



# U.S.-MONTENEGRO PARTNERSHIP BRIEFING

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CSIS New European Democracies Project

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## ECONOMIC DIMENSIONS OF MONTENEGRO'S EURO-ATLANTIC INTEGRATION

*Featuring*

**Montenegro's Finance Minister Igor Luksic**

**O**n April 16, 2007 the CSIS New European Democracies Project hosted Montenegrin Finance Minister Igor Luksic for a roundtable discussion on the economic aspects of Montenegro's path toward Euro-Atlantic integration and U.S.-Montenegrin trade and investment prospects.

In view of the upcoming one year anniversary of the restoration of Montenegro's independent statehood on May 21, Luksic reviewed several major developments. Podgorica plans to sign a Stabilization and Association Agreement (SAA) with the EU by the end of the German Presidency in June. According to Luksic, Montenegro has fulfilled all of the conditions for the SAA.

Montenegro was also invited to join the Partnership for Peace (PfP) program at the NATO summit in Riga and it has joined many international organizations such as the IMF, the World Bank, and EBRD. Luksic also underscored that Montenegro will soon join the Council of Europe where talks are still in progress.

With regard to the economic outlook, Minister Luksic evaluated Montenegro's progress, where the GDP growth rate during the past year was 6.5 percent, while the inflation rate remained at 2.1 percent as required by the Eurozone. Montenegro has been using the Euro as its currency for several years; this demonstrates how the local economy is already tied to the European market.

This year the Montenegrin government aims to restructure payroll taxes to achieve development requirements. Building mechanisms to fight money laundering and tax evasion will also remain as top priorities for officials in Podgorica.

With regard to the status of privatization in Montenegro, Luksic reported that 85 percent of previously state-owned enterprises have been transferred to private hands. Electricity, railways, airline, and airports are not fully government owned, but they have not yet been open for privatization. On the other hand, the banking sector is 97 percent in private hands.

A key sector is tourism, which has brought a considerable amount of investment. In fact, Montenegro has become the fastest growing tourist market in the world during the past few years.

In order to continue attracting foreign investment, the government is considering a number of infrastructure projects. Luksic also discussed corporate and personal income tax incentives, which he hopes will make Montenegro a favorable environment for business.

### EU Integration

Responding to a question regarding Podgorica's path to European integration, Luksic emphasized that Montenegro has already fulfilled many requirements and preconditions. Although the bureaucratic process is extensive, he expressed confidence that Montenegro will sign an SAA agreement with the EU in the next few months.

*Montenegro has fulfilled all the requirements and preconditions for a Stabilization and Association Agreement and hopes to sign an SAA with the European Union by June 2007.*

### Russian Economic Influence

Minister Luksic stated that Montenegro is not subject to Russian economic dominance. However, Russia does maintain a strong presence in the production of raw materials, especially with the acquisition of the aluminum plant by Russia's aluminum producer, RUSAL. At the same time, Luksic pointed out that major companies such as Deutsche Telekom, Celco of Norway, Hellenic Petroleum of Greece, and Societe Generale Bank of France have invested in Montenegro. Japanese investors have taken over the ball bearing factory, while major hotels and hospitality resorts are owned by Austrian and Slovenian firms. The government is now passing legislation to regulate spatial planning for the coast. It is also Montenegro's hope to further broaden the opportunities for foreign investors, specifically for U.S. business.

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## Montenegrin Infrastructure and Tourism

Montenegro has a quickly growing tourist industry and cooperation with neighboring countries in the tourist sector would be mutually beneficial, especially in development of infrastructure, border crossings, and transport projects.

Minister Luksic stated that although infrastructure is modern along the Montenegrin coastline, it remains underdeveloped in the mountainous regions, which hinders investment in tourism. The government supports building new highways to facilitate movement of goods and people. Luksic announced that the two main projects include a 170 km highway stretching from the coast to Serbia and a 100 km highway along the coast as part of the Adriatic-Ionian road network. Montenegro will have to explore financing options for the two proposed highway projects because they are estimated to cost USD 2.7 billion, while Montenegro's GDP reaches USD 2.1 billion. U.S. companies have shown interest in the highway projects and with assistance from the IMF or the World Bank they can be realized.

Other major infrastructure projects include the modernization of the water supply and sewage systems. These initiatives will be funded by the German Bank for Reconstruction and Development (KfW) that will provide EUR 50 million.

Montenegro has been affected by energy shortages and a long-term solution is sought that is ecologically friendly and can boost economic development. It is necessary to overhaul and restructure energy resources through privatization. One of the biggest outstanding issues is the privatization of Montenegro's major thermal plant and RUSAL is so far the best bidder.

The government has energy efficiency projects, such as the wider use of solar energy and plans to explore and introduce alternative sources such as hydro and gas. Currently, Montenegro imports 100 percent of its oil and gas resources from abroad, but Luksic stated that Montenegro does not intend to pursue the production of nuclear energy.

## Free Trade Agreements

Montenegro is also one of the first states to have ratified the recently signed CEFTA regional free-trade agreement because it believes in competition and opposes protective economic policies considering the small size of its economy. However, certain parts of the agricultural sector may need to be protected to assure success on the international market.

## Relations with Serbia

Minister Luksic said that an agreement was signed with Belgrade to split financial assets and liabilities of the extinct joint state. This process was further aided when Montenegro joined the IMF and the World Bank.

## Kosovo

Regarding the pending question of Kosovo's final status, Luksic asserted that the lack of a final decision is certainly impacting on investor decisions in the Western Balkans. He called for a swift resolution of the issue and said that a compromise between the sides is welcomed as long as it is realistic and sustainable.

*The pending question of Kosovo's final status is impacting investor confidence in the West Balkans.*

## Ecology

Montenegro declared itself the first ecological state in 1992, but war and conflict diverted attention away from ecological questions. The environment remains a key issue as it is inter-related to economic development, living standards, and proper waste disposal. Podgorica is developing projects that will address these issues.

## Stock Exchange

Minister Luksic admitted that the Montenegrin stock exchange has been overheating for the past five years and there has been a steady increase in portfolio investments from abroad. During the last five years there has been a ten-fold growth, which has been one of the fastest in the region. In addition, Luksic revealed that as of 1 January 2007, capital gains taxes have been eliminated.

## Conclusion

With regards to outstanding challenges, Luksic said that special attention needs to be paid to countering corruption and organized crime, including money-laundering. The government is drafting laws that are EU-compatible to facilitate Montenegro's EU accession. In conclusion, the Minister asserted that gaining independence has been very beneficial for Montenegro, despite the administrative efforts and financial costs associated with opening new embassies and representative missions abroad. The economy has been steadily growing and Montenegro is on a stable path toward Euro-Atlantic integration.

*The U.S.-Montenegrin Policy Forum Briefing* is produced by the CSIS Eastern Europe Project. This publication is compiled and edited by Janusz Bugajski, Director; Ilona Teleki, Fellow; Milena Staneva, Research Associate, and Besian Bocka, Research Intern. For more information, please contact the CSIS Eastern Europe Project at [NEDP@csis.org](mailto:NEDP@csis.org) or (202) 887-0200 Ext. 3398.

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