demonstrates a commitment to strengthening workers' rights and ensuring fair treatment for all individuals.

In the coming period, Montenegro should focus on improving the governance of

state-owned enterprises (SOEs). About 50 SOEs under central ownership operate in a decentralized manner, lacking clear ownership policies and professional management practices. Previous efforts to improve governance and oversight have been halted or regressed. The absence of independence requirements for boards of directors and instances where the state bypasses boards when appointing directors hinder boards' ability to protect corporate decisions from political interference. Many SOEs operate at a loss, highlighting structural issues.

Montenegro Furthermore, needs enhance energy supply and implement decarbonization measures. Diversification of energy sources is hindered by the lack of a comprehensive regulatory framework, and natural gas infrastructure remains inadequate. Although a legal framework for renewable energy sources has been established, no new auctions for renewable generation capacity have been held, which raises concerns about incentives and competitive mechanisms in this sector. Additionally, reliance on coalfired power plants and non-compliance with the Energy Community's Large Combustion Plants Directive undermine the credibility Montenegro's energy commitments regarding the gradual phasing out of fossil fuels.

Moreover, digitalization of public services for businesses and citizens needs improvement, with a particular focus on cybersecurity. Limited digital capacity within the public sector and low digital awareness are slowing digital transformation. Despite a legal framework for interoperability and e-identification, Montenegro's digital public services lag behind other Western Balkan countries. Technical challenges in public data exchange systems and delays in connecting registries hinder digitalization, reducing the quality and availability of e-government services.

In tax policy, additional reforms are needed to increase revenue and support economic competitiveness. Montenegro could broaden its tax base by improving personal income tax and corporate income tax structures. Additionally, implementing guidelines for digital taxation is becoming increasingly important due to the rise in online transactions, particularly in the tourism sector. These

changes require frequent regulatory updates for efficient VAT collection, while incorporating digital platforms into the tax collection process could reduce administrative costs.

Finally, social protection system reforms are essential to address demographic challenges such as an aging population and high emigration rates.

# WORLD BANK - Regular economic report for the Western Balkans, autumn 2024.

It is expected that the Montenegrin economy will grow at a rate of 3.4% in 2024. Growth should remain stable, at a rate of 3.5% in 2025, supported by rising wages. However, fiscal challenges remain, as the government plans to cut pension contributions, which is likely to increase the budget deficit to 4.1% of GDP by 2025. Public debt is forecast to rise to an estimated 64.5% of GDP by 2026. Maintaining fiscal sustainability will require disciplined policies, taking into account high external financing costs and geopolitical uncertainty.

After three years of strong recovery after the pandemic, a slowdown in economic activity is predicted, partly due to a decrease in tourist arrivals and overnight stays, especially Russian ones (-30%). The employment rate and economic activity reached record levels, while the unemployment rate was the lowest in 2023. According to administrative data, employment growth slowed slightly in the third quarter. The current account deficit widened due to the growing trade deficit, with slower exports and declining net incomes. Net foreign direct investment (FDI) remained at a lower level, covering less than 30% of the deficit.

The outlook for economic growth is positive, although under pressure from unfavorable global circumstances. Growth is expected to remain moderate, at 3.4% in 2024, driven by private consumption and investment. The increase in minimum net wages from October 2024, according to the Fiscal Strategy, should further stimulate personal consumption and lead to growth of 3.5%



in 2025, despite the planned closure of the thermal power plant due to reconstruction.

Inflation will rise slightly to 3.7% in 2025, and is expected to decrease to 2.7% by 2026. Poverty could be reduced by 1.8% by the end of 2023, falling to 7.0% in 2026. Most of the poor are chronically unemployed, students or people out of the labor force, often from the northern region. Further poverty reduction requires targeted government measures and sustainable economic growth.

The fiscal deficit is likely to increase in 2025 due to a decrease in income from pension contributions, despite the planned compensatory measures of the Government. Additional fiscal consolidation measures could improve fiscal stability and the sustainability of public debt, which is expected to rise to 64.5% of GDP by 2026. Geopolitical uncertainty and high external financing costs pose additional risks, and domestic political factors may also affect the country's economic outlook..

# WORLD BANK -PARTNERSHIP FRAMEWORK (CPF) FOR MONTENEGRO FOR 2025-2029.

The World Bank Board adopted the Partnership Framework (CPF) for Montenegro for 2025-2029. It was concluded that the framework is in line with the country's aspirations for inclusive growth, a green economy, strong governance and progress towards EU integration.

A special focus is placed on the economic diversification, inside and outside the tourism sector, because tourism is recognized as the main driver of the value chain in the entire national economy (driver of green transformation, energy, agriculture, transport infrastructure and other services).

According to the framework of the partnership, the outcomes/results and goals of the partnership itself are defined.

### Partnership: Outcomes and Goals

### Outcome 1 (HLO1): Improvement of economic opportunities

This outcome consolidates the previous program's focus on strengthening macroeconomic and financial resilience, and expanding access to economic opportunities and jobs. It is related to the improvement of fiscal management and public administration, efficient and inclusive provision of public services, and increasing the productivity of the private sector. Montenegro must diversify its economy and improve productivity in order to achieve sustainable growth and approach EU standards. This includes adopting green policies and practices. Focus on the competitiveness of the private sector, regional integration, sustainable development of tourism and strengthening of institutions is crucial for long-term development. Institutions must enable fair market competition, environmental protection and stable medium-term planning.

World Bank contribution: Interventions within HLO1 are aimed at strengthening economic opportunities through better economic management and increasing competitiveness. Priorities include improving fiscal policy, strengthening institutions, improving infrastructure, encouraging innovation and creating new jobs in the formal sector.

### Goal 1.1: Stronger economic governance

This goal builds on previous programs, with a focus on the sustainability and efficiency of public finances. The key is to strengthen administrative capacities for efficient management of public finances, human and natural resources. The long-term economic resilience of Montenegro will depend on balancing short-term consumption, capital investments and fiscal goals. Investments will play a significant role in economic recovery after the pandemic. Among the key projects is the new section of the Bar-Boljare highway.

### Objective 1.2: Increased competitiveness and integration

Increasing macroeconomic resilience and expanding access to economic

opportunities through improving private sector productivity is critical. Greater spatial and digital connectivity contributes to long-term resilience. In order for Montenegro to achieve sustainable growth, it must increase the productivity of the private sector, which is currently limited by market inefficiencies and weak investments in innovation and green technologies.

### Outcome 2 (HLO2): Improvement of the environment

Improving Montenegro's resistance to climate change and accelerating the transition to low-carbon emissions requires a stronger legal and political framework, especially in the segments of energy efficiency and renewable energy sources. Decarbonization of the energy sector would improve competitiveness by reducing energy costs, while encouraging private investment and creating new jobs.

### Objective 2.1: Improving environmental management

Environmental degradation is a serious challenge for the economic development of Montenegro, especially in tourism. Ecological sustainability depends on better management of natural resources (forests, waters, marine space). Problems with waste and wastewater, especially along the coast, require better coordination and application of recycling.

### Goal 2.2: Increased resilience to climate change and progress in the energy transition

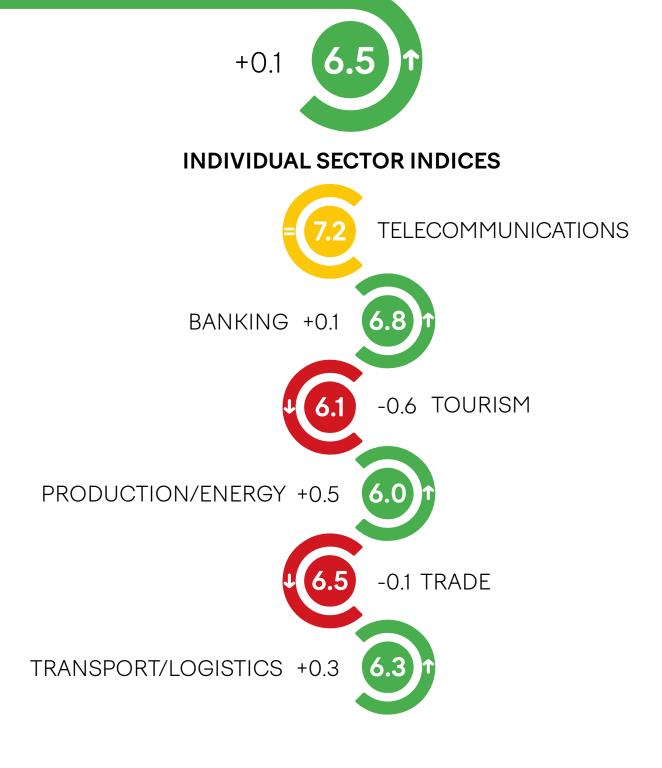
To strengthen the ecological resilience of Montenegro, it is necessary to integrate climate obligations into all policies, especially energy efficiency and renewable energy sources. Climate change poses a risk to economic activities and natural resources, threatening biodiversity and the sustainability of tourism. Investing in green energy will help Montenegro take advantage of its comparative advantages and support EU accession. Decarbonization of the energy sector would have a broad economic impact, by reducing energy costs and stimulating private investment.





# MFIC INDEX FOR 2024

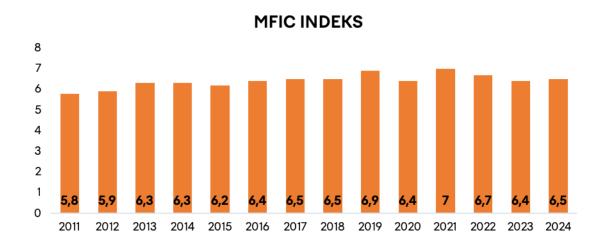
### MFIC INDEX FOR 2024



# 4.1. FOURTEEN YEARS OF PUBLISHING THE COUNCIL'S INDEX

or the fourteenth year in a row, the Council of Foreign Investors in Montenegro calculates and publishes the MFIC index, which measures the ease of doing business in the country. The index is based on the perception and experiences of the Council's member companies, which every year evaluate the business and investment environment in Montenegro through a standardized questionnaire. Changes in the methodology, which began in 2023, continued in 2024, with the aim of providing a clearer insight into obstacles in business, but also into positive changes in the business and investment environment. By adding new questions, the new methodology enables comparative monitoring of the state of the business environment. In this way, we get answers to questions about how foreign investors react to changes in the Montenegrin market.

Over 90% of Council member companies that have an office in Montenegro responded to the questionnaire during July, which confirms the importance of research as a common voice of foreign investors. The research for this edition of the White Book was conducted before the implementation of the tax reforms in October, so their impact will be presented in the 2025 edition of the White Book.



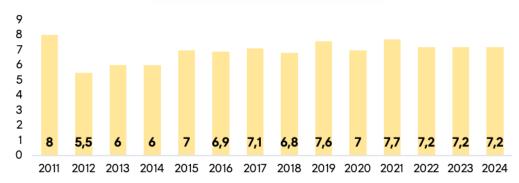
The ease of doing business index recorded a slight increase in 2024, after a significant increase in 2021 and a subsequent decline over the following two years. Council members rated the ease of doing business in Montenegro for 2024 at 6.5, i.e. 0.1 point higher than the previous year. Although growth was recorded, it is important to note that the value of the index is still significantly lower compared to 2021, when it was 7, or 2019, when the index was 6.9. The mentioned results indicate that there is significant room for improving the investment and business environment in Montenegro.

The movement of the MFIC index depends on the changes in the individual indices of economic sectors that are calculated as part of the research. The growth of the MFIC index can be expected if there is an increase in individual sector indices.

# 4.2. ANALYSIS AND ASSESSMENT OF THE INDEX OF ECONOMIC SECTORS

# 4.2.1. TELECOMMUNICATIONS AND ICT

### **TELECOMMUNICATIONS AND ICT**



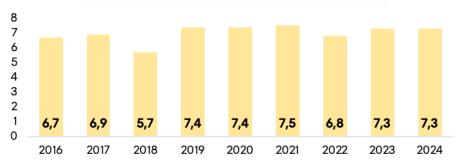
he sector that, according to the members of the Council, has achieved the best results in the last few years is the Telecommunications and ICT sector. Since 2019, the mentioned sector has continuously recorded scores above 7. After a drop of 0.5 points in 2022, the index of this sector remains unchanged, reaching a score of 7.2 in 2024, the same as in the previous two years.

The presented three-year continuity indicates the stability and resistance of the sector to negative influences in the observed period. On the other hand, the stagnation in ratings for the third consecutive year suggests that, despite high ratings compared to other sectors, no significant positive changes have occurred.

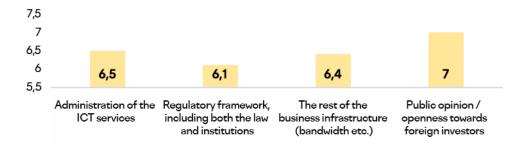
In the coming period, special attention should be paid to the regulatory framework and efficiency of administration. Members working in the Telecommunications and ICT sector rated it with 7.3, which is the same rating as in 2023.



### ICT ON TELECOMMUNICATION AND ICT



Ifweanalyzetheindividual factors that determine the evaluation of the Telecommunications and ICT sector, the members rated the regulatory (legal) framework and its application by competent institutions the lowest with 6.1. The rating of 6.1 is 0.3 points lower than in 2023. Business infrastructure, such as network coverage, was rated 6.4, while last year this rating was 5.9. Administration for ICT services, which includes all administrative procedures required for doing business in or with the sector, received a score of 6.5. Public opinion and openness to foreign investments were rated with the highest score of 7, which is at the same level as in 2023.





This year, the members highlighted several key challenges that affect the situation in this sector:

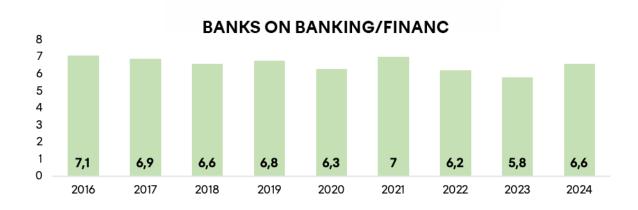
- » It is necessary to digitalize the public administration through the availability of online services that would speed up business operations and the fulfillment of bureaucratic obligations towards relevnt competent authorities and other institutions;
- » Further development of ICT infrastructure, both by the state and the private sector, with additional investments and monitoring of modern ICT solutions:
- » Insufficiently developed cyber security;
- » Further standardization of QR payment code is required;
- » Improving the quality of IT training, which is organized by both private educational providers and the state, including the improvement of personnel in the ICT sector, especially in the part of technical requirements of telecommunication operators;
- » Very high costs for telecommunications operators compared to the EU, including all taxes paid to state and local authorities, as well as specific taxes (eg fees for the film industry);
- » Non-unified procedures for issuing permits for IT infrastructure facilities.

# 4.2.2. BANKING AND FINANCE

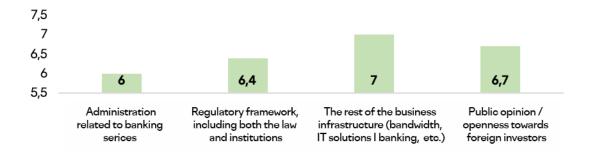
#### **BANKING / FINANCE** 7,2 6,7 6,8 2020 2021 2022 2023 2024

The banking and finance sector has been recording continuous growth in ratings for several years. After a record decline in 2022, the index of this sector is growing for the second year in a row. In 2024, the rating for the banking and finance sector is 6.8, which represents a slight increase of 0.1 points compared to 2023. However, despite the growth, it is clear that there is considerable room for improvement, given that the banking and finance index score was significantly higher in the earlier period (for example, 7.4 in 2019).





