



MONTENEGRO

COUNTRY REPORT

Edition 2015



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the Montenegro Investment Promotion Agency (MIPA)

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Dear Readers

Montenegro is a young country which became independent in 2006. Montenegro is situated in Southeast Europe, and it is often called “the Pearl of the Mediterranean”. This publication aims to bring closer the investment and culture climate of Montenegro.

“Montenegro” means “Black Mountain”. The very name already associates to the wild beauty and secrets of nature hidden within it. You will not get disappointed. You will see big and beautiful, forest covered, mountains coming into the sea.

Montenegro is characterized by both political stability and multi-ethnic harmony. We are developing good relations with our neighbors, and we are also trying to promote the rule of law as much as possible. The concept of open market economy is bringing big and positive impulses to our country. In June 2012, Montenegro has successfully initiated the negotiation process with the European Union. We have a straightforward way fulfilling accession requirements, which will enable Montenegro to build up itself in different fields. Also, the integration process of joining the NATO is going forward at fast pace. In December 2009, Montenegro was granted a Membership Action Plan, which is the final step in an application for membership in the organization. Montenegro is considered to be the number one candidate for membership in NATO. The country also became a full-fledged member of the World Trade Organization (WTO) in 2012.

With regard to the geographic comparative advantages of Montenegro, we would have to point out some of them. Montenegro is Mediterranean country with a very good strategic position. Actually, it is very well connected both to the other Mediterranean countries by sea and to the major European hubs. The beautiful coast of Montenegro is 294 km long. Mountainous northern region is not far away from the coast. In some months of the year, you can ski in the northern part of the country and swim in the Adriatic sea in the same day. The longest beach is Velika Plaža, which comprises the area of 13,000 m. The highest peak is at Prokletije Mountains and it rises at 2,534m above the sea level. The largest lake is Skadar Lake, which has surface area of 391 km². The deepest canyon is Tara River Canyon, which is 1,300 m deep. Montenegro is famous for its Kotor bay which is cultural and historic site protected by UNESCO. It is interesting to mention the fact that country has five extensive National parks. Montenegro is biological “hot spot” of European and world biodiversity. The Index of species per area unit of Montenegro is 0,837, which is the highest index recorded in all European countries.

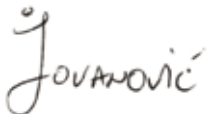
Government of Montenegro is constantly devoted to the improvement of business environment. In World Bank's Doing Business Report 2015 the position of Montenegro improved six places in respect to the previous year. Now, Montenegro is ranked 36th out of 189 countries. At the same time, Government is also devoted to the development of the projects of major importance for Montenegro. In the first place, the Montenegro-Italy cable will be a high-voltage electric interconnection between Montenegro and Italy. With this cable, the electricity produced in Montenegro and in the Balkans will be sold to Italy. Let us point out that Montenegro has a huge potential in electricity generation from renewable sources, in particular solar, wind and hydropower. Also the exploration and exploitation of oil and gas in Montenegrin coastal region is one of the major projects that Government is trying to develop. In November 2013, more than 20 international big oil companies came to Montenegro because of their interest in the exploitation of oil (www.petroleum.me). In this publication you will find more detailed descriptions of the above-mentioned and other major development projects.

Montenegro has the comparative advantages in tourism, agriculture and renewable energy sectors. Consequently, three strategic development points of the Government of Montenegro are oriented toward these sectors, and the promotion of foreign investments is going along with these three strategic areas. With regard to tourism, we currently have in process around ten projects only at the seaside which will bring, according to the latest estimates, more than 3 billion EUR of foreign capital to our country. This is just a reference to the coastal area of Montenegro, being also the mountainous north of the country, which is not very far from the sea, of great interest to investors. With regard to agriculture, every branch of it has the big potential for the development. We have achieved great results in last year in this sector, but there is still an enormous unexploited potential for the development of forestry, water engineering, organic food production, animal husbandry and fishery. In regard to renewable energy, the most important sources are hydropower, biomass, sunlight and wind power. Only 17% of theoretical hydropower potential of Montenegro has been used. New small hydro power plants, up to 10 MW, are being constantly constructed in Montenegro. The Ministry of Economy is giving concessions for construction, exploitation, design and maintenance of small hydro power plants for the period of 30 years. There are incentives amounting to 15 c per € for the solar panels constructed on the rooftops up to the capacity of 1MW. There is also a big potential for the construction of wind farms in different locations.

We would like to use this opportunity to invite you to come to Montenegro. Actually, we would need thousands of publications like this to describe all of the beauties and business opportunities that Montenegro has to offer. Therefore, we are sure that you will not regret if you come to Montenegro as a tourist or as a person who wants to develop business. As a matter of fact, if you visit Montenegro in the first place as a tourist, we are sure that your next step will be the development of the business in our country.

Montenegrin Investment Promotion Agency (MIPA) is at your disposal for every question you have about Montenegro. Our job is to be at the service of the potential foreign investors, who can be a good partner for our country. We think that we can create a win-win situation, in which both the country and the foreign investor will gain from mutual cooperation.

Yours Sincerely,



Mr Miloš Jovanović

CEO, Montenegrin Investment Promotion Agency

Constitutional name	Montenegro
Location	South Eastern Europe
Time zone	GMT + 1
Climate	Continental, Mediterranean and Mountainous
Population	621,081 (2011 Census)
Area	13,812 km²
Territorial division	22 municipalities
Capital (population)	Podgorica (185,937)
Old Royal Capital (population)	Cetinje (16,657)
Political system	Parliamentary Democracy
President of the Republic	Mr. Filip Vujanovic
Prime minister	Mr. Milo Djukanovic
President of the Parliament	Mr. Ranko Krivokapic
GDP (million €)	3,327.0 (2014)
Real GDP Growth Rate	3,3% (2014)
GDP per capita	€5,356 (2014)
FDI (million €)	479,19 (2014)
FDI per capita	€76.8 (2014)
Unemployment rate	13,41% (2014)
Corporate tax	Flat – 9%
Personal Income tax	Flat – 9%
VAT	19%, 7% (tourism) and 0%
Currency	EUR
Number of Airports	2 (Podgorica and Tivat)
Main port	Port of Bar
Visa regime	None

Why Montenegro?

- On the borders of the old and new Europe;
- Accession negotiations between the European Union and Montenegro started on 29 June 2012;
- Montenegro became a full-fledged member of the World Trade Organization (WTO) on 29 April 2012;
- The Euro (EUR) has been official currency since 2001;
- Political stability;
- Developed telecommunication infrastructure;
- Reformed according to the EU legal framework for investment;
- One of the most competitive corporate tax regimes in Europe;
- A set of incentives established at national and local level, primarily in form of tax exemptions, for investments in the northern part of the country and in newly established business zones;
- Other investment incentives and subsidies given at local level in form of utility fees exemptions, favorable land rental/purchase price, reduction of property tax rate, construction of infrastructure facilities, etc.
- No restrictions on profit, dividend or interests;
- Land laws that give foreign investors equal status with locals, i.e. with full deeds and titles to land and real estate;
- Free access to EU markets and Russia;
- The quality and diversity of its natural and anthropological values give Montenegro a status of one of the most attractive tourist and permanent living destination;

1. At a Glance

Beauty in the heart of the Mediterranean

Montenegro is a Mediterranean country, located in Southeast Europe. It is bordered by Italy to the south (sea border), Croatia to the west, Bosnia and Herzegovina to the northwest, Serbia to the northeast, Kosovo to the east and Albania to the southeast. The capital and largest city is Podgorica, while Cetinje represents the old royal capital and former seat of the monarchy.



Not only does Montenegro have excellent sea connections with all Mediterranean countries, and the rest of the world, but also it is quite close to all major European hubs.

Montenegro's natural wealth is very diverse, offering a unique blend of mountain and sea splendor. On one side, the seaside of Montenegro is famous for the beautiful Bay of Boka fjord, attractive islands, numerous bays and clear water, while on the other side you can find mountains with beautiful lakes, deep canyons with attractive scenery, wild rivers, undiscovered and mysterious caves,

all of which are surrounded by untouched nature. That is the reason why we refer to Montenegro as a country of beauty, some say wild beauty. And that is not all: the Montenegrin coastal and mountain beauties are situated very close to each other, enabling us to enjoy them almost simultaneously.

Tiny and proud, Montenegro – “Black Mountain” – has something of the fairy tale about it. The land seems put together by magic. A cobalt-blue fjord, a dark tor, fishermen’s huts in a sunny cove, a rocky path disappearing into woods, palaces, a church in a cave, an island built on the wrecks of enemy boats – all stitched closely into patchwork, with a logic of its own.

The Telegraph – online edition, June 2012,

There is an old Montenegrin legend which says that God’s bag of gifts, containing gifts of nature, tore right above Montenegro, which is the reason that this small country has so many of nature’s attractions – mountains, lakes, forests, pastures, bays, coves, hidden beaches, and, of course, the Adriatic Sea.

White and gray limestone desert landscapes, also known as the “sea of stone”, hang over the sea coast. In the middle region lie the fertile Zeta and Bjelopavlicka plains, as well as a bird sanctuary at Lake Skadar. Look further and you will see the over 2,000-metre high mountain ranges with glorious summits, forests, spacious pastures, over forty lakes, clean and mighty rivers, and deep and mysterious canyons.

German & Montenegrin Economic Cooperation: Challenging Business Opportunity, August 2013

Being a country full of natural wealth, Montenegro has five national parks: Lovcen, Biogradska Gora, Durmitor, Lake Skadar and Prokletije and several regional nature parks. Currently with 9.04% of its territory contained within national parks, Montenegro is a world leader.

Montenegro's rich natural seaside offering includes the Bay of Kotor, Sveti Stefan and Ulcinj, each possessing its own unique splendor and beauty, representing a trademark of Montenegrin tourism.



Sveti Stefan was inhabited in the 15th century as a fishing village. In the 1950s, the last residents of the village were resettled elsewhere and Sveti Stefan was transformed into a luxury town-hotel. It is the most exclusive resort on the Montenegrin coast. Sveti Stefan is, in a way, a Montenegrin trademark as it is probably the most photographed place in Montenegro.



The Bay of Kotor is the only fjord in this part of the world. It consists of four smaller bays: Herceg Novi, Kotor, Risan and Tivat. The uniqueness of its nature, along with the huge cultural heritage of Kotor and Risan, make the Bay of Kotor a unique place to visit. In fact, Risan is the ancient capital of Teuta, queen of the Illyrians, and Kotor is an old town that, thanks to its historical and cultural significance, has been protected by UNESCO as part of the world's cultural heritage.

Located in the beautiful UNESCO protected Bay of Kotor, Porto Montenegro combines a spectacular destination with a world-class marina and services. Complemented by spacious waterside residences, signature restaurants, lively bars and a wide range of sports, leisure and cultural activities, the marina is an ideal superyacht homeport with berths ranging from 12m to 180m.

Ulcinj is a city famous for its tradition and tales about pirates. There is a legend that even the famous Miguel Cervantes was a prisoner of pirates in Ulcinj. Maybe he even wrote some of his books there. Ulcinj combines one of the most beautiful old towns and the longest beach on the Adriatic coast - Velika plaza, 13 km long, in one place. Bearing in mind that Velika plaza, along with Ada Bojana, the island created by the delta of the River Bojana, has still to be developed in order to exploit its huge potential, it is likely that Ulcinj will very soon become one of the hottest spots on the Mediterranean.

Bearing all this in mind, as well as the fact that all along the Montenegrin seaside there lie towns such as: *Budva*, the pearl of the Mediterranean, with its beautiful old town



and splendid sandy beaches, along with a lot of ongoing and future investment projects; *Tivat*, which became a hotspot for mega-yachts thanks to the Porto Montenegro project; and other beautiful small towns and places, such as *Petrovac* and *Buljarica*, which have still to be fully exploited, it is clear that Montenegro has a very rich tourist draw.

Mt. Lovćen rises from the borders of the Adriatic basin, closing the long and twisting bays of Boka Bay and making up the hinterland of the coastal town of Kotor. The mountain has two imposing peaks, *Štirovnik* (1,749 m) and *Jezerski vrh* (1,657 m). There are 1,158 plant species on Lovćen, of which four are endemic. Lovcen National Park encompasses the central and the highest part of the Lovcen mountain massif and covers an area of 62.20 km².



Biogradska gora is located between the Rivers Tara and Lim, in the middle of Mt. Bjelasica. The park is 54 km² in area and surrounded by mountains whose peaks are over 2,000 m high. The thing that makes Biogradska gora unique is the 16 km² of virgin forest, Biogradska gora, in whose very heart lies Lake Biograd, the largest glacial lake in this national park. Biogradska gora is one of three remaining such forests in Europe and it has the character of a closely protected area. In fact it is under UNESCO protection as part of the “Man and Biosphere” programme. The park is renowned as a unique geomorphological region and as such is very attractive for scientific research.

Durmitor National Park includes the massif of Durmitor, the canyons of the Rivers Tara, Sušica and Draga and the higher part of the Komarnica Canyon plateau, covering an area of 390 km². It was entered onto the World Heritage List in 1980. One of the

most prominent attractions of Mt. Durmitor are 18 glacial lakes, called mountain eyes, the best known being Crno Jezero, 748 springs and 48 peaks over 2,000 m high. The canyon of the River Tara constitutes an integral part of Durmitor National Park. It is 78 km long and 1,300 m deep at its deepest point, being the second deepest canyon in the world, just after the Grand Canyon. Because of its water's purity it is called the "tear of Europe".

Lake Skadar, with a surface area of between 370 and 530 km² (depending on the water level) is the largest lake on the Balkan Peninsula and the second largest in Europe. Two-thirds of the lake belongs to Montenegro. It has one of the largest bird reserves in Europe, with 270 bird species including pelicans, and thus popular with birdwatchers. In 1996, through the Ramsar Convention on Wetlands, Lake Skadar was included in the Ramsar List of Wetlands of

International Importance. In addition, the level of the lake is 6 m below the surface of the Adriatic Sea.

The Prokletije mountain range was proclaimed Montenegro's fifth national park in 2009. Prokletije National Park covers an area of 166.3 km². It has two natural reserves: Lake Hrid and Volusnica. Glacial activity made a deep impact on Prokletije, now considered one of the most glacial ranges in Europe, second only to the Alps. Prokletije is not only important within the Balkans, but is also a significant European and global centre of biodiversity. The Prokletije area is home to over 140 species of butterflies, making it Europe's richest area in butterflies. The locals called it "Prokletije" – "The Cursed Mountain" due to its wild, harsh climate and threats from bears, lynxes and wolves. The highest mountain peak in Montenegro is located at Prokletije (Zla kolata - 2,534 m high).



2. Climate

Diversity on a small surface area

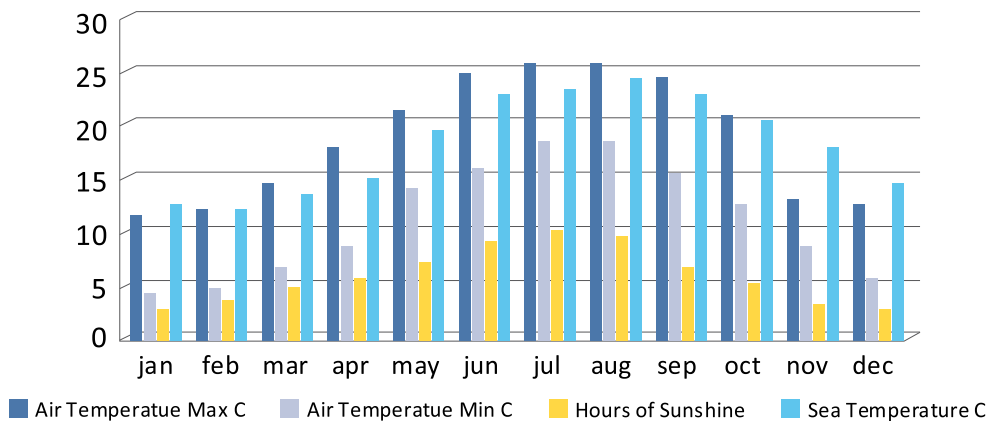
The geographical location of Montenegro, along with a diversity of natural wealth on a relatively small surface area, has given Montenegro various kinds of different climates with noticeable differences. Consequently, we have to distinguish the coast, the central plain and the mountainous area with respect to their climate characteristics¹.

The coast enjoys a Mediterranean climate, with long dry summers and short mild winters. The average July maximum temperatures are around 28°C with a high approaching 30°C; average annual sunshine is over 2,500 hours with a summer average of 300+ hours per month, or 10 hours a day. Winter averages are 12.5°C and 5.5°C. November is generally the wettest month.

The central plain is colder in the winter and warmer in the summer compared to the coast. Podgorica averages a January temperature of 5°C and a July temperature of 26.5°C. The maximum can reach up to 43°C and the minimum -10°C.

