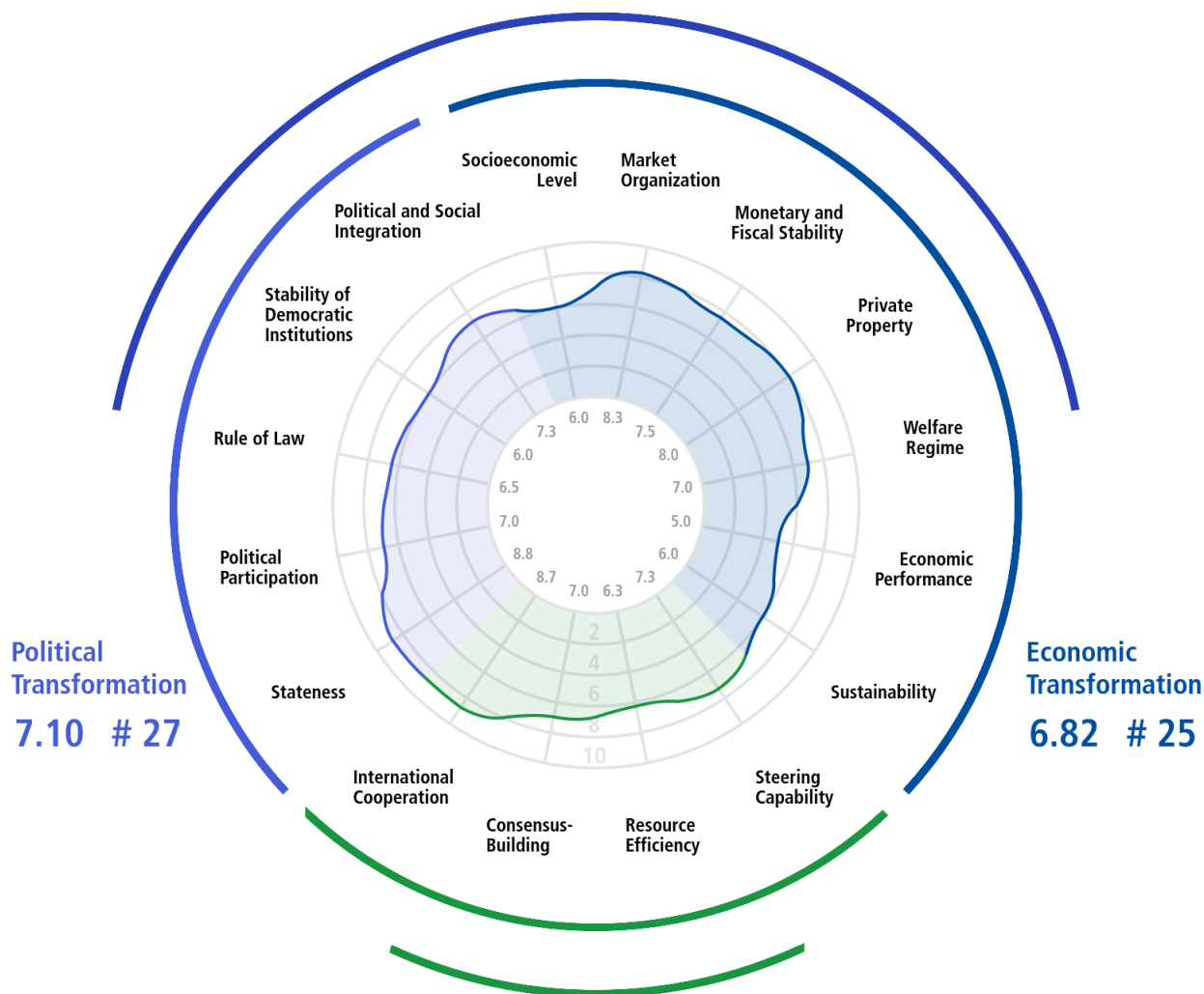


Montenegro

Status Index

6.96 # 22

on 1-10 scale out of 137



Political Transformation
7.10 # 27

Economic Transformation
6.82 # 25

Governance Index

6.23 # 19

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	0.6	HDI	0.829	GDP p.c., PPP \$	20567
Pop. growth ¹	% p.a.	0.0	HDI rank of 189	48	Gini Index	38.5
Life expectancy	years	76.9	UN Education Index	0.803	Poverty ³	% 6.0
Urban population	%	67.5	Gender inequality ²	0.109	Aid per capita \$	155.8

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The most significant event in Montenegro during the review period was the governing coalition, led by the Democratic Party of Socialists (DPS), losing its majority in the 2020 parliamentary elections. They were unable to form a government for the first time since the introduction of multipartyism. The elections were followed by a peaceful transition of power. The new government, which took office in December 2020, is ideologically heterogeneous and will be tested through cohabitation with the president, the DPS leader Milo Đukanović, whose term lasts until 2023.

The election was preceded by an extended boycott of parliament, an unsuccessful attempt at electoral reform and a blockade of reforms and institutions. Due to the lack of progress in the fight against corruption and organized crime, the blockade of the judiciary and the lack of expected reforms, the EU integration process stagnated in the review period. Even though Montenegro has opened all negotiation chapters, in eight years of negotiations it has managed to close only three of them, most recently in 2017.

In the last two years, the Montenegrin political and social scene has been marked by extreme political polarization. The growth of ethnonationalism increasingly threatens the constitutional concept of a multicultural and civic state. The increase in political conservatism and the influence of the church pose a threat to secularism.

In economic terms, pre-existing problems such as large public debt and fiscal deficits caused by poor economic decisions and borrowing for large-scale investment projects have been further exacerbated by the crisis caused by the COVID-19 pandemic. Long-standing warnings about the vulnerability of the Montenegrin economy due to its excessive dependence on tourism and foreign direct investment became a reality when the tourism industry suffered a severe blow during the pandemic.

In January 2021, Montenegro was at the top of the list of COVID-19 infections per capita. The country's health care system has been overwhelmed by months of dealing with the impact of the pandemic, and it is one of the few European countries where vaccination had not yet begun by the end of January 2021. The state's ability to bring the COVID-19 pandemic under control is a precondition for economic recovery.

History and Characteristics of Transformation

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

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

The Democratic Party of Socialists (DPS), Milosevic's partner in Montenegro, has governed the country since the fall of communism using similar rule. Milo Đukanović, leader in the DPS, broke with Milosevic in 1997, increasingly distancing Montenegro from Serbia and implementing reforms aimed at establishing a market economy. After the fall of Milosevic, Montenegro and Serbia, a loosely integrated "state union," replaced FRY. While the Montenegrin government wanted independence, the opposition parties and most parties in Serbia preferred to preserve a common state. To accommodate Montenegrin interests, the constitutional charter of the state union envisaged the option of independence referendum, held three years after the creation of the state union. In the 2006 referendum, 55.5% of Montenegrin citizens voted for independence and Montenegro joined the United Nations and other major international organizations. In June 2017, Montenegro became a member of NATO. As of January 2021, Montenegro had opened all EU negotiation chapters but only three had been provisionally closed.

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

The 2020 parliamentary election brought the first change of government in Montenegro after 30 years of rule by DPS and its partners. The key reasons for the result include political corruption, state capture, economic inequalities, and weak progress on European integration. Moreover, the Serbian Orthodox Church's active support for the opposition exerted a significant influence. Public opinion on the capability of the new Montenegrin government to bring a successful political and economic transformation to the country is divided.

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

Transformation Status

I. Political Transformation

1 | Stateness

The state monopoly on the use of force extends to the entire territory of the country. There are no organizations such as militias or guerrillas in Montenegro.

According to the Chief Special Prosecutor, activities of criminal groups are intensifying with an aim to destabilize the prosecutorial organizations. There has been a lack of police action and prosecution of criminal groups.

Wars between criminal gangs have undermined security in the country in recent years. In the review period, the years-long war between criminal clans from Kotor, which has already claimed dozens of victims in Montenegro and abroad, continued. In the last two years, murders and attempted liquidations in public places have endangered public safety.

Montenegro is constitutionally defined as a civic state, where the state identity is constituted around shared citizenship and not around prevailing ethnicity. The majority of citizens support the civic state, while as many as 34.8% would prefer an ethnically defined state (Center for Democratic Transition, November 2020). 21.1% would define it as a state of the Montenegrin people and other citizens living in it, 11.3% as a state of the Montenegrin and Serbian people and other people living in it, 2.4 % as a state of the Serbian people and other citizens who live in it.

The concept of a civic state has often been compromised in order to satisfy the ethnonationalist demands of powerful political actors. Since the 2006 independence referendum, the legitimacy of the nation-state has been occasionally questioned. The number of political actors advocating the state of the peoples instead of the state of citizens has increased significantly in the last few years.

The citizenship policy is regulated by the Law on Montenegrin Citizenship, which is relatively restrictive compared to neighboring countries, especially regarding dual citizenship. Montenegro, a small country, thereby protects itself from a potentially

Question
Score

Monopoly on the
use of force

10



State identity

8



large political influence of non-residents. Within months of assuming office, the new government launched a public debate on changes to the Law on Citizenship, to allow the acquisition of citizenship for longtime residents of Montenegro who for some reason have failed to satisfy the current conditions for citizenship.

The state is largely secular. However, some religious communities and their leaders exert considerable influence over the legal order and political institutions.

The Serbian Orthodox Church (SOC) was directly involved in the 2020 parliamentary elections and its outcome, urging voters not to support the ruling parties and to instead favor others. SOC protests against the Law on Religion were an important part of the election campaign. According to the leaders of the Democratic Front (DF), SOC had a direct role in compiling their list, and their top candidate, Zdravko Krivokapić, current prime minister, was the church's candidate.

After the elections, the SOC organized meetings with the leaders of the winning coalition's constituent parties, discussing support for the prime minister-designate. According to publicly available records, the prime minister and some ministers have strong ties to the SOC. For example, Minister of Justice Vladimir Leposavić was a member of the legal team of the SOC Metropolitanate in Montenegro until the election.

Three winning coalition constituents agreed to change the contested Law on Freedom of Religion in line with the SOC's requests. The new government has made these amendments a priority and proposed changes without a public debate by using an urgent procedure. The changes were adopted in the middle of the night of 28 - 29 December 2020. Citizens protested in front of the parliament, and there were disputes in the parliament over the legality and procedures involved. When the president refused to promulgate the law after the first vote, the parliament again enacted the law on January 20, after which the president signed the decree and the law came into force.

