

# Wages in Montenegro under the pressure of global crisis

## Abstract

Wages in Montenegro are regulated in practice by the Labour Law and by collective agreements. After the fall during the 1990s, the living standards of the Montenegrin population started to recover at the beginning of this decade and, thus, workers' wages have been continuously growing since 2000. The global economic crisis has not, up to the middle of 2009, disrupted that trend: the average net wage in June of this year was €466, which was 18.6 % higher than in June 2008. However, the reduction in economic activity as a result of the global crisis forced the government to announce in July more radical savings measures which will be implemented this autumn. These savings measures are supposed to lead to a 10 % reduction in wages in the public sector. In addition, there are projected changes to the General Collective Agreement and the method of determining the minimum wage in Montenegro. The practical implementation of these measures will depend on the results of this year's tourism season.

**Keywords:** EU accession, transition, labour law framework, minimum wage, collective agreements, social dialogue, economic development, labour market, grey economy, employment and unemployment, social insurance, global financial crisis

## Political framework

After the referendum held on 21 May 2006, Montenegro became an independent state. Since then, it has had two rounds of parliamentary elections, won by the coalition consisting of the Democratic Party of Socialists and the Social Democratic Party. Practically right from the beginning of the nineties and the creation of a multi-party system in Montenegro, it has been the Democratic Party of Socialists which has been in power.

The key priority of Montenegro has been further reform aimed at EU membership. Montenegro finalised negotiations with the EU on the Stabilisation and Association Agreement in late 2006 and the Agreement was officially signed on 15 October 2007. In December 2008, Montenegro officially applied for EU membership. In April 2009, the European Commission was given the task of preparing the *avis* on the capacities of Montenegro for negotiation for EU membership and, based on that, the Commission delivered in late July the questionnaire that the state institutions of Montenegro are supposed to answer by November of this year.

## ILO Conventions

The international recognition of Montenegro started immediately upon its proclamation of independence, on 3 June 2006; thus, it became a full member of the Organization of the United Nations on 28 June of the same year.

According to the number of ratified Conventions and Recommendations of the International Labor Organization (ILO), the former Yugoslavia (SFRY) was one of the leading countries of the world. Its successor, the Federal Republic of Yugoslavia, again became an ILO member in 2000, after the ending of sanctions. Subsequently, the new successor – the State Union of Serbia and Montenegro – took on the previous ratifications as at the date of its founding. After the proclamation of independence, Montenegro took over the ratification instruments for 68 ILO Conventions. It is interesting to mention that, in the database of the International Labor Organization, the date of ratification was exactly 3 June 2006 – the date of the proclamation of independence of Montenegro.<sup>1</sup> After the proclamation of independence, Montenegro has not initiated the ratification of any other ILO Convention.

It should be mentioned that the following are among those 68 ILO Conventions:

- C 87 – Protection of the Right to Organize, 1948
- C 98 – Right to Organize and Collective Bargaining, 1949
- C 100 – Equal Remuneration, 1951
- C 111 – Discrimination (Employment and Occupation), 1958
- C 131 – Minimum Wage Fixing, 1970
- C 156 – Workers with Family Responsibilities, 1981.

Thus, among the key ILO Conventions related to workers' earnings, Montenegro has still not ratified the following:

- C 95 – Protection of Wages, 1949
- C 173 – Protection of Workers' Claims (Employer's Insolvency), 1992.

(The Montenegrin Ministry of Labour and Social Welfare does not have information on whether Montenegro is planning to ratify these Conventions, while the trade union and employer organisations are not aware of the general content of either of these Conventions or of the ratification procedure.)

## Legal framework for the definition of wages

A year and a half after the proclamation of independence, Montenegro adopted a new Constitution.<sup>2</sup> In the Preamble, the following values are stated:

Freedom, peace, tolerance, respect for human rights and liberties, multiculturalism, democracy and the rule of law,

1 <http://www.ilo.org/ilolex/english/newratframeE.htm> [last accessed on 12 August 2009].

2 The Constitution of Montenegro was adopted on 19 October and it came into effect on 22 October 2007.

and then it is stated that the state, among other things, is responsible for the establishment of social justice. In addition, the Constitution also guarantees trade union organising freedoms, in accordance with international standards,

Without consent, and with the obligation to have it registered with the responsible authority.

The fourth chapter of the Constitution is related to economic, social and cultural rights and freedoms. Article 62 defines the right to work in the following way:

Every person has the right to work, the free selection of profession and employment, fair and humane working conditions and protection during periods of unemployment.

Article 64 defines the rights of employed people to adequate wages, limited working hours, paid leave and occupational health and safety.

For the first time, the Constitution defines a tripartite body – the Social Council<sup>3</sup> – referred to in Article 65 as follows:

The social position of employees is harmonised/adjusted in the Social Council. The Social Council consists of the representatives of the trade union, employers and the government.

Within the overall transition reforms, there have been significant changes in the labour and social legislation. Thus, for example, at the beginning of this decade, the following laws were adopted:

- the Labour Law – 2003, with amendments from 2004
- the Law on Employment – 2003, with amendments from 2004<sup>4</sup>
- the Law on Pensions and Disability Insurance, with amendments from 2004<sup>5</sup>
- the Occupational Health and Safety Law<sup>6</sup>
- the Law on Social and Child Protection<sup>7</sup>
- the Law on Health Insurance<sup>8</sup>
- the Law on the Protection of Citizens of the Republic of Montenegro working abroad<sup>9</sup>
- the Law on Employment and Work of Foreign Citizens<sup>10</sup>
- the Law on Veterans and Disability Protection – 2003
- the Law on Labour Inspection – 2003
- the Law on Records in the Field of Labour and Employment – 2003.

3 The role of the Social Council will be mentioned in more detail later in the text.

4 *Official Gazette of RoM* No. 29/05.

5 *Official Gazette of RoM* No. 54/03, 39/04 and 79/04.

6 *Official Gazette of RoM* No. 79/2004.

7 *Official Gazette of RoM* No. 78/05.

8 *Official Gazette of RoM* No. 39/2004.

9 *Official Gazette of RoM* No. 11/04.

10 *Official Gazette of RoM* No. 11/2004.

A second set of amendments to the labour and social legislation has taken place in the last few years: the Law on Labour Inspection,<sup>11</sup> the Labour Law,<sup>12</sup> the Law on Amicable Labour Dispute Resolution<sup>13</sup> and the Employment Law<sup>14</sup> have all been amended, as have been the Law on Employment and Work of Foreign Citizens,<sup>15</sup> the Law on Strikes,<sup>16</sup> the Law on the Professional Rehabilitation and Employment of People with Disabilities,<sup>17</sup> while a set of decrees and strategic documents of the government have also been issued.

The overall legal framework requires the further harmonisation, change or even abolition of a minimum of fifty additional government decrees which were adopted in the previous period and which are related to this field.

Bearing in mind that the area of labour relations in Montenegro is defined in more detail in collective agreements, one should take into consideration the General Collective Agreement,<sup>18</sup> the methodology for the definition of the minimum wage for the simplest work and the set of branch collective agreements; more will be said about these issues later in the text.

The Labour Law stipulates the establishment of the Labour Fund, as a new legal entity, the founders of which are set out as the government, the association of employers and the ‘authorised’ trade union organisations.<sup>19</sup> The Labour Fund is intended to deal with the issues of redundant workers who are no longer required due to the bankruptcy of their companies. The Fund has not yet been established, on the basis of a justification that this is the result of a shortage of funds; behind that justification, however, there is actually the lack of a political will on the part of the government – and also the social partners, as well; the law stipulates that these are supposed to participate in the establishment of the Fund.

Due to the process of European integration and the harmonisation of national legislation with the *acquis communautaire*, there is also a need to redefine and re-establish the Labour Fund such that it would, among other things, act as a guarantee fund for the payment of workers in the case of company insolvency, in accordance with the contents of the well-known European Directive 80/987 on the protection of the rights of employees in the event of the insolvency of their employer (amended by Directive 2008/94).<sup>20</sup> This involves the duty of EU member states to establish bodies that will provide funds for the payment of the claims of employees to unpaid wages.