In 2024, member companies from the banking and financial sector rated the situation in this area with 6.6, which represents an increase of 0.8 points compared to 2023. After a two-year decline, positive trends have now been recorded, which indicates greater satisfaction of business entities with market conditions compared to the previous period.



Giving it a rating of 6, as in 2023, the respondents gave the lowest rating to the administration, that is, the administrative procedures necessary for doing business in or with this sector. Then follows the regulatory framework with a rating of 6.4, which shows a slight increase compared to 2023 when it was 6.3. Public opinion and openness to foreign investors were rated 6.7, which represents a drop of 0.2 points compared to 2023 and a rating of 6.9. It is interesting that the rest of the business infrastructure (including coverage of the number of branches, availability of IT solutions in banking, etc.) received the highest score of 7 this year, which is an increase of 1 point compared to 2023.



The following are highlighted as factors and challenges that affect the attractiveness of this sector:

- » Inconsistency of by-laws in various areas with legal regulations in the domain of banking and finance;
- » Continuation and possibility of complete digitalization of banking processes and services (credit approval without mandatory final visit to the branch, possibility of online account opening).
- » High interest rates on loans to support the economy, which significantly reduce the attractiveness of the sector for a large number of economic entities;
- » Extensive and complicated administration required by banks;
- » Limitations in the provision of services in different time zones, which makes international business in Montenegro difficult.

# **4.2.3. TOURISM**



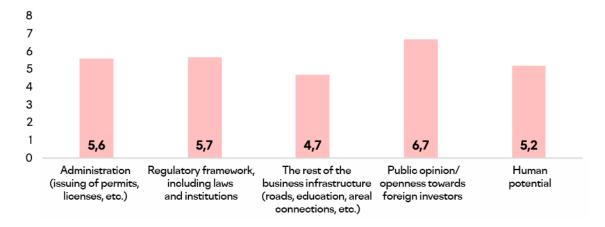
ourism is one of the strategic sectors for the development of Montenegro, which represents a key component of the further development of the economy. Since the restoration of independence, it contributes significantly to the GDP and records one of the highest growth rates.

However, in 2024, tourism saw a 0.6 point drop in the index, bringing it to a score of 6.1. The same rating was recorded in 2020, when the COVID-19 pandemic completely stopped activities in this sector, which was the lowest level since the measurement began. The repeated drop in the rating, now for the second time in a row, with an extremely low realized value, indicates the presence of serious challenges that need to be urgently resolved.



#### **TOURISM ON TOURISM** 8 7 6 5 4 3 2 1 7 7,6 5,3 6,8 7,3 5,3 6,4 4,5 0 2016 2017 2018 2019 2020 2021 2022 2023 2024

A significant drop of 0,8 points occurred during the evaluation of the sector by members operating in the field of tourism. The rating of 4.5 in 2024 represents the lowest rating since the measurement began. This data is very worrying, if we know how important the tourism sector is for the development of the Montenegrin economy, so the drastic drop in the index in the last two years indicates the existence of serious challenges. It is necessary to initiate a broader dialogue that, apart from competent institutions, would include all other relevant parties, in order to enable the coordinated implementation of strategic policies. Only in this way, it is possible to overcome the key challenges in this important sector of the Montenegrin economy.



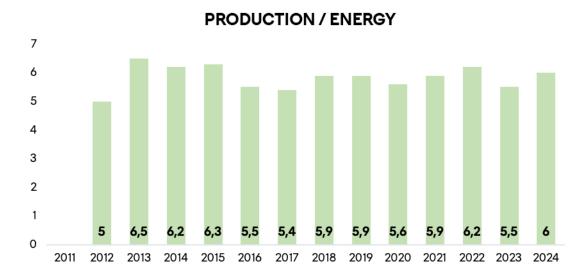
The members rated the rest of the business infrastructure, which includes roads, education and air connectivity, with the lowest score of 4.7. This rating is 0.2 points lower compared to 2023, when it was 4.9. It follows human potential, i.e. availability and quality of labor force, with a rating of 5.2. The best rated was public opinion/openness towards foreign investors, with a rating of 6.7, but this rating is also significantly lower compared to 2023, when it was 7.2. Administration, which includes all procedures related to administrative procedures, such as obtaining permits and licenses, was evaluated with 5.6, which is 0.2 points lower compared to last year's survey.



The members also recognized the following factors and challenges that affect the attractiveness of the tourism sector:

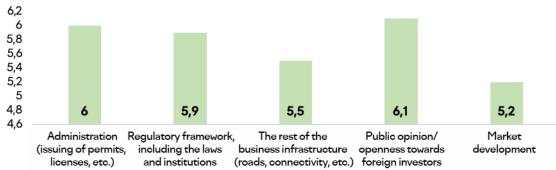
- » Insufficiently constructed road infrastructure;
- » Montenegro's poor air connectivity and inadequate airport infrastructure capacities;
- » Complicated and cumbersome administration, and insufficient efficiency when issuing work permits for foreigners;
- » The presence of an informal economy that negatively affects business in this area;
- » Insufficient implementation of strategic management policies in the tourism sector;
- » Insufficient promotion, especially of cultural and historical attractions;
- » Insufficiently developed and promoted rural tourism;
- » Inefficient and inadequate waste management.

# 4.2.4. PRODUCTION/ENERGY



After a big drop in 2023, the production and energy sector was rated 6 in 2024, which represents an increase of 0.5 points compared to the previous year. This sector has recorded relatively low ratings since the beginning of index monitoring, so although the achieved growth indicates positive developments, there is still considerable room for improvement. Decision-makers and business entities in the field of production and energy should continue to work together to improve the current situation, so that the sector reaches average ratings in the range of other sectors.





The members of the Council cited the following main reasons for the current assessment of the sector:

Business infrastructure (roads and connectivity) was rated 5.5, which represents an increase of 0.3 points compared to 2023, when the rating was 5.2. The development of the production and energy market was rated the lowest among the factors that determine the progress and strengthening of the mentioned sector. The development factor of the production and energy market includes the degree of development, participation and attractiveness in the overall economy, the current contribution to the development of Montenegro, as well as the utilization of potential and the existence of the necessary conditions for further progress.

The highest rating, as in most sectors, was assigned to public opinion and openness to foreign investors 6.1, which is an increase compared to 2023, when the rating was 5.6. Administration, i.e. administrative procedures related to obtaining permits and licenses, efficiency of state bodies, etc., was rated 6, with an improvement of 0.7 points compared to last year's score of 5.3.



In terms of other factors and problems affecting the current situation in this sector, the members highlighted the following:

- » Lack of adequate workforce with the necessary skills, especially in production and energy;
- » Lack of adequate state (strategic) policies that support exports and exporters;
- » Extremely complicated import and export procedures;
- » The lack of tax incentives for exporters, as well as the lack of a strategy to increase the productivity of the Montenegrin economy;
- » Absence of more favorable financial models for business development and opening.

# 4.2.5. TRADE

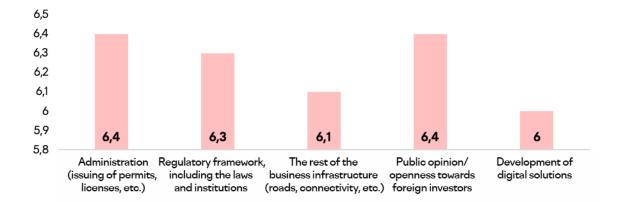


rade is the sector that has seen a decline in ratings for the third year in a row. After 2023, when a drop of 0.4 points was recorded, the trend continued in 2024, with an additional drop of 0.1 points, bringing the index value to 6.5. This is the lowest rating for the trade sector since 2017.

As the reasons for this rating, the respondents rated the development of digital solutions the worst with 6. The following is the rating for other business infrastructure, which includes roads and connectivity (including geographic connectivity, traffic infrastructure, development, and the time required to cross certain routes), which is 6.1. This represents an increase of 0.3 points compared to 2023, when it was 5.8. The regulatory framework was rated 6.3, which is also a better rating compared to last year's 6.

The index of opinion and openness towards foreign investors received the highest score of 6.4, which is a slight increase compared to 2023, when it was 6.3. Administration, which includes all the necessary administrative procedures (obtaining permits, licenses, administration efficiency and assistance with certain procedures, etc.), was rated 6, which is at the same level as in 2023.



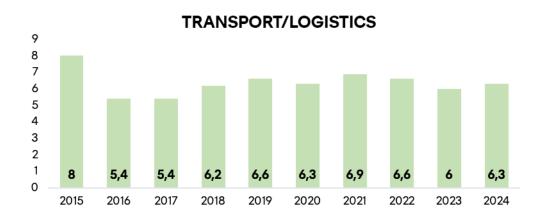




In the segment related to other factors that influence the state of the sector, respondents state the following:

- » The lack of labor significantly prevents the expansion of sales capacities;
- » The existence of the informal economy further complicates the development of the sector and negatively affects business;
- » An insufficiently developed system of antimonopoly policies and practices, as well as insufficiently developed standards in this area, represent a problem;
- » There is a significant inconsistency in the pricing policies of businessmen in the trade sector, which leads to large differences in prices between regions, with a limited selection of products at the same time;
- » Impossibility of working on Sundays, especially during the summer and winter tourist season.

# 4.2.6. TRANSPORT/LOGISTICS

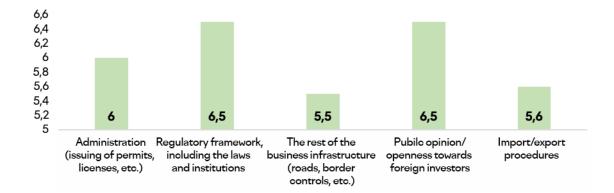


ransport and logistics is the last index that is measured within the economic sectors that influence the MFIC index. After two years of decline, in 2024 this index recorded a growth of 0.3 points and now stands at 6.3.

Among the factors that determine the transport and logistics index is a particularly low score of 5.5 for business infrastructure, which includes roads and border controls. This rating is lower by 0.2 points compared to 2023, when it was 5.7. Procedures required for import and export were rated 5.6.

The highest rating of 6.5, which is also the same as last year, was given to the regulatory framework and openness towards foreign investors. We emphasize that the regulatory framework has made progress compared to 2023, when it was rated at 6.3. Also, a slight increase of 0.3 points was recorded in the domain of administrative capacities (administrative procedures for issuing permits, licenses, etc., as well as the efficiency of public administration) which still have a low score of 6.





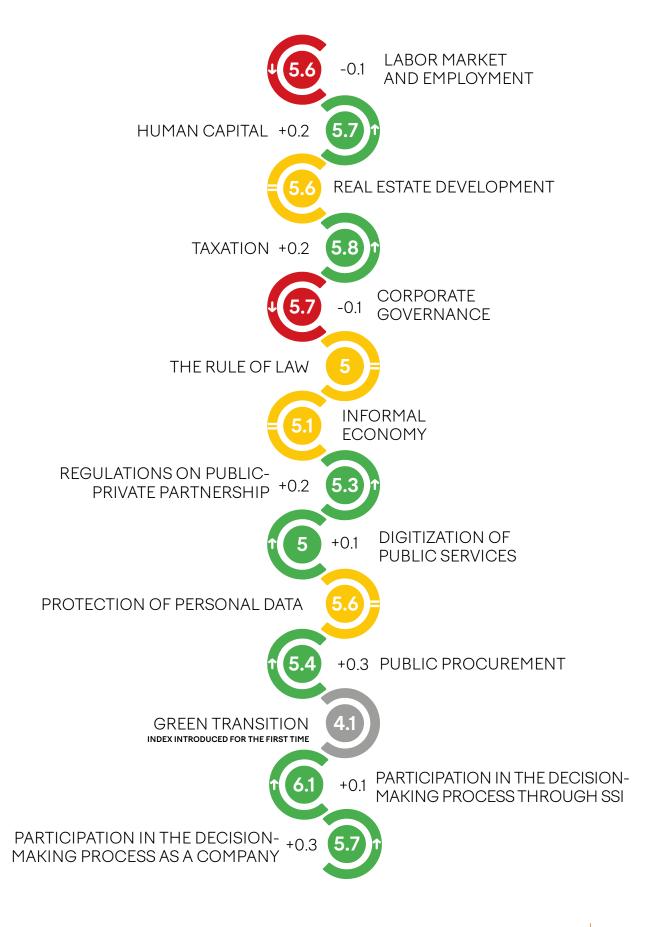


The interviewees pointed out the following as key problems affecting the evaluation of the sector:

- » Lack of strategic documents and policies related to the logistics sector in Montenegro;
- » The need to modernize road infrastructure and improve connections within the country, as well as further construction of the highway network and improvement of roads to neighboring countries;
- » Further development of the potential of Port Bar;
- » Increasing the efficiency of customs administration and continuing the digitization of all procedures related to import and export;
- » Improvement of digital solutions through cooperation with local ICT companies;
- » At the state level, it is necessary to strengthen activities aimed at combating the informal economy.

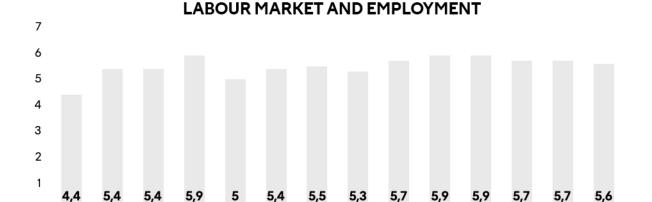


# 4.3. ANALYSIS AND EVALUATION OF THE INDEX OF ECONOMIC PARAMETERS



n addition to evaluating the economic sectors in Montenegro, the methodology used in the White Book also includes an analysis of economic parameters that affect the ease of doing business in the country. The first index measured in this context refers to the development of the labor market and employment. It includes regulations concerning the labor market, especially those defining severance pay, sick leave, fixedterm contracts and the like.

After two years of stagnation at the level of 5.7, the index recorded a slight decline, so this year's rating is 5.6. A low rating indicates that the recognized problems in the labor market have not been overcome, emphasizing the necessity of their effective solution.



5,5

2017

5,3

2018

5,7

2019

5,9

2020

2021

2022

2023

Respondents cited abuses when using sick leave as the main reasons for the low rating, as well as the lack and poor quality of existing skills development programs. The mentioned two segments received a particularly low rating of 4.9. The labor law was rated with 5.5, and the processes and regulations related to work permits with 6. Finally, the respondents assigned the highest rating to issues related to severance pay and indefinite contracts.



