

Historical development and inherited economic structure - As a part of the former Yugoslavia, Montenegro was considered economically underdeveloped area. After the end of World War II, Montenegro was a backward agrarian area, with a traditional organisation of life. About 80 per cent of the population was engaged in agriculture, while the rest was mainly engaged in crafts, trade, and non-economic activities.

It should also be noted that a colonisation program was implemented in the period after WWII when a significant part of the population of Montenegro was forcibly relocated to Vojvodina, Serbia. This left Montenegro without some 10 per cent of its population, which was a great loss of potential.

The end of the war led to a change of the government and the system, and the former Kingdom of Yugoslavia became a socialist country. This also necessitated a change of the development concept and the resulting change of the production structure of Montenegro. Post-war socio-political circumstances required significant investments in the development of industry, which led to the spillover of the newly created value towards that economic branch. However, the neglect of agriculture proved to be a strategic mistake and we feel the negative consequences of that concept of development even today. This model of development initiated the migration of the population from rural to urban areas, which led to both absolute and relative reduction of the agricultural population and thus changed the traditional structure of the economy. Also, a major structural change occurred in this period and that was the disappearance of the private sector.

Owing to the status of a backward area after the war, Montenegro made extensive use of the offered incentives, which led to its accelerated economic growth, especially of industry, tourism, transport, and construction. However, even then it could not make up for the lag behind the Yugoslav average but the gap in some areas even broadened. Thus, for example, Montenegro

had stood at 97.3% of the Yugoslav average of the social product per worker in 1947 and it welcomed the beginning of transition with less than 80% of the Yugoslav average. The reasons for this lag should be sought in the nature of the Yugoslav system, which favoured more developed republics, but also in the inefficient use of investments in Montenegro.

Montenegrin model of transition – Montenegro began the transition process with a significant lag compared to other economies in transition due to a number of difficulties faced by the former Yugoslavia during the 1990s. It was a specific model with a high degree of liberalisation and no domestic currency. The high degree of liberalisation led to a significant inflow of foreign direct investment, but it also accelerated decline of many sectors as it left them without adequate protection. In this process, Montenegro tried to follow the concept of a small and highly open economy. This meant accelerated foreign trade liberalisation and the reduction of taxes to the lowest rates in the region. Although the liberalisation was significant for attracting foreign direct investments, it left some sectors with no protection whatsoever and affected their rapid deterioration.

At the same time, Montenegro sought to make the lowest taxes in the region very attractive for foreign investors. With the entering into the euroisation regime, it became additionally interesting for foreign investors and the business environment significantly improved. We can conclude that the Montenegrin transition process involving monetary policy and the banking system reform was rather successful.

On the other hand, the Montenegrin model of transition was too liberal and based on insufficiently effective instruments to counter negative shocks. Such a model worked well in stable conditions, but it faced numerous difficulties in an unfavourable environment. It seems that it amplified both positive and negative shocks, so in relation to countries with a similar level of development, the expansion was wider and the recession deeper. However, the model contained certain self-balancing forces, especially in the domain of external imbalances and price movements.

It should be noted that the process of transition of the Montenegrin economy is not yet complete and that Montenegro will face many challenges in the future.

The concept of sustainable development, ecology and climate change

- The concept of sustainable development today has a central place in considering the long-term prospects, development and survival of mankind. This is not a surprise considering that the world we live in has changed dramatically. In the past 100 years, the number of inhabitants has also drastically increased, which has been contributed to a significant extension of life expectancy. Consequently, humanity is consuming more resources than it should, especially when it comes to natural resources that do not have the ability to regenerate and renew at the rate at which they are consumed. The volume of production at the global level increased twenty-two times, which significantly affected the increase of environmental problems and global warming. Of particular concern is the extinction of numerous plant and animal species. Thus, the concept of sustainable development implies “balancing economic, social and environmental requirements to ensure that the needs of the present generation are met, without compromising the ability of future generations to meet their needs” (World Commission on Environment and Development, 1987).

