U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

Montenegro is a country in transition politically and economically. Formerly a part of the Socialist Federal Republic of Yugoslavia and later the Union of Serbia and Montenegro, Montenegro voted for independence from Serbia in 2006. Since then, the country of approximately 650,000 inhabitants has been led by a democratically elected government headed by the Democratic Party of Socialists (DPS). In that time, Montenegro has adopted an investment framework that in principle encourages growth, employment and exports. However, it is still in the process of establishing a liberal business climate that fosters foreign investment and local production. Although the continuing transition has not yet eliminated all structural barriers, the government generally recognizes the need to remove impediments in order to remain competitive, reform the business environment, and open the economy to foreign investors. Foreign companies and investors are generally treated the same as their domestic counterparts. Nevertheless, Montenegro continues to struggle with the perception and reality of corruption in its economic sectors, and the government has so far pursued few high-profile prosecutions of alleged corrupt officials.

Montenegro’s three biggest sectors for investment and economic growth are agriculture, energy, and tourism, the last of which brings in over a million foreign visitors every year, many of whom arrive by boat at the deep fjord-like Kotor Bay. Montenegro has abundant natural beauty, with 300 kilometers of sea coast, mountains, rivers, and lakes, all in close proximity, which provides for ample scenic views and touristic accommodations and investment opportunities. Several new luxury tourism complexes are in various states of development along the coast, and several envision being used in connection with boating and yachting facilities nearby. The increased burden of additional visitors and traffic patterns points up a need (and opportunity) for a general overhaul of existing transportation infrastructures. Montenegro is currently planning major overhauls of its road, rail networks, and possible expansions of its air transportation system. Podgorica International Airport connects to most of Europe and the world via transfer hubs in major European capitals such as Vienna, Munich, Paris, London and Istanbul. Tivat Airport has regular air service to Russia and points East, while Dubrovnik Airport in nearby Croatia is increasingly used for tourist destinations along Montenegro’s northern coast. The biggest foreign investors in Montenegro are: Italy, Norway, Austria, Russia, Hungary, the U.S. and Great Britain. Lately, China, Azerbaijan, and Near Eastern and Gulf Emirate states have shown increasing interest in investing in Montenegro’s resort development industry.

Montenegro is an EU candidate country and is taking active steps to become a member of NATO.

1. Openness To, and Restrictions Upon, Foreign Investment

Montenegro is a country in transition both politically and economically. Formerly a part of the Socialist Federal Republic of Yugoslavia and later the Union of Serbia and Montenegro, Montenegro voted for independence from Serbia in 2006. Since then, the country of approximately 650,000 inhabitants has been led by a democratically elected government headed by the Democratic Party of Socialists (DPS). In that time, Montenegro has adopted an investment framework that in principle encourages growth, employment and exports. Montenegro, however, is still in the process of establishing a liberal business climate that fosters foreign investment and local production. Although the continuing transition has not yet eliminated all structural barriers, the government generally recognizes the need to remove impediments in order to remain competitive, reform the business environment, and open the economy to foreign investors. Montenegro is an EU candidate country and is taking active steps to become a member of NATO.

There are no distinctions made between domestic and foreign companies. Foreign companies can own 100 percent of a domestic company, and profits and dividends can be repatriated without limitations or restrictions.

Foreign investors can participate in the privatization process and can own land in Montenegro generally on the same basis as locals. Expropriation of property can only occur for a "compelling public purpose" and compensation must be made at fair market value. There has been no known expropriation of foreign property. International arbitration is allowed in commercial disputes involving foreign investors.

Registration procedures have been simplified to such an extent that it is possible to register a company electronically in Montenegro. Bankruptcy laws have been streamlined to make it easier to liquidate a company, accounting standards have been brought up to international norms, and custom regulations have been simplified. There are no mandated performance requirements.
Montenegro has enacted specific legislation outlining guarantees and safeguards for foreign investors. Montenegro's Foreign Investment Law establishes the framework for investment in Montenegro. The law eliminates previous investment restrictions, extends national treatment to foreign investors, allows for the transfer/repatriation of profits and dividends, provides guarantees against expropriation, and allows for custom duty waivers for equipment imported as capital-in-kind.

Montenegro also has adopted more than 20 other business-related laws, all in accordance with EU standards. The main laws that regulate foreign investment in Montenegro are: the Foreign Investment Law; the Enterprise Law; the Insolvency Law; the Law on Fiduciary Transfer of Property Rights; the Accounting Law; the Law on Capital and Current Transactions; the Foreign Trade Law; the Customs Law; the Law on Free Zones; the Labor Law; the Securities Law; the Concession Law, and the set of laws regulating tax policy. Montenegro has made significant steps in both amending investment-related legislation in accordance with world standards and creating the necessary institutions for attracting investments. However, as is the case with other transition countries, implementation and enforcement of existing legislation remains weak and inconsistent.

While Montenegro has taken many steps to make the country more open for foreign investment, some deficiencies still exist. The absence of fully developed legal institutions has fostered corruption and weak controls over conflicts of interest. The judiciary is still slow to adjudicate cases, and court decisions are not always consistently reasoned or enforced. Montenegro's significant grey economy impacts its market, negatively affecting businesses operating in accordance with the law. Favorable tax policies established at the national level are often ignored at the municipal level.

