

PATRON MEMBERS



PHILIP MORRIS
MONTENEGRO D.O.O.



Coca-Cola HBC
Crna Gora



TABLE OF CONTENTS

INTRODUCTION **5**

ABOUT AMCHAM **7**

EXECUTIVE SUMMARY **11**

**BUSINESS CLIMATE -
KEY FINDINGS** **16**

RULE OF LAW **22**

HUMAN RESOURCES **25**

**DIGITAL
TRANSFORMATION** **29**

HEALTH **34**

TAXES **37**

ESG (Environmental,
Social, and Governance) **39**

**CONSTRUCTION
AND REAL ESTATE** **42**

**TOURISM AND
HOSPITALITY INDUSTRY** **44**

**25 RECOMMENDATIONS
FOR 2025** **46**

Introduction



Svetlana Vuksanović

Board of Governors President

You are reading the eighth Business Climate Report of the American Chamber of Commerce in Montenegro, which covers the period from 2023 to 2024. We prepare the report every other year, with the idea to provide a comprehensive summary of the views of AmCham member companies regarding the conditions for doing business in Montenegro.

The Business Climate Report traditionally encompasses areas identified as priorities for rating the business climate quality: rule of law, human resources, digital transformation, health, taxes, construction and real estate, and tourism and hospitality industry. Starting with the present report, we have also paid special attention to ESG, given that our Environmental Protection Committee has evolved into an ESG Committee, which, in addition to environmental protection, also covers the areas of socially responsible business and governance quality.

In the questionnaire shared with our members for the purposes of preparing the present report, AmCham invited its member companies to rate certain segments and areas of importance for business, as well as to highlight the positive and negative aspects of the business climate in Montenegro. Since the reporting methodology has remained consistent over time, its importance is particularly reflected in the existence of comparable two-year results over a longer period of time. This allows us to follow key reform trends, praising those

reforms that have been successfully implemented, but also pointing out the areas that are stagnant or in which, unfortunately, no visible progress has been achieved.

The findings and recommendations presented in the report constitute a solid foundation for directing the activities of our committees and their engagement in the field of public policy, while providing guidelines and recommendations to decision-makers with regard to the ways in which the business climate should be further improved. That is precisely why we always clearly present all the findings of the report to the decision-makers in Montenegro, but also to international stakeholders, such as the Delegation of the European Union, international financial institutions, the diplomatic corps and other relevant associations and entities. At the same time, our report is available on the website of the US State Department, serving as an important source of information about the quality of conditions for doing business in Montenegro.

AmCham remains strongly committed to increasing competitiveness, building sustainable and green investments, digital transformation of the economy and society, as well as to creating a business climate underpinned by rule of law, predictability

and transparency. That is why we place a special emphasis on the quality of communication with decision-makers, which is the basis of the *Rule of Dialogue*, our program of cooperation with public administration.

As the leading voice of American and other investors in Montenegro, we will continue to resolutely advocate for the reform process in the country and its accession to the European Union. The process of Montenegro's accession to the European Union and its membership in NATO make it an attractive investment destination. This is clearly indicated by our members in this report as well.

On behalf of AmCham, I would like to thank the members who provided answers to the questionnaire, thus enabling the completion of this report. Given that the overall results of the report are based precisely on the perception of our members, the feedback we receive from them is essential. Finally, I would especially like to thank AmCham's Executive Office for their dedicated work and enthusiasm in preparing this report, as well as to *Defacto Consultancy*, our project partner, for preparing the questionnaire and providing support in the analysis of answers received from our members.

About AmCham



The American Chamber of Commerce in Montenegro (*AmCham Montenegro*) was founded in 2008 and registered as a non-governmental organization. We represent the leading international collective voice of the business community in Montenegro. Our mission is to improve the business climate in order to attract more American and other foreign investments to Montenegro.

The strength of AmCham Montenegro lies in:

- ✦ *Enormous business networking potential.* AmCham Montenegro is accredited by the US Chamber of Commerce from Washington and is a highly reputable member of the AmChams in Europe network, which gathers 50 American Chambers of Commerce from 48 countries across Europe and Eurasia.

The AmCham organizations gathered in the AmChams in Europe network are a key link supporting trade between the US and Europe. Together, we represent more than 17,000 US and European companies operating in Europe, while traditionally connecting all of them with key stakeholders in the US, which results in over a trillion in investments on both sides of the Atlantic.

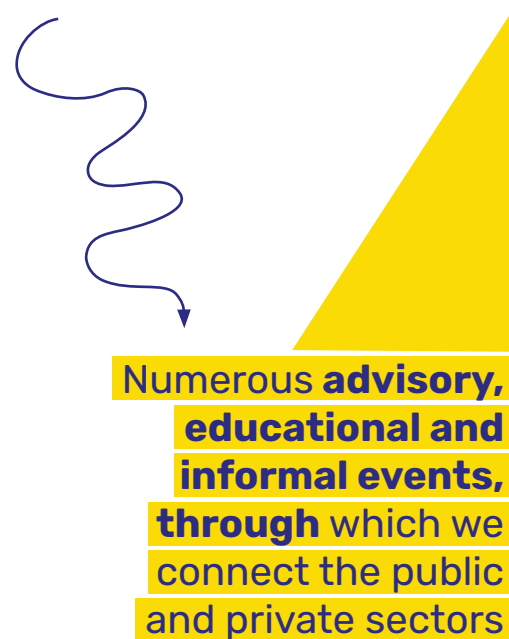


Enormous business networking potential – as part of the network representing 17,000 companies

✦ *Effective advocacy, i.e., mechanisms for advocating the interests of member companies among key decision-makers, strengthened by a natural partnership with the US Embassy in Montenegro. AmCham Montenegro includes six committees for advocating the interests of member companies, which operate within the *Rule of Dialogue* platform – Digital Transformation Committee, ESG Committee, Labor Relations Committee, Grey Economy Committee, Healthcare Committee and Real Estate Committee.*



✦ *Numerous advisory, educational and informal events, through which we connect the public and private sectors. The most recognizable among them are Openly with the Prime Minister, an annual conference hosting the Prime Minister of Montenegro, as well as the *Rule of Dialogue* Gala Dinner, hosting the ministers of the relevant ministries with which cooperation is exercised under the *Rule of Dialogue* platform.*



The American Chamber of Commerce in Montenegro has 93 members, of which 75% are American and other international companies, while 25% are Montenegrin companies, all of them being actively focused on achieving the mission of improving the business climate in the country. Our members have 11,000+ employees and their capital amounts to more than EUR 1,000,000,000.

11,000+
employees in
Montenegro

Capital
amounting
to EUR 1+
billion in
Montenegro

Diagram
Membership
Structure

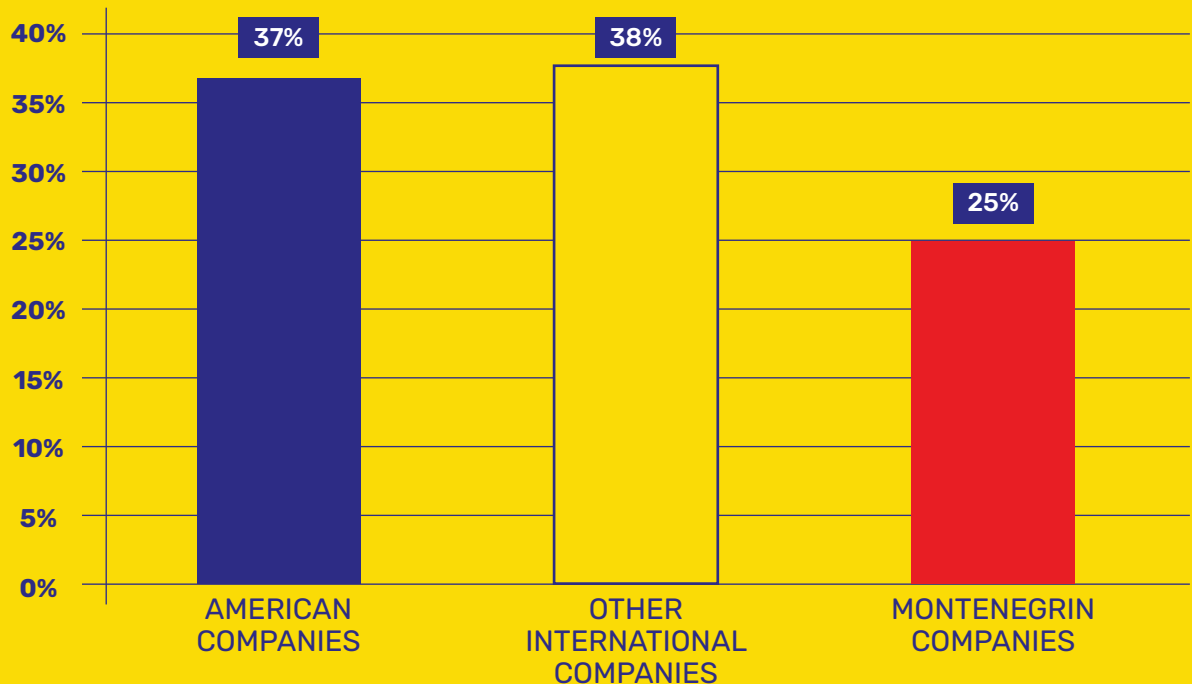
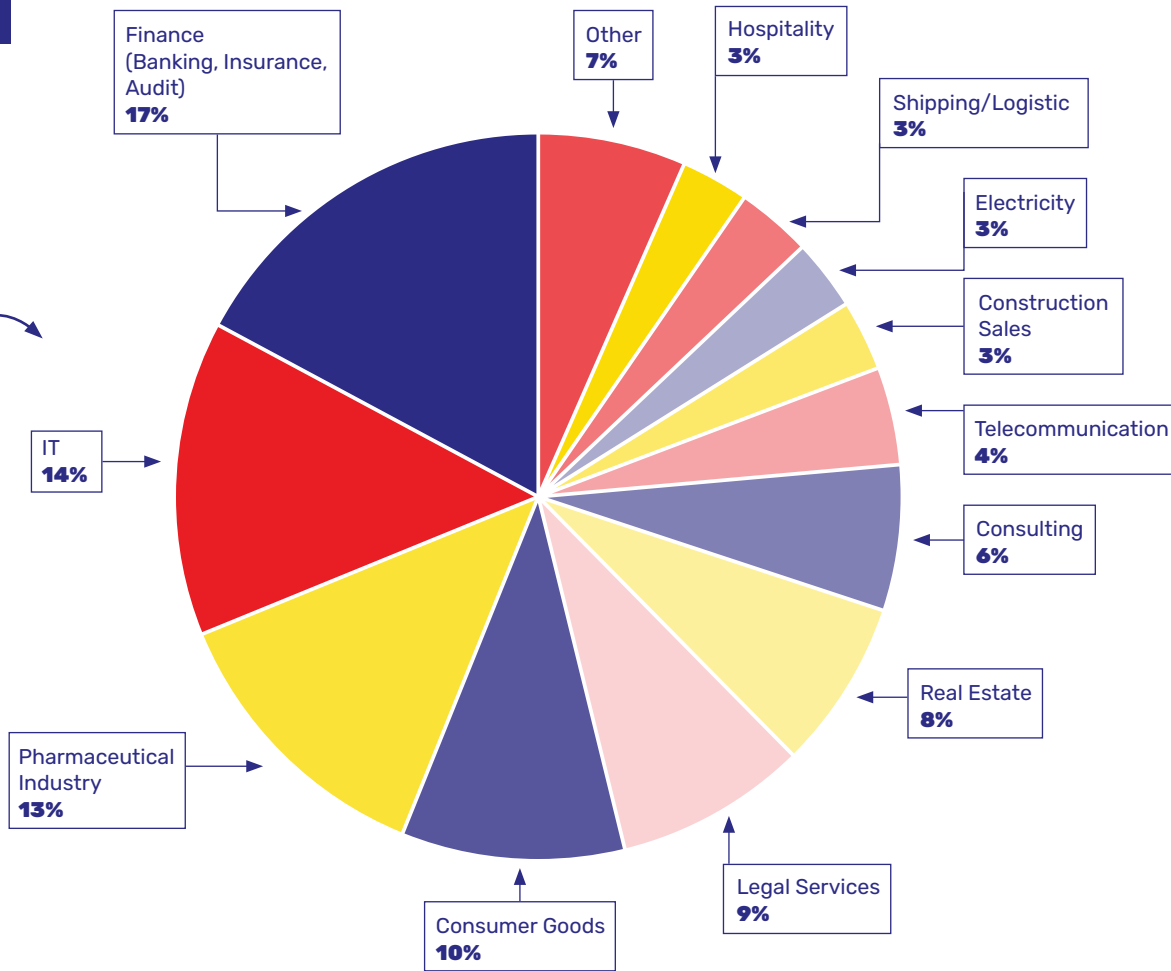


