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**MONTENEGRO 2008 PROGRESS REPORT**

*accompanying the*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2008-2009**

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## STATISTICAL ANNEX

# COMMISSION STAFF WORKING DOCUMENT

## MONTENEGRO 2008 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region.

Following Montenegro's independence in June 2006, the Commission issued progress reports dedicated entirely to Montenegro in 2006 and 2007.

This report:

- briefly describes relations between Montenegro and the Union;
- analyses the political situation in Montenegro in terms of democracy, the rule of law, human rights, protection of minorities and regional issues;
- analyses the economic situation in Montenegro;
- reviews Montenegro's capacity to implement European standards, i.e. to gradually approximate its legislation and policies with the *acquis*, in line with a Stabilisation and Association Agreement and the European Partnership priorities.

This report covers the period from late October 2007 to early October 2008. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are being prepared or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. Many additional sources have been used, including contributions from the government of Montenegro and from the Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Montenegro in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

#### 1.2. Context

The EU Member States recognised the independence of Montenegro in June 2006. Montenegro is a potential candidate for EU membership. The Stabilisation and Association

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<sup>1</sup> The rapporteur for Montenegro is Mr Vernola.

<sup>2</sup> Enlargement Strategy and Main Challenges 2008-2009.

Agreement between Montenegro and the EU was signed in October 2007. An Interim Agreement was signed on the same date and entered into force in January 2008. The Commission Delegation in Montenegro has been operational since November 2007.

### 1.3. Relations between the EU and Montenegro

The **Stabilisation and Association Agreement (SAA)** between the European Communities and their Member States and Montenegro and the Interim Agreement on trade and trade-related matters were signed in October 2007. The Interim Agreement entered into force in January 2008. The SAA ratification process has been launched. By 1 October 2008 8 EU Member States and Montenegro had notified their ratification of the Agreement. Also the European Parliament gave its assent in December 2007. Montenegro has now started to implement the Interim Agreement. Continued attention and dedication, combined with allocation of the necessary administrative resources, will be necessary in order to ensure that Montenegro abides by all its commitments. Also Montenegro has started implementing its commitments under the SAA and stepped up preparations for full implementation of the Agreement once it is ratified.

The EU is providing guidance to the Montenegrin authorities on reform priorities via the **European Partnership**. Montenegro is in the process of implementing it. Dialogue on European integration issues continued in the enhanced permanent dialogue and in the bodies for the Interim Agreement. Where possible, these meetings have been merged. In January 2008, a **political dialogue** meeting was held between the EU (troika) and Montenegro.

Following the entry into force of the agreements on **visa facilitation** and **readmission** in January 2008, the first meetings of the Joint Committees provided for in these two agreements were held in May 2008. The visa facilitation agreement simplifies procedures for issuing visas to certain categories of citizens of Montenegro, including students, scholars, businesspeople, journalists and tourists. Under the terms of this agreement, citizens of Montenegro pay a reduced visa fee or receive visas free of charge. The agreement on readmission set out clear obligations and procedures for the authorities of both Montenegro and EU Member States on when and how to take back people who are illegally residing on their territories. Implementation of the readmission agreement is proceeding smoothly.

Since 2007 Montenegro has been receiving pre-accession **financial assistance** under the Instrument for Pre-Accession Assistance (IPA), which is being implemented by the new Commission Delegation in Podgorica. The Commission Delegation took over responsibility for CARDS assistance from the European Agency for Reconstruction in September 2008. Decentralised management of EC aid is a medium-term objective for Montenegro.

The 2008-2010 Multi-Annual Indicative Planning Document (MIPD) for Montenegro was adopted in August 2008. In 2008 a total of €32.6 million was allocated to Montenegro. The main focus areas are public administration reform, including local government, the environment, integrated border management, rural development, food safety, labour market reform and support for business development. Under the IPA national programme for 2007 €1 million was earmarked for financial support for **civil society**.

Following the provisional application of Protocol 8 of the SAA in November 2007, Montenegro can accede to Community programmes which are open to Western Balkan countries. The Montenegrin government has signed Memoranda of Understanding for Montenegro's participation in the 7th Framework Programme for research, technological

development and demonstration activities and in the specific programme on entrepreneurship and innovation, which is part of the Competitiveness and Innovation Framework Programme (2007-2013).

## **2. POLITICAL CRITERIA**

This section examines the progress made by Montenegro towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia.

### **2.1. Democracy and the rule of law**

#### *Constitution*

Establishment of the legal and institutional set-up required for an independent country, which is a key European Partnership priority, is almost complete. Ratification of the international instruments to which the State Union of Serbia and Montenegro acceded is complete.

The Law on the implementation of the constitution adopted in October 2007 set a timetable for adoption of new laws and amendment of existing laws in line with the new constitution. In February 2008 parliament amended the implementation law, putting back its deadlines. The amended deadlines have been respected on the whole, as laws have already been adopted on Montenegrin citizenship, travel documents of Montenegrin citizens, residence and place of abode of citizens, identification cards, the Social Council, the Judicial Council, election of the President of Montenegro, electoral rolls, courts, State administration and expropriation. The Laws on election of MPs, on State property and on minorities' rights and freedoms still need to be harmonised with the constitution.

In a number of areas, there is still a need to supplement the constitution with implementing provisions in line with European standards. This applies in particular to the judiciary and the prosecution service, where there are still risks of political interference by parliament. Provisions relevant to retroactive application of the European Convention on Human Rights require further elaboration. The constitutional provision on “proportionate representation” of national minorities in public services needs to be clarified.

#### *Parliament*

Work on strengthening political consensus, particularly on European integration issues, has continued. Since January 2008 the government has been reporting monthly to the committee on international relations and European integration on progress in EU integration. This has raised the level of involvement of this committee in the integration process. In December 2007 parliament unanimously adopted a Resolution on fulfillment of Montenegro's SAA obligations. Another Resolution on accelerating Montenegro's integration into EU and Euro-Atlantic organisations was adopted by parliament in early October 2008. In April 2008 parliament established a Council for EU integration. This body includes representatives of parliament, government and civil society and is to monitor the European integration process in Montenegro, including implementation of the SAA.

Parliament's 2008 work plan set a timetable for plenary sessions and sessions of the parliamentary committees. But this work plan has not been fully met. 114 laws have been adopted since October 2007. This intense activity stems from the need to complete the legal framework of the country following its independence and adoption of the new constitution and should be commended. However, parliament has not made good use of its working bodies and observance of the rules of procedure remains problematic. Furthermore, inspection and control mechanisms provided in the rules of procedure are not being used appropriately. Parliamentary work is not yet efficient and transparent enough, in particular as regards timely planning of items for debate and provision of documents to parliamentary committees. However, some efforts have been made to increase transparency by making committee documents and complete transcripts of plenary sessions available on the internet. Individual and collective visits have been organised to familiarise the public with the work of parliament.

Parliament has significantly improved its oversight of defence and security bodies, which is a key priority of the European Partnership. However, there is still room for significant improvement of oversight over key aspects of the action of these bodies. The supervisory role of parliament generally remains weak.

The committee for international relations and European integration remains unfocused and its efficiency is limited. The long controversy over the election of its chair prevented, for a number of months, the setting-up of the Council for EU integration. Contacts with the European Parliament and Council of Europe Parliamentary Assembly bodies remain limited.

Strengthening of human resources has been relatively limited. Administrative and other resources required for parliament's work, including expert support, remain insufficient. Plans are being prepared to increase staff numbers substantially. There is no framework for systematic training of staff but some training efforts have been made with the support of international and bilateral donors. Staff remuneration levels have been significantly increased. Parliament still lacks the capacity to scrutinise adequately the compatibility of new legislation with EU legislation. Financial management, including by parliament's Secretariat-General, is still not sufficiently transparent. The State Audit Institution has not yet conducted an audit of the financial operations of parliament.

Further progress is necessary with regard to mature and consensual use of parliament. Debates on issues such as the appointment of members of the council for public broadcasting, television coverage of parliament sessions and the text of the presidential oath have resulted in boycotts by opposition parties. The governing coalition has responded with expedient procedural and legal solutions which have sometimes polarised political positions.

A disagreement between government and opposition on TV coverage of parliamentary debates resulted in a boycott of parliament by the opposition in spring 2008 which hampered efficient parliament work until a temporary solution was found in early October 2008.

There has been controversy over adoption and implementation of the Law on electoral rolls. Implementation of the Law by municipalities has been successfully challenged in the administrative court by voters in some cases. Legislation on campaign financing has still to be adopted. Although some temporary arrangements were put in place for the presidential elections, including on media coverage, there is a need to address these issues with a view to forthcoming elections. Concerning the overall election framework, further challenges include the need to ensure full separation between State and party structures in the electoral administration as well as transparency in allocation of MPs' seats.

Overall, there have been some improvements in the functioning of parliament. There is an overall commitment to working on the basis of consensus, in particular on EU integration, but obstacles are still preventing turning this commitment into practical implementing arrangements. Enhanced resources and more effective use of parliamentary committees remain necessary.

### *Government*

A new government headed by Mr Djukanovic was elected by parliament in February 2008 following the resignation of the previous Prime Minister for health reasons. There were no major personnel or structural changes in the new cabinet.

A presidential election took place on 6 April 2008. Mr Vujanovic was elected by absolute majority in the first round. The electoral campaign was conducted in a calm atmosphere and in a constructive spirit. Almost all aspects of the election were found to be in line with OSCE commitments and Council of Europe standards for democratic elections.

The management of government bodies, including ministries, remains over-centralised in many cases, with insufficient delegation of decisions. Strengthening the middle management staff and authority would make decision-making more effective. Also there are shortcomings in monitoring implementation of policies and laws and receiving feedback.

The government's work programme for 2008 focuses on Euro-Atlantic integration and on creating a favourable environment for rapid economic development. The government plans to invest significant resources in infrastructure and to encourage private investment in tourism and production with the objective of improving living standards.

The government has kept up a strong pace in adoption of new legislation. The involvement of stakeholders, including civil society and international organisations, in developing new legislation has been improved by holding consultative meetings on a number of draft laws.

Under the responsibility of the Deputy Prime Minister for European Integration, the improved structures for inter-ministerial coordination on EU issues, including the Commission on European integration and the EU units in each ministry coordinated by the Secretariat for EU Integration (SEI), have begun to bear fruit. Awareness of EU integration requirements within the line ministries has been raised. The contributions by the Montenegrin authorities in regular meetings with the European Commission under the Stabilisation and Association Process have become more focused.

The government adopted a comprehensive national programme for EU integration (NPI), covering the period 2008-2012, in June 2008. The programme is ambitious in that it aims to cover not only implementation of the SAA but also full alignment with the *acquis*. It includes projections on the numbers of staff required in State institutions and budgets for the planned reforms. The process of drafting the NPI involved considerable consultation with stakeholders, including civil society.

The coordinating role of the Secretariat for EU Integration (SEI) was reinforced by internal reorganisation. The capacity of the SEI and EU units within the individual ministries needs to be further developed as Montenegro faces more complex reform challenges under the SAA. In particular, the role of the SEI and the line ministries in checking the compatibility of new

legislation with the *acquis* has not yet been clearly defined. Capacity in ministries and relevant agencies to address European integration issues effectively needs to be enhanced.

There is also an overall understanding of the need to consult broadly on new pieces of legislation and strategic documents. This has happened in the case of key texts adopted over the past, such as the NPI, the energy strategy and the spatial plan. However, in the case of the last two documents, comments by experts and civil society were not fully taken into account. Also, important new texts such as the Law on electronic communication were adopted without the necessary consultation of stakeholders.

Regarding local government, the amended Law on financing local government increased the financial independence of municipalities. An action plan for local government reform adopted in December 2007 provides for harmonisation of over thirty legislative acts between local and central government. A joint central/local government commission made up of five ministers and four mayors was established in November 2007 to coordinate decentralisation activities and monitor implementation of the action plan.

Overall, the government has continued to adapt to the requirements created by the country's independence. It has further streamlined its European integration activities. General management and capacity in ministries and relevant agencies to address European integration issues require further strengthening.

#### *Public administration*

Some progress has been made on upgrading the country's administrative capacity and proceeding with the reform of public administration, a key European Partnership priority. Consolidation of the central administration continued. It now includes 13 ministries, 14 directorates, three secretariats, nine institutes and one agency. The Ministry of the Interior and Public Administration has taken over responsibility for integrated border management and local government. The organisation of the Ministry of Foreign Affairs has been further consolidated by creating a department for the protection of classified information, which is in charge of exchanges of relevant information with NATO and the EU.

The Law on public administration was harmonised with the constitution. A Law on civil servants and public employees, covering the status, responsibilities and powers of State officials, was adopted in July 2008. Civil servant salaries have been standardised and increased by a law adopted in May 2008. The code of conduct, promotion and assessment of civil servants require further improvement. Civil servants often perform external activities which may give rise to conflicts of interest. The draft law on conflicts of interest which is expected to provide clarification concerning incompatible activities and to address certain loopholes has not yet been adopted.

The human resources management (HRM) authority continued contributing to the overall management of human resources in the public administration. The HRM authority ran various training programmes for civil servants, set up the first phase of a central HRM information system and started establishing a central human resources register, with the aim of covering all public employees and civil servants in Montenegro. Out of 148 training courses planned in 2007, some 85 were carried out. Attendance at the training courses is often limited. In July the government adopted strategies for training civil servants and local government employees. Employment procedures in the public administration are generally transparent and various activities have been organised to raise awareness of job opportunities in the public sector.

Implementation of the civil service legislation needs to be pursued more consistently, especially concerning recruitment. The administrative capacity of the central management body, the HRM authority, needs to be strengthened, and a merit-based appraisal system needs to be established.

The ombudsman received 647 complaints in 2007, and around 300 more in the first eight months of 2008. About 60% of the complaints received have been resolved. Most of them still concern the work of the courts, followed by the public administration and the police. The ombudsman's recommendations are generally followed up. The ombudsman's office was strengthened by creating two additional deputy posts, one on minority rights, the other on children's rights. However, the Law on the ombudsman has not yet been fully aligned with the new constitution and the reporting from the ombudsman office remains unfocused, limiting its effectiveness.

Montenegro has expanded its network of diplomatic representations abroad. It has opened six permanent missions to international organisations, seventeen embassies and two consulates-general.

Further reform is required in the fields of transparency and accountability, financial control, public procurement, budget management, management of public assets and licensing procedures. Further attention still needs to be paid to enhancing administrative capacity for law enforcement, especially as regards the fight against corruption and organised crime and protection of personal data.

The use of office premises by political parties and by the government is not yet clearly separated, potentially leading to a blurring of their respective roles.

In order to prepare fully for implementation of the SAA, Montenegro needs to continue upgrading its administrative capacity in the areas covered by the agreement, which is a key European Partnership priority. The necessary strengthening will require appropriate resources.

Parliament ratified the European Charter of Local Self-Government. Progress on strengthening local authorities' administrative and management capacity remains slow. The capacity of the municipalities for financial management, including budgeting, public procurement and allocation of grants, requires further improvement.

Overall, progress has been made in strengthening the legislative framework for the public administration. Some progress has been made in human resources management and local government reform. However, lack of human and financial resources combined with structural weaknesses and corruption continue to hamper the overall effectiveness of the public administration and, as a whole, administrative capacity remains limited.

