

Freedom barometer

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CONTENT

FOREWORD	3
ABOUT EUROPEAN LIBERAL FORUM (ELF)	4
ALBANIA	5
A. POLITICAL FREEDOM	6
B. RULE OF LAW	7
C. ECONOMIC FREEDOM	8
BOSNIA & HERZEGOVINA	10
A. POLITICAL FREEDOM	11
B. RULE OF LAW	12
C. ECONOMIC FREEDOM	14
CROATIA	16
A. POLITICAL FREEDOM	17
B. RULE OF LAW	18
C. ECONOMIC FREEDOM	19
GREECE	21
A. POLITICAL FREEDOM	22
B. RULE OF LAW	23
C. ECONOMIC FREEDOM	25
MONTENEGRO	27
A. POLITICAL FREEDOM	28
B. RULE OF LAW	28
C. ECONOMIC FREEDOM	30
SERBIA	32
A. POLITICAL FREEDOM	33
B. RULE OF LAW	34
C. ECONOMIC FREEDOM	37
AUTHORS	39

FOREWORD TO THE 2014 EDITION OF FREEDOM BAROMETER WESTERN BALKANS & GREECE

By Charles du Vinage, Project Director for the Western Balkans, Friedrich Naumann Foundation for Freedom, Belgrade, Serbia

It is with great pleasure that the authors of this second year's edition may introduce you to the Freedom Barometer. The responses to the first edition were overwhelmingly positive so we decided to modestly expand Freedom Barometer and welcome Greece as the sixth country being analysed and commented upon.

How many things might change within the course of one year? It seems that the EU and the other European states are slowly moving out of recession, catching up again with the world markets. But this is how politics on EU level would like to see the situation. The data we used for Freedom Barometer do not contradict this particular positive view but rather give additional food for thought when it comes to reasons and symptoms. Keen observers might say that the figures did not change very much to the better in comparison to last year. Although Croatia might still be perceived as the forerunner among the states considered in this Barometer it deals with the same problems as last year.

As Liberals we strive for more freedom in all spheres of society. In times of economic crisis and a conflict between Russia and the EU it poses even a bigger challenge to convince opinion shapers to reforms. But last year made also clear that the EU stands firmly to the promises of EU membership given at the Thessaloniki summit 2003. With this driving force in mind politicians may be inclined to embark on necessary reforms in the fields of political freedom, economic freedom and rule of law. The results from this year's Freedom Barometer may serve as a tool to argue for more reforms, more freedom.

Thanks to the support from European Liberal Forum (ELF) we were in a financially comfortable position to construct a new webpage www.freedombarometer.org, strengthening the link between Freedom Barometers in Asia and Europe and providing a blueprint for more European countries to be included. In the month to come we will frequently update this webpage and enrich it with additional reports.

One of the lessons we learned from our colleagues in South East and East Asia who invented the idea of Freedom Barometer is that the main threats to freedom from a centralized state, an autocracy or a dictatorship vary in degrees but are comparable in essence. The Freedom Barometer provides us with figures and arguments. The value of freedom is worth struggling for! We should get more connected and better informed! Your comments and contributions are welcome westbalkan@fnst.org!



ABOUT EUROPEAN LIBERAL FORUM (ELF)

The European Liberal Forum (ELF) is the foundation of the European Liberal Democrats, the ALDE Party. A core aspect of our work consists in issuing publications on Liberalism and European public policy issues. We also provide a space for the discussion of European politics, and offer training for liberal-minded citizens. Our aim is to promote active citizenship in all of this.

Our foundation is made up of a number of European think tanks, political foundations and institutes. The diversity of our membership provides us with a wealth of knowledge and is a constant source of innovation. In turn, we provide our members with the opportunity to cooperate on European projects under the ELF umbrella.

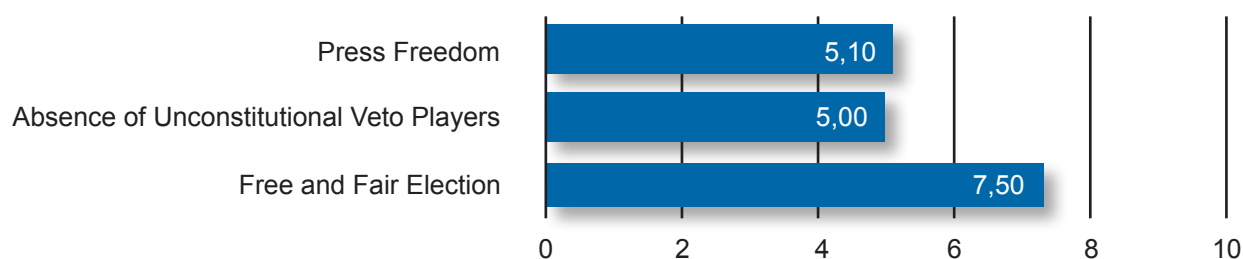
We work throughout Europe as well as in the EU Neighbourhood countries. The youthful and dynamic nature of ELF allows us to be at the forefront in promoting active citizenship, getting the citizen involved with European issues and building an open, Liberal Europe.

Website: www.liberalforum.eu

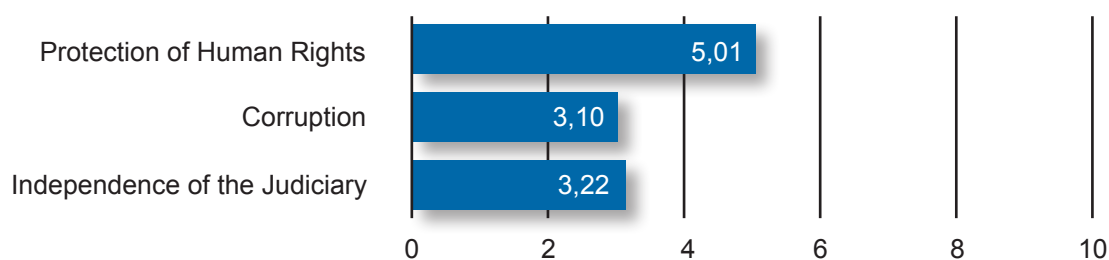
Albania

GDP in 2013: EUR 9,735 million		
Yearly growth rate : 0,7%	per capita: 3,492 EUR	GDP by sector:
		agriculture 19,5%
		industry 12%
		services 68,5%
Population: 2,822 thousand	Human Development Index	Government deficit in 2013
Unemployment: 12,8%	HDI: 0,716 (rank: 95)	-6,15% of GDP

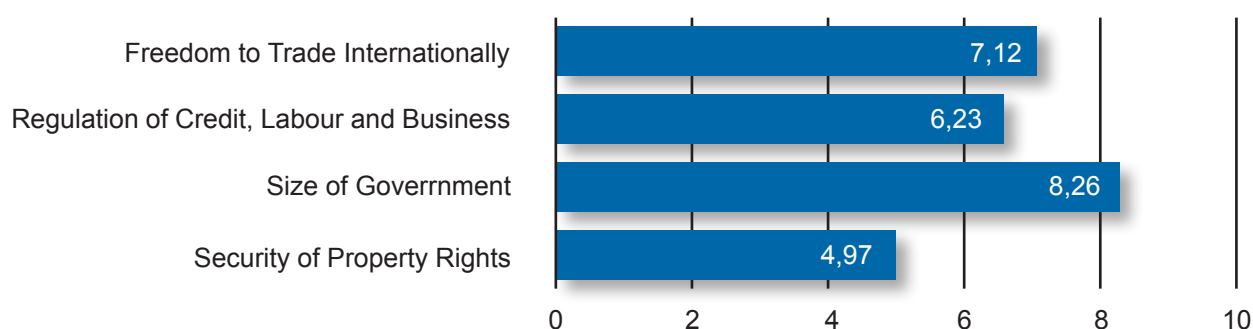
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (17.60)

Free and Fair Election (7,50)

The last elections in Albania in June 2013 took place in a competitive and - despite some isolated violent incidents - generally peaceful environment (unlike four years ago). But national and international NGOs drew attention to a host of issues: Misuse of state funds during the election campaign, corruption, vote-buying, family voting and employees of state and public institutions being pressured to take part in campaign rallies of the government coalition.

But the most serious problem was the incompetence of the Election Committee which resulted in illegal practices, members' resignations, delays and the general failure to meet deadlines.

Absence of Unconstitutional Veto Players (5,00)

There are no traditional unconstitutional veto players in Albania, however, influential interest groups wield soft powers in Albania. Rampant corruption and wide spread bribery allow for access to judiciary, political parties, legislative bodies and public sector.

Albanian organized crime groups are notorious, well organized and internationally connected. Crime rates have increased, law enforcement is flawed and border controls are inefficient. Recently, police attempted to raid drug producing plants in southern Albania around Lazarat in Gjirokaster District. Those production plants are considered among the biggest in Europe. The raid failed because the police forces were repelled by armed gangs. Albanian security forces have not yet regained full control over the region. Reports state that crime groups patrol the roads and discourage people from entering the region.

Albania is a secular state, with 57% of Albanians identifying as Muslim. According to the United States Department of State, in recent years several Islamic NGOs have tried to increase their popularity in Albania. This has been met with very limited success.

The military is under civilian control. Albania is NATO member since 2009.

Press Freedom (5,10)

Although Albania progressed in many ways, becoming an EU candidate country, it is still partly free when it comes to press freedom. Freedom house putting Albania in one group with Bosnia, Kosovo and Serbia concludes that some of these countries tried to implement "cosmetic reforms" in view of possible EU accession. But even EU's progress report on Albania states that "the independence of the media and of its regulatory authority gives rise to concern". In other words there is still no impartial press council and politics coerce strong influence on the media.

B. RULE OF LAW (11,33)

As many as 81% of citizens (via Global Corruption Barometer 2013) found the judiciary corrupt, more than for any other state institution. According to the EU progress report for 2013, there were some positive developments. Along the implementation of the judicial reform strategy for the period 2011-13, several laws were adopted, including on the High Court and on the judicial administration. Some laws were amended, such as the criminal code and a few others. Some previously carried laws started being implemented. However, EU suggested that “constitutional amendments and legislation essential to ensuring the independence, transparency and efficiency of the judiciary have yet to be adopted or finalized”. The Albanian judiciary continues to struggle to remain independent and display meaningful separation of power. Since there were several rows during the last few years between the parliament and the president over nominations for high ranking judicial positions, the EU has recommended that the appointment procedure to the High Court changed. The system of evaluation of the performance of judicial officers prior to their promotion has improved, i.e. made more “sound”. There anyway seems to be less political interference when it comes to nominations for low or medium level court appointments, however these officials are also prone to political pressure or corruption.

