

International Property Markets Scorecard

Montenegro Market Conditions – Desktop Survey October 2020



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Scorecard Background & Information

The Scorecard reflects the status of the six Core Elements necessary for transparent and efficient property market development. Each Core Element includes three Lead Indicators that are further divided into Sub-Indicators. Colors signify the strength of institutions that support market development – very strong, strong, weak and very weak.

Acknowledgement

The International Property Markets Scorecard Project is the latest development in the continued cooperative work between the Center for International Private Enterprise (CIPE) and the IHC Global. The Scorecard derives from the work of an academic panel led by Richard Green, PhD., Director of the University of California’s Lusk Center for Real Estate and the University of Denver, Burns School of Real Estate and Construction Management’s Global Real Estate Project under the direction of Dr. Mark Lee Levine.

This Scorecard research was conducted by William Endsley, Principal, World Citizen Consulting, LLC.

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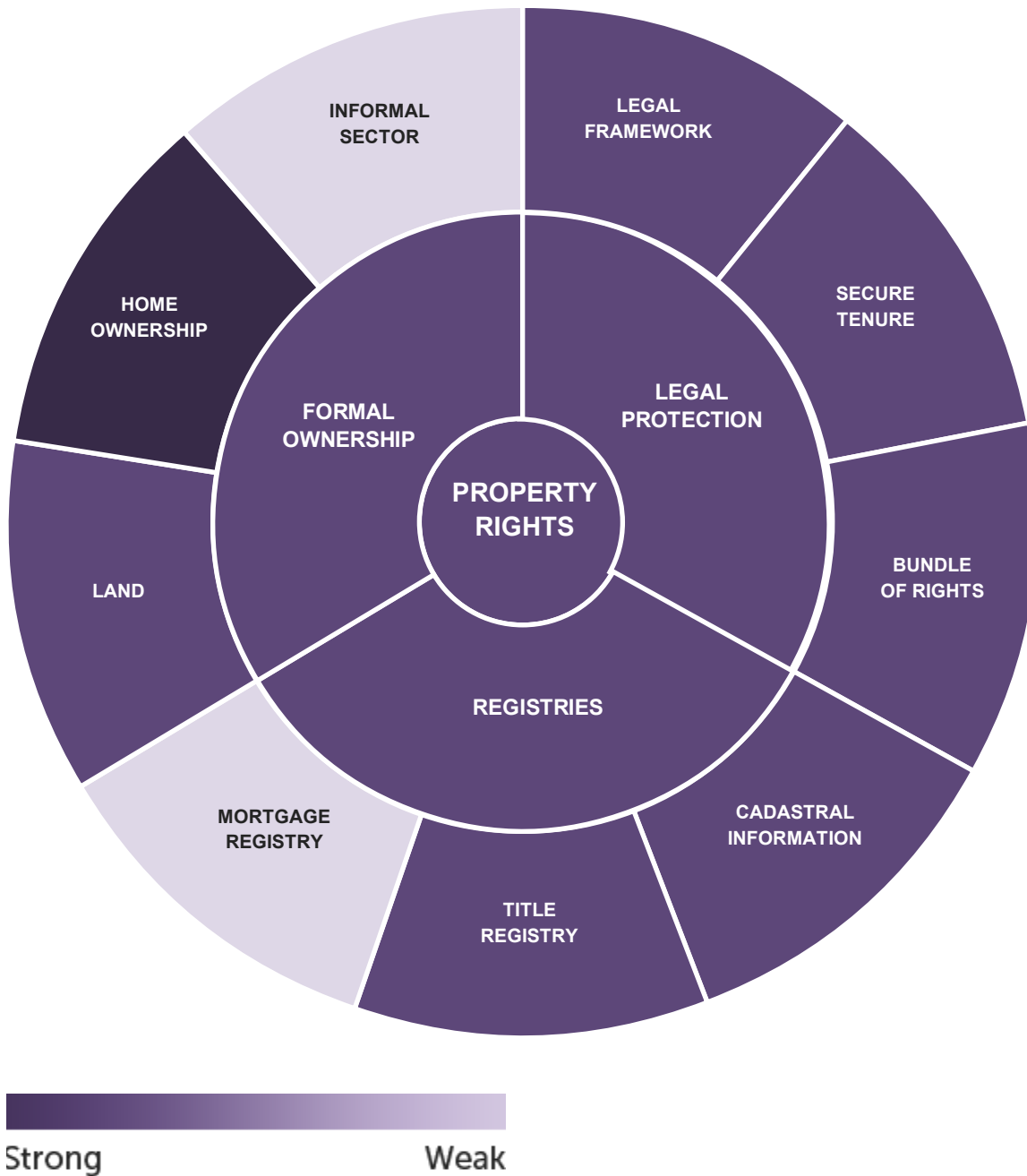
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1. Property Rights



Goal – Property rights that are legally protected, secure, recorded in a single, accurate, widely accessible electronic registry and that lead to high levels of formal ownership for all citizens