NATO invited Montenegro to participate in its Membership Action Plan (MAP) on December 4, 2009. The European Council's decision to permit visa-free travel to Schengen-zone countries for citizens of Montenegro came into effect on December 19, 2009.
Montenegro was formally given the status of an EU candidate country at the European Council summit in Brussels on December 17, 2010. On June 29th, 2012 Montenegro officially started accession negotiations with the EU.

On December 17, 2011 Montenegro became the 156th member of World Trade Organization (WTO).

Over 5,000 foreign-owned firms are registered and operating in Montenegro, many of them small proprietors or not fully operating. Foreign investors come from more than 100 countries, with no single country dominating investment. To date the most significant investments have come from Italy, Norway, Austria, Russia, Hungary, the U.S. and Great Britain. Lately, China, Azerbaijan, Russia, Taiwan and the Gulf Emirates states have shown increasing interest in investing in Montenegro's resort development industry.

Business Chambers and Organizations

<u>American Chamber of Commerce</u>

In order to further develop commercial ties between the U.S. and Montenegro, the American Chamber of Commerce in Montenegro was launched on November 19, 2008. AmCham Montenegro serves as a leading advocate for American as well as other foreign businesses in Montenegro.

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<u>U.S. – Montenegro Business Council</u>

The U.S.-Montenegro Business Council was formally opened in Podgorica on December 16, 2008. The Council's mission is to promote trade and investment between the U.S. and Montenegro. Additionally, through its sister office in the United States, the Council seeks to encourage more American investors to learn about opportunities in Montenegro, as well as to help Montenegrin companies explore business opportunities in the United States. Also, as a part of the strategic partnership between Montenegro and State of Maryland, the Council's office in Podgorica will also serve as a Maryland state trade office.

Svetlana Vukcevic, Executive Director
US - Montenegro Business Council

Website: http://www.usmnebc.org/

Montenegrin Chamber of Economy

The government-supported Chamber of Economy in Montenegro was established in 1928. The Chamber is focused on increasing the competitiveness of Montenegrin enterprises and on promoting Montenegro as an investment destination.

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Montenegrin Investment Promotion Agency

To better promote investment and foster economic development, the Government of Montenegro established the Montenegrin Investment Promotion Agency (MIPA) in mid-2005. It seeks to promote Montenegro as a competitive investment destination by actively facilitating investment projects in the country.

Inquiries on investment opportunities in Montenegro can be directed to:
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TABLE 1: The following chart summarizes several well-regarded indices and rankings

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(67 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(68 of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(50 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(44 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 7,220	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

The Foreign Investment Law guarantees the right to transfer and repatriate profits in Montenegro. Montenegro uses the Euro as its domestic currency. There are no difficulties in the free transfer of funds exercised on the basis of profit, repayment of resources, or residual assets.

3. Expropriation and Compensation

Montenegro provides legal safeguards against expropriation. Protections are codified in several laws adopted by the government. There have been no cases of expropriation of foreign investments in Montenegro. However, Montenegro has outstanding claims related to property nationalized under the Socialist Federal Republic of Yugoslavia.

On March 23, 2004, Montenegro passed a Restitution Law. The necessary sub-acts entered into effect on January 1, 2005, and the Restitution Fund came into existence on March 1, 2005. The basic restitution policy in Montenegro is restitution in kind when possible, and cash compensation or substitution of other state land when physical return is not possible.

At the end of August 2007, Parliament passed a new Law on Restitution which supersedes the 2004 Act. In line with the new law, three review commissions have been formed: one in Bar (covering the coastal region); one in Podgorica (for the central region of Montenegro); and one in Bijelo Polje (for the northern region of Montenegro.)

Montenegro provides safeguards from expropriation actions through its Foreign Investment Law. The law states that the government cannot expropriate property from a foreign investor unless there is a "compelling public purpose" established by law or on the basis of the law. If an expropriation is executed, compensation must be provided at fair market value plus one basis point above the LIBOR rate for the period between the expropriation and the date of payment of compensation.

4. Dispute Settlement

The Administrative Court in December 2012 rejected an appeal by the U.S. investment fund NCH, which had challenged the decision of the Government's Council for Privatization earlier in 2012 to grant the lease of a large coastal property to the Azerbaijani Oil Company SOCAR. Representatives of NCH, who were the second-ranked bidders on the tender, argued that the Government's Council for Privatization did not value their bid correctly. The Administrative Court rejected NCH's appeal, saying that it was submitted one day after the deadline for submitting appeals. The Supreme Court had previously sent the case back to the administrative court for further review at the beginning of December.

Post is not aware of any other investment dispute involving American companies in Montenegro. However, a number of public procurement cases involving American companies are in various stages of dispute resolution with the government.

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Montenegro's legal system is a collection of former Yugoslav, Union of Serbia and Montenegro, and independent Montenegrin codes. Montenegro's Law on Courts defines a judicial system consisting of three levels of courts: Basic, Superior, and the Supreme Court. Montenegro established the Appellate Court and the Administrative Court in 2005 for special jurisdiction of commercial matters.

The Basic Courts exercise original jurisdiction over civil and criminal cases. There are 15 courts for Montenegro's 23 municipalities. Two Superior Courts in Podgorica and Bijelo Polje have appellate review of municipal court decisions. The Superior Courts also decide on jurisdictional conflicts between the municipal courts.