#### *Judicial system*

Montenegro has made some progress in the judicial reform process, which is a key European Partnership priority, and has started to implement the relevant sections of the constitution. For this purpose, the action plan for implementation of the strategy for reform of the judiciary (2007–2012) which was adopted in December 2007 identifies relevant measures. The Commission for implementation of this action plan was formally established in June 2008.

Adoption of implementing legislation has started. Amendments to the Law on courts were adopted in January 2008, and amendments to the Law on State Prosecutors in June 2008. The

Law on the Judicial Council was adopted in February 2008, improving the independence of the judiciary. The new Judicial Council has the power to elect, promote and dismiss judges and to decide on disciplinary proceedings. The powers of the Judicial Council to propose and defend the budget of the courts have also been strengthened. In April 2008 the Judicial Council was elected and started its work, except for the member who will have to be designated by the parliamentary opposition. The rules of procedure of the Judicial Council and the Judicial Ethical Code were adopted in July 2008.

The Ministry of Justice has been reorganised. Two sectors have been established, one on the judiciary, the other on execution of criminal sanctions. Special departments in high courts for combating organised crime, corruption, war crimes and terrorism were established in September 2008. At the same time, the powers of the Special Prosecutor for organised crime have been extended to cover the same areas. Salaries in the judiciary have been increased.

However, serious concerns regarding the independence of the judiciary persist. A track record on implementing the new laws has not yet been established and other relevant legislation, such as the Laws on the Constitutional Court and on the Prosecutorial Council, is still pending. The initial deadlines for adoption of certain laws have been extended. Objective criteria such as professional capacity and integrity have been developed for appointment of judges and prosecutors, but assessment of the extent to which these criteria have been fulfilled remains within the sole discretion of the Judicial Council and the future Prosecutorial Council. For the prosecution service in particular, where the future council will be elected by parliament, the risk of political influence remains high. The division of responsibility for supervision of the courts between the Ministry of Justice and the Judicial Council provided for in the new legislation and the participation of the Minister of Justice as a voting member of the Judicial Council are further factors putting the independence of the judiciary at risk.

The efficiency of the judicial system is still low. The investigative capacity of the prosecution service remains weak. In particular, modern investigative techniques for financial investigations are largely unused. The powers of the Special Prosecutor's office for organised crime have been extended, but it does not have sufficient deputy prosecutors and staff or technical equipment. Preparation of the prosecution service for its new role in leading criminal investigations planned under the future Criminal Procedure Code is lagging behind. Improved codes of ethics and properly structured initial and continuous training programmes need to be established. The capacity of the Ministry of Justice in the area of judicial cooperation is still weak in terms of both skilled human resources and IT systems. The juvenile justice system requires more comprehensive action.

Backlogs in civil and criminal cases have been reduced. However, the still high number of pending cases and excessively lengthy procedures continue to give cause for concern. Inefficient execution procedures remain part of the problem. A new law granting compensation to citizens whose trial has exceeded a due timeframe was adopted, but is not yet in force. There is still no clear strategy and procedural changes are lacking.

Criminal procedures in several cases of domestic war crimes are ongoing. Some progress was made recently, as indictments were issued against suspected perpetrators in the cases of Morinj, Boka Bay and Kaludjerov Laz. There has been little progress in the case of the deportation and disappearance of more than 80 Bosnian civilians in 1992. Nobody has been indicted yet for this crime.

Overall, progress has been made on judicial reform with the adoption of important new laws. Steps have been taken to provide the basis for judicial independence, accountability and efficient functioning of the judicial system, but they need to be further consolidated and completed.

### *Anti-corruption policy*

There has been some progress in the fight against corruption, which is a key European Partnership priority. Action has mainly focused on tackling low-level corruption and on awareness-raising and training.

The context of the fight against corruption is determined by the action plan against organised crime and corruption. Montenegro has ratified the Council of Europe Civil Law Convention on Corruption and the additional protocol to the Criminal Law Convention on Corruption. A new Law on financing of political parties was adopted in July 2008. The National Commission for monitoring implementation of the action plan produced its third report. An update of the action plan to include new measures and clearer indicators was adopted by the government in May 2008. Both an anti-corruption strategy at local level and a national training strategy for local government have been adopted. Models for local anti-corruption action plans were introduced. The Law on the salaries of State officials and civil servants increased public administration salaries (including for the judiciary) by up to 30%. In December 2007, parliament adopted a Resolution on the fight against corruption and organised crime.

The resources of the Directorate for Anti-Corruption Initiatives (DACI, formerly the anti-corruption agency) have been strengthened. The DACI has carried out awareness-raising campaigns and a number of training courses for various administrative bodies. The powers of the specialised prosecutor's office for organised crime have been extended to include corruption cases, and the human resources of the office have been increased. Specialised court units for organised crime and corruption have been set up at high court level. NGOs have been active in monitoring public procurement and privatisation procedures. There has been some evolution in the perception of corruption.

However, corruption continues to be a widespread and particularly serious problem in Montenegro. Current legislation exhibits major weaknesses in several areas. Adoption of the new Law on conflicts of interest is still pending. The current law leaves many loopholes. In particular, the powers of the Commission on conflicts of interest are too limited to ensure proper analysis of the declarations made. There are also concerns about the independence of this Commission. Laws concerning local self-government which determine powers over property or resources at local level have not been adopted. Protection of whistleblowers remains insufficient in practice, even though the legal framework has been improved.

Montenegro lacks strong and independent supervisory and auditing authorities. Such authorities would be needed in order impartially and objectively to enforce and assess declarations of assets and financing of political parties, but also to monitor privatisation and public procurement procedures and the State budget. The existing monitoring committees do not fulfil these tasks satisfactorily and the DACI plays only a limited role in this regard. Declarations of assets by political parties so far have been incomplete and public authorities were unable to enforce the law or to investigate the data provided. This situation will only partially improve under the new law. Administrative corruption at local level remains high,

particularly in coastal areas, as a result of booming development, privatisation and public procurement.

The investigative capacity of the law enforcement bodies remains very limited. Conviction rates in corruption cases are extremely low. There is a significant lack of expertise in modern financial investigations. Between January 2007 and April 2008, the Police Directorate for organised crime and corruption carried out only five financial investigations, excluding exchanges of data concerning transactions suspected of money laundering and seizure of proceeds. In 2007, no secret surveillance measures were used in investigations of corruption cases. The office of the Special Prosecutor lacks the necessary capacity in terms of staffing, expertise and equipment. The same applies to the special anti-corruption police task force.

Overall, there has been some progress in strengthening the strategic and administrative framework for combating corruption. However, the declared commitment of the authorities to combat corruption has not been backed up by rigorous implementation with clear results, including higher conviction rates in corruption cases. Corruption continues to be widespread and inefficiently prosecuted, particularly in cases of high-level corruption.

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

Regarding the **ratification of human rights instruments**, Montenegro is a signatory or a party to most of the Council of Europe conventions, including the European Convention on Human Rights (ECHR). Montenegro has not yet ratified the Council of Europe Convention on the avoidance of statelessness in relation to State succession.

Montenegro appointed a judge to the **European Court of Human Rights** in April 2008, which means it is now possible to handle cases which had been suspended following Montenegro's independence. Appointment of the government agent representing Montenegro before the European Court of Human Rights failed due to lack of candidates.

Regarding **promotion and enforcement of human rights**, direct implementation of international human rights standards in Montenegro is restricted to application in cases of conflict with domestic legislation. The constitution does not include an explicit provision that ratified international human rights treaties should be applied in compliance with the practice of international bodies in charge of their interpretation. The Venice Commission has recommended that the Law on implementation of the constitution should be clarified to guarantee retroactive application of the ECHR and should be brought to the attention of the courts and the public.

The Constitutional Court will be competent for appeals on violations of human rights and liberties following adoption of the Law on the Constitutional Court in July 2008. The election of all Constitutional Court judges by parliament on a proposal by the President, as provided for in the constitution, is not in line with the recommendations of the Venice Commission.

The right to appeal on the basis of provisions of the European Convention on Human Rights concerning violations occurring prior to Montenegro's independence needs further clarification.

Overall, Montenegro has made some progress in improving observance of international human rights law. However, further efforts are necessary to improve judicial enforcement.

## *Civil and political rights*

Little progress has been made on **prevention of torture and ill-treatment and the fight against impunity**. Montenegro is party to the Council of Europe Convention for the prevention of torture and its constitution prohibits torture and inhuman or degrading treatment. However, there are continuous allegations of torture and ill-treatment during arrest and detention. Material conditions in police detention facilities remain unsatisfactory. Internal investigations and criminal proceedings against police officers for the extortion of evidence and for ill-treatment and torture are rare. Verdicts are reached in a small number of reported cases and are often followed only by administrative warnings, suspended sentences or fines. In 2007 the ombudsman received a higher number of complaints about police ill-treatment.

The disciplinary procedure for misuse of office and exceeding official powers referred to in the Law on civil servants and public employees needs to be fully respected. The authorities need to strengthen internal control mechanisms. International standards and judicial practice for combating torture need to be considered by the courts.

As regards **access to justice**, a Law on the protection of the right to trial within a reasonable time was adopted. Free legal aid remains limited. The considerable backlog of court cases remains an issue of concern.

Some progress has been made regarding the **prison system**. A number of detention facilities have been newly constructed or refurbished, but still need to become fully operational. Further training of prison staff, including on treatment of prisoners with special needs, would help improve standards.

Clearer rules for inspection and monitoring of detention facilities by external bodies would help ensure transparency and accountability. The necessary comprehensive reform of the probation/parole system has not yet been conducted. Conditional sentences combined with probation have not yet been introduced as an alternative to imprisonment. This contributes to prison overcrowding.

The accommodation for persons with mental disabilities lacks proper financial support and appropriate human resources. The specific needs of drug-addicts are not adequately taken care of.

The health system lacks capacity and its institutions are weak. It is geared to treatment and lacks preventive and promotion programmes. There has been a deterioration in the quality of services and fragmentation of services. There are also over-production of health professionals, outdated curricula and inappropriate training for nurses.

Overall, there has been some progress in improving prison and detention facilities, but further efforts, including legislative action, are necessary to address the situation adequately.

**Freedom of expression** continues to be a cause for concern.

Cases of physical assaults and defamation against journalists continue to be a cause for concern. A journalist of the daily newspaper *Republika* was assaulted in November 2007 and a photographer from the same newspaper in June 2008. In May 2008 a journalist writing an article on organised crime involved in betting on sport was heavily beaten. The director of the daily *Vijesti* was also assaulted. Investigations in such cases need to be thorough. The number

of defamation cases against journalists and NGO activists is rising. The Law on free access to public information is still being implemented with mixed results.

The Law on electronic communications was adopted by parliament on 29 July 2008 without public debate. It establishes a new Electronic Communications Authority. The members of the body's governing councils will be appointed by the government and the regulator's independence is not guaranteed. Moreover, the sensitive powers over planning, allocating, and monitoring the broadcasting frequency spectrum will be transferred from the independent Broadcasting Agency to the new Electronic Communications Authority. Legislation on media transparency remains pending.

Regarding **freedom of assembly and association**, there are no restrictions to report. For sports events, a new Law on public gatherings and on prevention of disorderly conduct at sports stadiums was adopted.

Regarding the role of **civil society organisations**, there have been improvements, and the strategy for cooperation between the government and NGOs is in its last consultation stage and will then need to be implemented. NGO activities often have a high public and political profile. Consultation with civil society organisations has been enhanced by the government office for NGOs, the office for gender equality and the anti-corruption commission. Civil society is represented in the Parliamentary Council for EU Integration. However, the criteria for its representation will have to be clarified.

More than 4,000 NGOs are registered with the Ministry of the Interior and Public Administration, but only a much smaller number are actually performing real NGO-type activities. The NGO Law was amended in November 2007 in order to regulate commercial activities carried out by NGOs. 43 public bodies have nominated an NGO contact point, but the turnover is high, hampering communication with NGOs. Many NGOs remain donor-dependent, which weakens their strategic autonomy and generates *ad hoc* donor-driven project activities instead.

As regards **freedom of religion**, relations between major religious groups (Orthodox, Islamic and Roman Catholic) remain satisfactory. However, there is a continuous conflict between representatives of the Serbian and Montenegrin orthodox churches over official recognition and property ownership. Legislation on freedom of religion has not yet been updated in accordance with the relevant human rights standards, including Article 9 of the European Convention on Human Rights and case law of the European Court of Justice.

#### *Economic and social rights*

Regarding the protection of **women's rights** relating to domestic violence and protection of victims, the situation has not improved, despite the fact that the problem is widespread. Domestic violence remains a cause for concern, with every second woman experiencing verbal abuse and every third being exposed to physical violence. The number of cases reported to the police is small, but increased by 7.3% in 2008. There are discrepancies between the number of cases of family violence reported and the number of convictions. The new Law on protection from violence in the family still has not been adopted. There is no financial support to organisations providing services to victims, or to the victims themselves. The institutional response to protection of victims of violence is unsatisfactory and centres for social care still lack professionalism towards victims.

Sexual harassment, unlike domestic violence, is not specifically punished by law. Victims are hesitant to report harassment and there is no public discussion on the issue, allowing the offenders to get away unpunished.

The legislation on gender equality does not adequately define implementation mechanisms, including sanctions for breaches of the law or the principle of equal pay. The Ministry for Protection of Human and Minority Rights and the Office for Gender Equality have prepared an action plan on gender equality, which was adopted by the government in July 2008.

In practice little progress has been made on improving protection from and raising awareness of gender-based discrimination, in particular on the labour market. The gender pay gap has even widened to 19%. Women remain underrepresented in decision-making processes and leading positions both in the public administration and in the private sector. The number of women Members of Parliament remains the same (9 out of a total of 81).

Concerning **children's rights**, the government adopted a strategy for social and child protection for 2008-2012 in November 2007. However, capacity to monitor the rights of the child remains weak. Official statistics and analyses of poverty and social inclusion data are still inadequate. The Council for Children's Rights needs to become fully operational as the highest inter-ministerial coordinating body for promotion and protection of children's rights. Institutionalisation, in some instances even together with adults, is still the dominant care system for children deprived of parental care and children with disabilities. The government needs to give priority to alternative, community-based family forms of care. Social inclusion of Roma children and of children with disabilities remains particularly problematic. The scale of poverty combined with the lack of personal documents and civil registration and the unresolved legal status of Roma, Ashkali and Egyptian refugees hamper access to social welfare services and integration. The low level of enrolment in pre-schools of less than 30% nationally, and as low as 3% for Roma children, is a cause for concern, both nationally and for minority groups.

Concerning **socially vulnerable and/or persons with disabilities**, the government adopted a strategy for the integration of persons with disabilities for 2008-2016 and a strategy for the development of social protection for the elderly for 2008-2012. Measures, including relief mechanisms, have been introduced to promote employment of persons with disabilities. Montenegro has yet to ratify the UN Convention on the rights of persons with disabilities and its optional protocol. A Law on professional rehabilitation and employment of disabled people was passed in July 2008, but the draft law on protection of persons with disabilities from discrimination has yet to be adopted.

Regarding **labour rights and trade unions**, labour rights are regulated by the Labour Law adopted in July 2008. Trade unions and employers' organisations were involved in the public debate on the new law.