Albania is the only Balkan country whose Corruption Perception Index fell (to 31 points) in 2013 as compared to 2012 (33 points). Global Corruption Barometer indicated that the worst corruption was in judiciary, political parties and legislative bodies, but also strongly present in education and healthcare. The European Commission progress report on Albania in 2013 was somewhat milder. It noticed that the number of corruption cases dealt with by the district courts had risen by 21%, while the final verdicts as determined by the appeals courts had almost doubled. Four high level corruption cases, pending for so long, finally saw conviction of the defendants. The EU recommended further improvement of the rules regarding immunity of the elected politicians and judges and overall smoothing of the criminal procedures in corruption cases. It also noted political pressures and influence on the state institutions dealing with anti-corruption fight, thus found it important to ensure transparent and merit-based criteria for appointments and dismissals therein. The importance of an increased role of CSOs and social media was also emphasized. Other observers noted the debate on lifting the immunity of MPs accused of corruption, whereby impunity still had its strong advocates. The duopoly of the two biggest political parties has remained among key catalysts of political corruption. The two have been – public sector jobs included – the biggest employers in the country, who turned the entire domestic politics and election process into a zero-sum game over economic privilege.

*Independence
of the Judiciary
(3,22)*

*Corruption
(3,10)*

*Protection of
Human Rights
(5,01)*

According to the EU progress report on Albania in 2013, some breakthroughs were made regarding anti-discrimination and freedom of electronic media, but there is more to be done. An urgent task for the government has been the implementation of the recently adopted anti-discrimination strategies and legislation. That goes for the LGBT population, whose position, according also to FNF findings, is the one of almost total exclusion, as well as for the Roma, whose position needs swift improvement. In the field of economic, social and property rights, the EU urged for better position of disabled and of children at risk, as well as for more efficient restitution of property and combating illegal construction (the latter being important part of the anti-corruption struggle). Respect for freedom of thought, conscience and religion, thence the level of inter-faith tolerance, is in post-communist Albania high indeed, the best in the region. Respect for some other rights such as decent treatment in custody or prison or lack of arbitrary arrest, is scarcer. The EU has thereby noticed improvements in the prison system which might improve the situation of juvenile inmates. As for children's rights, actions were taken to diminish trafficking and sex abuse. Yet, there is a lot to be done against domestic violence. Nearly 80% of under-15-year-olds are beaten, while child labor is widespread. Curbing violence against women requires government support for NGO-run shelters and emergency telephone lines, which were established in addition to scarce national ones. Finally, according to a recent research, a disturbing factor in the case of Albania is a silent consensus by the two biggest political parties on defying some of the EU conditionality regarding human rights, e.g. in respect to rapid restitution of private property, or to minority rights of the Roma population.

**C. ECONOMIC FREEDOM
(26,57)**

*Security of
Property Rights
(4,97)*

Private property in Albania is not well protected. Major drivers of the rather poor performance of this indicator are the weak results in the Independence of the Judiciary, Impartial courts and Protection of property rights indicators. Although certain reforms took place recently, legal procedures are slow, property rights are not well defined in some areas, and there is widespread corruption in the judiciary system.

The acquisition of certain kinds of property is restricted. Agricultural land can be only leased but not purchased by foreigners. Commercial property may be purchased only with a guarantee of threefold investment against the value of the land.

The protection of private property, on the other hand, is adequate but may be further improved through judiciary reforms and dealing with corrupt practices.

Government in general is mostly absent from direct participation in the economy. This results in high score for this indicator, enabling Albania to remain at the forefront of the region and almost all other European countries. The main reason for such an excellent score are the low levels of government spending. Although the recent global recession had resulted in the steep rise of government spending, it was brought back from its pre-crisis relative levels, leaving consolidated government expenditures at only 30.1% of GDP in 2013. Therefore, it was possible for Albania's tax system to remain favorable to personal income and labor costs.

But there is room for further improvement. The public sector remains strongly involved in utilities, infrastructure and some public companies. During the recent years Albania did not suffer from negative growth rates, but still government transfers and subsidies were increased in order to neutralize the downturn effect.

Regulations are generally favorable to private business in Albania but still much more can be done to support the workings of Albania's market economy. Starting a business is relatively easy regarding procedures and requirements for private investors. It takes only 4.5 days and 5 procedures to start a business. However, dealing with Albania's bureaucracy is costly and corruption remains a serious issue. Certain professions are tightly regulated, resulting in de-facto entry barriers. Regulation of credit is still at relatively high level compared to other transitional countries which is the result of previously modest international financial integration of the country.

The labor market is inflexible - a common trait with some other countries from the region. Firing regulations and mandates and powerful collective bargaining make hiring relatively expensive. The minimum wage is set at about 160 euros a month, which is in gross terms, at relatively high level of 50% of GDP per capita. Employment is burdened by complicated rules and regulations.

Trade freedom is at the high level in Albania. It is mostly in line with Central Europe Free Trade Agreement with non-EU regional countries and Stabilization and Accession Agreement with the EU, which define very low tariffs and barriers of entry. Still, there are regulations that impede international trade as well as bureaucracy that raises trade costs. Capital controls and labor restrictions are the most important issues in this regard, which are still present in the country. However, Albania's further opening to the world through international market integration alongside the EU accession process will foster international trade freedom in Albania.

Size of Government
(8,26)

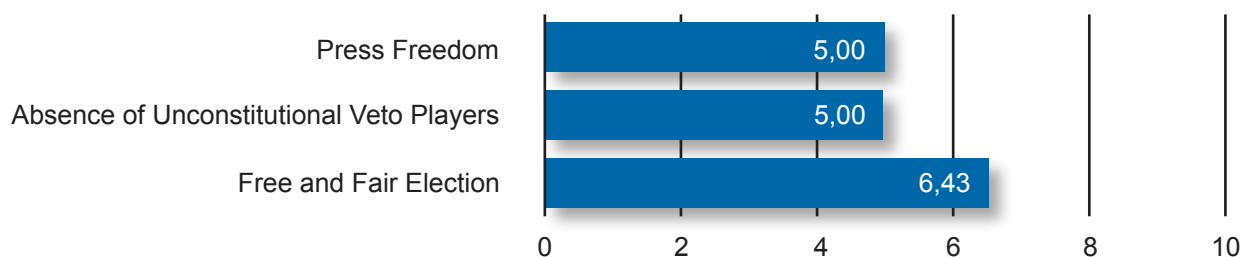
*Regulation of Credit,
Labour and Business*
(6,23)

*Freedom to Trade
Internationally*
(7,12)

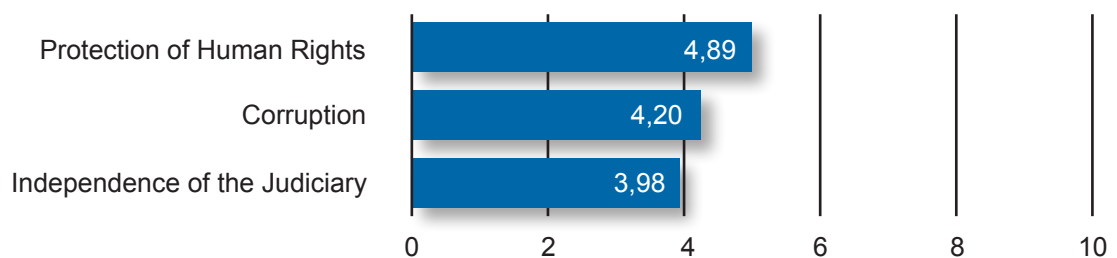
Bosnia & Herzegovina

GDP in 2013: EUR 13,506 milion		
Yearly growth rate: 1,2%	per capita: 3,485 EUR	GDP by sector:
		agriculture 8,1%
		industry 26,4%
		services 65,5%
Population: 3,872 thousand	Human Development Index	Government deficit in 2013
Unemployment: 27%	HDI: 0,731 (rank: 86)	-2,2% of GDP

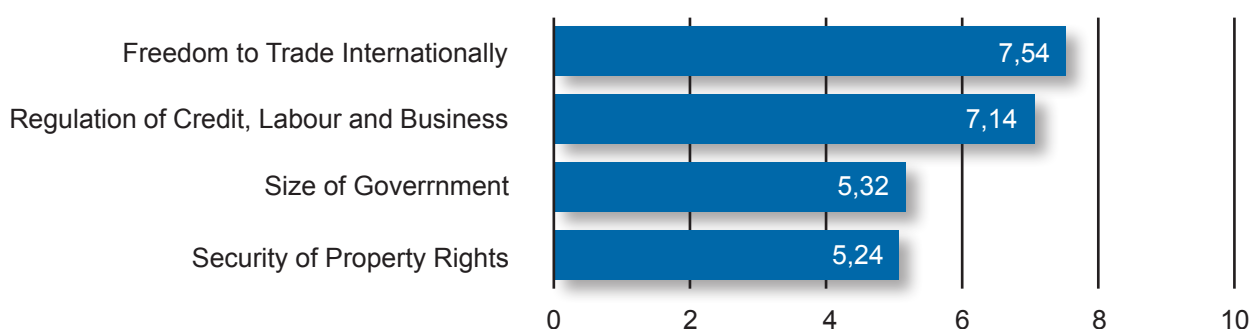
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (16,43)

Elections in Bosnia and Herzegovina are generally free and fair. The results of the last general election in 2010 and of local elections in 2012 were not disputed. The electoral law contains some ethnic limitations, which have been unsuccessfully addressed not just by Bosnian politicians, but also by the international community. Despite numerous meetings under the authority of the EU, no ground for the common solution has been found. Also the verdict of the European Court for the Human Rights from 2009 (in the so-called Sejdic-Finci case) which concerns the elections of the Presidency has still not been implemented.

Compared to other countries in the region, laws regarding campaign financing are strict and well enforced. In February 2014, the Federation of Bosnia-Herzegovina was seriously shaken by a series of protests in the predominantly Bosniak parts of the country. The demonstrators were moved by dissatisfaction and anger towards the political elite of the country and complained about corruption, unemployment and poor living standards. Other demands of the protesters were seen by Croats and Serbs as disguised demands for more centralisation which is why the protests didn't attract significant support by these ethnic groups. Failing to reach a critical momentum and faced with violence the protesters organised a set of non-formal meetings in order to promote a concept of "direct democracy". Although a number of the proposals made during these meetings seemed reasonable, only few of them were discussed in parliament. Therefore it seems questionable whether the protest movement will be able to influence political life in Bosnia and Herzegovina, or have influence on the upcoming elections which are scheduled for October 12th.

Also this year, the elections for the state presidency, state Parliament, parliaments of the entities, president of the entities, and (for the voters in the Federation) for the cantonal parliaments take place on the same day, the voters will be most likely confronted with four or five different races, which might contribute to some confusion at the polling stations. It is to be hoped that the release of the election results will not be delayed for days, as it happened in 2010.

Bosnia and Herzegovina is the only country in the Western Balkan region which features an unconstitutional veto player, being the High Representative (HR) for Bosnia and Herzegovina, within the Office of the High Representative (OHR). The Dayton Accord is the legal basis for the OHR, which grants the HR substantial invasive veto powers. Its role is to guarantee the civilian implementation of the Dayton Agreement. The mandate of the HR was extended by the Peace Implementation Council (PIC) until a set of benchmarks and conditions have been fulfilled. Closure of

Free and Fair Election
(6,43)

*Absence of
Unconstitutional
Veto Players*
(5,00)

the OHR is considered to be a pre-condition for reaching the EU candidate status.