11 *Official Gazette of Montenegro* No. 89/08.

12 *Official Gazette of Montenegro* No. 49/08.

13 *Official Gazette of Montenegro* No. 16/07.

14 *Official Gazette of Montenegro* No. 21/08.

15 *Official Gazette of Montenegro* No. 22/08.

16 *Official Gazette of Montenegro* No. 49/08.

17 *Official Gazette of Montenegro* No. 49/08.

18 *Official Gazette of RoM* No. 1/04 and 59/05.

19 The issue of the representativeness of the social partners will be discussed in more detail later in the text.

20 Directive 2008/94/EC of the European Parliament and of the Council of 22 October 2008 on the protection of employees in the event of the insolvency of their employer (codified version) (text with EEA relevance).

## Right to a wage

Article 11(1) of the existing Labour Law stipulates as follows:

An employee has the right to an adequate wage, security and the protection of life and health at work (health and safety at work), professional training and other rights in accordance with the law and the collective agreement.

Article 14(3) stipulates that the employer is obliged:

To pay a salary to the employee for the work performed, in accordance with the law, the collective agreement and the labour contract.

The same is repeated in Article 77, which states as follows:

The employee shall be entitled to an adequate wage to be determined in accordance with the law, the collective agreement and the labour contract.<sup>21</sup>

Article 80 of the Law says as follows:

The employee shall be entitled to the minimum wage for standard performance and full-time working hours, or for working hours equivalent to full-time working hours, in accordance with the law, the collective agreement and the labour contract,

while the following Article (81) defines the method of determination of the minimum wage as follows:

The minimum wage at the level of Montenegro shall be determined by the General Collective Agreement. The definition of the minimum wage shall start from the following: the cost of living; changes in the average wage in Montenegro; the existence-based and social needs of the employee and his or her family; the unemployment rate; changes in employment in the labour market; labour productivity; rates of profit in the economy; and the general level of economic development of Montenegro. The minimum wage shall be determined per working hour and it cannot be lower than the minimum wage for the period prior to the period for which the minimum wage is determined.

The legal definition of the minimum wage is strongly criticised by the employer organisations, according to which the negative effects of the concept are as follows:

- 21 Discussion regarding the adoption of this version of the Labour Law was marked by numerous confrontations and conflicts between political viewpoints; thus, no-one really cared about the 'non-disputable' issues and the formal-legal quality of the law.

- it discourages business development, as it is a non-market concept
- it increases the cost of labour for the employer
- it increases budgetary expenditures and inflation, while reducing employment and labour market flexibility.

Employers feel that the minimum wage harms exactly those it is supposed to protect, as it increases the cost of unskilled labour, thus reducing employment possibilities for unskilled workers, women and young people.<sup>22</sup>

However, it should be mentioned that the General Collective Agreement, developed before the new Labor Law, defines the minimum wage a bit differently: in Articles 9-11, it says:

The wage of the employee consists of the following: a wage for the work performed and time spent at work in the prescribed working conditions (hereinafter: basic wage); a wage increment; a wage based on work performance and wage compensation. The minimum price of labour, for an average of 176 hours a month, is determined in the bargaining procedure between the representatives of the signatories to the collective agreement.

Thus, the Labor Law speaks of the minimum wage whereas the General Collective Agreement speaks of the minimum price of labour. For that reason, amendments to the General Collective Agreement are long overdue although they have not as yet taken place.

## Collective agreements

Collective agreements in Montenegro have existed for almost twenty years. The existing General Collective Agreement in Montenegro was concluded in late 2003 between the government, the Confederation of Trade Unions and the Chamber of Commerce of Montenegro.<sup>23</sup> Later on, in 2005, it was slightly changed, as one of the parties in the bargaining process had changed – it was the Employers Federation instead of the Chamber of Commerce. The General Collective Agreement in Montenegro is a national and a general one: it is a national one because it is concluded at the state level; and it is a general one because it applies to all employees in Montenegro (including civil servants and state employees) and all employers. It contains the following chapters: basic provisions; labour relations; occupational health and safety; wages; compensation and other personal income; redundancies; conditions for work of the trade union; the signing and implementation of the collective agreement; the manner of resolving collective labour disputes; and final provisions.

Previously, collective bargaining at the national level in Montenegro was divided and there were two general collective agreements as follows: the General Collective Agreement for the organisation of social and public enterprises and state authorities; and the General Collective Agreement that applied to the rest of the economy. These were concluded in late 1990 and early 1991. After that, the unified General Collective Agreement was signed in 1995 between the Confederation of Independent Trade Uni-

22 See: <http://www.visit-mba.org/cg/strana.php?id=9> [last accessed on 12 August 2009].

23 *Official Gazette of RoM* No. 43/03.

ons of Montenegro at the time, the Government of the Republic of Montenegro and the Chamber of Commerce of Montenegro.<sup>24</sup> The collective agreement can be signed for a limited or an unlimited period of time and it is considered to be concluded once it has been signed by the authorised representatives of all the parties/signatories.

In all this, one should bear in mind that, in 2004, the Ministry of Labour and Social Welfare adopted a special decision so as to define the Employers Federation of Montenegro as the only representative organisation of employers.<sup>25</sup> In accordance with this, and through subsequent changes to the Labour Law, the representativeness of employer organisations has been defined. The criteria come down to representative employer organisations employing a minimum of 25 % of workers in industry, with a minimum share in GDP of 20 %.

Unlike the representativeness criteria for the employer side, representativeness criteria for trade unions are not defined at all. The existing Labour Law uses the term (and notion) of the ‘majority trade union’. Bearing in mind the existing conflicts and gaps in the trade union movement in Montenegro, this problem is, obviously, becoming more important and the Ministry of Labour has announced that it will soon adopt a special law on the representativeness of trade unions.

### Wage determination system

The General Collective Agreement defines the notion of a ‘minimum price of labour’, which is a different concept to the ‘minimum wage’. The minimum wage consists of the minimum price for labour (i.e. the price of labour for a specific job),<sup>26</sup> multiplied by the following coefficients based on jobs which are grouped together according to the level of difficulty of their working conditions or, sometimes, responsibility:

- 24 The current discussions on the need of the state to reduce the cost of wages due to the global financial crisis have created the requirement for new negotiations in order to change the General Collective Agreement. For that reason, the social partners are raising the initiative once again of defining the fundamental relationships between workers and employers in Montenegro in the two general collective agreements. According to this initiative, one GCA would be signed between the Employers Federation and the Confederation of Trade Unions of Montenegro, and it would apply to industry; and the other would be concluded between the government and the Confederation of Trade Unions, and it would apply to the public sector. The logic of this proposal is based on two views: that the government is the employer of almost 40 000 workers in civil service, education and health; and the Employers Federation is not a representative partner in those relationships.
- 25 In this way, the other organisation – the Montenegro Business Alliance – was, to put it simply, bureaucratically erased from the list of social partners. This has led to a continuing conflict between this organisation and the Employers Federation of Montenegro.
- 26 Article 14 of GCA.

**Table 1 – Labour coefficients based on skills**

Group of jobs	Professional requirements	Coefficient
I	No expertise (unskilled worker)	1.00
II	Professional capacity – level I	1.25
III	Professional capacity – level II	1.60
IV	Professional capacity obtained with high school education lasting two-three years (level III)	1.95
V	Professional capacity obtained with high school education lasting for four or more years (level IV)	2.20
VI	Professional capacity obtained with specialised training based on high school education (level V)	2.45
VII	Professional capacity obtained through higher education (level VI)	2.80
VIII	Professional capacity obtained through university, i.e. higher education (level VII)	3.30
IX	Professional capacity obtained through masters degree programme or specialised training at this level (level VII – 1 <sup>st</sup> degree)	3.60
X	Professional capacity obtained through PhD (level VIII)	4.00

Thus, the price of labour for a specific work position consists of the minimum price of labour multiplied by the coefficient of difficulty of the activities in that specific post. More or less, people tend to relate that to the level of education/skills of the particular worker.

