Montenegro’s economic freedom score is 57.8, making its economy the 103rd freest in the 2022 Index. Montenegro is ranked 41st among 45 countries in the Europe region, and its overall score is below the regional and world averages.

Montenegro’s economic growth rate slowed from 2017 through 2019. Then the economy contracted in 2020 before resuming growth in 2021. Unfortunately, a five-year record of generally solid economic freedom has been undermined. Dragged lower by a sharp drop in the fiscal health score, Montenegro has recorded a 4.2-point overall loss of economic freedom since 2017 and has fallen from the “Moderately Free” category to the “Mostly Unfree” category. Monetary freedom and trade freedom still demonstrate strength, but judicial effectiveness and government integrity are weak.

IMPACT OF COVID-19: As of December 1, 2021, 2,310 deaths had been attributed to the pandemic in Montenegro. The economy contracted by 15.2 percent in 2020.

BACKGROUND: Montenegro declared independence from Serbia in 2006, introduced significant privatizations, and adopted the euro despite lack of membership in the eurozone. It joined NATO in 2017 and is an EU candidate country. Despite winning the most seats in the August 2020 elections, the center-left Democratic Party of Socialists, which had ruled for 30 years but faced charges of corruption, failed to form a majority. A coalition of three opposition blocs headed by Prime Minister Zdravko Krivokapić took power. The most powerful coalition party is the pro-Russian and Serb Democratic Front. Nevertheless, the government has pledged to maintain a pro-Western orientation while focusing on economic recovery and the rule of law. A controversial law regarding the ownership of property by religious communities was amended in December 2020.
Property rights are respected. Despite efforts to bolster its independence, the judiciary remains susceptible to pressure from the government and suffers from serious deficiencies in transparency, openness, professionalism, and accountability. Corruption and cronyism remain widespread, and the new anticorruption agency’s integrity, credibility, impartiality, independence, accountability, and setting of priorities have been questioned.

The personal income and corporate tax rates are a flat 9 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 38.1 percent of total domestic income. Government spending has amounted to 48.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.5 percent of GDP. Public debt is equivalent to 108.8 percent of GDP.

Implementation of the legal framework adopted in 2006 to encourage privatization has been slow. Little success has been achieved in diversifying beyond tourism, energy, and agriculture. About 20 percent of those with jobs work in the public sector, which is less than in previous years. The government continues to subsidize strategically important state enterprises in such fields as energy, transport, and tourism.

Montenegro has five preferential trade agreements in force. The trade-weighted average tariff rate is 5.6 percent, and 16 nontariff measures are in effect. Although foreign investment is officially welcome, the investment regime remains bureaucratic and undercuts more dynamic investment growth. The small financial sector has gradually become more competitive and diversified.