In Bosnia and Herzegovina, most reforms in recent years and conditions for closer ties with the EU remain unfulfilled. They are opposed by strong interest groups and uncompromising political elites. The February protests showed that citizens have grown disillusioned and unwilling to further tolerate poverty, economic mismanagement and rampant corruption. Those intense but ultimately failed protests did achieve little but to scare political elites and their backers.

Bosnia and Herzegovina and Kosovo remain at least partially internationally administered and the formal and informal powers of external actors restrain the countries' sovereignty.

Press Freedom
(5,00)

The press in Bosnia and Herzegovina is partly free. It reflects the stalemate in Bosnian politics which has slightly worsened during last year (from 5,1 to 5). Critical journalists are physically threatened in case they stick to investigative journalism. The ownership structure of the press does not allow it to become the fourth pillar of power since there is no rule of law. Self-censorship is widespread. The press council as a regulatory body is still not acting. Politicians strive to exert influence on reporting of the media through controlling the advertisement market – one of the most important sources of financing.

B. RULE OF LAW
(13,07)

*Independence
of the Judiciary*
(3,98)

The legal framework in Bosnia and Herzegovina is complex due to the multi-tier system of government as stipulated by the Dayton Peace Accord. The judicial system is fragmented. Political divisions between and within entities, with no consensus on the country's desirable future constitutional order, hinder meaningful institutional or other reforms. Political influence on courts and prosecutors is common and pervasive. The courts are underfunded. However, the Global Corruption Barometer 2013) found judges as less often corrupt than some other public-sector professions (politicians, doctors, etc.). In its Progress Report for BiH in 2013, the EU noted a considerable advance in war crimes trials, as a result of successful implementation of the National War Crimes Strategy. There along, the backlog of war-crime cases has decreased, to it more than the decrease of backlog of other criminal cases. The prosecution of war-crime cases involving sexual violence has also somewhat improved. Many things are yet to be done to put war-crime or other proceedings into good shape. Criminal codes are as much different in the two BiH's entities that they tend to produce uneven sentencing, hence nurture legal uncertainty. Witness pro-

tection programs need additional support and improvement.

A complex political system and legal framework, as well as flaming rhetoric and ruthless political strife within and between entities continued to impede transparency and accountability and hinder the anti-corruption struggle. The Agency for Prevention of Corruption is still not operable and its real independence from the executive is in question. Of all corruption investigations, 70% were dismissed while only a few perpetrators faced jail sentences. Weak sanctions do not outweigh corruption gains. Even if independent bodies point out at irregularities in governments at various tiers, judiciary fails to prosecute. Whistle-blowers are unprotected. Access to public information is poor. Especially problems with procurement persist. Public sector is captured by political parties who employ their activists or known supporters. Citizens (via Global Corruption Barometer 2013) perceive political parties, public administration, legislative bodies and healthcare services as the most corrupt. Much of the reason for social unrest in several towns in BiH in February 2014 could be attributed to the citizens' anger over exclusivity and almost complete disaffiliation of the entire political elite from their everyday needs. Between 2012 and 2013, BiH stagnated, with her CPI at 42 and ranking, together with Serbia, as the 72nd of 177 countries. Prospects will be even worse if some recent legal initiatives are effectuated, bringing even more "party-state", hence more corruption, via changed election and procurement laws.

Two decades after the war, kidnappings and extra-judicial killings are no longer common in Bosnia and Herzegovina. However, the respect for human rights shown by security forces is variable. Use of excessive police force was common during the demonstrations in February 2014. There are numerous cases of arbitrary arrest and a prevalence of torture or ill treatment in custody or prison. Regarding death penalty, Republic of Srpska is de facto albeit not de jure abolitionist. In the Federation of BiH, the backlog of court cases decreased, but only to amass a backlog of prison cases awaiting execution in the overcrowded prisons. Life is considerably less relaxed and discrimination more widespread outside one's own ethno-religious neighborhood. Members of "non-constituent" ethnicities such as the Roma are by far worst affected. Women, youth and middle-aged are discriminated in employment. Employment in public sector (including crony private companies) is anyway tightly controlled by political parties, themselves most often ethno-centric. Freedom of thought and expression (including freedom of the press) is limited. Refugees and IDPs face un-reasonable administrative and/or political obstacles to return, or a "selective justice". Homophobia is strong: LGBT events, even if purely cultural and kept indoors, are often met by violent counter-events. Hate speech and impunity for it are a part of everyday life. Even though war crimes' prosecution improved, the public is still biased towards offenders

Corruption
(4,20)

*Protection
of Human Rights*
(4,89)

from their own ethnicity. Many serious offenders live (often as mid-ranking government officials or other “honorable citizens”) side by side with their former victims, whom they tortured, raped, harassed, or whose relatives they killed during the war. The authorities of Republic of Srpska did not accept the rulings of international courts in as far as the crimes in Srebrenica were described as genocide. Numerous authorities - throughout BiH, at various tiers of government - deny one or another aspect of the war crimes of the 1990s. Hate speech and war crimes` denial overwhelm school curricula, anyway heavily contested along ethno-political lines. On the other hand, human rights` NGOs or other freedom defenders enjoy relatively acceptable treatment, which is perhaps due just to the massive presence of international community. Their cooperation with likeminded NGOs in the region is on the rise. Overall, it is civil society that does most of the work on the post-war reconciliation, both within the BiH and across her borders.

C. ECONOMIC FREEDOM (25,24)

Security of Property Rights (5,24)

Private property rights are not adequately protected in Bosnia & Herzegovina. The poor state of the judiciary system influences the low overall score. The judicial process is slow, partial, and occasionally influenced by politics and corruption. Attempts to reform the judiciary came to a halt because of the political instability and constant friction between the two entities that form the country - the Federation of Bosnia & Herzegovina and Republic of Srpska.

However, some progress has been made recently. Business Costs of Crime and Reliability of the Police sub-scores of the Economic Freedom of the World report improved significantly, adding to the increase in property rights freedom. The future reform process is conditioned by political process, which can be facilitated through increased political stability and inter entity agreement. This is especially important for the judiciary reforms.

Size of Government (5,32)

In general, spending and direct government involvement in the economy is high. Public consumption stood at 47.1% of GDP in 2013. Both individual income tax and corporate tax are set at 10%. However, the overall tax regime is unnecessarily complicated, mainly due to the political division of the country into two entities and their sometimes differing taxation rules. Cantons have different property tax and other government fees. The absence of a coherent national fiscal policy has resulted in poor budgetary performance.

Weak public institutions and interventionist policies have hindered the overall privatization process. This has resulted in over-employment in

state-owned enterprises. More often than not these SOEs find themselves in dire financial straits and require government subvention to survive. Several industries are government monopolies and used as tool in the political struggle without consideration for the resulting economic effect.

Bosnia and Herzegovina regulatory environment is in principle favorable to business, although red tape and corruption remain obstacles. Credit regulation is a strong side of Bosnia's economy. Labor laws are a mixture of flexible (working hours regulation and non-excessive collective bargaining) and non-flexible regulations (hiring and minimum wage regulations). The high rate of unemployment (especially among the young people) and a thriving shadow economy signal the need for reforms.

Administrative requirements for business operations are harmful to companies due to rampant corruption and lengthy administrative processes. The bureaucracy is low, inefficient, expensive, non-transparent and highly corrupt – all of which adds to the cost of doing business in the country. Tax compliance costs are also high, due to complicated administrative requirements.

Trade freedom is at a high level in Bosnia and Herzegovina. In spite of ethnic tensions trade is free between federation entities. An interest fact is the emergence of intra ethnic-trade – trade volumes between the Serbian entity and Serbia, as well as Croatian and Bosniak entity with Croatia are of much higher volume than expected by trade gravity models. However, strong cultural, language and historical bonds fueled several special exit and entry arrangements with Croatia, Serbia and Montenegro, resulting in enhanced trade networks with the region.

Bosnia and Herzegovina is a member of Central European Free Trade Agreement and has signed Stabilization and Accession Agreement with the EU. These two trade agreements liberalized trade framework, resulting in low tariffs and small regulatory barriers especially with CEFTA countries. Further EU integration, although conditioned by political reforms that should be taken within the country (Bosnia is the only Western Balkan country without official EU candidate country status), is expected to further boost freedom of international trade in Bosnia and Herzegovina.

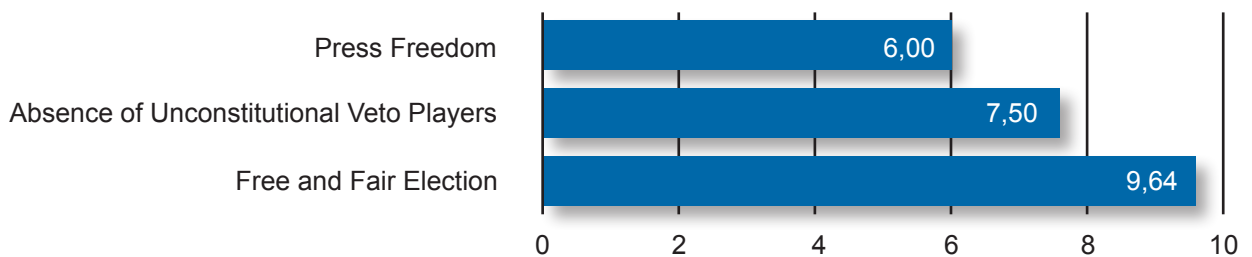
*Regulation of Credit,
Labour and Business
(7,14)*

*Freedom to Trade
Internationally
(7,54)*

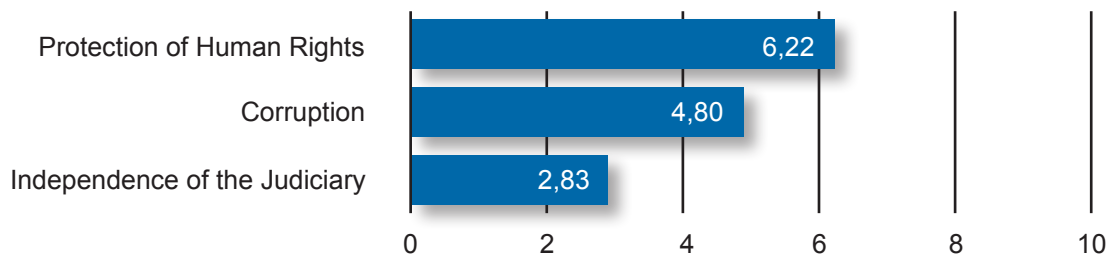
Croatia

GDP in 2013: EUR 43,98 million		
Yearly growth rate: -1,0%	per capita: 10.340 EUR	GDP by sector:
		agriculture 5,0%
		industry 25,8%
		services 69,2%
Population: 4,284 thousand	Human Development Index	Government deficit in 2013
Unemployment: 16,5%	HDI: 0,812 (rank: 47)	-5,5% of GDP