The GCA regulates the basic principles for determining the wages of workers, other incomes and their other rights, responsibilities and duties derived from wages. Industry collective agreements are signed for specific sectors across the territory of the state and apply to all employers and employees in that respective sector. They define in more detail the coefficients used to define the basic price of labour for the specific post. The name ‘industry’ agreement is used because these agreements are signed at the level of industry sectors or branches.<sup>27</sup> In practice, the concluded industry collective agreement is essentially not that different from the GCA. Elsewhere, industry collective agreements might be the most important type of agreement, but in Montenegro they still do not have that level of importance and most of their provisions are actually copied from the GCA.

The individual collective agreement is an agreement concluded at company level (in a company or institution) between the trade union organisation and the employer, and it applies to the employer and all the workers employed by that employer. The

27 The previous Labor Law defined these agreements as special collective agreements.

individual collective agreement is defined as such in the GCA, although it would be more appropriate to call it an employer collective agreement since it is the ‘successor’ to the general acts of companies which were responsible for regulating labour relations in more detail, especially during the period of self-management.

Individual collective agreements in Montenegro are not typical with regard to their signatories, because the interests of employers are represented not by an employers association but by the employer itself as a legal entity; that is, this level of collective agreement is concluded between the director of the company, in the name and on behalf of the employer, and the trade union organisation existing in the company.

In public institutions financed from the budget, no individual collective agreement has been signed (only industry level agreements), which is justified since all public institutions in one sector have just the one employer, i.e. the relevant ministry.

No-one in Montenegro, not even the Confederation of Trade Unions of Montenegro, which is supposedly taking special care of this issue, has precise data on the number of concluded individual collective agreements and of how many employers and workers are covered by them. There is no duty to register individual collective agreements.

The law defines the duty of the employer to conclude a labour contract with the person being employed before that person starts working, and to report that employment to the relevant institutions dealing with the activities of employment, pensions and disability insurance and health insurance. After signing the labour contract, the worker obtains the right to start working and accesses the rights, responsibilities and duties based on employment.

The General Collective Agreement specifies that the minimum wage should be determined at the level of the employer, in accordance with the individual collective agreement. The GCA does not define the value of the minimum price of labour for work at the simplest level, i.e. for full-time working hours and standard work performance. Instead, the social partners, together with the government, establish a negotiatory body which, based on a specially-defined methodology, defines the minimum price of labour. The methodology contains the following elements for determining this minimum price:

- needs of employees and their families
- average wage for a family of four
- level of work productivity
- size of gross domestic product (GDP)
- basic economic indicators
- reduction in the relative participation of the public sector wage fund in GDP.

Some of these elements have been copied from ILO Convention 131 on the determination of minimum wages and Recommendation 136 on the determination of minimum wages.

The basic, initial value used to determine the needs of employees, i.e. for an average family of four, is the value of essential products – the so-called ‘consumer basket’ determined by official statistics. The value of this consumer basket is determined by

the quantities and prices of 65 food and beverage products<sup>28</sup> in the specific month. Based on the other necessities of a family of four (housing expenses, clothes and footwear, transport, health and hygiene, education and culture, sports and recreation, etc), the value of this consumer basket is increased by 40 %, based on the assessment of the negotiators themselves that average families spend approximately 60 % of their monthly income on food and 40 % on their other needs. This ratio was determined in 1995 and has not changed since, and neither has the average employment coefficient, which was determined at the time at a level of 1.7.<sup>29</sup>

The methodology does not project an automatic calculation of the minimum price of labour, but its value is determined by the negotiation body, which consists of the authorised representatives of the signatories to the GCA, based on the elements and conditions defined in the methodology. Negotiations on changes to the minimum price of labour have taken place in this way in Montenegro for years (from 2002, when the minimum price of labour was determined to be €50, up to 2006) without issue although, in the meantime, the negotiator on behalf of the employers became the Employers Federation of Montenegro. It was only in late 2006 that it was agreed to change the minimum price of labour, which was gradually increased to €55 during 2007.<sup>30</sup> A new round of negotiations started in late 2007 in order to determine a new value for the minimum price of labour (motivated by the need to respond to the unplanned increase in the rate of inflation), but there have as yet been no results from those negotiations. Bearing in mind the confusion regarding the employer side (the existing agreement was negotiated by the Chamber of Commerce while employers are now represented on these issues by the Employers Federation), and the incompatibility of the GCA with the law regarding the minimum wage and the minimum price of labour, it is clear that a new General Collective Agreement must be defined in Montenegro. But, just as employers are becoming louder in insisting that one GCA cannot be relied on for all, it is clear that a new agreement will be hard to reach – even more so when one recalls that the negotiation body will have to include representatives of the other trade union federation which was officially formed in 2008.

One should mention here a very important characteristic of the minimum wage contained in the GCA in Montenegro. Namely, it serves as the basis for various social benefits and budgetary obligations, and even fines for misdemeanours. Thus, the value of the minimum wage is very important to the government's budgetary policy.

Such a collective bargaining system, naturally, has strong critics, primarily among authors of a liberal orientation. The system is seen as 'unavoidable and centralised': unavoidable, because collective bargaining is defined as mandatory even though this is against the logic of the freedom of collective bargaining; and centralised, because the rule is that everyone must observe the provisions of the 'higher' level collective

- 28 This consumer basket is very modest, and it is a 'war-time' one, bearing in mind that it was defined in the period of wars on the territory of former Yugoslavia. Comparative statistical consumer baskets used in the region are, naturally, much more comprehensive.
- 29 In the meantime, these indicators have changed significantly, but the negotiators have not raised those issues.
- 30 At the beginning of the year, it was defined at a level of €52; it increased in March to €53; and, at the end of the first half, it went up to €55.

agreement even if a collective agreement at a specific lower level has not been signed.<sup>31</sup> The Employers Federation, as a representative organisation of employers, has specific objections regarding the GCA. Its view is as follows:

The state is no longer a general employer capable of signing a collective bargaining agreement applicable to an industry sector; this issue should be left to negotiations between the employers and their workers. Work in public administration/the civil service has its specificities compared to work in the private sector, because it is not subject to the rules of the market game and to competition; thus, it cannot be regulated by the same collective agreement that regulates work in industry, which requires greater flexibility and different rules of the game.<sup>32</sup>

Thus, employers are becoming clearer in expressing their view of the need to adopt two general collective agreements in Montenegro. The anticipated discussions on how to implement government activities intended to suppress the effects of the global crisis will probably also heighten the consideration of this issue.

What was the previous experience of collective bargaining? The briefest possible answer of analysts is: simulation. The reason is the establishment of a new institution characteristic of the market economy in what is objectively a totally different environment, with no resemblance whatsoever to the environment in which a free market economy can operate. Namely, the first employers appeared only in the privatised economy and, in Montenegro, new private employers did not even participate, until recently, in the collective bargaining system. Ownership was long concentrated in the hands of state-transformed social companies which have, for the most part, not functioned in accordance with the principles of market logic. Nevertheless, they did employ the majority of the workforce and trade union membership was concentrated in them. Thus, participants in the official system of social dialogue were, actually, incompetent negotiators. In Montenegro, just as in other transition countries, the process of introducing the various levels of collective bargaining followed a top-down principle – from collective agreements at national level to collective agreements at enterprise level. This process was mostly characterised by imposing the system of collective bargaining from the higher level, without an adequate foundation. It is especially interesting that this was carried out without there being a true bipartite basis for negotiation (trade unions and employers). In any case, this had a limiting effect on such a process.

Furthermore, the public viewed collective bargaining as a process of negotiation over the amount of wages in which the trade union asked for as much as possible, while the government offered less in order to meet somewhere in the middle.

The Labour Law stipulates that the minimum wage is determined based on the cost of living, the situation in the labour market and the level of development of the economy. This is not fully compatible with the standards of the revised European Social Charter, which says that the minimum wage should be a minimum of 60 per cent of the

- 31 For more details, see: B. Mijatović (2005) 'Reforma radnih odnosa i tržište rada' in B. Begović and B. Mijatović (Eds.) *Četiri godine tranzicije u Srbiji* Centar za liberalno demokratske studije: Belgrade, p. 296.
- 32 [http://www.poslodavci.org/srp/Novosti\\_details.asp?ysID=389](http://www.poslodavci.org/srp/Novosti_details.asp?ysID=389) [last accessed on 12 August 2009].

average wage.<sup>33</sup> The Action Plan for co-operation with the Council of Europe says that the parliament of Montenegro is supposed to ratify the revised Charter by the end of this year, although Montenegro has not accepted this provision of the Charter in the ratification instrument.