The two commercial courts (which also handle economic crime cases) were established in Podgorica and Bijelo Polje. They have jurisdiction in the following matters: shipping, navigation, aircraft (except passenger transport), intellectual property rights, bankruptcy, and unfair trade practices. The Superior Courts hear appeals of Basic Court decisions, and Superior Court decisions may be appealed to the Supreme Court. The Supreme Court is the court of final judgment for all civil, criminal and administrative cases.

The commercial court system faces challenges, such as the implementation of new legislation and changes to existing laws; developing a new system of operations, including electronic communication with clients; and a lack of capacity and expertise among the judges. As a result, the pace at which cases are adjudicated is slow. Some reform proposals have included creating a High Commercial Court or dedicating a chamber of the Supreme Court to hear commercial cases. Some judges also have suggested designating a particular court with assigned competency for specific areas in order to streamline caseloads and develop specialized expertise for complicated economic crimes.

Dispute resolution is under the authority of national courts, but it can also fall under the authority of international courts if the contract so designates. Accordingly, Montenegro allows for the possibility of international arbitration. Various foreign companies have other bilateral and multilateral organizations -- such as MIGA (World Bank), OPIC (U.S.), ECGD (UK), SID (Slovenia), SACE (Italy), COFACE (France), and OEKB (Austria) -- providing risk insurance against war, expropriation, nationalization, confiscation, inconvertibility of profit and dividends, and inability to transfer currency. In 2012, Montenegro became a Party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention).

Over the last several years the adoption of 20 new business laws has significantly changed and clarified the legislative environment.

The current Law on the Improvement of the Business Environment adopted in July of 2010 is the first law of its type in Montenegro aimed at equalizing the status of foreign and domestic investors. The new law addresses changes in various laws including: Business Organization; Foreign Investments; Cinematography; Assessment of Impact in the Environment; Construction; and Administrative Taxes. The purpose of these changes is to provide the same working conditions to foreign companies operating in Montenegro and to companies with domestic capital. For example, with the Law on the Environment the deadlines for issuing different permits were reduced in order to speed up procedures and also to help businesses meet their obligations more quickly.

The current Labor Law was adopted in November 2011. It defines a single collective agreement for both public and private sectors, maintains the existing level of severance payments (i.e. the average of the past six months' salaries), and retains the current 365 days of allowed maternity leave. Besides the Labor Law, the question of labor-based relations is also defined in the General Collective Agreement, Branch-level Collective Agreements, and with individual labor agreements between employer and employee.

An updated Concession Law was adopted in February 2009 and creates favorable conditions for obtaining and utilizing concession licenses. The law also regulates the conditions and procedures for obtaining a concession to exploit natural resources, use property in the public domain, and/or conduct activities of general interest. The Concession Law is fundamental to support the public-private partnership process through which a number of future projects can be realized in Montenegro.

In January 2012 Montenegro began to implement the new Law on Excise Taxes. The law was adopted in order to bring Montenegro into compliance with European excise standards. The new law increases duties on cigarettes and alcoholic beverages. In April 2012 higher duties were also placed on coffee and sodas.

Bankruptcy

The Bankruptcy Law, adopted in January 2011, mandates that debtors are designated as insolvent if they cannot meet financial obligations within 45 days from the date of maturity of any debt obligations. At the end of April 2004, Parliament adopted the Foreign Trade Law. The law decreases barriers for doing business and executing foreign trade transactions and is in accordance with WTO standards. However, the law still provides scope for restrictive measures and discretionary government interference.

5. Performance Requirements and Investment Incentives

The government does not impose any performance requirements as a condition for establishing, maintaining, or expanding an investment. Limited incentives are offered to foreign investors; for example, the government offers duty exemptions for imported equipment. The government is planning new incentives through business zones, which are scheduled to be created in several cities outside the capital (Cetinje, Berane) in the near future.

6. Right to Private Ownership and Establishment

In Montenegro, a foreign investor, foreign company, or foreign individual may acquire property. The Foreign Investment Law specifically permits foreign investors to purchase real estate through a contract. This right is explicitly reinforced by the Law on Property and Law on Relations. The Act states that foreign persons and companies can, based on reciprocity, acquire rights to real estate, such as company facilities, places of business, apartments, living spaces, and land for construction. Additionally, foreign persons can claim property rights to real estate by inheritance in the same manner as a domestic citizen.

7. Protection of Property Rights

Mortgages/Secured Transactions

In July 2002, Montenegro enacted the Law on Secured Transactions and established a collateral registry at the Commercial Court in May 2003. The registry's operational guidelines have been drafted and approved by the Commercial Court. The main goal of the Law on Secured Transactions is to establish a clear and transparent framework. In August 2004, Montenegro adopted a new Law on Mortgages by which immovable property may be encumbered by a security interest (mortgage) to secure a claim for the benefit of a creditor who is authorized, in the manner prescribed by the law, to demand satisfaction of his claim by foreclosing the mortgaged property with priority over creditors who do not have a mortgage created on that particular property, as well as over any subsequently registered mortgage, regardless of a change in the owner of the encumbered immovable property.

Intellectual Property Rights

The acquisition and disposition of intellectual property rights are protected by the Law on the Enforcement of Intellectual Property Rights, which entered into force on January 1, 2006. The law provides for fines for legal entities of up to 30,000 euro for selling pirated and/or counterfeited goods. It also provides ex officio authority for market inspectors in the areas mentioned above. New amendments to the existing Law on the Enforcement of Intellectual Property Rights are expected in 2014 which will bring more efficiency in implementation as well as a multifunctional approach to property rights protection. In April 2005, the Montenegrin Parliament adopted the Regulation on (TRIPs) Border Measures that provides powers to customs authorities to suspend customs procedures and seize pirated and counterfeit goods.