1.1 Legal Protection

Core Question:	Does an effective and sufficient legal framework exist to protect property rights for all citizens? Yes – Strong, the Law on Proprietary and Ownership Rights in Montenegro covers property transfers.
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Legal Framework

1.1.1 Are property rights clearly defined and protected by law? **Yes – Strong – Ranking 69th out of 141; Score 54 out of 100; Trend =**

Security of Tenure

1.1.2 Can citizens challenge the legality of government takings? **Yes – Strong – 46th out of 141; Score 3.8 out of 7; Trend ↑**

Source: *Global Competitiveness Report 2019* – World Economic Forum

<http://reports.weforum.org/global-competitiveness-report-2019/>

Bundle of Rights

Survey Question

SQ1 What is the bundle of rights (group of rights such as occupancy, use and the right to sell or lease) associated with both residential and commercial property ownership? **Strong – Property rights shall be guaranteed. No one shall be deprived of or restricted in property rights, unless when so required by the public interest, with rightful compensation. Article 58**

Source: Parliament of Montenegro www.skupstina.me/index.php/en/kontakt/2-uncategorised/67-the-constitution-of-montenegro

1.2 Registries

Core Question:	Does a reliable property registry exist including cadastral, title and mortgage lien information? Yes – Strong, the Real Estate Administration has taken steps over the past few years to improve the quality and service provided in the registry, but additional improvements are needed.
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1.2.1 Cadastral Information

Status – Strong, the Law on State Surveying and Cadastre of Immovable Property was amended in August 2011.

Survey Questions

- SQ 2 Is cadastral information (information about the dimensions and location of land parcels) accessible to the public? **Yes**
- SQ 3 Is zoning/permitted use information included and are regulations respected and enforced? **No (aside from agricultural uses)**
- SQ 4 Are Geographic Information Systems (GIS) including Global Positioning Satellite (GPS) information used to create and update the registry? **Yes**
-

Source: Real Estate Administration of Montenegro www.nekretnine.co.me/
<https://geoportal.co.me/>

1.2.2 Title Registry

Strong – Ranking – 83rd out of 190 Trend =

- 1.2.2.1 What is the number of procedures required to register the transfer of a property from one owner to another? **6**
- 1.2.2.2 What is the duration of time in calendar days that it would take to complete the transfer? **69**
- 1.2.2.3 What is the total cost of the transfer including all fees, taxes, etc. expressed as a percentage of the value of the property? **3.1%**
-

Source – *Doing Business 2020* – Registering Property
www.doingbusiness.org/en/data/exploreeconomies/montenegro#

1.2.3 Mortgage Registry

Status – Very Weak, generally mortgages are only available from large multinational banks.

Survey Questions

- SQ 5 The mandatory use of notaries or similar officials slows down and adds cost to the process. Does a notary need to be involved in the registration process? **Yes**
- SQ 6 Is information in the registry available electronically? **No**

SQ 7 Title insurance is indemnity insurance against financial loss from defects in title and from the invalidity or unenforceability of mortgage liens. Is title insurance available to lenders?
No

Source: Central Bank of Montenegro www.cbcg.me/en

1.3 Formal Ownership

Core Question:	Do citizens understand and trust property rights institutions and avoid the informal sector? Yes – Strong, since regaining its independence in 2006, Montenegro has adopted a legal framework that encourages privatization, employment, and exports. Implementation, however, lags well behind the legal structure.
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Survey Questions

1.3.1 Land

SQ 8 What is the status of land ownership? **Strong – foreigners may buy residential properties, but must form a company to purchase land.**

Source: US State Department 2020 Investment Climate Statement
www.state.gov/reports/2020-investment-climate-statements/montenegro/

1.3.2 Home Ownership

SQ 9 What is the percentage of formal home ownership? **78.2% - Very Strong, in addition to a strong housing program for citizens, Montenegro continues to work to provide housing for stateless persons in the region.**

Source: Ministry for Sustainable Development & Tourism
https://mrt.gov.me/en/organization/housing_development

Informal Sector

1.3.3 What is the percentage of services firms that report competing with unregistered or informal firms? **Large – 57.5% Very Weak Formal Sector**

Source: *Enterprise Surveys 2019*, World Bank
www.enterprisesurveys.org/en/data/exploreeconomies/2019/montenegro

In-Country Assessment Information

Resources:

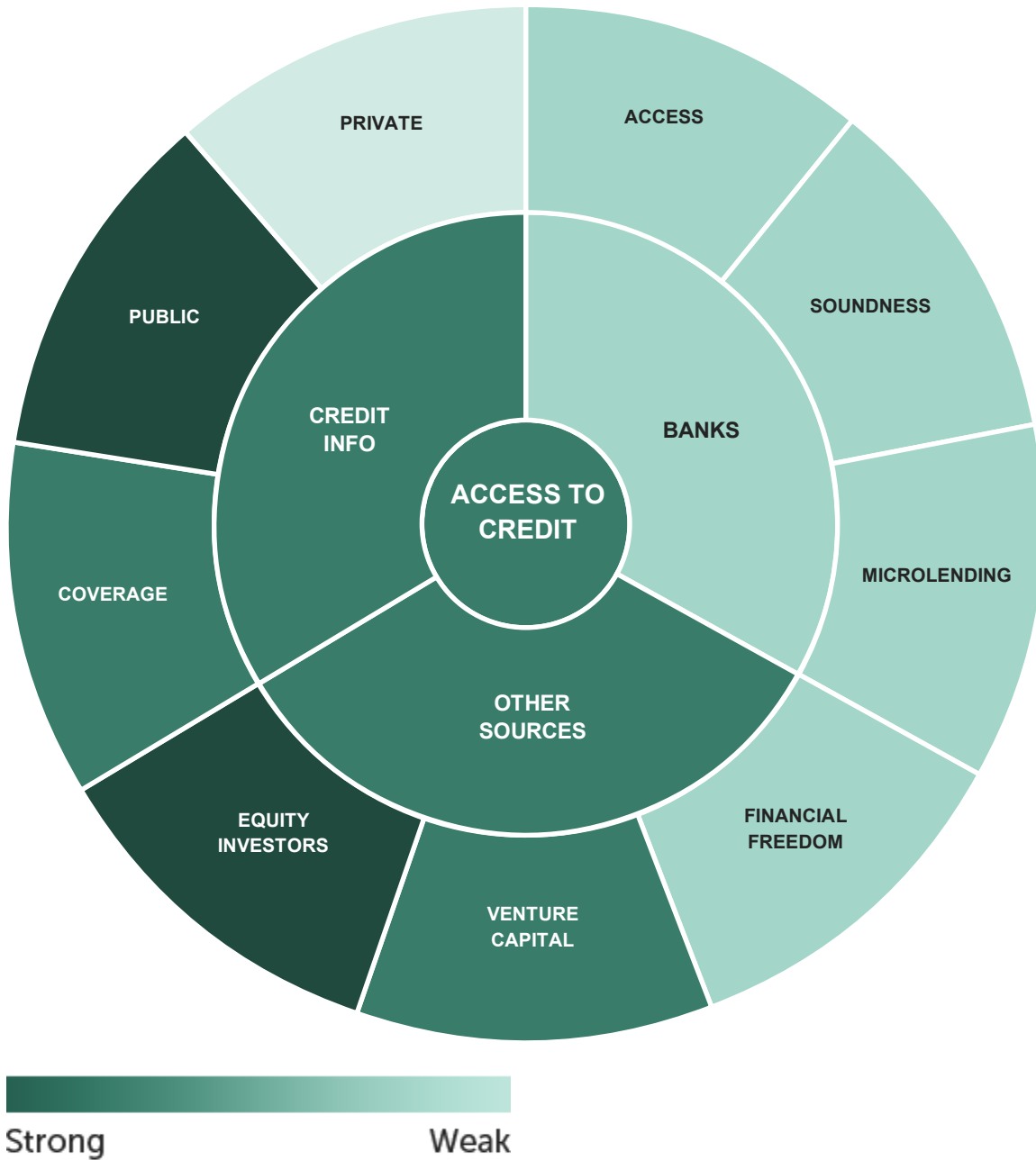
USAID Mission www.usaid.gov/montenegro

World Bank www.worldbank.org/en/country/montenegro

[NOTE: This is a Desktop Scorecard conducted from internet research from the sources cited. Scores need to be verified and the suggested Field Questions below answered by an in-country partner conducting interviews and on the ground verification of actual transactions and the experience of stakeholders. Field Questions can be modified or added to address additional policy goals or partner objectives.]

- Field Question (FQ) 1** Even if legal provisions exist, what is the actual status of property rights and ownership for small businesses?
- FQ 2** Are standard leases used for commercial space? If not, what is a typical arrangement for rental?
- FQ 3** What are the processes for government expropriation of property especially notice and due process for owners? Are those laws followed or do expropriations happen by collusion between officials and connected elites?
- FQ 4** Are businesses owners compensated fairly when their property is taken for public use?
- FQ 5** What protections do businesses have who lease space from arbitrary eviction by owners?
- FQ 6** What is the actual experience of transferring a property, accessing the registry and dealing with registry officials?
- FQ 7** How large is the presence of informal markets for goods, i.e. itinerate vendors?

2. Access to Credit



Goal – An efficient, transparent financial sector that provides a broad range of citizens with access to multiple forms of competitive credit so that they can start businesses, build wealth, and purchase property

2.1 Banks

Core Question:	Are traditional banking services robust and extensive enough to serve the needs of the population to help them build wealth and purchase property? No – Weak, a new set of banking laws have been adopted and some of the existing laws have been amended to improve regulation of the banking sector, provide a higher level of depositor safety, and increase trust in the banking sector itself.
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Access

2.1.1 How easy is it to obtain a bank loan? **Weak – Ranking 72nd out of 141; Score 51.9 out of 100; Trend ↑**

Soundness

2.1.2 How sound are the country's banks? **Weak – Ranking 76th out of 140; Score 4.9 out of 7; Trend ↑**

Sources: *The Global Competitiveness Report 2019*, World Economic Forum
<http://reports.weforum.org/global-competitiveness-report-2019/>

