

MONTENEGRO

BUSINESS

OUTLOOK

APRIL 2010

A QUARTELY REPORT #32

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MBO Summary

WELCOME to the thirty second edition of Montenegro Business Outlook.

MBO is quarterly publication of pertinent economic indicators presenting a comprehensive view of Montenegro's business environment.

This publication is intended to serve international business people seeking investment opportunity in Montenegro. As always, we welcome your comments.

Business Environment: The business environment in Montenegro, during the first quarter of 2010, has faced the same problems as it did in 2009: a lack of credit activity, inter-company debts, and a decrease in the level of purchasing power, all of which are adding additional pressure to the private sector. During this period, a new Law on Employment and Sanitary Inspection has been adopted.

Macroeconomic Outlook: The first quarter of 2010 was characterized by the process of recovery from the consequences of the global financial crisis, and at a macroeconomic level, negative trends are still present. Industrial production is still falling, unemployment is still rising slightly, and average earnings have dropped. The only favorable parameter relates to inflation, which still is at a very low level.

Banking Sector: At the end of December 2009, total bank assets amounted to €3,029.4 million, which was €280.3 million or 8.47% less than at the end of 2008. This was mainly due to a 14.3% or €400 million fall in the credit capacity of banks. In comparison with the previous month, bank assets went down by €47.9 million or 1.56% in December 2009. Total deposits amounted to €1,825.7 million in December 2009, thus showing a monthly decline of €43.9 million or 2.35%. The month-on-month comparison shows that total deposits decreased by €164.9 million or 8.28% in December 2009.

Household deposits amounted to €844.2 million at the end of December 2009. At the end of December 2009, bank loans amounted to €2,395.5 million, which represented a monthly decline of €157.4 million or 6.16%.

Privatization and Investments: Despite the Global Economic Crisis, the investment climate in Montenegro is still favorable and many foreign investors have announced their intentions to be here. Montenegro, as a potential European Union member, should get ready for the arrival of potential investors from Brazil, Russia, India and China. In addition, Montenegro records an increase in the total inflow from foreign direct investments, which in 2009 amounted to €1,068.4 million. This is a 30.8% increase when compared with 2008.

MBO Interview: Mr. Samih Sawiris, Chairman and CEO Orascom Development Holding Ltd.

Capital Markets: During the first three months of 2010, the total volume of trade on both Montenegrin stock exchanges amounted to €14.5 million, which was almost twice less than the amount of trade seen during the first three months of 2009 (€27.2 million). During the first three months of 2010, 6,102 transactions were completed. The greatest turnover was recorded by company shares (49.3%), followed by various other bonds (45.8%), while the total turnover in investment funds amounted to 4.9%.

Economic Freedom: A high level of economic freedom strongly correlates with the wealth of a country. Therefore, Montenegro needs to increase its economic freedom and to follow the major principles of a free market: openness, a respect for private property and the rights of intellectual property as investors are crucial for further development.

In the Spotlight: Regional Development and EU Regional Policy



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MONTENEGRO GENERAL INFO

GEOGRAPHIC INFORMATION	
Area	13,812 km ²
Position	41°52' - 43°42' lat., 18°26' - 20°22' long
Length of border	614 km
Coast line	293 km
Length of beaches	73 km
Climate	Mediterranean
Average temperatures of air	27.4C° (summer) 13.4C° (winter)
Maximum sea temperature	27.1C°
Average num. of sunny days	240
Major Cities	Podgorica (Capital), Niksic, Bijelo Polje
BORDER CROSSING	
Albania	Bozaj
Croatia	Debeli brijeg
Serbia	Kula, Vuče, Dračenovac, Dobrakovo, Čemerno, Ranče, Bijelo Polje
Bosnia and Herzegovina	Vilusi, Vracenovici, Scepan Polje, Metaljka
Sea border	ports and piers: Bar, Kotor, Budva and Zelenika

POPULATION	
Population in country	620,211
Montenegrin population in foreign countries	54,816
Total population	675,027
Number of households	191,047
Source:	Census 2003
TRANSPORTATION	
Airports	Podgorica and Tivat
Ports	Bar (line to Italy: Bar-Bari, Bar-Ancona) and Kotor (line to Italy: Kotor-Barleta)
Railways	Bar - Beograd and Podgorica- Niksic
Total railways length	249 km
Total highway length	5,174 km
NATIONAL PARKS	
Durmitor	39,000 ha
Biogradska gora	5,650 ha
Lovcen	6,220 ha
Prokletije	21,647 ha
Skadar Lake	40,000 ha

Business Environment

During the first quarter of 2010, the economic situation in Montenegro remains unchanged. Problems still relate to inter-company debts, a low level of credit activity, and a continuing decrease in turnover as a result of the overall economic crisis. The average gross wage in February 2010 in Montenegro was €691, while the net wage was €463. In January 2010, the average net wage decreased by 1.7%. Bearing in mind that the Consumer Price Index (CPI) grew by 0.1% in February 2010 in comparison with January 2010, it is possible to say that the average wage went down by 1.8% in comparison with January 2010. Industrial production in Montenegro grew by 8.4% in comparison with the average level of monthly production in 2009. However, other indicators recorded a decline of 17.4% during the period of January-February this year in comparison with the same period in 2009. Considering all sectors during the given period which was recorded, a general level of decline was evident: quarrying of coal and stone 17.7%, processing industry 32.5%, and the production of electricity, gas and water 3.7%.

The major laws that influence business which were adopted during the first quarter of 2010 are: the Law on Information Safety, the Law on Sanitary Inspection and the Law on Employment.

The Law on Information Safety sets out procedures for the safekeeping and accessibility of data, allowing access only to those who are entitled to have access. This law is binding for all state departments, municipalities, companies and other individuals. Basic protection measures include physical protection, data protection and the protection of information systems. The coordination of preventative and protective measures specifically related to IT, for example incidents arising from use of the internet and also other computer associated risks, will be conducted by a special division of the Ministry for an Information Based Society, CERT.

The Law on Sanitary Inspection sets out a system of control and implementation for the laws that regulate the sanitary, hygienic, and anti-epidemiological protection of the population. Sanitary inspectors have been given the role of controlling this process. The areas that are covered by the inspection controls include the protection of the population from infectious diseases, food health safety, public water safety, the control of the usage of tobacco products, the production and trade of poisons etc.

Areas that are to be controlled include health centers, places which produce or trade food items, public water supply systems, body parlors, tourist and catering centers, social protection centers, education centers, cultural and sport centers, public transportation etc.

During the control process, sanitary inspectors can prohibit an entire company or institution from working or can prohibit individuals from working. They are also able to enforce regular sanitary controls.

The new Law on Employment was adopted at the spring session of the Montenegrin Parliament. The law deals with the employment of unemployed people, the education of unemployed people, the rights of people who have lost their jobs etc. The law states that the major stakeholders in the employment process are the Employment Bureau and private employment agencies. An agency requires a work permit in order to be able to provide employment services. An unemployed person has the right to be informed about available work, to have free use of the services of the Bureau and any private agencies, to make an individual plan for future employment, to be involved in programs and measures arising from the current employment policy, to have the right to seek compensation in the case of losing a job etc.

An unemployed person is obliged to actively seek employment, to be involved in the education process, and to accept any suitable job offered, as well as regularly informing the Bureau about his or her status.

Employers are obliged to inform the Bureau about current vacancies. The Bureau posts information about employment opportunities on an advertising board in the Bureau. Also, if specifically requested by the employer or if prescribed as necessary by law, the Bureau publishes positions in the daily newspapers.

An unemployed person has the right to seek compensation for lack of employment if he has lost his job due to reasons which are not of his own making. Compensation is awarded for a period of between 3 and 12 months depending on the number of years a person has worked. It is expected that this law will replace the old one to avoid some of the mistakes that were made in the past.

It is envisaged that during the next quarter the following laws will be adopted: the Law on Tourism, the Law on FDI, the Law on Business Environment along with other important pieces of new legislation.

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BUSINESS STATISTICS AND DATA

Business Registration Statistics

(Number of registered companies in Montenegro as of 31st of March 2010)

Joint Stock Company	366
Limited Liability Company	22,905
Part of a Foreign Company	417
General Partnership	63
NGO	285
Limited Partnership	450
Entrepreneur	16,598
Institution	1,007
Other	104
Total	42,195

Tax Rates

Value Added Tax	17%, 7% and 0%
Corporate profit tax	9%
Personal income tax	9%

Minimum wage: Since the 1st of July 2007, the minimum wage in Montenegro has been €55.

Source: Commercial Court

ECONOMY STATISTICS

Selected indicators	2008	2009*
Population		625,082
Real GDP (billion)	3,025.2	2,670,2**
Real GDP growth*	8.1%	- 4.0%
Inflation rate 2008/ (I-IX) 2009	7.8%	1.4%
Unemployment rate 2008/ (I-IX) 2009	10.9%	12.49%
FDI (million)	550	1,068.4

*estimated value for 2009

** Data for period 1st -3rd quarter 2009

Official currency Euro

Source: Ministry of Finance, Economic and Fiscal Program, Central Bank of Montenegro

Company Presentation

Nimont llc

Nimont LLC is a single-member limited liability company established in August 2002 as 100% private-owned company with headquarters in Bar, Montenegro. The main activity of the Company is Transport, activity described in more detail by the code 63400 (freight forwarding, shipping goods, issuing and obtaining transport documents and waybills, custom agent affairs, handling the goods, ship and other vessels supply with food and non-food products – shipschandler etc.).