Montenegro's Penal Code penalizes intellectual property right violations, allows *ex officio* prosecution, and provides for stricter criminal penalties; however, copyright violation is a significant problem in the outerwear and apparel market and unlicensed software can be easily found on the general market. The Law on Optical Disks was adopted in December 2006; it requires the registration of business activity when reproducing optical disks for commercial purposes and provides for surveillance of optical disk imports and exports, and imports and exports of polycarbonates. The Montenegrin Intellectual Property Office is an authority within the state administration system of Montenegro which is competent for the activities related to the industrial property rights and receipt and filing authors and related rights. The Intellectual Property Office is established under the Regulation on organization and manner of work of the state administration, dated May 11, 2007 (''Official Gazette of the Republic of Montenegro'', No. 25/07) and officially started working on May 28, 2008.

A regulation on the recognition of intellectual property rights was adopted in September 2007. Under this regulation, any rights registered with the Union Intellectual Property Office or with the Serbian Intellectual Property Office and any pending applications filed with these offices before May 28, 2008 are enforceable in Montenegro. Any IPR application submitted after that date in Serbia will have to be re-submitted in Montenegro within six months, to retain its acquired priority.

IPR market inspectors, police officers, customs officers, and employees of the Ministry of Economy attended a number of training seminars on intellectual property protection and counterfeiting, including an IPR enforcement workshop hosted by the American Chamber of Commerce and its members. At the end of 2007, the Customs Administration signed a Letter of Intent for Acceptance of SECURE Standards (standards to be employed by customs for uniform rights enforcement), adopted by the World Customs Organization (WCO) to promote the efficient protection of intellectual property rights by customs authorities.

To further improve intellectual property protection, AmCham Montenegro established an IPR Committee in April 2009. The main goal of the Committee is to work closely with Montenegrin institutions which deal with IPR, to increase public awareness of the importance of intellectual property protection, and to help the GoM strengthen its administrative capacities in this field.

Montenegro is not on the Special 301 Watch List. However, the sale of pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers and clothing, is widespread. Enforcement is slowly improving as customs, police, and judicial authorities obtain the necessary tools, but institutional capacity and public awareness is still limited.

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Local lawyers list: http://podgorica.usembassy.gov/attorneylist.html

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

International Agreements
The former State Union of Serbia and Montenegro ratified many conventions and agreements. It should be noted that in its Declaration of Independence Montenegro stated: "The Republic of Montenegro will apply and assume international agreements and treaties which were concluded by the State Union and which are in accordance with the Montenegrin judicial system."

The following conventions and agreements in the field of intellectual property have been signed and continued with implementation after independence:

- Convention Establishing the World Intellectual Property Organization (1967) [member since October 1, 1973];
- Paris Convention for the Protection of Industrial Property (1883) [member since February 26, 1921];
- Berne Convention for the Protection of Literary and Artistic Works (1886) [member since June 17, 1930];
- Madrid Agreement Concerning the International Registration of Trademarks (1891) [member since February 26, 1921];
- Protocol relating to the Madrid Agreement Concerning the International Registration of Trademarks [member since February 19, 1997];
- Patent Cooperation Treaty (1970) [member since February 1, 1997];
- Hague Agreement Concerning the International Deposit of Industrial Designs (1925) [member since December 30, 1993];
- Universal Copyright Convention (1952) [member since 1966];
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Trademarks (1957) [member since August 30, 1966];
- Locarno Agreement Establishing an International Classification for Industrial Designs (1968) [member since October 16, 1973];
- Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1974) [member since August 25, 1979];
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977) [member since February 25, 1994];
- Trademark Law Treaty (1994) [member since September 15, 1998];
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1958) [member since June 1, 1999];
- Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (1891) [member since May 18, 2000];
- Nairobi Treaty on the Protection of the Olympic Symbol (1981) [member since March 18, 2000];
- Treaty on Intellectual Property with Respect to Integrated Circuits (1989) (signed, not ratified];

- International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations [member since December 20, 2002];
- Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms [member since December 20, 2002];
- WIPO Copyright Treaty [member since December 20, 2002];
- WIPO Performances and Phonograms Treaty [member since December 20, 2002]

WTO Membership

On December 17, 2011, Montenegro became the 156th member of World Trade Organization (WTO). Accession to the WTO is expected to make a positive and lasting contribution to the process of economic reform and sustainable development in Montenegro. A large part of Montenegro's trade is already with the EU, but the further mutual opening of markets and abolishment of restrictions to market access for goods and services will benefit entrepreneurs on both sides and stimulate investment.

8. Transparency of the Regulatory System

The Montenegrin Law on Foreign Investment is based on the national treatment principle, and all proposed laws and regulations are published in draft form and open for public comments, generally for a 30-day period.

Regulations are often applied inconsistently, particularly at the municipal level. Many regulations are in conflict with other regulations, or are ambiguous, creating confusion for investors. As noted in the American Chamber of Commerce’s 2012 Business Climate Survey, many municipalities lack adequate Detailed Urban Plans, making construction permit procedures lengthy and complex. Some municipalities are making efforts to speed up procedures in order to provide a more friendly business environment for investors while on the national level there are no obstacles for these kinds of activities.

