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**Economic situation and economic  
reforms in Montenegro**

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## Economic situation and economic reforms in Montenegro

### I General Considerations

Since 1989, Montenegro had negative economic growth rates, or decrease of total income. In 1989, GDP in Montenegro was 1.407 million US \$, in 2000 it was 700 million, or two times lower than ten years ago. In 2000, GDP growth rate was positive for the first time during the last decade.

Still, current level of GDP is 47% from level from 1989.

This trend was influenced by brake-up of Former Yugoslavia, wars in Slovenia, Croatia, Bosnia, Kosovo, nato bombing, sanctions from international community, political pressures and instabilities, hyperinflation.

But, also, for explaining current economic situation, two questions have to be ask:

1. What is the key cause of radical economic recession from 1989 in Montenegro until today?
2. Can long-term recession be stopped quickly?

Two major, endogen causes of economic recession in Montenegro are:

1. **Political cause**, or slower transition of political sphere in Montenegro and Serbia and theirs democratization, which caused domination of daily politics over the economy (according to the constitutional economics – public choice: domination of political equilibrium over economic equilibrium)
2. **Economic system** – slower abandoning the way of thinking based on past, according to which state is a major player in economy, industry basic sector in economy, financial system doesn't allocate savings and citizens expect from Government to solve all their problems.

Can trend of economic recession be stopped in short term?

Answering on this question, we will point the most important cause of transition in Montenegro: **time!**<sup>1</sup> Actually, Montenegro, and whole Balkan region has started with delay in transition processes, opposite than other southeastern countries.<sup>2</sup> It is so called **delayed transition**. In fact, serious reform in Montenegro have started since 1998, which is caused by:

1. Political changes in Montenegro.<sup>3</sup>
2. Beginning of support from international community.

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<sup>1</sup> Time is non-material cause in informatical economy.

<sup>2</sup> This constitution is valid for almost all Former Yugoslav states, despite the reform project of Ante Markovic from 1989. Which was the first such reform project in East Europe!

<sup>3</sup> Beginning of government of anti-milosevic coalition

That is the period when realization of concept of sovereignty of Montenegro has started. But also, it was period of scare from conflicts with federal authorities and army. Simple, Montenegro lived in cage with python. And, at the same time tried to proceed with economic reform. Meantime, Montenegro survived Nato bombing. Those causes influenced speed and results of reform.

Now, preconditions for faster implementation of economic reform in Montenegro have been made, and any delay or waiting would be catastrophic for Montenegro and push Montenegro into deeper delayed transition.

## II Macroeconomic indicators

Does Montenegro have macroeconomic stability? But, before all, can we expect macroeconomic stability in economy, which survived three shocks:

1. »Recession shock« (decrease of GDP in 2000 on 47% from level from 1989.)
2. »Demographical shock« (increase of population for 13% during the last ten years)
3. »Delayed transition shock« (at least 8 years of delay compared with East Europe)

Can anyone of you imagine economy of yours country influenced by these three shocks? Try to estimate GDP and population in your country under these conditions?

Macro economy of Montenegro can be described with three essential disequilibria:

1. External disequilibria, with two major components:
  - a. External debt of Montenegro of 567 million \$
  - b. Negative trade balance in 2000. of 193 million \$ or 26% of GDP<sup>4</sup>
  - c. Positive flow of citizens transfers from abroad
2. Internal disequilibria, described with high unemployment rate. In Montenegro number of employee is 142.000. 54.000 (38%) of them work in non-economy and 88.000 in economy sector. There is some estimation that in informal sector works 15-20.000 employees. Unemployment rate is 28%.

This represents the major problem of our economy: how to productively employ workers?

3. Budgetary disequilibria. Budget deficit in 2000. was 156 million DEM, or 12% of GDP

If non-budgetary payments are included (pensions, health) than it is 20% of GDP.

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<sup>4</sup> This data should be analysed in context of DEM introduction as a legal payment currency and freedom of individuals to use DEM according to their preferences and interest!

In light of solution of problem of budget deficit, strict control of wages in public sector is crucial. Meantime, Montenegro will continue with radical fiscal system reform. New GFS budgetary classification has been implemented, which increases the transparency of Budget, it's monitoring, and above all, increases tax collection, which increases budget revenues. Estimation of ISSP is that almost 50% of budget deficit can be financed if informal economy is included.