Today, however, there is no consensus on the importance of sustainable development, given that a number of economists and politicians believe that this concept causes great damage to economic growth and development because it limits it and imposes excessive costs on the environment. However, the modern world is increasingly showing that the classic model of development aimed at the growth of production and expansion of consumption of natural resources is unsustainable. Negative externalities such as environmental pollution, excessive depletion of natural resources, and deteriorating health are beginning to outweigh the benefits of economic growth.

Montenegro is one of the first countries in the region to adopt the principle of environmental protection and improvement. This concept in Montenegro originates from the 1991 *Parliamentary Declaration on the Ecological*

*State and Sustainable Development*¹¹² and Montenegro is the first country to declare itself an ecological state. Nevertheless, it seems that the concept of sustainable development is used much more in programme documents and strategies than in the practical pursuit of economic policy. This is best evidenced by numerous ecological “black spots” as well as water and air pollution.

Although progress has been made in recent years in preserving the environment such as the adoption of new laws, ratification of international conventions, the establishment of the Environmental Protection Agency, and increasing the list of endangered species, a lot more needs to be done. The main mistake in the previous period was that the priority was given to economic development at the expense of environmental sustainability. It is high time that such a relationship changed before it was too late.

The development boom has put a lot of pressure on biodiversity. In recent years, biodiversity has been significantly jeopardized due to increased urbanisation in the narrow strip of the coast, illegal and excessive logging, uncontrolled hunting and fishing, uncontrolled collection of edible and medicinal plants, mushrooms and forest fruits, as well as illegal and excessive exploitation of gravel from riverbeds. Adding to this is inadequate protection against fires, which every year destroy the habitats of certain species (NSSD, 2007), growing air and water pollution, as well as inadequate waste management.

Priority tasks requiring special attention in the coming period would also include the immediate implementation of the following measures:

- Urgent rehabilitation of endangered locations;
- Sanctioning violations of environmental regulations;
- Additional taxation of the biggest polluters;

¹¹² Nature protection in Montenegro has its roots in 1878 when the area of Biogradska gora was declared the “Prince’s reserve” (protected area), the first kind of environmental protection in Europe.

- Raising the level of social awareness of the importance of preserving the environment;
- Expanding the network of protected areas and designating their managers;
- Increasing the landfill network, waste recycling level, and setting up a hazardous waste landfill;
- Suspending excessive urbanization of the narrow strip of the coast;
- Increasing the number of wastewater treatment plants;
- Preparation of environmental impact analysis for every project prior to its implementation;
- Changing the structure of subsidies in order to gradually eliminate harmful subsidies, and the like.

Combating climate change is one of the biggest challenges of the 21st century. Extreme weather conditions such as hurricanes, floods, droughts and heat waves can be expected to increase in the future. They cause changes in sea levels, epidemics, large fires, significant economic damage, and loss of life.

Although Montenegro's contribution to global warming is negligible, it is one of the countries seriously affected by climate change. It is expected that climate change will affect the growth of the average annual temperature in Montenegro, bring about more frequent periods of drought during the year, intense precipitation with flooding potential, soil erosion, diseases atypical for the Mediterranean region, more frequent storm winds, reducing the amount waters (water potential) in Montenegrin rivers, penetration of salty sea water into rivers, more pronounced tides, increasing wave heights, decreasing beach areas, more frequent fires, reduced average snowfall over a longer period of time, and maybe years with heavy snowfalls as well. The following table shows potential impact of climate change on various sectors in Montenegro.