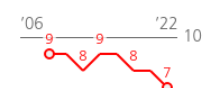
All necessary administrative structures, providing all basic public services, operate throughout the entire territory of Montenegro. 100% of the population have access to a water source and 96% of the population have access to improved sanitation facilities.

In the first months of the pandemic, Montenegro, like many other countries, faced a lack of protective medical equipment, disinfectants, and some general consumption items. After Serbia banned grain exports in March 2020, the Montenegrin government imported more grain from France to prevent flour shortages. This sparked a debate on the lack of a buffer stocks scheme, and the need for its introduction.

With the growth of the pandemic in Europe, and before the first cases appeared in Montenegro, the authorities closed schools on March 16, 2020. The education

No interference of religious dogmas

7



1

Basic administration

10



1

system reacted very quickly and prepared online platforms, lectures, and a television program in a short period of time. From March 23, distance learning began to be implemented. The start of the school year was postponed for a month after the summer break due to the uncertain epidemiological situation; a combined model of offline and online learning was adapted to changes in the epidemiological situation.

In addition to closing external borders, intercity passenger traffic was banned in March 2020, with an exemption for important activities. This measure was scaled back and abolished in mid-May 2020, but due to a large increase in COVID-19 cases in November 2020, intercity traffic was banned again on weekends.

At the start of the pandemic, authorities formed special regional COVID-19 hospitals, while other hospitals and health facilities were declared “clean” and responsible for providing regular health services. However, due to the burden on the health system from COVID-19 patients, restrictions on the provision of health services were introduced on several occasions. Access to health care became complicated for many patients. Lower priority was given to non-urgent procedures to limit the transmission of the virus between patients in hospitals. Subsequent analyzes are needed to examine the effects of such action on the nation’s overall health outcomes.

2 | Political Participation

General elections are held regularly and are usually positively assessed by international observers. Still, serious concerns remain regarding the fairness of the electoral process, primarily related to misuse of public funds and institutions in elections.

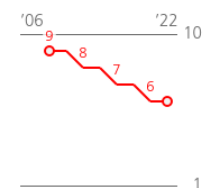
The Parliamentary Committee for the Electoral Legislation Reform was set up in late 2018 but its work has been mired in political disputes and a partial boycott. The Democratic Party of Socialists left the committee following the adoption of the Law on Freedom of Religion in December 2019, leaving it without a key stakeholder.

The parliamentary elections in August 2020 resulted in a defeat for the Democratic Party of Socialists (DPS) and its partners, who had ruled the country for three decades. The DPS won 35% of the vote, securing 30 seats in the parliament, insufficient to form a parliamentary majority (of 41 seats) with its traditional partners, the Social Democrats (3 seats), Social Democratic Party (2 seats) and ethnic minority parties (5 seats).

The new majority in the parliament comprises three coalitions. The largest of them gathered around the Democratic Front, which won 32.5% of the vote (27 seats). The list of Democrats of Montenegro won 12.5% of the vote (10 seats), and the coalition

Free and fair elections

6



gathered around the United Reform Action (URA) movement won 5.5% (4 seats). All participants accepted the electoral results, which allowed a peaceful transfer of power. Still, this handover occurred amidst continued extreme polarization, exacerbated by the new Law on Freedom of Religion. The elections were also conducted by institutions – the politicized State Election Commission (SEC) and the institutions commissioned by acting presidents – with disputed mandates and a history of poor decision-making.

The ruling parties were advantaged because of their access to state resources. Accusations of illicit foreign, secret and dubious funding were left unaddressed by the Anti-Corruption Agency. Recruitment based on party affiliation, allegations of clientelist practices (exchange of services and benefits for votes) and of voter intimidation have not been investigated by authorities.

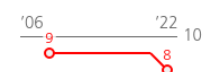
Although it was clear for months that the election would be carried out during a pandemic, the institutions failed to prepare. The SEC adopted technical recommendations for epidemiological protection of voters three weeks before the elections. SEC rules initially withdrew the right to vote from patients with COVID-19 in hospitals or out of residence, but the Constitutional Court repealed this at the initiative of non-governmental organizations. However, it remains unclear whether and how many hospitalized patients exercised their voting rights, as COVID-19 hospitals are labeled “red zones” with entry restrictions. OSCE/ODIHR noted that recommendations on the COVID-19 protection measures on election day underwent several changes and were difficult to implement. While COVID-19-related restrictions limited physical campaign opportunities, it increased online outreach and did not prevent voters from turning out in high numbers.

Democratically elected political representatives have the effective power to govern. However, in recent years it has become increasingly obvious that some power groups can insulate themselves from external actors or enforce their special-interest policies on those beyond their own group.

This specifically refers to the Serbian Orthodox Church (SOC) in Montenegro, which has been one of the most influential and popular social actors. The SOC has sought political influence but refrained from open involvement in politics. This changed after the adoption of the Law on Freedom of Religion when the SOC openly interfered in lawmaking and electoral processes. The new government swiftly promised that the law would be withdrawn or amended in accordance with SOC requirements, clearly demonstrating SOC’s power to regulate areas of social life in which it has an interest.

Effective power to govern

8



1

The right to public assembly is a constitutional right in Montenegro. In addition to the constitution, this right is guaranteed by the Law on Public Assemblies. The laws on NGOs, on political parties, and others further protect and regulate freedom of association. Foreign NGOs can operate in Montenegro.

Authorities have the prerogative to temporarily restrict the freedom of assembly to prevent disorder or the execution of a criminal offense, or threats to the health, morality, or security of people and property.

In Montenegro the review period was marked by frequent protest rallies. From January 2019 to September 2019, civil protests were organized due to the scandal of illegal financing of the then-ruling DPS. In December 2019, protests against the Law on Freedom of Religion involved tens of thousands and lasted until spring 2020, when public rallies were restricted or banned as part of the pandemic-related measures. However, occasional protests led by the church continued, and there were also gatherings celebrating state holidays. Tense protests accompanied the stand-off over the municipal handover of power in Budva and several protests were organized to call for better protection of rivers from pollution.

The seventh Montenegro Pride Parade was held in September 2019 in Podgorica. The eighth Montenegro Pride in December 2020 was marked by a car rally in accord with pandemic-related restrictions.

NGOs have repeatedly criticized the police for allowing or sanctioning public gatherings unfairly and selectively. The Institute Alternative and Human Rights Action have repeatedly appealed to state authorities to grant citizens the right to assemble in protest, in a way that does not negatively affect public health.

As of January 2021, all public and private gatherings other than for professional, scientific, work, and official activities were prohibited. However, public gatherings of up to 25 people, lasting no longer than 60 minutes, were allowed.

Censorship is prohibited, freedom of expression guaranteed and defamation decriminalized by law. In 2020, a new Law on Media and a new Law on the National Public Broadcaster Radio and Television of Montenegro were adopted.

Montenegro has seven national daily newspapers and 75 electronic media – 53 radio and 22 television channels (Agency for Electronic Media, 2019).

The Montenegrin media is extremely politically polarized and self-regulation remains poor. The recent election period again illustrated how the media generally work hand-in-hand with particular political parties, which negatively affects the right of citizens to be accurately and objectively informed.

The position of employed journalists remains challenging. According to the Trade Union of Media of Montenegro (TUMM), journalists who dare to write articles about the main advertisers are punished and fired, which further increases self-censorship.

Association /
assembly rights

8



1

Freedom of
expression

6



1

The COVID-19 pandemic negatively affected the work of 86% of journalists employed in digital media, according to TUMM. One third of respondents indicated that working conditions were difficult, and 15% claimed that their salaries were reduced during the pandemic.

Three attacks on journalists took place in 2019, one of which was physical. Several journalists and individuals were arrested for the alleged distribution of fake news in 2020, which drew criticism from observers concerned with the freedom of expression.

The spread of disinformation and conspiracy theories in the media is increasing. Disinformation about the protests over the law on freedom of religion, the COVID-19 pandemic, and the elections originated primarily from regional media, which are frequently quoted in Montenegro, and social networks that are flooded with conspiracy theories and fake news about COVID-19.

3 | Rule of Law

In Montenegro, power is divided between the legislative, executive, and judicial branches. Legislative power is exercised by the Podgorica Assembly, executive power by the government, and judicial power by the courts. Montenegro is represented by the president, while constitutionality and legality are protected by the Constitutional Court. The military and security services are under democratic and civilian control.

The mechanisms through which the parliament oversees and controls the government include a vote of confidence, a prime minister hour, interpellation, consultative hearings of members of the government, and control hearings in parliamentary committees. The government proposes laws and enforces the law and conducts foreign policy.

Political conflicts and the absence of parliamentary dialogue characterized the period prior to the 2020 parliamentary elections. In December 2020, a so-called expert government entered office, but it enjoys weak parliamentary support and is criticized by both the opposition and the parliamentary majority. The boycott that marked the previous parliament continues, this time by the Democratic Party of Socialists (DPS) as the new opposition.

Government measures during the pandemic were mainly in line with the law. A state of emergency was never declared, avoiding criticism from relevant NGOs that warned that a state of emergency must be a last resort, because it would allow for additional restrictions on many human rights. In March 2020, the government published data on the identity of all citizens in self-isolation, which was criticized by NGOs as stigmatization and violation of rights. The Constitutional Court declared these measures unconstitutional, but only after the government had repealed them and the damage was already done to the citizens.

Separation of powers

6



1

The restrictions on freedom of assembly introduced at the beginning of the pandemic have been selectively respected and penalized by the authorities. In June 2020, the Human Rights Action (HRA) and the Institute Alternative (IA) requested a constitutional review of a Ministry of Health order which banned political rallies and restricted religious gatherings and proposed suspending those measures. They argued that the order introduced disproportionate restrictions on the right to freedom of peaceful assembly and was discriminatory.

Parliamentary control during the pandemic was weak. In the first few months of the outbreak, the parliament did not discuss measures taken by the government.

There has been obvious stagnation in implementation of judicial reform in recent years, and even regression in certain areas. The European Commission emphasizes that it is important that Montenegro does not annul previous successes in the process of judicial reform.

The Judicial Council is defined by the constitution as an autonomous and independent body that ensures the independence and autonomy of courts and judges and consists of a president and nine members. Unfortunately, the Judicial Council has never become an independent and impartial body able to elect judges in an objective way, despite this being the ostensible goal of the reform. The recommendations of the Council of Europe regarding the strengthening of the independence of the Judicial Council and the eradication of unnecessary political influence have not been heeded.