Current economic activity, above all disequilibria, characterizes several positive trends. For example:

1. Industrial production growth of 3,7%
2. Average wage increased for 21%
3. Employment rate increased for 2.2 %
4. In December 2000, CPI was 2,5%, RPI – 1,1%
5. GDP growth rate in 2000. was 4,5%.

How macroeconomic equilibrium can be made?

Disequilibria problem has been solved thought two simultaneous processes:

1. Support from international community (US and EU). Support was 35 million EURO and 52 million \$
2. Conducting economic reforms in Montenegro and economy rehabilitation and reconstruction, which is proved with economic indicators from 2000.

Support from international community that provided macroeconomic stability in Montenegro we understand as providing conditions for faster **economic reform processes, establishment of new institutions and integration of Montenegro into regional markets, especially markets of Former Yugoslavia.** Without that support, our reforms would be less successful.

Current high budget deficit is main reason for raising two questions publicly:

1. Can Montenegro independently conduct economic reforms and provide macroeconomic stability, especially budget equilibrium today?

Answer is: NO! Budget deficit in all transition countries, during the beginning of the reform processes, is regular and doesn't represent specific situation only actual in Montenegro. For example, in Bulgaria it was about 11%, in Hungary from 6-9%, Ukraine from 9-25%, Russia 4-9%.

According to estimations from ISSP, Montenegro could start with tolerant budget deficit (3% of GDP) from 2004.

2. If anyone asks whether Montenegro have resources, human capital and government organization to finance itself independently, or, can Montenegro in long term finance itself from it's own revenues, answer is: YES!

These two questions are connected, but from time perspective are two different questions!

I don't belong to the economists who believe in resources approach to development and industrialization as major cause of development. I believe more in services, knowledge, information and organization! Or, I think undevelopment is more caused by spirit than lack of resources in any country.

But, above that, Montenegro isn't Sahara. Montenegro is, before all, part of Europe. It is Mediterranean state. Sea was always civilization resource. In Montenegro, there is lots of production opportunities:

- Agricultural potentials (fruit, vegetables, food, vine, fish).
- Montenegrin coast is 293 km long.
- Possibility of production of 100,000 tones aluminum.
- Production capacities for 400,000 tones of raw Ferro.
- Production capacities for production of 1,000,000 tones of bauxite.
- Production capacities for production of 75,000 tones of salt.
- Production capacities for production of 2,700,000 tones of coal.
- Services: Brodogradilište Bijela with potential capacities in physical units of 2,800,000 and values of 30 million US \$
- Overseas and maritime industry
- Share of high-educated population of 6,6% in total population and 20% in active work force.
- In Montenegro exists 13,244 private-owned companies, or 85% of total number of registered companies.
- Especial opportunity of Montenegro is tourism. According to estimations of German firm – DEG – financial company which work on tourism strategy of Montenegro (worked on same for Turkey), Montenegro could make revenues of 1,6 billions DEM from tourism for fifteen years, without multiplication effects. Off course, this makes huge investments necessary and increase of level of services. During the previous year Montenegro made 20 million DEM of revenues from tourism.

I personally believe that for Montenegro, above all, important resource is also **intelligence of** young people, which is base for software development, basic resource in informatical economy; sport, which become important part of economic integrations. Mentality of Montenegrins doesn't correspond with industrial development concept. We have to adjust concept of development of Montenegro with Montenegrins mentality and our tradition.<sup>5</sup>

Despite all resources that Montenegro has, **I believe in their valorization** only if Montenegro continue to build new economic system, new institutions, new rules of

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<sup>5</sup> ISSP from Podgorica has started to research this area (relation between mental characteristics of people and development).

game, new Laws, new way of thinking which will provide integration into region and Europe and develop modern concept of state organization. According to my opinion, building of new economic system based on European standards is precondition for solving all problems that Montenegro has today!<sup>6</sup>

So, Montenegro doesn't have problems with resources. Has a problem how to create institutions, which would influence competitiveness of Montenegro on regional and European market. From this perspective problem of state status should be viewed. State status of Montenegro should be additional accelerator of democratic and economic reforms in Montenegro. Would for Montenegro be easier to conduct reforms as independent country or as a part of federation with Serbia?