## Role of the Social Council

Based on the provisions of the new Constitution, Montenegro adopted the Law on the Social Council in late 2007.<sup>34</sup> Prior to that, the Economic and Social Council existed in Montenegro; it was not defined by the law but by a special government decision.

Montenegro was the last country in the south-east Europe region to establish an economic and social council. The first institution of tripartism in Montenegro had been founded in February 2001. The General Collective Agreement in Montenegro was agreed upon and signed by the government, the Trade Union and the Chamber of Commerce at the time, so the Economic and Social Council consisted of representatives from these three organisations.

The Social Council consists of the following:

- 11 government representatives
- 11 representatives of the authorised organisations of trade unions in Montenegro
- 11 representatives of the authorised association of employers in Montenegro.

Its president is the Minister of Labour and Social Welfare.

The establishment of the Economic and Social Council in Montenegro is the result of the attempt by Montenegro to adjust to the European social model. But, one should bear in mind that the Economic and Social Council has a very modest budget and no funds for any activities other than to hold its meetings.<sup>35</sup> For that reason, the Economic and Social Council of Montenegro almost does not operate, but rather resembles a round table, a discussion group or a Q&A group which ends without concrete conclusions or agreements, or with conclusions that are not binding on anyone. It is clear that, when defining the Council, an error was made in the construction which created problems with the legitimacy and the financing of its work; this has resulted in the existence of the Council more or less as a democratic façade, without a true influence on economic and social development in Montenegro or on the prevention of industrial and social conflicts and collective labour disputes.

With regard to social dialogue in Montenegro, it should be mentioned that the form in which social dialogue takes place (composition of the tripartite body, manner of election, internal organisation) is similar to the usual models that exist in EU member states. This cannot, however, automatically serve as an indicator of a similar status of social dialogue. In Montenegro, the participants in social dialogue still do not have

33 For more details, see: *Usklađenost prava i prakse Srbije i Crne Gore sa Izmijsjenom evropskom socijalnom poveljom* Council of Europe – Office in Podgorica, 2005.

34 *Official Gazette of Montenegro* No. 16/07.

35 Actually, many people believe that the most important reason to participate in the work of this body is the so-called volunteer benefit; that is, the financial benefit paid to members for participating in the work of the sessions of the Council. This is equal to three minimum wages; that is, €165 per month.

sufficient power truly to participate in agreeing on the character of measures of socio-economic development and the consequences of those measures; thus, they are not capable of accepting responsibility for the implementation of a policy that has been agreed at tripartite level. The trade unions and employers in Montenegro do not have sufficient capacity to implement the things that could, possibly, be agreed.

For that reason, there is an obvious inequality between the partners in the social dialogue in Montenegro. Bearing in mind that the state is still the owner of a significant number of companies, and that over 40 thousand workers<sup>36</sup> in Montenegro receive their wages from budgetary resources, it also plays the role of the biggest employer, thus participating in the social dialogue. Consequently, the state participates in social dialogue as a negotiator, carrying in its hands as a result all the elements of power.

### The problem of representativeness

The problem of the representativeness of the social partners in Montenegro first occurred on the side of the employers. This problem was resolved in that the Employers Federation of Montenegro obtained (by an official decision of the previous Ministry of Labour and Social Welfare) the status of negotiator, thus eliminating the Chamber of Commerce from this process. At this point, Montenegro Business Alliance<sup>37</sup> was left out of the bargaining structure, even though it has the ambition of becoming a social partner.

At the same time, the Trade Union Confederation of Montenegro was, throughout the previous transition period, unified: only in mid-2007 did the issue of trade union representativeness start steadily to be raised. Namely, during preparations for the 13<sup>th</sup> Congress of the Confederation of Trade Unions of Montenegro,<sup>38</sup> one part of the industry trade unions and trade union organisations left the Confederation and established co-ordination committees which attempted to take over power in the Confederation. Eventually, in 2008, these structures formally established a new independent trade union federation called the Union of Free Trade Unions of Montenegro.<sup>39</sup> This has raised the issue of the representativeness of the social partners in Montenegro on the part of the trade union.

For that reason, it is expected that a special law on trade union representativeness will be adopted by the end of the year. This also means that future amendments to the Labour Law will have to redefine the existing term of the ‘authorised’ trade union.

### Economic development

In order to explain in more detail the changes in workers’ wages in Montenegro, it is necessary first to look into the events that have taken place throughout the overall transition period of economic development. This development can be divided into the

- 36 These are people employed in the civil service (including the army and the police), but also people employed in the education and in the health sectors.
- 37 Another significant employer association that is striving to become a social partner, not just a business association.
- 38 The website of the Confederation of Trade Unions of Montenegro is: <http://www.sssc.co.me>.
- 39 See website: <http://www.ussecg.me/>.

period of the 1990s; the period of the first years of the 21<sup>st</sup> century; and, finally, the last two years that have been marked throughout the world by global economic crisis.

During the 1990s, Montenegro experienced a sudden deterioration of economic activity and the impoverishment of the population. This was caused by the loss of the unified market of the former Yugoslavia, in which the Montenegrin economy was strongly integrated; then the war on the territory of former Yugoslavia; international isolation; and, finally, the NATO bombing. All of this, ultimately, was caused by the continuously wrong policy of the authorities of FRY; that is, the authorities in Montenegro.

The scope of economic deterioration is best described by the statistical data on the inflation rate, which amounted to 123 751 836 168 522 per cent in FRY in 1993.

The following tables reflect the characteristics of the economic development of Montenegro during the 90s.

**Table 2 – GDP and population trends, 1990-1997**

Indicators/year	1990	1991	1992	1993	1994	1995	1996	1997
GDP (\$m)	1 259	1 126	821.9	524.2	549.3	561.4	751.7	763
GDP index (prior year = 100)	-10.5	-10.6	-27.0	-35.0	4.8	2.2	33.9	1.5
Number of citizens (000)	612.7	616.6	624.0	631.9	635.3	638.6	642.8	646.7
GDP per capita (in \$)	2 055	1 826	1 317	830	864	879	1 169	1 178
GDP/pc index	-10.7	-11.2	-27.9	-37.0	4.0	2.2	33.9	1.08

Source: Monstat, Central Bank of Montenegro

A decline in the scale of economic activity was followed by a decline in the number of employed people, a rise in unemployment and in the number of retired people, as well as a deficient growth in registered employment in the private sector. The number of employed people in the reference period decreased by some 38 000, while the wage was barely 20 % of the wage in 1989.

**Table 3 – Employment and unemployment (in 000), 1996-2001**

Indicator/Year	1996	1997	1998	1999	2000	2001
Employment – economy	92.4	85.6	84.4	80.4	77.7	76.6
Employment – non-economic activity	32.7	33.8	34.1	34.9	36.1	37.5
Total employment	125.1	121.2	118.2	115.3	113.8	114.1
Employment in the private sector	21.9	23	25	26	28.9	30.0

## Wages in Montenegro under the pressure of global crisis

Indicator/Year	1996	1997	1998	1999	2000	2001
Registered unemployment	60.7	64.8	68.9	79.8	81.1	80.6
Unemployment to employment ratio	41.3	45.5	48.0	56.5	56.8	56.1
Number of retired people	78.6	80.8	81.9	83.6	85.0	86.3

Source: Monstat, Employment Agency of Montenegro

The beginning of the new century resulted in a gradual calming and stabilisation of economic trends in Montenegro. Inflation was reduced and the process of economic reform was started, which contributed to macroeconomic stability and a gradual and increasingly significant inflow of foreign investment, first through the privatisation process and then through other forms of foreign investment, for example in property, which resulted in a more significant GDP growth.