The current legal framework does not guarantee the independence and impartiality of members of the Judicial and Prosecutorial Council, although following international standards, non-judicial council members may not be politicians or persons politically connected and involved in politics.

The government made legal changes that extended the mandate of the current members of the Judicial Council, which rendered efforts to strengthen the independence of the council meaningless. As of December 2019, the Judicial Council has been functioning with vacancies, after the previous president resigned. Four new members (prominent lawyers) have not been elected yet, since a qualified majority in the parliament is required to approve their appointments. The term of office of the Supreme Prosecutor has also expired.

The implementation of constitutional and legal measures to strengthen the independence of the judiciary, and the selection of candidates who would enjoy the support of both the government and the opposition, is extremely difficult in the current political environment.

The controversial election of the president of the Supreme Court, Vesna Medenica, was resolved when she resigned in December 2020.

Independent
judiciary

6

'06 _____ '22 10



1

The procedure for electing judges has been subject to allegations of abuse, conflict of interest, and violation of procedures, which come from both interested candidates and independent NGOs. In the review period, the political influence on the judiciary was manifested through the allocation of apartments and financial assistance to judges and prosecutors by the executive, without competition or clear criteria. The random assignment system is unreliable due to a dysfunctional information system which has been in desperate need of improvement for many years.

High-level corruption is one of the main obstacles to Montenegro's further EU integration. In the review period, no significant progress has been made. The new government has declared the fight against high-level corruption a priority.

In 2019, the Special Prosecutor's Office (SPO) ordered an investigation into six criminal cases of high corruption against sixteen people (five of whom were accused of office abuse). Indictments of high corruption were filed against 37 people (two for the abuse of office); court decisions were reached for nine people.

In 2016, a video surfaced of Dusko Knezevic, a controversial businessman, handing over an envelope with money to the mayor of Podgorica (from DPS). An investigation into the "Envelope" affair followed and in December 2019, SPO filed an indictment over money-laundering; the court decision was pending as of February 2021. In December 2020, SPO ordered the arrest of the director of the Real Estate Administration and Montenegro's ambassador to Poland, both suspected of office abuse and corruption.

Montenegro has repeatedly requested the extradition of Svetozar Marovic, the former president of the State Union of Serbia and Montenegro, who had fled to Serbia, to serve an outstanding prison sentence for corruption in Montenegro.

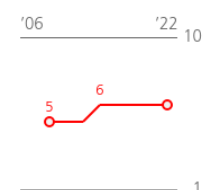
The Anti-Corruption Agency (ACA) was more proactive in preventing conflicts of interest in 2019, but the quality of its oversight remains disputable. There are still no detailed checks for detecting illicit enrichment, verifying the origin of assets, and transferring property, especially regarding high-ranking officials. ACA initiated 31 inquiries into inexplicable wealth in 2019, finding no irregularities.

After the publication of the list of officials who received apartments and loans on favorable terms, without clear criteria, ACA refused to check their asset declarations, even though such practices challenge the integrity of public officials and serve as the grounds for various misuses. ACA has persistently refused to check declarations of assets acquired before the agency was established in 2016, which effectively legalizes such assets.

In the past, Montenegro has strengthened its legislative framework on corruption and organized crime - above all, criminalizing various forms of political party financing, acts of organized crime, and confiscation of criminally acquired property. However, illicit enrichment remains to be criminalized, despite recommendations

Prosecution of
office abuse

6



from the Group of States against Corruption (GRECO) and the EU, pressure from civil society, and political actors. Laws on the origin of property and on lustration have been set as priorities by the new ruling coalition.

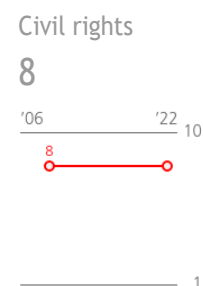
The legislative and institutional framework for human rights in line with EU legislation is largely in place. The capacities of human rights institutions and the Ministry of Human and Minority Rights have been strengthened. Trust in the Protector of Human Rights and Freedoms (Ombudsman) and the quality of its work are improving. However, vulnerable groups face difficulties in exercising their rights in administrative and judicial proceedings. Allegations of excessive use of force by the police and of torture are not investigated promptly and efficiently.

The long-awaited Law on Freedom of Religion and Belief and Legal Status of Religious Communities replaced an outdated law from 1977. Its adoption had been postponed repeatedly since 2012 because of the vigorous opposition of the Serbian Orthodox Church (SOC) to the plans to reassign ownership of property that used to be state-owned before 1918. In 2015 the government adopted the first draft law but withdrew it after SOC sabotaged public hearings. After receiving the Venice Commission's opinion, parliament passed the law in December 2019 in the middle of the night, with protests in several towns and an incident in the parliament. In the run-up to the 2020 parliamentary elections, SOC ran a persistent well-organized campaign against the law, often organizing mass gatherings that directly violated epidemiological measures. The newly elected parliament in January 2021 amended the law to meet SOC's requirements, using an urgent procedure in the middle of the night and without public consultation, amidst further protests.

Gender stereotypes remain a key challenge for encouraging equality between men and women and different gender identities. The EU deems violence against women and children and sex-selective abortions a serious concern in Montenegro. Since the onset of the pandemic, reported cases of gender-based violence have increased by 27%. The law on same-sex partnerships adopted in June 2020 was a major step forward in regulating the status of same-sex couples. The application of the law in practice will be the next big step for the protection of LGBTQ+ rights. However, hate speech, homophobia, and attacks on LGBTQ+ people remain common.

In the last few years, the number of students and high school students from the Roma population has consistently increased, contributing to the improvement of their position in society and to changes within the community itself. The biggest barrier for Roma inclusion is their unregulated legal status, which leads to problems with other basic human rights being met.

Legislative preconditions have been created for the inclusion and equal rights of the disabled, but these have not translated into tangible equality of education, earnings, and participation.



4 | Stability of Democratic Institutions

The constitutional and legal framework of Montenegro allows a high level of independence and balance between the three branches of government. However, the absence of political will has led to institutional blockages, and the judiciary remains exposed to political influence.

A political crisis (2019 - 2020) slowed down reforms and European integration. Political deadlock prevented appointments to the judiciary and agreement on thorough electoral reform. Strong political confrontation manifested itself in protests, a boycott of institutions, and political obstructions; political consensus and parliamentary dialogue were elusive, weakening democratic institutions. However, although the opposition had questioned the legitimacy of elections throughout DPS's rule, no party boycotted the 2020 parliamentary elections or challenged the results.

In 2020, DPS was left out of the government for the first time in 30 years, although Milo Đukanović, the leader of DPS, remains the president until 2023. Executive cohabitation is likely to be challenging given sharp political differences between DPS and the new government. 2021 began with presidential vetoes on several laws passed by the parliament, including the Law on Freedom of Religion, and the president's refusal to proclaim certain decisions of the government.

The new parliamentary majority may pose challenges to institutional stability because of fragmentation and programmatic differences. Conflicts between the parliament and the government were present from the very beginning, and disputes within the ruling majority have served to undermine governmental stability. Regular opposition boycotts of parliament further undermine institutional stability.

The previous review period was marked by a lack of parliamentary dialogue and weak parliamentary scrutiny due to four years of full or partial boycott and the dominance of the executive over the legislature. The results of the August 2020 parliamentary elections were recognized for the first time by all participants.

However, the change of government alone is not sufficient to improve the functioning of institutions, especially given that some appointments require a two-thirds majority. The new parliament is at serious risk of resembling the previous one in its lack of political dialogue and effectiveness. The opposition and ruling parties have simply switched roles, continuing to act in the same way but from different positions, which has the potential to again block reforms.

This attitude, prevalent in parliamentary parties in Montenegro, has already brought into question the functioning of the country's key institutions (e.g., the Judicial Council, the Supreme State Prosecutor's Office, the Constitutional Court). The lack

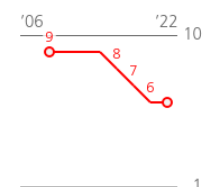
Performance of democratic institutions

6



Commitment to democratic institutions

6



of political dialogue since the most recent elections has led to a continuation of institutional paralysis, which threatens to still act as a roadblock on further progress of EU integration and the fulfillment of EU political criteria.

These trends have the potential to undermine general trust in and the legitimacy of all democratic institutions.

5 | Political and Social Integration

The Montenegrin party system is fairly stable but highly polarized and fragmented. More than 50 political parties are registered in a country with just over 600,000 people. Electoral volatility increased in 2020, partly attributed to the declining support for DPS, and partly to the changing fortunes of parties in opposition until December 2020.

The degree of clientelism remains high, as is party-related employment. According to a survey by the Center for Civic Education and the Monitoring Center from March 2020, 66% of citizens believe that political parties are very or mostly corrupt, the second most corrupt institution after the health care system. A September 2020 Center for Democracy and Human Rights (CEDEM) survey showed that only 22.5% of Montenegrin citizens trust political parties.

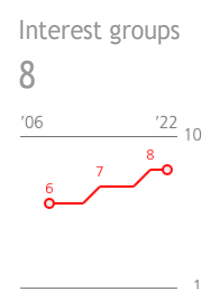
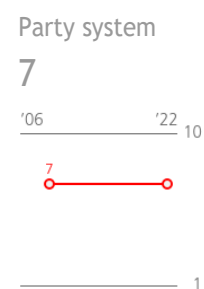
Two opposition parties, United Reform Action (URA) and Democratic Montenegro, boycotted the parliament's work from January 2020 until August 2020, when the elections took place; DPS, the former governing party, has continued the tradition of boycotts in the newly elected parliament.

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

The interest groups that primarily articulate the interests of the citizens are CSOs. CSOs operating at the national level are engaged in advocacy and research in the areas of rule of law, good governance and human rights. A large number of CSOs are small organizations with low capacities, operating at the local level. They cooperate frequently with each other, coming together informally to act on issues of public interest.

The church remains an influential opinion maker in the country. It constantly undermines certain core democratic values, such as respect for human rights, equality, liberty and anti-fascism.

Protests against the Law on Freedom of Religion mobilized a conservative social movement behind the SOC. Environmental issues have led to the informal forming of groups, and protests that gained public support.



Two trade unions operate at the state level: the Confederation of Trade Unions of Montenegro (CTUM) and the Union of Free Trade Unions of Montenegro (UFTUM). Unions are nationally recognized social partners and members of the tripartite Social Council, together with the Union of Employers of Montenegro and the government.

Although approval of democratic norms and procedures is high, polls reveal discontent with the democratic performance of the country and a decline of trust in political institutions.