The founder and chief executive officer of the Company is Capt. Ljubomir Kočović. Capt. Ljubomir Kočović has a long experience in maritime industry and also holds the pilot license. Today, the Company Nimont perform mixed business activity – from shipping operators to sale of construction material, for which it has registered separate business unit in Nikšić from 2007.

The Company Nimont, as the originator of Montenegrin fleet renewal, today manages six ships out of which five are used for transport of general and bulk cargo. Two vessels are owned by the Company and four are under Company's management. Five ships are ships with significant deadweight, while one small-dimensions fast boat for urgent actions is available to the Company as well.

Activities within the competences of the Company are the following:

- *Shipping – employing ships and ship space lease for all types of cargo by shipping agents,*
- *Land support – a guarantee for more efficient and safer ship management, as well as staff and cargo safety,*
- *Necessary services to ships sailing in and out of the Port of Bar,*
- *Crewing – hiring ship staff for the companies,*
- *Stone exports,*
- *Cement imports.*

Shipping Operator

Nimont LLC is licensed shipping operator. The Company offers to ship owners a whole range of professional ship management services provided by skilled and dedicated team. Since the very beginning, owing to efficient management, Nimont constantly expands its fleet and currently manages five ships for transport of large general and bulk cargo. The crew on board is mostly Montenegrin origin and has been carefully selected respecting the expertise, innovation and reliability. The Nimont Company hire on average 200 mariners throughout the year. The land support department provides crew support regarding necessary information and help and it is available 24hours a day all year around. Safety of staff, ships and cargo as well as environment protection are priorities of the Company Nimont.

Crewing

Nimont Crewing agency provides professional staff for all types of vessels, from Commander and Manager to chef, waiter and stewardesses. The staff available to the Agency possesses all necessary documents and certificates according to the international requirements. Our clients are guaranty of our crew quality, competence, work dedication and reliability. Place of embarking, terms and lasting of contract are arranged with vessel's company.

Brokers

Besides mentioned services, the Company Nimont is exclusive distributor of Greek cement GIGAS CEM II/B-M (P-L) 32,5 N, and exploiter of quarry Volujica in the Port of Bar.

The Company employs skilled and experienced professionals ready to respond to a wide range of clients' requests and to provide support to the main activities of "Maritime Affairs" on positions of the tugboat Master and Pilot. The Company employs two pilots with pilot identification cards issued by the Port of Bar and one who passed the required training and is waiting to take the exam. In order to keep its position at competitive maritime market, the Company standardized its activities in 2003 and obtained Quality Certificate ISO standard 9001:2001 issued by Loyd's Registry, Great Britain.

Awards and Recognitions, Corporate Social Responsibility of the Company

Owing to the performance results and, above all, its corporate social responsibility, the Company was pronounced the best enterprise in the category of small and medium sized enterprises in 2005 and 2006 on competitions organized by: Montenegro Business Alliance (award for 2005) and Directorate for the Development of Small and Medium-sized Enterprises (award for 2006).

The criteria for selection of the best enterprise were the following:

- the size and increase of total income,
- the size and increase of number of employees,
- operating with profit,
- internationalization of business activities,
- quality of goods/services,
- new technology and innovation,
- relation and responsibility toward social environment,
- Entrepreneur's characteristics.

The Company Nimont has been recognized as corporate social responsible company that invest in culture and sports at the territory of municipality Bar and supports the activities of local self-government by direct donations in materials (sand and cement for the construction of local roads). The Company Nimont supports the football club "Mornar" (the First National League), Tennis club "Bar", Maritime school in Bar, Pilgrimage to the Glory of Old Olive Tree, and the activities of the Cultural Centre in Bar. In addition, the Company has been granting scholarships for students in Bar for years.



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Macroeconomic Outlook

GDP

According to the calculations from the Ministry of Finance, the real decline in the Montenegrin economy was in 2009 and amounted to 4.0%. In 2010, a slight recovery of the GDP has been predicted, especially in the manufacturing and energy production sectors. This projection is based on the fact that the budget for 2010 has provided a subsidy for electricity and that the state has guaranteed the continuation of production. This is based on a positive signal for the recovery of the processing sector (where aluminum and steel have 60% of share) which refers also to an increase in aluminum prices.

According to projections made in October 2009 by the IBRD Bank, the biggest decline in economic activity in 2009, from countries within the region, can be expected in Slovenia (7.8%) and Croatia (5.4%), while in Albania there was an increase of 3% in economic activity. According to the same projections, during the current year, Montenegro can expect to see a more favorable recovery of the economy. It is anticipated that the measured growth rate will amount to 0.1%.

Industrial Production

Industrial production in February 2010 recorded a fall of 10.9% in comparison with last month's figures, and a fall of 23.2% when compared with the same month last year. The increase in industrial output was mostly seriously affected by a decrease in the production of mining and quarrying, which in comparison with the same period last year, dropped by 37.3%. Compared with the same period last year, the manufacturing sector recorded a decrease in production of 28.3%, whilst production in the electricity, gas and water sectors decreased by 17.6%.

Budget

According to the Law on the Budget of Montenegro for 2010, the amount available will be €1,425,963,634.38. Funds will be distributed as follows:

- Current budget, €649,752,299.40,
- Transactions financing expenses, €27,863,123.55,
- Capital budget, €120,800,000.00 and
- State budget funds, €527,548,211.43.

Inflation

Measured by the consumer price index (CPI), monthly inflation in February of this year reached a level of 0.1. Looking at the price of some product categories, and compared with the same period last year, the greatest increase in price was recorded in the area of transportation services (14.7%), whilst housing expenditure fell by 6.4%. According to inflation expectations, which are the result of surveys conducted by the Central Bank, the current year can be expected to see some level of inflation.

Employment and Wages

According to data provided by the Employment Agency of Montenegro, the unemployment level recorded at the end of December was 32,974 (of which 14,654 were women). This shows an unemployment level of 12.49%. Since the beginning of the year, it has been recorded that there are 1,978 newly employed persons and 2,571 work permits have been issued.

The average gross salary in February 2010 was €691, while the average salary without taxes and contributions in the same month amounted to €463. The salary range was from €223, recorded in the fishery sector, to €795 which was recorded in the financial mediation sector.

Observing the period from January to February of this year, and comparing it with the same period last year, it is interesting to note that the average salary without taxes and contributions grew considerably in the fishery sector (47.7%) and also in the agricultural sector (36.6%). The largest decline in average salary was recorded in the area of public administration and social security (7.4%), as a result of measures taken to remedy the consequences of the financial crisis. This was due to a reduction in the amount of salary administration.

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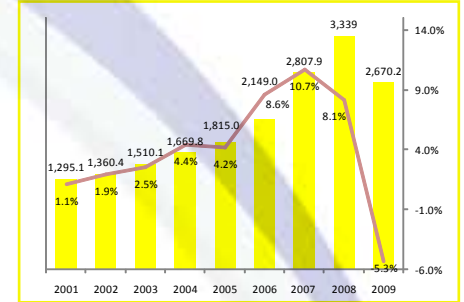
Economic Freedom

Business News

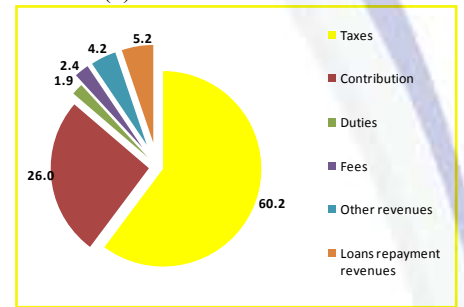
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Coming up...

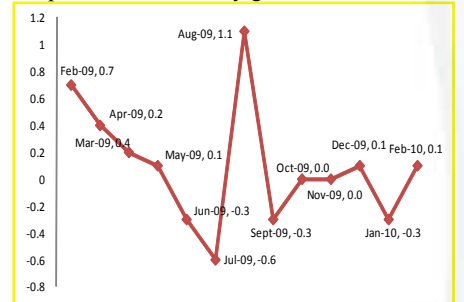
Graphic 1. GDP in current prices - in mil (€)



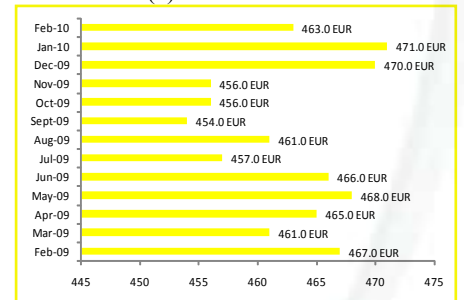
Graphic 2. Original budget revenues structure (€)



Graphic 3. CPI-monthly growth rate



Graphic 4. Average salary without taxes and contributions (€)



Source: Monstat, The Central Bank of Montenegro, The Ministry of Finance

Capital Markets

Capital Markets

During the first three months of 2010, the total volume of trade on both Montenegrin stock exchanges amounted to €14.5 million, which was almost twice less than the amount of trade seen during the first three months of 2009 (€27.2 million). During the first three months of 2010, 6,102 transactions were completed.

