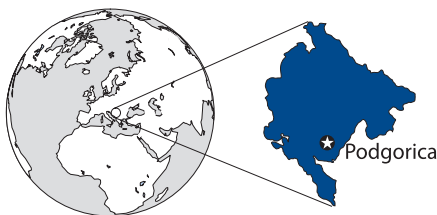


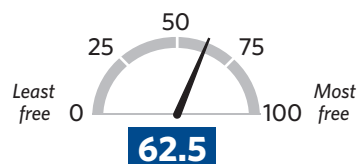
MONTENEGRO



World Rank: **72**

Regional Rank: **33**

Economic Freedom Score



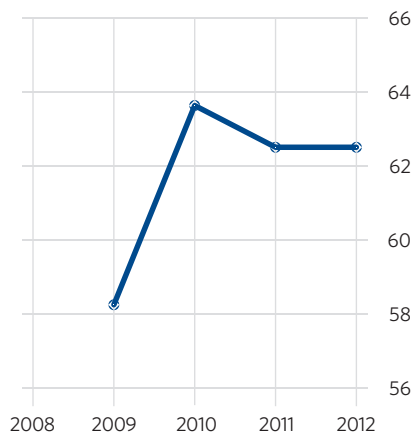
Montenegro's economic freedom score is 62.5, making its economy the 72nd freest in the 2012 *Index*. Its score is the same as last year, primarily because of deteriorations in business freedom and labor freedom that offset modest improvements in monetary freedom and the management of public finance. Montenegro ranks 33rd out of 43 countries in the Europe region, and its overall score is above the world average.

Montenegro is slowly developing a more modern and vibrant economy. The trade regime is increasingly open, and the regulatory framework has become more efficient, supporting the development of a growing private sector. Other measures, including competitive flat tax rates, have also contributed to entrepreneurial dynamism.

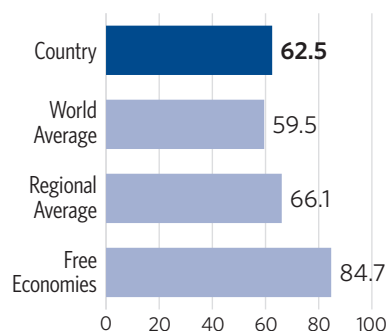
Despite the strides made since the country gained independence, the momentum for advancing economic freedom appears to have stalled. Montenegro's prospects for rapid long-term economic growth are curtailed by a lack of institutional commitment to the strong protection of property rights and ineffectiveness in the fight against corruption. The judicial framework remains vulnerable to political interference, undermining respect for the rule of law.

BACKGROUND: The Republic of Montenegro officially declared its independence on June 3, 2006, after a decade of gradual separation from Serbia during which Montenegro introduced significant privatization and began to use the German mark and then (despite not being a member of the euro zone) the euro as its legal tender. Montenegro is pursuing membership in the World Trade Organization, the European Union, and NATO. In 2009, NATO invited Montenegro to undertake a Membership Action Plan—in effect, a road map to membership. Montenegro also became a candidate for EU membership in 2010 and is awaiting the start of accession talks. Prime Minister Milo Djukanovic resigned from power in 2010, and parliament approved Igor Luksic as prime minister. Ongoing problems include unemployment and the black market.

Freedom Trend



Country Comparisons



Quick Facts

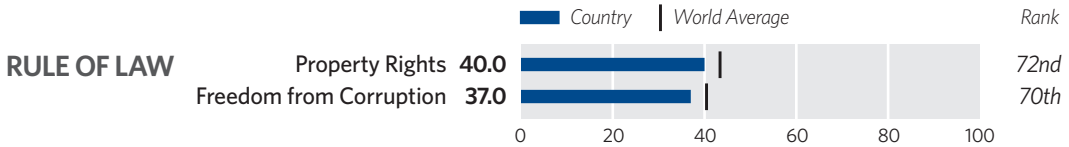
Population: 661,807
GDP (PPP): \$6.7 billion
 1.1% growth in 2010
 5-year compound annual growth 4.1%
 \$10,742 per capita
Unemployment: 14.7%
Inflation (CPI): 0.5%
FDI Inflow: \$760.4 million
Public Debt: 44.1% of GDP

How Do We Measure Economic Freedom?

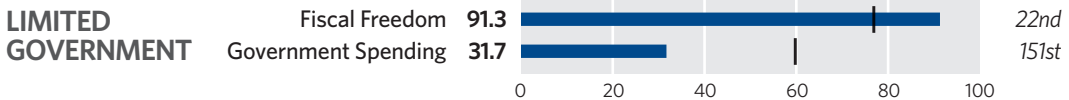
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

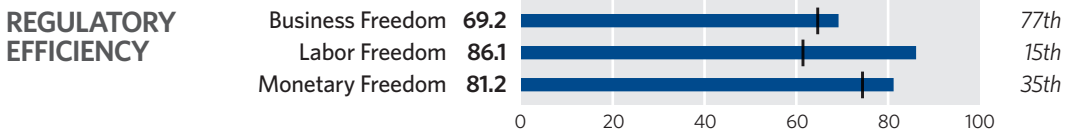
THE TEN ECONOMIC FREEDOMS



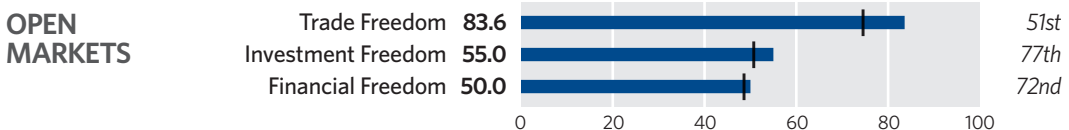
The constitution provides for an independent judiciary, but the system is inefficient and subject to political interference. Infringements of intellectual property rights are fairly widespread, and the laws on trademarks and designs will need to be amended to bring standards up to levels prevailing in the EU. Mistrust of government continues, particularly due to pervasive corruption in the executive and judicial branches.



The income and corporate tax rates are a flat 9 percent. Other taxes include a value-added tax (VAT) and an inheritance tax, and the overall tax burden amounts to 26.7 percent of total domestic income. Government spending has increased to a level equivalent to 47.7 percent of total domestic output. The budget balance has been negative in recent years, and public debt has climbed to almost 45 percent of GDP.



Procedures for setting up a business have been streamlined, and the number of licensing requirements has been reduced, but the overall pace of reform has slowed. The enforcement of regulations is sometimes inconsistent and non-transparent. Labor regulations lack flexibility, discouraging more dynamic job creation. Overall price levels have moderated, although inflationary pressures linger.



The trade weighted average tariff rate is 3.2 percent, but cumbersome non-tariff barriers increase the cost of trade. Although foreign investment is officially welcome, the investment regime remains too bureaucratic to allow dynamic investment growth. The small financial sector has gradually become more competitive and diversified, but non-performing loans have been on the rise.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.9	Business Freedom	-2.1	Trade Freedom	0
Freedom from Corruption	-2.0	Government Spending	+3.1	Labor Freedom	-6.2	Investment Freedom	0
				Monetary Freedom	+5.2	Financial Freedom	0