Montenegro's citizens prefer the democratic political system over expert, authoritarian, and military government (Center for Democratic Transition, November 2020). However, although 91.6% rate the democratic political system as very good or good, only 57.3% were satisfied with the functioning of democracy in Montenegro.

A survey conducted by the Center for Democracy and Human Rights (CEDEM) in August 2020 found that trust in political institutions is at an all-time low. The lowest level of satisfaction with the work of the government was recorded alongside a steady downward trend in the percentage of those who believe that Montenegro is on the right track.

The pandemic affected public trust in institutions, primarily due to the selective application of preventative measures to contain the spread of COVID-19. According to the CEDEM survey, only 36.2% thought that the National Coordination Body for Infectious Diseases, in charge of coordinating the pandemic response, was working very well or mostly well, while 44.8% thought that it worked mostly or very poorly.

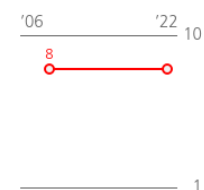
Montenegro has a high number of active CSOs. 37.9% of the public trust NGOs (CEDEM survey, August 2020). The CEDEM survey from 2019 found that young people mostly belong to organizations related to education, sports and culture, and arts, while older people tend to be members of trade unions and political parties. The survey also found that there is a significant degree of social distrust.

74.2% rate interethnic relations in Montenegro as very good and mostly good (November 2020, the Center for Democratic Transition). 31.7% have at least once felt threatened because of a different political opinion, 27.6% because of ethnicity, 24.6% because of religious affiliation/belief, 23.3% because of belonging to a political party, 19.9% because of their financial position, and 10.8% because of gender.

Volunteerism is not sufficiently developed in Montenegro. A draft Law on Volunteering that has been in parliament since 2019, but has yet to be adopted, does not treat volunteering as a special type of employment, a move which would represent progress in this field.

Approval of democracy

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Social capital

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The available data show an increase in the propensity to donate for the common good. Since the outbreak of the COVID-19 pandemic in Montenegro in mid-March 2020, the government body for fighting the pandemic has raised approximately €8 million in donations.

II. Economic Transformation

6 | Level of Socioeconomic Development

Montenegro ranked 48 out of 189 countries in the 2020 UNDP Human Development report. Among the former countries of Yugoslavia, only Slovenia and Croatia ranked higher.

Montenegro's position in the Gender Inequality Index has improved to 26 in the World. However, the Gini Index increased from 31.9% in 2018 to 39% in 2019, one of the highest scores in the region.

The COVID-19 pandemic has reversed recent poverty reduction, but the government has tried to prevent further unemployment by introducing wage subsidies and other measures. According to the World Bank, poverty (income below \$5.5/day in 2011 PPP) increased to 20.4% in 2020 (an increase of 2 percentage points compared to 2019). Poverty rates have persisted in Montenegro over the past few decades due to high unemployment and low levels of income.

The at-risk-of-poverty rate was 24.5% in 2019, a 0.7 percentage point increase compared to 2018. The rural population, the unemployed, and children are all at a higher risk of poverty than other groups. The Roma, Ashkali, and Egyptian population, as well as displaced people, social welfare beneficiaries, pensioners, long-term unemployed, and people with disabilities, have been identified as vulnerable and at risk of social exclusion.

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	4856.6	5506.8	5542.7	4778.6
GDP growth	%	4.7	5.1	4.1	-15.2
Inflation (CPI)	%	2.4	2.6	0.4	-0.3
Unemployment	%	16.1	15.2	15.1	15.9
Foreign direct investment	% of GDP	11.5	8.8	7.5	-
Export growth	%	1.8	6.9	5.4	-48.9
Import growth	%	8.4	9.2	2.4	-19.5
Current account balance	\$ M	-761.4	-943.0	-837.2	-1235.4
Public debt	% of GDP	66.2	71.9	78.8	107.2
External debt	\$ M	7218.8	8027.0	8339.4	9722.7
Total debt service	\$ M	1165.3	1696.8	1530.1	1605.8
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	18.4	18.5	17.8	22.6
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	-	5.1	-	-
R&D expenditure	% of GDP	0.3	0.4	-	-
Military expenditure	% of GDP	1.4	1.4	1.4	2.1

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Montenegro has an open economy with free market competition and limited government intervention. Market competition has a strong institutional framework, but the rules are not equally applied to all market actors.

The informal sector fully or partially employs a third of all Montenegrins. According to the European Commission and Economic Reform Programme of Montenegro (2019 - 2021), the informal economy as a percentage of total GDP in 2020 was estimated at 28 - 33%. More than 20% of work is informal. Several issues breed informality, such as ineffective enforcement by institutions and a high tolerance for tax noncompliance, an inadequate regulatory framework, inefficient and ineffective implementation of policies, corruption, and weaknesses in the institutional environment.

According to the World Bank's 2020 Doing Business report, Montenegro ranks 50 in the ease of doing business, but only 90 out of the 190 countries in the Starting a Business sub-index, which suggests that business barriers to entry should be further reduced. The number of procedures (eight) and time required to start a business (12 days) are higher than in several other countries in the region. Policymakers should also design measures that facilitate the shift to formal employment for those working in the informal sector, which would help battle an increase in poverty.

The business environment requires improvements, such as a reduction of barriers to entry, tax reform (reduction of VAT on tourism and payroll taxes),

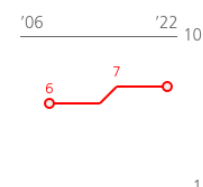
increased efficiency of inspection bodies, and the application of the same rules to everyone.

The Law on Protection of Competition, passed in 2012, regulates market competition and reflects the relevant European principles. The Agency for Protection of Competition (APC) is an independent authority that monitors and analyses market competition, approves exemptions, and generally ensures protection of competition. Established in 2013, it can act upon complaints or on its own initiative, but cannot impose fines, a significant shortcoming. In February 2018, Montenegro adopted a law that serves as the legal basis to transfer the powers of the State Aid Authority to the APC.

Laws to prevent monopolistic structures and conduct exist but are inconsistently enforced. The main concerns are the agency's levels of expertise, despite an increase of its enforcement capacity. The number of APC decisions regarding cartels and abuses of dominant position has fallen to just one in 2019, and while the number of decisions on mergers has increased (62 in 2019), APC has not prohibited any of them.

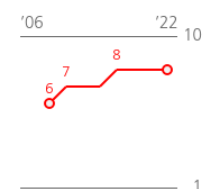
Market
organization

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Competition policy

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The final EU negotiating chapter on competition was opened in June 2020. A 2020 EC report concluded that Montenegro is moderately prepared in this area. It has continued in the past few years to harmonize its competition legislation with EU laws, but limited progress was registered overall. Additionally, the report noted the APC's lack of capacity as the greatest obstacle to improving competition law enforcement. The report urged Montenegro to ensure transparency on all state aid decisions and operational independence of the ACP, as well as to ensure the effectiveness of its control over state aid at all levels. The EC expressed concerns because €155 million of state funding was granted to Montenegro Airlines in 2019 without input from the state aid authority.

The Montenegrin economy is service-based and relies heavily on trade and foreign investment. The government has undertaken several measures in the past decade to liberalize trade. According to the 2020 Index of Economic Freedom, Montenegro's trade freedom index is very high (83.8%), and its average applied tariff rate is 3.1%. According to the World Bank, Montenegro's most favored nation tariff rate was 3.8% in 2017.

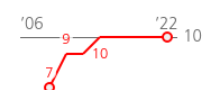
Montenegro has significantly reduced custom tariffs and quotas on imports in the past decade. The country has signed agreements and established institutional frameworks for free trade with its main trading partners through the Central European Free Trade Agreement (CEFTA), European Free Trade Agreement (EFTA), Russia, Turkey and Ukraine. Montenegro is also part of a Preferential Trade Agreement with the European Union that provides duty-free entry for over 95% of Montenegrin goods. Montenegro's foreign trade was highest with CEFTA signatories and the European Union. The largest export partners were Serbia, Hungary, and Bosnia and Herzegovina, while the largest import partners were Serbia, Germany and China.

Montenegro's membership in the World Trade Organization (WTO) since 2012 entails an obligation to continue the liberalization of trade, providing a transparent and predictable environment for both domestic and foreign companies. Montenegro is a member of the 17+1 mechanism, which aims to enhance the cooperation in trade and investment between China and Central and Eastern European countries. In July 2019, Montenegro signed amendments to its free trade agreement with Turkey that further liberalized trade in agricultural products and services.

According to a European Commission report from 2020, Montenegro has adopted - as part of its participation in CEFTA - Additional Protocol 6 on liberalization of trade in services and is negotiating Additional Protocol 7 regarding trade dispute settlement.

Liberalization of
foreign trade

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Montenegro has 13 commercial banks and five microcredit financial institutions. The country's central bank (CBM) is in charge of supervision and oversight of the financial service sector. All regulations are in accordance with the Basel Accords and EU norms. CBM maintains a bank control department that reports on financial indicators of each bank, such as balance sheets and income statements, and ensures banks maintain a required share of capital equity in relation to assets.

Considering the large number of financial institutions for such a small country, mergers and acquisitions are to be expected. In February 2019, Societe Generale Montenegro was acquired by the Hungarian OTP bank and became Podgorička banka AD Podgorica. Podgorička banka was merged with Crnogorska komercijalna banka AD in December 2020. Following the merger, all Podgorička banka assets, rights and obligations were transferred to Crnogorska komercijalna banka as its legal successor.

According to a European Commission report in 2020, the banking system is well capitalized, stable and liquid, but the performance of small banks is uneven and requires close monitoring. The main indicators for the banking sector remain positive, with the ratio of non-performing loans falling to 5.6% of total loans in September 2020. The capital adequacy ratio was a healthy 19.3% in the third quarter of 2020. However, bank net profits in the first seven months of 2020 were down by almost 50% because of reduced fee income and increased loan provisioning during the pandemic. The pandemic is also expected to lead to a rise in non-performing loans that must be carefully monitored.

In March 2020, CBM adopted temporary measures to mitigate the impact of the pandemic on households and the financial system. A 90-day moratorium on loan repayments was issued – it was initially universal but later limited to the most exposed sectors. Reserve requirements were reduced by two percentage points, which boosted bank lending by 7% (mostly to households and the private sector). Meanwhile, deposits fell by 6% and the banks' ratio of loans-to-deposits reached 98% (World Bank).