Diagram
Membership
Structure



Executive Summary



Marko Miročević, PhD

Executive Director

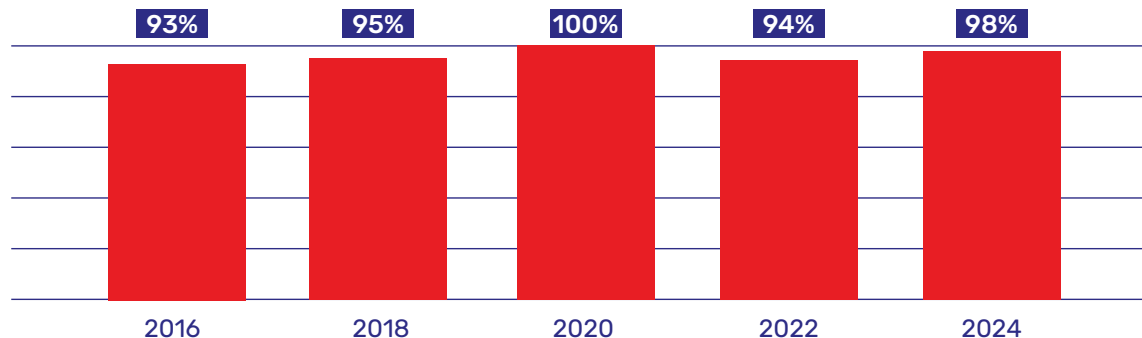
Business Climate Report is a strategic document that reflects all our initiatives in the period until the publication of the new report.

Given the main idea underpinning the report – to provide a clear picture of the business climate quality – we always strive to follow the expectations of our members from the most significant social processes that shape it. Of course, in this context, support

for the process of accession to the European Union occupies a prominent place, and this has been an almost unchanged fact throughout the previous decade. Namely, since 2015, i.e., ever since we have started monitoring the support for the EU integration process and expectations regarding the effects it can have on the business climate, the companies have rated these parameters with support levels ranging between 93% and 100%.

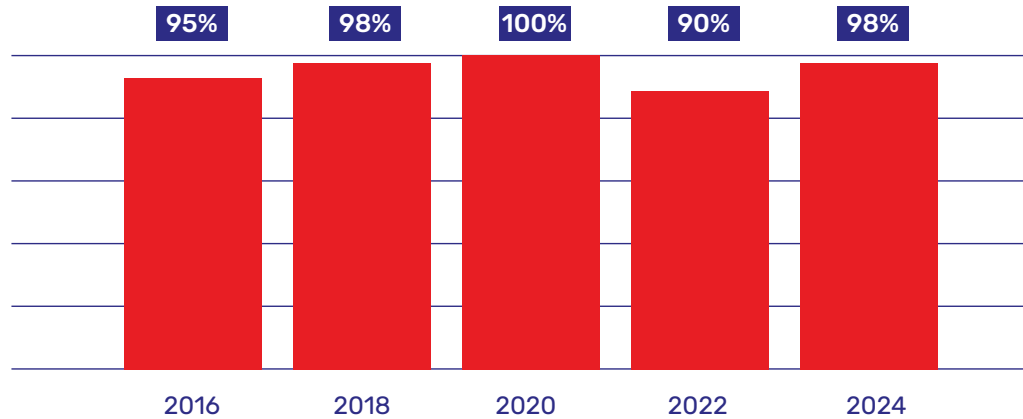
Diagram

Share of members that support EU integration



Diagram

Share of members that believe that accession to the EU will improve the business climate



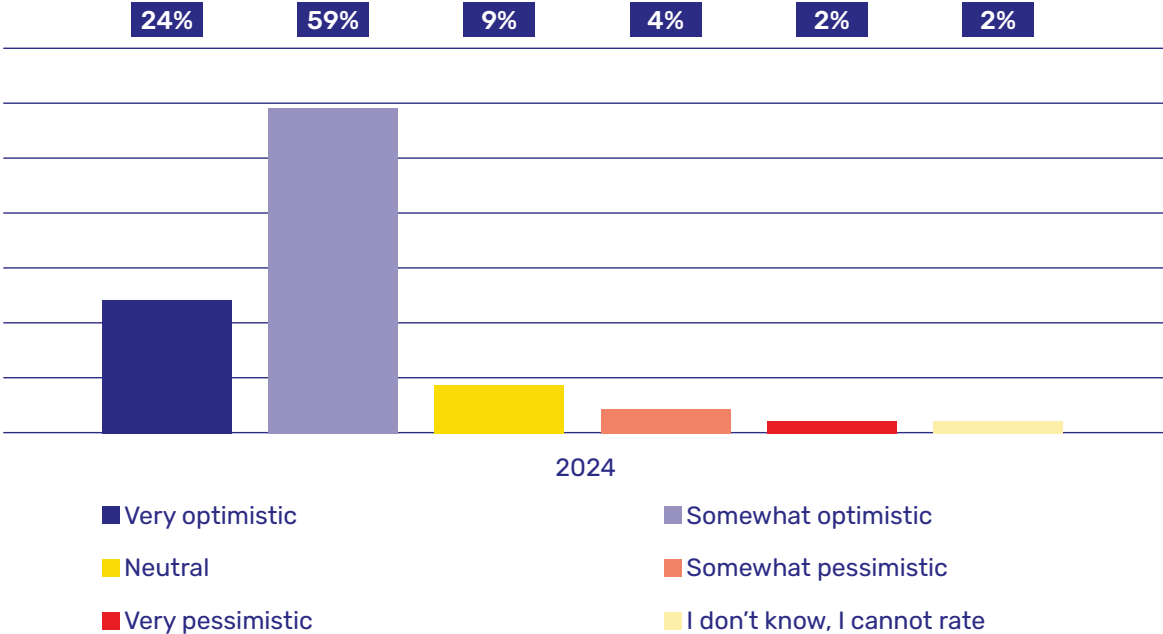
Business Climate Report for the period of 2023-2024 only confirmed the ratings from previous years, so 98% of AmCham members indicated their support for the process of EU accession. Furthermore, the same share of members expresses their expectation that the business climate will improve upon the accession. This is precisely why we are making significant efforts, through our *Rule of Dialogue* program, to help the Government of Montenegro on the path of harmonizing Montenegrin legislation with the EU acquis.

98% of AmCham members support the EU accession process and expect it to improve the business climate

Progress on the path to EU accession is also the main reason for the expressed optimism regarding the conditions for doing business in the next five-year period. Namely, 83% of companies are optimistic in this regard. The main reasons for optimism, in addition to the ones already mentioned, include digital transformation of the economy and society, the announced strong infrastructural development, as well as the stabilization of global circumstances.

83% of companies are optimistic with regard to their business activities in the next five-year period

Diagram
Business perspective over the next five-year period



The companies have also pointed to the most attractive elements of doing business in Montenegro:

NATO membership and intensive progress towards EU membership;

Using the Euro as the official currency;

Stimulating tax system for investments;

Excellent geographical location and abundance of natural resources;

Potential for the development of renewable energy sources;

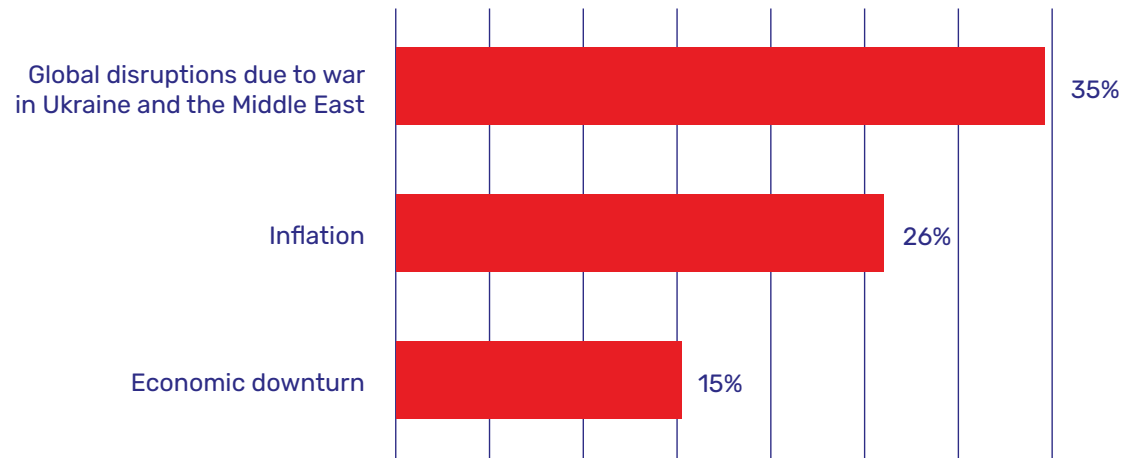
Possibility for Montenegro to serve as a test market for numerous innovative products and services.

Of course, in addition to the expressed optimism and the most attractive elements of doing business, the members have also made an overview of the key risks for the Montenegrin economy. They indicate the vulnerability of the Montenegrin economy due to its size and import dependence, recognizing global disruptions in this context, caused by the effects of the war in Ukraine and the Middle East,

as the main risk for the Montenegrin economy. In addition, the members also recognize the dominant risks in inflation and the decline of the economy. This is hardly a surprise in the context of the already mentioned import dependence and the absence of monetary policy instruments, as well as the economy that is overly dependent on tourism and consumption.

Diagram

Key risks for the business climate and economy



Having reflected on the key reasons for optimism and the key risks recognized by the business community in the previous part of the report, we will now have the opportunity to familiarize ourselves with the general assessment of the

business climate in Montenegro for the period of 2023-2024, as well as to identify the key areas that, according to the view of our member companies, require the greatest attention and improvement in the coming period.

Business Climate - Key Findings

General rating
of the business
climate → **5.91**

50%
members → believe that the business
climate has remained the
same over the last two years

The quality of consultations and
transparency of decision-making
were rated negatively by → **67%**
members

Best and worst rated elements of doing business

100% of members positively rate the quality of legislation, pricing policy and availability of drugs in the field of healthcare;

87% of members positively rate the digitalization of financial services;

76% of members positively rate taxes and contributions on wages, as well as almost all other tax rates in Montenegro;

74% of members positively rate the labor costs;

67% of members positively rate the legislation in the field of tourism;

63% of members positively rate the level of respect for private property rights.