In the area of **anti-discrimination policies**, adoption of the draft law on prohibition of discrimination is pending. Lesbian, gay, bisexual and transgender (LGBT) people are marginalised and discriminated against in Montenegrin society due to homophobic attitudes and lack of legal and practical protection by the authorities. In addition to increasing legislative efforts, comprehensive anti-discrimination measures covering sexual orientation and gender identity are needed.

Regarding **property rights**, restitution of property is regulated by the Law on restitution of confiscated property rights and compensation which came into force in August 2007. Three regional commissions were established in Podgorica, Bar and Bijelo Polje to take decisions on restitution requests. Over 10,000 restitution requests had been filed by the deadline at the end of 2007. The regional commissions have approved some 925 requests for monetary compensation and 95 requests for property restitution. Over €15 million have been paid from the Restitution Fund as monetary compensation between establishment of the Fund in 2005 and July 2008. Around 1,100 complaints against decisions taken have been brought to the attention of the second instance commission.

Overall, there have been improvements in the area of economic and social rights. The rights of vulnerable groups, including children, have been addressed with a number of strategies, but the conditions have not yet substantially improved in practice.

#### *Minority rights, cultural rights and protection of minorities*

Montenegro has made progress on protection of national minorities. Inter-ethnic relations are smooth. The constitution includes a **minority rights** chapter reflecting the principles of the Council of Europe Framework Convention on national minorities. The constitution guarantees special rights of identity protection and prohibition of assimilation “to minority nations and other minority, national and ethnic communities”. The government has adopted a minority policy strategy and a national Roma strategy. National minority councils have been established and a fund for minorities (0.15% of the total current budget or approximately €1 million) was approved by parliament.

In March 2008 there were more than 16,000 **internally displaced persons** (IDPs) from Kosovo and around 8,500 displaced persons (under the government Decree on the care of displaced persons from 1992) from Croatia and from Bosnia and Herzegovina in Montenegro. Some 300 IDPs have already returned to Kosovo. The question of how to deal with IDPs who do not want to leave the country remains unsolved. Construction of accommodation facilities for displaced Roma from Kosovo was initiated in early June 2008, but further financial support will be needed for the planned construction of ten buildings. Access to identity documents and permanent status, education and social services for many of them remains problematic, as do the prospects for their integration or return. Montenegro has received 15 asylum applications since its independence and granted refugee status in one case.

A Law on ID cards was adopted in November 2007. The government adopted a Regulation on the content of and manner of keeping records in the field of asylum. Laws on citizenship and registers of temporary and permanent residence were adopted in February 2008. A Law on employment and work of foreigners was adopted in March 2008.

Approximately 2,000 IDPs and displaced persons had made claims for resident status by the end of 2007. IDPs and displaced persons do not enjoy the economic and social rights of citizenship and their socio-economic situation remains a cause for serious concern. IDPs, mainly Roma, Ashkali and Egyptians originating from Kosovo, often lack ID documents or birth certificates and risk statelessness. Montenegro has yet to ratify the Council of Europe Convention on the avoidance of statelessness in relation to State succession.

European Partnership priorities to repeal all discriminatory provisions in key fields affecting refugees and displaced persons and to provide conditions for integration of those who choose to remain in Montenegro have not yet been fulfilled.

As regards **Roma**, the government adopted a strategy for improving the status of the Roma, Ashkali and Egyptian population in November 2007. The authorities have set aside €400,000 of the 2008 annual budget for its implementation. Under the Law on freedoms and rights of minorities, a Roma Council was set up in April 2008. The Roma strategy amends the previous Decade Action Plan, which was not efficiently implemented because of insufficient institutional capacity and scarce financial resources. Significant progress has been made in creating conditions for the participation of Roma in active employment policy, such as registration of Roma in employment bureaus or specific tax relief for employers. The new Roma strategy also intends to improve the institutional framework in the area of healthcare protection and housing.

However, the lack of reliable data on the Roma, Ashkali and Egyptian population has a negative effect on the exercise of certain rights, including use of funds from the State Minority Fund and awareness of the political significance of this minority in general. Despite the above-mentioned measures, Roma continue to face difficult living conditions and discrimination, with poor access to education, social protection and healthcare. Most of them live in extreme poverty and substandard housing conditions. Due to widespread discrimination, opportunities for employment of Roma are still minimal and unemployment among Roma remains over 80%.

Illiteracy rates are reported to be 63%, and even higher among women. The specific needs of Roma refugees from Kosovo have yet to be addressed. No monitoring mechanism exists for implementation of the action plan adopted in 2005. Implementing legislation is necessary to establish implementation and monitoring capacity, domestic ownership and adequate and sustainable funding.

Overall, there has been progress on strengthening the framework for minority protection. However, implementation is still lagging behind in some fields, in particular regarding the Roma, Ashkali and Egyptian population. The conditions of IDPs and displaced persons remain a cause for serious concern.

### **2.3. Regional issues and international obligations**

Cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**, a key European Partnership priority, is satisfactory. Agreements for cooperation on war crimes cases were signed with the State prosecution services of Serbia and Croatia. Montenegro's supreme State Prosecutor attended a regional conference on cooperation between State Prosecutors on war crimes prosecutions, focusing on cooperation with the ICTY.

In respect of the bilateral immunity agreement with the United States, covering US and Montenegrin citizens and granting exemptions from **International Criminal Court (ICC)** jurisdiction, Montenegro does not comply with the EU common positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Montenegro needs to align with the EU position.

There have been no significant developments in Montenegro to follow up the **Sarajevo Declaration**, which aimed at finalising the regional refugee return process by the end of 2006.

**Regional cooperation** and good neighbourly relations form an essential part of the process of Montenegro's moving towards the European Union.

Montenegro has participated in the work of the regional fora, including in the transformation of the Stability Pact for South-East Europe into a more regionally owned framework with the South-East European Cooperation Process (SEEC) and the Regional Cooperation Council (RCC). Montenegro became a member of the South-East European Cooperation Initiative (SECI Centre, Bucharest) in June 2008. Montenegro has been chosen to host the Regional School for Public Administration (ReSPA). The school will be based in Danilovgrad and should come into operation on 1 January 2009. Preparatory activities were launched in April 2008.

A memorandum on technical cooperation within the process of European integration was agreed between the countries in the region at the Milocer Conference in October 2007. In December 2007, Montenegro signed the Agreement on police cooperation in South-Eastern Europe and the Agreement on the establishment of a high-performance rail network in South-Eastern Europe. In October 2007, Montenegro ratified the Agreement on the European Common Aviation Area (ECAA). Montenegro continued preparations to implement fully its obligations under the Energy Community Treaty. Montenegro is participating in the Central European Free Trade Agreement (CEFTA).

Montenegro accepted the *acquis* of the Barcelona process and participated in the launch of the "Barcelona Process: Union for the Mediterranean" in July 2008, thus becoming a full member of the process.

As regards the **peaceful settlement of border disputes**, a political understanding was reached on how to resolve the issue of the maritime border with Croatia, including the Prevlaka peninsula. Currently, a temporary agreement applies. In March 2008 the two Prime Ministers agreed that the issue should be settled by the International Court of Justice (ICJ). A working group chaired by the Prime Minister and made up of experts in maritime law has been established. No timeframe has been set for the process.

Montenegro has continued to foster good **bilateral relations with other enlargement countries and neighbouring Member States**.

Montenegro has established cooperation with neighbouring countries in areas such as border control, environmental protection and energy supply. Political relations with neighbouring countries are satisfactory. Montenegro is pursuing a constructive policy on key outstanding issues that are crucial for regional stability.

Relations with *Albania* have developed further. Work started on construction of the joint border crossing point at Muriqan/Sokobine. An agreement on exchanging practical experience in harmonisation of legislation with the EU standards was signed between the Ministers of Justice of the two countries.

Relations with *Bosnia and Herzegovina* have further intensified. Agreements have been signed on defence, police and cross-border cooperation and on civil protection. Montenegro requested *Bosnia and Herzegovina* to assist it by sharing consular services and issuing Montenegrin visas where the country does not have its own consular representations.

Regarding relations with *Croatia*, a working group on outstanding issues, including property, chaired by the Ministers of Justice has met twice. Agreements on cooperation in the field of defence and in water management have been signed. Business relations have been enhanced. With regard to the open border issue, the two countries agreed to settle border demarcation at

Prevlaka through international arbitration at the International Court of Justice. A joint commission is being established to prepare the legal framework. The temporary border regime in place continues to function smoothly.

Montenegro recognised the independence of Kosovo<sup>3</sup> in October 2008.

There have been no major developments in relations with *the former Yugoslav Republic of Macedonia*, which remain good.

Relations with *Serbia* have been advancing smoothly overall since independence, but they were adversely affected following the recognition of Kosovo's independence by Montenegro in October 2008 and by the subsequent reactions of Serbia. On the basis of a bilateral agreement, Serbia continues to represent certain Montenegrin interests abroad, including issuing visas. An agreement on social security entered into force in January 2008. Agreements on cooperation on defence and culture have been signed. Discussions on a bilateral agreement on citizenship between Montenegro and Serbia started in autumn 2007, but have not yet been completed.

Relations with *Turkey* have remained good.

**Bilateral relations with the EU Member States** remain good. The EU is Montenegro's main trading partner.

Relations with *Italy* have continued to develop positively, with the negotiation of bilateral agreements on police and judicial cooperation.

Overall, Montenegro has continued to improve its integration into regional structures and its relations with its neighbours. Montenegro plays a moderating role in the region. The agreement with Croatia jointly to refer a border dispute to the International Court of Justice is one example of its good neighbourly relations.

### **3. ECONOMIC CRITERIA**

In examining the economic developments in Montenegro, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

Montenegro submitted its second Economic and Fiscal Programme (EFP), covering the period 2008-2010, by the end of November 2007. The fiscal strategy of the government aims at capitalising the strong economic growth in order to finance measures to strengthen administrative capacity, invest in infrastructure and reduce the public debt. The political consensus on the economic reform agenda was challenged on a few occasions: at the time of adopting the Laws on ownership relations and State property, the new Law on banks and the

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<sup>3</sup> Under UNSCR 1244.

amendments to the Concession Law. Overall, the coalition government retained political consensus on market-based economic policies.

### *Macroeconomic stability*

Economic growth remained strong in 2007, expanding well above 8% in real terms, boosted by strong inflows of FDI and robust domestic demand. The solid performance of the economy continued during the first half of 2008, with GDP growing by 8% year-on-year. Services, notably tourism, financial intermediation and real estate, remained the main driver of growth, generating some 70% of gross value added (GVA). Around 20% of total growth was attributable to industrial output and construction. On the demand side, consumption remained solid as cumulative retail sales grew by 18% in real terms in the first eight months of 2008, supported by increasing household incomes. As a consequence of the robust economic growth, Montenegro's per capita income, measured in purchasing power standards (PPS), increased in 2007 to around 32% of the EU27 average. Overall, economic growth remained strong boosted by FDI and domestic demand.

Exports of goods hardly improved in 2007, increasing by some 2% reflecting the weak competitiveness of local products but also the volatile international price of aluminium, which accounts for almost half of total exports. FDI inflows surged by 56% in 2007 and combined with a robust domestic demand induced a widening of the trade deficit to 55% of GDP. The already sizeable current account deficit further expanded from 24.7% of GDP in 2006 to about 34% in 2007 despite the strong increase in the balance of services surplus. Meanwhile concurrent huge outflows, mostly due to real estate sales by foreigners, brought net FDI down to 22% of GDP. The coverage of the current account gap by FDI flows decreased to 52% (compared with 88% in 2006). The deficit is increasingly being covered by repatriation of domestic banks' net foreign assets and external private borrowing. Stronger than expected fiscal performance allowed early repayment of foreign loans bringing the public external debt down to 20.3% of GDP at the end of 2007. External imbalances continued widening during the first half of 2008 as the trade deficit deteriorated. The stagnation on the domestic capital market resulted in a significant outflow of portfolio investments. The public external debt continued to decrease, ending on 17.5% of GDP at the end of June 2008. Overall, the current account deficit widened, driven by a strong inflow of imports while its coverage by net FDI declined, increasing vulnerability to external shocks.

The fast-growing economy required labour resources beyond the country's capacity. Market rigidities and lack of mobility resulted in a shortage of seasonal workers, notably in tourism, construction and agriculture. Shortages are being covered by foreign labour, mostly from Serbia. According to the labour force survey (ILO standard), in the first quarter of 2008, the participation rate was 59.7% and the unemployment rate 18%. Employment growth remained steady during the first half of 2008, recording 6% average expansion year-on-year. However, partly due to the significant size of the informal economy, changes in registered unemployment may not correctly reflect the actual dynamics of the labour market. Overall, the unemployment rate decreased and together with the mismatch of labour skills exerted upward pressure on wages in both the public and private sectors.

Montenegro unilaterally uses the euro<sup>4</sup> as legal tender, without participating in the euro area. Consequently, its monetary policy is limited to operation of liquidity management. So far, the international financial crisis has had only a limited direct impact on the financial sector. Yet, the rising current account deficit, increasingly financed by repatriation of domestic banks assets abroad, has become a matter of concern, particularly under current capital markets conditions. Also, higher risk premiums and refinancing costs have already started putting pressure on the external side. The Montenegrin authorities have taken a series of measures, including higher capital adequacy requirements for domestic banks, an unlimited coverage for deposits insurance as well as a guarantee scheme for intra-banking lending.

The rapid growth of bank deposits expanded the money supply<sup>5</sup> from 74% of GDP in 2006 to 112% in 2007, as the stock of domestic credit soared to 98% of GDP. However, restrictive measures introduced by the Central Bank (credit growth ceilings and higher minimum solvency coefficients) succeeded in moderating the elevated credit activity of domestic banks in 2008. The annual rate of lending decelerated to 25.8% during the first eight months of 2008, compared with 93% in December the previous year. Average annual inflation accelerated from 3% in 2006 to 4.3% in 2007, notably due to a significant increase in food and energy prices. Consumer prices peaked at 11.4% up year-on-year in June 2008, slowing down to 9.5% in August on easing food and transport prices. Overall, lending activity decelerated in 2008, while inflation increased sharply.

The 2007 budget showed a very strong growth in tax revenue, resulting in a record surplus above 7% of GDP. Proceeds from VAT and from personal and corporate income taxes rose strongly above target, reflecting the effectiveness of previous reforms of direct taxes and the tax-rich growth pattern. Total public spending grew to 47% of GDP. Expenditure on gross wages expanded considerably to 14.5%, while transfers to State funds and local self-governments increased more moderately. The government decided to allocate the budget surplus achieved up to mid-October to reducing foreign public debt by 8.3%, raising wages of civil servants by 30%, and increasing capital expenditures to 7% of GDP. Nevertheless, at the end of the year the budget was still showing a strong surplus.

The positive fiscal performance continued during the first half of 2008, when a surplus of 2.9% of annual GDP was recorded. Rapid growth was observed in both revenue and expenditure. Tax revenue expanded by 28.4% year-on-year as a result of rising collection and strong proceeds. The other main developments in the 2008 budget were the 22% year-on-year increase in gross wages and the expansion of transfers to public institutions. In contrast with previous financial years, capital expenditure in 2008 was executed as planned. In July 2008 the parliament supported the amended budget, proposing targets 11.4% higher for both revenue and expenditure, while the planned surplus remained unchanged. Overall, buoyant revenues were the main driver behind the improved balances.