2.1.3 Microlending

Status – Weak, few intuitions operating in the country

2.1.3.1 Microfinance allows citizens without traditional creditworthiness to build a credit history. How many microfinance institutions are operating in the country? **4**

2.1.3.2 What is the number of active borrowers for the largest institutions?
Alter Modus, 19,000

Source: www.themix.org/mix-market

2.2 Other Sources

Core Question:	Are entrepreneurs free to raise capital outside the banking system including venture capital and/or by issuing stock in a well-regulated stock exchange? Yes – Strong, the small financial sector has gradually become more competitive and diversified.
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Financial Freedom

2.2.1 How much control does the government exert over financial services? **Weak for entrepreneurs – Score 50 out of 100 – Mostly unfree**

Source: *Index of Economic Freedom 2020*, Heritage Foundation
www.heritage.org/index/country/montenegro

Venture Capital

2.2.2 How easy is it for entrepreneurs to find venture capital?
Strong – 39th out of 141; Score 3.7 out of 7; Trend ↑

Equity Investors

2.2.3 How easy is it to raise money by issuing shares on the stock market? **Very Strong – 27th out of 141; Score 73 out of 100; Trend ↓**

Source: *The Global Competitiveness Report 2019*, World Economic Forum
<http://reports.weforum.org/global-competitiveness-report-2019/>

2.3 Credit Bureau

Core Question:	Is comprehensive credit information available through public and private credit bureaus? Yes – Strong, investors have access to a variety of credit instruments since the majority of the banks in Montenegro belong to international banking chains.
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Overall Ranking 15th out of 190 Trend =

Coverage

2.3.1 What is the depth of information available in credit bureaus? **Strong – Score – 5 out of 8 with a higher number indicating more information is available**

Public

2.3.2 What is the extent of public credit registry coverage? **41% - Very Strong**

Private

2.3.3 What is the extent of private credit bureau coverage? **Very Weak, no private credit bureau**

Source: *Doing Business 2020 – Getting Credit*, World Bank
www.doingbusiness.org/en/doingbusiness

In-Country Assessment Information

Resources

International Monetary Fund www.imf.org/en/Countries/MNE

- FQ 8** **How available are mortgage loans for purchasing commercial property (office, retail, industrial and logistics), who is the typical user and what are the prevailing trends?**
- FQ 9** **What are the interest rates, term and loan-to-value ratios?**
- FQ10** **In addition to microloans, to what extent are microenterprises (5 or fewer employees) active in the country? Approximately what percentage are formally registered firms?**
- FQ11** **What services other than loans such as insurance, funds transfers, and business development training are available from microfinance organizations for formal businesses?**
- FQ12** **What professional financial services are available outside state owned banks including insurance, credit cards and investment management?**
- FQ13** **What has been the appreciation (or depreciation) rate for commercial property over the last several years?**
- FQ14** **How available is seed money or angel investors for the start up of small businesses?**
- FQ15** **Do small businesses have access to credit information about potential customers?**
- FQ16** **Can businesses gain access to information about them contained in credit bureaus and correct inaccuracies?**

3. Effective Governance



Goal – A popularly elected government free of corruption and functioning efficiently and transparently enough to guarantee economic freedom to individuals and support equitable property markets

3.1 Democratic Representation

Core Question:	Does the country have free and open elections for the leadership and can citizens engage in free enterprise? No – Weak, the country has been struggling with deep political and societal divisions for many years, which were aggravated in 2019 despite several unsuccessful attempts at dialogue between key political actors.
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3.1.1 Voice & Accountability

3.1.1.1 Are citizens able to elect their government and do they enjoy freedom of expression, association and a free media? **No – Weak – Percentile Rank 46 – Trend ↓**

Source: *Worldwide Governance Indicators 2019*, World Bank
<http://info.worldbank.org/governance/wgi/index.aspx#reports>

3.1.1.2 Are citizens free to form political and civic organizations free of state interference and surveillance? **Yes – Strong – Score 6.76 out of 10**

Overall Ranking – 84st out of 167 Trend ↓

Source: *The Economist* Intelligence Unit Democracy Index 2019
https://en.wikipedia.org/wiki/Democracy_Index

3.1.2 Fair Elections

Does the country enjoy a wide range of political rights, including free and fair elections? **No – Weak – Percentile Rank 48 Trend ↓**

Source: Freedom House <https://freedomhouse.org/report/freedom-world/2019/democracy-retreat>

3.1.3 Market Intervention

Overall Freedom Ranking – Weak 91st out of 180 Trend ↓

To what extent does the government control prices? **Score 80.3 out of 100 with a higher score indicating less control, Moderately Free**

Source: *Index of Economic Freedom 2020* – Heritage Foundation www.heritage.org/index

3.2 Lack of Corruption

Core Question:	Is the public sector transparent and free of corruption? No – Weak, Corruption and cronyism remain widespread, and corrupt high-level officials rarely face prosecution.
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Transparency

3.2.1 What is the perceived level of corruption in the country? **Ranking – 66th out of 180; Score 45 out of 100 – Weak Formal Sector, Trend =**