Foreign investors can establish a company and invest in it in the same manner and under the same conditions which apply to domestic persons. The same regulations are applied to both domestic and foreign investors, and there are no other regulations which might deprive a foreign investor of any rights or limit such rights. The Law of Foreign Investments is now fully harmonized with World Trade Organization rules.

On January 22, 2004, the Parliament of Montenegro established an Energy Regulatory Agency, which has authority over the electricity, gas, oil, and heating energy sectors. Its main tasks are the approval of pricing, development of a model for determining allowable business costs for energy sector entities, issuance of operating licenses for energy companies and for construction in the energy sector, and monitoring of public tenders. The energy law prescribes that energy sectors where prices are affected by monopoly positions of some participants, business costs will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

The Agency for Electronic Communication and Postal Services was founded by the Montenegrin government in 2001. It is an independent regulatory body whose primary purpose is to design and implement a regulatory framework and encourage private investment in the sector.

The State Audit Institution was established in 2004 and serves as the supreme control organ of budget and state property, local government units, funds, the Central Bank of Montenegro and all other legal entities owned by the state. The Institution audits the annual budget balance sheet of Montenegro. The Institution presents an annual report on the audit results to the parliament by the end of October.

Public procurement is conducted by the Public Procurement Directorate, Ministry of Finance as the main line ministry for the procurement area and the State Commission for Control of Public Procurement Procedures in the protection of rights area. The Directorate started operations in June of 2007 while the State Commission for the Control of Public Procurement Procedures Control was established in 2011. The State Commission takes decisions in the form of written orders and conclusions made at its meetings. The decisions are made by majority of present members. The method of work of the State Commission is specified in its Rules of Procedure. The Law of Public Procurement entered into force in 2011. Judicial control over legality of the public procurement procedures is ensured by the Administrative Court of Montenegro.

While there is a full legal and regulatory infrastructure in place to conduct public procurement, some U.S. companies have complained about irregularities in the procurement process at the national level, and maintain there is an inability to meaningfully challenge decisions they believe were erroneously taken through the procurement apparatus. In other cases, the system delivers appropriate outcomes, though in a complex and time-consuming way.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers

The banking sector in Montenegro is completely privatized. There are eleven banks operating in the country, and all of them are in private ownership; one is locally owned while the others are part of international banks.

At the end of the third quarter of 2013, total assets of eleven Montenegrin banks amounted to USD 4.3 billion. In previous years one of the main risks to financial stability was a growing illiquidity of the economy created by non-performing assets (NPA). Today that risk is reduced and NPA was USD 605 million or 17.7% of total loans and banks obligations. At the same time, loans have slightly increased by 8.3% compared to the year before.

A new set of laws has been adopted and some of the existing laws have been amended to improve regulation of the banking sector, provide a higher level of depositor safety and increase trust in the banking sector itself.

The Law on the Protection of Deposits has been adopted to bring local legislation on protecting deposits up to European standards. In accordance with the law, a fund for protecting deposits has been established. Deposits are guaranteed up to the amount of EUR 50,000 (USD 69.000). With this, guaranteed deposits for individuals in Montenegro will be at the same level as other countries in the European Union.

The Euro has been officially used in Montenegro since March 31, 2002. Montenegro is one of a few countries that does not belong to the Euro zone but uses the Euro as its official currency, without any formal agreements. Use of the Euro defines the role of the Central Bank; since its authority is limited, it has focused on control of the banking system, and maintenance of the payment system. It acts as the state fiscal agent and monitors monetary policy.

Capital Markets

The capital market in Montenegro achieved the highest growth in the process of mass voucher privatization which was the model accepted by many European countries (Czech Republic, Poland, Slovenia, Montenegro, Bosnia and Herzegovina, etc.). The concept transfers ownership from public to private owners by splitting vouchers for free with the possibility to invest in the Funds created to link citizens as investors with the companies. After completing this process in 2002, the capital market developed rapidly and became the most developed in the region. In 2007 it achieved a turnover of USD 6.6 billion or 213 percent of GDP. In 2009, there was a significant further increase in value of the stock exchange, increasing the number of transactions and turnover. The most important reason for the market's revival was the sale of shares in Elektoprivreda Crne Gore, the national electricity company.

In 2013, the Montenegrin capital market was characterized by negative trends. This was followed by decreases in trade volume and in the number of transactions made in comparison with the same period in previous years. The greatest turnover was recorded in the area of company shares, followed by bonds and investment funds. The most important innovation has been the adoption of a new methodology for calculating indices, which aims to present an accurate picture of the situation in the capital market.

During the first 10 months of 2013, turnover on the Montenegrin stock exchange amounted to only USD 29.2 million, a decline of 12.9% in comparison with the same period in 2012. During the first 10 months of 2013, three types of securities were traded: company shares, privatization-investment fund shares and bonds which included Government bonds and Ministry of Finance bonds. The greatest turnover was recorded in the area of company shares (76.7%), followed by investment funds (17%) and bonds (6.3%). The total turnover of investment funds amounted to USD 5 million. In late 2013, several U.S. investors invested in the publicly traded Trend Fund, an amalgam of local real estate and business assets. This U.S. investment had a significant influence on the relatively small local stock market.

Further investment from the USA continued in the fourth quarter of 2013 and the beginning of 2014.