The mountain climate is sub-alpine with cold snowy winters, and moderate summers averaging 270 hours of sunshine per month. Maximum winter temperatures are around 3°C and minimums around -6°C. In the summer months it goes from 23°C (max) to 9°C (min).

Average temperatures in Montenegro



Montenegro is indexed on the Koppen scale (based on temperature and precipitation) as a Bs Climate. The 'B' refers to a hot dry climate and the little 'S' refers to dry seasons in the summer with more than 70% of the precipitation that falls in the winter. Montenegro has on average 180 sunny days.

It is worth mentioning that Cetinje and Krivosije represent the city and the settlement with the highest level of rain in Europe on average.

¹ www.discover-montenegro.com

3. Population

Open society with diversified ethnic structure

Based on the 2011 census Montenegro has 620,029 citizens. The most populated cities in Montenegro are: Podgorica (185,937 inhabitants), Niksic (72,443) and Bijelo Polje (46,051). As the presented data shows, 30% of the total population lives in Podgorica. Furthermore this situation is a result of a high level of migration into the capital city of Montenegro, which is evidenced by official statistics and this process is still continuing.



The most important figures of population are given in the following table:

Total population	620,029
Male	306,236
Female	313,793
Number of females per 1000 males	1,024.68
Number of households	194,795
Number of person per 1 household	3.18
Population per 1 km ²	44.9
Average age of population	37.2
Natural increase	1,785
Life expectancy at birth	73.7
Population in abroad (%)	7.86
Literacy rate	96.4

Source: MONSTAT

The key dynamic characteristic of the Montenegrin population from 2003 to 2014 is further ageing of the overall population.

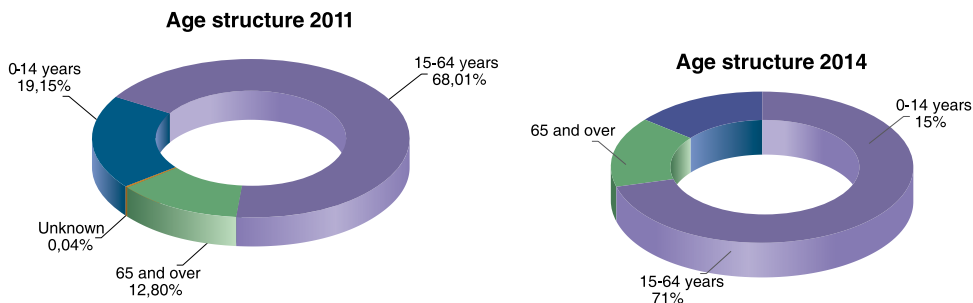
Comparing the two last censuses², the percentage of the population aged over 65 increased from 11.96% (2003) to 13.80% in 2014, the percentage of the working age population (15-64 years) increased from 66.69% (2003) to 71% in 2014, while the percentage of the population below 14 years of age decreased from 20.55% (2003) to 15.3% in 2014. Analogous to that, the index of dependency of the elderly increased to 18.81³. This situ-

² Source: MONSTAT

³ Index of Dependency of the elderly represents the number of elderly population per thousand people of working age.

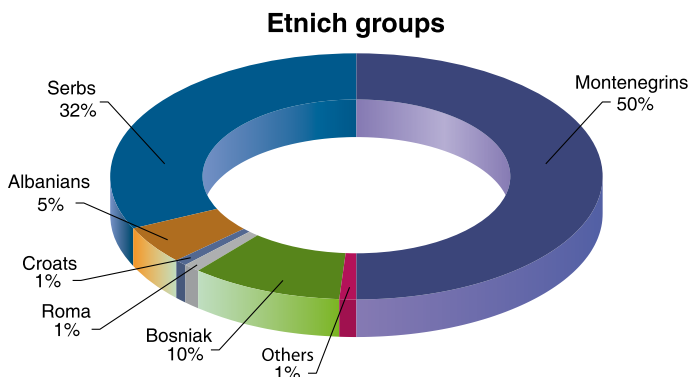
ation is especially pronounced in the northern region of Montenegro, which is the result of migration of the working-age population.

The Index of Dependency enables an analysis of the age structure of the population with a specific emphasis on the relative ratio of *dependent non-productive* groups and *productive* groups. Indicators are based on the division of population into three age categories: children (0-14), working-age population (15-64) and the elderly population (65+). The proportions of these categories according to the censuses in 2003 and 2013 are given in the following graphs.



Source: MONSTAT, 2011 and 2014 Censuses

One of the most important characteristics of the Montenegrin population is the diversified ethnic structure. The major ethnic groups which live in Montenegro, according to the 2014 census are: Montenegrins, Serbs, Bosniaks, Albanians, Muslims and Croats. Their structure is given in the following graph:



Source: Monstat, Census 2011

With the new 2007 Constitution, the Montenegrin language became Montenegro's primary official language. Along with it, Serbian, Albanian, Bosnian and Croatian are recognized in usage. Citizens who speak Montenegrin, Serbian, Bosnian or Croatian can easily understand each other.

Most Montenegrin inhabitants are Orthodox Christians. Apart from them, there is a sizeable number of Sunni Muslims that maintain their own Islamic Community of Montenegro and also a small Roman Catholic population.

4. A short walk through the history

Epic bravery throughout the centuries

Strategically positioned between east and west, Montenegro has faced a fascinating but often turbulent history.

The first recorded settlers in present-day Montenegro were the Illyrians. In the 9th century AD the Romans conquered the region of present-day Montenegro, while the Slavs massively colonized the area in the 5th and 6th centuries, forming a semi-independent principality, Doclea.

By the end of the 12th century, Montenegro, under the name Zeta, was governed by the Nemanjic dynasty. After the Serbian Empire collapsed in the second half of the 14th century, the Balsices came to prominence by expanding their power in the region.



In the second half of the 15th century, Montenegro was ruled by another noble family from Zeta, the Crnojevices, under whose reign Montenegro became the last free monarchy of the Balkans, finally falling to the Ottomans in 1499, who annexed it to the “*sanjak*” of Skadar.

In the 16th century, Montenegro developed a form of special and unique autonomy within the Ottoman Empire. Nevertheless the Montenegrins refused to accept Ottoman rule and in the 17th century raised numerous rebellions, culminating with the Ottoman defeat in the Great Turkish War at the end of that century. In the 18th century, Montenegro became a theocracy, led by the Petrovic dynasty established by Danilo Petrovic (1697-1735). The first step towards the establishment of modern state institutions was made in 1713 through establishment of the 12-member Council.



Under Nicholas I, Montenegro vastly advanced and enlarged several times during the wars with the Turks and achieved recognition of its independence in 1878. It happened on July 13th 1878 at the Peace Congress in Berlin, where Montenegro became the 27th internationally accepted country in the world.

Modernization of the state followed, culminating with the draft constitution in 1905, while in 1910 Montenegro became a kingdom. During the Balkan wars in 1912 and 1913 the Ottomans lost all lands in the Balkans. During World War I in 1914, Montenegro sided with Serbia against the Central Powers, suffering a full-scale defeat to Austria-Hungary in early 1916. In 1918 the Allies liberated Montenegro.

In 1922, Montenegro formally became the Zeta Area of the Kingdom of Serbs, Croats and Slovenes, and in 1929 it became a part of a larger Zeta Banate of the Kingdom of Yugoslavia.

In World War II, Yugoslavia was invaded by Axis forces in 1941. Montenegro was liberated by partisans in 1944 and became a constituent republic of the Socialist Federal Republic of Yugoslavia (SFRY). Its capital was renamed to Titograd in honour of partisan leader and SFRY president Josip Broz Tito. More and more autonomy was established, until the Socialist Republic of Montenegro ratified a new constitution in 1974. After the dissolution of the SFRY in 1992, Montenegro remained part of a smaller Federal Republic of Yugoslavia along with Serbia.

In 1996, the Government of Montenegro led by Milo Djukanovic severed ties between Montenegro and the Serbian regime, which was at that time under Milošević. Montenegro formed its own economic policy and adopted the German Mark as its currency (November 1999). It has since adopted the Euro (in 2002), although it is not formally part of the Euro-zone currency union. Subsequent governments of Montenegro have carried out pro-independence policies.



In 2002, Serbia and Montenegro came to a new agreement regarding continued cooperation and entered into negotiations regarding the future status of the Federal Republic of Yugoslavia. In 2003, the Yugoslav federation was replaced by a union named Serbia and Montenegro. A referendum on Montenegrin independence was postponed for three years. However, that only delayed the inevitable and Montenegro regained its independence on 21st May 2006.

Revival of independence gave a strong impulse to the democratic and economic development of Montenegro. After a very short period our country has become a member of international organizations and institutions, started diplomatic relations with many countries and taken important steps on its way towards Euro-Atlantic integration. Positive results towards that end as well as activities in the process of strengthening institutional capacities have achieved satisfactory results through achieving membership of NATO's MAP programmes. Montenegro was granted status of an official candidate for accession to the European Union in 2010. The accession negotiations were initiated on 29 of June 2012. So far, Montenegro has closed two negotiation chapters: Science and Research and Education and Culture.

5. Culture

Rich heritage and unique wealth

The culture of Montenegro is as fascinating as its history and geographical position suggests. It has been shaped by a variety of influences throughout history. The Orthodox, Slavic, Central European, Islamic and seafaring Adriatic cultures such as the Republic of Venice have been the most important influences in recent centuries.

As a result of those influences, Montenegro has many significant cultural and historical sites, including heritage sites from the pre-Romanesque, Gothic and Baroque periods. Byzantine influence in architecture and in religious artwork is especially apparent in the country's interior. Byzantines, Romans and Turks left a significant heritage in architecture because their cultural influence was strong even after they had left this area. As a result many beautiful cultural monuments were made under their influence: Ostrog Monastery, Cetinje Monastery, the Cathedral of Saint Tryphon, Gospa od Skrpjela (Our Lady of the Rocks) and the Mosque of Hussein-pasha, being just a few of them.



Montenegro's capital Podgorica and the former Royal Capital of Cetinje are the two most important centers of culture and the arts in the country. Additionally, the ancient city of Kotor is listed as a UNESCO World Heritage site. In fact, the Montenegrin coastal region is especially well known for its cultural and religious monuments.

It is worth pointing out that the first state-owned printing press (the Printing House of the Crnojević) was located in Cetinje in 1494, where the first South Slavic book was printed in the same year (Oktoih). Moreover, it is very interesting that many Montenegrin rulers

were writers and poets, especially those from Petrovic dynasty – Petar I, Petar II and King Nikola. The most famous among them was Petar II Petrović Njegoš.



At the level of traditional oral folk epic poetry, Petar II Petrovic Njegos created his own expression. His epic *Gorski Vijenac* (*The Mountain Wreath*), written in the Montenegrin vernacular, presents the focal point of Montenegrin culture, for many even

surpassing the Bible in importance. However, Petar II Petrovic Njegos's masterpiece was *Luca mikrokozma (Ray of the Microcosm)*, a philosophical book in which he presented all the genius of his mind.

Besides the review of Montenegro's cultural treasures, it is very important to mention current cultural events.

The cultural offering of Montenegro in the last year was equally present in all areas of culture and art: literature, fine arts, theatre and music. The most important events that marked the previous period when it comes to overall cultural offer in Montenegro were the presentation of **Marina Abramovic Community Center (MACCOC)** in Obod, Cetinje, the **International Classical Music Festival "A Tempo"**, **Jazz Appreciation Month in Montenegro – JAM 2012**, the **Biennial of Montenegrin Theatre**, multi-location contemporary art festival **Sin-estezija**, **Rock Music Festival Lake Fest**, **Telekom Underhill International Documentary Film Festival**, **Southern Soul Music Festival**, the **International Short Story Festival "Odakle zovem"**, the **International Book Fair in Podgorica**, etc.

There is a number of manifestations that are deeply rooted in Montenegrin cultural tradition and can freely be considered trade-marks of Montenegrin cultural offering. These are:

Bokelian Night - which for citizens of Kotor and guests is a significant celebration, an opportunity to present the local cuisine and to enjoy a fiesta behind masks until late into the night.

The Mimosa Festival is a celebration honouring flowers, a tradition that has lasted for over 40 years. It is a celebration which was founded and continues to live on the principles of carnival traditions, once very typical of this region, and which is typified by young Herceg Novi majorettes and the city band. There are many tourists, a lot of entertainment, cultural, sports and other programmes within the festival.

The Suncane skale International Music Festival in Herceg Novi is the most important music festival in Montenegro – an entertainment/musical festival gathering national and international performers.

Budva Music Festival – "The Song of the Mediterranean" is a festival where for several nights Montenegrin and foreign performers present their compositions to audiences. In the entertainment part of the festival the biggest stars from the region and also the European scene perform.



Herceg Novi Film Festival: one of the biggest and most appreciated domestic film festivals during which the achievements from the domain of domestic films are displayed.

The International Fashion Festival in Kotor lasts for several days and it gathers fashion designers from Montenegro, from the surrounding region and from abroad. The most frequent however are distinguished Italian and French designers and their newest creations (Dior, D&G, Pal Zileri, Prada, Armani, Ferre, Versace, etc).

It is important to mention that, during the summer season, every coastal town in Montenegro has a variety of cultural offering, including music festivals, book manifestations, theatrical spectacles, art and fashion exhibitions etc. Among them a special emphasis goes to **Tivat Cultural Summer**, **Book Fair** in Herceg Novi, **Guitar Art Summer Festival** in Herceg Novi, **Festival “Barski ljetopis”** in Bar, the **International Festival of Mediterranean Theatre Purgatorije** in Tivat, **Underwater Film Festival** in Kotor, **Summer Scene** in Ulcinj, etc. When it comes to the northern part of the country, it is necessary to mention **White Field Jazz Festival** in Bijelo Polje.

The next table shows some important indicators of the cultural life in Montenegro:

INDICATOR	2011
Books published	1,097
Number of performances (professional theatre)	222
Number of performances (theatre for children)	208
Number of performances (amateur theatre)	30
Scientifically and professionally libraries	15
Public libraries	21
Number of museums	24
Number of cinemas	7
Newspapers and magazines	215
Television stations	19
Radio stations	40

Source: MONSTAT



6. Snapshot on the government and politics

Stable and secure environment



Montenegro is an independent and sovereign country, defined as a “civic, democratic, ecological state and state of social justice, based on the rule of law”. It proclaimed its new constitution on 22nd October 2007. The ruling party in Montenegro, ever since the multi-party system was introduced, has been the Democratic Party of Socialists of Montenegro (DPS), in coalition with the smaller parties Social Democratic Party

of Montenegro (SDP), Liberal Party of Montenegro (LP), Bosniak Party (BS) and the Croatian Civic Initiative (HGI).

The Montenegrin Parliament passes all laws in Montenegro, ratifies international treaties, appoints the prime minister, ministers and judges of all courts, adopts the budget and performs other duties as established by the Constitution. The parliament can pass a vote of no-confidence to the government by a majority of the members. It contains 81 seats. The current president of the parliament is Ranko Krivokapić - SDP.

The Government of the Republic of Montenegro is composed of the Prime Minister (the current prime minister is Mr Milo Djukanovic - DPS), the Deputy Prime Minister for European Integration, Deputy Prime Minister for Political system, foreign and interior policy, Deputy Prime Minister for Economic Policy and the Deputy Prime Minister for Regional Development as well as the following ministers:

- The Minister of Transport and Maritime Affairs
- The Minister of Finance
- The Minister of Justice
- The Minister of Sustainable Development and Tourism
- The Minister of Culture
- The Minister of Education
- The Minister of Defence
- The Minister of Agriculture and Rural Development
- The Minister of Science
- The Minister of the Interior
- The Minister for Economy
- The Minister of Foreign Affairs and European integration
- The Minister for Information Society and Telecommunications
- The Minister for Human and Minority Rights
- The Minister of Health
- The Minister of Labour and Social Welfare
- The Minister without Portfolio

The last parliamentary elections were held on October 14th 2012.

The president of Montenegro is elected for a period of five years through direct elections. The president represents the republic at home and abroad, promulgates laws by ordinance, calls elections for the parliament, proposes candidates for prime minister, president and justices of the Constitutional Court to parliament, proposes to the parliament calling of referendums, grants amnesty for criminal offences prescribed by national law, confers decoration and awards, and performs all other duties in accordance with the Constitution. He is also a member of the Supreme Defence Council. The current president of Montenegro is Mr. Filip Vujanović - DPS.

Political outlook

Starting negotiations is a success for Montenegro: its authorities, politicians, the whole society. The broad national consensus and reform efforts have paid off. They also confirm that we judge candidates on their own merits. Montenegro already did a lot. But much more still needs to be done. This next phase of the accession process will mean even more work in more areas, with continued focus on fundamental freedoms, judiciary, fight against corruption and organized crime.

