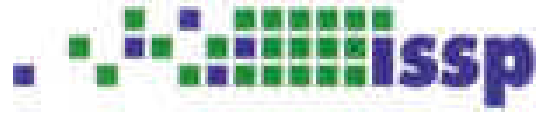
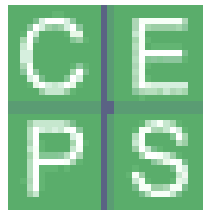


MONET



MONTENEGRO ECONOMIC TRENDS



December 2002

ABOUT ISSP

The Institute for Strategic Studies and Prognoses (ISSP), established by Professor Vukotic in 1999, is the first independent economic institute in Montenegro. USAID assisted in this process and continues to support the work of the Institute. ISSP has a wide network of associates both in Montenegro (about 150) and abroad. ISSP is a member of the Balkan Network, the Global Development Network established by the World Bank and the European Integration Network. ISSP cooperates with ICER (Torino), WIIW (Vienna), CEPS (Brussels) and Chesapeake Associates (Washington).

The Institute's mission is "to provide research that will contribute to Montenegro's economic transformation and to change the current mindset, as well as to train today's young people how to function successfully in the new environment."

Major projects:

- o Macroeconomic reform in Montenegro
 - a) Privatization
 - b) Monetary Reform
 - c) Capital Markets Development
 - d) Fiscal Reform
 - e) Reform of the Pension System
 - f) Introduction of the SNA system
- o Macroeconomic indicators in Montenegro
- o Economic education

President:

Professor Veselin Vukotic, Ph.D.

Executive Director:

Petar Ivanovic, Ms. Sci.

Advisory Board Chairman:

Professor Miroljub Labus, Ph.D.

CONTACTS

ISSP

Address: Naselje pod Ljubovic, Lamela C (1 i 2),
81000 Podgorica, Montenegro, Yugoslavia
Tel/Fax: (381) 81 631 148; 631 149
Website: www.isspm.org / Email: ISSP@cg.yu

CEPS

Address: Place du Congres 1, 1000 Brussels,
Belgium
Tel: (32) 2 229 39 11, Fax: (32) 2 229 39 71
Website: www.ceps.be / Email: info@ceps.be

ABOUT CEPS

CEPS was established in 1983. It performs independent analyses and critiques on European economic policy and politics, as well as on European institutions and security. It disseminates its findings through a regular flow of publications, public events and electronic commentaries.

CEP is an independent membership-driven organization with more than 100 corporate members and a large number of central banks, diplomatic missions and international business organizations in its constituency.

ABOUT MONET

MONET (www.monetonline.org) is the result of the joint work of ISSP in Podgorica and CEPS in Belgium. It is financed by the Foundation for Open Society Institute (FOSI).

MONET team

-ISSP-

ISSP team leaders:

Professor Veselin Vukotic
Petar Ivanovic

Researchers:

Jadranka Kaludjerovic, Milorad Katnic, Michelle Stern, Nina Labovic, Maja Bacovic, Ana Krsmanovic, Tijana Lekovic, Milica Vukotic

Lay out and web site:

Boris Buskovic

-CEPS-

CEPS team leaders:

Daniel Gros
Gérard Duchêne
Juliette Dierick
Boris Najman
Franziska Schobert
Vladimir Najman

CEPS associates:

Wolfgang Hager
Nicholas Whyte

Project Associates

Zeljko Brkovic, Milan Dabovic, Miloica Dakic, Mirjana Djuranovic, Danijela Vukajlovic Grba, Jovanka Knezevic, Darinka Micanovic, Draginja Milatovic, Dejan Miljkovic, Dragica Pekovic, Milan Perovic, Natasa Radunovic, Vesna Samardzic, Zdravka Savic, Ljubinka Sekulic, Marina Vukanovic, Bosa Vukicevic, Tamara Saveljic, Zoran Djikanovic, Dragana Radevic, Darko Konjevic, Jelena Jokanovic, Maja Drakic

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Events

September 2002

26. **An USAID US\$15 million grant to Montenegro.** Representatives of the Government of Montenegro and the United States Agency for International Development – USAID, have signed an agreement for a US\$15 million grant. Funds are earmarked for the balance of payment support, pension payment and for electricity import.
27. **Electrode Factory in Pluzine received quality certificate.** Electrode Factory in Pluzine received Certificate for quality management system consistent with international standard ISO 9001-2000. With this certificate, they are preconditioned for approaching the world market.
27. **Education: Threat with total suspension of work.** After Ministry of Education and Science announced wage reduction, the union strike committee has warned that this may result in a complete suspension of work. According to the union strike committee, over 50% of the schools in Montenegro still work with reduced classes.
27. **Hotel “4.jul” - to Russians, and HTP Primorje - to Slovenians.** Privatization council of Montenegro has considered the offers for Montenegrin hotels, which received on Tender. During session it was decided that the offer of company Moskovskaja Trastovaja – Moskva is the most favorable on the tender for hotel “4.jul, and the management company “Triglav” from Ljubljana” on Tender for HTP “Primorje.
28. **Tender for villa “Avala”.** During the 63rd Privatization council of Montenegro meeting, approval was granted to sign a contract with the company “Caricin grad” from Belgrade as the best offer for villa Hotel “Avala”.
28. **Lower taxes on meat.** The Government of Montenegro brings a temporary decree on the reduction of Payroll Tax on fresh meat by 8%, i.e. on its suspension until the application of the Value Added Tax Law.
29. **In Herceg Novi Riviera tourism is on the rise – three times higher than last year.** According to data collected in Tourist centers in Herceg Novi, 25% more tourists stayed in this town as compared to last year. Presently, Herceg Novi rests 2,525 guests, of which, 84%, or 2099, stay in the hotels. In private accommodations 228 tourists are reported, and in resorts 198, of which almost 1/3 are foreign tourists.
29. **Initiated first insolvency procedures.** According to the Law on insolvency of companies, which was implemented in July of this year, the first insolvency procedures have been initiated for companies with debt of 2500, or entrepreneurs with debt of at least 500; if it is not returned in a month.
30. **Opened offers for “Jugopetrol”.** Tender commission for privatization opened offers received at International tender for sale 54.33% of Jugopetrol’s shares. Seven companies have sent offers on the Tender. Commission will rank companies until October 3, 2002.
30. **Company’s registration.** Commercial courts in Podgorica and Bijelo Polje have received 14,500 requests for company registrations and pre-registrations, of which 5,830 pertain to requests for registration, and the rest are companies that until now have never been registered.

October 2002

- 01. Sex discrimination exists, but it isn't a serious problem.** Research conducted by the Center for Entrepreneurship and Economic Development in Podgorica, Swedish organization "Kvina til Kvina" and American Center for International Private Enterprise, shows that the women in Montenegro believe that sex discrimination does exist in the employment process but that it isn't a serious problem. The research shows that most women work in administration, retail and production.
- 01. Approved self-employed loans.** Republic Commission for implementation of program for continuous incentives to employment and entrepreneurship in Montenegro approved 350 loans, in the amount of 1.6mn for opening 520 jobs. Loans are given at two years for companies and three years for citizens, with grace period of 12 months and yearly interest rate of 3%.
- 01. Crisis in Electricity company of Montenegro.** According to Electricity company announcement, in the first six months of this year, Montenegrin electricity plants have produced 43% less electricity than it had planned. According to that, 30 mn has been spent on import and realized loss of 16.6mn, while the consumer debt is continually increasing.
- 02. Thermal plant "Pljevlja" exceeded the plan.** Thermal plant "Pljevlja", in September produced 123 mn kWh of electricity, approximately 10% higher than planned. Since the beginning of the year this plant has produced more than 70%. The preparations for the winter conditions are ongoing in the Thermal plant.
- 02. According to announcement of Aluminum Plant Podgorica it has produced 10 million tons of aluminum.** Aluminum plant, in September of this year, produced 10-million tons of aluminum resulting in revenue of US\$13.7 mn, 83% of which is realized by export of aluminum. Since the beginning of the year, the plant has produced over 89.1 tons of aluminum and realized revenues in the amount of US\$118.6mn, of which 86% belongs to export.
- 02. Privatization funds accused "Jugopetrol".** Privatization funds Trend, Atlas Mont, Euro fund and MIG prosecuted Kotor's "Jugopetrol", accentuating that this company gave to Fund for development a dividend in the amount of 400.000, which the plaintiffs claim actually belongs to them as owners of 17% of shares.
- 03. Started production of Niksic's beer.** After a four-month strike, the brewery "Trebjesa" in Niksic, began beer production.
- 03. Greece gave the best offer for "Jugopetrol".** Tender commission of the Privatization Council ranked the offer by a Greece company, Helenik, as the best. "Helenik" offered 65mn to purchase 54.35% of "Jupetrol's" shares, and an additional 35mn for investment, 4mn for social program and 1.5mn for local self-government.
- 03. Treasury bills issuance.** The Government of Montenegro decided to issue treasury bills with term of 28 days. Amount of emission is 4mn.

- 07. Increase in Jugopetrol's share price.** After the sale of 54.33% of "Jugopetrol's" shares, it is evident that an increase in their price on the stock exchanges has occurred. The price of this share went from 80 cents in August to 1.5 in the first few weeks of September.
- 08. Niksic's beer is again on the market.** After a five-month break, because of a worker strike in "Trebjesa", the gates of the brewery are again open for buyers. On market will be delivered 6,000hl of beer that is produced in June.
- 08. Agreed valuable business.** On a Forum "Business to business", held in Belgrade, which gathered representatives of more than 300 companies from South-East Europe, Montenegrin companies have, with companies from surrounding countries, agreed to deals worth 800,000.
- 09. Tenders for twelve hotels.** Tender company of the Montenegrin Privatization Council adopted documentation for sale, through International Tender, 12 hotels of Tourist companies Boka, Budva and Ulcinj's coast. At Tender will be offered hotels Rivijera, Topla, Centar, Mogren, Mediteran, Montenegro, Montenegro A, Bellevue, Mediteran and tourist complex Ada Bojana.
- 09. Constitutional charter isn't adopted yet.** A meeting of co-presidents for designing of the Constitutional charter was held in Podgorica, but there is still no compromise, and because of that the adoption of the charter will be delayed.
- 09. There is still no compromise between Ministry of Education and Science and Strike Committee.** Second week in October doesn't bring changes that will normalize work in 213 schools in Montenegro. 50% of the workers remain in the strike, and there has been no public announcement of negotiations between deputy of Ministry of Education and Science and Strike Committee.
- 10. Signed contract on sale of Jugopetrol.** Contract has been signed between representatives of Jugopetrol's owners and Greece company Helenik, in the offices of Jugopetrol in Kotor. Signatory of contract, by which "Helenik" became holder of 54% of shares, are Government of Montenegro, Employment office, Fund PIO, Fund for development and Greece company.
- 12. Reduced required reserves for banks.** Council of Central bank of Montenegro decided to reduce required reserve for banks by 10%, so that now it is 50% of fifteen-days sight deposits. Council brings and sets decisions that regulate payments, until they are reallocated fully into the commercial banks, which is expected next year.
- 13. Higher consumer basket in September.** According to the Republic Statistical Office, which monitors the prices on the Montenegrin market, consumer basket with the 64 most essential items, in April cost 197.5, and in September 253.22. The average June salary in Republic was 118.57.

18. **Sold HTP Mimoza.** Company Irva from Belgrade with purchase of 51% of shares, became the major shareholder of HTP Mimoza from Tivat. Irva, for minority package of shares, has offered 400,000, and for re-capitalization 2.5mn more.
18. **For Niksic 100 loans for self-employment.** In Niksic 100 credits for self-employment are approved, two in Pluzine and 10 in Savnik.
19. **Sold AD" Rolling plant for cold roll tape".** Swiss company Tehnostill became owner of 85.37% of shares of AD Rolling plant for cold roll tape, the first department of Holding steel company from Niksic.
19. **Agricultures are for this year free of taxes.** The Government of Montenegro passed a decree by which the taxpayers who pay taxes on the revenues from agriculture, for this year are free from paying taxes.
19. **Reduction of production in Montenegro.** According to the Federal Statistical Office's announcement, the physical volume of industrial production, in the last nine months, compared to the same period last year in Montenegro is reduced by 2.7%.
20. **Held extraordinary parliament elections in Montenegro and local elections in Podgorica and Tivat.**
22. **Democratic list for European Montenegro took absolute majority.** Republic Election Commission announced the results of extraordinary parliamentary elections in Montenegro. On elections, the absolute majority, with 39 from all 75 mandates, won "Democratic list for European Montenegro – Milo Djukanovic". "Coalition for changes" won 30 mandates, "Liberal Committee" 4, and "Albanians together" 2 mandates.
25. **Signed contract on concession of Port of Bar container terminal.** Montenegrin Government and Panama's company Eberhard International Distributors signed a contract on concession for Port Bar's container terminal on thirty-year period. According to contract, Eberhard will pay to Port a yearly fee of \$25.5mn.
28. **Treasury bills issuance.** The Government of Montenegro decided to issue 3.5 mn treasury bills, with 28-day term.
31. **Half million tourist.** According to the Statistic office's data, in the last nine months there have been 3,535,654 over-night stays in Montenegro. Domestic tourists realized 2.6 million, or 17% less than last year; and foreign tourists realized 868,000 over-nights, or 32% more than last year, during the same period. The total number of tourists, in this period, was 504,968, which is three percent lower than the same period last year. Total revenues from tourism realized in this period were US\$140mn.

November 2002

05. **Million euros for restructuring of the Electricity company.** European Agency for reconstruction signed contract with consulting company IPL Energy consulting, which implies support in reform and restructuring to Electricity company in Montenegro. The value of this contract is 1 million. IPL will define state in this sector and in cooperation with the Government of Montenegro will work on the rehabilitation distributive network.
05. **Payment of old foreign exchange savings has started.** Payment of old foreign exchange savings, with money from the sale of Jugopetrol, started in the Niksicka bank, Pljevljska bank and Podgoricka bank. Montenegro bank and Jjugobank have not yet begun making payments.
06. **Recalled tender for Tobacco company.** Tender commission suggested to Privatization Council to renew the tender and start with the sale of Tobacco company's shares. First Tender was announced two years ago and proclaimed unsuccessful.
08. **Tender for sale "Montenegro bank".** Privatization Council of Montenegro decided to announce International Tender for sale of 91.5% of Montenegro bank shares.
15. **Strike of educational workers stopped.** Representatives of the Government of Montenegro and the union of education and science signed an agreement on suspension of strike in primary and secondary schools. Educational workers will receive an 18% raise (and coefficients in 10%) beginning in February 2003.
16. **Drop in Social Product.** According to the announcement of Republic Secretariat for Development, social product in Montenegro, during the first nine months of this year is lagging by 3.5%, as compared to the plan.
18. **Montenegro bank and Jugobank started with payment of old foreign currency saving.**
18. **Increase in tourism revenues.** According to Central bank of Montenegro data, total revenues from tourism in the first nine months of this year were US\$102.7mn, which is 24.8% higher than in the same period last year.
19. **Higher industrial production.** According to Republic Statistical Office data, industrial production in Montenegro, in October this year, rose by 18.7% compared to the average production last year. Production achieved in October this year, compared to the same month last year is 9.5% greater.
19. **Promoted "Business rating 300" – overview of the most successful companies in Montenegro.** According to the Business rating 300 publication, which promotes the most successful companies in Montenegro, the most profitable company is proclaimed Aluminum company, the most credible Port of Bar, and on the extra list of the most successful companies, at first place is Jugopetrol.
21. **11mn for electricity network in Montenegro.** European Investment bank approved a loan in the amount of 70mn to the Federal Republic of Yugoslavia for repairing and improving electro-infrastructure. From that amount, 59mn will be allocated to Serbia, and 11mn to Montenegro.

- 22. Set of laws on education and breeding passed.** The Parliament of Montenegro passed General law on education and breeding, Law of pre-school education and breeding, primary education and breeding, Law on gymnasium and Law on professional education of adults.
- 28. 85%of treasury bills were sold.** At Central bank T-bills auction 85% of total 6mn treasury bills were sold. Offered rates were from 7.5% to 8.25%.
- 30. For public procurement 44mn was spent.** According to the Commission for Public Procurement announcement, Montenegro spent 44mn for public procurement during the last six months. 22mn of total amount was spent for procurement of goods, 16mn for public works and 5mn for services.

Executive Summary

First section

Production

Total industrial production in Montenegro in the first ten months of 2002 has decreased by 0.5% compared to the same period last year. However, production in the third quarter of 2002 has increased by 13.6% compared to the second quarter (this is primarily due to the 89% increase in electricity production in this quarter compared to the last quarter). Compared to the previous month, electricity production in October 2002 increased by 49.7%.

When comparing the first ten months of 2002 to the same period in 2001, the processing industry increased by just 2%, while mining and stone extracting increased by 12.3% and electricity production decreased by 13.1%.

Employment

According to the Unemployment Office data, the unemployment has declined throughout the summer season and has continued to decrease in September and October. When comparing the third quarter of 2002 with the second, unemployment has decreased by 0.7%, while compared to the same period last year, it is lower by 1.2%. The ISSP data from the Household survey (fifth issue) shows the same trend of unemployment during the summer season, which decreased from 19.6% in April to 13.7% in July.

Wages

For this issue of MONET there is no update on official wage data. However, according to the ISSP Household survey results the average wage in economy in July was 208.2€. The highest average wage is in transport storage and communications activity (276.5€), while the lowest average wage is in real estate and renting activities, and it is more than two times lower (123.3€).

Prices

After relatively high consumer price increases in the first six months and a decline in July 2002, the consumer price index grew moderately in August, September and October. In September 2002, the CPI increased 0.9% compared to August and increased 16% compared to September of last year. In October, CPI increased only 0.2% compared to September and increased 15.6% compared to October of 2001.

Budget

At the end of October budget revenues amounted to €189mn, representing 70% of the projected annual revenue plan, while expenditures slightly exceeded €200mn, representing approximately 60% of the annual plan. The resulting deficit of €11mn (on a cash basis) was financed through international aid privatization revenues. The Pension Fund's cumulative revenues for January-October were equal to cumulative expenditures (approximately €125mn). During the same period the Health Fund registered a deficit of about €9mn.

Money

The narrow money supply (cash+ demand deposits) has been fluctuating around €400mn in the first 3 quarters of 2002. Total household deposits continued to grow at a significant pace in 2002. Of all types of deposits, term deposits of up to 1 year exhibited the highest growth dynamics and grew consistently as a share of total deposits (its share in total deposits reached 55% in September 2002).

Capital market

Total trade in the capital market during the first 10 months of 2002 reached €11.6mn and was higher (by €0.8mn) than during the entire year 2001. The total value of transactions in the primary market was €6.2mn, while in the secondary market it was €5.4mn. The primary market in September and October was dominated by trading with new shares of companies: Moneta, Progas, Montenegro Stock Exchange and Swiss Insurance. In the secondary market most transactions were related to shares of Telecom and Jugopetrol as well as shares from privatization and state funds.

Trade

In the period January -September 2002, Montenegro's current account deficit amounted to US\$153.5 million. Total revenues were US\$437.3 million, or 18.3% higher than in the same period of 2001, while expenditures were US\$590.8 million or 7.8 % higher than in the same period of 2001. The trade deficit for the same period of 2002 was US\$304.4 million (compared to \$329.9 million in the analogous period last year). In general, trade of goods (imports plus exports) in 2002 was 11% higher than in 2001.

Regional comparison

SEE countries show a stable positive GDP growth rate between 2001 and 2002; the exception is Macedonia which had a negative growth rate in 2001. Expected real GDP growth is 4% in Montenegro and Serbia in 2002, similar to 2001. The inflation rate in Montenegro declined to 8.3% for six months period of 2002; also promising, is the lower rate in Serbia as well, with inflation of just 16% during the same period. The average net monthly wage in Montenegro was approximately €118 in the first six months of 2002.

Second Section

Tourism Law

Montenegro's new Tourism Law became effective on July 11, 2002. This article draws a picture of the new law, which is based on international standards as well as regional laws and is in line with EU regulations. It is highly regulated and very ambitious; however, if properly implemented the law should go a long way to making the Montenegrin tourist industry extremely competitive.

Basic principles and need for regulation of company takeovers

After ending the process of mass voucher privatization, the wide base of ownership that is created can provide neither efficient corporate management nor the support that is needed for restructuring of the privatized companies. Thus, consolidation of ownership is very important after mass voucher privatization.

This article analyzes the methods used to regulate company takeovers with addition analysis of the EU takeover regulative. It puts special focus on the needs for consolidation of ownership and development of capital market after mass voucher privatization.

Law on the participation of the private sector for the delivery of public services - chance for entrepreneurs

In order for all sectors of society to contribute to the reforms, it is necessary to establish cooperation between them. With respect to the state and enterprise sectors, cooperation is regulated by the adoption of "the Law on the Participation of the Private Sector for Delivery of Public Services". Areas that the law affects include leasing, BOT arrangements, management agreements and concessions. In this public private partnership, state structures define standards and provide financing, and the private sector delivers services at the highest quality and the lowest price.

Enterprises in Montenegro in 2001

For the third consecutive year, the Center for Entrepreneurship and Economic Development (CEED) implemented the project Business Rating Montenegro, ranking the 300 most profitable and credible companies in the Montenegrin economy. This text analyzes ownership, category and branch structure of the Montenegrin enterprises for 2001 using the data from this project. Text also examines the realized profitability and credibility of the companies.

Interest rates in Montenegro

Interest rates are created on the market and set by the banks by their credits and loans. The analysis of the interest rates in Montenegro shows a large dispersion of rates and makes comparisons between banks very difficult. Basically, the rates are not comparable; the range between minimum and maximum rates among banks is very extensive. The text explains the presentation of effective interest rates and emphasizes alternative ways to calculate interest rates.

Return on capital, factors of influence and dividend policy in Montenegro

The text gives the theoretical explanation of the two types of income that shareholders can get as owners of shares: 1) dividends and 2) capital gain. It describes different ways on which dividends can be paid and factors that influence return on capital. In addition, the text gives a review of the dividend policy of companies in Montenegro.

Montenegrin foreign trade activities and policy: where do we stand?

According to EU proposals, Montenegro should increase its average custom tariff from 3.5% to 5.7%. On the other hand, Serbia should decrease its average customs tariff from 12.4% to 8.0%. This article analyzes Montenegrin trade and financial flows, trade policies in Montenegro and Serbia, and the effects that tariff harmonization between Serbia and Montenegro would have on the Montenegrin economy.

PART 1

Chapter 1. Output

Table 1.1. Output

	<i>GDP- constant prices 1989= 100-(3)</i>	<i>GDP-current prices USS million (informal economy included-(4))</i>	Industry output (1)	Aluminum production (ton)-(5)	Electricity generation (in 000 MW/h) (2)
1990	89.0		100.0	105414	3200
1991	70.0		86.8	102256	2964
1992	61.0		69.5	89165	2313
1993	39.0		45.9	38104	1695
1994	39.0		42.1	10574	1997
1995	46.0		41.0	26071	1504
1996	57.0		62.3	51178	3102
1997	61.0		63.1	80600	2277
1998	64.0		62.9	76737	2671
1999	58.0	938.8	57.9	80936	2712
2000	60.3	985.9	59.9	95523	2698
2001	62.7	1,247.6	59.1	108123	2517
1991-Q1			87.3		771
1991-Q2			91.0		665
1991-Q3			84.7		539
1991-Q4			84.0		989
1992-Q1			81.0		692
1992-Q2			76.9		417
1992-Q3			56.4		325
1992-Q4			63.9		879
1993-Q1			49.4		629
1993-Q2			46.6		225
1993-Q3			38.7		113
1993-Q4			49.1		728
1994-Q1			44.2		774
1994-Q2			42.9		584
1994-Q3			41.5		268
1994-Q4			39.1		372
1995-Q1			35.9		372
1995-Q2			37.1		327
1995-Q3			41.7		259
1995-Q4			49.1		546
1996-Q1			58.2		981
1996-Q2			56.3		612
1996-Q3			63.7		544
1996-Q4			70.8		966
1997-Q1			63.8		905
1997-Q2			58.6		435
1997-Q3			65.3		266
1997-Q4			64.7		671
1998-Q1			59.5		769
1998-Q2			60.0		522
1998-Q3			57.6		347
1998-Q4			74.4		1034
1999-Q1			62.9		824
1999-Q2			54.5		740
1999-Q3			55.1		426
1999-Q4			59.2		722
2000-Q1			61.1		953
2000-Q2			54.5		504
2000-Q3			58.2		404
2000-Q4			66.0		837
2001-Q1			61.6	26060	952
2001-Q2			54.4	26610	548
2001-Q3			55.7	27778	368
2001-Q4			64.8	27675	748
2002-Q1			44.3	26619	508
2002-Q2			44.8	29513	265
2002-Q3			50.9	30105	501
Nov-01			69.5	8793	275
Dec-01			58.8	9302	303
Jan-02			38.9	7949	186
Feb-02			44.4	8644	131
Mar-02			49.6	10026	190
Apr-02			46.8	9682	110
May-02			40.1	10088	37
Jun-02			47.5	9743	118
July-02			52.5	10187	171
Aug-02			46.6	9995	137
Sep-02			53.5	9923	194
Oct-02			58.6	10216	290

All variables based on 100 in 1990 unless stated otherwise

Sources: (1) ISSP calculations based on data from Statistical Office of Montenegro

Sources: (2) Data from Statistical Office of Montenegro up to Dec 2000, then EPCG data

Sources: (3) ISSP estimates based on data from Statistical Office of Montenegro informal economy excluded.

Data for 2000 and 2001 are estimated as well and include informal economy

Sources: (4) ISSP estimates- expenditure approach for measuring GDP

Sources: (5) KAP (Aluminum Combine) data

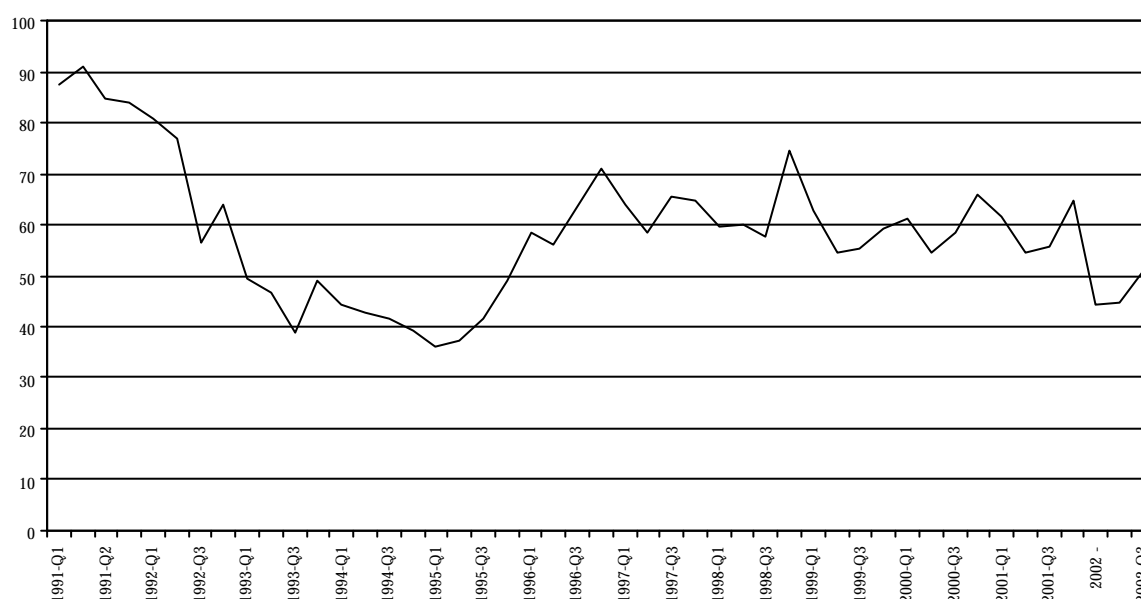
COMMENT: PRODUCTION IN MONTENEGRO

1. GENERAL PRODUCTION TRENDS

In the first three quarters of 2002, industrial production decreased by 2.7% compared to the same period in 2001. Industrial production in Montenegro decreased by 11.5%, in the cumulative period since October 2001 until October 2002. The production in October 2002, increased by 9.5% compared to the previous month.

Total industrial production in Montenegro during the first ten months of 2002 decreased by 0.5% compared to the same period last year. The reason for the production increase since July 2002 was an increase in electricity production, particularly in October 2002.

Graph 1.1: Industrial output



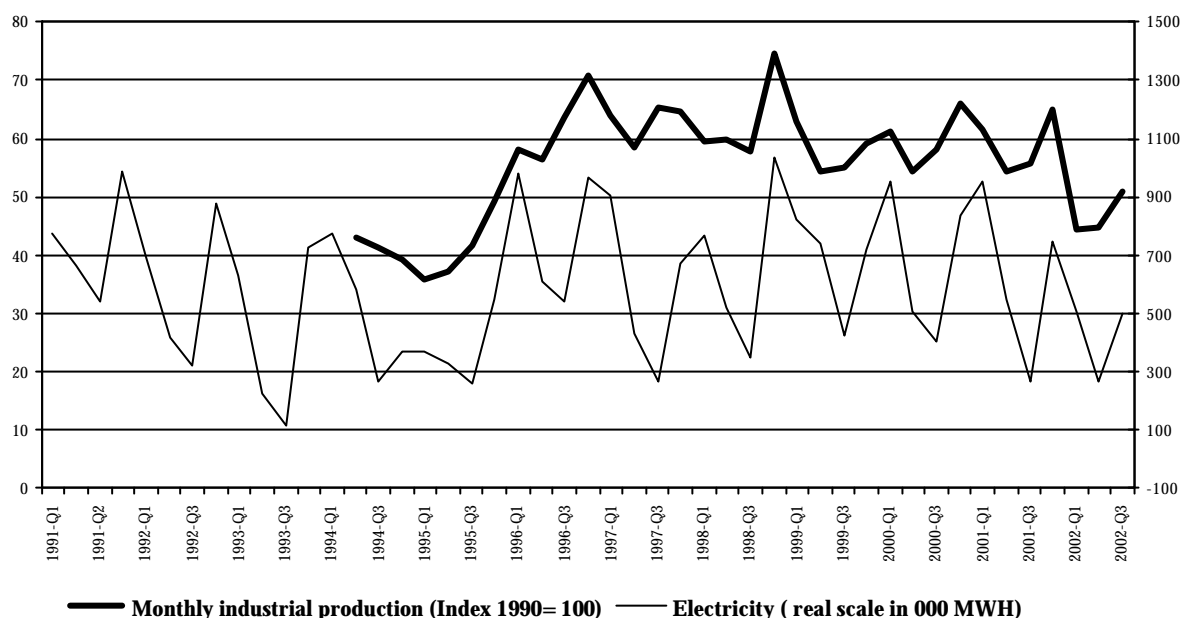
Industrial productions in the three main sectors

The *processing industry*, which represents about 70% of total industrial production, increased its production in the first ten months of 2002 by 2% compared to the same period last year. Production in this sector increased by 0.6% in October 2002 compared to the previous month and by 4% compared to October 2001.

The production of *electricity, gas and water*, which represents 23.3% of total industrial production, decreased its production by 13.1% in the period January-October 2002, compared to the same period in 2001. This production increased in October 2002 by 44% compared to September 2002 and by 75.7% compared to October 2001. The primary reason for this increase was a huge rainfall that caused the hydro-plants production increase.

The mining and stone extracting industry, which represents about 6.7% of total industrial production, increased its production by 12.3% in first ten months of 2002 compared to the same period in 2001. This production decreased in October 2002 by 4.3% compared to the previous month and increased by 2.7% compared to October 2001.

Graph 1.2: Quarterly data for industry (left scale) and electricity (right scale)



As shown in graph 2, quarterly industrial production was low in the first three quarters of 2002 compared to the same period in 2001, and production increased in the third quarter of 2002 by 13.6%, compared to the previous one. When comparing the second and third quarters of 2002, electricity production increased in the third quarter due to the seasonal effects.

Tourism activities were at a lower level in the first three quarters of 2002 compared to the same period in 2001. The number of tourists during this period was 502,054, 3.4% fewer than the same period in 2001. The number of domestic tourists decreased in this period by 10% compared to the first three quarters in 2001. However, the number of foreign tourists has increased in the first three quarters of 2002 by 24.1% compared to the same period in 2001. The total number of tourists in September 2002 increased by 3.2% compared to the same month last year. Foreign tourists who increased their visits by 53.4% this September as compared to last September led this increase. Compared to the same month last year, the number of domestic tourists decreased in September 2002 by 12.1%.