Three types of securities were traded: company shares, privatization-investment fund shares and bonds, which included: Old Currency Savings Bonds, Pension Fund Bonds, Indemnity Fund Bonds and Governments Bonds.

During the first quarter of 2010, the greatest turnover was recorded by company shares (49.3%), followed by various other bonds (45.8%), while the total turnover in investment funds amounted to 4.9%

Trade on the Stock Exchange

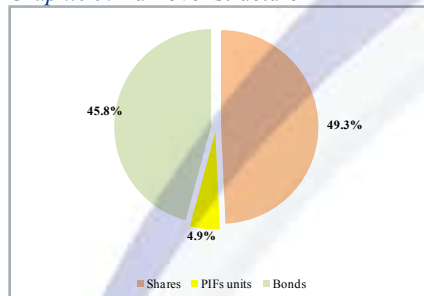
NEX Stock Exchange: The total volume of trade during first quarter of 2010 was €9 million, whilst the number of transactions reached 1,780. During the first quarter of 2009, trade volume totaled €6.3 million through a total of 7,251 transactions.

The Montenegro Stock Exchange: The total volume of trade during the first three months of 2010 amounted to €5.5 million which was three times less than was recorded during the same period in 2009. A total of 4,322 transactions were recorded. Compared with the total volume seen in the first quarter of 2009 (€20.8 million), the level of trade volume achieved was almost three times lower.

Taking into consideration the shares from a single company, the highest monthly trade volumes during the first quarter of 2010 were reached in March when Telekom Montenegro shares reached a high of €1.1 million through 196 transactions and in February when Trend Korali achieved a total of €0.4 million in trade volume through just three transactions.

The companies which traded the most during the first three months of 2010 were Prenos AD Podgorica, which achieved €3 million through 218 transactions in February and Kontejnerski Terminal i Generalni Tereti Bar that achieved a level of €0.24 million in trade volume through 220 transactions in March.

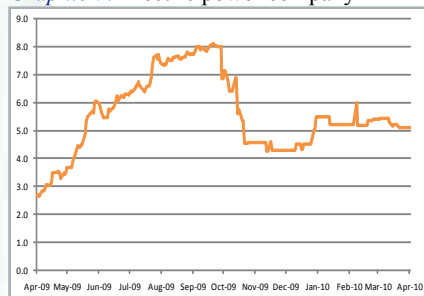
Graphic 5: Turnover structure



Graphic 6: Plantaže AD



Graphic 7: Electric power company AD



Graphic 8: Crnogorski Telekom AD

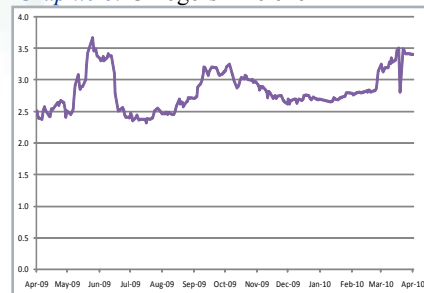
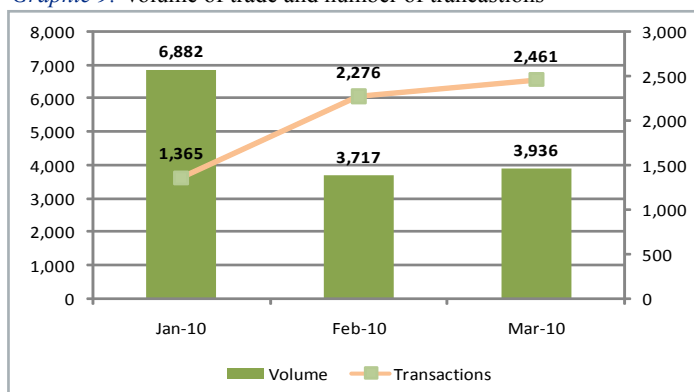


Table 1: Trade on the Stock Exchange

Exchange	Total		Shares		PIFs units		Bonds	
	Volume €	Trans.	Volume €	Trans.	Volume €	Trans.	Volume €	Trans.
NEX Montenegro	9,043,787.00	1,780	3,516,153.00	912	246,311.00	444	5,281,323.00	424
Montenegro SE	5,490,290.41	4,322	3,644,101.44	3,027	471,697.65	700	1,374,491.32	595
Total	14,534,077.41	6,102	7,160,254.44	3,939	718,008.65	1,144	6,655,814.32	1,019

Graphic 9: Volume of trade and number of transactions



Stock Exchange Indices

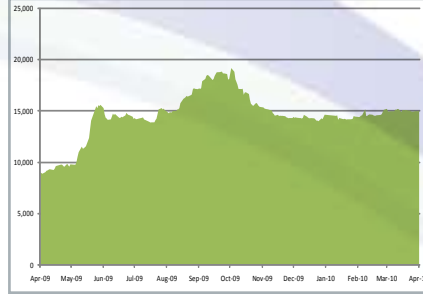
During first three months of 2010, all three indices experienced similar trends: a slight increase followed by small fluctuations.

NEX 20

The highest value of NEX 20 during the first three months of 2010 was recorded on March 1st at a level of 15,165 points and the lowest value was recorded on January 23rd at a level of 14,095 points.

Variations in index value influenced the changes shown by all shares represented in that index, especially those belonging to the Electric Power Company and Telekom Montenegro.

Graphic 10: NEX 20

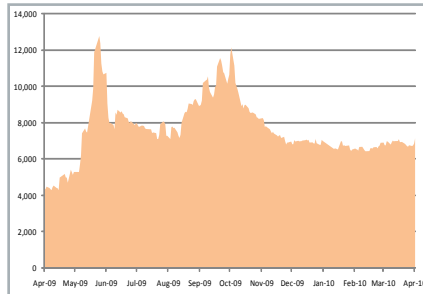


NEX PIF – Index of PIFs Shares

The value of this index showed a similar trend to the NEX 20 during the first three months of 2009. The highest value was reached on March 16th with a total of 7,116 points and the lowest was recorded on February 12th with a value of 6,450 points.

The influence on the value of the index during the first three months of 2009 led to a trend that was visible in all six Privatization Investment Funds.

Graphic 11: NEX PIF

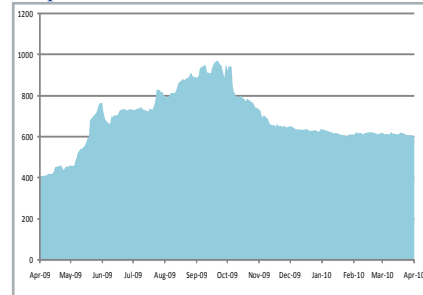


Moste Index

The value of the Montenegro Security Exchange, MOSTE, upon which the MSE's 35 most liquid companies are traded, also showed a trend which was similar to the one shown by the previous two indices.

The highest value for MOSTE during first three months of 2010 was on February 18th, with a total of 624 points, whilst the lowest value was reached on January 25th with 602 points.

Graphic 12: MOSTE



The influences on the various trends of the MOSTE Index were as a result of price fluctuations which were seen in most shares (Plantaze AD Podgorica, Prenos AD Podgorica, Port of Bar AD, etc).

Table 2: Brokerage Houses

Brokers at the Capital Markets	ID	Share in the turnover (%)
3M broker - dealer	3M	5.42
Bull&Bear broker - dealer	BB	5.95
CG broker	CG	49.04
Global broker - dealer	GB	1.36
Invest banka Montenegro	IB	0.69
Marketiva broker - dealer	BS	0.22
Holder broker - dealer	HO	5.75
Market broker - dealer	MB	3.71
MB broker	MR	1.63
Moneta broker - dealer	MO	5.72
Monte Adria broker - dealer	MA	1.16
Monte broker	MN	2.27
MV broker	MV	0.17
NK broker	NK	2.22
Nove broker	NO	0.97
Onyx broker	OX	1.73
VIP broker - dealer	VP	4.13
Partner broker	PR	1.74
PG broker	PB	3.78
First Financial Securities broker - dealer	FF	0.63
Hypo Alpe Adria Bank	HP	1.65
Hipotekarna banka	HI	0.05

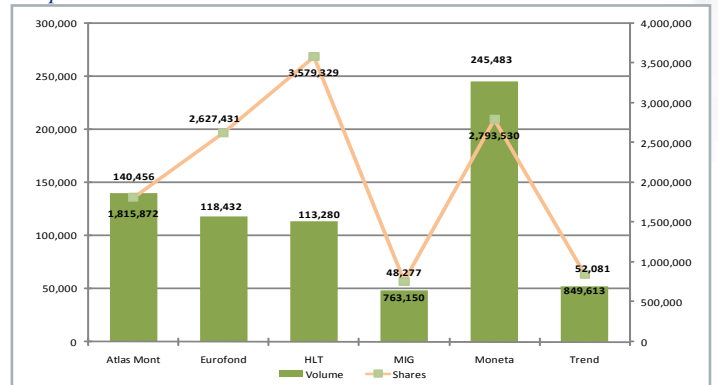
Source: Nex Stock Exchange, Montenegro Stock Exchange

Privatization – Investment Funds on the Stock Exchange

The total volume of trade involving PIF shares during the first quarter of 2010 was €0.7 million. This was a little lower in comparison with the figures recorded during the first quarter of 2009 (about €0.8 million in trade volume). Transactions totaled 1,144 through 12.4 million shares from all six PIFs.