Table 124: Climate change impact on various sectors in Montenegro

Sector	Economic impact
Agriculture	- Reduced yields - Loss of agricultural land
Fishery	- Smaller fish catch
Health care	- Increased treatment costs
Energy and industry	- Carbon tax - Closure of plants with large CO ₂ emission - Change in the energy production structure (more green energy) - Periods of drought impacting the operation of hydropower plants
Tourism	- Changes in tourist flows
Public sector	- Increased costs of investment in damaged infrastructure - Growing subsidies to the economy - Increased social welfare benefits
Construction	- New standards aimed at increasing resilience to negative effects of climate change - Difficult working conditions at elevated temperatures
Financial sector	- Growth of bad loans and write-off of receivables - Increase in paid insurance premiums - Loss of value of some financial instruments
Water management	- Diminished water potential - Mixing of sea and river waters (brackish water)
All sectors	- Capital losses due to floods and bad weather

As the *Climate Change Management Strategy* does not envisage adaptation measures, it is urgent to adopt a national climate change management plan. A research needs to be carried out to assess the impact of climate change on biodiversity in Montenegro. Given the economic consequences of climate change from the past, as well as forecasts of their acceleration in the future, it is necessary to form a certain monetary fund (fiscal reserves) for protection against natural disasters, which will be more frequent in the future. Considering that Montenegro was repeatedly affected by floods in the past, as a result of climate change, it is necessary to conduct the mapping of areas under flood risk and build flood embankments and other protection facilities. Finally, Montenegro needs to meet all its obligations under international agreements.

Demographic and regional development – In the recent past, Montenegro experienced accelerated economic growth with numerous structural changes which have affected both demographic and regional conditions.

The population growth trend, which was rather fast in the post-war period, has significantly slowed down since the 1990s, and today we are in a situation where there is a threat of population decrease. Continuation of such a trend in the long run would inevitably lead to a decrease in active population and this would, in one way or another, jeopardize the economic development of Montenegro. And not just economic development. There would also be a high risk of significant imports of foreign labour, which could ultimately jeopardize national and cultural identity. And there is also the issue of the aging of Montenegrin society. After the Second World War, for example, the population under the age of 19 represented nearly half of the total population, while today they account for just above a quarter. This aging trend is particularly pronounced among the agricultural population, with extremely negative repercussions on the development of this segment of the economy.

In the post-war period, the number of working age population grew continuously, much faster than the growth of the total population. Thus, the share of the working age population increased from 61.8% in 1948 to over 80% in 2019. At the same time, however, the share of active population decreased from almost 60% in 1948 to 35% in 2011. After recovering from the global financial crisis, this indicator started to grow, so in 2019 it corresponded to the level from the early 1980s (48.7%). However, the global pandemic has led to a drastic deterioration in all labour market indicators.

The process of transition, accelerated economic development after the regained independence, as well as two major crises, have affected the deepening of the level of socioeconomic differences and development opportunities in different parts and between different social groups throughout Montenegro.

Economic development was mainly concentrated in the cities, as well as in the coastal and central regions, while the northern region was characterized by slower economic growth. It turned out that the northern region displayed significantly less favourable economic indicators, which primarily refer to lower per capita incomes (over twice below the national average), higher unemployment (twice the national average), underdeveloped and inadequate infrastructure, reduced volume of economic activity, low population density,

unfavourable demographic and educational structure of the population, and the like. However, it is paradoxical that the key development potentials are concentrated in this region as it holds most of the total hydro potential of Montenegro, total coal reserves, over two thirds of arable land, about 70% of timber and livestock, as well as resources for the development of winter and eco-tourism (Ministry of Economy, 2014). The main reasons for the underdevelopment of the northern region should be sought in the absence of adequate valorisation of these resources in the past three decades.

Also, there were significant migrations from underdeveloped to developed regions in the previous period and the structural economic changes led to an increase in urbanisation and a decrease in the share of labour in agriculture, which further impoverished the northern region. Also, it was proved that there is a direct link between the development of the region and the quality of the workforce, which in turn affects the widening of discrepancies.

Although significant financial resources have been invested in order to reduce regional disparities, these have not been diminishing as per the expected dynamics. The three key directions of economic policy should relate to the creation of a general stimulating macroeconomic environment, direct assistance to the underdeveloped region, and stimulation of investments towards this region.

Monetary policy – In early 1990s, Yugoslav monetary policy was conducted on the wrong basis, primarily because it was much more based on political rather than economic goals at the time. As a result of such a policy, during 1993 and 1994, the country went through one of the highest and longest hyperinflations in economic history. Therefore, it was a logical decision of the economic policy creators in Montenegro to take responsibility for monetary policy.