The public debt continued to decrease to 30.4% of GDP in 2007 as the good fiscal outcome enabled several early repayments to international financial institutions. However, it expanded to 33.6% of GDP in the first half of 2008, as the share of domestic debt in the total rose. In particular the government recognised additional obligations from ongoing restitution

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<sup>4</sup> In October 2007 the Council adopted a declaration on the *de facto* use of the euro in Montenegro which is due to exceptional circumstances.

<sup>5</sup> The broad money (M21) aggregate consists of deposits of banks with the Central Bank and demand and term deposits with banks and the Central Bank, in euro and other currencies, including deposits of the central government.

procedures, old foreign currency savings deposited in two Serbian banks, and unrecorded liabilities of the State funds to commercial banks. Overall, the public debt rose following recognition of domestic liabilities from the past.

Macroeconomic policies aiming at reducing the public debt have been an appropriate mean to contain potential external vulnerabilities, but not sufficient given the country's use of the euro and the limited scope for monetary policy instruments. The debt-management policy was complemented by a reshaping of fiscal revenue, reducing the burden of direct taxation in order to stimulate growth. However, the Central Bank needed to implement a restrictive monetary policy to bring the surge in loans extended by commercial banks (165% annual expansion in 2007) back to more sustainable levels in 2008.

#### *Interplay of market forces*

Electricity prices were further liberalised and the cross-subsidisation between the enterprise and household consumers was reduced. The government took measures to alleviate the increase in food prices. In September 2007 it introduced a package of temporary measures to stimulate agricultural production by reducing VAT rates, supplying farmers with raw materials or increasing guaranteed prices to producers.

The privatisation process accelerated after the adoption of the new constitution. More than 85% of the State-owned capital has been privatised already. Key sectors such as banking, telecommunications and the metal industry have been fully privatised. Out of 59 companies slated for privatisation in 2008, fewer than half display State ownership above 50%. A significant number have already been put up for sale over the reporting period. However, a few of them failed to attract investors, while in other cases the sales contracts were not concluded. Since the end of 2007, the government has announced a new type of tenders for developing a series of seaside locations, mostly former military properties, into high-end tourist resorts under lease conditions. Overall, the privatisation process has further advanced, although the sale of a few companies failed for lack of investor interest.

#### *Market entry and exit*

In 2007 the number of companies registered with the Commercial Court increased significantly. However, because the procedure to register new companies is inexpensive, a number of these remain inactive after a single operation. While business registration is quite simple and takes four days at most, starting actual operations may require significantly more time to obtain the compulsory licences. There is also a disparity in requirements and the costs for obtaining the same business licences depending on each municipality. So far, most improvements have come from initiatives by central government or agencies, such as adoption of the draft law on domestic trade, which replaced the need to obtain municipal business licences by a declaration by the entrepreneur of intent to launch trading activities. Overall, market entry procedures are improving, but one-stop shops, though considered, have not yet been introduced.

In 2007 the Commercial Court registered 371 new bankruptcy procedures, and closed 359. The average length depends on the legal basis applicable. Under the 2006 Law on insolvency of business organisations, the most complex cases may take a maximum of one year, compared with up to 10 years under the previous law. Overall, market exit delays have been reduced considerably by the implementation of new legislation.

### *Legal system*

The main obstacles to an effective business environment remain the weak rule of law and the costs and delays for obtaining business licences and for property registration. Yet, corruption and criminal activities may hinder the development of the formal sector and affect the business environment. The regulatory framework further improved with the establishment of two new institutions: a mediation centre to facilitate simple resolution of commercial disputes, and a council for elimination of business barriers. Overall, progress has been achieved in several areas influencing the business climate, but further efforts to establish a transparent system are needed.

### *Financial sector development*

The size of the banking sector in terms of assets grew to 131% of GDP by the end of 2007, making it one of the major driving forces of the Montenegrin economy. The sector remained concentrated, with three banks holding 37% of the total capital, 64% of the banking sector's assets and 73% of the total deposits. However, competition in the banking sector reduced lending rates. The average weighted effective interest rate stood at 9.1% at the end of 2007, while the real interest rate remained much lower, at 1.4%. In 2007, the Central Bank adopted a package of measures to increase the security of loans, and dampen credit expansion. In January 2008 centralised registration of credit operations was introduced, allowing commercial banks to improve their risks management. In February 2008 parliament adopted a new Law on banks, providing for more detailed regulation of the sector with improved supervision of the banking system. The Law aims to bring the banking legislation closer to international standards, especially the EC Capital Requirements Directives<sup>6</sup>. The banking prudential indicators remained sound in 2007, although positively influenced by the strong growth of lending. The share of non-performing loans decreased to 3.2% of total loans. The capital adequacy ratio declined to 17.1%, well above the minimum 12% required. Average bank profitability declined marginally. Overall, despite the intensive lending activity, the stability of the banking sector has been maintained.

The insurance industry accounts for some 2% of GDP and is primarily made up of compulsory insurance (i.e. for motor vehicles) which accounts for half of total premiums, whereas life insurance covers just 4.5%. The sector remains highly concentrated, with one company holding a 66% market share. The leasing sector continued to expand strongly in 2007, increasing from 3.7% of GDP in June 2007 to 5% at the end of the year. The capital market comprises two stock markets. In early 2008 one of the stock exchanges launched a takeover bid, but failed to take control of its rival. Eight investment funds and some 32 brokerage companies participate in the market. A number of banks also participate in the capital market by founding pension funds, forming broker associations or performing custody operations. Overall, the non-bank financial sector grew rapidly, especially driven by leasing, while the stock markets remained volatile.

## **3.2. The capacity to cope with competitive pressure and market forces within the Union**

### *Existence of a functioning market economy*

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<sup>6</sup> Directives 2006/48/EC and 2006/49/EC.

Macroeconomic stability has weakened as external exposure increased in 2007 and the first half of 2008 owing to strong demand pressures revealed by rising inflation, widening external imbalances and a moderately pro-cyclical fiscal stance. Nevertheless, continuation of the already advanced privatisation process and implementation of the other structural reforms to which the government is committed are facilitating more efficient allocation of resources by market mechanisms. However, despite significant progress in improving the business environment, weaknesses and sometimes insufficient resources on the part of supervisory and regulatory agencies are still impeding the consolidation of a more level playing field for market participants, thus providing leeway for informal practices.

#### *Human and physical capital endowment*

Enrolment in primary and secondary schools remains high. The number of university students rose to 3.1% of the total population, approaching the EU-27 average of 3.8%. Vocational training was reinforced thanks to cooperation with international institutions. The employment agency and the Directorate for Small and Medium-sized Enterprises (SMEDA) continued to implement active measures promoting self-employment and vocational training along with a strategy for life-long entrepreneurial learning, with special emphasis on the less developed northern region. A new labour law was adopted in July 2008. In September, the government adopted the mid-term programme for promotion of employment and development of the human resources for the period up to 2011, with the aim of creating favourable conditions for building a competitive and dynamic knowledge-based economy. The up-grading of human capital continued, although retraining programmes offered by the employers are not yet sufficiently developed.

Capital formation increased substantially owing to very strong net FDI, bank financing to corporations and government capital spending. The restructuring of the electricity industry, railways, airports and the port of Bar are underway. The telecommunications sector saw further development by providing alternatives to fixed telephony and offering significantly cheaper international calls. Mobile telephony continued to expand, recording a penetration rate above 200% in July 2008. Overall, investments increased both in volume and quality of sector allocation as real estate investments declined relative to other production activities.

#### *Sector and enterprise structure*

Large and enduring trade deficits reflect the narrow production base, limited competitiveness of local products and strong inflows of foreign capital. The labour structure shows a significant share of workers in government administrations or in public companies. This situation decreases the external competitiveness of the more productive tradable sector. Overall, with about 70% of its narrow economy employed in services, Montenegro relies on upgrading the quality of its offer into the upper end of the market to improve both competitiveness and productivity.

The privatisation strategies for the transport and energy sectors were adopted in 2007 and their implementation engaged. It was decided to restructure the national railways into two joint stock companies: one for transport, the other for infrastructure. In 2008 the incumbent power utility EPCG launched unbundling of the company into five separate business units to be integrated vertically into a single energy holding. Meanwhile, the Privatisation Council launched recapitalisation of the company, seeking a strategic investor to provide funds for its

development, while the government retains a 55% share. Given the complexity of the restructuring, the opening of the electricity market to qualified consumers<sup>7</sup> has been delayed until the end of 2008. Meanwhile, the recently established Energy Regulatory Agency has adopted a series of decisions to enhance the legislative framework and further develop the sector.

The restructuring of the industrial port of Bar was launched with the adoption of the Law on ports in July 2008. The State retains ownership of the infrastructure via the port authority, while business activities will be privatised as a separate port operating company. The first phase started with the selling of non-core business activities to provide for the severance indemnities of redundant workers. As regards the national air carrier, the shareholders assembly in July 2008 decided to proceed with privatisation by recapitalising and selling 30% of the company on the capital market. Overall, restructuring of the transport and energy sectors advanced further, although it remains one of the main challenges.

The sectoral structure of the economy continued to shift towards services, which generated the largest share of employment (67%); with tourism, financial intermediation and trading expanding faster. Industry accounted for 26%. Nevertheless, the public sector, including both industry and services, accounts for a significant share of total employment and is also the sector where employment expanded fastest. The share of agricultural workers continued to decline and fell to 7%. Still, the informal sector remains large in most areas of the economy. Overall, industry is giving way to more profitable sectors like tourism and construction, ensuring a more diversified growth path.

SMEs are mostly geared to the domestic market and only around 15% of them export outside the former Yugoslav territory. Companies have benefited from the surging credit activity of banks, with two thirds of credits being allocated to them. However, SMEs continue to find it more difficult to obtain loans, given the lack of sound financial statements or collateral, and are therefore resorting increasingly to leasing to acquire facilities, vehicles and equipment. In June 2008, the Central Bank adopted a decision on credit guarantee services, providing the legal basis for establishment of credit guarantee funds to support SMEs access to financing. Overall, the expansion of the SME sector continued, albeit at a slow pace, as the recently adopted government's operational plan for eliminating barriers to entrepreneurship is at an early stage of implementation.

#### *State influence on competitiveness*

Early in 2008 the Ministry of Finance adopted decrees on conditions for granting state support. State aid is primarily granted to companies undergoing restructuring or privatisation and takes the form of debt relief or severance payments to make their sale more attractive to potential investors. In the case of the metal smelters, electricity subsidies running until 2011 were also included in the privatisation deals. SMEs may benefit from aid to participate in international fairs, to promote competitiveness or to improve managerial skills. But public support cannot be granted to SMEs dealing with shipbuilding, agriculture and fisheries. Overall, the amount allocated in the government budget for direct subsidies remains very small.

#### *Economic integration with the EU*

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<sup>7</sup> Excepting households in the preliminary opening phase.

The trade component of the Stabilisation and Association Agreement entered into force by virtue of an Interim Agreement on 1 January 2008. Montenegro remains a very open economy, with total trade in goods and services above 150% of GDP. In 2007 the services sector became the major source of export revenue due to the performance of the tourism industry, which recorded higher revenue than the traditional metals trade. The main destination for domestic producers goods remains the EU, which took 65% of total exports in June 2008, followed by the CEFTA countries (33%). In the case of imports, 50% of Montenegro's imports come from CEFTA partners and 41% from EU countries. FDI from the EU totalled EUR 534 million or 53% of total inflows, followed by 18% from Russia and 7% from Switzerland. Although the share of European investment decreased slightly compared with 2006, it expanded in nominal terms by 45% year-on-year. Overall, economic integration with the EU remains high.

#### 4. EUROPEAN STANDARDS

This section examines Montenegro's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Montenegro's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

##### 4.1. Internal market

###### 4.1.1. *Free movement of goods*

Some progress can be reported on **standardisation**. The new Law on standardisation was adopted in February 2008. The Institute for Standardisation of Montenegro (ISME), which will operate as the enquiry point for standards, became a member of the IEC (International Electro-Technical Commission) and an affiliate member of the European Committee for Standardization (CEN). An agreement on business and technical cooperation was signed with the Institute for Standardisation of Serbia allowing the ISME to acquire a database developed under the former State Union, providing a good basis for development of Montenegrin standards. Technical committees on civil engineering and electrical engineering were established, and other expert bodies are being set up. The Institute adopted 200 Montenegrin standards harmonised with the European and international standards. A further 300 standards on the areas covered by the new approach directives were adopted in July 2008. The Institute is currently operating with 10 employees, out of a planned total of 32. Further strengthening of the ISME's administrative capacity is required with a view to national standardisation and to membership and representation of Montenegro in international and European organisations for standardisation.

Some progress can also be reported with **conformity assessment**. The Law on technical requirements for products and conformity assessment and a set of implementing decrees were adopted in February and June 2008, including decrees on authorisation and registration of conformity assessment bodies and procedures and on notification, adoption and registration of technical regulations. Following the adoption of these by-laws, the Department for quality infrastructure in the Ministry for Economic Development, which has a staff of four, will be appointed to act as the enquiry point for technical regulations.

Good progress can be reported in the field of **accreditation**. The Accreditation Body of Montenegro (ABM) started its operations in the first half of 2008, by setting up technical committees for testing laboratories and for certification bodies and also steering committees for accreditation and complaints. The ABM also adopted rules related to the accreditation procedure and has so far accredited six conformity assessment bodies. The ABM applied to become an affiliate member of European Cooperation for Accreditation (EA) in March 2008 and signed agreements on cooperation with the accreditation bodies of the neighbouring countries. So far this year, the ABM has taken on three of the ten extra staff planned. Improving communication, cooperation and coordination with other segments of the quality infrastructure and enhancing the administrative capacity of the ABM itself are preconditions for proper functioning of the quality infrastructure. The legal framework for accreditation activities in Montenegro has not yet been finalised.

Work on the legal framework for **metrology** is underway, but not yet completed. The Bureau of Metrology became a corresponding member of the International Organization of Legal Metrology (OIML). Out of the planned increase of 34 staff members in 2008, so far the Bureau of Metrology has recruited 23. Preparation of the first national calibration laboratory for mass is underway. The Bureau has provided provisional premises for five laboratories (for mass, length, electrical quantities, temperature and pressure), but the conditions there are not up to the standards required for laboratories. Part of the equipment for the laboratories has been purchased and part taken over from the former military metrology laboratories. Adoption of the law on metrology, provision of adequate premises and equipment for metrology laboratories and upgrading of administrative capacity are required before a proper metrology system can be set up in Montenegro.

There has been some progress as regards **market surveillance**. The Law transposing the General Product Safety Directive was adopted in July 2008. However, its alignment with the *acquis* has yet to be verified. By-laws, including a by-law on the exchange of information on dangerous products within Montenegrin institutions, and between Montenegro and the EU (RAPEX), have not yet been adopted. The administrative capacity of the Market Inspectorate and of other authorities carrying out market surveillance activities needs to be further developed, along with coordination and mutual cooperation between these authorities. In this context, one is to develop a market monitoring strategy.

In the area of **consumer protection**, progress has been made in the form of adoption of the national strategy for consumer protection in April 2008. The national consumer protection programme (NCPP) is a comprehensive framework for an integrated consumer protection policy for the next two years. The action plan, which is an integral part of the NCPP, identifies specific activities for implementation of consumer protection policy. The process of selecting the members of the Arbitration Board, which will be in charge of out-of-court settlement of disputes, is ongoing.