The most actively traded shares during this period were HLT, whilst the least traded were MIG shares.

Graphic 13: Turnover and number of PIFs shares



Banking Sector

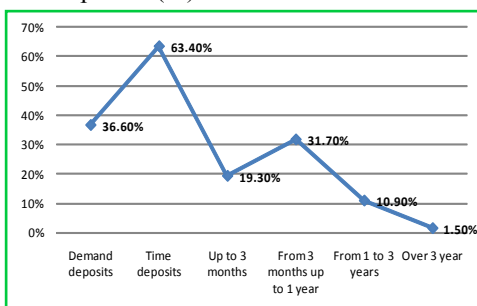
Total Assets and Liabilities of Banks

The following asset positions recorded a year-on-year increase in December 2009: monetary assets and deposits with deposit institutions (11.7%), loan loss provisions (34.6%), securities (232.6%), and other assets (36.5%). The following asset positions registered monthly increases in December 2009: monetary assets and deposits with deposit institutions (10%), securities (0.8%), and other assets (11%).

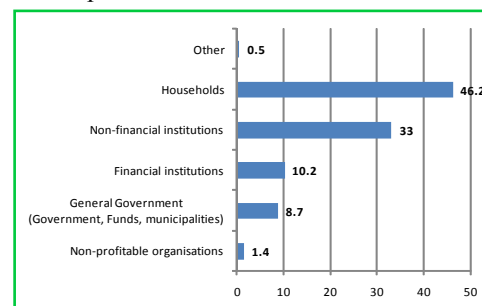
Deposits

Time deposits accounted for 64.3% of the total of all deposits. The structure of time deposits shows that deposits for up to one year accounted for 31.7%, deposits for up to three months 19.3%, and deposits for up to three years represented 10.9% of the total of all deposits. Observed by sector, household deposits still accounted for the main share of the total of all deposits with 46.2%.

Graphic 10: Maturity structure of deposits, end of period (%)



Graphic 11: Structure of deposits by sector, end of period



Montenegrin banks have reduced credit activities

During the last 12 months period, all banks operating in Montenegro have reduced their credit activities and some of them have even completely stopped offering credit. The law stipulates that a credit license can be confiscated for several reasons. One of these is that a bank has not received deposit or grant credits for a period of more than six months. A license can also be lost if a bank performs these activities at a level that is considerably lower than previous practice or is lower than planned projections. In addition, a license can be lost if it was not registered in the Central Register of the Commercial Court within the defined terms or if the bank did not start business within 60 days.

Euro Bonds

In its attempts to avoid limitations imposed by the MMF arrangement, Montenegro will, due to a sharp drop in the economy, issue Eurobonds to the value of €200 million. Eurobonds are international debt contracts, nominated by some euro currencies. European banks approve these to borrowers in one or more foreign currencies, and the interest rate is determined according to the rate on the European money market. They are granted as short-term or medium-term loans with a fixed interest rate.

Household Deposits

This area showed a monthly increase of €27.7 million or 3.4%. However, these deposits recorded a year on- year decline in 2009 of €12.3 million or 1.4%.

Regarding the maturity structure of household deposits at the end of December 2009, demand deposits and time deposits accounted for 31.6% and 68.4% respectively. Short-term deposits made up 87.3% of the total household deposits.

Loans

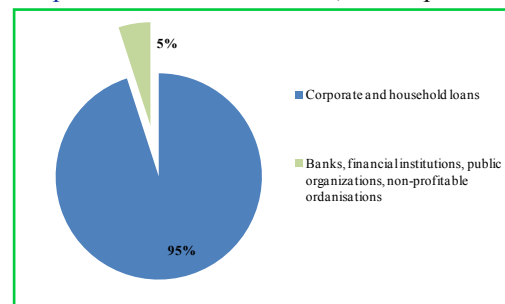
Banks, however, did not only reduce their loan receivables through debt repayment, but also through the sale of receivables to their parent banks. Thus, two systemic banks removed around €180 million from their balance sheets, thereby reducing their exposure to credit risk and improving their capital strength.

In the structure of total disbursed loans, corporate and household loans accounted for 95%, whereas the remaining 5% referred to banks, other financial institutions, public owned organizations, non-profitable organizations and others.

Central Bank of Montenegro Awards

The Central Bank of Montenegro has launched a competition to award of annual awards in the banking sector, in monetary policy and in theoretical research. Those who were entitled to participate included candidates who had graduated, or had been awarded either their Masters or Doctorate degree titles last year from one of the university faculties in Montenegro. The annual award from the Central Bank of Montenegro, in addition to a special plaque, includes €2000 for the best Diploma Paper, €3000 for best Master Thesis and €4000 for the best PhD Thesis. Registered papers have to meet certain criteria including competency in the field of expertise, an adequate level of methodological approach, scientific contribution, practical application and originality in the research. Awards will be awarded on the Central Bank's Day of Establishment.

Graphic 12: Structure of loans, end of period



Source: Central Bank of Montenegro (CBCG)

Privatization and Investments

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Foreign Direct Investments (FDI)

The total FDI inflow in Montenegro in 2009 amounted to €1068.4 million, which was 30.8% higher than it had been in 2008. The net FDI inflow (inflow minus outflow), according to preliminary data, during the previous year amounted to €910.9 million.

When looking at the foreign direct investment structure, it is evident that the largest influx has been made on the basis of equity investments. However, a reduction in inflow was recorded on the basis of borrowing from parent companies. In the ownership structure of investment,

investment in real estate decreased, while investment in companies and banks increased significantly. Most of the funds were realized from the sale of the EPCG shares and through the recapitalization of banks. In 2010, it has been announced that there will be investments in several projects (highway Boljare Bar, Luštica, Port Bar, Port Montenegro, mini-hydro), and the effects of this will be evident in future periods.

The total FDI outflow amounted to €157.5 million. In the outflow structure, the largest share (43.6%) recorded the withdrawal of the share of foreign capital into domestic banks and companies, 22% was related to the reduction of commitments in local companies as a result of credit taken from parent companies, 15.8% of investments were in real estate, while the investment of Montenegrins in banks and companies represented a total of 18.4%.



Source: The Ministry of Finance, MIPA

Montenegro Dramatically Increases its Position for Competitiveness in the Field of ICT

Montenegro jumped ahead by 29 positions from last year and is now in 42nd place on a list of 133 countries from the World Economic Forum. This list shows a country's level of competitiveness in the field of ICT. From the ex-Yu states, the only state which performed better than Montenegro was Slovenia, which is in 31st place. Croatia was ranked 51st, Macedonia 73rd, Serbia 84th, and Bosnia and Herzegovina 110th. The research for these figures is based on a network readiness index, which includes the business, regulatory and infrastructure environments in the area of ICT, the preparedness of citizens, companies and governments for a greater use of technology, as well as the actual use of technology. Montenegro was in 43rd position in the area of the market, regulatory and infrastructural environment, in 41st position concerning readiness, and for actual use it was ranked in 46th place.



The EU Project for Rural Development was Launched

An EU-funded twinning project named, "Support to Establish an IPA Rural Development (IPARD) Programming and Implementation System", has been officially launched in Podgorica. The project aims to enhance the rural development of Montenegro in line with the requirements of the Stabilization and Association Process and of the *acquis communautaire*. Budget for this EU project amounts €1.5 million.

The purpose of this project, which is worth €1.5 million, is to help create the institutional, strategic and legislative setups required by the Ministry of Agriculture, Forestry and Water Management to implement a rural development policy in line with the demands of the instrument for pre accession (IPARD). Twinning is a key assistance instrument in the pre-accession period. It is based on cooperation between a beneficiary institution and an EU member state or a consortium of member states, which is the case with this project. Three countries are involved (Austria, France and Slovakia).

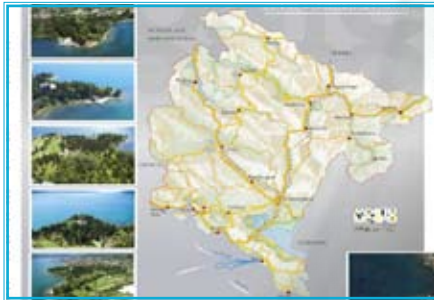
Source: European Union



Private Investors Association of Montenegro Established

A Private Investors Association has been formally established in Montenegro (UPICG). The main reasons for the establishment of an association of private investors are the bad situation on the domestic stock exchanges and the indolent attitude of the management companies that manage the six investment funds which were created during the mass voucher privatization. The association has an 'open' style and aims to protect the interests of its members, primarily when trading in the capital markets. The association will pay special attention to the largest Montenegrin companies and privatization funds.