5,6

2024

0

2011

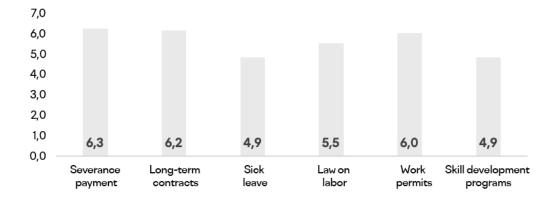
2012

2013

2014

2015

2016



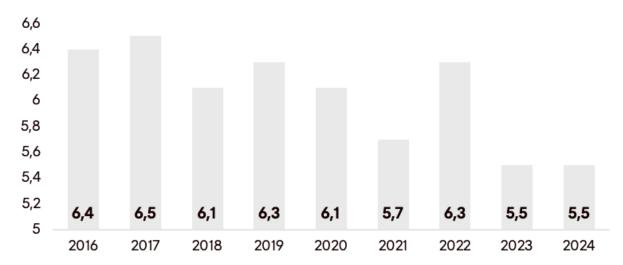


When it comes to problems and factors affecting the evaluation, the respondents pointed out the following:

- » Inconsistency of the educational system with the needs of the labor market;
- » Lack of curriculum for specific areas, especially regarding modern technologies (including the IT sector and other technologies used in industries that require their application);
- » Slow changes in the education system that do not follow the needs of the economy;
- » Pronounced competition of the public sector in the field of employment, which negatively affects the development of the private sector and reduces the possibility of finding the necessary workforce;

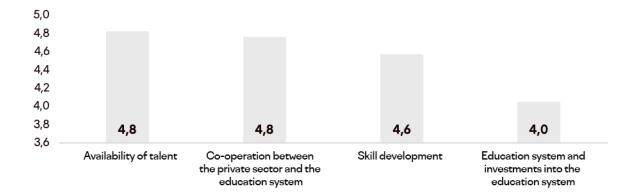
uman capital, which includes the availability of talent, investment in talent, cooperation between the private sector and education, and other aspects, is a key index in the survey. After a drop of 0.8 points in 2023, this index recorded stagnation in 2024 and its value is 5.5. It is especially important to highlight the importance of the mentioned index for all countries, since the availability of human capital largely determines the ability to attract new investments. Quality and available human capital is, in fact, a basic condition for the long-term development of the economy of any country.





The respondents recognized the main factors that determine the 5.5 rating level. The education system and investments in the education system were rated very low at 4, while skills development received a rating of 4.6. Cooperation between the private sector and the education system, and the availability of talent were rated 4.8. As can be seen, all scores in this section are below 5, indicating significant problems in all key areas.





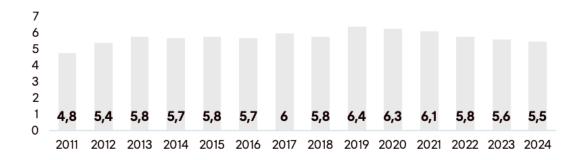


Finally, the respondents identified the main challenges in the area of human capital development:

- » Finding a quality workforce, especially with specific qualifications and knowledge that are necessary in the era of digital transformation and the use of modern technologies;
- » Brain drain to foreign markets, i.e. labor force migration to markets that offer better conditions, which has been particularly pronounced in the last few years;
- » A large mismatch between required and available skills in the labor market, caused by a mismatch between the needs of the economy and the education system;
- » Lack of incentive measures for young talents in order to develop their own private business and strengthen the private sector;
- » Lack of cooperation between the educational system and the private sector in recognizing the real needs of the labor market;
- » Insufficiently developed educational programs and curricula that do not follow the trends in the labor market and do not provide the acquisition of competencies in skills that are crucial in the age of digitization.

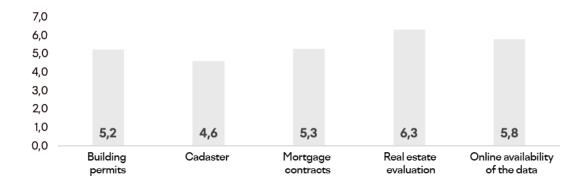
he third index from this segment refers to real estate development and includes procedures for issuing building permits, registration processes, cadastre operations, implementation of mortgage contracts, etc. For the fifth year in a row, this index shows negative trends; so the rating dropped from 6.4 in 2019 to 5.5 in 2024.

## REAL ESTATE DEVELOPMENT



The main factors that respondents recognize as key to this index are the very low rating of the Cadastre work, which is 4.6, then the process of issuing building permits with a rating of 5.2, and mortgage contracts with a rating of 5.3. The online availability of data received a slightly better rating, which is 5.8. The best score of 6.3, although still low, is property appraisal.





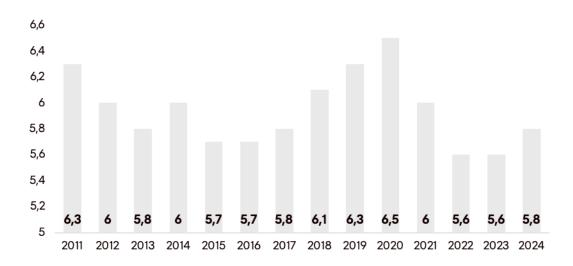


As factors and challenges that influence the development of the index, the interviewees mentioned:

- The lack of online data, that is, the list of real estate in the north of Montenegro, which makes it difficult to assess investments;
- » The absence of a detailed inventory of the complete infrastructure (roads, real estate, etc.), that is, a single information system regulated by the law on planning and construction. The mentioned system exists in the relevant ministry, but it is not publicly available;
- » Insufficiently developed digital services that would significantly speed up procedures, facilitate business and contribute to transparency and increase investor confidence;
- » Non-unified and very long process of obtaining permits for starting or carrying out activities in certain sectors (tourism, production, energy, etc.);
- » Very slow administration;
- » Insufficiently developed waste management policies at the state level (strategic management);
- » Insufficient concern for environmental protection.

axation includes the assessment of various fees, taxes and levies, as well as overall compliance and transparency in the payment or avoidance of taxes.

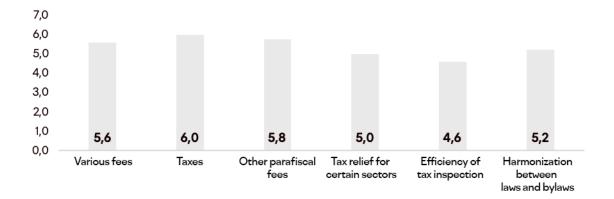
#### **TAXATION**



Although it has seen a decline or stagnation with low results in the last few years, taxation in 2024 was rated 5.8, indicating a growth of 0.2 points compared to the previous year.

The factors that influenced the formation of the final rating of 5.8 are the efficiency of the tax inspection, which received a low rating of 4.8, the lack of tax incentives for certain sectors with a rating of 5, and the level of harmonization of legal and by-laws with a rating of 5.2. The number and amount of different taxes were rated 5.6, while other parafiscal levies were rated 5.8. The number and amount of taxes received the best score of 6. The results indicate that the poor rating of the index is primarily a consequence of the implementation of solutions and the work of inspections, rather than the level of the tax burden.





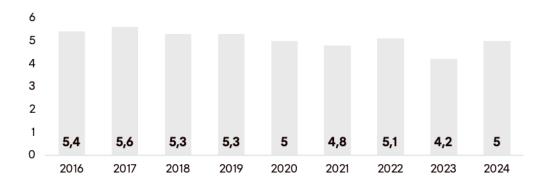


Among other factors and problems that negatively affect the low score of the index, the respondents recognized:

- » Frequent changes in legislation, especially at the local level and an excessive number of levies due to the financing of local selfgovernments;
- » Inconsistent interpretation of legal regulations by civil servants and the court system, which leads to unclear and complicated implementation of the law;
- » Insufficient efficiency of state authorities in resolving company requests, which slows down the business process.

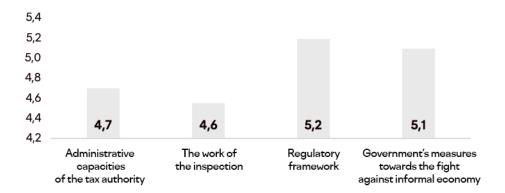
he following index refers to the informal economy and evaluates one of the biggest problems that burden the business operations of economic entities in Montenegro. After a drop of 0.9 points in 2023, the index of the informal economy in 2024 records a growth of 0.8 and amounts to 5.

## INFORMAL ECONOMY



As the main factors that determine the assessment of the informal economy in 2024, the respondents rated the work of the inspection particularly poorly with 4.6, and the capacities of the Tax Administration in the fight against the informal economy with 4.7. Next are the Government's measures to combat the informal economy with a score of 5.1 and the regulatory framework itself with a score of 5.2. The assessments clearly show that the biggest challenges in the fight against the informal economy are the capacities of inspections and other institutions, which should be a priority in the work of competent institutions in the near future. Also, it should not be ignored that the other grades are also relatively low, and it is necessary to work on their improvement, that is, on solving the challenges that affected them.





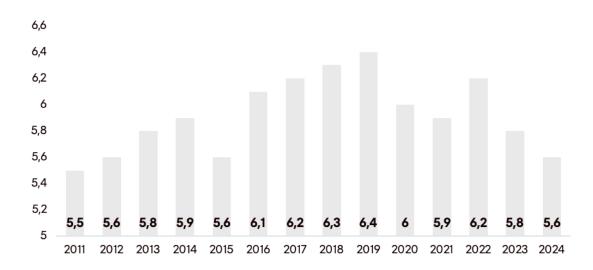


Among the remaining challenges and main obstacles for the development of this area, the interviewees mentioned the following:

- » Selective handling of inspections, lack of uniform principles and rules in control, and inconsistent compliance with legal regulations that will not depend on the inspector and the economic entity being controlled;
- » Lack of measures in the fight against completely unregistered entities, considering that the current measures are dominantly focused on the control of registered entities, while there are no controls for entities that are completely outside the legal framework;
- » Excessive taxes and other costs, including parafiscal levies, redirect part of the economy towards the informal economy. When this is added to the lack of compliance with legal regulations, an environment is created in which it is more profitable to do business within the informal sector;
- » The necessity of increasing the capacity and training of inspectors in order to indiscriminately apply the legal regulations to all subjects;
- » The necessity of improving digital solutions in the work of inspections, as well as improving digital possibilities for reporting irregularities.

The next index covered by the research is the Corporate Governance index. It includes segments related to financial statements, bankruptcy regulations, as well as the harmonization of VAT with EU auditing standards and practices.

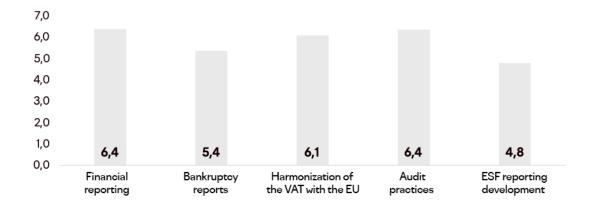
# **CORPORATE MANAGEMENT**



The corporate management index has been declining for the second year in a row, and in 2024 its value is 5.6.

In the part of the factors that determine the corporate management index, respondents gave the lowest score of 4.8 to the development of ESG reporting. A slightly higher rating was given to the Bankruptcy Regulations, which is 5.4. With scores over 6, the harmonization of VAT with EU practice was rated 6.1, as well as auditing practice and financial reporting with 6.4.





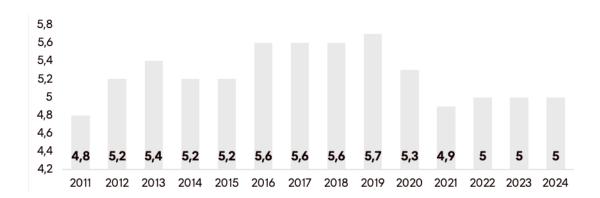


As other supporting factors and problems in the part of corporate management, the following are mentioned:

- » Necessity of additional consulting in the area of ESG management;
- » Insufficiently transparent and consistent interpretation of legal norms in this area by state services;
- » Insufficiently efficient administration that slows down business activities to a great extent;
- » Great inconsistency in the interpretation of VAT regulations by local administrations.

The Rule of Law Index within this research includes: length of commercial disputes and court cases, issuance of permits and licenses, residence and work permits, etc.

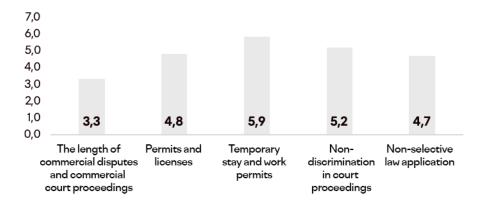
### **RULE OF LAW**



Although in the period from the publication of the previous White Book to the new research, there were certain changes in the legislation, the rating of this index remained unchanged and is 5.

Precisely from the answers related to the factors that influence the final evaluation of this index, it is concluded that the implementation of the newly created regulation (due to which Montenegro received a positive report from the European Commission-IBAR) in practice is of great importance for a favorable investment and business environment. . The worst score in the report of 3.3 was assigned to the duration of commercial and court cases, which clearly indicates that this represents the biggest barrier in the development and strengthening of the rule of law. After the duration of the proceedings, the indiscriminate implementation of the law and other solutions was rated 4.7, which indicates a significant lack of trust that respondents, based on their direct experience, have in this part. The process, length and transparency of obtaining permits and licenses were evaluated with a slightly higher score of 4.8. The non-discrimination factor in judicial processes was rated 5.2, while the procedures and administration of obtaining temporary residence and work permits were rated 5.9.





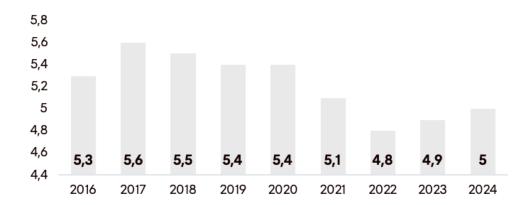


As other challenges and recommendations in the area of rule of law development, respondents mention:

- » Further strengthening of mediation procedures as an alternative model for dispute resolution, that still has not taken hold sufficiently.
- » Necessity of better digitalization that will enhance transparency and efficiency.
- » Improvement and strengthening of state authorities' capacities and their better co-ordination and communication in order to achieve a more efficient and prompt dispute resolution, as well as other administrative procedures that include multiple authorities.

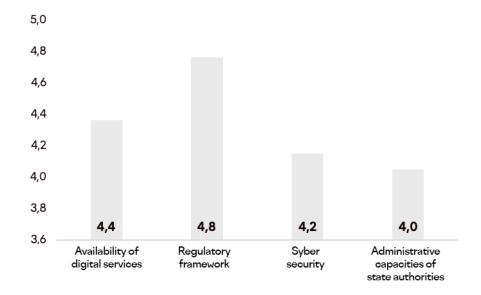
he index of digitization of public services has recorded slight growth for the second year in a row. Thus, from the level of 4.8 in 2022, this year it was rated at 5. It is clear that this is a positive trend, but it is still necessary to invest additional effort in the development of digitalization of public services. In this way, it is possible to significantly improve, speed up and create a more transparent business environment.

## **DIGITALIZATION OF PUBLIC SERVICES**



Although the rating of the index itself is increasing, looking at the ratings of certain factors that influence its development, it is clear that there is significant room for further progress. All the factors that influence the rating of the index are rated extremely low, so no rating exceeds 5. The administrative capacities of state institutions are rated 4, which indicates the necessity of improvement. A high level of cyber security is a priority in the everyday life of the modern world. Based on their experiences, the respondents rated the level of cyber security in Montenegro as 4.2. Furthermore, the availability of digital services was rated with 4.4, and the highest rating, however still extremely low, of 4.8 was given to the regulatory framework for the area of digitization.



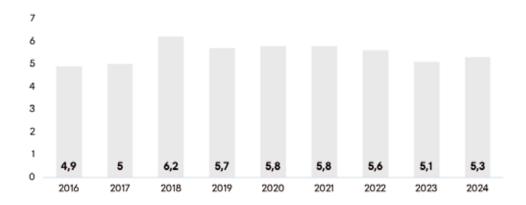




The main shortcomings and challenges in this area, identified through research, are:

- » Insufficiently developed digital infrastructure by state institutions, which do not invest enough funds. A big challenge is the disconnection of institutions and their databases;
- » Lack of genuine readiness of state institutions to accept changes and implement digital solutions, which would significantly speed up all processes, reduce the possibility of non-compliance and/ or selective compliance with legal regulations, and improve the efficiency of the work of state bodies;
- » High risk of cyber attacks due to insufficiently developed infrastructure, as well as lack of skills and personnel in state institutions that could improve this area;
- » Inconsistency between digital services provided by institutions in charge of certification;
- » A very small number of fully developed digital services of state bodies means that a significant number of activities must be implemented in a traditional way (printed documentation), which leads to lengthy procedures and delays in implementation.