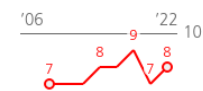
8 | Monetary and fiscal stability

As Montenegro uses the euro unilaterally as the official currency, it lacks access to standard monetary policy tools. Hence, fiscal policy remains the main macroeconomic tool. However, inflation and foreign exchange policies are in line with other economic policy goals and are institutionalized in the country's formally independent central bank (CBM).

Dollarization significantly reduces exchange rate and inflation risks, helping to achieve macroeconomic stability and reduce transaction costs. However, it also limits the CBM's ability to conduct monetary policy. Its only monetary policy tools are the required reserve rate and open market operations.

Banking system

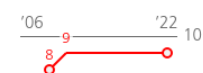
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Monetary stability

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Montenegro is strongly influenced by international trends because of its open economy. Although the inflation rate was subject to substantial fluctuation in the past two decades (highest inflation rate of 26.5% recorded in December 2001, and lowest inflation -1.4% in April 2014), it ended 2020 at -0.2%. In 2020, plummeting demand and falling oil prices pushed Montenegro into deflation – the average consumer prices in January - November 2020 compared to the same period of 2019 were 0.2% lower. Oil, transportation, and utilities led the fall in prices, while prices for food and beverages increased. The increase in consumer prices was influenced mostly by a rise in prices for clothing and footwear, vegetables and fruit, water supply, fuels and lubricants for personal transport equipment, and accommodation services.

The CBM contributes to price stability, publishing reports on price stability and delivering them to policymakers. As part of Montenegro's advancing integration with the European System of Central Banks, CBM opened a disaster recovery site in November 2019 with support from EU funds, the role of which is to maintain the continuity of the central bank's business functions in cases of serious incidents undermining the functioning of the banking system.

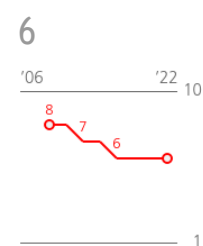
In its 2020 Report on Montenegro, the European Commission noted that even before the COVID-19 pandemic, economic activity had started to slow as investment growth declined markedly. In 2019, the account deficit totaled 15.2% of GDP.

In 2020, the pandemic and the government response increased pressure on fiscal sustainability. Lower revenues (31.6% of estimated GDP in 2020) and increased spending (40.2%) added stress to fiscal balances and increased the levels of public deficit (8.6% of GDP between January 2020 and November 2020). The loss of revenues was mostly influenced by the second COVID-19 wave in June 2020, at the start of the peak tourism season. Meanwhile, central government spending between January 2020 and November 2020 increased by 5.8% compared to the same period in 2019, due to much higher spending on wages and transfers to institutions and individuals, even though wage subsidies were financed from the budget reserve.

Public debt reached 92.9% of GDP in 2020 and is expected to reach a new peak in 2021 (94.2% of GDP, World Bank), after which it is expected to start falling. Medium-term risks and vulnerabilities are significant and require prudent fiscal management. However, the government issued a record-high €750 million (\$907 million) bond on the international markets in December 2020, primarily to repay the principal of loans maturing in 2021, and to finance the budget deficit.

In 2019, before the COVID-19 pandemic, the IMF warned that a rush to complete the Bar-Boljare highway would be likely to jeopardize Montenegro's fiscal sustainability. In June 2020, the Montenegrin government requested financing from the IMF under the Rapid Financing Instrument, stating that until the outlook for

Fiscal stability



public finances improves, it would not undertake construction of further phases of the Bar-Boljare highway, or other large capital expenditures that could jeopardize debt sustainability.

Given its large fiscal imbalance and financial market conditions worsening during a global recession, Montenegro may need to adjust public spending. In the coming years, Montenegro's fiscal framework should develop in the direction of reducing the current account deficit (-\$837.2 million in 2019) by trying to increase revenues and reduce current spending. However, that process depends significantly on the duration of the COVID-19 pandemic.

9 | Private Property

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

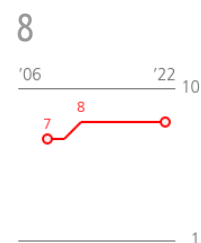
Additional efforts are needed to address pending cases in line with national legislation and with the European Convention on Human Rights. The process of restitution is proceeding very slowly and remains a challenge affecting property rights. Procedures remain cumbersome and decision-making is slow.

The reporting period was marked by a debate on the right of ownership over religious buildings and property that belonged to the state until 1918, and after to the SOC. The European Commission stated that the procedure to determine property rights over religious sites needs to fully address the relevant recommendations of the Venice Commission.

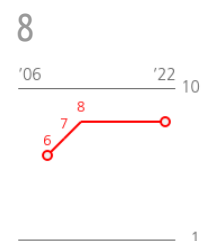
According to the European Commission Report on Montenegro 2020, the country is well prepared in the area of intellectual property regulations though enforcement remains a serious challenge. In the coming year, Montenegro is set to adopt a new national intellectual property strategy for 2021 - 2024.

Private companies are viewed institutionally as important engines of economic growth. Since the beginning of the privatization process, there have been several cases in which the privatization of state companies did not proceed according to market principles (prior to 2019; e.g., the Aluminum Plant Podgorica). Privatization has been an important source of budget revenue. Along with privatization, Montenegro introduced reforms aiming to improve the overall business environment. This simplified the procedures for starting a business and created strong incentives for entrepreneurship.

Property rights



Private enterprise



According to an EC 2020 report, Montenegro should advance restructuring and privatization of loss-making public companies, respecting EU state aid rules. In January 2020, the Privatization and Capital Projects Council passed the Draft Decision on the Privatization Plan for 2020. The plan seeks to increase the competitiveness and efficiency of the functioning of companies, encourage foreign investment and entrepreneurship in all areas, increase employment and improve living standards. To achieve this, the government proposed the privatization of Hotel Group “Budvanska rivijera,” “Castello Montenegro” and “Institute of Black Metallurgy.”

In December 2020, the new government of Montenegro shut down Montenegro Airlines, the indebted national airline company. Consequently, a new national airline will be formed in 2021, using government funds as starting capital. The process for awarding a 30-year concession over Montenegro’s two international airports in Podgorica and Tivat, which began in 2019, has stalled, and the new government announced it will continue talks with potential bidders.

10 | Welfare Regime

Social safety nets are reasonably well developed but do not cover all risks for all strata of the population. Health care, pension funds, workers’ insurance, disability insurance, child support, and unemployment insurance are all part of social protection in Montenegro. Noncitizens who have been granted asylum have rights to social protection, first in the form of monthly financial assistance and then social assistance and child allowance if they meet the conditions.

A substantial percentage of the country’s population remains at risk of poverty. This risk could become even bigger after the COVID-19 pandemic, which had a devastating effect on Montenegro’s economy and tourism. According to the Statistical Office of Montenegro (MONSTAT), one in four citizens (24.5%) lives in poverty. 29.6% of families with children were at risk of poverty in 2020, and every third family with children aged from 6 to 18 cannot afford clothes and shoes for their children (MONSTAT, UN). Unemployment increased to 18.6% in 2020; compared to the same period in 2019, 47,000 more people were out of work in November 2020.

Since the outbreak of the COVID-19 pandemic, the government has adopted measures to help the economy and the population. In different periods, it provided minimum wages for employees in sectors closed due to anti-pandemic measures, one time assistance for the unemployed and social assistance recipients, an increase of minimum pensions, and subsidies for electricity bills.

Social safety nets

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Women and ethnic and religious minorities have near-equal access to education, public office, and employment, but further progress is needed in this area.

Awareness of women’s rights and status remains low and institutions ensuring equality and penalties are weak. Literacy rates are high both for men and women (99.5% and 98.3% in 2018, respectively) but patriarchal stereotypes remain strong and lead to discrimination, which especially affects female representation in decision-making and management. In 2019, women made up 44% of the workforce and the gender wage gap was 13.9%, according to the Plan of Activities for Achievement of Gender Equality 2017 to 2021.

In the newly formed government, four out of 14 members of the cabinet are women; no political party was led by women in 2021 and electoral lists satisfy only the minimum legal requirements for gender parity. The status of Roma women remains of special concern – they are often victims of both gender and ethnic discrimination. According to a Center for Democratic Transition survey, the highest degree of ethnic distance is toward Roma. The Roma population remains the most vulnerable and discriminated-against group in Montenegro. They have a lower chance of finding employment and receiving education and health care than the rest of the population and continue to live in segregated neighborhoods. Access to services remains limited, as the Roma sometimes lack the required documents. The Roma also lack political representation in the parliament and local assemblies. Calls to extend to Roma the conditions enjoyed in electoral legislation by Croats (who comprise a similar percentage of the population) continue to be rejected by most political parties.

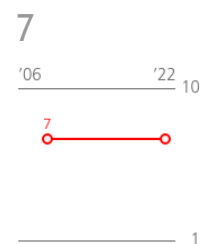
Regarding LGBTQ+ rights, the parliament adopted a law on same-sex civil partnerships in July 2020, which was a positive step forward. However, the law is yet to be implemented.

11 | Economic Performance

Even before the COVID-19 pandemic, economic activity in Montenegro had slowed and FDI inflows had declined. Following strong real GDP growth in 2017 and 2018, the rate of economic expansion slipped to 3.6% year-on-year in 2019 (European Commission). The deceleration reflects a slowdown in investment, as large infrastructure projects were completed. Net FDI inflows amounted to 7% of GDP in 2019, declining from 16.9% of GDP in 2015.

According to the World Bank report *An Uncertain Recovery* (Autumn 2020), the economy in Montenegro contracted by approximately 12.4% in 2020 due to the COVID-19 pandemic, which represents the deepest recession in two decades. Tourism, the sector most affected, accounts for almost 25% of GDP in the country, and because of disruptions in international travel and a steep second wave of

Equal opportunity



Output strength



COVID-19 infections, the 2020 tourism season was one of the worst on record. After growing by 4.1% in 2019, and by 2.7% in Q1 2020, the country's GDP fell by 26.9% in Q3 2020. While the economy is forecast to recover in 2021 (projected growth 6.9%), the full loss in GDP will only be recovered by 2022.

High long-term and youth unemployment, and the disparity between labor supply and demand remain the biggest problems in the labor market. The unemployment rate in Q3 2020 was 19.0%. Average inflation (CPI) between January 2020 and November 2020 was 0.2% lower compared to the same period of 2019.