Remarks of Commissioner for Enlargement and European Neighborhood Policy Štefan Füle, Press Release, Brussels, June 2012

The opening of accession negotiations with Montenegro was an important signal for the whole region that the EU doors are open. I congratulated Prime Minister Djukanovic on the country's significant progress in 2012 resulting in the opening of the accession negotiations. On regional cooperation, I welcomed Montenegro's positive and constructive role in the region.

Herman Van Rompuy, President of the European Council, New Europe Magazine – online edition, January 2013

Montenegro has taken further steps in accession negotiations. Twelve chapters have been opened so far, of which two have been provisionally closed. Implementation of rule of law reforms has started. Tangible results on the ground are now needed, especially in the area of legislative reforms, and will be key to determining the overall pace of the accession negotiations.

European Forum for Democracy and Solidarity, October 2014.

7. Economy

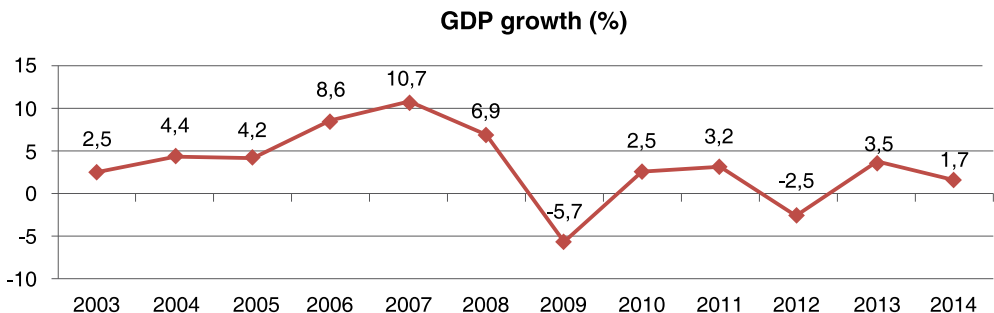
Ongoing development and growth

After several years characterized by high GDP growth, a budget surplus, a record inflow of foreign direct investments, an increase in the number of employed as well as the very dynamic development of the banking system, a period of crisis and recession was experienced in 2009. After the economic recovery in 2010 and achieved real GDP growth of 2.5% in the 2011, in 2012 GDP decreased 2.5%. In the second quarter of 2014 GDP expanded 0.30% compared with the same quarter of the previous year. GDP annual growth rate in Montenegro averaged 2.19% from 2003 until 2014.

Below are the achieved macroeconomic indicators for 2012, 2013, 2014 (II quarter)

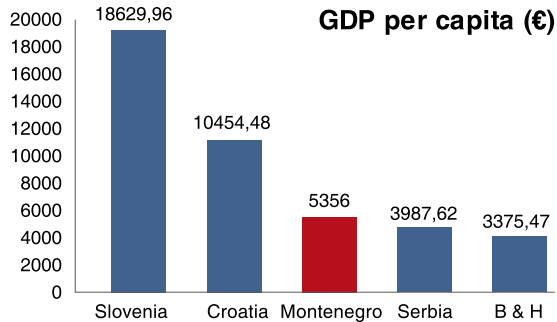
INDICATOR	2012	2013	2014
GDP at current prices (€ million)	3,149.0	3 335.9	1436.1
Real GDP growth (%)	-2.5	3.5	1.7
Inflation (%)	4.2	1.8	-0.8
Employment growth (%)	2.1	2.1	0.1
Unemployment rate (%)	13,43	15.02	14.28
Current account balance of payments (€ million)	-587.6	-657	-566
Balance of payments current account balance (% of GDP)	-17.8	-19.2	-14.59
External debt (€ million)	1.295.0	1,699.5	2,02
External debt (% of GDP)	39.0	51.1	57,5%
Net foreign direct investment, current prices (€ million)	461.6	323.9	189.8
Net foreign direct investment (% of GDP)	18.6	9.7	5,5%

Source: Central bank of Montenegro and Monstat



Source: Ministry of Finance

The amount of GDP per capita is one of the highest in the region and this is presented on the following graph⁴:



Source: MONSTAT, Statistical Office of the Republic of Slovenia, Croatian National Bank, Statistical Office of the Republic of Serbia, FIPA

A SWOT analysis presented a description of the Montenegrin economic environment:

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Safety and stability (political and macroeconomic); • Euro as official currency; • Tax regime; • National treatment of foreign investors; • Free transfer of reinvested profit and payments abroad; • Regionally competitive financial risk; • Developed telecommunication infrastructure; • Relatively highly educated young labour force; • Free access to EU markets, FTA zones as well as the Russian market (only 1% of customs value); • Achieved level of privatization (80%), economic reforms and newly-created institutions; • Restructured and privatized banking sector; • The shortest period in the region for company registration; • Utilization of tax reliefs and concessions; • Customs exemptions for investments in goods imported as investors' deposits; 	<ul style="list-style-type: none"> • Insufficiently developed infrastructure; • Size of the local market (if seen as an independent market); • Lack of spatial planning documents; • Regional development gaps particularly in the road infrastructure; • Inflexible labour market; • Relatively expensive general labour force (benchmark SEE region); • Lengthy procedures at the local level for obtaining construction permits, procedure for land-use change, undefined offer of industrial land; • Insufficiently developed sectoral technological basis; • Inadequate level of new technology in different industry sectors;

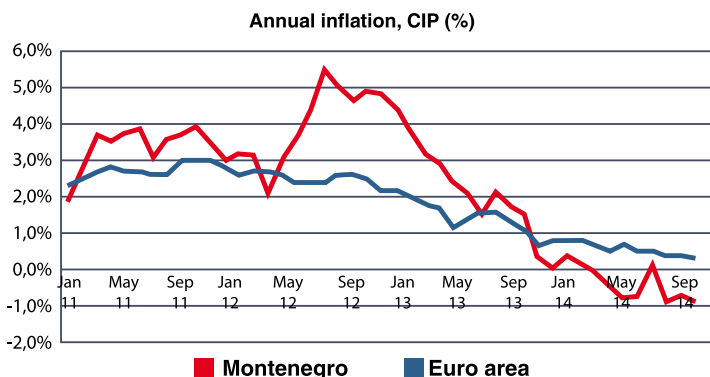
Opportunities:	Challenge:
<ul style="list-style-type: none"> • Montenegro as a platform for regional business. • Commitment of the government to push for further economic development; • Openness of the country; • Reform of education in accordance with the needs of developing sectors in Montenegro; • Further improvement of the labour legislation; • Planned development of the infrastructure; • Avoidance of double taxation; • Free trade zones (firms are exempted from paying corporate taxes). • Exemptions from paying profit tax (for a three-year period) for establishment of legal entities in the less-developed municipalities (manufacturing); 	<ul style="list-style-type: none"> • Complete privatization of the energy sector and its further development; • "War in fiscal incentive measures" among countries in the SEE region; • Administrative procedures; • Level of transparency and efficiency of the administrative system; • Slow-paced reforms in the area of labour legislation; • Low level of reinvestments and potential outflow of foreign capital through transfer prices and repatriation of profit; • Inflexibility of the labour market (slow pre-qualification, additional education programmes, compliance of education programmes with investors' needs).

After contracting in 2012, GDP rebounded strongly in 2013, to 3.5 percent, one of the strongest performances in the region. In particular, the economy has benefitted from high levels of energy production and a number of new investment projects. Output growth is projected to slow modestly in 2014, to 2.7 percent, owing to some limits to tourism capacity, but nonetheless we expect this momentum to continue. However, the Smokovac-Matesovo highway project will add substantially to budget deficits and public debt in the coming years, raising risks to fiscal and debt sustainability. To minimize the ensuing debt build-up, the authorities are encouraged to take additional steps to strengthen the underlying budget position. Revenues already appear relatively high, compared with other countries in the region. Hence, the adjustment would need to rely mainly on durable savings from recurrent expenditures. The new commitments incurred by the highway project also make it imperative that budgetary support for the KAP—the aluminum processing plant—be discontinued.
(Statement at the Conclusion of an IMF Staff Visit to Montenegro, March 2014)

Monetary and Banking System



Over the past few years we have seen a constant change in the price level. Based on the CPI, annual inflation in 2012 was 4.1%, and was higher by 2.3 percentage points in comparison with 2011. Annual inflation in Montenegro, measured by the harmonized index of consumer prices in June 2013 was 1.5%, and almost at the level of inflation recorded in the Euro zone - only 0.1 percentage points lower. In September 2014 annual inflation based on the CPI was -0.4%. Compared to September 2013 inflation was lower for -0.9%. This was influenced mostly by decrease in prices of: bread and cereals; fuels and lubricants for personal transport; meat; catering services. Euro area inflation decreased 0.1% in September in comparison with August 2014 (0.4%).



Source: MONSTAT, EBRD

A decelerated economic growth, the growth of illiquidity of many European economies and spillover of negative effects of the regional markets characterized 2012. This reflected on the banking sector through decelerated lending activity, an increase in non-performing assets/

loans and a negative financial result. On the other hand, trends changed in 2013 and 2014. The following table shows significant monetary indicators of the Montenegrin banking system:

Description/Period	2012	$\frac{2012}{2011}$	$\frac{2012}{2011}$	2013	$\frac{2014}{\text{(II quarter)}}$
	€ million	€ million	in %	€ million	€ million
Banks` assets	2,808.3	-1.4	0.0	397.8	573.9
Total loans	1,862.2	-93.6	-4.8	1,935.6	2376.2
Corporate loans	987.8	-41.7	-4.0	762.7	1485.125
Household loans	809.1	-24.6	-2.9	826.6	891.075
Total deposits	1,980.7	163.6	9.0	2,118.2	3458.3
Corporate deposits	573.1	51.4	9.8	845	2188.2
Household deposits	1,146.8	113.4	10.9	1164.7	1270.1
Allocated reserve requirements	187.1	-16.3	-9.5		209.7

Source: Central Bank of Montenegro, World Bank

Total bank assets grew by 2.4% at the end of 2013 because of a stronger growth in deposits over a decline in borrowings. In July 2014 the average liquid assets of banks amounted to 573.9 million EUR and it was for 56 million or 10.8% higher than in the previous month.

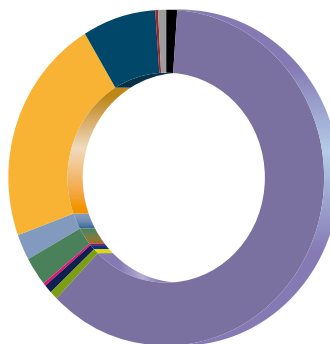
In July 2014 total deposits in banks amounted to 2188.2 million EUR, and recorded growth equal to 1.9% on a monthly basis, while compared to July 2013, 5.5% increase was recorded. Household deposits at the end of July 2014 amounted to 1,270.1 million EUR and were higher by 2.1% in comparison with the previous month, while compared to July 2013 household deposits increased by 6.5%.

At the end of the first half of 2014, total bank loans amounted to 2376.2 million EUR, which is 37.8 million EUR or 1.6% lower than at the end of 2013. At the end of the first half of 2014, the largest portion (40%) of the total bank loans has been approved for sector of the economy, followed by households (37.5%), financial institutions (13.9%), Government (5.7%), while 2.9% were directed to sector "Other".

The following graph shows the structure of deposits by sectors at the end of September 2014:

Structure of deposits by sectors and other receivables, September 2014

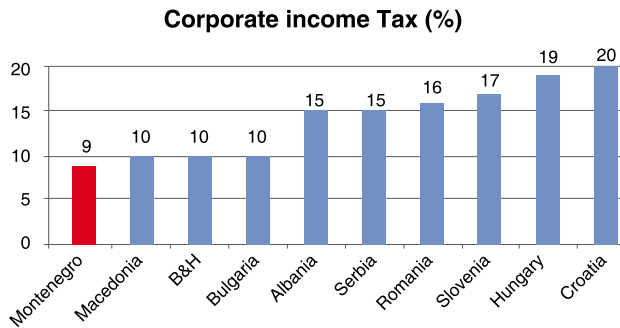
MGO and other nonprofit org.	1,27 %
Households	57,3 %
Government Funds	0,75 %
Local Government	0,77 %
Regulatory agencies	0,31 %
Central Government	2,55 %
Foreign companies	2,42 %
Privately owned companies	20,41 %
State owned companies	7,1 %
Entrepreneurs	0,4 %
Banks	0,53 %



Fiscal policy

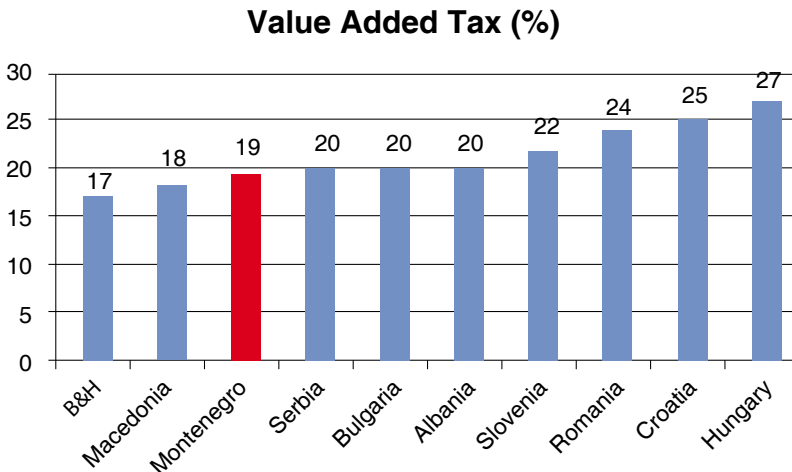
The adoption of the Euro as legal tender means that the Central Bank of Montenegro cannot influence the money supply, which is determined by flows on the balance of payments. The most important part of the Montenegrin Fiscal Policy is the development of a tax system based on low tax rates, a broad tax base and a minimum of tax-exempt entities. In that sense a lot of effort has gone into developing such a tax system, which is in line with a fully operational market economy. These efforts started in 2001, and since then Montenegro has made an important step towards meeting EU standards in this field, as well as becoming competitive with other regional markets. In fact, all major tax rates in Montenegro are very competitive with respect to other countries in the region, and in many aspects Montenegro is working to make its tax system even more attractive.

Corporate Income Tax, which is 9%, is the lowest in the region. This can be seen by looking the following graph:



Source: *worldwide-tax.com*

Moreover, in June 2013 Montenegro applied VAT rate of 19%, with the implementation of the rate of 7% and 0% on some categories of products and services, but still remains one of the lowest in the region. Again, it can be argued that Montenegrin VAT is very competitive with respect to other regional countries, as can be seen from the following graph:



Source: *worldwide-tax.com*

In 2008 the personal income tax rate was 15%, in 2009 it was 12% and finally in 2010 it has been reduced to 9%. So personal income tax is now equal to the corporate income tax rate (9%), which is lower than in any other regional market.

In the first six months of 2014, Montenegro's budget recorded EUR 574.7 million of revenues, which is 5.6% more than it was planned, the preliminary data from the Finance Ministry read. The positive trend came as a result of the implementation of a fiscal adjustment package, growth in economic activity, as well as better collection of tax revenue due to activities of the competent authorities in fighting against grey economy. The largest contribution to the revenue growth was recorded in the collection of VAT (EUR 207.4 million), and contributions (180.9 million), which makes an increase of 15.5% compared to the plan. However, the first half of 2014 saw certain negative deviations from the plan, especially in collecting excise and customs duties, the Ministry of Finance emphasised.

The summary of planned and realized budgetary revenues and expenditures of the public sector in the period 2012-2014 is shown in the following table:

Description	2012		2013		2014 Jan-Mar	
	€ million	% GDP	€ million	% GDP	€ million	% GDP
Public revenues	1,450.1	39.0	993.6	16.2	321.5	9.1
Consolidated expenditures	1,430.8	43.0	1,104.0	52.7	108.04	54.0
Current public consumption	1,310,4	39,4	1,058,5	39,4	306,1	8,7
Capital expenditures	67,69	3,6	58,5	1,7	0,8	0,02
Surplus/deficit	-198,18	-4,0	-67,3	1,9	-25	0,7

Source: Ministry of Finance

Montenegro faced the same fiscal risks as in the previous period. Several of the most important are:

Overindulgent dependence on budget revenues from source that rely on imports – valued added tax, excise, taxes in international taxes and custom.

International marketing of tourist services, and of Montenegro as a tourist destination, leaves it very exposed to external influences.

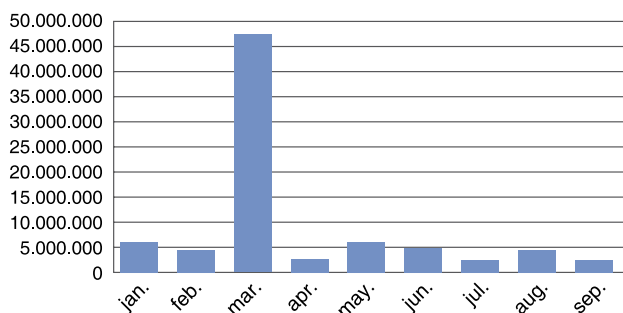
Additional funding for infrastructure projects, especially the Bar-Boljare highway.