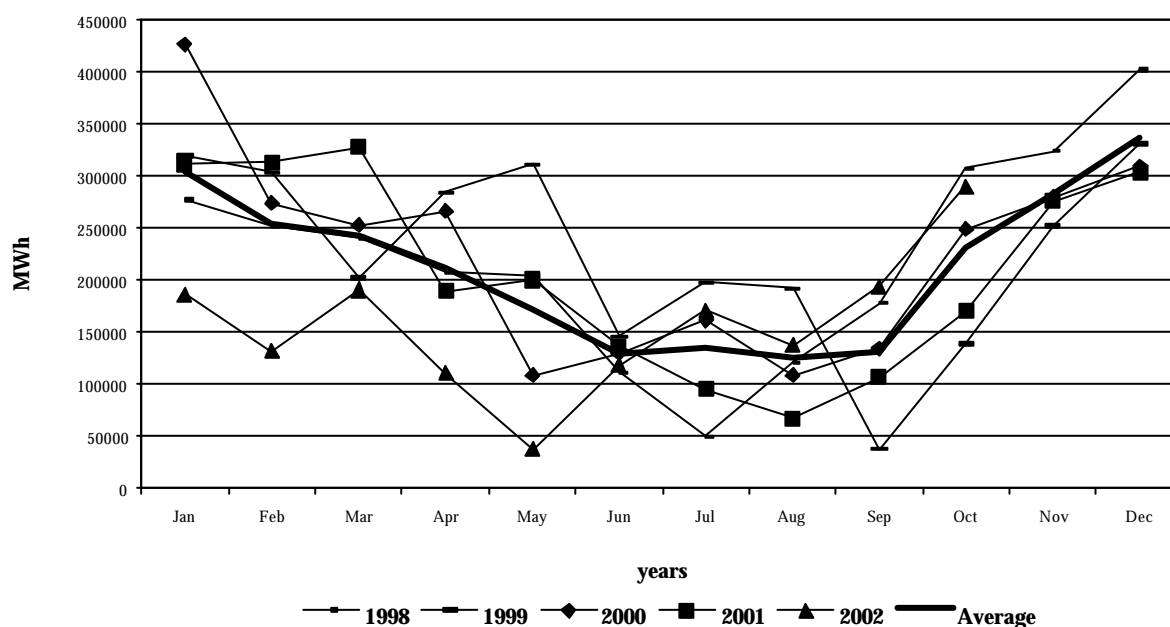
Tourism revenues in the period January-August 2002 increased by 26% compared to the same period in 2001. Revenues from foreign tourists increased by 53% in the first eight months of 2002, while tourism revenues from domestic tourists increased by just 5.7%.

Transport activities in Montenegro were on the lower level in the first six months 2002 compared to the same period in 2001. This was due to the fact that sea and road transportation decreased in this period compared to the same period in 2001. However, total transport revenues in the period January-August 2002 increased by 46.9% compared to the same period last year. Increase of air transportation as well as railway transportation of passengers and goods contributed to this revenues increase. Transport revenues from services with Serbia, as part of total revenues, increased by 31.5% in the period January – August 2002, compared to the period April-December 2001.¹

2. LEADING INDUSTRIAL PRODUCERS

The Power Company (EPCG) the sole electricity producer and distributor in Montenegro increased its production in October 2002 by 49.7% compared to the previous month. Total electricity production in October 2002 increased by 70.4% compared to the same month last year. The large increase in production is primarily due to the huge rainfall Montenegro received since August 2002. Hydro-plants particularly contributed to this production increase, due to the fact that production of two hydro-plants increased by 216.4% in October compared to September 2002. The hydro-plant, Perucica, exceeded its planned-production by 42% in October 2002 and the Hydro-plant, Piva, exceeded its planned-production by 227% in October 2002. However, when looking at electricity production overall for the first ten months of 2002, production has decreased by 18.3% as compared to the same period last year. Monthly electricity production since 1998 is presented in the graph below:

Graph 1.3: Monthly electricity production



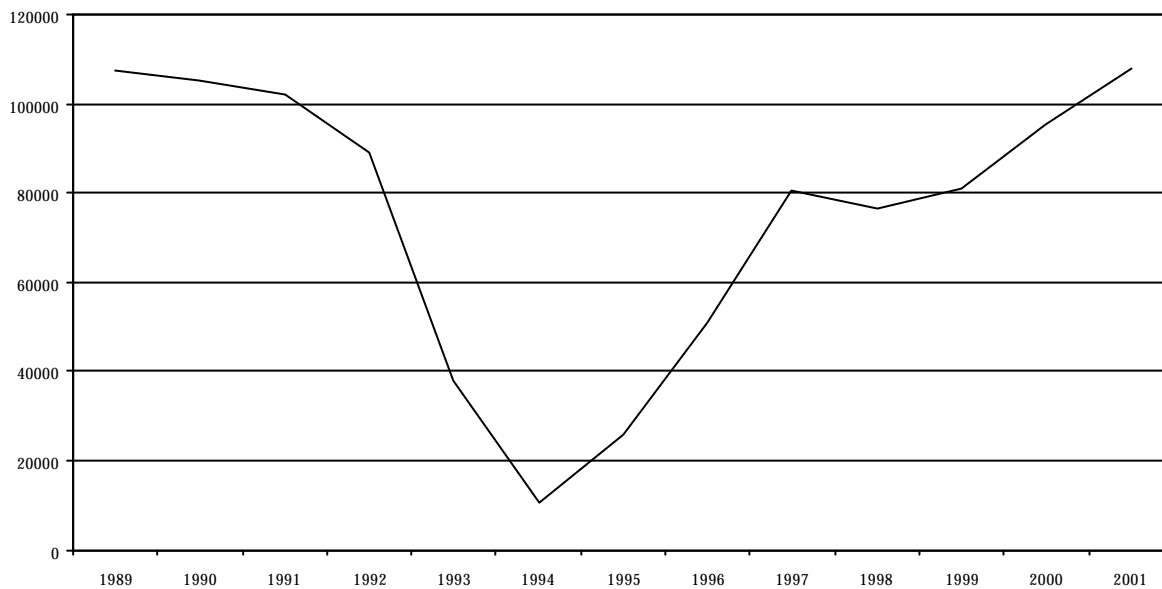
Electricity output typically decreases in the second and third quarters and rises again in the last quarter. As can be seen in the graphic above, electricity production follows a clear seasonal pattern throughout the year.

¹ This comparison is made in this way due to the fact that the Central bank of Montenegro started to follow transactions with Serbia in April 2001.

Aluminum Combine (KAP) increased its production by 2.9% in October 2002 compared to the previous month. This production increased in October 2002 by 6.6% compared to the same month last year. Aluminum production in the period January-October 2002 increased by 7.1% as compared to the same period last year. The production increases are likely due to the improvements of organizational structure and financial funding, as well as appropriate electricity supply.

Data on aluminum production since 1989 are presented in the next graph:

Graph 1.4: Annual aluminum production (ton)



The mineral coal, lignite and moss production increased during the first ten months of 2002 by 74.4% as compared to the same time period last year. However, the month of October, specifically, shows an overall decline in production, decreasing by 25.4% compared to the same month last year and by 6.6% compared to the previous month.

Price effect

The prices of industrial products in October 2002 increased by 0.3% compared to the previous month. This is due to the industrial non-elementary products increasing their prices (especially textile products by 3.9% and shoes by 3.2%). Industrial elementary products also increased prices, by 0.3%, in October 2002 compared to the previous month.

3. FORECAST FOR THE FUTURE

According to industrial production results in the first three quarters of 2002, production levels in 2002 will be similar to the previous year. Production in the third quarter of 2002 increased by 13.6% compared to the second quarter (primarily due to the 89% increase of electricity production). Industrial production is expected to continue its increase in the last quarter, due to the fact that electricity production is forecast to increase by 33% and aluminum production by 2% compared to the third quarter of 2002. These two leading producers contribute to the forecasted industrial production increase, which should be of 8% in the fourth quarter of 2002 compared to the previous quarter.

Chapter 2. Employment

Table 2.1. Labor force and unemployment

	Mid-year population	Population at the end of the quarter (or year)	Total Employed Persons (1)	Labor force in unrecorded sectors (3)	Share of unrecorded activity in labor force %	Number of Unemployed (2)	Unemployment rate* %	Unemployment rate** %
1990		612,960						
1991	616,632	620,326	144,045	66,427	24.7	58,144		21.6
1992	624,043	627,976	134,205	75,231	27.4	64,632		23.6
1993	631,933	633,608	130,901	86,567	30.9	62,818		22.4
1994	635,287	636,966	128,835	80,483	30.1	58,210		21.8
1995	638,649	640,766	125,090	81,618	30.7	59,045		22.2
1996	642,890	644,812	124,264	90,866	33.0	60,225		21.9
1997	646,740	648,655	120,604	87,609	32.2	63,995		23.5
1998	650,575	652,554	117,745	79,824	30.0	68,373		25.7
1999	654,540	656,532	115,349	84,921	30.9	75,303		27.3
2000	658,530	660,533	113,818	88,253	30.9	83,583		27.8
2001	663,047	659,531	114,076	87,989	31.0	81,561	22.3	24.8
1993-Q2		631,933	130,961	87,962	31.0	64,381		22.7
1993-Q3		632,770	130,998	87,935	31.3	61,767		22.0
1993-Q4		633,608	130,292	85,967	31.0	60,785		21.9
1994-Q1		634,447	129,279	84,222	30.7	60,555		22.1
1994-Q2		635,287	128,926	81,773	30.3	59,057		21.9
1994-Q3		636,126	129,146	77,751	29.5	56,680		21.5
1994-Q4		636,966	127,989	78,185	29.8	56,549		21.5
1995-Q1		637,807	125,362	80,094	30.3	58,928		22.3
1995-Q2		638,649	124,805	79,946	30.2	59,592		22.5
1995-Q3		639,707	125,689	81,098	30.5	59,442		22.3
1995-Q4		640,766	124,505	85,334	31.8	58,217		21.7
1996-Q1		641,827	123,887	89,017	32.8	58,517		21.6
1996-Q2		642,890	123,917	92,058	33.3	60,613		21.9
1996-Q3		643,850	125,196	91,588	33.0	60,452		21.8
1996-Q4		644,812	124,057	90,802	32.9	61,318		22.2
1997-Q1		645,775	121,235	91,690	33.3	62,775		22.8
1997-Q2		646,740	120,721	90,263	32.8	63,825		23.2
1997-Q3		647,697	120,748	85,144	31.5	64,534		23.9
1997-Q4		648,655	119,711	83,339	31.1	64,846		24.2
1998-Q1		649,614	117,791	82,414	30.9	66,118		24.8
1998-Q2		650,575	117,265	80,092	30.1	68,895		25.9
1998-Q3		651,564	118,475	77,167	29.2	69,065		26.1
1998-Q4		652,554	117,450	79,624	29.9	69,414		26.0
1999-Q1		653,546	116,228	82,281	30.5	71,415		26.5
1999-Q2		654,540	115,737	84,210	30.7	74,087		27.0
1999-Q3		655,535	115,113	86,121	31.0	76,716		27.6
1999-Q4		656,532	114,317	87,376	31.1	78,993		28.2
2000-Q1		657,530	113,000	88,700	31.1	83,126		28.5
2000-Q2		658,529	112,890	89,007	31.1	84,344		29.0
2000-Q3		659,530	114,698	111,593	31.1	85,037		27.9
2000-Q4		660,533	114,686	114,376	31.1	81,826		25.7
2001-Q1		661,537	113,859	118,880	31.1	81,950		25.1
2001-Q2		662,543	113,914	119,169	35.8	82,620		24.6
2001-Q3		663,550	114,402	119,027	36.8	81,255		24.4
2001-Q4		633,693	114,130	118,456	37.8	80,723		23.9
2002-Q1		665,569	113,715	115,647	37.7	81,085		23.7
2002-Q2		666,581	113,785	109,962	36.0	81,541		23.4
2002-Q3		667,594	113,877	106,098	35.2	80,935		25.1
Dec-01			113,464			81,069		24.3
Jan-02			113,594			80,385		23.9
Feb-02			113,597			81,360		23.9
Mar-02			113,953			81,510		23.8
Apr-02			114,180			81,961	19.6	23.8
May-02			113,461			81,622		23.7
June-02			113,715			81,041		23.5
July-02			114,422			81,166	13.7	23.5
Aug-02			113,684			80,830		23.4
Sep-02			113,526			80,809		23.4
Oct-02			113,676			80,183		23.2

Source (1): Monthly Statistical Review, published by Statistical Office of Montenegro

Source (2): Employment Office - Source (3): ISSP estimate

* Unemployment rate calculated from the ISSP Household Quarterly Survey (first survey was conducted in June 2001)

** Revised ISSP estimates based on the Household survey from Statistical Office of Montenegro, ISSP Household survey and official number on employment and unemployment

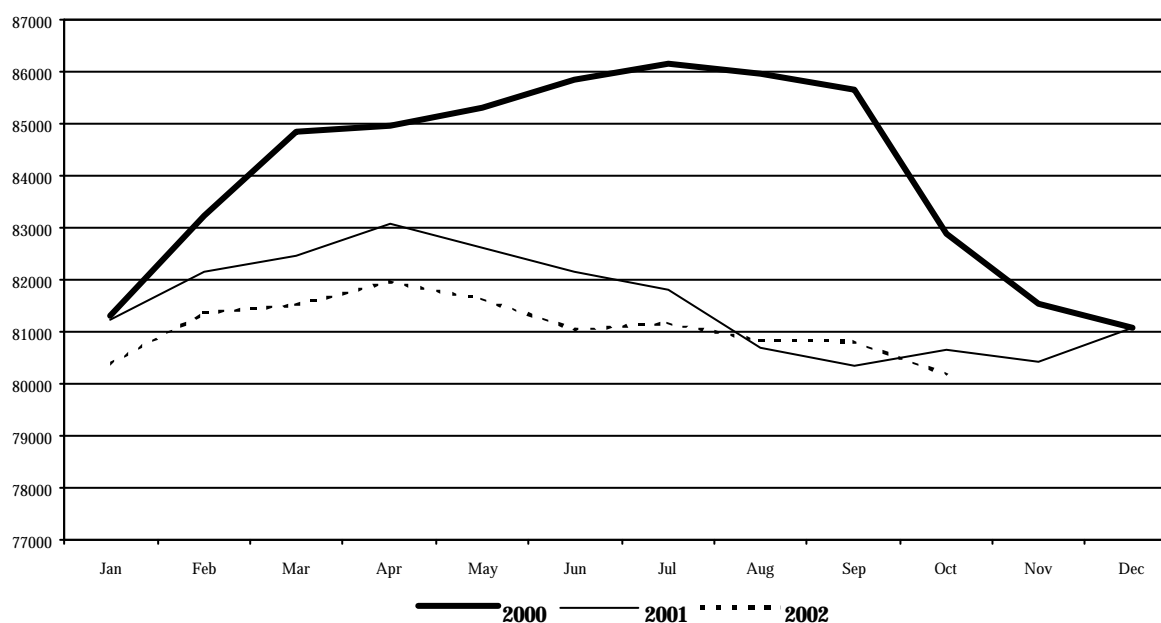
COMMENT: EMPLOYMENT

The main topics in this chapter are unemployment and the results of the fifth ISSP Household Income Expenditures survey, in regard to labor force. The results of the ISSP HS showed that the unemployment rate in Montenegro in July 2002 stood at 13.7%. Unemployment is highest in the Northern region (19.7%) and lowest in the Southern region (8.6%), while in the Central region, the unemployment rate in July was 14.1%. The official number of unemployed persons has decreased by 0.8% as compared to August 2002; however, the number of persons employed has declined over the last three months.

According to the latest data from the Statistical Office, after higher employment levels during the summer season, employment has decreased by 0.7% as compared to July. However, when comparing the third quarter of 2002 with the second, employment shows a slight increase (by 0.1%). Overall, year to date (Jan-Oct 02 as compared to Jan-Oct 01) employment has decreased by 0.3%, while when comparing just the month of October 2002 to October 2001; employment has decreased by 0.9%.

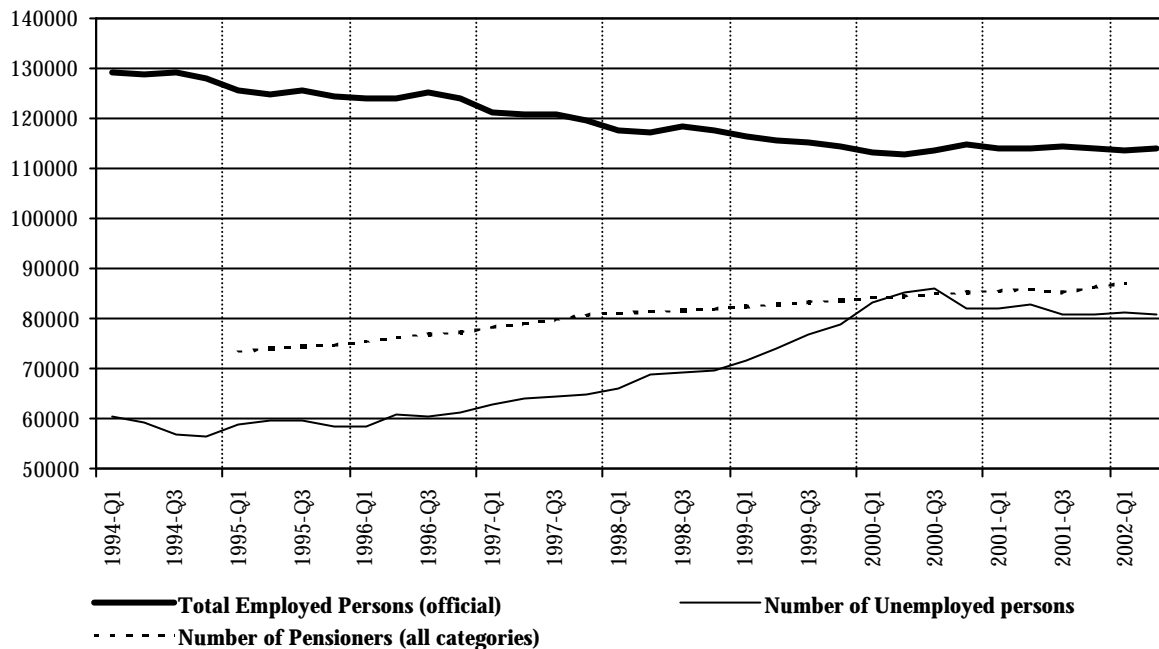
Unemployment has declined during the summer period¹ and has continued to decline during September and October. When compared to August 2002, the number of unemployed in October is lower by 0.8%. Comparing third quarter of 2002 with the second, unemployment has decreased by 0.7%, while compared to the same period last year it is lower by 1.2%. With an equivalent 10-month comparison (Jan-Oct), unemployment is lower by 0.8% in 2002.

Graph 2.1: Number of unemployed persons (2000-2002)



¹ For instance, in August number of unemployed has decreased by 1% compared to July.

Graph 2.2: Number of persons employed, unemployed, on pension in the public sector (1995-2002)



As Graph 2.2 illustrates, the number of employed in the public sector has slowly decreased, while until the year 2000 the number of unemployed was increasing. An increasing number of pensioners can be observed during the whole period.

ISSP HOUSEHOLD INCOME EXPENDITURES SURVEY NO.5

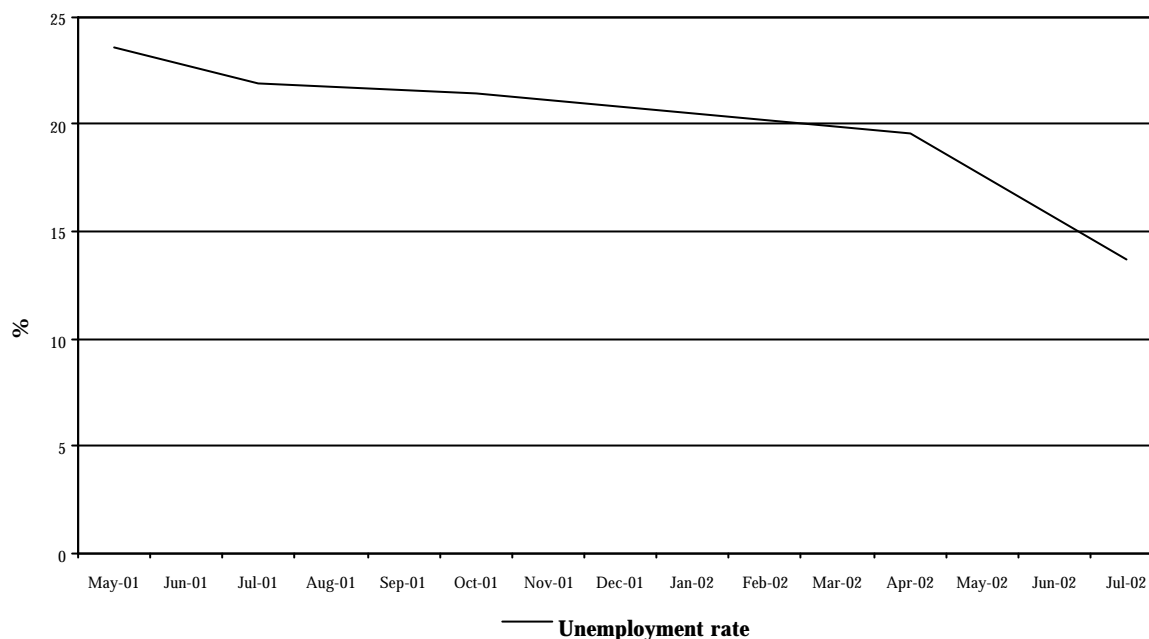
Unemployment

According to the latest ISSP Household survey data, the unemployment rate during the summer season has decreased. In April 2002, the unemployment rate stood at 19.6%, while in July it was 13.7%. It is evident that unemployment has been declining over the past two years; this may be in part due to the better macroeconomic conditions in the economy as well as the fact that a growing portion of the officially unemployed are finding jobs in the shadow economy. This engagement in the shadow economy is confirmed several times through different surveys² and the difference between survey and official data

Graph 2.3 shows the change in the unemployment rate from 2001 to 2002. During the summer period, unemployment decreased from 19.6% to 13.7%.

² ISSP Household Survey, Labor Force Survey-Federal Statistical office, UNDP-OCHA surveys

Graph 2.3: Unemployment rate 2001-2002



Source: ISSP household surveys, issues from 1 to 5

The decline in unemployment could be explained by the higher enrollment of people during the summer season. According to official data, there is an approximate 1% decrease in the number of the registered unemployed from April to July, which means that the majority of persons employed during the season were not registered, or they did not use the Employment Office (EO) services to obtain their job. Another explanation could be that these workers were engaged under agreement for services, and this type of employment does not have to be recorded through EO, the implication being that all persons employed during the season are not necessarily in the shadow economy.

Unemployment by regions

From the survey we were able to calculate the unemployment rate on a regional level. The results show that the Northern region has the highest unemployment rate at 19.7%, while the Southern region's unemployment rate is 8.6%. In the Central region, the largest in population terms, the unemployment rate is 14.1%.

Table 2.2. Unemployment by regions (July 2002)

Region	% of the households in the total sample	Unemployment rate (%)
North	33.8	19.7
Center	43.0	14.1
South	23.2	8.6
Total	100.00	13.7

Source: ISSP household surveys, issue No.5

Chapter 2. Employment

Presented data confirm a very well believed notion, that the Northern region of Montenegro is the least developed, while the Southern region is the most developed.

In table 2.3 unemployment rates for selected municipalities are shown, chosen by the population size. The first three municipalities (1-3) belong to the Southern region; the next four (4-7) to the Northern region, and the last two are in the Central part of Montenegro.

Table 2.3. Unemployment rates by municipalities (July 2002)

Municipality	% of total number of households in the sample	Unemployment rate (%)
1.Kotor	3.8	25.0
2.Bar	6.2	9.6
3.Herceg Novi	5.2	5.4
4.Bijelo Polje	8.6	25.0
5.Pljevlja	6.0	25.8
6.Rozaje	4.0	16.1
7.Berane	6.0	11.9
8.Podgorica	25.6	12.4
9.Niksic	11.8	17.6

Source: ISSP household surveys, issues No.5

The lowest unemployment rate is in Herceg Novi, while the highest is in Pljevlja. Also, a high unemployment rate is recorded in Kotor, Bijelo Polje and Rozaje. Very important to note is that in Podgorica, the unemployment rate is 12.4%, which is relatively low, especially when bearing in mind that almost 1/3 of the total population lives in Podgorica.

Structure of employment

An important finding of the latest Household survey is that 8.1% of the employed people have a second job. With respect to their primary job, 90.5% of people are employees and 3.6% are owners or co-owners of a business with paid labor.

Table 2.3: Working position on a main job (July 02)

Working position	% of total number
Employee	90.5
Owner/co-owner of a business with paid labor	3.6
Owner of business without paid labor	3.8
Unpaid family worker	2.1

Source: ISSP Household Survey, issue No. 5

Also with respect to their primary job, 83.6% have full time jobs with the paid social insurance, while 4.2% are employed full time but without paid insurance. About 5% of population have jobs based on contracts, while 4.1% have seasonal jobs.

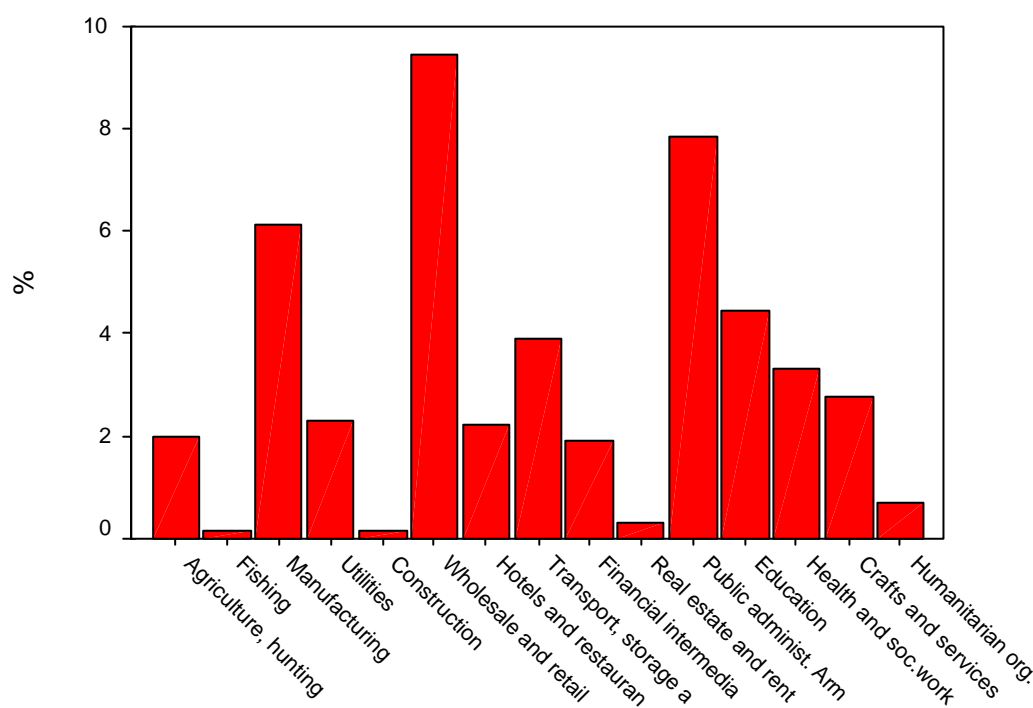
Table 2.4: Status on the job (July 02)

Status	% of total number
Full time job, insurance paid	83.6
Contract based	5.0
Full time job, no insurance paid	4.2
Part time job	4.1
Seasonal job	3.1

Source: ISSP Household Survey, issue No. 5

Graph 2.4 displays the structure of employment for primary jobs by economic activity. The data clearly indicate that the service sector dominates and the highest proportion of people is engaged in trade (wholesale and retail) activities and in public administration.

Graph 2.4: Structure of employment by activity on main job (July 02)



Source: ISSP Household Survey, issue No. 5

The fishing and construction sectors employ the lowest proportion of workers.

With respect to second jobs, people are usually employees or unpaid family workers on their second job (34.8% both). Nearly one-fifth of those who hold a second job (18.2%) report to be either owner or co-owner of a business. The main reason for having a second job is the desire to improve the standard of living.

Chapter 3. Wages

Table 3.1: Wages

	Minimum wage	Average disposable wage	Average disposable wage*	Pay-roll Tax	Average Gross Wage	Social contribution (total)	Total labor cost	Average pension (paid)	Ratio Min. Wage / Average Disposable Wage (%)
DINAR WAGES									
1994	65	139		96	351	117	406		47
1995	128	307		203	766	255	873	280	42
1996	243	659		420	1621	540	1826	600	37
1997	332	879		562	2165	721	2445	738	38
1998	453	1228		775	3010	1002	3391	1073	37
1999	663	1932		595	3798	1264	4356	1581	34
1994-Q1	38	57		42	149	50	181		67
1994-Q2	52	104		72	265	88	308		49
1994-Q3	80	176		123	448	149	516		45
1994-Q4	90	217		145	543	181	619		41
1995-Q1	100	233		151	576	192	661		43
1995-Q2	118	276		181	685	228	785		43
1995-Q3	132	324		218	812	271	923		41
1995-Q4	160	395		263	988	329	1123		40
1996-Q1	200	483		326	1216	405	1384		41
1996-Q2	230	620		399	1532	510	1726		37
1996-Q3	257	713		448	1745	581	1961		36
1996-Q4	285	821		506	1994	664	2234		35
1997-Q1	302	749		481	1848	615	2102		40
1997-Q2	323	828		526	2033	677	2306		39
1997-Q3	340	934		583	2279	758	2565		36
1997-Q4	363	1006		659	2501	832	2807		36
1998-Q1	387	989		633	2437	811	2763		39
1998-Q2	440	1185		749	2906	967	3277		37
1998-Q3	463	1305		819	3191	1062	3581		36
1998-Q4	520	1432		901	3504	1166	3942		36
1999-Q1	563	1533		475	3018	1004	3492		37
1999-Q2	575	1621		497	3181	1059	3666		35
1999-Q3	607	1919		596	3780	1258	4291		32
1999-Q4	908	2655		813	5211	1734	5976		34
EURO WAGES									
2001	42	108	174	34	212	71	249	97	39
2000-Q1	32.4	83.7		24.0	158.5	50.5	186.9	67	39
2000-Q2	35.3	95.8		28.3	184.0	59.6	214.5	84	37
2000-Q3	39.4	100.2		30.3	194.5	63.7	228.1	88	39
2000-Q4	40.9	105.7		32.9	208.1	69.2	242.8	95	38
2001-Q1	40.9	104.3		32.5	205.5	68.4	240.3	96	39
2001-Q2	40.9	105.8		33.0	208.5	69.4	244.3	96	38
2001-Q3	40.9	109.2		33.8	214.6	71.2	250.4	101	37
2001-Q4	46.0	111.5		34.7	219.5	73.0	259.1	101	41
2002-Q1	46.0	108.9		33.9	214.6	71.4	254.2	103	42
2002-Q2	46.0	116.9		36.7	231.3	77.3	270.9	108	39
Jan-01	40.9	101.7		31.6	200	66.5	234.9	96	40
Feb-01	40.9	105.8		33.0	209	69.5	243.5	96	39
Mar-01	40.9	105.3		32.8	208	69.1	242.4	96	39
Apr-01	40.9	104.8		32.6	207	68.7	242.3	96	39
Mav-01	40.9	105.8		32.9	208	69.3	244.2	96	39
Jun-01	40.9	106.9	176.0	33.3	211	70.1	246.5	96	38
Jul-01	40.9	106.3		33.1	210	69.7	245.4	101	38
Aug-01	40.9	109.9	171.0	33.6	215	70.8	250.4	101	37
Sep-01	40.9	111.5		34.7	220	73.0	255.3	101	37
Oct-01	46.0	111.0	175.0	34.5	218	72.6	258.0	101	42
Nov-01	46.0	111.5		34.7	220	73.0	259.1	101	41
Dec-01	46.0	112.0		34.9	221	73.4	260.3	101	41
Jan-02	46.0	101.7		31.6	200	66.5	239.7	101	45
Feb-02	46.0	110.6		34.4	218	72.5	257.5	104	42
Mar-02	46.0	114.5		35.7	226	75.1	266.2	104	40
Apr-02	46.0	115.7	186.0	36.9	231	77.6	270.1	104	40
Mav-02	46.0	116.4		38.0	235	80.0	274.4	110	40
Jun-02	46.0	118.7		37.0	234	77.8	273.4	110	39
Jul-02	50.0		208.2					112	
Aug-02	50.0							112	

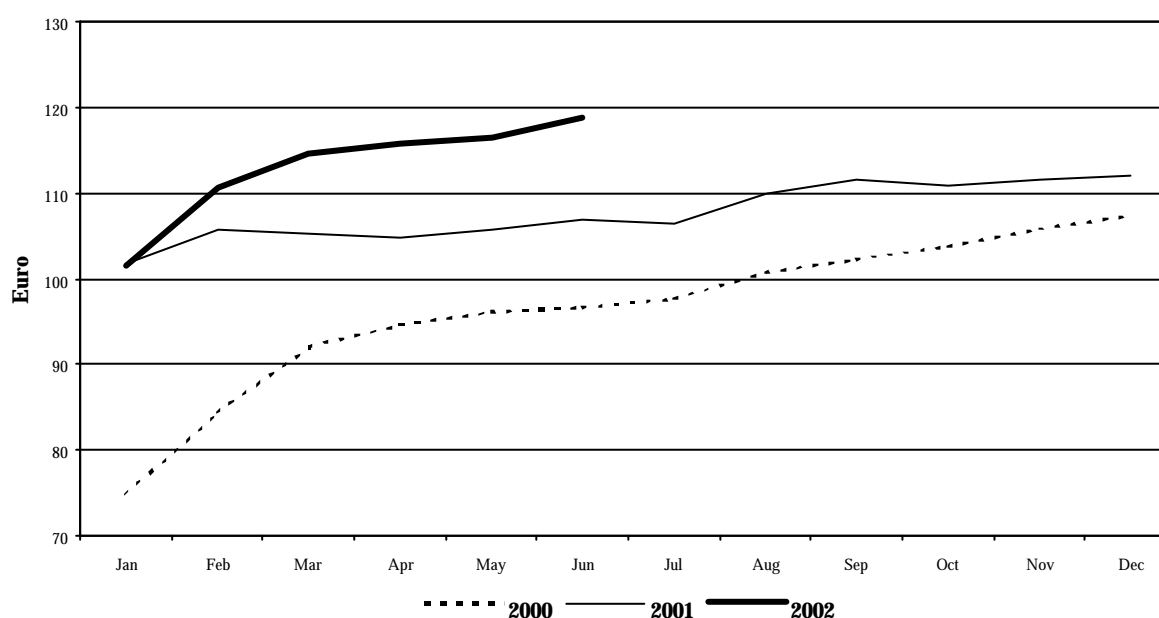
Minimum wage is the lowest wage. Average disposable wage is disposable wage minus all payments made equals Montenegro "net wage". Average net wage includes payroll tax and fees for voluntary membership in unions. Average gross wage includes all social contributions. Total labor cost includes average gross wage and all benefits.