Estimation of ISSP is that Montenegro would solve problem of budget deficit and all other problems more efficient as an independent state. Montenegro and Serbia have different economies. There is a difference in the size (Serbia is 15 times larger), structure of economy (Montenegro is oriented on tourism and services, Serbia on agriculture and industry), character of reforms (Montenegro has been oriented on private ownership and market, Serbia on Government role and domestic currency – dinar, as precondition for development), and level of reform conductement (Montenegro has started reform processes three years ago, Serbia prepares to start reform processes). Also, there are big differences in economic power which make Montenegro unequal in federation at monetary policy governance, because Montenegro represents only 8% of total federal economy (federation without Kosovo) and it's influence on monetary policy would be insignificant. This structure cannot be changed if Montenegro is equal in Central bank governance, because votes cannot change power, size and structure of the economy. It can be applied on fiscal, custom tariffs, foreign trade policies.

Today, expenditures of federation for Montenegro would be 200 million DEM or 14% of GDP, or 50% of current Montenegrin budget expenditures. This money would be spent only for federal administration (army, employee, embassies) so it would be pure cost for Montenegro. Montenegro doesn't have a power to finance both administrations: federal and republic. So, the most rational economic model is union of two states, or, two states, one economic system, instead of current situation: formally one state with two different economic systems.

Montenegro has it's own administration, it's own basic representation offices abroad, and doesn't need an army, so, question is: why Montenegro should pay 14% of its GDP for federal army, which Montenegro doesn't need.

Truth, this is mine question and question of research team of ISSP! Respectively, from economic aspect federal budget is basically budget for army and federal

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<sup>6</sup> For purpose of easier understanding of my attitudes, I present opinion of James Buchanan, winner of Nobel's prize for Economics: "Economic system is defined by structure, rules and institutions which limit choice of individuals in interrelated interactions at market. Transmission of market into structure (Economic system-V.V) as the most convenient subject of reform, together with institutions, provide appliance of laissez-faire into operations in structure and make as nonsense all proposals for reforms based on nationalistic goals and all arguments in favour of leadership of political factors." (J. Buchanan: The Economics and the Ethics of Constitutional Order, University of Michigan Press, Ann Arbour, 1991)

administration. Why we need federal state, from economic point of view, because of army and administration?

If the economic reform in Montenegro would be conducted from federal state level, establishing institutions of new economic system would be much slowed down and our institutional dependence from institutions in Belgrade would be continued.

In that sense, Montenegro inevitably becomes periphery! It becomes region whose reforms, their speed and character, depend on federal level! There comes a question: if Montenegro and Serbia are determined for European economic system and if Montenegro has already circled its economic system at that basis, why we need federal level for conducting economic reforms? Why we need mediator between Podgorica and Brussels? Between Serbian Government and Brussels? According to the theory of transaction cost of Nobel Prize winner Ronald Coase, federation increases costs of joining Serbia and Montenegro to Europe! I, as economist haven't heard publicly reasons justifying economic costs of federation and additional transaction costs of joining Serbia and Montenegro to Europe! I am spending 4 days for this conference because I don't have direct flight Podgorica – Brussels! I waited one day in Belgrade in arrival, and I will wait one day more at my way back! Can you imagine that transaction costs! The same case is with economic reform.

Two statements are heard:

1. We want federation where Montenegro is equal.
2. Montenegro can't economically survive as independent state.

If the reason for pleading for joining Montenegro to federation is opinion that it cannot economically survive as independent, there comes a question: how you can be equal with one who supports you, who you are asking to give you money? I, as an economist, don't understand that concept of freedom, even though I have studied freedom concept of Adam Smith, Mill, Hayek, ... Or I am too much under influence of Dostojevski that "money is malleable freedom".

In the context of this opinion I have two more statements:

1. Montenegro today has budget deficit. That deficit exists no matter whether Montenegro is independent or not. Budget deficit would be sooner or later paid by tax - payers (citizens) of Montenegro. No one expects that international community will finance that deficit in long term. It is necessary to accelerate the creation of conditions at the both sides, budget revenues and expenditures, to apply the principle "level of revenues is a measure of consumption".
2. Montenegro has to orient itself to wider market, before all market of republics of former Yugoslavia, Balkan region and European Union. It is up to economic policy and economic system to realize Montenegro potentials by integrating Montenegro into European economic area! It means, only open economy of Montenegro, respectively Montenegro with stable market economy. We have to prove it in Montenegro through further conduction of economic reforms

### III Economic reforms in Montenegro

As I said, Montenegro is in the process of economic reforms. Montenegro has more or less its economic system, respectively laws that are in process of preparation. Reforms have started at wide front of structural and macroeconomic reforms, in order to introduce the capitalism in Montenegro.

