Government of Montenegro

Ministry of Finance

Questionnaire

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

VI Financial markets

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Podgorica, December 2009

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ECONOMIC CRITERIA

VI Financial markets

A. General

30. Please indicate how interest rates are determined? Are any rates administratively set? If so, which ones? If so, please indicate a timetable for full deregulation.

Banks determine interest rates on the market basis, and in line with their business and interest policies. There are no administratively set rates.

31. Do quantitative ceilings exist on credit creation? What instruments are available to prevent too fast credit growth and potential exchange rate volatility from eroding the quality of lenders' portfolios?

Within executing its regulatory function, the Central Bank may provide for credit growth ceilings by secondary legislation. In addition, the Central Bank is authorised to act, within its supervisory measures, with a view to suppress the credit growth of individual banks. Article 116 of the Banking law stipulates that the Central Bank may *inter alia* forbid or set a ceiling to the growth of a bank's assets, which primarily envisages a temporary limitation to or suspension of the bank' credit activities where the Central Bank determines that the bank fails to appropriately manage the risks faced in the course of its operations or has violated regulations.

By the end of 2007, the Central Bank has enacted a Decision on amending the Decision on minimum standards of credit risk management and operations with bank related parties, which has limited the credit growth of banks in 2008. There were no administrative limitations to the credit growth in 2009.

Given that euro is the official currency in Montenegro, the foreign exchange risk and its impact to the banking system has been reduced to the minimum.

32. Provide an assessment of access to the international financial markets by the state and by the private sector? On what financial terms? Please give examples.

Legal and public borrowing of Montenegro in the past period has been limited in scope due to a number of political and economic reasons (economic sanctions, war in the region, etc.). Since the embargo was lifted and Montenegro became a member of international financial institutions, the IFIs have been the main source of state borrowing, as well as the treasury bills, the buyers thereof having mostly been resident banks. Due to a more extensive budgetary deficit this year, Montenegro has entered the international capital market and signed two bilateral agreements with the Credit Swiss and Erste Bank, totalling EUR 120 million in value, the loans having been granted to five years term with the margin of 6% above EURIBOR. For the next year we forecast the issue of the first Montenegrin Eurobond.

As to the private sector borrowing, dominant has been the borrowing of banks from parent-banks, and of companies through intercompany debt. Outside this framework the borrowing has been limited in scope.

33. If relevant, what are the legal arrangements concerning central bank credit to the private sector? If so, how important are such credits in practice? Do the authorities envisage changes in any such arrangements?

The provisions of Article 3 of the Law on Central Bank of Montenegro stipulate that the Central Bank of Montenegro may not issue money and may not grant loans to the Government of Montenegro or other legal and natural persons.

The exception are loans to banks from the Central Bank of Montenegro's own funds, aimed at maintaining liquidity of the banks, for the maximum period of one business day (24 hours), under the conditions provided for by Article 30 of the Law on Central Bank of Montenegro, the intraday loan and overnight loan.

Pursuant to the law provisions referred to above, the Central Bank of Montenegro may grant loans within *private sector* only to banks, under specified conditions.

With a view to protecting the banking sector from the effects of the global financial crisis and preserving its soundness and stability, the Law on Measures for Protection of the Banking System (OGM, No. 64/08) was enacted in October 2008, stipulating measures for maintaining the liquidity and solvency of the banks established and operating in Montenegro. The provisions of Article 9 of the Law stipulate that the Central Bank may grant banks the short-term borrowings to the period of maximum 30 days, and may use maximum 50% of the value of its capital thereon. The time limit for the application of the Law is 31 December 2009. No loan has been granted in relation thereto so far.

34. What are the main characteristics of the interbank clearing and settlement system? What has been the experience with these systems? Are there changes envisaged in the payments' system?

The basic infrastructure for processing interbank transfers of funds in Montenegro consists of DNS and RTGS payment systems owned and operated by the Central Bank of Montenegro. The systems have been in production since 2005.

The DNS system is a typical clearing payment system with multilateral net settlement and it is used for transfers of low values, by net principle in designated time. The settlement of payments in this system is processed three times a day in the RTGS payment system.

The RTGS system is used primarily for high value transfers. The payments are made individually, by gross principle in real time. A payment order directed to the RTGS system is final and irrevocable from the moment of its acceptance into the system for the purpose of settlement. The order is accepted by the RTGS system for the purpose of settlement from the moment when the system confirms its validity and identifies that there are sufficient funds in the settlement account.

Through a cash-pool account for cash balancing of secondary exchange transactions opened within the RTGS system, the Central Depository Agency (CDA) processes the balancing of payments resulting from trading of securities in the Montenegrin stock exchanges.

Payment orders are sent to the RGTS and DNS systems in the electronic form, in line with the SWIFT payment message format. All the banks use the SWIFT bank identification code. The accounts used for transfer processing are structured according to the IBAN standard.

The participants in the RTGS payment system may be legal persons which accounts are, pursuant to law, opened and run at the Central Bank of Montenegro. Pursuant to the Central Bank's bylaw, other legal persons may also be participants in the RTGS system.

Legal regulation provides for the existence of private payment systems, the operation licenses thereto being issued and operations controlled by the Central Bank of Montenegro.

In relation to payment instruments, they include credit order, debit order, payment cards, and e-banking applications used in the payment operations in the country.

- **What has been the experience with these systems?**

The experience so far with the operation of the abovementioned systems (and of the payment operations in the country in a wider context) may be assessed as positive. The systems proved to be robust and stable in operation (the average availability amounting to 99.83% in the period from 2005 to 2008) and their operation has not generated any risks typical to the operations of payment and settlement systems.

- **Are there changes envisaged in the payment system?**

As to the changes in payment system, they will take two directions in the following years:

1. harmonization with the regulation of the European Union and European System of Central Banks (ESCB), particularly:

- implementation of the Payment Services Directive 2007/64/EC;
- implementation of the Electronic Money Institutions Directive 2000/46/EC, i.e. of the new directive which is to replace the existing one;
- Settlement Finality in Payment and Securities Settlement Systems Directive 98/26/EC;
- Regulation 2560/2001.

2. Harmonization with best principles, standards and practices, particularly:

- Core Principles for Systemically Important Payment Systems (SIPS);
- TARGET2 guidelines ECB/2007/2;
- SEPA rulebooks and frameworks;
- Introduction of the Direct Debit Scheme;
- Oversight of the Payment Systems Principles and Practice;
- Promotion of the payment system business continuity plan;

B. The banking sector

35. Please present the significance of the banking sector in the economy (e.g. compared to the GDP, etc.) in the recent years.

The banking system has been a significant driving force of the economic growth of Montenegro in the past years, given the fact that the existing level of economic growth has required excessive bank loans. In the reports of many institutions (the IMF, World Bank, European Commission), the banking sector has been identified as a significant factor of growth. This is illustrated by the table herein which shows the contribution of the most important financial aggregates in GDP.

Year-end, %

	2003	2004	2005	2006	2007	2008
Assets/GDP	23.2	26.6	38.3	66.6	106.0	99.1
Loans/GDP	13.3	16.9	20.7	39.4	80.0	83.8
Deposits/GDP	14.0	16.4	26.9	50.1	74.5	59.6

36. What is the number of banks and other credit institutions operating in your country (if possible, by type of credit institution – banks, savings banks, mortgage credit institutions, etc.)? Please provide the following information:

The table hereunder shows the number of banks (excluding micro-credit financial institutions) in the period of 2003-II quarter of 2009:

Banks	2003	2004	2005	2006	2007	2008	IQ2009	IIQ 2009
Total number	**10**	**10**	**10**	**10**	**11**	**11**	**11**	**11**
Local	**8**	**8**	**7**	**5**	**6**	**6**	**5**	**5**
Foreign, from the EU states	**1**	**1**	**2**	**4**	**4**	**4**	**5**	**5**
subsidiaries								
branches								
Foreign, from the non-EU states	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
subsidiaries								
branches								

Note: The classification of banks to local and foreign has been done in the sense of Article 4b of the Law on Business Organizations. The foreign banks are the banks which have a subsidiary person in Montenegro.

The table hereunder shows the number of micro-credit financial institutions in the period of 2004-II quarter of 2009:

Micro-financial institutions	2004	2005	2006	2007	2008	IQ 2009	IIQ 2009
Total number	2	2	4	5	5	5	5
Local		1	3	4	4	5	5
IFIs owned by foreign international organisations	2	1	1	1	1		

Note: The micro-credit financial institutions launched their operations in 2004 and differ from the credit institutions in that they do not take deposits. It was impossible to classify them as to the EU and non-EU states, as questioned, for the capital donated originates from various international financial institutions.

a) Total number;

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

b) Domestic;

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

c) Non-domestic Community, of which:

The answer has been given in the table within the question no. 36 of this Chapter (B06010)

i) subsidiaries and

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

ii) branches.

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

d) Non-domestic non-Community, of which:

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

i) subsidiaries and

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

ii) branches.

The answer has been given in the table within the question no. 36 of this Chapter (B06010).

- Changes in (a) to (d) since 2003.

37. Assets of the banking system (if possible, by type of credit institution – banks, savings banks, mortgage credit institutions, other):

The table hereunder shows the total assets of the banks (excluding micro-credit financial institutions) in the period of 2003-II quarter of 2009, in EUR million:

Banks	2003	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Total banking sector assets	349 761	444 373	695 755	1 431 414	2 975 432	3 309 664	3 159 964	3 139 106
Assets owned by local banks (in EUR million)	302 353	357 498	502 279	391 154	878 148	925 374	695 060	666 840
Share in total assets	86.45	80.45	72.19	27.33	29.51	27.96	22.00	21.24
Assets owned by foreign banks from the EU states (in EUR million)	36 045	68 890	165 803	994 283	2 020 037	2 307 326	2 391 648	2 400 490
Subsidiaries	36 045	68 890	165 803	994 283	2 020 037	2 307 326	2 391 648	2 400 490
Share in total assets	10.31	15.50	23.83	69.46	67.89	69.71	75.69	76.47
Branches	-	-	-	-	-	-	-	-
Assets owned by foreign banks from the non-EU states (in EUR million)	11 363	17 985	27 673	45 977	77 247	76 964	73 256	71 776

Subsidiaries	11 363	17 985	27 673	45 977	77 247	76 964	73 256	71 776
Share in total assets	3.25	4.05	3.98	3.21	2.60	2.33	2.32	2.29
Branches								

The table hereunder shows the total assets of micro-credit financial institutions in the period of 2004-II quarter of 2009, in EUR millions:

Micro-financial institutions	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Total assets of MFI	13 990	18 611	33 813	54 446	79 124	76 234	77 667
Assets owned by local MFIs (in EUR million)		12 612	24 749	41 689	60 889	76 234	77 667
Share in total assets	0.00	67.77	73.19	76.57	76.95	100.00	100.00
Assets owned by foreign international organisations	13 990	5 999	9 064	12 757	18 235		
Share in total assets	100.00	32.23	26.81	23.43	23.05		

a) Total assets of the banking system;

The answer has been given in the table within the question no. 37 of this Chapter (BO6020).

b) Assets owned by domestic credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 37 of this Chapter (BO6020).

c) Assets owned by non-domestic Community credit institutions (in volume and share of total), of which:

The answer has been given in the table within the question no. 37 of this Chapter (B06020).

i) By subsidiaries of non-domestic Community credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 37 of this Chapter (BO6020).

ii) By branches of non-domestic Community credit institutions (in volume and share of total).

The answer has been given in the table within the question no. 37 of this Chapter (BO6020).

d) Total assets owned by non-domestic non-Community credit institutions (in volume and share of total), of which:

The answer has been given in the table within the question no. 37 of this Chapter (BO6020).

i) By subsidiaries of non-domestic non-Community credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 37 of this Chapter (B06020).

ii) By branches of non-domestic non-Community credit institutions (in volume and share of total).

The answer has been given in the table within the question no. 37 of this Chapter (B06020).

- Changes in (a) to (d) since 2003.

38. Total deposits (if possible, by type of credit institution – banks, savings banks, mortgage credit institutions, etc …):

The table hereunder shows the total deposits of banks in the period of 2003-II quarter of 2009, in EUR million:

Banks	2003	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Total bank sector deposits	211 004	273 195	487 918	1 075 766	2 091 074	1 990 590	1 761 199	1 757 092
Deposits at banks owned by local banks (EUR million)	194 325	234 648	375 869	302 208	710 770	655 357	520 947	503 039
Share in total deposits	92.10	85.89	77.04	28.09	33.99	32.92	29.58	28.63
Deposits at banks owned by foreign banks from the EU states (in EUR million)	10 725	27 796	92 052	736 424	1 324 069	1 298 961	1 205 508	1 220 167
Subsidiaries								
Share in total deposits	5.08	10.17	18.87	68.46	63.32	65.26	68.45	69.44
Branches								
Deposits at banks owned by foreign banks from non-EU states (in EUR million)	5 954	10 751	19 997	37 134	56 235	36 272	34 744	33 886
Subsidiaries								
Share in total deposits	2.82	3.94	4.10	3.45	2.69	1.82	1.97	1.93
Branches								

a) Total deposits;

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

b) Deposits held by domestic credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

c) Deposits held by non-domestic Community credit institutions (in volume and share of total), of which:

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

i) By subsidiaries of such credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

ii) By branches of such credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

d) Total deposits held by non-domestic non-Community credit institutions (in volume and share of total), of which:

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

i) By subsidiaries of such credit institutions (in volume and share of total);

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

ii) By branches of such credit institutions (in volume and share of total).

The answer has been given in the table within the question no. 38 of this Chapter (B06030).

- Changes in (a) to (d) since 2003.

39. Concentration of the market (respectively as a share of total assets, of loans and of total deposits held by the largest institutions), indicating whether they are:

The table hereunder shows the market concentration of all the banks in the period of 2003-II quarter of 2009:

	Banks	2003	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Concentration of assets	Share of local banks' assets in total assets	86.45	80.45	72.19	27.33	29.51	27.96	22.00	21.24
	Share of the assets of banks owned by foreign banks from the EU states in total assets	10.31	15.50	23.83	69.46	67.89	69.71	75.69	76.47
	Share of the assets of banks owned by foreign banks from non-EU states in total assets	3.25	4.05	3.98	3.21	2.60	2.33	2.32	2.29
Concentration of deposits	Share of local banks' deposits in total deposits	92.10	85.89	77.04	28.09	33.99	32.92	29.58	28.63
	Share of the deposits of banks owned by foreign banks from the EU states in total deposits	5.08	10.17	18.87	68.46	63.32	65.26	68.45	69.44
	Share of the deposits of banks owned by foreign banks from the non-EU states in total deposits	2.82	3.94	4.10	3.45	2.69	1.82	1.97	1.93
Concentration of loans	Share of the local banks' loans in total loans	91.62	91.62	72.49	24.15	29.64	27.52	22.37	21.21
	Share of the loans of the banks owned by foreign banks from the EU states in total loans	5.82	5.82	24.79	73.71	68.27	70.30	75.44	76.66
	Share of the loans of banks owned by foreign banks from non-EU states in total loans	2.57	2.57	2.72	2.14	2.09	2.18	2.19	2.14

Note: the MFIs are not included in the table overview of the market concentration since their share in the assets and loans of the banking sector is negligible.

The table hereunder shows the market concentration of local banks in the period of 2003-II quarter of 2009:

Market shares at local banks		2003	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Share of local banks' assets in total assets	1 bank	26.71	30.8	42.61	9.72	15.75	14.79	14.04	12.55
	3 banks	59.16	53.79	86.06	22.97	26.32	24.65	20.89	20.18
	5 banks	75	68.95	96.38	27.32	29.3	27.54	21.99	21.24
Share of local banks' loans in total loans	1 bank	25.64	31.2	42.6	7.83	18.21	16.57	15.62	14.49
	3 banks	60.73	50.78	58.14	20.64	26.73	24.82	21.77	20.67
	5 banks	76.52	65.39	67.97	24.15	29.64	27.34	22.37	21.21
Shares of local banks' deposits in total deposits	1 bank	33.21	37.32	50.37	10.1	20.22	19.63	20.28	18.19
	3 banks	66.65	61.85	63.84	24.27	31.86	30.27	28.95	28.09
	5 banks	84.92	79.5	74.1	28.09	33.93	32.64	29.58	28.63

The table hereunder shows the market concentration of foreign banks in the period of 2003-II quarter of 2009:

Market share at foreign banks		2003	2004	2005	2006	2007	2008	I Q 2009	II Q 2009
Share of foreign bank's assets in total assets	1 bank	10.31	15.5	12.37	38.26	34.48	34.27	32.89	32.44
	3 banks	-	-	27.8	63.37	61.92	62.99	66.05	63.94
	5 banks			-	72.67	70.48	65.99	78.68	76.47
Share of foreign banks' loans in total loans	1 bank	5.82	17.56	9.04	38.08	32.31	33.7	32.6	32.06
	3 banks	-	-	27.5	67.16	62.67	64.06	64.08	64.87
	5 banks			-	75.85	70.36	72.48	75.43	76.65
Share of foreign banks' deposits in total deposits	1 bank	5.08	10.17	10.92	42.65	39.76	41.49	36.83	36.2
	3 banks	-	-	22.96	65.22	57.66	60.93	58.02	58.8
	5 banks			-	71.91	66.01	67.07	68.45	69.44

a) Domestic;

The answer has been given in the table within the question no. 39 of this Chapter (B06040).

b) Non-domestic Community;

The answer has been given in the table within the question no. 39 of this Chapter (B06040).

c) Non-domestic non-Community.

The answer has been given in the table within the question no. 39 of this Chapter (B06040).

- Changes in (a) to (c) since 2003.

40. Importance of the public sector in the banking industry:

a) Number of banks owned by public institutions and the amount of their assets and deposits;

The entities falling under the notion of public institutions are: the Government of Montenegro, the governmental agencies, funds, municipalities, and the majority state-owned business organisations. There is currently no bank in Montenegro which is majority owned by public institutions. The public institutions are the owners of the capital at five banks in the system, amounting to EUR 7.3 million, which accounts for only 2.68% of the total capital on the aggregate level.

b) Timetable, objectives and scope of the envisaged privatisation;

The remaining capital owned the public institutions will be privatised pursuant to the decisions of the Government of Montenegro.

c) Do public banks benefit from special treatment? Do banks directed by public or political party officials benefit from special treatment and how? Do public utilities/companies keep their accounts with commercial banks?