Disposable wage international methodology includes other payments to employees.

*Average wage is calculated from the ISSP Household Survey. The first survey was conducted in June 2001; up to now five surveys have been published.

COMMENT: WAGES

For this issue of MONET there is no update on official wage data. The Statistical office (SO) of Montenegro is experiencing difficulties in calculating and publishing the July wage data. The main issues that need to be solved are methodology for the wage calculation, imposed by new tax laws, and also the link between pensions and salaries. It appears that the new average paid wage is higher¹ (it includes other payments to employees such as meal and transport compensation, summer allowances, which are taxable now), and if the SO publishes a new higher wage, the pensions will be increased and the Government cannot afford that at the moment. In order to overcome this problem the Government has established a working group, composed from the representatives from different government institutions. Up to date there is no progress whatsoever in this area. Since the Government has decided to delay taxation of other payments to employees, it is unclear how the gross or net salaries can be so significantly increased. One explanation might be that the majority of salaries are in the lower tax brackets, and since the amount of tax is decreased, the net wages have increased. Also, the increase in minimum wage in July will definitely have impact on the average wage.

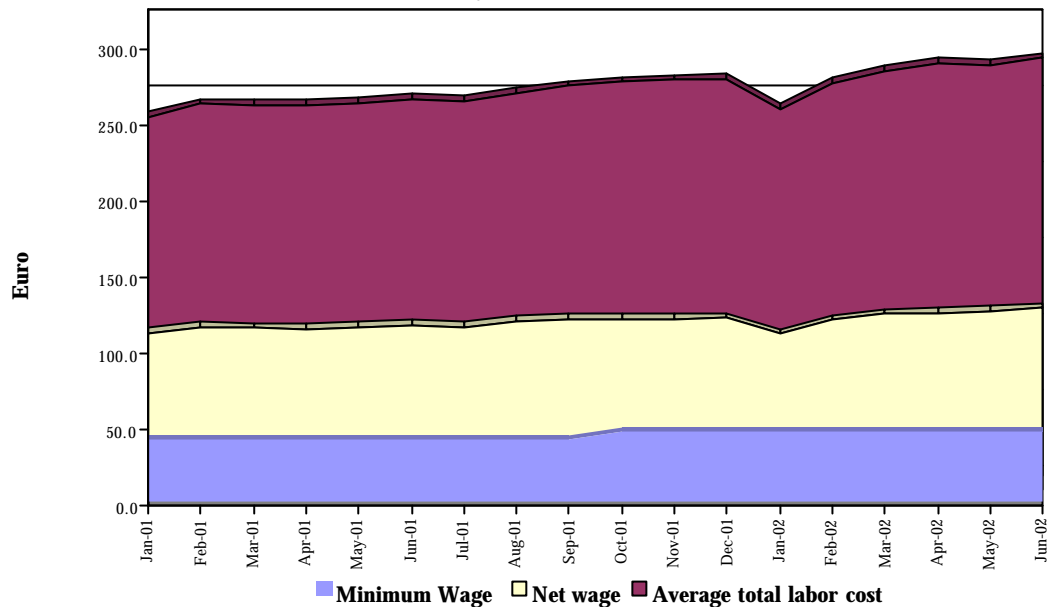
Graph 3.1: Average monthly disposable wage change

Sources: Statistical Office of Montenegro

The following graph, representing the changes in the minimum wage, disposable wage and the total cost of labor, shows that wages still show the same patterns. Namely, the trend continues, with an 8.9% increase in the minimum wage in July. The total cost of labor includes all social contributions, taxes, and net wage (disposable wage paid to the worker).

¹ Explanation provided by Statistical Office.

Graph 3.2. Evolution of minimum and net wage and total labor cost (January 2001- June 2002)



Source: Statistical Office of Montenegro and MONET calculations

The ratio of minimum to average wage in June 2002 stands at 39.

Wage level by economic activity – ISSP Household Income- Expenditure Survey

ISSP has published the fifth Household Survey and one topic covered in the survey was economic activity. In the next table we provide average wage levels for different areas of economic activities.

According to the survey results the average wage in the economy in July was €208.2. The highest average wage is among transport storage and communications activity (€276.5), while the lowest average wage is in real estate and renting activities, more than two times lower (€123.3). The second best paid job is in the financial intermediation (on average €255.8 per month), and in third place are constructing activities with an average salary of €246 per month.

The data support the finding that education level is not necessarily correlated with higher paid occupations, and one might conclude that a formal education is not appreciated in Montenegro, in terms of salary level. While there is a number of jobs that are well paid and require a higher education, the best-paid jobs are those that require more physical activities, such as constructing. For example, public administration usually employs the people with university diplomas (majority of public servants have finished some faculty) but the average salary is not so high. As we commented in the previous issue of MONET (see MONET No. 11 for details), education remains unappreciated and undervalued. However, even though the empirical data (salary levels) show that education is not as valued as it should be, persons with higher education (qualifications) have experienced fewer difficulties finding jobs over the past two years than less qualified persons.

As the economy develops, it is our prediction that education will be more valued.

Table 3.2: Level of disposable wage by economic activity

Economic activity	July 2002 (in €)
Agriculture, hunting, forestry	202.5
Fishing	200.0
Manufacturing	219.3
Electricity, gas and water supply	208.4
Construction	243.3
Wholesale and retail trade, repair	217.1
Hotels and restaurants	168.2
Transport, storage and communications	276.5
Financial intermediation	255.8
Real estate and renting activities	123.3
Public administration, army and police	203.5
Education	196.0
Health and social work	216.4
Crafts and services	171.9
Humanitarian organizations, NGO	221.3
Average for the whole economy	208.2

If we look at the wage ranges for the whole economy, according to the fifth ISSP HS, 1.3% of people receive up to €50 per month, and on the other hand 12.4% receive more than €300 per month. The majority of employed Montenegrins, or precisely 67.2%, receive between €100 and €200 per month.

These data are higher than the official data because they include unregistered incomes or parts of incomes. Additionally, workers usually receive other monetary income from employers, such as transport, meal compensation, and etc. that is not included in the average disposable wage.

Chapter 4. Prices

Table 4.1. Price evolution

	CPI total 1994= 100	CPI total monthly change in %	RPI total official monthly change in %	RPI food 1994= 100	RPI food monthly change in %	RPI goods 1994= 100	RPI goods monthly change in %	RPI services 1994= 100	RPI services monthly change in %
DIN PRICES									
1994	100			100		100		100	
1995	271	6.1	6.5	283	8.3	275	10.5	320	8.0
1996	399	3.3	3.3	460	5.2	350	2.2	566	6.4
1997	471	1.4	1.0	529	1.3	406	1.3	595	0.4
1998	682	3.1	2.9	754	3.5	560	3.2	866	3.8
1999	1678	7.8	7.1	1900	12.7	1244	10.2	1584	6.9
1994 Q1	69		56			72		64	
1994 Q2	99	1.7	0.4	83	3.6	108	-0.8	94	2.5
1994 Q3	109	2.8	3.8	125	15.2	106	-0.2	100	2.5
1994 Q4	123	6.9	8.6	136	4.0	115	6.2	141	20.6
1995 Q1	153	4.8	4.7	161	4.5	143	5.8	179	3.4
1995 Q2	179	5.4	5.9	184	4.8	181	8.8	186	1.7
1995 Q3	223	7.6	8.0	242	10.4	216	6.6	228	11.4
1995 Q4	271	6.7	7.3	283	5.7	275	9.2	292	8.7
1996 Q1	330	6.8	6.5	377	11.1	308	4.0	367	7.3
1996 Q2	349	1.9	1.7	398	1.9	318	1.1	408	2.9
1996 Q3	379	2.8	3.4	447	4.1	327	0.9	475	9.5
1996 Q4	399	1.8	1.6	460	0.9	350	2.3	561	1.4
1997 Q1	421	1.8	1.3	475	1.1	373	2.2	560	0.2
1997 Q2	469	3.6	0.7	494	1.4	377	0.4	576	0.4
1997 Q3	433	-2.6	-0.1	488	-0.4	378	0.1	579	0.2
1997 Q4	471	2.8	2.3	529	2.8	406	2.5	591	0.8
1998 Q1	512	2.8	2.1	575	2.9	427	1.7	612	1.5
1998 Q2	566	3.4	2.3	648	4.3	421	-0.4	652	3.9
1998 Q3	628	3.6	4.5	712	3.3	494	5.7	755	4.9
1998 Q4	682	2.8	2.7	754	2.0	536	4.5	853	3.0
1999 Q1	735	3.9	2.7	841	3.9	600	2.4	919	2.0
1999 Q2	851	4.3	3.7	949	4.3	670	3.9	950	1.1
1999 Q3	910	3.3	3.6	1080	4.6	735	3.2	1024	2.6
1999 Q4	1386	20.6	19.4	1900	25.3	1244	23.1	1584	18.2
DM PRICES									
2000	2056	1.7	1.0	2236	1.5	1695	3.0	1935	1.8
2001	2603	2.0	2.1	2776	2.0	2071	1.8	2700	3.3
2000 Q1	1813	2.6	2.9	2003	1.8	1430	5.0	1690	2.2
2000 Q2	1897	1.5	1.4	2142	2.3	1467	0.8	1717	0.5
2000 Q3	1972	1.3	1.6	2197	0.9	1567	2.3	1815	1.9
2000 Q4	2056	1.4	1.7	2236	0.6	1695	2.7	1935	2.2
2001 Q1	2207	2.4	2.0	2415	2.7	1770	1.5	2033	1.7
2001 Q2	2333	1.9	1.7	2501	1.2	1807	0.7	2334	4.9
2001 Q3	2436	1.5	2.6	2694	2.6	1912	1.9	2652	4.5
2001 Q4	2603	2.2	2.2	2776	1.0	2071	2.8	2700	0.6
Dec-00	2056	0.7	1.1	2236	0.2	1695	1.2	1935	3.2
Jan-01	2155	4.8	3.7	2402	7.5	1712	1.0	1941	0.3
Feb-01	2192	1.7	1.6	2409	0.3	1763	3.0	1988	2.4
Mar-01	2207	0.7	0.7	2415	0.3	1770	0.4	2033	2.3
Apr-01	2225	0.8	0.8	2441	1.1	1781	0.6	2046	0.6
May-01	2265	1.8	1.0	2485	1.8	1791	0.6	2046	0.0
Jun-01	2333	3.0	3.2	2501	0.6	1807	0.9	2334	14.1
Jul-01	2342	0.4	2.4	2519	0.7	1816	0.5	2577	10.4
Aug-01	2405	2.7	2.7	2663	5.7	1875	3.2	2605	1.1
Sep-01	2436	1.3	2.0	2694	1.2	1912	2.0	2652	1.8
Oct-01	2449	0.5	0.5	2720	1.0	1924	0.6	2655	0.1
Nov-01	2539	3.7	2.8	2758	1.4	1991	3.5	2655	0.0
Dec-01	2603	2.5	3.5	2776	0.6	2071	4.0	2700	1.7
EURO PRICES									
2002-Q1	2695	1.2	2.2	2859	1.0	2123	0.8	2895	2.4
2002-Q2	2818	1.5	1.1	3016	1.8	2220	1.5	2912	0.2
2002-Q3	2826	0.1	0.5	3028	0.1	2246	0.4	2983	0.8
Jan-02	2636	1.3	1.7	2795	0.7	2083	0.6	2886	6.9
Feb-02	2671	1.3	0.9	2826	1.1	2106	1.1	2895	0.3
Mar-02	2695	0.9	0.6	2859	1.2	2123	0.8	2895	0.0
Apr-02	2749	2.0	1.6	2934	2.6	2165	2.0	2898	0.1
May-02	2795	1.7	1.4	2989	1.9	2200	1.6	2906	0.3
Jun-02	2818	0.8	0.8	3016	0.9	2220	0.9	2912	0.2
Jul-02	2790	-1.0	0.1	3011	-0.2	2222	0.1	2918	0.2
Aug-02	2801	0.4	0.3	3017	0.2	2229	0.3	2941	0.8
Sep-02	2826	0.9	0.9	3028	0.3	2246	0.8	2983	1.4
Oct-02	2832	0.2	0.3	3035	0.3	2253	0.3	2989	0.2

Sources: monthly indexes published by Statistical Office of Montenegro

Methodology: All RPI categories are distinct; their sum is the total RPI

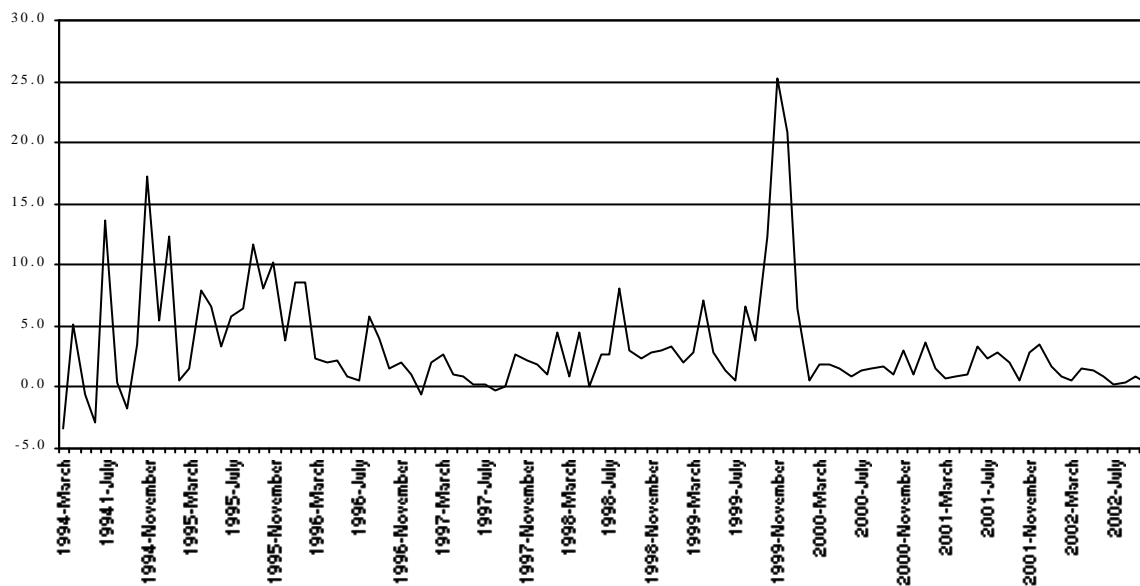
Table presents end-of-period values.

RPI food includes processed and unprocessed food products and drinks.

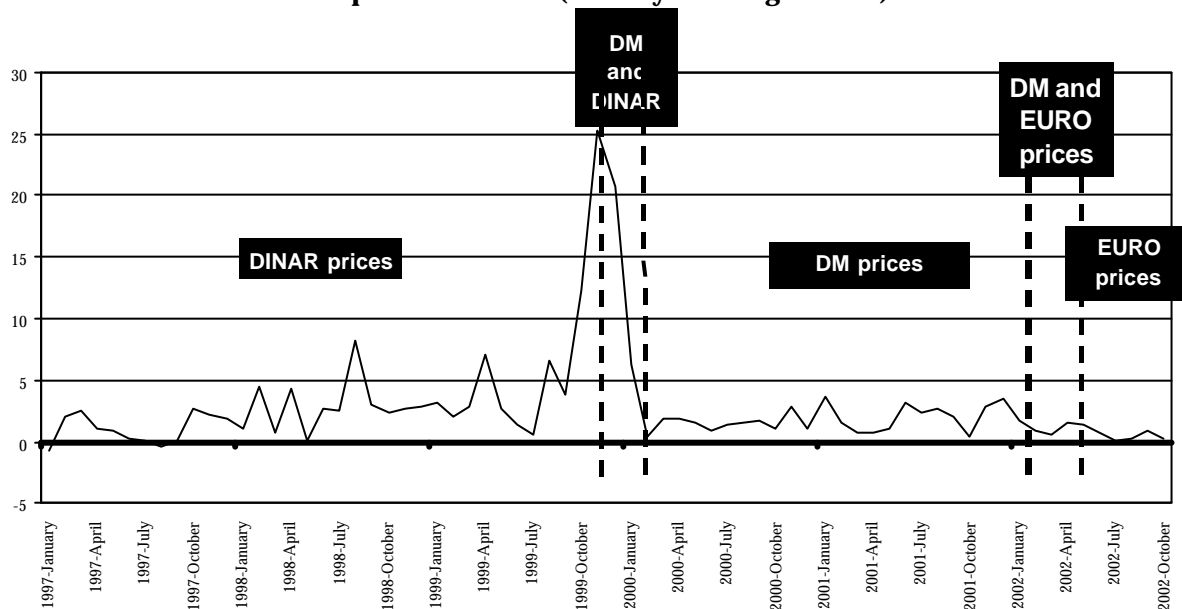
RPI include all goods except food products.

Currencies: DIN till 1999, DM from 2000-2002, € from 2002.

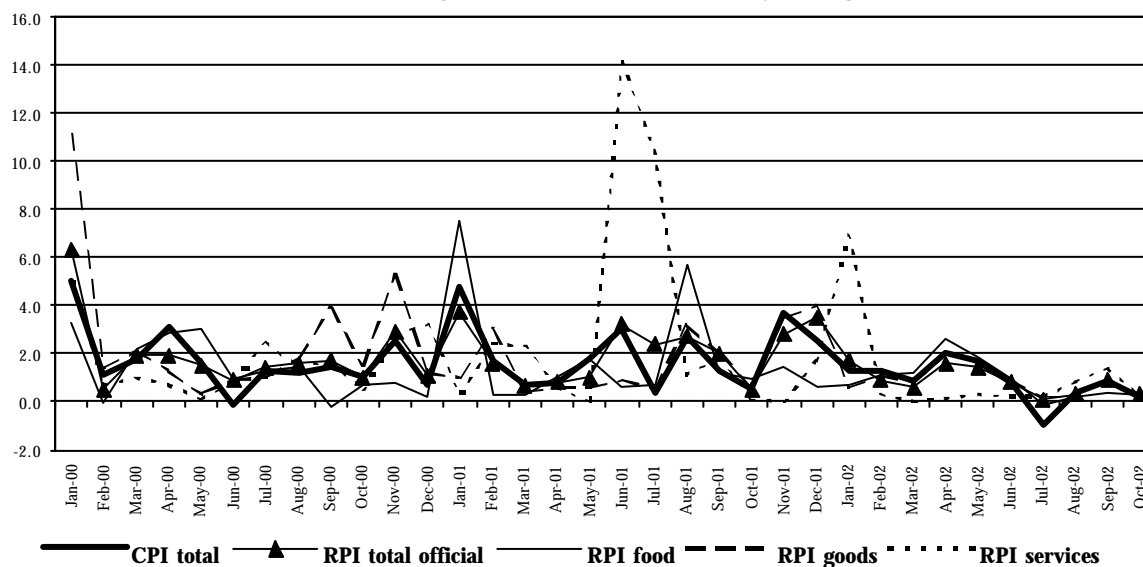
Graph 4.1: CPI Inflation Rate (monthly), March 1994-January 2000



Graph 4.2: Inflation (monthly % change of RPI)



Graph 4.3: CPI total and RPI (total, food, goods and services) monthly changes



COMMENT ON PRICES EVOLUTION

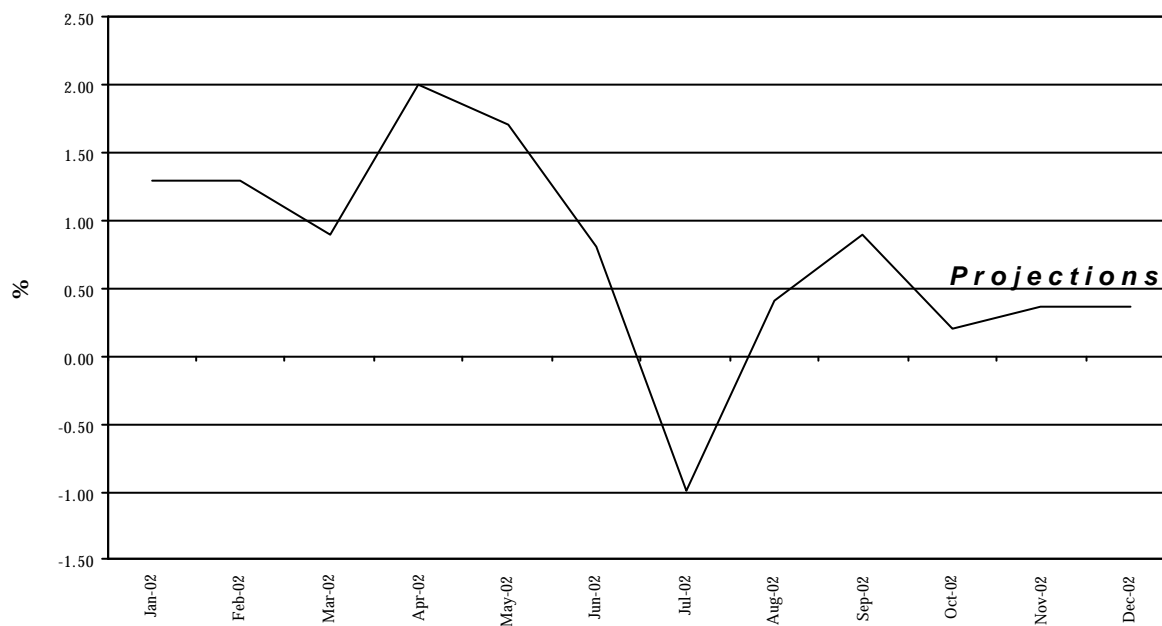
In September and October prices showed a slight increase. In September, CPI increased 0.9% compared to August 2002 and 16% compared to September of last year. In October CPI increased only 0.2% compared to September 2002 and 15.6% compared to October 2001.

Considering price trends in the first ten months of 2002, we will present the main changes of consumer prices for the mentioned period, consumer and retail prices for September and October specifically, and inflation rate projections until the end of the year. In the following comments we will try to answer the following questions:

- How do price dynamics affect the real nominal disposable wage
- How does the dynamics of the price of the consumer basket compare to the dynamics of real and nominal wage?

After relatively high consumer price increases in the first six months and a decline in July 2002, the consumer price index showed slight growth in August, September and October. After the euro inflation shocks, the CPI is expected to stabilize.

Graph 4.4: CPI monthly change in 2002



The monthly CPI growth in September was much higher than in October. In September, the most significant retail price increase was services (1.4%) and agrarian products (1.1%). In October price increases of retail products and services varied from 0 to 0.3%.

Table 4.2.

	In September compared to August (%)	In October compared to September (%)
Inflation (CPI increase)	0.9	0.2
RPI increase:	0.9	0.3
RPI agrarian ¹ :	1.1	0
RPI food increase:	0.2	0.3
RPI goods increase:	0.8	0.3
RPI services increase:	1.4	0.2

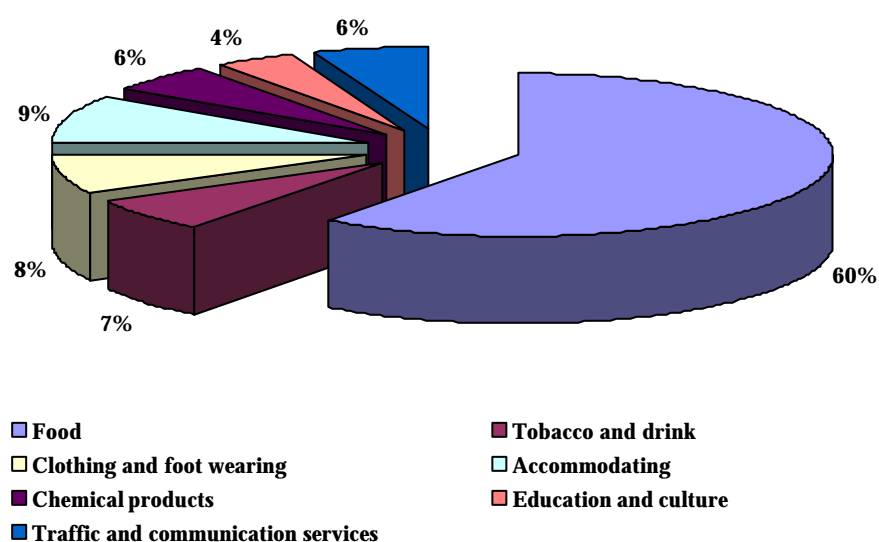
Source: Statistical Office of Montenegro

If we summarize inflation² trends in the first ten months of 2002 we can conclude that:

- In the first ten months consumer price index increased by 8.8%; continuing this trend CPI could be 10.14%³ at the 2002 level. Last year this increase was 19%.
- Average monthly inflation in the first 10 months of 2002 was 0.88%. If we assume the average CPI growth for the remaining 2 months of 2002 to be at the level of the average CPI growth during the period August-September (i.e. 0.4%), the resulting average monthly CPI growth in the entire 2002 will be 0.8%.
- In the first quarter the CPI inflation amounted to 3.5%, in the second – to 4.6% and in the third- to 0.3%
- The annual CPI inflation in October 2002 was 15.6%.

Monthly changes in the cost of living in September and October. ⁴

Graph 4.5: Shares of expenditures on main groups of products and services in total households' expenditures.



¹ RPI agrarian is retail prices indexes for agrarian products which is different category from RPI industrial food

² The most compatible indicator for inflation is CPI

³ This calculation should be considered as mathematical projection not forecast based on all other determinants. The same should be considered for average monthly change projection in 2002.

⁴ Source: Statistical Office of Montenegro, Monthly prices reports

Chapter 4. Prices

Note: The diagram presents shares of expenditures on main groups of products or services in total expenditures of Montenegrin households (i.e. consumption weights). These weights sum up to 100% (or 10,000) and reflect the relative importance of respective consumer goods in total CPI inflation

Prices of product and services	Consumption Weight (total= 10,000)	Prices in September	Prices in October
		compared to August	compared to September
		%	
Food	6038	0.65	-0.04
Cereal products	750	0.09	0.16
Fresh and processed vegetables	674	5.28	1.97
Fresh and processed fruit	493	-0.65	-6.62
Fresh and processed meat	1846	0.23	0.48
Fresh and processed fish	126	-9.86	0.02
Milk and milk products	940	2.24	-1.13
Eggs	208	-0.17	12.16
Lard	346	0.59	0.53
Other products	655	-0.01	-0.19
Tobacco and alcohol	651	0.24	0.04
alcohol	306	0.61	0.11
tobacco	345	0	0
Clothing and foot wearing	820	1.80	2.24
Clothes	474	1.05	1.51
Footwear	346	2.73	3.13
Accommodating	930	0.21	0.13
Accommodation ⁵	187	0.39	0.05
Heating and lighting	570	0.04	0.15
House keeping and equipment	173	0.65	0.14
Chemical products	568	0.71	0.38
Hygienic means	432	0.08	0.40
Medicines	47	2.00	0
Health care services	89	2.73	0.53
Education and culture	400	6.77	-0.05
Education means	259	7.80	-0.01
Education services	141		0.06
Traffic and communication services	593	4.67	0.10
Traffic vehicle	20	-0.11	-1.26
Fuel and motor oil	185	0	0
Vehicle maintaining	41	2.35	1.8
Communication services	347	0.70	0.02

Real wages

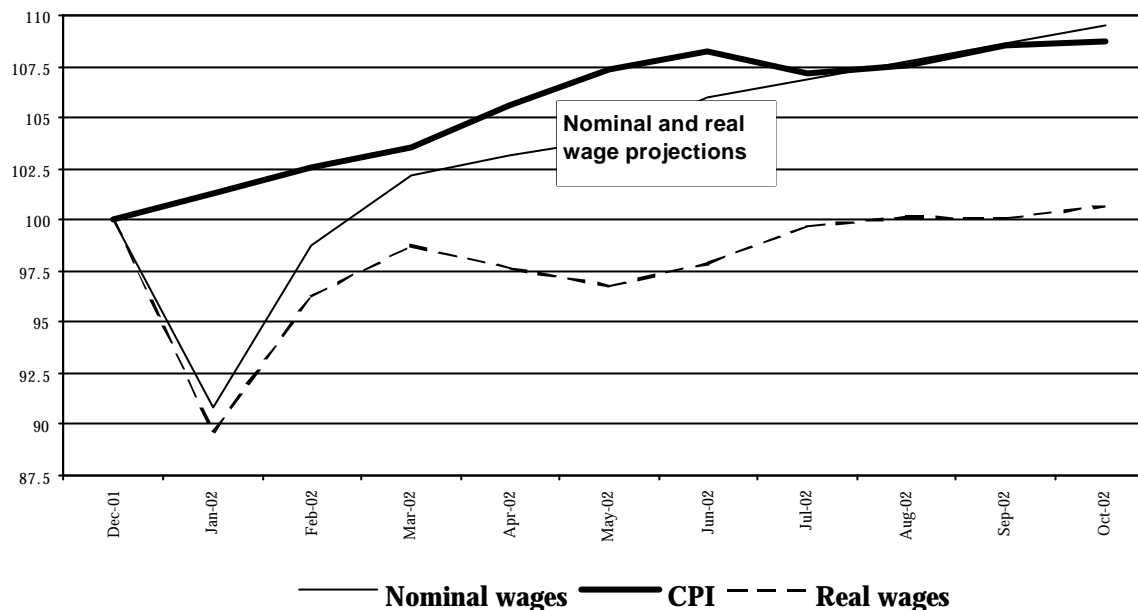
If prices increase—but your earnings stay the same—you cannot continue to consume as much as before. High inflation makes it more difficult for families, businesses and governments to make plans for the future.

The average nominal disposable wage in June 2002 was €118.7⁶. In the first six months of 2002 the average disposable wage in Montenegro increased by 5.9% compared to December of 2001. In the same period inflation rate (CPI) was 8.8%.

⁵ Accommodation does not include rent costs

⁶ Official statistics did not provide average wages for July, August, September and October 2002

**Graph 4.6: Indices of nominal disposable and real wages and CPI
(Dec. 2001= 100)**



Note: Nominal and real disposable wages from July to October are projected by ISSP

In the graph above you can see that consumer prices in the first six months of 2002 had a relatively stable growth path with a few high increases due to the Euro introduction. While consumer prices were growing, nominal wages (analogously to last year), decreased in January very sharply by 10%, came back to almost the same level in February as they were in December and increased in the rest of the observed periods. Stabilization of the consumer prices in June made real wage growth equal to the nominal one. Falling CPI and positive nominal wage change made real wage change higher than the nominal one. If wages continued to grow by 0.8% monthly from July to October, with CPI decline in July and slight growth in August, September and October, real wage increase would be higher than consumer price increase.

Consumer basket⁷

The cost of the consumer basket was: €253.22 in September and €252.22 in October.

	Consumer basket in
Dec-01	217.42
Jan-02	224.61
Feb-02	230.11
Mar-02	230.47
Apr-02	232.82
May-02	250.62
Jun-02	253.63
Jul-02	240.7
Aug-02	253.8
Sep-02	253.22
Oct-02	252.22

The cost of the consumer basket, which only consists of basic food products for a four-member family, increased 16% in June compared to December 2001. Its value decreased in September and October compared to previous months respectively by 0.4% on average. In the first ten months of 2002 this consumer basket trend line shows very unstable changes (See Graph 4.7). Until June it increased very quickly, especially in May where a sharp rise was registered: from 5% in April up to 15% in May (compared with December 2001). In July however, the price of these basic products decreased, but in the next months came back to the same level.