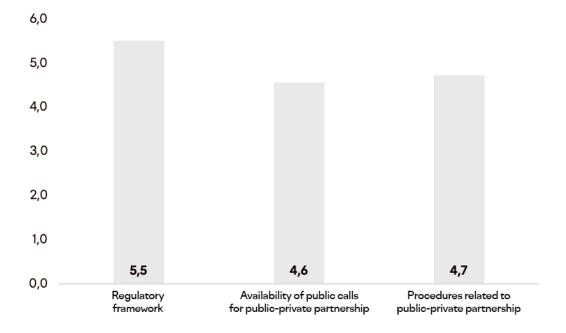
# **REGULATION ON PUBLIC-PRIVATE PARTNERSHIP**



he next index that is measured is the level of development of regulations on private-public partnership. After falling in 2023, the index recorded a slight increase this year and reached a value of 5.3.

As the factor that most influences the assessment of the state of the private-public partnership regulation index, the lowest score of 4.6 was given by the availability of calls for private-public partnerships. Procedures related to private-public partnerships were evaluated with a slightly higher score of 4.7. Respondents gave a rating of 5.5 to the regulatory framework in this area.





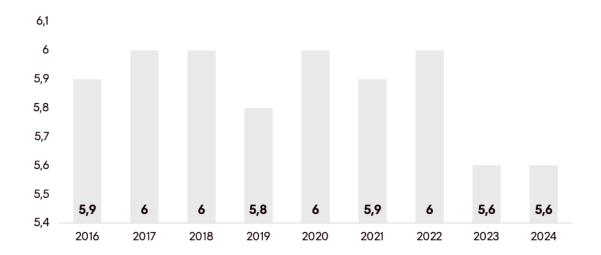


As the main challenges and problems in the development of this area, the interviewees of this year's survey highlighted the following:

- » Very complicated and burdensome procedures for private-public partnerships;
- » Limited number of engagement calls;
- » Significant non-transparency of the entire process, which to a certain extent opens the possibility for corruption, reduces the attractiveness of the process and reduces the possibility of participation in invitations;
- » Insufficiently developed digital services, which slow down the process of increasing the efficiency and transparency of the process;
- » Frequent non-compliance with contractual obligations by state authorities, which indicates a passive approach of institutions and further reduces the visibility and attractiveness of calls.

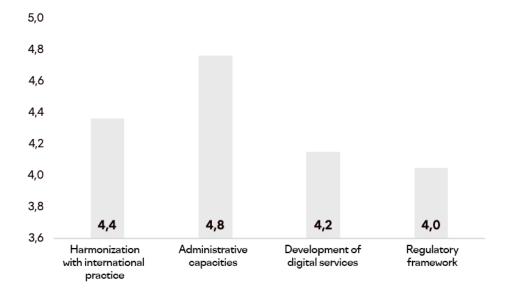
The Personal Data Protection Regulations Index of 2024 has the same score as the previous year, which was 5.6. Following the decline in 2022, this remains the lowest score since the measurement has commenced.

## REGULATION ON PERSONAL DATA PROTECTION



As factors that influence the rating of the index, respondents in the survey particularly emphasized the regulatory framework, which was rated 4, which represents a very low rating. The development of digital services within the framework of regulations on the protection of personal data received a slightly higher rating of 4.2. Compliance of legislation and practice with international standards was rated 4.4, while administrative capacities were rated 4.8. As can be noticed, all the listed ratings are below 5, which indicates numerous recognized barriers in this protection of personal data.





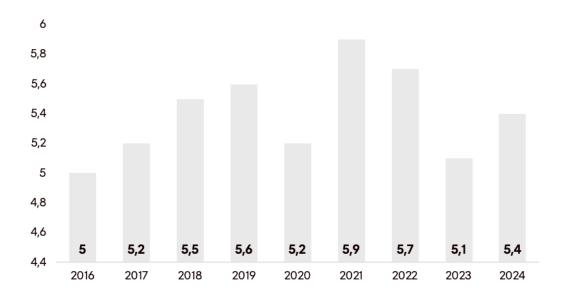


The interviewees recognized the following as the main challenges and problems in the development of this area:

- » Very poor compliance with international standards, especially EU standards (GDPR);
- » High risk in the field of cyber security, which reduces trust in the protection of personal data, especially due to insufficiently developed capacities of state institutions;
- » Lack of capacity and skills among civil servants, especially in the monitoring and implementation of international standards;
- » Poor compliance with international standards, which significantly slows down the development of the field, as well as the lack of real practice in the protection of personal data, which is continuously repeated and indicates a lack of capacity or will to solve these challenges in a timely manner;
- » The insufficient development of digital services reduces trust in this area.

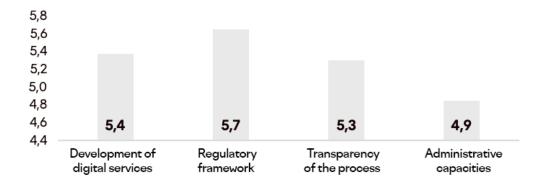
The last index in this year's survey refers to public procurement. After the fall in the previous year, this index recorded a growth of 0.3 in 2024 and was rated 5.4.

### **PUBLIC PROCUREMENT**



Administrative capacities of state institutions were recognized as the lowest rated factor in the area of public procurement with a rating of 4.9. The transparency of the process was rated 5.3, while the development of digital services received a rating of 5.4. The respondents assigned the highest rating of 5.7 to the regulatory framework in the area of public procurement. As it can be concluded from the answers of the respondents, the legal regulation in the domain of public procurement has the highest rating with significant room for further improvement. However, the administrative capacities of state bodies, transparency in implementation and digitization of processes were highlighted as the main obstacles for the development of the public procurement segment.





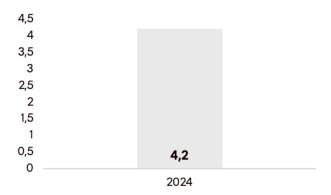


As the main obstacles and challenges in the area of public procurement in Montenegro, similar to the previous year, the respondents recognized the following:

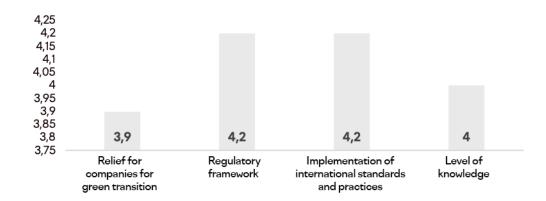
- » Insufficient transparency of the entire public procurement process, which implies frequent complaints, as well as favoring certain business entities, which reduces trust in the process;
- » Very complicated procedures that often slow down the process and negatively affect the complete development of the economy of Montenegro;
- » A very complicated negotiation process after obtaining certain public procurements, especially during frequent changes of the Government;
- » Inefficient work of state services, which implies long-term procedures and to a significant extent repel potential investors;
- » Insufficient development of digital services, which reduces transparency and creates an environment for the possibility of corruption.

new index, the measurement of which has been introduced since this year, is the green transition index. The index includes the regulatory framework for the implementation of the green transition, the existence of subsidies for companies implementing the green transition, the implementation and application of international standards and practices, as well as the acquired level of knowledge in this area. The value of the green transition index for 2024 is 4.2.

#### **GREEN TRANSITION**



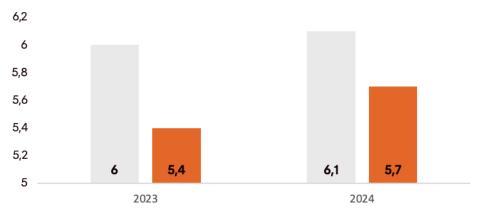
Respondents recognized several factors that determined the low rating of the new index. First of all, the lack of facilities for the process of implementing the green transition, which was rated 3.9, stands out. The next factor is the low level of knowledge of competent authorities and business entities about the green transition process. This factor was rated 4. Finally, the regulatory framework and the implementation of international standards and practices were rated 4.2. Given that the index is measured from this year, it will be very interesting to see what the ratings will be in the coming period, taking into account the increasing importance of this area for the development of the country's economy.



# 4.4. THE INVOLVEMENT OF THE ECONOMY IN THE DECISION-MAKING PROCESS

One of the segments that is very important for the development of the investment and business environment is the involvement of the economy and business associations in the decision-making process. In accordance with the change in methodology, the White Book includes an index that measures the extent to which the economy and business associations, through the Council or independently, participated in the mentioned processes.





Participation in the decision making process through the Council of Foreign Investors

Participation in the decision making process as a company

According to the obtained results, both indices in 2024 recorded a slight increase compared to 2023. In 2024, the involvement of companies in the decision-making process, through the Council of Foreign Investors in Montenegro, increased by 0.1 points and was rated at 6.1. On the other hand, the involvement in the decision-making process that the members achieve independently as economic entities was evaluated with 5.7, which represents an increase of 0.3 compared to 2023.



As the main challenges and recommendations for improving involvement in the decision-making process, respondents state the following:

- » Insufficient emphasis on dialogue by state authorities, especially with regard to timely involvement in the decision-making process, either through the Council or as an individual business entity;
- » Often, the lack of readiness of individual state bodies to include all interested parties in the decision-making process;
- » Insufficient access to information, especially in the initial stages of creating a certain legal solution, when it is most important to get information from the competent institutions that will implement a certain regulation;
- » Insufficiently developed culture of dialogue between business and state bodies;
- » Insufficiently developed awareness of managers in member companies about the importance of involvement in the decision-making process, and insufficient interest in it.



**EVALUATION OF** THE REGULATORY **ENVIRONMENT IN** MONTENEGRO FROM THE ASPECT OF THE **PRIORITY AREAS OF WORK OF THE COUNCIL OF FOREIGN INVESTORS** 

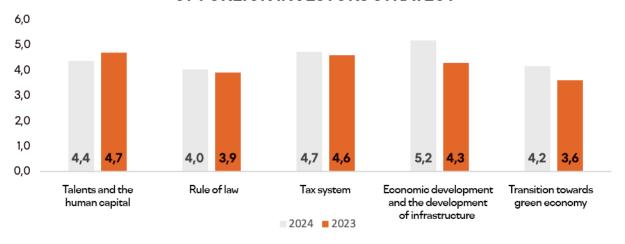


For the second year in a row, the White Book includes indices that follow the priority areas of the Strategy of the Council of Foreign Investors in Montenegro, namely: talent and human capital, rule of law and equal opportunities, tax system, economic and infrastructure development, transition to a green economy.

The goal is to monitor progress in priority areas, in order to timely created effective mechanisms for achieving the necessary results.

In order to determine the perception of businessmen regarding the current situation in the priority areas recognized by the Strategy, through the research, respondents were given the opportunity to rate them on a scale from 1 to 10<sup>2</sup>.

## ASSESMENT OF THE AREAS FROM THE COUNCIL OF FOREIGN INVESTORS STRATEGY



According to this year's results, it can be noted that almost all priority areas have recorded positive trends. Confirmation of these allegations are the previously commented individual indexes in the White Book, which refer to all areas of the Strategy, including human capital, rule of law, green transition, and economic and infrastructural development. It is necessary to emphasize that this part of the report evaluates the perception of members regarding the development of all areas defined by the Strategy. The scores obtained differ from the individual and summary indexes, and represent the member's position on the progress of certain areas of the strategy. In this regard, it is important to point out that these ratings cannot be compared with the ratings of individual and summary indexes from the White Book. They point to the need to improve all areas defined by the Strategy, so that the entire business environment is in line with the best standards.

<sup>&</sup>lt;sup>2</sup>1 - needs significant improvement, 5 - needs further improvement and 10 - according to the best standards

In 2024, the only area to see a decline is talent and human capital with a score of 4.4, a drop of 0.3 points. A slight growth of 0.1 was achieved in the areas of rule of law (score in 2024 is 4) and tax system (score 5.2 in 2024). A more significant growth, of 0.6 points, was recorded in the part of the transition to the green economy (grade 4.2 in 2024), while a growth of 0.9 points was achieved in the segment of economic and infrastructural development, which in 2024. received a grade of 5.2. There is no doubt that the ratings show certain slight positive trends during 2024. The positive perception of businessmen towards the segment of economic and infrastructural development, in which the highest growth was recorded, is encouraging. The achieved progress should be interpreted in the light of certain initiated processes and projects that have had a positive impact on the experiences and operations of economic entities.

#### 5.1. RECOMMENDATIONS AND CHALLENGES

The Recommendations and Challenges segment, as in the previous edition of the White Book, includes a tabular presentation of business barriers. The tables include the responses of the competent ministries for this year, as well as the updated status of recommendations from 2023, for all barriers recognized by foreign investors. The responses of the ministries were transferred in their entirety and collected in the period from July to September of the current year. It is important to note that the challenges and accompanying responses are divided according to the areas defined by the Strategy of the Council of Foreign Investors in Montenegro 2024-2026.

# 5.1.1. Recommendations - Talents and human capital in Montenegro

One of the key challenges for the further development of the Montenegrin economy is the mismatch of the educational system with the needs and trends of the labor market. In this way, the business community is faced with the problem of a lack of quality personnel who possess the knowledge and skills that can meet the needs of modern business. Also, this challenge significantly slows down the attraction of new foreign investments, but also hinders the functioning of companies already operating in Montenegro.

One of the reasons why this problem is gaining more and more importance over time is the fact that the Montenegrin education system cannot keep up with the dynamic changes imposed by the labor market (constant technological progress, development and strengthening of artificial intelligence, etc.). Alignment of the education system with the needs of the labor market must be one of the priorities of decision makers, especially if we know that Montenegro is perceived as potentially the first next member of the EU. Namely, without substantial improvement of the education system, Montenegro cannot respond to one of the fundamental principles of the European Union - cooperation and support of the academic community and the economy in order to build a foundation for innovation and sustainable economic development.

## TALENTS AND HUMAN CAPITAL

THE PROBLEM	RECOMMENDATION
Absence of necessary skills among employees, which greatly slows down the business and development of economic entities.	Improve the cooperation between educational institutions, the Government, and the economy, in order to harmonize curricula and programs with the needs of the real sector through internships and professional training programs.
A big challenge in the area of obtaining work permits for people coming from outside the EU countries, which are currently crucial for the smooth operation of companies.	The process of obtaining work permits for people who do not come from EU countries (predominantly from the Asian subcontinent) needs to be facilitated, but also harmonized with EU rules, in order to compensate for the lack of labor in Montenegro.
Lack of educational programs that include skills necessary for the modern labor market.	Improve and modernize the education system, especially in the part of introducing new curricula related to IT skills, such as artificial intelligence and the like. Pay special attention to the needs and rapid changes in the labor market.
An insufficiently developed system of dual education that does not produce the expected results.	It is necessary to implement a greater number of activities and measures that promote dual education. Also, introduce additional incentives for businessmen to get involved in this process.
Departure of a large number of young people from Montenegro.	It is necessary to create an environment in which young and prospective people, who possess currently deficient knowledge and skills, would not have to go outside the borders of Montenegro.
The current legal solution does not foresee the possibility of different salaries for employees who are in the same positions in the company structure. In this way, it is difficult to reward and stimulate employees who deliver results that exceed the defined goals.	It is necessary to further harmonize the Labor Law (first of all in the segment of salary calculation), in order to enable mechanisms for recognizing and rewarding personnel who especially contribute to the success of the business.

