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Investors Council

MONTENEGRIN FOREIGN INVESTORS COUNCIL

2023
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A PROSPEROUS
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2023
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New Challenges Seek Courageous Responses

Although Montenegro's potential to attract foreign investments is beyond dispute, there is a strong need to create a clear strategy for attracting investors that focuses on sustainable development and strengthening competitiveness



This publication testifies to Montenegro's strong potential to attract foreign investors and enable them to operate successfully even under economic conditions that aren't particularly favourable to economic growth and development. At the same time, this special edition represents an exceptional resource for public policymakers, as it provides an overview of the opinions of numerous local and foreign interlocutors who critically review possibilities to further improve the overall environment, and particularly the business environment, which will open the door to Montenegro's further development.

Through the numerous featured interviews, there are several very important messages for the future that stand out. Firstly, Montenegro is extremely sensitive to global disruptions, which wasn't sufficiently acknowledged during the previous period through decision-making related to major investment projects and fiscal incentives for the creation of new jobs. This has led to numerous challenges emerging in the conducting of a stable macro-

Preserving macroeconomic stability and diversifying sources to create new growth could open the door to new investments

economic policy, and especially in the maintaining of a stable external position for Montenegro. This will be one of the key tasks facing the Government of Montenegro in the year ahead.

Numerous changes to the government and parliament haven't proven to fully support the sincere intentions and efforts of the government to maintain fiscal discipline while simultaneously creating the conditions required for further growth. Moreover, long-identified shortcomings in the social product creation structure were not sufficiently addressed during the previous period, with economic growth continuing to be concentrated and dependent on tourism, with the development of other branches of the economy neglected. At this juncture, a historic opportunity is emerging for Montenegro to build new potentials in the field of renewable energy and to harmonise its economic development goals with those of the European Union.

Examples of successful projects that have been implemented by foreign investors show that their operations are able to resist negative influences to a large extent, which is very important when it comes to the stability of the economy and the preservation of jobs. And yet, Montenegro must be better and more decisive in the "struggle" for investors, compared to other countries that are also striving to attract foreign investors, and must take particular care to ensure that its long-term development decisions are free of political and other influences.

The Government of Montenegro is expected to work with dedication to further harmonise regulations with the EU Acquis and create a stable environment for the operations of various businesses, both domestic and foreign. In this sense, it is essential to improve infrastructure as a whole and to

strengthen institutional capacities, and particularly to create a stimulating environment for the development of SMEs.

The Government of Montenegro's constant dialogue with the business world, including both foreign investors and re-

presentatives of domestic business, has brought undeniable positive advances when it comes to improving the business environment, but there still seems to be plenty of room for further cooperation on this front.

There seems to be no doubt that 2023 will not prove particularly favourable for global economic recovery, although news about the easing of inflation represents a good news story for all national economies. This will nevertheless be a difficult year in which it will be particularly important to gauge every step and weigh up the long-term consequences that certain policies could have on the development of Montenegro. Under such conditions, honest dialogue among all interested parties represents a good route to finding a solution that will target the further development of Montenegro's potential.

The Battle For Investors Must Be Better & More Decisive

TAMÁS KAMARÁSI, MFIC President,
(CEO of Crnogorska Komercijalna Banka (CKB))



The possibilities and resources at Montenegro's disposal are unquestionable, but they are not enough in and of themselves. There are many countries today that want to attract foreign investors and that invest plenty to ensure they provide the best possible conditions for those wanting to invest. Montenegro must start competing better and more decisively in this extremely demanding and important “contest”

Tamás Kamarási is the new president of the Montenegrin Foreign Investors Council and CEO of Crnogorska Komercijalna Banka (CKB). These functions prompted us to begin this interview by asking him how he assesses Montenegro's current investment capacities and how they can be improved in the future.

How attractive is Montenegro as a destination for investment today?

- I believe in the investment potential of Montenegro. My view is confirmed by the fact that we have successful projects that are backed by foreign companies that have recognised the opportunities offered by this country. Their operations today are high quality, sustainable

STRATEGY

Montenegro's future as an investment destination will be determined to a great extent by the readiness of the competent institutions to create a clear strategy for attracting investors

DISCIPLINE

Strengthening the trend of increased financial discipline and combating the grey economy more effectively will enable the banking sector to be an even greater driver and supporter of development projects

POSSIBILITIES

I view 2023 with a dose of moderate optimism, and I think we are sufficiently empowered to find a way to create opportunities from situations that we generally don't perceive as being positive and motivating

and displaying a high level of resistance against various negative influences. We also shouldn't overlook the positive impact of those projects on the living and working conditions of the wider social community in the areas where they are present.

Thus, there are extremely positive examples on the one hand, but there are also those that perhaps haven't delivered the kind of result we expected. The possibilities and resources at Montenegro's disposal are unquestionable, but they are not enough in and of themselves. There are many countries today that want to attract foreign investors and that invest plenty to ensure they provide the best possible conditions for those wanting to invest. Montenegro must start competing better and more decisively in this extremely demanding and important "contest".

I would stress that Montenegro's future as an investment destination will be determined to a great extent by the readiness of the competent institutions to create a clear strategy for attracting investors. This strategy must focus on sustainable development and strengthening competitiveness, which are also strategic directions for the economy's future development. The implementing of such a strategy should be completely free of any occasional political or other influences – it must represent a roadmap to the sincere determination for us to bring and retain dependable investors who will turn the opportunities we are discussing into successful projects.

You've said that the Government of Montenegro must work to devise new policies for attracting foreign investors. What are those policies and are there good practice examples?

- Harmonising with the EU acquis and achieving a stable environment for the operations of various businesses certainly remains among the priorities. One of the future policies must be directed towards more effectively solving the territorial imbalance problem in the context of the representation of foreign investments on the territory of Montenegro. I think this issue is generally important to the entire society, and not only to foreign or local investors. I will repeat the fact that we have successful projects that have raised the quality of life in some parts of the country, and I see no reason why this principle wouldn't be applicable at the level of the entire

country. I'm certain that we can achieve significant progress and lay the foundations of uniform development through the establishment of special funds or the creation of a fiscal policy that would provide investors with certain tax breaks.

I also hope that appropriate attention will be paid to developing and better utilising human capital in the period ahead. A key role in this process could be played by formally recognising the knowhow and technologies that are brought by foreign investors and that form the basis of any progress for which we strive. Here, again, we reach the importance of the aforementioned strategy, which can help us recognise and implement the quality practices of other countries that have successfully solved some of the challenges I've mentioned.

What gives you hope in 2023, which is already looking likely to be just as tough as last year?

- At the Foreign Investors Council, we rely in particular on the assessments of international financial institutions. Their forecasts don't anticipate Montenegro entering recession, while GDP should remain in the positive zone, despite the announced reduced percentage of growth. I also wouldn't overlook the fact that Montenegro is independent of global energy supply flows, which could create some new opportunities that can ultimately have a positive effect on the balance of payments internationally. Nor should we ignore the fact that over recent years we've been living in, or feeling the consequences of, all the challenges we've faced – from the public health crisis to the situation prompted by the war in Ukraine. This has additionally motivated all those who have sustainable business models to create plans that will help them achieve positive business results,

and our members are certainly also amongst them. Most of them have created mechanisms that can be activated quickly in the case of unexpected pressures. So, I view the unfolding 2023 with a dose of moderate optimism, and I think we are sufficiently empowered to find a way to create opportunities from situations that we generally don't perceive as being positive and motivating.

We've seen very often in the recent past that small economies like Montenegro's have been hit hard by turmoil ►

One of the future policies must be directed towards more effectively solving the territorial imbalance problem in the context of the representation of foreign investments on the territory of Montenegro... I'm certain that we can achieve significant progress and lay the foundations of uniform development through the establishment of special funds or the creation of a fiscal policy that would provide investors with certain tax breaks

► **on global markets and have recorded both strong falls and rises in GDP. Despite expectations that the war in Ukraine would threaten tourism, that wasn't the case. Do you expect Montenegro to continue prospering from the influx of digital nomads and investors from both Russia and Ukraine?**

- The turmoil that was felt due to the situation on global markets was primarily a result of the insufficient diversification of the Montenegrin economy. It is evident that the situation in Ukraine and other circumstances have prompted certain numbers of people to continue their lives and businesses in our country. I see an opportunity in this to further diversify the domestic economy and reduce the existing focus on a small number of branches.

I hope there will be understanding to turn that which is partly a consequence of the current situation into a lasting standard and that the trend of attracting foreign investors and digital nomads will continue after the end of the current political and security crisis in Europe, which I'm sure we all wish for sincerely.

For this edition of the White Book, we've tried to review in particular the process of adopting and implementing laws, public administration efficiency, the digital transformation of public services, the grey economy, taxation and fiscal levies at the local level

Montenegro, like many other countries, has also been hit by inflation. To what extent did it impact macro-economic stability and the predictability of doing business?

- Montenegro is an import-oriented country, so the inflationary pressures we feel are partly a consequence of that fact and the fiscal measures that are being implemented in the public finance system. However, I would like to emphasise the significant shifts that are evident in the quality of available data, which also influences the timely updating of the forecasts provided by domestic and international institutions.

I see a chance in this for us to more quickly adapt to the influences to which we may be exposed in domestic and global frameworks. Significant space is provided for us to create mechanisms that will offer us more effective management and planning, which is an extremely important prerequisite for achieving business goals.

The banking system remained stable in the previous period, while the percentage of non-performing loans didn't increase significantly in 2022. Is there still enough work with quality clients for banks?



- The situation in the banking sector confirms that there are certainly enough high-quality business opportunities. I would like to use this opportunity to note that there are encouraging indicators of increased financial discipline, but I hope to see even more decisive steps from the competent institutions in terms of combating the grey economy. Along with strengthening the trend of increased financial discipline and combating the grey economy more effec-



tively, we will provide additional strength for the banking sector to be an even greater driver and supporter of development projects, strengthening the economy and creating attractive new business opportunities.

How much has Montenegro advanced in the meantime when it comes to eGovernment and digitalisation, in general and in the banking sector specifically?

- Unfortunately, despite certain developed and available solutions, we have been stuck in a deadlock for quite some time when it comes to digitalisation and eGovernment. If you look at the banking and commercial sector, you'll see that clients have various digital services at their disposal. The number of active users of this type of service is growing on a daily basis, which is why many companies are basing their operations specifically on making significant advancements and investments in this type of offer.

Clients are turning to digital products because of the speed, savings in terms of time and the numerous benefits they thus receive. With this in mind, it is completely reasonable for citizens to expect to be able to perform a significant part of their obligations and jobs related to the local or state administration system online. I hope to see more tangible developments in the time ahead, which would certainly contribute to Montenegro being better perceived as an investment destination.

You will publish the next edition of the MFIC White Book soon. Will it retain its existing structure or will you introduce some new features?

- The structure of the White Book will remain largely unchanged, especially in the part covering the assessments of economic sectors, first and foremost telecommunications/ICT, banking/finance, tourism, manufacturing/energy, trade/retail and transport/logistics, in order for us to be able to follow the twelve-year trend and indicate improvement or deterioration, depending on the assessments of member companies operating in their respective sectors.

This edition of the White Book will also contain assessments that relate to categories that are individually important, namely the labour market and employment, real estate development, taxation, corporate governance and the rule of law. These are also the areas that have been subjected to assessment for the last 12 years consecutively. In the part that includes additional assessments of individual categories, these are six categories that were introduced in 2016 and relate to regulations governing public-private partnerships, public procurement, the digitalisation of public services, the grey market and inspections, human capital and personal data protection regulations.

We will also retain the evaluation of Montenegro's regulatory environment, with the defining of recommendations on how to improve it in various departments. For this edition of the White Book, we've tried to review in particular the process of adopting and implementing laws, public administration efficiency, the digital transformation of public services, the grey economy, taxation and fiscal levies at the local level.



NLB Bank received two awards from prestigious financial magazines



EUROMONEY
Best bank in
Montenegro



The Banker
Bank of the Year in
Montenegro

NLB Banka

We're Optimistic, But Cautious

GORAN ĐUROVIĆ, Montenegrin Minister of Economic Development



I'm an optimist and believe that our country, as a small system, where sometimes just one important investment or policy can yield a major result, has a chance to overcome all obstacles and quickly become a member of the European Union, which is what we're striving towards

We spoke with Goran Đurović, Minister of Economic Development in the Government of Montenegro, during a moment when many governments, including Montenegro's, have been considering not only short-term measures in response to the global crisis that's rocking the domestic economy, but also the long-term directions of development for the country. That's why this interview addresses current topics like the upcoming tourist season, but also other economic sectors that have the potential to contribute to the country's long-term economic growth.

How satisfied are you with the outcomes of the current winter tourist season and what does it say about possible tourism revenue during 2023?

- The winter tourist season symbolically opened at the end of December and will continue for a couple more months, so it's too early to discuss its results and possible revenue. I can say that 2023 began with great numbers of tourists arriving in Montenegro during the New Year and Christmas holidays. The performances of top regional music stars in coastal cities gathered record numbers of visitors, estimated at around 80,000. When it comes to

the north, as you know, we're witnessing extremely warm and unseasonal weather, while the situation has been similar at ski resorts across the region and at numerous European ski centres. We welcomed the first snows in the second half of January, and in recent days we're recording large visitor numbers. I would remind you that we also had a slight shift in peak season during last year's summer season, which ultimately had no impact on the number of tourists or the revenue generated from tourism. According to the latest data of the Central Bank of Montenegro, as of the end of the third quarter of 2022, revenues generated last year

SUPPORT

Montenegro stood with the ranks of countries that provided unequivocal support to Ukraine and opened their doors to the people in need who've been hit by the devastating war that continues to rage

ACCESSIBILITY

A national airline is essential for Montenegro and we should work on increasing the number of aircraft so we can remain connected year-round to as many destinations as possible worldwide

VISION

I strongly believe that Montenegro, with its natural beauty, geographical position and potential, can and should be a serious world tourist destination, with developed agriculture, industry and energy

from foreign tourists totalled 916 million euros, which is at the level of 90% compared to the same period of the record-breaking year of 2019. I have repeatedly expressed my expectation that total revenues will exceed a billion euros. Our aim is for Montenegro to become a year-round destination, to narrow the sharp line drawn between the summer and winter seasons, and for them to start being viewed as a whole. We look to the year ahead with optimism and hoping for success.

Given predictions that economic growth will be hit by a slowdown in 2023, how long can tourism remain Montenegro's growth engine; which other branches have growth potential?

