

## VIENNEAST COMPASS

### MONTENEGRO: POST-ELECTION OUTLOOK

#### SUMMARY:

- **The ruling DPS-led alliance has lost its absolute majority for the first time since 1990, with the opposition ZBCG, MNN and URA winning sufficient seats to form a government;**
- **The opposition are seeking to form an expert government that would conduct electoral and other political reforms with a view to holding elections in 2–3 years;**
- **The pro-Serb ZBCG is likely to set aside controversial foreign policies, such as opposition to NATO and the independence of Kosovo, thereby enabling Montenegro's EU integration;**
- **However, such a government is unlikely to be stable owing to internal differences, insufficient international support, political inexperience, and the institutional embeddedness of the DPS;**
- **The DPS will also seek to form an alternative majority, which would likely require the co-opting of the URA party;**
- **An internal redistribution of power in DPS is likely if President and party leader Djukanovic steps down as party leader after 21 years and is replaced by a reformist moderate;**
- **Political instability is likely to delay economic reform despite a sharp recession and the need to reform the banking sector, among other policy commitments.**

#### CONTEXT

On 30 August 2020, elections were held for Montenegro's unicameral parliament, which is comprised of 81 seats. The results were as follows:

- *Ruling:* Democratic Party of Socialists (DPS) – 30 seats (-6);
- *Opposition:* For the Future of Montenegro (ZBCG) – 27 seats (+4);
- *Opposition:* Peace is Our Nation (MNN) – 10 seats (-/+0);
- *Opposition:* United Reform Action (URA) – 4 seats (+2);
- *Ruling:* Social Democrats (SD) – 3 seats (+1);
- *Ruling:* Bosniak Party – 3 seats (+1);
- *Neutral:* Social Democratic Party (SDP) – 2 seats (-2);
- *Ruling:* Albanian List – 1 seat (-/+0);
- *Neutral:* Albanian Coalition – 1 seat (+1);

The result is unprecedented, since DPS – which, under the authoritarian leadership of rotating prime minister and president Milos Djukanovic, has ruled Montenegro continuously since 1990

– **experienced significant losses that eroded the absolute majority of its ruling coalition.** This was prompted by the votes of some 13,000 people – comprised equally of disaffected DPS voters and previous abstainers – for the opposition ZBCG, MNN and URA parties, which were consequently able to secure a combined majority of one seat. A traditional partner of DPS, the Croatian Reform Party (HRS), also lost its single seat. Turnout amounted to 75.9%, an extraordinarily high level given the COVID-19 pandemic and wider voter apathy in the Western Balkans. **The opposition also defeated DPS in four local elections** held simultaneously in five cities, namely Budvar, Kotor, Tivat, Andrijevisa and Gusinje.

**The biggest winner of the election was ZBCG,** which capitalised on controversial legislation concerning religious rights that was passed in late 2019. The legislation was regarded as potentially depriving the Serbian Orthodox Church of properties to the benefit of its smaller Montenegrin counterpart, prompting large-scale protests by the pro-Serb constituency. The popular unrest and election developments that followed the passage of this legislation highlight the delicate balance necessitated by Montenegro’s ethnically-defined political landscape: the attempt by President Djukanovic and DPS to shape cultural identity around an ethnic Montenegrin institution antagonised the Serb constituency, collapsing the incumbent majority as a result.

## OUTLOOK

**The ZBCG, MNN and URA parties will be able to form a government on their own** but are also hoping to co-opt the Bosniak and Albanian ethnic minority partners of DPS in order to strengthen their one-seat majority. The ZBCG, MNN and URA have agreed that any government that is formed will be comprised of experts. Meanwhile, the ZBCG – which is a conservative Serb coalition whose dominant member is the Democratic Front (DF) – has pledged that it will **maintain Montenegro’s NATO membership and EU accession path,** thereby setting aside its more controversial foreign policy positions. The pledge will also be assured by MNN and URA, both of which are moderate, pro-EU groupings. A leader of the DF told us that the government would work to **change the electoral system among other reforms to the rule of law with a view to holding a new election in 2–3 years.** Such reform would likely have a positive impact on Montenegro’s EU integration path, which has effectively come to a halt.

Nonetheless, **we assess that such a government is unlikely to stable** for four reasons. First, it is unclear where the opposition alliance will be able to recruit independent experts from, given that Montenegro has been an authoritarian state for three decades.

Second, the government will be contending not least with President Djukanovic himself, but also state institutions in which DPS appointees are deeply embedded, **making reform very difficult.** The COVID-19 pandemic, which has particularly impacted Montenegro’s shock-

prone economy, will add to this challenge. If the government is able to co-opt ethnic minority parties, the difficulty of navigating the institutional environment could be mitigated somewhat.

Third, the government will **lack sufficient international support to support the dismantling of the hegemony of DPS**, as similarly happened in North Macedonia after 2017. Although the US and EU will accept the new government, the constituent parties are relative newcomers to the political scene, whose inexperienced leaders and geopolitical orientation are an unknown quantity: for example, DPS has successfully tarnished DF as pro-Russian, raising concerns internationally.

Fourth, the opposition parties are currently united in seeking to supplant Djukanovic and DPS but there **many political differences between them**. In such a climate, DPS could seek to form its own coalition, a prospect that it is already exploring. According to two DPS sources with whom we have spoken, the party could form an alternative majority with URA, the ethnic Montenegrin orientation of which stands in contrast to the Serb identity of ZBCG and MNN. However, this situation is unlikely given the hostility of URA to DPS. Alternatively, DPS could simply allow the likely new government to undermine itself with infighting **with a view to returning to power as a stabilising force**.

As such, there is a high probability that the likely new **government will collapse in the 1–2-year outlook**. New elections would follow if an alternative majority cannot not be formed. However, **political instability within DPS could likewise increase uncertainty**. Currently, the reformist wing of DPS are unhappy with the direction of the party. If Djukanovic were to resign as president as well from the leadership of DPS, the political landscape could change significantly. The election of a reformist moderate to the party leadership over a Djukanovic proxy would **alter the internal distribution of power away from Djukanovic**, if not totally.

**Political instability is likely to delay economic and regulatory reforms in the 1–2-year outlook**, even though Gross Domestic Product (GDP) is predicted to fall by between 5–8% owing to Montenegro’s structural dependence on trade and tourism. Such reforms would include the simplification of the tax system, the reduction of the informal economy, the strengthening of the independence of regulatory agencies to optimise project development, and the drafting of a legislative framework for public-private partnerships. This would provide greater predictability for investors with respect to fiscal, regulatory, and contract risks, which would have a positive institutional impact.

Furthermore, following the Asset Quality Review due for completion at the end of 2020, the International Monetary Fund and EU are likely to pressure for **further reform of the banking sector**, an area which has hitherto been a box-checking exercise for the authorities given that politically-sensitive pocket banks retain a systemic presence. Elsewhere, any government is likely to prevaricate in meeting its clean energy commitments, which include the decommissioning of the Pljevlja lignite-fired power plant, in order to offset the impact on already rising unemployment.

*Marcus How, Head of Research & Analysis*

*1 September 2020*