Overall, preparations in the area of free movement of goods are moderately advanced. Montenegro needs to strengthen its institutional and administrative capacity, enhance cooperation between the relevant State institutions and align the horizontal legal framework with Community legislation. Additional efforts are also needed to start transposing the product-specific *acquis* into Montenegrin legislation.

#### 4.1.2. *Movement of persons, services and right of establishment*

Some progress has been made in the field of **movement of persons** and access to the labour market. The Law on employment and work of foreigners was adopted in March 2008 and will be applied from 1 January 2009. The Law stipulates that issuance of a temporary residence permit for the purpose of employment is conditional on previous issuance of a work permit for aliens. It also lays down conditions for cross-border service suppliers, intra-corporate transferees, business visitors and contractual service suppliers. The procedure for setting quotas for the Law on employment and work of foreigners will be laid down in the Law on foreigners, which is currently in parliamentary procedure. Some initial steps have been taken in the area of recognition of professional qualifications with the adoption of the draft law on national qualifications by the government. Coordination of social security systems is continuing. Bilateral agreements were signed with Hungary and Luxembourg.

Progress has been significant on free **movement of services**, which was further liberalised in the framework of the ongoing negotiations for accession to the WTO.

There were developments in the **financial sector**. A new Law on banks was adopted in March 2008, providing the legal basis for gradual transition to Basel II, but not yet fully in line with the *acquis*. A Decision on capital adequacy of banks, in accordance with the new Law on banks, introduced capital requirements for market, operational and other risks. Further efforts are needed to achieve alignment with the Capital Requirements Directive (especially regarding advanced approaches) and with other international standards, for example on non-authorised acquisition of qualified participation in banks' capital, corporate governance, internal controls of banks and enforcement powers. After the introduction of a new organisational structure for the Bank Supervision Department of the Central Bank of Montenegro, supervisory capacity needs to be further strengthened with a focus on risk-based supervision, consolidated supervision and cross-sector and international cooperation.

The institutional framework for supervision of the non-banking financial sector has also been improved. The Agency for Insurance Supervision came into operation in January 2008. At the moment only five civil servants are employed in the Agency, while the Council Agency performs its activities on a part-time basis, as specified by the law. The priority of the Agency is to harmonise the operations of the existing insurance and brokerage companies and also the activities of insurance intermediaries and other services in the field of insurance under the new legislation which came into force on 1 January 2008.

Furthermore, based on the Law on voluntary pension funds, Montenegro adopted several by-laws, such as rules on issuing operating licences to organisations managing voluntary pension funds and licences for establishing voluntary pension funds and rules on accounting points of voluntary pension funds and conversion of the contributions paid into accounting points, which entered into force in October 2007.

Regarding the **right of establishment**, in October 2007 the government adopted the programme to eliminate barriers to entrepreneurship development in Montenegro. An *ad hoc* Council, headed by the Prime Minister, is in charge of strategic management of the programme, via annual operational plans. In 2008 the following priorities were identified: registration of economic enterprises, issuing permits for performing the work, insolvency of economic enterprises, registration of real estate, planning, urban planning and building construction, taxes, import/export and the labour market. The Law on spatial planning and construction, adopted in July 2008, stipulates that building permits should be issued within 15

days, while the new Law on internal trade revokes licences for trading companies. However, the simplification of the procedure for establishing a business, consisting of unifying collection of all taxes and contributions under a single body, has not yet been enacted. Licensing requirements and costs still vary between different municipalities, which adds to the duration of procedures.

There has been some legislative progress, with the adoption of amendments to the **Company Law** in December 2007. Imprecision and gaps in the law were eliminated, enabling further alignment with the first, second, third sixth, eleventh and twelfth Company law directives. The revision also increased safeguards for minority shareholders and stipulated that they should be treated in the same way as local operators for foreign companies and their branches on Montenegrin territory.

Overall, Montenegro's preparations in the areas of movement of persons and services, establishment and company law have further advanced.

#### 4.1.3. *Free movement of capital*

There has been progress in the field of free **movement of capital**. With a view to accession to the WTO, Montenegro has amended its legislation on foreign current and capital operations, revoking protective measures where there is no reciprocity in current and capital transactions that could lead to disturbance of the monetary or financial conditions in the country. Although foreign investors are free, in principle, to invest and transfer financial and other assets, the Montenegrin legislation also contains some exceptions to that rule. Apart from the restrictions on production of and trade in arms and ammunition and on activities related to "national parks", the activities of foreign investors in *border districts* are subject to them participating in joint ventures with local operators, with a capital share not exceeding 49%. A Law on a State land survey and cadastre was adopted in 2007. It provides the legal basis for determining the scope of activities in connection with development of state land survey and register in Montenegro. Parliament returned the law on property relations for public discussion.

With reference to **payment systems**, a new law on national payment operations, regulating transfers of funds, inter-bank transfer settlements, issuance of electronic means of payment and establishment and control of payment operations has not yet been adopted by parliament.

A new Law on the prevention of **money laundering and financing of terrorism** was adopted in November 2007, in line with the *acquis*. The law and its implementing regulations lay a firm foundation for implementing the SAA, including by expanding and strengthening the Anti-Money- Laundering Directorate in areas such as control of reporting entities, information technology and data import.

Overall, some progress can be reported in the area of free movement of capital, in particular on the legislative front.

#### 4.1.4. *Customs and taxation*

Good progress was achieved in the area of **customs** during the reporting period. Montenegrin customs legislation, already largely aligned with the *acquis*, has been further improved. Amendments to the Customs Law introduced the status of authorised economic operator and simplified customs procedures, including via foreigners' customs agents and deferred

payments. The Decree on harmonisation of the 2008 Customs Tariff Nomenclature aligned the national customs tariff with the EU Combined Nomenclature and implemented the trade provisions in the IA. Amendments to the Law on administrative fees, though meeting the GATT Article VIII requirements, did not totally abolish customs-related fees as stipulated by the SAA and the *acquis*. A new Decree on the infringement of intellectual property rights harmonised the deadline for ceasing actions under the TRIPS. As of 1 January 2008 all duty-free shops at land borders were closed.

With reference to **administrative capacity**, the customs administration prepared a practical guide to application of rules on preferential trade within the SAA and CEFTA Agreements. An agreement on mutual assistance in customs matters was concluded with Slovenia in October 2007. Three quarters of the customs staff have received basic training. Further training on rules of origin, valuation of imported goods and IPR protection was organised for both customs officers and economic operators. The customs administration currently employs 520 civil servants, out of 669 planned posts; recruiting and retaining staff is a recurring problem. Nevertheless it continued enhancing its collection capacity and collected 22.9% more duties, VAT excises and other taxes during the first eight months of 2008, which made up 65.7% of the overall budget revenue.

Overall, Montenegrin customs legislation is largely in line with the *acquis*. However, alignment is still needed, notably as regards origin, transit procedures and valuation. Moreover, customs fees have to be brought into line with the Interim Agreement. The administrative capacity of the customs administration needs strengthening, including by continuing implementation of the business strategy, in order to ensure effective enforcement of the legislation.

Some progress was made in the **taxation** area. In the case of direct taxation, the first legislative measures were taken towards alignment with EU legislation, in the form of amendments to the Law on corporate profit tax and adoption of by-laws under the Law on personal income tax in June 2008. Constant improvements can be reported in indirect taxation. Amendments to the VAT Law increased the alignment on second-hand motor vehicles and recovery of VAT in passenger transport. Reduced rates on computer equipment and services in marinas were introduced, which are not in line with the *acquis*.

To improve the capacity of the tax administration, an internal audit department was created to monitor staff performance and uniform application of procedures. As part of the action plan to fight organised crime and corruption, the tax administration concluded agreements on cooperation with the police and Anti-Money-Laundering Directorate, business associations and unions. Also, the Code of Ethics was adopted. Exchanges of tax information with Serbia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Hungary were intensified. The Decree on fiscal cash registers and the recording of sales of goods should help to enhance VAT collection in retail trade. The information provided to taxpayers was improved by means of a tax bulletin and electronic media. Nevertheless, with 618 out of the planned complement of 744 civil servants, the main needs of the tax administration are for additional and long-term recruitment and also training. Compared with the first eight months of last year, the tax administration collected 29% more taxes and contributions. For taxes only, the figure is even higher: 31.5%.

Overall, alignment of the tax legislation with the *acquis* has increased. Good progress has been achieved in modernising the tax administration. However, further alignment is still required, in particular as regards the excise rules, zero and reduced rates of VAT and direct

taxation. Further efforts are needed to provide adequate staffing and training and to improve tax collection and controls, including effective use of risk analysis and computerisation. The fight against corruption and efforts to reduce informal economy remain a priority.

#### 4.1.5. Competition

There has been some progress in the area of **anti-trust**. Amendments to the Law on the protection of competition enabled the government to establish, in November 2007, the agency for competition protection. Experts from the Department for protection of competition in the Ministry of Economic Development were transferred to the new authority, which currently has six employees. A number of training courses and study visits were organised for the staff of the authority. The operational independence of the agency has yet to be established. A strategy for competition policy was adopted by the government in June 2008.

As regards **State aid**, there is some progress to report. An effective and comprehensive system for *ex-ante* control is not yet in place. A general Law on control of State aid entered into force in May 2007. By-laws on the criteria, purposes and conditions for granting State aid and the methods and procedures for control and reporting were adopted in the first half of 2008.

A seven-member State Aid Control Commission was established in November 2007. It is authorised to approve the granting of State aid, to order recovery of unlawful State aid and to carry out *ex-post* supervision. The State Aid Control Commission and the State Aid Department, which performs administrative and technical tasks for the Commission, upgraded their capacity by means of a series of training events. In June 2008, the State Aid Control Commission adopted the annual report on State aid control, the first of this kind in Montenegro.

Overall, some progress has been achieved. The agency for competition protection and the State Aid Control Commission were established, and their operational independence will need to be ensured. Further strengthening of the State aid framework and upgrading of the capacity of the State Aid Department is required.

#### 4.1.6. Public procurement

Progress has been made in the public procurement **system**. The competitive side of the public procurement market has improved, and the absence of any preferential treatment rules is a positive factor. The share of this sector in the Montenegrin economy increased in 2007, to 18.92% of GDP.

The Public Procurement Law adopted in July 2006 is a good starting point and is largely in line with the main principles of the EU public procurement system. However, it still shows several areas of non-compliance with the relevant EC directives and/or with international good practice, such as in the scope of utilities.

The administrative tasks of the Public Procurement Agency (PPA) have been separated from the review of complaints conducted by the Public Procurement Commission (PPC), thus reducing the risk of potential conflicts of interest. Information was made available to all stakeholders by publishing tenders and selection decisions on the Directorate's website. The electronic public procurement system has not yet been developed.

A number of training sessions and study visits were organised for PPA and PPC staff, but the PPA is still in its initial stage and lacks sufficient staffing.

Progress continued in the area of public procurement. However, efforts to improve transparency and accountability and to align the legislation with the *acquis*, including on concessions and public-private partnerships, need to be intensified, as well as capacity-building for all involved in public procurement. Enforcement of the legislation will depend on the availability of central institutional resources for supporting and monitoring public procurement efficiently.

#### 4.1.7. *Intellectual property law*

Progress has been made in the field of **intellectual and industrial property rights (IPR)**. The IPR law of the State Union will continue to apply in Montenegro until the appropriate legislative framework is adopted. Amendments to the Law on administrative fees, covering the area of intellectual property, were adopted in April 2008. With a view to Montenegro's accession to the WTO, the Law on indications of geographical origin was adopted by parliament in July. A draft law on patents has also been adopted by the government.

The Montenegrin Intellectual Property Office (IPO) was officially opened on 28 May 2008. It currently employs 10 out of the 22 planned staff and has already laid the basis for formalisation of cooperation with other IPOs in the region. A Regulation on recognition of intellectual property rights was adopted in September 2007. Under this Regulation, any rights registered with the Union Intellectual Property Office or with the Serbian Intellectual Property Office and any pending applications filed with these Offices before 28 May 2008 are enforceable in Montenegro. Any application for IPR rights in Serbia made after that date will have to be re-submitted in Montenegro within six months, in order not to lose its acquired priority.

Regarding enforcement, the administrative capacity of the newly established IPO needs further strengthening. IPR market inspectors, police officers, customs officers and employees of the Ministry for Economic Development attended a number of training seminars on intellectual property protection and counterfeiting. At the end of 2007, the Customs Administration signed a *Letter of Intent for Acceptance of SECURE Standards* (standards to be employed by customs for uniform rights enforcement), adopted by the World Customs Organisation (WCO) with a view to more efficient protection of intellectual property rights by customs authorities.

Since 2002, judges from the Commercial Court in Podgorica have been participating in relevant seminars organised both in Montenegro and abroad (USA, Bulgaria, former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Croatia, Italy and Serbia).

The number of IPR cases filed at the Montenegrin courts has increased, from only a few (up to 5 a year) to 44 in 2007. The average time per case is about six months.

Overall, further progress still needs to be made on protection of intellectual property rights, especially with regard to the still limited institutional and enforcement capacity and the low level of public awareness.

#### 4.1.8. *Employment and social policies*

In the field of **employment policy**, a further decrease in unemployment was reported. Structural unemployment, uneven regional employment and undeclared work are still problems. The process of adjusting and updating instruments for the labour market analysis by the Employment Agency and the National Statistical Office (MONSTAT) is ongoing. However, there is still a need to clarify responsibilities between the two institutions.

A national strategy for employment and development of human resources, covering the period 2008-2011, and a related action plan for 2008-2009 have been adopted. In addition, a White Paper was issued on human resources development in Montenegro up to 2017. However, the capacity of the Ministry of Health, Labour and Social Welfare needs to be further strengthened with a view to coordinating and managing implementation of the abovementioned strategies and action plans.

In the area of **social policies**, progress has been made on the legislative framework as regards *labour law*. The Labour Law was adopted in July 2008. It defines a single collective agreement for both public and private sectors, keeps the existing level of severance payments of six average salaries and retains the current 365 days maternity leave. A Law on peaceful resolution of labour disputes was adopted in December 2007. It introduces out-of-court settlement of labour disputes for the first time in Montenegro. The agency required for implementation of the Law now needs to be established.

Substantial amendments to existing legislation and timely adoption of the necessary by-laws are needed to align the legislation on *health and safety at work* more closely with the *acquis*. The administrative capacity of the Ministry of Labour and its inspection department are not yet strong enough and establishment of the safety at work agency needs to be speeded up.

Some progress has been made in relation to tripartite *social dialogue*. A Social Council was established in June 2008 based on the law adopted in December 2007. It is in charge of labour affairs with the aim of conducting a dialogue on issues that are important for improving the economic and social position of employees and employers. The Council is also expected to encourage peaceful settlement of collective labour disputes. The Council comprises 11 representatives of the government, 11 representatives of authorised trade union organisations and 11 representatives of the employers' association (Montenegrin Union of Employers). However, the issue of weak bipartite social dialogue remains unaddressed. All workers, with the exception of those employed in the State administration, have the right to bargain collectively. Given that workers in the State administration also have no right to strike, the role of trade unions in the public administration can be regarded as very limited.

In the area of *social inclusion*, a strategy on minority policy has been adopted. The 2007-2011 strategy for reduction of poverty and social exclusion was re-focused on four fields (health, education, social protection and employment). Steps have been taken to establish a coordination unit to implement it. Nevertheless there is still a lack of shared analyses and cooperation between the relevant stakeholders in charge of fostering implementation of social inclusion policies.