Starting from the long-term commitment of both the population and the economy to conduct transactions and savings in the German mark, the Montenegrin government decided on the dollarization model with the German mark as the domestic national currency. On 2 November 1999, Montenegro introduced a dual currency system with the German mark and the Dinar,

with the free floating exchange rate. From January 2001, the only means of payment became the German mark, as replaced by the Euro as of June 2002. The Central Bank of Montenegro was established in March 2001.

Euroisation limited available monetary policy instruments. In this arrangement, it is no longer possible to issue money, there is no reference interest rate, and it is not possible to pursue an exchange rate policy. The available monetary policy instruments are: reserve requirement policy, open market operations, and credit operations.

Montenegro's experience with the use of foreign currency has shown the following:

- Euroisation has led to the convergence of inflation with the country whose currency is used, but only in the medium term;
- Euroisation creates stability and preconditions for economic growth but it cannot be treated as a substitute for economic reforms;
- Euroisation is not a sufficient condition for the convergence of interest rates but it influences their reduction;
- Euroisation is a significant factor in attracting foreign direct investments;
- Euroisation affects the reduction of the budget deficit in the medium term, but fiscal discipline is crucial, and
- Euroisation encourages the financial system development.

We can conclude that euroisation in Montenegro has had an impact on increasing the stability and predictability of business. However, euroisation alone cannot drive economic growth and should in no way be a substitute for economic reforms. So the statement of Karl Schiller, the former German Minister of Economy, from four decades ago is quite valid: "Stability is not everything, but without stability, everything is nothing." (Cordeiro, 2002). A quality currency is a necessary but not sufficient a condition for rapid economic development. The words of C. Mann (Mann, 1999) best reflect the nature of dollarization (euroisation): "Policy-initiated dollarization is like wiring your mouth shut to lose weight. It is effective in the short run, but

unless you undertake life-style changes (eating habits, exercise) you are not a healthier individual, just a thinner one.”

Today, two decades after the introduction of this regime, we can say that it was one of the best decisions of the creators of Montenegrin economic policy at the time.

Fiscal policy – During the 1990s, as a result of a completely misguided fiscal policy but many other circumstances as well, one of the highest and longest hyperinflations in the world hit the country. It was a classic example of monetizing the budget deficit. Since the introduction of dollarization, the situation has gradually improved. A number of implemented reforms have significantly improved both fiscal policy and the investment environment. Thus, from the deficit which in some years amounted to over 20% of GDP, Montenegro entered the zone of budget surplus in the three-year period before the outbreak of the global financial crisis.

Although impressive fiscal results were achieved during this period, most of the problems that emerged during the global financial crisis had originated from this period. Namely, on the one hand, tax rates significantly reduced, but on the other hand, salaries in the public sector and other expenditures significantly increased. The aforesaid reform would have been sustainable only if Montenegro had continued its economic expansion for many years ahead. This was also a big misjudgement of fiscal policy makers who failed to anticipate that there could be a significant deterioration in economic performance in the near future, that is, that expansion is not meant to last indefinitely.

Since it is a small and highly open economy, the global financial crisis hit Montenegro hard. As a consequence, there was a recession, growing illiquidity of companies, a significant deepening of social problems, difficulties in the functioning of the banking system, and a significant decline in lending activity. There was a significant decline in public revenues but also an increased need for fiscal support due to deepened social problems. On the one hand, the government introduced rationalisation measures in order to reduce fiscal expenditures, and at the same time it was trying to revive the stumbled

economy with incentive measures, primarily by encouraging employment and investment. In the first years, there was a fiscal space for something like that. The situation was aggravated, inter alia, due the calling of a large number of guarantees issued by the state in order to encourage economic activity, for which we can state that a sufficiently rigorous risk assessment had not been conducted. As a result of such a policy, the budget deficit has been present since 2009 and the public debt has been on a continuous uptrend.