Capital Market

The capital market in Montenegro achieved the highest growth in the process of mass voucher privatization. After completing this process in 2002, the capital market developed rapidly and become the most developed in the region. In 2007 it achieved a turnover of €4.8 billion or 213.5% of GDP. But for half of 2007 the capital market stagnated and in 2008 both stock exchanges faced a recession. The numbers of transactions, prices of securities and values of stock market indexes have decreased. However, in September 2009 there was a significant turnaround and re-launch of this market. This is a period that characterized the increased value of the indexes on both of stock exchanges, increasing number of transactions and turnover. The most important reason for the market's revival was the sale of shares in the Montenegrin Electricity Enterprise. Two stock exchanges merged in 2010.

On the new, single stock market the MONEX20 and MONEXPIF indexes are used. Total turnover on the Montenegro Stock Exchange in September 2014 amounted to 2,275,035 EUR, which represents a 38% lower turnover compared to the previous month. Compared to September 2013 the turnover value decreased for 44%. Average daily turnover in September 2014 amounted to 103 411 EUR, and most of the traffic (37%) was achieved in the stock market. During the 22 trading days in September 2014, 561 transactions were concluded. 58% of the transactions were concluded on the free market.

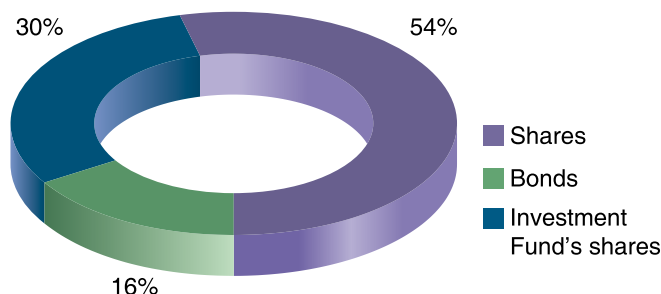
Total turnover on Montenegrin Exchanges 2014



Source: Montenegro Stock Exchange

Trade shares of 33 companies (not including PIF's block bonds) in September 2014, achieved a turnover of EUR 1,350,964 or 59% of total turnover. The number of transactions was 390. The average daily turnover of shares in companies was 61 407 EUR, and the average daily number of transactions is 18. Trade shares of PIF's represent 26% of the total number of transactions and a turnover of 619 484 EUR. The average daily number of transactions with shares of PIF's was 7, while the average daily turnover amounted to 28.158 EUR.

Turnover structure of Montenegrin Exchanges in 2014



Source: Montenegro Stock Exchange

Changes in turnover structure (2008-14)

Turnover structure			
Year	Shares	Investment Fund's shares	Bonds
2008	70.04%	17.3%	12.3%
2009	93.6%	2.4%	4.0%
2010	61.4%	13.5%	25.2%
2011	88.5%	7.5%	4.0%
2012	67.1%	9.6%	23.3%
2013	59%	22%	6%
2014	54%	30%	16%

Source: Montenegro Stock Exchange

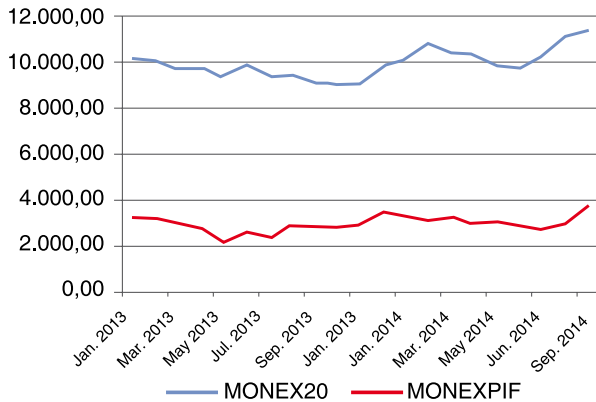
Stock exchange indices

Name of the index	Monex 20	Monex PIF
As at September 2014	11394.23	3684.40
Absolute change of index in 2013	2,67%	25,89%
Maximum value in 2014	11.672,17	3.871,42
Maximum historical value	48,617.88	50,780.54
Minimum historical value	918.57	959.53

Source: Montenegro Stock Exchange

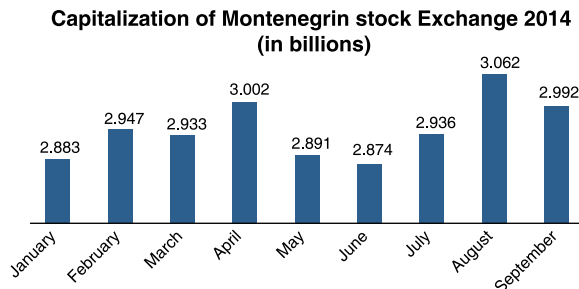
Index MONEX20 in September 2014 grew by 2.67% and reached a value of 11394.23 points. Compared to September last year, MONEX20 showed an increase of 22.36%. In September 2014 value of MONEXPIF increased 25.89%. In comparison with September of 2013 MONEXPIF increased for 26.78%.

Graph below shows the movement of the indexes at the unified Montenegro Stock Exchange (MONEX20 and MONEXPIF between January 2013 and September 2014).



Source: Montenegro Stock Exchange

Total market capitalization on Montenegro Stock Exchange on 30. 09. 2014. amounted to 2,9 billion EUR. In comparison with September 2013, the market capitalization grew by 6%.



Source: Montenegro Stock Exchange

Real estate market

In the period after gaining independence, Montenegro has become a very attractive real estate market for both domestic and foreign investors. A stable macroeconomic situation, continued improvement of credit ratings, favorable tax systems, simplification of business procedures and progress in processes of integration (EU and NATO) are additionally strengthening the attractiveness of the Montenegrin real estate market. This is especially significant for investors who regard Montenegro as a possible starting point for future activities in the region.



The Montenegrin coast is recognized as the most attractive part of the country for investment because of its position, natural beauty and potential. The most important cause of growth in real estate prices on the Montenegrin coast is the inflow of foreign direct investment in this sector, and non-residents' demand for large homes on the Montenegrin coast. Montenegro in the past 3 years has been profiled as a country that ranks among the top five tourist destinations, from the standpoint of fastest growing markets.

The real estate offering in Montenegro is available on-line and via printed publications of numerous foreign agencies, where the results of their research, analysis and advice for investments as well as a prognosis for the following year can be found.

Montenegro property has endured the financial crisis well and is set to see a fairly rapid recovery. The country has seen no cancelled developments, because of the much slower pace of development, and many developers were left holding sizeable land-banks when international demand began to wane. This means that when things start to recover, there will be an abundance of cheap land available to kick-start the recovery in this part of the world. Now that demand for overseas property is increasing once again, one would expect Montenegro to be breathing a sigh of relief.

Les Calvert, director of overseas property portal PropertyAbroad.com.

The next table shows the prices on the Montenegrin real estate market in some of the largest towns:

Prices of dwellings by towns, second quarter of 2014

	Number of sold dwellings	Useful area of dwellings in m ²	Prices per 1m ² in EUR
Montenegro	196	10 616	1,147
Podgorica	156	8 156	1,098
Bar	27	1 704	1,024
Budva	2	128	1,890
Niksic	3	241	600
Others	8	387	789

Source: Statistic Office of Montenegro, MONSTAT

According to the MONSTAT data, the value of finalized construction works in the second quarter 2014 is 3.3% higher compared with the same period previous year, while it is 5.9% higher compared with the first quarter of current year. Effective hours worked on construction works in the second quarter of 2014 are lower for 2.5% compared with the same period previous year, while it is 12.2% higher compared with the first quarter of current year.

A new law was adopted on spatial planning and buildings which included the Law on Land Construction, the Law on Spatial Planning and Spatial Planning Building Inspection. This new law provides stability of conditions for construction and a simplification of procedures related to the construction of buildings that should encourage new investment.

Employment and the labour market

In comparison to the other countries in the region, Montenegro has a highly educated labor force, which was described by foreign experts as an important strategic advantage (depending on the proper adaptation of the current school system to the future needs of the economic structure, this advantage can be recognized by foreign investors as part of country's image).

Education structure of the employed population is as follows:

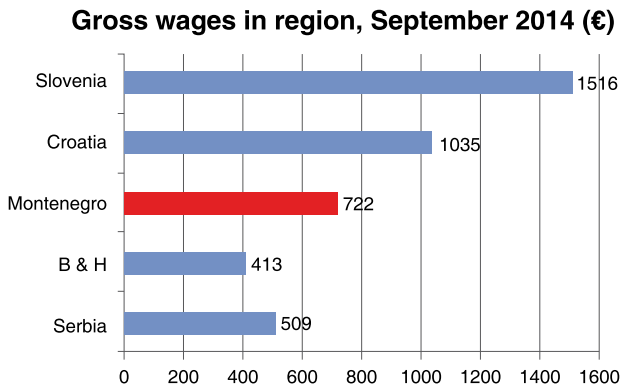
Less than primary education	1.0%
Primary education	8.5%
Vocational education after primary school	14.7%
Secondary general education	6.9%
Secondary vocational education	40.9%
Tertiary education of which	28.0%
First stage of tertiary education	5.2%
Second stage of tertiary education, Bachelor's, Master's, or Doctor's degree	22.8%

Source: Labour Force Survey second quarter of 2014, MONSTAT

In order to improve its education system, Montenegro signed the Bologna Declaration. The first generation of students enrolled in accordance with the Bologna system in the

academic year 2004/2005. The main point of this reform is to improve the educational and qualification structure of the labor force and to systematically increase the percentage of young people with higher education. There is an evident increase in number of students in Montenegro. The number of students in 2014 is 23,442, which makes up 57% of the total number of young people (20-24 years) in Montenegro. From total number of enrolled students, 78% was enrolled in Public Higher Education Institutions, and 22% in Private Higher Education Institutions. All of this leads towards progress in society and creates a young and educated labor force.

The second characteristic that attracts special attention is the price competitiveness of labor in Montenegro. Observing the total operational costs of wages in the region, Montenegro has a relatively cheaper labor force in comparison with Slovenia and Croatia but also more expensive in comparison with Serbia, Bosnia and Herzegovina and Macedonia. If we make a comparison with the countries of the European Union, Montenegro is very cheap and it is one of the most important advantages of the investment environment of Montenegro. However, the labor market in Montenegro is competitive from the aspect of the level of education and price.



Source: Statistical offices of the above mentioned countries

Since the end of 2007 the number of employed people in Montenegro has been increasing. The number of registered employed people rose from 156,408 in 2007 to 173,942 in September 2014, or by 14.16%. Over the past few years, employment in private companies has increased, and employment in the public sector (including state-owned companies) has decreased. Tourism and manufacturing are major generators of employment in Montenegro. However, this trend was not constant; the employment rate has fluctuated from year to year. The positive rates of employment growth have been assisted by the favorable macro-economic situation in Montenegro and reduced business barriers.

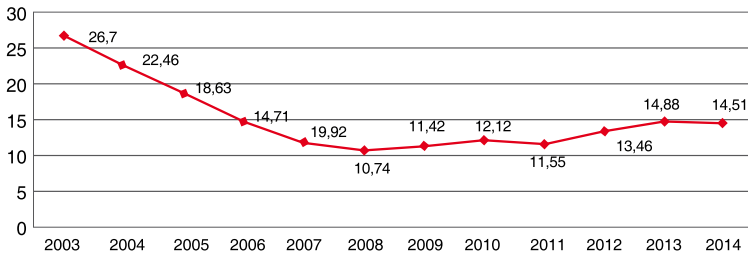
Taking into account the periodicity of changes in the labor market, as well as delayed reaction to the crisis, we experienced positive growth in the labor market in the third quarter of 2014 (5.3%) in comparison to the same period of the previous year. According to the latest data, the number of employed people in September 2014 was 173,942.

The number of registered unemployed people follows the trend of employment in Montenegro. These facts suggest that the labor market is increasingly turning to legitimate activities and less to fraud and the gray economy. In the period 2000-2014 the highest number of registered unemployed people occurred in 2000 (81,069), while the lowest

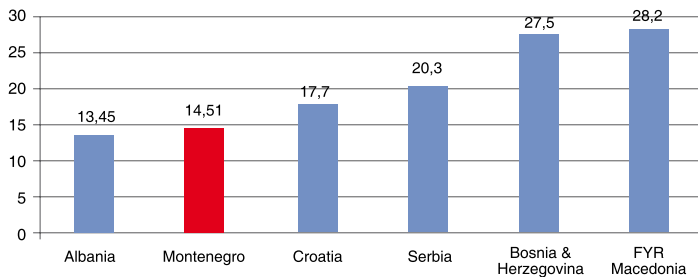
number was recorded in 2009 (26,692). The Employment Agency of Montenegro registered 33,142 of unemployed persons at September 2014, which represents the decrease of 3.98% compared with the previous year.

The following graphs show the unemployment rate trend and comparison in the region⁵.

Unemployment rate in Montenegro (%)



Unemployment rate in region (%)



Some of the main characteristics of unemployment which are present in the current situation and trends are as follows:

The youth unemployment rate (15-24 years) is rapidly decreasing from 40.0% (2003) to 30.1% (2004), 28.4% (2005). In 2014 the youth unemployment rate amounted to 32.5%.

The proportion of females among the unemployed population was 32.7% in second quarter of 2014.

The structure of the unemployed by age is as follows: 32.5% of unemployed people are up to 24 years, 19.24% are between 25-49 years, while 39.52% are from the age group over 50 years.

The share of long-term unemployment is 66.58%.

The labor market is characterized by an increased engagement of non-resident people. In Montenegro for the first ten months of 2014, 19 265 non-resident workers were engaged, which is an increase of 4.21% in comparison with the previous year.

The current Labor Law enables greater freedom to employers in negotiating employment relations and greater flexibility of the labor market in general, while on the other hand, it facilitates the loss of security for employees by a better provision of unemployment benefits and effective assistance in seeking new employment.

⁵ Data for comparison of unemployment rates in the region is from 2014.
Source: Statistical offices of the above mentioned countries

International trade

In the first six months of 2014 current account deficit recorded an increase of 5.6%. The reason is a significant decline in exports, whereby imports remained almost the same as a previous year. Preliminary data indicate that the current account deficit amounted to 441,8 million euro.

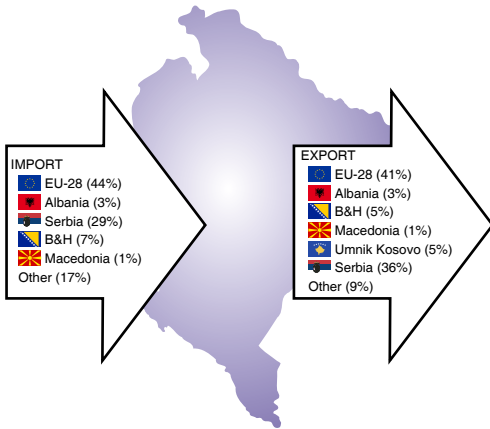
Significant foreign trade imbalances remained present due to negative trends in foreign trade, reduced industrial output, and a decrease in aluminium and electricity exports. Visible exports decreased 20%, and its share in GDP amounted to 12.8%. Foreign trade continued to display a substantial level of import dependence as the share of imports in GDP amounted to 53.6%. The coverage of the foreign trade deficit with surpluses in other current account sub-accounts amounted to 31.4%, which represent a decrease of 1.4% compared to the previous year.

Structure of visible import by product in Jan-Sept 2014, € thousands	
Description	Value
Food and live animals	301 288
Beverages and tobacco	50 113
Raw materials, except fuels	31 847
Mineral fuels and lubricants	180 645
Animal and vegetable oils and fats	9 566
Chemical products	134 634
Products classified by materials	198 513
Machines and transport vehicles	243 324
Various final products	183 254
Products and transactions, otherwise not mentioned	3

Structure of visible export by product Jan-Sept 2014, € thousands	
Description	Value
Food and live animals	24 279
Beverages and tobacco	14 898
Raw materials, except fuels	47 096
Mineral fuels and lubricants	35 795
Animal and vegetable oils and fats	4 617
Chemical products	8 341
Products classified by materials	59 330
Machines and transport vehicles	16 076

Source: Statistical office of Montenegro

Structure of visible export and import by countries, Jan-Sep 2014



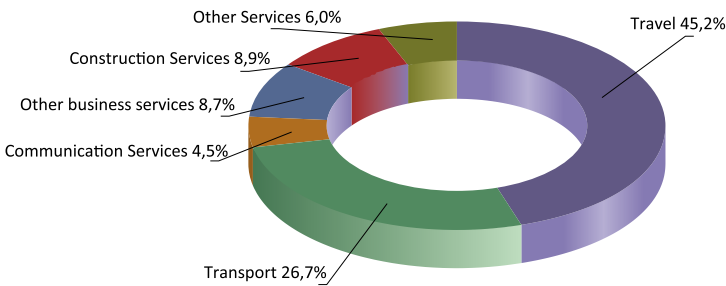
During the first six months of 2014 service account recorded an increase in the volume of services exchange by 3%, compared to the same period of 2013. The increase in the volume of exchange was mostly affected by trends in the sub-accounts: travel-tourism, transport and construction services.