	STATUS
YEAR	
in 2024	

# SSICG RECOMMENDATION /COMMENT:

Insufficiently developed curricula and educational programs. The inability of the educational system to help develop human resources that would meet the needs of the labor market.

# The departure of the workforce, especially those highly specialized personnel who are in short supply due to insufficient investment and modernization of the existing educational infrastructure.

A very high burden on wages, as well as legislation that significantly slows down the employment of foreigners, which further hinders the possibility of finding adequate staff.

# RESPONSE OF THE COMPETENT MINISTRY

## MINISTRY OF EDUCATION, SCIENCE AND INNOVATION

In 2024, it is planned to prepare/revise the profile of the sectors for engineering, agriculture, chemical technologies, and graphic arts, if necessary supplemented with green and digital jobs, jobs related to sustainable development, energy efficiency, reduction of climate effects, etc. The sector profiles will contain relevant data on the state of the labor market and the educational offer in certain sectors. Based on data and

## MINISTRY OF EDUCATION, SCIENCE, AND INNOVATION

The Ministry of Education, Science, and Innovation in the largest investment cycle so far and in cooperation with the European Investment Bank, With CEB, EBRD, KfW Bank, has been working on both the adaptation and the construction of many additional educational

## ANSWERS OF THE MINISTRY OF FINANCE

In the previous period, the Ministry of Finance prepared the Draft Law on Amendments to the Law on Contributions for Mandatory Social Insurance. With these solutions, the tax

<sup>&</sup>lt;sup>3</sup> The Fiscal Strategy of Montenegro for the period from 2024 to 2027, which was adopted in September 2024, states the following: "The tax burden on labor costs significantly affects micro and macro competitiveness, the level of investments, and ultimately economic growth. Also, the level of these levies is directly related to the unemployment rate, as well as the existence of informal employment. After the implementation of this tax reform, Montenegro will become a country with one of the lowest tax burdens on work, since the "tax wedge" when it comes to average earnings will amount to 16.2% (per €100 the employee keeps €83.8 and the state charges €16.2) while in the case of a minimum wage of €600 it will be 11.1%, and for €800 it will be 13.5%.

		STATUS
analysis from the sector profile, priorities in the development of qualifications will be determined, as well as a plan for the modernization of existing and the development of new qualifications of various types, for which there is a need in the labor market. In accordance with the established priorities, new or revised educational programs in professional education, as well as adult education programs in the field of lifelong education, will be developed in the following sectors.	in 2023	
institutions, which will greatly improve the educational infrastructure and create conditions for all young people who want to improve themselves professionally, to achieve this. Also, in previous projects, the Ministry has provided modern IT and specific professional equipment for all schools, while new projects envisage the introduction of the most modern educational content.	in 2023	
burden of work is reduced through the reduction of contributions for pension and disability insurance (PIO) at the expense of the employee and the employer, from a total of 20.5% to 10% <sup>3</sup>	in 2023	

# SSICG RECOMMENDATION /COMMENT:

Inconsistency and time gap between the date of issuance of work and residence permit for foreigners and their registration in the Tax Administration. Since various regional units of the Tax Administration in Montenegro prescribe different rules on this issue, a feeling of insecurity and uncertainty is created. We are of the opinion that certain changes should be made to the law in force, clear deadlines should be set and the documentation to be submitted when registering a foreigner as an employee in the Tax Administration should be defined. It is necessary to amend paragraph 4 in Article 70 of the Law on Aliens, which reads:

"The employer is obliged to, within 24 hours from the day of issuing the permit for temporary residence and work for the purpose of employment, conclude an employment contract with the foreigner and register him for mandatory social insurance, in accordance with labor regulations."

Previous recommendations from the white book related to the Labor Law

Article 15 of the Law on Strike defines the place of holding and the manner of carrying out the strike and stipulates the following: "A strike is manifested by a peaceful gathering of employees at the workplace or within the employer's business premises." A strike can also be manifested by employees not coming to work." We believe that the determination that the strike takes place "or within the employer's business premises" does not give space to the employer who performs activities of public interest to be able to participate in the determination of the space for the gathering of employees who are on strike, without any intention to limit the right.

# RESPONSE OF THE COMPETENT MINISTRY

#### MINISTRY OF INTERIOR AFFAIRS

The Labor Law, in Article 2, paragraph 3, stipulates: "This law also applies to employed foreigners who work for an employer in the territory of Montenegro, unless otherwise determined by a separate law." In this regard, this recommendation is under the competence of the Ministry of Social Affairs and the Tax Administration.

Please note that Article 33 of the Labor Law stipulates the following:

(1) The employer is obliged to register the employee for mandatory social insurance (health, pension and disability insurance and unemployment insurance) in accordance with the law, with the day of starting work and to submit the

There were no changes to the law, therefore all previous recommendations and suggestions remain the same. The working group dealing with

## MINISTRY OF LABOR AND SOCIAL WELFARE

The Ministry of Labour, Employment and Social Dialogue did not plan to revise the Law on Strikes for 2024. However, it is possible that it will be included in the plan for 2025.

		STATUS
application to the competent authority within eight days from the day of starting work. work.		
(2) The employer is obliged to deliver a copy of the application from paragraph 1 of this article to the employee no later than five days from the date of issue by the competent authority.		
(3) The employer is obliged to deregister the employee from social insurance in accordance with a special regulation.	in 2023	
MINISTRY OF LABOR AND SOCIAL WELFARE		
This recommendation is under the jurisdiction of the Ministry of Internal Affairs.		
amendments to the Labor Law was formed at the end of 2023 and its work continued during 2024. It is expected that they will propose certain solutions by the end of the year.	2020 - 2023	
	in 2023	

## 5.1.2. RULE OF LAW, TAX POLICY AND PUBLIC ADMINISTRATION

Obtaining the Interim Benchmark Assessment Report (IBAR), the progress Montenegro in important areas is recognized (appointments in the judiciary, recommendations of the Venice Commission and GRECO, rationalization of the judicial network, prosecution of war crimes before domestic courts, fight against corruption, prosecuting attacks on journalists, raising the level of media freedom, fighting against organized crime, etc.). With this, Montenegro has opened up the possibility to continue harmonizing with EU laws and standards. This further paves the way for the closing of other chapters in which Montenegro has met the benchmarks and reached a good level of readiness. This paves the way for continuing the process with the aim of closing other chapters where Montenegro has met the required criteria and achieved a significant degree of compliance with the EU acquis.

The rule of law, as well as stable tax policy and efficient public administration, represent one of the key factors for creating a favorable business environment. As in the previous period, investors recognized the existence of similar problems in the rule of law segment. Improving respect for the principles of the rule of law requires decision-makers to make additional efforts to enable non-selective application of legal solutions, equal judicial practice, etc. The requested changes would result in a complete, effective, and functional rule of law system, which would provide businessmen with equality and fairness.

As one of the first characteristics of the business environment, potential investors analyze the tax policy. The level of tax rates, the efficiency of the work of the Tax Administration, and the transparency of the process of changes in tax legislation are just some of the segments that businessmen recognize as factors that influence their decision to invest. Practice has shown that the existence of the best

#### THE RULE OF RIGHTS AND EQUAL OPPORTUNITIES

#### THE PROBLEM

Slow resolution of court proceedings, especially from the financial sector. The business of business entities is additionally burdened by long waits for the final outcome of the initiated proceedings.

Inconsistency and frequent changes in legislation that significantly complicate the business operations of economic entities in Montenegro.

#### RECOMMENDATION

It is necessary to strengthen capacities, first of all through the engagement and the possibility of additional specialization of competent personnel, which would influence the fact that disputes from the financial sector are resolved more quickly and effectively. This way of working would create a strong and consistent legal practice over time.

Undertake comprehensive legal reform initiatives to simplify and modernize legal frameworks, including simplification of procedures and harmonization of laws with EU practices.

legal solutions does not guarantee the security of the business environment, if the institutions do not carry out high-quality and efficient implementation. According to this year's report, as well as previous results, it is necessary to continue the reform of public administration in Montenegro, in order to strengthen the existing capacities and increase efficiency in work. One of the key aspects in the improvement process is the intensification of digitalization of services, which will lead to the development of the economy and increase in transparency.

	STATUS
YEAR	
in 2024	
in 2024	

Ensuring consistent application of the rule of law is critical to creating a stable business environment.

## RESPONSE OF THE MINISTRY OF JUSTICE

In June 2024, the Law on Amendments to the Law on the Judicial Council and Judges and the Law on Amendments to the Law on State Prosecution were adopted, which improved the system of electing judges and state prosecutors, as well as determining ethical and disciplinary responsibility, which has the goal is to

It is necessary to work on strengthening the capacity of persons and institutions responsible for the implementation of the rule of law in Montenegro.

## RESPONSE OF THE MINISTRY OF JUSTICE

The Center for Training in Judiciary and the State Prosecution Office conducts training for judges in accordance with the Annual Training

Provide equal conditions for all parties involved in court disputes, and shorten their often too long duration.

## RESPONSE OF THE MINISTRY OF JUSTICE

We are continuously working on improving the efficiency of the judiciary through strengthening the application of alternative ways of resolving disputes (arbitration, mediation, etc.), shortening the deadlines for the

		STATUS
strengthen the independence of judges and the independence of state prosecutors. Also, these changes further improve the institutional independence of the Judicial Council and the Prosecutorial Council. The aforementioned changes to the law are harmonized with international standards and recommendations of the Venice Commission and the European Commission, which resulted in the receipt of a positive Report on the Fulfillment of Temporary Benchmarks (IBAR).	in 2023	
Program and Special Training Programs that are conducted with the aim of specializing judges in certain areas of law, all with the aim of uniform application of the law and equality before the law through a uniform judicial system. practice.	in 2023	
implementation of procedural actions, simplifying the procedures for legal remedies, unifying court practice, as well as applying legal means to speed up court procedures as prescribed By the Law on the Protection of the Right to a Trial within a Reasonable Time.	in 2023	

Although the Ministry of Finance points out that, thanks to digitalization, they have significantly raised the level of efficiency and transparency of the implementation of public procurement, businessmen still point out the insufficient level of trust in this process.

## RESPONSE OF THE MINISTRY OF FINANCE

According to previous reports, public procurement was recognized as a segment that is insufficiently developed in Montenegro, and as the main reasons investors often recognized the following: very complicated procedures in the implementation of the Law on Public Procurement, insufficiently developed services for the digital implementation of the entire public procurement process, insufficient transparency in the complete process of public procurement, which often leads to complaints, as well as to the favoring of certain business entities, and the administrative capacities and procedures are very complicated and slow, which in a large number of cases is the main reason for not applying for certain tenders. According to the answer of the Ministry of Finance, the answers obtained in the analysis itself do not fully follow the actual situation in the public procurement system. The field of public procurement in Montenegro is regulated by the Law on Public Procurement ("Official Gazette of Montenegro", No. 074/19 dated 30.12.2019, 003/23 dated 10.01.2023, 011/23 dated 27.01.2023), which began to apply from July 2020, with amendments to the Law that apply from January 2023. This law complies with the standards of the European Union directives in this area: Directive 2014/24/EC of the European Parliament and the Council from 2014, Directive 2014/25/EC of the European Parliament and the Council from 2014, Directive 2009/81/EC of the European of the Parliament and the Council from 2009, and by Directive 2007/66/EC of the European Parliament and the Council from 2007.

According to the findings of the European Commission Report for Montenegro for 2023, the legal framework in the field of public procurement is well aligned with EU legal acts in this area, i.e. with Directives

## **STATUS**

2014/24/EU and 2014/25/EU, as well as Directive 2007/66/EC, which regulates legal protection in public procurement procedures. In order to harmonize the acts for implementation with the new legal solutions in the field of public procurement, a new by-law was prepared and adopted, which includes the following acts: Rulebook on the amendment of the Rulebook on the declaration form of a business entity; Rulebook on amendments to the Rulebook on closer criteria for the education of the commission for the implementation of the public procurement procedure; Rulebook on amendments to the Rulebook on the method of conducting simple procurements; Rulebook on the application form for qualification in the public procurement procedure; Rulebook on the amendment of the Rulebook on the methodology of bid evaluation; Rulebook on public procurement plan form; Rulebook on amending the Rulebook on the content of the offer in the public procurement procedure; Rulebook on forms for the implementation of public procurement procedures. In accordance with the planned activities for the introduction of a new function in the electronic public procurement system, which is the electronic creation and submission of the declaration of a business entity, the Rulebook on the electronic declaration of a business entity is expected to be adopted in the IV quarter of 2024 or the I quarter of 2025. Also, with the aim of providing optimal conditions for the functioning of the planned interoperability of the e-procurement system with the electronic records of the Ministry of Justice, an Instruction will be developed to verify the fulfillment of the mandatory conditions for participation in the public procurement procedure through the functional connection of the CEJN with the electronic system of the Ministry of Justice. The planned deadline for this activity is the fourth quarter of 2024 - the first quarter of

2025.

in 2023

The Ministry indicates that the deadlines in public procurement procedures are aligned with the deadlines prescribed by the EU legislation in the field of public procurement, and the application of the CEJN greatly facilitated the implementation of the Law, which was confirmed through independent surveys of business entities conducted recently.

The Ministry once again notes that the digitalization of the public procurement system in Montenegro is in the service of strengthening transparency, preventing, and fighting corruption in public procurement, responsibility for the management of public funds and, therefore, strengthening integrity in public procurement.

The possibility of monitoring the public procurement procedure in real time, the possibility of excluding persons who are involved in the public procurement procedure at the contracting authority, the exclusion of the business entity from the procedure under the conditions stipulated in the tender documentation, and in accordance with the Law, and the protection of rights in the public procurement procedure, which is provided by the Law in all stages of the procedure, it is the best mechanism to strengthen transparency, prevention and fight against corruption and conflicts of interest in public procurement both on the side of the contracting authority and on the side of the business entity. The appeal mechanism as a legal right is available to business entities, it enables the suppression of unequal treatment of business entities and other illegalities in the procedure and ultimately serves the prevention of corruption and conflicts of interest and the suppression of these phenomena in this area.

Considering that at the beginning of 2023, the implementation of amendments to the Law began, the focus of the activities of the Ministry of Finance during 2023 and in the first half of 2024 was to strengthen administrative capacities and raise the level

## **STATUS**

of professionalization of employees in public procurement. In addition to continuous trainings on the subject of regulations in this area and the use of the electronic system, specialist trainings on various topics related to public procurement and for various target groups were conducted, mostly in cooperation with international partners and experts. The Ministry has no influence on the actions of contracting authorities in the contracting process, but it strives to identify the risks of corruption and conflicts of interest and continuously makes efforts to strengthen the fight against these phenomena, making efforts to strengthen awareness and promote the reporting of all irregularities in this area. The survey conducted by the Chamber of Commerce on the business environment in Montenegro showed that this year, in the opinion of business entities, the area of public procurement deserved the highest rating. The public procurement system was evaluated in the Business Environment Report with an average rating of 2.77 and an increase of 0.22 points compared to last year's rating. Of the total number of surveyed business entities, 40.3% participated in tenders for public procurement, and they evaluated this area. The average rating of the business environment from the aspect of public procurement (2.77) is close to a satisfactory level (rating 3). Businessmen gave the highest rating to the electronic system of public procurement (3.29), followed by compliance with the deadline for the settlement of obligations by the state (3.27), transparency of public procurement (2.76), the legislative framework (2.62) and the work of competent authorities of the public procurement control authority (2.58). From all of the above, and according to the

From all of the above, and according to the results of this year's report, it is clear that it is necessary to improve the confidence of businessmen themselves in the public procurement system, and additionally, through cooperation with business associations, to work on their promotion, along with the continuous development of the public procurement system.