Key axle of structural reforms is privatization.

Generally accepted political attitude in Montenegro is all state property has to be privatized. Legal framework that enables conduction of transparent privatization has been prepared. In Montenegrin concept of privatization, stress is at strategic investors from abroad, because we don't have them in Montenegro. Motto of Montenegrin privatization is: "We are not selling companies, but buying strategic investors". 25% of total capital has been privatized up to date. We are expecting privatization of 35-40% in this year: through mass voucher privatization about 27%, through sale of Tobacco Company (it is under procedure), Telecom of Montenegro for which tender will be published by end of March, through sale of few hotels (tender has been published for three hotels), and in march Batch sale tender will be published for 17 companies from Montenegro. For already one year we are preparing tender for Electrical Power Company of Montenegro! International conference on investments in tourism will be held in May and Montenegro is suggesting 40 projects for international investors. By word, the process of **radical privatization** has started! For all tender privatization, according to law, we have international financial and legal advisors. With experts from US AID, EU, DFID we have about 100 foreign experts in Montenegro today, what gives character of transparency and expertness to our overall reform.

In monetary reform we have reached most further DEM is legal tender. It is one of the most important reform decisions in Montenegro. By introducing the DEM, Montenegro has determined that it will not restructure its economy by inflation (printing money), but through real restructuring. At that way it prepares its economy for international competition. At the same way, we are establishing the non – inflation environment for development of financial sector and decreasing the investment risk.

Implementation of **Law on Central bank** is under procedure. **Law on banks** has been adopted, that together with Law on Privatization, makes basis for reconstruction and privatization of banking sector. The process of restructuring the largest state bank, Montenegro bank, has started. The first foreign bank has been opened in Montenegro. Four Management companies for managing privatization funds have been founded.

**Law on securities** that regulates financial market and capital market has been adopted.

Montenegrin Securities Commission, Central Depository Agency, Montenegro stock exchange, few brokerage and diler houses has been founded.



**Fiscal reform and introduction of VAT** is going on. Accounting and statistical standards are introduced. Transparency and publicity of budget has been increased, and it is published monthly. Introduction of DEM and international classification in budget, as well as elimination of disparity of prices in largest part of economy, Montenegro is approaching to establishing **real** budget deficit. In that one figure synthetically is shown<sup>7</sup>:

- A) Degree of difficulties in conducting of reforms
- B) Readiness to enter the reforms!

**Law on foreign investments** has been adopted – all barriers for foreigners are abolished, and international courts guarantee property rights and contract. Foreigner has same rights, obligations and procedures as citizen of Montenegro. For more than one year visas for Montenegro are abolished.

The new **regulatory mechanism** for utilities is being established. For example, new Law on telecommunications has been adopted and established Regulatory Agency, what is a precondition for privatization of Telecom Crne Gore. Preparation for Regulatory Agency for electricity is going on. These Agencies are directly responsible to Parliament of Montenegro.

Total complex **foreign trade and custom** is under reform. Customs are decreased from average federal level of about 25% to 0-12%! Now we work on greater professionalism of custom service, at training of custom officers in order to minimalise possible misuse and corruption and in order to accept the standards of EU.

By word, results of reform are becoming more visible, but still are in shadow of tempestuous of previous and future political happenings in our country. In 2000., for the first time in last ten years we had growth of GDP about 4,5%.

Montenegrin economic system longs for very liberal market economy and organization of Montenegro at principle of **microstate**.

Concept of microstate is strategic vision before all. It means that it is contrary to the vision of daily politics and even more contrary to vision that sees future of Montenegro in its past. Concept of microstate is connection between present situation, economic reforms and strategy of development of Montenegro. This concept comprehends, beside others:

1. Basis of economic system is private property and capitalism (market)<sup>8</sup>. Direct role of state in economy is minimal! She is keeper of rules and laws.
2. Macroeconomic policies (monetary, fiscal, foreign trade) are conducted by rules and standards of: openness, European integration and development of entrepreneurship.
3. Professional, strong Montenegrin custom services in order to eliminate misuse, smuggling and corruption.