Increase in arrivals and overnight stays of foreign tourists resulted in significant revenues from tourism, despite adverse economic developments in the country and the region, which show that tourism represents one of the most competitive sectors

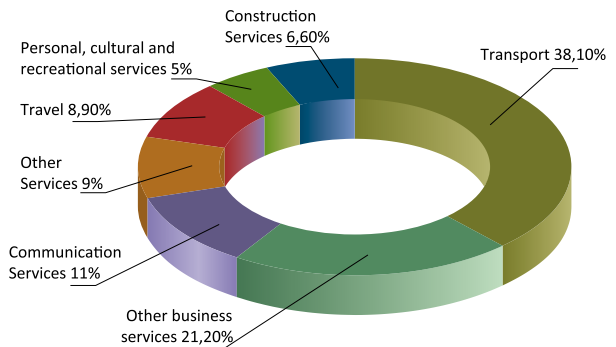
of our economy. The result of these trends is reflected in the growth of surplus in the service account by 4.8%,

The following graph show the structure of service revenues and structure of service expenditures in the period January-June 2014:

Structure of service revenues, Jan-June 2014



Structure of service expenditures, Jan - June 2014



8. Growth Vehicles

Montenegro is a country of diversified possibilities and, thanks to that, one of the newest hotspots in Europe. A key reason for growth possibilities is a very competitive institutional framework. Today's comparative advantage does not rely on natural resources but first of all on the institutional and business environment framework and knowledge. Although no one knows or can predict which sector will be attractive for investments, some of them have already been singled out. Tourism, agriculture, energy and the wood processing industry are sectors with significant growth potential in Montenegro.

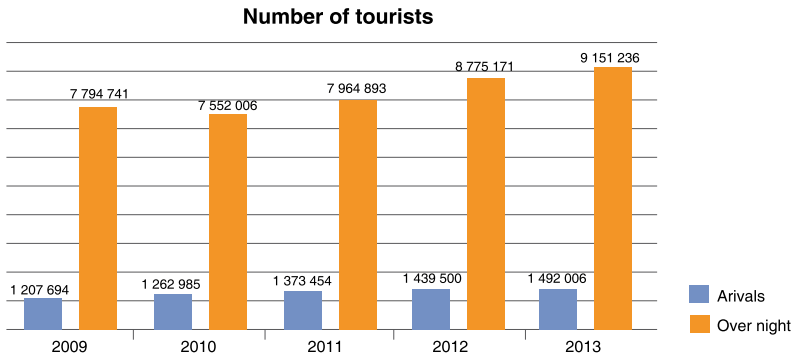
Tourism

In the relatively small area of Montenegro, nature has produced unique contrasts: the quality and diversity of its natural and anthropological values makes Montenegro one of the most attractive regions in the Mediterranean. Over a span of only 100 km in a straight line, three natural environments are distinguishable: the seaside, the karst field zone and the high mountain region.

Thus, the tourist has the possibility of taking a swim in a lake or in the sea, rafting down a river and skiing on mountain slopes - all in one day. The tourist accommodation capacities in hotels are 28,508 beds and for collective accommodation there are 41,927 beds. On Montenegro's seaside (a 293-kilometre-long coastline) there are numerous sandy and pebbly beaches – 117 in total, 73 km in length, of which sandy beaches make up 33 km.

Tourism remains the branch with the most dynamic development and it also affects the accelerated growth of other related branches. Tourism development is very important, for it significantly influences the development of transportation, telecommunication, food-processing and the furniture industry, as well as a whole set of other branches. The tourism sector in Montenegro recorded an increase for the seventh year in a row, and a positive trend is certainly seen in the fact that the average number of tourist overnight stays increased. The overall number of tourists who visited Montenegro until September of 2014 was 1.199,741 which represents an increase of 1,14% in comparison with the same period of last year. The number of overnight stays was 7.900,051, which is 1,23% higher than in 2013. 70% of foreign tourist (overnights) is from: Russia, Serbia, Bosnia and Herzegovina, Ukraine, Kosovo, Belarus and France. Significant increase has been recorded in turnout of non-European countries (Japan - 117.54%, US - 18.67% and Canada - 14.89%). Increase has been recorded regarding European countries also (1.9%). Up to October 2014, 280 hotels were categorized, which is 8% more than in October 2012. Number of 4-star hotel has grown from 83 to 106. During the period 2012 – 2014, 17 new hotels with 4 and 5 stars were opened (with total capacity of 950 beds)

Estimated revenues from tourism for first eight months of 2014 amounted to €643 million. An average growth of 2.2% was recorded compared to last year's same period.



Source: MONSTAT

According to the most recent estimates presented by the WTTC, in the next decade (2012-2022) Montenegro will record the fastest growth when it comes to travel and tourism direct contribution to GDP, with the annual growth rate of 11.8%. Bearing in mind that the consequences of the financial crises are still very much present in the region, the above-mentioned numbers are encouraging, particularly when combined with further development of this important contributor to overall Montenegrin economy.

Activities in the area of tourism will also be directed toward the creation of tourist brand Montenegro - a recognizable Mediterranean destination with diversified tourist offer. Major efforts will be directed toward an increase in the quality of tourist offering in the coastal area by developing high quality tourist resorts and improving the quality of existing ones. With regard to the above mentioned statements, the Government is planning to adopt a set of incentives for the construction and development of luxury 4 or more stars hotels, like for example utility fees exemption.

In July 2013 Law on Amendments to the Law on Spatial Planning and Construction of Structures was adopted, defining a great number of incentives and subsidies related primarily to the tourism sector. Most important ones are: exemption from payment of utility



charges for facilities of national interest, exemption from payment of administrative fees related to a great number of procedures for the construction of buildings, time framework for the process of issuing building permits and urban-technical conditions has been significantly shortened. In this regard, the new Law has also defined facilities of national interest. These are: highway, energy and tourist facilities - hotels with four or more stars, resorts, ethnic villages, production facilities involving more than 50 employees, schools, hospitals, sports and cultural facilities etc.

At the same time activities are being carried out within the overall concept of sustainable development, based on nature-oriented tourism that represents a development opportunity, in particular in the segment of development of tourist potentials of the hinterlands and the mountain region. Both, Montenegro Tourism Development Strategy in force until 2020 and Tourist Reform Agenda highlighted the fact that tourist offer of Montenegro is predominantly oriented towards the sun and the sea, but great amount of potential residing in the mountainous region of the country is highly unexploited. Montenegro has more than 120 peaks over 2000 m above sea level and future activities should be directed toward the tourist valorization of Montenegrin mountains. Significant potential has also been detected in the development of agritourism, having in mind the importance of balanced regional tourism performance and development of northern part of the country.

“Montenegro is small in area, but its comparative natural advantages, its richness in cultural and historical sites and others features, make it one of the most attractive tourist destinations.”

“A marked disproportion in the physical distribution of accommodation results in numerous, highly attractive, ecologically appealing and very demanded tourist potentials remaining on the margins of development and present a good ground for international investments.”

The United States Agency for International Development (USAID)

Telecommunications

The main goal of Information Society Development Strategy of Montenegro, from 2012 to 2016, is planning and realization of activities that will maximize the social and economic potential of ICT. Strategy is based on four areas of development:

- ICT sustainability
- ICT for society
- ICT for public administration
- ICT for economic development

The telecommunication sector is 100% private. There are two fixed phone providers (T-Com and M:tel) as well as three mobile phone operators (Norwegian Telenor, German T-Mobile and M:tel).

The network is 100% digital, with a fibre-optic base. There are two international switchboards that have been working as transit switchboards. These are used for the transition of traffic from the local switchboards that are located in other Montenegrin municipalities. Complete communication between switching capacities is organized by using solely fibre-optic cable

that guarantees high quality communication.

Data which demonstrated the high level of development in the telecommunication sector is showed on the following table:

INDICATOR	2014 ⁹
Telecommunication network: number of fixed-line users	164.846
Fixed line penetration (%)	28.4
ADSL providers	2
Number of WIMAX licensed providers	1
Mobile phone providers	3
Mobile phone penetration (%)	179,82
Mobile phone users	1.114.961
Households with PC (% of homes)	53,7
Internet penetration (%)	63,6
Licensed Internet providers	15
Licensed Internet providers (active)	5

Source: Montenegrin Agency for Telecommunication and MONSTAT

Montenegro has significant potential for ICT sector investments. This is especially true for the Internet service area, which will be developing very fast with the increase of the educational level of Montenegrin citizens. At this point there are fifteen licensed Internet Service Providers in Montenegro, only five are currently operating and those are: T-Com Montenegro, MontSky, M kabl, M:tel and MNNews. The largest two are: T-Com Montenegro and MontSky.

Transportation and infrastructure

Montenegro is connected to the world through road, railway, maritime and air transportation. In recent years, Montenegro has invested significantly in road infrastructure in order to enable faster, safer and more pleasant travel into the country.



The network of roads in Montenegro stretches around 7,000 km in length, of which 1,848 km are main and regional roads, whereas over 5,000 km are local and non-categorized roads. About 92% of the regional and main roads are paved with asphalt, as well as around 50% of the local and non-categorized roads. The density of the main and regional roads is 13km/100km². In Montenegro for every thousand inhabitants there are 283 cars. There are 312 bridges and 136 tunnels. More than two-thirds of the regional and main roads are more than 25 years old. The main problem with Montenegro road network is the lack of highways. For this reason the Ministry of Transportation launched a tender for the construction of a North-South highway. The bids for the design and construction of highway Bar-Boljari (Smokovac - Uvač - Mateševo) were reviewed and Chinese company for telecommunications and infrastructure CCCC/CRBC is selected for implementing this project. According to their offer, for the construction of the part of the highway is necessary to provide 809.57 million euros, of which 85% relates to loan provided by Exim Bank, and 15% is state participation.

Montenegro has two airports, in Podgorica (the capital city) and in Tivat (a town on the seaside). The airport in Podgorica was fully rebuilt in 2006. The airport's modernization improved the quality of services for passengers and airplanes, as well as the level of security and safety at Podgorica and Tivat airports. The government has adopted an Airport Development Master Plan to 2030. The plan defines a strategy for infrastructure development in Podgorica and Tivat airports for the period from 2011 to 2030 with the aim of improving capacity and quality of service in line with forecast traffic. The document provides guidelines for development in two phases, the first until 2017 and the second until 2030. For both phases it is necessary to provide €165 million in total. The plan includes implementation of various developmental projects relating to the extension of runways at both airports, increasing passenger terminal space, expanding gates, providing new parking slots, and so on.

The Montenegrin railway network is 250 km long and is single-track, electrified and normal gauge. The track links the Port of Bar to Podgorica, Bijelo Polje (and then up to Belgrade, the capital of Serbia) and Podgorica to Nikšić, with a link to Albania via Tuzi. Both tracks are for passengers and cargo transport. Railway Podgorica–Nikšic is completely refitted and electrified in a modern railway for the transport of passengers and cargo, which should improve connectivity between the cities and encourage additional economic activity. For the local railway transport of Montenegro three new electromotive trains were purchased and financed by loans from EBRD. The feasibility study and conceptual design for the construction of a new railway line 'Pljevlja - Bijelo Polje - Berane - Kosovo' are ongoing. Significant funds are invested in the reconstruction of the ports. Now probably the most famous marina in this part of the Adriatic is Porto Montenegro, which has totally changed the image of Montenegro as a nautical destination. It has promoted Montenegro as Europe's new premier super-yacht destination. In Montenegro there are 7 passenger and cargo transport ports, namely Bar, Herceg Novi, Tivat, Kotor, Budva, Risan and Zelenika. The most important port is the port of Bar with a 95% share of passenger and freight transport. Its capacity is between 14 and 20 boats depending on the type and size. Zelenika Harbour (with dock lengths of 270m and 92m) is used only for cargo transport, with selling and warehousing as the main activities. Kotor Harbour consists of the Kotor Bay with an operational dock of 216m in length and between 3m and 12.8m in depth, Lipci terminal with a 75m-long operational dock and the small harbour of Bigovo, located on the open sea. The Montenegrin fleet disposes with cross-sea ships 'Kotor' and '21. maj'. On 18th September of 2014 "Barska plovidba" has taken the ship 'Bar'. The ship 'Budva', which was built in China, went to rent in October of 2014.

The scope of operations in the Montenegrin transportation sectors is shown in the next table:

INDICATOR	2013
RAILWAY TRANSPORT	
Passengers (in thousands)	922
Passenger kilometres (in thousands)	73.439
Goods in thousands of tonnes	1.049
Tonne-kilometres in thousands	104.731
LOCAL TRANSPORT	
Passengers in thousands	699
AIR TRANSPORT	
Transport of passengers (in thousands)	1.549
Transport of goods in tonnes	768
ROAD TRANSPORT	
Passengers in thousands	6.220
Passenger kilometres in thousands	108.802
Goods (in thousands of tonnes)	684
Tonne-kilometres in thousands	67.305
MARINE TRANSPORT	
Total sales (in thousands of tonnes)	1295
Export (in thousands of tonnes)	598
Import (in thousands of tonnes)	669

Source: MONSTAT

The condition of the transportation infrastructure cannot be assessed as being satisfactory. Since the transportation infrastructure and its organization contribute to the effective use of the economic potential in Montenegro, and since transportation itself has a significant share of total GDP, a set of activities were undertaken in order to improve the relevant segments of transportation in general.

In the next period the reconstruction of many roads that have been highlighted as problematic in terms of safety and traffic flow is planned. The Directorate of Transport will monitor the implementation of city bypass construction projects, as well as projects that are in the design stage and the design of tender procedures. In the area of road infrastructure, activities will be undertaken to resurface main and regional roads.

Industry

Manufacturing now accounts for a half of total industrial production, with 51.2% participation in 2013. This suggests that in addition to increasing the share of the services sector to the benefit of industry, the industry sector plays an increasingly important role in competitive industries and sectors less sensitive to external effects such as, for example electricity generation.

In 2013, industrial output increased by 10.6%, primarily as the result of increased output in electricity, gas and water supply by 38.7%. Mining and quarrying and manufacturing industry sectors decreased by 2.1% and 3.6%, respectively.

Of sixteen industrial sub-sectors, four recorded production growth and accounted for 11% of total industrial output. The highest growth was recorded in the manufacturing of tobacco products of 100%, the manufacturing of paper and paper products of 17.6%, the manufacturing of (other than plastic and rubber) non metal mineral products of 26.3% and the repair and installation of machines and equipment by 17.6%.

Production decline in the manufacturing of basic metals and metal products, which represents the largest share in manufacturing industry (12%) amounted to 50%.

The production of electricity, gas, and water supply, which represents 44.1% in overall production, recorded growth of 38.7%. Output in this sector except for the Thermal Power Plant "Pljevlja" was above the planned level in 2013. The Thermal Power Plant "Pljevlja" recorded the annual output growth of 5%, while annual output in hydropower plants "Perućica" and "Piva" recored growth of 65% and 77% respectively.

In April 2010 the Government adopted the new Energy Law and the Law on Energy Efficiency, which together form the legislative framework in the energy sector. The electricity market is open to all consumers, except for households with effect from 1st January 2009. From 1st January 2015, the market should be open to households. Making decisions on the opening up of the electricity market in Montenegro, as well as a number of other documents, have created the basic normative preconditions for the introduction of competition into the electricity sector in Montenegro. Energy projects which will be implemented by 2016 include a small hydropower plant, wind turbines, a hydropower plant on the River Moraca and Komarnica, as well as hydroelectric power investments associated with the cable between Italy and Montenegro. Overall investment in these projects amounts to €1,050 million.

The agreements were signed in July and August 2010 with selected investors to build wind power plants at sites Možura and Krnovo. The total estimated value of investments on these sites is between €135 and 155 million, which depends on the total installed capacity of wind power plants. Regarding wind power plant in Krnovo it is expected that the construction start before May 2015. In 2012, the tender for the construction of the second block of TPP Pljevlja was launched, with estimated annual production of about 1.3 billion KWh. Three offers were accepted from companies: Skoda Praha, China Machinery Engineering Corporation and Power China Hubei Electric Power Survey. Decision on winner of the tender will be announced in the first three months of 2015.

Wood processing industry and forestry

The wood processing industry, together with forestry, represents a significant economic activity in Montenegro, though more in terms of its potential than by its current performance. The raw materials and considerable capacities constitute a good basis for a much larger level of production, as well as a greater share in the total domestic product, export and employment.