Banks where the state (public institutions) has the minority share in equity have no special treatment nor enjoy special benefits. There are no banks in Montenegro managed by state or political parties' officials.

All public enterprises and business organisations have accounts at commercial banks and operate therethrough.

d) Is there some policy to recapitalise them?

The strategic commitment of the state is the privatisation of the remaining state capital.

e) Indicate the percentage of bank capital held by public entities on a bank by bank basis.

The table herein shows the share of the state in the equity structure of five banks (%) on the date of 30 June, 2009:

Bank	% state capital
Prva banka osnovana 1901 g.	18.46
Podgorička banka SCG	5.77
NLB Montenegrobanka	0.47
Hipotekarna banka	2.80
Invest banka Montenegro	5.34

f) Is the government considering or engaged in any bank re-nationalisation? If yes, please explain the objectives and scope of such operation.

The Government of Montenegro does not consider or take part in re-nationalisation of any bank.

41. Please describe the current situation concerning access of private companies to bank credit and the trend compared to previous years. To what extent have issues relating to property registration and enforcing bankruptcy hindered the access to credit?

The property registration has not been recognised as a factor which could result in possible significant obstacles to credit access. A number of laws being important for the subject matter have been enacted in the last couple of years within the legal system, aimed at regulation of issues related to the real estate and collateral registries. Primarily, the Law on Property Legal Relations has been adopted regulating the issues of mortgage on real estate, as well as the Secure Transactions Law providing for the collateral registry related to tangible assets. In addition, the Law on State Survey and Cadastre of Real Estate has regulated the system of records and registration of real estate. The registration of debtor's property puts no legal risk on banks nor jeopardizes access to credits to that regard.

In addition, the bankruptcy execution is not substantial for the access to credits. The bankruptcy or liquidation procedures in the banking system (during 2002 and 2003) have no influence on the access to credits. On contrary, they contributed to stabilisation and security of the entire system. Bankruptcies in the economy have been regulated by the Law on Insolvency of Business Organisations, where the procedural actions have no correlation which would influence the access to credits. The act of initiating the bankruptcy procedure in a company deprives it of a possibility to borrow at banks, the possible risks for the banking system thus being removed. Private companies accounted for 21.85% of overall credits at the end of the second quarter of 2009.

The table herein shows developments in credits approved to private companies from 2003 to June 2009:

year	amount in EUR million	% share in aggregate credits	growth rate %
2003	112,708	1.59	
2004	166,052	2.35	47.33
2005	212,523	3.01	27.99
2006	451,398	6.39	112.40
2007	1,360,343	19.24	201.36
2008	1,655,677	23.42	21.71
I Q 2009	1,565,650	22.15	-5.44
II Q 2009	1,544,480	21.85	-1.35
TOTAL	7,068,831	100.00	

Loans granted to private companies in 2003-2008 make continuous growth as to the share of the aggregately approved credits in the banking system, and of the absolute amount, while their most extensive growth has corresponded with the expansive credit growth in 2006 and 2007. The share of such credits in the aggregate credits has been insignificantly reduced in 2009 due to their repayment and to almost fully discontinued lending activities of the banks since the beginning of the fourth quarter of 2008 due to the negative developments in the global financial market.

The situation in the real sector having been generally worsened, the current access of private companies to banks' credits could be aggravated because of a possible and expected deterioration in key performances thereof (profitability, rationalisation, capitalisation, adn the like), which is being taken into consideration when granting new credits. Additionally, those performances will also determine terms and conditions under which banks will restructure due but outstanding credit liabilities of those companies.

On the other hand, the activities on entering into agreement on crediting development projects of small and medium sized companies between banks and international financial institutions (EIB, EBRD, KFW), to be secured by state guarantees, amounting to approx. EUR 200 million, which is a positive signal as to reviving credit activities not only of those banks but of the system as a whole.

42. Please evaluate the degree of competition in the banking system (price competition, new products, changes in market share, and other indicators). Are there any particular concerns on the market share of the largest banks?

The concentration of market share of banks has been expressed for the period considered. The level of concentration in the banking system, measured by the Hirschman-Herfindahl index (HH index) by the assets (1 842), deposits (2 125) and credits (1 877) has declined.

T- 1 Hirschman-Herfindahl index from 2004 to June 2009

HH Index	2003	2004	2005	2006	2007	Mar-08	Jun-08	Sep-08	2008	Mar-09	Jun-09
by assets	1 531	1 641	2 296	2 042	1 918	1 879	1 916	1 929	1 911	1,848	1 824
by deposits	1 892	1 991	2 898	2 350	2 298	2 309	2 330	2 407	2 465	2,199	2 125
by credits	1 526	1 699	2 336	2 126	1 917	1 914	1 905	1 935	1 959	1 900	1 877

The ratio of concentration by assets has not been significantly changed when compared to 2008. The same refers to the ratio of concentration by capital. As for the coefficient of concentration by deposits, there has been evident decrease in the concentration in the case of one bank, and increase in the cases of three banks in the system.

T–2 Coefficient of concentration (CC)

Coefficient of concentration	by assets			by capital			by deposits		
	1 bank	3 banks	5 banks	1 bank	3 banks	5 banks	1 bank	3 banks	5 banks
2004	0.31	0.60	0.77	0.18	0.47	0.65	0.37	0.62	0.82
2005	0.43	0.66	0.81	0.21	0,51	0.69	0.50	0.69	0.85
2006	0.38	0.64	0.80	0.20	0,50	0.70	0.43	0.68	0.83
2007	0.34	0.64	0.84	0.17	0,37	0.60	0.40	0.73	0.85
Mar-08	0.33	0.64	0.84	0.15	0.40	0.61	0.40	0.74	0.86
Jun-08	0.34	0.65	0.84	0.21	0.44	0.64	0.40	0.75	0.87
Sep-08	0.34	0.65	0.85	0.21	0.44	0.64	0.41	0.76	0.87
Dec-08	0.34	0.64	0.85	0.20	0.41	0.60	0,42	0.64	0.85
Mar-09	0.33	0.63	0.84	0.19	0.40	0.59	0.37	0.60	0.83
Jun-09	0.32	0.64	0.84	0.16	0.43	0.62	0.36	0.73	0.86

Taking into account that Montenegro is a small market, the existing level of concentration is acceptable. In addition, relatively high indicators of concentration of the Montenegrin banking system may not be necessarily interpreted as indicators of undeveloped interbank competition since the quantitative indicators (in this case HH index and coefficient of concentration) can never be perfect, thus the concentration measured by those indicators is not linearly correlated with the level of competition.

When talking about competition of products, it may be noted that most banks offer the same services with slight ‘variations’. Service price setting is performed in line with business policy of a bank, while a multi-year trend of fall in interest rates (interrupted by the global financial crisis) indicates that price competition has been in place.

43. What is the average interest rate spread (lending/deposit rates in domestic and foreign currency respectively) in banking over recent years? Please supply data on the profitability of banks during recent years and comment on developments.

The Regulatory Credit Bureau of the Central Bank of Montenegro has data on average weighted active nominal and effective interest rates for the period from 30 September 2005 to 30 June 2009, namely:

- from September 2005 to August 2007 – Reports to the Regulatory Credit Bureau include the banks’ accounts receivable approved on minimum EUR 3000. The weighted average nominal (WANIR) and effective (WAEIR) interest rates to the credit debt balance in the system of banks have ranged in the considered period as follows:

Period	***AWNIR***	***AWEIR***
Sep 05 - Dec 05	10.78% - 11.24%	12.12% -12.57%
Jan 06 - Dec 06	9.06% - 10.89%	9.94% - 12.04%
Jan 07 - Aug 07	8.22% - 8.95%	9.03% - 9.84%

- * Since September 2007 - Reports to the Regulatory Credit Bureau include the banks’ accounts receivable lesser than EUR 3 000. The average weighted nominal (AWNIR) and effective (AWEIR) interest rates on the credit debt balance in the system of banks have ranged in the considered period as follows:

Period	***AWNIR***	***AWEIR***
Sep 07 - Dec 07	8.51% - 8.67%	9.28% - 9.40%
Jan 08 - Dec 08	8.35% - 8.81%	9.15% - 9.40%
Jan 09 - Jun 09	8.48% - 8.76%	9.16% - 9.38%

Data on weighted average passive interest rates on the banks’ deposits have been available since 30 September 2007:

30 /09 /07	31 /10 /07	30 /11 /07	31 /12 /07	31 /01 /08	29 /02 /08	31 /03 /08	30 /04 /08	31 /05 /08
3.64	3.72	3.74	3.48	3.41	3.55	3.65	3.74	3.71

30 /06 /08	31 /07 /08	31 /08 /08	30 /09 /08	31 /10 /08	30 /11 /08	31 /12 /08	31 /01 /09	28 /02 /09
3.73	3.92	3.86	3.97	4.15	4.28	4.11	4.27	4.14

31 /03 /09	30 /04 /09	31 /05 /09	30 /06 /09
3.86	3.86	3.75	3.80

After the upturn in the period from 2005 to 2007, the profitability of the banking sector has been interrupted due to large losses stated by three banks in the system. The profitability of the banks has been influenced by both subjective and objective factors. Subjective weaknesses in certain banks refer primarily to inadequate credit risk management, which resulted in a high level of additional reserve requirements as well as to a high level of general operation costs. Objective factors refer to negative effects of the global financial crisis, prudential limits to credit growth in 2008 and aggravated access of banks to external sources of finance under the influence of negative developments in the global financial market. The trend of negative operations of banks has continued in 2009.

	2003	2004	2005	2006	2007	2008	IQ 2009	IIQ 2009
Financial result	5 336	-1 116	4 183	9 009	13 907	-19 687	-12 388	-25 930

Negative financial result has consequently resulted in negative indicators of return on average assets (ROA) and return on average equity (ROE) on the aggregate level. The level and trend of those indicators have been given in the following table.

Coefficients	2004	2005	2006	2007	2008	Q12009	Q22009
ROA	-0.29	0.81	1.07	0.72	-0.62	-1.52	-1.61
ROE	-1.24	4.16	6.82	6.17	-6.90	-17.83	-18.92

44. What is the average maturity of bank loans to the private sector over recent years? What is the share of loans with maturity of up to one year?

The average maturity of bank loans to the private sector at 30 June, 2009 amounted to 54 months.

The table shows the share of short-term (up to one year) and long-term (exceeding one year) loans granted to the private sector in the period 2003 – II quarter of 2009:

Loans to private sector* (EUR million)								
Banks	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**IQ 2009**	**IIQ 2009**
Short-term loans to private sector	116 223	142 513	139 376	231 935	635 171	737 578	655 958	658 108
Aggregate short-term loans	147 569	170 260	184 944	270 772	658 354	776 289	695 185	703 401
long-term loans to private sector	48 359	102 222	178 847	539 303	1 544 832	1 992 182	1 953 730	1 892 047
Aggregate long-term loans	53 057	111 222	190 998	576 392	1 587 329	2 021 244	1 986 970	1 930 416
Aggregate loans	200 626	281 482	375 941	847 164	2 245 683	2 797 535	2 682 155	2 633 817
Share of sh-t. pr.s. loans in aggr. loans	57.93	50.63	37.07	27.38	28.28	26.37	24.46	24.99
Share of l-t pr.s. loans in aggr. loans	24.10	36.32	47.57	63.66	68.79	71.21	72.84	71.84
Share of short-term private sector loans in aggr. short-term loans	0.79	0.84	0.75	0.86	0.96	0.95	0.94	0.94
Share of long-term private sector loans in aggr. long-term loans	91.15	91.91	93.64	93.57	97.32	98.56	98.33	98.01

Note: Private sector includes: private companies in private ownership, banks, entrepreneurs, financial institutions, non-profit organisations, and natural persons

45. Please provide data on foreign currency denominated and foreign currency indexed deposits and loans.

Given that Montenegro uses euro as the national currency, the table shows the deposits and loans denominated in other currencies.

Table: Loans and deposits in foreign non-euro currency **000 Eur**

	2005	2006	2007	2008
Loans in foreign non-euro currency	2 114	3 392	76 542	162 675
Deposits in foreign non-euro currency	16 625	36 913	46 930	51 838

46. How do you assess the stability of the banking sector? What is the current situation and trend concerning capitalisation, structure of capital, regulatory capital, risk weighted assets?

The banking sector has survived the strike of the global financial crisis which was most visible in the fourth quarter of 2008 and the first quarter of 2009. With a view to preventing the escalation of crisis, maintaining stability, liquidity and solvency of the banking sector in Montenegro, the Ministry of Finance, in cooperation with the Central Bank of Montenegro, has prepared a consistent set of measures though the Law on Measures for Protection of the Banking System adopted by the Parliament of Montenegro in October 2008. This set of measures has been based on: issuing guarantees on the full amounts of deposits of citizens and economic entities at the banks registered in Montenegro; guarantees on inter-bank lending and banks' borrowing from the financial institutions; ensuring the option of premature repayment of loans and ensuring credit support on demand to the banks in Montenegro from the State Budget funds, as well as from the funds of reserves and capital of the Central Bank, and the option of state engagement in the procedure of capital increase of banks.

Pursuant to the Law, the Government approved a credit support to the *Prva banka Crne Gore*, on 17 December, 2008, amounting to EUR 44 million. At the same time, the Government performed the premature repayment of EUR 42 million of debt to commercial banks in order to assist and support their liquidity.

With a view to ensuring long-term sources of funds for the banking sector and supporting the projects of small and medium sized business, the Government of Montenegro has issued guarantees to international financial institutions (EIB, KfW) amounting to EUR 141 million.

The preservation of the banking sector stability has also been contributed by the Central Bank's measures on credit growth ceilings in 2008 which were preventive in nature from the present point of view, the new regulatory framework, and more strict supervisory activities of the Central Bank in the environment of crisis, which have reflected as follows:

- the common reserve requirements rate was reduced from 11 to 10%,
- the banks were enabled to keep up to 25% of reserve requirements in the form of treasury bills issued by the state of Montenegro,
- the period of use of up to 50% of the allocated funds of reserve requirements from seven to ten working days was extended,
- the interest rate was reduced from 5% to 4% on the annual level on the amount of reserve requirements used,
- the interest rate was reduced from 9% to 4% on the annual level on the amount of reserve requirements' funds which a bank failed to return the same day,
- the assets classification was harmonised with the Basel Standards as to the timescale of late payment, according to which assets are considered as bad if the delinquency exceeds

90 days, contrary to the valid classification which considers assets to be bad when the payment is late for more than 60 days. In addition, the assets category of ‘loss’ has been extended from presently considered more than 180 days to minimum 270 days of late payment;

- a new Decision on temporary measures for credit risk management in banks has been issued, providing banks to classify restructured loans into more favourable classification group, from 1 January 2009, under conditions defined by the Decision, where such activity is not going to affect the bank liquidity in short and long term, while ensuring a regular debt servicing in the future. In addition, the decision largely facilitates the position of the bank’s debtors – legal and natural persons who face loan delinquency due to the global crisis.

The Central Bank continuously carries out supervision activities aimed at ensuring security and stability of the banking sector. These activities have especially been extended since the fourth quarter of 2008, which corresponded with the initial effectuation of the global crisis in Montenegro. In the fourth quarter of 2009 and in the first quarter of 2010, the Central Bank is going to perform ‘direct diagnostic control’ of all the banks in the system, the control being a combination of direct control and stress testing executed by both the banks and Central Bank based on a unique projection of key macroeconomic variables within two scenarios: realistic scenario and ‘worst-case scenario’. The control is aimed at evaluating the banking sector sustainability and defining needs for the capital and liquid assets on the level of individual banks and system as a whole.

In addition to measures taken by the Government of Montenegro and Central Bank with a view to preserving financial stability and security of the banking system, a significant support has been provided by parent banks to their subsidiary persons in Montenegro, in order to depreciate a strong outflow of deposit potential and pressure by clients as to cash payments.

The banking sector has been stabilised by the end of the second quarter. The system’s stability in the following period may be affected by a deterioration of macroeconomic variables: rise in the negative GDP growth rate, rise in the unemployment rate, further fall in real estate prices, etc.

In 2008 and 2009, the banks have been subject to significant capital increase, also required by the application of the new regulatory framework based on the Basel II and European directives, new methodology for the solvency coefficient calculation and the increased amount of the minimum solvency coefficient of 10%, comparing to the previous 8% amount. Banks have been obliged to harmonise their operations with the provisions of the new regulation until 19 March 2009, thus the first indicators were available on 31 March, 2009.

The table shows the developments in the total capital, and total capital/total assets coefficient within one year

	30/06/2008	30/09/2008	31/12/2008	31/03/2009*	31/06/2009
total capital (EUR m)	280.838	283.024	279.377	264.544	271.325
TC/TA (%)	8,24	8,06	8,44	8,37	8,64

At the end of the second quarter of 2009, the total capital of the banks amounted to EUR 271.3 million, accounting for 8.64% of the balance sum. A significant capital increase of the banking sector has taken place in 2008 amounting to EUR 64.2 million, and a subordinated debt amounting to EUR 10 million has been ensured, while there were share issues in 2009 amounting to EUR 20 million and subordinated debt ensured amounting to EUR 18 million (totalling EUR 112.2 million). However, the negative effects of capital increase have disappeared in certain banks due to a negative financial result stated. The Central Bank estimates that the system has not been capitalised enough due to a very distinctive credit risk. Therefore, additional capitalisation will be required within the supervision measures in the period to come.

The table shows developments in risk capital (own funds), risk-weighted assets, and solvency coefficient within one year:

EUR *m*	30/6/2008	30/9/2008	31/12/2008	31/3/2009	30/6/2009
risk capital	294 517	293 198	294 032	269 843*	270 582*
risk-weighted assets	1 775 055	1 875 121	1 955 431	2 173 132**	2 275 711**
				1 890 572***	1 993 008***
solvency ratio (%)	16.59	15.64	15.04	12.42	11.89

* bank's own funds

** risk-weighted assets for credit risk plus the amount of capital needed for the remaining risks (market, operational, country risk, etc.)