- With the projections and plans for this year, we are optimistic, but also cautious. Good results achieved in 2022 provide us with grounds to expect the economy to recover further, but, unfortunately, not everything depends on us. As you stated yourself, global trends are such that some negative trends will continue in 2023. We are, nonetheless, as a responsible government, taking all the steps necessary to get to grips with all challenges and to protect citizens' living standards and the functioning of the economy. When it comes to tourism, a branch that – together with the service sector – accounts for almost a third of the country's gross domestic product, we are working on extensive preparations for the upcoming summer season, improving the quality of our offer and promoting the country on foreign markets. We do not, however, rely solely on tourism. We are recording great interest among investors in the field of energy, while the IT industry's influence is also growing in Montenegro, and great efforts are also being exerted to strengthen agriculture and increase domestic production. These areas, alongside tourism and foreign direct investments related to projects in these sectors, will be motors of the country's economic development – not only during this year, but also, I believe, in subsequent years.

How are FDI totals and to what extent is that money intended for the tourism sector?

- Total inflows of foreign direct investments at the end of November amounted to 1.04 billion euros, which represents growth of 36.6% compared to the same period of 2021. In terms of net FDI inflow, it amounts to 733.8 million euros, which is up 61% on the same period of the previous year. When it comes to investors, they come from Serbia, Russia, Germany, Switzerland, Turkey, the United Arab Emirates and Italy. No precise data are yet available as to which part of investments relates to tourism, but a significant share is linked to the real estate market.

Your portfolio also includes the Željezara steel mill, which has long been a

tiation with the Ministry of Finance, Elektroprivreda Crne Gore [power distribution company EPCG] and the Tosyali Group, the owner of Željezara Nikšić, a solution was adopted at the level of the government that stipulates EPCG's takeover of the steel plant.

I believe this decision will soon be fully implemented and that, with good management and the proper utilisation of all resources available to the steel plant, in terms of both personnel and infrastructure, it will start operating. When it comes to Sveti Stefan, which represents a gem of Montenegrin tourism, you are aware of the fact that arbitration proceedings are underway with the leaseholder of hotels "Sveti Stefan" and "Miločer", company Adriatic Properties and hotel operator Aman. I have emphasised multiple times that I'm sorry that it came to the initiating of court proceedings, that the doors

The energy field, IT industry and domestic agriculture and production will, alongside tourism and foreign direct investments related to projects in these sectors, be motors of the country's economic development – not only during this year, but also, I believe, in subsequent years

major problem for the government, and the island of Sveti Stefan, which was once symbolised the flourishing of Montenegrin tourism. What fate awaits these two very different entities?

- I've discussed the topic of Željezara Nikšić steel plant on multiple occasions. The situation found at that factory by the 43rd Government was pretty bad. Led by a desire to resolve the situation, firstly for the welfare of employees, and then also for industrial production, which isn't large in Montenegro, I tried from the very start to help as much as possible, because this is a private company. Following numerous nego-

tations of the Ministry of Economic Development and Tourism are open, and that the willingness exists to compromise and reach a solution that's in accordance with the laws and Constitution of Montenegro. I'm personally very sorry that this hotel complex has been closed for two years, but I'm hopeful we will welcome the next summer season in a different way.

On the other hand, does the basis exist to fulfil your wish to strengthen the national airline?

- Following the closure of Montenegro Airlines, as the first national carrier, a new com-

► pany has been formed: To Montenegro [Air Montenegro], which had its inaugural flight in June 2021. My personal view is that a national airline is essential for Montenegro and we should work on increasing the number of aircraft so we can remain connected year-round to as many destinations as possible worldwide. We can't talk about our country as being an aviation destination if we lack adequate availability. From that aspect, Air Montenegro should, in my opinion, be strengthened with flights to Western Europe, Scandinavia and Middle Eastern countries. Still, as you know, the government is a collective body and I believe that, on the issue of the national airline, all aspects will be checked and the best decision will be made, for the benefit of all of us.

What has been brought by the crisis in Ukraine and could you consider Montenegro a country that has actually gained a net benefit from this crisis, due to the arrival of Russian and Ukrainian IT experts?

- Like many other countries of the region, during last year Montenegro became a haven for refugees from Ukraine, as well as a number of Russian citizens. Among them are a few thousand IT experts, but also several Western companies that have relocated their operations from Russia to our country. As such, it could be said that we've achieved a certain net benefit as a result of that conflict, but I consider it much more important that Montenegro stood with the ranks of countries that provided unequivocal support to Ukraine and opened their doors to the people in need who've been hit by the devastating war that continues to rage.

How much are 'economic passports' more than a tourist hit?

- I believe that some financial indicators best testify to this. The economic citizenship [Montenegro Citizenship by Investment] programme expired on 31st December 2022, with 16 projects in the field of tourism and one in the field of agriculture being under implementation on the day it concluded. These projects have a total amounting to close to 445 million euros, and the part related to hotel construction includes the planned construction of nearly 2,800 high-category accommodation units and the creation of more than 1,800 new jobs. I'm



As a responsible government, we are taking all the steps necessary to get to grips with all challenges and to protect citizens' living standards and the functioning of the economy, but, unfortunately, not everything depends on us

particularly glad that 10 of the 16 tourism projects are under construction in the north of the country – nine in Kolašin and one in Žabljak, with which more even regional development will be achieved. The Government recently brought the decision to form the Coordination Body for analysing the economic citizenship programme, with the aim of monitoring its implementation and effects. The programme brought Montenegro numerous financial benefits, and analysis is currently being conducted on the possibility of a model for its continuation. On the other hand, as a European Union membership candidate country in the accession process, Montenegro also takes into consideration the shortcomings that are being pointed out continuously by the European Commission and, in that sense, will base its decisions on the best interests of the state.

What is your vision for Montenegro in the new economic reality in which we're living?

Economic realities come and go. Today is a crisis. It could last – but not forever. I see an opportunity in every crisis, because crises compel us to be better and to progress. I strongly believe that Montenegro, with its natural beauty, geographical position and potential, can and should be a serious world tourist destination, with developed agriculture, industry and energy. A small, but developed, economic system, self-sustaining and prosperous. In order for us to achieve this, we need a vision, knowledge, devoted work and patience – not only from the government, but rather from every citizen of this country.

To what extent do the system's current imbalances represent a serious obstacle to the realisation of that vision?

- The political crisis in Montenegro is typical of all countries that are undergoing democratic transition. The aggravating factor is that this crisis comes at a junction that coincides with a political and economic crisis around the world. Nevertheless, I'm an optimist and believe that our country, as a small system, where sometimes just one important investment or policy can yield a major result, has a chance to overcome all obstacles and quickly become a member of the European Union, which is what we're striving towards.

Series Of Remarkable Accomplishments

Through the investments we've made in real estate and resort operations, our aim is to stimulate positive economic growth while further enhancing that which makes Montenegro so appealing to travellers from all over the world

Montenegro has great potential, given that tourism plays an important role in the country's socioeconomic prosperity. Nonetheless, state investment in infrastructure development and aviation connectivity is needed to ensure the vision of that potential is realised, says Rashad Aliyev, CEO of Azmont Investments, Portonovi.

Noting that tourism is far and away the most important sector in the Montenegrin economy, our interlocutor says that he believes that, following a period of unpredictability, 2023 offers an opportunity for travel and exploration. "Armed with the lessons learned from the previous three years, our team is ready to make this year even more exciting. We had a sneak peek preview of what we can do during the Portonovi Sparkling Season, and the Portonovi Sparkling Season thus provided us with an exciting glimpse at what's in store throughout the months ahead. We eagerly anticipate hosting more special guests than ever before, who can expect captivating journeys filled with unforgettable moments," adds our interlocutor.

Last year was one marked by investments in real estate. How much have the investments made in 2022 contributed to improving Montenegro's general attractiveness as an investment spot?

At Azmont Investments, as an investor, we are proud to recognise the incomparable potential of Montenegro and its stunning natural beauty. Within this amazing destination, we have created an idyllic village in the Bay of Kotor – an address that aims not only to draw attention as a tourist hot spot, but that also boasts carefully chosen residential developments that invigorate this remarkable corner of Europe.



With bold plans for 2023, and unparalleled dedication to excellence underpinning the investor's fundamental approach, Portonovi is set to have another splendid season

Having an exquisite tourism resort and constant investments in infrastructure and contents, how does Portonovi 2023 differ from its 2022 version?

Portonovi was a sparkling success in 2022, culminating in year-end festivities that attracted 100,000 visitors. With bold plans for 2023, and with unparalleled dedication to excellence underpinning our fundamental approach, Portonovi is set to have another splendid season.

We are constantly striving for perfection, as we welcome back returning guests with open arms – ensuring their satisfaction remains the cornerstone of our continuing mission.

Moreover, the One&Only Portonovi Hotel has achieved an incredible feat: boasting the highest LQA (Leading Quality Assurance) result among all One&Only Resorts. The exemplary reservations team at this European flagship resort continues to raise the bar in terms of service excellence and reservation standards year-on-year.

We are proud that Portonovi Resort's efforts have been recognised with a 2023 Booking.com Traveller Review Award – representing a remarkable accomplishment that reflects our commitment to continual growth and improvement.

What do you consider as your most important advantage when it comes to new types of tourists, such as digital nomads and the like?

Our services and offerings are continuously evolving to better meet customer needs, so that we can provide them with an incomparable experience when travelling abroad.

Guests can choose between a variety of extraordinary properties – such as Village Residences, Marina Apartments, luxurious Sky Villas, or exclusive One&Only Private Homes – each offering its own unique atmosphere, while sharing the Portonovi core values: relaxation, social interaction, and entertainment, with close access to anything they may need. Digital nomads will undoubtedly appreciate our high-speed internet connections, combined with laptop-friendly spaces across the resort, plus abundant workout opportunities along offsite trips that uncover breathtaking spots in neighbouring towns.

Henley & Partners – An Established Feature On Montenegro's Investment Landscape

BY RADE LJUMOVIĆ, Managing Partner, Henley & Partners Montenegro

Henley & Partners is the global leader in residence and citizenship by investment. Each year, hundreds of wealthy individuals and their advisors rely on our expertise and experience in this area. The firm's highly qualified professionals work together as one team in over 35 offices worldwide. The concept of residence and citizenship by investment was created by Henley & Partners in the 1990s. As globalisation has expanded, residence and citizenship have become topics of significant interest among the increasing number of internationally mobile entrepreneurs and investors whom we proudly serve every day.

Henley & Partners established its Montenegro office in 2018, with the aim of providing dedicated support to processing offices in Montreal, Cape Town, Dubai, Hong Kong (SAR China), London, Singapore and Zurich, and to applicants interested in investing in Montenegro. Henley & Partners Montenegro is an official member of the Montenegrin Foreign Investors' Council (MFIC) and AmCham Montenegro.

The Montenegro Citizenship by Investment Programme – Top Citizenship Programme in 2022

The Montenegro Citizenship by Investment Programme was the most popular citizenship programme among Henley & Partners' clientele in 2022. The potential combined contribution to the Montenegrin economy of all 1,112 applications submitted over the three years of the programme's active implementation is approximately 500 million euros. About half of these applications were submitted by Henley & Partners. Thanks to this programme, the intense construction of hotels is underway, particularly in the north of the country. Such projects would not have been realised without the programme, and certainly not at the current speed and dynamic. One of the programme's greatest strengths lies in its comprehensive due diligence. Prior to submitting applications, potential applicants are subject to preliminary checks — first by intermediary agents, such as Henley & Partners, and then by local and international banks. After submission, as part of the government's internal process, world-renowned companies that specialise in this field conduct the official procedure for checking the eligibility of candidates. Unique processes and rigorous evaluations like these had never been previously implemented in Montenegro.

2023 and Beyond – What lies ahead?

Aware of the programme's significant impact to date, the Government of Montenegro is conducting detailed analyses and holding advanced



A key marker of the success of the Montenegrin Programme is the calibre of its applicants: renowned names in the IT and tech sectors, finance, as well as medical professionals of prestigious international clinics either already are, or will soon become Montenegrin citizens

discussions on a new investment migration programme, which might operate according to a different model. In terms of Henley & Partners' presence in the country, over and above its primary purpose, the firm's Montenegro office also serves as a regional hub focused on promoting residence and citizenship investment programmes across the globe, as well as investment migration-linked real estate, education and concierge services to the many high-net-worth investors who visit the region.

*Secure your family's future with
alternative citizenship*



Henley & Partners is the global leader in residence and citizenship by investment. Each year, hundreds of wealthy individuals and their advisors rely on our expertise and experience in this area. The firm's highly qualified professionals work together as one team in over 35 offices worldwide. The firm also runs a leading government advisory practice that has raised more than USD 10 billion in foreign direct investment. For more information on acquiring alternative citizenship, e-mail yourfuture@henleyglobal.com or visit henleyglobal.com

Define your Future

The Treatments For Crisis Are Always The Same

RADOJE ŽUGIĆ, Governor of the Central Bank of Montenegro, CBCG



The only correct answer when it comes to the containment of the budget deficit is strong fiscal consolidation, with accompanying structural reforms. It is likewise necessary to consider strengthening fiscal stability through Montenegro's entry into an arrangement with the IMF, as well as avoiding the practise of creating new spending without preceding analysis of the impact on fiscal sustainability

Like most other central banks, the activities of the Central Bank of Montenegro, CBCG, over the past three years were impacted significantly by the COVID-19 pandemic, and subsequently the war in Ukraine. Decisions were taken in an uncertain environment and under the con-

ditions of growing risks, primarily resulting from external shocks that spilled over onto the domestic market.

"During the pandemic, the Central Bank of Montenegro implemented 12 packages of measures, which distinguished us as the central bank with the most comprehensive

set of anti-crisis measures in the region and across Europe," says Central Bank of Montenegro Governor Radoje Žugić.

The measures were directed towards preserving the liquidity of the economy and citizens, as well as the credit potential of banks, and they had a positive impact. A balance was

SUPPORT

The banking sector has provided support to businesses and the population, as well as additionally strengthening financial system stability

DIGITALISATION

The quicker we create a critical mass of clients who are educated and financially literate, the quicker we will see technological changes in the financial sector

INTEREST RATES

I expect interest rates to increase slightly and moderately in the period ahead. This would have a certain impact on loan demand among businesses and the population

achieved between supporting the economy and the population while preserving the health of banks and, as a consequence, the country's financial stability. Among those confirming the success of the measures implemented were both the International Monetary Fund (IMF) and the European Commission. Unfortunately, notes the governor, the macroeconomic situation globally remains very complex and challenging. "It is characterised by pronounced geopolitical uncertainty, constricted supply chains, high and rising inflation and harsher financial conditions, which has resulted in the worsening of economic prospects and the limiting of the capacity of states, the economy and households to service debts. Under such circumstances, there is a rising probability of risks being materialised and impacting negatively on financial stability."

How has Montenegro so far dealt with these disruptions and the expected imbalances in the country's fiscal policy and external indebtedness?