**Table 4 – Selected macroeconomic indicators, 2001-2007**

Indicators/Year	2001	2002	2003	2004	2005	2006	2007
GDP, real growth in %	1.1	1.9	2.5	4.4	4.2	8.6	10.7
GDP, €bn	-	-	1 510	1 670	1 815	2 149	2 545
Unemployment rate	32.5	30.4	26.7	22.4	18.5	14.7	11.8
Average net wage (€)	107.8	149.1	173.9	195.4	213.2	282.0	338.0

Source: Monstat, Central Bank of Montenegro, Employment Agency of Montenegro

Dynamic economic growth was also positively reflected in employment. Unemployment was decreased and there was a significant growth in wages and the living standards of the population.

### Grey economy and illegal work

Naturally, the grey economy and illegal work have experienced a strong expansion during the 90s. Actually, the sanctions imposed by the international community affected unprotected work in Montenegro and made it almost 'regular', tolerated by the state, as was the grey economy in general.

The most common forms of appearance of unprotected work in Montenegro are as follows:

- incorrect reporting and recording of employed workers by the employer
- failure to pay legal obligations based on taxes and social insurance on the wages of employees
- the reporting of employees and the payment of fiscal obligations based on employment by reference to the guaranteed wage as a base
- long-lasting engagement of labour through student co-operatives

- the employment of trainees and their ‘illegal engagement’ upon the expiry of the training period
- the payment of guaranteed wages and taxes and contributions by the state to employees on forced leave, and similar.<sup>40</sup>

The flourishing of the informal economy, naturally, has left numerous, complex economic, political, social and socio-psychological effects on society which can be felt even today.

The entry *en masse* of citizens into the grey economy was a spontaneous movement based on a resistance to poverty. Average revenues from employment were, in the previous decade, insufficient for a normal existence.<sup>41</sup> Comparisons made between 1996 and 1990, when the poverty coefficient in the country<sup>42</sup> (and the share of the poor in the total population) was only half as much (14.1 %), gives a true picture of the social fall that the population of Montenegro experienced during that period. According to UNDP research, undertaken several times during this decade, the poverty coefficient in Montenegro has ranged between 25 and 30 per cent.<sup>43</sup>

During 2003, the Montenegrin government adopted its Development and Poverty Reduction Strategy. At the time, it was assessed that 12.2 % of the total population of Montenegro fell within the category of the poor. The absolute poverty line is defined as total consumption being below the costs of the minimum consumer basket for a standard household (€116.2), while the line of the economically vulnerable population was set at 50 % above the poverty line (€173.4).

At the time, the poverty rate was highest among Roma, Ashkalia and Egyptians (RAE), where it stood at 52.3 %; equal between refugees and displaced people (somewhere below 40 %); and lowest among the local population (9.6 %). Still, if we look at numbers, most of the poor in Montenegro were residents (72.5 %); the share of the RAE population among the poor was 11.7 % while refugees made up 5.9 % and displaced people 9.9 %.<sup>44</sup> Geographically, the most vulnerable were the inhabitants of the north of Montenegro, where the poverty rate was 19.3 %, and that is where 45 % of the poor lived at the time. On the territory of Montenegro at that time, there were 8 474 registered refugees and 18 047 internally displaced people, i.e. a total of 26 521 persons, or

40 Radović, M, R. Bakrač and D. Đurić (2003) *Neformalna ekonomija i nezaštićeni rad u Crnoj Gori* CRID: Podgorica.

41 Research shows that, in 1996, as much as 28.9 % of the population of Yugoslavia, and thus Montenegro as well, were poor. More details can be found in: *Analiza sive ekonomije u SR Jugoslaviji sa procenama za 1997. i preporukama za njenu legalizaciju* Ekonomski institut: Beograd, (*Analysis of the grey economy in FR Yugoslavia, with estimates for 1997 and recommendations for its legalisation* Economic Institute: Belgrade) 1998.

42 Data relates to Serbia and Montenegro.

43 *Zaposlenost, tržište rada i životni standard u Srnoj Gori (Employment, Labour Market and Living Standards in Montenegro)* UNDP: Podgorica, 2002.

44 ISSP (2003) *Istraživanje o domaćinstvima Roma, Askelja i Egipćana, izbjeglica i interno raseljenih lica u Crnoj Gori* Podgorica.

4.28 % of the local population.<sup>45</sup> Today, the number of refugees in Montenegro is somewhat lower.

In July 2007, the new Strategy for the Suppression of Poverty and Social Exclusion was adopted. This draws attention to the problems of specific vulnerable groups and concentrates on poverty reduction policies in the area of education, health, social protection and employment. And now, even in Montenegro, social exclusion is seen as the inability to access services (social protection system, education system, health and culture).

The most recent Human Development Report for Montenegro, currently in preparation, estimates that the poverty rate in Montenegro has been reduced to 10.8 % of the population on the basis of a poverty line defined at €162 per month. At the same time, approximately 28 % of the population feels economically vulnerable because their revenue is just above the poverty line.

### Unemployment and the labour market

An under-developed part of SFRY even during the socialist period, Montenegro has had major unemployment problems. The following table gives an overview of the changes in the official numbers of employed and unemployed people in Montenegro from the first year of the transition process until the more recent ones.

**Table 5 – Changes in employment and unemployment in Montenegro**

Year	Employed	Unemployed	Unemployment rate
1991	144 045	58 144	27.5
2005	159 000	48 834	18.5
2007	218 600	31 485	11.8

Source: Employment Agency of Montenegro

Note: The significant increase in the number of employed people in 2007 is, among other things, a result of the inclusion of farmers into the official records. In addition, the significant reduction in the number of unemployed people during 2007 was, among other things, the result of updating the records of the Employment Agency.

All the activities undertaken in the 90s in Montenegro in the area of employment were mostly aimed at mitigating and suppressing the social consequences caused by the deterioration in the economic situation. In recent years, finally, a set of important measures have been implemented and they have affected the initiation of economic growth and development; that is, they have contributed to the reduction of the number of the unemployed. A set of programmes based on an active labour market policy are also being implemented, aimed at the development of entrepreneurship and preparation

45 Vlada RCG (2005) *Strategija za trajno rješavanje pitanja izbjeglica i interno raseljenih lica u Crnoj Gori* Podgorica, p. 9.

for employment.<sup>46</sup> Recent years have also brought Montenegro closer to European standards in this area. The National Employment Strategy of Montenegro projects a reduction in the unemployment rate to 7-10 per cent by 2010. It should be mentioned that, even during the period of the development of the Strategy, Montenegro had already, and to a significant extent, utilised the experiences of the EU in developing the European Employment Strategy and that the goals were set according to the criteria determined in the guidelines for the development of employment policy in EU member states, based on the Luxembourg process; that is, the realisation of the European Employment Strategy. All of that will ease the initiation of the drafting of the first Joint Memorandum on Social Inclusion – the National Action Plan against Poverty and Social Exclusion, in accordance with the Open Method of Co-ordination (OMC).

Currently, the biggest problem concerning Montenegrin unemployment is structural unemployment, which consists of an imbalance between the demand for and supply of workers by profession. Unemployed people seeking employment through the Employment Agency have 965 types of professions. In the case of 563 of them, there is no demand in the market and, in the case of 331 professions, as requested by companies, the Employment Agency recorded no-one with that qualification. For that reason, the scale of long-term unemployment reaches up to 55 %. The National Employment Strategy in Montenegro projects a reduction in long-term unemployment to 45 % in 2010.<sup>47</sup>

One characteristic of the labour market in Montenegro is an increased share of foreign citizens. Approximately 30 000 people have no jobs, but in Montenegro during 2007, there were over 50 000 workers engaged who were not from Montenegro.<sup>48</sup> Such a situation is partially the result of a structural imbalance between demand and supply in the labour force, and partially of the traditional non-acceptance of certain jobs by the local population, but it is also a result of the weak mobility of the Montenegrin labour force. The existing Law on the Employment of Foreign Citizens introduces the duty to apply a quota system for the employment of foreign citizens, but the Montenegrin Ministry of Labour and Social Welfare has still not defined such quotas. Most non-residents perform seasonal work and come from Macedonia (in civil works), or from Serbia or Bosnia and Herzegovina (in tourism and hospitality).