*** risk-weighted assets for credit risk calculated according to new methodology

Note: In 2009, banks have been calculating the solvency ratio by new methodology as a ratio of own funds (instead of risk capital) and risk-weighted assets for credit risk plus the amount of the capital necessary for market, operational and other risks faced by the banks in their operations (the necessary capital was not included in the past calculations), thus the data are not comparable to the data before 31 December, 2008.

The solvency ratio on the system level amounts to 11.89%, which exceeds the statutory minimum of 10. However, this ratio has been below the statutory minimum in three banks, namely: *Prva bank* 7.12%, *Podgorička bank* 8.09%, and *Crnogorska komercijalna bank* 7.32%.

The ratio's decrease in *Crnogorska komercijalna bank* and *Podgorička bank* was mainly the result of reserves additionally set by the supervision, or inappropriate credit risk estimate by the bank. Those two banks have already taken activities for necessary capital increase by the beginning of the fourth quarter of 2009.

The activities taken by the banks concerning the reprogramming and restructuring of loans, and by the Central Bank concerning the harmonisation of regulations with international standards referring to credit risk management will result in the stabilisation and possible reduction in risk-weighted assets in the following period. In addition, further growth of own funds is expected due to the announced capital increase of banks through share issues and subordinate debt provision, and due to improvement of financial operations results stemming from the application of more strict regulatory framework in the part of assets classification by days of delay, which has been harmonised with international standards. The capital structure by source of finance is satisfactory given that it has been dominantly formed by the issues of ordinary shares.

The table shows the structure of capital by sources of finance on 30 June, 2009

30/06/2009	Source of finance	%
Structure of capital	(EUR 000)	share
Preferential shares	11 277	4.16
Ordinary shares	255 201	94.06
Issue premium	16 163	5.96
Undistributed profit (loss)	-32 751	-12.07
Remaining capital	21 435	7.90
TOTAL	271 325	100

The structure of the banking sector capital has been satisfactory from the ownership point of view, given that the share of foreign capital has been dominant with 80.35%, followed by the private capital amounting to 16.96%, and the state capital of 2.68%.

The table shows the ownership structure of capital in the period 2003 – II quarter of 2009:

Structure of capital								
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**IQ 2009**	**IIQ 2009**
Total capital	**89 199**	**90 766**	**106 464**	**148 760**	**236 937**	**279 377**	**264 544**	**271 325**
State capital	22 245	23 376	14 053	5 316	5 910	7 808	6 945	7 280
Share of state capital in total capital	24.94	25.75	13.20	3.57	2.49	2.79	2.63	2.68
Local private capital	34 651	32 994	20 152	26 201	51 585	48 443	43 077	46 028
Share of local priv. cap. in total capital	38.85	36.35	18.93	17.61	21.77	17.34	16.28	16.96
Foreign capital	32 303	34 396	72 259	117 243	179 442	233 127	214 522	218 017
Share of foreign cap. in total capital	36.21	37.90	67.87	78.81	75.73	83.45	81.09	80.35

47. Please provide an analysis and an estimate (as an absolute amount, as a % of total assets) of non-performing loans (NPLs) in banks.

The table shows the developments in non-performing loans and their share in total loans and total assets in the period from June 2008 to June 2009:

	Jun. 08	**Sep. 08**	**Dec. 08**	**Jan. 09**	**Feb. 09**	**Mar. 09**	**Apr. 09**	**May 09**	**Jun. 09**
Non-performing loans	172 482	220 059	321 592	346 433	319 695	390 749	372 336	466 534	502 464
Total loans	2 719 508	2 852 300	2 797 535	2 750 037	2 681 832	2 682 155	2 664 807	2 652 328	2 633 817
Total assets	3 407 750	3 509 707	3 309 664	3 243 917	3 169 662	3 159 961	3 142 249	3 174 143	3 139 106
Share of non-performing loans	6. 34	7.72	11.50	12.60	11.92	14.57	13.97	17.59	19.08
Share of non-performing loans in tot. assets	5. 06	6. 27	9.72	10.68	10.09	12.37	11.85	14.70	16.01

Note: The non-performing loans include all the loans over 31 days, in the gross amount

Influenced by the crisis which has additionally stressed the consequences of inadequate credit risk management in the period of credit expansion, the share of non-performing loans in total loans and total assets at the end of the fourth quarter of 2008 has increased to a large extent. The negative trend has continued into the first half of 2009.

The table shows the non-performing loans' growth, total loans and total assets in the period from December 2008 to June 2009:

Growth in %	**12/08-09/08**	**01/09-12/08**	**02/09-01/09**	**03/09-02/09**	**04/09-03/09**	**05/09-04/09**	**06/09-05/09**	**06/09-12/09**
Non-performin g loans	46.14	7.72	-7.72	22.23	-4.71	25.30	7.70	56.24
Total loans	*-1.92*	-1.70	-2.48	0.01	-0.65	-0.47	-0.70	-5.85

Total assets	*-5.70*	-1.99	-2.29	-0.31	-0.56	1.02	-1.10	-5.15

There was a high rate of non-performing loans in the fourth quarter of 2008, amounting to 46.14%, and at the same time the 1.92% reduction in total loans and 5.70% in total assets. The reduction in assets resulted not only from a fall in loan portfolio of banks but also from the reduction in cash of the banks due to stronger clients' demand for withdrawal of deposits and reduced collection of due credit accounts receivable. In 2009, the developments in such loans have been very unstable when observed on a monthly level, the highest growth rates of 22.23% and 25.30% achieved in March and May respectively. The total non-performing loans' growth in the first half of 2009 amounted to 56.24%, while there was a decline by 5.85% in total loans, and by 5.15% in total assets. There has been obvious deterioration of developments in the real sector, especially in construction, aluminium, tourism, which resulted in a fall of the purchasing power of legal and natural persons.

The projection of developments in non-performing loans by the end of 2009 has been based on the data on the real growth of such loans in the first six months of 2009 and on the following prerequisites:

- average monthly growth rate of such loans amounts to 8%,
- realisation of credit lines of international financial institutions, the finalisation thereof being in progress (EIB, EBRD, KfW),
- total loans' growth rate amounts to 6.84%,
- total assets' growth rate amounts to 5.19%.

	31/12/2009	**% of growth**	
		Jul-Dec 2009	Jan-Dec 2009
Non-performing loans	797 000	58	148
Total loans	2 814 000	6.84	0.59
Total assets	3 302 000	5.19	-0.23
Share of non-performing loans in total loans	28.32		
Share of non-performing loans in total assets	24.14		

The realisation of the prerequisites hereabove would result in the non-performing loans' growth by the rate of 58% in six months, i.e. by the rate of 148% on the annual level, while the share of those loans in total loans would amount to 28.32%, and in total assets to 24.14%.

48. What has been the NPLs development over the past few years? Do you see an effect of the past rapid credit growth on the average quality of the loan portfolio?

The table shows the developments in non-performing loans, and their share in total loans and total assets in the period from 2003 to the second quarter of 2009:

Non-performing loans							
Banks	**2004**	**2005**	**2006**	**2007**	**2008**	**I Q 2009**	**II Q 2009**
Non-performing loans	14 552	20 046	64 508	83 252	321 592	390 749	502 464
Total loans	281 482	375 941	847 164	2 245 683	2 797 535	2 682 155	2 633 817
Total assets	444 373	695 755	1 431 414	2 975 432	3 309 664	3 159 964	3 139 106

Share of NPLs in total NPLs	5.17	5.33	7.61	3.71	11.50	14.57	19.08
Share of NPLs in total assets	3.27	2.88	4.51	2.80	9.72	12.37	16.01

Note: The data on non-performing loans in 2003 are not available

The non-performing loans in 2004 and 2005 had a stable share in total loans and total assets. In 2006, their share was increased and corresponded to a high growth rate of total loans and total assets. Although the highest rate of credit growth was recorded in 2007, amounting to 165%, non-performing loans has experienced the growth of 29%, and their share in total loans and assets has been significantly reduced for the following reasons: a slower non-performing loans growth comparing to the growth of loans and assets, more favourable terms of new loan approvals (lower interest rates, grace period, etc.), the real sector growth, etc.

The table below shows the non-performing loans growth, total loans and total assets in the period from 2003 to the second quarter of 2009:

% of growth	2004/03	2005/04	2006/05	2007/06	2008/07	I Q 09/08	II Q/IQ 09
Non-performing loans		37.75	221.80	29.06	286.29	21.50	28.59
Total loans	40.30	33.56	125.34	165.08	24.57	-4.12	-1.80
Total assets	27.05	56.57	105.74	107.87	11.23	-4.52	-0.66

The expansive credit growth has a negative impact on the quality of loan portfolio, i.e. it brought to an increase in the share of non-quality loans (C,D,E) in total loans.

49. Please provide historical data on the asset and liability structure of the banking sector with analysis.

The table herein shows the structure of the assets and liabilities of banks for the period of 2003-IIQ2009:

Seq. No	DESCRIPTION	2003	share	2004	share	2005	share	2006	share	2007	share	2008	share	I Q 2009	share	II Q2009	share
1	Cash and deposit accounts at depository institutions	96 030	27,46	107 596	24.21	267 019	38.38	511 905	35.76	664 378	22.33	473 273	14.30	416 752	13.19	442 894	14.11
2	Assets intended for trade	23	0,01	0	0.00	93	0.01	165	0.01	2 459	0.08	5 724	0.17	13 295	0.42	14 071	0.45
3	Securities bought under repurchase agreement	0	0,00	0	0.00	0	0.00	3	0.00	5	0.00	4	0.00	5	0.00	5	0.00
4	Loans and term of leasing	200 626	57,36	281 482	63.34	375 941	54.03	847 164	59.18	2 245 683	75.47	2 797 535	84.53	2 682 155	84.88	2 633 817	83.90
5	Securities held by maturity	16 010	4,58	18 768	4.22	7 694	1.11	8 761	0.61	239	0.01	2 455	0.07	25 360	0.80	25 537	0.81
6	Factoring and forfeiting	0	0,00	0	0.00	0	0.00	0	0.00	0	0.00		0.00	6 603	0.21	9 501	0.30
7	Accounts receivable from custody operations	0	0,00	0	0.00	0	0.00	0	0.00	0	0.00		0.00		0.00	6	0.00
8	Business premises and other fixed assets	24 178	6,91	22 503	5.06	25 028	3.60	33 729	2.36	40 861	1.37	48 814	1.47	48 230	1.53	47 663	1.52
9	Gained assets	6 447	1,84	5 071	1.14	2 220	0.32	1 979	0.14	2 227	0.07	4 699	0.14	5 142	0.16	6 112	0.19
10	Investments into capital of other legal persons	5 685	1,63	5 441	1.22	9 699	1.39	20 167	1.41	32 019	1.08	29 474	0.89	27 048	0.86	31 089	0.99
11	Other assets	10 431	2,98	17 424	3.92	23 336	3.35	27 588	1.93	41 229	1.39	67 829	2.05	66 369	2.10	81 864	2.61
12	Minus: Reserves for potential loss	9 669	2,76	13 912	3.13	15 273	2.20	20 047	1.40	53 668	1.80	120 143	3.63	130 995	4.15	153 453	4.89
13	**TOTAL ASSETS**	**349 761**	100,00	**444 373**	100.00	**695 757**	100.00	**1 431 414**	100.00	**2 975 432**	100.00	**3 309 664**	100.00	**3 159 964**	100.00	**3 139 106**	100.00

Seq. No	DESCRIPTION	2003	share	2004	share	2005	share	2006	share	2007	share	2008	share	I Q 2009	share	II Q2009	share
1	Deposits	211 004	60.33	273 195	61.48	487 917	70.13	1 075 766	75.15	2 091 074	70.28	1 990 590	60.14	1 761 199	55.73	1 757 092	55.97
2	Securities sold under repurchase agreement	19 248	5.50	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
3	Accounts payable on custody operations	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	638	0.02	859	0.03
4	Acc. payable on taken loans and borrowings	17 390	4.97	54 213	12.20	73 921	10.62	157 668	11.01	520 762	17.50	839 404	25.36	930 793	29.46	919 980	29.31
5	Accounts payable to the Government	5 170	1.48	5 328	1.20	6 373	0.92	14 682	1.03	22 431	0.75	75 725	2.29	66 649	2.11	58 264	1.86
6	Other borrowings – due liabilities	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
7	Derivative financial liabilities	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	351	0.01	190	0.01
8	Derivative financial liabilities	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1 143	0.04	1 069	0.03
9	Reserves	0	0.00	3 116	0.70	3 778	0.54	4 291	0.30	7 627	0.26	77 458	2.34	68 914	2.18	65 091	2.07
10	Other liabilities	7 751	2.22	17 755	4.00	17 304	2.49	30 247	2.11	69 601	2.34	10 110	0.31	10 733	0.34	10 236	0.33
11	Subordinated debts	0	0.00	0	0.00	0	0.00	0	0.00	27 000	0.91	37 000	1.12	55 000	1.74	55 000	1.75
12	**TOTAL LIABILITIES**	**260 563**	74.50	**353 607**	79.57	**589 293**	84.70	**1 282 654**	89.61	**2 738 495**	92.04	**3 030 287**	91.56	**2 895 420**	91.63	**2 867 781**	91.36
13	Preferential shares	3 000	0.86	3 000	0.68	3 000	0.43	3 000	0.21	9 898	0.33	11 277	0.34	11 277	0.36	11 277	0.36
14	Ordinary shares	62 783	17.95	68 378	15.39	84 502	12.15	111 486	7.79	177 305	5.96	238 871	7.22	238 871	7.56	255 201	8.13
15	Issue premium	42	0.01	42	0.01	42	0.01	42	0.00	9 059	0.30	12 493	0.38	12 493	0.40	16 163	0.51
16	Non-allocated profit/loss and capital reserves	18 076	5.17	8 610	1.94	6 694	0.96	10 325	0.72	17 832	0.60	-16 510	-0.50	-19 610	-0.62	-32 751	-1.04
17	Other capital	5 297	1.51	10 736	2.42	12 226	1.76	23 907	1.67	22 843	0.77	33 246	1.00	21 513	0.68	21 435	0.68
18	**TOTAL CAPITAL**	**89 198**	25.50	**90 766**	20.43	**106 464**	15.30	**148 760**	10.39	**236 937**	7.96	**279 377**	8.44	**264 544**	8.37	**271 325**	8.64
19	**TOTAL LIABILITIES (20+26)**	**349 761**	100.00	**444 373**	100.00	**695 757**	100.00	**1 431 414**	100.00	**2 975 432**	100.00	**3 309 664**	100.00	**3 159 964**	100.00	**3 139 106**	100.00

DESCRIPTION	2004	share	2005	share	2006	share	2007	share	2008	share	I Q 2009	share	II Q2009	share
Securities sold under repurchase agreement	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Acc. payable on taken loans and borrowings	5 089	36.38	8 701	46.75	19 748	58.40	36 820	67.63	57 713	72.94	55 847	73.26	57 453	73.97
Accounts payable to the Government	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Other borrowings – due liabilities	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Other liabilities	762	5.45	93	0.50	634	1.88	1 432	2.63	1 480	1.87	966	1.27	1 102	1.42
Conditional grants	269	1.92	83	0.45	330	0.98	318	0.58	307	0.39	280	0.37	280	0.36
Subordinated debts	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
TOTAL LIABILITIES	**6 120**	43.75	**8 877**	47.70	**20 712**	61.25	**38 570**	70.84	**59 500**	75.20	**57 093**	74.89	**58 835**	75.75
Non-allocated profit/loss and capital reserves	2 221	15.88	776	4.17	2 992	8.85	5 455	10.02	8 262	10.44	7 751	10.17	7 442	9.58
Other capital	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Donated capital	4 105	29.34	8 400	45.14	9 499	28.09	9 799	18.00	10 716	13.54	11 390	14.94	11 389	14.66
Donations for operations	1 544	11.04	556	2.99	610	1.80	621	1.14	646	0.82	0	0.00	0	0.00
TOTAL CAPITAL	**7 870**	56.25	**9 733**	52.30	**13 101**	38.75	**15 875**	29.16	**19 624**	24.80	**19 141**	25.11	**18 831**	24.25
TOTAL LIABILITIES (20+26)	**13 990**	**100.00**	**18 610**	**100.00**	**33 813**	**100.00**	**54 445**	**100.00**	**79 124**	**100.00**	**76 234**	**100.00**	**77 666**	**100.00**

DESCRIPTION	2004	share	2005	share	2006	share	2007	share	2008	share	I Q 2009	share	II Q2009	share
Cash and deposit accounts at depository institutions	182	1.30	664	3.57	1 068	3.16	733	1.35	3 043	3.85	2 588	3.39	7 272	9.36
Assets intended for trade	0		0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Securities bought under repurchase agreement	0		0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Loans and term of leasing	13 668	97.70	17 831	95.81	32 473	96.04	52 901	97.16	75 823	95.83	74 630	97.90	72 320	93.12
Securities held by maturity	0		0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Business premises and other fixed assets	227	1.62	228	1.23	426	1.26	530	0.97	944	1.19	948	1.24	961	1.24
Gained assets	0		0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Other assets	59	0.42	80	0.43	359	1.06	1 016	1.87	1 016	1.28	723	0.95	857	1.10
Minus: Reserves for potential loss	146	1.04	193	1.04	513	1.52	735	1.35	1 702	2.15	2 655	3.48	3 744	4.82
TOTAL ASSETS	**13 990**	**100**	**18 610**	**100**	**33 813**	**100**	**54 445**	**100**	**79 124**	**100**	**76 234**	**100**	**77 666**	**100**

ASSETS

Loans and cash have been the most substantial items of the assets in the considered period. Cash and deposit accounts at deposit institutions have shown a downturn trend in the assets structure in the period of 2003-I quarter of 2009, with the exceptions of 2005 and 2006, when they reached the highest share. The lowest share was achieved in 2008 and the first half of 2009, which corresponded to high rates of decrease in cash due to negative effects of the global financial crisis, problems in collection of due loan receivables, and the outflow of deposits.

Cash has recorded a continuous growth in the period of 2003-2007, while in 2008 there was a decrease therein by EUR 191.4 million, i.e. 28.76%. The negative trend continued in the first quarter of 2009. In the second quarter of 2009, there was a slight growth of EUR 26.1 million, i.e. 6.27% comparing to the first quarter of 2009.