100% of members negatively rate the level of grey economy in the tourism sector;

87% of members negatively rate waste recycling and waste treatment in general;

78% of members negatively rate the duration of court proceedings;

76% of members negatively rate end-to-end public administration services. A similar rating applies to cyber security, variety of public administration e-services and digital literacy of the population;

71% of members negatively rate the bureaucratic procedures in the field of construction and real estate;

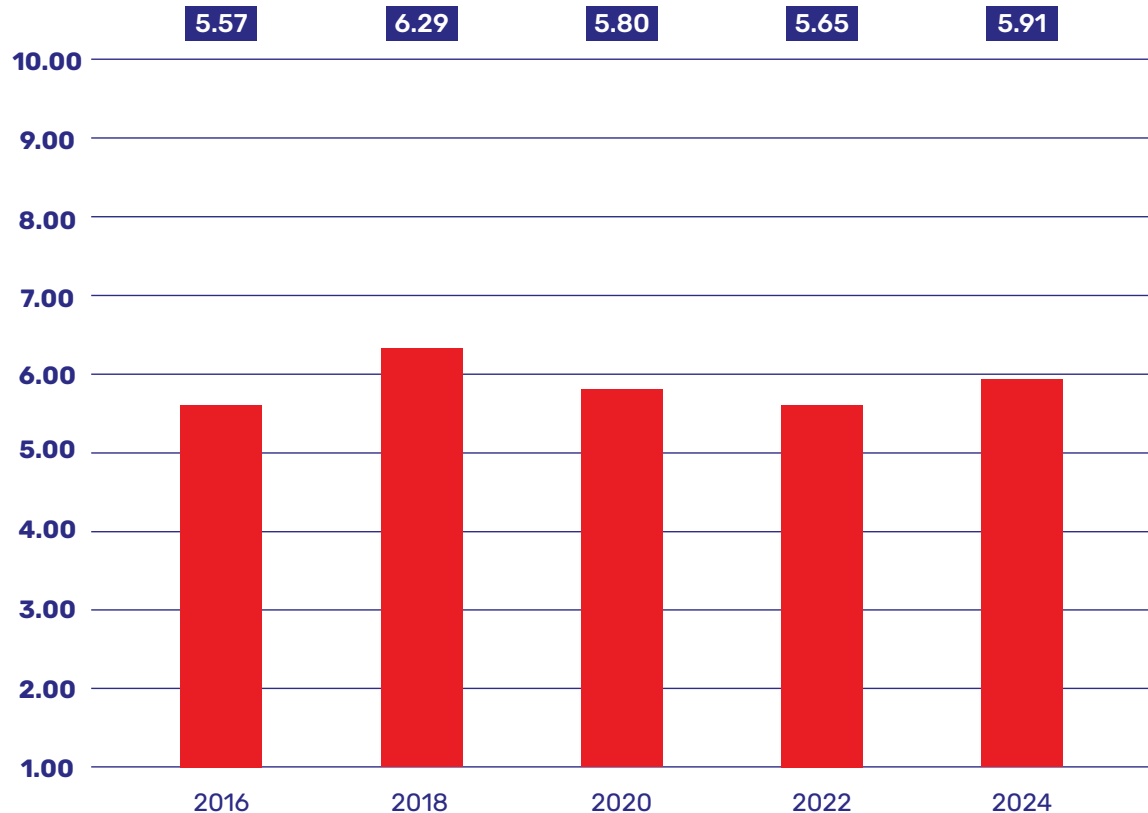
67% of members negatively rate the VAT rate applied on services in tourism and hospitality industry;

65% of members believe that the condition of the labor market is bad and perceive attracting candidates with appropriate skills as the biggest challenge in employment

On a scale of 1 to 10, the general state of the business climate in Montenegro was given the rating of 5.91, which is an improvement compared to the previous report, but still falls short of the rating level recorded in 2018.

Diagram

General rating of the business climate



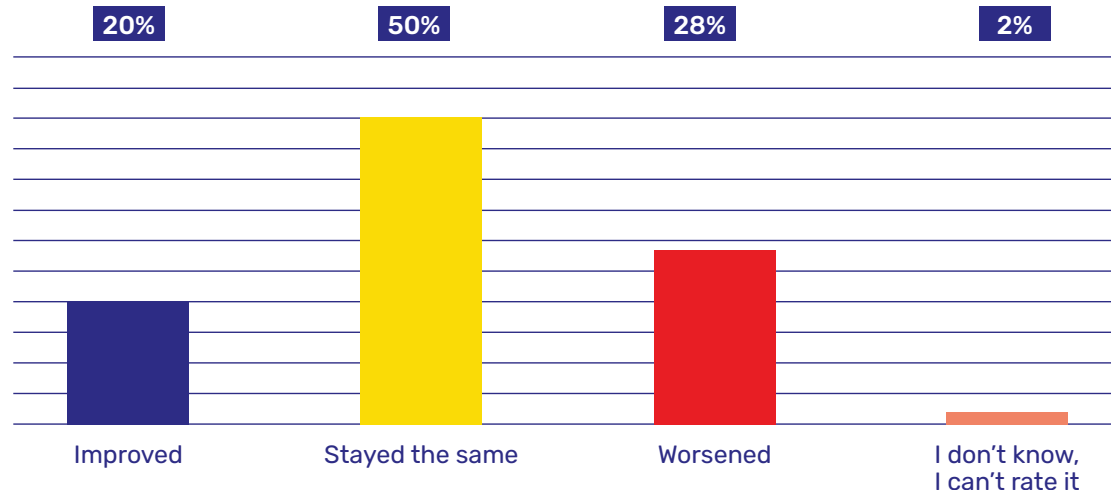
BUSINESS CLIMATE – KEY FINDINGS

If we look at the trend over the last eight years with regard to this specific parameter, the fact that there is no significant progress in terms of quality of the business climate and that the key identified challenges are not being solved remains a concern. All this is in contrast to the potential for development and the need to create a business climate that is significantly more attractive for investments than competitive markets, which, in theory, should be much simpler for a country the size of Montenegro.

The fact that the business community does not perceive significant changes in the quality of

business conditions in Montenegro is additionally confirmed by the answer to the question whether the business climate has improved, worsened or remained the same in the previous two years. Namely, despite the slight improvement in the previously presented general rating, 50% of members believe that there have been no changes in the quality of the business climate, while 28% assess that it has worsened, with 20% that recognize an improvement. This can undoubtedly be partly attributed to a long delay in the resolution of numerous challenges, which is why the patience of the business community is diminishing, while expectations are on the rise.

Diagram
Business climate in the last two years



Furthermore, the above position of the business community is dominantly influenced by the poor rating of the quality of public consultations with the private sector when adopting new and amending existing regulations, as well as by insufficient transparency in decision-making, as indicated by 67% of the surveyed members. Such a finding is hardly surprising given the absence of public discussions for a number of extremely important systemic laws, as well as the unsatisfactory level of involvement of the business community in the early stages of drafting new and amending existing regulations.

The above conclusion is also confirmed by the data from the Report on Private Sector Involvement in Legal Drafting, prepared by the Secretariat to the Competitiveness Council since 2019, at the initiative of AmCham.

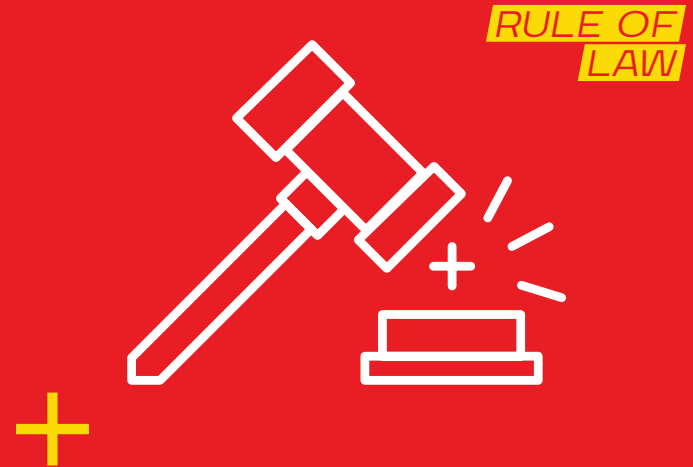
In the observed two-year period, the participation of the business community in the activities of working groups for drafting new and amending existing regulations ranged from 14% to 24%. Although a positive trend is recorded, such a low involvement rate is a clear signal that it is necessary to significantly increase the participation of the private sector in this phase of

the process of adopting new or amending existing regulations.

In addition, the public administration still does not recognize the importance of including the business community when preparing RIA (Regulatory Impact Analysis) forms, which precisely determine the impact of planned changes on the business climate. Namely, in the period of 2023–2024, involvement in the preparation of RIA forms ranged from 2% to 9%, with significant oscillations, making it impossible to ascertain a positive trend such as the one noted in terms of participation in the activities of the working groups. On top of that, the percentages are extremely low in this case.

On the other hand, members do recognize respect for private property rights, low labor costs and tax rates in the context of taxes and contributions on wages as positive business parameters, which certainly led to a slight increase in the general rating of the business climate compared to the previous reporting period.

However, **concrete progress in the areas of rule of law and legal certainty, efficiency of public administration, suppression of the grey economy and digital transformation of the economy** is still needed to significantly improve the perception of the business community.



Rule of Law

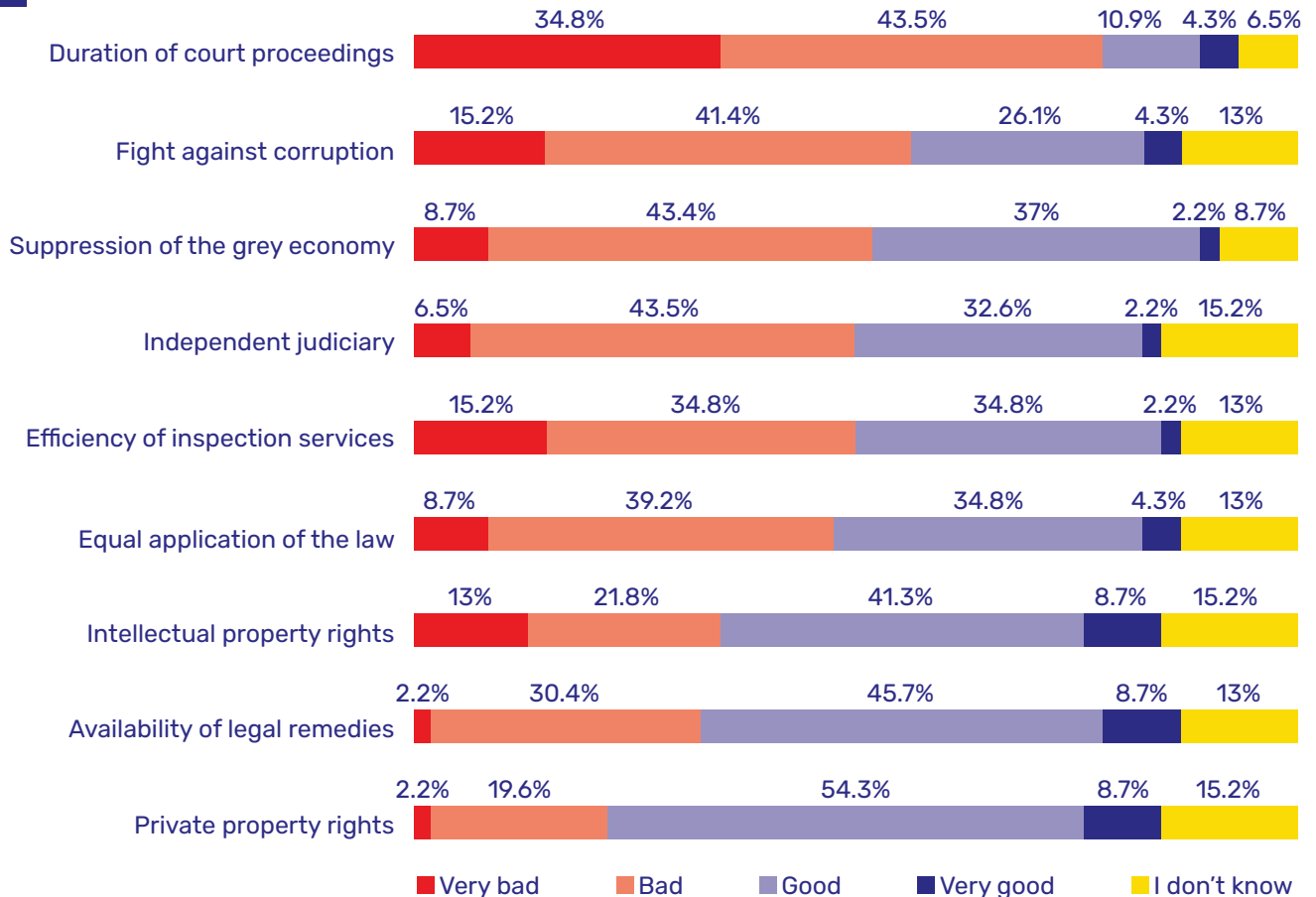
Investors make investment decisions in a two-dimensional space defined primarily by investment yield and risk. Therefore, the state should make an effort to create incentives in the form of public policies and an attractive tax system on the one hand, while developing business climate in a way that minimizes risks for investors on the other hand.