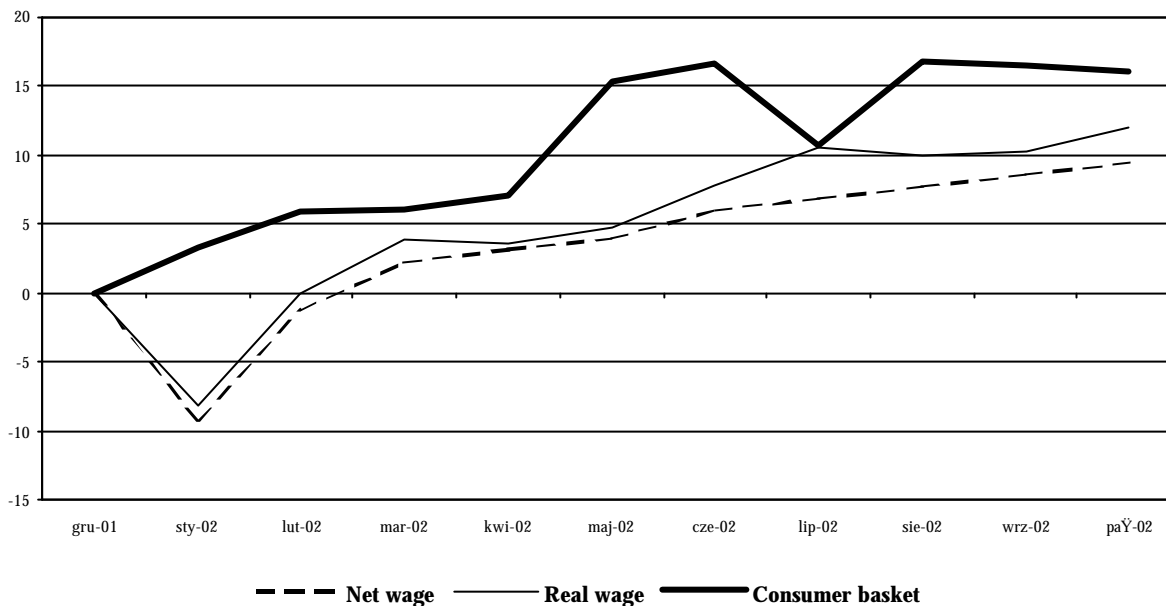
Through this trend line we came up with conclusion that agriculture and industrial food products made the most significant impact on the cost of living increases

⁷ The consumer basket, measured by Statistical office of Montenegro, consists of 65 products that satisfy the consumer's basic alimentary needs. Housing, heating, clothing, fuel, electricity consumption, etc., are not included in the consumer basket.

after the introduction of the Euro and thus on inflation as well. After those shocks, the prices of this group of products gradually decrease to a realistic level.

Graph 4.7 shows the dynamics of consumer basket cost along with average disposable nominal and real wages with December 2001 taken as a base month. What can we conclude?

Graph 4.7: Consumer basket, nominal wage and real wage (base: Dec 2001)



Note: Disposable wage from July to October are projected

The consumer basket value showed very unstable dynamics during the first ten months of 2002, mostly increases. It rose much faster (average monthly change was 1.36%) than the average disposable wage in Montenegro (average monthly change was 0.83%). Considering the structure of the consumer basket, these dynamics can partially explain why people felt 'euro inflation' so strongly. Montenegrin population is still at the 'level' to calculate its monthly expenditures according to food products.

Forecast

Forecasting inflation through the end of the year we could consider August, September and October average monthly changes of CPI (0.37%) as one that will continue through the end of the year. The CPI changes during those three months were used to forecast inflation for the rest of 2002, because, in our view, this is the period of price stabilization after the euro introduction inflation shocks. This option gives us a 9.6% inflation rate at the annual level. Besides that slight inflation is expected due to some goods and services (certain industrial and agriculture food products, drink, transport, clothing and foot wearing) consumption increase in holiday season (December and January).

Table 4.4 Price evolution since December 1999.

dec-99= 100	RPI food	Cumulative impact on total RPI inflation	RPI goods	Cumulative impact on total RPI inflation	RPI services	Cumulative impact on total RPI inflation	RPI total	CPI official
1999-December							100	100
2000-January	103.2	1.5%	111.1	4.1%	104.9	0.9%	106.4	105.0
2000-February	103.2	1.4%	112.7	4.7%	105.6	1.0%	107.1	106.2
2000-March	105.4	2.5%	115.0	5.5%	106.7	1.2%	109.2	108.1
2000-April	108.4	3.8%	116.5	6.1%	107.4	1.3%	111.2	111.4
2000-May	111.7	5.3%	116.9	6.2%	107.5	1.3%	112.8	113.2
2000-June	112.7	5.8%	117.9	6.6%	108.4	1.5%	113.9	113.1
2000-July	114.2	6.5%	119.1	7.0%	111.1	2.0%	115.4	114.6
2000-August	115.8	7.2%	121.2	7.8%	112.7	2.3%	117.3	115.9
2000-September	115.6	7.1%	126.0	9.5%	114.6	2.6%	119.2	117.6
2000-October	116.4	7.5%	127.9	10.2%	115.2	2.7%	120.4	118.7
2000-November	117.4	7.9%	134.6	12.7%	118.4	3.3%	123.9	121.7
2000-December	117.6	8.0%	136.3	13.3%	122.2	3.9%	125.3	122.5
2001-Jan	126.4	12.0%	137.6	13.8%	122.5	4.0%	129.8	128.4
2001- Feb	126.7	12.2%	141.7	15.3%	125.5	4.5%	132.0	130.6
2001- March	127.1	12.3%	142.3	15.5%	128.4	5.0%	132.9	131.5
2001- April	128.4	12.9%	143.2	15.9%	129.1	5.2%	134.0	132.6
2001- May	130.8	14.0%	144.0	16.2%	129.1	5.2%	135.3	135.0
2001-June	131.6	14.4%	145.3	16.7%	147.3	8.4%	139.4	139.0
2001-July	132.5	14.8%	146.0	16.9%	162.7	11.1%	142.9	139.6
2001-August	140.1	18.2%	150.7	18.6%	164.5	11.4%	148.3	143.3
2001-September	141.7	19.0%	153.7	19.7%	167.4	12.0%	150.7	145.2
2001-October	143.1	19.6%	154.7	20.1%	167.6	12.0%	151.7	145.9
2001-November	145.2	20.5%	160.1	22.1%	167.6	12.0%	154.6	151.3
2001-December	146.1	21.0%	166.5	24.4%	170.4	12.5%	157.9	155.1
2002-January	147.1	21.4%	167.5	24.8%	182.2	14.6%	160.8	157.1
2002-February	148.7	22.2%	169.3	25.5%	182.7	14.7%	162.3	159.2
2002-March	150.5	23.0%	170.7	26.0%	182.7	14.7%	163.6	160.6
2002-February	148.7	22.2%	169.3	25.5%	182.7	14.7%	162.3	159.2
2002-March	150.5	23.0%	170.7	26.0%	182.7	14.7%	163.6	160.6
2002-April	154.4	24.7%	174.1	27.2%	182.9	14.7%	166.7	163.8
2002-May	157.3	26.0%	176.9	28.2%	183.5	14.8%	169.1	166.6
2002-June	158.7	26.7%	178.5	28.8%	183.8	14.9%	170.4	167.9
2002-July	158.5	26.6%	178.6	28.9%	184.2	15.0%	170.4	166.3
2002-August	158.8	26.7%	179.2	29.1%	185.7	15.2%	171.1	166.9
2002-September	159.3	27.0%	180.6	29.6%	188.3	15.7%	172.3	168.4
2002-October	159.7	27.2%	181.1	29.8%	188.7	15.7%	172.7	168.8

2001-July

Sources: monthly indexes published by Statistical Office

Methodology: All RPI categories are distinct one from another, their sum is the total RPI.

RPI food includes non- processed and processed food products and drinks.

RPI goods includes all goods but food products

COMMENT: BUDGET

For the past three months (August, September and October) budget expenditures were higher than revenues by approximately €12mn. The deficit was financed through loans, credits and international aid.

5.1. Revenues

Although the budget revenues are higher than in the same period last year, it will be very difficult for revenues to reach the planned level by the end of the year. At the end of October, budget revenues¹ were approximately €190mn, which represents 70% of the projected annual plan. Budget revenues, at the end of October, represent approximately 24% of the projected domestic product².

July of 2002 show the highest budget revenues this year at €23.4mn, but revenues have been declining ever since. Budget revenues were €22.5mn in August, €21.4mn in September and €18.4mn in October. In order to meet the projected 2002 level, budget revenues must be higher than €80mn in total over the next two months, nearly as much as the past four months combined. The following analysis will describe the realization of certain revenue categories and their share in total revenues.

5.1.1 Taxes

Total tax revenues, at the end of October were about €172mn and represent more than 90% of total budget revenues. Revenues from taxes reached 82% of the targeted annual amount and they will, most likely, reach their target by the end of 2002.

- The highest revenue category, turnover taxes, reached €85mn, which represents about 45% of total revenues. Turnover tax was significantly higher than expected (about 90% of the annual plan), as a result of much higher revenues from excise on imported goods (which exceeded the annual plan by more than 20%).
- The second largest revenue category, personal income tax, reached nearly €48mn, out of which payroll tax was around €42mn. Revenues from income tax represented about 25% of total revenues and they were significantly below the planned level (70% of the annual plan).
- Revenues from profit tax were significantly higher than planned. At the end of October, this category was more than 30% higher than the annual plan. But, as mentioned in the last issue, a clear picture of this category will be seen at year-end due to the methodology of calculations.
- Revenues from property tax reached €3.6mn, which represent 87% of the annual plan.
- The third largest revenue category, revenues from the tax on international trade and transactions, represent 13% of total revenues. This category reached about €24mn, and was below the planned level (74% of the annual plan)

5.1.2. Tariffs

Generally, at the end of October, revenues from tariffs were significantly higher than the planned level (about 107% of the annual plan). However, if we look at the structure of this

¹ Doesn't include revenues from property sales, credits and loans, and international aid.

² For the first 10 months of 2002, calculated by linear projection.

category we notice significant deviations. Namely, while administrative tariffs reached about €2.5mn, which represent 228% of the annual plan, revenues from court tariffs and residence tax were significantly below the targeted level. At the end of October, revenues from tariffs represent less than 2% of total budget revenues.

5.1.3. Other revenues

According to the plan, other revenues at the end of 2002 would amount to €58mn, and at the end of October, other revenues reached less than €15mn. This situation is mainly the result of very low revenues from activities of government bodies, where the annual plan foresaw approximately €42mn from this group, and at the end of October it amounted to just €2.5mn. As explained in the last issue, due to the gradual inclusion of consumption units, some revenues from activities of government bodies were not registered at the Treasury and the true balance will be seen in the final account.

5.2. Expenditures

Budget expenditures (executed budget payments without debt payment), at the end of October were about €200mn, which is €10mn less than in the same period last year. Budget expenditures reached about 60% of the annual plan, and represented more than 25% of the projected domestic product for the first ten months.

As forecasted, some expenditure categories (subsidies, social benefits) increased in the past three months, which resulted in a total expenditure increase. Expenditures reached this year's peak in August (more than €29mn). In September expenditures were €21mn and in October about €24mn.

The largest expenditure category, salaries and payroll, reached about €88mn, which represents 44% of total expenditures. Similar to the situation in July, the budget paid net wages regularly, while taxes, contributions, and other liabilities were partially paid, and were significantly below their targeted level.

Although social benefits were below the targeted level (less than 70% of the annual plan), expenditures for this category were much higher in the past three months than for all seven months preceding them (January-July). A similar situation took place in the case of subsidies, where at the end of July these two categories were approximately €21mn, and at the end of October they were approximately €44mn.

Other expenditure categories (material and service expenses³, rent, capital expenses, interest and other expenditures) were significantly below the targeted level.

5.3. Net lending

Opposite to the first seven months when the budget repaid €9mn more than it borrowed in new credits⁴, in the last three months, the budget borrowed approximately €15mn in loans and credits and repaid about €9mn debts. So, at the end of October, net lending, or

³ Material and services expenses include, as main lines, material expenditures, energy expenditures and maintenance of state buildings.

⁴ Namely, budget repaid part of his old debts, from previous year.

difference between lending and repayments, was negative and amounted to approximately €3mn.

5.4. Budget deficit/surplus

As we can see, executed budget payments were approximately €200mn and original budget revenues (excluding grants, borrowing and privatization receipts) were approximately €189mn, resulting in a budget deficit of approximately €11mn at the end of October.

5.5. Budget external financial sources

In addition to credits and loans, the budget was externally financed through international aid (grants) and revenues from sold property.

In the past three months, the budget received more than €9mn in international aid, amounting to total international aid of €21mn by the end of October (according to the budget forecasts for 2002 it should amount to €29mn by the end of the year).

Revenues from sold property, at the end of October, amounted to €3mn, while €24mn for the entire 2002 year was assumed in the budget.

As presented analyses showed, at the end of October the cash budget deficit amounted to approximately 6% of total revenues. In addition to the cash deficit the budget is burdened with debts, mostly for wage taxes and contributions. As salaries and payrolls represent about 50% of total budget expenditures, it is clear that every increase of the minimum wage has a big influence on the budget balance; thus, the minimum wage policy will mainly determine the budget in 2003. The requests for a minimum wage increase are realistic if they are followed by an increase in productivity. A second very important question for the 2003 budget is that of expenditures for the federal budget. The amount of these expenses is not clearly defined yet (from the press, the estimated amount is about €50mn), but we can be certain that it will be a substantial burden on the Montenegrin budget, i.e. for Montenegrin citizens.

Table 5.1. Total budget revenues in million (old classification)

	Total	Turnover tax	Payroll tax	Tax on self-empl. inc.	Agric. & Forest. Income tax	Other income taxes	Profit Tax	Property Tax	Admin. & court Taxes	Registration Taxes	Residence & concessions	Tax on international transactions	Special tax on petrol	Other Revenues
Plan 1999	150.7	65.4	54.1	1.6	0.6	0.0	3.8	2.1	2.6	3.5	1.0	0.0	0.0	16.0
Executed 1999	149.7	75.4	35.5	0.8	0.2	0.0	2.6	2.1	1.5	8.7	1.6	0.0	0.0	21.4
Plan 2000	201.4	87.1	76.2	2.3	0.6	0.0	4.2	5.8	2.1	4.1	3.3	0.0	0.0	15.9
Executed 2000	177.7	98.8	44.8	1.0	0.1	0.0	4.3	2.4	1.2	4.4	1.9	0.0	3.4	15.3
Of its category in %	88.2	113.4	58.9	42.1	7.7		102.6	41.7	59.5	107.4	59.6			97.0
Plan 2001	188.9	89.7	51.1	1.5	0.5	2.0	5.1	3.1	1.3	0.4	4.0	17.7		12.3
Rebalance 2001	229.4	92.1	54.2	1.8	0.1	3.2	6.1	3.9	2.1	0.0	3.4	35.3		27.1
Executed 2001	226.7	94.2	52.1	1.4	0.1	3.1	6.0	3.9	2.0	0.0	3.3	27.3		33.3
Plan 2002	269.7	95.6	61.3	2.6	0.2	3.8	8.0	4.1	2.2	0.0	4.7	32.9		54.3
Executed 2002	189.2	85.5	41.9	1.1	0.1	4.7	10.7	3.6	3.1	0.0	1.9	24.3		12.4
2000 Q1	35.6	20.2	8.3	0.1	0.0	0.0	0.4	0.3	0.3	1.4	0.4	0.0	1.2	3.2
2000 Q2	46.2	18.7	10.8	0.2	0.0	0.0	1.1	0.5	0.4	2.1	0.5	0.0	0.9	11.1
2000 Q3	46.9	25.2	12.3	0.4	0.0	0.0	1.5	0.9	0.3	1.0	0.6	0.0	1.3	3.5
2000 Q4	49.0	34.7	13.5	0.3	0.0	0.0	1.3	0.8	0.3	0.0	0.5	0.0	0.1	-2.5
2001 Q1	46.1	17.0	11.0	0.3	0.0	0.8	0.8	0.5	0.4	0.0	0.7	6.7		8.0
2001 Q2	41.5	20.7	11.6	0.3	0.0	1.0	1.5	0.6	0.6	0.0	0.7	3.3		1.4
2001 Q3	70.3	30.0	13.9	0.5	0.0	0.6	2.1	1.6	0.6	0.0	0.9	14.0		6.1
2001 Q4	68.8	26.5	15.7	0.4	0.0	0.7	1.5	1.2	0.6	0.0	1.1	3.3		17.7
2002 Q1	46.3	21.3	10.6	0.3	0.0	0.7	0.9	0.7	0.5	0.0	0.4	8.2		2.5
2002 Q2	57.0	26.0	12.2	0.3	0.0	1.6	5.1	1.0	1.2	0.0	0.5	5.6		3.5
2002 Q3	67.3	30.7	14.5	0.4	0.0	2.1	3.6	1.4	1.1	0.0	0.8	7.8		4.9
Jan-02	9.7	4.5	2.6	0.1	0.0	0.2	0.1	0.2	0.1	0.0	0.1	1.4		0.5
Feb-02	14.3	6.9	3.4	0.1	0.0	0.2	0.2	0.3	0.2	0.0	0.2	1.8		1.1
Mar-02	22.3	9.9	4.7	0.1	0.0	0.3	0.6	0.3	0.2	0.0	0.1	5.0		1.0
Apr-02	22.8	9.5	4.6	0.1	0.0	0.4	2.6	0.3	0.4	0.0	0.1	3.5		1.3
May-02	16.0	7.4	3.4	0.1	0.0	0.8	0.4	0.4	0.6	0.0	0.1	1.0		1.9
Jun-02	18.1	9.1	4.2	0.1	0.0	0.4	2.2	0.4	0.1	0.0	0.2	1.1		0.2
Jul-02	23.4	12.5	4.6	0.1	0.0	0.3	1.5	0.5	0.4	0.0	0.3	1.4		1.7
Aug-02	22.5	8.4	5.1	0.2	0.0	0.5	1.1	0.6	0.4	0.0	0.3	4.7		1.2
Sep-02	21.4	9.8	4.8	0.1	0.0	1.3	0.9	0.4	0.3	0.0	0.2	1.6		2.0
Oct-02	18.4	7.5	4.6	0.1	0.0	0.3	1.0	0.4	0.3	0.0	0.2	2.7		1.2
Cumul Oct 02	189.2	85.5	41.9	1.1	0.1	4.7	10.7	3.6	3.1	0.0	1.9	24.3		12.4
In % of plan	70%	89%	68%	41%	43%	122%	134%	87%	142%	50%	42%	74%		23%
In percent of total		45%	22%	1%	0%	2%	6%	2%	2%	0%	1%	13%		7%

Source: Ministry of Finance

Note: All data are expressed in

Chapter 5. Budget

Table 5.2. Total budget expenditures in million (old classification)

	Total	Salaries & payroll	Material exp.	Invest.		Econ. Interv.					Social, NGO	Financing exp.	Extraordinary Expend.				
				Public works	Maintenance	Special purposes	agricul. comm. reserves	roads, railways	other	Subv. to Municip.				Educ. Health, Culture,			
Plan 1999	145.5	60.9	9.2	14.5		8.7		20.3		0.8	13.8	16.4	0.8				
Executed 1999	154.2	66.1	9.4	16.8		8		21		0.9	12.8	17.7	1.6				
Plan 2000	196.2	92.4	12.1	8.5	14.2	10.5	17.0	4.1	6.4	0.9	18.9	18.8	0.8	5.2			
Executed 2000	233.8	96.8	13.5	17.1	14.1	10.2	20.3	4.1	11.6	1	17.2	28	1.5	8.3			
Of its category in %	119.1	104.8	111.2	200	98.8	96.9	119.4	99.8	182.2	118.4	91.4	148.7	202.6	160.5			
2000 Q1	45.8	18.2	2.3	3.2	2.2	1.8	1.0	0.9	3.6	0.2	4.1	7.0	0.2	1.1			
2000 Q2	60.8	24.2	4.3	3.2	3.1	2.6	2.4	1.2	7.2	0.3	4.3	5.2	0.5	2.5			
2000 Q3	64.2	26.8	2.5	5.5	4.0	3.4	3.4	1.0	3.6	0.3	4.7	5.5	0.4	3.1			
2000 Q4	62.9	27.7	4.3	5.1	4.8	2.4	3.6	1.0	-2.9	0.4	4.1	10.3	0.5	1.6			
	Total	Salaries & payroll	Material exp.	Rents	Capital exp.	Subsid. for agr, rail, road	Loans and credits			Charge-free grants and social benefits							Extraordinary exp.
							to public companies	to other companies	Other	to individuals	to NGO...	to Empl and Health fund	to municipalities	Social insurance	Other exp. incl interest ⁵		
Plan 2001	228.6	117.6	39.2	1.4	18.3	11.4	0.5	0.8	1.5	2.4	1.4	5.4	2.7	19.6	1.6	4.9	
Rebalance 2001	264.4	112.0	51.7	2.1	18.9	11.9	8.0	3.2	1.2	2.7	1.3	14.2	4.6	21.4	3.8	7.4	
Executed 2001	266.5	108.5	55.2	2.5	19.2	12.2	9.5	3.2	1.4	2.8	1.2	14.2	4.6	22.5	3.0	6.5	
2001 Q1	65.0	21.0	14.0	0.5	5.8	4.3	2.1	0.7	0.5	0.6	0.5	6.2	0.3	6.6	0.6	1.4	
2001 Q2	57.2	21.0	11.2	0.7	3.8	2.4	1.9	0.6	0.5	0.7	0.2	5.5	1.1	4.3	0.6	2.6	
2001 Q3	68.6	31.6	15.1	0.5	4.4	2.6	1.3	0.7	0.0	0.7	0.3	1.2	2.6	5.3	0.4	1.8	
2001 Q4	75.7	34.9	14.8	0.8	5.2	2.9	4.0	1.3	0.5	0.8	0.3	1.2	0.5	5.9	1.4	1.1	
Plan 2002	328.1	134.8	54.3	2.7	16.8	26.0	7.2	0.5	3.8	4.9	1.7	7.2	2.3	28.9	25.4	11.9	
Executed 2002	200.5	87.5	33.6	1.5	7.9	13.1	7.4	0.4	1.1	3.3	1.1	5.2	1.3	19.8	7.8	9.3	
2002 Q1	49.9	23.2	10.4	0.4	2.6	3.5	2.6	0.2	0.2	0.5	0.2	0.5	0.2	3.1	0.2	2.1	
2002 Q2	55.7	23.1	9.1	0.4	2.5	2.8	3.5	0.0	0.2	1.3	0.2	0.9	0.6	4.2	4.2	2.4	
2002 Q3	70.7	31.0	11.2	0.4	2.0	4.6	1.4	0.0	0.4	1.1	0.3	2.5	0.3	9.0	3.0	3.6	
Jan-02	5.3	1.7	1.5	0.0	0.3	1.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.2	
Feb-02	23.4	12.6	3.0	0.3	0.5	1.4	1.2	0.2	0.0	0.1	0.0	0.5	0.1	2.5	0.1	1.0	
Mar-02	21.2	8.9	5.9	0.1	1.8	1.0	1.4	0.0	0.2	0.2	0.1	0.0	0.1	0.5	0.1	0.8	
Apr-02	23.7	13.0	2.8	0.2	0.7	1.3	1.1	0.0	0.0	0.5	0.1	0.7	0.2	2.1	0.3	1.0	
May-02	12.4	3.1	3.3	0.2	0.7	0.7	1.5	0.0	0.2	0.3	0.1	0.1	0.4	0.9	0.1	0.7	
Jun-02	19.6	7.1	3.1	0.1	1.0	0.8	0.9	0.0	0.0	0.5	0.0	0.1	0.0	1.2	3.9	0.8	
Jul-02	20.5	10.1	4.6	0.2	0.7	1.3	0.5	0.0	0.2	0.5	0.1	0.3	0.1	0.7	0.3	1.0	
Aug-02	29.2	12.8	4.1	0.2	0.7	1.9	0.9	0.0	0.2	0.5	0.1	0.6	0.0	5.3	0.2	1.9	
Sep-02	21.0	8.1	2.5	0.1	0.6	1.3	0.0	0.0	0.0	0.1	0.2	1.7	0.2	3.0	2.5	0.7	
Oct-02	24.2	10.2	2.8	0.2	0.9	2.3	0.0	0.2	0.2	0.4	0.3	1.2	0.2	3.6	0.3	1.2	
Cumul	200.5	87.5	33.6	1.5	7.9	13.1	7.4	0.4	1.1	3.3	1.1	5.2	1.3	19.8	7.8	9.3	
% of plan category in total	61.1%	64.9%	62.0%	57.0%	47.3%	50.5%	104.0%	76.1%	27.9%	68.1%	65.8%	72.3%	57.5%	68.5%	30.8%	78.2%	
		43.7%	16.8%	0.8%	4.0%	6.5%	3.7%	0.2%	0.5%	1.7%	0.5%	2.6%	0.7%	9.9%	3.9%	4.6%	

Source: Ministry of Finance

Note: The Ministry of Finance starting using a new methodology as of 2001.

⁵ In 2002 in expenditure category "interest" paid interests to nonresidents is included (€3mn planed for 2002). These interests present servicing of international debt.

Table 5.3. Total revenues and expenditures in million

	Total expenditures		Total revenues		Surplus/De- ficit Executed	Domestic Financing	Foreign aid		Reserves change
	Plan	Executed	Plan	Executed			EU	US	
1999	143.7	154.4	150.8	149.8	-4.6	9.2	0	0	4.6
2000	196.3	233.7	201.4	177.4	-56.2	10.2	25.6	30.2	
2001	229.6	266.4	188.7	226.5	-39.9	21.7	14.7		
2000 Q1		44.5		35.8	-9.2		5.1	7.2	
2000 Q2		60.8		46	-14.8		2	10.2	
2000 Q3		63.9		47	-17.4		5.6	12.8	
2000 Q4		62.9		49.1	-13.8	10.2	12.8	0	
2001 Q1		65		46.1	-18.9	15.5	3.6		
2001 Q2		57.2		41.9	-15.3	10.4	5.3		
2001 Q3		68.6		70.2	1.7	-0.7	0.0		
2001 Q4		75.7		68.8	-6.9	-3.8	5.8		
2002 Q1		49.9		46.3	-3.6	-6.9	12.1		
2002 Q2		55.7		57.0	1.3	0.4	0.0		
2002 Q3		70.7		67.3	-3.4	1.4	8.1		
Jan-02		5.3		9.7	4.4	-2.7	0.0		
Feb-02		23.4		14.3	-9.1	-1.9	11.6		
Mar-02		21.2		22.3	1.1	-2.3	0.5		
Apr-02		23.7		22.8	-0.9	0.2	0.0		
May-02		12.4		16.0	3.6	0.4	0.0		
Jun-02		19.6		18.1	-1.5	-0.2	0.0		
Jul-02		20.5		23.4	2.9	0.2	0.0		
Aug-02		29.2		22.5	-6.7	-1.0	8.1		
Sep-02		21.0		21.4	0.4	2.2	0.0		
Oct-02		24.2		18.4	-5.8	6.4	1.3		
Cumul 02		200.5		189.2	-11.2	1.2	21.5		

Source: Ministry of Finance and MONET calculations.

Note: Position "domestic finance" shows net debts and revenues from sold property.

5.6. Treasury bills

In the last issue we described the auction process and presented auctions that had been held until now. With the following short comment we continue to follow and present results of Treasury bill auctions.

As stated in the last issue, issuing and repayment of T-bills are so called “flying positions” which means that they are collected and repaid during the same fiscal year. Including these positions would increase the budget revenues and expenditures side. That is why the Ministry of Finance does not include these positions in the budget. As we can see from table 5.4 and 5.5, each T-Bill auction is linked to reimbursement of the previous one.

5.6.1. Overview of held auctions

In October and November, Central Bank⁶ held two auctions of 28-day and two auctions of 56-day T-bills. Emissions of 28-day T-bills were emissions with the highest amount from the beginning auction process. Demand was lower than supply on all four auctions.

5.6.1.1. Auctions of 28-day T-bills

The fifteenth auction of 28-day T-bills was held on October 3rd. The value of emission was €4mn, while demand was €2.792mn. The average weighted interest rate was 7.36%. During the sixteenth auction, held on October 30th, the highest value from the start auction process was offered (€6mn), and the average weighted interest rate was 7.41%. On this auction total value of sold T-bills was €4.467mn.

5.6.1.2. Auctions of 56-day T-bills

On the ninth, (held on October 16th), and tenth auction (held on November 13th) the total amount of offered T-bills was €3mn. On both auctions €1.7mn of T-bills were sold, while weighted-averaged interest rates were 7.96% and 8.04% respectively.

⁶ For the account of the Ministry of Finance.

Table 5.4. Overview of 28-day T-bill auctions

No.	Date of auction	Date of maturity	Amount of issue in mil €	Total offered amount in mil €	Amount of sold T-bills in mil €	Interest rate %		
						Lowest	Highest	Weighted average
1.	04.09.2001	03.10.2001	2.556	3.364	2.556	4.2	8	6.5
2.	02.10.2001	31.10.2001	3.579	2.669	2.669	6	8.95	6.89
3.	30.10.2001	28.11.2001	3.579	3.093	3.093	6	8.5	6.83
4.	27.11.2001	26.11.2001	3.579	4.714	3.579	6	8.95	7.31
5.	26.12.2001	24.01.2002	3.579	4.049	3.579	6	8.95	7.14
6.	23.01.2002	21.02.2002	2.5	2.794	2.5	6	8.95	7.05
7.	20.02.2002	21.03.2002	2.5	4.260	2.5	6	8.95	7.05
8.	20.03.2002	18.04.2002	2.5	3.070	2.5	6	8.5	7.02
9.	17.04.2002	16.05.2002	2.5	3.5	2.5	6	8	7.02
10.	15.05.2002	13.06.2002	2.5	2.864	2.5	6	8	6.99
11.	12.06.2002	11.07.2002	2.5	2.770	2.5	6	8	6.92
12.	10.07.2002	08.08.2002	3	2.870	2.870	6	8.5	7.13
13.	07.08.2002	05.09.2002	3.5	2.905	2.905	6	7.5	7.37
14.	04.09.2002	03.10.2002	3.5	3.492	3.492	6	8	7.53
15.	03.10.2002.	31.10.2002.	4	2.792	2.792	6	7.5	7.36
16.	30.10.2002.	28.11.2002.	6	4.467	4.467	6	8.25	7.41

Source: Central Bank of Montenegro.

Remark: Interest rates are annual.

Table 5.5. Overview of 56-day T-bill auctions

No.	Date of auction	Date of maturity	Amount of issue in mil €	Total offered amount in mil €	Amount of sold T-bills in mil €	Interest rate %		
						Lowest	Highest	Weighted average
1.	06.02.2002	04.04.2002	2	0	0	-	-	-
2.	06.03.2002	02.05.2002	3	1.085	1.085	6.5	8.5	7.5
3.	30.04.2002	27.06.2002	2	0.8	0.8	6.5	7.5	6.88
4.	29.05.2002	25.07.2002	2	1.5	1.5	6.5	8	7
5.	26.06.2002	22.08.2002	1	0.560	0.560	6.5	7.5	6.61
6.	24.07.2002	19.09.2002	2	3.120	2	7.5	8	7.72
7.	21.08.2002	17.10.2002	2.5	1.560	1.560	7.5	8	7.8
8.	18.09.2002	14.11.2002	3	1.387	1.387	7.5	8	7.82
9.	16.10.2002.	12.12.2002.	3	1.750	1.750	7.5	9.5	7.96
10.	13.11.2002.	09.01.2003.	3	1.670	1.670	7.5	9.0	8.04

Source: Central Bank of Montenegro

Remark: Interest rates are annual.

PENSION FUND

At the end of October 2002, total Pension Fund revenues were in line with expenditures. Revenues were €125.2mn, while expenditures were €124.9mn. Revenues from contributions represented 62% of total revenues. On a monthly basis, the Fund needs more than €10mn for pensions.

The next analysis presents realizations of certain categories and their share in total revenues and expenditures.

Revenues

- The biggest revenue category, revenue from contributions, was approximately €77mn, at the end of October.
- Revenues redirected from taxes, tariffs and excises were near €38mn, which represent 30% of total revenues.
- Revenues from special taxes were approximately €5mn, or 4% of total revenues, and revenues from fees charged by the House for Settlements and Payments (ZOP) represented about 3% of total revenues.
- Other revenues represented less than 2% of total revenues

Expenditures

- Pensions, the main expenditures category, represented about 76% of total expenditures, at the end of October.
- The second largest expenditure category, contributions to Health Fund, was more than €17mn, which represented about 14% of total expenditures.
- Material expenses together with expenses related to payments of pensions were less than €4mn, which represented about 3% of total expenditures.
- Other expenses represented about 7% of total expenditures.