# TAX SYSTEM

THE PROBLEM	RECOMMENDATION
Frequent changes in tax rates have a negative impact on the business environment, creating an environment that is not sufficiently predictable and transparent.	Foreign investors and the entire business community insist that any change in the tax and public finance system must be preceded by a timely and meaningful dialogue. In this way, solutions can be created that are stimulating for all parties involved, and enough space is left for the economy to express itself and adapt to the planned changes.
Amendments to the Law on Cinematography with the aim of removing unjustified financial burden for telecommunications operators.	It is necessary to revise the position of the Ministry of Culture and Media, which advocates charging unjustified financial burdens to telecommunications operators. The Ministry's argument that by providing their services to users, operators make available many audio-visual contents is contrary to the global principle of an open Internet. It is important to emphasize that the Ministry of Economic Development has, for many years, supported the initiative to abolish the fee charged to telecommunications operators.
A large number of parafiscal burdens that business entities pay to local governments.	In the coordination of the Tax Administration, the Ministry of Finance and municipalities, it is necessary to work on the reduction of parafiscal burdens, i.e. the abolition of certain fees for which there is no justification for collection in the context of activities performed by a certain economic entity, for example, tax for tourist organization is paid by IT companies whose business does not depend on this economic branch.
Selectivity in the implementation of current legal solutions and the implementation of inspection supervision.	To empower competent persons to more effectively and indiscriminately apply legal solutions and carry out inspection supervision.

	STATUS
YEAR	
in 2024	

Weak involvement of business associations and the business community in the decision-making process, especially in the area of tax rate changes.

Frequent changes in legal regulations, without economic analyzes and announcements, which creates a very unfavorable and non-transparent business environment.

Making short-term decisions, which have long-term negative effects on both the business community and public finances.

High tax rates and lack of subsidies, especially for economic development and green transition.

## RESPONSE OF THE MINISTRY OF FINANCE

During the preparation of tax regulations and their amendments, the Ministry of Finance, based on Art. 3 and 12 of the Regulation on the election of representatives of non-governmental organizations to the working bodies of state administration bodies and the implementation of public hearings in the

## RESPONSE OF THE MINISTRY OF FINANCE<sup>2</sup>

With the amendments to the Law on Corporate Income Tax ("Official Gazette of SCG", No. 146/21), the decisions of which began to be applied on January 1, 2022, a transition was made from the proportional (tax rate of 9% regardless of the amount taxable profits) to the progressive taxation of profits of legal entities depending on the amount of taxable profits at rates of 9%, 12% and 15%. The current corporate income tax rates in Montenegro are the lowest compared to the countries in the region, as well as in the countries of the European Union. When it comes to neighboring countries, the profit tax rate is proportional in the Federation of Bosnia and Herzegovina and the Republic of North Macedonia and is 10%, in the Republic of Albania and the Republic of Serbia 15%, while the Republic of Croatia has a progressive rate of 10% and 18%, depending from the amount of taxable

<sup>&</sup>lt;sup>4</sup> The answer to the submitted question was received in July 2024, before the reforms started, according to the Fiscal Strategy of Montenegro for the period 2024-2027, which was adopted in September 2024, the following follows: "The tax burden on labor costs significantly affects the micro and macro competitiveness, level of investment, and ultimately economic growth. Also, the level of these levies is directly related to the unemployment rate, as well as the existence of informal employment. After the implementation of this tax reform, Montenegro will become a country with one of the lowest tax burdens on labor, since the "tax wedge" when it comes to average earnings will amount to 16.2% (per €100, the employee keeps €83.8 and the state charges €16.2), while in the case of a minimum wage of €600, it amounts to 11.1%, and for €800, 13.5%."

		STATUS
preparation of laws and strategies, sends	in 2023	
a public invitation to bodies, organizations, associations and individuals, as well as non-governmental organizations, to get involved in the process of preparing draft regulations and submitting your initiatives, proposals, suggestions and comments.	in 2023	
	in 2023	
profit. The average corporate tax rate in the European Union for 2024 is 21.3%. Bearing in mind that the average rate of profit tax at the level of the European Union is still higher than the highest progressive rate of profit tax, Montenegro remains competitive as an investment destination in this way. On the other hand, the global initiative launched by the OECD (Organization for Economic Cooperation and Development) and the club of the most developed countries of the world on the global minimum tax defines the level of the profit tax rate of 15% in order to increase the tax coverage of the member countries.  The existing tax rates on the profit of legal entities compared to EU countries and neighboring countries are low and competitive and make Montenegro attractive for foreign investors and continuously lead to an increase in the number of registered companies and an increase in employment.	in 2023	

According to the provisions of Article 14 of the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro", No. 65/01, 12/02, 80/04, Official Gazette of Montenegro", No. 40/08, 86/09, 40 /11, 14/12, 61/13, 55/16,146/21,152/22, 28/23 and 125/23) stipulates that, among other things, expenses for environmental protection are recognized as expenses up to 3.5% of the total income in in accordance with paragraph 3 of this article. The mentioned expenses are recognized in money, things, rights and services and are recognized as expenses only if they are made to legal entities (state bodies, public institutions, non-governmental organizations, sports, educational, scientific, religious, cultural and other humanitarian organizations) that perform tasks, that is, activities for the purposes referred to in paragraph 1 of this article in accordance with special regulations and if they are used exclusively for those purposes.

The law on corporate income tax and the law on personal income tax provide that a taxpayer who starts operating in economically underdeveloped municipalities has the right to reduce the calculated tax for the first eight years in the amount of 100%.

The total amount of tax exemption for a period of eight years cannot exceed EUR 200,000.00. The tax exemption does not apply to taxpayers operating in the primary production sector of agricultural products, transport, shipyards, fisheries, steel, trade and catering, except for primary catering facilities.

A taxpayer - from an underdeveloped municipality, who employs a person for an indefinite period of time or at least for five years, is released from the obligation to pay the calculated and withheld income tax for that employee, for a period of four years from the date of establishment of the employment relationship.

## **STATUS**

The Law on Incentive Measures for the Development of Research and Innovation ("Official Gazette of Montenegro", No. 082/20) foresees, among other things, incentive measures for the development of research and innovation in the form of reductions, exemptions or reliefs in relation to corporate income tax persons (Article 23 of the cited law).

The right to exemption from income tax, in accordance with the provisions of Article 23 of the cited law, can be exercised by:

- 1) legal entities that are registered in the Register of Innovative Activities and reinvest funds from the realized profit in their scientific research, i.e. innovative projects;
- 2) legal entities that invest funds in other subjects of innovation activity, namely in shares or shares of startups, spinoffs and venture capital funds for investment in subjects that perform innovation activity or donate funds to scientific research institutions and subjects of innovation infrastructure;
- 3) legal entities that provide innovation infrastructure; and
  - 4) Fund.

Calculate the tax on the profit of legal entities from paragraph 1 point. 1, 3 and 4 of this article is reduced 100% to the amount of profit that the legal entity reinvests in its scientific research or innovative projects, innovative programs of innovation infrastructure subjects, i.e. the Fund's work program, for the duration of the status of beneficiary of incentive measures.

The calculated corporate income tax from paragraph 1 point 2 of this article is reduced by 100% for the amount of funds invested in:

- 1) shares or actions of startups and spinoffs;
- 2) donations to scientific research institutions and subjects of innovation infrastructure in projects and scientific research infrastructure;
- 3) Fund and/or other investment funds in Montenegro that invest funds in entities that perform innovative activities.

The incentive measure referred to in paragraph 3 point 1 of this article can be used

if the ownership share in the subjects of the innovation activity cumulatively does not exceed 49%.

Legal entities from paragraph 3 of this article should be registered in the Register of Innovative Activities.

According to the provisions of Article 21 and 22 of the cited law, the right to exemption from personal income tax and tax surcharge, in accordance with the law, can be exercised by: 1) startups and spinoffs for employed or hired persons; 2) persons who carry out innovative activities for the needs of foreign legal and natural persons (freelancers), as well as inventors or innovators who earn income from innovative activities; and 3) persons who are self-employed and who invest funds in entities registered in the Register of Innovative Activities. The calculated tax from paragraph 1 of this article is reduced in the amount of: 1) 100% for persons from paragraph 1 point 1 of this article for a period of up to five years from the day of establishment; 2) of 80% for persons from paragraph 1 point 2 of this article during the use of the status of beneficiary of incentive measures; 3) invested funds, up to a maximum of 20,000 euros per year for persons from paragraph 1 point 3 of this article. The right to exemption from personal income tax, as well as tax surcharge, can also be exercised by natural persons from paragraph 1 point 1 of this article, who receive income in the form of shares or shares. The right to exemption from mandatory social insurance contributions, in accordance with the law, can be exercised by: 1) startups and spinoffs for their employees; 2) persons employed in scientific research institutions and entities that perform scientific research, i.e. innovation activities, and who are additionally engaged in scientific research and innovation programs or projects; 3) persons employed or engaged in scientific research institutions and entities that perform innovative activities, on scientific research and innovative programs or

## **STATUS**

projects, and do not exercise the right to social insurance with another legal entity; and 4) persons who perform innovative activity for the needs of foreign legal entities (freelancers), as well as inventors and innovators who generate income from innovative activity. The right to exemption from mandatory social security contributions can also be exercised by the persons referred to in paragraph 1 point. 1, 2 and 3 of this article, which receive income in the form of shares or shares. The persons referred to in paragraph 1 point 1 of this article are exempted from paying contributions for mandatory social insurance at the expense of the employer, for a period of three years from the date of the decision on granting the status of beneficiary of incentive measures. Persons referred to in paragraph 1 point 2 of this article are exempted from paying contributions for mandatory social insurance at the expense of the employee and at the expense of the employer, exclusively for the amount of compensation for involvement in the project, for the duration of the project, and a maximum of three years per project. The persons referred to in paragraph 1 point 3 of this article are exempted from paying contributions for mandatory social insurance at the expense of the employer, for the duration of the project, and a maximum of three years per project. Contributions for compulsory social insurance of persons from paragraph 1 point 4 of this law are reduced in the amount of 80% of the calculated contributions for compulsory social insurance, for the duration of the status of beneficiary of incentive measures. The persons referred to in paragraph 2 of this article are exempted from paying contributions for mandatory social insurance at the expense of the employee and at the expense of the employer for the income they receive in the form of shares or shares.

Inconsistent and selective application of legal solutions in the field of tax legislation. Very slow administration and problems in interpreting legal solutions.

## RESPONSE OF THE MINISTRY OF FINANCE

Tax regulations do not prescribe selective application of them. The Law on Tax Administration regulates the rights and obligations of the tax authority and taxpayers in the process of registering taxpayers and determining, collecting and controlling taxes on other duties. According to this law, state and local self-government bodies are obliged to act when deciding on the rights and obligations of the taxpayer. Also, this law applies to natural and legal persons,

Problems in practice are created by the absence of adequate by-laws related to taxation. It is crucial to take care that, in addition to legal compliance, the by-laws themselves are precisely defined, in order to enable quality application in practice. As an additional challenge, the fact that the Tax Administration is not obliged to implement the opinion of the Ministry of Finance and can act contrary to it is emphasized.

## RESPONSE OF THE MINISTRY OF FINANCE

The Ministry of Finance is continuously working on harmonizing tax regulations (laws and by-laws), as well as improving existing solutions with the aim of their adequate application in practice.

Although it is prescribed by law that the Tax Administration gives opinions on open issues in the field of tax policy, businessmen often encounter silence from the administration.

## RESPONSE OF THE MINISTRY OF FINANCE

The Tax Administration, with its transparent and partnership approach and relationship, with strict compliance with legal regulations, and by providing incentives and strengthening the understanding of the importance of the orderly settlement of tax obligations, strives to trace a common path with taxpayers whose ultimate goal is to take care of the state budget for the general welfare.

		STATUS
organizations, entrepreneurs, tax intermediaries and other persons, state and local self-government bodies, when they are taxpayers or when they calculate and pay taxes for a taxpayer or have other obligations related to the determination and collection of the taxpayer's obligations. Also, we point out that according to Article 26 of the Law on Tax Administration, every taxpayer is obliged to submit an application for registration to the competent tax authority; accurately calculates tax and submits a tax return to the tax authority and settles tax obligations within the time limit and in the manner established by tax regulations.	in 2023	
	in 2023	
At the session of the Council for Competitiveness, at the end of 2023, a conclusion was reached according towhich the Tax Administration is obliged to publish a document on its website on a quarterly basis with answers to frequently asked questions related to the application of tax regulations. The tax authority publishes the document "Ask the Tax Administration - Answers and guidelines regarding frequently asked questions in the field of tax regulations" (formerly Tax Practice). We remind you that the title of the	in 2023	

Inadequate administrative capacities for effective control of taxpayers. The Tax Administration does not have enough capacity to perform regular controls. Currently, less than 10 inspectors are in charge of controlling more than 200 large taxpayers. Controls last at least 6 months, while the repeated procedure lasts even longer. During the control of large taxpayers, only one inspector is involved, which does not fulfill the "four eyes" principle. The time gap between controls can be up to 5 years, so controls last for months.

document corresponds to the fact that it does not represent tax practice, which would include specific cases that went through the first and second instance proceedings, as well as the proceedings before the Administrative Court, but a summary of questions and answers that are of an instructive and not binding nature, considering that it is only in the process of inspection supervision and with an insight into the complete business documentation of taxpayers that key facts can be found that enable a complete attitude related to the regularity of taxpayers' actions in specific business situations.

Ten tax inspectors in the VPO Sector are responsible for the supervision of 270 large taxpayers. In most cases, inspection inspections last 30 to 60 days, and in some cases even shorter, depending on the subject of inspection. Exceptionally, in cases of complex and complex controls, which cover the last 5 years of business (which is the longest control period allowed by law), controls last up to 6 months. The control period is also extended when the taxpayers themselves, justifiably, request a postponement of the control. Considering the available and systematized number of enforcement officers-tax inspectors, the VPO Sector does not have the possibility to engage more tax inspectors in one control, with one taxpayer.

Regarding the number of employed inspectors, it should be emphasized that it is

#### PREVIOUS PERIOD

# SSICG RECOMMENDATION /COMMENT:

Businessmen believe that the Law on the Tax on Sales of Used Motor Vehicles, Watercraft, Aircraft and Aircraft prescribes unreasonably high tax rates.