Forests are one of the most significant potentials of Montenegro, and they cover 826,782 hectares. From the point of distribution and the variety of species, Montenegro can be divided into three zones: coastal-Mediterranean, hill-country and the continental mountain zone. Real economic forests lie in the third area. Out of the total area of land categorized as forest, only one-third of it could be used for raw production materials. Forests and forest land make up 59% of the total area of Montenegro, according to statistical indicators. Forests and forest land owned by the state make up 67%, while forests and forest land privately owned are 33% of the total. The total growing stock in forests of Montenegro is estimated at about 122 million m³, of which 41% are coniferous and 59% deciduous trees.⁶

The forestry sector in Montenegro is facing the challenge of improving forest management practices to achieve the vision of forestry, to improve the current condition of forests, so that the safety, environmental, social and economic functions of forests can be balanced, to ensure sustainability. For this reason in April 2008 the Government adopted the National Forest Policy of Montenegro, which aims to:

1. Accelerate economic growth and reduce regional development disparities;
2. Reduce poverty and ensure equitable access to services and resources;
3. To ensure effective control, reduced pollution and sustainable management of natural resources;
4. Improve management and public participation; mobilize all stakeholders and build capacity at all levels;
5. Preserve cultural diversity and identities.

⁶ Source: MONSTAT

Agriculture

Covering a relatively small land area, Montenegrin agriculture is very diversified – from growing olives and citrus fruits along the coast, to the cultivation of early season vegetables and tobacco in the central region, to extensive livestock breeding in the northern area. On the other hand, commercial production of wheat, maize, sugar beet and oil crops is practically non-existent, which essentially differentiates Montenegrin agriculture even from the countries immediately surrounding it.



In April 2010 the Census of Agriculture of Montenegro was undertaken. This gave a clear picture of the actual situation and serves as a good basis for further decisions. The total available land of family farms and businesses in Montenegro amounted to 309,240.7 ha, of which 95.2% belongs to family farms, and the remaining 4.8% belongs to businesses. Every fourth household partially or fully depends on agriculture as the main source of income, which gives us a clear idea of how important the agricultural sector is for Montenegrin economy. Participation of the agriculture (forestry and fishing sector) in the overall Montenegrin GDP for the year 2013 amounted to 8%.⁷

Further development of the agricultural sector and related processing activities is high on the list of Government's priorities for the period to come. The initiation of the EU accession negotiations has put a lot of emphasis on the agriculture and rural development in general, since this is one of the most complicated European common policies. The process of complying with EU standards and requirements, as well as with WTO regulations, has created a set of new documents, among which the most relevant is The Food Production and Rural Development Strategy of Montenegro for the period 2006-2013 while the new Strategy for the period of 2014-2020 is being created. The Strategy has pointed out the importance of sustainable agricultural development, attainable through sustainable management of natural resources, modernization of food production, improvement of economic conditions in rural areas, enhancement of competitiveness of Montenegrin products and their successful positioning on regional and international markets. Significant progress has already been made in defining goals and measures for development of institutional and legislative framework necessary to comply with EU agricultural standards and implement sources from EU agricultural funds.

7

Source: MONSTAT

The structural features are rather unfavorable: small family farms, fragmented and plotted holdings with low productivity, resulting in low competitiveness for the majority of agricultural products. In most rural areas, infrastructure is underdeveloped. Low level of technical capacities, accompanied by workforce familiar mostly with traditional agricultural production, is crucial barrier when it comes to enhancing competitiveness in this sector. On the other hand, advantages are reflected in unexhausting land resources, favorable climate conditions, low level of land, water and air pollution and agricultural diversification in terms of production possibilities. Organic production is considered to be one of major development opportunities for the period to come, and great amount of investment potential can be seen here. Having in mind the importance of another Montenegrin growth generator which is tourism, investment possibilities were also detected in marketing unique and traditional products for consumption in tourism as well as in promoting recognizable Montenegrin products on international markets.

The process of transition of the Montenegrin economy during the past two decades has also included the agricultural sector. The most significant changes were made on multiple tracks:

- The introduction of market principles, abolishing state intervention and abandoning the former concept of agricultural policy.
- A redirection of agricultural development support towards family farms and the improvement of living conditions in rural areas.
- Adjustment of the foreign trade protection policy to the development needs of the agricultural and processing industries by its gradual harmonization with WTO principles.
- The introduction of technological innovations in production, the increase of producers' levels of qualification and education as well as that of the administrative and technical service authorities in agriculture.
- The strengthening of institutional support to the agricultural sector by: establishing administrative and technical services, modernization of existing laboratories and establishment of new ones, reform of the veterinary service and general human resource development, etc.



9. Privatization and Investments

Attractive Environment and Offer

Privatization began in Montenegro with the adoption of the federal Law on the Transformation of Ownership and Management of Socially Owned Capital in 1992 (amended in 1994 and 1996) and carried on with the enactment of the Privatization Law in February 1999. According to the above-mentioned laws, there are three phases (and three concepts) in privatization: an insider privatization phase based on worker shareholding (until 1991); the phase of the transformation of industries and privatization of small and medium enterprises (from 1992 to the beginning of 1999); and the phase of privatization based on the mass sale of vouchers and sale to strategic partners (from 1999 onwards). The process of mass voucher privatization was especially successful in Montenegro.

The Government of Montenegro is the main institution responsible for the privatization process. In order to manage, control and implement the privatization process, the Government established the Privatization and Capital Investment Council⁸ which is in charge of defining goals, methods and ways of privatization. The responsibility of this Council is defined by the Law on Economic Privatization. The Privatization Council announces every year the plan for privatization which defines which companies will be privatized and the methods for their privatization.

At the moment, more than 90% of the total value of capital in Montenegrin companies is privatized. Around 410,000 citizens hold shares in companies or privatization funds. There is not a single company without private capital in its capital structure

Montenegro has made important advances in transition. On the EBRD country-level transition indicators, Montenegro scores highly in areas such as price liberalization, small - scale privatization and trade and foreign exchange liberalization, some progress has also been made in large scale privatization but there are a few major enterprises that still remain in state hands.

According to EBRD assessments, the process of privatization in Montenegro is evaluated as having been very successful. The major results of the process of privatization:

- Telecommunication – 100% private ownership;
- Banking sector – 100% privatized;
- Capital market – (including stock exchange companies, brokerage houses etc) 100% private ownership;
- Agriculture – 100% private ownership;
- Services – 100% private ownership;
- Oil import and distribution – 100% private ownership;
- Tourism – mostly private ownership,
- Energy sector – mostly private ownership.

⁸ For further information look at the website of the Privatization and Capital Investments Council; <http://www.sav-jetzaprivatizacijju.me/en>

The Montenegrin Law on Foreign Investment is based on national-treatment principles. Foreign investors can establish a company and invest in it in the same manner and under the same conditions which apply to nationals. This means that the same regulations are applied to local and foreign investors; there are no other regulations which might deprive foreign investors of any rights or limit such rights except manufacturing and trade of the armament and military equipment. In such case foreign investor may not have more than 49% of share in capital or interest, i.e. voting rights.

In March 2005, the Montenegrin Investment Promotion Agency (MIPA) began operations. Initially, Agency was set up based on the Government decision and along the lines of typical investment promotion agencies, the scope of MIPA's activity was threefold: promotion of the advantages of Montenegro as an investment location; attracting FDI by direct promotion; and services for foreign investors.

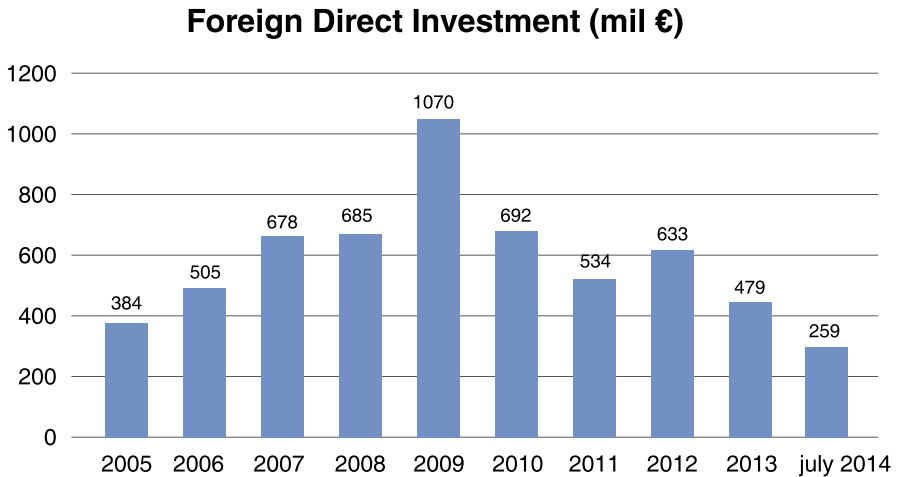
In April 2011, Government of Montenegro adopted new Foreign Investment law and the Agency was granted the status of legal entity performing activities of public interest, with professional tasks to promote foreign investments. Most precisely, MIPA perform the following tasks: (1) carry out professional tasks to promote investment opportunities in Montenegro, in accordance with the Strategy and the Agency's annual work program; (2) monitor the implementation of foreign investment, cooperate with state agencies, local self-government bodies and state institutions in Montenegro with the aim to promote and support the realization of investments; (3) provide information on foreign investments to the Government in order to improve the investment environment; (4) keep records of foreign investors and foreign investment; (5) and other activities in the field of foreign investments, in accordance with the Law.

Strategy for attracting foreign direct investments (FDI) 2013-2015, defines general, focused and promotional measures on promoting Montenegro as an investment destination. Global economic crisis pointed the fact that FDI are not sufficient, but for Montenegro they are a significant prerequisite for further development and economic growth. Strategy for attracting foreign direct investments reflects the policy of openness of Montenegro in the context of Euro-Atlantic integration. Institutional framework for attracting FDI is set well. MIPA has a central role within the system regarding FDI attraction, also other institutions within the public administration, especially relevant ministries promote opportunities and certain projects of interest.

"In this light, the European Union will take account of the experience acquired from previous accession negotiations, notably in relations to the negotiating chapters on judiciary and fundamental rights and on justice, freedom and security. A new approach will be applied to both chapters, which will be tackled early in the negotiations to allow maximum time to establish the necessary legislation, institutions and solid track records of implementation."

COUNCIL OF THE EUROPEAN UNION, 3180th GENERAL AFFAIRS Council meeting, Council conclusions on Montenegro, Luxembourg, 26/06/2012

Foreign investments show a different trend from year to year.



Source: MIPA

According to MIPA projections, FDI in 2015 will range between €350-450 million.

Business zones

In relation to investment opportunities and business environment in Montenegro and enhancement of overall economic growth, a particular emphasis has to be placed on the establishment of **business zones**.

In 2011 the Government of Montenegro has adopted the Law on Business Zones (Business Development Incentives Program), which defines business zone and activities to be conducted within them and prescribes its organizational structure and benefits they offer, both for prospective investors and Montenegrin economic and industrial outlook in general.

Business zone is a limited space within municipal authority aimed at conduction of certain production activity. It is a form of entrepreneurial infrastructure provided with construction and utility facilities, where subjects are able to jointly use overall services, not only in form of construction-related equipment and already existing production plants, but also in form of administrative, financial, technical and other services. Production plants share the same infrastructure (railways , roads , gas lines , electrical lines, water supply, sewerage, telecommunications etc.) and overall conditions and costs of doing business in this areas is significantly reduced.

Business zones in Montenegro are aimed primarily at enhancing development of micro, small and medium enterprises operating in the field of light industry. Here is particularly referred to a range of industrial branches based on consumption outcome: food processing, textile and tobacco industry, furniture industry, electronics industry, manufacturing of final products etc.

There is a whole set of impulses and stimulus, defined at both **local and national level**, for conducting production activities in business zones. Incentives and subsidies have the following form:

- Favorable tax arrangements: exemption from payment of personal income tax and contributions for compulsory social insurance, exemption from payment of corporate tax, annulment or reduction of property tax;
- Exemptions or reduction of utility fees;
- Favorable price of land/space purchase or lease;
- The possibility of establishing a favorable model of public-private partnerships;
- Infrastructural equipment in areas where there is a shortage of it;
- Lower administration costs;

Business zones have been established in the municipalities of Kolašin, Berane, Cetinje, Nikšić i Ulcinj.

Following municipalities have also shown interest in establishing business zones: Podgorica, Bar, Mojkovac, Žabljak, Bijelo Polje and Tivat.

In order to revitalize industrial activity and to attract investors, each of the municipalities in which business zone is defined decides to what extent will the above-mentioned exemptions apply.

Here is a short review of business zones in Montenegro. For further information please contact the municipality in question:

Municipality of Kolašin:

- Industrial zone Baković: 572 200 m²;
- Area is equipped with infrastructure facilities, electricity, water, phone line and paved road access;
- There are already constructed buildings in this area, whose re-activation possible with a relatively small investment;
- Exemption from payment of corporate tax for a period of 8 years;
- Exemption from payment of personal income tax for a period of 8 years;
- Exemption from payment of surtax for a period of 8 years;
- Exemption from payment of utility fees in the amount of 100%;
- Exemption from payment of property tax for a period of 8 years;
- Favorable conditions for purchase/lease of the land;

Municipality of Berane:

- Business zone Rudeš: 548.355,398 m²
- Area is equipped with infrastructure facilities, electricity, water, phone line and paved road access;
- There are already constructed facilities in this area previously used for industrial purposes, that can be reconstructed in order to revive industrial activities in this area;
- Exemption from payment of corporate tax for a period of 8 years;
- Exemption from payment of personal income tax for a period of 8 years;
- Exemption from payment of surtax for a period of 8 years;
- Certain parcels within the business zone can be used without reimbursement for up

to 10 years, in accordance with established rights and obligations. In order to obtain this exemption, an investor has to employ a certain number of workers;

- Exemption from payment of property tax on agricultural and forest land;

Old Royal Capital of Cetinje:

- Business zone A: 300 000 m²
- Business zone MACCOC: 133 000 m², with 50 000m² of halls at investor's disposal for development on investments within industrial or commercial area (culture- related facilities, service-providing facilities; industry and manufacturing facilities);
- Application of incentives for Greenfield investment in business zone A and Brownfield investments in business zone MACCOC depend on various factors. First, it depends on whether the land is being purchased or taken on lease. Second, a crucial factor in the range of established incentives is a number of newly-employed workers. The overall set of incentives has the following forms:
 - Exemption from payment of corporate tax;
 - Exemption from payment of personal income tax and contributions for social security;
 - Reduction of utility fees;
 - Reduction of property tax;
 - Old Royal Capital Cetinje is ready to finance, in collaboration with Employment Agency of Montenegro, an intern's salary, in accordance with prescribed obligations.
 - Free of charge assistance in preparing a Business plan;
 - Free of charge assistance in preparing other documentation;
 - Possibility of favorable land purchase prices and land lease price;
 - Possibility of being assigned an officer who will be available 24 hours to investor for all necessary support;

Municipality of Nikšić

- Business zone Nikšić;
- Area comprises certain capacities of the iron production company Toš Čelik Nikšić;
- Reduction of utility fees for construction land in the amount of 50%;
- Reduction of property tax in the amount of 75%;
- Exemption from payment of surtax to personal income tax;

Municipality of Uclinj

- Business zone Vladimirske Krute 276 166m²;
- Exemption from payment of property tax during the first 8 years of doing business;
- Exemption from payment of surtax to personal income tax for the first 8 years of doing business;
- Exemption from payment of utility fees for construction land within the zone;
- Reduction of land lease price for a period of 10 years, in accordance with the land area;
- Exemption from payment of land lease price, in accordance with the number of newly-employed persons;

Major investors:

Porto Montenegro

A group of investors, headed by Mr. Peter Munk, the Canadian billionaire, recognized a few years ago that the potential of Montenegro's nautical tourism had dimensions large enough not only to satisfy regional yacht owners, but also worldwide owners. Today, at the heart of the Boka Bay, Porto Montenegro, a luxurious marina for mega yachts, attracts a tremendous number of tourists. There has been estimated that, during the summer months, approximately 6000 people visit Porto Montenegro per day. In the year to come, the number of berths will increase from 248 to 432. A nautical resort with 125 luxury residences and complete entertainment repertoire will be significantly expended. The construction of sixth residential and commercial building has begun, along with construction of five-star "Regent Porto Montenegro Hotel & Residence", that will provide a five-star service including, apart from a range of dining and entertaining options, cigar lounge, library bar, two swimming pools etc. Porto Montenegro is already known for its shopping area and a variety of restaurants and cafes. All-year-round tourist and entertainment offer is an imperative and a strategic goal when it comes to development of Porto Montenegro nautical and residential luxury complex.