Sources: Ministry of Economy; Montenegrin Investment Promotion Agency (MIPA)



Investments

Qatari Diar Invest Into Montenegro Resort

Qatari Diar has acquired the rights to the hotel complex Blue Horizon for 24 million Euros. Qatari Diar is fully owned by the Qatar Investment Authority and was founded to support Qatar's rapidly expanding economy and to provide structure and quality control for the country's real estate development priorities. Qatari Diar is currently building signature projects and facilitating vibrant, new communities on an unprecedented scale. Blue Horizon is located on the Lustica Peninsula in the Tivat Municipality and is owned by HTP Primorje. Earlier, EDESSA was requested by Qatari Diar and an international investment group to look at sites in Budva and Ulcinj in Montenegro for the development of various projects ranging from residential, commercial, retail, hotels and resorts.

Lamborghini Proposes Opening a Factory for Electric Cars in Montenegro

Tonino Lamborghini finished a very satisfactory trip to Montenegro this week. The purpose of his visit was to consider the opening of an electric car factory. The proposed plan is to open a factory in conjunction with the government to manufacture 1000 electric cars a year. This factory would have the possibility of expansion in the future. Tonino Lamborghini is the son of Ferruccio Lamborghini, the founder of Lamborghini cars.

The President of Montenegro Offers Investment Opportunities for Saudi Businessmen

The President of Montenegro, Filip Fujanovic, expressed optimism in building good relations with Saudi businessmen, particularly in the fields of tourism and industry and to avail them with the benefits of natural resources in the Republic of Montenegro. In a meeting with Saudi businessmen at the Riyadh Chamber of Commerce and Industry, the President said that his visit to the Kingdom unveiled a true wish by all to have new relations with this country, noting that the two countries are able to build a truly excellent relationship, starting with culture and politics.

For his part, Abdulrahman Al-Jeriesy, the Chairman of the Board of Directors of the Riyadh Chamber, said that Saudi businessmen have true wish to get acquainted with the products of the Republic of Montenegro.

Montenegro - set to Flourish for Sailing



Montenegro, once the stylish playground of Hollywood icons such as Elizabeth Taylor, Sophia Loran and Kirk Douglas, is ready to flourish again. For years, locked in as part of Yugoslavia, the independent nation with its deep waters and beautiful coastline, is now starting to attract once again the attention of sailors - and developers.

'Monte Carlo, Antibe, Caprera, Nice and Cannes — they've been there for years, and that's really my generation,' says Mr. Munk, the 82-year-old visionary and chief investor behind the new Porto Montenegro, which he promises will be the Mediterranean's most comprehensive nautical facility. The 24-hectare property is located near the city of Tivat in the fjord-like Bay of Kotor, a UNESCO World Heritage Site and the deepest natural harbor in southern Europe.

Because Porto Montenegro sits on the site of a former Austro-Hungarian naval base, the water depth can accommodate today's super-yachts, defined as being more than 24 meters in length. Once complete, Porto Montenegro will feature 500 regular berths and another 150 for super-yachts. Residences, luxury hotels, bars, art galleries, a nautical museum and a waterfront promenade are also planned in the works. The first 85 berths for yachts up to 100 meters opened for business last summer and were fully booked within three weeks.

Montenegro in the Biggest Real Estate Fair

CANES - XXI MIPIM, the world's leading real estate event was held from March 16 to 19. It brought together key industry decision-makers from around the world, allowing them to establish long-lasting relations, to present new projects, and to lay the foundations for fruitful collaboration. The investment potential of Montenegro was presented at the fair. Montenegro presented a project for the construction of four golf courses.

The construction of these courses is designed in such a way that the state will provide the land, and that a foreign company will apply to take on the project as an investor. In general, the development of tourism is becoming a new driving force in property development. Considering Montenegro's aspirations to become a recognizable investment destination, MIPIM represents a good opportunity for its promotion in the international market, as well as to provide meetings, connections and networking opportunities with big investors in the real estate sector.



Montenegro Wants to Increase Cooperation Ties with Vietnam

Montenegro and Vietnam have great potential for boosting cooperation in economics, investment, trade, and particularly tourism, says the Montenegrin President. At a recent reception for Vietnam's new ambassador Nguyen Quang Chien, the Montenegrin President said that he admired the Vietnamese people for their significant achievements, especially in economics, and in their national construction and development. The expectation is that the new ambassador will play an active part in strengthening friendship and cooperation between the two countries. Ambassador Chien expressed Vietnam's desire to develop its traditional ties with Montenegro in the interest of the two peoples.

Investments cont.

One Billion Euro planned investment for Montenegro ski resorts

By the end of April the Government will adopt the draft spatial plan for special purposes and Bjelasica and Komovi - announced from the Ministry of Physical Planning and Environment. The first estimates show that investment in hotel accommodation in five ski resorts in the area will be from €250 to €300 million, in ski resort to €250 million, in real estate to €350 million, and commercial and other areas up to €90 million.

The new ski resorts have pre-projected accommodation capacity for about 20 thousand beds and the ability to accept the daily 35.5 thousand skiers, while the park Komovi will be able to accommodate about five thousand visitors a day. The Ministry of Physical Planning and Environment think that with such planning document Montenegro can claim to serious foreign investment, because, in addition to attractive natural conditions, it has the ability to effectively conduct the administrative procedures of issuance of building and other permits.

Source: Montenegrin Investment Promotion Agency (MIPA)

Can Montenegro Count on Investments from the BRIC Countries?

Montenegro, as a potential member of the EU must prepare itself for the possible arrival of investors from the BRIC countries – Brazil, Russia, India and China.



It would be very interesting for these countries to get closer to the big and solvent European market.

Montenegro's future membership in the European Union, its relative closeness to the European market, its access to the sea, along with a trained and relatively cheap work force are some of its main advantages – this is one of the conclusions drawn by the study "Integration in European and Euro-Atlantic Structures".

State Department: Favorable for Investing Despite the Transition



The Bureau of Economic, Energy, and Business Affairs, in its latest statement, assessed that the investment climate in Montenegro was generally encouraging and that Montenegro offers a wide range of investment opportunities. Montenegro has established a so called 'liberal investment regime' even though the transition process is still underway and all structural barriers have not yet been entirely removed. It was particularly stressed that the treatment of foreign investors was regarded as favorable.

EBRD, Montenegro Seeks Contractors for the Montenegro Railways Infrastructure Rehabilitation Project II

Railways of Montenegro 'Željeznička Infrastruktura Crne Gore AD' intends to use part of the proceeds from a loan from the European Bank for Reconstruction and Development towards the cost of a project to undertake emergency rehabilitation of the railway infrastructure.

Railways of Montenegro 'Željeznička Infrastruktura Crne Gore' AD now invites sealed tenders from contractors for the following contracts to be funded from part of the proceeds from the loan: Works on Tunnels, on the Montenegro railway lines.

Open Tenders

Tender for Port Closed

Regarding the tender for the privatization of the Port of Bar, there were no bids for the purchase of port unit "Container Terminals and General Cargo". The Montenegrin Ministry of Transport and Maritime Affairs stated that the bids for the purchase of the port unit "Maritime Affairs" had been delivered by a local company, Nimont, Montenegrin company Interlog and the Italian company. For "Security and Firefighting Protection", interest was only shown by the Nikšić-based company, Guardian, and the Greek company, ICT. Only one bid came from Romania for "Montecargo" from the company "Grampet".

Five-million Repair

The Adriatic Shipyard "Bijela", in cooperation with the Danish Company "Semko" and the Swiss company, "Mack", will start a profitable business of oil platform repairs. The fact that the business will be profitable is testified by information concerning the repair of an American oil platform, soon to be delivered at the shipyard, which is worth an amazing five million Euros. It is important to mention that the shipyard will not be held responsible for the success of project implementation, but rather the Swiss-Danish partners.

First Regional Landfill to be Built This Year

The World Bank will finance the construction of the first regional landfill for Bar and Ulcinj which will be located at Možura. However, the progress that Montenegro has made in the field of waste management and waste water is very clearly recognized by the European Commission. Donors and international financial institutions have assessed this as being highly successful and satisfactory. No country has solved these problems rapidly. The landfill location for Niksic and the surrounding municipalities has already been determined. The landfill site for the northern part of the country will most likely be built in Berane for all five municipalities, instead of the original plan to be built in Bijelo Polje.

MBO Interview: Mr. Samih Sawiris, Chairman and CEO Orascom Development Holding Ltd.



Mr. Samih Sawiris, Chairman and CEO Orascom Development Holding Ltd., Altdorf, Switzerland

Biography:

Samih Sawiris was born in Cairo on the 28th of January 1957 as the middle son among three sons of Onsi Sawiris, founder and president of Orascom conglomerate in Egypt.

After attending the German School in Cairo (Deutsche Evangelische Oberschule), he graduated from the Technical University of Berlin with a Diploma in Economic Engineering in 1980. He is married and has five children and lives in Cairo.

Samih Sawiris is the Chairman & CEO of Orascom Development Holding (ODH), a newly established Swiss-incorporated company. ODH made a tender offer to acquire 100% of Orascom Hotels and Development (OHD) and succeeded in being listed on the Swiss Stock Exchange as well as on the Cairo and Alexandria Stock Exchanges.

● **How would you introduce Orascom to people who do not know a lot about your company?**

● “Orascom Development develops and builds entire holiday resorts with hotels, apartments, villas, as well as infrastructure facilities such as marinas, golf courses, restaurants, shops, and schools, hospitals, churches, etc. as the case may be.”