# RESPONSE OF THE COMPETENT MINISTRY

#### MINISTRY OF FINANCE

Pursuant to Article 5 of the Law on Sales Tax of Used Motor Vehicles, Watercraft, Aircraft and Aircraft ("Official Gazette of the Republic of Montenegro", No. 55/03 and "Official Gazette of the Republic of Montenegro", No. 73/10...70/17) it is

#### **STATUS** not adequate, that not all systematized in 2023 positions - tax inspectors (I, II, III) in the Operational Sector in the field of inspection supervision have been filled. After the adoption of the Personnel Plan, the procedure for the filling of positions will be initiated through Internal, Public Advertisements and Public Competitions. Inspector training is continuously organized in the Institute of Accountants and Auditors of Montenegro and internally. In accordance with the Tax Administration Officer Training Plan for 2024. Trainings were completed on the topics: Financial Forensics, Transfer Prices and International Standards, application of ZUP, Tax Bookkeeping, Progressive Taxation, application of the Personal Income Tax Act, Register of Beneficial Owners - Acquaintance with procedures and responsibilities. The Tax Administration, in cooperation with the Union of Employers of Montenegro and the Chamber of Commerce of Montenegro, implemented the "Tax Caravan" campaign in Bar, Budva, Herceg Novi, Žabljak, and Plužine in anticipation of the tourist season. Public forums were organized where all interested entities were given the opportunity to receive answers to all questions and ambiguities regarding the application of tax regulations, related to activities performed during the season, through direct communication with representatives of the Tax Administration. prescribed that the tax on the turnover of in 2023 passenger and other used motor vehicles is paid at a proportional rate of 5%. The Ministry of Finance is of the opinion that the single rate of 5% represents the optimum in comparison with other indirect tax burdens, and that it is not justified to reduce it.

Presentation of the income statement: the currently valid chart of accounts and financial statement model issued by the Institute of Certified Accountants of Montenegro does not allow two methodologies for presenting the income statement (by nature and by function). It is currently limited to one methodology that may not always satisfy the business nature of all companies, especially companies involved in real estate development. Both methodologies should be allowed depending on the nature of the business.

#### MINISTRY OF FINANCE

The form of income statement forms that has been issued is the one that provides more information for external users, and the valid chart of accounts and financial reporting model have been adopted with the aim of better comparability of data, i.e. balance positions. In the coming period, the Ministry will consider the valid

The interpretation of the provisions of the Income Tax Act by the Tax Administration on the acceptance of a related company for tax consolidation does not allow the addition of a newly established related legal entity after the decision on the approval of tax consolidation has been made for a period of five years, since the decision was made. This interpretation prevents the realization of the benefits offered by tax consolidation. Automatic addition of a newly established related legal entity should be allowed with written notification.

#### MINISTRY OF FINANCE

According to the provisions of Article 35 of the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro No. 65/01 and 80/04 and "Official Gazette of Montenegro", No. 40/08, 86/09, 14/12, 61/13 and 55 /16) it is prescribed that parent and subsidiary companies, for the purposes of tax consolidation, form a group of related companies if the parent company has direct or indirect control over at least 75% of the shares or shares of the subsidiary company. Associated companies have the right to tax consolidation, provided that these companies are residents of Montenegro. The request for tax consolidation is submitted to the competent tax authority by the parent company no later than December 31 of the current tax period. The competent tax authority is obliged to decide on the request approving the tax consolidation within 30 days from the date of submission of the request. The provisions of Article 36 of the cited

		STATUS
legal and by-laws governing the field of accounting and financial reporting and look at the possibility of changing them, and depending on the technical possibilities related to the submission and publication of financial statements, the Ministry will take a final position on this issue and proceed with the resolution identified deficiencies.	in 2023	
law prescribe that each member of a group of related companies is obliged to submit its tax return to the competent tax authority, and the parent company submits a consolidated tax return for the group of related companies.  The provisions of Article 37 of the cited law prescribe that once approved tax consolidation is applied for at least five years. If, before the end of the specified period, the conditions from Article 35 of this law are changed or one or more affiliated companies decide on individual taxation, each member of the group is obliged to pay the proportional difference of the tax relief they used.  Bearing in mind the above, we are of the opinion that the position of the Revenue Administration, which does not allow the addition of a newly established legal entity after the decision by the tax authority on the approval of tax consolidation for a period of five years, is in accordance with the current legislation. Please note that the same legal solutions exist in the Republic of Serbia and the Federation of Bosnia and Herzegovina.	in 2023	

# 5.1.3. ECONOMIC AND INFRASTRUCTURAL DEVELOPMENT

Creating an environment that encourages the growth of the real economy should be the priority of every country that strives for sustainable development. A clearly defined strategy that recognizes priority areas, defines activities and offers concrete guidelines is a key prerequisite for achieving long-term economic growth.

The aforementioned strategic approach is of immeasurable importance when we talk about Montenegro, which is facing challenges due to insufficient diversification of the economy. So, in this case, sustainable growth is only possible through a systematic approach and planned investments in strategic sectors. At the very top of the agenda, infrastructure investments must be found because they are the basic prerequisite for increasing competitiveness and attracting new investments. One of the priorities should be the modernization of the road infrastructure, which would

ECONOMIC DEVELOPME	NT AND INFRASTRUCTURE
THE PROBLEM	RECOMMENDATION
Very slow, expensive and complicated administration and the lack of a large number of digital services.	Accelerate the dynamics of the development of new digital services by the Government of Montenegro and local self-governments with the aim of improving the business environment, speeding up administrative procedures and saving time and resources for the implementation of certain activities.
Complicated administrative procedures that increase costs, reduce efficiency and productivity in all areas of the economy.	Improve legal regulations for easier and more complete digitalization in Montenegro, as well as for the implementation of existing solutions. In this way, certain obligations that take significant time and money from businessmen would be abolished (for example, the abolition of the obligation to submit copies of payment slips when paying obligations to the state).
Lack of a strategic approach in planning the future growth and development of the Montenegrin economy.	Create a comprehensive long-term strategy for the development of the Montenegrin economy, with a clear long-term action plan, which will include economic and infrastructure plans with the aim of creating a predictable and transparent environment.
Insufficient representation of agricultural production in the overall structure of the Montenegrin economy.	It is necessary to work on the improvement and modernization of production capacities, especially in the food processing segment. Also, digital solutions should be developed that will provide support for greater productivity and sustainability of the agricultural production process.

improve connectivity within the country, accelerate the flow of goods and services, and open opportunities for the development of new business initiatives. Improving air and traffic connections with regional and international centers is also of vital importance for increasing the accessibility of Montenegro. In the modern world, digitalization is the standard that ensures efficiency and easier access to services. Bearing this in mind, the successful implementation of digital transformation can ensure that all unquestionable investment potentials of Montenegro are used to their full capacity.

The aforementioned reforms should be accompanied by the inevitable strengthening of the capacity of the public administration system. A professionalized and efficient administration should support the private sector, which would reduce administrative obstacles and influence the creation of a more favorable business environment. It is only through the synergy of the above elements that it is possible to achieve economic growth that will satisfy the needs of society as a whole.

	STATUS
YEAR	
in 2024	

### **ECONOMIC DEVELOPMENT AND INFRASTRUCTURE**

### THE PROBLEM

Lack of sectoral cooperation in the fields of tourism and agriculture. Lack of digital solutions that would speed up modernization processes in all economic sectors.

The current Law on Spatial Planning and Construction of Buildings and accompanying by-laws are restrictive in terms of the development of adequate telecommunications infrastructure.

In the banking sector, it is advisable to create a regulatory framework that will accelerate the process of digitalization of services, especially in the areas of opening accounts, making various payments faster and easier.

The problem of inconsistency between the current circumstances and the provisions of the Aliens Act related to obtaining a time-limited visa.

### RECOMMENDATION

Intensify cooperation and communication through various platforms, with representatives of decision-makers from all levels who are important for the smooth and transparent functioning of the entire business community. A special focus should be on increasing the involvement of the IT sector, which should be the leader of the business modernization process.

The new legal solution should provide that the telecommunications infrastructure (including temporary facilities) must be planned through planning documentation (urban plans, DUP and PUP) and/or within the framework of local self-government regulations.

Banking is one of the most digitized sectors that offers clients the opportunity to use the most advanced fintech products. Through the improvement of the existing regulations, it is necessary to create a basis for the complete digitalization of banking precedures and services (online loan approval without the currently mandatory one visit to the branch, online account opening, acceptance of instant payments, etc.).

Foreign real estate owners are most affected by the existing solution under the Aliens Act. Namely, foreigners who own real estate cannot continuously spend more than three months in Montenegro (within a period of 6 months from the date of entry into the country with tourist status). Another possibility is the issuance of a special permit of the MUP, which allows foreign citizens to stay in Montenegro for 11 months with the mandatory condition that they spend at least 9 months in the country during the approved period. Foreign citizens want to be given the opportunity to spend roughly between 4 and 5 months, in order to make the best possible use of the purchased real estate in Montenegro.

	STATUS
YEAR	
in 2024	

Long procedures for obtaining construction permits.

# MINISTRY OF SPATIAL PLANNING AND URBANISM

The development of the application and the training of employees for the electronic issuance of building permits are in progress.

Insufficiently developed infrastructure, poor air connectivity, lack of strategic management in the field of tourism significantly reduces the possibility and potential of the sector.

# MINISTRY OF TRANSPORT AND MARITIME

We understand the observations that all businessmen in chapter 4.1.3. tourism White book - Investment Climate in Montenegro 2023 and expressed concern about the poor air connectivity and insufficient capacity of our airports. We take these challenges seriously and take concrete steps to improve the situation and improve the business climate in Montenegro. Given that, according to the available study, for 2023, a total of more air capacities and destinations were offered at the Airports of Montenegro than in 2019, it would be additionally meaningful for us, if there is a possibility, to ask questions regarding air availability through the next survey and to state specific reasons ratings for poor air availability (proposal of new destinations, importance of introducing flights to a specific destination, frequency of flights to certain destinations, flight times...).

Improvement of Montenegro's air connectivity:

Since the arrival of Minister Filip
Radulović at the head of the Ministry of
Transport and Maritime Affairs, special
focus has been placed on the
development of air accessibility of
Montenegro as a tourist destination. We
have formed a working group that brings
together all significant entities in
Montenegro with the aim of improving air
availability. This working group is actively
working to identify and implement
solutions and initiatives that will improve
the air connectivity of our country with key
markets. The first report of the working

		STATUS
	in 2023	
group for air availability contains 8 conclusions/proposals aimed at increasing air availability. Improvement of Montenegro Airport: The plan of the Government and the Ministry is to modernize the aviation infrastructure in accordance with industry standards and best practices in order to best support the tourism economy.  We are aware of problems related to the capacities and organization of our airports, especially during the tourist season. We are continuously working to improve all business processes to ensure a better experience for passengers and potential investors.  The Ministry of Transport and Maritime Affairs issued a decision on the formation of a tender commission for the concession procedure for the right to use Podgorica and Tivat airports. The commission consists of 13 members. We expect the procedure to be completed by the end of the year, after which the Government will make a decision whether to grant a concession to one of the companies, whether a new public invitation will be issued or whether the airports will start modernization from their own funds and with the help of loans.  These efforts are part of a broader strategy aimed at positioning Montenegro as a competitive and attractive destination for tourists and investors. Good air connectivity is key to the development of tourism, therefore we are committed to finding long-term solutions that will contribute to a better business environment in this sector.	in 2023	

High prevalence of the informal economy, especially in the tourism and catering sector, with weak control and ineffective suppression.

# ADMINISTRATION FOR INSPECTION WORKS

Although the informal economy in tourism and catering is represented at all levels, it is still most pronounced among subjects over whose work the tourist inspection of the Directorate for Inspection Affairs does not have jurisdiction, but these subjects are in the domain of competence of local self-governments, i.e. local tourist inspections. In order for the fight against the informal economy to be more effective, we are of the opinion that most of the responsibilities should be transferred to the tourism inspection of the UIP, with a mandatory increase in the number of inspectors. The Law on Tourism and Hospitality is being amended, but the representatives of the Administration for Inspection Affairs are not included in the working group. The market inspection will increase controls on unregistered entities. Since March of this year, the market inspection has intensified its activities on the outskirts of cities and rural areas,

# RESPONSE OF THE TAX ADMINISTRATION

The Tax Administration continuously monitors the regularity of taxpayers' operations, both by controlling the taxpayers' comprehensive bookkeeping and by checking individual segments of their operations. For all taxpayers who are found to be operating irregularly, tax inspectors apply harsh punitive measures, from the imposition of misdemeanor orders to temporary bans on activities and closure of facilities, respecting the basic principles in the work of the Tax Administration - non-selectivity and zero tolerance for the gray economy.

 $<sup>^{\</sup>rm 5}$  Amendments to the Law on Inspection Supervision were adopted in August 2024.

		STATUS
where a large number of unregistered entities have been observed. And in the coming period, the focus of the market inspection will be on the registration of as many entities as possible. It is necessary to increase the number of inspectors in the agricultural, market and labor inspection and provide better working conditions for inspectors through greater availability of official vehicles. The Directorate for Inspection Affairs proposed an increase in the number of jobs with the new systematization, but the systematization was not adopted by the Government of Montenegro. Currently, the adoption of the Amendments to the Law on Inspection Supervision is in the parliamentary procedure <sup>5</sup> . Although the Directorate for Inspection Affairs proposed to introduce the institute of covert use of services and covert trade, so that inspectors could present themselves as users of services or customers, it was not accepted. Therefore, it is necessary to continue insisting on the introduction of these institutes, which would make it significantly easier for inspectors to prove illegal business.	in 2023	
The Tax Administration is aware of the fact that unregistered business entities, i.e. entities that work without approval, operate illegally, hidden from the law and control, avoiding the payment of all taxes and other duties - which makes their products cheaper, but also of less quality and safety. Carrying out any activity, which includes production, trade or provision of services without prior registration, constitutes informal business. This category often includes services provided by painters, plumbers, electricians, parquet floors, hairdressers, beauticians, masseuses, persons engaged in the production and delivery of food (catering), online merchants (sales via Facebook and other social networks), as well as services	in 2023	

provided by travel agencies, tour guides, companions or animators, providers of beds and rental apartments owned by domestic and foreign natural persons, providers of beach furniture, ski equipment, rafting services, adventure services, services in nautical, rural, health and sports tourism. It is difficult to assess this segment of undeclared income, bearing in mind that it takes place on the private properties of individuals. It is important to note that one of the priorities in the work of the Tax Administration is the reduction of the number of taxpayers operating in the gray zone and the expansion of the tax base, and that it carries out the same controls on the regularity of taxpayers' operations to the utmost limits of its competences. Therefore, any person who is found to be performing an undeclared activity is subject to the application of criminal provisions. However, in accordance with the current regulations, inspection procedures under the jurisdiction of the Tax Administration could not be carried out in private premises, that is, on private

Lack of strategic management that would be the basis for achieving sustainable economic growth and balanced territorial development.