Source: *Corruption Perception Index 2019*, Transparency International
www.transparency.org/en/cpi/2019/results

Control of Corruption

3.2.2 How effective is the government in controlling corruption? **Score 55 out of 100, Strong Trend ↓**

Source: *Worldwide Governance Indicators 2019*, World Bank
<http://info.worldbank.org/governance/wgi/Home/Reports>

Extralegal Payments

3.2.3 How common is it for firms to make undocumented extra payments to “expedite” services or gain business? **21.4% – Weak**

Source: *Enterprise Surveys 2019*, The World Bank www.enterprisesurveys.org/

3.3 Efficient Administration

Core Question:	Are quality services and qualified civil servants available to the public through the efficient use of public money? Yes – Strong, although further advancements in economic development are being blocked by excessive government spending that crowds out private-sector activity.
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Size of Government

3.3.1 What is the size of government relative to GDP? **47.6% - 25 to 30% considered optimum – Very Weak**

Source: *Index of Economic Freedom 2019*, Heritage Foundation www.heritage.org/index

Regulatory Quality

3.3.2 What is the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development? **Strong – Score 65 out of 100 Trend =**

Government Effectiveness

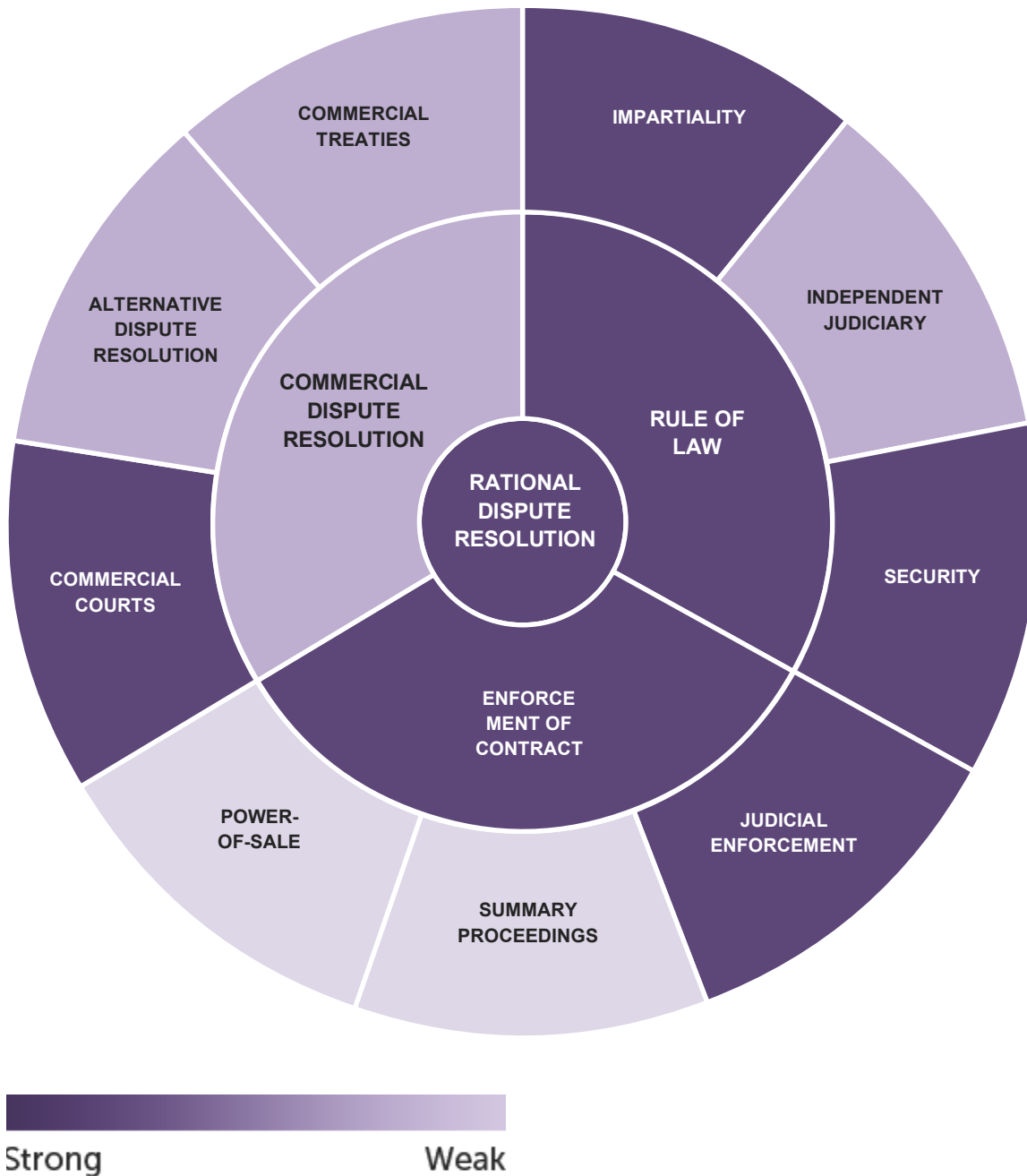
3.3.3 What is the overall effectiveness of the government? **Strong - Percentile Ranking – 59 Trend ↑**