Regarding *social protection*, in November 2007 the government adopted a strategy for the development of social and child protection, a strategy for the development of social protection for the elderly and a strategy for the inclusion of disabled persons in Montenegro. All three cover the period 2008–2012. However, implementation of these strategies is weak.

In the area of *equality between women and men*, a national action plan for gender equality has been adopted for the period 2008-2012 which covers eight policy areas. Little progress has been made on **public health policy**. The government began to streamline the public health sector, by cutting the number of employees and restricting free housing for the remaining staff. However, the capacity of the healthcare system still does not meet the needs of the population, and the budgetary framework fails to meet all the needs. A strike by health workers hindered further reforms. Some legislation has been introduced, making progress towards aligning with EU health legislation, e.g. in the field of blood quality and safety, tobacco control and the reporting of communicable diseases. It has yet to be implemented.

#### 4.1.9. *Education and research*

As regards access to **education**, primary and secondary school enrolment rates remain high. There are 20,000 students at the University of Montenegro, 1,600 at the private Mediterranean University and 988 at five newly established private faculties (the faculty of law, the faculty of international economics, finance and business, and the faculty of administrative and European studies in Podgorica, the faculty of business management in Bar and the college of nursing in Herceg Novi). A total of 14,760 students, or 82% of the total enrolled in the first year of undergraduate studies in 2006/2007, went on to the second year of studies.

Amendments to the Law on general education and upbringing were adopted. These provide for education programmes tailored to minorities, establishment of primary schools by foreign citizens and a procedure for electing head teachers. A Law on recognition and evaluation of educational credentials was adopted in January 2008. The government adopted a strategy for inclusive education for 2008-2016 and a strategy for civic education in primary and secondary schools for 2007-2010.

Further steps were taken to upgrade the quality assurance system. The body responsible for quality assurance is the national council for higher education. Each individual faculty is responsible for permanently monitoring quality assurance. In December 2007, the University of Montenegro underwent the process of re-accreditation in accordance with the guidelines on re-accreditation of higher education institutions and study programmes. The nursing college was re-accredited in June 2008, and the Mediterranean University is now in the process of re-accreditation.

Further steps have been taken to ensure alignment with the EU's lifelong learning objectives and employment policies. A lifelong learning strategy on entrepreneurship along with an action plan for its implementation were developed.

In the area of culture, the UNESCO Convention on the protection and promotion of the diversity of cultural expressions was ratified in May 2008.

As regards **research**, in July 2008 the government adopted a strategy for scientific and research activities in Montenegro for the period 2008-2010, which defines the science and technology (S&T) priorities and sets out an annual budget for research, aiming at a gradual increase.

Montenegro is also actively considering how to strengthen its national research capacity in terms of research infrastructure and human resources and reforming the funding of national research projects.

International cooperation is being improved. A bilateral S&T agreement was concluded with Slovenia on 3 July 2008, and agreements with other countries (Albania, Croatia, Greece and Serbia) are in the pipeline. The memorandum of understanding associating Montenegro to the Seventh EC Research Framework Programme (FP7) was signed in Brussels on 25 January 2008 with effect from 1 January 2008. The implementing measures (setting up national contact points, relations with the Board of Governors of the Joint Research Centre, and nomination of observers in Programme Committees and other research groups) were taken on time. Participation in FP7 has improved compared with FP6.

The reform of the statistical system in the field of science and research and adjustment to the EU system is at an initial stage. The Ministry of Education is conducting related activities in cooperation with MONSTAT.

Overall, there has been progress in strengthening the legal framework and the quality assurance system for education. Further progress is needed to implement a comprehensive lifelong learning policy. There has been good progress on research, particularly regarding development of a strategy and of regional and international cooperation, including with the EU.

#### *4.1.10. WTO issues*

Montenegro's accession to the **WTO** has entered the final stage. Progress was made at both multilateral and bilateral levels, including the deal reached on 15 April 2008 with the EC. Further alignment of national legislation with WTO rules was accomplished with a view to finalising the negotiations before end 2008.

## **4.2. Sectoral policies**

### *4.2.1. Industry and SMEs*

Progress in developing **SMEs** policy continued.

Montenegro is committed to applying the European Charter for Small Enterprises and made further progress towards this. On 11 October 2007, the government adopted a national strategy for development of SMEs for 2007-2010 and a programme to eliminate barriers to entrepreneurial development. In April 2008, a first annual operational plan was adopted, a Council for elimination of barriers to business was established and a dedicated SME portal was launched, which will become interactive in future.

Progress on **industrial policy** has been limited. The sectoral analysis of the processing industry on the macroeconomic situation in Montenegro was finalised, but the process of developing Montenegro's overall development strategy is at an initial stage.

The new Banking Law adopted in February 2008 allowed the Central Bank to adopt a decision on credit guarantee services, providing the legal basis and guidelines for establishment and operation of a credit guarantee fund (CGF), which is not yet operational.

Also, practical measures were taken to improve the export potential of SMEs in the form of the "Enhancement of export" credit line and the "Cost-sharing grant scheme".

The government adopted a strategy for lifelong entrepreneurship learning for 2008-2013 and an action plan for 2008-2009. This envisages introducing entrepreneurial learning as a key skill in primary and secondary schools from the 2009/2010 school year.

Montenegro joined the entrepreneurship and innovation pillar of the Competitiveness and Innovation Programme on 3 March 2008 and will participate in the Enterprise Europe Network. A network of nine business centres is operating in Montenegro. The business incubator in Podgorica has not yet come into operation and no progress has been made under cluster policy.

Application of the silence-is-consent principle combined with the possibility of on-line applications would help to improve of the business environment. Also, systematic introduction of regulatory impact analysis is necessary.

Overall, progress in SMEs policies can be reported, but further efforts are needed on harmonising and speeding up licences and permits, removing business barriers and implementing industrial policy measures (CGF, incubators and clusters).

#### *4.2.2. Agriculture and fisheries*

Good progress can be reported on **agriculture and rural development policy**. A draft law on agriculture and rural development and a national programme for food production and rural development for 2009-2013 were adopted by the government in September 2008. In addition, the budget allocation for agriculture and rural development was increased by 25% compared with 2007.

In accordance with the strategy for the development of food production and rural areas, agricultural policy continued to be gradually reformed and harmonised with the Common Agricultural Policy (CAP). In particular, input support was replaced by direct payments per hectare of arable land; headage payments were granted to 4,400 beneficiaries; several thousand beneficiaries received some kind of support (for the purchase of quality seeds and seedlings, modernisation of greenhouses, direct support to growers of seed potatoes and tobacco, etc.); and the first producers were registered in the organic agriculture producer registry.

The programme for the preservation and sustainable use of genetic resources and an action plan for its implementation were adopted. The Law on animal identification and registration is being implemented, together with registration of farm holdings practising animal husbandry.

Support continued for construction of rural infrastructure, including roads and water supply. In spite of the severe drought, there were some positive results in terms of production, with exports of vegetables and certain kinds of fruit nearly doubling, and also in terms of production and sales of milk and live animals.

In July 2008, the parliament adopted the Law on geographical indications of origin, which stipulates that the procedure for legal protection of geographical indications of origin will be managed by the Intellectual Property Office of Montenegro.

Montenegro has joined several international organisations, including the Food and Agriculture Organisation (FAO). The procedure for becoming a member of the International Union for the Protection of New Plant Varieties (UPOV) is underway.

Two extension services were set up on livestock selection and plant production.

In the area of **food safety, veterinary and phytosanitary policy**, some progress was made on legislative alignment, with the adoption of the laws on food safety, reproductive material and forest trees, protection of plant varieties, GMOs and the animal welfare. Montenegro has reached the final stage in accession to the International Union for the Protection of New Varieties of Plants (UPOV). Implementing regulations have also been published regarding identification and registration of bovines and registration of their movements. However, their compliance with the *acquis* has not been documented and how correctly they implement it is uncertain. Identification of bovines has been completed, while identification of sheep and goats is still ongoing.

The veterinary administration and veterinary diagnostic laboratory have been established. The only factor limiting meat exports from Montenegro is the current lack of approved establishments.

A national strategic plan for the **fisheries** sector is being finalised, setting objectives for the development of aquaculture and marine fisheries, including scientific assessment of fish stocks. Montenegro is actively participating in relevant international fisheries bodies, such as the General Fisheries Commission for the Mediterranean (GFCM) and the Scientific Cooperation to Support Responsible Fisheries in the Adriatic Sea (AdriaMed). The Law on freshwater fisheries has been adopted, but the law on marine fisheries has not yet been finalised.

Overall, good progress can be reported on the reform of the legislation, implementation of which is to be enhanced and an integrated food safety system need to be established.

#### 4.2.3. *Environment*

Parliament has adopted a national land use plan that provides for the municipalities to take on the task of urban planning, for which a pilot strategic environmental assessment has been conducted. Development of the infrastructure envisaged under this plan requires due attention in order to avoid any adverse impact on the environment.

Progress has been made as regards **horizontal legislation**. Laws on environmental impact assessment and strategic environmental assessment have entered into force. Implementing legislation on environmental impact assessment has been adopted. The Ministry of Tourism and the Environment has been designated as the national authority for projects related to the Clean Development Mechanism (CDM) under the Kyoto Protocol. Preparations for Montenegro to become party to the Espoo and Aarhus Conventions have advanced. Implementation and enforcement of the legislation continue to pose a significant challenge. Further efforts are needed in this respect, especially on cooperation with local government.

In the area of **air quality**, limited progress can be reported. The Law on ambient air quality has entered into force. Projects on phasing out ozone-depleting substances, including training for technical staff, have been approved and are being implemented. Adoption of implementing legislation on air quality is still pending. Overall, harmonisation with the EU standards in this area is at an early stage, and significant efforts are needed to ensure implementation and enforcement.

Some progress has been made in the area of **waste management**. A national waste management plan for the period 2008-2010 has been adopted. The system of permits for establishments and undertakings carrying out disposal or recovery operations has come into force. A pilot project for separate collection of certain categories of waste in municipalities has been launched. Preparations in this area are at an early stage. The level of alignment with the EU standards remains low, except for the Waste Framework Directive and the Hazardous Waste Directive. The track record on implementation and enforcement needs to be improved.

Limited progress can be reported on **water quality**. Montenegro became a contracting party to the Barcelona Convention. A related Law on the sea, along with legislation implementing the Law on water, have been adopted. Coordination between the Ministry of Agriculture, Forestry and Water Management and the Ministry of Tourism and the Environment needs to be improved. Preparations in this area are at an early stage. The level of alignment with the European standards remains low. Further efforts are needed on implementation and enforcement.

Some progress can be reported in the area of **nature protection**. A Law on nature protection transposing provisions of the Habitats and Wild Birds Directives was adopted in June 2008. Further efforts are needed as regards awareness-raising in this field. Inspection measures and sanctions have not yet been adopted. Preparations in this area are at an early stage. The level of alignment has improved, but implementation and enforcement remain a challenge.

Some progress can be reported on **industrial pollution control and risk management**. The Law on integrated pollution prevention and control (IPPC) has entered into force. Implementing regulations, including the inventory of IPPC installations and best available techniques, have been adopted. Existing installations must comply with the IPPC requirements by 2015. Preparations in this area are at an early stage. The level of alignment has improved, but implementation and enforcement remain a challenge.

Some progress can be reported in the area of **chemicals** and **genetically modified organisms (GMOs)**. The laws on chemicals and on GMOs have been adopted. The competent authorities for GMOs have been designated and the National Biosafety Council is being established with the aim of monitoring developments in the area of GMOs and providing assistance to the authorities involved in implementing the legislation in this field. Limited progress can be reported on the level of alignment with the European standards, but implementation and enforcement remain weak. Preparations in these areas are at an early stage.

No progress can be reported in the area of **noise abatement**.

Progress has been made in the case of **forestry**, with the adoption of the national policy for forest and forest land management.

The **administrative capacity** of the Ministry of Tourism and the Environment (MTE) remains weak. Coordination between the bodies involved in environmental protection issues, particularly in inspection activities, needs to be significantly improved. The environmental protection agency is in the process of being established. The lack of implementation capacity at local level and poor coordination between central and local government further limit the enforcement capability.

Overall, some progress has been achieved in terms of alignment with the European standards. Further efforts are needed, however, particularly on implementation and enforcement.

Particular attention needs to be paid to strengthening administrative capacity and to establishing effective inspection services. Further efforts should be put into raising awareness of environmental protection issues. Overall, environmental protection, in particular in coastal areas and national parks, is a cause for concern.

#### 4.2.4. *Transport policy*

In the area of **trans-European transport network** Montenegro continues to participate actively in implementation of the memorandum of understanding, signed in 2004, for the development of the core regional transport network and in the South-East Europe Transport Observatory (SEETO). The mid-term priorities specified in the updated multi annual plan for 2008–2012 are being implemented. In addition, the transport development strategy for the period 2008–2018, harmonised with the existing land use plan, was adopted in July 2008. However, continued cooperation in the framework of SEETO is required and the quality of the existing road infrastructure has still to be improved.

On **road transport**, once the IA entered into force, Montenegro took the necessary steps to ensure unrestricted Community transit through its territory. However, on 15 June 2008 Montenegro introduced an eco-tax on foreign, including Community, road passengers and cargo vehicles, whose compatibility to the IA provisions is under examination. Progress is starting to be made on harmonisation of legislation in the field of road safety and technical and social conditions. A series of laws are being prepared in this field, , but their finalisation should be speeded up. The newly adopted legislation has to be implemented. The Law on ratification of the agreement on the international occasional carriage of passengers by coach and bus – INTERBUS – was approved in July 2008.

In the case of **rail transport**, the restructuring process and the division of the railway company is progressing in accordance with the railway restructuring strategy adopted in September 2007. The legislative progress on rail safety culminated in the adoption of the Law on rail transport safety in December 2007, but the related by-laws have yet to be adopted. Montenegro signed an "Addendum to the memorandum of understanding on the development of the South-East Europe core regional transport network for a South-East European railway transport area" in December 2007, as a bold commitment to take in coordinated steps towards opening its rail service market as part of a gradual process extending over several years.

In the field of **maritime transport** there is little progress to report. The Law of the sea was passed in December 2007 and the Law on ports in July 2008. However, the Law on maritime navigation is still being drafted and particular attention should be paid to safety and security issues.

No progress can be reported in the areas of **inland waterways** and **combined transport**.

Concerning **air transport**, approximation of the laws on air traffic management has started, with the adoption of a civil aviation safety programme. The civil aviation safety committee is still to be established. The draft law on civil aviation has been drawn up. The administrative capacity of the relevant authorities should be further built up so that they will be capable of enforcing the aviation *acquis*, as required by the ECAA Agreement.

Overall, there has been good progress on liberalising road transit traffic. Restructuring of the railways is being implemented but access conditions to the railway infrastructure are yet to be defined. Progress in road safety, maritime transport, and systemic approach to transport

development has been limited. Substantial efforts are required in implementing the aviation *acquis* and establishing sufficient administrative capacity.

#### 4.2.5. *Energy*

Regarding **oil stocks and security of supply**, work on a draft law on prospection, exploration and exploitation of oil and gas is still ongoing.