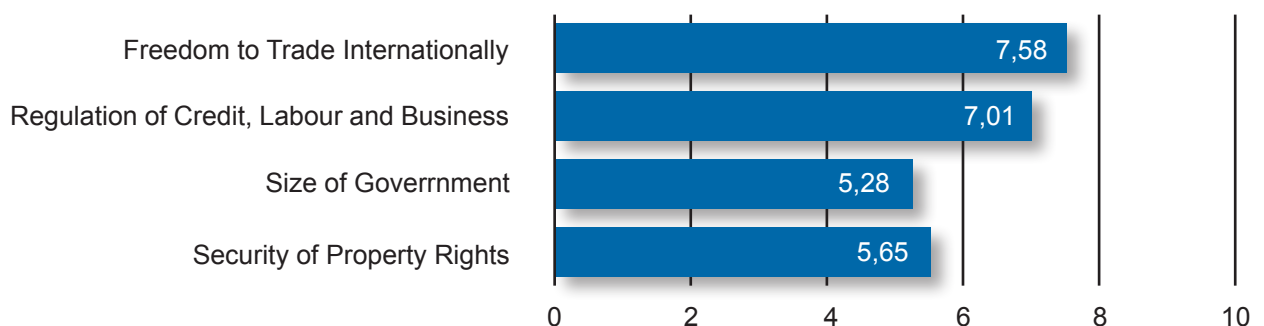
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (23,14)

Since Croatia became the member of the EU on July 1, 2013, the election for the Croatian members of the European Parliament took place in the spring of 2013, one month before the local and regional elections. Both elections were held in a free and a fair way. Although the elections have been widely seen as the most important instrument of the citizens' participation in the political life, some influential and predominantly conservative-populist NGOs tried and in one case succeeded to fulfil the conditions for calling a national referendum on highly disputable questions such as restriction of minority rights. The Union of the Independence War Veterans tried to call for national referendum on allowing the use of language and alphabet of minorities only in those local communities where they make up more than half of the population, instead more than one third as it is now.

The level of political pluralism increased substantially in the last year, since in 2013 the political scene saw the establishment of some new political parties left, right and in the middle of the political spectrum. Public opinion polls suggest that they may have chances of entering the parliament following the next elections which are scheduled for the end of 2015.

There are no traditional unconstitutional veto players in Croatia. Croatia has legal and institutional frameworks in place, which guarantee the independence of the civilian government. Within those boundaries interest group wield soft powers.

The Croatian Catholic Church (HKC) is a very influential institution in Croatia. It is able to influence social and political processes in the country. The HKC played a decisive role in the allowing for a constitutional referendum, held in December 2013. The proposed change defined a marriage as a matrimony between a woman and a man. The amendment was confirmed by a two-third majority of votes – effectively setting in place a constitutional prohibition of same-sex marriages. In addition, same-sex couples are prevented from legally adopting children. However, Croatian law allows them to form lifelong partnerships. International reactions to the outcome of the referendum were mainly negative. The petition and the campaign in favor of the amendment was mainly carried by the Catholic citizens' group "On behalf of the Family" ("U ime obitelji"). The HKC has strong ties to the group and is its main supporter. A lack in funding transparency lead to controversy and speculations about the extent of HKC support and about the genuity of citizen activism.

Although Croatia has a top rank among the surveyed countries, press freedom has not changed for the better. The Croatian press can be considered as only partly free. According to a report by Freedom House, journalists still occasionally face threats and violence when their reporting collides with political interests. It remains to be seen whether Croatia's EU membership (the country joined the EU in July 2013) will have a positive impact.

Free and Fair Election
(9,64)

*Absence
of Unconstitutional
Veto Players*
(7,50)

Press Freedom
(6,00)

B. RULE OF LAW (13,85)

Independence of the Judiciary (2,83)

EU accession and adjacent constitutional and legal reforms created a completely new climate in the judiciary. Independence of the highest judicial bodies was strengthened, as well as their authority to select senior magistrates. The executive branch lost lots of leverage for exercising control over the judiciary. Yet along the implementation of European standards, lots of dilemmas are still debated, such as whether or not it violated the principle of separation of power if judges were temporary active as officials of the Ministry of Justice and then returned to courts. The changed position of the judiciary, which to its part resulted in a few landmark verdicts, such as against a former prime minister, his deputy and his political party, has awoken lots of hope across society. However, the Global Corruption Barometer 2013 showed that 70% of citizens still thought the judiciary was corrupt, even though it was not any more on the very top of the list of the most corrupt institutions. A serious problem is also the backlog, estimated at nearly one million cases, many of them to do with property rights. Some of those have been pending for 20 or more years. In human-rights sensitive cases such as a proposed referendum on the parallel use of the Serb Cyrillic alphabet in the multi-ethnic towns in eastern Croatia, the constitutional court has proved as capable of dismissing the pressure by the prevailing hostile public opinion in the disputed places. It protected minority rights by banning such referendum.

Corruption (4,80)

According to Transparency International's Global Corruption Barometer 2013 Croatians perceived the judiciary and political parties as the most corrupt entities in the country. But there were several positive developments, too. The prison sentence on corruption charges handed to a former Prime Minister Ivo Sanader in 2012 has drawn the attention of the general public to the problem of wide-spread corruption. The coalition government has promised to create "society free of corruption", yet abuse of power and secret "behind-the-scenes" deals still do happen. Foreign investors have warned of the inverse relationship between corruption and foreign investment. A law on lobbying has been discussed by the government but the process has stalled. On the other hand, access to information has become easier. Financing regular political activities has generally improved, while campaign financing is at least better monitored. Political parties have to submit more accurate annual reports. With the "EU accession race" completed, lawmakers need to carry the laws more carefully and consistently, coupled with an increased fiscal transparency and better corruption-risk assessment. In 2013, Croatia improved its CPI (from 46 to 48), getting up to the rank of the 57th of 177 monitored countries of the world.

Protection of Human Rights (6,22)

The human rights situation has considerably improved as compared to the 1990s or prior, mainly due to reforms facilitated by the EU accession process

completed in 2013. Security forces generally respect human rights. There are no extrajudicial killings, while torture in custody or prison is rare. The return of refugees from Balkan wars was partially successful, yet unnecessary administrative obstacles that they face are too slowly removed. Likewise, minority including linguistic rights are painstakingly breaking through. The row goes on over the parallel official use of Serb Cyrillic alphabet in multi-ethnic towns in eastern Croatia. The issue is often manipulated for political ends. Opposition to the use has often been violent. The constitutional court banned the referendum on the issue, thus stating that human rights could not be open for vote. Discriminatory campaigns by the political right did not confine to minority alphabets but extended to sexual minorities, especially prior to the referendum in December 2013 which banned same sex marriages. The centre-left government which includes liberals responded by carrying and applying the law on civil unions. Meanwhile, LGBT pride rallies are peacefully held in Zagreb, Split and Osijek. Those or other human rights are well monitored and cared for by a strong and influential civil society. The media are sensitive for gender equality, inclusion of the disabled or similar issues. Prosecution of war crimes continues while impunity for those has been ever less. However, both the political left and right have protected the pre-1989 human rights` violators from lustration. The extradition of a former secret service agent to Germany for a political assassination committed in 1980s was made only upon heavy pressure from the EU.

C. ECONOMIC FREEDOM (25,52)

Private property rights are overall highly protected in Croatia. However, the weaknesses of the judiciary system remain a major problem, similarly to other countries in the region. Impartiality of courts and judicial independence are seldom present. Although several high profile corruption litigations were carried out successfully against important political figures and state officials, these sub-scores do not show much progress. However, they should increase the credibility and independence of the judiciary system in the future.

The legalization process of real estate property in Croatia, (most notably in the coastal area), will define the new basis for more secure and transparent property sales and purchases which will allow for the abolishment of some trade of property restrictions. Along with Judiciary reform, the major problem for future protection of property rights will be the enforcement of contracts. Commercial law cases are still time consuming and ensuring legal compensation is not always certain.

The general government consumption is not at drastically high level though it was increased during the recent recession and stood at 43.7% of GDP in 2013. Recent deficits and high welfare spending in Croatia build up foreign debt. Consolidated government deficit hovered between 5% and 4% of GDP,

*Security of
Property Rights
(5,65)*

*Size of Government
(5,28)*

but the short term perspectives are very encouraging towards significant decrease of government borrowing and, ultimately, decreasing the public debt, which reached 60% of GDP at the end of 2013.

Government Enterprises and Investment sub-score are at the highest score 10, reflecting successful stabilization and liberalization policies that took place during the EU accession. However, the government still is very present in the economy through the number of publicly owned companies that drive huge transfers to cover their losses, and numerous subsidies that government provides for particular industries. The government has been tackling this important issue, but with no great success although important breakthroughs can be made in the future via liquidation process or privatization.

The greatest burden for private consumption and savings, and the main reason for relatively bad score for the Size of Government is the level of tax rates. Government revenues have been only approximately 38% of GDP in past 5 years, but a relatively large portion comes from the income taxes. Corporate income tax is at 20% and top marginal tax rate for personal income at 40%, which puts Croatia in the group of top income taxing countries of Europe. Consumption taxation, for example the VAT is also at very high level of 25% (the highest level allowed within the EU). Should the government decrease the role of the state within the economy, and lower the spending, free space to redefine fiscal policy and lower tax rates could appear.

*Regulation of Credit,
Labour and Business
(7,01)*

Economic activities in Croatia are generally liberalized, most of all the credit market and somewhat less the labor market. Business regulation is not too much harmful but the implementation of overwhelming administrative procedures and bureaucracy costs are a significant burden for private business. This is especially reflected in Administrative Requirements sub-score which is at the minimum score in the region of 2.22 in the latest EFW report. Corruption is an important issue and obstacle, especially regarding the administration, though this problem is not as present as in other regional countries.

The main disadvantage of the business environment in Croatia is the high level of rigidity of labor law regarding hiring and firing regulation. Minimum wage is at very high level of 54% of net average wage in the country. Both factors contribute to high costs of labor in Croatia relative to GDP per capita and development stage.