All this necessitated the new Government of Montenegro to undertake a very serious fiscal consolidation program in 2013, which was positively assessed by the international financial institutions. The measures yielded positive results and had the effect on reducing the level of the budget deficit. In 2015, the construction of a part of the highway began, resulting in a renewed growth of public debt. New fiscal consolidation measures followed, which yielded positive results. However, the outbreak of the global coronavirus pandemic has nullified the years of progress to a great extent.

In the period from 2007 until the end of 2019, the public debt increased more than five times in nominal terms. Under the influence of the global pandemic, as well as a number of other circumstances, it rose further in 2020, and this growth is expected to continue in 2021 as well. Therefore, the level of public debt and its management represent the biggest challenges facing Montenegro. However, this is not the only fiscal policy challenge. Significant challenges are also a high level of public guarantees, the unfavourable structure of budget spending, the excessive number of public sector employees and a high share of expenditures for their salaries in the budget structure, a gap in social security funding, a high tax debt, unfavourable economic prospects due to the global pandemic, and the like.

The key lesson we can learn from this crisis, as well as from the previous global financial crisis, is that there is a high level of uncertainty and that a significant number of negative shocks are completely independent of established economic policy measures and difficult to predict. Therefore, a significant amount of fiscal reserve should always be in place to cope with such shocks.

Agriculture – Montenegro has a good natural potential for agricultural development that has been underutilized. At the end of World War II, 85% of the population lived from agriculture. The socialist strategy of collectivisation and industrialisation put agriculture in a difficult position from which it has not recovered to this day. The neglect of agriculture had a negative impact on GDP, employment, the current account deficit, and it also triggered migration from rural to urban parts of the country.

Deagrarization of the country was carried out in the wrong way and, as a result, the share of agricultural production in GDP was reduced from 40% to 6.4%. This trend is even more pronounced if we look at the movement of agricultural labour force which decreased from 71.6% (results of the first census in 1948) to 2.5% (results of the last census in 2011).

The key problems of Montenegro's agriculture are land fragmentation, outflow of labour to cities and the prevailing labour market participation of older workers (most farmers are over 65 years of age), a low level of use of mechanization and application of agrotechnical measures, a small percentage of irrigated land, insufficient subsidies, insufficiently educated and skilled agricultural producers, all having low yields as the result.

Consequences of the neglect of agricultural production include big migrations of the population, further impoverishment of the north of the country, increased sensitivity to cyclical trends (agriculture has been shown to be the least sensitive to crises), worsening of the foreign trade imbalances, slower growth than that actually possible, and the like.

On the other hand, numerous analyses indicate that an increase in demand for agricultural products can be expected in the coming decades, as well as an increase in their prices.

The book presented a financial analysis of agricultural performance for the period 2005- 2019 based on the database of annual accounts of the Central Bank of Montenegro. The analysis showed that agriculture was profitable in the observed period and that the profit rate was higher in relation to the profit rate of the Montenegrin economy. However, the amount of realized

profit cannot be assessed as satisfactory, which is not surprising having in mind all the mentioned problems. The growth of assets outpaced the growth of assets of the Montenegrin economy. This indicates a gradual recovery of this sector. The analysis showed that the key problem of agriculture is the insufficient level of liquidity (it is especially worrying that there has been deterioration of liquidity since 2015), but also that agriculture is not over-indebted and has no solvency issues.

The main direction in the development of agricultural production should be an increase of yield, but increasing used agricultural land should not be neglected either. Key recommendations relate to amplifying credit support to agriculture, increasing the amount of subsidies, enlarging agricultural farms, tax reliefs and/or tax exempts, raising the level of technical equipment, greater application of agrotechnical measures, specialisation in production (organic food, varieties more resistant to climate change, high quality products based on old traditional methods of production, etc.), the adoption of international quality standards as they are the sine qua non for exports to developed markets, the application of horizontal and vertical clusters, as well as the improvement of general living conditions in rural areas.