- Although Montenegro's public debt, expressed as a percentage of GDP, has a downward trend in 2022, its high level is concerning. The biggest challenges in the fiscal sphere are containing the budget deficit and repaying public debt, particularly under worsening conditions of financing on the international market.

The only correct response is strong fiscal consolidation, alongside accompanying structural reforms. This year's budget envisages an additional increase in expenditure on the basis of social benefits, pensions and earnings, which will cause the deficit to grow compared to 2022, and that's despite expected income increases exceeding 200 million euros (primarily due to projected increases in income on the basis of VAT). It is necessary to create new measures to increase budget revenue without burdening the economy and without populist moves, in order to compensate for the negative effects of previously adopted measures that led

to reductions on the revenue side and increases on the budget's expenditure side (particularly social benefits without previous confirmation of real social needs). It would thereby contribute to optimising the fiscal space and gradually reducing the public debt. I also think it's necessary to consider strengthening fiscal stability via Montenegro's entry into an arrangement with the IMF and avoiding the practise of creating new spending without preceding analysis of its impact on fiscal sustainability.

How did these circumstances reflect on the stability of the banking sector and financial system?

- Despite the noted challenges, the Montenegrin banking sector remains stable, highly liquid and well capitalised, representing the healthiest part of the domestic economy.

- The supervisory work of the CBCG is based on the principle of risk, which means that operational priorities are set in accordance with the riskiness of certain areas of banking operations. Credit risk remains the dominant form of risk and, as such, is in the focus of supervisory work. In accordance with that, supervision deals continuously with non-performing loans, implementing adequate and timely measures at the level of individual banks, but also the system as a whole. Compared to the previous period – when their share of total loans reached as high as 25% at the level of the system – the quality of managing NPLs has improved significantly, resulting in a relatively low level of NPLs by year's end 2022, despite the lifting of temporary measures linked to the pandemic. Specifically, the share of NPLs in total loans stood at 5.72% at

This kind of situation requires coordinated and joint action by governments and central banks, particularly when it comes to containing high inflation and providing economic growth support

Preliminary data for 2022 show that all key balance sheet positions achieved annual growth, with assets up by 20.2%, capital by 12.3%, deposits by 24.3% and loans by 9%. The banking sector provided support to businesses and the population, as well as additionally strengthening financial system stability. The timely and adequate actions of the CBCG, in cooperation with commercial banks, mitigated the negative impact of uncertainty caused by the pandemic and other external shocks, and also prevented risks in banking operations materialising.

Is it time for banks to be more tightly supervised and to better monitor growth in the percentage of NPLs in total loans?

the end of 2022, which is lower compared to the percentage of 6.17% at year's end 2021. I would like to remind your readers that a new regulatory framework has been in force since 1st January 2022, which also implies a stricter definition of non-performing loans. Alongside the aforementioned, loans that were overdue by more than 90 days at the end of 2022 represented 2.61% of all credit approved and stand at a markedly lower level compared to the total level of NPLs, which shows that repayment irregularity is not the dominant reason why loans are classified as being in the non-performing category, but rather the quality of borrowers' financial information.

The CBCG provides its own contribution to limiting excessive NPL growth through the continuous increasing of regulatory expecta-

tions, via the harmonising of the domestic regulatory framework with the European acquis and the best banking practices. With the aim of protecting clients from rising EURIBOR rates, and at the initiative of the CBCG, banks prepared programmes to protect clients with loans that have a variable interest rate, which included informing clients about emerging events and their possible ramifications, as well as the possibility of annexing existing loan agreements and switching to a fixed interest rate. These programmes resulted in reducing the share of loans with a variable interest rate in total loans at the level of the system.

Do you expect interest rates in the country to rise?

- The rising cost of capital on the international market, as a consequence of high inflation and EURIBOR rises, naturally spills over onto the domestic economy. With this in mind, I expect interest rates to increase slightly and moderately in the period ahead. This would have a certain impact on loan demand among businesses and the population. The economic situation globally will also influence the perception of risk among banks. Whatever the case, banks have sufficient funds available to cope with the economy's recovery and growth.

How strong and deep are the technological changes in the banking sector; and how do you view these changes?

- The technological revolution is bringing powerful changes to every industry, and that's especially so in the financial sector. Banks are compelled to use modern technology in order to be able to withstand increased competition and respond to the growing demands of clients. The results of recent research that was coordinated by the CBCG show that 47% of financial institutions in Montenegro are currently working on the development of new digital or fintech products or services. When it comes to users of digital banking and payment services in Montenegro, research shows that only 32.1% of retail clients and 45.3% of companies in Montenegro use online banking, which highlights the great untapped potential of using cheaper and faster technologies. The research also showed that, as a rule, private individuals who switch to using digital services don't return to old ways of doing business, but rather adopt new technologies.



The CBCG carefully monitors banks' operations, as well as movements on the domestic and global financial markets, in order to respond proactively in the direction of preserving financial stability, protecting clients and reducing potential credit risk

Speaking in another interview, you stated that the CBCG recognises its role in promoting cooperation between fintech companies and banks. How is Montenegro's potential when it comes to the development of fintech solutions?

- The CBCG is recognised as a leading institution for the support of fintech, from the establishment of the fintech hub – a regulatory innovation centre – as a platform for dialogue with the fintech sector, via the organising of international fintech conferences and hackathons, and the deepening of cooperation with the IT sector and the academic community, to initiating the drafting of the National Fintech Strategy, which is underway and was preceded by research indicating the great potential for fintech development in Montenegro. It was simultaneously observed that sufficient fintech accelerators and private investors don't exist, while only a few educational institutions offer specific qualifications or courses in digital financial services. This research also confirmed the existence of a series of initiatives, tax breaks and mechanisms that are insufficiently intercon-

nected to be able to help the development of fintech in a systemic way. The strategy will address these specific issues and offer possible solutions for the best possible interconnecting of the fintech ecosystem.

In a regulatory sense, we tried to assimilate the legal framework governing the field of payment transactions with that of the European Union, so this coming October will see the launch of the implementation of amendments to the Law on Payment Transactions that incorporate the PSD2 directive, thereby also creating regulatory conditions for the accelerated development of fintech. This directive enables banks to share data – in a secure and standardised way, and with the approval of the client – with authorised fintech companies that will use said data to

create new financial products, such as payment initiation or account information services. We know from our communication with the private sector that several Montenegrin companies are working on, or have already designed, solutions that they will offer to domestic banks or are already offering actively on the markets of the EU.

You have again been nominated to retain the post of central bank governor. What would be your most important target in the period ahead?

- In the very challenging time that's ahead of us, the most important factor will be preserving financial stability and fortifying banks' resilience in the face of external shocks. We must simultaneously deal with structural challenges, such as those caused by climate change, which will undoubtedly influence financial and macroeconomic stability. The aforementioned goals related to the development of the fintech market in Montenegro will continue to be in the focus of our activities, alongside intensified activities related to the financial education of Montenegrin citizens.

Prioritising The Safety And Future of Clients

As an insurance market leader, the Lovćen Group strives to improve upon its long-term experience of working in insurance by utilising innovative solutions and through its operational approach, as well as providing clients with services that are fast, precise and easily accessible

The Lovćen Group, which comprises insurance companies Lovćen osiguranje AD [general insurance], Lovćen životna osiguranje AD [life insurance] and Lovćen Auto DOO [vehicle insurance], forms part of the Triglav Group, the largest financial insurance group operating in Southeast Europe, which – with its knowhow, experience and financial power – has for more than 120 years justified the trust among clients that it will take care of their safety and their future in the best possible way.

Over the past several years, recognising changes and adapting to them quickly have become a daily part of business everywhere, and the expectations of clients have thus increased in that direction. As a group, Lovćen strives to synchronise its many years of experience working in insurance with innovative solutions and operational approaches in such a way that it successfully maintains its leadership position on the insurance market and thereby justifies the high expectations of clients. On the basis of experience dealing with the COVID-19 pandemic and all the market requirements that then arose for the first time, the Lovćen Group has shown that, as a collective, it possesses the maturity, knowledge and will to offer adequate initiative and provide clients with certainty in the high quality of service despite aggravated conditions.

Communication between users and providers of different services is today much faster, almost instant and available via various channels. Lovćen osiguranja keeps pace with this trend through various



In this age of rapid change, the digitalisation of business processes, remote work and business at a distance, Lovćen maintains an empathetic and humane relationship with its employees and users, but also with the environment. This is the Lovćen focus in its mission to create a more secure future

solutions. From online purchases of insurance to application solutions, Lovćen offers its clients the possibility of doing business in accordance with their own wishes.

In step with the digitalisation of operations and the optimisation of business processes, Lovćen's teams are working carefully to further strengthen the existing relationship full of trust and understanding with users. The users themselves, whether individuals or companies, are at the centre of the improvements Lovćen is working on. The group tries to ensure that every user feels as though their insurer really cares about them and their property, and that they are partners that will be there to help in the event that they experience unfavourable moments when damaging cases arise. The Lovćen Group wishes to emphasise its personal approach and services associated with insurance, and to let people know that this insurance family cares about them. That's why Lovćen teams work to connect and improve the user experience, which will be available constantly and equally through different channels, and work to strengthen the sales network.

This company is also sure to listen carefully to people's concerns, and they relate to the environment and nature, which unfortunately suffer the consequences of numerous changes and market demands. As an insurance company, Lovćen contributes not only to the protection and safety of people and their property, but also to the environment in which we all find ourselves. Many future initiatives are viewed through the lens of sustainability.

Facing Great Unknowns

The Government of Montenegro approached the planning of this year's budget with an awareness of the numerous risks present on the global market, but also with moderate optimism over the recovery of the tourism sector, and thus also economic growth indicators. This has led to expectations that, provided there are no additional global pressures and market shocks, Montenegro will also round off this budgetary year within the scope of its own capacities



Following 2020's great decline in the domestic economy, and subsequent partial recovery in 2021, the Montenegrin economy last year achieved relatively positive results, recording high economic growth exceeding seven per cent in the first nine months of the year, with favourable sector-specific trends in the most important branches of the economy, despite

the crisis resulting from the war in Ukraine. However, on the other hand, 2022 also saw price growth simultaneously intensify significantly, both at the global level and locally in Montenegro, says Aleksandar Damjanović, Minister of Finance in the Government of Montenegro. "It is with just such parameters that the Montenegrin economy entered 2023," reveals our interlocutor.

Can Montenegro maintain macroeconomic stability this year and what is that dependent on?

- The assessment is that short-term macroeconomic stability in the country has been preserved, at least for now, while uncertainties remain with regard to further movements of the economy, which depend on both global trends and internal circumstances, primarily political.

TOURISM

The key assumption of the current macroeconomic scenario is precisely that tourism revenues will recover fully in 2023 and reach the pre-crisis level

ALTERNATIVE

If the need for additional financing arises, we certainly won't avoid making an arrangement with the IMF, as one of the world's most credible financial institutions

DEVELOPMENT

The Montenegrin economy must follow the technological directions of economic development if it aspires to become a developed, high-income country

The Ministry of Finance has identified the key risks to macro-financial stability in all relevant documents that it has submitted to the Government of Montenegro. These firstly include strong geopolitical uncertainties and increased instability, most markedly in the European region, which could have an adverse impact on further price growth, given that inflation certainly remains this year's biggest threat to planned economic growth and financial stability. When it comes to internal factors, the political situation in the country, coupled with limited fiscal space and the weakened tempo of implementation of planned investments, could cause a slowdown in the dynamics of economic growth during the current year. Similarly in 2023, following several years of extremely high fluctuations in pretty much all economic parameters, and especially with regard to economic growth, the conditions to stabilise the economy will be met. At this juncture, the Ministry of Finance projects Montenegro's economic growth to reach the level of around 4%, which will depend on the aforementioned factors over the rest of the year. We've already heard alarming announcements from the International Monetary Fund that recession will hit a large number of countries this year, which will further worsen an already unfavourable external environment. Similar warnings have also been issued by the World Bank in its latest January forecasts, in which it states that a sudden and lasting growth slowdown will hit developing countries particularly hard.

How sensitive is Montenegro when it comes to global macroeconomic trends? What does the major decline and the country's impressive economic growth during the previous period tell you about that?

- Montenegro is a small economy that's open to capital and trade flows, and which has a narrow production base and the insufficient diversification of goods. The economic structure, which is predominantly dependent on

the service sector, greatly restricts more significant reactions to all the external volatilities and uncertainties that accompany such developments, whether that means price hikes on certain goods on the world market or a slowdown in foreign demand. Also contributing to this was the relatively high dependence on foreign investments as growth drivers, which can prove positive in times of expansion, but is challenging in all crises. What nonetheless instils a certain dose of optimism is that foreign direct investments recorded strong growth in Montenegro during the last three years, despite the coronavirus crisis and subsequently also the war in Ukraine, though inflows of FDI

- The adopted budget for 2023 is based on projected planned economic growth and components that comprise the economic structure, in which investments specifically have a high level of participation. According to current assumptions, we expect a gradual recovery of investments from their decline over the past few years, in accordance with relevant announcements from sectors. An additional contribution to this trend will also be provided by the adopted capital budget for 2023, as these projects could stimulate economic activity in the private sector and act as the driving force behind the growth of both foreign and domestic investments. This applies in particular to in-

What instils a certain dose of optimism is that foreign direct investments recorded strong growth in Montenegro during the last three years, despite the coronavirus crisis and subsequently also the war in Ukraine

increased in 2022, predominantly due to the growth of investments in real estate. Notable fluctuations in the growth of the Montenegrin economy depend on the tourism sector, as the largest branch of the domestic economy, which is also greatly susceptible to external trends and the disposable income available to tourists from key source markets. The growth of the Montenegrin economy will this year stabilise at a significantly more sustainable level, though the predicted rate will depend on a large number of both internal and international factors, and will also be subject to the materialisation of numerous risks.

The capital budget for 2023 totals 202.7 million euros. To what extent can these investments support long-term economic growth in the country?

frastructure, communal and energy transition projects, the implementation of which will certainly support long-term economic growth and increase the domestic economy's potential.

What are your predictions for earnings generated by the upcoming summer tourism season?

- The tourism sector has a huge role to play in realising economic growth and generating significant private and public revenue in the domestic economy. Following the decline experienced in the first year of the COVID-19 crisis, tourism revenues have been gradually recovering and approaching the level of the pre-pandemic year of 2019. The key assumption of the current macroeconomic scenario is precisely that tourism revenues will recover fully in 2023 and reach the pre-crisis level. According to ►

- Central Bank of Montenegro data for the first nine months of 2022, revenue from tourism totalled €916.2 million, or just over 90% of revenue from the record-breaking year of 2019, which is above both the plans and expectations of the Government, so additional recovery in 2023 is realistically grounded in current forecasts. The Ministry of Finance, in accordance with anticipated growth risks, is analysing and drafting additional scenarios that would include their implications, and which refer - among other things - to the worsening prospects of the European economy and falling economic activities, with the consequent impact on the Western Balkan region, which would mean lower tourist consumption in Montenegro, and thus an economic growth slowdown. This is why the strategy partly relies on the region and the positioning of Montenegro within regional tourist flows.