Table 5.6. Pension Fund (in million)

	Pensions and benefits due to be paid	Total revenues	of which social contributions	Total expenditures	of which pensions and benefits
1999	85.9	88.4	50.5	97.0	73.3
2000	103.8	116.9	67.0	109.9	93.6
2001	109.6	139	73.6	132.7	106.6
Q1 2000	21.3	24.3	16.7	22.5	18.9
Q2 2000	25.6	24.3	15.1	26.7	22.6
Q3 2000	28.0	30.1	17.8	29.0	25.6
Q4 2000	28.9	38.2	17.3	31.6	26.5
Q1 2001	27.4	32.4	17.1	29.5	24.7
Q2 2001	27.4	29.2	16.5	30.0	25.0
Q3 2001	27.4	40.3	19.0	37.4	30.6
Q4 2001	27.4	37.2	20.8	35.8	26.3
Q1 2002		33.7	22.8	34.8	26.8
Q2 2002		39.9	21.1	38.1	27.9
Q3 2002		38.1	24.1	38.7	29.4
Jan-02		8.7	4.1	11.1	8.8
Feb-02		13.7	10.1	11.7	8.9
Mar-02		11.3	8.6	12.0	9.1
Apr-02		14.2	8.0	13.2	9.2
May-02		11.1	5.2	11.6	9.2
Jun-02		14.6	7.9	13.3	9.5
Jul-02		11.5	5.7	12.3	9.7
Aug-02		14.5	11.1	13.1	9.8
Sep-02		12.0	7.3	13.3	9.9
Oct-02		13.6	8.9	13.3	9.9
Cumul 2002		125.3	76.9	124.9	93.9

Sources: Pension Fund and MONET estimation for pensions planned to be paid. Arrears are calculated taking the acknowledged debt towards pensioners at end 1999.

All data are in .

HEALTH FUND

At the end of October 2002, total revenues of Health Fund were €65.5mn, while expenditures were €75.7mn. These data show that deficit of the Health Fund at the end of October was €9.2mn. At the end of October, the situation with debts and receivables was similar to that experienced at the end of July. Debts were near €20mn, while receivables reached the level of approximately €32mn.

Below we present a more detailed analysis of certain categories of revenues and expenditures of the Health Fund.

Revenues

- Revenues from economic activity contributions representing the major revenue category, amounted to €29.4mn or 45% of total revenue. Revenues from non-economic activities contributions were about €16mn, or near 25% of total revenues, while revenues from self employed workers contributions reached nearly 3% of total revenues.
- The second largest category, revenues from contributions of the Pension Fund, amounted to nearly €18mn, representing 27% of total revenues.
- Since February, when the budget paid €300.000, Health Fund did not receive any revenues from the budget for the unemployed.
- Other revenues, including interest income, represented 0.1% of total revenues.

Expenditures

- Expenditures for the ambulance and dispensary services, medicines, treatments in stationary health-care facilities, dentists' services, and other forms of health care reached the level closed to €70mn, which represented 92% of total expenditures.
- Payments for social insurance during sick leave were €2mn, or 2.6% of total expenditures, while other costs during patient sickness (transport, etc) represented 3.2% of total expenditures.
- Material expenditures represented 1.4% of total expenditures.

Table 5.7. Health Fund (in million Euro)

	Total revenues	of which social contributions (excl budget and extraordinary)	of which revenues from budget	of which extraordinary (aid on Kosovo refugees and others)	Total expenditures	of which current expenditures (dispensaries/emergency/medication...)	extraordinary expenditures (Kosovo)
1999	49.7	45.2	1.0	3.5	41.7	41.7	0.0
2000	55.4	52.9	1.5	1.2	58.1	57.2	0.8
plan 2001	66.8	64.6	1.7	0.5	66.8	66.8	0.0
2001	69.8	68.1	1.7	0.0	75.9	75.9	0.0
Q1 2000	9.2	8.3	0.5	0.4	11.4	11.1	0.2
Q2 2000	13.6	13	0.3	0.4	13.1	13	0.1
Q3 2000	14.1	13.8	0.3	0.0	14.8	14.5	0.2
Q4 2000	18.7	17.8	0.4	0.5	18.7	23.7	0.0
Q1 2001	13.5	13.1	0.4		15.9	15.9	
Q2 2001	15.1	14.2	0.5		21	21	
Q3 2001	17.8	17.7	0.1		21.3	21.3	
Q4 2001	11.9	11.5	0.4		8.0	8.0	
Q1 2002	17.0	16.7	0.3		20.9	20.9	
Q2 2002	21.3	21.3	0.0		23.8	23.8	
Q3 2002	19.3	19.2	0.0		22.4	22.4	
Jan-02	4.3	4.3	0.0		5.6	5.6	
Feb-02	6.7	6.3	0.3		7.8	7.8	
Mar-02	6.0	6.0	0.0		7.5	7.5	
Apr-02	7.2	7.1	0.0		8.2	8.2	
May-02	5.6	5.6	0.0		6.7	6.7	
Jun-02	8.6	8.6	0.0		8.9	8.9	
Jul-02	5.1	5.1	0.0		6.7	6.7	
Aug-02	7.5	7.5	0.0		8.5	8.5	
Sep-02	6.7	6.7	0.0		7.2	7.2	
Oct-02	7.8	7.8	0.0		8.6	8.6	
Cumul 02	65.5	65.2	0.3		75.7	75.7	

Sources: Health Fund.

Note: there are small differences between Health Fund data and MONET calculations.

All data are in Euro.

6.1. MONEY SUPPLY

Table 6.1: Money supply (M1)

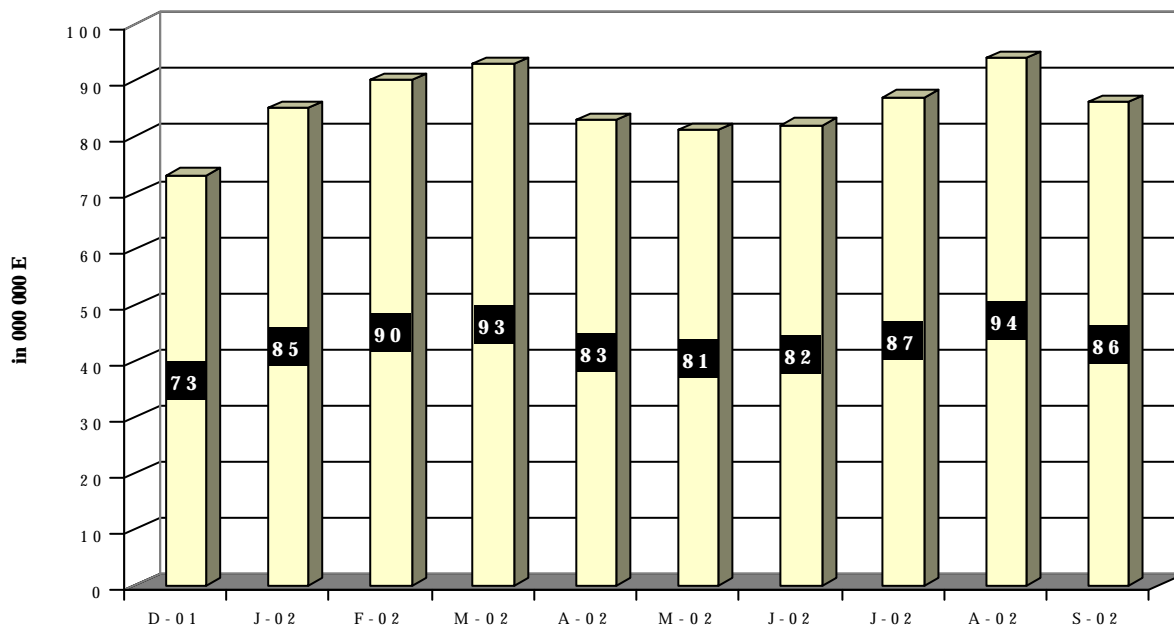
in 000 000 €

Demand	2001	2002								
	12	01	02	03	04	05	06	07	08	09
1. Deposit money (demand deposits)	73	85	90	93	83	81	82	87	94	86
2. Cash-estimation	153	310	310	310	310	310	310	310	310	310
Total (1+ 2)	227	395	400	403	393	391	392	397	404	396

As the table above shows, money supply*, has been fluctuating during the nine months of 2002 due to the fluctuations of demand deposits. In August, deposit money reached a peak at €94mn; however, after this increase deposit money dropped back to €86mn. In spite of the decrease in deposits, the average daily amount of deposits was highest during the month of September compared to the previous eight months.

The trend of deposit money during 2002 is presented in the graph below:

Graph 6.1: Deposit money



*Money supply is defined as sum of demand deposits and cash estimation

6.2. SAVINGS OF HOUSEHOLDS

Table 6.2: Saving of households

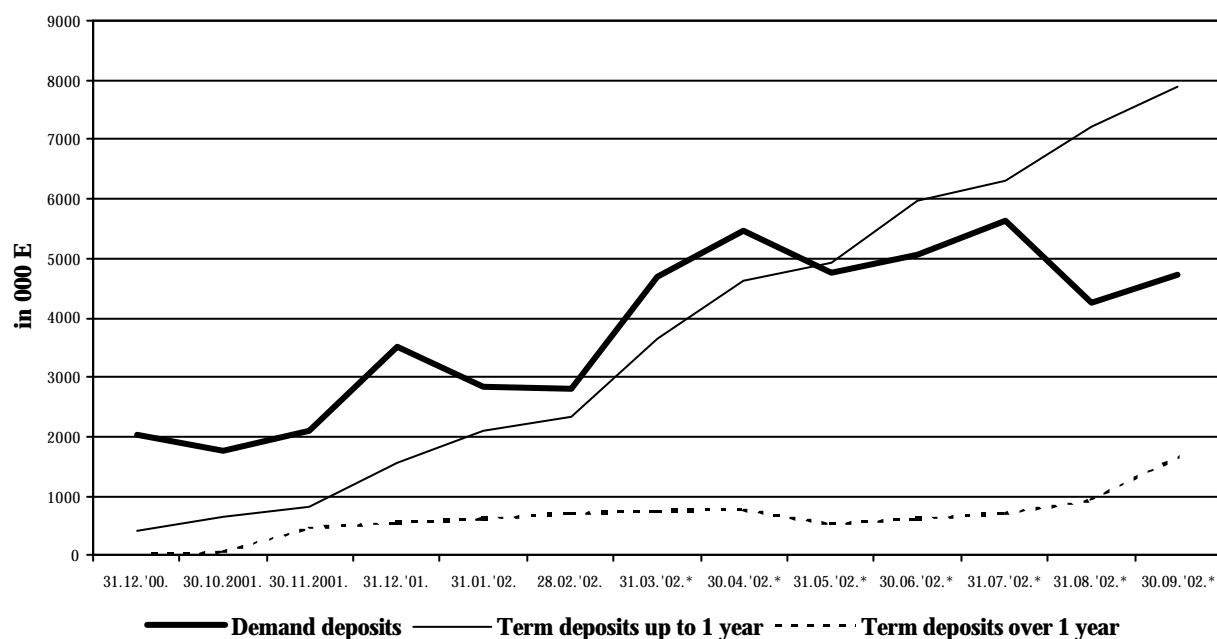
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Date	1. Demand deposits	Euros	Other currencies	2. Term deposits up to 1 year	Euros	Other currencies	3. Term deposits over 1 year	Euros	Other currencies	4. Total (1+2+3)
31.12.'01.	3,517	2,379	1,138	1,557	1,332	225	550	549	1	5,624
31.01.'02.	2,844	1,985	859	2,090	1,755	335	617	594	23	5,551
28.02.'02.	2,791	1,714	1,077	2,336	1,909	427	702	679	23	5,829
31.03.'02.*	4,706	3,863	843	3,641	2,053	1,588	742	681	61	9,089
30.04.'02.*	5,455	4,610	845	4,623	2,689	1,934	774	712	62	10,852
31.05.'02.*	4,757	4,159	598	4,918	2,992	1,926	526	464	62	10,201
30.06.'02.*	5,080	4,596	484	5,975	3,368	2,607	616	554	62	11,671
31.07.'02.*	5,634	5,080	554	6,298	3,595	2,703	703	641	62	12,635
31.08.'02.*	4,269	3,802	467	7,217	5,184	2,033	928	906	22	12,414
30.09.'02.*	4,730	3,303	1,427	7,898	5,001	2,897	1,663	1,497	166	14,291

* Data from the bank reports (for the previous periods reports from balance sheets of the banks)

As seen in the table above, savings show the rising trend. At the end of June total savings were approximately €11.6mn, in July and August over €12mn (€12.6mn and €12.3mn respectively) while at the end of September they reached €14.3mn.

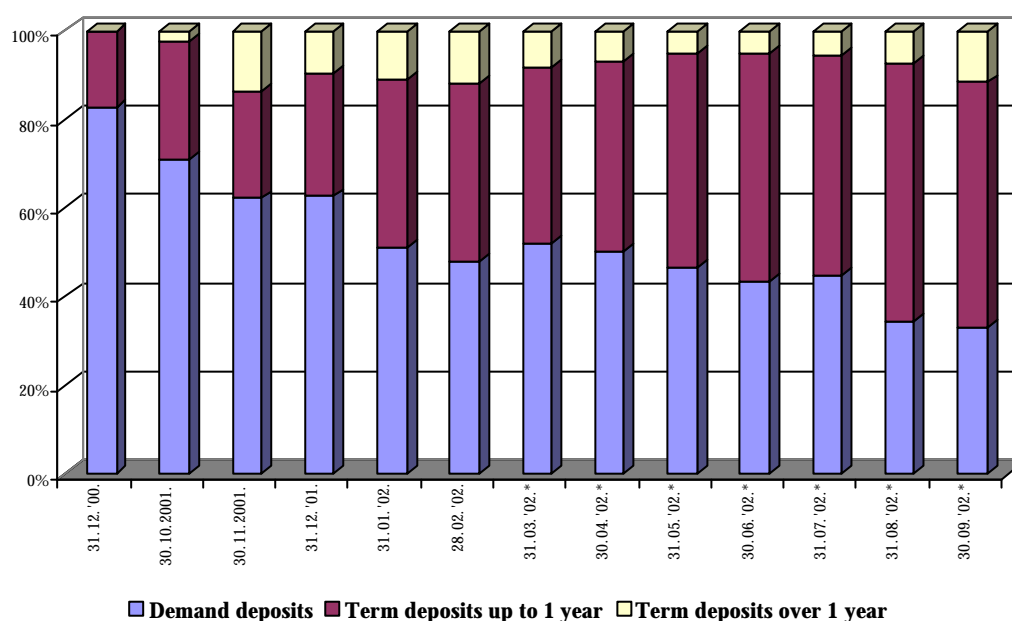
Graph 6.2: Savings



A significant increase of savings in September compared to the previous months, by 15%, was due to the increase in term deposits over 1 year by 79.2%, sight deposits 10.8% and term deposits up to 1 year for 9.4%. This increase is the result of the increasing confidence of the clients in the banking sector, which is additionally improved by the presence of the foreign banks in the Montenegrin banking system.

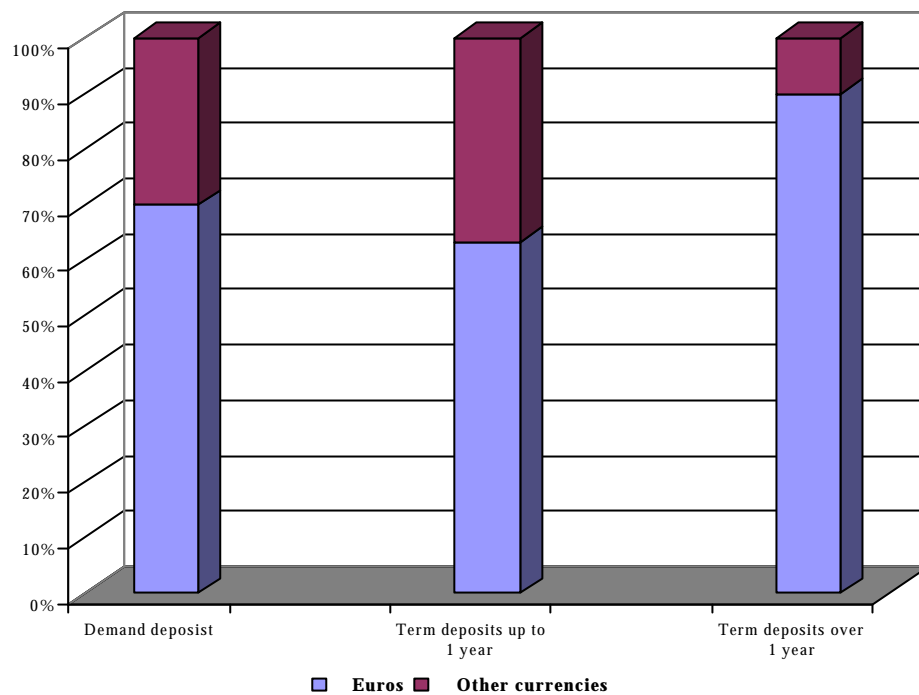
The structure of the savings in September shows that the term deposits up to 1 year represent 55.27% of total savings, while demand deposits and term deposits up to 1 year represent 33.10%, and 11.64% respectively. The analysis of the savings structure shows that a portion of the demand deposits in total deposits is decreasing while the participation of the term deposit, up and over 1 year, is increasing.

Graph 6.3: Structure of total savings



the majority of demand deposits are denominated in € (69.8%) with the remaining (30.2%) denominated in other currencies. The structure of the term deposits up to 1 year shows that 63.3% are denominated in €, while the remaining 36.7% are deposits in other currencies. In the structure of term deposits over 1 year, deposits in € represent 90.1% while deposits in other currencies represent 9.9%.

Graph 6.4: Currency structure of savings in September



COMMENT: ANALYSIS OF THE CAPITAL MARKET IN MONTENEGRO

As in the previous issue of MONET, the following analysis will comprise general activities on the capital market in Montenegro, with a detailed overview of turnover on the primary and secondary markets.

The analyzed period (September and October) is characterized by higher turnover on the stock exchanges. September was marked with trade on the primary market, due to the re-capitalization of Progas Company, Swiss insurance and Management Company of fund Moneta. In October, for the first time, privatization funds have traded, and also shares of several companies from the state funds portfolio have been sold. During the analyzed period, trade with shares of MVP companies has intensified, that is especially related to trade with shares of Jugopetrol and Telekom. In October, for the first time, shares of Electricity Company (EPCG) and Coal Mine Pljevlja have been traded.

7.1. Trade on the capital market

Total turnover on the Montenegrin capital market, in the first ten months of 2002, amounted to over €11.6 million. Turnover in 2001 reached €10.8 million; with two months to go, we can conclude that this year's turnover will significantly exceed last year's level. A large share of turnover in 2002, roughly €6.2 million, is related to primary trade, while on the secondary market value of trade was approximately €5.4 million. The average monthly turnover, during the first ten months of 2002 was approximately €1.2 million. Monthly turnovers are displayed in table 7.1.

Table 7.1.: Turnover on the Montenegro and NEX Montenegro stock exchange in 2002 in ¹

Month	Turnover on Montenegro Stock exchange			Turnover on NEX Montenegro Stock exchange			Total turnover on both stock exchanges		
	Primary	Secondary	Total	Primary	Secondary	Total	Primary	Secondary	Total
Year 2002									
January	190,528	181,418	371,946	14,077	1,022	15,099	204,605	182,440	387,045
February	852,837	73,941	926,778	20,678	46,526	67,204	873,515	120,467	993,982
March	786,781	44,681	831,462	2,095,271	75,123	2,170,394	2,882,052	119,804	3,001,856
April	13,259	114,323	127,582	0	198,092	198,092	13,259	312,415	325,674
May	0	2,648,531	2,648,531	0	76,702	76,702	0	2,725,233	2,725,233
June	818,064	588,184	1,406,248	0	77,045	77,045	818,064	665,229	1,483,293
July	0	50,953	50,953	767,250	72,091	839,341	767,250	123,044	890,294
August	0	6,341	6,341	0	151,086	151,086	0	157,427	157,427
September	0	29,714	29,714	611,528	62,707	674,235	611,528	92,421	703,949
October	53,423	68,960	122,383	0	839,944	839,944	53,423	908,904	962,327
Total	2,714,892	3,807,046	6,521,938	3,508,804	1,600,338	5,109,142	6,223,696	5,407,384	11,631,080

Sources: Securities Commission, NEX Montenegro stock exchange and Montenegro stock exchange

Total September turnover on both stock exchanges amounted to over €700,000, with the highest share of turnover (around €611,000) coming from primary trade. As opposed to September, October is characterized by trading on the secondary market. Out of the total turnover of €962,327 on both stock exchanges, €908,904 is related to secondary trading.

7.1.1. Trade on the primary market

During September, aside from the management company Moneta, which issued 626 shares with total value of €160,037, the companies, Progas (1,786 shares worth €407,929) and Swiss Insurance (852 shares worth €43,562), also issued new shares.

Turnover on the primary market of €53,423, in October, comes from the emission of 1,000 shares of Swiss insurance company, in total value of €51,130 and the emission of 20 shares of Montenegro stock exchange which were sold at €14.64 per share.

7.1.2. Trade on the secondary market

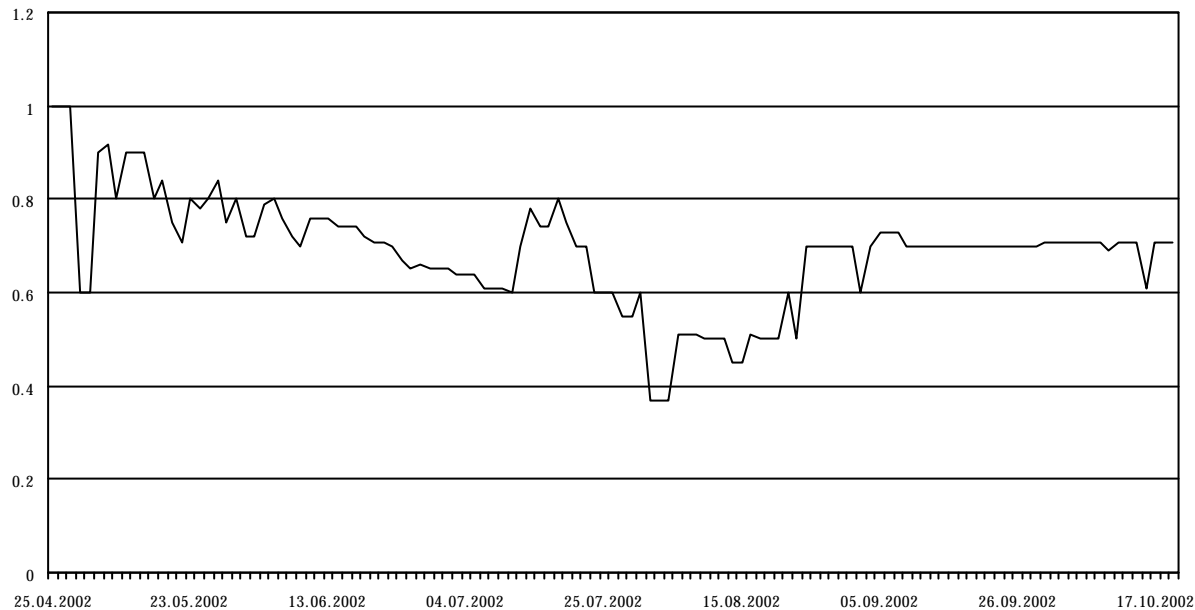
Still, supply exceeds demand, and the number of companies whose shares are offered is greater than the number of companies whose shares are demanded. In this picture, the number of companies whose shares are traded is approximate to the number of companies whose shares are demanded.

In the month of September, 16 companies were actively trading shares, while in October that number increased to 23 companies. October saw the first shares traded for the Electricity Company and Coal Mine Pljevlja. In the analyzed period, the most intensive trading was with shares of Telecom and Jugopetrol.

¹ In Montenegro exist two stock exchange, Montenegro stock exchange and NEX Montenegro stock exchange.

In September, on both stock exchanges, 71 transactions with shares of Telecom were conducted, totaling approximately €39,000. The number of transactions and the value of trade with shares of this company have significantly increased in October; 122 transactions were made totaling over €55,000. On both stock exchanges, the price of Telecom shares has remained stable during the analyzed period, at approximately €0.7. Changes in Telecom shares on NEX stock exchange are shown in the following graph.

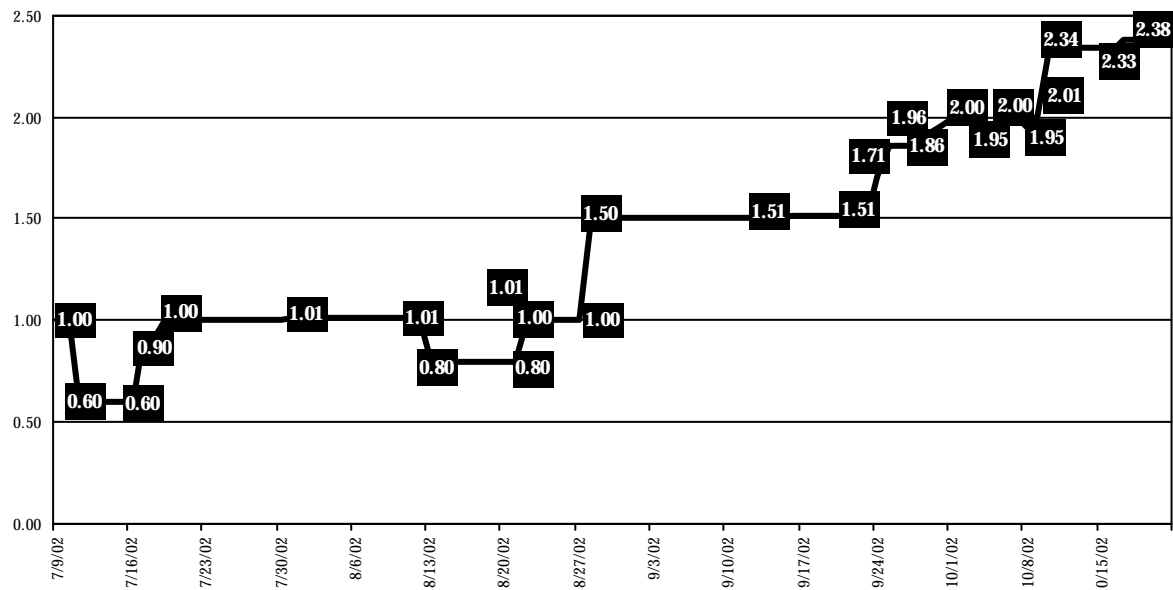
Graf 7.1: Changes in the prices of Telecom shares



Source: NEX stock exchange

Similar to Telecom shares, October shows a significant increase in trade of Jugopetrol shares. In the month of September, 23 transactions were executed with the shares of this company totaling approximately €5,500, while in October 45 transactions took place with the total value over €19,000. The price of Jugopetrol shares has been consistently increasing, going from €1.5 in the beginning of September to €3 at the end of October. Changes in Jugopetrol prices on NEX stock exchange are shown in the following graph.

Graph 7.2.: Changes in the prices of Jugopetrol shares



Source: NEX stock exchange

The largest transactions by value during the analyzed period are related to trade of privatization funds with shares from their portfolios and sale of Stampa AD Podgorica company shares and C-Vraèar Herceg Novi shares from state fund portfolios.

HLT and Eurofond were the first from the privatization funds to begin buying and selling shares from their portfolios. Privatization fund HLT bought from Eurofond 66,000 shares of company Montenegropromet Budva, for €75,000, and the Eurofond purchased 18,000 shares of company Bjelasica Rada Bijelo Polje from HLT for an equivalent value, €75,000.

Primarily due to these transactions, October was characterized by a significant increase in turnover, while in September, there were no large transactions and turnover on the secondary market was the lowest in the entire year 2002 (less than €100,000).

Chapter 8. Trade

BALANCE OF THE CURRENT ACCOUNT OF MONTENEGRO (in 000 US\$)

	Jan-Sep 2001	Jan-Sep 2002
GOODS		
Total exports	150,848	199,061
Export of goods excluding trade with Serbia and Kosovo and aluminium	27,572	39,001
Export of aluminium	110,165	97,644
Export to Serbia and Kosovo	13,111	62,416
Total Imports	480,807	503,470
Import of goods excluding electricity and trade with Serbia and Kosovo	267,489	283,310
Import of electricity	22,650	37,311
Import of oil and gas oil	118,428	62,896
Import from Serbia and Kosovo	72,240	119,953
Goods trade balance	-329,959	-304,409
SERVICES		
Total Transportation Revenues	17,425	24,560
Transport official data about revenues corrected by 12% (estimate)	16,540	21,976
Transport revenues from Serbia	885	2,584
Total transportation Expenditures	13,477	15,510
Transport official data about expenditures corrected by 12% (estimate)	12,541	12,719
Transport expenditures to Serbia	936	2,791
Total Revenues from Tourism	82,299	102,678
Revenues from tourists abroad (estimate)	36,231	53,996
Tourists from Serbia*	46,068	48,682
Total Expenditures to Tourism	3,106	4,598
Expenditures for tourism abroad	3,080	3,934
Expenditures for tourism in Serbia	26	664
Revenues from Financial Services	2,846	2,162
Commission fee	2,825	1,876
Commission fee on serbian import/export (estimate)	21	286
Others		
Expenditures to financial services	1,741	2,038
Commission fee	1,698	1,716
Commission fee on serbian import/export (estimate)	43	322
Revenues from other Services	7,006	8,836
Expenditures to other services	16,144	25,444
Revenues from services	109,576	138,236
Expenditures to services	34,468	47,590
Balance of services	75,108	90,646
Total balance of goods and services	-254,851	-213,763
INCOME		
Income revenues	51,994	73,033
Compensation of employees	26,026	37,410
Revenues from Serbia for individuals	24,950	35,128
Received dividends	32	149
Interest income	986	346
Income Expenditures	27,358	32,395
Compensation of employees	21,661	23,050
Expenditures for Serbia for individuals	54	185
Interest expenses	1,748	1,212
Paid dividends	3,895	7,948
Balance of income	24,636	40,638
CURRENT TRANSFERS		
Revenues	57,414	270,021
Transfers to Montenegro from abroad	7,556	3,852
Foreign assistance	49,858	23,169
Expenditures	5,518	7,439
Transfers from Montenegro to abroad	5,518	7,439
Balance of current transfers	51,896	19,582
Total revenues	369,832	437,351
Total expenses	548,151	590,894
TOTAL BALANCE OF CURRENT ACCOUNT	-178,319	-153,543

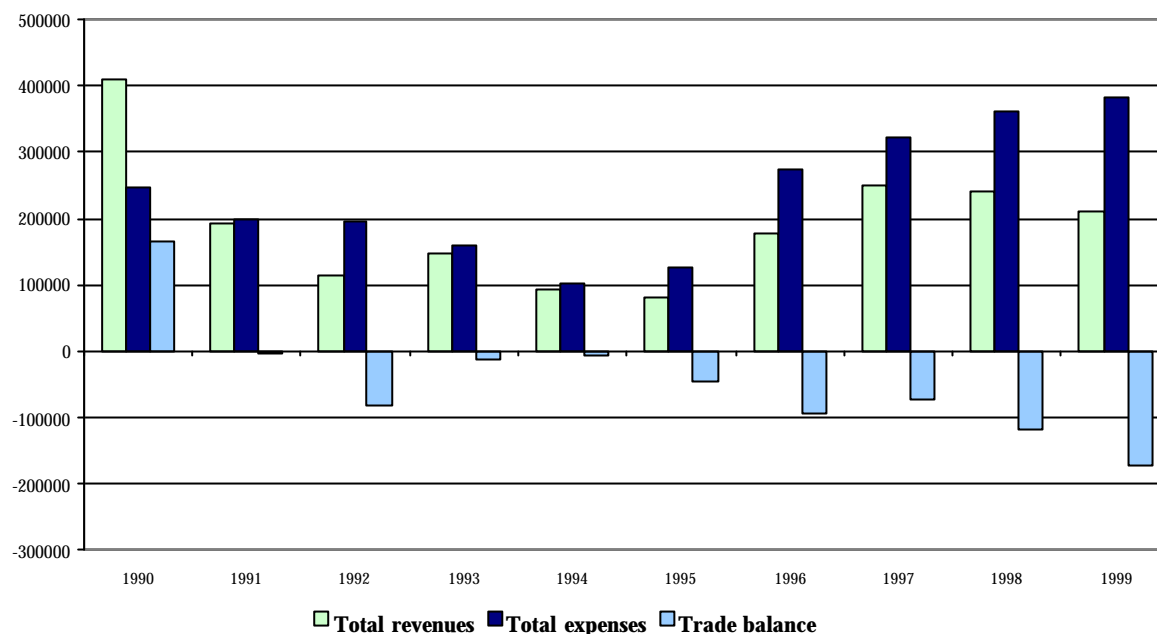
EXTERNAL SECTOR IN MONTENEGRO – JANUARY-SEPTEMBER 2002

Montenegro is facing the problem of a deficit of balance of payment with foreign countries, and that problem is becoming more and more intense. This is a direct consequence of the opening of the economy, as well as the liberalization of the goods, people and capital exchange from one side, and price liberalization from the other.

Current Account Balance from 1990-2000 year

The following chart shows the dynamic of the changes in the current account balance in the last decade.

Graph 8: Current Account Balance in Montenegro



Current transactions

From January to September 2002, Montenegro's current account deficit was US\$153.5 million. Total revenues were US\$437.3 million, or 18.3% more than in the same period of 2001, but expenditures were US\$590.8 million or 7.8 % higher than in the previous year.