Industry – Montenegro has significant natural potential for the development of industry: mineral, forest and water resources, excellent conditions for the development of food production that is the backbone of the food industry, a high average of sunny days, and the like. The key limiting factors of development are outdated equipment, low productivity, labour-intensive production, limited credit potential of a large number of industrial enterprises (due to poor business indicators), energy inefficient production, as well as a small domestic market that limits foreign investors when it comes to investing in industrial production. Research and innovation are almost non-existent, as is the connection with institutes, universities, and other scientific and educational institutions.

After the Second World War, Montenegro began with an accelerated process of industrialisation. However, the process of transition, economic sanctions, hyperinflation, and numerous other difficulties in the 1990s set back the

industry so Montenegro went through a kind of deindustrialisation process. In this way, we were faced with two wrong trends - on the one hand, too rapid industrialisation after the war, which set back certain sectors such as agriculture, and a rapid decline of industry during the last decade of the previous century, which led to complete extinction of certain industries (textile, paper, cellulose, cement, construction machinery, and others). Such a situation has set back the entire Montenegrin economy and led to high unemployment. It seems that industry was neglected in the nineties and that Montenegro lightly and recklessly turned only to the service sector.

The book also gives a financial analysis of industry. It revealed the existence of low profitability of industry although since 2013 it has moved from a loss zone to a profit zone. Energy has a significantly higher degree of profitability compared to the other two sectors. Over the past fifteen years, assets of the Montenegrin industry have increased by 60%, but the growth in question is slower than the average for the Montenegrin economy. The industry has an unsatisfactory level of liquidity, which can jeopardize not only investment activities, but also current operations (with the exception of energy). This branch is not able to settle short-term liabilities from liquid assets and short-term receivables, and the only exception is the energy sector. The analysis also showed that manufacturing industry and mining are highly indebted, and that energy has a low level of indebtedness. The level of solvency of Montenegro's industry is unsatisfactory, and the situation is particularly worrying in mining which is largely undercapitalized.

Special attention in any future privatisation needs to be paid to the quality of potential foreign investors, as well as to the guarantees they are ready to provide. Past experience has clearly shown that there have been a lot of disreputable industry investors and that the highest price offered is not always a guarantee that the best strategic decision has been made.

A strategy of reindustrialization should be implemented with a view to increasing diversification of Montenegro's economy. A number of industrial companies represent a serious environmental challenge for Montenegro and urgent action is needed to reduce emission of harmful substances produced by industry. Also, all available EU pre-accession funds should be used to the

fullest. It is also necessary to raise the level of knowledge of workers and managers. The key directions in solving problems in industry are related to improving the level of liquidity and reducing high indebtedness, modernisation of equipment and production processes, and the introduction of international quality standards. It is also necessary to increase energy efficiency in industry.

As for the energy sector, the situation is significantly better compared to the other two industrial sectors. The most important strategic directions for further energy development should involve the construction of new capacities, revitalisation of the transmission network, and increase of energy efficiency. When it comes to manufacturing industry, in addition to the revitalisation of the metal industry, the emphasis should be put on the food industry, as well as the production of alcoholic and non-alcoholic beverages. In the case of mining, debt restructuring and active search for strategic partners are suggested given that efforts should be made to valorise the significant mineral wealth of Montenegro, especially when it comes to bauxite and coal.

Tourism – This is one of the fastest growing segments of Montenegro's economy and the most important drivers of the country's economic growth. It directly affects job creation¹¹³, reduction of poverty and regional differences, inflow of foreign direct investments, international promotion of the country, infrastructure development, and the like.

Tourism development in Montenegro has a history of more than a century as the first hotel was opened in 1902. The accelerated development of tourism began in 1960s, during the period of SFRY. The 1990s brought about stagnation and degradation of tourism development, and a new investment cycle has begun at the beginning of this century. However, this last investment cycle has also been accompanied by a series of wrong strategic decisions that have led to the degradation of space, excessive construction, and the destruction of natural resources and attractive tourist locations. Therefore, the goal of tourism development must be a sustainable tourism develop-

¹¹³ According to the World Tourism and Travel Council (WTTC), every tourism job generates 0.65 indirect jobs.

ment that will bring both direct and long-term benefits to the population of Montenegro, whilst protecting and preserving natural and cultural wealth.