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<sup>7</sup> See MONET web-site: [www.monetonline.com](http://www.monetonline.com)

<sup>8</sup> Truth, this word is contrary with the name of strongest political parties in Montenegro.

4. Small (much smaller than today) professional state administration with higher technological and personal standards and with less dependence from political option.
5. Greater participation of private initiative in public affairs (education, health, promotion of foreign investments, promotion of entrepreneurship, ecological protection).
6. Montenegro doesn't need army or any kind of expenditures for that purpose (protection of the border has to be done by professional police and custom service).
7. More professional and smaller police than now.
8. Government with few Ministries (not more than 7).
9. Limited number of trade and diplomatic representative offices in the world (only in the few most important centers – between 10-15).
10. Strengthen the role and responsibility of Parliament for complete situation in the state as well for functioning of economic system and especially system of regulation of utilities, financial markets, banking sector! Participation of politics in executive power is decreased at that way.
11. Further stimulation of development of Non Government sector and stimulation of initiative from this sector.
12. Development of entrepreneurial economy and development of entrepreneurial class! Good companies should be more important than political parties.
13. Open economy: no prevention of import and export flows of goods, capital and people. Abolition of any visa regime and principle of reciprocity in founding the companies, banks etc.
14. Functionally strong state organization that protects contracts, property rights, citizen's rights and fights against malversations and corruption!
15. Taking from the state all functions that enabled, indirectly through political parties, domination of politics over free choice of citizens (for example, distribution of apartments, control over payment system and employment in public sector).
16. Completely transparent budget and transparent managing budget policy, hard budget constrain. Budget as a law in each detail that can be changed only by Parliament!
17. Administration of microstate has to create conditions for realization of principles of transparency, publicity and free choice of consumer, voters and citizens in Montenegro.
18. Separation of social policy from politics, respectively from influence of using the social policy in direct political purposes of particular parties. Separation of social policy from economy, respectively to discharge owners and managers in companies of care about social problems. It is task of state and workers union! Company has to provide resources for that!
19. National treatment of foreign investors and foreign companies and recognition of international courts. During next 10 years gradual introduction of English language beside Serbian, as official language.

Concept of microstate is in accordance with key resource of Montenegro and that are services, before all tourism. Sector of services doesn't stand interference of state and closeness of economy and society! Concept of openness is in accordance with mentality of local population – openness and heartiness!

According to that, creation of new economic system, new concept of state organization and pre – qualification and investments into human capital are ”foundation stones” of Europeization of Montenegro and her long - term stability.

**Institutional and mental reconstruction that I am pleading for is precondition for economic and social reconstruction of Montenegro.**

We need help of international community, that want be only in money, but in know how and new entrepreneurial ideas for this!

This development concept of Montenegro assumes following integrations at Balkans:

1. Monetary integration at territory of Balkans (same legal tender).
2. Trade integrity (abolition of all barriers in trade).
3. To liberate region of army expenditures! Need for arm is hidden need for closed economy and society.

These three assumptions are leading to development of market and market integration. “And market is mechanism that turns enemies into friends”, as would Hayek said. That’s why I consider free market as only guarantee for peace and prosperity at this area. I know that we need time, knowledge and help for that. But, I also know that Balkans is barometer of Europe.

## **APPENDIX I**

## Macroeconomics as a form of redistribution of power between state and market<sup>9</sup>

1. *Size of country and equality in domain of macroeconomic policies.* Size of country in domain of macroeconomic policies plays an important role. For example, monetary policy. Lets consider if Central Bank of Yugoslavia was independent. It means that, according to the constitution, it is authorized to take care about stability of prices and that is completely autonomous in selection of instruments by which it realizes it (if it does not realize it, the Governor is changed). In that case, having in mind that participation of Montenegrin economy in Yugoslav is about 5%, and if we don't take Kosovo about 8%, its influence at monetary policy would be irrelevant. **This could not be changed so that Montenegro is equal in determining Central bank**

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<sup>9</sup> Macroeconomic policy is activity of state in area of economics. Respectively, it is bringing decisions by state and quasi state bodies in area of taxes, customs, interest rates, import regime, exchange rate, state investment policy, social policy, ...

Macroeconomic policy is an expression of our believing that visible hand of state (conscious coordination of development) can give better effects than invisible hand of market. In theory aspect, macroeconomic policy is related with name John Maynard Keynes (who was Minister of Finance at UK Government), who has proposed, in order to find solutions for problems caused by great economic crisis from thirties of last century (unemployment, decrease of production) that state should replace some functions of market or to stimulate the market. (for example Public Investments) in order to pull production. From that period, macroeconomic policy becomes part of state activities.