Regarding the **internal energy market**, a national energy development strategy (NEDS) covering the period up to 2025 was adopted on 13 December 2007. Although there are plans to open up the market gradually, no eligibility thresholds have been set and random requests by customers for other sources of supply do not generate sufficiently powerful momentum.

The State electricity company, EPCG, is due to be restructured in three stages. The decision to unbundle the electricity power utility has been adopted. The first stage has already been completed with the creation of five daughter companies. In the second stage of the reorganisation, an independent transmission company is due to be created by the end of 2008. In the third stage, the remaining four companies will become independent joint stock companies. The restructuring is envisaged to be completed by the end of 2009.

Further examination of the compatibility of the NEDS with the EU Water Framework Directive is needed. The NEDS argues that the long-term solution to global climate change problems should rely on reservoir construction as a means of responding to ecological changes in watercourses.

An action plan for energy efficiency covering the period 2008-2012 was adopted. Detailed plans for its implementation and an action plan for energy efficiency in the public sector are under development.

An action plan on **renewable energy** sources (RES) (prepared in response to Directive 2001/77/EC) and an action plan for promotion of biofuels (prepared in response to Directive 2003/30/EC) were adopted under the auspices of the Energy Community in late July 2007. However, little has been done in terms of implementation. The major hurdle is that there are too few national and regional agencies. Funds to promote these policies are also lacking. Another difficulty is that, with the exception of the hydro-power sector, the RES market is underdeveloped and unable to attract sufficient finances for potential projects.

The draft law on **radiation protection and nuclear safety** has not yet been adopted. It should be fine-tuned and harmonised with the EU directives. The environmental protection agency, which has yet to be fully established, will be the nuclear regulatory authority. Montenegro has yet to accede to the Convention on nuclear safety, as to the Joint Convention on the safety of spent fuel management and on the safety of radioactive waste management.

Overall, there is progress to report in the energy sector, but it remains uneven. Continued efforts are still needed to meet the requirements of the Energy Community Treaty promptly.

#### 4.2.6. *Information society and media*

Some progress has been made on **electronic communications and information technology**.

A Law on electronic communications – with the aim of transposing the 2002/2003 EU regulatory framework – was submitted to parliament without public discussion and adopted

on 29 July 2008. It entered into force on 27 August 2008. The Law provides for the establishment of a new regulatory authority, which will be in charge of electronic communications and broadcasting (infrastructure licences and frequencies, but not content regulation). The procedure for appointing the members of the board of the new regulatory authority (government nomination), along with the division of tasks and responsibilities between the new authority and the ministry and their financing, give cause for serious concern about the independence of the new regulatory authority.

The majority of the secondary legislation based on the new primary law still needs to be drafted. The administrative capacity of the Department for telecommunications policy, part of the Ministry of Maritime Affairs, Transportation and Telecommunications, remains weak.

There have been no changes in the level of competition on the telecommunications market. There are three operators on the mobile telephony market. In the field of fixed networks and services, the telecommunications regulatory authority (Agentel) issued licences for the provision of VoIP and for fixed wireless access (FWA). Most of the licences went to the three existing mobile operators and only one of them has so far launched commercial operations. In addition, it was announced that some State companies (electricity and railways) may provide competition in the near future.

In addition to drafting rulebooks on number portability and local loop unbundling (to be adopted under the new legislation), Agentel is also working on a cost model. In April 2008, Agentel approved a new reference interconnection offer (RIO). The new RIO allows a choice of service providers (through carrier (pre-)selection, which was introduced by law in 2007), access to VoIP providers and lower interconnection charges.

There have been some improvements in the legislative framework for further development of the **information society**. A Law on electronic documents and laws on data confidentiality, on standardisation and on the residence register have been adopted. Work on a new information society strategy is underway. Annual action plans focus on implementation of the strategies, policies and legislative requirements and on set priorities. In May 2008, the government adopted the programme for information security which will serve as the basis for development of the information security system. The Conditional Access Directive has yet to be transposed.

In the area of **audiovisual policy**, a new Law on cinematography was adopted in February 2008. The Broadcasting Agency adopted rules on the licensing procedure and conditions for use of licences for the distribution of radio and television channels to end-users by means of public fixed telecommunication networks and satellite distribution systems.

The Broadcasting Agency is continuing to implement a programme of checks on compliance with technical standards (electromagnetic compatibility, protection zones and corridors, permitted radiation in cities, technical conditions for broadcasting radio/TV programmes, etc.). The deadline for harmonising the broadcasters' work with technical standards expired in April 2008. The Agency decided to revoke two broadcasters' rights to use allocated frequencies. The level of harmonisation is high, allowing the digitalisation process to begin. The Agency adopted a digital switchover strategy in April 2008.

The Broadcasting Agency also adopted a rulebook on advertising and sponsorship in the electronic media. It includes a minimum proportion of European works in television

broadcasting, in line with the European Convention on transfrontier television and the Audiovisual Media Services (AVMS) Directive.

In response to a fourth public call for tenders, the Agency allocated rights to broadcast radio signals on TV channels and frequencies for FM radio.

The European Convention on transfrontier television was ratified on 10 January 2008.

After the country's main telecommunications operator stopped collecting the licence fees for the public broadcaster RTCG in August 2007, RTCG had no source of income. An agreement has been negotiated with the electricity utility, EPCG, which started collecting the licence fees together with electricity bills as from 1 July 2008.

Internal reorganisation of the public service broadcaster is ongoing.

Diverging interpretations of the public service broadcasting law by the parliamentary parties are hindering the effectiveness and independence of the public broadcaster's work. A political dispute about the manipulation of appointment procedures for new members of the RTCG Council has hampered the work of the Council. The RTCG Council currently consists of seven of the envisaged eleven members.

Overall, some progress has been made on the information society and media. However, the progress in this sector has been called into question by the adoption of the Law on electronic communications, which raises concerns about the independence of the new Electronic Communications Authority. Moreover, the transfer of frequency licensing to the new regulatory authority could have a considerable financial impact on the Broadcasting Agency which has lost one of its principal sources of funding. Further strengthening of the legislative framework for development of the information society is required. The effectiveness and independence of the public service broadcaster need to be ensured.

#### *4.2.7. Financial control*

The development of **public internal financial control** (PIFC) is underway. A PIFC policy paper was adopted by the government in December 2007, focusing on development of financial management and control systems, functionally independent internal audit and central harmonisation. The associated action plan covers the period up to 2012.

Efforts to develop a framework law on PIFC have started, as existing legislation and implementing manuals need to be revised to ensure consistency with the new legal framework.

A Central Harmonisation Unit, containing sections for financial management and control and one for internal audit, has been set up within the Ministry of Finance. Establishment of internal audit units in line Ministries is underway, in keeping with the principles of the policy paper and the draft PIFC law.

In the area of **external audit**, the country's constitution, adopted by parliament in October 2007, includes provisions on the independence of the State Audit Institution (SAI), which became a member of INTOSAI in November 2007. A rulebook on examinations to qualify as a State auditor has been introduced and some members of the SAI have passed the examinations. Consideration should be given to drawing up a strategic development plan.

Developments in PIFC and external audit are at an early stage. Considerable awareness-raising efforts and training on the new systems will be required.

#### 4.2.8. *Statistics*

There has been limited progress on **statistical infrastructure**. The terms of employment in the statistical office (MONSTAT) improved, with an increase in salaries, but the overall resource situation and administrative capacity are still very weak. The problem is increasingly recognised by the authorities, although the appropriate measures have yet to be taken. MONSTAT continues to lack professional independence, and therefore does not comply with the first principle of the European Statistics Code of Practice.

MONSTAT has improved its communication with users by launching a user-friendly monthly bulletin.

Cooperation and coordination within the national statistical system have improved to some extent, as MONSTAT has signed a memorandum of understanding with the customs authorities. Cooperation with the Ministry of Agriculture has increased, with preparations being made for an agricultural census. Development of the statistical business register has advanced. It was used for production of business statistics.

As regards **classifications**, compliance with EU standards remains limited.

As regards **sectoral statistics**, some progress can be reported. In the case of demographic and social statistics, progress has been made with introduction of a continuous labour force survey which is published on a quarterly basis and uses the EU and International Labour Organisation harmonised methodology. As regards macro economic statistics, revised GDP figures for 2000-2005 were published. On business statistics, the results of the first pilot survey on structural business statistics are being analysed. Data have not yet been disseminated. Energy statistics were published. Progress has also been made on external trade statistics, with data being transmitted to Eurostat, although the data need to be further revised.

Overall, little progress can be reported on production of statistics. The administrative capacity remains very weak and MONSTAT still lacks professional independence. Substantial efforts are needed in all areas in order to reach a level in line with EU standards.

### 4.3. **Justice, freedom and security**

#### 4.3.1. *Visa, border, control, asylum and migration*

Progress has been achieved in the area of **visa policy**. The visa facilitation agreement between Montenegro and the European Community entered into force in January 2008. A visa liberalisation dialogue was initiated between the Commission and Montenegro, and the Commission handed over a roadmap on visa liberalisation in May 2008. Montenegro provided a first report on its alignment with the roadmap benchmarks in September 2008.

The Law on citizenship and the Law on the registries of temporary and permanent residence of citizens were adopted in February 2008: The Law on travel documents was adopted in March 2008. Montenegro started issuing new biometric passports in June 2008.

Montenegro currently has 13 diplomatic/consular missions. Serbia's diplomatic and consular representations continue to provide visas for Montenegro on the basis of a mutual agreement.

Montenegro has also signed a similar agreement with Bulgaria. Visas are issued at the border only in exceptional cases of humanitarian or national interest. A sector for migration, visas and readmission has been established within the Ministry of the Interior and Public Administration.

However, the current visa regime is still not fully in line with European standards. Legislation on foreigners has not been adopted. Negotiations on double citizenship with Serbia were initiated in late 2007 but have not yet been finalised.

Montenegro partially meets its priorities in the area of visa policy, but further work is required.

As regards **border control**, Montenegro has started to implement its integrated border management strategy and the associated action plan. For this purpose, a cross-sectoral commission was established. Bilateral agreements on cross-border cooperation have been signed with Albania and Serbia, as have protocols for police cooperation with Bosnia and Herzegovina. The border demarcation issue with Serbia is nevertheless still pending. The reconstruction of the Scepan Polje border crossing point was completed and a start was made on the reconstruction of the Bozaj–Dobrakovo border crossing point. An Interpol network base was established at Podgorica airport.

Statistics show that there were 10,655,879 border crossings in 2007, which is an increase of approximately 40% compared with 2006. In 2007, 342 illegal crossings of the borders were prevented after 360 in 2006. Entry to Montenegro was denied to 1,368 persons in 2007 compared with 1,485 cases in 2006.

Staffing of the border police has almost been completed, with only 7% of the total of 1,470 posts still vacant. Border police officers have undergone basic police training at the police academy, plus various types of specialised training. Cooperation between the border police and the customs authorities has improved substantially. A memorandum of understanding has been signed between the border police, customs, tax and anti-money-laundering authorities.

However, the new Law on State border surveillance and its implementing legislation have not yet been adopted. Negotiations on a working arrangement with FRONTEX have not yet started. Inter-agency agreements for cooperation on border management are not sufficient. No national coordination unit or multi-agency information centre has been established for sharing information between the various institutions in their day-to-day work and setting up an integrated database. Although some improvements have been made, currently only eight border crossing points have IT connections and only two have access to the Interpol database. Overall, Montenegro has started to address its priorities in the area of border control.

Some progress has been made on the establishment of the legal framework in the field of **asylum**, with the adoption of secondary legislation. The Office on Asylum and the State Asylum Appeal Commission, which decide in first and second instance on asylum applications, were established and staffed. During the first six months of 2008 the Office on Asylum dealt with three cases: two applications were rejected and one approved.

However, problems with legal aid and translations remain. The reception centre for asylum-seekers is not finished. The task of providing accommodation for persons seeking asylum is carried out by the Bureau for Refugee Care, but the resources allocated to this bureau are limited and its overall capacity needs to be built up. No judicial recourse against the decisions

of the State Asylum Commission is provided for. Overall, Montenegro has started to address its priorities in the area of asylum.

As regards **migration**, progress has been limited. Implementation of the readmission agreement between Montenegro and the European Community has begun and Montenegro has negotiated, or is in the process of negotiating, bilateral implementation protocols on readmission with individual Member States. A migration management strategy was adopted in September 2008. The Law on the registries of temporary and permanent residence of citizens was passed in February 2008. The Law on employment and work of foreigners was adopted in March 2008 and maintains the existing system of annual quotas for granting work permits.

However, the Law on foreigners has not yet been adopted. In the absence of a strategy, there was no basis for a sustainable migration management structure to regulate and monitor migration trends. Implementation of the new strategy will have to prove that it can fill these gaps. Montenegro does not yet have detention facilities for foreigners found to be staying illegally in the country.

In Montenegro, there are still around 16,000 displaced persons from Kosovo and around 8 500 displaced persons from Croatia and Bosnia and Herzegovina. The question of how to deal with displaced persons who do not want to leave the country remains unsolved. Overall, preparations in the area of migration remain at an early stage.

#### 4.3.2. *Money laundering*

Some progress has been achieved in the area of money laundering. A new Law on the prevention of money laundering and terrorist financing was adopted in November 2007. Under this new law, the list of reporting entities was extended to include, *inter alia*, pension funds, lawyers and notaries. Montenegro ratified the Council of Europe Convention on laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism. A growing number of transactions have been reported by non-banking financial institutions, such as stock exchanges and the central depository agency. Memoranda of understanding have been concluded between the Anti-Money-Laundering Administration and the Police Directorate, State Prosecutor and the Customs Directorate.

However, Montenegro's efforts to fight money laundering are not sufficient and need to be stepped up. The legal framework needs to be supplemented by adopting the requisite secondary legislation.

The administration for the prevention of money laundering and terrorist financing was set up as a financial intelligence unit. It has no powers to conduct criminal investigations. It passes on all reports on what it considers to be suspicious transactions to the police and the State Prosecutor for further investigation; clear criteria and standard procedures for this are not yet in place. In 2007/2008, a total of 95 reports were produced; 54 of these were sent to the police and the state prosecutor on the basis that there were reasonable grounds for suspicion of money laundering. There is no mechanism for following up reports on the outcome of the investigations. Especially in view of the increasing number of reported transactions, the administration needs further strengthening in the form of an increase in staff, specialised training and working procedures.

The capacity of the police and the prosecution service for investigating cases of money laundering is limited. Within the Police Directorate, there are only two persons dealing with the fight against money laundering and only a small number of money laundering cases were forwarded from the police to the prosecution service. The prosecution service itself seriously lacks expertise. There is a need to strengthen both human resources and the technical capacity of the staff, particularly for financial investigations.

Closer inter-agency cooperation remains crucial, given the link between money laundering and other serious forms of organised crime. No specific measures to reduce or replace cash transactions have been reported. Tighter control should be exercised over funds invested in the construction boom and in the real estate industry. Montenegro has started to address its priorities, but money laundering remains a serious problem and clear determination to prevent and combat it is needed.

#### *4.3.3. Drugs*

Progress in the fight against drugs has been limited. In May 2008 the government adopted the national strategic response to narcotics and the associated action plan for 2008–2012. Border police and customs officers were trained in control of precursors for narcotic drug production. Preventive activities have continued.