Naturally, a long-term solution to this problem requires the establishment of closer ties between the education system and demand on the labour market. In Montenegro, the adult education system is regulated by the specific Law on Adult Education.<sup>49</sup> Adult education in Montenegro is the responsibility of the Centre for Vocational Education,

46 For more details, see: M. Radović and D. Đurić (2005) 'The labour market and the Development and Poverty Reduction Strategy in Montenegro' *South-East Europe Review* 8(2): 51-60; and M. Radović and D. Đurić (2003) 'Possibilities for creating new employment in Montenegro' *South-East Europe Review* 6(4): 101-114.

47 Employment Agency of Montenegro, ISSP (2007) *Radna snaga i zaposlenost u Crnoj Gori* Podgorica.

48 According to the data of the Employment Agency. However, one should bear in mind that, actually, this number reflects registered employment. This may hide a situation in which the same people are employed several times and, for that reason, this data should be viewed with great caution.

49 "Official Gazette of RoM", no. 64/02 and 49/07.

the institutions of the formal school system, workers and people's universities, NGOs, associations, etc. Three training centres have been established within the Employment Agency of Montenegro, as well as two private centres for education and training, but this is still a very low number that cannot satisfy the needs of the labour market.

On average, the labour force in Montenegro is old, inflexible and insufficiently educated and trained. Workers do not have the knowledge and skills required in a modern economy that is able to resist the challenges of globalisation, while only 3.2 % of unemployed people are participating in some form of training.<sup>50</sup>

Comparisons with other countries show that the labour market in Montenegro is still insufficiently flexible, i.e. that it is insufficiently adaptable to the changes in the market. For example, only two per cent of workers in Montenegro work part-time.<sup>51</sup> Furthermore, part-time work is, as a rule, used only in the case of disability. The table below shows data on the share of part-time workers in total employment in Montenegro and other European countries.

**Table 6 – Share of part-time workers in total employment**

Country	% of employees with reduced working hours in total employment (part-time workers)
Montenegro	2.0
Serbia	1.0
Macedonia	5.7
Hungary	3.5
Poland	11.5
Slovakia	2.3
EU-15	16.6

Source: World Bank, Serbia and Montenegro, *Montenegro Economic Memorandum, Agenda for growth and competitiveness policy definition 27 October 2005, Report No. 32623-YU, p. 25.*

Thus, it becomes clearer that rigid labour legislation and high taxation discourage the creation of new jobs. For that reason, the state has initiated the gradual reduction of taxes and contributions on wages.

In Montenegro, there is a compulsory social insurance system (pensions and disability insurance, health insurance and unemployment insurance), defined in the existing Law on contributions for compulsory social insurance which has been in effect since

50 Government of Montenegro: *Employment Strategy of Montenegro 2007-2010.*

51 World Bank, Serbia and Montenegro, Montenegro, *Economic Memorandum, Agenda for growth and competitiveness policy definition, October 27, 2005, Report no. 32623-YU, pg. 24.*

the beginning of 2008.<sup>52</sup> Contribution rates for mandatory social insurance are proportionate; that is, the same rates are applied to all wages in Montenegro.

During 2009, there has been a reduction in the rate of health contributions, from 12.0 % to 10.5 %, while the pensions contribution rate was reduced from 21.0 % to 20.5 %. As of 1 January 2010, the further reduction of the rates of all compulsory social insurance contributions will be introduced.

In addition, in late 2006, a flat (proportionate) tax rate had been introduced on wages in place of the former progressive rates. The personal income tax rate in 2007 and 2008 was 15 % and, as of 1 January 2009, it was reduced to 12 %; as of January 2010, the rate will be 9 %, which is the existing rate of tax on profits.

This reduction in the rates of taxes based on wages was supposed to affect wage increases. For example, the net wage of an employee, which amounted to €340 in 2008, went up to €360 in 2009 based on the reduced rates of taxes and contributions.

**Table 7 – Overview of contribution rates for 2008, 2009 and 2010**

Type of contributions	Rates for 2008	Rates for 2009	Rates as of 2010
Pensions and disability insurance	12.0 % for employees	12.0 % for employees	12.0 % for employees
	9 % for employers	8.5 % for employers	8.0 % for employers
	<b>Cumulative 21.0 %</b>	<b>Cumulative 20.5 %</b>	<b>Cumulative 20.0 %</b>
Health insurance	6.5 % for employees	5 % for employees	4 % for employees
	5.5 % for employers	5.5 % for employers	5 % for employers
	<b>Cumulative 12 %</b>	<b>Cumulative 10.5 %</b>	<b>Cumulative 9 %</b>
Unemployment insurance	0.5 % for employees	0.5 % for employees	0.5 % for employees
	0.5 % for employers	0.5 % for employers	0.5 % for employers
	<b>Cumulative 1 %</b>	<b>Cumulative 1 %</b>	<b>Cumulative 1 %</b>
Total (1+2+3)	19 % for employees	17.5 % for employees	16.5 % for employees
	15 % for employers	14.5 % for employers	13.5 % for employers
	<b>34.00 %</b>	<b>32.00 %</b>	<b>30.00 %</b>

The combination of fiscal policy implementation and the reduction of the wage burden has thus far been a positive experience. The government plans to continue with the reduction of taxes and contributions on wages, with the aim of having a 50 % total burden on workers' wages by 2010.

These types of activities are satisfactory for both workers and employers. Even so, employers feel that it is necessary in addition to simplify the procedures for hiring and firing and to provide for more flexible arrangements when it comes to working hours,

52 Official Gazette of Montenegro no. 13/07 and 79/08.

as well as to improve flexibility by increasing the role of collective agreements at industry and enterprise levels *vis-à-vis* the General Collective Agreement.

### Economic achievements by 2008

The most recent economic developments in Montenegro are much more favourable, especially when compared with the previous period. In the past couple of years, there has been strong GDP growth while a relatively low inflation has also been experienced. According to the assessments of the Ministry of Finance, GDP grew in 2006 by 8.6 %, amounting to €2 148.9m, which is approximately 44 % higher than in 2002. During 2007, according to government assessments, GDP growth was 10.7 %, amounting to €2 807.9m. In 2007, Montenegrin GDP per capita grew by exactly 100 % compared to 2000.

Between 2002 and 2006, the number of employed people grew by 35.9 % and the number of the unemployed was reduced by one-half. Company profit tax was reduced to 9 %, which is among the lowest rates in Europe, while a fixed income tax rate was introduced in January 2007. This resulted, together with other measures of economic policy of a liberal orientation, in an increase in budgetary revenues. Furthermore, in this period there has been a significant increase in the number of small- and medium-sized enterprises (by over 27 % compared to 2004), and now they dominate the commerce, transport, services and processing industry sectors. Workers in these companies take up approximately 36 % of total employment and account for approximately 22 % of exports.<sup>53</sup>

The total number of employed people in December 2007 was 87.4 %<sup>54</sup> of the total active population. The unemployment rate was 51.7 % (men 59.8 % and women 43.4 %) while it is projected that, in the upcoming period, the employment rate will increase by 2.5 to 3 per cent annually. The unemployment rate<sup>55</sup> has gone down significantly in recent years: from 32 % in 2000 to 11.71 % in 2007.<sup>56</sup>

Naturally, these are official data from the Employment Agency and they differ from data obtained based on the labour force survey. These surveys are undertaken once a year and, as of last year, they have been implemented quarterly. According to Monstat's Labour Force Survey (LFS) for the second quarter of 2008, there were 219 700 people employed, of which 56.7 % were men and 43.3 % women. In absolute figures, this is 1 031 more than in 2007. The survey unemployment rate (LFS – second quarter of 2008) was 18 % while, in late 2007, it was 19.3 %. Thus, the rate of registered unemployment and the rate obtained via the survey both show a downward trend.<sup>57</sup>

There has been a significant inflow of foreign direct investment, budgetary revenues have significantly increased and the level of foreign debt of the country has remained

53 Development Secretariat *Ekonomska politika Vlade Crne Gore za 2008. Godinu (Economic Policy of the Government of Montenegro for 2008)*.