Trade balance

In the first nine months of 2002 total trade of goods—imports plus exports—amounted to US\$702.3 million, an increase of 11.2% over the same period last year. Exports rose by 32.0% and imports rose by 4.7%. Overall, the ratio of exports to imports rose from 31.4% last year to 39.5% this year. The trade deficit for the first three quarters of 2002 was US\$304.4 million (compared to US\$329.9 million in the same period last year).

Balance of services

From January to September 2002 Montenegro's surplus in trade of services rose from US\$75.1 million to US\$90.6 million (or 20.7%). The increase of the services surplus was primarily due to an increase in transport volume and a rise in revenues from foreign tourists.

Income

The net balance on income increased by 65%—from US\$24.6 million to US\$40.6 million—primarily due to the increase of total compensation received by Montenegrin workers abroad, up nearly 43.7%.

Transfers

Foreign assistance during the first nine months of 2002 decreased by 53.5% compared with the same period in 2001. In the period from January to September 2002 foreign assistance amounted to US\$23.1 million, but in the same period the previous year, this figure was US\$49.8 million. The total balance of current transfers was positive, but 62.3% lower than in the same period in 2001.

COMMENT: MACROECONOMIC INDICATORS AND COUNTRIES–A COMPARISON

The economic growth in Southeast Europe (SEE) continued a positive trend in the first six months of 2002, despite the fact that the global economic environment was rather unstable.

Though output in Serbia and Montenegro is currently at one half its 1989 level, there are signs of economic recovery, fueled by domestic demand providing a positive stimulus to growth and a resulting increase of private consumption. Overall, industrial production was up slightly by 0.1% in the first eight months of 2002; However, the growth comes from Serbian production with production in Serbia increasing by 0.4% during the first eight months and production in Montenegro decreasing by 5.6% as compared to the same period in 2001.

Expected real GDP growth is 4% in Serbia and Montenegro in 2002, similar to 2001. Other SEE countries also show a stable GDP growth rate in 2001 and 2002; the exception is Macedonia which had a negative growth rate in 2001.

Kosovo experiences the highest unemployment rate (around 57% according to the European Commission estimation) followed by Republika Srpska (around 45%). Only Romania still shows a single-digit rate of unemployment, at 9.6% during the first six months of 2002. The official unemployment rate in Montenegro was 29% in the first half of 2002 and was at a similar level to Serbia (with the exclusion of Kosovo).

The fall of inflation in Montenegro is a positive sign with the annual inflation rate at 8.3% at the end of June 2002; also promising is the lower rate in Serbia as well, with inflation of just 16% for this same period. These numbers represent a big progress when we compare the inflation rate of approximately 45% in Serbia and Montenegro in 2001. The inflation rate was lowest in Macedonia at 3.6% at the end of June 2002. The average net monthly wage remains highest in Croatia (€353) and lowest in Albania (€105). The average net monthly wage in Montenegro was around €118, while it was €165 in Serbia. One of the possible sources of the difference are different methodologies in use in both countries.

Considering the external sectors of SEE countries, it should be stressed that several countries (Romania, Bulgaria and Macedonia) increased their trade deficit in the first half of 2002 as compared to the same period in 2001. With import growth in 2002 clearly outpacing the rise in exports due to the catch-up effects, the current account deficit will probably widen, and it is currently at approximately 10% of GDP in Serbia and Montenegro. Given the improved economic framework, rising foreign direct investment covers more than 40% of the gap. The remainder of the deficit is being financed by aid from international organizations, as in other SEE transition countries.

MACROECONOMIC INDICATORS (2001)

Table 1: Transition economies

Country	Real GDP (%)	Unemployment rate (%)	Average net monthly wage (€)	Annual inflation rate	Trade balance (% of GDP)	Current account balance (% of GDP)	External debt (in billions of US\$)
Albania	7.3	15.2	n/a	3.1	n/a	-7.3	2,41
Bosnia and Herzegovina	5.0	40.0/41.0	217/153²	3/9 ²	-37	-22.3	1,814
Bulgaria	4.0	17.3	126	7.5	-11 ⁶	-6.5	8,334
Croatia	4.1	23.1	356	4.9	-17	-4.0	7,858
Macedonia	-4.6	34.0	176	5.3	-13	-6.0	0,800
Romania	5.3	9.0	134	35	-8.0	-6.0	7,046
Serbia and Montenegro	6.0	28.0	126	45	-27	-7.0	3,909
<i>Montenegro</i>	4.0	28.7	141.1	22.3	-35	-12.0	-
<i>Serbia</i>	6.1	27.7	113.1	42	-24	-6.0	-
<i>Kosovo</i>	16.0	50.0	n/a	50	-76.2	-3.6	-

All bold data from WIIW Database - All data on inflation is from IMF except data for Yugoslavia and Bosnia and Herzegovina. - Data on external debt is based on OECD-IMF-World Bank statistics.

MACROECONOMIC INDICATORS (1st half of 2002)

Table 2: Transition economies

Country	Real GDP (%)	Unemployment rate (%)	Average net monthly wage (€)	Annual inflation rate	Trade balance (% of GDP)	Current account balance (% of GDP)	External debt (in billions of US\$)
Albania	6.0	16.0 ²	105.0	4.0	-22.0	-8.2	1,090
Bosnia and Herzegovina	5.0	43.0/45.0	(221.0/173.0)	3.0/7.0	-30.0/-27.0	-23.0	n/a
Bulgaria	4.3	17.2	136.0	4.2	-14.0	-5.7	10,734
Croatia	3.7	22.2	353.0	4.8	-11.0	-3.0	13,194
Macedonia	0.0	32	181.0	3.6	-20.0	n.a.	1,486.6
Romania	4.4	9.6	115.0	25.6	-11.0	-5.1	13,008
Serbia and Montenegro	4.0	30.1	137.0	16.0	-26.0	-10.0	10,996
<i>Montenegro</i>	4.0	29.0	118.0	8.3	-27.8	-17.6	0,617
<i>Serbia</i>	4.0	30.0	165.0	16.0	-25.0	-8.2	-
<i>Kosovo</i>	16	57.0	n/a	39.0	n/a	n/a	-

All bold data from WIIW Database

² Federation Bosnia and Herzegovina (BiH) /Republika Srpska

³ Economic Review, G17 Institute, calculations according to international methodology

⁴ ISSP data

⁵ Estimate

⁶ American International Group (AIG)

¹ Romanian Press Agency

² Estimation

³ ICEG EC

⁴ Federation Bosnia and Herzegovina (BiH) /Republika Srpska

⁵ Chamber-Republika Srpska

⁶ The European Commission (Eurostaat)

⁷ ISSP data

⁸ G17 Institute, economic bulletin

⁹ World Economic Outlook, IMF

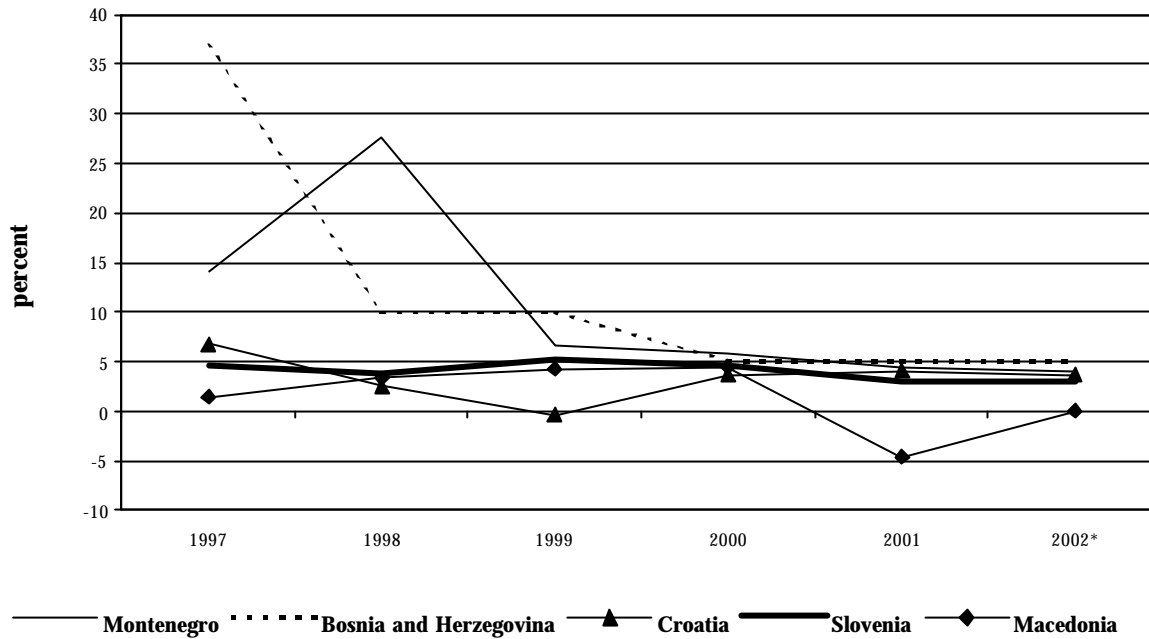
¹⁰ Serbian Government

¹¹ Sources: Federal Statistical Office; National Bank of Yugoslavia; Ministry of Finance of the Federal Republic; Ministry of Finance of the Republic of Serbia; and IMF staff estimates.

¹² The Macedonian Government

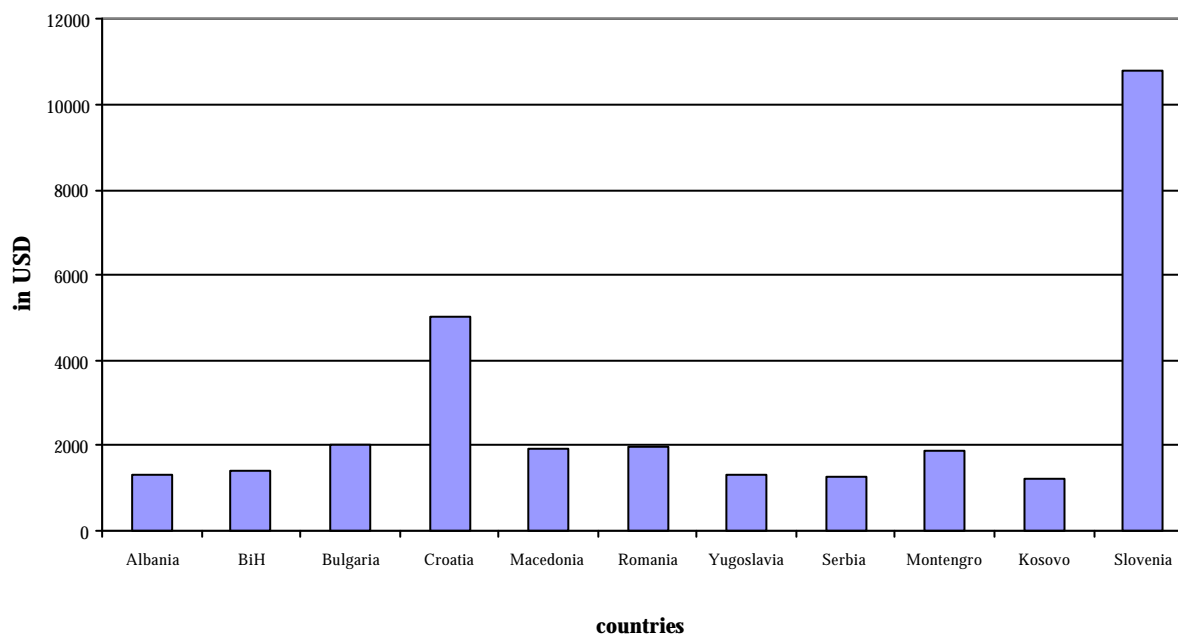
GDP growth in SEE countries since 1997 is given below:

Graph 9.1: GDP annual change in % (real)



* Data for 2002 are estimation

Graph 9.2: GDP per capita in Southeast countries



Sources: WIIW database and ISSP calculations

The graph above shows GDP per capita in Southeastern Europe transition countries in 2002 and in Slovenia as consolidated economy. It is obvious that the Slovenian economy is much more developed with GDP per capita of approximately USD10,800. The living standard in this country is the highest in Southeast Europe. On the other hand, the lowest GDP per capita is in Albania (USD1,250), Serbia and Montenegro (USD1,300¹³), and Bosnia and Herzegovina (USD1,405).

¹³ Informal economy included

Looking ahead, the forecast for 2002 (whole year) is burdened by several uncertainties shaping the development of the global economy and thus having a strong affect on the SEE region. We expect that the GDP growth rates in 2002 will be close to the half year estimates for 2002, with slight changes in the individual economies depending on their exposure to global conditions, domestic policy mix and external imbalances.

Fiscal balances will be improved as a result of inevitable adjustment measures, which need to be implemented in order to keep the fiscal policies sustainable. With respect to the current account a relatively good growth performance, expanding domestic demand will lead to increasing deficit.

Finally, further decline in the inflation rates is expected in the economies of the region, driven simultaneously by favorable imported inflation and stronger disinflation policies of central banks. This is also expected in the higher inflation economies of Romania and Serbia.

PART 2

COMMENT 1**THE NEW TOURISM LAW****by Michelle Stern****1. INTRODUCTION**

Montenegro's new Tourism Law became effective on July 11, 2002. The old law, which was passed in 1995, had many loopholes, and did not take into account the fact that the tourism sector has become a strategic field for Montenegro. Furthermore, there have been a number of important economic and political changes in Montenegro and in the region since 1995. The new law regulates the tourism and hospitality industry and provides more precise measures and resources in the area of promotion and improvement of tourism development. The Tourism Law is based on international standards as well as regional laws and is in line with EU regulations. It is highly regulated and very ambitious, but if properly implemented should go a long way to making the Montenegrin tourist industry extremely competitive.

2. THE NEW LAW**2.1. Service providers**

Both businesses and individuals may run tourist organizations, as long as they are registered properly, clearly display prices and conditions of their establishments, issue receipts for every service, keep a book of complaints on the premises and offer services in line with regulations. They are allowed to carry out a wide variety of activities.

Tourist agencies are required to apply for a license. This is issued within 15 days, and remains valid for five years. Records are kept in the Central Registry of the Business Court. The license can be withdrawn if the travel agency does not fulfill its obligations, and the agency is prohibited from applying for a new license for one year.

Each branch office of a tourist agency must employ a supervisor that has been certified by the Ministry of Tourism. As well as having to pass the exam, this individual must have at least three years experience working in the tourism industry and speak at least one foreign language. Tourist guides and escorts must also be certified by the Ministry of Tourism, and representatives of domestic or foreign travel operator must submit a contract of representation to the Ministry of Tourism, in order to be recorded in the Registry of Representation Contracts.

2.2. Types of tourism

The law covers ski resorts, nautical activities, agro tourism, health tourism, youth tourism, and other services. It very clearly lays out what services must be provided to tourists. Depending on the type of activity, licenses or permits are required, either from the Ministry of Tourism or from the local municipality. Some of these areas are presently underdeveloped in Montenegro, but the plan is to entice tourists to the Republic for various activities, not just beach holidays.

2.3. Food and accommodation services

Businesses registered for catering purpose, as well as educational institutions and businesses that provide meals to employees and their families in company owned locations are covered by this law.

A caterer may offer services during the whole year, during certain seasons, or from time to time. It must abide by the opening and closing times set by the local municipality. The main requirements for the establishment ensure that the organizations details and pricing information are readily available to tourists.

The law also covers take-out food and drinks. The relevant municipality gives out the license for this service, and sets the health and sanitary requirements.

2.4. Facilities

What is described in the law as a “hospitality industry facility” can be used for accommodation or catering purposes. They are divided into the five groups below:

- Basic accommodations (hotel, hotel complex, apartment complex, motel, bed and breakfast)
- Other accommodation facilities (camp, room for rent, apartment, holiday house, youth hostel, holiday homes, overnight accommodation)
- Hospitality industry facilities that provide food and drinks
- Restaurants (inn, meat roasting facility, patisserie, bistro, pizzeria, fast food facility)
- Bars (public-house, coffee shop, night club, disco-bar, cafe-bar, beer house, wine bar, inn, canteens)

The law also covers mobile facilities and beach front locations.

The Ministry of Tourism determines the category and rating of each of these facilities. Montenegro uses the 5-star system. Categorization is valid for five years, and records are kept in a Registry at the Ministry of Tourism.

2.5. Inspection

Tourism inspectors from the Ministry of Tourism are responsible for carrying out inspection duties. The tourism inspectors are allowed to look through the premises and examine equipment, files and any other relevant documents. All tourism establishments must allow the tourism inspectors free reign and supply them with the required information. If the inspectors believe the law is being violated, they can fine the business, or if it is more serious temporarily seal the buildings and confiscate any equipment or form of transportation until the Ministry of Tourism makes a final ruling.

A business is liable for fines of between €500-€12,000 for infringements such as carrying out activities it is not registered for or not fulfilling conditions required under the law. For the more serious charges, unless the required changes are made within a one-year period, the business will be shut down.

2.6 Industry development

The Government of Montenegro has specified that in order for regions to be qualified as tourist regions they must be defined as such in the Physical plan (Prostornim planom) and represent specific tourist attractions. This part of the law says the government is responsible for creating a development plan for each region and to improve infrastructure, with any projects funded through the budget. This money can be used specifically to:

- Finance the development of appropriate space plans for tourism region,
- Finance promotional activities of tourism region home and abroad;
- Finance development projects for environmental protection, environment, natural resources and cultural heritage of tourism region;
- Stimulate tourism infrastructure development, recreational sport and other areas important for the improvement of quality of the tourism sector.

Each municipality will develop the plans for their region with the national Tourism Organization. Tourist agencies are also eligible for financial support according to the stimulation measures for the sector. Acceptable forms of sectoral stimulation include credits, debt relief and approvals.

CONCLUSION

As seen above, the law is highly regulated. The strict certification requirements both for enterprises and individual at various levels were included in the law so that the government could keep track of what is happening in the industry. One of the biggest challenges facing the Ministry of Tourism is the strong negative effect of the gray economy on the tourism industry. Not only does it keep much needed tax revenues out of the government coffers, but it results in services which are often of poor quality. However, once implementation of the law gets under way, quality standards will be regulated and visitors will find their stay much more enjoyable.

The government acknowledges that just passing a new law is not enough, and implementation is critical. The law had no effect on this year's season, but by next year the implementation process should be well under way. This law is very detailed and it is questionable whether Montenegro has the resources to implement it fully in the short term. However, if successful it will protect tourists and decrease the effect of the gray economy on the tourism sector through effective inspection.

COMMENT 2

**BASIC PRINCIPLES AND NEED FOR REGULATION
OF COMPANY TAKEOVERS**

by Maja Drakic, ISSP

1. METHOD OF REGULATING COMPANY TAKEOVERS

From an economic aspect, the market of securities¹ differs from the market of companies, although it is very hard to institutionally separate one from another. With securities, investors trade securities with the primary financial motive of reaching a lower buying price and a higher selling price, therefore making financial profit. With companies however, many small investors sell their company holdings to active owners who seek to control the companies. Consolidation of ownership occurs when shareholders buy and sell securities in order to concentrate ownership and control of a company into the hands of one or several strategic buyers. In appearance, securities of companies are traded, but indeed, active owners accumulate holdings in order to take control.

A necessary condition to begin restructuring post-privatization companies is to achieve ownership concentration through secondary transactions. Delays in ownership concentration could reduce the whole mass voucher privatization on the administrative distribution of securities with small effects on the increase in the efficiency of privatized companies. The necessary adaptation of the ownership structure will have to be done through secondary transactions, buying and selling securities, which will provide a foundation for improvements of efficiency in companies. That is the main goal of economic reform.

Buying a company can be structured several ways:

- Through bylaw mergers,
- Conversion of liabilities into ownership, or
- Buying securities (shares).

A company takeover is conducted through a special form of share acquisition. The normative method of company takeover obligates the potential buyer, who acquired or aims to acquire securities above a certain percentage in the ownership structure (for example above 25%, 33% or 40%), to make a bid to all other holders of securities for all of their holdings. It is very important for several reasons:

- To provide transparency of takeover process;
- To protect rights of minority holders of securities;
- To increase legal security and certainty for company and its shareholders; as well as
- To reduce costs of restructuring.

If the rules for a takeover bid are too restrictive, the interested buyer (offeror²) and sellers (minority holders of securities in Offeree³ Company) use other, less expensive and less transparent techniques. In general, restrictive rules for takeover bids can't stop the process of property consolidation, they can only make it less transparent. On the other hand, if the small investors are protected too strongly, the results could be counter-productive. The

¹ Security means transferable securities carrying voting rights in a company

² Any natural person or legal entity in public or private law making a bid

³ Offeree company means a company whose securities are the subject of a bid

number of takeover bids, useful for holders of securities in offeree companies, may decrease, and the number of transactions in which assets are bought and small investors are less protected may increase.

A takeover bid can be directed to all holders of securities, even when management of the offeree company disapproves (enemy takeover), while other transaction techniques seek more cooperation of management of the offeree company. Due to poor management being cited as a main problem in many companies privatized through mass voucher privatization, it seems that protecting the managers' position with restrictive rules of takeover bids could ultimately be damaging to shareholders. Enemy takeover can be very friendly and advantageous for shareholders and the offeree company itself.

Takeover regulation in Western countries offers two approaches:

- Protection of shareholders in takeover bid is provided through company acts, adopted by all holders of securities with voting right, or
- Protection of shareholders in takeover bid is usually provided externally, out of the company, by official regulator.

However, indisputable rules of takeover bids should be adapted to initial ownership structure and segmentation of the capital market in each country.

2. EU TAKEOVER REGULATIVE

The European Commission has intended to pass special directives on company law concerning takeover bids since 1985. The Directive would impose certain rules in cases where one entity acquires at least 25% of a company's securities with voting right.

Proposed directives on company law concerning takeover bids have two main goals:

1. to provide protection of the interests of shareholders with minority holdings in offeree companies by obligating the offeror (potential buyer) to make a bid to all shareholders for all of their holdings at a fair (equal) price;
2. to encourage restructuring of companies in EU by prohibiting management of an offeree company to take protective measures against takeover, unless fully supported by 75% of all holders of securities with voting rights.

The proposed directive mandates public announcements of certain information about the takeover bid in order to make the whole process transparent. Additionally, legal security and certainty, both for enterprises and shareholders would increase resulting in lowered restructuring costs.

The European Commission submitted their first proposal (Thirteen Council Directive on Company Law concerning takeover bids) to the European Parliament in 1989, but the rules outlined were considered too strict and the proposal was rejected. Certain countries in the European Parliament drastically disagreed with it. The second proposal of this Directive, which provided a framework consisting of certain common principles and general requirements for takeover bids, was submitted in 1996. (For example, the second proposal does not dictate a limit above which offeror is obligated to make a bid to all shareholders for all of their holdings.) This proposal was adopted, but with 20 amendments. The complete text of Directive was accepted in 2000 and submitted to the European Parliament.

The European Parliament rejected the proposed Directive on company law concerning takeover bids. Following this rejection, an expert panel was formed to consider three additional and important issues regarding takeover bids:

- How to provide equal treatment of holders of securities in whole EU territory;
- Definition of “fair price”, which should be paid to shareholders with minority holdings;
- Protection of shareholders with minority holdings from “squeeze out”.

These issues should be considered and proposals should be submitted to pass the procedure during 2002. Although passing procedure is not officially finished, all EU members implement rules from this Directive in their legislation.

Directive rules should be applied on takeover bids for the securities of companies governed by the Member State when some or all of their securities are admitted to trading on market of one or more Member States regulated and supervised by official regulatory body (regulator), and which is, directly or indirectly, opened to the public. Every member state should designate the authorized body, to ensure that every interested party to takeover bids complies with this Directive.

National rules concerning takeover bids must be made pursuant to the directive. The limit (percentage in ownership structure) above which takeover bids are mandatory is set independently in each country. All shareholders of an offeree company of the same class must be treated equally and be given sufficient time and information to reach a proper decision (two to ten weeks, with the possibility to prolong this period). The board of an offeree company must act in the best interest of the company, as a whole (not only in personal interest or interests of some group of holders of securities). False markets must not be created in the securities of any company concerned by a takeover bid, which means that price manipulation is prohibited. An offeree company must not be hindered in the conduct of its affairs for longer than is reasonable by a bid for its securities. The offeree company can increase its share capital during the period of acceptance of the bid only in the condition that prior authorization has been received from the general meeting of shareholders with full recognition of the right of pre-emption. These rules must include directives on lapse and irrevocability of a bid, revision of bids, treatment of competing bids, and public disclosure of the result of bids.

National rules should also provide that a decision to make a takeover bid is made public after the supervisory body and board of directors of the offeree company is informed. A person or legal entity who makes a takeover bid must provide proper prospectus containing all of the necessary information for holders of securities, who that bid refers to, in order for them to make properly informed decisions. The offeror should communicate the prospectus to the supervisory authority before it is made public.

Board of the Offeree Company shall abstain from completing any action, which may influence the success of a takeover bid during the period between announcement and disclosure of results of the bid. The board shall make public a document setting forth its opinion of the bid, together with the reasons on which it is based.

3. NEED FOR CONSOLIDATION OF OWNERSHIP AND DEVELOPMENT OF CAPITAL MARKET AFTER MASS VOUCHER PRIVATIZATION

After ending the process of mass voucher privatization, the dominant characteristic within the market is the existence of a large number of owners with an extraordinary number of securities. Thus, a wide base of ownership was created which can provide neither efficient corporate management nor the support that is needed for restructuring of the privatized companies.

This category of internal ownership has shown its instability all over the world, and our situation is likely no different. The market's supply and demand relationship where there are more sellers than buyers on the market will have a negative influence on the primary security market. Companies that were privatized through mass voucher privatization have very limited opportunity to issue shares because there are no buyers to purchase them. The experiences of several countries, which conducted the process of MVP, have proven this (Russia, Czech Republic, Slovenia, and BiH).

Considering the fact that restructuring of privatized companies is necessary, consolidation of ownership is very important after mass voucher privatization. During that process the development of transparent and efficient capital market must not be limited, while at the same time shareholders with minority holdings must be protected. Using legal and financial obstacles for company takeovers, which could help managers and uninterested shareholders, must also be limited.

In transition economies, overall privatization is continued with capital market development. How different is transition capital market from traditional capital market depends on the importance of the capital market for the financial needs of the privatized companies.

In order to develop a capital market it is critical to earn the trust of the public through proper regulation; but investment risk must remain the individual investor's decision. One thing that must be remembered however, is that overregulation and rules that are too strict can send the wrong signals to investors, especially those who may be investing in securities for the first time.

The initial instability of the capital market after mass voucher privatization cannot be avoided. Regulatory institutional framework should ensure that all shareholders enjoy basic ownership rights (voting, dividends, free transfer of securities). Proper capital market supervision should have the following goals:

- to provide accurate and true information about companies whose shares or bonds are being traded in public,
- to prevent manipulation on the capital market,
- to protect holders of securities with minority holdings, and,
- to encourage capital market development.

These regulatory solutions provide an encouraging environment for the development of a capital market, but they cannot be the leading force of that development. The main indicator of success is the market's ability to satisfy the financial needs of privatized companies.

The Montenegrin capital market, after mass voucher privatization, is characterized by a wide dispersion of ownership. There are 123,356 citizens of Montenegro and just 6 Privatization funds became shareholders after mass voucher privatization. Concentration of ownership is

needed in order to restructure companies. This is the primary reason why protecting the rights of owners with minority holdings, especially internal shareholders and people who acquired their shares through mass voucher privatization, is so important. One of the most efficient ways to protect the rights of owners with minority holdings is to adopt the rules for takeover bid.

Recognizing the importance and need for regulation of company takeovers, working group of Institute for Strategic Studies and Prognoses, which is dealing with capital market issues, has written a basis of Takeover Law formed in first version of draft. In order to promote that material, the Institute organized an expert discussion on November 19th 2002. Representatives from all of the relevant institutions in the Montenegrin capital market took part in this discussion: Security Commission, Central Bank, Stock Exchanges, Service of Payment, Commercial Court, State Funds, Brokerage houses, Privatization Funds, USAID, and others. The proposed basis of the Law, formed in Working Draft of the Law on Company Takeover will be presented in the next issue of MONET.

COMMENT 3**LAW ON THE PARTICIPATION OF THE PRIVATE SECTOR FOR THE DELIVERY OF PUBLIC SERVICES - CHANCE FOR ENTREPRENEURSHIPS****by Predrag Stamatoviæ**

Legal reform and reform of the economic system are the base stone of the transitional process in which Montenegro is. Transition process is expected to be as shorter as it can and with the best results as it can have.

The reforms in Montenegro are running in several areas at the same time, which maximize synergic effect. In the economic sector and legal framework reform the incorporation main postulates of the liberal economy. In accordance with this, postulates that are incorporated in the legislation are following:

- Transparency
- Protection of the private property rights
- Creation of the room for private initiative
- Compatibility with the laws of the developed countries

In order that all sectors of the society can give their contribution to the reforms it is necessary to establish cooperation between them. However, for realization of this cooperation some presumptions have to be crated in the institutional and legal framework. In the case of co called "first" and "second" sector, which are state and enterprise sector, cooperation is regulated by the certain number of acts but adoption of „The Law on The Participation Of The Private Sector for Delivery of Public Services“ is a big step forward in the qualitative sense. By the adoption of this Law preconditions for the creation of the so-called „fourth sector“ –public-private partnership are made. In this relation, state structures define standards and provide financing and the private sector in accordance with that deliver services (for example public transport) that has the highest quality and that are the cheapest.

Having on mind that this issue was not regulated by the law in Montenegro, only after its adoption compatibility with the EU laws and the practice in the countries that use World Bank and WTO services was achieved. By this conditions are made for direct foreign investments in the areas that are regulated by this law and which until its adoption were purely in the state jurisdiction (public functions) on dome of the ways prescribed by the law (leasing, BOT arrangements, management agreements and concessions).

This law will contribute to the fight against corruption, which is one of the Montenegrin obligations prescribed by the joining the Anticorruption Initiative of the Stability Pact.

On the local level appliance of the Law will increase the quality of the public services, contribute to the development of the entrepreneurs initiative and create a new job places.

Only fact that this Law is completely new for Montenegro, even for the region, can be a problem but at the same time big challenge.

Law describes four types of public private partnership, which, each for itself, have different forms and different procedure. In some types of partnership procedure is partially defined by the Public Procurement Law (leasing and management contracts).

1. MAIN CHARACTERISTICS OF THE TYPES OF PUBLIC PRIVATE PARTNERSHIP

Leasing

Leasing shall be permitted for existing public facilities, to be rehabilitated or not, or for new public facilities, or for the use of an existing private facility to be utilized for public uses.

The Public Procurement Law prescribes procedure for this kind of contract. Initiative is made by the public entity that choose leasing instead of the ownership of the public facility.

According to this law leasing contract can't be longer than 2 years, but it can be extended each year. However the total contract period with all extensions cannot be longer than 5 years.

Management contract

Private consultants and consulting firms, according to this Law, may provide following services based on the management contract:

1. Economic consulting
2. Policy formulation
3. Legal counsel
4. Technical (Engineering) Consultants
5. Financial advisors
6. Procurement experts
7. Management, supervision expert
8. Corporate governance
9. Environmental assessment expert and
10. Any advisor for privatization, as may be determined by the Privatization Council

The monitoring of consultants under management contract is done by the three members committee selected by the Government, municipal assembly or parent ministry. As in the case of leasing contract, the management contract is based on the public Procurement Law. The initiative is made by the public institution or state institutions. Maximal duration of the management contract is 5 years.

Concessions

Concession as alternative to public investments law prescribes in following areas:

- a) Prospecting or exploitation of natural resources or raw materials with the aim to create employment opportunities and to generate revenues to an investor/operator and to the Government, or otherwise, as the case may be, to the self-local government
- b) Construction, maintenance and exploitation of facilities for prospecting or extracting, natural resources or raw materials
- c) Construction of facilities, remodeling, modernization or rehabilitation of existing facilities, for exploitation of water having natural curative properties and other similar item for the purpose of their exploitation
- d) Construction, maintenance, exploitation of facilities, or rehabilitation of existing facilities, on natural sites, wildlife, or parks in the view to attract more tourists
- e) Any other raw material or natural resource of the Republic of Montenegro, where improved exploitation by private sector investor or operator results in a capacity to generate revenues therefrom for the Government or to the Self-Local Governments, whereon there is an evident

Any concession agreement shall be concluded by the public entity responsible for concession in accordance with the concession decree recommended by the Regulatory Body and enacted by the Government.

Having been granted a concession, the concessionaire shall establish a company for the performance of the activity constituting the subject matter of the concession. Where such a company is already established under Law, the establishment shall be deemed valid for the purpose.

Any concessionaire shall not assign to some other party the concession.

Increase in value of a publicly owned installation of any type, exploited as the subject matter of a concession or which is contributing to the exploitation which has arisen in the performance of a concession activity shall be property of the Republic of Montenegro or the public entity, as the case may be.

Concession could not be longer than 30 years, except in extraordinary cases.

B-O-T (Build-Operate-Transfer)

In the case of building expensive facilities the best solution for the state as one partner is B.O.T. arrangement.