The fields of science and technological development have received significantly higher budget allocations. Do ICT and innovations based on technological solutions represent the new development map of Montenegro?

- The Montenegrin economy is compelled to follow the technological directions of economic development if it aspires to become a developed, high-income country. The productivity of the domestic economy, as well as its competitiveness and long-term growth potential, are also dependent on the development of technology and available production process knowhow. It was previously in this context that Montenegro laid the foundations for major investments in innovative areas by adopting certain regulations and the resulting legal solutions, which stipulated the inclusion of certain tax breaks for the development of research and innovation, as well as for hiring workers in this sector. Over the previous year, which was marked by the strong influx of foreign citizens as a result of the war in Ukraine, unofficial data show a high increase in newly formed companies, up over 40% compared to 2021, along with a high percentage representation of the activities of newly founded companies by non-residents, large numbers of which hail from the IT sector. This could



Due to the limited implementation of essential structural reform measures that address key challenges facing the Montenegrin economy, labour market parameters remain far below the average of developed countries

potentially influence the restructuring of the Montenegrin economy and speed up the transition to a highly competitive economy, while also stimulating digitalisation trends in the private sector. Essential prerequisites in the context of retaining these companies in Montenegro and attracting new ones include the encouraging of a favourable investment environment, alongside investments in potential personnel for work in these sectors. Concrete steps have been taken on that front, with legal regulations also adopted.

Given that 2023 is expected to be an even more difficult and demanding year than 2022, do you envisage Montenegro needing an arrangement with the IMF?

- Our expectations and projections are that, provided there are no additional global pressures and market shocks, we will also round off this budgetary year within the scope of our own capacities. If the need for additional financing nonetheless arises, we certainly won't avoid making an arrangement with the IMF, as one of the world's most credible financial institutions, which can mean additional security for the Montenegrin economy and the preservation of public financing stability, but also preserving the country's image as a reliable partner to the international financial and political public, or to the commercial and investment banking sector.

To what extent does the policy of reducing employers' contributions, which was introduced at a time when the economic situation was more favourable, impact Montenegro's fiscal position today?

- If we are talking about the financial indicator of this kind of Decision, abolishing contributions for mandatory health insur-

ance will result in an additional burden of 200 million euros on the state budget, which represents a serious blow, first and foremost when it comes to the sustainability of public health. Thanks to these policies, the Healthcare Fund last year faced accumulated debts and insufficient financing, which led to the healthcare system becoming all but paralysed at one stage. Moreover, as was also recognised in the IMF report, the abolition of these contributions caused numerous challenges to the stability and continuity of local government funding, particularly for less developed municipalities, as well as challenges to micro enterprises and small businesses that operate within the confines of these municipalities.

When the conditions are met, i.e., when the work of the Constitutional Court has been restored to its full capacity, we expect a formal opinion on the legality of adopting such a policy to be forthcoming, after which we will be able to implement long-term planning and regulating of the field of health insurance, while examining the possibility of defining certain contribution rates that will not more significantly overburden employers.

On the other hand, how much did this measure contribute to maintaining the country's relatively favourable employment levels?

- The labour market began recovering strongly in 2022, following the major deterioration of indicators during the two preceding years, so the average number of employees for the first 11 months of 2022 increased by 19.5% at an annual level, reaching 223,400. Meanwhile, according to the Labour Force Survey, the unemployment rate stood at 13% in the third quarter, which is below the pre-pandemic level and represents the lowest rate recorded to date. This recovery comes predominantly as a consequence of dynamic, seasonal economic activity in the field of tourism.

However, we must keep in mind the fact that, due to the limited implementation of essential structural reform measures that address key challenges facing the Montenegrin economy, labour market parameters remain far below the average of developed countries, and the problems that have been identified in particular include a pronounced grey economy, low employment rates, a high percentage of long-term unemployment and the vulnerability of certain employee categories on the labour mar-

ket, such as low-skilled labour, young people and women.

In order to garner more complete insight, the Ministry of Finance will work in cooperation with the International Labour Organisation in the period ahead to analyse the impact of abolishing health insurance contributions on the labour market, after which we will also have a quantified presentation of all aspects of this policy.

To what extent will increased allocations for salaries and pensions contribute to improving social stability and maintaining citizens' living standards?

- Increasing wages and pensions represents a reflection of the Government's intention to protect citizens from the inflationary shocks that we continue to be exposed to, thereby preserving the existing purchasing power of the population. I consider this to be the responsibility of every serious government, because it is our job, and obligation, to enable the sharing of the burden of the crisis and for it to be carried the most by those who earn the most or have the most. As you know, increases are made in proportion to the growth of inflation, which is reflected in continuous increases in retail prices.



We Are Investing In Equipment And Quality Of Service

After the successes of 2022, the management team of Montenegrin Telekom and all of its staff will continue to work on further modernization of services and raising user satisfaction – indicators which show that the company already occupies a leading role on the market

In 2022, Montenegrin Telekom saw financial growth and higher revenues, the highest growth in its postpaid base on the market, a growth of over 40% in prepaid and excellent results in the summer season. “All in all, 2022 was a very successful year”, says Stjepan Udovičić, CEO of Montenegrin Telekom.

Which project started or implemented in 2022 would you single out as having a special significance for industry and the public?

– The previous year in Telekom was marked by investment worth 15 million euros, so it is difficult to single out one project. If I have to make a priority, then it would be the pioneering launch of the commercial 5G network, the major modernization of the optical network, and the improvement of digital services that we worked on recently.

This gave Telekom the largest 5G and 4G networks in the country at the end of last year – we launched the first 5G network in Montenegro, which is now available to ¾ of the population in almost all towns. In addition, at the auction in which all three mobile operators participated, we leased the most 5G spectrum – the lifeblood of the network – creating conditions for gigabit speeds in the mobile network.

In parallel, we brought the optical network to those parts of the country where we did not have such infrastructure until now. This has led to an increase in the fiber optic user base by as much as 17%, and an increase



2022 was marked by the pioneering launch of the commercial 5G network, the major modernization of the optical network, and the improvement of digital services

in satisfaction because our fiber optic users have fewer failures, achieve superior speeds – up to 1Gbps – and have a reliable wireless network. Thanks to all these activities we saw an increase in user satisfaction in all categories, so in 2022 we finished with the highest user satisfaction index on the market. Finally, we are particularly proud that eTrust – Telekom's trust services – are recognized as

a very important digital service for industry and the public, so last year we received the Chamber of Commerce award for innovation for this platform, and Deutsche Telekom's award, in competition with 22 projects from the whole of DT Group.

What will you be focusing on this year?

– Certainly online and new customer services. But I would go a step further and say that it is time to “zoom out” and expand the picture to all stakeholders, including our staff.

You see, companies like Telekom whose shares are traded on the stock exchange are often particularly focused on shareholders so decisions are often made first and foremost with their satisfaction in mind. However, we must not forget the users, to whom Telekom is especially dedicated, but also our staff, whose work brings the company good results. The staff of Crnogorski Telekom therefore have working conditions and benefits that are not offered by many companies in the country, benefits worth several million euros, which cover all aspects of their private lives (from medical treatment, through recreation, to summer and winter holidays) and professional lives (increase in earnings, continuous education, a modern performance management scheme that I believe will make the results even better in the coming years). In this and the following years, we will especially focus on further improving these conditions and remain a company that other Montenegrin employers look up to.



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Helping Hand In Tough Times

CHRISTOPHER SHELDON, World Bank Country Manager
for Bosnia and Herzegovina, and Montenegro

The latest European Commission Progress Report on Montenegro stresses the importance of maintaining macroeconomic stability. As shown in this interview with Christopher Sheldon, World Bank Country Manager for Bosnia and Herzegovina, and Montenegro, this is a comprehensive and complex task that will occupy the attention of the Montenegrin authorities in the years to come.

Due to its unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain its macroeconomic stability. “However, a lack of commitment to fiscal targets in the past, together with the government financed highway construction, have amplified fiscal vulnerabilities and increased public debt from 40.7% in 2010 to an estimated 71 per cent in 2022,” says Sheldon, continuing: “despite declining over the past two years, public debt remains elevated, particularly given the currently unfavourable and highly uncertain global environment”.

As a small and euroized economy, Montenegro is hit particularly hard by shocks from the external environment, which was best evidenced during the pandemic, when the country suffered one of the sharpest recessions in the world. And while 2022 saw the country’s economy recover to the pre-pandemic level, it remains vulnerable in a turbulent environment, requiring Montenegro to fortify its internal stabilisation mechanisms. According to Sheldon, “the immediate priorities are to resolve the institutional and political crisis and to pursue prudent fiscal management. Prudent fiscal policy based on the continu-



The World Bank stands ready to support the Government of Montenegro by providing technical, international best practice expertise in the designing and implementing of critical structural reforms, including through potential development financing operations that support ambitious reform programmes and provide financing under favourable terms

ous reduction of public debt and policies to support growth are critical to Montenegro’s macroeconomic stability”.

Given that Montenegro has changed several governments in its recent history, how successful have those governments proven in controlling

the rising public debt and fiscal deficits?

- The pandemic wiped out the fiscal consolidation gains Montenegro achieved during 2017-19, when the deficit swelled to 11 per cent of GDP and public debt peaked at 105 per cent of GDP. In 2021, the economic recovery, together with the consolidation of expenditure,

PRIORITIES

The immediate priorities are to resolve the institutional and political crisis and to pursue prudent fiscal management

CONCERNS

The planned fiscal deficits in the medium-term are of concern, given the unfavourable financial market conditions and the need to repay three large Eurobonds that are due between 2025 and 2029

COMMITMENT

The World Bank is working continuously with the authorities in support of policies that can improve the living standards of Montenegrins, especially the poor and vulnerable

helped bring down the deficit to 1.9% of GDP. The reduced fiscal deficit and large Eurobond issuance in December 2020 relieved financing pressures for 2021 and 2022, but Eurobond proceeds had been largely depleted by year's end 2022. And while fiscal performance was better than planned in 2022, the planned medium-term fiscal deficits are of concern, given the unfavourable financial market conditions and the need to repay three large Eurobonds due between 2025 and 2029, starting with a €500 million Eurobond in 2025. The government needs to plan and reduce public debt as a share of GDP before the start of these large debt repayments, in order to place Montenegro in a better position to refinance that debt. The better Montenegro's fiscal position is by 2025, the lower the cost of refinancing will be for all Montenegrins.

What does the future hold in this respect and what factors could contribute to ensuring fiscal soundness?

- As already mentioned, the broader global market setting has become less favourable for financing, given the rapid monetary tightening and high geopolitical uncertainty. Risk premia are rising for most borrowers and the appetite to absorb credit risk in emerging markets is shrinking. These conditions may lead to greater difficulty in mobilising large amounts of capital under favourable terms, particularly if fiscal targets are not solidified through fiscal prudence. It is therefore critical that the government demonstrates its commitment to the debt reduction path. To achieve this, continuous efforts need to be exerted to expand the tax base, improve tax compliance, and tax environmentally and health harmful products and activities that would generate stronger revenue. At the same time, better control is required over all government expenditure, but particularly the wage bill and social transfers, including in the health sector, where there is room to simultaneously optimise spending and increase the quality of services provided, which have

not kept the pace with the spiralling costs in recent years.

Taking into consideration expected global developments in 2023, but also local constraints, what are your latest projections of GDP growth and overall economic activity?

- Montenegro's economic outlook is positive, but there are significant downward risks. After a relatively strong performance in 2022, we expect economic growth to moderate to 3.4% in 2023, and further to 3.1% in 2024. Still high inflation will continue to erode real disposable incomes, which will translate to slower private consumption growth. The projections do not assume that the construction of the remaining sections of the high-

of the recent tax reform that reduced labour taxes from a flat 39 per cent of total labour costs to an average of 22 per cent by removing healthcare contributions and introducing progressive income taxation. The administrative data show that employment growth was also strong in the last quarter, but the data also points to the moderation of employment growth.

On the other hand, Montenegro's social expenditure programmes have been expanded over the past two years, and with over 30 programmes covering different groups of people in need, the system covers more than half of the Montenegrin population. Through the introduction of numerous new social assistance programmes, the coverage of social assistance is now expanding rapidly. How-

Tourism is expected to continue improving in 2023, though deteriorating growth prospects in the EU and the region could slow its recovery

way will start by 2025, as fiscal space is very limited. The projections do assume, however, that overall investments will be recovering, driven by the energy and tourism sectors, but at a slower pace. Tourism is expected to continue improving in 2023, though that recovery could be slowed by deteriorating growth prospects in the EU and the region.

How will these developments impact employment and does the government have the capacity to cover social expenditure programmes?

- There were solid improvements in the labour market in 2022. In the first three quarters of 2022, employment increased by an average of 20 per cent compared to the same period of the previous year, while labour market activity also increased. This is a significant improvement that resulted from continued economic recovery and the implementation

ever, not all new schemes have a precise focus on those most in need. Social spending already accounts for over a quarter of total government spending, and redesigning social programmes, rather than expanding them, would lead to higher efficiency. This would mean better use of Montenegro's limited fiscal resources by directing social protection to those most in need and the most vulnerable, rather than spreading assistance in a universal manner.

From today's perspective, how have the large-scale public infrastructure investments of the past influenced the economy as a whole? What lessons can be learnt from that experience?

- Infrastructure development lies at the nexus of economic growth, productive investment, job creation and poverty reduction. How-

► ever, infrastructure development requires careful consideration and prioritisation, as the infrastructure needs of any country exceed its sources of available funding. Montenegro is no exception there. However, Montenegro largely based its past growth on the rapid accumulation of capital, with low or negative contributions from productivity and human capital growth. While the country experienced several episodes of growth spurts—for example, between 2006 and 2009 growth was driven by large foreign real estate investments or, from 2015-19, by large public infrastructure investments and tourism—average growth has been limited by more severe economic downturns than in peer countries. At the same time, these investments tended to boost GDP growth mostly during the construction period and created jobs mostly in low value-added sectors. These investments also tended to have limited productivity spillovers to the rest of the economy. They also increased fiscal vulnerabilities, because they necessitated large deficits and external imbalances due to their high import dependence. However, public investment is critical to growth and in order to reap its full benefits and maximise its positive impact on economic growth, Montenegro needs to strengthen its public investment management framework.