However, the law on precursors has not been adopted. The capacity of the police is insufficient. The police department for the fight against drugs and smuggling, which is responsible for combating drug abuse, has ten posts, of which six are vacant. The government agency for illicit drugs, which should be coordinating the work of both governmental and non-governmental organisations on prevention of drug abuse at national level, has not yet been established. Inter-agency cooperation needs to be further developed and strengthened.

Drug transit and trafficking, in particular by organised crime groups, remain a matter of serious concern. Drug abuse and drug-related crime continue to rise. Overall, Montenegro has started to address its main priorities, but further action is needed.

#### *4.3.4. Police*

Modest progress has been made in the area of policing during the reporting period. A strategic cooperation agreement with Europol was signed in September 2008. The internal reorganisation process has continued. Staff received extensive training, both general and specific, as along with English lessons to facilitate international cooperation.

The police academy has built up its capacity for training in several areas and for several categories of police officers, including on public administration. Basic police training for policemen without a university degree lasts 18 months; for policemen with a university degree the training period is ten months, and for those who are already working with the police but do not have basic police training it is 4.5 months. Expert and specialised training is provided for criminal and border police.

However, the professional capacity of the police - particularly as regards use of modern investigation and analysis techniques - should be improved. Equipment and facilities, in particular for the organised crime department, need upgrading. The same applies to the police academy, in order to ensure adequate facilities for the various types of training to be

conducted in-house. Internal control needs strengthening. The overall number of policemen remains high.

Small arms and light weapons are still widespread and often put to illicit use in Montenegro, posing a serious problem. This has, in particular, a strong impact on criminal activity. In addition, a high level of illicit arms possession amongst the general public must be reported.

Overall, police reform in Montenegro is moderately advanced.

#### 4.3.5. *Fighting organised crime and terrorism*

Some progress can be reported in the fight against **organised crime**. The government adopted the third report on the action plan for implementation of the programme for fighting corruption and organised crime and revised the action plan for 2008-2009 to include measurable indicators and tangible results. In 2007, the organised crime and corruption unit of the Police Directorate participated actively in international cooperation and carried out eight international police operations with partners from the region and in cooperation with the Special Prosecutor. Cooperation with Interpol has been good and has contributed to an intensive exchange of intelligence information with other countries' services.

Special departments in high courts for combating organised crime, corruption, war crimes and terrorism were established in September 2008. At the same time, the powers of the Special Prosecutor for organised crime were extended to cover the same areas.

A rulebook on internal organisation and systematisation of the Police Directorate was adopted in December 2007. In accordance with the rulebook, 23 posts have been earmarked for the unit against organised crime and corruption. The national commission for the fight against corruption and organised crime – a tripartite body bringing together criminal police, courts and prosecution services – has been established in order to improve cooperation between law enforcement bodies. The national commission is working on improving case monitoring and on harmonising of statistics and methods of analysis.

However, the new Criminal Procedure Code has not yet been adopted. The administrative and judicial capacity to deal with organised crime cases remains limited. In the Police Directorate's organised crime unit, 20% of the allocated posts are currently vacant. The unit has no staff at local level. The working conditions of this unit are inadequate and further upgrading of professional skills is needed, especially with respect to modern investigation techniques, including financial investigations.

The Special Prosecutor's Office needs further upgrading by increasing the number of deputies and administrative staff. Training and expertise need to be improved significantly, as do equipment and premises. Final convictions in this area remain rare.

A multi-agency centre for sharing information between relevant institutions in their day-to-day work with the aim of setting up an integrated data-base has not yet been established. Operational cooperation between law enforcement agencies needs to be improved.

Overall, organised crime remains a matter of serious concern in Montenegro.

There has been little progress in the fight against **trafficking of human beings**. Although, as a general trend, the number of persons trafficked through South Eastern Europe is decreasing, Montenegro remains a transit country for trafficking of women from Serbia, Kosovo, Bosnia

and Herzegovina, Romania, Ukraine and Russia into Western Europe for commercial sexual exploitation.

The Council of Europe Convention on trafficking of human beings has been ratified in July 2008 and will enter into force on 1 November 2008. Facilities are in place to support and protect victims of trafficking.

The national coordinator for the fight against trafficking has been active in regional cooperation and has continued to conduct awareness raising and training activities, including on identifying potential problems and providing assistance to victims.

However, investigations of cases concerning trafficking in human beings remain rare. In 2006 only one single case of trafficking of human beings was investigated, and in 2007 just two. Montenegro should build up further its capacity to identify victims proactively among vulnerable groups, to provide legal alternatives to removing victims to countries where they face hardship, to encourage victims to assist in the investigation and prosecution of trafficking offenders and to conduct trafficking-sensitivity training for the judiciary. Overall, Montenegro is moderately advanced in fighting trafficking in human beings.

Some progress has been made with implementing the new legislative provisions on **terrorism** and with strengthening the coordination and capacity of the relevant law enforcement agencies. The Council of Europe Convention on the prevention of terrorism has been ratified. However, a national strategy against terrorism still needs to be adopted.

#### *4.3.6. Protection of personal data*

Progress in the area of protection of personal data was limited to the adoption of a new strategy in June 2008. A new law on protection of personal data has not yet been adopted. Current legislation is not in line with the Personal Data Protection Directive. In the absence of an independent and efficient data protection supervisory authority, existing data protection rules have not been implemented.

The situation in the area of personal data protection remains a cause for serious concern. Montenegro urgently needs to harmonise its legislation with Community rules, in particular as it had committed itself to do so with effect from the entry into force of the Stabilisation and Association Agreement.

## STATISTICAL ANNEX

### STATISTICAL DATA (as of 29 September 2008) Montenegro

Basic data	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (thousand)	1)	608	610	612	615	617	619	621	623	624	625
Total area of the country (km <sup>2</sup> )	2)	13 834	13 830	13 831	13 833	13 833	13 833	13 833	13 812e	13 812	13 812p

National accounts	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic product (GDP) (million national currency)	3)	:	:	:	:	:	:	:	:	:	:
GDP (million euro)		:	:	1 066	1 295	1 360	1 510	1 670	1 815	2 148p	:
GDP (euro per capita)		:	:	1750e	2113e	2208e	2435e	2684e	2912e	3 443p	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-25=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		:	:	:	1.1	1.9	2.5	4.4	4.2	8.6p	:
SI: Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		:	:	12.4	11.9	12.2	11.6	10.9	10.4	10.1p	:
Industry		:	:	19.2	20.7	20.0	19.2	18.7	17.1	16.0p	:
Construction		:	:	4.3	3.9	4.0	3.4	3.5	3.6	4.3p	:
Services		:	:	64.1	63.4	63.8	65.8	66.9	68.9	69.5p	:
Final consumption expenditure, as a share of GDP (%)		:	:	91.9	100.2	105.8	101.0	99.4	99.8	104.2p	:
Households and NPISH, as a share of GDP (%)		:	:	70.0	75.0	80.9	74.2	73.1	69.9	77.2p	:
General government, as a share of GDP (%)		:	:	21.9	25.2	24.9	26.8	26.3	29.9	27.0p	:
Gross fixed capital formation, as a share of GDP (%)		:	:	16.9	17.5	14.6	13.3	17.0	18.0	21.9p	:
Changes in inventories, as a share of GDP (%)		:	:	5.5	5.9	4.1	2.1	-0.4	-0.3	3.6p	:
Exports of goods and services, relative to GDP (%)		:	:	36.8	38.4	35.4	30.6	42.0	43.6	49.4p	:
Imports of goods and services, relative to GDP (%)		:	:	51.1	62.0	59.9	47.0	58.1	61.1	79.1p	:

Industry	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Industrial production volume index (2000=100)		105.0	96.0	100.0b	99.0	100.0	102.0	116.0	114.0	115.0	115.0

Inflation rate	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Consumer price index (CPI), (total, % change on previous year)		:	:	:	:	:	:	:	:	:	:

Balance of payments	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Balance of payments: current account total (million euro)		:	:	:	:	-175	-102	-120	-154	-531	-1 008p
Balance of payments current account: trade balance (million euro)		:	:	:	:	-433	-359	-416	-514	-849	-1 524
Balance of payments current account: exports of goods (million euro)		:	:	:	:	310	271	452	461	648	628

Balance of payments current account: imports of goods (million euro)	:	:	:	:	743	630	869	974	1 498	2 152
Balance of payments current account: net services (million euro)	:	:	:	:	100	112	148	196	197	440
Balance of payments current account: net income (million euro)	:	:	:	:	76	88	86	18	31	17
Balance of payments current account: net current transfers (million euro)	:	:	:	:	83	58	62	147	90	59
of which government transfers (million euro)	:	:	:	:	:	:	:	6	7	2
Foreign Direct Investment (FDI) in the reporting economy (million euro)	:	:	:	:	76	44	53	393	644	1 008

<b>Public finance</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: General government debt, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:

<b>Financial indicators</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	4)	:	:	:	:	:	285	291	351	484	592
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	5)	:	:	:	:	:	403	437	615	1 099	1 557
Money supply: M3 (M2 plus marketable instruments, million euro)	6)	:	:	:	:	:	494	547	867	1 587	2 728
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	:	:	:	101	200	284	318	771	2 096
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency	3)	:	:	:	:	:	1.000	1.000	1.000	1.000	1.000
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		:	:	:	:	55	50	60	173	310	490

<b>External trade</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trade balance: all goods, all partners (million euro)		:	:	:	:	:	:	:	-514	-855	-1 535
Value of exports: all goods, all partners (million euro)		:	:	:	:	:	:	:	461	627	599
Value of imports: all goods, all partners (million euro)		:	:	:	:	:	:	:	974	1 483	2 134
Terms of trade (export price index / import price index)		:	:	:	:	:	:	:	:	:	:
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	:	:	:	53.5	62.2	59.0
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	:	:	:	45.3	45.4	43.6

<b>Demography</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		6.4	5.6	6.1	5.5	4.8	4.3	3.4	2.4	2.5	3.0
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		:	:	:	:	:	:	:	:	:	1.2
Infant mortality rate: deaths of children under one year of age per 1000 live births		13.9	13.4	11.1	14.6	10.8	11.0	7.8	9.5	11.0	7.4
Life expectancy at birth: male (years)		70.6	70.7	71.1	71.4	70.9	70.4	71.0	70.4	70.6	:
Life expectancy at birth: female (years)		76.5	76.1	76.3	76.5	75.7	74.9	75.3	74.9	74.8	:

<b>Labour market</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)	7)	58.9	58.5	60.4	57.1	59.1	58.9	51.7	49.9	49.0	53.0
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)	7)	38.8	39.2	38.5	37.1	37.7	36.2	37.4	41.0	41.0	43.0
Share of male population aged 15-64 that is in employment (%)	7)	48.8	47.3	46.2	45.6	46.6	44.5	46.5	42.4	41.0	48.0
Share of female population aged 15-64 that is in employment (%)	7)	29.1	31.4	30.6	29.0	29.0	28.1	28.8	27.6	29.0	37.0
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		:	:	:	:	:	:	:	:	:	:

Employment by main sectors (%)											
Agriculture	8)	2.5	2.6	3.4	3.1	3.0	1.8	10.9b	8.6	7.0	8.3
Industry	8)	24.4	22.5	22.4	25.8	26.0	25.7	16.5b	16.3	12.4	11.3
Construction	8)	3.2	3.0	3.5	2.1	2.1	2.0	3.4b	2.9	4.8	3.9
Services	8)	69.8	71.8	70.8	69.1	68.8	70.6	69.2b	72.1	75.8	76.4
SI: Unemployment rate: share of labour force that is unemployed (%)		18.5	19.3	19.3	21.2	20.7	22.7	27.7	30.3	29.6	19.3
Share of male labour force that is unemployed (%)		:	:	:	:	:	:	:	:	:	:
Share of female labour force that is unemployed (%)		:	:	:	:	:	:	:	:	:	:
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		:	:	:	:	:	:	:	:	:	:
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		:	:	:	:	:	:	:	:	:	:

Social cohesion											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average nominal monthly wages and salaries (national currency)	3)			92.5	107.9	149.1	173.9	195.3	213.1	246.0	338.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		106.2	99.9	100.0	91.6	109.7	119.3	130.9	139.7	156.4	179.9
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	:	:	:	:	:

Standard of living											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of passenger cars per 1000 population		:	184.6	185.3	161.0	166.8	171.8	176.1	190.9	:	:
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	:	639.6	775.5	674.4	778.7	872.0	1 127.5	:

Infrastructure											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	:
Length of motorways (thousand km)		:	:	:	:	:	:	:	:	:	:

Innovation and research											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	:

Environment											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:	:	:	:	:
SI: Share of renewable energy in electricity consumption (%)		:	:	:	:	:	:	:	:	:	:
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)		:	:	:	:	:	:	:	:	:	:

Energy											
	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Primary production of all energy products (thousand TOE)		4 262	4 236	4 222	3 679	4 135	4 353	4 822	4 161	4 464	3 347
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)		1 591	1 500	1 567	1 186	1 807	1 618	1 514	1 297	1 512	1 203
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Electricity generation (thousand GWh)		2 671.0	2 736.0	2 655.0	2 493.0	2 327.0	2 735.0	3 308.0	2 864.0	2 952.0	2 144.0

<b>Agriculture</b>	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agricultural production volume index of goods and services (producer prices, previous year=100)		99.0	106.0	95.0	107.0	106.0	101.0	104.0	99.0	102.0	:
Total utilised agricultural area (thousand hectare)	9)	519e	518e	518e	518e	518e	518e	518e	517e	517	516
Livestock: cattle (thousand heads, end of period)	10)	178e	180e	179e	178e	183e	175e	169e	118	115	:
Livestock: pigs (thousand heads, end of period)	10)	23e	22e	19e	21e	22e	24e	27e	11	13	:
Livestock: sheep and goats (thousand heads, end of period)	10)	333e	306e	293e	244e	241e	252e	254e	255	249	:
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	10)	177e	195e	197e	194e	198e	203e	209e	186	178	:
Crop production: cereals (including rice) (thousand tonnes, harvested production)	10)	5e	4e	3e	4e	5e	4e	3e	3e	3	:
Crop production: sugar beet (thousand tonnes, harvested production)		:	:	:	:	:	:	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		:	:	:	:	:	:	:	:	:	:

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

b: break in series

1. Source: Eurostat.
2. Total land includes: agricultural area, forests and non-agricultural land.
3. No official national currency exists. Euro is the currency in use.
4. As of 31 December. Instead of standard M1, data under national definition of M0 are provided. M0 comprises banks' deposits with the CBM (settlement account and reserve requirement account) and the estimated amount of cash in circulation. M1 comprises M0, demand deposits of the non-banking sector held with banks and the CBM, in EUR and other currencies, excluding deposits of the Central Government.
5. As of 31 December. Instead of standard M2, data under the national definition of M11 are provided. The monetary aggregate M11 comprises M1 increased by the Central Government's demand deposits in EUR and other currencies. The monetary aggregate M2 includes M1 and the non-banking sector's time deposits with banks, in EUR and other currencies, excluding deposits of the Central Government.
6. As of 31 December. Instead of standard M3, data under the national definition of M21 are provided. Definition of M21 is included in the previous footnote.
7. Age group refers to persons aged 15 or more years.
8. From 2004 onwards, a new methodology, harmonised with the EU requirements, is used.
9. Agricultural area includes: arable land, area under pastures, fishponds and ponds.
10. Includes households, enterprises and cooperatives.