B. O. T. (Build- Operate-Transfer) is model which is used in situations when it is evident that building and revitalization of the facility can not be financed from the public sources. In the practice several models of this arrangement are known, and by the Law following are prescribed:

- Built- Lease- and- Transfer (BLT)
- Built- Transfer- and - Operate (BTO)
- Develop- Operate-and-Transfer (DOT) and
- Rehabilitate-Operate-and-Transfer (ROT)

These models could be applied on some of the following infrastructure or projects and related facilities:

- a) Highways including expressways, roads, bridges, interchanges, tunnels
- b) Railways or rail-based projects packaged with commercial development opportunities
- c) Non-rail mass transit
- d) Port infrastructures like piers, wharves, storage, handling, ferry services
- e) Power generation and transmission
- f) Telecommunications
- g) Information technology
- h) Water supply, sewerage and drainage
- i) Education and health infrastructure
- j) Tourism facilities and sites
- k) Government and self-government buildings
- l) Housing projects for social security
- m) Public markets
- n) Warehouses and post-harvest
- o) Environmental and solid waste management including collection, equipment, composting plants, recycling and incinerators

The Law in the case of B.O.T arrangements prescribes that the registered capital of an investor shall not be less than 25% of the total investment and that the governmental authorities shall not approve any new competitive projects Except in the case where existing B.O.T. project is unable to satisfy market demands.

2. REGULATORY BODY

Montenegro Development Regulatory Authority, the regulatory body, according to the law has the powers to:

- a) Issue license for concessions
- b) Authorize franchise for B.O.T. arrangements
- c) Determine allowable increases, decreases or no change in tariffs payables
- d) Determine and control quality standards of public services delivered
- e) Promote operating efficiency of investment made by private investors
- f) Monitor the private company performance and contractual compliance
- g) Maintain public satisfaction of clients, receive complaints
- h) Arbitrate disputes with consumers and ensure responsiveness to final customer needs
- i) Impose sanctions on private investors for failure to meet regulated standards
- j) Ensure assets serviceability, and
- k) Organize and monitor public hearings

The regulatory body shall comprise four permanent members and one ad-hoc member:

- a) A Chairperson who shall represent the cabinet and who shall be a judge or an ex-judge
- b) A member who shall represent the Ministry of Finance
- c) Two members who shall represent the Self-Local Governments, and
- d) An ad-hoc member from the public entity initiating B.O.T. or concession project

Having in mind the main character of the Law, the one question can be raised. Would it be good that private sector has its representative in this body?

After a license or franchise is authorized, public hearings shall be conducted for tariffs or fees under B.O.T. and concession agreements and for the compliance with standards on the quality of the services delivered, as determined by the contracting arrangements.

The regulator body should be funded through direct levies on concession and B.O.T. operations and not from public budgets, except as otherwise authorized by the Cabinet.

In order to assure independency of the regulatory body the Law prescribes that the regulators shall have no personal, directly or indirectly, financial interest in any of the operations to be regulated.

As it was mentioned earlier this Law presents is novelty in Montenegrin legal and economic system. That is why its possible bad solutions and minuses could only be discussed and analyzed after we hear the main judge-entrepreneurs and their practice.

COMMENT 4**ENTERPRISES IN MONTENEGRO IN 2001**

by Jelena Jaukoviæ, Center for Entrepreneurship and Economic Development

For the third consecutive year, the Center for Entrepreneurship and Economic Development (CEED) implemented the project Business Rating Montenegro, ranking the 300 most profitable and credible companies in the Montenegrin economy. Business rating is done on the basis of the submitted financial statements for 2001. The aim of this text is to analyze ownership, category and branch structure of the Montenegrin enterprises for 2001 using the data from this project⁴. Text also examines the realized profitability and credibility of the companies.

The Montenegrin economy is dominated by small, private enterprises, accounting for more than 90% of the total number of enterprises. The process of privatization so far has increased number of the mixed ownership companies, which now account for approximately 6% of the total number. The number of state owned enterprises and cooperatives is at a very modest level.

More than half of all registered enterprises have trade as their main sector of activity. The other dominant sectors are industry, construction, transport and communications. Tourism, although declared to be of strategic importance for the development of Montenegro, accounts for only 6.6% of all enterprises.

1. ABOUT THE ANALYZED SAMPLE AND RATING CATEGORIES

A total of 7,014 enterprises submitted their balance sheets for the year 2001. All enterprises that were under a bankruptcy procedure, had no officially registered employees, did not pay wages, or who submitted analytically unreliable balance sheets were excluded from the analysis. An analytically relevant sample consists of 4,021 active enterprises.

A profitability-relevant sample of 1,837 enterprises was established when all enterprises having no positive business results, i.e. their earning margin not being above zero, were excluded from a pre-defined analytically relevant sample. This profitability-relevant sample was then subjected to a gradual and full comparative analysis of realized profitability, based on which the list of 300 most profitable has been created.

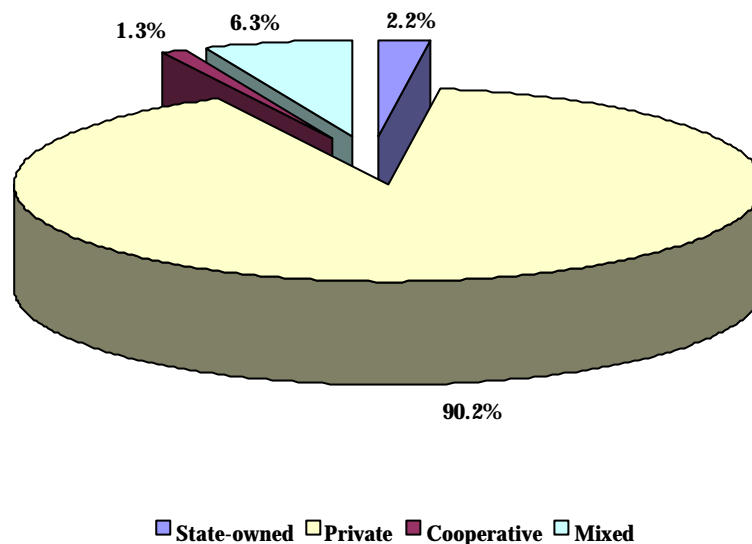
A credibility-relevant sample of 1,714 was established when all enterprises having no minimum financial stability and credit capacity on the basis of a combined observation of net working capital, stated liquidity and realized initial earning effect were excluded from the analytically relevant sample. A complete rating analysis based on credibility parameters was then carried out on the credibility-relevant sample leading us to the 300 most credible enterprises.

An extra business-rating list is compiled of enterprises that are included in the circles of most profitable enterprises and most credible enterprises as well. Enterprises that make the extra rating circle gain the status of the most stable in the observed accounting period.

⁴ Business Rating Montenegro, www.rejting.com

2. AN OVERVIEW OF THE OWNERSHIP STRUCTURE

Graph 1. Ownership structure of the companies in 2001.



Private companies are dominating the economy of Montenegro, with 90.2% of all submitted balance sheets representing a privately owned company. Mixed enterprises account for 6.3% of total sample, state-owned 2.2%, and cooperatives account for just 1.3% of total sample. We should note that the principle of analyzing the individual economic agents obliged to submit balance sheets has been used in the analysis, meaning that the balance sheets of some subsidiaries in complex or holding corporate systems have been analyzed separately.

Table 1. Ownership structure

Ownership status	Total sample	Profitability sample	Credibility sample	Circle of 300 most profitable	Circle of 300 most credible	Extra circle
State-owned	152	53	57	32	33	17
% of the total sample		34.9	37.5	21.1	21.7	25.0
Private	6,328	1,666	1,497	224	169	27
% of the total sample		26.3	23.7	3.5	2.7	39.7
Cooperative	89	22	20	0	6	0
% of the total sample		24.7	22.5	0.0	6.7	0.0
Mixed	445	96	140	44	92	24
% of the total sample		21.57	31.5	9.9	20.7	35.3
Total	7,014					

- Among all state-owned enterprises (n= 152) that submitted balance sheets for last year, 53 of them, or 34.8%, show positive profitability, and 32, or 21.05%, made the circle of the 300 most profitable enterprises. Fifty-seven enterprises (37.5%) were included in the credibility-relevant sample, while 33 of them (21.7%) made the circle of the 300 most credible enterprises.
- Among all privately owned enterprises (n= 6,328), the profitability-relevant sample included 1,666 or 26.3%, and 224, or 3.5%, of them made the circle of the 300 most profitable enterprises. The credibility-relevant sample numbered 1,497 (23.66%), and 169 (2.7%) made the circle of the 300 most credible.
- In cooperatives (n= 89) 22 enterprises or 24.7% were profitable, however, not one cooperative entered the circle of the 300 most profitable. Twenty enterprises (22.5%) demonstrated basic credibility, and among them, 6 (6.7%) entered the circle of the 300 most credible enterprises.
- In mixed enterprises (n= 445), 96 or 21.6% were profitable, and 44 or 9.9% of the total number made the circle of the 300 most profitable enterprises. A total of 140 active enterprises (31.5%) were credible in relative terms, and 92 (20.7%) of the total number made the circle of the most credible enterprises.

We should note that the circle of top 10 profitable companies is composed only of private and mixed companies. It is evident that the privatization process and the inflow of foreign capital has had multiple positive effects on companies' performance and will further increase their business success.

On the other hand, the fact that there is not one private company in the top 10 credible companies shows that the private sector needs more availability of investment capital on the domestic market. More loan opportunities and possibilities for joint ownership with foreign partners are needed in order to increase their overall business potential and accelerate their growth.

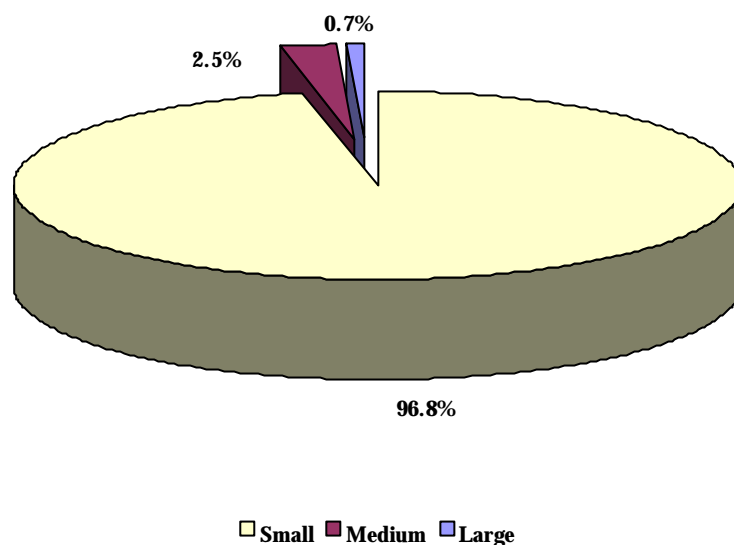
3. AN OVERVIEW OF THE CATEGORY-BASED STRUCTURE OF ENTERPRISES

In the last year, the category-based structure of enterprises with profitability statements was monitored in accordance with the official categories of enterprises: large, medium, small, i.e. on the basis of the three parameters evaluated at the same time: employee count, total income and value of assets in the ranges valid for last year.

Table 2. Official categorization of enterprises in Montenegro for the year 2001

Category	Employees	Total revenue	Assets
Small	up to 50	up to 2,490,000 DEM	up to 3,320,000 DEM
Medium	up to 250	2,490,000 to 16,600,000 DEM	3,320,000 to 12,450,000 DEM
Large	over 250	over 16,600,000 DEM	over 12,450,000 DEM

Graph 2. Category based structure of enterprises in 2001



In the structure of the analyzed enterprises that submitted their balance sheets, small size enterprises are predominant -with the share as high as 96.7%, while the share of medium size enterprises is only 2.5% and the share of large enterprises is also modest 0.7%.

Table 3. Category based structure of enterprises

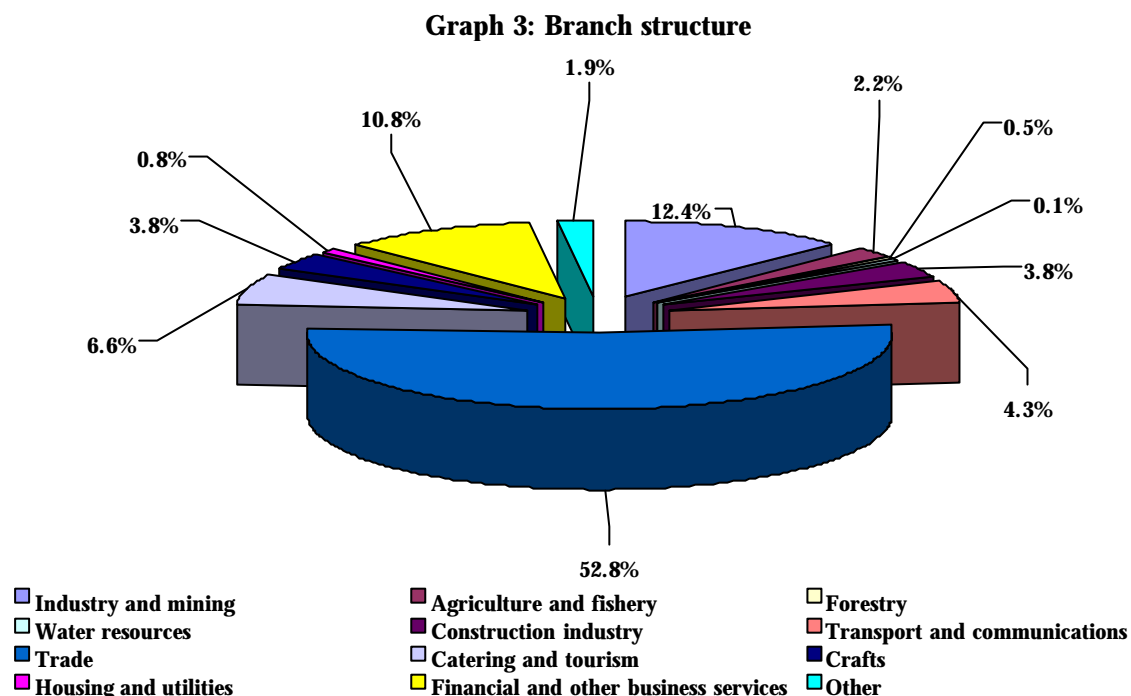
Category	Total sample	Profitability sample	Credibility sample	Circle of 300 most profitable	Circle of 300 most credible	Extra circle
Small	6,788	1,759	1,623	248	230	42
% of the total sample		25.91	23.91	3.65	3.39	61.76
Medium	175	63	67	39	46	17
% of the total sample		36.00	38.29	22.29	26.29	25.00
large	51	15	24	13	24	9
% of the total sample		29.41	47.06	25.49	47.06	13.24
Total	7,014					

The share of the small enterprises in the circles of the most profitable and most credible is relatively low, compared with the total number of small enterprises. These ratios are somewhat better with respect to medium and large enterprises.

- Among the total number of 6,788 small enterprises, 1,759 or 25.91% of the sample showed positive business results, while just 248 or 3.65% entered the circle of the most profitable. Relevant credibility was found in 1,623 or 23.9% of the small enterprises, while just 230 or 3.4% entered the circle of the most credible.
- In the competitive category of large enterprises, out of 51 enterprises, 15 or 29.41% had positive business results and 13 of them (25.5%) entered the circle of the most profitable. Nearly half of the large enterprises, 24 companies (47.1%), were credibility relevant and every one of them made the circle of the 300 most credible enterprises.

- In the course of last year 175 medium size enterprises in Montenegro submitted their balance sheets. Sixty-three or 36% had positive business results, and 39 of them, or 22.3%, entered the circle of the most profitable. The credibility relevant sample numbered 67 enterprises or 38.3%, and a good portion of this group also qualified for the circle of the 300 most credible enterprises, 46 medium size enterprise or 26.3% of their total number entered the circle of the most credible.

4. BRANCH STRUCTURE



Analysis of the branch structure shows that trade companies are predominant in the Montenegrin economy with trade representing 52.8% of the total number of enterprises that submitted their balance sheets.

Only three sectors of the economy had shares above 10% in the sample of all enterprises that submitted their balance sheets for last year: trade, industry and mining, and financial and other business services.

The six dominant sectors of economy in Montenegro (trade, industry, construction, transport and communications, hotel industry/catering and tourism, and financial and other services) account for 90.6% of the total number of enterprises submitting their balance sheets. Alone, trade and industry account for nearly two-thirds (65.2%) of the total number of enterprises submitting balance sheets.

Table 4. Branch structure

Branch	Total sample	Profitability sample	Credibility sample	Circle of 300 most profitable	Circle of 300 most credible	Extra circle
Industry and mining	871	240	212	31	57	10
% of the total sample		27.6	24.3	3.6	6.5	2.5
Agriculture and fishery	156	28	36	5	8	1
% of the total sample		17.9	23.1	3.2	5.1	2.6
Forestry	38	13	9	0	1	0
% of the total sample		34.2	23.7	0.0	2.6	0.0
Water resources	4	2	2	2	2	2
% of the total sample		50.0	50.0	50.0	50.0	50.0
Construction industry	265	109	96	22	24	5
% of the total sample		41.1	36.2	8.3	9.1	6.4
Transport and telecommunications	303	69	64	18	23	7
% of the total sample		22.8	21.1	5.9	7.6	3.0
Trade	3,701	923	920	141	98	15
% of the total sample		24.9	24.9	3.8	2.6	2.9
Catering and tourism	466	70	58	9	17	2
% of the total sample		15.0	12.4	1.9	3.6	0.4
Crafts	265	70	56	7	12	3
% of the total sample		26.4	21.1	2.6	4.5	1.9
Housing and utilities	53	29	25	23	14	11
% of the total sample		54.7	47.1	43.4	26.4	28.3
Financial and other business services	755	250	200	33	32	8
% of the total sample		33.1	26.5	4.4	4.2	2.9
Other	137	34	36	9	12	6
% of the total sample		24.8	26.3	6.6	8.8	4.4
Total	7.014					

- Out of the total number of enterprises dealing with trade (n= 3,701), 923 or 24.94% had positive business results, and 141 or 3.8% of the total number made the circle of the 300 most profitable enterprises. Among trade enterprises, 920 (24.9%) were credibly relevant and 98 or 2.7% of the total number made the circle of the 300 most credible enterprises.
- In the sector of industry and mining, 871 enterprises submitted balance sheets, 240 (27.55%) had positive business results, and 31 enterprises or 3.56% of the total number of enterprises from this sector entered the circle of the 300 most profitable enterprises. Among this sector, 212 (24.3%) were credibly relevant, and 57 or 6.5% entered the circle of the 300 most credible enterprises.
- Among the total number of 755 enterprises in the sector of financial and other services, positive business results were reported among 250 or 33.11%, while 33 or 4.37% entered the circle of the most profitable. Within this sector, 200 or 26.5% were credibly relevant, and 32 or 4.2% entered the circle of the 300 most credible.

Only two economic sectors, transport and communications and catering and tourism, represent between 4% to 10% in the total number of enterprises. Other economic sectors have less than 4%.

- In the sector of transport and communications there were 303 enterprises, 69 enterprises or 22.77% were included in the profitability relevant sample while 18 (5.94%) entered the circle of the 300 most profitable enterprises. 64 or 21.1% were credibly relevant and 23 or 7.6% entered the circle of the most credible companies.
- In the hotel industry/catering and tourism there was a total of 466 enterprises of which 70 (15.02%) entered the profitability-relevant sample, and only 9 (1.9%) made the circle of the 300 most profitable enterprises. 58 (12.5%) entered the credibility-relevant sample, while 17 or only 3.6% entered the circle of the 300 most credible enterprises.
- In the construction industry there were 265 enterprises, 109 enterprises or 41.13% were included in the profitability relevant sample while 22 or 8.3% entered the circle of the 300 most profitable enterprises. 96 or 36.2% were credibly relevant, and 24 or 9.1% entered the circle of the 300 most credible.

When comparing total sample size within each sector to the sectors' representation in the most profitable and most credible circles, the following sectors of economy are highly represented: water resources, construction industry, transport and communications and housing-public utilities. Although the trade sector has the largest number of enterprises in both the 300 most profitable and most credible, compared with the total number of registered trade companies, it has a relatively small share.

CONCLUSION

Analysis of the balance sheets of the enterprises has shown that only 25% have shown profitability during 2001, that is, had larger business revenues than business expenses.

Considering absolute terms, small, private enterprises have shown the largest profitability. This data confirms the fact that these enterprises can find a market for their products and have larger turnover ratios. However, due to a relatively modest total earning and business potential in comparison to the state-owned enterprises, a relatively small proportion entered the 300 circle. This ratio is somewhat better when analyzing state-owned and mixed enterprises. One thing to keep in mind when analyzing the performance of private companies is that they are more inclined to give unrealistic statements of their business results on balance sheets.

When considering credibility parameters, only one-quarter of all enterprises have shown minimal financial stability and credit potential during 2001. Analysis of the total number of enterprises in specific categories by size and ownership shows that the largest credibility was realized by large state and mixed enterprises. What was determining when analyzing this category was the fairly large property of those companies which, compared with their liabilities, showed favorable credibility parameters.

COMMENT 5

INTEREST RATES IN MONTENEGRO

by Dragana Ostojia, Central Bank of Montenegro

During recent months, banks in Montenegro have intensified their loan activities while personal deposits have increased. Two basic attributes of each economic category are costs and income. Observing interest as either a cost of credit or income on deposit, questions are raised about different interest rates and the “market interest rate” in Montenegro.

The base rate on the European market is the »bid rate« of the European Central Bank and it is a bench mark for all interest rates that are formed on the market. With the Montenegrin monetary system it is more difficult to identify how rates are set. The Central Bank of Montenegro does not have currency issuing or credit function therefore it does not influence the creation of interest rates. Interest rates are created on the market and set by the banks by their credits and loans.

Roughly defined, interest represents cost of credit or income on deposit. In addition to interest there are linked costs, which are often compounded with interest earned or added to interest bearing loans.

In October 2002, active interest rates on short-time credit were between 0.12% (Montenegrin Commercial Bank loan to citizens) and 3.15% (Pljevaljska bank loans to private companies). Interest for long-term credits were from 0.17% (Niksicka bank to private companies) to 2.52% (Euromarket bank credit to citizens). Interest on short-term securities was between 0.58% (Montenegro bank) and 1.27% (Mortgage bank), while interest on long-term securities was 0.66% (Niksicka bank).

Passive interest rates on sight deposits were fluctuating between 0.04% (Euromarket bank) to 1.50% (Atlas Mont bank to citizens); on term deposits in Euros from 0.11% (Mortgage bank) to 2.25% (Beranska banka), while on term deposits in other currencies from 0.08% (Podgoricka bank) to 0.54% (Bank of Podgorica).

Table 1: Active interest rates in October 2002

Bank	<i>in % on monthly level</i>					
	Short term loans		Long term loans			
	min	max	Over 1 year		Securities	
	min	max	min	max	min	max
Mortgage bank	0.65%	1.27%	0.41%	1.27%	0.65%	1.27%
Euromarket bank	0.96%	2.51%	1.77%	2.51%		
Atlas Mont bank	0.66%	2.00%				
Montenegrin Commercial Bank	0.12%	0.65%	0.58%	0.73%		
Ekos bank	N/A					
Niksicka bank	1.00%	2.40%	0.17%	0.73%	0.61%	0.66%
Beranska bank	2.58%	3.09%	0.81%	1.19%		
Montenegro bank		0.97%			0.58%	0.73%
Podgoricka bank	0.81%	2.05%	0.42%	1.59%	0.62%	0.62%
Pljevaljska bank	0.20%	3.15%	0.41%	0.97%	0.62%	
Opportunity bank	0.97%	2.65%	0.97%	1.41%		

Table 2.: *Passive interest rates in October 2002*

in % on monthly level

Bank	Sight deposits		Term deposits in Euros		Term deposits in other currencies	
	min	max	min	max	min	max
Mortgage bank		0.08%	0.11%	0.50%	0.11%	0.37%
Euromarket bank		0.04%	0.29%	0.65%	0.25%	0.33%
Atlas Mont bank		1.50%	0.17%	1.50%		
Montenegrin Commercial Bank			0.73%	1.27%		
Ekos bank	N/A					
Niksicka bank	0.13%	0.17%	0.33%	0.66%		
Beranska bank			0.73%	2.25%		
Montenegro bank		0.17%	0.27%	0.41%	0.27%	0.73%
Podgoricka bank	0.04%	0.33%	0.33%	0.66%	0.08%	0.54%
Pljevaljska bank			0.33%	0.97%		
Opportunity bank	0.08%	0.12%	0.20%	0.50%		

The analysis of the interest rates in Montenegro shows a large dispersion of rates and makes comparisons between banks very difficult. Basically, the rates are not comparable; the range between minimum and maximum rates among banks is very extensive. Adding to the comparative confusion is that some listed rates include all additional costs, while others include only the interest as a cost of credit, these are known as nominal interest rates. Differently expressed interest rates do not provide enough information for consumers to make rational decisions because it is very difficult to evaluate where the cost is lower or where the income is higher.

In addition to nominal interest rates, other factors affect the price of credit or deposit income, in one word interest. Credit price and deposit income are determined by a number of factors: credit account (simple or complex), method of interest rate calculation (recursive or anticipative) and class of interest factor (proportional or conforming). Additionally, the price of credit often depends on fee for credit approval and obligatory investment. Deposit income often depends on fees for account management and bonuses for unused deposited money.

With all of the varying factors, one might easily conclude that there is no simple way to objectively compare two equivalent transactions, be it credit or deposit, with different conditions by observing only their nominal interest rates. With this goal of comparison in mind, this article will present the base for effective interest rate presentation and explain the influence of credit and deposit interest.

If we want to compare two credits or deposits we must calculate the annual cost or income using the effective interest rate, which includes all monetary flows between users of credits and creditors or depositors and banks. This means that all additional costs and fees are included in the annual cost or income.

The purpose of using the effective interest rate when analyzing interest rates is to protect clients from any hidden costs associated with their credit or deposit and to make equal comparisons of products within all credit-depository financial institutions.

The calculation of effective interest rates is based on the net current value that equalizes discounted money inflow and outflow. It is actually the rate that resumes discounted money flows to zero.

In presentation of effective interest rate, attention should be paid to:

- Is interest rate recursive or anticipative?
- Is the interest account simple or complex?
- Does the account use compound or proportional interest rates?
- On which level is the interest rate presented?
- How many days are used (real or average)?
- How many decimal places will numbers be rounded to?

The practice is to calculate recursive interest, which means that interest is added to the credit after the repayment period. In anticipative calculation, interest is calculated in advance based on the amount that is to be received after the repayment term, and after the calculation it is extracted from the final total amount and then the basic amount.

In practice, complex calculation is in use; in this calculation, interest is added to the principal after the each repayment period, which means that interest from the previous period is subject to the next period's calculation. In the case of simple calculation, interest is calculated only on the principal after the amortization period.

The use of compound or proportional interest rates is very important if for example, annual interest should be calculated on a monthly level. Interest is usually calculated as compound interest, where the rate equals interest for different periods, while with proportional interest, the rate is calculated by simple division of the period by equal intervals.

For example, if the annual interest rate is 20%, capitalized twice a year on a principal value of 100 Euros, which interest will result in a total value of 120 Euros? If the value is calculated by the compound method, the actual rate used is 9.5445% to result in a total value of 120 Euros. If we use a straight 10% interest the final amount would be 121 Euros.

The practice is that interest is expressed on an annual level, the real number of days are used in the calculation and numbers are rounded to two decimal places

These were some guidelines for providing transparent rates to better protect the consumers as well as all participants in economic transactions. Sound decisions can be made only when decision makers are provided with transparently expressed interest rates.

COMMENT 6**RETURN ON CAPITAL, FACTORS OF INFLUENCE AND DIVIDEND POLICY
IN MONTENEGRO**

by Dragan Lajoviæ PhD, Development Fund of the Republic of Montenegro

1. INTRODUCTION

Corporations as a type of organization of economic entities motivate shareholders to expect with a great certainty two types of income: 1) dividends and 2) capital gain. By purchasing common shares, investors renounce the possibility of immediate gain and hope for a greater gain in the future. Therefore, investors expect to receive dividends and eventually sell shares and make a profit. Since the future is uncertain, investors are not in the position to plan with certainty the future income and profit from these investments. Investors compensate uncertainty regarding the return on investments and their time-schedule with the benefits of their expected return.

Dividends are paid out of the profit of the corporation after interest and taxes have been paid. Dividends represent the return on capital invested in the corporation. Capital gain is the difference between the buying and selling price of shares and is connected to changes in the corporation value. For a one-year period, investors' benefits consist of paid dividends and the increase in the market price of shares (capital gain) realized at the end of the business year. The rate of return is calculated as:

$$r = \frac{\text{dividend} + (\text{final price of shares} - \text{initial price of shares})}{\text{Initial price of shares}}$$

The items in parentheses represent the realized capital gain or loss during the period of share ownership.

Generally, owners of shares of successful corporations get either a high dividend and a small capital gain or low dividend and high capital gain. Managers of corporations in countries with developed Capital Markets have alternative solutions: a greater portion of the profit is paid out to shareholders through dividends, whereas a smaller portion is reinvested; or a greater portion is reinvested, which generally leads to an increase in the value of shares, while a smaller portion is left to pay out dividends. At this level of analysis, these values are in inverse proportion. Therefore, a greater increase in capital gain entails less available means for paying dividends.

2. DIFFERENT WAYS TO PAY OUT DIVIDENDS

Dividends are paid out of realized profit after interest and taxes have been paid. The decision to pay dividends is made by the management analyzing the financial status of the corporation. This body decides whether or not dividends are going to be paid. At the same time, this group decides the amount to be paid and the payoff period. In most cases, dividends are paid quarterly, while in some cases they are paid after the annual balance is adopted.

There are several ways to pay dividends. Dividends can be regularly paid in cash, in these cases certain positive financial means must be available to enable regular payments. Paid out dividends can also be treated as extra or special dividends when there is the intention to avoid regular payments. Liquidation dividends are the only ones not paid out of profits of the corporation. When a company is not able to pay its liabilities to creditors, it is subject to liquidation. Such dividends are paid after liabilities towards creditors are settled. Since they have the character of return of capital, shareholders are tax-exempt. Besides cash payments, dividends can also be paid in shares. Stock dividends represent a certain percentage of a certain number of shares that are held by the existing shareholders. By doing this, the corporation is keeping the funds that can be reinvested, while shareholders increase the number of shares they have in their portfolios. Furthermore, their share in the capital structure remains at the same level, or is proportionally increased with other shareholders. Another method of dividend payment is to redeem company shares that have been issued. When the life cycle of the corporation shows stable growth, investment activities are becoming less intensified, and there is a greater amount of capital than actually needed for current operations, the corporation may change the structure of maturity of its means, with the tendency to convert redeemed shares in cash, if there is a need for that.

3. FACTORS OF INFLUENCE ON RETURN ON CAPITAL

For such an analysis, it is very important to have an efficient securities market that adequately reflects available information on the economy of the country wherein it functions, on financial markets and specificities of the company in question. Results of empiric research has shown that the market is efficient if prices of shares reflect available information and if market prices adapt to new information within a short period of time.

American economists, Mr. Richard Roll and Mr. Stephen Ross, consider that returns on different securities respond in different ways to different factors and sources of risks belonging to them. They mention five factors: 1) changes in expected rate of inflation; 2) unforeseen changes in rate of inflation; 3) unforeseen changes in rate of industrial production; 4) unforeseen changes in income difference from low to high ranked bonds; 5) unforeseen changes in income difference regarding long term and short term bonds (maturity structure of interest rates). The first three factors primarily influence the cash flow of the company, and consequently dividends and their growth. The last two factors have an impact on the capitalization rate.

There are several factors influencing dividend payments, but here we will state only some of them having a theoretical approach to the phenomenon:

Market value of shares is the present value of expected future dividends:

$$PO = \frac{1}{1+r} (D1 + P1)$$

Po – market value per share, time 0

r – capitalization rate for the company of a certain level of risk

D1 – dividend per share, time 1

P1 – market value, time 1.

Should perfect Capital Markets exist with the absence of taxation, dividend payments would be secondary, in spite of uncertain conditions. One should keep in mind that a company is not capable of realizing the value by a simple combination of the change in dividends and retained earnings. There is the opinion that the value can be maintained regardless of the change in its structure, so the emphasis is on the following types of factors:

- 1) There are two types of taxes: taxes on income of the corporation and taxes paid by investors, in other words, taxes on dividend yield;
- 2) Given the different tax situations, there are investors with two tendencies:
 - a. to invest in shares that bring dividends and
 - b. to invest in shares that don't bring dividends.
- 3) Issuance costs represent a factor influencing dividends, meaning that dividends are smaller if issuance costs are greater;
- 4) Transaction costs are closely related to the sale of securities;
- 5) Regarding institutional investors and according to the operational rules, there are some limitations on the purchase of certain types of common shares or their percentage in the portfolio;
- 6) Investors should be enabled to realize dividends and announce successful operations through monetary dividends.

While analyzing dividends and considering empirical approaches, the following factors are relevant: 1) needs for the funds of the company; 2) liquidity of the company; 3) controlling interest of the majority shareholders.