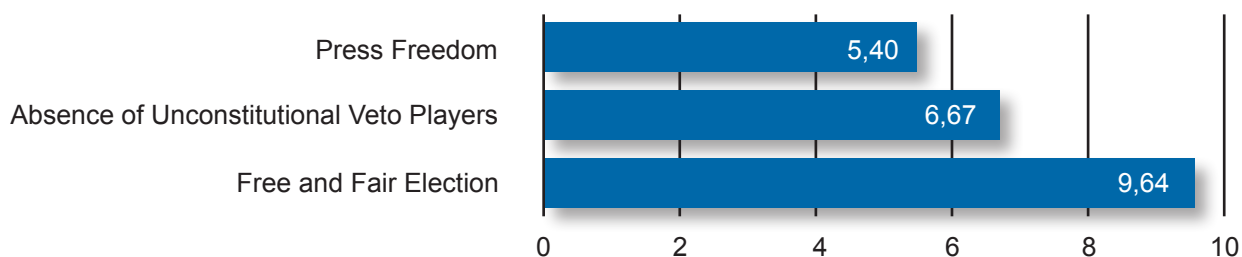
*Freedom to Trade
Internationally
(7,58)*

Trade freedom is at a high level in Croatia, the country that has just recently become a full EU member. This led to complete trade liberalization with other member states on the EU common market and the trade policy has been transplanted from the national decision making and moved to Brussels. Tariffs, quotas and other prohibitive measures are at low level. Due to the EU accession, Croatia had to leave CEFTA which made some of its products less competitive in the Western Balkan, but it did not make any changes on treatment of goods from CEFTA countries due to their signed SAA. However, Croatia yet has to implement minor reforms in regulatory framework and control of immigration.

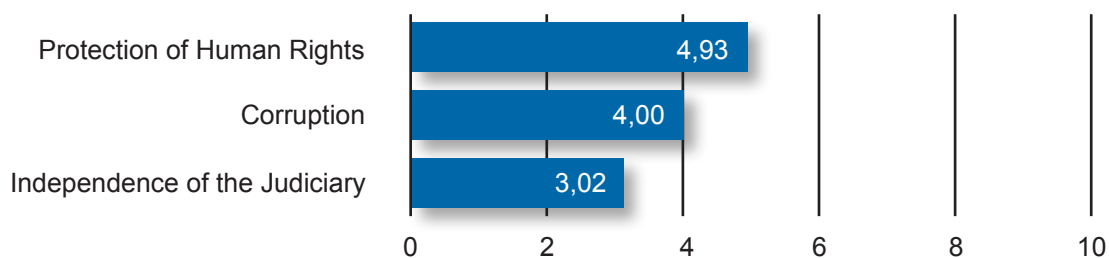
Greece

GDP in 2013: EUR 183.133 million		
Yearly growth rate: -3,9%	per capita: 16,560 €	GDP by sector:
		agriculture 3,5%
		industry 16%
		services 80,5%
Population: 10.816 thousand	Human Development Index	Government deficit in 2013
Unemployment: 27%	HDI: 0,853 (rank: 29)	-2,6% of GDP

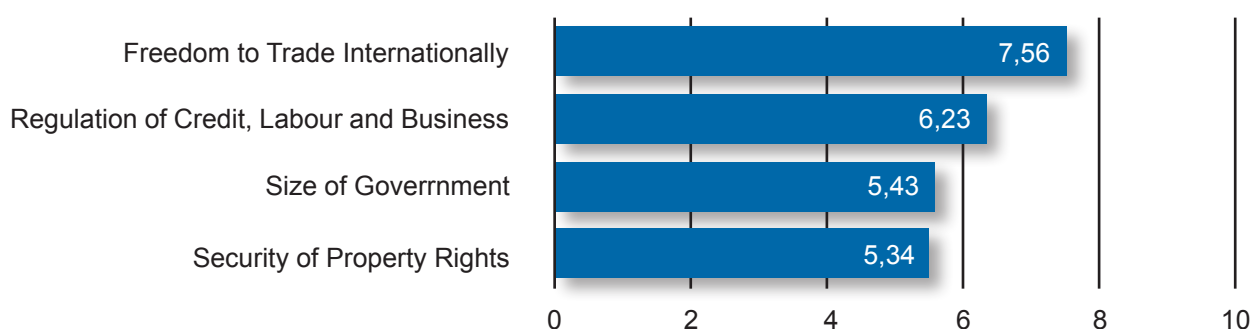
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (21,71)

Free and Fair Election (9,64)

Freedom Barometer ranks Greece among the best in the Balkans in the field of „political freedom” with an overall score of 21,71. In general, this is true. Greece has a very open and pluralistic political landscape with widely independent political parties representing every political ideology. Elections are free and fair and there are high constitutional obstacles for banning political parties.

One thing that seems odd to foreigners – and that is indeed questionable with regard to the accuracy of political representation and political freedom – is the Greek peculiarity of “enhanced” proportional representation (“verstärkte Verhältniswahl”), which bolsters the strength of the leading party by a bonus of 50 extra seats in Parliament. This system – which officially provides for stable majorities, but unofficially secured sinecures for the established parties in the past – manifests itself at all levels of parliamentary representation in Greece, even in municipal elections.

Absence of Unconstitutional Veto Players (6,67)

Another factor which limits political freedom is the ubiquitous power of the Greek Orthodox Church. Due to the prevailing influence of the church, quite a lot of taboos still exist in Greek society which cannot be tackled by politics. Examples are LGBT equality, various privileges for the church itself as well as the conflict with Macedonia which also has a religious element. To make matters worse, some of the church’s most prominent representatives constantly and publicly interfere in the process of shaping the public and political opinion. It is estimated that around twenty percent of the Greek electorate can be directly influenced by statements from the clergy.

It should at least be noted that – although the Greek political system is in principle free – especially liberal and reform-oriented parties have had a hard time to openly put forward their political recommendations and beliefs. Since the outbreak of the crisis, which led to an increase in unemployment from 7,4% (2008) to 27,9% (2013), a social populist consensus highly critical towards liberal, economic imperatives has emerged, which has made it increasingly difficult to publicly advocate for drastic yet necessary reforms. In a political climate where the governing party Nea Dimokratia implements reforms only reluctantly (and blaming “Brussels” for forcing them to do so) and every single opposition party from right-wing to left-wing extremists argue for a “roll back” of reforms, a silent reproach towards openly progressive parties can be observed in day-to-day public discourse. This phenomenon of course is in principle not a political, but a social restraint.

With a score of 5,40 for “Press Freedom”, Greece ranks pretty much in the middle of the Balkan countries – there is quite a number of countries doing better (Serbia, Montenegro), but also some which do significantly worse (Bulgaria, Macedonia). Taking into account where Greece comes from, the drop to a score of 5,40 is nevertheless alarming.

The “Press Freedom Index”, published by “Reporters Without Borders”, ranks Greece at 99 of 180 countries worldwide. Over the course of five years, the Hellenic Republic has plunged more than 50 places in the index. The reasons for this drop are manifold – and they all have their seeds in the omnipresent crisis.

Many publishing houses went bankrupt in the aftermath of the crisis, which has led to an unprecedented wave of layoffs in the media branch. Most major media outlets, which comprise newspapers as well as TV channels, are in the hand of tycoons with close ties to powerful politicians. In a system as deeply clientele as the Greek one, this led to the effect that oftentimes only journalists with deep allegiance to parties and/or politicians survived the pervasive downsizing of the editorial staff, especially with newspapers and other “politically sensitive media”.

Recently, quite a significant number of journalists have fallen victim to physical attacks by members of neo-Nazi “Golden Dawn” (“Chrysi Avgi”), more often than the years before. Golden Dawn’s leaders and members openly target journalists and call their supporters for “action”. This has led to growing number of death threats towards politically “undesirable” journalists.

B. RULE OF LAW (11,94)

In spite of three decades of EU membership, Greece is still well below average EU standards of judicial independence. The Global Corruption Barometer 2013 showed that 66% of the citizens found judiciary corrupt. However, many other areas, such as political parties, the legislative, media, health care or even other public administration were considered as worse affected by corruption. Illicit political influence on the judiciary is present. For some inexplicable reason, the fact that Prime Minister Andonis Samaras ordered the chief prosecutor to press charges against the leadership of the neonazi party “Golden Dawn” did not create a public scandal. As a Greek specific, there was even a reverse example: in 2012, amid parliamentary crisis, a senior active judge was appointed as the caretaker PM until after elections, which sparked debate on the separation of power. For quite a while, delays in judicial processes for several years - or even artificially and deliberately created backlogs - were quite common. Some

were caused by corruption, some by “silent strikes”, but delays themselves resulted in a climate of impunity, especially of the highest officials, hence in even more corruption. The recent budgetary crisis and the enlarged sensitivity of the public to the high level corruption seemingly brought changes. A landmark court decision in 2011, against a former government minister, gave a glimpse of hope that the impunity for misuse of office was no more tolerated.

Corruption (4,00)

According to the Global Corruption Barometer 2013, citizens saw political parties, media, the legislative, healthcare services, judiciary and public administration as the most corrupt. Systemic corruption exists on the basis of clientele politics and an overstretched public sector. After the fall of the military junta in 1974 (Metapolitefsi), political parties recovered mainly as ideologically convergent interest groups, while civil society remained weak. Much of the business community, trade unions and professional associations perceived politics as a weapon in the battle over public resources. Media have been a part of the problem. Political party finances are not transparent, while favors offered to party supporters are substantial. From the legislation, down to various licensing issues, many government decisions are corruption-driven. Healthcare, pension and education systems are heavily corrupted and improperly run. In 2012 the island of Zakynthos became infamous as the “island of the blind”. About 700 people (among them a bird hunter and a taxi driver) had somehow managed to successfully claim a special pension for the blind. Investigations later found that only 40 of them were truly handicapped. There are government monopolies in many areas of the economy, yet the words “privatization”, “free marketer”, or even “efficiency”, are still considered as insults. More than 30 years of EU membership have so far led to few changes. It was only the recent devastating budget crisis that awoke anti-corruption initiatives. Sentencing and jailing of several high-ranking politicians, such as PASOK party founder Tsochatzopoulos in 2011, marked a turning point in the acceptance of political corruption. Yet many anti-corruption institutions and procedures are to be developed, together with a changed public attitude towards liberalization and deregulation. Understanding the link between “party-state” and state-run economy on the one and political unaccountability and rampant corruption on the other hand is slowly but steadily gaining ground, mainly owing to liberal think-tanks and several bold local politicians. Thus, in just a year, 2012–2013, Greek CPI had risen from 36 to 40, whereupon Greece was 80th of 177 countries.

Protection of Human Rights (4,93)

If Greece were a non-member and applied for EU now, she would have to considerably reform in order to meet the accession criteria, including in the field of human rights. Regarding arbitrary arrests and detention, or minority rights, her scores are very bad. During protest gatherings related to anti-crisis austerity, police has intervened against the violent and the

peaceful protesters as well as journalists in an equally unprofessional way, followed by too little reaction from the watchdog bodies. Minority (ethnic, linguistic, religious, etc) rights are at their lowest. Macedonians or other Slavic speakers are not enumerated by official census, not to mention any discussion on their would-be minority rights. Far right groups terrorize immigrants while police reaction is weak and formalistic. Secularism is weak. The Greek Orthodox Church holds a privileged position. Discrimination might be detected in many walks of life. Homophobia is strong among overall public, clergymen and numerous politicians. However, resistance to it is also strong, both by civil society (LGBT pride rallies are regularly held in Athens and Thessaloniki) and by enlightened local politicians who use all available legal possibilities (obtained during EU accession or subsequently) to diminish discrimination. Generally speaking, the space and opportunities that human-rights monitoring and defending or other NGOs have enjoyed, the protection of children from militarization and the lack of disappearances (the latter anyway being uncommon in recent Greek history, even in times of the military junta), have been the only aspects of human rights that Greece could really boast with.