54 Employment Agency of Montenegro, ISSP (2007): *Radna snaga i zaposlenost u Crnoj Gori* Podgorica.

55 The relative share of unemployed people in the overall economically active population.

56 Employment Agency (2007) *Nedjeljni izvještaj (Weekly Report)* 24 December.

57 Monstat: *Labour force survey – 1st Quarter 2009* <http://www.monstat.cg.yu/Publikacije.htm>.

moderate, being even reduced in late 2007, coming down to approximately 21 % of GDP. The introduction of the Deutschemark in 2000 (and, later, the Euro in 2002) as the only currency in Montenegro has proven to be a very good solution and has contributed to economic stability.

Montenegro has achieved significant progress in other aspects of the transition, especially in the area of price and trade liberalisation, privatisation and the reform of the banking sector. Even so, a danger remains in that growth is concentrated on just a small number of sectors, dominated by tourism, and in certain regions (Podgorica and the coast), thus exposing the economy to significant risks.

However, the key economic problem in Montenegro is the lack of competitiveness, which can barely be improved without major and comprehensive investments in assets and human resources, and the local economy does not have the funds or knowledge to contribute at this level. The best proof of the weak competitiveness of the Montenegrin economy is the huge trade deficit, which is continuously increasing despite the adoption of various strategic documents aimed at increasing exports; thus, in 2007 it was almost €1bn and, in the same year, the coverage of imports of goods by exports was only 31 %. Naturally, this deficit is mitigated by a large surplus in the service sector.

In 2006, foreign direct investments amounted to €644.2m, or 33 per cent of GDP, although as much as €337.9m referred to property investment. Out of all the transition countries, it is only Estonia and Hungary that have had higher foreign investment indicators.<sup>58</sup> This high level of foreign investment naturally affects the foreign trade deficit (in goods), since the large increase in imports results from those investments in the field of civil works. It is stated that the good side of the existing huge deficit is that the current excessive level of imports will, at the end of the cycle, result in significant export capacities.

The main challenges to the transition in the upcoming period, according to the views of the European institutions, are in the area of institutional reform, especially in the field of corporate governance and competition, infrastructure and non-banking financial institutions.<sup>59</sup> When it comes to the economy itself, the European Bank for Reconstruction and Development estimates that the key tasks that Montenegro is facing in the forthcoming period will be:

- finalisation of the privatisation of large companies and the creation of effective corporate governance standards
- recovery and encouragement of a commercial approach in the area of infrastructure services
- strengthening competition and removing barriers to business, as well as the further development of financial products.

58 Ministry of Finance of Montenegro (2007) *Ekonomski i fiskalni program za Crnu Goru 2007-2010 (Economic and Fiscal Programme for Montenegro, 2007-2010)* Podgorica, p. 143.

59 EBRD (2007) *Strategy for Montenegro* September.

**Table 8 – Basic macroeconomic indicators in Montenegro, 2005-2007**

	2005	2006	2007
GDP (€m)	1 815	2 148.9	2 807.9
Real GDP growth rate	4.2	8.6	10.7
GDP (per capita) in €	2 912	3 443	4 484
Inflation	1.8	2.8	7.7
Number of employed	145 479	155 062	218 600
Number of unemployed	48 845	38 876	31 485
Unemployment rate	18.5	14.7	11.8
Industrial production	-1.9	1.0	-2.8

Source: Development Secretariat, Employment Agency and MONSTAT <http://www.monstat.cg.yu/Meni-GodisnjiPodaci.htm>

Thus, in late 2007, Montenegro reached the level of GDP of the least-developed EU member states, which is important for the fulfilment of the Copenhagen criteria for EU accession. Eurostat data shows that Montenegro was the European country with the fastest development in the period between 2005 and 2007.

**Table 9 – GDP per capita, according to purchasing power parity, EU-27 = 100**

	2005	2006	2007
EU-27	100	100	100
Euro zone	110	110	110
Selected 'old' EU member states			
Luxembourg	254	267	267
Ireland	144	157	150
The Netherlands	131	131	131
Great Britain	122	120	119
Germany	117	116	115
France	111	109	109
Greece	93	94	95
Selected 'new' EU member states			
Slovenia	87	88	89
Czech Republic	76	77	80

	2005	2006	2007
Estonia	61	65	63
Hungary	63	64	63
Poland	51	52	53
Countries of south-east Europe			
Croatia	50	52	54
Montenegro	31	35	41
Romania	35	38	41
Bulgaria	34	37	37
Serbia	32	33	33
Macedonia	28	29	30
Bosnia and Herzegovina	25	27	29
Albania	22	23	24

Source: Eurostat news release, 176/2008 – 11 December 2008

[http://194.95.119.6/en/press/download/08\\_12/176-2008-12-11.pdf](http://194.95.119.6/en/press/download/08_12/176-2008-12-11.pdf) [last accessed on 16 August 2009]

One should also look into the comparative indicators of the wage level in the region; that is, in the countries of former Yugoslavia. In August 2008, Slovenia was in first place on the list according to the net average wage, while Croatia occupied the second position. Wages in these countries have, mostly, grown in nominal terms, while real growth, i.e. in comparison with inflation, varies country-by-country.

In August 2008, Montenegro achieved the highest real growth on the same month of the previous year (15.1 %), compared to Serbia (5.5 %) and Macedonia (0.8 %); while Croatia experienced a reduction of 0.9 %.

**Table 10 – Wages in the countries of former Yugoslavia (€)**

Country	Net wages	Gross wages
Slovenia	909	1 405
Croatia	720	1 041
Montenegro	426	625
Serbia	431	601
Bosnia and Herzegovina	391	578
Macedonia	259	421

Source: Central Bank of Montenegro Izvještaj glavnog ekonomiste januar-septembar 2008 (Report of the Chief Economist January-September 2008) [http://www.cb-mn.org/slike\\_i\\_fajlovi/fajlovi/fajlovi\\_publicacije/kvartalni\\_izv\\_gl\\_ek\\_onom/iii\\_kv\\_2008.pdf](http://www.cb-mn.org/slike_i_fajlovi/fajlovi/fajlovi_publicacije/kvartalni_izv_gl_ek_onom/iii_kv_2008.pdf) [last accessed on 16 August 2009]

## Wages from the gender perspective

There are no official statistics in Montenegro regarding the level of wages classified according to gender. Even so, Monstat published research on these issues last year, with data as of September 2007, showing that, on average, women in Montenegro earn an average gross wage of €436, some 23 % less than the average male wage of €561.

**Table 11 – Average gross wages by sex, September 2007**

Average gross wages (€)			Share of average wages of women and men in total	
Total	Women	Men	Women	Men
508	436	561	85.8	110.4

Source: *Women and men in Montenegro Monstat: Podgorica, 2008, p. 75.*

Women have bigger wages in the agriculture, hunting and forestry, mine and stone excavation, and transport sectors, as well as in real estate, sales and rental activities. Men working in the area of financial mediation have wages that are 31 % higher than women working in the same field; their wages are 26 % higher in health and social work; while men employed in the education sector earn 16.5 % higher wages than women also employed within education.

According to the most recent census in Montenegro, 171 000 inhabitants were active (working) in 2003, of whom the share of women was 39.6 %. According to this data, there were 66 employed women per 100 men. More recently, according to the Labour Force Survey, women represent 42.5 % of employed people in Montenegro, and 46.7 % of those who are unemployed.

At the same time, retired women in Montenegro receive an average pension benefit that is 7.9 % lower than men's, according to Monstat data from September 2007: the average pension for women in Montenegro amounted to €152.50 while men received €165.60.

## Current trends (2008-2009)

The Montenegrin economy did not feel the effects of the global crisis in 2008. At the end of the year, the country had an impressive GDP growth rate of 8.1 %, with the total amount of goods and services produced in the economy amounting to €3 339m.