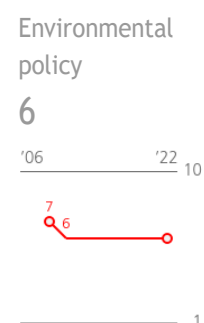
FDI inflow was €541.4 million between January 2020 and October 2020, led by investors from China, Russia and Switzerland. FDI outflow was €173.4 million during the same period. Net FDI amounted to €367.9 million, compared to €250.1 million in the same period in 2019.

The current account deficit amounted to €214.5 million in Q3 2020, strongly influenced by the COVID-19 pandemic, but also to be expected for a small, service-based open country. Due to the pandemic, estimated public debt reached 92.9% of GDP in 2020 and was forecast to reach a new peak in 2021 (94.2% of GDP), after which it is expected to start to fall (World Bank). The alarming increase of public debt is bringing its sustainability into question and requires careful debt management with a tighter fiscal stance. Current inefficiencies in public spending mean that debt reduction can be accelerated by public administration and public procurement reforms, and more efficient public investment management.

12 | Sustainability

Despite being constitutionally defined as an ecological state, environmental issues in Montenegro are often a victim to economic and political interests.

At the end of 2018, the NGO MANS released footage of the destruction of shores, waste accumulation and changes in the river flow of the UNESCO-protected Tara River, resulting from the construction of the Bar-Boljare highway. A joint World Heritage Center/IUCN Advisory mission visited Montenegro in November 2018 and concluded that although most of the negative impacts could be addressed after highway construction is completed, some will be long-lasting and irreparable. Six NGOs filed a criminal complaint over environmental pollution that resulted in devastation of the Tara River. In April 2020, the Basic State Prosecutor's Office rejected the criminal complaint with no explanation. Several protests have taken place against the building of small hydroelectric power plants, which destroy riverbeds. A positive step was taken in protecting Ulcinj Saline by declaring it a nature park in 2019, designated by Montenegro for the inclusion on the Ramsar List of Wetland of International Importance, after sustained advocacy from environmental NGOs.



The National Strategy on Climate Change sets out the vision that, by 2030, Montenegro will adapt to the negative effects of climate change and promote low-carbon sustainable development. At the end of 2019, Montenegro adopted a law aiming to protect the country against the negative effects of climate change. In 2020, the government issued a new decree on activities that emit greenhouse gases (GHG). Montenegro has set a goal of reducing GHG emissions by at least 30% by 2030 compared to the base year of 1990. A scenario with existing measures (WEM) implies the reduction of emissions needs to be achieved by energy labeling, eco-design, reconstruction of a thermal power plant, adoption of energy efficiency regulations for buildings, and a reduction in the share of biowaste in municipal waste. A scenario with additional measures (WAM) defines the reduction of areas affected by forest fires and increased generation of electricity from renewable sources as the most effective measures.

Waste management and water treatment plants are under construction, with several municipalities having their issues of water treatment addressed. Still, waste management remains one of the country's biggest problems regarding environment protection. According to the latest European Commission Report on Montenegro, progress in chapter 27 remains limited. Poor air quality is a problem in several municipalities, especially in Pljevlja, where air pollution is caused by the thermal power plant.

Primary school in Montenegro is obligatory (100% enrollment) and secondary enrollment is high (90%). However, preschool participation remains low. The quality of education remains an issue according to the 2020 European Commission Report. The latest PISA report from 2018 found that there are significant gaps in education quality. Montenegrin 15-year-old students attaining Level 2 or higher in mathematics, reading and science are 20 percentage points lower than the OECD's average. Moreover, people with vocational education training or a higher level of education attainment in Montenegro continue to find it difficult to find jobs that match their skill levels (high incidence of skills mismatch).

According to an EC report, the latest data (2018) shows that public spending on education amounts to 4% of GDP. The UN Education Index score for Montenegro, at 0.803, is one of the highest in Southeast Europe. Literacy is nearly universal (98.8%) and 91.6% of citizens have at least some secondary education, while tertiary enrollment is close to the regional average (56%).

Higher education institutions conduct studies in accordance with the European Higher Education Area, through study programs of academic and applied studies. A total of 285 study programs are conducted (271 academic and 14 applied study programs), and in addition to study programs, 8 lifelong learning programs are being implemented, as stated in the Final Report on the Implementation of the Higher Education Development Strategy 2016 - 2020.

Education policy /
R&D

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Financial resources for research and development have increased to 0.50% of GDP in 2018 (compared to 0.37% in 2017), and the bulk of investment comes from the private sector, as stated in an EC report from 2020. The Science and Technology Park in Podgorica was established with the aim of providing support and strengthening the potential for economic growth and development in Montenegro, in partnership with the government, the Ministry of Science, and the University of Montenegro. They have a plan for a technological development center in the country, which should support the improvement of the innovation and entrepreneurial ecosystem. Montenegro is the first country in the region to adopt a Smart Specialization Strategy. In addition, a new Law on Innovative Activity was adopted, which puts forward the establishment of an Innovation Fund.

Governance

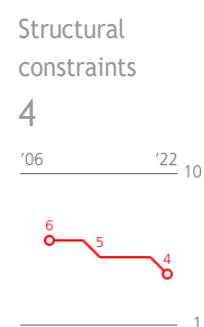
I. Level of Difficulty

Key structural problems in Montenegro continue to be growing public debt and large public sector employment, including in state-owned enterprises, and high government spending, especially on salaries and pensions. Overcoming these requires the creation of a favorable environment for private sector development and a reduction of public sector employment, restructuring of state-owned enterprises and rationalizing public spending.

Poor road infrastructure is one of the most severe infrastructural deficiencies. According to the road connectivity index in the WEF Global Competitiveness Report 2019, Montenegro ranked 129 out of 141 countries. As part of the EU enlargement Berlin Process, regional connectivity and institutional compliance in this area is defined as one of the government's priorities. In an attempt to fulfill a long-standing promise to build a highway connecting the Adriatic port of Bar with Serbia (and with European corridors), in 2014, Montenegro entered into a risky project to build the highway, financed by a loan from China's EXIM Bank. That led to a huge increase in external debt and the IMF warned in 2019 that "a rush to complete the highway is likely to jeopardize Montenegro's fiscal sustainability." The completion of the first section after two delays was set for mid-2021, to coincide with the start of loan repayments. Uncertainty over the completion of this project has been further increased due to the COVID-19 pandemic. In June 2020, the Montenegrin government requested financing from the IMF under the Rapid Financing Instrument, promising no further construction of the highway or any other large capital expenditures that undermine debt sustainability until the outlook for public finances significantly improves.

Much of the country's economic activity has been halted by the pandemic, which has had consequences for the labor market. The European Commission noted that the unemployment rate in Montenegro rose to 20.4% in January 2021, from 15.3% in March 2020. During the course of 2020, the World Bank estimated that about 9,000 to 20,000 citizens could fall into poverty due to the economic shock and that poverty could return to its 2013 level.

On January 31, 2021, the total number of COVID-19 infections was 61,659, while the total number of deaths was 805. According to Our World in Data, excess mortality in January 2021 was 18%.



Montenegrin civil society began to develop in the late 1990s. Civil society organizations (CSOs) have since become an important and irreplaceable actor in all societal processes.

According to data from the Ministry for Public Administration, in January 2020 there were 5,389 associations, 208 foundations and 119 foreign NGOs registered in Montenegro. According to the Strategy for Improving the Stimulating Environment for NGOs 2018 - 2020, NGOs are most active in the fields of culture, protection of human and minority rights, arts, education, agriculture and rural development, and social and health care.

The conditions for the stable functioning of CSOs are far from great in practice. Financial sustainability remains a key challenge. Amendments to the Law on NGOs introduced a new system of public funding for NGO projects and programs from 2018. Organizations rate it as more transparent than the one it replaced, although there are some shortcomings, including one related to the dynamics of its implementation. Not all ministries have shown interest in financing projects and programs of NGOs in their field through the new mechanism. Most NGOs continue to rely on international donors, especially EU funds which encourage partnerships and the inclusion of small local CSOs.

Several organizations operating at the national level are publicly well recognized for advancing the process of democratization. Most organizations working at the local level advocate for issues that are important to the local community. NGO initiatives, proposals and comments receive significant media attention, and their representatives debate many topics of public interest on a daily basis.

The participation of CSOs in policy and decision-making is enabled through different mechanisms such as participation in public hearings and working groups and other bodies, but this tends not to be substantive. Their level of engagement and influence varies from body to body. Involvement of CSOs in the new National Anti-Corruption Council, formed in January 2021, is a positive example.

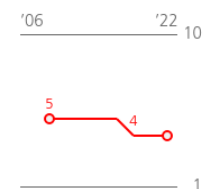
For years, Montenegro was a functional multicultural society with very few violent incidents. Radical political actors had limited success in exploiting existing cleavages. However, in the last two years ethnic and religious divisions have deepened considerably, public discourse has been radicalized, and mobilized groups and protest movements have dominated politics.

The adoption of the Law on Freedom of Religion in December 2019 decisively increased social polarization. It triggered a wave of protests and tensions that did not subside until the opposition won the election. Nationalist rhetoric increased on all sides, during and even before the church protests.

Examples of historical revisionism increase, and nationalists on all sides celebrate “their” fascist collaborators. Serbian nationalists have repeatedly requested the

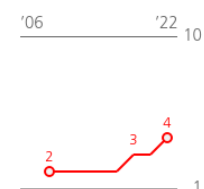
Civil society traditions

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Conflict intensity

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construction of a monument to the Chetnik commander known for crimes against the civilian population, Pavle Đurišić. Montenegrin nationalists celebrate their collaborationist, Krsto Popović, the commander of the Quisling Montenegrin National Command. A few years ago, a request for his rehabilitation was made, and in 2020 an initiative was launched requesting the erection of a monument to Popović in Cetinje. In previous years, Bosniak national parties have advocated for one street in Petnjica to be named after the commander of the Quisling Muslim militia and war criminal, Osman Rastoder.

The targets of such rhetoric are often anti-fascist monuments. In 2020, three partisan monuments were damaged in separate incidents. First, in May 2020, a plaque was broken on the monument on Ravni Laz in Piperi, the place where the decision to raise the Thirteenth of July Uprising in 1941 was made. Then, over a couple of days in November 2020, first a bust of Moša Pijade in Podgorica was defaced with nationalist messages, and then the Monument to the Fallen Soldiers on the Savina in Herceg Novi.