Stock Exchange Indices

The Montenegrin stock exchange uses two indices, MONEX20 and MONEXPIF. In March 2012, the Montenegrin Board of Directors adopted a new methodology for calculating the indices MONEX20 and MONEXPIF. By adopting a new method for calculating the index, they aim to achieve a more accurate representation of the capital market situation. The new method that was adopted to calculate the index is available on the official website of the Montenegrin stock exchange.

MONEX20

The value of the MONEX20 index, which includes the 20 most liquid companies traded on the Montenegrin stock exchange, has increased by 1.6%

MONEXPIF

The value of this index has increased in quarter three 2013 because of few transactions in August by 9.9%. In the first three quarters in 2013 this index decreased 29.1%.

Privatization – Investment Funds on the Stock Exchanges

After transformation, the Privatization – Investment Funds into open and closed funds first invested in Fund Moneta in total amount of USD 1.1 million. The total volume of trade during the first 9 months of 2013 amounted to USD 5 million. This showed a growth of 44.4% when compared with the same period in 2012. In total, during the first nine months of 2013, 1,169 transactions were made. The most actively traded shares during this period were Trend Fund where in August 2013, 11 million shares were traded. The total values of these transactions were 1.3 million euros.

10. Competition from State-Owned Enterprises

Private enterprises in Montenegro are able to compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations. From the beginning of the privatization process in 1999 through the end of September 2013, nearly 90 percent of Montenegrin companies have been privatized. The most important state-owned companies still in existence include the Port of Bar, Montenegro Railways, Montenegro Airlines, Airports of Montenegro, and Plantaze Vineyards. All of these companies are registered as joint-stock companies, with the Government of Montenegro appointing one or more representatives to each Board based on the ownership structure. All must provide an annual report to the government and are subject to independent audits.

The Government of Montenegro is the main institution responsible for the privatization process. The Privatization and Capital Projects Council has been formed to manage, control and supply implementation of the privatization process as well as to propose and coordinate all activities necessary for capital projects application in Montenegro. The Prime Minister of Montenegro is the president of the Privatisation and Capital Projects Council.

The responsibility of this council is defined by the Law on Economic Privatization. The Privatization Council announces each year the plan for privatization which defines which companies will be privatized and the methods of their privatization.

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

More information about the Council and the actual privatization plan is available on the Council's website: www.savjetzaprivatizaciju.me/en

11. Corporate Social Responsibility

An awareness of corporate social responsibility exists among Montenegrin enterprises and entrepreneurs. Although small and medium companies are engaged in various development programs towards the broader community, CSR programs are strongest in large, privately-owned Montenegrin and foreign firms. A survey showed that large private companies and associations are, indeed, more engaged in CSR activities, whereas small companies cited the lack of knowledge about CSR and the lack of support and interest from clients as the main reasons for not participating.

12. Political Violence

Montenegro is a mixed parliamentary and presidential republic with a multiparty political system. The current government supports Montenegro's integration into the European Union and NATO. There is no sustained anti-American sentiment among the general public despite some residual resentment stemming from the 1999 NATO campaign against the regime in the former state union of Serbia and Montenegro. Montenegro and the United States share most policy goals and cooperate productively in many areas. There is broad support for the strengthening of ties with the United States, especially in the economic and commercial spheres.

13. Corruption

Corruption and the perception of corruption are significant issues in Montenegro. Corruption routinely places high on the list of citizen concerns in opinion polls.

Montenegro placed 67th in the Transparency International (TI) 2013 Corruption Perception Index list, seven places better than the previous year. Regionally, Croatia was ranked 57, Bosnia and Herzegovina 72, while Macedonia was ranked 67, Serbia 72, Kosovo 111, and Albania 116.

A legal framework to help combat corruption and organized crime has been in force since the August 2006 adoption of the Law on Witness Protection. Montenegro has been a full member of the International Criminal Police Organization-Interpol since September 2006. In the past two years, the government has achieved some progress on combating official corruption through adoption of important legislation on public procurement, the treasury and budget system, and the courts. Nevertheless, there have been few high-profile corruption prosecutions including at the levels of local and national government.

On June 29th, 2012 Montenegro officially started negotiations on the EU *acquis communautaire* process, beginning with the most challenging chapters related to the area of rule of law.

14. Bilateral Investment Agreements

In December 2006, Montenegro signed the Central European Free Trade Agreement (CEFTA) intended to eliminate all custom restrictions for industrial and agricultural products in member states by 2010. The Parliament ratified CEFTA on March 21, 2007, and it took effect in Montenegro (and simultaneously in Albania, Macedonia, Moldova, and Kosovo) on July 26, 2007. Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia were already parties to the Agreement. Montenegro held the rotating CEFTA Presidency during 2009.

On November 14, 2011 Montenegro signed a Free Trade Agreement with the European Free Trade Association (EFTA), which expands Montenegro's small domestic market to include potentially upwards of 500 million citizens of Europe.

The United States does not have a Bilateral Investment Treaty (BIT) with Montenegro. It is possible that, given the presence of U.S. investors, Montenegro could be a BIT candidate in the future.

The U.S. restored Normal Trade Relations (Most-Favored Nation status) to Montenegro in December 2003. This status provides improved access to the U.S. market for goods exported from Montenegro. The U.S. Government has approved Montenegro's request to be designated a beneficiary developing country under the U.S. Generalized System of Preferences (GSP) program, which provides duty-free access to the U.S. market in various eligible categories (jewelry, ores, stones, many agricultural products etc.).