Green transition is perceived as one of the important winning strategies for Montenegro. Would it be possible to proceed with such projects given the overall crisis?

- The external environment is going through a major structural change, and fundamental environmental pressures are changing the foundations of economic activity, consumer choices and investor behaviour everywhere. The energy crisis is accelerating decisions on green transition policies across European Union countries and strengthening interest in clean energy sources and energy efficiency, as a means of diversifying the supply mix and enhancing energy security. Montenegro has a comparative advantage precisely in clean energy from hydro, solar and wind, which is also a major growing European market that can help Montenegro diversify its merchandise exports. Furthermore, Montenegro's major comparative advantage – tourism –



Montenegro has a comparative advantage in clean energy from hydro, solar and wind, which is also a major growing European market that can help Montenegro diversify its goods exports

requires that the state accelerate its green transition, better manage waste, and invest in green infrastructure, as the quality of its tourism offering – and its sustainability over time – will depend in good part on maintaining a pristine environment. The analysis of, and recommendations for, more resilient and sustainable growth is further discussed in the forthcoming publication of the World Bank growth study for Montenegro.

How does the World Bank Group Country Partnership Framework support Montenegrin efforts to build a sustainable economy over the medium term?

- The World Bank is working continuously with the authorities in support of policies that can improve the living standards of

Montenegrins, especially the poor and vulnerable. This includes ensuring macroeconomic stability and fiscal sustainability, and specific policies in many different sectors, including agriculture, environment protection, tax administration etc. At the same time, the Bank is also providing technical expertise and assistance to improve the public administration, public procurement, environmental protection and tax systems. As argued in the recently completed and forthcoming publication of the World Bank Country Economic Memorandum for Montenegro, higher standards of living can be achieved through a new, more sustainable economic growth strategy: one based on productivity and human capital gains, while preserving natural resources to enable the country to sustain higher growth rates over longer periods. This would require the removal of barriers that hinder markets in rewarding more productive firms by enforcing competition and consistent policy implementation, the better leveraging of trade for sustainable development and the improving of human capital by reducing inequality of opportunity. But reaping the full benefits of reforms for higher, more sustainable growth requires the empowering of public institutions. If these reforms are implemented, that would result in a more vibrant private sector, more job creation and, consequently, higher wages and higher benefits for all citizens of Montenegro.



Huge Renewable Energy Potential

REMON ZAKARIA, EBRD Head of Montenegro and EBRD representative on the Montenegrin Foreign Investors Council

While tourism remains the country's core economic activity, Montenegro has significant potential to turn renewable energy production and ICT into new sources of growth and prosperity

Like many other countries, Montenegro is facing significant challenges when it comes to 2023. However, its responses to the global crisis have to be tailored and fit to country specifics. Remon Zakaria, EBRD Head of Montenegro and EBRD representative on the Montenegrin Foreign Investors Council, believes that the institution he represents is well poised to support Montenegro through the hard times ahead.

The EBRD adopted a new five-year country strategy for Montenegro in September 2021. How relevant is this strategy today given the turbulent global macroeconomic situation?

- The EBRD country strategy remains very relevant in the current macroeconomic context. This turbulent time has demonstrated that energy security is a vital element of resilience and has become more important as a result of emerging security challenges. Our strategic focus on the transition to the green economy – promoting renewable energy and energy efficiency – is therefore



key to helping Montenegro's energy security while preserving its beautiful environment and contributing to its decarbonisation pathway.

Resilience and economic diversification are very closely linked to our second priority in the country strategy: "enhancing cross-border connectivity of transport, energy links, and country-wide access to IT

and broadband". Supporting connectivity among countries helps to increase and diversify trade (in goods and energy), as well as creating economic opportunities for various sectors. This is even more valid today, when global supply chains are facing challenges. IT and broadband connectivity are also critical to allowing the digital economy ecosystem to develop and flourish.

CHALLENGES

An anticipated global growth slowdown is set to spill-over onto Montenegro through tourism, trade and investment linkages

OPPORTUNITIES

Given the ongoing reshuffling of global supply chains, Montenegro continues to have opportunities thanks to its close proximity to EU markets

ATTRACTIVENESS

Montenegro will be perfectly placed to become the region's leading country in providing ICT services and to successfully implement a programme to attract digital nomads

Enhancing private sector competitiveness, the third priority of our strategy, is self-explanatory and very relevant in the context of Montenegro, which is heavily reliant on tourism and has a strong need to improve its competitiveness in the region through skill enhancement, gender and economic inclusion and digitalisation.

The current crisis has to date neither been particularly negative nor positive for Montenegro. Looking back to 2022, in which areas did Montenegro fare better and which areas were particularly concerning?

Montenegro's economy continued to recover in 2022, despite facing headwinds. And in spite of strong rises in inflation, the consumption impulse persisted, helped by the significant increase in wages at the beginning of the year. The tourism season was successful, marked by notably more visitors and higher revenues compared to 2021, and with space to recover further, given that these indicators remain below the record levels of 2019. It was a particularly good year for Montenegro in terms of attracting foreign investment, with FDI inflows up by nearly 40 per cent year-on-year by the end of October.

Surging inflation is nonetheless impacting Montenegrin citizens' cost of living. The annual inflation rates registered were among the highest in the Western Balkan region, with higher prices of imports exacerbated by strong wage growth. We also note the limited contribution of investment on growth, affected by muted public investment and domestic political uncertainty. The biggest portion of the sizeable FDI inflow went into real estate, which generates limited added value and low spill-over onto other economic sectors.

Prolonged political instability is hampering the implementation of reforms. From that perspective, what does the future hold for the country?

- The outlook is marked by particularly high uncertainty, as the global macroeconomic environment remains unfavourable, with risks tilted toward the downside. Continually high inflation, while expected to be moderate over the next year, is set to dampen domestic demand by eroding gains in real wages. At the same time, the tightening of monetary policy around the world, in an effort to contain inflation, has contributed to worsening global financial conditions. An anticipated slowdown in global growth is set to spill-over onto Montenegro through tourism, trade and investment linkages.

On the positive side, Montenegro is among the few Western Balkan countries to have so far avoided an energy crisis. While higher oil prices impact the population, domes-

In previous times, so-called "green" transition was reserved for wealthy countries that have considerable fiscal space to invest in this area. How can countries with scarce resources, such as Montenegro, address these questions today?

- The cost of renewable energy technologies has fallen significantly over the past decade – making it the cheapest form of energy today. Montenegro has huge renewable energy potential. With its great sunlight levels and wind resources, it can fulfil the country's energy demand and export highly demanded clean energy to neighbouring countries, thus contributing to the diversification of its economy. Investments in renewable energy are now commercially viable and will not hit the

Investments in renewable energy are now commercially viable and will not hit the country's fiscal space negatively. The private sector can play a pivotal role in scaling up investments in this sector

tic electricity production remains stable and largely sufficient to cater to domestic consumption, while the country is not dependent on gas. There is significant potential to scale up renewable energy production, particularly if the right regulatory environment is in place to incentivise private investments. This would not only support economic activity, but also support Montenegro on its path to decarbonisation and environmental sustainability. The financial sector has proved resilient throughout the pandemic, fostering growth that's safeguarded by strong capital requirements and liquidity buffers. In view of the ongoing reshuffling of global supply chains, Montenegro continues to have opportunities thanks to its close proximity to EU markets.

country's fiscal space negatively. The private sector can play a pivotal role in scaling up investments in this sector.

You stated in a previous interview that Montenegro has fantastic potential for renewables and that the EBRD will work very hard to unlock these opportunities. What are your priorities in that respect?

- Our priority is to promote investments in renewable energy and support policy reforms that help unlock the great potential available, applying best market practices from our vast experience in multiple countries of operations.

We recently launched a comprehensive policy support programme with the Gov-

► ernment of Montenegro that's aimed at reforming the sector and introducing auctions for renewable energy. With the right set of reforms, Montenegro can create an enabling environment for private sector investments in Renewables, thus making affordable clean energy available to its citizens.

Alongside policy engagement, the EBRD is also investing in renewable energy directly: we participated in the financing of the first commercial wind farm (Krnovo, 72 MW) and are planning new investments in 2023 that will add another 54.6 MW capacity of wind power. Alongside this, we are considering financing the installation of smaller-scale solar panels by a leading retailer for their own use. The EBRD is also working with the national power distribution company and the transmission company to upgrade and digitalise the country's infrastructure, in order to improve its efficiency and enable the electricity grid to handle the new renewable capacity.

Montenegro has been striving for years to strengthen the competitiveness of its private sector. Where do you see the biggest space for further progress in this area?

- Talking to local SMEs, their number one need is skilled staff, across all industries and sectors. The tourism sector is facing challenges, as many skilled workers switched occupations during the COVID pandemic; the ICT sector is experiencing difficulties due to the shortage of a skilled employee base and outsourcing; the construction sector saw an exodus of many skilled staff to more developed markets. The EBRD is actively promoting advice for small businesses through dedicated programmes to help businesses grow and be more competitive. We provided advisory services to 41 companies in Montenegro during 2022.

Another challenge confronting SMEs is access to finance. We have been working to support the establishment of a credit guarantee fund to help unlock financing from commercial banks to SMEs. We hope to see this implemented in the near future.

Improving the country's business climate is also critical to competitiveness. The EBRD



The tourism sector is facing challenges, as many skilled workers switched occupations during the COVID pandemic, while the ICT sector is experiencing difficulties due to the shortage of a skilled employee base and outsourcing

is contributing to this sector with a dedicated technical assistance programme for the Ministry of Economic Development and Tourism, and continued support to the Secretariat to the Competitiveness Council (SCC), a public-private platform aimed at promoting dialogue between the private sector and the Government.

One area of particular interest is ICT and innovation. Do you see them as niches that could lead to the diversification of the Montenegrin economy?

- As a tourism-oriented country that has limited production and exports, Montene-

gro should focus on the ICT sector as one of the areas for the country's future economic development and diversification. According to the National Statistics Office, the ICT sector in Montenegro accounts for 4-5% of the country's GDP, but Montenegro still has a long way to go to fulfil its ICT potential. Around 800 companies are currently operating in the ICT sector in Montenegro, and that number has been growing rapidly due to IT firms displaced by the Russian invasion of Ukraine relocating throughout the region. However, the core business for most of these companies is based on hardware, and the majority of them are working for domestic markets and governments. In order to grow and diversify, skills in this sector are in high demand. A revision of the education system would greatly support its alignment with market needs.

How does your focus on strengthening connectivity and broadband infrastructure contribute to the development of these areas and digitalisation in Montenegro generally?

- Enhanced broadband infrastructure is critical to enable the digital transformation of economies and provide digital services to citizens and SMEs. Our focus, alongside the EU, has been to support the Ministry of Economic Development and Tourism in implementing a feasibility study for the development of broadband infrastructure in Montenegro. This study has shown that investments are needed to upgrade and expand the network, particularly in rural areas, which have reduced access and speed compared to cities. The investment identified as part of this study should enable an additional 72,000 inhabitants to access very high-speed (VHS) internet and use digital services, either for their businesses or for public services.

We are now working on the second phase, which will identify the most efficient market model suitable for implementing and delivering the upgrade jointly with internet providers. Montenegro will be perfectly placed to become the region's leading country in providing ICT services and to successfully implement a programme to attract digital nomads.

Tiled roofs of
Perast city Kotor bay,
Montenegro



Facing A Challenging Year

NINA DRAKIĆ PH.D., President of the Chamber of Commerce of Montenegro



Global turmoil hasn't only brought new challenges, but also made the resolving of long-standing systemic barriers an imperative – including the high levels of the grey economy, shortages of personnel who possess appropriate knowhow and skills, and the insufficient digital transformation of society, which is a precondition for the economy's accelerated recovery

Montenegro has been hit by all the current global challenges – from supply chain disruptions and losses of traditional tourism markets, via the investment slowdown, to high inflation rates and general price hikes. It is almost impossible to evaluate the greater or lesser importance of these challenges. I would say that the biggest problem is that these challenges happen to coincide, says Nina Drakić Ph.D., President of the Chamber of Commerce of Montenegro.

These factors will all influence the country's economic performance in 2023. "High import dependence, or a high deficit, has for years represented one of the biggest challenges to the Montenegrin economy, and it is a direct consequence of the low production levels in agriculture and industry. That's why the country's exposure to rising prices of goods imported to satisfy domestic demand is so extremely high and difficult to influence, which ensures it will also continue to hamper us during 2023," explains our interlocutor, add-

ing: "as a consequence of the war in Ukraine, during the previous year we saw a significant reduction in the number of tourists arriving from that country, but also from Belarus and Russia. In my opinion, this trend will unfortunately continue this year, so without the "conquering" of new markets, there will be consequences due to the loss of these traditional ones."

Does the Government of Montenegro have room to take a proactive approach?

EXPECTATIONS

Businesses expect the Government to create a stable and predictable business environment, considering that it also has the opportunity to influence economic growth and development in 2023

EURO INTEGRATION

I hope Montenegro will soon overcome the political and institutional crisis and that we will return to the EU integration path and continue to be recognised as a leader in this process

MEMBERSHIP

Through numerous initiatives targeting decision makers, we succeed in helping our members to resolve challenges and ease their operations in a large number of cases

ach to creating an environment that's conducive to economic growth in 2023?

- The business sector expects the Government to create a stable and predictable business environment, considering that it has the opportunity and can influence economic growth and development in 2023, but also in every subsequent year.

We are aware that it isn't possible to solve all problems immediately, but the Government has a wide range of tools that it can use, especially when it comes to long-term effects. Viewed over the long run, preserving the substance of the economy and macroeconomic stability – and in parallel conducting structural reforms, while further developing and implementing infrastructure projects – will secure the required conditions for more dynamic growth and development.

On the other hand, the Government can also take advantage of short-term measures that will create the conditions for faster economic growth in 2023. As such, an efficient administration could help a lot in overcoming numerous barriers or some significant problems that characterise our economic system, such as the illiquidity of the economy or the grey economy. Through the accelerated resolving of requests for VAT refunds alone, the administration would significantly ease the operations of businesses, while the more intense activity of inspection bodies would contribute significantly to combating the grey economy.

Alongside this, it is necessary to take measures to incentivise the tourism industry, particularly rural and health tourism, with the aim of creating a diverse, year-round offer; to increase allocations for agriculture, work on the introduction of new digital services in order to improve conditions for doing business etc.

Which of the proposals and initiatives of the Chamber of Commerce of Montenegro and its member companies would you highlight as being the most important to support the economy?