Both political celebrations and election campaigns often display aggressive nationalism. The nationalist rampage in the days after the parliamentary election brought out fascist symbols and songs. Violent incidents and attacks on Bosniaks/Muslims were recorded in several cities. In Pljevlja, the premises of the Islamic Community were damaged, graffiti with hate messages was written, and citizens were physically attacked. Worryingly, for some of them, this was not the first time they had experienced such attacks.

In 2020 alone, there were numerous attacks on individuals and property and cases of endangering security due to religion and ethnicity, which are protected characteristics. Prosecutors often classified the crimes as misdemeanors accidentally or intentionally, ignoring the attacks' motives, thereby artificially reducing the number of misdemeanors with an ethnic or religious motive.

II. Governance Performance

14 | Steering Capability

The government sets strategic priorities, but there is a deficit in prioritizing and organizing its policy measures accordingly. EU membership remains the country's main strategic goal. The EU is a key factor supporting the country's democratization and various reforms. Lobbying is conducted on an almost daily basis, but there is no precise information about the impact business and other stakeholders have on government policies.

Government priorities are set forth in the prime minister's inaugural speech, annual and medium-term work programs. The public administration reform agenda aims to establish a comprehensive system of planning, coordination and monitoring of the implementation of public policies. The government took the first steps by adopting the Medium-Term Work Program for the period 2018 - 2020. However, there were no significant differences in the process of planning and evaluation of the government's annual work. Three medium-term work programs involving selected ministries have been adopted so far, outlining opportunities for improvement; these programs are focused on annual rather than three-year plans.

The new government altered established practice by submitting the prime minister's inaugural speech to parliament a few days before the voting session. Inaugural speeches contain the government's future priorities, although with no clear deadline for final results and success. This could be achieved through the adoption of a new medium-term work program and annual programs. As of January 2021, the government had not yet adopted an annual work plan or budget for 2021.

During the COVID-19 pandemic, the government introduced four packages of financial measures to help the hard-hit local economy which is largely dependent on tourism. Among other support measures for businesses and citizens, the government granted delays in tax filing and loan repayments, provided loans for companies, and expanded the range of social benefits.

The new government set confronting the pandemic and developing a sustainable health care system as its goals. Despite the new measures, Montenegro retains a very high infection rate. Vaccinations of the local population had yet to start at the end of January 2021.

Question
Score

Prioritization

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The government has limited success in implementing policies, primarily due to lacking political determination and the capacity to enforce laws.

Montenegro has taken significant steps in the EU negotiation process, but recent progress remains limited. In June 2020, the last negotiating chapter was opened, but no new chapter was closed. Although efforts were made to harmonize the legislative and institutional framework with the EU acquis, their implementation was inadequate, and therefore concrete results are yet to be seen. Issues related to the rule of law remain the most challenging.

To improve the practical effects of reforms, the new government was required to pass certain laws as a precondition for specific actions. For example, in the field of anti-corruption policy, the adoption of a Law on the Origin of Property and a Law on Lustration was announced, to improve accountability for possible abuses during the performance of previous governments. The civil sector in particular points to the need to amend and improve legal solutions granting access to information in order to effectively oversee the work of government and areas that are sensitive to corruption.

The government response to the COVID-19 pandemic often restricted certain rights that required an assessment of justification and proportionality. NGOs brought initiatives to the Constitutional Court to assess the legality of measures that restricted the right to privacy, right to vote, freedom of movement and assembly. In a number of cases, the court ruled that the measures adopted were unconstitutional.

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

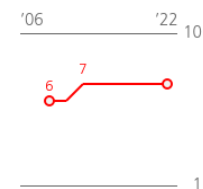
The planned quality system for monitoring and evaluation is yet to be soundly established. Although the basis for measuring the effects of policies through a medium-term work planning system has been established, the government remains focused on outputs rather than outcomes, as the work reports illustrate. This reform is expected to take years, especially if it is to reach all the way down to the lowest administrative levels.

The government receives support for reforms through international cooperation and the engagement of European experts in various sectors. Civil society representatives are involved in the policymaking process, primarily through public hearings and working groups, but they are often dissatisfied with the quality of cooperation from the authorities, pointing out that their participation only serves to meet formal requirements.

A good example of this is the successful adjustment of the education system to COVID-19 pandemic conditions, and the continued adjustment at the beginning of the new school year. Correcting errors from the first phase and creating a flexible system was achieved in complex and unprecedented conditions.

Implementation

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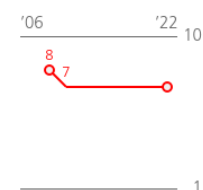


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Policy learning

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15 | Resource Efficiency

Efficient use of human, financial and organizational resources is not a characteristic of the Montenegrin authorities and the country's resources have traditionally been exploited for political benefit.

The pandemic exposed Montenegro's key vulnerabilities and highlighted the urgent need for fiscal management to increase the efficiency of public spending, the need to enable a level playing field for the private sector, boost entrepreneurship, innovation and broad-based growth, and strengthen institutions while increasing their accountability.

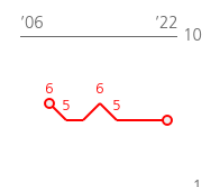
The government usually publishes a budget proposal and the adopted budget, as well as reports on budget execution. The budget for 2021 was not adopted within the set deadline, and the government opted to use temporary financing until March 2021. The government blamed a short time limit in which they could not get enough reliable data on the complex and difficult economic situation. Due to the high fiscal deficit, the new government was swiftly forced to borrow additionally through the issuance of government bonds. The borrowing was criticized by members of parliament for non-transparency.

Efficient human resource management is one of the major challenges facing the public administration. The systematic optimization of the public administration, recognized as a priority, has not been successful. With the EU's impetus, the previous government committed to a reduction of up to 10% of civil servants at the local level and 5% at the central level by the end of 2020. However, it failed in this reform, and in fact the number of employees at the central level increased, while the numbers at the local level were only slightly reduced. Except for a severance pay offering, an effective program for individuals leaving state administration has not yet been established.

To optimize the administration and strengthen efficiency, the new government decided to reduce the number of ministries, and senior management. The first managerial appointments in the public sector under the new strategy, as well as changes to the related legislation, have raised concerns that the new government may continue with the practice of political appointments.

Efficient use of assets

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Although steps have been taken on policy planning reform, the establishment of a system that provides insights into the tangible outcomes of implemented policies and that generates information needed for policy change is expected to take years

The Office for European Integration within the office of the prime minister coordinates Montenegro's efforts toward European integration. It is responsible for coordinating everything associated with the Stabilization and Association Process as well as with authorities from EU institutions. Policy coordination is concentrated in the general secretariat of the government.

The first three-year medium-term work program – which covers key segments of the work of the government and its departments – expired in 2020. Its quality has been affected by poor implementation and monitoring. The new government, formed in December 2020, has yet to prepare a medium-term or 2021 work program.

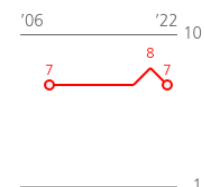
The first steps toward improving strategic policy planning were taken through the 2018 Decree on the Method and Procedure of Development, Alignment and Monitoring of the Implementation of Strategic Documents. The decree and methodological guidelines define the steps in the preparation and mandatory content of strategic documents, but the real effects on the ground are yet to be seen. The process can be improved by involving and consulting the public in the preparation of strategic and other documents, which is currently unsatisfactory.

The National Coordination Body for Infectious Diseases consists of government members and health officials, and coordinated the response to the COVID-19 pandemic. Controlling the spread of the pandemic was initially successful and at one point Montenegro was even declared free from COVID-19. Thereafter, unsuccessful coordination and political influence led to a decline of public confidence in the work of the body. The police and prosecutors failed to ensure full compliance with rules, particularly on mass gatherings.

In December 2020, the new government formed the Council for the Fight Against COVID-19, composed of government members and health officials. A Commission for the Protection of the Population from Coronavirus was established at the Ministry of Health. Additional measures, including a national strategy for vaccination were adopted, but the epidemiological situation had not improved by early 2021.

Policy
coordination

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The government lacks the will to contain corruption. There is a lack of determination and efficiency in the fight against corruption from Montenegrin institutions. Montenegro has signed relevant international conventions and the legal framework has been positively assessed by international institutions, but illicit enrichment is still not criminalized. Although much has been achieved in terms of the institutional and legislative framework, implementation and results have been lacking for some time.

The establishment of the Anti-corruption Agency (ACA) and Special Prosecutor's Office (SPO) have changed little. ACA has never gained credibility or enjoyed public trust, primarily because it is susceptible to political pressure, selective approach, and is seen to retreat from those in power. It has become more active recently with a change of management, but its decisions are still frequently criticized for alleged political bias. ACA's decisions are not only challenged by the public but also by the Montenegrin courts. In August 2020, the Administrative Court annulled an ACA decision, which found no conflict of interest in Prime Minister Đukanović granting a concession for the construction of a small hydroelectric power plant to a company owned by his son in 2016.

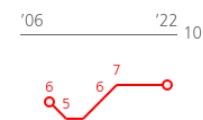
Control of the financing of political entities and election campaigns consists mainly of administrative and technical checks, without substantial control. In the last election cycle, ACA prepared an improved methodology for control of campaign funding and administrative transparency. However, the control process itself is not sufficiently transparent or comprehensive. Checks on the assets of public officials are mostly technical. ACA has found no cases of unexplained enrichment, although it is publicly known that the property of officials is often inconsistent with their reported income.

Similarly, SPO has been publicly accused of a selective approach and succumbing to political pressure. The prosecution's capacities are limited, especially regarding anti-money laundering and complex financial investigations. Results in the fight against high-level corruption are few. In January 2021 the government announced a new approach in the implementation of anti-corruption policies and created the National Council for the Fight against High-Level Corruption.

Public procurements are also sensitive and vulnerable to corruption, even if the legal framework is in line with EU legislation. The latest EU report was more favorable than previous ones but still highlighted the need for Montenegro to implement new laws on public-private partnership and public procurement, which were adopted in December 2019, as a priority. The European Commission noted that the State Audit Institution (SAI) has improved its institutional capacity and is implementing its 2018 - 2022 strategic development plan. All SAI reports are published, but few individual audit reports are submitted to the parliament. Furthermore, parliament does not ensure structured follow-up on SAI recommendations.

Anti-corruption policy

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A new law on free access to information is in preparation, but public consultation was put on hold due to the COVID-19 pandemic. Civil society was dissatisfied with proposed changes introducing new restrictions on the right of access to information, a concern echoed by the European Commission.