Source: *Worldwide Governance Indicators 2019*, World Bank
<http://info.worldbank.org/governance/wgi/index.aspx#reports>

In-Country Assessment Information

FQ17 **What is the actual experience of small businesses in dealing with the government, particularly the number and complexity of required procedures and the prevalence of extra payments to facilitate services such as licenses or permits?**

4. Rational Dispute Resolution



Goal – An efficient institutional framework that balances the rights of the public, owners, lenders and borrowers in the event of a dispute or loan default

4.1 Rule of Law

Core Question:	Do all market participants abide by the rule of law and have confidence in the courts and the ability of police to control crime? Yes – Strong, despite continuing efforts to bolster judicial independence, the judiciary remains susceptible to pressure from the government, and judicial corruption persists.
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Impartiality

4.1.1 What is the confidence level of the strength and impartiality of the police, courts and contract enforcement? **Strong – Percentile Ranking – 57 Trend =**

Source: *Worldwide Governance Indicators 2019*, World Bank
<http://info.worldbank.org/governance/wgi/index.aspx#reports>

Judiciary

4.1.2 Can members of the judiciary be held accountable for their actions? **No – Score 55.3 out of 100 – Mostly unfree – Weak Trend ↑**

Source: *Index of Economic Freedom 2020*, Heritage Foundation
www.heritage.org/index/country/montenegro

Security

4.1.3 What is the security situation in the country including crime, terrorism and the reliability of the police? **Strong – Ranking 55th out of 141 – Score 79.2 out of 100; Trend ↑**

Source: *The Global Competitiveness Report 2019*, World Economic Forum
<http://reports.weforum.org/global-competitiveness-report-2019/>

4.2 Enforcement of Contracts

Core Question:	Are systems in place for timely and efficient enforcement of contracts? Commercial – Yes – Strong, Residential – Very Weak
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4.2.1 – Judicial Enforcement

Commercial – Strong – Ranking 44th out of 190 Trend =

4.2.1.1 What is the quality of the judicial process? **Score 11.5 out of 18**

4.2.1.2 What is the time between the filing of a lawsuit and resolution in judicial enforcements? **545 days**

4.2.1.3 What is the cost of judicial enforcements as a percentage of debt value? **25.7%**

Source: *Doing Business 2020 Enforcing Contracts* – www.doingbusiness.org

4.2.2 – Summary Proceedings

SQ 10 Summary proceedings are alternative dispute resolution processes where creditors can apply for a direct court order in property disputes. Are summary proceedings available to lenders? **No – Very Weak**

4.2.3 – Power-of-Sale

SQ 11 Power-of-sale agreements give creditors the power to sell properties after notice to the borrower without court intervention. Are power-of-sale agreements available to lenders? **No – Very Weak**

4.3 Commercial Dispute Resolution

Core Question:	Can commercial disputes be resolved efficiently and fairly without exorbitant expense and delay? No – Weak, the country is still in the process of establishing a liberal business climate that fosters foreign investment and local production.
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Survey Questions

Commercial Courts

SQ 12 Do specialized commercial courts exist for the handling of property disputes and foreclosures? **Yes – Strong, the specialized Commercial Court has first instance jurisdiction in commercial matters.**

Alternative Dispute Resolution

SQ 13 Are alternative dispute resolution mechanisms in place including commercial arbitration, private mediation and community-based processes? **No – Weak, Member of the New York Convention, but dispute resolution is still under the authority of national courts.**