Due to a still undeveloped capital market, the assets intended for trade and securities bought under repurchase agreement (repo) still have a negligible share in the assets' structure. Despite high growth rates in the entire period, the assets intended for trade have a low share in total assets, ranging from 0.01% in 2003 to 0.45% at the end of the second quarter of 2009.

Loans have recorded a continuous growth of share in the assets' structure, ranging from 57.36% in 2003 to 83.90% in the second quarter of 2009, with the exception of 2005, when there was evident decrease therein. Such tendency resulted from extremely high growth of banks' loan portfolio, especially in 2006 and 2007, by rates of 125% and 165% respectively. In 2008, the Central Bank put ceilings to credit growth on the level of individual banks. However, in October 2008, the first negative growth rates have been recorded, since there was a complete stop in the credit activity of the banks resulting from the crisis, due to obvious problems in ensuring a necessary level of liquidity and bank's aggravated access to external sources of finance. At the end of 2008, the growth rate amounted to 24.57%.

Securities held to maturity (mostly treasury bills) had a downturn share trend in the period of 2003-II quarter of 2009, with the maximum share of 4.58% in 2003. However, in the first quarter of 2009, this item of the assets has recorded growth by the rate of 944% since the banks were enabled to invest a part of reserve requirements in the form of treasury bills. Factoring and forfeiting, as well as accounts receivables from the custody operations, are the assets' item introduced in 2009. Their share in total assets amounts to 0.30%

Business premises and other fixed assets in the considered period have recorded a downturn trend (from 6.91% in 2003 to 1.52% in the second quarter of 2009), which makes a positive development.

The share of the acquired asset in total assets has recorded a fall in the period of 2003-2007, from 1.84% to 0.07%. Although the absolute growth of this category of the assets has been recorded in the period that followed, its share is still negligible.

Investments in the capital of other legal persons have recorded a fall in the share of the assets' structure since 2003, with the exceptions of 2005, 2006, and the end of the second quarter of 2009.

Reserves for potential losses have recorded a nominal growth during the entire period. However, their share in the assets' structure in the period of 2005-2007, with the exception of 2004, has recorded a decline resulting from the accelerated credit growth in that period, thus the newly approved loans have mostly been classified as the best assets category A with the lowest rate of reservations. Over 90% of those reserves refer to credit loss reserves. Since 2008, the upturn trend of this assets' category has begun, resulting from the application of stricter regulatory framework and supervising measures in relation to the assessment of management capacity in terms of credit risk management in banks.

LIABILITIES

Deposits have been the most important item in the structure of liabilities. In the period of 2003-2006, the deposits have recorded the rise in their share from 60.33% to 75.15%. Nevertheless, the trend of fall in their share has started in 2007 along with a simultaneous rise in the share of the liabilities item - the liabilities of banks arising from taken loans and borrowings which served as an additional source of finance to credit growth. As already mentioned, in the fourth quarter of 2008 and the first half of 2009, influenced by the financial crisis, there was a significant outflow of banks' potential in terms of deposits.

Liabilities arising from custody operations are new items in the structure of liabilities introduced in 2009, with a negligible share.

The share of accounts payable arising from the taken loans and borrowings in total liabilities has recorded a continuous growth of share in the liabilities structure, except in 2005. The greatest part of those borrowings has originated from abroad (about 98%).

Accounts payable to the Government have recorded a fall in their share of liabilities structure in the period of 2003-2007. Their share in total liabilities was the highest in 2008 amounting to 2.29%, while at the end of the second quarter of 2009 they amounted to 1.86%.

Derivative financial liabilities were introduced as a new category in 2009, and have recorded the share in liabilities of only 0.1%. Operations with derivatives were stated by two banks only. The subordinated debt is the liabilities category introduced in 2007, with the share of only 0.91%. The subordinated debt was recorded in five banks in the system, accounting for 1.75% of total liabilities at the end of the second quarter of 2009.

Although the banking sector development has been accompanied by the growth of capital arising from issuing shares in the period of 2003-2008, with a dominant contribution of ordinary shares, the contribution thereof in total liabilities has recorded a continuous decline, due to a faster growth in total liabilities.

Preferential shares, despite their growth, have a negligible contribution in the structure of Capital. Although ordinary shares recorded a continuous growth in the considered period, their share in total liabilities has a falling tendency, from 17.5% in 2003 to 5.96% in 2007. A more intensive capital increase of banks in 2008 and in the second quarter of 2009 resulted in the rise of share thereof to 8.49%.

Issue premiums became more significant in 2007, but their share in the liabilities structure is still negligible.

A trend of positive operation of the banks was stopped in 2008 when the banks stated the loss of EUR 19.6 million, which continued in 2009. In addition, there was the evident downturn trend of non-allocated profit's share in total liabilities, from the maximum of 5.17% in 2003 to 0.60% in 2007. Such developments have to a large extent been the consequence of the global financial crisis.

The remaining capital consisting of capital reserves (revaluation reserves, general reserves, statutory reserves) recorded the highest share in total liabilities in 2004, amounting to 2.42%. The largest absolute amount of this item was reached in 2008, amounting to EUR 33.2 million, since the banks were obliged within the set of measures for limiting credit expansion to put aside general reserves for non-identified losses.

50. What is the situation of Prva Banka and the solution envisaged by the government? Are there any other banks that display liquidity/solvency problems? What would be the fiscal impact of potential recapitalisations?

The situation in *Prva bank* is still unsatisfactory. The risk liquidity quantity is still rather high since the sources of finance and the structure of liabilities do not ensure the maintenance of long-term and low-cost liquidity. The quality of the liquidity risk management is low. The overall liquidity risk is high. In the period of January-August 2009, the bank had daily and decade liquidity indicators under the limits set out by the Decision on minimum standards for liquidity risk management in banks. As a result of capital increase of the *Electric Power Company of Montenegro (Elektroprivreda Crne Gore – EPCG)* in September 2009, where *Prva banka* was the escrow agent in the realisation of purchase agreement between the *Electric Power Company* and the Italian *A2A* company, the bank's liquidity has improved, the daily liquidity indicators satisfying the statutory limits since 23 September 2009. However, the positive effects of the arrangement, which have provided the bank with the current liquidity, may not be expected in the long term since the bank needs stable long-term sources of funds to maintain liquidity.

The key balance sheet positions of the bank in 2009 record falls. The balance amount of the bank for eight months has been decreased by 25%, the bank's loans by 24%, while the bank's deposits have been reduced by 26%. According to the reports on matched maturity of financial assets and liabilities, the bank has negative cumulative gaps in all the periods up to one year with the largest maturity gap of 90-180 days amounting to the lacking EUR 138.3 million of financial assets (funds). The rate of delinquent loans is very high. An important amount of loans has been restructured in terms of extended payment date and capitalisation of interest. The capital of the bank has been critically insufficient to support the risk profile of the bank. The bank's risk coefficient on 30 June 2009 amounted to 7.12% and was below the statutory limit.

Key balance sheet positions and business operations indicators of Prva banka in the period of 2008-2009 (in EUR 000):

	31.12.07	31.03.08	30.06.08	30.09.08	31.12.08	31.03.09	30.06.09	30.09.09
Assets	468 540	491 545	546 668	562 849	489 731	443 849	394 068	536.882
Loans	408 921	423 891	473 654	501 647	463 791	418 994	381 779	343.688
Deposits	422 775	439 228	491 643	497 081	390 865	357 185	319 690	471.903
Capital	26 238	27 243	29 069	34 112	25 804	22 894	24 909	26.462
Total reserves	6 661	8 004	9 389	10 485	33 946	36 514	35 403	34.343
Result	3 801	1 005	2 831	4 084	-24 225	-2 910	-894	658
Liquid assets	45 469	49 542	54 519	43 294	28 490	29 013	13 700	187.261
Liq.assets/tot.assets	9.70%	10.08%	9.97%	7.69%	5.82%	6.54%	3.48%	34.88%
Solvency ratio	14.59%	15.01%	14.18%	13.52%	14.89%	6.54%	7.12%	7.84%
ROA	1.82%	0.94%	1.23%	1.13%	-4.94%	-2.39%	-0.39%	0.20%
ROE	14.57%	15.00%	20.03%	17.34%	-83.37%	-44.91%	-7.46%	3.70%
% of delinquent loans	1.76%	4.44%	4.42%	5.38%	18.31%	22.27%	27.40%	28.53%
Loans/deposits	96.72%	96.51%	96.34%	100.92%	118.66%	117.30%	119.42%	72.83%
CDE loans/tot.loans	0.83%	1.52%	1.86%	2.02%	16.52%	13.48%	12.00%	11.12%
CDE assets / capital+reserves	10.66%	18.83%	24.23%	23.36%	136.82%	104.30%	85.15%	71.19%
30-day cumulative gap	7 411	52 757	46 820	19 010	-50 054	-108 054	-71 655	-110.870
90-day cumulative gap	13 632	53 157	38 345	-6 900	-128 862	-137 111	-118 532	-129.497
Extra-balance sheet liabilities	47 327	592 038	705 449	797 552	892 436	858 233	802 970	739.363

Under the measures of the Central Bank, the bank has stopped credit activities, overtaking of extra-balance sheet liabilities, activity of issuing credit cards and approving overdraft facilities on bank's clients' accounts. The bank has used the funds of the credit support by the Government of Montenegro from December 2008 to October, approved on the basis of the Law on Measures for Protection of the Banking System, amounting to EUR 44 million. The bank has repaid the liabilities arising from the used loan, on 5 October 2009 inclusive, and initiated procedure of removing collateral from the shares pledged as the collateral to the loan.

On 16 July 2009, the Central Bank of Montenegro announced the public invitation to bids for special audit of the bank. The aim of the special audit was a diagnostic evaluation of the bank on 30 June 2009 for the purpose of supervisory actions by the Central Bank of Montenegro.

Instruments for solving the problems in *Prva bank*, which would be in the interest of deponents, creditors and public interest, are various and include: the transfer of ownership and/or a capital increase by the owner, bankruptcy and liquidation, receivership or takeover of the bank by the State and restructuring thereof. The bankruptcy and liquidation of the bank is both the most expensive solution for the State and the riskiest solution for the banking system.

In line with the recommendations by the World Bank, it is necessary to carry out full external diagnostic audit of *Prva banka* (the Central Bank of Montenegro has already announced the tender for the job, now being in the phase of entering into contract with the short-listed bidder) and to carry out capital increase of the bank based on the estimate of the capital adequacy and future capital needs. In case that present shareholders were not in the position to carry out the capital increase of the bank, the process of capital increase might be carried out by the state, upon the proposal of the Central Bank.

As regards to the fiscal implications of the potential conversion of *Prva Banka*'s debt into the equity, could have negative fiscal effects in part of non-realisation of income from recovery of loans. However, until 5 October 2009, the Bank fulfilled all loan committments and thus the possible negative fiscal effects were avoided.

Since January 2009, banks report in line with a new decision providing for the liquidity ratio calculation, as a ratio of liquid assets and short-term liabilities. A minimum daily amount of this ratio is 0.9 and the decade one is 1. The ratio on the aggregate level amounts to 4.12%. All the banks in the system have stated the liquidity ratio above the statutory one, except for *Prva bank* which ratio, at the end of June i.e. in the third ten-day period, amounted to 0.33. The daily liquidity indicators of *Prva bank* satisfying the statutory limits since 23 September 2009.The remaining ten banks in the system have no liquidity problems.

The solvency ratio, as a relative indicator of capital adequacy, amounted to 11.89% on the aggregate level on 30 June 2009 and amounted to 12,86% on 30 September 2009. Pursuant to the Law on Banks, the solvency ratios of eight banks satisfy the statutory minimum of 10%. The ratio of three banks is below the minimum provided for by the Law, namely: *Prva banka* - 7.12%, *Podgorička bank* - 8.09% and *Crnogorska komercijalna bank* - 7.32%. The decline in ratio of *Crnogorska komercijalna bank* and *Podgorička bank AD Podgorica* mostly resulted from the additional reserves set out by the control i.e. inadequate estimate of credit risk by the banks themselves.

51. What developments have taken place in bankruptcy legislation and what plans are envisaged? Could the authorities also comment on the practice as well as the legal framework? How easily can banks mobilise their claims through such proceedings?

Terms and conditions and the procedure of bankruptcy and liquidation of banks have been subject to the Law on Bankruptcy and Liquidation of Banks, from 2001. Pursuant to Article 2 of the Law, the bankruptcy procedure and liquidation procedure in a bank are initiated and carried out by the Central Bank. In addition, proposed amendments to the Law on Banks (drafted by the Central Bank) propose for the reasons and terms of initiating bankruptcy or liquidation procedure to be determined, and for the provisions laying down the enforcement of those procedures in case a bank has been deprived of the business operation license by the Central Bank.

There is a number of crucial amendments proposed in the draft law, as follows:

- the Law defines the procedure in detail and sets out timetable for the Central Bank to issue decisions on initiating the bankruptcy and liquidation procedures, upon the conditions being assessed as met, and the rights of dissatisfied parties to initiate an administrative dispute before a competent court against the Central Bank's decision;
- provides for the arising of liabilities of the Deposit Insurance Fund, by which the provisions of this law are being harmonized with the provisions of the Law on Deposit Insurance;
- regulates the protection of bankruptcy administrator from the liability for damage incurred in the course of duty, except where proved that the administrator has acted with the intention thereto or in serious negligence;
- introduces the institute of offsetting the mutual accounts payable and liabilities between a bank and creditors;
- introduces the institute of transferring the property and liabilities of a bank subject to bankruptcy to another bank or banks;
- establishes the Deposit Insurance Fund's right of payments from the bankruptcy estate as to the amount of the guaranteed deposits paid.

The practice and experience of the Central Bank so far in the procedures of initiating and executing bankruptcy or liquidation of banks have been based on the bankruptcy procedure carried out in one bank, and liquidation procedures in two banks. The bankruptcy of the former Jugobanka AD Podgorica was initiated in 2002 and finalized in 2007, and it has been the only bankruptcy procedure carried out in a bank in Montenegro. The liquidation procedure of the former Banka za razvoj AD was initiated in 2002 and finalized in 2004, while the liquidation procedure in Ekos banka AD was initiated in 2003 and still pending. The exclusive legal framework for bankruptcy and liquidation executions was the Law on Bankruptcy and Liquidation of Banks, from 2001. The experiences related to the application thereof have mostly been positive and resulted in relatively efficient procedures with solid legal grounds, since there has been no court rulings annulling the decisions issued by the Central Bank or by bankruptcy and liquidation administrators.

The experience has shown that bankruptcy and liquidation procedures could be significantly improved as to their efficiency and dynamics, thus there has been a process of their amendments which, in principle, have been mentioned herein. To that extent, banks subject to bankruptcy or liquidation procedures have been enabled to significantly reduce the property and liabilities by introducing the option of their transfer to another bank, and by introducing the institute of offsetting the accounts receivable and liabilities of creditors and the bank.

As to the collection of accounts receivable, banks in bankruptcy or liquidation are fully entitled to activate all the collaterals from their portfolio, including court disputes and enforcement procedures aimed at collecting the accounts receivable, given that the bank in bankruptcy or liquidation keeps the status of legal person with active identification document. In addition, the law stipulates that there may not be any court proceedings instituted against the bank in bankruptcy or liquidation, while the pending court proceedings are abated.

52. Please provide figures and analysis on the effect of the financial crisis on the banking sector.

The banking system has endured the first strike of the global financial crisis' negative effects, which resulted in a significant reduction in deposit potential of the banks and bringing the lending activities almost to a stop, in worsening of all the assets quality parameters, an increase in delinquent loans, decreased profitability.

This fragility of the Montenegrin economy in relation to shocks from abroad has only stressed the vulnerability of the banking sector as to liquidity and credit risks. The banking sector liquidity has been the first to suffer the effects of the global financial crisis, as the consequence of sharp reduction in deposit potential of the banks from September 2008 onwards.

The table hereunder shows the developments in total banks' deposits in the period from September 2008 to June 2009 (in EUR million):

	30/09/08	31/12/08	31/01/09	28/02/09	31/03/09	30/04/09	31/05/09	30/06/09
total deposits	2 325 972	1 990 590	1 881 023	1 772 852	1 761 196	1 722 795	1 759 859	1 757 091

Main causes of the reduction in deposits were the rush on banks by certain number of natural persons, due to their still vivid memories of their lost 'old foreign currency savings' of early '90s, and the collection of loans from cash collaterals. The real deposit outflow (the difference representing the use of deposits for covering loan liabilities) has brought to the reduction in the banking sector liquidity amounting to EUR 139.6 million for the period from 30 September 2008 to 30 June 2009.

The table hereunder shows the status of liquid funds in the period from September 2008 to June 2009 (in EUR million):

	Septembe r 2008	Octobe r 2008	Novembe r 2008	Decembe r 2008	Januar y 2009	Februar y 2009	March 2009	April 2009	May 2009	June 2009
Total	471 752	422 985	375 102	393 486	275 190	268 089	265 617	276 010	300 041	332 170
In the country	280 627	242 505	201 398	213 783	198 568	190 425	177 214	171 838	172 707	198 982
Abroad	191 125	180 480	173 704	179 703	76 622	77 664	88 403	104 172	127 334	133 188

Note: The data have been taken from daily banks' reports submitted to the Central Bank on each working day. The average liquid funds status has been given by months.

In October 2008, the first negative credit growth rates were recorded as a consequence of the collection of cash collaterals by the banks in the amount exceeding the amount of the loans approved.

The table hereunder shows the developments in total loans of the banks in the period from September 2008 to June 2009 (in EUR million):

	30/09/08	31/12/08	31/01/09	28/02/09	31/03/09	30/04/09	31/05/09	30/06/09
Total loans	2 852 300	2 797 535	2 750 037	2 681 830	2 682 155	2 664 807	2 652 327	2 633 817

Total loans on 30 June 2009 amounted to EUR 2 633.8 million, experiencing a decline by EUR 218.4 million i.e. 7.66% comparing to September 2008, while total loans were reduced by EUR 163.7 million i.e. 5.85% comparing to the end of 2008. The decline in loans and cash inflows arising from their repayment led to the reduction in the banking sector's balance-sheet amount.