16 | Consensus-Building

All major political actors agree on establishing democracy as a strategic, long-term goal. European and Euro-Atlantic integration remain key strategic priorities, although NATO membership remains a polarizing issue even after accession. The new governing majority is highly heterogeneous when it comes to foreign policy, and national and identity issues, which generate concerns regarding the future direction of the country. To overcome differences, representatives of political coalitions signed an agreement to responsibly implement all international obligations, strengthen and improve cooperation with NATO, rapidly implement all the reforms necessary for European integration, depoliticize key government institutions to fight corruption and crime, and refrain from initiating any changes to national symbols.

While all major political actors agree on establishing a market economy as a strategic, long-term goal, there are divisions over whether to embed sociopolitical safeguards or implement a neoliberal approach.

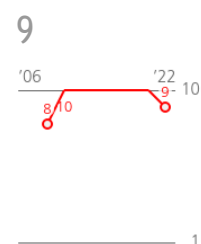
Reform forces in Montenegro cannot always control strong anti-democratic actors, but they significantly limit their influence.

The state institutions and political parties are the most influential actors, but the media and NGOs also play a very important role. The international community plays a major role, primarily through the Delegation of the European Union to Montenegro and the activity of some foreign embassies. Other influential actors include economic lobbies, often linked with public officials and distinguished entrepreneurs, but also with tycoons who are often associated with criminal groups by the media. Some visible lobbies (e.g., construction and finance) sometimes act from anti-reformist positions.

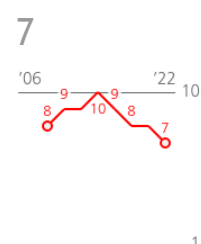
In 2020, the Serbian Orthodox Church (SOC) in Montenegro demonstrated its strong political influence and power to stop public policies that it did not like. The SOC emerged victorious out of the conflict with the then-government over the Freedom of Religion Act. Its engagement decisively influenced the outcome of the elections in which the DPS lost power.

Although some SOC representatives said the church reluctantly entered politics to protect its vital interests - announcing its withdrawal from political life with changes to the Law on Freedom of Religion - it continued to engage in politics after the election. People close to the SOC have subsequently been appointed to high governing positions.

Consensus on goals



Anti-democratic actors



Ethnic/national identity divisions remain deep in the political, cultural and social sphere, and come to fore during election campaigns. The political leadership has not been successful in preventing cleavage-based conflicts from escalating.

The division between Serbs and Montenegrins remains the most sensitive and present; it has not abated since the 2006 independence referendum. The political leadership has done little to reduce this division and build bridges that would help to forge social cohesion. On the contrary, political elites have fueled and deepened the rift to mobilize the electorate from year to year. In the last two years this cleavage has escalated, creating a conflict potential that is very difficult to manage.

While there is national consensus over EU membership, membership in NATO still illustrates how severely society is polarized, bringing many ethnic, religious and political differences to the surface.

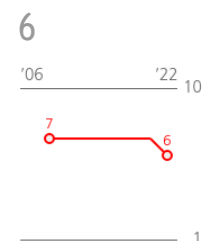
The political leadership accommodates civil society actors on some issues while tending to ignore them on others. Government rhetoric occasionally emphasizes readiness to work with CSOs, but wanes when the government is criticized by CSOs. Members of some political parties continue to label NGOs foreign agents, mercenaries, and “Sorosoids.”

Two key mechanisms for CSO participation include public hearings in preparation of laws and strategies, and participation in working groups and other bodies. Public hearings are not legally mandatory for defense and security matters, the annual budget, in extraordinary, urgent, or unforeseen circumstances, or for minor issues. This list of exemptions leaves space for governments to abuse their power of discretion. Many NGOs complain that many of their proposals and suggestions are rejected during public hearings, and they criticize how final decisions are explained.

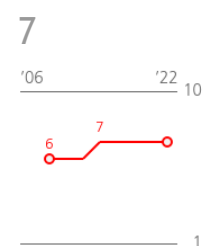
In 2020, the prime minister invited representatives of NGOs, media, political parties, and the academic community to a dialogue on key topics for European integration, as part of the Alliance for Europe initiative. Some of the resulting initiatives and suggestions were accepted, but most NGO participants remained dissatisfied with the lack of action following their proposals.

The Council for the Development of NGOs comprises an equal number of state officials and civil society representatives. A European Commission report from 2020 stated that although this body intensified its activities in 2019, it still lacks visibility and outreach to local CSOs in more remote areas.

Cleavage /
conflict
management



Civil society
participation



In 2020, the Montenegrin parliament founded a Documentation Center that will collect statements and sentencing decisions on war crimes. Command responsibility for 1990s war crimes has not been challenged, but no high-ranking official has faced accusations. Earlier proceedings were conducted primarily against low-ranking officers.

Polarization and blaming the other side for war crimes remains ever present in Montenegro. In a recent study by the Center for Civic Education, 41% of people living in Montenegro refused to say whether Montenegrin citizens have committed war crimes in the former Yugoslavia, 27% said that Montenegrin citizens had not committed war crimes, and 31% said that they had. A total of 37% claimed that war crimes against Montenegrin citizens had been committed.

Representatives of the Democratic Front, a major movement that supports the government in parliament and includes the new chair of the human rights committee, has repeatedly denied the Srebrenica genocide in the parliament.

17 | International Cooperation

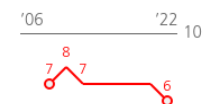
The government has utilized international assistance to achieve long-term goals. It has successfully used assistance to create a roadmap of political and economic development, but it lacks specifics to mitigate several issues, which sometimes negatively affect support.

The EU continues to provide the most significant support to Montenegro. Since the outbreak of the pandemic, the EU has provided €53 million in grants and an additional €60 million under extremely favorable credit facilities. This support is intended to improve health services and help the most affected sectors and individuals.

In May 2020, the government passed the Information on the Instrument for Pre-Accession Assistance of the European Union (IPA III) for the period 2021 - 2027 and announced the beginning of preparing programs IPA 2021 and IPA 2022. In contrast to previous practices, in IPA III, the amounts of financial support for countries will not be defined in advance, but there will be a single, common budget for all IPA beneficiary countries.

Reconciliation

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Effective use of support

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The European Commission has assessed that Montenegro has a good level of preparation in the negotiation chapter 31: Foreign, security and defense policy. The country continues to fully align with EU positions and to participate in EU crisis management missions and operations under the common security and defense policy.

Montenegro also maintains good cooperation with international organizations and actively engages in NATO activities. It actively participates in regional cooperation and maintains good relations with its neighbors, with the exception of tense relations with Serbia in recent years.

The change of power following the 2020 general election raised suspicions that the new government, in which pro-Russian and Serbian Orthodox Church-related parties dominate, will alter the country's Western course and relations with NATO. However, before forming the government, the ruling majority promised to respect NATO membership, and Prime Minister Zdravko Krivokapić repeated this during his visit to NATO HQ in December 2020. The government also reiterated it will continue to follow the EU's foreign and security policy, including sanctions toward Russia.

The leadership has promoted regional and international integration and Montenegro's good relations with neighboring countries have often been praised by the EU.

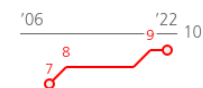
Relations with Serbia have deteriorated in the last two years, culminating in the adoption of the Law on Freedom of Religion in 2019. Serbia interfered in Montenegrin 2020 elections through the support given to the SOC, media influence and even statements from highly placed officials.

In November 2020, the Serbian Ambassador Vladimir Božović was declared persona non grata in Montenegro. The old government argued that Božović had interfered in Montenegro's internal matters after he paid respect to "Serbian liberators" of Budva and claimed that controversial decisions of the Podgorica Assembly in 1918 were an expression of the free will of the people. The new government announced the intention to improve relations with Serbia, but there is no indication that communication will improve anytime soon. Many are worried that the ideological positions of the government could lead to the deterioration of relations with other neighbors in addition to Serbia. Prime Minister Krivokapić already endangered relations with Bosnia and Herzegovina by congratulating Republika Srpska's prime minister on an unconstitutional holiday.

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

Credibility

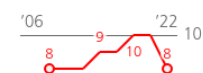
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Regional cooperation

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Strategic Outlook

The change of government after the 2020 elections marked the end of 30 years of DPS rule. However, it did not automatically put an end to the political turbulence of recent years. The biggest challenge for the new government will be dealing with political differences and facilitating dialogue in politics and institutions. There is a strong need for professionalization and depoliticization of institutions after decades-long capture by DPS.

The new government's stated priorities include implementing reforms necessary for European integration, such as an anti-corruption policy, improving election legislation, improving relations with neighboring countries, economic recovery and economic support after the pandemic, and ensuring a healthy environment. The key question is whether the political elites can reach a consensus on these important issues necessary for the fulfillment of political criteria and progress in the EU integration process. If that happens, Montenegro has the potential to escape the stalemate of recent years in terms of progress toward EU integration. If this is not the case, a period full of political tension and slow reform awaits.

The Montenegrin government appears to be set to continue existing foreign policy, but many issues and challenges will be difficult to solve through consensus for the heterogeneous ruling majority. This has the potential to weaken the government's stability. The most important test for the pro-Western orientation of the government will not be direct relations with the EU, NATO, and other Western partners, but its ability to maintain good bilateral relations with countries in the region and resist the negative influences of non-Western actors such as China and Russia.

It is also important that the new convocation of parliament agrees on key reforms – the adoption of new election legislation and the election of judicial officeholders. These require a two-thirds majority, requiring cooperation between the government and opposition.

The public has high expectations from the new government, including the potential for new dynamic democratic processes, now that the old guard have been removed from power. However, there are many doubts over what this new path should and will look like. There is open tension between the new government and President Đukanović (the leader of DPS). Political consensus-building is necessary for the country to avoid descending into a state of political and institutional crisis.

An important question is whether the new government can resist the growing tendencies of ethnonationalism and the clericalization of society. In Montenegro, the potential for ethnonationalism has been underrated for years; however, with recent major changes and political radicalization, it has surfaced. The challenge for the new government will be to direct its identity policy toward the promotion of cultural and social characteristics common to all citizens of Montenegro, instead of emphasizing ethnic and religious exclusivity.

In the coming years, Montenegro is expected to struggle to maintain its macroeconomic stability, manage pending debts, work on consolidating public finance and create favorable conditions for foreign investment. The crisis caused by the COVID-19 pandemic hit the Montenegrin economy hard, as the tourism industry, the main pillar of the economy, suffered heavy losses. It will be especially challenging to help the most vulnerable groups in society who have been the hardest hit by pandemic.