● “We sell apartments and villas as well as units in the hotels. However, Orascom retains ownership of the infrastructure facilities. We do not withdraw once facilities are in place but stay and manage them.”

● **Orascom operates in Egypt, Switzerland, the United Kingdom, Oman, Morocco, UAE, Mauritius, Jordan... What attracted you to Montenegro?**

● “Having heard about our activities and Orascom Development’s special approach, the Montenegrin government then invited us to submit an offer.”

● **How do you see the advantages and disadvantages of Montenegro as an investment destination?**

● “Montenegro is a true pearl of the Adriatic. I have rarely seen such beautiful surroundings. It is now a matter of preserving the beauty of this country with careful and sustainable planning and development. One of the main disadvantages today is that Montenegro is not yet well known as a prime vacation destination.”

● **What is the vision for an Orascom town at Lustica?**

● “Our aim is to develop a fully-fledged holiday resort that is sustainably oriented. This includes more than 2,000 residential units, several hotels, a socializing zone with restaurants and shops, a marina, a golf course, etc.”

● **What are the dynamics of project implementation?**

“The initial project stage will encompass a hotel, the socializing zone, a golf course and the main part of the marina. This first stage is scheduled for completion within the next five years.”

What are the main challenges that you expect to face during project implementation and later on once the project is completed?

“In the framework of such a huge project, there always are many challenges. However these challenges are manageable by a professional project management and this is part of our core business.”

Does the financial crisis have any influence on the dynamics of project implementation?

“No. Orascom Development primarily uses its own resources to finance its projects except for hotel construction. Apartment blocks are only built when a minimum of 50 percent of the apartments have been sold. Villas are only built when they have been sold. We thus have practically no debts and remain unaffected by the fluctuations of the financial markets.”

Do you plan any other business ventures in Montenegro?

“Nothing else is planned at present. Our project is currently the biggest in the country.”

Are you satisfied with cooperation with the Montenegrin government?

“Very much so. The government operates extremely professionally and efficiently. And it is always focused on the country’s best interests.”

If you were the Prime Minister of Montenegro, what would you do?

“As I do not know so much about your beautiful country, I would not presume to give any advice to your Prime Minister. In my opinion, he and the whole government are doing an excellent job.”

INTRODUCTION OF MR SAMIH SAWIRIS AND PRESENTATION OF ODH DEVELOPMENT HOLDING LTD.

ODH develops, constructs and manages fully integrated touristic towns. With the development of El Gouna town on the Red Sea in 1989, which eventually has become ODH flagship with its modern arabesque architecture & unique interior design It holds 15 hotels, managed by OHD’s brands and international hotels chains such as Moevenpick, Sheraton, and Club Med.

It also encompasses numerous restaurants, discos, pubs, shopping arcades, more than 10 km of beaches, various water & land-transport facilities, its own luxurious marina, an international school, a hospital and an airport. El Gouna Real Estate properties, owned by people from more than 30 different nationalities spending their vacation in El Gouna or living in El Gouna, among them 300 European families; about 400 pupils attend the El Gouna international School and 168 students the Egyptian-German Hotel School (Hotelfachschule). El Gouna was awarded four "Green Globe 21" certificates for its admirable respect of environmental principles. "Green Globe 21", granted by the World Travel & Tourism Council, promotes tourism based on the Agenda 21, which was passed in 1991 by the UNO Earth Summit.

Samih started to internationally expand. ODH runs Taba Heights, its second integrated town located on the Gulf of Aqaba (Sinai, Egypt). and Tala Bay Aqaba Resort in Jordan and "The Cove" Resort, which is under construction on the Persian Gulf Coast in Ras Al Kheima (United Arab Emirates).

Furthermore, ODH tourism resorts under development are located on the Gulf of Oman; the project consists of 4 huge projects; Sifah, Salalah, EL Soda Island and City Complex in Muscat. Additionally, a very rare permission from the Swiss government was granted to Mr. Samih to develop a luxury resort in Alpine Village of Andermatt.

ODH is the first company, in the Swiss history, to be granted exemptions from "Lex Koller" regulations, which relates to the restriction of non-residents to own land/real estate in Switzerland.

Samih has managed to develop a low income housing project in Egypt whose target is to offer affordable housing units all across Egypt. This type of project started to expand internationally.

In addition, Samih is a Board Member of Guggenheim Museum. The mission of Guggenheim Foundation is to promote the understanding and appreciation of art, architecture, and other manifestations of visual culture.

Last but not least, Samih is a member of Sawiris Foundation which was founded in April 2001, with an endowment from the Sawiris family. It constitutes the first family foundation dedicated to social development in Egypt and provides grants to fund projects implemented by partners.



PENINSULA LUSTICA

Lustica is the famous peninsula opposite Herceg Novi famed for its many legends of pirates, sailors, fishermen, and even dynamite. Lustica is famous for its vast unique olive groves, its famous cheese in oil, dried fish, prosciutto, "caglje" (prairie jackals), mongoose, the largest number of churches with two altars anywhere in the world.

*

Krasici is the first and largest settlement on the peninsula, with dozens of small peaceful bays, jetties and hundreds of small weekend houses, but with the exceptionally well preserved atmosphere of a small fishing village by the sea.

*

Zabrdje is on the highest point of the peninsula, and it looks directly on to Herceg Novi, and from here the whole bay gets a whole new dimension from the interweaving of hundreds of shades of beautiful natural colors and reflections.

*

Rose is one of the oldest settlements in the Bay and the surrounding areas, a place that your reporters especially love, and which many before them have loved and many after us too.

Source: www.montenegro.com

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Economic Freedom

The annual surveys 'Economic Freedom of the World' (EFW) and the 'Index of Economic Freedom' (IEF) are two indices which attempt to measure the degree of economic freedom in the world's nations. The EFW index, originally developed by Gwartney, Lawson and Block at the Fraser Institute, was the most likely to be used in empirical studies from 2000. The other major index, which was developed by the Heritage Institute and the Wall Street Journal, appears to be superior concerning data, but as it only goes back to 1995, it is not as useful for historical comparisons.

According to the creators of the indices, these rankings correlate strongly with a higher average income per person, a higher level of income for the poorest 10%, a higher life expectancy, higher literacy, a lower infant mortality rate, higher access to water sources and less corruption. The people living in the top one-fifth of countries enjoy an average income of \$23,450 and a growth rate in the 1990's of 2.56 percent per year; in contrast, the bottom one-fifth in the rankings had an average income of just \$2,556 and a -0.85 percent growth rate in the 1990's. The poorest 10 percent of the population had an average income of just \$728 in the lowest ranked countries compared with over \$7,000 in the highest ranked countries. The life expectancy of people living in the highest ranked nations was shown as 20 years longer than for people living in the lowest ranked countries.

Higher economic freedom, as measured by both the Heritage and the Fraser Indices, correlates strongly with a higher level of self-reported happiness.

The Fraser Institute estimates that countries with a high EFW are significantly less likely to be involved in wars, while the measure of democracy had little or no impact. The level of economic freedom shown in the world score for the entire world has grown considerably over recent decades. The

average score has increased from 5.17 in 1985 to 6.4 in 2005. Of the nations recorded in 1985, 95 nations increased their scores, seven saw a decline, and six remained the same. Using the methodology of the 2008 Index of Economic Freedom, world economic freedom has increased by 2.6 points since 1995.

Members of the World Bank Group also use the Index of Economic Freedom as an investment climate indicator because it covers many aspects which are relevant to the private sector in a wide number of countries.

Montenegro's economic freedom score is 63.6, making its economy the 68th freest in the 2010 Heritage Index of Economic Freedom. Its score has improved by 5.4 points since last year, reflecting notable improvements in seven of the 10 areas of economic freedom. Montenegro ranks 32nd out of 43 countries in the European region, and its overall score is above the world average.

Significantly improved flexibility in the labor market and an improved regulatory environment for investment have together enabled Montenegro to score the largest increase in economic freedom in the 2010 Index. The country's flat tax rate has become more competitive due to recent tax cuts, and government spending has been held in

check. Montenegro's ongoing transition to greater economic freedom has facilitated an impressive average economic growth rate of over 7 percent during the past five years. Economic freedom in Montenegro still suffers as a result of insufficient institutional support for property rights and the fight against corruption. The court system remains vulnerable to political interference and inefficiency. External debt has continued to grow, and government spending still needs to be targeted more effectively.

What can be expected in the 2010 results?

Obviously, all of the countries in the world are suffering from the consequences of the economic crisis. The role of the state has changed and state interventionism is now more the norm rather than the exception. The same situation is evident in Montenegro. State intervention can be seen in the protection of deposits, the offer of bank guarantees for companies in need etc. Also there have not been any significant changes in legislation that could influence the level of economic freedom in Montenegro. So it can be expected that Montenegro will hold its position in this year's index and that room for improvement will be sought over the following years. This is of course assuming that Montenegro will continue with its reforms towards establishing the principles of a free market economy.