Undersea power cable from Montenegro to Italy

In autumn 2010 Montenegrin Transmission System signed a contract with Italian company Terna for construction of an undersea power cable that will connect the Montenegrin grid with Italy across the Adriatic Sea. This cable will allow connection and transmission of green electricity between the Balkans and Italy, which will open up a new market for green electricity. The value of this project is around €800 million. This cable represents a new form of electricity sharing, where countries such as Bosnia and Herzegovina will also have the chance to trade electricity via this cable. The cable will be 450 km long, of which 375 km will connect Italy and Montenegro via the Adriatic Sea and the rest will be on land. The capacity of the cable will be 1,000 MW and it is a significant move forwards in Montenegrin economical development. With all the hydroelectric potential that Montenegro has, this cable will make a huge impact on Montenegrin GDP, reflecting in its growth.

Construction of the undersea power cable that will connect Montenegro with Italy is due to start by the end of year of 2014. Realization of this high-voltage electric interconnection between the two Adriatic shores will cost 3.8 billion euros, and it has been estimated that the construction process will be completed in five years. Upon the realization of this project, Montenegro will become the energy hub of the Balkans, considering the fact that the undersea power cable will become one of the main corridors for transit of electric energy in Europe.

Orascom - Lustica Development

During the fourth quarter of 2009, Orascom Development Group entered into an agreement with the Government of Montenegro to develop an integrated destination on the Mediterranean Traste Bay. The total land bank for the project amounts to 6.8 million m² in Lustica, in the municipality of Tivat.

The integrated project is planned to offer 2,080 residential units, seven hotels with a total capacity of 1,370 rooms, 2 world-class marinas on the Adriatic Sea with 170 berths, an 18-hole golf course, a Thalasso Centre, commercial facilities, a town center, and basic infrastructure requirements. The destination presales were launched during 2012 along with the initial construction of the access roads, clearing and the marinas. The project will be the first certified eco-labeled development in Montenegro. It is expected that the value of this investment will be around 1.1 billion euros.

Aman Resorts

One of the best-known hotel managing brands in the world, Aman Resorts, has been successfully operating in Montenegro for the past few years in the most exclusive location in the country. This company with has been managing Sveti Stefan and Milocer with huge success, representing one of the most exclusive vacation places in Europe. With two kilometers of beaches and a peninsula covering 12,000 m², Aman Resort of Sveti Stefan is by far one of the top places in the world. National Geographic has declared this resort among the top 50 places in the world, and with Aman Resorts being the main brand of the peninsula, there is no doubt that luxury and exclusivity are the main virtues of the resort. Sveti Stefan has been known for years as a gateway for world-renowned celebrities, where they were able to soak up one of the best views in the world with the total privacy that the place provides for them.

Since 2008, Adriatic Properties, a subsidiary of Greece's Restis group, has invested around €52 million in Aman Sveti Stefan. After years of restoration, the reconstruction of 15th century fishing village has been completed, creating one of the most exclusive addresses in Montenegro. The most famous tourist guide in the world "Lonely Planet" ranked Sveti Stefan among top 10 destination of the world's most glamorous destinations in 2013.

Qatari Diar

One of the largest real estate companies in the world, Qatari Diar has started to develop a luxury project in Montenegro. The company acquired the rights to the Blue Horizon hotel complex for €24 million, and it is in their plan to develop a five-star luxury hotel, that will include sports resorts and villas. Set up in Plavi Horizonti, on the Lustica Peninsula, this project represents one of the most exclusive projects in the whole of Europe, considering the green surroundings on one side and clear blue water on the other side of the project. Considering the fact that the company Qatari Diar is known worldwide for its high-luxury projects, there is no doubt that the project in Plavi Horizonti will live up to the company's reputation. Following projects from Seychelles all the way to Cuba and Tajikistan, company Qatari Diar recognized Montenegrin potential and decided that their next project should be right on the Montenegrin coast of the Adriatic Sea. Investment will amount 250 million.

Azmont Kumbor

By signing the Contract on the lease of the land of former military facility in Kumbor, Montenegro enabled the State Oil Company of Azerbaijan Republic – SOCAR to gain full ownership over the range of facilities that will be built in a period of lease duration. The resort with the area of 25 hectares will be located on the shore of the Bay of Kotor, on the site of the old barracks in Kumbor town. Once complete, Portonovi will include the One&Only Portonovi, a destination wellness spa, a marina catering to super yachts,

a luxury beach club, the Portonovi Arena, Conference Centre and a tennis academy. Visitors will be able to explore waterfront shops, cafes and restaurants, botanical gardens with biodiversity and eco-park, as well as a fish market and organic food market. Initially, a €250 million investment was planned. However, later a decision was made to increase the amount of investment up to €500 million. The new facility will include a network of One&Only resorts, focused on the exclusive clients. The investment will be the biggest in this area of business in SEE.

Major Investors:



Further privatization

The privatization process in Montenegro is in its final phase. The majority of companies that have not been privatized are of strategic importance to the Montenegrin economy in the field of energy, transport, tourism etc. Further privatization of state-owned companies should contribute to achieving better economic performance, increasing the competitiveness of the country and should enable the Government of Montenegro to generate higher revenues that will enhance capital investments and reduce debts.

Activities aimed at the restructuring of enterprises with the objective of enabling their market transformation and implementation of the privatization process will continue. The privatization process will cover large systems and companies with complex operations, as well as companies aspiring to both more functional and rational organization of operations.

The privatization of larger companies by public tender are given in the following table.

Name of the company	% of capital to be privatized
“Jadransko Brodogradiliste” AD Bijela	61.5749%
“Novi duvanski kombinat” AD Podgorica	69.9194%
AD “Montecargo” Podgorica	87.6358%
“Montenegro airlines” AD Podgorica	99.8895%
HG “Budvanska rivijera” AD Budva	58.7334%
HTP “Ulcinjaska rivijera” AD Ulcinj	63.5273%
“Institut crne metalurgije” AD Nikšić	51.1159%
Fabrika elektroda “Piva” AD Plužine	42.1864%
“Poliex” AD Berane	50.7532%
Institut “dr Simo Milosevic “ AD Igalo	56.4806%
“Marina” AD Bar	54.3464%
“Montenegro Defence Industry” DOO Podgorica	100%

Source: Privatization and Capital Investment Council

Companies that will be privatized through stock exchange sale in 2014 are given in the following table.

Company	% of capital to be privatized
AD “Papir” Podgorica	23.9865%
“Agrotransport” Podgorica	74.8762%
“Berane” AD Berane	33.3529%
“Dekor” Rozaje	22.5948%
HTP “Velika Plaza” AD Ulcinj	9.8177%
“Metalprodukt” AD Podgorica	8.8178%
“Montenegrosport” AD Bijelo Polje	6.5164%
“Sokara” AD Niksic	26.3158%
“Montenegroturist” AD Budva	29.6707%
“Crnogoracoop” AD Danilovgrad	10.6294%
“Radoje Dakic” AD Podgorica	0.0001%

Source: Privatization and Capital Investment Council

According to the annual Privatization Plan determined by the Privatization and Capital Investments Council, the following specific activities in the domain of the privatization process have been stipulated:

A development of tenders will be carried out for the following companies: AD „Montecargo“ Podgorica, „Montenegro airlines“ AD Podgorica, HG „Budvanska Riviera“ AD Budva; HTP „Ulcinjaska Riviera“ AD Ulcinj, „Ferrous Metallurgy Institute“ AD Niksic; Factory electrode „Piva“, Pluzine; „Poliex“ AD, Berane, „Marina“ AD Bar; „Montenegro Defence Industry“ DOO Podgorica along with the tender for PPP for the postal institution in Montenegro „Posta Crne Gore“.

Within the privatization process through the form of a Public-Private Partnership by implementing public international tenders, the procedure for selection of investors for developing the following tourism sites will be implemented: Mamula, “Mediteran” Zabljak, Njivice, “Bigovo – Traste”, Vranjina and “Radoje Dakic” Zabljak.

Continuation of the initiated activities related to the realisation of public tenders for the development of the tourist complexes ,by offering them for long term lease, in following locations: Ada Bojana, Velika plaža, Bjelasica i Komovi, NTC Kotor, Valdanos, Utjeha and Donja Arza.

For all available and open tenders please visit www.mipa.me, where all available tenders are published and updated.



10. Quality of life

Come and you will stay

Montenegro offers a diversified life style: “In one day, the curious traveler can have a coffee on one of the numerous beaches of the Budva Riviera, eat lunch with the sound of birdsong on Lake Skadar and dine next to a fireplace on the slopes of Mt. Durmitor”.

Within a small area, you can mix with urbanites in a city with a modern lifestyle and nightlife, and bond with nature in an atmosphere of totally untouched natural beauty. It is, simply, Montenegro.

World-standard Quality of Life

Montenegrins are well-known for their hospitality. They will certainly make a great effort to ensure that their friends, relatives, partners and guests experience the best of the country, see the most beautiful places and feel at home. This is because Montenegrins themselves are very demanding in terms of the content and quality of life. The Montenegrin people themselves want their country to be a convenient place to work and a fascinating place to explore and spend their lives. Therefore, in Montenegro there is space for any activity to meet every need or wish, and a place to suit every taste. The index of human development in Montenegro is 0.834⁹.



Places to Go to See and Relax

Montenegro is a land of exceptional scenic beauty with the sea, hundreds of lakes, rivers and ancient woodlands. The choice of where to get away and what to see is endless. Four UNESCO World Heritage sites can be visited: the old town of Kotor, one of the largest “living old towns” in Eastern Europe, the deepest canyon in Europe, and a beautiful coastal zone.

Sports-oriented Nation

The number of registered sports clubs in Montenegro is 1,046¹⁰. The most popular sports are football, basketball, handball, volleyball, water polo and tennis. During 2008 the Montenegrin water polo team became one of the best in the world. In 2008 Montenegro became the European Champions in Malaga. The same team reached fourth place in the Olympic Games. Montenegrin judoist Srdjan Mrvaljevic won a silver medal at the World Judo Championships in August 2011. Also Marija Vukovic is world junior high jump champion.



9 UNDP and ISSP

10 Source: MONSTAT, data from 2008

Everything is Affordable

Skiing, swimming, climbing, yachting, cycling, bowling, ice-skating, golf and paragliding are popular leisure activities in the country. A variety of modern shopping stores, casinos, world-standard restaurants and hotels with offerings from the four corners of the world will testify to a way of life that is deeply rooted in Montenegro. There are ski centers in Durmitor and the Bjelasica Mountains and the resorts of Zabljak and Kolasin. The ski season lasts 3-4 months.

Fishing is popular on Lake Skadar and on the Rivers Moraca, Tara, Bojana and Zeta – and of course on the Adriatic Sea. Freshwater fish include trout, chub, carp and bleak. Saltwater fish include mullet, St Pierre, sea bass, gilthead perch and porgies.

Exciting rafting by boat or wooden raft is well organized in the Tara Canyon along 100 km of the River Tara. The Tara Canyon is the largest and deepest canyon in Europe and the second one in the world after the Grand Canyon.

The best-known hunting grounds are Lake Skadar, Mt. Durmitor, the Bjelopavlic Valley, Crmnica and Ulcinj (at Sas). Hunting for bears and wild boar is allowed with a permit, and for wolves without one.

If you are an adventurer you can get your adrenalin pumping by paragliding over the beautiful Montenegrin coast, bungee jumping right over the sea surface and riding fast jet skis.



Musical spectacles

Montenegro has become famous because of its musical spectacles. One of them featured the world's biggest rock 'n' roll band of all time, the Rolling Stones, who had a concert on Jaz Beach. This spectacle has awakened the passion of all rock fans, not just in Montenegro, but also in the surrounding countries. More than 30,000 people enjoyed this evergreen British band.

On August 5th 2008, Jaz beach hosted 20,000 visitors for its first evening concert by Lenny Kravitz, the famous American singer. His two-hour funk-rock lecture was enjoyed by people of all ages.

The Queen of Pop, Madonna, attracted a record number of visitors – more than 50,000 people, making this concert a very important musical event in Montenegro's history. **The** concert was held on Jaz Beach and during the two-hour spectacular music and dance show, the famous star showed her prime-time talent and a great connection with the audience.

For the fifth year running, the Summer Festival of Music is being organized in Montenegro – Refresh, which brings together the world's greatest DJs: Felix da Housecat, Funk D'Void, Sebastien Leger, Steve Angello, Nick Warren, Carl Craig, Bob Sinclair, Kevin Saunderson, Dave Clarke, Umek, Steve Lawler, Hernan Cattaneo, Darren Emerson and DJ Shar. Over 10,000 visitors attend the festival every year. Also there are classical music festivals (Tempo International Festival, Podgorica), jazz festivals (Petrovac Jazz Festival, Bijelo Polje Jazz Festival).

Easy Communications and Connection

In Montenegro English is widely spoken, Italian is also popular, Spanish is becoming more and more popular and knowledge of Russian is widespread.

Mobile telecommunications services are provided throughout the country, and mobile Internet is also widely available. Electricity, water and gas utilities are completely reliable. Roads are good with increasing improvements and major towns also have inexpensive public transportation services.

Accessible Social Services

Families from abroad may apply to a couple of schools and a faculty specializing in education based on international standards, as access to an international school is an important family-life consideration. The "QSI International School of Montenegro", located in Podgorica, is a private non-profit institution which opened in January 2006. It offers a quality education in the English language for primary schoolchildren from five to thirteen years of age and secondary school pupils up to age seventeen. Montenegrin universities are welcoming foreign students eager to enrich their knowledge. Furthermore, private healthcare services are available for visitors to Montenegro in all cities and towns.



11. Major Investment Opportunities

Montenegro offers a wide range of investment opportunities. Some of them are very unique (like the 13 km-long sandy beach in Ulcinj or Flower Island), some are challenging from a construction point of view (like highways or the railway system) and some are quite complex (like investments in the energy sector). However, we are ready to hear your suggestions and ideas about the ways to transform society, transfer the newest technology and improve the business environment.

The main purpose of this publication is not to present all the investment opportunities, but just to whet your appetite a bit and awaken your interest in one of the most beautiful countries in the world.

Also, we would like to refer to our publication titled “**111 Frequently Asked Questions**” where you can find lots of additional information about establishing companies and doing business in Montenegro and particularly to point out our web site www.mipa.me where you can find regularly updated information about available tenders and investment opportunities.

Here is a snapshot of possible investment projects.

11.1 TOURISM

HTP “ULCINJSKA RIVIJERA” AD ULCINJ: HTP Ulcinjska rivijera is a joint-stock company, where the majority shareholder is the State of Montenegro with 63.5273% of shares, whilst employees and former workers and retired persons have 22.0975% of shares, Privatization funds have 9.4521% of shares, and the remaining part of 4.9231% of shares belongs to many small shareholders. HTP Ulcinjska rivijera AD is a restaurant and tourism company and after successful implementation of bankruptcy and reorganization procedure its portfolio includes hotels “Olympic” and „Bellevue“, located at exceptionally attractive locations in Ulcinj Municipality, at Velika Plaza Beach. Regarding tourism valorization, the preferred form has included various models of public-private partnership: long-term lease, concession, joint venture etc.

HTP “ULCINJSKA RIVIJERA” – Neptun kamp: Neptun Camp consist of the area of 72,201m² with accompanying facilities of cca 2.000 m², which is not operational and is located at the part of Velika plaža – Brijeg od mora. Long-term lease is being offered for the period of 30 years with possibility of extension, with investment obligation.

VTK – KASARNA MEDITERAN ŽABLJAK: Military-tourism complex “Mediteran” on Žabljak includes the area of 13.951 m². The complex consists of 20 buildings, having the total area of 487 m², whose core purpose is tourism services. Total capacity of the complex is 66 beds. Long term lease for the period of 60 years is being offered.

MILITARY TOURISM COMPLEX „BIGOVO“: Bigovo Valley belongs to the locality of Donji Grbalj and is located in Trašte Bay, between Budva and Tivat, only around 20 km from Tivat, Complex “Bigovo” is situated at the very sea shore in “Bigovo” valley, next to

the cape Trašte. The square footage of the complex amounts to 38.490 m², being 2.873 m² under constructed facilities – 43 buildings, whilst the footage of the other plot amounts to 1.148 m², which is situated next to the 209,58 m long shore of the Tourism Complex „Bigovo – Trašte“ – Kotor. Complex is equipped with communal infrastructure- there is power network, water supply system with water reservoir, facility with pump station and sewage system. Long-term lease for a period of 90 years is being offered.

VALDANOS: Valdanos is located close to Ulcinj, southeast of Bar. It is one of the most beautiful locations along the Montenegrin coastline. This former military vacation camp, surrounded by olive trees, offers an unobstructed ocean-front view with exclusive privacy, a Mediterranean climate and an average of over 240 sunny days annually. Airports are 68 km (Podgorica) and 86 km (Tivat) away. Valdanos Bay covers 4 km², which includes a pebbly beach of approximately 100 metres in length and various low-rise camp and general public service facilities, i.e. tennis courts and parking areas. The conceptual framework includes a five-star resort, protection of the coastal area allowing up to 100 m² of green surface per bed, luxury tourism accommodation with a maximum of 4 floors and protection of its ecological structure. Long-term lease for a period of 30 years with a possibility of extension is being offered.