But, macroeconomics policy, according to the latest theory of public choice, should be understood as connection of politics and economics, connection between political parties and state, between us as consumers (at economic market of goods, services, capital etc.) and us as voters (political market - Parliamentary, President, local elections). Both, consumer and voter vote, first for producer whose goods is buying and second for political party. There are attitudes toward taxes, social policy, import, investments, etc. in programme of political parties. In states that have established institutions that are already functioning, influence of political cycle is smaller. In states without those institutions and especially in small countries as Montenegro, influence of political cycle, in case that state has great influence at economy (through political parties, Government and Parliament), is great and most often results with economic instability!

At the end, macroeconomic policy always means redistribution that is not result of prices, i.e. market, but someone's conscious decision, someone from the top who sees it better than market! So increase of taxes means redistribution of income from entrepreneurs and companies toward state budget, respectively, social groups that are receiving help from budget. Increase of interest rate means cash flow from investors (those who are taking loans) toward citizens from whose savings those loans are financed. Each redistribution have certain effects at macro level. At this there has to be in mind that something that at first glance is good for one group (people, companies, regime) has invisible effects at other groups, companies, branches, and regions.

My attitude is that micro - state as Montenegro does not have capacities nor need to lead economic policy. (Each Year State adopt document like this). According to my opinion, it has to be reduced to budget, respectively revenues and expenditures of budget are policy of a state. Politics like that, when budget is understood as a law as in aspect of total amount as in part of structure of expenditures, can be quantified and controlled by voters. Everything other is disturbance of natural economic flows, (we don't speak here about role of state in creation and conducting legislative and regulation framework – i.e. rules of game for which it is authorized to ascribe, protect and control – state in role of judge in sport, monitors but does not participate in the game!)

**policy, having in mind that by voting the size of economy could not be changed.** The same is valid for foreign trade policy, tax policy etc.

2. *Relation toward type of economic reform in Serbia and Montenegro.* It is reflected as relation towards role of state and private property.
  - a. Montenegro is microstate. It means that it should have »small authority«. Before all, this means that should not be everywhere, and where state has authorities it should be very strong and strict in control. Macroeconomic policies in very small state do not have so big importance. Respectively, it is hard to expect that with activity in macroeconomic policy something can be reached.
  - b. In Serbia, which is large (about 8,2 billion of citizens), it is believed that state can do a lot and that people believe that there is a lot to redistribute (macroeconomic policy is a form of redistribution through interest rates, inflation, exchange rate, trade regime, ...) and that conscious redistribution results with increase of economic efficiency. In states of size as Serbia this can be through, but not always.
3. Micro – state as Montenegro should basically rely on **private property**. Reason is small market and that at that small market could not be established big company, banks, insurance companies. (Size compared to size of country). It further means that economy of Montenegro couldn't be to regulated or closed, that it has to be liberal and open. If the state is small, then big companies do not have special motive to«privatise« it, because it can not provide some special benefits. It means, there are no conditions for oligarchy system. Size of Serbia is likely that many businessmen will want to »privatise state«, i.e.. to provide monopoly position that brings benefits! So they will be pleading for stronger regulation and activity of state in economy. There are always lobbies like that (lobby of large scale companies lobby of agriculture, lobby of energy, ...)

From this aspect (state and private property) union of Serbia and Montenegro cannot function at same types of institutions! Respectively, there are two types of economic reforms, what is rising from size and structure of economies of both republics.

4. *Foreign trade.* There are differences. For Montenegro best is liberalisation of whole region and liberalisation of trade with EU. This means low custom rates and limited protection measures that in accordance with WTO.

Following best solution is free trade regime with Serbia and liberal trade with world (no meter which regime Serbia has).

The worst solution for Montenegro is custom union with Serbia and competition protection policy from rest of the world.

It is important to know the fact that integration with EU understands gradual abolition of custom and non-custom limitations. Integration most often understands liberalisation of trade of industrial products, while agricultural

and some other are under protection regime of customs and quotas. Having in mind importance of agriculture in Serbia and strong lobby for their protection, this fact is more important for Serbia than Montenegro. From the other side Montenegro relies on tourism and services, what requires complete openness of economy.