The table hereunder shows the developments of the balance-sheet amount of banks in the period from September 2008 to June 2009 (in EUR million):

	30/09/08	31/12/08	31/01/09	28/02/09	31/03/09	30/04/09	31/05/09	30/06/09
Balance-sheet amount	3 509 707	3 309 664	3 243 917	3 169 854	3 159 964	3 142 249	3 174 143	3 139 120

The assets' quality worsened in 2008 due to the high growth in newly approved loans in two previous years when the banks' management, led by profit and fast earnings, failed to perform objective evaluations of the borrowers' financial capability to repay loans from their primary sources. The underestimate of taken risks led to a deterioration of all parameters of the assets' quality in the system. The crisis resulted in a reduced debt-payment power of both legal and natural persons, which further affected the parameters of the assets' quality. This was additionally caused by stricter prudential rules when compared to the international standards in terms of the assets' classification by days of loan delay (over 60 days instead of over 90 days for the C category, and over 180 days instead of over 270 days for the E category).

The table hereunder shows the developments in the assets' quality indicators in the period from June 2008 to June 2009:

	30/06/08	30/09/08	31/12/08	30/06/09
Non-quality assets (C,D,E) / Total assets	3.28	3.88	6.42	8.92
Non-quality loans (C,D,E) / Total loans	3.90	4.47	7.20	10.02
Loans exceeding 30 days in delinquency / Total loans	6.34	7.72	11.50	19.07
Loans exceeding 90 days in delinquency / Total loans	1.02	1.18	2.61	6.36
Loans/ Deposits	119.53	122.63	140.54	149.90

After the upward developments in the period of 2005-2007, the profitability of the banking sector was interrupted in 2008, due to the stated loss amounting to EUR 19.7 million. The negative business trend also continued in June 2009, when eight out of eleven banks in the system stated the loss of EUR 25.9 million. The profitability of the banks has been affected by both subjective and objective factors. The subjective drawbacks of certain banks referred primarily to inadequate credit risk management, which resulted in a high level of reservations additionally set by the supervision in line with the regulatory framework, in a high level of general costs, etc. The objective factors referred to the prudential limitations to credit growth in 2008 and negative effects of the global financial crisis.

One of the factors which additionally influenced the low banking sector's performance in 2008 was a downwards trend of the interest rates spread, resulting from a rise in the price of banks' sources of funds on one hand and inadequate interest revenue growth in relation to the growth of the average income-generating assets on the other hand.

The table hereunder shows the developments in the interest rates spread in the period of 2007-June 2009:

	2007	2008	IQ 2009	IIQ 2009
Interest revenues in relation to the average income-generating assets	8.91	8.86	8.11	8.19
Interest expenditure in relation to the average interest-generating liabilities	4.44	5.3	4.75	4.63
interest rates spread	4.46	3.55	3.36	3.56

In order to mitigate the negative effects of the global crisis on the banking system, the Government of Montenegro and Central Bank of Montenegro adopted the Law on Measures for Protection of the Banking System in October 2008, the law enabling a number of measures to be promptly taken and directed towards ensuring the necessary level of banking system liquidity and slowing down the fall in the assets' quality. In compliance with the Law, the Government has guaranteed the full amount of deposits to natural and legal persons - above the level of guaranteed deposits of EUR 5 000. Aimed at ensuring the liquidity of a bank, the Government may issue guarantees for interbank lending and provide credit support to the bank. The liquidity credit support was used by a single bank in the system, the support amounting to EUR 44 million. In order to ensure the solvency of a bank, the Government may provide funds for capital increase thereof by purchasing shares in the bank, under condition that the funds for the bank's capital increase are not provided from other sources.

The Law provides for the measures which may be taken by the Central Bank in order to ensure the necessary liquidity level of a bank. The Central Bank may: allow bank to use reserve requirements for a period longer than one day - up to ten days, approve short-term borrowing based on the securities collateral for the period of up to 30 days and maximum 50% of the amount of its capital. Three banks in the system have used the reserve requirements for a period exceeding one day.

Within measures to improve liquidity, the Central Bank has changed the reserve requirements regime reducing the reserve requirements rate from 11 to 10%. New deposits have been excluded from the reserve base used for calculation of reserve requirements in order to stimulate their growth. The interest rate for the use of reserve requirements has been reduced from 4% to the level of the European Central Bank's interest rate for the main refinancing operations plus 0.5 percentage points. The banks have been enabled to keep 25% of the reserve requirements in the form of treasury bills.

In addition, the Central Bank has brought a counter-cycle measure with regard to harmonising more strict rules of the assets' classification in relation to the days of delinquency (the time limit has been extended from previous 60 to 90 days for the C category and from 180 to 270 days for the E category).

The developments by the end of June have been obviously indicated that there was a slowdown in the negative trends' growth in the banking system. While the average monthly rate of the banks' deposit potential reduction amounted to 83% in the fourth quarter of 2008, and 3% in the first quarter of 2009, the deposits in the second quarter of the current year were reduced by 1.3% in average.

In addition, there was an improvement in the status of liquid funds in June comparing to the previous month by about EUR 32.1 million i.e. 10.71%, due to the increase in liquid funds in the country by about EUR 26.3 million i.e. 15.21%, and of the liquid funds abroad by about EUR 5.8 million i.e. 4.60%. Slight growth was also recorded in cash in the second quarter of 2009, in the amount of EUR 26.1 million i.e. 6.27% comparing to the previous quarter.

Further activities by the Central Bank will be focused on creating counter-cycle measures through harmonisation of prudential solutions with international standards concerning the credit risk management in banks.

C. Capital market

53. How developed is the equity market? Does it provide, in practice, an alternative source of finance for enterprises? How much was raised on the market in recent years? Please provide data on a) market capitalisation (total and by categories of companies); b) number of listed shares and volume of trading; c) development of the general share price index; d) holding by foreign investors of local stocks.

The equity market in Montenegro has developed in the past six years to a large extent and has been an important segment of the overall economic system. The regulatory and institutional framework for the operation of equity market has been constantly developing in line with best international practices and standards. Such a development has been recognised by foreign investors and international institutions. In 2008, the IOSCO – the most important international institution which monitors the operations in equity markets has accepted Montenegro and its equity market as the 50th country having met the requirements for signing the Multilateral Memorandum of Cooperation with the IOSCO. Such a development on the equity market has attracted a large volume of new capital which has been invested through the equity market into the enterprises in Montenegro.

Year	New capital	New capital / GDP	New cap. / secondary turnover
2007	EUR 411 764 348.51	16.17%	56.60%
2008	EUR 203 538 217.26	6.86%	126.94%
2009	EUR 176 977 916.30	5.42%	83.12%

a) Capitalisation of joint stock companies, funds, banks, bonds - data by the Central Depository Agency (CDA)

Segment	2005	2006	2007	2008	2009
JSCs	EUR 1 029 548 514	EUR 1 992 106 758	EUR 3 412 877 391	EUR 1 033 663 325	EUR 2 057 831 456
Funds	EUR 96 088 667	EUR 200 758 422	EUR 410 882 319	EUR 78 520 884	EUR 117 869 112
Bonds	EUR 148 344 640	EUR 143 392 881	EUR 133 868 167	EUR 257 272 706	EUR 229 978 932
Banks	EUR 83 909 630	EUR 237 344 812	EUR 677 136 331	EUR 727 510 704	EUR 735 891 495
TOTAL	**EUR 1 357 891 503**	**EUR 2 573 602 872**	**EUR 4 634 764 208**	**EUR 2 096 967 620**	**EUR 3 141 570 996**

b) Number of all the securities in trade, turnover – data by stock exchanges

Year	No. of all securities in trade	Turnover
2005	EUR 1 279 877 070	EUR 239 085 990
2006	EUR 609 208 156	EUR 312 233 612
2007	EUR 815 065 387	EUR 711 073 450
2008	EUR 306 630 719	EUR 161 189 438
2009	EUR 124 454 038	EUR 48 509 536

c) Developments in indices in the past 5 years – data by stock exchanges

Year	NEX20	NEX20	NEXPIF	NEXPIF	MOSTE	Percentage MOSTE index change
2004	2 523.44		1 603.51		115.18	
2005	9 781.28	287.62%	8 095.57	404.87%	463.05	302.02%
2006	18 050.89	84.55%	17 763 63	119.42%	918.88	98.44%
2007	34 168.63	89.29%	39 229.17	120.84%	1 627.69	77.14%
2008	10 002.93	-70.72%	5 844.64	-85.10%	469.53	-71.15%
2009	14 974.49	49.79%	7 299.70	24.90%	802.59	70.93%

d) The CDA data on how many securities are owned by foreigners

Year	Total no. of shares owned by foreigners	Total no. of shares	Share of foreigners in %
2005	491 157 985	3 065 053 040	16.22%
2006	518 796 451	3 139 531 244	16.52%
2007	509 699 999	3 410 655 850	14.94%
2008	509 467 071	4 105 366 095	12.41%
2009	587 423 847	4 206 953 020	13.96%

54. What percentage of business is carried out outside the stock exchange? Is the Over The Counter market regulated?

As provided for by law, the overall equity market operations are done through exchange.

55. To what extent did choices on the early methods of privatisation of socially owned companies affect the development of the stock market? Are flotations on the market being considered in the future? Given the growth of institutional investors, do limitations on certain investment in real estate and prudential rules on investment in securities of one issuer, etc. mean that the assets of funds are channelled into government bonds?

The selection of the privatisation method, especially in the case of mass voucher privatisation, has had a crucial impact on the establishment and nature of developments in the equity market and exchange operations. This has been the most influential field from the aspect of social individualisation in Montenegro and education of the widest population on the market economy principles. This has been the field where citizens have earned more money than in any other field. Citizens in the capital market decide on their own what to purchase, to sell, and timetable thereof, but also autonomously take consequences of such decisions, both positive and negative.

Yes. In addition to issuing shares intended for strategic investors, the Government intends to list shares on exchange in the case of some large projects, the shares being intended for the citizens of Montenegro and aimed at encouraging the private capital investments and extension of ownership.

Legislation on limiting the investment funds of institutional investors have been adopted with a view to dispersing risks, but are not intended for channelling the funds' assets into government bonds.

56. How developed is the bond market? Who are the main participants in the market and which are main financial instruments used? Are there private issues? Is there a secondary market? Please supply detailed information on the size, activity and structure of the bond market, including average maturity of the most important securities.

The bond market has been developing, but attracts less capital than the equity market.

During 2007, the Commission has approved eight bond issues carried out through a public tender. The bonds were issued by local self-government units – municipalities (Andrijevica, Berane, Danilovgrad, Podgorica, Plužine, Kolašin, Plav), totalling EUR 5 002 574.00.

During 2007, the Commission has recorded two issues of bonds of the Republic of Montenegro – the Compensation Fund by virtue of compensation to former owners deprived of property rights, in the total amount EUR 213 000 064.44, as follows: one issue of bonds amounting EUR 210 000 000.00 and the other amounting to EUR 3 000 064.44.

In 2007, the bonds of the *NLB Montenegrobanka* were also issued, amounting to EUR 10 000 000.00.

During 2008, the Commission has approved three bond issues: the bonds issued by the local-self government unit – municipality of Budva, amounting to EUR 750 000.00, and two issues of the Government of Montenegro bonds totalling EUR 135 000 000 (EUR 105 000 000 by virtue of compensation to beneficiaries of rights arising from the pension and disability insurance, and EUR 35 000 000 by virtue of foreign currency savings of citizens).

There were no issues of bonds in the first seven months of 2009.

Through its secondary legislation, the Securities Commission has regulated the issues of long-term bonds (maturity exceeding one year from the issue date) which may be issued by both public and selective tender. On the other hand, short-term bonds in Montenegro, according to the secondary legislation by the Securities Commission, may be issued only by a public tender.

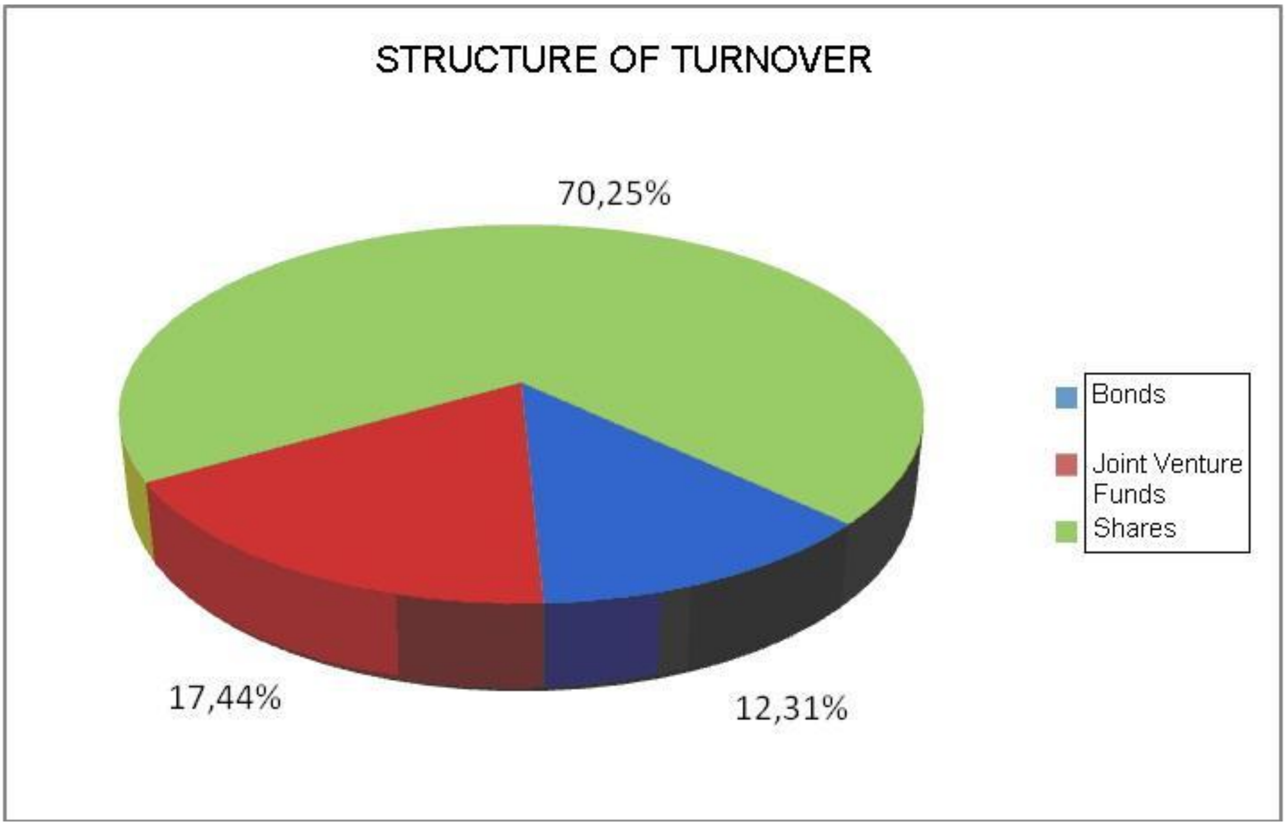
Although the legislation has enabled and regulated the private bond issues, there have been no large issues of bonds by companies. Only *NLB Montenegrobanka a.d.* has so far issued, through a selective tender, 10 000 long-term bonds of three-year maturity, the nominal value of one bond being EUR 1 000.00. Out of the approved volume of EUR 10 000 000, 7 004 bonds have been sold, amounting to EUR 7 004 000. The secondary trade in the bonds from this issue has been done through an authorised exchange participant until the maturity date.

Trade in bonds:

Year	Turnover	% of total turnover
2006	EUR 19 204.18	5.09%
2007	EUR 30 969 836.99	4.26%
2008	EUR 19 732 485.00	12.31%

From 1 January 2008 to 31 December 2008, the trade in company shares has resulted in EUR 112 628 520 of turnover i.e. 70.25% of total turnover; the trade in investment funds' shares has resulted in EUR 27 845 552 of turnover i.e. 17.44% of total turnover, while the bond turnover amounted to EUR 9 732 485 i.e. 12.31% of total turnover. Comparing to the same period of the past year, there

has been a drop in the contribution of the company share trade by 6.85%, the drop in the contribution of the investment funds' share trade by 14.17%, and a rise in the contribution of bond trade by 188.96%.