In order for the business climate to be acceptable from the point of view of risk, credible investors require that the business climate in which they invest is stable, i.e., that the rule of law and legal certainty are unquestionable, as well as that the market contest is based on fair competition. In addition, predictability and transparency in adopting new or amending existing regulations play a vital role. It is only upon their satisfaction that the business climate is based on these

characteristics that credible investors will compare the comparative advantages of countries that provide such certainty, considering the potential yield and making a final investment decision.

In the light of the above, it is clear why the business community constantly points out that the rule of law and legal certainty are the foundation on which the business climate should be built. At the same time, this is also the reason why we always reflect on the rule of law in Montenegro in our Business Climate Report first, doing so under the following criteria: duration of court proceedings, fight against corruption, suppression of the grey economy, independence of the judiciary, efficiency of inspection services, uniform application of the law, intellectual property rights, availability of legal remedies and private property rights.

Diagram
Members' satisfaction with the rule of law

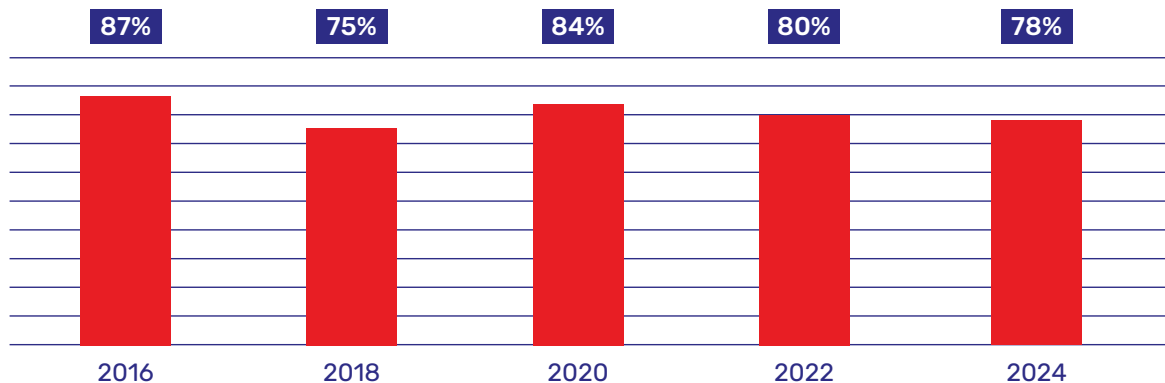


The best-rated element of doing business in the segment of rule of law is respect for private property rights, which is positively rated by 63% of members, while the worst rated is the duration of court proceedings, with 78% of members that gave it a negative rating, as well as the fight against corruption, with 57% of members that rated it negatively, and the suppression of the grey economy, with 52% of members that gave it a negative rating.

As the worst-rated element of doing business in this segment, the duration of court proceedings leads to continued dissatisfaction of AmCham members, which is a particular concern due to an extremely high percentage of expressed dissatisfaction, which has remained almost unchanged since the report for the period of 2015-2016.

Diagram

The share of members that negatively rate the duration of court proceedings



One of the systemic problems of the Montenegrin judiciary is the insufficient number of judges, which applies to the Commercial Court as well. This situation creates a huge workload for individual judges, which directly affects the duration and efficiency of court proceedings. Also, the frequent

delays of hearings in court proceedings are one of the key reasons for their long duration. Unjustified delays are common and it is noticeable that the courts insufficiently use their procedural powers to prevent unscrupulous parties from causing delays in hearings through their action.

Human Resources

At the American Chamber of Commerce, we recognize the importance of human capital as a driver of the country's economic development. Although it has an abundance of natural resources, Montenegro does not invest

enough effort to develop its human resources, which actually employ all other resources. This is mostly manifested in the lack of personnel with the required competencies, especially when it comes to the most sought-after professions.

Traditionally, our members have rated the quality of human capital in Montenegro on a scale of 1 to 10.

Diagram
Quality of human capital



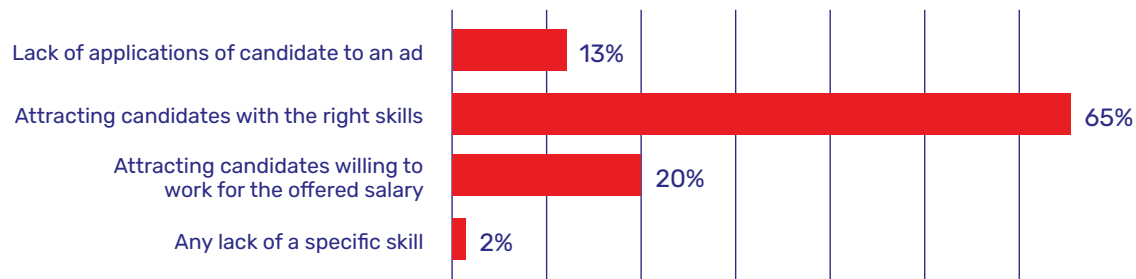
Employees in Montenegro receive the best rating when it comes to knowledge of the English language, communication skills and responsibility, while knowledge of other languages, ease of recruitment and level of personal initiative are rated the worst.

Bearing in mind that ratings are given on a scale of 1 to 10, it is worrying that none of the rated elements received a score above 7, which indicates a huge room for improvement. At the same time,

some of the key competencies in modern business conditions, such as digital literacy, creativity and personal initiative, received a modest rating ranging from 5 to 6.

As we have already pointed out, according to the ratings provided by respondents, recruitment is not done easily. In this context, we have asked the member companies to indicate the biggest challenges during recruitment.

Diagram
The biggest challenges during recruitment

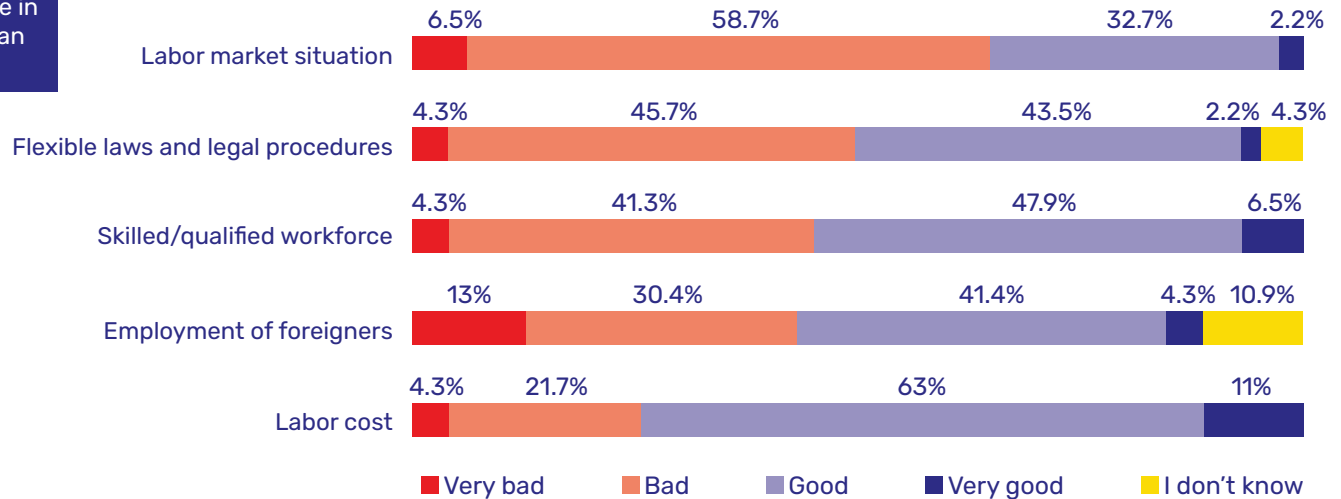


Bearing in mind the ratings of the quality of human capital in Montenegro, it is not surprising that the dominant challenge, according to 65% of member companies, is attracting candidates with appropriate skills. Unfortunately, this rating is almost at the same level as the one from the Business Climate Report for the period of 2021-2022, when 69% of the members provided a similar rating to this segment.

Finally, business climate in the field of human resources is also assessed through the state of the labor market, the flexibility of laws and legal procedures that regulate labor relations, the expertise of the workforce, conditions related to the employment of foreigners and labor cost.

Diagram

Business climate in the field of human resources



Labor cost is the only element of doing business that is dominantly positively rated in the human resources segment. This rating is a direct consequence of reduced taxes and contributions on wages.

However, 65% of members still believe that the condition of the labor market is bad, while the flexibility of laws and legal procedures is negatively rated by 50% of them. There are many reasons for such an assessment of the labor market.

First and foremost, the private sector accepts new digital tools much faster than the education system and the public sector in general, which are significantly lagging behind in this respect. In the conditions of such rapid technological changes, this gap is getting bigger and bigger. All this leads to a mismatch between people’s competencies and the needs of the labor market. Furthermore, the increase in wages in the public sector, which was, for the most part, not the result of greater productivity and efficiency in work, led to additional

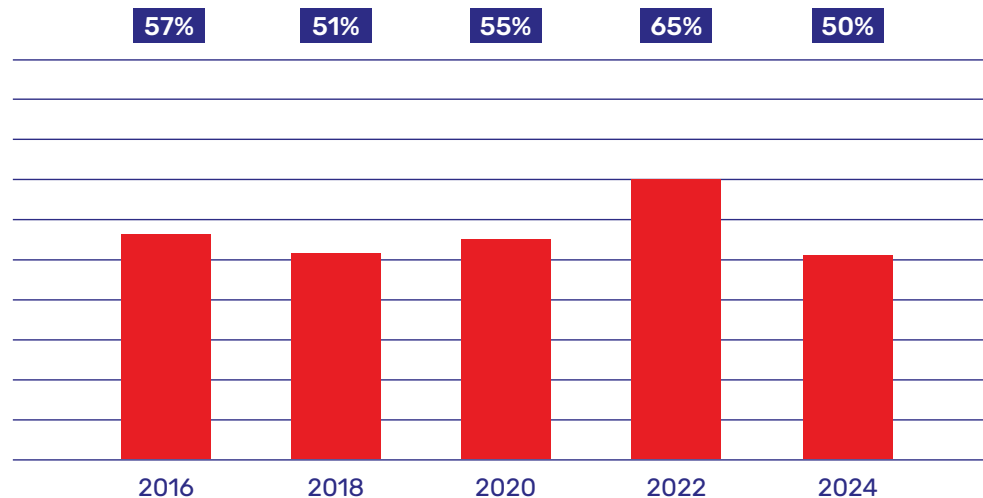
pressure on the private sector. When you add to that the insufficient flexibility of the regulations governing labor relations, especially in terms of compliance with modern wage contracting models, as well as the insufficient recognition of the fact that work from home and remote work are becoming an increasingly common form of work, it becomes clear why companies highlight the condition of the labor market as an element of doing business that requires special attention.

Given that the issues of improving education and the ratio of wages in the private and public sector

are complex variables, which cannot be explained without considerations of other areas of business, the focus here is on the flexibility of laws and legal procedures in the field of human resources. It is evident that even though we are living in a period of intense changes in the way of life and work, our members have been emphasizing the need to improve the state of affairs in this domain for a whole decade now. We should be fair and point out that in this report, the smallest percentage of members rated this element of doing business negatively, but still not to a sufficient extent for it to be considered a significant progress.

Diagram

Share of members that awarded a negative rating to the flexibility of laws and legal procedures in the field of human resources



Digital Transformation

In the era of artificial intelligence and advanced digital services, which globally shape business and lifestyle, it is unacceptable that Montenegro, as a country that aspires to be part of the modern and developed world, does not invest more resources in digital transformation processes. Namely, despite the clear efforts invested in this process by the Ministry of Public Administration, as the ministry leading the National Coordinating Body for the Management of the Digital Transformation Process, digital transformation is an intersectoral endeavor that implies significantly greater involvement of all segments of the public administration and must have a priority status as such.