C. ECONOMIC FREEDOM (24,56)

Private property is not well protected, a similar trait with other regional economies. The scores that dominantly influenced this situation are low marks from Economic Freedom of the World regarding judicial independence, and even more, Impartiality of courts. Weak enforcement of contracts as well as poor reliability of police also negatively influence the state of the judiciary system in the country. Therefore, weak institutions remain at the core of the problem of property rights in Greece.

The size of government is still substantial in Greece. General government expenditure slightly decreased from more than 50.5% in 2012 to 47.3% of GDP. High government consumption needs high level of taxation – the top marginal tax rate on personal income is as high as 45%. High level of taxation leads to tax evasion and very high shadow economy (estimated at 26.3% of GDP in 2013). Transfers and subsidies remain at a very high level: the public sector in Greece is oversized, both in state responsibilities and the number of people it employs, while its efficiency is dubious. The biggest problem of Greece is the level of government debt which stood at 173.8% of GDP in 2013. Some steps in the right direction were made, with lowering the high budget deficit in 2012 from 6.3 to 2.5% of GDP in 2013, but without strong and continual growth the public debt will remain a heavy burden in years to come.

Security of Property Rights
(5,34)

Size of Government
(6,23)

*Regulation of Credit,
Labour and Business
(5,43)*

The overall regulation environment in Greece is not business friendly. This makes daily business conduct difficult and costly. The heaviest burden of regulation lies on the labor market – hiring and firing is complicated and costly, while collective bargaining imposes significant cost, most notably in the public sector. Credit regulation is more developed than in other countries of the region. Business regulation is controlled by ineffective and slow bureaucracy with high incurred costs, all of which provide a suitable environment for corruption, which is high.

The burden of regulation on business is overwhelming, therefore the biggest changes that could help the Greek economy recover from the multi-annual recession is red tape minimizing and bureaucracy simplification. The very high level of unemployment of 27,2% is partly due to inflexibility on the labor market, which should be increased in order to provide incentive for creating new jobs. The very high minimum wage of 50% of gross average salary is also a significant obstacle in promoting job growth.

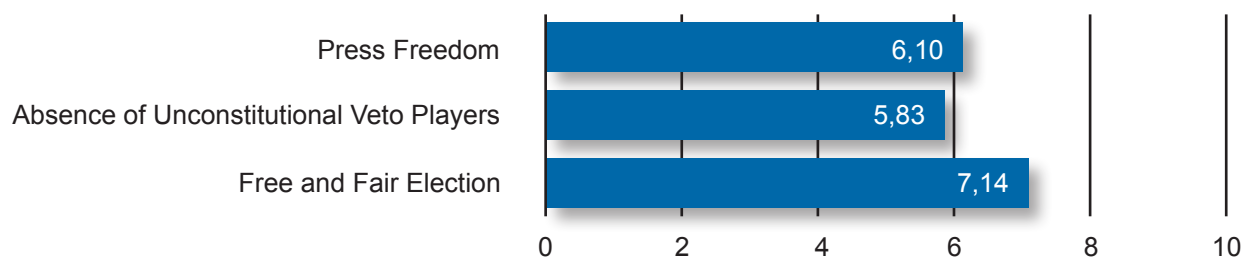
*Freedom to
Trade Internationally
(7,56)*

Bearing in mind the fact that Greece has been a member state of EU since 1981, the high score of freedom to trade internationally in this index should not be a surprise. Greece is an integral part of the European common market, thus without any formal restrictions on trade with other EU countries, but there are custom clearance tariffs for import from other EU countries. Tariffs are low, in accordance with EU trade policy, but there are regulatory barriers. However, the biggest issue is control of migrant workers – working permits and other regulations that successfully restrict foreign labor supply. This is the one area in which further development is necessary but politically unlikely for the decision makers to make due to high unemployment rate in the country. Therefore, it is possible to expect improvements in the near future in the area of regulatory trade barriers.

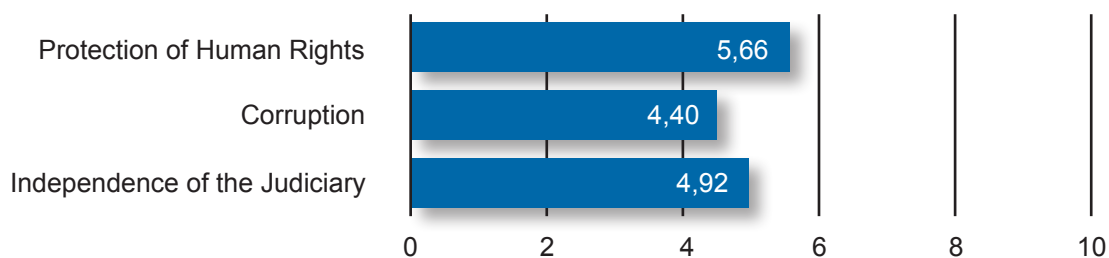
Montenegro

GDP in 2013.: EUR 3,315 million		
Yearly growth rate: 3,4%	per capita: 5,322 EUR	GDP by sector:
		agriculture 0,8%
		industry 11,3%
		services 87,9%
Population: 625 thousand	Human Development Index	Government deficit in 2013
Unemployment: 19,5%	HDI: 0,789 (rank 51)	-2,4% of GDP

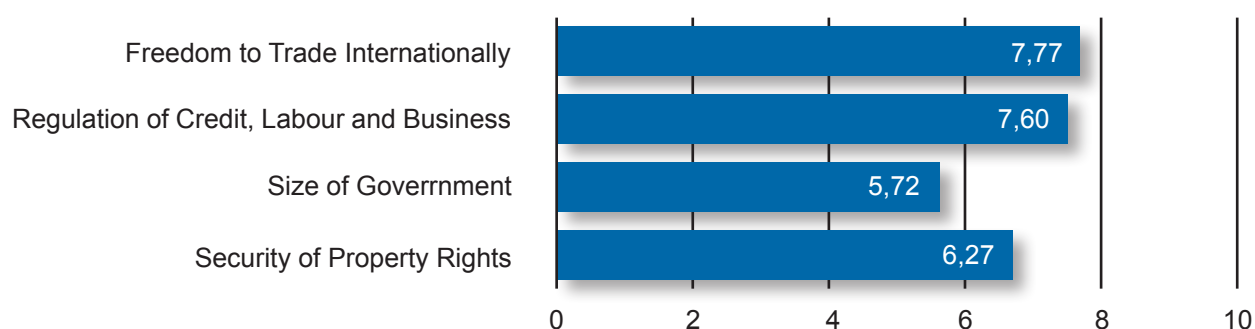
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (19,8)

Free and Fair Election (7,14)

The parliament is elected every four and the president every five years. Filip Vujanovic won his third consecutive presidential mandate with 51,2% of the votes. Although the last elections were generally seen as free and fair, the number of allegations regarding illegal practices by the governing Democratic Party of Socialists (DPS) increase from year to year. Although some of these allegations are backed by recordings of party meetings, there was no indictment filed by the state prosecutor as of yet.

Opposition parties and international organizations have drawn attention to irregularities that allegedly occurred during campaigning and election day. The complaints alluded to widespread voter intimidation, misuse of public funds and vote-buying. The response of the responsible state institutions to these allegations has been lackluster.

Absence of Unconstitutional Veto Players (5,83)

Montenegro features no traditional unconstitutional veto players. However, various interest groups wield considerable soft powers in Montenegro. Like in most countries in the region, those groups are able to interfere with security, media, judiciary and legislation.

The military of Montenegro is under civilian control. The government has successfully proceeded with reforms on the intelligence and defense sectors. In 2014, Podgorica has accepted a request from Brussels to apply EU sanctions against Russia, further distancing itself from Moscow. As a consequence, the NATO Alliance has agreed to open intensified and focused talks with Montenegro, and agreed that Foreign Ministers will assess Montenegro's progress no later than by the end of 2015.

Press Freedom (6,10)

The press in Montenegro is partly free. The government steers the advertisement market and thus the main source of income for newspapers. Investigative journalism trying to show the many facets of political decision making processes frequently faces challenges. As in Serbia the ownership structure is not transparent. Last years' figure dropped from 6,4 to 6,1 as the number of violent cases against media representatives has risen. It is however to be expected that in the course of EU accession the small Balkan country will have to deal with these deficiencies.

B. RULE OF LAW (14,97)

Independence of the Judiciary (4,92)

FNF, together with the Fraser Institute, consider Montenegro as the Balkan country least intrusive into her judiciary. Transparency International's Global Corruption Barometer 2013 did not provide data on the citizens' perception of corruption in the Montenegrin judiciary. An opinion poll conduct-

ed by the Centre for Democracy and Human Rights in 2013, however, showed that 37% citizens thought the judiciary was trustworthy (down from 41% in 2012). This was better than the political parties' rating (23% trust) but not than the president's or the government's one (average 36%). In July 2013, the parliament - in line with recommendations of the Council of Europe - amended the constitution, reducing political influence on the appointment of prosecutors. Obstruction of justice, e.g. undue interference in the work of judiciary, was included into the criminal code as an offense. On the other hand, criteria for election of 6 out of 10 members of the judicial council remained unclear, which enabled political influence. The EU demands of its respective candidate countries the establishment of a "fair, fully merit-based and transparent system of promotion for judges and prosecutors". A disproportionate outreach of presidential clemency and of the amnesty granted by the parliament in August 2013 were also worrisome, indicating at political interference into justice, which might lead to impunity, especially for corruption and organised crime.

In 2013, according to Transparency International, Montenegro advanced considerably in curbing corruption. The country has bettered its score in the Corruption Perceptions Index by three points (2013: 44 points, up from 41 in 2012) and now shares with Macedonia rank 67 of 177 evaluated countries. The European Union, however, was more critical in their evaluation. The European Commission's Progress Report 2013 acknowledged progress in the field of parliamentary control of corruption-vulnerable sectors and lauded the increase in investigations of corrupt public servants. But the report complained that much of the 2011-12 Anti-Corruption Action Plan was not implemented yet and had to be included into the revisited 2013-14 plan. The Commission recommended strengthening the state electoral and state audit commissions, both financially and in terms of human resources. Further suggestions related to better implementation of laws and by-laws, as well as more independence and pro-activity by, and more cooperation between, the bodies that deal with corruption. Many outside observers noticed that the public debate on corruption had gradually taken bitter forms, becoming sort of a covert political war (between and inside political parties or coalitions). There were occasional media attacks, denigration, defamation, or illegal tapping or photographing of the perceived opponents (done by both pro- and anti-government CSOs). However, amid this nasty media war, the government often failed to protect the vulnerable ones, i.e. the whistle-blowing parts of civil society. Institutions often broke the law on access to information, or circumvented it, thus hindering the access of pro-transparency activists to information.