The table hereunder is an overview of turnover of individual bonds and their share in the bond turnover and total exchange turnover:

Type of bonds	Code	Turnover	Share in bond turnover	Share in total turnover
Government bonds with 2009 maturity	DO09	EUR 87 685	0.4444%	0.0547%
Government bonds with 2010 maturity	DO10	EUR 54 412	0.2757%	0.0339%
Government bonds with 2011 maturity	DO11	EUR 37 461	0.1898%	0.0234%
Government bonds with 2012 maturity	DO12	EUR 38 151	0.1933%	0.0238%
Government bonds with 2013 maturity	DO13	EUR 23 311	0.1181%	0.0145%
Government bonds with 2014 maturity	DO14	EUR 25 704	0.1303%	0.0160%
Government bonds with 2015 maturity	DO15	EUR 21 303	0.1080%	0.0133%
Government bonds with 2016 maturity	DO16	EUR 84 261	0.4270%	0.0526%
Government bonds with 2017 maturity	DO17	EUR 91 606	0.4642%	0.0571%
Restitution bonds	FO02	EUR 10 393 981	52.6744%	6.4827%
Foreign Currency Savings Bonds with 2008 maturity	OB08	EUR 14 878	0.0754%	0.0093%

Foreign Currency Savings Bonds with 2009 maturity	OB09	EUR 105 925	0.5368%	0.0661%
Foreign Currency Savings Bonds with 2010 maturity	OB10	EUR 82 495	0.4181%	0.0515%
Foreign Currency Savings Bonds with 2011 maturity	OB11	EUR 58 416	0.2960%	0.0364%
Foreign Currency Savings Bonds with 2012 maturity	OB12	EUR 33 507	0.1698%	0.0209%
Foreign Currency Savings Bonds with 2013 maturity	OB13	EUR 23 917	0.1212%	0.0149%
Foreign Currency Savings Bonds with 2014 maturity	OB14	EUR 18 879	0.0957%	0.0118%
Foreign Currency Savings Bonds with 2015 maturity	OB15	EUR 15 223	0.0771%	0.0095%
Foreign Currency Savings Bonds with 2016 maturity	0B16	EUR 100 159	0.5076%	0.0625%
Foreign Currency Savings Bonds with 2017 maturity	OB17	EUR 103 285	0.5234%	0.0644%
PIO (Pension and Disability Insurance) beneficiaries bonds with maturity on 20 Oct 2008	P08P	EUR 97 160	0.4924%	0.0606%
PIO beneficiaries bonds with maturity on 20 Oct 2009	P09D	EUR 941 326	4.7704%	0.5871%
PIO beneficiaries bonds with maturity on 20 Apr 2009	P09P	EUR 1 140 987	5.7823%	0.7116%
PIO beneficiaries bonds with maturity on 20 Oct 2010	P10D	EUR 611 767	3.1003%	0.3816%
PIO beneficiaries bonds with maturity on 20 Apr 2010	P10P	EUR 723 073	3.6644%	0.4510%
PIO beneficiaries bonds with maturity on 20 Oct 2011	P11P	EUR 573 782	2.9078%	0.3579%
Restitution bonds (primary issue)	FO02-B	EUR 3 377 066	17.1142%	2.1063%
Municipality of Budva	1BD11	EUR 97 200	0.4926%	0.0606%
Municipality of Budva	1BD12	EUR 93 686	0.4748%	0.0584%
Municipality of Budva	1BD13	EUR 90 064	0.4564%	0.0562%
Municipality of Budva	1BD14	EUR 86 336	0.4375%	0.0538%
Municipality of Budva	1BD15	EUR 82 489	0.4180%	0.0514%
Municipality of Budva	1BD16	EUR 78 536	0.3980%	0.0490%
Municipality of Budva	1BD17	EUR 74 464	0.3774%	0.0464%
Plav municipality bonds with 2010 maturity	1PL10	EUR 40 313	0.2043%	0.0251%
Plav municipality bonds with 2011 maturity	1PL11	EUR 38 856	0.1969%	0.0242%
Plav municipality bonds with 2012 maturity	1PL12	EUR 37 354	0.1893%	0.0233%

Plav municipality bonds with 2013 maturity	1PL13	EUR 35 807	0.1815%	0.0223%
Plav municipality bonds with 2014 maturity	1PL14	EUR 34 212	0.1734%	0.0213%
Plav municipality bonds with 2015 maturity	1PL15	EUR 32 572	0.1651%	0.0203%
Plav municipality bonds with 2016 maturity	1PL16	EUR 30 884	0.1565%	0.0193%

Dominant was the amount of bond turnover by virtue of restitution with 52.67% of share in bond turnover and 6.48% of share in total turnover. If primary issues of those bonds were added to the amount, we would come to the conclusion that the restitution bonds had the share in bond turnover of 69.78%, while their share in the turnover in exchanges amounted to 8.58%.

D. Money market

57. How developed is the market for short-term financial instruments? Who are the main participants in the market and which are the main financial instruments used? Is there a secondary market? Please supply detailed information on the size, activity and structure of the money market.

The issuing of and operating with short-term securities (bonds, certificates of deposit) have been regulated by the Law on Securities and the Rules of establishing more detail terms for issues, registration and trade in short-term debt securities (Official Gazette of the Republic of Montenegro 34/07). Pursuant to Article 44g paragraph 4 of the Law on Securities (Official Gazette of the Republic of Montenegro 59/00, 28/06), the rules hereabove are not applied to the issues of and trade in treasury bills issued by the Republic of Montenegro.

Buyers of treasury bills may be natural and legal, local and foreign persons, whose participation in the auction of treasury bills is subject to rules from the Standard requirements for the auction of treasury bills of the Government of Montenegro.

By the Decision on amendments to the Decision on bank reserve requirement to be held at the Central Bank of Montenegro (Official Gazette 15/09), the banks have been enabled to put aside up to 20% of their reserve requirements' funds for the purchase of treasury bills issued by Montenegro. Given that the issue of treasury bills enables banks to use the reserve funds for the T-bill purchase and use of the funds for yield, banks have shown interest in the purchase thereof.

Through the Central Bank of Montenegro as the fiscal agent of the Government of Montenegro, aimed at ensuring liquidity through the issue of treasury bills, the Ministry of Finance has organised T-bills auctions with maturity of 182 days. There is a short review hereunder as to the process and results of the T-bills auctions held so far:

1. The first auction of 182-day-maturity treasury bills was held on 3 March 2009. The total amount of the supply i.e. issue amounted to EUR 40 000 000.00, and the maturity date of those bills was 2 September 2009. The auction has been successfully carried out, attended by a larger number of interested banks and business organisations. The aggregate demand by the buyers amounted to EUR 34 850 000.00.

Having ranked the bids by yield rates, ranging from 0.56% to 16.00%, the Ministry of Finance has made the decision not to accept the bids from the auction exceeding 5.00% in yield rate. In line therewith, the total amount of the bills sold in the first auction amounted to EUR 30 250 000.00, accounting for 75.6% of the aggregate supply.

REPORT FROM THE FIRST TREASURY BILLS AUCTION

Seq. no.	BUYER	AMOUNT OF TREASURY BILLS PURCHASED	INTEREST RATE ON TREASURY BILLS
1	AtlasMont banka	EUR 3 400 000.00	0.56%
2	Invest banka Montenegro	EUR 100 000.00	0.56%
3	Hipotekarna banka	EUR 1 000 000.00	2.50%
4	Opportunity Bank Podgorica	EUR 2 500 000.00	2.00%
5	Komercijalna banka Budva	EUR 500 000.00	4.00%
6	CKB	EUR 14 000 000.00	4.75%
7	Podgorička banka	EUR 1 500 000.00	4.75%
8	First Financial Bank	EUR 250 000.00	4.50%
9	NLB Montenegrobanka	EUR 3 000 000.00	4.75%
10	NLB Montenegrobanka	EUR 4 000 000.00	5.00%
	TOTAL	**EUR 30 250 000.00**	

The average weighted yield rate to the first auction's bills sold amounted to 3.98%, the highest accepted rate having been 5.00%, and the lowest one 0.56%.

The revenue from this issue amounted to EUR 29 654 684.46, which is the sum of purchase prices of all the auction's bids accepted. The difference between the nominal amount of bills sold and the purchase price represents the interest amounting to EUR 595 315.54.

2. The second auction of 183-day-maturity treasury bills was held on 16 March 2009. The total amount of the supply i.e. issue was EUR 10 000 000.00, and the maturity date of those bills was 15 September 2009. The auction has been partially realised, with the engagement of a smaller number of interested banks, as well as the Deposit Insurance Fund for the first time engaged in an auction. The total demand by the buyers amounted to EUR 5 900 000.00.

Having ranked the bids by yield rates, ranging from 4.30% to 8.50%, the Ministry of Finance has made the decision not to accept the bids exceeding 4.30% in yield rate. In line with such decision, the total bill amount sold in the second auction amounted to EUR 2 500 000.00, accounting for 25% of the aggregate supply.

REPORT FROM THE SECOND TREASURY BILLS AUCTION

Seq. no.	BUYER	AMOUNT OF BID	INTEREST RATE
1	Deposit Insurance Fund	EUR 2 500 000.00	4.30%
	TOTAL	**EUR 2 500 000.00**	

The average weighted interest rate, which was at the same time the lowest and highest interest rate on the sold T-bills of the second auction amounted to 4.30%, as a result of the single bid accepted.

The revenue from the issue amounted to EUR 2 446 809.09, which was the purchase price of the only bid accepted in the auction. The difference between the nominal bill amount sold and the purchase price was the interest amounting to EUR 53 190.91.

The second treasury bills auction has been carried out by the rules and standards which have been modified comparing to previous auctions, as defined by the “Standard treasury bills auction requirements”. The modifications referred to the way of payment of the auction participation guarantee. Instead of the payment of the entire amount of a bid purchase price prior to the auction, as it used to be the case prior to the auction herein, the present payment to the liquidity account of the Ministry of Finance amounts to 1%, as a pre-auction guarantee of payment.

The unsuccessful bidders' funds paid to the liquidity account are released and returned immediately after the auction. The Ministry of Finance keeps the guarantee amount in case a bidder gives up on the treasury bills purchase upon the acceptance of the bid hereof.

The bidders whose bids have been accepted need to pay the difference between the purchase price of the accepted bid and the paid guarantee, to the liquidity account, on the next working day from the date of the auction i.e. on the day of the issue of treasury bills, until 12 o'clock the latest.

3. The third auction of the 182-day-maturity treasury bills was held on 23 March 2009. The aggregate supply i.e. issue amounted to EUR 6 000 000 .00, and the maturity date of the bills was 22 September 2009. The auction has been partially realised, attended by a single commercial bank. The total demand by the buyer amounted to EUR 1 900 000.00.

The Ministry of Finance has accepted the bid with the interest rate of 5.00%, being at the same time the average weighted, the lowest and the highest accepted interest rate, since it was a single accepted bid.

REPORT FROM THE THIRD AUCTION OF TREASURY BILLS

Seq. no.	BUYER	AMOUNT OF BID	INTEREST RATE
1	NLB Montenegrobanka ad	EUR 1 900 000.00	5.00%
	TOTAL	**EUR 1 900 000.00**	

The revenue from this issue amounted to EUR 1 853 156.33, which was the purchase price of one accepted auction bid. The difference between the nominal bill amount sold and the purchase price was the interest amounting to EUR 46 843.67.

The practice so far, as well as the results of all three auctions, has shown that the interest rates on treasury bills are lower than the interest rates on loans at financial institutions, and significantly lower than the current market interest rate, which presently in Montenegro amounts to 9% on the annual level, depending on the maturity, and under the assumption that it is possible to provide funds.

The table hereunder shows the results of all three issues of the treasury bills.

TREASURY BILLS ISSUES (2009)

No. of issue	Date of issue	Maturity date	Maturity	Currency	Issue amount	Demand	Sold amount	Revenue from sale	Discount	Weighted interest rate
2009										
1	4.mar.09	2.sep.09	182 days	EUR	40 000 000	34 850 000	**30 250 000**	29 654 684.46	595 315.54	3.98%
2	17.mar.09	15.sep.09	182 days	EUR	10 000 000	5 900 000	**2 500 000**	2 446 809.09	53 190.91	4.30%
3	24.mar.09	22.sep.09	182 days	EUR	6 000 000	1 900 000	**1 900 000**	1 853 156.33	46 843.67	5.00%
					Debt on 24-Mart-09 :		**34 650 000**			

58. What changes are considered necessary in order to improve market organisation and efficiency?

The capital market is in the centre of the transition model Montenegro is committed to. Therefore, the capital market development, along with the loan market (banks), is a prerequisite for the transition efficiency in Montenegro and of the overall economic development.

There have been constant efforts to encourage further capital market development and to make it attractive to local and foreign investors in order to form new capital and increase personal wealth.

Activities have been focused on the promotion of legal framework in a way which would ensure thrust in the system stability and market integrity, and execution of deregulation i.e. decrease in limitations which prevent the market from growth and which are not necessary for the protection of investors.

The promotion of the regulatory framework refers to the application of new legislation, and amendments hereto, while the deregulation refers to eliminating the limits which prevent the market development and are not necessary for the investor's protection, in the following laws:

- The Law on Takeover of Joint Stock Companies - as to the creation of legislative framework for the takeover execution procedure, which will be fully harmonised with the provisions of the Directive 2004/25 of the European Parliament and of the Council of 21 April 2004 on takeover bids, so that: basic principles of the takeover procedure are applied, clarity and transparency are ensured, both majority and minority interests of all shareholders are protected, boards of directors of the issuers are obliged to make public their justified opinions on takeover bids and the reasons therefore, etc; the target organisation is facilitated in holding assembly aimed at making decisions which cannot be made by the board of directors, the rules on penetrability are introduced to enable target company to facilitate the takeover procedure thereof to the takeoverer, 'squeeze out' rights, the acquirer rights of depositing securities, money, or both, as a security, such rights being provided for by the Law;

- The Law on Investment Funds - as to the implementation of best practices in regulation and operations of various kinds of collective and private investments of capital, regulation of the organisation and operations of various kinds of open-ended investment funds and the investing opportunities thereof, the liabilities and competences of custody banks and supervising boards, and systems of risk management in investment funds. The Law on Investment Funds should be amended as to extending the scope of activity of management companies to enable them to manage individual portfolios and certain additional services (providing advice for investments and safeguarding the property of investment funds) apart from their principal activity of investment management; enabling placements of collective investment schemes' units to all member states of the European Union, upon the authorisation in the headquarters' country, and enabling the establishment and sale of the units of 'mutual funds', unit trusts; issuing the 'European passport' to the investment fund management company to enable it to perform the activity in all member states of the European Union, and demanding simplification of the brochure contents so that it is more accessible and clear to the investors, and harmonising the provisions on the capital adequacy of the open-ended investment fund management company;

- The Law on Enforcement Procedure - as to enabling faster and more efficient exercise of the rights of the executive creditor, and detailed identification and precise legal definition of the rights and duties of the court, executive creditor and executive debtor, but also of the Central Depository Agency which is competent in securities execution, the entries therein having the constitutive action.

In order to promote the market's integrity, the following activities are necessary:

- Developing the practice of regular publication of data and reports on the operations of companies, banks and funds,
- Analysing the procedures and costs of capital market operations, and their constant improving and adjusting to the requirements of an efficient market,
- Increasing the efficiency of clearing and transaction settling in the capital market - as to the full automatisation of the systems of register, clearing and balancing in the CDA, eliminating

'depo accounts', shortening the time needed for settling of exchange transactions, organising and implementing a guarantee fund, which will result in an increased confidence in the duty and liability enforcement and the security of market participants,

- Networking of the exchanges with other exchanges for the purpose of joint listing and trading,
- On-going education and promotion of knowledge and skills of all the capital market participants, and
- Promoting the process of making administrative decisions in order to ensure fast and flexible service for market participants.

E. Non-bank financial institutions

59. What is the number of insurance institutions operating in your country?

Insurance companies:		2003	2004	2005	2006	2007	2008
a) Total		4	5	5	5	6	11
b) Local		4	4	4	2	2	3
c) Foreign, the EU states	subsidiaries		1	1	2	3	6
	branches						
d) Foreign, the non-EU states	subsidiaries				1	1	2
	branches						

a) Total number;

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

b) Domestic;

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

c) Non-domestic EU, of which:

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

i) subsidiaries

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

ii) branches

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

d) Non-domestic non-EU, of which:

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

i) subsidiaries

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

ii) branches.

The answer has been given in the table within the question no. 59 of this Chapter (B06073).

- Changes in (a) to (d) since 2003.

60. Concentration of respectively the life and non-life markets (in terms of gross premiums held by the largest undertakings), indicating whether they are

Concentration of two largest companies dealing with life and non-life insurance in the Montenegrin market (by share in total gross premium invoice)				
2003	life insurance	**100.00%**	local	100.00%
			foreign, the EU states	
			foreign, the non-EU states	
	non-life insurance	**96.80%**	local	100.00%
			foreign, the EU states	
			foreign, the non-EU states	
2004	life insurance	**99.80%**	local	100.00%
			foreign, the EU states	
			foreign, the non-EU states	
	non-life insurance	**95.60%**	local	100.00%
			foreign, the EU states	

			foreign, the non-EU states	
2005	life insurance	**93.40%**	local	49.90%
			foreign, the EU states	43.50%
			foreign, the non-EU states	
	non-life insurance	**96.60%**	local	100.00%
			foreign, the EU states	
			foreign, the non-EU states	
2006	life insurance	**96.70%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	
	non-life insurance	**97.20%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	
2007	life insurance	**99.20%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	
	non-life insurance	**93.30%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	
2008	life insurance	**88.50%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	
	non-life insurance	**87.80%**	local	
			foreign, the EU states	100.00%
			foreign, the non-EU states	

a) Domestic;

The answer has been given in the table within the question no. 60 of this Chapter (B06083).

b) Non-domestic EU;

The answer has been given in the table within the question no. 60 of this Chapter (B06083).

c) Non-domestic non-EU.

The answer has been given in the table within the question no. 60 of this Chapter (B06083).

- Changes in (a) to (c) since 2003.

61. What is the authorities' overall assessment of the degree of competition in the sector?

Review of insurance companies operating in Montenegro

	Type of insurance
Lovćen osiguranje A.D.	Life/Non-life
Montenegro osiguranje A.D.	Non-life
Swiss osiguranje A.D.	Non-life
Grawe osiguranje A.D.	Life/Non-life
Magnat osiguranje A.D.	Non-life
Atlas life A.D.	Life
Uniqa neživotno osiguranje A.D.	Non-life
Uniqa životno osiguranje A.D.	Life
Delta generali osiguranje A.D.	Non-life
Delta generali životna osiguranja A.D.	Life
Merkur osiguranje A.D.	Life

A.D. = JSC

Competition has been strengthened during 2008, which is confirmed by the entrance of new companies to the insurance market. *Uniqa* launched the life insurance operations in 2008, through *Uniqa životno osiguranje* (Uniqa Life Insurance), which continued the operations of *Zepter osiguranje* (Zepter Insurance). In 2008, the insurance business operation licences were also isued to *Uniqa neživotno osiguranje* (Uniqa Non-Life Insurance), *Delta osiguranje* (Delta Insurance) and *Delta life osiguranje* (Delta Life Insurance) (which changed their names in December, upon the entry of the Generali Group, into *Delta Generali osiguranje* (Delta Generali Insurance) and *Delta Generali životna osiguranja* (Delta Generali Life Insurances)). By the end of 2008, the life-insurance operation license was also issued to *Merkur osiguranje* (Merkur Insurance).

Additionally, the issued in 2008 were:

- Nine operation licences to insurance representation companies;
- Three operation licences to insurance intermediation companies;
- 250 natural persons authorised for representation affairs;
- 39 natural persons authorised for intermediation affairs;

The trend of increase in foreign capital's share, which started in previous years, has continued in 2008. The equity of insurance companies on 31 December 2008 amounted to EUR 32 819 million, a rise by 46.24% comparing to the previous year, with the foreign capital amounting to EUR 21 432 million i.e. 65.30% in share.

Five insurance companies are 100% in foreign ownership while the ownership in the remaining six insurance companies has been mixed in structure.

It is possible in the territory of Montenegro to establish insurance company subsidiaries while the establishment of branches of foreign insurance companies will be possible from January 2012.