# RESPONSE OF THE MINISTRY OF ECONOMIC DEVELOPMENT

The Ministry of Economic Development, in cooperation with a wide range of key actors (competent ministries, public sector institutions, economic associations, academic communities and other relevant stakeholders) who are also members of the Coordinating Body for the development and implementation of the Industrial Policy 2024-2028. year, prepared a proposal for the Industrial Policy for the period 2024-2028 with the Action plan for implementation for 2024. The process of consultation with interested parties was carried out over a long period of time with the aim of looking at different perspectives, needs and

		STATUS
property, of persons subject to supervision, without a previously obtained court order. Bearing in mind that this situation organizes the effectiveness of the inspection in detecting and sanctioning illegal business, these are the initiated changes to the Law on Inspection Supervision, which would allow the inspection to carry out an inspection in a residential area, in the case when there is an indication that an activity is being carried out there offense.  At the session held on 21.12.2023, the government adopted the Program for Suppression of the Informal Economy in Montenegro 2024-2026. with the Action Plan. The program includes existing and new measures to suppress the informal economy and provides a set of control and incentive measures, in order to, on the one hand, perform more effective control and prevent the informal economy, and on the other hand, facilitate the business of the economy.		
initiatives for the development of the industry in a smart and sustainable way. In order to actively involve the economy through the Council for Competitiveness, a consultative process was conducted and an invitation was sent to business associations - members of the Council for Competitiveness to submit concrete proposals, suggestions and comments regarding the Industrial Policy with the aim of additional contribution to the improvement of public-private dialogue in the creation of strategic documents. such as Industrial Policy. Also, in cooperation with the Chamber of Commerce, as part of the process, a Round Table was held in which business representatives took part	in 2023	

together with other relevant interested stakeholders. As a result of the consultation, various programs and projects were identified within the Industrial Policy of Montenegro 2024-2028, which enable support for the green transition and the creation of conditions for sustainable industrial development to mitigate the effects of climate change and reduce CO2 emissions, increase energy efficiency, optimize waste management and recycling, and develop environmentally sustainable processes, products or services, which is elaborated in detail, especially through operational goals OC 2.2. Support for Industry towards climate neutrality and OC 3.3. Encouraging further development of circular business models. On this plan, the Action Plan for 2024 recognizes the activities of awarding incentives (subsidies) to entrepreneurs for project activities in the field of energy efficiency, e-mobility and renewable energy sources; encouraging investments in technologies for the processing and promotion of renewable energy sources (IPARD III program, Measure 3), then

The new Law on Electronic Communications should incorporate Directive (EU) 2018/1972 of the European Parliament and the Council, as well as other relevant EU directives into the national legal system of Montenegro.

This will regulate the activity of electronic communications, which is subject to frequent and major technological changes, and which must be supported by adequate legal solutions. Through an adequate legal framework, the conditions for the realization of the previously adopted set of programs and strategies, which are key to the entire digitalization process in Montenegro, are being achieved.

# MINISTRY OF ECONOMIC DEVELOPMENT AND TOURISM

A Draft Law on Electronic Communications has been prepared, within which Directive 2018/1972 has been transposed, which will be sent to the EC for its opinion by the end of July.

The law is in the process of adoption, which is expected by the end of 2024.

		STATUS
encouraging investments for the diversification and development of the processing of agricultural products, waste management and RES; program activities to encourage innovation in the function of energy efficiency in industry, then in the hotel industry; as well as the organization of campaigns and educational programs aimed at raising citizens' awareness of the importance of recycling, proper sorting of waste and its impact on the environment; trainings and programs for building the capacity of the private sector on principles, strategies and best practices in the green transition within the circular economy HUB. Also, the Ministry of Economic Development implements and coordinates activities for the implementation of the National Circular Transition Strategy until 2030, which deals with this area and during the creation and implementation of which actively includes the business community and economic entities through the work of the Working Group for Encouraging the Green Transition.		
	in 2023	

In order to further improve the legal framework of electronic business, it is necessary to adopt regulations that will more closely regulate video identification as a way of verifying the identity of persons to whom qualified certificates are issued.

The Law on Electronic Identification and Electronic Signature in Article 49 paragraph 3 point 4 prescribes that the identity verification of a natural person, legal entity, or authority to which a qualified certificate is issued can be performed by applying other identification methods that provide identity verification security equal to identity verification based on physical presence. Before applying the methods from paragraph 3 point 4 of this article, the qualified provider of electronic trust services is obliged to obtain the consent of the Ministry for the application of that method. Currently, in Montenegro, there are no by-laws that more closely regulate the methods of video identification and the conditions under which certain methods provide security of identity verification equal to identity verification based on physical presence. Adopting those acts would speed up the process of digital transformation.

There are examples in EU countries (eg. Spain) where this issue is regulated by a Regulation that regulates the conditions that a technical solution provider should fulfill, in order to be able to issue qualified certificates. The envisaged processes are:

1. Synchronous (prescribed for banks) and which implies that the agent (service provider)

and the user establish a video call (i.e., which means that all steps of the process take place in real time, 2. Asynchronous implies the subsequent verification of the collected materials by the service provider (eg biometric comparison of the photo with the ID document, document verification), before the final approval and issuance of evidence.

# RESPONSE OF THE MINISTRY OF PUBLIC ADMINISTRATION

We emphasize that in relation to the year 2023, Regulation 2024/1183 amending Regulation (EU) no. 910/2014 regarding the establishment of a European framework for digital identity. The regulation entered into force on April 30. Since the current legal regulation at the EU level (eIDAS) does not recognize video identification, neither does the Law on Electronic Identification and Electronic Signature. Bearing in mind the above, the introduction of video identification for providers of electronic trust services is not possible. Video identification in the area of prevention of money laundering and financing of terrorism is the subject of the Law on Prevention of Money Laundering and Financing of Terrorism, which is under the jurisdiction of the Ministry of the Interior.

	STATUS
:- 2022	SIAIOS
in 2023	

Necessity of amendments to the Law on Archival Activities and by-laws in order to regulate the issue of electronic archival material, prescribe obligations of creators and owners of archival material in electronic form, management of electronic documents and arrange procedures for reliable electronic storage of documents (archival material). In this way, the arrangement of the electronic document would be completed in terms of its storage in electronic form, in accordance with the provisions of the Law on Electronic Documents.

### MINISTRY OF CULTURE AND MEDIA

The Ministry of Culture and Media stands by the first answer given that, in cooperation with the State Archives of Montenegro, it was agreed that this body should prepare an analysis of the Law on Archival Activity before the implementation of amendments to it, as

There are no regulations on the resale of electricity, especially when it comes to DC charging stations in Montenegro. The development of DC infrastructure in the country is blocked because there is no regulation. It directly affects the carbon footprint, green agenda, accessibility for electric vehicles for tourists, etc.

It is necessary to regulate the process of electricity resale through adequate regulations, especially in the segment of the use of charging stations for electric vehicles. Due to the lack of regulation, the expansion of DC infrastructure has been prevented, which directly affects CO2 emissions and the success of the green transition process.

A foreign citizen cannot be an executive director in more than three companies. It is recommended that the CEO of the parent company can be the CEO of all subsidiaries that are part of the same group.

### MINISTRY OF ENERGY

The preparation of the new Energy Law is underway, which will be harmonized with Directive (EU) 2019/944 of the European Parliament and the Council of June 5, 2019 on common rules for the internal electricity market. This law will, among other things, prescribe the conditions for connecting electric vehicle charging

# MINISTRY OF LABOR AND SOCIAL WELFARE

Pursuant to the provisions of Article 62 para. 1, 2 and 3 of the Labor Law, part-time work of an employee is any working time shorter than full-time work. A part-time work contract cannot be concluded for a duration shorter than 1/4 (10 hours) of full-time work. The restriction from paragraph 2 of this article does not apply to the director's work contracts. Likewise, the

		STATUS
a first step. It was also agreed that special emphasis should be placed on the need to introduce electronic documents and electronic materials into the legal system, through the provisions of the aforementioned law. It is planned to start concrete activities in the next year, after the analysis. After this period, there is no additional information.	2022- 2023	
stations to the electricity distribution system and other conditions for the integration of electromobility into the power grid. The public debate on the Draft Law on Energy will be held in the period from August 7 to September 16, 2024. Adoption of this law is planned by the end of 2024.	in 2023	
provision of Article 2 paragraph 3 stipulates that this law applies to employed foreigners who work for an employer on the territory of Montenegro, unless otherwise determined by a separate law. Bearing in mind the above, the Labor Law does not prescribe a limitation regarding the conclusion of an employment contract with the director, unless otherwise stipulated by a special regulation.	in 2023	

# 5.1.4. TRANSITION TO A GREEN ECONOMY

Climate change has affected all economies of the world, forcing them to adapt their business practices and align them with green policies. In all international conventions and strategies, the green transition occupies a central place, while in Montenegro this process has been present for several years.

However, although there is a lot of talk about the green transition, a regulatory framework that would enable the achievement of global goals has not yet been created. It is necessary to continue harmonizing national regulations with the best international practices, as well as to develop stimulating programs that would facilitate the transition of the economic sector. In addition, it is crucial to promote examples of good practice, so that the economy recognizes not only the importance, but also the benefits of the green transition.

The green transition in Montenegro requires an integrated approach that includes investments in renewable energy sources, increasing energy efficiency and encouraging the circular economy. This would create opportunities for new, green businesses, increase the competitiveness of the Montenegrin economy and improve its attractiveness for foreign investments.

### TRANSITION TO A GREEN ECONOMY

### THE PROBLEM RECOMMENDATION Lack of legislation that defines and Improve the knowledge of citizens, businesses and decision makers about supports the green transition the importance and positive effects of process. Insufficient attention to the green transition. the importance of the mentioned process in the general public. Insufficient compliance of It is necessary to adapt the entire legislation, which refers to the regulation to EU standards, through the promotion and greater joint work of all involved parties. representation of green practices, with EU standards. Lack of defined criteria for It is necessary to create a methodology measuring the green transition for monitoring the transition process with clearly defined indicators that will serve to (definition of clear indicators) at the state level. assess the situation every year and that would be used for any subsequent change in legislation or practice.

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in 2024	

# SSICG RECOMMENDATION /COMMENT:

The entire business community, and especially the tourism sector, must receive greater support (subsidies) for the start and implementation of the green transition process.

Strengthening support systems and regulatory frameworks that would focus on the importance of adopting and respecting the principles of sustainability, green practices and environmental protection.

Lack of legal solutions that are in line with international standards in the green transition segment.

Lack of defining and promoting mandatory reporting on the status of the green transition process.

As a signatory to the Paris Climate Agreement, Montenegro must ensure the coordination of all involved parties, in order to fulfill the goals and obligations stipulated in the Agreement.

# RESPONSE OF THE COMPETENT MINISTRY

### MINISTRY OF ENERGY

The Ministry of Energy has prepared the Preliminary Law on the Use of Energy from Renewable Sources, which was approved by the Government of Montenegro at the session of June 6, 2024. The Law on the Use of Energy from Renewable Sources was adopted by the Parliament of Montenegro on August 17, 2024. The law was published in the "Official Gazette of Montenegro", no. 82/2024 of 23.8.2024. year, and entered into force on 31.8.2024. year. This law is harmonized with Directive (EU) 2018/2001 of the European Parliament and the Council of December 11, 2018 on the promotion of the use of energy from renewable sources, adapted at the level of the Energy Community. This law, among other things, regulates incentive systems for the production of energy from renewable sources. The implementation of this law will enable investors, under prescribed conditions, to exercise and use the right to incentives for the production of electricity from renewable sources. Also, this law stipulates that the ministry responsible for

# MINISTRY OF ECOLOGY, SUSTAINABLE DEVELOPMENT AND DEVELOPMENT OF THE NORTH

There is clear coordination when it comes to the area of climate change, through the Draft Law on Protection from the Negative Effects of Climate Change and Protection of the Ozone Layer, which we are preparing and which is in the final stage, and whose adoption is planned by the end of this year. The law prescribes the obligations of drafting the Low Carbon Development Strategy and the Climate Change Adaptation Plan in Montenegro. The National Plan for Adaptation of Montenegro

# **STATUS**

energy affairs proposes to the Government of Montenegro the adoption of an incentive program for the use of renewable energy sources in the transport sector. In addition, the Law on the use of energy from renewable sources prescribes the possibility for the ministry responsible for energy affairs to determine support measures in accordance with this law and the law regulating energy efficiency, in order to ensure the achievement of the mandatory share of energy from renewable sources in the final energy consumption in the heating and cooling sector. Bearing in mind the above, it can be concluded that the adoption of the Law on the Use of Energy from Renewable Sources created a legal basis for the implementation of a system of incentives (subsidies), the beneficiaries of which can be entities that participate in the transition of the green economy in the field of energy and undertake measures to reduce gas emissions with a greenhouse effect and a negative impact on climate change and the environment.	in 2023	
	in 2023	
	in 2023	
	in 2023	
to Climate Change is also in its final phase and its adoption is planned by the end of 2024.  Also, in order to fulfill obligations and goals, there are established cooperation mechanisms and clear institutional coordination, with UNDP, the World Bank, and through the CBIT project, as well as close cooperation with the Ministry of Internal Affairs and the Ministry of Energy. The Environmental Protection Agency is responsible for creating the Greenhouse Gas Inventory, while the Institute for Hydrometeorology and Seismology is responsible for creating climate models.	in 2023	

Insufficient involvement of business representatives in the creation of ecologically sustainable practices.

# RESPONSE OF THE MINISTRY OF ECONOMIC DEVELOPMENT

The Ministry of Economic Development, in cooperation with a wide range of key actors (competent ministries, public sector institutions, business associations, academic communities and other relevant stakeholders) who are also members of the Coordinating Body for the development and implementation of the Industrial Policy 2024-2028, year, prepared a proposal for the Industrial Policy 2024-2028. with the Action Plan for implementation for 2024. The process of consultation with interested parties was carried out over a long period of time with the aim of looking at different perspectives, needs and initiatives for the development of the industry in a smart and sustainable way. In order to actively involve the economy through the Council for Competitiveness, a consultative process was conducted and an invitation was sent to business associations members of the Council for Competitiveness to submit specific proposals, suggestions and comments regarding the Industrial Policy with the aim of additional contribution to the improvement of public-private dialogue in the creation of strategic documents. such as Industrial Policy. Also, in cooperation with the Chamber of Commerce, as part of the process, a Round Table was held in which business representatives took part together with other relevant interested stakeholders. As a result of the consultation, various programs and projects were identified within the Industrial Policy of Montenegro 2024-2028, which enable support for the green transition and the creation of conditions for sustainable industrial development to mitigate the effects of climate change and reduce CO2 emissions, increase energy efficiency,

# **STATUS**

optimize waste management and recycling, and develop environmentally sustainable processes, products or services, which is elaborated in detail, especially through operational goals OC 2.2. Support for Industry towards climate neutrality and OC 3.3. Encouraging further development of circular business models. On this plan, the Action Plan for 2024 recognizes the activities of awarding incentives (subsidies) to entrepreneurs for project activities in the field of energy efficiency, e-mobility and renewable energy sources; encouraging investments in technologies for the processing and promotion of renewable energy sources (IPARD III program, Measure 3), then encouraging investments for the diversification and development of processing of agricultural products, waste management and RES; program activities to encourage innovation in the function of energy efficiency in industry, then in the hotel industry; as well as the organization of campaigns and educational programs aimed at raising citizens' awareness of the importance of recycling, proper sorting of waste and its impact on the environment; trainings and programs for building the capacity of the private sector on principles, strategies and best practices in the green transition within the circular economy HUB. Also, the Ministry of Economic Development implements and coordinates activities for the implementation of the National Circular Transition Strategy until 2030.which treats this area and during its creation as well as its implementation, actively includes the business community and economic subjects through the work of the Working Group for encouraging the green transition.

in 2023





# **OVERVIEW**





years present



member companies



publicatoins
"White Book – the Investment climate in Montenegro"



committees for areas of importance

# MEMBER COMPANIES OF THE MONTENEGRIN FOREIGN INVESTORS COUNCIL

- Generated 202 million EUR in profit
- Together they generate around 23% of domestic GDP
- Paid 72 million EUR in taxes
- Employ around 5.700 of permanent emoloyees ~ around 50% of employees are women
- The companies donated around 2 million EUR in 2023.

All data pertain to 2023.













































karanovic/partners

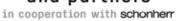








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