Last year witnessed divergent trends. The government made efforts to better protect some minorities and vulnerable groups. In 2013, LGBT pride rallies were held in Budva and Podgorica, while in June 2014 those were "postponed" due to security reasons, namely attacks and death threats against

Corruption
(4,40)

*Protection of
Human Rights*
(5.66)

leading LGBT activists. One of them had to emigrate. Homophobia is very strong and hateful among religious authorities. However, freedom of religion is among the better protected rights and liberties. Bad conditions in prisons have improved at least for women and juveniles. But, recent extensive trainings of public officers on human rights topics are yet to deliver. A few cases suspected of having had been extrajudicial killings are further investigated with little result. Aside of journalists, protection of NGO activists has worsened, as demonstrated by government's failure to prevent or sanction the dirty media war between NGO supporters and NGO critics of Government, in which not least ethical standards of journalism but the right of privacy was seriously breached. There is still a widespread discrimination in employment on gender or on political basis. As for the latter, the "party-state" is almost omnipresent, along with cronyism, nepotism and tribalism. EU has urged its candidate country Montenegro to better protect the disabled and other vulnerable groups (notably in courts) or some ethnic minorities (in particular Roma, Ashkali and Egyptians). New laws and an action plan drafted in summer 2013 are expected to improve the protection of children, about two thirds of whom are still beaten at home. Even though impunity for war crimes is quite rare, lustration for pre-1989 human rights abuses is still a non-issue. Similar goes for the restitution of the post-1945 nationalized property, which resumes very slowly.

C. ECONOMIC FREEDOM (27,36)

Security of Property Rights (6,27)

Legally, private property rights are well protected. Relatively satisfactory levels of security, low business costs of crime combined with fairly liberalized regulations, are good basis for protection of property rights. However, Montenegro struggles with the implementation of rule of law through its judiciary system. It is slow, subject to political manipulation and only moderately independent from government. Also there was significant drop in the latest Economic Freedom of the World report regarding the Reliability of Police sub-score illustrating the effects of the political pressures and corruption.

Although corruption levels are not perceived to be extraordinarily high, developments on the ground see it as significant obstacle in judiciary processes. The overall Integrity of the legal system is vague and uncertain. To provide more security for private property and better enforcement of contracts, the government has to act in several directions. Major reforms are needed in the judiciary system to make it more efficient and fair. Also, political will is needed to make police and judiciary truly independent from the state and parties.

Government consumption and influence was a major burden for the private sector. In recent years, the situation did change to the better, pushing the government expenditures from 51.6% of GDP in 2008 to 44.2% of GDP in 2013. Government revenues decreased in line with expenses. Deficit decreased from the record of 5.7% GDP in 2009 to 2.3% in 2013.

Aiming to eliminate the budget deficit, the government increased corporate income tax and introduced new personal income tax rates at 9% and 15% for higher earners (although this higher tax rate was introduced just as a temporary measure). With these trends, Montenegro regained fiscal sustainability. Still, important issues are government owned enterprises in heavy industry, tourism and other important economic areas. These use unknown amount of subsidies to cover their losses.

The tax system is not too invasive but the government plans to increase revenues to close the budget deficit. The latest change was the rise of the corporate income tax to 15%.

Montenegro has relatively liberalized its business environment. Since the currency in the country is the Euro, the credit market is completely liberalized. The labor market is also very flexible, when compared to other countries in the region. Hiring and working hour regulations are very favorable to business and dismissal costs do not pose a substantial burden. However, there is space for some improvements in firing regulations and the application of collective bargaining.

Business regulations are a mixture of generally good laws, some very rigid laws and overall complicated procedures and bad implementation. Starting a business is very easy, and tax compliance costs are relatively tolerable. But administrative procedures are complicated and non-transparent, with significant bureaucracy and corruption costs. Licensing still provides high protection to a number of occupations. In the future, priority should be given to administration modernization, red tape dismantling and e-government development.

Trade freedom is at the high levels in Montenegro. It is supported by Central Europe Free Trade Agreement with the region and the Stability and Accession Agreement with the EU. Trade relations with Serbia, Montenegro's single most important trade partner are especially important. A strong supporter of trade is the use of the common European currency, although Montenegro is neither EU member state nor member of the euro-zone, but adopted the currency unilaterally. Tariffs are relatively low, though a bit higher than in the region, but this is annulated with relatively more liberal regulation barriers. Along the way to EU accession, it is expected for trade freedom in Montenegro to increase in the following years.

Size of Government
(5,72)

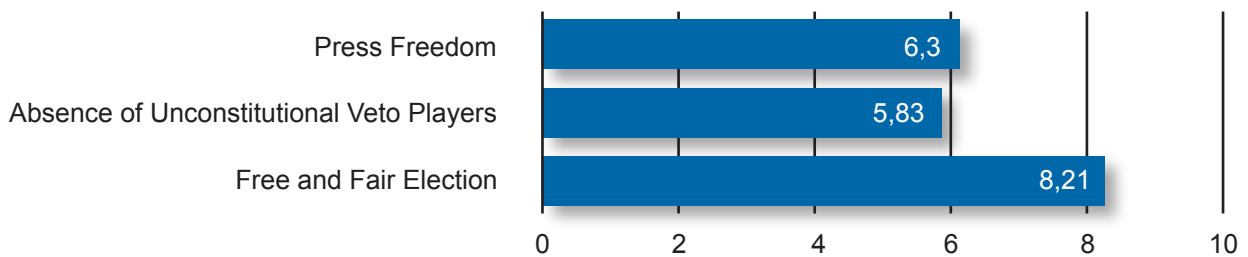
*Regulation of
Credit, Labour
and Business*
(7,60)

*Freedom to Trade
Internationally*
(7,77)

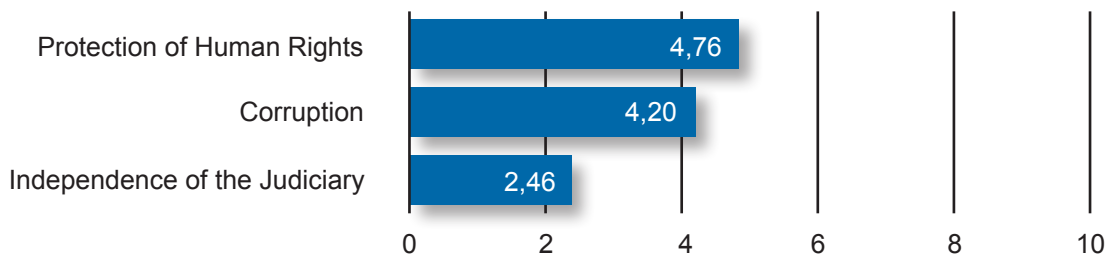
Serbia

GDP in 2013.: EUR 32,215 million		
Yearly growth rate: 2,5%	per capita: 4,474 EUR	GDP by sector:
		agriculture 7,9%
		industry 31,8%
		services 60,3%
Population: 7,187 thousand	Human Development Index	Government deficit in 2013
Unemployment: 21%	HDI: 0,745 (rank 77)	-5,7% of GDP

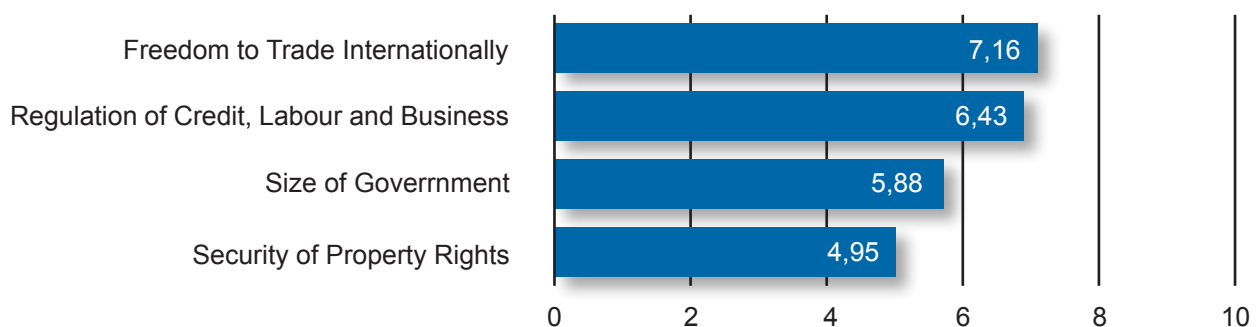
POLITICAL FREEDOM



RULE OF LAW



ECONOMIC FREEDOM



A. POLITICAL FREEDOM (20,35)

Elections in Serbia are generally free and fair. Since there were no national elections in 2013, the country's Freedom Barometer rating did not change since last year. However, in January 2014 the strongest party in parliament – the Serbian Progressive Party (SNS) had called for early elections to take place on March 16th, less than two years after the last one, in May 2012. Despite this incident, the elections could be described as free and highly competitive.

Biased reporting by the media (those under government influence), irregularities connected to the financing of election campaigns, and some reported cases of vote-buying have raised concerns. Hopes are up that the problem of biased reporting could be solved by a media law that was adopted in August this year. This law sets a deadline for media privatization for July 1st 2015.

On the other hand, the problem of party financing has not been considered to be a serious one. A law concerning this matter was passed in 2010 but hasn't been implemented yet.

Vote-buying occurs more or less in the whole Western Balkans region (maybe with the exception of Croatia). The underlying problems are the (previously mentioned) deficient rules regarding party financing and poverty. This makes some parts of the Serbian population on the fringes of society (e.g. the Roma minority) prone to selling their votes. However, vote-buying has so far not proven to be able to influence election results on the national level and remains more of an issue in local and regional elections.

There are no traditional unconstitutional veto players in Serbia. The EU candidate has legal and institutional frameworks in place, which guarantee the independence of the civilian government. Within those boundaries strong interest groups that wield soft powers do exist.

One of the most influential ones is the Serbian Orthodox Church (SOC). It's influence has grown significantly in the last decades. By many considered the cradle of the Serbian national and cultural identity, it is able to influence socio-political processes.

The current reformist government, composed of former Milošević loyalists, is making solid progress towards EU membership and away from the ethno-nationalist obsession with Kosovo. Talks between Pristina and Belgrade are continuing and parallel Serbian institutional structures in Kosovo have been abolished. The Orthodox Church rejects the concept of an independent Kosovo state and is set to disrupt the normalisation process.

Recent opinion surveys indicate that the SOC is losing prestige, as a series

Free and Fair Election
(8,21)

*Absence
of Unconstitutional
Veto Players*
(5,83)

of unearthed affairs is implicating high-ranking church officials to misconduct and sex scandals. Some analysts suggest that the current reformist government might use those scandals to leverage the SOC in line.