62. What is the situation regarding new financial markets and instruments, for example venture capital companies, factoring, leasing, etc.? Is the legal framework in place for such operations? Please provide any available information on market developments.

Amendments to the Law on Investment Funds (Official Gazette of the Republic of Montenegro 49/04) will regulate the existence of venture capital funds as a separate form of company and/or investment fund.

Factoring as a banking operation has been included in the banking legislation within Article 6 paragraph 2 item 2 of the Law on Banks, as one of the operations the bank is entitled to perform. The provision conceptually defines factoring as: "Purchase, sale, and collection of accounts payable (factoring, forfeiting, etc.)".

Given that the banks have been able to perform the operations herein only since 2009, the volume of the operations by virtue of factoring and forfeiting amounted to EUR 9.5 million on 30 June 2009.

The regulation of the lease market in Montenegro has been completed by the adoption of the Law on Financial Lease (Official Gazette of the Republic of Montenegro 81/05) in December 2005. The main reason for adoption of the Law on Financial Lease was the need to promote the financial leasing operations in Montenegro, as a specific lending relation, and its regulation by the rules which will at the same time meet the requirements of legal security and needs of contemporary operations turnover. To that regard, the Law has laid down general framework of financial leasing operations, allowing the parties to a contract to regulate their relations by conformity of wills. The Law has enabled the provision of leasing services to both all types of legal persons and natural persons, which has opened possibilities not only for companies but also for individual entrepreneurs.

Pursuant to the Law, the leasing organisations i.e. the entities dealing with leasing are neither obliged to obtain special licences for performing the leasing affairs nor are subject to special control and supervision. In legal regulation of those matters, the starting point was the nature of leasing affairs in the financial market and the existing market situation. Leasing affairs in its nature do not envisage as a rule the work with 'other persons' money' (deposits of citizens and companies and insurance premiums), as it is the case with the banking and insurance sectors. At the same time, it is not legally obligatory to perform those affairs but they are rather an additional option and opportunity for both the provider and beneficiary of leasing operations. To that regard, it was important that the state does not play a paternal and protective role through its regulators and separate agencies especially having in mind the historical context of this matter and an attempt to use the reform laws and processes to change the way of thinking. In addition, prior to the Law adoption, there was no regulatory function and nothing to lead to any disturbances that could endanger the financial system. The need has been recognised for a competitive financial system to develop, the system which will not be burdened by additional taxes and liabilities, especially having in mind the importance of access to 'cheap' financial funds.

The issue of leasing operations taxation is also encouraging for the development of this segment of financial market. Article 46a of the Rulebook on application of the Law on Value Added Tax (Official Gazette 65/02, 13/03, 59/04, 79/05, 16/06) provides for the value added tax base to exclude interest incurred by virtue of product sale under a financial lease contract, envisaging that the transfer of property is done on the occasion of payment of the last instalment at the latest, and under following conditions: i) that the interest is paid after the delivery of the product/item which is subject to leasing; ii) that the interest is separately stated in the bill (invoice); that the interest amount does not exceed the amount of a usual interest for similar transactions in the Republic. This way, the intention was to achieve that financial leasing activity in Montenegro become more competitive and, at the same time, to contribute to their more dynamic development.

Based on such solutions, financial lease has in a short time become a competitive source of finance. The experience of the Law application and market development so far indicate that such an institutional solution has given good results.

Report on the lease market for the period from 1 January 2009 to 31 March 2009

At the end of the first quarter of 2009, as well as in the previous quarter, there have been six lease service providers including four leasing organisations in the capacity of legal persons and two banks with separate leasing departments, namely: *Hypo Alpe Adria Leasing*, *S-Leasing*, *Porsche Leasing*, *NLB Leasing,* and *Opportunity banka* (Opportunity Bank) and *Prva banka Crne Gore*.

Services of both financial and operative leasing are provided by *Hypo Alpe Adria Leasing*, *S-leasing, NLB leasing* and *Porsche leasing*, while the remaining three companies deal with providing services of leasing of tangible property.

The ownership of all the leasing companies is directly or indirectly foreign, except for *Prva banka Crne Gore* which is dominantly local.

Structure of investments

Leasing beneficiaries

In the first quarter of 2009, 275 contracts have been entered into in Montenegro, by 60.77% less than in the same period last year.

Table 1: Number of contracts with leasing beneficiaries

	I QUARTER 2008		I QUARTER 2009		ratio
Leasing beneficiaries	**%**	**No. of contracts**	**%**	**No. of contracts**	**%**
Legal persons	75.18	527	50.91	140	-73.43
Natural persons	24.68	173	47.27	130	-24.86
Entrepreneurs	0.14	1	1.82	5	400.00
Total		**701**	**100.00**	**275**	**-60.77**

140 of the total number of contracts i.e. 50.91% refer to the contracts entered into with private persons, while 130 i.e. 47% are contacts with natural persons. If we compare the data on contracts with natural persons as a share of total number of contracts, it may be noted that their share is higher than in the same period last year. This fact indicates that the leasing organisations in Montenegro focus their business strategies on natural persons, aimed at diversification of risk and ensuring an optimal client structure.

Value and number of contracts by type of leasing

As it was the case with previous years, in the first quarter of 2009 the financial leasing operations have had a significant share in total number, as well as in the value of contracts.

Table 2: Value and number of contracts by type of leasing

	31 March 2008				31 March 2009				Growth rate (number) (3)/ (1)	Growth rate (value) (4)/(2)
Type of leasing	No. of contracts (1)	%	Value of contracts (2)	%	No. of contracts (3)	%	Value of contracts (4)	%	%	%
Operative leasing	70	9.99	3 927 373.63	9.34	19	6.91	271 453.11	3.10	-72.86	-93.09
Financial leasing	631	90.01	38 114 022.23	90.66	256	93.09	8 493 298.85	96.90	-59.43	-77.72
Total:	701	100	42 041 395.86	100	275	100	8 764 751.96	100	-60.77	-79.15

In the first quarter of 2009, the value of contracts amounted to EUR 8 764 million, the fall of about 79.15% comparing to the same period of the previous year. Of total number of contracts, 93% i.e. EUR 8 493 million refer to financial, and the remaining to operative leasing.

Subject to lease

When considering the structure of total contracts by virtue of subject to leasing, it is obvious that cars have had the highest share of about 80% in the total amount of leasing investments.

Table 3: Comparative review of the number of contracts by subject to lease

	No. of contracts on the date of:				
Subject to lease	31 March 2008 (1)	%	31 March 2009 (2)	%	Growth rate (2)/(1)
Car	466	66.48	219	79.64	-53.00
Economic vehicles (trucks, buses and delivery vehicles)	137	19.54	30	10.91	-78.10
Construction machines and equipment	78	11.13	13	4.73	-83.33
Ships	1	0.14	1	0.36	0.00
Real estate	19	2.71	12	4.36	-36.84
Other					
Total	701	100.00	275	100.00	-60.77

The share of commercial vehicles in total number of contracts accounts for 11%, while the share of construction machines and equipment has been 4.73%, and of real estate 4.36%. Comparing to the same period of the previous year, the leasing market has recorded a drop in the share of commercial vehicles and construction machines and equipment, while the share of other categories has recorded growth in total number of contracts.

Table 4. Comparative review of the values of contracts by subject to lease

	Value of contracts on the date of:				
Subject to lease	31 March 2008 (1)	%	31 March 2009 (2)	%	Growth rate (2)/(1)
Cars	9 365 194.08	22.28	3 853 838.01	43.97	-58.85
Economic vehicles (trucks,	7 335 957.97	17.45	803 341.59	9.17	-89.05

buses and delivery vehicles)					
Construction machines and equipment	6 672 398.38	15.87	996 170.17	11.37	-85.07
Ships	18 750.60	0.04	70 000.00	0.80	273.32
Real estate	18 649 094.83	44.36	3 041 402.19	34.70	-83.69
Other					
Total	42 041 395.86	100.00	8 764 751.96	100.00	-79.15

Cars have recorded the highest share in total value of contracts accounting for about 44%, the real estate about 35%, commercial vehicles about 10%, and leasing of construction machines and equipment about 12%.

63. Please provide information on the establishment of a capitalised pension system. What are the main challenges for its development? What are the next steps of the authorities to tackle these challenges?

In line with the Law on Voluntary Pension Funds (Official Gazette of the Republic of Montenegro 78/06 14/07) three voluntary pension fund management companies have been licenced to operation, namely: *ATLAS PENZIJA a.d. Podgorica* and *MARKET INVEST a.d. Bijelo Polje* and *NLB PENZIJA a.d. Podgorica*. *ATLAS PENZIJA a.d.* has established the *PENZIJA PLUS* voluntary pension fund, while *MARKET INVEST a.d.* has established the open-ended voluntary pension fund of *MARKET PENZIJA a.d.*

Voluntary pension fund management company of *NLB PENZIJA a.d.* has been licensed to work for voluntary pension fund management but never launched the creation of the voluntary pension fund.

The main difficulties as to further development of voluntary pension funds based on the system of individualised capitalised savings are:

- detailed legal regulation of tax facilities and/or tax relief in connection with investments into voluntary pension funds;
- detailed legal regulation of taxation of payments from the voluntary pension funds to beneficiaries upon retiring.

The Law on amendments to the Law on Voluntary Pension Funds will be adopted by the end of 2012, and will be fully harmonised with the Directive 32003L0041 on activities and supervision of institutions for occupational retirement provision, and the Directive of the Council 31998L0049 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community.

Table 1: Main Economic Trends

Montenegro		2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP:										
Nominal GDP	in euro (current prices)/2 , in 000	1 065 699	1 295 110	1 360 353	1 510 128	1 669 783	1 814 994	2 148 998	2 807 948	
	in euro (constant prices)/2 , in 000		1 077 420	1 319 768	1 394 126	1 576 967	1 739 590	1 970 474	2 378 036	
	in € (current prices)/2									
Real GDP growth	in per cent		1.1	1.9	2.5	4.4	4.2	8.6	10.7	
Inflation:										
Retail price inflation	annual average		123.0	117.5	107.8	103.4	103.4	102.1	104.2	109.2
	end of period	124.8	128.0	109.4	106.7	104.3	101.8	102.0	108.0	107.3
Producer price inflation	annual average		114.5	104.5	104.5	105.8	102.1	103.6	108.5	114.0
	end of period	123.1	115.1	100.7	108.2	103.6	103.5	102.9	114.5	107.1
Core inflation /1	annual average									
	end of period									
Unemployment:										
Registered unemployment	annual average	73 685	74 838	74 258	70 565	59 383	49 314	39 409	32 041	28 394
	end of period									
LFS definition *(ILO)*	annual average					71 759	77 754	74 820	51 100	44 800
	end of period									43 200
External balance										
Merchandise trade balance	in million € (1)			-433.23	-359.33	-416.44	-513.65	-849.32	-1,159.32	-1,489.60
	in % of GDP			-31.85%	-23.80%	-24.94%	-28.30%	-39.52%	-41.29%	-44.61%
Current account balance	in million €			-174.99	-102.06	-119.64	-154.05	-531.21	-642.79	-1,005.66

in % of GDP			-12.86%	-6.76%	-7.16%	-8.49%	-24.72%	-22.89%	-30.12%
Gross foreign debt in million €									
in % of GDP									
in % of total exports									
Foreign direct investment, inflows in million €			76.39	43.80	52.65	392.73	644.33	1,007.68	832.09
in % of GDP			5.62%	2.90%	3.15%	21.64%	29.98%	35.89%	24.92%

Note:

Up to 2004, the sources of data on goods have only been the data of commercial banks on foreign payment transactions, i.e. the ITRS. Monstat has been the source of foreign trade data as of 2005. Data for 2005 and 2006 have been compiled according to special relaxed trade system. In 2008, Monstat changed the methodology for the collection of visible trade data and revised the 2007 data accordingly. The 2007 and 2008 foreign trade data have been presented in line with the general trade system. The Central Bank of Montenegro has made adjustments of the data on foreign trade obtained from Monstat with a view to their harmonisation with the IMF methodology for the needs of balance of payments.

Table 2: Public finances

Montenegro	2003	2004	2005	2006	2007	2008
General government (on GFS 2001)						
Total revenues in euro	616 801 975.94	662 407 108.32	727 014 179.90	981 505 881.46	1 341 670 530.46	1 548 652 733.56
in % of GDP	40.85	39.67	40.06	45.67	46.85	46.39
o/w grants	1.02	0.43	0.16	0.06	0.06	0.13
Total expenditure in euro	635 518 699.93	688 331 303.80	759 725 100.74	917 050 229.86	1 161 772 764.14	1 556 554 019.65
in % of GDP	42.08	41.22	41.86	42.68	40.45	46.63
o/w net lending						
Balance in euro	-18 716 723.99	-25 924 195.48	-32 710 920.84	64 455 651.60	179 897 766.32	-7 901 286.09
in % of GDP	-1.24	-1.55	-1.80	3.00	6.41	-0.24
Financing of balance						
Privatisation revenues in % of GDP	2.22	0.66	9.37	2.76	3.78	1.16
Central budget						
Total revenues in euro	337 518 954.68	372 769 773.42	427 240 464.29	572 055 909.23	790 937 624.38	1 289 435 908.35
in % of GDP	22.35	22.32	23.54	26.39	28.17	38.63
o/w grants	0.88	0.34	0.09	0.03	0.00	0.07
Total expenditure in euro	380 223 309.46	394 642 383.32	455 460 844.99	486 982 116.64	622 489 872.47	1 272 080 504.74
in % of GDP	25.18	23.63	25.09	22.66	22.17	38.11
Budget balance in euro	-42 704 354.78	-21 872 609.90	-28 220 380.70	85 073 792.59	168 447 751.91	17 355 403.61
in % of GDP	-2.83	-1.31	-1.55	3.73	6.00	0.52

Local self-government						
Total revenues in euro	69 996 929.16	72 536 712.67	86 784 981.31	120 067 457.25	213 283 967.97	259 216 825.21
in % of GDP	4.64	4.34	4.78	5.59	7.60	7.77
o/w grants	0.13	0.07	0.06	0.02	0.06	0.06
Total expenditure in euro	77 219 106.43	75 838 532.57	87 452 290.12	129 669 581.66	212 613 913.59	286 758 914.61
in % of GDP	5.11	4.54	4.82	6.03	7.57	8.59
Budget balance in euro	-7 222 177.27	-3 301 819.90	-667 308.81	-9 602 124.41	670 054.38	-27 542 089.40
in % of GDP	-0.48	-0.20	-0.04	-0.45	0.02	-0.83
State funds						
Total revenues in euro	190 654 942.15	207 613 602.48	208 547 506.68	289 382 514.98	332 163 843.38	
in % of GDP	12.63	12.43	11.49	13.47	11.83	
o/w grants	0.01	0.02	0.01	0.01	0.00	
Total expenditure in euro	248 476 369.09	257 168 322.49	270 536 111.40	369 689 220.98	409 064 114.78	
in % of GDP	16.45	15.40	14.91	17.20	14.57	
Budget balance in euro	-57 821 426.94	-49 554 720.01	-61 988 604.72	-80 306 706.00	-76 900 271.40	
in % of GDP	-3.83	-2.97	-3.42	-3.74	-2.74	

<u>Notes referring to the tables hereabove:</u>

- Consolidated Public Spending – the monitoring of the Budget of Montenegro, extra-budgetary funds and local self-government has been launched in 2003. The previous data are unreliable for a number of reasons: there was no on-going monitoring of the local self-government finances but the data have been subject to approximation and quite underestimated, the Deutschemark was introduced as the currency in 2000 but has been valid simultaneously with the Dinar by mid-2001. The data on revenue collection and expenditure execution have been kept in both currencies, the foreign exchange having been fluctuating and unofficial. The *Organic* Law on Budget has been adopted and the Instructions on the Treasury Operations issued in 2001. The State Treasury has in fact launched its operations in 2002, when the unified Consolidated Treasury Account has been established. Prior to that, all the spending units used to have their own accounts to which general and allocated revenues have been "pooling", and payments done therefrom.