- Given that the economy is struggling with the burden of the current crisis, and that the period

ahead is filled with uncertainties, the Chamber of Commerce of Montenegro (PKCG) proposed a set of activities and measures to the Government aimed at supporting the economy. Considering the energy crisis and broken or imperilled supply chains, we've initiated the granting of an additional 10% discount on the electricity bills of all enterprises that reduce their energy consumption in the period ahead compared to the same period of last year. By evaluating the extremely important exploiting of the potential for the construction of solar power plants, we've proposed the measure of introducing a VAT rate of zero on equipment

for solar power plants. With this in mind, the VAT rate on equipment for these kinds of power plants has been reduced from 21% to 7% through amendments to the VAT Law.

With the aim of easing the negative financial ramifications for the agriculture sector and the food industry, we pointed out to the Government, among other things, the need to secure interest-free loans for industrial bakeries, the need to increase subsidies for bulk buying milk, and then to reduce the VAT rate on meat products, fish, fruits and vegetables to 7%.

To what extent has the Government of Montenegro shown appreciation for your initiatives related to regulatory changes that would ease the continued operations of enterprises?

- Through numerous initiatives targeting decision makers, we succeed in helping our members to resolve challenges and ease their operations in a large number of cases. However, numerous initiatives for amendments to the legislative framework governing the sectors of tourism, trade, health, and environmental protection have not been adopted to the extent that we expected. We will therefore continue to insist on regulatory changes that will provide for an improved business environment. Special attention was paid during the previous year to solving the problem of implementing public procurement contracts, which arose due to market

During the previous period, the Government of Montenegro didn't adopt numerous initiatives for amendments to the legislative framework governing the sectors of tourism, trade, health, and environmental protection to the extent that we expected. We will therefore continue to insist on regulatory changes that will enable an improved business environment

circumstances having changed significantly, i.e., due to rising prices and costs for almost all inputs, primarily in the construction sector. The PKCG coordinated the development of the Guidelines for implementing procedures for determining price differences on the basis of construction contracts, and I hope that the Government will "make them operational" as soon as possible. Alongside this, the PKCG proposed that the Law on Public Procurement be amended in such a way that it enables the possibility of increasing a contracted value by up to 20% on contracts that are still in the implementation phase due to no fault of the bidder and that were concluded during the period of the applicability of the previous law, given that it did not stipulate this possibility.

Another subject of our attention was the Law on Amendments to the Law on Excise Duties, which if

► applied as such would lead to increased production costs for domestic producers that would reflect on retail prices. This prompted us to submit an initiative to the Ministry of Finance that was adopted and resulted in the abolishing of the provision on the payment of excise duties on plastic products. Apart from the aforementioned, we also participated in the drafting of numerous regulations that impact the business environment, amongst which I would mention the Law on Companies and the Labour Law.

What changes to the institutional environment do you expect in the period ahead?

- Improving the business environment, and thereby improving the competitiveness of domestic companies, requires that the institutions with which the Chamber cooperates continuously be stable and functional. Likewise, a stable political system and predictable business environment serve as a guarantee for real investments in the economy, and thus for the development of the economy as a whole.

I hope Montenegro will soon overcome the political and institutional crisis and that we will return to the EU integration path and continue to be recognised as a leader in this process.

We are concerned by the most recent messages of the European Commission over the possible halting of the negotiation process, which would also mean the freezing of funds available to support the economy with the aim of improving competitiveness, creating new jobs and increasing export opportunities, but also improving environmental protection and the transition to a green and circular economy.

The work of the PKCG in 2022 was focused, among other things, on the internationalisation of business operations and the implementation of international projects. Which of the Chamber's successes would you single out here and what would you highlight among the priorities for 2023?

- During the previous year, the Chamber worked with dedication on the internationalisation of the operations of its member companies, as part of its regular and core activities, but also via projects financed through various programmes of the European Union and other donors. This implies wide ranging support from the provision of infor-



Through the accelerated resolving of requests for VAT refunds alone, the administration would significantly ease the operations of businesses, while the more intense activity of inspection bodies would contribute significantly to combating the grey economy

mation on foreign markets, novelties in the world of marketing, linking up with foreign partners through the organisation of business meetings and appearances at trade fairs, which included the participation of more than 280 companies from Montenegro during the past year.

Thus, through the mediation of the Chamber, domestic businesspeople also expressed interest in cooperating with companies from other markets under the scope of the business meetings that we organised with the U.S., the UAE, Germany, Belgium, Luxembourg, San Marino, Turkey, Serbia, Romania, France, North Macedonia and many other countries.

All of this was also accompanied by a series of educational activities covering topics related to

issues of export, the import policies of target markets, functioning within value chains and similar topics. The significantly altered market conditions caused by the COVID-19 pandemic further accentuated the need for accelerated digital transformation, as one of the basic preconditions for internationalisation. As such, this topic has been - and remains - in our focus.

Through the PKCG's membership in the Enterprise European Network, the continent's largest business network, we have an opportunity to present the offers of Montenegrin companies to potential foreign partners, as well as to convey their interest in cooperation to our members. Thanks to this network in particular, we were able to provide the opportunity to participate in numerous online business missions even at the peak of the pandemic and lockdowns.

When it comes to international projects, we have spent years endeavouring to utilise all the benefits of pre-accession assistance in order to raise our own capacities, and those of our members, in the areas of access to finance, through the green and blue economy, digitalisation and advancing the education system in the direction of adjusting labour market supply and demand. I'm glad that we've been recognised as a credible partner in this field by renowned institutions and organisations from EU countries that are happy to cooperate with us. Our intention is to be even better in this work, because the exchange of knowledge offered to us through these projects is important for raising the local economy's level of competitiveness and preparedness to compete successfully on foreign markets.

Ready For Whatever May Come

The world is confronted by tough times, but with every challenge comes an opportunity. With that in mind, NLB Bank AD Podgorica is ready to face possible calamities and support its clients

We are feeling the impact of the economic crisis, but our clients and our bank are well prepared, says NLB Bank AD Podgorica President of the Management Board Martin Leberle. However, 2023 will be a challenging year by all accounts.

How much did the arrival in Montenegro of investors from countries threatened by the Russian war against Ukraine change the structure of investments in the country; How do you, as MFIC members, welcome these changes?

- Every crisis contains chances. The global disruption relates not only to the war Russia brought to Ukraine, but also to changes in worldwide supply chains during and after the pandemic and the demand of European producers to nearshore their suppliers. Montenegro has so far missed out on the chance to attract those projects and investments on a larger scale. International investors seek stability and transparency in terms of business rules, and especially when it comes to the rule of law. Here I see great upside potential and opportunities for Montenegro.

A few months after winning the award of financial magazine Euromoney as the “Best Bank in Montenegro”, NLB Banka AD Podgorica received another annual recognition from The Banker. How challenging is it to maintain such a position while thinking ambitiously about future successes?

- I call the awards that we received in 2022 the “Bankers Grand Slam”, when the financial journalists of the independent Euromoney and Financial Times juries recognised our efforts and successes in a very small but competitive market! It is



International investors seek stability and transparency in terms of business rules, and especially when it comes to the rule of law. Here I see great upside potential and opportunities for Montenegro

never easy to be “the best” and I’m sure our competitors will try to catch up with us, but that is the nature of the competition that drives our motivation to become better every day. Ultimately, it is the client alone who decides who’s the best, and with our team we are always hungry to satisfy our clients’ needs both today and also tomorrow.

Unlike the previous financial crises, which hit the banking sector hard, this latest one hasn’t shaken banks to date. In your opinion, what is the most important thing to ensure this stability can be preserved?

- We are feeling the impact of the economic crisis, but our clients and our bank are well prepared. We are liquid and able to support our clients. We proactively offer solutions for businesses and private clients. As a bank, we are like a navigation system in the world of finance and we should see the road ahead on our dashboard, even after the next turn. We are prepared for different scenarios and can therefore support our clients continuously. Our slogan is “For whatever may come” and, as a banking group born and rooted in this region, we will do our best to utilise our shared expertise, knowledge and strength to navigate these challenging times!

Despite global and domestic economic challenges, tourism has remained a strong pillar of support for the short-term growth of Montenegro.

As one of the leading investors in this area, Porto Montenegro expects another successful season

We Expect Another Good Year

DAVID MARGASON, MFIC Board Member and Executive Director of Porto Montenegro Adriatic Marinas

Overall expectations and the needs of tourists do vary somewhat between distinct customer groups, but the fundamental in-country characteristics of the natural environment, cultural richness, fine weather and warmth of hospitality, which have attracted tourists to Montenegro for decades, still prevail, which is why – with COVID-related regulatory restrictions on travel now normalised – I expect Montenegro to be as popular to tourists in 2023 as it has ever been, says David Margason, board member of the Montenegrin Foreign Investors Council and executive director of Porto Montenegro. He does still add that external and varying economic and geopolitical factors will, as ever, differentially impact willing tourists' abilities to make their desired visits to Montenegro. "However, overall, we expect another good year, especially in the upper market segments," confirms our interlocutor. That said, tourists are fickle and mobile, and so the bigger long-term issue is defending an established market against ever more aggressive international competition. It is with this in mind that Margason offers a word of advice to Montenegrin policymakers: "there is clear evidence that those who are conscious of, and actively defend, their inherent USPs do not move to damage recognised fundamentals of their appeal to their core customer groups (be those groups in the coastal on-shore, marine leisure or inland mountain interested groups). They remain always inventive, while constantly improving the infrastructure required to transport willing tourism spend to and from Montenegro with ac-



ceptable levels of friction. The clear winners are those who weather broader changes to the global market and grow their tourism economies the most effectively over the long term. Montenegro will need to actively plan and consciously act to do the same, insists our interlocutor. He also draws a fine line between different types of investments. "It is important to differentiate between 'tourists' and 'investors in tourism and tourism products, including real estate'. The former will behave according to the immediate environment as above; the latter, including investors in second homes and tourism rental real estate, will behave quite differently and in accordance with factors that impact the cost and security of their planned capital investments," says Margason. "Those

whose motives are mainly investment will be impacted more by this, while those investing for a combination of pure investment and regular self-use and visitation will be hit slightly less. However, with many other attractive locations available around the world, we can expect investment factors to take precedence and this source of investment needs to be understood and nurtured if the benefits of its largely international, inward investment are to continue to be enjoyed as a key part of the country's social and economic development."

The mega yacht yard Adriatic42, of which you are a co-owner, has officially opened on the site of the former Bijela shipyard. What does this entry into the mega yacht repair and maintenance market mean to you and your partner?

- Montenegro has unique advantages as a centre for marine leisure, and for superyacht activities in particular. Blessed as it is with a beautiful, safe and sheltered haven in the bays of Boka and Kotor, and with a long and proud heritage of marine engineering, as well as being strategically located on the axis between the Western Mediterranean core super-yachting arena and the Caribbean arena to the West, and the fast-growing Arabian and Asian arena to the East, it is well placed to become one of the strongest yachting hubs in the world moving forward.

The superyacht and mega yacht refit and repair industry is currently highly buoyant, despite the impact on the Mediterranean market of the Eastern European regional conflict that is



affecting significant yacht owners from that region.

Whilst we await government contractors' completion of the remediation works on a large portion of the Bijela site, our joint venture – with expert operator Dry Docks World – has forged ahead and invested enough to open a substantial first phase of the yard.

The order book at the yard is growing rapidly; servicing, refit and repair projects are already being completed and this has resulted in associated local and international product and service supply business and employment in the marine engineering sector in the Bay of Kotor growing once again.

The opening of the A42 yard marks a major milestone in the evolution of the marine leisure industry in Montenegro, as it completes the provision, here in Boka Bay, of the full suite of world class yachting amenities that are necessary for the industry to compete with the best-established yachting hubs elsewhere around the world.

How attractive do you find the Economic Citizenship Programme?

- When the real estate-based Montenegrin Citizenship By Investment Programme was launched by the Government of Montenegro, we recognised it – provided it is responsibly applied and administered – as a proven formula for such schemes around the world and as a highly effective means of strengthening confidence in the development of tourism property investment product at a time when the markets were heavily depressed by the impact of the pandemic. The scheme gave our shareholder the confidence to launch our Boka Place mixed

use development, which in addition to its hotel and residential inventory, also delivers new family entertainment and health and fitness infrastructure in Tivat, creating substantial numbers of jobs across a variety of disciplines. In terms of its appeal to investors in tourism-centric rental properties and second homes, our experience of the Montenegrin Economic Citizenship Programme has been extremely

good. However, the time required for applicants to realise their citizenship and complete their investment has been much longer than was expected, which has caused concern among applicants and project investors, as well as resulting in delays in the realising of employment and economic benefits of the programme to the Municipality and central government.

Montenegro has unique advantages as a centre for marine leisure, and superyacht activities in particular. It is well placed to become one of the strongest yachting hubs in the world moving forward



It has been our hope that this Citizenship By Investment Programme, in its current form or some evolved one, would be extended, and it is in anticipation of this that we have been preparing another large and innovative tourism project centred on culture and the arts. Unfortunately, the Programme has not been extended. However, we still hope that a new Programme centred on real estate may be launched by the Government in the future, as a way to support additional inward investment, including in our next phase project at Porto Montenegro, and that if the Government should take such a step, and provided a new scheme is responsibly administered, that it would be designed to even more directly benefit the host Municipalities, where associated projects would be located, and the wider socioeconomic development of Montenegro.

Exciting And Innovative Endeavours Ahead

A joint strategy enables us to successfully manage the digitalisation process that holds the keys to social progress, the development of business and innovation, but also to improving everyday life for all of us ~ Branko Mitrović

Digitalisation is an unavoidable process and it's entirely up to us alone whether we'll be able to take advantage of all the opportunities it offers us, or whether we'll just let it happen to us without a clear vision and the knowhow to manage that process. Digitalisation is of concern to everyone, to the economy, public administration, education, healthcare and every single citizen, says Branko Mitrović, MFIC BoD member and CEO of company ONE.

According to our interlocutor, ONE is a company for which the digital inclusion of everyone is really important. "That's why our users can count on us, in the context of the digital services we offer them, but so can the entire Montenegrin society and the Government, to which we are a reliable partner when it comes to this priority issue." Mitrović adds that Montenegrin society as a whole also has the support of all MFIC members, who already have significant experience when it comes to digitalisation.

You are the Montenegrin market's leading provider of mobile telecommunication services. How much has this field changed with the rise of digitalisation during the COVID-19 pandemic and what new demands are being made by users?

- The time of the pandemic showed us just how important digitalisation, telecoms services and the IT industry are to our functioning on a daily basis. Digitalisation actually implies saving time and realising our obligations much more efficiently – from online shopping, remote learning and working, scheduling medical check-ups, resolving administrative tasks and problems. The prerequisite for all that is the existence of a network that we can rely on.