Extreme nationalist and ultra-right organisations in Serbia are growing in influence. Old ties to the political elite continue to exist, further strengthening confidence of those organisations. Some have branched out into politics, nearly entering parliament in the parliamentary elections of 2014.

The military complies with the rules set by a civilian government. However, it lacks transparency regarding structure, authority, activity and funding of different sectors and secret services. A potential role of military structures in protecting International Criminal Tribunal for the former Yugoslavia (ICTY) fugitives remains unclear. The military is trying to restore public confidence, also by engaging in public relations.

Press Freedom
(6,30)

The press in Serbia is partly free. As the Balkan Investigative Regional Network (BIRN) points out, soft censorship “is having profoundly insidious effects on media freedom and on the development of sustainable media markets in Serbia”. The reasons for this judgment which is supported by Freedom House’s findings have been described in last years’ comments: non-transparent ownership structure and a lack of public control leads to self-censorship and biased media which is rather a tool of politics than a watchdog. In the course of last year Serbia has made a small step backwards, dropping from 6,4 in 2012 to 6,3 in 2013.

B. RULE OF LAW
(11,42)

*Independence of
the Judiciary*
(2,46)

Serbia’s judiciary is still recovering from a number of sequential, unsuccessful reforms, most of which actually worsened the situation, enhancing instead of diminishing political party control. This branch of government has remained by far the biggest obstacle to the rule of law and freedom. It is derisory, inadequate and displays little separation from the executive. Reforms were unsuccessful also in that they even worsened the access to justice by certain ethnic minorities. Political influence on courts or onto public prosecutors is strong. Leading politicians boast with convictions or charges put against crony businessmen or other highly unpopular offenders as if it was their own immediate accomplishment, whereas they hide behind judicial independence wherever there is public criticism of inefficient, under-professional, obviously corrupt or biased legal institutions. Somewhat better efficiency in the most notorious criminal cases, at least as regards prosecuting and indicting, was achieved at a high cost of executive power interfering (through back channels) into the work of the bodies in charge. The extent of the presidential pardons and parliament’s amnesty since mid-2012 was huge indeed,

which visibly impacted crime rates and their structure. The backlog of cases in most courts, including the constitutional court, is enormous. As many as 82% of citizens (asked by the Transparency International's Global Corruption Barometer 2013) found the judiciary corrupt, more than for any other state institution. In the Serbia Progress Report 2013, the EU noticed a gigantic backlog of cases, but showed lots of restraint, even bureaucratic approach in commenting the extraordinary political or other social developments in Serbia relevant for the situation in judiciary. Among recommendations, the Judicial Academy was invited to become the mandatory entry point for new judges. According to the EU, impartiality of judges "continued to be broadly ensured". Nevertheless, hard facts and figures indicated at the return or even upward mobility of a number of judges who had violated professional ethics during 1990s or prior.

Corruption is among the most often discussed topics. Citizens (as the Global Corruption Barometer 2013 showed) perceived political parties, the judiciary, the public administration, education and health care services, the police, the media and the legislative bodies as the most corrupt. Much of the post-2012 political change - as well as of the electoral success of the SNS in spring 2014 - owed to huge expectations of citizens met by the PM Vučić's promises to have minimised corruption and brought more integrity and accountability into politics. Yet words still speak louder than actions. Strong political party control over public sector companies, themselves the backbone of the "party-state", persists. Even the most obvious mismanagement is all too slowly sanctioned. Details of giant public-private partnerships (in energy, urban infrastructure, car industry, etc.), especially when based on inter-governmental, or agreements with foreign companies, are kept confidential and are declassified only partially and upon public pressure. Despite improvements in public procurement due to implementation of a new law (transparency of procedures, fresh rules for the low-value procurements, publishing the assessed value of procurements and new rules on contracts with same suppliers), there is still plenty of room for increasing transparency. Lobbying is not regulated. Implementation of the law on financing of election campaigns is scarce. The law on whistle-blowing is still in draft status. The executive branch and independent anti-corruption regulatory bodies play the blame game. The legal system needs more consistency and more participation of citizens in the phase of drafting the laws (especially in identification of the corruption-vulnerable areas). Very good news has been the adoption of the new law on media, stipulating the retreat of the government from the ownership in media, coupled with more transparent and scarce - temporary and project-based only - public financing of the broadcasters. Promising - on a longer run though - also are the visible changes in the mindset of the leading transparency-monitoring (and some other) NGOs, who increasingly, however cautiously, accepted liberal approach and rhetoric on combating corruption. However, parallel to that, the "National Strategy for the Struggle Against

Corruption
(4,20)

*Protection of
Human Rights
(4,76)*

Corruption”, adopted in 2013, fell short of noticing the links between economic dirigisme and corruption, in spite of the otherwise strong pro-market rhetoric of the current Government. The country’s CPI has, amid all those divergent and turbulent developments, shown considerable improvement, from 39 in 2012 to 42 in 2013, placing Serbia next to BiH. Both are ranking as 72nd of 177 countries of the world.

The risk of kidnapping, unlawful killing or disappearance is now low - a remarkable improvement as compared to the 1990s` or immediate post-2000 period. In contrast to fears that had followed their rise to power, post-2012 government leaders promised to respect and advance human rights. That included a promised reform of the security sector, breaking the secret code of silence regarding war crimes across, and unlawful killings within Serbia borders during 1990s and declassifying citizens` files made by secret services since WW2. Explanation for several past extrajudicial murder cases was offered and suspects arrested, but doubts have remained that it was just a tip of an iceberg. For instance, a number of mysterious deaths of conscript soldiers during the early 2000s are still unexplained. A draft law is expected on opening of the secret files. Restitution of private property continues in spite of sabotage attempts by interest groups within the government. War crimes trials continued, amid new discoveries of mass graves in Serbia and Bosnia. Nevertheless, fears remained over future government policies on human rights, mainly caused by obtrusive leadership and debating style of the PM Vučić and his SNS peers. Arbitrary arrests and police brutality are still a huge problem in Serbia. Whereas the judiciary is devastated (slow, inefficient, biased, corrupted) it has been hard to tell which particular arrests had been indeed arbitrary and who was to blame for keeping in custody people who were later acquitted. Besides, there were cases of ill treatment in custody. As a new disturbing moment, during the spring 2014 flooding there were several arrests due to “spreading false rumors” on the number of casualties via on-line social networks. Online media who had published disturbing claims about government officials` mismanagement or unsuitability were hacked, but perpetrators were rarely discovered. In spite of the law against discrimination, or because of its inconsistency with other laws, treatment of new or small or alternative religious communities is unequal. Romany, LGBTs and leading human rights` NGO activists are at the top of those endangered: defamed in government-proxy tabloids without opportunity to defend, be cleared and compensated, they subsequently are often attacked, or their premises vandalized. The LGBT Pride rally in Belgrade, as perhaps the key litmus test of the respect of human rights, exactly because it is so unpopular, was year and again banned for security reasons, or it was ordered to stay indoors. In September 2014, it was held, under heavy police protection.

C. ECONOMIC FREEDOM (24,41)

Protection of property rights is at a low level in Serbia. The main problems are deficiencies within the judiciary: courts are usually partial and under strong political influence. This was even deepened after the 2010 judiciary reforms which were pushed through in a non-transparent manner. Another worrisome issue is the lackluster enforcement of contracts (which is slow, inefficient and not guaranteed). Examples range from publicly owned enterprises who do not pay their liabilities within the legal deadline to private companies owned by the politically connected. However, good scores are noted in the field of security level and absence of purchasing restrictions on land and property.

High costs of crime to business are still present, especially with crime involved in money laundering. Furthermore, corruption within the public sector is widespread, including the judiciary. The most affected area are public procurements. It is estimated that one third to one quarter of total procurement expenses on consolidated level is connected to corruption. The new Law on Public Procurement whose implementation began in January of 2013 has provided some improvement in this regard, but not as much as envisaged.

Government consumption poses a significant burden to private consumption. Active fiscal policy during the recession years raised general government expenditures from 44.8% of GDP in 2008 to 49.9% of GDP in 2012. At the same time government revenues increased only slightly, thus the emerging gap in public finance had to be filled with a high deficit, which stood at 5.7% of GDP in 2013. In the last 6 years (2008 – 2013), Serbian public debt rose from 8.78 to 20.14 billion euros. Rising interest expenses, uncontrolled public administrative and procurement spending, an overpaid and overstaffed public sector and most notably high pension costs will leave government spending at very high levels.

Transfers and subsidies comprise a very important outflow of budget funds. Large number of government owned unreformed enterprises alongside companies in unfinished privatization and restructuring processes, demand high pecuniary supplements to cover high losses. The transfers are usually subject to political influence, nontransparent and unaudited. Corporate and top marginal income tax rates are at 15% (few citizens actually pay it, since it is applied to very high yearly wages only). Low income tax therefore must be accompanied by very high payroll taxes which amount to 47.8% of gross wage and additional 15% capital gains tax. This high tax wedge is the main reason for high shadow economy activities – either working completely without contract or applying only minimum wage only while the rest of the salary is paid in cash. High tax

*Security of
Property Rights
(4,95)*

*Size of Government
(5,88)*

*Regulation of
Credit, Labour
and Business
(6,43)*

costs of legal business and rigid regulation with complicated red tape further fuels this situation.

Relatively free credit regulation is one of the main advantages of regulatory framework in Serbia. The financial system (which is dominated by foreign banks) proved robust to the recession, and is highly integrated with foreign markets although there are still some capital controls in place. Receiving income and direct payments from abroad in foreign currency is still highly controlled. Labor market regulations are very rigid and harmful to job creation. The adoption of the recent labor law is yet to be transferred into the Freedom Barometer Index. It introduced necessary practices, especially in the field of severance pay determination and non-permanent employment. The minimum wage is still very high, a few percentage points above 50% of the average wage in the country, and firing and hiring regulations are not promoting new employment. Collective bargaining does not represent a high burden to business in the private sector, although the extended validity of collected bargaining remains a problem. Collective bargaining in the public sector involves higher public expenditures, with 30% higher wages on average than in the public sector.

Although starting a business alongside tax compliance costs does not provide significant obstacles in Serbia, the business environment is not business friendly due to extremely complicated and slow administrative procedures, very high bureaucracy costs and endemic corruption. An extremely bad example are construction permits, where Serbia ranks 182 out of 189 countries in World Bank's Doing Business report.

*Freedom to Trade
Internationally
(7,16)*

Trade freedom is at the high level in Serbia. It is supported by the Central Europe Free Trade Agreement with regional countries and Stabilization and Accession Agreement with the EU. Serbia is the only country in the region alongside Bosnia and Herzegovina that is still not a member of WTO. Still, political uncertainty and undefined institutional structure on Kosovo hamper trade with this entity. Tariffs are relatively low, with relatively more liberal regulation barriers. Capital control on other hand still represent obstacle for international trade, mostly in the service sector. Along the way to EU accession, and especially with the implementation of recent the Belgrade - Prishtina agreement, it is expected for trade freedom in Serbia to increase in following years.

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