5. *Monetary policy.* There is still no readiness in Serbia to quit the instruments of monetary policy, respectively their own money and Central bank with emission function. It would be good to remind of introduction of two quasi – monetary boards in Yugoslavia 1989. (Ante Marković) and 1994. (Dragoslav Avramović) and both have failed for about six months. In both cases, money has been printed for financing the agriculture. Montenegro has already transferred to DEM. This is attempt of Montenegro to avoid inflation and create conditions for greater in flow of foreign capital, because foreigners don't believe to domestic currencies. Capital is always afraid of inflation and doesn't go where the rates are high.

At this way, Montenegro has implicitly said that it want go for solution of her problems by printing money (inflation), but by creation of conditions to increase productivity and restructuring. **Still, we have to be aware that be introduction of DEM Montenegro has remained Montenegro.** It is a danger of this solution, especially if the conditions for change of business environment, protection of investments and stimulation of entrepreneurship are not created. It seems to me that it is not understood how behind easier everyday life with DEM there is a burden of need to work more efficiently and to have products for export.

**I am concluding from this that changes in economic system (rules of game) and structures of economy are far more important than monetary system and policy.** It is important for us to have as more as possible foreign banks. Foreign banks have approach to Central banks of country where they are from what compensates not existing Central bank at territory where they make business.

6. *Fiscal reform.* Montenegro cannot stand all fiscal burdens that federal state have. Army is especially important. Montenegro doesn't need army from economic aspect. If Serbia wants Army and Montenegro doesn't, then federal budget loses its sense. State without budget does not have sense.

Other responsibilities at federal level, which would justify budget financing, are hard to see.

Whether federal level has to exist only because of army, because it makes 80% of budget? Respectively, size and structure of federal budget have to be parameter of need for that level! Will citizens give money for that structure of budget? Will they give money for army, for federal administration and their apartments, for Ambassadors,...

Federal level should not lead any macroeconomic policies, because it is authority of republics. If it does not lead macroeconomic politics, there is a

question how it has sources of revenues? Whether to look at revenues in context of contributions of two republics?

This means that there are no transfers from union budget towards states members, i.e. there is no redistribution at union level.

Through, transfer of Montenegro to real financing would not be easy, neither it is possible without foreign help. It means, as all other countries in transition Montenegro has high budget deficit and covering that deficit requires before all, more radical conduction of reforms and establishing new economic system! Neither one state organisation (sovereign Montenegro, federation, union) is automatically solving this problem. The question is only which state form makes possible fastest reform, economic and democratic!



## **APPENDIX II**

## **PERSPECTIVES OF TORUSIM DEVELOPMENT IN MONTENEGRO**

2001-2020

### a) Capacities at 2000. (Estimation)

Total:	155.000 beds
- Main buildings (hotels, tourist camps)	38.342 beds (24.7%)
- Complementary buildings	116.658 beds (75.3%)

With regular engagement of all capacities possible tourist turnover would be 11-12 million nights.

### b) Period from 2001-2005.

Main characteristic: privatization and improvement of quality of management, positioning at international market, modernization of capacities, building new privately owned hotels, improvement of infrastructure, higher quality of products.

Capacities in 2005. – 160.000 beds (40.000 basic, 120.000 complementary)

Tourist turnover: 12.000.000 nights (days). Domestic turnover – 50% (Serbia –5, Montenegro 1 million nights)

At the end of eighties, before crisis began, Montenegro had turnover of 11 million nights (foreigners – 36.3%)

According to FLAG estimations, revenue was 250-300 million US \$ in 1990, and according to registered revenues, it was 144 million US \$.

Turnover from tourism in 2000 was 3,300,000 nights and consumption of tourist was 70 million US \$.

With assumption that performs are rehabilitate already, estimation for revenues in 2005 are 300 million US \$.

Actually, there is some estimation that indicators for tourism in 2005 will be equal as in 1990.

### c) Period from 2006-2020

Characteristics: Selective development of tourism, material base development, infrastructure improvement, restructuring of buildings, improvement of product quality

Capacity will be 200,000 beds (65,000 basic, 135,000 complementary)

Turnover will be 18,000,000 nights (55% foreigners)

Consumption will be 1,5 billions DEM, from foreigners 66%.

Number of employee in tourism will be 45,000. This number of employee would provide existence for 135,000 citizens. Of course, indirect effects are not included.