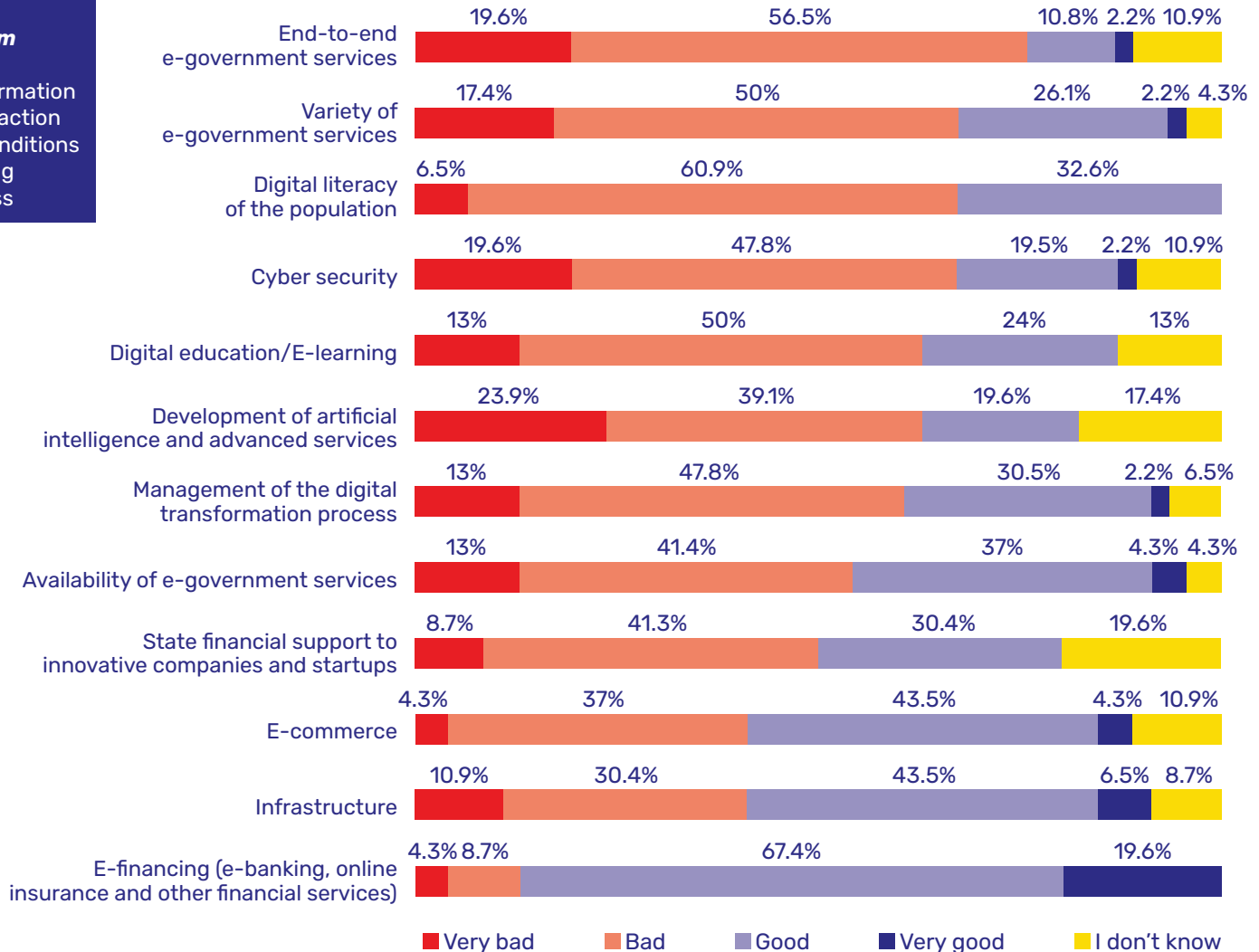
As a member of the aforementioned body, we are pleased that at the session held in October 2024, the Ministry of Public Administration announced the creation of the Plan of Digital Services Development at the National and Local Level with the involvement of all public administration bodies, as well as representatives of the business community, all with a view to define a list of priority services. In addition, a new e-government portal was put into operation in December, and an analysis of the implementation of the Digital Transformation Strategy for the period of 2022-

2026 was carried out at the end of the year, along with an update with new activities.

If all relevant state authorities play a proactive role in defining the priorities for digital services development and the implementation of the relevant action plan that will be drafted, as well as in other identified activities, we believe that a significant breakthrough will be made in terms of the variety of e-services and end-to-end services of the public administration system during the next year.

Without high-quality databases, interoperability, full practical implementation of the Law on Electronic Documents as a prerequisite for paperless business and true commitment of the public administration to the creation of e-services and improvement of digital literacy of the population, as well as the creation of an environment that encourages innovation and the development of advanced e-services in the private sector as well, it will not be possible to improve the state of affairs in this domain. In this context, AmCham members continuously indicate the need to act in this direction.

Diagram
Digital transformation – satisfaction with conditions for doing business



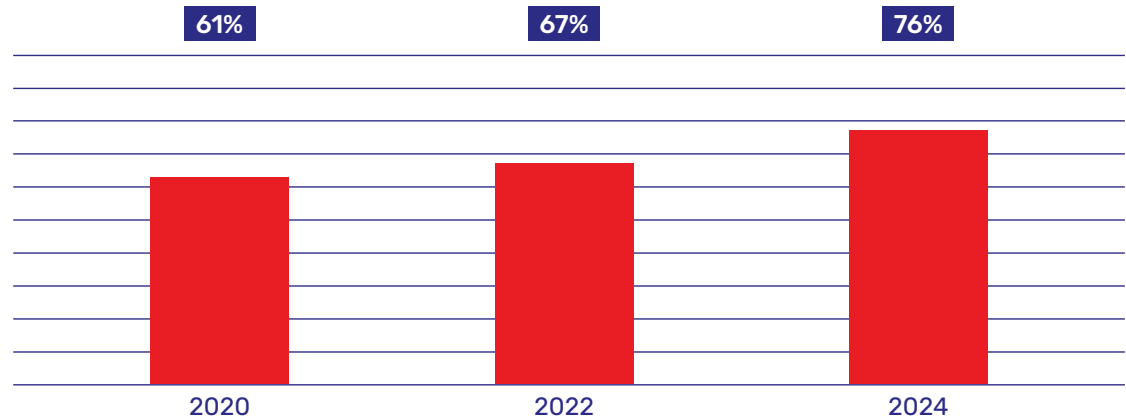
With the exception of infrastructure and digitalization in the field of financial services, all other elements of doing business have received a negative rating. As many as 76% of members award a negative rating to end-to-end public administration services, 67% do so when it comes to variety of e-services, cyber security and digital literacy, 63% do the same with regard to the development of artificial intelligence and advanced services, while 61% of members negatively assess the management of the digital transformation process. At the same time, when it comes to the management of the digital transformation process, it should be noted that progress has been made compared to the previous report, when 71% of members rated this aspect of business climate negatively. There is no doubt that the improvement

can partly be attributed to the activities undertaken by the Ministry of Public Administration through the National Coordinating Body for the Management of the Digital Transformation Process.

It is worrying that the findings remain the same over the last three reporting periods, which cover the period from 2019 to 2024, despite the growing intensity of digital evolution in which we live. It is high time that decision-makers see the need for digital transformation to be at the center of public policies and the development of the Montenegrin economy and society. This is especially the case if one takes into account that as many as 74% of AmCham members point to the fact that modern digital technologies they utilize help them to do business better than their competitors.

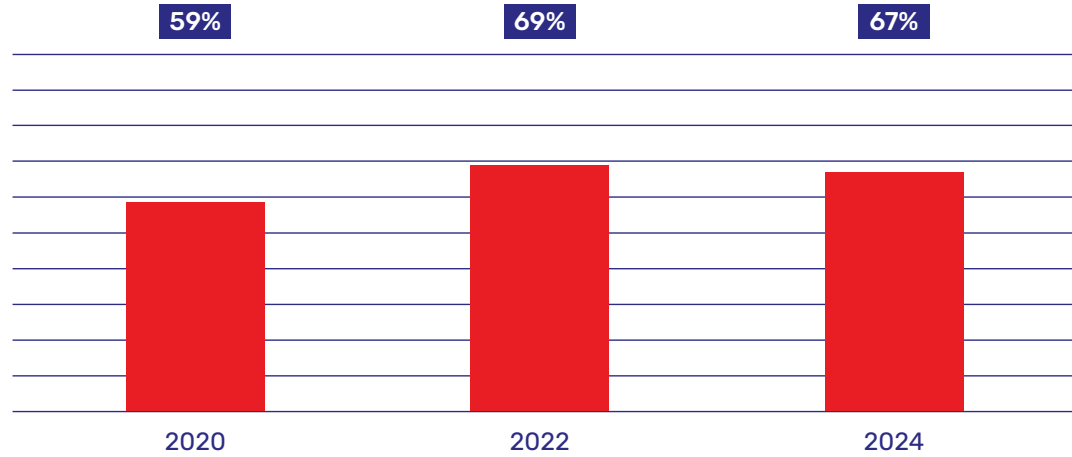
Diagram

Share of members that awarded a negative rating to e-government end-to-end services



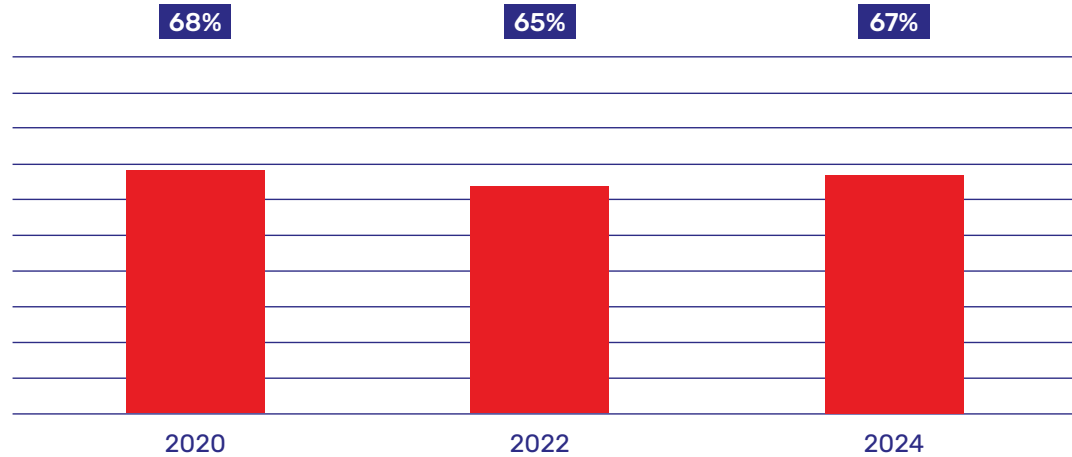
Diagram

Share of members that awarded a negative rating to variety of e-government services



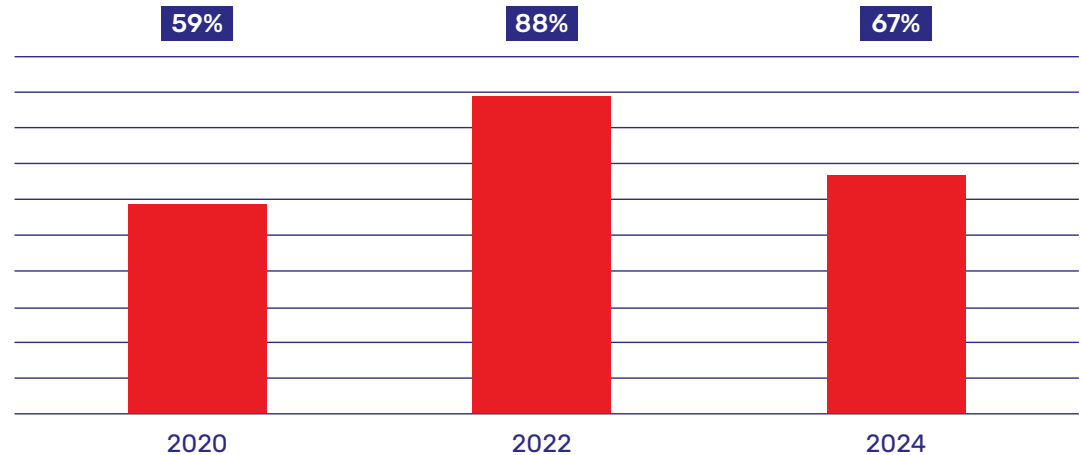
Diagram

Share of members that awarded a negative rating to digital literacy of the population



Diagram

Share of members that awarded a negative rating to cyber security



Cyber security received the worst rating in 2022, as expected. After the cyber-attacks on the infrastructure of the Government of Montenegro and the measures taken to repair the damage caused, i.e., after the passing of the Law on Information Security, which provides for the establishment of the Agency for Cyber Security,

in addition to the previously formed national CIRT with the SOC (Security Operation Center) function, i.e., operational role of preventing incidents, there was an improvement in the rating in the latest report. However, there is still a high percentage of members that rate cyber security negatively.