However, tourism is among the sectors that are particularly vulnerable to economic shocks, as demonstrated during the global financial crisis and the coronavirus pandemic. These two crises are a great warning in order to understand how much risk the Montenegrin economy faces due to the low degree of diversification.

Also, tourism suffers from numerous other problems: the season is relatively short with pronounced peaks where about 70% of overnight stays are recorded in July and August, and another 20% in June and September. Coastal municipalities account for over 85% of overnight stays. Other issues involve underdeveloped traffic infrastructure, problems of cleanliness and waste disposal, noise problems, beach congestion, water supply problems in some municipalities, inadequate accommodation structure, and much more. In addition, there are still high prices of ancillary services such as the offered beach furniture, parking, restaurant services and the like, which significantly jeopardize price competitiveness of tourism. However, although these problems have long been recognized, not enough has been done to eliminate them and their adequate solution has been awaited for decades.

The financial analysis of tourism pointed to very worrying results with a low level of profitability (business loss in all years except in 2019), with the cumulative loss in the period 2005-2019 of 420 million euros, low level of liquidity, negative net working capital, unsatisfactory level of solvency, and a high level of indebtedness. The only positive financial indicator is the growth of assets.

Although it is expected that tourism will pick up momentum after the end of the coronavirus pandemic, significant improvements in this sector are required. The most important involve the extension of the tourist season, increasing the share of beds in high-category hotels, and the development of other types of tourism other than seaside tourism, such as mountain, cultural, sports, health, congress, rural, religious, and the like. What needs to be done is to change the image from the seaside tourism to a unique desti-

nation and/or reposition the image of Montenegro, as well as improve traffic infrastructure, change the structure of beds, build all-year capacities, adhere to the principles of environmental sustainability, diversify tourism offer and market, secure high-quality workforce, enhance promotion, and the like.

Comparative analysis of the achieved level of development of Montenegro and countries in the region – To assess the successfulness of the Montenegrin model of growth and development, it is necessary to compare the selected parameters against those in countries in the region and the EU average. A comparative analysis of the level of development of Montenegro and countries in the region has shown that its transition process is still not complete. According to most of the analysed indicators, Montenegro has made greater progress compared to non-EU countries in the region, but it lags behind those that are EU member states. Moreover, the EBRD's transition indicators show that Montenegro is at some 60 per cent of full transition.

One of the indicators of the level of development is GDP per capita. Countries in the region lag significantly behind the level of GDP per capita in the EU. All countries in the region that are members of the EU have a higher level of GDP per capita than non-EU countries in the region. Comparing with the latter group, Montenegro has the highest level of GDP per capita. When it comes to the GDP convergence, measured by purchasing power parity relative to the EU average, all EU member states in the region are at more than half of the EU average. All non-EU countries in the region are at less than half, and Montenegro is closest to the half of the EU average.

According to the inflow of foreign direct investments per capita, Montenegro is the most successful of all countries in the region, but it lags behind the EU average. When it comes to inflation, all countries in the region, including Montenegro, have a high degree of price stability, which converges towards the inflation rate in the EU. The level of Montenegro's public debt at the end of 2019¹¹⁴ was higher than in countries in the region (non-EU), but lower than the EU average. The unemployment rate remains a problem for Monte-

¹¹⁴ Data for 2020 were not available at the moment of writing this book but they will be significantly less favourable for Montenegro.

negro as it is higher than both in the EU and the average of countries in the region, but it is slightly lower than the average of the non-EU countries in the region. The current account deficit in Montenegro is significantly higher than the EU average and the region average and it will be one of the major challenges in the coming years.

Countries in the region have relatively good ratings when it comes to their business environment and all countries are in the top half of the ranking list. Montenegro is in the group of the top 30% of ranked countries. The assessment of the country's business environment indicates that it is by far the best in approving loans but the worst in obtaining electricity connections and starting a business.