In late May 2009, there were 174 218 employed people while in the January-May period average realised employment was 5.4 % higher than in the same period of the previous year, and higher than the growth which had been projected for this year (2.1 %). Data regarding unemployment show that the number of the unemployed is also dropping this year. In late June 2009, there were 27 011 unemployed people registered

with the Employment Agency, 6.8 % lower than in late June last year; thus, there has also been a reduction in the unemployment rate: in late June 2009 it was 10.2 %, while in late June 2008 it had been 11.0 %.

These data lead to the following two conclusions: the first is that the influence of the crisis on employment in Montenegro has been relatively modest so far; while the second is that the systemic measures of the state in the area of the development of entrepreneurship and providing support for new employment are delivering results.

Despite the insufficiently fast recovery of industrial production<sup>60</sup> in Montenegro, the living standards of workers has gradually improved over the years. The minimum wage in Montenegro (which serves as a basis for the calculation of two types of social benefit, as stated earlier) is still €55, while the average (net) wage in Montenegro (in June 2009) was €466. Monstat data shows that, in 2005, real personal income growth in Montenegro was 6.7 %; in 2006, it was as much as 12 %; in 2007 – approximately 15 %; and in 2008 – 13.4 %.<sup>61</sup> Furthermore, in the first six months of 2009, there was a 12.7 % growth in real wages compared to the same period of the previous year.

Table 12 below gives an overview of average workers' wages in the past fifteen years in Montenegro.

**Table 12 – Wage trends in Montenegro, 1994-2008**

Year	Gross	Net	Note
1994		108	Calculated in DM
1995		126	Calculated in DM
1996		188	Calculated in DM
1997		226	Calculated in DM
1998		194	Calculated in DM
1999		152	Calculated in DM
2000		188	Calculated in DM
2001		107	EUR
2002	193.10	149	EUR
2003	271.30	173	EUR
2004	302.90	195	EUR
2005	326.50	213	EUR
2006	377.40	282	EUR

60 If we were to mark the level of industrial production in 2000 with 100, then its level in 2008 would only be 110. For more details, see: Central Bank of Montenegro: *Report by the Chief Economist*, 2009.

61 Monstat: *Mjesečna saopštenja (Monthly Statements)* December 2007: [http://www.monstat.cg.yu/Mjese\\_cna%20saopstenja.htm](http://www.monstat.cg.yu/Mjese_cna%20saopstenja.htm).

## Wages in Montenegro under the pressure of global crisis

Year	Gross	Net	Note
2007	497	338	EUR
2008	609	416	EUR
2009 (June)	648	466	EUR

Source: Monstat; calculations of dinar values into DM made by the author.

Note: In November 1999, Montenegro proclaimed the Deutschemark as a parallel means of payment in Montenegro and, as of November 2000, the only legal tender in the country. On 1 January 2002, the Euro replaced the Deutschemark as a means of payment.

### Emergency situation in early 2009

So, the idyllic development of the Montenegrin economy up to the end of last year could not be interrupted even by global crisis: the same as in most transition economies in 2008, this crisis was not felt as strongly as in the markets of the most developed countries. The GDP growth rate remained very high, the inflow of foreign direct investment was at a record high, the budgetary surplus was high, the unemployment rate remained on a downward trend, as did the rate of inflation. Warnings from experts were, however, that the negative effects of the crisis should be expected to come more in 2009.

The effects of the global financial crisis were indeed then felt, primarily through a reduction in the number of foreign investors investing in the Montenegrin economy and in property on the coast, as well as the rather sudden insolvency of the banking system that occurred in late 2008.

The real emergency arose in early 2009. Namely, the government of Montenegro, when preparing the 2009 budget, adopted a package of economic policy measures aimed at preserving macroeconomic stability, reducing current budgetary expenditures and supporting banks for the purpose of securing additional liquidity. Thus, a special law on measures for the protection of the banking system was adopted and, based on it, a liquidity loan was approved to one of the biggest banks in Montenegro.<sup>62</sup>

The state budget, planned to grow in accordance with the overall government plan for GDP growth of 5 %, was not realised as planned even in January of this year. An inflow of funds into the budget which was reduced by approximately 20 % forced the government to adopt special savings measures in the civil service at the beginning of the year. Global economic and financial distortions affected a reduced level of economic activity and a slowing down of the growth of the Montenegrin economy. The liquidity of the banking sector was at risk, causing numerous problems in the economy: mutual unpaid claims; a lack of loan support to corporate development programmes; and a fear that this would endanger reproduction flows. In June, the budget was rebalanced and GDP growth projections were brought down to zero. In the meantime, it was seen that municipal budgets were also operating with a deficit of over 30 %.

62 This was Prva Banka, in which a majority package of shares is owned by the brother of the Prime Minister, which has, naturally, attracted the significant attention of the public.

In June 2009, according to data from the Central Bank of Montenegro, the average gross wage in Montenegro amounted (as we have seen) to €648 and the net wage to €466. The biggest net wages were noted in the area of financial mediation (€877), while the lowest wage was earned by workers in the fisheries sector (€150). The biggest net wage increase in this period was noted in health and social services (28.3 %); transport and communications (25.3 %); civil works (24.8 %); and agriculture, forestry and water management (22.3 %).<sup>63</sup> Still, looking at the level of wages for each month, it is obvious that wage growth is stagnating. Table 13 below shows the level of average gross and net wages in 2009 for each month:

**Table 13 – Wages in 2009**

	Gross	Net
January	655	470
February	650	467
March	642	461
April	647	465
May	651	468
June	648	466
July	636	457

Source: Monstat, monthly statements

All in all, the savings measures adopted as regards budgetary users alone were insufficient; so, in late June, the government announced the adoption of a special savings programme that, among others, included the possible reduction of wages in the public sector. In this way, the overall wage fund in the public sector should be reduced by approximately 10 %. For that reason, it is possible that sectoral collective agreements in the public sector will soon be amended. However, this activity cannot be undertaken without a prior change to the General Collective Agreement.

Bearing in mind that, due to the new Labour Law, the amendment of the General Collective Agreement was necessary even earlier than this, it is clear that tripartite negotiations will start this autumn with a view to agreeing those changes. The idea of the employers to draft two General Collective Agreements (one for the public sector; the other for the economy) will not be possible in practice if the Labour Law is not first amended because this clearly defines one GCA. This means that it is not likely that this will happen.

On the other hand, it seems that it will be much easier to implement the idea of the abolition of the minimum price of labour and a transfer to a real minimum wage. The

63 Central Bank of Montenegro *Report by the Chief Economist* [http://www.cb-mn.org/slike\\_i\\_fajlovi/fajlovi/fajlovi\\_publikacije/kvartal\\_ni\\_izv\\_glekon\\_om/i\\_k\\_v\\_2009/prilog\\_a.pdf](http://www.cb-mn.org/slike_i_fajlovi/fajlovi/fajlovi_publikacije/kvartal_ni_izv_glekon_om/i_k_v_2009/prilog_a.pdf) [last accessed on 15 August 2009].

unions and the government more or less agree that it is necessary to create a mechanism that would enable workers with the lowest earnings to get out of the vicious circle of poverty based on the minimum price of labour. With the introduction of a minimum wage, protection would be provided to the poorest and they would then be able to cross the poverty line of €162. This could be secured through the definition of the value of the minimum wage set above the level of the poverty line. According to the preliminary calculations of the Ministry of Labour, such a minimum wage could be set at approximately 38 % of the average wage in the previous year.

In parallel, there is the possibility of erasing from the GCA those parts related to the coefficients based on job complexity by which the minimum wage is multiplied, enabling bargaining at the level of workers' individual wages. The new General Collective Agreement would, therefore, define the minimum wage solely as the minimum income for carrying out full-time work at the basic level.

So, the new programme of savings measures has just been announced, in the context of which it was stated that much would depend on continued economic trends and developments (much hope is given to the tourism season). Bearing in mind that it is still unknown whether this programme of measures will be formally adopted, the social partners are not giving concrete ideas. For now, it is possible to hear only some individual comments in Montenegro from the representatives of the social partners regarding possible amendments to the General Collective Agreement and the need to introduce a minimum wage compared to having a minimum price of labour. The trade unions and the employers are aware that, in Montenegro, the key 'social partner' is the government so, for now, their demands for a new social agreement remain at the level of rhetoric only.

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