Health

Data constitute the core element of healthcare. For this reason, the field of healthcare provides another confirmation that digital transformation must be the key component of development of both the economy and society as a whole.

New technologies not only provide opportunities to generate, collect and use large amounts of real-world data related to health outcomes, but also have a direct impact on the creation of new digital healthcare services that are inexpensive and accessible to a wider range of people. Reliable data enable predictability of health system spending, including drug costs and treatment outcome measurements, which then further enables innovative drug pricing models.

In this regard, it is good that digitalization of healthcare is positively rated in this report. This can certainly be partly attributed to the continued focus of the Ministry of Health on healthcare digitalization – namely, the Ministry has prepared the Digital Health Development Strategy for the period of 2024-2028. However, the document clearly states that Montenegro is at the very beginning of the process and that it is necessary to establish a new IT architecture and more comprehensive standardization of the integrated health information

system (IHS), as well as to ensure full implementation of the electronic health record in accordance with EU standards, development of registers as a foundation for decision-making based on data, and increased use of telemedicine, as well as advanced services based on artificial intelligence.

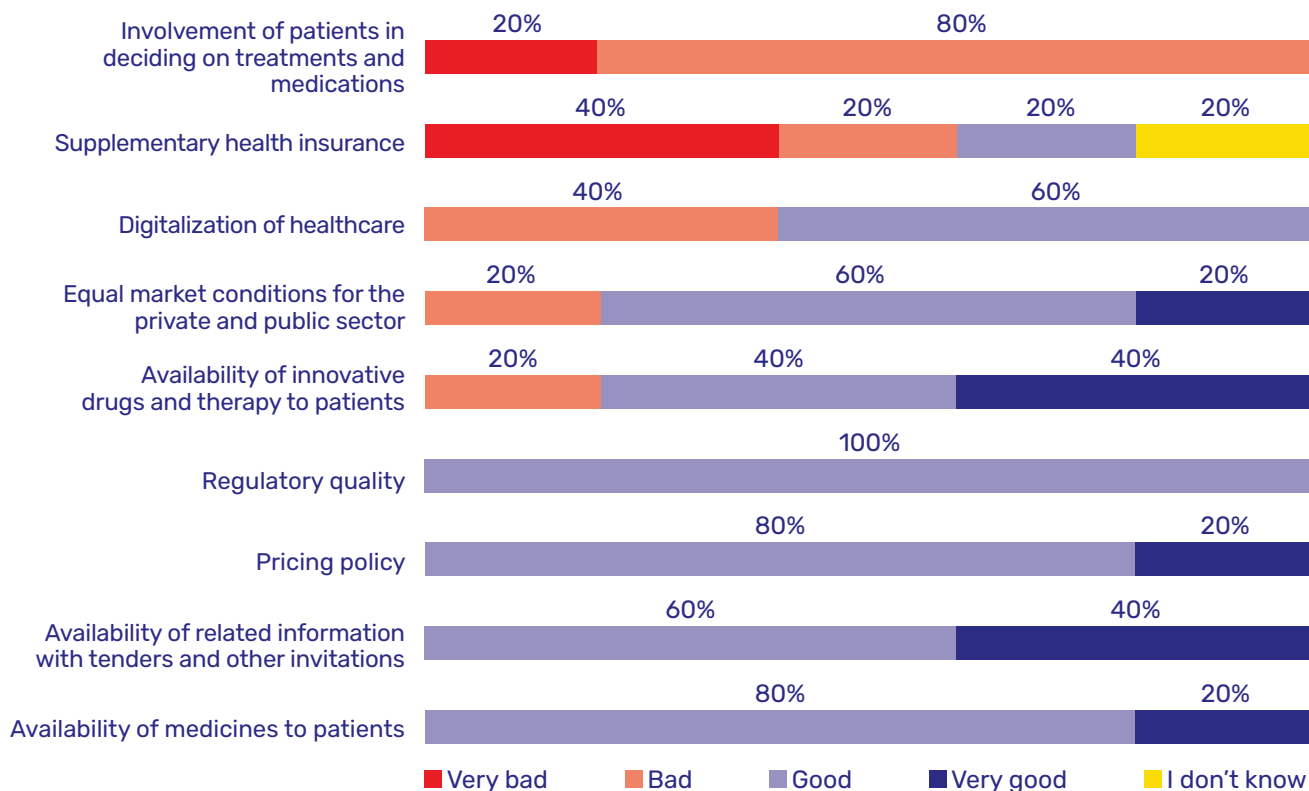
Furthermore, the members positively rate the progress in increasing the availability of innovative therapies to patients, the pricing policy, and the quality of legislation. At the same time, they emphasize the need for faster and regular inclusion of innovative therapies on the list of drugs. Regular inclusion of innovative therapies enables better control and planning of budget funds. Bearing all this in mind, we can conclude that there is a positive trend in the field of healthcare.

It should also be noted that in 2024, the Healthcare Committee of the American Chamber of Commerce financed the preparation of the report titled “Comparison of Access to Modern Therapies in Montenegro’s Healthcare System with the Healthcare Systems of Selected Countries”, which was prepared by IQVIA, one of the leading companies in the world in the field of health technologies and research. The subject report clearly indicates that in order to ensure quality health

care for the citizens of Montenegro, it is necessary to plan a further increase in state allocations for health, which should follow the economic growth predicted for Montenegro, as well as that budget allocations should be viewed as an investment in this regard, not as an expense. The report also points to the importance of

continuous introduction of modern therapies to the list of drugs issued at the expense of the Health Insurance Fund, as well as to the necessity of creating conditions for the predictable timeframe of their introduction, with the existence of a long-term plan.

Diagram
Health –
satisfaction
with
conditions
for doing
business

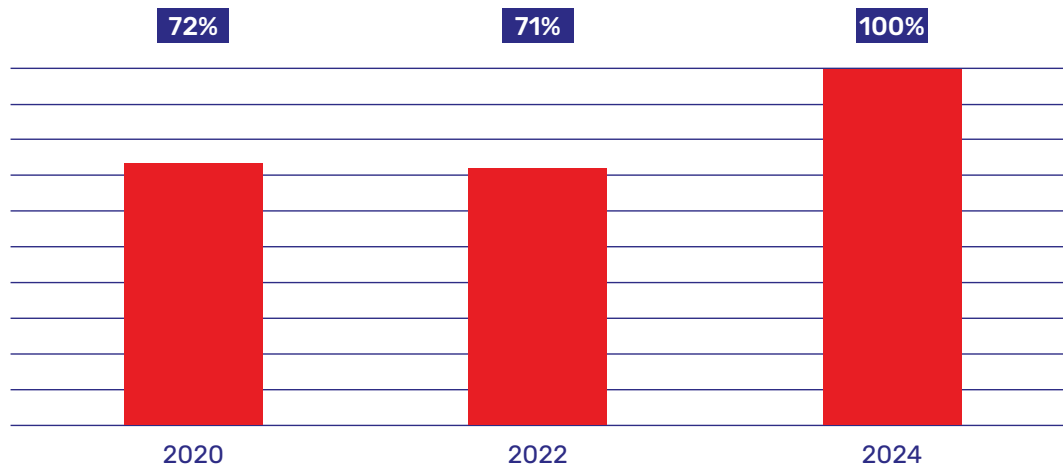


When it comes to the elements of business climate in the health sector that can be improved according to the members' views, the involvement of patients in the decision-making process about treatments and drugs stands out. Namely, the members take a uniform position that patient associations are not sufficiently involved in decision-making on

the treatments and drugs, although this is a good practice in developed countries. This is also a confirmation of the situation observed in earlier reports, because the findings of this and all previous reports indicate that it is necessary to take action to empower patients in the process of decision-making about their own treatment.

Diagram

Share of members that awarded a negative rating to involvement of patients in decision-making about the treatments and drugs



Taxes

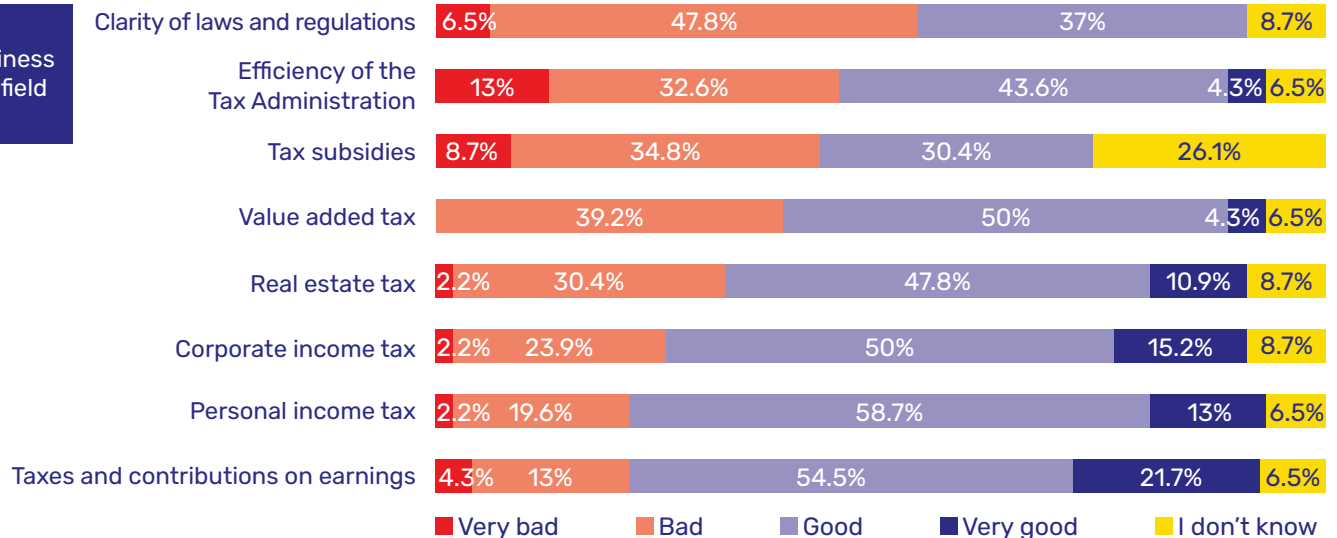
The members point out that the tax system in Montenegro is one of the most attractive elements of doing business. That is why it is not surprising that business climate ratings in the field of taxation are mainly positive. The clarity of laws and regulations in this domain is the only indicator rated negatively by the majority of the members – 54% of them, which indicates that certain regulations should be improved in order to

leave less room for different interpretations and to improve their implementation.

However, it should be emphasized that the generally positive assessment of tax rates in Montenegro has been undermined by the increase in the VAT rate on tourism and hospitality services from 7% to 15%. More details on this follow in the section related to tourism.

Diagram

Quality of business climate in the field of taxation



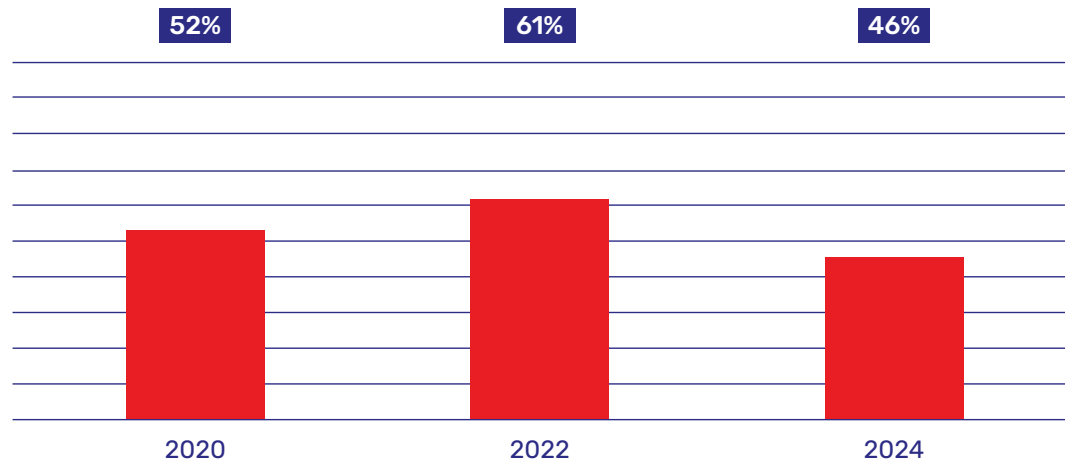
The good news in this report is that the members notice an improvement of efficiency in the work of the Tax Administration. Namely, for the first time in our Business Climate Report, this element of doing business was rated negatively by less than half of the members – 46% of them. For comparison, 61% of members did so in the previous report.