Other free trade agreements:

- Free Trade Agreement with Russia. A free trade agreement with Russia, concluded in August 2000, between SR Yugoslavia and Russia is in force in Montenegro. The agreement stipulates that the importing country regulate the rules of origin, in accordance with WTO principles. The list of products not covered by the duty free agreement is updated annually, and it currently includes poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles.

- Preferential Trade Agreement with the European Union. The EU has taken steps to stimulate the export of goods among countries in the region through the establishment of autonomous trade preferences (ATP), which provide duty-free entry for over 95 percent of goods. Exemptions include wine, meat, and steel. Products originating from Montenegro are generally admitted into the European Union without quantitative restrictions and are exempted from custom duties and charges. The products exempted from the free import regime are agricultural products, "baby beef" products, and textile products.

- Free Trade Agreement with Turkey. Montenegro and Turkey signed an asymmetric Free Trade Agreement in November 2008. While the list of industrial products covered is identical to that signed with the EU, the list of agricultural products is rather limited. The Montenegrin Parliament ratified the Agreement in July 2009, and ratification by the Parliament of Turkey is expected.

A Free Trade Agreement with the EFTA countries (Switzerland, Norway, Iceland, and Liechtenstein) was signed on November 14, 2011

Bilateral Taxation Treaties

Montenegro has completed fifty Double Taxation Treaties up to today and is still in negotiations process with many countries. The main purpose of these treaties is the avoidance of double taxation on income earned in any of these countries. Montenegro does not have a double taxation treaty with the US.

15. OPIC and Other Investment Insurance Programs

Montenegro, through the State Union of Serbia and Montenegro, became eligible for OPIC programs in July 2001. OPIC activities in Montenegro include: insurance for investors against political risk, expropriation of assets, damages due to political violence and currency convertibility; and insurance coverage for certain contracting, exporting, licensing and leasing transactions. OPIC also established the Southeast Europe Equity Investment Fund that is managed by Soros Management. For more information, please see: http://www.opic.gov

Montenegro became a member of the World Bank Group in January 2007 by signing the Articles of Agreement of the International Bank for Reconstruction and Development (IBRD). Montenegro is a member of the IBRD and has also joined the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

EBRD has an office in Montenegro and supports approximately 40 development projects with a total investment of 400 million euros. EBRD is focusing on infrastructural improvements to Montenegro’s aging transportation system.

16. Labor

Montenegro's total labor force is comprised of approximately 250,000 people. The total number of employees in the public sector is 60,000. According to data provided by the state statistics agency, MONSTAT, the unemployment level at the end of the 2013 was 19.8%. The average monthly salary, without taxes and contributions, was 479 Euros as of September 2013. Foreign investors cite the lack of a highly skilled labor pool as one of the challenges facing Montenegro, along with a bloated public sector workforce of 60,000 people. The government announced a plan in 2013 to reduce this number by 10% in the coming years.

Over the past few years, employment in private companies has increased, and total employment in the social sector (including state-owned companies) has decreased. Major sectors generating employment in Montenegro are tourism, ports and shipping, and manufacturing.

Bringing Montenegro's labor market legislative framework into accordance with EU standards is one of the primary economic tasks of the GoM. The Labor Law defines a single collective agreement for both public and private sectors, maintains the existing level of severance payments, and retains the current 365 days of maternity leave. Changes to the Labor Law have made it easier to dismiss employees for poor performance.

The Law on Peaceful Resolution of Labor Disputes was adopted in December 2007. It introduces out-of-court settlement of labor disputes for the first time in Montenegro. However, the agency required for implementation of the law still needs to be established.

The Law on the Employment of Nonresidents took effect on January 1, 2009 and mandates the government -- set a quota for nonresident workers in the country. The quota for 2013 was 16,500 nonresident workers. Procedures for hiring foreign workers have been simplified, and taxes for nonresident workers have been significantly decreased to help domestic companies that are having problems engaging domestic staff, particularly for temporary and seasonal work. The contribution for employee health insurance has been reduced from 80 euro to 10 euro, as it was a significant burden to the creation of new jobs. Substantial amendments to existing legislation and timely adoption of the necessary by-laws are needed to align legislation on workplace health and safety more closely with the EU. The administrative capacity of the Ministry of Labor and its inspection department is not yet strong enough, and the establishment of the workplace safety agency needs to be prioritized. Changes were also made to the Law on Pensions and Invalid Care, primarily in the area of increasing the age of retirement to 67 years (both for men and women). This will happen gradually over a period of time until 2042. These changes are being made to eliminate problems that have occurred in the pension fund. The ratio between pensioners and active employees is very low and the whole system is endangered.

17. Foreign Trade Zones/Free Ports

In June 2004, Montenegro adopted a Free Trade Zone Law, which offers businesses benefits and exemptions from custom duties, taxes and other duties. The Port of Bar is currently the only free trade zone in Montenegro. All Free Zone users have at their disposal the use of infrastructure, port handling services, and telecommunication services.
All regulations relating to free trade zones are in compliance with EU legal standards. Complete equality has been guaranteed to foreign investors in reference to ownership rights, organizing economic activities in the zone, complete free transfer of profit and deposit, and the security of investments.