Montenegro has the potential to catch the technological wave that transforms the way we live and work fundamentally

Although we are naturally still using all traditional means of communication, our desire today is for that to be efficient and fast, and those are qualities that we find in the online world. Statistics show without a doubt that such communication is increasingly taking precedence and that the years of the pandemic only served to push to the fore a tendency that was certainly ahead of us anyway, rendering it an everyday reality. Our company places the user experience high

on its list of priorities, and direct, efficient and transparent communication is an essential part of that experience. That's why we're dedicated to improving this important segment of our operations, and why we're very proud of our Web chat, as an ambitious platform through which our users can, within a deadline of just a minute, establish contact with One agents with the aim of solving problems or receiving information. There is also the 'Moj One' application, which is used by more than 110,000 users every month and represents an excellent way to provide services without the need for users to visit our branches physically. I see a growth opportunity in further digitalisation, and the arrival of 5G will accelerate the digital transformation process significantly. A period of really exciting and innovative endeavours is ahead for the telecom industry.

You've personally advanced in your career one step at a time, from an initial position at the company to the top leadership position. Do young people who are today entering the labour market and your company traverse the same path? What can ensure that they stay in Montenegro, which – like many neighbouring countries – is suffering from a brain drain among highly educated members of the workforce?

- At our company we truly value the effort and commitment of employees and believe that, apart from good working conditions, the best reward for them is when we, as employers, provide them with room to improve and advance. Progressing further depends on them. And I believe that young people in Montenegro are capable and want to utilise that chance.

Operating Responsibly

Our efforts are directed towards securing high-quality products for the market and preparations for the more than needed energy transformation in the coming years. The goal of company HELLENiQ ENERGY is to reduce its environmental footprint significantly, in order to combat climate change



Investors, as well as the Government, must play a key role in reducing greenhouse gas emissions

Jugopetrol AD (JSC) this year commemorated the 75th anniversary of its existence. This covers a period during which countries, economic systems and the economic environment have changed in these lands. These facts prompted us to ask Vasilis Panagopoulos, Jugopetrol CEO and MFIC Board of Directors member, about the recipe for the company's success and the extent to which foreign investments can contribute to the growth of individual companies and the Montenegrin economy as a whole.

What was the most important business philosophy thread that enabled you to successfully overcome all market turmoil?

Over the course of the last 75 years, our company has passed through various stages of growth and development, while always respecting basic business principles. This, above all, refers to the quality of products and services, harmonised with the latest technological, safety and environmental trends and standards. We additionally reconstructed our EKO retail network. All components provided us with a stable working and operational environment.

Jugopetrol has been part of the Hellenic Petroleum Group since October 2002, while the group was recently rebranded as HELLENiQ ENERGY. What does this mean for the company's development?

Being part of a leading energy group brings stability and reliability, which characterise Jugopetrol's operations throughout all these years of supplying the market. Our efforts are directed towards securing high-quality products for the market and preparations for the more than needed energy transformation in the coming years.

With your experience as a member of the Montenegrin Foreign Investors Council Board of Directors, how do

you see the most important steps that Montenegro needs to take today to be attractive to new investments in the area of green development?

Sustainable investment represents the responsibility and potential of certain branches of the economy to achieve the goals of climate and environmental sustainability. Investors, as well as the Government, must play a key role in reducing greenhouse gas emissions.

Hellenic Petroleum presented its new name in 2022: HELLENiQ ENERGY, which forms part of the company's overall rebranding process. The goal of HELLENiQ ENERGY is to reduce its environmental footprint significantly, in order to combat climate change.

Cooperation & Mutual Trust Are Essential For Success

IVAN RADULOVIĆ, MFIC Executive Director

We can only overcome challenges if we work together in a constructive way and if we agree to an economic strategy at the national level that's supported by all relevant stakeholders. Implementing economic and regulatory reforms is merely the first step in that direction, and the geopolitical situation creates a window of opportunity for Montenegro to accelerate its progress towards EU membership



The Montenegri Foreign Investors Council will publish the next edition of the White Book, focused on business conditions for 2022, at the end of March this year. That's why this interview with MFIC Executive Director Ivan Radulović focuses on the long-term messages prompted by insights into Montenegro's reform progress, provided by movement on the index to date.

The previous edition of the White Book, covering 2021, confirms that it was a very successful year in terms of economic recovery and that tourism, which had previously been the main reason for the historical recession of 2020, exceeding 15%, was once again the driver of GDP recovering by almost 11% in 2021. "In this context, it could be said that the crisis management of the Government and the Central Bank was highly professional,

efficient and sufficiently committed to support the recovery," says Radulović. Thus, the MFIC index in 2021 stood at 7, on a scale of 1 to 10 (with 1 representing the worst rating and 10 the best) and represented a significant increase compared to 2020, when it stood at 6.4, and was also 0.1 percentage points higher than the index for 2019, which was considered a record year according to several segments.

In which areas have you been most satisfied with the progress achieved to date?

- In short, by analysing previous years, the index for the 2015-2019 period shows that the overall business environment is stable and improving gradually. During 2019, we had a clear signal that foreign investors consider that year as being marked by more significant, tangible improvements compared to previous years.

SUPPORT

The Montenegrin Foreign Investors Council will continue to fully support reform processes in the country and its European Union accession

INITIATIVES

Our committees will closely monitor regulatory changes in their sectors and propose initiatives for improvement in domains that are important to the operations of our members

COOPERATION

Close and continuous communication with the Government and public administration bodies remains an important MFIC tool for supporting our members

The year 2020 exposed all the weaknesses of the economy and the necessity for systemic reforms, which equated to the MFIC index of 6.4. The subsequent growth of the index for 2021 shows that the perception of recovery in small economies can be quickly detected and that, in the case of Montenegro, sectors like tourism, telecommunications-ICT and trade recorded the most positive developments, and thereby had a significant influence on the growth of the index, which now stands at 7.

In total contrast to the previous year, 2021 saw growth of individual indices recorded in all sectors: telecommunications and ICT, banking/finance, tourism, production/energy, trade/retail and transport/logistics, which is certainly understandable given the MFIC index's large overall increase.

When it comes to individually important categories, we noted declines in four categories: real estate development, taxation, corporate governance and the rule of law, while the result for the labour market and employment remained the same as in the previous year.

Apart from the rating for the rule of law, the most concerning rating is that for the grey market, which recorded a drop of 0.2 percentage points, with a total rating of 4.8. Such a low rating hasn't been recorded previously and indicates a complete absence of activities and obligations related to combating the grey economy, which are visible at the political level and require additional efforts and capacity building in the respective institutions.

Multiple changes have been made recently to the leadership and composition of the Montenegrin government. Under these circumstances, how much was the government's openness to cooperation with MFIC maintained. Which issues do you collaborate on most intensively with the ministries of the Government of Montenegro?

- Political instability has a negative impact on the economic and social environment. Investors seek a politically stable environ-

ment and predictable conditions for doing business.

Generally speaking, we enjoy good cooperation with the Government and look forward to the continuation of open and constructive dialogue. We expect reforms that have already started to continue, and all in the best interests of Montenegro's economic growth and development, and ultimately of all citizens and the economy.

We can only overcome the challenges if we work together in a constructive way, and if we reach agreement on an economic strategy at the national level that's supported by all relevant stakeholders. Implementing economic and reg-

How do you foster cohesion and co-operation within the MFIC?

- Close and continuous communication with the Government and public administration bodies remains an important MFIC tool in supporting our members in developing and improving their operations in Montenegro. In this context, timely dialogue is vital for all interested parties, with the aim of enabling increased efficiency in business processes and avoiding consequences that are negative and harmful to the entire business community.

I would only remind readers that the Montenegrin Foreign Investors Council participates in

We will continue to participate actively in the work of the Competitiveness Council and relevant working groups, in order to achieve common goals and promote our shared interests. Through active participation and the providing of comments and suggestions regarding the most important economic-strategic documents, we will work to fulfil the Council's mission and create better conditions for doing business

ulatory reforms is merely the first step in that direction, while the geopolitical situation creates a window of opportunity for Montenegro to accelerate its progress towards EU membership. We believe that sufficient mechanisms in communication with the Government exist to adequately suggest constructive proposals through adequate forms of public discussion. Viewed in general terms, it is precisely the events of previous years, which were certainly extreme, that showed the correctness and crucial nature of the MFIC message over many years that serious reform processes must be carried out continuously within the scope of analysed sectors, and with the aim of further improving the business environment, attracting foreign investments and increasing economic standards for all Montenegrin citizens.

the work of the Competitiveness Council, as the main advisory body in the area of improving the business environment, and that in the previous period, as very active members, we directed our activities towards ensuring the implementation of recommendations submitted by our members through the White Book, as well as through the work of our committees that closely monitor changes to the regulatory framework in their respective sectors and propose initiatives for improvement in areas that are important to the business operations of our member companies. Reforms of the business environment in Montenegro must be implemented more efficiently in order to create a favourable business climate and enable the faster development and recovery of the entire Montenegrin economy.



Autumn Black Lake,
Durmitor National Park,
Zabljak, Montenegro



Fruitful Discussions With Government & Partners

Throughout the course of the year, the Montenegrin Foreign Investors' Council – MFIC was involved in various activities aimed at promoting both Montenegro's investment potential and the interests of the country's international business community

JANUARY 2022 COMPETITIVE COUNCIL SESSION

The 14th session of the Competitiveness Council was held, chaired by Council President and then Montenegrin Minister of Economic Development Jakov Milatović. The topics discussed related to activities implemented by the Ministry of Economic Development with the aim of improving the business environment, proposals from business associations regarding amendments to the Company Law, the Platform for Economic Recovery 2022-2026 and Information on the implementation of the Law on Fiscalization in the trade of products and services.

Other topics related to the Economic Reform Programme 2022-2024, Montenegro's Roadmap to a Circular Economy, as well as quarterly progress reports on the work of the permanent working groups of the Competitiveness Council.

The Council also used the session to adopt the Report on the work of the Council for 2021 and the Work Plan for 2022.



MFA MEETING

One of the priorities of the Montenegrin Ministry of Foreign Affairs is economic diplomacy, as it is the best way to ensure economic recovery. Montenegro needs credible foreign investments, as well as a continuation of the policy of zero tolerance towards corruption. This was concluded at the January 2022 meeting of then-Montenegrin Foreign Minister Đorđe Radulović with then-MFIC President Christoph Schön and MFIC BoD member and Telenor CEO Branko Mitrović. It was jointly emphasised during the meeting that attracting investments is crucial to the country's economic recovery, while participants stressed that Montenegro remains attractive for investments, particularly in the tourism, energy and IT sectors.

It was assessed that the north of the country has huge potential for investments, and that it is necessary to further intensify efforts to promote Montenegro as an investment destination. Along that line, Schön praised the government's determination to fight organised crime and corruption, primarily because investors are seeking stable and secure countries in which to invest.

Mitrović mentioned the great importance of the Government showing care and understanding for the needs and challenges of foreign

investors already operating in Montenegro, because the reputation of a desirable destination for investment is thus built, while all foreign businesspeople in the country become active promoters of investment in Montenegro.

MFIC BOD MEETING

The MFIC Board of Directors held its regular meeting to discuss preparations for MFIC participation at EXPO Dubai 2020, the publication of the next edition of the White Book: Business Environment



in Montenegro for 2021, as well as activities for the period ahead. The meeting was attended by MFIC President Christoph Schön, MFIC BoD members Nela Vitić, Tamás Kamarási and Martin Leberle, and MFIC Executive Director Ivan Radulović.

FEBRUARY 2022 MFIC DELEGATION AT EXPO DUBAI

MFIC BoD member Nela Vitić addressed the Montenegro Business Forum at Expo 2020 Dubai on the occasion of Montenegrin National Day. “Since regaining its independence in 2006, Montenegro has been increasingly attractive to foreign investors. Its development is centred around attracting FDI through a competitive business environment, striving to become the business hub of Southeast Europe. It offers many rewarding investment opportunities and impressive natural po-



tential, along with continuous improvements to the business climate intended to attract foreign investors.

“Nevertheless, there is still work to be done and challenges to be overcome. As a candidate country on its path to joining the European Union, Montenegro is making steady progress. All 33 chapters have been opened and three chapters have been provisionally closed. Having become a member of both the WTO and NATO, one can be optimistic about further improvements to the Montenegrin trade system and the general business climate in Montenegro. We are certain that it is developing into a reliable and investor-friendly business environment. “The future priorities of MFIC will be to promote Montenegro's investment potential and the interests of the international business community in Montenegro. MFIC will continue fully supporting the country's reform process and its accession to the European Union.

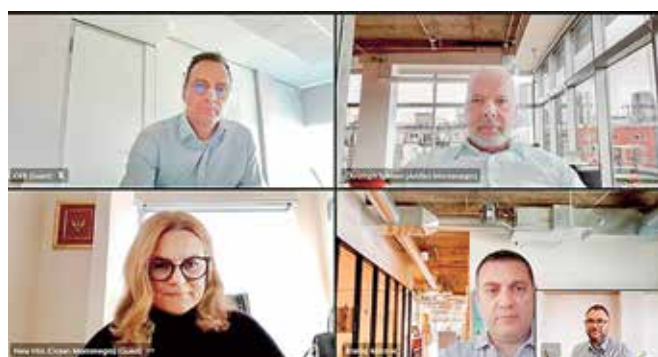
NEW COMMITTEE FORMED



The MFIC Finance Committee, chaired by Mr Martin Leberle, held its first meeting under a hybrid format. The newly established MFIC Finance Committee has merged the pre-existing Banking and Insurance Committees and been joined by member companies from accounting, auditing and brokerage services. The Finance Committee will act as an advisor to diplomatic circles, NGOs and other partners in order to defend the interest of foreign investors and improve the business climate and environment in Montenegro. Committee members will also help attract foreign investors in order to further strengthen the economy.

APRIL 2022
WHITE BOOK:
INVESTMENT CLIMATE
IN MONTENEGRO 2021
Business environment improves
significantly

MFIC published the 11th edition of its annual White Book, which is a key document that's used by foreign investors to draw attention to the main challenges they face in doing business in Montenegro. Its index ranges from one



MARCH 2022
BOARD MEETING DISCUSSES WHITE BOOK

The MFIC Board of Directors held its regular meeting to discuss the findings of the White Book: Investment Climate in Montenegro 2021, set to be published by the end of March, as well as activities for the period ahead. The meeting was attended by then-MFIC President Christoph Schön, MFIC BoD members Nela Vitić, Tamás Kamarási and Branko Mitrović, and MFIC Executive Director Ivan Radulović.

ESG STANDARDS & GENDER EQUALITY
CONFERENCE

MFIC President Christoph Schön participated in the second panel debate of the conference “Environmental, social and governance (ESG)



standards and gender equality - drivers of economic development”, which was jointly organised by the AIRE Centre, the Investment and Development Fund of Montenegro (IRFCG), the Sustineri Partners expert group and the British Embassy in Podgorica.