The improved rating is certainly the result of significant acceleration of the procedure for

processing VAT refund requests. Namely, as of October 2024, 28% more requests were processed and realized compared to the comparative period of 2023, with an accelerating trend, which should lead to the resolution of all backlogged cases in 2025. In addition, intensive work on the modernization of software solutions of the Tax Administration has continued through RARP (Revenue Administration Reform Project).

Diagram

Share of members that awarded a negative rating to Tax Administration efficiency



ESG (Environmental, Social, and Governance)

AmCham's ESG Committee created a position document for the improvement of energy efficiency in Montenegro, based on the need for energy efficiency to be a strategic priority with much clearer management by the key stakeholders, with a focus on clearly recognized green, sustainable projects, as well as the development of electromobility, which requires the creation of a regulatory framework. This document is only the first in a series of initiatives planned by the ESG Committee in order to improve, in cooperation with decision-makers, the business climate in accordance with ESG standards, i.e., on the principles of sustainability, social responsibility and good governance.

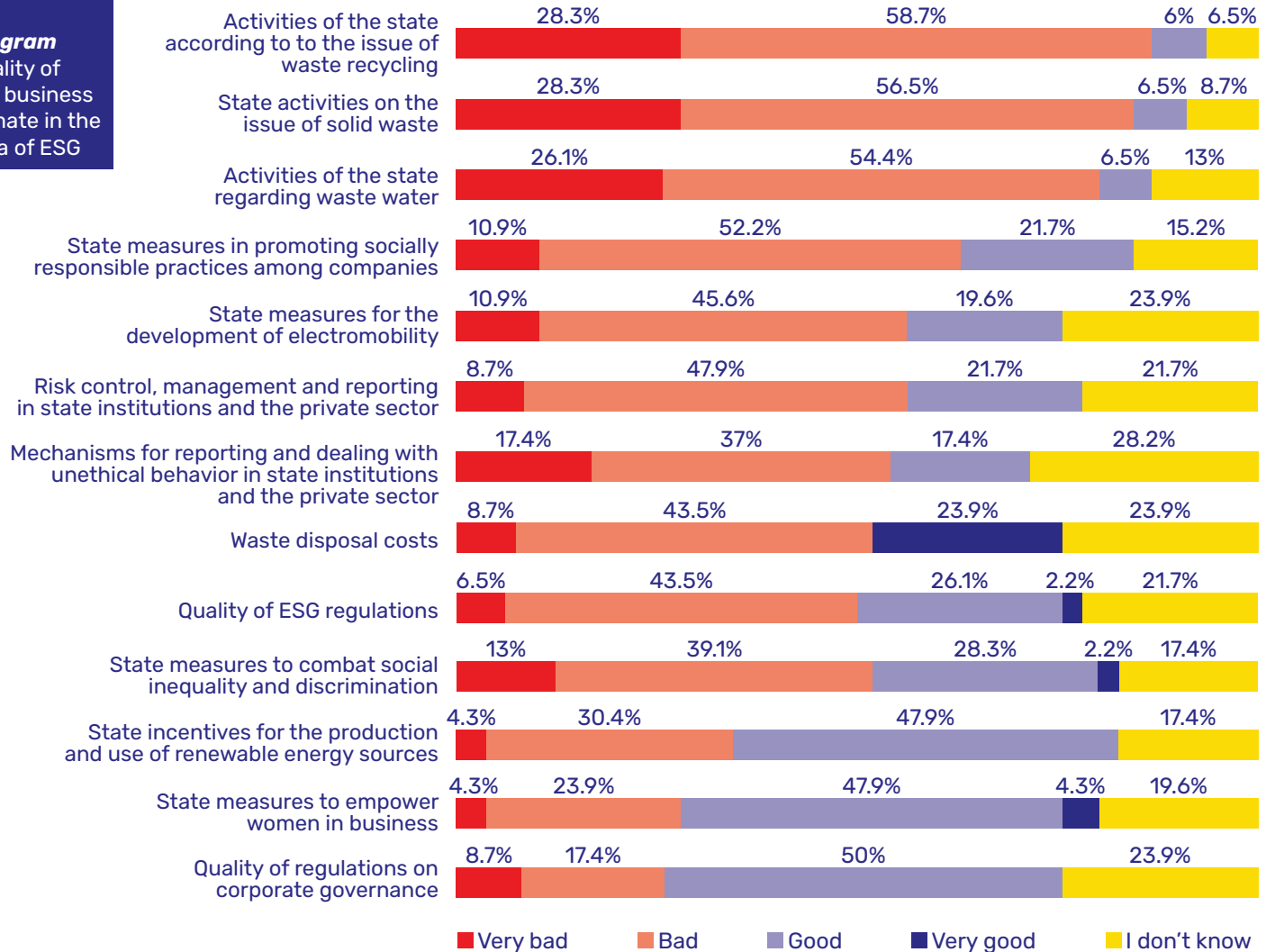
Although a more comprehensive approach to the assessment of the business climate has been taken this time, based on the abovementioned standards, i.e., principles, which are applied in this form for the first time, the worst rated elements of doing business in this segment are those related to solid waste and wastewater treatment and

those related to recycling, which has already been discussed in earlier reports.

The share of member companies that negatively assess the activities of the state in the field of recycling is 86%, while the activities in the domain of solid waste treatment are negatively assessed by 85% of the members. The activities related to wastewater treatment are seen negatively by 81% of member companies. Therefore, it is clear that the situation is alarming in this regard.

Furthermore, 63% of members awarded a negative rating to the state's measures to promote socially responsible business, as well as to the state's measures for the development of electromobility, which were negatively assessed by 57% of the members. Almost every observed element of doing business in this field was mostly negatively rated by the members, which indicates the need for the state to significantly raise the level of awareness of the need to establish ESG standards, as well as to execute activities towards their implementation.

Diagram
Quality of the business climate in the area of ESG

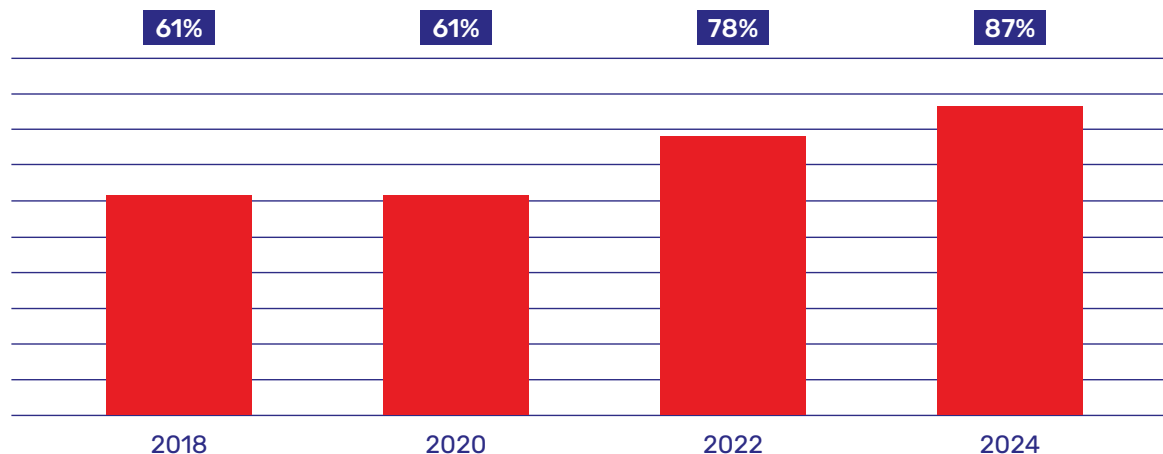


What is even more worrying is that we can see that the negative rating regarding waste recycling has a worsening trend, while the situation with solid waste and wastewater management is not significantly different, which stands in contradiction with the status of Montenegro as an ecological

country, as well as with numerous standards which we must implement in the field of ecology in order to harmonize with the EU. Hope remains that the situation will improve with the full implementation of the Law on Waste Management, which was adopted in 2024.

Diagram

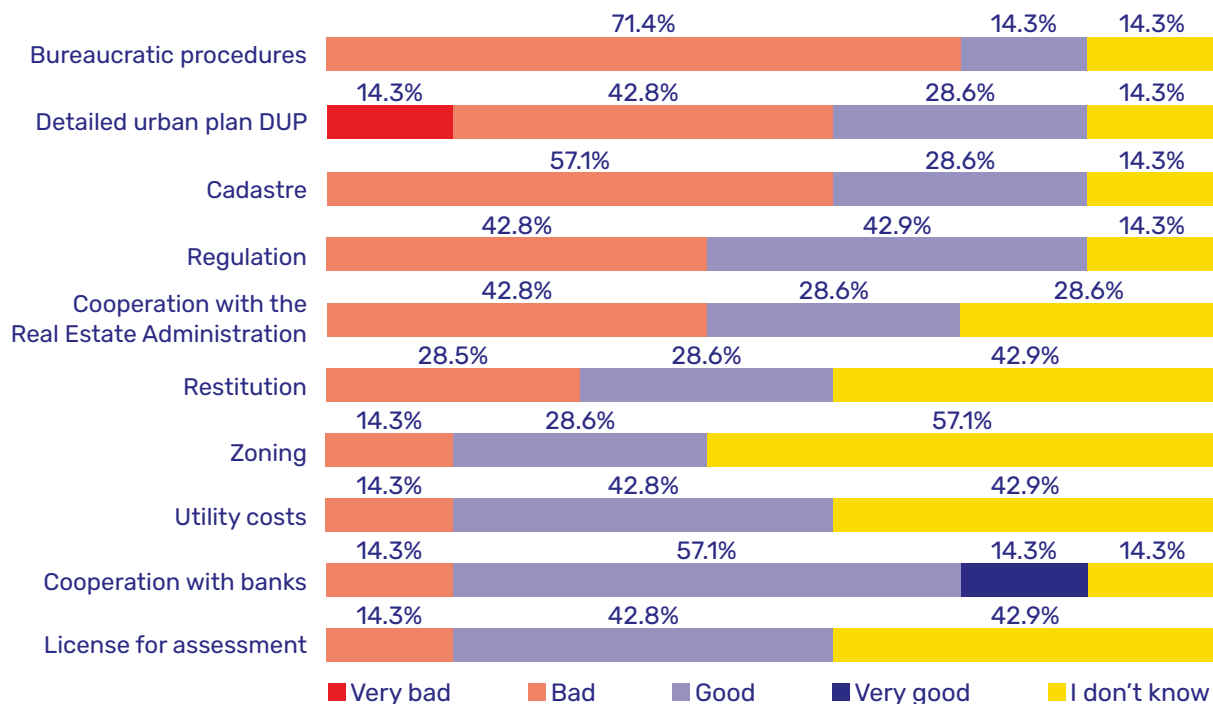
Share of members that awarded a negative rating to waste recycling



Construction and Real Estate

In the field of construction and real estate, investors continue to face challenges in the form of complex procedures and administration inefficiency. Therefore, action is needed in this domain to increase the capacity of state and local administrations that deal with issues related to real estate and their registration.