Commercial Treaties

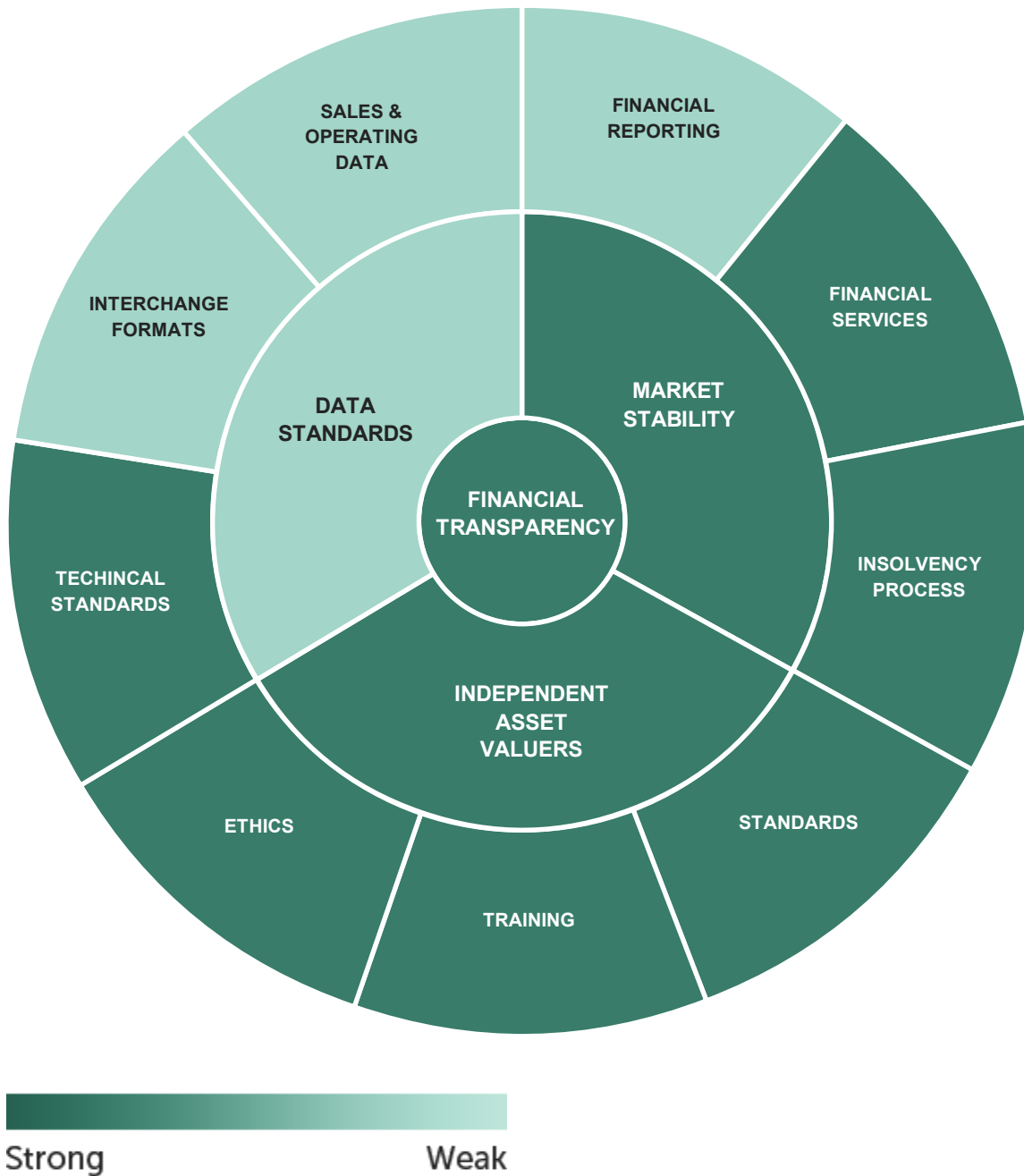
SQ 14 What bilateral, regional and international commercial treaties exist concerning business between countries? **Central European Free Trade Agreement (CEFTA – Albania, North Macedonia, Moldova, Montenegro, UNMIK/Kosovo, Croatia, Serbia, and Bosnia and Herzegovina), Turkey - Weak**

Source: US State Department Investment Climate Statement
www.state.gov/reports/2020-investment-climate-statements/montenegro/

In-Country Assessment

FQ18 **To what extent do small businesses trust public institutions to support contract enforcement?**

5. Financial Transparency



Goal – A well developed and transparent financial system that includes strong supporting institutions and highly trained and ethical professionals that contribute to effective financial intermediation and deep and broad access to capital and financial services

5.1 Market Stability

Core Question:	Are market risks sufficiently transparent and diversified so that efficient capital allocation can occur? Yes – Strong, since regaining its independence the country has adopted a legal framework that encourages privatization, employment, and exports.
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Financial Reporting

5.1.1 What is the strength of the country's auditing and reporting standards? **Weak – 94th out of 141; Score 4.3 out of 7; Trend ↑**

Financial Services

5.1.2 Does the financial sector provide a wide variety of financial services to businesses? **Yes Strong 43rd out of 141; Score 4.2 out of 7; Trend ↓**

Source: *The Global Competitiveness Report 2019*, World Economic Forum
<http://reports.weforum.org/global-competitiveness-report-2019/>

Insolvency Process

Strong – Ranking – 49TH out of 190 Trend ↑

5.1.3 What is the average time to complete bankruptcy proceedings? **3.3 years**

5.1.4 What is the cost of bankruptcy proceedings as a percentage of the estate? **10.5%**

5.1.5 What is the recovery rate of bankruptcy proceedings? **34.4cents on the dollar**

Source: *Doing Business 2020*– Resolving Insolvency www.doingbusiness.org

5.2 Independent Asset Valuers

Core Question:	Do trained, independent and ethical asset valuers exist for all types of assets? Yes – Strong, there are several international and regional valuation organizations operating within the country.
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Survey Questions

Standards

SQ 15 How easy is it to find a valuer who implements International Valuation Standards? – **Strong - the Institute of Certified Accountants of Montenegro Chamber of Valuers of Montenegro is a member of IVSC**

Civil Society Resource: <http://komoraprocjenitelja.me/>

Training

SQ 16 What is the level of training of valuers? – **Strong, two associations have the right to award Recognized European Valuer status from TEGoVA**

Civil Society Resources:

Institute of Certified Valuers of Montenegro www.iopcg.me/index.php/sr/

National Association of Valuers of Montenegro <https://procjenitelji.org/>

Ethics

SQ 17 Are opinions offered by valuers free of influence from parties to the transaction? **Yes, Strong – each organization has adopted a Code of Ethics.**