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18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Montenegro has attracted considerable interest from foreign investors. Although foreign direct investment has decreased in the last two or three years, largely as a result of the global economic crisis, Montenegro remains a top regional investment destination as measured by investment per capita. According to preliminary data released by the Montenegrin Investment Promotion Agency (MIPA) FDI in the first nine months of 2013 reached USD 380million.

Large investments have been made in the last five years:

Azerbaijan
Investing Company: SOCAR
Investment: Greenfield investment in hotel and resort One & Only and residential area in Kumbor of USD 700 million

Austria
Investing Company: Springer & Sons
Investment: Acquisition of Hotel Panorama for USD 9.3 million

Investing Company: Hypo Group
Investment: Greenfield investment in Hypo Alpe Adria Montenegro of USD 15 million

Canada
Investing Company: Molson
Investment: Acquisition of Brewery for USD 32 million

Investing Company: Adriatic Marinas
Investment: Greenfield investment in hotel and residential area in Tivat, 280 million

Egypt
Investing Company: Orascom Development
Investment: Greenfield investment on Lustica peninsula of USD 14.7 million

Investing Company: Egyptian investment fund
Investment: Greenfield investment of USD 73.5 million

France
Investing Company: Societe Generale
Investment: Acquisition of 64.45 percent of Podgoricka Bank for USD 16.8 million

Investing Company: Alstom
Investment: Expansion of Niksicka Tehno Baza of USD 7.35 million

Germany
Investing Company: Strabag AG
Investment: Acquisition of Public Enterprise Crna Gora Put for USD 10.5 million

Great Britain

Investing Company: Beppler & Jacobson
Investment: Acquisition of Hotel Bianca and Bjelasica Ski center for USD 11.3 million

Investing Company: Beppler & Jacobson
Investment: Acquisition of Hotel Avala for USD 15.2 million

Greece
Investing Company: Hellenic Petroleum
Investment: Acquisition of the 54.4 percent of Jugopetrol Kotor petroleum refinery for USD 120 million

Hungary
Investing Company: Matav (with Deutsche Telecom)
Investment: Acquisition of 51 percent of Telecom Montenegro for USD 142 million

Investing Company: OTP Bank
Investment: Acquisition of CKB bank for USD 134 million

Italy
Investing Company: A2A
Investment: Acquisition of the Electric Power Company of Montenegro (EPCG) of USD 282.3 million

Investing company: Terna
Investment: Greenfield investment in submarine cable of USD 975 million

Japan
Investing Company: Daido
Investment: Acquisition of ball bearing factory for USD 11.2 million

Norway
Investing Company: Telenor
Investment: Acquisition of Promonte mobile operator for USD 145 million

Russia
Investing Company: Rusal
Investment: Acquisition of "KAP" aluminum plant for USD 58.2 million

Investing Company: Salomon Ent
Investment: Acquisition of Bauxite Mine (Rudnici boksita AD Podgorica) for USD 12.5 million

Investing Company: Lukoil
Investment: Portfolio investment in Roksped of USD 39 million

Slovenia
Investing Company: HIT Nova Gorica
Investment: Acquisition of the Hotel Maestral for USD 48 million

Investing Company: LB Leasing Ljubljana
Investment: Greenfield investment in LB Leasing Podgorica of USD 10.1 million

Investing Company: Petrol Bonus
Investment: Acquisition of Montenegrobonus for USD 154.5 million (for six years)

Investing Company: Intereuropa
Investment: Portfolio investment in Zetatrans for USD 12.3 million

Investing Company: Mercator Group
Investment: Portfolio investment in Mercator Mex of USD 8.8 million

Spain
Investing Company: Fersa
Investment: Greenfield investment in the first windmill of USD 82 million

Singapore
Investing Company: Aman Resorts
Investment: Lease of HTP Budvanska Rivijera ("Sveti Stefan", "Milocer", "Kraljicina plaza") for USD 1.95 million per year for 30 years, following a first year payment of USD 2.1 million

Serbia
Investing Company: Delta
Investment: Greenfield investment in Delta City shopping mall of USD 86.9 million

Turkey
Investing Company: Gintas Group
Investment: Greenfield investment in Mall of Montenegro of USD 58.8 million

Investing company: Toshcelik
Investment: Acquisition of Steel Mill for USD 22 million

Investing company: Global Ports
Investment: Container Terminal and general cargo JSC Port of Bar 12 million

USA
Investing Company: Morgan Invest
Investment: Portfolio Investment of Titex for USD 2.45 million

Investing Company: Becovic Management Group
Investment: Acquisition of Hotel "Mediteran" for USD 1 million

Investing Company: Kingston Partners Master, Kingston Partners II, Ktown, Newtyn Partners, Newtyn TE Partners, Frontier Market Select Fund II, Frontaura Global Fund
Investment Portfolio Investment of Fund Trend USD 10 million

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) *(Millions U.S. Dollars)*	2012	4,299	2012	4,373	http://www.worldbank.org/en/country

* MONSTAT (Statistical Office of Montenegro) – www.monstat.org

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	4,707	100%			
Russian Federation	619	13%			
Italy	572	12%			
Cyprus	519	11%			
Serbia, Republic of	319	7%			
Norway	300	6%			
"0" reflects amounts rounded to +/- USD 500,000.					

This is the result form 2012. There are new investments in 2013 mostly in tourism, infrastructure and energy field.

19. Contact Point at Post for Public Inquiries

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