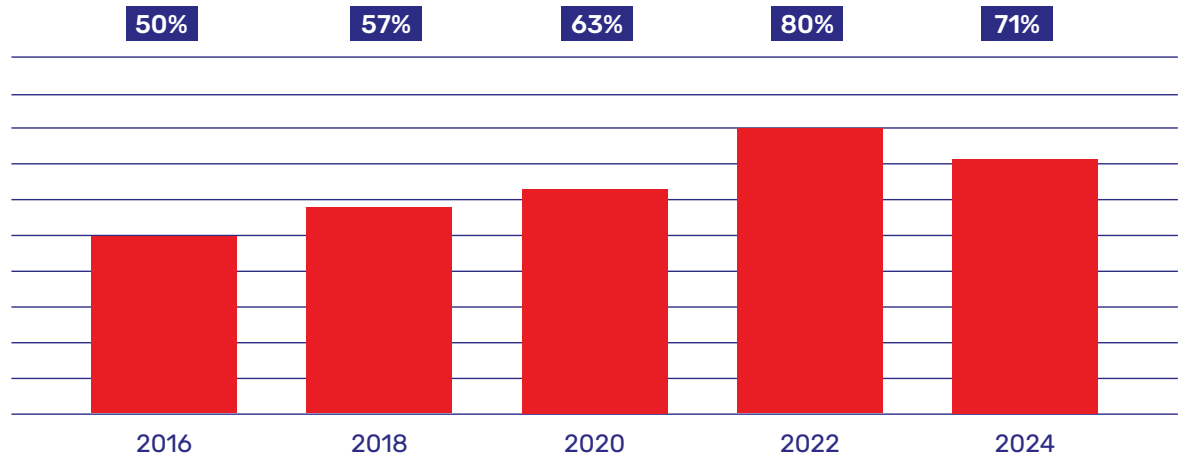
Diagram
Quality of business in the field of construction and real estate



In this context, members continuously point to the problem of inefficient bureaucratic procedures. Namely, there is a high share of members that rate this element of doing business negatively ever since the report that covered the period of 2015-2016.

Diagram

Share of members that awarded a negative rating to bureaucratic procedures in construction industry



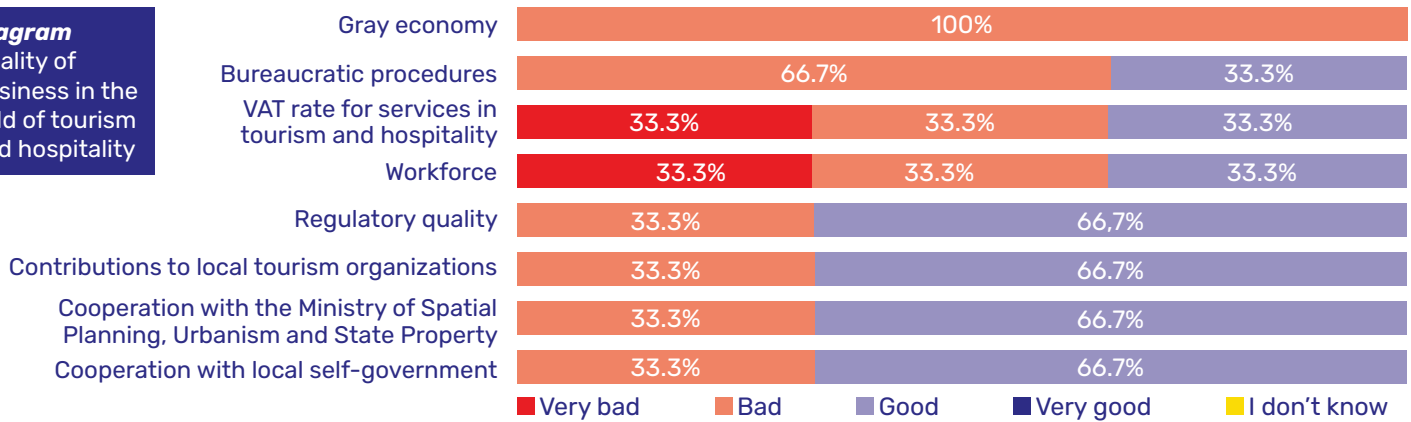
Tourism and Hospitality Industry

Tourism is a branch of the economy that directly or indirectly accounts for almost a third of Montenegro's GDP. Although diversification of the economy is undoubtedly necessary, it is certain that tourism is a strategic branch that should constantly be in the focus of decision-makers.

For this reason, we continuously analyze the business climate in the field of tourism, looking at numerous parameters, such as the level of the grey economy, the workforce, the quality of legislation, bureaucratic procedures, tax rates, and the quality of cooperation of the private sector with state authorities and local self-government bodies.

The quality of legislation and cooperation with the line ministry and local self-governments have been rated positively by 67% of the members. However, the situation regarding the grey economy in tourism is worrying, as 100% of the members rated it negatively. Furthermore, the present report brings significantly worse rating of the VAT rate on services in tourism and hospitality industry, with 67% of the members who have taken a negative stance in this regard, which is not surprising considering the recent decision of the Government of Montenegro to increase the rate from 7% to 15%. The fact that only 11% of the members considered the aforementioned tax rate negatively in the previous Business Climate Report indicates that a significant deterioration has occurred in the opinion of members in this regard.

Diagram
Quality of business in the field of tourism and hospitality



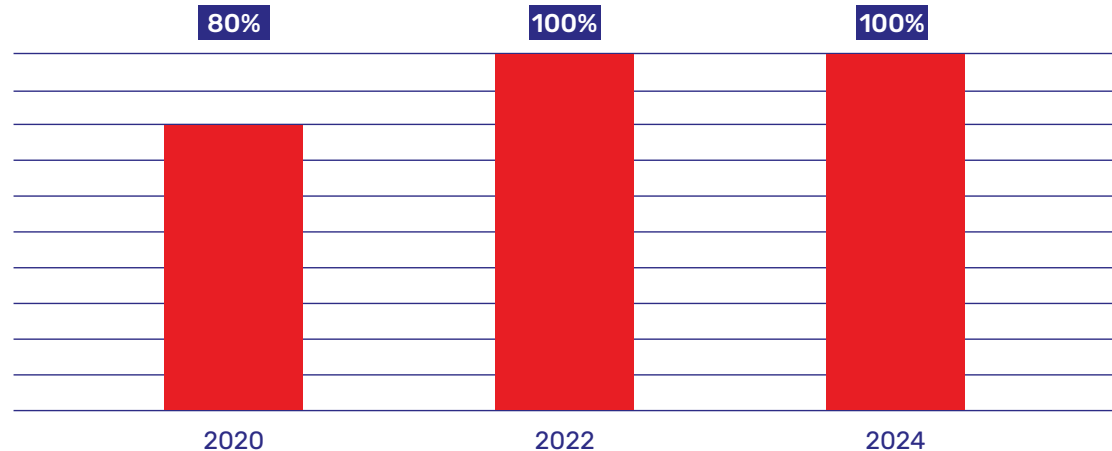
TOURISM AND HOSPITALITY INDUSTRY

Just as in other sections of the report, in which we highlighted the main challenges continuously recognized by the members, here we can point to the key problem of the grey economy in tourism. If we take into account the

importance that this branch has for our economy, the decision-makers would have to engage in suppression of the grey economy in tourism with much more intensity.

Diagram

Share of members that awarded a negative rating to the level of grey economy in tourism



Note: Tourism sector has started to be analyzed in these reports in 2020.

Finally, the measures taken by the state do not stand in correlation with the status of tourism as a strategic branch of the Montenegrin economy. Insufficient efforts to deal with the evident problem of the grey economy in tourism, the planned introduction of fees for utility infrastructure provision for 4- and 5-star hotels, which removes the incentive for investors to build high-category hotel resorts, which still have a significantly smaller share in the

total tourist offer than competing destinations, as well as increasing the VAT rate for tourist and hospitality industry services from 7% to 15% – are all factors that reduce the competitiveness of the tourist offer, as well as investors' confidence in the tourism investments rationale. Also, as a result, the above factors have a negative effect on the realization of planned budget revenues from tourism.

25 Recommendations for 2025

Quality of consultations and transparency of decision-making in adopting new or amending existing laws and regulations

- 1.** Including relevant representatives of the business community in working groups for drafting new and/or amending existing laws and regulations of importance for the business climate.
- 2.** Including relevant representatives of the business community in drafting RIA (Regulatory Impact Analysis) forms with a view to better comprehension of the impact of planned changes on the business climate.
- 3.** Holding public discussions with adequate deadlines for giving comments always when adopting new and/or amending laws of importance for the business climate.

Duration of court proceedings

4.

Increasing the number of judges in order to reduce their excessive workload, which directly affects the duration and efficiency of court proceedings.

5.

Ensuring systematic application of procedural powers, including the imposition of procedural sanctions for abuse of rights, in order to prevent unjustified delays and speed up the conduct of court proceedings.

6.

Planning systemic solutions for the long-term increase of judicial capacities and promotion of the judicial profession in order to attract highly qualified candidates.

Suppression of the grey economy in general, with a focus on tourism

7.

Amending the legislation and taking proactive action to enable the control and sanctioning of unregistered entities that engage in economic activity.


8.

Establishing effective inspection, with clearly defined measures and responsibilities to suppress the grey economy, especially in tourism.


9.

Defining new sanctions, which would be significantly stricter than the existing ones, for the unlawful rental of apartments, failure to issue invoices in the hospitality industry, i.e., the performance of tourist and hospitality activities in the so-called grey zone.

Human capital and flexibility of labor relations




10. Ensuring detailed legal regulation of the performance of work outside the employer's premises (remote work and work from home) in situations where the nature of the work allows it, so that employers and employees can use this possibility flexibly and without excessive administration.



11. Legally enabling employers and employees to negotiate wages more flexibly, i.e., enabling them, if the need arises, to agree on wages with employees beyond the stipulated coefficients and regardless of the wage earned by another person assigned to the same workplace, so that it is possible to attract adequate personnel or retain key employees in accordance with the trends on the labor market.

12. Regulating the provisions on the schedule of annual vacation in a way that enables the complete digitalization of the necessary activities, with the aim of reducing the administrative burden and introducing paperless business.



Taxes

13.

Defining tax rates so that they support the development of strategic branches of the economy and continuing to create the perception of a favorable tax system for doing business.

14.

Continuing to speed up the VAT refund process in order to reach international standards of good practice of over 90% processed requests within 30 days.

15.

Ensuring full implementation of the key modules provided for by the RARP and taking action on the introduction of new registers, which are key to suppressing the grey economy (such as the register of accommodation providers), as well as on linking them with non-business registers.

Digital transformation



16. Defining the priority public administration services that need to be digitalized precisely and taking proactive action towards their digitalization as soon as possible.

17. Creating prerequisites for paperless business and full implementation of the Law on Electronic Documents.

18. Establishing the Cyber Security Agency in accordance with the adopted Law on Information Security and focusing on its empowerment in terms of personnel and technical resources.

19. Increasing the level of state investments in innovation and the IT sector, which has the potential to be one of the generators of growth and development of the entire economy.



ESG



20.

In the field of waste management, the application of the extended producer responsibility system requires the adoption of all the necessary by-laws and establishment of technical prerequisites on the part of state institutions and local self-governments.

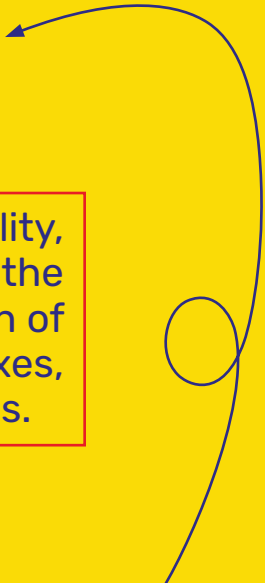
21.



Performing an assessment of the energy efficiency of buildings in Montenegro as a foundation for preparing a strategy that supports the goals of climate neutrality by 2050, in accordance with the EU guidelines.

22.

Developing a regulatory framework for electromobility, inspired by the examples of the EU and countries from the region such as Croatia and Slovenia, with the introduction of additional incentives, such as exemption from vehicle taxes, tolls, parking lot fees and reduced annual registration fees.



Health

23.

Increasing the share of public funding in health spending by increasing the health budget.

24.

Creating a long-term and sustainable plan for the introduction of modern therapies on the list of drugs issued at the expense of the Health Insurance Fund.

25.

Taking action to empower patients in the process of decision-making on their own treatment, and, in this regard, involving patient associations in decision-making on treatments and drugs in accordance with good practice in developed countries.