5.3 Data Standards

Core Question: Is accurate property information available electronically in formats that are consistent with international standards? **Weak, internet sites exist, but data is not standardized, verified or maintained.**

Survey Questions

Sales & Operating Data

SQ 18 Are data aggregation systems available where brokers and agents can widely share contracted real estate listings of properties that are for sale or rent? **No – Weak**

SQ 19 Do resources exist for obtaining building income and expense estimates? **No – Weak**

Civil Society Resource: Institute of Real Estate Management <http://irem.org/>

Interchange Formats

SQ 20 Do electronic data interchange formats conform to international standards (eBXML – electronic business using extensive markup language)? **No – Weak**

Civil Society Resource: Open Standards Consortium for Real Estate International
www.oscre.org

Technical Standards

SQ 21 Do building codes and office building measurement standards (ANSI/BOMA Z65.1) conform to international standards? **Yes – Strong, laws on Spatial Planning and Construction are published in the “Official Gazette of Montenegro”.**

Civil Society Resource: BOMA International www.boma.org

In-Country Assessment

Valuation Profession

FQ19 **How many independent valuers exist in the market? Can small businesses obtain fair valuations for property they want to buy or sell?**

FQ20 **What are the valuation standards and do they conform to international and regional standards?**

FQ21 **What valuation methods and techniques are used in the market?**

Data Availability

FQ22 **How available is information for commercial properties that are for sale or that have been sold?**

6. Appropriate Regulation



Goal – A comprehensive regulatory regime that is transparent, efficient, simple in its implementation and that leads to accurate reporting of property values and prudent protection from market risks

6.1 Fair Tax Regime

Core Question:	Do market participants feel the overall tax rate is fair and participate in formal transactions? Yes – Strong – although the economy continues to flounder on a very narrow tax base and a band of three developing sectors: tourism, energy, and to a lesser extent, agriculture.
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Transfer Tax

6.1.1 What is the total property transfer tax including all duties and payments? **3.1% - Strong Trend =**

Overall Tax

6.1.2 What is the overall tax rate on entrepreneurs (as a percentage of profits)? **22.2% – Ranking – 75th out of 190, Strong – Trend =**

Divestment

Survey Question

SQ 22 What is the tax on profits for foreign investors when divesting property? **9% Corporate Profits tax – Very Strong, in general, there are no distinctions made between domestic and foreign-owned companies.**

Source: *Doing Business 2020* – Paying Taxes & Registering Property, World Bank
www.doingbusiness.org

6.2 Professional Services

Core Question:	Are the professional services necessary for efficient and transparent property markets available and appropriately regulated and supervised? No – Weak, as a candidate country on its path to joining the European Union, services are improving.
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Asset Valuers

Survey Questions

SQ 23 Are property valuers licensed and/or certified by the government? **No – Weak**

SQ 24 How effective are mechanisms in place to discipline valuers who engage in misconduct? **Strong – the professional organizations have Codes of Ethics**

Brokers & Agents

Survey Questions

SQ 25 Are real estate brokers and agents licensed and/or certified by the government? **No – Very Weak**

SQ 26 How effective are mechanisms in place to discipline brokers or agents who engage in misconduct? **Unknown – Very Weak**

Mortgage Professionals

Survey Questions

SQ 27 Are mortgage professionals licensed and/or certified by the government? **Yes – Strong, the majority of the banks in Montenegro belong to international banking chains.**

SQ 28 How effective are mechanisms in place to discipline mortgage professionals who engage in misconduct? **Strong**

6.3 Capital Markets

Core Question:	Are capital markets well-regulated and diversified enough to provide financial resources to private-sector entrepreneurs and innovators? No – Weak, the government generally recognizes the need to remove impediments in order to remain competitive, reform the business environment, open the economy to foreign investors, and attract further FDI.
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Capital Flows

6.3.1 What are the business impacts of rules on Foreign Direct Investment? **Strong – Rank 38th out of 141, Score 63 out of 100; Trend ↓**

Source: *The Global Competitiveness Report 2019*, World Economic Forum
<http://reports.weforum.org/global-competitiveness-index/>

Balance of Payments

6.3.2 What is the country's current account balance as a percentage of GDP? **(-14.2) Very Weak Trend ↓**

Source: IMF Country Data Reports www.imf.org/en/Countries/MNE

Securitization

6.3.3 What is the depth of asset-backed securities, mortgage-backed securities, high-yield bonds and highly leveraged loans? **Weak – three types of securities are traded: shares of companies, shares of investment funds, and bonds.**

Source: US State Department Investment Climate Statement

www.state.gov/reports/2020-investment-climate-statements/montenegro/

In-Country Assessment

Taxation

FQ23 **What is the level of taxation for small businesses? Are any of those taxes an excessive burden on small businesses? Are any tax discounts provided for small businesses?**

Professional Services

FQ24 **What is the experience of small businesses in dealing with professional property market service providers such as real estate agents, brokers and valuers?**