- The structure of spending in 2008 comparing to the previous year has been incomparable due to the introduction and planning of state funds expenditure as an integral part of the Budget of Montenegro. The Health Insurance Fund's expenditure has been stated in detail by economic classification until 2007 inclusive, while the health institutions expenditure has been stated as Transfer since 2008. Therefore, what seems to happen is that there has been a significant fall in Current expenditure and rise in Transfers to institutions, while in fact there was only the change in bookkeeping.
- The data referring to public spending for the period of 2003-2008 differ from the data provided separately for the Budget of Montenegro, state funds and local self-government. The data on public spending have been consolidated, mutual transfers eliminated, while the individual data are kept unconsolidated. The consolidation has been done by eliminating the following transfers:

1. Transfers from the Budget of Montenegro by extra-budgetary funds (2003-2007)

2. Transfers from the Budget by local self-government

3. Mutual transfers between Funds (Transfers from the Pension and Disability Insurance Fund to the Health Insurance Fund by virtue of pensioner health insurance)

Table 3: General government expenditure and revenue (GFS 2001)

Montenegro	2003	2004	2005	2006	2007	2008
General government revenues	**616 801 975.94**	**662 407 108.32**	**727 014 179.90**	**981 505 881.46**	**1 341 670 530.46**	**1 548 652 733.56**
Current revenues						
Direct taxes in euro	273 703 910.41	291 453 237.87	307 723 507.69	360 857 947.39	453 961 789.60	544 385 094.93
in % of GDP	18.12	17.45	16.95	16.79	16.17	16.31
o/w Personal income tax in euro	85 349 996.07	79 674 824.66	85 058 529.62	93 019 533.18	108 097 319.60	141 669 118.97
in % of GDP	5.65	4.77	4.69	4.33	3.85	4.24
o/w Corporate income tax in euro	13 393 730.09	16 525 547.47	21 292 026.81	12 681 282.08	39 076 661.67	62 803 344.12
in % of GDP	0.89	0.99	1.17	0.59	1.39	1.88
Social security contributions in euro	174 960 184.25	195 252 865.74	201 372 951.26	255 157 132.13	306 787 808.33	339 912 631.84
in % of GDP	11.59	11.69	11.09	11.87	10.93	10.18
Indirect taxes in euro	327 585 153.05	360 750 975.52	412 338 955.58	611 235 907.91	867 362 883.69	986 252 464.84
in % of GDP	21.69	21.60	22.72	28.44	29.96	29.55
o/w VAT in euro	137 221 842.95	158 095 674.14	193 382 539.63	273 156 637.08	393 174 255.16	440 064 484.29

in % of GDP	9.09	9.47	10.65	12.71	14.00	13.18
Other current receipts in euro	92 843 295.33	104 475 647.22	112 260 158.98	208 936 805.03	311 154 539.24	352 957 225.90
in % of GDP	6.15	6.26	6.19	9.72	11.08	10.57
o/w excises in euro	58 196 976.77	61 527 063.41	65 600 422.85	72 376 242.18	94 538 367.25	120 303 864.65
in % of GDP	3.85	3.68	3.61	3.37	2.44	3.60
o/w customs duties in euro	39 323 038.00	36 652 590.75	41 095 834.12	56 766 223.62	68 495 722.04	72 926 890.00
in % of GDP	2.60	2.20	2.26	2.64	2.44	2.18
Capital revenue in euro	45 655.30	3 093 765.99	4 087 035.69	8 168 377.77	18 699 178.47	13 798 997.72
in % of GDP	0.00	0.19	0.23	0.38	0.67	0.41
Grants in euro	15 467 257.18	7 109 128.94	2 864 680.94	1 243 648.39	1 646 678.70	4 216 176.06
in % of GDP	1.02	0.43	0.16	0.06	0.06	0.13
General government Expenditure	**635 518 699.93**	**688 331 303.80**	**759 725 100.74**	**917 050 229.86**	**1 161 772 764.14**	**1 556 554 019.65**
Current expenditure Government consumption in euro	317 187 824.83	365 057 476.39	372 258 775.42	445 374 293.02	565 255 092.01	574 953 008.38
in % of GDP	21.00	21.86	20.51	20.73	20.13	17.22
o/w compensation of employees (excl. em in euro	210 375 458.12	242 167 901.35	243 775 859.54	254 358 808.85	321 495 547.27	343 919 064.97
in % of GDP	13.93	14.50	13.43	11.84	11.45	10.30
o/w current purchases in euro	56 500 817.62	71 929 494.61	87 449 600.35	127 227 787.62	158 458 815.82	137 718 934.25
in % of GDP	3.74	4.31	4.82	5.92	5.64	4.13
Interest payments in euro	14 680 099.51	25 825 343.63	21 657 719.66	23 854 663.50	27 935 103.17	23 805 692.06
in % of GDP	0.97	1.55	1.19	1.11	0.99	0.71
Current transfers in euro	241 056 820.99	256 689 917.50	269 442 283.13	324 942 921.74	379 936 939.45	587 961 155.79
in % of GDP	15.96	15.37	14.85	15.12	13.53	17.61
o/w to enterprises in euro	0.00	0.00	0.00	6 838 041.82	12 680 070.10	9 714 146.59
in % of GDP	0.00	0.00	0.00	0.32	0.45	0.29
o/w to households in euro	14 642 192.36	9 546 438.55	17 271 676.16	22 054 825.93	19 510 402.08	21 027 772.62

in % of GDP	0.97	0.57	0.95	1.03	0.69	0.63
Capital Expenditure in euro	40 538 866.39	30 472 311.69	84 154 059.28	97 053 318.80	187 261 889.72	310 887 929.35
in % of GDP	2.68	1.82	4.64	4.52	6.67	9.31
Consolidated general government balance in euro	-18 716 723.99	-25 924 195.48	-32 710 920.84	64 455 651.60	179 897 766.32	-7 901 286.09
in % of GDP	-1.24	-1.55	-1.80	3.00	6.41	-0.24
Debt payments in euro	40 317 134.43	42 140 057.74	136 562 477.53	121 139 517.02	182 472 251.90	122 913 293.86
in % of GDP	2.67	2.52	7.52	5.64	6.50	3.68
Revenues from privatisation in euro	33 552 779.37	11 049 836.95	170 009 719.70	59 314 747.70	106 120 145.58	38 556 116.77
in % of GDP	2.22	0.66	9.37	2.76	3.78	1.16

Table 4: GDP by Expenditure Category

Montenegro	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
(in current prices) ***Domestic demand*** in euro/3									
in % of GDP									
Private Consumption in euro/3	745 691	970 764	1 100 461	1 120 474	1 221 101	1 267 951	1 660 948	2 157 581	
(household and non-profit org.) in % of GDP	70.0	75.0	80.9	74.2	73.1	69.9	77.2	76.9	
Government Consumption in euro/3	233 759	325 988	338 195	404 181	439 238	543 420	580 054	776 249	
in % of GDP	21.9	25.2	24.9	26.8	26.3	29.9	27.0	27.6	
Gross fixed capital formation in euro/3	179 821	226 683	198 916	200 830	286 072	326 329	469 811	683 573	
in % of GDP	16.9	17.5	14.6	13.3	7.1	18.0	21.9	24.3	
o/w residential construction in euro/3									
in % of GDP									
o/w non-residential construction in euro/3									

in % of GDP									
o/w equipment in euro/3									
in % of GDP									
o/w private in euro/3									
in % of GDP									
o/w government in euro/3									
in % of GDP									
Change in stocks in euro/3	58 772	76 835	56301	31 940	-8 368	-4 594	77 000	103 240	
in % of GDP	5.5	5.9	4.1	2.1	-0.4	-0.3	3.6	3.7	
Net external demand in euro/3	-152 344	-305 160	-333 520	-247 297	-268 260	-318 112	-638 815	-912 695	
in % of GDP	-14.3	-23.6	-24.5	-16.4	-16.1	-17.5	-29.7	-32.5	
Exports of goods and services in euro/3	392 337	497 626	480 968	462 269	701 677	790 414	1 061 008	1 305 093	
in % of GDP	36.8	38.4	35.4	30.6	42.0	43.6	49.4	46.5	
o/w goods (fob) in euro/3	250 987	327 501	317 460	270 574	52 148	460 648	627 460	631 037	
in % of GDP	23.6	25.3	23.3	17.9	27.1	25.5	29.2	22.5	
Imports of goods and services in euro/3	544 681	802 786	814 488	709 566	969 937	1 108 526	1 699 823	2 217 788	
in % of GDP	51.1	62.0	59.9	47.0	58.1	61.1	79.1	79.0	
o/w goods (fob) in euro/3	499 664	750 276	741 183	629 904	868 584	974 300	1 482 689	1 983 865	
in % of GDP	46.9	57.9	54.5	41.7	52.0	53.7	68.9	70.6	
GDP at market prices in euro/3	1 065 699	1 295 110	1 360 353	1 510 128	1 669 783	1 814 994	2 148 998	2 807 948	

/3 Value are in EUR thousand

Table 5: Balance of Payments

Montenegro	2000	2001	2002	2003	2004	2005	2006	2007
A. Current Account								
Exports of Goods f.o.b. in € (1)			309 648 000.00	270 574 000.00	452 148 000.00	460 647 700.00	648 326 630.11	543 411 033.54
in % of GDP			22.76%	17.92%	27.08%	25.38%	30.17%	19.35%
o/w iron and steel in € (2)			1 408 589.69	5 559 308.95	58 195 080.59	27 883 584.03	50 625 993.01	64 811 973.62
in % of GDP			0.10%	0.37%	3.49%	1.54%	2.36%	2.31%
o/w textiles in € (3)			109 335.80	38 090.10	883 485.61	220 291.18	385 929.28	262 020.44
in % of GDP			0.01%	0.00%	0.05%	0.01%	0.02%	0.01%
Imports of Goods f.o.b. in € (4)			742 882 924.10	629 904 000.00	868 584 000.00	974 300 990.00	1 497 651 465.24	1 702 732 933.71
in % of GDP			54.61%	41.71%	52.02%	53.68%	69.69%	60.64%
Balance on goods in €			#########	#########	#########	#########	##########	##########
in % of GDP			-31.85%	-23.80%	-24.94%	-28.30%	-39.52%	-41.29%
Exports of Services in €			171 320 000.00	191 325 000.00	249 530 000.00	329 765 556.00	418 036 495.39	674 055 798.28
in % of GDP			12.59%	12.67%	14.94%	18.17%	19.45%	24.01%
Imports of Services in €			71 605 000.00	79 662 000.00	101 353 000.00	134 225 665.00	220 937 496.21	233 923 228.43
in % of GDP			5.26%	5.28%	6.07%	7.40%	10.28%	8.33%
Balance on services in €			#########	#########	#########	#########	##########	##########
in % of GDP			7.33%	7.39%	8.87%	10.77%	9.17%	15.67%
Balance on goods and services in €			#########	#########	#########	#########	##########	##########
in % of GDP			-24.52%	-16.40%	-16.07%	-17.53%	-30.35%	-25.61%
Income: credit in €			101 229 000.00	113 753 000.00	135 455 000.00	62 291 065.81	65 333 671.72	89 420 211.06
in % of GDP			7.44%	7.53%	8.11%	3.43%	3.04%	3.18%
Income: debit in €			25 171 000.00	25 827 000.00	49 213 000.00	44 779 345.56	34 534 116.38	72 410 097.58
in % of GDP			1.85%	1.71%	2.95%	2.47%	1.61%	2.58%
Balance on Income in €			#########	#########	#########	#########	##########	**17 010 113.48**
in % of GDP			5.59%	5.82%	5.16%	0.96%	1.43%	0.61%
Balance on goods services and income in €			#########	#########	#########	#########	##########	##########
in % of GDP			-18.93%	-10.58%	-10.90%	-16.56%	-28.92%	-25.01%
Current transfers: credit in €			92 631 736.00	66 809 000.00	73 493 000.00	163 454 766.19	108 555 225.21	100 775 037.41
in % of GDP			6.81%	4.42%	4.40%	9.01%	5.05%	3.59%
Current transfers: debit in €			10 164 000.00	9 124 000.00	11 117 000.00	16 899 497.00	18 335 619.89	41 381 468.54
in % of GDP			0.75%	0.60%	0.67%	0.93%	0.85%	1.47%
Current transfers net in €			#########	#########	#########	#########	**90 219 605.32**	##########
in % of GDP			6.06%	3.82%	3.74%	8.07%	4.20%	2.12%
B. Capital Account			**0.00**	**0.00**	**0.00**	**0.00**	**-14 027 926.30**	**-1 434 518.57**
Capital transfers net in €			0.00	0.00	0.00	0.00	-1 022 516.24	-1 324 772.51
in % of GDP			0.00%	0.00%	0.00%	0.00%	-0.05%	-0.05%
Total Groups A plus B in €			**0.00**	**0.00**	**0.00**	**0.00**	**-14 027 926.30**	**-1 434 518.57**
in % of GDP			0.00%	0.00%	0.00%	0.00%	-0.65%	-0.05%

C. Financial Account			#########	#########	#########	#########	##########	##########
Foreign Direct investment net in €			87 321 000.00	38 725 000.00	50 567 000.00	380 920 664.00	466 700 666.44	524 875 738.68
in % of GDP			6.42%	2.56%	3.03%	20.99%	21.72%	18.69%
Portfolio investment - Assets in €			na	na	na	0.00	-12 118 267.87	-3 215 980.22
in % of GDP						0.00%	-0.56%	-0.11%
Portfolio investment - Liabilities in €			na	na	na	4 815 947.00	2 173 906.81	7 908 319.56
in % of GDP						0.27%	0.10%	0.28%
Other investment net			15 978 000.00	-82 157 000.00	-19 446 000.00	-20 390 111.90	230 820 255.68	375 701 566.78
Trade credits in €			na	na	na	na	na	Na
in % of GDP								
Medium and long-term loans (5) in €			na	na	na	128 075 021.10	320 739 178.49	738 725 678.10
in % of GDP						7.06%	14.93%	26.31%
of which Amortization (6) in €			na	na	na	na	na	Na
in % of GDP								
Short-term loans (5) in €			na	na	na	-388 216.00	200 283.00	2 144 424.00
in % of GDP						-0.02%	0.01%	0.08%
of which						na	0.00	0.00
Monetary authorities in €			na	na	na			
in % of GDP							0.00%	0.00%
General Government in €			na	na	na	na	0.00	-544 692.00
in % of GDP							0.00%	-0.02%
Banks in €			na	na	na	na	-452 000.00	20 906 000.00
in % of GDP							-0.02%	0.74%
Other sectors in €			na	na	na	na	652 283.00	-18 216 884.00
in % of GDP							0.03%	-0.65%
Current Capital and Financial Account in €			#########	#########	#########	#########	##########	##########
in % of GDP			6.52%	1.10%	3.52%	10.56%	24.97%	26.82%
D. Net Errors and Omissions in €			**86 358 188.10**	#########	#########	#########	**-5 294 838.47**	##########
in % of GDP			6.35%	5.66%	3.64%	2.07%	-0.25%	-3.93%
OVERALL BALANCE in €								
in % of GDP								
E. Reserves and Related Items								
Official Reserves in €								
in % of GDP								
Use of Fund credit net in €								
in % of GDP								
Exceptional financing in €								
in % of GDP								
Notes:								

1) Up to 2004, the sources of data on goods have only been the data of commercial banks on foreign payment transactions, i.e. the ITRS. Monstat has been the source of foreign trade data as of 2005. Data for 2005 and 2006 have been compiled according to special relaxed trade system. In 2008, Monstat changed the methodology for the collection of visible trade data and revised the 2007 data accordingly. The 2007 and 2008 foreign trade data have been presented in line with the general trade system. The Central Bank of Montenegro has made adjustments of the data on foreign trade obtained from Monstat with a view to their harmonisation with the IMF methodology.
2) Code 67 Iron and steel according to the Standard International Trade Classification (SITC)
3) Code 65 Yarn, fabric and textiles articles according to the Standard International Trade Classification (SITC)
4) Imports of goods are valued on an c.i.f. basis
5) Data on short- and long-term loans are on the net basis. In the BOP of Montenegro loans are divided by maturity into short- and long-term loans.
6) As data on banks have been derived from the stock it is difficult to estimate amortisation.

Table 6: External and Monetary Indicators

Montenegro		2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross foreign debt	in €									
	in % of GDP									
	as % of total exports									
o/w long term	*in €*									
	in % of GDP									
o/w denominated in €										
o/w denominated in US$										
o/w denominated in other currencies										
International reserves	in €									
(end of year)	in % of GDP									
	in monthly imports									
Interest payments	in €									
on external debt	in % of GDP									
	as % of total exports									
Exchange rate										
Nominal exchange rate versys USD	annual average									
	end of period									
Nominal effective exchange rate /1	annual average									
	end of period									
Real effective exchange rate /1	annual average									
	end of period									
/1 please indicate methodology										
Monetary Indicators										
Money supply (M0)	annual average									
	end of period									

Monetary aggregate (M21)	annual average									
	end of period									
o/w foreign currency deposits	*annual average*									
	end of period									
o/w euro deposits	*annual average*									
	end of period									
000 eur										
Total credits	annual average				165 109	237 793	330 694	582 043	1 544 836	2 662 948
	end of period			124 663	200 625	281 483	375 941	847 166	2 245 684	2 797 533
credits to households	annual average					63 085	87 643	191 097	558 361	974 128
	end of period			22 290	49 959	74 393	104 316	311 175	794 105	1 037 563
credits to enterprises	annual average					154 304	204 775	335 595	900 828	1 584 844
	end of period			78 753	126 561	175 591	230 092	471 331	1 364 419	1 656 990
Foreign exchange loans	annual average							1 887	19 028	120 342
	end of period						2 114	3 392	76 542	162 675

Banking system - Prudential indicators										
Capital adequacy ratio (CAR)	annual average			44.39	38.33	33.21	28.44	20.72	17.56	16.05
	end of period			42.03	39.39	31.26	27.85	21.28	17.12	15.04
rforming loans (NPL)	annual average					13 511	20 722	22 376	45	127 305
	end of period				9 982	15 981	19 685	24 187	70	201 394
Return on assets (ROA)	annual average									
	end of period		1.05	3.97	1.60	-0.29	0.81	1.07	0.72	-0.62
Return on equity (ROE)	annual average									
	end of period		4.95	15.69	6.50	-1.24	4.16	6.82	6.17	-6.90

Notes:

- In the euroisation environment it is impossible to monitor the money supply.
- The ROA coefficient, in line with the accounting methodology currently applied, is calculated as the ratio of financial result and average assets, on quarterly level. Such a value is weighted by the weight 4 for the first quarter, weight 2 for the second quarter, and weight 1.333 for the third quarter.
- The ROE coefficient is calculated as the ratio of financial result and average equity, weighted the same way as the ROA.

Table 7: Labour Market Indicators

Montenegro	2000	2001	2002	2003	2004	2005	2006	2007	2008
Employment and Unemployment									
1. Total population in 000					630.5	634.9	632.7	638.0	639.7
2. Population of working age in 000	472.7	475.8	470.8	464.9	501.4	514.2	517.3	509.6	513.4
3. Total labour force in 000	285.3	271.9	278.3	274.0	259.1	256.6	253.2	263.7	266.7
4. Activity rate (3:2) in %					51.7	49.9	48.9	51.7	51.9
5a. Civilian labour force in 000									
5b. Armed forces in 000									
6. Total employment in 000	181.8	176.6	177.6	168.5	187.3	178.8	178.4	212.7	221.9
7. Registered unemployment (3-6) in 000									
8. Unemployment rate (%, 7:5a) annual average									
end of period									
9. LFS unemployment rate (%), (ILO) annual average					27.7	30.3	29.6	19.4	16.8
end of period									16.3
Unit Labour Costs									
Whole economy									
1. GDP at constant market prices/4		1 077 420	1 319 768	1 394	1 576 967	1 739 590	1 970	2 378 036	
2. Employment (domestic concept) in 000									
3. GDP per occupied person (1:2)									
4. Compensation of employees									
5. Wage and salary earners in 000									
6. Compensation per head (4:5)									
7. Unit Labour Costs (6:3)									
Manufacturing industry									
1. Gross value added at constant market prices/4		100 071	143 061	132 453	139 687	153 733	155 376	180 012	
2. Employment (domestic concept)									
3. Value added per occupied person (1:2)									

4. Compensation of employees									
5. Wage and salary earners in 000									
6. Compensation per head (4:5)									
7. Unit Labour Costs (6:3)									

/4 Value are in thousand euro