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Abu Dabi Provides Funding for the Regional Water System Supply

It was announced in the capital of the United Arab Emirates that Abu Dabi will donate almost €17 million for the construction of a regional water supply system along the Montenegrin coast. The Abu Dabi Fund has participated in the implementation of nearly 300 development projects in 53 countries around the world and this is the first project in Montenegro. It is anticipated that the regional water supply system will be operational on 15th June 2010, which would contribute greatly to solving one of the key problems of tourism on the coast.

Planned Investments of up to one Billion

The draft of the Spatial Plan for Bjelasica and Komovi sets out detailed plans for spatial planning in five locations. Four of these are ski resorts and the fifth is an eco-adventure park at Komovi. It has been said that the investment in the hotel accommodation at the five ski resorts will amount to somewhere between €250 to €300 million. Such planning documents are taken seriously by foreign investors because in addition to highlighting the natural issues and problems associated with an attraction, they also provide an opportunity to effectively conduct all of the administrative procedures for the insurance of buildings along with completing the paperwork for all other permits.

The Zeta River and ‘Green’ Energy

The Electric Power Industry of Montenegro (EPCG) will, with the Norwegian company NTE Zeta Energy, produce electricity from renewable sources. The establishment of energy production for the Zeta is as a result of successful cooperation between NTE and the Montenegrin Power Company. The purpose of the formation Zeta energy is to reconstruct some small hydropower plants in order to extend their working life and to increase their level of production, along with developing the exploitation of renewable resources in Montenegro. Regarding the main priorities, the reconstruction of the Zeta waterfall along with the possibility of building a small hydropower plant, Rošca, downstream from Perućica are considered to be the most important.

For the New Business 2000 Companies

Montenegro has started to develop private business more aggressively through projects-by developing competitiveness, by eliminating business barriers, and by providing assistance to exporters. From the 42,018 which were registered, 15,357 small and medium sized enterprises were active during the last year. By the end of this year, the number of small and medium sized enterprises in Montenegro should have increased by approximately 1,500 to 2,000. According to the estimations of the Directorate for Development of Small and Medium Sized Enterprises, there will be around 44,000 small and medium enterprises by the end of the year in Montenegro. Constant growth can be seen in the number of the companies in the north in Montenegro. At the moment, there are 11,059 businesses which is 32.6 percent more when compared with last year. This data confirms that the tasks which were planned in the strategy documents of small and medium enterprises were indeed completed.

Construction Work on the Island of St. Marko

The Russian Metropol Group will work on an architectural project this year on the Island of St. Marko as well as preparing various funding models. Reconstruction work is expected to start next year. The study on the St. Marko location was accepted last year and work is now being carried out to secure the necessary permits. The project will have a global character, from which Montenegro will gain benefit. The Metropol Group signed an agreement with the Singapore Company ‘Banyan Tree’ last year for the construction of a six-star hotel and the management of the island. Metropol bought the Island of St Marko from the Belgrade company, Voyager in 2007. The Russian company plans to invest €450million in the island



Montenegro Will soon be in the PayPal System

Users of electronic payment systems in Montenegro could be included in the PayPal system by the end of this year. PayPal is the world's largest provider in the field of electronic payments and the guarantee of safe transactions on the Internet. According to this system, the user does not have to leave personal information at a variety of online sites when trading in global markets. It is sufficient to create a PayPal account which can be used on all Internet sites where it is indicated. To start using PayPal services in Montenegro depends only on the decision of specific companies with regard to their own business policies.



Census of Agricultural Producers

A census of agricultural producers should be carried out during the first half of June. A month after the census, it will be evident what capacity Montenegro has regarding in this area.

The World Bank will finance this project and the inventory form that people will fill in contains about 140 questions.

The census will be conducted on a 'door to door' basis and each individual household will be included. The census will include 2,300 persons. This will be the first statistical exercise since 1961, when the last agricultural census was carried out.

The Issue Concerning the Construction of a New High Way Remains Open

A Croatian design consortium has provided money from commercial banks to build a highway from Bar to Boljare. It is ready to join the project if negotiations between the Government and the Greek -Israeli consortium fail. Nobody believed that this designer would be able to provide the required bank guarantee for the construction of the highway, having been unable to succeed as a first-ranking contender for the initial eight month period. This resulted in the termination of concession contract negotiations and resulted in the formalization of negotiations with Aktor and Šikun Binuijem. The negotiations began on 5th March. They offered a price of €3.92 billion for the complete highway.



The Government broke the concession contract with the Croatian consortium constructor-Tech-IGN in early March. The Croatians offered 2.78 billion for the construction of the highway, of which the state share was €1.74 billion. They calculated that the most demanding route would be from Mateševo-Smokovci and would cost a total of €910 million, with a State contribution of €603. Although the State has already negotiated with the Greeks and the Israelis for the first route, it will not be possible for both consortiums to get the work.

Road Between Risan and Žabljak-Grahovo Will be Completed in July

It is expected that the road between Risan and Žabljak – Grahovo will be completed on July 15th. The routes from Grahovo-Osjenčica-Vilusi will be finished by 1st July, while the route Šavnik-Graboviča-Tunel Ivica will be finished by 15th July. The work on the Ivica tunnel and the construction of the route from the tunnel to Žabljak will also be finished by July 15th. By July 1st, the intersection at Vrmac will also be finished. The agreed value of the project is €17.6 million. It is also anticipated that the part of the road from Nikšić to Šavnik, from Jasenova to Šavnik, will also be reconstructed.

In accordance with the regular plan for maintenance and investment, the Government will spend more than €73 million implementing projects to construct new roads and reconstruct old ones in 2010.



Square Meters Cheaper in Podgorica

The average square meter of living space in March 2010 in Podgorica was valued at €1,123 thousand, a decline of 8.4 percent in comparison with September 2009. The latest survey of the Central Bank of Montenegro showed that it based this figure on the price of housing in the capital. Such movement in prices is similar to what is currently being seen in the real estate markets in Croatia and Serbia.

Ex-Yu Countries at the Japanese Market

The unified tourist offer of Montenegro, Serbia and Slovenia is presented at the fair in Osaka 'Kanku Tabihaku 2010', one of the largest tourist events organized in Japan. This is the first joint appearance of ex-Yu countries within regional promotional activities at the far-away overseas markets. This year's fair brought together over 33,000 visitors. The joint brochure is prepared in Japanese for the ex-Yu countries. Each individual promotion brochure contains materials of each country, emphasizing the promotion of tourist offer of the Balkan region with its characteristics and actions.



The Construction of the Power Stations Could Reduce the Price of Electricity

The construction of hydropower plants will be of a great importance for the overall financial system of Montenegro, because all the payments would be carried out through the local banks, while the domestic labor force will be engaged in the constructions of dams, roads and infrastructure. The energy market will be open in 2010 which will enable the purchase of the electricity at market price while the hydropower plant construction is underway. The need for imports will be reduced by the amount that would be produced in Montenegro, provided that the price is a market one. The hydropower plants would provide a greater security in energy supply because Montenegro will have the energy resource. The state will benefit from the employment of a large number of workers in the hydro power stations.



The Plans for the Development of all Sectors

The Government plans to further develop the road and railway infrastructure, air traffic, energy sector and the free flow of the goods and capital. It is expected that the upcoming tourist season will be at the level of parameters with the previous one and the turnover will be between €1.1 million and €1.2 million, which include the same financial indicators of €540 to €550 million per a year from the tourism. Montenegro has managed to preserve macroeconomic stability despite the global economic crisis which has not bypassed Montenegro.

The Italians are Interested in the Hydropower Plants

The group of Italian investors visited Montenegro. They are interested in investing in the renewable energy market and in securities. Regarding the hydropower plants, they read the tender documents for the construction of a series of the hydropower plants and they have asked for the prolongation of the tender.



Bauxite in Hungary and Greece

The first contingent of Nikšić bauxite will soon be exported to Hungary and Greece. It has been said that about 50 tons will be exported to Hungary this year, and about 120,000 next year. Some red ore may also be exported. The price of transportation has also been determined and Montenegro and Hungarian freight have already made contracts for this year and for next.

Cez Withdraws from the Balkan Market

The Czech electricity giant Cez has made decision on withdrawing from the further expansion in the Balkan market and to turn to the construction of the nuclear power plants in the Czech Republic and Slovakia. Cez has announced the withdrawal of the largest foreign investment – the construction of the power plant in Gacko and it has recently withdrawn the bid for the construction of the large power plant in Kosovo due to the changes of the tender conditions. The Czechs now intend to meet the investment in the Balkans in the production and distribution of the electricity in Bulgaria, Romania and Albania.



In the Spotlight Regional Development and EU Regional Policy

Regional development represents the initiation of economic processes and the boosting of the utilization of resources in less developed countries, with the purpose of achieving overall sustainable regional economic development.

Why Regional Development is so Important for the EU?