ADA BOJANA: Ada Bojana Island is mostly a nature reserve park with protected biodiversity, having the square footage of 520 ha, whilst the coast length is around 3500 m. Beach length is 2750 m and the average beach width is 30 m. Long-term lease of the land owned by the State is being offered with obligation to construct exclusive tourism complex.



VELIKA PLAZA: Located between the town of Ulcinj and the Island Ada Bojana, Velika plaza (a 13 km-long sandy beach with an unobstructed view of the Adriatic Sea) represents the southern tip of Montenegro. It is 87 km from Tivat International Airport and around 70 km from the capital Podgorica. Velika plaža complex includes land of 1.357 ha, being 903 ha owned by the State. Plans and issues for its gradual development include: (i) the development of a high-level tourist area; (ii) the construction of a small VIP airport; (iii) upgrading of telecommunications, an efficient energy and water supply; and (iv) coastal area protection (allowing up to 100 square meters of green surface per bed in order to provide deluxe tourist accommodation). Long-term lease of the land owned by the State is being offered with obligation to construct exclusive tourism complex.

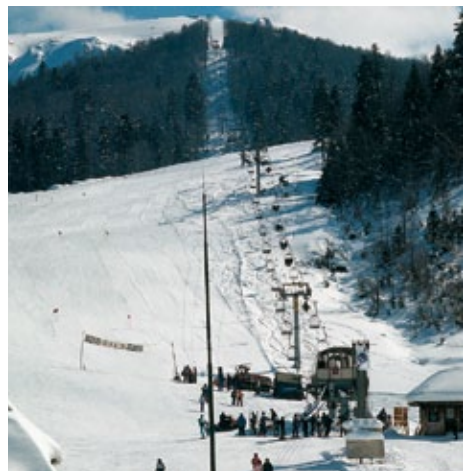
OSTRVO CVIJEĆA: the Island of Flowers -is a small oval-shaped island, around 300 m long, 200 m wide, with total surface of beaches of 1200 m² and numerous small sandy beaches. This attractive location on Montenegrin coast, 2 km from Tivat, had been until recently used as a military holiday resort. Due to preserved environment, this location offers great opportunities for development of exclusive tourism. Long-term lease is being offered with obligation to construct an exclusive hotel complex.

SITES BETWEEN NJIVICE AND ESTUARY OF SUTORINA RIVER: Planning documents provide an opportunity to create a hotel with approximately 1,000 m² of commercial and common rooms, apartment block of up to 7,000 m² containing 80-100 hotel apartments, commercial premises complex of up to 700 m², 300 m² yachting service and 1,000 m² garage area (total 2,000 m²); construction of commercial and apartment amenities with a total of eight hotel apartments and 300 m² of office space (total 600 m²) in the rear of the boat mooring. The plan envisions a 5,000 m² beach and 40 berth marina for the use of the hotel and 15 berths for local boats. There are no projections in the planning document on the value of investments. Value of land and maritime zone lease is € 1,270,600 for at least 31 years and a maximum of 90 years lease is € 3,688,830.

CONSTRUCTION OF GOLF COMPLEX IN TIVAT: The investment plan and program envisages the construction of: golf courses, tourist attractions (golf hotel - 70 rooms, 70 tourist villas, 35 accommodation units at the Golf Club, and hotel of 4* with capacity of 65 accommodation units, making a total of 670 tourist beds), other accommodation and commercial facilities. The total amount of rent for the entire lease period is 11.3 million €.

VRANJINA SITE WITH LESENDRO: This zone relies on two major traffic routes (railroad from Belgrade-Bar and the corridor of the road Podgorica-Petrovac and Podgorica-Sozina-Bar). The site covers an area of 13,132 m² and is to feature an ECOlodge tourist resort with 30 objects servicing visitors to the resort with a maximum capacity of 61 beds. The investment is also to include an info desk, a souvenir shop, a healthy food traditionally designed restaurant that will serve organic, locally grown food, conference hall capacity 50 seats, wellness and SPA zone located on the waterfront, a beach with a cafe bar, and a viewpoint relaxation zone. The value of total investment is estimated at € 2,157,488

BJELASICA – KOMOVI: Includes area of 851.74km² or over 8% of the territory of Montenegro; it encompasses parts of Andrijevica, Berane, Bijelo Polje, Kolašin, Mojkovac and Podgorica Municipalities. The envisaged construction of eight mountain centers – „Green Field” projects are fully elaborated all the way to the detailed elaboration and they include: Mountain centers Žarski, Cmiljače, Torine, Kolašin 1450, Kolašin 1600, Jelovica with golf resort, Komovi and Eco Adventure Park Komovi. Important projects are also revitalization of shepherd's cottages, tourism eco-ethno villages, agricultural shepherd's cottages, agricultural farms, etc. Long-term lease is going to be offered.



SKI RESORT KOLASIN 1600: The zone of the ski resort Kolašin 1600 is located in the south part of the Bjelasica area at the territory of the municipality of Kolašin, in the north part of the ski resort at around 1600 meters above the sea level and its surface amounts to 27.19 ha. The ski resort base settlement consists of the zone with facilities of the Central settlement with hotels, apartments with receptions and public facilities, the zone of independent groups with single-family accommodation units and the area for the starting point of ski lifts.

A network of pedestrian communications is planned within the base settlement, which is to connect all the facilities of the settlement and enable natural movement of users, in line

with the terrain configuration. The zone of ski trails is interpolated in the settlement zone in the way to ensure ideal accessibility for skiers. A network of internal traffic routes is planned inside the zone for access to the groups of planned facilities. Project is prepared for the realization with the good domestic or international partner.

The new investor can use the area for tourism, hospitality commercial facilities, transport areas (service and pedestrian communications), developed green areas. The owner is the State of Montenegro, and the Project is planned to be Public-Private Partnership (PPP). Estimated value of investment depending on development plans is from 65-75 million euro.

SKI RESORT SAVIN KUK: Savin Kuk is ski center located on one of the biggest and most beautiful mountain in Montenegro – Durmitor, in town Zabljak on the north of Montenegro. Zabljak is the best location for the ski resorts in Montenegro. This ski center already possess: restaurant, ski track, utility boxes, ski lifts, substations and other facilities. There will be international tender for this Project. Planned activities: International tender for Savin Kuk, adoption of PPPN „Durmitor Area“, detailed study of location, purchase of new lifts. One possibility is the valorization through Public-Private Partnerships (PPP); interest is shown already from a number of reputable investors.

Estimated value of investment depending on development plans is around 80 million euro.

11.2 INFRASTRUCTURE

HIGHWAYS: The Minister of Finance and Chinese Ambassador signed the loan agreement between Montenegro and the Exim Bank on financing the construction of the Bar-Boljare highway. The construction of the highway's priority part will cost around EUR 809.6 million or USD 1.1 billion. The Exim Bank's loan is to provide 85% or EUR 687 million of the total amount with the six-year grace period and repayment period of 20 years, whereas the remaining 15% (EUR 120 million) has to be provided by Montenegro. The highway from Bar to Boljare should be 169.2 kilometers long. This will be one of the most expensive highways per km in Europe, due to the tunnels, bridges and viaducts that will make up over 40% of its total length. This highway construction is the greatest engineering construction project in Montenegro and one of the biggest projects being implemented in the European market. The route will require the construction of 42 tunnels, 92 bridges and viaducts. The average daily, or annual traffic on the existing road from Bar to the border with Serbia, in certain sections ranges from 5,100 to 8,300 vehicles with distinct seasonal annual intensity that reaches up to 20,000 vehicles.

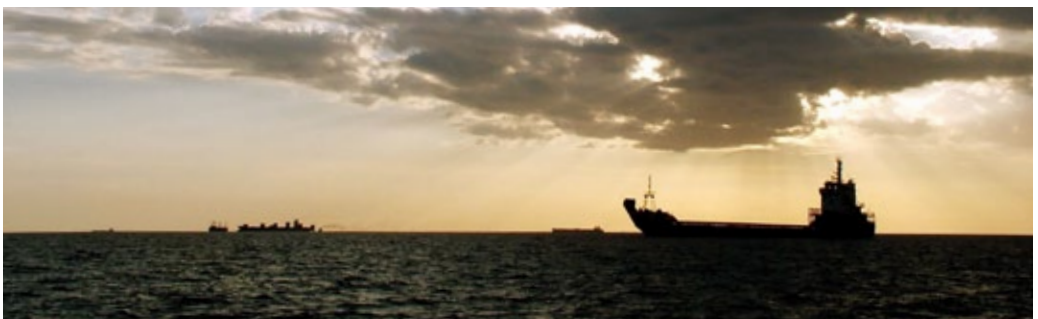
RAILWAY – The Government of Montenegro adopted a restructuring plan which according to the company will be split into two separate parts: (i) that will be in charge of developing and maintaining the railroad infrastructure and traffic regulation and (ii) the second one in charge of operations (freight and passenger transport and maintenance of rolling stocks). Infrastructure management and traffic regulation will remain state-owned, while joint investments with a strategic partner will be sought for infrastructure maintenance on the basis of a long-term contract with the state. Privatization is planned for operations.

11.3 TRANSPORTATION AND LOGISTICS

Montenegro Airlines: is a company licensed to operate scheduled domestic and international passenger transport and charter operations, as well as for carriage of cargo and mail. Over the years, as the company, its fleet and the number of employees has grown, Montenegro Airlines has developed into a modern institution, operating in accordance with modern global standards. Today, Montenegro Airlines operates scheduled flights to Zurich, Frankfurt, Rome, Paris, Ljubljana, Vienna, Belgrade, Moscow, Niš and Copenhagen, successfully establishing an air bridge between Montenegro and Europe. In addition to scheduled flights, the company also operates a number of charter flights to many destinations. Future development plans for Montenegro Airlines include further modernization and enlargement of its fleet. The company is committed to conquering new markets, opening new routes and increasing flights to current destinations.

LUKA BAR: The Port of Bar spreads over 200 hectares. The total length of the operational coast is 3.5 km, the aquatorium has a maximum depth of 14 meters, and 120 thousand square meters are enclosed warehouses. In the port, there are five specialized terminals: for Ro-Ro and passenger traffic, general cargo, containers, solid and liquid bulk. Maximum capacity is about 5 million tonnes. The state owns 54.05% of total shares, while the remaining proportion is divided between: privatization funds (15.54%), workers (11.03%), citizens (18.33%) and other legal entities (1.05%). The port employs 403 workers. The average age of workers is 45. In accordance with a decision by the Government of Montenegro on the privatization plan, the sale of the state package of shares in the port will be carried out on the basis of restructuring.

ADRIATIC SHIPYARD BIJELA: The shipyard is the largest ship-repair yard in the Southern Adriatic. It was established in 1927 and nowadays it has vast experience and extraordinary human expertise and technical capacities. The shipyard offers its services in the international maritime market, and therefore services it provides are almost exclusively of an export character. The main activity of the company includes ship repair and reconstruction. The Government of Montenegro decided to privatize Jadransko Brodogradilište Bijela by selling 61.57% of its stake in the company



11.4 ENERGY

Basin of Maoče The coal basin of "Maoče" is located in North-Eastern part of Montenegro, with an air distance of about 15 km from the town of Pljevlja. The Maoče Basin is located in the Neocene basin at an altitude of 880- 980 meters in the mountain area. An average annual precipitation (snow and rain) amounts to 900 mm. An average annual temperature

is 7°C and there are 40-50 cold days (air temperature below 0°C) during the year. The investors are expected to finance, open, exploit and perform recultivation of the coal mine "Maoče", and to finance, build and operate the Thermal Power Plant "Maoče", as a single business entity. The Government of Montenegro will award a concession for the exploitation of coal from the basin of Maoče and the construction of a thermal power plant of the estimated capacity of 500 MW, based on the current reserves of coal and the thermal power plant life cycle. The term of the concession contract is 45 years, with a possibility of extension in accordance with the law. Coal reserves in the basin of Maoče are geological (123 million t) and exploitation (109.9 million tons). **The annual production potential is 3,500 GWh.**

Greenfield in hydroelectric power plants on the River Morača - The Government of Montenegro intends to develop the country's untapped hydroelectric power potential through Public-Private Partnerships. As a priority, the Government wants to develop the River Morača potential through a series of four hydroelectric power plants for a total installed capacity of 238 megawatts (MW) and an annual production of 693 Giga-Watt hours (GWh). Extensive geotechnical and hydrological investigations have already been performed for the preparation of the technical documents.

Hydro power plant "Komarnica" - The construction of hydro power plant on the Komarnica river would ensure economic recovery of this area. It will be possible to exploit hydropower that was neglected, and also to provide Montenegro with missing quantity of electricity, at lower price: possibilities for investment in two power generators of 168 MW, with annual production of 232 GWh. The investment is worth about 180 million EUR. Extensive geotechnical and hydrological investigations have already been performed for the preparation of the technical documents.

Small hydro power plants in Montenegro: The Government of Montenegro is about to award concessions for exploitation of water courses for the construction of small hydro power plants in Montenegro. The subject matter of the concession is design, construction, exploitation and maintenance of small power hydro plans at water courses of rivers: Bukovica, Bijela, Bistrica, Kraštica, Velička Rijeka, Đurička, Kaludarska, Vrbnica. Value of the investment related to the construction of shpp is approximately 1.500.000 € per MW installed power. The duration of the concession shall be fixed for all water courses, and it shall be for 30 years.

Regarding **exploration and exploitation of oil and gas** in the costal area of Montenegro, the Government of Montenegro has announced the public tender for the exploration and production of hydrocarbons. 13 blocks (approximately 3000m²) in the undersea area of Montenegro are selected for this type of energetic valorization and were offered under first bid round. The Government of Montenegro has received bids from 6 companies to the Public Invitation to Apply for Award of Hydrocarbons Production Concession Contract Offshore Montenegro as of the deadline for submission of bids on 15 May 2014. Companies that applied to Public Invitation are : Marathon Oil Netherlands One B.V. with OMV Montenegro Exploration GmbH, Eni International B.V with Novatek Overseas Exploration&Production GmbH and Energean Oil&Gas SA with Mediterranean Oil&Gas Plc (first one being operator and second one participant respectively).

Apart from the construction of small hydropower plants, a significant emphasis has also been placed on renewable energy sources such as **wind, biomass** and **sunlight**. Projects aimed at this type of energetic valorization are: construction of wind power plants of 70

MW total capacity, construction of incinerators in mixed municipal solid waste of 10 MW installed capacity, construction of photovoltaic power plants and to other forms of biomass.

11.5 INDUSTRY

DUVANSKI KOMBINAT PODGORICA – The Podgorica Tobacco Factory owns a network of retail stores and warehouses. It employs 406 employees. The subject of the sale is 100% of the company shares. The buyer is obliged to implement the mandatory investment program of construction of the factory and to organize production. The Government of Montenegro owns 69.92% of its share capital and Montenegrin capital Podgorica owns 30.08%.

INSTITUT CRNE METALURGIJE AD NIKSIC: The Institute of Ferrous Metallurgy was founded by the Steel Company in Niksic for its own research and technological development and for the scientific and educational needs of the Metallurgy and Technology department at the University of Montenegro. Since mid 2004, the Institute has been organized as a limited company with a majority state-owned package of shares and institutional funds. It has been operating for the last four years with positive financial results, with a constant increase in the rate of growth of total revenue and salaries.

FABRIKA ELEKTRODA “PIVA” PLUZINE: Factory of electrodes “Piva” was founded in 1985 in Pluzine. It employs little less than 100 employees. Factory produces electrodes for welding, different kinds of wire and metal building material. It exports its products to countries of region and to Russia, Poland Turkey etc. From 1998 FEP operates as joint-stock company. The subject of sale is 42.18% of shares which are owned by Investment and Development Fund.

11.6 WATER POTENTIAL

Regarding water and water usage in general, Montenegro has an enormous untapped potential. Only 17% of its water resources has been used, while a great amount of this precious liquid, which in Montenegro has been defined as a high quality water, is still waiting for an adequate exploitation and management.

In Montenegro, there are significant differences in the distribution and abundance of water resources - starting with arid karst areas to those that are rich in both surface and groundwater. The territory of Montenegro falls among the areas rich in water. The rivers drain into two basins: the Black Sea and the Adriatic Sea. Natural lakes are also an important water resource, the most significant of which are Biogradsko, Plav, Black, Šasko and Skadar Lake. The largest artificial reservoir is Piva Lake with a total accumulation capacity of 880 million m³. Other significant accumulations include the lakes of Slano, Krupac, Vrtac and the accumulation of Otilovići.

In the past three years, Montenegro has imported natural and mineral water in the amount of 23 million EUR, while the water export was estimated at one million EUR. This is a clear indicator of the underutilization of Montenegrin water potential, which brings about, as already stated above, a great number of possibilities in the field of water exploitation and management.



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