When choosing the model for dividend payments, the corporation will analyze different aspects of the above-mentioned factors. There are a small number of quality empiric analyses that can contribute by their comprehensiveness to better treatment of this phenomenon. The above-mentioned opinions enable the company to project a passive dividend strategy with reasonable accuracy.

Active dividend strategy implies a confidence in future amounts and flows of dividends as well as a high level of probability to convert a portion of dividends into common shares. Despite the fact that corporations put the welfare of shareholders in the first plan, a diversified portfolio of common shares represents optimal investments both from a theoretical and practical point of view

4. CONCLUSIONS AND REVIEW OF DIVIDEND POLICY OF COMPANIES IN MONTENEGRO

Many investors in shares are persuaded that the stability of dividends has a positive influence on the value of shares. If the ratio earnings per share starts to be lower, the reason to invest in such securities is stable dividends. The company paying out current income is very interested in its stability. A certain, not small, number of companies follows the policy of targeted rate of dividend payments, increasing them only when feeling that they can support the increase in earnings. Extraordinary dividends enable companies with cyclic operations to maintain a stable level of dividend payments, as well as additional dividend payments when earnings become high enough. The tool for decreasing the market value of shares is to split shares. Both phenomena (paying stock dividends and splitting shares) have informational character and signaling effect. Different conditions and different factors have a different influence on the market value of shares.

With the previous observations in mind, we can conclude that:

- Market value of the company eventually depends on its capability to pay dividends;
- It is thought that theory of irrelevancy, in other words the residual theory, even if perfect circumstances for the existence of Capital Markets are present, doesn't influence the value of the company, unless the influence of the dividend policy on investment decision is considered;
- If profit is kept to finance valuable investments, the value of the company increases and vice versa
- If profit is not kept, and the company has the possibility to invest and is not capable of doing that due to the shareholders, the interests of shareholders are endangered, unless outside financial sources are available and used;
- The theory of dividend irrelevancy implies that shareholders are indifferent to whether they are going to make profit by dividends or by capital gain, since the capital gain can be converted into income;
- In practice, different transactional costs and taxes (in other words, imperfectness of the Capital Markets) endanger the accuracy of this conclusion, although it is difficult to be categorical when direct influence is concerned;
- Companies are usually incapable of detecting preferences of shareholders, so they should follow a stable dividend policy;
- In practice, companies are not willing to decrease dividends fearing different market interpretations and information resulting from such an act;
- Similarly, it's difficult for companies to decide to suddenly increase dividends fearing that they would encourage excessive optimistic expectations regarding operations of their company in the future.

Such "informational contents" which go into the decision of the amount of dividends represent the argument for the stability of dividends, in other words, policy of stable dividends.

Under conditions of young and small Capital Markets in Montenegro, we should state that this economic concept is not familiar to most investors. Forced shareholding in transformed state companies in the previous period and dispersed ownership after the mass voucher privatization process have not increased the function of securities to a desired level. Unclear and undefined motives of investors keep the volume of transactions with securities at a level asking for serious attention. The greatest number of joint stock companies are not paying dividends to shareholders, but using rather liberal accounting and tax regulations to cover them or show them only symbolically. Should an efficient market exist, this fact would likely influence the market value; however, this is not the case. Moreover, due to inefficient operations of companies, the price of shares is decreasing. Foreign investors interested in buying the majority package of shares would like to have information, in addition to earnings data, they would like information on the amount and stability of dividends in the previous and current period. This extremely relevant indicator is almost non-existent at the majority of companies, which begs the question among foreign investors, "How is it possible that a certain company has existed for several years as a joint stock company and during that time has not paid dividends even once?" If regular dividends are not being paid, extraordinary dividends are out of the question.

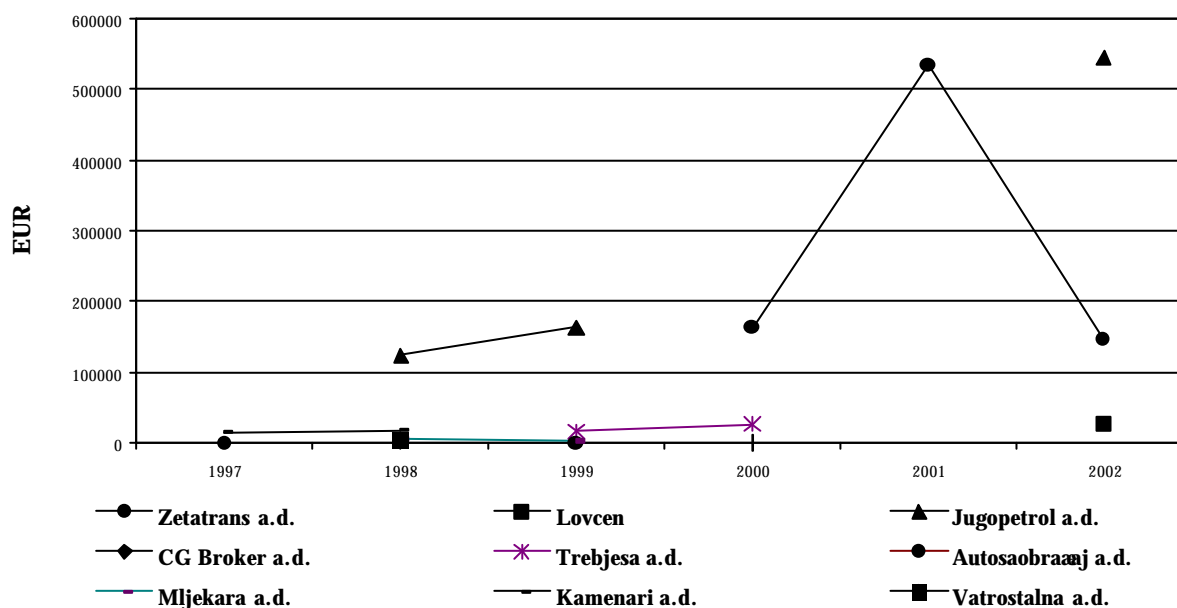
Foreign and domestic banks appear on primary capital markets and commonly issue shares to either acquire the Central Bank license or for recapitalization. On the secondary capital markets, shares of banks are not present. Banks typically do not pay dividends, or they do in minor amounts.

In order for companies listed on the stock exchange to be an interesting issue for potential investors, it is necessary to provide company data such as: initial value of share, the last values of demand, book-value of share, number of shares to be sold, dividend per share from previous reporting period, profit per share, etc. Stock brokers, who appear as intermediaries (regarding the fact that it is a secondary capital market in its initial development stages), should be given additional information pertaining to the following: total value of the company's capital, financial statements for the last two years, number of employees, analysis of liabilities and receivables, court disputes, parts of assets burdened with mortgage, etc. These data are necessary to potential buyers in order to buy a block of shares, which enables active management over the company as well as applying of modern methods and techniques of corporate governance.

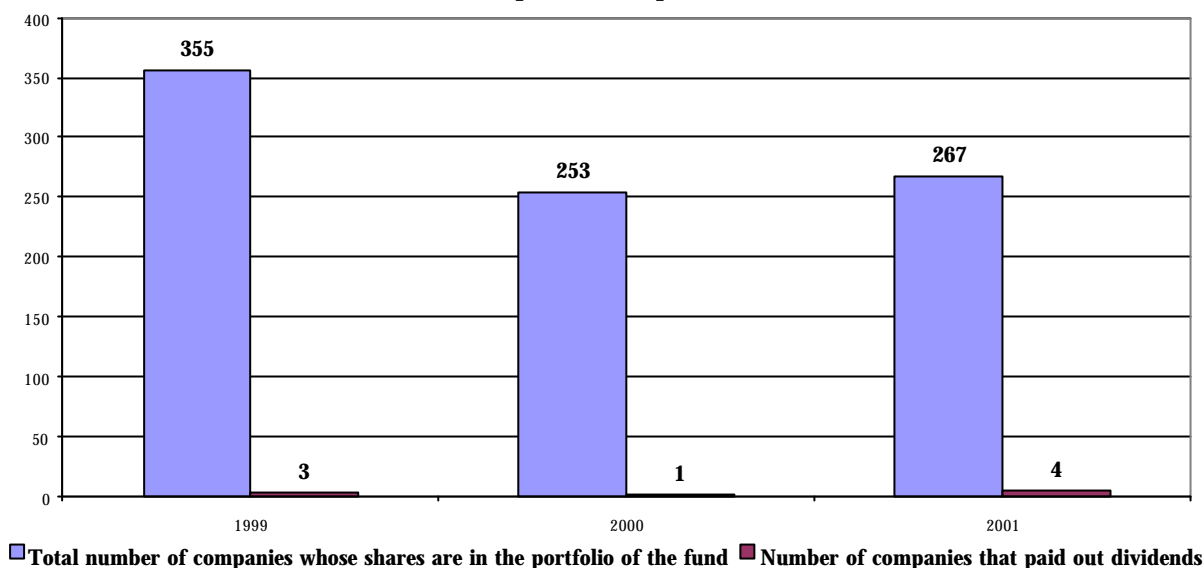
Since dividends are classified under the code of other payments in the Department for payment operations, it is impossible to analyze more seriously this phenomenon. Therefore, the author of this text only has the data obtained from the informational center of the Development fund that was the majority owner of the greatest number of companies in Montenegro over the past seven years.

In the following chart, you can see the movements of dividends in companies whose majority owner was the Development Fund within the period of 1997 to 2002. Out of 335 companies, one of the owners of those companies is the Fund, only eight paid dividends and even those eight did not pay a dividend in each analyzed year.

Graph 1.: Movements of dividends from 1997 to 2002

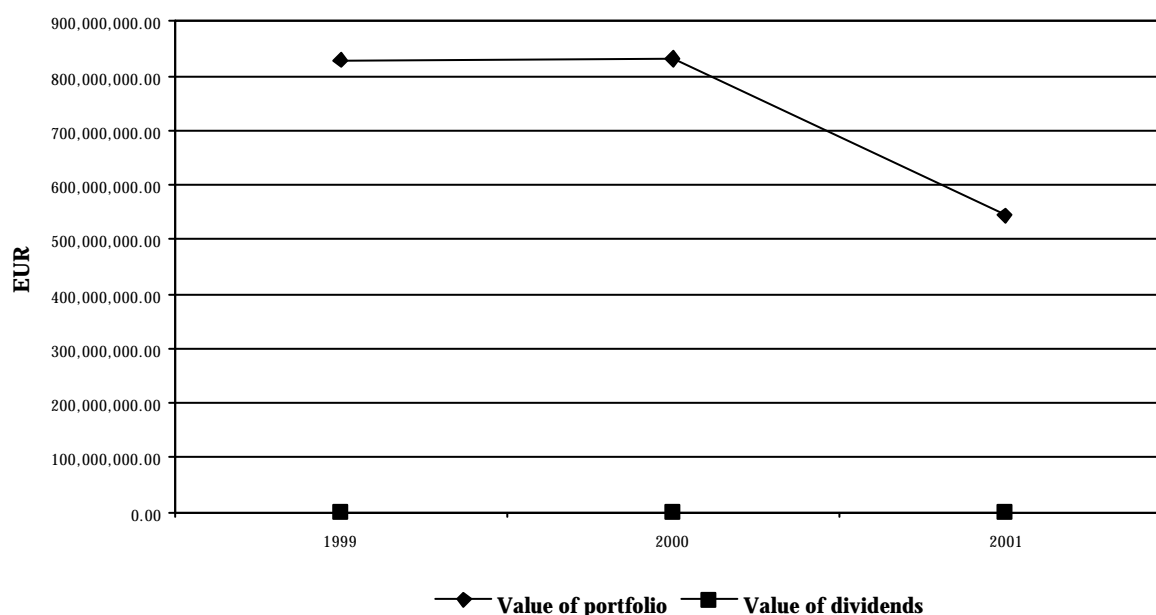


Graph 2: Number of companies whose shares are in the portfolio of the fund versus the companies that paid out dividends



A relevant indicator may be the total value of capital of the Fund and the amount of dividends per analyzed year. The ratio dividend/capital of 0.008, 0.003 and 0.004 per year show the return on capital for the analyzed period. The data is so “plastic” that it deserves no comment. If during that period the value of shares had increased, or if a capital gain was realized due to investments in existing or new development programs in the company, a comment would be more relevant. However, in that period there was a decrease in the value of shares and the minimum dividend payments. Therefore, this is a sufficient signal for those who are analyzing securities entitling their holder to ownership.

Graph 3: Value of portfolio versus value of dividends



The previous graph shows the value of dividends the Fund acquired over three years, based on ownership in companies, compared to the value of the Fund's share portfolio in all companies.

The difference is clearly seen when a comparison is done with efficient Capital Markets and when this occurrence is to be considered as decision on dividends when the company has a surplus of means comparing to the existing and future investment needs. It is possible that some things would change after the mass voucher privatization process, primarily because the basic source of income for the management companies that are founders of privatization funds are dividends; and thus, they will insist on its regular calculation and payment. The same is expected from citizens and employees that are shareholders as well as from the state whose budget deficit can be partially rebuilt by return on capital of shares owned by the state. Time will tell whether the dividend phenomenon has the character to attract serious attention from participants in the financial market. Since the motive of all shareholders is ultimately capital gain and/or return on capital, whether state shares or shares in a private property are in question, a greater interest for the analyzed phenomena is expected in the future.

The capital market is part of the financial market and fully portrays the degree of efficiency of an economy. This direct correlation makes the signals from the financial market become a required item for authors of economic policy. Since the Montenegrin financial market is in its initial developmental stage, it needs more attention in the future, in order to raise the quality of the national economy to a higher level. We know this based on the experiences of other transitional economies, which state significantly higher development rates and at the same time already have significant results in the field of growth and development of their financial markets and their adjoining attributes.

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COMMENT 7

**MONTENEGRIN FOREIGN TRADE ACTIVITIES AND POLICY:
WHERE DO WE STAND?**

by Nina Labovic, ISSP

1. INTRODUCTION

Montenegro, as all small countries (e.i. Luxemburg, Malta), has to be an open economy with low tariff rates. Since Serbia and Montenegro as a State Union do not have significant economic power in Europe, low tariff rates will help to restructure its economy and attain membership in the EU. In order to avoid negative effects for the Montenegrin economy, harmonization of the Montenegrin customs policy should be gradually carried out with Serbia and the EU. Montenegro faces difficult obstacles in the harmonization process: firstly, Montenegro and Serbia currently use different currencies, and secondly, if Montenegro were to harmonize its trade policy with the Serbian and EU trade policies, they would need to increase the Montenegrin tariff rates, which would spell certain disaster for the Montenegrin economy. The crucial issue for Montenegro becomes: how quickly and to what extent should Montenegro increase its customs rates in order to achieve harmonization?

2. MONTENEGRIN TRADE AND FINANCIAL FLOWS

2.1. Situation up to now

2.1.1. Trade participation in GDP¹

Trade participation in GDP of Montenegro was impacted by the changes in internal and external production factors. Different factors, such as economic activity inefficiencies, difficult political situations and the development of illegal activities has caused changes in trade participation in economic activities.

Trade participation (export plus import value) over GDP in the period since 1989 is shown in the graph below:

¹ Montenegrin Ministry of trade. Trade with Serbia and Kosovo excluded. GDP calculations since 1999 includes informal economy

**Graph 1: Foreign trade participation
(export plus import value) over GDP (1989-2001)**

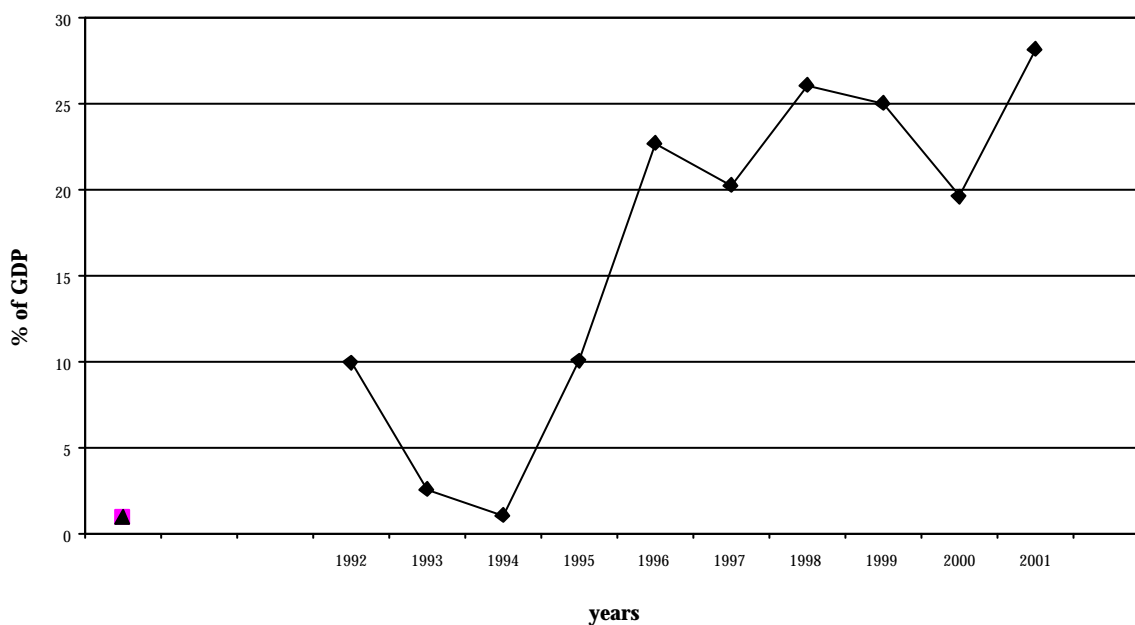


The graph indicates that since 1994, foreign trade has gradually increased as a percentage of GDP, and in 2001 has amounted to over 55% of GDP.

2.1.2. Foreign trade deficit as a percent of GDP²

Since 1992, Montenegro has shown a constant trade balance deficit. In 1992, the deficit amounted to 9.9% of GDP, and in 2001 this deficit represented 28% of GDP.

Graph 2: Trade deficit in % of GDP



² GDP calculations since 1999 includes informal economy

2.2. Trade activities with neighboring and other countries

The structure of Montenegrin import trade partners in 2000 and 2001 is displayed in the following table:

Table 1: Import structure according to country groups in last two years (in %):

Country	2000	2001
Developed countries	57.30%	53.81 %
Developing countries	15.20%	15.16 %
Other transition countries	5.50%	3.52 %
Bosnia and Herzegovina	8.10%	8.20 %
Macedonia	1.70%	1.71%
Slovenia	6.60%	8.20%
Croatia	5.50%	9.40%

The structure changes if we include trade with Serbia; in this case we find that 13% of import in 2001 was from Serbia and Kosovo, 6.5% from Croatia, 5.2% from Slovenia, 2.4% from BiH and 1.3% from Macedonia. The majority of imports were from developed and developing countries (71.6%); these countries include Italy, Greece, Virgin Islands, and Germany.

Table2: Export structure according to the countries groups in last two years (in %):

Country	2000	2001
Developed countries	88.20%	67.36%
Developing countries	3.80%	0.75%
Other transition countries	0.50%	26.76%
Bosnia and Herzegovina	6.20%	4.01%
Macedonia	0.90%	0.65%
Slovenia	0.20%	0.22%
Croatia	0.10%	0.25%

The foreign trade partners' structure is also changed if we include trade with Serbia in total export activities in 2001. In this case, 8% of Montenegrin export in 2001 was to Serbia and Kosovo (elementary products, alcohol, paper, tobacco, etc), while 3.4% of export was to BiH, 0.5% to Macedonia, and 0.2% to Croatia. The vast majority of export (87.9%) goes to the developed and developing countries (Switzerland, Italy, USA and Germany).

Analysis of the structure of Montenegrin trade partners in 2001 emphasizes that Switzerland, Italy and Germany are the most important trade partners of Montenegro, while Serbia and Kosovo represent the most important partners within the region. Export to Serbia and Kosovo represents 8% (\$21.3mn.) of the total export in 2001, while import from Serbia and Kosovo accounts for 13% of whole import, a total of \$102.5mn.

Trade activities with Serbia and Kosovo, both export and import, have increased in the first eight months of 2002 as compared to April-December of 2001.³ During this period, export to Serbia and Kosovo increased by 343% and was around 27% of the total Montenegrin export, while imports from Serbia and Kosovo increased by 63% and was 22% of the total Montenegrin import.

³ Central Bank of Montenegro follows data on trade with Serbia and Kosovo since April 2001, and data before are based on estimation and they are not included in report on trade with Serbia and Kosovo in trade balance.

2.3. Financial flows between Montenegro and its trade partners

Total cash inflows from Montenegrin goods and services trade with other countries amounted to \$306.3mn in the first eight months of 2002, representing an increase of 31.8% from the previous year's corresponding months. Comparative results (Jan-Aug 2002 compared to April-Dec 2001) show that cash inflows from commodities trade with Serbia and Kosovo amounted to \$49.9mn, representing an increase of 343% and total cash inflows from services to Serbia and Kosovo amounted to \$48.7mn, a decrease of 7.9%. Tourism services account for the majority (90%) of the cash inflows from services, while other inflows were mainly based on transport activities.

Total cash outflows to other countries amounted to \$492.6mn in period January-August 2002, representing an increase of 7.2% compared to the same period in 2001. Comparative results (Jan-Aug 2002 compared to April-Dec 2001) show that cash outflows to Serbia and Kosovo, due to the trade of goods, amounted to \$99.9mn, representing an increase of 63% and total cash outflows of services transactions with Serbia and Kosovo amounted to \$6.3mn, an increase of 84.8%. This increase was based mainly on transport services from Serbia and Kosovo (35% of total services outflows).

3. TRADE POLICIES IN MONTENEGRO AND IN SERBIA

3.1. Trade policy in general

Creation of the new foreign trade policy regime and adoption of the new laws presented the first step towards trade liberalization of Montenegro. However, Montenegro's rather liberalized trade policy differs from neighboring countries, particularly Serbia, and the policies should be harmonized in order to overcome the obstacles that may obstruct the development between Montenegro and its neighbors as trade partners in the future.

3.1.1. Quotas and licences regime in Montenegro

The vast majority of exported goods (97.7%) and imported goods (95.6%) in Montenegro are traded on the free trade regime (no quotas and licences are applied)⁴. In Serbia, 96% of exported goods are also traded on the free trade regime; however, just 84% of imported goods are free trade.

Goods in Montenegro, which are on the regime of import/export quotas are agricultural and elementary products (e.g. fruit, vegetables, raw tobacco, various types of fish, cheese, eggs, flour etc.), some metallurgy products, selected household equipment (refrigerators, freezers, etc.), wood, and leather. There are 1.2% of exported goods and 3% of imported goods on quotas regime in Montenegro. Furthermore, there are export and import licenses for products such as weapons and ammunition, poisons, drugs, nuclear and other products which are dangerous for the environment. Approximately 1.1% of exported goods and 1.4% of imported goods are on the licensing regime.

3.1.2. Custom policies in Montenegro and in Serbia

The new Law on customs was implemented in Montenegro on January 30th, 2002 and should provide conditions for harmonizing the Montenegrin trade policy to the European

⁴ Percentages refer to types of goods and not to shares in trade.

Comments

policy. There are six tariff rates: 0, 1, 3, 5, 10 and 15%. The average custom rate is 3.5%.

The new Law on customs tariffs in Serbia came into force on June 1st, 2001. This law should provide better opportunities for foreign trade in Serbia as should the Montenegrin law for Montenegro. There are six tariff rates: 1, 5, 10, 15, 20 and 30%. Under the new Law on customs tariff, the average weighted custom tariff has been reduced by 5.06 percentage points, from 14.47% to 9.37%. Tariffs range from 1% to 30%, with 50.16% of products being subject to rates ranging from 1 to 5%, and 73.17% of products subjected to rates between 1 and 10%.

Table 3. Customs Tariffs in Montenegro and Serbia

Sector of economy in Montenegro	Un-weighted customs rate in %	Sector of economy in Serbia	Weighted customs rate in %
Industrial products		Industrial products	
Minerals	0	Minerals	10.0
Steel	1-10	Organic chemical industrial products	2.11
Aluminum and aluminum products	1-5	Fertilizers	5.82
Rubber products	0-10	Rubber products	9.24
Plastic materials and products	0-5	Plastic materials and plastic products	7.22
Fibers	1.0	Fibers	5.0
Textiles	5.0	Textiles	30.0
Clothes	10.0	Clothes	20.0
Electrical machines, equipment, radio, TV devices and home appliances	1-10	Electrical machines, equipment, radio, TV devices and home appliances	13.9
Pharmacia products	1-3	Detergents	9.38
Chemical products	1-3	Woven fabrics	10.0
Wood and timber products	0-3	Wood and timber products	4.91
Mineral oils and products of their distillation	0-1	Mineral oils and products of their distillation	10.0
Used motorcars	5.0	Used motorcars	20.0
Passenger cars	5.0	Passenger cars	20.0
Industry of machines and engines	1-3	Buses	20.0
Used motorcars	1-3	Washing machines	15.0
Washing machines	10.0	Refrigerators	15.0
Refrigerators	3.0	Industry of food and beverages	
Industry of food and beverages		Drinks	29.02
Alcohol	15.0	Milk and dairy products	22.46
Milk and milk products	0-5	Meat by-products	24.48
Meat and meat products	0-5	Products from fruits	28.44
Fruit (seasonal customs rates are going up)	1-5	Products from vegetables	28.44
Vegetable (seasonal customs rates are going up)	1-5	Various nutritional products	24.66
Sugar, cereals	0-3	Coffee roasted	20.0
Coffee roasted	5	Cigarettes	15.0
Cigarettes	10.0	Tobacco	10.0
Tobacco	1.0		

3.4. Economic Impact of customs rates increase in Montenegro: Cost - Benefit Analysis

Essential Criteria for tariff alignments in Montenegro are:

- Public – private partnership is essential for optimal solutions;
- Adjustment to common tariff of EU;
- Global reduction in tariff levels;
- Solutions that take into account wider context (taxation, options of economy, etc.).

According to EU proposals, Montenegro should increase its average custom tariff from 3.5% to 5.7%, while at the same time, Serbia should decrease its average customs tariff from 12.4% to 8.0%. The average custom rate in the European Union is 6.5%. According to the proposals, an average custom rate in Montenegro should be similar to the European Union rate. However, harmonizing tariff rates (or even equalizing them) will not bring about similar trade conditions for both countries. Serbia and Montenegro will continue to use different currencies (Dinars and Euros respectively), which will impact their international competitiveness.

Table4: EU proposals for the customs rates increase in Montenegro

Average unweighted custom rate	Montenegro	Serbia	Serbia and Montenegro	European Union
Current rate	3.5	12.4	-	6.5
Future rate	5.7	8.0	6.5	6.5

Source: SCEPP

Changing the customs rates will result in consequential changes on the following indicators in Montenegro:

- index of competitiveness;
- budget revenues;
- GDP level;
- import export volumes;
- trade balance.
- CPI;
- Producer Price Index (PPI);
- average wage.

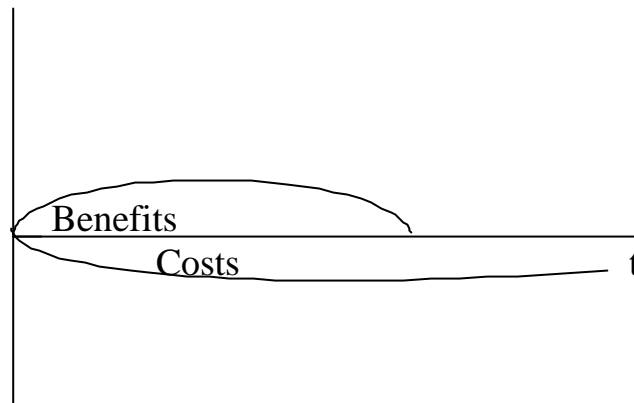
Costs for Montenegro (in case of Montenegrin tariffs increase) are:

- Consumers will suffer due to higher price of imports;
- Increased import prices will cause higher costs of inputs for producers;
- Resource allocation will be less efficient;
- Profit opportunities will be reduced due to the fact that Montenegrin international competitiveness will be deteriorated;
- Considering the state budget, there will be initial increasing of tariff revenues, but in the long term revenue from other taxes will decrease. This is due to the fact that companies' activities will be lower (due to expensive import);
- Private sector development will be more difficult;
- Trade sector losses will be higher;
- CPI will increase;
- PPI will increase;
- Purchasing power will decrease;
- Monopoly policies will be more developed.

Benefits for Montenegro (in case of tariffs increase):

According to the European Union experts' analysis, an increase of customs rates in Montenegro should increase budget income. This will be however, only in the short term, while in the long term Montenegrin import from abroad will be redeemed by the import from Serbia. Due to this fact, Montenegrin import will increase, but on the other hand, budget revenues will decrease because of absence of customs duties in trade with Serbia.

Graph 3: Costs and benefits of Montenegrin customs rates increase (in long time period)



4. CONCLUSION AND RECOMMENDATIONS

Common economic policy making is not an easy task for the State union of Serbia and Montenegro. In order to sign a Stabilization and Association Agreement with the EU and negotiate a trade liberalization scheme with them, Serbia and Montenegro are expected to have harmonized customs tariffs and foreign trade regimes, as well as the common market. The same is required for membership of the state union in the WTO. Before adopting the common customs tariffs, it is necessary to consider all of the above mentioned issues and to have in mind additional issues as well:

- Serbian and Montenegrin leaders need to decide whether economic "harmonization" as envisioned by the EU actually benefits or hinders their economic development.
- Conditions must be improved in the region under which investment and trade can take place.
- Montenegrin budget revenues will increase in the short term due to the customs rates increase, but this will cause a permanent shock to the price level (CPI) in the long term and losses for the final consumers on the Montenegrin market. Considering that Montenegro, as a small country is not attractive (in case of high customs rates) for foreign companies (exporters to Montenegro) because of high marginal costs, these exporters may restrict their offer on the Montenegrin market or increase prices of their reduced offer. In the end, the final customers on the Montenegrin market will pay the price from their income. *Prior to the final decision about trade policies harmonization, the authorities should consider these issues: budget revenues, CPI, PPI, customers as losers, purchasing power, Montenegrin competitiveness, monopolies, and private sector development.*
- *Level of protection and the size of country* are highly correlated. Montenegro, as a small service oriented country and price taker in the world economy, is not in a position to determine higher customs rates. An increase in customs rates could have the following

consequences on the Montenegrin economy: barriers to private sector developing, higher costs of production inputs, deterioration of Montenegrin international competitiveness, deterioration of trade relations with surrounding countries, slower GDP increase, slower wage increase, purchasing power decrease, etc.

It is critical that a good investment environment be created in order to achieve durable economic growth. The internal market needs to be restructured and customs and trade policies need to be altered, but "harmonization" will be difficult to achieve in a situation where Montenegro's customs tariffs are so much lower than Serbia's and where Serbia lags behind in liberalization. Additionally, harmonization of tariffs (implying an increase to the tariff in Montenegro) will not equalize the level of competitiveness of the two countries due to the use of different currencies. Therefore, raising tariffs in Montenegro will not enable reaching the primary goal of the EU proposition.

Indeed, for some observers "harmonization" looks like subordination. The question of how the Union will cope with the wide disparities between the two economies remains unanswered. Should Montenegro accept the EU proposals because it has to, or should they finally create a liberalized economy in order to become an appropriate trade partner to many countries and achieve gains from trade activities?

The European Agency for Reconstruction is responsible for the management of the main EU assistance programmes in the Federal Republic of Yugoslavia (the Republic of Serbia, Kosovo, and the Republic of Montenegro) and the former Yugoslav Republic of Macedonia. It was established in February 2000 and has its headquarters in Thessaloniki, and operational centres in Pristina, Belgrade, Podgorica and Skopje. The total sum of EU funds newly delegated to the Agency for management in 2001 amounted to some €525 million. The Agency now oversees a total portfolio of over €1.6 billion across its four operational centres.

Headquarters

Thessaloniki - Egnatia 4, Thessaloniki 54626, Greece
Tel. + 30 31 505 100, Fax + 30 31 505 172
John Phillips, Head of Information and Communication Unit
John.Phillips@ear.eu.int

Operational centres

Pristina - The Museum, Miladin Popovic, Pristina, Kosovo
Tel. + 381 38 513 100, + 381 38 500 300 200, Fax + 381 38 549 963
Sarah Fradgley, Spokesperson
Sarah.Fradgley@ear.eu.int

Belgrade - Vasina 2-4, Belgrade 11000, Serbia
Tel. + 381 11 30 234 00, Fax + 381 11 30 234 55
John White, Spokesperson
John.White@ear.eu.int

Podgorica - Urb. Parcel 137, Gorica C, Podgorica 81000, Montenegro
Tel. + 381 81 231 740, Fax + 381 81 231 741
Dragan Mugosa, Information Officer
Dragan.Mugosa@ear.eu.int

Back-up office

Skopje - Palata Makedonia, Marsal Tito 12, Skopje 1000, Former Yugoslav Republic of Macedonia
Tel. + 389 2 290 366, Fax + 389 91 225 350
Snezana Kolekeska, Coordinator
Snezana.Kolekeska@ear.eu.int