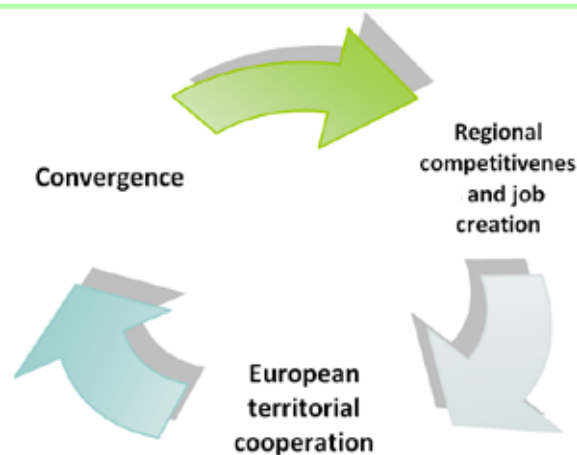
Although the European Union is one of the most developed parts of the world, there are significant discrepancies in income and competitiveness between its regions. In order to reduce regional disparities, the EU transfers resources from developed areas to poorer regions, with the aim of strengthening the competitiveness of the EU as a whole. Regional policy is an instrument through which the EU achieves this goal, enabling the transfer of more than 35% of the budget from richer EU member states to less developed regions.

Regional policy is one of the oldest common EU policies, whose main aim is reflected in the promotion of harmonious community development and the reduction of differences in the levels of development between different regions, or the lagging behind of the least developed countries. It is intended to assist in financing specific projects, regions and operations through raising the potential of the region to achieve the most equal level of participation possible in areas of growth and competitiveness.

The beginning of the establishment of this EU policy goes back to 1975, even though the Rome Treaty from 1957 had already defined that the 'gradual harmonization of economic policies of member states promotes harmonious economic development in the community.

Priority goals in the period 2007-2013:

1. **Convergence** - bringing together the least developed member states and regions through the improvement of growth conditions and job creation. It includes 84 regions which belong to NUT 2, from a total of 17 member states where GDP per capita is lower than 75% of the region's average.
2. **Regional competitiveness and employment** – boosting competitiveness, job creation and attractiveness of EU regions that are not covered by the convergence goal. The main areas covered by this goal are innovations, the promotion of entrepreneurship and environment protection.
3. **European territorial cooperation** - aims to strengthen cross-border cooperation, transnational and interregional cooperation.



Regional Development Policy Instruments

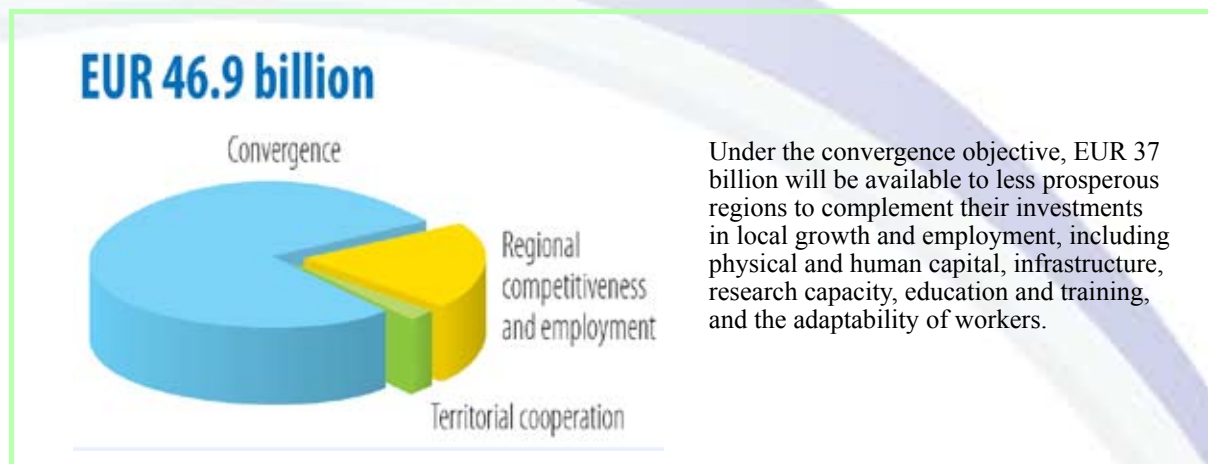
The instruments which are used to achieve the objectives of regional development policy are the Structural Funds (ERDF, ESF, FIFG, EAGGF) and the Cohesion Fund.

There are four structural funds. The basic principles of the way they function are: a focus on priority development objectives, long-term programming, partnership between the European Commission and authorities at national, regional and local levels of the member states, and lastly, co-financing.

- The European Regional Development Fund (ERDF) funds program is aimed at regional development, strengthening competitiveness, economic infrastructure, and territorial cooperation throughout the EU. ERDF is the only fund that finances all three objectives set by regional development policy. Financing priorities are research, innovations, environmental protection and investment in the infrastructure in the least developed regions.
- European Social Found (ESF) funds human resource development and it is aimed at four key areas: the larger adjustment of employees and enterprises, easier access to employment and participation in the labor market, strengthening social inclusion by fighting against the discrimination of vulnerable groups, etc.
- Financial Instrument for Fisheries Guidance (FIFG) established in 1993 in order to fund projects to modernize the capacity for fishing (boats, ports), as well as improving the production and marketing of fishing products.
- European Agricultural Guidance and Guarantee Fund (EAGGF) improves both structural and physical agricultural resources as well as helping to transform the production of agricultural products and all general farming activities. It primarily represents subsidies from member states for farm incomes, and is equal to approximately 45% of EU expenditure.

Cohesion Fund is aimed at member states in which GDP per capita is 90% below the EU average. The fund finances projects in the fields of trans-European transport infrastructure networks (highways, railways) and in the areas of large environmental projects and renewable energy. Cohesion funds are allocated to specific projects with a minimum value of €5 million. The requested co-financing amounts 15-20%. In order to meet the high minimum value requirement, investments from several individual local or regional communities may be tied together in one project.

Diagram 1. 2008 budget expenditures – (Cohesion)



Source: http://ec.europa.eu/budget/library/publications/budget_in_fig/dep_eu_budg_2008_en.pdf

In addition to these internal instruments, there are external ones which are aimed at candidate and potential candidate countries. These include the pre-accession fund IPA, the European Community Program (example: Culture, FP7) and EIB and EBRD funds.

Montenegro uses the instrument for pre-accession assistance, IPA, as preparation for the use of these funds after EU accession. Through the IPA program for 2007-2009, Montenegro was allocated €97.3 million. In the component of cross-border cooperation, which corresponds to the instruments of regional/cohesion policy, €13.06 million was dedicated to Montenegro for the period 2007-2009.

EU Regional Development Policy principles

Legislation in the field of the EU Regional Policy is based on four principles:

- *Concentration* - the funds are mainly concentrated on a limited number of priority targets, i.e. areas where problems are the greatest and where EU contribution could be most effective.
- *Similarities* - existing and future national policy should be directed to the same or similar goals in order to supplement EU activities.
- *Programming* – initially the EU mostly funded individually financed projects, but this did not contribute to enhancing the coherence between national and EU activities. In the early 80s, the European Commission, for the first time, tried to give such activities a programming character in order to emphasize their joint compliance.
- *Partnership* – EU activities imply close cooperation between the commission and the relevant national, regional or local authorities, determined by each member state.

The manner of implementation of Regional Policy

A large number of bodies is involved in the decision-making process and the implementation of Regional Policy. A legislative authority is entrusted to the EU Council and European Parliament, which make decisions regarding the process of granting approval. Within the European Parliament, the Regional Development Committee is exclusively in charge of all issues that fall within the scope of this policy. The right to propose regulations in this area comes under the exclusive jurisdiction of the Commission. The final decision is taken by the Regional Policy Directorate General.

Each member state is obliged to develop a National Development Plan, as a basis for its use of EU funds. Priorities within the plan are adjusted to meet available resources and are geared to the long-term. After the development of the National Development Plan, regional and local authorities are given the power to create and implement specific projects according to the plan, following detailed EU procedures and requests.

Through the process of Montenegro's integration into the EU, awareness regarding the role of regional development and the need to define regional development policy are increasing. Regional policy will be based on the Regional Development Strategy of Montenegro and the Law on Regional Development. The task of the policy is to prepare government and local self-government authorities that are capable of taking on the new roles and responsibilities required in balanced regional development and in the implementation of the EU regional development policy.



UK-Montenegro Investment Forum 2010

Developing Markets Associates and the Embassy of Montenegro in the UK are hosting a UK-Montenegro Investment Forum to be held on 14th April, 2010 at the European Bank for Reconstruction and Development (EBRD) in central London.

The event will be attended by a high-level government delegation from Montenegro, including several key cabinet ministers, as well as by key investors from the UK and Europe and major businesses that are already established in Montenegro. The event will build upon growing interest in Montenegro, and will showcase the investment potential proactively being encouraged by the Government of Montenegro. A lively all-day program will be broken up into sector specific sessions including banking and finance, infrastructure development, tourism and agriculture.

Regional Conference on Sustainable Energy Management in Public Buildings- from Policy to Local Action, Budva, Hotel Splendid 27th to 29th April 2010

At the end of April, for the second consecutive year, Budva will host a regional conference on energy efficiency. The conference gathers all of the key relevant political and economic subjects to disseminate the importance of the idea of finding new possibilities for cooperating in the area of energy efficiency in public buildings. The organizers of the conference are the Montenegrin Ministry of Economy and GTZ- the German Society for Cooperation, including its two projects, ASE from Podgorica and ORF from Sarajevo (funded by Federal Ministry for Economic Cooperation and Development seated in Vienna).

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