Under the scope of the panel discussion entitled “Gender equality as a key precondition for sustainable economic and social development”, Schön highlighted the importance of a stable regulatory environment for the implementation of foreign investments, the proper social protection of women, equal gender pay and access to human resources. He noted how an environment that provides equal chances for all market participants is of crucial importance.

APRIL 2022
WORLD BANK MEETING

MFIC President Christoph Schön met with representatives of the World Bank during their consultation phase with regard to the development of the World Bank's Montenegro Country Partnership Framework.



The meeting provided an opportunity to exchange views on the regulatory and macroeconomic environment in Montenegro, the most important obstacles confronting foreign investors, the EU accession process, labour market conditions and the further needs for improving the efficiency of the public administration.

to ten, with one representing the lowest score and ten the highest, and is calculated on the basis of a questionnaire covering 80 per cent of MFIC member companies. Compared with the 2020 index, which stood at 6.4, the index for last year shows a considerable improvement.

According to MFIC Executive Director Ivan Radulović, the improved index result in 2021 indicates that the perception of recovery can be detected quickly in small economies. “In the case of Montenegro, industries such as tourism, telecommunications, ICT and trade

reported progress and thus had a significant impact on the index increase,” said Radulović in presenting the latest edition of the White Book at a press conference. Then MFIC President Christoph Schön said that 2021 had proven to be a very successful year in terms of economic recovery. “Even though tourism was the main reason for the historic recession of over 15 per cent in 2020, tourism was the trigger for GDP recovery of almost 11 per cent in 2021,” said Schön. According to him, in this context it is safe to say that the crisis management of the Monte-

negrin Government and the Central Bank was highly professional, efficient and well balanced to support the recovery.

Then Deputy Prime Minister, now PM, Dritan Abazović said that improving the business climate required joint efforts, adding that it would attract new investors to Montenegro. “There is no progress without serious businesspeople and investments, but in order to achieve significant results it is necessary to establish a stable political system in which the rule of law will function,” said Abazović.



JUNE 2022 AMM & MFIC MEMORANDUM

“It is important that foreign investors in Montenegro recognise the favourable business environment,” said AMM President Budimir Raičković during the signing of a Memorandum on Cooperation between the two business organisations in Podgorica, which was co-signed by MFIC President Christoph Schön.

Speaking on this occasion, Raičković emphasised the great importance of foreign investors recognising the country’s favourable business environment. AMM and MFIC will cooperate in the field of digital transformation in particular, within the scope of the work of their respective committees. They will continue to cooperate on the project of the Best Manager and Entrepreneur of the Year, which MFIC has been involved in since the inception of these awards.

Schön noted that he is looking forward to intensifying cooperation and noted that the Montenegrin Foreign Investors Council will be a partner in all activities aimed at creating a more stimulating business environment.

5G NETWORK DISCUSSED

Montenegrin Economic Development and Tourism Minister Goran Đurović and head of the ministry’s Directorate for electronic communications, postal services and radio spectrum, Marina Marković,

met with MFIC representatives from the telecommunications sector (Crnogorski Telekom, One, Mtel).

The meeting’s central theme was the introduction of a 5G network to Montenegro, the upcoming 5G radio frequency auction and the defining of a minimal starting price for frequencies.



Minister Đurović familiarised attendees with the government’s plans to conduct the auction process during the second half of the year. In accordance with previous experience, the Government used this opportunity to express its willingness to take into consideration the preparedness of operators to invest in the further development of infrastructure when defining the minimal price for radio frequencies.

COMPETITIVENESS COUNCIL SESSION

The 16th session of the Competitiveness Council, and the first under the new convocation, was held and presided over by Economic Development and Tourism Minister Goran Đurović. In accordance with the Council’s work plan for the 2nd quarter, the main topic of



discussion was the grey economy: implementation of new tax policies, E-fiscalization and proposals from the business world aimed at combating the grey economy. The Council also discussed the status of regulations currently being drafted/amended, including: the Law on the Registration of Businesses and Other Entities; Company Law; the Auditing Act; and the Regulation governing business zones. Members of the Council were also updated on the status of the AP Strategy for the Development of Women's Entrepreneurship, the statements of institutions regarding recommendations contained in the 2021 MFIC White Book, and quarterly reports on the progress of the work of eight permanent working groups.

FINANCE MINISTER & MFIC DISCUSS OBSTACLES

Montenegrin Finance Minister Aleksandar Damjanović held a working meeting on 27th June with MFIC President Christoph Schön and MFIC Finance Committee Chair Martin Leberle, as well as other members of the Committee.



Speaking on this occasion, Minister Damjanović said that FDI has represented a distinct engine for the development of the country since the period when it first gained its independence, before insisting that future policies in this area will be transparent and aimed at easing the overcoming of business and administrative obstacles, i.e., improving the credibility and competitiveness of Montenegro's small and open economy.

MFIC partners expressed their willingness to continue providing support within the framework of financial education, in order for the Montenegrin economic society to keep pace with European standards, and to represent a timely source of information related to this dynamic area.

The meeting included analysis of the challenges faced by investors at the global level, such as the changing supply routes for goods in response to the global shocks caused by the war in Ukraine and the COVID-19 pandemic, as well as obstacles related to Montenegro specifically.

It was jointly assessed that low tax rates cannot provide a sufficient motive for investment unless they are accompanied by swift court procedures and an efficient administration.

MFIC ACTIVITIES DISCUSSED

The MFIC Board of Directors held its regular meeting that included the discussions of both ongoing activities and those planned for the future period.



The meeting was attended by MFIC President Christoph Schön, MFIC BoD members Nela Vitić, Martin Leberle and Branko Mitrović, and MFIC Executive Director Ivan Radulović. BoD Member Tamás Kamarási was represented at this meeting by Maja Krstić.

MFIC MEETS WITH EU AMBASSADORS

MFIC President Christoph Schön, BoD members Martin Leberle and Branko Mitrović, MFIC Executive Director Ivan Radulović and Head of the MFIC Regulatory Policy Committee, Ljudmila Popović-Kavaja met on 30th June with EU Ambassador to Montenegro Oana Cristina Popa, German Ambassador to Montenegro Robert Weber, Slovenian Ambassador to Montenegro Gregor Presker, Hungarian Ambassador to Montenegro Jozsef Negyesi and Deputy Austrian Ambassador to Montenegro Ute Friessner.

The meeting provided an opportunity to inform the guests from the EU about MFIC future priorities and discuss business barriers faced by foreign investors in Montenegro, as well as to exchange views on business environment conditions in the country.



It was jointly concluded that a predictable business environment represents a basic precondition for the further improvement of the Montenegrin business climate.



AUGUST 2022 IMPROVING THE INVESTMENT CLIMATE

MFIC President Christoph Schön and BoD member Tamás Kamarási met with Montenegrin Minister without Portfolio Zoran Miljanić to discuss business environment conditions and future cooperation with foreign investors in Montenegro. Minister Miljanić informed his MFIC guests about the anticorruption initiatives implemented by the 43rd Government of Montenegro and said that corruption has been recognised as one of the barriers that has a major negative impact on the attracting of foreign investors.

Schön highlighted that the foreign investment community has placed its trust in the Government and the system since the very launch of its business activities in Montenegro, and that it is important to strengthen the relevant institutions to adequately implement regulations and monitor the legal framework, and thus provide a predictable and reliable environment for foreign investments.

Kamarási emphasised that the presence of foreign investors in Montenegro brings business that is in accordance with the highest standards and EU guidelines, which improves the general business environment in the country significantly.

It was jointly concluded that the consistent implementation of anticorruption initiatives will further contribute to improving the investment climate and conditions for transforming the Montenegrin economy into a modern, diverse and competitive destination for foreign investments.

SEPTEMBER 2022 17th SESSION OF THE COMPETITIVENESS COUNCIL

The 17th session of the Competitiveness Council, chaired by Economic Development and Tourism Minister Goran Đurović, was held in September, with the MFIC represented by Regulatory Policy Committee Chair Ljudmila Popović-Kavaja.

The main topic of discussion was access to finance for micro, small and medium-sized enterprises (MSMEs): the status of the proposal



of the Law on Credit-Guarantee Fund, activities of the Investment and Development Fund of Montenegro, improving financing for MSMEs through the Ministry of Science and Technological Development of Montenegro, but also via the Innovation Fund of Montenegro.

NOVEMBER 2022 KAMARÁSI BECOMES NEW MFIC PRESIDENT

Tamás Kamarási, CEO of Crnogorska Komercijalna Banka (CKB), was appointed as the new president of MFIC at the association's Annual Assembly. The assembly also saw new members of the MFIC Board of Directors appointed, in the form of One CEO Branko Mitrović, Jugopetrol CEO Vasilis Panagopoulous, Porto Montenegro CEO David Margason and NLB CEO Martin Leberle.

Speaking on this occasion, Kamarási said that – considering that foreign direct investments have been among the drivers of Montenegro's economic development, the MFIC must assume a more significant position in decision-making processes that impact business operations and the country's economy.

“We are obliged to do so due to the complexity of the economic and political situation, as well as the current investment climate,” said Kamarási when thanking members for showing their trust in him and supporting his appointment as president.



He said that MFIC must drive more intensive cooperation among all important factors in society, with the aim of achieving positive legal and systemic solutions.

The assembly saw the presenting of the main activities and achievements of MFIC during the previous year, its financial sustainability, new members who joined the community during the year, as well as the most important activities planned for the coming year.
























MFIC ANNUAL ASSEMBLY HELD

“In order to realise its economic potential, Montenegro needs political stability to implement key reforms related to the rule of law, conduct major structural reforms and progress on the path to the EU,” said EU Ambassador to Montenegro Oana Cristina Popa, following her discussion with foreign investors in Montenegro at the MFIC Annual Assembly.



MFIC Montenegro Foreign
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TAMÁS KAMARÁSI,
MFIC PRESIDENT, (CEO OF CRNOGORSKA KOMERCIJALNA BANKA (CKB))

THE BATTLE FOR INVESTORS MUST BE BETTER & MORE DECISIVE

The possibilities and resources at Montenegro's disposal are unquestionable, but they are not enough in and of themselves. There are many countries today that want to attract foreign investors and that invest plenty to ensure they provide the best possible conditions for those wanting to invest. Montenegro must start competing better and more decisively in this extremely demanding and important "contest"

GORAN ĐUROVIĆ,
MONTENEGRIN MINISTER OF ECONOMIC DEVELOPMENT



WE'RE OPTIMISTIC, BUT CAUTIOUS

I'm an optimist and believe that our country, as a small system, where sometimes just one important investment or policy can yield a major result, has a chance to overcome all obstacles and quickly become a member of the European Union, which is what we're striving towards



RADOJE ŽUGIĆ,
GOVERNOR OF THE CENTRAL BANK OF MONTENEGRO, CBCG

THE TREATMENTS FOR CRISIS ARE ALWAYS THE SAME

The only correct answer when it comes to the containment of the budget deficit is strong fiscal consolidation, with accompanying structural reforms. It is likewise necessary to consider strengthening fiscal stability through Montenegro's entry into an arrangement with the IMF, as well as avoiding the practise of creating new spending without preceding analysis of the impact on fiscal sustainability

ALEKSANDAR DAMJANOVIĆ,
MONTENEGRIN FINANCE MINISTER



FACING GREAT UNKNOWNNS

The Government of Montenegro approached the planning of this year's budget with an awareness for the numerous risks present on the global market, but also with moderate optimism over the recovery of the tourism sector, and thus also economic growth indicators. This has led to expectations that, provided there are no additional global pressures and market shocks, Montenegro will also round off this budgetary year within the scope of its own capacities



CHRISTOPHER SHELDON,
WORLD BANK COUNTRY MANAGER FOR BOSNIA AND HERZEGOVINA, AND MONTENEGRO

HELPING HAND IN TOUGH TIMES

The World Bank stands ready to support the Government of Montenegro by providing technical, international best practice expertise in the designing and implementing of critical structural reforms, including through potential development financing operations that support ambitious reform programmes and provide financing under favourable terms

REMON ZAKARIA,
EBRD HEAD OF MONTENEGRO AND EBRD REPRESENTATIVE ON THE MONTENEGRIN FOREIGN INVESTORS COUNCIL



HUGE RENEWABLE ENERGY POTENTIAL

While tourism remains the country's core economic activity, Montenegro has significant potential to turn renewable energy production and ICT into new sources of growth and prosperity



NINA DRAKIĆ PH.D.,
PRESIDENT OF THE CHAMBER OF COMMERCE OF MONTENEGRO

FACING A CHALLENGING YEAR

Global turmoil hasn't only brought new challenges, but also made the resolving of long-standing systemic barriers an imperative – including the high levels of the grey economy, shortages of personnel who possess appropriate knowhow and skills, and the insufficient digital transformation of society, which is a precondition for the economy's accelerated recovery

MARTIN LEBERLE,
MFIC BOD MEMBER; PRESIDENT OF THE MANAGEMENT BOARD OF NLB BANK AD PODGORICA



READY FOR WHATEVER MAY COME

The world is confronted by tough times, but with every challenge comes an opportunity. With that in mind, NLB Bank AD Podgorica is ready to face possible calamities and support its clients



DAVID MARGASON,
MFIC BOARD MEMBER AND EXECUTIVE DIRECTOR OF PORTO MONTENEGRO ADRIATIC MARINAS

WE EXPECT ANOTHER GOOD YEAR

Despite global and domestic economic challenges, tourism has remained a strong pillar of support for the short-term growth of Montenegro. As one of the leading investors in this area, Porto Montenegro expects another successful season

BRANKO MITROVIĆ,
ONE CEO & BOD MEMBER



EXCITING AND INNOVATIVE ENDEAVOURS AHEAD

A joint strategy enables us to successfully manage the digitalisation process that holds the keys to social progress, the development of business and innovation, but also to improving everyday life for all of us ~ Branko Mitrović



VASILIS PANAGOPOULOS,
MFIC BOD MEMBER, CEO OF JUGOPETROL AD

OPERATING RESPONSIBLY

Our efforts are directed towards securing high-quality products for the market and preparations for the more than needed energy transformation in the coming years. The goal of company HELLENiQ ENERGY is to reduce its environmental footprint significantly, in order to combat climate change

IVAN RADULOVIĆ,
MFIC EXECUTIVE DIRECTOR



COOPERATION & MUTUAL TRUST ARE ESSENTIAL FOR SUCCESS

We can only overcome challenges if we work together in a constructive way and if we agree to an economic strategy at the national level that's supported by all relevant stakeholders. Implementing economic and regulatory reforms is merely the first step in that direction, and the geopolitical situation creates a window of opportunity for Montenegro to accelerate its progress towards EU membership



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